**Nissho Iwai - Nichimen Holdings Corporation**

**May 15, 2003**

# Summary of Financial Results for the Year ended March 31, 2003



Notes:

(1) This report contains forward-looking statements, which reflect management assumptions and beliefs based on information currently available and are subject to a number of risks and uncertainties, such as economic conditions, exchange rate fluctuations, etc. Accordingly, Nissho Iwai - Nichimen Holdings Corporation wishes to caution readers that actual results may differ materially from those projected herein, and expressly disclaims any obligation or undertaking to release any update or revision of any contained forward-looking statements.

(2) Both consolidated and non-consolidated financial results have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects and jurisdictions other than Japan.

(3) This report is translation of the Financial Summary filed with Tokyo Stock Exchange by Nissho Iwai - Nichimen Holdings Corporation on May 15, 2003 for conveniences of investors outside of Japan. The original version of this report is written in Japanese. In case of any discrepancies between this report and the original, the Japanese version shall govern.

## ◇ Progress Summary on Business Integration

### Summary of Business Integration

**1. Objectives of Business Integration**

Nichimen Corporation and Nissho Iwai Corporation have established a joint holding company, Nissho Iwai - Nichimen Holdings Corporation, to integrate the businesses of each company on the basis of an equal partnership. The objectives of the integration are to enhance profitability through synergies, strengthen business franchise by pursuing management rationalization and efficiency, and improve financial strength through equity financing.

**2. Philosophy of Business Integration**

The integration between Nichimen and Nissho Iwai is based on the fundamental philosophy of creating a more dynamic Group borne of a spirit of mutual cooperation and the comprehensive review of existing company structures and systems.

**3. Management Vision of Nissho Iwai - Nichimen Group**

The management vision of the Nissho Iwai - Nichimen Group entails the followings:

(1) establish a multi-faceted business, which has both top-tier competitiveness and strong earning power in specific industries and markets, by continuously pursuing profitability and growth in core business areas

(2) establish an innovative trading company, to actively respond to environmental changes and market globalization, and continuously develop new business fields through entrepreneurship

(3) establish a functional trading company, to understand multiple customer needs and provide sophisticated, tailor-made services as a customer's business partner

(4) establish an open company, where each employee is given a chance to realize his or her own personal goals and ambitions

**4. Function of Nissho Iwai - Nichimen Holdings Corporation**

(1) Optimize effects of the business integration through planning, operations and administration of the entire Group; define each subsidiary's authority and responsibility; and provide overall Group governance.

(2) Devise and execute Group restructuring strategies in order to spur profit growth and achieve the integration effects in a timely manner utilizing management resources.

## **Progress of Business Integration**

～ Action and Speediness ～

| | |
|---|---|
| December 11, 2002 | Basic agreement signed with regard to Business Integration |
| January 29, 2003 | Definitive agreement signed with regard to Business Integration by Stock Transfer.<br>Announcement of Outline of Business Plan |
| January 31, 2003 | Application of listing for Nissho Iwai - Nichimen Holdings Corporation at TSE, OSE |
| February 25, 2003 | Extraordinary general shareholders' meetings of both Nichimen and Nissho Iwai |
| February 28, 2003 | Listing of Nissho Iwai - Nichimen Holdings Corporation approved by TSE, OSE |
| March 12, 2003 | Announcement of Business plan of Nissho Iwai - Nichimen Holdings Corporation |
| March 26, 2003 | Both companies' stocks de-listed from Stock Exchanges (TSE, OSE, NSE) |
| April 1, 2003 | Listing, stock transfer and registration of Nissho Iwai - Nichimen Holdings Corporation |
| April 25, 2003 | Implemented a 320 billion yen capital reinforcement plan.<br>Resolution for an issuance of approximately 278 billion yen in total equity as an initial step (common stock, preferred stock and CBs) |
| May 15, 2003 | Announcement of Financial Results for the fiscal year ended March 31, 2003 |

## ◇ Business Projections for fiscal year ending March 31, 2004 and Group Management Policy

### Business Projections for the fiscal year ending March 31, 2004

**Nissho Iwai - Nichimen Holdings Corporation**

Listed stock exchange: the first sections of Tokyo and Osaka

Headquarters: Tokyo

Securities Code: No. 2768

Company Representative: Hidetoshi Nishimura, President and Co-CEO

Contact Information: Shinichi Taniguchi, General Manager, Public Relations Dept.

