KANEMATS

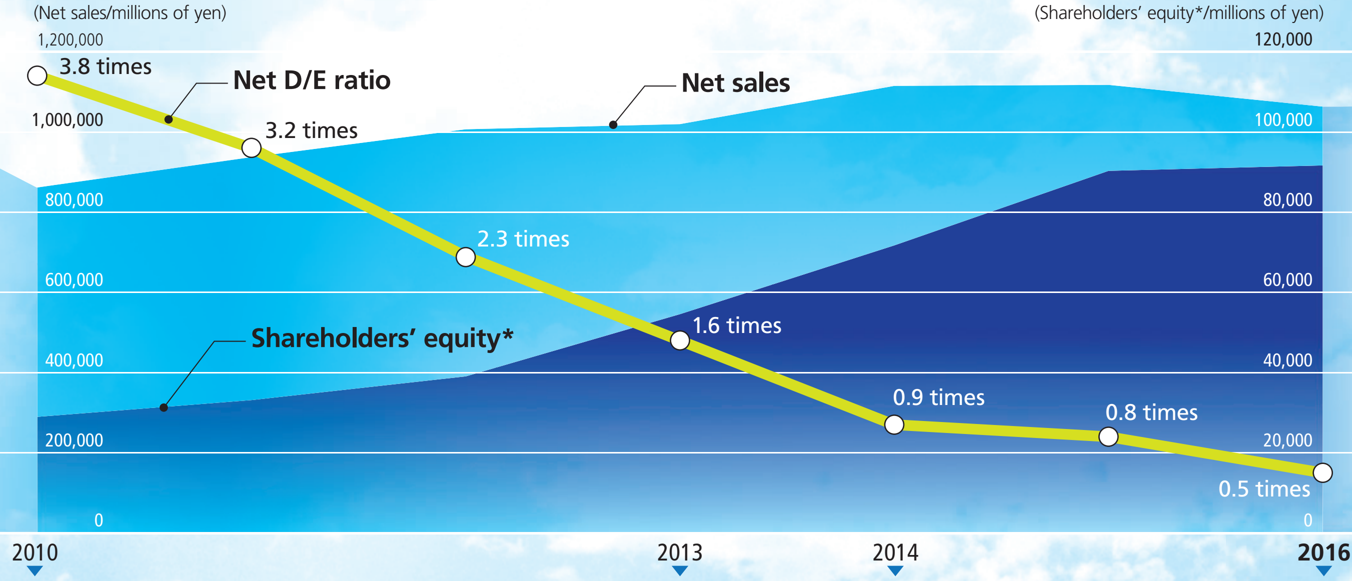
CREATING NEW VALUE

ANNUAL REPORT 2016

Creating New Value in Society

Kanematsu takes on new challenges for further growth

Under the VISION-130 medium-term vision we aim for "being a 'Value Creator' by continuing to build new businesses." Accordingly, we are striving to embody the Kanematsu Group's traditional entrepreneurial spirit and further increase enterprise value.



* JGAAP : Shareholders' equity (2010–2014)
IFRS : Total equity attributable to owners of the Parent (2015–2016)

VISION-130:

"S-Project"

—Jump to the next stage—

▶ Building strong business foundations

- April 2010 – March 2013 Medium-Term Business Plan: "S-Project"
- April 2013 – March 2016 Medium-Term Business Plan
  —Jump to the next stage—
- **As a result of restructuring, we enhanced our business foundations** and achieved a net D/E ratio of 0.9 times, improved the equity ratio to 16.7%, and paid dividends for the first time in 15 years in fiscal 2014
- **We further strengthened our financial position in fiscal 2015**

▶ Shifting to an aggressive management stance

- VISION-130 medium-term vision unveiled in April 2014
- Aiming for further growth leading up to fiscal 2019, the Company's 130th anniversary
- Establishment of a clear edge in highly specialized fields
  Reinforcing market competitiveness in six focus areas
- New investment in business expansion and M&As
  Investment capacity of up to ¥100 billion over five years

Business Areas

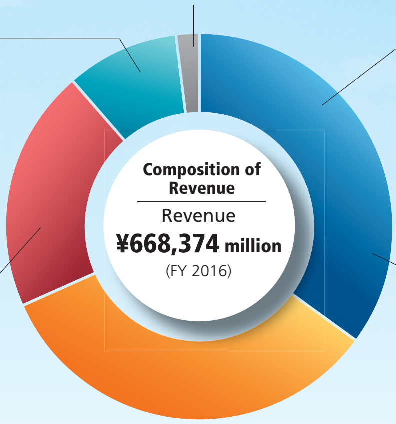
Motor Vehicles & Aerospace 9.5%

- Motor Vehicles and Parts
- Aerospace

Other 1.8%

Electronics & Devices 35.2%

- Semiconductors
- Electronic Components and Materials
- Industrial Electronics
- Semiconductor Equipment
- ICT Solutions and Mobile



Steel, Materials & Plant 20.2%

- Steel
- Materials (Functional Chemicals and Energy)
- Plant

Foods, Grain, Oilseeds & Feedstuff 33.3%

- Foods
- Meat and Marine Products
- Grain, Food Soybeans, Oilseeds
- Feedstuffs
- Processed Agricultural Products
- Pet Products and Groceries

The VISION-130:
Kanematsu takes on new challenges for further growth

April 2016 – March 2019

Being a "Value Creator" by continuing to build new businesses

Management Objective

Both maintain financial soundness and expand the earnings base

Quantitative Targets	
Consolidated net income*	15.0 billion yen
ROE	12%
Shareholders' Equity**	Over 120.0 billion yen
Net D/E ratio	Less than 1.0

* Profit for the year attributable to owners of the Parent ** Total equity attributable to owners of the Parent

Qualitative Targets

Stable and sustained payments targeting a consolidated payout ratio of 25%

Kanematsu takes on new challenges for further growth

Growth-Oriented Investment Strategies

New investments using funds provided by operating activities

Improve financial stability through diversification of funding vehicles

Build a system to ensure the flexibility needed to fund future growth

▶ **Shelf registration of ¥30 billion in straight corporate bonds**

Investment standards

Establish Companywide investment standards

▶ **Formulate standards for market entry and exit**

Standards for entry

- **Qualitative standards:**
  Invest in the areas where the Company excels based on knowledge and experience; Do not invest in resource development or the real estate sector.
- **Quantitative standards:**
  Companywide minimum standards:
  • IRR: 10% (including peripheral transactions on a consolidated basis)
  • Payback period: Within seven years, as a rule

Standards for exit

- **Formulate Companywide minimum standards**
- **In addition, as before, specific standards will be established for each individual case**

At the same time, establish a system of following up on cases

▶ **Investments shall be monitored at the management level**

Six key strategic business areas

- ICT solutions
- Mobile
- Asian food markets
- North American shale oil and gas markets
- Global motorization
- Overseas expansion by Japanese companies

Special Feature p.12

Innovation

Technological support

Technological support in the in-car product and EMS areas; Camera –related business

TPP Response

Strengthen functions in the foods and grains areas ahead of the TPP

Financial and ESG Highlights

(As of March 31, 2016)

	JGAAP				
	2006	2007	2008	2009	2010
For the year:					
Net sales[4]	¥1,096,409	¥1,281,331	¥1,244,020	¥1,138,755	¥861,277
Gross profit	81,732	103,711	90,327	86,292	74,104
Operating income/Operating profit	17,982	21,713	22,605	19,027	12,186
Income (loss) before income taxes and minority interests/Profit before tax	(16,728)	14,615	28,975	77	8,407
Net income (loss)/Profit for the year attributable to owners of the Parent	(21,686)	7,507	19,016	(12,787)	3,528
Cash flows from operating activities	19,720	20,874	14,308	17,177	26,441
Cash flows from investing activities	7,822	23,149	38,799	(370)	(19,149)
Free cash flow	27,542	44,023	53,107	16,807	7,292
At year-end:					
Net assets/Total equity	26,004	48,767	62,239	42,035	45,804
Total assets	556,046	563,176	503,456	414,928	398,629
Shareholders' equity/Total equity attributable to owners of the Parent	—	32,959	45,587	24,936	28,916
Net interest-bearing debt	246,317	204,900	148,944	134,582	109,350
Per share (yen):					
Net income (loss)/Earnings per share attributable to owners of the Parent	¥(52.43)	¥17.94	¥ 45.44	¥(30.56)	¥ 8.44
Net assets/Total equity	62.12	78.75	108.95	59.61	69.15
Cash dividends	—	—	—	—	—
Financial indicators:					
Return on equity (ROE) (%)	(67.73)	25.46	48.42	(36.26)	13.10
Equity ratio (%)	4.7	5.9	9.1	6.0	7.3
Net D/E ratio (times)	9.5	6.2	3.3	5.4	3.8
ESG* (Non-Financial) Data: *ESG: Short for environmental, social, and corporate governance.					
Employees—consolidated	4,449	4,545	4,543	4,874	4,871
Employees—non-consolidated (Women)	847 (232)	859 (234)	872 (251)	890 (262)	850 (264)
Percentage of women among employees—non-consolidated	27%	27%	29%	29%	31%
CO_2 emissions (t-CO_2)	527.40	823.59	577.95	450.29	368.25
Directors (Outside directors)[5]	12 (0)	11(0)	11 (0)	10 (0)	10 (0)
Audit & Supervisory Board Members[5] (Outside Audit & Supervisory Board Members)	4 (2)	5(3)	4 (3)	4 (3)	4 (3)

Notes 1. Figures are rounded down to the nearest million yen. Percentages have been rounded off.
2. The U.S. dollar amounts represent the arithmetical results of translating yen to dollars at the rate of ¥112.68 to U.S.$1.00, the exchange rate prevailing on March 31, 2016.
3. For the above items with two titles, the first applies to figures under JGAAP and the second under IFRS.
4. Net sales shown here are based on accounting principles generally accepted in Japan, calculated as the sum of transactions in which the consolidated Group acted as a party to the contract and transactions in which the consolidated Group acted as agent.
5. The number following the General Meeting of Shareholders, after the year-end.

				IFRS		
					Millions of yen[1]	Thousands of U.S. dollars[2]
2011	2012	2013	2014	2015	2016	2016
¥936,891	¥1,006,365	¥1,019,232	¥1,114,539	¥1,117,096	**¥1,062,822**	**$9,432,215**
76,905	80,900	80,021	86,402	87,880	**86,238**	**765,335**
18,029	21,426	18,262	19,776	23,547	**18,772**	**166,596**
13,030	13,529	16,781	19,075	22,373	**18,122**	**160,827**
9,175	6,110	9,564	11,799	10,546	**8,959**	**79,508**
7,827	15,822	1,355	22,384	6,758	**33,024**	**293,078**
17,322	1,291	1,466	(1,111)	(6,649)	**(4,214)**	**(37,398)**
25,149	17,113	2,821	21,273	109	**28,810**	**255,680**

49,576	55,992	75,912	96,204	119,015	**120,706**	**1,071,228**
388,676	399,753	399,186	428,459	466,314	**443,592**	**3,936,741**
33,101	39,408	54,519	71,657	90,244	**91,599**	**812,913**
104,612	90,012	86,439	68,038	73,245	**48,813**	**433,200**

¥21.93	¥14.60	¥ 22.80	¥ 28.09	¥ 25.10	**¥ 21.29**	**$0.19**
79.07	93.16	129.82	170.54	214.76	**217.68**	**1.93**
—	—	—	3.00	4.00	**5.00**	**0.04**

29.59	16.95	20.45	18.70	12.99	**9.85**
8.5	9.8	13.7	16.7	19.4	**20.6**
3.2	2.3	1.6	0.9	0.8	**0.5**

4,770	4,770	5,522	5,747	6,002	**5,832**
832 (250)	795 (238)	782 (242)	800 (246)	813 (253)	**816 (259)**
30%	30%	31%	31%	31%	**32%**
482.36	376.92	365.37	414.58	387.80	**408.02**
10 (0)	10 (0)	10 (0)	6 (1)	7 (2)	**7 (2)**
4 (3)	4 (3)	4 (3)	4 (2)	4 (3)	**4 (3)**

Steadily Expanding Our Businesses as We Move Toward The Future

At Kanematsu, we have codified the entrepreneurial spirit of the Company's founder, Fusajiro Kanematsu, in our Corporate Principle. In accordance with these principles, we seek to maintain a pioneering spirit and foster creative imagination and ingenuity in order to contribute to ongoing economic development.

Toward our corporate aspiration of "being a 'Value Creator' by continuing to build new businesses," we have been implementing our medium-term vision VISION-130 for the past two years. In light of our progress so far and changes in the economic environment, we have partially revised the targets set under the vision. Fiscal 2017, ending March 31, 2017, is an important year for us to move forward toward achieving the new targets, and the entirety of management and employees are working together to ensure success. To fulfill our role as a trading company by creating connections in society, we will continue to maintain financial soundness and enhance our management base while working in cooperation with our business partners to create and expand our businesses.

Going forward, we will continue striving to be useful to society and our stakeholders by pursuing functions and creating value unique to the Kanematsu Group. By doing so, we hope to increase the value of Kanematsu as a company that grows together with its business partners.

July, 2016

Masayuki Shimojima
President & CEO

Corporate Principle

"Let us sow and nurture the seeds of global prosperity"

"Sow a seed now," and take action to benefit people around the globe, bade our founder, Fusajiro Kanematsu, setting a standard of public duty that we at Kanematsu continue to uphold through a commitment to ethical business principles and corporate responsibility.

The beliefs and philosophies that inspired Fusajiro Kanematsu in the late nineteenth century Meiji period, a time when Japan was striving to build a national economy, were encapsulated in the document *Our Beliefs: Kanematsu's Guiding Principles* in 1967, on the occasion of our merger with The Gosho Company.

Our Beliefs: Kanematsu's Guiding Principles

1. Reflecting the pioneering spirit of our predecessors, we believe that fairness and justice should guide our business dealings and the wise use of creative imagination and ingenuity will bring prosperity.
2. Our purpose as a Company is not only to build a sound and flourishing business, but to fulfill our responsibilities as a corporate citizen, contributing to society and the security and well-being of all.
3. As members of a corporation, we act not as individuals but as representatives of that organization and as such we are bound by Company rules and attendant loyalties and must work together with a spirit of cooperation while cultivating mutual understanding and respect for fellow members.

*While the original text is unchanged, the English version of our Corporate Principle was reinterpreted in 2016.

Contents

Forward-Looking Statements

This annual report contains statements regarding the Kanematsu Group's plans, strategies, and expectations for future performance. Such statements are inherently subject to risk and uncertainty. Actual results could diverge materially from the Group's projections due to changes in the economic and market environment surrounding the Group's business areas, such as exchange rate fluctuation.

Message from the President

The Kanematsu Group is currently implementing its VISION-130 medium-term vision for the five years ending fiscal 2019. Fiscal 2016 was the final year of our medium-term business plan. In light of our strong financial standing as well as major changes in the business environment since the formulation of VISION-130, including changes in crude oil prices, exchange rates, and the Chinese economy, we announced partial revisions to the vision's targets in May 2016. Moving forward to the achievement of the new targets and further growth, we are striving to realize new business creation.

President & CEO

Masayuki Shimojima

Being a "Value Creator" and Continuing to Build New Businesses

Although we have partially revised the targets of our management vision, our policy of taking an aggressive management stance remains unchanged. Our key aspiration is still "being a 'Value Creator' and continuing to build new businesses," and we are united as a Group in our determination to establish a solid growth trajectory.

The Kanematsu Group maintains a sound financial position and holds almost no risk assets that pose significant impairment risk. We also maintain relationships of trust with excellent business partners, developed mainly through trading operations as a trading company over the 127 years since our founding. Leveraging this base, we are working to grow and develop alongside our business partners by finding new opportunities in areas where we have expertise while creating firmly rooted new businesses. This, I believe, is the very essence of the Kanematsu Group today.

Analysis of the Market Environment

In fiscal 2016, ended March 31, 2016, the U.S. economy saw firm growth, backed by solid domestic demand, but the global economy remained uncertain, with growing downside risk due to political instability in the Middle East and Europe, the slowdown of the growth in China that had been driving the global economy, economic deceleration in the rest of Asia and emerging economies, and the low price of crude oil. In Japan, although recovery in personal consumption was weak, the economy gradually improved, backed by firm corporate performance and a better employment market.

In fiscal 2017, we expect steady global economic recovery led by the firm U.S. economy, despite the possible negative impacts of such factors as the murky economic prospects in China, low prices for crude oil and other commodities, and geopolitical risks. In Japan, although there are temporary causes for concern due to monetary policy, including negative interest rates, we expect the overall economy to remain firm.

Fiscal 2016 Results

Under these conditions, during fiscal 2016, the Kanematsu Group continued to advance initiatives in line with its VISION-130 medium-term vision. Fiscal 2016 was also the final year of our three-year medium-term business plan.

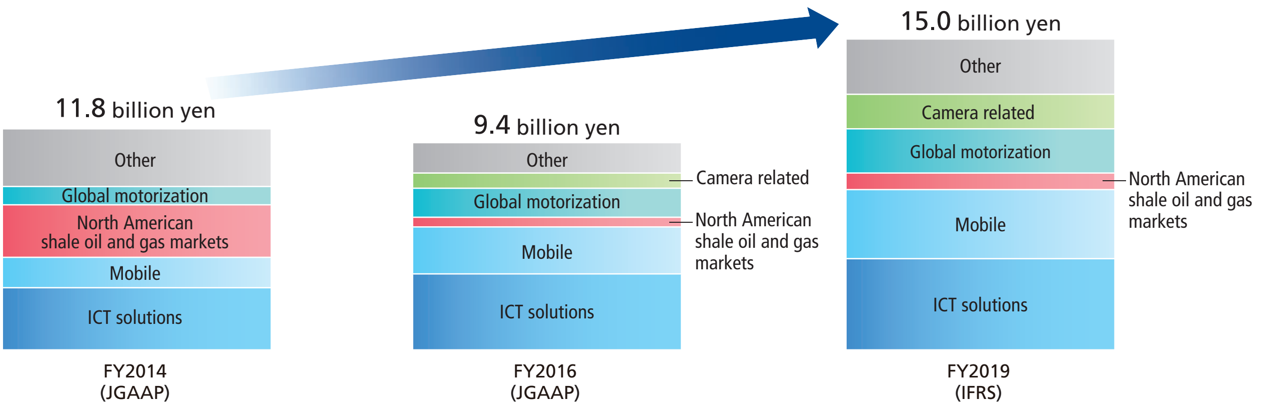
Unfortunately, fiscal 2016 sales and profit were down compared with the previous year. Revenue dipped 5.1% year on year to ¥668.4 billion, and operating profit fell 20.3% to ¥18.8 billion, reflecting an increase in selling, general and administrative expenses. By business, in the Foods & Grain Segment, animal feedstuff and livestock prices fell, leading to a significant loss on sales and devaluation of inventories (based on the lower of cost or market). In the Steel, Materials & Plant Division, the oilfield tubing business in the United States faced difficult conditions as a result of the fall in crude oil prices.

Profit for the year attributable owners of the Parent remained healthy at ¥9.0 billion, despite an 15.0% decrease that reflected lower foreign exchange gains and a fall in the share of profit of investments accounted for using the equity method as well as a decline in net extraordinary gains and losses. As a result, looking at our consolidated financial standing, retained earnings grew, total equity attributable to owners of the Parent rose to ¥91.6 billion, the equity ratio improved to 20.6 %, and the net D/E ratio came to 0.5.

Revisions to VISION-130

The revisions to the VISION-130 targets include the consolidation of income targets to just that for profit for the year attributable to owners of the Parent. This is a result of our switch from accounting principles generally accepted in Japan to the International Financial Reporting Standards (IFRS), which do not include ordinary income. The profit for the year attributable to owners of the Parent target remains at ¥15 billion. For fiscal 2017, we expect growth in the Electronics & Devices Division, centered mainly on the mobile business, which has acquired Diamondtelecom, Inc., and the ICT solutions business, which is expected to be firm. The Foods & Grain Division, which saw declining results in fiscal 2016 due to poor market prices, is also expected to recover. As a result, we forecast profit for the year of ¥11.5 billion, back up to the level seen in the first year of VISION-130 (fiscal 2015), and from there we will steadily progress toward the fiscal 2019 target of ¥15 billion. The main drivers of this growth will be the Electronics & Devices Division and Motor Vehicles & Aerospace Division. In addition, drawing on our market analysis expertise cultivated over the past 30 years, we anticipate a recovery in the U.S. oilfield tubing businesses over the medium term.

Changes in Consolidated Net Income/Profit for The Year Attributable to Owners of The Parent



Total equity attributable to owners of the Parent at March 31, 2016, was ¥91.6 billion, already approaching our previous target of ¥100 billion. We have therefore revised this target upward to ¥120 billion. Reflecting our achievement of a net D/E ratio of below 1.0 for the past three fiscal years, we revised our target to be less than 1.0. Furthermore, we have now set a numerical target of 25% for our consolidated payout ratio, aiming to implement stable and sustained shareholder returns.

Financial Strategy

While we revised some of the VISION-130 targets, our management objective remains the same: to both maintain financial soundness and expand the earnings base. As I mentioned before, we will thoroughly strengthen our financial base, avoid risk assets, more deeply cultivate areas of strength, and, as a Group, keep being a "Value Creator" that continues to build new business. It is important to achieve the targets that we have set to earn the trust of not only our business partners, but society at large. That is what we believe increasing enterprise value means.

We are actively making new investments, seeking to seize opportunities mainly in the six focus areas where we have expertise as well as two new key areas.[1] This approach, of making investments firmly rooted in businesses in our areas of strength, is unchanged and a key part of our strategy. The Group's investment strategy is, in principle, to limit investment to the amount of cash provided by operating activities. However, to ensure readiness for large corporate acquisitions or other investments with inflexible timing, we are diversifying our means of capital procurement, and to that end we have filed a shelf registration of ¥30 billion in straight corporate bonds. The accuracy of our judgment of investments and expected returns is always a major factor determining our business performance as a trading company, and we have therefore established our own investment standards and a system by which top management can monitor investing. I am sure that this will allow us to quickly adjust course as needed and respond precisely to risk while accurately grasping opportunities to achieve sustained growth.

1. Please refer to page 1.

Our Efforts in Focus Areas

In the six focus areas in which we have expertise, as outlined under VISION-130, and in our two new focus areas,[2] we are steadily advancing initiatives aimed at horizontal expansion and the deeper development of businesses.

First, in ICT Solutions, Group subsidiary Kanematsu Electronics Ltd. is working to strengthen one-stop services encompassing the design, construction, installation, maintenance, and operation of IT infrastructure. To this end, the company made Nippon Office Systems Ltd. a consolidated subsidiary in fiscal 2015, and is working to share trading partners and streamline system engineering and maintenance divisions though major organizational changes.

In Mobile, we are working to further increase our market share by acquiring major domestic mobile phone sales agencies and forming capital alliances. On April 1, 2016, we acquired Diamondtelecom, Inc., a wholly owned subsidiary of Mitsubishi Electric Corporation, through an absorption-type merger, rocketing the Kanematsu Group's market share of mobile phone sales to one of the top in the industry.

In Asian Food Markets, in emerging economies, Kanematsu is building a value chain encompassing everything from upstream areas, such as animal feedstuffs and feedstuff materials, to one-stop business development in the mid- and downstream areas of processed food product proposal, manufacture, and supply. Utilizing expertise built up in Japan and drawing on Group strengths, we have entered the dairy cow feed business in Vietnam and invested in franchise businesses with a Japanese restaurant chain in Indonesia.

In Global Motorization, the Kanematsu Group is drawing on a network of more than 20 overseas locations to build stronger supply chains in the global automobile market that combine its strengths in sales and sourcing with reinforced technological development, quality management, and logistics functions. In particular, we aim to further strengthen our exporting of high-performance components made by Japanese manufacturers, an area in which we have a long history of excellence. Furthermore, in aircraft related business, we have acquired the sales agency rights for supply to the Japanese government of the best-selling Citation series produced by Cessna Aircraft Company. Going forward, we expect to see rising replacement demand for both existing aircraft and components from the various government and official bodies of Japan.

In Overseas Expansion by Japanese Companies, Kanematsu is leveraging its locations in around 40 cities overseas, mainly in Asia, to pursue ongoing business expansion with Japanese automakers and other business partners. Furthermore, in partnership with Aozora Bank, Ltd., the Tokyo Star Bank, Limited, and ES Networks Co., Ltd., Kanematsu has established AZ-Star Co., Ltd. to operate a corporate investment fund supporting business expansion into Asia. This fund made its first investment in fiscal 2016.

Looking at the two new focus areas, in TPP Response, within Japan, Kanematsu invested in Be Smile Project Co., Ltd., a "sixth industry" entity focused on the livestock industry. In the other new area, Technological Support, we are strengthening our camera-related business. We made Kanematsu-NNK Corp., which handles security equipment, a consolidated subsidiary and are strengthening our camera related business, for which demand is expected to grow in the run-up to the 2020 Tokyo Olympics. Furthermore, our equity-method affiliate Kantatsu Co., Ltd., is one of the world's leading manufacturers of micro-lenses for smartphones. Kanematsu is involved in such aspects of Kantatsu's management as business development and capital expenditure and is working to expand the company's sales overseas.

In North American Shale Oil and Gas Markets, our oilfield tubing business in North America continues to struggle as a result of the major fall in crude oil prices, but we are advancing streamlining efforts through cost cutting and carefully monitoring the supply-demand environment to ensure that we do not pass up any opportunities.

2. Please refer to page 1.

Pursuing Active Investments Centered on The Six Key Strategic Business Areas And for Innovation

(Billion yen)

		VISION-130		
	Medium Term Business Plan			
	FY2014	FY2015	FY2016	FY2017
Electronics & Devices	3.0	4.8	2.4	17.4
Foods & Grain	0.0	0.4	2.0	—
Steel, Materials & Plant	0.0	0.0	0.0	—
Motor Vehicles & Aerospace	0.0	0.5	0.0	—
Others	0.0	0.0	0.3	—
Long-term assets and other	(1.8)	2.5	0.2	—
Cash Flow from investing activities	1.2	8.2	4.9	17.4+α

ICT solutions
- FY2015: Nippon Office Systems Ltd. (which became a consolidated subsidiary in FY2013) became a wholly owned subsidiary (total 2.7 billion yen)

Mobile
- FY2014: Acquired BD Holdings, Inc. (3.0 billion yen)
- FY2016: Invested in Alpha Group Inc. (0.4 billion yen)
- FY2017: Acquired Diamondtelecom, Inc. (17.4 billion yen)

Technological support (camera related business)
- FY2015: Kanematsu-NNK Corp. became a consolidated subsidiary (1.5 billion yen)
- Underwrote convertible bonds and preferred shares of Kantatsu Co., Ltd. (total 2.5 billion yen)

Asian food markets
- Developed franchise business for restaurant chains in Japan and for Indonesia
- Strengthened cooperation with stable suppliers to increase sales of feedstuff to Asia

TPP Response
- Participated in Be Smile Project Co., Ltd., a sixth-sector business; Invested in Farmnote Co., Ltd., a company that conducts the computerized management of stock farms

Overseas expansion by Japanese companies
- FY2016: Participated in a fund that supports business expansion in Asia (AZ-Star Co., Ltd.)

Tasks Remaining to Advance to the Next Step

Ongoing tasks for us include avoiding the acquisition of resource development rights and other risk assets to ensure an extremely strong financial position as well as focusing on highly specialized fields to increase our competitive edge. We have already achieved some success in strengthening our financial position. As we go forward, we will continue to implement management that balances solid risk control with an aggressive stance, keeping in mind the need to flexibly respond to medium- and long-term changes in the global economy as well as such trade structure changes as those caused by the TPP.

Furthermore, I feel that we need to promote understanding of Kanematsu's growth potential and soundness. To that end, I hope to engage actively in communication with our stakeholders.

Our Business Foundations

In fiscal 2016, we worked to further strengthen our corporate governance. Specifically, we increased the number of outside directors and Outside Audit & Supervisory Board members as well as the number of each that are Independent Officers as defined by the Tokyo Stock Exchange, thus reinforcing management oversight and supervision functions. Going forward, we will continue to work toward greater transparency to maintain the trust of all stakeholders. At our listed Group companies, too, we are actively promoting the reinforcement of governance through such measures as seeking to transition them to the company with committees-type governance structure.

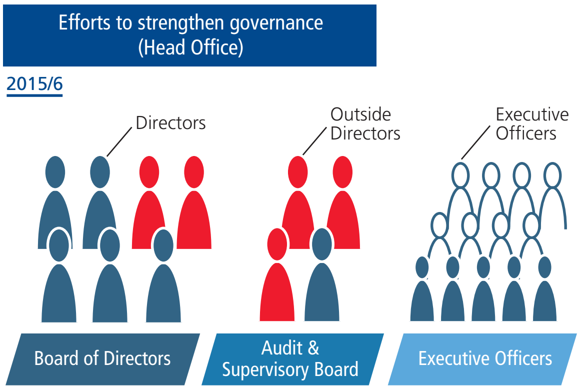
As expressed in "Our beliefs: Kanematsu's Guiding Principles," we believe that the foundation of our business as a trading company lies in continually asking ourselves what we can do to best serve our business partners and then doing it. We seek to develop more human resources who can seriously engage with that foundation and look to create a brighter future while constantly thinking about how to provide added value. To that end, we are working to reinforce human resources who have the insight needed to rapidly respond to changes in the global environment and meet diverse needs. In 2014, we launched a system for sending employees in their first five years or so with the Company overseas for on-the-job-training. By sending them to overseas affiliates, representative offices or business companies for approximately six months, we aim to nurture a sense of immediacy and connection with other parts of the Group. We are also creating opportunities for overseas employees to participate in long-term training in Japan, seeking to foster a shared sense of purpose and corporate culture. Furthermore, we hold business plan formulation training every year. As of March 2016, we have implemented this training eight times.

The Kanematsu Group defines the pioneering spirit of our predecessors and the wise use of creative imagination and ingenuity, conduct abiding by the rules of the organization, and fulfilling our corporate social responsibilities by building a sound, flourishing business as its Corporate Principle, under which we seek to fulfill our corporate social

responsibility (CSR). We have established a CSR Committee with a Companywide mandate to formulate and execute policy on Groupwide CSR initiatives as necessary. To address CSR issues related to supply and procurement operations with our business partners' supply chains, we have created a practical framework that includes the CSR Action Guidelines for Supply Chains. Furthermore, we are engaged in business that contributes to environmental preservation through REDD+ activities[3] that aim to conserve forests, support local communities, and preserve biodiversity.

3. Please refer to page 31.

The Head Office and the Group Companies Are Strengthening Governance



The Audit and Supervisory Committee established (Group companies)

Kanematsu Electronics Ltd.
Directors other than those in the Audit and Supervisory Committee (Full-time: 6/Part-time: 2) Directors in the Audit and Supervisory Committee (Full-time:1/Part-time: 3)
Kanematsu-NNK Corp.
Directors other than those in the Audit and Supervisory Committee(Full-time: 5) Directors in the Audit and Supervisory Committee (Full-time: 1/Part-time: 2)
Hokushin Co., Ltd.
Directors other than those in the Audit and Supervisory Committee (Full-time: 4/Part-time: 1) Directors in the Audit and Supervisory Committee （Part-time: 3）

Fiscal 2017 Outlook

We have announced our forecasts for fiscal 2017 consolidated results under IFRS. Net sales (under the Japanese standard) are expected to reach ¥1,250 billion, up 17.6% year on year, while we anticipate operating profit of ¥22 billion, and profit for the year attributable to owners of the Parent of ¥11.5 billion.

The Kanematsu Group regards providing returns to shareholders as one of its most important tasks. For fiscal 2017, we plan to pay annual dividends of ¥6 per share, up ¥1 from the previous fiscal year. We will continue to strive to pay stable, ongoing dividends, seeking to balance investments in growth with shareholder returns as we aim for a consolidated payout ratio of 25%.

Going forward, we will remain true to our Corporate Principle as we continue to work to increase enterprise value through growth in order to live up to the trust placed in us by our stakeholders.

Management objective

Both maintain financial soundness and expand the earnings base

Six key Strategic Business Areas

1 ICT solutions

Main points:	**Promote integration and management efficiency within the Group through structural reforms**
Key Regions:	Japan, Asia (China, Southeast Asia)
Key Business Companies: Kanematsu Electronics Ltd., Nippon Office Systems Ltd.	
Strengths:	**Providing IT Infrastructure with One-Stop Services** • Strengthening system integration functions through M&As • Strengths in infrastructure development and virtualization businesses • Competitive advantage as a vendor of multifaceted solutions

2 Mobile

Main points:	**Realize scale expansion and synergies through M&A**
Key Region:	Japan
Key Business Company: Kanematsu Communications Ltd.	
Strengths:	**Capturing Domestic Market Share and Pursuing New Growth** • Developing a comprehensive mobile & communications business based on mobile devices • Nationwide sales locations • Providing ASP services for corporations

3 Asian food markets

Main points:	**Develop business as a one-stop shop for concept development, manufacturing, and supplies, and build value-chain infrastructure**
Key Region:	Asia
Key Business Companies: Kanematsu Corporation, PT. Kanemory Food Service, PT. Aeternit Prima Mandiri	
Strengths:	**Building Value Chain Infrastructure** • Entering animal feedstuff/feedstuffs materials and other upstream areas • One-stop proposal, manufacturing, and supply • Rigorous traceability management • Know-how in Japan and Group strengths

Innovation

Technological Support

Main points:	**Technological support in the in-car product and EMS areas; Camera -related businesses**
Key Regions:	Japan, Asia
Key Business Companies: Kanematsu-NNK Corp., Kantatsu Co., Ltd., Kanematsu Advanced Materials Corp.,	
Strengths:	**Providing High-Level Technological Capabilities and Products** • Kanematsu Advanced Materials Corporation Established • Capital and business alliance with Nippon Manufacturing Service Corporation • Kanematsu-NNK Corporation became a consolidated subsidiary • Micro-lens unit business (Kantatsu Co. Ltd.) expanded

Being a "Value Creator" and continuing to build new businesses

In light of changes in the external environment, in May 2016, the Kanematsu Group revised its medium-term vision for the period leading up to fiscal 2019, VISION-130: Kanematsu takes on new challenges for further growth, the end of which coincides with the 130th anniversary of the Group's founding. Our key aspiration under the medium-term vision is "being a 'Value Creator' and continuing to build new businesses." In line with this vision, we are striving to both ensure business stability by prioritizing the maintenance of financial soundness and expand the earnings base by steadily capturing business opportunities. By more deeply developing business domains where we are already strong and making new investments, we aim to raise corporate value to new levels.

4 North American shale oil and gas markets

Main points: **Expand oilfield tubing value chains**

Key Region: North America

Key Business Companies: Kanematsu Corporation, Benoit Premium Threading, LLC, Steel Service Oilfield Tubular, Inc.

Strengths: **Steady Investment Targeting Demand**

- Constructing a value chain in North America
- Medium- and long-term expansion of the oilfield tubing market
- Preparing a framework in anticipation of recovery in oil prices

5 Global motorization

Main points: **Sourcing, technology development, and improved logistics in the global auto market**

Key Regions: The Americas, Europe, Asia

Key Business Companies: Kanematsu Corporation, ANOVA Corporation, Aries Motor Ltd., Aries Power Equipment Ltd., Kanematsu Advanced Materials Corp.

Strengths: **Making New Proposals to Meet Partners' Needs**

- Technological support and quality management capabilities for OEM automobile component trading
- Global sales and sourcing capabilities and logistics network
- Identifying/suggesting high-value-added performance materials and products

6 Overseas expansion by Japanese companies

Main points: **Support and collaborate with Japanese makers moving into overseas markets**

Key Regions: North America, emerging countries

Key Business Company: Kanematsu Corporation

Strengths: **Support Based on Know-How in Main Fields**

- Further expanding overseas network from around 40 cities currently and bolstering overseas staff
- Providing backup in the areas of machine tools and industrial machinery for Japanese manufacturers expanding into emerging countries
- Supporting customers that seek growth opportunities in Asia through the new fund

TPP Response

Main points: **Strengthen functions in the foods and grains areas ahead of the TPP**

Key Regions: Japan, Asia

Key Business Companies: Kanematsu Corporation, Kanematsu Agritec Co., Ltd.

Strengths: **Support for Stronger Farms and Expanding Sales of Imported Animal Products**

- Reinforce animal feedstuff and meat product business and respond to industry reorganization
- Entering the smart agriculture field
- Participating in businesses aimed at making livestock a "sixth industry"

The Future of the Feedstuff Business

Integrated supply systems centered on safe, reliable food

Masayuki Hamasaki
Executive Officer,
Chief Officer, Grain, Oilseed & Feedstuff Division

Global food and grain-related markets are expected to expand over the long term. As such, in April 2016, to accelerate management decision making and promote more specialized business development, the Foods and Grain division split into the Foods Division and Grain, Oilseed & Feedstuff Division, each managed by their own chief officer. The Grain, Oilseed & Feedstuff Division is involved in areas ranging from grain, food soybeans, oilseeds, feedstuff materials, fertilizer, and processed agricultural products to pet-related products.

In our areas of strength, such as feedstuff materials and non-genetically modified soybeans, we are particularly working to strengthen our operations in upstream areas of supply chains. At the same time, we are focusing on stably supplying and expanding overseas sales channels for grains and animal feedstuffs, and on creating platforms aligned with the development of food culture in Asia. Furthermore, in the grain and animal feedstuff business, we are strengthening efforts to capture opportunities in production regions overseas and expanding into such new areas in the United States, South America, Australia and elsewhere.

Strategies

- **Under the themes of safety, reliability and stability, build a robust supply chain, from raw material procurement and processing to shipping, and implement thorough traceability management**
- **Accelerate business investment in Asia, where food markets are expected to grow and evolve**
- **Diversify raw material production regions, secure strong supply sources, and expand the volume of multi-country trading to meet changing global market needs**
- **Build and strengthen pet-related business value chain**

Market Environment

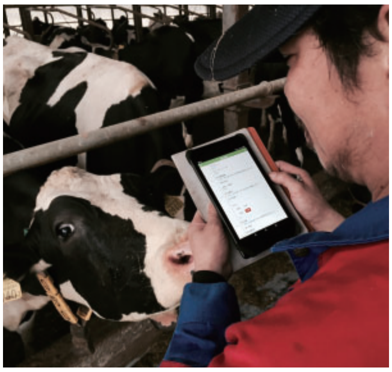
The Japanese livestock industry faces a number of challenges, including falling numbers of farming households and animals as well as the need to reinforce the production base. Based on the signing of the Tran-Pacific Partnership, the Japanese government is working to make Japan’s agriculture, forestry and fishery industries more aggressive and internationally competitive. Part of this is a drive to create a “sixth industry” by diversifying operations from production to food processing and distribution over the medium and long term. Furthermore, with the aim of strengthening the international competitiveness of its livestock and dairy farming, Japan is working to reinforce earnings power and the production base by such means as cutting costs and bolstering quality.

Strengthening Domestic Agriculture

Helping Farmers Take on International Competition

Seeking to enter the smart agriculture field, in 2015, Kanematsu and its subsidiary Kanematsu Agritec Co., Ltd. invested in Farmnote Co., Ltd. This rapidly growing start-up in the smart agriculture field has developed and provides the Farmnote cloud-based cattle herd management system for improving dairy and livestock productivity. The Farmnote system allows users to visualize farm management using a smart device with simple touch controls, facilitating effective management of factors essential to improving productivity, such as stock breeding, treating ailments, milking, and moving herds.

The Kanematsu Group has long held a leading share of the market for dairy cow feed ingredients. We will use our sales networks in this area to promote sales of the Farmnote system and plan to support the overseas expansion of this know-how being developed in Japan.



Jointly Funded Be Smile Project Co., Ltd., a "Sixth Industry" Entity

The business foundations of the Japanese livestock industry have long been weakening. Today, Kanematsu is advancing new initiatives to make the industry more competitive. In fiscal 2015, Kanematsu, together with Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan, the Kamichiku group Company Kinko Farm Ltd, five other companies, and four financial institutions jointly funded the "sixth industry" entity Be Smile Project Co., Ltd. (BSP). With the aim of establishing a business model for supplying safe, reliable, high-value-added wagyu beef produced in Japan, BSP is building an integrated value chain that covers everything from the supply of breeding cattle and animal feedstuffs to fattening, processing, sales, restaurant operations, and exporting. Kanematsu's involvement spans a wide range of fields within this "sixth industry" business, including assisting at production sites using smart agriculture technologies, supplying optimal animal feedstuffs, providing support for the production of breeding cattle, and developing business overseas.

BSP aims to expand its business model nationwide and open 200 restaurants within 10 years. At the same time, it is working to strengthen its competitiveness and considering exporting to establish a market and brand for *wagyu* beef overseas, including in predominantly Islamic countries. By creating new markets, we are providing support for dynamic livestock business.

Accelerating Investment in Asia, Where Food Markets Are Expected to Evolve and Grow

Strategies in the Vietnamese Market

In 2013, Kanematsu contributed funds to Vietnamese dairy producer Dalat Milk Joint Stock Company, entering a business-tie-up. Together, we operate a total mixed ration (TMR) production center and manufacture fermented feedstuffs for dairy farming. Leveraging its many years of experience in the stable supply of dairy cow feed in Japan, Kanematsu provides Dalat Milk with forage, corn, and soybean meal as feedstuff materials. We also provide guidance based on Japan's dairy farming technology, dispatching dairy farming consultant veterinarians and providing information about effective feed formulation. Kanematsu is working to further expand sales of dairy cow feed and production sites for feedstuff materials in Vietnam and the rest of Asia, where continued market growth is forecast.

Income levels and the consumer price index in Vietnam are rising. To meet business needs within the country, we established an overseas affiliate in Vietnam in 2014. Beginning with domestic sales of feedstuff materials, roughage, and processed food products, this company's business is growing.

Grain, Oilseed & Feedstuff Business—Four Business Types

Functions ↑ (Strategies aimed at maintaining and increasing profitability)	Existing		New	
Complex	Digging Deeper	• U.S. food soybean seed development and selection business • Integrated sales of tofu-related products • Domestic silo business, manufacture, and sale of total mixed rations • Processed agricultural products business	New Development	• Establishment of animal feedstuff factories in Asia • Development and sale of functional animal feedstuffs • Participation in a "sixth industry" entity • Entering the smart agriculture field
Traditional	Funda-mentals	• Sales of grain, food soybeans, and oilseeds • Integrated manufacture and sales of feedstuff materials • Processed agricultural products business (Italian-made pasta, etc.) • Sales of pet products and groceries	Horizontal Development	• Import and sales of South American agricultural products • Development of edible soybean sales in overseas markets • Developing sales of grain and animal feedstuffs in Asian countries • Global development of pet product sales, including exports to Asia

Customers →

Strategies mainly aimed at volume and scale expansion

The Mobile Business

Strengthening Our Business by Expanding Our Market Share

Masahiro Harada

Executive Officer
Deputy Chief Officer, Electronics & Devices Division

Under our VISION-130 medium-term vision, we have defined six focus areas where we have expertise, one of which is "Mobile." Expanding the scale of our business in this area through M&As and other means is a priority. Currently, this business operates across Japan, mainly through Kanematsu Communications Ltd., as a primary distributor for domestic telecommunications carriers. We are also engaged in a range of other initiatives, such as sales of bundled service packages that include fiber optic internet services that tap into the mobile phone replacement cycle, the launch of insurance sales services, the provision of overseas SIM cards for global companies and domestic SIM cards for visitors to Japan, and the reinforcement of content services through the creation of software for mobile devices.

Furthermore, we are aggressively advancing efforts to market comprehensive back-office management tools for businesses, machine-to-machine (M2M) devices, and Internet of Things (IoT)-related solution services while seeking out partnerships with businesses in other industries. In April 2016, Group subsidiary Kanematsu Telecom Investment Co., Ltd. acquired Diamondtelecom, Inc., a company that sells mobile phones across Japan, in an absorption-type merger aimed at further expanding the Group's market share. This acquisition is creating synergies, helping us to realize a top-notch nationwide store network, offer more sophisticated services by sharing human resources and know-how, and streamline management.

