

# Consolidated Financial Summary for the First Half of the Fiscal Year Ending March 2019 (IFRS)

October 31, 2018

Company name: Kanematsu Corporation

Stock Exchange listing: Tokyo Stock Exchange

Stock code: 8020

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 11, 2018

Scheduled date for commencement of dividend payments: December 3, 2018

Supplementary documents for quarterly results: Yes

Quarterly results briefing: Yes

(Figures of less than one million are rounded down.)

## 1. Consolidated business results for the first half of the fiscal year ending March 2019 (April 1, 2018 – September 30, 2018)

## (1) Consolidated business results (sum total)

(%: Change from the same period of the previous fiscal year)

|                                    | Revenue     |     | Operating profit |      | Profit before tax |      | Profit for the period |      | Profit attributable to owners of the parent |      | Total comprehensive income for the period |     |
|------------------------------------|-------------|-----|------------------|------|-------------------|------|-----------------------|------|---|------|---|-----|
|                                    | Million yen | %   | Million yen      | %    | Million yen       | %    | Million yen           | %    | Million yen                                 | %    | Million yen                               | %   |
| First Six Months to September 2018 | 357,488     | 6.6 | 15,453           | 17.6 | 14,828            | 15.4 | 10,003                | 20.0 | 8,091                                       | 18.5 | 12,741                                    | 9.7 |
| First Six Months to September 2017 | 335,240     | 3.0 | 13,140           | 39.5 | 12,849            | 54.7 | 8,333                 | 60.7 | 6,828                                       | 67.8 | 11,619                                    | -   |

|                                    | Basic earnings per share |  | Diluted earnings per share |  |
|------------------------------------|--------------------------|--|----------------------------|--|
|                                    | Yen                      |  | Yen                        |  |
| First Six Months to September 2018 | 96.32                    |  | 96.32                      |  |
| First Six Months to September 2017 | 81.10                    |  | 81.10                      |  |

(Notes) 1. The basic earnings per share and the diluted earnings per share are calculated based on the profit attributable to owners of the parent.

2. 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. "Basic earnings per share" and "diluted earnings per share" are calculated based on the assumption that the consolidation of shares was conducted at the beginning of the previous fiscal year.

## (2) Consolidated financial condition

|                          | Total assets | Total equity | Equity attributable to owners of the parent | Percentage of equity attributable to owners of the parent |
|--------------------------|--------------|--------------|---|---|
|                          | Million yen  | Million yen  | Million yen                                 | %   |
| As of September 30, 2018 | 528,948      | 155,209      | 122,694                                     | 23.2  |
| As of March 31, 2018     | 519,889      | 147,050      | 116,012                                     | 22.3  |

## 2. Dividends

| (Record date)                             | Annual dividends     |                       |                      |          |        |
|---|----------------------|-----------------------|----------------------|----------|--------|
|   | End of first quarter | End of second quarter | End of third quarter | Year end | Fiscal |
|   | Yen                  | Yen                   | Yen                  | Yen      | Yen    |
| Fiscal year ended March 2018              | -                    | 3.50                  | -                    | 30.50    | -      |
| Fiscal year ending March 2019             | -                    | 25.00                 | -                    | -        | -      |
| Fiscal year ending March 2019 (Forecasts) | -                    | -                     | -                    | 25.00    | 50.00  |

(Notes) 1. Revisions to dividend forecasts published most recently: None

2. 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. The Company states an amount before taking into account the impact of the consolidation of shares for the interim dividend per share in the fiscal year ended March 2018, and states annual dividends as "-." If the consolidation of shares is taken into account, the interim dividend per share in the fiscal year ended March 2018 will be ¥17.50, and the annual dividend per share will be ¥48.

