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# Overview of Results for the 1st Half of FY2009

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November 18, 2009

 **兼松株式会社**  
**KANEMATSU CORPORATION**

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## **I. Overview of Results for the First Half of FY2009**

## 1. Consolidated Financial Results: Earnings

- Both net sales and income declined in the first half under review (ended September 2009), but results were good compared with the plan.

Consolidated net sales declined 34.0% year on year, to ¥420.7 billion, with sales falling in all segments due to decreases in the trade volume associated with weak demand and falls in commodity prices. Consolidated gross trading profit also fell 21.5% year on year, to ¥37.4 billion. Consolidated operating income plunged 51.6% year on year, to ¥6.4 billion. Consolidated ordinary income plummeted 58.0% year on year, to ¥4.6 billion.

Consolidated net income dropped 52.6% year on year, to ¥1.7 billion but exceeded the initial plan (¥1.0 billion) by ¥0.7 billion, reflecting an upward revision in operating income and an improvement in tax expenses.

(Million yen)

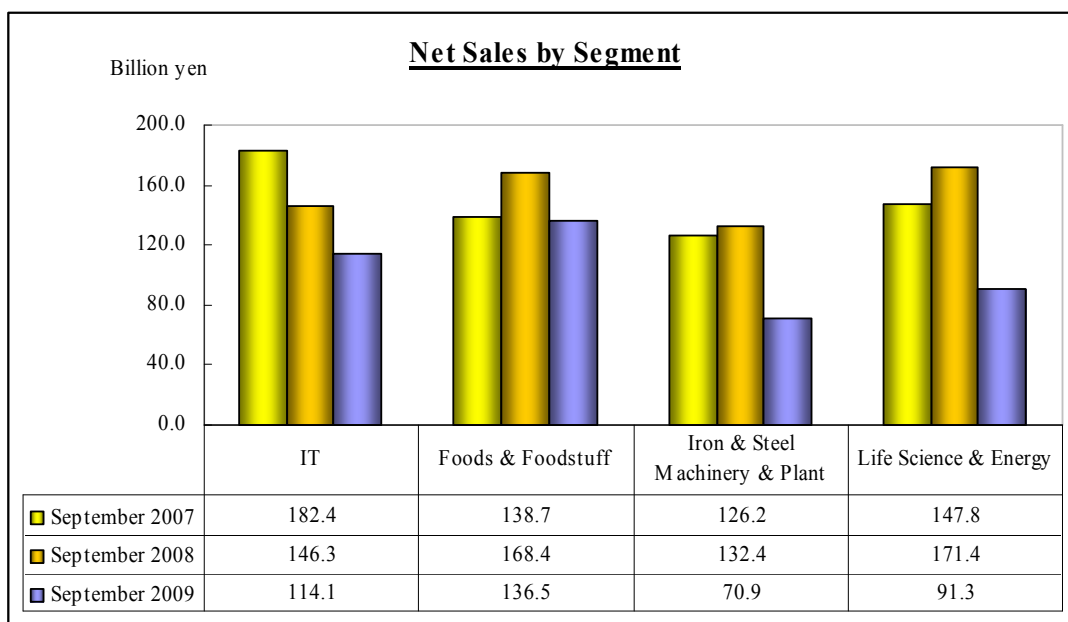
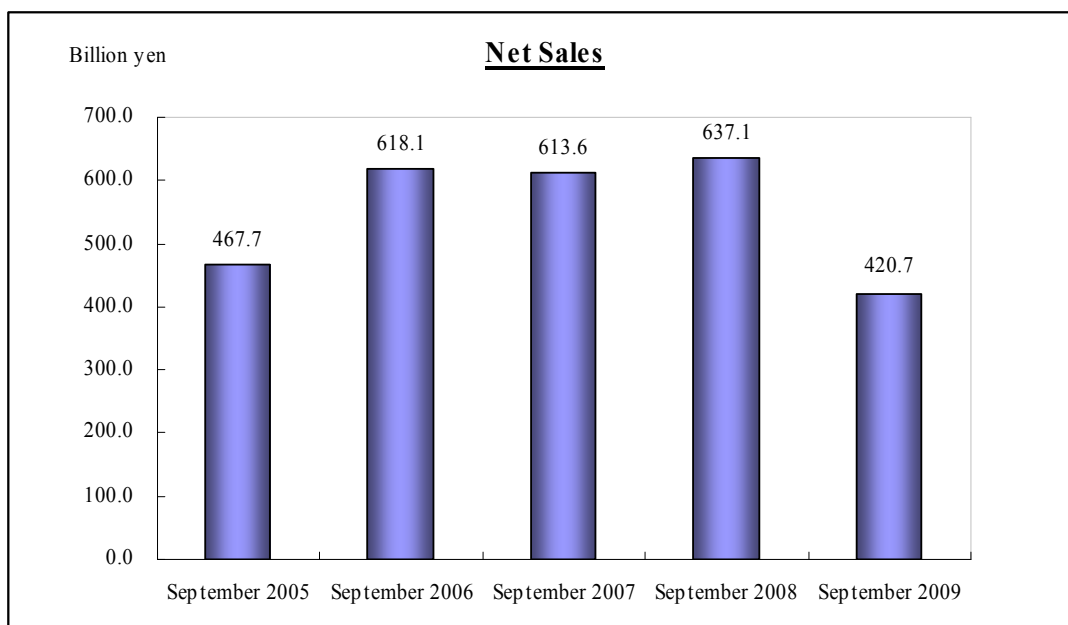
	Period ended September 2008		Period ended September 2009		Year on year	
		Percentage of net sales		Percentage of net sales	Change	Change (%)
Net sales	637,089	100.0%	420,692	100.0%	-216,397	-34.0%
Gross trading profit	47,692	7.5%	37,447	8.9%	-10,245	-21.5%
Operating income	13,232	2.1%	6,407	1.5%	-6,825	-51.6%
Ordinary income	10,895	1.7%	4,581	1.1%	-6,314	-58.0%
Net income before income taxes	8,479	1.3%	4,454	1.1%	-4,025	-47.5%
Net income	3,687	0.6%	1,746	0.4%	-1,941	-52.6%

### (1) Net Sales

- Net sales fell ¥216.4 billion (34.0%) year on year overall as net sales declined in all divisions, especially in the Iron & Steel, Machinery & Plant, and Energy divisions because of decreases in the trade volume in association with weak demand and falls in commodity prices.

(Million yen)

		Period ended September 2008	Period ended September 2009	Year on year	
				Change	Change (%)
IT		146,311	114,089	-32,222	-22.0%
Foods & Foodstuff		168,394	136,462	-31,932	-19.0%
	Iron & Steel	81,451	43,242	-38,209	-46.9%
	Machinery & Plant	50,915	27,610	-23,305	-45.8%
Iron & Steel/Machinery & Plant		132,367	70,852	-61,515	-46.5%
	Energy	154,589	80,145	-74,444	-48.2%
	Life Science	16,829	11,137	-5,692	-33.8%
Life Science & Energy		171,418	91,283	-80,135	-46.7%
Others		18,597	8,004	-10,593	-57.0%
Total		637,089	420,692	-216,397	-34.0%



## (2) Gross Trading Profit

- Gross trading profit fell ¥10.2 billion (21.5%) year on year, to ¥37.4 billion in association with the decline in net sales.

(Million yen)

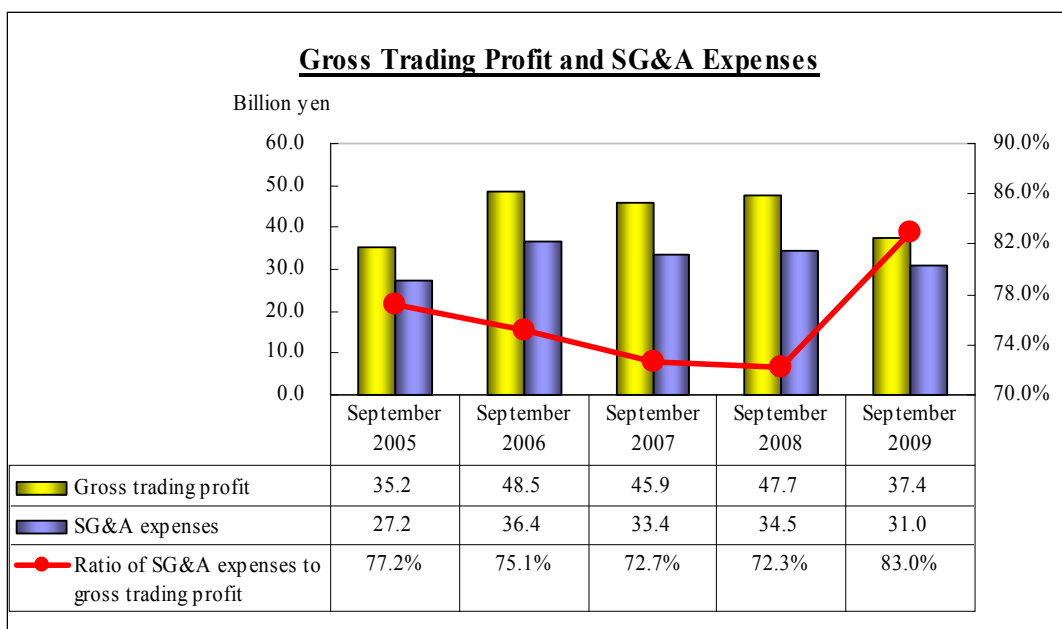
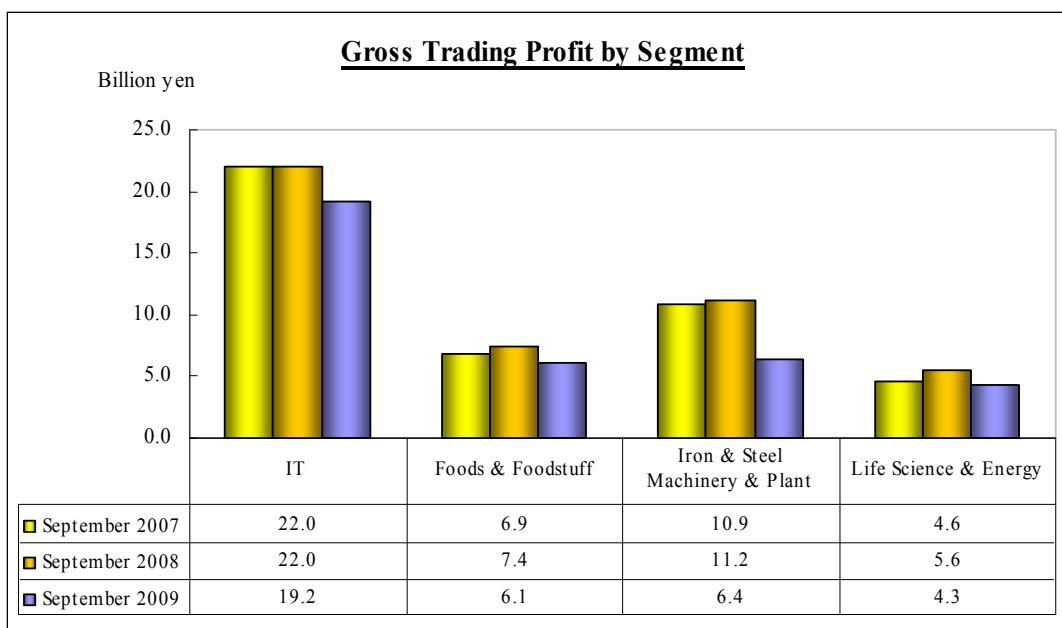
	Period ended September 2008		Period ended September 2009		Year on year	
	Results	Percentage of total	Results	Percentage of total	Change	Change (%)
IT	21,986	15.0%	19,219	16.9%	-2,767	-12.6%
Foods & Foodstuff	7,437	4.4%	6,090	4.5%	-1,347	-18.1%
Iron & Steel	5,821	7.1%	3,730	8.6%	-2,091	-35.9%
Machinery & Plant	5,332	10.5%	2,649	9.6%	-2,683	-50.3%
Iron & Steel/Machinery & Plant	11,153	8.4%	6,380	9.0%	-4,773	-42.8%
Energy	4,294	2.8%	3,157	3.9%	-1,137	-26.5%
Life Science	1,278	7.6%	1,150	10.3%	-128	-10.0%
Life Science & Energy	5,573	3.3%	4,308	4.7%	-1,265	-22.7%
Others	1,366	7.3%	1,450	18.1%	84	6.1%
Consolidated adjustment	174	-	-3	-	-177	-
Total	47,692	7.5%	37,447	8.9%	-10,245	-21.5%

