KANEMATSU CORPORATION

Shifting Gear for Growth

Annual Report 2013

In 2014, Kanematsu will commemorate its 125th anniversary
since its founding in 1889 as one of the pioneers
in trading between Japan and Australia.
Always looking ahead to the future, Fusajiro Kanematsu, the founder,
kept trying to create new businesses.
Kanematsu, with his dynamic pioneering spirit and
creative ingenuity as its guiding principles,
has expanded its fields of operation
to meet the needs of each succeeding generation,
to become the global company that it is today.
From here on, as well, we aim to become a "Value Creator"
by continuing to build new businesses together with our customers
in this ever-changing social and economic environment.

Corporate Principle

"Let us sow and nurture the seeds of prosperity for Japan"

"If we sow a seed, we can expect it to develop into a seedling that generates content and prosperity for Japan. Let us sow that seed now." So spoke our founder Fusajiro Kanematsu at the establishment of the Company. Furthering the "public interest" of Japan was the guiding mission of all leading Japanese of the late nineteenth century (Meiji period) in developing the national economy. Today, our founder's ideal underlies all our Company's public benefit and community activities and our contributions to nations and peoples generally.

On the occasion of the merger in 1967 with The Gosho Company, the Company enshrined its founder's ideals in a document titled Our Beliefs: Kanematsu's Guiding Principles.

(Translated from the Japanese)

OUR BELIEFS
Kanematsu's Guiding Principles

1. We believe that we should achieve prosperity of our business through just and fair earnings in the pioneering spirit as fostered by our predecessors with the wisest use of our creative imagination and ingenuity.
2. We believe that our Company should justify its existence by promoting a sound and flourishing business which fulfils its responsibilities toward the welfare of society and also contributes to the security and well-being of us all.
3. We believe that each one of us should attend to business not as an individual but as a member of the organization abiding by company rules, carrying out duties with a sense of loyalty to the Company and a spirit of cooperation and understanding toward all other members of the organization.

Contents

Forward-Looking Statements

This annual report contains statements regarding Kanematsu Group's plans, strategies, and expectations for future performance. Such statements are inherently subject to risk and uncertainty. Actual results could diverge materially from the Group's projections due to changes in the economic and market environment surrounding the Group's business areas, such as exchange rate fluctuation.

To Our Stakeholders

Kanematsu Corporation was founded on August 15, 1889 as one of the first Japanese companies to take part in direct trade between Japan and Australia. Since this milestone, our business has continued to expand in response to evolving market needs over the years, and today we have grown into an enterprise with a global network. Current business activities span the sectors of Electronics & Devices; Foods & Grain; Steel, Materials & Plant; and Motor Vehicles & Aerospace. While ensuring we can supply quality products and services to our customers through our domestic and overseas business networks, we remain constantly committed to discovering new business opportunities.

Fiscal 2013 was the final year of our ***"S-Project"*** medium-term business plan. Results for the year were consolidated ordinary income of ¥16.7 billion against our target of ¥14.0 billion, and net income of ¥9.6 billion, greatly exceeding our target of ¥6.5 billion. On the financial side, we achieved an equity ratio of 13.7% against our target of 10%, thereby steadily improving our financial standing. The ***"S-Project"*** also promoted future growth investments and took steps to raise enterprise value.

Our new medium-term business plan (April 2013 through to March 2016), holds the vision of "Jump to the next stage leading to the future." In 2014, we will establish a solid growth track for the future as we commemorate our 125th anniversary.

Fusajiro Kanematsu, the founder, always tried to foresee future needs and boldly embarked on the challenge of creating new businesses. His pioneering spirit and belief in aggressive innovation are guiding us even today. From here onward, as well, we will further develop professional organizations and personnel so that we continue to be a "Value Creator" like our founder. We will also grow and develop together with our customers by providing products and services not only for our customers but also for the benefit of society as a whole, and will work constantly to further enhance the Group's enterprise value.

We look forward to the continued understanding and support of all our stakeholders.

August 2013

Toshihiro Kashizawa, *Chairman*

Masayuki Shimojima, *President*

Chairman
Toshihiro Kashizawa

President
Masayuki Shimojima

Strategy

The Kanematsu Group reviews its business strategy every three years. Below, President Masayuki Shimojima provides an overview of the results of *"S-Project,"* our previous medium-term business plan (April 2010 to March 2013) and explains our new medium-term business plan (April 2013 to March 2016).

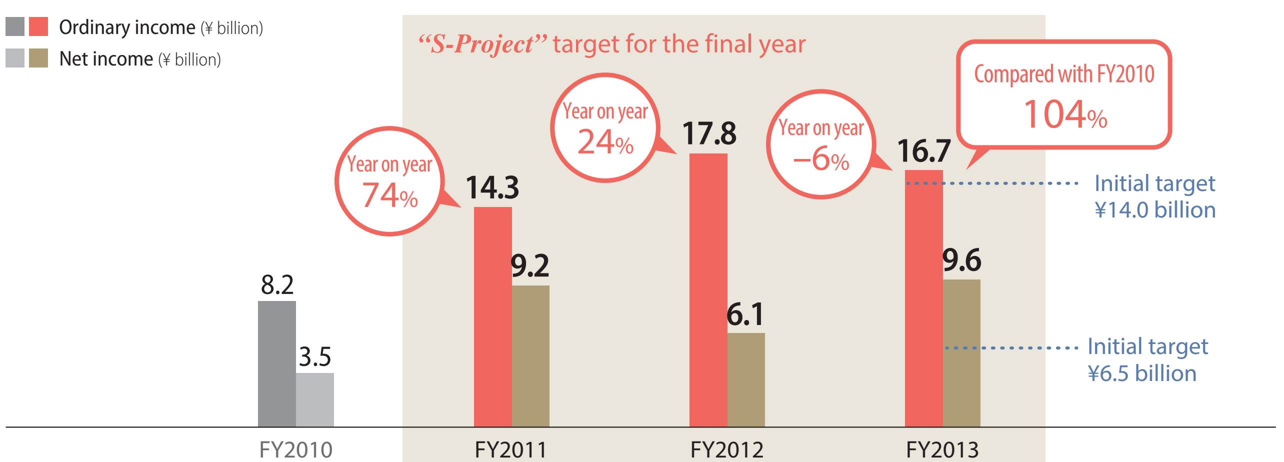
"S-Project" Overview

The *"S-Project,"* our previous medium-term business plan, started in April 2010 amid the financial crisis and global recession that followed Lehman Brothers' bankruptcy, when consolidated ordinary income had dropped to ¥8.2 billion in the previous fiscal year.

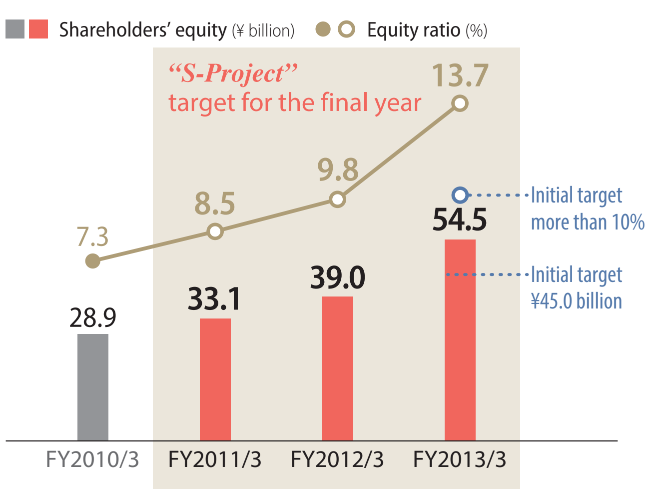
In short, in the final fiscal year (ending March 31, 2013) of *"S-Project"* our targets were gross profit of ¥80.0 billion, operating income of ¥19.0 billion, ordinary income of ¥14.0 billion, and net income of ¥6.5 billion on a consolidated basis. We achieved or exceeded those targets (except for operating income) with gross profit of ¥80.0 billion, operating income of ¥18.3 billion, ordinary income of ¥16.7 billion, and net income of ¥9.6 billion. We did not achieve our operating income target because selling, general and administrative expenses increased due to investments for business expansion in the second half of the *"S-Project."*

On the financial side, in the final year of the plan, our targets were to attain an equity ratio of more than 10% and a net debt-equity ratio of around 2.0 times. We achieved both of these targets with an equity ratio of 13.7% and a net debt-equity ratio of 1.6 times. As a result of increased investments, net interest-bearing debt came to ¥86.4 billion, slightly exceeding our final year's target of ¥84.0 billion. However, we significantly improved our financial position by building up shareholders' equity, as well as the contribution from net income, which exceeded our plan's target.

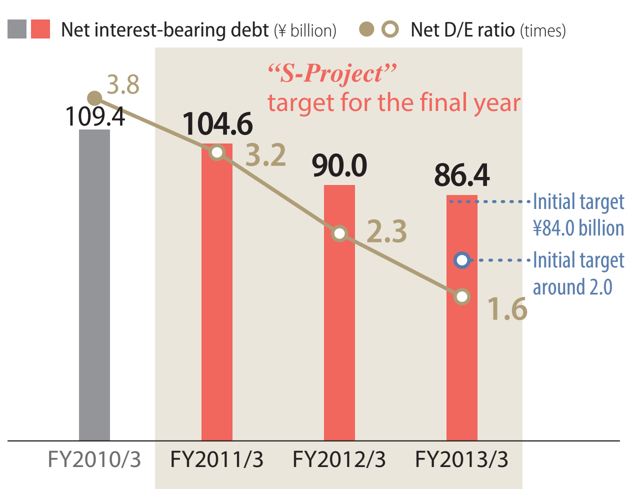
Ordinary income/Net income



Shareholders' equity and equity ratio



Net interest-bearing debt and net D/E ratio



Medium-Term Business Plan
(April 2013 – March 2016)

Basic Concept and Priority Measures

President
Masayuki Shimojima

Vision
— Jump to the next stage to the future —

Basic Concept

- Take a positive stance to enable rapid progress and to establish a solid growth track in preparation for the 125th anniversary.
- Continue to develop professional organizations and personnel as a business creation group, aiming for coexistence and mutual development with our business partners.
- Endeavor to consistently increase corporate value to meet the expectations of domestic and foreign stakeholders.

Q1 ▷ What approach does the new medium-term business plan take?

▶ **We will further leverage Kanematsu's pioneering spirit, its DNA, and as a "Value Creator," continue to develop new businesses.**

During the three years of the *"S-Project"* medium-term business plan (April 2010 to March 2013), the Kanematsu Group achieved positive results including increased earning power and improved financial results (see P.4). In those three years, shifting to a more aggressive management approach, we increased profits and made significant progress in new business developments including several investment projects. We feel confident in our pursuit of the next growth stage.

With a 124-year history, Kanematsu has inherited the pioneering spirit — the DNA — of its founder Fusajiro Kanematsu. Underlying this is a philosophy of growing together with our customers. This builds stronger relationships of trust, promotes business creation with them, and through our work, helps customers and world economic development. By continuously creating business with our customers, we can further grow and expand the Kanematsu Group's business base. As a result, enterprise value increases. Our goal is to become a company that can fully meet the expectations of its stakeholders.

The new medium-term business plan begun in April 2013 has been formulated based on the approach I have just described. I will explain the goals and strategies of the new medium-term business plan.

Priority Measures

1. Strengthen the global value chain in anticipation of evolving needs

Swiftly and accurately grasp changing trends in developed and developing countries and make positive investments to build and strengthen a solid value chain based on customers' needs.

2. Increase consolidated earnings strength through integration of the Group's capabilities, mutual collaboration and effective allocation of resources

To accelerate actions in our areas of strength, intensively allocate resources.
Reinforce cross-departmental collaboration in pursuit of higher consolidated revenues.

3. Build robust finances unaffected by economic circumstances

Strengthen our compliance structure and advance the risk management structure to accumulate sound assets and to maintain a good debt-capital balance.

4. Develop global professionals

Step up efforts to increase personnel with the capacity to quickly respond to changes in global circumstances and with the knowledge to meet diverse needs.

5. Resume dividend payments and achieve constant dividend payments

Work to quickly ensure the stable and sustained payment of appropriate dividends.

Q2 ▷ What are the priority measures of the new medium-term business plan?

▶ **Because we will commemorate the 125th anniversary of our founding during the new medium-term business plan, we will take a more aggressive management approach.**

We will look at our future and take positive steps to achieve rapid progress and solidify our growth track as we head to our 125th anniversary in 2014. As a business creation group, we will continue to train our people to maintain a professional organization aiming for mutual development with our business partners. We will strive to consistently increase corporate value to fully meet the expectations of domestic and foreign stakeholders.

As priority measures, we will primarily address five themes, shown in the chart above. In particular, by accurately grasping changing trends in developed and developing countries, we plan to invest aggressively to further strengthen our global value chain. In the second half of fiscal 2013, we undertook several initiatives in a number of fields through aggressively investment in overseas businesses. In iron and steel, we invested in an oilfield tubing company that specializes in deepwater and ultra-deepwater oil wells, as well as shale gas and shale oil production wells, an area where the Kanematsu Group has a strong business foundation (see P. 20). In the food and grain business, following the expansion of Japanese convenience stores and restaurant chains in Southeast Asia, we invested in a joint-venture food-processing company with a local partner (see P. 17).

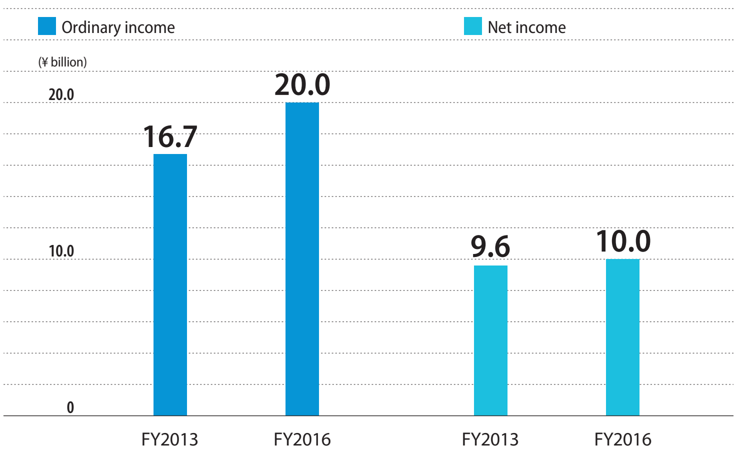
The United States market has recovered from the downturn and remains an important market for the Kanematsu Group. We will further seek opportunities in the auto industry, where we have a significant customer base, as well as in the natural resources businesses with the expectation of further industry growth after "The Shale Gas Revolution."

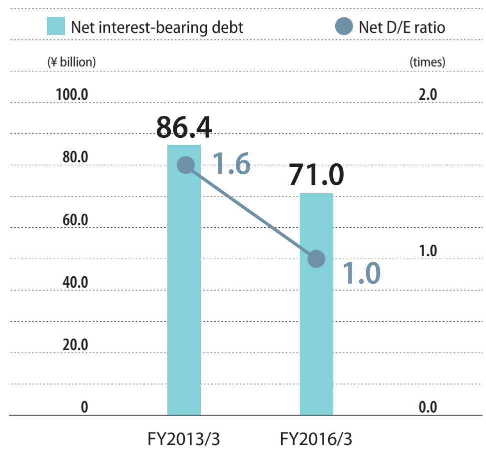
To reinforce the strengths of the Kanematsu Group, we will allocate Company resources in a selective and focused manner, collaborate more closely across divisions and subsidiaries, and seek to raise earnings on a consolidated basis. Financially, while maintaining the soundness of assets using advanced risk management methods, we will maintain an adequate balance of debt to equity. Further, we will promptly resume dividend payments in anticipation of a continuous and stable dividend payout.

Targets

◆ Final fiscal year of new medium-term business plan (FY2016)

Consolidated Ordinary Income	Consolidated Net Income	Net D/E Ratio
¥20 billion	¥10 billion	Maintain at 1.0 level





Q3 ▷ What are your quantitative targets?

▶ **Our goal is to steadily increase net sales and gross profit while investing for growth.**

The targets for fiscal 2016, the final year of our plan, are gross profit of ¥92.0 billion, operating income of ¥22.0 billion, and net income of ¥10.0 billion (see P 10). While it may seem a little too conservative, the plan still includes 5% growth in gross profit every year. I believe our targets are optimistic, considering the expected changes in the economic environment and trends in China, Europe, and other regions. Thus far, we have focused on improving our financial position, such as by reducing our interest-bearing debt, and keeping investments to the bare necessary minimum. However, in our new medium-term business plan, we will aggressively distribute increased profits into growth investments to further expand our business base. Needless to say, we intend to resume dividend payments as soon as possible. While taking comprehensively into account the balance between growth investments and shareholder returns, we will raise enterprise value by continuing our new business creation initiatives.

Q4 ▷ What initiatives will you take in your main areas of focus?

▶ **In each of our four divisions, we have main areas of focus.**

In the food and grain business, we will create a global value chain, rigorously carry out traceability management, speed up investment in Asia, and expand multilateral trade. In addition to supplying food and grain, feedstuff, and raw materials to the Japanese market, where we are strong in this segment, we will build a global value chain, particularly in Asia, a market in which people's food preferences are changing significantly, and further accelerate investment

Main Areas of Focus

1. Global expansion of the food and grain business
2. Enlargement of the electronics, devices and ICT businesses
3. Strengthening of the automotive and mechanical parts business
4. New cultivation of the energy, materials and infrastructure markets

to develop our business model, which targets overseas consumers. Specifically, we will focus on developing the ready-cooked foods and deli products businesses and also on building a platform for the expansion of meat and feedstuff sales to Asia. In addition, like last year's investment in a U.S. soybean processing firm, we will secure exclusive producers and expand production areas overseas for meat and marine products, grains, and feedstuff, and as a result, expand multilateral trading and increase it volume (see P. 15).

In the electronic, device and ICT fields, we will focus on the global expansion of our system integration business, as well as our mobile device sales business, building a global value chain for the device business, and collaboration from the development stage with leading overseas companies. As for system integration, we will build out infrastructure for customers who are increasingly expanding business overseas, and firmly establish borderless cloud computing businesses. In the mobile device sales business, amid industry reorganization, we will increase our market share through aggressive M&A. In the device business, we will expand our supply system, especially key components for smart devices, and upgrade our value chain globally (see P. 12).

In the auto and mechanical parts field, the newly formed Motor Vehicles and Aerospace Division will focus on building a stronger global supply chain in the motorcycle and automobile business, create synergies through information-sharing with the Aerospace Department, as well as expanding the aircraft, helicopter, and satellite-related businesses. Globally, the motorcycle and automobile markets are still undergoing remarkable growth with the diversification of demand. Fully leveraging the Kanematsu Group's overseas network, we will expand our business by strengthening our sales force, sourcing, and technological development capabilities, along with our logistics functions. We plan to create new business opportunities by introducing advanced aerospace technology into the motor vehicles segment (see P. 21).

In the energy, materials, and infrastructure markets, we will focus on expanding the steel business in North America and Asia, developing new products for the new energy and new materials fields, exploring more opportunities in emerging countries in the machinery and plant division, and promoting synergies between raw materials and products. In the iron and steel division, we will explore and conduct horizontal expansion in the oilfield tubing business in energy-related fields in North America and Asia, the stainless steel business in environment-related fields, and in other businesses as well. As new areas of focus, we will develop new materials products such as pharmaceuticals and their intermediates, health food, photovoltaic modules, and lithium batteries. In the machinery and plant division, we will focus on the plant business including the overseas expansion of machine tool and industrial machinery sales, and in Asia we will focus on chemicals, the environment, infrastructure facilities, and renewable energy (see P. 18).

Q5 ▷ What do you expect from the divisional restructuring?

▶ **Making our priority measures more achievable by further unleashing our existing strengths.**

The purpose of the reorganization into four divisions was to make the priority measures and priority focuses in the new medium-term business plan more achievable, to unleash the Kanematsu Group's strengths, and to aggressively accelerate business expansion. Enlarging the size of a business division makes it easier for the division to promote new projects including investments. It will also allow us to share resources such as personnel and overseas facilities so they can be used for various types of business development.

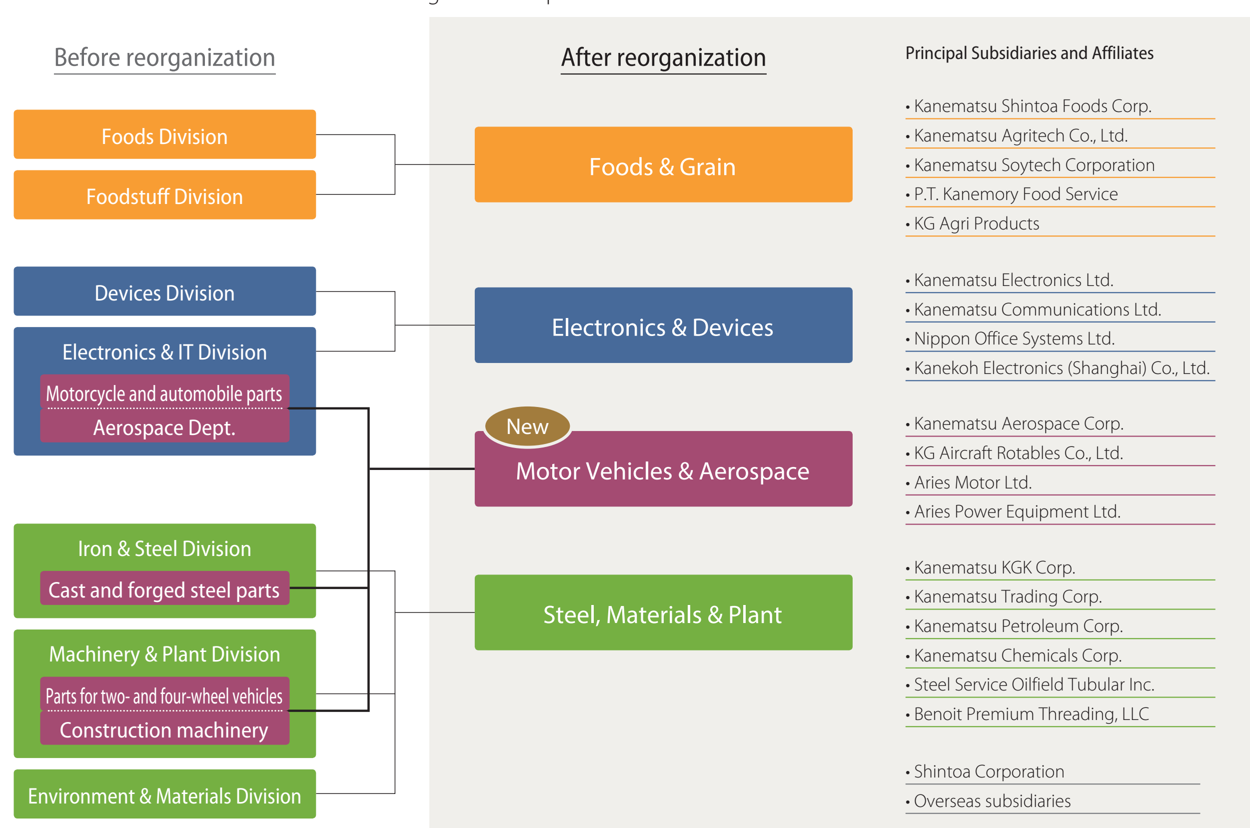
Kanematsu integrated the automotive-related business, which had been handled by the three divisions, Electronics and IT, Iron and Steel, and Machinery and Plants, and then combined it with the aerospace business to form the new Motor Vehicles and Aerospace Division. We will continue to aggressively expand business in the automobile industry, where global growth is expected, and develop it so that it becomes a new earnings driver for the Kanematsu Group.

In addition, we will explore more opportunities for horizontal expansion of the customer base by promoting cross-divisional collaboration, such as sharing and utilizing more business information throughout the organization.

In each division, we segment our business portfolio into the four categories of "Fundamental Trading," "Horizontal Expansion," "Value Exploration," and "New Businesses" with the aim of maintaining and increasing our profit opportunities. "Fundamental Trading" is a model that provides traditional trading company functions and consists mainly of established, stable businesses. The key missions of the businesses in this segment include providing valuable supplemental information that can become seeds for new businesses. "Value Exploration" consists largely of profitable businesses with more growth opportunities from providing additional services to customers and then leveraging those services as a competitive advantage. In "New Businesses," utilizing the expertise and know-how that the Kanematsu Group has developed over many years, we will continue to start up new businesses tailored to our customers' strategies and needs in new business domains, "Horizontal Expansion" seeks to expand the already-successful business models of "Fundamental Trading," "Value Exploration," and "New Businesses" and increase our sales volume with new customers and in new markets.

Organization

To increase the viability of the priority measures and display the strengths of the Kanematsu Group, our divisions were reorganized in April 2013.



Outlook for the Three-Year Period

Sales and Income

(¥ billion)

	FY2013	New Medium-Term Business Plan			From FY2013	
		FY2014	FY2015	FY2016	Change	% Change
Net Sales	1,019.2	**1,050.0**	**1,100.0**	**1,150.0**	130.8	12.8%
Gross Trading Profit	80.0	**84.0**	**88.0**	**92.0**	12.0	15.0%
Operating Income	18.3	**19.0**	**20.5**	**22.0**	3.7	20.5%
Ordinary Income	16.7	**17.0**	**19.0**	**20.0**	3.3	19.7%
Net Income	9.6	**6.0**	**8.0**	**10.0**	0.4	4.6%

Financial Indicators

(¥ billion)

	FY2013/3	New Medium-Term Business Plan			From FY2013/3	
		FY2014/3	FY2015/3	FY2016/3	Change	% Change
Total Assets	399.2	**419.0**	**427.0**	**444.0**	44.8	11.2%
Shareholders' Equity	54.5	**60.3**	**67.0**	**74.9**	20.4	37.4%
Equity Ratio (%)	13.7	**14.4**	**15.7**	**16.9**	up 3.2pt	—
Gross Interest-Bearing Debt	146.9	**146.9**	**146.9**	**146.9**	0.0	0.0%
Gross D/E Ratio	2.7	**2.4**	**2.2**	**2.0**	down 0.7pt	—
Net Interest-Bearing Debt	86.4	**81.0**	**76.0**	**71.0**	–15.4	–17.9%
Net D/E Ratio	1.6	**1.3**	**1.1**	**1.0**	down 0.6pt	—

Q6▷ Finally, what is the outlook for the fiscal year ending March 31, 2014?

▶ We will set ourselves on a steady course for another jump to the future.

In the fiscal year ending March 31, 2014, while the United States is expected to continue on a modest recovery path, Europe has only just begun to take steps toward financial soundness. Therefore, the global economic slowdown is expected to continue over the long term. Despite slower growth in China and emerging countries in Asia, as consumer spending is increasing, we anticipate continued growth. The Japanese economy is showing signs of a recovery led by higher exports on the back of an economic rebound overseas and the yen's depreciation. Moreover, a consumption tax increase is expected to trigger last-minute demand, so consumer spending should be strong for a while.

Under the circumstances, in the fiscal year ending March 31, 2014, we are targeting net sales of ¥1,050.0 billion, operating income of ¥19.0 billion, ordinary income of ¥17.0 billion, and net income of ¥6.0 billion.

We are steadily executing our strategy and investing in each of our business fields, thereby setting ourselves on a steady course for growth to fulfill the expectations of our stakeholders.

Segments

The Kanematsu Group is developing global businesses as a "Value Creator" that provides diverse products and services based on industries in a wide range of fields. It is building strong relationships as it works to create businesses together with customers.

In this section, we will explain the strategies and goals and major policies under our new medium-term business plan (April 2013 to March 2016) in four sales divisions: Electronics & Devices; Foods & Grain; Steel, Materials & Plant; and Motor Vehicles & Aerospace.

This section is an overview of our new business segmentation in the year ending March 31, 2014. Please see pages 34 and 35 (Analysis of financial position and business performance) for information about the old segments.

Electronics & Devices

This segment handles a broad array of products, ranging from electronics-related materials to parts and equipment. It also operates mobile solution, ICT solution and other businesses, as well as original equipment manufacturing (OEM) and original design manufacturing (ODM) businesses.
This segment supports customers undertaking global expansion through its extensive electronics technologies and know-how.

In the Electronics & Devices Division, we aim to create high value-added businesses by proposing value chains that match customers' needs from the development to mass-supply stages, based on our extensive know-how gained from long experience.

