

# Medium-Term Business Plan

**- Jump to next stage leading to the future -**

Kanematsu will celebrate the 125<sup>th</sup> anniversary of its founding in the fiscal year ending March 31, 2015.

**(April 2013 – March 2016)**

May 2013

 **兼松株式会社**

## Basic Ideals

### Our Beliefs

#### Kanematsu's Guiding Principles

- 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.
- 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.
- 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.

(established in 1967)

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# Review of the Medium-Term Business Plan

## *“S-Project”*

(Apr. 2010 – Mar. 2013)

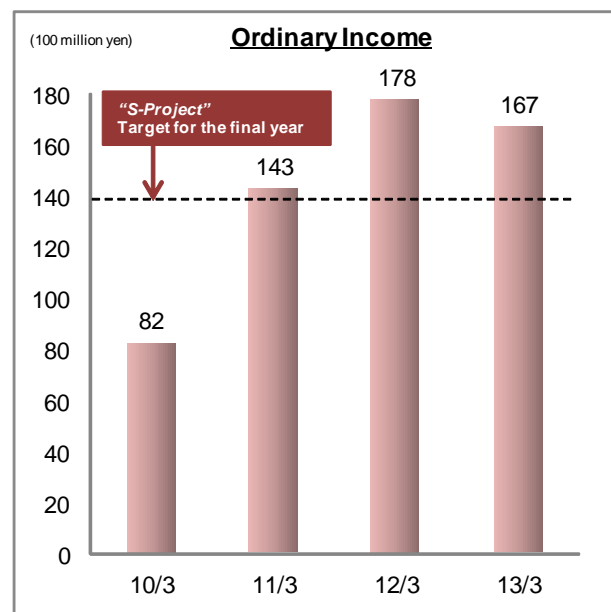
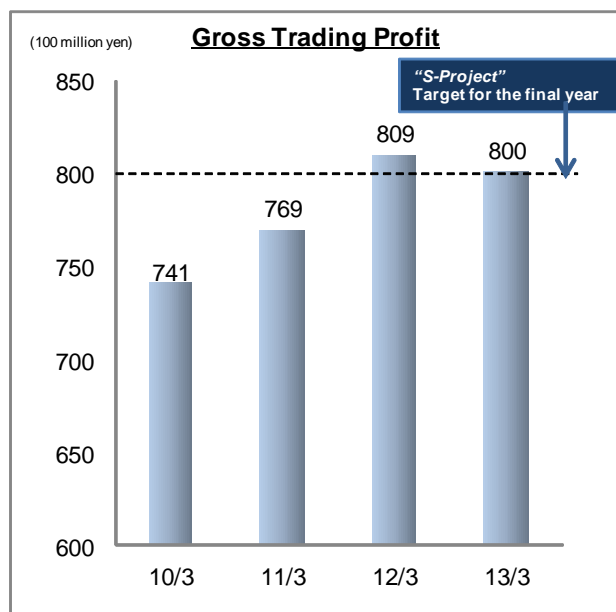
## Review of Medium-Term Business Plan “S-Project” (Apr. 2010 – Mar. 2013)

### Business Performance Review

- The previous medium-term business plan, **S-Project** commenced following a plunge in consolidated ordinary income to 8.2 billion yen amid the financial crisis and the global recession after the Lehman Brothers bankruptcy.
- While **S-Project** targeted consolidated gross trading profit of 80 billion yen, operating income of 19 billion yen, ordinary income of 14 billion yen and net income of 6.5 billion yen for its final fiscal year ending March 2013, actual results for the fiscal year showed consolidated gross trading profit of 80 billion yen, operating income of 18.3 billion yen, ordinary income of 16.7 billion and net income of 9.6 billion yen. As a consequence, only the operating income target was not met.
- A 104% increase in ordinary income was achieved from the figure for the fiscal year ended March 2010, which fell below the 10 billion yen mark for the first time after the structural reform plan. Some recovery in earning power was thus achieved.

(Billion yen)

	Fiscal Year Ended March 2010	Result under Previous Medium-Term Business Plan S-Project			Initial Projection for Fiscal Year Ending March 2013 under S-Project
		Fiscal Year Ended March 2011	Fiscal Year Ended March 2012	Fiscal Year Ended March 2013	
Net Sales	861.3	936.9	1,006.4	1,019.2	1,050.0
Gross Trading Profit	74.1	76.9	80.9	80.0	80.0
Operating Income	12.2	18.0	21.4	18.3	19.0
Ordinary Income	8.2	14.3	17.8	16.7	14.0
Net Income	3.5	9.2	6.1	9.6	6.5



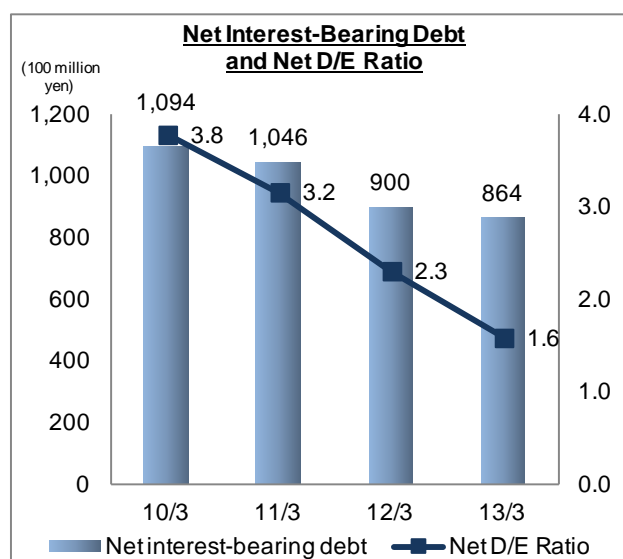
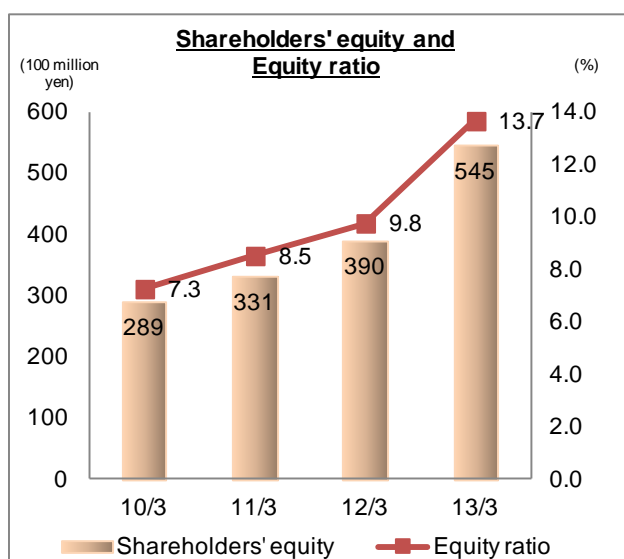
## Financial Statements Review

- While **S-Project** set a target of attaining an equity ratio of more than 10% and a net D/E ratio of around 2.0 for the fiscal year ended March 2013, as the final fiscal year under the plan, the actual equity ratio stood at 13.7% and net DER at 1.6 for the same fiscal year. The targets were thus achieved.
- As investments increased in the second half of the **S-Project** period, net interest-bearing debt stood at 86.4 billion yen, slightly higher than the target set for the final fiscal year. However, the financial balance improved with the accumulation of shareholders' equity.

