



Member of Financial Accounting Standards Foundation

Consolidated Financial Summary for the First Half of the Fiscal Year Ending March 2015 (Japanese Accounting Standards)

October 31, 2014

Company name: Kanematsu Corporation

Stock Exchange listing: Tokyo Stock Exchange

Stock code: 8020

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

Representative: President and CEO, Masayuki Shimojima

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 10, 2014

Scheduled date for commencement of dividend payments:

December 2, 2014

Supplementary documents for quarterly results:

Yes

Quarterly results briefing:

Yes (for institutional investors and analysts)

(Figures of less than one million are rounded down.)

1. Consolidated business results for the first half of the fiscal year ending March 2015 (April 1, 2014 – September 30, 2014)

(1) Consolidated business results (sum total) (%: Change from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First Six Months to								
September 2014	534,355	(0.6)	11,085	5.5	10,562	(3.6)	6,090	(3.1)
September 2013	537,583	10.3	10,512	6.2	10,954	24.5	6,288	4.5

(Note) Comprehensive income: 8,810 million yen (-21.9%) for the first six months to September 2014
11,278 million yen (120.1%) for the first six months to September 2013

	Net income per share		Net income per share (diluted basis)	
	Yen		Yen	
First Six Months to				
September 2014	14.50		-	
September 2013	14.97		-	

(2) Consolidated financial condition

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of September 30, 2014	424,334		102,964		18.4	
As of March 31, 2014	428,459		96,204		16.7	

(Reference) Shareholders' equity: 78,218 million yen as of September 30, 2014
71,657 million yen as of March 31, 2014

2. Dividends

(Record date)	Annual dividends				
	End of first quarter	End of second quarter	End of third quarter	Year end	Fiscal
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2014	-	1.50	-	1.50	3.00
Fiscal year ending March 2015	-	2.50			
March 2015 (Forecasts)			-	1.50	4.00

(Note) Revisions to dividend forecasts published most recently: None

(Note) Breakdown of dividends to be paid at the end of the second quarter of fiscal year ending March 2015: common dividend 1.50 yen, commemorative dividend 1.00 yen

3. Forecasts for consolidated results ending March 2015 (April 1, 2014 – March 31, 2015)

(%: Changes from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
Full year	1,150,000	3.2	22,000	11.2	20,500	1.7	11,000	(6.8)	26.19	

(Note) Revisions to results forecasts published most recently: None

* Notes

(1) Important change in subsidiaries during the term (Change in scope of consolidation): None

(2) Adoption of accounting treatment unique to the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please see the statement under the heading of “2. Matters Relating to Summary Information (Notes), (2) Adoption of accounting treatment unique to the preparation of quarterly consolidated financial statements” on page 4 of accompanying materials.

(3) Changes in accounting policies and changes or restatement of accounting estimates

- | | |
|---|------|
| 1. Changes in accounting policies associated with the revision of accounting standards, etc.: | Yes |
| 2. Changes in accounting policies other than 1.: | Yes |
| 3. Changes in accounting estimates: | None |
| 4. Restatement: | None |

(4) Number of outstanding shares (common shares)

- | | | | |
|--|--------------------|-----------------------|--------------------|
| 1. Number of outstanding shares including treasury stock | | | |
| First half (2014/9): | 422,501,010 shares | Fiscal year (2014/3): | 422,501,010 shares |
| 2. Number of treasury stock | | | |
| First half (2014/9): | 2,365,716 shares | Fiscal year (2014/3): | 2,323,295 shares |
| 3. Average number of shares during the period (First half) | | | |
| First half (2014/9): | 420,159,707 shares | First half (2013/9): | 419,997,943 shares |

* Status of a quarterly review

This financial summary does not need to undergo a quarterly review under the Financial Instruments and Exchange Act. The quarterly consolidated financial statements have not been reviewed at the time of the announcement of this financial summary.

* Explanation about the proper use of results forecasts, and additional information

The results forecasts and forward-looking statements included in this document are based on information that the Company has obtained on the date of the announcement and certain assumptions that the Company considers reasonable. The Company makes no guarantees with respect to the achievement of its results forecasts or forward-looking statements. Actual results might be significantly different from the forecasts in the document, depending on various factors. Refer to “(3) Information on the future outlook, including consolidated business performance forecasts” in “1. Qualitative Information on Consolidated Results, Etc. for the First Half of the Fiscal Year Ending March 2015” on page 3 of accompanying materials for further information on results forecasts.

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1. Qualitative Information on Consolidated Results, Etc. for the First Half of the Fiscal Year Ending March 2015

(1) Details of consolidated results

In the first half under review (from April 1, 2014 to September 30, 2014), the U.S. economy recovery gathered strength thanks to improving employment conditions and consumer spending. In Europe, concerns about deflation have been gradually growing due to a delay in economic recovery. The Chinese economy has continued to post solid, albeit slowing growth. Emerging economies in Asia continued to stage a moderate recovery.