Tel. (03) 5446-1061

(1) Consolidated Business Projections for the fiscal year ending March 31, 2004

| | Net sales (Millions of Yen) | Recurring profit (Millions of Yen) | Net loss (Millions of Yen) |
|---|---|---|---|
| Interim period ending September 30, 2003 | 2,830,000 | 18,000 | 19,000 |
| Fiscal year ending March 31, 2004 | 5,770,000 | 48,000 | 29,000 |

(2) Non-Consolidated Business Projections for the fiscal year ending March 31, 2004

| | Net sales (Millions of Yen) | Recurring profit (Millions of Yen) | Net income (Millions of Yen) | Dividends per share | | |
|---|---|---|---|---|---|---|
| | | | | Interim | Year-end | Total |
| Interim period ending September 30, 2003 | 1,200 | 50 | 30 | 0 | - | - |
| Fiscal year ending March 31, 2004 | 2,500 | 120 | 70 | - | 0 | 0 |

Note: Please refer page 10 for additional items pertaining to premises for the above forecast.

## Group Management Policy

### 1. Basic Policy

On April 1, 2003, Nissho Iwai - Nichimen Holdings Corporation was established as the holding company of Nichimen Corporation and Nissho Iwai Corporation by transferring their respective stock, marking the official start of the new Nissho Iwai - Nichimen Group.

Under the Management Vision outlined below, the Nissho Iwai - Nichimen Group's basic policy is to maximize shareholders' value while aiming to become an innovative and functional trading company with top-tier competitiveness and earning power. The Company aims to achieve these objectives by maximizing mutually beneficial effects, rationalization effects and synergistic effects to be brought through business integration by March 31, 2006, when its Three-Year Business Plan ends.

*Management Vision*

- Establish a multi-faceted business, which has both top-tier competitiveness and strong earning power in specific industries and markets, by continuously pursuing profitability and growth in core business areas.
- Establish an innovative trading company, to actively respond to environmental changes and market globalization, and continuously develop new business fields through entrepreneurship.
- Establish a functional trading company, to understand multiple customer needs and provide sophisticated, tailor-made services as a customers' business partner.
- Establish an open company, where each employee is given a chance to realize his or her own personal goals and ambitions.

### 2. Business Plan (Medium-Term Strategy)

**(1) Fundamental Policies**

The following are the fundamental policies of the Three-Year Business Plan that began on April 1, 2003.

*a. Improvement in Profitability through Business Portfolio Strategies*

With selection and focus as the basic policies for managing its business portfolios, the Company aims to improve profitability by analyzing each business based on its profitability and strategic importance alongside the reallocation of management resources.

In addition, the Company will strongly promote substantial reductions in selling, general and administrative expenses by pursuing its restructuring plan, while aiming to create new businesses to maximize synergies.

*b. Reinforcement of Financial Strength by Increasing Shareholders' Equity and Reducing Interest-Bearing Debt*

The Company aims to increase shareholders' equity by accumulating periodic income each term and through equity financing of more than ¥200 billion. The Company aims to build a sounder financial structure by paring down interest-bearing debt with free cash flow.

**(2) Financial Targets**

Financial targets for the final year (the fiscal year ending March 31, 2006) of the Business Plan are as follows:

Recurring profit: More than ¥100 billion

Net DER (net interest-bearing debt / shareholders' equity): 5 times or less

**(3) Key Points**

Term: April 1, 2003 to March 31, 2006 (Three-Year Business Plan)

Bold and efficient restructuring:

In the first year, the Company will implement all necessary restructuring, and as a result expects losses due to the restructuring costs.

From the second year, the Company expects a significant rise in profitability through restructuring and synergistic effects.

## 3. Boosting Shareholders' Equity Based on the Business Plan

**(1) Implementation of Equity Financing**

At the meeting of the Board of Directors held on April 25, 2003, the Company resolved to issue preferred and common stock by allocation to third parties, and convertible bonds denominated in Japanese yen. The Company completed the payment procedures for a total of ¥266 billion in preferred stock on May 13. The Company plans to complete the remaining payment procedures for approximately ¥7 billion in common stock by May 15, and for ¥5 billion in convertible bonds denominated in Japanese yen by May 29.

In the Business Plan, the Company previously stated that it would implement equity financing in the amount of over ¥200 billion soon after its establishment. However, the Company will raise capital by issuing preferred and common stock in the amount of approximately ¥273 billion, which exceeds the initial plan. This increase is a result of the full understanding of the purposes of the business integration between Nichimen and Nissho Iwai, and trust in our business plan by financial institutions and business partners.

Also, through the ¥50 billion capital-raising commitment facility established with Lehman Brothers, the Company will initially issue ¥5 billion in convertible bonds.

**(2) Additional Measures to Increase Capital**

The Company's equity policy after the equity financing is to flexibly implement appropriate measures to increase equity and to raise capital by utilizing a capital-raising commitment facility established with Lehman Brothers (commitment by Lehman Brothers to purchase convertible bonds up to a total of ¥50 billion). The issuance of convertible bonds shall be decided by the Company after due consideration of prevailing share prices. In the first year, the Company plans to raise a total of ¥10 billion through the issue of convertible bonds, including the initial ¥5 billion mentioned above.

Lehman Brothers plans to purchase ¥2 billion of the Company's preferred stock in addition to the ¥3 billion it already owns.

