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# Overview of Results for The 1<sup>st</sup> half of FY2008

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November 12, 2008



**兼松株式会社**

**KANEMATSU CORPORATION**

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- 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 the actual results to differ materially from the statements contained in these materials.

# **I. Overview of Results for the First Half of FY2008**

## 1. Consolidated Financial Results: Earnings

- Results in the first half under review (ended September 2008) were favorable.

Sales in the mobile business of the IT Division declined, while sales in Foodstuff and Energy rose. As a result, overall net sales increased 3.8% year on year, to ¥637.1 billion, and gross trading profit climbed 3.8%, to ¥47.7 billion. Operating income went up 5.5%, to ¥13.2 billion. Ordinary income was ¥10.9 billion, almost unchanged from the year-ago period and up more than 30% from the forecast at the beginning of the term.

Net income declined to ¥3.7 billion because of a fall in extraordinary gains.

(Million yen)

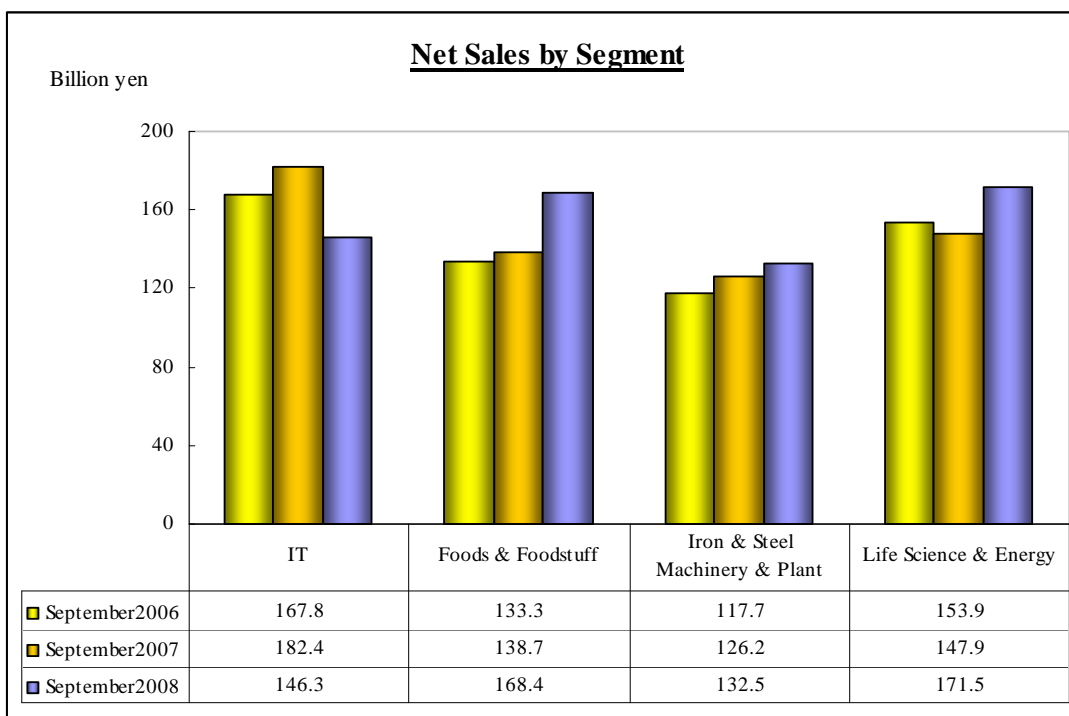
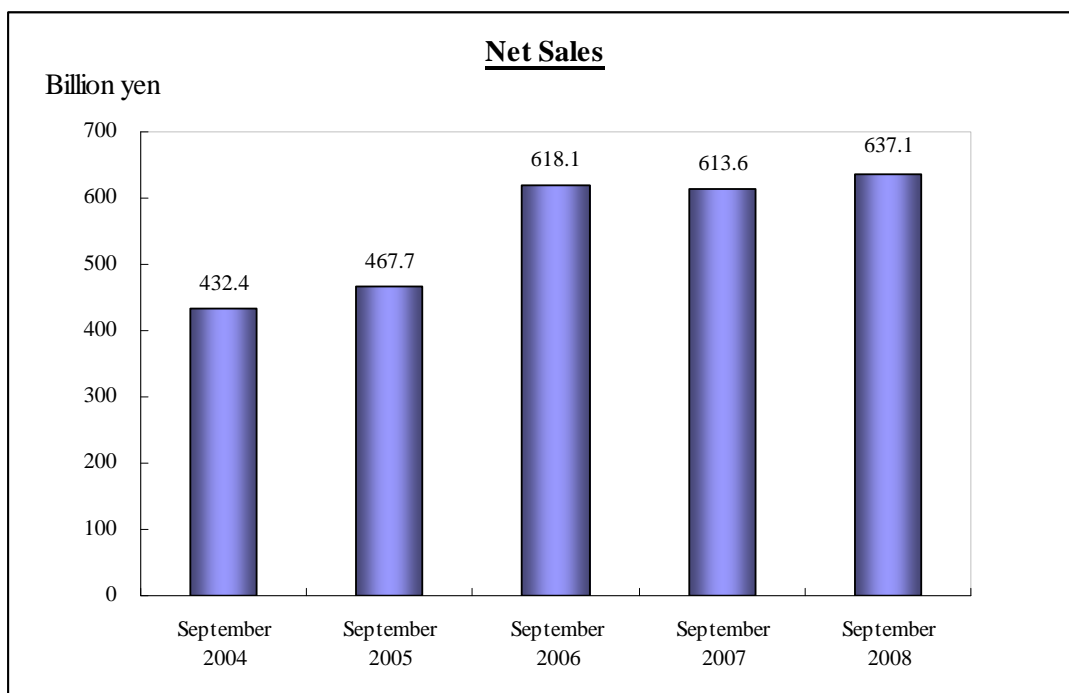
	Period ended September 2007		Period ended September 2008		Year on year	
		Percentage of net sales		Percentage of net sales	Change	Change(%)
Net sales	613,604	100.0%	637,089	100.0%	23,485	3.8%
Gross trading profit	45,946	7.5%	47,692	7.5%	1,746	3.8%
Operating income	12,548	2.1%	13,232	2.1%	684	5.5%
Ordinary income	10,975	1.8%	10,895	1.7%	-80	-0.7%
Net income before income taxes	10,306	1.7%	8,479	1.3%	-1,827	-17.7%
Net income	5,537	0.9%	3,687	0.6%	-1,850	-33.4%

### (1) Net Sales

- Sales increased compared with last year in the Foods & Foodstuff, Iron & Steel, and Life Science and Energy Divisions. However, sales declined in the IT Division due to a fall in trading value in the mobile and electronic components businesses. Overall, net income rose ¥23.5 billion.

(Million yen)

		Period ended September 2007	Period ended September 2008	Year on year	
				Change	Change %
IT		182,417	146,320	-36,097	-19.8%
Foods & Foodstuff		138,717	168,400	29,683	21.4%
	Iron & Steel	72,602	81,562	8,960	12.3%
	Machinery & Plant	53,583	50,924	-2,659	-5.0%
Iron & Steel/Machinery & Plant		126,185	132,487	6,302	5.0%
	Energy	132,741	154,624	21,883	16.5%
	Life Science	15,137	16,833	1,696	11.2%
Life Science & Energy		147,878	171,458	23,580	15.9%
Others		18,503	18,632	129	0.7%
Consolidated adjustment		-99	-210	-111	-
Total		613,604	637,089	23,485	3.8%



## (2) Gross Trading Profit

- Gross trading profit increased ¥1.7 billion (3.8%) year on year, to ¥47.7 billion owing to solid performance, especially in Foods & Foodstuff, Iron & Steel, and Energy.

(Million yen)

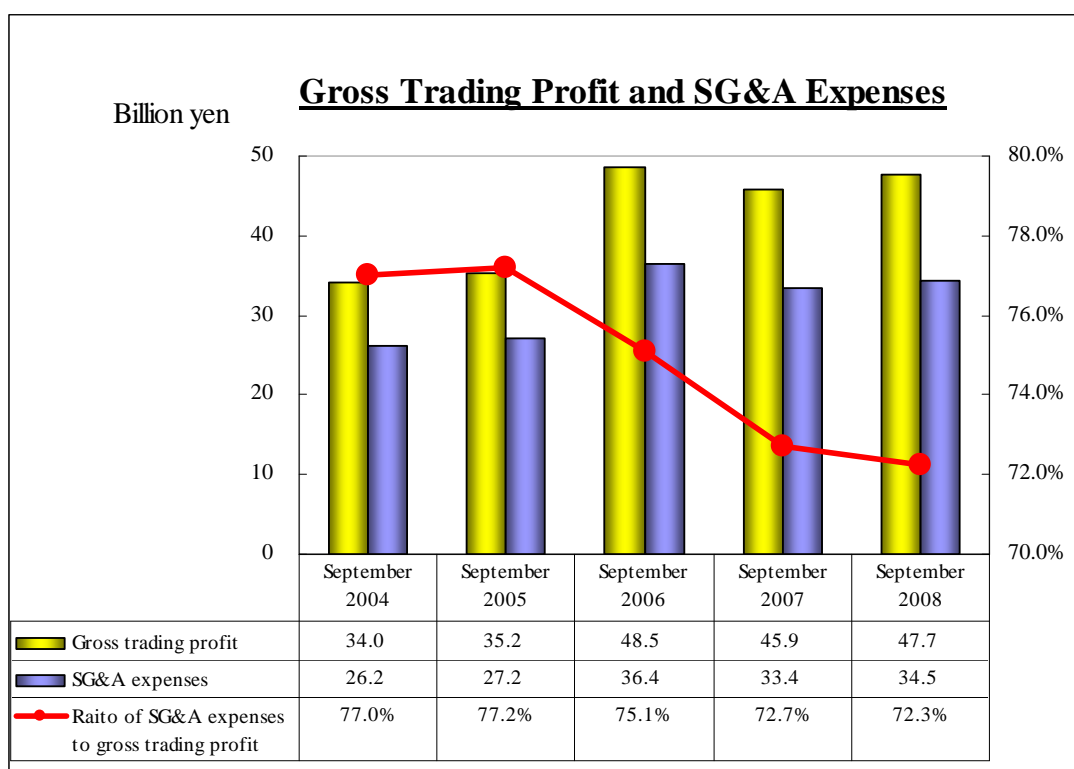
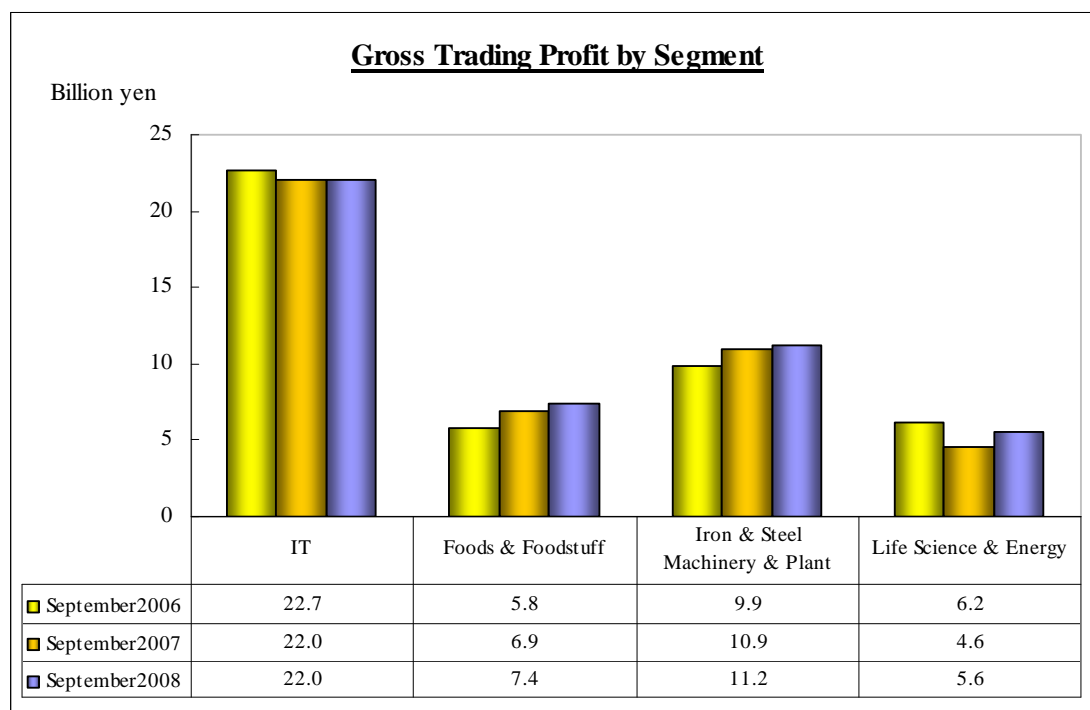
	Period ended September 2007		Period ended September 2008		Year on year	
	Results	Percentage of total	Results	Percentage of total	Change	Change %
IT	21,962	12.0%	21,986	15.0%	24	0.1%
Foods & Foodstuff	6,895	5.0%	7,437	4.4%	542	7.9%
Iron & Steel	5,562	7.7%	5,821	7.1%	259	4.7%
Machinery & Plant	5,378	10.0%	5,332	10.5%	-46	-0.9%
Iron & Steel/Machinery & Plant	10,941	8.7%	11,153	8.4%	212	1.9%
Energy	3,452	2.6%	4,294	2.8%	842	24.4%
Life Science	1,103	7.3%	1,278	7.6%	175	15.9%
Life Science & Energy	4,556	3.1%	5,573	3.3%	1,017	22.3%
Others	1,591	8.6%	1,366	7.3%	-225	-14.1%
Consolidated adjustment	0	-	174	-	174	-
Total	45,946	7.5%	47,692	7.5%	1,746	3.8%

## (3) Selling, General and Administrative Expenses

- Selling, general and administrative expenses rose ¥1.1 billion due to an increase in the number of wholly-owned consolidated subsidiaries.