(Billion yen)

	End of March 2010	Result under Previous Medium-Term Business Plan S-Project			Initial Projection for End of March 2013 under S-Project
		End of March 2011	End of March 2012	End of March 2013	
Total Assets	398.6	388.7	399.8	399.2	410.0
Shareholders' Equity	28.9	33.1	39.0	54.5	45.0
Equity Ratio (%)	7.3	8.5	9.8	13.7	Over 10%
Gross Interest-Bearing Debt	193.1	173.6	160.8	146.9	169.0
Gross D/E Ratio	6.7	5.2	4.1	2.7	3.8
Net Interest-Bearing Debt	109.4	104.6	90.0	86.4	84.0
Net D/E Ratio	3.8	3.2	2.3	1.6	Around 2.0

\* Shareholders' equity = Net Assets – Minority Interests



## Resumption of Dividend Payment

- Due to revenue instability on a non-consolidated basis, the Company determined that its performance was not yet sufficient to enable the continuous and stable distribution of dividends. It consequently decided not to resume dividend payments.
- Aiming to reinstate dividends as soon as possible and to ensure continuous and stable dividend payment, the Company will strive to further build earnings strength and to improve its financial standing.

## Review of Management Initiatives

### ◆ Strengthening the Revenue Base

- Continuous refining of business focus
  - Incorporated a domestic system integrator as a consolidated subsidiary
  - Merged foods subsidiaries, etc.
- Promoted growth strategies
  - Acquired a threading company of premium connection in the United States
  - Strengthened the soybean business (acquisition of a US soybean processing firm and a domestic wholesale company of soybeans)
  - Entered the manufacturing business for processed foods to be sold in convenience stores in Indonesia, etc.

### ◆ Bolstering the Business Base

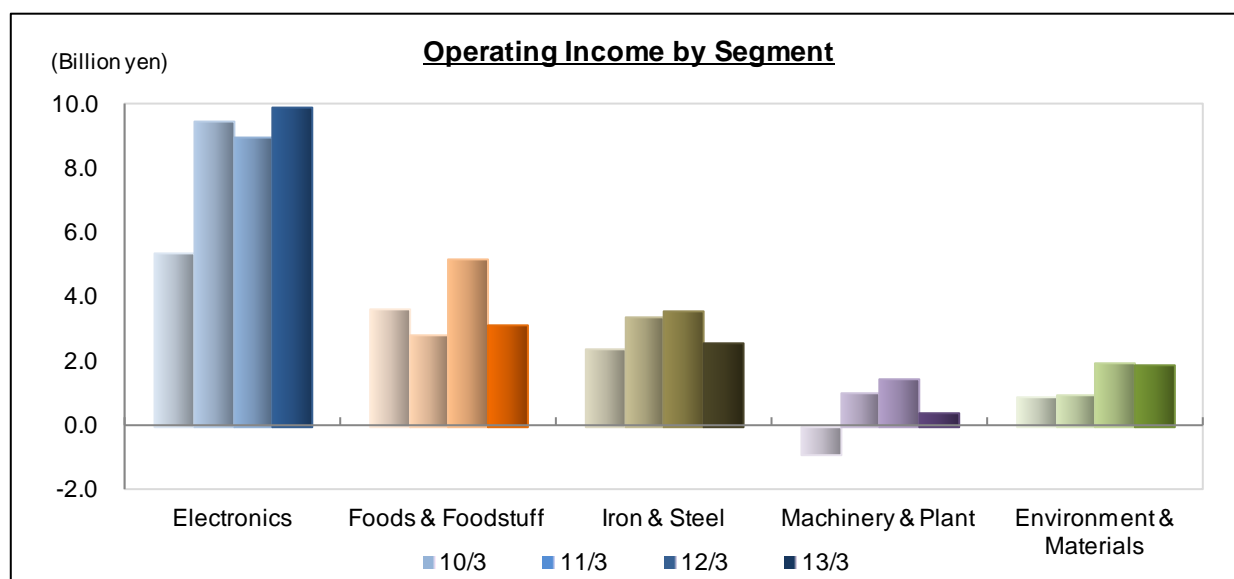
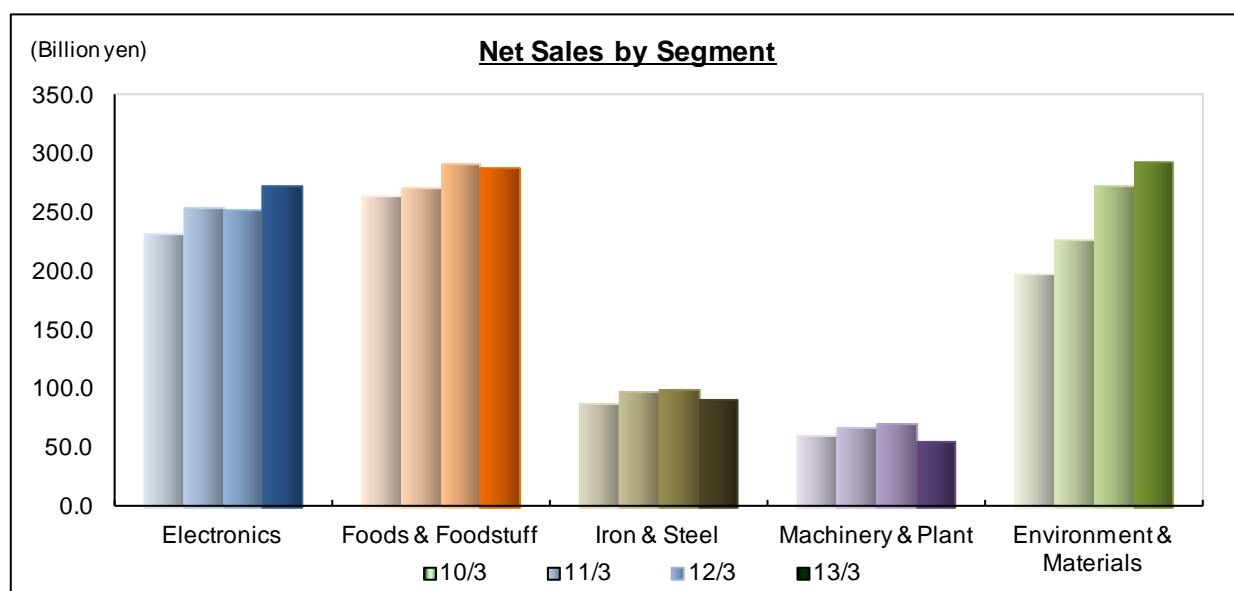
- Improved the financial position  
(Reduction of net interest-bearing debt, reshuffle of the asset portfolio)
  - ⇒ Using the operating cash flow as capital, gross interest-bearing debt was reduced by around 50.0 billion yen from the 190.0-billion-yen level to the 140.0-billion-yen level, while the net interest-bearing debt balance was cut by around 20.0 billion yen from 100.0 billion yen to 80.0 billion yen. With a contribution from the build-up in shareholders' equity, the equity ratio rose to 13.6% from 7.3%, and the net D/E ratio fell to 1.6 times from 3.8 times, further improving the financial balance.
  - ⇒ While proceeding with the sale of non-core assets, such as in real estate (residential land, shopping center, golf club) and textiles, the Company promoted business investments in core areas, including foods, ICT as well as iron and steel.
- Pursuing management efficiency  
(reviewed the cost structure, such as by streamlining back-office divisions)
  - ⇒ The back-office division of the main organization was reduced from 12 departments and 1 section to 9 departments and 1 section. At the same time, personnel were shifted from the back-office division to the sales division, thereby improving the ratio of sales division to back-office division. Fixed costs were reduced through optimizing office locations.
- Advancing/deepening the consolidated management system  
(adoption of a new management system, establish internal control, strengthen initiatives for compliance)
  - ⇒ Subdivided all businesses of the main organization into 130 units and set up a system that extracts performance from past financial years and on a daily basis. Through business portfolio management, the Company effectively distributed its management resources to each business and implemented a scrap-and-build strategy.
  - ⇒ Internal control and compliance-related items were centralized within the newly established Legal Compliance Department. Governance within the Group was further strengthened.
  - ⇒ The Company promoted the standardization of internal auditing and improved auditing quality and efficiency by adopting an internal audit management system
- Cultivating global human resources  
(for training human resources for consolidated management, increased the number of overseas personnel)
  - ⇒ Regularly held training on business plans for young and mid-career employees aimed at improving their creative skills in business.  
Held lectures and practical training for six months utilizing external consultants, aimed at improving business skills, including acquiring investment expertise.

