KANEMATSU

GROWING THROUGH VALUE CREATION

Integrated Report 2018

The Kanematsu Group's Value Creation Process

Corporate Principle

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

Five Key Issues

A **Responding to changes in market characteristics and location and changes in customer needs**

B **Mutual development with local communities**

C **Consideration of the global environment**

D **Enhancing governance**

E **Promoting respect for human rights, human resource development, and diversity**

The Kanematsu Group's Capital

Organizational Capital
- Five divisions, organized by business field, each with specific expertise
- Organizational functions that support business activities from specialized perspectives
- Locations around the world
- Highly specialized Group companies

Human and Intellectual Capital
- Wide range of business fields
- Expertise and technical capabilities regarding industries and products
- Accumulated know-how
- Global professionals/Diverse professionals
- Business creation and proposal abilities

Financial Capital
- Sound financial position (Net D/E ratio of less than 1.0)
- Stable earnings base
- Average annual cash flows of approximately ¥20 billion

Social and Relationship Capital
- High quality and quantity of business partners
- Contribution to local communities
- Trust built over a period of almost 130 years

Natural Capital
- Biodiversity (animals, plants, fungi, etc.)
- Sunlight, air, forests, and soil
- Geothermal, wind, and other forms of renewable energy

To address these five key issues, the Kanematsu Group will leverage all forms of its capital to advance business

Contents

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.

What We Do

Businesses in the areas where we have strength and expertise

- Electronics & Devices
- Foods & Grain
- Steel, Materials & Plant
- Motor Vehicles & Aerospace

Bolstering the management base

- Strengthen governance
- Increase sophistication of investment risk management
- Develop global professionals

Contributing to local communities and the environment

- Environmental management system
- Social contribution activities

Where We Provide Value

- Customers and business partners
- Shareholders and investors
- Employees
- Local communities
- The global environment

activities, thus increasing its enterprise value and providing value unique to Kanematsu to all stakeholders.

Financial Section and Company Information

Editorial Policy

The content of the Kanematsu Group annual reports is based on an integrated reporting approach with reference to the International Integrated Reporting Council's International Integrated Reporting Framework, the G4 Sustainability Reporting Guidelines, a set of international standards created by the Global Reporting Initiative, and ISO 26000. We hope that the report will help readers deepen their understanding of the Kanematsu Group.

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.

Kanematsu's History

Since its founding, contribution to the public good, domestic and international society, and humanity has been the basis of Kanematsu's corporate activities. In line with this stance, Kanematsu has innovated and evolved with the times, continually creating and providing value unique to Kanematsu.

1889–1950s

Guided by Kanematsu's founder, a pioneer in trade between Japan and Australia, Kanematsu weathered financial panics and built a solid foundation. Eventually, the Company expanded to the United States and other countries.

1889
Fusajiro Kanematsu Shoten of Australian Trading founded by Fusajiro Kanematsu in Kobe

1890
Branch opened in Sydney
Direct importing of Australian wool began

1918
Company name changed to Kanematsu Shoten Company

1936
Branches opened in New York and Seattle

1943
Company name changed to Kanematsu Corporation

1960s–1980s

Kanematsu grows larger, diversifying functions as a trading company and expanding geographically.

1967
Merged with the Gosho Company to form Kanematsu-Gosho, Ltd.

1973
Listed on the first section of the Tokyo Stock Exchange

1990s–2000s

Following the expansion and collapse of Japan's economic bubble and the Asian Financial Crisis, Kanematsu carried out decisive business selection and concentration aimed at reinforcing its management framework. The Company also worked to improve and strengthen its financial base.

1989
100th anniversary of the Company's founding

1990
Company name changed to Kanematsu Corporation

1999
Implemented large-scale business selection and concentration

2005
Acquired a majority stake in Shintoa Corp. (100% stake acquired in 2010)

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.

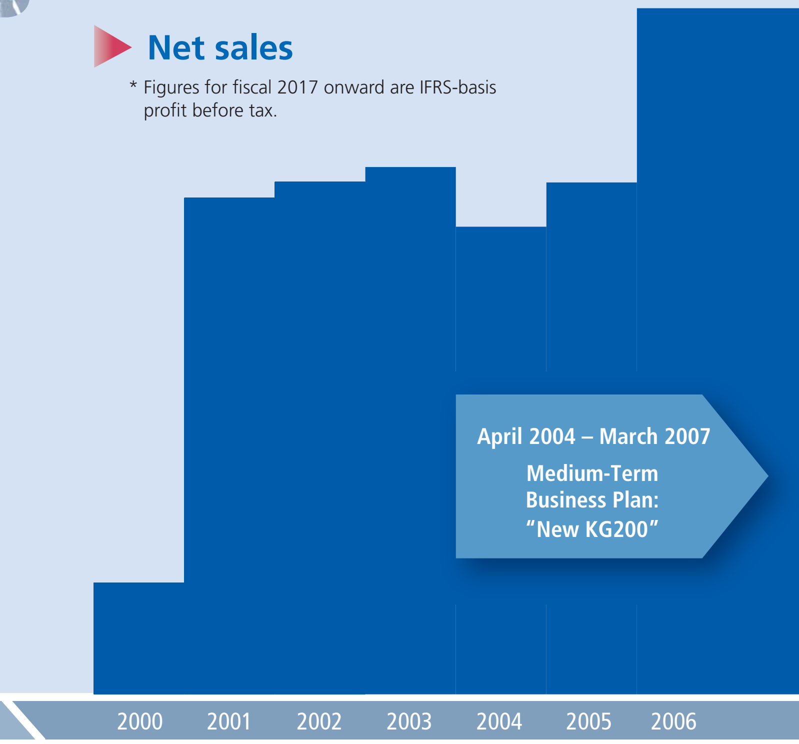
The beliefs and philosophies that inspired Fusajiro Kanematsu in the late nineteenth century Meiji period, a time when Japan was striving to build a national economy, were encapsulated in the document *Our Beliefs: Kanematsu's Guiding Principles* in 1967, on the occasion of our merger with The Gosho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

Net sales

* Figures for fiscal 2017 onward are IFRS-basis profit before tax.



Going forward, we will leverage strengths developed through our accumulation of a diverse wealth of experience over our long history to continue contributing to the development of international society.

2010–

Kanematsu has enhanced its management base through business selection and concentration. Implementing M&A in highly specialized fields and business expansion, we are shifting to an aggressive management stance.

2012
Acquired North American oilfield tubing company Benoit Machine LLC

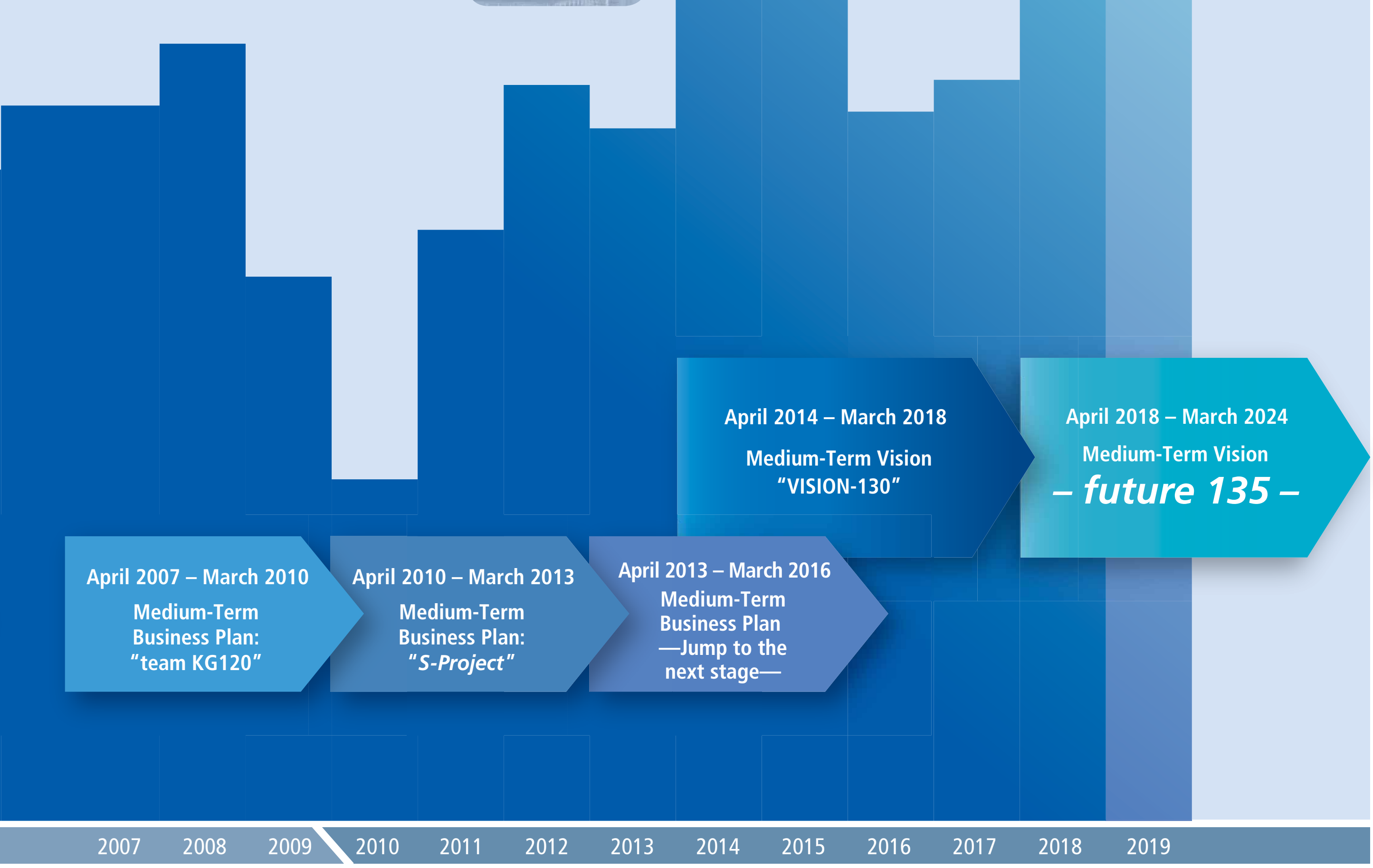
2013
Paid first dividends in 15 years

2014
Acquired a majority stake in Kanematsu-NNK Corp. (now Kanematsu Sustech Corporation)

2016
Carried out an absorption-type merger with Diamondtelecom, Inc., aimed at expanding the mobile business

Issued first corporate bonds in 20 years

2019
130th anniversary of the Company's founding



Message from the President

Since 1889, the Kanematsu Group has constantly stayed ahead of the curve, continuing to grow through repeated business creation.

In April 2018, we launched *future 135*, our medium-term vision for the coming six years. Under *future 135*, we have begun initiatives aimed at sustained growth in business areas where we have strength as well as scale expansion through business investment. Leveraging our stable earnings structure and financial structure, we are accelerating efforts to reach the next stage of growth, with the aspiration of being a unique general trading company.

President

Kaoru Tanigawa

Q1 Reflecting on My First Year as President

Over this past year, I have gained a renewed appreciation of the relationships between the Kanematsu Group and its stakeholders; it has thus been an extremely valuable time for me. My resolve when I took office—to make sure that all our employees and their families can take pride in Kanematsu, to increase Kanematsu's enterprise value so that it can better contribute to society, and to ensure that the Kanematsu Group contributes to the world economy—has not changed. In particular, I think that the pride each employee of Kanematsu and the Group has in being part of the Kanematsu Group will help each individual take to heart their mission of fulfilling our social responsibilities.

This year, I have seen firsthand how full of energy and vigor our employees are. I think that this is a sign of the Kanematsu Group's large growth potential. I was also once again impressed by the depth of the connections and trust that the Group has built with its many business partners and associates over the years. This a major strength, and I feel that it means the Kanematsu Group is of use to its business partners and, consequently, to society.

As I see it, my role as president is to lay out the path to growth and to build efficient business models. A trading company must constantly be creating new businesses. To that end, by enhancing our educational systems and developing our people, I think that I must lead the way toward the creation of businesses that offer new added value.

Q2 Where Kanematsu Stands and the Challenges Ahead

As a trading company, Kanematsu carries out corporate activities with the understanding that its mission is to contribute to society by creating businesses. While we do not invest in natural resources, we have a unique business portfolio that spans a wide range of business fields. Leveraging this strength, I believe that Kanematsu can develop businesses that no one else can.

Technology is evolving, driving changes in the needs of society and ways of living, and Japan's population and markets are shrinking—it is clear that traditional trading businesses are at a major turning point. Kanematsu's business model is rooted in trading, the foundation of a trading company. Going forward, we will need to carefully read market trends while making greater efforts to find new businesses rooted in advanced technologies, such as AI and IoT. By expanding its business fields, I hope that Kanematsu will become a corporate group that encompasses numerous highly specialized business areas. The one universal management issue for any trading company is business creation. The key is to maintain a keen sensitivity to product cycles, technological innovation, and market shifts in order to find the seeds of growth and continuously create new businesses. Imagination and ingenuity are crucial.

The long process of rebuilding our management base has somewhat taken the edge off the speed of Kanematsu's business creation. This is now a challenge we face. To create new businesses, we are therefore working to foster passion in order to bring out each and every employee's imagination and ingenuity and by doing so reinvigorate Kanematsu's corporate culture with an entrepreneurial spirit. This will also help us precisely understand conditions around us, including changes in markets and needs.

Having stabilized our revenues and finances, we are now switching gears toward greater investment in growth, but we must ensure that neither management nor employees become complacent or careless. Political and economic conditions in Japan and around the world are changing at a dizzying pace, while markets constantly fluctuate, significantly impacting business. We must make sure that every individual is alert and vigilant, lest we be tripped up. At the same time, enhancing human resource development is vital, as inadequate education creates risk.

At the start of fiscal 2019, the year ending March 31, 2019, we launched *future 135*, our medium-term vision for the coming six years. Under this vision, we aim to increase profit through the sustained growth of core businesses as well as by increasing business scale and added value through business investment. We have created *future 135* to reflect the Kanematsu Group's orientation toward and commitment to growth.

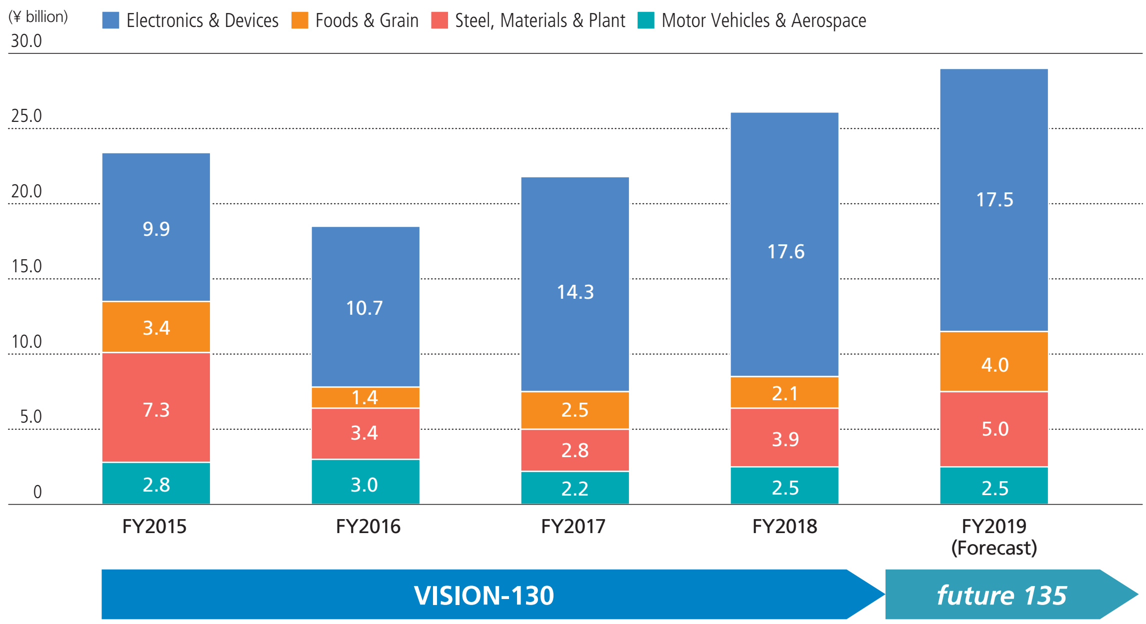
Q3 Fiscal 2018 Performance

In fiscal 2018, the year ended March 31, 2018, many Japanese companies recorded strong results, bolstered by favorable economic conditions in Japan and abroad. Within the Kanematsu Group, the ICT solutions business, which maintained its focus on highly specialized fields, the mobile business, which saw greater than expected effects from the integration of subsidiaries, and the oilfield tubing business, which recovered on the back of a rise in crude oil prices, did especially well. As a result, both revenue and profit increased year on year, and profit for the year attributable to owners of the Parent rose 102.7% year on year to ¥16.3 billion.

Reflecting the recording of retained earnings, total equity attributable to owners of the Parent climbed to ¥116.0 billion. As a result, Kanematsu's financial position remained sound, with the equity ratio at 22.3% and the net D/E ratio at 0.5.

I think that these achievements are the result of the Groupwide strategies we have been implementing. However, we have only just begun down the path to growth. Political instability overseas is increasing, and the unexpected could happen at any time. Looking at our current position the starting line, we will be even more vigilant as we move steadily forward.

Change of Operating Profit in Main Segments



(Note) 1. For the fiscal years ending March 2014 and 2015, the Japanese standard for operating income plus exchange rate fluctuations is adopted. For the fiscal years ending March 2016 and thereafter, operating profit in IFRS is adopted.
2. Other segments are not included.

Q4 Looking Back at Our Early Completion of VISION-130

Under VISION-130, our previous medium-term vision, launched in April 2014, we aimed for consolidated net income of ¥15.0 billion in fiscal 2019, the final year of vision. However, in fiscal 2018, we recorded consolidated net income of ¥16.3 billion, reaching our target ahead of schedule. I think that a key factor behind this achievement was the impact of consolidated management. In particular, within the Electronics & Devices Division, the ICT solutions business and mobile business have seen marked growth over the past several years while maintaining high profitability. In the mobile business, we made the major acquisition of mobile phone sales company Diamondtelecom, Inc. in 2016 and merged it with Kanematsu subsidiary Kanematsu Communications Ltd. in 2017. The results of this integration have been even greater than expected. This is an excellent example of a successful implementation of our consolidated management structure, with Kanematsu acting as controller and Group companies handling the supply chain and front-line business. In this kind of collaboration, Kanematsu supplies the ingredients, while the Group companies turn the ingredients into well-crafted dishes and serve them to customers.

In this way, under VISION-130, we made real progress in the areas that we decided to focus on and achieved results in fields where we had been working to increase revenues. While there will always be ups and downs in individual businesses, by not investing in natural resources, we have achieved a stable revenue structure. Furthermore, our financial structure is also stable, as illustrated by our indicators, such as an ROE of 15.1%, a net D/E ratio of 0.5, and an equity ratio of 22.3%. We know that a revenue structure that is even more resilient to fluctuations in the market environment will be indispensable to meet the challenges ahead, and we are prepared to work toward its establishment.

Q5 Review by Segment under VISION-130

In the Electronics & Devices segment, Kanematsu Electronics Ltd. worked to provide services with expert knowledge, know-how, and added value to further increase profitability in its ICT solutions business. The high level of expertise in this business and consolidated management structure worked well, contributing greatly to results. Furthermore, in the mobile business, as mentioned above, the merger of Kanematsu Communications and Diamondtelecom not only contributed to scale expansion, but produced greater-than-expected synergies, making steady headway toward increased market share.