Strategies

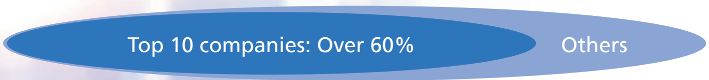
- **Expand mobile and mobile phone sales businesses and increase market share**
- **Strengthen and enhance nationwide sales network and increase the added value of stores**

Market Environment

Based on population, Japan's adoption rate for mobile phones now surpasses 100%, with an increasing number of users using both a feature phone and a smartphone or multiple smartphones. Unit sales are reaching their natural limit, and the consolidation and reorganization of major sales agencies is accelerating. In particular, we are seeing a growing wave of reorganizations aimed at increasing market share. At the same time, the sales agencies themselves are showing signs of shifting toward the handling of overall home infrastructure, including fiber optic communications, electricity sales, and insurance.

■ Expanding Our Mobile Business Market Share is a Key Strategy

(Fiscal 2014 Japan market)



Expansion through the Acquisition of Diamondtelecom, Inc.

The mobile phone sales agency industry is reorganizing to expand in scale, and there is demand for improved service from sales agencies as mobile phones grow more sophisticated and products more diverse. In this environment, companies are seeking to survive by embracing next-generation business expansion aimed at transitioning to integrated service businesses.

The Kanematsu Group's mobile business boasts a leading market share of the mobile phone sales agency industry. It is one of the Electronics & Devices Division's core businesses, and constitutes a focus area under VISION-130. We have been working to expand our market share in this business through such means as acquiring full ownership of BD Holdings, Inc., a mobile phone sales agency operating in the Kyushu region, in 2013.

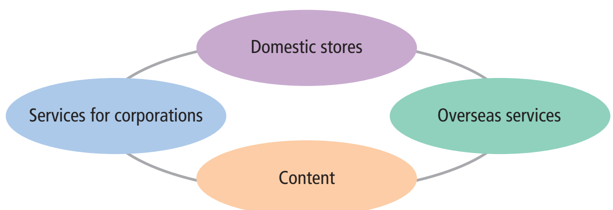
Furthermore, as mentioned on the previous page, the wholly owned subsidiary Kanematsu Telecom Investment acquired Diamondtelecom in an absorption-type merger in April 2016.* For the more than 20 years since its founding in 1994, Diamondtelecom operated a mobile phone sales business as a wholly owned subsidiary of Mitsubishi Electric Corporation. With approximately 200 stores across Japan, the company's annual mobile phone sales volume was over a million units as of 2015. Kanematsu Communications a core part of the Kanematsu Group, operates about 260 stores nationwide, with an annual sales volume of approximately 1.3 million mobile phones. By almost doubling the scale of the Group's mobile business, this acquisition made the company a major industry player as a sales agency for NTT Docomo. Going forward, the two companies will pool expertise and focus efforts on securing and developing human resources while streamlining management to improve profitability.

Going forward, sales agencies will need to promote M2M- and IoT-related systems and concepts and shift their business model to encompass the supply of such lifelines as electricity and gas. To accomplish this, they will need to reach a broader range of consumers. Over the medium-to-long term, we will seek to further expand our market share, not discounting the possibility of additional M&As.

* Kanematsu Telecom Investment Co., Ltd. was renamed Diamondtelecom, Inc. as of April 1, 2016.

Capturing Domestic Market Share and Pursuing New Growth

- **Developing a comprehensive mobile & communications business based on mobile devices**
- **Nationwide sales locations**
- **Providing ASP services for corporations**



Recent Initiatives

2013	Kanematsu Communications Ltd. acquired BD Holdings, Inc. (now Kanematsu BD Communications Limited), a mobile phone sales company based in the Kyushu region
2014	Concluded a distribution agreement with NetComm Wireless Limited, an Australia-based supplier of global wireless M2M devices
2016	Kanematsu Telecom Investment Co., Ltd. acquired Diamondtelecom, Inc. in an absorption-type merger and was renamed Diamondtelecom, Inc.

Message from the CFO

Nobuyoshi Sakuyama
Director, Managing Executive Officer, CFO

VISION-130 Medium-Term Vision

The Kanematsu Group is implementing various initiatives under VISION-130, its medium-term vision for the five years leading up to fiscal 2019, the Company's 130th anniversary. The two years since we launched the vision have seen tremendous changes in the external environment, including deceleration in the Chinese economy, plummeting crude oil prices, and fluctuations in the stock and currency markets.

With the end of the previous medium-term business plan, we partially revised VISION-130 to reflect current realities. In lieu of a new medium-term business plan, we will work directly under VISION-130 toward new targets. Over the next three years, based on these targets,* we will continue working to both maintain financial soundness and expand the earnings base, focusing on our original six focus areas of strength across four segments as well as two new areas. As CFO, I will do my utmost to support the Group through financial management as it aims for further growth.

Capital Policy

As mentioned above, the external environment has changed dramatically over the past two years. Due in part to such changes, total equity attributable to owners of the Parent has grown faster than originally anticipated.

At the same time, to expand the earnings base, we have been steadily investing in business areas where the Kanematsu Group is already strong. We are now better positioned to undertake sizable investments, such as our acquisition of mobile phone sales agency Diamondtelecom, Inc. on April 1, 2016.

To ensure that we are prepared for changes in the market environment and can take advantage of opportunities for business expansion as they appear, we have revised our target for total equity attributable to owners of the Parent upward from ¥100 billion to ¥120 billion, aiming to further reinforce our financial base. While increasing the absolute amount of our total equity attributable to owners of the Parent, we will also boost our equity ratio from its current value of 21.2%, aiming for approximately 25%. By doing so, we aim for financial management that achieves optimal balance in terms of risk and capital.

More Sophisticated Risk Management

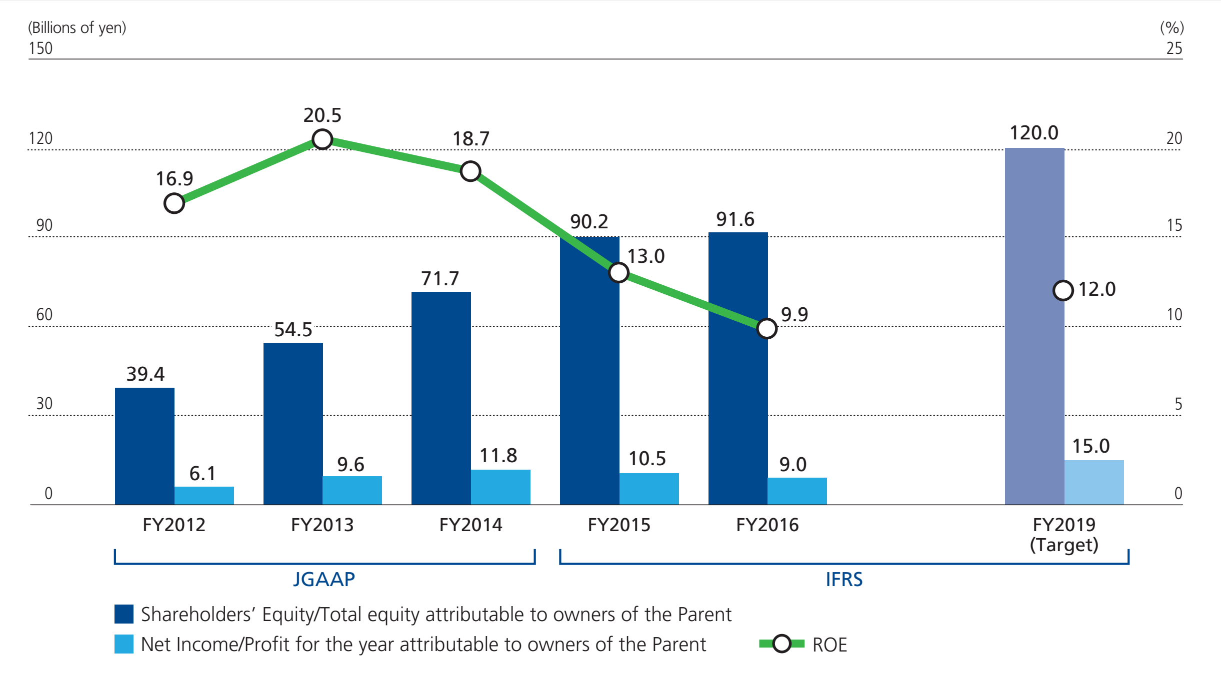
In principle, it is our policy to limit new investment to the amount of cash provided by operating activities. We have established business investment criteria* to guide such business investments and M&As aimed at growth. Specifically, we have formulated and are strictly enforcing standards for market entry and exit, and have created a framework for following up on individual investments.

Beginning in the latter half of the 1980s, Kanematsu rapidly expanded its businesses, aggressively investing even in areas where it had no expertise, including real estate and commodities. As a result, due in part to the Asian financial crisis, the Company fell into financial difficulty, leading to restructuring in 1999. Having experienced such extreme hardship, we are now very firmly resolved to ensure that we never repeat those mistakes.

After restructuring, the Group greatly improved its balance sheets by significantly reducing interest-bearing debt and reaching final settlements on non-performing assets. Today, our balance sheets contain almost no risk assets, and are the healthiest they have been in 30 years. In part to keep our balance sheets sound, we now have in place a system for vetting investments in which the CFO evaluates each item, looking at the Company's business environment, risks, the size of the investment, and other factors, before giving a red or green light. Going forward, I would like to disclose more specific data about our risk assets and capital ratios to better communicate our stance and standing with regard to these issues to shareholders and investors.

* Please refer to page 1.

Net Income/Profit, Equity, ROE



Shareholder-Focused Management

I also hope to implement balanced shareholder returns. We resumed paying dividends with the fiscal 2014 interim dividend, the first in 15 years. Since then, we have made paying stable and continuous dividends our basic policy and practice. As CFO, in my dialog with shareholders and institutional investors, I have strongly felt the high degree of expectation and demand for shareholder returns.

Furthermore, with the application of the Corporate Governance Code in June 2015, companies are now asked to provide targets for profitability, capital efficiency, and other such factors. This has resulted in a greater emphasis on ROE as an indicator of corporate profitability and capital efficiency.

Since our restructuring in 1999, we have emphasized management efficiency, setting numerical targets for personnel efficiency, the ratio of interest-bearing debt to equity, capital efficiency, and other management indicators. As a result, since fiscal 2014 we have been included in the JPX-Nikkei Index 400, which is regarded as an important market benchmark. I hope to ensure that we maintain this stance going forward.

Furthermore, we have set a concrete target payout ratio of 25% in light of our progress in building up total equity attributable to owners of the Parent and the strong demand and expectations of our shareholders and investors. Going forward, as we seek to bolster profitability, we aim to enhance shareholder returns while maintaining stable and continuous dividends.

Raising Transparency to Raise Enterprise Value

Beginning with our reporting for fiscal 2016, we switched from using accounting principles generally accepted in Japan to International Financial Reporting Standards (IFRS). This will allow a wider range of investors, including overseas institutional investors, to better understand Kanematsu. As CFO, I am charged with engaging directly with shareholders, investors, and financial institutions and will enthusiastically pursue communication with stakeholders, seeking to raise management transparency and thus, I hope, the number of people rooting for the Kanematsu Group.

Lastly, my aspiration as CFO is to maintain financial soundness into the future by being the guardian of the balance sheets. At the same time, I will engage in management with a constant awareness of our shareholders and investors, seeking always to live up to their expectations. I intend to help firmly establish a corporate culture at Kanematsu in which this posture goes without saying.

Electronics & Devices

Main Business		Products
Semiconductors	**Semiconductors**	Semiconductor devices; Sensor devices; LCD panels; Components for smartphones and tablets; Control modules for lithium ion batteries
Electronic Components and Materials	**Electronic Components**	Amusement related products; Vehicle equipment; AV related products; Camera modules; Micro-lenses; System boards; Printed circuit boards and materials; RFID components and materials; Image sensors; Image sensor back-end processing
	Semiconductors/ LCD Materials	LED components; OLED materials; Solar cell components; Battery components; Metal materials for electronic and functional components; Surface treatment agents; Functional films; Board assembly; Finished EMS products; IoT solutions
	Optical Device Materials	Components for display devices and optical devices
Industrial Electronics	**Industrial Printers**	Industrial printers and related consumables
	Livingwares	Batteries; Household supplies
Semiconductor Equipment	**Semiconductor/ LCD Manufacturing Equipment**	Semiconductor manufacturing and testing equipment; LCD manufacturing and testing equipment; OLED production equipment
ICT Solutions and Mobile	**ICT Solutions**	ICT and communications equipment and devices; ICT and communication services; System integration
	Mobile	Mobile communication terminals; Mobile internet system and services

Foods, Grain, Oilseeds & Feedstuff

Main Business	Products
Foods	Processed fruits (frozen/canned); Concentrated fruit/vegetable juices; Confectionery ingredients (couverture chocolate, cocoa powder, nuts, dry fruits, dairy products, etc.); Coffee; Teas; Alcoholic beverages (wine, etc.); Sugar; Honey; Sesame seeds; Peanuts; Pulses and peas; Nuts and seeds; Cooked foods; Others
Meat and Marine Products	Meat products: Beef; Pork; Chicken; Mutton/Lamb; Special poultry such as turkey and duck; Horse meat; Others
	Marine products: Cephalopods (octopus, squid, etc.); Crustaceans (shrimp, etc.); Frozen fish; Seafood ingredients for sushi; Others
Grain, Food Soybeans, Oilseeds	Rice; Wheat; Barley; Corn; Soybeans (for food, for oil); Defatted soya-flake for soy sauce production; Buckwheat; Corn grits; Corn starch; High-fructose corn syrup; Rapeseed; Cottonseed; Others
Feedstuff	Feed grain (corn, milo, soybeans, etc.); Plant protein meal (soybean meal, rapeseed meal, etc.); Animal protein meal (Fish meal, etc.); Other by-products; Dairy products for feed (skim milk, whey powder); Roughage (baled hay, beet pulp pellets, etc.); Fish oil; Prebiotics (Laxel Force); Fertilizer; Others
Processed Agricultural Products	Processed wheat (wheat flour, pasta, frozen bread dough, etc.); Cereal ingredients; Vegetable oil; Olive oil; Others
Pet Products and Groceries	Pet food and snacks; Pet products; Tropical fish; Raw ingredients for pet food and snacks; Products wholesaled to DIY stores (home improvement retailers)

Steel, Materials & Plant

Main Business		Products
Steel	**Overseas Trading of Iron and Steel**	Export of various kinds of steel sheets, plates, bar products, and pipe and tubing products; Export of porcelain enamel steel sheets
	Overseas Trading of Specialty Steel	Export of stainless steel sheets and plates; Export of alloy steel wire and bar products
	Domestic and Overseas Trading of Full Range of Steel Products	Import and third-country trade of ferrous raw materials; Export and import of steel materials and sub-materials
Materials	**Functional Chemicals**	Incense materials; Lubricant-related materials; Fertilizer materials; Papermaking chemicals; Synthetic rubber; Petrochemical products
	Healthcare	Functional food materials; Health supplements
	Life Science	Pharmaceuticals and pharmaceutical and agrichemical intermediates; Pharmaceutical ingredients
	Crude Oil, Petroleum Products	Crude oil; Jet fuel oil; Gasoline; Kerosene; Diesel oil; Fuel oil (bunker A and C); Lubricant oil and additives for industrial and automobile use
	LPG	LPG (propane, butane, autogas)
	Development of Environment-Related Materials and New Technologies	Heat reflective paint; Carbon credit trading; Heat reflective paint; Carbon credit trading; Biomass fuel
Plant	**Plants, Environmental Business**	Chemical and petrochemical plants; Industrial plants (papermaking plants, auto-manufacturing plants and other plants); Utility and process systems for oil and gas plants; Infrastructure facilities; Scrap-processing facilities; Environmental facilities
	Cargo Vessels	Shipbuilding; Used ships; Equipment package deals for new ships (including ship design, engineering)
	Machine Tools and Industrial Machinery	Machine tools; Industrial machinery and peripheral equipment
	Electric Power Cable Projects	Electric power and communication cable projects; Power generation plants (including design, engineering, installation)
	ODA	ODA projects (educational, medical/pharmaceutical, water supply-related, agricultural, environmental)

Motor Vehicles & Aerospace

Main Business	Products
Motor Vehicles and Parts	Motorcycle and automobile parts; Complete Built Up (CBU) vehicles; Construction & industrial machinery; Power products
Aerospace	Fixed-wing aircraft; Helicopters; Equipment and Components/Parts for aircraft & helicopters; Aircraft rotable parts; Small satellites; Space-related products Night vision goggles

Electronics & Devices

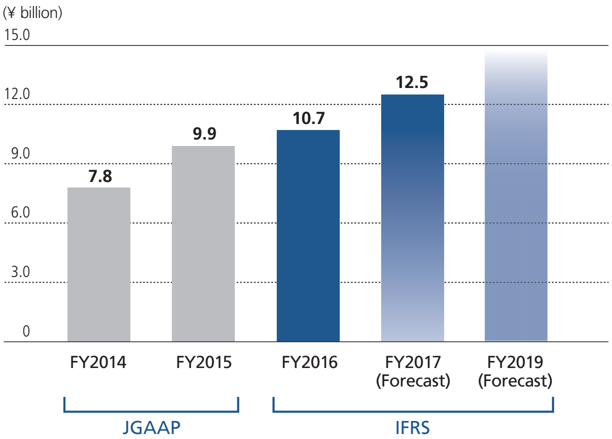
Kaoru Tanigawa
Director, Senior Managing Executive Officer, Chief Officer, Electronics & Devices Division

Our operations include the ICT solutions and mobile business as well as value chains ranging from electronics-related materials to components and equipment. Using our wealth of electronics technology and know-how, we are advancing new initiatives in the IoT and AI fields and offering new value to contribute to society.

Business Results and Forecasts

	FY2016	FY2017 (Forecast)
Revenue–External	**235.0** billion yen	**400.0** billion yen
Segment profit	**10.7** billion yen	**12.5** billion yen

Segment Profit



Division Composition

The Electronics & Devices Division comprises three business areas: 1. electronic devices and materials, 2. semiconductor components and equipment, and 3. ICT solutions and mobile business. We are building robust sales networks for these business areas in and outside Japan. In addition to our longstanding businesses in electronic devices, mainly for consumer use, and hardware component and material value chains, we offer services to meet a wide range of customer needs, including in the network solutions and mobile communications businesses, which have been growing in recent years, as well as areas related to the Internet of Things (IoT).

External Environment and Strategies to Achieve VISION-130

In recent years, the ICT solutions and mobile business and electronics industries have seen intensifying technological and price competition, making it increasingly difficult to achieve differentiation. And, as customers further globalize and develop their overseas businesses, there is greater demand for fine-tuned services located near customer operations. Furthermore, with developments in Internet, WiFi, sensing, and computing technologies, new technological applications, including those related to the IoT, are advancing across all fields.

In this environment, Kanematsu is working to achieve differentiation. We are evolving from conventional sales of individual components and materials to supply modules and other such products through electronics manufacturing services (EMS) and offer package solutions. We are adding value through just-in-time supply using advanced warehouse functions and reinforcing our one-stop ICT solutions. Overseas, the Electronics & Devices Division is strengthening operations in China, Southeast Asia, North and Central America, and elsewhere, creating support structures near our customers as we aim to establish global value chains. By incorporating such innovations as IoT technologies, we will offer business models with even higher added value. At the same time, in each of our current businesses, we will consider business tie-ups and M&As with companies with which we can generate synergies in order to accelerate the achievement of our VISION-130 goals.

Division Medium- and Long Term Vision

The Electronics & Devices Division has assumed a policy aimed at 1. securing added value, 2. scale expansion, and

3. improving quality. By pursuing business tie-ups, capital alliances, business acquisitions, and R&D investment, we will further develop and strengthen our current mainstay businesses to increase added value and aim for scale expansion. In the ICT business, we will further expand the systems business and streamline the service support business while pursuing overseas development. In the mobile business, we will continue to seek to improve service and expand our business scale through M&As. Furthermore, by combining our current businesses with IoT, AI, cloud service, and other cutting-edge technologies, we aim to create new business models, raise customer satisfaction and achieve ongoing business development.

Strengths and Tasks to Address

Our ICT solutions and mobile business boasts solid foundations within the industry and is generating stable profits. In the semiconductor components and equipment as well as the electronic device and materials fields, we maintain expansive supply chains, handling items ranging from large LCD-related equipment to components and materials, as well as a robust customer base, allowing us to offer a variety of proposals and solutions. In our electronic devices business, we are working to develop globally in such areas as commercial printers, a niche market, and national ID system projects in Southeast Asia. While these two business areas are small, they are growing steadily. We also offer such unique added value as industrial CMOS image sensors as well as component and module supply chains for the amusement market.

At the same time, we are facing a variety of challenges, such as sharply fluctuating foreign exchange rates, rapid changes in Japan's major electronics companies, slowing economic growth in China, and the saturation of smartphone and PC markets.

Going forward, I believe that we can achieve further expansion by rallying overall Group strengths to advance new initiatives and create new businesses.

GROUP COMPANY'S COMMENT

Kanematsu Communications Ltd.

Takashi Kikuchi
President and CEO
Kanematsu Communications Ltd.

Recently, the Ministry of Internal Affairs and Communications has led a number of working groups and task forces pushing for changes in the mobile communications industry, including revisions to offers of mobile devices at no cost, the introduction of plans for light users and user loyalty incentives, and better consumer protections. These changes have made the mobile communications industry the subject of new attention on many fronts. Moreover, with its close ties to local communities, the industry is expected to develop new functions and take on a new role as a sales channel for electricity, insurance, and other products. Going forward, we will continue to leverage our many years of accumulated retail expertise to achieve continued growth as a company with strong earnings power.

The Cabinet's June 2013 Japan Revitalization Strategy includes the goal of making Japan the world's leading IT-oriented country in the 2020s. As an operator of carrier shops throughout Japan—the first line of contact with mobile phone and device users—Kanematsu shares the mission of supporting the foundations on which Japan can become the world's leading IT-oriented country. In April 2016, Diamondtelecom, Inc. became part of the Kanematsu Group. As a result, the Group's total carrier shop presence has expanded to around 460 stores boasting net sales of approximately ¥230 billion and around 3,300 employees, making it one of the top industry players. Furthermore, a company that the Group acquired in May 2013 and renamed Kanematsu BD Communications Limited is now the leading agency in Fukuoka. By effectively utilizing the strengths of the Kanematsu Group and Diamondtelecom to quickly realize synergies, we hope to contribute to the growth of the overall Group.

In addition to the carrier shop business, we maintain a business serving businesses ranging from small companies to major corporations, offering mobile phones and communications-related businesses solutions. Together with the various companies of the Kanematsu Group, we are advancing IoT-related initiatives and efforts across a wide range of fields aimed at creating an IT-oriented society.

Foods, Grain, Oilseeds & Feedstuff

Hiroyasu Hirasawa
Executive Officer,
Chief Officer, Foods Division

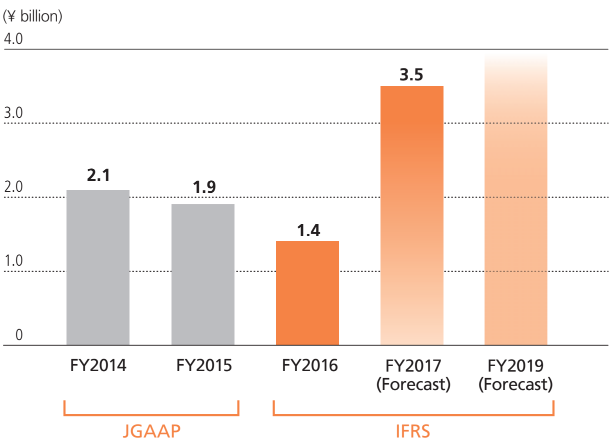
Masayuki Hamasaki
Executive Officer,
Chief Officer, Grain, Oilseed & Feedstuff Division

Committed to safe, secure food, this segment works to ensure stable supplies of a wide range of foods, including grains, raw oil and fat materials, animal feedstuffs, marine products, and other high-value-added items, through an integrated supply system spanning raw material procurement to finished product processing.

Business Results and Forecasts

	FY2016	FY2017 (Forecast)
Revenue–External	222.6 billion yen	370.0 billion yen
Segment profit	1.4 billion yen	3.5 billion yen

Segment Profit



Division Composition

As of April 1, 2016, to increase specialization, more effectively implement strategies, and strengthen customer relationships while reinforcing business development, the former Foods & Grain Division was split into the Grain, Oilseed & Feedstuff Division, which handles such products as grain and animal feedstuffs, and the Foods Division, which handles such products as processed foods and animal products. These two divisions provide a wide range of goods and services related to food for people and their pets, spanning everything from grain, agricultural products, meat and marine products, ingredients for desserts, alcoholic and non-alcoholic beverages, frozen foods, and processed foods to animal feedstuffs and fertilizer.

External Environment and Strategies to Achieve VISION-130

Foods Division In Japan, the food market is confronting slowing economic growth and prolonged deflation. Expanding Southeast Asian food markets, meanwhile, present the merits of growing populations and peak demographic windows. In this market environment, we are working to reinforce the earnings base through selection and concentration in the domestic market while strengthening Group company functions. Overseas, we are creating new businesses by applying know-how and business models cultivated in Japanese markets to expand horizontally into emerging markets, mainly in Southeast Asia. Through these two core strategies, we aim to increase earnings in the Foods Division and achieve the goals of VISION-130.

- Foods
- Meat and Marine Products
- Grain, Food Soybeans, Oilseeds
- Feedstuff
- Processed Agricultural Products
- Pet Products and Groceries

Grain, Oilseed & Feedstuff Division Simultaneous with the ongoing TPP negotiations, agricultural policy reform aimed at increasing the competitiveness of domestic agriculture is being advanced in Japan. The potential impact of this change on our business, such as that caused by falling animal feedstuff market prices, is cause for concern. However, we are working to increase revenues by reinforcing sales of high-value-added forage and functional animal feedstuffs that help to increase the added value of animal-derived food products and by moving into the smart agriculture sector. Furthermore, with regard to our conventional vertically integrated businesses, we are entering new production regions, reinforcing Group companies, and advancing initiatives with overseas partners to evolve the capabilities of the Kanematsu Group and strengthen earnings power.

Division Medium- and Long-Term Vision

Foods Division We aim to evolve from mere trading operations by building a global value chain. Moreover, by improving the functions of the Kanematsu Group in up-, mid- and downstream roles, we will radically strengthen our earnings power. We are actively considering business investments and M&As as ways to realize this functional improvement. We will steadily implement growth strategies, astutely allocating management resources to focus areas and targeted overseas markets.

Grain, Oilseed & Feedstuff Division We provide a steady supply of safe, secure products through our globe-spanning value chains. To produce safe, secure products, we are reinforcing ties with farmers and actively investing in production regions and suppliers. We are working to further improve the functions of the Kanematsu Group in mid-stream areas and, in downstream areas, striving to discover and develop raw food materials in order to offer richer, more enjoyable food options.

Strengths and Tasks to Address

Foods Division Kanematsu's strengths lie in the firm relationships with business partners and customers that it has cultivated over the years as well as in the steady revenue generated by its handling of a differentiated product lineup unique to its Foods Division. Leveraging these strengths to horizontally expand and create new businesses, however, is an urgent task. By revising the allocation of management resources, improving the responsiveness of sales divisions, and effectively using assessment systems, we will improve the new business acceleration framework and achieve robust growth.

Grain, Oilseed & Feedstuff Division From grain, food soybeans, oilseeds, feedstuff materials, fertilizer, and processed agricultural products to pet-related businesses, all of the Grain, Oilseed & Feedstuff Division's businesses boast differentiated products and provide added value, a Kanematsu hallmark. These are the division's strengths. In terms of scale, however, these businesses have considerable room for growth. Through collaboration and alliances with our partner companies, we will improve the functions of the Kanematsu Group at every stage of the value chain to expand business scale and provide useful products and services to even more customers.

PARTNER'S COMMENT

Be Smile Project Co., Ltd.

Masashi Kamimura
(Representative, Kamichiku Group)
President & CEO

The Japanese livestock industry faces an extremely challenging environment, as feedstuff and breeding cattle prices rise and consumers move away from high-end beef as less fatty varieties gain favor. Many producers and meat wholesalers are currently in danger of being driven out of business.

To reinforce the production base, we founded Be Smile Project Co., Ltd., (BSP). The Kamichiku Group, which is working to make beef an integral part of a "sixth industry" in Japan, took the lead role in creating this new company, jointly financing it with Kanematsu, the public-private Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan, and 12 other companies. Digging deep to find ways to sell the best products at the lowest prices possible while adding as much value as possible in a challenging environment, together we devised the BSP business concept.

BSP aims to further expand the Kamichiku Group's efforts to make agriculture a "sixth industry" and to strengthen and revitalize agriculture through three key strategies: 1. Expanding its restaurant business (100 locations in three years), 2. Providing affordable feedstuffs (establishing TMR centers), and 3. Exporting beef overseas (building a world-leading advanced meat center).

Kanematsu has supported us on every front, and we look forward to Kanematsu's continued cooperation a business partner in supplying feedstuffs and roughage and especially in developing *wagyu* beef sales and restaurants overseas. Together, we will do our utmost to contribute to the development of the Japanese livestock industry.

Steel, Materials & Plant

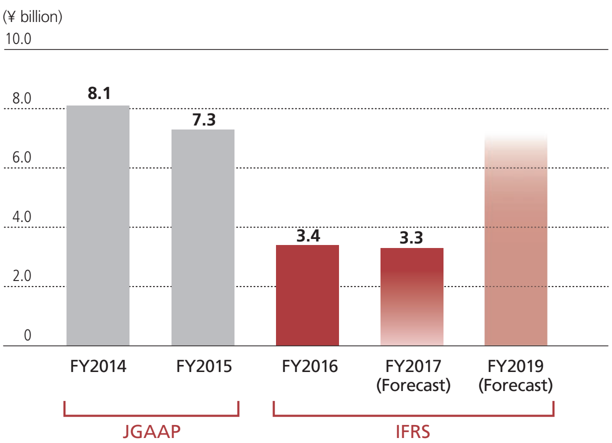
Takashi Gunji
Director, Senior Managing Executive Officer,
Chief Officer, Steel, Materials & Plant Division

This segment engages in operations covering the full range of iron and steel products, energy solutions, functional chemicals, and industrial plant and infrastructure facilities. While this segment handles a wide variety of operations, in each business area we boast highly specialized staff who uphold our commitment to supplying and developing high-value-added products.

Business Results and Forecasts

	FY2016	FY2017 (Forecast)
Revenue–External	**135.3** billion yen	**380.0** billion yen
Segment profit	**3.4** billion yen	**3.3** billion yen

Segment Profit



Division Composition

The Steel, Materials & Plant Division was launched in April 2013, integrating three divisions that, until then, had operated independently. By gathering experts in the fields of steel, materials (centered mainly on functional chemicals and energy), and plant to share information and insights, we believe that we can generate substantial synergies.

Businesses that span the fields of steel, materials, and plant are already beginning to grow into pillars of profit. Such businesses include the oilfield tubing business and the specialty steel business for petrochemical plants, which supplies chimney desulfurization equipment and other products. At the same time, we are actively working to develop a new generation of businesses for the future.

External Environment and Strategies to Achieve VISION-130

The external environment surrounding this division remained challenging, with low crude oil prices and a strengthening yen. With regard to efforts related to North American shale oil and gas markets, a focus area under VISION-130, our main priority is maintaining and stabilizing the market platform we have built thus far while implementing thoroughgoing cost controls and working to improve profitability. At the same time, however, we are honing new strategies and preparing for recovery in demand.

In addition, aiming for further growth, we continue to focus on strong businesses that have served as income pillars in the past. These include the materials business, centered mainly on pharmaceuticals, pharmaceutical and agrichemical intermediates, bunker oil, and gas as well as machinery, plant, and vessels businesses, such as those related to industrial machinery, machine tools, shipbuilding, and geothermal and wind-power generation facilities. At the same time, we are also actively looking into business investments, carefully assessing each opportunity. We are deepening ties with subsidiaries, affiliates, and partners worldwide and working to enhance the fundamental strengths of the overall Steel, Materials & Plant Division to achieve the VISION-130 targets.

Division Medium- and Long-Term Vision

As the domestic market is stagnant, our strategy continues to focus on overseas markets. We see considerable room for growth in overseas markets for steel, chemicals, energy, plant, and all our business fields. Accordingly, we plan to continue actively shifting management resources overseas.

- Steel
- Materials (Functional Chemicals and Energy)
- Plant

At the same time, we will continue to focus on the three key areas of automobiles, the environment, and energy, turning our attention toward niche markets and products as we seek to fill needs and create added value in ways that no one else can. In addition, we will put more effort than ever into environment-related businesses, such as those related to Official Development Assistance (ODA) involving grants and yen loans from the Japanese government and the joint crediting mechanism. By doing so, we will contribute to international society.

Strengths and Tasks to Address

This division has grown to where it is today by finding unique approaches and strengths in each of its businesses. For example, we have developed the iron and steel business by forging partnerships with trustworthy partners. In the plant business, we have created markets by focusing on remote overseas locations. Our energy business has realized highly functional and efficient consolidated operations that bring together Kanematsu and its subsidiaries and affiliates. And, in our chemicals business, we have cultivated high-value-added businesses in such highly specialized fields as pharmaceuticals. We are now constantly evolving our shared know-how across all these fields as the foundation for new business creation.

Going forward, further improving synergies between our businesses is our greatest task and goal. Through organizational optimization, including the interchange of human resources across the boundaries of Kanematsu and its subsidiaries, we are aiming for even greater growth.

PARTNER'S COMMENT

Benoit Premium Threading, LLC

Mr. Ronald L. Pederson
CEO

A Strong, Winning Partnership in a Challenging Environment

We are very fortunate to have Kanematsu Group as a partner. Our relationship was built and tested in difficult market conditions, yet it continues to grow stronger. The longevity of our partnership is a testament to our shared values and mutual respect backed by a policy of open communication. The oil and gas business is tough. Success requires vision and a boldness to commit to large-scale, long-term capital investment amid a fast-changing cyclical environment. At the same time, maintaining and creating sustainable value for all stakeholders, including shareholders, employees, business partners, and customers, is vital. We are confident that KG understands this and supports us in this approach.

Today, the oil and gas industry faces significant hurdles. The true strength of a partnership, however, is proven by how it perseveres in both good times and bad. We know that KG will continue to be a supportive, wise, and helpful partner to us. We are committed to doing the same as we work to maximize the mutual value of our relationship.

Motor Vehicles & Aerospace

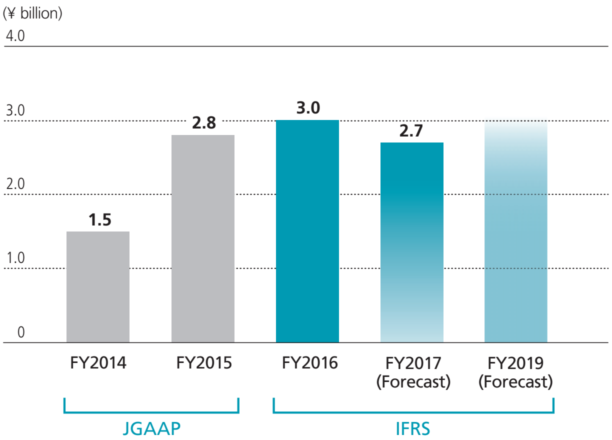
Yoshiya Miyabe
Managing Executive Officer,
Chief Officer, Motor Vehicles & Aerospace Division

This segment comprises the motor vehicles and parts business, which handles motorcycle and automobile parts as well as completed vehicles, and the aerospace business, which handles aircraft and parts as well as space-related transactions. Leveraging its superb expertise and extensive information resources, the division operates these businesses on a global scale.

Business Results and Forecasts

	FY2016	FY2017 (Forecast)
Revenue–External	**63.8** billion yen	**80.0** billion yen
Segment profit	**3.0** billion yen	**2.7** billion yen

Segment Profit



Division Composition

The Motor Vehicles & Aerospace Division was formed in April 2013 as a combination of the existing Electronics & IT, Iron & Steel, and Machinery & Plant divisions' business units related to automobiles and aerospace, areas of strength for the Group. By integrating and concentrating the Group's automobile-related businesses, for which global demand is expected to grow, we aim to connect the supply chains and customer bases of our motorcycle and automobile businesses to strengthen sales and sourcing capabilities. Also, by bringing the aerospace-related business units into this division, we are working to facilitate the sharing of information about cutting-edge aerospace technologies that are being used in the motor vehicles and parts field to create new businesses in such areas as new materials and environmentally friendly products. Since the launch of this division, we have been improving our global frameworks in line with the advance of global motorization to reinforce our roles and functions and better serve our customers and business partners.

External Environment and Strategies to Achieve VISION-130

The worldwide motorcycle and automobile market is growing ever more globalized and multipolar. In this market, we are striving to strengthen the earnings base by enhancing our global framework, reinforcing logistics, and building quality management and testing functions to bolster our roles and functions. In 2014, we established sites in Mexico and Chongqing, China, and in 2015 we opened an office in Detroit. Linking these with our existing sites, we aim to expand the area covered by our sales activities worldwide and grow our business.

In the Aircraft business, we are promoting sales to the Japanese government of Cessna's Citation series as well as Bombardier Aerospace's new C Series airliners for the passenger jet market, which is forecast to see major growth in demand. In the commercial aircraft market, we will expand our aircraft rotable parts business, which we operate mainly in Europe and North America, by moving into additional regions and increasing the range of parts we handle. In addition to the aviation field, we will focus on business in the space field, which is expected to grow going forward, and thus expand our earnings base.

Division Medium- and Long-Term Vision

We continue to pursue the four basic policies laid out when the VISION-130 medium-term plan was established:

1. Maximize synergies resulting from reorganization,
2. Improve and strengthen our global business structure,

3. Maximize the role of logistics transactions, and 4. Build businesses outside of brokerage.

The automobile market is on the verge of major innovation and change, with increasing networking giving rise to so-called connected cars and advances in AI technology leading toward self-driving cars. In this environment, we will continue to gather information about and conduct research into cutting edge technologies while investigating new business creation and cross-sector business partnerships.

In the aircraft field, we will expand sales of aircraft and parts in the defense-related and commercial aircraft markets, which are expected to grow. At the same time, we will focus efforts on the space field to advance new business development.

Strengths and Tasks to Address

In our business with industry-leading customers and partners, we receive high marks for our excellent product and solution proposals that leverage our extensive informational resources. Taking a step beyond our existing trading business, we will deepen ties with customers and business partners around the world, strengthen human resource development, and aggressively make necessary investments. By concentrating management resources in specialized fields, we aim to lead the industry and achieve further growth.

TOPICS Kanematsu Becomes the Domestic Sales Agency to the Japanese Government for the Cessna Citation Series

In August 2015, Kanematsu's Aerospace Department acquired the sales agency rights for supply to the Japanese government of the best-selling Citation business jet series produced by U.S.-based Cessna Aircraft Company.

Cessna chose Kanematsu as its partner in Japan due in part to Kanematsu's strong two-decade track record of both sales and after-sales service covering more than 30 special mission aircraft supplied to the Japan Air Self-Defense Force.

In October 2015, Kanematsu delivered three flight inspection aircraft to the Civil Aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism. The aircraft were modified Cessna CJ4s equipped with flight inspection systems manufactured by Norwegian Special Mission (NSM). Kanematsu has now received a contract for an additional two such aircraft, with delivery planned for fiscal 2017.

Cessna's Citation series offers a broad lineup of nine models, ranging from small, six-person jets to mid-size 12-person jets. Leveraging Kanematsu's wealth of experience and know-how, we will continue to provide optimal aircraft for a wide range of upcoming projects in this market, where growing replacement demand is assured going forward.

CSR (Corporate Social Responsibility)

Kanematsu's Approach to CSR

The Kanematsu Group defines the pioneering spirit as fostered by our predecessors along with the wisest use of our creative imagination and ingenuity, conduct abiding by the rules of the organization, and fulfilling our corporate social responsibilities by engaging in sound, flourishing businesses as its Corporate Principles. The Group conducts its business in accordance with these principles and the Company's Code of Conduct. Based on the Company's Corporate Principles, Kanematsu's Code of Conduct serves as a set of standards for all of Kanematsu's corporate activities.

The Kanematsu Group offers a wide range of products and services in Japan and around the world. The Group thus regards creating shared value while meeting the needs and expectations of its many stakeholders, including shareholders, investors, business partners, local communities, and employees, as its corporate social responsibility.

Kanematsu's Code of Conduct

1. Origin of corporate activities	We became involved in corporate activities to serve our various stakeholders by providing socially valuable goods and services in accordance with the aim of our founder to realize a sustainable society.
2. Fair transactions	Our corporate activities are conducted in compliance with laws and ordinances in Japan and abroad, international rules and practices, and internal rules, as well as with social common sense.
3. Information management & disclosure	Information is properly managed to protect personal information, customer information and intellectual property, and is disclosed in a timely and proper manner to establish mutual trust between Kanematsu and the community and maintain a high level of transparency.
4. Respect for human rights	We respect human rights and do not discriminate. Employee career development and capability development are actively supported. Diversity, personality, and character are respected so as to create a dynamic corporate culture.
5. Consideration of the global environment	We exercise sufficient consideration in our corporate activities to maintain a sound global environment for sustainable growth.
6. Social contribution	We are aware of the importance of our social responsibility as good corporate citizens, and proactively undertake social contribution activities. Employee activities to contribute to community development and to comfortable and safe living are supported.

CSR Framework

Kanematsu has established a CSR Promotion Office within its Personnel & General Affairs Department as well as a Companywide CSR Committee. These bodies formulate policies and reinforce initiatives for the Group as necessary to address various CSR-related issues, including social contribution and environmental preservation.

CSR through Our Business Activities

The Kanematsu Group engages in CSR initiatives in the course of its ordinary business activities. In and outside Japan, we focus on expanding businesses that make best use of our capabilities as a trading company to sustain and improve the environment. We also strive to conduct business with due consideration given to biodiversity.

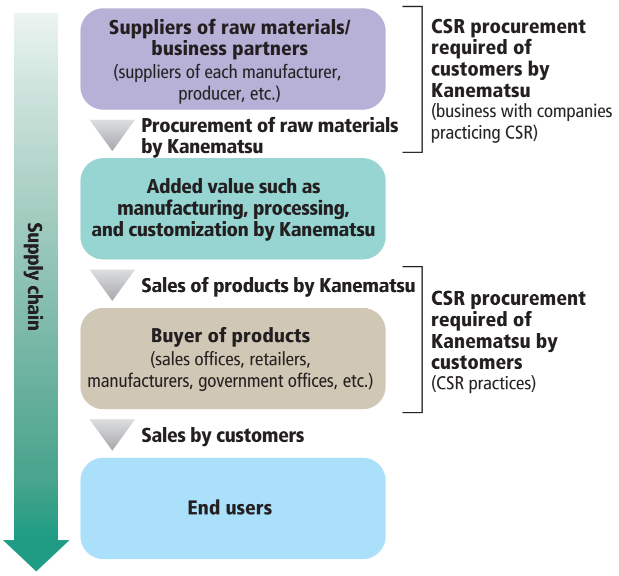
CSR Procurement

CSR procurement refers to the practice of a company requiring its suppliers of materials, parts, and products to implement CSR initiatives in addition to meeting such everyday requirements as consistently high quality and speed. CSR procurement is growing in importance year by year as awareness of CSR increases among companies and the general public.

We have established systems to promote CSR activities, including CSR Action Guidelines for Supply Chains, to meet the CSR procurement requirements of our business partners. The requests made by business partners as part of CSR procurement activities touch on a wide variety of concerns, including employee relations, health and safety, environmental activities, CSR management, and corporate ethics. Areas of concern include the following.