## (3) Selling, General and Administrative Expenses

- Selling, general and administrative expenses declined ¥3.4 billion, reflecting curbs on expenses.

(Million yen)

	Period ended September 2008	Period ended September 2009	Year on year
Personal expenses	17,749	16,222	-1,527
Non-personal expenses	16,710	14,817	-1,893
SG&A expenses	34,459	31,039	-3,420
Ratio of SG&A expenses to gross trading profit	72.3%	82.9%	10.6%



#### (4) Operating Income

- Operating income fell in the IT Division, reflecting decreases in turnover in relation to vehicle-mounted equipment, semiconductors, and solutions, despite a relatively solid performance in the mobile business. Operating income decreased in the Foods & Foodstuff Division, reflecting unit price falls in feedstuff transactions and other factors, although a profit was recorded in the sale of low-priced items and in transactions of highly processed marine products. Operating income declined in the Iron & Steel Division, attributable to weak domestic demand for steel. Operating income was down in the Machinery & Plant Division, due mainly to a poor performance in the machine tool and transportation equipment businesses. Operating income also dipped in the Life Science & Energy Division, reflecting falls in the crude oil price and weak demand.
- Overall, operating income plunged ¥6.8 billion (51.6%) year on year.

(Million yen)

	Period ended September 2008		Period ended September 2009		Year on year	
	Results	Percentage of total	Results	Percentage of total	Change	Change (%)
IT	4,132	2.8%	2,581	2.3%	-1,551	-37.5%
Foods & Foodstuff	2,851	1.7%	1,594	1.2%	-1,257	-44.1%
Iron & Steel	3,471	4.3%	1,726	4.0%	-1,745	-50.3%
Machinery & Plant	961	1.9%	-527	-	-1,488	-
Iron & Steel/Machinery & Plant	4,432	3.3%	1,198	1.7%	-3,234	-73.0%
Energy	1,259	0.8%	332	0.4%	-927	-73.6%
Life Science	350	2.1%	193	1.7%	-157	-44.9%
Life Science & Energy	1,609	0.9%	525	0.6%	-1,084	-67.4%
Others	-179	-	281	3.5%	460	-
Consolidated adjustment	386	-	225	-	-161	-
Total	13,232	2.1%	6,407	1.5%	-6,825	-51.6%

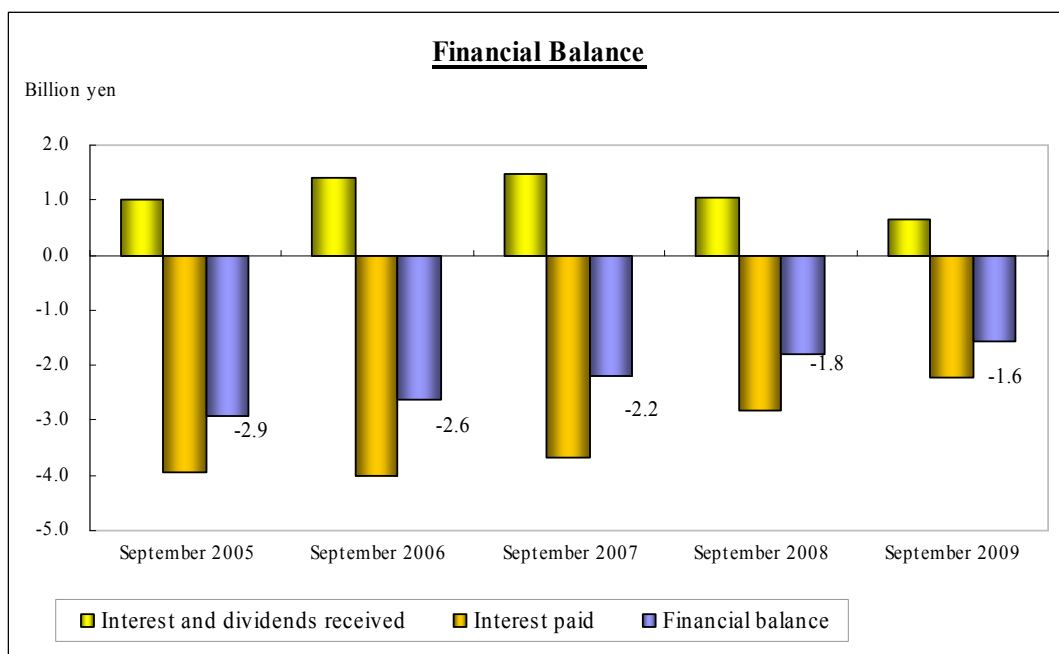
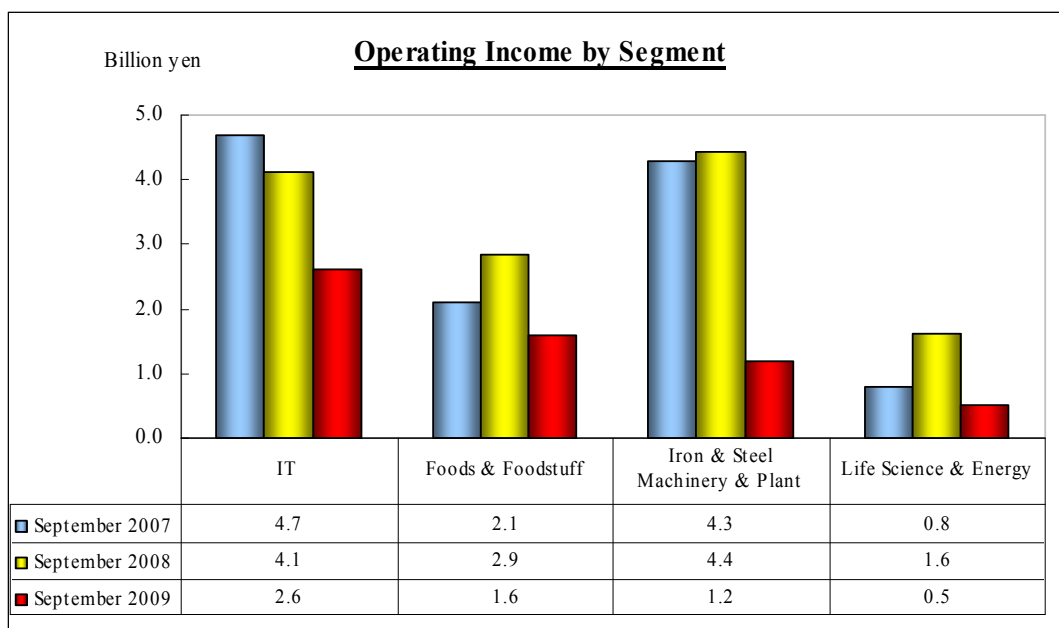
#### (5) Non-Operating Income & Loss

- The non-operating loss improved ¥0.5 billion from its level a year ago, reflecting the effects of a reduction in net interest paid due to a fall in interest-bearing debt and an improvement in foreign currency translation outcomes, despite a worsened loss on equity-method investment.

(Million yen)

		Period ended September 2008	Period ended September 2009	Year on year
	Dividends received	463	306	-157
	Interest received	563	355	-208
	Interest paid	-2,835	-2,221	614
Financial balance		-1,809	-1,560	249
Gain on equity-method investment		-412	-560	-148
Others		-117	294	411
Non-operating loss		-2,338	-1,826	512





**(6) Ordinary Income**

- Ordinary income decreased ¥6.3 billion (58.0%) year on year, to ¥4.6 billion.
- Core earnings declined ¥6.9 billion (61.7%) year on year, to ¥4.3 billion.
- Funds efficiency fell 4.7 percentage points year on year, to 4.6%.