## Sales and Income by Segment

(Billion yen)

	Net Sales				Operating Income			
	Fiscal Year Ended March 2010	Result under Previous Medium-Term Business Plan S-Project			Fiscal Year Ended March 2010	Result under Previous Medium-Term Business Plan S-Project		
		Fiscal Year Ended March 2011	Fiscal Year Ended March 2012	Fiscal Year Ended March 2013		Fiscal Year Ended March 2011	Fiscal Year Ended March 2012	Fiscal Year Ended March 2013
Electronics	232.7	253.9	253.1	273.7	5.4	9.5	9.0	9.9
Foods & Foodstuff	264.2	271.9	292.1	287.9	3.6	2.8	5.2	3.2
Iron & Steel	88.0	98.8	99.1	91.3	2.4	3.4	3.6	2.6
Machinery & Plant	61.3	67.3	70.4	55.4	-0.9	1.1	1.4	0.4
Environment & Materials	198.1	227.5	273.7	293.5	0.9	1.0	2.0	1.9
Other & Elimination	17.0	17.6	17.9	17.4	0.8	0.3	0.2	0.2
Total	861.3	936.9	1,006.4	1,019.2	12.2	18.0	21.4	18.3

Net Sales: \* Sales to outside customers



KANEMATSU CORPORATION

<<M e m o >>



# Medium-Term Business Plan

~ Jump to next stage leading to the future ~

(Apr. 2013 – Mar. 2016)

## Medium-Term Business Plan (Apr. 2013 – Mar. 2016)

### Vision

## Jump to next stage leading to the future

### Basic Concept

- Take a positive stance to enable rapid progress and to establish a solid growth track in preparation for the 125<sup>th</sup> 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.