The Foods & Grain segment is a stable part of the Group's earnings base. In particular, the food business requires the kind of added value that comes from the application of imagination and ingenuity and is a field where Kanematsu's unique attributes can really shine. Meanwhile, the feedstuff business is an area that presents opportunities to steadily increase revenue using the know-how built up over the Company's long history, and I can confidently say that it plays an important part in Japan's food market. Honing one's market discernment and know-how to figure out how best to hedge against the risks of market fluctuation—a key aspect of business in food commodities and an area where Kanematsu's extensive experience is invaluable—is one of the great pleasures of business. At the same time, climate change is prompting market locations to shift, so securing new suppliers going forward is important.

In the Steel, Materials & Plant segment, consolidated management with affiliates is one of our strengths, as is the Division's business coordination spanning multiple fields. Performance in the North American oilfield tubing business improved greatly thanks to the increase in crude oil prices in fiscal 2018, and we were able to effectively use our strengths in the functional chemicals business and other highly specialized fields, contributing to revenue expansion.

In the Motor Vehicles & Aerospace segment, our strength is in our proposal- and problem solving-based business model that leverages abundant information resources to address regional characteristics and customer needs. Business expansion in next-generation automobile markets, such as those related to network connectivity (so-called connected cars) and self-driving vehicles, as well as entry into the space business are progressing smoothly.

In technological support, which was designated as an area for innovation under the previous vision, we expect growth in such areas as the security business in the run up to the 2020 Tokyo Olympics and Paralympics.

Targets and Results

The consolidated profit for the year target for the year of ¥15 billion was achieved one year ahead of schedule. Return on equity cleared the target, reaching 15.1%.

	VISION-130 target	FY2018
Consolidated profit for the year Profit for the year attributable to owners of the Parent	¥15.0 billion	¥16.3 billion
ROE	12.0%	15.1%

Regarding shareholder's equity, it was increased steadily to the target level, despite lower stock prices and the appreciation of the yen in the second half of the year. The net D/E ratio remained low, in the 0.5 times range.

	VISION-130 target	FY2018
Shareholder's equity Total equity attributable to owners of the Parent	Over ¥120.0 billion	¥116.0 billion
Net D/E ratio	Under 1.0 times	0.5 times

Q6 The *future 135* Medium-Term Vision— A Plan for Growth

Our targets for fiscal 2024, the sixth and final year of the *future 135* medium-term vision, are consolidated net income of ¥25 billion, ROE of 13%–15%, and a total payout ratio of 25%–30%. Our aim of achieving sustainable growth is unchanged. Moreover, we aim to contribute to society by returning increased revenues to our stakeholders. We want Kanematsu to be a useful, indispensable part of society. With that in mind, we regard the targets of the medium-term vision not as our ultimate destination, but as milestones along the road of sustained growth.

In the 2000s, as the Kanematsu Group was advancing business selection and concentration, it rebuilt its financial foundation by reducing its assets and interest-bearing debt. However, I think that we have gone a little too far in paring down our assets and businesses. At such times, the entrepreneurial spirit of management and employees gets worn down, and have I worried that we might lose sight of Kanematsu's reason for existing as a trading company. Since becoming president last year, however, I have seen firsthand the fire in our employees and business partners, and I feel strongly that the time has come for us to reclaim the entrepreneurial spirit of our founding.

While maintaining and strengthening the sound financial base we have established, we will focus on more deeply developing our areas of strength and work to build businesses using innovative new technologies. By doing so, we will aggressively advance business expansion and creation. To do this, we must realize effective corporate governance to ensure exacting oversight in business management and investment as well as a corporate culture in which imagination and ingenuity are a constant while constructing mechanisms to achieve business creation.

future 135 April 2018 – March 2024

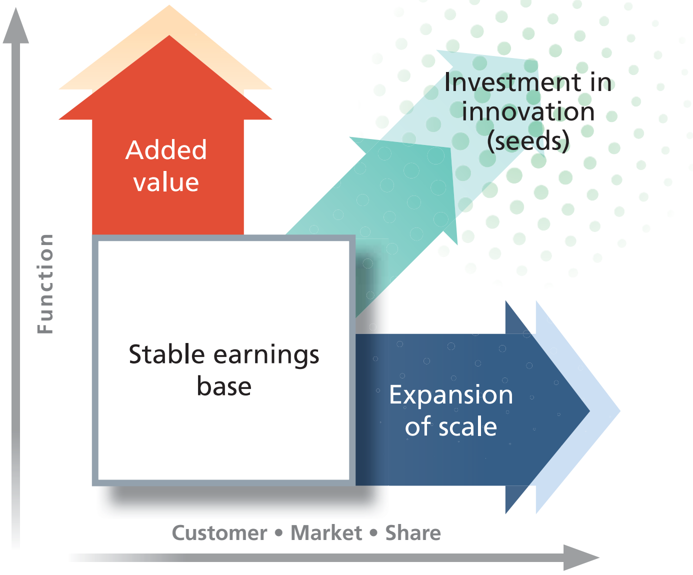
Quantitative Targets

Consolidated profit for FY2024 (Profit for the year attributable to owners of the parents)	¥25 billion
ROE	13% – 15%
Total return ratio	25% – 30%

Essentials

- By further enhancing our strong business and achieving sustainable growth in the business segments of our stable revenue base, pursue the expansion of scale and the acquisition of added value with an effective investment in our business.
  Target a consolidated profit for FY2024 of ¥25 billion.
- Based on a stable earnings structure/financial structure, the dividend payout ratio (total payout ratio) is set at 25%–30%, promoting management with the emphasis placed on capital efficiency.
- The new Medium-Term Vision is for the six years from the fiscal year ending March 2019 to the fiscal year ending March 2024.
  (Three years after the initiation of the Medium-Term Vision, the direction will be reconfirmed, including the progress of business investment.)

Image of growth



Priority Initiatives

Sustainable growth in fundamental businesses and the expansion of the revenue base through business investment

- Achieve sustainable growth by maintaining a stable revenue structure
- Carry out business investment while achieving a balance between capital and risk assets based on a stable financial structure
- Promote business investment in areas of strength through two strategies focused on “revenue base expansion” and “value added”

Response to technical innovation

- Promote and expand new businesses with advanced technology (IoT, AI, etc.) (“innovation investment”)

Establishment of management infrastructure for achieving sustainable growth

- Build a framework for global strategy
- Cultivate management-level human resources
- Improve employee satisfaction (ES)

Q7 Priority Initiatives under *future 135*

I. The first priority initiative under *future 135* is "Sustainable growth in fundamental businesses and the expansion of the revenue base through business investments." Our existing businesses will remain the foundation of the Kanematsu Group's revenue, and we will continue working toward sustained, steady growth in these businesses. The feedstuff business, which plays an important part in food supply in Japan, is a good example. Going forward, as technologies evolve and needs change, some businesses will fade away, while other, new businesses emerge; in such an environment, I think that imagination and ingenuity will be particularly crucial to expansion in existing businesses. Technological innovation may bring more opportunities for investment in efficiencies and other areas. To make sure we don't drop the ball, we will advance collaboration between businesses and expand our revenue base through appropriate investment and M&A in areas where we have deep insight. The time span of the new vision, six years, is rather long. Each business must therefore set goals, such as, for example, doubling revenue in existing fields, and consider what is necessary to meet those goals as we move forward.

II. Second, "Response to technical innovation," as exemplified by such technologies as IoT and AI, will be indispensable as we build the Kanematsu Group's future. Across all business fields, the application and integration of IoT and other new technologies are advancing, creating needs for structural innovation. In this environment, the Electronics & Devices Division is focusing on offering high-value-added business models using new technologies. Going forward, trading companies will need to create added value that transcends individual business areas. We will promote the coordination of businesses that possess cutting-edge technologies with other businesses and our partners, further reinforcing business creation through broad-reaching collaboration across business areas. From the current fiscal year, we have created the position of Chief Officer of Technologies and Business Collaboration, and we are working to accelerate the creation of new businesses and develop them into pillars of growth by harnessing technological innovation. By building new businesses in step with changes in society, the Kanematsu Group aims to fulfill its mission.

III. Third is "Establishment of management infrastructure for achieving sustainable growth." We recognize that people are the foundation of all we do, and, accordingly, there are many things we must work on. First, we urgently need to cultivate management personnel. To this end, we are creating new training programs and enhancing other educational measures aimed at raising the quality of our employees. At the same time, we are implementing measures to raise employee satisfaction as well as work style reforms. Each individual has different values, so it is extremely difficult to create something that everyone will be 100% satisfied with. It is important, however, that we create frameworks in which employees can find meaning in their work and enjoy the use of their imagination and ingenuity and then operate such frameworks while enhancing communication. Furthermore, as we work toward global business expansion, we are aiming to increase the number of specialized operating companies in key overseas markets. To this end, we are working to enhance our internal systems. We plan to complete these initiatives during the first half of the medium-term vision. In addition, we will implement systems to quantitatively assess our management situation and related risks.*

* For more details, please refer to Message from the CFO on pages 22–23 and Corporate Governance on pages 44–47.

Q8 Growth Strategy by Business

Under *future 135*, in addition to the ongoing growth of existing businesses, we will target additional growth by making investments aimed at expanding the revenue base and capturing added value. Expansion of the revenue base through business investments is aimed at growing our customer base, markets, and market share. These are Groupwide goals, but at the moment, in addition to investing in the Electronics & Devices Division, which encompasses numerous highly competitive business areas, I think that the machinery and chemicals businesses in the Steel, Materials & Plant Division, where we still have underutilized strength, need a boost. Main areas for achieving growth by capturing added value include such areas as feedstuff, foods, and steel, where we will add new functions to existing businesses.

Looking at individual businesses, in the ICT solutions business we will continue aiming for sustained growth leveraging our strengths. We position this business as a stable revenue base. In the electronic components and semiconductor business and the system devices business, we will reorganize existing businesses to capture added value. In the mobile business, having achieved positive results through M&A under the previous medium-term vision, we will utilize our know-how to advance scale expansion and work toward greater efficiency by enhancing the profitability of stores. In the Foods & Grain segment, we will work to expand the revenue base of the meat product business and identify sources of additional added value that we can more deeply develop in the value chain infrastructure we have built in Asian food markets. In the Steel, Materials & Plant segment, including the steel, machinery, plant, energy, and chemicals fields, investment in scale expansion will be crucial. We will work with even greater speed to build up operations in this segment as a business pillar for the coming era. In the Motor Vehicles & Aerospace segment, we will expand the earnings base of the aircraft components business and, in space-related businesses, expand areas in which we have strength and cultivate fields where we understand customer needs.

Furthermore, we will accelerate investment in innovation aimed at sowing the seeds of the future, realizing cross-division collaboration focused on cutting-edge technologies, such as AI and IoT, to create new businesses.

While we aim for ongoing growth, every investment will come be carefully scrutinized to ensure that no investment becomes a burden down the line. To this end, we will rigorously apply our investment standards to investment decisions while proactively selecting our fields of specialization and honing the precision of our aim.

Q9 Our Management Base

We are strengthening our corporate governance in stages. From fiscal 2019, we have introduced a performance-linked stock compensation plan for directors. By more closely linking director compensation with corporate performance and stock price, we aim to increase directors' awareness of shareholder and investor value. In addition, Kanematsu has three outside directors, each with different areas of expertise. Our directors engage in active discussion rooted in their own experience, and I think our Board of Directors functions efficiently as a result.

As indicated in the priority initiatives of the *future 135* medium-term vision, the present shortage in management personnel is matter of urgent concern, and we are working to strategically nurture the personnel needed fill this need. Respect for diversity is deeply embedded in the bedrock of the Kanematsu Group. I think that the Group has the necessary resources and conditions, including the aforementioned respect for diversity, to develop the diverse human resources it needs. We plan to implement management training not just for current executives, but for young employees early in their careers, regardless of gender, on varying scales as appropriate. Winning the trust of our business partners, so that they feel comfortable letting Kanematsu handle their business management, is a guidepost to aim for in determining what Kanematsu should look like as a trading company going forward.

One of Kanematsu's Corporate Principles is fulfilling our corporate social responsibilities by building a sound, flourishing business. We aim to take a broad view of international society and strive to solve social problems through our businesses, thereby contributing to society. Informed by the United Nations' Sustainable Development Goals (SDGs), we will encourage development in areas rooted in social issues and problem solving within fields unique to Kanematsu, where other trading companies do not operate. By discovering and meeting needs in these areas, we will develop businesses, creating employment and impacting our business partners and the consumers they interface with. Considered in these terms, our social responsibility is readily apparent. Going forward, we will continue striving to increase our enterprise value and contribute to society in ways that only Kanematsu can.

Q10 Fiscal 2019 Outlook and Message to Stakeholders

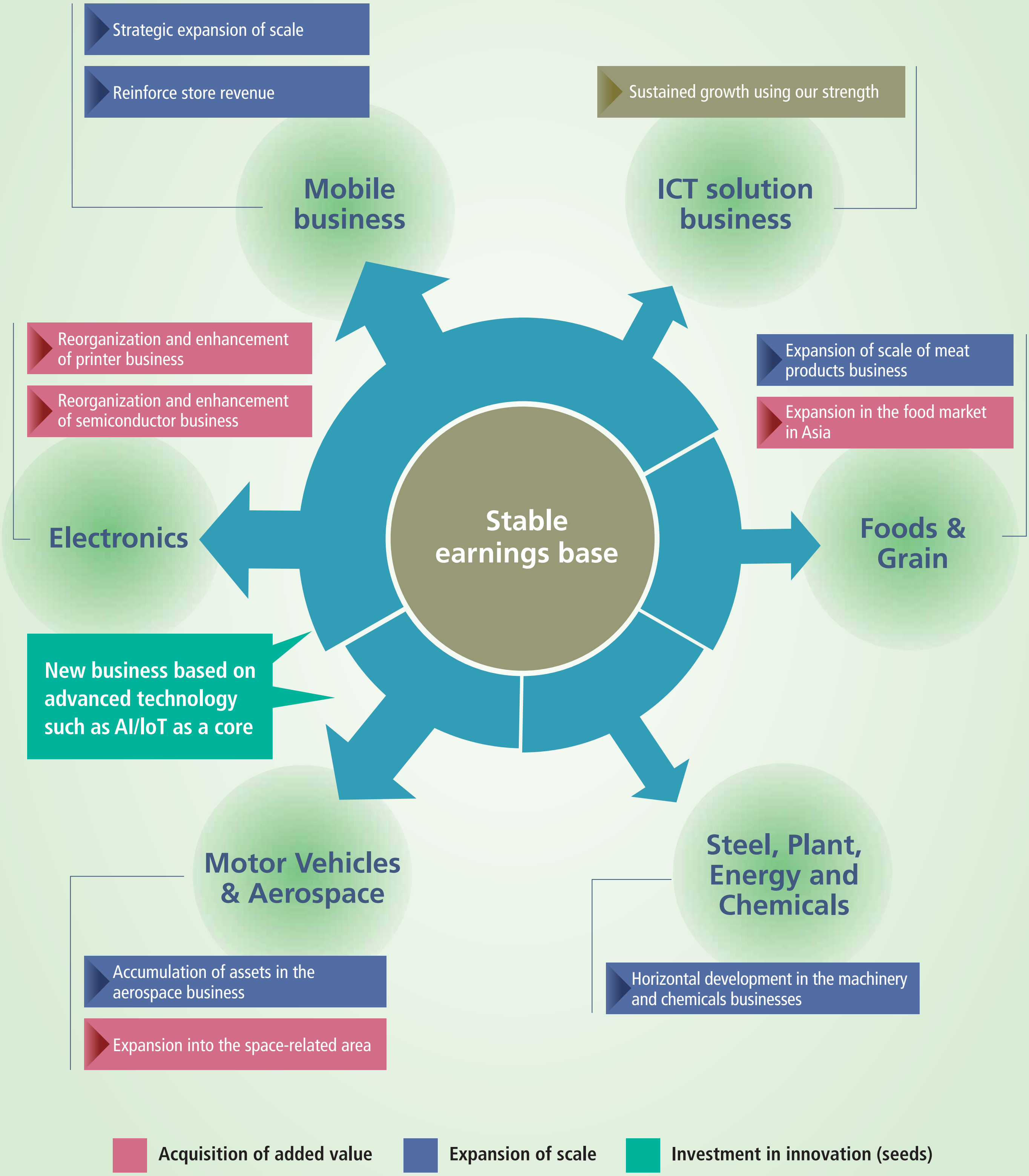
In fiscal 2019, we are planning for revenues of ¥760.0 billion, up 6.3% year on year, operating profit of ¥30.0 billion, up 14.7%, and profit for the year attributable to owners of the Parent of ¥16.5 billion, up 1.1%.

The Kanematsu Group regards providing returns to shareholders as one of its most important tasks. Since resuming the payment of dividends in fiscal 2014, we have increased dividend payments each year. Under *future 135*, we have established a target total payout ratio of 25%–30%. We will continue to balance careful decision making with aggressive investment as we move into a steady growth trajectory and endeavor to consistently fulfill our responsibilities to shareholders.

Going forward, the Kanematsu Group will carve out a path to major growth. We plan to make investments backed by our stable financial base and based always on thorough risk assessment. From there, we will boldly move forward and return the fruits of our endeavors to our stakeholders. I promise to carry out diligent, firmly grounded management while working to increase Kanematsu's enterprise value to live up to the expectations of our stakeholders.

Growth Strategy by Business under the *future 135* Medium-Term Vision

Building on sustained growth in business fields with stable earnings bases, we will move forward toward further growth through innovation investment, planting the seeds of future businesses along the two axes of scale expansion and added value.



1 Electronics

Expansion of the Printer Business

KEY REGIONS	Japan, United States, Europe, Asia
KEY BUSINESS COMPANY	G-Printec, Inc.

Overview and Outlook

Kanematsu has sold commercial printers overseas since the early 1990s. From our overseas locations in Europe, the United States, and Southeast Asia, we have served mainly the photo, card, and label industries, providing commercial printers, consumables, and a wide range of solutions tailored to customer needs. Going forward, we will continue to work in close partnership with Japanese manufacturers to develop the global market.

Market Environment

Our strategy is to expand the range of our operations. In addition to carrying out such functions as sales, marketing, and the provision of services, we will move into upstream areas handled by manufacturers, such as product planning, design, and development, as well as downstream areas, such as coordinating and securing overseas sales channels.

swiftcolor series (a Kanematsu brand)

SCL-4000D

SCC-4000D

Sales Expansion of Semiconductor and LCD Equipment

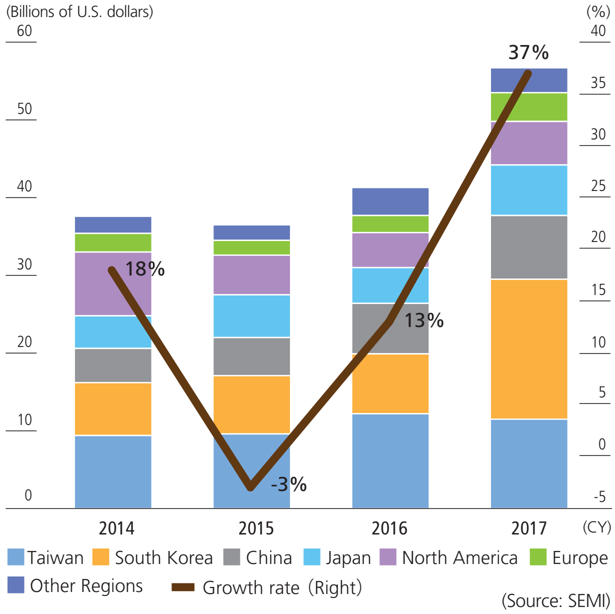
KEY REGIONS	Japan, China, South Korea, Taiwan
KEY BUSINESS COMPANY	Kanematsu PWS LTD.

