Overview of Results for FY2003

June 1, 2004

兼松株式会社

KANEMATSU CORPORATION

Contents

Highlights of Operating Results for FY2003

- **Net income was ¥3.2 billion, representing a substantial 45% year-on-year increase**
  - Net sales stayed at around the year-earlier level when the effects of the previous term's business reorganization and liquidation of subsidiaries are excluded. The gross trading profit ratio was 7.6%, remaining at a high level.
  - Ordinary income remained at the ¥10 billion level, buoyed by cuts in SG&A expenses and an improvement in the financial balance resulting from the reduction of interest-bearing debt.
  - Extraordinary gains and losses underwent a substantial improvement, as the bringing-forward of some disposals to deal with the impairment of real estate was more than offset by the sale of shares amid the robust performance of the stock markets. In consequence, net income rose by approximately ¥1 billion year-on-year, or 45%.

- **Strong improvement in shareholders' equity**
  - As a result of the conversion of corporate bonds with non-detachable warrants issued in February 2003, shareholders' equity underwent a substantial improvement, doubling to ¥23.3 billion. Both the equity ratio and the D/E ratio improved strongly. In the current term, we plan to issue unsecured corporate bonds with non-detachable warrants in the amount of ¥10 billion through a securities company as the sole underwriter, with the aim of further strengthening shareholders' equity.
  - The accumulated deficit was eliminated in the previous term, and the additional accumulation of undistributed profit led to the posting of retained earnings of ¥3.5 billion.

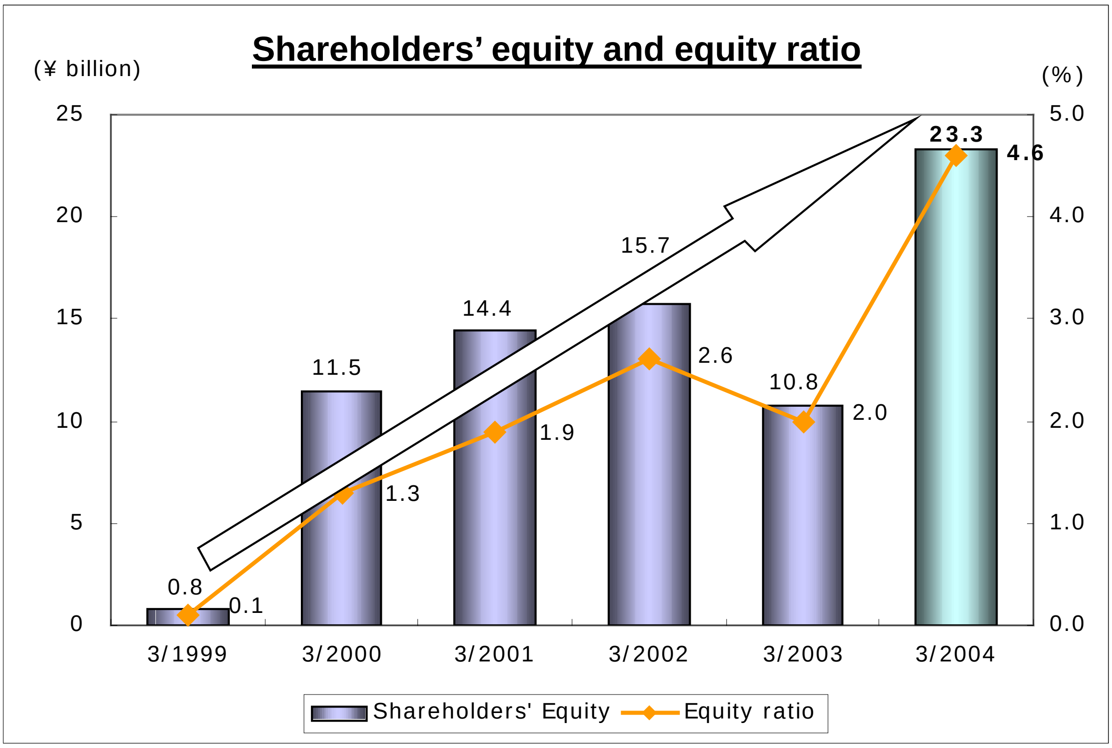
- **Net interest-bearing debt reduced steadily and on target**
  - Net interest-bearing debt cleared its target of ¥300 billion, falling by ¥32 billion from the previous year, to ¥287.2 billion.
  - With the cooperation of financial institutions, the refinancing of long-term borrowings was brought forward, resulting in a large increase in financial stability, reflected in a ratio of long-term borrowings of 62%, and a liquidity ratio of 110%.

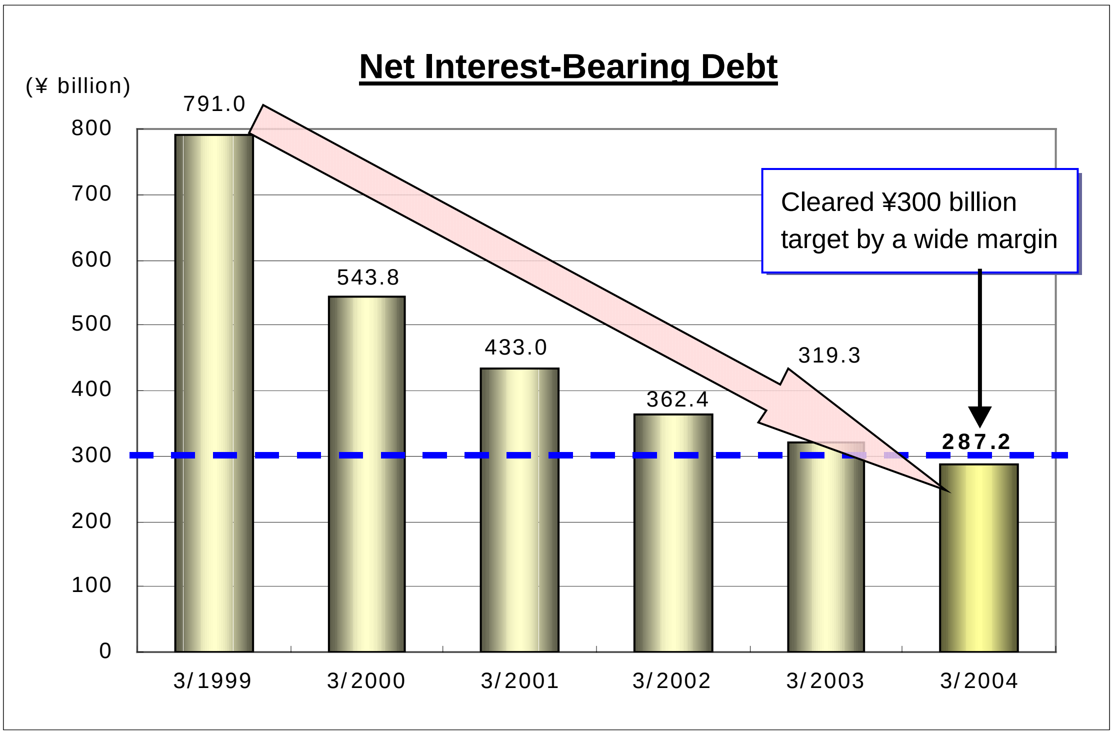
- **"New KG200" medium-term business plan announced, aiming to increase profits by enhancing marketing strength**
  - The enhancement of marketing strength is the main priority, others being to establish a very solid financial position and undertake Group management reforms.
  - Implementation of measures such as allocation of personnel to priority businesses and strategic regions, and the setting aside of a special fund of ¥30 billion for use in new transactions.
  - Promotion of cross-departmental collaboration and the arrangement of new businesses and projects.

(On a consolidated basis) (¥ million)

	FY2003	FY2002	Change
Net sales	818,473	838,975	(20,502)
Gross trading profit	62,208	67,207	(4,999)
Operating income	13,554	15,716	(2,162)
Ordinary income	10,706	12,073	(1,367)
Net income	3,247	2,233	1,014

	FY2003	FY2002	Change
Net interest-bearing debt	287,245	319,284	(32,039)
Shareholders' equity	23,283	10,762	12,521
Retained earnings	3,505	331	3,174
Equity ratio	4.6%	2.0%	2.5%
Net debt-equity ratio	12.3	29.7	(17.3)





KANEMATSU CORPORATION

(MEMO)

I. Overview of Results for FY2003

1. Consolidated Financial Results: Earnings

Sales declined as a result of the reorganization of the energy business and liquidation of certain consolidated subsidiaries in the previous term, but steady progress was made in the pursuit of the high-value-added business included in the Company's business model, thereby maintaining the gross trading profit ratio at the high level of 7.6%. The cuts in SG&A expenses and reduction of interest-bearing debt undertaken since the structural reform continued to bring about a steady improvement in expenditure in the term under review, with the result that the fall in trading gross profit was offset, and the Company secured a stable level of ordinary income at ¥10.7 billion. Boosted by a narrowing of the margin of extraordinary loss as a result of factors such as the recovery in stock prices, the Company achieved net income of ¥3.2 billion, up by 45% year-on-year.

(¥ million)

	FY2003		FY2002		Comparison with FY2002	
		Percentage of net sales		Percentage of net sales	Change	Change (%)
Net sales	818,473	100.00%	838,975	100.00%	(20,502)	(2.44%)
Gross trading profit	62,208	7.60%	67,207	8.01%	(4,999)	(7.44%)
Operating income	13,554	1.66%	15,716	1.87%	(2,162)	(13.76%)
Ordinary income	10,706	1.31%	12,073	1.44%	(1,367)	(11.32%)
Income before income taxes	5,057	0.62%	4,995	0.60%	62	1.24%
Net income	3,247	0.40%	2,233	0.27%	1,014	45.41%

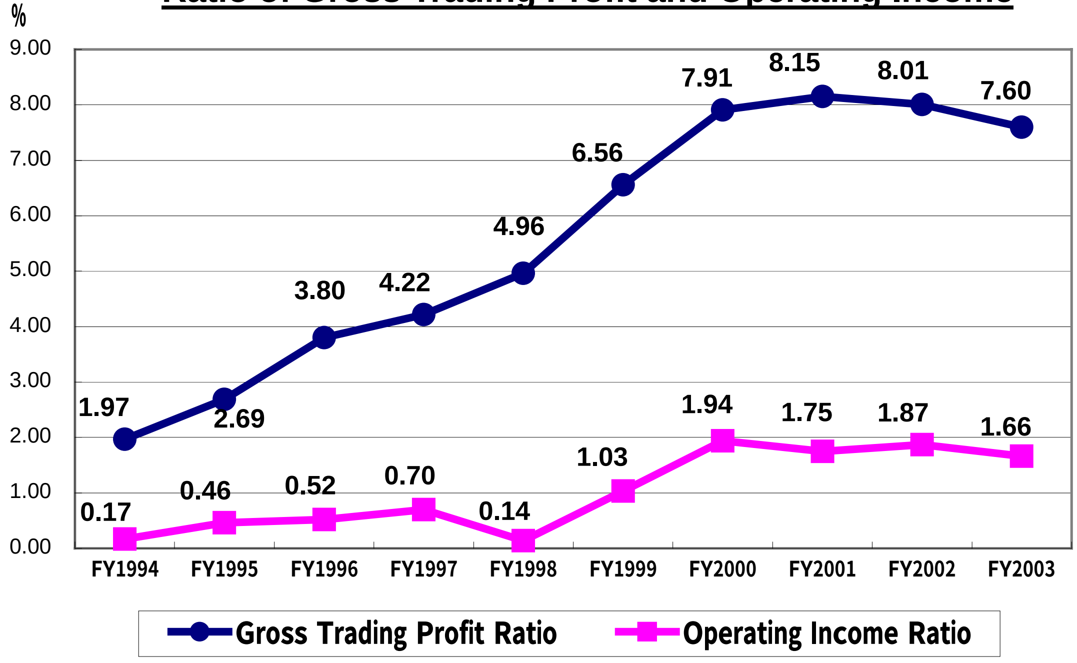
(1) Net Sales

- Sales were effectively flat excluding the ¥19.4 billion impact of reorganization of the energy business and liquidation of certain consolidated subsidiaries in the industrial plant and textiles businesses. The decline in sales resulting from structural reforms ended in the term under review. The iron and steel business improved sales substantially, supported by a strong operating environment.

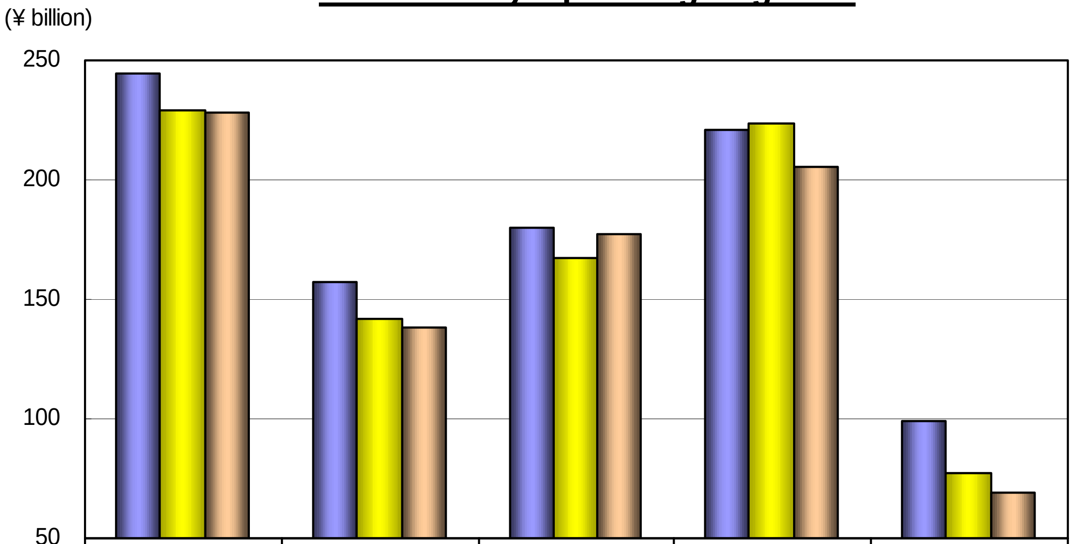
(¥ million)

	FY2003	FY2002	Change
IT	227,922	229,505	(1,583)
Foodstuffs	138,431	141,434	(3,003)
Iron & Steel	97,997	84,194	13,803
Industrial Plants	79,091	82,836	(3,745)
Iron, Steel & Industrial Plants	177,088	167,030	10,058
Energy	177,170	190,522	(13,352)
Life Science	28,718	33,187	(4,469)
Life Science & Energy	205,888	223,709	(17,821)
Textiles	64,240	72,591	(8,351)
Others	5,289	5,356	(67)
Consolidated adjustment	(387)	(653)	266
Total	818,473	838,975	(20,502)

Ratio of Gross Trading Profit and Operating Income



Net Sales by Operating Segment



	IT	Foodstuffs	Iron, Steel & Industrial Plants	Life Science & Energy	Textiles and Others
FY2001	244.1	157.6	180.3	221.0	99.5
FY2002	229.5	141.4	167.0	223.7	77.4
FY2003	227.9	138.4	177.1	205.9	69.1

(2) Gross Trading Profit

・ The ratio of gross trading profit to net sales remained high.

(¥ million)

	FY2003		FY2002		Change	Ratio change
	Actual	Profit ratio	Actual	Profit ratio	Actual	
IT	22,672	9.9%	22,555	9.8%	117	0.1%
Foodstuffs	8,678	6.3%	9,472	6.7%	(794)	(0.4%)
Iron & Steel	6,163	6.3%	6,562	7.8%	(399)	(1.5%)
Industrial Plants	7,379	9.3%	9,130	11.0%	(1,751)	(1.7%)
Iron, Steel & Industrial Plants	13,542	7.6%	15,693	9.4%	(2,151)	(1.8%)
Energy	6,741	3.8%	7,839	4.1%	(1,098)	(0.3%)
Life Science	2,517	8.8%	2,802	8.4%	(285)	0.4%
Life Science & Energy	9,258	4.5%	10,642	4.8%	(1,384)	(0.3%)
Textiles	5,321	8.3%	6,015	8.3%	(694)	0.0%
Others	2,734	—	2,826	—	(92)	—
Consolidated adjustment	0	—	1	—	(1)	—
Total	62,208	7.6%	67,207	8.0%	(4,999)	(0.4%)

(1) The IT Division achieved a profit increase powered by strong performances in the mobile phone and semiconductor businesses.