(Million yen)

	Period ended September 2008	Period ended September 2009	Year on year
Ordinary income	10,895	4,581	-6,314
Ordinary income ratio	1.7%	1.1%	-0.6%
Core earnings (Notes 1)	11,250	4,307	-6,943
Funds efficiency (Note 2)	9.3%	4.6%	-4.7pt

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

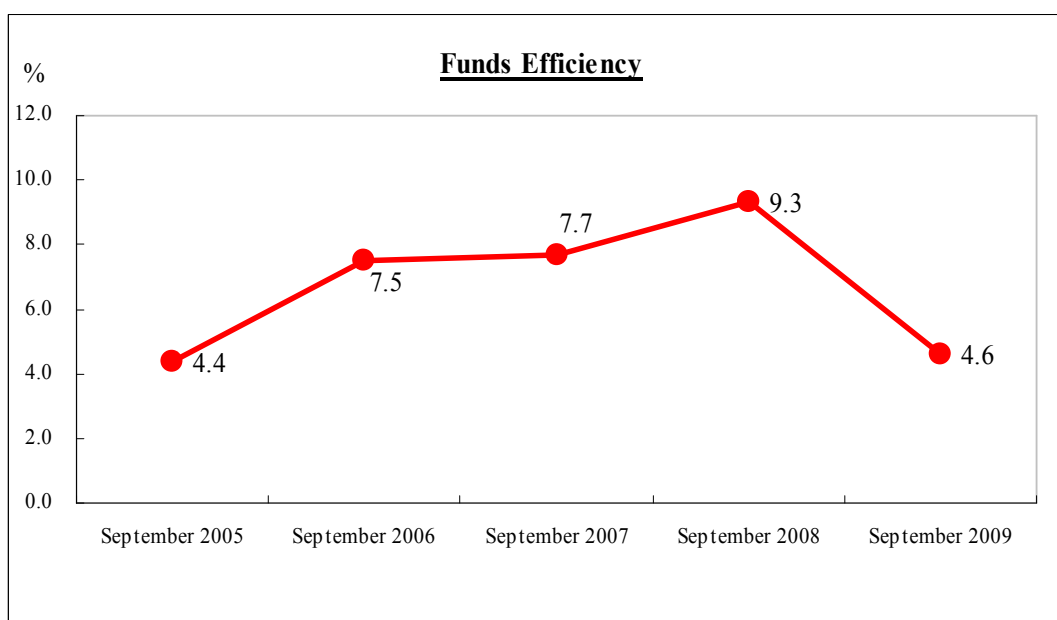
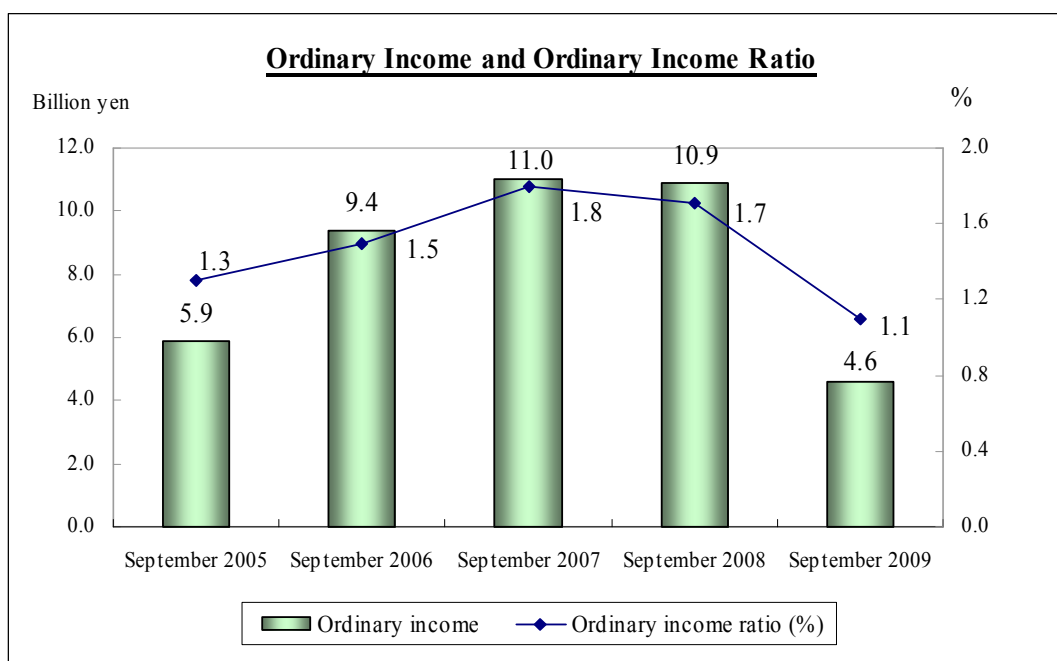
(Note 2) Funds efficiency = Ordinary income / (Net interest-bearing debt + Shareholders' equity)

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

- On a net basis, an extraordinary loss of ¥0.1 billion was posted. Tax expenses improved.
- Net income declined ¥1.9 billion (52.6%), to ¥1.7 billion.

(Million yen)

	Period ended September 2008	Period ended September 2009	Year on year
Gain on sale of tangible fixed assets	23	12	-11
Gain on sale of investment securities	721	28	-693
Gain on reversal of allowance for doubtful accounts	103	567	464
Extraordinary gain	848	608	-240
Loss on sale of tangible fixed assets	-56	-27	29
Impairment loss	-195	-87	108
Loss on sale of investment securities	-45	-18	27
Valuation loss on investment securities	-235	-40	195
Valuation loss on inventories	-558	-	558
Loss on valuation of assets for specific business	-478	-	478
Provision to loan-loss reserve regarding specific business	-1,674	-	1,674
Loss on litigation	-	-449	-449
Other extraordinary loss	-20	-111	-91
Extraordinary loss	-3,263	-735	2,528
Net extraordinary gain and loss	-2,415	-127	2,288
Income before income taxes	8,479	4,454	-4,025
Income taxes	-3,846	-1,968	1,878
Minority interests	-944	-739	205
Net income	3,687	1,746	-1,941



## 2. Consolidated Balance Sheets

Total assets decreased ¥12.2 billion from the end of the previous fiscal year, to ¥402.7 billion, primarily reflecting a decline in operating receivables.

Gross interest-bearing debt declined ¥5.3 billion, to ¥208.3 billion, attributable primarily to repayments of borrowings. Net interest-bearing debt, which is gross interest-bearing debt less cash and bank deposits, stood at ¥119.5 billion.

Net assets increased to ¥44.8 billion, reflecting the posting of net income, among other factors. As a result, the equity ratio and net debt-equity ratio improved to 6.8% and 4.4, respectively.

### (1) Assets

- Total assets declined from ¥414.9 billion to ¥402.7 billion, primarily reflecting a decrease in operating receivables caused by a fall in the trading volume.

(Million yen)

	3/2009		9/2009		Comparison with 3/2009 Change
		Breakdown		Breakdown	
Current assets	316,296	76.2%	306,752	76.2%	-9,544
Fixed assets	98,631	23.8%	95,933	23.8%	-2,698
Total assets	414,928		402,685		-12,243

### (2) Interest-bearing Debt

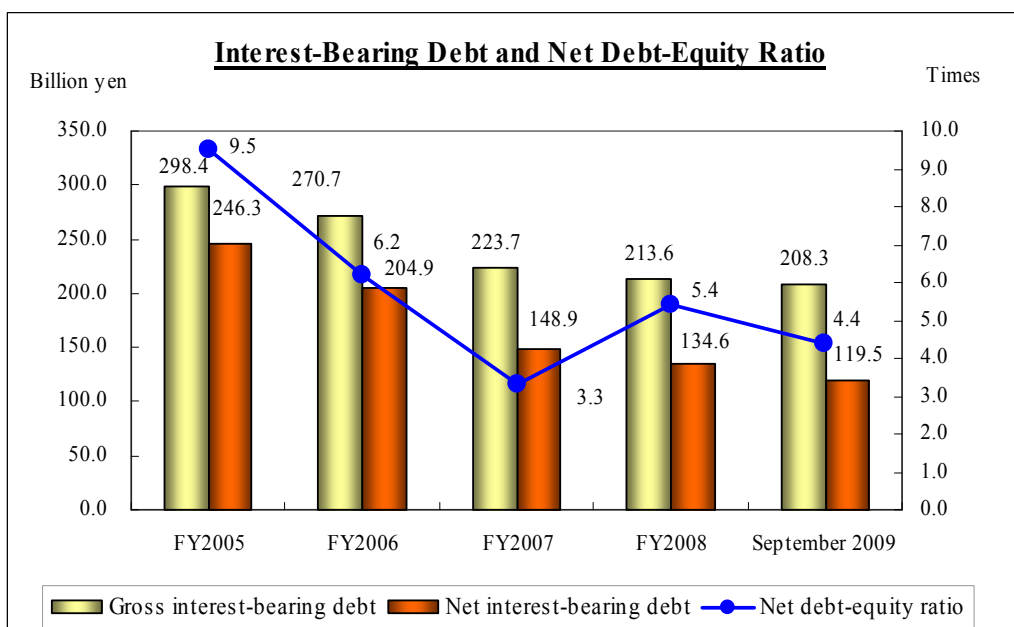
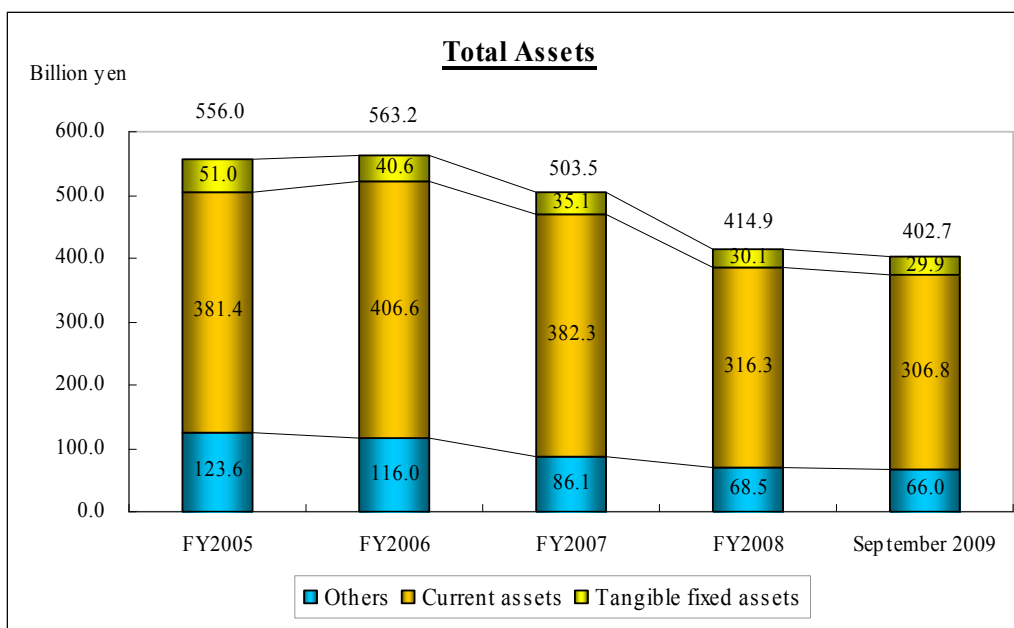
- Gross interest-bearing debt fell ¥5.3 billion from the end of the previous fiscal year, to ¥208.3 billion, as a result of repayments of seasonal funds at overseas offices. Net interest-bearing debt declined ¥15.1 billion, to ¥119.5 billion, partly due to an increase in cash and bank deposits.

