KANEMATSU CORPORATION

# Annual Report 2008

"Where there's a will, there's a way"

# 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**

## Contents



### 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

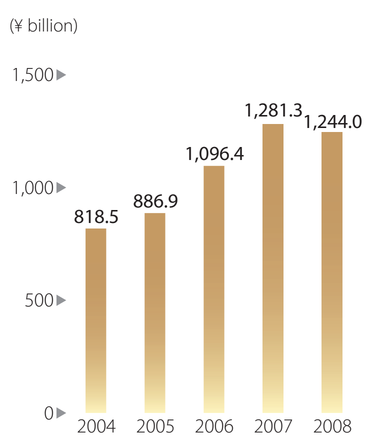
Kanematsu Corporation and Consolidated Subsidiaries

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| Years ended March 31 | **2008** | 2007 | 2006 | 2005 | 2004 | **2008** |
| For the year: | | | | | | |
| Net sales | **¥1,244,020** | ¥1,281,331 | ¥1,096,409 | ¥886,877 | ¥818,473 | **$12,416,613** |
| Gross trading profit | **90,327** | 103,711 | 81,733 | 68,142 | 62,208 | **901,562** |
| Income (Loss) before income taxes and minority interests | **28,975** | 14,615 | (16,728) | 4,836 | 5,057 | **289,209** |
| Net income (loss) | **19,016** | 7,507 | (21,686) | 2,470 | 3,248 | **189,806** |
| At year-end: | | | | | | |
| Net assets | **62,239** | 48,767 | 26,004 | 38,030 | 23,284 | **621,210** |
| Total assets | **503,456** | 563,176 | 556,046 | 520,119 | 507,991 | **5,025,022** |
| Net interest-bearing debt | **148,944** | 204,900 | 246,317 | 261,561 | 287,246 | **1,486,615** |
| | Yen | | | | | U.S. dollars |
| Per share: | | | | | | |
| Net income (loss) | **45.44** | 17.94 | (52.43) | 6.52 | 10.13 | **0.45** |
| Cash dividends | **—** | — | — | — | — | **—** |
| Net assets | **108.95** | 78.75 | 62.12 | 93.74 | 68.77 | **1.09** |

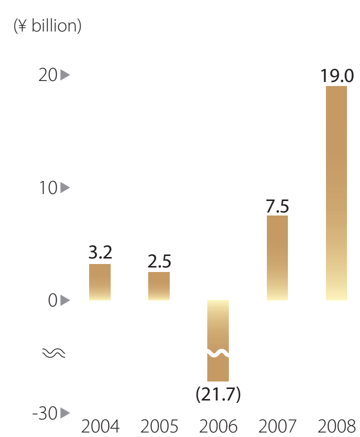
Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥100.19 = U.S.$1, the exchange rate at March 31, 2008.

2. For the term ended March 31, 2006 and before, amounts posted under "Shareholders' equity," and "Shareholders' equity per share" under the previous accounting standards are shown under the titles of "Net assets" and "Net assets per share."

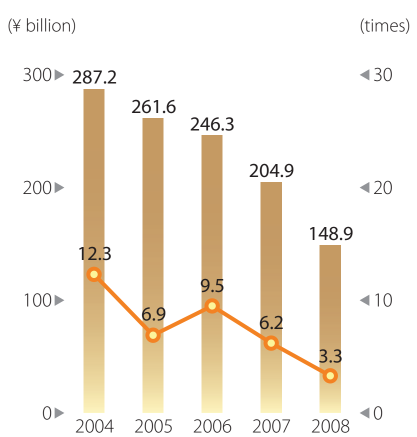
**Net sales**




**Net income (loss)**




**Net interest-bearing debt and net debt-equity ratio**



# Message from the Management

Thank you for the continued support and confidence you have shown for Kanematsu Corporation and our Group companies.

Left: Masaharu Hamakawa, Chairman
Right: Yoshihiro Miwa, President

## Review of operations in the fiscal year ended March 2008

The global economy enjoyed robust growth in the first half of the fiscal year under review. The key drivers for this growth were the impressive development of emerging economies such as China and India, and the performance of other developing countries and regions. In the second half, however, signs of a recession began emerging in the United States, in the wake of turmoil in the financial and capital markets triggered by the subprime mortgage loan crisis. In the meantime, growth in Europe clearly began to slow.

The Japanese economy generally sustained a gradual expansion, but experienced greater uncertainty on deteriorating consumer confidence attributable to rising prices of foods and gasoline and lackluster wage growth, as well as weaker overseas economies.

In this environment, Kanematsu Corporation achieved solid results with its Iron, Steel & Plant Division, particularly in its special steel, machine tool and the transportation equipment businesses for North America. The Foods & Foodstuff Division expanded operations by securing stable supply sources at a time of rising prices of grains and meat and marine products. The IT Division also achieved strong results as the system solutions business and the mobile business remained firm.

Net sales declined ¥37.3 billion from the previous year, to ¥1,244 billion on a consolidated basis, principally reflecting the change of Kanematsu Textile Corporation from a consolidated subsidiary to an equity-method affiliate. While gross profit fell ¥13.4 billion, to ¥90.3 billion, operating income rose ¥0.9 billion, primarily thanks to the non-consolidation of the textile business with a high ratio of selling and administrative expenses to sales. Non-operating income and expenses improved ¥0.6 billion from the previous year, led by a fall in interest paid, associated with the reduction of interest-bearing debt, while ordinary income rose ¥1.5 billion year on year, to ¥18.7 billion. Although extraordinary gains were up ¥7.2 billion from a year ago, mainly with the posting of gains on the sale of LNG rights, extraordinary losses declined ¥5.6 billion year on year. As a result, income before income taxes increased ¥14.4 billion from the previous year, to ¥29 billion, and net income climbed ¥11.5 billion, to ¥19 billion. Retained earnings moved into the black at the end of the fiscal year under review, finally moving out of the deficit situation associated with the substantial losses posted two years ago in the final stages of streamlining.

## Analysis of financial status

Fixed assets declined ¥35.4 billion in the fiscal year ended March 2008, as investments in securities and other assets declined with the sale of affiliates that owned LNG rights and the sale of equity in the aircraft leasing business. In current assets, operating assets such as accounts receivable and inventories fell, primarily because of the change of Kanematsu Textile Corporation to an equity-method affiliate. Total assets slipped ¥59.7 billion year on year, to ¥503.5 billion.

With respect to interest-bearing debt, we allocated proceeds from the liquidation of assets and strong operating revenues for the repayment of borrowings. As a result, net interest-bearing debt, which subtracts cash and deposits from interest-bearing debt, declined ¥56 billion from the end of the previous fiscal year, to ¥148.9 billion.

Since we have moved out of the red on both consolidated and non-consolidate bases, we have created the foundation for the resumption of dividends. As a result, shareholders' equity rose ¥12.6 billion from the end of the previous fiscal year, to ¥45.6 billion, while the equity ratio improved to 9.1% and the net debt-equity ratio to 3.3 times.

## Progress in the medium-term business plan "teamKG120"

Kanematsu is currently executing its three year medium-term business plan "teamKG120" (covering the period from April 2007 to March 2010), based on its vision of becoming more active than ever in expanding its businesses and strengthening its functions as a True Business Creator to achieve added value. In the fiscal year ended March 2008, the first year of the plan, we made steady progress. In particular, we focused on bolstering key business drivers.

We established the Business Coordination Team to strengthen the system to support the launch and development of new projects. The Team accelerated the speed with which new businesses and projects are developed and launched in cooperation with the Business Incubation Team, which had already been established.

Aiming to expand existing businesses holizontally and create new businesses, we add some overseas facilities. We opened a representative office in New Delhi, India. In Prague, the Czech Republic, we established a local subsidiary to strengthen the machine tool business. We also established bases in Suzhou and Wuxi, China, to enhance the IT business.

With respect to management indicators, we recorded consolidated ordinary income of ¥18.7 billion and net income of ¥19 billion. The management indicators remained favorable relative to the targets for the final fiscal year. We also made progress in reducing interest-bearing debt with significant improvement in our financial position, as demonstrated by the net debt-equity ratio of 3.3 times and the equity ratio of 9.1%.

## Outlook for the fiscal year ending March 2009

The fiscal year ending March 2009 is the second year, or the halfway mark, of the medium-term business plan teamKG120. We aim to bolster our ability to generate sustainable earnings by focusing on new business creation and strengthening existing trade rights. Using ¥30 billion allocated for new development and new businesses, and the enhanced system for supporting new business development, we will step up our focus on four areas that we position as growth drivers: Transportation, ICT Solution, Mobile, Food Resources, and the Environment, New Energy Sources. We will continue to reform the Group structure to maximize synergy by expanding overseas bases and reducing redundancy in inter-company commercial distribution and functions. In this way, we will build earnings capabilities and achieve balanced growth with strong momentum.

Looking at our consolidated earnings forecast for the fiscal year ending March 2009, we expect consolidated net sales to rise about ¥106 billion from the fiscal year under review, to ¥1,350 billion. Operating income is expected to reach ¥24.5 billion, up 8.4% year on year, with the IT Division continuing to serve as the driving force. Ordinary income should amount to ¥19 billion, rising 1.3%. Extraordinary gains will fall significantly with the lack of special factors including gains on the sale of LNG rights posted for the fiscal year under review. As a result, we expect net income to be ¥10 billion.

Kanematsu is united in its commitment to achieving the goals of teamKG120. We hope that we can continue to count on your support as we pursue our initiatives.

July 2008

Masaharu Hamakawa, Chairman

Yoshihiro Miwa, President

## "teamKG120" Medium-Term Business Plan
**(April 2007 - March 2010)**

## Growth Strategies — Balanced Growth with Strong Momentum —

**We re-defined the mission of each business in accordance with their business models, and sustain balanced growth with strong momentum.**

### Fundamental Trading

Businesses in this category provide traditional trading (importing & exporting) functions and generate the basis of the revenue stream. They also function as the source of new business seeds in each business domain. We continue to expand Fundamental Businesses by stepping up efforts in upstream and downstream distribution operations and achieving efficiencies through economies of scale.
(Examples: The import & export of meat and marine products/grains/feed and dairy products, the fruits processing business, and the electronic parts distribution businesses)

### Value Exploration

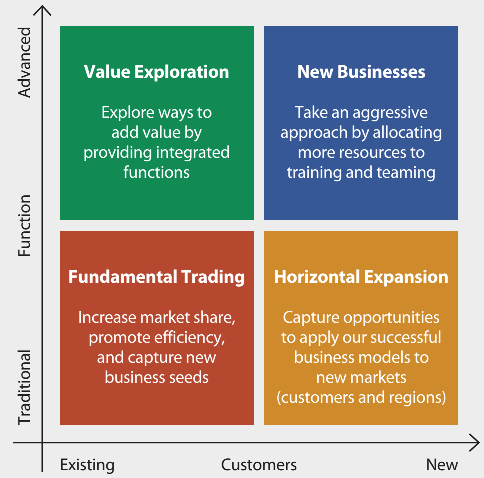
Businesses in this category aim at the further creation of added value by providing not only trading functions but also R&D consulting and OEM/ODM solutions (Integrated functions): this is an effective Kanematsu business model developed through the previous medium-term business plan.
(Examples: Global sourcing and export of automotive parts, SCM business of aircraft rotable parts, shipbuilding package deal, and the coffee marketing solution business)

### New Businesses

We are aggressively promoting new businesses, leveraging our strengths and expertise, such as business know-how, integrated functions, and global business networks.
(Examples: Mobile commerce, cooked and prepared foods business)

### Horizontal Expansion

We capture business opportunities by horizontally applying our successful business models in each category of the Fundamental Trading, Value Exploration, and New Businesses.
(Examples: Geothermal plant projects in Asian region and offshore food trading)




## Growth Drivers

**We promote the growth of the following four domains — Transportation, ICT Solutions/Mobile, Food Sources, Environment/New Energy — through M&A and cross-organizational collaboration with strong growth momentum.**

**Transportation —** We will further expand businesses in this area, where we have built strengths, such as automotive (automobiles, mechanized parts, in-vehicle electronic parts, special steel products etc.) as well as the aircraft and vessel businesses.
- Enhance the global sourcing function and the R&D support function
- Expand sales to Europe, BRICs and Asian markets
- Expand the aircraft rotable parts business with airlines

**ICT Solutions/Mobile —** We will further differentiate ourselves by leveraging our presence in the industries through our expanding operations with Kanematsu Electronics Ltd. and Kanematsu Communications Ltd.
- Maximize synergy through the Group and organizational reforms
- Aggressively promote M&A and business alliances
- Establish new businesses in the field of mobile services

**Food Sources —** We will actively work on securing and maintaining a reliable supply of food sources in meat and marine products, grains, and feed and dairy products.
- Pursue continuing improvement in traceability with the slogan, "safety and security"
- Strengthen our relationship with supply sources and processing plants in preparation for tight supply

**Environment/New Energy —** We will rapidly establish operations in those fields that have promising growth potential for the next generation.
- Construct business through cross-divisional activities in areas such as the development of CDM and the emission credits trading
- Step up our efforts in the geothermal power generation business, principally in Indonesia where we have solid expertise
- Accelerate F/S and R&D and rapidly commercialize biomass and fuel cell trading

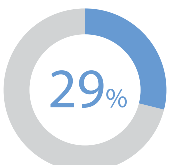
## Quantitative Targets (2010)

| | |
|---|---|
| **Net interest-bearing debt** | **¥160 billion** (gross interest-bearing debt: ¥200 billion) |
| **Equity ratio** | Approximately **11.5%** |
| **Net debt-equity ratio** | **2.5 times** (gross debt-equity ratio: 3.2 times) |

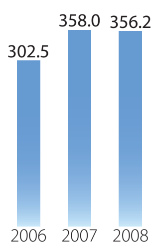
# KG at a Glance

## IT

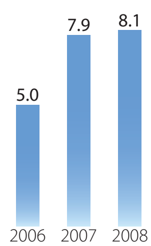
### Segment Sales




### Net Sales
(¥ billion)




### Operating Income
(¥ billion)




### Business and Main Products

**Electronic Devices**
- Semiconductor/Electronic Parts
- Electronic Modules/Materials
- Semiconductor/LED

**OEM/ODM Solutions**
- Mechanized Parts
- Printer Equipment
- Electronic Modules
- Automotive Parts

**Mobile Solutions**
- Mobile Communication Terminals
- Mobile Content/Mobile Advertisement

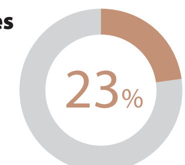
**ICT Solutions**
- System Solutions

**Semiconductor and LCD Manufacturing Equipment**
- Semiconductor Manufacturing & Testing Equipment
- Communication Equipment/Parts

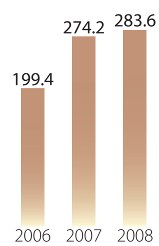
**Aerospace**
- Aircraft/Its Parts
- Satellite

## Foods & Foodstuff

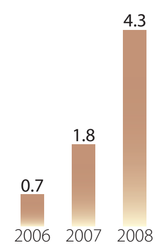

### Segment Sales




### Net Sales
(¥ billion)




### Operating Income
(¥ billion)




### Business and Main Products

**Foodstuffs**
- Canned, Frozen & Dried Fruits
- Processed Vegetables
- Processed Fruits
- Concentrated Juices
- Coffee
- Cocoa
- Sugar & Honey
- Sesame Seed & Other Seeds
- Peanuts & Other Nuts
- Miscellaneous Beans
- Wine
- Cooked Foods

**Meat and Marine Products**
- Poultry, Beef, Lamb & Mutton, Pork, Horse Meat
- Frozen Shrimp, Octopus, Fish and Sushi Accompaniments

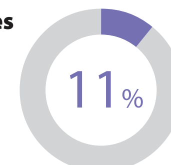
**Grains**
- Wheat & Processed Food Made from Wheat
- Barley
- Soybean
- Rice

**Feedstuff and Fertilizers**
- Feedstuff
- Fertilizer

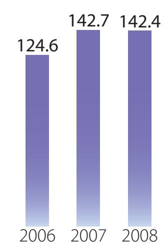
**Pet Products**
- Pet Food & Pet Products

## Iron & Steel

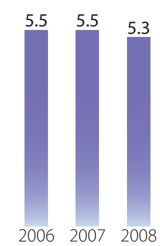
### Segment Sales




### Net Sales
(¥ billion)




### Operating Income
(¥ billion)




### Business and Main Products

**Iron & Steel Trade**
- Export of Various Steel Sheet, Plate, Long Products & Pipe

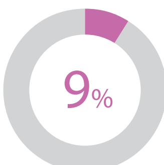
**Specialty Steel Trade**
- Export of Stainless Steel Sheet & Plate
- Export of Alloy Steel Wire Rod & Bar Products

**Cast and Forged Steel Products**
- Import of Cast and Forged Products
- Export of Automobile Parts (Hot/Cold Forged Products)

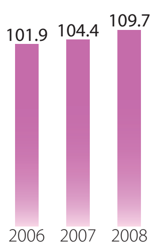
**Domestic Trade and Raw Materials Supply**
- Domestic Sales of General Steel Products
- Import, Export and Tripartite Trade of Raw Materials & Sub Materials for Steel Making

## Plant & Machinery

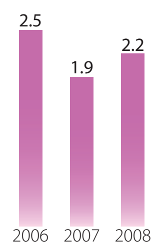
### Segment Sales




### Net Sales
(¥ billion)




### Operating Income
(¥ billion)




### Business and Main Products

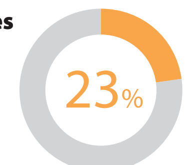
**Plants & Transportation Equipment**
- Various Plants (Chemical, Paper Making, etc.)
- Automobiles and Components
- New Ship Building
- Marine Equipments
- ODA

**Cable/Electric Power Projects**
- Telecommunications Projects
- Electric Power & Communication Cable Projects
- Power Generation Plant
- Bio Fuel Project

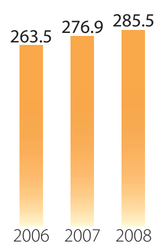
**Machine Tools and Industrial Machinery**
- Machine Tools
- Industrial Machinery

## Energy

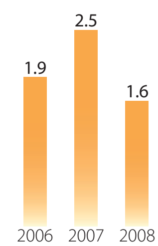
### Segment Sales




### Net Sales
(¥ billion)




### Operating Income
(¥ billion)



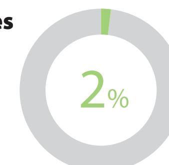

### Business and Main Products

**Crude Oil, Petroleum Products and Gas**
- Crude Oil
- Gasoline
- Kerosene
- Fuel Oil
- Industrial and Automobile Lubricant
- LPG

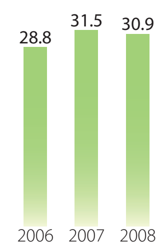
**New Energy-Related Business**
- Bio Gas and Bio Fuel Business
- Energy Conservation Consultation Business
- GHG Emission Trading Business

## Life Science

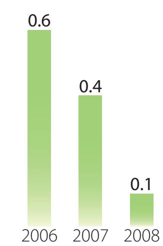
### Segment Sales




### Net Sales
(¥ billion)




### Operating Income
(¥ billion)




### Business and Main Products

**Functional Chemicals**
- Raw Materials for Solar and Lithium Batteries
- Heat Shield Paint
- Synthetic Rubber
- Petrochemical Products

**Healthcare**
- Functional Food Materials
- Stolle Milk
- Nutritional Supplements

**Pharmaceuticals**
- Pharmaceuticals
- Pharmaceutical Intermediates

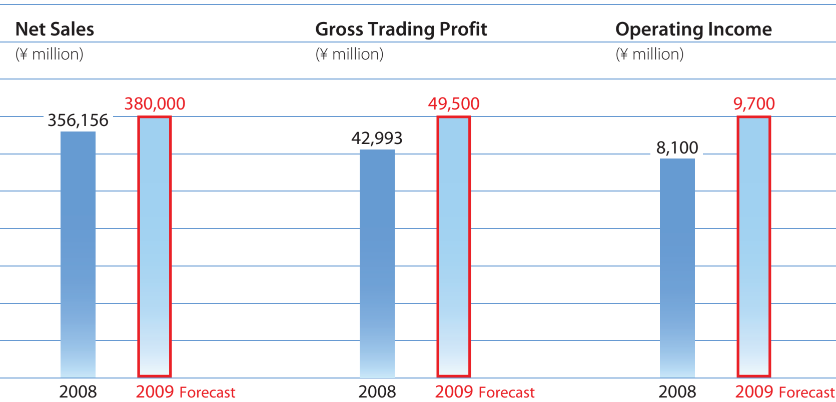
Note: In addition to the above six segments, the Kanematsu Group also has a seventh segment, which is referred to as "Others" and includes Textile business, etc. The combined totals of the above-listed net sales and operating income figures therefore do not add up to the corresponding figures on a consolidated basis.

Intersegment transactions are not eliminated.

# Strategy of Each Segment for Current Year

## IT

- We will pursue added-value functions in the areas of vehicle-mounted parts, aerospace, digital imaging devices, and semiconductor/LCD manufacturing equipment, focusing on “technology and expertise,” “BtoB” and “global operations” as the keywords.
- In the electronics parts (semiconductors, optical devices, LCD/electronic materials, etc.) distribution business, we will strengthen the purchase agent function, improve operating efficiency and enhance the procurement and distribution support functions for customers expanding their overseas operations.
- In the solutions business and the mobile communication terminals business, we will increase market share by strengthening the relationship with customers. We will seek opportunities to reorganize the Group and conduct M&A to maximize synergy.
- As new businesses, we promote the horizontal application of vehicle-mounted parts to BRICs, the operations of advertisement and e-commerce in the mobile business and the launch of new projects in the field of aerospace for the private sector.




