

# President's Message

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This fiscal year marked the second year into our three-year business plan STEP 21, which was established in April of 2000. We have continued to build on our previous year's achievements, implementing a variety of measures for a new growth in the 21st century by promoting fundamental changes in Showa Sangyo.

In June 2002, Mutsuo Kanehara, the former president of Showa Sangyo, assumed the post of representative director and chairman, while Shigeo Fukui, the former senior managing director, assumed the post of representative director and president. This new top management system is part of our efforts to build a system that responds quickly to the rapidly changing business environment. Working together to lead Showa Sangyo, the two of us will do everything in our power to complete the STEP 21 Plan with success.

In particular, we will conduct a thorough tracking of profit and loss for each product category in our business divisions, determine profitability, and select products on which we will focus. We will then establish a unique style of increasing profitability through the synergetic effects of being a company handling a line of diverse products.

In the vegetable oil industry, as seen by the recent births of two major corporate groups, the trend now is to reorganize. At Showa Sangyo Group, however, we have determined that we have sufficient means to survive and grow on our own. The means include aggressively promoting the above business model, as well as streamlining our entire process from manufacturing to sales to further cut costs.

This fiscal year in Japan, several incidents in the food industry have had an unfortunate effect of causing consumers to lose their confidence in food products. As an honest member of society and a leader in the food industry, we will strive to improve the industry's corporate ethics and transparency, as well as raise the awareness of each one of our employees to do the same.

## Business Environment and Results for this Fiscal Year

The Japanese economy this fiscal year continued to show no signs of a recovery as financial insecurity, serious deflation, poor consumer spending and severe employment situation loomed. The year was especially harsh for the food industry as several incidents prompted consumers to question the reliability of food and food safety management.

Added to that were the trend of a weakening yen and the higher cost of raw material imports owing to a surge in the rapeseed price, which, in turn, could not be passed on fully to the sales price due to deflation in the domestic market. As a result, our income declined.

This fiscal year, our sales decreased 0.2% to ¥184,757 million while our operating income declined 44.5% to ¥2,935 million. We posted a net loss of ¥1,376 million.

## From Divisions to Categories

To address such a difficult business environment, we resorted to drawing a clear plan on improving profitability. A thorough tracking of profit and loss for each product category thus became crucial.

Showa Sangyo handles a number of products in many divisions. It is difficult for the management to accurately keep track of profitability of each of these products, as it is impractical in terms of cost effectiveness. To date, Showa Sangyo had tracked profit and loss according to operational divisions. This, however, is changing. We will now step up our measures by categorizing our products and tracking profit and loss individually for each category.

Our plan is to determine the profitability of each category and build individual strategies focusing on the growth of high-profit categories. We will then increase the number of categories in which our product becomes No.1.

To date, our strong categories for industrial-use include the vegetable oils division's mini-tank system, while for household-use, strong categories include Olein Rich, the healthful oil, Tempura Daisakussen!, a functional tempura premix, and Okama ni Pon, an oil for cooking rice. We will continue to focus on their growth.

## Maximizing Showa Sangyo's Unique Synergetic Effect

Another crucial step toward increasing our future possibilities is to make an organic connection within the Showa Sangyo Group's existing infrastructure. This will enhance our unique synergetic effect from the variety of raw materials we handle.

Until now, at the Showa Sangyo Group's five food operation divisions, each division operated independently from each other with not many exchanges among the different staffs. We had referred to this infrastructure as the foundation of our total strength. From now on, however, our total strength will consist of the synergetic effects of independent divisions working together. It will be our new source of profits.

For example, in addition to our vegetable oils division selling food materials such as tempura flour and pasta as we had conventionally done (i.e., providing flour to meet

the needs of our oil customers), our flour division began selling vegetable oils for use by bakeries (i.e., providing oil to meet the needs of our flour customers). We will develop and sell new products in forms that meet the needs of our customers by combining flour and vegetable oils in ways that achieve the customer's ultimate goal. As part of our STEP 21 Plan vision, we will build a relationship with our customers as their best partner, and increase sales and gross margin rates.

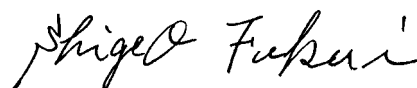
Such synergetic effects can only be generated by the Showa Sangyo Group, a corporation that possesses expertise in both flour milling and vegetable oils. In the future, we also intend to extend our synergetic effects to those generated between flour and sweeteners and other possible combinations.

We are now actively promoting exchanges between staffs of different divisions, which until now had been minimal. Under the new personnel system we are building, those in the management level will transfer frequently among divisions and young staffers will be required to experience working in two to three divisions.

## Increasing Shareholder Value by Being an Honest Company

This fiscal year in Japan, the mad cow disease and other major incidents involving food prompted consumers to lose their confidence in food products. As a food company in such an environment, we at the Showa Sangyo Group must act in absolute compliance of the law. We intend to maintain transparency and raise awareness of each one of us at Showa Sangyo to be an honest company for our customers. To increase the public's confidence in food products, we are building a system to provide safe and reliable products to our customers. Our efforts have so far included obtaining ISO 9000 series of certifications at all of our plants, and enhancing quality assurance through organizational changes that clarify the roles, responsibilities and authorities regarding quality.

It is our intention to continue generating values as a responsible member of society, creating value for all of our stakeholders at the Showa Sangyo Group including shareholders, customers and employees.



**Shigeo Fukui**  
President