

## Consolidated Financial Release for The Year Ended March 31, 2004



NICHIMO CO., LTD.

# BUSINESS REPORT

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### 1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2004

(April 1, 2003 through March 31, 2004)

#### (1) Consolidated Results of Operations

	Year ended March 31, 2004		Year ended March 31, 2003	
	Millions of yen	%	Millions of yen	%
Net Sales.....	104,938	-2.6	107,708	5.1
Operating Income (loss) .....	529	27.2	416	-
Income (loss) before Extraordinary Items .....	235	234.5	70	-

	Year ended March 31, 2004		Year ended March 31, 2003	
	Millions of yen, %		Millions of yen	%
Net Income (loss) (Millions of yen, %) .....	176	-	(1,429)	-
Net Income (loss) per Share (Yen) .....		4.59		(37.89)
Diluted Net Income (loss) per Share (Yen) .....		-		-
ROE (Ratio of Net Income (loss) to Shareholders' Equity) (%) .....		1.2		-9.2
ROA (Ratio of Income (loss) before Extraordinary Items to Total Assets) (%) .....		0.4		0.1
Profit Margin (Ratio of Income (loss) before Extraordinary Items to Net Sales) (%) .....		0.2		0.1

Notes: [1] Equity in net income of the companies carried by the equity method:

For the year ended March 31, 2004: 504 million yen

For the year ended March 31, 2003: 469 million yen

[2] Average number of shares outstanding (consolidated):

For the year ended March 31, 2004: 36,766,548 shares

For the year ended March 31, 2003: 37,817,042 shares

[3] Change in accounting policy: None

[4] Percentages above represent annual changes over the preceding year unless otherwise stated.

#### (2) Consolidated Financial Position

	Year ended March 31, 2004		Year ended March 31, 2003	
	Millions of yen		Millions of yen	
Total Assets (Millions of yen) .....	60,627		67,637	
Shareholders' Equity (Millions of yen) .....	15,600		14,537	
Equity Ratio (Ratio of Shareholders' Equity to Total Assets) (%).....		25.7		21.5
Shareholders' Equity per Share (Yen) .....		437.86		384.48

Notes: Number of shares outstanding at year end (consolidated):

For the year ended March 31, 2004: 35,609,656 shares

For the year ended March 31, 2003: 37,802,848 shares

(3) Consolidated Cash Flows

	Year ended March 31, 2004	Year ended March 31, 2003
	Millions of yen	Millions of yen
Cash Flows from Operating Activities.....	6,544	(1,328)
Cash Flows from Investing Activities.....	1,677	185
Cash Flows from Financing Activities.....	(10,349)	3,401
Cash and Cash Equivalents at Year End.....	3,020	4,954

- (4) Number of consolidated companies and companies accounted for under the equity method
- |  |    |
|--|----|
| The number of consolidated subsidiaries:   | 12 |
| The number of unconsolidated subsidiaries accounted for under the equity method: | 0  |
| The number of affiliated companies accounted for under the equity method:        | 3  |

(5) Change in scope of consolidation

The number of consolidated companies added:	0
The number of consolidated companies removed:	0
The number of companies carried by the equity method added:	0
The number of companies carried by the equity method removed:	0

2. Projections of Consolidated Results of Operations for the Fiscal Year Ending March 31, 2005

(April 1, 2004 through March 31, 2005)

	Interim period	Full year
	Millions of yen	Millions of yen
Net Sales.....	51,000	105,000
Income (loss) before Extraordinary Items .....	(260)	500
Net Income (loss).....	(260)	400

Reference: Expected Net Income per Share (full year): 11.23 yen

- \* The figures have been rounded down to the nearest multiple of 1 million yen.  
The above projections are based on information available as of the release date of this document. However, the actual results may differ from the figures as projected, due to one or more factors.