## 3. Forecasts for consolidated results ending March 2019 (April 1, 2018 – March 31, 2019)

(%: Changes from the previous year)

|           | Revenue     |     | Operating profit |      | Profit before tax |      | Profit attributable to owners of the parent |     | Basic earnings per share |
|-----------|-------------|-----|------------------|------|-------------------|------|---|-----|--------------------------|
|           | Million yen | %   | Million yen      | %    | Million yen       | %    | Million yen                                 | %   | Yen                      |
| Full year | 760,000     | 6.3 | 30,000           | 14.7 | 29,000            | 11.4 | 16,500                                      | 1.1 | 195.96                   |

(Note) Revisions to results forecasts published most recently: None

\* Notes

(1) Important change in subsidiaries during the term (Change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

- |   |      |
|---|------|
| 1. Changes in accounting policies required by IFRS: | Yes  |
| 2. Changes in accounting policies other than 1.:    | None |
| 3. Changes in accounting estimates:                 | None |

(Note) Refer to “2. Condensed Consolidated Financial Statements and Major Notes, (5) Notes on condensed consolidated financial statements (Changes in accounting policies)” on page 10 of the accompanying materials for further information.

(3) Number of outstanding shares (common shares)

- |  |                   |                       |                   |
|--|-------------------|-----------------------|-------------------|
| 1. Number of outstanding shares including treasury stock           |                   |                       |                   |
| First half (2018/9):   | 84,500,202 shares | Fiscal year (2018/9): | 84,500,202 shares |
| 2. Number of treasury stock  |                   |                       |                   |
| First half (2018/9):   | 1,003,058 shares  | Fiscal year (2018/9): | 290,203 shares    |
| 3. Average number of shares during the period (First three months) |                   |                       |                   |
| First half (2018/9):   | 84,006,143 shares | First half (2017/9):  | 84,197,640 shares |

(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. “Number of outstanding shares,” “number of treasury stock” and “average number of shares during the period” are calculated based on the assumption that the consolidation of shares was conducted at the beginning of the previous fiscal year.

\* Quarterly consolidated financial summaries are not subject to quarterly review by a certified public accountant or an audit corporation.

\* Explanation about the proper use of results forecasts, and additional information

The results forecasts and forward-looking statements included in this document are based on information that the Consolidated Group has obtained on the date of the announcement and certain assumptions that the Consolidated Group considers reasonable. The Consolidated Group makes no guarantees with respect to the achievement of its results forecasts or forward-looking statements. Actual results might be significantly different from the forecasts in the document, depending on various factors. Refer to “(3) Information on the future outlook, including consolidated business performance forecasts” in “1. Qualitative Information on Consolidated Results, Etc. for the First Half of the Fiscal Year Ending March 2019” on page 3 of accompanying materials for further information on results forecasts.

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## 1. Qualitative Information on Consolidated Results, Etc. for the First Half of the Fiscal Year Ending March 2019

### (1) Details of consolidated results

During the first half under review (from April 1, 2018 to September 30, 2018), the global economy continued to grow moderately, despite concerns about the escalation of geopolitical risk and trade wars. The U.S. economy continued to expand, driven by improvements in employment and income conditions and the effect of tax cuts derived from tax reforms. The European economy continued to grow favorably, despite concerns regarding Brexit and the political situation in some countries. The Chinese economy and emerging Asian countries also continued to enjoy stable growth in general, despite future concerns about the impact of the monetary policy in the United States.

The Japanese economy continued to grow moderately due to the expansion of capital investment and employment and a high level of corporate earnings following the solid economies in Japan and overseas, while the impact of a string of natural disasters was a concern.

In this environment, the results of the Group for the first half under review are as shown below.

Consolidated revenue rose ¥22,248 million (6.6%) year on year, to ¥357,488 million. Consolidated gross profit increased ¥3,206 million (6.3%) from a year earlier, to ¥54,137 million. Consolidated operating profit rose ¥2,313 million (17.6%) from a year earlier, to ¥15,453 million, due to the increase in gross profit. Profit before tax increased ¥1,979 million (15.4%) year on year, to ¥14,828 million. Profit attributable to owners of the parent rose ¥1,263 million (18.5%) year on year, to ¥8,091 million.

Results for each business segment are described below.

#### (i) Electronics & Devices

In the ICT solutions business, transactions continued to be solid, primarily with the manufacturing and service industries. The mobile business remained strong, reflecting the continued manifestation of synergies from the integration of mobile phone sales agent subsidiaries.