(Million yen)

	Period ended September 2007	Period ended September 2008	Year on year
Personal expenses	17,211	17,749	538
Non-personal expenses	16,186	16,710	524
SG&A expenses	33,397	34,459	1,062
Ratio of SG&A expenses to gross trading profit	72.7%	72.3%	-0.4%



#### (4) Operating Income

- Operating income fell in the IT Division, reflecting a decline in trading volumes in the mobile and electronic components businesses, despite relatively solid performance in the solutions business. Operating income rose in the Foods & Foodstuff Division, attributable to an increase in the turnover of non-genetically-modified soybeans and large volume transactions of barley in the grain business. In the Iron & Steel Division, operating income increased thanks to strong performance in the export of steel plates and the trading of surface-treated steel plates. In the Machinery & Plant Division, operating income declined due to a slowdown in the trading of machine tools. Operating income in the Life Science and Energy Division increased because of solid performance. Overall, operating income rose ¥700 million (5.5%) year on year.

(Million yen)

	Period ended September 2007		Period ended September 2008		Year on year	
	Results	Percentage of total	Results	Percentage of total	Change	Change %
IT	4,697	2.6%	4,132	2.8%	-565	-12.0%
Foods & Foodstuff	2,053	1.5%	2,851	1.7%	798	38.9%
Iron & Steel	3,235	4.5%	3,471	4.3%	236	7.3%
Machinery & Plant	1,102	2.1%	961	1.9%	-141	-12.8%
Iron & Steel/Machinery & Plant	4,337	3.4%	4,432	3.3%	95	2.2%
Energy	600	0.5%	1,259	0.8%	659	109.8%
Life Science	182	1.2%	350	2.1%	168	92.3%
Life Science & Energy	782	0.5%	1,609	0.9%	827	105.8%
Others	359	1.9%	-179	-1.0%	-538	-149.9%
Consolidated adjustment	319	-	386	-	67	-
Total	12,548	2.0%	13,232	2.1%	684	5.5%

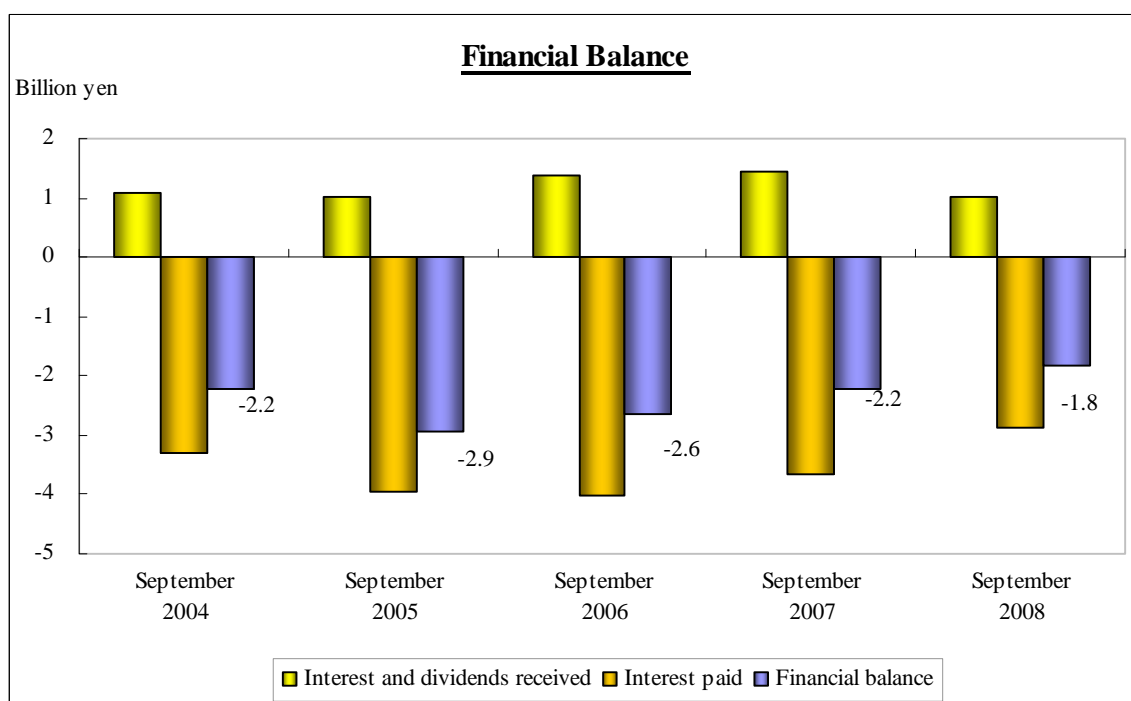
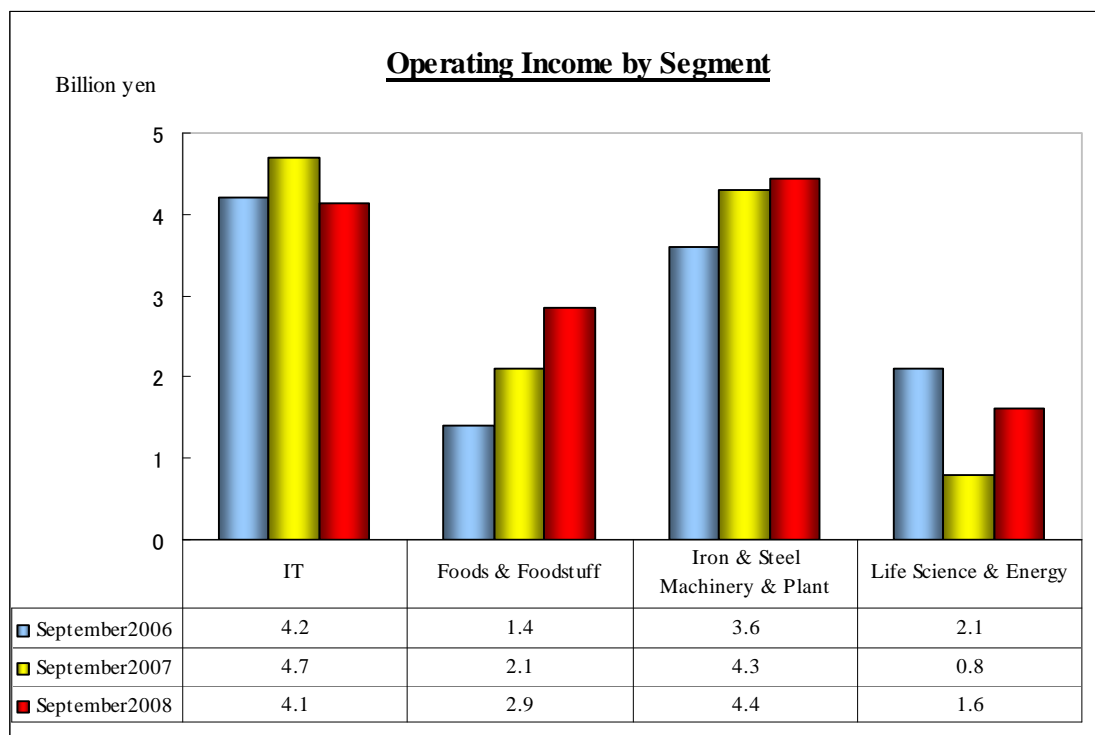
#### (5) Non-Operating Income & Loss

- The non-operating loss worsened ¥800 million from the year-ago period, reflecting a significant decline in the gain on equity-method investment, although interest paid was reduced due to a decrease in interest-bearing debt.

(Million yen)

		Period ended September 2007	Period ended September 2008	Year on year
	Dividends received	650	463	-187
	Interest received	809	563	-246
	Interest paid	-3,667	-2,835	832
Financial balance		-2,208	-1,809	399
Gain on equity-method investment		929	-412	-1,341
Others		-296	-117	179
Non-operating loss		-1,573	-2,337	-764





## (6) Ordinary Income

- Ordinary income was ¥10.9 billion, almost unchanged year on year.
- Core earnings were ¥11.3 billion, almost the same level as the year-ago period.
- Funds efficiency improved 1.6 percentage points to 9.3%.

(Million yen)

	Period ended September 2007	Period ended September 2008	Year on year
Ordinary income	10,975	10,895	-80
Ordinary income ratio	1.8%	1.7%	-0.1%
Core earnings (Notes 1)	11,405	11,250	-155
Funds efficiency (Note 2)	7.7%	9.3%	1.6%

(Note 1) Core earnings = Operating income + Reserve for doubtful accounts + Dividends received + Net interest received (paid) + Gain on equity-method investment

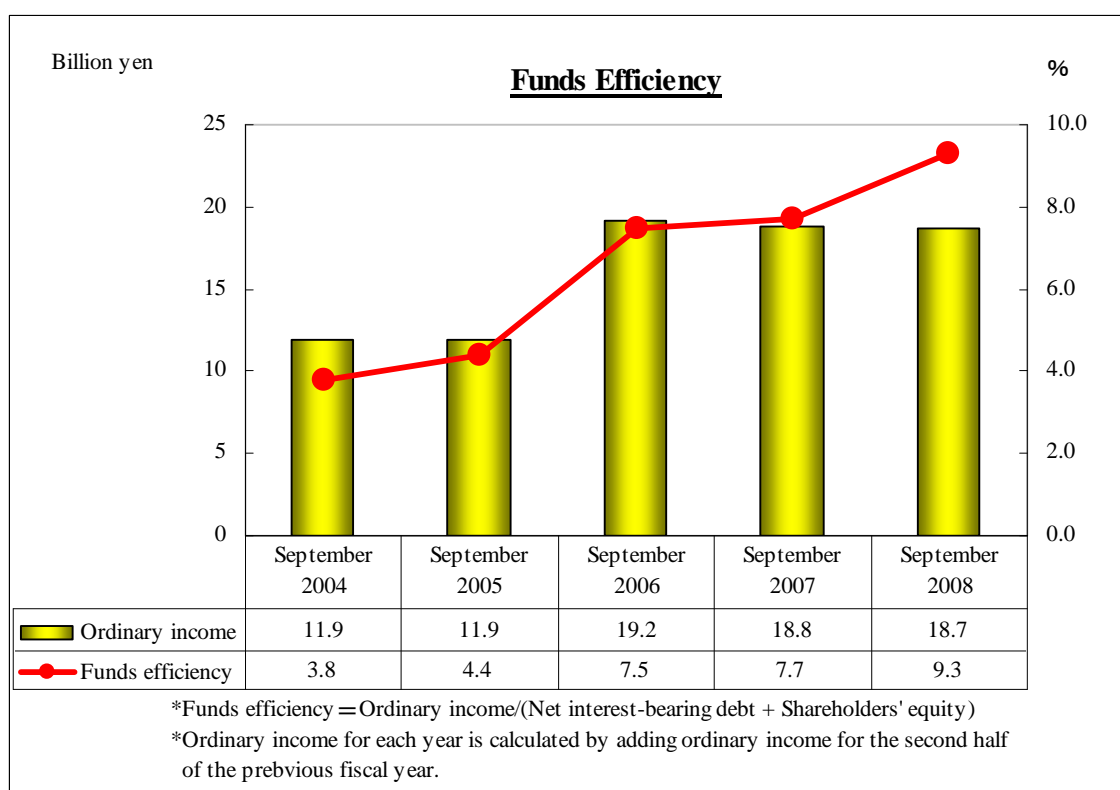
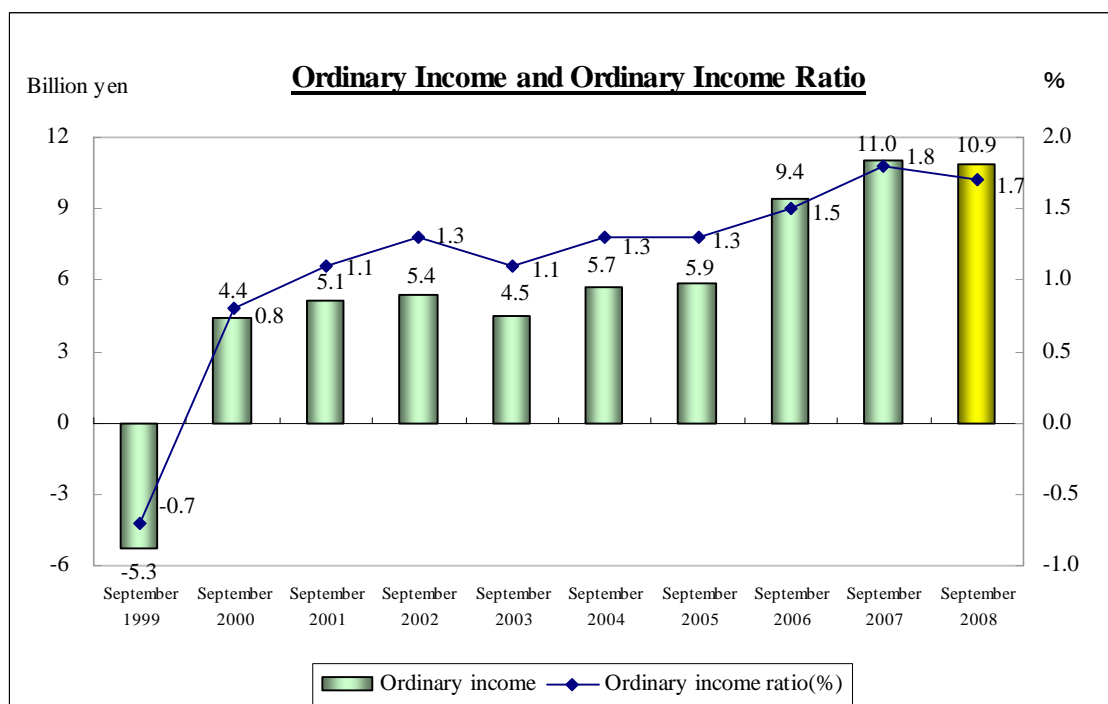
(Note 2) Funds efficiency = Ordinary income / (Net interest-bearing debt + Shareholders' equity)