The Japanese economy is strengthening and stayed on a modest recovery trend against a backdrop of a very stable employment environment, although consumer spending stalled as unseasonable weather imposed a heavy burden amid a general weakening in the wake of the consumption tax hike.

In this environment, the results of the Group for the first half under review are as shown below.

Consolidated net sales declined ¥3,228 million (0.6%) year on year, to ¥534,355 million. Consolidated gross trading profit increased ¥955 million (2.2%) from a year earlier, to ¥43,995 million. Consolidated operating income rose ¥573 million (5.5%) from the previous fiscal year, to ¥11,085 million. Non-operating income/expenses decreased ¥965 million reflecting a decline in foreign exchange gains, etc. As a result, consolidated ordinary income dropped ¥392 million (3.6%) year on year, to ¥10,562 million. Income before income taxes and minority interests fell ¥227 million (2.1%) from a year ago, to ¥10,451 million. Consolidated net income declined ¥198 million (3.1%) year on year, to ¥6,090 million.

Results for each business segment are described below.

(i) Electronics & Devices

The semiconductor parts and manufacturing equipment business remained brisk against the backdrop of strong demand associated with smartphones and a rise in transactions of in-car products and products for amusement. In the electronic components and materials business, exports of imaging equipment, etc., were booming. The ICT solutions business and the mobile solutions business remained steady due to the use of a sales plan meeting customers' needs.

As a result, net sales in the Electronics and Devices Division rose ¥126 million year on year, to ¥126,461 million. Operating income climbed ¥484 million to ¥4,061 million.

(ii) Foods & Grain

The meat products business was favorable overall reflecting a rise in demand and the steady trends of the market. In the foodstuff business, the transactions of both grains and feed remained smooth.

As a result, in the Foods & Grain Division, net sales fell ¥5,256 million from a year earlier, to ¥151,406 million. Operating income increased ¥855 million to ¥2,398 million.

(iii) Steel, Materials & Plant

In the plant business, transactions concerning plant infrastructure in South East Asia were strong. In the iron and steel business, the oilfield tubing business, a mainstay in iron and steel, was affected by a delay in the recovery of offshore drilling, but the oilfield tube processing business enjoyed a steady rise in production volume. In the energy business, sales of petroleum products dropped due to the influence of unseasonal weather and a fall in consumption.

As a result, net sales in the Steel, Materials & Plant Division climbed ¥2,155 million from the previous fiscal year, to ¥224,169 million. Operating income declined ¥840 million to ¥3,086 million.

(iv) Motor Vehicles & Aerospace

In the aerospace business, transactions of aircraft parts remained stable. In the motor vehicles and parts business, transactions involving motorcycle and motor vehicle parts for Europe, the United States, and Asia were strong.

As a result, in the Motor Vehicles & Aerospace Division, net sales rose ¥2,004 million year on year, to ¥30,994 million. Operating income grew ¥187 million to ¥1,393 million.

(v) Other

Net sales decreased ¥2,255 million from a year earlier, to ¥1,324 million. Operating income fell ¥92 million to ¥120 million.

(2) Details of financial position

(i) Assets, liabilities and net assets

Total assets at the end of the first half under review declined ¥4,125 million from the end of the previous fiscal year, to ¥424,334 million.

Interest-bearing debt decreased ¥9,659 million from the end of the previous fiscal year, to ¥132,246 million. Net interest-bearing debt, which is interest-bearing debt minus cash and bank deposits, fell ¥3,812 million from the end of the previous fiscal year, to ¥64,226 million.

Net assets stood at ¥102,964 million, up ¥6,760 million from the end of the previous fiscal year, thanks to an increase in retained earnings as a result of the posting of net income. Shareholders' equity, obtained by subtracting minority interests from net assets, rose ¥6,561 million from the end of the previous fiscal year, to ¥78,218 million.

As a result, the equity ratio improved 1.7 percentage points from the end of the previous fiscal year, to 18.4%. The net debt-equity ratio ("net DER") was 0.8 times.

(ii) Cash flows

In the first half under review, net cash provided by operating activities stood at ¥6,196 million, net cash used in investing activities came to ¥2,520 million, and net cash used in financing activities was ¥10,689 million. With the effect of exchange rate changes on cash and cash equivalents added, cash and cash equivalents at the end of the first half under review stood at ¥66,963 million.

(Cash flows from operating activities)

Net cash provided by operating activities in the first half under review stood at ¥6,196 million (versus ¥11,649 million in the first half of the previous fiscal year), primarily reflecting operating income.

(Cash flows from investing activities)

Net cash used in investing activities in the first half under review was ¥2,520 million (versus ¥4,047 million in the first half of the previous fiscal year) due to the acquisition of tangible fixed assets, etc.