(Million yen)

	3/2009		9/2009		Comparison with 3/2009	
		Composition		Composition	Change	Change (%)
Short-term borrowings	103,534	48.5%	117,931	56.6%	14,397	—
Long-term borrowings	110,073	51.5%	90,342	43.4%	-19,731	—
Gross interest-bearing debt	213,607		208,273		-5,334	-2.5%
Net interest-bearing debt (Note 1)	134,582		119,482		-15,100	-11.2%
Current assets	316,296		306,752		-9,544	-3.0%
Current liabilities	249,344		254,736		5,392	2.2%
Liquidity ratio (Note 2)	126.9%		120.4%		-6.4%	—

(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 ¥42.0 billion at the end of the previous year, to ¥44.8 billion as a result of the posting of net income and other factors.
- The equity ratio increased to 6.8%, and the net debt-equity ratio improved to 4.4.

(Million yen)

	3/2009	9/2009	Comparison with 3/2009	
			Change	Change (%)
Total assets	414,928	402,685	-12,243	-3.0%
Capital stock	27,781	27,781	-	-
Capital surplus	27,644	27,644	-	-
Retained earnings	-3,786	-2,041	1,745	-
Treasury stock	-632	-633	-1	-
Valuation and translation adjustment	-26,070	-25,542	528	-
Minority interests	17,099	17,640	541	3.2%
Net assets	42,035	44,846	2,811	6.7%
Equity capital	24,936	27,206	2,270	9.1%
Equity ratio (%)	6.0	6.8		
Net D/E ratio	5.4	4.4		

\* Exchange rate: 100.19 yen/US\$ as of March 31, 2009

90.21 yen/US\$ as of September 30, 2009

\* Equity capital = Net assets – Minority interests

\* Equity ratio = Equity capital / Total assets

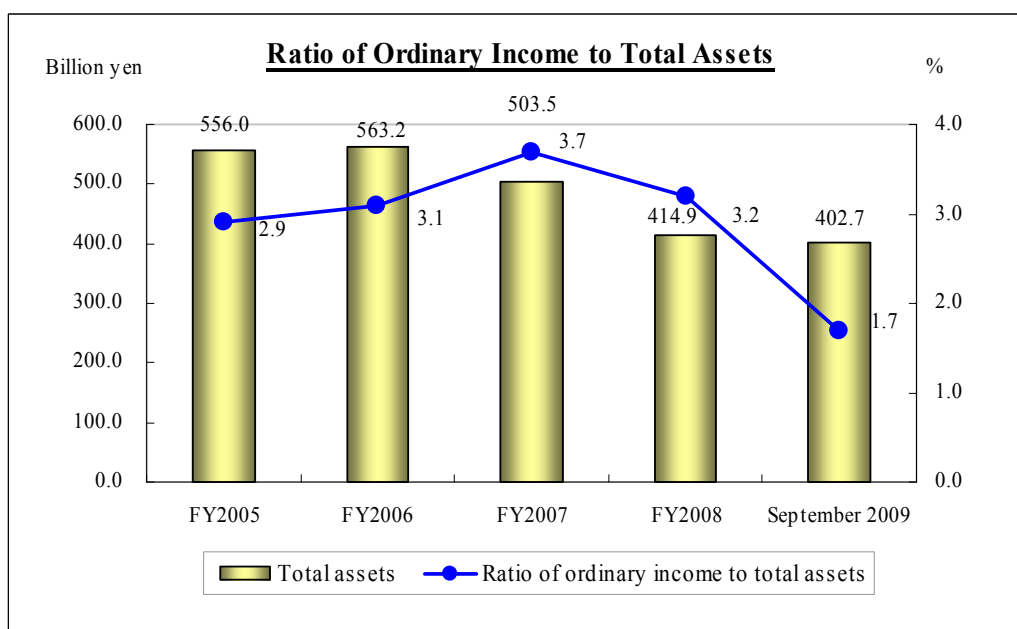
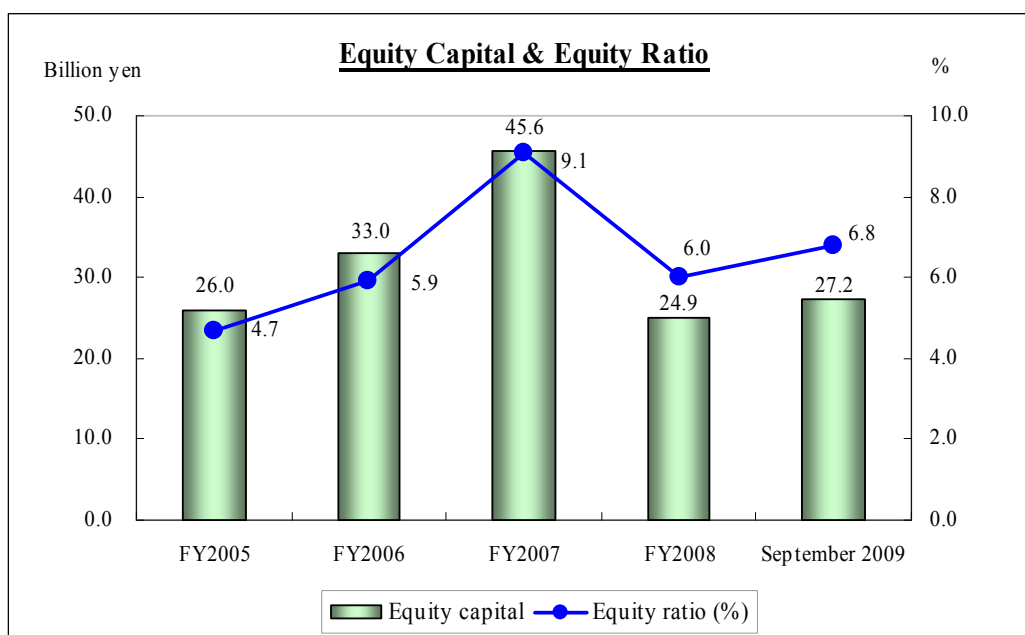
\* Net debt-equity ratio = Net interest-bearing debt / Equity capital

### 3. Consolidated Cash Flows

- Net cash provided by operating activities totaled ¥15.7 billion, reflecting collections of accounts receivable. Net cash used in investing activities amounted to ¥15.6 billion, attributable to an increase in time deposits and other factors. Net cash used in financing activities was ¥6.1 billion due to repayments of borrowings.

(Million yen)

	Period ended September 2008	Period ended September 2009	Year on year
Cash and cash equivalents at the beginning of the period	74,437	78,655	4,218
Cash flows from operating activities	-2,476	15,746	18,222
Cash flows from investing activities	1,363	-15,557	-16,920
Total free cash flows	-1,112	189	1,301
Cash flows from financing activities	-10,384	-6,091	4,293
Effect of exchange rate changes on cash and cash equivalents	-626	151	777
Net increase (decrease) in cash and cash equivalents due to changes in the scope of consolidated subsidiaries	692	0	-692
Cash and cash equivalents at the end of the period	63,006	72,903	9,897



\*Ordinary income for the period ended September 2009 is the sum of ordinary income for the first half under review and ordinary income for the second half of FY2008.

## 4. Subsidiaries and Affiliates, and their Employees

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

(Companies)

	Period ended September 2008					Period ended September 2009					Year on year
	Subsidiaries		Affiliates		Total	Subsidiaries		Affiliates		Total	
	Domestic	Overseas	Domestic	Overseas		Domestic	Overseas	Domestic	Overseas		
Number of profitable companies	38	29	8	12	87	21	17	5	10	53	-34
Ratio (%)	82.6%	65.9%	47.1%	63.2%	69.0%	45.7%	40.5%	31.3%	55.6%	43.4%	-25.6%
Number of non-profitable companies	8	15	9	7	39	25	25	11	8	69	30
Total	46	44	17	19	126	46	42	16	18	122	-4

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

(Billion yen)

	Period ended September 2008					Period ended September 2009					Year on year
	Subsidiaries		Affiliates		Total	Subsidiaries		Affiliates		Total	
	Domestic	Overseas	Domestic	Overseas		Domestic	Overseas	Domestic	Overseas		
Sum of profit posted by profitable companies	5.4	1.2	0.1	0.1	6.8	1.5	0.4	0.1	0.1	2.1	-4.7
Sum of loss posted by non-profitable companies	0.0	-1.0	-0.5	-0.1	-1.6	-0.6	-0.3	-0.6	-0.2	-1.7	-0.1
Total	5.4	0.2	-0.4	0.0	5.2	0.9	0.1	-0.5	-0.1	0.4	-4.8

(Note) Simple aggregation before consolidation adjustment

### (3) Number of Employees

(Persons)

	9/2008	9/2009	Year on year	
			Change	Change (%)
Parent company	914	912	-2	-0.2%
Consolidated subsidiaries	4,066	3,877	-189	-4.6%
Total	4,980	4,789	-191	-3.8%

(Note) The number of employees equals the size of the working staff (excluding transferees from the Group to outside companies and including transferees from outside companies to the Group).

### (4) Net Sales of Major Consolidated Subsidiaries

(Million yen)

Company name	Business	Ownership ratio	Net sales		
			Period ended September 2008	Period ended September 2009	Change (%)
Kanematsu Electronics Ltd.	ICT Solutions	58.27%	26,104	21,846	-16.3%
Kanematsu Communications Ltd.	Mobile communications	100.00%	48,073	47,146	-1.9%
Kanematsu Food Corp.	Food, dairy & seafood	100.00%	6,972	8,877	27.3%
Kanematsu Agri-Tech Corp.	Feed & dairy	100.00%	6,811	5,374	-21.1%
Kanematsu Trading Corp.	Domestic steel Steel materials	100.00%	49,457	21,146	-57.2%
Kanematsu KGK Corp.	Machine tools Industrial machinery	97.90%	31,059	15,276	-50.8%
Kanematsu Petroleum Corp.	Petroleum products Gas	100.00%	91,009	53,625	-41.1%
Kanematsu Chemicals Corp.	Functional chemicals	100.00%	11,521	8,165	-29.1%
Kanematsu USA Inc.	Overseas subsidiary	100.00%	68,763	42,714	-37.9%
Shintoa Corporation	Trading company	77.45%	75,421	60,188	-20.2%

(Note) Consolidated figures are used for all subsidiaries except Kanematsu Food Corp.