### 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.

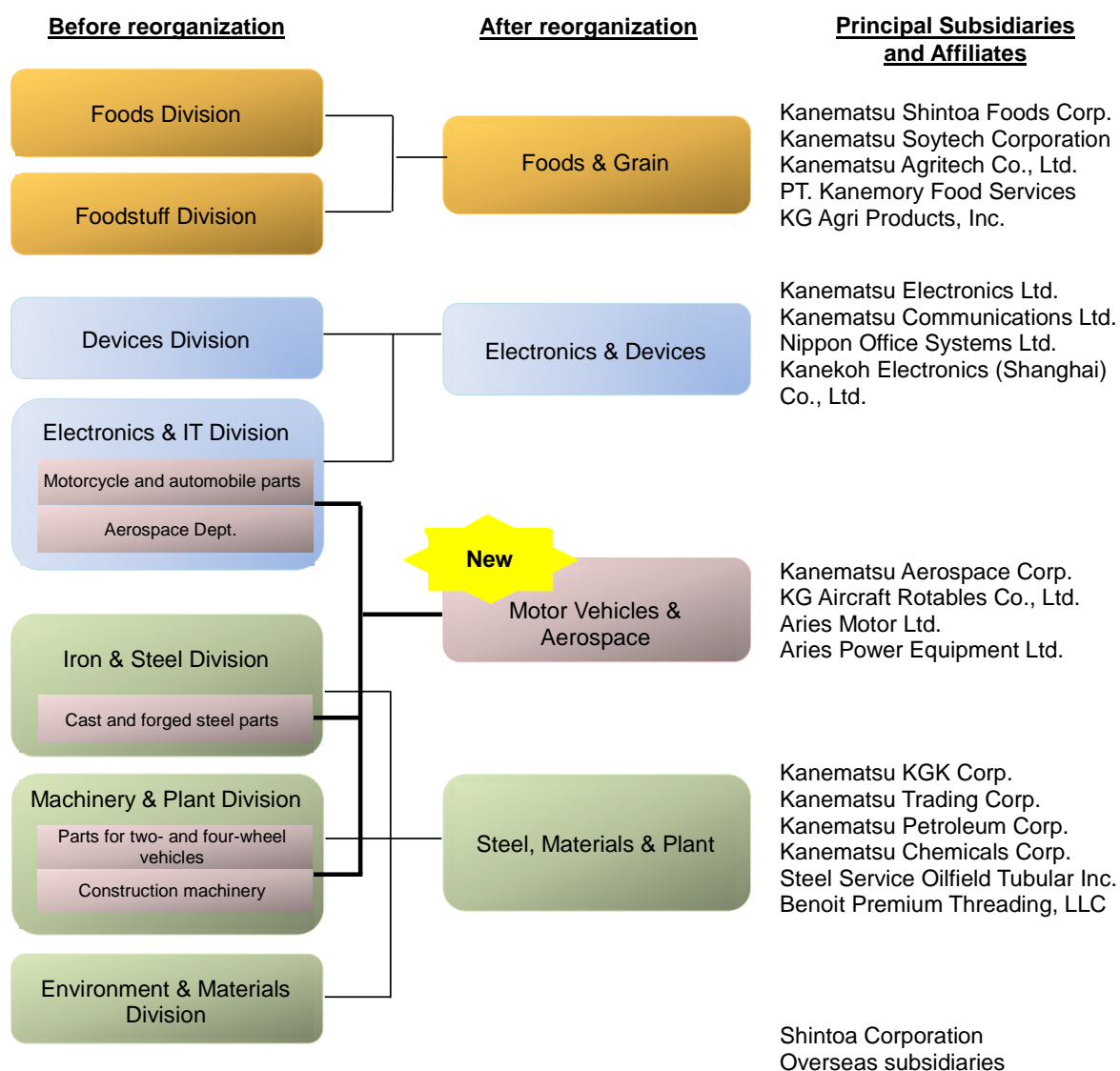
## Areas of Focus and Organization

### ■ 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

### ■ Organization

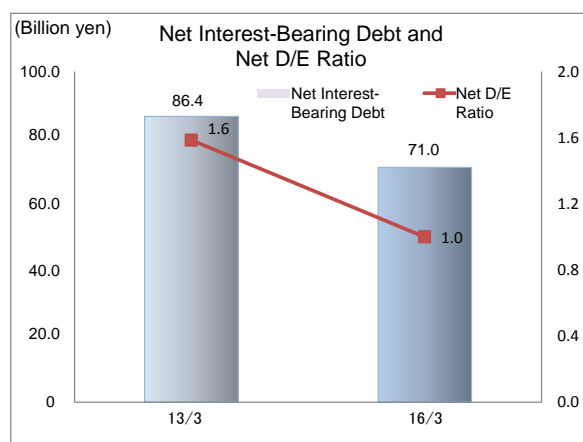
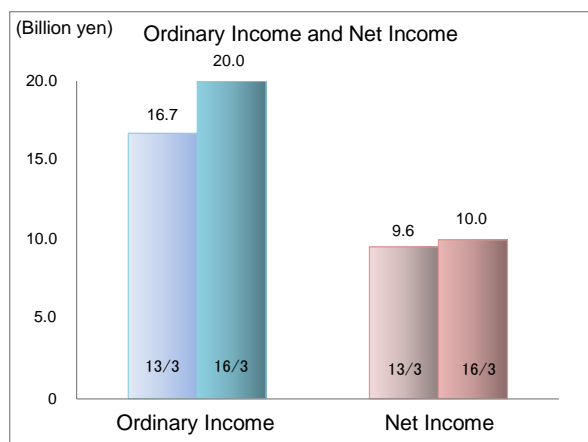
To increase the viability of the priority measures and display the strengths of the Kanematsu Group, the marketing area was reorganized in April 2013.



## Quantitative Targets

■ For the final fiscal year of the medium-term business plan (fiscal year ending March 2016)

- Consolidated ordinary income: 20 billion yen
- Consolidated net income: 10 billion yen
- Net D/E ratio: Within the range of 1.0 to 2.0



■ Outlook for the Three-Year Period

<Sales and Income>

(Billion yen)

	Fiscal Year Ended March 2013	New Medium-Term Business Plan			From Fiscal Year Ended March 2013	
		Fiscal Year Ending March 2014	Fiscal Year Ending March 2015	Fiscal Year Ending March 2016	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 yen)

	End of March 2013	New Medium-Term Business Plan			From End of March 2013	
		End of March 2014	End of March 2015	End of March 2016	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 3.2 percentage pts	-
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 0.7 percentage pts	-
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 0.6 percentage pts	-

# Sales and Income by Segment

**<Net Sales>** \* Sales to outside customers

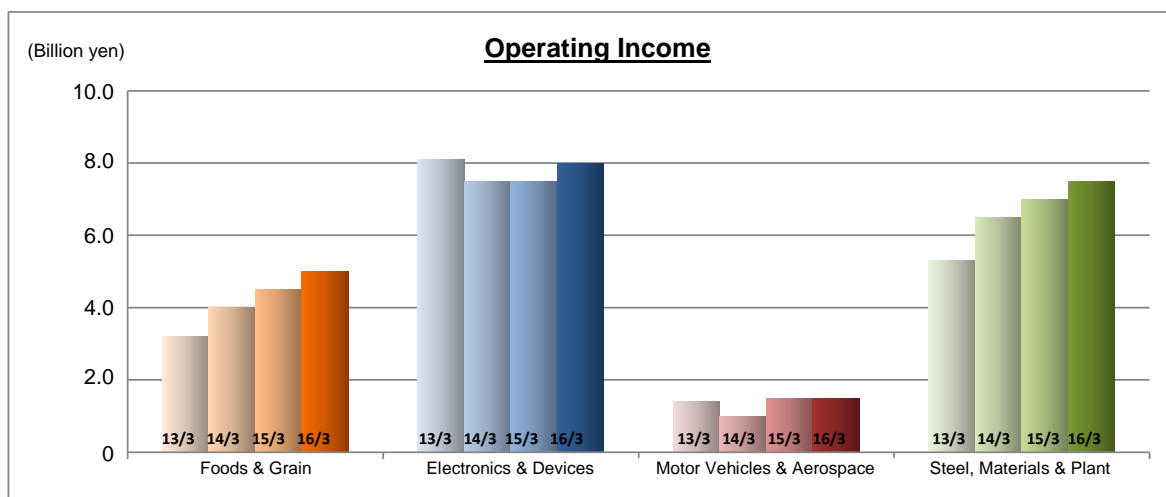
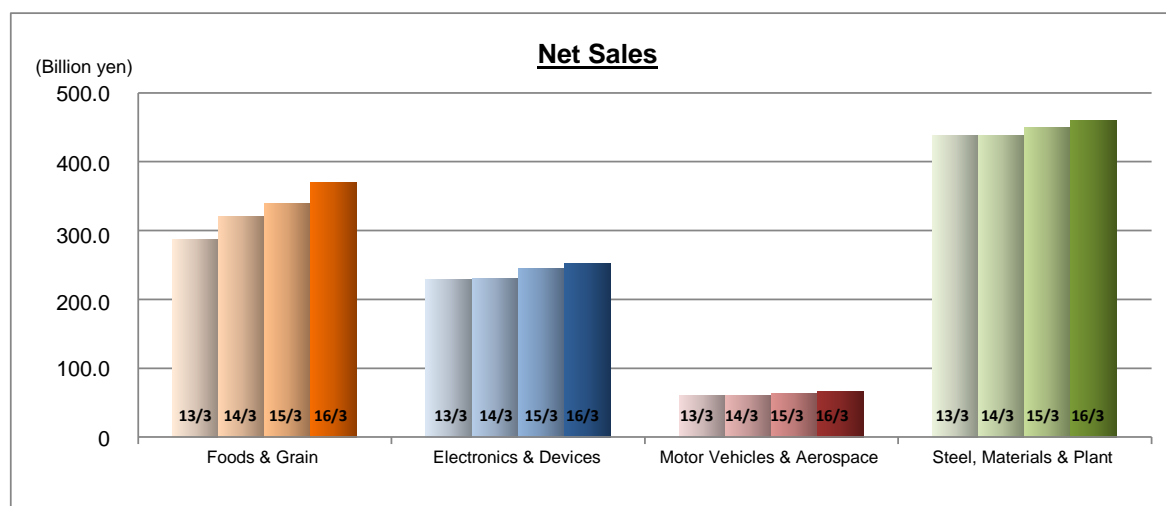
(Billion yen)

	Fiscal Year Ended March 2013	New Medium-Term Business Plan			From Fiscal Year Ended March 2013	
		Fiscal Year Ending March 2014	Fiscal Year Ending March 2015	Fiscal Year Ending March 2016	Change	% Change
Foods & Grain	287.9	320.0	340.0	370.0	82.1	28.5%
Electronics & Devices	229.6	230.0	245.0	252.0	22.4	9.8%
Motor Vehicles & Aerospace	60.1	60.0	63.0	66.0	5.9	9.8%
Steel, Materials & Plant	438.0	438.0	450.0	460.0	22.0	5.0%
Other & Elimination	3.7	2.0	2.0	2.0	-1.7	-
Total	1,019.2	1,050.0	1,100.0	1,150.0	130.8	12.8%

**<Operating Income>**

(Billion yen)

	Fiscal Year Ended March 2013	New Medium-Term Business Plan			From Fiscal Year Ended March 2013	
		Fiscal Year Ending March 2014	Fiscal Year Ending March 2015	Fiscal Year Ending March 2016	Change	% Change
Foods & Grain	3.2	4.0	4.5	5.0	1.8	56.3%
Electronics & Devices	8.1	7.5	7.5	8.0	-0.1	-1.2%
Motor Vehicles & Aerospace	1.4	1.0	1.5	1.5	0.1	7.1%
Steel, Materials & Plant	5.3	6.5	7.0	7.5	2.2	41.5%
Other & Elimination	0.2	0.0	0.0	0.0	-0.2	-
Total	18.3	19.0	20.5	22.0	3.7	20.5%