* Prior to consolidation adjustments

## Actions and Outlook for 2009 (compared with 2008 results)

### Electronic Devices Business (sales up ¥10 billion, gross trading profit up ¥1.5 billion)

• In electronic modules and electronic materials, we offer support for Japanese customers moving operations overseas and the construction of the SCM system. In particular, we project an increase in sales and profit by stepping up our activities in the South China region.

### OEM/ODM Solutions Business (sales up ¥3.5 billion, gross trading profit up ¥0.5 billion)

• We will horizontally apply to other businesses the know-how we have cultivated in two-wheeled and four-wheeled vehicles parts and printer-related businesses.

• In the battery control modules manufacturing business, we have constructed a system to increase production in response to rising demand. We will continue to expand while maintaining and improving quality.

### Mobile Business (sales up ¥8 billion, gross trading profit up ¥2 billion)

• In the mobile communication terminals business, we will maintain and improve our position in the industry by boosting our services to corporations—a major area of our strength—as the consumer market is maturing.

• In the domestic mobile internet business, we will operate as an integrated company with emphasis on BtoB business in mobile content, commerce, advertisement and solutions.

### ICT (*) Solutions Business (sales up ¥3.5 billion, gross trading profit up ¥1.5 billion)

• As Kanematsu Electronics Ltd. has bolstered its ability to propose technologies and services by working effectively with the technical staff in Memorex Telex Japan Ltd., with which we merged, we anticipate an increase in sales and profit by expanding the customer base and responding to diversified customer needs, such as demand for stronger internal control.

* ICT: Information Communication Technology

### Aerospace Business (sales up ¥3 billion, gross trading profit up slightly)

• We will strengthen the aerospace business for the private sector in addition to our mainstay business for government offices. We will also operate the repair parts business in association with the inspection of aircraft designated by law.


# Foods & Foodstuff

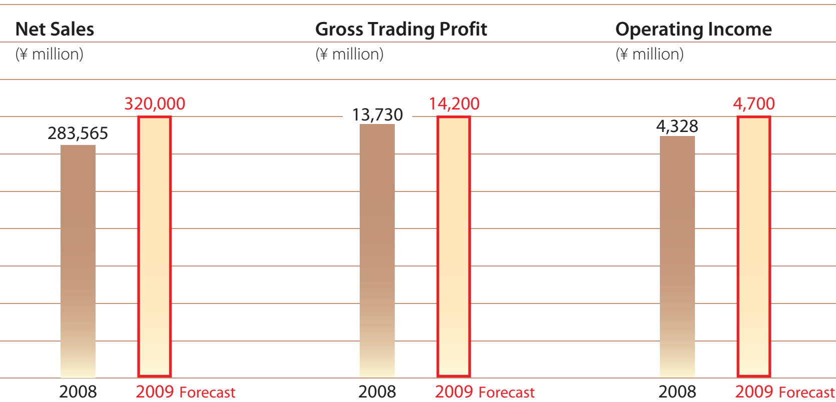
- With our motto, “the pursuit of safety and security,” we will further integrate upstream and downstream operations throughout supply chain, i.e. the procurement of raw materials, processing and manufacturing functions, and strong domestic distribution functions.

- In the foods business, we will secure and rigorously seek additional excellent supply sources for such things as fruit products in Latin America and Eastern Europe. Not only traditional importing/exporting, we will also continue to add value to the food product itself through our manufacturing and processing functions in China and Southeast Asia. We also plan a joint development project of cooked and prepared foods with our affiliates in Japan and overseas.
  We will keep improving our processes to achieve thorough traceability throughout supply-chain. We are in the process of constructing a third-party certification system to check the production process of food producers, which will lead to an increase in consumers confidence and increased sales to general merchandise stores.

- In the meat and marine products, grains and feedstuff businesses and the specialty coffee business, we will focus on selected overseas suppliers who are qualified with our safety standard and competent not to miss traceability of supply chain. Meanwhile, we will increase the lineup of our secured supply source that we can provide high-quality and price-competitive products to meet the ever-increasing needs of stable food supply.

- In the feedstuff business, we are (1) strengthening the community-oriented dairy businesses in Hokkaido, Tohoku and Kyushu, (2) promoting joint business with so-called “mega-farms,” and (3) starting to trade new products such as DDGS (ethanol derivative products).

- In overseas markets, we will promote offshore trading of feed and beef products (from the United States and Australia to China and Asia), processed fruits (from China and Southeast Asia to Europe and the United States), and soy bean foods (from China to the United States).




* Prior to consolidation adjustments

## Actions and Outlook for 2009 (compared with 2008 results)

### Foods Business (sales up ¥5 billion, gross trading profit up slightly)

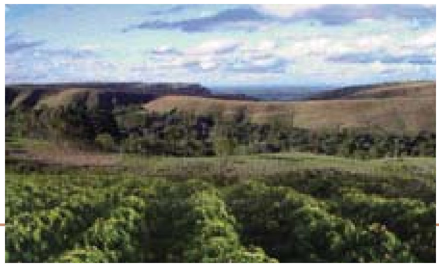
- The beverage ingredients business continues to perform well. We will look to increase trading volumes by developing new production regions and will continue to expand the business by developing existing production regions.
- We will sustain the growth in deliveries of cooked and prepared food to the home-meal replacement and restaurant industries, including convenience store chains, which we began in earnest in fiscal 2008. We will bolster cooperation with Group companies to expand sales channels.
- As consumers are staying away from Chinese products, we will maintain a stable supply by diversifying the procurement of raw materials and processed food with a high dependency on China into other Southeast Asian regions.
- The Food Safety Control Office which we established to enforce food safety and security is functioning well. We aim to further improve traceability and compliance with the Food Sanitation Law.

### Meat and Marine Products Business (sales up ¥1 billion, gross trading profit up ¥0.5 billion)

- As the supply of meat and marine products is expected to tighten with a global rise in prices, we will put top priority on securing stable supply sources.
- We will strive to expand sales of Australian beef, recognized as a KG original brand.
- We will work to expand the marine products processing business at partnership plants in Southeast Asia.

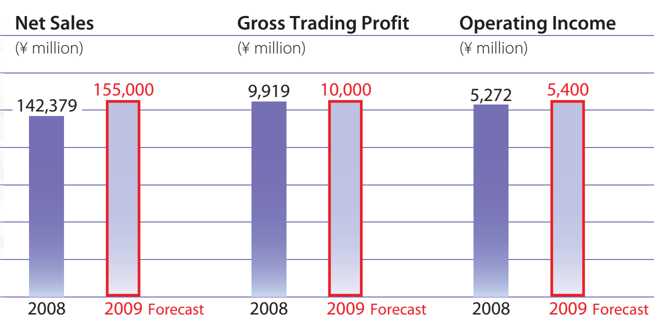
### Grains, Feedstuff and Products Business (sales up ¥30 billion, gross trading profit up slightly)

- With the progress not only in safety and security awareness but also the trend of regarding food as resources, we will increase earnings by meeting customer expectations for stability (in supply) and low price (fair price), and by strengthening the relationship with suppliers in Japan and abroad.
- We will diversify hedging techniques to meet sharp market changes in prices.
- Amid rising demand for bio-energy, we began developing contracts in Canada, a new area, reflecting the trend in which marginal cultivation land moves north, to secure non-genetically modified soybean.
- In lactobacillus (EC-12) products, we will bolster sales by developing lactic acid bacterium products for beef, in addition to existing products for pork.

# Iron & Steel

- Target balanced growth between the export business by parent and the domestic sales business by affiliates.
- We will focus on the sales expansion of auto parts for the steadily-growing automobile industry in South America through our new operating base in Sao Paulo.
- As for the coil center business in China, in addition to current export trading, we will initiate feasibility study for capacity increase specifically targeting the in-land market.
- In domestic sales of general steel products by affiliates, we will improve production efficiency and sales capability through reorganization within the Group.




* Prior to consolidation adjustments

## Actions and Outlook for 2009 (compared with 2008 results)

### Iron & Steel Foreign Trade Business (sales up ¥1 billion, gross trading profit up slightly)

- In the coil center business in China, shipments of electrical galvanized steel plates for Japanese users remain steady. We will consider our future response while watching the effects of changes in Chinese government policy.

### Specialty Steel Trade Business (sales down ¥1 billion, gross trading profit flat)

- We are active in the sale of high added-value products centering on high-performance stainless steel for oil-related projects. We need to pay attention to the price changes of nickel.
- In alloy wires and bars, income should remain in line with the level of fiscal 2008, although sluggish performance of the Big 3 in the United States is expected.

### Cast and Forged Steel Products Business (sales flat, gross trading profit flat)

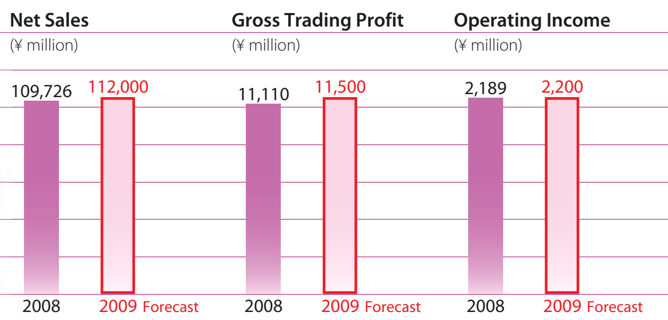
- Exports of auto parts to Brazil remain strong.
- Development projects of transmission components for major auto manufacturers in Europe and the United States are in the final stages of mass production.

### Domestic Trade and Raw Materials Supply Business (sales up ¥13 billion, gross trading profit down slightly)

- In the domestic steel trade business, high product prices are expected to continue in fiscal 2009, given high prices of raw materials. Meanwhile, the effect of the revised Building Standards Law introduced last year needs continued monitoring.
- In the raw materials business, we will closely monitor changes in the economic environment in China to maintain sales, as significant changes in iron ore prices for Chinese market are expected.

# Plant & Machinery

- We are further expanding the automobile components business for Japanese manufacturers in China, which is a stable income source, the fiber product business in Russia, CIS and the Middle East, and the marine equipment package deal for shipyards in Vietnam. With the import of machine tools and industrial machinery, where our affiliates have strength, we have not only developed proposal-based marketing with a focus on technologies and a support system for specifications changes, but we have also strengthened the system for overseas sourcing, from areas such as Europe. We are also redoubling the basic infrastructure development projects in developing nations such as West African countries.
- Although cable and electric power projects are affected by falling demand for geothermal generation and submarine cables, this will be offset by an increase in the trading of transmission cables whose trading is generally constant and the export of optical fibers to Russia, CIS and the Middle East.


* Prior to consolidation adjustments

## Actions and Outlook for 2009 (compared with 2008 results)

### Plant and Transportation Equipment Business (sales up ¥4 billion, gross trading profit up ¥1 billion)

- Stable revenue sources, including shipbuilding and the supply of shipbuilding equipment in Vietnam remain solid, as do shipments of automobiles to China and the Middle East, where we have maintained strength.
- The transportation equipment business for Eastern Europe is emerging as a stable revenue source.
- Chemicals plant equipment and paper making plants in the Middle East and China are likely to be robust.
- We will aim to accept an ODA project (drainage treatment facilities to prevent environmental contamination) for Vietnam.

### Cable/Electric Power Projects (sales down ¥2 billion, gross trading profit up slightly)

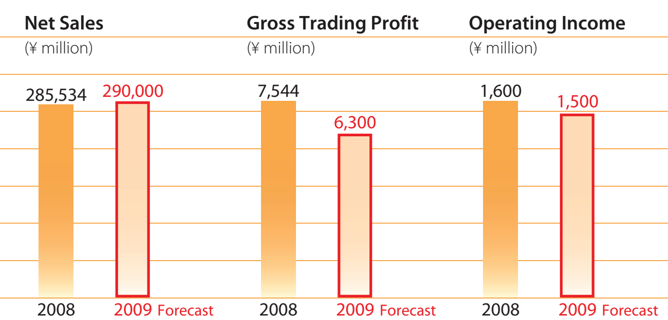
- While submarine cables and geothermal generation projects are influenced by falling demand, the negative effect on income should be offset by the expansion of the trading volume of cable products such as fibers, aluminum coated copper wires, higher capacity lines for Russia, CIS and the Middle East and cables exported to Asian countries.

### Machine Tools and Industrial Machinery Business (sales up slightly, gross trading profit down ¥0.5 billion)

- Machine tools in Japan and the United States are expected to grow at a sluggish pace due to concerns over a downturn in the US economy. Although a fall in the profit margin associated with intensified competition is expected, we will look for sales from large machinery for the heavy electrical industry. We are also expanding trade in Asia.

# Energy

- Focus on growth as a group including retail gas station network and storage tank operation and increase our market share of domestic trading of petroleum products.
- As for overseas strategies, we will acquire new customers in China and Southeastern Asia and penetrate these developing markets.
- Given the rise of demand for new energy sources and energy saving solutions stemming from growing concerns about the global environment and soaring crude oil prices, we will undertake new energy development projects and plan to provide energy saving solution to our customers as a result of those projects.
- To accomplish the new energy development projects as quickly as possible and accelerate our efforts in the new emissions credit tradings, we increase investment in people and business initiatives and also promote cross-divisional efforts with the Plant & Machinery Division and the Business Incubation Team.




* Prior to consolidation adjustments

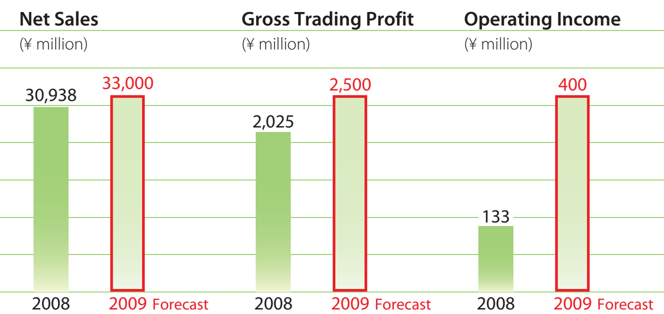
## Actions and Outlook for 2009 (compared with 2008 results)

### Crude Oil, Petroleum Products and Gas Business (sales up ¥4.5 billion, gross trading profit down ¥1.2 billion)

- We project an increase in sales and a fall in profit, as prices of petroleum products are expected to remain high with international prices remaining at elevated levels.
- An affiliate that runs approximately 150 gas stations, including company-owned and partnership stations, is seeking to increase profitability by passing the rising wholesale price of gasoline onto users and improving efficiency through the consolidation and elimination of operating bases.
- In the LPG business, we specialize in the bulk sale of industrial LPG and we are expanding sales to small-lot users in a comprehensive distribution system.
- We are creating Group synergies by consolidating the energy business of Shintoa Corporation into Kanematsu Petroleum Corporation. We will continue to bolster the lubricant oil business.
- In the new energy creation business, we began operating a bio-gas project in Hokkaido based on a bio-gas joint venture which we established in the previous year, and we will develop the project nationwide.
- In the bio-fuel business, we will step up internal cooperation with the Plant & Machinery Division and Business Incubation Team to identify procurement sources overseas, especially in Southeast Asia.
- In emissions trading, we will continue to participate in the voluntary GHG emissions trading scheme of the Ministry of the Environment. We will also facilitate the sale of emissions credits to companies in Japan and overseas through measures such as business operations in small and retail areas using the carbon offset, the intermediary service of emissions trading, participation in CDM operations, and cooperation with overseas businesses.

# Life Science

- Under the key words, “global environment,” “healthcare,” and “medical solution,” we shall keep enhancing such advanced functions as manufacturing and R&D capabilities to make each individual business grow.
- Against a backdrop of increasing demand for solar batteries as an alternative energy amid rising environmental consciousness around the world, we are focusing on strengthening the production and sales business of solar battery coating materials, an area where we have production know-how and trademark rights. We are also emphasizing the development and commercialization of new products such as heat shield paint.
- In pharmaceutical materials trading, we are expanding the contract manufacturing operation of pharmaceutical intermediates by (1) increasing imports of pharmaceutical ingredients from India and Northern and Eastern Europe and (2) entering into alliances with unique chemicals manufacturers, responding to requests for medical cost reductions due to higher beneficiary liabilities as a result of the health insurance reform.
- In the functional materials business, we are stepping up the exploration and sales of new products using our know-how we have cultivated in the trading of creatine and $\alpha$-lipoic acid.
- To construct a new revenue source, we will secure mineral resources and organic natural resources whose supply are getting tighter worldwide.




* Prior to consolidation adjustments

## Actions and Outlook for 2009 (compared with 2008 results)

### Functional Chemicals Business (sales flat, gross trading profit up slightly)

- Imports of synthetic rubber remain favorable, partly because of the tight supply in Japan and production cuts by domestic manufacturers.
- We are increasing exports of raw materials of lithium batteries to China, responding to rising demand in the Chinese market.
- We anticipate an increase in trade volume of solar battery coating materials, since production continues to increase at customer plants. We will also promote a horizontal application through trading in related components and the development of new markets.
- We are developing environmental products such as heat shield paint.

### Pharmaceuticals/Healthcare Business (sales up ¥2 billion, gross trading profit up slightly)

- In the pharmaceuticals business, we project an increase in sales with the expansion of the contract manufacturing operation of pharmaceuticals intermediates in Japan and abroad and the growth of exports of pharmaceuticals products and ingredients.
- We aim to further increase imports of pharmaceutical ingredients from India and Northern and Eastern Europe by enhancing cooperation with affiliates.
- We will step up exports of bulk pharmaceuticals to the Middle East and Southeast Asia.
- In the medical information provision services, we will seek new business, especially from pharmaceuticals companies, and the diversification of the areas to which we provide medical service information.

# Corporate Governance

## Our Basic Stance on 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.

## Our Management Structure and Internal Control System

### (1) Corporate Governance Structure

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. Furthermore, 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.

To maintain a creative tension between shareholders and directors, the length of directors' terms is limited to one year.

The Company pursues corporate governance through the conventional Japanese statutory auditor system. Under this system, independent statutory auditors conduct audits of directors' performance of their duties. The Company has four auditors including three external auditors who receive reports from directors and employees as required, attend meetings of the Board of Directors, the Executive Directors Council, Project Deliberation Committee, Crisis Management and Compliance Committee, Internal Control Committee and other important meetings and committees, and audit the performance of duties by the directors.

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

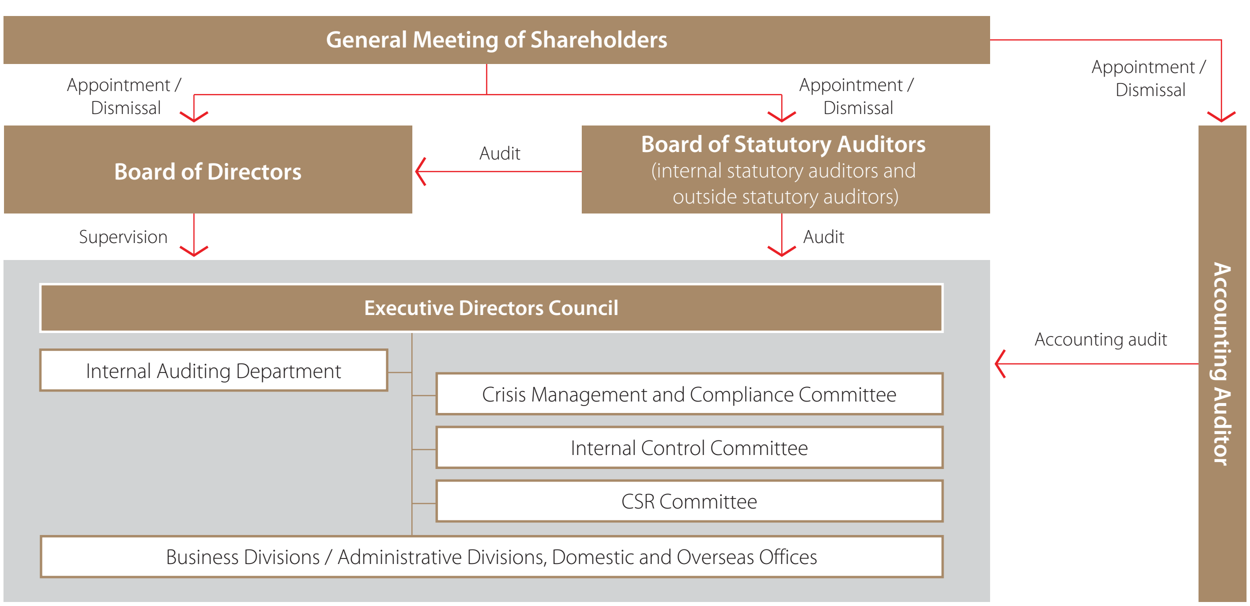
### (2) Action Items for the Corporate Group

In the Kanematsu Group, 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.

### (3) Approach to Timely Disclosure

We intend to promote fair and transparent management by disclosing important management information to all stakeholders (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 a year, as well as implementing timely disclosure to stock exchanges.



### (4) Establishment of Internal Control System and Risk Management System

We will further improve our internal control system to comprehensively evaluate the risks inherent in the Company, pursue effective and efficient operations, and secure reliable financial information. The internal control system is now constituted as indicated below.

> We have set up an Internal Control Committee comprising the Chairman of the Board (committee chair) and directors, to more effectively and efficiently implement the establishment of the Company's internal control system. We also established an Internal Control Office as the executive office for operations.

> In April 2007, the Company approved at a meeting of the Board of Directors a J-SOX implementation plan (J-SOX is the informal name for a new legislative framework of internal controls over financial reporting under the Financial Instruments and Exchange Law, which entered full effect in April 2008) and the creation of necessary frameworks. Documentation for this new regime has almost been completed, and entered the review stage in April 2008. We are now positioned to evaluate its effectiveness.