## (7) Extraordinary Gain/Loss and Net Income

- The Company posted an extraordinary gain of ¥0.8 billion, including a gain on the sale of investment securities, but recorded an extraordinary loss of ¥3.3 billion, including an addition to a loan-loss reserve regarding specific businesses and a loss on inventory write-down by the cost or market method. On a net basis, the Company registered an extraordinary loss of ¥2.4 billion.
- Net income declined ¥1.8 billion year on year, to ¥3.7 billion.

(Million yen)

	Period ended September 2007	Period ended September 2008	Year on year
Gain on sale of tangible fixed assets	75	23	-52
Gain on sale of investment securities	2,138	721	-1,417
Gain on reversal of allowance for doubtful accounts	146	103	-43
Extraordinary gain	2,359	848	-1,511
Loss on sale of tangible fixed assets	-98	-56	42
Impairment loss	-553	-195	358
Loss on sale of investment securities	-153	-45	108
Valuation loss on investment securities	-122	-235	-113
Valuation loss on inventories	-	-558	-558
Loss on valuation of assets for specific business	-835	-478	357
Provision to loan-loss reserve regarding specific business	-517	-1,674	-1,157
Other extraordinary gain and loss	-746	-20	726
Extraordinary loss	-3,029	-3,263	-234
Net extraordinary gain and loss	-670	-2,415	-1,745
Income before income taxes	10,306	8,479	-1,827
Income taxes and minority interests	-4,769	-4,790	-21
Net income	5,537	3,687	-1,850



## 2. Consolidated Balance Sheets

Total assets decreased ¥3.5 billion from the end of the previous fiscal year, to ¥499.9 billion, with a rise in operating assets, including inventories, in relation to increases in commodities prices that were more than offset by repayments of borrowings from cash and bank deposits.

Gross net interest-bearing debt fell to ¥214.3 billion, down ¥9.4 billion from the end of the previous year, as a result of debt reductions. Net interest-bearing debt after subtracting cash and bank deposits came to ¥151.0 billion.

Net assets increased to ¥66.2 billion with a rise in retained earnings, reflecting net income. As a result, the equity ratio rose to 9.7%, while the net debt-equity ratio improved to 3.1.

### (1) Assets

- Total assets declined from ¥503.5 billion to ¥499.9 billion as a result of repayments of borrowings from cash and bank deposits, while operating assets, including inventories, increased in association with rising commodity prices.

(Million yen)

	3/2008		9/2008		Comparison with 3/2008 Change
		Breakdown		Breakdown	
Current assets	382,307	75.9%	381,853	76.4%	-454
Fixed assets	121,149	24.1%	118,074	23.6%	-3,075
Total assets	503,456		499,927		-3,529

### (2) Interest-bearing debt

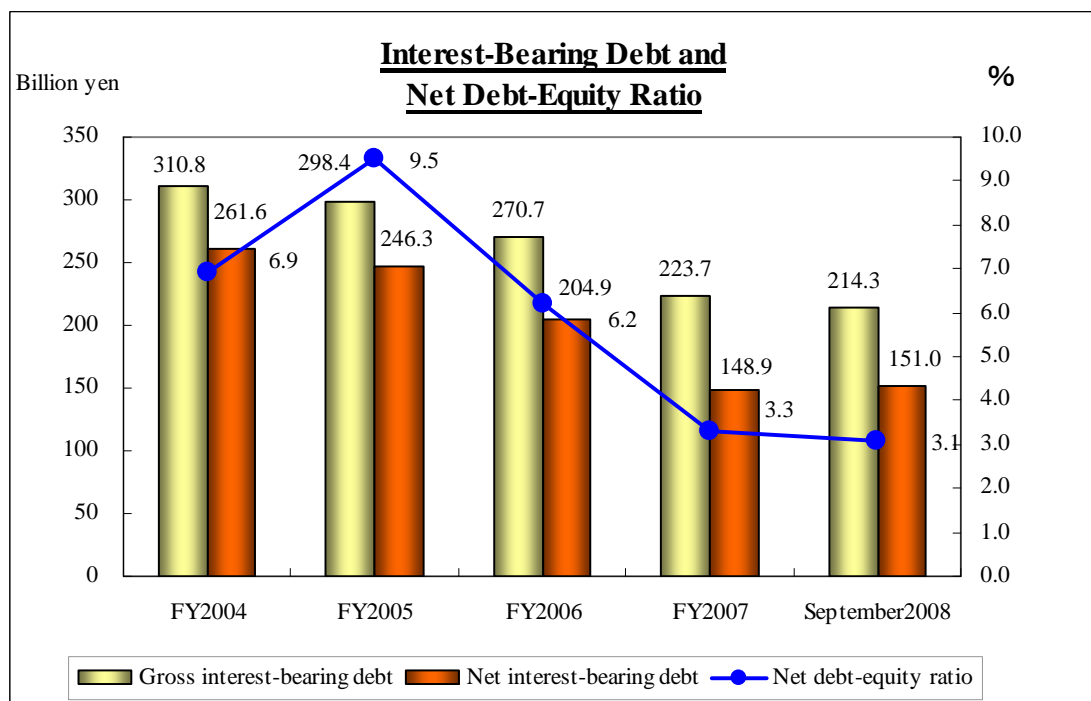
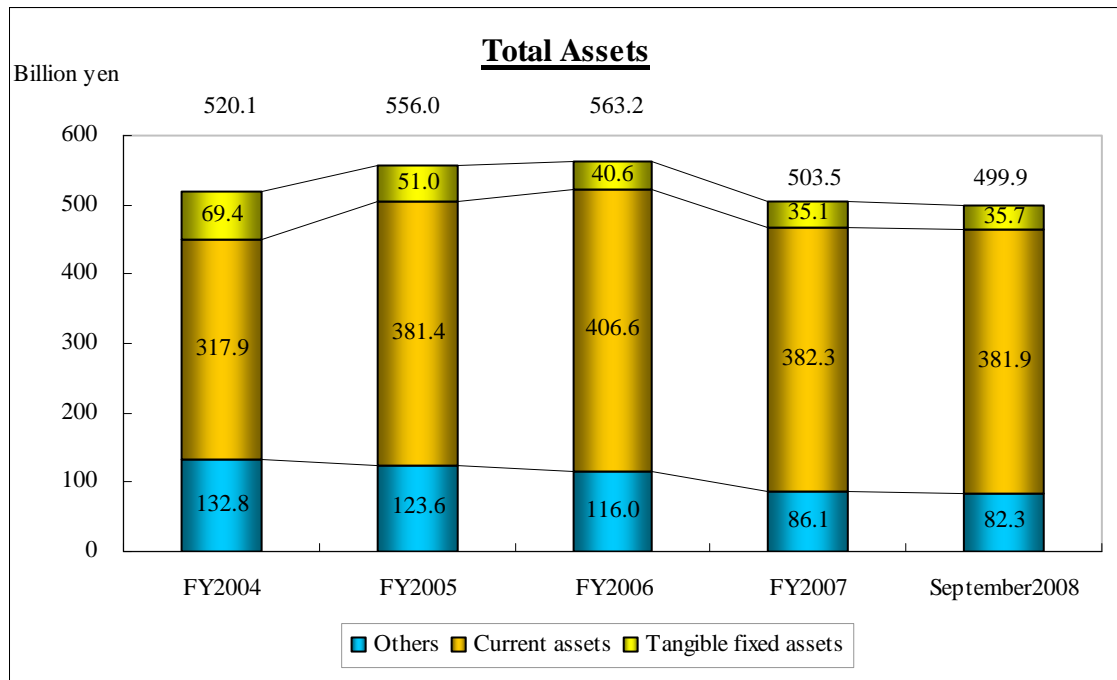
- Gross net interest-bearing debt fell ¥9.4 billion from the end of the previous fiscal year, to ¥214.3 billion, as a result of debt reductions. Net interest-bearing debt after subtracting cash and bank deposits was ¥151.0 billion.

(Million yen)

	3/2008		9/2008		Comparison with 3/2008	
		Composition		Composition	Change	Change(%)
Short-term borrowings	89,080	39.8%	81,939	38.2%	-7,141	—
Long-term borrowings	134,622	60.2%	132,406	61.8%	-2,216	—
Gross interest-bearing debt	223,702		214,345		-9,357	-4.2%
Net interest-bearing debt (Note 1)	148,944		151,043		2,099	1.4%
Current assets	382,307		381,853			
Current liabilities	291,324		287,427			
Liquidity ratio (Note 2)	131.2%		132.9%		1.7%	—

(Note 1) Net interest-bearing debt = Gross interest-bearing debt – Cash and bank deposits

(Note 2) Liquidity ratio = Current assets/ Current liabilities



### (3) Net Assets

- Net assets increased from ¥62.2 billion at the end of the previous year, to ¥66.2 billion, the result of including net income in retained earnings.
- The equity ratio rose to 9.7%, while the net debt-equity ratio improved to 3.1.

