
Overview of Results for First Half of Fiscal 2006

(Six-month period from April 1 to September 30, 2006)

November 10, 2006



兼松株式会社

KANEMATSU CORPORATION

Forward-Looking Statements

The statements contained in these materials are based on assumptions and estimates and are subject to risks and uncertainties that may cause actual results to differ materially from the statements in these materials.

Contents

Highlights of Operating Results for First Half of Fiscal 2006	1
I. Overview of Results for First Half of FY2006	4
1. Consolidated Financial Results: Earnings	5
2. Consolidated Balance Sheets	13
3. Consolidated Cash Flows	15
4. Subsidiaries and Affiliates, and their Employees	17
Reference: Non-Consolidated Financial Results	19
II. FY2006 Forecast and Segment Outline	20
· Consolidated Business Forecast for FY2006	21
· IT	25
· Food & Foodstuffs	27
· Iron, Steel & Industrial Plants	29
· Life Science & Energy	33
· Textiles	37
Reference: Outline of Kanematsu Group	39
III. “New KG200” Medium-Term Business Plan	40
“New KG200” –Medium-Term Business Plan	41
Reference: Highlights of the New Kanematsu	43

Highlights of Operating Results for First Half of Fiscal 2006

- **Revenues and earnings both record year-on-year increases for the fiscal 2006 first-half period**

Operating income and ordinary income set records for past decade

- Sales for the reporting period, which is the first half of fiscal 2006 — the final year of the current New KG200 medium-term business plan — came to ¥626.3 billion, representing an increase of 33.9%, or ¥158.6 billion, over the corresponding period of the previous business year. Gross trading profit rose in tandem with the increase in sales, to ¥48.5 billion, up 37.7% year-on-year.
- Operating income rose sharply by 50.7% year-on-year, to ¥12.1 billion.
- Ordinary income also rose by a sharp 59.0%, to ¥9.4 billion.
- Net income for the six-month first-half period came to ¥6.3 billion, well above the initial forecast. This is attributable to the success of the measures taken by the Company to firmly cement its business base so as to ensure a complete recovery of business performance.

- **Net interest-bearing debt reduced significantly**

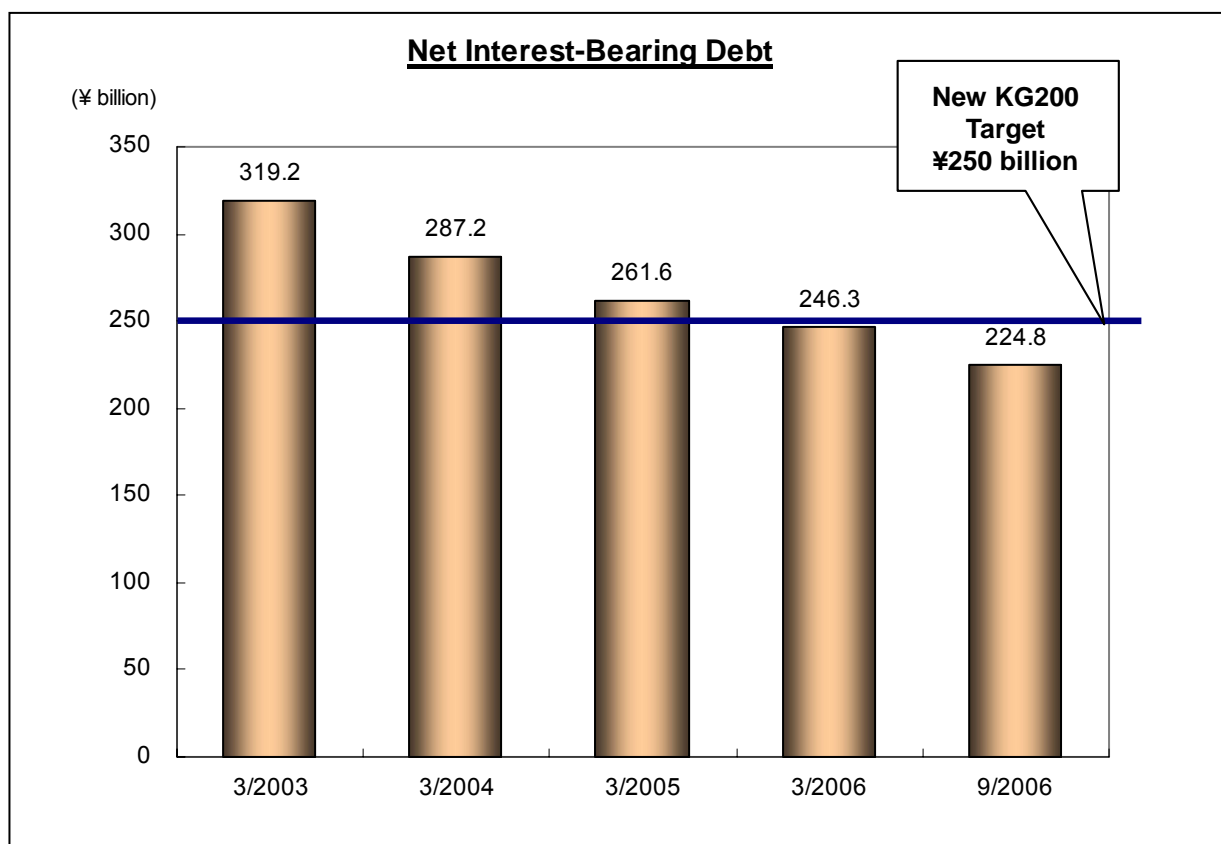
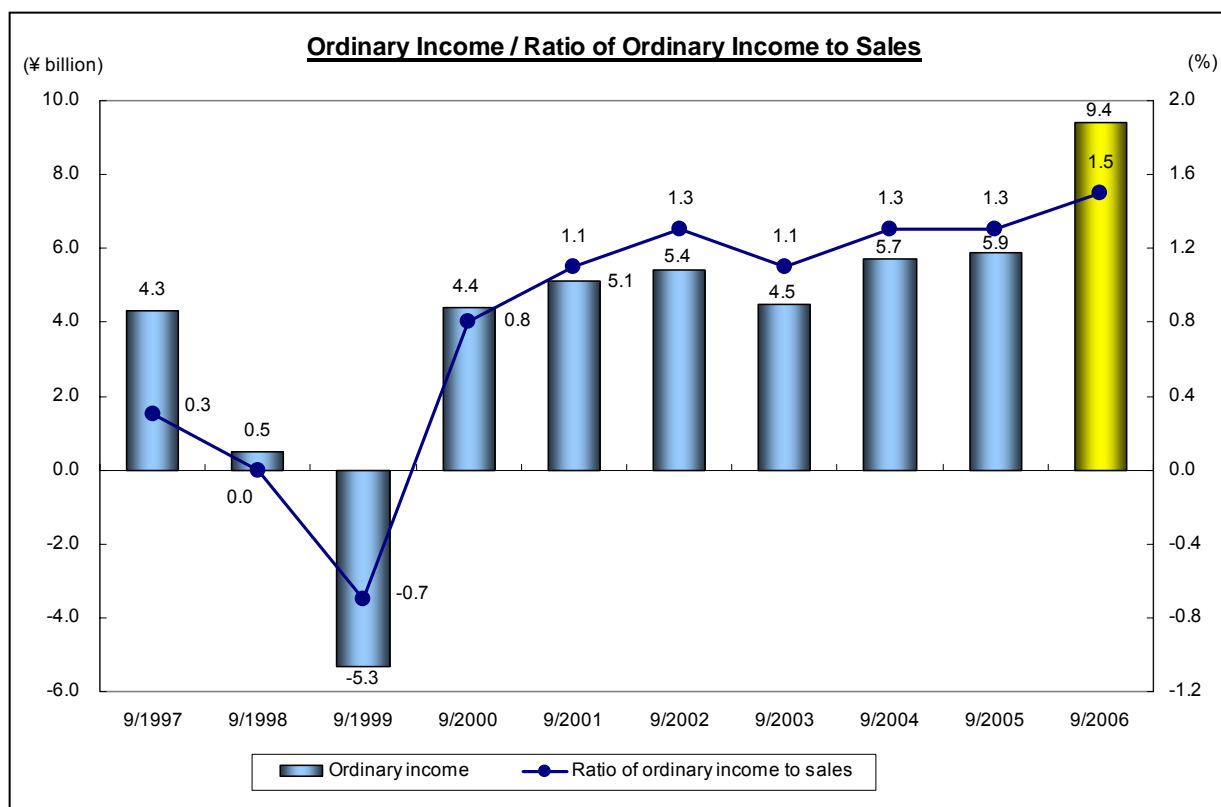
- Efforts to reduce net interest-bearing debt bore fruit, with the figure reaching ¥224.8 billion at the end of the first-half period. It now appears on target to fall below the ¥230 billion mark at the end of fiscal 2006. Shareholders' equity increased, thanks to the strong performance of net income, with the equity ratio (shareholders' equity as a percentage of total assets) standing at 5.3% and the net debt-equity ratio recovering to 7.3.

(On a consolidated basis)

(¥ million)

	First half of FY2006	First half of FY2005	Change	
Net sales	626,277	467,676	158,601	33.9%
Gross trading profit	48,467	35,196	13,271	37.7%
Operating income	12,071	8,009	4,062	50.7%
Ordinary income	9,383	5,901	3,482	59.0%
Net income (loss)	6,271	(24,213)	30,484	—

	As of September 30, 2006	As of March 31, 2006	Change	
Total assets	576,366	556,046	20,320	3.7%
Net interest-bearing debt	224,805	246,317	(21,512)	(8.7%)
Shareholders' equity	30,659	26,004	4,655	17.9%
Equity ratio	5.3%	4.7%	0.6%	—
Net debt-equity ratio	7.3	9.5	(2.2)	—



(MEMO)

I. Overview of Results for First Half of FY2006

1. Consolidated Financial Results: Earnings

As a result of the weakening of the yen's exchange rate against the dollar, in addition to firm market price trends in crude oil, steel, cereals, and other major commodities, the value of the Company's transactions in the fields of energy, steel, and foodstuffs registered sharp growth. In addition, a positive impact was felt from the expansion of the Company's operational area through the M&As conducted during the previous year. As a result, year-on-year increases were recorded in sales, gross trading profit, operating income, ordinary income and net income.

Sales for the reporting six-month period posted a year-on-year gain of 33.9%, while gross trading profit rose in tandem to ¥48.5 billion, up 37.7% over the corresponding period of the previous year, and the gross trading profit margin posted a high level of 7.7%. Operating income was up 50.7% at ¥12.1 billion and ordinary income rose 59.0% to ¥9.4 billion, both performances being record highs for the past ten years. Net income easily surpassed the start-of-term forecast, reaching ¥6.3 billion.

(¥ million)

	First half of FY2006		First half of FY2005		Comparison with FY2005	
		Percentage of net sales		Percentage of net sales	YoY Change	Change (%)
Net sales	626,277	100.0%	467,676	100.0%	158,601	33.9%
Gross trading profit	48,467	7.7%	35,196	7.5%	13,271	37.7%
Operating income	12,071	1.9%	8,009	1.7%	4,062	50.7%
Ordinary income	9,383	1.5%	5,901	1.3%	3,482	59.0%
Income before income taxes	12,088	1.9%	(22,665)	(4.8%)	34,753	—
Net income	6,271	1.0%	(24,213)	(5.2%)	30,484	—

(1) Net Sales

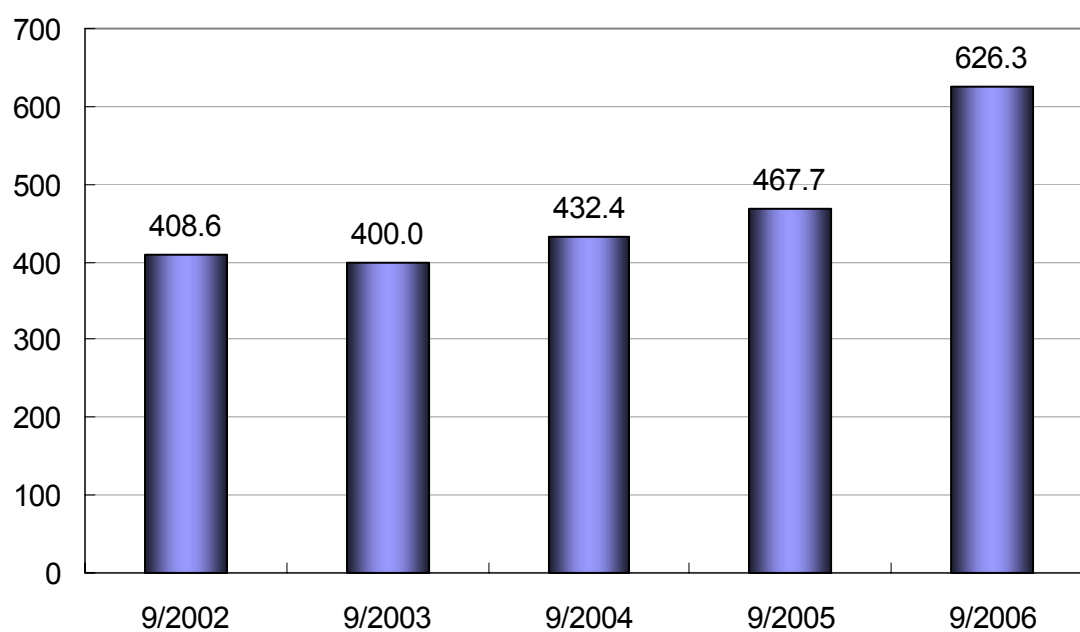
- The value of transactions conducted by the Company's Energy and Foodstuffs businesses rose as a result of the higher prices of crude oil and the decline in the yen's exchange rate against the dollar. The inclusion of Kanematsu Electronics Ltd. and Shintoa Corporation within the scope of consolidation served to push up sales value by expanding the operational fields of the Company's IT and Foodstuffs businesses.