## **II. Earnings Forecast for FY2009 and Segment Summary**

## II. Earnings Forecast for FY2009 and Segment Summary

### - Consolidated Earnings Forecast for FY2009

- Net sales declined in all segments in the first half, reflecting a fall in the trading volume associated with weak demand and declining commodity prices, but exceeded the initial plan. The Group has not changed its initial forecast of net sales of ¥1,000 billion, operating income of ¥15.5 billion, ordinary income of ¥11.5 billion, and net income of ¥5.0 billion for the full year, considering it needs to carefully assess future trends.
- The financial position is improving steadily with the posting of net income. The Group expects that the net debt-equity ratio and the equity ratio will improve to around 3.8 and about 7.3% at the end of the fiscal year, respectively.

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

- We assume that the harsh external environment will continue and expect net sales to decline in all segments.
- We anticipate that gross trading profit will fall ¥6.8 billion year on year, to ¥79.5 billion, reflecting lower net sales.

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

- We expect operating income to drop ¥3.5 billion year on year, to ¥15.5 billion, and ordinary income to dip ¥1.6 billion year on year, to ¥11.5 billion.

#### (3) Net Income

- We are aiming for net income of ¥5 billion, the initial forecast, based on factors such as a elimination of temporary factors present in the previous fiscal year, such as extraordinary losses and the reversal of deferred tax assets.

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

- We aim to achieve net interest-bearing debt of ¥115 billion and equity capital of ¥30 billion at the end of the fiscal year.
- As a result, we expect the net debt-equity ratio to improve to around 3.8 and the equity ratio to rise to about 7.3%.

\* Equity capital = Net assets – Minority interests

◇ Consolidated Earnings Forecast for FY2009

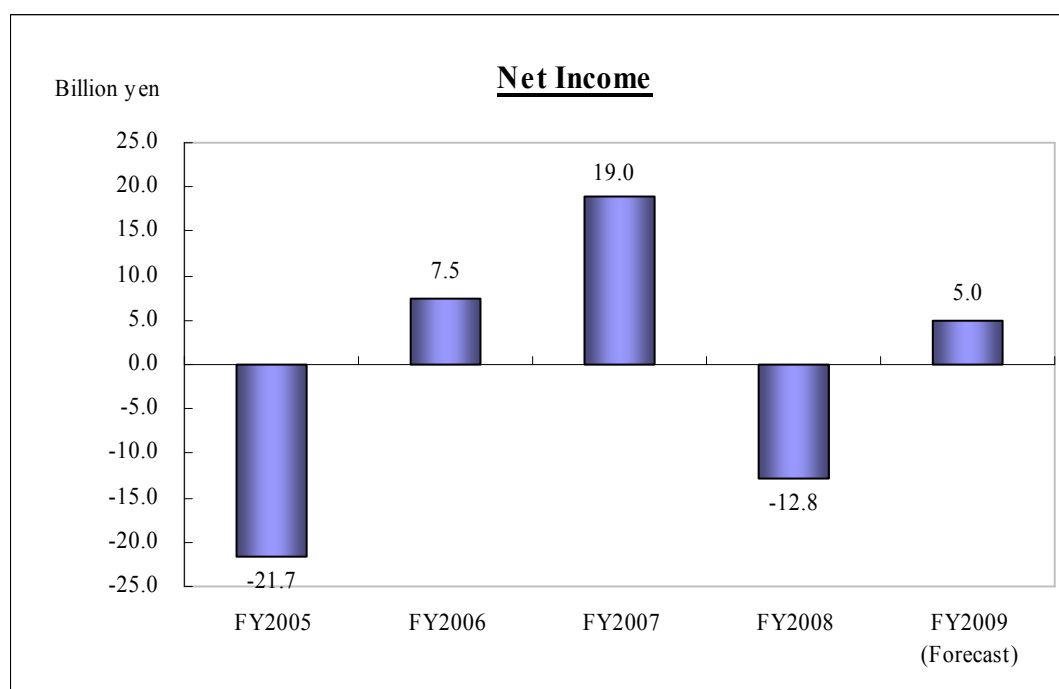
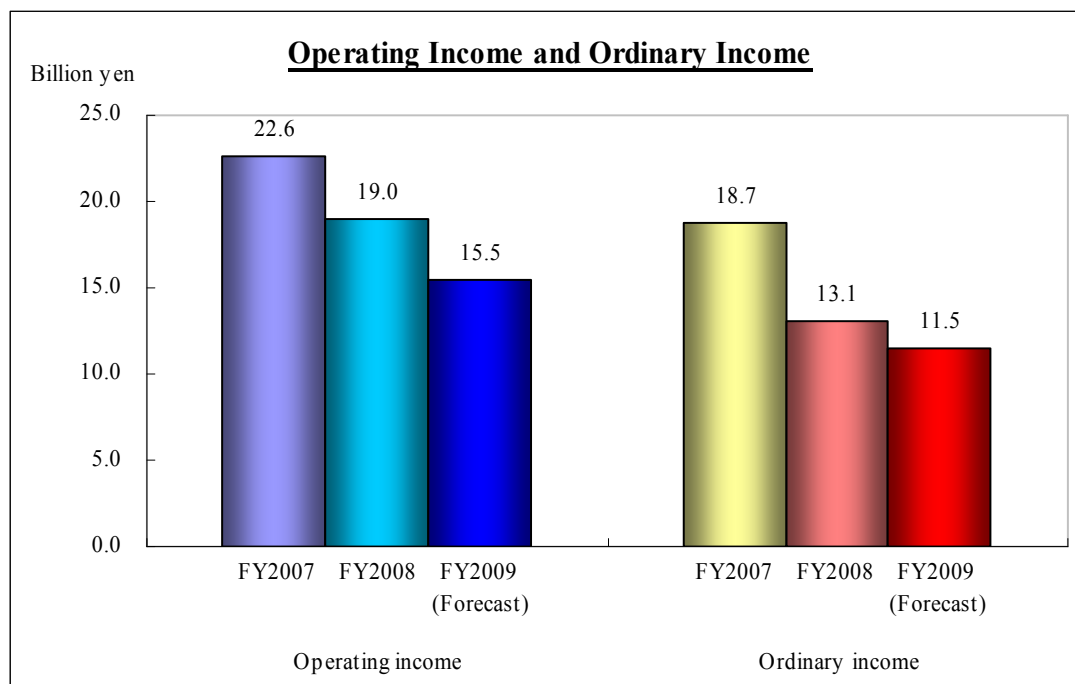
(Million yen)

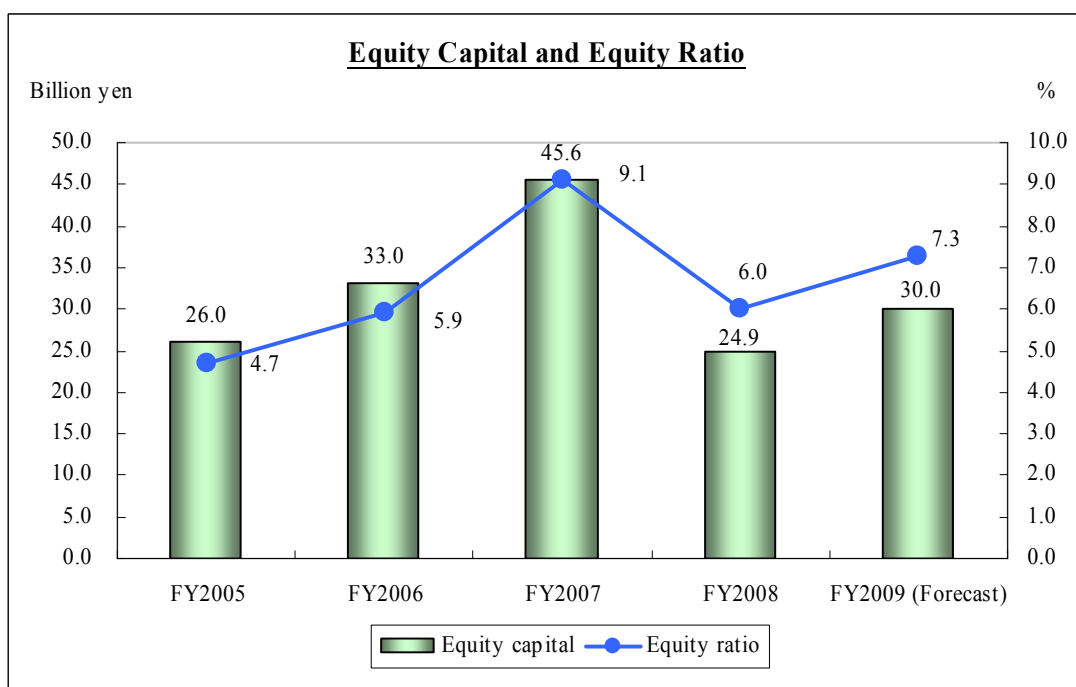
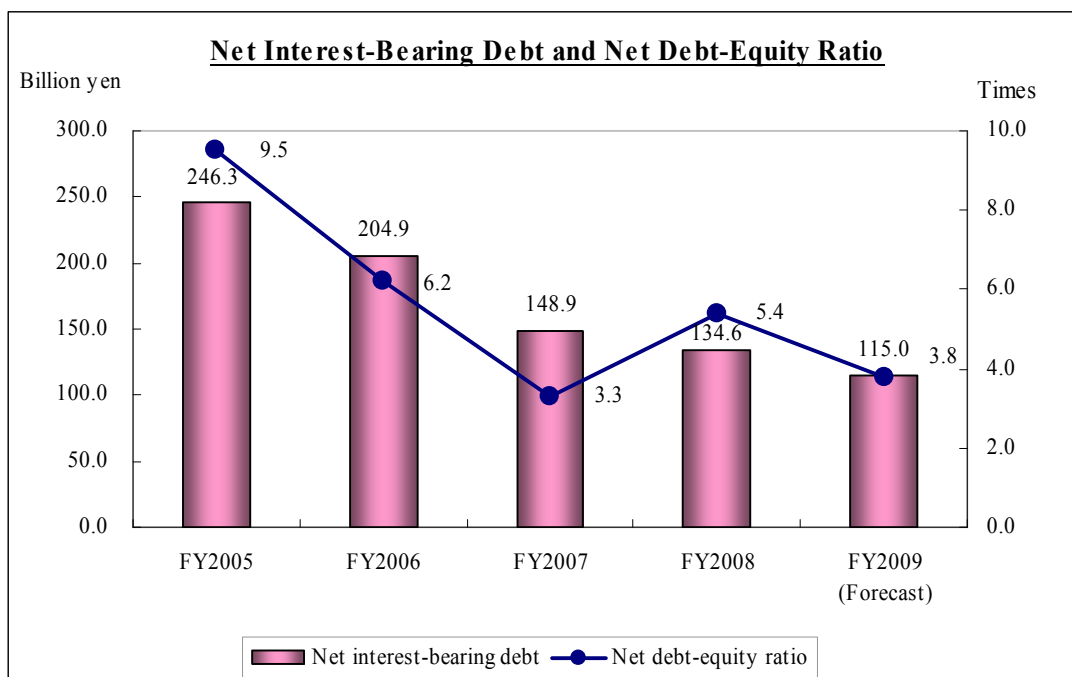
	FY2008 Results	FY2009 Forecast	Compared with FY2008
Net sales	1,138,755	1,000,000	-138,755
Gross trading profit	86,292	79,500	-6,792
Ratio	7.58%	7.95%	0.37%
Selling, general and administrative expenses	67,264	64,000	-3,264
Operating income	19,027	15,500	-3,527
Non-operating income & loss	-5,900	-4,000	1,900
Ordinary income	13,127	11,500	-1,627
Net extraordinary loss	-13,050	-1,000	12,050
Income (loss) before income taxes	77	10,500	10,423
Income taxes	-12,863	-5,500	7,363
Net income	-12,787	5,000	17,787
Total assets	414,928	410,000	-4,928
Gross interest-bearing debt	213,607	200,000	-13,607
Net interest-bearing debt	134,582	115,000	-19,582
Equity capital	24,936	30,000	5,064
Net D/E ratio (times)	5.4	3.8	Improved 1.6 P
Equity ratio (%)	6.0	7.3	Improved 1.3 P