(Cash flows from financing activities)

Net cash used in financing activities in the first half under review stood at ¥10,689 million (versus ¥8,660 million in the first half of the previous fiscal year), reflecting the repayment of debt, among other factors.

(3) Information on the future outlook, including consolidated business performance forecasts

We have not changed the forecasts for consolidated results that we announced on May 9, 2014.

The forecasts above are based on information that the Company has obtained and certain assumptions that the Company considers reasonable. The Company does not guarantee that the forecasts will be achieved. Actual results may differ materially from forecasts due to a number of factors.

2. Matters Relating to Summary Information (Notes)

(1) Important change in subsidiaries during the term

Not applicable.

(2) Adoption of accounting treatment unique to the preparation of quarterly consolidated financial statements

(Calculation of tax expenses)

Certain consolidated subsidiaries calculated tax expenses by multiplying income before income taxes and minority interests by an effective tax rate that was reasonably estimated by applying tax effect accounting to estimated income before income taxes for the fiscal year, including the first half under review.

(3) Changes in accounting policies and changes or restatement of accounting estimates

Changes in accounting policies

(Application of accounting standard for retirement benefits)

The provisions of the main clause of Article 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012; “Accounting Standard”) and the main clause of Article 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012; “Guidance”) were adopted in the first three months under review, and the method of calculating retirement benefit obligations and service costs was reviewed. The method of allocating expected retirement benefits to periods has been changed from the fixed-amount method to the projected benefit method, and the discount rate has been changed from a discount rate based on the number of years approximating the employees’ average remaining service years to a single weighted average discount rate reflecting the estimated periods of benefit payments and amounts for each estimated period.

The Accounting Standard and Guidance are adopted in accordance with transitional accounting as stipulated in Article 37 of the Accounting Standard, and we have made an adjustment for the financial impact of the change in the method of calculating retirement benefit obligations and service costs to retained earnings at the beginning of the first half under review.

As a result, at the beginning of the first half under review, net defined benefit liability rose ¥797 million and retained earnings fell ¥681 million. In the first half under review, operating income, ordinary income, and income before income taxes and minority interests each increased ¥42 million.

(Change in depreciation method for tangible fixed assets)

The Company and certain domestic consolidated subsidiaries mainly used the declining-balance method as the depreciation method for tangible fixed assets. From the first three months under review, however, the Company and certain domestic consolidated subsidiaries are using the straight-line method.

Following acquisitions of businesses by the Group in Japan and overseas, the relative importance of companies adopting the straight-line method increased, and the Group examined its use of its tangible fixed assets in detail. Based on this examination, the Group expects that the economic benefits of the assets will be used evenly during their service life and has changed the depreciation method to the straight-line method.

The effect of the change on earnings is minor.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

	(Million yen)	
	As of March 31, 2014	As of September 30, 2014
Assets		
Current assets		
Cash and bank deposits	73,867	68,019
Notes and accounts receivable	178,984	164,860
Lease investment assets	541	365
Short-term investment	16	3
Inventories	66,256	77,861
Short-term loans receivable	825	852
Deferred tax assets	2,660	3,491
Other	22,364	26,737
Allowance for doubtful accounts	(149)	(168)
Total current assets	345,366	342,024
Long-term assets		
Tangible fixed assets	24,218	24,545
Intangible fixed assets		
Goodwill	3,175	3,252
Other	8,531	8,286
Total intangible fixed assets	11,706	11,538
Investments and other assets		
Investments in securities	32,198	34,126
Long-term loans receivable	1,798	1,719
Doubtful accounts	902	885
Deferred tax assets	8,782	6,446
Other	6,236	5,744
Allowance for doubtful accounts	(2,750)	(2,697)
Total investments and other assets	47,167	46,226
Total long-term assets	83,093	82,310
Total assets	428,459	424,334

(Million yen)

	As of March 31, 2014	As of September 30, 2014
Liabilities		
Current liabilities		
Notes and accounts payable	142,821	138,967
Short-term borrowings	80,792	72,544
Lease obligations	760	706
Accrued income taxes	1,951	1,469
Deferred tax liabilities	1	–
Asset retirement obligations	6	87
Other	32,302	34,911
Total current liabilities	258,635	248,687
Non-current liabilities		
Long-term borrowings	61,113	59,701
Lease obligations	1,033	930
Deferred tax liabilities	368	362
Net defined benefit liability	4,630	5,312
Provision for retirement benefits for directors and statutory auditors	387	318
Asset retirement obligations	804	777
Other	5,281	5,279
Total non-current liabilities	73,620	72,682
Total liabilities	332,255	321,370
Net assets		
Shareholder's equity		
Common stock	27,781	27,781
Capital surplus	27,493	27,494
Retained earnings	35,737	40,516
Treasury stock	(321)	(329)
Total shareholder's capital	90,690	95,461
Accumulated other comprehensive income		
Net unrealized gains on securities, net of tax	1,743	2,414
Net gains (losses) on deferred hedges, net of tax	(18)	262
Revaluation reserves for land	104	104
Foreign currency translation adjustments	(20,758)	(19,964)
Remeasurements of defined benefit plans	(104)	(60)
Total accumulated other comprehensive income	(19,033)	(17,243)
Minority interests in consolidated subsidiaries	24,547	24,745
Total net assets	96,204	102,964
Total liabilities and net assets	428,459	424,334