(2) The plant business suffered a decline, as it was a lean period for projects with high profit margins.

(3) Profit declined in the energy business as a result of the reorganization of the LPG business (sale of some businesses) in the previous term.

(3) Selling, General and Administrative Expenses

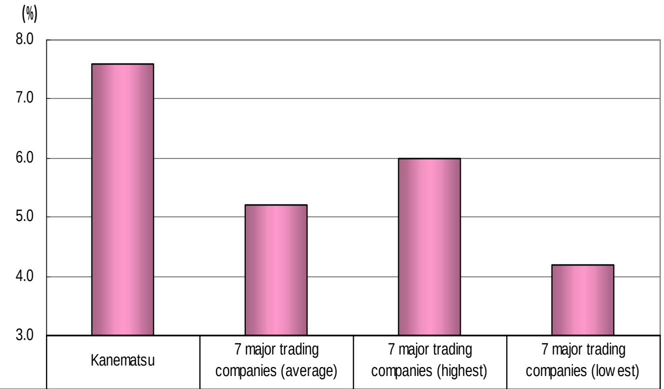
・ Substantial reduction in SG&A expenses as a result of reductions, primarily in consolidated subsidiaries.

(¥ million)

	FY2003	FY2002	Change
Personnel expenses	24,631	26,297	(1,666)
Non-personnel expenses	24,023	25,193	(1,170)
Provision to the reserve for doubtful accounts	227	408	(181)
SG&A expenses	48,654	51,490	(2,836)

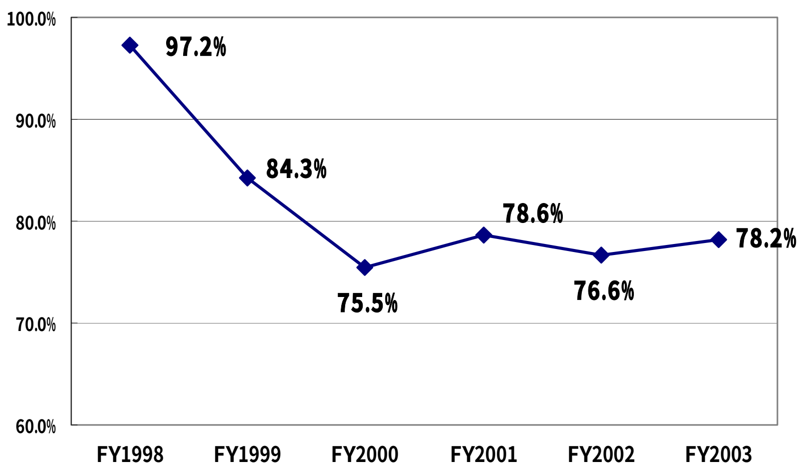
Gross Trading Profit Ratio (FY2003)

(Comparison with 7 major trading companies)

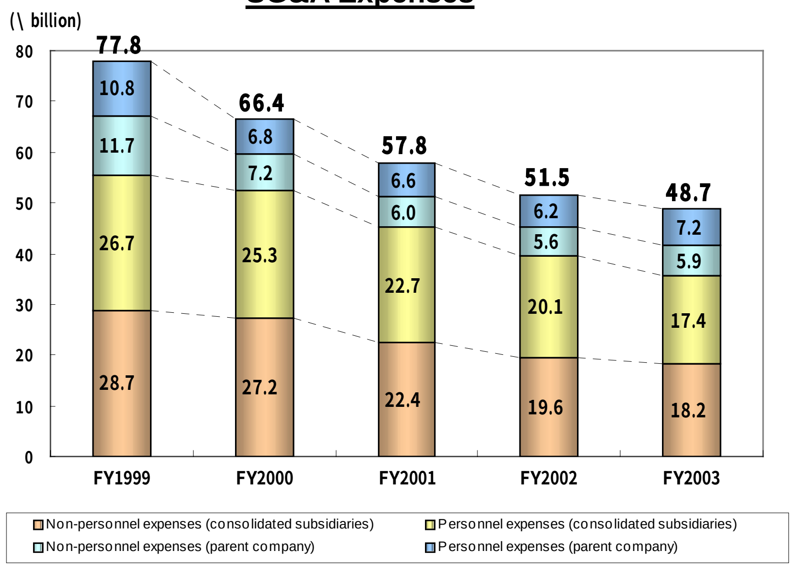


	Kanematsu	7 major trading companies (average)	7 major trading companies (highest)	7 major trading companies (lowest)
Gross Trading Profit Ratio	7.6	5.2	6.0	4.2

Ratio of SG&A Expenses to Gross Trading Profit



SG&A Expenses



Note:Increase of personnel and non- personnel expenses of parent company is caused by absorption of Kanematsu Devices Corp.

(4) Operating Income

・ Effect of fall in gross trading profit was held down to the minimum due to reductions in SG&A expenses.

(¥ million)

	FY2003		FY2002		Change	
	Actual	Profit ratio	Actual	Profit ratio	Actual	Profit ratio
IT	4,561	2.0%	4,534	2.0%	27	0.0%
Foodstuffs	1,568	1.1%	1,972	1.4%	(404)	(0.3%)
Iron & Steel	2,359	2.4%	2,147	2.6%	212	(0.1%)
Industrial Plants	1,014	1.3%	1,919	2.3%	(905)	(1.0%)
Iron, Steel & Industrial Plants	3,373	1.9%	4,066	2.4%	(693)	(0.5%)
Energy	845	0.5%	1,527	0.8%	(682)	(0.3%)
Life Science	697	2.4%	665	2.0%	32	0.4%
Life Science & Energy	1,542	0.7%	2,193	1.0%	(651)	(0.2%)
Textiles	1,581	2.5%	2,104	2.9%	(523)	(0.4%)
Others	917	—	821	—	96	—
Consolidated adjustment	9	—	24	—	(15)	—
Total	13,554	1.7%	15,716	1.9%	(2,162)	(0.2%)

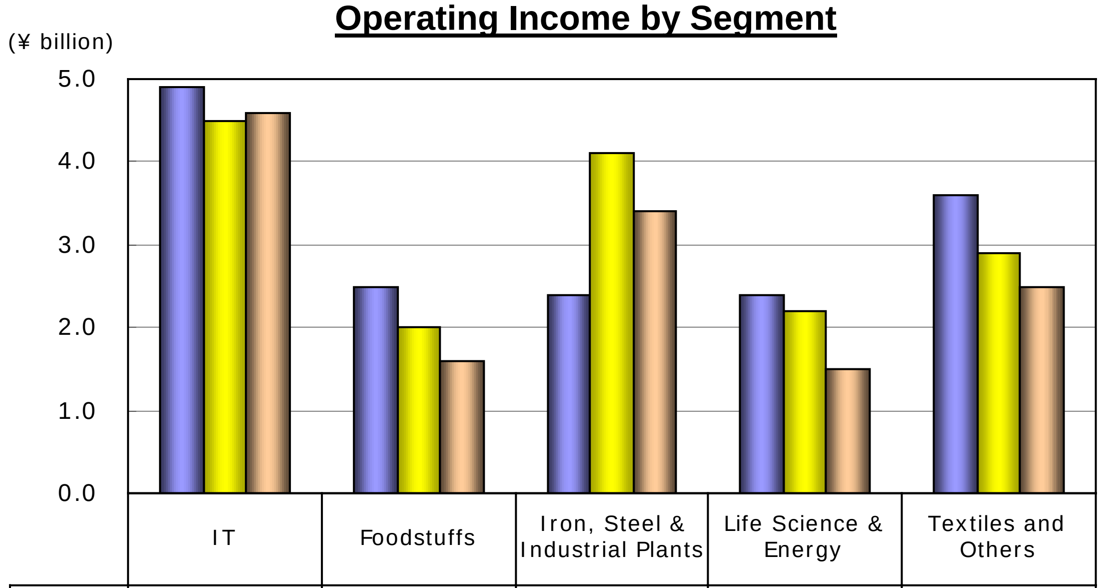
(5) Non-Operating Income & Loss

・ Reduction in interest-bearing debt led to improvement in loan interest expenditures to ¥1.2 billion.

(¥ million)

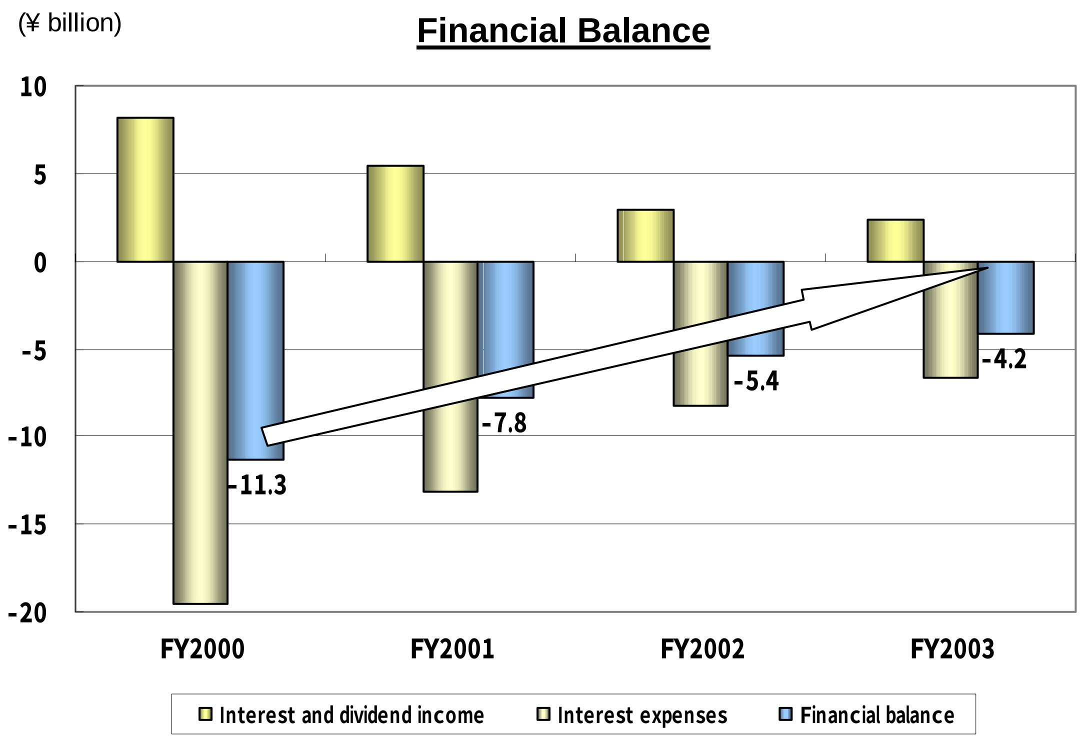
	FY2003	FY2002	Change
Dividends received	706	511	195
Interest received	1,772	2,431	(659)
Interest paid	(6,705)	(8,386)	1,681
Financial balance	(4,227)	(5,443)	1,216
Gain equity method investment	1,176	783	393
Others	202	1,017	(815)
Non-operating income & loss	(2,847)	(3,643)	796

Operating Income by Segment



	IT	Foodstuffs	Iron, Steel & Industrial Plants	Life Science & Energy	Textiles and Others
FY2001	4.9	2.5	2.4	2.4	3.6
FY2002	4.5	2.0	4.1	2.2	2.9
FY2003	4.6	1.6	3.4	1.5	2.5

Financial Balance



(6) Ordinary Income

- Sales were lackluster as a result of business reorganizations, but owing to the improvement in fundamental profitability that has followed the Company's structural reforms, ordinary income of ¥10.7 billion was attained.
- Core earnings were also ¥10.7 billion, reflecting the qualitative improvements in the Company since the structural reforms.

(¥ million)

	FY2003	FY2002	Change
Ordinary income	10,706	12,073	(1,367)
Ordinary income ratio	1.3%	1.4%	(0.1%)
Core earnings	10,730	11,463	(733)

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

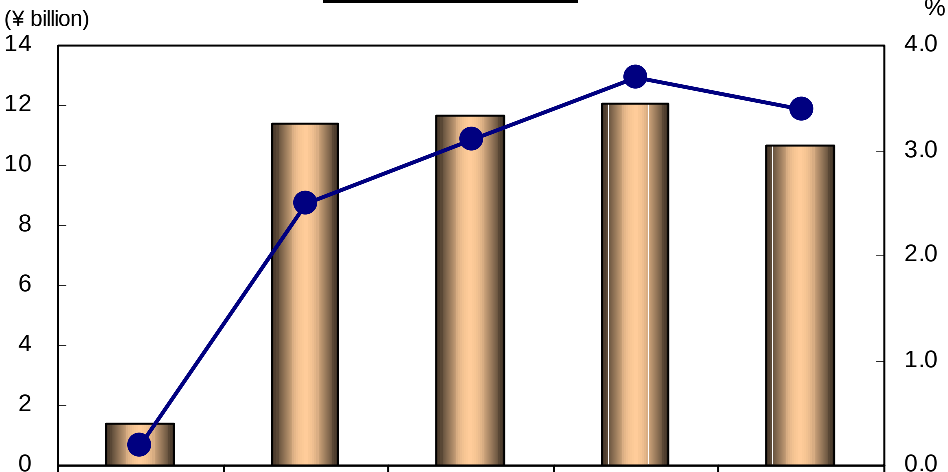
(7) Extraordinary Gain & Loss, and Net Income

- The extraordinary loss improved as a result of the recovery in share prices, and net income totaled ¥3.2 billion, representing a 45% increase from the previous year.
- Asset quality was progressively improved by the accelerated disposal of certain impaired real estate assets and the liquidation of domestic and overseas companies performing poorly.

(¥ million)

	FY2003	FY2002	Change
Gain (loss) on sales of investment securities	725	(696)	1,421
Loss on sales of fixed assets	(1,982)	(1,007)	(975)
Loss on disposal of businesses operated by affiliate companies	(1,741)	(1,367)	(374)
Valuation loss on investment securities	(744)	(1,162)	418
Amortization of shortfall resulting from changes in pension accounting standards	(1,658)	(1,679)	21
Other extraordinary gains (losses)	(247)	(1,164)	917
Extraordinary gain (loss)	(5,648)	(7,077)	1,429
Income before income taxes	5,057	4,995	62
Income taxes and minority interests	(1,809)	(2,761)	952
Net income	3,247	2,233	1,014

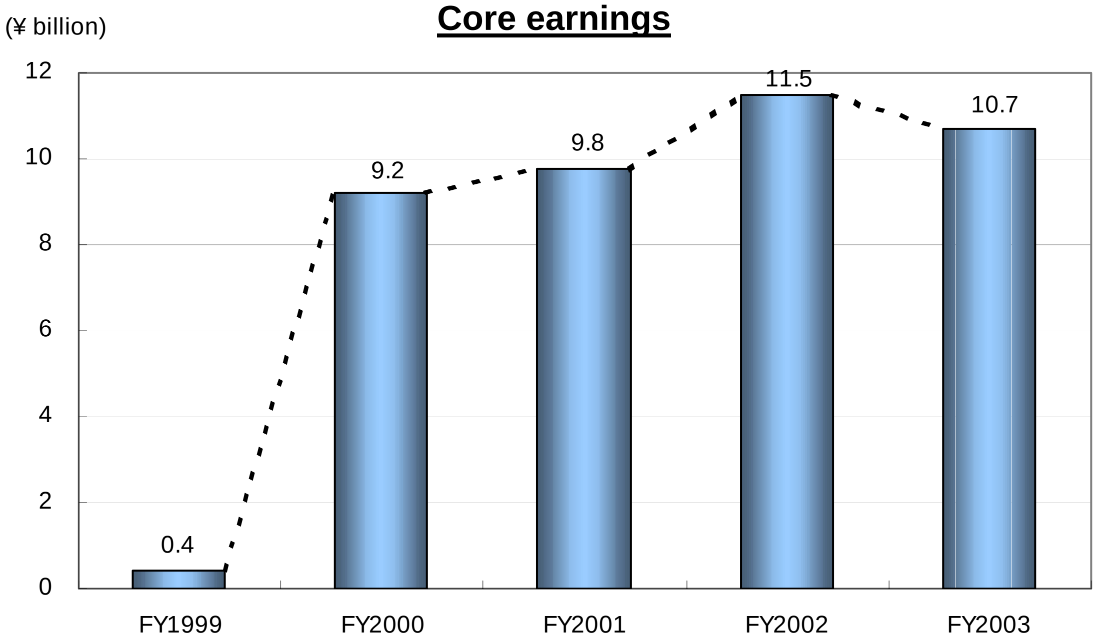
Fund efficiency



	FY1999	FY2000	FY2001	FY2002	FY2003
Ordinary income	1.4	11.4	11.7	12.1	10.7
Fund efficiency	0.2	2.5	3.1	3.7	3.4

*Fund efficiency = ordinary income /(net interest-bearing debt + shareholders' equity)
* Figures are exclusive of profit from sale of marketable securities

Core earnings



Note: Accounting standards relating to foreign exchange w ere revised in the term ended March 2001.
How ever, figures for prior periods are not retrospectively adjusted.

