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ITEMS DISCLOSED ON INTERNET CONCERNING NOTICE OF THE 124TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ·········· 1

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This document is provided on the Company’s website pursuant to laws and regulations, and provisions of the Articles of Association of the Company.
This document is included in the scope of audits for an audit report and an accounting audit report that were conducted by Audit & Supervisory Board Members and an accounting auditor during preparation, respectively.
<<The Company’s website>> http://www.kanematsu.co.jp

Kanematsu Corporation

Notes to the Consolidated Financial Statements

1. Notes on significant matters forming the basis for preparing consolidated financial statements

1–1 Accounting standards for preparing consolidated financial statements

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") pursuant to the provisions of Article 120, paragraph 1 of the Ordinance on Accounting of Companies.

Some description and notes required to be disclosed in IFRSs are omitted under the provision of the second sentence of the same paragraph.

1–2 Scope of consolidation

Number of consolidated subsidiaries: 88

Principal consolidated subsidiaries:

Kanematsu Electronics Ltd., Kanematsu Communications Ltd., Kanematsu Sustech Corp., Kanematsu Trading Corp., Kanematsu KGK Corp., Kanematsu Petroleum Corp., Shintoa Corp., Kanematsu USA Inc., Kanematsu (Hong Kong) Ltd.

1–3 Application of the equity method

Number of companies accounted for by the equity method: 26

Principal companies accounted for by the equity method:

Hokushin Co., Ltd., Kaneyo Co., Ltd., Kantatsu Co., Ltd.

1–4 Accounting policies

(1) Valuation basis and methods for significant assets

(i) Financial assets

The Company and its subsidiaries (collectively, the "Consolidated Group") have early adopted IFRS 9 Financial Instruments (as amended in July 2014).

The Consolidated Group classifies financial assets at initial recognition as financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. The Consolidated Group initially recognizes financial assets measured at amortized cost on the date that they arise and the other financial assets on the transaction date.

The Consolidated Group derecognizes a financial asset when, and only when (i) the contractual rights to cash flows from the financial asset expire, or (ii) it transfers the contractual rights to cash flows and substantially all the risks and rewards of ownership of the financial asset.

(a) Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flow and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Consolidated Group initially recognizes and measures a financial asset measured at amortized cost at its fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The Consolidated Group subsequently measures it at amortized cost using the effective interest method.

(b) Financial assets measured at fair value through other comprehensive income

A financial asset that meets both of the following conditions is classified as a financial asset measured at fair value through other comprehensive income:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flow and selling financial assets and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Consolidated Group initially recognizes and measures a financial asset measured at fair value through other comprehensive income at its fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The Consolidated Group subsequently measures it at fair value and recognizes the subsequent changes in fair value as other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss is reclassified to profit or loss.

(c) Equity instruments measured at fair value through other comprehensive income

With regard to a financial asset that has not been classified as either a financial asset measured at amortized cost or a financial asset measured at fair value through other comprehensive income, and classified as a financial asset measured at fair value through profit or loss, IFRS 9 permits an entity to make an irrevocable election at initial recognition to present in other comprehensive income changes in fair value of an investment in an equity instrument that is not held for trading. The Consolidated Group makes this election on an instrument-by-instrument basis.

The Consolidated Group initially recognizes and measures an equity instrument measured at fair value through other comprehensive income at its fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The Consolidated Group subsequently measures it at fair value and recognizes the subsequent changes in fair value as other comprehensive income. When the equity instrument is derecognized, or its fair value substantially decreases, the Consolidated Group reclassifies the cumulative amount of other comprehensive income to retained earnings and not to profit or loss. Dividends are recognized in profit or loss.

(d) Financial assets measured at fair value through profit or loss

A financial asset other than those classified as (a), (b) and (c) above is classified as a financial asset measured at fair value through profit or loss.

The Consolidated Group initially recognizes and measures a financial asset measured at fair value through profit or loss at its fair value and expenses the transaction costs as incurred that are directly attributable to the acquisition of the financial asset. The Consolidated Group subsequently measures it at fair value and recognizes the subsequent changes in fair value in profit or loss.

