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# Financial Information Meeting for FY 2002

**May 21, 2003**

**Marubun Corporation**

Any statements in this document, other than those of historical facts, are forward-looking statements about future performance of Marubun, which are based on management's assumptions and beliefs in light of information currently available. Therefore, we recommend you not to base your judgment solely on these statements provided here. Actual results may considerably differ from these forecasts due to several unforeseeable factors.

[Introduction]

- We are delighted to show you the overview of our business results in fiscal year ended March 2003, as well as the outlook and the management strategy for the current year.

## Management Measures Taken during FY 2002

### ➤ Components & Materials Business

- Established a sales unit dedicated to car-electronics products.
- Established Marubun/Arrow Shanghai Co., Ltd.
- Went into partnership with SMIC and SIM-BCD, China's foundry companies.
- Introduced a new sales/distribution system.

### ➤ Electronic Systems Business

- Positively developed new products (including bio-related products).
- Transferred TI's DLP™ subsystem and International Rectifier's semiconductor sales to the Components & Materials business.

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[Management Measures taken during FY 2002]

- First, we would like to look back management measures we took during FY 2002.
- During FY 2002, the electronics industry saw active demand for digital consumer appliances such as digital cameras and plasma TV sets, while benefiting from replacement of cellular phones.
- In the general economy, however, personal consumption and capital investment remained stagnant. Long-lasting deflation drove low-cost competition and accelerated the shift of production bases to China.
- Under these circumstances, the Company promptly responded to changes in the market environment to develop products and businesses for the future.
- As for the Components & Materials business, we carried out sales activities focusing on maintenance and enhancement of the share among customers.
- The Company established a sales unit dedicated to car electronics products to exploit markets centering on microcomputers.
- As a global strategy, we established Marubun/Arrow Shanghai Co., Ltd.
- At the same time, we opened the Shanghai Representative Office to secure suppliers, concluding the agent contracts with SMIC and SIM-BCD, China's foundry companies, to start entrusting production.
- Development of the new information system for sales and distribution management, that meet requirements of the shorter lead time, was completed, and operation of the system was started in October.
- On the other hand, the Electronic Systems business started to deal with bio-related products in the second half.
- From the viewpoint of product proprieties and the business formats, the Company made reorganization, transferring TI's DLP™ subsystem and International Rectifier's semiconductor sales to the Components and Materials business.

## Consolidated Business Results for FY 2002

(yen in millions)

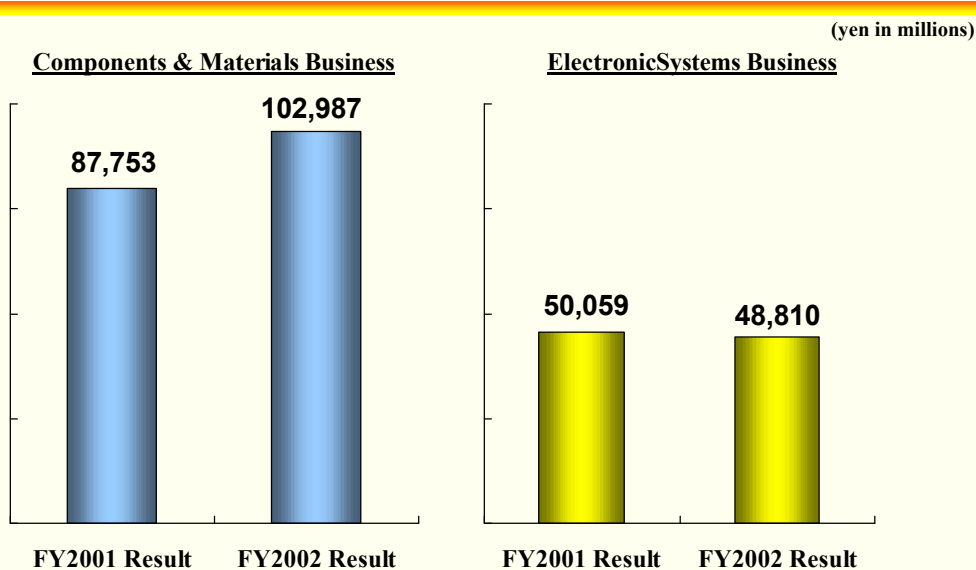
	FY 2002 Result	FY 2001 Result	Change
<b>Net Sales</b>	<b>151,798</b>	<b>138,146</b>	<b>9.9%</b>
<b>Gross Profit on Sales</b>	<b>16,356</b>	<b>16,150</b>	<b>1.3%</b>
<b>Operating Income</b>	<b>1,544</b>	<b>1,456</b>	<b>6.0%</b>
<b>Ordinary Income</b>	<b>1,216</b>	<b>1,254</b>	<b>(3.1%)</b>
<b>Net Income</b>	<b>746</b>	<b>(415)</b>	<b>-</b>