Overview and Outlook

Mainly in Japan and the rest of Asia, Kanematsu supplies semiconductor equipment, LCD equipment, and components. Semiconductor demand is increasing alongside the development of such new technologies as IoT, AI, and autonomous driving. Carefully watching the evolution of display technologies, including LCD and OLED, we will offer solutions that meet customer needs. While establishing mutually complementary relationships with supply partners, we will swiftly provide more finely tuned services.

Market Environment

Semiconductor Manufacturing Equipment Market by Region



(Source: SEMI)

Global sales of new semiconductor equipment grew 37% from US$41.2 billion in 2016 to US$56.6 billion in 2017. Demand is expected to continue growing, mainly in Asia.

Timeline and Measures Taken to Strengthen Business

2016	Established G-Printec, Inc.
2016	Kanematsu PWS LTD. formed an alliance with Germany-based SUSS MicroTec as the latter's exclusive distributor in Japan

2 ICT Solutions

Leverage Kanematsu's competitive advantage as a provider of multi-vendor solutions to bolster sales capabilities

KEY REGIONS	Japan, Asia (China, Southeast Asia)
KEY BUSINESS COMPANIES	Kanematsu Electronics Ltd., Nippon Office Systems Ltd.

Develop One-Stop IT Infrastructure Services

KEY REGION	Japan
KEY BUSINESS COMPANY	KEL Technical Service Ltd.

Overview and Outlook

As a provider of multi-vendor solutions not bound to any specific manufacturer, Kanematsu operates businesses in virtualization solutions and infrastructure development, areas in which it has a strong track record, as well as a security business serving mainly large corporations as end users.

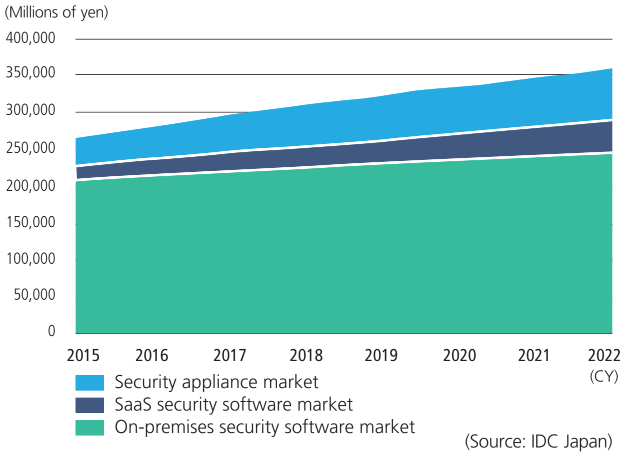
Furthermore, by providing services ranging from the design and construction of corporate information services to their maintenance and operation through a one-stop framework, even at customers' overseas locations, we are working to differentiate our business and secure a competitive advantage.

Recently, customer requirements for IT investment have been diversifying. Having an understanding of customers' businesses and the ability to suggest usage options (such as on-premises or cloud-based systems) tailored to each system's purpose are now essential skills for IT vendors.

While leveraging our strengths as a provider of multi-vendor solutions, we will strive to secure and develop human resources who can flexibly respond to customer needs and further bolster sales capabilities and comprehensive Group strength in order to carry out our role as a strategic IT partner.

Market Environment

Domestic Information Security Market Sales Forecast by Product Segment



(Source: IDC Japan)

- In addition to demand for strategic IT investment aimed at securing competitive advantage, demand is increasing for IT investment aimed at improving corporate productivity and efficiency and saving labor to meet corporate needs, including those related to work style reforms and personnel shortages.
- As customer needs diversify, demand for IT investment in information security is expanding in response to the rising risk of information leaks and need to strengthen governance while protecting companies against such threats as cyber attacks.

Timeline and Measures Taken to Strengthen Business

2014 Established an affiliate in Thailand
2015 Nippon Office Systems Ltd. became a wholly owned subsidiary
2017 Formed a capital and business tie-up with GLOBAL SECURITY EXPERTS Inc.

3 Mobile

Expansion of scale

Strategic Scale Expansion

KEY BUSINESS COMPANY Kanematsu Communications Ltd.

- Nationwide network of mobile phone sales outlets
- Directly operated stores: 156
  Secondary agency stores: 278 (As of June 30, 2018)

Reinforce Sales Outlet Revenue

KEY BUSINESS COMPANY Kanematsu Communications Ltd.

- Human resource development and skill enhancement
- Improving store efficiency and customer satisfaction

Overview and Outlook

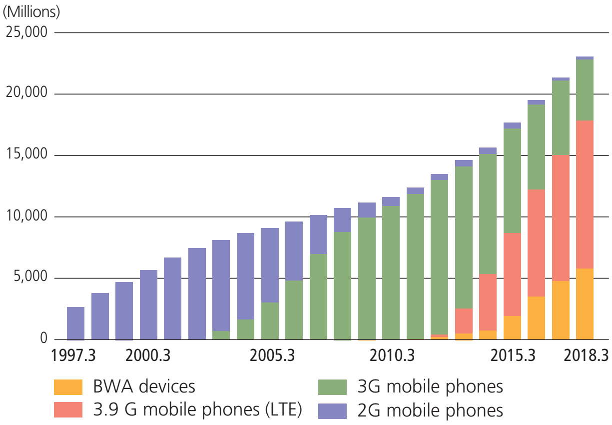
As a primary distributor for domestic telecommunications carriers, we are one of Japan's major sales agencies and maintain a nationwide network of sales outlets. Going forward, while the mobile market will continue to see the replacement of phones, including switches from feature phones to smartphones, the arrival of 5G (high-speed, high-volume data transmission) is expected to drive the introduction of a wider range of devices to the market. Our network of brick-and-mortar stores, where we interface with customers, is a significant strength, and we will continue working to expand and reinforce said store network.

For corporate customers, we offer not just mobile phones, but a wide range of services in the mobile solutions field. As smartphone performance improves and the IoT market matures, the mobile communications market is expected to see ever-greater development. Expanding from the mobile phone-related services we currently offer, we will provide diversified products and services.

Furthermore, the next-generation communications field presents opportunities to leverage coordination and synergies spanning the Kanematsu Group.

Market Environment

Mobile Contracts by Generation of Mobile Communications Standard



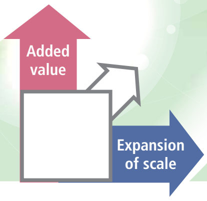
The Japanese mobile phone market has long been said to be saturated and approaching its ceiling, but the total number of active lines continues to increase each year. Going forward, various telecommunications standards such as 5G (large capacity communication) and LPWA (low power wide area) come onto the market, we expect to enter an era in which, rather than just one, individuals will have two or three lines. In addition to communications, mobile phone-related services are diversifying, and the economic sphere surrounding the mobile industry is expected to see accelerating expansion.

* The graph at left was prepared based on "Quarterly Data on Telecommunications Service Contract Numbers and Market Share" published by the Ministry of Internal Affairs and Communications

Timeline and Measures Taken to Strengthen Business

2013	Acquired BD Holdings, Inc., a mobile phone sales company based in the Kyushu region
2014	Concluded a global wireless device distribution agreement with Australia-based NetComm Wireless Limited
2017	Kanematsu Communications Ltd. and Diamondtelecom, Inc. merged

4 | Foods & Grain



Scale expansion of the meat products business

KEY REGIONS Japan, Asia (China, Southeast Asia)

KEY BUSINESS COMPANIES Kanematsu Corporation, Kanematsu Shintoa Foods Corp.

Overview and Outlook

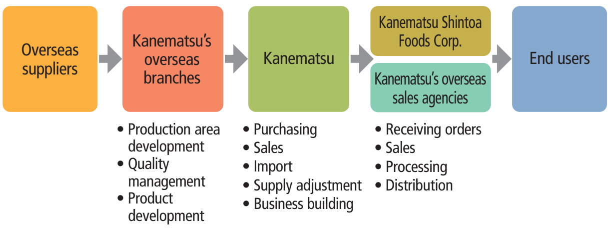
The Kanematsu Group is diversifying the production areas from which it procures meat product ingredients, helping to stabilize procurement. Leveraging strong partnerships with our suppliers, we carry out rigorous, detail-oriented ingredient procurement to meet diverse customer needs. Furthermore, at our factories in and outside Japan, we are expanding services that provide high-value-added products, including primary product processing. In distribution, Group company Kanematsu Shintoa Foods Corp. operates refrigerated warehouses and is building an integrated distribution system linking cargo collection, ancillary work, and storage in order to provide a high-quality distribution service.

Going forward, we expect the Trans-Pacific Partnership (TPP) and other factors to bring about an increase in the market share of imported meat products in the Japanese market and aim to further increase our sales volumes. At the same time, we will work toward global business development leveraging the strength of our business functions in the rapidly growing Chinese market. We will pursue scale expansion, aiming for the number one spot in Asia in terms of product handling volume.

Market Environment

- The share of imported meat in the Japanese market is increasing due to trade agreements, including the TPP and Economic Partnership Agreement (EPA)
- Increasing added value by leveraging functions to expand globally
- Kanematsu's strengths as a group (refrigerated warehousing, domestic sales companies, overseas sales network)

Kanematsu Group Functions and Roles



Timeline and Measures Taken to Strengthen Business

2014 Began full-scale handling of meat products at Kanematsu Shintoa Foods Corp.

2018 Recommenced operations at the Heiwajima refrigerated warehouse following the completion of the redevelopment plan for Heiwajima in Tokyo

2018 Established a meat product processing joint venture in China

Developing Food Markets in Asia

KEY REGION Asia

KEY BUSINESS COMPANIES Kanematsu Corporation, PT. Kanemory Food Service, PT. Abadi Tunggal Lestari

Overview and Outlook

Culinary habits are rapidly evolving alongside economic growth in emerging Asian nations. In these markets, Kanematsu is building a value chain encompassing one-stop businesses that handle operations ranging from upstream feedstuff materials to mid-stream processed food development, manufacturing and sales, as well as downstream restaurant business.

First, in the animal feedstuff area, leveraging know-how developed in the dairy cow feed market, Kanematsu is contributing to the development of Vietnam's dairy farming sector. Furthermore, in the area of processed foods, drawing on the Group's R&D and content provision functions developed in the domestic food service sector, we are operating a central kitchen company in Indonesia, a rapidly growing market. Using our thorough knowledge of the halal standards of MUI, a major halal certification body in Indonesia, we offer products that Muslim customers can choose with confidence and are favored by a wide range of users.

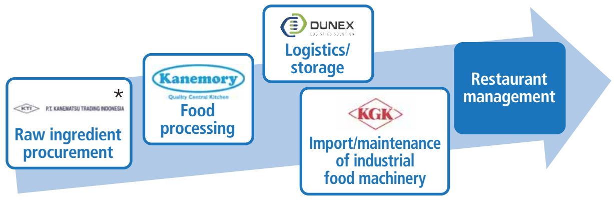
Going forward, we aim to expand horizontally, bringing Japanese-quality foods to the tables of the Asia's four billion residents, and we are considering expanding exports to markets in other parts of the Muslim world.

Market Environment

Building value-chain infrastructure

- Enter upstream areas, such as animal feedstuff and feedstuff materials
- One-stop framework for product proposal, production and supply
- Kanematsu's strengths as a group (logistics, facilities machinery, sales companies)

The Kanematsu Group's Initiatives in Indonesia



* P.T. Kanematsu Trading Indonesia

Timeline and Measures Taken to Strengthen Business

2012 Established PT. Kanemory Food Service, a food processing joint venture company

2013 Invested in a dairy producer in Vietnam and entered the dairy cow feed business via a business tie-up

2014 Established a confectionery and baking ingredients wholesaling joint venture in Shanghai

Established a subsidiary in Vietnam

5 Steel, Plant, Energy and Chemicals

Expansion of scale

Improve and expand the production framework of the North American oilfield tubing business

KEY REGION	North America
KEY BUSINESS COMPANIES	Kanematsu Corporation, Benoit Premium Threading, LLC., Steel Service Oilfield Tubular, Inc.

Overview and Outlook

In 2014, we finalized plans for the construction of a second factory for oilfield tubing processing company Benoit Premium Threading, LLC (BPT). However, due to a rapid decline in crude oil prices, oilfield tubing demand fell, and in light of business conditions, we temporarily suspended construction.

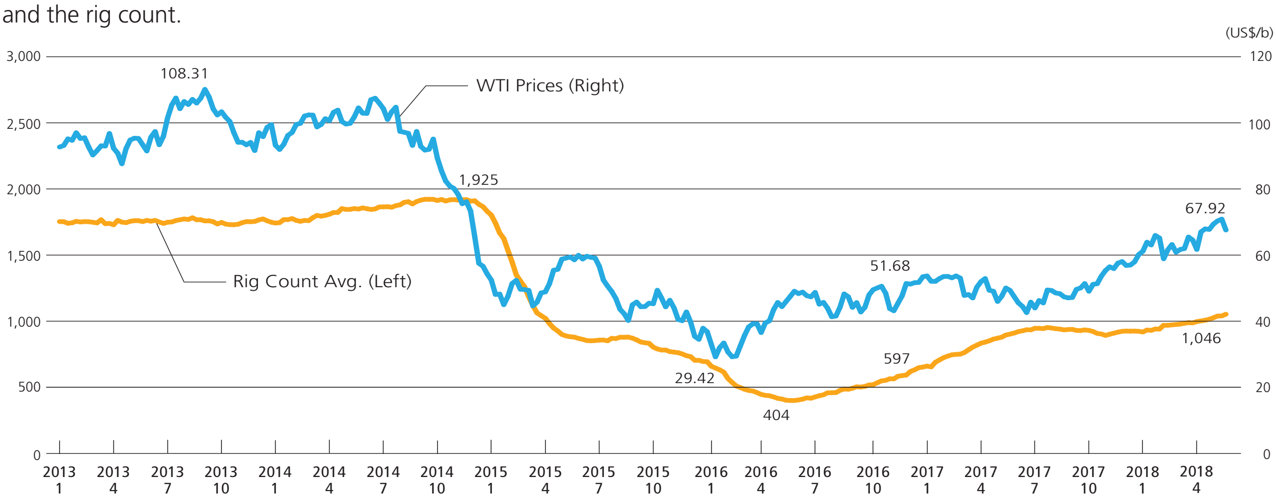
Since then, crude oil prices have risen, and, as a result, North American crude oil production has recovered. Due to the improvement in demand for oilfield tubing, mainly in the area of shale oil, Kanematsu's business companies in the oilfield tubing value chain are seeing increases in processing and sales volumes.

In 2017, we decided to build an R&D center at BPT to reinforce threaded connection research and development functions. We are also considering resuming construction on the second factory.

We expect shale resource development and oilfield tubing demand to continue growing over the medium and long terms and will continue focusing on expanding these businesses.

Market Environment

Since bottoming out in 2016, the North American oilfield tubing market has been steadily recovering alongside crude oil prices and the rig count.



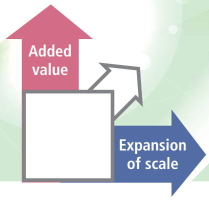
Timeline and Measures Taken to Strengthen Business

2013 Acquired a North American oilfield tubing processing company

2014 Finalized plans for the construction of a second factory for BPT to expand the oilfield tubing business (later suspended due to drop in oil prices)

2017 Announced the construction of an R&D center for BPT

6 Motor Vehicles & Aerospace



Scale expansion of the aircraft parts business

KEY REGION	Europe
KEY BUSINESS COMPANY	KG Aircraft Rotables Co., Ltd. (KGAR)

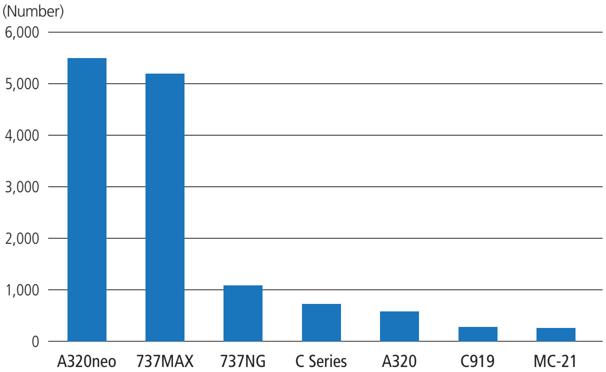
Overview and Outlook

In 2002, we embarked on the Boeing 737 component business through sales and leaseback transactions. Since then, we have catered to demand for parts for the Boeing 737 fleet and expanded our component exchange business. In 2014, we purchased and disassembled an Airbus A320, fully entering the A320 component business and beginning to handle engine components. In 2016, we purchased and disassembled two Boeing 737-800s, building up a competitive component portfolio. The aircraft aftermarket is expected to expand further, and we are aiming to become a key player in the largest market segment.

Market Environment

Robust passenger demand is expected over the longterm, and the number of aircraft in service is forecast to steadily increase. Demand for single-aisle, narrow body aircraft, such as the Boeing 737 MAX and Airbus A320neo, is expected to be especially strong, with over 10,000 such aircraft to be delivered over the coming decade.

Narrow-Body Deliveries by Aircraft Platform



(Source: Oliver Wyman Global Fleet & MRO Market Forecasts)

Timeline and Measures Taken to Strengthen Business

2002	Established KGAR and began Boeing 737 component sales and leaseback business
2014	Began dealing in Airbus A320 components
2016	Purchased and disassembled two Boeing 737-800s for components

Expansion of Space-Related Businesses

KEY REGIONS	Japan, South Korea, Thailand, India
KEY BUSINESS COMPANY	Vector Launch., Inc.

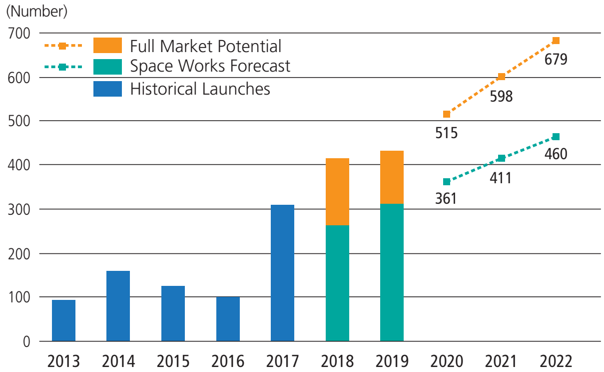
Overview and Outlook

Kanematsu entered the space field in the 2000s when it began handling satellites and satellite components and has since enhanced its lineup of products related to satellites and tracking and control ground systems. In January 2017, we moved into a new business area, the satellite launch service, which connects the ground and space. Going forward, demand for small satellite launches is expected to see stable growth. We will meet this demand by offering transport services using Vector's small launch vehicles in and outside Japan.

Market Environment

Multiple mega-constellations of satellites are currently being planned, and demand for small satellite launches is expected to grow. As size reductions and performance improvements to electronic components and equipment increase the capabilities of small satellites, firm demand for small satellite launches is expected going forward.

Nano/Microsatellite Launch History & Market Forecast

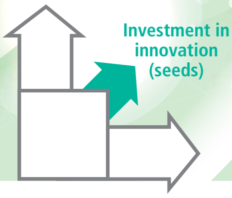


(Source: SPACE WORKS ENTERPRISE, INC.)

Timeline and Measures Taken to Strengthen Business

2017	Made a strategic investment in Vector Launch Inc.
2018	Entered an exclusive agreement to represent Vector in Japan, India, Thailand and South Korea

7 AI/IoT: New Business Based on Advanced Technologies



Overview and Outlook

The development of such new technologies as AI and IoT has the potential to significantly impact not just consumers, but also traditional businesses by transcending existing business models.

The Kanematsu Group has been proactively launching initiatives related to new technologies in each of its business areas—such efforts have included smart agriculture initiatives in the agricultural sector as well as initiatives related to electric vehicles and connected cars in the electronic devices and motor vehicle sector. In the past several years, to further accelerate such initiatives, we have formed multiple project teams that coordinate across divisions and Group companies, drawing mainly on the Electronic & Devices division and Motor Vehicles & Aerospace division, which have strengths related to ICT. Through this approach, we are bringing together Group strengths to accelerate business creation.