Our goal is to become No. 1 globally in each of the products we trade. We are determined to accurately understand market needs and build up our business base while shifting resources to the expanding Asian and emerging country markets and the recovering United States market. At the same time, we are considering capital or operating alliances and other partnerships to expand the scale and role of our business.

We will contribute to economic development in emerging countries and elsewhere, based on the global procurement, marketing and value-added creation capabilities of the Group.

Kaoru Tanigawa *Director, Electronics & Devices Division*

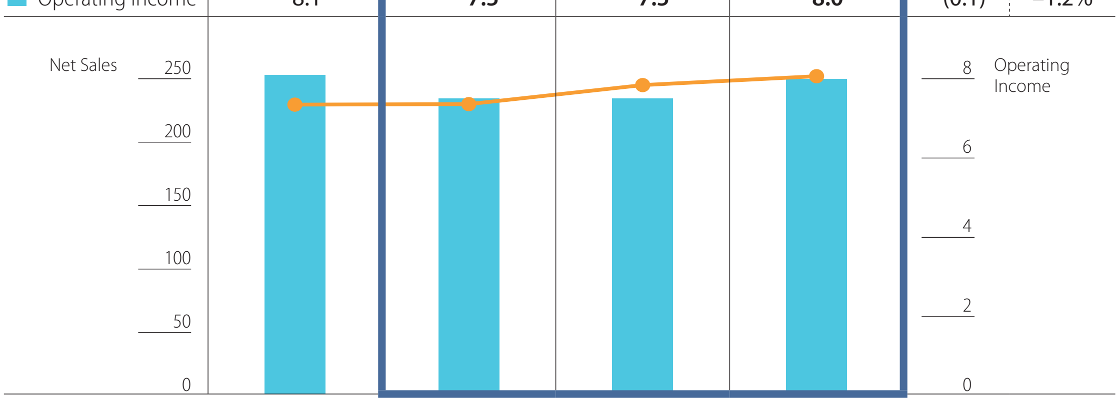
Strategies in the medium-term business plan

- Expand system integration business globally
- Expand mobile system and terminal marketing business, and increase market share
- Create integrated global business model (procurement, processing and marketing) in the device business
- Increase cooperation with leading-edge companies in Asia, Europe and the US, from the product development stage

Targets

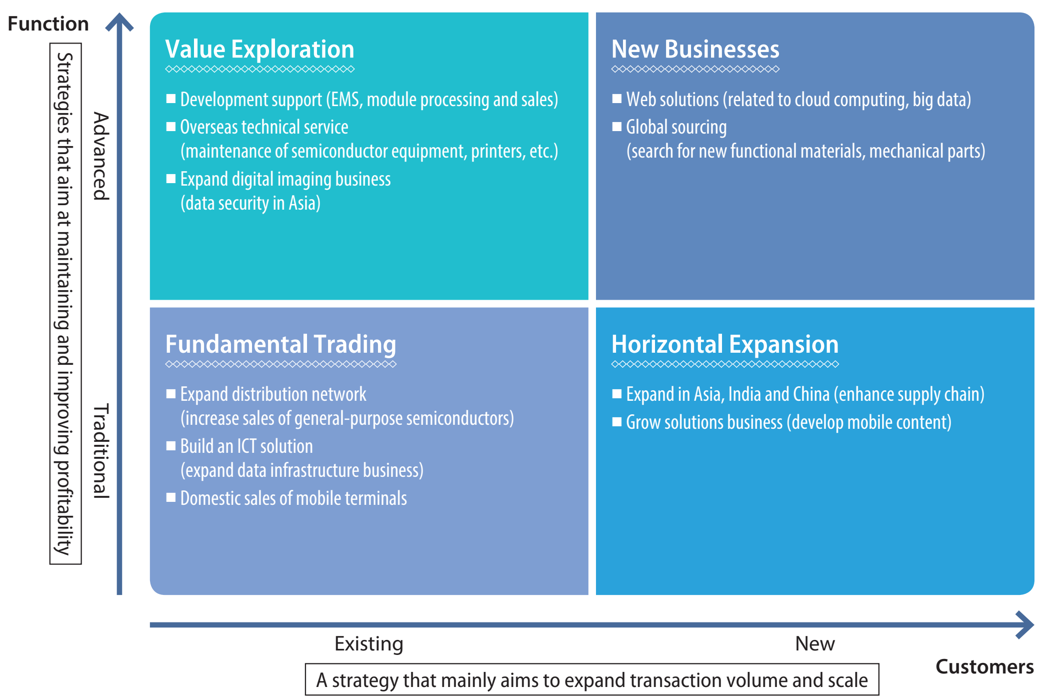
(¥ billion)

	FY2013 Results	New Medium-Term Business Plan			From FY2013	
		FY2014	FY2015	FY2016	Change	% Change
Net Sales	229.6	230.0	245.0	252.0	22.4	9.8%
Operating Income	8.1	7.5	7.5	8.0	(0.1)	−1.2%



Main Business	Products
Electronic Components and Materials	Semiconductor and mechanical parts, LCD panels, Telecommunications equipment parts, Amusement-related products, Audiovisual products, System boards, Photovoltaic parts, Mobile phone components, Printed circuit boards and substrate materials
Semiconductors and LCD Manufacturing Equipment	Semiconductor manufacturing and testing equipment, LCD manufacturing and testing equipment
Semiconductor and LCD Materials	LED parts and materials, Surface treatment agents, Metal materials for electronic and functional components, Battery materials
Optical Device Materials	Display devices, Optical devices
OEM and ODM Solutions	Printers, Control modules for lithium-ion batteries
Retail Business	Sales of batteries, LEDs and other overseas products in Japan's retail market
Mobile Solutions	Mobile phones, Mobile Internet services
ICT Solutions	IT and communications equipment and services

Four business categories



Fundamental Trading
- Expand the semiconductor business – broaden the base and stabilize operations – through business and capital alliances
- Strengthen relationships with customers and win orders in ICT and system integration businesses
- Build up the mobile phone marketing business aggressively using M&A, and consolidate our fundamentals as a key player

Horizontal Expansion
- Expand supply chain to meet customer needs by growing the semiconductor and electronic parts businesses across the Asian, Indian and Chinese markets
- Expand business base through global development of the system integration business
- Expand distribution networks for electronic devices and supply products based on customer needs

Value Exploration
- Add value by combining products we sell in new ways and improve organizational capabilities through stronger specialization
- Create a technological service network overseas and develop value-added strategies
- Grow our share of the digital imaging business and expand alliances with partners overseas

New Businesses
- Become a key part of our customers' infrastructure and develop businesses in anticipation of customers' Cloud and Big Data needs
- Identify manufacturers in emerging countries that have steadily improved technologically to create global supply chains

Focus areas

Expansion of the electronics, devices and ICT fields

Major policies

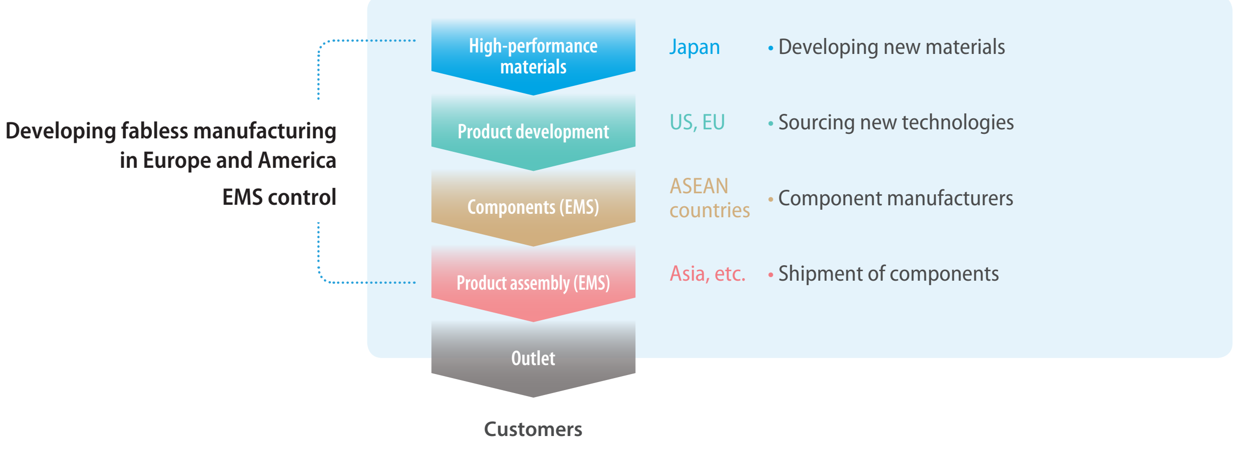
Semiconductor business	Seek out capital and operational alliances prior to semiconductor business expansion.
System integration business	Establish overseas affiliates to develop system integration business globally. Thus far, we have established an affiliate in China and sent some Japanese staff to an affiliate in India. We are also examining the feasibility of capital alliances and other partnerships in Indonesia and the United States.
Mobile device sales business	Expand mobile phone marketing network through M&A and other means. Build business base in Japan by acquiring mobile phone retailers in Kyushu. Continue to seek out partners in other regions.
Electronic device marketing	Expand distribution network and increase market participation by launching more new products. Raise awareness of Kanematsu brand by handling our own brand of goods. Increase value-added and customer service standards by establishing a service support network. Enhance product lineups that build on existing functionality and carry out multifaceted development of OEM and distribution business.

Business Scheme — A business model for electronic device operations, and supply chain management support for manufacturers

It is essential to implement worldwide Supply Chain Management Systems (SCMS) in today's competitive and globalized business environment in electronics.

Our business partners with distinctive technologies backed by extensive experience proudly play their important roles in achieving a high level of value-added and differentiation in our businesses along with upstream products such as raw materials and components to downstream products of those modules and assemblies.

We will promote integrated business in collaboration with our business alliance of Electron Manufacturing Services (EMS) and fabless manufacturers (manufacturers that specialize in product development and marketing without owning plant) by exploiting low cost/high performance materials as well as developing and sourcing world cutting-edge technologies.



Foods & Grain

Based on a commitment to safe, secure food, we ensure stable supplies of a wide range of foods including high value-added items like grains, raw materials for oils and fats, feedstuff, and meat and marine products, through an integrated supply system from raw material procurement to finished product processing.

The Foods & Grain Division supplies a full range of goods and services relating to food for human consumption, spanning raw materials for feedstuff, meat and marine products, other agricultural products, raw ingredients for desserts, soft and alcoholic beverages, and frozen food.

We aim to go beyond the targets already achieved in the previous medium-term business plan. While focusing on the four priorities of overseas business, domestic business, strengthening our positioning as a manufacturer, and improvement of productivity, we aim to achieve innovative functional development while adopting an international perspective and remaining firmly rooted in our operating localities and production areas.

In overseas operations, we plan to develop our markets and boost trading involving multiple countries by creating a business model based on local production for local consumption. We also aim to take on a manufacturing role by encouraging a shift from the trading-house-first to the manufacturer-first concept.

Morihiro Toida *Director, Foods & Grain Division*

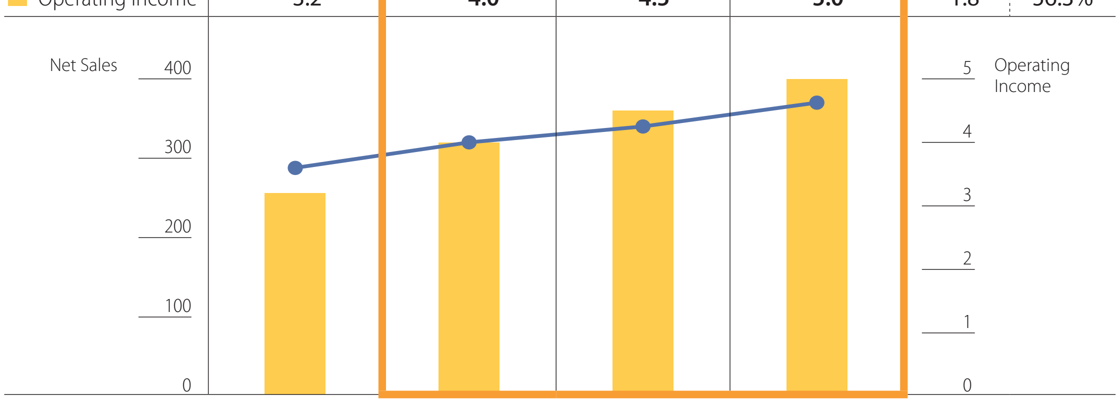
Strategies in the medium-term business plan

- Based on a commitment to safe, secure and stable food supplies, create a solid value chain from raw material procurement through processing and shipping that will ensure thorough traceability management
- Step up business investment in Asia area where dietary preferences are likely to grow more sophisticated
- Diversify raw materials sourcing geographically, and ensure resilient supply channels that respond to changing global market needs, and expand the volume of trading involving multiple countries

Targets

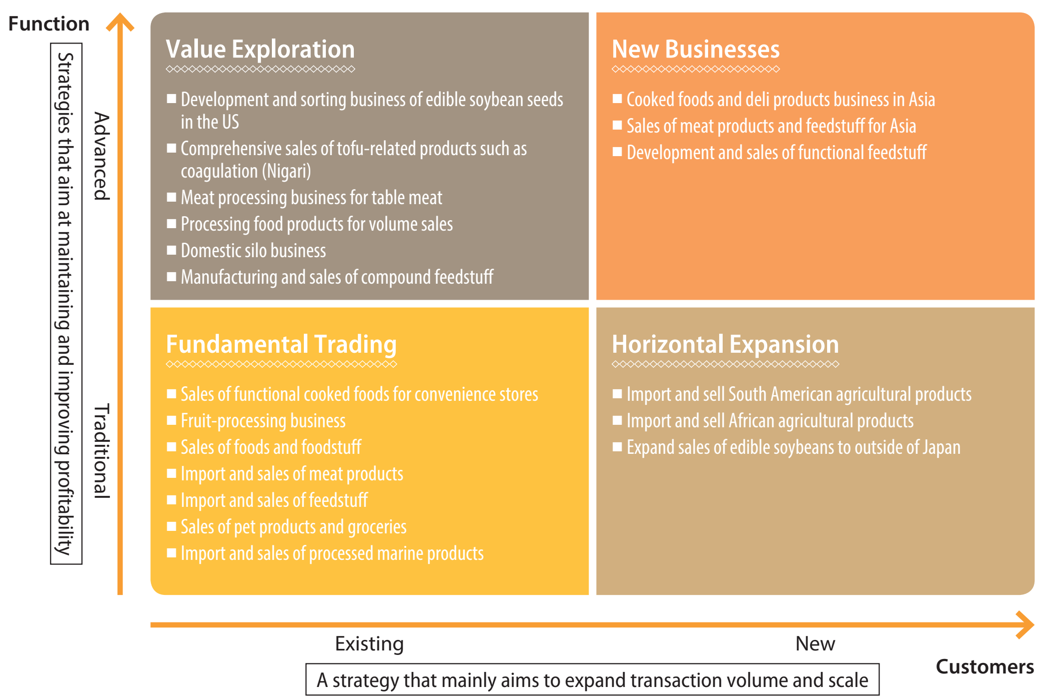
(¥ billion)

	FY2013 Results	New Medium-Term Business Plan			From FY2013	
		FY2014	FY2015	FY2016	Change	% Change
Net Sales	287.9	**320.0**	**340.0**	**370.0**	82.1	28.5%
Operating Income	3.2	**4.0**	**4.5**	**5.0**	1.8	56.3%



Main Business	Products
Foods	Canned, frozen & dried fruits, Concentrated juices, Wine, Coffee, Cocoa, Sugar, Sesame seed, Peanuts, Pulses, Honey, Nuts, Oils and fats, Dairy products, Processed foods, etc.
Meat and Marine Products	Meat products (beef, pork, chicken, horsemeat, mutton/lamb, poultry), Marine products (shrimp, octopus, squid, frozen fish, seafood ingredients for sushi), Others
Grains, Oilseeds	Corn (for food), Soybean (for food, for oil), Rice, Wheat, Barley, Buckwheat, Rapeseed, Cottonseed, Linseed
Feedstuff	Corn (for feed), Milo, Soybean (for feed), Plant protein meal (Soybean meal, Rapeseed meal, etc.), Animal protein meal (Fish meal, etc.), Other by-products, Baled hay, Roughage, Fish oil, Prebiotics, Fertilizer
Agricultural products	Dairy products (Skim milk, Whey powder), Wheat flour, Premix, Pasta and others, Defatted soya-flake (for soy sauce), Olive oil, Oats
Pet products & Groceries	Pet food & Snacks, Pet products, Groceries

Four business categories



Fundamental Trading

Centered on the import and marketing of overseas raw materials and semi-processed products for manufacturers in Japan, engage in product development and transactions drawing on the traditional strengths of the Group business
- Strengthen relations with suppliers and customers with whom we share values and have long-standing trading relations, and further consolidate the base
- Develop marketing of products covered by patents
- Strengthen Food Safety Management Office to ensure safe, secure supplies

Horizontal Expansion

Develop new production areas and sources of supplies by making full use of the knowledge we have built up in the business category of "Fundamental Trading"
- Develop marketing by seeking out new customers in Japan and expanding markets outside Japan
- Increase the number of employees deployed in overseas units and strengthen business development in Asia

Value Exploration

Further explore our engagement in fields, products and production areas that we are already strong in, promote *monozukuri* (good practice manufacturing), add value to products and transactions and consolidate the lead of the Kanematsu Group
- Raise standards of business in each field we are deeply involved in, through upstream and downstream investment and development
- Develop overseas assets strategy and launch new businesses

New Businesses

Create new products and create new business models in markets in Japan and overseas
- Reorganize the product development teams
- Launch new businesses in alliance with overseas partners

Focus areas

Global expansion of the foods & grain business

Major policies

Soybean business	Ensure supply chain management integration from upstream to downstream operations through acquisition of Daizu Yuryo (soybeans wholesaler) and soybean processing businesses, and promote multi-country trade targeting overseas markets.
Meat processing business	Step up partnerships with overseas meatpackers, and build direct relationships with food service companies and volume retailers.
Feedstuff business	Diversify our supply sources and develop Asian markets by developing upstream business and a midstream asset strategy that is represented by our Mojiko silo, and invest in Vietnam and China.
Ready-cooked foods	Develop product proposals through our product development teams in and develop solution-type products by acquiring of patents, etc. for the production method for *Okowa Onigiri*. Conduct "Horizontal Expansion" by applying business models developed in Japan globally and promote local-production for local-consumption-type business models.

Business Scheme

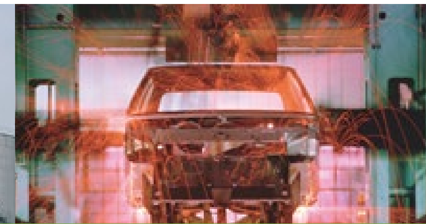
Create a value chain from upstream to downstream businesses in the food service business

To tap the growth of the food service industry in Indonesia, the Group teamed up with a foodstuff supplier under the CIMORY Group and established P.T. Kanemory Food Services, a joint venture that manages food-processing and central kitchen services.

P.T. Kanemory Food Services is positioned to supply research and development services and research proposals for food service sectors such as restaurants, convenience stores and supermarkets. It enables supply of a wide range of central-kitchen-type product processing services.

Indonesia has a population of more than 240 million people and growth of Muslim middle-class consumers has been particularly striking. In traditional Indonesian dietary habits as well, there has been a shift toward food enjoyment. Restaurants, convenience stores, supermarket chains and other suppliers that cater to changing and more diversified dietary habits are increasing in number.

We aim to create demand and expand business volumes by combining research and development roles we have developed over many years in the Japanese food-service market and expertise in simultaneous multi-category production for central-kitchen-type end-users with CIMORY Group's raw material supply networks for milk, eggs, soybeans and meat.



Steel, Materials & Plant

The iron and steel division engages in domestic and export transactions covering the full range of iron and steel products, energy solutions, functional chemicals trading, industrial plant and infrastructure facilities. Despite the diversity of these operations, we are committed to supplying and developing high value-added products through our highly specialized staff in all areas.

In April 2013, the Iron & Steel and Environmental & Materials and Machinery & Plant businesses became a single division — a broad-based division that handles transactions in iron and steel, energy, chemical products, machine tools and industrial machinery. Looking ahead, as our operations grow more complex in nature, we aim to create businesses that cross the old divisional boundaries.

Centered on our environmental and energy businesses, strengths of the Company, we will expand promising overseas markets and conduct cross-regional collaboration.

In parallel with this, we aim to expand business domains and grow earnings by deploying large numbers of staff overseas and strengthening alliances including drawing on personnel resources of affiliates.

Takashi Gunji *Managing Director, Steel, Materials & Plant Division*

Strategies in the medium-term business plan

- Expand the iron and steel business in the North American and Southeast Asian markets
- Launch new developments in the fields of new energy and new materials
- Develop markets in emerging countries for machine tools, industrial machinery and plants
- Strengthen cooperative relationships and pursue synergies between the materials/raw materials and products businesses

Targets

(¥ billion)

	FY2013 Results	New Medium-Term Business Plan			From FY2013	
		FY2014	FY2015	FY2016	Change	% Change
Net Sales	438.0	**438.0**	**450.0**	**460.0**	22.0	5.0%
Operating Income	5.3	**6.5**	**7.0**	**7.5**	2.2	41.5%

Main Business		Products
Steel	Overseas Trading of Iron and Steel	Export of various kinds of steel sheets, plates, bar products and pipe and tubing products, Export of porcelain enamel steel sheets
	Overseas Trading of Specialty Steel	Export of stainless steel sheets and plates, Export of alloy steel wire and bar products
	Domestic and Overseas Trading of Full Range of Steel Products	Import and tripartite trade of ferrous raw materials, Export and import of steel scrap and sub-materials
Materials	Functional Chemicals	Photovoltaic modules and materials, Materials for lithium batteries, Materials for fertilizers, Synthetic rubber, Petrochemical products
	Healthcare, Life Science	Functional food materials, Health supplements, Pharmaceuticals and pharmaceutical intermediates
	Crude Oil, Petroleum Products, LPG	Crude oil, Gasoline, Jet fuel, Kerosene, Diesel oil, Fuel oil, Lubricant oil, LPG (Propane, Butane, Autogas)
	Development of Environment-related Materials and New Technologies	Heat reflective paint, New plant-derived materials, Carbon credit trading
Plant	Plant	Chemical and petrochemical plants, Industrial plants, Utility and process systems for oil and gas plants, Infrastructure facilities, Scrap-processing facilities, Environmental facilities
	Cargo Vessels	Shipbuilding, Used ships, Equipment package deals for new ships (including ship design and engineering)
	Machine Tools and Industrial Machinery	Machine tools, Industrial machinery and peripheral equipment
	Electric Power Cable Projects	Electric power and communication cable projects, Power generation plants (including design, engineering and installation)
	ODA	ODA projects (educational, medical/pharmaceutical, water supply-related, agricultural and environmental)

Four business categories

Function

Strategies that aim at maintaining and improving profitability

Advanced

Traditional

Value Exploration

- Oilfield tubing businesses
- Cold-, hot-rolled and electromagnetic steel sheets
- Wire and steel bar products for automobile parts
- Infrastructure/ODA
- Ships/ODA

New Businesses

- Pharmaceuticals and pharmaceutical intermediates
- Health food products
- Solar cells, LIB, materials
- Lignin black

Fundamental Trading

- Domestic sales of machine tools
- Domestic sales of steel & iron products
- Domestic sales of industrial machinery
- Domestic sales of petroleum products
- Domestic sales of chemical products

Horizontal Expansion

- Overseas sales of machine tools
- Overseas sales of industrial machinery
- Stainless steel sheets for worldwide sales
- Enamel steel sheets for worldwide sales
- Chemical- and environment-related facilities and technology

Existing　New

A strategy that mainly aims to expand transaction volume and scale

Customers

Fundamental Trading

Domestic sales of iron and steel products, machine tools, industrial machinery, petroleum products, chemical products earmarked as steady drivers of earnings
- In petroleum products trading, strengthen the stable earnings base through supply and trading of power plant fuel, marine fuel and liquid petroleum gas, using Kanematsu-owned storage tanks and leveraging our know-how and track record

Horizontal Expansion

- In stainless steel sheet and plate and porcelain enamel steel sheets, we are forming alliances with specified manufacturers and developing global markets for rare products
- In machine tools and industrial machinery, Kanematsu KGK Corp., with a dominant share in Japan, is focusing on overseas development
- In chemical- and environment-related technologies, develop marketing of facilities and plants in new projects for the emerging countries of Asia

Value Exploration

This is a sector in which the Group has strong commercial rights, and that can be expected to become a growth driver in years ahead due to our competitive edge and differentiation
- In our oilfield tubing business in North America and our coil center business in China, consider aggressive expansion policies and rollout of the same models across different markets
- In infrastructure and shipping-related ODA projects, supply developing countries with Japanese products and technologies that contribute to more efficient energy use, in line with the Japanese government's grant financing for global environmental protection

New Businesses

Aggressively develop products and businesses, in anticipation of increased overall demand for pharmaceuticals, new drugs for the mentally ill and other new needs, and the growing health-food market
- In environment-related fields, focus on development of new products and domains in photovoltaic module and lithium battery materials trading
- In the environmental sector, establish technologies for Lignin Black, which is expected to be a major new material, and develop intellectual property rights and applications development for early commercialization

Focus areas

New development of the energy, materials and infrastructure markets

Major policies

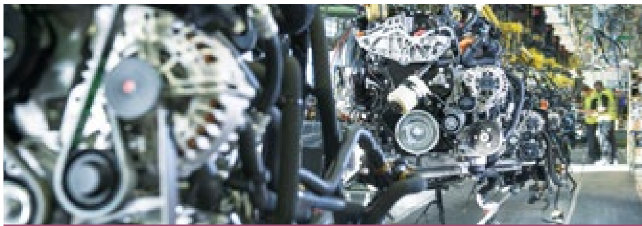
Iron and steel	In the North American and Southeast Asian markets, expand and search for growth areas across several fields. Strengthen and expand oilfield tubing business (energy-related) and stainless steel business (environment-related), and increase the number of personnel working overseas, including through merger and acquisition.
Machine tools and industrial machinery	Leverage our high share of the Japanese market and our long-standing expertise and track record in this field to promote overseas expansion including support for Japanese manufacturers advancing into Asia and other overseas markets.
Overseas plant business	In the overseas plant business, which includes chemical, environmental, and infrastructure facilities, undersea cabling, renewable energy, and new shipbuilding, engage in new ODA projects for environmental protection based on alliances.
Materials	Promote compound transactions and build up the value chain including materials/raw materials trading and product and facility transactions. • Create collaborative frameworks between different transaction categories and seek out synergies • Construct and install machinery and facilities for delivering raw materials and fuel, promote compound transactions from finished product receipt to marketing, and create value chains

Business Scheme

Acquisition of pipe-threading company for oilfield tubing to meet rising oilfield tubing demand

In recent years, much attention has been given to shale gas and oil, which are nonconventional energy sources. Kanematsu has long traded oilfield tubing used in shale gas and oil extraction. In the oilfield tubing market, which is expected to expand, the Company acquired Benoit Machine LLC, a US pipe-threading firm, in November 2012 with the aim of expanding of trading. This company provides premium threading services under the mainstay Benoit Two-Step (BTS) brand, its own premium joint for oilfield tubing. In collaboration with our consolidated subsidiary Steel Service Oilfield Tubular (SSOT), we have marketed equipment to major American oil companies.

One of the major blast furnace makers has also taken a stake in this acquisition. Together with SSOT, we developed a value chain spanning production, processing and marketing, enabling us to respond to increased demand for shale gas and shale oil, and deepwater and ultra-deepwater oil well drilling.



Motor Vehicles & Aerospace

Specializing in transportation equipment, we globally operate motorcycle and automobile parts businesses, leveraging our high-level specialized expertise and extensive of information. We also operate automobile, construction machinery, industrial vehicle, aircraft and satellite businesses.

The Motor Vehicles & Aerospace Division, started in April 2013, consolidated the automotive-related business units, which had been operated under three separate divisions, into a single unit and combined these with the aerospace business. While enhancing Group organization and functions, we will share with customers and suppliers the overseas networks that were established separately by the three different divisions with the aim of globally expanding businesses so as to respond to the growing and diversifying motorcycle and automobile markets.