## 4. Basic Policy on Dividends

The Company has positioned the returning of profits to shareholders as a top management priority. In addition, the Company aims to increase shareholders' value and provide dividends stably in the medium-term while accumulating sufficient retained earnings to improve the financial structure and strengthen the management foundation of the Group.

Specifically, the Company will efficiently implement substantial restructuring based on the Business Plan. At the same time, during the Three-Year Business Plan, the Company intends to accumulate the retained earnings necessary to reinforce the financial structure to quickly realize a net DER of 5 times or less within three years, one of its financial targets.

## 5. Corporate Governance and Holding Company Management Structure and Functions

The Company will establish a highly transparent and functional management framework to promote selection and focus in Group operations, and to improve profitability and maximize corporate value of the entire Group.

**(1) Management Structure**

To increase transparency in corporate governance, the Company plans to invite outside directors to the corporate board and establish a Nomination Committee and a Remuneration Committee, each chaired by an outside director.

For the separation of management supervision and business execution, the Company will introduce an Executive Officer system and establish a Group Executive Committee to be the chief decision-making organization for business execution. Members of the Group Executive Committee will be directors/executive officers of the Company and executive officers in charge of business divisions of Group subsidiaries (Nichimen Corporation and Nissho Iwai Corporation). This will clarify the separation of responsibilities between the Board of Directors for management and the Executive Committee for business execution, and at the same time establish a structure that reflects swift and efficient decisions made by management in business execution.

**(2) Functions of Holding Company**

As a holding company, Nissho Iwai **-** Nichimen will be provided with functions for planning, operation and administration to optimize the business portfolio of the Group and for the early realization of integration effects.

Specific functions are as follows:

*Planning and promotion of the Group strategy and supervision of its execution*

Group's management strategy; business strategy (selection and focus/mergers & acquisitions and divestiture); financial strategy

*Risk control for the entire Group*

Integrated risk management for entire Group; monitoring of business divisions

*Early realization of the Group integration effects*

Planning and promotion of the restructuring strategies and rationalization measures concerning Group companies and businesses

**(3) Bolstering IR Activities**

Understanding the basic tenets of investor relations, the Company will promote highly transparent management through the timely, official disclosure of reliable information.

Through bidirectional communications with markets, the Company will strengthen corporate governance by using market opinion in its management activities.

**(4) Compliance**

Nichimen Corporation formulated the 10 Principles of Nichimen Group Code of Conduct in

November 1999. In April 2001, Nichimen Corporation added compliance duties to its Business Supervising Committee and reorganized it into the Ethics Compliance Committee. In October 2002, Nichimen Corporation established the Ethics Compliance Department, which is charged with distributing to Group directors and employees the Nichimen Group Code of Conduct Handbook, which contains the aforementioned 10 Principles of Nichimen Group Code of Conduct and describes laws and regulations that must be strictly observed in business execution. The Ethics Compliance Department also holds training seminars periodically to increase awareness of compliance issues throughout the Group.

Nissho Iwai formulated its Directors' Code of Conduct in December 2000. In September 2001, the Company added compliance functions to the Crisis Management Committee and organized the Compliance and Crisis Committee (C&C Committee). At the same time, the Company introduced and enacted the Code of Ethics and Business Conduct, and established the C&C Committee's Committee-Web-Site on the Company's intranet to strengthen compliance through the entire Group. Further, Nissho Iwai installed hotlines to the CCO (a direct phone to the director in charge of compliance) and to lawyers for all employees to directly report. In this way, the Company is making efforts to quickly discover and prevent any illegal behavior, misconduct and suspicious activity.

Building on and integrating the efforts and initiatives of Group companies, the Nissho Iwai - Nichimen Group makes all its employees thoroughly aware of the importance of compliance as a key to be an excellent company.

## 6. Issues Facing the Company

The Company has taken a solid first step toward realizing a stronger financial structure through equity financing, one basic goal of the Business Plan. To pursue the goals of the Business Plan, the Company aims to further enhance shareholders' equity by accumulating profits each term. The Company is in position to make coordinated efforts with Group employees toward the realization of its goal to improve profitability based on its business portfolio strategy.

In the fiscal year ending March 31, 2004, the first year of the Business Plan, the Company will embark on necessary restructuring measures for the integration of duplicate functions and of domestic and overseas bases, the reorganization and streamlining of administration functions, and business rationalization, including the merger of subsidiaries. The Company also will strive to make significant progress in reducing selling, general and administrative expenses through streamlining. To take full advantage of restructuring effects from the second year of the business plan, the Company intends to achieve as early as possible all objectives of the Business Plan. Based on strong leadership, the Company is creating concrete action plans and is making decisive progress as a result.

The Company aims to improve profitability over the medium term by reallocating management resources and pushing forward with selection and focus in operations. The Company is also creating new businesses to maximize synergies.