2. Consolidated Balance Sheets

As a result of factors such as the accumulation of undistributed profit and conversion to capital of the entire issued amount of ¥5 billion in corporate bonds with non-detachable warrants, shareholders' equity rose to ¥23.3 billion, double the previous year's total, and the equity ratio also improved substantially, to 4.6%. In the current term, we plan to issue unsecured corporate bonds with non-detachable warrants in the amount of ¥10 billion through a securities company as the sole underwriter. Net interest-bearing debt was ¥287.2 billion, significantly better than the ¥300 billion target set for the final year of the Medium-Term Management Plan. Since the securing of funds during the period of "New KG200," the new medium-term management plan, was also completed, the ratio of long-term borrowings and the liquidity ratio both showed a major improvement, to 62.4% and 110.4% respectively. This demonstrates that, in tandem with the increase in shareholders' equity, the Company's financial position is becoming steadily sounder.

(1) Interest-bearing debt

(¥ million)

	3/2004		3/2003		Comparison with 3/2003	
		Ratio		Ratio	Change	Change (%)
Short-term borrowings	121,716	37.6%	314,921	89.9%	(193,205)	—
Long-term borrowings	201,809	62.4%	35,215	10.1%	166,594	—
Total borrowings	323,526	100.0%	350,136	100.0%	(26,610)	(7.6%)
Gross interest-bearing debt	323,526		355,135		(31,609)	(8.9%)
Net interest-bearing debt (Note 1)	287,245		319,284		(32,039)	(10.0%)
Liquidity ratio (Note 2)	110.4%		66.2%		44.2%	—

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

Note 2: Liquidity ratio = Current assets / Current liabilities

[1] The ratio of long-term borrowings showed a major improvement, to 62.4%, as a result of the decision to bring forward borrowings ahead of schedule.

[2] The liquidity ratio improved to 110.4%, as financial stability increased.

(2) Shareholders' Equity

- The accumulated deficit was eliminated in the term ended March 2003, and the additional accumulation of undistributed profit led to retained earnings of ¥3.5 billion.
- As a result of the conversion of corporate bonds with non-detachable warrants in the amount of ¥5 billion, shareholders' equity improved substantially, to ¥23.3 billion.
- Owing to the increase in shareholders' equity and reduction of net interest-bearing debt, both the equity ratio and the D/E ratio improved strongly. In the current term, we plan to issue unsecured corporate bonds with non-detachable warrants in the amount of ¥10 billion through a securities company as the sole underwriter, with the aim of further strengthening shareholders' equity.

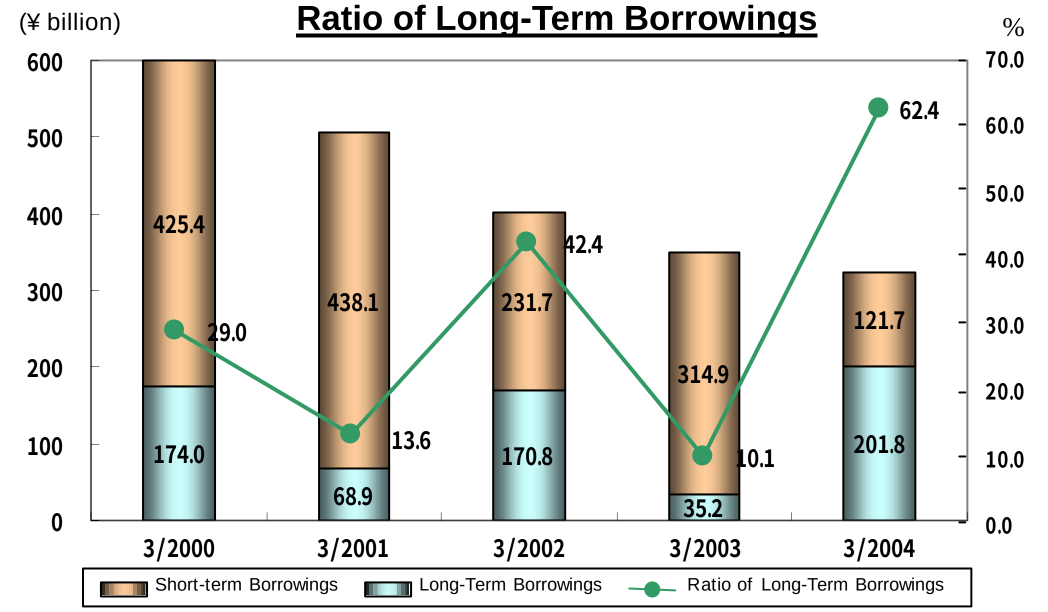
(¥ million)

	3/2004	3/2003	Comparison with 3/2003	
			Change	Change (%)
Common stock	22,447	19,473	2,974	15.3%
Capital surplus	21,035	18,034	3,001	16.6%
Retained earnings	3,505	331	3,174	958.9%
Land revaluation reserves	58	60	(2)	(3.3%)
Unrealized loss on available-for-sale securities (Note 1)	(1,025)	(8,984)	7,959	—
Foreign exchange translation (Note 2)	(21,590)	(16,948)	(4,642)	—
Treasury stock	(1,146)	(1,203)	57	—
Total shareholders' equity	23,283	10,762	12,521	116.3%
Equity ratio (%)	4.6	2.0		
Net D/E ratio	12.3	29.7		

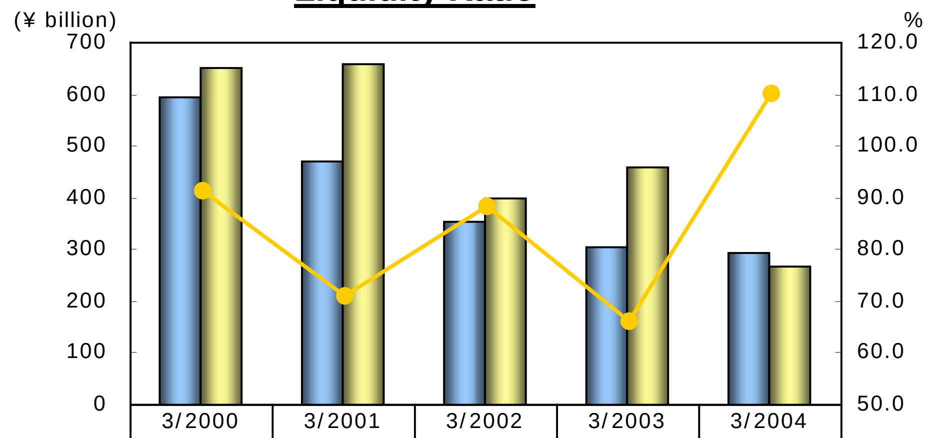
Note 1: In addition to the above, there was a ¥6.1 billion gain on the valuation of holdings of shares of listed affiliated companies.

Note 2: Exchange rate: ¥120.20/US$ at March 31, 2003
¥105.69/US$ at March 31, 2004

Ratio of Long-Term Borrowings

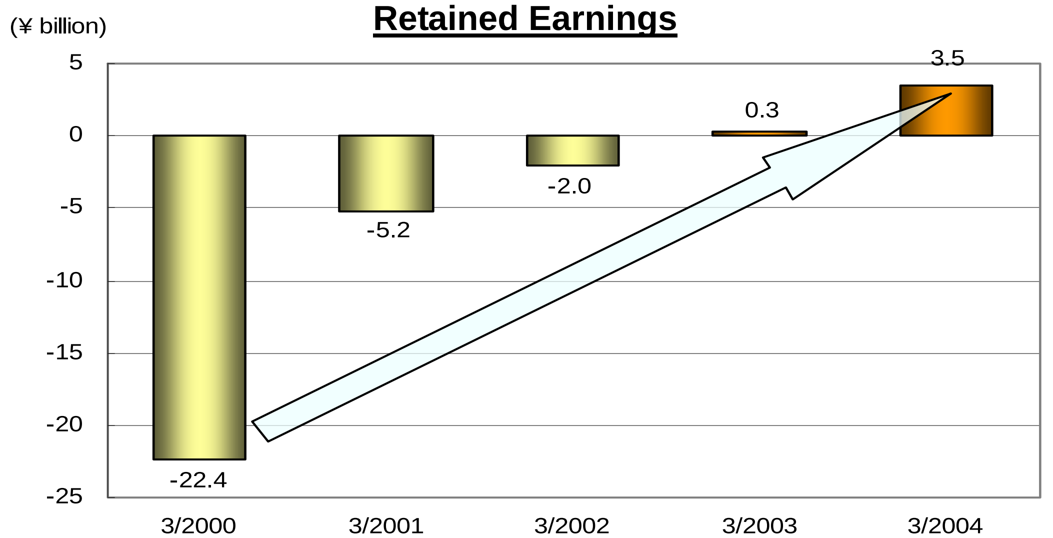


Liquidity Ratio



	3/2000	3/2001	3/2002	3/2003	3/2004
Current assets	595.9	469.3	353.7	303.6	295.3
Current liabilities	651.8	659.9	400.3	458.8	267.5
Liquidity ratio	91.4	71.1	88.4	66.2	110.4

Retained Earnings



(3) Consolidated Account Details of Assets

(¥ million)

	3/2004	3/2003	Comparison with 3/2003	
			Change	Change (%)
Cash and bank deposits	36,280	35,851	429	1.2%
Accounts and notes receivable	150,096	160,363	(10,267)	(6.4%)
Inventories *	67,848	62,970	4,878	7.7%
Investments (Note)	78,362	77,160	1,202	1.6%
Loans (Note)	30,643	37,109	(6,466)	(17.4%)
Tangible fixed assets *	71,565	77,990	(6,425)	(8.2%)
Deferred tax assets	27,338	27,485	(147)	(0.5%)
Others	76,802	81,361	(4,559)	(5.6%)
Reserve for doubtful accounts	(30,946)	(32,952)	2,006	(6.1%)
Total assets	507,991	527,340	(19,349)	(3.7%)

Note: Investments = Marketable securities + Investment securities   Loans = Short-term borrowings + Long-term loans receivables

* Real estate holdings

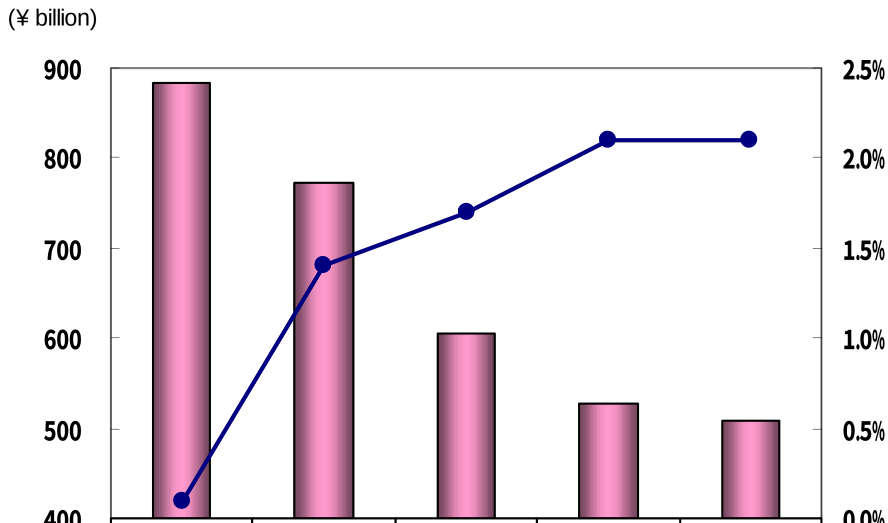
- ¥11.1 billion in real estate for sale included in inventories
- ¥51.6 billion in real estate included in tangible fixed assets, of which ¥16.0 billion worth is for rental and ¥35.6 billion is for business operation use.

3. Consolidated Cash Flows

(¥ million)

	FY2003	FY2002	Change
Operating income + Depreciation and amortization	16,650	20,137	(3,487)
Decrease (increase) in trade notes receivable, inventories and trade notes payable	9,747	10,195	(448)
Income on (payment of) interest, dividends and income taxes	(7,129)	(8,008)	879
Cash flows from operating activities	19,268	22,324	(3,056)
Cash flows from investing activities	6,614	13,303	(6,689)
Total free cash flow	25,883	35,627	(9,744)
Cash flows from financing activities	(24,822)	(44,241)	19,419

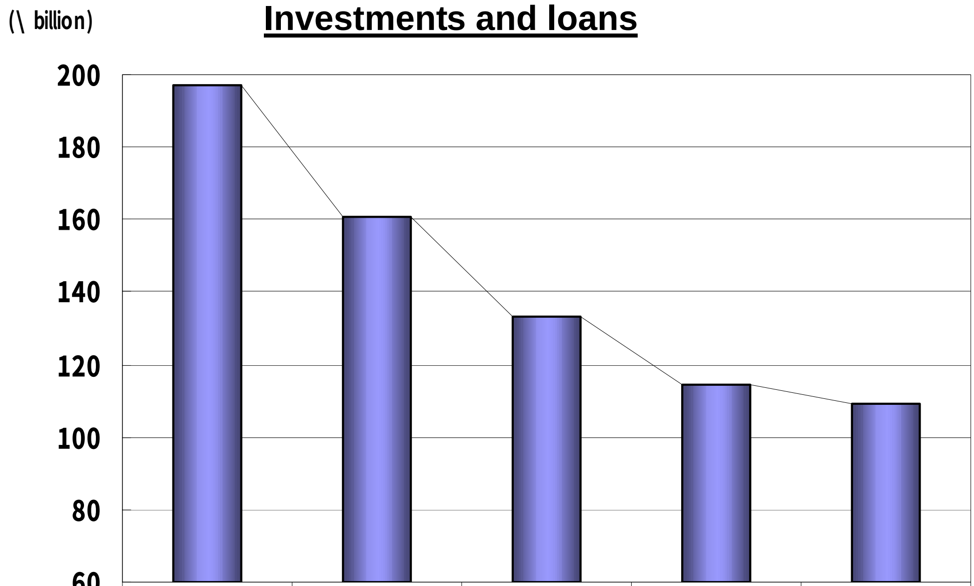
Total Assets and Ratio of Ordinary Income to Total Assets



	3/2000	3/2001	3/2002	3/2003	3/2004
Total assets as of the end of fiscal year	884.5	772.6	605.7	527.3	508
Ratio of ordinary income to total assets	0.1%	1.4%	1.7%	2.1%	2.1%

Note: Excluding gains on the sale of short-term investments

Investments and loans



	3/2000	3/2001	3/2002	3/2003	3/2004
Investments and loans	197.3	161.0	133.4	114.3	109.0

4. Subsidiaries and Affiliates, and their Employees

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

- As a result of mergers and closures of subsidiaries and affiliates, the total number of consolidated subsidiaries declined by 6 from the previous term-end, to 116 companies, bringing us to our goal under the New Medium-Term Management Plan of 120 companies by the end of March 2004.
- Ratio of profitable companies improved to 81 %.

	3/2004					3/2003					Change
	Subsidiaries		Affiliates		Total	Subsidiaries		Affiliates		Total	Total
	Domestic	Overseas	Domestic	Overseas		Domestic	Overseas	Domestic	Overseas		
Number of profitable companies	32	28	16	18	94	28	27	18	21	94	0
Ratio (%)	82.1	93.3	61.5	85.7	81.0	68.3	96.4	62.1	87.5	77.0	4.0
Number of non-profitable companies	7	2	10	3	22	13	1	11	3	28	(6)
Total	39	30	26	21	116	41	28	29	24	122	(6)

(2) Profit and Loss Posted by Subsidiaries and Affiliates

- Sum of profit posted by subsidiaries and affiliates increased. Sum of loss also increased because of acceleration of accounting for impairment of real estate.