Limited Partnership Investment in a Cyber Security Fund

The automotive industry is on the verge of a major transformation, and Kanematsu views this as a business opportunity. Even before the launch of the Motor Vehicles & Aerospace Division in 2013, we were exploring new initiatives in the automotive and aerospace fields. Since 2017, we have had a dedicated officer dispatched to Silicon Valley in the United States. This officer is stationed at the world-leading technology accelerator and investment firm Plug and Play Tech Center, looking for startups in the automotive and aerospace fields with which we can collaborate and create businesses. In this way, we are working to create new businesses that will be future pillars and build new business models. At the same time, seeking out promising startups across a wide range of fields, we are focusing on cyber security, which will be increasingly crucial for all industries with the advent of the IoT era. We have made a limited partnership investment in a cyber security investment fund and will continue to advance Groupwide efforts to build new businesses in this area.

Ensuring that Kanematsu Appeals to Investors

Tetsuro Tsutano
Director, Senior Executive Officer, CFO

Kanematsu's Unique Characteristics

Kanematsu's unique characteristics include the stability of its revenue and finances.

Looking at revenue stability, our operating profit has grown each year since fiscal 2016. For fiscal 2019, we forecast operating profit of ¥30 billion, 1.6 times the level of three years prior (Figure 1). Our revenue stability is supported by the following factors.

1. Operating Profit ≈ Profit Before Tax

Looking at income items, the share of profit and loss of investments accounted for using the equity method, which have a low cash collection rate, contributes only a small portion of total income. Also, interest income is low, as we do not invest in natural resources or real estate, which are susceptible to price fluctuations. As a result, operating profit and profit before tax are usually almost the same (Figure 2). The Kanematsu Group is characterized by a revenue model in which operating profit very clearly drives growth in consolidated net income.

2. Strong, Stable Earnings Base

By region, sales in Japan account for 83% of the Group's overall revenue. Our revenue structure is relatively insulated from such factors as the recent trade wars and other geopolitical risks, and we have built a strong domestic earnings base on such excellent Group companies as Kanematsu Electronics Ltd. and Kanematsu Communications Ltd.

As for financial stability, as of March 31, 2018, our equity ratio stood at 22.3%, a fairly standard level. However, Kanematsu has the following unique characteristics.

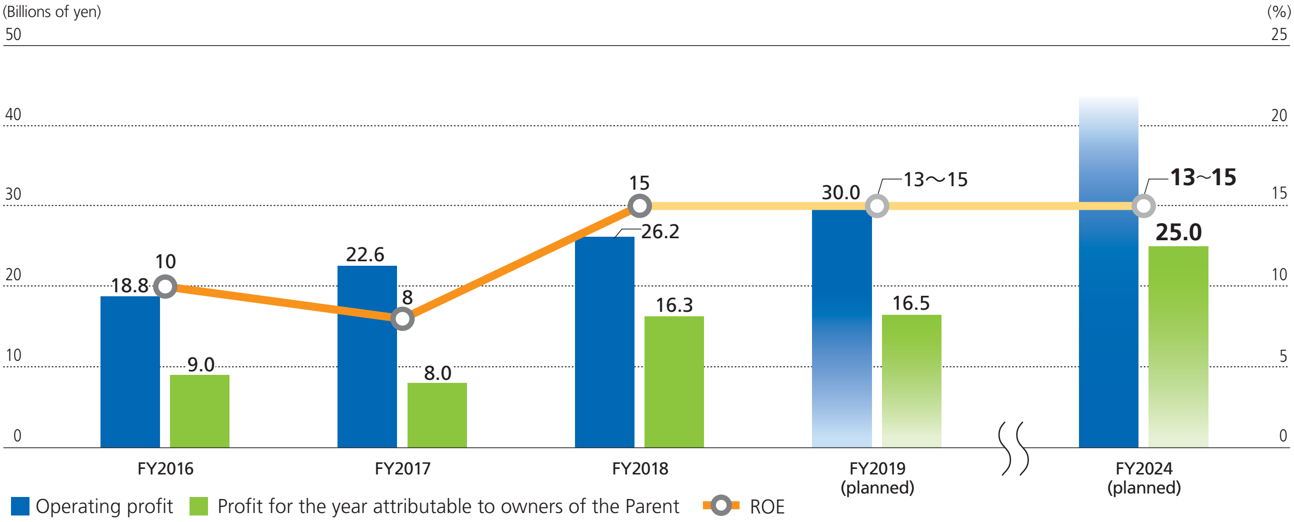
1. Non-current assets < Shareholders' equity

At the end of the previous fiscal year, our non-current assets, including goodwill, intangible assets, and investments accounted for using the equity method, stood at 0.91 times shareholders' equity, illustrating the stability of our financial structure (Figure 3). As a result, our risk-asset ratio, the ratio of maximum possible losses to shareholder's equity, was 0.4 times at March 31, 2018, a markedly sound level, even among trading companies.

2. Non-Consolidated Retained Earnings ≈ Consolidated Retained Earnings

Under the new medium-term vision, we are targeting a total payout ratio of 25%–30%. Kanematsu's consolidated subsidiaries pay it dividends at high payout ratios. Using this consolidated revenue to increase its non-consolidated capital reserves,

Figure 1. Operating Profit/Profit for the Year Attributable to Owners of the Parent/ROE



Kanematsu funds its dividend payments. As a result, the amount of increase in non-consolidated retained earnings and that in consolidated retained earnings are roughly the same (Figure 2). Kanematsu's non-consolidated retained earnings as of March 31, 2018 were more than 10 times the amount of annual dividends paid, allowing a healthy amount of flexibility (Figure 3).

future 135—The New Medium-Term Vision

We launched our new medium-term vision, *future 135*, in the current fiscal year. Achieving the vision's target of ¥25 billion in consolidated net income will require operating profit of approximately ¥45 billion. We expect to achieve about a third of the necessary increase in operating profit through business investment aimed at expanding the revenue base and increasing added value.

As for where we will make these business investments, our basic policy has not changed under the new medium-term vision. Specifically, we will invest mainly in our areas of strength, where we have insight and experience, and we will not invest in natural resource development or real estate, engage in investment in assets subject to rapid value fluctuations for the purpose of securing dividends or capital gains, or make equity-method investments solely for the purpose of securing a share of profit of investments accounted for using the equity method. We will make investments aimed at increasing trading revenue that we can incorporate into consolidated results.

The new medium-term vision covers the six years ending March 31, 2024. At the halfway point, after the first three years, we will review our strategy and policies. Depending on how far investment has progressed, we will consider implementing additional shareholder returns, including share buybacks.

Our Share Price

Kanematsu's share price almost doubled between January 2017 (when it was ¥940*) and its high point in May 2018.

Our current share price (as of July 2018) is around ¥1,500 per share. The price-to-earnings ratio is only around eight times, but I think this is something of a bargain, given that (1) having withdrawn from natural resource and real estate investment, our annual revenues are stable, with little impairment risk, (2) our revenue structure, with its low portion of profits from investments accounted for using the equity method, makes it easy to return consolidated cash flows to shareholders, (3) we have selected certain fields to focus on and are limiting business investments to areas where we have insight and experience, helping to limit risk (4) a large portion of our total revenue is from domestic businesses, providing insulation from the impact of trade wars and other geopolitical risks, and (5) we have a solid financial base, as evidenced by our risk-asset ratio of 0.4 times.

*Theoretical value calculated taking the share consolidation into account

Reinforcing Shareholder-Focused Management

We have introduced a performance-linked stock compensation plan for directors effective from fiscal 2019. This move is aimed at more closely linking director compensation with corporate performance and stock price and better motivating directors to improve corporate performance and enterprise value over the medium term by having directors share with other shareholders the potential benefits and risks of share price changes.

Kanematsu has been selected for inclusion in the JPX-Nikkei Index 400—which is regarded as an important market benchmark—for four consecutive years beginning in fiscal 2014. Since fiscal 2017, we have also been selected as one of the 200 companies included in the JPX-Nikkei Mid and Small Cap Index, which applies the same indicator concept as the Index 400, with a focus on companies that offer capital efficiency and investor-oriented management. ROE is one of the indicators that these indices use to select companies. As of March 31, 2018, Kanematsu's ROE was quite high, at 15.1%, and, under the new medium-term vision, we aim to maintain a robust ROE of 13%–15%. Previously, we targeted a shareholder return ratio of 25%. Under the new vision, we have raised this target to 25%–30%, and we plan to promote management with a focus on capital efficiency.

Going forward, we will strive to maintain active communication with shareholders and investors and take their views into account as we work to ensure that Kanematsu continues to appeal to investors.

Figure 2. Consolidated Operating Profit/Profit before Tax/ Consolidated and Non-Consolidated Retained Earnings

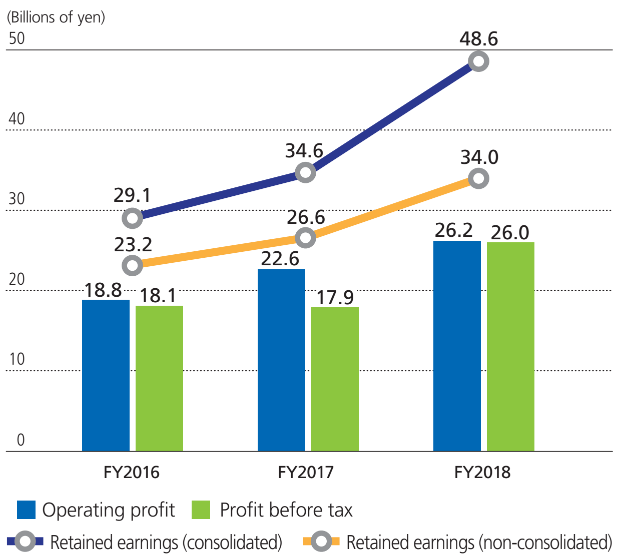


Figure 3. Non-Current Assets ÷ Shareholders' Equity and Non-Consolidated Retained Earnings ÷ Annual Dividends

(Billions of yen)

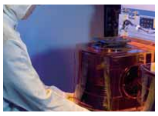
	March 31, 2016	March 31, 2017	March 31, 2018
Total assets	443.6	479.7	519.9
Current assets	346.6	371.3	414.7
Non-current assets	97.0	108.4	105.2
Property, plant and equipment	26.9	26.9	21.9
Goodwill and intangible assets	12.7	27.2	26.9
Other investments, etc.	31.5	34.1	38.0
Other	25.9	20.2	18.4
Shareholders' equity	91.6	100.4	116.0
Non-current assets ÷ Shareholders' equity	1.06 times	1.08 times	0.91 times
(Reference: equity ratio)	20.6%	20.9%	22.3%

(Billions of yen)

Non-consolidated retained earnings	23.2	26.6	34.0
Annual dividends paid	1.7	2.3	2.7
Retained earnings ÷ Annual dividends paid	14 times	12 times	13 times

Electronics & Devices

Semiconductor Equipment



Semiconductor/LCD Manufacturing Equipment
Semiconductor manufacturing and testing equipment; LCD manufacturing and testing equipment; OLED production equipment

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

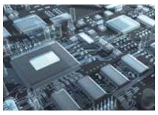
Optical Device Materials
Components for display devices and optical devices

Industrial Electronics

Industrial Printers
Industrial printers and related consumables

Livingwares
Batteries; Household supplies

Semiconductors



Semiconductors
Semiconductor devices; Sensor devices;
LCD panels; Components for smartphones and tablets;
Control modules for lithium ion batteries

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

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

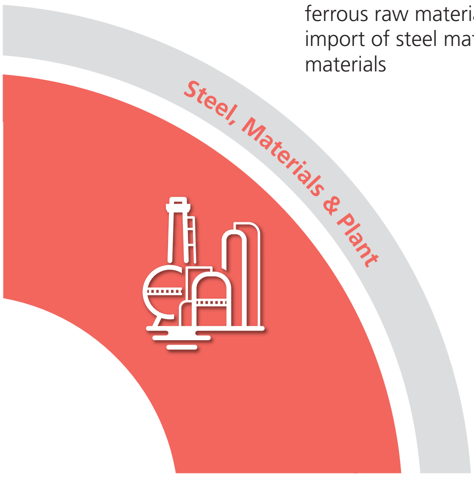
Processed Agricultural Products

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



Steel

Foreign Trade 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

Foreign Trade of Specialty Steel
Export and third-country trade of stainless steel sheets and plates, specialty ferrous wire materials, and bar products

Domestic and Foreign Trade of a 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 & Ships

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 (medicine/pharmaceuticals, insurance, broadcasting and communications, power generation, environment, infrastructure, water supply, education)

Motor Vehicles & Aerospace

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, Small launch vehicles
Night vision goggles

Electronics & Devices

Our operations include the ICT solutions and the mobile businesses 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.

Masahiro Harada
Senior Executive Officer,
Chief Officer, Electronics & Devices Division

Business Results and Forecasts

FY2018

Revenue–external
¥263.3 billion

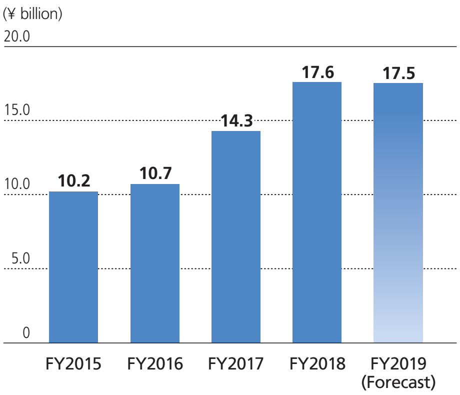
Segment profit
¥17.6 billion

FY2019 (Forecast)

Revenue–External
¥270.0 billion

Segment profit
¥17.5 billion

Segment Profit



Division Composition

The Electronics & Devices Division comprises four business areas: 1. electronic devices and materials, 2. semiconductor equipment and components, 3. ICT solutions, and 4. the mobile business. We are building supply chains and sales networks for these business areas in and outside Japan. In addition to our longstanding businesses in electronic devices, mainly for consumer and automotive use, and hardware component and material value chains, we offer services to meet a wide range of customer needs, including in the cloud solutions, security equipment, and mobile communications businesses, which have been growing in recent years, as well as areas related to the Internet of Things (IoT).

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

External Environment and Strategies to Achieve *future 135*

Technological innovation in the ICT solutions business, mobile business and electronics industry is advancing rapidly, while globalized markets and flatter yield curves are becoming the norm. At the same time, tech giants wielding powerful IT platforms are increasingly dominating markets. Hardware is being standardized, while the importance of software, including AI, and internet solutions is growing. As markets change, increasingly global customers are seeking fine-tuned services and total solutions.

Under VISION-130, thanks to M&A that has yielded effective synergies and judicious investments in major players within niche areas, we steadily expanded and secured added value. Furthermore, by spinning off highly specialized sections, we enhanced our flexibility and services sited near customer locations, leading to steady growth and greater earnings. We promoted omnidirectional support within the worldwide Group, achieving increased sales of equipment to rapidly expanding semiconductor and LCD businesses.

In line with the goals of *future 135*, Kanematsu will continue to pursue global M&A and investment in innovation in order to achieve business expansion. Meanwhile, we continue to work toward greater differentiation. Specifically, we are adding value through the supply of modules using electronics manufacturing services (EMS) and other services, including design and development; package solutions; and just-in-time supply backed by advanced warehouse functions. Furthermore, in ICT, we are reinforcing one-stop solutions and security services. Overseas, the Electronics & Devices Division continues to create support structures near customer sites in China, Southeast Asia, North and Central America, and elsewhere, as we work to establish global value chains. By actively incorporating such innovations as IoT, M2M, CASE,[1] and MaaS[2] technologies, we will offer business models with even greater added value.

1. An abbreviation for four trends in the automotive industry: connected, autonomous, shared & services, and electric
2. Mobility as a service

Division Medium- and Long Term Vision

The Electronics & Devices Division has assumed a policy aimed at coordination with the Group and growth. 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, streamline the service and support business, and enhance security functions while pursuing overseas development. In the mobile business, we will continue to seek to expand our business scale and improve service as we prepare for the market explosion that the coming adoption of 5G will bring. Furthermore, by combining our current businesses with AI, cloud service, cyber security, fintech, blockchain, 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 businesses boast solid foundations within the industry and are generating stable profits. In the semiconductor equipment and components as well as the electronic devices 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 unique proposals and solutions. In our electronic devices business, we are working to develop globally in such areas as commercial printers, a niche market, and ID card projects. 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. Furthermore, in electronic materials, by providing just-in-time services, we are playing a crucial role in helping customers build their supply chains.

At the same time, we are facing a variety of challenges, such as rapid changes in Japan's major electronics companies, changes in markets and their major players due to technological innovation, the saturation of PC markets, and the slowdown of smartphone 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 Futuretech Solutions Corporation

Hiroshi Yamashina
President & CEO

Kanematsu Futuretech Solutions Corporation is a new company that began operations April 1, 2018. It was formed by splitting off part of Kanematsu Corporation, mainly sections related to the electronic component and semiconductor businesses. Our ultimate mission is to offer optimized solutions to customers utilizing our core competencies in semiconductor products and technologies. These include organically combined solutions that consist of specifically designed and developed modules as well as a wide range of software, hardware, and services. Under our slogan, "Providing Solutions, Building your Future," we are constantly bringing in new information and technology. Going forward, as a specialized technology trading company we will provide solutions to diverse needs that help customers accurately respond to innovations in technology—such as IoT and AI—and changes in industries and markets.

At our head office in Hatchobori, Tokyo, we have adopted a free address system—a first for the Kanematsu Group—and created a cafeteria-like lounge within the workspace, so that employees can work freely, wherever they like. By helping improve employee performance, we are fostering creativity in order to offer new solutions and create new businesses.

Free address workspace at the head office

Foods & Grain

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 feedstuff, marine products, and other high-value-added items, through an integrated supply system spanning raw material procurement to finished product processing.

Hiroyasu Hirasawa
Senior Executive Officer, Chief Officer, Foods Division

Masayuki Hamasaki
Senior Executive Officer, Chief Officer, Grain, Oilseeds & Feedstuff Division

Business Results and Forecasts

FY2018

Revenue–external

¥231.3 billion

Segment profit

¥2.1 billion

FY2019 (Forecast)

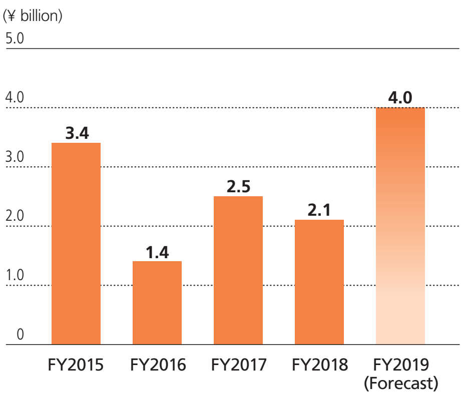
Revenue–External

¥260.0 billion

Segment profit

¥4.0 billion

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, Oilseeds & Feedstuff Division, which handles such products as grain and animal feedstuff, 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 feedstuff and fertilizer.

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

External Environment and Strategies to Achieve *future 135*

Foods Division Under VISION-130, we positioned Asian food markets as our principal strategic business area, notably operating a restaurant management business in Indonesia centered on a cooked foods factory that began operations in 2015. We built a value chain that extends from upstream to downstream areas. Looking at the external environment, in Japan, the food market faces long-term contraction, reflecting the low birth rate and a graying and declining population. Expanding Southeast Asian food markets, meanwhile, present the merits of growing populations and peak demographic windows. To capture demand in these markets, major food companies are aggressively expanding overseas. In this market environment, the Foods Division is working toward the goals of *future 135* by expanding its earnings base through selection and concentration in the domestic market while strengthening Group company functions. In the meat product business, especially, Kanematsu is strengthening coordination with Group company Kanematsu Shintoa Foods Corp. to improve logistics, processing, and development functions in order to increase profit. 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 China and Southeast Asia, seeking business expansion.