In the aerospace business, we have taken steps to expand the aircraft and aircraft parts businesses by effectively utilizing the overseas networks established by the motorcycle and automobile parts businesses. Seeking business opportunities with LCC (low-cost carriers) which are expected to increase their presence in coming years, we have made great strides to a new stage of growth in the aircraft rotable parts business.

Yoshiya Miyabe *Director, Motor Vehicles & Aerospace Division*

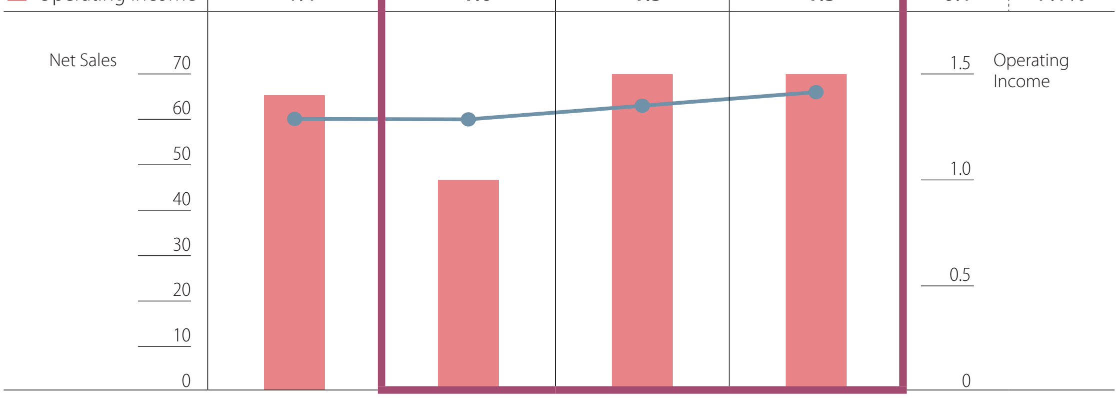
Strategies in the medium-term business plan

- Build a global supply chain in the constantly growing and diversifying motorcycle and automobile markets of the world
- Create new businesses by sharing leading-edge technology from the aerospace industry with the automotive industry
- Expand the aircraft, helicopter, satellite, and aircraft rotable parts businesses

Targets

(¥ billion)

	FY2013 Results	New Medium-Term Business Plan			From FY2013	
		FY2014	FY2015	FY2016	Change	% Change
Net Sales	60.1	60.0	63.0	66.0	5.9	9.8%
Operating Income	1.4	1.0	1.5	1.5	0.1	7.1%



Motor Vehicles & Aerospace

Main Business	Products
Motor Vehicles and Parts	Automobiles and Motorcycles (and related parts), Forklifts, Construction Machinery, Mining Machinery, General-Purpose Equipment, Precision-Forged Cast Products (for Vehicles and Industrial Machinery)
Aerospace	Aircraft, Helicopters, Satellites, Space Products, Components and Parts, Night Vision Goggles, Aircraft Rotable Parts

Four business categories

Function

Strategies that aim at maintaining and improving profitability

Advanced

Value Exploration

- Creating new projects, businesses by sharing leading-edge technical information
- Strengthening functions and abilities for development, engineering, logistics and quality control

New Businesses

- Expand line-up of new materials and anti-pollution products
- Establish new business foundation through investments in promising projects

Traditional

Fundamental Trading

- Motorcycle and automobile parts business
- Cast and forged steel parts business
- Automobile business
- Automobile/general-purpose machinery dealer/agency business
- Construction machinery, industrial vehicle business
- Aircraft, helicopter and parts business
- Satellites, satellite image, space equipment business

Horizontal Expansion

- Expand businesses of motorcycle & automobile parts and cast & forged steel parts for Central & South America and other regions
- Support entry/expansion of automobile parts manufacturers into overseas
- Expand aircraft rotable parts business

Existing New

A strategy that mainly aims to expand transaction volume and scale

Customers

Fundamental Trading

- Expand established motor vehicle and aerospace businesses while improving know-how and expertise
- Strengthen business foundation by constantly adding new value and functions

Horizontal Expansion

- Create new businesses based on cross-departmental collaboration through the sharing of established customer and supplier information
- Seek new markets and suppliers to expand the foundation of our core businesses
- Help the main suppliers in our core businesses to enter overseas markets and expand through investments and other means so as to further strengthen our supply base
- Expand aircraft rotable parts business

Value Exploration

- Expand organization globally as the market expands and improve customer base and supply chain
- Enhance value and functions by developing new projects and businesses and strengthening logistics and quality management under the theme of "Environment & Safety." Share leading-edge technology in the transportation equipment industry that has been passed down from the aircraft industry to the automobile and motorcycle industries

New Businesses

- Become a trading company with manufacturing functions that possesses product development and engineering capabilities in Japan and overseas
- Expand as a trading company with a value proposition by exploring new projects and sharing the Group's motor vehicle-related business information
- Create new business through investments by forming alliances with companies that have new technologies, capabilities, and functions

Focus areas

Strengthening of automotive and mechanical parts business

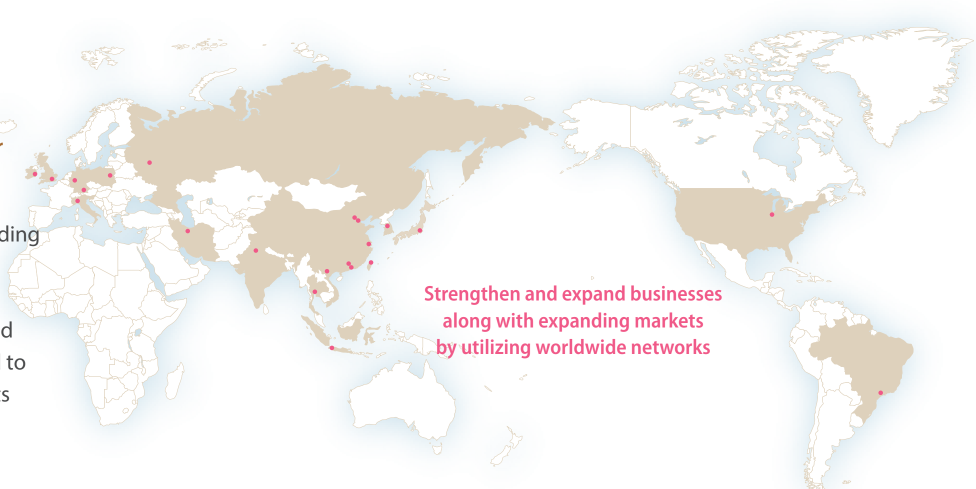
Major actions

Motorcycle, automobile OEM Parts	Further globalize the organization to cope with growing motorcycle and automobile markets worldwide. In motorcycles and automobiles, product development, material procurement, and mass production are often carried out in different countries. Kanematsu will carry these out in every country, thereby enhancing its value and capability for providing the best solutions to its customers. Collect and analyze a variety of information from customers and suppliers around the world and generate/propose new ideas to explore new businesses. * Taking the environment into consideration, Kanematsu proposed that automakers replace metal parts with resin parts to reduce car weight. In cooperation with a resin material supplier, we developed a new lightweight resin material with strong heat resistance that can be precision molded with no post-process. Supplied parts made of the new resin material to our customers as a replacement for metal parts.
Aircraft replacement parts business	In the Aerospace Department, extend the know-how acquired through the operation of KG Aircraft Rotables Co., Ltd. to other regions and strengthen aircraft rotable parts business seeking business opportunities with low-cost carriers (LCC) where growth is expected.

Business Scheme

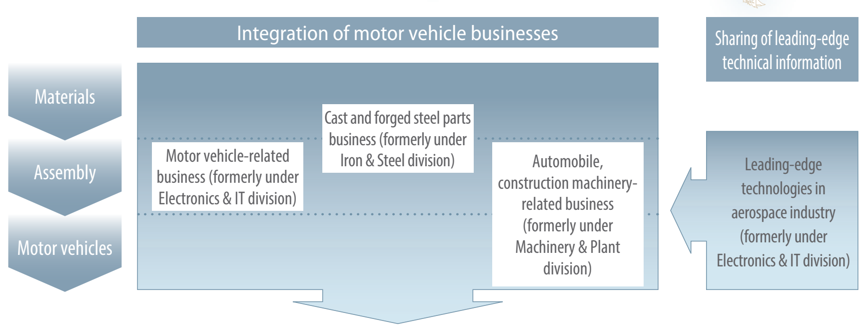
Overseas networks of the Motor Vehicles & Aerospace Division

Started collaborative study regarding the sharing of information with Group companies to strengthen human networks and supplier and customer bases in the Group and to explore and develop new markets and businesses.



Consolidation of motor vehicle and aerospace-related business units

Analyze transactions of automotive-related businesses with different business styles and cultures and develop new businesses with new ideas by sharing know-how.



CSR (Corporate Social Responsibility)

In addition to conducting business activities in the pioneering spirit as fostered by our predecessors and through the wisest use of our creative imagination and ingenuity, the Company is committed to fulfilling its corporate social responsibility (CSR) by helping to preserve the global environment and biological diversity, with the goal of working toward the creation of a sustainable society.

We have set up the CSR Committee, whose members are drawn from across the whole Company, and the CSR Promotion Section, a unit dedicated to CSR activities within the Personnel & General Affairs Department. Through these bodies, and guided by Kanematsu's Code of Conduct, we address the various issues involved in CSR, including the Company's social contributions, crisis management, compliance, and environmental preservation.

Kanematsu's Code of Conduct

1. Origin of corporate activities	We became involved in corporate activities to serve our various stakeholders by providing socially valuable goods and services in accordance with the aim of our founder to realize a sustainable society.
2. Fair transactions	Our corporate activities are conducted in compliance with laws and ordinances in Japan and abroad, international rules and practices, and internal rules, as well as with social common sense.
3. Information management & disclosure	Information is properly managed to protect personal information, customer information and intellectual property, and is disclosed in a timely and proper manner to establish mutual trust between Kanematsu and the community and maintain a high level of transparency.
4. Respect for human rights	We respect human rights and do not discriminate. Employee career development and capability development are actively supported. Diversity, personality and character are respected so as to create a dynamic corporate culture.
5. Consideration of the global environment	We exercise sufficient consideration in our corporate activities to maintain a sound global environment for sustainable growth.
6. Social contribution	We are aware of the importance of our social responsibility as good corporate citizens, and proactively undertake social contribution activities. Employee activities to contribute to community development and to comfortable and safe living are supported.

(Translated from the Japanese)

Commemoration Projects

Among the main commemorative projects we have carried out in accordance with the will of our founder Fusajiro Kanematsu, and which contribute to the growth of Japanese industry and the international community, are the Research Institute for Economic and Business Administration (Kanematsu Memorial Hall; completed in 1921); a commerce research institute granted by Kanematsu to Kobe University; the endowment of the Kanematsu Auditorium (completed in 1927) of Hitotsubashi University; and the endowment of the Kanematsu Memorial Institute of Pathology (completed in 1933) to Sydney Hospital in Australia, which was partially endowed by Kanematsu with joint funding from the Australian Government.

Kanematsu Foundation for the Research of Foreign Trade

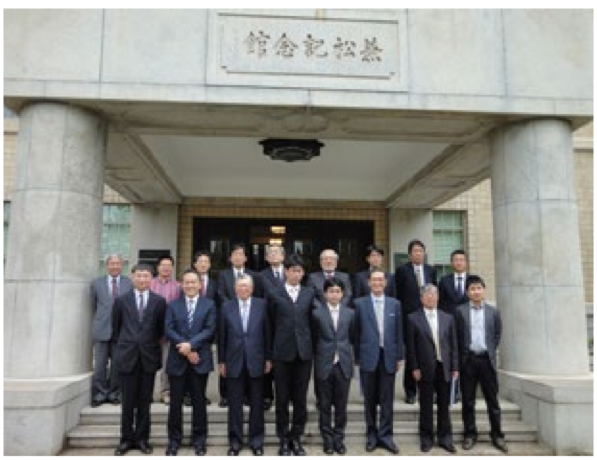
The Kanematsu Foundation for the Research of Foreign Trade, established in 1940, is a foundation with a more than 70-year history. Endowed by funds donated by Kanematsu to Kobe University,

Kanematsu Memorial Hall of Kobe University

The Kanematsu Auditorium of Hitotsubashi University

Kanematsu Memorial Institute of Pathology, Sydney Hospital its purpose is to promote research on trade and international economics and contribute to the economic development of Japan. The foundation had been jointly operated by the Research Institute for Economics and Business Administration and Kanematsu, but in light of December 2008 revisions to the law concerning public-interest corporations, it started anew as a public interest incorporated foundation on October 1, 2012.

The Kanematsu Foundation for the Research of Foreign Trade established the Kanematsu Fellowship in 1993 and each year solicits prize essays and provides opportunities for graduate students nationwide to earn fellowships and present papers in the fields of economics, management, and accounting. In addition, the foundation holds open seminars for research on trade and international economics.



Kanematsu Fellowship award ceremony

Work-Life Balance

The Company has restricted the length of employees' working hours with the vision of creating a society where there exists a comfortable work-life balance. We have been improving the working environment so that employees can treasure the time they spend with their families, as well as the time spent on hobbies and participating in social activities.

● Child Care Support

In addition to the conventional maternity leave and childcare leave system, the Company has revised its working regulations so that the number of the days and the scope of the application of childcare leave can be expanded in accordance with the revisions of the Labor Standards Act and the Child Care and Family Care Leave Act.

● Acquisition of "Kurumin" certification of support for nurturing of the next generation

In December 2010, Kanematsu received the "Kurumin" certification from the Ministry of Health, Labour and Welfare. This is awarded to companies that are deemed by the Ministry to be making valuable contributions to supporting the nurturing of the next generation through such measures as helping employees achieve a good work-life balance so that they can bring up children while remaining active in the work force.

● Family Care Support

In addition to the conventional family care leave system, the Company has recently expanded special paid holidays for family care.

● Refreshment Day

Wednesday is prescribed as refreshment day, and all employees are encouraged to leave the office as soon as possible after work to increase work efficiency and improve work-life balance.

Social Contributions

Following the Great East Japan Earthquake of March 2011, the Kanematsu Group provided support for the devastated region through the donation of funds for recovery and reconstruction, and the direct supply of goods to the region. In addition, we are making our own plans for recovery support activities for the disaster-stricken region. We also disburse transportation, accommodation, and other costs when employees participate in volunteer programs in disaster-stricken areas.


Delivering relief goods


Removing dirt from gutters

In July and August 2011, we participated in volunteer programs offered by Nippon Keidanren's One Percent Club. Since September 2011, we have been active in the Kanematsu Group's own volunteer programs. Up to July 2013, we had participated in eight volunteer programs and about 110 employees from Kanematsu and Group companies took part in clearing debris, weeding fields, removing dirt from gutters, and other activities.

Even now, there are nearly 300,000 disaster victims who have been forced to live the lives of evacuees. Now that volunteer activities and other types of support have dwindled in number, the Kanematsu Group believes it is important to ensure that such volunteer activities are not short-lived, and that the needs of the disaster-hit communities are addressed through activities pursued over a long period. We will continue to plan and promote volunteering in the disaster-hit region, and to assist the region's recovery.

Kanematsu was asked by Chiba City to collaborate in a once-a-year helicopter landing practice for emergency transportation at a Company-owned sports ground in Chiba City in Chiba Prefecture. We have also opened up this sports ground to local high schools for use of its tennis courts and baseball field as part of our emphasis on good relations with local communities.

Cleaning of the floats for culture

Environmental Initiatives

Ever since the Company obtained ISO 14001 certification in March 2004, it has constantly improved its environment management system.

By operating this system effectively, we have sought to contribute to the reduction of CO_2 emissions and fighting global warming by lowering the consumption of electricity and paper and comprehensively reducing and sorting waste. Our goal is to help create a low-carbon and recycling-oriented society.

We have also helped to protect the global environment through our business activities in Japan and overseas. We have moved into wide-ranging environment-related businesses in each division and are developing environment-friendly products.

Examples

***Sekihan Okowa* Kit**

In December 2011, we reduced the production processes in our patented *Okowa* Production Method from nine to five. As a result, production time was reduced, leading to lower energy and labor costs, which allowed us to constrain overburden and waste, and thereby perfect an environment-friendly production method from the standpoint of CO_2 reduction. The *Sekihan Okowa* Kit is highly acclaimed and is being used and sold at convenience stores and other shops.

CSR Procurement

CSR procurement means that a company procuring necessary materials, parts and products requires its suppliers not only to swiftly provide products of consistently high quality but also to make a CSR commitment. CSR procurement efforts are also growing in importance year by year as companies and the general public start to take notice of CSR.

The Company has established systems to promote CSR activities, including a CSR Action Guidelines for Supply Chains, to meet the CSR procurement requirements of its business partners.

Corporate Governance

Our Basic Stance on Corporate Governance

The Company has strengthened corporate governance to increase the transparency of management and to create a more equitable, efficient and sound company. We will improve corporate governance with the aim of winning the support of all our stakeholders, including shareholders, customers and employees, and increasing our enterprise value.

Board of Directors

In principle, the Company's Board of Directors meets once a month, with extraordinary meetings held as necessary.

The Board of Directors decides on matters set out in laws and ordinances as well as the Company's Articles of Incorporation, determines basic business policies, and draws up long-term and short-term plans for the entire Company, in addition to reviewing business results. The Board of Directors also takes decisions on the division of responsibilities among the directors, and on whether or not to allow directors to serve concurrently as representative directors of other companies.

To facilitate rapid decision-making and flexible management, the Company holds an Executive Directors Council meeting every week, in principle. The council consists of all directors and establishes basic policies for Company-wide general business execution in accordance with basic policies determined by the Board of Directors and provides instruction and guidance on the execution of business.

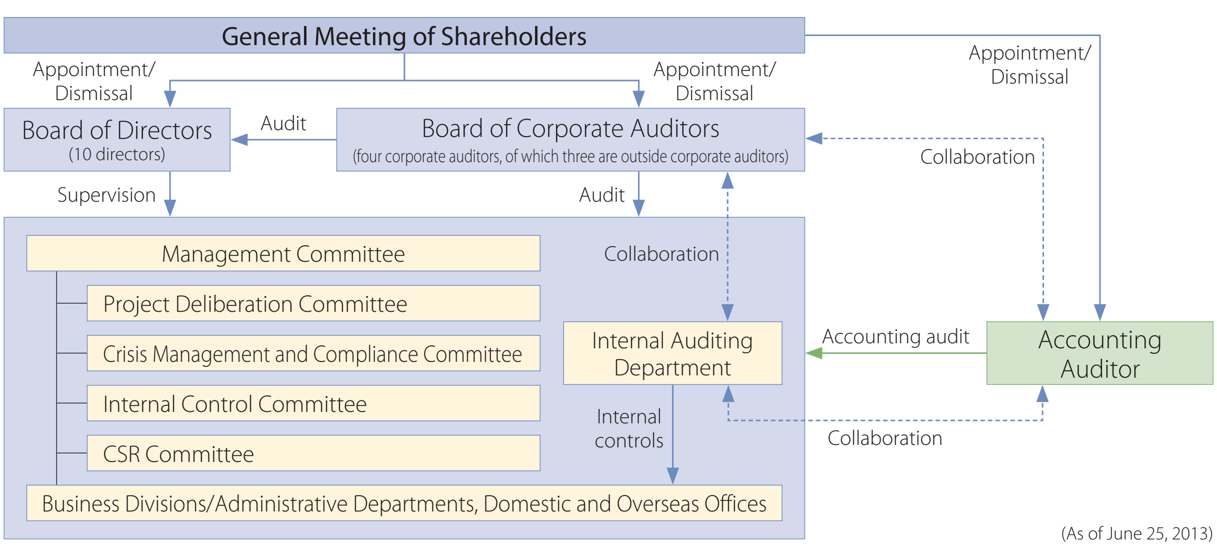
To discuss important projects to be proposed to the Executive Directors Council, a Project Deliberation Committee meeting is held every week. The Company introduced an executive officer system in July 2008. To respond appropriately to changes in the business environment, the term of office of directors is one year.

Board of Corporate Auditors

The Company has a Board of Corporate Auditors. Corporate auditors and the Board of Corporate Auditors, as an independent organ, audit the directors' performance of their duties. Four auditors receive reports from directors and employees on the performance of their duties as required, attend meetings of the Board of Directors, Executive Directors Council, Project Deliberation Committee, Crisis Management and Compliance Committee, Internal Control Committee, and other important meetings and committee meetings, and audit the performance of duties by directors.

The Company also conducts audits by outside auditors provided for in Article 2-16 of the Companies Act of Japan. Three out of the Company's four Corporate Auditors are outside auditors. The Company has adopted the current system because, based on the suggestions and advice of the outside auditors founded on their expertise and experience, the system is sufficiently monitored by outside management and is properly supervised.

● Corporate Governance Structure



(As of June 25, 2013)

Internal Auditing

The Internal Auditing Department (eight staff members as of June 25, 2013) conducts internal audits of the Company and consolidated subsidiaries to ensure that proper accounting records are kept, to evaluate and monitor improvements and control activities, and help improve operational effectiveness and efficiency.

The Internal Auditing Department and corporate auditors hold regular meetings and work in close cooperation with one another by explaining audit plans, reporting the results of audits, and ensuring the effectiveness of internal audits. They also exchange opinions with the accounting auditor through internal control assessments and other related activities.

Internal Control System and Risk Management System

To comprehensively assess risks inherent in the Kanematsu Group and to comply with laws and regulations relating to operational effectiveness and efficiency and its business activities, to preserve assets, and ensure the reliability of financial reporting, the Kanematsu Group has built the following internal control system.

● Compliance

In light of the importance of complying with laws and ordinances, we have set up a Crisis Management and Compliance Committee, and have strengthened our internal compliance system.

We have compiled a Compliance Handbook detailing countermeasures with specific examples, which has been distributed to all employees and also published on the intranet to raise awareness of compliance among directors and all employees. We also introduced a hotline system for reporting directly to or consulting with the Crisis Management and Compliance Committee or an outside lawyer. In addition to legal compliance, we conduct training courses to foster sound judgment on ethical matters among our staff.

● Corporate Social Responsibility (CSR)

To further clarify the Company's management approach, which places great value on CSR, we have established the cross-sectoral CSR Committee within the Company. When necessary, the committee drafts Companywide action policies for various problems related to CSR, such as social contribution, compliance, and environmental protection, and rigorously implements the PDCA cycle in its promotion of CSR.

● Elimination of Antisocial Forces

One of the Company's compliance items with regard to the elimination of antisocial forces is its approach of taking a firm stand against antisocial forces and shutting off all connections with them. With the aim of eliminating antisocial forces, the Company belongs to the Metropolitan Police Department's Special Violence Prevention Countermeasures Association and closely cooperates in normal circumstances through the sharing of information. In case the Company is subject to unreasonable demands made by antisocial forces, the Personnel & General Affairs Department is positioned as the Company's central department for the handling of this issue and gathering of information, as well as cooperating with outside organizations including the police and attorneys.

● Information Management System

With regard to information management, we have established criteria and standards for the custody, retention and disposal of accounting records, balance sheets, agreements and contracts concerning the basic rights and obligations of the Company, certificates related to properties and other similar documents. We have also tightened rules on information security management, with the aim of preserving and managing information as an important asset of the Company, including the protection of personal data and other information security compliance requirements.

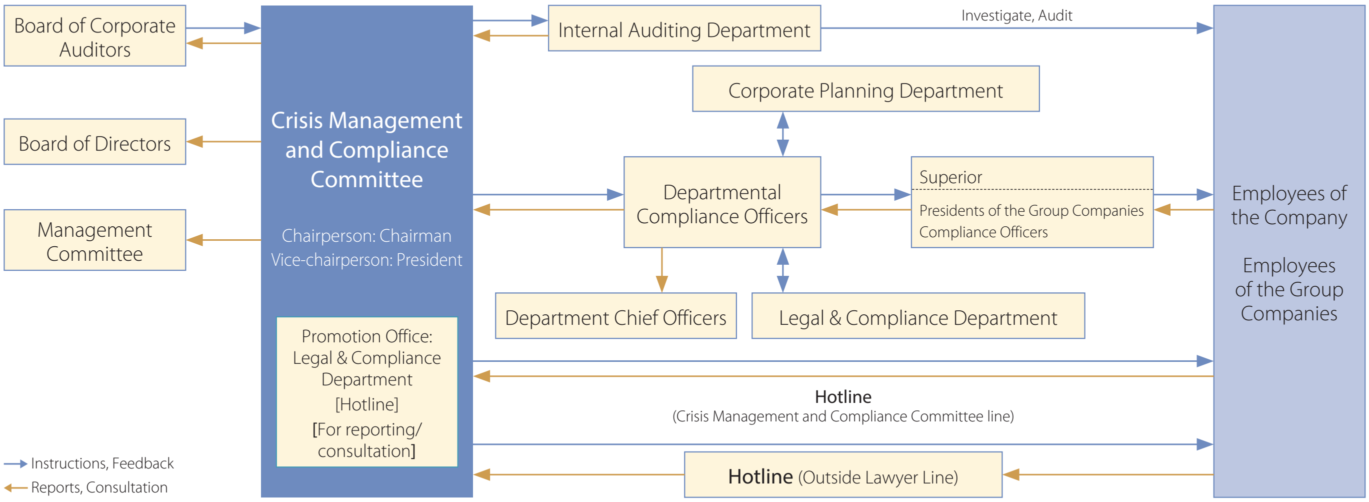
● Risk Management

With respect to business risks, the department that is in charge of each risk based on specific remits has established internal regulations and detailed enforcement regulations, and prepared operational guidelines that have been thoroughly instilled in all employees through training sessions and seminars. We have also established cross-functional committees to control risks as necessary.

We have established a system to make judgments and decisions about business risks based on those remits. The Project Deliberation Committee considers whether to make important investments, and whether to continue or withdraw from those investments and loans by comprehensively examining relevant risks.

Regarding the risks posed by the occurrence of serious events such as major natural disasters, we have drawn up plans and a manual of countermeasures, and have put in place a system to ensure appropriate management of the Company in such a contingency.

Diagram of the Kanematsu Group Compliance System



Construction of Internal Control System

We have established an Internal Control Committee to build an internal control system for the Group for effective and efficient financial reporting. In consideration of the internal control reporting system stipulated in the Financial Instruments and Exchange Law, we are developing, operating, assessing, and improving internal controls relating to financial reporting.

The Company-wide internal controls and business processes at key facilities are assessed by the Internal Auditing Department, an independent department in charge of assessment.

Disclosure

We intend to promote equitable and transparent management by disclosing important management information to shareholders and all other stakeholders, institutional investors, analysts, and the media in a prompt and appropriate manner.

We disclose information to shareholders and investors through our website, hold briefings twice a year for institutional investors and analysts, and disclose information on a timely basis to stock exchanges. We also hold briefings when necessary to explain business strategies such as our medium-term business plan.

A Message from an Outside Corporate Auditor

I bring an outside perspective that is completely professional.

Tsukasa Okamoto
Corporate Auditor

The most important role of a corporate auditor is to ensure the soundness of a company by auditing the performance of duties by directors and establishing corporate governance.

In order for us to "take a positive management stance and establish a solid growth track" and "endeavor to consistently increase corporate value to meet the expectations of domestic and foreign stakeholders," as outlined in the medium-term business plan, along with improving our earning power, it is essential that we strengthen corporate governance by maintaining compliance and risk management systems.

Recognizing this, corporate auditors audit, based on the audit plan, the performance of duties by directors by visiting the Company and subsidiaries in Japan and abroad, attending Board of Directors' meetings and other important meetings, meeting with executive management, and collaborating with accounting auditors and the internal audit. Above all, outside corporate auditors make appropriate and reasonable decisions on the performance of directors' duties by incorporating outside and professional perspectives, and review operations from the standpoint of their legality.

Directors and Corporate Auditors (As of June 25, 2013)

Toshihiro Kashizawa
Chairman
Chief Officer, Internal Auditing

Masayuki Shimojima
President

Tetsuro Murao
Managing Director
Assistant of President, Chief Officer, Personnel & General Affairs, General Manager for Osaka Branch, Nagoya Branch

Takashi Gunji
Managing Director
Chief Officer, Steel, Materials & Plant Division

Morihiro Toida
Director
Chief Officer, Foods & Grain Division

Hideo Kazusa
Director
Chief Officer, Corporate Planning, System Planning, Textiles, Realty

Tetsuya Kaneko
Director
Chief Officer, Credit Control Dept., Traffic & Insurance

Yoshiya Miyabe
Director
Chief Officer, Motor Vehicles & Aerospace Division

Nobuyoshi Sakuyama
Director
Chief Officer, Finance, Accounting, Business Accounting, Legal & Compliance, General Manager of Accounting Dept.