(¥ billion)

	FY2003					FY2002					Change
	Subsidiaries		Affiliates		Total	Subsidiaries		Affiliates		Total	Total
	Domestic	Overseas	Domestic	Overseas		Domestic	Overseas	Domestic	Overseas		
Sum of profit posted by profitable companies	4.3	1.5	1.1	0.9	7.8	3.3	1.3	0.4	0.9	5.9	1.9
Sum of loss posted by non-profitable companies	(1.9)	(1.1)	(0.8)	0.0	(3.8)	(0.7)	(0.1)	(0.5)	0.0	(1.3)	(2.5)
Total	2.4	0.4	0.3	0.9	4.0	2.6	1.2	(0.1)	0.9	4.6	(0.6)

Note: Simple aggregation before consolidation adjustment

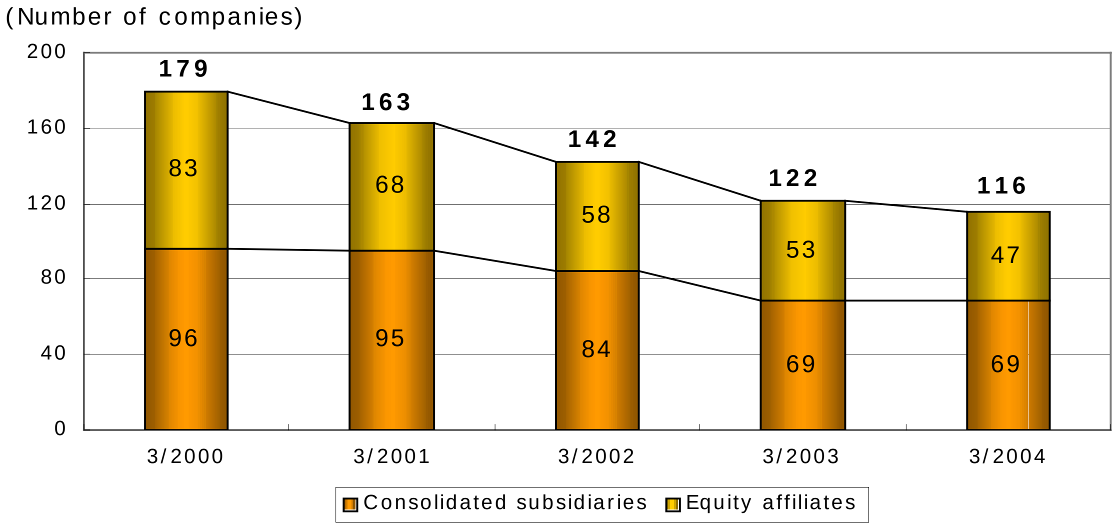
(3) Number of Employees

- As a result of the decrease in the number of consolidated subsidiaries, the total number of employees declined by 114 on a consolidated basis from the previous term-end.

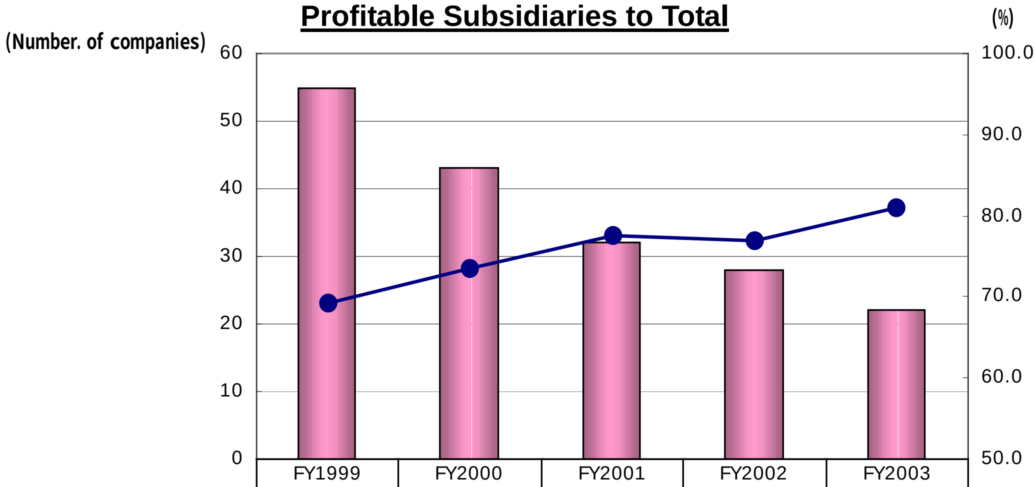
	3/2004	3/2003	Comparison with 3/2003	
			Change	Change (%)
Parent company	893	608	285	46.9%
Consolidated subsidiaries	2,198	2,597	(399)	(15.4%)
Total	3,091	3,205	(114)	(3.6%)

Note: The decline in the number of employees at consolidated subsidiaries includes 262 from Kanematsu Devices Corp. merged by Kanematsu Corp.

Scope of Consolidation

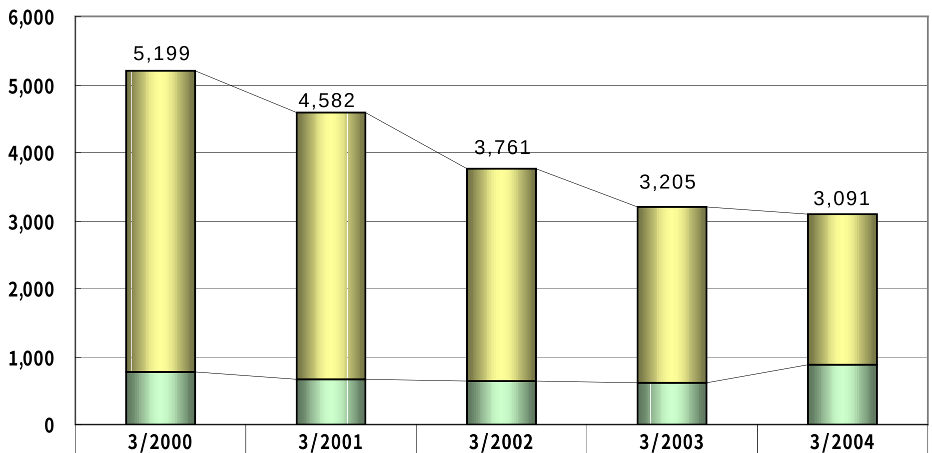


Number of Non-Profitable Companies and Ratio of Profitable Subsidiaries to Total



	FY1999	FY2000	FY2001	FY2002	FY2003
Non-profitable companies	55	43	32	28	22
Ratio of profitable companies	69.2	73.6	77.5	77.0	81.0

Employees



	3/2000	3/2001	3/2002	3/2003	3/2004
Consolidated Subsidiaries	4,414	3,913	3,130	2,597	2,198
Parent company	785	669	631	608	893

Supplementary Information: Non-Consolidated Financial Results

1. Non-Consolidated Financial Results: Earnings

(¥ million)

	FY2003		FY2002		Comparison with FY2002	
		Percentage of net sales		Percentage of net sales	Change	Change (%)
Net sales	418,994	100.0%	412,483	100.0%	6,511	1.6%
Gross trading profit	17,463	4.2%	16,976	4.1%	487	2.9%
Operating income	4,380	1.0%	5,135	1.2%	(755)	(14.7%)
Ordinary income	6,235	1.5%	6,615	1.6%	(380)	(5.7%)
Income before income taxes	1,528	0.4%	2,865	0.7%	(1,337)	(46.7%)
Net income	1,998	0.5%	2,647	0.6%	(649)	(24.5%)

2. Non-Consolidated Balance Sheets

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

(¥ million)

	3/2004	3/2003	Comparison with 3/2003	
			Change	Change (%)
Total assets	448,370	427,332	21,038	4.9%
Gross interest-bearing debt	299,067	313,698	(14,631)	(4.7%)
Net interest-bearing debt	279,921	301,408	(21,487)	(7.1%)

(2) Shareholders' Equity

(¥ million)

	3/2004	3/2003	Comparison with 3/2003	
			Change	Change (%)
Common stock	22,447	19,473	2,974	15.3%
Capital surplus	20,946	18,009	2,937	16.3%
Retained earnings	7,760	4,431	3,329	75.1%
Unrealized loss on available-for-sale securities	(1,318)	(8,431)	7,113	—
Treasury stock	(61)	(32)	(29)	—
Total shareholders' equity	49,774	33,450	16,324	48.8%

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

April 2004 - March 2007

1. Highlights of the New Kanematsu

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

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

→ Meeting our three year targets in only two years

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

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

Specific targets and measures	*Results (as of March 31, 2004)*
☆Total elimination of accumulated deficit in a short period	Elimination of accumulated deficit (March 2003) Retained earnings of ¥3.5 billion
☆Net interest-bearing debt of ¥300 billion	¥287.2 billion reduced from ¥433.0 billion
☆ROE of over 30%	19.1%
☆Consolidated ordinary income of ¥20 billion	FY2002: ¥12.1 billion FY2003: ¥10.7 billion
☆Thorough review of expenses of major consolidated subsidiaries (reduction target of ¥8 billion)	Reduced ¥17.7 billion (achievement ratio of 221%)
☆Improving financial balance (target improvement of ¥2 billion)	Improved ¥7.1 billion (3.55 times over the target figure)
☆Liquidating and integrating consolidated subsidiaries (target of 120 companies, down from present 163 companies)	116 companies

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

Aiming to achieve full revival

◎ Consolidated Business Performance (FY1998 ~ FY2003)

(¥ million)

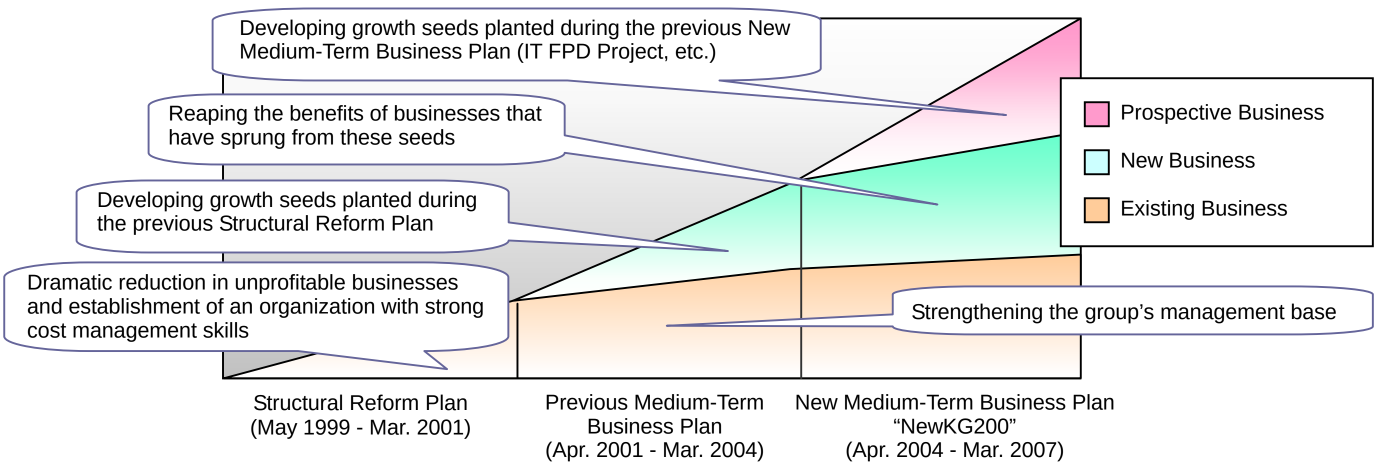
		Structural Reform Plan		Current Medium-Term Business Plan		
Year ending	FY1998 (Actual)	FY1999 (Actual)	FY2000 (Actual)	FY2001 (Actual)	FY2002 (Actual)	FY2003 (Actual)
Net sales	2,198,359	1,407,921	1,112,920	902,477	838,975	818,473
Gross Trading Profit (Gross Trading Profit Ratio)	108,973 (4.96%)	92,299 (6.56%)	87,996 (7.91%)	73,540 (8.15%)	67,207 (8.01%)	62,208 (7.60%)
Operating Income (Operating Income to Net Sales Ratio)	3,015 (0.14%)	14,507 (1.03%)	21,608 (1.94%)	15,779 (1.75%)	15,716 (1.87%)	13,554 (1.66%)
Consolidated Pretax Income/Loss before Extraordinary Items (Income (loss) to Net Sales Ratio)	(7,547) (-0.34%)	2,560 (0.18%)	11,368 (1.02%)	11,735 (1.30%)	12,073 (1.44%)	10,706 (1.31%)
Net Income (loss) (Net Income (loss) to Net Sales Ratio)	(41,536) (-1.89%)	(12,446) (-0.88%)	(*3) 17,252 (1.55%)	4,024 (0.45%)	2,233 (0.27%)	3,247 (0.40%)
Total Assets	1,244,204	884,504	772,555	605,717	527,340	507,991
Shareholders' Equity (Capital ratio)	808 (0.06%)	11,542 (1.30%)	14,387 (1.86%)	15,734 (2.60%)	10,762 (2.04%)	23,283 (4.58%)
Net Interest-bearing Debt (*1)	791,034	543,841	433,037	362,425	319,284	287,245
Years for Repayment (Years) (*2)	92.0	26.0	14.8	17.0	15.9	17.3
Consolidated Subsidiaries	230	179	163	142	122	116

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

2. Years for Repayment = Net Interest-bearing Debt / Operating Income Before Depreciation and Amortization

3. Switch to Deferred Tax Accounting

◎ From Turnaround to Complete Revival



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

① Reinforced Marketing Power

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

② Establish a Sound Financial Position

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

③ Conduct Group-wide Management Reforms

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

(1) The Kanematsu Business Model

◎ Features of the New Kanematsu

Return to the Basic Principle of a Trading Company, i.e., Focusing Exclusively on Business that Creates Value.

Focus Strategy
- Focusing on four core business segments with the potential for value-added services
- Liquidating unprofitable businesses

Low-Cost Operations
- Low administrative expense ratio
- Low financial cost to sales ratio

Rigorous Risk Management
- Avoid high-risk financial business (including proprietary trading)
- Avoid investments and loans that merely chase high returns

High Profitability

High operating income margin
High pretax income ratio

◎ Business Model

- Pursuing Higher Profitability -

Markets and Products
Niche Markets
Top Market share

Geographic Regions
Focus on Key Areas
Asia ･North America

Business Style
Structuring and Proposals

Functions
“Hybrid”
Trading Company

(2) Goals

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

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

◎ Measures to Bolster Marketing Power

① Resource Allocation to Strategic Fields

- Reserve ¥30 billion for New Businesses
- Deploy Human Resources to Strategic Businesses Segment and Regions

② Promote New Businesses and Projects

- Launch and Expand New Businesses and Projects
- Encourage Collaboration

③ Execute Business Strategies

- Improve the Group's Organizational Structure
- Assemble Internal Infrastructure Needed to Bolster Marketing Capabilities

◎ Numerical Goals

① **Earnings**

(¥ million)

	New Medium-Term Business Plan "New KG200"		
	FY2004	FY2005	FY2006
Net Sales	875,000	935,000	1,000,000
Gross Trading Profit	70,000	74,500	80,000
Ratio	8.0%	8.0%	8.0%
Operating Income	18,000	21,000	24,500
Ratio	2.1%	2.2%	2.5%
Pretax Income before Extraordinary Items	13,500	16,000	20,000
Ratio	1.5%	1.7%	2.0%
Net income	4,000	6,000	10,000

② **Balance Sheets**

(¥ million)

	New Medium-Term Business Plan "New KG200"		
	FY2004	FY2005	FY2006
Total Assets	500,000	500,000	500,000
Net Interest-bearing Debt	280,000	265,000	250,000
Shareholders' Equity	25,500	32,000	42,500
Shareholders' Equity Ratio	5.1%	6.4%	8.5%
Net DER	11.0	8.3	5.9
Return on Net Debt (*1)	4.4%	5.4%	6.8%
ROE	16.4	20.9%	26.8%
Interest-bearing Debt Repayment Period (*2)	13.3	11.0	9.1

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

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

Reference: Outline of Kanematsu Group

◇Principal Group companies (As of March 31, 2004)

(Number of companies)

Segment	Principal group companies		Joint ventures	Equity holdings for investment purposes	Total
Overseas subsidiary	Kanematsu U.S.A. Inc. Kanematsu (Hong Kong) Ltd. etc.	11	—	—	11
IT	*Kanematsu Electronics Ltd. *Memorex Telex Japan Ltd. *Nippon Office Systems Ltd. Kanematsu Communications Ltd. Kanematsu Aerospace corp. etc.	16	1	—	17
Foodstuffs	Kanematsu Agri-Tech Corp. Kanematsu Food Corp. Nippon Liquor Ltd. Nippon Shokuhin co., Ltd. etc.	12	1	2	15
Iron & Steel	Kanematsu Trading Corp. etc.	6	—	6	12
Plants	Kanematsu KGK Corp. etc.	2	5	4	11
Energy	Kanematsu Petroleum Corp. etc.	3	3	—	6
Life Science	Kanematsu Chemicals Corp. Kanematsu Wellness Corp.	2	—	1	3
Textiles	Kanematsu Textile Corp. *Kaneyou Co., Ltd. etc.	7	6	7	21
Others	Central Express Ltd. etc.	6	—	15	21
Total		65	16	35	116

Notes: 1. *indicates equity-method affiliates.
2. Companies falling into the category of “equity holdings for investment purposes” include those under sell-off procedures.
3. Kanematsu Device was excluded from the scope of consolidation, as the company was absorbed by the parent company on October 1, 2003.