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### [Consolidated Business Results for FY 2002]

- The consolidated net sales reached 151.7 billion yen with a 10% increase over the previous year.
- However, in terms of profit, the gross profit rate to sales dropped 0.9% from the previous year due to an increase of the share of large-sized contracts of relatively low profit ratios and increased competitions across the board.
- Consequently, both the operating income and the ordinary income almost leveled off as the previous year at 1.54 billion yen and 1.21 billion yen, respectively.
- While the net income for FY 2001 was a loss of 0.41 billion yen due to revaluation loss of investment securities in UK-based Nordiko Ltd., an affiliated company accounted for by the equity method, FY 2002 ended in a profit of 0.74 billion yen.

## Sales by Segment



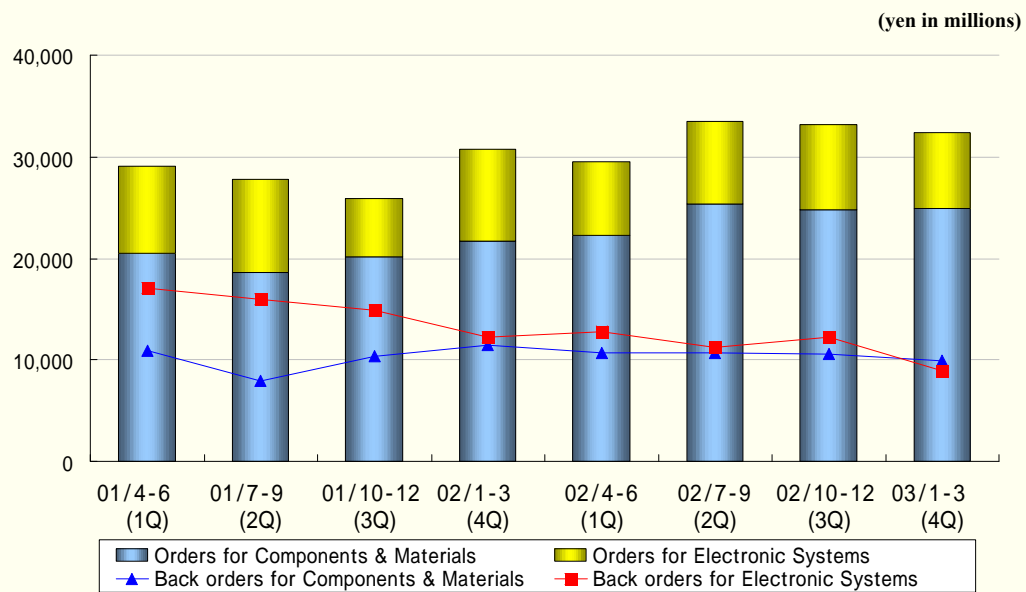
\* Results of FY 2002 are indicated in the former segmentation.

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### [Sales by Segment]

- Components and Materials business grew 17% from the previous year to record 102.9 billion yen, while Electronic Systems business dropped 3% to 48.8 billion yen.
- The growth of Components and Materials business was due to the sharp increase in the analog ICs and custom ICs for cellular phones, while the analog ICs for plasma display and DSP for base stations also remained strong throughout the period. From the second half, business of car-mounted ICs started and contributed to sales.
- On the other hand, Electronic Systems business saw an increase in artificial satellites component but a sharp decrease in the demand for optical communication component dropped substantially due to the downturn in the telecommunications business in the U.S., while the demand from the industrial equipment sector remained in a low level throughout the period affected by the slow capital investments.

