KANEMATSU CORPORATION

Annual Report 2006

KANEMATSU CORPORATION

Our Driving Spirit

- Avoid the pursuit of elusive short-term profits involving undue degrees of risk, instead, focusing exclusively on the true businesses of a trading company, employing Kanematsu's creativity and enthusiasm for taking on challenges
- Contribute to the further expansion of the global economy, especially in emerging Asian economies, by leveraging decades of experience in cross-border business transactions and the group's infrastructures throughout the world
- Place priority on our corporate social responsibilities to contribute to global economic and social expansion and the realization of a clean environment

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Forward-Looking Statements

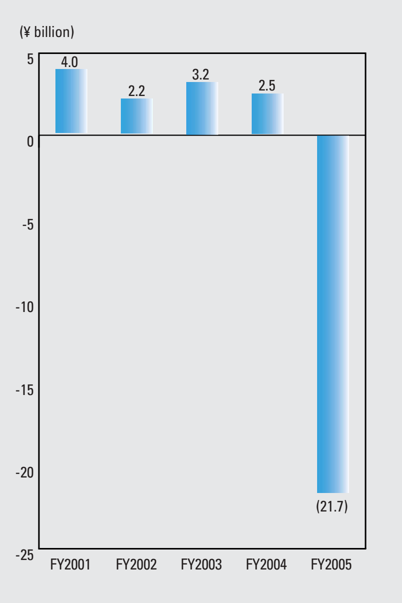
Statements contained in this report regarding Kanematsu Corporation's plans, strategies, and expectations for future performance do not constitute statements of historical fact, but fall into the category of "forward-looking statements." Such statements are based on current estimates and on forecasts regarding the industrial fields in which the Company operates, as well as on the management's beliefs and assumptions. As such estimates, forecasts, assumptions and so on are subject to a number of uncertainties and unknowable factors, actual results may differ substantially from those projected. Readers are therefore cautioned not to place undue reliance on forward-looking statements. Factors beyond the Company's control and outside its ability to predict, and which could cause results to diverge materially from the Company's projections include, but are not limited to: general economic conditions, currency exchange rates, commodity prices, the impact of unforeseeable technological innovations, changes in customer preference, and the outcome of pending or future litigation.

FIVE-YEAR SUMMARY (KANEMATSU CORPORATION AND CONSOLIDATED SUBSIDIARIES)

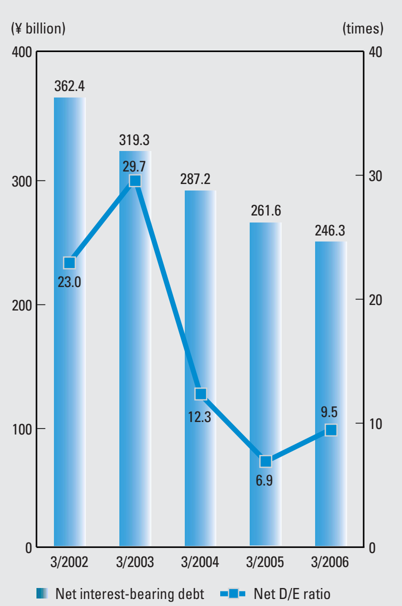
	Millions of Yen					Thousands of U.S. Dollars
Years ended March 31	**2006**	2005	2004	2003	2002	**2006**
For the year:						
Net sales (Total trading transactions)	**¥1,104,726**	¥886,877	¥818,473	¥838,975	¥902,477	**$9,404,325**
Gross trading profit	**81,733**	68,142	62,208	67,207	73,540	**695,778**
Income (loss) before income taxes and minority interests	**(16,728)**	4,836	5,057	4,996	7,211	**(142,402)**
Net income (loss)	**(21,686)**	2,470	3,248	2,234	4,025	**(184,609)**
At year-end:						
Total shareholders' equity	**26,004**	38,030	23,284	10,763	15,735	**221,367**
Total assets	**556,046**	520,119	507,991	527,340	605,717	**4,733,515**
Net interest-bearing debt	**246,317**	261,561	287,246	319,284	362,425	**2,096,850**
Per share (Yen and U.S. Dollars)						
Net income (loss)	**(52.43)**	6.52	10.13	7.56	13.26	**(0.446)**
Cash dividends	—	—	—	—	—	—
Total shareholders' equity	**62.12**	93.74	68.77	36.38	51.84	**0.529**

Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥117.47 =U.S.$1, the exchange rate at March 31, 2006.

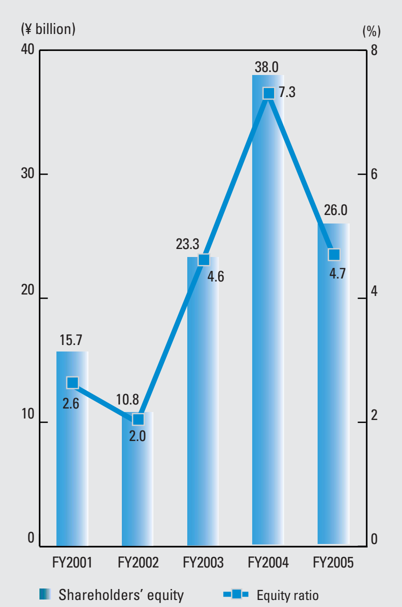
Net Income (Loss)



Net Interest-Bearing Debt and Net D/E Ratio



Shareholders' Equity and Equity Ratio



Tadashi Kurachi
Chairman

Yoshihiro Miwa
President

First, we would like to thank all our stakeholders for their support and cooperation.

The focus of effort of Kanematsu's management at the current moment is on devising and implementing measures to strengthen our earning power. This is in line with the top priority we have given to reinforcing our marketing capabilities as the essential means to achieving our ultimate objective of full recovery by the end of our "New KG200" current medium-term business plan (April 2004–March 2007). The plan is positioned as a period for putting the finishing touches to the transformation of Kanematsu into a totally new and revamped company.

The reporting period (fiscal 2005) was satisfactory in line with our expectations. Asset quality improved substantially and almost all related issues were resolved. All the signs indicate that our measures to strengthen our earnings capability have borne fruit, and we will be continuing our efforts to realize further corporate growth.

Overview of fiscal 2005 (April 2005–March 2006) business performance

The highlights of fiscal 2005, the second year in "New KG200" were as follows:

1. Net sales, gross trading profit, operating income and ordinary income all increased substantially from the previous year. In particular, earnings capacity received a boost from the highest ordinary income in a decade.
2. Net interest-bearing debt was reduced, achieving the target for the final year of "New KG200" business plan ahead of schedule.

And now, a summary of fiscal 2005.
The Company saw net sales rise 24.6%, to ¥1,104.7 billion in Energy, Foodstuffs and IT Divisions due to business expansion as a result of soaring oil prices and the consolidation of Kanematsu Electronics Co., Ltd. and Shintoa Corporation as new subsidiaries.

As a result, gross trading profit rose 19.9%, to ¥81.7 billion. Gross trading profit ratio was slightly lower than in the previous term due to the increase of sales in the energy related business where margins were relatively low, but, at 7.4%, it is still at a high level in absolute terms.

Operating income rose 14.1%, to ¥17.9 billion due to favorable machine tool transactions in Plant Business and strong performance in the mobile business in IT Division.

Ordinary income rose 34.0%, to ¥15.7 billion, largely on the back of an increase in dividend received and an improvement in the profitability of investments in equity-method affiliates. This was the highest ordinary income hitting a record high for the past decade and almost reached our target for the second year of "New KG200" business plan, of ¥16 billion. Core earnings, the yardstick for underlying profitability at trading companies over time, also increased substantially to ¥15.3 billion.

As for extraordinary profit and loss, there was an extraordinary loss of ¥41.5 billion, as we carried our further reviews of impaired assets. As a result, we registered a net loss of ¥21.7 billion.

By segment, in IT Division, mobile multimedia, aerospace business, printers to the United States, and OEM business for the electronic parts and components contributed to the increase of sales and profit. In Iron & Steel Division, the sale of special steel pipes for oil exploration in the United States remains lucrative. In Industrial Plants Division, net sales and operating income jumped up thanks to the successful ship building operations in Vietnam, geothermal power generation projects in Southeast Asia, and machinery and tool sales.

In Energy Division, together with heating crude oil price, and strong demand for kerosene with cold wave resulted net sales increased. Oil tank operations generated a stable stream of profit, as we are successful to transfer higher crude oil prices to downstreams.

Foodstuffs Division suffered a decline in earnings, largely due to losses incurred in destroying inventories of Australian beef because of fears of BSE contamination.

Thanks to progress in the development of high-value-added "mid-stream" operations, such as the high-quality beef processing and sales business set up the previous term in China, we have good hopes of restoring this division to profitability.

Textile Division suffered a large decline in sales due to delay of the development of new brands. In synthetic fibers & textiles, however, we are working to build an integrated system at production sites encompassing spinning, dyeing, weaving and sewing. Such start-to-finish integrated systems will enable us to evolve a new and more profitable business model.

Turning to our financial position, net interest-bearing debt was reduced, achieving the target of ¥250 billion for the final year under "New KG200" business plan one year ahead of schedule. However, shareholders' equity decreased due to extraordinary losses resulting from a substantial reduction in high-risk assets. Regarding the resulting deterioration in shareholder's equity, we intend to further strengthen our earnings capability so as to achieve an accelerated improvement in retained earnings, enabling us to return shareholder's equity to its former level.

To strengthen management functions at the group level, in May of 2005 we made Memorex Telex Co., Ltd. into a wholly owned subsidiary, and in November we purchased additional shares of equity-method affiliate Kanematsu Electronics Co., Ltd. on the open market, becoming the majority shareholder and converting the company into a consolidated subsidiary. In December, we acquired a majority of the shares of Shintoa Corporation. This company operates the three core businesses of trading in aircraft, vending machines, and foodstuffs, which makes it a complementary enterprise to Kanematsu's own fields of core competence. For these reasons, it is expected to make an increasingly important contribution to the expansion of the business sphere of the Kanematsu Group.

Outlook for fiscal 2006

The current term, fiscal 2006 is dedicated to wrapping up and bringing to fruition the initiatives conducted throughout "New KG200" business plan. During this term, the management of Kanematsu will finish guiding the Company firmly back onto the earnings growth track, building on the aggressive management measures taken during fiscal 2005. Once we have succeeded in realizing a high-earning structure, we will rapidly be able to achieve full recovery by restoring shareholders' equity to its former level. The management of Kanematsu are confident that their pursuit of a new, high-value-added business model will yield annual net sales of ¥1,150 billion and ordinary income of ¥17.5 billion. Net income is expected to attain the final "New KG200" target of ¥10 billion, thanks to a projected sharp decline in extraordinary losses.

In response to the provisions of the new Corporation Law, which came into effect in Japan in May of this year, we are working to increase the Company's transparency through fuller disclosure of corporate information, to ensure that the policies of fairness and non-discrimination are faithfully followed at all times, to raise the efficiency of our business operations, to strengthen our system of corporate governance, and to pursue a sounder financial position. Through these means, we are confident of raising the enterprise value of Kanematsu and its group. We recently completed the full upgrading of our computer systems covering all aspects of our business, and we believe that all the necessary infrastructure is in place to enable us to strengthen our systems of internal control.

Fiscal 2006 is the final year of our current "New KG200" business plan. The entire management and staff of Kanematsu and its group companies are pursuing enthusiastically the target set under this plan, which will enable us to complete the recovery and revamping process of Kanematsu. We earnestly request the continued support of our shareholders and other stakeholders in our ongoing endeavors.

July, 2006

Tadashi Kurachi
Chairman

Yoshihiro Miwa
President

1. Consolidated Financial Results: Earnings

As we successfully expanded our customer base, net sales, gross trading profit, operating income and ordinary income all increased substantially from the previous year.
Net sales increased by 24.6%, while the gross trading profit margin decreased by 0.3%, to 7.4%, gross trading profit improved by 19.9% due to the increase of sales in the energy related business where margins were thin. Operating income increased by 14.1%, to ¥18.0 billion. Ordinary income rose 34.0%, to ¥15.7 billion, hitting a record high for the past decade. However, there was a net loss for the year of ¥21.7 billion, due to extraordinary losses resulting from a further review of our assets.

(¥ million)

	FY2005		FY2004		Comparison with FY2004	
		Percentage of net sales		Percentage of net sales	Change	Change (%)
Net sales	**1,104,726**	**100.0%**	886,877	100.0%	217,849	24.6%
Gross trading profit	**81,733**	**7.4%**	68,142	7.7%	13,591	19.9%
Operating income	**17,982**	**1.6%**	15,762	1.8%	2,220	14.1%
Ordinary income	**15,709**	**1.4%**	11,720	1.3%	3,989	34.0%
Income (loss) before income taxes	**(16,728)**	**(1.5%)**	4,836	0.5%	(21,564)	—
Net income (loss)	**(21,686)**	**(2.0%)**	2,470	0.3%	(24,156)	—

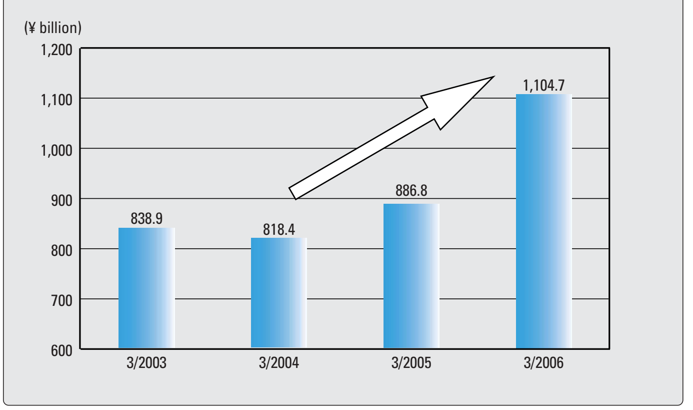
(1) Net Sales

- There were substantial increases in sales, particularly in the Energy, Foodstuffs and IT Divisions, due to business expansion as a result of soaring oil prices and the consolidation of Kanematsu Electronics Ltd. and Shintoa Corporation as new subsidiaries.

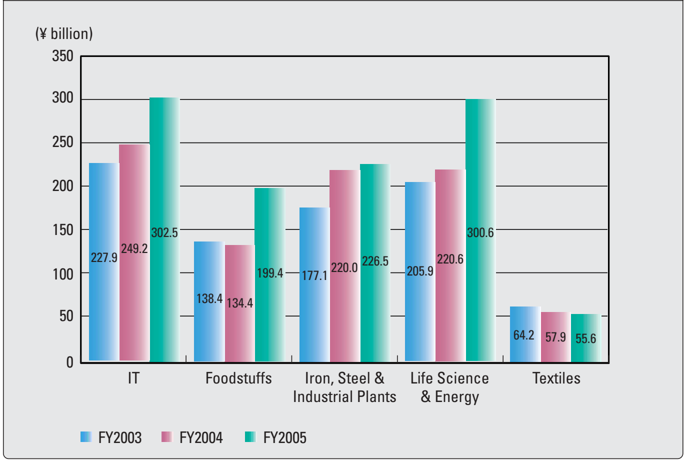
(¥ million)

	FY2005	FY2004	Change
IT	**302,521**	249,171	53,350
Foodstuffs	**199,350**	134,389	64,961
Iron & Steel	**124,606**	118,159	6,447
Industrial Plants	**101,923**	101,838	85
Iron, Steel & Industrial Plants	**226,529**	219,997	6,532
Energy	**271,790**	188,156	83,634
Life Science	**28,816**	32,408	(3,592)
Life Science & Energy	**300,606**	220,564	80,042
Textiles	**55,621**	57,927	(2,306)
Others	**20,462**	5,334	15,128
Consolidated adjustment	**(363)**	(505)	142
Total	**1,104,726**	886,877	217,849

Net Sales



Net Sales by Operating Segment



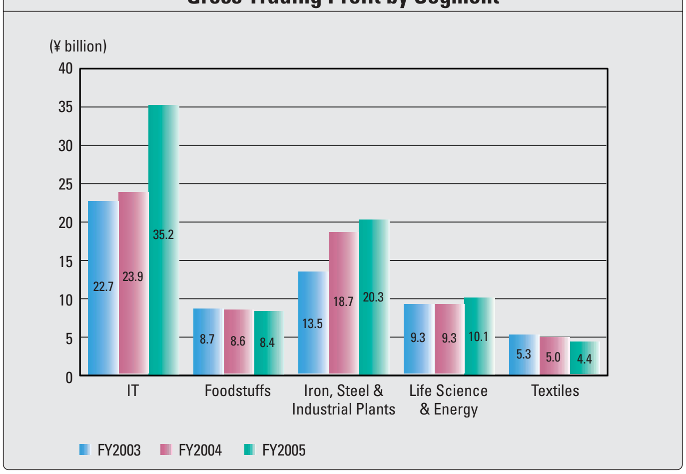
(2) Gross Trading Profit

- Gross trading profit was up ¥13.6 billion from the previous year while the gross trading profit margin decreased slightly, to 7.4%.