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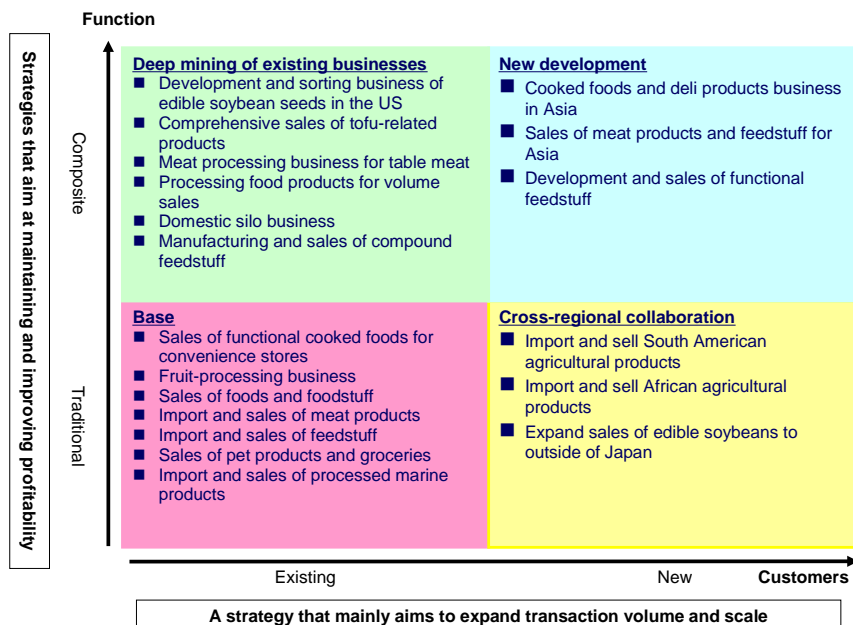
## Segment-Based Measures

## Foods & Grain

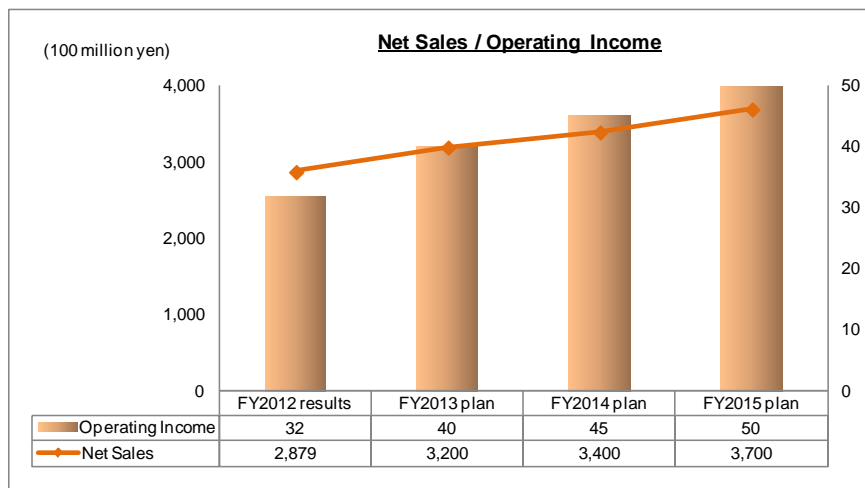
### Strategies

- ✧ With “Secure, Safe and Stable” as the theme, build a solid value chain that starts with procuring raw materials to processing and to shipping as well as rigorously manage traceability.
- ✧ Accelerate investment in the Asian area where improvements in diet and eating habits are expected.
- ✧ Diversify production sites for raw materials and secure a powerful source of supply in response to the changing needs of the global market and promote expanding multilateral transaction volume.

### Four Business Categories



### Targets





## ◆ Global expansion of the food and grain business

### <<Specific action>>

- A comprehensive expansion that encompasses menu proposals to manufacturing and supplying products in the food service business in Japan and Asia (China, Indonesia, etc.), promoting the building of upstream to downstream activities along the value chain.
- While strengthening the effort to garner production sites overseas in the meat and marine products, grains and feeds businesses, the Company will work on expanding geographically (US, South America, Australia, etc.). At the same time, the Company will promote investment, such as establishing a platform for midstream to downstream activities.
- The Company will expand multilateral transactions that target overseas markets, including feeds/beef products (US/Australia ⇒ China/Asia), processed fruits (China, Southeast Asia ⇒ Europe and the Americas) and edible soybeans (US ⇒ inside the US, Europe, Asia).

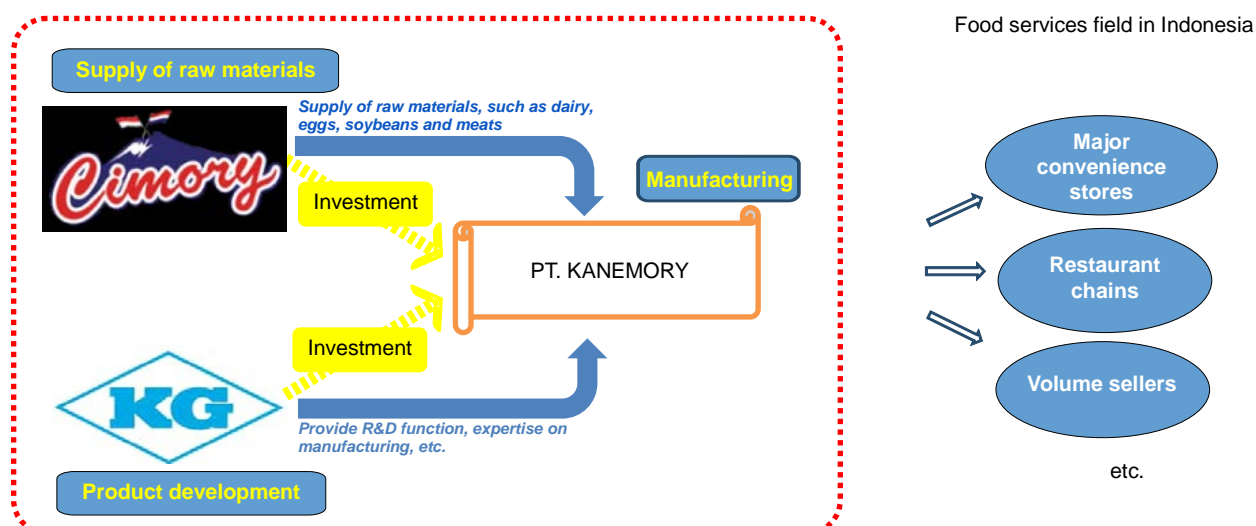
### <<Example>>

In 2013, in response to the growth in the food services field in Indonesia, the Kanematsu Group and PT. Macroprima Panganutama, a core company within the CIMORY Group in Indonesia, will establish PT. Kanemory Food Service, a joint venture that will process food products and operate a central kitchen.

The company will be equipped with a function to conduct R&D as well as supply content for food service field including restaurant, convenience store and supermarket. It will also supply a wide variety of processed products based on a central-kitchen model.

In Indonesia, where the population exceeds 240 million, the growth of the Muslim middle-income consumer class has been dramatic, and there has been a change in viewing traditional Indonesian diet and eating habits as something that is to be enjoyed. In response to this change and diversification, businesses like restaurants, convenience stores and supermarket chains are showing major growth.