### 3. Management Discussion and Analysis of Financial Condition and Results of Operations

#### (1) Overview of the Fiscal Year in Review

The results of the Nichimo Group operations during the fiscal year in review are as described below:

Consolidated net sales for the Marine SBU decreased 1,651 million yen from the previous fiscal year, coming in at 15,997 million yen. Operating income increased 11 million yen to 371 million yen, due in part to a reduction in selling, general and administrative expenses. Specifically, our fishing-net/gear materials operations experienced reduced orders due to the continued general slump in the fishery market, despite rising sales of aquaculture materials. Our ships and ship-equipment operations were affected by the restructuring of our current business transactions with overseas customers and declining orders for small ships, mechanical/electrical materials, etc., although there was an increase in sales of custom rigged vessels.

Net sales for the Food SBU dropped 1,660 million yen from the previous year to 73,314 million yen. Operating income, however, rose 97 million yen to 1,570 million yen. Specifically, revenues were somewhat affected by the slackening of demand due to a slump in the *surimi* (ground fish meat) market, and partly by reduced imports of fresh frozen seafood products—our mainstay product category—as a result of the increasingly strict global limitations on fishery exploitation in regard to pollock roe, crab and other marine resources.

Net sales for the Machinery SBU fell 64 million yen from the previous year to 5,872 million yen, despite orders for large food processing facilities from domestic and overseas operators including those in China. Operating income remained on par with the previous year at 116 million yen.

Net sales for the Materials SBU amounted to 9,122 million yen, marking an increase of 601 million yen over that of the previous year. The unit expanded its sphere of business by inheriting the agricultural materials and rice and other grain products operations from the Biotics SBU, effective with the period in review. There was also an increase in sales of construction materials and film products used in construction, and the demand for packaging materials and agricultural materials increased as we strove to develop new customers and expand our sales channels. Operating income, however, dropped 13 million yen to 147 million yen.

Net sales for the Biotics SBU ended at 298 million yen. The unit recorded an operating loss of 287 million as debt from startup investments continued to weigh on the bottom line. The unit transferred its agricultural products operations to the Materials SBU and concentrated its sales efforts on fermented soybean products and health foods during the current period, but overall sales did not increase as much as targeted.

Consolidated net sales overall for the current fiscal year amounted to 104,938 million yen, representing a drop of approximately 2,770 million yen from the previous year. Cost-cutting measures, however, boosted our operating income by 113 million yen over that of the previous year, coming in at 529 million yen. Income before extraordinary items grew 165 million yen to 235 million yen.

Nichimo reported an extraordinary income totaling 1,355 million yen, including a gain of 978 million yen from sales of real estate and a gain of 377 million yen from sales of investment securities. However, the Group also recorded an extraordinary loss amounting to 1,149 million yen, including 611 million yen transferred to the reserve for loan losses and 347 million yen of special retirement allowances paid under the early-retirement scheme. Overall, Nichimo reported a consolidated net income of 176 million yen for the current fiscal year.

## (2) Financial Position

Regarding the consolidated cash-flow result, net cash provided by operating activities was 6,544 million yen. This was mainly due to 3,856 million yen in dividends received from companies carried by the equity method, a decrease of 1,834 million yen in trade receivables, a decrease of 2,425 million yen in inventories such as food products, and an increase of 796 million yen in trade payables.

Net cash provided by investing activities was 1,677 million yen, chiefly due to 1,580 million yen in proceeds from sales of fixed assets and 980 million yen in proceeds from sales of investment securities.

Net cash used for financing activities was 10,349 million yen, mainly due to a reduction in the balance of borrowing and debt by 9,551 million yen and purchase of treasury stock worth 555 million yen. The balance of borrowing and debt, as of the year's end, stood at 31,384 million yen.

Cash and cash equivalents decreased 1,934 million yen to 3,020 million yen due to the above activities.