Kaoru Tanigawa
Director
Chief Officer, Electronics & Devices Division

Tsukasa Okamoto
Corporate Auditor

Fumihiko Nashimoto
Corporate Auditor

Yonosuke Yamada
Corporate Auditor

Yutaka Hirai
Corporate Auditor

* Messrs. Tsukasa Okamoto, Yonosuke Yamada and Yutaka Hirai are external corporate auditors.
* Messrs. Yonosuke Yamada and Yutaka Hirai are independent auditors as defined in the Securities Listing Regulations of the Tokyo Stock Exchange.

Financial Section

Presentation of fiscal year and amount (Japanese yen and U.S. dollars) on p.32–33, 38–71

- "Fiscal 2013" refers to the Company's consolidated fiscal year ended March 31, 2013 and other fiscal years are referred to in the corresponding manner.
- "JPY" means millions of yen and "USD" means thousands of U.S. dollars.

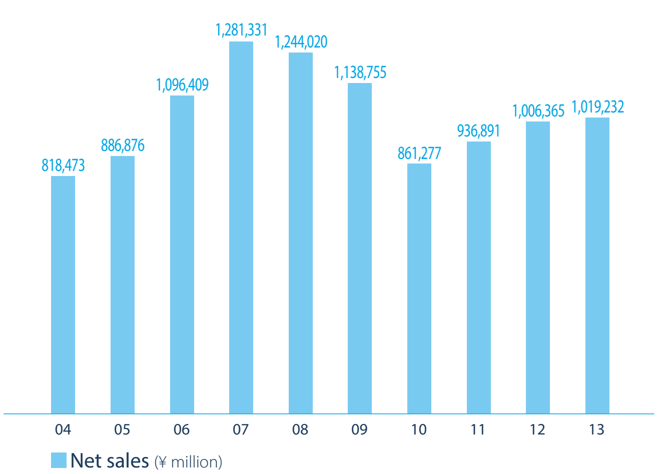
Ten-Year Summary of Consolidated Financial Statements

Years ended March 31　Kanematsu Corporation and Consolidated Subsidiaries

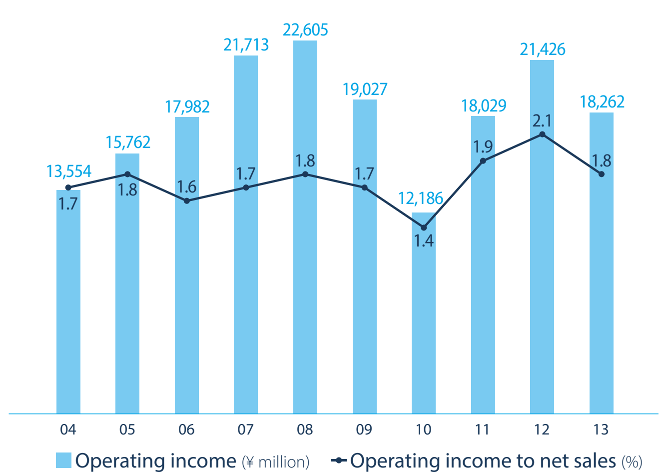
	2004	2005	2006	2007	2008	2009
For the year:						
Net sales	818,473	886,876	1,096,409	1,281,331	1,244,020	1,138,755
Gross profit	62,208	68,142	81,732	103,711	90,327	86,292
Operating income	13,554	15,762	17,982	21,713	22,605	19,027
Income (loss) before income taxes and minority interests	5,057	4,836	(16,728)	14,615	28,975	77
Net income (loss)	3,247	2,469	(21,686)	7,507	19,016	(12,787)
At year-end:						
Net assets	23,283	38,029	26,004	48,767	62,239	42,035
Total assets	507,991	520,118	556,046	563,176	503,456	414,928
Shareholders' equity	—	—	—	32,959	45,587	24,936
Net interest-bearing debt	287,245	261,560	246,317	204,900	148,944	134,582
Per share (yen):						
Net income (loss)	10.13	6.52	(52.43)	17.94	45.44	(30.56)
Net assets	68.77	93.74	62.12	78.75	108.95	59.61
Cash dividends	—	—	—	—	—	—
Financial indicators:						
Return on equity (ROE) (%)	19.08	8.06	(67.73)	25.46	48.42	(36.26)
Equity ratio (%)	4.6	7.3	4.7	5.9	9.1	6.0
Net debt-equity ratio (times)	12.3	6.9	9.5	6.2	3.3	5.4

Notes 1. Figures are rounded down to the nearest million yen. Percentages have been rounded off.
2. The amount of net assets until the year ended March 31, 2006, is the amount presented under shareholders' equity, which has conventionally been presented.
3. The U.S. dollar amounts represent the arithmetical results of translating yen to dollars at the rate of ¥94.05 to U.S.$1.00, the exchange rate prevailing on March 31, 2013.

Net sales

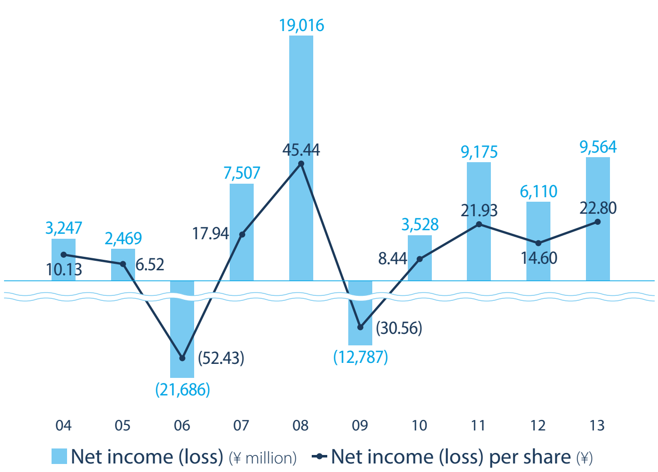


Operating income and Operating income to net sales

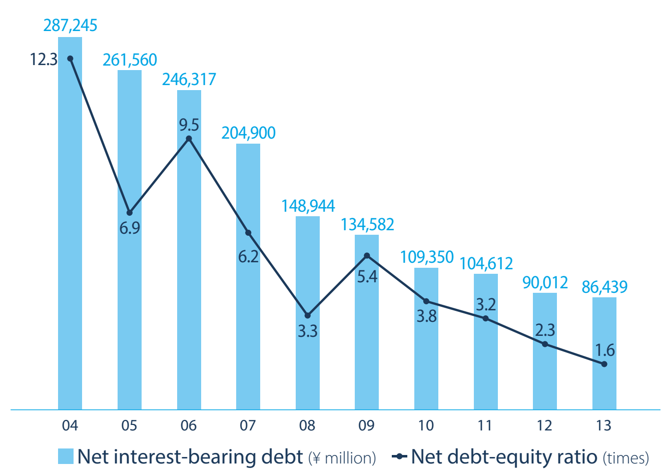


2010	2011	2012	2013		
			Millions of yen	Thousands of U.S. dollars	
					For the year:
861,277	936,891	1,006,365	1,019,232	10,837,130	Net sales
74,104	76,905	80,900	80,021	850,843	Gross profit
12,186	18,029	21,426	18,262	194,183	Operating income
8,407	13,030	13,529	16,781	178,433	Income (loss) before income taxes and minority interests
3,528	9,175	6,110	9,564	101,692	Net income (loss)
					At year-end:
45,804	49,576	55,992	75,912	807,155	Net assets
398,629	388,676	399,753	399,186	4,244,405	Total assets
28,916	33,101	39,008	54,519	579,685	Shareholders' equity
109,350	104,612	90,012	86,439	919,080	Net interest-bearing debt
					Per share (yen):
8.44	21.93	14.60	22.80	0.24	Net income (loss)
69.15	79.07	93.16	129.82	1.38	Net assets
—	—	—	—	—	Cash dividends
					Financial indicators:
13.10	29.59	16.95	20.45		Return on equity (ROE) (%)
7.3	8.5	9.8	13.7		Equity ratio (%)
3.8	3.2	2.3	1.6		Net debt-equity ratio (times)

Net income (loss) and Net income (loss) per share



Net interest-bearing debt and Net debt-equity ratio



* Net interest-bearing debt = Interest-bearing debt – Cash and bank deposits
* Net debt-equity ratio = Net interest-bearing debt / Shareholders' equity

Management's Discussion and Analysis

Business Results

For the fiscal year ended March 31, 2013, consolidated net sales increased by ¥12,867 million year-on-year to ¥1,019,232 million, on increased volume of trade in our Electronics and Environment & Materials segments. However, gross profit decreased ¥879 million to ¥80,021 million, and operating income dropped ¥3,164 million to ¥18,262 million, on an increase in selling, general and administrative expenses due to anticipatory investments in business expansion. We posted an improvement of ¥2,116 million in non-operating loss due partly to a narrowing of foreign currency translation losses and improvement in the interest paid and received account.

As a result, ordinary income decreased by ¥1,047 million to ¥16,705 million. We posted an extraordinary gain of ¥76 million due to recording of a gain on sale of investments in securities and other positives. Income before income taxes and minority interests increased by ¥3,252 million to ¥16,781 million, while net income jumped ¥3,454 million to ¥9,564 million.

Segment Information

Electronics

Steady sales growth was again the keynote in the ICT solutions and mobile solutions businesses, on the back of expanded sales of mobile devices and cloud-based services. At the same time, the electronic devices business also had a good year, with onboard parts sales rising in line with increased production in the motorcycle and automobile parts business, against a background of economic recovery in the United States. However, it was an sluggish year overall for semiconductor components and semiconductor manufacturing equipment, apart from strong demand from manufacturers of smart devices.

As a result, net sales in the Electronics Segment increased by ¥20,518 million year-on-year to ¥273,662 million, while operating income increased by ¥917 million to ¥9,943 million.

Foods & Foodstuff

Overall, the segment was hard hit by the rapid weakening of the Japanese yen, which undermined profitability. In particular, livestock businesses had a poor year due to confusion in the market following the easing of age-based inspection requirements for imported beef. The foodstuff business also had a difficult year, as it was unable to pass on to the customers higher sales prices resulting from prices soared in the U.S. grain market.

As a result, net sales in the Foods & Foodstuff Segment fell ¥4,176 million year-on-year to ¥287,936 million and operating income dropped ¥2,021 million to ¥3,165 million.

Iron & Steel

Transactions for exports of steel pipes to North America were robust, but shipments of steel sheet and iron ore to Asia had a lackluster year.

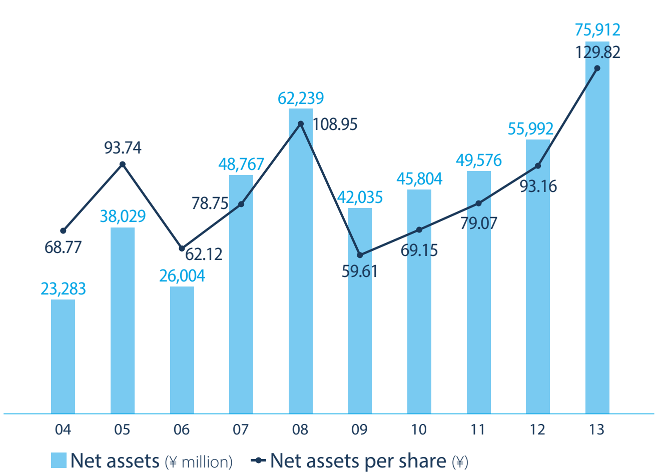
As a result, net sales in the Iron & Steel Segment fell ¥7,843 million year-on-year to ¥91,288 million, while operating income dropped ¥1,045 million to ¥2,567 million.

Machinery & Plant

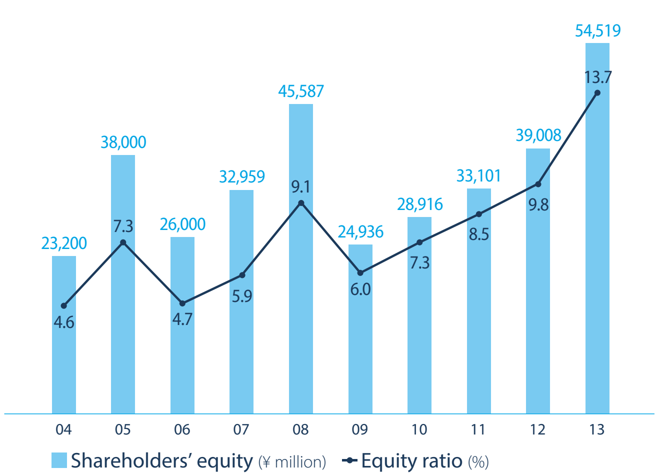
Sales of machine tools and industrial machinery put in a robust performance on the back of capital expenditure and facility upgrade-related demand at our customers. However, exports to Asia in terms of transportation machinery and plant construction orders were lackluster.

As a result, net sales in the Machinery & Plant Segment declined ¥14,969 million year-on-year to ¥55,426 million. Operating income fell ¥1,021 million to ¥426 million.

Net assets and Net assets per share



Shareholders' equity and equity ratio



* Shareholders' equity = net assets – minority interests
* Equity ratio = Shareholders' equity / total assets

Environment & Materials

In the energy business, sales of heavy oil to electric power companies remained buoyant. In chemicals, transactions for imports of raw materials for pharmaceuticals and health foods held up well, but transactions for exports of raw materials for vehicle batteries had an sluggish year.

As a result, net sales in the Environment & Materials Segment increased by ¥19,851 million year-on-year to ¥293,533 million, while operating income fell ¥46 million to ¥1,926 million.

Other

Net sales in other businesses fell ¥514 million year-on-year to ¥17,384 million. However, operating income rose ¥63 million to ¥223 million.

Financial Status

Cash flows

Net cash provided by operating activities came to ¥1,355 million, with accumulated operating income more than offsetting negatives including an increase in inventories and decreased accounts payable. Net cash provided by investing activities came to ¥1,466 million, with positives such as proceeds of investment securities and collection of loans receivable more than offsetting expenses including costs of business transfer. Net cash used in financing activities amounted to ¥15,721 million, due in part to repayment of loans.

As a result, the balance of cash and cash equivalents at the end of fiscal 2013, came to ¥60,032 million, for a decrease of ¥10,561 million over the previous term-end.

Fundraising and interest-bearing debt

The Group raises funds primarily through indirect finance based on good relations with our main banks, regional banks, life and non-life insurers and other financial institutions. Also, to respond flexibly to funding requirements for business expansion and to guard against unforeseen deterioration in our financial situation, we also maintain sufficient levels of cash and bank deposits, and conduct flexible investment operations in highly secure short-term financial products in response to our funding needs and financial circumstances.

Interest-bearing debt on a consolidated accounts basis at the end of the reporting fiscal year amounted to ¥146,861 million, down ¥13,987 million from the end of the previous fiscal year. The balance of cash and bank deposits was down ¥10,414 million from the end of the previous fiscal year, at ¥60,421 million. Net interest-bearing debt (consolidated basis) at the end of the fiscal year came to ¥86,439 million, a decrease of ¥3,573 million from the end of the previous fiscal year. Long-term debt (which includes long-term loans falling due within one year) as a percentage of interest-bearing debt was 74% (88% on a non-consolidated basis), confirming the high level of stability of our fundraising.

Net assets

Net assets increased by ¥19,920 million over the end of the previous fiscal year to ¥75,912 million, due largely to an accumulation of retained earnings and improvement in foreign currency translation adjustments due to exchange rate variation. As a result, the equity ratio improved by 3.9 percentage points compared with the end of the previous fiscal year, to 13.7% and as a result of the fall in interest-bearing debt, the net debt-to-equity ratio also decreased from 2.3 times to 1.6 times compared with the previous fiscal year-end, indicating steady improvement in our financial position.

Business Risks

Below are details of the risks that could affect the business performance and financial position of the Group. The forward-looking statements below are based on information available as of June 25, 2013.

The Group takes all risk that it faces on a daily basis in the course of its business very seriously. Risk control is undertaken through management mechanisms and methods tailored to the nature of each category of risk.

Market risk related to supply and demand and prices of goods traded

In its mainstay commodity trading business in Japan and overseas, the Group deals with grains and petroleum products as well as electronic parts and Information and Communication Technology (ICT) products. Grains and petroleum products will be influenced by market conditions, while electronic parts and ICT products are exposed to the risk of frequent price erosion caused by competition and obsolescence resulting from technological innovation. If our positions with these commodities increase, we could suffer an unexpected loss from fluctuations in commodities prices and reduced from purchasers, etc.

Foreign currency risk

The Group is engaged in foreign currency transactions in a number of currencies and terms incidental to its export and import trading. The Group not only transfers the risk of currency fluctuations to business partners in accordance with transaction terms but also participates in derivatives transactions such as forward contracts to reduce the risk.

The Company also has local subsidiaries and business corporations overseas. Account balances at these companies are converted into yen at the exchange rates prevailing at the time of account closing, for the purposes of preparing consolidated financial statements. For this reason, net assets may change through translation adjustments associated with exchange rate fluctuations.

Interest rate risk

The Group raises most funds needed for operating and financing activities in the form of borrowings from financial institutions, some of which are at variable interest rates. Since these borrowings and fund management are exposed to an interest rate risk, interest paid by the Group may increase with a rise in interest rates.

Also, since certain companies in the Group adopt a defined benefit pension plan, the retirement benefit obligation could increase in the estimation of the Group if the discount rate used for the calculation of the retirement benefit obligation falls.

Price fluctuation risk of marketable securities, etc.

The Group may hold shares in trade partners as a means of strengthening its relationship with them. There is a risk of price fluctuation inherent in these shares, which could have an effect on the financial position of the Group resulting from the total of valuation differences in other securities.

Since stocks and other securities are included in the portfolio of the pension assets of the Group for the purpose of making medium- and long-term investments, differences from the required investment yield could have an effect on the financial position of the Group, given that the investment yield will fall if the prices of the stocks, etc. fall.

Default risk and credit risk

The Group extends credit in a number of forms, including accounts receivable, advance payments, loans and guarantees in diverse business transactions with its trading partners in Japan and abroad. For this reason, late repayments and defaults may occur with developments such as a deterioration in the financial strength of its trading partners. The Group could also be forced to perform obligations that could be accompanied by a monetary loss in association with the conclusion and performance of a commodity supply agreement, a contract agreement, and subcontract agreement, or other agreements, irrespective of reasons, if the trade partner defaults on its obligation or contract.

Although we have set aside an allowance for these losses in our accounting procedures using certain estimates, an additional loss could arise if the loss exceeds the scope of the allowance.

Business investment risk

The Group makes business investments to achieve objectives, including deep mining of existing businesses and expansion of business areas. The Group decides whether to make such investments through procedures established according to their details and amounts. When making investment decisions, the Group evaluates and analyzes risk factors and the profitability of the business based on cash flows, taking the criteria for business withdrawal into account. After making an investment, the Group regularly reevaluates and reviews business potential and investment value to minimize any potential loss. The value of the business investments may fluctuate according to the financial conditions of investment targets and their business success or failure.

The range of market changes tends to be particularly wide in overseas businesses. Local laws and relationships with partners may also prevent the Group from executing its policy for operating or withdrawing from a business.

Country risk

The Group engages in transactions, loans and investments in other countries. The collection of receivables may be delayed or impossible as a result of political or economic developments in each of these countries. To minimize losses that could arise should these country risks become reality, the Group regularly sets a limit based on ratings given to each country and region according to the scale of their respective country risk, and operates its businesses in such a way that prevents overexposure to certain countries and regions. The Group takes steps such as enrolling in trade insurance programs, according to the ratings and project details in an attempt to minimize recovery risks. However, continuing transactions may become difficult if these risks actualize in certain countries and regions, and this development may affect the future business results of the Group.

Legal risk related to changes in laws

The business activities undertaken by the Group in Japan and overseas are subject to a wide range of legal regulations in Japan and other countries. The Group may become unable to continue certain transactions because of factors such as unexpected changes in laws, changes in export and import regulations, including a punitive tariff that could be introduced unilaterally following changes in the international political environment, and changes in regulations such as permits and licenses related to the sales and handling of products. An unexpected expense for the Group may also arise from a lawsuit or from an order issued by authorities. This risk also includes the risk that a tax rate or tax arrangements imposed by authorities or between countries under international taxation arrangements may change. Changes in these legal systems could influence the financial position and operating results of the Group.

Legal risk related to lawsuits and disputes

Business operations by the Group, and its assets and liabilities associated with the business operations may become subject to legal proceedings, including lawsuits, and other disputes, in various ways through the course of the business activities undertaken by the Group in Japan and overseas. These lawsuits and disputes are difficult to foresee. In addition, resolving disputes and lawsuits often takes a considerable time. Predicting outcomes involves uncertainties. Lawsuits and disputes may affect the financial position and business results of the Group when they emerge and produce unexpected results.

Security risk related to information systems and information security

The Group builds and operates information systems for sharing information and streamlining its operations. The Group has adopted information security control rules, and is taking steps to ensure that all members of the Group are familiar with crisis control responses, to meet the safety requirements for operating its information systems. However, information systems cannot be made entirely invulnerable to the unauthorized disclosure of business-sensitive information or personal information through unauthorized access, computer viruses and other means, as well as inoperability due to factors such as natural disasters, destruction of information system facilities attributable to accidents and other causes, and communication line troubles. Inoperability may reduce the efficiency of operations that depend on the systems, and seriously affect the future financial position and business results of the Group, depending on the scale of damages.

Product and facility deterioration risk and business interruption risk due to natural disasters and accidents

The Group owns facilities, including business offices, warehouses and manufacturing plants, in Japan and overseas. Cargo movements take place not only in Japan but also between foreign countries when the Group engages in transactions. For these reasons, assets held by the Group may be damaged or deteriorate as a result of disasters, accidents and other developments in the course of transportation. In addition, the businesses of the Group may be suspended due to developments such as earthquakes, fire, floods and riots, which could have a major impact on the Kanematsu Group's financial position and business performance depending on the extent of the damage.

Compliance and fraud risk

The Group operates businesses to buy, sell and provide a broad array of products and services in Japan and overseas and carefully monitors laws and regulations, including those related to exports and imports that are established and enforced for these products and services in Japan and other countries. However, it is difficult to execute all procedures at all times across all of the trading operations we conduct with the involvement of multiple parties. Although we take a number of actions to prevent violations, there is a risk that we may overlook a violation of a law or an instance of fraud. If the violation or fraud is material, the financial position and operating results of the Group could be affected.

Consolidated Balance Sheets

March 31, 2013 and 2012 Kanematsu Corporation and Consolidated Subsidiaries

	Fiscal 2013	Fiscal 2012	Fiscal 2013
	JPY	JPY	USD (Note 3)
Assets			
I. Current assets			
1. Cash and bank deposits (Note 5-3)	60,421	70,835	642,444
2. Notes and accounts receivable (Notes 5-3, 5-8)	165,378	163,782	1,758,409
3. Lease investment assets	608	666	6,470
4. Short-term investments (Note 5-3)	16	—	173
5. Inventories (Note 5-1)	65,246	57,113	693,742
6. Short-term loans receivable	352	974	3,747
7. Deferred tax assets	1,669	3,322	17,748
8. Other	23,134	22,180	245,985
Allowance for doubtful accounts	(273)	(294)	(2,913)
Total current assets	316,554	318,581	3,365,807
II. Long-term assets			
1. Tangible fixed assets			
1) Leased properties, net (Note 5-3)	1,345	1,989	14,302
2) Buildings and structures, net (Note 5-3)	5,391	4,987	57,323
3) Machinery, equipment, vehicle, tools and fixtures, net	4,963	4,537	52,777
4) Land (Note 5-3)	14,050	14,192	149,397
5) Lease assets, net	1,075	1,310	11,439
6) Construction in progress	163	10	1,741
Total tangible fixed assets (Note 5-2)	26,990	27,028	286,979
2. Intangible fixed assets	7,226	1,905	76,836
3. Investments and other assets			
1) Investments in securities (Notes 5-3, 5-4)	30,248	29,867	321,620
2) Long-term loans receivable	2,435	5,790	25,893
3) Doubtful accounts	1,895	1,886	20,151
4) Deferred tax assets	11,127	10,842	118,311
5) Other	6,441	7,585	68,487
Allowance for doubtful accounts	(3,731)	(3,734)	(39,678)
Total investments and other assets	48,415	52,238	514,784
Total long-term assets	82,632	81,172	878,599
Total assets	399,186	399,753	4,244,405

The accompanying notes are an integral part of these financial statements.