(¥ million)

	First half of FY2006	First half of FY2005	YoY change
IT	167,777	128,362	39,415
Food & Foodstuffs	133,260	74,911	58,349
Iron & Steel	67,555	61,533	6,022
Industrial Plants	50,101	51,108	(1,007)
Iron, Steel & Industrial Plants	117,657	112,641	5,016
Energy	146,421	106,756	39,665
Life Science	15,755	14,574	1,181
Life Science & Energy	162,176	121,331	40,845
Textiles	28,628	27,911	717
Others	16,904	2,749	14,155
Consolidated adjustment	(125)	(229)	104
Total	626,277	467,676	158,601

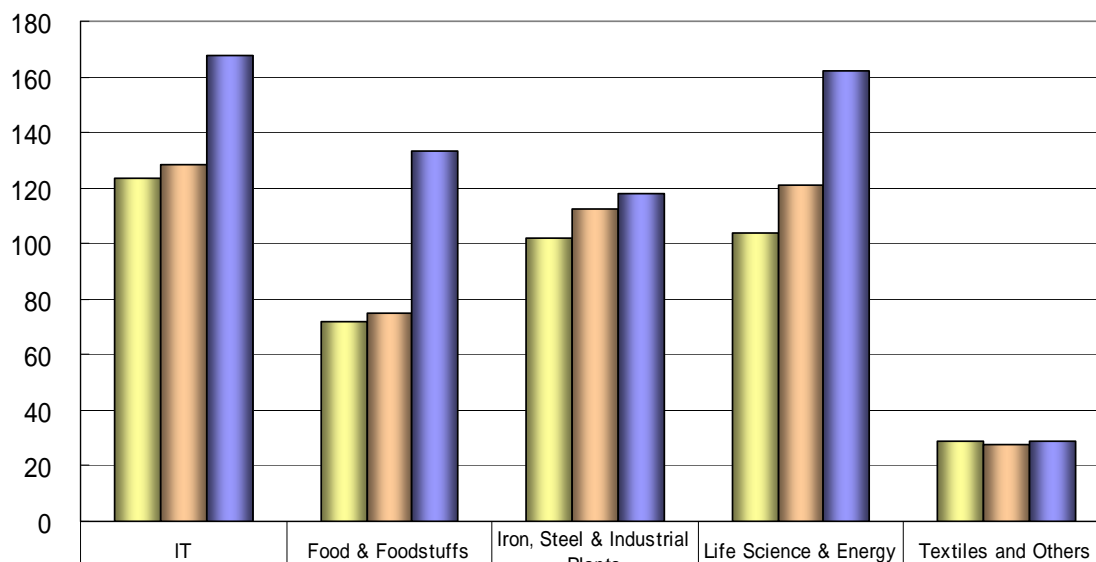
Net Sales

(¥ billion)



Net Sales by Segment

(¥ billion)



	IT	Food & Foodstuffs	Iron, Steel & Industrial Plants	Life Science & Energy	Textiles and Others
9/2004	123.6	71.6	101.8	103.8	29.1
9/2005	128.4	74.9	112.6	121.3	27.9
9/2006	167.8	133.3	117.7	162.2	28.6

(2) Gross Trading Profit

- Gross trading profit posted a year-on-year growth of ¥13.3 billion, largely as a result of higher profit margins enjoyed by the IT sector, particularly the solutions business. The gross trading profit margin maintained a high level, at 7.7%.

(¥ million)

	First half of FY2006		First half of FY2005		YoY change	Ratio change
	Actual	Profit ratio	Actual	Profit ratio	Actual	
IT	22,704	13.5%	13,025	10.1%	9,679	3.4%
Food & Foodstuffs	5,785	4.3%	3,655	4.9%	2,130	(0.5%)
Iron & Steel	4,728	7.0%	4,975	8.1%	(247)	(1.1%)
Industrial Plants	5,159	10.3%	4,952	9.7%	207	0.6%
Iron, Steel & Industrial Plants	9,888	8.4%	9,927	8.8%	(39)	(0.4%)
Energy	5,046	3.4%	3,545	3.3%	1,501	0.1%
Life Science	1,127	7.2%	1,196	8.2%	(69)	(1.1%)
Life Science & Energy	6,174	3.8%	4,741	3.9%	1,433	(0.1%)
Textiles	2,172	7.6%	2,392	8.6%	(220)	(1.0%)
Others	1,744	10.3%	1,456	53.0%	288	(42.7%)
Consolidated adjustment	0	—	0	—	0	—
Total	48,467	7.7%	35,196	7.5%	13,271	0.2%

(3) Selling, General and Administrative Expenses

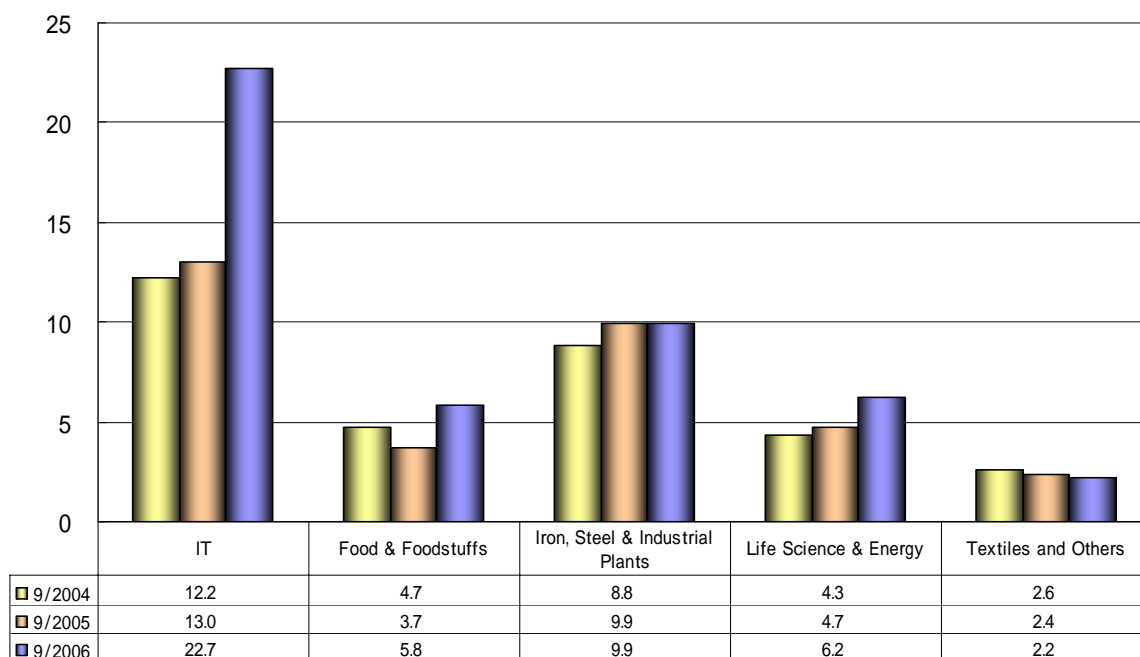
- SG&A expenses increased in line with the growth in the Company's customer base and the volume of goods handled, as well as the increase contributed by newly-consolidated subsidiaries. The ratio of SG&A expenses to gross trading profit, however, improved slightly.

(¥ million)

	First half of FY2006	First half of FY2005	YoY change
Personnel expenses	18,624	13,727	4,897
Non-personnel expenses	17,772	13,459	4,313
SG&A expenses	36,396	27,187	9,209
Ratio of SG&A expenses to gross trading profit	75.1%	77.2%	(2.1%)

(¥ billion)

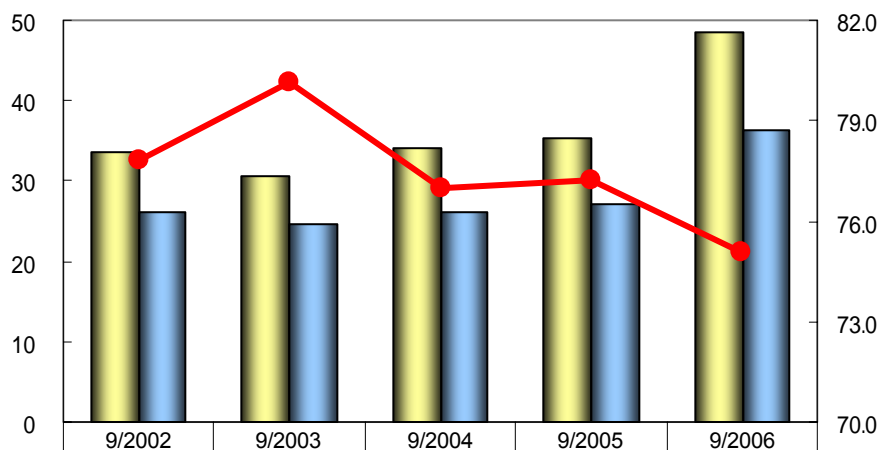
Gross Trading Profit by Segment






Gross Trading Profit and Ratio of SG&A Expenses to Gross Trading Profit

(¥ billion)

%



	Gross trading profit	33.5	30.7	34.0	35.2	48.5
	SG&A expenses	26.0	24.6	26.2	27.2	36.4
	Ratio of SG&A expenses to gross trading profit	77.8	80.2	77.0	77.2	75.1

(4) Operating Income

The IT Division enjoyed a brisk pace of transactions in semiconductor manufacturing equipment and related products, as well as in printers exported to the United States. The newly consolidated subsidiary Kanematsu Electronics also made a contribution to the Division's profitability, while the operating income of the Foodstuffs Division was pushed up by a contribution from the vending machine business of newly consolidated subsidiary Shintoa Corporation. In the Energy business, operating income rose steadily amid a firm trend in market prices, mainly thanks to earnings from transactions in gasoline and heavy oil. In total, operating income rose strongly by 50.7% year-on-year, to ¥4.1 billion.

(¥ million)						
	First half of FY2006		First half of FY2005		Change	
	Actual	Profit ratio	Actual	Profit ratio	Actual	Profit ratio
IT	4,184	2.5%	1,503	1.2%	2,681	1.3%
Food & Foodstuffs	1,363	1.0%	595	0.8%	768	0.2%
Iron & Steel	2,659	3.9%	2,607	4.2%	52	(0.3%)
Industrial Plants	946	1.9%	1,194	2.3%	(248)	(0.4%)
Iron, Steel & Industrial Plants	3,605	3.1%	3,801	3.4%	(196)	(0.3%)
Energy	1,920	1.3%	767	0.7%	1,153	0.6%
Life Science	214	1.4%	328	2.3%	(114)	(0.9%)
Life Science & Energy	2,135	1.3%	1,095	0.9%	1,040	0.4%
Textiles	210	0.7%	473	1.7%	(263)	(1.0%)
Others	438	2.6%	537	19.5%	(99)	(16.9%)
Consolidated adjustment	136	—	5	—	131	—
Total	12,071	1.9%	8,009	1.7%	4,062	0.2%

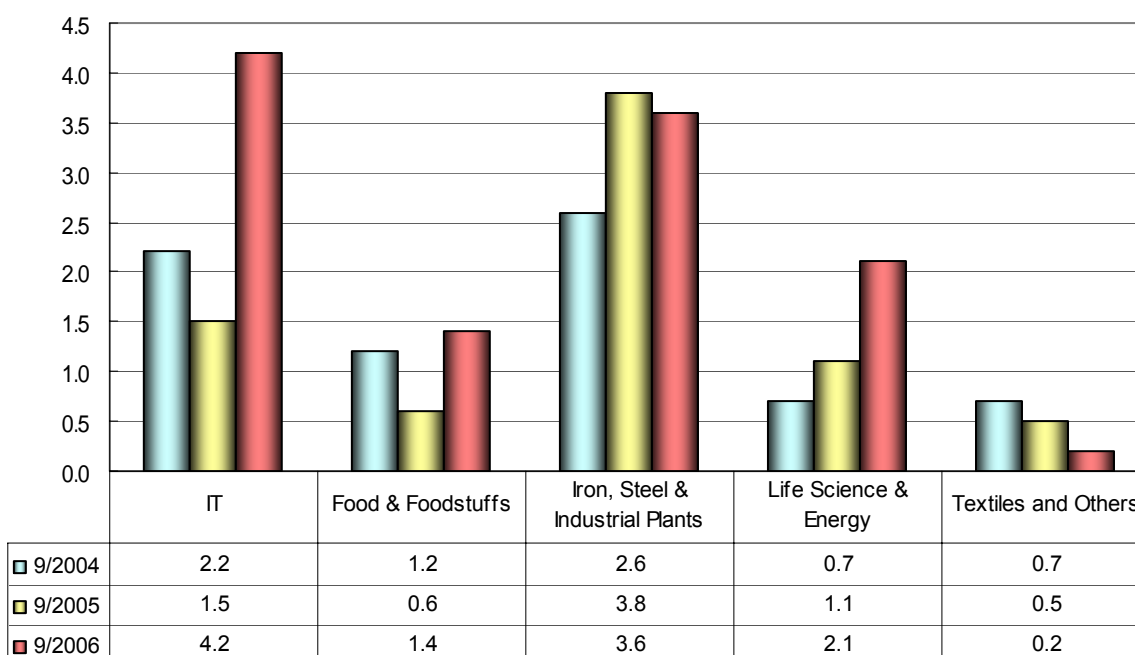
(5) Non-Operating Income & Loss

- The Company's financial balance improved, thanks to higher receipts of interest income. On the other hand, gains on equity-method investment decreased as a result of the inclusion of Kanematsu Electronics in the scope of consolidation. These factors combined to produce a slight increase in the non-operating loss figure.

(¥ million)			
	First half of FY2006	First half of FY2005	Change
Dividends received	558	538	20
Interest received	833	486	347
Interest paid	(4,016)	(3,956)	(60)
Financial balance	(2,624)	(2,931)	307
Gain on equity-method investment	90	519	(429)
Others	(153)	304	(457)
Non-operating loss	(2,687)	(2,108)	(579)

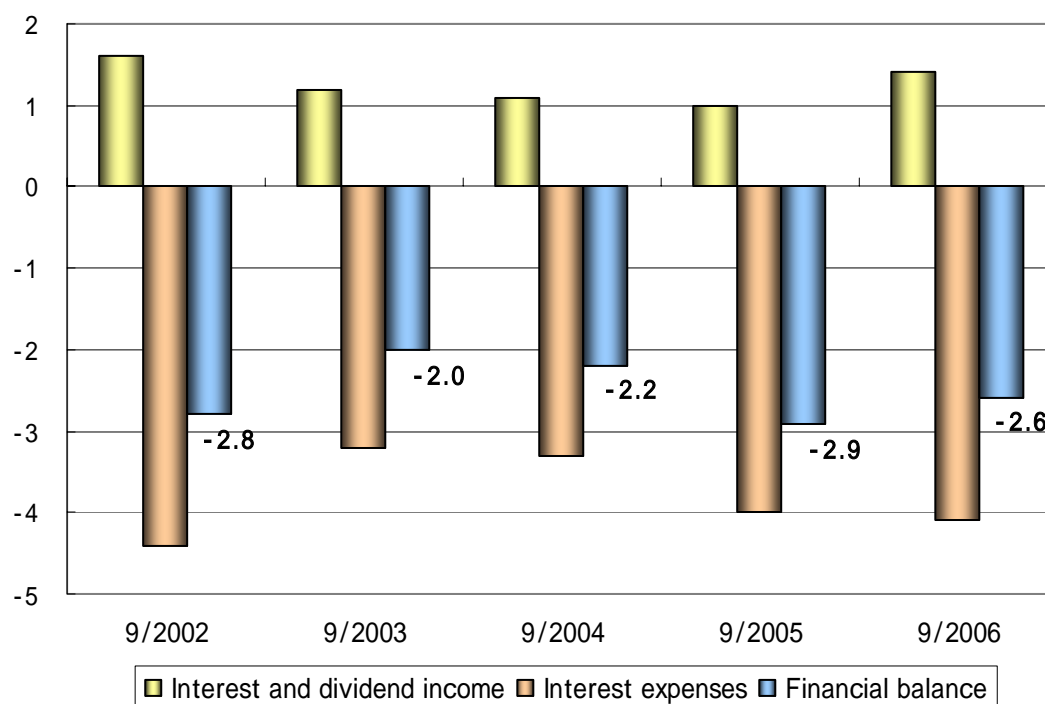
(¥ billion)

Operating Income by Segment



(¥ billion)

Financial Balance



(6) Ordinary Income

- Up 59.0% year-on-year at ¥9.4 billion
- Fund efficiency (ordinary income/(net interest-bearing debt + shareholders' equity) at 7.5%, surpassing the target of 6%
- Core earnings at ¥10 billion, up ¥4.2 billion year-on-year