◇ Forecast by Segment

(Billion yen)

	Net Sales		Gross Trading Profit		Operating Income	
	FY2009 Forecast	Year on year	FY2009 Forecast	Year on year	FY2009 Forecast	Year on year
IT	274.0	-2.7	40.5	-1.2	5.9	-1.0
Foods & Foodstuff	288.0	-33.7	12.6	-0.5	4.1	+0.2
Iron & Steel	108.0	-28.5	8.3	-2.4	3.6	-2.5
Machinery & Plant	76.0	-15.0	7.3	-1.6	0.2	-0.7
Iron & Steel/Machinery & Plant	184.0	-43.5	15.6	-4.0	3.8	-3.2
Energy	200.0	-55.1	6.1	-1.9	1.4	-0.2
Life Science	29.0	-0.7	2.5	+0.1	0.5	+0.0
Life Science & Energy	229.0	-55.8	8.6	-1.7	1.9	-0.2
Others, Consolidated Adjustment	25.0	-3.1	2.2	+0.6	-0.2	+0.7
Total	1,000.0	-138.8	79.5	-6.8	15.5	-3.5





## 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 development of mobile solutions 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 (FY2009 forecast)
Electronic Devices Business	Semiconductor/electronic parts, Electronic modules/materials, Semiconductor/LED	Devices Company ATE Solutions Dept	-	62
OEM/ODM Solutions	Vehicle-mounted parts, Printer equipment, Electronic modules	Industrial Electronics Dept. Information & Electronics Dept.	-	39
Mobile	Mobile communications terminals, Mobile content/mobile advertisement	IT Administration Office	Kanematsu Communications Ltd.	98
* ICT Solutions	System solutions, Communication equipment/parts	IT Administration Office Information & Electronics Dept.	Kanematsu Electronics Ltd. <i>Nippon Office Systems Ltd.</i>	50 (12)
Aerospace	Aircraft/aircraft parts	Aerospace Dept.	Kanematsu Aerospace Corp. Shintoa Corporation	25
Total				274

(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.

\* ICT: Information Communication Technology

### (2) Consolidated Earnings Forecast for FY2009

(Million yen)			
	FY2008 Results	FY2009 Forecast	Compared with FY2008
Net Sales	276,633	274,000	-2,633
Gross Trading Profit	41,672	40,500	-1,172
Ratio	15.1%	14.8%	Worsened 0.3 pt
Operating Income	6,920	5,900	-1,020
Ratio	2.5%	2.2%	Worsened 0.3 pt

### (3) Actions and Outlook for FY2009

#### ◆ Electronic Devices Business

- Both sales and profit declined in the first half, primarily reflecting the weakening semiconductor market. However, there are signs of a recovery. We aim to achieve the initial plan, backed by a recovery in demand for semiconductor equipment and parts in the second half.

#### ◆ OEM/ODM Solutions Business

- In the printer-related business, a recovery in North America, the principal market, is the key. We plan to horizontally apply new businesses in North America to Asia.
- In the area of vehicle-mounted parts, we aim to establish a new business through technical innovations with an emphasis on the environment and safety.
- In the battery control module manufacturing business, we seek an increase in trading volume associated with a recovery in demand.

#### ◆ Mobile Business

- The performance of the mobile communications terminals business was solid in the first half under review. We will focus on developing a corporate business and a mobile solutions business as new businesses.

#### ◆ ICT Solutions Business

- We aim to achieve the full-year plan, in particular with Kanematsu Electronics focusing on concluding agreements for existing projects at an early stage. Meanwhile, we will make preparations to respond strategically to emerging needs such as cloud computing.

#### ◆ Aerospace Business

- We aim to stabilize our earnings structure by developing the repair parts business.

### (4) Results for the First Half of FY2009

(Million yen)

	Results for the 1st half of FY2008	Results for the 1st half of FY2009	Year on year
Net Sales	146,311	114,089	-32,222
Gross Trading Profit	21,986	19,219	-2,767
Ratio	15.0%	16.8%	Improved 1.8 pt
Operating Income	4,132	2,581	-1,551

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

Net sales:

Electronic Devices: down ¥21.4 billion; OEM/ODM Solutions: down ¥8.2billion; ICT Solutions: down ¥3.6 billion; Aerospace: up ¥0.8 billion; Mobile: up ¥0.1 billion

Gross trading profit:

Electronic Devices: down ¥1.6 billion; OEM/ODM Solutions: down ¥0.8 billion; ICT Solutions: down ¥0.9 billion; Aerospace: down ¥0.2 billion; Mobile: up ¥0.7 billion

#### (2) Operating income

With declining demand for semiconductor parts and vehicle-mounted parts, operating income in the electronic devices, OEM/ODM solutions, and ICT solutions businesses plummeted although operating income in the mobile business was favorable.

#### (3) Overview

Sales plunged, reflecting weak demand for semiconductor parts and vehicle-mounted parts.

## 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 focusing on developing new 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)
- We aim to bolster efficiency and profitability in the entire Group by unifying distribution points to subsidiaries.

### (1) Main Business

(Billion yen)

Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2009 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	96
Meat and Marine Products	All meat, seafood	Meat & Marine Products Dept.	Kanematsu Food Corp. Shintoa Corporation	57
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. Shintoa Corporation	135
Total				288

### (2) Consolidated Earnings Forecast for FY2009

(Million yen)

	FY2008 Results	FY2009 Forecast	Compared with FY2008
Net Sales	321,612	288,000	-33,612
Gross Trading Profit	13,129	12,600	-529
Ratio	4.1%	4.4%	Improved 0.3 pt
Operating Income	3,923	4,100	177
Ratio	1.2%	1.4%	Improved 0.2 pt



### (3) Actions and Outlook for FY2009

#### ◆ Food Business

- Performance was favorable overall in the food business, reflecting steady demand for low-end products, despite the fall in sales due to weak consumption prices and the appreciation of the yen.
- Results have been solid in the business of supplying products, including prepared and cooked food and beverage materials, to home-meal replacement and restaurant business operators such as convenience store chains.
- We aim to explore new business opportunities and increase sales throughout the company by further reviewing the functions and roles of the group companies with measures such as partially changing commercial distribution.

#### ◆ Meat and Marine Products Business

- Sales of meat products declined year on year because of the sluggish market. However, income was almost on a par with the year-ago level, attributable to the expansion of sales of products that are recognized as original KG products in the market, especially strong sales of products for home-meal replacements and away-from-home meals.
- In transactions of marine products, a shift in our earnings structure from the sale of raw materials to the sale of products with high processing levels progressed steadily.
- Although we are facing a difficult environment, including a rising number of consumers of low-end products, we will increase sales steadily by developing products that will meet the needs of customers.

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

- Both sales and income declined in the feed and dairy products business, reflecting continuing challenges in the operating environment, such as low prices of feed associated with falling demand for meat products.
- Income in the grain oil business exceeded the year-ago level as sales of non-genetically modified soybeans for bean paste and soy sauce manufacturers and convenience store chains expanded steadily.
- We will take steps to build market share in fields and products where KG has strengths, while seeking to enhance efficiency in collaboration with Group companies, especially Kanematsu Agri-Tech Corp., which took over some of the businesses of Kanematsu Corporation in July.

### (4) Results for the First Half of FY2009

(Million yen)

	Results for the 1st half of FY2008	Results for the 1st half of FY2009	Year on year
Net Sales	168,394	136,462	-31,932
Gross Trading Profit	7,437	6,090	-1,347
Ratio	4.4%	4.5%	Improved 0.1 pt
Operating Income	2,851	1,594	-1,257

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

Net sales:

Food: down ¥4.7 billion; Meat and Marine Products: down ¥3.5 billion; Grain Oil/Feed and Dairy Products: down ¥23.7 billion

Gross trading profit:

Food: down ¥0.3 billion; Meat and Marine Products: unchanged; Grain Oil/Feed and Dairy Products: down ¥1.0 billion

#### (2) Operating income

Operating income declined ¥1.3 billion, primarily because of falling demand for end products in the weak economy following the so-called Lehman shock in the fall of 2008.

#### (3) Overview

- Sales plummeted from a year ago, reflecting weak demand and falls in commodity prices attributable to the economic slump.
- Sales were favorable overall in the food business, but income declined, attributable to weak sales of beverages due to unseasonable weather in the summer and the poor performance of the vending machine business.
- Sales of high-end foodstuffs were weak given increases in consumers of low-end products, sales of which were solid.
- Strong sales of meat products for home-meal replacements and away-from-home meals and growth in sales of products with high processing levels in the marine products business made a significant contribution to income in the meat and marine products business.