	Fiscal 2013	Fiscal 2012	Fiscal 2013
	JPY	JPY	USD (Note 3)
Liabilities			
I. Current liabilities			
1. Notes and accounts payable (Note 5-8)	104,372	108,956	1,109,759
2. Import bills payable	27,984	29,670	297,545
3. Short-term borrowings (Note 5-3)	81,570	78,444	867,313
4. Lease obligations	733	726	7,796
5. Accrued income taxes	1,663	1,863	17,685
6. Deferred tax liabilities	95	1	1,014
7. Asset retirement obligations	118	35	1,260
8. Other	28,238	27,138	300,255
Total current liabilities	244,776	246,837	2,602,626
II. Non-current liabilities			
1. Long-term borrowings (Note 5-3)	65,290	82,403	694,211
2. Lease obligations	1,099	1,394	11,692
3. Deferred tax liabilities	45	160	486
4. Provision for employees' retirement and severance benefits	4,296	2,736	45,688
5. Provision for loss on lawsuits	—	910	—
6. Provision for retirement benefits for directors and statutory auditors	385	537	4,096
7. Asset retirement obligations	741	821	7,889
8. Other (Note 5-3)	6,636	7,958	70,562
Total non-current liabilities	78,496	96,922	834,624
Total liabilities	323,273	343,760	3,437,250
Net assets			
I. Shareholders' equity			
1. Common stock	27,781	27,781	295,387
2. Capital surplus	27,526	27,597	292,683
3. Retained earnings (Deficit)	24,567	15,003	261,215
4. Treasury stock	(357)	(550)	(3,804)
Total shareholders' equity	79,517	69,830	845,480
II. Accumulated other comprehensive income			
1. Net unrealized gains on securities, net of tax	1,048	137	11,150
2. Net gains on deferred hedges, net of tax	298	492	3,170
3. Revaluation reserves for land (Note 5-5)	66	66	706
4. Foreign currency translation adjustments	(26,411)	(31,519)	(280,820)
Total accumulated other comprehensive income	(24,997)	(30,822)	(265,795)
III. Minority interests in consolidated subsidiaries	21,393	16,984	227,469
Total net assets	75,912	55,992	807,155
Total liabilities and net assets	399,186	399,753	4,244,405

Consolidated Statements of Income

For the years ended March 31, 2013 and 2012 Kanematsu Corporation and Consolidated Subsidiaries

	Fiscal 2013		Fiscal 2012		Fiscal 2013	
	JPY		JPY		USD (Note 3)	
I. Net sales		1,019,232		1,006,365		10,837,130
II. Cost of sales (Note 6-1)		939,210		925,464		9,986,287
Gross profit		80,021		80,900		850,843
III. Selling, general and administrative expenses (Note 6-2)						
1. Salaries and bonuses	24,566		23,352		261,201	
2. Retirement benefit expenses	1,903		1,765		20,237	
3. Outsourcing service charges	7,626		7,494		81,086	
4. Provision of allowance for doubtful accounts	227		112		2,423	
5. Other	27,435	61,758	26,748	59,473	291,712	656,660
Operating income		18,262		21,426		194,183
IV. Non-operating income						
1. Interest income	503		472		5,354	
2. Dividend income	814		780		8,659	
3. Equity in earnings of affiliates	197		266		2,101	
4. Foreign exchange gains	937		—		9,963	
5. Other	1,097	3,549	951	2,470	11,668	37,746
V. Non-operating expenses						
1. Interest expenses	3,502		4,093		37,236	
2. Foreign exchange losses	—		562		—	
3. Other	1,605	5,107	1,488	6,144	17,073	54,309
Ordinary income		16,705		17,752		177,619
VI. Extraordinary gains						
1. Gain on sale of tangible fixed assets (Note 6-3)	431		38		4,586	
2. Gain on sale of investments in securities	2,694		264		28,647	
3. Gain on liquidation of subsidiaries and affiliates	—		10		—	
4. Gain on step acquisitions	81		—		869	
5. Gain on bargain purchase	69	3,276	—	314	739	34,840
VII. Extraordinary losses						
1. Loss on disposal of fixed assets (Note 6-4)	1,271		100		13,524	
2. Impairment loss on fixed assets (Note 6-6)	750		440		7,981	
3. Loss on sale of investments in securities	636		545		6,764	
4. Impairment loss on investments in securities	376		660		3,999	
5. Loss on closure of business (Note 6-5)	—		1,185		—	
6. Provision for loss on lawsuits (Note 6-7)	—		910		—	
7. Loss on withdrawing from employees' pension fund	94		693		1,001	
8. Loss on lawsuits	71	3,200	—	4,537	757	34,026
Income before income taxes and minority interests		16,781		13,529		178,433
Income taxes – current	4,082		3,907		43,408	
Income taxes – deferred	1,490	5,573	2,115	6,023	15,850	59,258
Income before minority interests		11,208		7,506		119,175
Minority interests in consolidated subsidiaries		1,644		1,395		17,483
Net income		9,564		6,110		101,692

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2013 and 2012 Kanematsu Corporation and Consolidated Subsidiaries

	Fiscal 2013	Fiscal 2012	Fiscal 2013
	JPY	JPY	USD (Note 3)
I. Income before minority interests	11,208	7,506	119,175
II. Other comprehensive income			
1. Net unrealized gains on securities, net of tax	927	303	9,860
2. Net gains (losses) on deferred hedges, net of tax	(215)	597	(2,295)
3. Foreign currency translation adjustments	5,067	(1,221)	53,883
4. Share of other comprehensive income of associates accounted for equity method	416	(12)	4,433
Total other comprehensive income (Note 7-1)	6,196	(332)	65,881
Comprehensive income	17,404	7,173	185,056
Comprehensive income attributable to the shareholders of the Company	15,388	5,918	163,624
Comprehensive income attributable to minority interests	2,015	1,254	21,433

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2013 and 2012 Kanematsu Corporation and Consolidated Subsidiaries

	Fiscal 2013	Fiscal 2012	Fiscal 2013
	JPY	JPY	USD (Note 3)
I. Shareholders' equity			
1. Common stock			
Balance at the beginning of the fiscal year	27,781	27,781	295,387
Changes during the fiscal year			
Total changes during the fiscal year	—	—	—
Balance at the end of the fiscal year	27,781	27,781	295,387
2. Capital surplus			
Balance at the beginning of the fiscal year	27,597	27,606	293,432
Changes during the fiscal year			
Disposition of treasury stock	(70)	(8)	(749)
Total changes during the fiscal year	(70)	(8)	(749)
Balance at the end of the fiscal year	27,526	27,597	292,683
3. Retained earnings (Deficit)			
Balance at the beginning of the fiscal year	15,003	8,914	159,525
Changes during the fiscal year			
Net income	9,564	6,110	101,692
Changes of scope of equity-method	(0)	(21)	(2)
Total changes during the fiscal year	9,563	6,089	101,690
Balance at the end of the fiscal year	24,567	15,003	261,215
4. Treasury stock			
Balance at the beginning of the fiscal year	(550)	(569)	(5,857)
Changes during the fiscal year			
Acquisition of treasury stock	(8)	(6)	(85)
Disposition of treasury stock	197	24	2,097
Effect of changes in the shares of equity-method affiliates	3	—	42
Total changes during the fiscal year	193	18	2,053
Balance at the end of the fiscal year	(357)	(550)	(3,804)
5. Total shareholders' equity			
Balance at the beginning of the fiscal year	69,830	63,732	742,486
Changes during the fiscal year			
Net income	9,564	6,110	101,692
Acquisition of treasury stock	(8)	(6)	(85)
Disposition of treasury stock	126	15	1,348
Effect of changes in the shares of equity-method affiliates	3	—	42
Changes of scope of equity-method	(0)	(21)	(2)
Total changes during the fiscal year	9,686	6,098	102,994
Balance at the end of the fiscal year	79,517	69,830	845,480

	Fiscal 2013	Fiscal 2012	Fiscal 2013
	JPY	JPY	USD (Note 3)
II. Accumulated other comprehensive income			
1. Net unrealized gains (losses) on securities, net of tax			
Balance at the beginning of the fiscal year	137	(166)	1,466
Changes during the fiscal year			
Net changes of items other than shareholders' equity during the fiscal year	910	304	9,684
Total changes during the fiscal year	910	304	9,684
Balance at the end of the fiscal year	1,048	137	11,150
2. Net gains (losses) on deferred hedges, net of tax			
Balance at the beginning of the year	492	(143)	5,238
Changes during the fiscal year			
Net changes of items other than shareholders' equity during the fiscal year	(194)	636	(2,068)
Total changes during the fiscal year	(194)	636	(2,068)
Balance at the end of the fiscal year	298	492	3,170
3. Revaluation reserves for land			
Balance at the beginning of the fiscal year	66	58	706
Changes during the fiscal year			
Net changes of items other than shareholders' equity during the fiscal year	—	8	—
Total changes during the fiscal year	—	8	—
Balance at the end of the fiscal year	66	66	706
4. Foreign currency translation adjustments			
Balance at the beginning of the fiscal year	(31,519)	(30,379)	(335,136)
Changes during the fiscal year			
Net changes of items other than shareholders' equity during the fiscal year	5,108	(1,140)	54,315
Total changes during the fiscal year	5,108	(1,140)	54,315
Balance at the end of the fiscal year	(26,411)	(31,519)	(280,820)
5. Total accumulated other comprehensive income			
Balance at the beginning of the fiscal year	(30,822)	(30,631)	(327,726)
Changes during the fiscal year			
Net changes of items other than shareholders' equity during the fiscal year	5,824	(191)	61,931
Total changes during the fiscal year	5,824	(191)	61,931
Balance at the end of the fiscal year	(24,997)	(30,822)	(265,795)
III. Minority interests in consolidated subsidiaries			
Balance at the beginning of the fiscal year	16,984	16,475	180,589
Changes during the fiscal year			
Net changes of items other than shareholders' equity during the fiscal year	4,409	508	46,881
Total changes during the fiscal year	4,409	508	46,881
Balance at the end of the fiscal year	21,393	16,984	227,469
IV. Total net assets			
Balance at the beginning of the fiscal year	55,992	49,576	595,349
Changes during the fiscal year			
Net income	9,564	6,110	101,692
Acquisition of treasury stock	(8)	(6)	(85)
Disposition of treasury stock	126	15	1,348
Effect of changes in the shares of equity-method affiliates	3	—	42
Changes of scope of equity-method	(0)	(21)	(2)
Net changes of items other than shareholders' equity during the fiscal year	10,233	317	108,812
Total changes during the fiscal year	19,920	6,415	211,806
Balance at the end of the fiscal year	75,912	55,992	807,155

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2013 and 2012 Kanematsu Corporation and Consolidated Subsidiaries

	Fiscal 2013	Fiscal 2012	Fiscal 2013
	JPY	JPY	USD (Note 3)
I. Cash flows from operating activities			
Income before income taxes and minority interests	16,781	13,529	178,433
Depreciation and amortization	2,680	2,561	28,506
Increase (Decrease) in allowance for doubtful accounts	69	(247)	738
Increase in provision for employees' retirement and severance benefits	358	233	3,812
Interest and dividends income	(1,317)	(1,253)	(14,014)
Interest expenses	3,502	4,093	37,236
Equity in gains of affiliates	(197)	(266)	(2,101)
Loss on disposal of fixed assets	840	62	8,939
Impairment loss on fixed assets	750	440	7,981
(Gain) Loss on sale of investments in securities, net	(2,058)	281	(21,883)
Impairment loss on investments in securities	376	660	3,999
Loss on closure of business	—	1,185	—
Provision for loss on lawsuits	—	910	—
Loss on lawsuits	71	—	757
Gain on step acquisitions	(81)	—	(869)
Loss on withdrawing from employees' pension fund	94	693	1,001
Decrease (Increase) in notes and accounts receivable	1,769	(16,251)	18,814
Increase in inventories	(3,838)	(646)	(40,816)
(Decrease) Increase in notes and accounts payable	(9,112)	19,843	(96,894)
Other	(1,634)	(1,699)	(17,378)
Sub total	9,053	24,132	96,262
Interest and dividends received	1,515	1,141	16,113
Interest paid	(3,549)	(4,105)	(37,738)
Income taxes paid	(4,588)	(3,818)	(48,791)
Payments for loss on lawsuits	(981)	—	(10,432)
Payments for cancellation of leases	—	(833)	—
Payments for withdrawing from employees' pension fund	(94)	(693)	(1,001)
Net cash provided by operating activities	1,355	15,822	14,412
II. Cash flows from investing activities			
Decrease in time deposits, net	(79)	1,340	(843)
Payments for tangible fixed assets	(1,664)	(2,175)	(17,698)
Proceeds from sales of tangible fixed assets	1,589	658	16,898
Payments for intangible fixed assets	(1,286)	(579)	(13,675)
Payments for investments in securities	(247)	(121)	(2,629)
Proceeds from sales of investments in securities	3,573	1,331	38,000
Payments for purchase of investments in subsidiaries	(5)	(0)	(57)
Proceeds from sales of investments in subsidiaries	18	—	201
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 9-2)	804	—	8,550
Payments for transfer of business (Note 9-3)	(6,493)	—	(69,040)
Increase in loans receivable	(163)	(1,979)	(1,738)
Proceeds from collection of loans receivable	4,492	2,605	47,767
Other	926	212	9,856
Net cash provided by investing activities	1,466	1,291	15,591
III. Cash flows from financing activities			
Increase (Decrease) in short-term borrowings, net	(244)	788	(2,600)
Proceeds from long-term borrowings	25,930	49,968	275,707
Repayments of long-term borrowings	(40,073)	(63,296)	(426,088)
Proceeds on issuance of common stock	—	38	—
Other	(1,333)	(909)	(14,184)
Net cash used in financing activities	(15,721)	(13,411)	(167,165)
IV. Effect of exchange rate changes on cash and cash equivalents	2,338	(533)	24,861
V. Net increase in cash and cash equivalents	(10,561)	3,168	(112,301)
VI. Cash and cash equivalents at beginning of year	70,594	67,426	750,608
VII. Cash and cash equivalents at end of year (Note 9-1)	60,032	70,594	638,308

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

For the years ended March 31, 2013 and 2012   Kanematsu Corporation and Consolidated Subsidiaries

1. Basis of Preparing Consolidated Financial Statements

1. The method of Producing the Consolidated Financial Statements

The consolidated financial statements of Kanematsu Corporation (the "Company") are prepared in accordance with the "Regulations Concerning Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Ordinance No.28, 1976; hereinafter, the "Regulations").

The Company and its domestic consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Companies Act of Japan and the Financial Instruments and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

2. Japanese Yen Amount

Amounts less than one million yen have been omitted, since the Regulations require such amounts to be rounded down for presentation. As a result, the totals shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual account balances or breakdowns.

2. Summary of Significant Accounting Policies

(a) Scope of Consolidation

(1) Number of consolidated subsidiaries: 82

In the current fiscal year, Nippon Office Systems was added to the scope of consolidation from affiliated company to which the equity method is applied due to additional acquisition of shares and Benoit Premium Threading, KG Agri Products and 3 other companies were added to the scope of consolidation due to new establishment, while 2 companies were excluded from the scope of consolidation due to merger or liquidation.

(2) Unconsolidated subsidiaries:

5 companies are not included in the scope of consolidation.

(3) Reason that certain subsidiaries are excluded from the scope of consolidation:

5 unconsolidated subsidiaries are excluded from consolidation as they are immaterial to the Company in terms of their total assets, net sales, net income and retained earnings, individually and in the aggregate.

(b) Application of Equity Method

(1) Number of unconsolidated subsidiaries to which the equity method is applied: 4

4 subsidiaries out of 5 unconsolidated subsidiaries are accounted for by the equity method.

(2) Number of affiliated companies to which the equity method is applied: 21

Among 26 affiliated companies, the equity method is applied to investments in 21 companies.

In the current fiscal year, Fung Japan Development and NEOS were excluded from accounting via the equity method due to sale of shares and 2 companies were excluded from accounting via the equity method due to adding to the scope of consolidation by additional acquisition of shares, and decrease of shares.

(3) Reason that the equity method is not applied to certain affiliated companies:

The 1 unconsolidated subsidiary and 5 affiliated companies to which the equity method is not applied are immaterial to the Company's consolidated net income and retained earnings, individually and in the aggregate.

(c) Fiscal Year-ends of Consolidated Subsidiaries

Consolidated subsidiaries that have different fiscal year-end dates from the consolidated balance sheet date are as follows:

Name of consolidated subsidiary	Year-end date
Kanematsu USA	December 31
KG Aircraft Leasing	December 31
30 other companies	

In preparing the consolidated financial statements, the financial statements of 32 companies with fiscal year-end dates within three months of the consolidated balance sheet date of March 31, are used. However, material differences in transactions and accounts arising from the use of these fiscal year-end dates are appropriately adjusted for in consolidation.

In the current fiscal year, Kanematsu Taiwan, Kanematsu Europe, Kanematsu GmbH, Kanematsu Australia and Kanematsu Semiconductor Singapore have changed their fiscal year-end to March 31 from December 31. As a result of this change, the accounting period ended March 31, 2013 for these 5 consolidated subsidiaries spanned the 15 months from January 1, 2012.

(d) Short-term Investments and Investments in Securities

(1) Held-to-maturity bonds:

Debt securities are stated at cost less the amortization of any premium or discounts, which are amortized over the period to maturities.

(2) Other securities (Non-trading purpose):

* Marketable securities

Marketable securities are stated at fair value.

Net unrealized gains or losses on securities recorded in "Net assets" are net of tax amounts. The cost for marketable securities that have been sold is determined using the moving average method.

The fair value is determined primary based on the average of daily market price for one-month prior to the fiscal year-end.

* Non-marketable securities

The non-marketable securities are stated at cost using the moving average method.

(e) Derivatives

Derivatives are stated at fair value method.

(f) Inventories

Inventories are stated at cost method principally determined by the moving average method (carried at the lower of cost or market value on the balance sheet).

(g) Property and Equipment

(1) Tangible fixed assets (excluding lease assets):

The declining balance method is used for tangible fixed assets other than buildings (excluding auxiliary equipment) and leased property.

The straight-line method is used for buildings (excluding auxiliary equipment) and for leased properties.

The ranges of principal estimated useful lives are as follows.

Buildings and structures	3 – 50 years
Machinery, equipment, vehicle, tools and fixtures	2 – 25 years

(Change in accounting policy)

With the revision of the corporation tax law, from the current fiscal year, certain domestic consolidated subsidiaries changed the depreciation method based on the revised corporation tax law.

The impact of this change on net income for the current fiscal year is immaterial.

(2) Lease assets:

Depreciation on lease assets is recorded using the straight-line method over the lease term, assuming a residual value of zero.

Finance lease transactions that commenced on or before March 31, 2008 are accounted for as operating leases.

(h) Allowance for Doubtful Accounts

The Company and its consolidated subsidiaries (The "Companies") provide an allowance for doubtful accounts to cover credit losses, based on estimates of collectability of individual accounts and past bad debt loss experiences.

(i) Provision for Employees' Retirement and Severance Benefits

The Company and certain of its subsidiaries provide for retirement provisions based on the present value of projected benefit obligations and the fair value of the plan assets at year-end.

Except for certain domestic consolidated subsidiaries who recognize service costs as expenses upon their occurrence, prior service costs are amortized as expenses using the straight-line method over five years, a predetermined number of years, within the average expected remaining service period of the employees.

Actuarial gains and losses are amortized by the straight-line method over five to ten years, within the average expected remaining service period of the employees, and are recorded as expenses in the subsequent years in which the gains or losses are recognized.

(j) Provision for Retirement Benefits for Directors and Statutory Auditors

The Company and certain of its subsidiaries provide a provision for retirement benefits for directors and statutory auditors, which is calculated by estimating the required payable as of the balance sheet date in accordance with the internal rules.

(k) Translation of Foreign Currencies

All monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates prevailing at the balance sheet date. Resulting translation gains and losses are included in determination of net income for the period.

The financial statements of overseas subsidiaries are translated at current exchange rates on the closing date except for shareholders' equity which is translated at historical acquisition date exchange rates. Differences in yen amounts arising from this translation are shown as "Foreign currency translation adjustments" and "Minority interests in consolidated subsidiaries" recorded in "Net assets."

(l) Hedge Accounting

(1) Hedge accounting method:

The Company and certain of its consolidated subsidiaries apply hedge accounting whereby gains and losses on hedged transactions are deferred and recognized over future periods. For certain interest rate swaps designated as hedging instruments that meet specific matching criteria, the amounts received or paid under such interest rate swap agreements are added to or deducted from the interest on the hedged assets or liabilities when paid. For certain forward exchange contracts designated as hedging instruments that meet specific matching criteria, the hedged assets or liabilities are measured by contract rate.

(2) Hedging instruments and hedged items:

(Hedging instruments)

* Commodity-related: Commodity futures contracts / Commodity forward contracts
* Foreign exchange-related: Forward exchange contracts / Foreign currency swaps / Foreign currency options
* Interest rate-related: Interest rate swaps / Interest rate options

(Hedged items)

* Commodity-related: Forecasted transactions on commodity trading
* Foreign exchange-related: Foreign currency-denominated monetary assets and liabilities / Forecasted foreign currency transactions
* Interest-related: Borrowings

(3) Hedging policy:

The Company and certain of its consolidated subsidiaries have internal policies to utilize the above hedging instruments for the purpose of reducing their exposures to the risk of fluctuations in commodity prices, foreign currencies and interest rates for their operating and financing activities.

(4) Method of evaluating the effectiveness of hedging activities:

The Company and certain of its consolidated subsidiaries evaluate the effectiveness of their hedging activities by comparing accumulated fluctuations in prices or cash flows of the hedged items with those of the hedging instruments and examined the degree of their correlation.

(5) Other:

Risk management is performed by the management division, which is independent of the trading section. Also, reporting to management is performed in accordance with the internal rules of the Company on a regular basis.

(m) Amortization of Goodwill and Negative Goodwill

Goodwill whose amortization period can be reasonably estimated is amortized over the estimated period. Otherwise goodwill is amortized over 5 years using the straight-line method.

Negative goodwill which was recognized by business combinations before April 1, 2010 and whose amortization period can be reasonably estimated is amortized over the estimated period. Otherwise negative goodwill is amortized over 5 years using the straight-line method.

(n) Scope of Cash and Cash Equivalents in the Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows are comprised of cash on hand, bank deposits on demand, and highly liquid short-term investments, generally with original maturities of three months or less, that are readily convertible to cash for which the risk of changes in value is insignificant.

(o) Consumption Taxes

Consumption tax and local consumption tax on goods and services are not included in the revenue and expense amounts subject to such taxes in the accompanying consolidated statements of income.

(p) Consolidated Tax Return

The Company and its wholly owned domestic subsidiaries have adopted the consolidated tax regime, and as such file a consolidated corporate-tax return.

3. United States Dollar Amounts

The U.S. dollar amounts appearing in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars at the rate of ¥94.05 to U.S.$1.00, the exchange rate prevailing on March 31, 2013. The translation of such dollar amounts is solely for convenience of the readers outside Japan and does not imply those yen amounts have been or could be readily converted, realized or settled in dollars at the above, or any other rate.

4. Unapplied Accounting Standards

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan Statement No.26, issued May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan Guidance No.25, issued May 17, 2012)

(1) Overview

Actuarial gains and losses and past service costs are required to be recognized in the net assets after adjusting for tax effects and funded status is fully recognized as a liability or asset in the balance sheet. With respect to the method of attributing the expected benefit to periods, the benefit formula basis is newly allowed as an option, in addition to the straight-line basis. In addition, the method for determining the discount rate is amended.

(2) Date of application

The Company and its consolidated subsidiaries will apply these accounting standards from the fiscal year ending March 31, 2014. But the method of attributing the expected benefit to periods will be applied from the fiscal year ending March 31, 2015. These standards will not be applied retrospectively to financial statements for the prior periods.

(3) Impact of the application of these accounting standards

The impact on the consolidated financial statements of the application of these accounting standards is currently being evaluated.

5. Notes to Consolidated Balance Sheets

*1. Details of inventories are as follows:

	2013		2012
	JPY	USD	JPY
Merchandise and finished goods	63,143	671,378	54,626
Real estate for sale	61	649	714
Raw materials and supplies	1,486	15,805	1,034
Work in progress	555	5,910	738

*2. The amount of accumulated depreciation of tangible fixed assets

2013		2012
JPY	USD	JPY
29,288	311,415	32,077

*3. Pledged assets and associated secured obligations

Details of pledged assets are as follows:

	2013		2012
	JPY	USD	JPY
Cash and bank deposits	6	64	16
Notes and accounts receivable	622	6,614	1,490
Leased properties	1,176	12,508	1,786
Buildings and structures	36	390	39
Land	68	729	84
Investments in securities	—	—	139
Total	1,909	20,304	3,555

Details of associated secured obligations are as follows:

	2013		2012
	JPY	USD	JPY
Short-term borrowings	1,265	13,450	4,468
Long-term borrowings	200	2,127	200
Non-current liabilities and others	910	9,678	1,172
Guaranteed obligations	3	41	4

In addition to the foregoing pledged assets, the following items are tendered as security deposit or substitution for trading.

	2013		2012
	JPY	USD	JPY
Cash and bank deposits	3	32	3
Short-term investments	14	158	—
Investments in securities	2,023	21,512	1,640
Total	2,041	21,703	1,643

*4. Investments in securities for unconsolidated subsidiaries and affiliated companies are as follows:

	2013		2012
	JPY	USD	JPY
Investments in securities	4,952	52,653	6,070
(Share stocks)	(4,441)	(47,225)	(5,554)
(Equity investments)	(510)	(5,428)	(515)

*5. Revaluation reserves for land

Hokushin Co., Ltd. and KANEYO Co., Ltd., equity-method affiliates of the Company, revalued land held for business in accordance with the "Law Concerning Revaluation of Land" (Law No.34 enacted on March 31, 1998) and the "Law to Partially Modify the Law Concerning Revaluation of Land" (Law No.24 enacted on March 31, 1999 and Law No.19 enacted on March 31, 2001). These equity-method affiliates recorded unrealized gains on revaluation, net of tax, as valuation and translation adjustment under the Laws. The Company's investments in these affiliates increased by an amount equal to the unrealized gains on revaluation of land.

6. Liability for guarantee

Guarantees are provided to unconsolidated subsidiaries on their borrowings from third-party financial institutions.

	2013		2012
	JPY	USD	JPY
Century Textile Industry	904	9,614	759
True Corporation Public	407	4,335	407
Mojiko Silo	250	2,658	200
Others	1,051	11,182	1,540
Total	2,613	27,788	2,906

Keep-well or agreements similar to guarantees are included in the above accounts.

7. The amount of discounted notes receivable and endorsed notes receivable

	2013		2012
	JPY	USD	JPY
Discounted notes receivable	2,121	22,554	5,722
(Discounted export bills)	1,944	20,675	5,177
Endorsed notes receivable	78	836	109

***8.** The company and its domestic consolidated subsidiaries record actual cash settlement of the notes on the date of clearance. Since the closing date on March 31, 2013 was not a business day of financial institutions, the following notes due on closing date are included in the year-end balances.

	2013		2012
	JPY	USD	JPY
Notes receivable	1,861	19,790	2,167
Notes payable	948	10,086	1,454

6. Notes to Consolidated Statements of Income

*1. Loss on devaluation of inventories

Inventories are carried at the lower of cost or market value in the balance sheet. A loss on devaluation of inventories is included in cost of sales.

2013		2012
JPY	USD	JPY
671	7,143	515

*2. The amount of research and development expenses

2013		2012
JPY	USD	JPY
432	4,598	445

*3. Gain on sale of tangible fixed assets

Details of gain on sale of tangible fixed assets are as follows:

	2013		2012
	JPY	USD	JPY
Buildings and structures	109	1,166	—
Machinery, equipment, vehicle, tools and fixtures	15	161	35
Land	305	3,244	—
Other	1	14	2
Total	431	4,586	38

*4. Loss on disposal of fixed assets

Details of loss on disposal of fixed assets are as follows:

	2013		2012
	JPY	USD	JPY
Buildings and structures	208	2,215	42
Machinery, equipment, vehicle, tools and fixtures	42	454	27
Land	943	10,032	—
Intangible fixed assets	76	811	20
Other	1	13	10
Total	1,271	13,524	100

*5. Loss on closure of business

Fiscal 2013

Not applicable.

Fiscal 2012

Loss on closure of business is recorded in a consolidated subsidiary on silicon wafer processing business for photovoltaic power generation system. Details of the loss are as follows:

	JPY
Loss on cancellation of lease contract	833
Impairment loss on fixed assets	345
Loss on disposal of inventories	6
Total	1,185

*6. Impairment loss on fixed assets

The Company recorded impairment loss on fixed assets, which are summarized in the following table.

Fiscal 2013

Use	Location	Type	JPY	USD
Business assets	Aichi, Japan, others	Buildings, Land, etc.	673	7,157
Idle assets	Hyogo, Japan, others	Buildings, Land, etc.	77	823
Total			750	7,981

The Company assesses impairment losses for business assets by grouping the assets for each business operating unit, on the managerial accounting basis. For idle assets, impairment is assessed individually.

For the business assets with lower profitability and idle assets which the Company has no plan to use in the future, impairment losses of ¥750 million ($7,981 thousand) were recorded as an extraordinary loss by reducing their carrying amounts to their recoverable amounts. Out of ¥750 million ($7,981 thousand) of the impairment losses, ¥356 million ($3,789 thousand) was for buildings and structures, ¥110 million ($1,171 thousand) was for machinery, equipment, vehicle, tools and fixtures, ¥206 million ($2,195 thousand) was for land and ¥77 million ($826 thousand) was for others.

The recoverable amount is the net selling value. The net selling value is estimated mainly based on the amounts agreed in contracts.

Fiscal 2012

Use	Location	Type	JPY
Leased properties	Shiga, Japan	Leased properties	416
Idle assets	Fukuoka, Japan	Land	24
Idle assets	Shiga, Japan	Machinery, etc.	345
Total			786

The Company assesses impairment losses for leased properties and idle assets individually.

For the leased properties to be sold and idle assets which the Company has no plan to use in the future, their carrying amounts were reduced to their recoverable amounts.

¥440 million out of ¥786 million of the impairment losses were recorded in extraordinary loss as impairment loss on fixed assets. Out of ¥440 million of the impairment losses, ¥416 million and ¥24 million were for leased property and land, respectively.

¥345 million out of ¥786 million of the impairment losses were recorded in extraordinary loss as loss on closure of business. Out of ¥345 million, ¥339 million was for machinery, equipment, vehicle, tools and fixtures, ¥6 million was for buildings and structures, and ¥0 million was for software.

The recoverable amount is the net selling value. The net selling value is estimated mainly based on the amounts agreed in contracts.

*7. Provision for loss on lawsuits

Fiscal 2013

Not applicable.

Fiscal 2012

Provision for loss on lawsuits is mainly based on the settlement amount proposed by the court for the lawsuit the Company has been filed for compensation based upon representations and warranties.