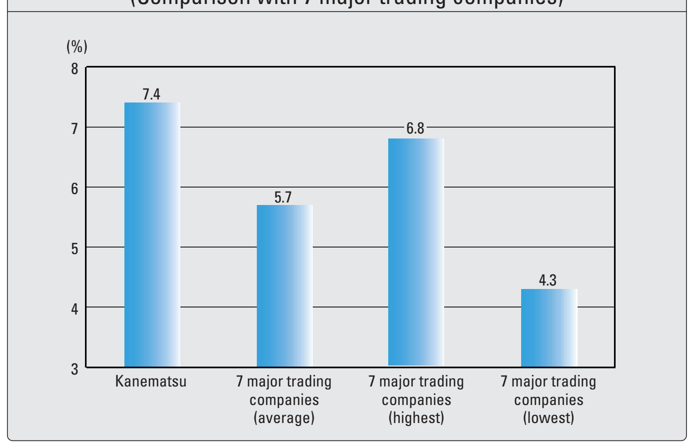
(¥ million)

	FY2005		FY2004		Change	
	Actual	Profit ratio	Actual	Profit ratio	Actual	Ratio change
IT	**35,218**	**11.6%**	23,859	9.6%	11,359	2.0%
Foodstuffs	**8,396**	**4.2%**	8,644	6.4%	(248)	(2.2%)
Iron & Steel	**10,071**	**8.1%**	10,129	8.6%	(58)	(0.5%)
Industrial Plants	**10,259**	**10.1%**	8,565	8.4%	1,694	1.7%
Iron, Steel & Industrial Plants	**20,330**	**9.0%**	18,694	8.5%	1,636	0.5%
Energy	**7,802**	**2.9%**	6,794	3.6%	1,008	(0.7%)
Life Science	**2,338**	**8.1%**	2,483	7.7%	(145)	0.4%
Life Science & Energy	**10,140**	**3.4%**	9,277	4.2%	863	(0.8%)
Textiles	**4,374**	**7.9%**	5,031	8.7%	(657)	(0.8%)
Others	**3,275**	—	2,649	—	626	—
Consolidated adjustment	**0**	—	(12)	—	12	—
Total	**81,733**	**7.4%**	68,142	7.7%	13,591	(0.3%)

Gross Trading Profit by Segment



Gross Trading Profit Ratio (FY2005)
(Comparison with 7 major trading companies)



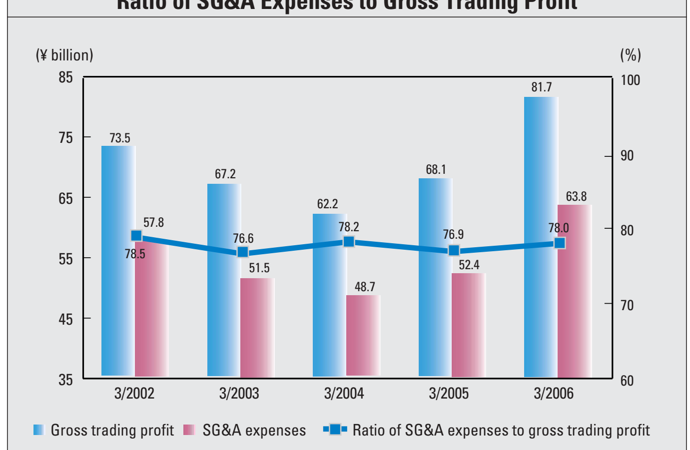
(3) Selling, General and Administrative Expenses

- The ratio of SG&A expenses to gross trading profit increased slightly.

(¥ million)

	FY2005	FY2004	Change
Personnel expenses	**32,471**	25,757	6,714
Non-personnel expenses	**31,280**	26,623	4,657
Provision to the reserve for doubtful accounts	**605**	510	95
SG&A expenses	**63,751**	52,380	11,371
Consolidated subsidiaries	**47,117**	36,867	10,250
Ratio of SG&A expenses to gross trading profit	**78.0%**	76.9%	1.1%

Gross Trading Profit and Ratio of SG&A Expenses to Gross Trading Profit



(4) Operating Income

- Operating income decreased in the Foodstuffs and Textiles Divisions due to bad inventories in Australian beef and delays in the start-up brands respectively. Plant Business and IT Divisions recorded increase in operating profit due to favorable machine tool transactions and strong performance in the mobile business respectively. Overall operating income increased ¥2.2 billion year-on-year (14.1%).

(¥ million)

	FY2005		FY2004		Change	
	Actual	Profit ratio	Actual	Profit ratio	Actual	Profit ratio
IT	**5,033**	**1.7%**	3,613	1.5%	1,420	0.2%
Foodstuffs	**705**	**0.4%**	1,712	1.3%	(1,007)	(0.9%)
Iron & Steel	**5,454**	**4.4%**	5,441	4.6%	13	(0.2%)
Industrial Plants	**2,502**	**2.5%**	1,002	1.0%	1,500	1.5%
Iron, Steel & Industrial Plants	**7,956**	**3.5%**	6,443	2.9%	1,513	0.6%
Energy	**1,923**	**0.7%**	1,150	0.6%	773	0.1%
Life Science	**567**	**2.0%**	728	2.2%	(161)	(0.2%)
Life Science & Energy	**2,490**	**0.8%**	1,878	0.9%	612	(0.1%)
Textiles	**425**	**0.8%**	1,188	2.1%	(763)	(1.3%)
Others	**1,082**	**—**	935	—	147	—
Consolidated adjustment	**291**	**—**	(7)	—	298	—
Total	**17,982**	**1.6%**	15,762	1.8%	2,220	(0.2%)

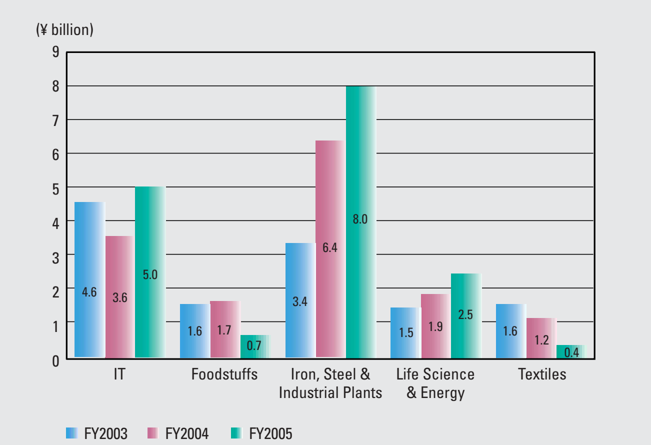
(5) Non-Operating Income & Loss

- Interest expenses were increased because of higher foreign currency rates, however, non-operating income increased thanks to dividends received and gain on equity-method investment.

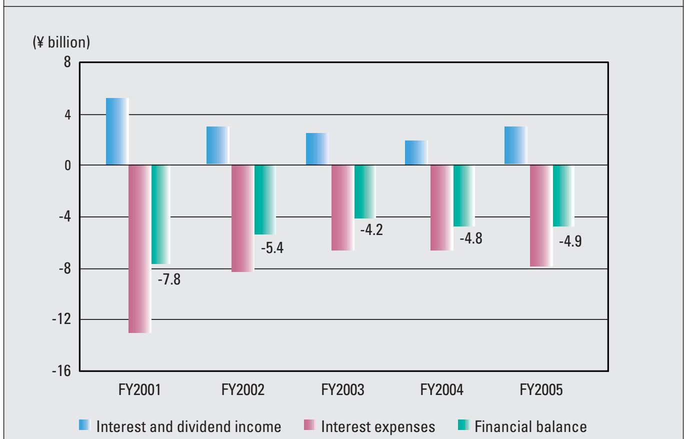
(¥ million)

	FY2005	FY2004	Change
Dividends received	**1,702**	851	851
Interest received	**1,291**	1,031	260
Interest paid	**(7,910)**	(6,700)	(1,210)
Financial balance	**(4,917)**	(4,818)	(99)
Gain on equity-method investment	**1,672**	853	819
Others	**971**	(77)	1,048
Non-operating loss	**(2,274)**	(4,042)	1,768

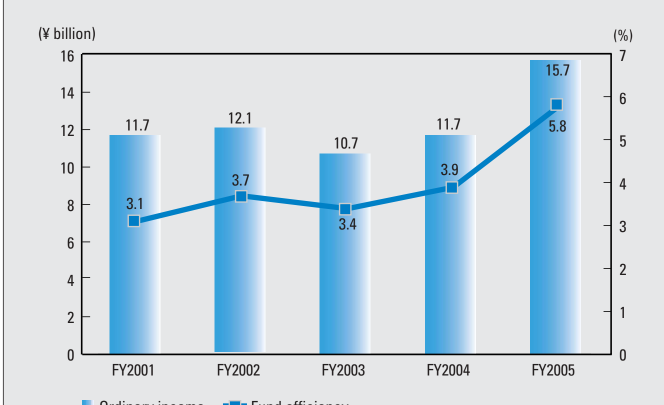
Operating Income by Segment



Financial Balance



Fund Efficiency



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

(6) Ordinary Income

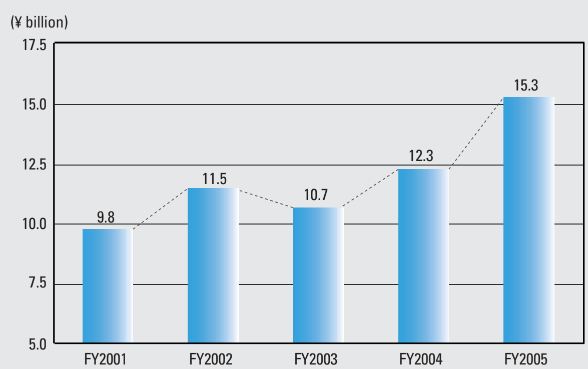
- Ordinary income was up by 34.0% from the previous year, to ¥15.7 billion.
- Core earnings also increased by ¥3 billion year-on-year, to ¥15.3 billion.

(¥ million)

	FY2005	FY2004	Change
Ordinary income	**15,709**	11,720	3,989
Ordinary income ratio	**1.4%**	1.3%	0.1%
Core earnings	**15,342**	12,307	3,035

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

Core Earnings



(7) Extraordinary Gain/Loss and Net Income (Loss)

- There was an extraordinary loss of ¥41.5 billion for the year, as we carried out further reviews of impaired assets.
- Resulted in a net loss of ¥21.7 billion.

(¥ million)

	FY2005	FY2004	Change
Gain on sale of investment securities	**6,334**	1,681	4,653
Gain on transfer of business	**1,430**	—	1,430
Other extraordinary gain	**1,316**	816	500
Extraordinary gain	**9,080**	2,497	6,583
Loss on closure of business	**(789)**	(1,039)	250
Provision for doubtful receivables from affiliated companies	**(2,082)**	(3,000)	918
Loss on sale of investment securities	**(110)**	(1,219)	1,109
Loss on revaluation of investments in securities	**(2,971)**	(233)	(2,738)
Amortization of the unrecognized transition amount arising from adopting the new standard for retirement benefits	**—**	(1,659)	1,659
Impairment loss on fixed assets	**(14,594)**	—	(14,594)
Provision for doubtful receivables regarding specific businesses	**(13,411)**	—	(13,411)
Loss on revaluation of inventories	**(6,208)**	—	(6,208)
Other extraordinary loss	**(1,352)**	(2,231)	879
Extraordinary loss	**(41,517)**	(9,381)	(32,136)
Net extraordinary loss	**(32,437)**	(6,884)	(25,553)

Income (loss) before income taxes	**(16,728)**	4,836	(21,564)
Income taxes and minority interests	**(4,958)**	(2,366)	(2,592)
Net income (loss)	**(21,686)**	2,470	(24,156)

2. Consolidated Balance Sheets

As a result of continued reductions in high risk assets, the quality of assets improved substantially while the consolidation of Kanematsu Electronics Ltd. and Shintoa Corporation increased healthy operating assets. Net interest-bearing debt fell to ¥246.3 billion, achieving the target for the "NewKG200" business plan ahead of schedule. Shareholders' equity declined to ¥26.0 billion due to the extraordinary losses. As a result, the equity ratio was 4.7% and the net debt-equity ratio was 9.5.

(1) Interest-bearing Debt

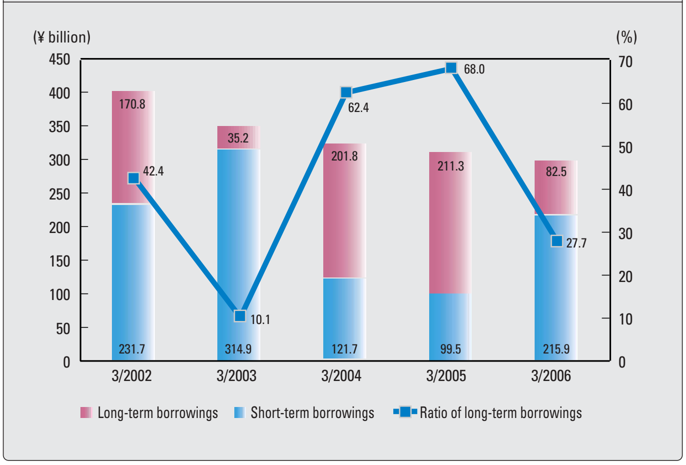
- We succeeded in reducing net interest-bearing debt by ¥15.2 billion from the previous year. Although the liquidity ratio was 92%, this was largely due to the increase of current portion of long-term debt scheduled for refinancing.

(¥ million)

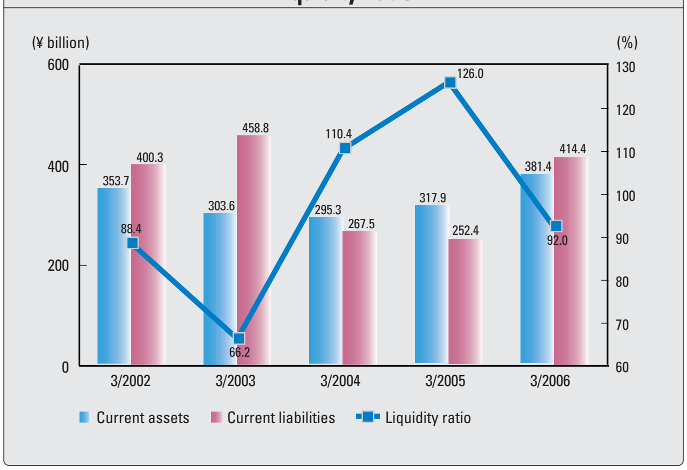
	3/2006		3/2005		Comparison with 3/2005	
		Ratio		Ratio	Change	Change (%)
Short-term borrowings	**215,885**	**72.3%**	99,485	32.0%	116,400	—
Long-term borrowings	**82,548**	**27.7%**	211,332	68.0%	(128,784)	—
Gross interest-bearing debt	**298,433**		310,817		(12,384)	(4.0%)
Net interest-bearing debt (Note 1)	**246,317**		261,561		(15,244)	(5.8%)
Liquidity ratio (Note 2)	**92.0%**		126.0%		(34.0%)	—

Note 1: Net interest-bearing debt = Gross interest-bearing debt – Cash and bank deposits
Note 2: Liquidity ratio = Current assets / Current liabilities

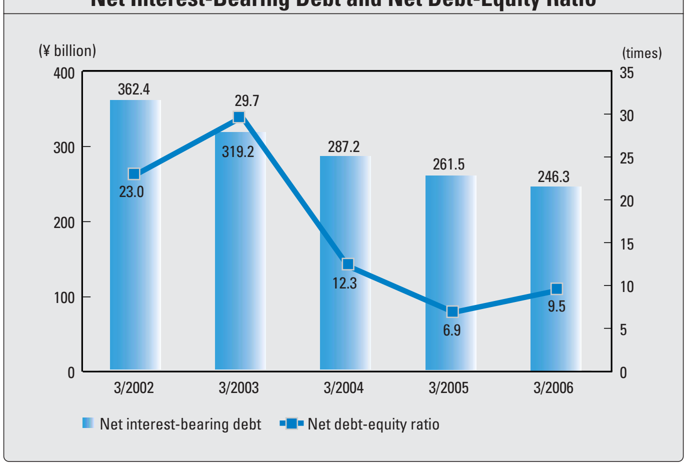
Long- and Short-Term Borrowings



Liquidity Ratio



Net Interest-Bearing Debt and Net Debt-Equity Ratio



(2) Shareholders' Equity

- Shareholders' equity declined from ¥38.0 billion as of the end of the previous year, to ¥26.0 billion, due to a ¥16.3 billion accumulated deficit as a result of posting net loss.