As a result of these conditions, revenue in the Electronics & Devices segment rose ¥7,102 million year on year, to ¥127,754 million. Operating profit climbed ¥489 million to ¥8,071 million.

#### (ii) Foods & Grain

The meat products business remained solid, despite a backlash to the strong performance a year ago. The feedstuff business also showing continued strength with the recovery of feedstuff prices in Japan. The food business also remained solid.

As a result, revenue in the Foods & Grain segment rose ¥6,992 million year on year, to ¥121,626 million. Operating profit decreased ¥17 million, to ¥2,360 million.

#### (iii) Steel, Materials & Plant

The oilfield tubing business improved in North America, given higher oil prices. The chemicals and energy businesses and transactions related to machine tools and industrial machinery also remained firm.

As a result, revenue in the Steel, Materials & Plant segment declined ¥1,074 million year on year, to ¥68,072 million. Operating profit climbed ¥1,408 million, to ¥2,766 million.

#### (iv) Motor Vehicles & Aerospace

In the aerospace business, aircraft parts is particular held steady. The motor vehicles and parts business also remained solid.

As a result, revenue in the Motor Vehicles & Aerospace segment rose ¥9,468 million year on year, to ¥33,924 million. Operating profit climbed ¥536 million, to ¥1,786 million.

#### (v) Other

Revenue fell ¥242 million from a year earlier, to ¥6,019 million. Operating profit declined ¥134 million, to ¥455 million.

(2) Details of financial position

(i) Assets, liabilities and equity

Total assets at the end of the first half of the fiscal year under review increased ¥9,059 million from the end of the previous fiscal year, to ¥528,948 million.

Interest-bearing debt increased ¥565 million from the end of the previous fiscal year, to ¥137,891 million. Net interest-bearing debt after deducting cash and deposits rose ¥3,633 million from the end of the previous fiscal year, to ¥62,678 million.

In terms of equity, equity attributable to owners of the parent rose ¥6,682 million from the end of the previous fiscal year, to ¥122,694 million, mainly reflecting an increase in retained earnings.

As a result, the ratio of equity attributable to owners of the parent came to 23.2%. The net debt-equity ratio (“net DER”) was 0.5 times.

(ii) Cash flows

Cash and cash equivalents at the end of the first half under review fell ¥3,064 million from the end of the previous fiscal year, to ¥74,667 million.

The state of cash flows and factors for each category for the first half of the fiscal year under review are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities in the first half under review stood at ¥2,162 million (versus net cash provided of ¥3,231 million in the first half of the previous fiscal year), primarily reflecting the accumulation of operating income.

(Cash flows from investing activities)

Net cash used in investing activities in the first half under review stood at ¥1,396 million (versus net cash used of ¥103 million in the first three months of the previous fiscal year), mainly due to the acquisition of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities in the first half under review came to ¥4,374 million (versus net cash used of ¥11,459 million in the first half of the previous fiscal year), mainly due to cash dividends paid and the acquisition of treasury stock by the stock delivery trust based on the performance-linked stock compensation plan.

(3) Information on the future outlook, including consolidated business performance forecasts

We have not changed the forecasts for consolidated results that we announced on May 9, 2018. The forecasts above are based on information that the Company has obtained and certain assumptions that the Company considers reasonable. The Company does not guarantee that the forecasts will be achieved. Actual results may differ materially from forecasts due to a number of factors.

## 2. Condensed Consolidated Financial Statements and Major Notes

### (1) Condensed consolidated statement of financial position

(Million yen)

|   | As of March 31, 2018 | As of September 30, 2018 |
|---|----------------------|--------------------------|
| Assets  |                      |                          |
| Current assets                                    |                      |                          |
| Cash and cash equivalents                         | 77,731               | 74,667                   |
| Trade and other receivables                       | 220,583              | 219,159                  |
| Inventories                                       | 93,957               | 101,643                  |
| Other financial assets                            | 2,433                | 3,608                    |
| Other current assets                              | 19,955               | 25,348                   |
| Total current assets                              | 414,662              | 424,427                  |
| Non-current assets                                |                      |                          |
| Property, plant and equipment                     | 21,900               | 22,061                   |
| Goodwill  | 6,571                | 6,585                    |
| Intangible assets                                 | 20,377               | 20,380                   |
| Investments accounted for using the equity method | 5,169                | 5,427                    |
| Trade and other receivables                       | 1,582                | 1,500                    |
| Other investments                                 | 37,969               | 38,285                   |
| Other financial assets                            | 4,479                | 4,429                    |
| Deferred tax assets                               | 3,696                | 2,354                    |
| Other non-current assets                          | 3,478                | 3,495                    |
| Total non-current assets                          | 105,226              | 104,520                  |
| Total assets                                      | 519,889              | 528,948                  |