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

> With regard to business risks, we have designated a department to be in charge of each risk based on specific remits, established internal regulations and detailed enforcement regulations, and prepared operational guidelines, which have been publicized thoroughly through training sessions and seminars. We have also established internal committees to manage risk as required.

We have set up an internal review and approval system based on a clearly defined remit to minimize business risk, organized a Project Deliberation Committee for important investments and loans, and examined these comprehensively from the perspective of various risks.

> In light of the importance of compliance with laws and ordinances, we have set up a Crisis Management and Compliance Committee, and have strengthened our internal compliance system. We have compiled a compliance manual which has been disseminated to top management and all employees. We have further centralized information matters in the Crisis Management and Compliance Committee and introduced a hot line system for direct reporting and consultation.

> To further clarify the management stand on the priority matter of CSR, we established a CSR committee in May 2008 with the Chairman of the Board as committee chair and the President as vice chairman, to strengthen Groupwide CSR activities. With regard to our social contribution, compliance, environment and other CSR matters, the committee drafts activity plans for the whole company as needed and strengthens the plan, do, check, act (PDCA) methodology with regard to CSR.

### (5) Internal Auditing and Audits by Statutory Auditors

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

We also increased the number of staff at the Internal Auditing Department from seven to 10 as of June 26, 2008, positioning us to better evaluate internal controls relating to financial reporting within the Company from the year beginning April 2008. At the same time, we have established a set of self-assessment regulations for internal controls to enable self-evaluation by each marketing and supporting area departments under the internal regulations. The expanded Internal Auditing Department has been placed in charge of independent appraisals within the Company, and the procedures have been formalized as "audit regulations" to ensure smooth functioning.

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

### (6) 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 Company, such as the amendment of laws and ordinances, internal controls and the revision of important accounting rules.

# Business Risk

Business performance and the financial standing of the Company could be adversely affected by the following major risks.

Future assumptions below are based on our judgments as of June 24, 2008.

### (1) Fluctuations in Demand and Pricing for Traded Products

Unforeseen losses could occur on product purchase and sale transactions by our major businesses in Japan and overseas due to sudden surges or collapses in market prices or weakened demand, for a broad range of products such as grain and petroleum products vulnerable to market change, and electronics parts and IT equipment which are frequently affected by falling prices from competition and obsolescence from technological innovation.

### (2) Doubtful Accounts and Delayed Recovery of Loans

In our varied commercial transactions with customers in Japan and overseas, credit is extended in various forms such as accounts receivable, advance payments to suppliers, loans and guarantees. Deterioration in the financial position of customers can lead to the risk of delay in recovering loans and of default. In the event of customers defaulting or failing to perform concluded contracts, for any reason, for product supply, orders, outsourcing of operations and other agreements, we could be held responsible for non-performance and incur financial losses.

We have made provisions based on estimates of exposure to cover the eventuality of our having to shoulder such losses, but if they were to exceed the reserve, the Company could suffer additional losses.

### (3) Foreign Currency Fluctuation Risk

In its import and export transactions, the Company conducts ancillary foreign-exchange transactions with a variety of currencies and terms. To reduce currency fluctuation risk in these transactions, the Company transfers transaction conditions to the customer and undertakes derivative transactions such as foreign exchange forward contracts.

We also operate local units or foreign operations. In the consolidated financial statements, these companies' foreign exchange balances are calculated at the exchange rate at the time of book-closing. Because of translation adjustments for exchange-rate fluctuation, there is a risk of positive or negative impact on shareholders' equity.

### (4) Interest Rate Fluctuation Risk

Funding for operating and financing activities at the Company is largely procured by borrowing from financial institutions. With some exceptions, these loans are subject to interest-rate fluctuation risk. These loan and fund operations are exposed to interest-rate fluctuation risk, creating a risk of increased interest paid in the event of rising rates.

The Company uses the defined pension benefit plan for its employees. In estimating retirement benefit obligations, there is a risk of an increase in such obligations in the event of a fall in the discount rates used for their calculation.

### (5) Price Fluctuation in Marketable Securities

The Company holds stock for various purposes including strengthening business relations with customers. Inherent in the shareholdings is share price risk. Unrealized losses on such securities could adversely impact the financial position of the Company.

Our pension fund portfolio includes shares held for the purpose of medium- to long-term investment. The Company could suffer adverse impact on its financial position in the event of discrepancy between expected and actual yield due to a worsening of returns on such investments due to a fall in the value of such shareholdings.

### (6) Investment Risk

When the Company makes a business investment to expand its operations, if the targeted business suffers deterioration in its financial position or business performance, the Company is exposed to the risk of a corresponding change in the value of the acquired assets. Decisions on business investments are made on completion of various review procedures governing the nature of the investment and the permissible amount of the investment, and after analysis of the potential profitability of the proposed venture on the basis of estimated future cash flow and consideration of the conditions for withdrawal from the business. With regard to projects in which investment has already been completed, the operational viability of the business in question is regularly reviewed so as to hold possible losses the minimum. However, with regard to overseas investments and joint ventures, it is possible that local laws and ordinances or relationships with partners might prevent business operations from proceeding in conformity with our policies or make withdrawal impossible.

### (7) Country Risk

Regarding transactions and investments and 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, policies include setting of maximum allowable investment or loan amount after rating countries and regions on a country risk scale, with a focus on avoiding exposure in certain high-risk environments. Another means of avoiding country risk is taking out trade insurance, depending on rating and project details. In the event of a risk materializing a specific country or region, making it difficult to continue the transaction, the Company's future business performance may be adversely impacted.

### (8) Revision of Laws and Ordinances

The Company's business activities in Japan and overseas are subject to a wide range of laws and ordinances, of Japan and of overseas countries. However, the Company is exposed to the risk of inability to complete a transaction with a partner, or of unforeseen expenses due to litigation or official ordinances, in the event of regulatory changes affecting export and import regimes and permits and licenses for product sale and trading and import; these include punitive customs measures implemented without consultation due to unforeseen changes in overseas countries' legislations or in the international political situation. These hazards include taxation risk from changes in official and inter-state interpretations of international tax agreements and changes in taxation rates in the international taxation regime. Such legal changes could adversely affect the financial position and business performance of the Company.

### (9) Dispute and Litigation Risk

In its business activities and operations both in Japan and overseas, the assets and liabilities of the Company may, in one guise or another, become the subject of dispute, litigation and other legal procedures. Since it is very difficult to forecast when such disputes or litigation may arise, in cases where such disputes and litigation do arise, and their outcome is unpredictable, it can take a certain amount of time for a judgment to be made. In the event of such disputes or litigation arising with unpredictable outcomes, the Company could suffer adverse impact on its financial position and business performance.

### (10) Compliance and Unethical Behavior

The Company, operating as it does a wide range of businesses that sell or supply products and services in the Japanese and overseas markets, makes every effort to observe various rules and regulations including product and service export and import legislation enacted and enforced by Japan and other countries around the world. However, it is difficult to always ensure complete execution of procedures when so many parties and so many separate operations are involved in completion of transactions. Although we have in place a wide range of measures and mechanisms to prevent lapses from happening, the Company could suffer adverse impact on its financial position and business performance in the event of its implication in significant legal violation or unethical behavior.

# Environmental Activities

Kanematsu Corporation has established and is promoting the use of environmental management systems based on ISO14001. Pursuing such goals in response to natural resource depletion and preventing environmental pollution, we are thoroughly implementing environmental preservation and management measures at our offices, and vigorously carrying out training and educational activities to raise the awareness of each and every one of our employees. These efforts are yielding substantial results.

We have also been actively expanding business operations designed to conserve and improve the environment. Among the specific environmental businesses we are currently engaged in, we can cite "sustainable coffee" operations, the sale of surface-coating materials designed to raise the efficiency of solar electrical power generation, biogas supply, and trading in greenhouse gas emission rights.

## Sustainable coffee

"Sustainable coffee" is defined as being only coffee that is cultivated and produced on plantations that give full consideration to the environment and the human rights of workers, and coexist in harmony with the environment. Kanematsu handles a leading example of sustainable coffee, coffee beans certified by the international NPO, Rain Forest Alliance.

At present, plantations and agricultural cooperatives in 11 nations, mostly in Latin America, have received this certification, while hundreds more plan to change their agricultural methods to comply with the standards required for certification.

By purchasing coffee produced according to these standards, we are supporting environmental protection at the plantation level, which serves to protect the ecology.

Kanematsu is striving to fulfill its Corporate Social Responsibility by purchasing and marketing Rain Forest Alliance-certified coffee in Japan, and providing support from the business side for Alliance activities.


## Full-scale entry into biogas, a business that serves to prevent climate warming

In January 2008, Kanematsu established a limited liability company, Biogas Net Japan in order to promote the practical use of biogas.

Our aim is to establish the first nationwide biogas network in Japan that will be primarily concerned with the recovery and refining of biogas produced from sewage sludge, food waste, industrial waste, and livestock waste, for distribution as gas for use at businesses and in homes, as well as for motor vehicle fuel.

The methane contained in biogas has a warming effect 21 times stronger than that of $CO_2$. Therefore, our business model for its use as a fuel, rather than its release into the atmosphere, will serve both to control methane emissions and reduce fossil fuel consumption. This represents a landmark strategy for the prevention of global warming.

With the scale of the biogas market projected to exceed ¥200 billion, we anticipate tremendous growth in this field.

# Financial Section

## Contents



Note: Presentation of fiscal year and amount (Japanese Yen and U.S.dollars)
- "Fiscal 2008" refers to the company's consolidated fiscal year ended March 31, 2008 and other fiscal years are referred to in the corresponding manner.
- "JPY" means millions of Yen and "USD" means thousands of U.S.dollars.

# Management's Discussion & Analysis

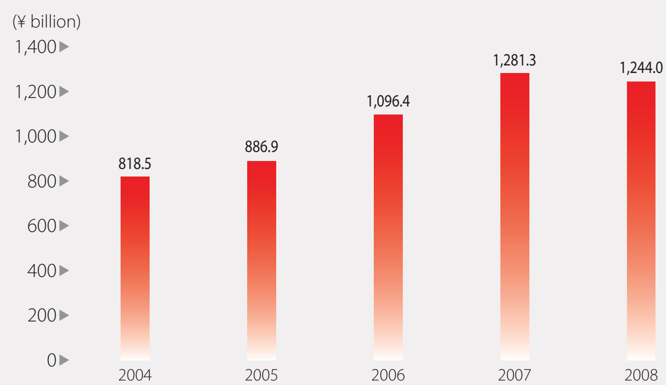
## Business Results (Consolidated)

Net sales fell ¥37,311 million from the level of the previous fiscal year to ¥1,244,020 million ($12,416,613 thousand), primarily due to a change in the status of Kanematsu Textile Corporation and a company engaged in the vending machine business from consolidated subsidiaries to equity-method affiliates. Along with this, gross trading profit was ¥90,327 million ($901,562 thousand), a decline of ¥13,384 million. However, the removal of the textile business, with its high SG&A expenses, from consolidated subsidiary status led to operating income increasing by ¥892 million to ¥22,605 million ($225,628 thousand).

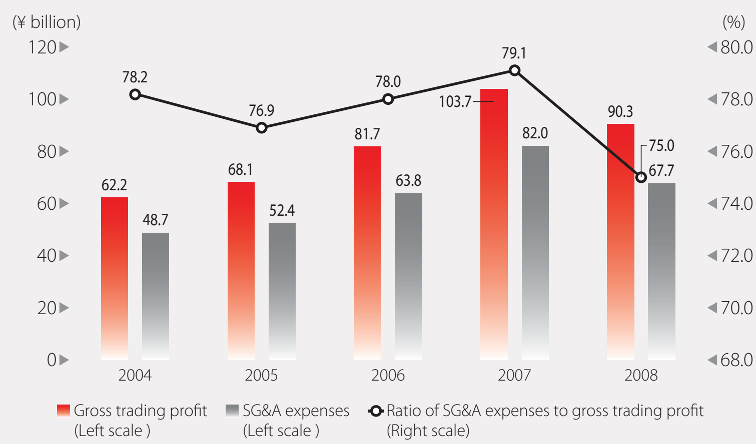
Non-operating income and losses improved by ¥599 million due to a drop in interest payments caused by a reduction in interest-bearing debt, and ordinary income grew by ¥1,492 million to ¥18,747 million ($187,117 thousand). The Company's extraordinary gains grew by ¥7,227 million, mainly due to the booking of a profit from the sale of LNG rights, and extraordinary losses declined by ¥5,642 million from the previous term. As a result, income before income taxes and minority interests rose ¥14,360 million to ¥28,975 million ($289,209 thousand). Net income jumped to ¥19,016 million ($189,806 thousand), an increase of ¥11,509 million.

As a result, retained earnings returned to the plus column at the end of the fiscal year under review, after two years of deficit beginning with the year ended March 31, 2006 because of the disposal of large losses necessitated by reorganization steps undertaken during that term.

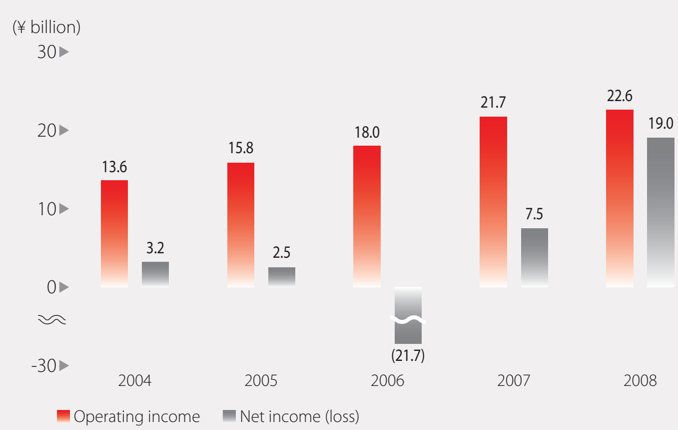
### Net sales




### Gross trading profit and SG&A expenses




### Operating income and net income (loss)



## Financial Position

### Cash Flows

Affected by increased operating income on the one hand and a decline in operating assets along with less sales in the textile segment on the other, net cash inflows from operating activities totaled ¥14,308 million ($142,809 thousand), down ¥6,566 million from the previous fiscal year. Net cash provided by investing activities surged to ¥38,799 million ($387,257 thousand), an increase of ¥15,650 million, primarily due to the sale of investments in affiliates and recovery of loans. A reduction in interest-bearing liabilities made possible by allocating these cash inflows to repayment of loans, led to net cash used in financing activities reaching ¥43,892 million ($438,097 thousand). The balance of cash and cash equivalents at year-end was ¥74,437 million ($742,966 thousand), up ¥8,966 million from the previous fiscal year.

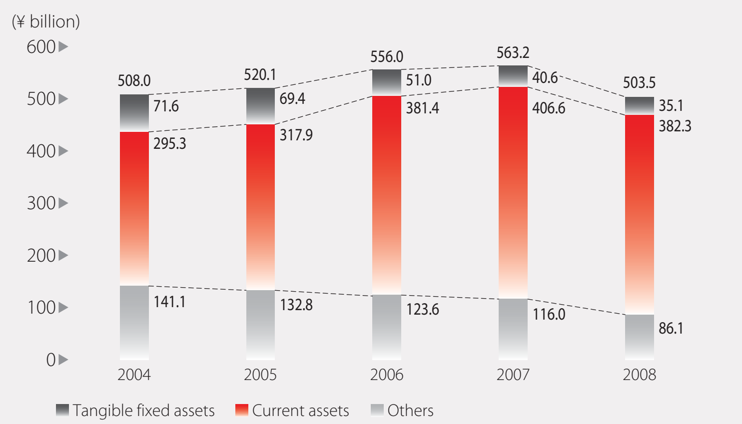
### Fund Procurement

Some of the funds obtained primarily from the sale of securities as well as the cash flow from strong performing business operations were redirected to new investment capital and working capital, and the balance was allocated to reducing interest-bearing liabilities. As a result, as of the end of the fiscal year, the net balance of interest-bearing liabilities stood at ¥148,944 million ($1,486,620 thousand), a reduction of ¥55,956 million.

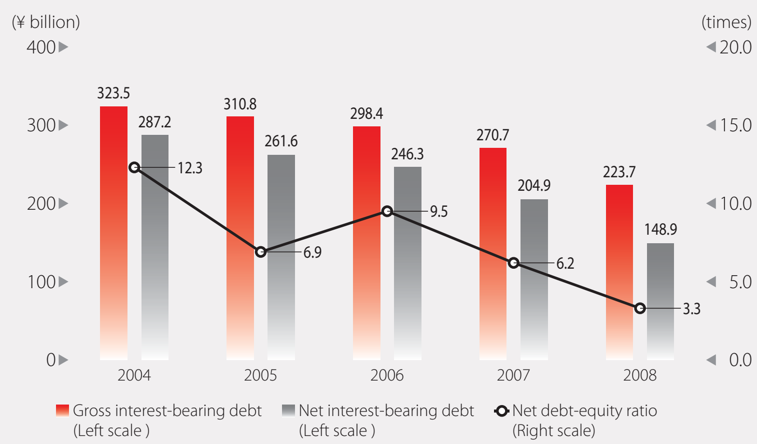
### Net Assets

As for net assets, a substantial gain on the sale of investment securities during the term and a rise in net income due to favorable business results,

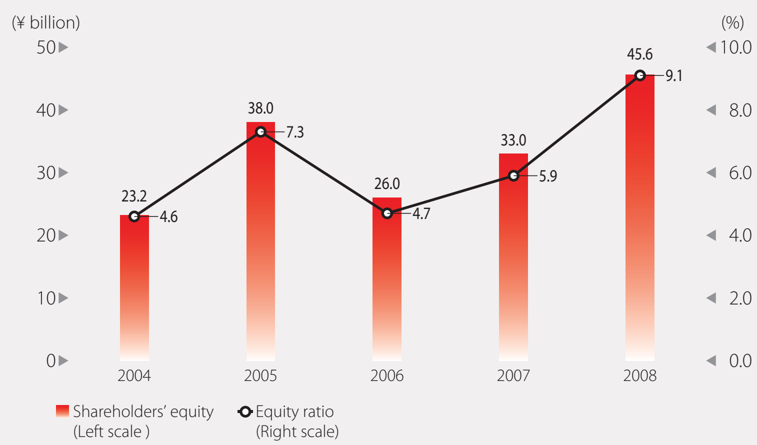
**Total assets**




**Interest-bearing debt and net debt-equity ratio**




**Shareholders' equity & equity ratio**



enabled a ¥19,052 million improvement in retained earnings (from a deficit in the previous term). Net assets increased by ¥13,472 million to ¥62,239 million ($621,210 thousand).

## Results by Business Segment

### IT

Despite the general economic slowdown in North America, a major market, earnings were boosted by solid trends in OEM parts transactions, positive results in the Company's aerospace business, and increased transactions in imaging devices and semiconductor/LCD equipment. Our mobile business also posted solid results thanks to further strengthening in services for corporations, and outlet expansion through cooperation with other types of business. In addition, the solutions business, in particular Kanematsu Electronics Ltd., also performed well. On the other hand, the electronics components-related business was sluggish, and a strategic business review of affiliates in Europe and other factors led to this segment posting ¥356,122 million ($3,554,472 thousand) in sales, a decline of ¥1,804 million. Nevertheless, operating income rose ¥187 million year-on-year to ¥8,100 million ($80,854 thousand).

### Foodstuffs

Amid soaring grain prices, our Foodstuffs business was able to maintain stability in feed trading and achieve good growth. We were able to take positive operational steps in response to the overall sharp rise in grain prices. Although our livestock business did well, the Food Products business as a whole suffered from being unable to pass on in product prices the increased overall costs of raw materials and rising costs incurred due to stronger local currencies. This business was also impacted by the suspension of imports of certain Chinese products. Overall division sales reached ¥283,565 million ($2,830,277 thousand) up ¥9,403 million year-on-year, while operating income jumped to ¥4,328 million ($43,201 thousand), an increase of ¥2,522 million.

### Iron & Steel / Machinery & Plant

The Steel business did well, benefiting from transactions in surface-treated steel plates with Japanese OA manufacturers in South China following the use of our China Coil Center, transactions in high-performance stainless steel for petroleum-related projects, expanded sales of motor vehicle parts to the South American motor vehicle industry, as well as continuing overall brisk domestic transactions. In the plant business, transactions for the shipbuilding industry in Vietnam and exports to China did well, while robust capital investment by out customers both at home and abroad helped maintain strong machine tool sales. As a whole, this business saw segment sales rise by ¥4,745 million to ¥251,860 million ($2,513,831 thousand), while operating income edged up by ¥40 million to ¥7,461 million ($74,474 thousand).

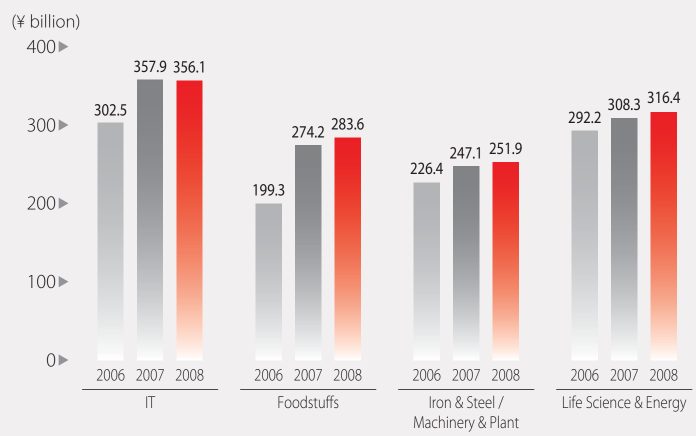
### Life Science & Energy

While the Company's Energy business benefited from increased revenue due to a surge in crude oil prices, in an environment where the prices for petroleum products are stalled at such heights, transaction volume inevitably shrank because of reduced demand, and affiliates terminated low profitability transactions, leading to a drop in earnings. Our life science business focused on environment-related materials operations, including transactions in solar cell battery-coating agents. However, transactions in functional food materials, etc. were sluggish. Although overall sales in this segment reached ¥316,406 million ($3,158,062 thousand), up ¥8,078 million and operating income declined to ¥1,733 million ($17,303 thousand), a drop of ¥1,119 million.