(¥ million)

			Comparison with 3/2005	
	3/2006	3/2005	Change	Change (%)
Common stock	**27,781**	27,502	279	1.0%
Capital surplus	**27,642**	26,038	1,604	6.2%
Retained earnings	**(16,294)**	5,392	(21,686)	—
Land revaluation reserves	**58**	58	0	0.0%
Unrealized loss on available-for-sale securities	**4,816**	1,694	3,122	184.3%
Foreign exchange translation (Note)	**(17,398)**	(21,505)	4,107	—
Treasury stock	**(601)**	(1,149)	548	—
Total shareholders' equity	**26,004**	38,030	(12,026)	(31.6%)
Equity ratio (%)	**4.7**	7.3	—	—
Net D/E ratio	**9.5**	6.9	—	—

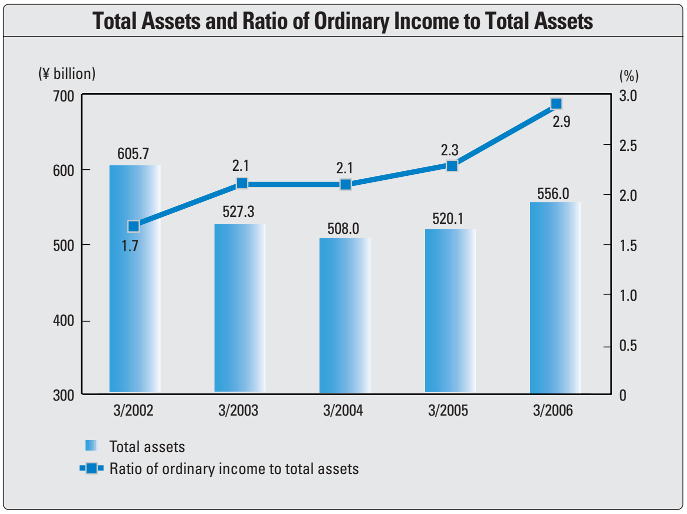
Note: Exchange rate : ¥117.47/US$ at March 31, 2006
¥107.39/US$ at March 31, 2005

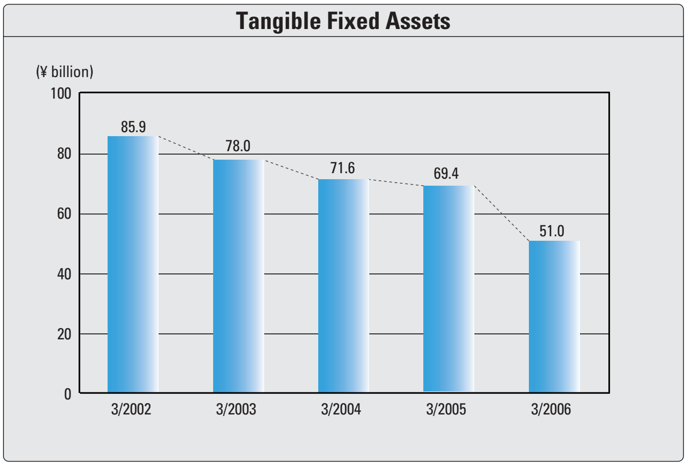
(3) Assets by Account Title

(¥ million)

			Comparison with 3/2005	
	3/2006	3/2005	Change	Change (%)
Cash and bank deposits	**52,116**	49,256	2,860	5.8%
Accounts and notes receivable	**197,954**	148,551	49,403	33.3%
Inventories	**79,738**	71,172	8,566	12.0%
Investments (Note)	**74,991**	71,670	3,321	4.6%
Loans (Note)	**33,187**	30,624	2,563	8.4%
Tangible fixed assets	**51,042**	69,395	(18,353)	(26.4%)
Deferred tax assets	**25,045**	26,356	(1,311)	(5.0%)
Others	**84,957**	83,916	1,041	1.2%
Reserve for doubtful accounts	**(42,984)**	(30,821)	(12,163)	—
Total assets	**556,046**	520,119	35,927	6.9%

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





3. Consolidated Cash Flows

(¥ million)

	FY2005	FY2004	Change
Operating income + Depreciation and amortization	**21,795**	18,884	2,911
Decrease (increase) in trade notes receivable, inventories and trade notes payable and others	**5,499**	(3,459)	8,958
Income on (payment of) interest, dividends and income taxes	**(7,574)**	(5,302)	(2,272)
Cash flows from operating activities	**19,720**	10,123	9,597
Cash flows from investing activities	**7,823**	5,383	2,440
Total free cash flow	**27,543**	15,506	12,037
Cash flows from financing activities	**(26,583)**	(2,913)	(23,670)

IT

- ✔ In the electronic parts and components business, we focus on expanding fabless operations.
- ✔ In the mobile multimedia business, we will strengthen our customer base to secure our position as a major sales agent for NTT-Docomo in preparation for the introduction of number portability, and enhancing our contents services to diversify services.
- ✔ In the aerospace business, we will pursue synergy with new group company Shintoa Corporation.
- ✔ In the field of system solutions, we intend to maximize group synergy centered on Kanematsu Electronics Ltd.

(1) Main Business

Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Electronic Parts and Components	Semiconductor, semiconductor/LED manufacturing equipment, optical/communications, electronic components/ mechanized parts	Devices Company Information & Electronics Dept.	—	¥158 billion
System Solutions	Computers/network systems	IT Administration Office	Memorex Telex Japan Ltd. *Kanematsu Electronics Ltd.*	¥56 billion
			Nippon Office Systems Ltd.	(¥14 billion)
Mobile Multimedia	Mobile communications terminals/mobile phones	IT Administration Office	Kanematsu Communications Ltd.	¥99 billion
Aerospace	Aircraft/aircraft parts	Aerospace Dept.	Kanematsu Aerospace Corp. Shintoa Corporation	¥17 billion
			Total	¥330 billion

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

(2) Business Forecast for the FY2006

(¥ million)

	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	330,000	302,521	27,479
Gross Trading Profit	45,500	35,218	10,282
Ratio	13.8%	11.6%	2.2%
Operating Income	7,000	5,033	1,967
Ratio	2.1%	1.7%	0.4%

(3) Actions and Outlook for FY2006 (compared with FY2005 results)

◆ **Electronic Parts and Components Business (sales down slightly, gross trading profit up ¥0.9 billion)**

- In the semiconductor business, we intend to concentrate on expanding our line of semiconductor devices for special applications, focusing particularly on products for digital consumer electronics and vehicle mounted communications devices that is expected to be a growth area in the future.
- In the semiconductor manufacturing and liquid crystal production equipment business, we are focusing on new demand for digital consumer electronics and "one seg" (one segment broadcasting) products, which are expected to be growth areas in the future. We also plan to start handling new value-added products, such as the most advanced semiconductor cleaning equipment. We will invest in venture equipment manufacturers and tie up with other companies to access new technologies.
- In the OEM/ODM business for the electronic parts and components business, we are currently stepping up our activities in the fields of four-wheeled and two-wheeled vehicle parts, thermal printer heads, analog transceivers, and control modules for battery packs. We handle the entire production process from design to manufacture as a fabless manufacturer of analog transceivers and control modules for battery packs, and the reputation of our products is rising in the marketplace.
- In the communications equipment and parts business, we will expand the scope of our operations regarding parts for optical communication equipment and IP phone equipment.
- In the optical device business, we will leverage our exclusive overseas sales rights to microlenses, obtained via investment into the leading domestic precision instrument and optical lens manufacturer, to enhance business promotion in China (particularly the southern part of the country), where demands for the optical devices are increasing sharply.

◆ **Mobile Multimedia Business (sales up ¥1.0 billion, gross trading profit up ¥1.0 billion)**

- The mobile number portability system, which is scheduled for implementation by November, 2006, enables clients to switch service provider keeping exiting phone number. Kanematsu Communications (KCS) is stepping up its service networks to attract shoppers through the collaboration with Tsutaya a leading provider of in-home movie and game entertainment with 1,200 stores.
- X-ringer, U.S. subsidiary is successfully offering ringtones, realtones, and wallpapers for mobile phone on the deck of the major Cell-phone companies such as Verizon.

◆ **Aerospace Business (sales up ¥1.5 billion, gross trading profit up ¥0.5 billion)**
- Deliveries of government-use aircraft are on schedule.
- Shintoa Corporation, newly acquired subsidiary, holds solid aircraft engine operations and a synergy effect with Kanematsu's is to be anticipated.

◆ **System Solutions Business (sales up ¥25.0 billion, gross trading profit up ¥7.9 billion)**
- Kanematsu Electronics Ltd. will contribute further in financially and strategically as a majority owned subsidiary.

Foods & Foodstuff

✔ We will continue to be pro-active to the client's taste and demand and to develop value added products.
✔ We provide safe, traceable, and high quality foodstuffs through the exclusive network we created with suppliers and processors.
✔ We intend to step up collaboration with Shintoa Corporation.

(1) Main Business

Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Foods	Canned/frozen/dried fruits, coffee, cocoa, sugar, sesame, peanuts, various beans, wines	Produce Dept. I Produce Dept. II	Kanematsu Food Corp. Shintoa Corporation	¥82 billion
Meat and Marine Products	All meat, seafood	Meat & Marine Products Dept.	Kanematsu Food Corp. Nippon Shokuhin Co., Ltd. Shintoa Corporation	¥42 billion
Feed and Dairy Products/Grains	Feed, fertilizer, soybeans, barley, wheat, rice, processed foods, pet foods	Agri Company, Grain Dept.	Kanematsu Agri-Tech Corp. Savory-Japon S.A. Shintoa Corporation	¥96 billion
			Total	¥220 billion

(2) Business Forecast for the FY2006

(¥ million)

	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	220,000	199,350	20,650
Gross Trading Profit	12,000	8,396	3,604
Ratio	5.5%	4.2%	1.3%
Operating Income	3,200	705	2,495
Ratio	1.5%	0.4%	1.1%

(3) Actions and Outlook for FY2006 (compared with FY2005 results)

◆ **Food Business (sales up ¥26.0 billion, gross trading profit up ¥1.5 billion)**
- Exports to Japan from our prepared-food processing joint venture in China are increasing.
- Consumers and food manufacturers have started to pay closer attention to the safety of ingredients since the introduction of the positive list system. We are therefore implementing tighter traceability and quality control at our joint venture processed fruit and vegetable plant in China through cultivation by contracted producers. We are planning to expand sales for the Japanese market as well as in Europe and the United States.
- An aloe for yogurt's ingredient, we are planning to put a new plant into operation in 2006 in order to enhance product quality, and establish a stable mass production system.
- Blue Mountain Coffee, for which there is growing demand, we will establish a stable supply system through an alliance with a leading group of producers.

◆ **Meat and Marine Products Business (sales down ¥10.5 billion, gross trading profit up ¥0.4 billion)**
- Having launched a joint venture in China we will establish a comprehensive supply system with guaranteed traceability and expect to meet the Chinese domestic demand for high-quality beef.
- We will differentiate our Canadian chilled pork products with guaranteed traceability confirmed by accredited independent institution.
- In the marine products business, we are expanding partnerships with processing plant operators, in Southeast Asia so that we could expand production of processed materials.

◆ **Feed and Dairy Products/Grains Business (sales up ¥5.0 billion, gross trading profit up ¥1.7 billion)**
- We plan to invest in a leading Australian hay producer, to ensure traceability and secure a stable supply to Japan.
- Working in cooperation with large domestic farms and leading breeders, we expect to increase sales of formula feed and raw ingredients for feed.
- We are planning to expand sales of soy bean products by entering the *nigari* (coagulant) wholesale business.
- We are aiming to expand our lactic acid bacteria product operations in an effort to contribute to livestock breeding that does not rely on antibiotic agents.
- In the grains business, we expect to increase our volume of sales as in the number of high-end bakeries operated by our clients is sure to rise.

Iron, Steel & Industrial Plants

<Iron & Steel>

✔ Earnings to be declined as a result of the sale of a special steel wholesale operations in the United States.
✔ We are working to diversify supply sources in response to the shortage of supplies of high value-added products.
✔ In the casting and forging products-related business, large volume of orders are expected from the U.S. and European automotive industry.

<Plants>

✔ We pursue projects which will create new markets and value such as ship building project in Vietnam targeting Japanese medium-sized bulk cargo vessel market where shipbuilders are focusing on larger container vessels.
✔ In addition to machinery and tool business, which is a stable source of profits, we are also focusing on the areas of social infrastructure and industrial plants, including geothermal power generation plants and power cables in Southeast Asia.

(1) Main Business

	Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Iron & Steel	Steel Trading and Steel Materials	Stainless steel, surface-treated steel plates, seamless piping, coking coal	Iron & Steel Foreign Trade Dept.	SSOT	¥72 billion
	Automotive Materials	Precision forged products, automobile parts	Automotive Materials Dept.	—	¥9 billion
	Domestic Iron and Steel	Steel products	Iron & Steel Administration Dept.	Kanematsu Trading Corp.	¥39 billion
Plants	Plants, Transportation Equipment	Various plants, automobiles, maritime equipment, ODA projects	Projects & Plant Machinery Dept. Transportation Machinery Dept.	—	¥32 billion
	Cable/Electric Power Projects	Telecommunications projects, optical fiber, electric power projects	Cable & Power Projects Dept.	—	¥10 billion
	Machine Tools and Industrial Machinery	Machine tools, industrial machinery	Machinery & Plant Administration Office	Kanematsu KGK Corp.	¥58 billion
				Total	¥220 billion

(2) Business Forecast for the FY2006

(¥ million)

Iron & Steel	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	120,000	124,606	(4,606)
Gross Trading Profit	8,000	10,071	(2,071)
Ratio	6.7%	8.1%	(1.4%)
Operating Income	4,000	5,454	(1,454)
Ratio	3.3%	4.4%	(1.1%)

(¥ million)

Plants	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	100,000	101,923	(1,923)
Gross Trading Profit	10,500	10,259	241
Ratio	10.5%	10.1%	0.4%
Operating Income	2,000	2,502	(502)
Ratio	2.0%	2.5%	(0.5%)

(3) Actions and Outlook for FY2006 (compared with FY2005 results)

<Iron & Steel>

◆ **Steel Trading and Steel Materials Business (sales down ¥2.5 billion, gross trading profit down ¥1.0 billion)**

- We intend to increase our volume of trade in high value-added high-performance materials for the coil center business in China, exports to the Middle East. We also intend to diversify our supply sources.
- In light of the continued high level of oil prices, demand for sales of steel pipes for oil exploration is expected to remain steady, particularly in the United States.
- Sales of Indian iron ore to China are expected to remain brisk. We intend to develop supplementary mining facilities in order to ensure stable supplies.

◆ **Automotive Materials Business (sales down ¥2.5 billion, gross trading profit down ¥1.0 billion)**

- Trade with the United States will decline following a slump in the United States auto industry. Nevertheless, we are striving to open up new markets for ourselves in areas such as Brazil, India, Indonesia and the Middle East.
- Although casting and forging products are still awaiting a recovery from the "Big Three" in the North American market, sales are expected to remain strong in South American and European markets. As we are making steady progress in the development of new products with U.S. and European manufacturers, large volume of orders are to be expected.
- Regarding special surface-treated materials, demand for enamel steel products in the United States market is expected to recover.

◆ **Domestic Iron and Steel Business (sales up ¥0.5 billion, gross trading profit flat)**

- Striving for higher efficiency and profit margin.

<Plants>

◆ **Plants and Transportation Equipment Business (sales down ¥5.5 billion, gross trading profit up slightly)**

- We aim to increase the number of contracts in Southeast Asia, the Middle East and China, mainly industrial plants, such as chemical plants, primarily paper milling plants or automotive manufacturing facilities, and infrastructure projects, such as water and environment preservation facilities and transportation and port facilities.
- Regarding exports on newly-built ships from Vietnam to Japanese ship operators, there are nine outstanding orders, with strong demand expected to continue this year.

◆ **Cable/Electric Power Projects Business (sales up ¥3.5 billion, gross trading profit up ¥0.1 billion)**

- In the cable projects business, we have received orders for a number of electric power cable projects in the Philippines, one of our traditionally strong markets. We are aiming to secure profits from exports of new materials such as fiber optics and optical communication equipment. We are also looking to win mandates for projects to develop broadband and mobile phone networks in Southeast Asia.
- In the power generation projects business, we are striving to win more orders for geothermal power generation projects and are actively working on new environmental businesses such as biomass power generation and global warming gas emission rights projects under the clean development mechanism (CDM).

◆ **Machine Tools and Industrial Machinery Business (sales flat, gross trading profit up ¥0.1 billion)**

- Sales are expected to be flat in the machine tool market, where a slowdown has taken place.
- We have expanded our overseas operations in Southeast Asia to improve maintenance services.

Life Science & Energy

<Energy>

✔ While ensuring stable profit through oil tank operations, Kanematsu intends to expand downstream operations such as self-service gas stations, and also to expand exports and offshore trading for the increasingly liberalized Asian markets.

✔ Growth of the ESCO (energy conservation support businesses) will be nurtured by focusing on the need to convert to natural gas while stepping up sales efforts by a new department within this segment.

<Life Science>

✔ In the functional chemicals business, we will work closely with Kanematsu Chemicals to develop new products and materials in the environmental field. The Company expects rising profits in existing products, such as fertilizer materials and petrochemical products.

✔ In the health care business, Kanematsu has been focusing on bolstering sales of the popular alpha-lipoic acid and creatine.

(1) Main Business

	Business	Main Products	Department in charge	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Energy	Crude oil Petroleum Products and Gas	Crude oil, petroleum products, LPG	Energy Dept.	Kanematsu Petroleum Corp.	¥270 billion
Life Science	Functional Chemicals	Battery materials, fertilizer materials, adhesive materials, solvents	Functional Chemicals Dept.	Kanematsu Chemicals Corp.	¥27 billion
	Healthcare	Functional food materials, Stolle Milk, nutritional supplements	Life Science Dept.	Kanematsu Wellness Corp.	¥5 billion
	Pharmaceuticals	Pharmaceuticals, pharmaceutical intermediates		—	¥3 billion
				Total	¥305 billion

(2) Business Forecast for the FY2006

(¥ million)

		FY2006 (Forecast)	FY2005 (Result)	Change
Energy	Net Sales	270,000	271,790	(1,790)
	Gross Trading Profit	8,000	7,802	198
	Ratio	3.0%	2.9%	0.1%
	Operating Income	1,800	1,923	(123)
	Ratio	0.7%	0.7%	0.0%
Life Science	Net Sales	35,000	28,816	6,184
	Gross Trading Profit	3,000	2,338	662
	Ratio	8.6%	8.1%	0.5%
	Operating Income	1,000	567	433
	Ratio	2.9%	2.0%	0.9%

(3) Actions and Outlook for FY2006 (compared with FY2005 results)

<Energy>

◆ **Crude Oil, Petroleum Products and Gas Business (sales flat, gross trading profit up ¥0.2 billion)**

- The petroleum products business will secure stable earnings through improved efficiency of oil tank operations and strengthened downstream sales capability.
- Gas Stations: About 150 locations currently in operation, including directly owned and operated and joint ventures. Self-service gas stations: Increase number, expand brand supremacy in Kyushu, Nagoya area, and other parts of Japan.
- Overseas Strategies: Strengthen exports focusing on increased demand in East Asia, China in particular, where markets are becoming increasingly liberalized.
- LPG: Specialize in the industrial LPG bulk business, a comprehensive distribution system for small-lot users.
- While petroleum product prices remain high, the Company is promoting ESCOs with customers by proposing a switch to other fuels, principally natural gas, which is relatively inexpensive and causes less damage to the environment. Within the business segment, a new department will focus on business development.