	(¥ million)		
	First half of FY2006	First half of FY2005	Change
Ordinary income	9,383	5,901	3,482
Ordinary income ratio	1.5%	1.3%	0.2%
Core earnings	10,017	5,823	4,194

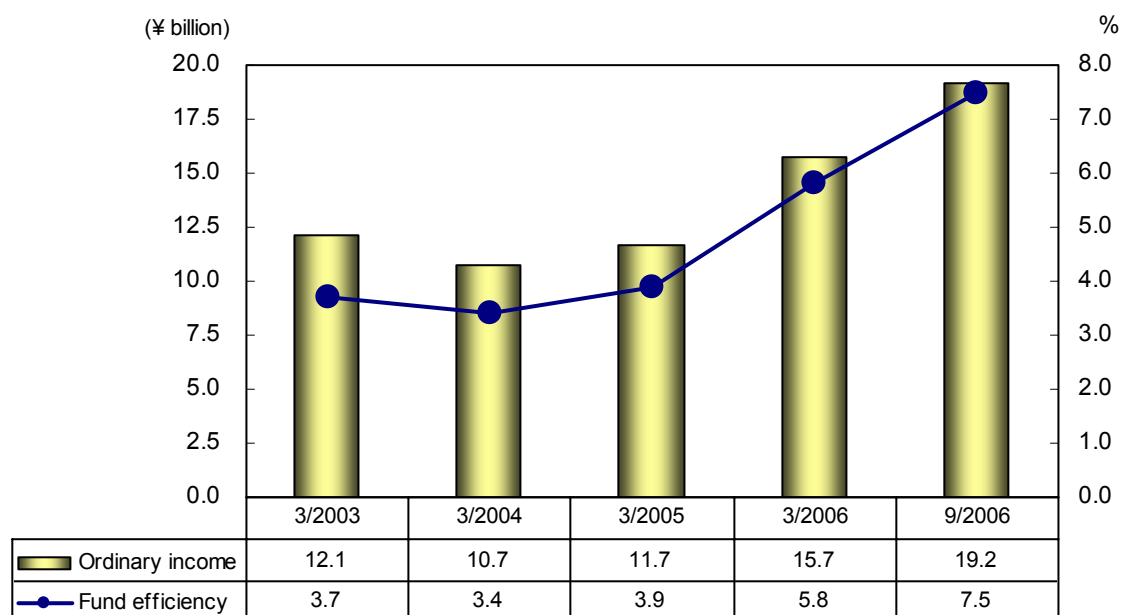
Core earnings = Operating income + Reserve for doubtful accounts + Financial balance + Dividends received
+ Gain on equity method investment

(7) Extraordinary Gain/Loss and Net Income

- ¥2.7 billion in extraordinary losses recognized primarily as a result of the termination of a ski resort project
- Extraordinary gains in the amount of ¥5.4 billion recognized on the sale of the Company's Osaka branch building
- Net income far exceeds ¥4.0 billion start-of-term target to reach ¥6.3 billion

	(¥ million)		
	First half of FY2006	First half of FY2005	Change
Gain on sale of tangible fixed assets	4,189	5	4,184
Gain on sale of investment securities	780	247	533
Gain on sale of business operations	—	1,339	(1,339)
Other extraordinary gain	424	743	(319)
Extraordinary gain	5,394	2,335	3,059
Loss on disposal of business operated by affiliate companies	(64)	(415)	351
Provision for allowance for doubtful receivables from affiliated companies	(1,440)	(1,457)	17
Loss on sale of investment securities	(169)	(34)	(135)
Valuation loss on investment securities	(89)	(2,080)	1,991
Impairment loss	(102)	(14,480)	14,378
Provision to loan-loss reserve regarding specific businesses	—	(11,918)	11,918
Other extraordinary loss	(825)	(518)	(307)
Extraordinary loss	(2,689)	(30,902)	28,213
Extraordinary gain (loss)	2,704	(28,566)	31,270
Income before income taxes	12,088	(22,665)	34,753
Income taxes and minority interests	(5,817)	(1,548)	(4,269)
Net income	6,271	(24,213)	30,484

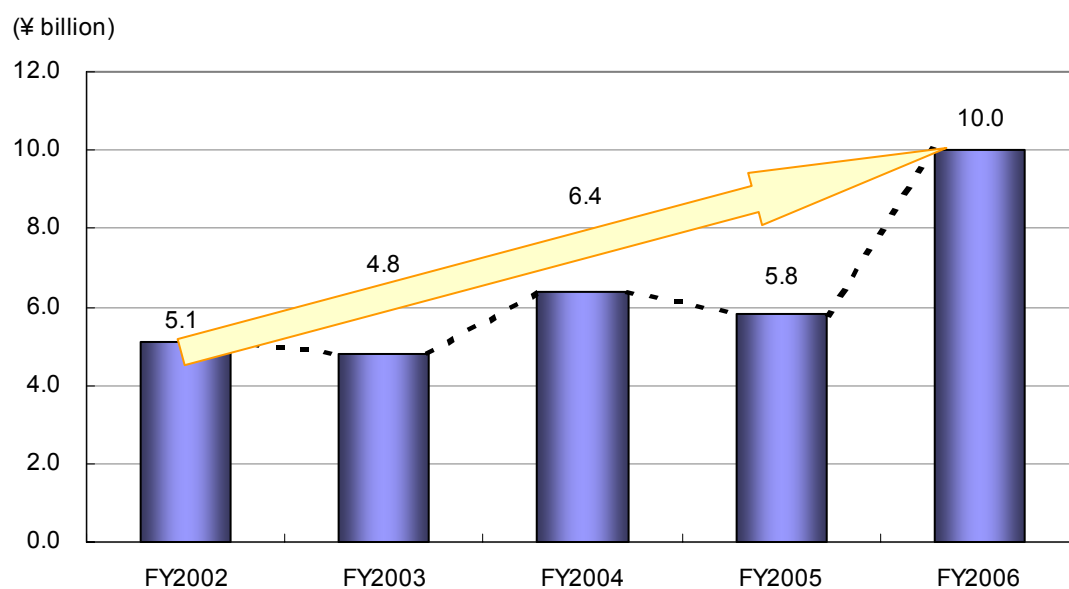
Fund Efficiency



*Fund efficiency = ordinary income / (net interest-bearing debt + shareholders' equity)

*Ordinary 9/2005 is based on the ordinary income for the first half of fiscal 2005 added to that for the second half of the previous term.

Core earnings



2. Consolidated Balance Sheets

The Company's trade receivables increased as a result of a brisk pace of business transactions. Progress was achieved in the reduction of the amount of risk assets, including equity shares and real estate properties, and the overall quality of the Company's asset portfolio was thus improved. The net interest-bearing debt as of the end of the reporting six-month period came to ¥224.8 billion, as opposed to an initial forecast of ¥230 billion. Net assets increased to ¥45.8 billion as a result of an increase in retained earnings. Consequently, the equity ratio came to 5.3%, and the net debt-equity ratio improved to 7.3.

(1) Interest-Bearing Debt

- Net interest-bearing debt at the end of the reporting six-month period was down by ¥21.5 billion compared with the previous term-end. The current ratio, however, deteriorated to 89.7%, mainly due to the transfer of the current portion of long-term liabilities to current liabilities.

(¥ million)

	9/2006		3/2006		Comparison with 3/2006	
		Ratio		Ratio	Change	Change (%)
Short-term borrowings	230,227	79.7%	215,885	72.3%	14,342	—
Long-term borrowings	58,753	20.3%	82,548	27.7%	(23,795)	—
Gross interest-bearing debt	288,980		298,433		(9,453)	(3.2%)
Net interest-bearing debt (Note 1)	224,805		246,317		(21,512)	(8.7%)
Liquidity ratio (Note 2)	89.7%		92.0%		(2.3%)	—

Notes 1: Net interest-bearing debt = Gross interest-bearing debt – Cash and bank deposits

2: Liquidity ratio = Current assets / Current liabilities

(2) Net assets

- As a result of the posting of net income for the first-half period that led to an increase in unappropriated retained earnings, net assets increased to ¥45.8 billion from ¥41.0 billion at the previous fiscal year-end.

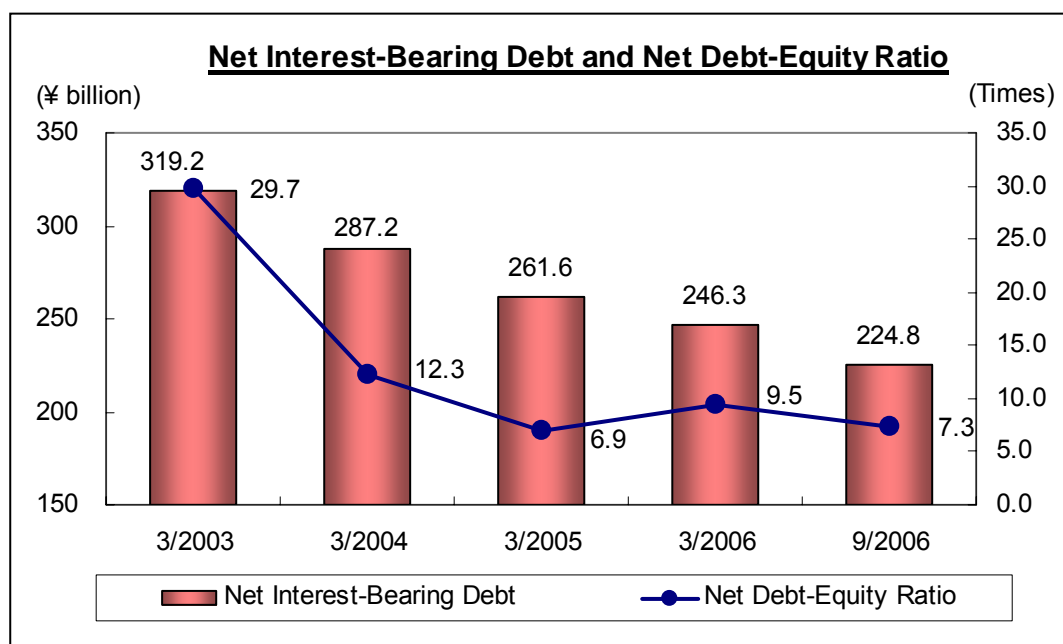
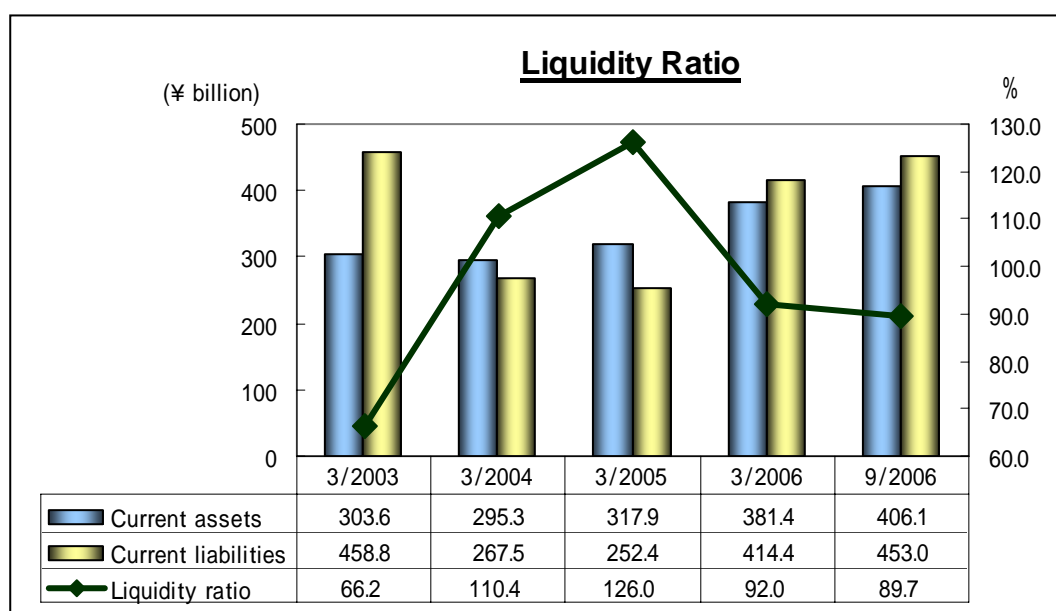
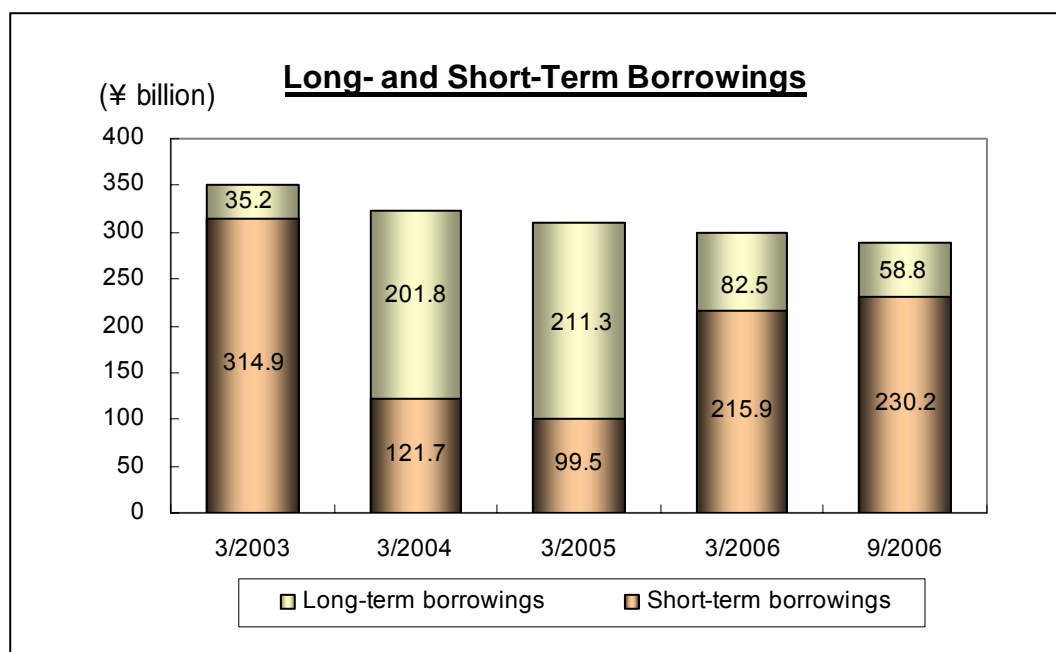
(¥ million)

	9/2006	3/2006	Comparison with 3/2006	
			Change	Change (%)
Common stock	27,781	27,781	—	—
Capital surplus	27,642	27,641	1	0.0%
Retained earnings	(10,222)	(16,294)	6,072	(37.3%)
Treasury stock	(612)	(600)	(12)	2.0%
Unrealized gain on available-for-sale securities	3,620	4,816	(1,196)	(24.8%)
Gains on hedge operations	150	—	150	—
Land revaluation reserves	58	58	—	—
Foreign exchange translation (Note)	(17,607)	(17,397)	(210)	—
Minority interests	14,966	14,972	(6)	(0.0%)
Net assets	45,776	40,977	4,799	11.7%
Equity ratio (%)	5.3%	4.7%		
Net D/E ratio	7.3	9.5		

Note: Exchange rate: ¥117.47/US\$ at March 31, 2006

¥117.90/US\$ at September 30, 2006

* Beginning with the current term, ending March 2007, the Company has adopted the new accounting standards employing "net assets" in accordance with changes in regulations for preparing financial statements. For reference purposes, the Company reclassified items posted under shareholders' equity for the previous term to harmonize with the new standards. However, the deferred method of posting for "gains/losses on hedge operations" remains unchanged.