- Does the supplier conduct its business activities with due consideration given to the environment?
- Does it conduct its business activities with due consideration given to human rights? (Respecting bans on child labor and forced labor, etc.)
- What is its compliance record like?
- Does it meet the latest quality standards? (Usage restrictions on harmful substances that go beyond legal requirements)

Flow of CSR Procurement



Environmental Businesses

Forest Preservation Initiatives: Participating in REDD+ Businesses

Kanematsu is participating in new high-potential businesses under the REDD+ program, engaging in environmental business from its unique perspective as a trading company.

One project we are implementing was launched in 2011 in Boalemo Regency, Gorontalo Province, Indonesia, with support from the Japanese Ministry of the Environment and the Japan International Cooperation Agency (JICA). In this region, deforestation due to slash-and-burn corn agriculture is a problem. The project Kanematsu is part of seeks to promote the planting of cacao plantations instead. Working with a Japanese chocolate company, Kanematsu provides technical guidance to local farmers to help them produce high-quality cacao while advancing value chain development, including cacao purchasing and marketing. We aim to continue to work closely with local residents and food product manufacturers in Japan to market products made with cacao from this region in both Japan and Indonesia.

* REDD+ (reducing emissions from deforestation and forest degradation) is an initiative aimed at promoting sustainable forest management in developing countries. It includes public-private partnerships aimed at building a framework for meeting Japan's greenhouse gas emissions reduction targets through the acquisition and trading of emissions credits.
The project described above is a subsidized REDD+ business utilizing Japan's joint crediting mechanism (JCM) with support from the Ministry of the Environment. It is aimed at both reducing CO_2 emissions through forest preservation and, through the JCM system, helping Japan meet its emissions reduction targets.

Environmental Initiatives

Kanematsu is engaged in environmental businesses in Japan and overseas that help protect and improve the global environment. The global Group also continuously works to improve its ISO 14001-based environmental management system. By effectively operating this system, the Group is reducing electricity and paper consumption, promoting comprehensive waste sorting and reduction, and helping to reduce CO_2 emissions. Through these efforts, the Group strives to contribute to the creation of a low-carbon, recycling-oriented society.

Kanematsu Corporation: Certified Since 2004

Tokyo Head Office and All Domestic Branches (Osaka Branch, Midosuji Office, Hokkaido Branch, Nagoya Branch, Kobe Main Office, Kyushu Branch, Sendai Office)

ISO 14001 Certification in the Kanematsu Group

Expanding ISO 14001-based environmental management systems

Electronics & Devices

Kanematsu-NNK Corp.	Certified since 2006
Kanematsu Electronics Ltd.	Certified since 2007
Kanematsu Communications Ltd. Tokyo Head Office	Certified since 2015

Steel, Materials & Plant

Kanematsu Petroleum Corp.	Certified since 2005
Kanematsu Wellness Corp.	Certified since 2005
Kanematsu Chemicals Corp.	Certified since 2005
Kanematsu Yuso Co., Ltd.	Certified since 2005
Kanematsu KGK Corp.	Certified since 2005

Foods & Grain

Kanematsu Agritec Co., Ltd.	Certified since 2013

Other

Hokushin Co., Ltd.	Certified since 2005

Human Resource Initiatives

Human resources are a vital asset for Kanematsu, and retaining and training human resources is important for the Company's growth. Kanematsu maintains systems to promote work-life balance, including child care support and family care support systems, seeking to create workplaces that are comfortable and rewarding for employees. Furthermore, we focus considerable effort on human resource development, an indispensable part of Kanematsu's growth.

Training in Business Plan Formulation

Kanematsu aims to improve corporate value by further developing areas of strength, making new investments for business creation, and taking on other new challenges. To this end, we have created training courses covering business plan formulation to impart the skills necessary for drafting roadmaps to the creation and successful launch of new businesses.

Overseas Dispatch Training System

Kanematsu operates an overseas training system for employees in their first five years with the Company. Participants are dispatched to overseas subsidiaries, representative offices, and business corporations to experience local work- and lifestyles for around six months. This system exposes employees to diverse values and provides the experiences, insights, and knowledge that members of a globally operating trading company need.

Training in Business Plan Formulation Trainee's Perspective

Yuki Shindo
Specialty Steel Foreign Trade Department Division 2

In this training program, we systematically studied the basic skills necessary for business creation and then applied what we had learned to create a business plan from the ground up. I strongly feel that the program broadened my perspective and helped me grow. Our teams were composed of participants with varying levels of experience and from different organizations within the Group. During the six-month process of creating a new business plan, there were many times when opinions clashed and our theories proved wrong. Nevertheless, through repeated discussion and fieldwork, we gradually strengthened the basic framework of our business plan, and, when the time came for our final report, we were able to confidently present the plan to the decision makers.

Using the knowledge and experience I gained through this training, I hope to focus more into new business creation in my current department.

Overseas Dispatch Training System Trainee's Perspective

Yuri Yamaoka
Food Department No. 1
Beverage and Liquor Section

My overseas training in Brazil was extremely rewarding. I had the chance to be involved in operations related to a wide range of products, most notably coffee, as well as new business projects. I gathered a great deal of knowledge and gained experience that I could not have gotten anywhere else, including living on a coffee plantation for two weeks and hearing from suppliers in person about market conditions. This experience and the knowledge I gained have been very useful in my work in Japan. Moreover, meeting so many new people helped me broaden both my professional network and perspective, which has contributed to opportunities to cultivate new businesses. Furthermore, getting involved with new business areas and products other than coffee helped me understand new viewpoints. I learned approaches and techniques for flexibly adjusting business development when a given method isn't working, and have made great use of this knowledge in my current work. I hope that by drawing on my experience I can contribute to sales growth and thus repay the many people who supported me during my overseas training.

Action Plan to Help Women Excel

In line with its efforts to raise its enterprise value, Kanematsu aims to utilize diverse human resources, allocating them where they can be most effective and allowing individuals to make the most of their abilities. To help women excel in the Company, we have formulated the action plan outlined below.

	Action Plan for Helping Women Excel (Outline) Plan duration: April 1, 2016 to March 31, 2019
Issues the Company Faces	1. Although Kanematsu hires a certain number of women every year, the proportion of women in core operations and management positions is low. 2. The Company's retention rate for female employees is lower than that for male employees.
Targets	1. Increase the number of women working in core operations. Within job class II, which comprises the main part of employees working in core operations, increase the number of employees in assistant section manager-level positions by about 1.5 times from the present 17 to 25. 2. Create an employment environment that makes it easier for women to continue working to improve the retention rate.

	FY2012	FY2013	FY2014	FY2015	FY2016
Female career-track employees[1]	46	49	51	55	54
Responsibility band 3[2]	10	11	12	18	17

1 Work location is determined according to the Company's needs and not restricted to any specific area. These employees eventually move into core operations.
2 Equivalent in level to assistant section manager.

Work-Life Balance

Kanematsu is proactively committed to ensuring a good work-life balance, and discourages long working hours to foster a healthy workforce. We have been improving the working environment so that employees can treasure the time they spend with their families as well as the time spent on hobbies and participating in social activities.

Child Care Support

In addition to comprehensive maternity and childcare leave arrangements, we allow mothers to work short hours and flexitime after taking leave for pregnancy or care reasons, so they can continue to care for growing children after rejoining the workforce.

Many mothers take childcare leave, and when they return to work, they generally go to the same divisions in which they worked before. These measures have been taken to create a pleasant working environment.

Number of Employees Taking Childcare Leave

FY2009	FY2010	FY2011	FY2012
4	10	9	3
FY2013	**FY2014**	**FY2015**	**FY2016**
4	14	10	7*

* Includes two male employees

Family Care Support

In addition to the conventional family care leave system, Kanematsu has recently enabled special paid holidays for family care. We also have in place a child-raising and care consultation office for one-to-one consultation on these matters.

Refreshment Day

By urging employees across Kanematsu to do no overtime on Wednesdays, we aim to improve working efficiency and encourage a better work-life balance. We have also set aside one day every month as a special "Refreshment Day" during which we monitor hours worked, to bring down overtime.

General Employer Action Plan

In December 2010, Kanematsu was awarded the "Kurumin" certification of support for the nurturing of the next generation by the Ministry of Health, Labour and Welfare's Tokyo Labor Bureau.

In October 2013, we formulated our third General Employer Action Plan. Based on this plan, we are taking measures to fully harness employee potential by encouraging a better balance between work and childcare duties and by creating a more pleasant workplace for all.

We plan to establish our fourth General Employer Action Plan in October 2016.

Bronze Week

On April 1, 2016, Kanematsu introduced a new "Bronze Week" system for systematically encouraging the use of annual paid vacation days. This is intended to make it easier for employees to take off the time are entitled to, improve work-life balance, and create workplaces that are comfortable and rewarding. The system is expected to raise the rate of vacation days used from around 60% at present to around 70%.

Bronze Week System Outline

- Makes it easier to take off a bridge day between two ordinary days off or the day before or after a three-day weekend, effectively extending the number of consecutive days off for the individual to four or more.
- The system is designed to allow employees to choose their own days off. At the start of the fiscal year, each section designates at least four days in the year as candidate days for paid vacation, and each individual then chooses at least two of these to take off.
- Applies to all employees in principle, excluding those on dispatch within Japan, stationed overseas, or on leave.
- The system, which encourages the use of paid annual vacation, especially multiple consecutive days off, is named "Bronze Week" in reference to the yearly clusters of public holidays in Japan popularly known as "Golden Week" and "Silver Week."

COMMENT

Fumiko Miyakado
General Manager, Personnel and General Affairs Department

For Kanematsu to grow and develop on the leading edge of global business as a trading company, I believe that work environments that allow human resources, the Group's core, to express their individuality and work with vigor are crucial.

Some of our efforts to create such work places include the following.

- Creating various systems to facilitate working styles that accommodate such lifestyle changes as those associated with childbirth, child care, and family care
- Enhancing systems to promote focused, high-productivity work, including the Refreshment Day and Bronze Week systems
- Promoting the development and promotion of women, who are expected to play an increasingly prominent role in business

The Company's Corporate Principle, "Our beliefs: Kanematsu's Guiding Principles," includes the passage "Our purpose as a Company is not only to build a sound and flourishing business, but to fulfill our responsibilities as a corporate citizen, contributing to society and the security and well-being of all." In line with this principle, I am committed to creating environments that allow diverse human resources to utilize their abilities to the fullest and excel.

The Kanematsu Foundation for the Research of Foreign Trade

The Kanematsu Foundation for the Research of Foreign Trade was established in 1940 with the purpose of contributing to economic development through support and funding for research into trade and international economics. The Foundation is jointly operated by the Research Institute for Economics and Business Administration of Kobe University and Kanematsu. In the more than 70 years since its founding, the Foundation has earned an international reputation as a top-level research institute focusing on international economics and management and has won high acclaim in Japan and overseas for its long list of research achievements.

In 1993, the Kanematsu Fellowship—a Kanematsu post-graduate research scholarship—was jointly established by the Research Institute for Economics and Business Administration of Kobe University, the Kanematsu Foundation for the Research of Foreign Trade, and Kanematsu Corporation. Every year, graduate students are invited to submit their dissertations to apply for the fellowship. The Kanematsu Fellowship thus provides graduate students in the fields of economics, management, and accounting across Japan with opportunities to win a research fellowship and to present their research.

Reconstruction Support Activities

After the March 2011 Great East Japan Earthquake, the Kanematsu Group donated money and supplies to affected areas. Since September of the same year, the Group has provided ongoing support for Rikuzentakata city in Iwate, through its own volunteer program. In addition to the Company's volunteer leave system, Kanematsu has a system to support employees volunteering in disaster-affected areas that includes reimbursement of transportation and accommodation expenses for employees participating in the Company's volunteer program. In March 2016, we marked the 14th occasion of engaging in such support activities, which included hearing from Rikuzentakata's Mayor Toba about the situation immediately after the earthquake and recovery efforts since then as well as a visit to Nagahoragenki Village, a community in the disaster-affected area. Volunteers helped with oyster and *wakame* seaweed farming and with planting at a vineyard to contribute to local recovery.

The Kanematsu Group is committed to volunteer activities in disaster-affected areas that address both immediate needs and long-term issues and will continue to offer support in response to the needs of the affected areas and their residents.

Mobile Library Donation

In February 2015, Kanematsu donated a mobile library vehicle christened *Yamabiko-go* to the city of Rikuzentakata to contribute to the development of the city's children. *Yamabiko-go* can hold approximately 900 books and is equipped with a retractable awning to provide shade or shelter from rain to facilitate its use in all weather conditions.

Mobile library *Yamabiko-go* donated to Rikuzentakata City

Kanematsu Invitational Boys' Soccer Tournament

Since 2011, Kanematsu has held boys' soccer tournaments at its athletic field in Chiba Prefecture, seeking to provide a venue for enjoying soccer to children who have limited opportunities to play outside due to the nuclear accidents following the Great East Japan Earthquake. The 2015 Kanematsu Invitational Boys' Soccer Tournament, the second held under this name, used fair trade-certified soccer balls in support of decent working environments in developing countries and education and welfare in the places where such balls are made. Kanematsu will continue to host this tournament as part of its social contribution efforts.

Corporate Governance

Our Basic Stance on Corporate Governance

Kanematsu strives to strengthen corporate governance to increase the transparency of management and to create a more equitable, efficient, and sound company. We work to improve corporate governance with the aim of winning the support of all our stakeholders, including shareholders, customers, business partners, and employees, and increasing our enterprise value.

System of Corporate Governance

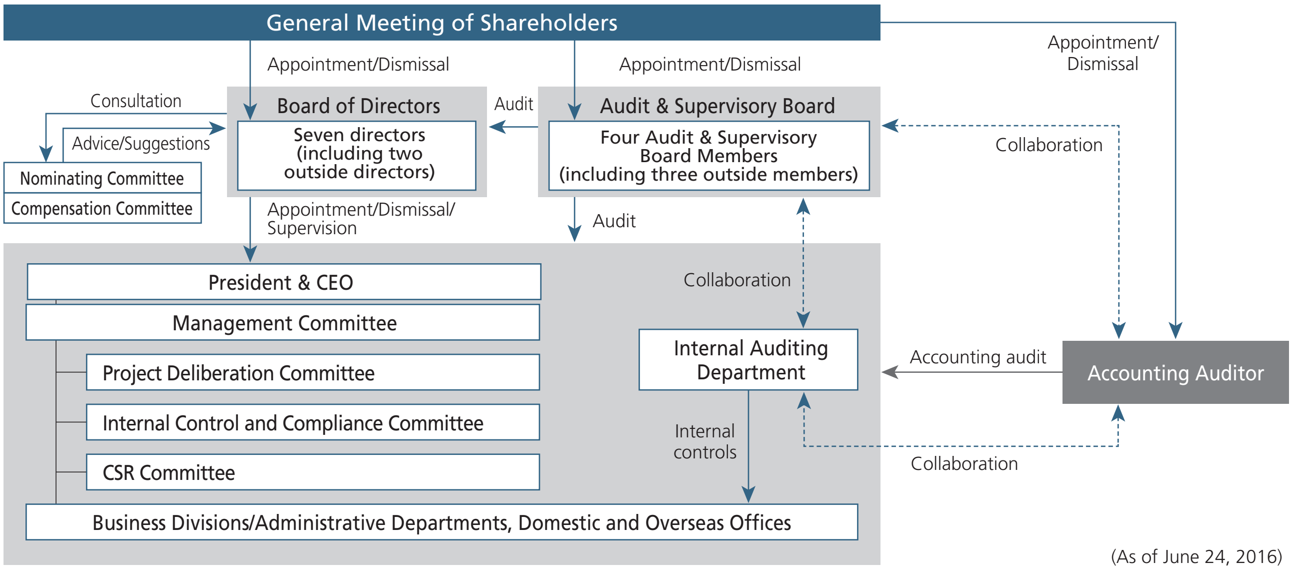
Kanematsu is a company with an Audit & Supervisory Board. The Audit & Supervisory Board and its members act independently to audit the performance of directors' duties.

Of the four Audit & Supervisory Board members, three are outside members. The outside Audit & Supervisory Board members draw on their insight and experience to offer recommendations and advice from an objective standpoint, thus providing due outside management oversight and supervision. Furthermore, Kanematsu has appointed multiple highly independent outside directors to strengthen and improve the effectiveness of management supervision and the transparency of decision making by the Board. The inclusion of these outside Audit & Supervisory Board members and directors is aimed at increasing the transparency of Kanematsu's management and creating a more equitable, efficient, and sound company.

Kanematsu is expanding its executive officer system to improve the flexibility of business execution, speed up management decision making, and further clarify roles and responsibilities through the separation of supervisory and executive functions.

To reinforce the objectivity, independence, and accountability of the Board of Directors, in April 2016, Kanematsu established a Nominating Committee and Compensation Committee as advisory bodies under the Board of Directors.

Corporate Governance Structure



(As of June 24, 2016)

Board of Directors

The Board of Directors is made up of seven directors. The Board decides on matters required of it as set out in law and Kanematsu's Articles of Incorporation as well as business policies and other important matters, and oversees business execution by directors. Two of the seven directors are outside directors to ensure that the Board conducts appropriate decision making and to further reinforce the supervision of business execution. In principle, the Board of Directors meets once a month, with additional meetings held as necessary. Directors are appointed to the Board for one-year terms to allow the Board to respond appropriately to changes in the business environment.

Advisory Bodies

- **Nominating Committee:** Comprises the president as committee chair and the two outside directors. The committee provides advice and recommendations to the Board of Directors based on deliberations regarding such matters as proposals for the General Meeting of Shareholders related to the appointment and dismissal of directors and the necessary policy, rules, and procedures for reaching related resolutions.
- **Compensation Committee:** Comprises the president as committee chair and the two outside directors. The committee provides advice and recommendations to the Board of Directors based on deliberations regarding such matters as policy regarding the setting of compensation levels and types for individual directors and executive officers as well as the necessary policy, rules, and procedures for reaching related resolutions.

Management Committee

To facilitate rapid decision making and flexible management, Kanematsu has set up a Management Committee composed of certain executive officers, including the President. The Committee meets at least twice a month in principle. The Committee establishes basic policies for Companywide general business execution in accordance with basic policies determined by the Board of Directors and provides instruction and guidance on the execution of business.

Project Deliberation Committee

The Project Deliberation Committee was established to enhance debate and speed up decision making on important projects. The Committee considers and discusses matters from a Companywide perspective and submits recommendations to the designated decision makers for each item before the decision must be made. In principle, the Committee meets at least twice a month.

Audit & Supervisory Board

The Audit & Supervisory Board acts as an independent organ to audit directors' performance of their duties. Specifically, the four Audit & Supervisory Board members, including three outside members, receive reports from directors and employees on the performance of their duties as required, and attend meetings of the Board of Directors, Management Committee, Project Deliberation Committee, Internal Control and Compliance Committee, and other important meetings.

Reasons for Selection of Outside Directors and Outside Audit & Supervisory Board Members

	Name	Reasons for selection	Fiscal 2015 Attendance
Outside Directors	Yutaka Hirai	So that he can utilize his many years of business experience and wide-ranging insight in Kanematsu's management and provide management oversight.	21 of 21 Board of Directors meetings
	Seiichi Katayama	So that he can utilize his expertise as a professor of economics and wide-ranging knowledge and insight regarding corporate management in Kanematsu's management and provide management oversight.	16 of 17 Board of Directors meetings
Outside Audit & Supervisory Board members	Sohei Ogawa	So that he can audit Kanematsu based on his abundant experience in the internal management of financial institutions and wide-ranging insight.	17 of 17 Board of Directors meetings 12 of 12 Audit & Supervisory Board meetings
	Yonosuke Yamada	So that he can audit Kanematsu based on his expert insight and experience as a lawyer.	19 of 21 Board of Directors meetings 13 of 14 Audit & Supervisory Board meetings
	Tsukasa Miyachi	So that he can audit Kanematsu based on his expert knowledge and experience as a certified public accountant.	17 of 17 Board of Directors meetings 12 of 12 Audit & Supervisory Board meetings

Internal Auditing

To ensure that proper accounting records are kept and to monitor appropriate business execution, Kanematsu has established auditing rules, in accordance with which the Internal Auditing Department conducts internal audits of all divisions and consolidated subsidiaries.

Internal Control System and Risk Management System

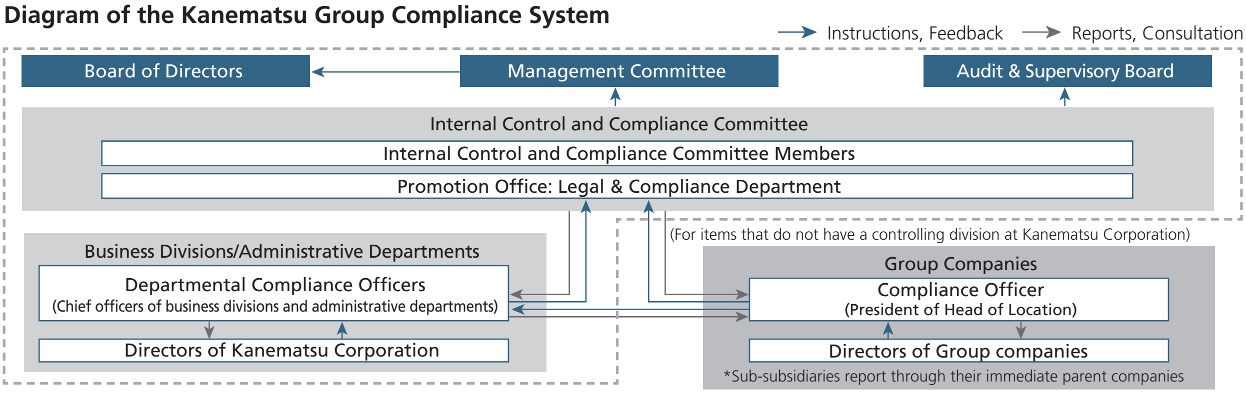
Maintaining the Internal Control System

To comprehensively assess risks facing the Kanematsu Group, to comply with laws and regulations relating to operational effectiveness and efficiency and business activities, to protect its assets, and to ensure the reliability of its financial reporting, the Kanematsu Group has built an internal control system. To operate this system effectively and efficiently, we have also established the Internal Control and Compliance Committee. We develop, operate, assess, and improve internal controls related to financial reporting to ensure the correctness of the Group's reporting in line with the internal control reporting systems defined in the Financial Instruments and Exchange Law.

Compliance

In light of the importance of corporate legal compliance, we have set up internal control systems for the Company and the Group as well as an Internal Control and Compliance Committee to implement said systems, seeking to strengthen our internal compliance system. In addition to preparing a *Compliance Handbook* that covers all Group companies, we work to enhance awareness of and training on sensible behavioral ethics. The Group also maintains a hotline system that allows employees to directly report to or consult with the Internal Control and Compliance Committee or an outside lawyer.

Diagram of the Kanematsu Group Compliance System



(As of June 24, 2016)

Elimination of Antisocial Forces

One of Kanematsu's compliance commitments is to take a firm stand against and eschew all relationships with antisocial forces. To promote the elimination of antisocial forces, Kanematsu belongs to the Tokyo Metropolitan Police Department's Special Violence Prevention Countermeasures Association, cooperating closely on a regular basis by sharing information. The Personnel & General Affairs Department is designated to coordinate Companywide response and information gathering to address any unreasonable demands from antisocial forces, and the Company maintains a framework for responding in coordination with outside organizations, including the police and attorneys.

Information Management System

With regard to information management, we have established standards for the custody, retention, and disposal of accounting records, balance sheets, agreements and contracts concerning the basic rights and obligations of Kanematsu, certificates related to properties, and other similar documents. As information is a valuable corporate asset, we have also formulated, and work to reinforce, rules on information security management with the aim of protecting and managing personal data and other information in line with compliance requirements.

With regard to the security of information systems, the Group has established information security management rules aimed at preventing leaks and losses of important information and established standardized rules covering the use of PCs, networks, and e-mail to protect corporate and personal information. Furthermore, the Group continually reviews its systems framework aimed at enhancing security and operates and maintains said framework to ensure that security is maintained at necessary and appropriate levels.

Risk Management

With respect to business risks that may affect our operations, such as market risk, credit risk, investment risk, or country risk, Kanematsu has designated departments responsible for each type of risk, established internal regulations and detailed enforcement regulations, and prepared operational guidelines. We furthermore use training and other means to ensure thorough awareness of risk management. The Company also sets up cross-departmental committees as necessary to control risks.

To comprehensively assess risks facing the Kanematsu Group, promote operational effectiveness and efficiency, and ensure the reliability of financial reporting, we have established the Internal Control and Compliance Committee as a Groupwide organization. We have established an approval request system based on designated levels of authority to minimize business risks. The Project Deliberation Committee considers important investments and loans by comprehensively examining relevant risks.

To address the risk of crises related to the occurrence of major events, such as natural disasters, we have put in place a system, including specific rules and policies of action, to ensure the appropriate management of the Group at such extraordinary times.

Groupwide Activities

Group company presidents meet twice a year and at other times as necessary to share information on Groupwide business activities. These meetings are aimed at ensuring mutual understanding and awareness with regard to corporate governance issues.

Disclosure

We promote proper and transparent management by promptly and accurately disclosing important corporate information about management to shareholders and all other stakeholders, institutional investors, analysts, and the media. In addition to timely disclosure to financial instruments exchanges, we disclose information through our website and engage actively in IR activities, including regular briefings for institutional investors and analysts and meetings.

Messages from Outside Directors

Yutaka Hirai
Outside Director

- Former Executive Vice President, Daifuku Co., Ltd.
- Former Audit & Supervisory Board Member, Kanematsu Corporation

Maintaining Traditions of Excellence in a Changing Environment

Having served first as an outside Audit and Supervisory Board member and now as an outside director, I am now in my fifth year of working with Kanematsu. During this period, I have been impressed to see Kanematsu establish the VISION-130 medium-term vision, following extensive internal discussions, and make a strong start toward the achievement of a new business plan. I think the next step for Kanematsu is to carve out a clear place among the other trading companies and strengthen its presence in the industry. To do this, the Company's greatest and most urgent task is to achieve its goals with regard to business creation and expansion of the earnings base. However, given the current economic climate, not only will this not be easy, a single wrong decision could pose immeasurable risk. I think that Kanematsu must, therefore, strive toward management that is transparent, flexible and nimble. The open style of the Management Committee and Board of Directors meetings is one Kanematsu's excellent traditions. While maintaining this tradition, it is also vital that the Company act decisively, then carefully monitor the resulting developments and be always willing to swiftly adjust course if necessary. I hope to continue to support and further reinforce this approach.

Kanematsu has now finished building the basic framework for achieving its goals for corporate governance and has entered the stage of strengthening and enhancing the system in more detail. I think that employee awareness in this area is also been steadily increasing, but I will maintain an awareness of the vast depth of this issue as I continue to do my utmost to fulfill my duties as an outside director.

Seiichi Katayama
Outside Director

- Professor Emeritus, Kobe University (current position)
- Visiting Professor, Aichi Gakuin University Faculty of Economics (current position)

Moving Forward Under VISION-130

It has been a year since I assumed the position of outside director at Kanematsu. Participating in management first-hand, one of the first things I noticed was that the Company's governance mechanisms are much stronger than I had imagined. Traditional bank monitoring operates smoothly, and the ability of outside directors to participate and enter into frank discussions in the meetings of both the Board of Directors and Management Committee is a further boon to the effective functioning of corporate governance.

However, while Kanematsu has adequate governance systems in place, there remain many issues for the Company to consider, and more will surely continue to emerge. One thing I felt since before becoming an outside director is that, compared with other trading companies, Kanematsu needs to strengthen its earnings power. To that end, Kanematsu must, presumably, improve labor productivity. Some of Kanematsu's divisions include retail operations, so the Group's overall number of workers is high. It appears, however, that even aside from that factor, improvement in labor productivity has been generally stagnant, so I hope to look at ways of addressing this issue.

At the same time, the Company must also improve its return on equity (ROE) and capital efficiency. This is true for any company, and absolutely fundamental. It has been suggested that the modern capitalist economy is beginning to sink into long-term stagnation, and my own view is not far from this. I expect that, both internationally and domestically, economic conditions going forward will not permit unbridled optimism. For Kanematsu, now approaching its 130th anniversary, to survive and continue growing far into the future, it is urgently necessary that the Group lay preparations for further development after VISION-130, the current management vision. For my part, I intend to take the long view and work to further improve capital efficiency.

Corporate Officers

(As of June 24, 2016)

Directors and Audit & Supervisory Board Members

Masayuki Shimojima
President & CEO

Masao Hasegawa
Executive Vice President

Takashi Gunji
Director

Kaoru Tanigawa
Director

Nobuyoshi Sakuyama
Director

Yutaka Hirai
Director

Seiichi Katayama
Director

Fumihiko Nashimoto
Audit & Supervisory Board Member (full-time)

Sohei Ogawa
Audit & Supervisory Board Member (full-time)

Yonosuke Yamada
Audit & Supervisory Board Member

Tsukasa Miyachi
Audit & Supervisory Board Member

1. Mr. Yutaka Hirai and Mr. Seiichi Katayama are Outside Directors.
2. Mr. Sohei Ogawa, Mr. Yonosuke Yamada and Mr. Tsukasa Miyachi are Outside Audit & Supervisory Board Members.
3. Mr. Yutaka Hirai, Mr. Seiichi Katayama, Mr. Yonosuke Yamada and Tsukasa Miyachi are Independent Officers, as defined in the Securities Listing Regulations.

Executive Officers

President & CEO	Masayuki Shimojima	
Executive Vice President	Masao Hasegawa	Chief Officer, Supporting Area; Chief Officer, Internal Auditing
Senior Managing Executive Officers	Takashi Gunji	Chief Officer, Steel, Materials & Plant Division, Chief Officer, Personnel & General Affairs, General Manager, Osaka Branch; General Manager, Nagoya Branch
	Kaoru Tanigawa	Chief Officer, Electronics & Devices Division, Corporate Planning
Managing Executive Officers	Tetsuya Kaneko	Chief Officer, System Planning, Traffic & Insurance
	Yoshiya Miyabe	Chief Officer, Motor Vehicles & Aerospace Division
	Nobuyoshi Sakuyama	Chief Officer, Finance, Accounting, Business Accounting, Legal & Compliance
	Kazuo Shibata	Chief Officer, Credit Control
Executive Officers	Eiji Kan	Deputy Chief Officer, Steel, Materials & Plant Division
	Katsumi Morita	President, Kanematsu USA Inc.
	Masayuki Hamasaki	Chief Officer, Grain, Oilseed & Feedstuff Division; General Manager, Grain and Feedstuff Department
	Hiroyasu Hirasawa	Chief Officer, Foods Division
	Masahiro Harada	Deputy Chief Officer, Electronics & Devices Division

Management's Discussion and Analysis

Business Results

For the fiscal year ended March 31, 2016, consolidated revenue fell ¥35,837 million (5.1%) from the previous fiscal year to ¥668,374 million. Gross profit decreased ¥1,642 million (1.9%) from the previous fiscal year to ¥86,238 million. Profit from operations fell ¥4,775 million (20.3%) from the previous fiscal year to ¥18,772 million as a result of an increase in selling, general and administrative expenses and a worsening of other revenue and expenses. Profit before taxes decreased ¥4,251 million (19.0%) from the previous fiscal year to ¥18,122 million, reflecting a deterioration in the share of profit in investments accounted for using the equity method, despite improvement in financial income and costs. After deducting income taxes of ¥7,313 million from profit before taxes, profit was ¥10,808 million. Net profit attributable to owners of the parent decreased ¥1,587 million (15.0%) from the previous fiscal year to ¥8,959 million.

Segment Information

Results for each business segment are described below.

Electronics & Devices

The ICT solutions business saw firm transactions in manufacturing industries, and performance in the mobile business was favorable. However, the semiconductor parts and equipment business faced difficult conditions, including stagnation in the Chinese economy and slowing demand for smartphones.

As a result, revenue in the Electronics & Devices Division rose ¥3,798 million year on year to ¥235,028 million, and profit from operations increased ¥506 million to ¥10,658 million.

Foods & Grain

Transactions in the food business were stable, mainly in agricultural products. However, the meat product business and foodstuff business faced challenging conditions as a result of steeply falling market prices.

As a result, in the Foods & Grain Division, revenue increased ¥8,857 million year on year to ¥222,577 million. Profit from operations fell ¥1,938 million to ¥1,427 million.

Steel, Materials & Plant

Performance in the energy business was favorable, due to steady domestic demand for kerosene and heavy oil mainly attributable to cold winter weather. The functional chemicals business recovered from the slump in demand that followed the 2014 consumption tax hike. In the plant business, transactions related to machine tools and industrial machinery were firm. However, in the iron and steel business, the mainstay oilfield tubing business faced difficult conditions as a result of the drop in crude oil prices.

As a result, revenue in the Steel, Materials & Plant Division decreased ¥66,688 million year on year to ¥135,269 million. Profit from operations decreased ¥2,957 million to ¥3,388 million.

Motor Vehicles & Aerospace

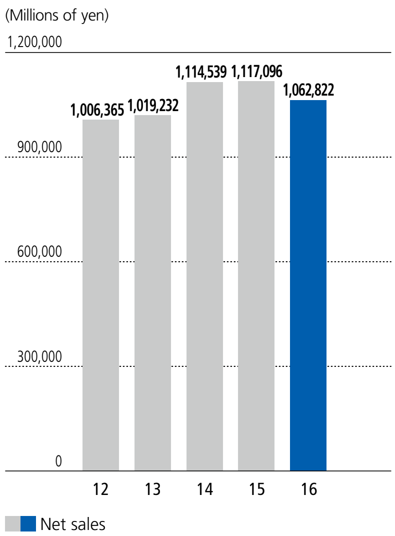
Performance in the motor vehicles and parts business was solid overall, particularly in motorcycle and automobile parts trading. In the aerospace business, aircraft part trading was strong, and space-related transactions were firm.

As a result, revenue in the Motor Vehicles & Aerospace Division increased ¥11,396 million year on year to ¥63,792. Profit from operations rose ¥363 million to ¥2,964 million.

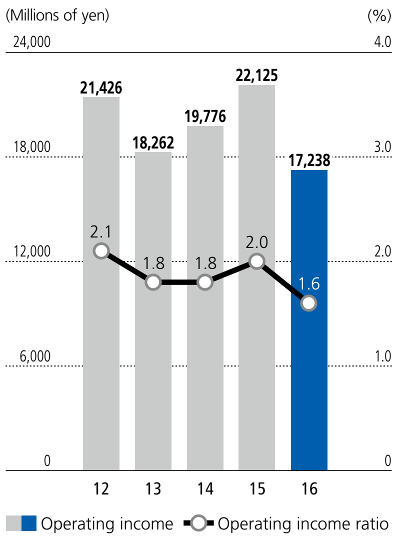
Other

Revenue rose ¥6,800 million year on year to ¥11,706 million. Profit from operations fell ¥739 million to ¥329 million.

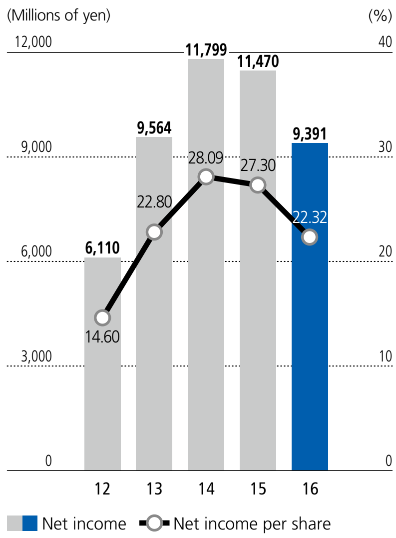
Net Sales



Operating Income / Operating Income Ratio



Net Income / Net Income per Share



Analysis of Financial Status

Assets, liabilities and net assets

Total assets at the end of the fiscal year under review decreased ¥22,722 million from the end of the previous fiscal year to ¥443,592 million. This was due largely to decreases in current trade and other receivables and inventories.

Interest-bearing debt declined ¥2,864 million from the end of the previous fiscal year to ¥136,867 million. Net interest-bearing debt, which is interest-bearing debt minus cash and cash equivalents, decreased ¥23,845 million from the end of the previous fiscal year to ¥49,401 million.

Total equity attributable to owners of the parent increased ¥1,355 million to ¥91,599 million. This reflected an increase in retained earnings as a result of profit recorded, despite a deterioration of other components of equity as a result of a worsening in foreign currency translation adjustments.

As a result, the equity ratio improved 1.2 percentage points from the end of the previous fiscal year to 20.6%. The net D/E ratio stood at 0.5.

Cash flows

In the year under review, net cash provided by operating activities totaled ¥33,024 million. Net cash used in investing activities amounted to ¥4,214 million. Net cash used in financing activities amounted to ¥6,729 million. As a result, after the effect of exchange rate changes, cash and cash equivalents at the end of the fiscal year under review stood at ¥87,466 million, down ¥20,981 million from the end of the previous fiscal year.

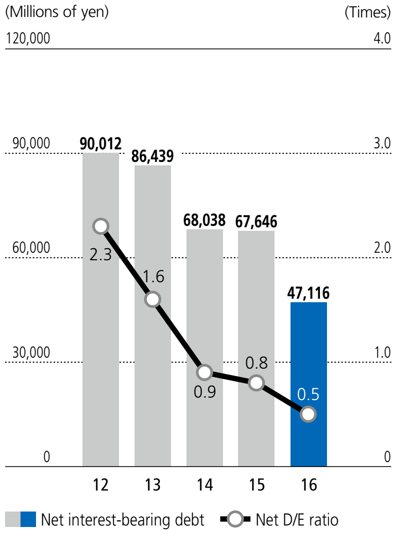
Fundraising

The Group raises funds primarily through indirect financing based on good relations with its main banks, regional banks, life and non-life insurers, and other financial institutions. To secure liquidity on hand, the Group maintains ample cash and cash equivalents and has established commitment lines with major financial institutions. Surplus funds are flexibly managed in highly secure short-term financial products in response to the Company's funding needs and financial circumstances.

During the fiscal year under review, the Group issued ¥10,000 in straight corporate bonds, raising funds directly from the market for use in corporate acquisitions.

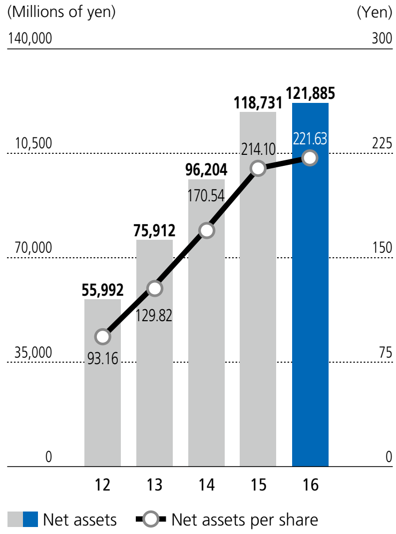
To facilitate capital procurement, the Company receives ratings from Japan Credit Rating Agency, Ltd. (JCR) and Rating and Investment Information, Inc. (R&I). The Company's long-term ratings as of the end of the fiscal year under review are BBB+ (stable) from JCR and BBB (stable) from R&I.

Net Interest-Bearing Debt / Net D/E Ratio

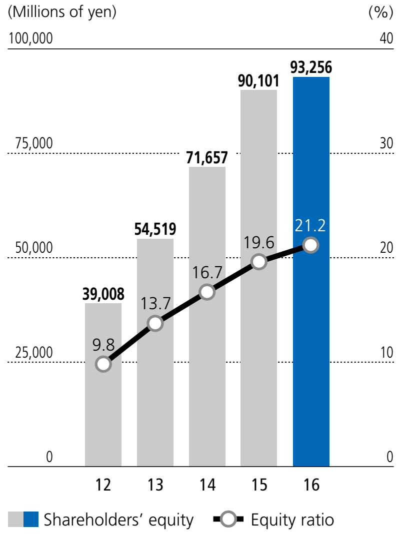


* Net interest-bearing debt = Interest-bearing debt – Cash and bank deposits
* Net D/E ratio = Net interest-bearing debt / Shareholders' equity

Net Assets / Net Assets per Share



Shareholders' Equity / Equity Ratio



* Shareholders' equity = Net assets – Minority interests
* Equity ratio = Shareholders' equity / Total assets

Business Risks

Below are details of the risks that could affect the business performance and financial position of the Group. The forward-looking statements below are based on information available as of June 24, 2016.

The Group takes all risk that it faces on a daily basis in the course of its business very seriously. Risk control is undertaken through management mechanisms and methods tailored to the nature of each category of risk.

Market Risk Related to Supply and Demand and Prices of Goods Traded

In its mainstay commodity trading business in Japan and overseas, the Group deals with grains and petroleum products as well as electronic parts and information, communications and technology (ICT) products. Grains and petroleum products will be influenced by the market conditions, while electronic parts and ICT products are exposed to the risk of frequent price erosion caused by competition and obsolescence resulting from technological innovation. An unexpected loss may result from causes such as rapid movements in commodities prices or a decline in demand, when our positions in these commodities increase.

Foreign Currency Risk

The Group is engaged in foreign currency transactions in a number of currencies and terms incidental to its export and import trading. The Group not only transfers the risk of currency fluctuations to customers in accordance with transaction terms but also participates in derivatives transactions such as forward contracts to reduce the risk.

The Group also has local subsidiaries and business corporations overseas. Account balances at these companies are converted into yen at the exchange rates prevailing at the time of account closing, for the purposes of preparing consolidated financial statements. For this reason, net assets may change through translation adjustments associated with exchange rate fluctuations.

Interest Rate Risk

The Group raises most funds needed for operating and financing activities in the form of borrowings from financial institutions at variable interest rates, with the exception of certain loans. Since these borrowings and fund management are exposed to an interest rate risk, interest paid by the Group may increase with a rise in interest rates.

Also, since certain companies in the Group adopt a defined benefit pension plan, the retirement benefit obligation could increase in the estimation of the Group if the discount rate used for the calculation of the retirement benefit obligation falls.

Price Fluctuation Risk of Marketable Securities, etc.

The Group may hold shares in trade partners as means of strengthening its relationship with them. There is a risk of price fluctuation inherent in these shares, which could have an effect on the financial position of the Group through unrealized loss on available-for-sale securities.

Since stocks and other securities are included in the portfolio of the pension assets of the Group for the purpose of making medium-and long-term investments, differences from the required investment yield could have an effect on the financial position of the Group, given that the investment yield will fall if the prices of the stocks, etc., fall.

Default Risk and Credit Risk

The Group extends credit in a number of forms, including accounts receivable, advance payments, loans and guarantees in diverse business transactions with its trading partners in Japan and abroad. For this reason, late repayments and defaults may occur with developments such as a deterioration in the financial strength of its trading partners. The Group could also be forced to honor obligations that could be accompanied by a monetary loss in association with the conclusion and performance of a commodity supply agreement, a contract agreement, subcontract agreement, or other agreement, irrespective of reasons, if the trade partner defaults on its obligation or contract.

Although the Group has set aside an allowance for these losses in our accounting procedures using certain estimates, an additional loss could arise if the loss exceeds the scope of the allowance.

Business Investment Risk

The Group makes business investments to achieve objectives, including deep mining of existing businesses and expansion of business areas. The Group decides whether to make such investments through procedures established according to their details and amounts. When making investment decisions, the Group evaluates and analyzes risk factors and the profitability of the business based on cash flows, taking the criteria for business withdrawal into account. After making an investment, the Group regularly reevaluates and reviews business potential and investment value to minimize any potential loss. The value of the business investments may fluctuate according to the financial conditions of investment targets and their business success or failure.

The range of market changes tends to be particularly wide in overseas businesses. Local laws and relationships with partners may also prevent the Group from executing its policy for operating or withdrawing from a business.