(2) Consolidated statements of income / consolidated statement of comprehensive income

Consolidated statements of income

[First half]

(Million yen)

	Previous first half (From April 1, 2013 to September 30, 2013)	First half under review (From April 1, 2014 to September 30, 2014)
Net sales	537,583	534,355
Cost of sales	494,543	490,360
Gross profit	43,040	43,995
Selling, general and administrative expenses	32,528	32,910
Operating income	10,512	11,085
Non-operating income		
Interest income	184	191
Dividends income	597	639
Equity in earnings of affiliates	116	330
Foreign exchange gains	1,406	37
Other	441	544
Total non-operating income	2,745	1,743
Non-operating expenses		
Interest expenses	1,670	1,569
Other	632	697
Total non-operating expenses	2,303	2,266
Ordinary income	10,954	10,562
Extraordinary gains		
Gain on sale of tangible fixed assets	5	4
Gain on sale of investment in securities	124	0
Gain on negative goodwill	46	–
Total extraordinary gains	175	5
Extraordinary losses		
Loss on disposal of fixed assets	60	25
Impairment loss on fixed assets	79	4
Loss on sale of investments in securities	31	62
Impairment loss on investments in securities	18	23
Loss on closure of business	261	–
Total extraordinary losses	451	116
Income before income taxes and minority interests	10,678	10,451
Income taxes – current	2,669	2,156
Income taxes – deferred	472	1,004
Total income taxes	3,141	3,161
Income before minority interests	7,536	7,289
Minority interests in consolidated subsidiaries	1,248	1,198
Net income	6,288	6,090

Consolidated statement of comprehensive income
[First half]

(Million yen)

	Previous first half (From April 1, 2013 to September 30, 2013)	First half under review (From April 1, 2014 to September 30, 2014)
Income before minority interests	7,536	7,289
Other comprehensive income		
Net unrealized gains on securities, net of tax	381	679
Net gains (losses) on deferred hedges, net of tax	(445)	267
Foreign currency translation adjustment	3,642	515
Remeasurements of defined benefit plans, net of tax	–	49
Share of other comprehensive income of associates accounted for equity method	162	8
Total other comprehensive income	3,741	1,520
Comprehensive income	11,278	8,810
Comprehensive income attributable to the shareholders of the Company	9,363	7,880
Comprehensive income attributable to minority interests	1,914	929

(3) Consolidated statements of cash flows

(Million yen)

	Previous first half (From April 1, 2013 to September 30, 2013)	First half under review (From April 1, 2014 to September 30, 2014)
Cash flows from operating activities:		
Income before income taxes and minority interests	10,678	10,451
Depreciation and amortization	1,473	1,501
Increase (decrease) in allowance for doubtful accounts	(75)	(21)
Increase (decrease) in provision for employees' retirement and severance benefits	(10)	–
Increase (decrease) in net defined benefit liability	–	(329)
Interest and dividend income	(781)	(831)
Interest expense	1,670	1,569
Equity in gains of affiliated	(116)	(330)
Gain or loss on sales or disposal of fixed assets (gain)	55	21
Impairment loss on fixed assets	79	4
Gain or loss on sale of investments in securities (gain), net	(93)	61
Impairment loss on investments in securities	18	23
Loss on closure of business	261	–
Gain on negative goodwill	(46)	–
Decrease (increase) in notes and accounts receivable	14,602	15,196
Decrease (increase) in inventories	(3,127)	(12,090)
Increase (decrease) in notes and accounts payable	(8,303)	(3,499)
Other	(1,623)	(1,895)
Sub total	14,662	9,831
Interest and dividend received	711	850
Interest paid	(1,690)	(1,564)
Business structure improvement expenses	–	(530)
Income taxes paid	(2,034)	(2,390)
Net cash provided by operating activities	11,649	6,196
Cash flows from investing activities:		
Decrease (increase) in time deposits	21	(724)
Payments for tangible fixed assets	(1,124)	(1,447)
Proceeds from sale of tangible fixed assets	291	429
Payments for intangible fixed assets	(389)	(242)
Payments for investments in securities	(100)	(459)
Proceeds from sale of investments in securities	263	34
Payment for purchase of investments in subsidiaries	(96)	–
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	(2,761)	–
Payments for transfer of business	–	(40)
Increase in loans receivable	(23)	(65)
Decrease in loans receivable	142	116
Other	(270)	(121)
Net cash provided by (used in) investing activities	(4,047)	(2,520)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings, net	(3,452)	(461)
Proceeds from long-term borrowings	15,442	11,835
Repayment of long-term borrowings	(20,033)	(20,765)
Proceeds from stock issuance to minority shareholders	102	–
Cash dividends paid	–	(626)
Other	(720)	(670)
Net cash provided by (used in) financing activities	(8,660)	(10,689)
Effect of exchange rate changes on cash and cash equivalents	777	428
Net increase (decrease) in cash and cash equivalents	(281)	(6,585)
Cash and cash equivalent at beginning of year	60,032	73,548
Cash and cash equivalent at end of quarter	59,751	66,963