(3) Assets by Account Title

- Tangible fixed assets declined sharply due to a write-down for impairment losses.

(¥ million)

	9/2006	3/2006	Comparison with 3/2006	
			Change	Change (%)
Cash and bank deposits	64,174	52,115	12,059	23.1%
Accounts and notes receivable	211,345	197,953	13,392	6.8%
Inventories	81,492	79,737	1,755	2.2%
Investments (Note)	71,787	74,991	(3,204)	(4.3%)
Loans (Note)	25,534	33,187	(7,653)	(23.1%)
Tangible fixed assets	45,861	51,041	(5,180)	(10.1%)
Deferred tax assets	23,616	25,045	(1,429)	(5.7%)
Others	95,772	84,961	10,811	12.7%
Reserve for doubtful accounts	(43,215)	(42,984)	(231)	0.5%
Total assets	576,366	556,046	20,320	3.7%

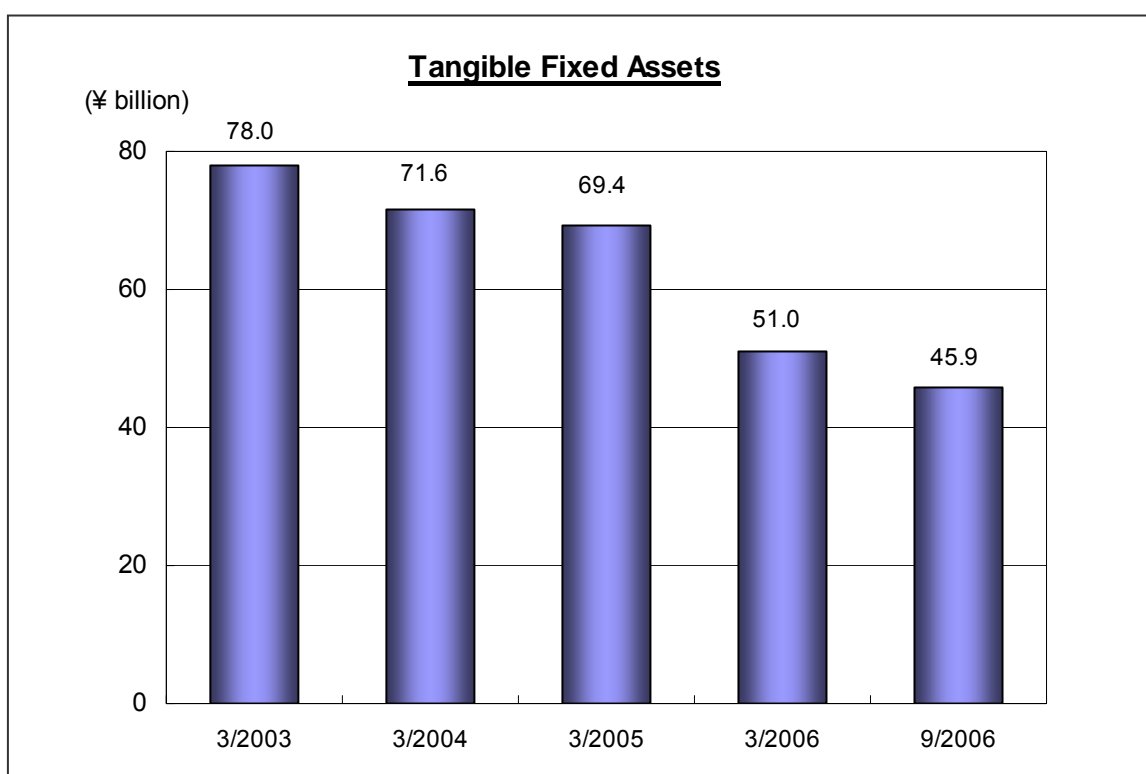
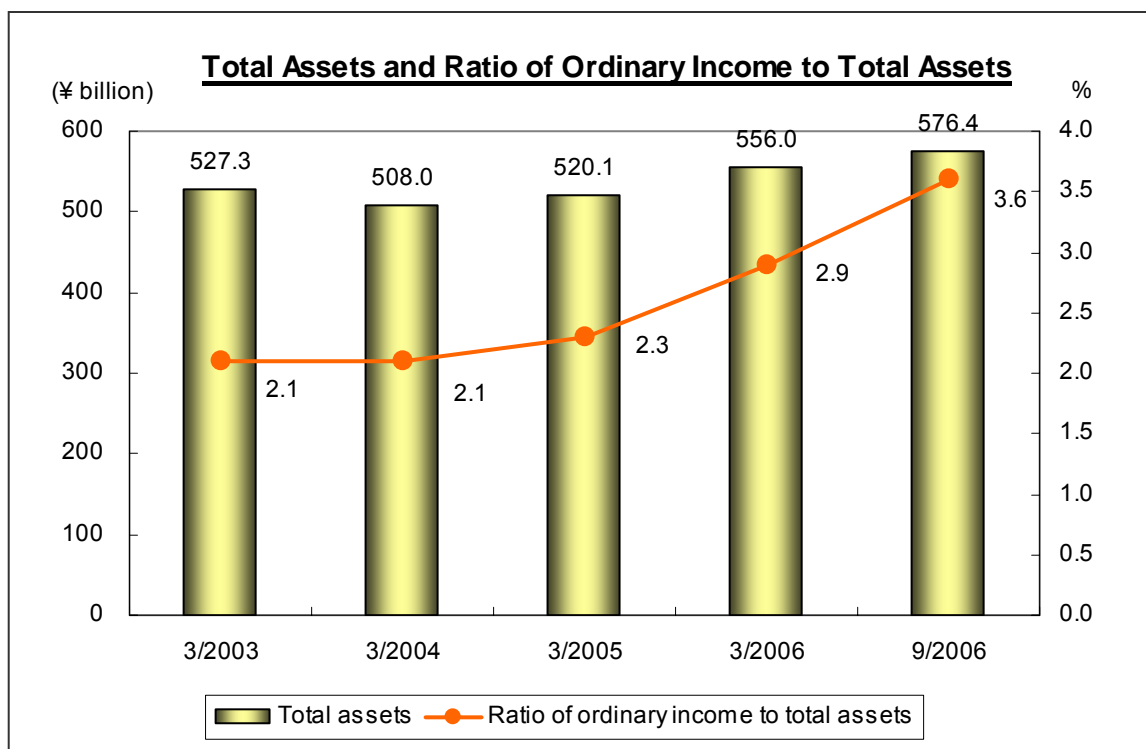
Note: Investments = Marketable securities + Investment securities
loans

Loans = Short-term loans + Long-term

3. Consolidated Cash Flows

(¥ million)

	First half of FY2006	First half of FY2005	Change
Operating income + Depreciation and amortization	13,830	9,506	4,324
Decrease (increase) in trade notes receivable, inventories and trade notes payable	(485)	1,808	(2,293)
Income on (payment of) interest, dividends and income taxes	(5,042)	1,949	(6,991)
Cash flows from operating activities	8,303	13,264	(4,961)
Cash flows from investing activities	13,782	(1,652)	15,434
Total free cash flow	22,085	11,611	10,474
Cash flows from financing activities	(9,196)	(22,165)	12,969



4. Subsidiaries and Affiliates, and their Employees

(1) Number of Profitable and Non-Profitable Consolidated Subsidiaries and Affiliates

	First Half of FY2006					First Half of FY2005					YoY Change
	Subsidiaries		Affiliates		Total	Subsidiaries		Affiliates		Total	Total
	Domestic	Overseas	Domestic	Overseas		Domestic	Overseas	Domestic	Overseas		
Number of profitable companies	42	26	14	19	101	25	31	13	17	86	15
Ratio (%)	80.8	68.4	48.3	79.2	70.6	59.5	83.8	52.0	85.0	69.4	1.2
Number of non-profitable companies	10	12	15	5	42	17	6	12	3	38	4
Total	52	38	29	24	143	42	37	25	20	124	19

(2) Profit and Loss Posted by Subsidiaries and Affiliates

(¥ billion)

	First Half of FY2006					First Half of FY2005					YoY Change
	Subsidiaries		Affiliates		Total	Subsidiaries		Affiliates		Total	Total
	Domestic	Overseas	Domestic	Overseas		Domestic	Overseas	Domestic	Overseas		
Sum of profit posted by profitable companies	3.1	1.2	0.1	0.6	5.0	1.4	2.6	0.2	0.4	4.6	0.4
Sum of loss posted by non-profitable companies	(0.5)	(0.9)	(0.6)	0.0	(2.0)	(12.3)	(0.8)	(0.1)	(0.0)	(13.2)	11.2
Total	2.6	0.3	(0.5)	0.6	3.0	(10.9)	1.8	0.1	0.4	(8.6)	11.6

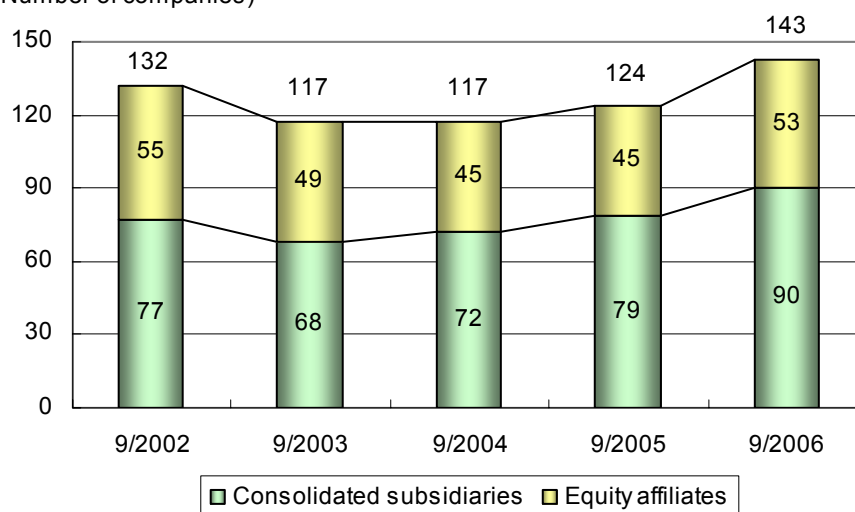
Note: Simple aggregation before consolidation adjustment

(3) Number of Employees

	9/2006	9/2005	Comparison with 9/2005	
			Change	Change (%)
Parent company	869	868	1	0.1%
Consolidated subsidiaries	4,349	2,647	1,702	64.3%
Total	5,218	3,515	1,703	48.4%

Scope of Consolidation

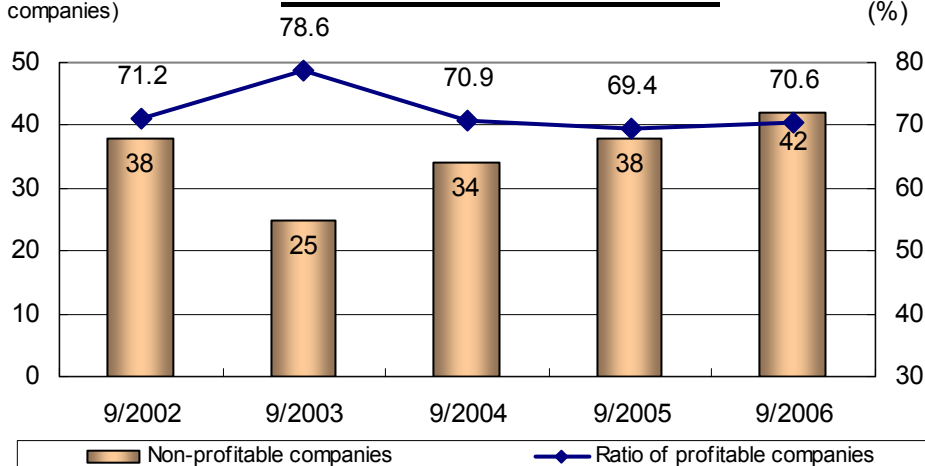
(Number of companies)



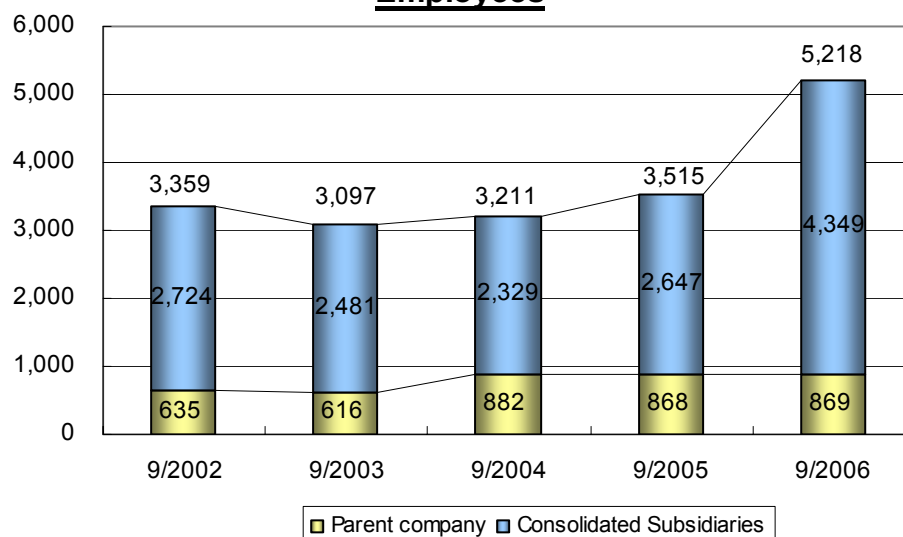
Number of Non-Profitable Companies and Ratio of Profitable Subsidiaries to Total

(Number of companies)

(%)



Employees



Reference: Non-Consolidated Financial Results

1. Non-Consolidated Financial Results: Earnings

(¥ million)

	First Half of FY2006		First Half of FY2005		Comparison with FY 2005	
		Percentage of net sales		Percentage of net sales	Change	Change (%)
Net sales	267,716	100.0%	253,675	100.0%	14,041	5.5%
Gross trading profit	11,972	4.5%	10,409	4.1%	1,563	15.0%
Operating income	3,460	1.3%	2,201	0.9%	1,259	57.2%
Ordinary income	4,184	1.6%	2,861	1.1%	1,323	46.2%
Income before income taxes	2,157	0.8%	(25,790)	(10.2%)	27,947	—
Net income	131	0.0%	(25,428)	(10.0%)	25,559	—

2. Non-Consolidated Balance Sheets

(1) Reduction in Total Assets and Net Interest-Bearing Debt

(¥ million)

	9/2006	3/2006	Comparison with 3/2006	
			Change	Change (%)
Total assets	405,016	404,086	930	0.2%
Gross interest-bearing debt	254,810	261,623	(6,813)	(2.6%)
Net interest-bearing debt	226,885	243,163	(16,278)	(6.7%)

(2) Net assets

(¥ million)

	9/2006	3/2006	Comparison with 3/2006	
			Change	Change (%)
Common stock	27,781	27,781	0	0.0%
Capital surplus	26,888	26,888	0	0.0%
Retained earnings	(16,445)	(16,577)	132	(0.8%)
Treasury stock	(156)	(144)	(12)	8.3%
Valuation and translation differences	2,559	3,167	(608)	(19.2%)
Total shareholders' equity	40,626	41,114	(488)	(1.2%)

II. FY2006 Forecast and Segment Outline

• Consolidated Business Forecast for FY2006

- The current business year is the final one under the Company's New KG200 medium-term business plan, and the management and staff are putting their full efforts into getting the Company back on the upward track in terms of both revenues and earnings this term, as a step toward the longer-term goal of creating a corporate organization capable of realizing high-level earnings on a stable and sustainable basis. At the same time, we are working to speed up the pace of buildup of our retained earnings to eliminate accumulated deficits as quickly as possible.
- Upward revisions from start-of-term forecasts: sales from ¥1,150 billion to ¥1,200 billion; gross trading profit from ¥94.5 billion to ¥96.0 billion
- In line with the above, ordinary income forecast also revised upward from ¥17.5 billion to ¥18.5 billion
- Owing to expected increases in tax payments under tax-effect accounting, net income forecast remains unchanged at ¥10 billion
- Term-end debt-equity ratio expected to regain 6.1 level or thereabouts

Net Sales and Gross Trading Profit

- Thanks to the contributions made by the newly consolidated subsidiaries Kanematsu Electronics and Shintoa Corporation, sales on a consolidated basis are forecast to rise ¥95.3 billion year-on-year to ¥1,200 billion, while the gross trading profit is also projected to increase by ¥14.3 billion year-on-year, to ¥96 billion. By segment, increases in revenues and earnings are forecast for the IT, Foodstuffs, and Energy businesses.