(Million yen)

	3/2008	9/2008	Comparison with 3/2008	
			Change	Change(%)
Total assets	503,456	499,927	-3,529	-0.7%
Capital stock	27,781	27,781	-	-
Capital surplus	27,644	27,644	-	-
Retained earnings	9,556	12,711	3,155	33.0%
Treasury stock	-645	-661	-16	-
Valuation and translation adjustments	-18,749	-18,836	-87	-
Minority interests	16,651	17,583	932	5.6%
Net assets	62,239	66,222	3,983	6.4%
Equity ratio(%)	9.1	9.7		
Net D/E ratio	3.3	3.1		

\*Exchange rate: 103.57 yen/US\$ as of September 30, 2008

100.19 yen/US\$ as of March 31, 2008

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

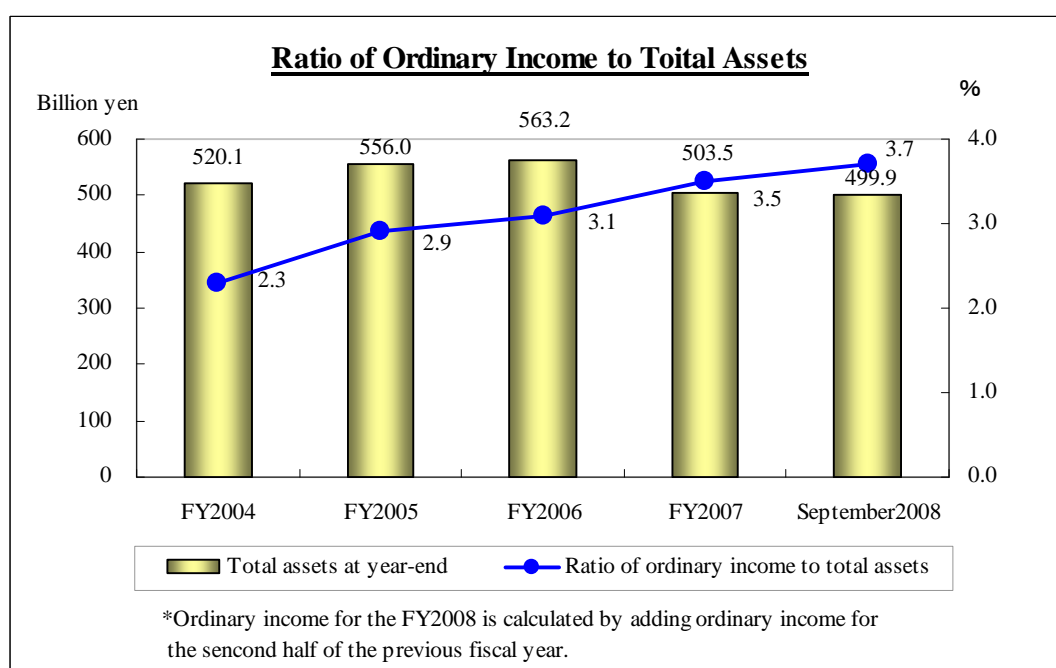
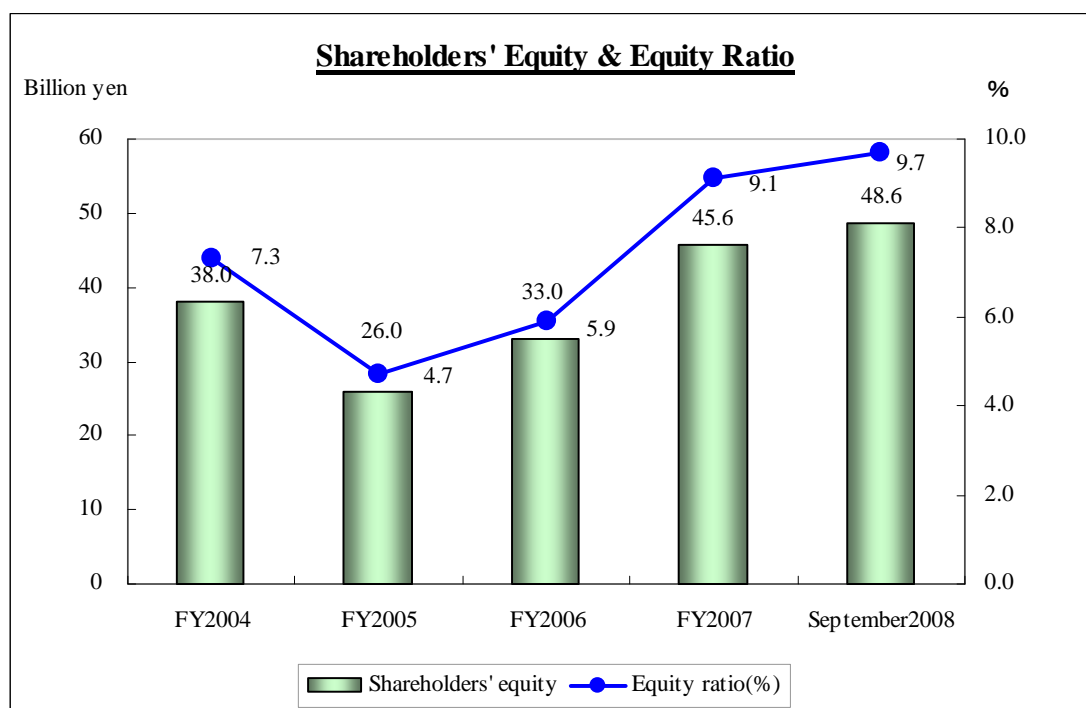
\*Net debt-equity ratio = Net interest-bearing debt/ (Net assets – Minority interests)

### 3. Consolidated Cash Flows

- Net cash used in operating activities totaled ¥2.5 billion, reflecting an increase in inventories in association with sharp rises in the prices of raw materials. Net cash provided by investing activities amounted to ¥1.4 billion, mainly owing to proceeds from loans receivable and sales of investments in securities. Net cash used in financial activities was ¥10.4 billion as a result of a reduction in interest-bearing debt.

(Million yen)

	Period ended September 2007	Period ended September 2008	Year on year
Cash flows from operating activities	-8,781	-2,476	6,305
Cashflows from investing activities	13,815	1,363	-12,452
Total Free cash flows	5,033	-1,112	-6,145
Cash flows from financing activities	-28,463	-10,384	18,079



## 4. Subsidiaries and Affiliates, and their Employees

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

(Companies)

(Companies)											
	Period ended Sepotember 2007					Period ended September 2008					Year on year
	Subsidiaries		Affiliates		Total	Subsidiaries		Affiliates		Total	
	Domestic	Overseas	Domestic	Overseas		Domestic	Overseas	Domestic	Overseas		
Number of profitable companies	37	24	15	16	92	38	29	8	12	87	-5
Ratio(%)	80.4	64.9	57.7	59.3	67.6	82.6	65.9	47.1	63.2	69.0	1.4
Number of non-profitable companies	9	13	11	11	44	8	15	9	7	39	-5
Total	46	37	26	27	136	46	44	17	19	126	-10

### (2) Profit and Loss Posted by Consolidated Subsidiaries and Affiliates

(Billion yen)

	Period ended September 2007					Period ended September 2008					Year on year
	Subsidiaries		Affiliates		Total	Subsidiaries		Affiliates		Total	
	Domestic	Overseas	Domestic	Overseas		Domestic	Overseas	Domestic	Overseas		
Sum of profit posted by profitable companies	3.2	1.9	1.1	0.7	6.9	5.4	1.2	0.1	0.1	6.8	-0.1
Sum of loss posted by non-profitable	-0.5	-0.9	-0.8	-0.1	-2.3	0.0	-1.0	-0.5	-0.1	-1.6	0.7
Total	2.7	1.0	0.3	0.6	4.6	5.4	0.2	-0.4	0.0	5.2	0.6

(Note) Simple aggregation before consolidation adjustment

### (3) Number of Employees

(Persons)

	9/2007	9/2008	Year on year	
			Change	Change(%)
Parent company	888	914	26	2.9%
Consolidated subsidiaries	3,578	4,066	488	13.6%
Total	4,466	4,980	514	11.5%



(4) Net sales of major consolidated subsidiaries

(Million yen)

Company name	Business	Ownership ratio	Net Sales		
			Period ended September 2007	Period ended September 2008	Change(%)
Kanematsu Electronics Ltd.	ICT Solutions	58.27%	26,705	26,104	-2.3%
Kanematsu Communications Ltd.	Mobile communications	100.00%	67,735	44,358	-34.5%
Kanematsu Food Corp.	Food, dairy & seafood	100.00%	7,359	6,972	-5.3%
Kanematsu Agri-Tech Corp.	Feed & dairy	100.00%	6,100	6,792	11.3%
Kanematsu Trading Corp.	Domestic steel Steel materials	100.00%	35,221	45,883	30.3%
Kanematsu KGK Corp.	Machine tools Industrial machinery	97.90%	31,283	29,924	-4.3%
Kanematsu Petroleum Corp.	Petroleum products Gas	100.00%	60,884	89,468	46.9%
Kanematsu Chemicals Corp.	Functional chemicals	100.00%	9,979	11,443	14.7%
Kanematsu USA Inc.	Overseas subsidiary	100.00%	54,436	68,763	26.3%
Shintoa Corporation	Trading company	77.45%	83,181	72,531	-12.8%

(Note) Net sales of subsidiaries are before consolidation adjustment.

(Note) Net sales of Kanematsu Electronics Ltd. and Kanematsu USA Inc. are on a consolidated basis.

《MEMO》

## **II . Earnings Forecast for FY2008 and Segment Summary**

## II. Earnings Forecast for FY2008 and Segment Summary

### - Consolidated Earnings Forecast for FY2008

- Thanks to high commodities prices, consolidated earnings were relatively favorable up until the second quarter, especially in Foods & Foodstuff and Energy. However, the external environment promises a less than optimistic outlook from the third quarter because of economic slowdowns, especially in the United States and Europe, and the commodities price situation. In these circumstances, for the full year we are aiming to achieve net sales of ¥1,350 billion, gross trading profit of ¥98 billion, ordinary income of ¥19 billion, and net income of ¥10 billion, the figures forecast at the beginning of the term.
- We are steadily improving our financial situation. We expect the net debt-equity ratio to improve to 2.5 and the equity ratio to rise to 10.7% at the end of the term.
- We would like to make a decision on resuming dividend payments after considering the full-year results and changes in the external environment.

#### (1) Net Sales and Gross Trading Profit

- We expect that sales will increase mainly in the Foods & Foodstuff and Energy Divisions. We are concerned that sales in the IT Division may be slightly weaker than the initial forecast because of the effect of changes in the sales method for mobile terminals.
- We expect gross trading profit to increase, particularly in the IT, Foods & Foodstuff, and Machinery & Plant Divisions, although it is expected to decline in the Energy Division as initially forecast. Overall, gross trading profit will rise ¥7.7 billion year on year, to ¥98 billion.

#### (2) Operating Income and Ordinary Income

- We expect that operating income will rise by ¥1.9 billion, to ¥24.5 billion, while ordinary income will increase slightly, to ¥19 billion.

#### (3) Net Income

- We are aiming to achieve a net income of ¥10 billion as forecast at the beginning of the term.

#### (4) Net Interest-Bearing Debt and Shareholders' Equity

- We are seeking to achieve net interest-bearing debt of ¥140 billion and shareholders' equity of approximately ¥55.6 billion at the end of the term.
- As a result, we expect the net debt-equity ratio to improve to around 2.5 and the equity ratio to rise to about 10.7%.

\*Shareholders' equity = Net assets – Minority interests

◇ Consolidated Earnings Forecast for FY2008

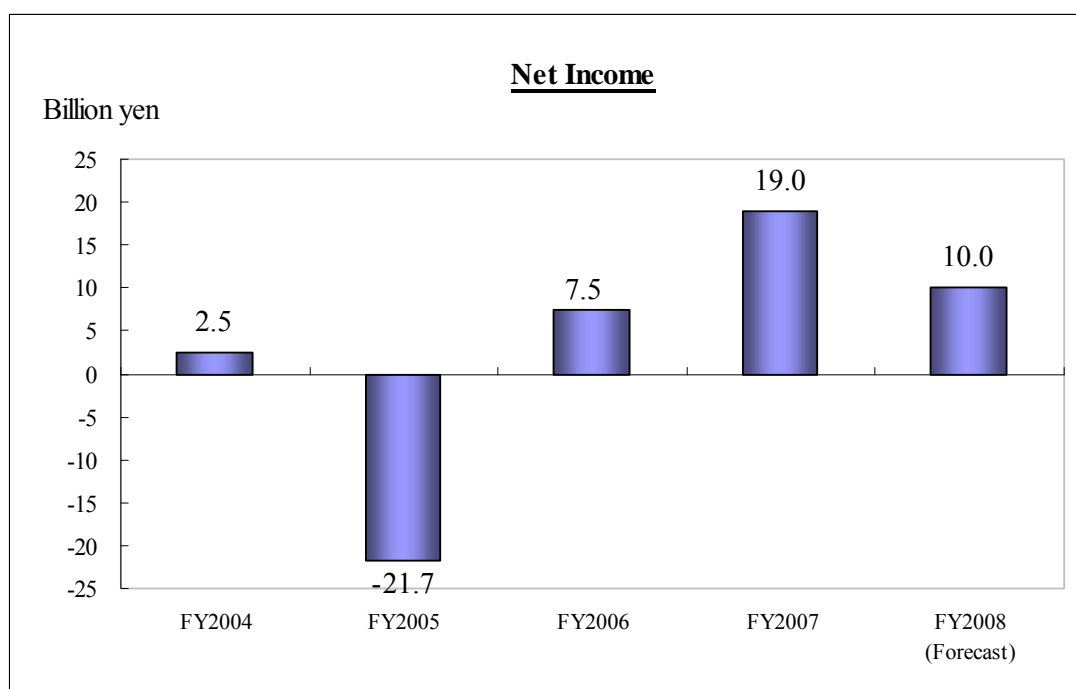
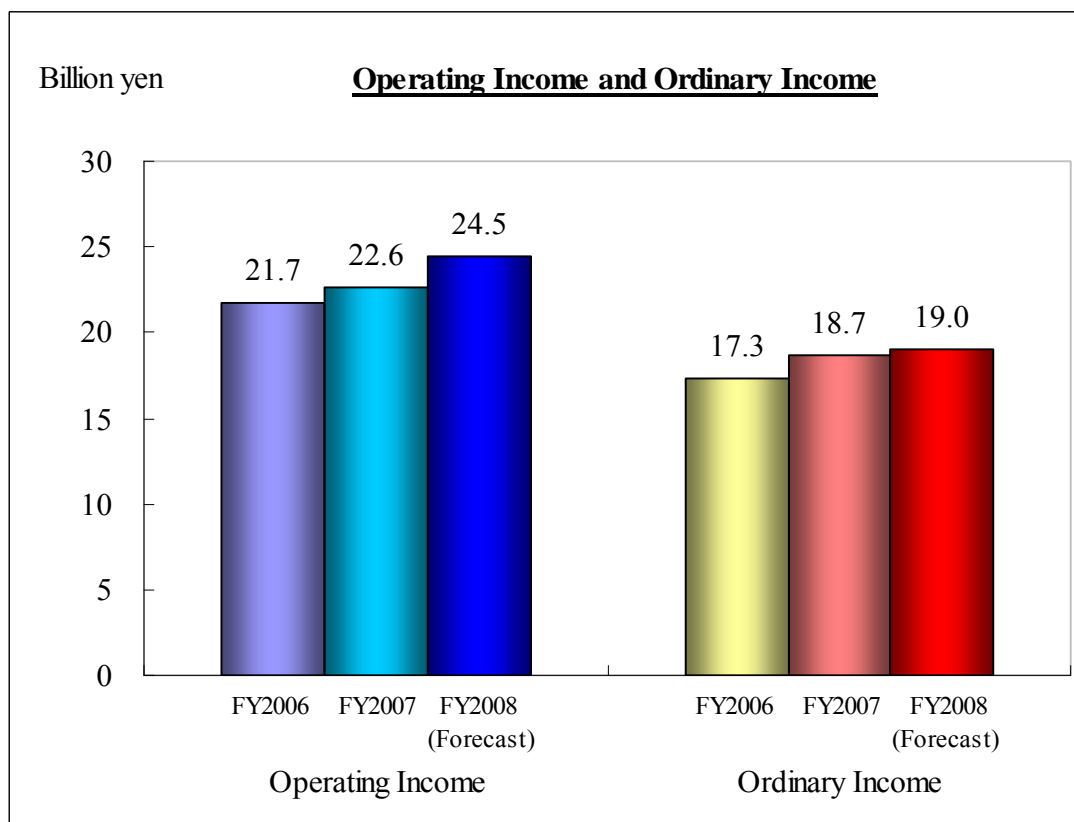
(Million yen)