◇Business Results of Major Subsidiaries (For the term ended March 31, 2004)

(¥ million)

	Our equity holdings (%)	Net sales	Gross trading profit
Kanematsu U.S.A. Inc.	100.00	78,182	3,892
Kanematsu (Hong Kong) Ltd.	100.00	17,768	230
Kanematsu Communications Ltd.	100.00	86,759	9,461
Kanematsu Agri-Tech Corp.	100.00	9,096	978
Kanematsu Food Corp.	100.00	9,402	869
Kanematsu chemicals Corp.	100.00	18,560	1,110
Kanematsu Petroleum Corp.	100.00	102,189	5,150
Kanematsu Trading Corp.	100.00	48,466	1,154
Kanematsu KGK Corp.	97.90	42,316	4,362
Kanematsu Textiles Corp.	100.00	54,197	3,896
Total		466,935	31,102

III. FY2004 Forecast and Segment Outline

' Consolidated Business Forecast for FY2004

- Against the backdrop of a favorable business climate, Kanematsu will adopt an offensive posture during the year, which is the first year of the "New KG200" Medium-Term Management Plan. The company is determined to achieve growth in sales and earnings. At the same time, new businesses will be fostered to lay the groundwork for future growth.
- Sales are expected to increase to ¥875.0 billion. Due to the company's business model, which stresses the pursuit of value-added businesses, a gross margin of at least 8% is forecast, which would raise the gross trading profit to ¥70.0 billion.
- Due to the growing contribution of the low-cost structure that was completed in the past fiscal year, ordinary income is forecast to rise 26% to ¥13.5 billion. Even though impairment losses on some assets will be recognized prior to the mandatory application of impairment accounting, the company is forecasting net income of ¥4.0 billion.
- In June 2004, Kanematsu announced that it would issue ¥10.0 billion of unsecured convertible bonds, with the entire issue allocated to one securities company. As this is a scheme under which conversion of the bonds is expected over a certain period of time, and as retained earnings are also expected to increase, the company expects a substantial increase in shareholders' equity. The company is thus approaching its NewKG200 plan goals of a 10% equity ratio and a debt-equity ratio of less than five. Furthermore, the company is much more able to tolerate risk, creating an even sounder financial base.
- The reduction in net interest-bearing debt will continue, but debt will decline more slowly because of capital required for new business activities. As a result, the goal is to bring debt below ¥280.0 billion by the end of the current fiscal year.

① Net Sales and Gross Trading Profit

- Kanematsu believes that the period of declining sales has ended and is confident that, backed by a favorable operating climate, sales will increase in the current fiscal year.
- By segment, in the IT division, one of the company's core activities, sales will increase in growing markets such as digital home electronics. Sales growth is expected as well in the Iron, Steel and Plants division due to favorable market conditions. In the Foodstuffs and Life Science and Energy divisions, the company is confident of small increases in sales.
- In line with its business model, Kanematsu will continue to pursue value-added businesses while fostering new businesses, a central theme of "New KG200." As a result, the company expects to maintain or improve its high profitability, generating a gross trading profit of ¥70.0 billion and a gross margin of at least 8%.

② Selling, General and Administrative Expenses and Operating Income

- To support the offensive management stance and increase gross trading profit, the company expects that SG&A expenses will rise. Rigorous measures will be taken to reduce SG&A as a share of sales, mainly at consolidated subsidiaries with the goal of matching the parent company level of 70%. As a result, the company is planning to report operating income of ¥18.0 billion and expects a ratio of operating income to sales of at least 2%.

◇ FY2004 Forecast

(¥ million)

	FY2004 (Forecast)	FY2003 (Result)	Change
Net Sales	875,000	818,473	56,527
Gross Trading Profit	70,000	62,208	7,792
Ratio	8.0%	7.6%	0.4%
SG&A Expenses	52,000	48,654	3,346
Operating Income	18,000	13,554	4,446
Non-operating Income (Loss)	(4,500)	(2,847)	(1,653)
Ordinary Income	13,500	10,706	2,794
Extraordinary Gains (Losses)	(7,500)	(5,648)	(1,852)
Income before Income Taxes	6,000	5,057	943
Income Taxes	(2,000)	(1,809)	(191)
Net Income	4,000	3,247	753
Net Interest-Bearing Debt	280,000	287,245	(7,245)

◇ Business Forecast by Segment

(¥ million)

	Net Sales		Gross Trading Profit		Operating Income	
	FY2004 (Forecast)	Change	FY2004 (Forecast)	Change	FY2004 (Forecast)	Change
IT	250,000	+22,078	25,000	+2,328	6,300	+1,739
Foodstuffs	145,000	+6,569	10,000	+1,322	2,300	+732
Iron & Steel	110,000	+12,003	7,500	+1,337	3,100	+741
Plant	95,000	+15,909	9,000	+1,621	1,500	+486
Iron, Steel & Plants	205,000	+27,912	16,500	+2,958	4,600	+1,227
Energy	180,000	+2,830	7,300	+559	1,200	+355
Life Science	30,000	+1,282	2,800	+283	800	+103
Life Science & Energy	210,000	+4,112	10,100	+842	2,000	+458
Textiles	60,000	(4,240)	5,500	+179	1,900	+319
Others	5,000	+96	2,900	+163	900	(29)
Total	875,000	+56,527	70,000	+7,792	18,000	+4,446

③ Non-operating Income (Expenses) and Ordinary Income

- Kanematsu is conservatively estimating net non-operating expenses of ¥4.5 billion. Although the reduction in net interest-bearing debt is expected to bring down interest expenses, interest rates in Japan and overseas are rising and there is uncertainty about the direction of foreign exchange rates.
- Based on this forecast, the company expects ordinary income to increase ¥2.8 billion, or 26%, to ¥13.5 billion.

④ Extraordinary Items and Net Income

- The company estimates that it will report a net extraordinary loss of about ¥7.5 billion, a figure that includes the final amortization of retirement benefit liabilities and the write-down and liquidation of risk-assets, including the early application of asset impairment accounting.
- Accordingly, we forecast a 23% increase in net income to ¥4.0 billion, even after taking into account the early asset impairment action mentioned above.

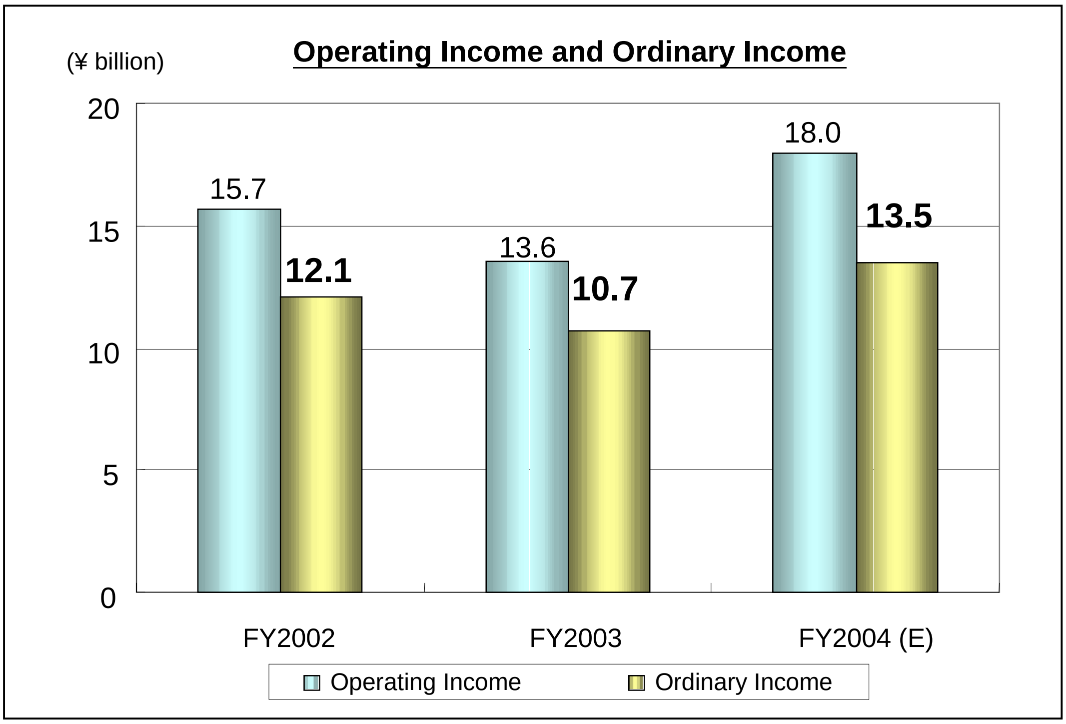
⑤ Shareholders' equity

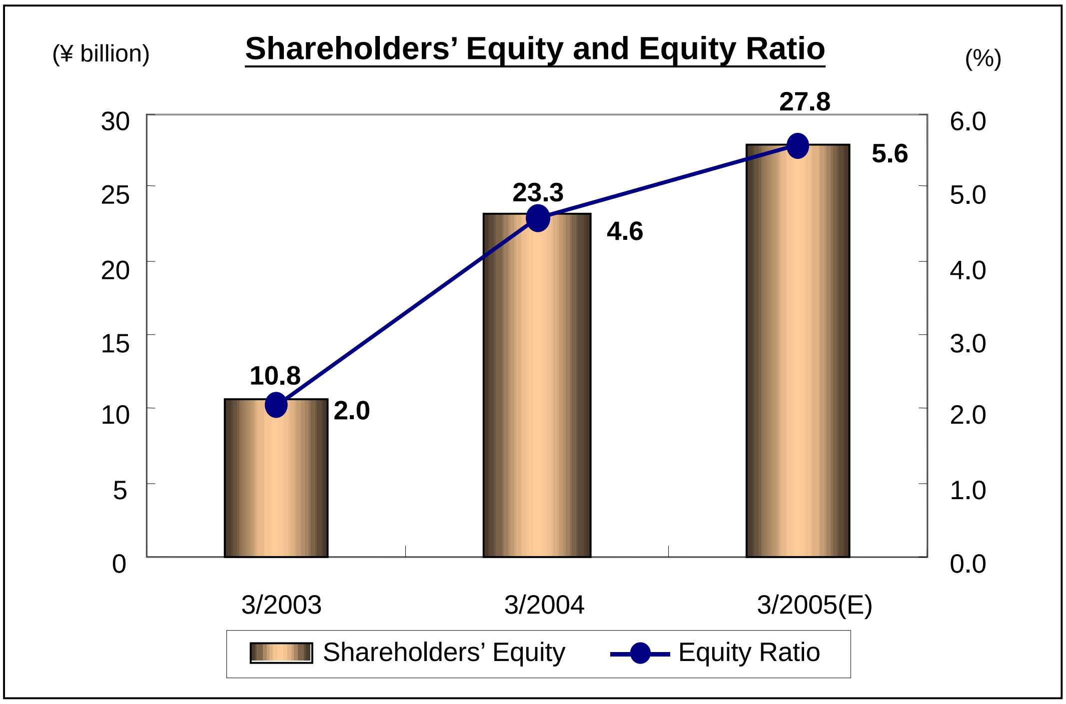
- Due to growth in retained earnings, the equity ratio is expected to rise to at least 5% as of the term-end, resulting in projected equity of ¥27.8 billion at the end of the fiscal year*.
- In June 2004, Kanematsu announced that it would issue ¥10.0 billion of unsecured convertible bonds, with the entire issue allocated to one securities company. As this is a scheme under which gradual conversion of the bonds is possible over a certain period of time, the company expects a substantial increase in shareholders' equity.
- The company thus believes the probability has increased of attaining its "New KG200" plan goals of a 10% equity ratio and a debt-equity ratio of less than five, thereby creating a sound financial position.

* The ¥27.8 billion figure represents the medium-term management plan target of ¥25.5 billion plus ¥2.3 billion, which is the difference between actual results and the plan as of the end of March 2004. The conversion of convertible bonds mentioned above is not taken into account in the estimate of the target figure.

⑥ Interest-bearing debt

- As part of operating cash flows, which have been used to fund reductions in interest-bearing debt, will be used to provide capital for new business activities, the conservative goal for the end of the fiscal year is to bring these liabilities under ¥280.0 billion.
- Regarding fund procurement, the company has completed the long-term fund procurement activities for the period covered by "New KG200."


Operating Income and Ordinary Income
(¥ billion)
20
15
10
5
0
15.7
12.1
13.6
10.7
18.0
13.5
FY2002
FY2003
FY2004 (E)
Operating Income
Ordinary Income


Shareholders' Equity and Equity Ratio
(¥ billion)
(%)
30
25
20
15
10
5
0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
10.8
2.0
23.3
4.6
27.8
5.6
3/2003
3/2004
3/2005(E)
Shareholders' Equity
Equity Ratio

I T

- The semiconductor and semiconductor/LCD manufacturing equipment business, where substantial growth in demand is foreseen due to the strength of the digital home electronics sector, have been integrated with the parent's Device Company. This is expected to produce additional earnings by facilitating effective sales activities and the allocation of substantial resources to these businesses.
- In the electronic parts and mechanical parts business, which is a stable source of earnings, the company expects strong results to continue in the current fiscal year.
- Regarding new businesses, Kanematsu will focus on flat panel displays, where rapid growth is expected, and electronic components and materials and manufacturing equipment involving the broadband market. Kanematsu will widen the scope of its fabless manufacturing operations, a field where the company has both technologies and expertise.

(1) Main Business

Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Electronic Parts and Components	Semiconductor, semiconductor/LED manufacturing equipment, optical/communications, electronic components/ mechanized parts	Devices Company Semiconductor Dept. Industrial Electronics Dept.	—	¥145 billion
System Solutions	Computers/network systems	IT Administration Office	*Kanematsu Electronics Ltd.* *Memorex Telex Japan Ltd.* *Nippon Office Systems Ltd.*	— (¥95 billion)
Mobile Multimedia	Mobile communications terminals/mobile phones	IT Administration Office	Kanematsu Communications Ltd.	¥90 billion
Aerospace	Aircraft/aircraft parts	Aerospace Dept.	Kanematsu Aerospace Corp.	¥15 billion
			Total	¥250 billion

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

(2) Business Forecast FY2004

(¥ million)

	FY2004 (Forecast)	FY2003 (Result)	Change
Net Sales	250,000	227,922	22,078
Gross Trading Profit	25,000	22,672	2,328
Ratio	10.0%	9.9%	0.1%
Operating Income	6,300	4,561	1,739
Ratio	2.5%	2.0%	0.5%

(3) Actions and Outlook for FY2004 (compared with FY2003 result)

◆**Electronic Parts and Components Business (sales up ¥13.0 billion, gross trading profit up ¥1.9 billion)**

- The semiconductor and LCD equipment business, backed by strength in the semiconductor market fueled by the digital home electronics category, is recording a large increase in orders for manufacturing equipment. Further growth in earnings is expected due to the start of new business activities involving equipment for manufacturing HDDs and LCDs associated with flat panel displays.
- In the semiconductor business, a strong performance by sound-source ICs for cell phones is expected to raise sales and earnings. For semiconductor products for specific applications, such as for automotive communication devices, a large increase in earnings is expected due to growth in volume.
- In the high-performance analog power supply IC business, where Kanematsu has established a fabless manufacturer using its own designs, volume sales of devices to large manufacturers of DVD recorders will begin in the current fiscal year. In addition, the company plans to begin volume sales of LCDs for cell phones.
- In the fiber-optic communication business, deliveries of fiber-optic communication components for the fiber-to-the-home market, which had been planned to begin in the previous fiscal year, will start in the current fiscal year instead, making a contribution to earnings. Sales will also come from the OEM supply to a Japanese manufacturer of home terminals for Internet telephony. Another source of growth will be ubiquitous-information products for the broadband market.
- In the electronic parts and mechanical parts business, results will benefit from high-margin business involving OEM parts for automobiles and motorcycles and other products and business involving batteries and other household non-durable products. In addition, printer exports to the U.S. are strong due to the shift caused by the popularity of digital cameras in how individuals print photos. The result is a solid earnings base in this business sector.
- In response to the shift of PC production activity to China, Kanematsu plans to start the production and supply of battery pack control modules in China by collaborating with a major Japanese manufacturer.