The Consolidated Group assesses impairment of financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income based on the expected credit loss approach.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Consolidated Group measures the loss allowance for that financial instrument at an amount equal to the 12-month expected credit losses, i.e., the expected credit losses that result from default events on that financial instrument that are possible within the 12 months after the reporting date. Conversely, if, at the reporting date, the credit risk on that financial instrument has increased significantly since initial recognition, the Consolidated Group measures the loss allowance for that financial instrument at an amount equal to the lifetime expected credit losses, i.e., the expected credit losses that result from all possible default events over the expected life of that financial instrument.

However, the Consolidated Group always measures the loss allowance for trade receivables that do not contain a significant financing component at an amount equal to the lifetime expected credit losses despite the above requirement.

(ii) Inventories

Inventories are measured at the lower of cost determined mainly by the moving-average method and net realizable value.

(iii) Property, plant and equipment

The Consolidated Group uses the cost model to measure an item of property, plant and equipment after initial recognition and carries it at its cost less any accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes the cost directly attributable to the acquisition of the asset.

(iv) Goodwill and intangible assets

(a) Goodwill

Goodwill is carried at cost less any accumulated impairment losses.

(b) Intangible assets

The Consolidated Group uses the cost model to measure an intangible asset after initial recognition and carries it at its cost less any accumulated amortization and any accumulated impairment losses.

A separately acquired intangible asset is initially recognized and measured at cost. The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date. With respect to an internally generated intangible asset that does not qualify for asset recognition, expenditures on such an internally generated intangible asset are recognized as expenses when they are incurred. Conversely, the cost of an internally generated intangible asset that qualifies for asset recognition is the sum of expenditures incurred from the date when it first meets the recognition criteria.

(v) Impairment of non-financial assets

The Consolidated Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, it estimates the recoverable amount of the asset or the cash-generating unit to which the asset belongs. Goodwill and an intangible asset with an indefinite useful life are tested for impairment annually and whenever there is an indication that such assets may be impaired. If the carrying amount of an individual asset or the cash-generating unit exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount and that reduction is recognized as an impairment loss.

(2) Depreciation and amortization method for significant depreciable and amortizable assets

(i) Property, plant and equipment

Property, plant and equipment are depreciated mainly using the straight-line method over the estimated useful life of each component thereof.

(ii) Intangible assets

An intangible asset with a finite useful life is amortized using the straight-line method over its estimated useful life from the year in which it arises.

(3) Accounting policy for significant provisions

The Consolidated Group recognizes a provision when, and only when (i) the Consolidated Group has a present obligation (legal or constructive) as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the Consolidated Group recognizes the provision by discounting it using a current pre-tax discount rate that reflects the risks specific to the liability.

(4) Other significant matters forming the basis for preparing consolidated financial statements

(i) Foreign currency translation

(a) Translation of foreign currency transactions

Foreign currency transactions are translated into functional currencies of individual companies using the exchange rates at the dates of such transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into functional currencies using the exchange rate at the end of each reporting period. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. Non-monetary items that are measured on a historical cost basis in a foreign currency are translated into the functional currency using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rates at the date when the fair value was measured.

With respect to the exchange differences of a non-monetary item, when a gain or loss on a non-monetary item is recognized in other comprehensive income, the Consolidated Group recognizes any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, the Consolidated Group recognizes any exchange component of that gain or loss in profit or loss.

(b) Translation of foreign operations

The assets and liabilities of foreign operations, including any goodwill and fair value adjustments arising on the acquisition of foreign operations, are translated using the exchange rate at the end of the reporting period. In addition, income and expenses of foreign operations are translated using the average exchange rate for the reporting period unless exchange rates fluctuate significantly.

Exchange differences arising from the translation are recognized in other comprehensive income and the cumulative amounts of the exchange differences are included in other components of equity. When the Consolidated Group's foreign operations are disposed of, the cumulative amounts of the exchange differences related to foreign operations are reclassified to profit or loss when the gain or loss on disposal is recognized.

(ii) Derivatives and hedge accounting

In order to hedge the foreign currency fluctuation risk, interest rate fluctuation risk and commodity price fluctuation risk, the Consolidated Group enters into derivative transactions, such as forward exchange transactions, interest rate swap transactions and commodity futures and forwards transactions.