Country Risk

The Group engages in transactions, loans, and investments in other countries. The collection of receivables may be delayed or impossible as a result of political or economic developments in each of these countries. To minimize losses that could arise should these country risks become reality, the Group regularly sets a limit based on ratings given to each country and region according to the scale of their respective country risk, and operates its businesses in such a way that prevents overexposure to certain countries and regions. The Group takes steps such as enrolling in trade insurance programs, according to the ratings and project details, in an attempt to minimize recovery risks. However, continuing transactions may become difficult if these risks actualize in certain countries and regions, and this development may affect the future business results of the Group.

Legal Risk Related to Changes in Laws

The business activities undertaken by the Group in Japan and overseas are subject to a wide range of legal regulations in Japan and other countries. The Group may become unable to continue certain transactions because of factors such as unexpected changes in laws, changes in export and import regulations, including a punitive tariff that could be introduced unilaterally following changes in the international political environment, and changes in regulations such as permits and licenses related to the sales and handling of products. An unexpected expense for the Group may also arise from a lawsuit or from an order issued by authorities. This risk also includes the risk that a tax rate or tax arrangements imposed by authorities or between countries under international taxation arrangements may change. Changes in these legal systems could influence the financial position and operating results of the Group.

Legal Risk Related to Lawsuits and Disputes

Business operations by the Group, and its assets and liabilities associated with the business operations may become subject to legal proceedings, including lawsuits, and other disputes, in various ways through the course of the business activities undertaken by the Group in Japan and overseas. Such lawsuits and disputes are generally unpredictable, and resolving them is often very time-consuming when they occur. Any prediction of the results therefore involves uncertainties. Any occurrence of such lawsuits or disputes and unexpected outcomes may affect the Group's financial position and operating results.

Security Risk Related to Information Systems and Information Security

The Group builds and operates information systems for sharing information and streamlining its operations. The Group has adopted information security control rules, and is taking steps to ensure that all members of the Group are familiar with crisis control responses, to meet the safety requirements for operating its information systems. However, information systems cannot be made entirely invulnerable to the unauthorized disclosure of business sensitive information or personal information through unauthorized access, computer viruses and other means, as well as inoperability due to factors such as natural disasters, destruction of information system facilities attributable to accidents and other causes, and communication line troubles. Inoperability may reduce the efficiency of operations that depend on the systems, and seriously affect the future business results of the Group, depending on the scale of damages.

Product and Facility Deterioration Risk due to Natural Disasters and Accidents

The Group owns facilities and equipment, including business offices, warehouses and manufacturing plants, in Japan and overseas. It also owns cargo being stored or transported in and outside Japan for business transactions. Such assets may be damaged or deteriorate as a result of natural disasters, accidents and other developments, and the businesses of the Group may be suspended due to developments such as earthquakes, fires, floods, and riots. Such incidents may seriously affect the future financial position and operating results of the Group, depending on the extent of the damage.

Compliance and Fraud Risk

The Group operates businesses to buy, sell, and provide a broad array of products and services in Japan and overseas and carefully monitors laws and regulations, including those related to exports and imports, that are established and enforced for these products and services in Japan and other countries. However, it is difficult to execute all procedures at all times across all of the trading operations we conduct with the involvement of multiple parties. Although we take a number of actions to prevent violations, there is a risk that we may overlook a violation of a law or an instance of fraud. If the violation or fraud is material, the financial position and operating results of the Group could be affected.

Consolidated Statement of Financial Position

March 31, 2016 and 2015

	JPY			USD (Note 2)
	2016	2015	2014 (Transition Date)	2016
(Assets)				
I. Current assets				
1. Cash and cash equivalents (Note 27)	**87,466**	66,485	73,978	**776,234**
2. Trade and other receivables (Notes 7)	**163,540**	186,486	182,627	**1,451,367**
3. Inventories (Note 8)	**80,195**	91,844	66,514	**711,706**
4. Other financial assets (Note 30)	**2,596**	6,792	3,675	**23,039**
5. Other current assets (Note 13)	**12,776**	16,054	14,268	**113,383**
Total current assets	**346,574**	367,664	341,065	**3,075,737**
II. Non-current assets				
1. Property, plant and equipment (Note 9)	**26,883**	28,966	24,179	**238,578**
2. Goodwill (Note 10)	**4,631**	4,493	2,329	**41,099**
3. Intangible assets (Note 10)	**8,083**	8,641	8,298	**71,734**
4. Investments accounted for using the equity method (Note 11)	**7,420**	5,385	5,536	**65,850**
5. Trade and other receivables (Note 7)	**460**	388	135	**4,082**
6. Other investments (Note 12)	**31,535**	33,049	26,727	**279,863**
7. Other financial assets (Note 30)	**5,441**	5,481	4,484	**48,287**
8. Deferred tax assets (Note 29)	**9,084**	10,557	15,702	**80,618**
9. Other non-current assets (Note 13)	**3,477**	1,686	1,764	**30,857**
Total non-current assets	**97,017**	98,650	89,158	**860,996**
Total assets	**443,592**	466,314	430,224	**3,936,741**

(Notes)Presentation of fiscal year and amount (Japanese Yen and U.S. dollars)
1. "JPY" means millions of yen and "USD" means thousands of U.S. dollars.
2. "2016" refers to the Company's consolidated fiscal year ended March 31, 2016 and the other fiscal years are referred to in the corresponding manner.

	JPY			USD (Note 2)
	2016	2015	2014 (Transition Date)	**2016**
(Liabilities)				
I. Current liabilities				
1. Trade and other payables (Note 14)	**142,143**	159,522	150,518	**1,261,475**
2. Bonds and borrowings (Note 15)	**61,989**	65,305	79,852	**550,133**
3. Other financial liabilities (Note 30)	**7,129**	5,828	5,023	**63,268**
4. Income taxes payable	**2,274**	2,561	1,962	**20,181**
5. Provisions (Note 16)	**31**	300	92	**275**
6. Other current liabilities (Note 17)	**19,465**	24,736	20,870	**172,746**
Total current liabilities	**233,034**	258,255	258,319	**2,068,104**
II. Non-current liabilities				
1. Bonds and borrowings (Note 15)	**74,877**	74,426	61,113	**664,510**
2. Other financial liabilities (Note 30)	**6,679**	6,620	6,376	**59,274**
3. Retirement benefits liabilities (Note 28)	**6,024**	5,581	5,906	**53,461**
4. Provisions (Note 16)	**1,272**	1,098	804	**11,289**
5. Deferred tax liabilities (Note 29)	**297**	313	283	**2,636**
6. Other non-current liabilities (Note 17)	**699**	1,002	692	**6,203**
Total non-current liabilities	**89,851**	89,043	75,177	**797,400**
Total liabilities	**322,885**	347,298	333,496	**2,865,504**
(Equity)				
1. Share capital (Note 18)	**27,781**	27,781	27,781	**246,548**
2. Capital surplus (Note 18)	**26,463**	26,621	27,494	**234,851**
3. Retained earnings (Note 18)	**29,103**	21,879	12,414	**258,280**
4. Treasury stock (Note 18)	**(235)**	(222)	(321)	**(2,086)**
5. Other components of equity (Note 26)				
1) Exchange differences on translation of foreign operations	**2,912**	5,258	—	**25,843**
2) Financial assets measured at fair value through other comprehensive income	**6,967**	8,784	5,113	**61,830**
3) Cash flow hedges	**(1,393)**	142	(297)	**(12,362)**
Total other components of equity	**8,486**	14,185	4,816	**75,311**
Total equity attributable to owners of the Parent	**91,599**	90,244	72,185	**812,913**
6. Non-controlling interests	**29,107**	28,771	24,541	**258,316**
Total equity	**120,706**	119,015	96,727	**1,071,228**
Total liabilities and equity	**443,592**	466,314	430,224	**3,936,741**

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income: (a) Consolidated Statement of Income

For the years ended March 31, 2016 and 2015

	JPY		USD (Note 2)
	2016	2015	**2016**
I. Revenue (Notes 6 & 19)	**668,374**	704,211	**5,931,612**
II. Cost of sales	**(582,135)**	(616,331)	**(5,166,267)**
Gross profit	**86,238**	87,880	**765,335**
III. Selling, general and administrative expenses (Note 20)	**(68,577)**	(66,245)	**(608,600)**
IV. Other income (expenses)			
1. Gain (loss) on sale or disposal of property, plant and equipment and intangible assets, net (Note 21)	**(311)**	(63)	**(2,760)**
2. Impairment loss on property, plant and equipment and intangible assets (Note 22)	**(94)**	(580)	**(834)**
3. Other income	**2,596**	4,146	**23,039**
4. Other expenses	**(1,078)**	(1,589)	**(9,567)**
Total other income (expenses)	**1,111**	1,912	**9,860**
Operating profit (Note 6)	**18,772**	23,547	**166,596**
V. Finance income			
1. Interest income (Note 24)	**478**	400	**4,242**
2. Dividend income (Note 24)	**927**	1,082	**8,227**
3. Other finance income (Notes 24 & 30)	**—**	18	**—**
Total finance income	**1,405**	1,501	**12,469**
VI. Finance costs			
1. Interest expenses (Note 24)	**(2,407)**	(2,910)	**(21,361)**
2. Other finance costs (Notes 24 & 30)	**(323)**	(908)	**(2,867)**
Total finance costs	**(2,731)**	(3,819)	**(24,237)**
VII. Share of profit (loss) of investments accounted for using the equity method (Note 11)	**675**	1,143	**5,990**
Profit before tax	**18,122**	22,373	**160,827**
Income tax expense (Note 29)	**(7,313)**	(9,238)	**(64,901)**
Profit for the year	**10,808**	13,135	**95,918**
Profit for the year attributable to:			
Owners of the Parent	**8,959**	10,546	**79,508**
Non-controlling interests	**1,848**	2,588	**16,400**
Total	**10,808**	13,135	**95,918**
	Yen		U.S. dollars
Earnings per share attributable to owners of the Parent:			
Basic earnings per share (Note 25)	**21.29**	25.10	**0.19**
Diluted earnings per share (Note 25)	**21.29**	25.10	**0.19**

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income: (b) Consolidated Statement of Comprehensive Income

For the years ended March 31, 2016 and 2015

	JPY		USD (Note 2)
	2016	2015	**2016**
I. Profit for the year	**10,808**	13,135	**95,918**
II. Other comprehensive income			
Items that will not be reclassified to profit and loss:			
1. Financial assets measured at fair value through other comprehensive income (Note 26)	**(1,580)**	3,762	**(14,022)**
2. Remeasurement of retirement benefits liabilities, defined benefit pension plans (Note 26)	**(426)**	492	**(3,781)**
3. Share of other comprehensive income of investments accounted for using the equity method (Note 26)	**(14)**	7	**(124)**
Total items that will not be reclassified to profit and loss	**(2,021)**	4,263	**(17,936)**
Items that may be reclassified to profit and loss:			
1. Exchange differences on translation of foreign operations (Note 26)	**(2,894)**	6,564	**(25,683)**
2. Cash flow hedges (Notes 26 & 30)	**(1,511)**	435	**(13,410)**
3. Share of other comprehensive income of investments accounted for using the equity method (Note 26)	**(127)**	106	**(1,127)**
Total items that may be reclassified to profit and loss	**(4,532)**	7,106	**(40,220)**
Other comprehensive income for the year, net of tax	**(6,554)**	11,369	**(58,165)**
Total comprehensive income for the year	**4,253**	24,504	**37,744**
Total comprehensive income for the year attributable to:			
Owners of the Parent	**3,248**	20,467	**28,825**
Non-controlling interests	**1,005**	4,037	**8,919**
Total	**4,253**	24,504	**37,744**

Consolidated Statement of Changes in Equity:

For the years ended March 31, 2016 and 2015

	JPY		USD (Note 2)
	2016	2015	**2016**
Equity			
1. Share capital (Note 18)			
Balance at the beginning of the year	**27,781**	27,781	**246,548**
Balance at the end of the year	**27,781**	27,781	**246,548**
2. Capital surplus (Note 18)			
Balance at the beginning of the year	**26,621**	27,494	**236,253**
Acquisition of treasury stock	**—**	—	**—**
Disposition of treasury stock	**0**	8	**0**
Equity transactions with non-controlling interests	**(158)**	(899)	**(1,402)**
Changes due to business combinations	**—**	16	**—**
Balance at the end of the year	**26,463**	26,621	**234,851**
3. Retained earnings (Note 18)			
Balance at the beginning of the year	**21,879**	12,414	**194,169**
Dividends	**(1,683)**	(1,680)	**(14,936)**
Profit for the year attributable to owners of the Parent	**8,959**	10,546	**79,508**
Reclassification from other components of equity	**(11)**	551	**(98)**
Other changes	**(40)**	46	**(355)**
Balance at the end of the year	**29,103**	21,879	**258,280**
4. Other components of equity (Note 26)			
Balance at the beginning of the year	**14,185**	4,816	**125,887**
Exchange differences on translation of foreign operations	**(2,346)**	5,258	**(20,820)**
Financial assets measured at fair value through other comprehensive income	**(1,542)**	3,747	**(13,685)**
Cash flow hedges	**(1,535)**	439	**(13,623)**
Remeasurement of defined benefit pension plans	**(286)**	474	**(2,538)**
Reclassification to retained earnings	**11**	(551)	**98**
Balance at the end of the year	**8,486**	14,185	**75,311**
5. Treasury stock (Note 18)			
Balance at the beginning of the year	**(222)**	(321)	**(1,970)**
Acquisition of treasury stock	**(12)**	(13)	**(106)**
Disposition of treasury stock	**0**	155	**0**
Acquisition through business combinations	**—**	(42)	**—**
Balance at the end of the year	**(235)**	(222)	**(2,086)**
Total equity attributable to owners of the Parent	**91,599**	90,244	**812,913**
6. Non-controlling interests			
Balance at the beginning of the year	**28,771**	24,541	**255,334**
Dividends to non-controlling interests	**(891)**	(1,275)	**(7,907)**
Equity transactions with non-controlling interests	**222**	(1,119)	**1,970**
Changes due to business combinations	**—**	2,586	**—**
Profit for the year attributable to non-controlling interests	**1,848**	2,588	**16,400**
Other components of equity	**(843)**	1,449	**(7,481)**
Exchange differences on translation of foreign operations	**(650)**	1,410	**(5,769)**
Financial assets measured at fair value through other comprehensive income	**(53)**	22	**(470)**
Cash flow hedges	**(0)**	(2)	**(0)**
Remeasurement of defined benefit pension plans	**(139)**	17	**(1,234)**
Balance at the end of the year	**29,107**	28,771	**258,316**
Total equity	**120,706**	119,015	**1,071,228**
Comprehensive income for the year attributable to:			
Owners of the Parent	**3,248**	20,467	**28,825**
Non-controlling interests	**1,005**	4,037	**8,919**
Total comprehensive income for the year	**4,253**	24,504	**37,744**

Consolidated Statement of Cash Flows

For the years ended March 31, 2016 and 2015

	JPY		USD (Note 2)
	2016	2015	2016
I. Cash flows from operating activities			
Profit for the year	10,808	13,135	95,918
Depreciation and amortization	3,082	2,996	27,352
Impairment loss of property, plant and equipment and intangible assets	94	580	834
Finance income and costs	1,326	2,317	11,768
Share of (profit) loss of investments accounted for using the equity method	(675)	(1,143)	(5,990)
(Gain) loss on sale or disposal of property, plant and equipment and intangible assets	311	63	2,760
Income tax expense	7,313	9,238	64,901
(Increase) decrease in trade and other receivables	19,262	6,100	170,944
(Increase) decrease in inventories	10,664	(21,048)	94,640
Increase (decrease) in trade and other payables	(17,662)	3,260	(156,745)
Increase (decrease) in retirement benefits liabilities	274	(356)	2,432
Other	3,812	(2,257)	33,830
Sub total	38,613	12,887	342,678
Interest received	491	402	4,357
Dividends received	1,193	864	10,588
Interest paid	(2,414)	(2,915)	(21,424)
Income taxes paid	(4,860)	(4,480)	(43,131)
Net cash provided by (used in) operating activities	33,024	6,758	293,078
II. Cash flows from investing activities			
Payments for property, plant and equipment	(1,982)	(3,628)	(17,590)
Proceeds from sale of property, plant and equipment	572	851	5,076
Payments for intangible assets	(496)	(651)	(4,402)
Purchases of other investments	(5,054)	(1,050)	(44,853)
Proceeds from sale of other investments	502	49	4,455
Proceeds from (payments for) acquisition of subsidiaries (Note 27)	1,178	(97)	10,454
Proceeds from (payments for) sale of subsidiaries (Note 27)	(165)	—	(1,464)
Increase in loans receivable	(917)	(437)	(8,138)
Proceeds from collection of loans receivable	1,005	630	8,919
Other	1,142	(2,317)	10,135
Net cash provided by (used in) investing activities	(4,214)	(6,649)	(37,398)
III. Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net	(9,718)	4,188	(86,244)
Proceeds from long-term borrowings	18,687	38,511	165,841
Repayment of long-term borrowings	(22,231)	(47,756)	(197,293)
Proceeds from issuance of bonds	9,923	—	88,064
Dividends paid	(1,678)	(1,675)	(14,892)
Proceeds from sale of shares of the Parent held by subsidiaries	—	355	—
Payments for acquisition of subsidiaries' interests from non-controlling interests	(328)	(2,030)	(2,911)
Dividends paid to non-controlling interests	(897)	(1,300)	(7,961)
Other	(485)	(338)	(4,304)
Net cash provided by (used in) financing activities	(6,729)	(10,046)	(59,718)
IV. Increase (decrease) in cash and cash equivalents, net	22,081	(9,937)	195,962
V. Cash and cash equivalents at the beginning of the year	66,485	73,978	590,034
VI. Effect of exchange rate changes on cash and cash equivalents	(1,100)	2,444	(9,762)
VII. Cash and cash equivalents at the end of the year (Note 27)	87,466	66,485	776,234

Notes to Consolidated Financial Statements

For the years ended March 31, 2016 and 2015

1. Reporting Entity

Kanematsu Corporation (the "Company") is a company located in Japan. The addresses of the Company's registered headquarters and main offices are available on its corporate website (http://www.kanematsu.co.jp/en/). The consolidated financial statements of the Company as of and for the year ended March 31, 2016 comprise the Company and its subsidiaries (collectively, the "Consolidated Group"), and the Consolidated Group's interests in associates. The Consolidated Group operates its businesses as an integrated trading company by providing a broad array of products and services through the organic integration of domestic and international business networks; expertise acquired in various fields; and the functions of a trading company, including commodities trading, information gathering, market exploration, business development and organization, risk management, and distribution. Detailed information on the business operations for each reportable segment are provided in *Note 6 Segment Information*.

2. Basis of Preparing Consolidated Financial Statements

(1) Statement of compliance with IFRS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") pursuant to the provision of Article 93 of *the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements* (Ordinance of the Ministry of Finance No. 28 of 1976) as all the requirements of the "Specified Company for Designated IFRSs" set forth in Article 1-2 of said Ordinance have been fulfilled. The Consolidated Group has adopted IFRSs for the first time in preparing its consolidated financial statements for the fiscal year ended March 31, 2016 and the date of transition to IFRSs was April 1, 2014 (the "transition date"). These consolidated financial statements have been prepared in accordance with IFRSs for the first time and has also applied IFRS 1 *First Time Adoption of International Financial Reporting Standards*. An explanation regarding how the transition has affected the Consolidated Group's financial position, results of operations and cash flows as reported by the Company is provided in *Note 37 Disclosures regarding transition to IFRSs*.

The consolidated financial statements were authorized for issue by Masayuki Shimojima, President and CEO, on August 10, 2016.

(2) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statements of financial position:

- Financial assets and liabilities measured at fair value through profit or loss, which are measured at fair value;
- Financial assets measured at fair value through other comprehensive income, which are measured at fair value; and
- Defined benefit assets or liabilities, which are measured at the present value of the defined benefit obligations less the fair value of plan assets.

(3) Functional currency and presentation currency

The consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. All financial information presented in Japanese yen has been rounded down to the nearest million.

The U.S. dollar amounts appearing in the consolidated financial statements and the notes thereto represent the arithmetical results of translating yen to dollars at the rate of ¥112.68 to U.S.$1.00, the approximate exchange rate prevailing on March 31, 2016. The translation of such dollar amounts is solely for convenience of the readers outside Japan and should not be construed as a representation that the Japanese yen amounts have been, or could be readily converted, realized or settled in dollars at the above, or any other rate.

(4) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized in the period of the change and future periods. The following notes include information on critical judgments in the application of accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements:

- Note 3 Significant Accounting Policies: (1) Basis of consolidation
- Note 3 Significant Accounting Policies: (11) Revenue

The following notes include information on uncertainties of assumptions and estimates that have a significant risk to cause material revisions in the next fiscal year:

- Note 22 Impairment loss
- Note 28 Employee benefits
- Note 29 Deferred taxes and income tax expenses
- Note 30 Financial instruments: (6) Fair value of financial instruments

When measuring the fair value of an asset or a liability, the Consolidated Group uses observable market data as far as available. Fair values are categorized into the following three levels based on the inputs to the valuation techniques:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Consolidated Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly; and
- Level 3: unobservable inputs.

The following notes include detailed information on assumptions made when measuring the fair value:

- Note 22 Impairment loss
- Note 30 Financial instruments: (6) Fair value of financial instruments

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all the periods presented in these consolidated financial statements, and have been applied consistently by the Consolidated Group.

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities which are controlled by the Consolidated Group. The Consolidated Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When the Consolidated Group holds more than half of the voting rights of another entity, such entity is included in the subsidiaries of the Consolidated Group as it is determined that control exists, unless it can be clearly demonstrated that such ownership does not constitute control. In addition, even when the Consolidated Group holds only half or less of the voting rights of another entity, such entity is included in the subsidiaries of the Consolidated Group if it is determined through agreements with other investors that the Consolidated Group has control over such entity's financial and operating policies and thus has the ability to affect returns from such entity.

The financial statements of subsidiaries are included in the consolidated financial statements of the Consolidated Group from the date the Consolidated Group obtains control of the subsidiaries until the date it loses such control of the subsidiaries. When the accounting policies adopted by the subsidiaries are different from those adopted by the Consolidated Group and the difference is considered material, the financial statements of the subsidiaries are adjusted as necessary.

Changes in the Consolidated Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The Company recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the Company.

If the Consolidated Group loses control of a subsidiary, the Consolidated Group derecognizes the assets and liabilities of the former subsidiary, and any non-controlling interests and other components of equity related to the former subsidiary. Any gains or losses arising from such loss of control are recognized in profit or loss. If the Consolidated Group retains any interest in the former subsidiary after the control is lost, such interest is measured at fair value at the date that control is lost.

2) Associates

Associates are those entities over which the Consolidated Group has significant influence, where significant influence is defined as the power to participate in the financial and operating policy decisions of the entities but is not control or joint control of those entities. If the Consolidated Group holds between 20 percent and 50 percent of the voting rights of each those entities, it is presumed that the Consolidated Group has significant influence over each of those entities.

Even if the Consolidated Group holds less than 20 percent of the voting rights of another entity, such entity is included in the associates of the Consolidated Group as long as it is determined that the Consolidated Group has significant influence over the entity through the dispatch of the board members, the shareholders' agreement or the like.

Except for those that are classified as assets held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, an investment in an associate (an "equity method investee") is measured at the carrying amount following the application of the equity method (including goodwill recognized at the time of acquisition) less any accumulated impairment losses.

The consolidated financial statements include the Consolidated Group's share of profit or loss and other comprehensive income of the associates from the date the Consolidated Group obtains significant influence until the date it loses such significant influence. When the accounting policies adopted by the equity method investees are different from those adopted by the Consolidated Group, the financial statements of the equity method investees are adjusted as necessary.

3) Business combinations

Business combinations are accounted for using the acquisition method. The Consolidated Group recognizes goodwill as the sum of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree measured at the acquisition date; less the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (generally measured at fair value). When such difference results in a negative balance, it is immediately recognized in profit or loss. Non-controlling interests are measured either at fair value or at the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The measurement method to be applied at the acquisition date is determined on a transaction-by-transaction basis. Acquisition-related costs, which are costs that the Consolidated Group incurs to effect a business combination (excluding costs to issue debt or equity securities), are accounted for as expenses in the periods in which the costs are incurred, and thus not included in the cost of goodwill. In a business combination achieved in stages, the Consolidated Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes any gains or losses arising from such remeasurement in profit and loss. Changes in the value of the Consolidated Group's equity interest in the acquiree that had been recognized in other comprehensive income prior to the acquisition date are recognized in profit or loss, or other comprehensive income, on the same basis as would be required if the Consolidated Group had disposed of the previously held equity interest.

4) Transactions eliminated in consolidation

Intragroup balances and transactions, as well as any unrealized gains and losses arising from intragroup transactions, are eliminated when preparing the consolidated financial statements.

(2) Foreign currency translation

1) 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 items is recognized in profit or loss, the Consolidated Group recognizes any exchange component of that gain or loss in profit or loss.

2) Translation of a foreign operation

The assets and liabilities of a foreign operation, including any goodwill and fair value adjustments arising on the acquisition of that foreign operation, 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 amount of the exchange differences is included in other components of equity. When the Consolidated Group's foreign operation is disposed of, the cumulative amount of the exchange differences related to that foreign operation is reclassified to profit or loss when the gain or loss on disposal is recognized. Based on the application of the exemption clauses under IFRS 1, the Consolidated Group has reclassified the cumulative exchange differences that existed at the transition date to retained earnings.

(3) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand; demand deposits; and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(4) Inventories

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

(5) 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 include the cost directly attributable to the acquisition of the asset.

Property, plant and equipment are depreciated using the straight-line method over the estimated useful life of each component thereof. The ranges of principal estimated useful lives are presented as follows:

Buildings and structures:	3 to 50 years
Machinery, vehicles, tools, furniture & fixtures:	2 to 20 years

Leased assets are fully depreciated over the shorter of the lease term and their estimated useful lives if there is no reasonable certainty that the Consolidated Group will obtain ownership by the end of the lease term.

The depreciation method, useful life and residual value of an asset are reviewed at least at the end of each reporting period and amended as necessary.

(6) Goodwill and intangible assets

1) Goodwill

Goodwill is carried at cost less any accumulated impairment losses.

2) 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 depreciation 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, expenditure on such an internally generated intangible asset is 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 expenditure incurred from the date when it first meets the recognition criteria.

An intangible asset with finite useful life is amortized using the straight-line method over its estimated useful life. The Consolidated Group's intangible assets with finite useful life are comprised mainly of software whose estimated useful life is 5 years.

The depreciation method, useful life and residual value of an intangible asset with finite useful life are reviewed at the end of each reporting period and amended as necessary.

Certain intangible assets with indefinite useful lives such as carrier shop operating rights are not amortized, but instead tested for impairment based on the cash-generating unit at least once a year and whenever there is an indication that they may be impaired.

(7) 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 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 a 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.

The Consolidated Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior fiscal years for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Consolidated Group will estimate the recoverable amount of that asset. If the recoverable amount exceeds the carrying amount of that asset or the cash-generating unit to which the asset belongs, the carrying amount is increased to its recoverable amount, which is, however, limited up to the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior fiscal years; and that increase is recognized as a reversal of an impairment loss. An impairment loss recognized for goodwill is not reversed in a subsequent period.

In addition, because goodwill that forms part of the carrying amount of an investment in an equity method investee is not separately recognized, it is not tested for impairment separately. If it is indicated that the investment in an equity method investee may be impaired, the entire carrying amount of the investment is tested for impairment as a single asset, by comparing its recoverable amount with its carrying amount.

(8) Financial instruments

The Consolidated Group has early adopted IFRS 9 *Financial Instruments* (as amended in July 2014).

1) Financial assets

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 the cash flows from the financial asset expire, or (ii) it transfers the contractual rights to the cash flows and substantially all the risks and rewards of ownership of the financial asset.

(i) 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 flows 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.

(ii) 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 flows 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.

(iii) 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 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.

(iv) 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.

2) Impairment of financial assets
The Consolidated Group assesses impairment of financial assets measured at amortized cost and financial assets measured at fair value through other compressive 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.

Detailed information on the assessment of significant increases in credit risk and the measurement of expected credit losses is provided in *Note 30 Financial Instruments: (3) Credit risk management.*

3) Financial liabilities
The Consolidated Group classifies financial liabilities at initial recognition as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost. The Consolidated Group initially recognizes financial liabilities measured at amortized cost on the date that they arise and the other financial liabilities on the transaction date.

The Consolidated Group derecognizes financial liabilities when they are extinguished, i.e., when obligations specified under a contract is discharged, cancelled or expires.

(i) Financial liabilities measured at amortized cost
The Consolidated Group classified financial liabilities, other than financial liabilities measured at fair value through profit or loss, as financial liabilities measured at amortized cost. The Consolidated Group initially recognizes and measures a financial liability measured at amortized cost at its fair value less any transaction costs directly attributable to incurring of the liability, and subsequently measures it at amortized cost using the effective interest method.

(ii) Financial liabilities measured at fair value through profit or loss
The Consolidated Group initially recognizes and measures a financial liability measured at fair value through profit or loss at its fair value, and subsequently measures it at fair value and recognizes subsequent changes in fair value in profit or loss.

4) 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:

(i) 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.

(ii) 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 amount accumulated in other components of equity is 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 amount accumulated in other components of equity is 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 amount accumulated in other components of equity is reclassified immediately from other components of equity to profit or loss.

(iii) 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.

5) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount of such offset is presented in the consolidated statements of financial position only when the Consolidated Group has a legally enforceable right to offset the recognized amounts and intends either to settle them on a net basis or realize the assets and settle the liabilities simultaneously.

(9) Provisions

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

(10) Equity

Treasury stock

When the Consolidated Group repurchases the shares of treasury stock, it is measured at cost and is presented as a deduction from equity. Transaction costs directly attributable to the repurchase of the shares of treasury stock are deducted from capital surplus. When the Consolidated Group sells the shares of treasury stock, the consideration received is recognized as an increase in equity.

(11) Revenue

Revenue is measured at fair value of the consideration received or receivable, net of returned goods, discounts and rebates. If there are multiple identifiable components in a single transaction, such transaction is separated into components, and revenue is recognized per such component. Conversely, when the actual economic state cannot be expressed without treating multiple transactions as one unit, revenue is recognized by treating such multiple transactions as one unit. The recognition standards and presentation method with respect to revenue are presented as follows:

1) Revenue recognition criteria

(i) Sale of goods

Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:

• the Consolidated Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
• the Consolidated Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
• the amount of revenue can be measured reliably;
• it is possible that the economic benefits associated with the transaction will flow to the Consolidated Group; and,
• the costs incurred or to be incurred in respect to the transaction can be measured reliably.

(ii) Rendering of services

If results of revenue from the rendering of services can be reliably estimated, such revenue will be recognized in accordance with such transaction's degree of progress as of the fiscal year end. If all of the following conditions are satisfied, it is determined that results of a transaction can be reliably estimated:

• the amount of revenue can be measured reliably;
• it is probable that the economic benefits associated with the transaction will flow to the Consolidated Group;
• the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
• the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, the Consolidated Group recognizes revenue only to the extent of the expenses recognized that are recoverable.

2) Method of presenting revenue

When the Consolidated Group is acting as a principal in a transaction, revenue is presented in the gross amount received from a customer. Conversely, when the Consolidated Group is acting as an agent for a third party in a transaction, revenue is presented in the amount of commission, which is the gross amount received by a customer less the amount collected on behalf of the third party.

The following features are considered when determining whether the Consolidated Group is acting as a principal or as an agent in a transaction:

- whether the Consolidated Group has the primary responsibility for providing goods or services to the customer or for fulfilling the order;
- whether the Consolidated Group has inventory risk before or after receiving the customer order, during shipping or on return;
- whether the Consolidated Group has latitude in establishing prices, either directly or indirectly;
- whether the Consolidated Group bears the customer's credit risk for the amount receivable from the customer; and
- whether the amount the Consolidated Group earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

(12) Finance income and finance costs

Finance income comprises interest income, dividend income, gain on sale of financial instruments and gain arising from changes in fair value of financial instruments. Interest income is recognized at the time of receipt by using the effective interest method. Dividend income is recognized on the date when the Consolidated Group's right to receive payment is established. Finance costs comprise interest expenses, loss on sale of financial instruments and loss arising from changes in the fair value of financial instruments.

(13) Employee benefits

1) Post-retirement benefits

(i) Defined benefit plans

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 amount of benefits that employees will have earned in return for their services provided in the current and prior periods, and discounting such amount 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.

(ii) Defined contribution plans

Defined contribution plans are retirement benefit plans under which an employer pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions. The obligations already paid or to be paid as contributions under the defined contribution plans are recognized as expenses in the period in which the employees render the related services.

2) Other long-term employee benefits

The Consolidated Group recognizes obligations for long-term employee benefits other than post-employment benefits as a liability by estimating the amount as of the reporting date that will be paid to the employees in return for their services without discounting that amount unless it is material.

3) Short-term employee benefits

The Consolidated Group recognizes short-term employee benefits as a liability and an expense by estimating the amounts that will be paid to the employees in return for their services without discounting those amounts. The Consolidated Group recognizes bonuses to be paid pursuant to the bonus system as a liability when it has present legal or constructive obligations to pay as a result of past employee service, and when the amount of the obligations can be estimated reliably.

(14) Income taxes

Income tax expenses comprises current tax expense and deferred tax expense. The Consolidated Group recognizes them in profit or loss, except when they arise from items that are recognized in other comprehensive income or directly equity, and from business combinations.

Current tax expense is measured by the expected taxes receivable from or taxes payable to tax authorities, and the tax rates or tax laws that are used to calculate the tax amount are those that have been enacted or substantially enacted by the fiscal year-end.

The Consolidated Group recognizes deferred tax assets and deferred tax liabilities for temporary differences between the carrying amount of an asset and liability in the statements of financial position and its tax base, the unused tax losses carried forward and unused tax credits carried forward. The amounts of deferred tax assets and deferred tax liabilities are calculated by applying the expected tax rate or tax law applicable as of the period in which assets are realized or liabilities are settled in accordance with a statutory tax rate or a substantially enacted statutory tax rate and the tax law as of the fiscal year-end. The Consolidated Group does not recognize deferred tax assets and deferred tax liabilities in the following cases:

- when taxable temporary differences arise from the initial recognition of goodwill;
- when they arise from the initial recognition of an asset or a liability in a transaction which is not a business combination; and, on the transaction date, affects neither accounting profit nor taxable profit (tax loss); or,
- with respect to taxable temporary differences associated with investments in subsidiaries and associates, when the Consolidated Group is able to control the timing of the reversal of the temporary differences; and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset only when the Consolidated Group has a legally enforceable right to set off the current tax assets against current tax liabilities, and, such deferred tax assets and liabilities relate to income taxes levied on the same taxation entity. However, even in the case of different taxable entities, the Consolidated Group can set off if the tax taxable entities intend either to settle current tax liabilities and assets on a net bases, or to realize the assets and settle the liabilities simultaneously. Deferred tax assets are recognized for deductible temporary differences, the unused tax losses carried forward and unused tax credits carried forward to the extent that it is probable that they can be used against future taxable profit. The carrying amount of deferred tax assets are reassessed at each fiscal year-end, and such carrying amount will be reduced to the extent it is no longer probable that related tax benefits from such assets will be realized. Unrecognized deferred tax assets are also reassessed at the end of each reporting period and are recognized to the extent that it is probable that future taxable profit will be available to recover the deferred tax assets.

The Company and its wholly owned domestic subsidiaries apply the consolidated tax payment system, by which the Company and its wholly owned domestic subsidiaries are allowed to file a tax return and pay the corporation tax as a consolidated tax filing group.

(15) Lease

The Consolidated Group determines whether an agreement is, or contains, a lease based on the substance of the agreement at inception of the lease. The substance of an agreement is assessed based on (a) whether fulfillment of the arrangement is dependent on the use of a specified asset or assets; and (b) whether the agreement conveys a right to use the asset.

1) Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. The Consolidated Group initially recognizes a leased asset at the lower of the fair value of the leased asset and the present value of the minimum lease payments, and subsequently accounts for the lease asset based on the applicable accounting policies. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2) Operating lease

An operating lease is a lease other than a finance lease. The Consolidated Group recognizes lease payments under an operating lease as an expense on a straight-line basis mainly over the lease term. When the Consolidated Group is the lessor of assets under an operating lease, it presents the assets subject to the operating lease in its consolidated statements of financial position.

4. Standards and Interpretations Issued but Not Yet Adopted

The following are the major standards and interpretations that have been newly issued or amended prior to the date of authorization for issuance of the consolidated financial statements. The Consolidated Group has not yet adopted these standards for the fiscal year ended March 31, 2016. The effects of application of these standards on the Consolidated Group are currently under assessment and cannot be estimated as of the filing date.

Standard	Title	Mandatory application (from fiscal years beginning on or after)	Fiscal year in which the Consolidated Group will apply the standard	Summary of new or amended standard
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 31, 2019	Amendment of accounting treatment for and disclosure on revenue recognition
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Amendment of accounting treatment for lease contracts

5. Business Combinations

The major business combination that occurred during the fiscal year ended March 31, 2015 is described as follows:

Business combination by means of acquisition

(1) Outline of the transaction

1) Name of the acquired company and its lines of business

Name of the acquired company: Kanematsu-NNK Corporation
Lines of business: Security equipment business, Geo-tech (Ground improvement) business, wood processing business and petroleum product business

2) Purpose of the business combination

The Company expected that through strengthening the capital relationship between Kanematsu-NNK Corporation ("KNN") and the Company, it would accelerate decision-making and strategy execution as well as collaboration of security camera business of KNN and Electronics & Device Division of the Company. Thus the business combination would contribute to strengthening the business base further and enhancing the corporate value of KNN and the Consolidated Group.

3) Acquisition date

December 24, 2014 (Date of the acquisition of shares)

4) Legal form of the business combination

Acquisition of shares for cash consideration (through tender offer)

5) Company name after the combination

Kanematsu-NNK Corporation

6) Percentage of voting rights

Percentage of voting rights immediately before the acquisition date:	32.1%
Percentage of voting rights added on the acquisition date:	18.9%
Percentage of voting rights after the acquisition date:	51.0%

7) Basis for deciding the acquiring company

The Company has acquired the shares of KNN for cash consideration.

(2) Earnings since the acquisition date

Revenue:	¥2,759 million
Profit:	¥69 million

(3) Acquisition costs and the details

Consideration for acquisition	
Fair value of shares of KNN held before the date of the business combination:	¥2,661 million
Fair value of additional shares of KNN acquired at the date of the business combination:	¥1,567 million
Total costs	¥4,228 million

(4) The amount of costs directly attributable to the acquisition is ¥74 million, which is expensed and included in selling, general and administrative expenses.

(5) Difference between the costs of the acquired company and the sum of the costs of each transaction that has resulted in the acquisition

Gain on step acquisitions: ¥1,123 million
The above gain is included in "Other income".

(6) Amount and cause of goodwill

1) Amount of goodwill: ¥1,526 million

2) Cause of goodwill

The excess of acquisition costs over the net of the assets acquired and liabilities assumed on the acquisition date. Goodwill consists primarily of future economic benefits and synergies with the Consolidated Group's existing businesses. Goodwill is not tax deductible.

(7) Breakdown of assets acquired and liabilities assumed on the acquisition date

	(JPY)
Current assets	5,186
Cash and cash equivalents	1,469
Trade receivables	2,232
Inventories	1,080
Other	403
Non-current assets	3,260
Property, plant and equipment	2,722
Other	537
Total assets	8,446

Current liabilities	2,427
Trade payables	2,009
Other	417
Non-current liabilities	742
Total liabilities	3,169

(8) The carrying amount of non-controlling interests of the acquiree recognized on the acquisition date is ¥(2,586) million. This carrying amount is calculated by multiplying the identifiable net assets received on the acquisition date with the percentage of the non-controlling interests' proportionate share after the acquisition.

(9) The disclosure of pro forma information on the above business combination assuming that it occurred at the beginning of the period is omitted because the effect on the consolidated financial statements is immaterial.

There were no major business combinations that occurred during the fiscal year ended March 31, 2016.

6. Segment Information

(1) Overview of Reportable Segments

The reportable segments of the Consolidated Group are components of the Consolidated Group for which discrete financial information is available and are reviewed by the Board of Directors of the Company normally and regularly assesses its business performance and examines the allocation of management resources.

The Consolidated Group offers a broad array of merchandise and services, using expertise in each business field and trading function from Japan and its international network. Trading functions include commercial trade, information gathering, market development, business development and arrangement, risk management and logistics.

The Consolidated Group therefore consists of merchandise and service segments based on its business units: "Electronics & Devices", "Foods & Grain", "Steel, Materials & Plant", and "Motor Vehicles & Aerospace".

The principal merchandise and services handled by each segment are presented as follows:

(Electronics & Devices)
The Electronics & Devices segment provides a wide range of products including electronic parts and components, semiconductor and LCD manufacturing equipment, materials and indirect materials related to electronics, coupled with development and proposal services. This segment also conducts retail sales of electric cells, LED, etc. and deals with mobile communications terminals, mobile internet systems, and information and telecommunication equipment and security equipment and services.

(Foods & Grain)
The Foods & Grain segment integrates the handling of a broad array of food and foodstuffs, with operations ranging from sourcing raw materials reliably to providing food and foodstuffs, including high value-added products. Merchandise in this segment includes cooked foods, processed fruits, processed agricultural products, beverage ingredients, animal and fishery products, wheat, rice, soybeans, feedstuff and pet foods.

(Steel, Materials & Plant)
The Steel, Materials & Plant segment operates the domestic and international trade of general steel products including steel plates, bars and wire rods, pipes, and stainless products, carries out overseas projects such as plant and infrastructure development, and sells machine tools and industrial machinery. Additionally, this segment operates the domestic and international trade of crude oil, petroleum products, LPG, functional chemicals and food products, pharmaceuticals and pharmaceutical intermediates, and other products. It also develops environmental materials such as heat shield paints and new technologies, and operates businesses related to emissions rights.

(Motor Vehicles & Aerospace)
The Motor Vehicles & Aerospace segment primarily operates international trade of aircrafts and aircraft parts, satellite- and aerospace-related products, automobiles, motorcycles and related parts, industrial vehicles, construction machinery, etc., and also provides products with added value based on demand or use.

(2) Information on reportable segments

The accounting methods for the reportable operating segments are largely consistent with those stated in "Note 3: Significant Accounting Policies". Inter-segment revenue and transfers are based on the prevailing market prices or third-party transaction prices.

Fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016) (JPY)

	Reportable segment					Others (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Total			
Revenue								
External	235,028	222,577	135,269	63,792	656,667	11,706	—	668,374
Inter-segment	220	2	56	0	279	68	(347)	—
Total revenue	235,249	222,579	135,325	63,792	656,947	11,774	(347)	668,374
Segment profit	10,658	1,427	3,388	2,964	18,439	329	4	18,772
Other profit or loss:								
Depreciation and amortization	1,036	621	929	364	2,951	141	(10)	3,082
Share of profit (loss) of investments accounted for using the equity method	278	77	13	34	403	271	—	675
Segment assets	152,348	110,116	102,204	25,172	389,842	9,907	43,842	443,592
Other assets:								
Investments accounted for using the equity method	3,918	1,208	50	332	5,509	1,913	(2)	7,420
Capital expenditure	1,604	439	527	278	2,850	117	258	3,226

Fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016) (USD)

	Reportable segment					Others (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Total			
Revenue								
External	2,085,800	1,975,302	1,200,470	566,134	5,827,716	103,887	—	5,931,612
Inter-segment	1,952	18	497	0	2,476	603	(3,080)	—
Total revenue	2,087,762	1,975,319	1,200,967	566,134	5,830,201	104,491	(3,080)	5,931,612
Segment profit	94,586	12,664	30,067	26,305	163,640	2,920	35	166,596
Other profit or loss:								
Depreciation and amortization	9,194	5,511	8,245	3,230	26,189	1,251	(89)	27,352
Share of profit (loss) of investments accounted for using the equity method	2,467	683	115	302	3,576	2,405	—	5,990
Segment assets	1,352,041	977,245	907,029	223,394	3,459,727	87,922	389,084	3,936,741
Other assets:								
Investments accounted for using the equity method	34,771	10,721	444	2,946	48,891	16,977	(18)	65,850
Capital expenditure	14,235	3,896	4,677	2,467	25,293	1,038	2,290	28,630

(Notes) 1 The "Others" column is a business segment that is not included in the reportable segments and includes the logistics and insurance service business and the geotech business.