	Year ended March 31, 2000	Year ended March 31, 2001	Year ended March 31, 2002	Year ended March 31, 2003	Year ended March 31, 2004
Equity ratio (%)	30.2	29.4	24.7	21.5	25.7
Equity ratio based on market value (%)	7.5	6.9	8.4	15.5	14.2
Number of debt repayment years	22.0	-	196.5	-	4.8
Interest coverage ratio	1.9	-	0.3	-	6.7

Equity ratio: Shareholder's equity / Total assets

Equity ratio based on market value: Total market value of outstanding shares / Total assets

Number of debt repayment years: Interest-bearing debt / Operating cash flow

Interest coverage ratio: Operating cash flow / Interest expenses

- \* Each index is calculated from financial figures on a consolidated basis.
- \* Total market value of outstanding shares is calculated by "Closing price of the Nichimo share at year end" x "Number of shares outstanding at year end (after deducting treasury stocks)."
- \* Operating cash flow represents the cash from operating activities as reported in the Consolidated Statements of Cash Flows. Interest-bearing debt represents all debts reported in the Consolidated Balance Sheets that are subject to interest payments. Interest expenses are based on the amount of interest payable as reported in the Consolidated Statements of Cash Flows.

## 4. Basic Concept and Practice of Corporate Governance

### [1] Basic Concept of Corporate Governance

Nichimo is committed to increasing our value to the shareholder through improvements in the soundness of business operations and the implementation of timely decision-making on management issues, reflecting the changing economic environment. To do so, we will strive to enhance our corporate governance by building a good relationship with the stakeholders—including our shareholders, business partners, local communities and employees—and by reinforcing and improving the relevant functioning bodies such as the Board of Directors and the Board of Executive Officers.

Nichimo continues to do its business in a fair and faithful manner, in strict compliance with the social norms and ethics as well as the laws and regulations.

### [2] Implementation of Corporate Governance Measures

The Executive Officer System was introduced in 2003 to assign more specific authorities, tasks and responsibilities to executive officers, and to facilitate timely and effective decision-making. Executive officers are responsible for managing and operating their respective business divisions. The Board of Executive Officers, set up in April 2004, is responsible for managing the company's day-to-day operations.

The Board of Directors—being the company's highest decision-making body—renders decisions on important managerial and statutory issues at its regular and extraordinary meetings. The Board of Directors also supervises the overall management and operations of the company.

The Board of Auditors, which conducts management audits, consists of four statutory auditors, including two external auditors, and is responsible for determining whether the management actions are carried out properly. There is no conflict of interest requiring special attention with regard to the relationship between the two external auditors and the company.

## 5. Outlook for the Coming Fiscal Year

In the fiscal year beginning April 1, 2004, which marks the first year of Nichimo's new midterm business plan, the Marine SBU will expand its business operations covering from deep-sea fishing to offshore fishing and coastal fishing, with emphasis on high-yield fishing-gear products. The Food SBU will expand its sphere of business into the restaurant industry and take-out food market leveraging product procurement and processing in Japan and overseas. In the Machinery, Materials and Biotics SBUs, we will step up the sales capability while driving cost-cutting measures to ensure stable revenues.

Concurrently, Nichimo will continue its effort to reduce interest-bearing loans and thereby improve its financial position.

Through these and other efforts, the Group expects to report consolidated net sales of 105 billion yen for the next fiscal year. Consolidated income before extraordinary items and consolidated net income are likely to reach 500 million yen and 400 million yen, respectively.