When initiating a hedge, the Consolidated Group designates and documents the risk management purposes and strategies regarding the hedge relationship and initiation of such hedge. Such documentation includes the designation of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and methods of assessing the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Although such hedging is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, it is assessed on an ongoing basis whether it was actually highly effective throughout the reporting periods for which such hedging was designated.

The Consolidated Group initially recognizes and measures derivatives at fair value and subsequently measures them at fair value and accounts for subsequent changes in fair value as follows:

(a) Fair value hedge

The Consolidated Group recognizes the changes in fair value of a derivative used as a hedging instrument in profit or loss, and the changes in fair value of a hedged item attributable to the hedged risk in profit or loss by adjusting the carrying amount of the hedged item.

(b) Cash flow hedge

Of the changes in fair value of a derivative used as a hedging instrument, the portion determined to be effective is recognized in other comprehensive income and the cumulative amount is included in other components of equity. Conversely, the portion determined to be ineffective is recognized in profit or loss. The amounts accumulated in other components of equity are reclassified from other components of equity to profit or loss in the same period that the transaction of the hedged item affects profit or loss; provided, however, that if hedging of a forecast transaction subsequently results in the recognition of a non-financial asset or liability, the amounts accumulated in other components of equity are then accounted for as an adjustment to the initial carrying amount of the non-financial asset or liability.

When the hedging instrument expires or is sold, terminated or exercised; or when the hedge no longer meets the criteria for the hedge accounting, the Consolidated Group discontinues the hedge accounting prospectively. If the forecast transaction is no longer expected to occur, the amounts accumulated in other components of equity are reclassified immediately from other components of equity to profit or loss.

(c) Derivatives not designated as hedging instruments

The Consolidated Group recognizes the changes in fair value of derivatives not designated as hedging instruments in profit or loss.

(iii) Retirement benefit liabilities

Defined benefit plans are retirement benefit plans other than defined contribution plans. Defined benefit obligations are calculated separately for each plan by estimating the future amounts of benefits that employees will have earned in return for their services provided in the current and prior periods, and discounting such amounts in order to determine the present value. The fair value of any plan assets is deducted from the present value of the defined benefit obligations. The discount rate is determined by reference to the market yields on highly rated corporate bonds at the fiscal year-end that have maturity terms that are approximately the same as those of the Consolidated Group's defined benefit obligations and use the same currencies as those used for future benefits payments.

When the retirement benefit plans are amended, the change in defined benefit obligations related to past service by employees is immediately recognized in profit or loss.

The Consolidated Group recognizes the changes in the net defined benefit liability (asset) due to remeasurements in other comprehensive income and immediately reclassifies them to retained earnings.

(iv) Consumption taxes

Consumption tax and local consumption tax on goods and services are not included in the revenue and expense amounts subject to such taxes in the accompanying consolidated statement of income.

(v) Application of consolidated taxation system

The Company and its wholly owned domestic subsidiaries apply the consolidated taxation system.

2. Notes to consolidated statement of financial position

(1) Assets pledged as collateral and associated secured obligations

(i) Assets pledged as collateral for obligations

(Million yen)

	As of March 31, 2018
Pledged assets	
Other financial assets (non-current)	20
Property, plant and equipment	643
Total	663
Associated secured obligations	
Borrowings (current)	1,130
Borrowings (non-current)	747
Total	1,878

(ii) Assets pledged in lieu of guarantee money

(Million yen)

	As of March 31, 2018
Assets pledged in lieu of guarantee money or guarantee funds	
Other financial assets (current)	49
Other financial assets (non-current)	30
Other investments	3,216
Total	3,296

(2) Allowance for doubtful accounts directly deducted from assets

Allowance for doubtful accounts directly deducted from current assets, including trade and other receivables ¥134 million

Allowance for doubtful accounts directly deducted from non-current assets, including trade and other receivables ¥1,856 million

(3) Accumulated depreciation and accumulated impairment losses of property, plant and equipment ¥28,930 million

(4) Guarantee obligations

(Million yen)

	As of March 31, 2018
Debt guarantees for equity method investees	156
Debt guarantees for third parties	1,673
Total	1,830

(Note) However, debt guarantees for third parties include the debt guarantees covered by the insurance agreement with one non-life insurance company that is limited to ¥1,609 million.