The Company will create demand and expand the volume of transactions by combining its R&D functions that were cultivated in the Japanese food services market and its expertise in the central-kitchen model, which simultaneously produces a variety of items, with the CIMORY Group's raw materials supply network, such as in dairy products, eggs, soybeans and meats.

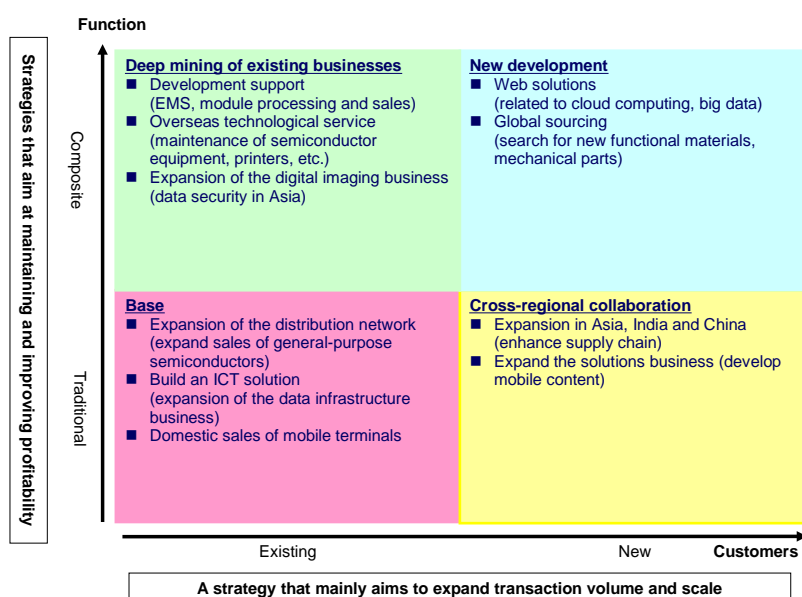


## Electronics & Devices

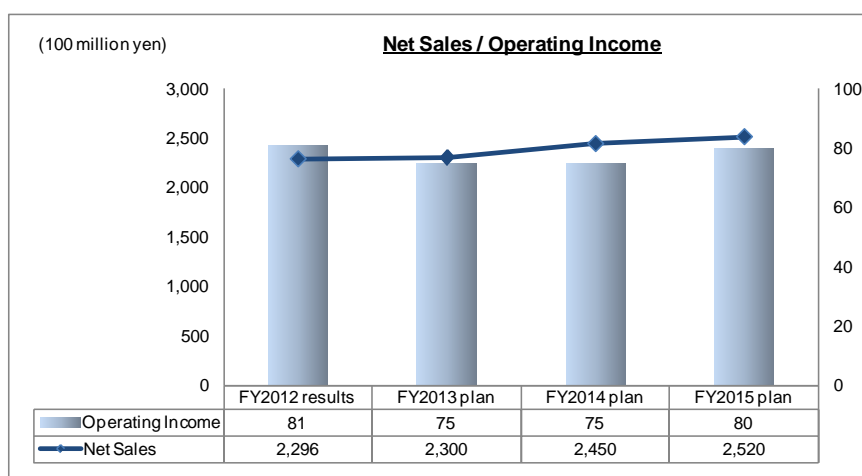
### Strategies

- ✧ Global expansion of the system integration business
- ✧ Expand the mobile system and terminal sales business and improve market share
- ✧ Build a globally-based comprehensive structure (procurement/processing/sales) in the device business
- ✧ Strengthen initiatives aimed at cutting-edge companies in Asia, Europe and the Americas from the development stage

### Four Business Categories



### Targets



## ◆ Enlargement of the electronics, devices and ICT businesses

### <<Specific action>>

- Will work to establish cloud computing that goes beyond borders and can utilize data from anywhere in the world by supplying a base for infrastructure, such as storage and servers that are suitable for a business environment, and expanding services related to big data.
- Will expand the Web-EDI business that enables real-time interactive transactions as well as information sharing and data coordination of massive amounts of data in a mutual and efficient manner between companies that enter emerging countries and local companies.
- In the mobile telephone sales business, the Company will further strengthen and expand the network of nationwide agencies through M&A and operate as well as support value-added services, such as for e-books that cater to major browsers.
- In the field of semiconductors, the Company will invest in cutting-edge technology that would raise production efficiency and expand sales of semiconductor equipment, mainly targeting Asia.
- Expand the supply structure of major components for smart devices

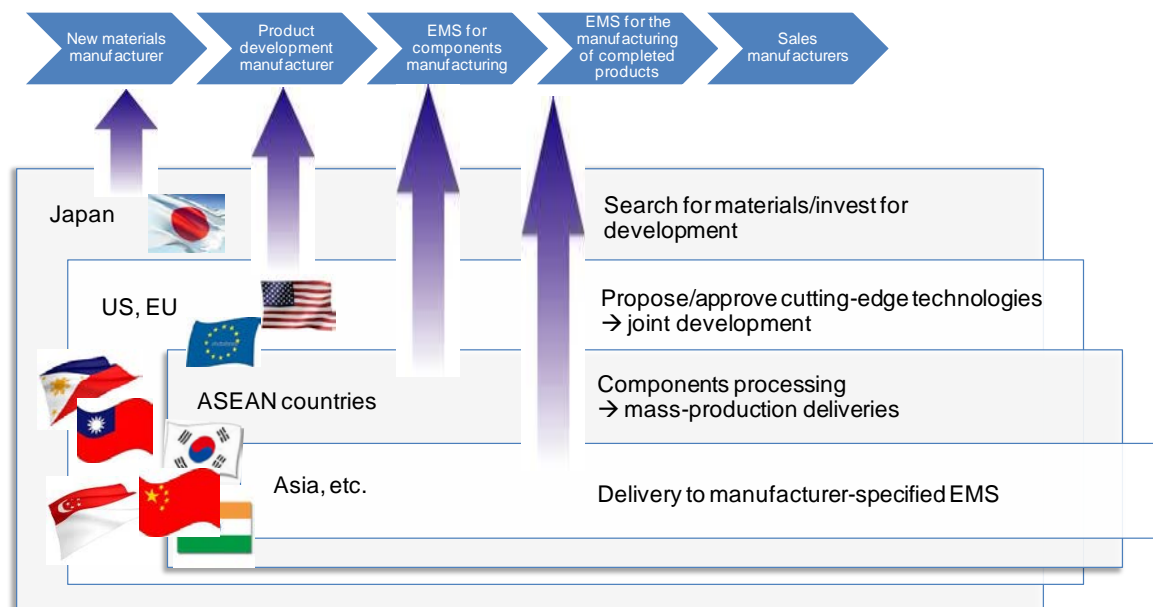
### <<Example>>

#### Search for cutting-edge technology ~ Develop fabless manufacturing in Europe and the Americas ~ EMS control

Targeted business model for the electronics devices area

##### Manufacturers' SCM support

- Search for cutting-edge technology in Japan and abroad
- Proposals to and joint development with manufacturers
- Commissioned components manufacturing from manufacturers
- Processing via a components manufacturing EMS, etc.
- Deliver products specified by manufacturers to EMS