The Nissho Iwai - Nichimen Group aims to become an innovative and functional trading company with top-tier competitiveness and earning power. The Company aims to achieve its objectives by maximizing mutually beneficial effects, rationalization effects and synergistic effects through business integration by March 31, 2006, when its Business Plan ends.

## Outlook for the fiscal year ending March 31, 2004

Nissho Iwai - Nichimen Holdings' consolidated earnings estimates for the fiscal year ending March 31, 2004, are as follows.

| | |
|---|---|
| Net sales | ¥5,770 billion |
| Gross trading profit | ¥287 billion |
| Operating profit | ¥72 billion |
| Recurring profit | ¥48 billion |
| Net loss | ¥29 billion |

The aforementioned estimates are based on assumptions for foreign currency exchange rate of ¥120 per U.S. dollar and average crude oil prices of US$25 per BBL (Dubai).

These earnings estimates are based on available data and projections the Company currently believes to be accurate. Accordingly, actual results may differ significantly from the Company's estimates due to changes in domestic and overseas market conditions, foreign exchange rates and other factors. The Company will release a notification of any changes to its estimates in the event of a major change in the operating environment.

## ◇ Summary of Consolidated Results of Nichimen Corporation

## Consolidated Business Results for the fiscal year ended March 31, 2003

(1) Results of Operations

| | Net sales | | Operating income | | Recurring profit | |
|---|---|---|---|---|---|---|
| | Millions of Yen | Change (%) | Millions of Yen | Change (%) | Millions of Yen | Change (%) |
| March 31, 2003 | 1,888,126 | -8.1 | 21,567 | -34.8 | 13,214 | -50.7 |
| March 31, 2002 | 2,055,240 | -15.0 | 33,054 | 43.2 | 26,788 | 53.9 |

| | Net income | | EPS | EPS (Fully diluted) | ROE (Net Income) | ROA (Recurring profit) | Recurring profit to net sales |
|---|---|---|---|---|---|---|---|
| | Millions of Yen | Change (%) | Yen | Yen | % | % | % |
| March 31, 2003 | -48,532 | - | -114.14 | - | -86.9 | 1.0 | 0.7 |
| March 31, 2002 | 1,340 | - | 3.21 | - | 1.6 | 1.7 | 1.3 |

Notes:

1. Equity in earnings of unconsolidated subsidiaries and affiliates during the period :

Current fiscal year : -311 million yen Preceding fiscal year : -781 million yen

2. Average number of outstanding shares during the period :

Current fiscal year : 425,192,371 Preceding fiscal year : 417,954,891

3. Changes in accounting policies during the period: No

4. Percentages indicate changes in net sales, operating income, recurring profit and net income compared with the preceding fiscal year.

(2) Financial Position

| | Total assets (Millions of Yen) | Shareholders' equity (Millions of Yen) | Shareholders' equity ratio (%) | BPS (Yen) |
|---|---|---|---|---|
| March 31, 2003 | 1,174,634 | 30,109 | 2.6 | 70.22 |
| March 31, 2002 | 1,404,359 | 81,535 | 5.8 | 195.05 |

Note:

Number of outstanding shares at the end of the period :

Current fiscal year : 428,806,636 Preceding fiscal year : 418,025,736

(3) Cash Flows

| | Cash flows from operating activities (Millions of Yen) | Cash flows from investing activities (Millions of Yen) | Cash flows from financing activities (Millions of Yen) | Cash and cash equivalents at the end of period (Millions of Yen) |
|---|---|---|---|---|
| March 31, 2003 | 70,983 | 66,151 | -119,442 | 193,324 |
| March 31, 2002 | 70,538 | 122,141 | -224,410 | 178,682 |

(4) Number of consolidated subsidiaries and companies accounted for by the equity method

Consolidated subsidiaries : 163

Unconsolidated subsidiaries (accounted for by the equity method) : 21

Unconsolidated affiliates (accounted for by the equity method) : 108

(5) Increase/decrease of consolidated subsidiaries and companies accounted for by the equity method

Consolidated subsidiaries :

(Newly included) 11 (Excluded) 23

Unconsolidated subsidiaries/affiliates accounted for by the equity method :

(Newly included) 15 (Excluded) 27

## Business Results and Financial Position

## 1. Operating Results

**(1) Overview**

Despite positive signs in the overall economic environment, spurred by inventory adjustments from the beginning of the year, the U.S. economy remained soft during the fiscal year ended March 31, 2003, with little indication of a full-fledged recovery. European economies also exhibited mixed results with the modest recovery seen in the first half giving way to growing uncertainty and a slowdown in operating conditions in the second half. In Asia, on the other hand, led by China, which continued to show high growth, driven by strong domestic demand and an increase in exports, markets rebounded to record steady growth. Taiwan and Singapore, which had suffered negative growth in the previous year, returned a positive performance, while other ASEAN countries such as Indonesia, Malaysia, the Philippines, and Thailand, recorded increases in year-on-year growth, on the back of strong personal consumption.