3. Notes to consolidated statement of changes in equity

(1) Type of stock and total number of issued shares as of the end of the fiscal year

Common stock 84,500,202 shares

(Note) At the 123rd Ordinary General Meeting of Shareholders, held on June 23, 2017, a resolution was passed to approve the consolidation of the Company's shares at a rate of one share for every five shares, and on October 1, 2017, the date that the share consolidation took effect, the total number of issued shares decreased by 338,000,808 to 84,500,202 shares. Furthermore, at the same meeting, a resolution was passed to make partial amendments to the Articles of Association, and on October 1, 2017, the share trading unit was changed from 1,000 shares to 100 shares.

(2) Dividends of surplus

(i) Amounts of dividends paid

Resolution	Type of stock	Total amounts of dividends	Dividends per share	Record date	Effective date
May 22, 2017 Board of Directors meeting	Common stock	¥1,263 million	¥3.00	March 31, 2017	June 5, 2017
October 31, 2017 Board of Directors meeting	Common stock	¥1,474 million	¥3.50	September 30, 2017	December 1, 2017

(Note) The amount of interim dividend per share pursuant to a resolution by the Board of Directors on October 31, 2017 is stated based on the number of shares before the consolidation of shares that was conducted on October 1, 2017 because the record date was September 30, 2017.

(ii) Dividends with record date in the current fiscal year, and effective date in the following fiscal year

Resolution (planned)	Type of stock	Source of dividends	Total amounts of dividends	Dividends per share	Record date	Effective date
May 21, 2018 Board of Directors meeting	Common stock	Retained earnings	¥2,569 million	¥30.50	March 31, 2018	June 4, 2018

(Note) The Company conducted the consolidation of shares of its common stock at a rate of one share for every five shares on October 1, 2017.

4. Notes on financial instruments

(1) Status of financial instruments

The Consolidated Group restricts fund management to short-term deposits etc. and uses borrowings from financial institutions, mainly banks, and bond issuance for its financing needs.

The Consolidated Group mitigates customers' credit risks related to trade and other receivables in accordance with risk management regulations. Other investments are principally financial assets measured at fair value through other comprehensive income, and their fair values are assessed on a quarterly basis.

The Consolidated Group uses bonds and borrowings to fund working capital (mainly, short-term) and business investments. The Consolidated Group uses interest rate swaps and fixes interest expenses for some long-term borrowings to hedge their interest rate fluctuation risks. In principle, derivative transactions are conducted within the limit of actual needs in accordance with the Company's regulations and investment policy.

(2) Fair value, etc. of financial instruments

Carrying amounts and fair values of major financial instruments at the end of the current fiscal year by type are as follows.

(Million yen)

	As of March 31, 2018	
	Carrying amount	Fair value
Financial assets		
Trade and other receivables	1,582	1,582
Other investments		
Financial assets measured at amortized cost	994	994
Financial assets measured at fair value through profit or loss	4,168	4,168
Financial assets measured at fair value through other comprehensive income	32,805	32,805
Guarantee deposits	3,867	3,867
Other financial assets		
Financial assets measured at amortized cost	612	612
Derivative financial assets	382	382
Total	44,414	44,414
Financial liabilities		
Bonds and borrowings	76,116	76,269
Long-term lease obligations	788	788
Long-term deposits received	0	0
Long-term guarantee deposits received	1,498	1,498
Derivative financial liabilities	2,406	2,406
Total	80,809	80,962

The carrying amounts of financial instruments measured at amortized cost reported in current assets and liabilities such as trade and other receivables, other financial assets, trade and other payables, bonds and borrowings and other financial liabilities, approximate their fair values; therefore, those amounts are not included in the table above.

The fair values stated above are calculated as follows:

(i) Trade and other receivables

The fair value of trade and other receivables is the present value of future cash flows discounted by an interest rate that reflects time to maturity and credit risk.

(ii) Other investments

(a) Financial assets measured at amortized cost

The fair value of these assets is the present value of future cash flows discounted by an interest rate applicable to similar financial assets.

(b) Financial assets measured at fair value through profit or loss, and financial assets measured at fair value through other comprehensive income

The fair value of listed shares is based on the price on the stock exchange.