(4) Notes on the consolidated financial statements
 (Notes on the going concern assumption)
 Not applicable.

(Notes if there is a significant change in the amount of equity capital)
 Not applicable.

(Segment information)

I. Previous first half (From April 1, 2013 to September 30, 2013)

1. Information on net sales and profits or losses by reported segment

(Million yen)

	Reported segments					Others (Note 1)	Total	Adjustment (Note 2)	Amount in consolidated statements (Note 3)
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Sub-total				
Net sales									
Customers	126,335	156,662	222,014	28,990	534,003	3,579	537,583	–	537,583
Inter-segment	112	2	6	0	121	31	153	(153)	–
Total	126,447	156,665	222,021	28,990	534,125	3,611	537,737	(153)	537,583
Segment income	3,577	1,543	3,926	1,206	10,254	212	10,466	45	10,512

(Note 1) “Others” 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.

(Note 2) Adjustment of ¥45 million for segment income includes a net goodwill write-down of ¥38 million and inter-segment elimination of ¥7 million.

(Note 3) Segment income is adjusted for operating income in the quarterly consolidated statements of income.

2. Information on impairment loss on fixed assets and goodwill by reported segment

(Significant impairment loss relating to fixed assets)

Not applicable in the first half under review

(Significant change in the amount of goodwill)

In the Electronics & Devices segment, Kanematsu Communications and Kanematsu Electronics, both of which are consolidated subsidiaries of the Company, acquired all shares of BD Holdings, Inc., which sells mobile communication devices, through KCS Investment, which was jointly established by Kanematsu Communications and Kanematsu Electronics, on May 1, 2013, thereby making BD Holdings a consolidated subsidiary. With the acquisition, goodwill increased ¥2,823 million in the first half under review. Because the allocation of acquisition costs has not been completed, the amount of goodwill is calculated tentatively based on reasonable information available.

(Significant gain on negative goodwill)

Not applicable in the first half under review

II. First half under review (From April 1, 2014 to September 30, 2014)

1. Information on net sales and profits or losses by reported segment

(Million yen)

	Reported segments					Others (Note 1)	Total	Adjustment (Note 2)	Amount in consolidated statements (Note 3)
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Sub-total				
Net sales									
Customers	126,461	151,406	224,169	30,994	533,031	1,324	534,355	–	534,355
Inter-segment	200	83	4	0	289	29	319	(319)	–
Total	126,662	151,490	224,173	30,994	533,321	1,353	534,675	(319)	534,355
Segment income	4,061	2,398	3,086	1,393	10,941	120	11,061	23	11,085

(Note 1) “Others” is a business segment that is not included in the reportable segments and includes the logistics and insurance service business, etc.

(Note 2) Adjustment of ¥23 million for segment income includes a net goodwill write-down of ¥38 million and inter-segment elimination of -¥14 million.

(Note 3) Segment income is adjusted for operating income in the quarterly consolidated statements of income.

2. Information on impairment loss on fixed assets and goodwill by reported segment

(Significant impairment loss relating to fixed assets)

Not applicable in the first half under review

(Significant change in the amount of goodwill)

Not applicable in the first half under review

(Significant gain on negative goodwill)

Not applicable in the first half under review

(Significant subsequent events)

The Company resolved at the meeting of the Board of Directors, which was held on October 31, 2014, to acquire the common shares of Kanematsu-NNK Corporation, an equity method affiliate of the Company, (hereinafter referred to as the “Subject Company”) through the offer of shares of common stock (hereinafter referred to as the “Tender Offer”) with the aim of changing the Subject Company into a consolidated subsidiary.