Grain, Oilseeds & Feedstuff Division In line with the positioning of Asian food markets as our principal strategic business area under VISION-130, we have been investing in dairy producers and entered the dairy cow feed business in Vietnam. Looking at the external environment, as the global population increases, competition to secure food resources is intensifying. In domestic markets, industry reorganization is picking up steam. In this environment, to carry out its vision of contributing to agriculture, the food supply, and the enjoyment of food around the world as well as to achieve the goals of *future 135*, the Grain, Oilseeds & Feedstuff Division is advancing the following businesses. Upstream, we are establishing logistics bases in raw material producing regions to secure a stable supply of grain and feedstuff materials and promote sales in both domestic and overseas markets. Midstream, we are reinforcing the sales functions of Group companies to create frameworks to more quickly and precisely meet customer needs. Downstream, we are actively developing restaurant and other businesses, focusing mainly on the Be Smile Project, a "sixth industry" business entity. Furthermore, Kanematsu is leveraging its strengths in business development that crosses industry boundaries to accelerate business creation in the smart agriculture field, most notably in its business with the dairy farming IT start-up Farmnote.

Division Medium- and Long Term Vision

Foods Division We aim to evolve from mere trading operations by implementing internal reforms to emphasize specific functions and roles in order to build value chains. Moreover, we are actively implementing business investments and M&A in order to improve the functions of the Kanematsu Group in up-, mid-, and downstream roles. At the same time, we are steadily implementing growth strategies, astutely allocating management resources to focus areas and targeted overseas markets. In addition, we are working to actively develop the human resources who will make this implementation possible.

Grain, Oilseeds & Feedstuff Division We are helping Japan's dairy and other farmers improve their productivity and competitiveness, aiming to achieve global business expansion alongside them. In terms of asset strategy, we are actively investing in logistics bases at production and consumption sites, working to ensure the stable supply of grain and feedstuff materials and expand sales channels in Japan and abroad. Furthermore, using value chains built through vertical integration, we aim to offer superior, highly differentiated services in such areas as pet-related businesses and food soybeans.

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 its product manufacturing and development, which go beyond mere trading. At present, we face the urgent task of leveraging these strengths to horizontally expand and create new businesses. By optimizing roles within the Group to improve the responsiveness of sales divisions, we will improve the new business acceleration framework and achieve robust growth.

Grain, Oilseeds & Feedstuff Division From grain, food soybeans, oilseeds, feedstuff materials, fertilizer, and processed agricultural products to pet-related businesses, all of the Grain, Oilseeds & 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.

Group Company's Comment

Kanematsu Agritec Co., Ltd.

Isamu Kato
President & CEO

Kanematsu Agritec Co., Ltd. was founded in November 1954 as a mixed fertilizer manufacturer and began mixed animal feedstuff production and sales in December 1959. Ever since, we have worked to contribute to agriculture in Japan through the manufacture and sale of animal feedstuff and fertilizers that are essential to the production of safe, reliable foods.

The Japanese government is working to increase national food self-sufficiency. However, agricultural producers face numerous difficulties, such as increased imports of cheap agricultural products due to the Trans-Pacific Partnership (TPP) and other trade agreements; fewer agricultural workers due to the graying of the population; and falling consumption due to population shrinkage. To address these difficulties, nationwide efforts to strengthen Japan's agriculture are under way.

While it is true that we produce safe, reliable animal feedstuff and fertilizers for the production of made-in-Japan products that satisfy consumer preferences for safety, our operations are much broader. Our animal feedstuff departments pursue feed development aimed at strengthening the cell walls of livestock and creating meat brands, our fertilizer departments develop low-cost fertilizers, and in coordination with Kanematsu we undertake contract farming initiatives involving such products as rice for animal feed and commercial use. Furthermore, we are developing technologies that use IoT to improve product handling and agricultural productivity. In all our efforts, we strive to leverage the Kanematsu Group's overall strengths to benefit agricultural producers and agriculture in Japan as a whole.

Corn used as the primary ingredient for animal feedstuff handled by Kanematsu Agritec subsidiary Heisei Feed Manufacturing Co.

Steel, Materials & Plant

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.

Eiji Kan
Senior Executive Officer,
Chief Officer, Steel, Materials & Plant Division

Business Results and Forecasts

FY2018

Revenue–external

¥153.1 billion

Segment profit

¥3.9 billion

FY2019 (Forecast)

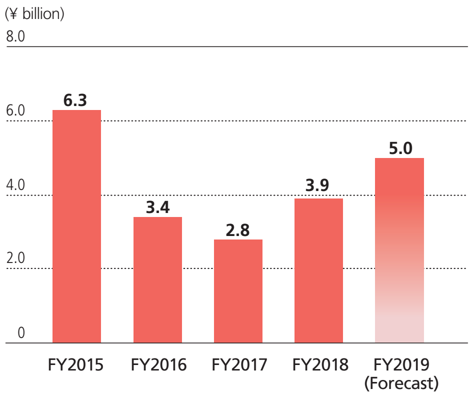
Revenue–External

¥160.0 billion

Segment profit

¥5.0 billion

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.

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

External Environment and Strategies to Achieve *future 135*

During the four years of VISION-130, the external environment was far from easy for the Steel, Materials & Plant Division. The greatest headwind was the drop in oil prices. This drop significantly impacted not just the oilfield tubing business, but the energy business and businesses involved in supplying materials for the petrochemicals industry. However, oil prices have since rebounded and are now largely holding steady. As a result, the North American oilfield tubing business returned to profitability in fiscal 2018 and continues to perform better than planned. In this business, in 2014, we announced plans to build a second factory for Benoit Premium Threading, LLC, a Group company with a specialty in threaded connection machining and processing, but these plans were later put on hold because of the drop in oil prices. Since then, however, we have worked to improve profitability by such means as inventory improvement and logistics streamlining, and in 2017 we decided to build a new R&D center to develop and improve threaded connections. Going forward, we will strive to reinforce the supply system and steadily capture rapidly growing drilling demand, mainly in shale gas development. By doing so, we will once again expand the oilfield tubing business as a pillar of our steel business. In the domestic steel business, we will strive to provide even greater added value, particularly in the steel processing business, which we have been working to expand.

In the chemicals business, general chemical product trading is growing. This is a very broad field, but as we work to expand our business, we will not indiscriminately widen the range of products we handle; rather, we will focus on profitability and products that allow us to leverage our expertise. At the Groupwide level, performance in the life science field, including pharmaceuticals, remains strong. Under the broad theme of providing solutions to the challenges set by Japan's low birth rate and graying society, we will further expand our sales network going forward.

In the energy business, while striving to expand trading of bunker oil, one of our key business areas, we have also begun initiatives related to biomass energy and other new products. Due to industry reorganization and other factors, conditions remain challenging for trading companies. However, by making maximum use of our existing businesses, such as tank operations, and keeping a careful eye on market prices, we expect to realize further growth going forward. In the current fiscal year, we plan to commence a solar power generation business using idle land in Kobe and will continue to aim for business expansion.

In the plant and ships business, trade in components for petrochemical plants is growing, and we are seeing new business expansion in such areas as ODA projects and sales of equipment for ships. Going forward, we will focus efforts on securing more specialized human resources and collaborating with reliable partners as we strive to expand our areas of business by leveraging our accumulated know-how and networks.

Division Medium- and Long Term Vision

Under VISION-130, we positioned automobiles, the environment, and energy as our three key business areas, focusing mainly on overseas markets as we worked to expand our businesses. Going forward, we will continue working to maximize revenue by further developing existing trading in these key business areas. At the same time, in the current fiscal year we are focusing as much effort as possible on business scale expansion, M&A aimed at enhancing functions that add value, business investment, and building alliances with business partners. By doing so, we will broaden the division's range of businesses. From there, we will develop the new opportunities that arise at the edges of this range into businesses that will support the division in the future.

To accomplish all this, we will need to change front-line mindsets within the division. We will therefore aggressively invest in the necessary education and additional human resources. Furthermore, we will not focus solely on expanding revenue, but work to deepen initiatives in our longstanding environmental businesses with the aim of contributing to local communities.

Strengths and Tasks to Address

A full five years have passed since the current Steel, Materials & Plant Division was formed. The Kanematsu Group boasts strong relationships with broad-ranging trading and business partners as well as functions that add value, such as processing, inventory, and storage, in and outside Japan. The sharing and common use of these Groupwide resources is leading to new business creation. Such cross-industry synergy was one of the Steel, Materials & Plant Division's greatest initial goals and purposes, and remains one of its strengths. Going forward, we will focus on developing people who can steadily carry forward our expanding businesses, working to build a foundation for the continued development of the division.

Topics

Solar Power Generation Business

Developing business centered on renewable energy sources, such as biomass and solar, is a key measure for the energy business. Recently, we decided to begin a solar power generation business, making use of the site of Kanematsu Yuso Co., Ltd.'s former Kobe oil depot. We plan to sell the power generated by this business to electric power companies.

The basic characteristics of the new business are as follows.
- Site area: Approx. 20,000 m^2
- Power output: Approx. 2,000 kW
- Power generation capacity: Approx. 2,000,000 kWh/year (Enough to power about 550 households)
- Start of operations: Within fiscal 2019 (tentative)

Solar power generation is expected to become an even bigger presence going forward, bolstered by improvements in energy storage technology and the Japanese government's plan to introduce net zero energy houses.

The importance of environmentally friendly, safe, and renewable energy is only growing. Kanematsu will use this business as a foothold to advance initiatives aimed at further reducing environmental impact and promoting sustainable global development.

Motor Vehicles & Aerospace

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

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

Business Results and Forecasts

FY2018

Revenue–external

¥54.5 billion

Segment profit

¥2.5 billion

FY2019 (Forecast)

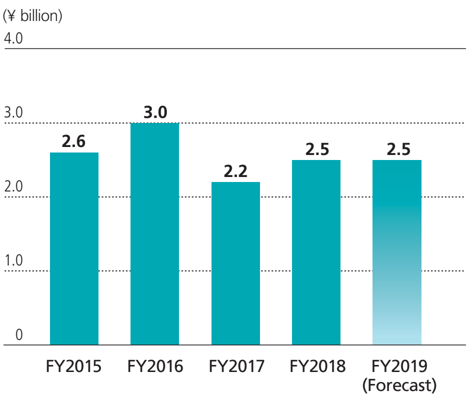
Revenue–External

¥60.0 billion

Segment profit

¥2.5 billion

Segment Profit



Division Composition

The Motor Vehicles & Aerospace Division was formed in April 2013 as an integration and concentration of the highly competitive automobile- and aerospace-related business units that previously existed as part of the Electronics & IT, Iron & Steel, and Machinery & Plant divisions. By integrating and concentrating our motor vehicles 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 and thereby strengthen our sales and sourcing capabilities. Also, bringing the aerospace-related business units into this division has facilitated the sharing of information about cutting-edge aerospace technologies that can be used in the motor vehicles and parts field, and synergies between the aerospace and automotive units are helping create new businesses.

Since the launch of this division, we have been improving our global frameworks to reinforce our roles and functions and better serve our customers and business partners while constantly making future-oriented investments to create new businesses.

- Motor Vehicles and Parts
- Aerospace

External Environment and Strategies to Achieve *future 135*

Under VISION-130, we worked to enhance our global framework, reinforce logistics, and build quality management and testing functions in motorcycle and automobile businesses, thereby bolstering our roles and functions and reinforcing the earnings base. In the aircraft business, we received orders from the Japanese government for the Cessna Citation series made by Textron. We also reinforced our commercial aircraft parts business, which operates mainly in Europe and the United States. In the space business, we entered the rocket downrange operations and small launch vehicle businesses, broadening our earnings base.

Under *future 135*, in our motorcycle and automobile businesses, we will continue to work toward the realization of the VISION-130 strategies of creating new projects related to safety, the environment, and comfort; working with key business partners to build new businesses;

and investing in cutting-edge technologies. In addition, in light of rapid technological innovation in the automotive industry, since 2017 we have stationed employees in Silicon Valley as part of efforts to gather information on the latest technologies and create new businesses. In the aircraft business, we are reinforcing the framework of our commercial aircraft part business and working toward expansion, with an eye to entering the Asian market outside Japan. Furthermore, we are working to expand sales of special mission aircraft to the Japanese government. In the space business, we are working to establish frameworks for micro satellite launch support, small launch vehicle services, and rocket component sales.

Division Medium- and Long Term Vision

Under *future-135*, we continue to pursue the four basic policies laid out under VISION-130: 1. maximize synergies resulting from reorganization, 2. improve and strengthen our global business structure, 3. maximize the role of logistics transactions, and 4. build new businesses besides the trading business.

In our motorcycle and automobile businesses, to prepare for the arrival of the CASE* era, we are considering such initiatives as collaboration with start-ups and investment in cutting-edge technologies in order to build new business models.

In the aircraft business, we will expand our businesses in the defense-related sector, which is expected to see market growth, as well as in commercial aircraft components. In the space business, in January 2017 we made a strategic investment in Vector, a small launch vehicle start-up in the United States; leveraging the expanded network provided by this investment, we are building a foundation for the space business, including satellite services.

* An abbreviation for four trends in the automotive industry: connected, autonomous, shared & services, and electric.

Strengths and Tasks to Address

Our greatest strength is the customer base and roster of business partners we have built up over the decades by doing business together. We have a network that includes industry-leading customers and partners, and we earn high marks for our excellent product and solution proposals, which leverage our expertise and extensive informational resources gained through our businesses. In recent years, dealings between the aerospace and motor vehicles industries have broadened, expanding synergies. To take advantage of such changes and use them to create new businesses, we will aggressively make necessary investments while focusing on developing entrepreneurial human resources.

TOPICS

Promoting Sales of Special Mission Aircraft to Government Agencies

As a sales agency for U.S. aircraft maker Textron Aviation, Kanematsu is focusing efforts on sales of business jet-based special mission aircraft to the Japanese government.

In 2017, Kanematsu secured a sales contract with the Ministry of Defense and Japan Air Self-Defense Force for next-generation flight inspection aircraft. Under this contract, Kanematsu is undertaking a project to provide cutting-edge mid-sized Cessna Citation Latitude jets equipped with flight inspection systems manufactured by a Norwegian company, to be delivered in 2020. Flight inspection aircraft are used to inspect the air navigation facilities and the air traffic control facilities operated by the Japan Self-Defense Forces. Kanematsu has already successfully sold and delivered five Citation CJ4 small-sized jets for similar duties to the Japan Civil Aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism. We regard our involvement in the sale and operational support of aircraft used in the crucial job of protecting air routes as important work that allows us to help bear the responsibility of contributing to Japan's air safety.

Kanematsu will continue working to propose and sell special mission aircraft for a wide range of purposes, including flight inspection, aiming for further business expansion.

Cessna Citation Latitude

Our Approach to Sustainability

The Kanematsu Group has codified the entrepreneurial spirit of Kanematsu's founder, Fusajiro Kanematsu, in its Corporate Principle. We engage in business in Japan and around the globe based on our mission of contributing to international society and economic development.

The challenges facing international society today, such as climate change and other increasingly serious social and environmental problems, are growing more diverse and complex. We believe that carrying out corporate activities proactively, with an awareness of these challenges and a sense of mission, serves to both help address such challenges and promote the growth of the Kanematsu Group.

With an eye toward cooperation and mutual development with our customers and business partners, we will continue to leverage the insight and know-how built up over Kanematsu's long history to provide goods and services with added value. Through these corporate activities, we aim to achieve the sustained development of the global environment, society, economy, and of the Kanematsu Group.

Addressing the Five Key Issues

Business activities   Social contribution activities, etc.

- Initiatives to introduce ICT to livestock farming
- Business in high-value-added health foods for healthier living p 37
- Security business to guard against cyber attacks p 37

A
Responding to changes in market characteristics and location and changes in customer needs

- Offering services closely tailored to local needs at mobile phone shops
- Sustainable coffee plantation-related initiatives p 37
- Kanematsu Foundation for the Research of Foreign Trade p 42
- Volunteering in areas affected by the Great East Japan Earthquake p 43
- Supporting Amputee Soccer p 43
- e-Net Caravan activities p 43

B
Mutual development with local communities

Ensure health and safety through our corporate and social contribution activities to achieve mutual growth and development with local communities.

- Enhancing the corporate governance system p 44
- Enhancing internal control and risk management systems p 46

D
Enhancing governance

Increase management transparency, enhance appropriate oversight functions and systems, and promote sound corporate management to achieve sustained growth.

Determining Materiality

The Kanematsu Group aims to take on social challenges based on a broad view of international society in order to create new markets and value. In this way we seek to contribute to the global environment, sustainable social development, and the growth of the Kanematsu Group.

At the start of the *future 135* medium-term vision in fiscal 2019, we sought to determine which issues the Kanematsu Group should focus on in its corporate activities, taking into account international targets and standards—such as the Sustainable Development Goals (SDGs)—as well as stakeholder expectations, Kanematsu's Corporate Principle, and importance to management. Through these efforts, we established five key issues (issues of high materiality).

- **Responding to changes in market characteristics and location and changes in customer needs**
- **Mutual development with local communities**
- **Consideration of the global environment**
- **Enhancing governance**
- **Promoting respect for human rights, human resource development, and diversity**

Meet the needs of people in many countries and regions by achieving the stable procurement and supply of goods and services to realize richer, comfortable living.

C

Consideration of the global environment

Work to address environmental issues, including mitigating global warming and conserving biodiversity, through our corporate and social contribution activities.

- Forest conservation initiatives in Indonesia (REDD+)
- Demonstration project to increase effective EV range p 37
- Solar panel and converter supply business
- Renewable energy power plant construction business
- Business supplying high-efficiency industrial machinery employing low-carbon technologies
- Business supplying heat reflective paint to combat global warming
- Business selling biomass fuels to combat global warming
- Aircraft rotable parts business/part-out business p 38
- Lumber preservation treatment technology helping reduce global warming p 38
- Environmentally friendly ground improvement using wooden piles
- Business in implementing switches to LP gas fuel
- Development of mealworm-based feedstuff materials p 38

E

Promoting respect for human rights, human resource development, and diversity

Respect human rights, build sustainable value chains, and contribute to employment in emerging counties in our global corporate activities. Maintain environments in which diverse human resources can exercise their individuality and abilities while promoting the development of every employee.

- Developing and utilizing global professionals in the IT industry p 38
- Promoting work-life balance p 41
- Human resource development initiatives p 39
- Activities to support the independence of persons with disabilities

Working toward the Sustainable Development Goals

The sustainable development goals (SDGs) are a set of international goals for 2030 laid out in the 2030 Agenda for Sustainable Development adopted at the UN Sustainable Development Summit in September 2015. The SDGs consist of 17 goals and 169 targets for realizing a sustainable world. UN member countries are working toward the SDGs, carrying out efforts related to issues including poverty, hunger, energy, technological innovation, and climate change.

In line with its Code of Conduct, the Kanematsu Group is implementing initiatives toward the achievement of the SDGs through its corporate activities.

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.

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.

For more details, please refer to Kanematsu's Environmental Report.

http://www.kanematsu.co.jp/en/csr/environment/environmental_report.html

Addressing the Five Key Issues

A Business in High-Value-Added Health Foods for Healthier Living

Kanematsu Chemicals Corp. and its subsidiary Kanematsu Wellness Corp. are helping to improve end-users' quality of life through the import and export of high-value-added health food ingredients as well as domestic trading operations spanning from procurement to the supply and marketing of such goods.

For example, in Japan today, as the population grays, locomotive syndrome due to loss of muscle mass (sarcopenia) as well as weakness, declines in immune strength, and changes in the gut environment associated with frailty are becoming increasingly major problems. Helping to support the health of seniors against such issues, Kanematsu sells the ingredient HMB and functional milk products.