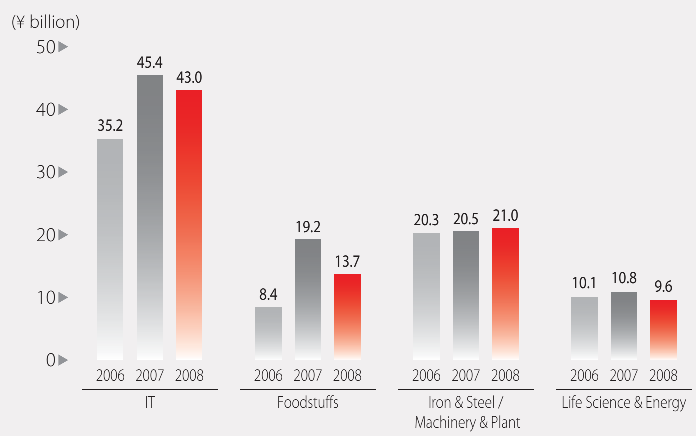
### Others

Both sales and operating income fell on a year-on-year basis, dropping by ¥57,733 million to ¥36,065 million ($359,971 thousand) and by ¥620 million to ¥377 million ($3,765 thousand), respectively. In addition, the textile segment contributed less, following the conversion of the important consolidated subsidiary Kanematsu Textile Corp. to an equity method-basis company during the fiscal year. That company's results are now being included in the Others segment. As comparisons with the previous year were made after the change in classification, the impact of the transition to "Others" of the textile business is a major factor in the drops in revenue and earnings.

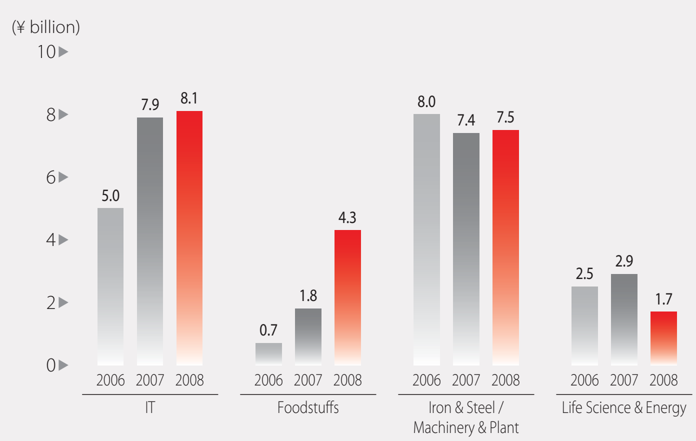
**Net sales by segment**




**Gross trading profit by segment**




**Operating income by segment**



# Consolidated Balance Sheets

March 31, 2008 and 2007  Kanematsu Corporation and Consolidated Subsidiaries

| | Fiscal 2008 | | | Fiscal 2007 | | | Fiscal 2008 | |
|---|---|---|---|---|---|---|---|---|
| | JPY | | (%) | JPY | | (%) | USD (Note 3) | |
| **Assets** | | | | | | | | |
| **I. Current assets:** | | | | | | | | |
| 1. Cash and bank deposits (Note 6-1) | | 74,758 | | | 65,778 | | | 746,165 |
| 2. Notes and accounts receivable (Notes 6-1, 6-7) | | 188,605 | | | 205,639 | | | 1,882,481 |
| 3. Short-term investments | | 14 | | | — | | | 149 |
| 4. Inventories | | 71,860 | | | 84,942 | | | 717,246 |
| 5. Short-term loans receivable | | 3,153 | | | 5,145 | | | 31,476 |
| 6. Deferred tax assets | | 5,573 | | | 4,655 | | | 55,628 |
| 7. Other | | 39,348 | | | 41,709 | | | 392,744 |
| Allowance for doubtful accounts | | (1,007) | | | (1,280) | | | (10,061) |
| **Total current assets** | | 382,307 | 75.94 | | 406,590 | 72.20 | | 3,815,828 |
| **II. Fixed assets:** | | | | | | | | |
| 1. Tangible fixed assets | | | | | | | | |
| 1) Leased property (Note 6-1) | 9,380 | | | 9,519 | | | 93,627 | |
| Accumulated depreciation | (4,090) | 5,289 | | (3,907) | 5,611 | | (40,831) | 52,797 |
| 2) Buildings and structures (Note 6-1) | 14,461 | | | 16,722 | | | 144,346 | |
| Accumulated depreciation | (9,047) | 5,414 | | (10,357) | 6,365 | | (90,300) | 54,046 |
| 3) Machinery, equipment, vehicle, tools and fixtures | 26,950 | | | 31,945 | | | 268,996 | |
| Accumulated depreciation | (20,225) | 6,725 | | (24,160) | 7,784 | | (201,869) | 67,127 |
| 4) Land (Note 6-1) | | 17,575 | | | 20,820 | | | 175,417 |
| 5) Construction in progress | | 47 | | | 19 | | | 472 |
| Total tangible fixed assets | | 35,052 | 6.96 | | 40,601 | 7.21 | | 349,858 |
| 2. Intangible fixed assets | | | | | | | | |
| 1) Goodwill | | 158 | | | 283 | | | 1,580 |
| 2) Other | | 2,781 | | | 3,265 | | | 27,764 |
| Total intangible fixed assets | | 2,939 | 0.58 | | 3,549 | 0.63 | | 29,344 |
| 3. Investments and other assets | | | | | | | | |
| 1) Investments in securities (Notes 6-1, 6-2) | | 47,521 | | | 71,616 | | | 474,313 |
| 2) Long-term loans receivable | | 14,280 | | | 14,231 | | | 142,530 |
| 3) Doubtful accounts | | 20,332 | | | 23,809 | | | 202,940 |
| 4) Deferred tax assets | | 17,208 | | | 19,595 | | | 171,755 |
| 5) Other | | 10,919 | | | 12,402 | | | 108,983 |
| Allowance for doubtful accounts | | (27,104) | | | (29,221) | | | (270,529) |
| Total investments and other assets | | 83,156 | 16.52 | | 112,435 | 19.96 | | 829,992 |
| **Total fixed assets** | | 121,149 | 24.06 | | 156,586 | 27.80 | | 1,209,194 |
| **Total assets** | | 503,456 | 100.00 | | 563,176 | 100.00 | | 5,025,022 |

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

| | Fiscal 2008 | | Fiscal 2007 | | Fiscal 2008 |
|---|---|---|---|---|---|
| | JPY | (%) | JPY | (%) | USD (Note 3) |
| **Liabilities** | | | | | |
| **I. Current liabilities:** | | | | | |
| 1. Notes and accounts payable (Note 6-7) | 131,594 | | 153,283 | | 1,313,452 |
| 2. Import bills payable | 25,205 | | 23,374 | | 251,576 |
| 3. Short-term borrowings (Notes 6-1, 6-6) | 89,080 | | 143,527 | | 889,111 |
| 4. Accrued income taxes | 2,381 | | 3,424 | | 23,768 |
| 5. Deferred tax liabilities | — | | 0 | | — |
| 6. Other | 43,062 | | 43,882 | | 429,804 |
| Total current liabilities | 291,323 | 57.87 | 367,493 | 65.25 | 2,907,711 |
| **II. Non-current liabilities:** | | | | | |
| 1. Long-term borrowings (Note 6-1) | 134,622 | | 127,151 | | 1,343,674 |
| 2. Deferred tax liabilities | 173 | | 90 | | 1,736 |
| 3. Accrued retirement benefits | 4,329 | | 5,441 | | 43,217 |
| 4. Allowance for loss on guarantees | 82 | | 4,189 | | 828 |
| 5. Allowance for loss on lawsuits | 553 | | 532 | | 5,521 |
| 6. Allowance for retirement benefits to directors and statutory auditors | 689 | | — | | 6,880 |
| 7. Other (Note 6-1) | 9,442 | | 9,510 | | 94,246 |
| Total non-current liabilities | 149,894 | 29.77 | 146,916 | 26.09 | 1,496,102 |
| **Total liabilities** | 441,217 | 87.64 | 514,409 | 91.34 | 4,403,812 |
| **Net assets** | | | | | |
| **I. Shareholders' equity:** | | | | | |
| 1. Common stock | 27,781 | 5.52 | 27,781 | 4.93 | 277,285 |
| 2. Capital surplus | 27,644 | 5.49 | 27,646 | 4.91 | 275,921 |
| 3. Retained earnings (Deficit) | 9,556 | 1.90 | (9,496) | (1.69) | 95,384 |
| 4. Treasury stock | (645) | (0.13) | (627) | (0.11) | (6,440) |
| Total shareholders' equity | 64,336 | 12.78 | 45,303 | 8.04 | 642,149 |
| **II. Valuation and translation adjustments:** | | | | | |
| 1. Net unrealized gains on securities, net of tax | 1,576 | 0.31 | 3,853 | 0.68 | 15,735 |
| 2. Net gains (losses) on deferred hedges, net of tax | (912) | (0.18) | 112 | 0.02 | (9,110) |
| 3. Revaluation reserves for land (Note 6-3) | 58 | 0.01 | 58 | 0.01 | 579 |
| 4. Foreign currency translation adjustments | (19,470) | (3.87) | (16,368) | (2.90) | (194,339) |
| Total valuation and translation adjustments | (18,749) | (3.73) | (12,344) | (2.19) | (187,135) |
| **III. Minority interests in consolidated subsidiaries** | 16,651 | 3.31 | 15,807 | 2.81 | 166,195 |
| **Total net assets** | 62,239 | 12.36 | 48,767 | 8.66 | 621,210 |
| **Total liabilities and net assets** | 503,456 | 100.00 | 563,176 | 100.00 | 5,025,022 |

# Consolidated Statements of Income

For the years ended March 31, 2008 and 2007 Kanematsu Corporation and Consolidated Subsidiaries

| | Fiscal 2008 | | | Fiscal 2007 | | | Fiscal 2008 | |
|---|---|---|---|---|---|---|---|---|
| | JPY | | (%) | JPY | | (%) | USD (Note 3) | |
| **I. Net sales** | | 1,244,020 | 100.00 | | 1,281,331 | 100.00 | | 12,416,613 |
| **II. Cost of sales** | | 1,153,692 | 92.74 | | 1,177,619 | 91.91 | | 11,515,051 |
| Gross trading profit | | 90,327 | 7.26 | | 103,711 | 8.09 | | 901,562 |
| **III. Selling, general and administrative expenses** (Note 7-1)**:** | | | | | | | | |
| 1. Salaries and bonuses | 26,036 | | | 31,087 | | | 259,867 | |
| 2. Retirement benefit expenses | 1,549 | | | 1,406 | | | 15,467 | |
| 3. Outsourcing service charges | 8,925 | | | 10,077 | | | 89,087 | |
| 4. Provision for doubtful accounts | 521 | | | 743 | | | 5,204 | |
| 5. Other | 30,688 | 67,721 | 5.44 | 38,682 | 81,997 | 6.40 | 306,307 | 675,935 |
| Operating income | | 22,605 | 1.82 | | 21,713 | 1.69 | | 225,628 |
| **IV. Non-operating income:** | | | | | | | | |
| 1. Interest received | 1,479 | | | 1,572 | | | 14,771 | |
| 2. Dividends received | 1,158 | | | 1,282 | | | 11,559 | |
| 3. Equity in earnings of affiliates | 1,085 | | | 731 | | | 10,831 | |
| 4. Foreign exchange gains | — | | | 298 | | | — | |
| 5. Other | 1,422 | 5,145 | 0.41 | 1,436 | 5,320 | 0.42 | 14,199 | 51,360 |
| **V. Non-operating expenses:** | | | | | | | | |
| 1. Interest paid | 6,765 | | | 8,278 | | | 67,524 | |
| 2. Other | 2,238 | 9,004 | 0.72 | 1,499 | 9,778 | 0.76 | 22,346 | 89,871 |
| Ordinary income | | 18,747 | 1.51 | | 17,255 | 1.35 | | 187,117 |
| **VI. Extraordinary gains:** | | | | | | | | |
| 1. Gain on sales of fixed assets (Note 7-2) | 164 | | | 6,655 | | | 1,646 | |
| 2. Gain on sales of investments | 15,460 | | | 1,574 | | | 154,307 | |
| 3. Gain on reversal of allowance for doubtful accounts | 381 | 16,006 | 1.29 | 549 | 8,779 | 0.68 | 3,811 | 159,764 |
| **VII. Extraordinary losses:** | | | | | | | | |
| 1. Loss on sales or disposal of fixed assets | 429 | | | 1,058 | | | 4,290 | |
| 2. Loss on impairment of fixed assets (Note 7-3) | 766 | | | 2,309 | | | 7,650 | |
| 3. Loss on sales of investments | 209 | | | 225 | | | 2,086 | |
| 4. Loss on revaluation of investments in securities | 305 | | | 532 | | | 3,051 | |
| 5. Loss on closure of business | 1,723 | | | 1,153 | | | 17,199 | |
| 6. Loss on inventory write-down | 835 | | | — | | | 8,340 | |
| 7. Provision for loss on affiliated business | 175 | | | 725 | | | 1,748 | |
| 8. Provision for loss on impaired credits to discontinued business | 872 | | | 3,877 | | | 8,703 | |
| 9. Provision for loss on guarantee | — | | | 1,004 | | | — | |
| 10. Provision for loss on lawsuits | 20 | | | 532 | | | 206 | |
| 11. Prior years' provision for retirement benefits to directors and statutory auditors | 440 | 5,778 | 0.47 | — | 11,420 | 0.89 | 4,398 | 57,673 |
| **Income before income taxes and minority interests** | | 28,975 | 2.33 | | 14,615 | 1.14 | | 289,209 |
| Income taxes – current | 5,439 | | | 6,193 | | | 54,295 | |
| Income taxes – deferred | 2,905 | 8,344 | 0.67 | 139 | 6,332 | 0.49 | 28,996 | 83,291 |
| **Minority interests in consolidated subsidiaries** | | 1,614 | 0.13 | | 775 | 0.06 | | 16,112 |
| **Net income** | | 19,016 | 1.53 | | 7,507 | 0.59 | | 189,806 |

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

# Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2007 Kanematsu Corporation and Consolidated Subsidiaries

| | Fiscal 2008 (JPY) | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained earnings (Deficit) | Treasury stock | Total shareholders' equity |
| Balance at March 31, 2007 | 27,781 | 27,646 | (9,496) | (627) | 45,303 |
| Changes during the fiscal year | | | | | |
| Net income | | | 19,016 | | 19,016 |
| Acquisition of treasury stock | | | | (33) | (33) |
| Disposition of treasury stock | | (2) | | 15 | 12 |
| Effect of changes in the shares of equity-method affiliates | | | | (0) | (0) |
| Effect of changes in scope of consolidated subsidiaries | | | 1 | | 1 |
| Pension liability adjustments (Note 8-2) | | | 34 | | 34 |
| Net changes of items other than shareholders' equity during the fiscal year | | | | | |
| Total changes during the fiscal year | — | (2) | 19,053 | (18) | 19,032 |
| Balance at March 31, 2008 | 27,781 | 27,644 | 9,556 | (645) | 64,336 |

| | Fiscal 2008 (JPY) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation and translation adjustments | | | | | | |
| | Net unrealized gains on securities, net of tax | Net gains (losses) on deferred hedges, net of tax | Revaluation reserves for land | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interests in consolidated subsidiaries | Total net assets |
| Balance at March 31, 2007 | 3,853 | 112 | 58 | (16,368) | (12,344) | 15,807 | 48,767 |
| Changes during the fiscal year | | | | | | | |
| Net income | | | | | | | 19,016 |
| Acquisition of treasury stock | | | | | | | (33) |
| Disposition of treasury stock | | | | | | | 12 |
| Effect of changes in the shares of equity-method affiliates | | | | | | | (0) |
| Effect of changes in scope of consolidated subsidiaries | | | | | | | 1 |
| Pension liability adjustments (Note 8-2) | | | | | | | 34 |
| Net changes of items other than shareholders' equity during the fiscal year | (2,277) | (1,025) | (0) | (3,102) | (6,404) | 843 | (5,560) |
| Total changes during the fiscal year | (2,277) | (1,025) | (0) | (3,102) | (6,404) | 843 | 13,471 |
| Balance at March 31, 2008 | 1,576 | (912) | 58 | (19,470) | (18,749) | 16,651 | 62,239 |

The Accompanying notes are an integral part of these financial statements (see Note 8).

## Consolidated Statements of Changes in Net Assets

| | Fiscal 2007 (JPY) | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained earnings (Deficit) | Treasury stock | Total shareholders' equity |
| Balance at March 31, 2006 | 27,781 | 27,641 | (16,294) | (600) | 38,527 |
| Changes during the fiscal year | | | | | |
| Bonuses to directors | | | (120) | | (120) |
| Net income | | | 7,507 | | 7,507 |
| Acquisition of treasury stock | | | | (35) | (35) |
| Disposition of treasury stock | | 4 | | 7 | 12 |
| Effect of changes in the shares of equity-method affiliates | | | | (0) | (0) |
| Effect of changes in scope of consolidated subsidiaries | | | (359) | | (359) |
| Effect of changes in scope of equity-method affiliates | | | (91) | 1 | (89) |
| Pension liability adjustments (Note 8-2) | | | (138) | | (138) |
| Net changes of items other than shareholders' equity during the fiscal year | | | | | |
| Total changes during the fiscal year | — | 4 | 6,797 | (26) | 6,776 |
| Balance at March 31, 2007 | 27,781 | 27,646 | (9,496) | (627) | 45,303 |

| | Fiscal 2007 (JPY) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation and translation adjustments | | | | | | |
| | Net unrealized gains on securities, net of tax | Net gains (losses) on deferred hedges, net of tax | Revaluation reserves for land | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interests in consolidated subsidiaries | Total net assets |
| Balance at March 31, 2006 | 4,816 | — | 58 | (17,397) | (12,523) | 14,972 | 40,977 |
| Changes during the fiscal year | | | | | | | |
| Bonuses to directors | | | | | | | (120) |
| Net income | | | | | | | 7,507 |
| Acquisition of treasury stock | | | | | | | (35) |
| Disposition of treasury stock | | | | | | | 12 |
| Effect of changes in the shares of equity-method affiliates | | | | | | | (0) |
| Effect of changes in scope of consolidated subsidiaries | | | | | | | (359) |
| Effect of changes in scope of equity-method affiliates | | | | | | | (89) |
| Pension liability adjustments (Note 8-2) | | | | | | | (138) |
| Net changes of items other than shareholders' equity during the fiscal year | (962) | 112 | — | 1,028 | 178 | 834 | 1,013 |
| Total changes during the fiscal year | (962) | 112 | — | 1,028 | 178 | 834 | 7,789 |
| Balance at March 31, 2007 | 3,853 | 112 | 58 | (16,368) | (12,344) | 15,807 | 48,767 |

The Accompanying notes are an integral part of these financial statements (see Note 8).

| | Fiscal 2008 (USD) (Note 3) | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| | Common stock | Capital surplus | Retained earnings (Deficit) | Treasury stock | Total shareholders' equity |
| Balance at March 31, 2007 | 277,285 | 275,942 | (94,786) | (6,259) | 452,180 |
| Changes during the fiscal year | | | | | |
| Net income | | | 189,806 | | 189,806 |
| Acquisition of treasury stock | | | | (331) | (331) |
| Disposition of treasury stock | | (21) | | 150 | 129 |
| Effect of changes in the shares of equity-method affiliates | | | | (0) | (0) |
| Effect of changes in scope of consolidated subsidiaries | | | 18 | | 18 |
| Pension liability adjustments (Note 8-2) | | | 345 | | 345 |
| Net changes of items other than shareholders' equity during the fiscal year | | | | | |
| Total changes during the fiscal year | — | (21) | 190,170 | (180) | 189,968 |
| Balance at March 31, 2008 | 277,285 | 275,921 | 95,384 | (6,440) | 642,149 |

| | Fiscal 2008 (USD) (Note 3) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation and translation adjustments | | | | | | |
| | Net unrealized gains on securities, net of tax | Net gains (losses) on deferred hedges, net of tax | Revaluation reserves for land | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interests in consolidated subsidiaries | Total net assets |
| Balance at March 31, 2007 | 38,465 | 1,124 | 579 | (163,376) | (123,209) | 157,774 | 486,746 |
| Changes during the fiscal year | | | | | | | |
| Net income | | | | | | | 189,806 |
| Acquisition of treasury stock | | | | | | | (331) |
| Disposition of treasury stock | | | | | | | 129 |
| Effect of changes in the shares of equity-method affiliates | | | | | | | (0) |
| Effect of changes in scope of consolidated subsidiaries | | | | | | | 18 |
| Pension liability adjustments (Note 8-2) | | | | | | | 345 |
| Net changes of items other than shareholders' equity during the fiscal year | (22,729) | (10,233) | (0) | (30,962) | (63,926) | 8,422 | (55,504) |
| Total changes during the fiscal year | (22,729) | (10,233) | (0) | (30,962) | (63,926) | 8,422 | 134,464 |
| Balance at March 31, 2008 | 15,735 | (9,110) | 579 | (194,339) | (187,135) | 166,195 | 621,210 |

The Accompanying notes are an integral part of these financial statements (see Note 8).

# Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007  Kanematsu Corporation and Consolidated Subsidiaries

| | Fiscal 2008 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|
| | JPY | JPY | USD (Note 3) |
| **I. Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | 28,975 | 14,615 | 289,209 |
| Depreciation and amortization | 3,304 | 3,771 | 32,987 |
| Increase in allowance for doubtful accounts | 547 | 1,232 | 5,467 |
| Decrease in accrued retirement benefits | (1,000) | (394) | (9,989) |
| Interest and dividend income | (2,638) | (2,855) | (26,330) |
| Interest expense | 6,765 | 8,278 | 67,524 |
| Equity in earnings affiliates | (1,085) | — | (10,831) |
| Loss (Gain) on sales or disposal of property and equipment | 264 | (5,596) | 2,644 |
| Loss on impairment of fixed assets | 766 | 2,309 | 7,650 |
| Gain on sales of investments, net | (15,251) | (1,349) | (152,221) |
| Loss on revaluation of investments in securities | 305 | 532 | 3,051 |
| Gain on reversal of allowance for doubtful accounts | (381) | (549) | (3,812) |
| Loss on closure of business | 1,723 | 1,153 | 17,199 |
| Loss on inventory write-down | 835 | — | 8,340 |
| Provision for loss on affiliated business | 175 | 725 | 1,748 |
| Provision for loss on impaired credits to discontinued business | 872 | 3,877 | 8,703 |
| Provision for loss on guarantee | — | 1,004 | — |
| Provision for loss on lawsuits | 20 | 532 | 206 |
| Prior years' provision for retirement benefits to directors and statutory auditors | 440 | — | 4,398 |
| Decrease (Increase) in notes and accounts receivable | 4,314 | (6,446) | 43,064 |
| Increase in inventories | (2,695) | (5,316) | (26,905) |
| (Decrease) Increase in notes and accounts payable | (8,034) | 12,073 | (80,196) |
| Payments for bonuses to directors and statutory auditors | — | (136) | — |
| Other | 5,963 | 694 | 59,519 |
| Sub total | 24,188 | 28,157 | 241,428 |
| Interest and dividend received | 3,234 | 4,439 | 32,285 |
| Interest paid | (6,848) | (7,371) | (68,356) |
| Income taxes paid | (6,266) | (4,351) | (62,549) |
| Net cash provided by operating activities | 14,308 | 20,874 | 142,809 |
| **II. Cash flows from investing activities:** | | | |
| Decrease in time deposits, net | 28 | 889 | 288 |
| Payments for tangible assets | (1,948) | (1,866) | (19,447) |
| Proceeds from sales of tangible assets | 1,626 | 15,952 | 16,236 |
| Payments for intangible assets | (698) | (1,178) | (6,975) |
| Payments for investments in securities | (1,383) | (1,102) | (13,809) |
| Proceeds from sales of investments in securities | 28,579 | 5,699 | 285,253 |
| Payments for purchase of shares in subsidiaries (Note 9-2) | — | (3,683) | — |
| Proceeds from sales of shares in subsidiaries (Note 9-3) | 4,768 | 765 | 47,598 |
| Proceeds from dividends on liquidations | 559 | — | 5,580 |
| Payments for loans receivable | (5,381) | (4,639) | (53,712) |
| Proceeds from loans receivable | 11,344 | 12,833 | 113,234 |
| Other | 1,303 | (521) | 13,011 |
| Net cash provided by investing activities | 38,799 | 23,149 | 387,257 |
| **III. Cash flows from financing activities:** | | | |
| (Decrease) Increase in short-term borrowings, net | (27,838) | 6,185 | (277,857) |
| Proceeds from long-term borrowings | 35,843 | 126,663 | 357,750 |
| Repayments of long-term borrowings | (51,699) | (162,561) | (516,014) |
| Proceeds on issuance of common stock | 160 | — | 1,597 |
| Other | (358) | (554) | (3,574) |
| Net cash used in financing activities | (43,892) | (30,267) | (438,097) |
| **IV. Effect of exchange rate changes on cash and cash equivalents** | (254) | 731 | (2,544) |
| **V. Net increase in cash and cash equivalents** | 8,959 | 14,488 | 89,425 |
| **VI. Cash and cash equivalents at beginning of year** | 65,471 | 50,934 | 653,471 |
| **VII. Effect of the change in scope of consolidated subsidiaries** | 7 | 48 | 70 |
| **VIII. Cash and cash equivalents at end of year** (Note 9-1) | 74,437 | 65,471 | 742,966 |

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

# Notes to Consolidated Financial Statements

For the years ended March 31, 2008 and 2007     Kanematsu Corporation and Consolidated Subsidiaries

## 1. Basis of Preparing Consolidated Financial Statements

**(1) The Method of Producing the Consolidated Financial Statements and the Financial Statements**

The consolidated financial statements of Kanematsu Corporation (the "Company") are prepared in accordance with the "Regulations Concerning Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Ordinance No. 28, 1976; hereinafter, the "Regulations"). The consolidated financial statements for the fiscal year ended March 31, 2007 are prepared in accordance with the Regulations prior to the revision, while the consolidated financial statements for the fiscal year ended March 31, 2008 are prepared in accordance with the Regulations after the revision.

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

**(2) Japanese Yen amount**

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

## 2. Summary of Significant Accounting Policies

*(a) Scope of Consolidation*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| **(1) Number of consolidated subsidiaries: 80**<br>In the current fiscal year, 2 companies were added to the scope of consolidation due to incorporation or increasing materiality, while 13 companies were excluded from the scope of consolidation due to liquidation, sale in shares and other events. | **(1) Number of consolidated subsidiaries: 91**<br>In the fiscal year, 10 companies were added to the scope of consolidation due to incorporation or increasing materiality while 7 companies were excluded from the scope of consolidation due to liquidation and other events. |
| **(2) Unconsolidated subsidiaries**<br>26 companies were not included in the scope of consolidation. | **(2) Unconsolidated subsidiaries**<br>33 companies were not included in the scope of consolidation. |
| **(3) Reason for the subsidiaries were excluded from the scope of consolidation**<br>26 unconsolidated subsidiaries were immaterial in terms of their total assets, net sales, net income and retained earnings corresponding to the Company's ownership interest on their stand-alone basis as well as their aggregated basis. | **(3) Reason for the subsidiaries were excluded from the scope of consolidation**<br>33 unconsolidated subsidiaries were immaterial in terms of their total assets, net sales, net income and retained earnings corresponding to the Company's ownership interest on their stand-alone basis as well as their aggregated basis. |

*(b) Application of Equity Method*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| **(1) Number of unconsolidated subsidiaries to which the equity method was applied: 20**<br>20 subsidiaries out of 26 unconsolidated subsidiaries were accounted for by the equity method.<br>In the current fiscal year, 5 companies were excluded from the scope of the equity method due to liquidation, merger, sale in shares and other events. | **(1) Number of unconsolidated subsidiaries to which the equity method was applied: 25**<br>25 subsidiaries out of 33 unconsolidated subsidiaries were accounted for by the equity method.<br>In the fiscal year, the equity method were newly applied to investments in 7 companies due to incorporation or increasing materiality, while 1 company were excluded from the scope of the equity method due to liquidation. |
| **(2) Number of affiliated companies to which the equity method was applied: 27**<br>Among 34 affiliated companies, the equity method was applied to investments in 27 companies.<br>In the current fiscal year, the equity method was newly applied to investment in 1 company due to a change from a subsidiary to an affiliate with the sale of shares, while 11 companies were excluded from the scope of the equity method due to sales in shares and liquidation. | **(2) Number of affiliated companies to which the equity method was applied: 37**<br>Among 45 affiliated companies, the equity method was applied to investments in 37 companies.<br>In the fiscal year, the equity method was newly applied to investments in 4 companies due to increasing their materiality, while 2 companies were excluded from the scope of the equity method due to liquidation and sale in shares. |
| **(3) Reason for the equity method was not applied to the affiliated companies**<br>The 6 unconsolidated subsidiaries and 7 affiliated companies to which the equity method was not applied were immaterial on consolidated net income and retained earnings, corresponding to the Company's ownership interest on their stand-alone basis and aggregated basis. | **(3) Reason for the equity method was not applied to the affiliated companies**<br>The 8 unconsolidated subsidiaries and 8 affiliated companies to which the equity method was not applied were immaterial on consolidated net income and retained earnings, corresponding to the Company's ownership interest on their stand-alone basis and aggregated basis. |

*(c) Fiscal Years of Consolidated Subsidiaries*

<table>
<tr><th>Fiscal 2008</th><th>Fiscal 2007</th></tr>
<tr><td>Consolidated subsidiaries that have different closing dates from the consolidated closing date were as follows:<br><br>Name of consolidated subsidiary — Closing date<br>Kanematsu USA — December 31<br>Kanematsu GmbH — December 31<br>Kanematsu Australia — December 31<br>Kanematsu Europe — December 31<br>KG Aircraft Leasing — December 31<br>And 27 other companies<br><br>When preparing the consolidated financial statements, the financial statements of 32 companies are used since their closing dates were within three months of the consolidated closing date. However, material difference in intercompany transactions and accounts arising from the use of the different fiscal year end were appropriately adjusted for in consolidation.</td><td>Consolidated subsidiaries that have different closing dates from the consolidated closing date were as follows:<br><br>Name of consolidated subsidiary — Closing date<br>Kanematsu USA — December 31<br>Kanematsu GmbH — December 31<br>Kanematsu Australia — December 31<br>Kanematsu Europe — December 31<br>KG Aircraft Leasing — December 31<br>And 28 other companies<br><br>When preparing the consolidated financial statements, the financial statements of 33 companies are used since their closing dates were within three months of the consolidated closing date. However, material difference in intercompany transactions and accounts arising from the use of the different fiscal year end were appropriately adjusted for in consolidation.</td></tr>
</table>

*(d) Short-term Investment and Investments in Securities*

<table>
<tr><th>Fiscal 2008</th><th>Fiscal 2007</th></tr>
<tr><td>(1) Held-to-maturity bonds<br>Debt securities were stated at cost less the amortization of any premium or discounts, which were amortized over the period to maturities.<br><br>(2) Other securities (Non-trading purpose)<br>* Marketable Securities<br>The marketable securities are stated at market price.<br>Net unrealized gains or losses on securities in “Net assets” are net of tax amounts. The cost of sales are determined using the moving average method.<br>The mark-to-market method is primarily based on the one-month daily average market price up to the fiscal year end.<br><br>* Non-marketable securities<br>The non-marketable securities are stated at cost based on the moving-average method.</td><td>(1) Held-to-maturity bonds<br>consistent with the policy described at left<br><br>(2) Other securities (Non-trading purpose)<br>* Marketable Securities<br>consistent with the policy described at left<br><br>* Non-marketable securities<br>consistent with the policy described at left</td></tr>
</table>

*(e) Derivatives*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| Market price method. | consistent with the policy described at left |

*(f) Inventories*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| Cost method principally determined by the moving average method. | consistent with the policy described at left |

*(g) Property and Equipment*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| In principle, the declining-balance method is used for tangible fixed assets. However, the straight-line method is used for buildings (excluding auxiliary equipment) and leased property.<br>The range of principal estimated useful lives are as follows.<br><br>Buildings and structures 3 – 50 years<br>Machinery, equipment, vehicle, tools and fixtures 2 – 25 years<br><br>(Accounting Change in Depreciation Method)<br>Due to the revision to corporate tax legislation (Law for Partial Amendment of the Income Tax Law, Law No. 6 of March 30, 2007, and Ordinance for Partial Amendment of the Corporate Tax Law Endorsement Ordinance, Ordinance No. 83 of March 30, 2007), certain consolidated subsidiaries changed the depreciation method for their tangible fixed assets acquired on or after April 1, 2007 to the method in accordance with the revised corporate tax law effective from the current fiscal year.<br>This change had a minor effect on net income for the current fiscal year.<br>As this change had a minor impact on the segment information, the description in the relevant section is abbreviated.<br><br>(Additional Information on Change in Residual Values)<br>Due to the revision to corporate tax legislation (Law for Partial Amendment of the Income Tax Law, Law No. 6 of March 30, 2007, and Ordinance for Partial Amendment of the Corporate Tax Law Endorsement Ordinance, Ordinance No. 83 of March 30, 2007), certain consolidated subsidiaries adopted the depreciation method based on the revised Corporate Tax Law for tangible fixed assets acquired on or before March 31, 2007. With this method, the difference between the amounts equivalent to 5% of the acquisition costs and the residual value are depreciated evenly over five years effectively from the year following the fiscal year when the residual value reached the amounts equivalent to 5% of the acquisition costs, and recorded as depreciation expenses.<br>The change had a minor impact on net income for the current fiscal year. | In principle, the declining-balance method is used for tangible fixed assets. However, the straight-line method is used for buildings (excluding auxiliary equipment) and leased property.<br>The range of principal estimated useful lives are as follows.<br><br>Buildings and structures 3 – 50 years<br>Machinery, equipment, vehicle, tools and fixtures 2 – 25 years |

*(h) Allowance for Doubtful Accounts*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| The Company and its consolidated subsidiaries (The "Companies") provide the allowance for doubtful accounts sufficient to cover credit losses, based on reasonable estimates, such as collectibility of individual accounts and past bad-debt loss experiences. | consistent with the policy described at left |

*(i) Accrued Retirement Benefits*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| The Company and certain of its subsidiaries provide for retirement allowances based on the present value of projected benefit obligations and the fair value of the plan assets at the year-end.<br>Principally prior service costs are amortized as expenses using the straight-line method over 5 years, a predetermined number of years, within the average expected remaining service period of the employees, except that certain domestic consolidated subsidiary recognizes as expenses at its occurrence.<br>Actuarial gains and losses are amortized by the straight-line method over periods of 5 to 10 years within the average expected remaining service period of the employees, and are recorded as expenses in the subsequent years in which the gains or losses are recognized. | The Company and certain of its subsidiaries provide for retirement allowances based on the present value of projected benefit obligations and the fair value of the plan assets at the year-end.<br>Past service costs are amortized as expenses using the straight-line method over 5 years, a predetermined number of years, within the average expected remaining service period of the employees.<br>Actuarial gains and losses are amortized by the straight-line method over periods of 5 to 10 years within the average expected remaining service period of the employees, and are recorded as expenses in the subsequent years in which the gains or losses are recognized. |

*(j) Allowance for Loss on Guarantees*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| The Companies provide allowance for potential loss on unconsolidated subsidiaries and affiliated companies considering their financial conditions. | consistent with the policy described at left |

*(k) Allowance for Loss on Lawsuits*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| The Companies provide allowance for potential losses on lawsuits. | consistent with the policy described at left |

*(l) Allowance for Retirement Benefits to Directors and Statutory Auditors*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| The Company and certain of its subsidiaries provide allowance for retirement benefits to directors and statutory auditors, which are calculated by estimating the required payable as of the balance sheet date in accordance with the Companies' internal rules.<br><br>(Accounting Change in Allowance)<br>Prior to the current fiscal year, the Company and certain its subsidiaries expensed retirement benefits to directors and statutory auditors at the time of disbursement based on a resolution at an annual general shareholders' meeting. Effective from the current fiscal year, the Company and certain its subsidiaries changed to a method of providing an allowance that can be reasonably estimated in accordance with internal rules by reference to the publication of the "Auditing Treatment relating to Reserve defined under the Special Tax measurement Law, Reserve defined under the Special Law and Reserve for Directors and Corporate Auditor Retirement Benefits" (JICPA Auditing and Assurance Practice Committee Report No. 42 dated on April 13, 2007).<br>Because of this change, the Company and certain of its subsidiaries recorded an allowance of ¥181 million ($1,809 thousand) attributable to the current fiscal year in general, selling and administrative expenses and ¥440 million ($4,392 thousand) attributable to the prior years as an extraordinary loss in the current fiscal year.<br>As a result, both operating income and ordinary income were decreased by ¥181 million ($1,809 thousand), respectively, and income before income taxes was decreased by ¥621 million ($6,208 thousand) compared to the previous method. | Not applicable. |

*(m) Translation of Foreign Currencies*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| All monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates prevailing at the balance sheet date. Resulting translation gains and losses are included in determination of net income for the period.<br>The financial statements of overseas subsidiaries were translated at current exchange rates on the closing date except for shareholders' equity which was translated at historical exchange rate of acquisition. Difference in yen amounts arising from this method are shown as "Foreign currency translation adjustments" and "Minority interest in consolidated subsidiaries" in "Net assets". | consistent with the policy described at left |

*(n) Lease Transactions*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| Finance leases other than those in which ownership rights of the leased property are regarded as transferred to the lessee, are principally accounted for as operating leases. | consistent with the policy described at left |

*(o) Hedge Accounting*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| **(1) Hedge accounting method**<br>In principle, deferred hedge is adopted in the method of hedge accounting. In case 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 when amounts are paid. Also, in case where forward exchange contracts designated as hedging instruments meet specific matching criteria, the hedged assets or liabilities are translated by forward exchange rates. | **(1) Hedge accounting method**<br>consistent with the policy described at left |
| **(2) Hedging instruments and hedged items**<br>(Hedging instruments)<br>* Commodity-related<br>Commodity futures contracts / Commodity forward contracts<br>* Foreign exchange-related<br>Forward exchange contracts / Foreign currency swaps / Foreign currency options<br>* Interest rate-related<br>Interest rate swaps / Interest rate options<br>(Hedged items)<br>* Commodity-related<br>Forecasted transactions on commodity trading<br>* Foreign exchange-related<br>Foreign currency-denominated monetary assets and liabilities<br>Forecasted foreign currency transaction<br>* Interest-related<br>Borrowings | **(2) Hedging instruments and hedged items**<br>consistent with the policy described at left |
| **(3) Hedging policy**<br>The Company and certain of its consolidated subsidiaries have internal policies to utilize the above hedging instruments for the purpose of reducing their exposures to the risk of fluctuations in commodity prices, foreign currencies and interest rates in their operating and financing activities. | **(3) Hedging policy**<br>consistent with the policy described at left |
| **(4) Method of evaluating the effectiveness of hedging activities**<br>The Company and certain of its consolidated subsidiaries evaluate the effectiveness of their hedging activities by comparing accumulated fluctuations in prices or cash flows of hedged items with those of hedging instruments and examined the degree of their correlations. | **(4) Method of evaluating the effectiveness of hedging activities**<br>consistent with the policy described at left |
| **(5) Other**<br>Risk management is performed by the management division, which is independent from the trading sections. Also, reporting to management is made in accordance with the internal rules on a regular basis. | **(5) Other**<br>consistent with the policy described at left |

*(p) Consumption Taxes*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| Consumption tax and local consumption tax on goods and services are not included in the revenue and expense amounts which are subject to such taxes in the accompanying consolidated statements of income. | consistent with the policy described at left |

*(q) Consolidated Tax Return*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| The Company and its wholly owned domestic subsidiaries have adopted the consolidated tax regime, and as such file consolidated corporate-tax return. | consistent with the policy described at left |

*(r) Valuation of Assets and Liabilities of Consolidated Subsidiaries*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| The Company adopts the full mark-to-market method for the valuation of assets and liabilities of consolidated subsidiaries at the time of acquisition. | consistent with the policy described at left |

*(s) Goodwill*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| Goodwill and negative goodwill whose amortization period can be reasonably estimated are amortized over the estimated period. Otherwise goodwill and negative goodwill are amortized over five years using the straight-line method. | consistent with the policy described at left |

*(t) Cash and Cash Equivalents*

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| Cash and cash equivalents in the consolidated statements of cash flows were comprised of cash on hand, bank deposits on demand, and highly liquid short-term investments, generally with original maturities of three months or less, that are readily convertible to cash and represent insignificant risk of changes in value. | consistent with the policy described at left |

## 3. United States Dollar Amounts

The U.S. dollar amounts appearing in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars at the rate of ¥100.19 to U.S.$1.00, prevailing on March 31, 2008. The translation of such dollar amounts is solely for convenience of the readers outside Japan and does not imply those yen amounts have been or could be readily converted, realized or settled in dollars at the above, or any other rate.