On the domestic front, from the nadir of early 2002, the Japanese economy showed modest signs of recovery. This however gave way to overall stagnant conditions reflecting anxieties over the future of global economies and the sharp deterioration in securities markets.

Against the backdrop of such economic conditions, Nichimen enhanced reorganization of its business portfolios, underpinned by a policy of “selection and concentration.” Based on the reduction of inefficient and low-profit transactions and the transfer of non-strategic businesses, consolidated net sales for the fiscal year ended March 31, 2003, decreased 8.1% to ¥1,888,126 million.

Examined by type of transaction, export sales decreased 17.8% year-on-year due mainly to sluggish sales of plastics and chemicals, and machinery and metals. Import sales declined 16.7% as a result of slow sales of machinery and metals, and textiles. Compared with the previous fiscal year, domestic sales climbed 63.9% and offshore sales dropped 67.6%, owing to a reclassification of petroleum-related transactions from offshore sales to domestic sales.

Examined by business segment, foodstuffs sales declined 19.6%, owing to a fall in offshore grain transactions. Sales of machinery and metals decreased 18.0% due to a fall in domestic sales resulting from withdrawal from inefficient and low-profit transactions. Textiles sales fell 12.5% due to lower import sales from slack domestic demand.

Consolidated gross trading profit decreased 12.0% to ¥111,422 million, compounded by the adverse effects of selling the LP gas, petroleum and carbon businesses, as well as the transfer of the chemical business to an equity-method affiliate, and a decline in land sale transactions, which had boosted profits in the previous fiscal year. Selling, general and administrative (SG&A) expenses were reduced ¥3,643 million from the previous fiscal year, owing to a stringent review of costs Group-wide, despite an increase in transfers to reserves and the write off of doubtful receivables emerging from strict asset reassessment. Adversely affected by the fall in consolidated gross trading profit, operating income decreased 34.8% to ¥21,567 million. Consequently, recurring profit declined 50.7% to ¥13,214 million, owing in part to a decrease in interest income and the decline in operating income. Nichimen recorded a net extraordinary loss of ¥46,339 million. Prior to the establishment of Nissho Iwai - Nichimen Holdings Corporation, Nichimen concluded strict asset assessments and incurred ¥9,386 million in restructuring losses and ¥6,883 million in loss on disposal of investments in & provision for subsidiaries/affiliates, in order to achieve quick realization of management integration effects and to enhance management/financial flexibilities. Other extraordinary losses included ¥28,651 million in losses on investment securities and ¥1,815 million in expenses for employee early retirement benefit. As a result, consolidated loss before income taxes was ¥33,125 million. Minority interests in net income were ¥287 million, and income tax adjustments were ¥10,546 million from a decrease in deferred tax assets due to stricter asset valuation standards. Consequently, consolidated net loss after taxes and minority interests was ¥48,532 million.

**(2) Consolidated Results by Business Segment**

*Plastics and Chemicals*

The purchase of Chori Co. Ltd.’s plastic business by the consolidated subsidiary, Pla-Net Holdings, Inc., contributed to earnings. However, net sales declined 2.7%, compared with the previous fiscal year, to ¥960,812 million, owing to the sale of the LP gas, petroleum and carbon businesses, as well as the transfer of Nichimen’s chemical businesses to Global Chemical Holdings, Inc., an equity-method affiliate, in line with the alliance with Nissho Iwai Corporation in the chemical business field. Operating income dropped 31.5% to ¥4,848 million.

*Textiles*

Net sales decreased 12.5%, compared with the previous fiscal year to ¥159,553 million, and operating income declined 34.6% to ¥4,970 million, owing to a deceleration in import transactions for some apparel products due to slack domestic demand.

*Foodstuffs*

Net sales decreased 19.6%, compared with the previous fiscal year to ¥182,609 million, due to significant cutbacks of unprofitable offshore grain transactions. Operating income plummeted 83.3% to ¥332 million, owing to a fall in gross trading profit from profit deterioration in import grain transactions.

*Construction & Forest Products*

Despite continued strong performance in condominiums, net sales decreased 7.6% to ¥176,860 million, owing to a decline in land sale transactions, which had pushed up profits in the previous fiscal year. Operating income slipped 26.3% to ¥11,555 million.

*Machinery & Metals*

Net sales declined 18.0%, compared with the previous fiscal year, to ¥352,996 million due to a slowdown in some plant exports, slow sales of semiconductor manufacturing equipment, and continued efforts to withdrawal from inefficient and low-profit transactions such as domestic mild steel transactions. Operating income surged 89.1% to ¥2,358 million, owing to significant reductions in SG&A expenses.

*Others*

Net sales rose 52.7%, compared with the previous fiscal year, to ¥55,296 million stemming from the purchase of Nakau Co., Ltd. by the Consumer Business Department, which was newly established to build new businesses for the retail industry and general consumers. Operating loss was ¥1,498 million, due to weakness in IT operations and at some subsidiaries.