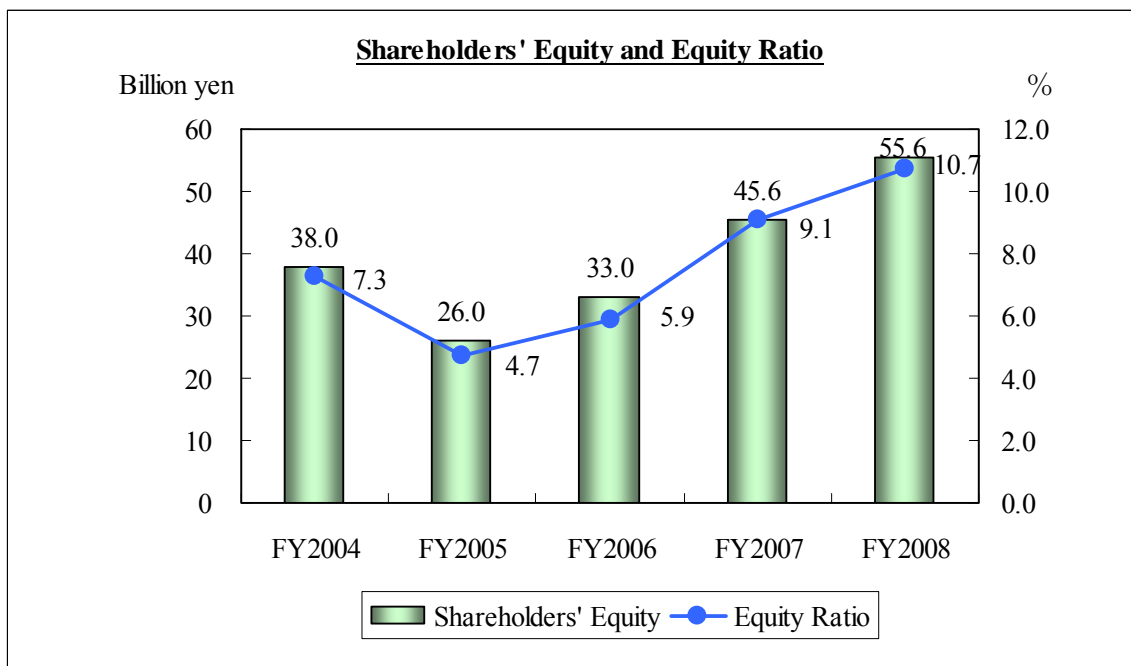
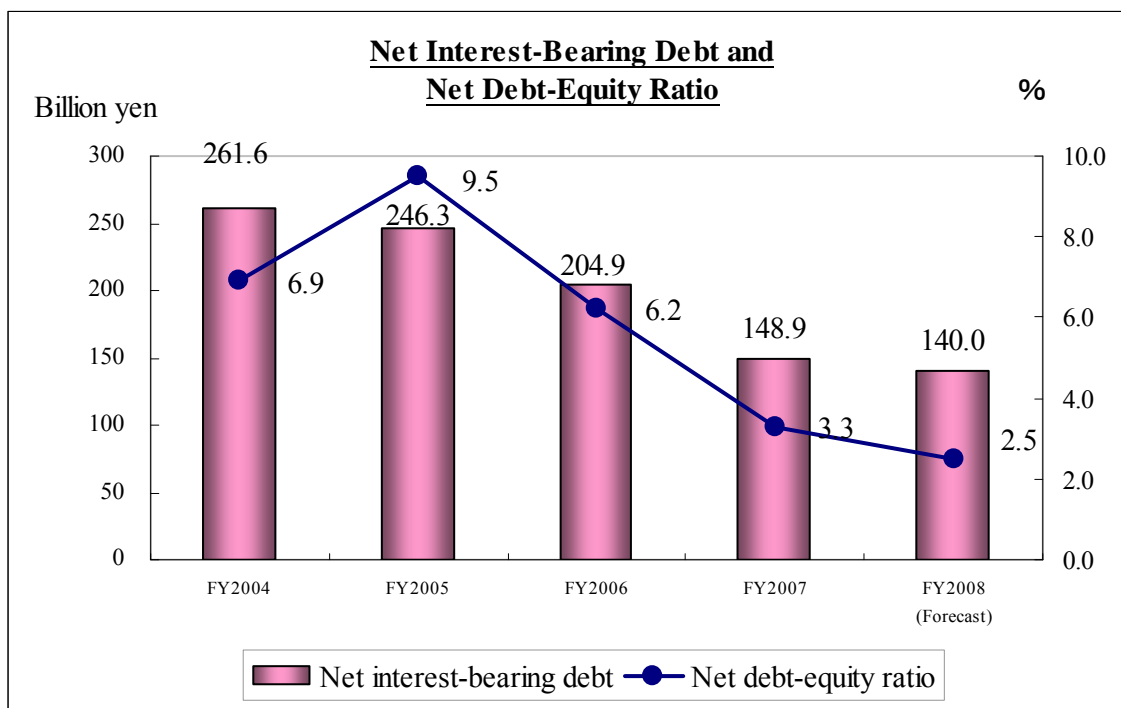
	FY2007 Results	FY2008 Forecast	Compared with FY2007
Net Sales	1,244,020	1,350,000	105,980
Gross Trading Profit	90,327	98,000	7,673
Ratio	7.3%	7.3%	0.0%
Selling, General and Administrative Expenses	67,721	73,500	5,779
Operating Income	22,605	24,500	1,895
Non-Operating Income & Loss	-3,859	-5,500	-1,641
Ordinary Income	18,747	19,000	253
Net extraordinary loss	10,228	-1,000	-11,228
Income (loss) before income taxes	28,975	18,000	-10,975
Income taxes	-9,959	-8,000	1,959
Net Income	19,016	10,000	-9,016
Total Assets	503,456	520,000	16,544
Gross Interest-Bearing Debt	223,702	210,000	-13,702
Net Interest-Bearing Debt	148,944	140,000	-8,944
Shareholders' Equity	45,587	55,600	10,013
Net D/E Ratio (Times)	3.3	2.5	Improved 0.8P
Equity Ratio	9.1	10.7	Improved 1.6P

◇ Forecast by Segment

(Billion yen)

	Net Sales		Gross Trading Profit		Operating Income	
	FY 2008 (Forecast)	Year on year	FY2008 (Forecast)	Year on year	FY2008 (Forecast)	Year on year
IT	330	-26.2	48.8	+5.8	9.0	+0.9
Foods & Foodstuff	350	+66.4	14.7	+1.0	5.2	+0.9
Iron & Steel	155	+12.6	10.0	+0.1	5.4	+0.1
Machinery & Plant	112	+2.3	11.5	+0.4	2.2	+0.0
Iron, Steel & Plant	267	+14.9	21.5	+0.5	7.6	+0.1
Energy	310	+24.5	6.5	-1.0	1.7	+0.1
Life Science	33	+2.1	2.5	+0.5	0.4	+0.3
Life Science & Energy	343	+26.6	9.0	-0.6	2.1	+0.4
Others, Consolidated adjustment	60	+24.3	4.0	+1.0	0.6	-0.4
Total	1350	+106.0	98.0	+7.7	24.5	+1.9





## IT

- We are pursuing added-value functions in the areas of vehicle-mounted parts, aerospace, digital imaging devices, and semiconductor/LCD manufacturing equipment, focusing on “technology and expertise,” “B2B” and “global operations” as the keywords.
- In the electronics parts distribution business (including semiconductors, optical devices, and LCD/electronic materials), we are strengthening the purchase agent function, improving operating efficiency and enhancing the procurement and distribution support functions for customers expanding their overseas operations.
- In the solutions business and the mobile communications terminal business, we are increasing market share by strengthening our relationships with customers. We are seeking opportunities to reorganize the Group and conducting M&A to maximize synergy.
- With regard to new businesses, we are promoting the horizontal application of vehicle-mounted parts to BRICs, the operations of advertisement and e-commerce in the mobile business and the launch of new projects in the field of aerospace for the private sector.

### (1) Main Business

(Billion yen)

Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2008 forecast)
Electronic Devices	Semiconductor/electronic parts, Electronic modules/materials, Semiconductor/LED	Devices Company ATE Solutions Dept	-	100.0
OEM/ODM Solutions	Vehicle-mounted parts, Printer equipment, Electronic modules	Industrial Electronics Dept. Information & Electronics Dept.	-	55.0
Mobile	Mobile communications terminals, Mobile content/mobile advertisement	IT Administration Office	Kanematsu Communications Ltd.	95.0
ICT Solutions	System solutions, Communication equipment/parts	IT Administration Office Information & Electronics Dept.	Kanematsu Electronics Ltd. <i>Nippon Office Systems Ltd.</i>	55.0 (13.8)
Aerospace	Aircraft/aircraft parts	Aerospace Dept.	Kanematsu Aerospace Corp. Shintoa Corporation	25.0
Total				330.0

(Note) The company name in italics is an affiliate: equity in net income of the affiliate contributed to consolidated ordinary income.  
Figures in parentheses show sales of equity method affiliate.

### (2) Consolidated Earnings Forecast for FY2008

(Million yen)

	FY2007 Results	FY2008 Forecast	Compared with FY2007
Net Sales	356,156	330,000	-26,156
Gross Trading Profit	42,993	48,800	5,807
Ratio	12.1%	14.8%	2.7%
Operating Income	8,095	9,000	905
Ratio	2.3%	2.7%	0.4%



### (3) Actions and Outlook for FY2008

#### ◆ Electronic Devices Business

- Both sales and profit declined in the first half, primarily reflecting the weakening semiconductor market. From the third quarter, we will offer support for Japanese customers moving operations overseas and the construction of the SCM system in electronic modules and electronic materials. We are aiming to reach the target set at the beginning of the term, in particular by stepping up our activities in the South China region. However, the business is weakening overall.

#### ◆ OEM/ODM Solutions Business

- We will horizontally apply the expertise we have cultivated in two-wheeled and four-wheeled vehicles parts and printer-related businesses to other businesses.
- In the battery control module manufacturing business, we have constructed a system to increase production in response to rising demand. We will continue to expand while maintaining and improving quality.

#### ◆ Mobile Business

- Net sales declined substantially in the mobile communications terminal business in the first half, reflecting a fall in sales volume associated with the introduction of a new selling model. We expect sales for the full year to be well below the forecast made at the beginning of the term. However, we expect that profitability will improve because of stable selling prices due to the introduction of the new selling model, and we anticipate that we will achieve the forecast operating income for the full year.
- In the domestic mobile internet business, we will operate as an integrated company with emphasis on B2B business in mobile content, mobile commerce, mobile advertising and mobile solutions.