Selling, General and Administrative Expenses, and Operating Income

- The inclusion of the abovementioned two companies within the scope of consolidation will result in an increase in SG&A expenses, but operating income is projected to record a year-on-year gain of ¥5 billion.

Non-Operating Profit/Loss, Ordinary Income

- Despite a decline in dividend payments received, in addition to increased costs resulting from the rise in interest rates on dollar-denominated borrowings, ordinary income is forecast to increase by ¥2.8 billion year-on-year, to ¥18.5 billion.

Extraordinary Gains/Losses, Net Income

- A move back into the black, with a net extraordinary gain in the amount of ¥2.0 billion, is likely. As of the time of writing, net income appears likely to come to ¥10 billion, as per the start-of-term forecast.

Net Interest-Bearing Debt and Shareholders' Equity

- The Company expects to continue making progress in the second half of fiscal 2006 in reducing its net interest-bearing debt burden, with term-end net interest-bearing debt seen at around ¥220 billion. Shareholders' equity should recover to ¥36 billion, and the net debt-equity ratio should improve to approximately 6.1.

Note: Shareholders' equity = Net assets (under the new accounting standards) – minority interests

FY2006 Forecast (Revised at October 23, 2006)

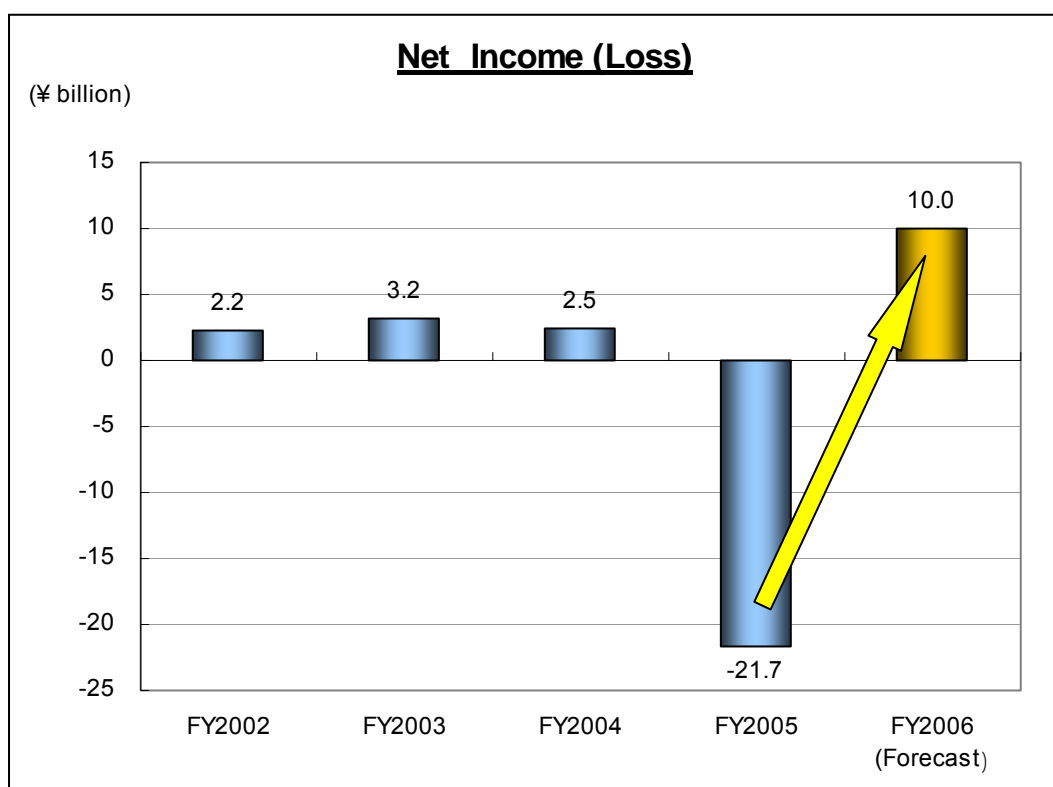
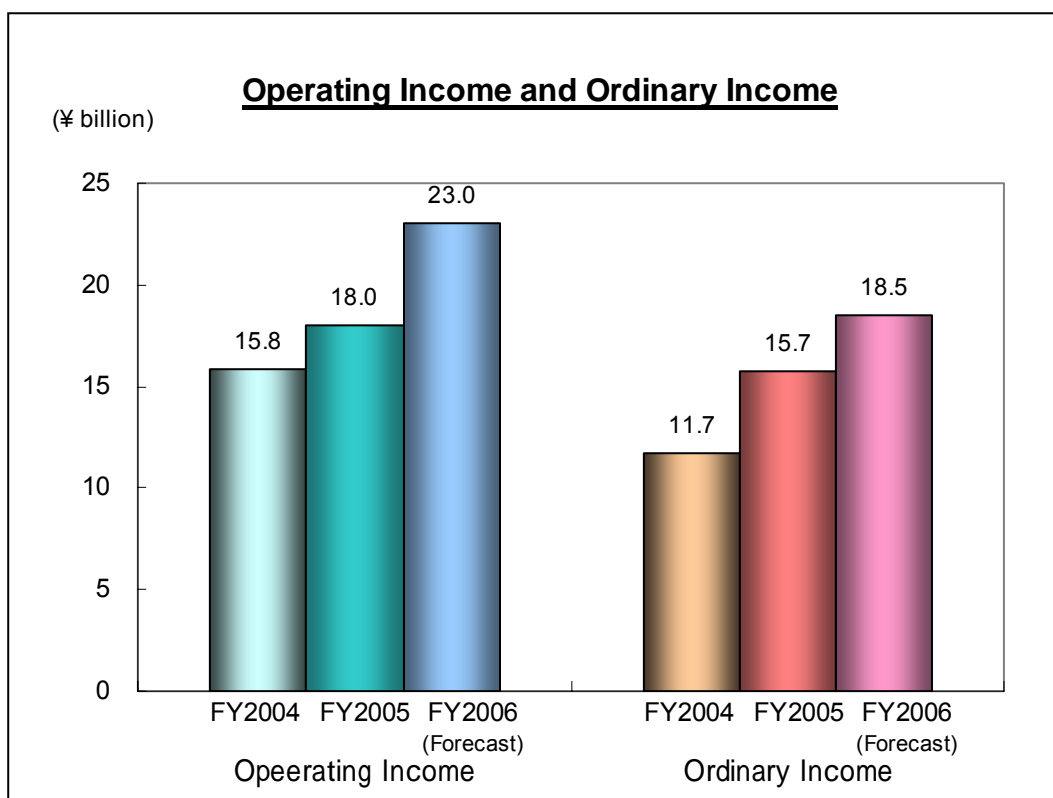
(¥ million)

	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	1,200,000	1,104,726	95,274
Gross Trading Profit	96,000	81,732	14,268
Ratio	8.0%	7.4%	0.6%
SG&A Expenses	73,000	63,750	9,250
Operating Income	23,000	17,982	5,018
Non-operating Income (loss)	(4,500)	(2,274)	(2,226)
Ordinary Income	18,500	15,709	2,791
Extraordinary Gains (losses)	2,000	(32,437)	34,437
Income before Income Taxes	20,500	(16,728)	37,228
Income Taxes	(10,500)	(4,958)	(5,542)
Net Income	10,000	(21,686)	31,686
Total assets	550,000	556,046	(6,046)
Net Interest-Bearing Debt	220,000	246,317	(26,317)
Shareholders' Equity	36,000	26,004	9,996
Net D/E Ratio (Times)	6.1	9.5	(3.4)

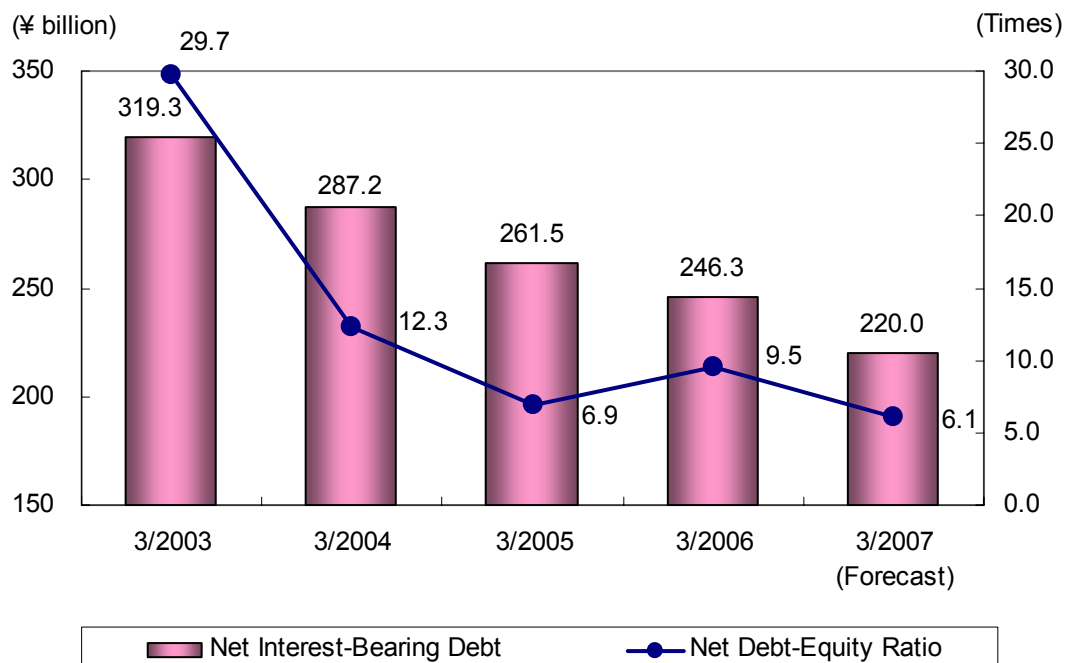
Segment Information (Revised at October 23, 2006)

(¥ billion)

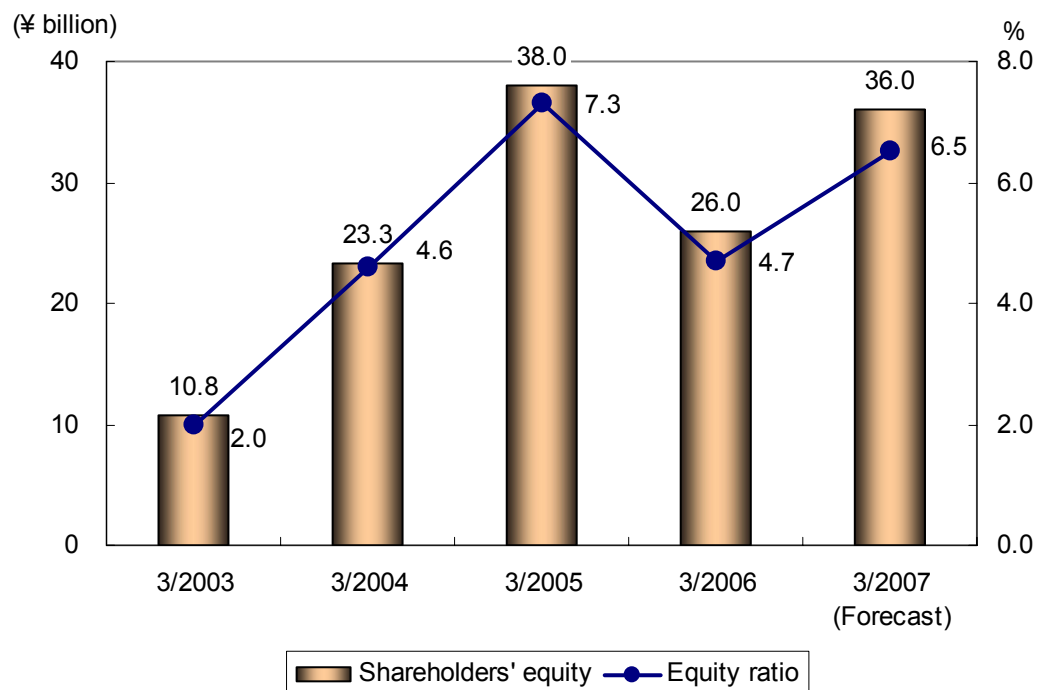
	Net Sales		Gross Trading Profit		Operating Income	
	FY2006 (Forecast)	Change	FY2006 (Forecast)	Change	FY2006 (Forecast)	Change
IT	340	+37.5	46.0	+10.8	8.0	+3.0
Food & Foodstuffs	240	+40.6	11.5	+3.1	3.0	+2.3
Iron & Steel	125	+0.4	9.0	(1.1)	5.0	(0.5)
Industrial Plants	105	+3.1	10.5	+0.2	2.0	(0.5)
Iron, Steel & Industrial Plants	230	+3.5	19.5	(0.9)	7.0	(1.0)
Energy	285	+13.2	9.0	+1.2	2.5	+0.6
Life Science	30	+1.2	2.5	+0.2	0.5	(0.1)
Life Science & Energy	315	+14.4	11.5	+1.4	3.0	+0.5
Textiles	55	(0.6)	4.5	+0.1	0.5	+0.1
Others	20	(0.1)	3.0	(0.3)	1.5	+0.1
Total	1,200	+95.3	96.0	+14.3	23.0	+5.0



Net Interest-Bearing Debt and Net Debt-Equity Ratio



Shareholders' Equity and Equity Ratio



*Shareholders' equity = Net assets – Minority interests

*Equity ratio = (Net assets – Minority interests) / Total assets

- In the electronic parts and components business, the Company focuses on high value-added OEM/ODM services through the provision of a broad array of semiconductor products for vehicle-mounted equipment, digital consumer electronics and mobile phones; electronic parts, components, modules and manufacturing devices; and distribution management and development support services for other electronic equipment.
- In the mobile multimedia business, we are bolstering our customer base and expanding our content business by establishing a new company to address the intensified competition resulting from the mobile number portability system.
- In the aerospace business, we are working to expand commercial rights to government agencies and strengthening the helicopter and satellite equipment businesses. We will continue to pursue synergy with Shintoa Corporation.
- In system solutions, we intend to exercise group synergy by bolstering the revenue base of Kanematsu Electronics Ltd.