1. Purpose of the Tender Offer

The Subject Company conducts business chiefly engaging in ground survey and ground improvements for houses and small buildings, as well as a wood preservation and treatment business (preservative and termite prevention), and a surveillance camera system import and sales business. In particular, in the surveillance camera system import and sales business, which began in 2006, the Subject Company provides technical services in cooperation with makers and has increased sales of products, centering on the products of Samsung in Korea, to major customers such as security companies, security system development companies, and security equipment sales companies. These cost-effective surveillance camera systems are highly evaluated as a video surveillance tool in various places. With a rise in the level of awareness of security in Japan in recent years, the surveillance camera market continued to expand each year. In the domestic market, there has been a shift from traditional analog cameras to IP cameras, which is characterized by a network camera. While there is still a strong need for analog cameras used for existing apartment houses, schools and public facilities, the ability of the Subject Company to meet this complex, diverse demand became a medium-to-long term problem because of the shift in demand towards IP cameras.

In this environment, the Company continued to discuss with the Subject Company in a bid for further expansion of both companies’ business and the enhancement of the corporate value of the both companies. As a result, we judged that strengthening the capital relationship between the companies, accelerating the Group’s decision-making and strategy application, and having the existing surveillance camera business, one of the businesses conducted by the Subject Company, cooperate with the Electronics & Devices Division of the Company would enable both companies to coordinate their response to market growth using their combined know-how in the surveillance camera market, where rising demand and diversification are expected, and would help further strengthen the business base and enhance the corporate value of both the Subject Company and the Group. We also judged that a Tender Offer with such significance meets the policy of the Group’s medium-term vision, VISION-130, under which the Group will work on the development of new technologies and new products and address new challenges integrating active business investment and M&A, and thereby decided to carry out the Tender Offer.

2. Profile of the Subject Company

- (1) Name: Kanematsu-NNK Corporation
- (2) Address: 3-2, Kojimachi, Chiyoda-ku Tokyo
- (3) Name and position title of representative:
Minoru Takasaki, President and Representative Director
- (4) Business: Security equipment business, GEO-TECH (ground improvement) business, wood processing business and petroleum product business
- (5) Capital stock: ¥3,325 million
- (6) Date of incorporation: March 6, 1934

3. Outline of the Tender Offer

As of October 31, 2014, the Company held 13,308,000 shares (shareholding (Note): 32.10%) of the Subject Company (hereinafter referred to as the “Subject Company’s Shares”), which are listed on the First Section of the Tokyo Stock Exchange, and treated the Subject Company as an equity method affiliate. The Company resolved at a meeting of the Board of Directors, which was held on October 31, 2014, to implement the Tender Offer with the aim of making the Subject Company a consolidated subsidiary.

(Note) The shareholding is the ratio to the number of shares (41,458,602 shares) obtained by excluding the number of shares of treasury stock (33,398 shares) held by the Subject Company as of May 31, 2014, which is stated on the 116th term’s security report submitted by the Subject Company on June 26, 2014, from the number of outstanding shares (41,492,000 shares) as of June 30, 2014, which is stated on the 117th term’s first quarter statement submitted by the Subject Company on July 31, 2014. (The third decimal place was rounded up. The following ratios were similarly calculated unless otherwise special handling is prescribed.)

The upper limit of the number of shares planned to be purchased is set at 7,835,888 shares (holding ratio: 18.90%), as the Company plans to hold shares (21,143,888 shares) in the Subject Company that correspond to a shareholding of 51.00%, through the Tender Offer. If the total number of subscribed shares, etc., exceeds the upper limit of the number of shares planned to be purchased (7,835,888 shares), some or all of the shares in excess of the upper limit will not be purchased. Delivery and settlement relating to the purchase of shares, etc., will be made using the

proportional distribution method provided in paragraph 5 of Article 27-13 of the Financial Instruments and Exchange Act (No. 25 law of 1948, including subsequent amendments) and Article 32 of the Cabinet Office Ordinance on Disclosure Required for Tender Offer for Share Certificates, etc. by Person Other Than Issuer (No. 38 MOF ordinance of 1990, including subsequent amendments). Meanwhile, the lower limit of the number of shares planned to be purchased is not set. Therefore, if the total number of subscribed shares, etc., is equal to, or lower than, the upper limit of the number of shares planned to be purchased (7,835,888 shares), all subscribed shares, etc., will be purchased.

(1) Number of shares planned to be purchased: 7,835,888 shares

(2) Lower limit of the number of shares planned to be purchased:
Nil

(3) Upper limit of the number of shares planned to be purchased:
7,835,888 shares

(4) Period of purchase, etc.: From November 4, 2014 to December 16, 2014 (30 business days)

(5) Purchase price: ¥200 per common share

(6) Purchase cost: ¥1,567 million

(Note) The purchase cost denotes an amount that is obtained by multiplying the number of shares planned to be purchased (7,835,888 shares) by the purchase price for the Tender Offer (¥200 per share).

(7) Date of the start of settlement: December 24, 2014

(8) Method to raise funds for purchase: Appropriation of own funds

Highlights of Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 2015

Despite a slight decline in income from a year earlier, progress versus the full year's forecast remained favorable.