## 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 (FY2009 forecast)
Steel Trading	Surface-treated steel plates, seamless piping	Iron & Steel Foreign Trade Dept.	SSOT	25
Special Steel Trading	Stainless, special steel wire rods, long steel products	Special Iron & Steel Foreign Trade Dept.	—	11
Cast and Forged Steel Products	Precision forgings	Forging & Casting Dept.	—	6
Domestic Steel/Steel Materials	Steel products, iron ore, cokes	Machinery & Plant Administration Office	Kanematsu Trading Corp.	66
Total				108

### (2) Consolidated Earnings Forecast for FY2009

(Million yen)

	FY2008 Results	FY2009 Forecast	Compared with FY2008
Net Sales	135,377	108,000	-27,377
Gross Trading Profit	10,689	8,300	-2,389
Ratio	7.9%	7.7%	Worsened 0.2 pt
Operating Income	6,077	3,600	-2,477
Ratio	4.5%	3.3%	Worsened 1.2 pt

### (3) Actions and Outlook for FY2009

#### ◆ Exporting Business

- Steel exports to the Middle East were relatively solid.
- We struggled in the coil center business in China as the sales volume declined due to weak demand, and unit selling prices fell. We will continue to adjust inventory in the second half, watching market fluctuations.

#### ◆ Special Steel

- Sales of stainless steel for North America and Europe stalled on the effects of market declines after the so-called Lehman shock. Meanwhile, sales of nickel-saving stainless steel for China were relatively solid, partly due to pump priming measures in China. We expect to continue to struggle in the second half, given delays in the economic recovery in the United States and Europe.
- Shipments of alloy wires and bars were weak because of the adverse effects of the troubles experienced by the Big Three automakers in the United States, the end users of these products. We aim to achieve the plan by developing new projects for Asia.

#### ◆ Cast and Forged Steel Products

- Exports of automotive parts to Brazil were weak because of declining demand.
- We are facing challenges selling products to major auto manufacturers in the United States and Europe, an area where we normally excel, because of falls in auto sales triggered by the financial crisis in the United States. We plan to ship transmission components that will be developed and mass-produced in the second half.

#### ◆ Domestic Steel/Steel Materials

- The domestic steel business confronted weak domestic demand. We expect a recovery in the second half, with the prices of steel products bottoming out.
- 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 FY2009

(Million yen)

	Results for the 1st half of FY2008	Results for the 1st half of FY2009	Year on year
Net Sales	81,451	43,242	-38,209
Gross Trading Profit	5,821	3,730	-2,091
Ratio	7.1%	8.6%	Improved 1.5 pt
Operating Income	3,471	1,726	-1,745

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

Net sales:

Exporting: down ¥5.5 billion; Special Steel: down ¥4.3 billion; Cast and Forged Steel Products: down ¥1.4 billion; Domestic Steel/Steel Materials: down ¥27.0 billion

Gross trading profit:

Exporting: down ¥0.5 billion; Special Steel: down ¥0.4 billion; Cast and Forged Steel Products: down ¥0.2 billion; Domestic Steel/Steel Materials: down ¥1.0 billion

#### (2) Operating income

Operating income declined ¥1.7 billion overall, reflecting a plunge in Domestic Steel/Steel Materials.

#### (3) Overview

Although steel exports to the Middle East remained strong, overall operations faced difficulties attributable to weak demand for automobiles and construction machinery.

## Machinery & Plant

- We will increase income by finding new customers for our exports of petrochemical plant equipment to the Middle East, which we expect to expand steadily.
- We will focus on exports of automobile parts and marine equipment package deals in our mainstay transportation equipment business.
- We will continue to focus on winning new orders for geothermal generation projects in Asia and expanding income in the environmental and new energy businesses, both of which are growth areas, including the processing of silicon wafers for solar batteries.

### (1) Main Business

(Billion yen)				
Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2009 forecast)
Plants and Transportation Equipment	Various plants, automobiles, vessels, marine equipment, ODA	Projects & Plant Machinery Dept., Automotive & Construction Machinery Dept., Vessel Dept	—	31
Cable/Electric Power Projects	Telecommunications projects, optical fibers, electric power projects	Cable & Power Projections Dept.	—	4
Machine Tools and Industrial Machinery	Machine tools, industrial machinery	Machinery & Plant Administration Office	Kanematsu KGK Corp.	41
			Total	76

### (2) Consolidated Earnings Forecast for FY2009

(Million yen)			
	FY2008 Results	FY2009 Forecast	Compared with FY2008
Net Sales	90,965	76,000	-14,965
Gross Trading Profit	8,894	7,300	-1,594
Ratio	9.8%	9.6%	Worsened 0.2 pt
Operating Income	917	200	-717
Ratio	1.0%	0.3%	Worsened 0.7 pt

### (3) Actions and Outlook for FY2009

#### ◆ Plant and Transportation Equipment

- In the transportation equipment business, we struggled both in automobile and ship transactions, a reflection of weak market conditions. We aim to generate income in exports of automobile parts to China, which are performing well against the background of a recovery in demand for automobiles in China.
- Exports of petrochemical and energy plant equipment for the Middle East are doing well. We plan to offset the reduced income in the transportation equipment business by continuing to develop new customers and expand earnings.

#### ◆ Cable/Electric Power Projects

- We plan to win new orders for geothermal generation projects, one of our specialty fields, in Asia.
- Cable exports are weak, reflecting economic stagnation and a strong yen. We aim to expand the trading volume, especially that of higher-capacity lines where we have a technical edge, for Asia, the Middle East, and Russia. Meanwhile, we will focus on developing new markets in Africa and Oceania.

#### ◆ Machine Tools and Industrial Machinery

- Orders are likely to remain elusive. We aim to generate income in the industrial machinery field where we maintain relatively strong results, while maintaining and expanding existing commercial rights.
- We will continue to focus on expanding income in the silicon wafer processing business for solar batteries undertaken by KGK Soltech, which we established in the previous fiscal year.

### (4) Results for the First Half of FY2009

(Million yen)

	Results for the 1st half of FY2008	Results for the 1st half of FY2009	Year on year
Net Sales	50,915	27,610	-23,305
Gross Trading Profit	5,332	2,649	-2,683
Ratio	10.5%	9.6%	Worsened 0.9 pt
Operating Income	961	-527	-1,488

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

Net sales:

Plant and Transportation Equipment: down ¥6.4 billion; Cable/Electric Power Projects: down ¥0.9 billion; Machine Tools and Industrial Machinery: down ¥16.0 billion

Gross trading profit:

Plant and Transportation Equipment: down ¥0.5 billion; Cable/Electric Power Projects: down ¥0.1 billion; Machine Tools and Industrial Machinery: down ¥2.1 billion

#### (2) Operating income

Operating income fell ¥1.5 billion overall, primarily reflecting falls in sales and the trading volume in the machine tools business in association with curbs on corporate capital expenditure.

#### (3) Overview

Sales declined in all businesses, given weak demand and the effects of exchange rates. An operating loss of ¥0.5 billion was posted, with a reduction in costs more than offset by a decrease in gross trading profit associated with a fall in sales.

## 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 with growing concerns for global environmental issues in the background, we will undertake projects to develop new energy.
- 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 (FY2009 forecast)
Crude Oil, Petroleum Products and Gas	Crude oil, petroleum products, LPG	Energy Dept.	Kanematsu Petroleum Corp.	200

### (2) Consolidated Earnings Forecast for FY2009

(Million yen)

	FY2008 Results	FY2009 Forecast	Compared with FY2008
Net Sales	254,993	200,000	-54,993
Gross Trading Profit	7,951	6,100	-1,851
Ratio	3.1%	3.1%	Unchanged
Operating Income	1,562	1,400	-162
Ratio	0.6%	0.7%	Improved 0.1 pt

### (3) Actions and Outlook for FY2009

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

- Prices of petroleum products declined in the first half, attributable to a decrease in the trading volume, which in turn was associated with falling demand caused by economic stagnation and the decline in global oil prices from a year ago. As a result, both sales and income fell year on year. We expect the instability to continue in the third quarter and beyond.
- Kanematsu Petroleum Corporation will seek to achieve reasonable profits by linking retail prices of gasoline to its wholesale prices, and aims to bolster profitability by consolidating and eliminating 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.
- In the new energy development business, a bio-gas project in Hokkaido started operation, based on a bio-gas joint venture. We aim to expand this business 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 FY2009

(Million yen)

	Results for the 1st half of FY2008	Results for the 1st half of FY2009	Year on year
Net Sales	154,589	80,145	-74,444
Gross Trading Profit	4,294	3,157	-1,137
Ratio	2.8%	3.9%	Improved 1.1 pt
Operating Income	1,259	332	-927

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

##### Net sales:

Net sales declined, reflecting a fall in the trading volume and soft market conditions due to weak demand.

##### Gross trading profit:

Gross trading profit fell because of a decrease in the trading volume and declines in prices of petroleum products.

#### (2) Operating income

Operating income slipped as a result of a decrease in the trading volume and falls in prices of petroleum products.

#### (3) Overview

Both sales and income dropped, attributable to lower prices in the first half compared with a year ago and a decrease in the trading volume.

## 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 and other 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.

### (1) Main Business

(Billion yen)				
Business	Main Products	Department in Charge	Major Consolidated Subsidiaries	Consolidated net sales (FY2009 forecast)
Functional Chemicals	Battery materials, fertilizer materials, adhesive materials, solvents	Functional Chemicals Dept.	Kanematsu Chemical Corp.	24.7
Pharmaceuticals, Healthcare	Pharmaceuticals, pharmaceutical intermediates, functional food materials, stollen milk, nutritional supplements	Life Science Dept.	Kanematsu Wellness Corp.	4.3
Total				29.0

### (2) Consolidated Earnings Forecast for FY2009

(Million yen)			
	FY2008 Results	FY2009 Forecast	Compared with FY2008
Net Sales	29,738	29,000	-738
Gross Trading Profit	2,392	2,500	108
Ratio	8.0%	8.6%	Improved 0.6 pt
Operating Income	525	500	-25
Ratio	1.8%	1.7%	Worsened 0.1 pt



### (3) Actions and Outlook for FY2009

#### ◆ Functional Chemicals

- Sales plunged year on year, given falls in unit prices of chemicals in association with declining crude oil prices.
- We aim to increase income in the solar battery business by boosting the volume of existing types of transactions and by expanding our operations horizontally through the handling of related products and the development of new markets.
- Raw materials of lithium batteries sold well. We aim to expand transactions further, including exports to China.
- With respect to products for the environment, we struggled in the heat shield paint business because of the worsening economic conditions. However, since many customers have shown interest in heat shield paint, we will focus on expanding sales of this product in the second half.