(1) Main Business

Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Electronic Parts and Components	Semiconductor, semiconductor/LED manufacturing equipment, optical/communications, electronic components/ Mechanized parts	Devices Company Information & Electronics Dept.	—	¥161 billion
System Solutions	Computers/network systems	IT Administration Office	Memorex Telex Japan Ltd. <i>Kanematsu Electronics Ltd.</i>	¥60.5 billion
			<i>Nippon Office Systems Ltd.</i>	(¥14 billion)
Mobile Multimedia	Mobile communications terminals/mobile phones	IT Administration Office	Kanematsu Communications Ltd.	¥101 billion
Aerospace	Aircraft/aircraft parts	Aerospace Dept.	Kanematsu Aerospace Corp. Shintoa Corporation	¥17.5 billion
Total				¥340 billion

Note: Names in italics indicate companies that contributed to the consolidated ordinary income on the equity-method basis; and the amount in parentheses shows the total of net sales of those companies.

(2) Business Forecast FY2006

(¥ million)

	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	340,000	302,521	37,479
Gross Trading Profit	46,000	35,218	10,782
Ratio	13.5%	11.6%	1.9%
Operating Income	8,000	5,032	2,968
Ratio	2.4%	1.7%	0.7%

(3) Actions and Outlook for FY2006 (compared with FY2005 results)

Electronic Parts and Components Business (sales up ¥2.9 billion, gross trading profit up ¥1.0 billion)

- In the semiconductor business, we are concentrating on expanding our line of semiconductor devices for special applications, such as audio source IC and “one seg” (one segment broadcasting) tuner ICs for vehicle-mounted equipment, communications devices and mobile phones. We will focus on the growing digital consumer electronics market and respond to rising demand for mobile phones associated with the introduction of the number portability system. We are also stepping up our sales activities in China.
- In the semiconductor manufacturing and liquid crystal production equipment business, we will bolster the provision of high value-added services and expand sales based on an alliance and cooperation with venture equipment producers, including capital participation, and by reinforcing our technical support system in Asia and North America.

- In the electronic parts business (Device Company), we intend to pursue high value-added services along with superior engineering support. To this end, we will construct a quick delivery system by developing information and distribution infrastructures for vehicle-mounted equipment, digital consumer electronics and mobile phones with a broad array of products including electronic materials, parts and modules. In particular, in the optical device business, we are expanding operations, primarily in southern China, where Japanese manufacturers are making major inroads, based on capital tie-ups with leading domestic manufacturers of high value-added microlenses and the acquisition of exclusive trade rights.
- In the OEM/ODM business, part of the electronic parts and components business, we are stepping up our activities in the fields of two-wheeled, four-wheeled and all-terrain vehicle (ATV) parts, thermal printer heads, analog radios and control modules for battery packs through development support. Performance in these areas remains solid.

Mobile Multimedia Business (sales up ¥3.3 billion, gross trading profit up ¥1.1 billion)

- Amid intensifying competition associated with the introduction of the mobile number portability system, our strategies for maintaining customer loyalty, such as the reinforcement of services for corporate customers and collaboration with companies belonging to different industries, are producing favorable results. We intend to strengthen our position as a core sales agent by further bolstering our business base.
- The domestic content business was spun off and we set up Kanematsu Granks, Corp. in July 2006, to better respond to the accelerating pace of change in the market. We will offer high value-added services, leveraging alliances in the areas of technology and content, including business and capital tie-ups.
- In the content business in the United States, we are developing and proposing new content, in addition to distributing ringtones, chaku-uta (ring-songs) and wallpapers for mobile phones. We have also started a content distribution service for the amusement market in Japan using infrastructure and technologies in the United States.

Aerospace Business (sales up ¥1.9 billion, gross trading profit up ¥0.6 billion)

- Deliveries of government aircraft and rotatable parts are expanding, as is demand for satellite equipment.
- As a sales agent of AgustaWestland of Italy, we have received orders from the National Police Agency for four small twin-engine helicopters. Deliveries will begin in the second half of the current fiscal year.
- We continue to pursue synergies with the aircraft engine operations of Shintoa Corporation.

System Solutions Business (sales up ¥29.4 billion, gross trading profit up ¥8.0 billion)

- In Kanematsu Electronics Ltd., total solutions projects for manufacturing industries continue to do well, following a review of the business line to strengthen its capability to provide its own total solutions. We also continue to pursue synergy through our collaboration with Memorex Telex Japan Ltd. and Nippon Office Systems Ltd.

(4) Results for FY2006 First Half

(¥ million)

	First Half of FY2006	First Half of FY2005	Change
Net Sales	167,777	128,362	39,415
Gross Trading Profit	22,704	13,025	9,679
Ratio	13.5%	10.1%	3.4%
Operating Income	4,184	1,503	2,681

Net sales and gross trading profit

Net sales:	Electronic Parts and Components:	up¥4.1 billion
	Mobile Multimedia Business:	up ¥6.2 billion
	Aerospace Business:	up ¥5.5 billion
	System Solutions Business:	up ¥23.6 billion
Gross trading profit:	Electronic parts and Components:	up ¥0.5 billion
	Mobile Multimedia Business:	up ¥0.4 billion
	Aerospace Business:	up ¥1.0 billion
	System Solutions Business:	up ¥7.8 billion
Operating income:	Operating income will increase ¥2.7 billion overall in this segment.	

Summary

In the first half of the current fiscal year, we saw not only the positive effect of consolidating Kanematsu Electronics Ltd., but an increase in profit on many products. The development support business centered on OEM/ODM, which we set up in our medium-term management plan, is also producing results.

Food & Foodstuffs

- The Company will continue to develop high value-added products and, in general, pursue value added business.
- We will strengthen our comprehensive supply structure, covering everything from the procurement of raw ingredients to processing, emphasizing traceability, safety and quality through partnerships with overseas suppliers.
- We also intend to step up collaboration with Shintoa Corporation.

(1) Main Business

Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Foods	Canned/frozen/dried fruits, coffee, cocoa, sugar, sesame, peanuts, various beans, wines	Produce Dept. I Produce Dept. II	Kanematsu Food Corp. Shintoa Corporation	¥89 billion
Meat and Marine Products	All meat, seafood	Meat & Marine Products Dept.	Kanematsu Food Corp. Nippon Shokuhin Co., Ltd. Shintoa Corporation	¥46 billion
Feed and Dairy Products/Grains	Feed, fertilizer, soybeans, barley, wheat, rice, processed foods, pet foods	Agri Company, Grain Dept.	Kanematsu Agri-Tech Corp. Savory-Japon S.A. Shintoa Corporation	¥105 billion
Total				¥240 billion

Note: Names in italics indicate companies that contributed to the consolidated ordinary income on the equity-method basis; and the amount in parentheses shows the total of net sales of those companies.

(2) Business Forecast FY2006

(¥ million)

	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	240,000	199,350	40,650
Gross Trading Profit	11,500	8,396	3,104
Ratio	4.8%	4.2%	0.6%
Operating Income	3,000	705	2,295
Ratio	1.3%	0.4%	0.9%

(3) Actions and Outlook for FY2006 (compared with FY2005 result)

Food Business (sales up ¥35.0 billion, gross trading profit up ¥1.7 billion)

- To meet increasing demand for food security and safety following the introduction of the positive list system, we will enforce tighter traceability and quality control regulations by establishing a food safety management office that will ensure the safety of imported foods and earn the confidence of customers.
- In cooperation with our affiliates, we will develop processed products that meet the expectations of customers and the market at our prepared-food joint venture in China, with the aim of achieving greater customer satisfaction.
- Our joint venture in the field of processed fruit and vegetable plants in China registered rising sales for the Japanese market and the United States, thanks to the establishment of traceability systems under contracted cultivation.
- Demand for Blue Mountain Coffee remains firm, and sales of sustainable coffee continue to be robust. We expect to increase sales still further.

- Despite negative factors such as high crude oil and raw material prices as well as the depreciation of the yen, we expect that the foodstuffs business will remain solid, given the strong performance of Shintoa Corporation, particularly in the vending machines business.

Meat and Marine Products Business (sales down ¥9.0 billion, gross trading profit up ¥0.1 billion)

- In the meat products business, we have achieved traceability in Canadian chilled pork products, covering the line from growers to processing plants. We are marketing to large-volume retailers an independently accredited program for the production of differentiated products.
- With a resumption of US beef imports, we are pushing up sales, mainly to the restaurant industry, in an alliance with suppliers that implement thorough management of the monthly age of beef cattle.
- In the marine products business, the sushi item processing business remains firm, mainly in our partner processing plants in Southeast Asia.

Feed and Dairy Products/Grains Business (sales up ¥14.5 billion, gross trading profit up ¥1.3 billion)

- In hay-related businesses, we are working in cooperation with large domestic farms and leading breeders and securing traceability of products. Sales remain robust.
- Although the formula feed business faced challenges with a rise in raw material costs resulting from high crude oil prices and the depreciation of the yen, production and sales volumes are increasing through a complete supply system covering everything from the procurement of raw ingredients to product sales. We are working to increase profit in the second half by reducing production costs.
- We established Iimura Agri Co., Ltd., a new Group company that handles materials for tofu, which began operating in June 2006. We will bolster sales of soy bean food and soybean oil, centered on coagulant agents.
- Focusing on environmentally friendly livestock breeding that does not rely on antibacterial agents, we have developed lactic acid related products and aim to expand sales of these products.
- In the grains business, we continue to aggressively bid for government wheat trading and intend to increase sales of feeding wheat in cooperation with the departments responsible for feed business.

(4) Results for FY2006 First Half

(¥ million)

	First Half of FY2006	First Half of FY2005	Change
Net Sales	133,260	74,911	58,349
Gross Trading Profit	5,785	3,655	2,130
Ratio	4.3%	4.9%	(0.6%)
Operating Income	1,363	595	768

Net sales and gross trading profit

Net sales:

Foods, up ¥40.5 billion; meat and marine products, down ¥4.3 billion; feed and dairy products/grains, up ¥22.1 billion

Gross trading profit:

Foods, up ¥1.7 billion; meat and marine products, down ¥0.3 billion; feed and dairy products/grains, up ¥0.7 billion

Operating income

Operating income will increase by ¥0.7 billion from the previous year, thanks to the solid performance of the grain trade and the contribution of Shintoa Corporation.

Summary

- In the feed and dairy products business, most products posted strong sales. The exception was fish meal, which experienced sluggish results as a consequence of unstable price movements in local production markets.
- The grains business made a good start, taking advantage of a rise in wheat prices.
- The food business posted higher revenues and earnings, thanks to the significant contribution of the vending machine business of Shintoa Corporation.
- The meat and marine products business saw a decline in revenues and earnings due to the depressed market and inventory adjustment.

Iron, Steel & Industrial Plants

<Iron & Steel>

- The level of earnings in the iron and steel business remains high particularly in special steel and high value-added products. We plan to enhance our selling power by establishing new operating bases in Asia and Latin America.
- In the vehicle-related field, sales in the Brazilian market are buoyant. With respect to new casting and forging products for transmission systems for European and US vehicle manufacturers, an endurance test is being conducted on new models in which these products are to be installed.

<Plants>

- By combining a focus on businesses with strong competitive advantages, such as automobile and vessel deals, water plants, geothermal power generation, and marine cables, with a focus on regions where we have a strong footing, such as Southeast Asia and the Middle East, we aim to increase high value-added business.
- The machine tool and industrial machinery businesses continue to record brisk performance. The enhancement of overseas operations and service functions is contributing to profits.
- As a new business, we are seriously addressing the bio-fuel and CDM business in Southeast Asian countries.

(1) Main Business

	Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Iron & Steel	Steel Trading and Steel Materials	Stainless steel, surface-treated steel plates, seamless piping, coking coal	Iron & Steel Foreign Trade Dept.	SSOT	¥74 billion
	Automotive Materials	Precision forged products, Automobile parts	Automotive Materials Dept.	—	¥9 billion
	Domestic Iron and Steel	Steel products	Iron & Steel Administration Dept.	Kanematsu Trading Corp.	¥42 billion
Plants	Plants, Transportation Equipment	Various plants, automobiles, maritime equipment, ODA projects	Projects & Plant Machinery Dept. Transportation Machinery Dept.	—	¥35 billion
	Cable/Electric Power Projects	Telecommunications projects, optical fiber, electric power projects	Cable & Power Projects Dept.	—	¥10 billion
	Machine Tools and Industrial Machinery	Machine tools, industrial machinery	Machinery & Plant Administration Office	Kanematsu KGK Corp.	¥60 billion
				Total	¥230 billion

(2) Business Forecast for FY2006

(¥ million)

		FY2006 (Forecast)	FY2005 (Result)	Change
Iron & Steel	Net Sales	125,000	124,605	395
	Gross Trading Profit	9,000	10,071	(1,071)
	Ratio	7.2%	8.1%	(0.9%)
	Operating Income	5,000	5,453	(453)
	Ratio	4.0%	4.4%	(0.4%)
Plants	Net Sales	105,000	101,922	3,078
	Gross Trading Profit	10,500	10,259	241
	Ratio	10.0%	10.1%	(0.1%)
	Operating Income	2,000	2,502	(502)
	Ratio	1.9%	2.5%	(0.6%)

(3) Actions and Outlook for FY2006 (compared with FY2005 results)

<Iron & Steel>

Steel Trading and Steel Materials Business (sales down ¥0.6 billion, gross trading profit down ¥0.4 billion)

- Exports of steel products to the Middle East remain firm. We have succeeded in diversifying our sources of supply of high value-added, high-performance materials. The coil center business in China is enjoying a strong showing, mainly in high-performance materials for Japanese customers.
- In light of the stabilization of high oil prices, sales operations of steel products for oil exploration remain steady in the United States.
- In terms of trade in raw iron and steel materials, sales of Indian iron ore to China are becoming well established, and are stabilizing. We are looking at establishing an operating base in India.

Automotive Materials Business (sales down ¥1.0 billion, gross trading profit down ¥0.7 billion)

- In the materials business, supply volumes declined in trade with Europe as a result of inventory adjustment. A recovery is expected in the next fiscal year.
- In the car parts business, in response to strong inquiries from potential customers in Brazil, we plan to establish a new operating base in that country to meet the demand. We are conducting an endurance test of new transmission system parts for US and European manufacturers on new models in which these products are to be installed.
- In terms of special surface-treated materials, demand for enamel steel products for white boards is recovering in the North American market and is contributing to sales.