## Trend in Orders



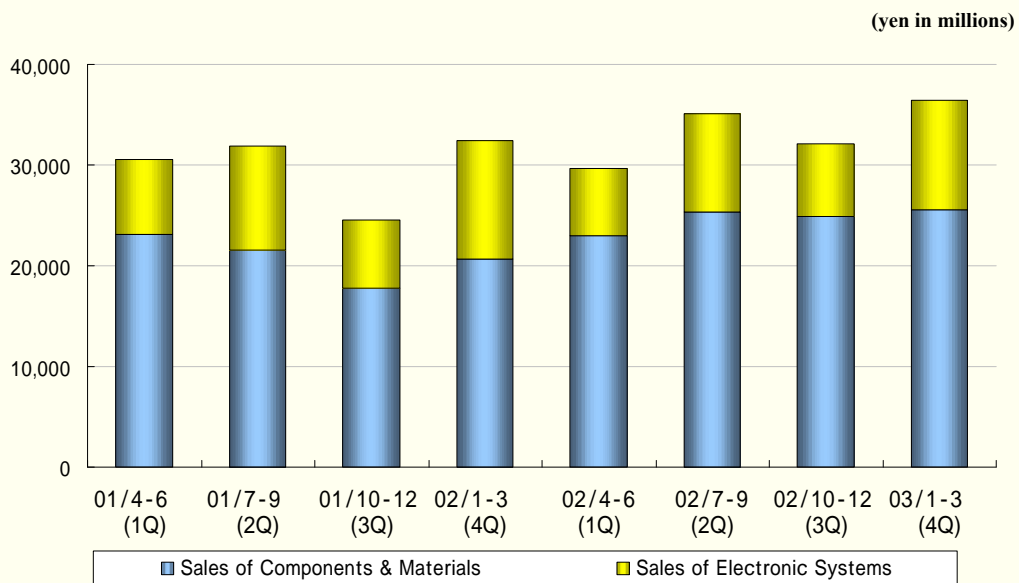
\* Non-consolidated figures

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### [Trend in Orders]

- The trend in non-consolidated orders by quarter is as shown here.
- Orders for the Components and Materials business remained steady during the second half of FY 2002 with year-on-year growth of 23% for the third quarter and 15% for the fourth quarter.
- On the other hand, orders for the Electronic Systems business moved at a low level due to stagnant demand for equipment-related products, leaving the business in a severe condition.

## Trend in Sales



\* Non-consolidated figures

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[Trend in Sales]

- The trend in non-consolidated sales is as shown here.

## Consolidated Forecasts for FY 2003

(yen in millions)

	FY2003 Forecast	FY2002 Result	Change
<b>Net Sales</b>	<b>158,600</b>	<b>151,798</b>	<b>4.5%</b>
<b>Gross Profit on Sales</b>	<b>17,280</b>	<b>16,356</b>	<b>5.6%</b>
<b>Operating Income</b>	<b>1,040</b>	<b>1,544</b>	<b>(32.6%)</b>
<b>Ordinary Income</b>	<b>1,230</b>	<b>1,216</b>	<b>1.2%</b>
<b>Net Income</b>	<b>720</b>	<b>746</b>	<b>(3.5%)</b>

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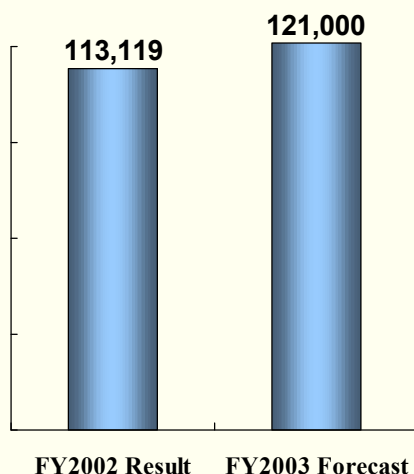
[Consolidated Forecasts for FY 2003]

- The Company has established budgets for the current fiscal year with consolidated sales of 158.6 billion yen, up by 5%, and consolidated gross profit on sales of 17.2 billion yen.
- Since the selling, general and administrative expenses are expected to increase 10%, however, the operating income is likely to decline 33% to 1.0 billion yen.
- The increase in the selling, general and administrative expenses is due mainly to depreciation expenses and operating costs of the information systems, which started running in the second half of the previous fiscal year, and a rise in personnel costs including the retirement benefit expenses.
- The ordinary income is forecasted to level off thanks to an increase in investment profits under the equity method.