## 4. Significant Accounting Changes

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| Not applicable. | (Presentation of Net Assets and Statements of Changes in Net Assets)<br>The Companies apply the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5 dated on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8 dated on December 9, 2005) effective from the current fiscal year. The amount equivalent to shareholders' equity as of March 31, 2007 would have been 32,847 million yen if the previous standard had been applied consistently. Net assets in the consolidated balance sheet at the fiscal year-end are prepared in accordance with the revised Regulations Concerning Consolidated Financial Statements associated with the amendment of the Regulations Concerning Consolidated Financial Statements.<br><br>(Business Combinations and Business Separations)<br>The Companies apply the "Accounting Standard for Business Combinations" (issued by Business Accounting Council on October 31, 2003), the "Accounting Standard for Business Divestitures" (Accounting Standards Board Statement No. 7 dated on December 27, 2005) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board Guidance No. 10, Latest revision dated on December 22, 2006) effective from the current fiscal year.<br><br>(Bonuses to Directors and Corporate Auditors)<br>The Companies apply the "Accounting Standard for Directors' Bonuses" (ASBJ Statement No. 4 dated on November 29, 2005) effective from the fiscal year. The adoption had a minor effect on net income in the current fiscal year. |

## 5. Changes to Presentation Methods

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| (Consolidated Balance Sheets)<br>Not applicable. | (Consolidated Balance Sheets)<br>"Goodwill" account is presented from the fiscal year, which was presented as "Franchise rights" in the previous fiscal years.<br>The "Consolidation adjustment account" (187 million yen at the end of the previous fiscal year) which was included in "Others" in intangible fixed assets in the previous fiscal years, is also reclassified to "Goodwill" from the fiscal year. |
| (Consolidated Statements of Cash Flows)<br>"Equity in earnings of affiliates" that was included in "Others" in "Cash flows from operating activities" in the previous fiscal years is separately presented from the current fiscal year, as its significance has increased. "Equity in earnings of affiliates" that was included in "Others" in "Cash flows from operating activities" in the previous fiscal year was (¥731) million (($7,296) thousand). | (Consolidated Statements of Cash Flows)<br>"Proceeds from sales of shares in subsidiaries" accompanied by the change of scope of consolidation was included in "Others" in "Cash flows from investing activities" (minus 1 million yen in the previous fiscal year) in the previous fiscal years is separately presented from the fiscal year, as its significance has increased. |

## 6. Notes to Consolidated Balance Sheets

### Fiscal 2008

**1. Pledged assets and secured obligations**

Details of pledged assets are as follows:

| | JPY | USD |
|---|---|---|
| Bank Deposits | 29 | 295 |
| Notes receivable | 1,830 | 18,273 |
| Fixed assets for lease | 4,976 | 49,668 |
| Buildings and structures | 414 | 4,135 |
| Land | 182 | 1,823 |
| Investments in securities | 801 | 7,996 |
| Total | 8,235 | 82,193 |

Details of secured obligations are as follows:

| | JPY | USD |
|---|---|---|
| Short-term loans | 5,064 | 50,550 |
| Long-term loans | 2,695 | 26,905 |
| Long-term liabilities and others | 954 | 9,523 |
| Guaranteed obligations | 14 | 146 |

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

| | JPY | USD |
|---|---|---|
| Bank deposits | 3 | 29 |
| Investments in securities | 2,385 | 23,809 |
| Total | 2,388 | 23,839 |

**2.** Investments in securities included following accounts to unconsolidated subsidiaries and affiliated companies.

| | JPY | USD |
|---|---|---|
| Investments in securities | 8,299 | 82,838 |
| (Share stocks) | (8,188) | (81,732) |
| (Equity interest) | (110) | (1,106) |

### Fiscal 2007

**1. Pledged assets and secured obligations**

Details of pledged assets are as follows:

| | JPY |
|---|---|
| Bank Deposits | 37 |
| Notes receivable | 1,830 |
| Fixed assets for lease | 5,227 |
| Buildings and structures | 354 |
| Land | 182 |
| Investments in securities | 1,177 |
| Total | 8,809 |

Details of secured obligations are as follows:

| | JPY |
|---|---|
| Short-term loans | 4,963 |
| Long-term loans | 2,756 |
| Long-term liabilities and others | 986 |
| Guaranteed obligations | 21 |

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

| | JPY |
|---|---|
| Bank deposits | 3 |
| Investments in securities | 2,262 |
| Total | 2,265 |

**2.** Investments in securities included following accounts to unconsolidated subsidiaries and affiliated companies.

| | JPY |
|---|---|
| Investments in securities | 20,337 |
| (Share stocks) | (18,299) |
| (Equity interest) | (2,038) |

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| **3. Revaluation reserves for land**<br>Hokushin Co., Ltd. and KANEYO Co., Ltd., equity-method affiliates of the Company, revalued land for business in accordance with the "Law Concerning Revaluation of Land (Law No. 34 enacted on March 31, 1998)" and the "Law to Partially Modify the Law Concerning Revaluation of Land (Law No. 24 enacted on March 31, 1999 and Law No. 19 enacted on March 31, 2001)". They recorded unrealized gains on revaluation, net of tax, as valuation and translation adjustment under the Laws. Investments in these affiliates increased by an amount equal to the Company's equity in their reserves and recorded as revaluation reserves for land. | **3. Revaluation reserves for land**<br>consistent with the description described at left |
| **4. Contingencies**<br>Guarantees were provided to unconsolidated subsidiaries on their borrowings from third-party financial institutions as follows:<br><br>Name of obligor / JPY / USD<br>P.T. Century Textile Industry / 566 / 5,654<br>True Corporation Public / 407 / 4,069<br>Japan Logistics / 193 / 1,931<br>Other / 4,117 / 41,096<br>Total / 5,285 / 52,752<br><br>Keep-well or agreements similar to guarantee were included in the above. | **4. Contingencies**<br>Guarantees were provided to unconsolidated subsidiaries on their borrowings from third-party financial institutions as follows:<br><br>Name of obligor / JPY<br>KG Berau Petroleum / 9,348<br>KG Wiriagar Petroleum / 1,574<br>True Corporation Public / 407<br>Other / 4,947<br>Total / 16,278<br><br>Keep-well or agreements similar to guarantee were included in the above. |
| **5.** The amount of discounted notes receivable was ¥16,447 million ($164,166 thousand), and the amount of endorsed notes receivable was ¥146 million ($1,459 thousand). The amount of discounted note receivable includes export letter of credit bought by banks of ¥10,353 million ($103,335 thousand). | **5.** The amount of discounted notes receivable was ¥16,976 million, and the amount of endorsed notes receivable was ¥187 million. The amount of discounted note receivable includes export letter of credit bought by banks of ¥7,536 million. |
| **6.** ¥4,309 million ($43,019 thousand), the amount of discounted export bills and notes receivable among consolidated companies, was reclassed to short-term borrowings. | **6.** ¥4,144 million, the amount of discounted export bills and notes receivable among consolidated companies, was reclassed to short-term borrowings. |
| **7.** Not applicable. | **7.** The company and its domestic consolidated subsidiaries record actual cash settlement of the notes on the dare of clearance. Since the closing date on March 31, 2007 was not a business day of financial institutions, the following notes due on closing date were included in the year-end balances.<br><br>Notes Receivable ¥2,236 million<br>Notes Payable ¥4,077 million |

## 7. Notes to Consolidated Statements of Income

### Fiscal 2008

**1. Research and development expenses**

Research and development expenses included in general and administrative expenses: ¥347 million ($3,470 thousand).

**2. Gain on sales of fixed assets**

Not applicable.

**3. Loss on impairment of fixed assets**

The Companies recorded losses on the impairment of fixed assets in the current fiscal year, which are summarized in the following table.

| Use | Location | Type | JPY | USD |
|---|---|---|---|---|
| Leased properties | Tochigi, Japan | Buildings, land, etc. | 21 | 217 |
| Business assets | Dalian, China | Buildings, land, etc. | 692 | 6,911 |
| Idle assets | Tokyo, Japan and other | Telephone subscription right and other, etc. | 52 | 523 |
| Total | | | 766 | 7,650 |

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

For the leased properties and business assets with lower profitability due to the declining market prices and performance in real estate in recent years and the idle assets with lower market values due to unpromising use in the foreseeable future, impairment losses of ¥766 million ($7,650 thousand) in extraordinary loss by reducing their carrying amounts to the recoverable amounts. The breakdown of the impairment losses is as follows: ¥329 million ($3,290 thousand) for buildings and structures, ¥164 million ($1,642 thousand) for machinery, vehicle and fixtures, ¥146 million ($1,461 thousand) for land, ¥126 million ($1,258 thousand) for others.

The greater of net selling or use value is used as the recoverable value as for leased properties in use, while net selling value is used as the recoverable value for leased properties to be sold. The greater of net selling or use value is used for business assets, while net selling value is used for idle assets. The net selling value is based on appraisal provided by professional real estate appraiser, the use value is calculated by discounted future cash flows using an interest rate of 5.1%.

### Fiscal 2007

**1. Research and development expenses**

Research and development expenses included in general and administrative expenses: ¥561 million.

**2. Gain on sales of fixed assets**

Gain on sale of tangible fixed assets included a ¥4,944 million, which was gained on the sale of real estate (leased property) owned by a subsidiary of the Company.

**3. Loss on impairment of fixed assets**

The Companies recorded losses on the impairment of fixed assets in the fiscal year, which are summarized in the following table.

| Use | Location | Type | JPY |
|---|---|---|---|
| Leased properties | Niigata, Japan | Buildings, land, etc. | 245 |
| Business assets | Okayama, Japan and other | Buildings, land, etc. | 1,759 |
| Idle assets | Hyogo, Japan | Buildings, land, etc. | 304 |
| Total | | | 2,309 |

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

For the leased properties and business assets with lower profitability due to the declining market prices and performance in real estate in recent years and the idle assets with lower market values due to unpromising use in the foreseeable future, impairment losses of 2,309 million yen in extraordinary loss by reducing their carrying amounts to the recoverable amounts. The breakdown of the impairment losses is as follows: 444 million yen for buildings and structures, 175 million yen for machinery, vehicle and fixtures, 1,635 million yen for land, 53 million yen for others.

The greater of net selling or use value is used as the recoverable value for leased properties in use, while net selling or use value is used as the recoverable value for leased properties to be sold. The greater of net selling or use value is used for business assets, while net selling value is used for idle assets. The net selling value is based on appraisal by professional real estate appraiser, the use value is calculated by discounted future cash flows using an interest rate of 4.0%.

## 8. Notes to Consolidated Statements of Changes in Net Assets

Fiscal 2008

**1. Class and number of shares issued and treasury stock**

| | Number of shares at end of previous term (thousand shares) | Increase in shares during the term (thousand shares) | Decrease in shares during the term (thousand shares) | Number of shares at end of term (thousand shares) |
|---|---|---|---|---|
| Shares issued | | | | |
| Common shares | 422,501 | — | — | 422,501 |
| Total | 422,501 | — | — | 422,501 |
| Treasury stock | | | | |
| Common shares (Notes 1, 2) | 3,975 | 177 | 81 | 4,072 |
| Total | 3,975 | 177 | 81 | 4,072 |

(Notes) 1. The breakdown of the increase of 177 thousand common shares during the term is as follows:
Increase as a result of fractional share repurchases: 177 thousand shares
Portion of treasury stock (the Company's stock) added due to changes in shares to companies applied equity method that attributes to the Company: 0 thousand shares
2. The breakdown of the decrease of 81 thousand common shares during the term is as follows:
Decrease as a result of the disposition of fractional shares: 81 thousand shares
Portion of treasury stock the (Company's stock) disposed of by equity method affiliates that belong to the Company: 0 thousand shares

**2.** Certain consolidated subsidiaries in the U.S. provide for unrecognized pension liabilities included in Other Comprehensive Income under U.S. GAAP, which the Company has included in "Retained Earnings" or "Deficit".

Fiscal 2007

**1. Class and number of shares issued and treasury stock**

| | Number of shares at end of previous term (thousand shares) | Increase in shares during the term (thousand shares) | Decrease in shares during the term (thousand shares) | Number of shares at end of term (thousand shares) |
|---|---|---|---|---|
| Shares issued | | | | |
| Common shares | 422,501 | — | — | 422,501 |
| Total | 422,501 | — | — | 422,501 |
| Treasury stock | | | | |
| Common shares (Notes 1, 2) | 3,884 | 163 | 72 | 3,975 |
| Total | 3,884 | 163 | 72 | 3,975 |

(Notes) 1. The breakdown of the increase of 163 thousand common shares during the term is as follows:
Increase as a result of fractional share repurchases: 155 thousand shares
Portion of treasury stock (the Company's stock) acquired by the companies applied equity method that attributes to the Company: 7 thousand shares
Portion of treasury stock (the Company's stock) added due to changes in the shares to companies applied equity method that attributes to the Company: 0 thousand shares
2. The breakdown of the decrease of 72 thousand common shares during the term is as follows:
Decrease as a result of the disposition of fractional shares: 21 thousand shares
Portion of treasury stock (the Company's stock) disposed of by the companies applied equity method that attributes to the Company: 40 thousand shares
Portion of treasury stock (the Company's stock) decreased due to changes in the scope of the application of the equity method that attributes to the Company: 10 thousand shares

**2.** Certain consolidated subsidiaries in the U.S. provide for unrecognized pension liabilities included in Other Comprehensive Income under U.S. GAAP, which the Company had included in "Retained Earnings" or "Deficit".

## 9. Notes to Consolidated Statements of Cash Flows

### Fiscal 2008

**1.** Cash and cash equivalents as of March 31, 2008, was consisted of as follows:

| | JPY | USD |
|---|---|---|
| Cash and bank deposits | 74,758 | 746,165 |
| Time deposits whose deposit terms exceed three months | (320) | (3,199) |
| Cash and cash equivalents | 74,437 | 742,966 |

**2.** Breakdown of the assets and liabilities of a company that was included in the scope of consolidation through the acquisition of shares during the fiscal year.

Not applicable.

**3.** Breakdown of the assets and liabilities of 8 companies that were excluded from the scope of consolidation through the sale of shares during the current fiscal year.

The following is a breakdown of the assets and liabilities of 8 companies that were excluded from the scope of consolidation through the sales of shares at the time of the sale, and the selling value and revenue from sale:

| | JPY | USD |
|---|---|---|
| Current assets | 21,118 | 210,788 |
| Fixed assets | 6,776 | 67,639 |
| Goodwill | 67 | 675 |
| Current liabilities | (20,359) | (203,205) |
| Non-current liabilities | (1,351) | (13,492) |
| Foreign currency translation adjustments | 504 | 5,035 |
| Minority interests in consolidated subsidiaries | (23) | (237) |
| Interests in consolidated subsidiaries before shares sold | 6,733 | 67,203 |
| Interests in consolidated subsidiaries after shares sold | (1,278) | (12,762) |
| Gain on sale of investment | (414) | (4,139) |
| Total | 5,039 | 50,303 |
| Less: Cash and cash equivalents | (270) | (2,705) |
| Net revenue from sale | 4,768 | 47,598 |

### Fiscal 2007

**1.** Cash and cash equivalents as of March 31, 2007, was consisted of as follows:

| | JPY |
|---|---|
| Cash and bank deposits | 65,778 |
| Time deposits whose deposit terms exceed three months | (307) |
| Cash and cash equivalents | 65,471 |

**2.** Breakdown of the assets and liabilities of a company that was included in the scope of consolidation through the acquisition of shares during the fiscal year.

The following is a breakdown of the assets and liabilities of a company that was included in the scope of consolidation through the acquisition of shares at the beginning of the consolidation, and the acquisition cost and payments for the acquisition:

| | JPY |
|---|---|
| Current assets | 2,336 |
| Fixed assets | 1,092 |
| Goodwill | 4,951 |
| Current liabilities | (3,644) |
| Long-term liabilities | (785) |
| Minority interests in consolidated subsidiaries | 500 |
| Acquisition cost | 4,450 |
| Less: Cash and cash equivalents | (766) |
| Net expenditure for the acquisition | 3,683 |

**3.** Breakdown of the assets and liabilities of a company that was excluded from the scope of consolidation through the sale of shares during the fiscal year.

The following is a breakdown of the assets and liabilities of a companies those were excluded from the scope of consolidation through the sales of shares at the time of the sale, and the selling value and revenue from sale:

| | JPY |
|---|---|
| Current assets | 2,890 |
| Fixed assets | 1,217 |
| Goodwill | 4,455 |
| Current liabilities | (4,791) |
| Non-current liabilities | (824) |
| Minority interests in consolidated subsidiaries | 922 |
| Interests in consolidated subsidiaries before shares sold | 3,871 |
| Interests in consolidated subsidiaries after shares sold | (2,709) |
| Gain on sale of investment | 173 |
| Total | 1,335 |
| Less: Cash and cash equivalents | (569) |
| Net revenue from sale | 765 |

## 10. Lease Transactions

### Fiscal 2008

**<Leases as Lessee>**

**1. Finance leases in which the ownership of the leased property is not transferred to the lessees**

(1) Acquisition cost, accumulated depreciation, accumulated impairment loss and balance at the end of the term of leased property, if owned are as follows:

| | Acquisition cost | | Accumulated depreciation | | Balance at end of term | |
|---|---|---|---|---|---|---|
| | JPY | USD | JPY | USD | JPY | USD |
| Machinery, equipment, vehicles, tools, and fixtures | 4,202 | 41,944 | 2,464 | 24,597 | 1,737 | 17,347 |
| Others | 19 | 192 | 10 | 105 | 8 | 87 |
| Total | 4,221 | 42,137 | 2,474 | 24,702 | 1,746 | 17,434 |

(2) Future minimum lease payments outstanding at the balance sheet date are as follows:

| | JPY | USD |
|---|---|---|
| Due within one year | 1,758 | 17,552 |
| Due after one year | 1,904 | 19,006 |
| Total | 3,662 | 36,558 |

(3) Lease charge paid, computed depreciation and interest expenses consisted thereof are as follows:

| | JPY | USD |
|---|---|---|
| Lease charge paid | 1,203 | 12,011 |
| Depreciation | 1,090 | 10,881 |
| Interest expenses | 94 | 943 |

(4) Computation of depreciation

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

(5) Computation of interest expenses

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

**2. Operating Leases**

Future lease payments outstanding at the balance sheet date were as follows:

| | JPY | USD |
|---|---|---|
| Due within one year | 20 | 208 |
| Due after one year | 17 | 177 |
| Total | 38 | 386 |

**<Impairment Loss>**

No impairment loss was observed nor allocated to leased assets.

### Fiscal 2007

**<Leases as Lessee>**

**1. Finance leases in which the ownership of the leased property is not transferred to the lessees**

(1) Acquisition cost, accumulated depreciation, accumulated impairment loss and balance at the end of the term of leased property, if owned are as follows:

| | Acquisition cost | Accumulated depreciation | Balance at end of term |
|---|---|---|---|
| | JPY | JPY | JPY |
| Machinery, equipment, vehicles, tools, and fixtures | 5,069 | 2,860 | 2,208 |
| Others | 190 | 145 | 45 |
| Total | 5,260 | 3,006 | 2,254 |

(2) Future minimum lease payments outstanding at the balance sheet date are as follows:

| | JPY |
|---|---|
| Due within one year | 2,268 |
| Due after one year | 2,514 |
| Total | 4,783 |

(3) Lease charge paid, computed depreciation and interest expenses consisted thereof are as follows:

| | JPY |
|---|---|
| Lease charge paid | 1,574 |
| Depreciation | 1,395 |
| Interest expenses | 130 |

(4) Computation of depreciation

consistent with the description described at left

(5) Computation of interest expenses

consistent with the description described at left

**2. Operating Leases**

Future lease payments outstanding at the balance sheet date were as follows:

| | JPY |
|---|---|
| Due within one year | 38 |
| Due after one year | 30 |
| Total | 68 |

**<Impairment Loss>**

consistent with the description described at left

## Fiscal 2008

**<Leases as Lessor>**

**1. Finance leases where the leases do not transfer the ownership of the leased property to the lessees**

(1) Acquisition cost, accumulated depreciation, accumulated impairment loss and balance at the end of the term of leased property, if owned are as follows:

| | Acquisition cost | | Accumulated depreciation | | Accumulated impairment loss | | Balance at end of term | |
|---|---|---|---|---|---|---|---|---|
| | JPY | USD | JPY | USD | JPY | USD | JPY | USD |
| Machinery, equipment, vehicles, tools, and fixtures | 83 | 832 | 16 | 167 | — | — | 66 | 665 |
| Total | 83 | 832 | 16 | 167 | — | — | 66 | 665 |

(2) Future minimum lease payments receivable outstanding at the balance sheet date are as follows:

| | JPY | USD |
|---|---|---|
| Due within one year | 992 | 9,910 |
| Due after one year | 1,068 | 10,670 |
| Total | 2,061 | 20,580 |

Related sub-lease payments against the above receivable were ¥1,638 million ($16,354 thousand). (including ¥782 million ($7,815 thousand) for due within one year)

(Note) Regarding the related sub-lease payments against the above receivables, they are almost same amounts because the sub-lease transactions arranged by the companies are intended to pass-through in almost identical terms.

(3) Lease payments received, computed depreciation and interest income are as follows.

| | JPY | USD |
|---|---|---|
| Lease payments received | 27 | 273 |
| Depreciation | 7 | 75 |
| Interest income | 0 | 6 |

(4) Computation of interest

Interest income allocation to each period is based on declining method using equilibrium, and the allocation to each period is based on interest method.

**2. Operating Leases**

Future lease payments receivable outstanding at the balance sheet date were as follows:

| | JPY | USD |
|---|---|---|
| Due within one year | 386 | 3,861 |
| Due after one year | 86 | 860 |
| Total | 473 | 4,722 |

## Fiscal 2007

**<Leases as Lessor>**

**1. Finance leases where the leases do not transfer the ownership of the leased property to the lessees**

(1) Acquisition cost, accumulated depreciation, accumulated impairment loss and balance at the end of the term of leased property, if owned are as follows:

| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Balance at end of term |
|---|---|---|---|---|
| | JPY | JPY | JPY | JPY |
| Machinery, equipment, vehicles, tools, and fixtures | 143 | 88 | 30 | 24 |
| Others | 3 | 3 | — | — |
| Total | 147 | 92 | 30 | 24 |

(2) Future minimum lease payments receivable outstanding at the balance sheet date are as follows:

| | JPY |
|---|---|
| Due within one year | 1,367 |
| Due after one year | 1,458 |
| Total | 2,826 |

Related sub-lease payments against the above receivable were ¥2,425 million. (including ¥1,175 million for due within one year)

(Note) Regarding the related sub-lease payments against the above receivables, they are almost same amounts because the sub-lease transactions arranged by the companies are intended to pass-through in almost identical terms.