## 6. Consolidated Financial Statements

### (1) Consolidated Financial Statements [1] CONSOLIDATED BALANCE SHEETS

<u>ASSETS</u>				(Millions of yen)
Item	Current consolidated fiscal year (March 31, 2004)	Previous consolidated fiscal year (March 31, 2003)	Increase (decrease)	
Current assets:	43,493	48,973	(5,480)	
Cash and cash equivalents	3,069	5,016	(1,947)	
Trade notes and accounts receivable	24,008	25,507	(1,499)	
Inventories	13,433	15,938	(2,505)	
Advance payments	1,220	1,194	26	
Short-term loans	843	965	(122)	
Deferred tax assets	47	43	4	
Other current assets	1,463	914	549	
Reserve for loan losses	(592)	(606)	14	
Fixed assets:	17,133	18,663	(1,530)	
Tangible fixed assets	5,480	5,955	(475)	
Buildings and structures	2,208	2,339	(131)	
Machinery, equipment and vehicles	647	886	(239)	
Tools, furniture and fixtures	102	133	(31)	
Land	2,481	2,396	85	
Construction in progress	40	198	(158)	
Intangible fixed assets	380	488	(108)	
Goodwill	308	339	(31)	
Other intangible fixed assets	71	149	(78)	
Investments and other assets	11,273	12,219	(946)	
Investment securities	5,554	3,437	2,117	
Shares in unconsolidated subsidiaries and affiliates	4,238	7,370	(3,132)	
Capital contributions to unconsolidated subsidiaries and affiliates	53	56	(3)	
Long-term loans	637	533	104	
Accounts receivable from entities under corporate reorganization	832	597	235	
Long-term deferred tax assets	-	148	(148)	
Other investments	962	935	27	
Reserve for loan losses	(1,006)	(860)	(146)	
<b>Total assets</b>	<b>60,627</b>	<b>67,637</b>	<b>(7,010)</b>	

## LIABILITIES AND SHAREHOLDERS' EQUITY

(Millions of yen)

Item	Current consolidated fiscal year (March 31, 2004)	Previous consolidated fiscal year (March 31, 2003)	Increase (decrease)
(LIABILITIES)	45,018	53,099	(8,081)
Current liabilities:	41,794	51,820	(10,026)
Trade notes and accounts payable	10,207	9,412	795
Short-term borrowing	30,111	39,698	(9,587)
Long-term debt payable within one year	23	1,017	(994)
Accrued corporate income taxes	64	68	(4)
Bonus reserve	183	239	(56)
Advances received	901	1,179	(278)
Other current liabilities	303	204	99
Fixed liabilities:	3,224	1,278	1,946
Long-term debt	1,250	344	906
Reserve for directors' retirement benefits	307	448	(141)
Reserve for retirement benefits	413	387	26
Long-term deferred tax liabilities	1,148	-	1,148
Other fixed liabilities	105	98	7
(MINORITY INTEREST)	8	0	8
Minority interest	8	0	8
(SHAREHOLDERS' EQUITY)	15,600	14,537	1,063
Common stock	4,411	4,411	0
Surplus capital	22	22	0
Retained earnings	9,732	9,748	(16)
Unrealized gain (loss) from valuation of other securities	2,182	358	1,824
Foreign currency translation adjustments	(182)	7	(189)
Treasury stock	(565)	(10)	(555)
Total liabilities, minority interest and shareholders' equity	60,627	67,637	(7,010)

[2] CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

Item	Current consolidated fiscal year (April 1, 2003 through March 31, 2004)	Previous consolidated fiscal year (April 1, 2002 through March 31, 2003)	Increase (decrease)
Net sales	104,938	107,708	(2,770)
Cost of sales	97,208	99,584	(2,376)
Selling, general and administrative expenses	7,199	7,706	(507)
Operating income (loss)	529	416	113
Non-operating income	742	790	(48)
Interest received	94	95	(1)
Dividends received	44	80	(36)
Equity in net income of the companies carried by the equity method	504	469	35
Other income	99	144	(45)
Non-operating expenses	1,036	1,136	(100)
Interest paid	969	815	154
Other expenses	66	320	(254)
Income (loss) before extraordinary items	235	70	165
Extraordinary gain	1,355	768	587
Gain on sales of fixed assets	978	768	210
Gain on sales of investment securities	377	-	377
Extraordinary loss	1,149	2,152	(1,003)
Loss on transfer to reserve for loan losses	611	151	460
Special retirement allowances	347	178	169
Loss on sales of fixed assets	80	3	77
Business-structure improvement expenses	46	44	2
Loss on disposal of fixed assets	35	4	31
Loss on execution of joint liabilities	17	-	17
Loss on liquidation of subsidiaries	8	-	8
Unrealized loss from valuation of golf memberships	2	-	2
Unrealized loss from valuation of investment securities	-	1,746	(1,746)
Amortization expenses for golf memberships	-	23	(23)
Net income (loss) before income taxes and other adjustments	441	(1,313)	1,754
Corporate income taxes, resident taxes and enterprise taxes	58	67	(9)
Deferred income taxes	188	44	144
Minority interest in income (loss) of consolidated companies	16	4	12
Net income (loss)	176	(1,429)	1,605