(Million yen)

|  | As of March 31, 2018 | As of September 30, 2018 |
|--|----------------------|--------------------------|
| Liabilities and equity   |                      |                          |
| Liabilities  |                      |                          |
| Current liabilities  |                      |                          |
| Trade and other payables   | 188,791              | 187,760                  |
| Bonds and borrowings   | 61,210               | 59,148                   |
| Other financial liabilities  | 7,009                | 6,076                    |
| Income taxes payable   | 3,773                | 2,617                    |
| Provisions   | 156                  | 147                      |
| Other current liabilities  | 23,371               | 25,519                   |
| Total current liabilities  | 284,313              | 281,269                  |
| Non-current liabilities  |                      |                          |
| Bonds and borrowings   | 76,116               | 78,743                   |
| Other financial liabilities  | 2,853                | 2,828                    |
| Retirement benefits liabilities  | 6,340                | 6,332                    |
| Provisions   | 1,639                | 1,477                    |
| Deferred tax liabilities   | 641                  | 1,900                    |
| Other non-current liabilities  | 933                  | 1,187                    |
| Total non-current liabilities  | 88,525               | 92,469                   |
| Total liabilities  | 372,838              | 373,739                  |
| Equity   |                      |                          |
| Share capital  | 27,781               | 27,781                   |
| Capital surplus  | 26,810               | 26,841                   |
| Retained earnings  | 48,559               | 54,050                   |
| Treasury stock   | (193)                | (1,321)                  |
| Other components of equity   |                      |                          |
| Exchange differences on translation of foreign operations                  | 1,275                | 2,622                    |
| Financial assets measured at fair value through other comprehensive income | 12,684               | 12,764                   |
| Cash flow hedges   | (905)                | (44)                     |
| Total other components of equity   | 13,055               | 15,342                   |
| Total equity attributable to owners of the parent                          | 116,012              | 122,694                  |
| Non-controlling interests  | 31,037               | 32,514                   |
| Total equity   | 147,050              | 155,209                  |
| Total liabilities and equity   | 519,889              | 528,948                  |

(2) Condensed consolidated statements of income / Condensed consolidated statements of comprehensive income  
(Condensed consolidated statements of income)  
(First half)

(Million yen)

|  | FY2018 First half<br>(From April 1, 2017<br>to September 30, 2017) | FY2019 First half<br>(From April 1, 2018<br>to September 30, 2018) |
|--|--|--|
| Revenue  | 335,240  | 357,488  |
| Cost of sales  | (284,309)  | (303,350)  |
| Gross profit   | 50,931   | 54,137   |
| Selling, general and administrative expenses   | (38,285)   | (38,965)   |
| Other income (expenses)  |  |  |
| Gain (loss) on sale or disposal of property, plant<br>and equipment and intangible assets, net | (33)   | 0  |
| Other income   | 840  | 774  |
| Other expenses   | (312)  | (493)  |
| Total other income (expenses)  | 494  | 281  |
| Operating profit   | 13,140   | 15,453   |
| Finance income   |  |  |
| Interest income  | 188  | 173  |
| Dividend income  | 468  | 488  |
| Other finance income   | 10   | –  |
| Total finance income   | 667  | 661  |
| Finance costs  |  |  |
| Interest expenses  | (1,224)  | (1,257)  |
| Other finance costs  | (40)   | (80)   |
| Total finance costs  | (1,264)  | (1,338)  |
| Share of profit (loss) of investments accounted for using<br>the equity method                 | 307  | 52   |
| Profit before tax  | 12,849   | 14,828   |
| Income tax expense   | (4,516)  | (4,825)  |
| Profit for the period  | 8,333  | 10,003   |
| Profit attributable to:  |  |  |
| Owners of the parent   | 6,828  | 8,091  |
| Non-controlling interests  | 1,505  | 1,911  |
| Total  | 8,333  | 10,003   |
| Earnings per share attributable to owners of the parent  |  |  |
| Basic earnings per share (yen)   | 81.10  | 96.32  |
| Diluted earnings per share (yen)   | 81.10  | 96.32  |

