



At the close of the fiscal year ended March 31, 2000, we concluded our Re-Born Plan Phase II, whose purpose was to ensure a profitable base for our company and enhance its financial strength. Having yielded significant results from the plan, in the fiscal year ended March 31, 2001, we formulated our STEP 21 Plan, a three-year plan designed to promote new growth in our group operations in the 21st century.

In this plan, which conforms with our corporate philosophy of contributing to people's rich and healthful diet, we aim first and foremost to be the best partner for our customers while also keeping a close eye on the market.

The fiscal year ended March 2001 was the first year of that plan. We recorded declines in sales chiefly due to declines in the prices of wheat flour and other products. In spite of the results, however, we also embarked on various key measures to advance our STEP 21 Plan.

Operating Environment and Performance

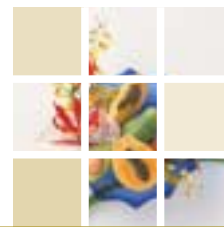
In the fiscal year under review, the Japanese economy showed strong private-sector capital expenditure and some improved corporate earnings. The problem of bad debt, however, continued to plague financial institutions while the stock market remained sluggish. In addition, the deflationary trend persisted, concerns about employment mounted, and consumer spending showed no sign of revival. The market environment for our operations thus remained challenging.

In addition, abroad, the market for grain products, including corn, was weak. Further, the strong value of the yen in the first half fueled the decline in prices for products such as edible oils, saccharified products and mixed feeds in Japan.

In this environment, our consolidated sales for the year came to 185.09 billion yen, a year-on-year decline of 1.7%. In volume, we recorded gains in sales of some products. Declines in prices for products, however, directly influenced our results.

Further, largely due to an increase in our sales-to-cost ratio, our operating margin declined. As a result, operating income fell by 6.9% to 5.29 billion yen.

On the other hand, net income showed a 15.6% gain to 1.53 billion yen. The introduction of retirement benefit accounting this fiscal year reduced net income. But with the sale of our U.S. consolidated subsidiary GranPac Foods Inc., we did not



incur extraordinary losses from this operation, which totaled 1.36 billion yen in the preceding fiscal year.

Implementing STEP 21 Plan

At present, we are promoting our medium-term business plan, STEP 21 Plan. Our goal is to be the best partner for our customers while keeping a close eye on the market. To this end, we are improving product quality, bolstering our cost competitiveness, and promoting efficiency to suit the market. Below are the chief measures that we implemented in the fiscal year ended March 2001 that follow the basic strategies outlined in STEP 21 Plan.

1. Concentrating on and expanding areas of growth and strength

Growth in demand for low-malt beer in recent years has resulted in increased demand for corn syrup, which is used in the brewing process. In response, we augmented our syrup production equipment to meet the demand. In addition, in our Household Foods Division and Frozen Foods Division, we reduced the number of brands we offer to concentrate on our competitive products and to expand with them.

2. Promoting a high-performance operation

We have begun construction of a multi-level automated warehouse at our Funabashi Plant that will manage inventory and incoming and outgoing shipments by computer. We hope this will help to speed up shipment processes and help us reduce personnel. In addition, we are also establishing order centers in Kobe and at our home office to consolidate ordering processes that have been carried out at multiple locations. This will help to cut down on personnel costs, more precisely match supply and demand, and reduce inventory.

3. Responding to changes in how stockholders and investors value the company (promoting group management)

We developed the concept of a business center to consolidate accounting operations of Showa Sangyo and its subsidiaries and thereby speed up group financial

settlement and simplify administration. The goal is to supply information to improve group management. In April 2001, as our first step, we introduced a cash management service for managing excess capital in our group. The purpose is to consolidate management of capital and improve efficiency.

4. Responding to environmental changes

We appointed an environmental director and created a system to further our environmental management, such as efforts to obtain ISO 14001 certification.

Showa Sangyo's Commitment to the Future

In response to rapid changes in society, we formulated our STEP 21 Plan and implemented various measures in the fiscal year under review to boost the efficiency of our management, capitalize on our strengths and continue to move forward boldly as the 21st century advances.

The various strategic categories included in STEP 21 Plan are an expression of the commitment of our management to the future of Showa Sangyo. STEP 21 Plan is a vital reform plan that will continue to create value for everyone associated with the company, including our shareholders, customers, employees and society as a whole.

We believe that our efforts to improve shareholder and corporate value will also advance our corporate principle of contributing to a rich and healthful diet that has its origins in the bounties of nature. We will continue to build our efforts around this principle in the future.

Mutsuo Kanehara

Mutsuo Kanehara
President