7. Notes to Consolidated Statements of Comprehensive Income

*1. Reclassification adjustments and deferred tax related to other comprehensive income

	2013		2012
	JPY	USD	JPY
Net unrealized gains (losses) on securities, net of tax			
Net unrealized gains (losses) during the year	1,052	11,188	(591)
Reclassification adjustments	308	3,283	832
Total before deferred tax	1,360	14,471	241
Deferred tax	(433)	(4,610)	62
Total net unrealized gains (losses) on securities, net of tax	927	9,860	303
Net gains (losses) on deferred hedges, net of tax			
Net unrealized gains (losses) during the year	152	1,624	847
Reclassification adjustments	(482)	(5,128)	(140)
Total before deferred tax	(329)	(3,505)	707
Deferred tax	113	1,209	(109)
Total net gains (losses) on deferred hedges, net of tax	(215)	(2,295)	597
Foreign currency translation adjustments			
Translation adjustments during the year	5,067	53,883	(1,299)
Reclassification adjustments	—	—	78
Total foreign currency translation adjustments	5,067	53,883	(1,221)
Share of other comprehensive income of investments accounted for using the equity method			
Net unrealized gains (losses) during the year	661	7,037	0
Reclassification adjustments	(244)	(2,604)	(12)
Total share of other comprehensive income of investments accounted for using the equity method	416	4,433	(12)
Total	6,196	65,881	(332)

8. Notes to Consolidated Statements of Changes in Net Assets

Fiscal 2013

Class and number of shares issued and treasury stock:

	Number of shares at the beginning of the fiscal year (thousand shares)	Increase in shares during the fiscal year (thousand shares)	Decrease in shares during the fiscal year (thousand shares)	Number of shares at the end of the fiscal year (thousand shares)
Shares issued				
Common shares	422,501	—	—	422,501
Total	422,501	—	—	422,501
Treasury stock				
Common shares (Notes 1, 2)	3,796	76	1,334	2,539
Total	3,796	76	1,334	2,539

(Notes) 1. The breakdown of the increase of 76 thousand common shares during the term is as follows:
Increase as a result of fractional share repurchases: 76 thousand shares
2. The breakdown of the decrease of 1,334 thousand common shares during the term is as follows:
Decrease as a result of the disposition of fractional shares: 3 thousand shares
The Company's portion of treasury stock (the Company's stock) disposed by a company applied equity method that attributes to the Company: 1,283 thousand shares
The Company's portion of treasury stock (the Company's stock) decreased due to changes in the shares of companies applied equity method that attributes to the Company: 47 thousand shares

Fiscal 2012

Class and number of shares issued and treasury stock:

	Number of shares at the beginning of the fiscal year (thousand shares)	Increase in shares during the fiscal year (thousand shares)	Decrease in shares during the fiscal year (thousand shares)	Number of shares at the end of the fiscal year (thousand shares)
Shares issued				
Common shares	422,501	—	—	422,501
Total	422,501	—	—	422,501
Treasury stock				
Common shares (Notes 1, 2)	3,878	78	160	3,796
Total	3,878	78	160	3,796

(Notes) 1. The breakdown of the increase of 78 thousand common shares during the term is as follows:
Increase as a result of fractional share repurchases: 78 thousand shares
2. The breakdown of the decrease of 160 thousand common shares during the term is as follows:
Decrease as a result of the disposition of fractional shares: 5 thousand shares
The Company's portion of treasury stock (the Company's stock) disposed by a company applied equity method that attributes to the Company: 154 thousand shares

9. Notes to Consolidated Statements of Cash Flows

*1. Cash and cash equivalents as of March 31, 2013, consist of the following:

	2013		2012
	JPY	USD	JPY
Cash and bank deposits	60,421	642,444	70,835
Time deposits which deposit terms exceed three months	(389)	(4,137)	(240)
Cash and cash equivalents	60,032	638,308	70,594

*2. Details of assets and liabilities of subsidiary newly consolidated by acquisition of shares

Fiscal 2013

Relations between details of assets and liabilities of Nippon Office Systems which is new consolidated subsidiary by additional acquisition of shares and acquisition cost and proceeds from purchase are as follows:

	JPY	USD
Current assets	3,558	37,837
Long-term assets	2,322	24,699
Goodwill	288	3,070
Current liabilities	(1,846)	(19,633)
Non-current liabilities	(1,603)	(17,044)
Minority interests in consolidated subsidiaries	(1,191)	(12,671)
Subtotal	1,529	16,258
Acquisition cost before obtaining control	(648)	(6,895)
Gain on step acquisitions	(81)	(869)
Additional acquisition cost	798	8,494
Cash and cash equivalents	(1,603)	(17,044)
Net: Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	(804)	(8,550)

Fiscal 2012

Not applicable.

*3. Details of assets and liabilities of transfer of business

Fiscal 2013

Relations between details of assets and liabilities of Benoit Premium Threading which is consolidated subsidiary by transfer of the premium threading business and the related assets, and payments for transfer of business are as follows:

	JPY	USD
Current assets	2,344	24,924
Long-term assets	3,941	41,914
Goodwill	1,930	20,522
Current liabilities	(36)	(388)
Purchase value of transfer of business	8,179	86,972
The accrued purchase value of transfer of business	(48)	(514)
Proceeds from stock issuance to minority shareholders	(2,147)	(22,830)
Cash and cash equivalents	(432)	(4,603)
Net: Payments for transfer of business	5,551	59,025

(Note) The amount of difference from Consolidated Statements of Cash Flows was for other transfer of business.

Fiscal 2012

Not applicable.

10. Lease Transactions

<Leases as Lessee>

1. Finance leases

Finance leases are leases for which the ownership of the leased property is not transferred to the lessees.

[1] Detail of lease assets

Tangible fixed assets

Mainly, the machinery for Iron & Steel business (Machinery, equipment, vehicle, tools and fixtures).

[2] Depreciation method of lease assets

Described in Note 2. Summary of Significant Accounting Policies, (g) Property and Equipment.

The finance lease transactions commenced on or before March 31, 2008 which are accounted for as operating leases, are as follows:

(1) Acquisition cost, accumulated depreciation and balance at the end of the fiscal year of leased properties

	2013					
	Acquisition cost		Accumulated depreciation		Balance at the end of the fiscal year	
	JPY	USD	JPY	USD	JPY	USD
Machinery, equipment, vehicle, tools and fixtures	376	4,005	241	2,570	134	1,435
Other	—	—	—	—	—	—
Total	376	4,005	241	2,570	134	1,435

	2012		
	Acquisition cost	Accumulated depreciation	Balance at the end of the fiscal year
	JPY	JPY	JPY
Machinery, equipment, vehicle, tools and fixtures	687	489	197
Others	4	3	0
Total	691	493	197

(2) Future minimum lease payments outstanding at the balance sheet date, etc.

	2013		2012
	JPY	USD	JPY
Future minimum lease payments outstanding at the balance sheet date			
Due within one year	46	492	85
Due after one year	136	1,456	199
Total	183	1,948	285

(3) Payments to lessors, depreciation and interest expenses

	2013		2012
	JPY	USD	JPY
Payments to lessors	61	658	155
Depreciation	60	646	143
Interest expenses	5	62	8

(4) Computation of depreciation

Depreciation is computed using the straight-line method over the lease term assuming a residual value of zero.

(5) Computation of interest expenses

The excess amount of the sum of minimum lease payment over the acquisition cost is regarded as accumulated interest expenses, and is allocated to each period based on the interest method.

(Impairment Loss)

No impairment loss is recorded nor allocated to leased assets.

2. Operating leases

Future lease payments outstanding at the balance sheet date

	2013		2012
	JPY	USD	JPY
Due within one year	16	174	19
Due after one year	17	182	35
Total	33	356	55

<Leases as Lessor>

1. Finance leases

[1] Detail of the lease investment assets

Current assets

	2013		2012
	JPY	USD	JPY
Lease payments receivables	619	6,588	680
Interest income	(12)	(134)	(13)
Lease investment assets	606	6,454	666

[2] Future lease receivables and lease investment assets outstanding at the balance sheet date

Current assets

	2013					
	Due within one year		Over one year and within two years		Over two years and within three years	
	JPY	USD	JPY	USD	JPY	USD
Lease receivables	2	23	2	23	2	23
Lease investment assets	348	3,703	208	2,214	62	662

	2013					
	Over three years and within four years		Over four years and within five years		Over five years	
	JPY	USD	JPY	USD	JPY	USD
Lease receivables	2	23	2	23	10	107
Lease investment assets	0	8	0	1	—	—

	2012		
	Due within one year	Over one year and within two years	Over two years and within three years
	JPY	JPY	JPY
Lease receivables	—	—	—
Lease investment assets	362	229	82

	2012		
	Over three years and within four years	Over four years and within five years	Over five years
	JPY	JPY	JPY
Lease receivables	—	—	—
Lease investment assets	5	0	—

The finance lease transactions commenced on or before March 31, 2008 which are accounted for as operating leases, are as follows:

(1) Acquisition cost, accumulated depreciation and balance at the end of the fiscal year of leased properties

Fiscal 2013

Not applicable.

Fiscal 2012

	Acquisition cost	Accumulated depreciation	Balance at the end of the fiscal year
	JPY	JPY	JPY
Machinery, equipment, vehicle, tools and fixtures	11	11	0
Total	11	11	0

(2) Future minimum lease payments receivable outstanding at the balance sheet date

	2013		2012
	JPY	USD	JPY
Due within one year	3	40	39
Due after one year	40	435	44
Total	44	475	84

(Note) Related sub-lease payments against the above receivable are ¥44 million ($475 thousand) (including ¥3 million ($40 thousand) for due within one year) in the fiscal 2013, and ¥78 million (including ¥33 million for due within one year) in the fiscal 2012.

The sub-lease payments against the above receivable approximate the future minimum lease payments as the sub-lease transactions arranged by the companies are intended to pass-through these costs in almost identical terms.

(3) Lease payments received, depreciation and interest income

	2013		2012
	JPY	USD	JPY
Lease payments received	26	287	88
Depreciation	0	1	3
Interest income	—	—	0

(4) Computation of interest

The accumulated interest income is allocated to each period based on the interest method.

2. Operating leases

Future lease payments receivable outstanding at the balance sheet date

	2013		2012
	JPY	USD	JPY
Due within one year	154	1,641	158
Due after one year	188	2,002	528
Total	342	3,644	687

3. Balance of sub-lease in the consolidated balance sheets without deducting the interest

(1) Lease investment assets

	2013		2012
	JPY	USD	JPY
Current assets	37	397	75

(2) Lease obligations

	2013		2012
	JPY	USD	JPY
Current liabilities	20	216	39
Non-current liabilities	16	181	35

11. Financial Instruments

1. Summary of financial instruments

(1) Policies of financial instruments:

The Companies design cash-flow plans to carry out operations, which are buying and selling of merchandise, investment and lending. The Companies' fund raising activities are mainly borrowings from banks and insurance companies. The Companies manage temporary surplus funds by funding highly secured financial assets and also use derivative transactions for minimizing financial risks.

(2) Nature and risks of financial instruments:

Notes and accounts receivable are exposed to credit risks of customers. In addition, receivables denominated in foreign currency are also exposed to risk of exchange rate fluctuation due to the global business operations.

The Companies have investments in securities in order to maintain relationships with their customers and suppliers. Short-term investments and investments in securities are exposed to price risks. The Companies also issue loans to certain customers and suppliers.

Maturity dates of notes and accounts payable and import bills payable are mainly within one year. Foreign currency liabilities are exposed to risk of exchange rate fluctuation.

The longest maturity date of borrowings from banks and insurance companies is within six years from the fiscal year-end. Certain borrowings are exposed to interest rate risk.

The Companies utilize derivative transactions such as foreign exchange contracts to avert currency risk, interest rate swaps to avert interest rate risk, commodity future contracts to avert commodity price risk.

Hedging instruments, hedged items, hedging policy and method of evaluating the effectiveness of hedging activities are described in Note 2. Summary of Significant Accounting Policies, (l) Hedge Accounting.

(3) Financial risk management policies:

[1] Credit risk management

The Company employs its own credit scoring model based on customers' financial statements and other information. The Company determines the credit limit for customers based on their credit scoring and control credit risk by managing customer's balances against these limits. To reduce credit risks, the Company regularly monitors the collectability of and age of receivables to take preservation measures.

Since derivative transactions are executed with highly rated banks, the Company reviews the limit of volume of derivative transactions according to the internal rule.

[2] Market risk management

The Companies utilize foreign exchange contracts for foreign currency assets and liabilities or forecasted foreign currency transactions to avert currency risk. The Companies also utilize interest rate swaps to avert interest rate risk.

For short-term investments and investments in securities, the Companies periodically examine fair values and the financial conditions of the issuers and regularly revise the portfolio.

With respect to derivative transactions, each business division undertakes transactions in accordance with internal rules determined in the management meeting at the beginning of the fiscal year based on rule and operating policy for authorization of transaction and limitation. Derivative transactions are recorded and the balances are managed by the Finance Department, Accounting Department and Business Accounting Department and actual results of transactions are reported monthly to management. Certain of the Company's consolidated subsidiaries utilize derivative transactions in accordance with their own internal rules, which are prepared based on the Company's risk management policies.

[3] Liquidity risk management

The Finance Department performs cash management and maintains the level of cash and bank deposits balance by preparing and revising cash-flow-plan to suit current financial situation.

(4) Additional information on fair value measurements:

Fair value measurements are based on market prices or on rational assumptions when market prices are not available. The fair values which are measured based on rational assumptions are affected by variable factors and might be changed when different assumption is applied. The notional amount of contracts described in Note 13. Derivatives do not directly indicate the market risks.

2. Fair value of financial instruments

A summary of book value and fair value of financial instruments, and difference between them is disclosed in the following table. The financial instruments for which the Company had difficulty in estimating fair value are not included in the following table (See Note 2).

In this table below,

- Liability accounts are shown with "( )."
- Notes and accounts receivable, long-term loans receivable and doubtful accounts are offset by each allowance for doubtful accounts.
- Derivative assets and liabilities are disclosed on a net basis.

Fiscal 2013

	Book value		Fair value		Difference	
	JPY	USD	JPY	USD	JPY	USD
(1) Cash and bank deposits	60,421	642,444	60,421	642,444	—	—
(2) Notes and accounts receivable	165,378	1,758,409				
Allowance for doubtful accounts	(273)	(2,913)				
	165,104	1,755,497	165,104	1,755,497	—	—
(3) Short-term investments	16	173	16	174	0	1
(4) Short-term loans receivable	352	3,747	352	3,747	—	—
(5) Investments in securities	10,178	108,220	12,133	129,014	1,955	20,794
(6) Long-term loans receivable	2,435	25,893				
Allowance for doubtful accounts	(1,745)	(18,564)				
	689	7,328	689	7,328	—	—
(7) Doubtful accounts	1,895	20,151				
Allowance for doubtful accounts	(1,763)	(18,752)				
	131	1,400	131	1,400	—	—
Total assets	236,894	2,518,810	238,849	2,539,605	1,955	20,795
(8) Notes and accounts payable	(104,372)	(1,109,759)	(104,372)	(1,109,759)	—	—
(9) Import bills payable	(27,984)	(297,545)	(27,984)	(297,545)	—	—
(10) Short-term borrowings	(81,570)	(867,313)	(81,570)	(867,313)	—	—
(11) Accrued income taxes	(1,663)	(17,685)	(1,663)	(17,685)	—	—
(12) Long-term borrowings	(65,290)	(694,211)	(65,430)	(695,704)	(140)	(1,492)
Total liabilities	(280,881)	(2,986,513)	(281,021)	(2,988,005)	(140)	(1,492)
Derivatives	2,108	22,422	2,108	22,422	—	—

Fiscal 2012

	Book value	Fair value	Difference
	JPY	JPY	JPY
(1) Cash and bank deposits	70,835	70,835	—
(2) Notes and accounts receivable	163,782		
Allowance for doubtful accounts	(294)		
	163,488	163,488	—
(3) Short-term investments	—	—	—
(4) Short-term loans receivable	974	974	—
(5) Investments in securities	9,983	12,474	2,491
(6) Long-term loans receivable	5,790		
Allowance for doubtful accounts	(1,842)		
	3,947	3,957	9
(7) Doubtful accounts	1,886		
Allowance for doubtful accounts	(1,672)		
	213	213	—
Total assets	249,443	251,944	2,500
(8) Notes and accounts payable	(108,956)	(108,956)	—
(9) Import bills payable	(29,670)	(29,670)	—
(10) Short-term borrowings	(78,444)	(78,444)	—
(11) Accrued income taxes	(1,863)	(1,863)	—
(12) Long-term borrowings	(82,403)	(82,697)	(293)
Total liabilities	(301,339)	(301,633)	(293)
Derivatives	1,592	1,592	—

(Notes)

1. Fair value measurements of financial instruments and investment securities and derivative transaction

Assets

(1) Cash and bank deposits, (2) Notes and accounts receivable and (4) Short-term loans receivable

Fair value of these instruments approximates the book value because of their short-term maturities.

(3) Short-term investments and (5) Investments in securities

Fair value of marketable shares is estimated using quoted market price. Fair value of bonds is estimated using quoted market price or quoted price by financial institutions. Further information about investments in securities is described in Note 12. Short-term Investments and Investments in Securities.

(6) Long-term loans receivable

Fair value of long-term loans receivable is estimated based on discounted cash flow analysis, using assumed rates currently available for similar types of loans with similar term and remaining maturity.

(7) Doubtful accounts

Fair value of net doubtful accounts (offsetting doubtful accounts against allowance) approximates the book value because the Companies provide an allowance for doubtful accounts based on estimates of collectability by utilizing securities, guarantees and insurance or discounted cash flow analysis.

Liabilities

(8) Notes and accounts payable, (9) Import bills payable, (10) Short-term borrowings and (11) Accrued income taxes

Fair value of these instruments approximates the book value because of their short-term maturities.

(12) Long-term borrowings

Fair value of long-term borrowings is estimated based on discounted cash flow analysis, using assumed rates currently available for similar types of borrowings with similar term and remaining maturity. Hedge accounting is applied to certain long-term borrowings with variable interest rates. The amounts received or paid under the interest rate swap agreements are added to or deducted from the interest on the hedged long-term borrowings when paid. Fair value of long-term borrowings in which these interest rate swaps are embedded is also estimated based on discounted cash flow analysis, using assumed rates currently available for similar types of borrowings with similar term and remaining maturity.

Derivatives

Described in Note 13. Derivatives.

2. Financial instruments with difficulty in estimating fair value

	2013		2012
	Book value		Book value
Classification	JPY	USD	JPY
Unlisted investments in securities	18,068	192,111	17,939
Equity investments	2,002	21,290	1,945

The above financial instruments are not included in "(5) Investments in securities" because it is not practicable to estimate the fair value due to difficulty in estimating fair value as market price is not available.

3. Maturity schedule of monetary assets and investments in securities having maturity

Fiscal 2013

	Within one year		Over one year and within five years		Over five years and within ten years		Over ten years	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Cash and bank deposits	60,421	642,444	—	—	—	—	—	—
Notes and accounts receivable (Note 3-1)	165,104	1,755,497	—	—	—	—	—	—
Short-term investments								
Held-to-maturity bonds	16	173	—	—	—	—	—	—
Short-term loans receivable	352	3,747	—	—	—	—	—	—
Long-term loans receivable (Note 3-2)	—	—	310	3,306	245	2,610	132	1,412
Doubtful accounts (Note 3-3)	—	—	131	1,400	—	—	—	—
Total	225,895	2,401,862	442	4,705	245	2,610	132	1,412

(Notes) 3-1. Allowance for doubtful accounts of ¥273 million ($2,913 thousand) is not included in notes and accounts receivable.
3-2. Allowance for doubtful accounts of ¥1,745 million ($18,564 thousand) is not included in long-term loans receivable.
3-3. Allowance for doubtful accounts of ¥1,763 million ($18,752 thousand) is not included in doubtful accounts.

Fiscal 2012

	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
	JPY	JPY	JPY	JPY
Cash and bank deposits	70,835	—	—	—
Notes and accounts receivable (Note 3-1)	163,488	—	—	—
Short-term loans receivable	974	—	—	—
Investments in securities				
Held-to-maturity bonds	—	14	—	—
Long-term loans receivable (Note 3-2)	—	3,538	402	6
Doubtful accounts (Note 3-3)	—	213	—	—
Total	235,298	3,767	402	6

(Notes) 3-1. Allowance for doubtful accounts of ¥294 million is not included in notes and accounts receivable.
3-2. Allowance for doubtful accounts of ¥1,842 million is not included in long-term loans receivable.
3-3. Allowance for doubtful accounts of ¥1,672 million is not included in doubtful accounts.

4. Borrowings repayment schedule

Fiscal 2013

	2013											
	Within one year		Over one year and within two years		Over two years and within three years		Over three years and within four years		Over four years and within five years		Over five years	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Short-term borrowings	81,570	867,313	—	—	—	—	—	—	—	—	—	—
Long-term borrowings	—	—	37,650	400,327	14,093	149,848	8,651	91,989	4,845	51,515	50	532
Total	81,570	867,313	37,650	400,327	14,093	149,848	8,651	91,989	4,845	51,515	50	532

Fiscal 2012

	2012					
	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
	JPY	JPY	JPY	JPY	JPY	JPY
Short-term borrowings	78,444	—	—	—	—	—
Long-term borrowings	—	37,356	31,773	6,024	7,250	—
Total	78,444	37,356	31,773	6,024	7,250	—

12. Short-term Investments and Investments in Securities

1. "Held to maturity debt securities" with fair value

Fiscal 2013

	Category	Balance sheet amount		Fair value		Difference	
		JPY	USD	JPY	USD	JPY	USD
Securities with market value exceeding their book value	Japanese government bonds	14	158	14	159	0	1
Securities with market value not exceeding their book value	Philippine government bonds	1	15	1	15	(0)	(0)
Total		16	173	16	174	0	1

Fiscal 2012

	Category	Balance sheet amount	Fair value	Difference
		JPY	JPY	JPY
Securities with market value exceeding their book value	Japanese government bonds	14	14	0

2. "Other securities" with fair value

Fiscal 2013

	Category	Balance sheet amount		Acquisition cost		Difference	
		JPY	USD	JPY	USD	JPY	USD
Securities with book value exceeding their acquisition cost	Equity securities	6,620	70,391	4,634	49,281	1,985	21,110
Securities with book value not exceeding their acquisition cost	Equity securities	1,323	14,074	1,611	17,137	(288)	(3,063)
Total		7,943	84,465	6,246	66,418	1,697	18,047

(Note) Unlisted investments in securities (book value of ¥15,860 million ($168,640 thousand)) and equity investments (book value of ¥1,491 million ($15,861 thousand)) are not included in "Other securities" above because they are not practicable to estimate the fair value due to difficulty in estimating fair value as market price is not available.

Fiscal 2012

	Category	Balance sheet amount	Acquisition cost	Difference
		JPY	JPY	JPY
Securities with book value exceeding their acquisition cost	Equity securities	3,625	2,383	1,242
Securities with book value not exceeding their acquisition cost	Equity securities	3,568	4,326	(757)
Total		7,193	6,709	484

(Note) Unlisted investments in securities (book value of ¥15,159 million) and equity investments (book value of ¥1,429 million) are not included in "Other securities" above because they are not practicable to estimate the fair value due to difficulty in estimating fair value as market price is not available.

3. Sold "Other securities"

Fiscal 2013

Category	Sales proceeds		Gains on sales		Losses on sales	
	JPY	USD	JPY	USD	JPY	USD
Equity securities	661	7,031	235	2,505	81	867

Fiscal 2012

Category	Sales proceeds	Gains on sales	Losses on sales
	JPY	JPY	JPY
Equity securities	1,036	229	335

4. Securities recognized impairment loss

The total impairment loss amount recognized of investments in securities is ¥376 million ($3,999 thousand) in the current fiscal 2013, and ¥656 million in the previous fiscal 2012.

For recognition of impairment loss, securities which fair value declines 50% or more against their carrying book value are subject to devaluation. For securities that decline 30% or more in fair value, devaluation losses are recognized after considering likelihood of future price recovery or financial position. For those determinations, fair value is primarily based on average of daily market price for one-month before the balance sheet date.

13. Derivatives

1. Derivative transactions to which hedge accounting is not applied

(1) Currencies

Fiscal 2013

Classification	Transaction type	Notional amount of contracts		Amount of over-one-year contracts		Fair value		Unrealized gain or (loss)	
		JPY	USD	JPY	USD	JPY	USD	JPY	USD
Off market transactions	Foreign exchange contracts								
	Selling								
	U.S. dollar (USD)	9,533	101,365	—	—	(620)	(6,596)	(620)	(6,596)
	Euro (EUR)	604	6,432	—	—	(24)	(259)	(24)	(259)
	Australian dollar (AUD)	69	742	—	—	(8)	(85)	(8)	(85)
	Other currencies	1	19	—	—	0	0	0	0
	Subtotal	10,209	108,559	—	—	(652)	(6,940)	(652)	(6,940)
	Buying								
	U.S. dollar (USD)	24,778	263,465	—	—	2,277	24,218	2,277	24,218
	Euro (EUR)	536	5,704	—	—	39	416	39	416
	Australian dollar (AUD)	160	1,704	—	—	12	134	12	134
	Canadian dollar (CAD)	30	322	—	—	1	13	1	13
	Other currencies	76	815	—	—	1	14	1	14
	Subtotal	25,582	272,010	—	—	2,331	24,795	2,331	24,795
Total		—	—	—	—	—	—	1,679	17,855

(Note) Basis of fair value calculation

Fair value is calculated based on the quoted price by financial institutions.

Fiscal 2012

Classification	Transaction type	Notional amount of contracts	Amount of over-one-year contracts	Fair value	Unrealized gain or (loss)
		JPY	JPY	JPY	JPY
Off market transactions	Foreign exchange contracts				
	Selling				
	U.S. dollar (USD)	7,447	—	(225)	(225)
	Euro (EUR)	463	—	(5)	(5)
	Australian dollar (AUD)	69	—	0	0
	Canadian dollar (CAD)	4	—	0	0
	Other currencies	54	—	5	5
	Subtotal	8,040	—	(224)	(224)
	Buying				
	U.S. dollar (USD)	21,939	—	1,105	1,105
	Euro (EUR)	316	—	20	20
	Australian dollar (AUD)	30	—	3	3
	Canadian dollar (CAD)	21	—	(0)	(0)
	Pound sterling (GBP)	1	—	0	0
	Other currencies	17	—	0	0
	Subtotal	22,326	—	1,129	1,129
Total		—	—	—	904

(Note) Basis of fair value calculation
Fair value is calculated based on the quoted price by financial institutions.

(2) Interest rate

Fiscal 2013

Not applicable.

Fiscal 2012

Not applicable.

(3) Commodities

Fiscal 2013

Classification	Transaction type	Notional amount of contracts		Amount of over-one-year contracts		Fair value		Unrealized gain or (loss)	
		JPY	USD	JPY	USD	JPY	USD	JPY	USD
Market transactions	Commodity future contracts								
	Foods & Foodstuff								
	Selling	5,640	59,971	42	453	217	2,316	217	2,316
	Buying	5,330	56,677	—	—	(210)	(2,235)	(210)	(2,235)
	Energy								
	Selling	1,744	18,548	—	—	(3)	(41)	(3)	(41)
	Buying	1,183	12,579	—	—	12	132	12	132
Total		—	—	—	—	—	—	16	171

(Note) Basis of fair value calculation
Fair value is calculated based on market closing price at end of the fiscal year.

Fiscal 2012

Classification	Transaction type	Notional amount of contracts	Amount of over-one-year contracts	Fair value	Unrealized gain or (loss)
		JPY	JPY	JPY	JPY
Market transactions	Commodity future contracts				
	Foods & Foodstuff				
	Selling	2,503	—	(11)	(11)
	Buying	3,105	757	(2)	(2)
	Energy				
	Selling	3,703	—	(10)	(10)
	Buying	2,795	—	(1)	(1)
Total		—	—	—	(26)

(Note) Basis of fair value calculation
Fair value is calculated based on market closing price at end of the fiscal year.

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Fiscal 2013

Hedge accounting method	Transaction type	Main hedged items	Notional amount of contracts		Amount of over-one-year contracts		Fair value	
			JPY	USD	JPY	USD	JPY	USD
Principle hedge accounting	Foreign exchange contracts							
	Selling							
	U.S. dollar (USD)	Forecasted foreign currency transactions	5,507	58,564	—	—	(495)	(5,271)
	Euro (EUR)		433	4,612	—	—	(6)	(69)
	Australian dollar (AUD)		8	93	—	—	(0)	(9)
	Other currencies		243	2,590	—	—	(69)	(734)
	Subtotal		6,194	65,859	—	—	(572)	(6,083)
	Buying							
	U.S. dollar (USD)	Forecasted foreign currency transactions	21,179	225,197	177	1,886	1,312	13,954
	Euro (EUR)		1,570	16,702	—	—	143	1,531
	Australian dollar (AUD)		162	1,732	—	—	7	77
	Canadian dollar (CAD)		70	745	—	—	4	53
	Pound sterling (GBP)		3	35	—	—	(0)	(1)
	Other currencies		506	5,387	—	—	34	367
	Subtotal		23,493	249,798	177	1,886	1,502	15,980
Specific matching criteria	Selling							
	U.S. dollar (USD)	Accounts receivable	131	1,398	—	—	—	—
	Other currencies		4	51	—	—	—	—
	Subtotal		136	1,449	—	—	—	—
	Buying							
	Euro (EUR)	Accounts payable	62	666	—	—	—	—
	U.S. dollar (USD)		37	400	—	—	—	—
	Other currencies		79	843	—	—	—	—
	Subtotal		179	1,909	—	—	—	—

(Note) Basis of fair value calculation

Fair value is calculated based on quoted price by financial institutions for principle hedge accounting. For certain contracts designated as hedging instruments that meet specific matching criteria, hedged assets or liabilities are measured by contract rate. Fair value of these contracts is included in fair value of the corresponding assets or liabilities.