The fair value of unlisted shares is calculated using valuation methods including discounted future cash flows, market prices of comparable companies, net asset value, and other valuation methods.

(iii) Guarantee deposits

The fair value of guarantee deposits is the present value of future cash flows discounted by an interest rate that reflects time to maturity and credit risk.

(iv) Other financial assets

Financial assets measured at amortized cost

The fair value of these assets is the present value of future cash flows discounted by an interest rate that reflects time to maturity and credit risk.

(v) Bonds and borrowings

The fair value of bonds is determined based on their market price.

The fair value of borrowings is the present value of the sum of principal and interest payments discounted using an assumed interest rate on equivalent incremental borrowings.

(vi) Long-term lease obligations

The fair value of long-term lease obligations is the present value of future cash flows discounted by an interest rate that reflects time to maturity and credit risk.

(vii) Long-term deposits received

The fair value of long-term deposits received is the present value of future cash flows discounted by an interest rate that reflects time to maturity and credit risk.

(viii) Long-term guarantee deposits received

The fair value of long-term guarantee deposits received is the present value of future cash flows discounted by an interest rate that reflects time to maturity and credit risk.

(ix) Derivative financial assets and liabilities

Currency-related derivatives

The fair value of forward exchange transactions is calculated based on the forward exchange rate at the end of the fiscal year.

Interest rate-related derivatives

The fair value of interest-rate swaps is the present value of future cash flows discounted by an interest rate that reflects time to settlement, as well as market conditions.

Commodity-related derivatives

The fair value of commodity futures transactions is calculated using final prices on commodities exchanges as of the fiscal year-end. The fair value of commodity swap transactions is calculated based on the index prices publicly announced at the end of the fiscal year.

5. Notes on per share information

(1) Equity attributable to owners of the Parent per share ¥1,377.66

(2) Basic earnings per share (attributable to owners of the Parent) ¥193.79

(Note) The Company conducted the consolidation of shares of its common stock at a rate of one share for every five shares on October 1, 2017. Equity attributable to owners of the Parent per share and basic earnings per share are calculated based on the assumption that the consolidation of shares was conducted at the beginning of the current fiscal year.

Notes to the Non-Consolidated Financial Statements

1. Notes on significant accounting policies

1–1 Valuation basis and methods for assets

(1) Valuation basis and method for short-term investments

- Held-to-maturity bonds: Debt securities are stated at cost less the amortization of any premium or discounts, which are amortized over the period to maturities.
- Shares of subsidiaries and affiliates: Shares of subsidiaries and affiliates are stated at cost using the moving-average method.
- Other short-term investments

Marketable Securities: Marketable securities are stated at fair value. Net unrealized gains or losses on securities recorded in "Net assets" are net of tax amounts. The cost for marketable securities that have been sold is determined using the moving-average method. The fair value is determined based on the average of daily market price for one-month prior to the fiscal year-end.

Non-marketable securities: Non-marketable securities are stated at cost using the moving-average method.

(2) Valuation basis and method for derivatives

Derivatives are stated at fair value method.

(3) Valuation basis and method for inventories

Inventories are stated at cost method principally determined by the moving-average method (carried at the lower of cost or market value on the balance sheet).

1–2 Depreciation and amortization method for long-term assets

(1) Tangible fixed assets (excluding lease assets)

The straight-line method is used.

(2) Intangible fixed assets

The straight-line method is used. Software for internal use is amortized by the straight-line method over the internally estimated useful lives (five years).

(3) Lease assets

Depreciation on lease assets associated with finance lease transactions that do not transfer the ownership to the lessee is recorded using the straight-line method over the lease term, assuming a residual value of zero.

Of finance lease transactions that do not transfer the ownership to the lessee, lease transactions that commenced on or before March 31, 2008 are accounted for as operating leases.

1–3 Accounting policy for provisions

(1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided to cover credit losses, based on estimates of collectability of individual accounts and past bad debt loss experiences.

(2) Provision for employees' retirement and severance benefits

A provision for employees' retirement and severance benefits is provided for the payment of employee retirement benefits and recognized based on the projected amount of retirement benefit obligations and plan assets at the end of the current fiscal year.