◆**Mobile Multimedia Business (sales up ¥4.0 billion, gross trading profit up ¥0.5 billion)**

- In mobile communication devices, the sales network now in place will be used to target replacement demand as users switch to next-generation handsets. In addition, as a new sales strategy, the company plans to target consumers through collaborative stores with rental video shops and other measures, and to target companies by using network service tools. Through these measures, the company expects to generate additional earnings and to stabilize earnings.
- In the information and content services business, the U.S. and South American ring tone melody distribution service is beginning to grow, and is thus expected to make a contribution to earnings in the current fiscal year. In addition, the company plans to expand the distribution of content to include standby screen images, games, information distribution and other content. The company is also working for the commencement of content distribution in China and Japan.

◆**Aerospace Business (sales up ¥4.8 billion, gross trading profit down ¥0.1 billion)**

- The rotable parts business is performing well and contributing to earnings due to an outsourcing contract from British Midland of the U.K. The same rotable parts repair business is being started in the U.S. This is expected to cover the downturn in the number of aircraft deliveries under long-term contracts to the public sector.
- In the helicopter business, efforts are being made to capture more orders from government agencies for helicopters and parts.
- To diversify its profit structure beyond these aircraft operations, this business plans to increase sales of collision prevention equipment, night vision equipment, simulators and other aerospace electronics equipment.

Foodstuffs

- This business will develop value-added products and services as well as proposal-driven businesses, moving away from a supply-side perspective to act from a market-oriented and consumer-oriented perspective.
- Based on the fundamental concepts of food safety and traceability, highly profitable products will be supplied in an integrated manner from overseas suppliers all the way to Japanese retailers.
- Strengthen processing bases positioned between Japan and other countries. (create more value)

(1) Main Business

Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Foods	Canned/frozen/dried fruits, coffee, cocoa, sugar, sesame, peanuts, various beans, wines	Produce Dept. I Produce Dept. II	Kanematsu Food Corp. Nippon Liquor Ltd.	¥20 billion
Meat and Marine Products	All meat, seafood	Meat & Marine Products Dept.	Kanematsu Food Corp. Nippon Shokuhin Co., Ltd.	¥60 billion
Feed and Dairy Products/Grains	Feed, fertilizer, soybeans, barley, wheat, rice, processed foods, pet foods	Grain Dept., Agri-Service Dept.	Kanematsu Food Corp. Kanematsu Agri-Tech Corp.	¥65 billion
			Total	¥145 billion

(2) Business Forecast FY2004

(¥ million)

	FY2004 (Forecast)	FY2003 (Result)	Change
Net Sales	145,000	138,431	6,569
Gross Trading Profit	10,000	8,678	1,322
Ratio	6.9%	6.3%	0.6%
Operating Income	2,300	1,568	732
Ratio	1.6%	1.1%	0.5%

(3) Actions and Outlook for FY2004 (compared with FY2003 result)

◆Food Business (sales up ¥1.4 billion, gross trading profit up ¥0.4 billion)

- A joint venture factory has started operating in China for the production of processed fruit and vegetables. A stable supply of existing products along with sales of newly developed value-added products are expected to increase sales in Japan, the U.S., Europe and Southeast Asia, producing higher earnings.
- Regarding overseas growing areas, this business will continue to differentiate raw ingredients (development of new varieties, more contract growers) such as peanuts, sesame and dry fruit.
- In the coffee category, aggressive sales activities to back up value-added products, such as coffee with Rain Forest Alliance certification, has attracted new customers, producing steady growth in earnings.
- In the wine business, which is now very difficult, efforts will target raising sales by enlarging sales channels and concentrating on high-margin brands to raise operating efficiency. Rigorous efforts will be made to improve profitability.

◆Meat and Marine Products Business (sales up ¥1.6 billion, gross trading profit up ¥0.4 billion)

- This business is facing a difficult operating climate due to BSE, avian influenza, food hygiene safeguards and other factors. To avoid risks associated with procuring products from a particular country, the division is diversifying regions that raise animals and its suppliers. The division thus expects stable earnings. At a group meat processing company that is affected by Japan’s current refusal to import U.S. beef, the division plans to minimize the impact by reviewing sales strategies and production methods.
- A Chinese joint venture that produces processed meat products, delicatessen items and other products is developing new products. This company plans to increase sales volumes by using Kanematsu Group sales channels and other resources to establish ties with new customers.
- In the marine products business, activities are being focused on frozen processed fish products as well as on the procurement of octopus and shrimp. The company already has processing bases in Asia, and plans to raise its earnings by expanding sales of new products to restaurant companies and for semi-prepared meals.

◆Feed and Dairy Products/Grains Business (sales up ¥3.5 billion, gross trading profit up ¥0.5 billion)

- In the feedstuffs business, capital investments will be made at factories used solely to produce cattle feed to improve the safety of mixed feed. The aim is to increase sales by earning the trust of companies selling this feed.
- In addition, the division is collaborating with dairy farmers and companies to create mega-farms. This will generate demand for feedstuff ingredients, forage and mixed feed, leading to growth in sales volumes.
- In the grain business, the company will work on preserving and increasing the current level of sales and earnings, using government transactions for rice and wheat, which improve the profitability of this business. Sales of wheat products, such as ingredients and pasta, to high-end bakeries are rising, and this business is aiming to generate stable downstream earnings.

Iron, Steel & Industrial Plants

<Iron & Steel>

- Sales and earnings are expected to grow due to favorable market conditions.
- Regional strategies will be bolstered, mainly in the Middle East and Asia. Advanced trading company skills will be used to develop products and applications, a stable supply system for steel products will be established, and value-added businesses will be expanded.
- In the cast products business, business in North, Central and South America, a source of stable earnings, will be expanded. Also, resources will be aggressively channeled to China and other parts of Asia to reinforce the operating base.

<Plants>

- In addition to automobiles, ships and other stable sources of earnings, further growth is to be achieved in value-added categories where Kanematsu is strongest: chemicals, papermaking, auto assembly, undersea cables, geothermal power generation, and others. To reinforce the ability to capture new contracts, resources will be channeled to Southeast Asia, China, Iran and other strategic markets.
- For machine tools and industrial machinery, where demand is rising rapidly in Japan and overseas, this business will continue to upgrade sales capabilities by dealing directly with users and conducting proposal-based transactions, thus raising profitability. Another goal is strengthening operations in China.

(1) Main Business

	Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Iron & Steel	Steel Trading and Steel Materials	Stainless steel, surface-treated steel plates, seamless piping, coking coal	Iron & Steel Foreign Trade Dept.	—	¥60 billion
	Cast and Forged Steel Products	Precision forged products	Forging & Casting Dept.	—	¥8 billion
	Domestic Iron and Steel	Steel products	Iron & Steel Administration Dept.	Kanematsu Trading Corp.	¥42 billion
Plants	Plants, Transportation Equipment	Various plants, automobiles, maritime equipment, ODA projects	Projects & Plant Machinery Dept. Transportation Machinery Dept.	—	¥42 billion
	Cable/Electric Power Projects	Telecommunications projects, optical fiber, electric power projects	Cable & Power Projects Dept.	—	¥5 billion
	Machine Tools and Industrial Machinery	Machine tools, industrial machinery	Machinery & Plant Administration Office	Kanematsu KGK Corp.	¥48 billion
				Total	¥205 billion

(2) Business Forecast for FY2004

(¥ million)

		FY2004 (Forecast)	FY2003 (Result)	Change
Iron & Steel	Net Sales	110,000	97,997	12,003
	Gross Trading Profit	7,500	6,163	1,337
	Ratio	6.8%	6.3%	0.5%
	Operating Income	3,100	2,359	741
	Ratio	2.8%	2.4%	0.4%
Plants	Net Sales	95,000	79,091	15,909
	Gross Trading Profit	9,000	7,379	1,621
	Ratio	9.5%	9.3%	0.1%
	Operating Income	1,500	1,014	486
	Ratio	1.6%	1.3%	0.3%

(3) Actions and Outlook for FY2004 (compared with FY2003 result)

<Iron & Steel>

◆Steel Trading and Steel Materials Business (sales up ¥8.0 billion, gross trading profit up ¥0.8 billion)

- In the core automotive steel business, performance is expected to remain strong, mainly in the Middle East and Asia. Rising demand for steel in China is causing a general shortage of products. Kanematsu will make its trading functions even more advanced in order to build stronger ties with manufacturers that are rooted in trust. By establishing a stable product supply system, this business is aiming for further growth in earnings.
- Sharp increases in the cost of coking coal and other steel raw materials is expected to produce a large increase in sales. A coking coal factory under construction in Tianjin, China is to begin operations during the March 2005 fiscal year. This facility will make a big contribution to sales and earnings over the medium and long terms.

◆Cast and Forged Steel Products Business (sales up ¥1.0 billion, gross trading profit up ¥0.4 billion)

- In automobile parts, the sharp rise in the cost of raw materials is pushing product prices up too. Although this will raise sales in North America, difficulties are foreseen. Results are expected to be strong in South America and Europe. The start of exports to China and other parts of Asia will generate additional earnings.
- In materials with special surface treatments, although a temporary downturn in shipments is taking place, a recovery in sales and earnings is expected in the fiscal year's second half. To strengthen the base for stable earnings, initiatives will be taken to become more price competitive, such as by reviewing the production network and channeling resources to this category.

◆Domestic Iron and Steel Business (sales up ¥3.0 billion, gross trading profit up ¥0.2 billion)

- Due to the impact of the rise in steel prices that began in 2003, sales are expected to increase. This business will seek new profit centers by developing new products and new applications. For established businesses, a rigorous credit management system will be used to control transactions, thus preserving and enlarging quality business relationships. Through these actions, this business plans to shift to a leaner operating framework.

<Plants>

◆Plants and Transportation Equipment Business (sales up ¥8.0 billion, gross trading profit up ¥0.2 billion)

- Marine equipment sold in Southeast Asia, auto exports and other sources of stable earnings will remain strong in the current fiscal year. Additional earnings will be provided by growth in outstanding contracts, mainly for plants in Southeast Asia, Iran and China, all areas where Kanematsu is strong.
- This business will continue to concentrate on capturing new projects in China, Southeast Asia and other markets where Kanematsu is strong. Further, the growth in outstanding contracts will raise earnings. In marine equipment, plans call for growth in Vietnam and the business is considering entry in other regions, thus building a solid and stable earnings base.

◆Cable/Electric Power Projects Business (sales up ¥4.0 billion, gross trading profit up ¥0.3 billion)

- This business is aiming to increase sales and earnings through fiber-optic cable exports to China, a communication cable laying project in Taiwan and the establishment of a broadband network business in Southeast Asia. In electric power projects, orders for several projects have been received, mainly in the Philippines, where this business is strongest. This business aims to enhance profitability through these projects and efforts to capture more contracts.

◆Machine Tools and Industrial Machinery Business (sales up ¥4.0 billion, gross trading profit up ¥1.1 billion)

- Amid favorable market conditions, this business is conducting direct sales and proposal-driven, value-added activities. The business will work vigorously to capture new projects to remain a consistent source of earnings.
- In line with the shift to China and Southeast Asia, overseas bases will be added and networks enlarged to expand in markets outside Japan, thus continuing to generate stable earnings.

Life Science & Energy

<Energy>

- By further raising efficiency of tank operations, a Kanematsu strength, this sector will generate stable earnings. In addition, earning power will be strengthened through self-service gas stations and other downstream activities.
- An ESCO (businesses that contribute to energy conservation) promotion team has been formed so that ESCO can be developed into a major source of earnings for the energy business. The goal is to commercialize this business and generate earnings during the current fiscal year.

<Life Science>

- In the performance chemicals business, an alliance with Kanematsu Chemicals Corporation allows matching specialized, highly profitable products with customer needs. The aim is to establish a stable earnings base that can provide customers with a timely supply of products.
- In the health care business, current core businesses will be maintained and enlarged while new materials are developed to add value to food products using medical and scientific methods to create new sources of earnings.

(1) Main Business

	Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Energy	Petroleum Products and Gas	Crude oil, petroleum products, propane, butane	Energy Dept.	Kanematsu Petroleum Corp.	¥180 billion
Life Science	Functional Chemicals	Battery materials, fertilizer materials, adhesive materials, solvents	Functional Chemicals Dept.	Kanematsu Chemicals Corp.	¥26 billion
	Healthcare	Functional food materials, Stolle Milk, nutritional supplements	Life Science Dept.	Kanematsu Wellness Corp.	¥3 billion
	Pharmaceuticals	Pharmaceuticals, pharmaceutical intermediates		—	¥1 billion
				Total	¥210 billion

(2) Business Forecast for FY2004

(¥ million)

		FY2004 (Forecast)	FY2003 (Result)	Change
Energy	Net Sales	180,000	177,170	2,830
	Gross Trading Profit	7,300	6,741	559
	Ratio	4.1%	3.8%	0.3%
	Operating Income	1,200	845	355
	Ratio	0.7%	0.5%	0.2%
Life Science	Net Sales	30,000	28,718	1,282
	Gross Trading Profit	2,800	2,517	283
	Ratio	9.3%	8.8%	0.6%
	Operating Income	800	697	103
	Ratio	2.7%	2.4%	0.2%

(3) Actions and Outlook for FY2004 (compared with FY2003 result)

<Energy>

◆**Petroleum Products and Gas Business (sales up ¥2.8 billion, gross trading profit up ¥0.6 billion)**

- In refined products, further emphasis will be placed on conducting efficient tank operations to increase earnings from this reliable profit center, making this sector confident of earnings growth. In the sale of gasoline and other products to end users, operations will be made more competitive by stressing a distinctive approach to suppliers and sellers. This will enhance downstream sales activities and raise earnings.
- Regarding gas stations, Kanematsu operates about 150 stations either directly or through alliances. As part of downstream activities, more self-service locations will be opened and, mainly in Kyushu, the Nagoya area and other regions where Kanematsu is strong, gas station networks will be expanded to raise sales and earnings.
- The export business will be strengthened in the strategic northeastern Asian region, mainly China and South Korea, regions where substantial growth in demand is foreseen.
- In the LPG business, Kanematsu will specialize in industrial LPG. Using an integrated system extending from procurement through sales and expertise in creating powerful distribution systems, the company is conducting proposal-driven activities to match each user’s needs, thus achieving high profitability. In the current fiscal year, earnings are to be increased by raising sales volumes.
- An ESCO (businesses that contribute to energy conservation) promotion team has been formed. This business will be conducted mainly through the nationwide network of Kanematsu Petro Co., Ltd. The goal is to commercialize this business and generate earnings during the current fiscal year.

<Life Science>

◆**Functional Chemicals Business (sales up ¥1.0 billion, gross trading profit up ¥0.2 billion)**

- Sales networks will be established and strengthened in China, Vietnam and other regions of Asia. Kanematsu will use its trading company functions to build multi-faceted businesses with the aim of raising sales and earnings in feedstuff materials, adhesive materials and battery materials.
- Lubricant additives, aroma materials and other established businesses are expected to continue performing well.

◆**Healthcare Business (sales up ¥0.3 billion, gross trading profit up ¥0.1 billion)**

- In the core Stolle Milk and Lact EX business, efforts will be made to increase sales in Japan, and the company will begin exports to Southeast Asia. This business is thus expected to generate additional earnings.
- In creatine and other functional food materials, aggressive sales initiatives are expected to produce gradual growth in sales and earnings. This business will also embark on sales of sports supplements and other products to establish new sources of earnings.