[3] CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Millions of yen)

Item	Current consolidated fiscal year (April 1, 2003 through March 31, 2004)	Previous consolidated fiscal year (April 1, 2002 through March 31, 2003)	Increase (decrease)
(Surplus capital)			
Surplus capital at beginning of year	22	22	0
Surplus capital at end of year	22	22	0
(Retained earnings)			
Retained earnings at beginning of year	9,748	11,373	(1,625)
Increase in retained earnings	176	-	176
Net income (loss)	176	-	176
Decrease in retained earnings	192	1,625	(1,433)
Cash dividends	189	189	0
Bonuses to Directors	3	6	(3)
Net loss	-	1,429	(1,429)
Retained earnings at end of year	9,732	9,748	(16)

#### [4] CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

Item	Current consolidated fiscal year (April 1, 2003 through March 31, 2004)	Previous consolidated fiscal year (April 1, 2002 through March 31, 2003)	Increase (decrease)
<b>I. Cash flows from operating activities</b>			
Net income before income taxes and other adjustments	441	(1,313)	1,754
Depreciation and amortization	374	550	(176)
Change in bonus reserve	(55)	(39)	(16)
Change in reserve for retirement benefits	(115)	162	(277)
Change in reserve for loan losses	136	(197)	333
Interest and dividends received	(138)	(176)	38
Dividends received from companies carried by the equity method	3,856	556	3,300
Interest expenses	969	815	154
Gain/loss on foreign currency transactions	8	124	(116)
Equity in net income of the companies carried by the equity method	(504)	(469)	(35)
Gain/loss on sales of investment securities	(377)	-	(377)
Unrealized loss from valuation of investment securities	-	1,746	(1,746)
Gain on sales of tangible fixed assets	(897)	(764)	(133)
Loss on disposal of tangible fixed assets	35	27	8
Loss on liquidation of subsidiaries	8	-	8
Change in trade receivables	1,834	2,089	(255)
Change in inventories	2,425	(1,136)	3,561
Change in trade payables	796	(861)	1,657
Change in bills discounted	(362)	(1,526)	1,164
Other, net	(1,001)	(187)	(814)
Subtotal	7,434	(599)	8,033
Interest and dividends received	139	175	(36)
Interest paid	(966)	(838)	(128)
Corporate income taxes paid	(63)	(65)	2
Net cash provided by (used in) operating activities	6,544	(1,328)	7,872
<b>II. Cash flows from investing activities</b>			
Payments for purchases of tangible/intangible fixed assets	(549)	(337)	(212)
Proceeds from sales of tangible/intangible fixed assets	1,580	869	711
Payments for purchases of investment securities	(8)	(136)	128
Proceeds from sales of investment securities	980	-	980
Payments of short-term loans	(1,533)	(904)	(629)
Proceeds from collections of short-term loans	1,655	541	1,114
Payments of long-term loans	(1,576)	(244)	(1,332)
Proceeds from collections of long-term loans	1,451	220	1,231
Other, net	(321)	177	(498)
Net cash provided by (used in) investing activities	1,677	185	1,492
<b>III. Cash flows from financing activities</b>			
Net change in short-term borrowing	(9,551)	3,160	(12,711)
Proceeds from long-term debt	1,900	523	1,377
Repayments of long-term debt	(1,954)	(88)	(1,866)
Cash dividends paid	(188)	(190)	2
Purchase of treasury stock	(555)	-	(555)
Other, net	-	(4)	4
Net cash provided by (used in) financing activities	(10,349)	3,401	(13,750)

IV. Effect of exchange rate changes on cash and cash equivalents	193	(26)	219
V. Change in cash and cash equivalents	(1,934)	2,231	(4,165)
VI. Cash and cash equivalents at beginning of year	4,954	2,723	2,231
VII. Cash and cash equivalents at end of year	3,020	4,954	(1,934)