2 Adjustments are presented as follows:

(1) Adjustment of ¥4 million ($35 thousand) for segment profit includes inter-segment elimination of ¥4 million ($35 thousand).

(2) Adjustment for segment assets of ¥43,842 million ($389,084 thousand) includes inter-segment elimination of ¥(11,964) million (($106,177) thousand) and corporate assets of ¥55,807 million ($495,270 thousand) that are not allocated to any reportable segment. The corporate assets consist mainly of cash and bank deposits associated with financing activities and assets such as investment securities.

(3) Adjustment for depreciation and amortization of ¥(10) million ($(89) thousand) includes inter-segment elimination of ¥(10) million ($(89) thousand).

(4) Adjustment for investments accounted for using the equity method of ¥(2) million ($(18) thousand) includes inter-segment elimination of ¥(2) million ($(18) thousand).

(5) Adjustment for capital expenditure of ¥258 million ($2,290 thousand) includes inter-segment elimination of ¥(71) million ($(630) thousand) and corporate assets of ¥329 million ($2,920 thousand) that are not allocated to any reportable segment. The corporate assets consist mainly of software related to the information system of the Company.

Fiscal year ended March 31, 2015 (from April 1, 2014 to March 31, 2015) (JPY)

	Reportable segment					Others (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Total			
Revenue								
External	231,230	213,720	201,957	52,396	699,304	4,906	—	704,211
Inter-segment	353	2	5	0	361	57	(419)	—
Total revenue	231,583	213,723	201,963	52,396	699,666	4,964	(419)	704,211
Segment profit	10,152	3,365	6,345	2,601	22,464	1,068	14	23,547
Other profit or loss:								
Depreciation and amortization	1,058	589	870	403	2,921	79	(4)	2,996
Share of profit (loss) of investments accounted for using the equity method	740	40	12	29	823	295	25	1,143
Segment assets	134,780	106,835	127,643	31,249	400,508	11,531	54,274	466,314
Other assets:								
Investments accounted for using the equity method	2,166	891	44	300	3,401	1,830	153	5,385
Capital expenditure	1,694	976	1,528	834	5,034	61	730	5,826

(Notes) 1 The "Others" column is a business segment that is not included in the reportable segments and includes the logistics and insurance service business and the geotech business.
2 Adjustments are presented as follows:
(1) Adjustment of ¥14 million for segment profit includes inter-segment elimination of ¥14 million.
(2) Adjustment for segment assets of ¥54,274 million includes inter-segment elimination of ¥(8,507) million and corporate assets of ¥62,781 million that are not allocated to any reportable segment. The corporate assets consist mainly of cash and bank deposits associated with financing activities and assets such as investment securities.
(3) Adjustment for depreciation and amortization of ¥(4) million includes inter-segment elimination of ¥(4) million.
(4) Adjustment for investments accounted for using the equity method of ¥153 million includes inter-segment elimination of ¥(0) million and the corporate assets of ¥154 million that are not allocated to any reportable segment.
(5) Adjustment for capital expenditure of ¥730 million includes inter-segment elimination of ¥(32) million and corporate assets of ¥763 million that are not allocated to any reportable segment. The corporate assets consist mainly of leased equipment related to the information system of the Company.

Transition date (April 1, 2014) (JPY)

	Reportable segment					Others (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Total			
Segment assets	130,978	89,173	123,539	26,797	370,489	7,395	52,339	430,224
(Other assets)								
Investments accounted for using the equity method	1,404	560	133	235	2,333	3,072	129	5,536

(Notes) 1 The "Others" column is a business segment that is not included in the reportable segments and includes the aluminum recycling business and the logistics and insurance service business.
2. Adjustment for segment assets of ¥52,339 million includes inter-segment elimination of ¥(9,800) million and corporate assets of ¥62,140 million that are not allocated to any reportable segment. The corporate assets consist mainly of cash and bank deposits associated with financing activities and assets such as investment securities.

Adjustments from segment profit (operating profit) to profit before tax presented in the consolidated statements of income are presented as follows:

	JPY		USD
	2016	2015	**2016**
Segment profit	**18,772**	23,547	**166,596**
Finance income and finance costs	**(1,326)**	(2,317)	**(11,768)**
Share of profit (loss) of investments accounted for using the equity method	**675**	1,143	**5,990**
Profit before tax	**18,122**	22,373	**160,827**

(3) Information on products and services

The disclosure is omitted because the classification of products and services is the same as that of reportable segments.

(4) Geographic information

1) External revenue

	JPY		USD
	2016	2015	**2016**
Japan	**542,333**	538,466	**4,813,037**
Asia	**62,185**	85,093	**551,873**
North America	**43,571**	54,753	**386,679**
Europe	**13,598**	19,681	**120,678**
Others	**6,685**	6,217	**59,327**
Total	**668,374**	704,211	**5,931,612**

Revenue is classified by country or region based on the locations of customers.

2) Non-current assets (excluding financial assets and deferred tax assets)

	JPY			USD
	2016	2015	Transition date	**2016**
Japan	**34,464**	33,670	28,314	**305,857**
Asia	**1,046**	1,415	1,009	**9,283**
North America	**5,432**	6,263	4,941	**48,207**
Europe	**2,092**	2,425	2,297	**18,566**
Others	**39**	14	9	**346**
Total	**43,076**	43,788	36,571	**382,286**

(5) Information on major customers

There is no customer whose transaction volume is equal to or more than 10% of the Consolidated Group's revenue for the fiscal years ended March 31, 2016 and March 31, 2015.

7. Trade and Other Receivables

The breakdown of trade and other receivables is presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Notes and accounts receivable	**159,173**	183,422	179,286	**1,412,611**
Loans receivable	**3,019**	2,405	2,623	**26,793**
Other	**4,190**	3,718	3,564	**37,185**
Less: loss allowance	**(2,383)**	(2,671)	(2,710)	**(21,148)**
Total	**164,001**	186,874	182,763	**1,455,458**
Current assets	**163,540**	186,486	182,627	**1,451,367**
Non-current assets	**460**	388	135	**4,082**
Total	**164,001**	186,874	182,763	**1,455,458**

Information on changes in loss allowance is provided in *Note 30 Financial Instruments: (3) Credit risk management*.

8. Inventories

The breakdown of inventories is presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Merchandise and finished goods	**76,899**	88,747	63,146	**682,455**
Real estate for sale	**—**	61	61	**—**
Raw materials and supplies	**2,328**	2,134	2,344	**20,660**
Work in progress	**967**	901	962	**8,582**
Total	**80,195**	91,844	66,514	**711,706**

The amounts of inventories that were recognized as expense during the fiscal years ended March 31, 2016 and March 31, 2015 are ¥561,989 million ($4,987,478 thousand) and ¥595,079 million, respectively.

The amounts written down on inventories that were recognized as expense during the fiscal years ended March 31, 2016 and March 31, 2015 are ¥820 million ($7,277 thousand) and ¥226 million, respectively.

9. Property, Plant and Equipment

Changes in costs, accumulated depreciation and accumulated impairment losses of property, plant and equipment are presented as follows:

[Costs] (JPY)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of the transition date (April 1, 2014)	15,464	24,959	11,909	190	52,523
Additions	655	3,316	155	775	4,903
Acquisitions through business combinations	344	360	2,141	—	2,846
Transfers from construction in progress	0	71	—	(71)	—
Disposals	(424)	(2,746)	(170)	—	(3,340)
Exchange differences	179	907	77	75	1,239
Increases (decreases) due to a change in the scope of consolidation	—	(18)	—	—	(18)
Other	151	(68)	—	16	99
As of March 31, 2015	16,371	26,781	14,114	985	58,253
Additions	652	1,380	—	309	2,342
Acquisitions through business combinations	419	3	326	—	749
Transfers from construction in progress	357	369	—	(727)	—
Disposals	(520)	(1,965)	(468)	—	(2,954)
Exchange differences	(96)	(456)	(54)	(39)	(647)
Increases (decreases) due to a change in the scope of consolidation	(594)	(214)	—	—	(808)
Other	(112)	60	(1,372)	(43)	(1,468)
As of March 31, 2016	16,476	25,959	12,545	484	55,466

[Accumulated depreciation and accumulated impairment losses] (JPY)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of the transition date (April 1, 2014)	(9,530)	(18,814)	—	—	(28,344)
Depreciation	(489)	(1,569)	—	—	(2,059)
Impairment losses	(54)	(27)	(360)	—	(443)
Disposals	371	1,664	—	—	2,036
Exchange differences	(69)	(399)	—	—	(469)
Increases (decreases) due to a change in the scope of consolidation	—	17	—	—	17
Other	(87)	62	—	—	(24)
As of March 31, 2015	(9,860)	(19,065)	(360)	—	(29,287)
Depreciation	(547)	(1,652)	—	—	(2,199)
Impairment losses	(15)	(2)	(64)	—	(81)
Disposals	428	1,599	—	—	2,028
Exchange differences	23	224	—	—	247
Increases (decreases) due to a change in the scope of consolidation	321	208	—	—	529
Other	98	82	—	—	181
As of March 31, 2016	(9,551)	(18,605)	(425)	—	(28,582)

[Carrying amounts] (JPY)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of the transition date (April 1, 2014)	5,933	6,145	11,909	190	24,179
As of March 31, 2015	6,511	7,716	13,753	985	28,966
As of March 31, 2016	6,924	7,354	12,119	484	26,883

[Costs] (USD)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of March 31, 2015	145,288	237,673	125,257	8,742	516,977
Additions	5,786	12,247	—	2,742	20,785
Acquisitions through business combinations	3,718	27	2,893	—	6,647
Transfers from construction in progress	3,168	3,275	—	(6,452)	—
Disposals	(4,615)	(17,439)	(4,153)	—	(26,216)
Exchange differences	(852)	(4,047)	(479)	(346)	(5,742)
Increases (decreases) due to a change in the scope of consolidation	(5,272)	(1,899)	—	—	(7,171)
Other	(994)	532	(12,176)	(382)	(13,028)
As of March 31, 2016	146,219	230,378	111,333	4,295	492,244

[Accumulated depreciation and accumulated impairment losses] (USD)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of March 31, 2015	(87,504)	(169,196)	(3,195)	—	(259,913)
Depreciation	(4,854)	(14,661)	—	—	(19,515)
Impairment losses	(133)	(18)	(568)	—	(719)
Disposals	3,798	14,191	—	—	17,998
Exchange differences	204	1,988	—	—	2,192
Increases (decreases) due to a change in the scope of consolidation	2,849	1,846	—	—	4,695
Other	870	728	—	—	1,606
As of March 31, 2016	(84,762)	(165,114)	(3,772)	—	(253,656)

[Carrying amounts] (USD)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of March 31, 2016	61,448	65,264	107,552	4,295	238,578

The amounts of expenditures relating to property, plant and equipment under construction are presented in the table above as “Construction in progress”.

Depreciation for property, plant and equipment are included in “Cost of revenues” and “Selling, general and administrative expenses” in the consolidated statements of income.

10. Goodwill and Intangible Assets

(1) Goodwill

1) Costs, accumulated impairment losses and carrying amount

Changes in costs, accumulated impairment losses and carrying amount of goodwill are presented as follows:

[Costs]

	JPY		USD
	2016	2015	**2016**
Beginning balance	**5,249**	3,086	**46,583**
Acquisitions through business combinations	**277**	1,817	**2,458**
Exchange differences	**(139)**	346	**(1,234)**
Ending balance	**5,387**	5,249	**47,808**

[Accumulated impairment losses]

	JPY		USD
	2016	2015	**2016**
Beginning balance	**(756)**	(756)	**(6,709)**
Impairment losses	**—**	—	**—**
Exchange differences	**—**	—	**—**
Ending balance	**(756)**	(756)	**(6,709)**

[Carrying amount]

	JPY			USD
	2016	2015	Transition date	**2016**
Carrying amount	**4,631**	4,493	2,329	**41,099**

The beginning balance of accumulated impairment losses of ¥(756) million represents an impairment loss recognized on the transition date on goodwill that arose upon acquisition of the mobile communication terminal distribution business in the Electronics & Devices segment.

2) Impairment test

Consolidated Groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, and whenever there is an indication that the Consolidated Groups may be impaired. The carrying amounts of significant goodwill allocated to the Consolidated Groups of cash-generating units were as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Electronics & Devices segment				
Electronics business of the domestic subsidiaries	**1,763**	1,763	236	**15,646**
Foods & Grain segment				
Pet-related businesses of the domestic subsidiaries	**569**	291	—	**5,050**
Steel, Materials & Plant segment				
Oilfield tubing business of the foreign subsidiaries	**2,300**	2,433	2,084	**20,412**

The recoverable amount of the cash-generating unit Consolidated Groups to which significant goodwill has been allocated was calculated based on its value in use founded on the five-year forecast that was approved by management.

The five-year forecast of cash flows is based on future plans reflecting past performance. In addition, the main assumption used to determine such forecast was the growth rate of gross profits through such terms, such growth rate being consistent with the forecasts of the nominal GDP growth rate or the like of the countries in which such cash-generating unit of the Consolidated Groups are situated. The ultimate growth rates are determined by considering the average long-term growth rates of the markets or countries to which the cash-generating units belong.

The discount rates before tax which were used in calculating the value in use of the Consolidated Groups of cash-generating units to which significant goodwill has been allocated were as follows:

	2016	2015	Transition date
Electronics & Devices segment			
Electronics business of the domestic subsidiaries	**3.4%**	4.5%	4.2%
Foods & Grain segment			
Pet-related businesses of the domestic subsidiaries	**6.3%**	6.0%	—
Steel, Materials & Plant segment			
Oilfield tubing business of the foreign subsidiaries	**12.0%**	12.0%	12.6%

With respect to goodwill that has been allocated to the Consolidated Groups of cash-generating units, the recoverable amount of such goodwill largely exceeds its carrying amount. Thus, even if major assumptions are changed to a reasonable extent, it is unlikely that such changes in major assumptions will reduce the recoverable amounts of the cash-generating units below the carrying amount.

(2) Intangible assets

Changes in costs, accumulated amortization and accumulated impairment losses of intangible assets are presented as follows:

[Costs] (JPY)

	Software	Carrier shop operating rights	Other	Total
As of the transition date (April 1, 2014)	7,532	3,291	4,299	15,123
Additions	945	—	31	977
Acquisitions through business combinations	14	—	6	20
Disposals	(159)	—	(3)	(163)
Exchange differences	55	—	560	616
Other	(214)	—	74	(140)
As of March 31, 2015	8,174	3,291	4,968	16,434
Additions	656	—	37	693
Acquisitions through business combinations	4	—	9	14
Disposals	(161)	—	(45)	(207)
Exchange differences	(32)	—	(235)	(267)
Other	(4)	—	(242)	(246)
As of March 31, 2016	8,636	3,291	4,492	16,421

[Accumulated amortization and accumulated impairment losses] (JPY)

	Software	Carrier shop operating rights	Other	Total
As of the transition date (April 1, 2014)	(5,860)	(234)	(729)	(6,824)
Amortization	(618)	—	(348)	(967)
Impairment losses	(24)	—	(26)	(50)
Disposals	114	—	1	115
Exchange differences	(48)	—	(93)	(141)
Other	76	—	(0)	75
As of March 31, 2015	(6,361)	(234)	(1,196)	(7,792)
Amortization	(571)	—	(373)	(944)
Impairment losses	—	—	(12)	(12)
Disposals	140	—	35	175
Exchange differences	25	—	57	82
Other	(4)	—	158	153
As of March 31, 2016	(6,771)	(234)	(1,331)	(8,337)

[Carrying amount] (JPY)

	Software	Carrier shop operating rights	Other	Total
As of the transition date (April 1, 2014)	1,671	3,057	3,569	8,298
As of March 31, 2015	1,812	3,057	3,771	8,641
As of March 31, 2016	1,864	3,057	3,161	8,083

[Costs] (USD)

	Software	Carrier shop operating rights	Other	Total
As of March 31, 2015	72,542	29,207	44,089	145,847
Additions	5,822	—	328	6,150
Acquisitions through business combinations	35	—	80	124
Disposals	(1,429)	—	(399)	(1,837)
Exchange differences	(284)	—	(2,086)	(2,370)
Other	(35)	—	(2,148)	(2,183)
As of March 31, 2016	76,642	29,207	39,865	145,731

[Accumulated amortization and accumulated impairment losses] (USD)

	Software	Carrier shop operating rights	Other	Total
As of March 31, 2015	(56,452)	(2,077)	(10,614)	(69,152)
Amortization	(5,067)	—	(3,310)	(8,378)
Impairment losses	—	—	(106)	(106)
Disposals	1,242	—	311	1,553
Exchange differences	222	—	506	728
Other	(35)	—	1,402	1,358
As of March 31, 2016	(60,091)	(2,077)	(11,812)	(73,988)

[Carrying amount] (USD)

	Software	Carrier shop operating rights	Other	Total
As of March 31, 2015	16,081	27,130	33,466	76,686
As of March 31, 2016	16,542	27,130	28,053	71,734

Carrier shop operating rights were recognized as intangible assets upon acquisition of the mobile communication terminal distribution business by a consolidated subsidiary of the Company. As the rights are expected to exist fundamentally as long as the business continues, they are determined to be classified as intangible assets with indefinite useful lives.

The recoverable amounts of the Consolidated Groups of cash-generating units including the carrier shop operating rights were calculated based on its five-year forecast's value in use that was approved by management. The five-year forecast of cash flows is based on the future plans anticipated based on past performance. In addition, the main assumption used to determine such forecast was the growth rate of gross profits through such terms, such growth rate being consistent with the forecasts of the nominal GDP growth rate or the like of the countries in which such cash-generating unit Consolidated Groups are situated. The ultimate growth rates are determined by considering the average long-term growth rates of the markets or countries to which the cash-generating units belong.

There were no material internally-generated intangible assets as of March 31, 2016, March 31, 2015 and the transition date. Amortization expenses are included in "Cost of revenues" and "Selling, general and administrative expenses" in the consolidated statements of income.

The discount rates before taxes used to determine the value in use of this cash-generating unit are presented as follows:

	2016	2015	Transition date
Electronics & Devices segment			
Electronics business of the domestic subsidiaries	**6.0%**	6.4%	6.6%

With respect to the carrier shop operating rights, the recoverable amount of the cash-generating unit largely exceeds its carrying amount. Thus, even if major assumptions are changed to a reasonable extent, it is unlikely that such changes in major assumptions will reduce the recoverable amount of the cash-generating units below the carrying amount.

11. Investments in Associates and Joint Ventures

There are no associates or joint ventures that are material to the Consolidated Group.

The aggregate amount of interests in individually immaterial associates and joint ventures that are accounted for using the equity method are presented as follows:

[Aggregate carrying amount]

	JPY			USD
	2016	2015	Transition date	2016
Associates	**7,420**	5,385	5,536	**65,850**
Joint ventures	**—**	—	—	**—**

[Profit or loss from continuing business]

	JPY		USD
	2016	2015	2016
Associates	**675**	1,143	**5,990**
Joint ventures	**—**	—	**—**

[Other comprehensive income]

	JPY		USD
	2016	2015	2016
Associates	**(141)**	114	**(1,251)**
Joint ventures	**—**	—	**—**

[Total comprehensive income]

	JPY		USD
	2016	2015	**2016**
Associates	**533**	1,258	**4,730**
Joint ventures	**—**	—	**—**

12. Other Investments

The breakdown of other investments is presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Financial assets measured at fair value through profit or loss	**5,637**	6,425	6,341	**50,027**
Financial assets measured at fair value through other comprehensive income	**24,897**	25,623	19,386	**220,953**
Financial assets measured at amortized cost	**1,000**	1,000	1,000	**8,875**
Total	**31,535**	33,049	26,727	**279,863**

13. Other Current Assets and Other Non-current Assets

The breakdown of other current assets and other non-current assets is presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Advance payments	**5,739**	8,336	7,416	**50,932**
Prepaid expenses	**3,908**	3,482	3,255	**34,682**
Other	**6,606**	5,922	5,361	**58,626**
Total	**16,253**	17,741	16,033	**144,240**
Current assets	**12,776**	16,054	14,268	**113,383**
Non-current assets	**3,477**	1,686	1,764	**30,857**
Total	**16,253**	17,741	16,033	**144,240**

14. Trade and Other Payables

The breakdown of trade and other payables is presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Notes and accounts payable	**102,276**	116,649	114,694	**907,668**
Import bills payable	**31,034**	32,530	27,610	**275,417**
Accounts payable - commission	**8,832**	10,342	8,213	**78,381**
Total	**142,143**	159,522	150,518	**1,261,475**
Current liabilities	**142,143**	159,522	150,518	**1,261,475**
Non-current liabilities	**—**	—	—	**—**
Total	**142,143**	159,522	150,518	**1,261,475**

15. Bonds and Borrowings

The breakdown of bonds and borrowings is presented as follows:

	2016		2015	Transition date	Average interest rate (Note)	Maturity date
	JPY	USD	JPY	JPY		
Short-term borrowings	**33,374**	**296,184**	43,433	35,446	0.86%	—
Current portion of long-term borrowing	**28,615**	**253,949**	21,871	44,405	1.34%	—
Bonds (excluding the current portion)	**9,925**	**88,081**	—	—	—	—
Long-term borrowings (excluding the current portion)	**64,952**	**576,429**	74,426	61,113	1.47%	July 2017 to October 2029
Total	**136,867**	**1,214,652**	139,731	140,965		
Current liabilities	**61,989**	**550,133**	65,305	79,852		
Non-current liabilities	**74,877**	**664,510**	74,426	61,113		
Total	**136,867**	**1,214,652**	139,731	140,965		

(Note) The "average interest rate" is presented as the weighted average interest rate against the borrowings outstanding at the end of the year. For the purpose of avoiding the interest rate fluctuation risk for borrowings hedged by derivative transactions, such as interest rate swaps, the average interest rate is calculated using the interest rate after hedging. The interest rate of bonds is presented in the "Details of bonds" below.

[Details of bonds]

Issuer	Bond Name	Issue date	2016		2015	Coupon rate	Collateral	Maturity date
			JPY	USD	JPY			
Kanematsu Corporation	Unsecured Straight Bonds No 1 (3-year bonds)	March 10, 2016	4,961	44,027	—	0.40% per annum	None	March 8, 2019
Kanematsu Corporation	Unsecured Straight Bonds No 2 (5-year bonds)	March 10, 2016	4,964	44,054	—	0.64% per annum	None	March 10, 2021

(Note) The maturity schedule of bonds (excluding the current portion) within 5 years after the end of the current fiscal year is presented 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
Corporate bonds	—	—	4,961	44,027	—	—	4,964	44,054

16. Provisions

Changes in provisions are presented as follows:

(JPY)

	Asset retirement obligations	Other	Total
As of the transition date (April 1, 2014)	811	85	896
Acquisitions through business combinations	18	218	237
Provisions made	94	262	357
Provisions used	(4)	(69)	(74)
Provisions reversed	(17)	(16)	(33)
Unwinding of discount	15	—	15
Foreign exchange translation differences	—	0	0
Other	—	—	—
As of March 31, 2015	917	482	1,399
Acquisitions through business combinations	—	—	—
Provisions made	98	181	279
Provisions used	(108)	(206)	(314)
Provisions reversed	(2)	(7)	(10)
Unwinding of discount	18	—	18
Foreign exchange translation differences	—	(0)	(0)
Other	—	(67)	(67)
As of March 31, 2016	922	382	1,304

(USD)

	Asset retirement obligations	Other	Total
As of March 31, 2015	8,138	4,278	12,416
Acquisitions through business combinations	—	—	—
Provisions made	870	1,606	2,476
Provisions used	(958)	(1,828)	(2,787)
Provisions reversed	(18)	(62)	(89)
Unwinding of discount	160	—	160
Foreign exchange translation differences	—	(0)	(0)
Other	—	(595)	(595)
As of March 31, 2016	8,182	3,390	11,573

The current and non-current portions of provisions are presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Current liabilities	**31**	300	92	**275**
Non-current liabilities	**1,272**	1,098	804	**11,289**
Total	**1,304**	1,399	896	**11,573**

Asset retirement obligations are the obligations for restoring offices and shops in accordance with provisions of the property leasing contracts. While these expenditures will be made after at least one year has passed, the amounts may be affected by the future business plan and other factors.

17. Other Current Liabilities and Other Non-current Liabilities

The breakdown of other current liabilities and other non-current liabilities is presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Advances received	**6,515**	10,991	8,787	**57,819**
Accrued expenses	**3,351**	3,363	2,625	**29,739**
Unearned revenue	**2,958**	2,841	2,991	**26,251**
Other	**7,339**	8,541	7,158	**65,131**
Total	**20,164**	25,739	21,562	**178,949**
Current liabilities	**19,465**	24,736	20,870	**172,746**
Non-current liabilities	**699**	1,002	692	**6,203**
Total	**20,164**	25,739	21,562	**178,949**

18. Equity

(1) Capital management

The Consolidated Group has a basic policy of increasing shareholders' equity (See Note 1) up to a certain level and strengthening its financial base to enhance its enterprise value through building new businesses and increasing revenues while maintaining a sound financial position. In addition, the Company uses net DER (See Note 2) as a key indicator for capital management.

The Consolidated Group will strive to expand its business to the extent allowed by its own financial strength with the target net DER to be kept under 1.0 time, as per the medium-term vision "VISION-130", for which the revision was made and announced on May 10, 2016. These indices are periodically reported to and monitored by management.

(Note 1) Shareholders' equity is defined as equity attributable to owners of the Parent.
(Note 2) Net DER is defined as a ratio of net interest-bearing debt to shareholders' equity, while net interest-bearing debt is the total amount of interest-bearing debt less cash and cash equivalents.

The figures of net DER as of the March 31, 2016, March 31, 2015 and transition date are presented as follows:

	2016	2015	Transition date
Net DER	**0.5 times**	0.8 times	0.9 times

The Consolidated Group is not subjected to any externally imposed capital requirements (except for general requirements, such as those in the Companies Act).

(2) Number of shares authorized to be issued, issued shares and shares of treasury stock

(Unit: share)

	2016	2015
Shares authorized to be issued (No-par common stock)	**1,016,653,604**	1,016,653,604
Issued shares (No-par common stock)		
Beginning balance	**422,501,010**	422,501,010
Changes during the period	**—**	—
Ending balance	**422,501,010**	422,501,010
Treasury stock (No-par common stock)		
Beginning balance	**2,893,263**	5,111,537
Ending balance	**2,953,939**	2,893,263

The number of shares of treasury stock includes treasury stock held by the associates of the Company.

(3) Surplus

1) Capital surplus

Capital surplus mainly consists of legal capital surplus.

2) Retained earnings

Retained earnings consist of legal retained earnings and other retained earnings.

The Companies Act of Japan provides that an amount equal to 10% of distribution of surplus for each fiscal year must be appropriated as legal capital surplus or legal retained earnings until the total aggregate amount of legal capital surplus and legal retained earnings equals 25% of share capital.

Under the Companies Act, the amount available for distribution is calculated based on the amount of capital surplus and retained earnings, exclusive of legal capital surplus and legal retained earnings, all of which are recorded in accordance with the accounting principles generally accepted in Japan.

(4) Dividends

1) Amount of dividends paid

Resolution	Type of stock	Source of dividends	Total amount of dividends		Dividends per share		Record date	Effective date
			JPY	USD	Yen	U.S.$		
May 25, 2015 Board of Directors meeting	Common stock	Retained earnings	632	5,609	1.50	0.013	Mar. 31, 2015	Jun. 4, 2015
Nov. 5, 2015 Board of Directors meeting	Common stock	Retained earnings	1,053	9,345	2.50	0.022	Sep. 30, 2015	Dec. 4, 2015

Resolution	Type of stock	Source of dividends	Total amount of dividends	Dividends per share	Record date	Effective date
			JPY	Yen		
May 26, 2014 Board of Directors meeting	Common stock	Retained earnings	632	1.50	Mar. 31, 2014	Jun. 5, 2014
Oct. 31, 2014 Board of Directors meeting	Common stock	Retained earnings	1,053	2.50	Sep. 30, 2014	Dec. 2, 2014

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

Resolution	Type of stock	Source of dividends	Total amount of dividends		Dividends per share		Record date	Effective date
			JPY	USD	Yen	U.S.$		
May 23, 2016 Board of Directors meeting	Common stock	Retained earnings	1,053	9,345	2.50	0.022	Mar. 31, 2016	Jun. 6, 2016

19. Revenue

The breakdown of revenue is presented as follows:

	JPY		USD
	2016	2015	**2016**
Revenue from the sale of goods	**646,004**	679,743	**5,733,085**
Revenue from rendering of services and others	**22,369**	24,467	**198,518**
Total	**668,374**	704,211	**5,931,612**

20. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is presented as follows:

	JPY		USD
	2016	2015	**2016**
Depreciation and amortization	**1,883**	1,866	**16,711**
Personnel expenses	**37,782**	37,350	**335,304**
Outsourcing service charges	**6,417**	6,211	**56,949**
Rent expenses	**5,351**	5,069	**47,488**
Other	**17,143**	15,748	**152,139**
Total	**68,577**	66,245	**608,600**

21. Gain or Loss on Sale and Disposal of Fixed Assets

The breakdown of gain or loss on sale and disposal of fixed assets is presented as follows:

	JPY		USD
	2016	2015	**2016**
Gain on sale of property, plant and equipment	**25**	71	**222**
Gain on sales of intangible assets	**14**	0	**124**
Total gain on sale of fixed assets	**40**	71	**355**
Loss on sale of property, plant and equipment	**(251)**	(2)	**(2,228)**
Loss on sales of intangible assets	**(0)**	—	**(0)**
Total loss on sale of fixed assets	**(252)**	(2)	**(2,236)**
Loss on disposal of property, plant and equipment	**(76)**	(87)	**(674)**
Loss on disposal of intangible assets	**(22)**	(45)	**(195)**
Total loss on disposal of fixed assets	**(99)**	(132)	**(879)**
Gain (loss) on sale and disposal of fixed assets, net	**(311)**	(63)	**(2,760)**

22. Impairment Loss

(1) Breakdown of impairment loss by each class of assets

The breakdown of impairment losses for the fiscal year ended March 31, 2016 and March 31, 2015 for by class of assets is presented as follows. Impairment losses were included in "Impairment loss on fixed assets" in the consolidated statement of income.

	JPY		USD
	2016	2015	**2016**
Property, plant and equipment	**(81)**	(443)	**(719)**
Intangible assets	**(12)**	(50)	**(106)**
Other non-current assets	**—**	(86)	**—**
Total	**(94)**	(580)	**(834)**

(2) Breakdown by reportable segment

The breakdown of impairment losses for the fiscal year ended March 31, 2016 and March 31, 2015 by reportable segment is presented as follows:

	JPY		USD
	2016	2015	**2016**
Electronics & Devices	**(13)**	(144)	**(115)**
Foods & Grain	**—**	(1)	**—**
Steel, Materials & Plant	**(79)**	(438)	**(701)**
Motor Vehicles & Aerospace	**—**	(0)	**—**
Other/Adjustment and elimination	**(1)**	3	**(9)**
Total	**(94)**	(580)	**(834)**

For the fiscal year ended March 31, 2015, the impairment loss of ¥299 million was recognized as a result of reducing the carrying amount of property, plant and equipment related to LPG tanks, for which the Company determined to withdraw from the business due to deterioration of profitability, to the recoverable amount of ¥170 million. In addition, the impairment loss of ¥137 million was recognized as a result of reducing the carrying amount of property, plant and equipment related to several petrol service stations in Japan, for which the Company determined to withdraw from the business, to the recoverable amount of ¥35 million. The recoverable amount is based on fair value less costs of disposal and fair value is estimated mainly based on the real estate appraisal. The assets belong to the Steel, Materials & Plant segment.

Regarding the impairment of other non-current assets, the impairment loss of ¥86 million was recognized as the assets were evaluated to have a zero recoverable amount mainly because future cash flows could no longer be expected primarily due to termination of a license agreement. The assets belong to the Electronics & Devices segment.

For the fiscal year ended March 31, 2016, the impairment loss of ¥79 million ($701 thousand) was recognized as a result of reducing the carrying amount of property, plant and equipment related to several petrol service stations in Japan, for which the Company determined to withdraw from business, to the recoverable amount of ¥4 million ($35 thousand). The recoverable amount is based on fair value less costs of disposal and fair value is estimated mainly based on the real estate appraisal. The assets belong to the Steel, Materials & Plant segment.

While fair values are categorized into three levels depending on inputs to valuation techniques used, all the fair values above are categorized within Level 3 of the fair value hierarchy with its details described in "2. Basis of Preparing Consolidated Financial Statements, (4) Use of estimates and judgments".

23. Exchange Differences

Exchange differences recognized in profit or loss for the fiscal years ended March 31, 2016 and March 31, 2015 were gains of ¥713 million ($6,328 thousand) and ¥1,713 million, respectively and are included in "Other income" in the consolidated statement of income. In addition, each amount includes gains or losses arising from currency-related derivative transactions that were entered into for the purpose of hedging the foreign currency risk. Gains and losses arising from translating assets and liabilities denominated in a currency other than the functional currency or from settling such items are included in profit or loss as they arise.

24. Finance Income and Finance Costs

The breakdown of finance income and finance costs is presented as follows:

	JPY		USD
	2016	2015	**2016**
Interest income			
Financial assets measured at amortized cost	**478**	400	**4,242**
Total interest income	**478**	400	**4,242**
Dividend income			
Financial assets measured at fair value through profit or loss	**147**	372	**1,305**
Financial assets measured at fair value through other comprehensive income	**779**	709	**6,913**
Total dividend income	**927**	1,082	**8,227**
Other finance income (Note)			
Other finance income	**—**	18	**—**
Total other finance income	**—**	18	**—**
Total finance income	**1,405**	1,501	**12,469**
Interest expenses			
Financial liabilities measured at amortized cost	**(2,167)**	(2,598)	**(19,231)**
Derivatives	**(240)**	(312)	**(2,130)**
Total interest expenses	**(2,407)**	(2,910)	**(21,361)**
Other finance costs (Note)			
Other finance costs	**(323)**	(908)	**(2,867)**
Total other finance costs	**(323)**	(908)	**(2,867)**
Total finance costs	**(2,731)**	(3,819)	**(24,237)**

(Note) The amounts of other finance income and other finance costs are those related to financial assets measured at fair value through profit or loss and the details are presented in *Note 30 Financial Instruments: (6)-3)-(ii) Recurring fair value measurements categorized within Level 3 of the fair value hierarchy*.

25. Earnings Per Share Attributable to Owners of the Parent

(1) Basic earnings per share

	Yen		U.S. dollar
	2016	2015	**2016**
Basic earnings per share	**21.29**	25.10	**0.19**

Diluted earnings per share is not presented as there are no share with dilutive effect.

(2) Bases for calculation of basic earnings per share

	JPY		USD
	2016	2015	**2016**
Profit attributable to owners of the Parent	**8,959**	10,546	**79,508**
Amount not attributable to common shareholders of the Parent	**—**	—	**—**
Profit used to calculate basic earnings per share	**8,959**	10,546	**79,508**
	Thousand shares		
Weighted average number of common shares	**420,803**	420,211	

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26. Other Comprehensive Income

The breakdown for the amounts of reclassification adjustments and deferred tax in other comprehensive income is presented as follows:

	JPY		USD
	2016	2015	**2016**
Financial assets measured at fair value through other comprehensive income			
Amount arising during the year	**(2,727)**	5,164	**(24,201)**
Amount before deferred tax	**(2,727)**	5,164	**(24,201)**
Deferred tax	**1,147**	(1,401)	**10,179**
Total net unrealized gains (losses), net of tax	**(1,580)**	3,762	**(14,022)**
Remeasurements of defined benefit plans, net of tax			
Amount arising during the year	**(578)**	393	**(5,130)**
Amount before deferred tax	**(578)**	393	**(5,130)**
Deferred tax	**152**	99	**1,349**
Remeasurements of defined benefit plans, net of tax	**(426)**	492	**(3,781)**
Exchange differences on translation of foreign operations			
Amount arising during the year	**(2,911)**	6,564	**(25,834)**
Reclassification adjustments	**17**	—	**151**
Exchange differences on translation of foreign operations	**(2,894)**	6,564	**(25,683)**
Cash flow hedges			
Amount arising during the year	**(1,097)**	817	**(9,736)**
Reclassification adjustments	**(1,058)**	(142)	**(9,389)**
Amount before deferred tax	**(2,156)**	674	**(19,134)**
Deferred tax	**645**	(239)	**5,724**
Cash flow hedges	**(1,511)**	435	**(13,410)**
Share of other comprehensive income of investments accounted for using the equity method			
Amount arising during the year	**(114)**	112	**(1,012)**
Reclassification adjustments	**(27)**	2	**(240)**
Share of other comprehensive income of investments accounted for using the equity method	**(141)**	114	**(1,251)**
Total other comprehensive income	**(6,554)**	11,369	**(58,165)**

27. Cash Flow Information

(1) Cash and cash equivalents

Cash and cash equivalents for the fiscal years ended March 31, 2016 and March 31, 2015 consist of cash and bank deposits (excluding time deposits with deposit term exceeding three months).

(2) Net payment for acquisition of subsidiaries

The breakdown of main assets and liabilities of newly acquired subsidiaries at the time control thereof was acquired, and the relationship between considerations paid and net payment for the acquisition are presented as follows:

	JPY		USD
	2016	2015	**2016**
Breakdown of assets at the acquisition date			
Current assets (including cash and cash equivalents)	**5,276**	5,186	**46,823**
Non-current assets	**1,285**	4,786	**11,404**
Breakdown of liabilities at the acquisition date			
Current liabilities	**(5,572)**	(2,427)	**(49,450)**
Non-current liabilities	**(696)**	(742)	**(6,177)**

	JPY		USD
	2016	2015	**2016**
Considerations paid	**(105)**	(1,567)	**(932)**
Cash and cash equivalents included in the assets at the time control thereof was acquired	**1,283**	1,469	**11,386**
Net proceeds from (payment for) acquisition of subsidiaries	**1,178**	(97)	**10,454**

(3) Net proceeds from sale of subsidiaries

The breakdown of main assets and liabilities of companies that are no longer the subsidiaries of the Company as a result of sale of shares at the time control thereof was lost, and the relationship between considerations received and net proceeds from the sale are presented as follows:

	JPY		USD
	2016	2015	**2016**
Details of assets upon loss of control			
Current assets (including cash and cash equivalents)	**1,833**	—	**16,267**
Non-current assets	**493**	—	**4,375**
Details of liabilities upon loss of control			
Current liabilities	**(2,941)**	—	**(26,100)**

	JPY		USD
	2016	2015	**2016**
Considerations received	**282**	—	**2,503**
Cash and cash equivalents included in the assets at the time control thereof was lost	**(447)**	—	**(3,967)**
Net proceeds from (payment for) sale of subsidiaries	**(165)**	—	**(1,464)**

(4) Significant non-cash transactions

There were no significant non-cash transactions for the fiscal years ended March 31, 2016 and March 31, 2015.

28. Employee Benefits

(1) Post-employment benefits

1) Outline of retirement benefit plans adopted by the Consolidated Group

The Company has the defined benefit pension plan and lump-sum retirement benefit plan covering substantially all employees other than directors and executive officers. The benefit amounts for the defined benefit pension plan are determined based on the period of employees' enrollment in the plan, contribution granted to employees and other factors. The Company has a responsibility to manage pension assets faithfully and has an obligation to make contributions for the employees enrolled in the plan in compliance with laws and regulations.

The pension plan that the Company maintains is a contract-type defined benefit pension plan.

Matters such as asset management performance, status of the plan and accounting treatment are reported in the Management Committee by the Finance Department and the Personnel & General Affairs Department, which are in charge of operation of the pension plan. These departments hold a meeting on a timely manner to discuss the matters such as a revision to the plan and a change in the asset investment policy.

Most of the subsidiaries have unfunded retirement benefit plans and/or funded pension plans. Employees, other than directors, are entitled to, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, a lump-sum retirement benefit based on compensation at the time of retirement, years of service and other factors. Certain subsidiaries have adopted the defined contribution retirement benefit plan.

2) Defined benefit plan

(i) Net defined benefit liability (asset)

Reconciliation of the beginning and ending balances of net defined benefit liability (asset) and the components for the years ended March 31, 2016 and March 31, 2015 are presented as follows:

(JPY)

	Present value of the defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
As of the transition date (April 1, 2014)	18,574	(12,841)	5,732
Current service cost	1,265	—	1,265
Net interest	143	(119)	24
Remeasurements	77	(470)	(393)
Foreign exchange translation differences	32	(35)	(2)
Employer contributions to the plan	—	(981)	(981)
Benefits paid	(1,696)	1,227	(468)
Effect of business combinations and disposals	567	(202)	365
Other	(141)	1	(140)
As of March 31, 2015	18,823	(13,422)	5,400
Current service cost	1,260	—	1,260
Net interest	103	(77)	26
Remeasurements	639	(60)	578
Foreign currency translation difference	(60)	14	(46)
Employer contributions to the plan	—	(929)	(929)
Benefits paid	(1,577)	1,160	(416)
Effect of business combinations and disposals	—	—	—
Other	(106)	4	(102)
As of March 31, 2016	19,082	(13,309)	5,772

(USD)

	Present value of the defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
As of March 31, 2015	167,048	(119,116)	47,923
Current service cost	11,182	—	11,182
Net interest	914	(683)	231
Remeasurements	5,671	(532)	5,130
Foreign currency translation difference	(532)	124	(408)
Employer contributions to the plan	—	(8,245)	(8,245)
Benefits paid	(13,995)	10,295	(3,692)
Effect of business combinations and disposals	—	—	—
Other	(941)	35	(905)
As of March 31, 2016	169,347	(118,113)	51,225

Remeasurements of the defined benefit obligation for the fiscal years ended March 31, 2016 and March 31, 2015 are the differences arising primarily from changes in financial assumptions.

(ii) Reconciliation of ending balances of defined benefit obligation/plan assets and net defined benefit liability/asset presented on the consolidated statements of financial position

	JPY			USD
	2016	2015	Transition date	**2016**
Defined benefit obligations of funded plan	**15,561**	15,137	14,990	**138,099**
Plan assets	**(13,309)**	(13,422)	(12,841)	**(118,113)**
Net defined benefit liability of funded plan	**2,251**	1,715	2,148	**19,977**
Defined benefit obligations of unfunded plan	**3,520**	3,685	3,584	**31,239**
Net liability or asset presented on the consolidated statements of financial position	**5,772**	5,400	5,732	**51,225**

The measurement dates used to determine the benefit obligations are mainly March 31 of each year.

The Consolidated Group's funding policy is based on a number of factors including the tax deductibility of contributions, funded status, actuarial calculations and other considerations. Contributions are intended to provide not only for benefits attributable to service to date, but also for those expected to be earned in the future. In addition, the Company may contribute cash to an employee retirement benefit trust for any funding deficits in benefit obligations at the fiscal year end.

The Consolidated Group's investment policy is designed to increase the value of plan assets within acceptable risk levels to ensure payments of pension benefits to eligible participants, including future participants. Taking into account the return and risk on plan assets thereon, the Consolidated Group formulate a strategic asset mix which aims at an optimal portfolio on a long-term basis and supervise asset management by selecting investment management companies and monitoring asset allocations. The strategic asset mix is subject to review in response to changes in expected market conditions or funded status. The strategic asset mix is not based on limitations but guidelines, and therefore, the actual allocation may temporarily exceed or fall below the guidelines. The Company's target allocation is 10% equity securities, 39% debt securities, 40% life insurance company general accounts and 11% others.