## 2. Financial Position

**(1) Consolidated Balance Sheet**

Total assets as of March 31, 2003, decreased ¥229,725 million, compared with the previous fiscal year-end, to ¥1,174,634 million. Decreases in accounts receivables were mainly due to withdrawal from non-strategic businesses, in line with the strategy of selection and concentration. Decreases in inventories were mainly due to reduction in real estate for sales. Decreases in fixed assets were primarily due to write-offs of evaluation losses on investment securities, and stricter standards for deferred tax assets. In accordance with these asset reductions, interest-bearing debt decreased ¥131,367 million, compared with the previous fiscal year-end, to ¥889,336 million. Net interest-bearing debt (less cash and time deposits) was ¥694,140 million, a decrease of ¥149,458 million from the previous fiscal year-end. Shareholders’ equity declined ¥51,426 million to ¥30,109 million owing to considerable retained losses resulting from the posting of a net loss.

**(2) Consolidated Cash Flows**

Regarding cash flows for the fiscal year ended March 31, 2003, net cash inflow from operating activities was ¥70,983 million. Net cash inflow from investing activities was ¥66,151 million. Net cash outflow used in financing activities was ¥119,442 million due to reductions in interest-bearing debt. After adjustments for effects of changes from exchange rates and increases due to changes in the scope of consolidation, cash and cash equivalents at the end of the fiscal year stood at ¥193,324 million.

## ◇ Summary of Consolidated Results of Nissho Iwai Corporation

## Consolidated Business Results for the fiscal year ended March 31, 2003

(1) Results of Operations

| | Net sales | | Operating income | | Recurring profit | |
|---|---|---|---|---|---|---|
| | Millions of Yen | Change (%) | Millions of Yen | Change (%) | Millions of Yen | Change (%) |
| March 31, 2003 | 4,619,072 | -15.5 | 35,462 | -28.3 | 13,553 | -59.2 |
| March 31, 2002 | 5,464,524 | -15.6 | 49,460 | -20.6 | 33,233 | -14.9 |

| | Net income | | EPS | EPS (Fully diluted) | ROE (Net Income) | ROA (Recurring profit) | Recurring profit to net sales |
|---|---|---|---|---|---|---|---|
| | Millions of Yen | Change (%) | Yen | Yen | % | % | % |
| March 31, 2003 | -73,850 | - | -84.48 | - | -116.2 | 0.6 | 0.3 |
| March 31, 2002 | 1,183 | -94.1 | 1.35 | - | 1.0 | 1.0 | 0.6 |

Notes:

1. Equity in earnings of unconsolidated subsidiaries and affiliates during the period :

   Current fiscal year : 2,133 million yen    Preceding fiscal year : 530 million yen

2. Average number of outstanding shares during the period :

   Current fiscal year : 874,136,408    Preceding fiscal year : 874,417,331

3. Changes in accounting policies during the period: No

4. Percentages indicate changes in net sales, operating income, recurring profit and net income compared with the preceding fiscal year.

(2) Financial Position

| | Total assets (Millions of Yen) | Shareholders' equity (Millions of Yen) | Shareholders' equity ratio (%) | BPS (Yen) |
|---|---|---|---|---|
| March 31, 2003 | 2,104,259 | 20,328 | 1.0 | 23.26 |
| March 31, 2002 | 2,957,578 | 106,728 | 3.6 | 122.06 |

Note:

Number of outstanding shares at the end of the period :

Current fiscal year : 873,963,015    Preceding fiscal year : 874,403,255

(3) Cash Flows

| | Cash flows from operating activities (Millions of Yen) | Cash flows from investing activities (Millions of Yen) | Cash flows from financing activities (Millions of Yen) | Cash and cash equivalents at the end of period (Millions of Yen) |
|---|---|---|---|---|
| March 31, 2003 | 110,094 | 128,518 | -262,345 | 117,116 |
| March 31, 2002 | 178,043 | 230,495 | -531,278 | 157,757 |

(4) Number of consolidated subsidiaries and companies accounted for by the equity method

Consolidated subsidiaries : 240

Unconsolidated subsidiaries (accounted for by the equity method) : 8

Unconsolidated affiliates (accounted for by the equity method) : 112

(5) Increase/decrease of consolidated subsidiaries and companies accounted for by the equity method

Consolidated subsidiaries :

(Newly included) 14 (Excluded) 104

Unconsolidated subsidiaries/affiliates accounted for by the equity method :

(Newly included) 9 (Excluded) 79

<u>**Business Results and Financial Position**</u>

## 1. Business Results

### (1) Consolidated Overview

The operating environment for the fiscal year ended March 31, 2003 was as follows.

The Japanese economy was characterized by mixed results. In the first half, the domestic economy experienced signs of a slow export-led recovery, with steady production, particularly toward Asia. In the second half, however, stock and commodity prices continued to deteriorate reflecting significant concern over the bad debt problem, leading to overall stagnant conditions. Despite efforts by the government to arrest this decline through such measures as the establishment of the Industrial Revitalization Corporation, relief from the prolonged deflation is not expected in the short term.