<Life Science>

◆ **Functional Chemicals Business: (Sales up ¥3 billion, gross trading profit up ¥0.3 billion)**

- In the expanding field of solar batteries, we intend to exploit its unique know-how in the area of high value added coating agents, obtain the proper patents and trademarks and create a strong, integrated manufacturing and sales organization to gain brand supremacy in the market.
- In cooperation with Kanematsu Chemicals, we will develop new products and materials in the solvent and other environmental fields.

◆ **Healthcare Business: (Sales up ¥2 billion, gross trading profit up ¥0.3 billion)**

- For alpha-lipoic acid, creatine and similar functional food ingredients, we will pursue a consumer-direct marketing approach rather than one that focuses purely on distribution, and will bolster sales.

◆ **Pharmaceuticals Business: (Sales up ¥1 billion, gross trading profit up slightly)**

- Focus on bulk pharmaceutical exports to the Middle East and Southeast Asia.

Textiles

- ✔ Focus on getting the Lotto brand off to a running start.
- ✔ Speed up establishment of a proposal-based OEM business model, “From discovery and procurement of raw materials and yarn (materials) to proposals for fabrics and products.”
- ✔ Through enhanced cooperation with Shanghai Challenge Textiles, focus on a complete production infrastructure from sewing to yarn, to dyeing, to sewing of finished product.

(1) Main Business

Business	Main Products	Major Consolidated Subsidiary	Consolidated Net Sales (Forecast)
Products	Cotton/knit cut-and-sew clothing, dresses, casual shirts, sports clothes, sports shoes, denim items	Kanematsu Textile Corp. Kanematsu (Shanghai) Co., Ltd. Kanematsu Textile (HK) Kanematsu Italia S.p.A. Kanematsu Textile USA Inc. Kanematsu Taiwan Corp. KG Garment Supply Co., Ltd.	¥40 billion
Materials	All types of woven items, knitting yarn, cotton/synthetic woven goods/ functional materials for non-apparel uses		¥15 billion
		Total	¥55 billion

(2) Business Forecast for the FY2006

(¥ million)

	FY2006 (Forecast)	FY2005 (Result)	Change
Net Sales	55,000	55,621	(621)
Gross Trading Profit	4,500	4,374	126
Ratio	8.2%	7.9%	0.3%
Operating Income	700	425	275
Ratio	1.3%	0.8%	0.5%

(3) Actions and Outlook for FY2006

◆ **Establish Proposal-Based OEM**

- With customer needs becoming more diverse at the retail level, advanced OEM that encompasses the whole process from product design to production management is crucial. We will enhance marketing capability and pursue focused manufacturing. It will go on the offensive in every area, from proposals for sourcing of raw materials to fabrics and finished products.
- Kanematsu, as textile professionals, will engage in developing a proposal-based OEM business model, from which it can develop proposals for everything from sourcing of raw materials based on the manufacturer’s viewpoint, to products developed through a firm grasp of the most recent fashion trends.
- Through enhanced cooperation with our core partner in China, Shanghai Challenge Textiles, we intend to develop the Chinese market. Last November, we completed expansion and reorganization of its main production facilities. Our objective was to make the most of our advanced product expertise to leverage our reach beyond sports casual wear to other apparel areas and related business areas. With China’s best technology, this company will be positioned as our strategic production base. Kanematsu will expand its European operations with differentiated materials as our ammunition.

◆ **Brands Business**

- In tandem with the proposal-based OEM Strategy, we will develop our brands with a proactive business structure as our goal. Leveraging our unique advantages from material sourcing to sewing to production, we will maximize the effectiveness of our investment.

◆ **Brands as of April, 2006:**

- Lotto — sportswear (Italy)
- Cath Kidston — general merchandise (U.K.)
- Lowe Alpine and ASOLO — outdoor (Italy)
- JANSPORT — major brand with emphasis on daypacks (U.S.)
- Gramicci — outdoor casual (U.S.)
- Plastic Girl — women’s fashion (Company owned)

"New KG200" – New Medium-Term Business Plan

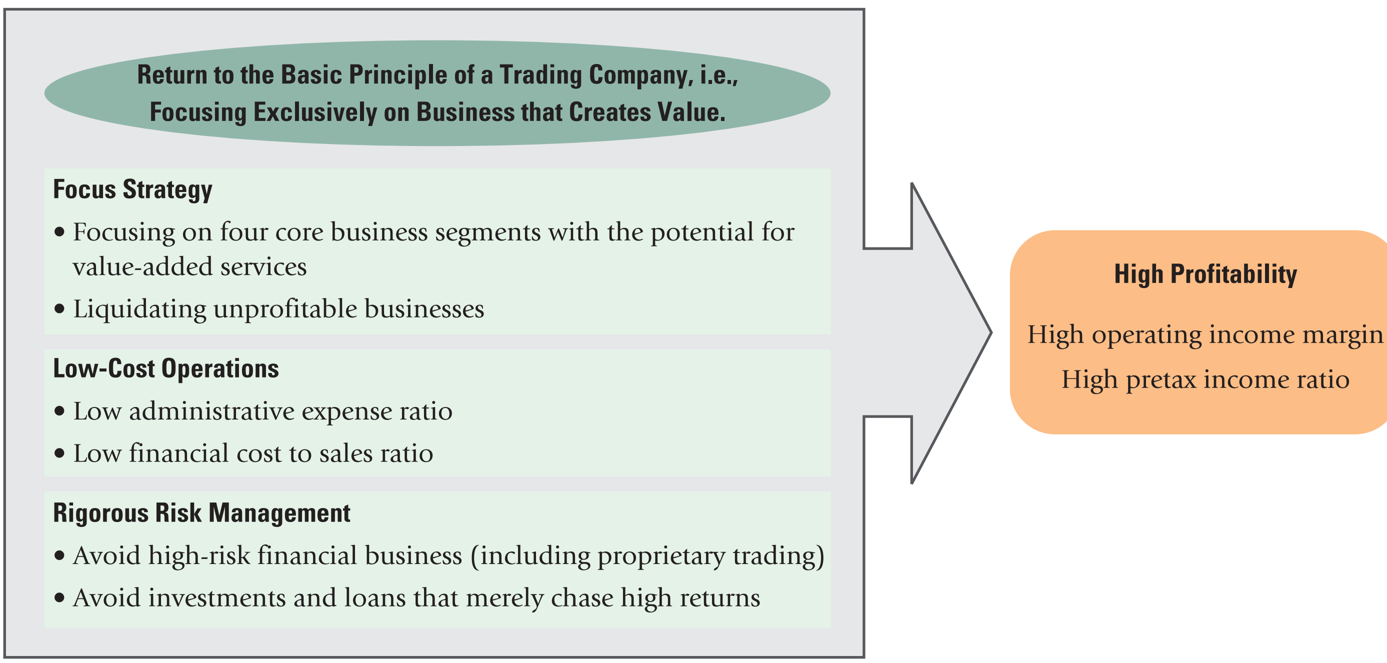
①Reinforced Marketing Power
- Establishing profitable business base by increasing value-added transactions
- Strengthening ability to earn a sufficient level of profit

②Establish a Sound Financial Position
- Continuous effort to reduce interest-bearing debt
- Increase of shareholders' equity by 100%
- Improvement of asset quality

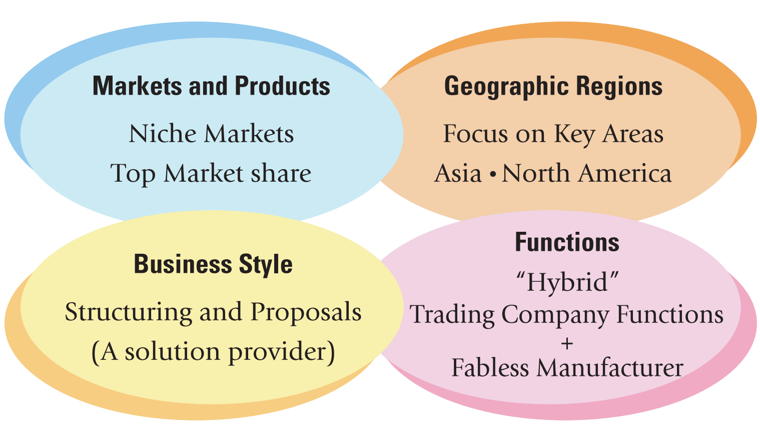
③Conduct Group-wide Management Reforms
- Customer-oriented efficient operations through fast decision-making
- Management renovation including structural reform

(1) The Kanematsu Business Model

❖ **Features of the New Kanematsu**



❖ **Business Model – Pursuing Higher Profitability –**



(2) Goals

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

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

❖ Numerical Goals

①Earnings

(¥ million)

	New Medium-Term Business Plan "New KG200"		
	FY2004 (Actual)	FY2005 (Actual)	FY2006 (Forecast)
Net Sales	886,877	1,104,726	1,000,000
Gross Trading Profit	68,142	81,733	80,000
Ratio	7.7%	7.4%	8.0%
Operating Income	15,762	17,982	24,500
Ratio	1.8%	1.6%	2.5%
Pretax Income before Extraordinary Items	11,720	15,709	20,000
Ratio	1.3%	1.4%	2.0%
Net Income	2,470	(21,686)	10,000

②Balance Sheets

(¥ million)

	New Medium-Term Business Plan "New KG200"		
	FY2004 (Actual)	FY2005 (Actual)	FY2006 (Forecast)
Total Assets	520,119	556,046	500,000
Net Interest-bearing Debt	261,561	246,317	250,000
Shareholders' Equity	38,030	26,004	42,500
Shareholders' Equity Ratio	7.3%	4.7%	8.5%
Net DER	6.9	9.5	5.9
Return on Net Debt(*1)	3.9%	5.8%	6.8%
ROE	8.1%	(67.7%)	26.8%
Interest-bearing Debt Repayment Period(*2)	13.9	11.3	9.1

(*1) Return on Net Debt = Pretax Income before Extraordinary Items / (Net Interest-bearing Debt + Shareholders' Equity)
(*2) Interest-bearing Debt Repayment Period = Net Interest-bearing Debt / Operating Income before Depreciation and Amortization

Reference: Highlights of the New Kanematsu

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

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

→ Meeting our three year targets in only two years

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

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

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

- Kanematsu aims to achieve a full recovery in business performance through structural reform, leading to the creation of an almost completely new company.

❖ **Progress in FY2005 First Half**

— Getting Ready for the Company's Full Recovery —

Consolidated ordinary income of ¥15.7 billion for the first half ⇨ **The best performance in the past ten years**

Strengthening group synergy

↓

Achieving profit improvement targets

With the attainment of healthy ordinary income, the Company will continue to review its assets quality to improve operating performance even further.

↓

Making the final preparations for the Company's full recovery

↓

Elimination of most concerns regarding our financial position within this term
Aiming to achieve a stable and highly profitable corporate structure by significantly improving asset quality

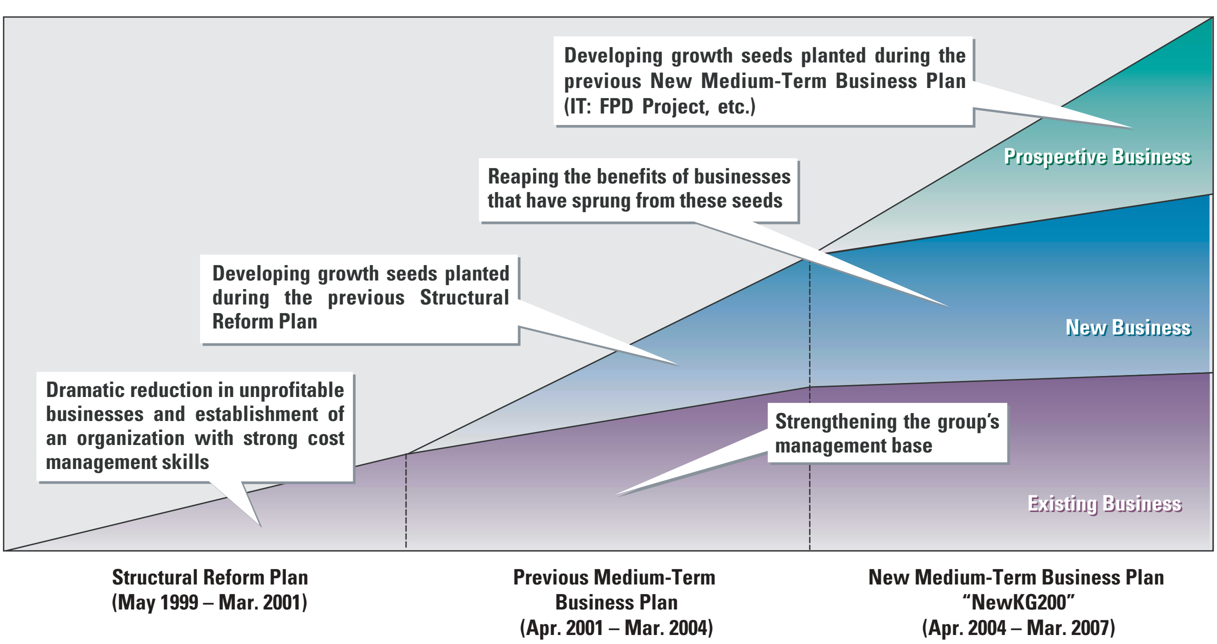
❖ Consolidated Business Performance (FY1999 ~ FY2005)

(¥ million)

	Structural Reform Plan		Previous Medium-Term Business Plan			Medium-Term Business Plan "New KG200"	
	FY1999 (Actual)	FY2000 (Actual)	FY2001 (Actual)	FY2002 (Actual)	FY2003 (Actual)	FY2004 (Actual)	**FY2005 (Actual)**
Net sales	1,407,921	1,112,920	902,477	838,975	818,473	886,877	**1,104,726**
Gross Trading Profit (Gross Trading Profit Ratio)	92,299 (6.56%)	87,996 (7.91%)	73,540 (8.15%)	67,207 (8.01%)	62,208 (7.60%)	68,142 (7.68%)	**81,733** **(7.40%)**
Operating Income (Operating Income to Net Sales Ratio)	14,507 (1.03%)	21,608 (1.94%)	15,779 (1.75%)	15,716 (1.87%)	13,554 (1.66%)	15,762 (1.78%)	**17,982** **(1.63%)**
Consolidated Pretax Income before Extraordinary Items (Income to Net Sales Ratio)	2,560 (0.18%)	11,368 (1.02%)	11,735 (1.30%)	12,073 (1.44%)	10,706 (1.31%)	11,720 (1.32%)	**15,709** **(1.42%)**
Net Income (Loss) (Net Income (Loss) to Net Sales Ratio)	(12,446) (-0.88%)	(*3) 17,253 (1.55%)	4,025 (0.45%)	2,234 (0.27%)	3,248 (0.40%)	2,470 (0.28%)	**(21,686)** **(-1.96%)**
Total Assets	884,504	772,556	605,717	527,340	507,991	520,119	**556,046**
Shareholders' Equity	11,542	14,387	15,735	10,763	23,284	38,030	**26,004**
Net Interest-bearing Debt (*1)	543,841	433,037	362,425	319,284	287,246	261,561	**246,317**
Net DER (*2)	47.1	30.1	23.0	29.7	12.3	6.9	**9.5**
Consolidated Subsidiaries	179	163	142	122	116	122	**142**

Notes: 1. Net Interest-bearing Debt = Interest-bearing Debt – Cash and Bank Deposits
2. Net DER = Net Interest-bearing Debt / Shareholders' Equity
3. Switch to Deferred Tax Accounting

❖ From Turnaround to Complete Revival



1. Basic Approach to Corporate Governance

The Company has endeavored to strengthen corporate governance to increase the transparency of management and enhance fairness, efficiency and soundness. 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.