The Consolidated Group holds a meeting regularly with the asset management institutions and discuss important issues regarding pension assets investment.

(iii) Plan assets

The composition of the plan assets as of March 31, 2016.

	Plan assets with a quoted market price in an active market		Plan assets without a quoted market price in an active market	
	JPY	USD	JPY	USD
Equity securities	**1,164**	**10,330**	**1**	**9**
Debt securities	**4,798**	**42,581**	**403**	**3,576**
Life insurance company general accounts	**—**	**—**	**4,464**	**39,617**
Other	**161**	**1,429**	**2,316**	**20,554**
Total	**6,124**	**54,349**	**7,185**	**63,765**

The composition of the plan assets as of March 31, 2015.

	Plan assets with a quoted market price in an active market	Plan assets without a quoted market price in an active market
	JPY	JPY
Equity securities	1,489	0
Debt securities	4,739	416
Life insurance company general accounts	—	5,834
Other	114	827
Total	6,343	7,078

The composition of the plan assets as of the transition date are presented as follows:

	Plan assets with a quoted market price in an active market	Plan assets without a quoted market price in an active market
	JPY	JPY
Equity securities	1,382	0
Debt securities	4,576	337
Life insurance company general accounts	—	5,681
Other	99	764
Total	6,057	6,783

(iv) Significant actuarial assumptions

	2016	2015	Transition date
Discount rate	**0.3%**	0.7%	0.9%

The assumptions used for the actuarial calculation include the expected rate of salary increase, the mortality rate and the retirement rate other than the above.

(v) Sensitivity analysis of defined benefit obligations

	JPY		USD
	2016	2015	2016
Increase in the defined benefit obligation with a 50-basis-point decrease in the discount rate	**135**	253	**1,198**
Decrease in the defined benefit obligation with a 50-basis-point increase in the discount rate	**(254)**	(253)	**(2,254)**

This analysis is based on the premise that the actuarial assumptions other than the discount rate do not fluctuate and that only the discount rate fluctuate. This method of analysis is based on assumptions, and it is possible that the actual calculation could be influenced by fluctuations in other variables. Even if the discount rate falls below 0%, the calculation is performed assuming the lower limit of the discount rate is 0%.

(vi) Information on maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation for both of the fiscal years ended March 31, 2016 and March 31, 2015 was 10.9 years.

(vii) Expected contribution to the plan for the year ending March 31, 2017

The amount of contribution made by made by the Consolidated Group to plan assets for the year ending March 31, 2017 is estimated to be ¥836 million ($7,419 thousand).

3) Defined contribution plan

Expenses recognized for the defined contribution plan for the years ended March 31, 2016 and March 31, 2015 were ¥177 million ($1,571 thousand) and ¥217 million, respectively.

(2) Employee benefit expenses

Employee benefit expenses recognized for the years ended March 31, 2016 and March 31, 2015 were ¥1,559 million ($13,836 thousand) and ¥1,535 million, respectively. Employee benefit expenses are included in "Cost of revenues" and "Selling, general and administration expenses" in the consolidated statement of income.

29. Deferred Taxes and Income Taxes

(1) Deferred taxes

1) Breakdown of deferred tax assets and deferred tax liabilities

The breakdown of main deferred tax assets and deferred tax liabilities by component is as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Deferred tax assets				
Retirement benefits liabilities	**1,302**	1,693	1,553	**11,555**
Loss allowance	**681**	802	968	**6,044**
Inventories	**497**	1,706	1,784	**4,411**
Impairment loss	**677**	853	791	**6,008**
Other investments	**857**	875	944	**7,606**
Golf club memberships	**157**	170	177	**1,393**
Tax losses carried forward	**5,628**	6,784	10,334	**49,947**
Cash flow hedges	**613**	—	216	**5,440**
Other	**3,547**	3,938	3,481	**31,479**
Total deferred tax assets	**13,963**	16,825	20,252	**123,917**
Offset against deferred tax liabilities	**(4,879)**	(6,268)	(4,549)	**(43,300)**
Total deferred tax assets, net	**9,084**	10,557	15,702	**80,618**
Deferred tax liabilities				
Retained earnings in subsidiaries	**(267)**	(253)	(260)	**(2,370)**
Cash flow hedges	**—**	(12)	—	**—**
Financial assets measured at fair value through other comprehensive income	**(3,085)**	(4,204)	(2,569)	**(27,378)**
Other	**(1,824)**	(2,111)	(2,003)	**(16,187)**
Total deferred tax liabilities	**(5,177)**	(6,582)	(4,833)	**(45,944)**
Offset against deferred tax assets	**4,879**	6,268	4,549	**43,300**
Total deferred tax liabilities, net	**(297)**	(313)	(283)	**(2,636)**
Net deferred tax assets	**8,786**	10,243	15,418	**77,973**

2) Details of changes in deferred tax assets and deferred tax liabilities

Details of changes in deferred tax assets and deferred tax liabilities are presented as follows:

	JPY		USD
	2016	2015	**2016**
Beginning balance of net deferred tax assets	**10,243**	15,418	**90,903**
Deferred tax expense	**(3,316)**	(4,024)	**(29,428)**
Income tax on other comprehensive income	**1,944**	(1,541)	**17,252**
Acquisition through business combinations	**—**	413	**—**
Other	**(85)**	(23)	**(754)**
Ending balance of net deferred tax assets	**8,786**	10,243	**77,973**

3) Deductible temporary differences and unused tax losses carried forward for which deferred tax assets were not recognized

The breakdown of deductible temporary differences and unused tax losses carried forward (by expiry date), for which deferred tax assets were not recognized in the consolidated statement of financial position are presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Deductible temporary differences	**17,639**	19,054	18,114	**156,541**
Tax losses carried forward				
Within one year to expiry	**21**	—	115	**186**
Between one and five years to expiry	**26,606**	19,172	11,340	**236,120**
Between five and ten years to expiry	**11,609**	7,747	17,683	**103,026**
Over ten years to expiry	**186**	48	49	**1,651**
Total tax losses carried forward	**38,424**	26,967	29,188	**341,001**

4) Temporary differences associated with investments in subsidiaries for which deferred tax liabilities were not recognized

The total amounts of temporary differences associated with investments in subsidiaries for which deferred tax liabilities were not recognized as of March 31, 2016 and March 31, 2015 and the transition date are ¥16,549 million ($146,867 thousand), ¥13,616 million and ¥11,771 million, respectively. Because the Consolidated Group is able to control the timing of the reversal of such temporary differences, and it is probable that such temporary differences will not be reversed within the foreseeable future, it did not recognize deferred tax liabilities with respect to such temporary differences.

(2) Income taxes

1) Breakdown of income taxes

The breakdown of income taxes is presented as follows:

	JPY		USD
	2016	2015	**2016**
Current tax expense (Note 1)	**(3,997)**	(5,213)	**(35,472)**
Deferred tax expense (Note 2)			
Origination and reversal of temporary differences	**(1,721)**	(2,752)	**(15,273)**
Reassessment of recoverability of deferred tax assets	**(1,036)**	874	**(9,194)**
Changes in tax rate	**(558)**	(2,146)	**(4,952)**
Total deferred tax expense	**(3,316)**	(4,024)	**(29,428)**
Total income taxes	**(7,313)**	(9,238)	**(64,901)**

(Notes) 1. The amounts of the benefits arising from previously unrecognized tax losses or temporary differences of a prior period that were used to reduce current tax expenses for the years ended March 31, 2016 and March 31, 2015 were ¥487 million ($4,322 thousand) and nil, respectively, and these benefits were included in the current tax expenses.

2. Major causes for deferred tax expense by type are inventories of ¥(1,209) million ($(10,729) thousand) and tax loss carried forward of ¥(1,156) million ($(10,259) thousand) for the fiscal year ended March 31, 2016, and tax loss carried forward of ¥(3,549) million for the fiscal year ended March 31, 2015.

2) Reconciliation of statutory effective income tax rate in Japan

Reconciliations between the statutory effective tax rate in Japan and the average effective tax rate of the Consolidated Group were as follows:

	2016	2015
Effective statutory tax rate	**33.1%**	35.6%
(Adjustments)		
Permanent differences—additions such as entertainment expenses	**0.7%**	2.2%
Effect of reassessment of recoverability of deferred tax assets	**5.7%**	(3.9)%
Effect of tax rate differences	**(0.5)%**	1.8%
Tax reform	**3.1%**	9.6%
Other	**(1.8)%**	(4.0)%
Average effective tax rate	**40.4%**	41.3%

The effective statutory effective tax rate for the fiscal year ended March 31, 2016 is calculated to be 33.1% based on the Corporation Tax, Inhabitant Tax and Business Tax in Japan.

On March 29, 2016, "Partial Revision of Income Tax Act, etc." (Act No.15 of 2016) and "Partial Revision of Local Tax Act, etc." (Act No.13 of 2016) were approved in the Diet. Under these Acts, the reduction in the corporate tax rate will become effective from the fiscal year beginning on or after April 1, 2016. As a result of this change, the statutory effective tax rate being applied in the deferred tax calculation reduced from 32.3% to 30.9% for the temporary differences which will be deducted during the fiscal year beginning on April 1, 2016 and on April 1, 2017, and to 30.6% for those which will be deducted during and after the fiscal year beginning on April 1, 2018.

30. Financial Instruments

(1) Classification of financial instruments

The breakdown of financial instruments for each classification is presented as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Financial assets				
Cash and cash equivalents	**87,466**	66,485	73,978	**776,234**
Financial assets measured at amortized cost				
Trade and other receivables	**164,001**	186,874	182,763	**1,455,458**
Other investments	**1,000**	1,000	1,000	**8,875**
Other financial assets	**7,657**	9,250	6,663	**67,953**
Total financial assets measured at amortized cost	**172,658**	197,125	190,426	**1,532,286**
Financial assets measured at fair value through profit or loss				
Other investments	**5,637**	6,425	6,341	**50,027**
Other financial assets	**379**	3,024	1,497	**3,364**
Total financial assets measured at fair value through profit or loss	**6,016**	9,449	7,838	**53,390**
Financial assets measured at fair value through other comprehensive income				
Other investments	**24,897**	25,623	19,386	**220,953**
Total financial assets measured at fair value through other comprehensive income	**24,897**	25,623	19,386	**220,953**
Total financial assets	**291,039**	298,684	291,629	**2,582,881**
Financial liabilities				
Financial liabilities measured at amortized cost				
Trade and other payables	**142,143**	159,522	150,518	**1,261,475**
Bonds and borrowings	**136,867**	139,731	140,965	**1,214,652**
Other financial liabilities	**9,979**	11,027	10,062	**88,561**
Total financial liabilities measured at amortized cost	**288,990**	310,281	301,546	**2,564,696**
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities	**3,829**	1,421	1,336	**33,981**
Total financial liabilities measured at fair value through profit or loss	**3,829**	1,421	1,336	**33,981**
Total financial liabilities	**292,819**	311,703	302,883	**2,598,678**

(2) Basic policies for risk management of financial instruments

The Consolidated Group is an integrated trading company engaged in a wide range of business activities on a global basis. Its headquarters includes business sections that handle merchandising, trading, product manufacturing, services, project planning and management, investments and financing activities, both domestically and internationally. Such businesses are inherently exposed to various risks. The Consolidated Group defines and classifies risks per risk item and manages each of them in accordance with its nature.

(3) Credit risk management

1) Credit risks of financial assets owned by the Company (risk exposure and the occurrence of the relevant risk)

The Consolidated Group extends credit to a large number of customers in Japan and abroad in diverse business transactions, resulting in a number of financial assets such as trade receivables, loans and other financial assets. These financial assets provide credit accommodation to the various customers; therefore, the Consolidated Group is mainly exposed to the credit risks related to those customers.

Moreover, other investments include debt instruments that are the investments in the customers, which expose the Consolidated Group to the credit risk arising from deterioration in the financial position of issuers.

Each department manages credit exposure to each customer by assigning credit ratings on a customer-by-customer basis and setting credit exposure limit within the framework of the Consolidated Group's credit risk control.

2) Responses to the risk owned by the Company (purpose, policy and procedure of the risk management and method used to measure such risks)

The Consolidated Group manages its credit risk to the customers by defining risk management methods and management systems for specific risks in accordance with the regulations on risk management. Based on such regulations, the Consolidated Group mitigates credit risk through periodical monitoring of the customer's credit status and undertaking the maturity control and account balance control, while detecting promptly any doubtful accounts caused by deterioration in the financial conditions of customers and other factors. Expected credit losses are recognized and measured through transactions and financial information related to customers available in the course of such credit risk management, while taking macroeconomic condition such as the number of bankruptcies into consideration.

With regard to loans, the Consolidated Group determines there has been a significant increase in credit risk of the financial assets since initial recognition in case the cash collection of the financial assets was delayed (as well as the case of request for grace period) after the trade date. However, even when late payment or request for grace period occurs, the Consolidated Group does not determine that there has been a significant increase in credit risk if such late payment or request for grace period would be attributable to temporary cash shortage and the risk of default would be low. Objective data such as external credit ratings reveals their ability to fulfil the obligation of contractual cash flow in the near future.

On the other hand, the Consolidated Group determines that the credit of the financial assets are impaired, when late payment or request for grace period do not arise from temporary cash shortage but significant financial difficulty of the debtor and the recoverability of the modified financial assets is significantly doubtful.

The Consolidated Group determines there has been a significant increase in the credit risk of debt instruments since initial recognition when an "investment grade" at the initial recognition deteriorates to the level below investment grade. For such purpose, rating information provided by major rating agencies is used.

When guaranteeing the debts of its customers, the Consolidated Group establishes the guarantee limit amounts based upon the financial position and business condition of the customers. The guarantee limit amounts are periodically reviewed and maintained at appropriate level.

When entering into derivative transactions, the Consolidated Group only deals with major financial institutions with high credit ratings assigned by independent rating agencies so as to minimize the credit risks. In addition, the Consolidated Group periodically reviews credit limits in accordance with the internal regulations.

The Consolidated Group considers the trade receivables, loans receivable, and debt instruments as default when all or part of those financial instruments are not recovered or the recoverability of those financial instruments is determined to be extremely difficult.

(i) Measurement of expected credit losses on trade receivables

As trade receivables do not contain a significant financing component, the Consolidated Group measures loss allowance at an amount equal to the lifetime expected credit losses until the trade receivables are recovered. As performing trade receivables comprise a number of customers, the Consolidated Group measures expected credit loss collectively by grouping those receivables and considering historical credit loss experience. When those receivables are affected by material economic change, provision rate calculated based upon the historical credit loss experience is adjusted to reflect current and future economic prospect.

Even when late payment or request for grace period has occurred, the Consolidated Group does not regard them as past due receivables if such late payment or request for grace period would be attributable to temporary cash shortage as the risk of default would be low, and the debtors are evaluated to have strong ability to fulfil the obligation of contractual cash flow in the near future.

(ii) Measurement of expected credit losses on other receivables

When credit risk related to loans has not increased significantly since the initial recognition at the end of the reporting period, the Consolidated Group calculates the amount of loss allowance of the financial instruments by estimating the 12-month expected credit losses collectively based upon historical credit loss experience. When those receivables are affected by material economic change, provision rate calculated based upon the historical credit loss experience is adjusted to reflect current and future economic prospect.

On the other hand, when there has been a significant increase in credit risk since initial recognition as of the end of fiscal year, the Consolidated Group estimates the lifetime credit losses on the financial instruments individually and measures the amount of loss allowance based upon historical credit loss experience and future recoverable amount.

(iii) Measurement of the expected credit losses on the other investments (debt securities)

When credit risk related to debt securities has not increased significantly since initial recognition at the end of the reporting period, the Consolidated Group calculates the amount of loss allowance of the financial instruments by estimating the 12-month expected credit losses. On the other hand, when there has been a significant increase in credit risk since initial recognition as of the end of fiscal year, the Consolidated Group estimates the lifetime credit losses on the financial instruments and measures the amount of loss allowance of the financial instruments. When estimating such expected credit losses, the Consolidated Group uses the default rate published by major rating agencies.

The Consolidated Group directly writes off the gross carrying amount of the credit-impaired financial assets when all or part of the financial assets are evaluated to be uncollectible and determined that it is appropriate to be written off as a result of credit check.

3) Quantitative and qualitative information on the amounts arising from expected credit losses

(i) Trade and other receivables

(JPY)

Loss allowance	Lifetime expected credit losses	
	Collective assessment	Credit-impaired financial assets
As of the transition date (April 1, 2014)	32	2,677
1. Reclassification to credit-impaired financial assets	(0)	44
2. Incurrence or collection during the period	0	67
3. Direct write-off	—	(147)
4. Changes due to foreign exchange	—	9
5. Increase (decrease) resulting from changes in provision rate based on historical credit loss experience	(13)	—
As of March 31, 2015	19	2,651
1. Reclassification to credit-impaired financial assets	(0)	79
2. Incurrence or collection during the period	(1)	(97)
3. Direct write-off	—	(249)
4. Changes due to foreign exchange	—	(7)
5. Increase (decrease) resulting from changes in provision rate based on historical credit loss experience	(10)	—
As of March 31, 2016	7	2,375

(JPY)

Gross carrying amount	Lifetime expected credit losses	
	Collective assessment	Credit-impaired financial assets
As of the transition date (April 1, 2014)	182,285	3,188
1. Financial assets reclassified to credit-impaired financial assets	(44)	44
2. Incurrence or collection during the period	4,323	(113)
3. Direct write-off	—	(147)
4. Changes due to foreign exchange	—	9
As of March 31, 2015	186,564	2,981
1. Financial assets reclassified to credit-impaired financial assets	(159)	159
2. Incurrence or collection during the period	(22,758)	(145)
3. Direct write-off	—	(249)
4. Changes due to foreign exchange	—	(7)
As of March 31, 2016	163,646	2,737

(USD)

Loss allowance	Lifetime expected credit losses	
	Collective assessment	Credit-impaired financial assets
As of March 31, 2015	169	23,527
1. Reclassification to credit-impaired financial assets	(0)	701
2. Incurrence or collection during the period	(9)	(861)
3. Direct write-off	—	(2,210)
4. Changes due to foreign exchange	—	(62)
5. Increase (decrease) resulting from changes in provision rate based on historical credit loss experience	(89)	—
As of March 31, 2016	62	21,077

(USD)

Gross carrying amount	Lifetime expected credit losses	
	Collective assessment	Credit-impaired financial assets
As of March 31, 2015	1,655,698	26,455
1. Financial assets reclassified to credit-impaired financial assets	(1,411)	1,411
2. Incurrence or collection during the period	(201,970)	(1,287)
3. Direct write-off	—	(2,210)
4. Changes due to foreign exchange	—	(62)
As of March 31, 2016	1,452,307	24,290

(ii) Other investments (debt instrument securities)

(JPY)

Loss allowance	Expected credit losses		
	12 months	Lifetime	
		Individual assessment	Credit-impaired financial assets
As of the transition date (April 1, 2014)	0	—	—
1. Changes in financial instruments recognized at the beginning of the period	—	—	—
(a) Reclassified to lifetime expected credit losses	—	—	—
(b) Reclassified to credit-impaired financial assets	—	—	—
(c) Individual financial assets reclassified from credit-impaired financial assets	—	—	—
2. Increase (decrease) in loss allowance resulting from incurrence or collection	—	—	—
3. Direct write-off	—	—	—
4. Increase (decrease) due to changes in default rate	0	—	—
As of March 31, 2015	0	—	—
1. Changes in financial instruments recognized at the beginning of the period	—	—	—
(a) Reclassified to lifetime expected credit losses	—	—	—
(b) Reclassified to credit-impaired financial assets	—	—	—
(c) Individual financial assets reclassified from credit-impaired financial assets	—	—	—
2. Increase (decrease) in loss allowance resulting from incurrence or collection	—	—	—
3. Direct write-off	—	—	—
4. Increase (decrease) due to changes in default rate	0	—	—
As of March 31, 2016	0	—	—

There was no change in the gross carrying amount of the debt instrument securities that caused a change in the amount of loss allowance.

(JPY)

Gross carrying amount	Expected credit losses		
	12 months	Lifetime	
		Individual assessment	Credit-impaired financial assets
As of the transition date (April 1, 2014)	1,000	—	—
1. Changes in financial instruments recognized at the beginning of the period	—	—	—
(a) Reclassified to lifetime expected credit losses	—	—	—
(b) Reclassified to credit-impaired financial assets	—	—	—
(c) Individual financial assets reclassified from credit-impaired financial assets	—	—	—
2. Incurrence or collection	—	—	—
3. Direct write-off	—	—	—
4. Other changes	—	—	—
As of March 31, 2015	1,000	—	—
1. Changes in financial instruments recognized at the beginning of the period	—	—	—
(a) Reclassified to lifetime expected credit losses	—	—	—
(b) Reclassified to credit-impaired financial assets	—	—	—
(c) Individual financial assets reclassified from credit-impaired financial assets	—	—	—
2. Incurrence or collection	—	—	—
3. Direct write-off	—	—	—
4. Other changes	—	—	—
As of March 31, 2016	1,000	—	—

(USD)

Loss allowance	Expected credit losses		
	12 months	Lifetime	
		Individual assessment	Credit-impaired financial assets
As of March 31, 2015	0	—	—
1. Changes in financial instruments recognized at the beginning of the period	—	—	—
(a) Reclassified to lifetime expected credit losses	—	—	—
(b) Reclassified to credit-impaired financial assets	—	—	—
(c) Individual financial assets reclassified from credit-impaired financial assets	—	—	—
2. Increase (decrease) in loss allowance resulting from incurrence or collection	—	—	—
3. Direct write-off	—	—	—
4. Increase (decrease) due to changes in default rate	0	—	—
As of March 31, 2016	0	—	—

(USD)

Gross carrying amount	Expected credit losses		
	12 months	Lifetime	
		Individual assessment	Credit-impaired financial assets
As of March 31, 2015	8,875	—	—
1. Changes in financial instruments recognized at the beginning of the period	—	—	—
(a) Reclassified to lifetime expected credit losses	—	—	—
(b) Reclassified to credit-impaired financial assets	—	—	—
(c) Individual financial assets reclassified from credit-impaired financial assets	—	—	—
2. Incurrence or collection	—	—	—
3. Direct write-off	—	—	—
4. Other changes	—	—	—
As of March 31, 2016	8,875	—	—

(iii) There is no contractual, uncollected balance for financial assets written off during the fiscal year ended March 31, 2016, for which; however, collecting efforts are still being made.

4) Credit risk exposure

(i) Trade and other receivables

2016 (March 31, 2016)

	Balance of receivables (gross)		Provision rate based on historical credit loss experience	Lifetime expected credit losses	
	JPY	USD		JPY	USD
Performing receivables	**163,646**	**1,452,307**	**0.00%**	**7**	**62**
Past due receivables	**2,737**	**24,290**	**86.79%**	**2,375**	**21,077**
Total	**166,384**	**1,476,606**	**—**	**2,383**	**21,148**

Past due receivables includes loans receivable of ¥1,969 million ($17,474 thousand), for which loss allowance of ¥1,688 million ($14,980 thousand) is already recognized.

2015 (March 31, 2015)

	Balance of receivables (gross)	Provision rate based on historical credit loss experience	Lifetime expected credit losses
	JPY		JPY
Performing receivables	186,564	0.01%	19
Past due receivables	2,981	88.96%	2,651
Total	189,546	—	2,671

Past due receivables include loans receivable of ¥2,062 million, for which loss allowance of ¥1,733 million is already recognized.

Transition date (April 1, 2014)

	Balance of receivables (gross)	Provision rate based on historical credit loss experience	Lifetime expected credit losses
	JPY		JPY
Performing receivables	182,285	0.02%	32
Past due receivables	3,188	84.00%	2,677
Total	185,474	—	2,710

Past due receivables includes loans receivable of ¥2,156 million, for which loss allowance of ¥1,652 million is already recognized.

(ii) Other investments (Debt instrument securities)

2016 (March 31, 2016)

External rating	Gross carrying amount			
	Debt instrument securities			
	Lifetime		12 months	
	JPY	USD	JPY	USD
AAA-AA	**—**	**—**	**—**	**—**
A	**—**	**—**	**—**	**—**
BBB-BB	**—**	**—**	**1,000**	**8,875**
B	**—**	**—**	**—**	**—**
Total	**—**	**—**	**1,000**	**8,875**

2015 (March 31, 2015)

External rating	Gross carrying amount	
	Debt instrument securities	
	Lifetime	12 months
	JPY	JPY
AAA-AA	—	—
A	—	—
BBB-BB	—	1,000
B	—	—
Total	—	1,000

Transition date (April 1, 2014)

External rating	Gross carrying amount — Debt instrument securities — Lifetime (JPY)	Gross carrying amount — Debt instrument securities — 12 months (JPY)
AAA-AA	—	—
A	—	—
BBB-BB	—	1,000
B	—	—
Total	—	1,000

5) Maximum exposure to credit risks

The Consolidated Group's maximum exposure to credit risks is as follows:

The Consolidated Group's maximum credit risk exposure (gross) represents the amount of the maximum exposure with respect to credit risks without taking into account any collateral held or other credit enhancement. On the other hand, the Consolidated Group's maximum credit risk exposure (net) represents the amount of the maximum exposure with respect to credit risks reflecting the mitigation effect of the collateral held or other credit enhancement.

As of March 31, 2016

	Gross carrying amount		Loss allowance		Maximum credit risk exposure (gross)		Total collateral pledged and credit enhancements		Maximum credit risk exposure (net)	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Cash and cash equivalents	**87,466**	**776,234**	**—**	**—**	**87,466**	**776,234**	**—**	**—**	**87,466**	**776,234**
Financial assets measured at amortized cost										
Trade and other receivables	**166,384**	**1,476,606**	**(2,383)**	**(21,148)**	**164,001**	**1,455,458**	**(290)**	**(2,574)**	**163,710**	**1,452,875**
Other financial assets	**7,657**	**67,953**	**—**	**—**	**7,657**	**67,953**	**—**	**—**	**7,657**	**67,953**
Other investments	**1,000**	**8,875**	**(0)**	**(0)**	**1,000**	**8,875**	**—**	**—**	**1,000**	**8,875**
Total	**262,508**	**2,329,677**	**(2,383)**	**(21,148)**	**260,124**	**2,308,520**	**(290)**	**(2,574)**	**259,834**	**2,305,946**

The amount of loss allowance for credit-impaired financial assets is reduced by ¥290 million ($2,574 thousand) through collateral pledged and credit enhancements.

As of March 31, 2015

	Gross carrying amount	Loss allowance	Maximum credit risk exposure (gross)	Total collateral pledged and credit enhancements	Maximum credit risk exposure (net)
	JPY	JPY	JPY	JPY	JPY
Cash and cash equivalents	66,485	—	66,485	—	66,485
Financial assets measured at amortized cost					
Trade and other receivables	189,546	(2,671)	186,874	(223)	186,651
Other financial assets	9,250	—	9,250	—	9,250
Other investments	1,000	(0)	1,000	—	1,000
Total	266,282	(2,671)	263,611	(223)	263,388

The amount of loss allowance for credit-impaired financial assets is reduced by ¥223 million through collateral pledged and credit enhancements.

As of the transition date (April 1, 2014)

	Gross carrying amount	Loss allowance	Maximum credit risk exposure (gross)	Total collateral pledged and credit enhancements	Maximum credit risk exposure (net)
	JPY	JPY	JPY	JPY	JPY
Cash and cash equivalents	73,978	—	73,978	—	73,978
Financial assets measured at amortized cost					
Trade and other receivables	185,474	(2,710)	182,763	(214)	182,548
Other financial assets	6,663	—	6,663	—	6,663
Other investments	1,000	(0)	1,000	—	1,000
Total	267,115	(2,710)	264,404	(214)	264,190

The amount of loss allowance for credit-impaired financial assets is reduced by ¥214 million through collateral pledged and credit enhancements.

(4) Liquidity risk management

The Consolidated Group raises funds through borrowings from financial institutions or issuance of bonds. Accordingly, in the event of a disruption to the financial system or financial/capital markets, or a major downgrade of the Consolidated Group's credit rating by a rating agency, the Consolidated Group's fundraising becomes constrained and consequently there is a possibility that the Consolidated Group will not be able to carry out the payment on the date of payment.

The Consolidated Group has a sufficient levels of cash and cash equivalents and maintains a long-term (unused) commitment line agreement with a major financial institution in the amount of ¥12.5 billion ($110,934 thousand) to ensure liquidity and stability of funds. The Consolidated Group makes efforts to maintain good relationships with each financial institution.

1) Non-derivative financial liabilities

The breakdown of non-derivative financial liabilities by due date is presented as follows:

As of March 31, 2016

	Within one year		Between one and five years		Over five years		Total	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Trade and other payables	**142,143**	**1,261,475**	**—**	**—**	**—**	**—**	**142,143**	**1,261,475**
Bonds	**52**	**461**	**10,164**	**90,202**	**—**	**—**	**10,216**	**90,664**
Borrowings	**63,086**	**559,869**	**52,942**	**469,844**	**13,651**	**121,148**	**129,680**	**1,150,870**
Lease obligations	**486**	**4,313**	**1,108**	**9,833**	**19**	**169**	**1,613**	**14,315**
Deposits received	**3,028**	**26,873**	**—**	**—**	**3,050**	**27,068**	**6,079**	**53,949**
Guarantee deposits received	**960**	**8,520**	**19**	**169**	**1,377**	**12,220**	**2,357**	**20,918**
Other	**82**	**728**	**—**	**—**	**—**	**—**	**82**	**728**
Total	**209,839**	**1,862,256**	**64,235**	**570,066**	**18,098**	**160,614**	**292,173**	**2,592,945**

The Consolidated Group has guarantee obligations of ¥1,477 million ($13,108 thousand), ¥2,716 million and ¥2,279 million as of March 31, 2016, March 31, 2015 and the transition date, respectively.

As of March 31, 2015

	Within one year	Between one and five years	Over five years	Total
	JPY	JPY	JPY	JPY
Trade and other payables	159,522	—	—	159,522
Borrowings	67,148	67,522	9,675	144,345
Lease obligations	711	1,307	134	2,153
Deposits received	3,153	—	3,206	6,359
Guarantee deposits received	890	19	1,301	2,212
Other	529	—	—	529
Total	231,956	68,849	14,317	315,123

As of the transition date (April 1, 2014)

	Within one year	Between one and five years	Over five years	Total
	JPY	JPY	JPY	JPY
Trade and other payables	150,518	—	—	150,518
Borrowings	82,253	59,173	4,320	145,746
Lease obligations	813	1,075	23	1,913
Deposits received	2,604	—	3,328	5,933
Guarantee deposits received	927	18	1,282	2,228
Other	107	—	—	107
Total	237,224	60,267	8,955	306,447

2) Derivative liabilities

The breakdown of derivative liabilities by due date is presented as follows:

As of March 31, 2016

	Within one year		Between one and five years		Over five years		Total	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Current-related derivatives								
Cash inflows	**45,617**	**404,837**	**2,378**	**21,104**	**—**	**—**	**47,996**	**425,950**
Cash outflows	**48,013**	**426,100**	**2,528**	**22,435**	**—**	**—**	**50,542**	**448,545**
Sub total	**2,396**	**21,264**	**149**	**1,322**	**—**	**—**	**2,546**	**22,595**
Interest rate-related derivatives	**264**	**2,343**	**765**	**6,789**	**90**	**799**	**1,120**	**9,940**
Commodity-related derivatives	**77**	**683**	**0**	**0**	**—**	**—**	**77**	**683**
Total	**2,738**	**24,299**	**915**	**8,120**	**90**	**799**	**3,744**	**33,227**

As of March 31, 2015

	Within one year	Between one and five years	Over five years	Total
	JPY	JPY	JPY	JPY
Current-related derivatives				
Cash inflows	17,467	176	—	17,644
Cash outflows	17,947	177	—	18,124
Sub total	479	0	—	480
Interest rate-related derivatives	217	691	92	1,001
Commodity-related derivatives	125	0	—	126
Total	823	692	92	1,608

As of the transition date (April 1, 2014)

	Within one year	Between one and five years	Over five years	Total
	JPY	JPY	JPY	JPY
Current-related derivatives				
Cash inflows	27,279	416	—	27,696
Cash outflows	27,601	419	—	28,021
Sub total	322	2	—	324
Interest rate-related derivatives	309	434	40	784
Commodity-related derivatives	299	0	—	299
Total	930	437	40	1,408

(5) Market risk management

Since the Consolidated Group operates a broad array of businesses around the world, it is directly and indirectly affected by political developments and economic conditions in countries where it has a presence, including changes in supply and demand situations. Operations of the Consolidated Group are exposed to risks stemming from fluctuations in foreign exchange rate, interest rate, commodity price and share price.

In many cases, the foreign currency risk, interest rate risk and risk of price fluctuations associated with goods traded incidental to business transactions are transferred to trade partners, etc. in the form of transaction terms. In addition, the Consolidated Group has established a system under which a limit (position limit) and a loss limit are set for foreign exchange, funds (interest rates), products and their derivatives, taking into account the scale of the risk and the income of each internal unit and company, so that it can quickly reduce its position when the predetermined limit is exceeded.

Also, the price fluctuation risk of these positions is mitigated by using derivatives as a hedge.

1) Foreign currency risk

(i) Nature of foreign currency risk and its management policy

The Consolidated Group is engaged in foreign currency transactions in various currencies and terms incidental to its export and import trading. The Consolidated Group not only transfers the risk of currency fluctuations to customers in accordance with transaction terms but also participates in derivatives transactions such as forward contracts to reduce the risk.

The Company also has local subsidiaries and business corporations overseas. Account balances at these companies are converted into yen at the exchange rates prevailing at the end of the reporting period, for the purposes of preparing consolidated financial statements. As a result, net assets may change through exchange difference of foreign operations associated with exchange rate fluctuations.

In principle, the Company and its certain subsidiaries enter into forward exchange contracts to hedge against the exchange rate currency fluctuation risk of foreign currency-denominated receivables and payables that are controlled by currency and by contract month. The Company and its certain subsidiaries also enter into forward exchange contracts to hedge against foreign currency-denominated receivables and payables that is highly probable to arise from export/import-related forecast transactions.

(ii) Sensitivity analysis of foreign currency risk

In regards to financial instruments held by the Consolidated Group as of the end of the consolidated year, the following chart shows the amounts affecting profit before tax and other comprehensive income (before tax effect adjustments), as reported in the consolidated financial statements, that would result from 1% appreciation of yen against the U.S. dollar.

Such analysis is based on the assumption that other factors are held constant.

In addition, such analysis does not include the affected amounts based on translations (into Japanese yen) of financial instruments denominated in functional currency, income and expenses denominated in foreign currency and assets and liabilities of foreign operations.

	JPY		USD
	2016	2015	**2016**
Profit before tax			
U.S. dollar	**1**	(2)	**9**
Other comprehensive income			
U.S. dollar	**174**	262	**1,544**

2) Interest rate risk

(i) Nature of interest rate risk and its management policy

The Consolidated Group raises most funds needed for operating and financing activities in the form of borrowings from financial institutions at variable interest rates, with the exception of certain loans. Since these borrowings and fund management are exposed to an interest rate risk, interest expenses by the Consolidated Group may increase with a rise in interest rates.

The Company and its certain consolidated subsidiaries enter into the interest rate swap contracts to avoid the interest rate fluctuation risk stemming from the borrowings.

(ii) Sensitivity analysis of interest rate risk

In regards to financial instruments held by the Consolidated Group at the end of the reporting period, the following table shows the amount affecting profit before tax in the case that the interest rate increases by 1%.

Under the analysis, the amount affecting profit before tax is calculated by multiplying the net balance of floating rate financial instruments as of March 31, 2016 and 2015 by 1%, without considering future changes in the net balance, currency exchange fluctuations and dispersing effects for floating rate borrowings derived from the difference in timing of refinancing and resetting of the interest rate, and based on the assumption that all the other variables are held constant.

	JPY		USD
	2016	2015	**2016**
Profit before tax	**(749)**	(897)	**(6,647)**

3) Commodity price risk

(i) Nature of commodity price risk and its management policy

In its mainstay commodity trading business in Japan and overseas, the Consolidated Group deals with grains and petroleum products as well as electronic parts and information, communications and technology (ICT) products. Grains and petroleum products will be influenced by the market conditions, while electronic parts and ICT products are exposed to the risk of frequent price erosion caused by competition and obsolescence resulting from technological innovation. When the positions in these commodities increase, the Consolidated Group will be exposed to the commodity price fluctuation risk stemming from rapid movements in commodities prices or a decline in demand.

The Consolidate Group strives to reduce our exposure to price volatility by hedge-selling commodities, matching the quantity and timing of buying and selling, and utilizing commodity-related derivatives for hedging purposes.

(ii) Sensitivity analysis of commodity price risk

In regards to commodity-related derivatives held by the Consolidated Group at the end of the reporting period, the following table shows the amount affecting profit before tax and other comprehensive income (before the tax effect) in the case that the commodity price decreases by 1%.

The analysis is performed based on the assumption that all the other variables are held constant.

	JPY		USD
	2016	2015	**2016**
Profit before tax	**(58)**	(51)	**(515)**
Foods	**(52)**	(37)	**(461)**
Fuels	**(5)**	(14)	**(44)**
Other comprehensive income	**(4)**	(0)	**(35)**
Foods	**(4)**	(0)	**(35)**
Fuels	**—**	—	**—**

4) Share price risk

(i) Nature of share price risk and its management policy

The Consolidated Group holds marketable securities, which are exposed to the market price fluctuation risk.

The Consolidated Group attempts to reduce share price risk by periodically reviewing its shares held by the Consolidated Group and selling those shares that it hold without strong rationale.

(ii) Sensitivity analysis of share price risk

In regards to listed shares held by the Consolidated Group at the end of the reporting period, the following table shows the amount affecting other comprehensive income (before the tax effect) in the case that the share price decreases by 1%. The analysis is performed based on the assumption that all the other variables are held constant.

	JPY		USD
	2016	2015	**2016**
Other comprehensive income	**(140)**	(132)	**(1,242)**

(6) Fair value of financial instruments

1) Fair value measurement

Fair values of financial instruments are presented as follows:

While fair values are categorized into three levels of the fair value hierarchy depending on inputs to valuation techniques, its details are described in "*2. Basis of Preparing Consolidated Financial Statements: (4) Use of estimates and judgments*".

2) Financial instruments measured at amortized cost

Type	2016				2015		Transition date	
	Carrying amount		Fair value		Carrying amount	Fair value	Carrying amount	Fair value
	JPY	USD	JPY	USD	JPY		JPY	
Financial assets								
Trade and other receivables	**460**	**4,082**	**460**	**4,082**	388	388	135	135
Other investments (Debt instrument securities)	**1,000**	**8,875**	**1,000**	**8,875**	1,000	1,000	1,000	1,000
Guarantee deposits	**3,814**	**33,848**	**3,814**	**33,848**	3,893	3,893	3,921	3,921
Other financial assets	**1,626**	**14,430**	**1,626**	**14,430**	1,588	1,588	563	563
Total	**6,901**	**61,244**	**6,901**	**61,244**	6,870	6,870	5,620	5,620
Financial liabilities								
Bonds and borrowings	**74,877**	**664,510**	**75,746**	**672,222**	74,426	74,636	61,113	61,222
Long-term lease obligations	**1,025**	**9,097**	**1,015**	**9,008**	1,286	1,286	1,032	1,038
Long-term deposits received	**3,050**	**27,068**	**3,050**	**27,068**	3,206	3,206	3,328	3,328
Long-term guarantee deposits received	**1,396**	**12,389**	**1,396**	**12,389**	1,321	1,321	1,301	1,301
Total	**80,351**	**713,090**	**81,209**	**720,705**	80,241	80,451	66,776	66,890

The carrying amounts of short-term trade and other receivables, other short-term financial assets, short-term trade and other payables, short-term bonds and borrowings and other short-term financial liabilities, all of which are measured at amortized cost, 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 (Debt securities)

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

(iii) Guarantee deposits received

The fair value of guarantee deposits received 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

The fair value of other financial 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 the 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.

(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.

Financial assets and liabilities measured at amortized cost are categorized within Level 2 of the fair value hierarchy.

3) Financial instruments measured at fair value

(i) Analysis of fair value by hierarchy level

The following tables provide the breakdown by hierarchy level of financial assets and liabilities that are measured at fair value on a recurring basis. No financial assets and liabilities are measured at fair value on a non-recurring basis. There were no material transfers between different levels for the fiscal years ended March 31, 2016 and March 31, 2015.

As of March 31, 2016

	Level 1		Level 2		Level 3		Total	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Assets								
Other investments								
Financial assets measured at fair value through profit or loss								
Stock	**—**	**—**	**—**	**—**	**5,637**	**50,027**	**5,637**	**50,027**
Financial assets measured at fair value through other comprehensive income								
Stock	**14,061**	**124,787**	**—**	**—**	**10,836**	**96,166**	**24,897**	**220,953**
Other financial assets								
Derivative transactions:								
Foreign exchange	**—**	**—**	**200**	**1,775**	**—**	**—**	**200**	**1,775**
Interest rate	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Commodity	**174**	**1,544**	**4**	**35**	**—**	**—**	**179**	**1,589**
Liabilities								
Other financial liabilities								
Derivative transactions:								
Foreign exchange	**—**	**—**	**(2,546)**	**(22,595)**	**—**	**—**	**(2,546)**	**(22,595)**
Interest rate	**—**	**—**	**(1,205)**	**(10,694)**	**—**	**—**	**(1,205)**	**(10,694)**
Commodity	**(63)**	**(559)**	**(14)**	**(124)**	**—**	**—**	**(77)**	**(683)**
Total	**14,172**	**125,772**	**(3,561)**	**(31,603)**	**16,474**	**146,202**	**27,084**	**240,362**

As of March 31, 2015

	Level 1	Level 2	Level 3	Total
	JPY	JPY	JPY	JPY
Assets				
Other investments				
Financial assets measured at fair value through profit or loss				
Stock	—	—	6,425	6,425
Financial assets measured at fair value through other comprehensive income				
Stock	13,260	—	12,362	25,623
Other financial assets				
Derivative transactions:				
Foreign exchange	—	2,845	—	2,845
Interest rate	—	—	—	—
Commodity	157	21	—	178
Liabilities				
Other financial liabilities				
Derivative transactions:				
Foreign exchange	—	(480)	—	(480)
Interest rate	—	(814)	—	(814)
Commodity	(112)	(13)	—	(126)
Total	13,305	1,557	18,788	33,651

As of the transition date (April 1, 2014)

	Level 1	Level 2	Level 3	Total
	JPY	JPY	JPY	JPY
Assets				
Other investments				
Financial assets measured at fair value through profit or loss				
Stock	—	—	6,341	6,341
Financial assets measured at fair value through other comprehensive income				
Stock	9,187	—	10,198	19,386
Other financial assets				
Derivative transactions:				
Foreign exchange	—	1,233	—	1,233
Interest rate	—	—	—	—
Commodity	260	3	—	263
Liabilities				
Other financial liabilities				
Derivative transactions:				
Foreign exchange	—	(324)	—	(324)
Interest rate	—	(712)	—	(712)
Commodity	(298)	(0)	—	(299)
Total	9,148	199	16,539	25,887

The methods of determining the fair value of the above instruments are described as follows:

(a) Other investments
The fair value of listed shares is the quoted price in an active market, and is categorized within fair value hierarchy Level 1.

The fair value of unlisted shares is calculated using valuation methods including discounted future cash flow, market prices of comparable companies, net asset value, and other valuation methods, and is categorized within fair value hierarchy Level 3. Measuring the fair value of unlisted shares involves the use of unobservable inputs such as discount rate and valuation multiples, as well as any necessary adjustments including discounts for a lack of liquidity.