HMB helps to both prevent muscle loss and build new muscle. Because of this, it is useful in preventing sarcopenia and thus locomotive syndrome in elderly individuals and in preventing muscle mass loss due to dieting.

Furthermore, functional milk products, created by applying the beneficial properties of breast milk, contain immunoglobulin G and physiologically active substances (nutrients) that are thought to help improve the balance of beneficial bacteria in the gut and return the body to a normal, healthy state. Recently, our products for pets have been adopted by veterinary clinics, helping to support pet health.

Going forward, we will continue to produce products and ingredients that help users live life to the fullest.

A Security Business to Guard against Cyber Attacks

Kanematsu Electronics Ltd. has entered a capital and business tie-up with GLOBAL SECURITY EXPERTS Inc., a specialized security vendor that provides security consulting and systematic training services.

In the information security market, demand related to laws, regulations, and compliance requirements is forecast to expand from 2018. Furthermore, as Japan prepares to host major events, namely the 2019 Rugby World Cup and 2020 Tokyo Olympics and Paralympics, numerous cyber attacks are expected in the coming three years.

In May 2018, the Ministry of Economy, Trade and Industry encouraged the addition of items concerning cyber security to Japan's Corporate Governance Code, to which listed companies are subject. With cyber attacks thus coming to the forefront as a serious management risk, countermeasures to such attacks are increasingly being seen as an essential factor in investment decisions.

Going forward, we will promote cyber security measures for corporate customers and support the strengthening of their corporate governance.

B Sustainable Coffee Plantation-Related Initiatives

Rainforest Alliance is an NGO known around that world that sets exacting standards for environmental, social, and economic sustainability and promotes sustainability both in terms of the global environment and within local communities. Since 2003, Kanematsu has been trading with Daterra Coffee of Brazil, the only coffee producer in the world that clears the Rainforest Alliance's strictest standards, on an ongoing basis; 2018 marked 15 years of doing business together.

The Japanese market consumes more coffee produced by Daterra than any other. Kanematsu trades with beverage makers who deeply sympathize with Daterra's operating principles and vision on an ongoing basis.

Environmental and local community sustainability in producing regions can only be achieved with the support of sustainable consumption in consuming regions.

Kanematsu will continue to provide a bridge between producers and consumers, helping to spread environmentally friendly coffee.

C Demonstration Project to Increase Effective EV Range

In Northern California, in the United States, Kanematsu is working with Nissan Motor Co., Ltd. and Nissan North America, Inc. on a demonstration project commissioned by the New Energy Industrial Technology and Development Organization (NEDO) aimed at expanding the effective range of electric vehicles (EVs).

This demonstration project is being implemented in cooperation with the government of California and EVgo Services LLC, a U.S. EV charging infrastructure operator. Under the project, 55 rapid chargers have been installed at 25 locations in the northern part of the state, and real-time information services are being provided to EV drivers while various data about EV usage patterns are collected, analyzed and studied. The project is expected to help improve the usability of EVs and promote their adoption.

Through projects like this, we will continue to work toward the creation of a low-carbon society while preventing air pollution and reducing global warming.

C Lumber Preservation Treatment Technology Helping Reduce Global Warming

Kanematsu Sustech Corporation's lumber preservation treatment is an advanced technology that prevents damage to wood, such as that caused by rot or termites, and improves the durability of lumber while maintaining its desirable qualities. This preservation treatment is used mainly for structural and exterior components of housing and other buildings, solidly supporting the literal foundations of people's lives over the long term. Because the treatment increases the durability of wood, the carbon contained therein stays fixed longer, helping to reduce global warming.

Due in part to the Act for Promotion of Use of Wood in Public Buildings, in recent years the use of wood in the construction of public and other buildings has been steadily expanding, bringing new attention to lumber preservation treatment technology. One notable example is the great quantity of wood being used in the New National Stadium and other facilities being built for the 2020 Tokyo Olympics and Paralympics, much of which is being treated with Kanematsu Sustech's proprietary preservation technologies.

Going forward, we will continue to support society using our technologies, putting our best into even the parts that are not visible.

C Development of Mealworm-Based Feedstuff Materials

Shintoa Corp. is working to spread the use mealworm feedstuff materials developed jointly with Ehime University in an effort to increase the use of insect-derived fishmeal alternatives that meet the Aquaculture Stewardship Council's ecolabel standards for farmed fish.

Fishmeal made by drying and pulverizing anchovies and other fish is commonly used as feedstuff for fish farms. However, due in part to fishing regulations aimed at conserving resources and stabilizing prices, annual fishmeal production has been falling, and supply stability has become a concern.

As a feedstuff material, mealworms are excellent in terms of safety, fish preference, and nutritional value and are expected to see expanding use as an alternative to fishmeal.

Going forward, we will continue working to help aquaculture operators develop their businesses while contributing to sustainability.

Hearty Japanese amberjack with bright yellow stripes raised on feed containing insect-derived ingredients (left)

C Aircraft Rotable Parts Business/Part-Out Business

KG Aircraft Rotables Co., Ltd. (headquartered in Dublin, Ireland; "KGAR") operates a rotable parts business, in which it maintains an inventory of components so that maintenance and airline companies do not have to. When a problem with a component of a customer's aircraft arises, KGAR quickly delivers the necessary replacement from its inventory. The problem component is then sent to KGAR, where it is repaired and kept as stock for the next customer who may need it. With more than 10,000 components stocked at warehouses in Ireland and the United Kingdom, KGAR boasts a clientele of more than 200 companies, mainly in Europe and North America. In 2014, KGAR also entered the part-out business, in which it purchases used aircraft and disassembles them to sell the components.

Through these businesses, a great many aircraft parts are being reused, rather than scrapped. By further expanding the aircraft rotable parts business and part-out business, we will continue to contribute to the reuse of natural resources and preservation of the environment.

E Developing and Utilizing Global Professionals in the IT Industry

Kanematsu Electronics Ltd. (KEL) operates a training business using facilities in Okinawa aimed at developing and utilizing global professionals in the IT industry. Through this business, KEL is working to develop and provide human resources to operate and maintain its customers' systems. As part of these efforts, since 2010, we have partnered with Knowledge Edge Co., Ltd., which offers its proprietary Professional Intern Program (PIP) for recruiting, developing, and utilizing excellent specialist human resources. This partnership is aimed at developing global professionals who can meet customer needs.

The PIP program recruits outstanding students from prestigious universities in China, Thailand, and elsewhere for a Japanese language and IT education course lasting approximately a year. The first half of the program is conducted in the students' home countries. During the second half, students live in dormitories at the Asia IT Training Center in Okinawa while learning not just Japanese language and IT skills, but also about Japanese culture and customs. KEL's highly experienced engineers and salespeople assist in this training.

Many graduates of the program are now employed with KEL customers in Hamamatsu, Yokohama, Bangkok, Shanghai, Guanzhou, and Dalian. These employees have been evaluated favorably as being highly capable with a low separation rate.

We will continue to develop outstanding IT and business human resources to meet customer needs.

Human Resource Development 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.

Comment from the General Manager of the Human Resources & General Affairs Department

Takashi Nambu
General Manager, Human Resources & General Affairs Department

Human resources are Kanematsu's most valuable assets. As such, *future 135* includes priority initiatives related to human resources. To ensure that employees find their work rewarding and, as a result, perform better, we must enhance our human resource development programs and create environments where everyone can work with safety and confidence.

Our development programs include level-specific training, practical skills training, foreign language training, training in business plan formulation, and overseas on-the-job training for young career-track employees. Furthermore, in fiscal 2017, we began training aimed at developing executive management personnel, beginning with general manager-level employees and gradually expanding to other levels. In addition, we are strengthening training and education for local staff at our overseas sites. By organically combining multiple systems, such as those for personnel rotation and evaluation, we aim to develop true global professionals. Furthermore, by putting into practical use measures to improve employee satisfaction, we aim to create more comfortable, productive workplaces.

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 road maps to the creation and successful launch of new businesses.

Business Plan Formulation Trainee's Perspective

Kyoko Yasuoka
Functional Chemicals Department, Functional Chemicals Section No. 2

The training comprised two parts. First, we learned the basic skills necessary for creating business plans using instructional texts. Then, we worked in groups to actually formulate business plans related to a set theme. The training was a great opportunity to systematically learn and put into practice a wide range of knowledge.

In the group portion, through repeated discussion and evaluation with groupmates from other departments and Group companies, I learned a variety of ways of seeing and thinking about things. I also had a chance to research the businesses and materials handled by Kanematsu and Group companies, which gave me a better idea of what the Kanematsu Group as a whole does. I think that this training was thus extremely meaningful.

I will challenge myself to apply the things I learned to my ordinary work, aiming to bring out my imagination and ingenuity.

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 life- and workstyles 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.

Overseas Dispatch Training System Trainee's Perspective

Tatsuro Yano
Industrial Electronics Department, Section 1

My regular division handles the sale of industrial inkjet printers made by Japanese manufacturers. Specifically, we set up sales agencies in regions around the world, including North America, Europe, and Asia, and work closely with them to consider how to develop markets and then put our conclusions into action. My main mission during my overseas dispatch training in Dusseldorf, Germany, was to establish a new sales agency, from the preparation of the printing media onward, that would specialize in a particular market in order to achieve differentiation from competing products within said market. Things frequently went differently than we had projected, and we were constantly correcting course. I learned that doing so while quickly and consistently implementing the PDCA cycle is an important part of moving business forward. Also, I realized that dealing with customers on site, as opposed to communicating from Japan, completely changes the timescale of business and the intensity of communication, which I feel was an extremely valuable lesson.

Executive Management Training

Kanematsu created a new executive management training system in fiscal 2017 to foster the skills to operate businesses and organizations from an executive management perspective. Specifically, the targets of this training are to (1) foster strategy formulation and human resource management abilities and (2) acquire the basic knowledge necessary to an executive manager. In the first year, we implemented this training for general manager-level employees. From fiscal 2018, we are gradually expanding this training to the division manager level and below, planning to eventually include employees who are in approximately their 10th year with the Company.

Diversity

Promoting Greater Professional Success for Women

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, as of March 31, 2016 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.

In fiscal 2017, we adopted new systems aimed at helping women succeed professionally.

1. A system to allow non-career-track employees to take division manager or assistant manager positions
2. A system for rehiring employees who left the Company to accompany a spouse who was transferred to another location

	FY2014	FY2015	FY2016	FY2017	FY2018
Female career-track employees	51	55	54	56	54
Responsibility band 3	16	21	22	22	22

* Work location is determined according to the Company's needs and not restricted to any specific area. These employees eventually move into core operations.

Perspective of a Female Employee Working Overseas

Iver Wang
General Manager,
Advanced Materials Department
Kanematsu Taiwan Corporation

As general manager of the Advanced Materials Department at Kanematsu Taiwan Corporation, I work with the dozen or so employees in my department to maintain and expand our existing businesses related to printed circuit boards while striving to develop new businesses. Kanematsu Taiwan Corporation is now 66 years old and is known within the electronics industry as a trading company with a long history. While striving to exert an even greater presence in the market, we are working hard to find ways to effectively communicate the advantages of a trading company to customers.

Printed circuit boards, which my department handles, are an essential basic component of all electronics. Taiwan's circuit board industry is directly linked to the global electronics industry; by watching the product shipments of circuit board manufacturers, it is possible to infer with considerable precision the trends of the electronics industry. Our network spanning Taiwan, China, and Japan is strong, and the overseas electronics divisions are working together, in line with the policy of the division at Kanematsu, to help secure added value, expand the earnings base, and enhance quality.

Many people think that Japanese companies seldom offer opportunities to women, but Kanematsu has given me opportunities. Some might imagine that it would be difficult for a woman to work as a general manager, but there are many upsides; business partners remember me more easily, and it sometimes makes negotiations easier. I think that the most important thing in business is to get the other party to open up and trust you. To that end, I strive to enhance both my softness and strength, which I think together constitute a kind of power unique to women.

I have only been with Kanematsu a short while, but I have had the chance to meet many people, and I feel that it is a rewarding place to work. I hope to bring an even more positive attitude going forward to work enjoyably with my colleagues and business partners.

Global Professionals

Global Staff Perspective

Pham Gia Kieu Tien
Grain and Feedstuff Department, Forage and Dairy Products Section

After two years in trading operations at Kanematsu Vietnam Co., Ltd., I am now working in sales of animal feed for overseas dairy farming at Kanematsu in Japan. Although I was born in Vietnam, I moved to Japan as a small child, and I consider myself to have two home countries. I hope to communicate the good things about Japan to Vietnam and be a bridge between the two nations.

Through my work, I am very fortunate to have the chance to interact with people from around the world, visit their countries, and discover new perspectives. I also find it rewarding to be able to provide safe, reliable products to the market, and I strive to contribute to society in my own capacity.

I think that who you work with is more important than what your work is, and I have been very fortunate to encounter wonderful people, leading to my work at the Kanematsu Group. Going forward, I will continue striving to radiate positivity, so that others will be eager to work with me, too.

Work-Life Balance

Kanematsu is proactively committed to ensuring a good work-life balance and discourages long working hours in order 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 flexi-time after taking leave for pregnancy or child care reasons, so they can continue to raise growing children after rejoining the workforce.

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

Number of Employees Taking Childcare Leave

FY2016	FY2017	FY2018
17*	14	18

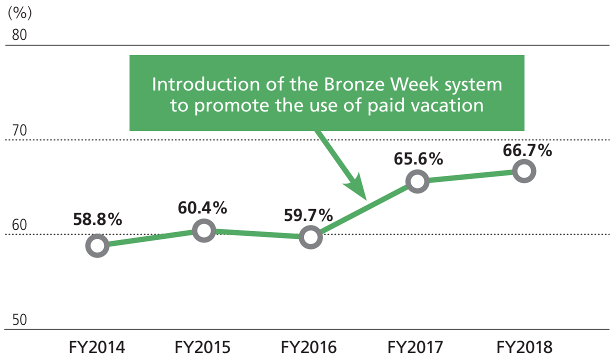
* Includes two male employees

Bronze Week

Since fiscal 2016, Kanematsu has maintained a "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 they are entitled to, improve work-life balance, and create workplaces that are comfortable and rewarding. As shown in the graph at left, the rate of annual vacation days used in fiscal 2017 was 66.7%, a full 7.0 points higher than fiscal 2015, before the system was introduced. Among non-managerial employees, the rate was 70.4%, above the system's target of 70%.

Going forward, we plan to implement a "My Weekend" system to encourage employees to take Mondays or Fridays off to create three-day weekends. Through such efforts, including those aimed at increasing the usage of time off among managerial staff, we aim to create even more comfortable workplaces.

Annual Vacation Usage Rate



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."

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 Labour Bureau. In January 2017, we received the "Kurumin" certification a second time.

In October 2016, we formulated our fourth General Employer Action Plan. Based on this plan, we are continuing 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.

Bring Your Child to Work Day

Since fiscal 2017, we have held an annual Bring Your Child to Work Day. By helping to deepen colleagues' understanding of and build support for their workmates balancing work and childcare while enhancing communication and understanding among families regarding work and the Company, this event is intended to increase employee motivation and foster a sense of belonging within the Company. We also hope that it will provide an opportunity for all employees to think about their own work-life balance. On the day of the fiscal 2018 event, the participating children saw displays of the products handled by each division, took a tour of the Company, and practiced exchanging business cards with the company president and executives.

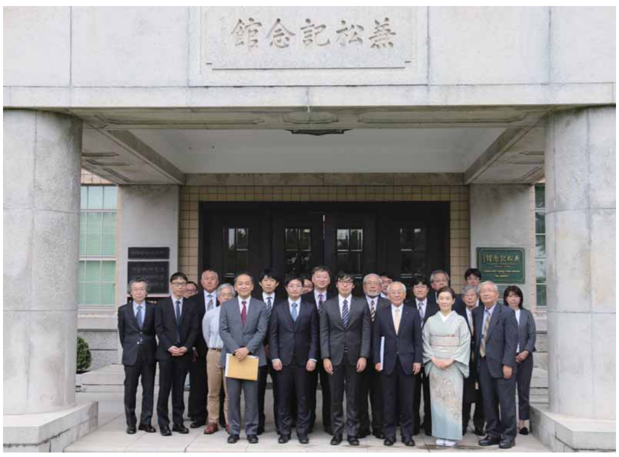
Social Contribution

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 1993, the Kanematsu Fellowship—a Kanematsu postgraduate 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.

Kanematsu will continue to support research in the fields of economics, management, and accounting through the Kanematsu Fellowship.



Volunteering in Areas Affected by the Great East Japan Earthquake

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, Iwate, through its own volunteer program. In addition to a 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. Going forward, Kanematsu will continue to provide support in line with the needs of the area and local residents in order to assist in the city's recovery and development.

Supporting Amputee Football

In fiscal 2018, Kanematsu began supporting the Japan Amputee Football Association, one of seven disabled soccer organizations in Japan.* In April 2018, Kanematsu invited Sérgio Echigo, the association's supreme advisor, to speak at a kick-off event for this support. Talks at the event covered a wide range of important topics, including an explanation of amputee soccer, cultural differences between countries, the importance of community, and how able-bodied people should regard people with disabilities. Through its support for the sport, Kanematsu aims to contribute to society as a good corporate citizen.

* Amputee football is a type of soccer with seven players per team for people with upper or lower extremity amputations. Because the sport requires no special equipment and can be played using ordinary crutches, it is a highly accessible form of disabled soccer.

e-Net Caravan Activities

Kanematsu Communications Ltd. understands that, in addition to selling mobile phones, it has the important duty of promoting the safe use of such devices. Accordingly, we take part in e-Net Caravan activities, aiming for mutual development with local communities.

e-Net Caravan is a nationwide initiative being advanced by the Ministry of Internal Affairs and Communications and the Ministry of Education, Culture, Sports, Science and Technology targeting elementary through high school students as well as their parents and teachers to raise awareness and provide guidance regarding safe internet use. As part of the program, Kanematsu Communications dispatches certified instructors to schools around Japan to conduct special lessons. In June 2018, these instructors conducted e-Net Caravan lessons at junior high schools in Rikuzentakata as part of Group volunteer activities.

Also in June 2018, the National Association of Mobile-phone Distributors, of which Kanematsu Communications president Takashi Kikuchi is a board member, received the 2018 Info-Communications Promotion Month Minister of Internal Affairs and Communications Prize. This prize was given in recognition of the association's significant contributions to the protection of consumer interests in the electronic communications field through such efforts as its work to create frameworks to enable mobile phone users to enter contracts and seek information with confidence as well as its active cooperation in dispatching instructors to hold awareness-raising classes to improve the information literacy and moral understanding of youth.

Activities

- Lessons held: Fiscal 2017 55 schools
  Fiscal 2018 76 schools (as of July; includes classes scheduled but not yet held)
- Certified instructors: 209 (as of July 1, 2018)

All of the above are among the highest within the National Association of Mobile-phone Distributors (Full members: 150 companies; Associate members: 393 companies; Supporting members: 8 companies)

e-Net Caravan at a junior high school in Rikuzentakata, Iwate

Our Basic Stance on Corporate Governance

Kanematsu's founder himself put down the words "Let us sow and nurture the seeds of global prosperity." The Kanematsu Group recognizes the pioneering spirit fostered by our predecessors along with the wise use of our creative imagination and ingenuity, fulfilling our corporate social responsibilities through sound, flourishing businesses, and adherence to Company rules as key parts of its Corporate Principle. We operate in accordance with this principle and our Code of Conduct, striving to carry out corporate activities to serve our various stakeholders and help realize a sustainable society by providing socially valuable goods and services.

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

System of Corporate Governance

Board of Directors

The Board of Directors is made up of eight 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. Three of the eight 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.