(Condensed consolidated statements of comprehensive income)  
(First half)

(Million yen)

|  | FY2018 First half<br>(From April 1, 2017<br>to September 30, 2017) | FY2019 First half<br>(From April 1, 2018<br>to September 30, 2018) |
|--|--|--|
| Profit for the period  | 8,333  | 10,003   |
| Other comprehensive income   |  |  |
| Items that will not be reclassified to profit or loss                                    |  |  |
| Financial assets measured at fair value through other comprehensive income               | 2,554  | 23   |
| Remeasurement of defined benefit pension plans   | 80   | 5  |
| Share of other comprehensive income of investments accounted for using the equity method | 1  | (5)  |
| Total items that will not be reclassified to profit or loss                              | 2,637  | 22   |
| Items that may be reclassified to profit or loss   |  |  |
| Exchange differences on translation of foreign operations                                | 477  | 1,929  |
| Cash flow hedges   | 225  | 832  |
| Share of other comprehensive income of investments accounted for using the equity method | (54)   | (46)   |
| Total items that may be reclassified to profit or loss                                   | 648  | 2,716  |
| Other comprehensive income for the period, net of tax                                    | 3,285  | 2,738  |
| Total comprehensive income for the period  | 11,619   | 12,741   |
| Total comprehensive income for the period attributable to:                               |  |  |
| Owners of the parent   | 10,015   | 10,407   |
| Non-controlling interests  | 1,603  | 2,334  |
| Total  | 11,619   | 12,741   |
|  |  |  |

## (3) Condensed consolidated statement of changes in equity

(Million yen)

|  | FY2018 First half<br>(From April 1, 2017<br>to September 30, 2017) | FY2019 First half<br>(From April 1, 2018<br>to September 30, 2018) |
|--|--|--|
| Equity   |  |  |
| Share capital  |  |  |
| Balance at the beginning of the period                                     | 27,781   | 27,781   |
| Balance at the end of the period   | 27,781   | 27,781   |
| Capital surplus  |  |  |
| Balance at the beginning of the period                                     | 26,797   | 26,810   |
| Disposition of treasury stock  | 9  | 0  |
| Equity transactions with non-controlling interests                         | 0  | (0)  |
| Other changes  | –  | 31   |
| Balance at the end of the period   | 26,806   | 26,841   |
| Retained earnings  |  |  |
| Balance at the beginning of the period                                     | 34,579   | 48,559   |
| Cumulative effects of changes in accounting policies                       | –  | (61)   |
| Restated balance   | 34,579   | 48,498   |
| Dividends  | (1,262)  | (2,568)  |
| Profit attributable to owners of the parent                                | 6,828  | 8,091  |
| Reclassification from other components of equity                           | 192  | 29   |
| Balance at the end of the period   | 40,337   | 54,050   |
| Other components of equity   |  |  |
| Balance at the beginning of the period                                     | 11,416   | 13,055   |
| Exchange differences on translation of foreign operations                  | 354  | 1,346  |
| Financial assets measured at fair value through other comprehensive income | 2,520  | 88   |
| Cash flow hedges   | 231  | 861  |
| Remeasurement of defined benefit pension plans                             | 80   | 19   |
| Reclassification to retained earnings                                      | (192)  | (29)   |
| Balance at the end of the period   | 14,412   | 15,342   |
| Treasury stock   |  |  |
| Balance at the beginning of the period                                     | (217)  | (193)  |
| Acquisition of treasury stock  | (3)  | (1,127)  |
| Disposition of treasury stock  | 25   | 0  |
| Balance at the end of the period   | (195)  | (1,321)  |
| Total equity attributable to owners of the parent                          | 109,142  | 122,694  |
| Non-controlling interests  |  |  |
| Balance at the beginning of the period                                     | 29,506   | 31,037   |
| Dividend payments to non-controlling interest shareholders                 | (694)  | (856)  |
| Equity transactions with non-controlling interests                         | (0)  | (0)  |
| Profit attributable to non-controlling interests                           | 1,505  | 1,911  |
| Other components of equity   | 98   | 422  |
| Exchange differences on translation of foreign operations                  | 61   | 507  |
| Financial assets measured at fair value through other comprehensive income | 35   | (71)   |
| Cash flow hedges   | 0  | 0  |
| Remeasurement of defined benefit pension plans                             | –  | (14)   |
| Balance at the end of the period   | 30,414   | 32,514   |
| Total Equity   | 139,556  | 155,209  |
| Total comprehensive income for the period attributable to:                 |  |  |
| Owners of the parent   | 10,015   | 10,407   |
| Non-controlling interests  | 1,603  | 2,334  |
| Total comprehensive income for the period                                  | 11,619   | 12,741   |