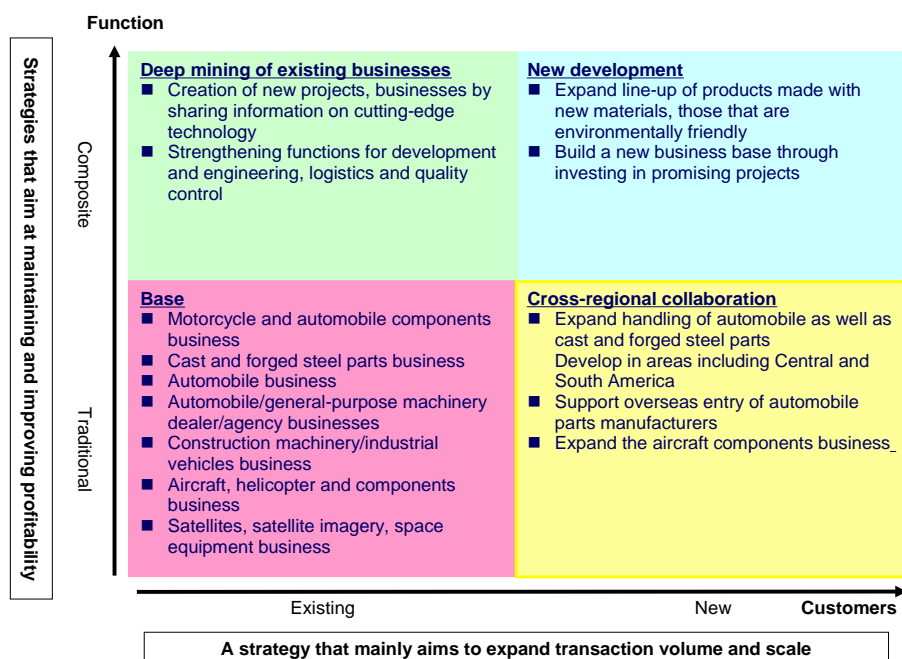


## Motor Vehicles & Aerospace

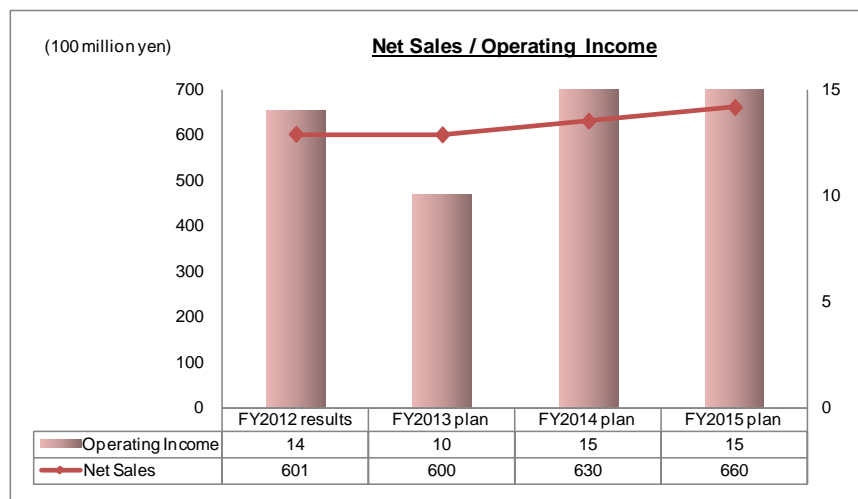
### ■ Strategies

- ✧ Build a global supply chain in the worldwide motorcycle and automobile markets that are growing and multi-polarizing
- ✧ Create new businesses through the sharing of information on cutting-edge technology that spreads from the field of aerospace to that of automobiles
- ✧ Expand businesses in aircraft, helicopters, satellites, satellite components and parts and aircraft components

### ■ Four Business Categories



### ■ Targets



## ◆ Strengthening of automotive and mechanical parts business

### <<Specific action>>

- A global-based expansion in the automobile market is expected as a result of an advancement in motorization. The Company will expand the business while strengthening its capabilities in sales, global sourcing, technological development and logistics by utilizing networks around the world.
- The Company will integrate and focus its business units related to automobiles and aerospace that have been built based on its strength in electronics & IT, iron & steel and machinery & plants divisions. As a result, the Company will reinforce and expand the supply chain and customer base in the fields of motorcycle- and automobile-related businesses as well as create new businesses, such as that using new materials and eco-friendly products, through sharing information on cutting-edge technology in the field of aerospace.

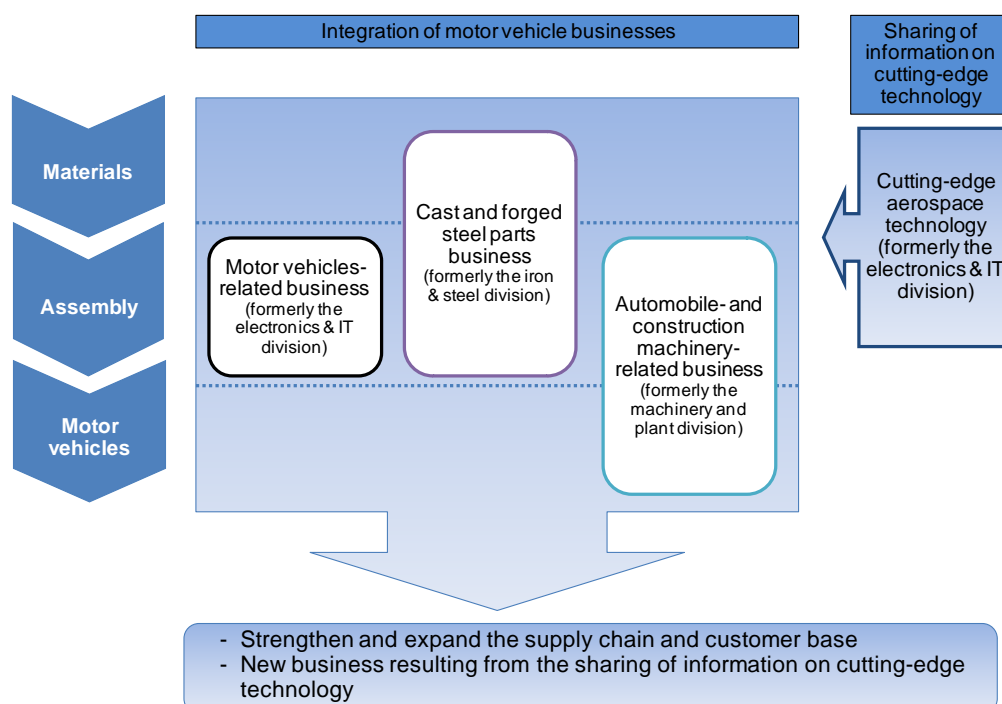
### <<Example>>

#### ◆ Overseas networks for Motor Vehicles and Aerospace Divisions



Strengthen and bolster businesses along with expanding markets by utilizing the network around the world