2. Details of Corporate Organization and Conditions of Establishment of Internal Control System

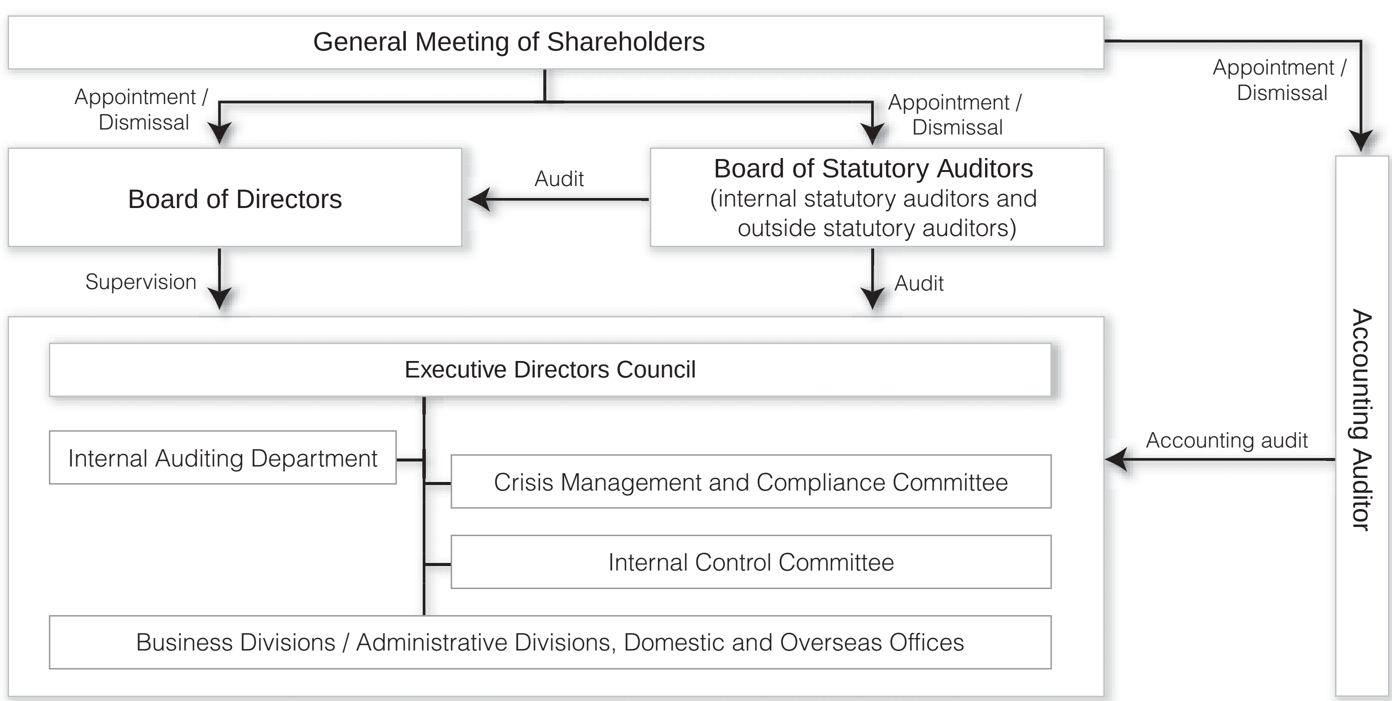
(i) Details of Corporate Organization

The Company has established regulations for the Board of Directors, and is currently holding Board of Directors' meetings at least once a month and extraordinary meetings of the Board of Directors as necessary. The Board of Directors decides on matters stipulated 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. In addition, the Company has established an Executive Directors Council consisting of all directors to facilitate rapid decision-making and flexible management. The Executive Directors Council decides on basic policies concerning the execution of the business of the entire Company, based on the policies determined by the Board of Directors, and provides instruction and guidance on the execution of the business.

Previously, the term of office for directors was two years. However, the ordinary general meeting of shareholders held on June 28, 2006 amended the Company's Articles of Incorporation to shorten the term of office to one year to maintain a relationship of vigilance between the shareholders and directors.

The Company pursues corporate governance through the conventional Japanese statutory auditor system. Under this system, independent statutory auditors conduct audits of the directors' performance of their duties. Four statutory auditors, including two outside statutory auditors, receive reports from directors and employees as required and attend meetings of the Board of Directors, the Executive Directors Council, the Crisis Management and Compliance Committee, and the Internal Control Committee, as well as review meetings and other important committee meetings, and audit the performance of duties by the directors.

The following is diagram of the Company's corporate governance system.



(ii) Action Items for the Corporate Group

In the Company's group, the top management members of group companies meet several times each year as required and share information about the management of the entire Group, to facilitate the thorough understanding and common recognition of corporate governance.

(iii) Approach to Timely Disclosure

We intend to promote fair and transparent management by disclosing important management information to all stakeholders, including shareholders, customers and employees, institutional investors, analysts and the mass media in a prompt and appropriate manner.

We will actively promote investor relations, such as the disclosure of information through our website and the holding of regular company explanatory meetings twice per year, as well as implementing timely disclosure to stock exchanges.

(iv) Conditions of the Establishment of Internal Control System and Risk Management System

We will establish an internal control system to comprehensively evaluate the risks inherent in the Group, pursue effective and efficient operations, and secure reliable financial information.

The conditions of the establishment of the internal control system are as indicated below.

- We have initiated an internal control committee comprising a Chairman, the head of the committee, and directors, to more effectively and efficiently implement the establishment of the Group's internal control system. We also established an Internal Control Office as the executive office for operations.
- With regard to information control, we 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 also established regulations regarding the use of our internal network with the aim of preserving and controlling information as an important asset of the Company, including the protection of personal information for the sake of compliance and to strengthen information security.
- With regard to business risks, we have designated a department to be in charge of each risk based on job authority regulations, established internal regulations and detailed enforcement regulations, and prepared business guidelines, which have been publicized thoroughly through the training sessions and seminars. We have also established internal interdisciplinary committees to manage risk as required.

  We have set up an internal review and approval system based on job authority regulations to minimize business risk, organized review meetings for important investments and loans, and examined these comprehensively from the perspective of various risks.
- We established a Crisis Management and Compliance Committee because of the importance of compliance with laws and ordinances, and have strengthened our internal compliance system. We have compiled a compliance manual which has been disseminated to top management and all employees. We have also focused on concentrating information with the chairman of the Crisis Management and Compliance Committee and introduced a hot line system for direct reporting and consultation.

(v) Conditions of Internal Auditing and Audits by Statutory Auditors

We have established audit regulations and the Internal Auditing Department (seven employees) has conducted internal audits in each department and consolidated subsidiaries to ensure proper accounting records and monitor whether business is conducted appropriately.

Internal Auditing Department and statutory auditors hold meetings regularly, work in close cooperation with one another by explaining audit plans and reporting the results of audits, and ensuring the effectiveness of audits.

(vi) Conditions of Accounting Audits

The accounting auditor provides the statutory auditors with the audit plan in advance. Under the current system, the prior approval of the statutory auditors is required with regard to the remuneration of the accounting auditor and requests of non-audit matters made to the accounting auditor.

Based on this premise, statutory auditors and the accounting auditor hold meetings regularly, and share information on the status of accounting audits, the business performance of the Company, matters relating to the Company's financial position, and any problems. Information has also been shared and various rules have been amended by obtaining explanations from the accounting auditor individually regarding matters generally affecting the Group, such as the amendment of laws and ordinances, internal controls and the revision of important accounting rules.

(vii) Relationship with Outside Statutory Auditors

The Company and the outside statutory auditors have no special material interests in conflict.

3. Details of Officer Remuneration

Remuneration paid to directors in the term ended March 2006 totaled ¥148 million, and remuneration paid to statutory auditors totaled ¥38 million. No remuneration to officers other than money was paid. The following amount is not included in the above payment made in the term under review.

Amount equivalent to employee salary paid to directors concurrently working as employees: ¥50 million

4. Details of Audit Remuneration

The ¥49 million paid by the Company to ChuoAoyama PricewaterhouseCoopers for services provided in Article 2, Paragraph 1 of the Certified Public Accountant Law (No. 103 law of 1948) is remuneration for an audit certificate based on an audit agreement.

The total for services other than the above paid in remuneration for non-audit certificates was under ¥0 million.

RISK MANAGEMENT

Kanematsu Corporation operates in a wide range of business fields in many countries. The Company, in the normal course of business, is exposed to market risk(foreign currency risk, interest rate risk, commodity market risk, equity price risk, etc.), credit risk (risk of bankruptcy of borrowers or inability to collect loan repayments), investment risk, country risk, legal risk, compliance risk, operational risk, and others. Such risks are determined by factors that are impossible to forecast. Below, we have listed the principal categories of risk that are likely to affect the investment decisions of shareholders or potential shareholders of the Company, and have described the systems we have put in place to minimize the said risks.

1. Market Risk

(i) Foreign Currency Risk

Each organizational unit within the Company has a predetermined "positional framework," and within the internal contract system, they are directed to duration matching and at the same time to reduce to the risk of potential losses through the use of forward exchange contracts. In addition to the positional framework, a loss-cut ("stop-loss") limit is also preset, and if the exchange rate of the yen against a certain currency or currencies exceeds this limit, the loss-cut rule comes automatically into play, thereby minimizing the exchange rate loss.

(ii) Interest Rate Risk

The Company conducts Asset-Liability Management (ALM) over a medium-term perspective as a means of hedging against interest risk (i.e. potential losses resulting from adverse changes in interest rates). Under its ALM system the Company draws up its investment and fund procurement policies on the basis of forecasts of future interest rate movements, based on the Company's current interest position. To hedge against short-term or sudden interest rate changes, transactions in financial derivatives such as interest rate swaps and options are used so as to minimize any resultant losses. Regarding fund procurement strategies, each internal organizational unit draws up fund procurement plans on the basis of its marketing plans, and, on a rolling basis, fund demand forecasts are revised in line with actual business performance.

(iii) Commodity Market Risk

A portion of the goods handled by the Company, in particular by the energy and foodstuffs business, are characterized by prices that move in close synchronization with commodity market prices. Transactions involving such goods are usually hedged using commodities futures contracts, while at the same time the position limits (both long and short positions) and investment rules are determined for each organizational unit of the Company. By monitoring the progress of the results of each unit's position, the materialization of risk can be held to a minimum (this is known as "position management").

(iv) Equity Price Risk

As part of its business strategy, the Company holds a large number of equity securities with market quotations, principally those of our providers, customers and affiliated companies. If the market value of these securities declines, this carries the risk of causing a decrease in the shareholders' equity of the Company on a consolidated basis. Therefore, we are selling off a portion of our share crossholdings with certain financial institutions and business partners with the goal of reducing the total value of our shareholdings to a level at which the potential loss in a worst-case scenario would be bearable.

2. Credit Risk

We are exposed to credit risk in the form of losses arising from deterioration in the credit of or bankruptcy of customers resulting from our various operating transactions. To manage this risk, we have established credit and transaction limits for each customer as well as an internal credit rating. In addition to trade credit arising from normal buying and selling transactions, customers or other business partners may also be eligible for loans, loan guarantees, and so on, and a total credit limit encompassing these categories as well as ordinary trade credit is assigned to each borrower as a means of limiting the credit risk attaching to each borrower to a reasonable level. Depending on the credit rating of the transaction counterparty, the Company, when necessary, also insists on collateral or guarantees, and also regularly conducts evaluations and revisions of credit risks involved and the probability of collection of payment of loans or deferred accounts receivable. In this way, we are taking steps to reduce those risks.

3. Investment Risk

Before Kanematsu can make investments in the establishment of a new company or the purchase of an existing company, the plan must be closely examined from all relevant angles, including questioning the long-term objectives and necessity of the investment, and the likelihood of reasonable returns on the investment. The economic and business logic of the investment plan, together with the opinions of other investors, and an Exit Plan for a worst-case scenario, are examined and debated by the Company's feasibility assessment departments, following which they are debated by the Project Deliberation Committee, and then finally by the Management Council and/or the Board of Directors (depending on the scale of the total investment amount). An analysis of the potential profitability of the proposed venture, balanced against the potential risks, is conducted on the basis of the estimated future cash flow under the project plan. Based on the results of this analysis, the final decision is made on whether or not to invest. With regard to projects in which investment has already been completed, the operational effectiveness of the business in question is regularly reviewed so as to hold possible losses to a minimum.

4. Country Risk

Regarding transactions and investment & loans made by the Company in countries other than Japan, there is always a possibility of losses arising from delays in collecting payment, or complete inability to collect payment, as a result of political or economic developments in the countries in question. To hold such possible losses to a minimum, the Company takes out trade insurance policies on each contract, and also lays down exposure limits for specific countries and regions and monitors the said limits to ensure they are not exceeded.

Consequently, "country risk ratings" are set for each country or region, together with credit line limits. Investment is controlled to ensure that net exposure (total exposure minus the value of insurance), also known as "money at risk," does not exceed the allowable limit. In addition, risk dispersion strategies are practiced to minimize possible losses.

5. Legal Risk

The Company is engaged in the business of buying and selling a very wide range of products within Japan and in overseas markets. The Company is obligated to observe the laws (and their attendant detailed regulations) of countries in which it operates. However, there always remains the possibility that the business performance or financial position of the Company, on a consolidated basis, may be adversely affected by unforeseeable changes in the law, the sudden raising of customs tariff barriers to free trade by multiple numbers of countries or other drastic changes in taxation systems, the imposition of restrictions on imports or exports into or from a country or countries as a result of security concerns, or a change in the law that affects the Company's permission to buy or sell certain goods in certain markets. In particular, the Company's Foodstuffs Division, whose main business is the sale of imported processed or unprocessed foodstuffs on the Japanese market, may be unable to import beef from particular regions owing to import restrictions put in place in response to outbreaks of BSE or other cattle diseases. In the event that safeguard measures are also implemented on imports of pork or other meats, the business performance and financial position of the Foodstuffs Business would be materially affected.

6. Compliance Risk

As the business operations of the Company range across a wide field, authority for day-to-day decisions is highly decentralized, and there is thus a risk that employees may fail to observe the stipulations of laws and regulations, or may intentionally commit a violation of the law or of the Company's internal regulations. To prevent such legal or regulatory violations, we have drawn up a Compliance Manual and set up a Crisis Management & Compliance Committee, which takes steps to ensure that the Company's staff observe legal statutes, abide by generally accepted international practices, and demonstrate a strong social conscience in the performance of their duties.

7. Operational Risk

While the employees of the Company are striving to observe relevant laws as well as internal regulations, it nonetheless remains true that the Company is subject to the risk of adverse effects from such unforeseeable events as the unintentional violation of the law by employees, or human error (including both mistakes and negligence) in the performance of their duties by Company employees. To minimize the likelihood of the occurrence of such incidents, and to minimize losses likely to result from such incidents as do occur, the Company employs the techniques of Business Process Reengineering (BPR), including the centralized processing of all business forms required for clerical work immediately after deliveries. This system is confidently expected to greatly lower the incidence of mistakes, rule violations, and unethical conduct in the course of day-to-day business processes.

Financial Section

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CONSOLIDATED BALANCE SHEETS

March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	**2006**	2005	**2006**
Current assets:			
Cash and bank deposits (Notes 4 & 7)	**¥ 52,116**	¥ 49,256	**$ 443,654**
Short-term investments (Note 5)	**0**	0	**0**
Notes and accounts receivable (Note 7)	**197,954**	148,551	**1,685,145**
Short-term loans receivable	**13,552**	8,015	**115,366**
Inventories (Note 6)	**79,738**	71,172	**678,795**
Deferred tax assets (Note 9)	**4,381**	7,074	**37,295**
Other current assets	**34,992**	36,082	**297,879**
Less: allowance for doubtful accounts	**(1,350)**	(2,203)	**(11,492)**
Total current assets	**381,383**	317,947	**3,246,642**
Investments and long-term receivables:			
Investments in securities (Notes 5 & 7)	**41,513**	34,045	**353,392**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 7)	**33,478**	37,625	**284,992**
Long-term loans receivable	**19,636**	22,609	**167,158**
Long-term trade receivables and other (Note 7)	**46,059**	45,031	**392,091**
Less: allowance for doubtful accounts	**(41,634)**	(28,618)	**(354,422)**
Total investments and long-term receivables	**99,052**	110,692	**843,211**
Property and equipment, at cost (Note 7):			
Property leased to others	**16,166**	19,194	**137,618**
Land	**22,653**	35,788	**192,841**
Buildings	**17,391**	17,772	**148,046**
Machinery and equipment	**37,338**	36,081	**317,851**
Construction-in-progress	**25**	18	**213**
	93,573	108,853	**796,569**
Less: accumulated depreciation	**(42,531)**	(39,458)	**(362,058)**
Total property and equipment	**51,042**	69,395	**434,511**
Intangible assets	**3,905**	2,785	**33,242**
Deferred tax assets (Note 9)	**20,664**	19,282	**175,909**
Deferred assets:			
Warrant issue costs	**—**	18	**—**
Total deferred assets	**—**	18	**—**
Total assets (Note 15)	**¥556,046**	¥520,119	**$4,733,515**

See "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS"

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	*Millions of Yen* 2006	2005	*Thousands of U.S. Dollars (Note 3)* 2006
Current liabilities:			
Notes and accounts payable	**¥160,900**	¥124,285	**$1,369,711**
Short-term loans payable (Note 7)	**83,841**	80,539	**713,723**
Current portion of long-term debt (Note 7)	**132,044**	18,946	**1,124,066**
Accrued income taxes	**1,303**	808	**11,092**
Deferred tax liabilities (Note 9)	**0**	8	**0**
Other current liabilities	**36,306**	27,845	**309,066**
Total current liabilities	**414,394**	252,431	**3,527,658**
Non-Current liabilities:			
Long-term debt (Note 7)	**82,548**	211,332	**702,716**
Accrued severance indemnities (Note 8)	**5,863**	5,961	**49,911**
Deferred tax liabilities (Note 9)	**1,402**	573	**11,935**
Allowance for loss on guarantees	**3,188**	1,965	**27,139**
Other long-term liabilities (Note 7)	**7,674**	7,454	**65,326**
Total non-current liabilities	**100,675**	227,285	**857,027**
Minority interests in consolidated subsidiaries	**14,973**	2,373	**127,463**
Commitments and contingent liabilities (Notes 7 & 11)			
Shareholders' equity (Note 13):			
Common stock,			
Authorized—1,016,653,604 shares;			
Issued—March 31, 2006—422,501,010 shares;	**27,781**	—	**236,494**
—March 31, 2005—413,027,730 shares;	**—**	27,502	**—**
Capital surplus	**27,642**	26,038	**235,311**
Retained earnings (accumulated deficit)	**(16,294)**	5,392	**(138,708)**
Revaluation reserve for land	**58**	58	**494**
Foreign currency translation adjustments	**(17,398)**	(21,505)	**(148,106)**
Net unrealized holding gains on securities	**4,816**	1,694	**40,998**
	26,605	39,179	**226,483**
Less: treasury stock, at cost:			
—March 31, 2006—3,884,528 shares;	**(601)**	—	**(5,116)**
—March 31, 2005—7,328,171 shares;	**—**	(1,149)	**—**
Total shareholders' equity	**26,004**	38,030	**221,367**
Total liabilities, minority interests and shareholders' equity	**¥556,046**	¥520,119	**$4,733,515**