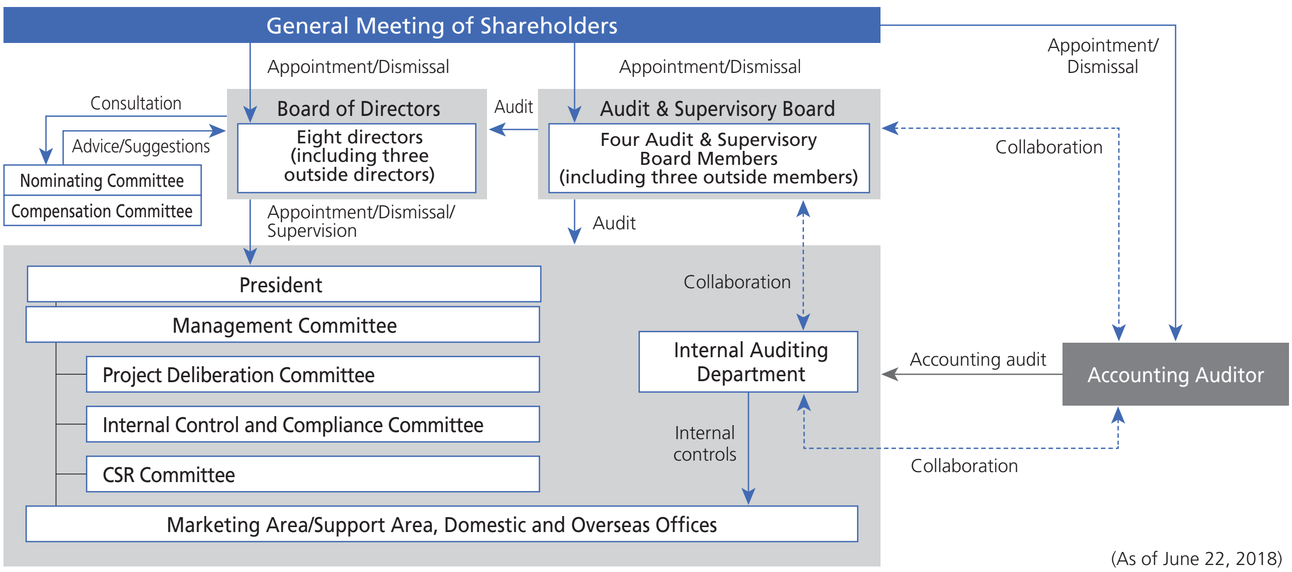
Kanematsu has adopted an executive officer system to improve the flexibility of business execution, speed up management decision making, and further clarify roles and responsibilities through the separation of supervisory and executive functions.

Advisory Bodies

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

- **Nominating Committee:** Comprises the president as committee chair and the three 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 three 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.

Corporate Governance Structure



(As of June 22, 2018)

Management Committee

To facilitate rapid decision making and flexible management, Kanematsu has set up a Management Committee composed of executive officers, including the president. In principle, the Committee meets at least twice a month. 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. The Management Committee is also attended by the outside directors and outside Audit & Supervisory Board members.

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 2017 attendance
Outside Directors	Yutaka Hirai	So that he can utilize his wide-ranging insight and many years of business experience, including that as representative director and executive vice president of Daifuku Co., Ltd., and wide-ranging insight in Kanematsu's management and provide management oversight.	22 of 22 Board of Directors meetings
	Seiichi Katayama	So that he can utilize the wide-ranging knowledge and insight regarding corporate management as well as expertise amassed as a professor of economics—albeit with no direct experience in management other than as an outside director—in Kanematsu's management and provide management oversight.	22 of 22 Board of Directors meetings
	Tsutomu Yajima	So that he can provide advice to management and appropriate oversight of business execution based on his sophisticated insight and wealth of experience in corporate management, including as a managing executive officer of JFE Steel Corporation and president and CEO of JFE Shoji Trade Corporation.	17 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.	22 of 22 Board of Directors meetings 14 of 14 Audit & Supervisory Board meetings
	Yonosuke Yamada	So that he can audit Kanematsu based on his expert insight and experience as a lawyer.	21 of 22 Board of Directors meetings 14 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.	22 of 22 Board of Directors meetings 14 of 14 Audit & Supervisory Board meetings

* Because Mr. Yajima was appointed at the June 23, 2017 General Meeting of Shareholders, the number of meetings of the Board of Directors that he was eligible to attend differs from that for the other outside directors and outside Audit & Supervisory Board members.

Director and Audit & Supervisory Board Member Compensation

Breakdown of Director and Audit & Supervisory Board Member Compensation

	Total compensation (millions of yen)	Total compensation by type (millions of yen)				Number of individuals receiving compensation
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	220	178	—	41	—	6
Audit & Supervisory Board members (excluding outside members)	26	26	—	—	—	1
Outside directors and Audit & Supervisory Board members	60	60	—	—	—	6

1 By resolution of the General Meeting of Shareholders, the total annual compensation for directors is capped at ¥300,000,000 (of which, the total annual compensation for outside directors is capped at ¥30,000,000), and the total annual compensation for Audit & Supervisory Board members is capped at ¥84,000,000 (per resolution of the June 24, 2015 General Meeting of Shareholders).
2 The above table includes one director who retired as of the conclusion of the June 23, 2017 General Meeting of Shareholders.

Performance-Linked Compensation Plan

To clarify directors' management responsibilities and enhance their incentives to improve corporate performance, Kanematsu has adopted a performance-linked compensation plan.

Furthermore, the May 9, 2018 Board of Directors meeting and June 22, 2018 General Meeting of Shareholders passed resolutions to introduce a performance-linked stock compensation plan employing a trust for Kanematsu's directors (excluding outside directors). The Company also decided to implement a similar performance-linked stock compensation plan for its executive officers. The new plan is aimed at more closely linking director compensation with corporate performance and stock price and better motivating directors to improve corporate performance and enterprise value over the medium term by having directors share with other shareholders the potential benefits and risks of share price changes.

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

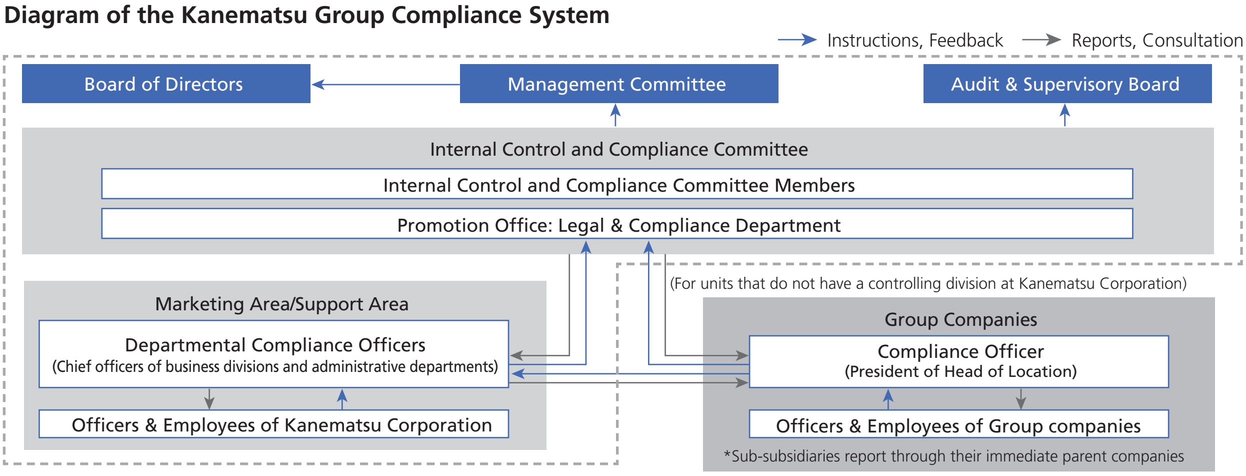
Maintaining the Internal Control System

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 22, 2018)

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 Human Resources & 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, 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.

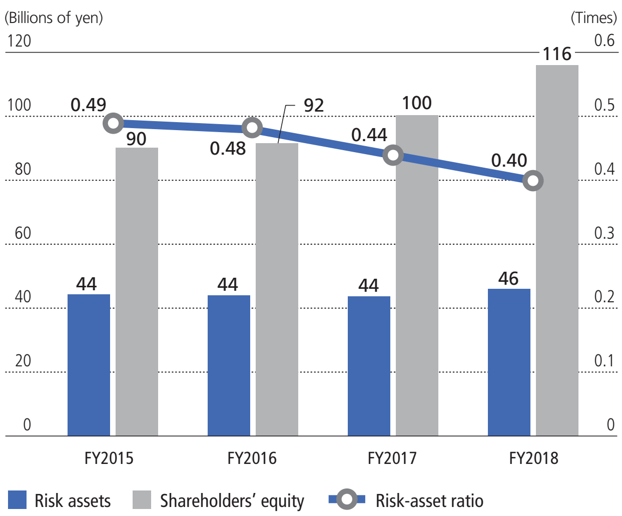
Quantifying and Monitoring Risk

The Kanematsu Group has laid out basic guidelines for controlling and managing risk in its Risk Management Guidelines. Based on said guidelines, we classify and define risks, then respond to each appropriately, aiming to minimize losses to the Kanematsu Group and achieve sound business growth and development.

The Group monitors quantifiable risks (market risk, credit risk, investment risk, country risk, etc.) by regularly measuring such risks and reporting the results to management. Specifically, to measure maximum possible losses (risk assets) we apply a proprietary weighting scheme corresponding to the potential loss risk to all assets included in the Consolidated Statement of Financial Position as well as off-balance sheet items.

Recently, to achieve more sophisticated capital management, we set an upper limit on the risk asset ratio, aiming to ensure a sound balance of risk assets and risk buffer (shareholder's equity) and maintain a sound financial position while increasing enterprise value through business creation and revenue expansion.

Risk Assets



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 the Outside Directors

Yutaka Hirai
Outside Director

Having achieved the targets of VISION-130 ahead of schedule, Kanematsu has launched a new medium-term vision, *future 135*, for the six years beginning fiscal 2019. To reach the targets of *future 135*, securing a stable earnings base and creating new businesses will be imperative. In addition, it will be important to aggressively advance business while maintaining effective governance—an obvious but difficult task—faster than ever.

In terms of nimble management decision making, under the executive officer system adopted a few years ago, Kanematsu has shifted greater authority to its executive officers, who are the driving force within each business. I think we can say now that this decision was the right one, and I hope to see efforts in this direction taken further.

Turning to corporate governance, based on Kanematsu's unique corporate culture, which prizes sincerity, the Company's traditional system of transparent, consensus-based decision making has functioned effectively, and, in the past few years, Kanematsu has seriously undertaken the reinforcement of its internal systems. Going forward, I think that efforts to constantly confirm and measure the efficacy of such systems vis-à-vis concrete business activities and revise and improve them as needed will be crucial.

Seiichi Katayama
Outside Director

Kanematsu achieved the goals of VISION-130 a year early; given this, I think that the Company's overall management strategy is moving in a positive direction for all stakeholders. During the period of VISION-130, we outside directors took part in discussions not only at meetings of the Board of Directors, but also the Management Committee, and sat in on hearings with the Audit & Supervisory Board members when deemed necessary. I hope to support the achievement of the targets of the new medium-term vision, *future 135*, as well. Going forward, while maintaining Kanematsu's traditional corporate culture, the outside directors will help create the conditions for the swift, bold decision making needed to respond to changes in the business environment.

We also actively take part in careful deliberations related to risk taking, particularly those about entering and exiting major investment projects. To evaluate profitability and capital efficiency, the Board now uses quantitative analyses of management indicators. I think that this has had the positive effect of clearly increasing awareness of risk-return relationships. Going forward, Kanematsu needs to push its businesses one step further, and I intend to support bold decision making and provide oversight as it does so.

Tsutomu Yajima
Outside Director

I have now been an outside director at Kanematsu for a full year.

Looking at governance and management in terms of deliberative organs, Kanematsu has a system in place that includes the Project Deliberation Committee, the Management Committee, the Board of Directors, and hearings with the Audit & Supervisory Board members. I think this system produces appropriate decision making, restraint, and oversight. At meetings of these and other bodies, I offer my experience, knowledge and understanding as an outside director to the best of my abilities. Going forward, I will continue striving to provide advice to management and oversight of business execution.

In terms of corporate governance, while the Company's tightly constructed frameworks are functioning effectively, I have felt that more thorough governance of Group companies is needed. Also, I think that Kanematsu should focus more on streamlining management.

The targets of the *future 135* six-year plan make sense. Kanematsu analyzed its recent favorable performance to get a clear picture of its present position, and from there set its next management objectives. Also, it has in place the frameworks to achieve these objectives.

Among the measures that the Company will need to take going forward, building and reinforcing a sound financial position will, of course, be important. However, I think that the Company will also need to put work into further strengthening internal control and systems. Lastly, building the necessary supply chains and management for overseas business expansion will also be a key task.

Corporate Officers

(As of March 31, 2018)

Directors and Audit & Supervisory Board Members

Masayuki Shimojima

Chairman

1974 Joined Kanematsu- Gosho Ltd.
2010 President & CEO
2017 Chairman (incumbent)

Kaoru Tanigawa

President

1981 Joined Kanematsu- Gosho Ltd.
2015 Director, Senior Managing Executive Officer
2017 President (incumbent)

Masao Hasegawa

Executive Vice President

1979 Joined The Bank of Tokyo, Ltd.
2012 Deputy President, Mitsubishi UFJ Research and Consulting Co., Ltd.
2014 Executive Vice President (incumbent)

Yoshiya Miyabe

Director

1983 Joined Kanematsu-Gosho Ltd.
2018 Director, Senior Managing Executive Officer (incumbent)

Tetsuro Tsutano

Director

1992 Joined Kanematsu Corporation
2017 Director, Executive Officer
2018 Director, Senior Executive Officer (incumbent)

Yutaka Hirai

Director

1970 Joined Daifuku Machinery Works Co., Ltd.
2006 Vice-President, Daifuku Co., Ltd.
2011 Corporate Auditor, Kanematsu Corporation
2014 Director (incumbent)

Seiichi Katayama

Director

2000 Director, Research Institute for Economics and Business Administration, Kobe University
2007 Professor Emeritus, Kobe University (incumbent)
2015 Director, Kanematsu Corporation (incumbent)
2017 Research Fellow, Faculty of Economics, Aichi Gakuin University (incumbent)

Tsutomu Yajima

Director

1973 Joined Kawasaki Steel Corporation
2013 President and CEO, JFE Shoji Trade Corporation
2017 Director (outside), Kanematsu Corporation (incumbent)
2018 Adviser, JFE Shoji Trade Corporation (incumbent), Friend of the Company, JFE Steel Corporation (incumbent)

Fumihiko Nashimoto

Audit & Supervisory Board Member (full-time)

1976 Joined Kanematsu Semiconductor Corporation
1999 President, Kanematsu Semiconductor Corporation
2012 Director, Kanematsu Corporation
2012 Audit & Supervisory Board Member (incumbent)

Sohei Ogawa

Audit & Supervisory Board Member (full-time)

1984 Joined The Norinchukin Bank
2015 Audit & Supervisory Board Member, Kanematsu Corporation (incumbent)

Yonosuke Yamada

Audit & Supervisory Board Member

1989 Registered as an attorney
2005 Joined Yamada, Goya & Suzuki (Incumbent)
2006 Audit & Supervisory Board Member, Kanematsu Corporation (incumbent)

Tsukasa Miyachi

Audit & Supervisory Board Member

1970 Joined Chuo Audit Corporation
2007 Opens Miyachi public accounting firm (incumbent)
2015 Audit & Supervisory Board Member, Kanematsu Corporation (incumbent)

1. Mr. Yutaka Hirai, Mr. Seiichi Katayama and Mr. Tsutomu Yajima 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. Tsutomu Yajima, Mr. Yonosuke Yamada and Mr. Tsukasa Miyachi are Independent Officers, as defined in the Securities Listing Regulations.

Executive Officers

President	Kaoru Tanigawa	
Executive Vice President	Masao Hasegawa	Chief Officer, Supporting Area; Chief Officer, Internal Auditing
Senior Managing Executive Officer	Yoshiya Miyabe	Chief Officer, Motor Vehicles & Aerospace Division, General Manager, Osaka Branch; General Manager, Nagoya Branch, Chief Officer, Technologies and Business Collaboration
Managing Executive Officers	Tetsuya Kaneko	Chief Officer, IT Planning, Traffic & Insurance
	Kazuo Shibata	Chief Officer, Credit Control, Legal & Compliance; General Manager of Credit Control Dept.
Senior Executive Officers	Eiji Kan	Chief Officer, Steel, Materials & Plant Division
	Masayuki Hamasaki	Chief Officer, Grain, Oilseeds & Feedstuff Division
	Hiroyasu Hirasawa	Chief Officer, Foods Division
	Masahiro Harada	Chief Officer, Electronics & Devices Division
	Kazuo Tanaka	Chief Officer, Human Resources & General Affairs, Corporate Planning
	Tetsuro Tsutano	Chief Officer, Finance, Accounting, Business Accounting; General Manager of Finance Dept.
Executive Officers	Koichi Koizumi	Deputy Chief Officer, Motor Vehicles & Aerospace Division, Director, Motor Vehicles & Parts Dept. No. 1
	Ryoichi Kidokoro	President, Kanematsu USA Inc.
	Osamu Iwata	Deputy Chief Officer, Steel, Materials & Plant Division, Director, Iron & Steel Foreign Trade Dept.

Financial and ESG Highlights

(As of March 31)

JGAAP

	2008	2009	2010	2011	2012
For the year:					
Net sales[3]	¥1,244,020	¥1,138,755	¥861,277	¥936,891	¥1,006,365
Revenue	—	—	—	—	—
Gross profit	90,327	86,292	74,104	76,905	80,900
Operating income/Operating profit	22,605	19,027	12,186	18,029	21,426
Income (loss) before income taxes and minority interests/Profit before tax	28,975	77	8,407	13,030	13,529
Net income (loss)/Profit for the year attributable to owners of the Parent[3]	19,016	(12,787)	3,528	9,175	6,110
Cash flows from operating activities	14,308	17,177	26,441	7,827	15,822
Cash flows from investing activities	38,799	(370)	(19,149)	17,322	1,291
Free cash flow	53,107	16,807	7,292	25,149	17,113
At year-end:					
Total assets	503,456	414,928	398,629	388,676	399,753
Net assets/Total equity	62,239	42,035	45,804	49,576	55,992
Shareholders' equity/Total equity attributable to owners of the Parent	45,587	24,936	28,916	33,101	39,008
Net interest-bearing debt	148,944	134,582	109,350	104,612	90,012
Per share (yen):					
Net income/Basic earnings per share attributable to owners of the Parent[3]	¥ 45.44	¥(30.56)	¥ 8.44	¥21.93	¥14.60
Net assets/Equity attributable to owners of the parent	108.95	59.61	69.15	79.07	93.16
Cash dividends	—	—	—	—	—
Financial indicators:					
Return on equity (ROE) (%)	48.42	(36.26)	13.10	29.59	16.95
Equity ratio (%)	9.1	6.0	7.3	8.5	9.8
Net D/E ratio (times)	3.3	5.4	3.8	3.2	2.3
ESG* (Non-Financial) Data: *ESG: Short for environmental, social, and corporate governance.					
Employees—consolidated	4,543	4,874	4,871	4,770	4,770
Employees—non-consolidated (Women)	872 (251)	890 (262)	850 (264)	832 (250)	795 (238)
Percentage of women among employees—non-consolidated	29%	29%	31%	30%	30%
CO_2 emissions (t-CO_2)[6, 7]	644.69	598.15	731.92	644.76	443.83
Total paper use (sheets)[7]	9,201,812	8,153,681	7,504,637	6,801,305	7,062,310
External disposal of general waste (t)[7]	85.39	87.17	87.80	71.50	46.57
Directors (Outside directors)[8]	11 (0)	10 (0)	10 (0)	10 (0)	10 (0)
Audit & Supervisory Board Members[8] (Outside Audit & Supervisory Board Members)	4 (3)	4 (3)	4 (3)	4 (3)	4 (3)

Notes For the above items with two titles, the first applies to figures under JGAAP and the second to figures under IFRS.