◆**Pharmaceuticals Business (sales flat, gross trading profit flat)**

- Exports of bulk pharmaceuticals to the Middle East and Asia and sales of pharmaceuticals in the U.S. are expected to remain strong. Through an even tighter focus on quality customers and deeper ties with manufacturers, this business aims to maintain stable earnings.
- As healthcare costs rise worldwide, Kanematsu is starting to import inexpensive generic pharmaceuticals from China, India and Eastern Europe. The goal is to generate additional earnings.

Textiles

- Focus on proposal-driven businesses that incorporate fashions with a high degree of added value.
- Use know-how backed by decades of experience and tradition along with a global network to conduct fully integrated operations covering everything from materials to production management in Japan and overseas and on to distribution.
- Even greater emphasis will be placed on core businesses, collaboration teams that encompass all activities in this business will be strengthened, and the sales support system will be upgraded to conduct sales activities that take the offensive.

☆ Business strategies

- Market strategy
  Stress SPA and retail in Japan; overseas, prioritize Europe/North America and China
- Merchandise strategy
  Emphasize brands and fashions
- Manufacturing strategy
  Reinforce manufacturing functions as a fabless manufacturer, enhance skills in materials, planning and proposals, build distribution functions

(1) Main Business

Business	Main Products	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Products	Cotton/knit cut-and-sew clothing, dresses, casual shirts, sports clothes, sports shoes??, denim items	Kanematsu Textile Corp. Kanematsu Italia S.p.A. KG Garment Supply Co., Ltd. U Textiles Co., Ltd.	¥40 billion
Materials	All types of woven items, knitting yarn, cotton/synthetic woven goods/functional materials for non-apparel uses	Kanematsu Textile Corp. Kanematsu Taiwan Corp. Kanematsu Textile (HK) Kanematsu USA Inc.	¥20 billion
		Total	¥60 billion

(2) Business Forecast for the FY2004

(¥ million)

	FY2004 (Forecast)	FY2003 (Result)	Change
Net Sales	60,000	64,240	(4,240)
Gross Trading Profit	5,500	5,321	179
Ratio	9.2%	8.3%	0.9%
Operating Income	1,900	1,581	319
Ratio	3.2%	2.5%	0.7%

(3) Actions and Outlook for March 2005 Fiscal Year

☆Products Business

- Sales capabilities will be heightened through even greater collaboration between manufacturing and sales. High-end materials and sophisticated production functions in China will be combined with planning and proposal skills to conduct highly profitable operations.
- Prominent overseas brands, such as the popular Italian sportswear brands Lotto Sport Italia, Lowe Alpine and Asolo, in soccer, futsal, tennis and other sports, will be introduced. In addition, Kanematsu will introduce its own knit, cut and sew items, women's denim products, men's casual wear and other proposal-based products in order to expand business where the company plays a central role.
- For prominent fashion lines, bases in New York, Milan, Paris, Hong Kong, Shanghai and other locations will be used. The goal is to use brands for accessories, miscellaneous items and other merchandise along with aggressive proposals for merchandise in order to increase the volume of business.

☆Materials Business

- Kanematsu will draw on its expertise in the export of printed knits to the U.S. and textiles to Europe, both of which have value added by design and planning skills. This business will also concentrate on exports of textiles from joint ventures in Malaysia and Indonesia to Europe, other regions of Asia and the Middle East.
- To create new sources of demand, develop original products using yarn made from Meryl, the nylon material brand of Italy's Nylstar, Europe's largest manufacturer of nylon.
- Combine skills in sourcing materials with Asian manufacturing activities to conduct global operations for the supply of materials and products to Europe and North America.

IV. Business Performance

Contents

Net Sales by Business Segment (Consolidated)

(¥ million)

	FY2003	FY2002	Comparison with FY2002		Main factors
			Change	Change (%)	
IT	227,922	229,505	(1,583)	(0.7)	Total for Parent company and Kanematsu Devices Corp.; -¥10.0 billion, Kanematsu Communications Ltd.; +¥9.8 billion, Kanematsu Taiwan Corp.; +¥1.0 billion, Kanematsu Aerospace Corp.; -¥2.6 billion
Foodstuffs	138,431	141,434	(3,003)	(2.1)	Kanematsu USA Inc.; -¥1.4 billion, Kanematsu Food Corp.; -¥1.2 billion
Iron, Steel & Industrial Plants	177,088	167,030	10,058	6.0	
Iron & Steel	97,997	84,194	13,803	16.4	Parent company; +¥1.9 billion, Kanematsu Trading Corp.; +¥9.6 billion, Kanematsu (Hong Kong) Ltd.; +¥2.5 billion, Nikko Boeki Kaisha Ltd.; -¥1.3 billion
Industrial Plants	79,091	82,836	(3,745)	(4.5)	Parent company; -¥9.3 billion, Kanematsu KGK Corp.; +¥8.5 billion, Nippon Pioneer Co., Ltd.; -¥2.3 billion
Life Science & Energy	205,888	223,709	(17,821)	(8.0)	
Life Science	28,718	33,187	(4,469)	(13.5)	Parent company; -¥3.8 billion
Energy	177,170	190,522	(13,352)	(7.0)	Parent company; -¥11.1 billion, Kanematsu Petroleum Corp.; +¥12.9 billion, Kanematsu Sekiyu Gas Co., Ltd.; -¥11.7 billion, Kanematsu Home Gas KK (3 companies); -¥3.3 billion
Textiles	64,240	72,591	(8,351)	(11.5)	Parent company; +¥0.8 billion, Kanematsu Textile Corp.; -¥5.8 billion, Kanematsu Textile (HK); -¥0.9 billion, KRK (HK); -¥1.7 billion, Club Monaco Japan Inc.; -¥0.4 billion
Others	5,289	5,356	(67)	(1.3)	
Sub Total	818,861	839,628	(20,767)	(2.5)	
Consolidation Adjustment	(387)	(653)	266	(40.7)	
Total	818,473	838,975	(20,502)	(2.4)	

Gross Trading Profit by Business Segment (Consolidated)

(¥ million)

	FY2003	FY2002	Comparison with FY2002		Main factors
			Change	Change (%)	
IT	22,672	22,555	117	0.5	Total for Parent company and Kanematsu Devices Corp.; +¥0.1 billion, Kanematsu Communications Ltd.; +¥0.8 billion, Kanematsu Mobile Ltd.; -¥0.3 billion
Foodstuffs	8,678	9,472	(794)	(8.4)	Parent company; -¥0.4 billion
Iron, Steel & Industrial Plants	13,542	15,693	(2,151)	(13.7)	
Iron & Steel	6,163	6,562	(399)	(6.1)	Parent company; +¥0.3 billion, Kyowa Steel Co., Ltd.; -¥0.4 billion (due to accounting change), Kanematsu USA Inc.; -¥0.2 billion
Industrial Plants	7,379	9,130	(1,751)	(19.2)	Parent company; -¥1.1 billion, Kanematsu KGK Corp.; +¥0.5 billion, Nippon Pioneer Co., Ltd.; -¥0.8 billion
Life Science & Energy	9,258	10,642	(1,384)	(13.0)	
Life Science	2,517	2,802	(285)	(10.2)	Parent company; -¥0.2 billion
Energy	6,741	7,839	(1,098)	(14.0)	Parent company; -¥0.7 billion, Kanematsu Petroleum Corp.; +¥1.2 billion, Kanematsu Sekiyu Gas Co., Ltd.; -¥0.6 billion, Kanematsu Home Gas KK (3 companies); -¥0.9 billion
Textiles	5,321	6,015	(694)	(11.5)	Kanematsu Textile Corp.; -¥0.1 billion, KRK (HK); -¥0.3 billion, Club Monaco Japan Inc.; -¥0.2 billion
Others	2,734	2,826	(92)	(3.3)	
Sub Total	62,208	67,205	(4,997)	(7.4)	
Consolidation Adjustment	0	1	(1)	(100.0)	
Total	62,208	67,207	(4,999)	(7.4)	

Operating Income by Business Segment (Consolidated)

(¥ million)

	FY2003	FY2002	Comparison with FY2002		Main factors
			Change	Change (%)	
IT	4,561	4,534	27	0.6	Kanematsu Communications Ltd.; +¥0.2 billion, Kanematsu Aerospace Corp.; -¥0.2 billion
Foodstuffs	1,568	1,972	(404)	(20.5)	Parent company; -¥0.3 billion
Iron, Steel & Industrial Plants	3,373	4,066	(693)	(17.0)	
Iron & Steel	2,359	2,147	212	9.9	Parent company; +¥0.3 billion, Kanematsu Trading Corp.; +¥0.1 billion, Kanematsu USA Inc.; -¥0.2 billion
Industrial Plants	1,014	1,919	(905)	(47.2)	Parent company; -¥0.9 billion, Kanematsu KGK Corp.; +¥0.3 billion
Life Science & Energy	1,542	2,193	(651)	(29.7)	
Life Science	697	665	32	4.8	
Energy	845	1,527	(682)	(44.7)	Parent company; -¥0.6 billion, Kanematsu Petroleum Corp.; +¥0.2 billion, Kanematsu Sekiyu Gas Co., Ltd.; -¥0.1 billion
Textiles	1,581	2,104	(523)	(24.9)	Kanematsu Textile Corp.; -¥0.3 billion, KRK (HK); -¥0.2 billion
Others	917	821	96	11.7	
Sub Total	13,544	15,691	(2,147)	(13.7)	
Consolidation Adjustment	9	24	(15)	(62.5)	
Total	13,554	15,716	(2,162)	(13.8)	

Increase (Decrease) in Ordinary Income (Consolidated)

(¥ million)

	FY2003	FY2002	Comparison with FY2002		Main factors
			Change	Change (%)	
Selling, general and administrative expenses	48,654	51,490	(2,836)	(5.5)	
Personnel expenses	24,631	26,297	(1,666)	(6.3)	Kanematsu Home Gas KK (3 companies); -¥0.6 billion, Kyowa Steel Co., Ltd.; -¥0.2 billion, Kanematsu USA Inc.; -¥0.1 billion, Kanematsu Aerospace Corp.; -¥0.1 billion
Non-personnel expenses	24,023	25,193	(1,170)	(4.6)	Kanematsu Home Gas KK (3 companies); -¥0.3 billion, Kyowa Steel Co., Ltd.; -¥0.2 billion, Kanematsu Aerospace Corp.; -¥0.1 billion, Kanematsu Agri-Tech Corp.; -¥0.1 billion, Kanematsu USA Inc.; -¥0.1 billion
Provision for doubtful accounts	227	408	(181)	(44.4)	
Depreciation and amortization	1,076	1,240	(164)	(13.2)	
Operating income	13,554	15,716	(2,162)	(13.8)	
Financial balance	(4,227)	(5,443)	1,216	(22.3)	
Interest	(4,933)	(5,954)	1,021	(17.1)	
Interest income	1,772	2,431	(659)	(27.1)	Parent company; -¥0.5 billion
Interest expenses	(6,705)	(8,386)	1,681	(20.0)	Parent company; +¥1.2 billion
Dividends	706	511	195	38.2	
Amortization of consolidation adjustment account	56	75	(19)	(25.3)	
Equity in earnings of affiliated companies	1,176	783	393	50.2	
Other non-operating income (losses)	145	941	(796)	(84.6)	
Profit (loss) on foreign exchange translation	(379)	(115)	(264)	229.6	
Others	525	1,057	(532)	(50.3)	
Non-operating income (losses)	(2,847)	(3,643)	796	(21.9)	
Ordinary income	10,706	12,073	(1,367)	(11.3)	

Major Changes in Assets (Consolidated)

(¥ million)

Items	FY2003	FY2002	Change	Main factors
Cash and bank deposits	36,280	35,851	429	Total for Parent company and Kanematsu Devices Corp.; +¥4.0 billion, Kanematsu KGK Corp.; +¥1.3 billion, KG International Trade; +¥0.8 billion, Kanematsu USA Inc.; -¥1.7 billion, Kanematsu Communications Ltd.; -¥1.7 billion, Nippon Pioneer Co., Ltd.; -¥0.3 billion, Consolidation adjustment; -¥1.8 billion
Notes and accounts receivable	150,096	160,363	(10,267)	Total for Parent company and Kanematsu Devices Corp.; -¥9.6 billion, Nippon Pioneer Co., Ltd.; -¥0.6 billion
Inventories	67,848	62,970	4,878	Total for Parent company and Kanematsu Devices Corp.; +¥7.5 billion, Kanematsu USA Inc.; -¥1.5 billion, KGK International Corp.; -¥0.9 billion, Kanematsu KGK Corp.; -¥0.3 billion
Short-term loans receivable	9,892	12,035	(2,143)	Total for Parent company and Kanematsu Devices Corp.; -¥34.8 billion, Elimination due to merger; +¥32.9 billion
Tangible fixed assets	71,565	77,990	(6,425)	Total for Parent company and Kanematsu Devices Corp.; -¥0.7 billion, Nippon Pioneer Co., Ltd.; -¥2.0 billion, Junkei Kosan Co., Ltd.; -¥1.6 billion, Kanematsu USA Inc.; -¥0.5 billion, Kanematsu (Hong Kong) Ltd.; -¥0.4 billion, Kanematsu Toshikaihatsu Co., Ltd.; -¥0.3 billion, Kanematsu Finance Corp.; -¥0.3 billion
Investments in securities	78,347	77,135	1,212	Total for Parent company and Kanematsu Devices Corp.; +¥5.5 billion, Kanematsu Investment China (loss on foreign exchange translation); -¥2.6 billion, KG Aircraft Leasing; -¥1.4 billion, Kanematsu Toshikaihatsu Co., Ltd.; -¥0.3 billion
Long-term loans receivable	20,751	25,073	(4,322)	Total for Parent company and Kanematsu Devices Corp.; +¥21.0 billion, Kanematsu (Hong Kong) Ltd.; -¥1.2 billion, KG International Trade; -¥1.1 billion, Kanematsu Finance Corp.; -¥0.3 billion, Kanematsu Textile Corp.; -¥0.3 billion, Elimination due to change in scope of consolidation; -¥22.2 billion
Doubtful accounts	38,870	39,938	(1,068)	Total for Parent company and Kanematsu Devices Corp.; -¥0.9 billion

Major Change in Liabilities (Consolidated)

(¥ million)

Items	FY2003	FY2002	Change	Main factors
Notes and accounts payable	121,101	113,512	7,589	Total for Parent company and Kanematsu Devices Corp.; +¥6.0 billion, Kanematsu KGK Corp.; +¥1.9 billion, Kanematsu Communications Ltd.; -¥0.9 billion
Short-term loans payable	121,716	314,921	(193,205)	Total for Parent company and Kanematsu Devices Corp.; -¥184.5 billion, Kanematsu (Hong Kong) Ltd.; -¥2.5 billion, Kanematsu USA Inc.; -¥2.4 billion, KGK International; -¥0.8 billion, Kanematsu Trading Corp.; -¥0.8 billion, Kanematsu Yuso Co., Ltd.; -¥0.5 billion
Corporate bonds	0	4,999	(4,999)	Parent company; -¥5.0 billion,
Long-term loans payable	201,809	35,215	166,594	Parent company; +¥164.8 billion, Kanematsu Agri-Tech Corp.; +¥0.6 billion, Kanematsu Trading Corp.; +¥0.5 billion, Tsuzuki Concrete Industrial Corp.; +¥0.4 billion, Kanematsu Communications Ltd.; +¥0.3 billion

Investments in Securities (Consolidated)

(¥ million)

Name		FY2003	FY2002	Change	Remarks
Listed equity shares (with market quotation)	Daifuku Co., Ltd.	5,797	4,305	1,492	
	Millea Holdings, Inc.	3,641	1,764	1,877	
	Toyama Chemical Co., Ltd.	1,554	1,708	(154)	
	Nippon Steel Corporation	1,182	750	432	
	Mitsui Sumitomo Insurance Co., Ltd.	922	463	459	
	Nisshin Seifun Group Inc.	905	769	136	
	Marudai Food Co., Ltd.	582	334	248	
	Mizuho Financial Group, Inc.	343	640	(297)	Sold
	UFJ Holdings, Inc.	—	708	(708)	Sold
	Sumitomo Mitsui Financial Group	34	266	(232)	Sold
	Others	4,916	3,155	1,761	
	Sub total	19,876	14,862	5,014	
Unlisted equity shares		19,946	22,813	(2,867)	Foreign exchange translation of shares of GATX Corp.; -¥1,145 million
Shares of affiliates and other investments		38,541	39,485	(944)	Foreign exchange translation
Total		78,362	77,160	1,202	Of which, valuation adjustment; +¥7,959 million

Amount posted in Balance Sheets

Short-term investments	15	24	(9)
Investments in securities	78,347	77,135	1,212
Total	78,362	77,160	1,202

Loans (Consolidated)

(¥ million)

Borrowers		FY2003	FY2002	Change	Remarks
Affiliates	Kaneyoshi Co., Ltd.	28	426	(398)	
	Others	9,600	10,282	(682)	
	Sub total	9,628	10,708	(1,080)	
Others	Braspetro Oil Services	2,516	3,291	(775)	Loans to Petrobras (Brazil Petroleum Public Corporation)
	Minmetals Trading Co.,Ltd.	1,335	2,494	(1,159)	Loan to Tianjin Tiesong Coking Co., Ltd.
	Others	17,164	20,615	(3,451)	
	Sub total	21,015	26,400	(5,385)	
Total		30,643	37,109	(6,466)	

Amount posted in Balance Sheets

Short-term loans receivable	9,892	12,035	(2,143)
Long-term loans receivable	20,751	25,073	(4,322)
Total	30,643	37,109	(6,466)

Doubtful Accounts (Consolidated)

(¥ million)

	FY2003	FY2002	Change	(For reference) Balance of specified reserve
Kitanodai Jutaku	8,530	8,530	—	(4,441)
P.T. Istana Kanephos	4,147	4,147	—	(2,527)
Santo Kaihatsu Co., Ltd.	3,880	3,880	—	(3,023)
Wajima Kosan Co., Ltd.	2,539	2,539	—	(2,152)
Doubtful accounts to institutions in countries in the former Soviet Union	2,358	2,466	(108)	(707)
SANEI Co., Ltd.	2,262	2,262	—	(2,259)
Doubtful accounts to institutions in Iraq	1,735	1,735	—	(1,735)
P.T.Little Giant Steel	1,409	1,409	—	(808)
Memorex Telex Distribution N.V.	1,150	1,150	—	(1,150)
Otehrs	10,855	11,820	(965)	(10,084)
Total	38,870	39,938	(1,068)	(28,886)

Notes: These claims are included in "Other assets" under "Investment and other assets" of the Balance Sheet.