(3) Lease payments received, computed depreciation and interest income are as follows.

| | JPY |
|---|---|
| Lease payments received | 54 |
| Depreciation | 8 |
| Interest income | 2 |

(4) Computation of interest

consistent with the description described at left

**2. Operating Leases**

Future lease payments receivable outstanding at the balance sheet date were as follows:

| | JPY |
|---|---|
| Due within one year | 453 |
| Due after one year | 293 |
| Total | 746 |

## 11. Short-term Investments and Investments in Securities

Fiscal 2008

**1. "Held to maturity debt securities" with market prices not exceeding their book value (as of March 31, 2008)**

| | Category | Book value | | Market price | | Unrealized gain (loss) | |
|---|---|---|---|---|---|---|---|
| | | JPY | USD | JPY | USD | JPY | USD |
| Securities with market value not exceeding their book value | Japanese government bonds | 24 | 248 | 24 | 248 | (0) | (0) |

**2. "Other securities" with market prices (as of March 31, 2008)**

| | Category | Acquisition cost | | Book value | | Unrealized gain (loss) | |
|---|---|---|---|---|---|---|---|
| | | JPY | USD | JPY | USD | JPY | USD |
| Securities with book value exceeding their acquisition cost | (1) Equity securities | 8,222 | 82,072 | 12,166 | 121,429 | 3,943 | 39,357 |
| Securities with book value not exceeding their acquisition cost | (1) Equity securities | 2,438 | 24,341 | 1,997 | 19,935 | (441) | (4,406) |
| | (2) Others | 47 | 477 | 38 | 384 | (9) | (93) |
| | subtotal | 2,486 | 24,818 | 2,035 | 20,320 | (450) | (4,499) |
| Total | | 10,709 | 106,891 | 14,201 | 141,749 | 3,492 | 34,858 |

(Note) For the recognition of impairment, securities whose market value declined 50% or more against their carrying book value were subject to revaluation. For securities that declined 30% or more in market price, revaluation losses were recorded after considering the likelihood of future price recovery or financial position. For those determinations, market prices were primarily based on one month daily average.

**3. "Other securities" sold during the current fiscal year (from April 1, 2007 to March 31, 2008)**

| Sales proceeds | | Gains from sale | | Losses from sale | |
|---|---|---|---|---|---|
| JPY | USD | JPY | USD | JPY | USD |
| 2,550 | 25,459 | 1,120 | 11,185 | 73 | 734 |

**4. The book value of securities without market price consisted of below (as of March 31, 2008)**

| | JPY | USD |
|---|---|---|
| Unlisted equity securities | 19,768 | 197,311 |

**5. "Other securities" with maturity dates and their redemption schedule (as of March 31, 2008)**

| Bond | Within one year | | From one year to five years | |
|---|---|---|---|---|
| | JPY | USD | JPY | USD |
| Japanese government bonds | 14 | 149 | 10 | 100 |

Fiscal 2007

**1. "Held to maturity debt securities with market prices not exceeding their book value (as of March 31, 2007)**

| | Category | Book value | Market price | Unrealized gain (loss) |
|---|---|---|---|---|
| | | JPY | JPY | JPY |
| Securities with market value not exceeding their book value | Japanese government bonds | 24 | 24 | (0) |

**2. "Other securities" with market prices (as of March 31, 2007)**

| | Category | Acquisition cost | Book value | Unrealized gain (loss) |
|---|---|---|---|---|
| | | JPY | JPY | JPY |
| Securities with book value exceeding their acquisition cost | (1) Equity securities | 9,691 | 17,345 | 7,653 |
| | (2) Others | 65 | 69 | 4 |
| | subtotal | 9,756 | 17,414 | 7,657 |
| Securities with book value not exceeding their acquisition cost | (1) Equity securities | 1,206 | 1,071 | (134) |
| | subtotal | 1,206 | 1,071 | (134) |
| Total | | 10,963 | 18,486 | 7,523 |

(Note) For the recognition of impairment, securities whose market value declined 50% or more against their carrying book value were subject to revaluation. For securities that declined 30% or more in market price, revaluation losses ware recorded after considering the likelihood of future price recovery or financial position. For those determinations, market prices were primarily based on one month daily average.

**3. "Other securities" sold during the fiscal year (from April 1, 2006 to March 31, 2007)**

| Sales proceeds | Gains from sale | Losses from sale |
|---|---|---|
| JPY | JPY | JPY |
| 5,308 | 1,358 | 64 |

**4. The book value of securities without market prices consisted of below (as of March 31, 2007)**

| | JPY |
|---|---|
| Unlisted equity securities | 24,335 |

**5. "Other securities" with maturity dates and their redemption amounts (as of March 31, 2007)**

| Bond | Within one year | From one year to five years |
|---|---|---|
| | JPY | JPY |
| Japanese government bonds | — | 24 |

## 12. Derivatives

### 1. Summary of derivatives transactions

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| **(1) Nature, policies and purposes of derivatives transactions**<br>The company and certain of its consolidated subsidiaries use commodity futures and commodity forward contracts primarily for minimizing exposures attributable to price volatility on commodities such as food and fuel. These transactions are carried out systematically under transaction rule designed for each type of transaction with the ceiling based on the transaction volume and profitability.<br>With respect to financial instruments, foreign exchange forward contracts, currency swaps, and currency options are used to avert exposure arising from exchange rate fluctuations in relation to foreign-currency monetary assets and liabilities and remaining contracts. Interest rate swaps and interest options on loans payable are used primarily for mitigating exposures arising from interest-rate fluctuations in relation to financial liabilities. The transactions are carried out systematically under transaction rules set out for each type of transaction based on past transaction volume and expected volume in the future.<br>The Company also uses derivatives transactions to gain short–term margins for trading purposes within a certain transaction volume, but the transaction volume is minimal. | **(1) Nature, policies and purpose of derivatives transactions**<br>consistent with the description described at left |
| **(2) Risks of derivatives transactions**<br>The commodity futures and commodity forward contracts that the Company and certain of its consolidated subsidiaries use involve risks associated with market price fluctuations. Foreign exchange forward contracts, currency swaps, and currency options have exchange rate fluctuation risks. Interest rate swaps and interest options have interest rate fluctuation risks.<br>Most of the derivatives transactions used by the Company and certain of its consolidated subsidiaries are for hedging against market risks in operating and financing activities. In principle, market risks associated with derivatives are offset by equal and opposite movement of the values of hedged transactions.<br>Since derivatives transactions are carried out only with major financial institutions or major brokers with high credit ratings, the exposure to credit risk on derivatives is minimal.<br>The Company and its consolidated subsidiaries do not use structured derivatives with high volatility of market values to their underlying transactions' price changes, such as leveraged derivatives transactions. | **(2) Risks of derivatives transactions**<br>consistent with the description described at left |
| **(3) Risk management policies**<br>The Company's risk management is focused on assessing the following:<br>(i) Whether derivatives transactions are used effectively to minimize risks associated with the assets and liabilities exposed to market price fluctuation risks and to circumvent significant losses in operations<br>(ii) Whether there are any derivatives transactions exceeding the transaction limit set for each transaction<br>(iii) Whether there are any derivatives transactions where losses exceed the loss limit set for each transaction | **(3) Risk management policies**<br>consistent with the description described at left |
| (a) Transaction rules<br>With respect to commodities, the Company comprehensively manages merchandise positions consisting of trade contract balances and inventories in derivatives and normal transactions. At the beginning of the fiscal year, each business division sets a ceiling on its commodity open position, taking into consideration its transaction volume and profitability. Each business division head is responsible for conducting these transactions. With respect to derivatives transactions, each business division prescribes its own transaction rules and loss limit rules by commodity and transaction purpose of hedging or trading.<br>The Finance Department makes transaction plans for financial instruments in accordance with internal rules for each type of transaction, including derivatives transactions, at the beginning of the fiscal year. The head of the Finance Department is responsible for controlling these derivatives transactions under its own transaction rules that prescribe authorization over derivatives operations, transaction limits, and loss limits. | (a) Transaction rules<br>consistent with the description described at left |

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| (b) Risk management and reporting<br>Commodities positions are monitored by the Business Accounting Department, Devices Company Business Management Department, and Accounting Department. Commodity positions are assessed daily, weekly, or monthly in accordance with each commodity's transaction volume and characteristics and the risk assessment result are reported to management as stipulated in internal rules.<br>Financial products are monitored by the Internal Inspecting Section, which is independent from trading divisions. The section performs daily assessment and reports the results as set out in internal rules.<br>Certain of Company's consolidated subsidiaries (including major overseas subsidiaries) use derivatives transactions in accordance with their own internal rules, which are based on the Company's risk management policies. | (b) Risk management and reporting<br>consistent with the description described at left |

**2. Matters relating to market prices in relation to derivatives transactions**

*(1) Currencies*

Not applicable because hedge accounting is adopted.

*(2) Interest rate*

Not applicable because hedge accounting is adopted.

*(3) Commodities*

| | | Fiscal 2008 | | | | | | | | Fiscal 2007 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Notional amount of contracts | | Amount of over-one-year contracts | | Market price | | Unrealized gain or ( loss) | | Notional amount of contracts | Amount of over-one-year contracts | Market price | Unrealized gain or (loss) |
| Classification | Transaction type | JPY | USD | JPY | USD | JPY | USD | JPY | USD | JPY | JPY | JPY | JPY |
| Transactions in future market | Commodity futures | | | | | | | | | | | | |
| | Food stuffs | | | | | | | | | | | | |
| | Selling | 626 | 6,253 | — | — | 578 | 5,776 | 47 | 477 | 505 | — | 489 | 16 |
| | Buying | 1,952 | 19,492 | — | — | 1,957 | 19,537 | 4 | 45 | 1,065 | — | 1,040 | (25) |
| | Energy | | | | | | | | | | | | |
| | Selling | 707 | 7,059 | — | — | 709 | 7,085 | (2) | (25) | 414 | — | 452 | (37) |
| | Buying | 713 | 7,119 | — | — | 721 | 7,206 | 8 | 86 | — | — | — | — |
| Total | | — | — | — | — | — | — | 58 | 583 | — | — | — | (46) |

(Notes) 1. Basis of calculating the market prices of commodity futures.
The market price is the market's closing price at the end of the fiscal year.
2. Transactions for which hedge accounting is applied are excluded from the table.

## 13. Retirement benefits

### 1. Summary of pension plans

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

### 2. Matters relating to retirement benefit debt

| | Fiscal 2008 | | Fiscal 2007 |
|---|---|---|---|
| | JPY | USD | JPY |
| a. Projected benefit obligation at end of year | (15,182) | (151,533) | (15,347) |
| b. Fair value of plan assets at end of year | 9,998 | 99,791 | 10,263 |
| c. Projected benefit obligation in excess of plan assets (a + b) | (5,184) | (51,742) | (5,083) |
| d. Unrecognized actuarial loss (gain) | 930 | 9,285 | (538) |
| e. Unrecognized prior service cost | 293 | 2,930 | 366 |
| f. Accrued retirement benefit obligation recognized in the consolidated balance sheets (c + d + e) | (3,960) | (39,527) | (5,254) |
| g. Prepaid pension cost | 369 | 3,690 | 186 |
| h. Accrued retirement benefits (f – g) | (4,329) | (43,217) | (5,441) |

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| (Notes) 1. A substitutional portion of the employees' pension fund, which is the government's social security pension program contracted out to the employer, incorporated in the table above. | (Notes) 1. consistent with the description described at left |
| 2. Certain subsidiaries adopt simplified methods for calculating accrued retirement benefits for their employees, as allowed by the accounting standard for retirement benefits. | 2. consistent with the description described at left |
| 3. Unrecognized prior service cost was incurred for the ended March 31, 2008, since the Company converted a tax qualified retirement pension plan into a cash balance pension plan on April 1, 2007. | 3. consistent with the description described at left |

### 3. Matters relating to retirement benefits expenses

| | Fiscal 2008 | | Fiscal 2007 |
|---|---|---|---|
| | JPY | USD | JPY |
| a. Service cost | 1,280 | 12,781 | 1,256 |
| b. Interest cost | 285 | 2,853 | 275 |
| c. Expected return on plan assets | (224) | (2,241) | (201) |
| d. Amortization of actuarial loss (gain) | (53) | (535) | 77 |
| e. Amortization of prior service cost | 193 | 1,927 | — |
| f. Other | 88 | 880 | 94 |
| g. Net periodic retirement benefit costs (a + b + c + d + e + f ) | 1,569 | 15,665 | 1,502 |

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| (Notes) 1. Employees' contributions to the employees' pension fund were not included in the retirement benefit expenses. | (Notes) 1. consistent with the description described at left |
| 2. The retirement benefit expenses of consolidated subsidiaries which adopt simplified method were included in "service cost" in the table above. | 2. consistent with the description described at left |
| 3. "Other" represents contributions to the defined contribution pension plans. | 3. consistent with the description described at left |

### 4. Matters relating to assumptions used in accounting for accrued retirement benefit

| | Fiscal 2008 | Fiscal 2007 |
|---|---|---|
| a. Method of attributing projected benefits to period of service | Straight-line basis | Straight-line basis |
| b. Discount rates | 2.0% to 2.5% | 2.0% to 2.5% |
| c. Expected long-term rates of return on plan assets | 1.5% to 2.5% | 1.5% to 2.5% |
| d. Amortization period for actuarial loss or gain | Principally 5 years | 5 years |
| e. Amortization period for unrecognized prior service cost | 5 – 10 years | 5 – 10 years |

## 14. Stock Options

Not applicable.

## 15. Deferred Taxes

### Fiscal 2008

**1.** Major components of deferred tax assets and deferred tax liabilities are as follows.

| | JPY | USD |
|---|---|---|
| Deferred tax assets | | |
| Accrued retirement benefit | 1,680 | 16,769 |
| Allowance for doubtful accounts | 13,669 | 136,437 |
| Allowance for loss on guarantees | 107 | 1,072 |
| Inventories | 2,865 | 28,604 |
| Loss on impairment of fixed assets | 1,007 | 10,052 |
| Investments in securities | 3,865 | 38,577 |
| Golf club memberships | 540 | 5,393 |
| Tax loss carried forward | 22,977 | 229,337 |
| Other | 4,990 | 49,805 |
| Deferred tax assets subtotal | 51,702 | 516,046 |
| Valuation allowance | (26,336) | (262,861) |
| Total deferred tax assets | 25,366 | 253,186 |
| Deferred tax liabilities | | |
| Retained earnings in subsidiaries | (570) | (5,689) |
| Unrealized gains on available-for-sale securities | (1,561) | (15,587) |
| Other | (627) | (6,263) |
| Total deferred tax liabilities | (2,759) | (27,539) |
| Net deferred tax assets | 22,607 | 225,647 |

(Note) Net deferred tax assets recorded in the consolidated balance sheets were as follows:

| | JPY | USD |
|---|---|---|
| Current assets – deferred tax assets | 5,573 | 55,628 |
| Fixed assets – deferred tax assets | 17,208 | 171,755 |
| Current liabilities – deferred tax liability | — | — |
| Non-current liabilities – deferred tax liability | (173) | (1,736) |

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

| | (%) |
|---|---|
| Statutory effective tax rate | 40.7 |
| (Reconciliation) | |
| Permanent differences - additions such as entertainment expenses | 1.2 |
| Change in valuation allowance | (17.7) |
| Statutory tax rate differences in subsidiaries | (1.3) |
| Others | 5.9 |
| Effective income tax rate | 28.8 |

### Fiscal 2007

**1.** Major components of deferred tax assets and deferred tax liabilities are as follows.

| | JPY |
|---|---|
| Deferred tax assets | |
| Accrued retirement benefit | 2,064 |
| Allowance for doubtful accounts | 13,808 |
| Allowance for loss on guarantees | 1,607 |
| Inventories | 4,408 |
| Loss on impairment fixed assets | 2,050 |
| Investments in securities | 2,332 |
| Golf club memberships | 519 |
| Tax loss carried forward | 18,420 |
| Other | 4,008 |
| Deferred tax assets subtotal | 49,222 |
| Valuation allowance | (21,258) |
| Total deferred tax assets | 27,963 |
| Deferred tax liabilities | |
| Unrealized gains on available-for-sale securities | (3,031) |
| Other | (771) |
| Total deferred tax liabilities | (3,803) |
| Net deferred tax assets | 24,160 |

(Note) Net deferred tax assets recorded in the consolidated balance sheets were as follows:

| | JPY |
|---|---|
| Current assets – deferred tax assets | 4,655 |
| Fixed assets – deferred tax assets | 19,595 |
| Current liabilities – deferred tax liability | (0) |
| Non-current liabilities – deferred tax liability | (90) |

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

Since the difference between the statutory effective tax rate and the effective income tax rate after the application of deferred tax accounting was equal to or less than 5% of the statutory effective tax rate, the reconciliation items are not required to be disclosed.

## 16. Segment Information

**Industry Segment Information**

Fiscal 2008 (JPY)

| | IT | Foodstuffs | Iron & Steel / Machinery & Plant | Life Science & Energy | Others | Total | Adjustments & Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| I. Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| (1) Outside customers | 356,122 | 283,565 | 251,860 | 316,406 | 36,065 | 1,244,020 | — | 1,244,020 |
| (2) Inter-segment | 33 | 0 | 244 | 66 | 60 | 405 | (405) | — |
| Total | 356,156 | 283,565 | 252,105 | 316,472 | 36,126 | 1,244,425 | (405) | 1,244,020 |
| Operating expenses | 348,055 | 279,236 | 244,643 | 314,739 | 35,749 | 1,222,424 | (1,009) | 1,221,414 |
| Operating income | 8,100 | 4,328 | 7,461 | 1,733 | 377 | 22,001 | 604 | 22,605 |
| II. Assets, Depreciation and amortization, Impairment of fixed assets and Capital expenditure | | | | | | | | |
| Assets | 148,272 | 86,631 | 90,305 | 51,586 | 51,940 | 428,736 | 74,720 | 503,456 |
| Depreciation and amortization | 1,757 | 431 | 364 | 299 | 452 | 3,304 | — | 3,304 |
| Impairment of fixed assets | 135 | 461 | — | 170 | — | 767 | (1) | 766 |
| Capital expenditure | 1,900 | 34 | 180 | 212 | 51 | 2,379 | 522 | 2,901 |

Fiscal 2007 (JPY)

| | IT | Foodstuffs | Iron& Steel / Machinery & Plant | Life Science & Energy | Textile | Others | Total | Adjustments & Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| I. Net sales and operating income | | | | | | | | | |
| Net sales | | | | | | | | | |
| (1) Outside customers | 357,926 | 274,162 | 247,115 | 308,328 | 57,757 | 36,040 | 1,281,331 | — | 1,281,331 |
| (2) Inter-segment | 27 | 1 | 9 | 61 | — | 88 | 189 | (189) | — |
| Total | 357,954 | 274,163 | 247,125 | 308,390 | 57,757 | 36,129 | 1,281,520 | (189) | 1,281,331 |
| Operating expenses | 350,041 | 272,356 | 239,704 | 305,537 | 57,271 | 35,618 | 1,260,531 | (913) | 1,259,617 |
| Operating income | 7,913 | 1,806 | 7,421 | 2,852 | 486 | 510 | 20,989 | 723 | 21,713 |
| II. Assets, Depreciation and amortization, Impairment of fixed assets and Capital expenditure | | | | | | | | | |
| Assets | 164,464 | 79,115 | 105,463 | 60,208 | 23,027 | 47,677 | 479,957 | 83,219 | 563,176 |
| Depreciation and amortization | 2,133 | 468 | 330 | 275 | 34 | 536 | 3,778 | (7) | 3,771 |
| Impairment of fixed assets | — | — | — | 443 | 245 | 1,620 | 2,309 | — | 2,309 |
| Capital expenditure | 1,934 | 239 | 177 | 184 | 13 | 106 | 2,655 | 346 | 3,001 |

Fiscal 2008 (USD) (Note 3)

| | IT | Foodstuffs | Iron& Steel / Machinery & Plant | Life Science & Energy | Others | Total | Adjustments & Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| I. Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| (1) Outside customers | 3,554,472 | 2,830,277 | 2,513,831 | 3,158,062 | 359,971 | 12,416,613 | — | 12,416,613 |
| (2) Inter-segment | 335 | (4) | 2,443 | 666 | 607 | 4,047 | (4,047) | — |
| Total | 3,554,806 | 2,830,273 | 2,516,274 | 3,158,728 | 360,579 | 12,420,660 | (4,047) | 12,416,613 |
| Operating expenses | 3,473,952 | 2,787,072 | 2,441,800 | 3,141,425 | 356,813 | 12,201,062 | (10,076) | 12,190,985 |
| Operating income | 80,854 | 43,201 | 74,474 | 17,303 | 3,765 | 219,599 | 6,029 | 225,628 |
| II. Assets, Depreciation and amortization, Impairment of fixed assets and Capital expenditure | | | | | | | | |
| Assets | 1,479,912 | 864,674 | 901,343 | 514,884 | 518,424 | 4,279,238 | 745,784 | 5,025,022 |
| Depreciation and amortization | 17,541 | 4,306 | 3,638 | 2,990 | 4,512 | 32,987 | — | 32,987 |
| Impairment of fixed assets | 1,352 | 4,607 | — | 1,705 | — | 7,664 | (14) | 7,650 |
| Capital expenditure | 18,974 | 346 | 1,798 | 2,120 | 509 | 23,747 | 5,211 | 28,958 |

(Notes) 1. Segments are determined in accordance with the business management units of the relevant products and services.
(If the business of a consolidated subsidiary belongs to more than one business segment, the results of the subsidiary are divided into each business segment.)
2. The amount of the Company's assets that are included in "Adjustments & Eliminations" is ¥75,261 million ($751,186 thousand) and ¥83,427 million for the fiscal year ended March 31, 2008 and March 31, 2007 respectively. Most of the assets are cash and deposits and investments in securities related to financing activities.
3. Change in business segmentation
Since Kanematsu Textile Corporation, which was a major consolidated subsidiary of the Company, became an equity-method affiliate in the current fiscal year, the materiality of the Textile segment was so reduced. The Textile segment is therefore combined into the Others segment from the current fiscal year.
Net sales and operating income in the Textile business included in the Others segment in the current fiscal year were ¥2,036 million ($20,325 thousand) (net sales to outside customers were ¥2,036 million ($20,325 thousand)) and ¥14 million ($144 thousand), respectively.
The table shown below is segment information for the previous fiscal year applying the same business segmentation of the current fiscal year.