## 7. Production Orders and Sales Revenues Statistics

### (1) Sales revenues

(Millions of yen)

Operating segment	Current consolidated fiscal year (Apr. 1, 2003 through Mar. 31, 2004)	Previous consolidated fiscal year (Apr. 1, 2002 through Mar. 31, 2003)	Increase (decrease)	
	Amount	Amount	Amount	Percent (%)
	Marine SBU	15,997	17,648	(1,651)
Food SBU	73,314	74,974	(1,660)	-2.2
Machinery SBU	5,872	5,936	(64)	-1.1
Materials SBU	9,122	8,521	601	7.1
Biotics SBU	298	212	86	40.6
Others	331	413	(82)	-19.9
<b>Total</b>	<b>104,938</b>	<b>107,708</b>	<b>(2,770)</b>	<b>-2.6</b>

### (2) Purchase amounts

(Millions of yen)

Operating segment	Current consolidated fiscal year (Apr. 1, 2003 through Mar. 31, 2004)	Previous consolidated fiscal year (Apr. 1, 2002 through Mar. 31, 2003)	Increase (decrease)	
	Amount	Amount	Amount	Percent (%)
	Marine SBU	11,357	12,978	(1,621)
Food SBU	66,364	71,057	(4,693)	-6.6
Machinery SBU	4,411	4,429	(18)	-0.4
Materials SBU	8,870	8,062	808	10.0
Biotics SBU	115	95	20	21.1
Others	422	336	86	25.6
<b>Total</b>	<b>91,542</b>	<b>96,959</b>	<b>(5,417)</b>	<b>-5.6</b>

## 8. Segment Information by Business Type

- (1) a. Nichimo is comprised of five distinct operating segments—Marine SBU, Food SBU, Machinery SBU, Materials SBU and Biotics SBU—and other business operations. The Marine SBU develops and manufactures fishing materials for the fisheries industry, while the Food SBU handles seafood and the Machinery SBU manufactures machinery for food processing. The Materials SBU manufactures construction and packaging materials, and develops and markets Cofuna Rice™ and agricultural and stockbreeding materials. The Biotics SBU develops and markets fermented soybean products and health foods. We are also engaged in the business of real-estate leasing as part of other business operations.

### b. Key products by operating segment

SBU	Sales categories	Key products
Marine	Fishing nets and gear	Trawling gear, purse-seine net (round haul), materials for aquaculture
	Ships, ship equipment	Hull, ship equipment, ship accessories
Food	Surimi, fresh frozen food	Surimi, fresh fish, frozen fish, fish roe
	Processed food	Processed fillets, processed fish roe, smoked products
Machinery	Non-marine machines	Food processing machinery
Materials	Synthetic resin, packaging materials, agricultural and stockbreeding materials	Vinyl chloride sheets, cardboard, paper containers, agricultural and stockbreeding materials, rice and other grain products
Biotics	Fermented soybean products	Fermented soybean products, health foods
Other business operation	Real estate leasing and other businesses	Real estate leasing

## 9. The Nichimo Group: Business Operations and Group Structure

(1) The primary business operations of the Nichimo Group are as described below:

### Marine SBU

Nichimo's subsidiaries manufacture fishing nets and other rope products, fabricate and repair fishing gear, and produce seedling fish and feed for aquaculture. The Company and its subsidiaries sell these products along with other fishing materials, aquaculture materials and ship equipment.

### Food SBU

The Company and its subsidiaries sell seafood products such as fresh frozen fish, fish roe and surimi as processed by subsidiaries or exported by overseas subsidiaries.

### Machinery SBU

The Company and its subsidiaries manufacture and sell machinery for food processing.