The Company determines the policies and procedures for measuring the fair value of unlisted shares, and reviews the approach to measuring fair value including the valuation model, by obtaining the information on business operation and business plans associated with each equity issuer and confirming the data from comparable public companies.

(b) 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 flow discounted by an interest rate that reflects time to settlement, as well as market situations.

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.

Commodity futures transactions are categorized within Level 1 of fair value hierarchy. All other derivative financial assets and liabilities are categorized within Level 2 of the fair value hierarchy.

(ii) Recurring fair value measurements categorized within Level 3 of the fair value hierarchy
The Charges in financial assets and liabilities that are measured at fair value on a recurring basis and are categorized within Level 3 of the fair value hierarchy are presented as follows. There were no material transfers between different levels for the years ended March 31, 2016 and March 31, 2015.

	2016						2015		
	Other investments						Other investments		
	FVTPL		FVTOCI		Total		FVTPL	FVTOCI	Total
	JPY	USD	JPY	USD	JPY	USD	JPY	JPY	JPY
Beginning balance	**6,425**	**57,020**	**12,362**	**109,709**	**18,788**	**166,738**	6,341	10,198	16,539
Total gains or losses									
Profit or loss (Note 1)	**(323)**	**(2,867)**	**—**	**—**	**(323)**	**(2,867)**	(889)	—	(889)
Other comprehensive income (Note 2)	**—**	**—**	**(1,577)**	**(13,995)**	**(1,577)**	**(13,995)**	—	2,097	2,097
Purchase	**—**	**—**	**524**	**4,650**	**524**	**4,650**	—	24	24
Sale	**—**	**—**	**(472)**	**(4,189)**	**(472)**	**(4,189)**	—	(8)	(8)
Other									
Foreign currency translation difference	**(375)**	**(3,328)**	**—**	**—**	**(375)**	**(3,328)**	974	—	974
Increase (decrease) due to changes in scope of consolidation	**(89)**	**(790)**	**0**	**0**	**(89)**	**(790)**	—	50	50
Ending balance	**5,637**	**50,027**	**10,836**	**96,166**	**16,474**	**146,202**	6,425	12,362	18,788

FVTPL: Financial assets measured at fair value through profit or loss
FVTOCI: Financial assets measured at fair value through other comprehensive income
(Notes)1. The gains or losses are included in "Other finance income" or "Other finance costs" in the consolidated statements of income. Of those gains or losses recognized in profit or loss, the amounts arising from financial instruments that were held at the period end are ¥(323) million ($(2,867) thousand) for the fiscal year ended March 31, 2016 and ¥(889) million for the fiscal year ended March 31, 2015.
2. The gains or losses recognized in other comprehensive income are included in "Financial assets measured at fair value through other comprehensive income" in the consolidated statements of comprehensive income.

(iii) Quantitative Information about the financial instruments categorized within fair value hierarchy Level 3

The following tables present quantitative information on the material assets categorized within Level 3 of the fair value hierarchy, which were measured at fair value on a recurring basis.

As of March 31, 2016

Category	Fair value		Valuation technique	Significant unobservable inputs	Weighted average of input values
	JPY	USD			
Financial assets measured at fair value through profit or loss	**5,637**	**50,027**	Discounted cash flow method	Discount rate	**3.5%**
Financial assets measured at fair value through other comprehensive income	**9,733**	**86,377**	Market multiple method	P/B ratio Illiquidity discount	**1.1 times** **30.0%**
Financial assets measured at fair value through other comprehensive income	**1,103**	**9,789**	Net asset value method	—	**—**

As of March 31, 2015

Category	Fair value (JPY)	Valuation technique	Significant unobservable inputs	Weighted average of input values
Financial assets measured at fair value through profit or loss	6,336	Discounted cash flow method	Discount rate	3.5%
Financial assets measured at fair value through profit or loss	89	Market multiple method	P/B ratio Illiquidity discount	1.4 times 30.0%
Financial assets measured at fair value through other comprehensive income	11,597	Market multiple method	P/B ratio Illiquidity discount	1.4 times 30.0%
Financial assets measured at fair value through other comprehensive income	764	Net asset value method	—	—

As of the transition date (April 1, 2014)

Category	Fair value (JPY)	Valuation technique	Significant unobservable inputs	Weighted average of input values
Financial assets measured at fair value through profit or loss	6,276	Discounted cash flow method	Discount rate	4.1%
Financial assets measured at fair value through profit or loss	64	Market multiple method	P/B ratio Illiquidity discount	1.3 times 30.0%
Financial assets measured at fair value through other comprehensive income	9,484	Market multiple method	P/B ratio Illiquidity discount	1.2 times 30.0%
Financial assets measured at fair value through other comprehensive income	713	Net asset value method	—	—

The significant unobservable inputs used in measuring the fair value of unlisted shares are the discount rate, illiquidity discount and P/B ratio (price-to-book ratio). A substantial increase (or decrease) in the discount rate or illiquidity discount causes the fair value to substantially fall (or rise), while a substantial increase (or decrease) in the P/B ratio causes the fair value to substantially rise (or fall).

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

With respect to investments in equity instruments held for the purpose of maintaining and strengthening relationships with business partners, the Consolidated Group has designated such investments as financial assets to be measured at fair value through other comprehensive income in view of the holding purpose.

1) Fair value of major items of investment

The following tables present the fair value of major items of investment in equity instruments designated as financial assets measured at fair value through other comprehensive income.

As of March 31, 2016

Name of issue	Amount	
	JPY	USD
MARUDAI FOOD CO., LTD.	2,620	23,252
Tokio Marine Holdings, Inc.	2,277	20,208
Nissin Seifun Group Inc.	1,628	14,448
BOT Lease Co., Ltd.	1,311	11,635
Sotsu Corporation	1,258	11,164
The Norinchukin Bank	1,100	9,762
SHIN KURUSHIMA DOCKYARD CO., LTD.	1,099	9,753
DAIO PAPER CORPORATION	728	6,461
GUANGZHOU SHOWA AUTOPARTS CO., LTD.	590	5,236
F.C.C. Co., Ltd.	588	5,218
Other	11,692	103,763

As of March 31, 2015

Name of issue	Amount
	JPY
Tokio Marine Holdings, Inc.	2,714
Sotsu Corporation	1,617
BOT Lease Co., Ltd.	1,491
Nissin Seifun Group Inc.	1,286
SHIN KURUSHIMA DOCKYARD CO., LTD.	1,201
MARUDAI FOOD CO., LTD.	1,132
GUANGZHOU SHOWA AUTOPARTS CO., LTD.	914
DAIO PAPER CORPORATION	791
The Norinchukin Bank	762
Nippon Manufacturing Service Corporation	602
Other	13,107

As of the transition date (April 1, 2014)

Name of issue	Amount
	JPY
Tokio Marine Holdings, Inc.	1,791
Sotsu Corporation	1,498
BOT Lease Co., Ltd.	1,088
SHIN KURUSHIMA DOCKYARD CO., LTD.	1,046
DAIO PAPER CORPORATION	952
Nissin Seifun Group Inc.	938
MARUDAI FOOD CO., LTD.	848
The Norinchukin Bank	713
GUANGZHOU SHOWA AUTOPARTS CO., LTD.	530
MARUICHI STEEL TUBE LTD.	499
Other	9,478

2) Dividend income

	JPY		USD
	2016	2015	**2016**
Investments derecognized during the year	**7**	0	**62**
Investments held at the end of the year	**772**	709	**6,851**
Total	**779**	709	**6,913**

3) Financial assets measured at fair value through other comprehensive income that were derecognized during the fiscal year

The Consolidated Group periodically reviews its holding shares and selling those shares that it holds without strong rationale with gains or losses on sale recognized in other comprehensive income. The following table presents the fair value on the date of sale and cumulative gains or losses on sale.

	JPY		USD
	2016	2015	**2016**
Fair value on the date of sale	**605**	238	**5,369**
Cumulative gains (losses) on sale	**393**	106	**3,488**

4) Reclassification to retained earnings

The Consolidated Group reclassifies to retained earnings cumulative gains or losses arising from changes in the fair value of financial assets measured at fair value through other comprehensive income in either of the following cases: when an investment is disposed of; or when there is a significant decline in the fair value. Such cumulative gains or losses in other comprehensive income that were reclassified to retained earnings for the years ended March 31, 2016 and March 31, 2015 were ¥275 million ($2,441 thousand) and ¥76 million, respectively.

(8) Hedge Accounting

(Cash Flow Hedge)

A Cash flow hedge is a hedge of the exposure to variability in future cash flow arising from a forecast transaction or recognized assets or liabilities. While a hedge is designated as cash flow hedge as long as the hedge is effective, the changes in the fair value of qualifying hedging instrument should be recorded as the other comprehensive income in the Consolidated Statement of Comprehensive Income. The Consolidated Group continues such accounting treatment until variability in future cash flow arising from unrecognized forecast transaction or recognized assets or liabilities designated as hedged item are recorded in profit or loss. Moreover, portions determined to be ineffective as hedging accounting are recognized in profit or loss.

The Company and its certain consolidated subsidiaries designate the following instruments as cash flow hedge: forward exchange contracts to fix cash flows from foreign currency denominated receivables and payables, foreign currency denominated firm commitment and foreign currency denominated forecast transactions; interest rate swap to fix variable interest rate on floating rate financial liabilities; and commodity future to fix cash flow from forecast transactions of commodity trade.

When applying hedge accounting, the Consolidated Group confirms that there are economic relationship between the hedged items and hedging instruments through qualitative assessments, which show whether the critical terms of the hedging instruments and the hedged items match exactly or are closely aligned, and quantitative assessments, which show fluctuations of value of hedged item and hedging instruments by the same risk offset each other, in order to confirm there are economic relationship that variability in fair value or cash flows of the hedged items that are attributable to the hedged risk shall be offset by the changes in fair value or cash flows of the hedging instruments . The Consolidated Group also establish appropriate hedge ratios considering an economic relationship between hedging instruments and hedged item as well as risk management strategy.

The amounts recognized in profit or loss for the ineffective portion of the hedge are not material both for the fiscal years ended March 31, 2016 and March 31, 2015. In addition, the amounts reclassified from valuation difference on cash flow hedge to profit or loss are either not material because the forecast transactions are no longer expected to occur.

Followings are the carrying amount of the hedging instruments for the years ended March 31, 2016, March 31, 2015 and the transition date. The fair value of financial assets related to hedging instruments is included in "Other financial assets" while the fair value of financial liabilities related to hedging instruments is included in "Other financial liabilities (current)" or "Other financial liabilities (non-current)" in the consolidated statements of financial position.

As of March 31, 2016

	Notional amount		Carrying amount			
			Derivative assets		Derivative liabilities	
	JPY	USD	JPY	USD	JPY	USD
Foreign currency risk						
Forward exchange contracts	**20,883**	**185,330**	**58**	**515**	**764**	**6,780**
Interest rate risk						
Interest rate swap contracts	**29,000**	**257,366**	**—**	**—**	**1,205**	**10,694**
Commodity price risk						
Commodity futures contracts	**547**	**4,854**	**16**	**142**	**4**	**35**

As of March 31, 2015

	Notional amount	Carrying amount	
		Derivative assets	Derivative liabilities
	JPY	JPY	JPY
Foreign currency risk			
Forward exchange contracts	28,037	1,191	50
Interest rate risk			
Interest rate swap contracts	28,454	—	814
Commodity price risk			
Commodity futures contracts	392	15	54

As of the transition date (April 1, 2014)

	Notional amount	Carrying amount	
		Derivative assets	Derivative liabilities
	JPY	JPY	JPY
Foreign currency risk			
Forward exchange contracts	24,154	280	30
Interest rate risk			
Interest rate swap contracts	28,531	—	337
Commodity price risk			
Commodity futures contracts	946	92	98

The following tables present the carrying amounts of cash flow hedge reserve as of March 31, 2016, March 31, 2015 and the transition date.

As of March 31, 2016

	Cash flow hedge reserve for continuing hedges (before tax)		Cash flow hedge reserve for discontinuing hedge accounting (before tax)	
	JPY	USD	JPY	USD
Foreign currency risk				
Forward exchange contracts	**(706)**	**(6,266)**	**—**	**—**
Interest rate risk				
Interest rate swap contracts	**(1,205)**	**(10,694)**	**—**	**—**
Commodity price risk				
Commodity futures contracts	**12**	**106**	**(51)**	**(453)**

As of March 31, 2015

	Cash flow hedge reserve for continuing hedges (before tax)	Cash flow hedge reserve for discontinuing hedge accounting (before tax)
	JPY	JPY
Foreign currency risk		
Forward exchange contracts	1,141	—
Interest rate risk		
Interest rate swap contracts	(814)	—
Commodity price risk		
Commodity futures contracts	(38)	(82)

As of the transition date (April 1, 2014)

	Cash flow hedge reserve for continuing hedges (before tax)	Cash flow hedge reserve for discontinuing hedge accounting (before tax)
	JPY	JPY
Foreign currency risk		
Forward exchange contracts	250	—
Interest rate risk		
Interest rate swap contracts	(337)	(375)
Commodity price risk		
Commodity futures contracts	(6)	(0)

The following tables present the carrying amounts of transactions that affected the consolidated statements of comprehensive income as a result of applying the hedge accounting for the fiscal years ended March 31, 2016 and March 31, 2015.

Fiscal year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

	Change in value of hedging instruments recognized in other comprehensive income		Reclassification from cash flow hedge reserve to profit or loss		Line item for which profit or loss was affected by reclassification
	JPY	USD	JPY	USD	
Foreign currency risk					
Forward exchange contracts	**(745)**	**(6,612)**	**(1,102)**	**(9,780)**	Other income
Interest rate risk					
Interest rate swap contracts	**(396)**	**(3,514)**	**5**	**44**	Interest expenses
Commodity price risk					
Commodity futures contracts	**44**	**390**	**37**	**328**	Cost of revenues

Fiscal year ended March 31, 2015 (from April 1, 2014 to March 31, 2015)

	Change in value of hedging instruments recognized in other comprehensive income	Reclassification from cash flow hedge reserve to profit or loss	Line item for which profit or loss was affected by reclassification
	JPY	JPY	
Foreign currency risk			
Forward exchange contracts	1,123	(232)	Other income
Interest rate risk			
Interest rate swap contracts	(185)	83	Interest expenses
Commodity price risk			
Commodity futures contracts	(120)	6	Cost of revenues

(9) Transfer of financial assets

The Consolidated Group liquidates certain trade receivables by discounting notes or the like. However, with respect to some liquidated receivables, the Consolidated Group may be obligated to make payments as recourse for non-payment by the debtor. The Consolidated Group continues to recognize such liquidated receivables as they do not meet the criteria for derecognition of financial assets.

The Consolidated Group recognized such liquidated assets as "Trade and other receivables" in the amounts of ¥1,771 million ($15,717 thousand) and ¥2,735 million as of March 31, 2016 and March 31, 2015, respectively. In addition, liabilities relating to the deposit amounts which arose upon the transfer of such assets were accounted for as "Bonds and borrowings" in the amounts of ¥1,771 million ($15,717 thousand) and ¥2,735 million as of March 31, 2016 and March 31, 2015, respectively. Such liabilities are settled when payments for such liquidated assets are made, and the Consolidated Group may not use such liquidated assets until such settlement occurs.

It is noted that due to the exceptions to the retrospective application of IFRS 1 applicable to entities adopting IFRSs for the first time, the requirements regarding derecognition of financial assets and liabilities apply to transactions occurring on and after the transition date (but not before the transition date). Therefore, as of the transition date, such liquidated assets were derecognized in accordance with accounting principles generally accepted in Japan.

(10) Offsetting financial assets and financial liabilities

The following tables present the financial assets and financial liabilities recognized for the same counterparties including financial instruments that were not offset even though they were covered by an enforceable master netting arrangement or similar agreement because they did not meet some or all of the offsetting criteria as of March 31, 2016, March 31, 2015 and the transition date.

	JPY			USD
	2016	2015	Transition date	**2016**
Amounts of financial assets presented in the consolidated statements of financial position	**379**	3,024	1,497	**3,364**
Foreign exchange	**200**	2,845	1,233	**1,775**
Interest rate	**—**	—	—	**—**
Commodity	**179**	178	263	**1,589**
Amounts that were not offset even though they were covered by an enforceable master netting arrangement or similar agreement because they did not meet some or all of the offsetting criteria	**(186)**	(352)	(563)	**(1,651)**
Net amounts	**192**	2,671	934	**1,704**

	JPY			USD
	2016	2015	Transition date	**2016**
Amounts of financial liabilities presented in the consolidated statements of financial position	**3,829**	1,421	1,336	**33,981**
Foreign exchange	**2,546**	480	324	**22,595**
Interest rate	**1,205**	814	712	**10,694**
Commodity	**77**	126	299	**683**
Amounts that were not offset even though they were covered by an enforceable master netting arrangement or similar agreement because they did not meet some or all of the offsetting criteria	**(186)**	(352)	(563)	**(1,651)**
Financial collateral pledged	**(4)**	(30)	(39)	**(35)**
Net amounts	**3,638**	1,037	734	**32,286**

Certain financial assets and financial liabilities have not been offset because they do not meet some or all of the criteria for offsetting financial assets and financial liabilities. The rights to offset such financial assets and financial liabilities become enforceable only under particular circumstances, such as when the other party fails to discharge an obligation due to its bankruptcy or other such reasons.

31. Lease

(1) Lessee

1) Finance leases

The Consolidated Group leases the computer-related equipment for the enterprise system (tools, furniture and fixtures) and other assets under the finance leases.

The carrying amounts of the leased assets, net of accumulated depreciation and accumulated impairment losses, as of March 31, 2016, March 31, 2015 and the transition date are as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Machinery, equipment, vehicle, tools and fixtures	**1,218**	1,463	1,073	**10,809**
Other	**58**	69	39	**515**
Total	**1,276**	1,533	1,113	**11,324**

The future minimum lease payments under the finance lease as of March 31, 2016, March 31, 2015 and the transition date are as follows:

	Future minimum lease payments				Present value of future minimum lease payments			
	JPY			USD	JPY			USD
	2016	2015	Transition date	**2016**	**2016**	2015	Transition date	**2016**
Within one year	**486**	711	813	**4,313**	**433**	638	761	**3,843**
Between one and five years	**1,108**	1,307	1,075	**9,833**	**997**	1,170	1,015	**8,848**
Over five years	**19**	134	23	**169**	**18**	115	22	**160**
Total	**1,613**	2,153	1,913	**14,315**	**1,449**	1,924	1,799	**12,859**
Less future finance costs	**(163)**	(228)	(113)	**(1,447)**				
Present value of future minimum lease payments	**1,449**	1,924	1,799	**12,859**				

The future minimum lease payments receivable under the non-cancelable subleases as of March 31, 2016 and March 31, 2015 and the transition date are ¥54 million ($479 thousand), ¥248 million and ¥612 million, respectively.

2) Operating leases

The Consolidated Group leases office buildings and system equipment and other assets as cancellable or non-cancellable operating leases. The future minimum lease payments for non-cancellable operating leases as of March 31, 2016, March 31, 2015 and the transition date are as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Within one year	**10**	10	13	**89**
Between one and five years	**19**	31	39	**169**
Over five years	**—**	—	—	**—**
Total	**30**	42	53	**266**

The total lease payments recognized as expenses under the cancellable or non-cancellable operating leases for the fiscal year ended March 31, 2016 and March 31, 2015 are ¥5,981 million ($53,080 thousand) and ¥5,660 million, respectively.

The future minimum lease payments receivable under the non-cancelable subleases as of March 31, 2016 and March 31, 2015 and the transition date are ¥38 million ($337 thousand), ¥44 million and ¥50 million, respectively.

(2) Lessor

1) Finance leases

The Consolidated Group leases out machinery, equipment and other assets that are classified as finance lease. The future minimum lease payments receivable under the finance lease as of March 31, 2016 and March 31, 2015 and the transition date are as follows:

	Future minimum lease payments receivable and unguaranteed residual value				Present value of future minimum lease payments receivable			
	JPY			USD	JPY			USD
	2016	2015	Transition date	**2016**	**2016**	2015	Transition date	**2016**
Within one year	**4**	2	2	**35**	**3**	1	1	**27**
Between one and five years	**17**	9	9	**151**	**12**	6	6	**106**
Over five years	**13**	6	9	**115**	**8**	4	6	**71**
Total	**35**	18	21	**311**	**23**	12	14	**204**
Unguaranteed residual value	**—**	—	—	**—**				
Less future finance income	**(12)**	(6)	(7)	**(106)**				
Present value of future minimum lease payments receivable	**23**	12	14	**204**				

32. Pledged Assets

(1) Pledged assets and associated secured obligations

Details of pledged assets and associated secured obligations are as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Pledged assets:				
Trade receivables	**—**	303	229	**—**
Other financial assets (non-current)	**23**	3	6	**204**
Property, plant and equipment	**653**	909	907	**5,795**
Total	**676**	1,215	1,143	**5,999**
Associated secured obligations:				
Short-term borrowings (current)	**1,806**	1,150	750	**16,028**
Long-term borrowings (non-current)	**231**	—	500	**2,050**
Other	**1**	1	3	**9**
Total	**2,039**	1,151	1,253	**18,095**

Trust receipts issued under customary import financing arrangements give banks a security interest in the goods imported or sales proceeds resulting from the sales of the goods. However, due to the large volume of transactions, it is impracticable to determine the aggregate amounts of assets covered by outstanding trust receipts and those transactions were not included in the above amounts.

(2) Assets pledged in lieu of guarantee money

The breakdown of assets pledged in lieu of guarantee money or the like is as follows:

	JPY			USD
	2016	2015	Transition date	**2016**
Assets pledged in lieu of guarantee money or guarantee funds				
Other financial assets (current)	**71**	3	18	**630**
Other financial assets (non-current)	**14**	14	—	**124**
Other investments	**2,692**	3,125	2,134	**23,891**
Total	**2,779**	3,143	2,152	**24,663**

33. Contingent Liabilities

The Consolidated Group is contingently liable for guarantees on bank borrowings and trade payables owed by entities that do not belong to the Consolidated Group.

The Group may become responsible for the amounts that are unpayable by the borrower and for losses attached to the unpayable amounts.

	JPY			USD
	2016	2015	Transition date	**2016**
Debt guarantees for equity method investees	**489**	1,812	1,278	**4,340**
Debt guarantees for third parties	**988**	904	1,001	**8,768**
Total	**1,477**	2,716	2,279	**13,108**

The above amounts include those for quasi-guarantee acts.

34. Significant Subsidiaries

(1) Significant subsidiaries of the Company are as follows:

Trade name	Location	Detail of major operations	Percentage of voting rights (%)		
			2016	2015	Transition date
(Consolidated subsidiaries)					
[Electronics & Devices]					
Kanematsu Electronics Ltd.	Chuo-ku, Tokyo, Japan	System integration of ICT and communications equipment	**58.32 (0.40)**	58.32 (0.40)	58.32 (0.40)
Nippon Office Systems Ltd.	Chuo-ku, Tokyo, Japan	Development of software for and sales and maintenance of computers and computer peripherals, etc.	**100.00 (100.00)**	96.55 (96.55)	54.65 (54.65)
Kanematsu Communications Ltd.	Shibuya-ku, Tokyo, Japan	Sales of mobile communications devices; Mobile internet systems and services	**100.00**	100.00	100.00
Kanematsu Granks, Corp.	Shinjuku-ku, Tokyo, Japan	Mobile contents delivery and mobile-related solution business	**89.05 (89.05)**	82.43 (82.43)	82.43 (82.43)
Kanematsu BD Communications Limited	Kurume-shi, Fukuoka, Japan	Sales of mobile communication device	**100.00 (100.00)**	100.00 (100.00)	100.00 (100.00)
Kanematsu-NNK Corp.	Chuo-ku, Tokyo, Japan	Manufacture and sales of home-construction materials; Ground inspection services and improvement work; Sales of security systems	**52.96**	52.97	32.17
Kanematsu Advanced Materials Corp.	Chuo-ku, Tokyo, Japan	Import, export, storage, sales, and processing of materials and components for vehicle equipment, industrial electronics, and communication devices	**100.00**	100.00	—
Tanashin (Europe) GmbH	Dusseldorf, Germany	Sales and maintenance of parts for car audio systems	**100.00 (20.00)**	100.00 (20.00)	100.00 (20.00)
Kanekoh Electronics (Shanghai) Co., Ltd.	Shanghai,China	Development, manufacture, and sales of control modules for lithium ion batteries	**70.00**	70.00	70.00
Kanematsu Industrial and Trading (Dalian F.T.Z.) Co., Ltd.	Dalian, China	Manufacture of materials for electronic precision parts and import, export and sales of electronic components	**100.00 (100.00)**	100.00	100.00

Trade name	Location	Detail of major operations	Percentage of voting rights (%)		
			2016	2015	Transition date
[Foods & Grain]					
Kanematsu Shintoa Foods Corp.	Minato-ku, Tokyo, Japan	Food wholesaling and cold storage	**100.00**	100.00	100.00
Kanematsu Agritec Co., Ltd.	Matsudo-shi, Chiba, Japan	Manufacture and sales of feed and fertilizer	**100.00**	100.00	100.00
Kanematsu Soytech Corp.	Chuo-ku, Osaka, Japan	Sales of soybeans, pulses & peas, and grain; Development and marketing of tofu and other ingredients for processed foods	**100.00**	100.00	100.00
North Pet Co., Ltd.	Yubari-gun, Hokkaido, Japan	Manufacture of pet snacks (jerky, dried meat, biscuits)	**100.00**	100.00	—
KG Agri Products, Inc.	Delaware, U.S.A.	Seed development; Contract farming; Sorting, processing, and sales of food soybeans	**100.00**	100.00	100.00
Kai Enterprises, Inc.	Washington, U.S.A.	Sales of hay and roughage	**100.00 (15.00)**	100.00 (15.00)	100.00 (15.00)
P.T. Kanemory Food Service	Serang, Indonesia	Manufacture of processed foods; Management of central kitchen	**59.90 (10.00)**	59.90 (10.00)	59.90 (10.00)
[Steel, Materials & Plants]					
Kanematsu Trading Corp.	Chuo-ku, Tokyo, Japan	Sales of steel and construction materials	**100.00**	100.00	100.00
Kyowa Steel Co., Ltd.	Kasai-shi, Hyogo, Japan	Cutting and processing of steel sheet; Sales of construction materials	**100.00 (100.00)**	100.00 (100.00)	100.00 (100.00)
Kanematsu Chemicals Corp.	Chuo-ku, Tokyo, Japan	Sales of petrochemicals, automobile-related chemicals, health food ingredients, and pharmaceuticals	**100.00**	100.00	100.00
Kanematsu Wellness Corp.	Chuo-ku, Tokyo, Japan	Sales of health foods and provision of medical information	**100.00 (100.00)**	100.00 (100.00)	100.00 (100.00)
Kanematsu Petroleum Corp.	Chiyoda-ku, Tokyo, Japan	Sales of petroleum products and LPG	**100.00**	100.00	100.00
Kanematsu Yuso Co., Ltd.	Chiyoda-ku, Tokyo, Japan	Delivery and storage of petroleum products	**100.00**	100.00	100.00
Kanematsu KGK Corp.	Nerima-ku, Tokyo, Japan	Sales of machine tools and industrial machinery	**97.89**	97.89	97.89
Benoit Holding Company	Delaware, U.S.A.	Holding company	**85.18 (85.18)**	85.18 (85.18)	85.18 (85.18)
Benoit Premium Threading, LLC	Delaware, U.S.A.	Oil well casing fabrication; Manufacture and sales of oil well-related parts	**54.00 (54.00)**	54.00 (54.00)	54.00 (54.00)
Steel Service Oilfield Tubular, Inc.	Oklahoma, U.S.A.	Sales of steel materials for oil excavation	**51.00 (51.00)**	51.00 (51.00)	51.00 (51.00)
KGK International Corp.	Illinois, U.S.A.	Sales of machine tools	**100.00 (100.00)**	100.00 (83.67)	100.00 (83.67)

Trade name	Location	Detail of major operations	Percentage of voting rights (%)		
			2016	2015	Transition date
[Motor Vehicles & Aerospace]					
Kanematsu Aerospace Corp.	Minato-ku, Tokyo, Japan	Sales of aircraft, defense, and aerospace-related products	**100.00**	100.00	100.00
Aries Motor Ltd.	Warsaw, Poland	Sales of automobiles	**93.59**	93.59	93.59
Aries Power Equipment Ltd.	Warsaw, Poland	Sales of engines, generators, water pumps, and other general-purpose machinery	**60.00**	60.00	60.00
KG Aircraft Rotables Co., Ltd.	Dublin, Ireland	Replacement and maintenance of aircraft rotable components; Leasing	**96.67**	86.67	86.67
[Others]					
Aso Kanko Kaihatsu Co., Ltd.	Minato-ku, Tokyo, Japan	Golf course management	**100.00**	100.00	100.00
Shintoa Corp.	Chiyoda-ku, Tokyo, Japan	Beverage-vending machine operations; Imports, exports, and sales of aircraft engines	**100.00**	100.00	100.00
Kanematsu Logistics & Insurance Ltd.	Chuo-ku, Tokyo, Japan	Insurance agency and forwarding business; Consigned freight forwarding business	**100.00**	100.00	100.00
[Overseas local subsidiaries]					
Kanematsu USA Inc.	New York, U.S.A.	Export, import and sales of merchandise	**100.00**	100.00	100.00
Kanematsu (Hong Kong) Ltd.	Hong Kong, China	Export, import and sales of merchandise	**100.00**	100.00	100.00
Kanematsu(China) Co., Ltd.	Shanghai, China	Export, import and sales of merchandise	**100.00 (100.00)**	100.00 (100.00)	100.00 (100.00)
Kanematsu (Thailand) Ltd.	Bangkok, Thailand	Export, import and sales of merchandise	**100.00 (100.00)**	100.00 (100.00)	100.00 (100.00)
Watana Inter-Trade Co., Ltd. *1	Bangkok, Thailand	Export, import and sales of merchandise	**49.00 (49.00)**	49.00 (49.00)	49.00 (49.00)
Kanematsu (Singapore) Pte. Ltd.	Singapore, Singapore	Export, import and sales of merchandise	**100.00 (100.00)**	100.00 (100.00)	100.00 (100.00)
Kanematsu Taiwan Corp.	Taipei, Taiwan	Export, import and sales of merchandise	**100.00 (100.00)**	100.00 (100.00)	100.00 (100.00)
Kanematsu Europe Plc	London, U.K.	Export, import and sales of merchandise	**100.00 (100.00)**	100.00 (100.00)	100.00 (100.00)
Kanematsu GmbH	Dusseldorf, Germany	Export, import and sales of merchandise	**100.00**	100.00	100.00
Kanematsu Australia Ltd.	Sydney, Australia	Export, import and sales of merchandise	**100.00**	100.00	100.00
Kanematsu New Zealand Ltd.	Auckland, New Zealand	Export, import and sales of merchandise	**100.00**	100.00	100.00

Notes: 1 Although the percentage of the Consolidated Group's voting rights for the company marked with *1 is not more than 50%, it is treated as a subsidiary because the Consolidated Group has a substantial control over the company.
2 The figures in the parenthesis in "Percentage of voting rights" indicate the indirect ownership ratio included in the total.

(2) Non-controlling interests

The subsidiary with non-controlling interests that are significant for the Consolidated Group is Kanematsu Electronics Ltd. Its condensed financial information is presented as follows. The amounts presented below are before the elimination of intra-company transactions.

[Condensed statement of financial position]

	JPY			USD
	2016	2015	Transition date	2016
Current assets	**48,217**	47,967	46,366	**427,911**
Current liabilities	**13,909**	15,497	13,626	**123,438**
Current assets (net)	**34,307**	32,470	32,740	**304,464**
Non-current assets	**7,511**	7,333	7,148	**66,658**
Non-current liabilities	**3,177**	3,033	3,146	**28,195**
Non-current assets (net)	**4,333**	4,299	4,001	**38,454**
Equity	**38,641**	36,770	36,741	**342,927**
Cumulative amount of non-controlling interests	**16,180**	15,418	16,203	**143,592**

[Condensed statements of income and comprehensive income]

	JPY		USD
	2016	2015	**2016**
Revenue	**61,305**	61,863	**544,063**
Profit for the year	**4,310**	3,632	**38,250**
Other comprehensive income	**(285)**	158	**(2,529)**
Total comprehensive income	**4,025**	3,791	**35,721**
Profit for the year attributable to non-controlling interests	**1,807**	1,588	**16,037**
Dividends paid to non-controlling interests	**835**	715	**7,410**

[Condensed cash flow statement]

	JPY		USD
	2016	2015	**2016**
Cash flows from operating activities	**5,067**	1,909	**44,968**
Cash flows from investing activities	**(171)**	(1,168)	**(1,518)**
Cash flows from financing activities	**(2,479)**	(3,743)	**(22,000)**
Increase (decrease) in cash and cash equivalents, net	**2,416**	(3,002)	**21,441**

(3) Transaction with non-controlling interests

On March 26, 2015, Kanematsu Electronics Ltd., a consolidated subsidiary of the Company, acquired the additional shares of Nippon Office Systems Ltd. through the tender offer, aimed at making it a wholly owned subsidiary.

The summary of transaction with non-controlling interests in conjunction with the purchase of the shares are as follows:

	2015
Carrying amount of purchased non-controlling interests	964
Amount paid to non-controlling interests	(1,839)
Excess consideration paid in the transaction with non-controlling interests that is included in equity	(874)

There was no transaction with significant non-controlling interests for the fiscal year ended March 31, 2016.

35. Related Parties

(1) Related party transactions

For the fiscal year ended March 31, 2016

Type	Name	Detail of related party relationship	Transaction amount		Outstanding amount	
			JPY	USD	JPY	USD
Associate (including subsidiaries of the associate)	Kantatsu Co., Ltd.	Purchase of merchandise	**8,603**	**76,349**	**486**	**4,313**

(Notes)1. The related party transactions are conducted on an arm's length basis.
2. As described in *Note 33 Contingent Liabilities*, debt guarantees are provided to the equity method investees.

For the fiscal year ended March 31, 2015

Type	Name	Detail of related party relationship	Transaction amount	Outstanding amount
			JPY	JPY
Associate (including subsidiaries of the associate)	Kantatsu Co., Ltd.	Purchase of merchandise	5,253	1,985

(Notes)1. The related party transactions are conducted on an arm's length basis.
2. As described in Note 33 Contingent Liabilities, debt guarantees are provided to the equity method investees.

(2) Remuneration to management executives

The amounts of remuneration to the Company's directors for the fiscal years ended March 31, 2016 and March 31, 2015 are ¥202 million ($1,793 thousand) and ¥228 million, respectively. The remuneration to the directors consists of base salary and directors' bonus.

36. Subsequent Events

On April 1, 2016, Kanematsu Telecom Investment Co., Ltd. (headquartered in Minato-ku, Tokyo, Japan; hereinafter "Kanematsu Telecom"), a newly established and wholly owned subsidiary of the Company, acquired Diamondtelecom, Inc. (headquartered in Chuo-ku, Tokyo, Japan; "Diamond Telecom"), a wholly owned subsidiary of Mitsubishi Electric Corporation (headquartered in Chiyoda-ku, Tokyo, Japan; "Mitsubishi Electric"), in accordance with a merger agreement for the acquisition of Diamond Telecom concluded with the Company and Mitsubishi Electric concerning an absorption-type merger on January 18, 2016.

(1) Contents of the business combination

Name of the acquired company	Diamond Telecom
Contents of business	Information communication business involved with sales of mobile communication device and system
Date of the business combination	April 1, 2016
Legal form of the business combination	Acquisition the shares of Diamond Telecom by Kanematsu Telcom (Kanematsu Telecom absorbed the acquired company as of April 1, 2016 and changed its company name to Diamond Telecom)
Company name after the combination	Diamondtelecom, Inc.
Percentage of the voting rights acquired	100.0%

(2) Purpose of the business combination

The mobile business of the Consolidated Group is driven mainly by Kanematsu Communications Limited ("Kanematsu Communications"), a wholly owned subsidiary of the Company. With its large market share in the mobile phone sales distribution industry, the mobile business is one of the core businesses as well as one of the focus areas under the Consolidated Group's medium-term vision, VISION-130.

Diamond Telecom has been engaging in the mobile phone sales business for more than 20 years since its foundation in 1994 as a wholly owned subsidiary of Mitsubishi Electric, and owns a dominant number of carrier-certified shops throughout Japan.

As a result of the acquisition of Diamond Telecom, the Consolidated Group's total sales volume combining the sales of the two companies will reach the industry's top class, and we expect that this will significantly enhance our presence in the mobile phone sales distribution industry.

We also believe that the integration of Diamond Telecom will enable us to create synergies in the Consolidated Group as the Kanematsu Communications' network of carrier-certified shops will be complemented and strengthened by the addition of Diamond Telecom's network and achieve a national network of blue-chip shops, service sophistication through shared human resources and know-how and the enhancement of management efficiency for both companies.

(3) Acquisition costs and those details

	JPY	USD
Acquisition cost (cash consideration)	17,400	154,420

(4) Acquisition-related costs and its line item

Acquisition-related costs for the business combination are ¥168 million ($1,491 thousand), and they are recognized in selling, general and administrative expenses on the consolidated statement of income of this fiscal year.

(5) Assets and liabilities on the day of the business combination

	JPY	USD
Fair value of the consideration paid	17,400	154,420
Cash and cash equivalents	4,613	40,939
Trade receivable	12,828	113,845
Inventories	1,212	10,756
Other current assets	351	3,115
Property, plant and equipment	736	6,532
Goodwill	1,635	14,510
Intangible assets	13,930	123,624
Other non-current assets	764	6,780
Current liabilities	(17,746)	(157,490)
Non-current liabilities	(925)	(8,209)
Total	17,400	154,420

37. Disclosures Regarding Transition to IFRSs

(1) Exemptions under IFRS 1

In principle, IFRSs require an entity applying IFRS for the first time ("first-time adopter of IFRSs") to retrospectively apply the standards required in IFRSs. However, IFRS 1 provides for some mandatory exceptions and voluntary exemptions from the above requirement. The effects of the application of such provisions are adjusted at the transition date in retained earnings or other components of equity. The exemptions adopted by the Consolidated Group at the transition from the Japanese GAAP to IFRS are as follows:

•Business combinations

A first-time adopter of IFRSs may elect not to apply IFRS 3 *Business Combinations* ("IFRS 3") retrospectively in regards to business combinations that occurred prior to the transition date. The Consolidated Group has applied this exemption to elect not to apply IFRS 3 retrospectively to the business combinations occurred prior to the transition date. As such, the Consolidated Group has not restated any business combinations that occurred prior to the transition date. However, goodwill was tested for impairment as of the transition date regardless of whether there is any indication that the goodwill may be impaired.

•Exchange differences for foreign operations
IFRS 1 allows the entity to elect to deem the cumulative exchange differences for foreign operations to be zero as of the transition date. The Consolidated Group has elected to deem the cumulative exchange differences for foreign operations as of the transition date to be zero.

•Designation of financial instruments recognized in the past
According to the facts and status existing at the transition date to IFRSs, the Consolidated Group has designated the investment in equity instruments as one which shall be measured at fair value through other comprehensive income.

(2) Mandatory exceptions under IFRS 1

IFRS 1 prohibits retrospective application of some items of IFRSs including "estimates", "derecognition of financial assets and financial liabilities", "hedge accounting", "non-controlling interests" and "classification and measurement of financial assets". The Consolidated Group has applied these items prospectively from the transition date.