Fiscal 2007 (JPY)

| | IT | Foodstuffs | Iron& Steel / Machinery & Plant | Life Science & Energy | Others | Total | Adjustments & Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| I. Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| (1) Outside customers | 357,926 | 274,162 | 247,115 | 308,328 | 93,798 | 1,281,331 | — | 1,281,331 |
| (2) Inter-segment | 27 | 1 | 9 | 61 | 88 | 189 | (189) | — |
| Total | 357,954 | 274,163 | 247,125 | 308,390 | 93,887 | 1,281,520 | (189) | 1,281,331 |
| Operating expenses | 350,041 | 272,356 | 239,704 | 305,537 | 92,890 | 1,260,531 | (913) | 1,259,617 |
| Operating income | 7,913 | 1,806 | 7,421 | 2,852 | 997 | 20,989 | 723 | 21,713 |
| II. Assets, Depreciation and amortization, Impairment of fixed assets and Capital expenditure | | | | | | | | |
| Assets | 164,464 | 79,115 | 105,463 | 60,208 | 70,705 | 479,957 | 83,219 | 563,176 |
| Depreciation and amortization | 2,133 | 468 | 330 | 275 | 571 | 3,778 | (7) | 3,771 |
| Impairment of fixed assets | — | — | — | 443 | 1,865 | 2,309 | — | 2,309 |
| Capital expenditure | 1,934 | 239 | 177 | 184 | 119 | 2,655 | 346 | 3,001 |

**Geographic Segment Information**

Fiscal 2008 (JPY)

| | Japan | Asia | North America | Europe | Other Areas | Total | Adjustments & Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| I. Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| (1) Outside customers | 1,123,783 | 53,678 | 54,431 | 12,062 | 65 | 1,244,020 | — | 1,244,020 |
| (2) Inter-segment | 61,071 | 6,795 | 54,197 | 4,459 | 1,906 | 128,430 | (128,430) | — |
| Total | 1,184,854 | 60,474 | 108,628 | 16,521 | 1,971 | 1,372,450 | (128,430) | 1,244,020 |
| Operating expenses | 1,165,937 | 59,627 | 105,999 | 16,388 | 1,948 | 1,349,900 | (128,486) | 1,221,414 |
| Operating income | 18,917 | 846 | 2,629 | 133 | 23 | 22,549 | 55 | 22,605 |
| II. Assets | 507,178 | 32,507 | 36,568 | 12,823 | 1,217 | 590,296 | (86,839) | 503,456 |

Fiscal 2007 (JPY)

| | Japan | Asia | North America | Europe | Other Areas | Total | Adjustments & Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| I. Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| (1) Outside customers | 1,162,709 | 44,350 | 56,154 | 18,044 | 73 | 1,281,331 | — | 1,281,331 |
| (2) Inter-segment | 53,061 | 10,748 | 43,638 | 3,598 | 2,170 | 113,218 | (113,218) | — |
| Total | 1,215,770 | 55,098 | 99,792 | 21,643 | 2,243 | 1,394,549 | (113,218) | 1,281,331 |
| Operating expenses | 1,197,921 | 54,699 | 96,123 | 21,576 | 2,236 | 1,372,558 | (112,940) | 1,259,617 |
| Operating income | 17,849 | 398 | 3,668 | 67 | 7 | 21,991 | (277) | 21,713 |
| II. Assets | 551,773 | 43,583 | 39,203 | 24,401 | 1,141 | 660,103 | (96,927) | 563,176 |

Fiscal 2008 (USD) (Note 3)

| | Japan | Asia | North America | Europe | Other Areas | Total | Adjustments & Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| I. Net sales and operating income | | | | | | | | |
| Net sales | | | | | | | | |
| (1) Outside customers | 11,216,522 | 535,766 | 543,279 | 120,394 | 652 | 12,416,613 | — | 12,416,613 |
| (2) Inter-segment | 609,554 | 67,828 | 540,950 | 44,507 | 19,027 | 1,281,865 | (1,281,865) | — |
| Total | 11,826,076 | 603,594 | 1,084,229 | 164,901 | 19,679 | 13,698,478 | (1,281,865) | 12,416,613 |
| Operating expenses | 11,637,263 | 595,147 | 1,057,985 | 163,572 | 19,443 | 13,473,409 | (1,282,424) | 12,190,985 |
| Operating income | 188,814 | 8,447 | 26,245 | 1,328 | 235 | 225,069 | 558 | 225,628 |
| II. Assets | 5,062,167 | 324,463 | 364,995 | 127,995 | 12,155 | 5,891,775 | (866,753) | 5,025,022 |

(Notes) 1. Categories of countries and areas are classified based on the geographical adjacencies.
2. Major countries or areas belonging to the geographic segments except for Japan.
(1) Asia ................................China and Singapore
(2) North America .........U.S.A.
(3) Europe ..........................U.K. and Germany
(4) Other Areas................Oceania

**Overseas Sales Information**

Fiscal 2008 (JPY)

| | Asia | North America | Europe | Other Areas | Total |
|---|---|---|---|---|---|
| I. Overseas sales | 242,360 | 52,687 | 18,169 | 38,157 | 351,374 |
| II. Consolidated sales | | | | | 1,224,020 |
| III. Ratio of overseas sales to consolidated sales (%) | 19.5 | 4.2 | 1.5 | 3.1 | 28.3 |

Fiscal 2007 (JPY)

| | Asia | North America | Europe | Other Areas | Total |
|---|---|---|---|---|---|
| I. Overseas sales | 181,646 | 87,924 | 24,090 | 37,592 | 331,254 |
| II. Consolidated sales | | | | | 1,281,331 |
| III. Ratio of overseas sales to consolidated sales (%) | 14.2 | 6.9 | 1.9 | 2.9 | 25.9 |

Fiscal 2008 (USD) (Note 3)

| | Asia | North America | Europe | Other Areas | Total |
|---|---|---|---|---|---|
| I. Overseas sales | 2,419,006 | 525,879 | 181,352 | 380,847 | 3,507,085 |
| II. Consolidated sales | | | | | 12,416,613 |
| III. Ratio of overseas sales to consolidated sales (%) | 19.5 | 4.2 | 1.5 | 3.1 | 28.3 |

(Notes) 1. Categories of countries and areas are determined in accordance with the geographic adjacencies.
2. Major countries or areas belonging to each geographical segment except for Japan.
(1) Asia ................................China, Taiwan and Singapore
(2) North America .........U.S.A. and Canada
(3) Europe ..........................U.K. and Germany
(4) Other Areas................Oceania, the Middle East and Latin America
3. Overseas sales are net sales of the Company and consolidated subsidiaries performed in countries or areas other than Japan.

## 17. Disclosure of Related Party Transactions

Fiscal 2008

### (1) Officers and major individual shareholders

| Category | Name of person | Occupation | Ownership of voting rights of the Company (%) | Other relationship with the Company: Concurring officer | Other relationship with the Company: On business | Transaction: Revenues and expenses | Transaction: During the year JPY | Transaction: During the year USD | Balance: Account name | Balance: Year end JPY | Balance: Year end USD |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Officer | Yonosuke Yamada | Statutory auditor of the Company, lawyer | Owns the Company's shares: 0.00 | — | — | Attorney fee (Note 1) | 3 | 29 | — | — | — |
| Relatives | Setsuko Yamada | Sister of an auditor of the Company, lawyer | — | — | — | Consulting fee (Note 1) | 1 | 9 | — | — | — |

### (2) Subsidiaries and affiliated companies

| Category | Company name | Address | Paid-up capital JPY | Paid-up capital USD | Nature of business | The Company's Ownership of voting rights (%) | Other relationship with the Company: Number of Concurring officers | Other relationship with the Company: On business | Transaction: Revenues and expenses | Transaction: During the year JPY | Transaction: During the year USD | Balance: Account name | Balance: Year end JPY | Balance: Year end USD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Affiliate | Kanematsu Textile Corporation | Shinagawa-ku, Tokyo | 1,500 | 14,971 | Sale of textile goods and products | Direct: 45.00 | 3 directors | Supplier and customer of the Company; the Company performs trade operations and provides financial assistance for Kanematsu Textile | Sale of textile materials and products (Note 2) | 17,163 | 171,306 | Accounts Receivable | 4,873 | 48,642 |
| | Ohno Inc. | — | — | — | Production and sale of footcloth | — | — | — | Sale of the security (Note 3) | 380 | 3,802 | — | — | — |
| | | | | | | | | | Gain on sale of the security | 350 | 3,497 | — | — | — |
| | Hokushin Co., Ltd. | Kishiwada, Osaka | 2,343 | 23,394 | Production and sale of medium-density fiberboards | Direct: 30.56<br>Indirect: 4.93 | 1 director | Customer of the Company | Sale of beneficial trust certificate (Note 4) | 2,300 | 22,956 | — | — | — |
| | | | | | | | | | Gain on sale of the beneficial trust certificate | 260 | 2,604 | — | — | — |

(Notes) Terms and conditions on business and policies thereto:

1. Attorney fee and Consulting fee are decided based on the common attorney compensation schedule.
2. Purchase and selling prices are decided based on market price.
3. Sales price of the security was evaluated and decided by negotiation with counterparty based on inheritance tax assessment performed by an appraiser.
4. Sales price of the beneficial trust certificate was evaluated and decided by negotiation with counterparty based on the appraisal of the real estate therein.

Fiscal 2007

### (1) Officers and major individual shareholders

| Category | Name of person | Address | Occupation | Ownership of voting rights of the Company (%) | Other relationship: Concurring officer | Other relationship: On business | Transaction: Revenues and expenses | Transaction: During the year JPY | Balance: Account name | Balance: Year end JPY |
|---|---|---|---|---|---|---|---|---|---|---|
| Officer | Yonosuke Yamada | — | Statutory auditor of the Company, lawyer | Owns the Company's shares: 0.00 | — | — | Attorney fee (Note 1) | 5 | — | — |

### (2) Subsidiaries and affiliated companies

| Category | Company name | Address | Paid capital JPY | Nature of Business | The Company's Ownership of voting rights (%) | Relationship: Number of Concurring officers | Relationship: On business | Transaction: Revenues and expenses | Transaction: During the year JPY | Balance: Account name | Balance: Year end JPY |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Affiliate | KG Berau Petroleum Ltd. | Chiyoda-ku, Tokyo | 7,035 | Petroleum exploration and development | Direct: 45.00 | 5 directors | Service agreement, providing financial assistance, and others | Guarantee (Note 2) | 9,348 | — | — |
| | | | | | | | | Guarantee fees received | 65 | Accrued revenue | 21 |
| | Higashine Resort Kaihatsu Co., Ltd. | Higashine, Yamagata | — | Management of a ski resort | — | — | — | Debt forgiveness (Note 3) | 2,468 | — | — |
| | | | | | | | | Extraordinary loss from the above | 999 | — | — |

(Notes) Terms and conditions on business and politics thereto:

1. Attorney fee is decided based on the common attorney compensation schedule.
2. The Company guaranteed loans of KG Berau Petroleum in favor of financial institutions.
3. The Company forgave loans to Higashine Resort Kaihatsu when sold it to the third party.

## 18. Information for per share

| Fiscal 2008 | Fiscal 2007 |
|---|---|
| Net assets per share ¥108.95 $1.09<br>Net income per share ¥45.44 $0.45<br>Diluted net income per share for the term is not reported since there is no outstanding security with dilutive effect. | Net assets per share ¥78.75<br>Net income per share ¥17.94<br>Diluted net income per share for the term is not reported since there is no outstanding security with dilutive effect. |

**Supplemental information for per share computation**

1. Net assets per share

| | Fiscal 2008 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|
| | JPY | JPY | USD |
| Total net assets | 62,239 | 48,767 | 621,211 |
| Amount deducted from total net assets | 16,651 | 15,807 | 166,195 |
| (minority interest in consolidated subsidiaries) | (16,651) | (15,807) | (166,195) |
| Net assets corresponding to common stock at end of fiscal year | 45,587 | 32,959 | 455,014 |
| Number of common stock issued (thousand shares) | 422,501 | 422,501 | |
| Number of treasury stock (thousand shares) | 4,072 | 3,975 | |
| Number of common stock used for the calculation of net assets per share (thousand shares) | 418,428 | 418,525 | |

2. Net income per share

| | Fiscal 2008 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|
| | JPY | JPY | USD |
| Net income per share | | | |
| Net income | 19,016 | 7,507 | 189,806 |
| Amount that does not belong to common shareholders | — | — | — |
| Net income corresponding to common stock | 19,016 | 7,507 | 189,806 |
| Average number of common stock for the term (thousand shares) | 418,465 | 418,553 | |

## 19. Subsequent events

Fiscal 2008

Not applicable.

Fiscal 2007

KG Aircraft Leasing Co., Ltd. (hereinafter "KGAL"), a consolidated subsidiary, concluded an agreement to transfer its aircraft-related investment equity and transferred it on June 19, 2007.

*(1) Summary of the transfer of investment equity*

KGAL owned investment equity in MALL Partners I LDC, MALL Partners II Limited, and MALL Partners I B.V., joint ventures which were established for owning and leasing aircraft, and had reviewed risk assets and considered liquidation under a policy of focusing on select businesses. As a result, KGAL agreed to transfer all of its investment shares to Macquarie Aircraft Leasing Limited (Ireland), an aircraft leasing company which was formed primarily by the group of Macquarie Bank Limited, an Australian investment bank, and transferred them.

*(2) Number of shares transferred, transfer price, and gains from the transfer*

(i) Number of shares transferred:

| | |
|---|---|
| MALL Partners I LDC | 12,352,151 shares (holding: 25%) |
| MALL Partners II Limited | 25 shares (holding: 25%) |
| MALL Partners I B.V. | 100,000 shares (holding: 25%) |
| (ii) Transfer price: | About 10.3 billion yen |
| (iii) Gains from the transfer: | About 0.9 billion yen |

## 20. Consolidated supplementary schedules

### (1) Schedule of bonds payable

Not applicable.

### (2) Schedule of borrowings

| Classification | Beginning of year | | End of year | | Composite interest rate | Due |
|---|---|---|---|---|---|---|
| | JPY | USD | JPY | USD | % p.a | Month, year |
| Short-term borrowings | 91,976 | 918,024 | 61,010 | 608,945 | 2.0 | — |
| Current portion of long-term borrowings | 51,550 | 514,532 | 28,069 | 280,166 | 1.9 | — |
| Current portion of Lease obligations | — | — | — | — | — | — |
| Long-term borrowings (excluding current portion) | 127,151 | 1,269,102 | 134,622 | 1,343,674 | 1.9 | May 2009 – March 2013 |
| Lease obligations (excluding current portion) | — | — | — | — | — | — |
| Total | 270,679 | 2,701,658 | 223,702 | 2,232,785 | — | — |

(Notes) 1. The composite interest rate was a weighted average interest rate for those outstanding at the end of the year.
2. The long-term borrowings repayment schedule within five years (excluding current portion) were as follows:

| Over one year and within two years | | Over two years and within three years | | Over three years and within four years | | Over four years and within five years | |
|---|---|---|---|---|---|---|---|
| JPY | USD | JPY | USD | JPY | USD | JPY | USD |
| 38,911 | 388,374 | 47,330 | 472,407 | 40,481 | 404,042 | 7,900 | 78,850 |

# Report of Independent Auditors

PRICEWATERHOUSECOOPERS

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To the Board of Directors of Kanematsu Corporation

We have audited the accompanying consolidated balance sheet of Kanematsu Corporation ("the Company") and its subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets and cash flows for the year 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 audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2 (l) to the consolidated financial statements, the Company changed its method of accounting for retirement benefits to directors and statutory auditors from recognizing such expenses at the time of disbursement to recognizing a liability for future estimated amounts payable.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

PricewaterhouseCoopers Aarata

July 4, 2008

# Corporate Directory

## Network

### [Domestic Network]

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FAX: 81-3-5440-6500

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FAX: 81-3-5565-0080

Osaka
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TEL: 81-6-6205-3111
FAX: 81-6-6205-3322

Nagoya
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TEL: 81-52-202-5111
FAX: 81-52-202-5000

Hokkaido
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TEL: 81-11-261-5631
FAX: 81-11-261-5630

Kyushu
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FAX: 81-92-715-7830

Kimitsu
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*Devices Company Offices*

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TEL: 81-22-225-6151
FAX: 81-22-225-5925

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6-3-36, Furukawanakazato, Osaki-shi, Miyagi 989-6143
TEL: 81-229-21-9288
FAX: 81-229-21-9289

Hachioji Butsuryu Center
568-9, Kitanomachi, Hachioji-shi, Tokyo 192-0906
TEL: 81-426-48-7245
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### [Overseas Network]

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*San Diego Office*
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*Silicon Valley Branch*
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FAX: 1-408-501-1499

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BRASIL

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THE MIDDLE EAST & AFRICA—
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ASIA—
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CHINA

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**(Dalian Free Trade Zone) Co., Ltd.**
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Dailian, P.R.China
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FAX: 86-411-8732-3093

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VIETNAM

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# Corporate Directory

## Organization Chart

- Shareholders' Meeting
  - Statutory Auditors
- Board of Directors
- Executive Directors Council
  - Marketing Area
    - IT Division
      - Devices Company
      - Information & Electronics Department
      - Aerospace Department
      - Semiconductor Equipment Department
      - Industrial Electronics Department
      - IT Administration Office
    - Foods& Foodstuffs Division
      - Produce Department No.1
      - Produce Department No.2
      - Meat & Marine Products Department
      - Osaka Foods Department
      - Foods Administration Office
      - Grain & Oilseed Department
      - Feedstuff Department
      - Products Department
      - Foodstuff Administration Office
    - Iron, Steel & Plant Division
      - Projects & Plant Machinery Department
      - Automobile & Construction Machinery Department
      - Ships Department
      - Cable & Power Projects Department
      - Guam-Philippines Project Department
      - Machinery & Plant Administration Office
      - Iron & Steel Foreign Trade Department
      - Specialty 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
    - Internal Control Department
    - System Planning Department
    - Traffic & Insurance Department
    - Business Planning & Coordination Department
    - Business Innovation Department
    - Subsidiary Administration Department
    - Risk Management Department
    - Legal Department
    - Realty Department
    - Internal Auditing Department
    - Corporate Planning Department
      - Public Relations Department

(As of April 1, 2008)

## Board of Directors and Statutory Auditors

| | | |
|---|---|---|
| **Chairman** | Masaharu Hamakawa | Chief Officer, Internal Auditing Department |
| **President** | Yoshihiro Miwa | |
| **Senior Managing Directors** | Kazuo Shigemoto | Chief Officer, Textiles, Subsidiary Administration, System Planning, Corporate Planning & Public Relations Department |
| | Takashi Kosaka | Chief Officer, Iron & Steel Division, Traffic & Insurance Department, General Manager for Osaka Area |
| **Managing Directors** | Hideaki Morito | Chief Officer, IT Division |
| | Hitomi Sato | Chief Officer, Life Science & Energy Division, Business Planning & Coordination, Business Innovation Department |
| **Directors** | Yutaka Tabata | Chief Officer, Accounting, Finance, Business Accounting, Internal Control, Risk Management, Legal, Realty Department & Shintoa Control Section |
| | Fumihiko Nashimoto | President, Devices Company |
| | Tatsuo Suzuki | Chief Officer, Foodstuff Division |
| | Masayuki Shimojima | Chief Officer, Machinery & Plant Division, Personnel, General Affairs Department |
| | Kenji Irie | Chief Officer, Foods Division |
| **Statutory Auditors** | Yoshiro Niiro | |
| | Takao Takahashi | |
| | Yonosuke Yamada | |
| | Haruyoshi Amakusa | |

* Messrs. Yoshiro Niiro, Yonosuke Yamada and Haruyoshi Amakusa are external corporate auditors.

(As of June 26, 2008)

## Corporate Data

**Established**
August 15, 1889

**President**
Yoshihiro Miwa

**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 | 80 |
| Non-consolidated subsidiaries applicable to equity method | 20 |
| Equity method affiliates | 27 |
| Total | 127 |

**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 40

**Number of Employees**
872

**Principal Shareholders**

| | Number of shares held (thousands) | Percent Ownership |
|---|---|---|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 13,298 | 3.14 |
| The Norinchukin Bank | 12,460 | 2.94 |
| Japan Trustee Services Bank, Ltd. (trust account) | 12,343 | 2.92 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 11,612 | 2.74 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 10,257 | 2.42 |
| Morgan Stanley & Co. Inc | 8,569 | 2.02 |
| Kanematsu-NNK Corp. | 6,239 | 1.47 |
| Pictet & Cie | 4,856 | 1.14 |
| Daio Paper Corporation | 4,510 | 1.06 |
| Mitsui Sumitomo Insurance Co., Ltd. | 3,713 | 0.87% |
| Total shares issued and outstanding | 422,501,010 shares | |

(As of March 31, 2008)

Additional copies of this annual report and other information may be obtained by contacting:
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1-2-1, Shibaura, Minato-ku, Tokyo 105-8005, Japan Telephone: 81-3-5440-8000 Facsimile: 81-3-5440-6503 E-mail address: pr@kanematsu.co.jp
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