Domestic Iron and Steel Business (sales up ¥2.0 billion, gross trading profit flat)

- We have reorganized our subsidiaries as part of efforts to improve the efficiency of the overall group. Domestic demand is firm, and prices are expected to remain high.

<Plants>

Plants and Transportation Equipment Business (sales down ¥2.2 billion, gross trading profit up flat)

- Trade in marine equipment with China and Southeast Asia remains strong. An increase in automotive exports to China and the Middle East is expected to be insufficient to offset a decline in exports to Indonesia.
- In deals involving new ships from Vietnam sold to Japanese ship owners, we have nine outstanding orders, with one ship delivered in the first half and three ships to be delivered in the second half.

Cable/Electric Power Projects Business (sales up ¥3.8 billion, gross trading profit up ¥0.1 billion)

- In the cable business, we have received orders for a number of electric power cable projects in the Philippines, a traditionally strong market. In fiber optics, we are focusing on building broadband and mobile phone networks in Southeast Asia and exports to Russia.
- In the power generation projects business, the Company aims to win more orders for geothermal power generation projects in Indonesia and is also making major strides in new environmental businesses such as biomass power generation and gas emission rights projects under the clean development mechanism (CDM) in Southeast Asia.

Machine Tools and Industrial Machinery Business (sales up ¥1.4 billion, gross trading profit up ¥0.1 billion)

- The machine tools market remains firm. We are bolstering maintenance services to claim a share of the aftercare market. Initiatives such as the stepping-up of our new business activities via specialist organizations and the reinforcement of an operating network in Asia are contributing to an increase in profits.

(4) Results for FY2006 First Half

<Iron and Steel>

(¥ million)

	First Half of FY2006	First Half of FY2005	Change
Net Sales	67,555	61,533	6,022
Gross Trading Profit	4,728	4,975	(247)
Ratio	7.0%	8.1%	(1.1%)
Operating Income	2,659	2,607	52

Net sales and gross trading profit

Net sales:

Cast and forged steel products, up ¥3 billion; steel trading and steel materials, down ¥1 billion; domestic iron and steel, up ¥4 billion.

Gross trading profit:

Cast and forged steel products, slightly down; steel trading and steel materials, flat; domestic iron and steel, flat

Operating income

Operating income of all businesses was almost on a par with the results of the previous year.

Summary

- The cast and forged steel products business was robust.
- Prices of steel products remain high.

<Industrial Plants>

(¥ million)

	First Half of FY2006	First Half of FY2005	Change
Net Sales	50,101	51,108	(1,007)
Gross Trading Profit	5,159	4,952	207
Ratio	10.3%	9.7%	0.6%
Operating Income	946	1,194	(248)

Net sales and gross trading profit

Net sales:

Plants and transportation equipment, down ¥9.5 billion; telecommunications and electric power projects, up ¥3.3 billion; machine tools and industrial machinery, up ¥5.2 billion

Gross trading profit:

Plants and transportation equipment, down ¥0.3 billion; telecommunications and electric power projects, up ¥0.1 billion; machine tools and industrial machinery, up ¥0.4 billion

Operating income

Profit will decline by ¥0.2 billion, the result of an increase in selling, general and administrative expenses.

Summary

- The machine tools and industrial machinery business remains firm, backed by favorable market conditions.
- In the plants and transportation equipment business, three new ships built in Vietnam are to be delivered in the second half. We expect to offset a decline in the first-half results.
- In electric power and communications, the cable business is contributing to an increase in revenues and earnings.

(MEMO)

Life Science & Energy

<Energy>

- While ensuring stable profit through oil tank operations, the Company intends to expand downstream operations such as self-service gas stations, and also to expand exports and offshore trading for the increasingly liberalized Asian markets.
- Growth of ESCO (energy conservation support businesses) will be encouraged by focusing on the need to convert to natural gas while stepping up sales efforts using a new department within this segment.

<Life Science>

- In the functional chemicals business, we will work with Kanematsu Chemicals to develop new products and materials in the environmental field. We will also strive to expand markets in existing products, such as raw materials for batteries and petrochemical products.
- In the health care business, the Company is developing new functional food materials and cultivating the customer base in existing products.
- In the pharmaceuticals business, we are expanding exports of bulk pharmaceuticals with competitive strength and focusing on trade involving pharmaceuticals production under consignment contracts in Japan and overseas markets.

(1) Main Business

	Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Energy	Crude oil Petroleum Products and Gas	Crude oil, petroleum products, LPG	Energy Dept.	Kanematsu Petroleum Corp.	¥285 billion
Life Science	Functional Chemicals	Battery materials, fertilizer materials, adhesive materials, solvents	Functional Chemicals Dept.	Kanematsu Chemicals Corp.	¥25.3 billion
	Healthcare	Functional food materials, Stolle Milk, nutritional supplements	Life Science Dept.	Kanematsu Wellness Corp.	¥1.6 billion
	Pharmaceuticals	Pharmaceuticals, pharmaceutical intermediates		—	¥3.1 billion
				Total	¥315 billion

(2) Business Forecast for FY2006

		(¥ million)		
		FY2006 (Forecast)	FY2005 (Result)	Change
Energy	Net Sales	285,000	271,789	13,211
	Gross Trading Profit	9,000	7,802	1,198
	Ratio	3.2%	2.9%	0.3%
	Operating Income	2,500	1,922	578
	Ratio	0.9%	0.7%	0.2%
Life Science	Net Sales	30,000	28,816	1,184
	Gross Trading Profit	2,500	2,338	162
	Ratio	8.3%	8.1%	0.2%
	Operating Income	500	567	(67)
	Ratio	1.7%	2.0%	(0.3%)

(3) Actions and Outlook for FY2006 (compared with FY2005 results)

<Energy>

Crude Oil, Petroleum Products and Gas Business (sales up ¥13.2 billion, gross trading profit up ¥1.1 billion)

- The crude oil business is producing stable earnings while contributing to the supply of Middle Eastern oil to Japan.
- In the petroleum products business, we will lock in consistent earnings through improved efficiency of oil tank operations and stronger downstream sales capability.
- In the gas stations business, about 150 stations are currently in operation, including directly owned and operated and joint ventures. We are increasing the number of self-service gas stations and expanding the network in Kyushu, the Nagoya area, and other parts of Japan to strengthen our earnings capabilities.
- With respect to overseas strategies, we will expand exports with a focus on increased demand in Asia, especially China, where markets are becoming increasingly liberalized.
- In the LPG business, we will specialize in the industrial LPG bulk business and work to bolster a comprehensive distribution system for small-lot users.
- While petroleum product prices remain high, the Company is promoting ESCOs with customers by proposing a switch to other fuels, principally natural gas, which is relatively inexpensive and less harmful to the environment. The new department, which we established within the business segment at the beginning of the term, has embarked on the commercialization of multiple projects, including bio and energy.

<Life Science>

Functional Chemicals Business (Sales up ¥0.8 billion, gross trading profit up ¥0.1 billion)

- Trade in raw materials for lithium ion batteries remains strong. We are making a strategic entry into the field of solar batteries — an area of significant growth potential — by obtaining production know-how and trademarks in the area of coating agents.
- In synthetic rubbers, the Company is striving to increase profits by expanding export/import transactions in process oils.
- As a new project, we are considering investment in Southeast Asia in the area of functional chemicals related to mineral resources.

Healthcare Business (sales down ¥1.3 billion, gross trading profit down ¥0.1 billion)

- The Company is focusing on expanding trade in sports nutrition such as creatine.
- In the Stolle milk trade, we will take steps to significantly expand the mail-order business by launching new products.

Pharmaceuticals Business (sales up ¥1.7 billion, gross trading profit up ¥0.1 billion)

- We aim to bolster trade involving pharmaceuticals production under consignment contracts in Japan and overseas markets.
- The Company is endeavoring to grow the import of bulk powders manufactured in India and Eastern Europe to increase domestic sales.
- Exports of bulk pharmaceuticals to the Middle East and Southeast Asia are expected to remain strong.

(4) Results for FY2006 First Half

<Energy>

(¥ million)

	First Half of FY2006	First Half of FY2005	Change
Net Sales	146,421	106,756	39,665
Gross Trading Profit	5,046	3,545	1,501
Ratio	3.4%	3.3%	0.1%
Operating Income	1,920	767	1,153

Net sales and gross trading profit

Net sales will increase significantly, reflecting a rise in oil prices and an increase in consolidated subsidiaries.

Gross trading profit will rise, mainly thanks to a higher margin achieving by capturing the upward price momentum.

Operating income

Operating income will increase substantially, as an increase in selling, general and administrative expenses triggered by an increase in the number of consolidated subsidiaries will be more than offset by a rise in profits.

Summary

Both revenues and earnings will increase significantly as a result of an expansion in margins backed by a rise in the price of petroleum products in general.

<Life Science>

(¥ million)

	First Half of FY2006	First Half of FY2005	Change
Net Sales	15,755	14,574	1,181
Gross Trading Profit	1,127	1,196	(69)
Ratio	7.2%	8.2%	(1.0%)
Operating Income	214	328	(114)

Net sales and gross trading profit

Net sales: Functional chemicals business, up ¥0.6 billion; healthcare business, down ¥0.3 billion; pharmaceuticals business, up ¥0.9 billion.

Gross trading profit: Functional chemicals business, flat; healthcare business, down slightly; pharmaceuticals business, down slightly.

Operating income

The functional chemicals business will remain flat, and earnings in the pharmaceuticals business will increase slightly. However, profits in the life science business as a whole will decline by ¥0.1 billion.

Summary

- Although profitability in the fertilizer materials trade is expected to be lackluster, trade in materials for batteries will remain firm.
- Exports of pharmaceuticals to the Middle East and Southeast Asia and the pharmaceuticals production contract and business in Japan remained favorable.

(MEMO)

Textiles

In the OEM production field, we are speeding up the establishment of a proposal-based OEM business model that enables us to cover a complete range from discovery and procurement of raw materials and yarn (materials) to proposals for fabrics and products.

The Company is also working to enhance cooperation with Shanghai Challenge Textiles, a recipient of our investment in China, which will enable us to acquire a complete production infrastructure, from yarn procurement and dyeing, to sewing of the finished product, in place of the current situation, which is focused on sewing.

In the brand business, we are striving to maximize the effect of our investments based on an alliance with large retailers, while taking advantage of our strengths as a textile trading company, such as our ability to procure raw materials and our capabilities in sewing and production.

Business strategy

- Manufacture: Pursuit of high added value based on a complete production infrastructure from yarns to finished products
- Aggressive proposals: Proposals of high value-added materials and proposals based on market research
- Brand business: Operations leveraging our strengths as a textile trading company such as an ability to

(1) Main Business

Business	Main Products	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Products	Cotton/knit cut-and-sew clothing, dresses, casual shirts, sports clothes, sports shoes, denim items	Kanematsu Textile Corp. Kanematsu (Shanghai) Co., Ltd Kanematsu Textile (HK) Kanematsu Italia S.p.A.	¥40 billion
Materials	All types of woven items, knitting yarn, cotton/synthetic woven goods/functional materials for non-apparel uses	Kanematsu Textile USA Inc. Kanematsu Taiwan Corp. KG Garment Supply Co., Ltd.	¥15 billion
Total			¥55 billion

(2) Business Forecast for the FY2006

(¥ million)

	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	55,000	55,620	(620)
Gross Trading Profit	4,500	4,374	126
Ratio	8.2%	7.9%	0.3%
Operating Income	500	424	76
Ratio	0.9%	0.8%	0.1%

(3) Actions and Outlook for FY2006

Establishment of proposal-type models for OEM businesses

To effectively cope with the ongoing diversification in consumer tastes, OEM contracts are being increasingly focused on for the supply of a wide range of services, from product design to production management. To be successful in today's highly competitive retail market, such OEM contracts must be sophisticated, and must contribute to strengthening the retailer's marketing capabilities as well as fulfilling the requirements of good manufacturing practice, which is one of the factors at the focus of attention these days. Kanematsu meets these needs through timely and proactive proposals encompassing everything the client may need, from raw materials procurement through production management and product quality control.

At Kanematsu, we are leveraging our expertise as professionals in the field of textiles to perfect a proposal-type business model for OEM production that addresses manufacturers' needs from the selection and procurement of the right raw materials to the production of raw cloth and finished apparel products in line with the latest fashion. In addition, by strengthening our collaboration with our influential partner enterprise in China, Shanghai Challenge Textile, we are reinforcing our ability to operate effectively in overseas markets. In November 2005, Shanghai Challenge Textile completed work on expanding and updating the facilities at its Shanghai plant, with the aim of using the plant to produce the highly functional products which are the company's specialty. The company plans to make products not only in category of sports casual wear, but also in high-fashion apparel and business wear. Possessing one of the highest levels of technological expertise in this field in China, Shanghai Challenge Textile is ideally placed to serve as a major strategic production base for the Kanematsu Group in overseas markets, and its superior materials should help effectively open up the U.S. and European markets to an expanded volume of transactions by us.

Brands Business

In parallel with our proposal-based OEM activities, we are endeavoring to develop businesses on our own initiative by nurturing new brands into well-known ones, often in collaboration with major retailers, as a means of building up a stronger and more extensive product portfolio.

Brands as of October, 2006:

- Lotto - sportswear (Italy)
- Cath Kidston - general merchandise (U.K.)
- Lowe Alpine and ASOLO - outdoor (Italy)
- JANSPOUT - major brand with emphasis on daypacks (U.S.)
- Gramicci - outdoor casual (U.S.)