In calculating retirement benefit obligations, the benefit formula basis is used to attribute projected benefits to the period up to the end of the current fiscal year.

Past service costs are amortized as expenses on a straight-line basis over five years, a predetermined number of years, within the average expected remaining service period of the employees.

Actuarial gains and losses are amortized on a straight-line basis over five 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.

(3) Provision for loss on affiliated business

A provision for loss on affiliated business is provided for the future burden of funds that arises due to losses, etc. incurred by subsidiaries and affiliates at an estimated amount to be borne, which is set individually in view of the counterparty's financial condition.

1–4 Other significant matters forming the basis for preparing non-consolidated financial statements

(1) Basis for translation of assets and liabilities denominated in foreign currencies

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 income or loss for the period.

(2) Hedge accounting

(i) Hedge accounting method

In principle, the Company applies hedge accounting whereby gains and losses on hedged transactions are deferred and recognized over future periods. For certain interest rate swaps designated as hedging instruments that 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 paid.

(ii) Hedging instruments and hedged items

(Hedging instruments)

Commodity-related: Commodity futures contracts / Commodity forward contracts

Foreign exchange-related: Forward exchange contracts / Foreign currency swaps / Foreign currency options

Interest rate-related: Interest rate swaps / Interest rate options

(Hedged items)

Commodity-related: Forecasted transactions on commodity trading

Foreign exchange-related: Foreign currency-denominated monetary assets and liabilities / Forecasted foreign currency transactions

Interest rate-related: Borrowings

(iii) Hedging policy

The Company has internal policies to utilize the above hedging instruments for the purpose of reducing its exposures to the risk of fluctuations in commodity prices, foreign currencies and interest rates for its operating and financing activities.

(iv) Method of evaluating the effectiveness of hedging activities

The Company evaluates the effectiveness of its hedging activities by comparing accumulated fluctuations in prices or cash flows of the hedged items with those of the hedging instruments and examining the degree of their correlation.

(v) Other

Risk management is performed by the management division, which is independent of the trading section. Also, reporting to management is performed in accordance with the internal rules of the Company on a regular basis.

(3) Accounting policy for deferred assets

Bond issuance costs are amortized using the interest method over the period up to bond redemption.

(4) Consumption taxes

Consumption tax and local consumption tax on goods and services are not included in the revenue and expense amounts subject to such taxes in the accompanying non-consolidated statement of income.

(5) Application of consolidated taxation system

The Company and its wholly owned domestic subsidiaries apply the consolidated taxation system.

2. Notes to non-consolidated balance sheet

(1) Assets pledged as collateral and associated secured obligations

Although there was no remaining balance of assets pledged as collateral and associated secured obligations as of March 31, 2018, investments in securities of ¥3,216 million have been pledged as substitute for guarantee money or guarantee funds.

(2) Accumulated depreciation of tangible fixed assets ¥1,929 million

(3) Guarantee obligations

The Company guarantees the borrowings from financial institutions, etc. and business transactions of the following companies.

Kanematsu USA Inc.	¥3,187 million
Kanematsu (China) Co., Ltd.	¥2,269 million
Kanematsu Petroleum Corp.	¥2,207 million
KG Agri Products, Inc.	¥1,354 million
Kanematsu (Singapore) Pte. Ltd.	¥860 million
Other	¥1,753 million
Total	¥11,632 million

(4) Discounted notes receivable ¥6,763 million

(5) Monetary receivables from and payables to subsidiaries and affiliates (excluding those presented separately)

Short-term monetary receivables	¥24,632 million
Short-term monetary payables	¥23,930 million
Long-term monetary payables	¥224 million

(6) Breakdown of inventories

Merchandise and finished goods	¥33,563 million
Goods in transit	¥6,000 million
Work in process	¥310 million
Total	¥39,874 million

(7) Notes with maturity date that is the last day of the fiscal year are settled and accounted for at the clearing date.
Because the last day of the current fiscal year fell on a banking holiday, the following notes are included in the ending balance.