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Net sales (Total trading transactions) (Note 15)	**¥1,104,726**	¥886,877	**$9,404,325**
Cost of sales	**1,022,993**	818,735	**8,708,547**
Gross trading profit	**81,733**	68,142	**695,778**
Selling, general and administrative expenses (Note 17)	**63,751**	52,380	**542,701**
Operating income (Note 15)	**17,982**	15,762	**153,077**
Other income (expenses):			
Interest income	**1,291**	1,031	**10,990**
Interest expense	**(7,910)**	(6,700)	**(67,336)**
Dividends	**1,702**	851	**14,489**
Equity in earnings of unconsolidated subsidiaries and affiliates	**1,672**	853	**14,233**
Other, net (Note 16)	**(31,465)**	(6,961)	**(267,855)**
Income (loss) before income taxes and minority interests	**(16,728)**	4,836	**(142,402)**
Income taxes (Note 9)			
Current	**2,867**	1,862	**24,407**
Deferred	**786**	72	**6,691**
Income (loss) before minority interests	**(20,381)**	2,902	**(173,500)**
Minority interests in consolidated subsidiaries	**1,305**	432	**11,109**
Net income (loss)	**¥ (21,686)**	¥ 2,470	**$ (184,609)**

Per share:	Yen		U.S. Dollars (Note 3)
Net income (loss)			
Basic	**¥ (52.43)**	¥ 6.52	**$(0.446)**
Diluted	**—**	—	**—**
Cash dividends	**—**	—	**—**
Weighted average number of shares of common stock outstanding (thousands)			
Basic	**413,649**	378,741	
Diluted	**—**	—	

See "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS"

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2006 and 2005

	Thousands	Millions of Yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings (accumulated deficit)	Revaluation reserve for land	Foreign currency translation adjustments	Net unrealized holding gains (losses) on securities	Treasury stock, at cost
Balance at March 31, 2004	345,878	¥22,448	¥21,035	¥ 3,505	¥58	¥(21,591)	¥(1,025)	¥(1,146)
Net income	—	—	—	2,470	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	86	—	—
Bonuses to directors	—	—	—	(67)	—	—	—	—
Conversion of bonds with non-detachable warrants	66,833	5,026	4,974	—	—	—	—	—
Exercise of warrants	317	28	27	—	—	—	—	—
Effect of changes in consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(503)	—	—	—	—
Mergers	—	—	—	(13)	—	—	—	—
Net unrealized holding gains on securities	—	—	—	—	—	—	2,719	—
Net increase in treasury stock	—	—	2	—	—	—	—	(3)
Balance at March 31, 2005	413,028	¥27,502	¥26,038	¥ 5,392	¥58	¥(21,505)	¥ 1,694	¥(1,149)
Net loss	—	—	—	**(21,686)**	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	**4,107**	—	—
Bonuses to directors	—	—	—	**(72)**	—	—	—	—
Conversion of bonds with non-detachable warrants	**3,211**	**279**	**279**	—	—	—	—	—
Issuance of new shares for exchange of shares	**6,262**	—	**971**	—	—	—	—	—
Effect of changes in consolidated subsidiaries	—	—	—	**120**	—	—	—	—
Effect of changes in companies accounted for by the equity method	—	—	—	**(48)**	—	—	—	—
Net unrealized holding gains on securities	—	—	—	—	—	—	**3,122**	—
Net increase in treasury stock	—	—	**354**	—	—	—	—	**548**
Balance at March 31, 2006	**422,501**	**¥27,781**	**¥27,642**	**¥(16,294)**	**¥58**	**¥(17,398)**	**¥ 4,816**	**¥ (601)**

	Thousands of U.S. Dollars (Note 3)						
	Common stock	Capital surplus	Retained earnings (accumulated deficit)	Revaluation reserve for land	Foreign currency translation adjustments	Net unrealized holding gains on securities	Treasury stock, at cost
Balance at March 31, 2005	$234,119	$221,656	$ 45,901	$494	$(183,068)	$14,421	$(9,781)
Net loss	—	—	**(184,609)**	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	**34,962**	—	—
Bonuses to directors	—	—	**(613)**	—	—	—	—
Conversion of bonds with non-detachable warrants	**2,375**	**2,375**	—	—	—	—	—
Issuance of new shares for exchange of shares	—	**8,266**	—	—	—	—	—
Effect of changes in consolidated subsidiaries	—	—	**1,022**	—	—	—	—
Effect of changes in companies accounted for by the equity method	—	—	**(409)**	—	—	—	—
Net unrealized holding gains on securities	—	—	—	—	—	**26,577**	—
Net increase in treasury stock	—	**3,014**	—	—	—	—	**4,665**
Balance at March 31, 2006	**$236,494**	**$235,311**	**$(138,708)**	**$494**	**$(148,106)**	**$40,998**	**$(5,116)**

See "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS"

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥(16,728)**	¥ 4,836	**$(142,402)**
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**3,813**	3,122	**32,459**
Gain on sale of investments, net	**(6,224)**	(461)	**(52,984)**
Loss on revaluation of investments	**2,971**	233	**25,292**
Gain (loss) on sale or disposal of property and equipment, net	**(41)**	1,211	**(349)**
Impairment loss on fixed assets	**14,594**	—	**124,236**
Gain on transfer of business	**(1,430)**	—	**(12,173)**
Loss on revaluation of inventories	**6,208**	—	**52,848**
Provision for allowance for doubtful accounts	**11,287**	(130)	**96,084**
Provision for allowance for loss on guarantees	**1,041**	977	**8,862**
Loss on closure of business	**789**	1,039	**6,717**
Amortization of unrecognized transition amount arising from adopting the new standard for retirement benefits	**—**	1,659	**—**
Interest and dividend income	**(2,993)**	(1,882)	**(25,479)**
Interest expense	**7,910**	6,700	**67,336**
Decrease in notes and accounts receivable	**2,448**	6,759	**20,839**
Decrease in notes and accounts payable	**(950)**	(3,244)	**(8,087)**
Increase in inventories	**(5,959)**	(650)	**(50,728)**
Other	**5,649**	(4,744)	**48,088**
Sub total	**22,385**	15,425	**190,559**
Interest and dividend income received	**3,287**	2,223	**27,982**
Interest paid	**(7,500)**	(6,132)	**(63,846)**
Proceeds from transfer of business	**4,910**	—	**41,798**
Income taxes paid	**(3,362)**	(1,393)	**(28,620)**
Net cash provided by operating activities	**19,720**	10,123	**167,873**
Cash flows from investing activities:			
Increase in time deposits, net	**(676)**	(1)	**(5,755)**
Decrease in short-term investments, net	**—**	15	**—**
Payments for acquisition of property and equipment	**(1,950)**	(2,104)	**(16,600)**
Proceeds from sale of property and equipment	**4,642**	461	**39,516**
Payments for acquisition of investments in securities	**(2,111)**	(2,250)	**(17,971)**
Proceeds from sale of investments in securities	**13,043**	10,612	**111,033**
Increase in loans receivable	**(8,150)**	(4,869)	**(69,379)**
Decrease in loans receivable	**6,176**	5,325	**52,575**
Payments for purchase of shares of subsidiaries (Notes 5 & 18)	**(3,437)**	(732)	**(29,259)**
Other	**286**	(1,074)	**2,436**
Net cash provided by investing activities	**7,823**	5,383	**66,596**
Cash flows from financing activities:			
Decrease in short-term loans, net	**(8,957)**	(7,664)	**(76,249)**
Proceeds from long-term debt	**10,592**	45,155	**90,168**
Repayments of long-term debt	**(29,525)**	(50,736)	**(251,341)**
Proceeds from issuance of bonds	**—**	9,968	**—**
Proceeds from issuance of common stock	**559**	55	**4,759**
Other	**748**	309	**6,367**
Net cash used in financing activities	**(26,583)**	(2,913)	**(226,296)**
Effect of exchange rate changes on cash and cash equivalents	**855**	113	**7,278**
Net increase in cash and cash equivalents	**1,815**	12,706	**15,451**
Cash and cash equivalents at beginning of year (Note 4)	**48,831**	35,913	**415,689**
Effect of the change in scope of consolidated subsidiaries	**238**	212	**2,026**
Mergers	**51**	—	**434**
Cash and cash equivalents at end of year (Note 4)	**¥ 50,935**	¥ 48,831	**$ 433,600**
Supplemental schedule of non-cash financing activities			
Conversion of bonds with non-detachable warrants	**¥ —**	¥ 10,000	**$ —**

See "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS"

1. Basis of Presenting the Consolidated Financial Statements:

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Kanematsu Corporation (the "Company") and its consolidated subsidiaries. The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set out in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accounts of the overseas subsidiaries, which have been consolidated with the Company, are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries are incorporated. In general, no adjustments to the accounts of overseas-consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in compliance with the Japanese accounting principles and practices followed by the Company. However, it is the opinion of the management of the Company that the accounting principles and practices followed by the overseas subsidiaries do not materially differ from those prevailing in Japan.

Certain reclassifications of account balances disclosed in the consolidated financial statements in Japan have been made so as to present them in a form that is more familiar to readers outside Japan.

In addition, although consolidated statements of shareholders' equity are not required to be disclosed in Japan for domestic reporting purposes, such statements for the years ended March 31, 2006 and 2005 have been included in this report as additional information.

2. Summary of Significant Accounting Policies:

(a) Consolidation and Investments in Affiliates

The consolidated financial statements include the accounts of the Company and all significant subsidiaries (the "Companies"). All significant intercompany transactions, accounts and unrealized profits have been eliminated.

Any material difference between the cost of investment in a subsidiary and the equity in its net assets at the date of acquisition is amortized using the straight-line method over estimated effective years, principally 5 years.

Investments in unconsolidated subsidiaries and affiliates are, with minor exceptions, carried at cost plus the equity in the undistributed earnings, after elimination of unrealized intercompany profits. The effect of newly applying or discontinuing the application of the equity method to investments in unconsolidated subsidiaries and affiliates is charged to the consolidated retained earnings.

Among the companies being consolidated, 30 and 27 companies, including Kanematsu USA Inc., Kanematsu GmbH, Kanematsu Australia Ltd., Kanematsu Europe Plc. and KG Aircraft Leasing Co., Ltd., use transactions and accounts of their fiscal year ending on December 31, for the fiscal year ended in March 31, 2006 and March 31, 2005 respectively. Material differences in inter-company transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted for on consolidation.

(b) Translation of Foreign Currency

The translation of the financial statements of overseas subsidiaries stated in foreign currency into Japanese yen has been done using one of the methods of translation prescribed in the statements issued by the Business Accounting Deliberation Council (the "BADC") of Japan.

Under this BADC method, foreign financial statements are translated at current exchange rates, except for shareholders' equity which is translated at historical exchange rates.

Accordingly, when applying this method, certain adjustments must be made to the accounts in the balance sheet in order to balance the debit and credit totals. Such adjustments are shown as "Foreign currency translation adjustments" in the shareholders' equity.

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

Resulting transaction gains or losses are included in the determination of net income.

(c) Cash and Cash Equivalents

"Cash and cash equivalents" in the consolidated statements of cash flows comprise cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(d) Financial Instruments

Securities

Securities held by the Companies are classified into two categories, 'Held-to-maturity debt securities' and 'Other securities.'

'Held-to-maturity debt securities,' which the Companies intend to and have the ability to hold to maturity, are stated at cost less the amortization of any premiums or discounts, which are amortized over the period to maturity.

'Other securities' for which market quotations are available are stated at market value. Net unrealized gains or losses on these securities are reported as a separate component of the "Shareholders' equity" at a net of tax amount. Under the Code, unrealized holding gains on securities, net of tax are not available for distribution as dividends and bonuses to directors and corporate auditors. Their cost of sale is determined using the moving average method. 'Other securities' for which market quotations are unavailable are stated at cost, which is determined using the moving average method except as stated in the paragraph below.

In cases where the fair value of 'Other securities' and 'Held-to-maturity debt securities' has declined significantly (30 % or more decline from the carrying value) and the impairment of value is not deemed temporary, such securities are written down to the fair value and the resulting losses are included in "Net income" for the period.

Derivatives

All derivatives are measured at fair value and changes in fair value are included in "Net income" for the period in which they arise, except for derivatives designed as "hedging instruments" (See (e) Hedge Accounting below).

(e) Hedge Accounting

Gains and losses arising from changes in the fair value of derivatives designated as 'hedging instruments' are deferred as assets or liabilities on the balance sheet and included in "Net income" in the same period in which the gains and losses on the hedged items or transactions are recognized.

In cases where interest rate swaps designated as 'hedging instruments' 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.

Derivatives designated as 'hedging instruments' by the Companies and the related hedged items are as follows:

	Derivatives designated as hedging instruments	Related hedged items
Commodities	Commodity futures contracts Commodity forward contracts	Commodity transactions in the future
Currencies...........	Foreign currency forward contracts Currency swaps Currency options	Assets, liabilities and forecasted transactions denominated in foreign currencies
Interest	Interest rate swaps Interest options	Bank loans

The Company and certain of its domestic consolidated subsidiaries have policies to utilize the above hedging instruments for the purpose of reducing their exposure to the risk of fluctuations in commodity prices, currency rates and interest rates.

The Company and certain of its domestic consolidated subsidiaries evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedge.

(f) Inventories

Inventories are stated at cost, which is determined primarily using the moving-average method.

(g) Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided over the estimated useful lives of the assets primarily using the declining-balance method, except for property leased to others and buildings, for which the straight-line method is used.

The range of useful lives is principally from 3 to 50 years for buildings and from 2 to 25 years for machinery and equipment.

The cost of property and equipment retired or otherwise disposed of and the related accumulated depreciation is eliminated from the respective accounts and the resulting gain or loss is reflected in "Net income."

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(h) Impairment of Fixed Assets

On August 9, 2002, the BADC of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 – "Application Guidance on Accounting Standards for Impairment of Fixed Assets." These standards are effective from the fiscal year beginning April 1, 2005.

As a result of the adoption, an impairment loss of ¥14,594 million ($ 124,236 thousand) was recognized and loss before income taxes and minority interests for the year ended March 31, 2006 decreased by the same amount, as compared with the amount which would have been reported if the previous standards had been applied consistently. The accumulated impairment loss is deducted from net book value of each asset.

(i) Allowance for Doubtful Accounts

The Company and certain of its domestic consolidated subsidiaries provide an allowance for doubtful accounts by applying the percentage which represents their actual experience of bad debt write-offs to the balance of total receivables, and then adding the amount deemed necessary to cover the losses on individual accounts estimated to be uncollectible.

(j) Income Taxes

The income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Deferred income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

A deferred tax asset relating to the carryforward of a net operating loss has been recorded because the Japanese accounting standard requires the benefit of the carryforward of a tax loss to be estimated and recorded as an asset, and then a valuation allowance to be deducted if it is expected that some portion or all of the deferred tax assets will not be realized.

(k) Consolidated Corporate-Tax System

Regarding corporate income tax, the Company and certain domestic subsidiaries have adopted a consolidated corporate-tax system.

(l) Consumption Taxes

Consumption taxes withheld by the Company and its domestic subsidiaries on trading transactions are not included in "Net sales (total trading transactions)" in the accompanying consolidated statements of income. In addition, the consumption taxes borne by the Company and its domestic subsidiaries on purchases of goods and services, and expenses, are not included in the related amounts in the accompanying consolidated statements of income.

(m) Accrued Severance Indemnities

The employees of the Company and certain of its domestic consolidated subsidiaries are entitled to receive lump-sum indemnities upon termination. The amount of these benefits is determined by the current basic rate of pay, length of service and conditions under which the termination of employment occurs. The amount of severance indemnities to be paid by the Company and certain of its domestic consolidated subsidiaries is reduced by the benefits payable under a non-contributory pension plan which entitles an employee with more than a certain minimum number of years service to receive either a lump-sum payment or an annuity. In addition, certain of the Company's domestic consolidated subsidiaries have a contributory funded benefit pension plan, pursuant to the Japanese Welfare Pension Insurance Law. The contributory funded benefit pension plan covers a portion of the governmental welfare program, under which both the employer and employees contribute.

(n) Allowance for Loss on Guarantees

The Company provides an allowance for potential loss on guarantees in respect of borrowings made by unconsolidated subsidiaries and affiliated companies.

(o) Net Sales (Total Trading Transactions) and Related Costs

The Company and certain of its consolidated subsidiaries are general trading companies and act as either principal or agent in trading transactions. For a substantial portion of the transactions in which the companies act as principal ("purchase and sale transactions"), only title to and payment for the goods pass through the companies without physical acquisition and delivery actually taking place. For transactions in which the companies act as agent, payment for goods in some instances is made directly by purchasers to suppliers. "Total trading transactions" shown in the consolidated statements of income consist principally of net sales for transactions in which the companies act as principal, including rent and warehousing transactions, and certain transactions in which the companies act as agent.

(p) Net Income per Shares

Basic net income per share of common stock is computed based upon the weighted average number of shares of common stock outstanding during each period.

Diluted net income per share of common stock is computed based upon the weighted average number of shares of common stock outstanding after consideration of the dilutive effect of conversion into common stock of bonds with non-detachable warrants and exercise of warrants during each year.

Diluted net income per share for the years ended March 31, 2006 and 2005 were not shown, since the Company had no securities with a dilutive effect on a net income per share.

(q) Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Reclassifications

Certain reclassifications of previously reported amounts have been made to the consolidated balance sheet as of March 31, 2005 to conform to the current year presentation. Such reclassifications have no effect on net assets and net cash flows.

3. United States Dollar Amounts:

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥ 117.47=U.S.$ 1, the rate of exchange at March 31, 2006. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥ 117.47=U.S.$ 1, or any other rate.