From a global perspective, the fiscal year under review was one enveloped in geopolitical risk, highlighted by anxieties over the situation in Iraq. Growing concerns over corporate accounting and the collapse of the IT bubble were brought very much to the surface with successive large-scale corporate failures in the U.S. The U.S. government, however, was quick in implementing effective measures including the lowering of interest rates and the substantial reduction of taxes. As a result, the U.S. economy continued its recovery, driven by strong personal consumption and residential investment. In Europe, economic conditions remained weak as the euro appreciation impacted exports, and oil prices continued to rise. The Asian economies were generally robust, led by significant growth in China.

Against the backdrop of an overall weak operating environment, Nissho Iwai implemented a reorganization of business portfolios and reforms of its earnings structure by focusing on core businesses. As a result, net sales (total trading transactions) amounted to ¥4,619,072 million for the fiscal year ended March 31, 2003, a decrease of 15.5% compared with the previous fiscal year.

By type of trade, exports fell 6.4%, while imports declined 13.7% compared with the previous fiscal year. Domestic sales and offshore transactions dropped 18.2% and 18.0%, respectively.

Gross trading profit declined 20.0% to ¥212,607 million, mainly from the transfer of the steel products, LNG, and chemicals businesses to affiliates under the equity method in accordance with Nissho Iwai's alliance strategy, and the deterioration in the information industry category. Despite a stringent Companywide review of expenses and a year-on-year reduction in selling, general and administrative (SG&A) expenses of ¥39,219 million, operating income fell 28.3% to ¥35,462 million, battered by the decline in gross trading profit. Nissho Iwai benefited from improvements in net interest expense and equity in gains of unconsolidated subsidiaries and affiliates. However, these gains were insufficient to offset declines in dividend income, and expenses caused by a dramatic depreciation in its information industry category. As a result, recurring profit decreased 59.2% to ¥13,553 million. Nissho Iwai recorded extraordinary gains of ¥19,255 million, including gains on transfer associated with the integration of its chemicals business and gain on the sale of securities in information industry businesses. On the other hand, net extraordinary losses of ¥91,658 million were posted, including ¥28,052 million in accelerated write down of investment securities in preparation for its business integration with Nichimen Corporation, and an increase in provision for overseas doubtful receivables of ¥20,891 million. After accounting for the aforementioned, Nissho Iwai posted a loss before income taxes of ¥78,104 million. After income taxes and minority interests in consolidated subsidiaries, the net loss amounted to ¥73,850 million for the fiscal year under review.

**Medium-Term Management Plan**

Nissho Iwai announced its "Medium-Term Management Plan 2005" in January 2002, covering the three-year period from April 2002 to March 2005. Thereafter, Nissho Iwai announced its plans to integrate its business with Nichimen Corporation in January 2003. Following approval at an extraordinary general meeting of shareholders in February 2003, a joint holding company, Nissho Iwai - Nichimen Holdings Corporation was established in April 2003. Accordingly, the management plan has been replaced by the new holding company's business plan for the three-year period from April 2003 to March 2006.

**(2) Segment Information**

*Machinery*

Sales in the machinery category fell 11.2% year on year to ¥998,394 million due to the drop in performance of its automotive assembly and distribution subsidiary in Latin America, which had contributed significantly in the previous fiscal year. Operating income dropped 15.6% to ¥6,114 million.

*Information Industry*

Sales in the information industry category slipped 8.1% to ¥265,327 million, and operating income declined 63.1% to ¥8,665 million. Performance was impacted by an overall weakness in domestic and global IT markets, particularly in the U.S., as seen by corporate cutbacks and postponement of IT-related investment.

*Metals*

On January 1, 2003, Nissho Iwai and Mistubishi Corporation established an independent joint-venture company, Metal One Corporation, the first step in the spin-off of their respective steel products businesses. This business reorganization by Nissho Iwai produced a drop in sales in the metals category of 27.7% to ¥487,584 million. Operating income fell in this category by 28.6% to ¥2,986 million.

*Energy & Mineral Resources*

Sales in this category declined 21.2% to ¥900,055 million due to restructuring in the LNG business and a reduction in oil-related transactions in Japan. Operating income, on the other hand, jumped 43.6% to ¥5,706 million, reflecting efforts to curtail selling, general and administrative expenses.

*Foods & Consumer Products*

Sales in this category were slightly down compared with the previous fiscal year, falling 2.7% to ¥512,147 million, owing to a drop in market prices for marine products. Operating income edged down 4.3% to ¥4,109 million.