Fiscal 2012

Hedge accounting method	Transaction type	Main hedged items	Notional amount of contracts	Amount of over-one-year contracts	Fair value
			JPY	JPY	JPY
Principle hedge accounting	Foreign exchange contracts				
	Selling				
	U.S. dollar (USD)	Forecasted foreign currency transactions	1,647	218	(36)
	Euro (EUR)		108	—	(0)
	Australian dollar (AUD)		42	—	(3)
	Pound sterling (GBP)		19	—	0
	Subtotal		1,817	218	(39)
	Buying				
	U.S. dollar (USD)	Forecasted foreign currency transactions	16,112	121	595
	Euro (EUR)		1,705	230	73
	Pound sterling (GBP)		127	—	6
	Australian dollar (AUD)		79	—	9
	Other currencies		38	—	(0)
	Subtotal		18,063	351	684
Specific matching criteria	Selling				
	U.S. dollar (USD)	Accounts receivable	1	—	—
	Euro (EUR)		0	—	—
	Subtotal		2	—	—
	Buying				
	U.S. dollar (USD)	Accounts payable	39	—	—
	Euro (EUR)		39	—	—
	Other currencies		84	—	—
	Subtotal		163	—	—

(Note) Basis of fair value calculation

Fair value is calculated based on quoted price by financial institutions for principle hedge accounting. For certain contracts designated as hedging instruments that meet specific matching criteria, hedged assets or liabilities are measured by contract rate. Fair value of these contracts is included in fair value of the corresponding assets or liabilities.

(2) Interest rate

Fiscal 2013

Hedge accounting method	Transaction type	Main hedged items	Notional amount of contracts		Amount of over-one-year contracts		Fair value	
			JPY	USD	JPY	USD	JPY	USD
Principle hedge accounting	Interest rate swap contracts Pay-fixed, receive-variable interest rate swap	Long-term borrowings	15,000	159,490	15,000	159,490	(503)	(5,356)
Specific matching criteria	Interest rate swap contracts Pay-fixed, receive-variable interest rate swap	Long-term borrowings	31,100	330,675	19,360	205,848	—	—

(Note) Basis of fair value calculation

Fair value is calculated based on quoted price by financial institutions for principle hedge accounting. For certain interest rate contracts designated as hedging instruments that meet specific matching criteria, amounts received or paid under the interest rate swap agreements are added to or deducted from the interest on the hedged borrowings when paid. Fair value of these contracts is included in fair value of the corresponding borrowings.

Fiscal 2012

Hedge accounting method	Transaction type	Main hedged items	Notional amount of contracts	Amount of over-one-year contracts	Fair value
			JPY	JPY	JPY
Specific matching criteria	Interest rate swap contracts Pay-fixed, receive-variable interest rate swap	Long-term borrowings	48,640	43,100	—

(Note) Basis of fair value calculation

For certain interest rate contracts designated as hedging instruments that meet specific matching criteria, amounts received or paid under the interest rate swap agreements are added to or deducted from the interest on the hedged borrowings when paid. Fair value of these contracts is included in fair value of the corresponding borrowings.

(3) Commodities

Fiscal 2013

Hedge accounting method	Transaction type	Main hedged items	Notional amount of contracts		Amount of over-one-year contracts		Fair value	
			JPY	USD	JPY	USD	JPY	USD
Principle hedge accounting	Commodity future contracts							
	Foods & Foodstuff							
	Selling	Forecasted transactions on commodity trading	515	5,486	—	—	4	44
	Buying		991	10,546	—	—	(17)	(189)

(Note) Basis of fair value calculation

Fair value is calculated based on market closing price at end of the fiscal year.

Fiscal 2012

Hedge accounting method	Transaction type	Main hedged items	Notional amount of contracts	Amount of over-one-year contracts	Fair value
			JPY	JPY	JPY
Principle hedge accounting	Commodity future contracts				
	Foods & Foodstuff				
	Selling	Forecasted transactions on commodity trading	741	—	18
	Buying		1,257	—	50

(Note) Basis of fair value calculation

Fair value is calculated based on market closing price at end of the fiscal year.

14. Retirement Benefits

1. Summary of pension plans

The Company and its certain consolidated subsidiaries have established defined-benefit employees' pension plans, retirement lump sum plans, and other pension plans. Certain consolidated subsidiaries have defined contribution pension plans. In addition, some additional retirements benefits are paid under certain conditions when employees retire.

2. Schedule of retirement benefits

	2013		2012
	JPY	USD	JPY
a. Projected benefit obligation at end of year	(16,698)	(177,547)	(15,566)
b. Fair value of plan assets at end of year	12,068	128,320	11,515
c. Projected benefit obligation in excess of plan assets (a + b)	(4,629)	(49,227)	(4,050)
d. Unrecognized actuarial loss	332	3,539	1,314
e. Unrecognized prior service cost	—	—	—
f. Accrued retirement benefit obligation recognized in the consolidated balance sheets (c + d + e)	(4,296)	(45,688)	(2,736)
g. Prepaid pension cost	—	—	—
h. Provision for employees' retirement and severance benefits (f – g)	(4,296)	(45,688)	(2,736)

(Note) Certain subsidiaries adopt simplified method for calculating accrued retirement benefits for their employees.

3. Schedule of retirement benefits expenses

	2013		2012
	JPY	USD	JPY
a. Service cost	1,415	15,055	1,235
b. Interest cost	205	2,180	229
c. Expected return on plan assets	(217)	(2,314)	(199)
d. Amortization of actuarial loss	584	6,218	435
e. Amortization of prior service cost	—	—	73
f. Other	68	727	77
g. Net periodic retirement benefit expenses (a + b + c + d + e + f)	2,056	21,865	1,851

(Notes) 1. Employees' contributions to the employees' pension fund are not included in the retirement benefit expenses.
2. The retirement benefit expenses of consolidated subsidiaries which adopt simplified method are included in "service cost" in the table above.
3. "Other" represents contributions to the defined contribution pension plans.

4. Schedule of assumptions used in accounting for accrued retirement benefit

	2013	2012
a. Method of attributing projected benefits to period of service	Straight-line basis	Straight-line basis
b. Discount rates	1.1% – 2.0%	1.1% – 2.0%
c. Expected long-term rates of return on plan assets	1.5% – 2.3%	1.5% – 2.1%
d. Amortization period for actuarial loss or gain	Principally 5 years	Principally 5 years
e. Amortization period for unrecognized prior service cost	5 – 10 years	5 – 10 years

15. Stock Options

Fiscal 2013
Not applicable.

Fiscal 2012
Not applicable.

16. Deferred Taxes

1. Major components of deferred tax assets and deferred tax liabilities

	2013		2012
	JPY	USD	JPY
Deferred tax assets			
Provision for employees' retirement and severance benefits	1,441	15,327	912
Allowance for doubtful accounts	5,897	62,705	5,929
Inventories	1,948	20,718	2,797
Impairment loss on fixed assets	1,079	11,482	1,123
Investments in securities	3,040	32,325	3,034
Golf club memberships	492	5,242	505
Tax loss carried forward	17,103	181,860	17,636
Other	3,702	39,369	4,493
Deferred tax assets subtotal	34,706	369,027	36,433
Valuation allowance	(19,956)	(212,194)	(21,305)
Total deferred tax assets	14,750	156,833	15,128
Deferred tax liabilities			
Retained earnings in subsidiaries	(293)	(3,118)	(200)
Net gains on deferred hedges	(366)	(3,895)	(299)
Net unrealized gains on securities	(499)	(5,316)	(93)
Other	(935)	(9,945)	(531)
Total deferred tax liabilities	(2,094)	(22,274)	(1,125)
Net deferred tax assets	12,655	134,559	14,003

(Note) Net deferred tax assets recorded in the consolidated balance sheets

	2013		2012
	JPY	USD	JPY
Current assets – deferred tax assets	1,669	17,748	3,322
Long-term assets – deferred tax assets	11,127	118,311	10,842
Current liabilities – deferred tax liabilities	(95)	(1,014)	(1)
Non-current liabilities – deferred tax liabilities	(45)	(486)	(160)
Net deferred tax assets	12,655	134,559	14,003

2. Major reconciliation items between the statutory effective tax rate and the effective income tax rate after the application of deferred tax accounting.

	2013	2012
	(%)	(%)
Statutory effective tax rate	38.0	40.7
(Reconciliation)		
Permanent differences – additions such as entertainment expenses	2.9	4.2
Change in valuation allowance	(2.7)	(16.0)
Effect of tax rate differences	(4.1)	(1.0)
Tax reform	—	18.7
Others	(0.9)	(2.2)
Effective income tax rate	33.2	44.5

17. Business Combinations

Acquisition of premium threading business by a subsidiary

Kanematsu USA Inc. ("Kanematsu USA") acquired the premium threading of oilfield tubing business and the related assets of Benoit Machine, L.L.C. ("Benoit") located in the United States through a holding company jointly established with JFE Steel Corporation ("JFE Steel").

1. Outline of the business combination

(1) Name of the acquiring company: Benoit Premium Threading, LLC
Content of business: Premium threading of oilfield tubing, manufacture and sale of downhole accessories
Name of the acquired company: Benoit Machine, L.L.C.
Content of business: Premium threading of oilfield tubing

(2) Purpose of the business combination
In the United States, the exploration and production of energy resources is expected to grow over the medium- to long-term. As a result of the continued development of shale oil and shale gas as well as deepwater production in the Gulf of Mexico, we expect the demand for oilfield tubing to be robust.

Benoit is a Louisiana-based company that provides premium threading services for oilfield tubing as well as a full line of downhole accessories. Benoit's proprietary premium connection, the Benoit Two-Step (BTS), has been relied upon by major oil companies for over 30 years and has helped Benoit maintain a large market share.

Through this acquisition, Kanematsu and JFE Steel will establish a complete supply chain in the manufacturing, threading, and distribution of oilfield tubing and downhole accessories. This will enable Kanematsu and JFE Steel to meet the diversified needs of the oil and gas industry and the future growth of oilfield tubing demand.

(3) Date of the business combination
16 November 2012

(4) Legal form of the business combination
Transfer of business

(5) Company name after the combination
Benoit Premium Threading, LLC

2. Period of the performance of the acquired company in the consolidated financial statements
From 16 November 2012 to 31 December 2012

3. Acquisition costs and those details
Cash paid for the acquisition: ¥8,179 million ($86,972 thousand)
Total costs: ¥8,179 million ($86,972 thousand)

4. Amount, cause and method and period of amortization of goodwill
(1) Amount of goodwill
¥1,930 million ($20,522 thousand)

(2) Cause of goodwill
Anticipated future profitability in excess of net asset value

(3) Method and period of amortization of goodwill
Straight line method over 15 years

5. Assets and liabilities on the day of the business combination

	JPY	USD
Current assets	2,344	24,924
Property, plant and equipment	3,941	41,914
Total assets	6,286	66,838
Current liabilities	36	388
Total liabilities	36	388

Acquisition of shares by a subsidiary

1. Outline of the business combination
(1) Name of the acquiring company: Kanematsu Electronics Ltd. ("KEL")
Content of business: KEL designs and implements information systems and provides operation and consulting services for businesses based on KEL's expertise in information technologies. KEL retails, leases, maintains, develops IT system products and software, and also send loan engineers.
Name of the acquired company: Nippon Office Systems Ltd. ("NOS")
Content of business: Information service business and System sales business

(2) Purpose of the acquisition
To aim at reinforcements of the business base, the expansion of the business domain and security of stable revenue base.

(3) Date of the business combination
28 November 2012 (Date of the acquisition of shares)
31 December 2012 (Date regarded as date of the acquisition)

(4) Legal form of the business combination
Acquisition of shares for cash consideration

(5) Company name after the acquisition
Nippon Office Systems Ltd.

(6) Percentage of the voting rights

Percentage of the voting rights before the acquisition	25.87 percent
Percentage of the additional acquisition of the voting rights	25.13 percent
Percentage of the voting rights after the acquisition	51.00 percent

(7) Basis for deciding the acquiring company
It is because KEL acquired the shares of NOS for cash consideration.

2. Period of the performance of the acquired company in the consolidated financial statements
The performance of the acquired company is included in the consolidated statement of income through equity in earnings of affiliates because the acquired company had been applied the equity method until the acquisition.

3. Acquisition costs and those details

	JPY	USD
Acquisition costs		
Fair value of shares of NOS granted before the date of the business combination	730	7,764
Fair value of shares of NOS granted at the date of the business combination	709	7,543
Other acquisition costs	89	951
Total costs	1,529	16,258

4. Gain on step acquisitions
¥81 million ($869 thousand)

5. Amount, cause and method and period of amortization of goodwill
(1) Amount of goodwill
¥288 million ($3,070 thousand)

(2) Cause of goodwill
The excess of acquisition costs over the net of the assets and liabilities on the day of the business combination

(3) Method and period of amortization of goodwill
Straight line method over 5 years

6. Assets and liabilities on the day of the business combination

	JPY	USD
Current assets	3,558	37,837
Property, plant and equipment	2,322	24,699
Total assets	5,881	62,536
Current liabilities	1,846	19,633
Non-current liabilities	1,603	17,044
Total liabilities	3,449	36,677

18. Asset Retirement Obligations

Asset retirement obligations in consolidated financial statements.

1. Overview of asset retirement obligations

Asset retirement obligations are the obligations of restoring offices and shops based on the contracts of rental estate.

2. Method of calculating asset retirement obligations

Asset retirement obligations are calculated using the estimated useful lives of 2 – 50 years and the discount rates of 0.170 – 2.301%.

3. Changes in asset retirement obligations

	2013		2012
	JPY	USD	JPY
Balance at the beginning of the fiscal year	857	9,114	854
Acquisition of tangible fixed assets	34	363	28
Adjustment due to passage of time	16	179	17
Fulfillment of asset retirement obligations	(39)	(416)	(43)
Other	(8)	(91)	—
Balance at the end of the fiscal year	860	9,149	857

19. Investment and Rental Properties

Fiscal 2013

As the amount of investment and rental properties is immaterial, the description is not disclosed.

Fiscal 2012

As the amount of investment and rental properties is immaterial, the description is not disclosed.

20. Segment Information

Segment information

1. Overview of reportable segments

Reportable segments of the Company are components of an entity about which separate financial information is available and such information is evaluated regularly by the managements in deciding how to allocate resources and in assessing performance.

The Company expands its business of providing the products and services in Japan and overseas by integrating domestic and global networks, specialties cultivated in each business segments, and various functions including general trading, information-gathering, market cultivation, business incubation and "project-forming," risk management and logistics in each business segment.

Accordingly, the Company's segments are separated based on the products and services provided by business units, and five segments "Electronics," "Foods & Foodstuff," "Iron & Steel," "Machinery & Plant," and "Environment & Materials," are treated as reportable segments.

The main products and services of each reportable segment are as follows.

(Electronics)

This segment offers a broad array of products such as electronic components and materials, semiconductor and LCD equipment, mechanical parts, electronics-related materials and sub-materials, aircraft and aircraft parts with services including development and proposals. The segment also expands its business of providing products and services such as batteries or LED etc. for retail sale, mobile phones, mobile systems and communication equipment.

(Foods & Foodstuff)

This segment ensures the stable acquisition of materials and provides a broad array of food products including high value-added items such as cooked foods, processed fruits, processed agricultural products, beverage materials, meat and marine products, wheat, rice, soybeans, feedstuff and pet food.

(Iron & Steel)

This segment is involved in the foreign trade of various iron and steel products such as various steel sheets, bar products, wire, pipes, stainless products, cast and forged products, and also offers the general steel products in Japan and raw materials supply overseas.

(Machinery & Plant)

This segment works on projects of various plants and infrastructure facilities overseas, trades ships, marine equipment, automobiles, automobile parts, industrial automobiles, construction machinery, and sells machine tools and industrial machinery.

(Environment & Materials)

This segment trades overseas and in Japan such as raw materials for photovoltaic modules and lithium batteries, functional chemicals such as raw materials for fertilizer, functional food materials, health supplements, pharmaceuticals and pharmaceutical intermediates, crude oil, petroleum products and gas. The segment also works on the development of environment-related materials and new technologies such as heat reflective paint and expands business such as carbon credit trading.

In accordance with the reorganization in the current fiscal year, the name of the "Electronics & IT" segment was changed to "Electronics." The segment information for the previous fiscal year is stated with the name after the change.

2. Method of calculating net sales, segment income or loss, segment assets and other amounts of reportable segments

The Company's accounting policies for its reportable business segments are almost the same as described in "Summary of Significant Accounting Policies."

Segment income for reportable segments is based on operating income for the segments.

The amounts for inter-segment transactions are based on market prices or third-party transaction prices.

(Change in accounting policy)

With the revision of the corporation tax law, from the current fiscal year, certain domestic consolidated subsidiaries changed the depreciation method based on the revised corporation tax law.

The impact of this change on net income for the current fiscal year is immaterial.

3. Information on net sales, profits or losses, assets and other amounts of reportable segments

Fiscal 2013 (JPY)

	Reportable segments						Other (Note 1)	Total	Adjustment (Note 2)	Amount in consolidated statements (Note 3)
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant	Environment & Materials	Subtotal				
Net sales										
Customers	273,662	287,936	91,288	55,426	293,533	1,001,847	17,384	1,019,232	—	1,019,232
Inter-segment	20	5	176	4	18	225	56	281	(281)	—
Total	273,682	287,942	91,464	55,431	293,551	1,002,072	17,441	1,019,513	(281)	1,019,232
Segment income	9,943	3,165	2,567	426	1,926	18,029	223	18,253	9	18,262
Segment assets	129,858	86,458	42,037	23,300	52,372	334,027	13,979	348,006	51,179	399,186
Other										
Depreciation and amortization	1,378	464	235	96	260	2,435	246	2,682	(1)	2,680
Investments in equity method affiliates	1,454	467	2	—	114	2,038	2,708	4,746	96	4,843
Increases in tangible fixed assets and intangible fixed assets	1,522	426	63	265	40	2,318	81	2,400	535	2,936

Fiscal 2013 (USD)

	Reportable segments						Other (Note 1)	Total	Adjustment (Note 2)	Amount in consolidated statements (Note 3)
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant	Environment & Materials	Subtotal				
Net sales										
Customers	2,909,752	3,061,529	970,634	589,332	3,121,035	10,652,282	184,848	10,837,130	—	10,837,130
Inter-segment	213	57	1,873	52	198	2,393	601	2,995	(2,995)	—
Total	2,909,965	3,061,586	972,507	589,384	3,121,232	10,654,675	185,449	10,840,125	(2,995)	10,837,130
Segment income	105,724	33,659	27,299	4,531	20,485	191,698	2,382	194,080	104	194,183
Segment assets	1,380,739	919,281	446,973	247,747	556,857	3,551,596	148,636	3,700,232	544,173	4,244,405
Other										
Depreciation and amortization	14,652	4,941	2,507	1,024	2,769	25,894	2,624	28,517	(11)	28,506
Investments in equity method affiliates	15,465	4,970	23	—	1,217	21,675	28,796	50,472	1,029	51,501
Increases in tangible fixed assets and intangible fixed assets	16,191	4,534	673	2,822	434	24,655	864	25,519	5,698	31,217

(Notes) 1. "Other" is a business segment that is not included in the reportable segments and includes the aluminum recycling business and the logistics and insurance service business, etc.

2. Adjustments are as follows.

(1) Adjustment for segment income of ¥9 million ($104 thousand) includes inter-segment elimination of ¥9 million ($104 thousand).

(2) Adjustment for segment assets of ¥51,179 million ($544,173 thousand) includes inter-segment elimination of (¥7,954) million (($84,573) thousand) and corporate assets of ¥59,133 million ($628,746 thousand) that is not allocated to any reportable segment. The corporate assets consist mainly of cash and bank deposits and investments in securities related to financing activities.

(3) Adjustment for depreciation and amortization of (¥1) million (($11) thousand) includes inter-segment elimination of (¥1) million (($11) thousand).

(4) Adjustment for investments in equity method affiliates of ¥96 million ($1,029 thousand) includes inter-segment elimination of ¥6 million ($68 thousand) and corporate assets of ¥90 million ($961 thousand) that are not allocated to any reportable segment.

(5) Adjustment for increases in tangible fixed assets and intangible fixed assets of ¥535 million ($5,698 thousand) includes corporate assets of ¥535 million ($5,698 thousand) that is not allocated to any reportable segment.

3. Segment income is adjusted for operating income in the consolidated statements of income.

Fiscal 2012 (JPY)

	Reportable segments									
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant	Environment & Materials	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Amount in consolidated statements (Note 3)
Net sales										
Customers	253,144	292,112	99,131	70,395	273,682	988,466	17,898	1,006,365	—	1,006,365
Inter-segment	60	6	96	20	34	217	55	273	(273)	—
Total	253,205	292,118	99,227	70,415	273,716	988,684	17,954	1,006,638	(273)	1,006,365
Segment income	9,026	5,186	3,612	1,447	1,972	21,246	160	21,406	20	21,426
Segment assets	118,698	87,618	33,065	27,098	53,257	319,737	22,744	342,482	57,270	399,753
Other										
Depreciation and amortization	1,231	406	155	124	341	2,259	303	2,563	(1)	2,561
Investments in equity method affiliates	2,333	396	2	—	115	2,847	3,215	6,062	34	6,097
Increases in tangible fixed assets and intangible fixed assets	1,915	114	110	476	149	2,766	70	2,836	678	3,514

(Notes) 1. "Other" is a business segment that is not included in the reportable segments and includes the aluminum recycling business and the logistics and insurance service business, etc.
2. Adjustments are as follows.
(1) Adjustment for segment income of ¥20 million includes inter-segment elimination of ¥20 million.
(2) Adjustment for segment assets of ¥57,270 million includes inter-segment elimination of (¥4,707) million and corporate assets of ¥61,978 million that is not allocated to any reportable segment. The corporate assets consist mainly of cash and bank deposits and investments in securities related to financing activities.
(3) Adjustment for depreciation and amortization of (¥1) million includes inter-segment elimination of (¥1) million.
(4) Adjustment for investments in equity method affiliates of ¥34 million includes inter-segment elimination of ¥6 million and corporate assets of ¥27 million that are not allocated to any reportable segment.
(5) Adjustment for increases in tangible fixed assets and intangible fixed assets of ¥678 million includes corporate assets of ¥678 million that is not allocated to any reportable segment.
3. Segment income is adjusted for operating income in the consolidated statements of income.

Related information

Fiscal 2013

1. Information by product and service

The classification of product and service is abbreviated because it is same as the classification of reportable segments.

2. Information by geographical area

(1) Net sales

Japan		Asia		North America		Europe		Other Areas		Total	
JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD
861,875	9,164,011	91,042	968,018	41,481	441,063	17,313	184,088	7,519	79,950	1,019,232	10,837,130

(Note) Net sales are classified into countries and areas based on locations of customers.

(2) Tangible fixed assets

Japan		Asia		North America		Europe		Other Areas		Total	
JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD
22,133	235,334	791	8,418	1,446	15,381	2,606	27,710	12	135	26,990	286,979

3. Information by major customer

Not applicable.

Fiscal 2012

1. Information by product and service

The classification of product and service is abbreviated because it is same as the classification of reportable segments.

2. Information by geographical area

(1) Net sales

Japan	Asia	North America	Europe	Other Areas	Total
JPY	JPY	JPY	JPY	JPY	JPY
839,476	91,989	37,759	13,818	23,320	1,006,365

(Note) Net sales are classified into countries and areas based on locations of customers.

(2) Tangible fixed assets

Japan	Asia	North America	Europe	Other Areas	Total
JPY	JPY	JPY	JPY	JPY	JPY
23,710	911	105	2,281	18	27,028

3. Information by major customer

Not applicable.

Information of impairment loss on fixed assets of reportable segments

Fiscal 2013 (JPY)

	Reportable segments						Other (Notes 1, 2)	Total	Adjustment	Total
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant	Environment & Materials	Subtotal				
Impairment loss	108	—	—	—	77	185	565	750	—	750

Fiscal 2013 (USD)

	Reportable segments						Other (Notes 1, 2)	Total	Adjustment	Total
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant	Environment & Materials	Subtotal				
Impairment loss	1,149	—	—	—	823	1,972	6,009	7,981	—	7,981

(Notes) 1. "Other" is a business segment that is not included in the reportable segments and includes the aluminum recycling business and the logistics and insurance service business, etc.
2. Amount of "Other" is a loss on the aluminum recycling business.

Fiscal 2012 (JPY)

	Reportable segments						Other (Notes 1, 2)	Total	Adjustment	Total (Note 3)
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant (Note 3)	Environment & Materials	Subtotal				
Impairment loss	—	—	—	345	24	369	416	786	—	786

(Notes) 1. "Other" is a business segment that is not included in the reportable segments and includes the aluminum recycling business and the logistics and insurance service business, etc.
2. Amount of "Other" is a loss on rental property business.
3. The amount of ¥345 million out of total amount of ¥786 million is included in loss on closure of business in the consolidated statements of income.

Information of amortization of goodwill and balance of goodwill of reportable segments

Fiscal 2013 (JPY)

	Reportable segments						Other (Note 1)	Total	Adjustment (Note 2)	Total
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant	Environment & Materials	Subtotal				
Amortization of goodwill for fiscal year	18	16	16	—	5	56	2	58	(58)	—
Balance of goodwill at end of fiscal year	319	37	1,914	—	—	2,270	0	2,270	(148)	2,122
Amortization of negative goodwill for fiscal year	—	—	—	0	0	0	4	5	21	26
Balance of negative goodwill at end of fiscal year	—	—	—	—	—	—	8	8	(8)	—

Fiscal 2013 (USD)

	Reportable segments									
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant	Environment & Materials	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Total
Amortization of goodwill for fiscal year	192	175	171	—	59	597	24	620	(620)	—
Balance of goodwill at end of fiscal year	3,394	395	20,351	—	—	24,140	4	24,144	(1,579)	22,565
Amortization of negative goodwill for fiscal year	—	—	—	0	9	9	49	59	225	284
Balance of negative goodwill at end of fiscal year	—	—	—	—	—	—	86	86	(86)	—

(Notes) 1. "Other" is a business segment that is not included in the reportable segments and includes aluminum recycling business and logistics and insurance service business, etc.
2. Negative goodwill recognized due to the combinations before April 1, 2010. The amounts of amortization and balance of goodwill and negative goodwill are offset in consolidated financial statements.
In addition, adjustments are as follows
(1) Adjustment for amortization of goodwill for fiscal year of (¥58) million (($620) thousand) includes inter-segment elimination of (¥2) million (($24) thousand) and offset amount of (¥56) million (($597) thousand).
(2) Adjustment for balance of goodwill at end of fiscal year of (¥148) million (($1,579) thousand) includes inter-segment elimination of (¥0) million (($4) thousand), corporate assets of ¥0 million ($1 thousand) that are not allocated to any reportable segment and offset amount of (¥148) million (($1,576) thousand).
(3) Adjustment for amortization of negative goodwill for fiscal year of ¥21 million ($225 thousand) includes corporate assets of ¥77 million ($822 thousand) that are not allocated to any reportable segment and offset amount of (¥56) million (($597) thousand).
(4) Adjustment for balance of negative goodwill at end of fiscal year of (¥8) million (($86) thousand) includes corporate liabilities of ¥140 million ($1,490 thousand) that are not allocated to any reportable segment and offset amount of (¥148) million (($1,576) thousand).