#### ◆ ICT\* Solutions Business

- As Kanematsu Electronics Ltd. has bolstered its ability to propose technologies and services by working effectively with the technical staff at Memorex Tex Japan Ltd., with which we merged, we anticipate an increase in sales and profit by expanding the customer base and responding to diversified customer needs, such as demand for stronger internal control.

\*ICT: Information Communication Technology

#### ◆ Aerospace Business

- We will strengthen the aerospace business for the private sector in addition to our mainstay business for government offices. We will also operate the repair parts business in association with the inspection of aircraft designated by law.

### (4) Results for the First Half of FY2008

(Million yen)

	Results for the 1st half of FY2007	Results for the 1st half of FY2008	Year on year
Net Sales	182,417	146,320	-36,097
Gross Trading Profit	21,962	21,986	24
Ratio	12.0%	15.0%	3.0%
Operating Income	4,697	4,132	-565

#### (1) Net Sales and Gross Trading Profit

Net sales: Electronic Devices: down ¥9.7 billion; OEM/ODM Solutions: up ¥0.1 billion;

Mobile: down ¥23.0 billion; ICT Solutions: down ¥1.5 billion; Aerospace: down ¥1.8 billion

Gross trading profit: Electronic Devices: down ¥0.3 billion; OEM/ODM Solutions: down

¥0.1 billion; Mobile: up ¥0.4 billion; ICT Solutions: up ¥0.1 billion; Aerospace: down ¥0.1 billion

#### (2) Operating income

Although operating income in the ICT solutions business was favorable, overall operating income fell ¥0.6 billion because of factors such as a decline in sales due to the weakening semiconductor market.

#### (3) Overview

Net sales declined significantly, primarily because of the weakening semiconductor market and a substantial fall in demand for mobile phones due to changes in the selling system.

## Foods & Foodstuff

- With our motto, “the pursuit of security and safety,” we are improving our processes to achieve complete traceability throughout the supply chain, from the production of raw materials to the shipment of products. We are also further integrating upstream and downstream operations throughout the supply chain, namely the procurement of raw materials, processing and manufacturing functions, and strong domestic distribution functions.
- In the food business, we are securing and rigorously seeking additional excellent supply sources for such things as fruit products in Latin America and Eastern Europe. Not only traditional importing/exporting, we are also continuing to add value to the food product itself through our manufacturing and processing functions in China and Southeast Asia. We are also promoting a joint development project of cooked and prepared foods with our affiliates in Japan and overseas.
- In the meat and marine products business, we are strengthening ties with overseas suppliers so as not to miss traceability of the supply chain. Meanwhile, we are increasing the lineup of our secured supply sources so we can provide high-quality and price-competitive products to meet the ever-increasing needs of stable food supplies. We are also building a mechanism whereby third parties certify producers, and extending this to high-volume retailers.
- In the grain oil/feed and dairy products business, we are (1) strengthening the community-oriented dairy businesses in Hokkaido, Tohoku and Kyushu, (2) promoting joint business with so-called “mega-farms,” and (3) starting to trade new products such as DDGS (ethanol derivative products).
- In overseas markets, we are stepping up offshore trading of feed (from the United States and Australia to China and Asia), processed fruits (from China and Southeast Asia to Europe and the United States), and soy bean products (from China to the United States).

### (1) Main Business

(Billion yen)				
Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2008 forecast)
Foods	Canned/frozen/dried fruits, coffee, cocoa, sugar, sesame, peanuts, various beans, wines, and others	Produce Dept. I Produce Dept. II	Kanematsu Food Corp. Shintoa Corporation	110.0
Meat and Marine Products	All meat, seafood	Meat & Marine Products Dept.	Kanematsu Food Corp. Shintoa Corporation	63.0
Grain Oil/Feed and Dairy Products	Barley, wheat, rice, soybeans, processed foods, feed, fertilizer, pet foods and others	Grain Oil Dept. Feed Dept. Formula Products Dept.	Kanematsu Agri-Tech Corp. Savory-Japon S.A. Shintoa Corporation	177.0
Total				350.0

### (2) Consolidated Earnings Forecast for FY2008

(Million yen)			
	FY2007 Results	FY2008 Forecast	Compared with FY2007
Net Sales	283,565	350,000	66,435
Gross Trading Profit	13,730	14,700	970
Ratio	4.8%	4.2%	−0.6%
Operating Income	4,331	5,200	869
Ratio	1.5%	1.5%	0.0%

### (3) Actions and Outlook for FY2008

#### ◆ Food Business

- The beverage material business continues to perform well. We are looking to increase trading volumes by developing new production regions and diversifying production regions and quality levels.
- We will sustain the growth in deliveries of cooked and prepared food to the home-meal replacement and restaurant industries, including convenience store chains, which we began in earnest in fiscal 2007. We are bolstering cooperation with Group companies to expand sales channels.
- As consumers are staying away from Chinese products, we are maintaining a stable supply by diversifying the procurement of raw materials and processed food with a high dependency on China into other Southeast Asian regions.
- We have built a structure that has a stronger checking function than we had previously by putting the Food Safety Control Office for enforcing food safety and security at the same level as the marketing departments, immediately under the directors in charge of the Foods & Foodstuff Division. We are striving to prevent violations of laws and regulations, including the food sanitation law, by identifying risks in advance and analyzing them.

#### ◆ Meat and Marine Products Business

- As the supply of meat and marine products is expected to tighten with a global rise in prices, we are putting top priority on securing stable supply sources. In the marine products business, we are focusing on cultivating new major commercial products by expanding the marine products processing business at partnership plants in Southeast Asia.
- We are striving to expand sales of Australian beef, recognized as a KG original brand.

#### ◆ Grain Oil/Feed and Dairy Products

- We are accelerating the diversification of supply sources by using hedging techniques to respond to rapid price changes.
- Amid rising demand for bio-energy, we began developing contracts in Canada, a new area, reflecting the trend whereby marginal cultivation land moves north, to secure non-genetically modified soybeans.
- In lactobacillus (EC-12) products, we are bolstering sales by developing lactic acid bacterium products for beef, in addition to existing products for pork.

### (4) Results for the First Half of FY2008

(Million yen)

	Results for the 1st half of FY2007	Results for the 1st half of FY2008	Year on year
Net Sales	138,717	168,400	29,683
Gross Trading Profit	6,895	7,437	542
Ratio	5.0%	4.4%	-0.6%
Operating Income	2,053	2,851	798

#### (1) Net Sales and Gross Trading Profit

Net sales: Food: down ¥0.7 billion; Meat and Marine Products: up ¥6.3 billion; Grain Oil/Feed and Dairy Products: up ¥24.0 billion

Gross trading profit: Food: down ¥0.2 billion; Meat and Marine Products: down ¥0.1 billion; Grain Oil/Feed and Dairy Products: up ¥0.8 billion

#### (2) Operating income

Poor performance in the food and marine products businesses was more than offset by strong performance in the grain and feed products businesses. Overall operating income rose ¥0.8 billion.

#### (3) Overview

- Income in the food business fell slightly year on year, reflecting the fact that consumers stayed away from Chinese products after the Chinese-made dumplings incident, along with an increase in import costs due to the rising prices of raw materials for processed goods, which we were not able to pass on to selling prices.
- The performance of the meat products business, where we put priority on securing stable supply sources, was solid, while we struggled to reach the year-ago level in income in the marine products business, partly due to sluggish market conditions and changes in the consumption structure.
- In the grain oil/feed and dairy products business, we posted a higher level of income than in the same period of the previous year, when performance was strong. We did this by pursuing stable supply and low prices (reasonable prices), which customers need because foodstuffs are used as resources in addition to safety and security, and by strengthening ties with suppliers, both in Japan and abroad.

## Iron & Steel

- We are targeting balanced growth between the export business by parent and the domestic sales business by affiliates.
- We are focusing on the sales expansion of auto parts for the steadily-growing automobile industry in South America through our operating base in Sao Paulo.
- As for the coil center business in China, in addition to current export trading, we are initiating a feasibility study for capacity increase, specifically targeting the local market.
- In domestic sales of general steel products by affiliates, we are improving production efficiency and sales capability through reorganization within the Group.

### (1) Main Business

				(Billion yen)
Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2008 forecast)
Steel Trading	Surface-treated steel plates, seamless piping	Iron & Steel Foreign Trade Dept.	SSOT	35.0
Special Steel Trading	Stainless, special steel wire rods, long steel products	Special Iron & Steel Foreign Trade Dept.	-	16.5
Cast and Forged Steel Products	Precision forgings	Forging & Casting Dept.	-	9.0
Domestic Steel/Steel Materials	Steel products, iron ore, cokes	Machinery & Plant Administration Office	Kanematsu Trading Corp.	94.5
Total				155.0

### (2) Consolidated Earnings Forecast for FY2008

				(Million yen)
	FY2007 Results	FY2008 Forecast	Compared with FY2007	
Net Sales	142,379	155,000	12,621	
Gross Trading Profit	9,919	10,000	81	
Ratio	7.0%	6.5%	—0.5%	
Operating Income	5,273	5,400	127	
Ratio	3.7%	3.5%	—0.2%	

### (3) Actions and Outlook for FY2008

#### ◆ Exporting Business

- In the coil center business in China, shipments of electroplate zinc-covered steel plates for Japanese users remain steady. We are considering our future response while watching the effects of changes in Chinese government policy.  
In the second half, we will monitor changes in market conditions and adjust inventory levels as needed.

#### ◆ Special Steel

- We are active in the sale of high added-value products centering on high-performance stainless steel for oil-related products. The trade environment is changing, reflecting falls in the price of nickel, so we need to pay attention to nickel price movements.
- In alloy wires and bars, sluggish performance of the Big 3 in the United States, the end users, is expected. Although we maintained the same level of income in the first half as in the year-ago period, we expect a more challenging situation in the second half. We would like to achieve the target by developing new projects, such as those for Asia.

#### ◆ Cast and Forged Steel Products

- Exports of auto parts to Brazil remain strong.
- Following a fall in sales of automobiles caused by the financial crisis in the United States, we are struggling to sell our products to major auto manufacturers in Europe and the United States, our major customers. However, development projects for transmission components for the major auto manufacturers are in the final stages of mass production, and we are aiming to achieve the target in the second half.

#### ◆ Domestic Steel/Steel Materials

- In the domestic steel business, product prices are fluctuating violently and need to be monitored.
- In the steel materials business, we will closely monitor changes in the economic environment in China to maintain sales, as we expect challenging circumstances due to a significant decline in demand for iron ore in China.

### (4) Results for the First Half of FY2008

(Million yen)			
	Results for the 1st half of FY2007	Results for the 1st half of FY2008	Year on year
Net Sales	72,602	81,562	8,960
Gross Trading Profit	5,562	5,821	259
Ratio	7.7%	7.1%	-0.6%
Operating Income	3,235	3,471	236

#### (1) Net Sales and Gross Trading Profit

Net sales: Special Steel: up ¥1.0 billion; Domestic Steel/Steel Materials: up ¥8.0 billion

Gross trading profit: Gross trading profit moved sideways in each business.

#### (2) Operating income

Operating income remained level in each business.

#### (3) Overview

- Each business performed well.
- Although the supply of steel products by steel manufacturers was tight because of solid demand for automobiles, shipbuilding, and construction machinery, we secured sales owing to the rising prices of steel products.

## Plant & Machinery

- As the global economy remains sluggish, we are striving to maintain and expand the automobile parts business and the marine equipment package deal, which are stable revenue sources. At the same time, we are aiming to further increase exports of fibers, cables, and plant components. We are also focusing on maintaining machine tool transactions, especially imported large machine tools, where our affiliates have strength.
- In overseas plant projects, we are focusing on acquiring projects in our specialties in Asia, the Middle East and West Africa, including geothermal generation, industrial plants and infrastructure building.
- In August, we established a company that processes silicon wafers for solar batteries as part of our entry into the environment/new energy business. This is positioned as one of the growth drivers in the Medium-Term Management Plan.

### (1) Main Business

(Billion yen)				
Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2008 forecast)
Plants and Transportation Equipment	Various plants, automobiles, vessels, marine equipment, ODA	Projects & Plant Machinery Dept. Automotive & Construction Machinery Dept. Vessel Dept.	—	41.0
Cable/Electric Power Projects	Telecommunications projects, optical fibers, electric power projects	Cable & Power Projections Dept.	—	3.0
Machine Tools and Industrial Machinery	Machine tools, industrial machinery	Machinery & Plant Administration Office	Kanematsu KGK Corp.	68.0
Total				112.0

### (2) Consolidated Earnings Forecast for FY2008

(Million yen)			
	FY2007 Results	FY2008 Forecast	Compared with FY2007
Net Sales	109,726	112,000	2,274
Gross Trading Profit	11,110	11,500	390
Ratio	10.1%	10.3%	0.2%
Operating Income	2,190	2,200	10
Ratio	2.0%	2.0%	0.0%

### (3) Actions and Outlook for FY2008

#### ◆ Plant and Transportation Equipment

- We expect that stable revenue sources will remain solid, including shipbuilding and the marine equipment package deal in Vietnam, as will exports of automobile parts to China and the Middle East, where we have maintained strength.
- We are expanding the general-purpose transportation equipment and automobile businesses for Eastern Europe, which have grown to become stable revenue sources. We expect exports of chemical plant equipment to the Middle East to be favorable.