Net sales	534.4 billion yen	0.6%	Down
Operating income	11.1 billion yen	5.5%	Up
Ordinary income	10.6 billion yen	3.6%	Down
Net income	6.1 billion yen	3.1%	Down

The interim dividend of 2.5 yen including the commemorative dividend of 1.0 yen for the 125th anniversary of foundation was paid.

Income Statement

(Unit: 100 million yen)	H1 of FY2014	H1 of FY2015	Year-on-year		FY2015	
			Change	Change (%)	Forecasts	Progress
Net sales	5,376	5,344	(32)	(0.6%)	11,500	46.5%
Gross trading profit	430	440	10	2.2%	-	-
SG&A expenses	325	329	4	1.2%	-	-
Operating income	105	111	6	5.5%	220	50.4%
Dividends income	6	6	0	-	-	-
Interest	(15)	(14)	1	-	-	-
Equity in earnings of affiliated companies	1	3	2	-	-	-
Foreign exchange gains/losses	14	0	(14)	-	-	-
Others	(2)	(2)	0	-	-	-
Non-operating income/expenses	4	(5)	(10)	-	-	-
Ordinary income	110	106	(4)	(3.6%)	205	51.5%
Extraordinary gains/losses	(3)	(1)	2	-	-	-
Income (loss) before income taxes and minority interests	107	105	(2)	(2.1%)	-	-
Income taxes and minority interests	44	44	(0)	-	-	-
Net income	63	61	(2)	(3.1%)	110	55.4%

[Net sales]

The Steel, Materials & Plant segment and the Motor Vehicle and Aerospace segment were active centering on export transactions. In the Foods & Grain segment, total net sales fell 3.2 billion yen due to the influence of a fall in the market price of grains, although the meat product business remained brisk.

[Operating income]

Operating income rose 0.6 billion yen because the Electronic & Devices segment and the Foods & Grain segment were brisk overall.

[Ordinary income]

Ordinary income decreased 0.4 billion yen reflecting a sharp decline in foreign exchange gains.

[Net income]

Net income fell 0.2 billion yen due to a decline in ordinary income.

Assets, Liabilities and Net Assets

(Unit: 100 million yen)	3/2014	9/2014	Comparison with 3/2014	
			Change	Change (%)
Total assets	4,285	4,243	(41)	(1.0%)
Gross interest-bearing debt	1,419	1,322	(97)	(6.8%)
Net interest-bearing debt	680	642	(38)	(5.6%)
Equity capital	907	955	48	5.3%
Accumulated other comprehensive income	(190)	(172)	18	-
Minority interests	245	247	2	0.8%
Total net assets	962	1,030	68	7.0%
Shareholders' equity (Note 1)	717	782	66	9.2%
Equity ratio (Note 2)	16.7%	18.4%	1.7 pt	-
Net debt-equity ratio (Note 3)	0.9 times	0.8 times	(0.1 pt)	-

(Note 1) Shareholders' equity = Total net assets - Minority interests

(Note 2) Equity ratio = Shareholders' equity / Total assets

(Note 3) Net debt-equity ratio = Net interest-bearing debt / Shareholders' equity

[Interest-bearing debt]

Gross interest-bearing debt declined 9.7 billion yen. Net interest-bearing debt declined 3.8 billion yen.

[Net assets]

Net assets rose 6.8 billion yen thanks to an increase in retained earnings as a result of the posting of net income. Shareholders' equity, obtained by subtracting minority interests from net assets, increased 6.6 billion yen.

As a result, the equity ratio improved to 18.4%. Net DER remained 0.8 times.

Cash Flows

(Unit: 100 million yen)	H1 of FY2014	H1 of FY2015
Cash flows from operating activities	116	62
Cash flows from investing activities	(40)	(25)
Free cash flows	76	37
Cash flows from financing activities	(87)	(107)
Effect of exchange rate changes	8	4
Increase (decrease) in cash and cash equivalents	(3)	(66)

[CF from operating activities]

Net cash provided stood at 6.2 billion yen mainly due to operating income.

[CF from investing activities]

Net cash used was 2.5 billion yen, chiefly reflecting payments for acquisition of tangible fixed assets.

[CF from financing activities]

Net cash used was 10.7 billion yen chiefly due to the repayment of debt.