(4) Results for FY2006 First Half

	(¥ million)		
	First Half of FY2006	First Half of FY2005	Change
Net Sales	28,628	27,911	717
Gross Trading Profit	2,172	2,392	(220)
Ratio	7.6%	8.6%	(1.0%)
Operating Income	210	473	(263)

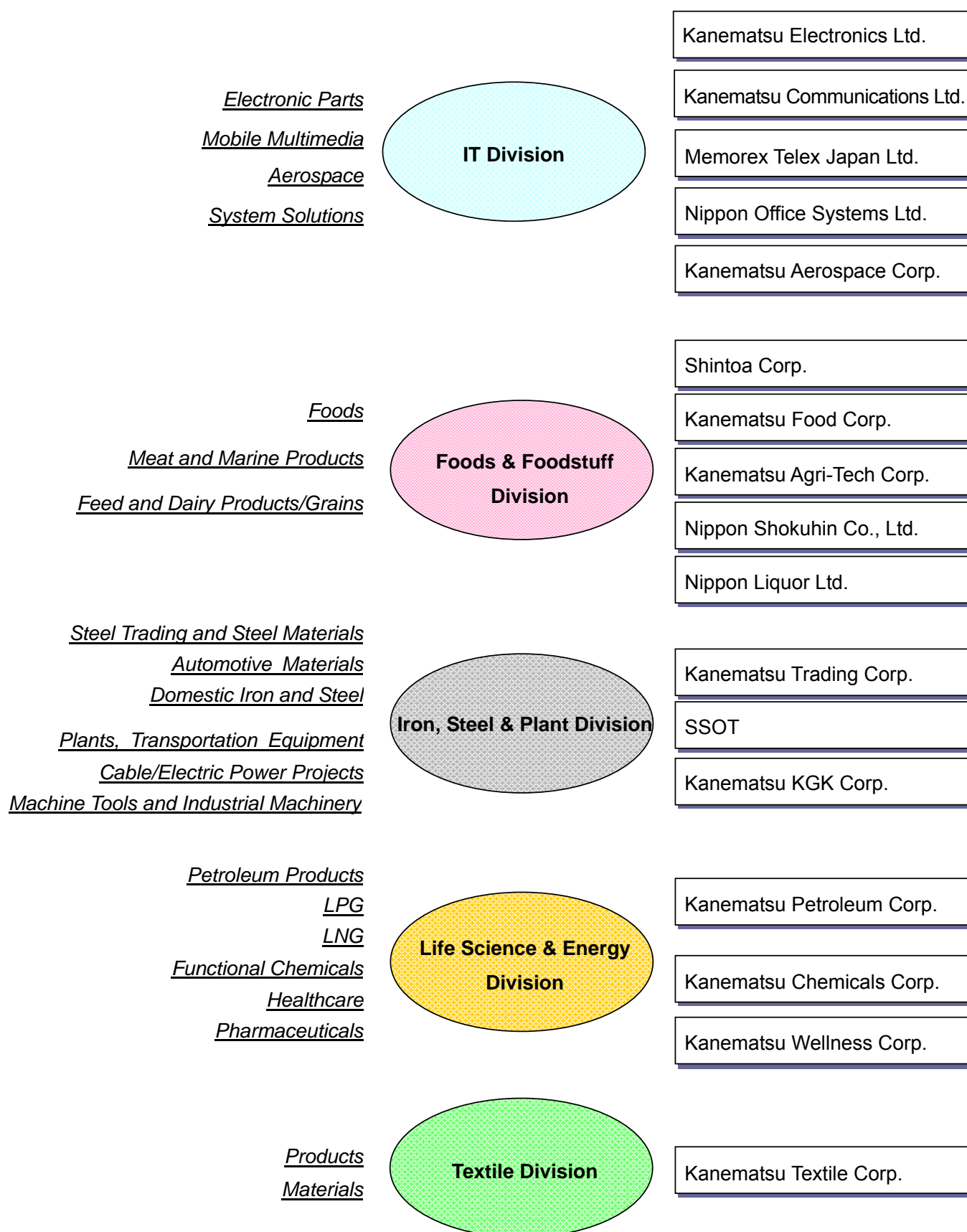
We are currently enjoying good business in the sourcing of textile materials, including raw yarn, particularly original brands such as MERYL. For the current fiscal year, we expect increased revenues from the business, but owing to the heavy investments needed to put this business on the profit track in the future, we registered a decline in operating income for the first-half period of fiscal 2006.

With the aim of expanding our earnings from value-added services, we are steadily reinforcing our capabilities in new materials development, product planning, and production management, and hope to recoup our investments in the form of solid earnings for the fiscal 2006 full term.

Reference: Outline of Kanematsu Group

Main business

Major Group Companies



III. “New KG200” New Medium-Term Business Plan

April 2004 - March 2007

“New KG200” New Medium-Term Business Plan

Reinforced Marketing Power

- Establishing profitable business base by increasing value-added transactions
- Strengthening ability to earn a sufficient level of profit

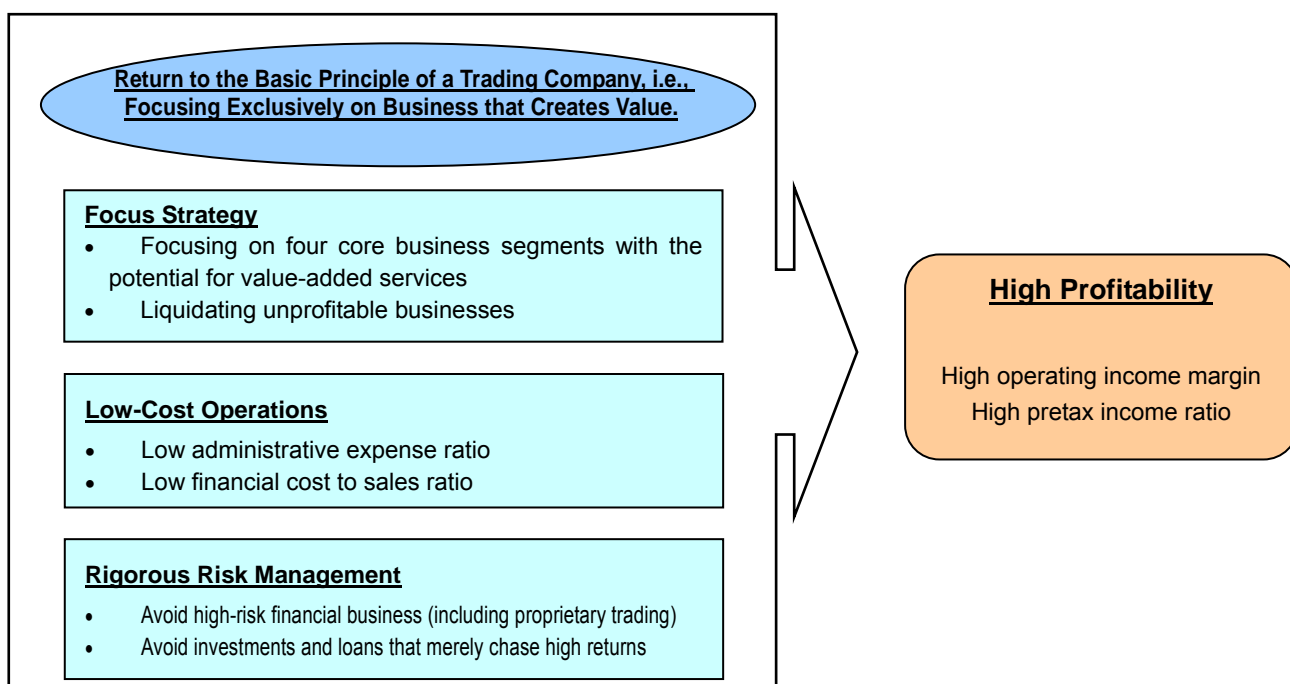
Establish a Sound Financial Position

- Continuous effort to reduce interest-bearing liabilities
- Increase of shareholders' equity by 100%
- Improvement of asset quality

Conduct Group-wide Management Reforms

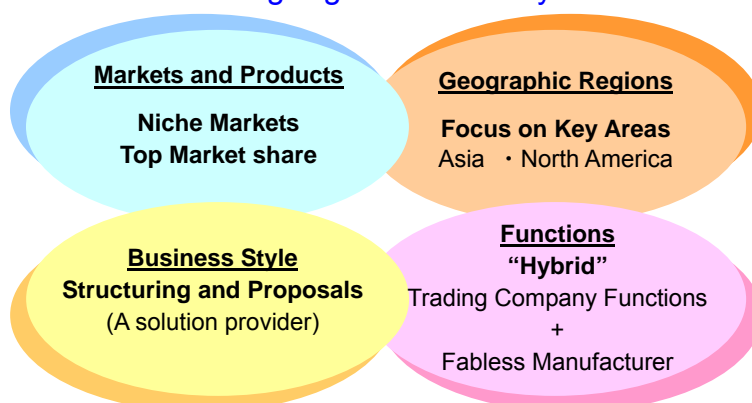
- Customer-oriented efficient operations through fast decision-making
- Management renovation including structural reform

(1) The Kanematsu Business Model Features of the New Kanematsu



Business Model

- Pursuing Higher Profitability -



(2) Goals

Key Goals: Numerical Targets for the Plan's Final Year (Fiscal 2006: April/2006 – March/2007)

- Consolidated Pretax Income before Extraordinary Items: ¥20 billion, Consolidated Net Income: ¥10 billion
- Net Interest-bearing Debt: ¥250 billion
- Net DER: 6 times
- Return on Capital (Consolidated Pretax Income before Extraordinary Items) on Invested Capital: $\geq 6\%$

Numerical Goals

Earnings

(¥ million)

	New Medium-Term Business Plan "New KG200"		
	FY2004 (Actual)	FY2005 (Actual)	FY2006 (Forecast)
Net Sales	886,876	1,104,726	1,000,000
Gross Trading Profit	68,142	81,732	80,000
Ratio	7.7%	7.4%	8.0%
Operating Income	15,762	17,982	24,500
Ratio	1.8%	1.6%	2.5%
Pretax Income before Extraordinary Items	11,720	15,709	20,000
Ratio	1.3%	1.4%	2.0%
Net Income	2,469	(21,686)	10,000

Balance Sheets

(¥ million)

	New Medium-Term Business Plan "New KG200"		
	FY2004 (Actual)	FY2005 (Actual)	FY2006 (Forecast)
Total Assets	520,118	556,046	500,000
Net Interest-bearing Debt	261,560	246,317	250,000
Shareholders' Equity	38,029	26,004	42,500
Shareholders' Equity Ratio	7.3%	4.7%	8.5%
Net DER	6.9	9.5	5.9
Return on Net Debt (*1)	3.9%	5.8%	6.8%
ROE	8.0%	(67.7%)	26.8%
Interest-bearing Debt Repayment Period (*2)	13.9	11.3	9.1

(*1) Return on Net Debt = Pretax Income before Extraordinary Items / (Net Interest-bearing Debt + Shareholders' Equity)

(*2) Interest-bearing Debt Repayment Period = Net Interest-bearing Debt / Operating Income before Depreciation and Amortization

Reference: Highlights of the New Kanematsu

Structural Reform Plan (May 1999 - March 2001) “A two-year Turnaround Program”

- 1) Courageous shift to the focus strategy
- 2) Rigorous downsizing and cost-cutting efforts
- 3) Capital reduction, private placement and debt forgiveness
- 4) Substantial reduction in interest-bearing liabilities and improved financial position



Meeting our three
year targets in only
two years

Previous Medium-Term Business Plan (April 2001 - March 2004) “A three-year Revival Program Establishing a Solid Foundation for Group Management”

- 1) Growth opportunities demonstrated by sound corporate system and flourishing business development
- 2) Substantial reductions in interest-bearing debt and interest expenses
- 3) Immediate exit from accumulated deficit status
- 4) Contribution to the Japanese economy

New Medium-Term Business Plan “New KG200” (April 2004 - March 2007) “ Completing the Recovery ” - The Final Stage of Kanematsu’s Revival Program

- Kanematsu aims to achieve a full recovery in business performance through structural reform, leading to the creation of an almost completely new company.

Progress in FY2005 First Half

= Getting Ready for the Company’s Full Recovery =

Consolidated ordinary income of
¥15.7 billion for the first half

The best performance in the past ten years

Strengthening group synergy



Achieving profit improvement targets

With the attainment of healthy ordinary income, the Company will continue to review its assets quality to improve operating performance even further.



Making the final preparations for the Company’s full recovery



Elimination of most concerns regarding our financial position within this term
Aiming to achieve a stable and highly profitable corporate structure by
significantly improving asset quality

Consolidated Business Performance (FY1999 ~ FY2005)

(¥ million)

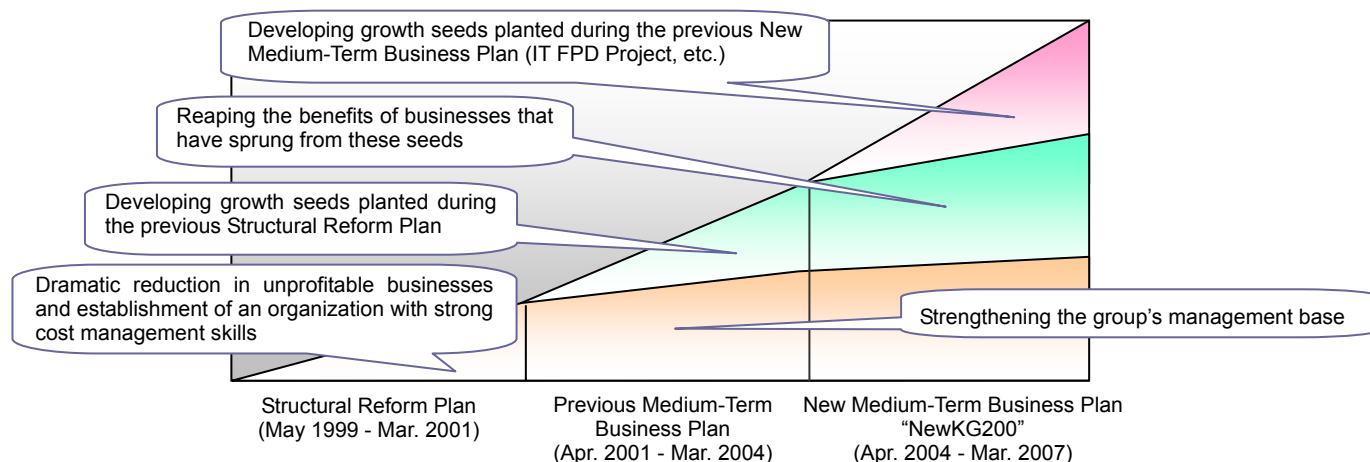
	Structural Reform Plan		Current Medium-Term Business Plan			Medium-Term Business Plan "New KG200"	
Year ending	FY1999 (Actual)	FY2000 (Actual)	FY2001 (Actual)	FY2002 (Actual)	FY2003 (Actual)	FY2004 (Actual)	FY2005 (Actual)
Net sales	1,407,921	1,112,920	902,477	838,975	818,473	886,876	1,104,726
Gross Trading Profit (Gross Trading Profit Ratio)	92,299 (6.56%)	87,996 (7.91%)	73,540 (8.15%)	67,207 (8.01%)	62,208 (7.60%)	68,142 (7.68%)	81,732 (7.40%)
Operating Income (Operating Income to Net Sales Ratio)	14,507 (1.03%)	21,608 (1.94%)	15,779 (1.75%)	15,716 (1.87%)	13,554 (1.66%)	15,762 (1.78%)	17,982 (1.63%)
Consolidated Pretax Income/before Extraordinary Items (Income to Net Sales Ratio)	2,560 (0.18%)	11,368 (1.02%)	11,735 (1.30%)	12,073 (1.44%)	10,706 (1.31%)	11,720 (1.32%)	15,709 (1.42%)
Net Income (loss) (Net Income (loss) to Net Sales Ratio)	(12,446) (-0.88%)	(*3) 17,252 (1.55%)	4,024 (0.45%)	2,233 (0.27%)	3,247 (0.40%)	2,469 (0.27%)	(21,686) (-1.96%)
Total Assets	884,504	772,555	605,717	527,340	507,991	520,118	556,046
Shareholders' Equity	11,542	14,387	15,734	10,762	23,283	38,029	26,004
Net Interest-bearing Debt (*1)	543,841	433,037	362,425	319,284	287,245	261,560	246,317
Net DER (*2)	47.1	30.1	23.0	29.7	12.3	6.9	9.5
Consolidated Subsidiaries	179	163	142	122	116	122	142

Notes: 1. Net Interest-bearing Debt = Interest-bearing Debt - Cash and Bank Deposits

2. Net DER = Net Interest-bearing Debt / Shareholder's Equity

3. Switch to Deferred Tax Accounting

From Turnaround to Complete Revival



(MEMO)

<http://www.kanematsu.co.jp>

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