#### ◆ Pharmaceutical/Healthcare Business

- Sales declined, reflecting weak exports of bulk powder due to the expansion of generic drugs overseas.
- We aim to expand imports and domestic transactions of generic products and to increase bulk exports of pharmaceuticals to the Middle East and Southeast Asia.
- In the healthcare business, we will focus on expanding sales of creatine,  $\alpha$  lipoic acid, and other products and developing new business resources.

### (4) Results for the First Half of FY2009

(Million yen)

	Results for the 1st half of FY2008	Results for the 1st half of FY2009	Year on year
Net Sales	16,829	11,137	-5,692
Gross Trading Profit	1,278	1,150	-128
Ratio	7.6%	10.3%	Improved 2.7 pt
Operating Income	350	193	-157

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

Net sales:

Functional Chemicals: down ¥4.3 billion; Pharmaceutical/Healthcare: down ¥1.2 billion

Gross trading profit:

Functional Chemicals: down ¥0.1 billion; Pharmaceutical/Healthcare: almost unchanged

#### (2) Operating income

Operating income declined in both the Pharmaceutical/Healthcare Business and the Functional Chemicals Business.

#### (3) Overview

Net sales plunged, reflecting declining prices of chemicals due to falls in the crude oil price.

## (Reference) Outline of Kanematsu Group

### Main Business

#### Electronic Devices

#### OEM/ODM Solutions

#### Mobile

#### ICT Solutions

#### Aerospace

### IT Division

### Major Group Companies

Kanematsu Electronics Ltd.

Kanematsu Communications Ltd.

Nippon Office Systems Ltd.

Kanematsu Aerospace Corp.

Shintoa Corporation

#### Foods

#### Meat and Marine Products

#### Grain Oil/Feed and Dairy Products

### Foods & Foodstuff Division

Kanematsu Food Corp.

Kanematsu Agri-Tech Corp.

Nippon Liquor Ltd.

#### Steel Trading

#### Special steel Trading

#### Cast and Forged Steel Products

#### Domestic Steel/Steel Materials

#### Plants and Transportation Equipment

#### Cable/Electric Power Projects

#### Machine Tools and Industrial Machinery

### Iron & Steel Machinery & Plant Division

Kanematsu Trading Corp.

SSOT

Kanematsu KGK Corp.

#### Crude Oil/Petroleum Products/ Gas

#### Functional Chemicals

#### Healthcare

#### Pharmaceuticals

### Life Science & Energy Division

Kanematsu Petroleum Corp.

Kanematsu Chemicals Corp.

Kanematsu Wellness Corp.

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.

Original numerical targets for the final year (fiscal year ending March 31, 2010) became difficult to achieve in light of results for the fiscal year ended March 31, 2009 and economic conditions. However, we will keep its basic policies, qualitative targets and the like unchanged, and continue its efforts to pursue them.

We will continue to aim to resume dividend payments. However, we will focus above all on achieving a capital recovery by bolstering its earnings capacity as a pressing issue.

### ■ 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

### ■ 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

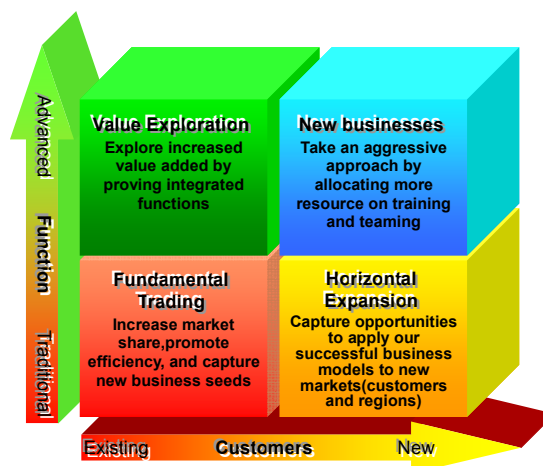
Businesses in this category aim at the further creation of added value by providing not only trading functions but also R&D consulting and OEM/ODM solutions (Integrated functions): this is an effective Kanematsu business model developed through the previous medium-term business plan. (Examples: Global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



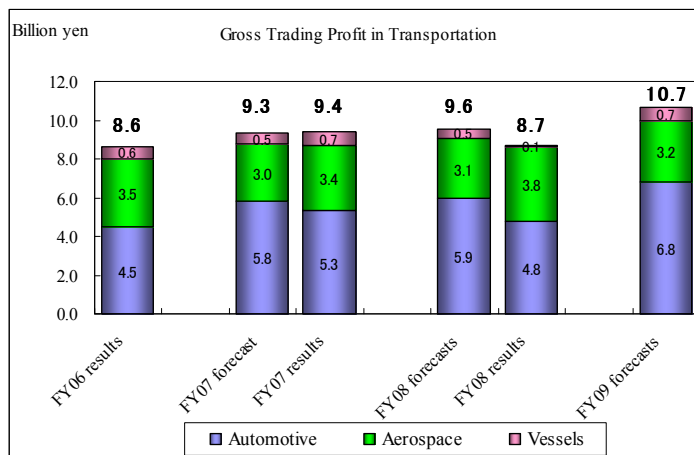
## Growth Drivers

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.

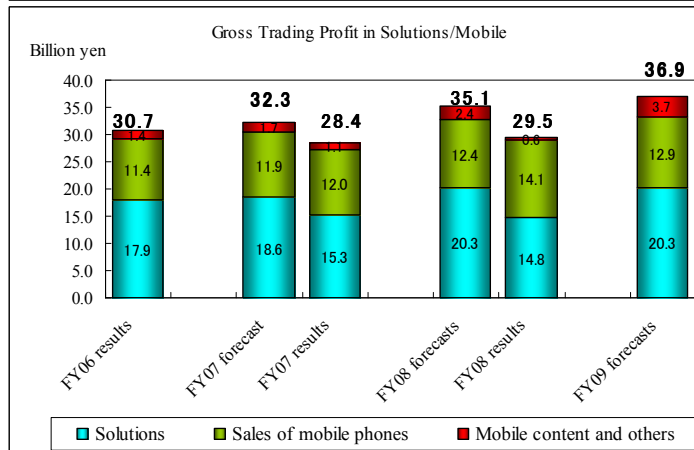
- Enhance the global sourcing function and the R&D support function.
- Expand sales to Europe, BRICs and Asian markets
- Expand the aircraft rotatable parts business with airlines



### 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.

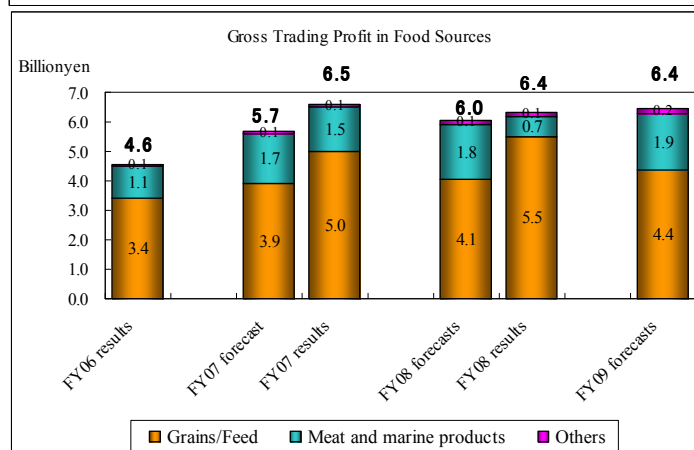
- Maximize synergy through the Group and organizational reforms.
- Aggressively promote M&A and business alliances
- Establish new businesses in the field of mobile services



### 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.

## “teamKG120” Progress in the second fiscal year

### ◆ 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

(1) 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.

#### (2) Full-scale sales of insulating paints overseas

We established a full presence in the insulating paint business in December 2008 through an equity investment in Miracool Co., Ltd., an insulating paint sales company, jointly with Shiroki Co., Ltd. and NIPPO Corporation. The company aims to promote environmentally friendly products by launching overseas sales in earnest.

- ◆ Numerical targets for the final year of the teamKG120 plan (fiscal year ending March 31, 2010) stated in the following table became difficult to achieve in light of results for the fiscal year ended March 31, 2009 and economic conditions. We will vigorously push its operations forward in the final year, with forecasts announced on May 8, 2009 as its revised targets.

(Million yen)

	FY2006 Results	Medium-Term Business Plan “teamKG120”					
		FY2007		FY2008		FY2009	
		Initial projection	Results	Initial projection	Results	Initial projection	Current Projection
Net Sales	1,281,331	1,300,000	1,244,020	1,350,000	1,138,755	1,400,000	1,000,000
Gross Trading Profit	103,711	100,000	90,327	105,000	86,292	110,000	79,500
Ratio	8.1%	7.7%	7.3%	7.8%	7.6%	7.9%	8.0%
Operating Income	21,713	23,500	22,605	27,000	19,027	30,000	15,500
Ratio	1.7%	1.8%	1.8%	2.0%	1.7%	2.1%	1.6%
Ordinary Income	17,255	19,000	18,747	22,000	13,127	25,000	11,500
Ratio	1.3%	1.5%	1.5%	1.6%	1.2%	1.8%	1.2%
Net Income	7,507	8,000	19,016	10,000	-12,787	12,500	5,000

(Million yen)

	FY2006 Results	Medium-Term Business Plan “teamKG120”					
		FY2007		FY2008		FY2009	
		Initial projection	Results	Initial projection	Results	Initial projection	Current Projection
Total Assets	563,176	550,000	503,456	550,000	414,928	550,000	410,000
Shareholders' Equity	32,960	40,000	45,588	50,000	24,936	62,500	30,000
Equity Ratio	5.9%	7.3%	9.1%	9.1%	6.0%	11.4%	7.3%
Gross Interest-Bearing Debt	270,678	230,000	223,702	220,000	213,607	200,000	200,000
Gross D/E Ratio (Times)	8.2	5.8	4.9	4.4	8.6	3.2	6.7
Net Interest-Bearing Debt	204,900	180,000	148,944	170,000	134,582	160,000	115,000
Net D/E Ratio (Times)	6.2	4.5	3.3	3.4	5.4	2.6	3.8
Fund Efficiency	7.3%	8.6%	9.6%	10.0%	8.2%	11.2%	7.9%
ROA (Ordinary Income)	3.1%	3.5%	3.7%	4.0%	3.2%	4.5%	2.8%
ROE (Ordinary Income)	52.4%	47.5%	41.1%	44.0%	52.6%	40.0%	38.3%

***(MEMO)***