Dividends

FY2015

Interim **2.5 yen** per share

Year-end (forecast) **1.5 yen** per share

Annual (forecast) **4.0 yen** per share

* A breakdown of interim dividends
Common dividends of **1.5 yen**
Commemorative dividend of **1.0 yen**

Segment information

(Unit: 100 million yen)	Net sales (net external sales)			Operating income		
	H1 of FY2014	H1 of FY2015	Change	H1 of FY2014	H1 of FY2015	Change
Electronics & Devices	1,263	1,265	1	36	41	5
Foods & Grain	1,567	1,514	(53)	15	24	9
Steel, Materials & Plant	2,220	2,242	22	39	31	(8)
Motor Vehicles & Aerospace	290	310	20	12	14	2
Total for reportable segments	5,340	5,330	(10)	103	109	7
Other (including adjustment)	36	13	(23)	3	1	(1)
Grand total	5,376	5,344	(32)	105	111	6

[Electronics & Devices] Increased net sales and income

The semiconductor parts and manufacturing equipment business remained brisk against the backdrop of strong demand associated with smartphones and a rise in transactions of in-car products and products for amusement. In the electronic components and materials business, exports of imaging equipment, etc. were booming. The ICT solutions business and the mobile solutions business remained steady due to the use of a sales plan meeting customers' needs.

[Foods & Grain] Decreased net sales and increased income

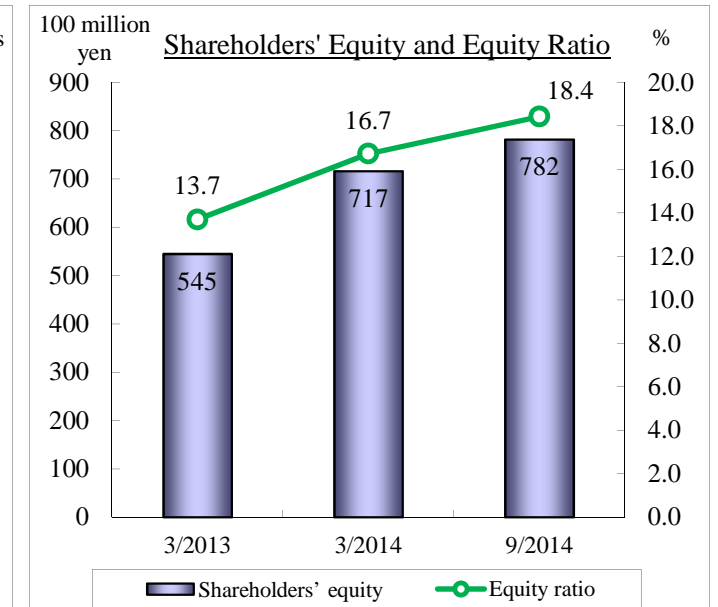
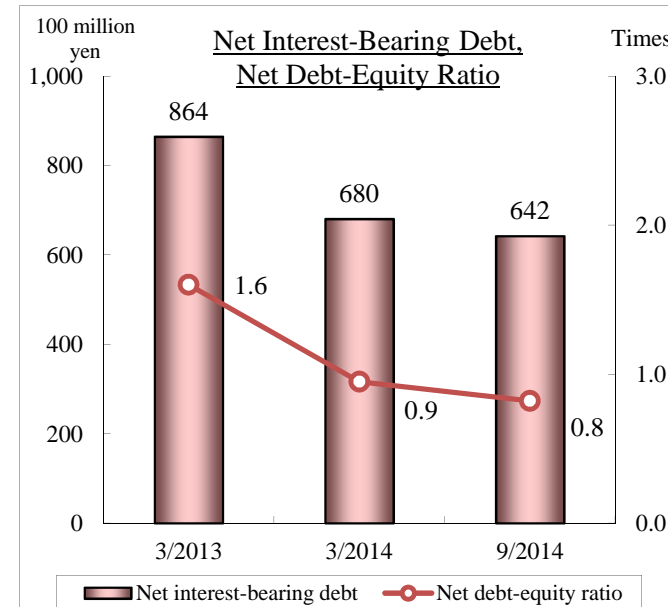
The meat products business were favorable overall reflecting a rise in demand and the steady trend of the market. In the foodstuff business, the transactions of both grains and feed remained smooth.

[Steel, Materials & Plant] Increased net sales and declined income

In the plant business, transactions of plant infrastructure in South East Asia were strong. In the iron and steel business, the oilfield tubing business, a mainstay in iron and steel, was affected by a delay in the recovery of offshore drilling, but the oilfield tube processing business enjoyed a steady rise in production volume. In the energy business, sales of petroleum products dropped due to the influence of unseasonal weather and a fall in consumption.

[Motor Vehicles & Aerospace] Increased net sales and income

In the aerospace business, transactions of aircraft parts remained stable. In the motor vehicles and parts business, transactions involving motorcycle and motor vehicle parts for Europe, the United States, and Asia were strong.



* The forward-looking statements, including results forecasts, included in this material are based on information that the Company has obtained and certain assumptions that the Company considers reasonable. The Company does not promise to achieve them. Actual results might differ materially from the forecasts due to a number of factors.

* Since the figures above are rounded off to the nearest 100 million yen, the sum of each item and the total may differ.

* FY2014 (the fiscal year ended March 31, 2014)

* FY2015 (the fiscal year ending March 31, 2015)