#### ◆ Cable/Electric Power Projects

- We are aiming to obtain new orders in Asia for submarine cables and geothermal generation projects, which are our specialties.
- While keeping watch on economic conditions, we will expand the trading volume of cable products such as fibers, aluminum coated copper wires and higher capacity lines for Russia, which has been solid in the current fiscal year. We will also increase exports of cables to Asia and Oceania.

#### ◆ Machine Tools and Industrial Machinery

- Demand for machine tools and industrial machinery is declining in Japan and the United States. Although a fall in the profit margin associated with intensified competition is expected in the circumstances, we are looking for sales from large machinery for the heavy electrical industry. We are also expanding trade in Asia.
- Kanematsu KGK Corp. established a company to process silicon wafers for solar batteries in conjunction with a partner company, and is aiming to expand sales against a background of globally increasing demand.

### (4) Results for the First Half of FY2008

(Million yen)

	Results for the 1st half of FY2007	Results for the 1st half of FY2008	Year on year
Net Sales	53,583	50,924	-2,659
Gross Trading Profit	5,378	5,332	-46
Ratio	10.0%	10.5%	0.5%
Operating Income	1,102	961	-141

#### (1) Net Sales and Gross Trading Profit

Net sales: Plant and Transportation Equipment: up ¥1.8 billion; Cable/Electric Power Projects: down ¥2.6 billion; Machine Tools and Industrial Machinery: down ¥1.9 billion

Gross trading profit: Plant and Transportation Equipment: up ¥0.6 billion; Cable/Electric Power Projects: down ¥0.2 billion; Machine Tools and Industrial Machinery: down ¥0.4 billion

#### (2) Operating income

Operating income fell ¥0.1 billion, with an increase in the plant and transportation equipment business more than offset by decreases in the other businesses.

#### (3) Overview

- In the plant and transportation equipment business, shipbuilding, exports of shipbuilding equipment, and exports of automobile parts remained strong.
- Both sales and profits fell in the cable/electric power projects business. This was mainly due to a fall in sales of geothermal generation projects, which greatly contributed to sales in the previous fiscal year, although exports of cable products were solid, including fibers, aluminum coated copper wires, and higher capacity lines.
- In the machine tools and industrial machinery business, we were not able to avoid the effects of the weak markets.

## Energy

- We are focusing on growth as a group, including the retail gas station network and storage tank operation, to increase our market share of the domestic trading of petroleum products.
- As for overseas strategies, we are acquiring new customers in China and Southeastern Asia and penetrating these developing markets.
- Given the rise in demand for new energy sources and energy saving solutions stemming from growing concerns about the global environment and soaring crude oil prices, we are undertaking new energy development projects and providing energy saving consulting and solutions to our customers.
- To bolster our efforts in new energy development projects and emissions credit trading, we are increasing our investments in people and business initiatives and undertaking cross-divisional efforts with the Plant & Machinery Division and the Business Incubation Team.

### (1) Main Business

(Billion yen)				
Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2008 forecast)
Crude Oil, Petroleum Products and Gas	Crude oil, petroleum products, LPG	Energy Dept.	Kanematsu Petroleum Corp.	310.0

### (2) Consolidated Earnings Forecast for FY2008

(Million yen)			
	FY2007 Results	FY2008 Forecast	Compared with FY2007
Net Sales	285,534	310,000	24,466
Gross Trading Profit	7,544	6,500	-1,044
Ratio	2.6%	2.1%	-0.5%
Operating Income	1,600	1,700	100
Ratio	0.6%	0.5%	-0.1%



### (3) Actions and Outlook for FY2008

#### ◆ Crude Oil, Petroleum Products and Gas

- Both sales and profits rose in the first half of the fiscal year as international prices remained high. However, the markets are weakening and are expected to be unstable from the third quarter onward. We expect sales to rise as forecast at the beginning of the term, and income to remain level.
- An affiliate that runs approximately 150 gas stations, including company-owned and partnership stations, endeavored to secure reasonable profits as the wholesale price of gasoline plummeted. It is improving its profit-earning capacity through the consolidation and elimination of operating bases.
- In the LPG business, we are specializing in the bulk sale of industrial LPG and expanding sales to small-lot users in a comprehensive distribution system.
- We are creating Group synergies by consolidating the energy business of Shintoa Corporation into Kanematsu Petroleum Corporation. We are continuing to bolster the lubricant oil business.
- In the new energy creation business, we began operating a bio-gas project in Hokkaido based on a bio-gas joint venture which we established in the previous year. We will develop this project nationwide.
- In emissions trading, we are continuing to participate in the voluntary emissions trading scheme of the Ministry of the Environment. We are also facilitating the sale of emissions rights to companies in Japan and overseas through measures such as business operations in small and retail businesses using the carbon offset, the intermediary service of emissions trading, participation in CDM operations, and cooperation with overseas businesses.

### (4) Results for the First Half of FY2008

(Million yen)			
	Results for the 1st half of FY2007	Results for the 1st half of FY2008	Year on year
Net Sales	132,741	154,624	21,883
Gross Trading Profit	3,452	4,294	842
Ratio	2.6%	2.8%	0.2%
Operating Income	600	1,259	659

#### (1) Net Sales and Gross Trading Profit

Net sales: Net sales rose because of high international prices up until the second quarter.

Gross trading profit: Gross trading profit increased owing to the solid performance of our petrochemical product storage tank operation and a rise in revenue in relation to bunker oil.

#### (2) Operating income

We secured reasonable profits by passing high oil prices on to selling prices. We also reduced selling, general and administrative expenses. Operating income rose as a result.

#### (3) Overview

As market prices remained high up until the second quarter, we increased both sales and profits by passing the high prices on to selling prices.

## Life Science

- Under the keywords “global environment,” “healthcare,” and “medical solutions,” we are enhancing such advanced functions as manufacturing and R&D capabilities to make each business grow.
- Against a backdrop of increasing demand for solar batteries as an alternative energy source amid rising environmental consciousness worldwide, we are focusing on strengthening the production and sales business of solar battery coating materials, an area where we have production expertise and trademark rights. We are also emphasizing the development and commercialization of new products such as heat shield paint.
- In pharmaceutical materials trading, we are expanding the contract manufacturing operation of pharmaceutical intermediaries by (1) increasing imports of bulk powders (raw materials) from India and Northern and Eastern Europe and (2) entering into alliances with unique small and midsize chemical manufacturers, in response to requests for medical cost reductions due to higher beneficiary liabilities as a result of the health insurance reforms.
- In the functional materials business, we are stepping up the exploration and sales of new products using the expertise we have cultivated in the trading of creatine and  $\alpha$ -lipoic acid.
- To develop a new revenue source, we are securing mineral resources and organic natural resources whose supply is getting tighter worldwide, and considering investment in China and Southeast Asia.

### (1) Main Business

(Billion yen)				
Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2008 forecast)
Functional Chemicals	Battery materials, fertilizer materials, adhesive materials, solvents	Functional Chemicals Dept.	Kanematsu Chemical Corp.	26.4
Pharmaceuticals, Healthcare	Pharmaceuticals, pharmaceutical intermediates, functional food materials, stolle milk, nutritional supplements	Life Science Dept.	Kanematsu Wellness Corp.	6.6
Total				33.0

### (2) Consolidated Earnings Forecast for FY2008

(Million yen)			
	FY2007 Results	FY2008 Forecast	Compared with FY2007
Net Sales	30,938	33,000	2,062
Gross Trading Profit	2,025	2,500	475
Ratio	6.5%	7.6%	1.1%
Operating Income	133	400	267
Ratio	0.4%	1.2%	0.8%

### (3) Actions and Outlook for FY2008

◆ Functional Chemicals

- Imports of synthetic rubber remain favorable, partly because of the tight supply in Japan and production cuts by domestic manufacturers due to the high prices of raw materials.
- We are increasing exports of raw materials of lithium batteries to China in response to rising demand in the Chinese market.
- We anticipate an increase in deliveries of solar battery coating materials, since production continues to be increasing at customer plants. We are implementing a horizontal application through trading in related components and the development of new markets.
- We are developing environmental products such as heat shield paint.

◆ Pharmaceutical/Healthcare Business

- In the pharmaceuticals business, we project an increase in sales with the expansion of the contract manufacturing operation of pharmaceutical intermediaries in Japan and abroad, and the growth of exports of pharmaceuticals products and bulk powder.
- We are aiming to further increase imports of bulk powder from India and Northern and Eastern Europe by enhancing cooperation with affiliates.
- We are stepping up exports of bulk pharmaceuticals to the Middle East and Southeast Asia.
- In the medical information provision services, we are seeking new business, especially from pharmaceuticals companies, and the diversification of the areas to which we provide medical service information.

**(4) Results for the First Half of FY2008**

(Million yen)

	Results for the 1st half of FY2007	Results for the 1st half of FY2008	Year on year
Net Sales	15,137	16,833	1,696
Gross Trading Profit	1,103	1,278	175
Ratio	7.3%	7.6%	0.3%
Operating Income	182	350	168

(1) Net Sales and Gross Trading Profit

Net sales: Functional Chemicals: up ¥1.4 billion; Pharmaceutical/Healthcare: up ¥0.5 billion

Gross trading profit: Functional Chemicals: up ¥0.2 billion; Pharmaceutical/Healthcare: almost unchanged

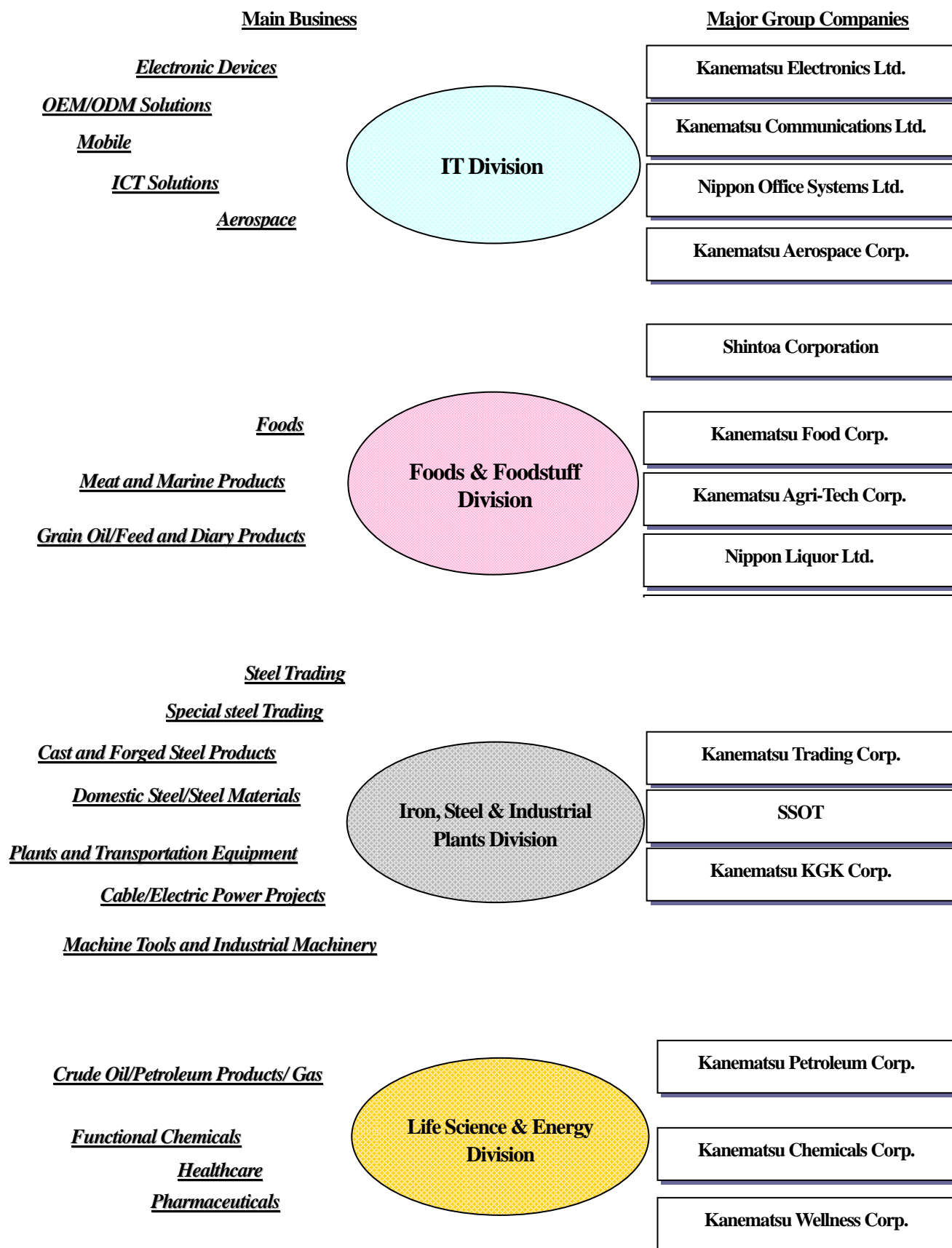
(2) Operating income

Operating income remained almost level in the pharmaceutical/healthcare business, while increasing in the functional chemicals business.

