

December 11, 2002

To whom it may concern

Nichimen Corporation

President : Toru Hambayashi

Securities code: 8004

Nissho Iwai Corporation

President & CEO: Hidetoshi Nishimura

Securities code: 8063

**Notice with regard to Agreement on Basic Conditions  
for Management Consolidation**

Nichimen Corporation (Nichimen) and Nissho Iwai Corporation (Nissho Iwai) have reached a basic agreement today to establish a joint holding company by transferring their respective stocks to such holding company, and to consolidate the management of the two companies including their subsidiaries and affiliates, subject to shareholders' and regulatory approvals.

**1. Objectives of the Consolidation**

Nichimen and Nissho Iwai have agreed, on the basis of equal partnership and in mutual trust;

- (1) to aim at the establishment of a business entity, which will have top-tier competitiveness and earning power in each respective industry and market,
- (2) to aim to be a revolutionary new type of trading company, which continuously develops new business areas by actively responding to environmental change and global market expansion, and
- (3) to aim to be a Trading Company, offering highly professional services as the optimal business partner to a diverse clientele.

The business environment is getting tougher due to the continuing stagnation of the Japanese economy, domestic deflation, the tight credit environment and various other factors.

The two companies aim to enhance their profitability through the business synergy

generated by this consolidation.

This merger of operations will lead to increase management efficiency, and by pursuing equity finance, improve the financial strength and this allows us to face adverse economic conditions successfully.

## **2. Outline of the Consolidation**

### **(1) Scheme and Schedule**

Consolidation will be implemented between two companies, subject to the approvals of the extraordinary general meeting of shareholders to be held by each company in late February 2003 and other due formalities, under following scheme and schedule;

1. By April 2003, the two companies will establish a joint holding company by the stock transfer and become respectively a 100% subsidiary of the holding company.

2. After the establishment of the holding company, a thorough rehaul of group companies as well as reorganization of the management structures and duplicate business functions of both companies would be completed by the end of March 2004. Administrative divisions and non-business subsidiaries will be specifically targeted to realize the rationalization effects rapidly.

3. The reorganization of both companies' existing businesses as well as subsidiaries is expected to be completed by the end of March 2004.

### **(2) Outline of the holding company**

Name, Location of head office, Representatives, Management organization, Paid-up Capital and other basic issues will be determined later under the mutual discussion and the agreement by both companies.

### **(3) Strengthened Corporate Governance**

The holding company studies to invite outside directors on the corporate board in order to establish highly transparent corporate governance system.

#### **(4) Ratio of stock transfer**

Number of the holding company's stock to be exchanged for each one stock of the two companies will be determined by both companies after deliberate consideration and consultation based on the evaluation conducted by third party consultant.

#### **(5) Listing of the holding company**

The holding company's stocks are expected to be listed on Tokyo Stock Exchange, Osaka Securities Exchange and other Exchange late March 2003.

The listing of Nichimen and Nissho Iwai stocks will be discontinued on all stock exchanges where be listed following the transfer of stocks to the holding company.

### **3. Expected effects of consolidation**

#### **(1) Complementary- and Synergy effects**

An in-depth analysis of both companies' business activities shows that there is very little duplication in terms of business areas as well as customers, and hence their operations are complementary. As a result, the accumulated gross profit amount of the two companies is expected to be even after consolidation.

Furthermore, the synergy effects generated by effectively associating the products and functions of the two companies with the customer base and sales channels of both companies, is expected to expand such gross profit.

#### **(2) Rationalization**

Through consolidation, we expect to increase operating income by reducing SG&A expenses, which would be achieved through intensive downsizing of the administrative organization and restructuring of duplicate subsidiaries, domestic- and overseas network, as well as the corporate infrastructure. In concrete terms,

- Group work force will be downsized from 21,000 (projection as of March 2003) to 17,000
- Liquidate/merge consolidated subsidiaries to reduce the total from 430(projection as of Mach 2003) to 300

As a result, the expected reduction of SG&A expenses will be around ¥ 80 billion.