(3) Reconciliation

In preparing the consolidated financial statements under IFRSs, the Consolidated Group has adjusted the amounts reported in the consolidated financial statements under the Japanese GAAP. The effects of the adjustments on the Consolidated Group's financial position, results of operations and cash flows are presented as follows:

1) Reconciliation of equity

[As of March 31, 2015]

(JPY)

(Japanese GAAP account)	Japanese GAAP	Change in closing date	Reclassification	Effect of transition to IFRSs	IFRSs	Notes	IFRSs account
Assets							(Assets)
Current assets							Current assets
Cash and bank deposits	68,468	(891)	(1,090)	—	66,485	1	Cash and cash equivalents
Notes and accounts receivable	180,319	375	3,080	2,711	186,486	2, 26	Trade and other receivables
Lease investment assets	227	—	(227)				
Short-term investments	3	—	(3)				
Inventories	87,254	4,589	—	—	91,844		Inventories
Short-term loans receivable	297	(1)	(295)				
Deferred tax assets	3,250	(59)	(3,191)				
			6,792	—	6,792	3	Other financial assets
Other	27,148	(2,679)	(8,414)	—	16,054	4	Other current assets
Allowance for doubtful accounts	(158)	0	158				
Total current assets	366,811	1,333	(3,191)	2,711	367,664		Total current assets
Long-term assets							Non-current assets
Tangible fixed assets	28,931	49	—	(14)	28,966		Property, plant and equipment
Goodwill	6,063	219	—	(1,790)	4,493	25, 27	Goodwill
Other	8,661	(73)	—	53	8,641	25	Intangible assets
			5,385	—	5,385	5	Investments accounted for using the equity method
			393	(5)	388	6	Trade and other receivables
Investments and other assets							
Investments in securities	38,372	0	(6,400)	1,076	33,049	5, 22	Other investments
Other	6,098	(0)	(616)	—	5,481	7	Other financial assets
Long-term loans receivable	2,134	—	(2,134)				
Doubtful accounts	765	—	(765)				
Net defined benefit asset	199	—	(199)				
Deferred tax assets	3,643	57	3,191	3,664	10,557	9, 22, 25, 27, 28, 29, 30	Deferred tax assets
			1,666	20	1,686	8	Other non-current assets
Allowance for doubtful accounts	(2,671)	—	2,671				
Total long-term assets	92,200	253	3,191	3,004	98,650		Total non-current assets
Total assets	459,011	1,587	—	5,716	466,314		Total assets

(JPY)

(Japanese GAAP account)	Japanese GAAP	Change in closing date	Reclassification	Effect of transition to IFRSs	IFRSs	Notes	IFRSs account
							Liabilities and equity
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable	116,567	83	42,871	—	159,522	10	Trade and other payables
Import bills payable	32,530	—	(32,530)				
Short-term borrowings	61,688	856	—	2,760	65,305	26	Bonds and borrowings
Lease obligations	638	(0)	(638)				
			5,828	—	5,828	11, 30	Other financial liabilities
Accrued income taxes	2,492	69	—	—	2,561		Income taxes payable
			300	—	300	14	Provisions
Deferred tax liabilities	1	—	(1)				
Asset retirement obligations	107	—	(107)				
Other	38,322	819	(15,725)	1,319	24,736	12, 28	Other current liabilities
Total current liabilities	252,347	1,828	(1)	4,079	258,255		Total current liabilities
Non-current liabilities							Non-current liabilities
Long-term borrowings	74,426	—	—	—	74,426		Bonds and borrowings
Lease obligations	1,286	(0)	(1,286)				
			5,814	805	6,620	13	Other financial liabilities
Net defined benefit liability	5,137	(0)	—	444	5,581	29	Retirement benefits liabilities
			1,098		1,098	14	Provisions
Deferred tax liabilities	488	(70)	1	(105)	313	9, 22, 25, 27, 28,29, 30	Deferred tax liabilities
Provision for retirement benefits for directors and statutory auditors	367	—	(367)				
Asset retirement obligations	810	—	(810)				
Other	5,414	11	(4,449)	25	1,002		Other non-current liabilities
Total non-current liabilities	87,931	(59)	1	1,170	89,043		Total non-current liabilities
Total liabilities	340,279	1,769		5,249	347,298		Total liabilities
Net assets							Equity
Capital stock	27,781	—	—	—	27,781		Share capital
Capital surplus	27,502	—	—	(881)	26,621	25	Capital surplus
Retained earnings	44,845	(123)	—	(22,842)	21,879	22, 23, 25, 27, 28, 29	Retained earnings
Treasury stock	(222)	—	—	—	(222)		Treasury stock
Accumulated other comprehensive income	(9,805)	(130)	—	24,121	14,185	22, 23, 30	Other components of equity
					90,244		Total equity attributable to owners of the Parent
Non-controlling interests	28,630	71	—	68	28,771	22, 27	Non-controlling interests
Total net assets	118,731	(182)	—	466	119,015		Total equity
Total liabilities and net assets	459,011	1,587	—	5,716	466,314		Total liabilities and equity

[Transition date (April 1, 2014)]

(JPY)

(Japanese GAAP account)	Japanese GAAP	Change in closing date	Reclassification	Effect of transition to IFRSs	IFRSs	Notes	IFRSs account
Assets							Assets
Current assets							Current assets
Cash and bank deposits	73,867	429	(318)	—	73,978	1	Cash and cash equivalents
Notes and accounts receivable	178,984	301	3,337	4	182,627	2, 26	Trade and other receivables
Lease investment assets	541	—	(541)				
Short-term investments	16	—	(16)				
Inventories	66,256	258	—	—	66,514		Inventories
Short-term loans receivable	825	(0)	(825)				
Deferred tax assets	2,660	116	(2,776)				
			3,675	—	3,675	3	Other financial assets
Other	22,364	(2,634)	(5,461)	—	14,268	4	Other current assets
Allowance for doubtful accounts	(149)	0	149				
Total current assets	345,366	(1,528)	(2,776)	4	341,065		Total current assets
Long-term assets							Non-current assets
Tangible fixed assets	24,218	(11)	—	(27)	24,179		Property, plant and equipment
Goodwill	3,175	(89)	—	(756)	2,329	25, 27	Goodwill
Other	8,531	(122)	—	(111)	8,298	25	Intangible assets
			5,536	—	5,536	5	Investments accounted for using the equity method
			140	(5)	135	6	Trade and other receivables
Investments and other assets							
Investments in securities	32,198	(0)	(5,551)	81	26,727	5, 22	Other investments
Other	6,236	2	(1,754)	—	4,484	7	Other financial assets
Long-term loans receivable	1,798	—	(1,798)				
Doubtful accounts	902	—	(902)				
Deferred tax assets	8,742	(76)	2,776	4,259	15,702	9, 22, 25, 27, 28, 29, 30	Deferred tax assets
			1,578	185	1,764	8	Other non-current assets
Allowance for doubtful accounts	(2,750)	—	2,750				
Total long-term assets	83,053	(297)	2,776	3,626	89,158		Total non-current assets
Total assets	428,420	(1,826)	—	3,630	430,224		Total assets

(JPY)

(Japanese GAAP account)	Japanese GAAP	Change in closing date	Reclassification	Effect of transition to IFRSs	IFRSs	Notes	IFRSs account
							Liabilities and equity
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable	115,210	(516)	35,824	—	150,518	10	Trade and other payables
Import bills payable	27,610	—	(27,610)				
Short-term borrowings	80,792	(940)	—	—	79,852	26	Bonds and borrowings
Lease obligations	760	(0)	(760)				
			5,023	—	5,023	11, 30	Other financial liabilities
Accrued income taxes	1,951	11	—	—	1,962		Income taxes payable
			92	—	92	14	Provisions
Deferred tax liabilities	1	—	(1)				
Asset retirement obligations	6	—	(6)				
Other	32,302	(244)	(12,562)	1,375	20,870	12, 28	Other current liabilities
Total current liabilities	258,635	(1,690)	(1)	1,375	258,319		Total current liabilities
Non-current liabilities							Non-current liabilities
Long-term borrowings	61,113	—	—	—	61,113		Bonds and borrowings
Lease obligations	1,033	(0)	(1,032)				
			6,039	337	6,376	13	Other financial liabilities
Net defined benefit liability	5,428	(1)	—	480	5,906	29	Retirement benefits liabilities
			804	—	804	14	Provisions
Deferred tax liabilities	368	(63)	1	(21)	283	9, 22, 25, 27, 28, 29, 30	Deferred tax liabilities
Provision for retirement benefits for directors and statutory auditors	387	—	(387)				
Asset retirement obligations	804	—	(804)				
Other	5,281	2	(4,618)	26	692		Other non-current liabilities
Total non-current liabilities	74,417	(63)	1	821	75,177		Total non-current liabilities
Total liabilities	333,053	(1,753)	—	2,197	333,496		Total liabilities
Net assets							Equity
Capital stock	27,781	—	—	—	27,781		Share capital
Capital surplus	27,493	—	—	0	27,494		Capital surplus
Retained earnings	35,055	(138)	—	(22,501)	12,414	22, 23, 25, 27, 28, 29	Retained earnings
Treasury stock	(321)	—	—	—	(321)		Treasury stock
Accumulated other comprehensive income	(19,033)	(18)	—	23,868	4,816	22, 23, 30	Other components of equity
					72,185		Total equity attributable to owners of the Parent
Non-controlling interests	24,391	84	—	66	24,541	22, 27	Non-controlling interest
Total net assets	95,367	(72)	—	1,433	96,727		Total equity
Total liabilities and net assets	428,420	(1,826)	—	3,630	430,224		Total liabilities and equity

2) Reconciliation of profit or loss and other comprehensive income

[Fiscal year ended March 31, 2015 (from April 1, 2014 to March 31, 2015)]

(JPY)

(Japanese GAAP account)	Japanese GAAP	Change in closing date	Reclassification	Effect of transition to IFRSs	IFRSs	Notes	IFRSs account
Net sales	1,117,096	(1,180)	—	(411,704)	704,211	24	Revenue
Cost of sales	(1,025,655)	973	(3,353)	411,704	(616,331)	15, 24	Cost of sales
Gross trading profit	91,441	(207)	(3,353)	—	87,880		Gross profit
Selling, general and administrative expenses	(69,315)	167	3,353	(452)	(66,245)	25, 28, 29	Selling, general and administrative expenses
							Other income (expenses)
			(64)	0	(63)		Gain (loss) on sale and disposal of fixed assets, net
			(580)	0	(580)		Impairment loss on fixed assets
			4,508	(362)	4,146	16, 22	Other income
			(2,422)	833	(1,589)	17, 22, 23, 25	Other expenses
			1,441	471	1,912		Total other income (expenses)
Operating income	22,125	(39)	1,441	19	23,547		Operating profit
Non-operating income	5,872	0	(5,873)				
Non-operating expenses	(5,103)	18	5,085				
Extraordinary gains	1,385	0	(1,386)				
Extraordinary losses	(985)	2	983				
							Finance income
			415	(15)	400		Interest income
			1,118	(35)	1,082		Dividend income
			—	18	18	22	Other finance income
			1,533	(31)	1,501	18	Total finance income
							Finance costs
			(2,929)	18	(2,910)		Interest expenses
			—	(908)	(908)	22	Other finance costs
			(2,929)	(889)	(3,819)	19	Total finance costs
			1,145	(2)	1,143	20	Share of profit (loss) of investments accounted for using the equity method
Income before income taxes and non-controlling interests	23,294	(17)	—	(904)	22,373	23, 32	Profit before tax
Income taxes	(8,925)	191	—	(503)	(9,238)	27, 28, 29, 30	Income tax expense
Income before non-controlling interests	14,369	174	—	(1,408)	13,135		Profit for the year
Net income	11,470	(44)	—	(879)	10,546		Profit for the year attributable to owners of the Parent
Net income attributable to non-controlling interests	2,898	218	—	(528)	2,588		Profit for the year attributable to non-controlling interests

(JPY)

(Japanese GAAP account)	Japanese GAAP	Change in closing date	Reclassification	Effect of transition to IFRSs	IFRSs	Notes	IFRSs account
Income before non-controlling interests	14,369	174	—	(1,408)	13,135		Profit for the year
Other comprehensive income							Other comprehensive income
							Items that will not be reclassified to profit and loss:
Net unrealized gains (losses) on securities, net of tax	2,236	0	—	1,525	3,762	22	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	316	—	—	176	492	29	Remeasurement of defined benefit pension plans
			7	0	7		Share of other comprehensive income of investments accounted for using the equity method
					4,263		Total items that will not be reclassified to profit and loss
							Items that may be reclassified to profit and loss:
Foreign currency translation adjustment	7,092	(158)	—	(370)	6,564	23	Exchange differences on translation of foreign operations
Net gains (losses) on deferred hedges, net of tax	569	—	—	(133)	435		Cash flow hedges
			117	(10)	106		Share of other comprehensive income of investments accounted for using the equity method
					7,106		Total items that may be reclassified to profit and loss
Share of other comprehensive income of associates accounted for using equity method	124	—	(124)				
Total other comprehensive income	10,339	(157)	—	1,187	11,369		Other comprehensive income for the year, net of tax
Comprehensive income	24,708	16	—	(220)	24,504		Total comprehensive income for the year
Comprehensive income attributable to the owners of the parent	20,698	120	—	(352)	20,467		Total comprehensive income for the year attributable to owners of the Parent
Comprehensive income attributable to non-controlling interests	4,009	(104)	—	131	4,037		Total comprehensive income for the year attributable to non-controlling interests

3) Reconciliation of cash flows

The effect of the transition from Japanese GAAP to IFRSs on the consolidated statement of cash flows is primarily the effect on a change in closing date, which is not material.

4) Notes on reconciliation

Details on the reconciliation of the difference between the Japanese GAAP and IFRSs as presented in Item 3) Reclassification above are as follows:

(i) Change in closing date

Under the Japanese GAAP, the Consolidated Group had prepared the consolidated financial statements based on the financial statements of its subsidiaries and equity method investees as of their closing dates even if such closing dates differ from that of the Company. Under IFRSs, however, as it is not acceptable for the Company, its subsidiaries and its equity method investees to have different closing dates except where impracticable, changes have been made to the closing dates.

(ii) Reclassification

The reclassifications affected presentation of the consolidated statements of financial position and consolidated statements of income only and did not affect retained earnings. The details of reclassifications are described as follows:

(a) Cash and cash equivalents

Under the Japanese GAAP, time deposits with the maturity longer than three months were included in "Cash and bank deposits". Under IFRSs, they are presented as "Other financial assets".

(b) Trade and other receivables (current)

Under the Japanese GAAP, "Notes and accounts receivable", "Allowance for doubtful accounts" and "Loans receivable" were presented separately and accounts receivable – other were included in "Other (current assets)". Under IFRSs, they are presented as "Trade and other receivables (current)".

(c) Other financial assets (current)
Under the Japanese GAAP, time deposits with the maturity longer than three months were included in "Cash and bank deposits", and derivative assets and guarantee deposits were included in "Other (current assets)". Under IFRSs, they are presented as "Other financial assets (current)".

(d) Other current assets
Under the Japanese GAAP, accounts receivable – other were included in "Other (current assets)". Under IFRSs, they are presented as "Trade and other receivables". In addition, derivative assets and guarantee deposits are presented as "Other financial assets (current assets)".

(e) Other investments / investments accounted for using the equity method
Under the Japanese GAAP, investments accounted for using the equity method were included in "Investments in securities". Under IFRSs, they are presented separately as "Investments accounted for using the equity method", and investments in securities other than investments accounted for using the equity method are presented as "Other investments".

(f) Trade and other receivables (non-current)
Under the Japanese GAAP, "Long-term loans receivable", "Doubtful accounts" and "Allowance for doubtful accounts" were presented separately. Under IFRSs, they are included in "Trade and other receivables (non-current)".

(g) Other financial assets (non-current)
Under the Japanese GAAP, guarantee deposits were included in "Other (investments and other assets)" and government and corporate bonds were included in "Investments in securities". Under IFRS, they are included in "Other financial assets (non-current)".

(h) Other non-current assets
Under the Japanese GAAP, long-term prepaid expenses were included in "Other (investments and other assets)". Under IFRSs, they are included in "Other non-current assets".

(i) Deferred tax assets / deferred tax liabilities
Under IFRSs, "Deferred tax assets" and "Deferred tax liabilities" are all reclassified into the "Non-current assets" section and the "Non-current liabilities" section, respectively.

(j) Trade and other payables
Under the Japanese GAAP, "Notes and accounts payable" and "Import bills payable" were presented separately and accounts payable – other was included in "Other (current liabilities)". Under IFRSs, they are presented as "Trade and other payables".

(k) Other financial liabilities (current)
Under the Japanese GAAP, deposits received and derivative liabilities were included in "Other (current liabilities)". Under IFRSs, they are included in "Other financial liabilities".

(l) Other current liabilities
Under the Japanese GAAP, deposits received and others were included in "Other (current liabilities)". Under IFRSs, it is included in "Other financial liabilities (current)". In addition, accounts payable – other, which was included in "Other (current liabilities)" under the Japanese GAAP, is included in "Trade and other payables".

(m) Other financial liabilities (non-current)
Under the Japanese GAAP, "Lease obligations (non-current liabilities)" was separately presented and long-term deposits received were included in "Other (non-current liabilities)". Under IFRSs, they are included in "Other financial liabilities (non-current)".

(n) Provisions
Under the Japanese GAAP, "Asset retirement obligations" was separately presented. Under IFRSs, it is included in "Provisions".

(o) Cost of revenues
Under the Japanese GAAP, part of freightage related expenses was included in "Selling, general and administrative expenses". Under IFRSs, they are included in "Cost of revenues".

(p) Other income
Under the Japanese GAAP, "Non-operating income" was presented separately. Under IFRSs, it is presented as "Other income" except for "Share of profit (loss) of investments accounted for using the equity method", "Interest income" and "Dividend income", while "Share of profit (loss) of investments accounted for using the equity method", "Interest income" and "Dividend income" are included in "Finance income".

(q) Other expenses
Under the Japanese GAAP, "Non-operating expenses" was presented separately. Under IFRSs, it is presented as "Other expenses", and "Interest expenses" is included in "Finance costs".

(r) Finance income
Under the Japanese GAAP, "Interest income", "Dividend income" and others were presented as "Non-operating income". Under IFRSs, they are presented as "Finance income".

(s) Finance costs
Under the Japanese GAAP, "Interest expenses" and others were presented as "Non-operating expenses". Under IFRSs, they are presented as "Finance costs".

(t) Share of profit (loss) of investments accounted for using the equity method
Under the Japanese GAAP, "Equity in earnings of affiliates" was presented as "Non-operating income". Under IFRSs, it is presented as "Share of profit (loss) of investments accounted for using the equity method.

(iii) Effects from transition to IFRSs

(a) Scope of consolidated subsidiaries and equity method investees
The transition to IFRSs has not affected the numbers of consolidated subsidiaries and equity method investees.

(b) Investments in equity instruments without quoted prices
Pursuant to IFRSs, investments in equity instruments without quoted prices are measured at fair value. Under the Japanese GAAP, investments in equity instruments without quoted prices were measured at cost. Changes in fair value of financial assets measured at fair value through profit or loss are recorded in "Other finance costs" or "Other finance income". The summary of effects caused by this change is presented as follows:

(JPY)

Consolidated statement of financial position	2015	Transition date
Other investments	995	11
Related tax effects	(2,259)	(1,823)
Other components of equity	(4,712)	(3,271)
Non-controlling interests	882	7
Adjustment to retained earnings	(5,094)	(5,075)

(JPY)

Consolidated statement of income	2015
Other finance costs	(908)
Other expenses	899
Other income	(106)
Other finance income	18
Profit before tax	(97)

(JPY)

Consolidated statement of comprehensive income	2015
Financial assets measured at fair value through other comprehensive income	1,441
Other comprehensive income for the year, net of tax	1,441

(c) Exchange differences on translation of foreign operations
In accordance with IFRS 1, the Consolidated Group elected to deem the cumulative exchange differences for all the foreign operations which existed as of the transition date to be zero as of the transition date. The summary of effects caused by such election is presented as follows:

(JPY)

Consolidated statement of financial position	2015	Transition date
Transfer from other components of equity	(21,012)	(21,094)
Adjustment to retained earnings	(21,012)	(21,094)

(JPY)

Consolidated statement of income	2015
Other expenses	81
Profit before tax	81

Under the Japanese GAAP, revenues and expenses of foreign operations were translated using the exchange rate at the end of the reporting period. Under IFRSs, income and expenses of foreign operations are translated using the average exchange rate of the reporting period unless exchange rates fluctuate significantly. This change has caused profit before tax to decrease by ¥338 million. The summary of effects to the consolidated statements of comprehensive income caused by this change is presented as follows:

(JPY)

Consolidated statement of comprehensive income	2015
Exchange differences on translation of foreign operations	(81)
Other comprehensive income for the year, net of tax	(81)

(d) Method of presenting revenue
Under the Japanese GAAP, the amount of net sales is presented as the sum of the gross amounts for transactions in which the Consolidated Group acted as a principal and also for transactions in which the Consolidated Group was involved as an agent. Under IFRSs, however, revenue is presented as the net amount for transactions in which the Consolidated Group is determined to be acting as an agent. The summary of effects caused by this change is as follows:

(JPY)

Consolidated statement of income	2015
Revenue	(411,704)
Cost of sales	411,704
Profit before tax	—

(e) Goodwill
While goodwill is amortized over a certain period under the Japanese GAAP, it is not amortized under IFRSs. With respect to impairment of goodwill, the Japanese GAAP requires an entity to test for impairment only when there is an indication that is may be impaired. However, IFRSs requires an entity to test for impairment annually and whenever there is an indication that it may be impaired.
Impairment losses which arose as of the transition date due to the differences between the Japanese GAAP and IFRSs is presented as follows. The carrying amounts of intangible assets and goodwill arising from the acquisition of the mobile phone sales business have been reduced to their recoverable amounts, and consequently the Consolidated Group recognized impairment losses of ¥71 million and ¥756 million, respectively. Both of the recoverable amounts have been determined based on their the amounts of value in use, which were calculated by discounting the future cash

flows at the discount rate of 6.75%. These assets belong to the Electronics & Devices segment. A transaction with non-controlling interests as a result of additional purchase of shares of a consolidated subsidiary causes adjustment to capital surplus as it is treated as an equity transaction under IFRSs.

(JPY)

Consolidated statement of financial position	2015	Transition date
Goodwill	(1,790)	(756)
Intangible assets	53	(111)
Related tax effects	—	39
Adjustment to retained earnings	(862)	(828)
Adjustment to capital surplus	(874)	—

(JPY)

Consolidated statement of income	2015
Selling, general and administrative expenses	(59)
Other expenses	107
Profit before tax	47

There is no effect of this change on the consolidated statements of comprehensive income.

(f) Transfer of financial assets

Of liquidated receivables such as discounted notes receivable that are allowed to be derecognized after transfer under the Japanese GAAP, the Consolidated Group continues to recognize those for which it may be obligated to make payments as recourse for non-payment by the debtor because such liquidated receivables do not meet the criteria for derecognition of financial assets under IFRSs. The summary of effects caused by such difference is presented as follows:

(JPY)

Consolidated statement of financial position	2015	Transition date
Trade and other receivables	2,735	—
Bonds and borrowings	(2,735)	—
Adjustment to retained earnings	—	—

(g) Review of recoverability of deferred tax assets

With application of IFRSs, except for investments in certain subsidiaries and associated, deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that they can be used against future taxable profits. The summary of effects caused by the change is presented as follows:

(JPY)

Consolidated statement of financial position	2015	Transition date
Deferred tax assets	5,136	5,402
Goodwill	(122)	—
Non-controlling interests	(108)	—
Adjustment to retained earnings	5,367	5,402

(JPY)

Consolidated statement of income	2015
Adjustment to income tax expense	(265)

(h) Accrued paid leave

For the unused paid leaves at the end of the reporting period, the Consolidated Group recognizes a liability as accrued paid leave by estimating the number of days to be used in the future based on the historical ratio of paid leave used and other factors. The summary of effects caused by this treatment is presented as follows:

(JPY)

Consolidated statement of financial position	2015	Transition date
Accrued paid leave	(1,405)	(1,375)
Related tax effects	521	515
Adjustment to retained earnings	(884)	(860)

(JPY)

Consolidated statement of income	2015
Provision for accrued paid leave	(30)
Adjustment to income tax expense	6

(i) Employee benefits

Upon application of IFRSs, the Consolidated Group has reviewed the calculation method of retirement benefit obligation and service cost. Also, the discount rate applicable to pension assets has been changed to the market yields of corporate bonds. The summary of effects caused by these changes is presented as follows:

(JPY)

Consolidated statement of financial position	2015	Transition date
Retirement benefits liabilities	(444)	(480)
Related tax effects	158	170
Adjustment to retained earnings	(286)	(309)

(JPY)

Consolidated statement of income	2015
Selling, general and administrative expenses	35
Deferred income tax	(12)

(JPY)

Consolidated statement of comprehensive income	2015
Remeasurement of defined benefit pension plans	176
Other comprehensive income for the year, net of tax	176

(j) Hedge accounting

Regarding the interest rate swap transactions for which the exceptional hedge accounting treatment ("*tokurei shori*") is applied under the Japanese GAAP, fair value of the interest swap is recognized in the consolidated statements of financial position under IFRSs. The summary of effects caused by this treatment is presented as follows:

(JPY)

Consolidated statement of financial position	2015	Transition date
Other financial liabilities	(805)	(337)
Related tax effects	260	119
Other components of equity	545	217
Adjustment to retained earnings	—	—

(k) Adjustment to deferred tax

The effect of the adjustments above on deferred tax assets (net after offsetting against deferred tax liabilities) in the consolidated statements of financial position is presented as follows:

(JPY)

Item subject to adjustment	Note	2015	Transition date
Review of recoverability of deferred tax assets	(27)	5,136	5,402
Investments in equity instruments without quoted prices	(22)	(2,259)	(1,823)
Accrued paid leave	(28)	521	515
Employee benefits	(29)	158	170
Hedge accounting	(30)	260	119
Other		(47)	(103)
Total		3,769	4,281

The adjustments above have caused income taxes for fiscal year ended March 31, 2015 to decrease by ¥301 million.

(l) Retained earnings

The effect of the adjustments above on retained earnings is presented as follows:

(JPY)

Item subject to adjustment	Note	2015	Transition date
Exchange differences on translation of foreign operations	(23)	(21,012)	(21,094)
Review of recoverability of deferred tax assets	(27)	5,367	5,402
Investments in equity instruments without quoted prices	(22)	(5,094)	(5,075)
Accrued paid leave	(28)	(884)	(860)
Goodwill	(25)	(862)	(828)
Employee benefits	(29)	(263)	(309)
Other		(92)	263
Total		(22,842)	(22,501)

(m) Profit before tax

The effect of the adjustments above on profit before tax is presented as follows:

(JPY)

Item subject to adjustment	Note	2015
Exchange differences on translation of foreign operations	(23)	(256)
Investments in equity instruments without quoted prices	(22)	(97)
Goodwill	(25)	47
Other		(598)
Total		(904)

pwc

Independent Auditor's Report

To the Board of Directors of
Kanematsu Corporation

We have audited the accompanying consolidated financial statements of Kanematsu Corporation ("the Company") and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 36 to these consolidated financial statements, which refers to that as a subsequent event, Kanematsu Telecom Investment Co., Ltd, a wholly owned subsidiary of the Company merged Diamondtelecom Inc, a wholly owned subsidiary of Mitsubishi Electric Corporation on April 1, 2016. Our opinion is not qualified in respect of this matter.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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 2 to the consolidated financial statements.

PricewaterhouseCoopers Aarata LLC

August 10, 2016

PricewaterhouseCoopers Aarata LLC
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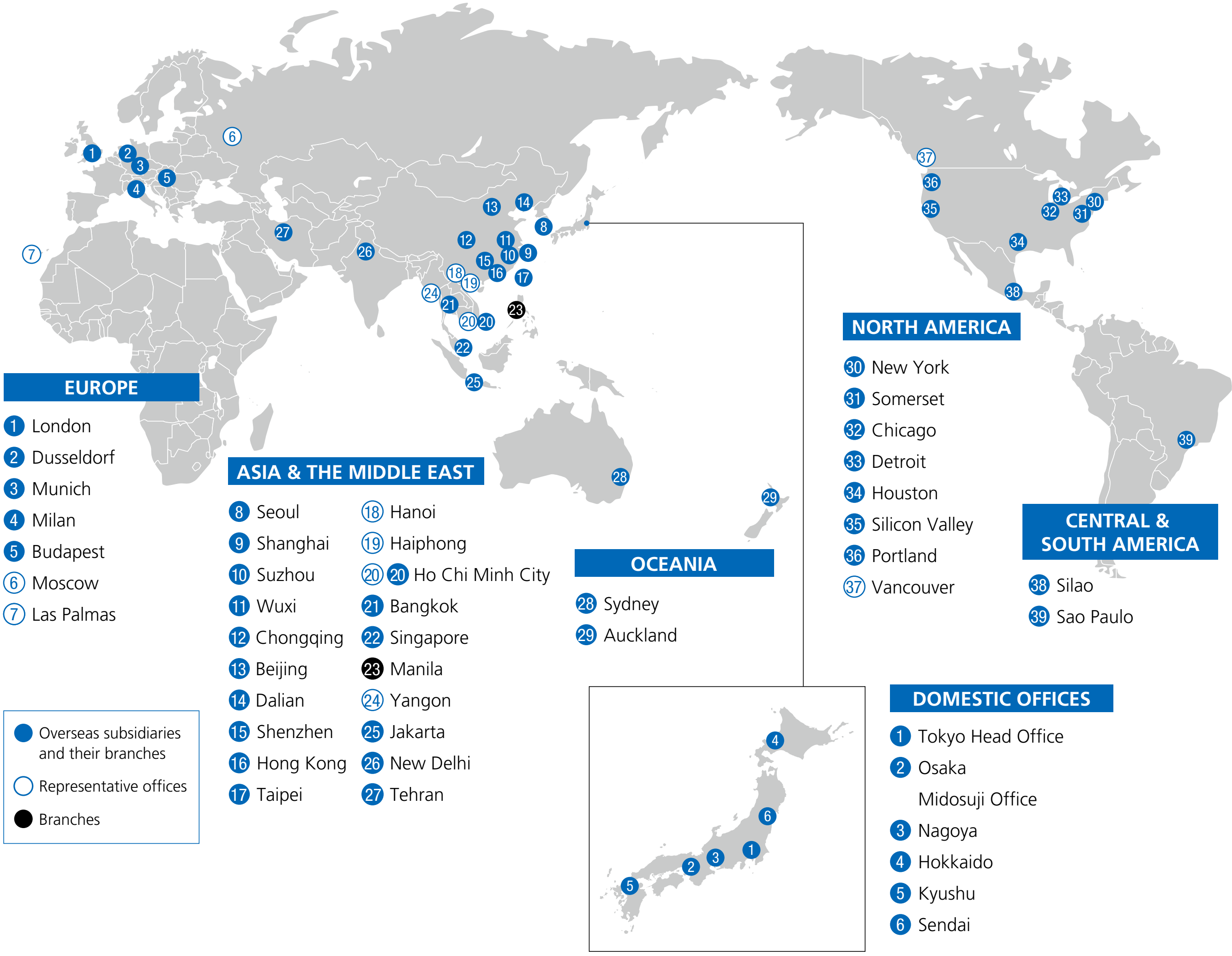
T: +81 (3) 3546 8450, F: +81 (3) 3546 8451, www.pwc.com/jp/assurance

Global Network

(As of March 31, 2016)

Kanematsu supplies products and services through its large network of business bases in Japan and overseas. 92 subsidiaries and 30 affiliates ensure the Group's global market reach.



EUROPE
1. London
2. Dusseldorf
3. Munich
4. Milan
5. Budapest
6. Moscow
7. Las Palmas

ASIA & THE MIDDLE EAST
8. Seoul
9. Shanghai
10. Suzhou
11. Wuxi
12. Chongqing
13. Beijing
14. Dalian
15. Shenzhen
16. Hong Kong
17. Taipei
18. Hanoi
19. Haiphong
20. 20 Ho Chi Minh City
21. Bangkok
22. Singapore
23. Manila
24. Yangon
25. Jakarta
26. New Delhi
27. Tehran

OCEANIA
28. Sydney
29. Auckland

NORTH AMERICA
30. New York
31. Somerset
32. Chicago
33. Detroit
34. Houston
35. Silicon Valley
36. Portland
37. Vancouver

CENTRAL & SOUTH AMERICA
38. Silao
39. Sao Paulo

DOMESTIC OFFICES
1. Tokyo Head Office
2. Osaka Midosuji Office
3. Nagoya
4. Hokkaido
5. Kyushu
6. Sendai

● Overseas subsidiaries and their branches
○ Representative offices
● Branches

Organization Chart

(As of April 1, 2016)

Shareholder's Meeting
Audit & Supervisory Board
Board of Directors
Management Committee

Marketing Area

Electronics & Devices Division
- Industrial Electronics Dept.
- Semiconductor Equipment Dept.
- Components & Material Dept.
- System & Module Dept.
- Electronic Components & Semiconductor Dept. No. 1
- Electronic Components & Semiconductor Dept. No. 2
- Electronic Components & Semiconductor Marketing Dept.
- Electronics Planning Office

Foods Division
- Food Dept. No. 1
- Food Dept. No. 2
- Meat Dept.
- Foods and Grain Planning Office
- Food Safety Management System Office

Grain, Oilseed & Feedstuff Division
- Agricultural Products & Oilseeds Dept.
- Grain and Feedstuff Department
- Domestic Sections
- Foods and Grain Planning Office
- Food Safety Management System Office

Steel, Materials & Plant Division
- Iron & Steel Foreign Trade Dept.
- Specialty Steel Foreign Trade Dept.
- Functional Chemicals Dept.
- Energy Dept.
- Plant & Ships Dept.
- Steel, Materials & Plant Planning Office
- Food Safety Management Office

Motor Vehicles & Aerospace Division
- Aerospace Dept.
- Motor Vehicles & Parts Dept. No. 1
- Motor Vehicles & Parts Dept. No. 2
- Motor Vehicles & Aerospace Planning Office

Support Area
- Personnel & General Affairs Dept.
- Finance Dept.
- Accounting Dept.
- Business Accounting Dept.
- Legal & Compliance Dept.
- Traffic & Insurance Dept.
- Credit Control Dept.
- System Planning Dept.
- Internal Auditing Dept.
- Corporate Planning Dept.

Major Group Companies

(As of April 1, 2016)

* Companies with shares listed on a stock exchange

Segment	Company	Business
Electronics & Devices	**Japan**	
	Kanematsu Electronics Ltd.*	System integration of ICT and communications equipment
	Nippon Office Systems Ltd.	Development of software for and sales and maintenance of computers and computer peripherals, etc.
	Kanematsu-NNK Corp.*	Manufacture and sales of home-construction materials; Ground inspection services and improvement work; Sales of security systems
	Kanematsu Communications Ltd.	Sales of mobile communications devices; Mobile internet systems and services
	Kanematsu Advanced Materials Corp.	Import, export, storage, sales, and processing of materials and components for vehicle equipment, industrial electronics, and communication devices
	Kanematsu PWS LTD.	Design, development, and sales of semiconductor production equipment, testing equipment and related components; Technical services
	Kantatsu Co., Ltd.	Development, manufacture, and sales of lens units, camera modules, and other optical equipment and parts
	Diamondtelecom, Inc.	Information and communications businesses centered on sales of portable communications devices and other related devices
	China	
	Kanekoh Electronics (Shanghai) Co., Ltd.	Development, manufacture, and sales of control modules for lithium ion batteries
Foods, Grain, Oilseeds & Feedstuff	**Japan**	
	Kanematsu Shintoa Foods Corp.	Food wholesaling and cold storage
	Kanematsu Agritec Co., Ltd.	Manufacture and sales of feed and fertilizer
	Kanematsu Soytech Corp.	Sales of soybeans, pulses & peas, and grain; Development and marketing of tofu and other ingredients for processed foods
	North Pet Co., Ltd.	Manufacture of pet snacks (jerky, dried meat, biscuits)
	GPC Holdings Co., Ltd.	Sales of pet food and other products
	China	
	Dalian Tiantianli Food Co., Ltd.	Manufacture of dim sum and delicatessens
	Shangdong Lufeng Foods Co., Ltd.	Production of processed vegetables and fruits
	Iwase-Esta Kanematsu Co., Ltd.	Wholesale of confectionery and baking ingredient
	Thailand	
	Siam Aloe Vera (2005) Co., Ltd.	Processing and sales of aloe vera
	Indonesia	
	P.T. Kanemory Food Service	Manufacture of processed foods; Management of central kitchen
	PT. Aeternit Prima Mandiri	Manufacture and sales of jellies
	U.S.A.	
	KAI Enterprises, Inc.	Sales of hay and roughage
	Sage Hill Northwest, Inc.	Production of hay
	KG Agri Products, Inc.	Seed development; Contract farming; Sorting, processing, and sales of food soybeans
Steel, Materials & Plants	**Japan**	
	Kanematsu Trading Corp.	Sales of steel and construction materials
	Kyowa Steel Co., Ltd.	Cutting and processing of steel sheet; Sales of construction materials
	Eiwa Metal Co., Ltd.	Processing and sales of stainless steel, titanium, and high-alloy steels
	Kanematsu Petroleum Corp.	Sales of petroleum products and LPG
	Kanematsu Yuso Co., Ltd.	Delivery and storage of petroleum products
	Kanematsu Chemicals Corp.	Sales of petrochemicals, automobile-related chemicals, health food ingredients, and pharmaceuticals
	Kanematsu Wellness Corp.	Sales of health foods and provision of medical information
	Miracool Co., Ltd.	Sales of heat reflective paint
	Kanematsu KGK Corp.	Sales of machine tools and industrial machinery
	KGK Engineering Corp.	Repair and sales of machine tools; Sales of paper-manufacturing machinery
	China	
	Kanematsu KGK Trade & Sales (Shanghai) Co., Ltd.	Sales of machine tools and industrial machinery
	Thailand	
	KGK Engineering (Thai) Co., Ltd.	Sales of machine tools and industrial machinery
	U.S.A.	
	Steel Service Oilfield Tubular, Inc.	Sales of steel materials for oil excavation
	Benoit Premium Threading, LLC	Oil well casing fabrication; Manufacture and sales of oil well-related parts
	KGK International Corp.	Sales of machine tools
Motor Vehicles & Aerospace	**Japan**	
	Kanematsu Aerospace Corp.	Sales of aircraft, defense, and aerospace-related products
	Ireland	
	KG Aircraft Rotables Co., Ltd.	Replacement and maintenance of aircraft rotable components; Leasing; Sales
	Poland	
	Aries Motor Ltd.	Sales and maintenance of automobiles
	Aries Power Equipment Ltd.	Sales of engines, generators, lawnmowers, and other general-purpose machinery
Others	**Japan**	
	Kaneyo Co., Ltd.*	Sales of bedding materials and products, general merchandise, and interior goods
	Hokushin Co., Ltd.*	Manufacture and sales of medium-density fiberboard
	Aso Kanko Kaihatsu Co., Ltd.	Golf course management
	Shintoa Corp.	Beverage-vending machine operations; Imports, exports, and sales of aircraft engines
	Kanematsu Logistics & Insurance Ltd.	Insurance agency and forwarding business; Consigned freight forwarding business
	Japan Logistics Co., Ltd.	Warehouse and self-storage operation
	Vietnam	
	Vietnam-Japan International Transport Co., Ltd.	Total logistics services
	Indonesia	
	PT. Dunia Express Transindo	Total logistics services

Network

(As of June 30, 2016)

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FAX: 62-21-572-1188, 1237

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FAX: 98-21-2621-3106

EUROPE

UNITED KINGDOM

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FAX: 44-20-7387-4582

GERMANY

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TEL: 49-211-36890
FAX: 49-211-3689-111

Muenchen Office
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Germany
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FAX: 49-89-3074-817-29

ITALY

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Milano Liaison Office
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FAX: 39-02-6707-7364

HUNGARY

Kanematsu G.m.b.H.
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H-1034 Budapest Becsi ut 126-128.I.103. Hungary
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FAX: 36-1-320-4953

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The Representative of Kanematsu Corporation
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Tverskaya 16/2, Building 1, Business Centre,
125009, Moscow, Russian Federation
TEL: 7-495-935-89-40, 42, 43
FAX: 7-495-935-8948

SPAIN

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Spain
TEL: 34-928-275634, 275680
FAX: 34-928-275632

OCEANIA

AUSTRALIA

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NSW, Australia
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61-2-9283-3347
FAX: 61-2-9283-3095

NEW ZEALAND

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FAX: 64-9-309-3877

NORTH AMERICA

U.S.A.

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New York City, New York 10110, U.S.A.
TEL: 1-212-704-9400
FAX: 1-212-704-9401

Somerset Branch
100 Randolph Road, Somerset,
New Jersey 08873, U.S.A.
TEL: 1-732-271-7300
FAX: 1-732-271-7370

Chicago Branch
543 West Algonquin Road, Arlington Heights,
Illinois 60005, U.S.A.
TEL: 1-847-981-5600
FAX: 1-847-981-6760

Detroit Office
41700 Gardenbrook Rd. Novi, Garden Office B,
Suite 140 Novi, MI 48375, U.S.A.
TEL: 1-248-347-3216
FAX: 1-248-347-3219

Houston Branch
1800 Augusta, Suite 390, Houston,
Texas 77057, U.S.A.
TEL: 1-713-975-7200
FAX: 1-713-975-7966

Silicon Valley Branch
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TEL: 1-408-501-1400
FAX: 1-408-501-1499

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TEL: 1-503-224-7755
FAX: 1-503-228-5067

CANADA

The Representative of Kanematsu Corporation
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205-8988 Fraserton Court, Burnaby, B.C.
V5J 5H8, Canada
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FAX: 1-604-689-0655

CENTRAL & SOUTH AMERICA

MEXICO

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FAX: 52-472-748-9221

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Vista, São Paulo – SP CEP: 01311-200 Brazil
TEL: 55-11-3266-3967
Mobile: 55-11-9-4137-7178

Segment Information:
Number of employees and number of Group companies (As of March 31, 2016)

	Number of employees (consolidated basis)	Number of affiliated companies
Electronics & Devices	3,330	27 (Japan:18, Overseas:9)
Foods & Grain	696	27 (Japan:14, Overseas:13)
Steel, Materials & Plant	960	27 (Japan:12, Overseas:15)
Motor Vehicles & Aerospace	228	8 (Japan:1, Overseas:7)
Others	288	16 (Japan:12, Overseas:4)
Companywide (common)	360	
Overseas subsidiaries		17
Total	**5,832**	**122**

Notes:
1. Number of employees on a non-consolidated basis is 690 (including employees seconded from companies other than Kanematsu, excluding employees seconded from Kanematsu).
2. Of affiliated companies, 90 are consolidated subsidiaries and 27 are equity-method affiliates.

Corporate Profile

(As of March 31, 2016)

Corporate Profile

Company Name	KANEMATSU CORPORATION
Established	August 15, 1889
Foundation	March 18, 1918
President & CEO	Masayuki Shimojima
Head Office	2-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8005, Japan
Paid-in Capital	¥27,781 million
Fiscal Year	April 1 to March 31
General Meeting of Shareholders	June
Number of Offices	Domestic: Tokyo Head Office, Kobe Head Office and branches 6 Overseas: 40
Number of Employees	816 (Consolidated: 5,832)

Investor Information

Stock Exchange Listings	Tokyo
Stock Code	8020
Transfer Agent for Common Stock	Sumitomo Mitsui Trust Bank, Limited
Shares Authorized	1,016,653,604
Shares Outstanding	422,501,010 (including 1,217,939 treasury shares)
Minimum Trading Unit	1,000
Number of Shareholders	25,854

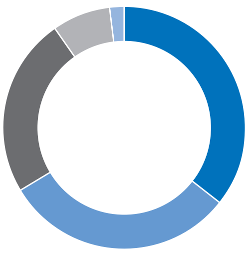
Principal Shareholders

	Number of shares held (thousands)	Percentage of voting rights (%)
The Master Trust Bank of Japan, Ltd. (trust account)	17,782	4.22
Japan Trustee Services Bank, Ltd. (trust account)	14,519	3.44
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,298	3.15
The Norinchukin Bank	12,460	2.95
Mitsui Sumitomo Insurance Co., Ltd.	11,613	2.75
Tokio Marine & Nichido Fire Insurance Co., Ltd.	11,612	2.75
Japan Trustee Services Bank, Ltd. (trust account 9)	7,730	1.83
Trust & Custody Services Bank, Ltd. (Investment trust account)	6,359	1.50
CBNY-GOVERNMENT OF NORWAY	5,310	1.26
Mellon Bank Treaty Clients Omnibus	4,886	1.15

Note: Calculated after deduction of treasury shares (1,217,939 shares)

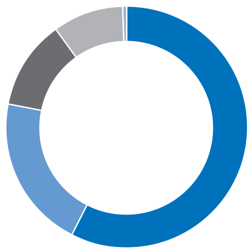
Composition of Shareholders

Individuals and others (including treasury shares)	35.81%
Financial institutions	30.70%
Foreign institutions and individuals	24.03%
Other corporations	7.73%
Securities firms	1.73%

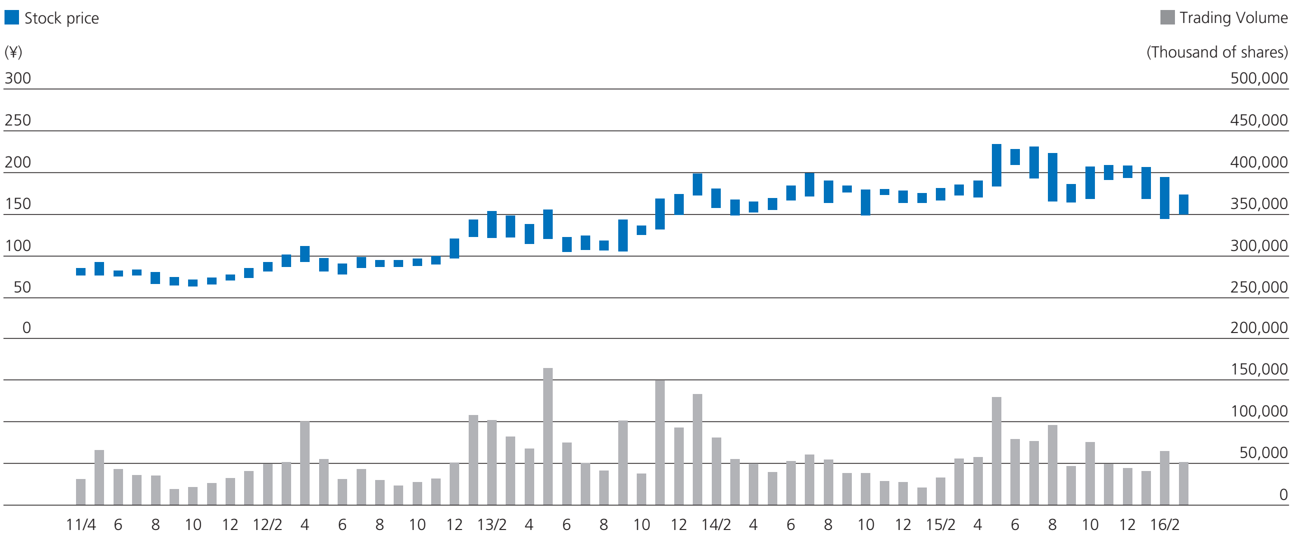


Shareholder Distribution by Number of Shares Held

More than 1 million shares (including treasury shares)	57.72%
50,000 shares and more	20.42%
10,000 shares and more	11.92%
1,000 shares and more	9.56%
Less than 1,000 shares	0.38%



Stock Price/Trading Volume



For more information on this *Annual Report*, or to obtain additional copies, please contact:

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Our Website

Detailed additional information about the Kanematsu Group is available on our website in English, Japanese and Chinese.

Content includes information about the Company and its businesses, press releases, investor relations materials (for shareholders and investors), and details on its environmental and CSR activities, employment opportunities and other topics are available.

English: **http://www.kanematsu.co.jp/en/**

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