November 1, 2005

Revision of business performance estimates for the six months ended September 30, 2005, and for the fiscal 2005 full term, ending March 31, 2006

At a meeting of the Board of Directors of Kanematsu Corporation held today, the directors decided to issue a new estimate of ordinary income for the six-month first-half period of fiscal 2005 (the term ending March 2006): this estimate to be, in effect, an upward revision of the previous forecast made on May 9, 2005, the date of announcement of the settlement of accounts for the previous term. The Board also decided to implement measures to effectively strengthen the Company's asset portfolio by extending the scope of application of impairment accounting (which the Company has adopted for initial application from the current term) beyond that originally envisaged, in consideration of the perceived need to more precisely evaluate the effectiveness of investments (including loans) in business operations and improve the degree of soundness of the Company's asset portfolio.

The Board has therefore decided to apply impairment accounting to additional assets beyond those previously announced, and in accordance with this, the net income/loss estimate for the first-half six-month period (ended September 30, 2005) and the net income/loss projection for the fiscal 2005 full term (ending March 31, 2006) have been revised, as set out in the tables below.

Revised business performance estimates (on a consolidated basis)

1. For the first-half six-month period (ended Sept. 30, 2005) (¥ million; %)

	Net sales	Ordinary income	Net income (loss)
Previous estimate (A) (May 9, 2005)	430,000	4,500	(5,000)
Present estimate (B)	467,700	5,900	(24,200)
Change (B-A)	37,700	1,400	(19,200)
Percentage change	8.8	31.1	—
Results for previous first-half period (ended Sept. 30, 2004)	432,408	5,714	1,525

2. For the fiscal 2005 full term (ending March 31, 2006) (¥ million; %)

	Net sales	Ordinary income	Net income (loss)
Previous estimate (A) (May 9, 2005)	915,000	13,500	2,000
Present estimate (B)	915,000	13,500	(20,000)
Change (B-A)	—	—	(22,000)
Results for previous business term (ended March 31, 2005)	886,876	11,720	2,469

Reasons for revisions

The Company is currently implementing its latest three-year management plan, named NewKG200, which took effect from April 2004. The objectives of this plan are encapsulated in the slogan: Completing the Recovery — The Final Stage of Kanematsu's Revival Program. Under this plan, top priority is placed on strengthening the Group's marketing capabilities. The first-half period of fiscal 2005 occupies a position roughly halfway along the course of the plan, and during fiscal 2004 (the first year under the new plan) we succeeded in achieving year-on-year increases in sales and ordinary income.

During the reporting six-month period, which is the first half of the three-year plan's middle year, we have enjoyed a smooth continuation of last term's favorable trend. Trading business in the United States involving piping for crude oil and natural gas wells went well, as did machine tool trading for production capacity enhancement. As a result, both sales and ordinary income posted growth compared with the same period of the previous term. Ordinary income appears to have performed particularly strongly, racking up an estimated ¥5.9 billion as compared with an initial forecast of only ¥4.5 billion.

Meanwhile, with regard to the net income/loss account, the Company and its consolidated subsidiaries have adopted impairment accounting with effect from the current term, and at the time of the announcement of the business results for the first quarter of fiscal 2005, in July, we posted an impairment loss in the amount of ¥8.7 billion on real estate assets. Ordinary income for the first-half six-month period was in line with our expectations, and it reached the previously specified target level for improvement of our earning capability. In consideration of this, and for the purpose of giving added momentum to the projected growth of our business performance in fiscal 2006 and beyond, as well as to more precisely evaluate the effectiveness of investments in business operations, we have decided that the time is right to expand the scope of application of impairment accounting and to further improve our asset portfolio. To this end, we have decided to dispose of whatever assets can be disposed of without prejudice to the efficient operation of our various businesses. Moreover, even for those assets that do not come under the provisions of the mandatory application of impairment accounting, in cases where their market value has declined substantially from the book value we have decided to voluntarily apply impairment accounting to these assets at one stroke, or to make provisions to the appropriate reserves with a view to writing them off at a future date. As a result, the combined figure for extraordinary losses (impairment losses constituting nearly half the total) for the current full business term is estimated at ¥31.0 billion.

<u>Breakdown of main items in extraordinary losses posted for the first-half period of fiscal 2005</u>

(¥ billion)

Items	Amount
(1) Impairment losses	14.4
a. Mandatory application to leased buildings, idle land, and other items	[8.7]
b. Generated from changes in classification of holding purpose of real estate – from leasing purpose to trading purpose	[5.7]
(2) Loss on valuation of investments in securities (equity shares of unlisted companies)	2.1
(3) Provisions to reserves for losses on loans provided by affiliated companies	1.5
(4) Provisions to reserves for losses on debts related to virtually bankrupt businesses	11.9
(5) Others	1.0
Total	31.0

As a result of the above, the Company is estimated to have posted a net loss for the reporting first-half period of ¥24.2 billion, as compared with an initial forecast of ¥5.0 billion. With regard to the Company's forecasts of its business performance for the fiscal 2005 full term, we have no plans at the present time to make any changes to our initial forecasts for sales and ordinary income, but we have revised our forecast for net income/loss sharply downward, from a positive figure of ¥2.0 billion to a net loss of ¥20.0 billion.

(Reference)

Estimate for first half of FY2005 (consolidated) (¥ billion)

	FY2004 1st half results	FY2005 1st half (previous estimate)	FY2005 1st half (present estimate)	YoY change	Change from previous estimate	Forecast for FY2005 full term
Net sales	432.4	430.0	467.7	35.3	37.7	915.0
Gross trading profit	34.0		35.2	1.2		
Gross trading profit ratio (%)	7.9%		7.5%	(0.4)%		
Operating income	7.8		8.0	0.2		
Ordinary income	5.7	4.5	5.9	0.2	1.4	13.5
Extraordinary income	0.4		2.4	2.0		
Extraordinary loss	(3.3)		(31.0)	(27.7)		
Extraordinary income/loss	(2.9)		(28.6)	(25.7)		
Net income	1.5	(5.0)	(24.2)	(25.7)	(19.2)	(20.0)