\*numbers above as of March 2003 exclude the work force and subsidiaries in Steel Products business, to be transferred.

### **(3) Optimal Business Portfolio and Strategic Policy**

Owing to the almost complete absence of competing businesses between both companies, the earnings structure both industry-wise as well as geographical segments will become optimal on consolidation.

By leveraging this advantage, it would become possible to focus our management resources on core business areas and use the global network to increase profitability.

### **4. Numerical Target in 5 years (Consolidated basis)**

Recurring Profit: more than 100 billion yen

Net Debt to Equity Ratio: less than 5 times

Net Interest-bearing Debt: less than 2,000 billion yen

We intend to reinforce our financial strength by way of equity finance at the earliest possible time after the establishment of the joint Holding Company.

### **5. Preparatory Organization**

Aiming to implement the quick and smooth integration and to accomplish the objectives of the consolidation at the earliest, Consolidation Conference headed by both companies' President & CEO, and as their substructures, Consolidation Committee will be established.

### **6. Time Line (tentative)**

End January 2003: Meeting of the board of directors of each company to approve the stock transfer agreement for the consolidation including stock exchange ratio and details of the holding company

End February 2003: Extraordinary general meeting of shareholders of each company for approval of stock transfer to the holding company

End March - early April 2003: Listing of the holding company, de-listing of Nichimen and Nissho Iwai stocks, and incorporation of the holding company

### **7. Others**

There will be another announcement upon determination as to the stock transfer ratio, more details of the holding company, de-listing date of Nichimen and Nissho Iwai stocks, and listing date of the holding company.

**Inquiries:**

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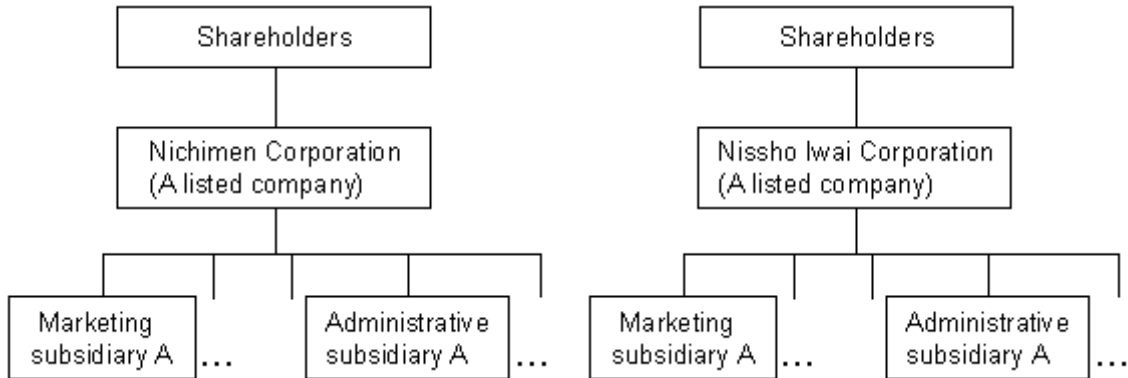
**Nissho Iwai Corporation: Public Relations Office**

**Hideo Kamiyama / Yuji Nishikawa TEL +81 (3) 5520-2400**

**Data 1. The scheme of management consolidation**

**(1) Present situation**

Nichimen and Nissho Iwai are independent listed companies, and there is no capital relationship between the two companies.



**(2) Step 1. Establish a joint holding company by April 2003**

1. Nichimen and Nissho Iwai will establish a joint holding company, which will become entire parent company of the both companies by the stock transfer.

And the each company become 100% subsidiary of the holding company respectively.