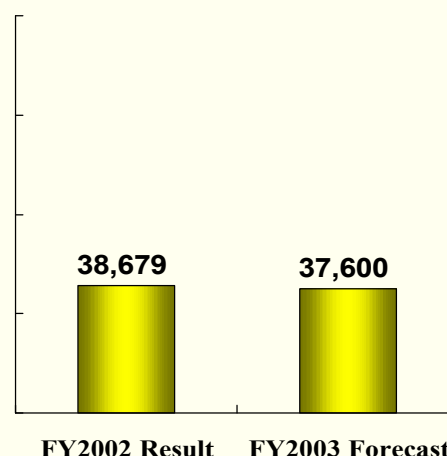
## Forecasts for Sales by Segment

(yen in millions)

### Components & Materials Business



### Electronic Systems Business



\* Both FY2002 Result and FY2003 Forecast are indicated in new segmentation.

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### [Forecasts for Sales by Segment]

- The sales amount of the Components and Materials business is expected to increase 7% to 121.0 billion yen, and that of the Electronic Systems business to decrease 3% to 37.6 billion yen.
- Despite a decrease in analog ICs for home game machines, DSP for digital cameras and custom ICs for cellular phones are likely to continue increasing, and new business for foundry is expected to expand in the second half.
- The decrease in sales of materials for home game machines is the result of the shift of production to abroad, and Marubun/Arrow Asia, an equity-method-applied affiliated company will take care of customers.
- The sales amount of the Electronic Systems business is forecasted to decline because Space&Defense electronics business experiences a terminal gap period of space-related projects, so the sales amount of artificial satellites components is likely to drop sharply.

## Challenges Toward Higher Profitability

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➤ **Construction of a new business model**

➤ **Improvement of the cost structure**

➤ **Reformation of the financial structure**

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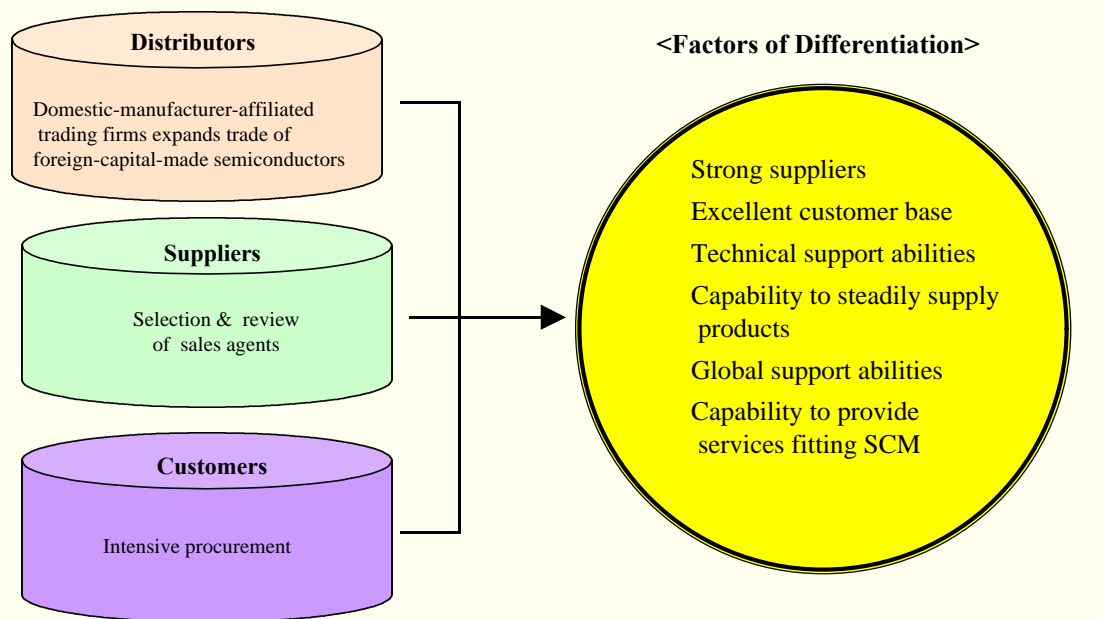
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[Challenges Toward Higher Profitability]