Notes receivable	¥555 million
Notes payable	¥115 million

3. Notes to non-consolidated statement of income

Transactions with subsidiaries and affiliates

Sales	¥92,374 million
Purchases	¥98,952 million
Non-operating transactions	¥8,358 million

4. Notes to non-consolidated statement of changes in equity

Type of stock and number of shares of treasury stock at the end of the current fiscal year

Common stock	254,123 shares

5. Notes on tax effect accounting

The main reasons for the occurrence of deferred tax assets are excess of maximum tax deductible amount of allowance for doubtful accounts, tax losses carried forward, unrecognized losses on valuation of investments in securities and others, and valuation allowance has been deducted from deferred tax assets.

6. Notes on long-term assets used through leases

In addition to the long-term assets recorded on the non-consolidated balance sheet, some buildings are finance lease transactions that do not transfer ownership of the lease assets to the lessee and commenced on or before March 31, 2008, and therefore they continue to be accounted for as operating leases.

7. Notes on related party transactions

(Million yen)

Type	Name of company, etc.	Percentage of voting rights, etc. owning (owned)	Relationship with related party	Type of transaction	Transaction amount (Note 7)	Accounting title	Ending balance (Note 7)
Subsidiaries	Kanematsu Shintoa Foods Corp.	(Owning) Direct: 100.00%	The Company's supplier/customer Financial support Concurrent positions of officers	Sale of products (Note 1)	16,523	Accounts receivable	4,336
				Lending of funds (Notes 2, 3)	2,180	Short-term loans receivable	3,030
				Repayment of funds (Note 3)	1,000		
				Receipt of interest (Note 3)	42	–	–
	Kanematsu Yuso Co., Ltd.	(Owning) Direct: 100.00%	Entity entrusted with the Company's storage and delivery operations Financial support Concurrent positions of officers	Lending of funds (Note 3)	–	Short-term loans receivable	3,000
				Receipt of interest (Note 3)	36	–	–
	Kanematsu Communi-cations Ltd.	(Owning) Direct: 100.00%	Financial support Concurrent positions of officers	Lending of funds (Notes 2, 3)	2,057	Short-term loans receivable	7,057
				Receipt of interest (Note 3)	100	–	–
	Aso Kanko Kaihatsu Co., Ltd.	(Owning) Direct: 100.00%	Financial support Concurrent positions of officers	Lending of funds (Note 4)	3,799	Long-term loans receivable	9,214
				Repayment of funds (Notes 3, 4)	1,480		
				Receipt of interest (Note 3)	16	–	–
	Kanematsu USA Inc.	(Owning) Direct: 100.00%	Overseas subsidiary The Company's supplier/customer Concurrent positions of officers	Sale of products (Note 1)	23,545	Accounts receivable	5,764
				Purchase of products (Note 5)	58,205	Import bills payable and accounts payable	14,021
				Guarantee of obligation (Note 6)	3,187	–	–
				Receipt of guarantee commission (Note 6)	33	Other accounts receivable	8

<Transaction-related conditions and policies for determining such conditions, etc.>

(Notes)
1. For sale of products, the price is determined through negotiation with consideration given to the prevailing market prices.
2. Lending of funds relates to "cash management system," and the transaction amount represents the amount of net increase or decrease.
3. For lending of funds, interest rates on loans are determined based on market interest rates.
4. For lending of funds, there is no interest rate, and the full balance of ¥9,214 million in long-term loans receivable is non-interest bearing.
5. For purchase of products, the price is determined through negotiation with consideration given to the prevailing market prices.
6. Guarantee of obligation is a guarantee provided for borrowings of this company, and the amount of guarantee commission received is determined with consideration given to the actual trading price.
7. Transaction amounts do not include consumption taxes. Ending balance includes consumption taxes.

For highly doubtful receivables from subsidiaries and others, a total of ¥8,549 million of allowance for doubtful accounts and ¥71 million of provision for loss on affiliated business were recorded, and a total of ¥55 million of provisions of allowance for doubtful accounts for subsidiaries and affiliates and loss on affiliated business was recorded in the current fiscal year.

8. Notes on per share information

(1)	Net assets per share	¥1,106.98
(2)	Net income per share	¥120.05

(Note) The Company conducted the consolidation of shares of its common stock at a rate of one share for every five shares on October 1, 2017. Net assets per share and net income per share are calculated based on the assumption that the consolidation of shares was conducted at the beginning of the current fiscal year.