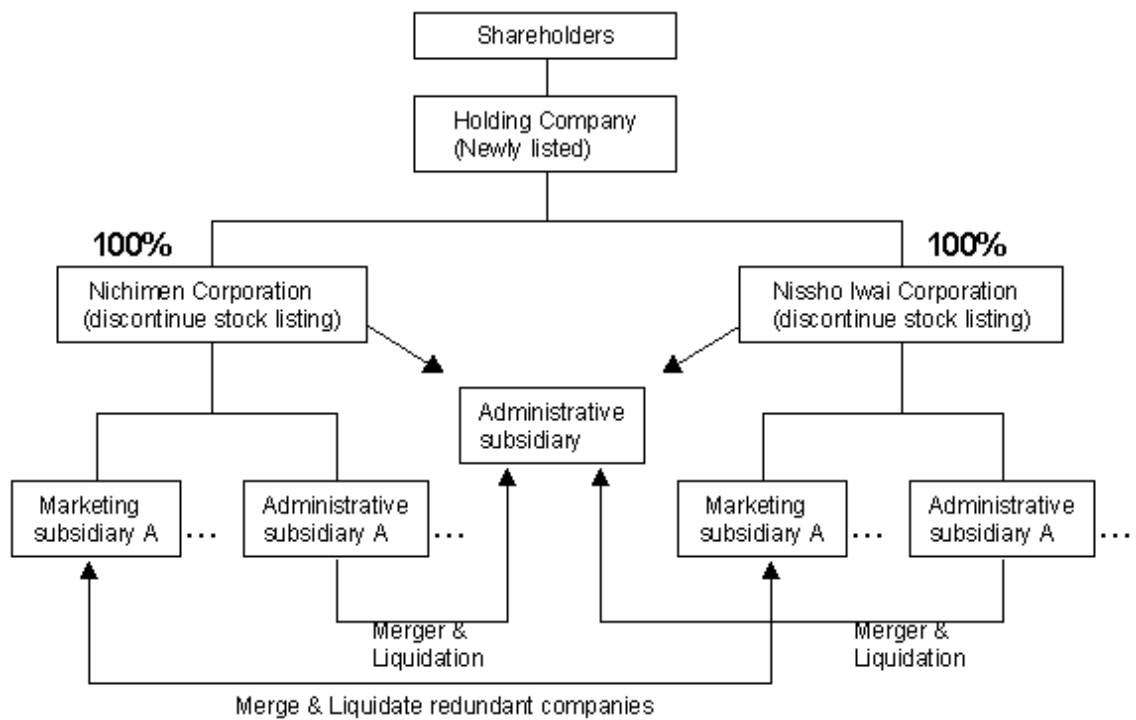
2. The holding company's stocks are expected to be newly listed and Nichimen and Nissho Iwai stocks will be de-listed on the stock exchange.

Number of the holding company's stocks to be exchanged for each one stock of the two companies will be determined by both companies after deliberate consideration and consultation based on the evaluation conducted by third party consultant.

**Step 2. Integrate the group subsidiaries by March 2004**

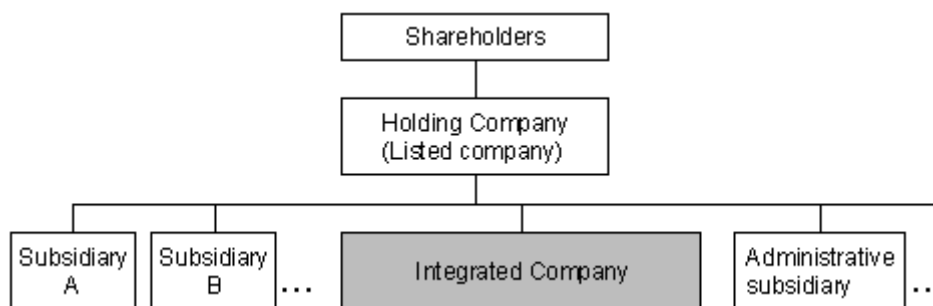
3. Making the best use of business resources, the integration of the group companies and organization in the business area where both companies have duplicate functions will be driven forward.

Administrative organization and their subsidiaries are expected here particularly to realize the rapid rationalization effect.



**(3) Step 3. Reorganization of the two companies' businesses and their subsidiaries will be completed by March 2004.**

By the end of March 2004, reorganization of the two companies' business and strategic important subsidiaries will be completed to enjoy the full effect of the consolidation.