- Then, we would like to talk about our mid-term outlook.
- We believe that the foremost challenge is “renovation of the profit structure.”
- For this purpose, we are addressing the following issues:
  - The first is “construction of a new business model.”
  - The second is “improvement of the cost structure.”
  - The third is “reformation of the financial structure” through retrenchment of assets.
- As for “construction of a new business model,” the first issue, I will later explain the differentiation strategy based on our unique idea about a direction of business development.
- As for “improvement of the cost structure,” the second issue, we are hacking away at not only variable expenses but also fixed expenses as the highest priority task, and carrying out zero-base review of every expense account, while considering the pension system, which leads to a heavy burden.
- We are also planning to restrict employment of new graduates, and reduce 50 employees every year through natural decrease.
- As for “reformation of the financial structure,” the third issue, we are not only increasing retained earnings through higher profitability, but also continuing liquidation of trade receivables, while raising the inventory turnover rate through utilization of IT, and reviewing existing trade practices and negotiating for the shorter lead time of collection of trade receivables following expansion of transactions in foreign currencies.

## Change of the Industrial Structure

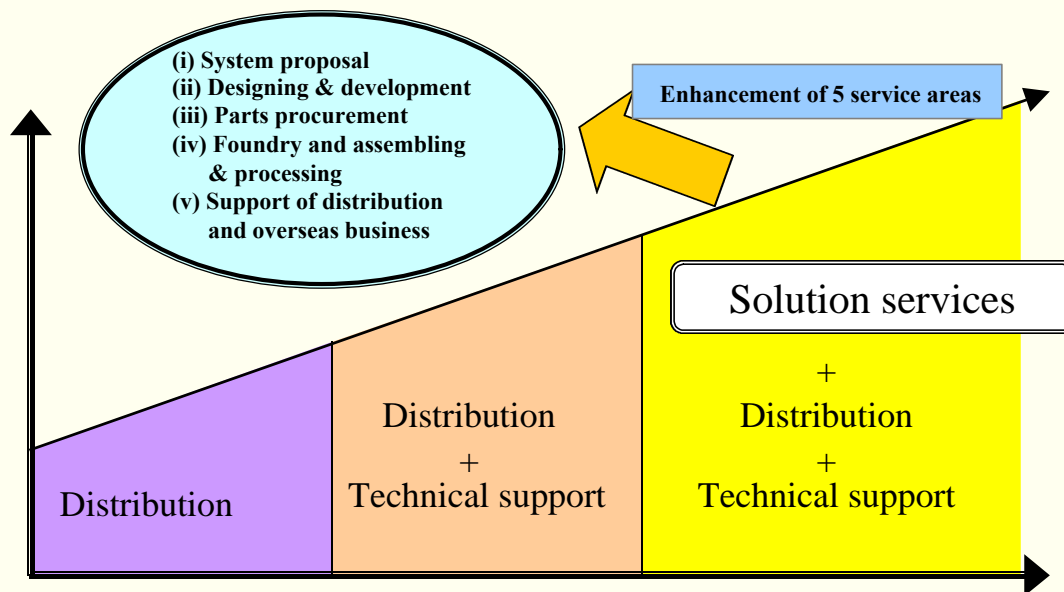


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### [Change of the Industrial Structure]