(3) Overview

Overall, net sales rose thanks to the high prices of raw materials. Although the markets are weakening, we expect net sales to increase in the full year as forecast at the beginning of the term.

## (Reference) Outline of Kanematsu Group



III. “teamKG120”  
Medium-Term Business Plan  
(April 2007 - March 2010)

## Vision

We are ever more active in expanding our businesses and strengthening our functions as a **Creator of Real Business** to achieve added value.

### ■ Target Corporate Image

- ◆ A company that never stops exploiting the creation of new business
- ◆ A company with an established culture of continuing reform and evolution
- ◆ A company that steadfastly maintains a streamlined and highly efficient financial position
- ◆ A company that has built a solid management system

### ■ Key Goals

- ◆ Declare dividends as soon as practicable
- ◆ Consolidated ordinary income for FY2009: ¥25.0 billion
- ◆ Consolidated net income for FY2009: ¥12.5 billion

### ■ Positioning of Kanematsu — The Creator of Real Business —

- ◆ Explore and provide highly specialized and useful business functions
- ◆ Concentrate on investments in projects that are backed by real business
- ◆ Avoid simple financing and speculative transactions
- ◆ Pursue growth through the development of new businesses
- ◆ Avoid a disproportionate weighting on specific areas and increase stability

## Growth Strategies — Balanced Growth with Strong Momentum—

We re-defined the mission of each business in accordance with their business models, and sustain balanced growth with strong momentum.

### ■ Fundamental Trading

Businesses in this category provide traditional trading (importing & exporting) functions and generate the basis of the revenue stream. They also function as the source of new business seeds in each business domain. We continue to expand Fundamental Businesses by stepping up efforts in upstream and downstream distribution operations and achieving efficiencies through economies of scale.

(Examples: The importing & exporting meat and marine products/grains/feed and dairy products, the fruits processing business, and the electronic parts distribution businesses)

### ■ Value Exploration

Businesses in this category aim at the further creation of added value by providing not only trading functions but also R&D consulting and OEM/ODM solutions (Integrated functions): this is an effective Kanematsu business model developed through the previous medium-term business plan.

(Examples: Global sourcing and export of automotive parts, SCM business of aircraft rotatable parts, shipbuilding package deal, and the coffee marketing solution business)

### ■ New Businesses

We are aggressively promoting new businesses, leveraging our strengths and expertise, such as business know-how, integrated functions, and global business networks.

(Examples: Mobile commerce, cooked and prepared foods business)

### ■ Horizontal Expansion

We capture business opportunities by **horizontally applying our successful business models** in each category of the Fundamental Trading, Value Exploration, and New Businesses. (Examples: Geothermal plant projects in Asian region and offshore food trading)



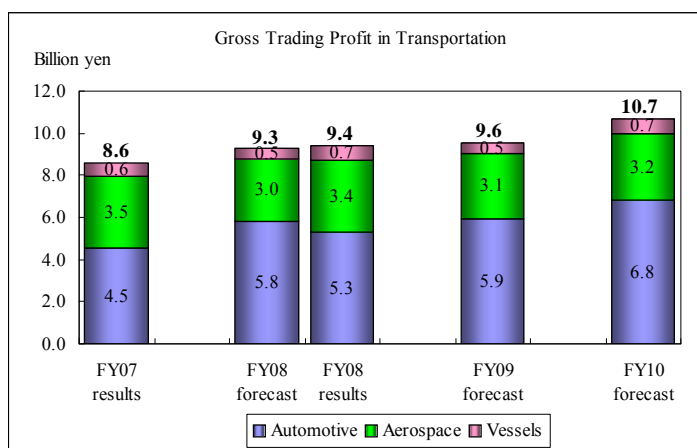
## Growth Drivers

We promote the growth of the following four domains — **transportation, ICT solutions/mobile, food as resource, the environment/new energy** — through M&A and cross-organizational collaboration with strong growth momentum.

### Transportation

We will further expand businesses in this area, where we have built strengths, such as automotive (automobiles, mechanized parts, in-vehicle electronic parts, special steel products etc.) as well as the aircraft and vessel businesses.

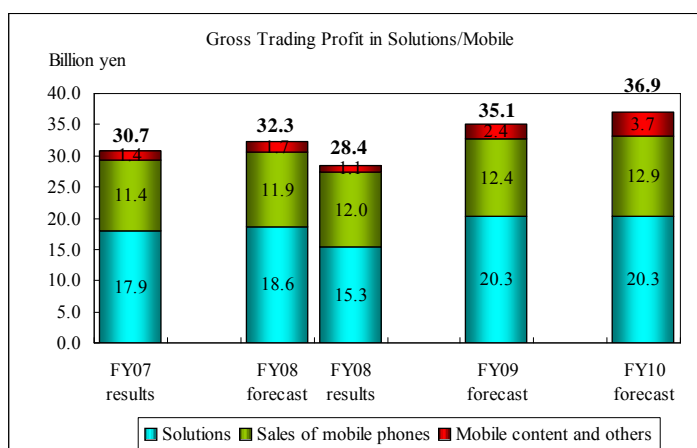
- Enhance the global sourcing function and the R&D support function.
- Expand sales to Europe, BRICs and Asian markets
- Expand the aircraft rotatable parts business with airlines



### ICT Solutions/Mobile

We will further differentiate ourselves by leveraging our presence in the industries through our expanding operations with Kanematsu Electronics Ltd. and Kanematsu Communications Ltd.

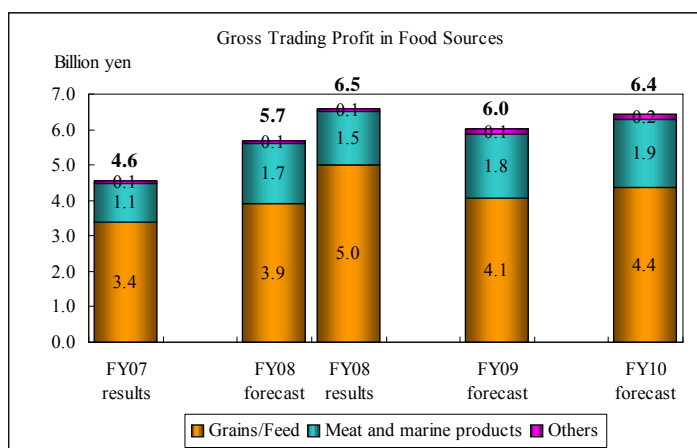
- Maximize synergy through the Group and organizational reforms.
- Aggressively promote M&A and business alliances
- Establish new businesses in the field of mobile services



### Food Sources

We will actively work on securing and maintaining a reliable supply of food sources in meat and marine products, grains, and feed and dairy products.

- Pursue continuing improvement in traceability with the slogan, “safety and security.”
- Strengthen our relationship with supply sources and processing plants in preparation for tight supply.



### Environment/New Energy

We will rapidly establish operations in those fields that have promising growth potential for the next generation.

- Construct business through cross-divisional activities in areas such as the development of CDM and the emission credits trading.
- Step up our efforts in the geothermal power generation business, principally in Indonesia where we have solid expertise.
- Accelerate F/S and R&D and rapidly commercialize biomass and fuel cell trading.

## Initiatives

The entire group commits itself to the following initiatives to achieve “Balanced Growth with Strong Momentum”.

- **Enhancement of the Management System**
  - ◆ We continue to increase the transparency of management and reinforce the corporate governance system so as to never lose accountability, efficiency and financial soundness. We will also ensure comprehensive compliance and internal control using our IT systems.
- **Business Promotion Initiatives**
  - ◆ **Developing new businesses**  
We prepared new funds to the amount of ¥30 billion to stimulate new business creation, and will prioritize “New Businesses” in the distribution of management resources.
  - ◆ **Strengthening managerial support for new business developments**  
We will develop the ability to rapidly form cross-functional project teams to enable us to effectively promote projects at an early stage, combining various skills in business development, marketing, finance, and other managerial functions.
  - ◆ **Enhancing overseas operating bases**  
We will establish new operating bases in the BRICs and increase staffing at overseas operating bases.
- **Group Management Initiatives**
  - ◆ **Group and Organizational Reforms**  
We will identify redundant business lines and functions among the group and continue to execute Group and organizational reforms to maximize synergy.
  - ◆ **Prompt Decision-Making**  
We will redevelop the decision-making systems to accelerate new business creation and achieve increased horizontal expansions.
  - ◆ **Risk Management**  
We will upgrade the adoption, monitoring and controlling system for business investment especially regarding the measures of feasibility study and profitability and risk assessment, etc. to dramatically improve profitability of new business projects.

### <<Progress in the second year of teamKG120>>

- ◆ **Expanding overseas operations**
  - (1) Establishment of administration company in China  
To expand trade in China, a key market, we increased the capital of Kanematsu (Shanghai) Co., Ltd. and changed its name to Kanematsu (China) Co., Ltd. We have allocated an administration function to Kanematsu (China), which commenced operations on October 1, and have changed three representative offices in Beijing, Dalian, and Tianjin to branches that function as bases under Kanematsu (China). The new network of operating bases covers all operations in China. Kanematsu (China) is increasing business transactions and developing new businesses in collaboration with Kanematsu (Hong Kong) Ltd., which controls the South China area and its subsidiary in Guangdong.
  - (2) Bolstering the local subsidiary in Brazil  
We are bolstering the meat & livestock business in addition to the iron & steel business, which we have strengthened.
- ◆ **Entering the solar battery business**  
We established KGK Soltech, a silicon wafer processing company for solar batteries, through our subsidiary Kanematsu KGK. The new company commenced operations in September and ships products to solar battery manufacturers in Europe and the United States in response to the global expansion in demand for solar batteries.



## Quantitative Targets

■ The followings are the targets we have set for the final year (fiscal 2009 ending March 31, 2010) of the Team KG120:

- ◆ Net interest-bearing debt: ¥160 billion (gross interest-bearing debt: ¥200 billion)
- ◆ Equity ratio: Approximately 11.5%
- ◆ Net debt-equity ratio: 2.5 (gross debt-equity ratio: 3.2)

(Million yen)

	FY2006 Results	Medium-Term Business Plan "teamKG120"				
		FY2007		FY2008		FY2009
		Initial projection	Results	Initial projection	Forecast	Initial projection
Net Sales	1,281,331	1,300,000	1,244,020	1,350,000	1,350,000	1,400,000
Gross Trading Profit	103,711	100,000	90,327	105,000	98,000	110,000
Ratio	8.1%	7.7%	7.3%	7.8%	7.3%	7.9%
Operating Income	21,713	23,500	22,605	27,000	24,500	30,000
Ratio	1.7%	1.8%	1.8%	2.0%	1.8%	2.1%
Ordinary Income	17,255	19,000	18,747	22,000	19,000	25,000
Ratio	1.3%	1.5%	1.5%	1.6%	1.4%	1.8%
Net Income	7,507	8,000	19,016	10,000	10,000	12,500

(Million yen)

	FY2006 Results	Medium-Term Business Plan "teamKG120"				
		FY2007		FY2008		FY2009
		Initial projection	Results	Initial projection	Forecast	Initial projection
Total Assets	563,176	550,000	503,456	550,000	520,000	550,000
Shareholders' Equity	32,960	40,000	45,588	50,000	55,600	62,500
Equity Ratio	5.9%	7.3%	9.1%	9.1%	10.7%	11.4%
Gross Interest-Bearing Debt	270,678	230,000	223,702	220,000	210,000	200,000
Gross D/E Ratio (Times)	8.2	5.8	4.9	4.4	3.8	3.2
Net Interest-Bearing Debt	204,900	180,000	148,944	170,000	140,000	160,000
Net D/E Ratio (Times)	6.2	4.5	3.3	3.4	2.5	2.6
Fund Efficiency	7.3%	8.6%	9.6%	10.0%	9.7%	11.2%
ROA (Ordinary Income)	3.1%	3.5%	3.7%	4.0%	3.7%	4.5%
ROE (Ordinary Income)	52.4%	47.5%	41.1%	44.0%	34.2%	40.0%

\* Fund Efficiency = Ordinary income/(Net interest-bearing debt + Shareholders' equity)

***(MEMO)***