**Data 2. Outline of the stock transferors (consolidated basis)**

**(1) Outline (as of the end of September, 2002)**

Name		Nichimen Corporation	Nissho Iwai Corporation
Category of business		General trading company	General trading company
Incorporated		November 10, 1892	February 8, 1928
Headquarters		2-2, Nakanoshima 2-chome, Kita-ku, Osaka	5-8, Imabashi 2-chome, Chuo-ku, Osaka
Representative		President Toru Hambayashi	President & CEO Hidetoshi Nishimura
Capital		Yen 52,179 million	Yen 102,938 million
Number of shares of common stock issued		428,776,581 shares	874,174,902 shares
Shareholders' equity		Yen 77,104 million	Yen 85,252 million
Total Assets		Yen 1,302,141 million	Yen 2,663,546 million
Accounting Year-end		March	March
Number of Employees	Consolidated basis	7,695	17,466
	Non-consolidated basis	1,221	2,321
Major Business Connections		With a large number of customers and suppliers both domestic and overseas, mainly for trade, export and import	With a large number of customers and suppliers both domestic and overseas, mainly for trade, export and import
Major shareholders & Ownership		UFJ Bank Limited 4.42% The Bank of Tokyo-Mitsubishi, Ltd. 3.60% Daido Life Insurance Company 3.35% The Tokio Marine and Fire Insurance Co., Ltd. 3.06% The Daiwa Bank, Limited. 2.83%	UFJ Bank Limited 4.51% Mizuho Corporate Bank, Ltd. 4.01% The Daiwa Bank, Limited. 3.83% Kobe Steel, Ltd. 2.85% Nipponkoa Insurance Co., Ltd. 2.74%
Main banks		UFJ Bank Limited The Bank of Tokyo-Mitsubishi, Ltd.	UFJ Bank Limited Mizuho Corporate Bank, Ltd. The Bank of Tokyo-Mitsubishi, Ltd.
Relations between the two companies		Capital	None
		Personnel	None
		Business	None



**(2) Financial results in the last three fiscal years (Millions of yen)**

Period	Nichimen Corporation			Nissho Iwai Corporation		
	FY1999	FY2000	FY2001	FY1999	FY2000	FY2001
Net sales (Total trading transactions)	2,861,907	2,419,340	2,055,240	7,281,304	6,474,402	5,464,524
Operating profit	20,545	23,079	33,054	49,088	62,253	49,460
Recurring profit	23,352	17,402	26,788	32,053	39,063	33,233
Net income	2,936	-21,142	1,340	10,220	20,041	1,183
Net income per share (yen)	7.03	-50.62	3.21	11.69	22.92	1.35
Dividend per share (yen)	2.50	-	-	-	-	-
Shareholders' equity per share (yen)	308.36	212.20	195.05	208.65	137.55	122.06

**Data 3. Main financial information****(1) Earnings forecast (Year ending March 31, 2003; consolidated basis)**

(Billions of Yen)

	Nichimen Corporation	Nissho Iwai Corporation	Sum total
Net Sales (Total trading transactions)	1,900.0	4,500.0	6,400.0
Gross trading profit	117.0	222.0	339.0
Selling, general and administrative expenses	-90.0	-180.5	-270.5
Operating profit	27.0	41.5	68.5
Net interest expense and dividend income	-10.5	-17.5	-28.0
Equity in gains(losses) of unconsolidated subsidiaries and affiliates	-1.0	3.0	2.0
Recurring profit	20.0	22.0	42.0
Net extraordinary losses	-3.0	-6.0	-9.0
Net income	7.0	6.5	13.5

**(2) Financial position (as of September 30, 2002; consolidated basis)**

(Billions of yen)

	Nichimen Corporation	Nissho Iwai Corporation	Sum total
Total assets	1,302.1	2,663.5	3,965.6
Shareholders' equity	77.1	85.2	162.3
Gross interest-bearing debt	954.5	1,828.2	2,782.7
Net interest-bearing debt	769.3	1,650.4	2,419.7