The total balance of allowances for bad debt is coincided with the balance of allowance for doubtful accounts under noncurrent assets.

Guarantee Obligations (Consolidated)

(¥ million)

Obligors		FY2003	FY2002	Change
Affiliates	—	1,573	1,846	(273)
Others	Digital Telecommunications (Philippines)	630	7,097	(6,467)
	Others	1,972	2,663	(691)
	Sub total	2,602	9,760	(7,158)
Total		4,175	11,606	(7,431)

Consolidated Statement of Cash Flows

Notes: The accounting record of the Parent company includes that of the former Kanematsu Devices which was absorbed on October 1, 2003.

(¥ million)

Items	Amounts (¥ million)	Main factors (¥ billion)
I. Cash Flows from operating activities		
Income before income taxes and minority interests	5,057	
Depreciation and amortization	3,096	
Interest and dividends received	(2,478)	
Interest expenses	6,705	
Loss on sale of tangible fixed assets	1,842	
Loss on sale of investments in securities	(725)	
Loss on valuation of investments in securities	744	
Loss on sale of overseas operations	(2,253)	
Losses on liquidations of affiliated companies	1,741	
Provision for doubtful accounts by affiliated companies	924	
Damage compensation	970	
Provision for losses on guarantees	2,034	
Decrease in trade receivables	10,706	Parent company; +¥10.7, Kanematsu Textile Corp.; +¥1.4, Kanematsu KGK Corp.; -¥0.8, Kanematsu Trading Corp.; -¥0.8, Kanematsu USA Inc.; -¥0.4
Decrease in inventories	(7,519)	Parent company; -¥7.4, Kanematsu Communications Ltd.; -¥1.5, Kanematsu USA Inc.; +¥0.8, KGK International; +¥0.5, Kanematsu KGK Corp.; +¥0.3
Decrease in trade payables	9,652	Parent company; +¥9.7, Kanematsu KGK Corp.; +¥2.0, Kanematsu Petroleum Corp.; +¥0.5, Kanematsu Europe Plc.; -¥1.3, Kanematsu Communications Ltd.; -¥0.9, Kanematsu Textile Corp.; -¥0.5
Others	(4,100)	
Sub total	26,398	
	2,788	
Interest and dividends received	(6,462)	
Interest paid	(2,034)	
Income taxes paid	(1,421)	
Net cash provided by operating activities	19,268	
II. Cash flows from investing activities		
Net decrease in time deposits	(112)	
Purchases of tangible fixed assets	(2,089)	Parent company; -¥0.1, Kanematsu Top Co., Ltd.; -¥1.1, Tsuzuki Concrete Industrial Corp.; -¥0.2, Kanematsu Communications Ltd.; -¥0.1, Kanematsu Toshikaihatsu Co., Ltd.; -¥0.1
Proceeds from sale of tangible fixed assets	929	Parent company; +¥0.4, Kanematsu (Hong Kong) Ltd.; +¥0.3, Junkei Kosan Co., Ltd.; +¥0.2
Purchases of investment securities	(5,001)	Parent company; -¥4.9
Proceeds from sale of investment securities	6,632	Parent company; +¥4.9, Kanematsu Toshikaihatsu Co., Ltd.; +¥0.5, Kanematsu KGK Corp.; +¥0.3, Kanematsu Communications Ltd.; +¥0.3
Addition to short-term loans receivable	(360)	Parent company; -¥0.1, Kanematsu Textile Corp.; -¥0.2
Collection of short-term loans	5,659	Parent company; +¥2.9, KG International Trade; +¥1.0, Kanematsu (Hong Kong) Ltd.; +¥0.9, Kanematsu Textile Corp.; +¥0.5
Others	957	
Net cash provided by investing activities	6,614	
Free cash flow	25,883	
III. Cash flows from financing activities		
Net decrease in short-term loans	(34,610)	Parent company; -¥27.0, Kanematsu (Hong Kong) Ltd.; -¥2.0, Kanematsu Trading Corp.; -¥0.9, KGK International; -¥0.7
Proceeds from long-term debt	230,110	Parent company; +¥227.5, Kanematsu Agri-Tech Corp.; +¥0.8, Kanematsu Trading Corp.; +¥0.7, Kanematsu Communications Ltd.; +¥0.6
Repayment of long-term debt	(221,179)	Parent company; -¥220.1, Kanematsu Yuso Co., Ltd.; -¥0.5
Proceeds from the issuance of common stock	912	
Others	(56)	
Net cash used in financing activities	(24,822)	
IV. Effect of exchange rate changes on cash and cash equivalents	(649)	
V. Net increase in cash and cash equivalents	411	
VI. Cash and cash equivalents at beginning of year	35,501	
VII. Cash and cash equivalents at end of year	35,913	

(Beginning of year)	Cash and deposits at beginning of term (Amount posted on Balance Sheets)	35,851	¥ million
	Time deposits with maturity of 3 months or longer	(349)	
	Cash and cash equivalents	35,501	¥ million
(End of year)	Cash and deposits at end of term (Amount posted on Balance Sheets)	36,280	¥ million
	Time deposits with maturity of 3 months or longer	(367)	
	Cash and cash equivalents	35,913	¥ million

Number of Employees by Business Segment (Consolidated)

Business segment	3/2004					3/2003					Change
	Parent company	Subsidiaries			Total	Parent company	Subsidiaries			Total	
		Domestics	Overseas	Sub total			Domestics	Overseas	Sub total		
IT	410	443	54	497	907	118	672	74	746	864	43
Foodstuffs	155	227	30	257	412	155	245	26	271	426	(14)
Life Science & Energy	49	294	11	305	354	50	313	13	326	376	(22)
Iron, Steel & Industrial Plants	105	439	284	723	828	102	538	275	813	915	(87)
Textiles	0	164	50	214	214	0	181	54	235	235	(21)
Others	174	139	63	202	376	183	139	67	206	389	(13)
Total	893	1,706	492	2,198	3,091	608	2,088	509	2,597	3,205	(114)

Business segment	Change					Main factors
	Parent company	Subsidiaries			Total	
		Domestics	Overseas	Sub total		
IT	292	(229)	(20)	(249)	43	Parent company (Devices company); +288, Kanematsu Devices Corp. (absorbed); -262, Kanematsu Communications Ltd.; +30
Foodstuffs	0	(18)	4	(14)	(14)	
Life Science & Energy	(1)	(19)	(2)	(21)	(22)	Kanematsu Petroleum Corp.; -17
Iron, Steel & Industrial Plants	3	(99)	9	(90)	(87)	Nippon Pioneer Co., Ltd.; -93
Textiles	0	(17)	(4)	(21)	(21)	Kanematsu Textile Corp.; -21
Others	(9)	0	(4)	(4)	(13)	
Total	285	(382)	(17)	(399)	(114)	

Number of Consolidated Companies

Business segment	3/2004			3/2003		
	Subsidiaries	Affiliates	Total	Subsidiaries	Affiliates	Total
IT	12	5	17	11	7	18
Foodstuffs	8	7	15	8	7	15
Life Science & Energy	4	5	9	4	5	9
Iron, Steel & Industrial Plants	15	8	23	16	9	25
Textiles	7	13	20	7	16	23
Overseas subsidiaries	10	1	11	10	1	11
Others	13	8	21	13	8	21
Total	69	47	116	69	53	122

Business segment	Change			Main factors
	Subsidiaries	Affiliates	Total	
IT	1	(2)	(1)	Subsidiaries: <Decrease> Kanematsu Devices Corp. <Increase> Chicago Hawk Aerospace Technologies, Inc. Delaware Aerospace Technologies, Inc. Affiliates: <Decrease> Glory (U.S.A) Inc., Glory GmbH
Foodstuffs	0	0	0	
Life Science & Energy	0	0	0	
Iron, Steel & Industrial Plants	(1)	(1)	(2)	Subsidiaries: <Decrease> Nippon Pioneer Co., Ltd. Affiliates: <Decrease> NIDEC-Kyori Corp.
Textiles	0	(3)	(3)	Affiliates: <Decrease> Gosen Co., Ltd., Shanghai Takaya Fashion Co, Ltd. SILVER SHIRTS MANUFACTURING CO., LTD
Overseas subsidiaries	0	0	0	
Others	0	0	0	
Total	0	(6)	(6)	

Main Profitable and Non-Profitable Companies

1. Main Profitable Companies

Name	Equity stake (%)	Paid-in capital (in thousands, ¥ thousand)	Business lines	Profit/loss to parent company (¥ million)	
				FY2003	FY2002
Consolidated subsidiaries					
Kanematsu Communications Ltd.	100.00	425,000	Sale of mobile communications equipment, system development, operation, maintenance	**763**	610
Kanematsu USA Inc.	100.00	US$ 100,000	(Overseas subsidiary)	**611**	337
Kanematsu Textile Corporation	100.00	1,500,000	Sale of textiles products and fibers	**352**	432
Kanematsu KGK Corp.	97.90	706,835	Sale of manufacturing machines	**224**	10
Kanematsu Petroleum Corp.	100.00	1,000,000	Sale of petroleum products and LPG	**177**	(48)
Equity-method affiliates					
GATX Partnership Limited	25.00	-	Aircraft leasing	**595**	651
Kanematsu Electronics Ltd.	29.31	9,031,258	Sale, export and import of electronic parts and software	**505**	202
Nippon Office Systems Ltd.	42.74	1,024,943	Sale and maintenance services for computers and data equipment	**129**	83

2. Main Non-Profitable Companies

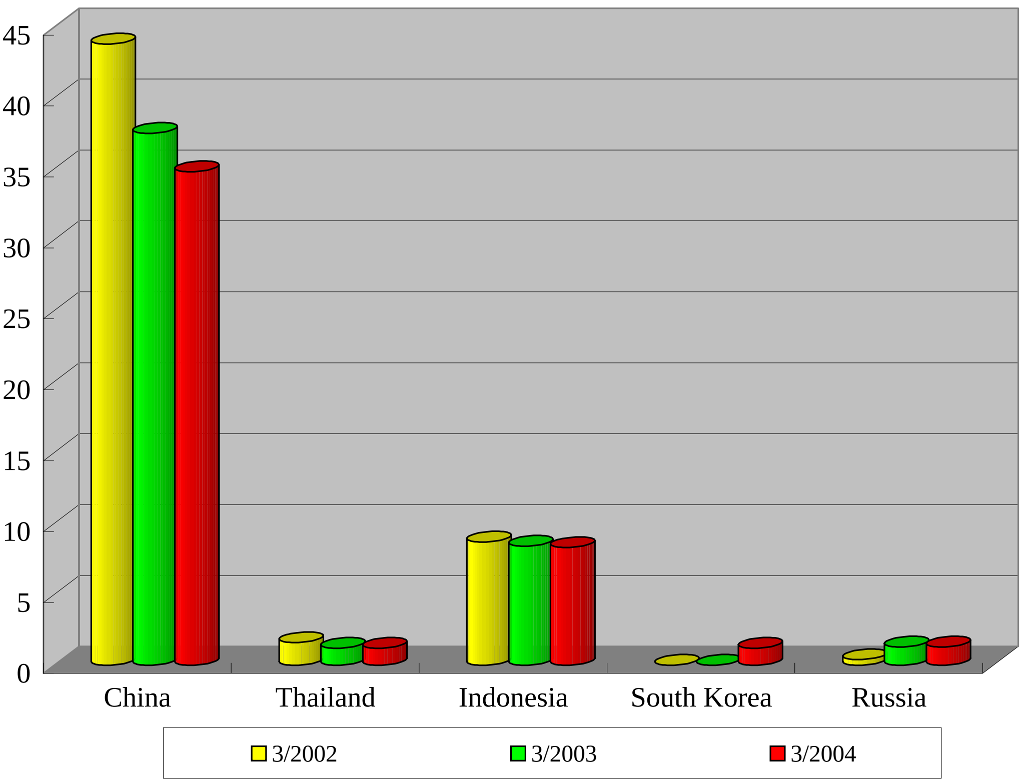
Name	Equity stake (%)	Paid-in capital (in thousands, ¥ thousand)	Business lines, reason for loss-making, and future policies	Profit/loss to parent company (¥ million)	
				FY2003	FY2002
Consolidated subsidiaries					
Junkei Kosan Co., Ltd.*	96.81	10,000	Real estate industry. Posted a loss on sale of real estate.	**(1,557)**	(201)
Nippon Liquor Ltd.	80.00	105,000	Sale of imported wines. Wine sales face difficult market conditions	**(159)**	(106)
Equity-method affiliates					
Memorex Telex Japan Ltd.	31.47	2,030,055	Sale of computer peripheral units and supplies. Implemented restructuring.	**(204)**	12
Higashine Resort Kaihatsu Co., Ltd.*	42.11	475,000	Undertook ski resort management. We are implementing a variety of measures to achieve break-even. Possible sale of this resort is not ruled out.	**(86)**	(100)

* In the case of companies marked with an asterisk, the parent company has provided reserves to cover valuation losses on equity stake.

3. Number of Profitable and Non-Profitable Companies

	Profitable companies				Non-profitable companies			Total
	Subsidiaries	Affiliates	Sub total	Ratio	Subsidiaries	Affiliates	Sub total	
3/2004	**60**	**34**	**94**	**81.03%**	**9**	**13**	**22**	**116**
9/2003	55	37	92	78.63%	13	12	25	117
3/2003	55	39	94	77.05%	14	14	28	122

Consolidated (Investment/Loan & Guarantee) Obligations & Hedge Conditions for South East Asia and Russia



(¥ billion)

Country	Investment	Loans	Guarantee obligation	Sub total	Hedge amount (including insurance)	Net Position	Previous term-end (for reference)	Term-end two years previous (for reference)
China	28.2	2.8	1.5	32.5	—	32.5	37.5	43.8
Thailand	0.4	0	0.7	1.1	—	1.1	1.2	1.6
Indonesia	1.4	6.6	0.1	8.1	0.1	8.0	8.4	8.7
South Korea	1.4	—	—	1.4	—	1.4	0	0.0
Russia	—	1.2	—	1.2	—	1.2	1.3	0.4
Total	31.4	10.6	2.3	44.3	0.1	44.2	48.4	54.5

Notes 1: Hedge amount is defined here as the amount covered by insurance for investments and loans, as well as the amount of common risk exposure shared, for example, by a number of companies, in respect to country risk hedge.

2: Hong Kong is included with China

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