4. Cash and Cash Equivalents:

Cash and cash equivalents consisted of:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	2006
Cash and bank deposits	¥52,116	¥49,256	$443,654
Less: time deposits with deposit terms of over 3 months	(1,181)	(425)	(10,054)
Cash and cash equivalents	¥50,935	¥48,831	$433,600

5. Short-term Investments and Investments in Securities:

The following is a summary of 'Held-to-maturity debt securities' and 'Other securities' as of March 31, 2006:

(1) 'Held- to-maturity debt securities' whose market value on the accompanying consolidated balance sheet does not exceed their acquisition cost were as follows:

	Millions of Yen			*Thousands of U.S. Dollars*		
	Book value	Market value	Unrealized loss	Book value	Market value	Unrealized loss
Japanese national government bonds	¥25	¥25	¥(0)	$213	$213	$(0)

(2) The acquisition cost and book value of 'Other securities' with an available market quotation are summarized as follows:

	Millions of Yen			*Thousands of U.S. Dollars*		
	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)
Securities whose book value on the accompanying consolidated balance sheet exceeds their acquisition cost						
Equity securities	¥10,172	¥21,374	¥11,202	$86,592	$181,953	$95,361
Other	40	41	1	341	349	8
	10,212	21,415	11,203	86,933	182,302	95,369
Securities whose book value on the accompanying consolidated balance sheet does not exceed their acquisition cost						
Equity securities	92	81	(11)	783	690	(93)
Other	81	75	(6)	690	638	(52)
	173	156	(17)	1,473	1,328	(145)
	¥10,385	¥21,571	¥11,186	$88,406	$183,630	$95,224

(3) 'Other securities' sold during the year ended March 31, 2006 were as follows:

	Millions of Yen			*Thousands of U.S. Dollars*		
	Proceeds from sale	Gain on sale	Loss on sale	Proceeds from sale	Gain on sale	Loss on sale
	¥9,936	¥5,295	¥(104)	$84,583	$45,075	$(885)

(4) The book value of 'Held-to-maturity debt securities' and 'Other securities' where market quotations were not available is summarized as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
Other securities:		
Equity securities (unlisted)	¥7,117	$60,586

(5) The aggregate annual maturities of debt securities included in 'Held-to-maturity debt securities' and marketable 'Other securities' outstanding as of March 31, 2006 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*	
	Due within 1 year	Due after 1 year but within 5 years	Due within 1 year	Due after 1 year but within 5 years
Japanese national government bonds	¥—	¥25	$—	$213

The following is a summary of 'Held-to-maturity debt securities' and 'Other securities' as of March 31, 2005:

(1) 'Held-to-maturity debt securities' whose market value on the accompanying consolidated balance sheet exceeded their acquisition cost were as follows:

	Millions of Yen		
	Book value	Market value	Unrealized gain
Japanese national government bonds	¥25	¥25	¥0

(2) The acquisition cost and book value of 'Other securities' with an available market quotation are summarized as follows:

	Millions of Yen		
	Acquisition cost	Book value	Unrealized gain (loss)
Securities whose book value on the accompanying consolidated balance sheet exceeds their acquisition cost			
Equity securities	¥ 9,391	¥13,067	¥3,676
Bonds	55	165	110
	9,446	13,232	3,786
Securities whose book value on the accompanying consolidated balance sheet does not exceed their acquisition cost			
Equity securities	2,502	1,957	(545)
	2,502	1,957	(545)
	¥11,948	¥15,189	¥3,241

(3) 'Other securities' sold during the year ended March 31, 2005 were as follows:

Millions of Yen		
Proceeds from sale	Gain on sale	Loss on sale
¥8,977	¥1,347	¥1,068

(4) The book value of 'Held-to-maturity debt securities' and 'Other securities' where market quotations were not available is summarized as follows:

	Millions of Yen
Held-to-maturity debt securities:	
Corporate bonds and other securities (unlisted)	¥ 18
Other securities:	
Equity securities (unlisted)	7,083

(5) The aggregate annual maturities of debt securities included in 'Held-to-maturity debt securities' and marketable 'Other securities' outstanding as of March 31, 2005 were as follows:

	Millions of Yen	
	Due within 1 year	Due after 1 year but within 5 years
Japanese national government bonds	¥—	¥ 25
Corporate bonds and other securities	—	211
Total	¥—	¥ 236

6. Inventories:

Inventories as of March 31, 2006 and 2005 comprised the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Commodities	**¥64,253**	¥51,635	**$546,974**
Goods-in-transit	**5,702**	4,662	**48,540**
Real estate held for sale	**6,317**	10,993	**53,775**
Work-in-process	**3,466**	3,882	**29,506**
	¥79,738	¥71,172	**$678,795**

7. Short-term Loans Payable and Long-term Debt:

(1) Short-term loans payable outstanding as of March 31, 2006 and 2005 primarily represented notes payable to banks bearing interest at average annual rates of 2.6 % and 2.4 %. Short-term loans payable as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Collateralized	**¥ 5,100**	¥ 1,226	**$ 43,415**
Non-collateralized	**78,741**	79,313	**670,308**
	¥83,841	¥80,539	**$713,723**

(2) Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Loans from banks and others with interest rates ranging from 0% to 7.5%:			
Collateralized	**¥ 3,196**	¥ 2,230	**$ 27,207**
Non-collateralized	**211,396**	228,048	**1,799,575**
	214,592	230,278	**1,826,782**
Less: portion due within one year	**(132,044)**	(18,946)	**(1,124,066)**
	¥ 82,548	¥211,332	**$ 702,716**

(3) The aggregate annual maturities of long-term debt as of March 31, 2006 were as follows:

Years ending March 31,	*Millions of Yen*	*Thousands of U.S. Dollars*
2007	¥132,044	$1,124,066
2008	64,978	553,145
2009	6,143	52,294
2010	185	1,575
2011	11,240	95,684
2012 and thereafter	2	18
	¥214,592	$1,826,782

(4) As of March 31, 2006 and 2005, the following assets were pledged as collateral for short-term loans payable, long-term debt, other long-term liabilities, and contingent liabilities (See Note 11):

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	2006
Time deposits	¥ 186	¥ 153	$ 1,583
Notes and accounts receivable	1,831	—	15,587
Investments in affiliates and other securities	4,204	2,168	35,788
Property and equipment	6,650	8,156	56,610
Other investments	—	0	—
	¥12,871	¥10,477	$109,568

Substantially all the notes payable to banks are issued under basic written agreements with the lending banks which state that, with respect to all present or future loans with the banks, the Company shall provide collateral (including sums on deposit with such banks) or guarantors thereof, upon the banks' request, and that any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to the banks.

8. Accrued Severance Indemnities and Pension Plan:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	2006
Projected benefit obligation at end of year	¥15,795	¥10,705	$134,460
Fair value of plan assets at end of year	(10,080)	(4,693)	(85,809)
Projected benefit obligation in excess of plan assets	5,715	6,012	48,651
Unrecognized actuarial loss	148	(51)	1,260
Accrued pension liabilities recognized in the consolidated balance sheets	¥ 5,863	¥ 5,961	$ 49,911

Some domestic consolidated subsidiaries adopted the alternative treatment for small business entities as allowed in the accounting standard for retirement benefits issued by the BADC of Japan.

The severance and pension costs of the Company and its consolidated subsidiaries include the following components for the year ended March 31, 2006 and 2005.

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	2006
Service cost	¥1,074	¥ 801	$ 9,143
Interest cost	245	171	2,086
Expected return on plan assets	(136)	(65)	(1,158)
Amortization:			
Unrecognized net transition obligation	—	1,659	—
Actuarial loss	134	30	1,141
Other	48	26	408
Net periodic benefit cost	¥1,365	¥2,622	$11,620

The 'Service cost' above includes all the benefit costs of those domestic consolidated subsidiaries that have adopted the alternative treatment for small business entities as allowed in the accounting standard for retirement benefits.

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2006 and 2005 were as follows:

	As of March 31, 2006	As of March 31, 2005
Method of attributing benefit to periods of service	Straight-line basis	Straight-line basis
Discount rate	2.0%–2.5%	2.0%–2.5%
Long-term rate of return on plan assets	1.5%–2.5%	1.5%–2.5%
Amortization period for actuarial loss	5–10 years	5–10 years
Amortization period for unrecognized net transition obligation	—	Mainly 5 years

9. Income Taxes:

As of March 31, 2006 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful accounts	¥22,737	¥13,544	$193,556
Tax loss carryforwards	1,959	7,941	16,677
Revaluation of inventories	4,853	2,575	41,313
Loss on impairment of fixed assets	2,212	—	18,830
Differences between financial and tax basis of accounting in respect of investments in consolidated subsidiaries	9,994	9,460	85,077
Unrealized losses on securities	2,528	0	21,520
Other	7,286	5,452	62,025
Subtotal	51,569	38,972	438,998
Less: valuation allowance	(21,062)	(10,377)	(179,297)
	30,507	28,595	259,701
Deferred tax liabilities:			
Depreciation expense	(1,037)	(996)	(8,828)
Undistributed earnings of foreign subsidiaries	(989)	(623)	(8,419)
Unrealized gains on securities	(4,442)	(1,069)	(37,814)
Other	(396)	(132)	(3,371)
Total deferred tax liabilities	(6,864)	(2,820)	(58,432)
Net deferred tax assets	¥23,643	¥25,775	$201,269

Deferred tax assets and deferred tax liabilities were included in the consolidated balance sheets at March 31, 2006 and 2005 as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	2006
Current assets: Deferred tax assets	¥ 4,381	¥ 7,074	$ 37,295
Non-current assets:			
Deferred tax assets	20,664	19,282	175,909
Current liabilities: Deferred tax liabilities	(0)	(8)	(0)
Non-current liabilities:			
Deferred tax liabilities	(1,402)	(573)	(11,935)

Reconciliation of the difference between the statutory tax rate and the effective income tax rate as of March 31, 2006 was not prepared due to loss before income taxes. Reconciliation of the difference between the statutory tax rate and the effective income tax rate as of March 31, 2005 was not prepared as the difference was immaterial.

10. Lease Commitments:

Financing Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the lease term, the leased property is not capitalized and lease transaction gains or losses are reflected in "Net income," as per the statements issued by the BADC of Japan.

(1) Lessee

Lease payments relating to financing leases that do not transfer ownership of the leased property to the lessee during the term of the lease were ¥1,014 million ($8,632 thousand) and ¥395 million for the years ended March 31, 2006 and 2005, respectively.

The future minimum lease payments under the terms of these financing leases as of March 31, 2006 and 2005, excluding interest, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Due within one year	**¥3,098**	¥366	**$26,373**
Due after one year	**3,833**	589	**32,630**
Total	**¥6,931**	¥955	**$59,003**

For reference, the future minimum sub-lease payments under the terms of these sub-leases as of March 31, 2006 excluding interest were as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
	2006	**2006**
Due within one year	**¥1,929**	**$16,421**
Due after one year	**2,291**	**19,503**
Total	**¥4,220**	**$35,924**

The acquisition cost, accumulated depreciation and net book value of leased machinery, equipment and other assets as of March 31, 2006 and 2005, plus the related depreciation and interest expense that would have been applicable for the years ended March 31, 2006 and 2005, if the assets had been capitalized, were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Acquisition cost	**¥ 5,827**	¥1,693	**$ 49,604**
Less: accumulated depreciation	**(3,257)**	(813)	**(27,726)**
Net book value	**¥ 2,570**	¥ 880	**$ 21,878**
Depreciation expense	**¥ 926**	¥ 361	**$ 7,883**
Interest expense	**¥ 72**	¥ 34	**$ 613**

The depreciation expense is computed using the straight-line method over the lease term.

The excess amount of total lease payments over the acquisition cost of leased property is deemed to be an accumulated interest expense, and is allocated to each period using the interest method.

The future minimum lease payments under operating leases that have initial or remaining non-cancelable lease terms as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Due within one year	**¥13**	¥2	**$111**
Due after one year	**17**	1	**145**
Total	**¥30**	¥3	**$256**

(2) Lessor

Lease income relating to lease transactions was ¥70 million ($596 thousand) and ¥42 million for the years ended March 31, 2006 and 2005 respectively.

The future minimum lease payments receivable, excluding interest:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Due within one year	**¥2,290**	¥22	**$19,494**
Due after one year	**2,596**	26	**22,099**
Total	**¥4,886**	¥48	**$41,593**

The acquisition cost, accumulated depreciation and net book value of leased machinery, equipment and other assets as of March 31, 2006 and 2005, plus the related depreciation expense and interest income for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Acquisition cost	**¥ 176**	¥ 226	**$1,498**
Less: accumulated depreciation	**(106)**	(185)	**(902)**
Less: impairment loss on fixed assets	**(34)**	—	**(289)**
Net book value	**¥ 36**	¥ 41	**$ 307**
Depreciation expense	**¥ 12**	¥ 34	**$ 102**
Interest expense	**¥ 4**	¥ 4	**$ 34**

The excess amount of minimum lease payments receivable over the acquisition cost of leased property is deemed to be accumulated interest income, and is allocated to each period using the interest method.

Operating Leases

The future minimum rentals under operating leases as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Due within one year	**¥284**	¥ 851	**$2,418**
Due after one year	**59**	175	**502**
Total	**¥343**	¥1,026	**$2,920**

11. Contingencies:

Contingent liabilities of the Companies at March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Notes discounted and endorsed in the normal course of business	**¥11,580**	¥10,886	**$ 98,578**
Guarantee obligations for bank loans to unconsolidated subsidiaries, affiliates, and customers	**8,849**	3,205	**75,330**
	¥20,429	¥14,091	**$173,908**

12. Derivatives:

(1) Contents, Policies and Purpose of Derivative Transactions

The Company and certain of its consolidated subsidiaries use commodity futures contracts, commodity forward contracts and commodity option contracts mainly for the purpose of reducing their exposure to price volatility on commodity transactions. These transactions are traded systematically under transaction rules after calculating the proper volume based on the transaction volume and earnings power.

With respect to financial instruments, the primary classes of derivative financial instruments used by the Company and certain of its consolidated subsidiaries are foreign exchange forward contracts, currency options, currency swaps, interest rate swaps and interest options. The basic purpose of these transactions is to manage different types of risk, such as interest rate variations and currency fluctuations. These transactions are traded systematically based on past transaction volume and expected volume in the future.

The Company and certain of its consolidated subsidiaries also enter into the above transactions, under certain conditions, for trading purposes (in order to gain short-term margins), but the transaction volume is minimal.

(2) Risk of Derivative Transactions

Derivative transactions involve market risk and credit risk. Market risk means exposure to losses arising from volatility in the market prices of transaction objects and from the inherent volatility involved in derivative transactions. Credit risk means losses as a result of counterparty default on financial instruments.

Since most derivative transactions are related to hedging transactions with underlying business exposure, market risk for these derivative instruments is basically offset by an equal and opposite movement in the underlying exposure.

The exposure to credit risk on derivatives is minimized mainly by limiting the counterparties used to major international banks and financial institutions.

(3) Risk Management Policies

The Company adopts the following risk management policies for effective use of derivative instruments. Under these policies, each derivative transaction is periodically assessed by management and evaluated by analytical procedures.

(a) Transaction Rules

With respect to commodities, the management controls commodity positions after considering both contract balances and book balances. At the beginning of every period, each business division strictly limits its commodity position in proportion to its transaction volume and earnings power. For derivative transactions, each business division prescribes its own transaction rules and loss limit rules for each kind of commodity and transaction purpose.

At the beginning of every period, the financial division makes transaction plans for financial instruments in accordance with internal rules for each kind of commodity, including derivative transactions. Derivative financial instruments are used in accordance with the transaction rules, which prescribe the transaction limits, loss limits, and authority over derivative transaction operations.

(b) Risk Monitoring and Reporting

Commodity positions are periodically assessed, and the risk assessment results are reported to the management by each Administration Department.

The Internal Auditing Section, which is strictly independent from the trading sections, daily assesses and reports the positions of financial instruments to the management.

Certain of the Company's consolidated subsidiaries (major overseas companies and finance companies) use derivative transactions in accordance with their own internal rules, which are based on the Company's risk management policies.

The fair value of off-balance-sheet financial instruments as of March 31, 2006 and 2005 is as follows:

Commodities

	Millions of Yen						*Thousands of U.S. Dollars*		
	2006			2005			**2006**		
	Contract or notional amount	Fair value	Unrealized gain (loss)	Contract or notional amount	Fair value	Unrealized gain (loss)	Contract or notional amount	Fair value	Unrealized gain (loss)
Commodity futures:									
Foodstuffs									
Sales commitments	**¥711**	**¥711**	**¥ (0)**	¥113	¥110	¥ 3	**$6,053**	**$6,053**	**$ (0)**
Purchase commitments	**651**	**670**	**19**	152	150	(2)	**5,542**	**5,704**	**162**
Energy									
Sales commitments	**664**	**680**	**(16)**	14	14	(0)	**5,653**	**5,789**	**(136)**
Purchase commitments	**—**	**—**	**—**	—	—	—	**—**	**—**	**—**

13. Shareholders' Equity:

Under the Code, appropriations of retained earnings (including year-end cash dividend payments) proposed by the Board of Directors should be approved at the shareholders' meeting which must be held within three months of the end of each fiscal year. Such appropriations apply to the immediately preceding fiscal year, but are approved by the shareholders and disposed of during the current fiscal year.

The Company's Board of Directors, with the subsequent approval of the shareholders, has made annual appropriations of retained earnings for various purposes. Any disposal of such appropriations is at the discretion of the Board of Directors, subject to the subsequent approval of the shareholders.

On the accompanying consolidated financial statements, "Capital surplus" consists of capital reserve pursuant to the Code and proceeds from the resale of treasury stock in excess of their cost etc., and "Retained earnings (Accumulated deficit)" consists of legal reserve pursuant to the Code, voluntary reserves, and unappropriated earnings, (undisposed accumulated deficit), etc.