## (4) Condensed consolidated statements of cash flows

(Million yen)

|   | FY2018 First half<br>(From April 1, 2017<br>to September 30, 2017) | FY2019 First half<br>(From April 1, 2018<br>to September 30, 2018) |
|---|--|--|
| Cash flows from operating activities:   |  |  |
| Profit for the period   | 8,333  | 10,003   |
| Depreciation and amortization   | 1,536  | 1,594  |
| Finance income and costs  | 597  | 676  |
| Share of (profit) loss of investments accounted for<br>using the equity method            | (307)  | (52)   |
| (Gain) loss on sale or disposal of property, plant and<br>equipment and intangible assets | 33   | (0)  |
| Income tax expense  | 4,516  | 4,825  |
| (Increase) decrease in trade and other receivables  | (6,239)  | 2,753  |
| (Increase) decrease in inventories  | (8,357)  | (6,772)  |
| Increase (decrease) in trade and other payables   | 9,143  | (6,607)  |
| Increase (decrease) in retirement benefit liabilities                                     | (8)  | (24)   |
| Other   | (2,614)  | (914)  |
| Sub total   | 6,634  | 5,483  |
| Interest received   | 187  | 176  |
| Dividends received  | 782  | 904  |
| Interest paid   | (1,217)  | (1,235)  |
| Income taxes paid   | (3,154)  | (3,167)  |
| Net cash provided by (used in) operating activities                                       | 3,231  | 2,162  |
| Cash flows from investing activities:   |  |  |
| Payments for property, plant and equipment  | (1,056)  | (1,398)  |
| Proceeds from sales of property, plant and equipment                                      | 451  | 463  |
| Payments for intangible assets  | (148)  | (185)  |
| Purchases of other investments  | (69)   | (498)  |
| Proceeds from sale of other investments   | 202  | 13   |
| Proceeds from sale of other financial assets  | 1,010  | –  |
| Proceeds from (payments for) acquisition of<br>subsidiaries                               | –  | (9)  |
| Increase in loans receivable  | (1,012)  | (20)   |
| Proceeds from collection of loans receivable  | 708  | 182  |
| Other   | (189)  | 57   |
| Net cash provided by (used in) investing activities                                       | (103)  | (1,396)  |
| Cash flows from financing activities  |  |  |
| Increase (decrease) in short-term borrowings, net   | (2,340)  | 442  |
| Proceeds from long-term borrowings  | 2,100  | 7,060  |
| Repayment of long-term borrowings   | (9,112)  | (7,211)  |
| Dividends paid  | (1,260)  | (2,559)  |
| Purchase of treasury stock  | (4)  | (1,128)  |
| Dividend payments to non-controlling interest<br>shareholders                             | (702)  | (862)  |
| Other   | (140)  | (114)  |
| Net cash provided by (used in) financing activities                                       | (11,459)   | (4,374)  |
| Increase (decrease) in cash and cash equivalents, net                                     | (8,330)  | (3,607)  |
| Cash and cash equivalents at the beginning of the period                                  | 77,566   | 77,731   |
| Effect of exchange rate changes on cash and cash<br>equivalents                           | 56   | 543  |
| Cash and cash equivalents at end of the period  | 69,292   | 74,667   |

(5) Notes on condensed consolidated financial statements

(Notes on the going concern assumption)

Not applicable.