#### ◆ Integration of the motor vehicles- and aerospace-related business units

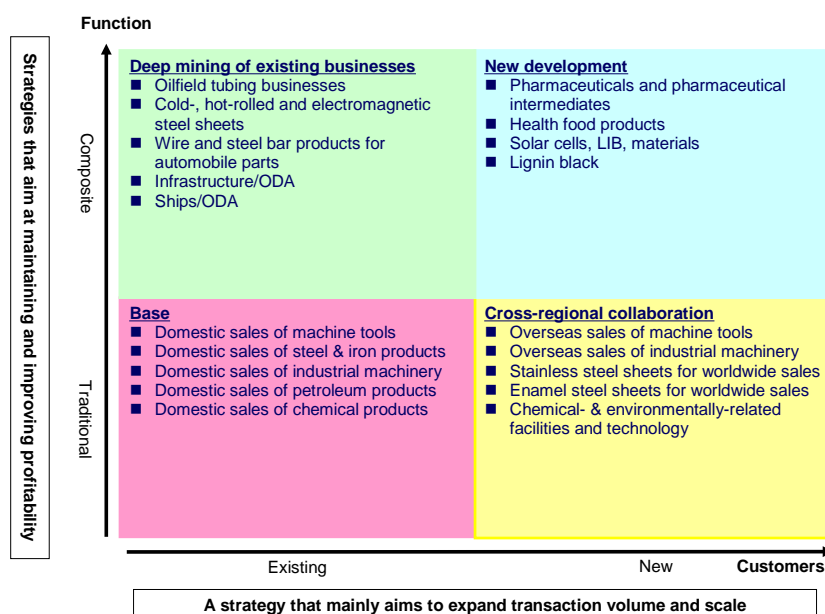


## Steel, Materials & Plant

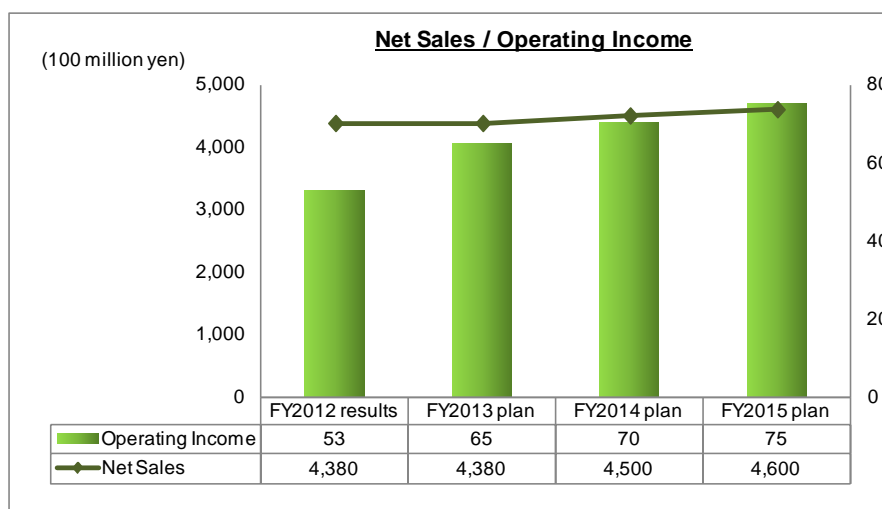
### ■ Strategies

- ✧ Boost expansion in the field of iron & steel in North American and Southeast Asian markets
- ✧ New development in the fields of new energy and new materials
- ✧ Cultivate in the fields of machine tools, industrial machinery and plants in markets in emerging countries
- ✧ Strengthen cooperative relationships between materials & raw materials and products as well as pursue synergy

### ■ Four Business Categories



### ■ Targets



## ◆ New development of the energy, materials and infrastructure markets

### <<Specific action>>

- In the field of iron & steel, the Company will delve comprehensively into searching for new business and cross-regional opportunities in areas of growth (energy/oilfield tubing, environment/stainless) in markets where the Company excels (North America, Southeast Asia). The Company will also increase the number of overseas personnel and promote overseas business development, including M&As, needed for the endeavor.
- In terms of new areas of focus, the Company will promote pharmaceuticals/pharmaceutical intermediates/health food development, solar cells/lithium ion batteries (LIB) as well as the development of raw materials, lignin black and other products made with new materials.
- In the field of domestic machinery tools/industrial machinery, the Company will promote overseas expansion through supporting Japanese manufacturers that are entering the overseas markets, with Asia as the main battleground.
- In the overseas plant business, which includes chemicals/environment/infrastructure facilities, undersea cables, renewable energy and shipbuilding, the Company will expand the volume of orders it receives based on major Japanese manufacturers as well as overseas alliances and partnerships. The Company will also work on forming new ODA projects.
- The Company will pursue cooperative relationships and synergy between materials/raw materials transactions, product transactions and facilities transactions as well as promote composite transactions that range from the construction/establishment of machinery facilities to delivering raw materials/fuel all the way to receiving and selling completed products. As such, the Company will aim at expanding the accompanying value chain.

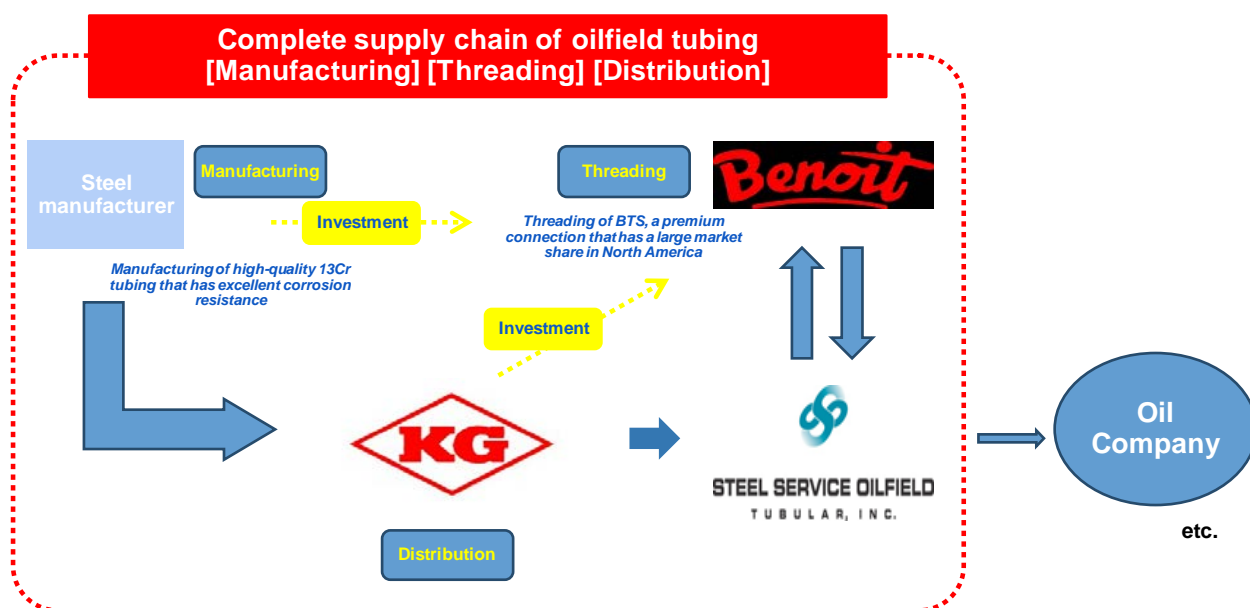
### <<Example>>

The Company acquired Benoit Machine LLC, a US pipe-threading firm, in November 2012. This company provides premium threading services of its own premium connection, Benoit Two-Step (BTS).

It sells its products to major US oil companies through a cooperative relationship with Steel Service Oilfield Tubular (SSOT), the Company's consolidated subsidiary that sells oilfield tubing.

Through this acquisition with a major steel manufacturer along with SSOT, it has established a complete supply chain in the manufacturing, threading, and distribution of oilfield tubing.

The Company will expand their business by capturing the growing oilfield tubing market from the development of shale gas plays, shale oil plays, and deepwater production.



Forward-looking statements

The content of this document is based on various assumptions, and future numerical targets, projections and measures mentioned herewith include uncertain elements.