*Chemicals & Housing Materials*

Under the terms of a tie-up with Nichimen Corporation in this category, Nissho Iwai has transferred ownership of its consolidated subsidiaries, Nissho Iwai Chemical Corporation and Nissho Iwai Kagakuhin Co., Ltd. to Global Chemical Holdings, Inc., an equity method subsidiary jointly held by Nichimen and Nissho Iwai. As a result sales in this category fell 22.2% to ¥392,869 million, while operating income surged 53.2% to ¥6,827 million due to cuts in selling, general and administrative expenses.

*Construction & Urban Development*

A strong performance in the condominium business drove sales in this category to ¥174,884 million, an increase of 5.9% year on year. Operating income however dropped 36.3% to ¥3,584 million, owing to the transfer of profitable consolidated subsidiaries in the previous fiscal year to affiliates under the equity method.

*Overseas Subsidiaries*

Impacted by weak U.S. and European economies, its overseas subsidiaries, including Nissho Iwai American Corporation and Nissho Iwai Europe PLC, reported reduced revenues for the fiscal year under review. As a result, sales of this category fell 10.2% to ¥702,717 million. There was an overall operating loss in this category of ¥180 million.

*Other Businesses*

As part of Nissho Iwai's plan to spin off its steel products business, the steel-related business of its domestic network of regional steel-related companies and branches were transferred to Metal One Corporation, a joint-venture company established with Mitsubishi Corporation, and an affiliate under the equity method. With these transfers, sales in this category declined 27.8% to ¥185,092 million. The exclusion from the scope of consolidation of certain unprofitable subsidiaries however, led to an increase in operating income of 178.6% to ¥2,928 million.

## 2. Financial Position

**(1) Consolidated Balance Sheet**

As part of Nissho Iwai's policy to adopt a more selective and focused approach to its business activities, Nissho Iwai spun off its steel products business and converted its information industry subsidiaries to affiliates under the equity method. With these initiatives Nissho Iwai was able to reduce trade receivables and streamline inventories. Coupled with the sale of investment securities and the write-off of evaluation losses, Nissho Iwai reduced the balance of its total assets to ¥2,104,259 million as of March 31, 2003, a drop of ¥853,319 million compared with the previous fiscal year-end. In line with the fall in assets, Nissho Iwai reduced interest-bearing debt by ¥480,713 million to ¥1,514,254 million. Accounting for the balance of cash, cash equivalents, and time deposits at the end of the fiscal year, net interest-bearing debt at year-end stood at ¥1,376,380 million, a decrease of ¥438,502 million. Shareholders' equity declined by ¥86,400 million to ¥20,328 million reflecting the loss incurred during the fiscal year under review as Nissho Iwai began preparations for the business integration with Nichimen Corporation, an increase in foreign currency translation adjustments brought on by the appreciation of the yen, and the rise in unrealized losses on available-for-sale securities owing to sharp decline in stock prices.

**(2) Consolidated Cash Flows**

For the fiscal year ended March 31, 2003, net cash provided by operating activities totaled ¥110,094 million, net cash provided by investing activities was ¥128,518 million, and net cash used in financing activities was ¥262,345 million. The results reflect measures taken by Nissho Iwai to streamline assets and use the funds raised to reduce interest-bearing debt. After accounting for the effect of exchange rate changes and changes to the scope of consolidation, total cash and cash equivalents as of the end of the fiscal year amounted to ¥117,116 million.

**Cash Flows from Operating Activities**

Net cash provided by operating activities fell ¥67,949 million to ¥110,094 million. The key sources of cash were decreases in trade receivables and inventories.

**Cash Flows from Investing Activities**

Net cash provided by investing activities fell ¥101,977 million to ¥128,518 million. Nissho Iwai took steps to reduce the balance of time deposits, short-term securities and investment securities, and to accelerate recovery of short- and long-term loans receivable.

**Cash Flows from Financing Activities**

In the fiscal year under review, Nissho Iwai continued its policy of reducing interest-bearing debt. As a result, net cash used in financing activities declined ¥268,933 million to ¥262,345 million.

The consolidated statements of cash flows attached have been prepared excluding the impact of the spin-off of the steel products and other businesses, in accordance with accounting standards.

**(3) Subsequent Events**

Nissho Iwai - Nichimen Holdings Corporation (“NNHC”), parent company of Nissho Iwai Corporation resolved to increase its capital by ¥273 billion through an issue of ¥266 billion in preferred stock and ¥7 billion in common stock by allocation to third parties at a meeting of its Board of Directors held on April 25, 2003.

The parent company also resolved to issue convertible bonds in the amount of ¥5 billion through the ¥50 billion capital-raising commitment facility established with Lehman Brothers.

Nissho Iwai resolved to issue 652,683,000 shares of common stock to NNHC in return for the payment of ¥163.2 billion from the issue of preferred and common stock by way of third party allotment at a meeting of its Board of Directors on April 25, 2003.

Through this equity finance, Nissho Iwai has taken steps to secure stable medium- to long-term funds for the purpose of establishing fresh investments and continuously streamlining assets, reinforcing financial strength, and improving its debt to equity ratio.