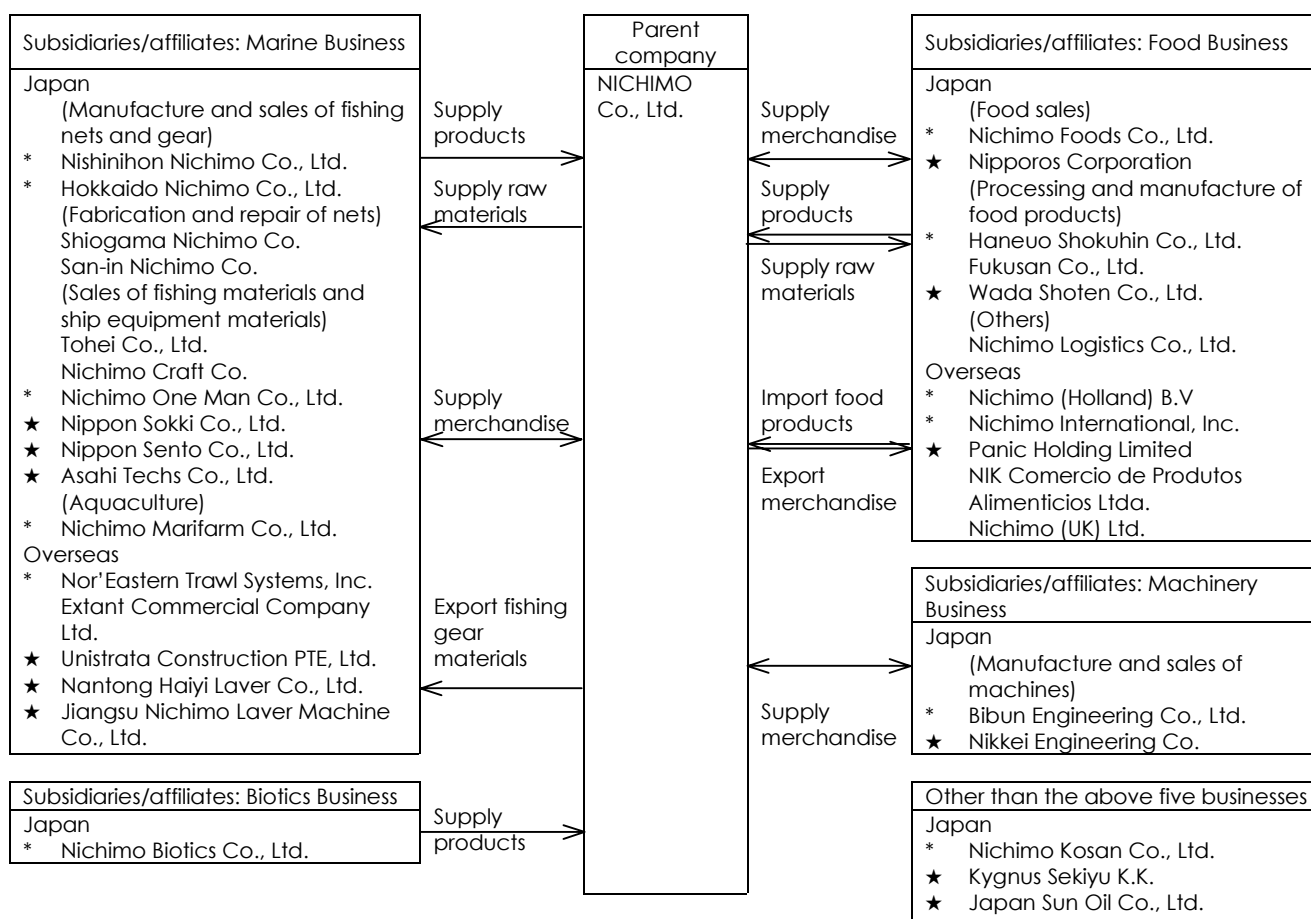
### Materials SBU

The Company sells synthetic resin, packaging materials and agricultural materials.

### Biotics SBU

The Company sells fermented soybean products manufactured by subsidiaries.

(2) Group structure and intersegment functions



(Notes)

- \* represents a consolidated subsidiary.
- ★ represents an affiliate.
- Those with no mark are unconsolidated subsidiaries.
- Among the affiliates, Kygnus Sekiyu, Japan Sun Oil and Nippon Sokki are accounted for under the equity method.
- Kushiro Sokobiki Seimo Co. was liquidated.