(Changes in accounting policies)

Important accounting policies applied to the condensed consolidated financial statements of the Consolidated Group are the same as the accounting policies applied to the consolidated financial statements for the previous fiscal year, except for the following.

(IFRS 15 “Revenue from Contracts with Customers”)

The Consolidated Group has adopted IFRS 15 “Revenue from Contracts with Customers” from the first half under review. On the occasion of adopting IFRS 15, the Consolidated Group has adopted a method of recognizing the cumulative effects of adopting this standard on the commencement date of adoption, which is accepted as a transitional measure.

(1) Recognition of revenue

Associated with the adoption of IFRS 15, the Consolidated Group recognizes revenue based on the following five-step approach.

Step 1: Identifying the contracts with customers

Step 2: Identifying the performance obligations in the contracts

Step 3: Determining the transaction price

Step 4: Allocating the transaction price to the performance obligations in the contracts

Step 5: Recognizing revenue when an entity satisfies the performance obligations

The Consolidated Group’s principal business is to sell goods in the four segments of Electronics & Devices, Foods & Grain, Steel, Materials & Plant, and Motor Vehicles & Aerospace. It recognizes revenue from the sale of these goods at the time when performance obligations are delivered because customers obtain control of the goods at the time of delivery in many cases. In the provision of some services, the Consolidated Group recognizes revenue in accordance with the performance obligations that will be satisfied within a certain period of time according to the progress of individual contracts.

The Consolidated Group also measures revenue at an amount obtained by deducting discounts, rebates and returned goods from the promised consideration in the contract with the customer. If there is more than one performance obligation in a single transaction, the Consolidated Group divides the transaction into constituent elements and recognizes revenue for each constituent element. In addition, if an economic reality is not presented unless multiple contracts are considered as one, the Consolidated Group recognizes revenue by combining the multiple contracts.

If the Consolidated Group receives compensation from the customer before satisfying the performance obligations, the Consolidated Group recognizes it as a contract liability.

As a result of identifying contracts with customers and performance obligations and determining the transaction prices based on the five-step approach above and comparing revenue based on this approach with revenue recognized based on the prior and existing accounting standards, a difference has occurred in the time of recognizing the satisfaction of the performance obligations in some transactions.

(2) Presentation of revenues

If the Consolidated Group conducts a transaction as a party involved, the Consolidated Group presents revenue at the total amount of consideration received from the customer. If the Consolidated Group conducts a transaction as a proxy for a third party, the Consolidated Group presents revenue at the net amount of the commission.

When the Consolidated Group determines whether it conducts a transaction as a party involved or as a proxy for a third party, the Consolidated Group takes the following indicators into account.

- Whether the other party has the principal responsibility for fulfilling the contract.
- Whether a Kanematsu Group company has the inventory risk both when goods are shipped and when goods are returned before and after the customer places an order for the goods.
- Whether the benefits that a Kanematsu Group company can receive from the goods or services of the other party are limited because the Kanematsu Group company does not have discretion over the setting of the price of the goods or services of the other party.

As a result of reversing a provision (non-current) of ¥209 million and recognizing contract assets of ¥5 million and contract liabilities of ¥275 million at the beginning of the first three months under review in the condensed consolidated statement of financial position in comparison with the case where the prior and existing accounting standards are applied, retained earnings have decreased ¥61 million.

In comparison with the case in which the previous accounting standards were adopted, revenue increased ¥26 million, and cost of sales declined ¥7 million yen in the condensed consolidated statements of income for the first half under review. In addition, in the condensed consolidated statements of financial position at the end of the first half under review, trade and other receivables (current assets), other current assets, other non-current assets, other current liabilities and other non-current liabilities increased ¥23 million, ¥1 million, ¥4 million, ¥49 million and ¥218 million, respectively, while inventories and provisions (non-current liabilities) decreased ¥15 million and ¥226 million, respectively.