Fiscal 2012 (JPY)

	Reportable segments									
	Electronics	Foods & Foodstuff	Iron & Steel	Machinery & Plant	Environment & Materials	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Total
Amortization of goodwill for fiscal year	47	16	—	—	12	76	2	78	(78)	—
Balance of goodwill at end of fiscal year	261	53	—	—	5	320	2	323	(233)	89
Amortization of negative goodwill for fiscal year	—	—	—	0	0	0	4	5	0	6
Balance of negative goodwill at end of fiscal year	—	—	—	0	0	0	12	13	(13)	—

(Notes) 1. "Other" is a business segment that is not included in the reportable segments and includes aluminum recycling business and logistics and insurance service business, etc.
2. Negative goodwill recognized due to the combinations before April 1, 2010. The amounts of amortization and balance of goodwill and negative goodwill are offset in consolidated financial statements.
In addition, adjustments are as follows.
(1) Adjustment for amortization of goodwill for fiscal year of (¥78) million includes inter-segment elimination of (¥2) million and offset amount of (¥76) million.
(2) Adjustment for balance of goodwill at end of fiscal year of (¥233) million includes inter-segment elimination of (¥2) million, corporate assets of ¥0 million that are not allocated to any reportable segment and offset amount of (¥231) million.
(3) Adjustment for amortization of negative goodwill for fiscal year of ¥0 million includes corporate assets of ¥77 million that are not allocated to any reportable segment and offset amount of (¥76) million.
(4) Adjustment for balance of negative goodwill at end of fiscal year of (¥13) million includes corporate liabilities of ¥217 million that are not allocated to any reportable segment and offset amount of (¥231) million.

Information of gain on negative goodwill by reportable segments

Fiscal 2013

Not applicable.

Fiscal 2012

Not applicable.

21. Disclosure of Related Party Transactions

Fiscal 2013

Related party transactions

Not applicable.

Fiscal 2012

Related party transactions

Not applicable.

22. Information per Share

	2013		2012
	JPY	USD	JPY
Net assets per share	129.82	1.38	93.16
Net income per share	22.80	0.24	14.60

(Notes) 1. Diluted net income per share for the term is not reported since there is no outstanding security with dilutive effect.

2. The supplemental information for the computation of net assets per share is as follows:

	2013		2012
	JPY	USD	JPY
Total net assets	75,912	807,155	55,992
Amount deducted from total net assets	21,393	227,469	16,984
(minority interest in consolidated subsidiaries)	(21,393)	(227,469)	(16,984)
Net assets corresponding to common stock at the end of the fiscal year	54,519	579,686	39,008
Number of common stock issued (thousand shares)	422,501		422,501
Number of treasury stock (thousand shares)	2,539		3,796
Number of common stock used for the calculation of net assets per share (thousand shares)	419,961		418,704

3. The supplemental information for the computation of net income per share is as follows:

	2013		2012
	JPY	USD	JPY
Net income	9,564	101,692	6,110
Amount that does not belong to common shareholders	—	—	—
Net income corresponding to common stock	9,564	101,692	6,110
Average number of common stock for the term (thousand shares)	419,486		418,616

23. Subsequent Events

Acquisition of shares by a subsidiary

Kanematsu Communications Ltd. ("KCS") and Kanematsu Electronics Ltd. ("KEL"), which are subsidiaries of the Company, established a holding company jointly (KCS90%, KEL10%) and the holding company acquired all of the shares of BD Holdings co Ltd. and its mobile phone dealers shops.

1. Outline of the business combination

(1) Name of the acquiring company: KCS Holdings LLC. ("KCSI")
Content of business: Holding company to hold shares of BD Holdings co Ltd.
Name of the acquired company: BD Holdings co Ltd. ("BDH")
Content of business: Mobile phone sales business

(2) Purpose of the business combination

By acquiring all of the shares of BDH, a leading sales company of its area, the companies strengthen its sales force in the Kyushu area and expand its sales force on a national scale.

(3) Date of the acquisition

1 May 2013

(4) Legal form of the business combination

Acquisition of shares for cash consideration.

(5) Company name after the business combination

BD Holdings co Ltd.

(6) Percentage of the voting rights

Percentage of the voting rights before the acquisition	0 percent
Percentage of the additional acquisition of the voting rights	100 percent
Percentage of the voting rights after the acquisition	100 percent

(7) Basis for deciding the acquiring company

It is because KCSI acquired all of the shares of BDH for cash consideration.

2. Acquisition costs and those details

Cash paid for the acquisition: ¥3,000 million ($31,898 thousand)
Total costs: ¥3,000 million ($31,898 thousand)

3. Amount, cause and method and period of amortization of goodwill

These have not been determined at this time.

24. Consolidated Supplementary Schedules

(1) Schedule of bonds payable

Not applicable.

(2) Schedule of borrowings

Classification	Balance at the beginning of the fiscal year		Balance at the end of the fiscal year		Composite interest rate	Due
	JPY	USD	JPY	USD	%	Month, year
Short-term borrowings	38,723	471,148	38,430	408,620	1.6	—
Current portion of long-term borrowings	39,720	483,281	43,140	458,693	1.7	—
Current portion of lease obligations	726	8,842	733	7,796	—	—
Long-term borrowings (excluding current portion)	82,403	1,002,603	65,290	694,211	2.0	April 2014 – March 2018
Lease obligations (excluding current portion)	1,394	16,969	1,099	11,692	—	April 2014 – March 2019
Total	162,969	1,982,842	148,694	1,581,012	—	—

(Notes) 1. The composite interest rate is a weighted average interest rate for those outstanding at end of the year.
2. The composite interest rate of lease obligations is not presented as lease obligations of the Company and certain of its subsidiaries comprise interest expenses portion of total lease payments.
3. The long-term borrowings and lease obligations repayment schedule for next five years (excluding current portion) is as follows:

	Over one year and within two years		Over two years and within three years		Over three years and within four years		Over four years and within five years	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Long-term borrowings	37,650	400,327	14,093	149,848	8,651	91,989	4,845	51,515
Lease obligations	565	6,011	372	3,958	127	1,355	27	296

(3) Schedule of asset retirement obligations:

According to the Article 92-2 of the "Regulations for Consolidated Financial Statements," schedule of asset retirement obligations are abbreviated, as the amount of "asset retirement obligations" is less than the 1 percent of total amount of liabilities and net assets.

Independent Auditor's Report

To the Board of Directors of
Kanematsu Corporation

We have audited the accompanying consolidated financial statements of Kanematsu Corporation ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2013, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

PricewaterhouseCoopers Aarata

June 25, 2013

PricewaterhouseCoopers Aarata
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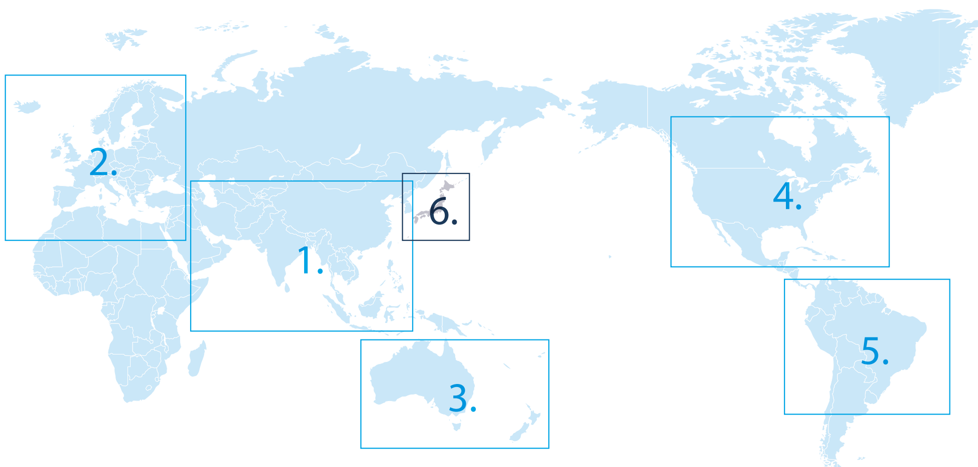
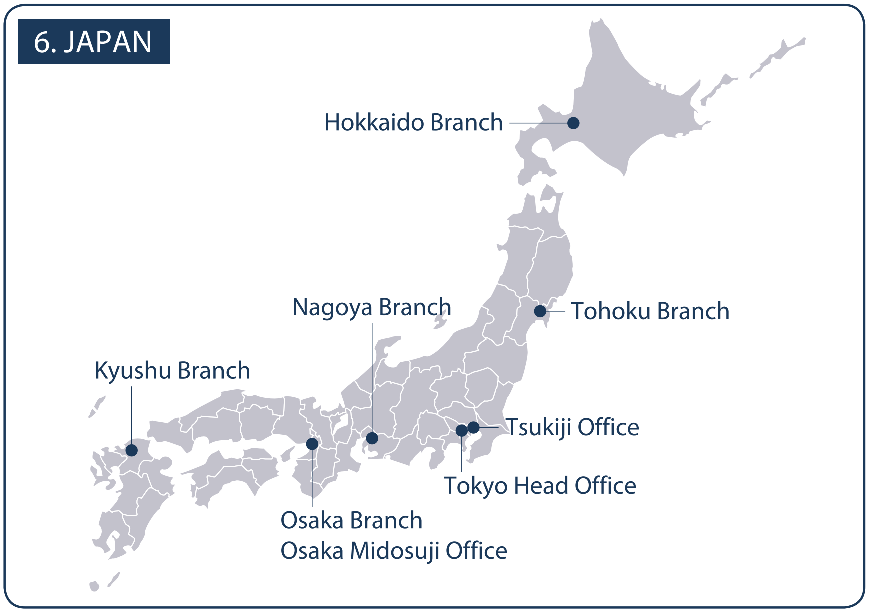
Corporate Data

Global Network (As of April 1, 2013)

The Company supplies products and services from a large network of business bases in Japan and overseas. 87 subsidiaries and 26 affiliates ensure global reach into the markets of all regions.



● Overseas subsidiaries and their branches
▲ Representative offices
■ Branches



Segment information:
Number of employees and number of group companies (As of March 31, 2013)

	Number of employees (consolidated basis)	Number of affiliated companies	
Electronics	3,244	31	(Japan: 15, Overseas: 16)
Foods & Foodstuff	506	17	(Japan: 10, Overseas: 7)
Iron & Steel	605	12	(Japan: 5, Overseas: 7)
Machinery & Plant	326	12	(Japan: 3, Overseas: 9)
Environment & Materials	319	7	(Japan: 7)
Others	167	18	(Japan: 12, Overseas: 6)
Company-wide (common)	355		
		Overseas subsidiaries 16	
Total	5,522	113	

Notes: 1. Number of employees on a non-consolidated basis is 782 (including employees seconded from Kanematsu, excluding employees seconded from companies other than Kanematsu).
2. Of affiliated companies, 82 are consolidated subsidiaries and 25 are equity-method affiliates.

Network

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TEL: 66-2-632-8060
FAX: 66-2-632-8083, 8084

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Kanematsu (Singapore) Pte. Ltd.
100 Tras Street, #12-01 100 AM, Singapore 079027
TEL: 65-6320-6000
FAX: 65-6320-6071

Kanematsu Semiconductor Singapore Pte., Ltd.
100 Tras Street, #12-03 100 AM, Singapore 079027
TEL: 65-6438-4440
FAX: 65-6438-4441

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17th Floor Tower 2, The Enterprise Center 6766,
Ayala Avenue, Makati City, Metro Manila,
Philippines
TEL: 63-2-889-1701, 845-2017
FAX: 63-2-887-0030

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The Representative of Kanematsu Corporation
56(A) Kanbawza Road, Bahan Township, Yangon, Myanmar
TEL: 95-1-2304198, 99
FAX: 95-1-510435

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PT. Kanematsu Trading Indonesia
ANZ Tower 15th Floor, Jalan Jend. Sudirman Kav. 33A Jakarta 10220, Indonesia
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FAX: 62-21-572-1188, 1237

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Kanematsu India Private Limited
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TEL: 91-124-4001461, 4001462, 4001362
FAX: 91-124-4001371

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Elahiyeh Commercial Complex, Unit 1201, 12th Floor, No. 244, Africa Ave., Tehran, Iran
TEL: 98-21-2621-2812
FAX: 98-21-2621-3106

EUROPE

UNITED KINGDOM

Kanematsu Europe PLC.
Ground Floor Genesis House, 17 Godliman Street, London, EC4V 5BD, United Kingdom
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FAX: 36-1-320-4953

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The Representative of Kanematsu Corporation
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OCEANIA

AUSTRALIA

Kanematsu Australia Ltd.
Level 20 St Martins Tower, 31 Market Street, Sydney NSW 2000, Australia
TEL: 61-2-9283-3347
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NEW ZEALAND

Kanematsu New Zealand Ltd.
9th Floor, Ballantyne House, 101 Customs Street, East Auckland, New Zealand
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FAX: 64-9-309-3877

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U.S.A.

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New York Head Office
75 Rockefeller Plaza, 22nd Floor, New York, NY10019, U.S.A.
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FAX: 1-212-704-9483

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FAX: 1-732-271-7370

Chicago Branch
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TEL: 1-847-981-5600
FAX: 1-847-981-6760

San Diego Office
900 Lane Avenue, Suite 150, Chula Vista, California 91914, U.S.A.
TEL: 1-619-656-2385
FAX: 1-619-656-2386

Houston Branch
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TEL: 1-713-975-7200
FAX: 1-713-975-7966

Silicon Valley Branch
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TEL: 1-408-501-1400
FAX: 1-408-501-1499

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SOUTH AMERICA

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Kanematsu America do Sul Importacao e Exportacao Ltda.
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TEL: 55-11-3285-3311
FAX: 55-11-3285-3318

Major Consolidated Subsidiaries and Affiliates

* Companies with shares listed on a stock exchange

Electronics & Devices

Japan	Kanematsu Electronics Ltd.*	Sales of computers, peripheral equipment, communications equipment, etc.
	Nippon Office Systems Ltd.*	Sales and maintenance of computers, communications equipment, etc.
	Kanematsu Communications Ltd.	Sales of mobile communications, related equipment and services, ASP services for mobile phones
	Kanematsu Granks, Corp.	Mobile content provider service business, mobile commerce business, mobile media representative business, mobile solutions business
	Kantatsu Co., Ltd.	Manufacture of lens units, camera modules and other optical equipment and parts
China	Kanekoh Electronics (Shanghai) Co., Ltd.	Development and manufacture of battery modules

Foods & Grain

Japan	Kanematsu Shintoa Foods Corp.	Food wholesaling and cold storage
	Kanematsu Agritec Co., Ltd.	Manufacture and sales of feed and fertilizer
	Kanematsu Soytech Corp.	Sales of soybean and grains, and development and marketing of products for food processors
	Heisei Feed Manufacturing Co.	Manufacture and processing of mixed feeds
	Mojiko Silo Co., Ltd.	Operation of grain silo for animal feed-use, land/marine transport, customs clearance operations
China	Dalian Tiantianli Food Co., Ltd.	Manufacture of dim sum and deli products
	Shangdong Lufeng Foods Co., Ltd.	Production of processed vegetables and fruits
Thailand	Summit Food Industries Co., Ltd.	Production and sales of rice crackers
	Siam Aloe Vera (2005) Co., Ltd.	Processing and sales of Aloe Vera
Indonesia	P.T. Kanemory Food Service	Manufacture and sales of deli products and processed food
U.S.A.	Kai Enterprises, Inc.	Sales of dried feed
	KG Agri Products, Inc.	Seed development for soybean-based food ingredients, contract farming, sorting and sales

Steel, Materials & Plant

Japan	Kanematsu Trading Corp.	Sales of steel and construction materials
	Kyowa Steel Co., Ltd.	Cutting and processing of steel sheet and sales of construction materials
	Eiwa Metal Co., Ltd.	Processing and sales of stainless steel, titanium and high-alloy steels
	Kanematsu Petroleum Corp.	Sales of petroleum products and LPG
	Kanematsu Yuso Co., Ltd.	Delivery and storage of petroleum products
	Kanematsu Chemicals Corp.	Sales of petrochemicals, automobile-related chemicals, health food ingredients and pharmaceuticals
	Kanematsu Wellness Corp.	Sales of health food and provision of medical information
	Miracool Co., Ltd.	Sales of heat reflective paint
	Kanematsu KGK Corp.	Sales of machine tools and industrial machinery
	KGK Engineering Corp.	Repair and sales of machine tools, sales of paper-manufacturing machinery

China	Kanematsu Hoplee Co., Ltd.	Processing and marketing of steel products
	Kanematsu KGK (Shanghai) Co., Ltd.	Sales of machine tools and industrial machinery
	Kanematsu KGK Trade & Sales (Shanghai) Co., Ltd.	Sales of machine tools and industrial machinery
Thailand	KGK Engineering (Thai) Co., Ltd.	Sales of machine tools and industrial machinery
Czech Republic	KGK Czech s.r.o.	Sales of machine tools and industrial machinery
U.S.A.	Steel Service Oilfield Tubular, Inc.	Sales of premium tubing for oil excavation
	Benoit Premium Threading, LLC.	Oil well casing fabrication, manufacture and sales of oil well-related parts
	KGK International Corp.	Sales of machine tools

Motor Vehicles & Aerospace

Japan	Kanematsu Aerospace Corp.	Sales of aircraft, defense and aerospace-related products
Ireland	KG Aircraft Rotables Co., Ltd.	Replacement and maintenance of aircraft components, leasing
Poland	Aries Motor Sp. zo.o.	Sales of automobiles
	Aries Power Equipment Sp. zo.o.	Sales of engines, generators, water pumps and other general-purpose machinery

Others

Japan	Kaneyo Co., Ltd.*	Sales of bedding materials and products, general merchandise and interior goods
	Kanematsu-NNK Corp.*	Manufacture and sales of home-construction materials; ground inspection services and improvement works
	Hokushin Co., Ltd.*	Manufacture and sales of medium-density fiberboard
	Aso Kanko Kaihatsu Co., Ltd.	Golf course management
	Higashi Kibi Kanko Kaihatsu Co., Ltd.	Golf course management
	Shintoa Corp.	Beverage-vending machine operations, imports, exports and sales of aircraft engines
	Kanematsu Logistics & Insurance Ltd.	Insurance agency and logistics business
	Japan Logistics Co., Ltd.	Warehouse and trunk room operation
Vietnam	Vietnam-Japan International Transport Co., Ltd.	Total logistics services
Indonesia	P.T. Century Textile Industry	Manufacture of polyester blend fabric
	P.T. Dunia Express Transindo	Total logistics services

Organization Chart (As of April 1, 2013)

- Shareholder's Meeting
  - Board of Corporate Auditors
- Board of Directors
- Management Committee

Business Area

Electronics & Devices Division
- Industrial Electronics Department
- Semiconductor Equipment Department
- Components & Material Department
- Semiconductor Department No.1
- Semiconductor Department No.2
- Semiconductor Marketing Department
- System & Module Department
- Electronics Planning Office

Foods & Grain Division
- Food Department No.1
- Food Department No.2
- Food Department No.3
- Meat Department
- Grain Department
- Feedstuff Department
- Agricultural Products & Oilseeds Department
- Domestic Sections
- Foods & Grain Planning Office
- Food Safety Management System Office

Steel, Materials & Plant Division
- Iron & Steel Foreign Trade Department
- Specialty Steel Foreign Trade Department
- Functional Chemicals Department
- Energy Department
- Plant & Ships Department
- Steel, Materials & Plant Planning Office
- Food Safety Management Office

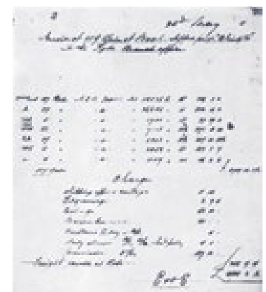
Motor Vehicles & Aerospace Division
- Motor Vehicles & Parts Department No.1
- Motor Vehicles & Parts Department No.2
- Aerospace Department
- Motor Vehicles & Aerospace Planning Office

Supporting Area

- Personnel & General Affairs Department
- Finance Department
- Accounting Department
- Business Accounting Department
- Legal & Compliance Department
- Credit Control Department
- Traffic & Insurance Department
- System Planning Department
- Internal Auditing Department
- Corporate Planning Department

History

1880's	1889	• Fusajiro Kanematsu founds Fusajiro Kanematsu Shoten of Australian Trading in Kobe
1890's	1890	• Sets up a branch in Sydney, and begins direct import of Australian wool
	1891	• Yohei Kitagawa founds Kitagawa Shoten, which is a predecessor of The Gosho Company
1900's	1900	• Starts import of Australian wheat
1910's	1913	• Fusajiro Kanematsu passes away
	1918	• Reorganizes into Kanematsu Shoten Company. Stated capital ¥2 million
1920's	1922	• Reorganizes Sydney branch into an affiliate company incorporated abroad
1930's	1934	• Establishment of Kanematsu Wool Research Institute (the current Kaneyo Co., Ltd.)
	1936	• Sets up branches in New York and Seattle
	1937	• Establishes an overseas affiliated company in New Zealand
1940's	1943	• Changes trade name to Kanematsu and Company
	1949	• Resumption of foreign tours for employees. The first group departs for America • Diversification of business begins, moving toward an integrated general trading company
1950's	1951	• Establishes an overseas affiliated company in New York, as the first Japanese trading company in postwar era • Establishes an overseas affiliated company in Brazil
	1957	• Establishes an overseas affiliated company in West Germany
1960's	1961	• Abolishes the system in which workers hold all the stock, and goes public on the Second Section of the Osaka Securities Exchange • Establishes an overseas affiliated company in Iran
	1963	• Lists stock on the First Section of the Osaka Securities Exchange
	1966	• Establishes an overseas affiliated company in Thailand
	1967	• Merges with The Gosho Company to form Kanematsu-Gosho, Ltd.
1970's	1970	• Establishes its Head Office at the Tokyo Branch Office
	1973	• Lists stock on the First Sections of the Tokyo and Nagoya Stock Exchanges
	1975	• Establishes an overseas affiliated company in Hong Kong
	1979	• Establishes a representative office in Beijing, China following restoration of diplomatic relations
1980's	1989	• 100th anniversary of the founding of the Company • Establishes an overseas affiliated company in the United Kingdom
1990's	1990	• Changes trade name to Kanematsu Corporation
	1991	• Moves Tokyo headquarters from Kyobashi to Shibaura • Establishes Kanematsu Europe PLC in the United Kingdom having general control over Europe
2000's	2008	• Trade name of Kanematsu (Shanghai) Co., Ltd. is changed to Kanematsu (China) Co., Ltd. establishes Beijing, Dalian and Tianjin branches
2010's	2011	• Kanematsu Europe PLC merged with Kanematsu G.m.b.H
	2012	• Establishes an overseas affiliated company in India
	2014	• Kanematsu Corporation will celebrate its 125th anniversary in 2014



Investor Information

(As of April 1, 2013)

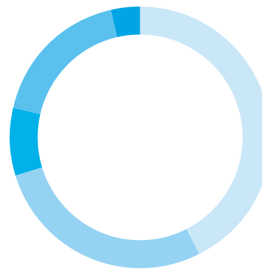
Stock Exchange Listings	Tokyo
Stock Code	8020
Transfer Agent for Common Stock	Sumitomo Mitsui Trust Bank, Limited
Shares Authorized	1,016,653,604
Shares Outstanding	422,501,010 (including 999,872 treasury shares)
Minimum Trading Unit	1,000
Number of Shareholders	32,520

Principal Shareholders (As of March 31, 2013)

	Number of shares held (thousands)	Percentage of voting rights (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,298	3.15
The Norinchukin Bank	12,460	2.95
Japan Trustee Services Bank, Ltd. (trust account)	12,283	2.91
Mitsui Sumitomo Insurance Co., Ltd.	11,613	2.75
Tokio Marine & Nichido Fire Insurance Co., Ltd.	11,612	2.75
The Master Trust Bank of Japan, Ltd. (trust account)	8,208	1.94
State Street Bank and Trust Company	4,739	1.12
Daio Paper Corporation	4,510	1.06
Japan Trustee Services Bank, Ltd. (trust account 1)	3,927	0.93
Mellon Bank Treaty Clients Omnibus	3,827	0.90

Note: Calculated after deduction of treasury shares (999,872 shares)

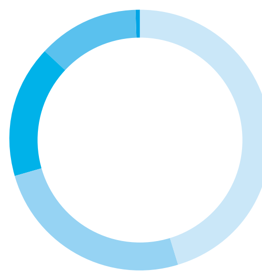
Composition of Shareholders (As of March 31, 2013)



- Individuals and others (including treasury shares).....42.73%
- Financial institutions.................27.76%
- Other corporations.......................8.33%
- Foreign institutions and individuals.............................17.67%
- Securities firms...............................3.51%

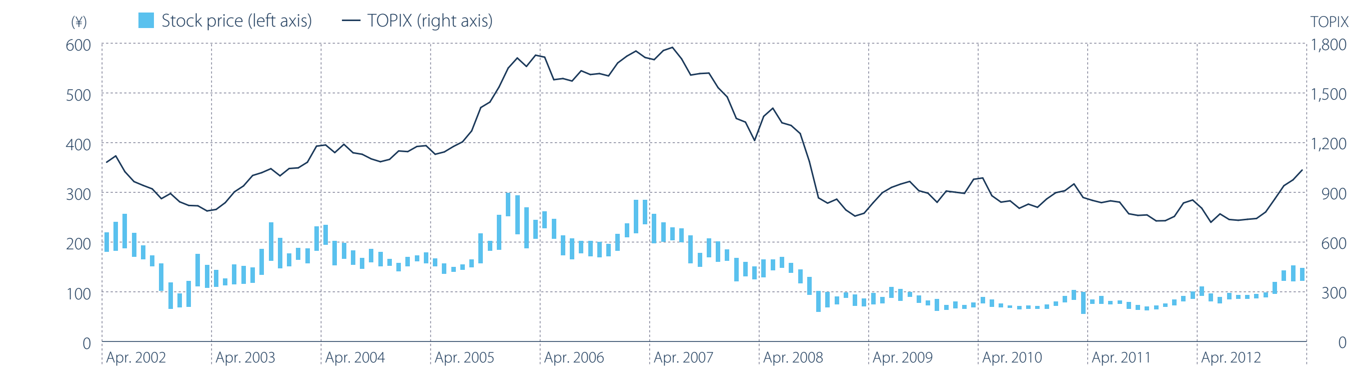
Shareholder Distribution by Number of Shares Held

(As of March 31, 2013)

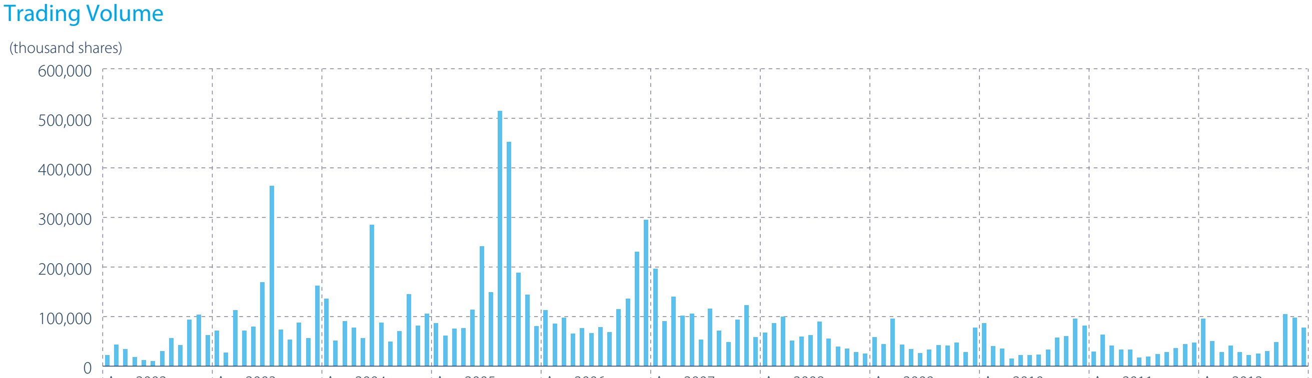


- More than 1 million shares.....45.39%
- 50,000 shares and more (including treasury shares).....25.38%
- 10,000 shares and more..........16.41%
- 1,000 shares and more 12.35%
- Less than 1,000 shares...............0.47%

Stock Price



Trading Volume




Tokyo Head Office

Corporate Profile

Company Name	KANEMATSU CORPORATION
Foundation	August 15, 1889
Established	March 18, 1918
President	Masayuki Shimojima
Head Office	2-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8005, Japan
Paid-in Capital	¥27,781 million
Fiscal Year	April 1 to March 31
General Meeting of Shareholders	June
Number of Offices	Domestic: Head office 1 and branches 7 Overseas: 41
Number of Employees	782 (Consolidated: 5,522) (As of March 31, 2013)

For more information on this Annual Report, or to obtain additional copies, please contact:

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