Capital Reserve

Capital reserve pursuant to the Code, primarily consists of proceeds on the issuance of shares of common stock of the Company that were not recorded as "Common stock" (Under the Code, the Company is allowed to account for an amount not exceeding one-half of the issue price of new shares as capital reserve). Capital reserve may be transferred to other capital surplus to the extent that the sum of capital reserve and legal reserve do not fall below 25 % of stated capital.

Legal Reserve

The Code requires the Company to appropriate as legal reserve an amount equivalent to at least 10 % of cash payments for appropriation of retaining earnings until capital reserve and legal reserve equal 25 % of the stated capital. Legal reserve may be transferred to unappropriated retained earnings to the extent that capital reserve and legal reserve do not fall below 25 % of the stated capital.

Capital reserve and legal reserve may be transferred to stated capital through suitable directors' actions or offset against deficit through suitable shareholders' actions.

Revaluation Reserve for Land

In the years ended March 31, 2000 and 2002, certain affiliates, accounted for using the equity method, revalued land in accordance with the Land Revaluation Law and recorded unrealized gains on revaluation, net of tax, as a revaluation reserve directly in shareholders' equity. Investments in these affiliates increased by an amount equal to the Companies' equity in their reserves and recorded as revaluation reserve for land.

Treasury Stock

Under the Code, the Company is allowed to acquire its own shares to the extent that the aggregate cost of treasury stocks does not exceed the maximum amount available for dividends. Treasury stocks are stated at cost in shareholders' equity in accompanying consolidated balance sheets. Net gain on the resale of treasury stocks is presented under "Capital surplus" in shareholders' equity in the accompanying consolidated balance sheets.

14. Related Party Transactions:

The principal transactions between the Company and its unconsolidated subsidiaries and affiliates for the year ended March 31, 2006 are summarized as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
	2006	2006
Loans receivable	¥6,552	$55,776
Interest received	¥ 213	$ 1,813

There are no principal transactions between the Company and its unconsolidated subsidiaries and affiliates for the year ended March 31, 2005.

15. Segment Information:

Industry Segment Information

The Companies classify their operations into six segments "IT," "Foodstuffs," "Life Science & Energy," "Iron, Steel & Industrial Plants," "Textiles" and "Others."

A summary by industry for the years ended March 31, 2006 and 2005 is as follows:

	Millions of Yen							
Year ended March 31, 2006	IT	Foodstuffs	Iron, Steel & Industrial Plants	Life Science & Energy	Textiles	Others	Adjustments & Eliminations	Consolidated
Net sales								
Outside customers	¥302,473	¥199,349	¥226,405	¥300,544	¥55,621	¥20,334	¥ —	¥1,104,726
Intersegment	48	1	124	62	—	128	(363)	—
Total	302,521	199,350	226,529	300,606	55,621	20,462	(363)	1,104,726
Operating expenses	297,488	198,645	218,573	298,116	55,196	19,380	(654)	1,086,744
Operating income	¥ 5,033	¥ 705	¥ 7,956	¥ 2,490	¥ 425	¥ 1,082	¥ 291	¥ 17,982
Assets	¥159,862	¥ 68,654	¥ 92,425	¥ 69,401	¥21,384	¥55,835	¥88,485	¥ 556,046
Depreciation and amortization	1,949	364	479	277	61	692	(9)	3,813
Impairment of fixed assets	368	5	1,012	170	15	13,024	—	14,594
Capital expenditure	1,476	152	194	200	79	201	732	3,034

Year ended March 31, 2005	Millions of Yen IT	Foodstuffs	Iron, Steel & Industrial Plants	Life Science & Energy	Textiles	Others	Adjustments & Eliminations	Consolidated
Net sales								
Outside customers	¥249,125	¥134,358	¥219,830	¥220,427	¥57,927	¥ 5,210	¥ —	¥886,877
Intersegment	46	31	167	137	—	124	(505)	—
Total	249,171	134,389	219,997	220,564	57,927	5,334	(505)	886,877
Operating expenses	245,558	132,677	213,554	218,686	56,739	4,399	(498)	871,115
Operating income	¥ 3,613	¥ 1,712	¥ 6,443	¥ 1,878	¥ 1,188	¥ 935	¥ (7)	¥ 15,762
Assets	¥116,464	¥ 45,917	¥117,923	¥ 49,370	¥23,067	¥77,902	¥89,476	¥520,119
Depreciation and amortization	1,332	215	519	260	56	746	(6)	3,122
Capital expenditure	970	896	830	88	34	197	1,658	4,673

Year ended March 31, 2006	Thousands of U.S. Dollars IT	Foodstuffs	Iron, Steel & Industrial Plants	Life Science & Energy	Textiles	Others	Adjustments & Eliminations	Consolidated
Net sales								
Outside customers	$2,574,896	$1,697,021	$1,927,343	$2,558,475	$473,491	$173,099	$ —	$9,404,325
Intersegment	409	9	1,056	528	—	1,088	(3,090)	—
Total	2,575,305	1,697,030	1,928,399	2,559,003	473,491	174,187	(3,090)	9,404,325
Operating expenses	2,532,459	1,691,027	1,860,671	2,537,805	469,873	164,980	(5,567)	9,251,248
Operating income	$ 42,846	$ 6,003	$ 67,728	$ 21,198	$ 3,618	$ 9,207	$ 2,477	$ 153,077
Assets	$1,360,875	$ 584,439	$ 786,797	$ 590,798	$182,038	$475,312	$753,256	$4,733,515
Depreciation and amortization	16,591	3,099	4,078	2,358	519	5,891	(77)	32,459
Impairment of fixed assets	3,133	43	8,615	1,447	128	110,870	—	124,236
Capital expenditure	12,565	1,294	1,651	1,703	673	1,711	6,231	25,828

Geographic Segment Information

A summary by geographic area for the years ended March 31, 2006 and 2005 is as follows:

Year ended March 31, 2006	Millions of Yen Japan	Asia	Europe	North America	Other Areas	Adjustments & Eliminations	Consolidated
Net sales							
Outside customers	¥ 979,012	¥47,686	¥16,470	¥61,237	¥ 321	¥ —	¥1,104,726
Intersegment	55,621	13,106	3,209	37,614	3,335	(112,885)	—
Total	1,034,633	60,792	19,679	98,851	3,656	(112,885)	1,104,726
Operating expenses	1,020,779	60,253	19,809	94,966	3,609	(112,672)	1,086,744
Operating income (loss)	¥ 13,854	¥ 539	¥ (130)	¥ 3,885	¥ 47	¥ (213)	¥ 17,982
Assets	¥ 548,265	¥41,637	¥24,801	¥37,636	¥1,145	¥ (97,438)	¥ 556,046

Year ended March 31, 2005	Millions of Yen Japan	Asia	Europe	North America	Other Areas	Adjustments & Eliminations	Consolidated
Net sales							
Outside customers	¥783,285	¥35,417	¥14,402	¥53,423	¥ 350	¥ —	¥886,877
Intersegment	50,339	9,372	5,189	35,375	3,533	(103,808)	—
Total	833,624	44,789	19,591	88,798	3,883	(103,808)	886,877
Operating expenses	821,769	44,096	19,676	85,739	3,822	(103,987)	871,115
Operating income (loss)	¥ 11,855	¥ 693	¥ (85)	¥ 3,059	¥ 61	¥ 179	¥ 15,762
Assets	¥517,258	¥38,273	¥23,167	¥32,138	¥1,263	¥(91,980)	¥520,119

Year ended March 31, 2006	Thousands of U.S. Dollars Japan	Asia	Europe	North America	Other Areas	Adjustments & Eliminations	Consolidated
Net sales							
Outside customers	$8,334,145	$405,942	$140,206	$521,299	$ 2,733	$ —	$9,404,325
Intersegment	473,491	111,569	27,318	320,201	28,390	(960,969)	—
Total	8,807,636	517,511	167,524	841,500	31,123	(960,969)	9,404,325
Operating expenses	8,689,699	512,922	168,630	808,428	30,725	(959,156)	9,251,248
Operating income (loss)	$ 117,937	$ 4,589	$ (1,106)	$ 33,072	$ 398	$ (1,813)	$ 153,077
Assets	$4,667,277	$354,448	$211,126	$320,388	$ 9,747	$(829,471)	$4,733,515

Information for Overseas Sales

Overseas net sales by the Companies for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen				
Year ended March 31, 2006	Asia	North America	Europe	Other Areas	Total
Overseas sales	**¥188,599**	**¥101,939**	**¥20,884**	**¥27,950**	**¥ 339,372**
Consolidated sales					**1,104,726**
Ratio of overseas sales to consolidated sales	**17.1%**	**9.2%**	**1.9%**	**2.5%**	**30.7%**

	Millions of Yen				
Year ended March 31, 2005	Asia	North America	Europe	Other Areas	Total
Overseas sales	¥182,803	¥74,330	¥17,995	¥25,428	¥300,556
Consolidated sales					886,877
Ratio of overseas sales to consolidated sales	20.6%	8.4%	2.0%	2.9%	33.9%

	Thousands of U.S. Dollars				
Year ended March 31, 2006	Asia	North America	Europe	Other Areas	Total
Overseas sales	**$1,605,508**	**$867,788**	**$177,782**	**$237,933**	**$2,889,011**
Consolidated sales					**9,404,325**
Ratio of overseas sales to consolidated sales	**17.1%**	**9.2%**	**1.9%**	**2.5%**	**30.7%**

'Overseas sales' includes exports and offshore sales by the Company and its consolidated subsidiaries, but excludes its sales by foreign subsidiaries to Japan.

16. Other Income (Expenses):

Details of "Other, net" in the statements of income for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Gain on sale of investments, net	**¥ 6,224**	¥ 461	**$ 52,984**
Loss on revaluation of investments in securities	**(2,971)**	(233)	**(25,292)**
Gain (loss) on sale or disposal of property and equipment, net	**41**	(1,211)	**349**
Impairment loss on fixed assets	**(14,594)**	—	**(124,236)**
Provision for allowance for doubtful accounts, net	**(14,529)**	(2,230)	**(123,683)**
Loss on revaluation of inventories	**(6,208)**	—	**(52,848)**
Provision for allowance for loss on guarantees, net	**(1,041)**	(977)	**(8,862)**
Gain on transfer of business	**1,430**	—	**12,173**
Amortization of the unrecognized transition amount arising from adopting the new standard for retirement benefits	**—**	(1,659)	**—**
Loss on closure of business	**(789)**	(1,039)	**(6,717)**
Other, net	**972**	(73)	**8,277**
Total	**¥(31,465)**	¥(6,961)	**$(267,855)**

17. Research and Development Expenses:

The Research and development expense for the year ended March 31, 2006 was ¥121 million ($1,030 thousand) and there are no the Research and development expense for the year ended March 31, 2005.

18. Supplemental Cash Flow Information:

The Company purchased shares of certain subsidiaries and also transferred business to a third party, and these subsidiaries were included in the accompanying consolidated financial statements for the years ended March 31, 2006 and 2005.

The breakdown of assets and liabilities disposed of, the sales prices of these shares and cash outflows from sales is as follows:

(1) Purchase of shares

	Millions of Yen		*Thousands of U.S. Dollars*
	2006	2005	**2006**
Current assets	**¥71,960**	¥4,326	**$612,582**
Non-current assets	**16,471**	14	**140,215**
Current liabilities	**(55,562)**	(2,377)	**(472,989)**
Non-current liabilities	**(4,126)**	—	**(35,124)**
Minority interests in consolidated subsidiaries	**(11,091)**	(962)	**(94,416)**
Consolidated goodwill	**(434)**	352	**(3,695)**
The amount of the acquired stock, accounted for by the equity method at the date of acquisition	**(7,414)**	(621)	**(63,113)**
Total	**9,804**	732	**83,460**
Cash and cash equivalents	**(6,367)**	—	**(54,201)**
Payments for purchase of shares of subsidiaries	**¥ 3,437**	¥ 732	**$ 29,259**

(2) Transfer of business

	Millions of Yen	*Thousands of U.S. Dollars*
	2006	**2006**
Current assets	**¥3,541**	**$30,144**
Non-current assets	**579**	**4,929**
	¥4,120	**$35,073**
Current liabilities	**638**	**5,431**
	¥ 638	**$ 5,431**

19. Impairment Loss on Fixed Assets:

The Company recognized an impairment loss of ¥14,594 million ($124,236 thousand), in the year ended March 31, 2006.

Use	Location (Prefecture)	Category	*Millions of Yen* 2006	*Thousands of U.S. Dollars* 2006
Property held for rent	Kanagawa, etc.	Buildings, land and etc.	**¥10,395**	**$ 88,491**
Operating property	Yamagata, etc.	Buildings and land	**956**	**8,138**
Idle property	Ibaraki, etc.	Buildings and land	**3,243**	**27,607**
Total			**¥14,594**	**$124,236**

The Company assessed the impairment of each group of assets, which are grouped on the basis of managerial accounting and investment decision-making.

Due to the decline in real estate value and poor performance of assets, operating profitability has worsened substantially. Therefore, the Company has decided to reduce the assets value to the recoverable amount, and has recognized an impairment loss as follows.

Category	*Millions of Yen* 2006	*Thousands of U.S. Dollars* 2006
Real estate held for rent	**¥ 3,284**	**$ 27,956**
Buildings and structures	**117**	**996**
Machinery and equipment	**139**	**1,183**
Land	**9,590**	**81,638**
Other	**1,464**	**12,463**
Total	**¥14,594**	**$124,236**

The recoverable amount is measured as the higher of net selling value and value in use. The net selling value is based on appraisal provided by professional real estate assessors, and the value in use is calculated as future cash flow discounted mostly by 3.6% to 3.8%.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Kanematsu Corporation

We have audited the accompanying consolidated balance sheets of Kanematsu Corporation and its consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kanematsu Corporation and its consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2 (h), effective from the fiscal year beginning April 1, 2005, Kanematsu Corporation and its consolidated subsidiaries have adopted accounting standards for impairment of fixed assets.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

Osaka, Japan
June 28, 2006

Board of Directors and Statutory Auditors

Chairman
Tadashi Kurachi

President
Yoshihiro Miwa

Executive Vice President
Masaharu Hamakawa

Managing Directors
Kazuo Shigemoto
Takashi Nagoya
Hideaki Morito
Takashi Kosaka

Directors
Yutaka Tabata
Hitomi Sato
Fumihiko Nashimoto
Tatsuo Suzuki
Masayuki Shimojima

Statutory Auditors
Kiyoshi Yamada
Yoshiro Niiro*
Tadashi Onishi
Yonosuke Yamada*

* Yoshiro Niiro and Yonosuke Yamada are external corporate auditors.

(As of June 28, 2006)

Organization Chart

- Shareholders' Meeting
  - Statutory Auditors
- Board of Directors
- Executive Directors Council
  - Marketing Area
    - IT Division
      - Devices Company
        - Information & Electronics Department
        - Aerospace Department
        - Industrial Electronics Department
        - IT Administration Office
    - Foods & Foodstuff Division
      - Produce Department No.1
      - Produce Department No.2
      - Meat & Marine Products Department
      - Osaka Foods Department
      - Foods Administration Office
      - Agri. Company
        - Grain & Oilseed Department
        - Foodstuff Administration Office
    - Iron, Steel & Plant Division
      - Projects & Plant Machinery Department
      - Transportation Machinery Department
      - Cable & Power Projects Department
      - Machinery & Plant Administration Office
      - Guam-Philippines Project Department
      - Iron & Steel Foreign Trade Department
      - Automotive Materials Department
      - Iron & Steel Administration Office
    - Life Science & Energy Division
      - Energy Department
      - LNG Business Department
      - Energy Administration Office
      - Functional Chemicals Department
      - Life Science Department
      - Life Science Administration Office
  - Supporting Area
    - General Affairs Department – Secretariat
    - Personnel Department
    - Accounting Department
    - Finance Department
    - Business Accounting Department
    - System Planning Department
    - Traffic & Insurance Department
    - Business Planning & Coordination Department
    - Subsidiary Administration Department
    - Risk Management Department
    - Legal Department
    - Realty Department
    - Internal Auditing Department
    - Corporate Planning Department – Public Relations Department

(As of July 1, 2006)

Corporate Data

KANEMATSU CORPORATION

Established
August 15, 1889

President
Yoshihiro Miwa

Tokyo Head Office
SEAVANS NORTH
2-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8005, Japan

Paid-in Capital
¥27,781 million

Number of Consolidated Companies

Consolidated subsidiaries	88
Non-consolidated subsidiaries applicable to equity method	19
Equity method affiliates	35
Total	142

Fiscal Period
Accounts are kept on the basis of the annual business period ending on the last day of March each year (April 1 to March 31).

Number of Offices
Domestic 7
Overseas 37

Number of Employees
847

(As of March 31, 2006)

Principal Shareholders

	Number of shares held (thousands)	Percent Ownership
Japan Trustee Services Bank, Ltd. (trust account)	23,215	5.49
Japan Securities Finance Co., Ltd.	20,032	4.74
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,298	3.14
The Norinchukin Bank	12,460	2.94
Tokio Marine & Nichido Fire Insurance Co.,Ltd.	11,612	2.74
The Master Trust Bank of Japan, Ltd. (trust account)	7,207	1.70
Kanematsu-NNK Corp.	6,239	1.47
Mizuho Corporate Bank, Ltd.	5,000	1.18
Daio Paper Corporation	3,889	0.92
Daifuku Co.,Ltd.	3,785	0.89
Total	106,738	25.26
Total shares issued and outstanding	422,501,010 shares	

Additional copies of this annual report and other information may be obtained by contacting:
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KANEMATSU

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