- Now, we would like to discuss directions of our future development of the Components & Materials business and Electronic Systems business.
- The first topic is the Components and Materials business.
- Currently, Japan-based semiconductor-trading firms are at a major turning point.
- Japan's semiconductor distributors have traditionally divided clearly into manufacturer-affiliated firms and independent trading companies. Following the reorganization of Japanese semiconductor manufacturers, however, the manufacturer-affiliated firms are increasing trading of foreign-capital-made products, which have conventionally been handled by the independent trading companies.
- Foreign-capital semiconductor manufacturers are also reviewing and screening sales agents, while set producers, our customers, are positively advancing intensive procurement.
- To survive these changes in the environment, distributors should (i) secure strong suppliers and an excellent customer base, (ii) be equipped with high-level technical support abilities, and (iii) be able to acquire the global support capability, steadily supply materials, and provide "diversified services to meet requirements of customers' supply chain." We believe these factors are the source of competitiveness and differentiation.
- Our suppliers are competitive semiconductor manufacturers at home and abroad, and we develop our business operation centering on Japan's leading electric companies as the core customers. Moreover, we established a joint-venture company with one of world's largest distributors of electronic components and computer products, Arrow Electronics to quickly respond to the shift of production bases to abroad among Japanese firms.
- Our company is "reinforcing solution services," which will lead directly to advantages of customers, while tightening partnerships with semiconductor manufacturers and customers.

## Development of Components & Materials Business



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[Development of the Components and Materials business]

- The Company is considering and promoting enhancement of the following 5 service areas:
  - The first area is the system-plan proposal service.
  - We are breaking away from the traditional single device business procured from a single supplier to the proposal-type business combining various products from multiple suppliers.
  - We are focusing on the “communication,” “digital home appliance” and “automobile” markets, and expanding our product lines for these markets.
- The second area is the designing & development service. We are improving technical support abilities by expanding networks of external design houses, while reinforcing our own technical divisions.
- The third area is the parts procurement service. We are considering the substitute purchase service and the kitting business to procure all components and materials customers need at once.
- The fourth area is the service of foundry and assembling & processing of semi-products. We are planning to expand tie-ups with China’s foundry companies and assembly firms.
- The fifth area is the distribution service. We will continue materialization of substitute distribution service, while further reinforcing the global support system.
- We hope these new services will account for 20 – 30% of the entire business.

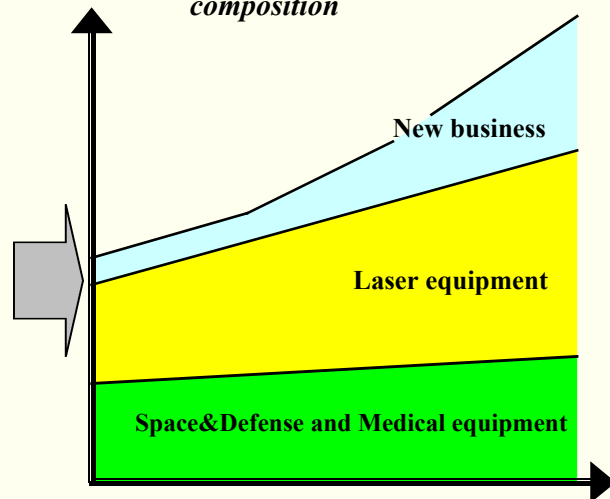
## Development of Electronic Systems Business

### Focusing on the high-end market

**Selection and concentration of business**  
Laser equipment + Industrial equipment  
→ Synergy effects in the laser processing area

**Enhancement of new business development**  
Optical communications, bio...  
→ Pillar of future business

### Changes in sales composition



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[Development of the Electronic Systems business]

- Next, let me explain the Electronic Systems business.
- For the Electronic Systems business, we will tackle “acceleration of selection and concentration of business” and “enhancement of new business development.”
- For “acceleration of selection and concentration of business,” we are narrowing our product line for the Industrial equipment area, and positively exploiting the market of laser processing that may cause synergy effects between Industrial equipment and Laser equipment.
- For “enhancement of new business development,” we have started dealing with bio-related products. We regard this business year as the year of start of mid- and long-term growth of the bio-business, and are going to begin full-scale marketing activities.
- Success of the Electronic System business depends on how fast we can find and foster high-end products and areas both at home and abroad. For this purpose, we are strengthening our development team, and exploiting new areas.
- As for the Electronic Systems business, we are aiming at the top technology-oriented, specialized trading firm at the high-end niche market by positioning the Laser equipment area as the core business, the Space&Defense and Medical equipment area as stably growing business, and Information equipment and new development area as growing business.
- The difficult situations remain, but we accept the current stagnancy as a given condition, maintain the stance of “offence,” and hope to realize “speedy management.”
- We have to build up a truly strong organization through flexibly responding to changes, continuing challenging, and establishing “robust profit bases.”