(Changes in presentation method)

(Condensed consolidated statements of cash flows)

“Purchase of treasury stock,” which was included in “Other” of “Cash flows from financing activities” in the first half of the previous fiscal year, is presented separately in the first half under review because its significance in terms of value has increased. Associated with this, ¥144 million presented in “Other” of “Cash flows from financing activities” in the condensed consolidated statements of cash flows in the first half of the previous fiscal year has been reclassified into “Purchase of treasury stock” of ¥4 million and “Other” of ¥140 million.

(Segment information)

Income figures for reportable segments are based on operating profit for the segments

Inter-segment revenue and transfers are determined according to transaction prices with outside customers.

I. Previous first six months (From April 1, 2017 to September 30, 2017)

(Million yen)

|                       | Reported segments        |                  |                                |                                  |           | Other<br>(Note 1) | Adjustment<br>(Note 2) | Consolidated |
|-----------------------|--------------------------|------------------|--------------------------------|----------------------------------|-----------|-------------------|------------------------|--------------|
|                       | Electronics<br>& Devices | Foods &<br>Grain | Steel,<br>Materials &<br>Plant | Motor<br>Vehicles &<br>Aerospace | Sub-total |                   |                        |              |
| Revenue               |                          |                  |                                |                                  |           |                   |                        |              |
| External              | 120,652                  | 114,634          | 69,146                         | 24,456                           | 328,889   | 6,351             | –                      | 335,240      |
| Inter-segment         | 144                      | 3                | 42                             | –                                | 191       | 78                | (270)                  | –            |
| Total revenues        | 120,797                  | 114,637          | 69,188                         | 24,456                           | 329,080   | 6,430             | (270)                  | 335,240      |
| Segment profit (loss) | 7,582                    | 2,377            | 1,358                          | 1,250                            | 12,569    | 589               | (18)                   | 13,140       |

(Note 1) “Other” is a business segment that is not included in the reportable segments and includes the logistics and insurance service business, etc.

(Note 2) The adjustment of ¥18 million for segment profit (loss) includes an inter-segment elimination of ¥18 million.

II. First six months under review (From April 1, 2018 to September 30, 2018)

(Million yen)

|                       | Reported segments        |                  |                                |                                  |           | Other<br>(Note 1) | Adjustment<br>(Note 2) | Consolidated |
|-----------------------|--------------------------|------------------|--------------------------------|----------------------------------|-----------|-------------------|------------------------|--------------|
|                       | Electronics<br>& Devices | Foods &<br>Grain | Steel,<br>Materials &<br>Plant | Motor<br>Vehicles &<br>Aerospace | Sub-total |                   |                        |              |
| Revenue               |                          |                  |                                |                                  |           |                   |                        |              |
| External              | 127,754                  | 121,626          | 68,072                         | 33,924                           | 351,379   | 6,109             | –                      | 357,488      |
| Inter-segment         | 126                      | 0                | 43                             | 12                               | 182       | 53                | (235)                  | –            |
| Total revenues        | 127,880                  | 121,627          | 68,116                         | 33,937                           | 351,561   | 6,162             | (235)                  | 357,488      |
| Segment profit (loss) | 8,071                    | 2,360            | 2,766                          | 1,786                            | 14,985    | 455               | 12                     | 15,453       |

(Note 1) “Other” is a business segment that is not included in the reportable segments and includes the logistics and insurance service business, etc.

(Note 2) The adjustment of ¥12 million for segment profit (loss) includes an inter-segment elimination of ¥12 million.

The adjustment from segment profit (operating profit) to profit before tax in the condensed consolidated statements of income is as follow.

(Million yen)

|   | FY2018 First half<br>(From April 1, 2017<br>to September 30, 2017) | FY2019 First half<br>(From April 1, 2018<br>to September 30, 2018) |
|---|--|--|
| Segment profit  | 13,140   | 15,453   |
| Finance income and finance costs  | (597)  | (676)  |
| Share of profit (loss) of investments accounted for using the equity method | 307  | 52   |
| Profit before tax   | 12,849   | 14,828   |

(Significant subsequent events)

Not applicable.