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 ¥106.24 to U.S.$1.00, the exchange rate prevailing on March 31, 2018.
3. Net sales shown here for fiscal 2015 and after are based on accounting principles generally accepted in Japan, calculated as the sum of transactions in which the Group acted as a party to the contract and transactions in which the Group acted as agent.
4. Kanematsu executed a share consolidation on October 1, 2017, at a ratio of five common shares to one. The calculation of the above figures assumes that said share consolidation was implemented on April 1, 2014.

		IFRS				
					Millions of yen[1]	Thousands of U.S. dollars[2]
2013	2014	2015	2016	2017	**2018**	**2018**
¥1,019,232	¥1,114,539	—	—	—	—	—
—	—	¥704,211	¥668,374	¥675,579	**¥714,790**	**$6,728,075**
80,021	86,402	87,880	86,238	100,139	**106,371**	**1,001,239**
18,262	19,776	23,547	18,772	22,633	**26,160**	**246,243**
16,781	19,075	22,373	18,122	17,875	**26,043**	**245,135**
9,564	11,799	10,546	8,959	8,049	**16,317**	**153,588**
1,355	22,384	6,758	33,024	11,852	**434**	**4,090**
1,466	(1,111)	(6,649)	(4,214)	(14,691)	**1,103**	**10,383**
2,821	21,273	109	28,810	(2,839)	**1,537**	**14,467**
399,186	428,459	466,314	443,592	479,717	**519,889**	**4,893,536**
75,912	96,204	119,015	120,706	129,863	**147,050**	**1,384,133**
54,519	71,657	90,244	91,599	100,357	**116,012**	**1,091,988**
86,439	68,038	72,155	48,813	55,429	**59,045**	**555,769**
¥ 22.80	¥ 28.09	¥ 125.49[4]	¥ 106.46[4]	¥ 95.64[4]	**¥ 193.79[4]**	**$ 1.82[4]**
129.82	170.54	1,072.20[4]	1,088.45[4]	1,192.21[4]	**1,377.66[4]**	**12.96[4]**
—	3.00	4.00	5.00	6.00	**48.00[5]**	**0.45[5]**
20.45	18.70	12.99	9.85	8.39	**15.08**	
13.7	16.7	19.4	20.6	20.9	**22.3**	
1.6	0.9	0.8	0.5	0.6	**0.5**	
5,522	5,747	6,002	5,832	6,727	**6,666**	
782 (242)	800 (246)	813 (253)	816 (259)	835 (273)	**842 (282)**	
31%	31%	31%	32%	33%	**34%**	
471.42	456.44	377.54	392.58	398.68	**400.74**	
6,874,521	6,648,353	6,645,797	6,087,765	6,256,363	**5,920,960**	
48.95	37.60	33.40	31.90	32.70	**29.50**	
10 (0)	6 (1)	7 (2)	7 (2)	8 (3)	**8 (3)**	
4 (3)	4 (2)	4 (3)	4 (3)	4 (3)	**4 (3)**	

5. Kanematsu executed a share consolidation on October 1, 2017, at a ratio of five common shares to one. The calculation of the above figure assumes that said share consolidation was implemented on April 1, 2017.
6. The coefficients used to calculate the above figures are the most recent values published by the Japan Foreign Trade Council (originally published by the Electric Power Council for a Low Carbon Society via the Japan Business Federation).
7. The figures above are the totals for Kanematsu's domestic locations on a non-consolidated basis and are subject to change due to changes in office space due to the consolidation of branches or sales offices, etc.
8. The number following the General Meeting of Shareholders, after the year-end.

Business Results

For the fiscal year ended March 31, 2018, revenue rose ¥39,211 million (5.8%) from the previous fiscal year to ¥714,790 million. Gross profit increased ¥6,232 million (6.2%) from the previous fiscal year to ¥106,371 million. Operating profit rose ¥3,527 million (15.6%) from the previous fiscal year to ¥26,160 million, reflecting the increase in gross profit. Profit before tax increased ¥8,168 million (45.7%) from the previous fiscal year to ¥26,043 million, reflecting a decrease in finance costs and an improvement in the share of profit (loss) of investments accounted for using the equity method. Profit for the year attributable to owners of the Parent increased ¥8,268 million (102.7%) from the previous fiscal year to ¥16,317 million.

Segment Information

Results for each business segment are described below.

Electronics & Devices

Performance in the ICT solutions business was solid, particularly in transactions in the manufacturing and service industries. Performance in the mobile business was firm, due in part to the integration of two mobile phone sales subsidiaries. The semiconductor production equipment business saw expansion in sales to China, and its performance improved year on year.

As a result, revenue in the Electronics & Devices segment rose ¥9,030 million year on year to ¥263,310 million, and operating profit increased ¥328 million to ¥17,556 million.

Foods & Grain

Performance in the food business was firm. Sales in the meat product business slowed in the latter half of the fiscal year, and performance in the feedstuff business was largely unchanged year on year.

As a result, in the Foods & Grain segment, revenue increased ¥3,496 million year on year to ¥231,260 million, and operating profit declined ¥340 million to ¥2,149 million.

Steel, Materials & Plant

Performance in the North American oilfield tubing business improved considerably year on year, supported by a rise in crude oil prices. Performance in the functional chemicals and plant businesses was firm.

As a result, revenue in the Steel, Materials & Plant segment increased ¥21,874 million year on year to ¥153,075 million. Operating profit increased ¥1,110 million to ¥3,930 million.

Motor Vehicles & Aerospace

In the motor vehicles and parts business, shipments to the Middle East were solid. Performance in the aerospace business, particularly in space-related fields and aircraft part trading, was also firm.

As a result, revenue in the Motor Vehicles & Aerospace segment increased ¥4,034 million year on year to ¥54,453 million. Operating profit grew ¥318 million to ¥2,541 million.

Other

In other, the Company recorded impairment on property, plant and equipment and intangible assets associated with the transfer of the golf business.

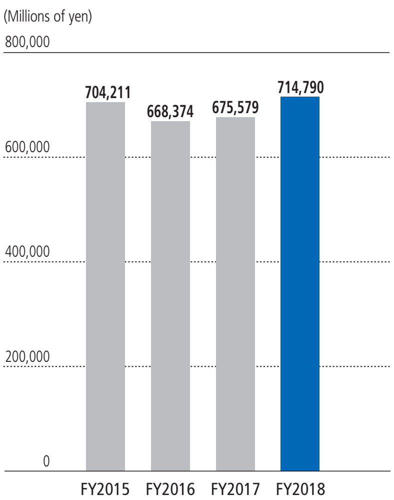
As a result, revenue rose ¥777 million year on year to ¥12,691 million, while operating profit fell ¥776 million to an operating loss of ¥20 million.

Analysis of Financial Status

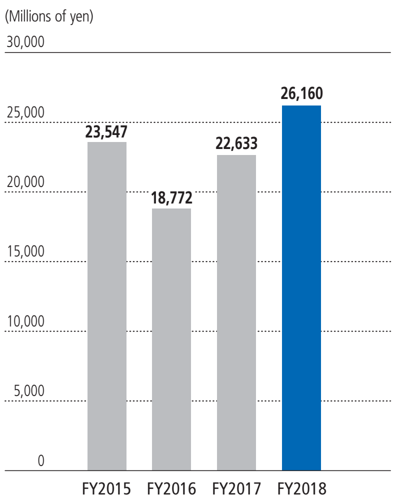
Assets, Liabilities and Net Assets

Total assets at the end of the fiscal year under review increased ¥40,172 million from the end of the previous fiscal year to ¥519,889 million. This was due largely to increases in current trade and other receivables and inventories.

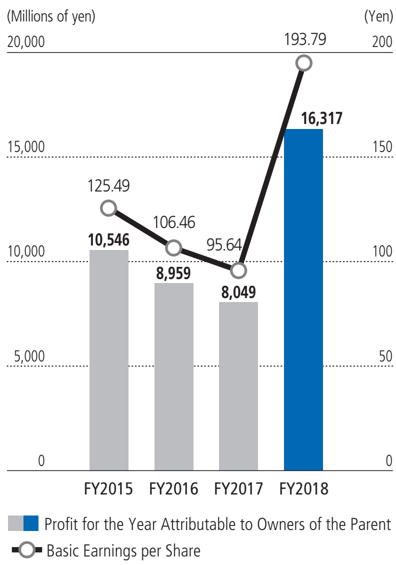
Revenue



Operating Profit



Profit for the Year Attributable to Owners of the Parent / Basic Earnings per Share*



* Kanematsu executed a share consolidation on October 1, 2017, at a ratio of five shares to one. The calculation of the above figures assumes that said share consolidation was implemented on April 1, 2014.

Interest-bearing debt increased ¥3,482 million from the end of the previous fiscal year to ¥137,326 million. Net interest-bearing debt, which is interest-bearing debt minus cash and bank deposits, increased ¥3,616 million from the end of the previous fiscal year to ¥59,045 million.

Total equity attributable to owners of the Parent increased ¥15,655 million to ¥116,012 million, reflecting the recording of retained earnings as a result of the profit for the year attributable to owners of the Parent and an increase in financial assets measured at fair value through other comprehensive income as a result of stock price increases.

As a result, the equity ratio at the end of the fiscal year under review was 22.3%. The net D/E ratio stood at 0.5.

Cash Flows

In the year under review, net cash provided by operating activities totaled ¥434 million, reflecting the recording of operating profit, which more than offset outflows due to increases in trade receivables and inventories. Net cash provided by investing activities amounted to ¥1,103 million, due in part to inflows from the sale of other financial assets and the transfer of the golf business. Net cash used in financing activities amounted to ¥842 million, due in part to dividends paid and the repayment of borrowings, despite income from the issue of corporate bonds.

As a result, after the effect of exchange rate changes on cash and cash equivalents, cash and cash equivalents at the end of the fiscal year under review stood at ¥77,731 million, up ¥165 million from the end of the previous fiscal year.

Fundraising

The management objective of the Kanematsu Group's medium-term vision, VISION-130, is to both maintain financial soundness and expand the earnings base. Toward this end, the Group carried out fundraising in line with a basic policy of stably procuring funds at low cost.

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. Kanematsu also raises funds from capital markets by issuing straight corporate bonds as a means of long-term capital procurement. To secure liquidity on hand, the Group maintains an ample balance of 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 as appropriate in response to the Company's funding needs and financial circumstances.

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.

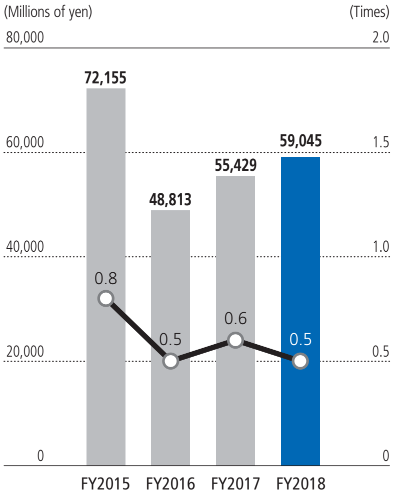
In the period under review, Kanematsu issued ¥10,000 million in new straight corporate bonds. At the end of the fiscal period under review, debt procurement through direct financing accounted for 14% of consolidated interest-bearing debt.

With regard to consolidated capital management, the Group has adopted a cash management system under which fundraising for major domestic subsidiaries and affiliates is concentrated at the Company and proceeds are then allocated in response to capital requirements. At the end of the fiscal period under review, the Company's interest-bearing debt accounted for 70% of the consolidated Group's interest-bearing debt.

As a result of the above fundraising activities, at the end of the fiscal period under review, the balance of interest-bearing debt stood at ¥137,326 million, an increase of ¥3,482 million from the end of the previous fiscal year. Net interest-bearing debt at the end of the fiscal year under review stood at ¥59,045 million, an increase of ¥3,616 million from the end of the previous fiscal year.

Corporate bonds and long-term borrowings (including the current portion of corporate bonds and long-term borrowings) accounted for 69% of the balance of interest-bearing debt at the end of the fiscal year under review (or 92% on a non-consolidated basis). As such, Kanematsu's fundraising was highly stable.

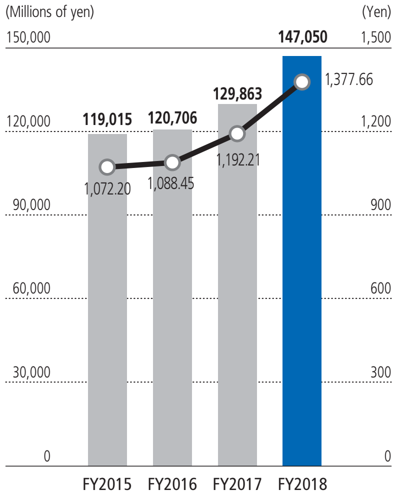
Net Interest-Bearing Debt*1 / Net D/E Ratio*2



Net Interest-Bearing Debt　Net D/E Ratio

*1 Net interest-bearing debt = Interest-bearing debt –Cash and cash equivalents
*2 Net D/E ratio = Net interest-bearing debt / Total equity attributable to owners of the Parent

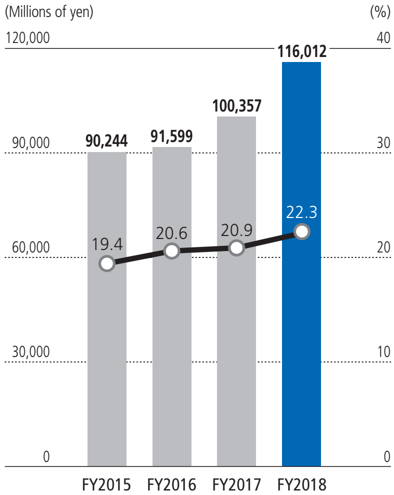
Total Equity / Equity Attributable to Owners of the Parent per Share*



Total Equity
Equity Attributable to Owners of the Parent per Share

* Kanematsu executed a share consolidation on October 1, 2017, at a ratio of five shares to one. The calculation of the above figures assumes that said share consolidation was implemented on April 1, 2014.

Total Equity Attributable to Owners of the Parent / Ratio of Equity Attributable to Owners of the Parent



Total Equity Attributable to Owners of the Parent
Ratio of Equity Attributable to Owners of the Parent

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 22, 2018.

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 participates in derivatives transactions such as forward contracts to reduce the risk of currency fluctuations.

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, capital levels may change as a result of translation adjustments related to overseas operations.

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.

The Group uses interest rate swaps to avoid interest rate risk related to borrowings.

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 due to changes in financial assets measured at fair value through other comprehensive income.

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 other 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 other 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 Financial Statements

Consolidated Statement of Financial Position

For the fiscal year ended March 31, 2018 and 2017

	JPY		USD (Note 2)
	2018	2017	**2018**
(Assets)			
I. Current assets			
1. Cash and cash equivalents (Note 27)	**77,731**	77,566	**731,662**
2. Trade and other receivables (Note 7)	**220,583**	191,193	**2,076,278**
3. Inventories (Note 8)	**93,957**	80,662	**884,392**
4. Other financial assets (Note 30)	**2,433**	3,705	**22,906**
5. Other current assets (Note 13)	**19,955**	18,200	**187,834**
Total current assets	**414,662**	371,329	**3,903,073**
II. Non-current assets			
1. Property, plant and equipment (Note 9)	**21,900**	26,858	**206,142**
2. Goodwill (Note 10)	**6,571**	6,304	**61,859**
3. Intangible assets (Note 10)	**20,377**	20,935	**191,808**
4. Investments accounted for using the equity method (Note 11)	**5,169**	4,885	**48,662**
5. Trade and other receivables (Note 7)	**1,582**	1,169	**14,900**
6. Other investments (Note 12)	**37,969**	34,112	**357,390**
7. Other financial assets (Note 30)	**4,479**	5,295	**42,168**
8. Deferred tax assets (Note 29)	**3,696**	5,018	**34,793**
9. Other non-current assets (Note 13)	**3,478**	3,807	**32,740**
Total non-current assets	**105,226**	108,388	**990,463**
Total assets	**519,889**	479,717	**4,893,536**

(Notes)Presentation of fiscal year and amounts (Japanese Yen and U.S. dollars)
1. "2018" refers to the Company's consolidated fiscal year ended March 31, 2018 and the other fiscal year is referred to in the corresponding manner.
2. "JPY" means millions of Japanese Yen and "USD" means thousands of U.S. dollars.

	JPY		USD (Note 2)
	2018	2017	2018
(Liabilities)			
I. Current liabilities			
1. Trade and other payables (Note 14)	**188,791**	165,011	**1,777,026**
2. Bonds and borrowings (Note 15)	**61,210**	64,643	**576,151**
3. Other financial liabilities (Note 30)	**7,009**	5,255	**65,979**
4. Income taxes payable	**3,773**	4,226	**35,521**
5. Provisions (Note 16)	**156**	28	**1,475**
6. Other current liabilities (Note 17)	**23,371**	26,291	**219,989**
Total current liabilities	**284,313**	265,455	**2,676,140**
II. Non-current liabilities			
1. Bonds and borrowings (Note 15)	**76,116**	69,201	**716,460**
2. Other financial liabilities (Note 30)	**2,853**	6,118	**26,857**
3. Retirement benefit liabilities (Note 28)	**6,340**	6,641	**59,685**
4. Provisions (Note 16)	**1,639**	1,397	**15,434**
5. Deferred tax liabilities (Note 29)	**641**	424	**6,042**
6. Other non-current liabilities (Note 17)	**933**	614	**8,784**
Total non-current liabilities	**88,525**	84,398	**833,263**
Total liabilities	**372,838**	349,854	**3,509,402**
(Equity)			
1. Share capital (Note 18)	**27,781**	27,781	**261,494**
2. Capital surplus (Note 18)	**26,810**	26,797	**252,361**
3. Retained earnings (Note 18)	**48,559**	34,579	**457,074**
4. Treasury stock (Note 18)	**(193)**	(217)	**(1,826)**
5. Other components of equity (Note 26)			
1) Exchange differences on translation of foreign operations	**1,275**	2,349	**12,009**
2) Financial assets measured at fair value through other comprehensive income	**12,684**	9,455	**119,397**
3) Cash flow hedges	**(905)**	(388)	**(8,521)**
Total other components of equity	**13,055**	11,416	**122,884**
Total equity attributable to owners of the Parent	**116,012**	100,357	**1,091,988**
6. Non-controlling interests	**31,037**	29,506	**292,146**
Total equity	**147,050**	129,863	**1,384,133**
Total liabilities and equity	**519,889**	479,717	**4,893,536**

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

For the fiscal years ended March 31, 2018 and 2017

	JPY		USD (Note 2)
	2018	2017	**2018**
I. Revenue (Notes 6 & 19)	**714,790**	675,579	**6,728,075**
II. Cost of sales	**(608,419)**	(575,440)	**(5,726,835)**
Gross profit	**106,371**	100,139	**1,001,239**
III. Selling, general and administrative expenses (Note 20)	**(78,420)**	(76,163)	**(738,145)**
IV. Other income (expenses)			
1. Gain (loss) on sale or disposal of property, plant and equipment and intangible assets, net (Note 21)	**(250)**	384	**(2,361)**
2. Impairment loss on property, plant and equipment and intangible assets (Note 22)	**(2,148)**	(866)	**(20,226)**
3. Other income	**1,560**	1,400	**14,685**
4. Other expenses	**(950)**	(2,261)	**(8,949)**
Total other income (expenses)	**(1,790)**	(1,343)	**(16,851)**
Operating profit (Note 6)	**26,160**	22,633	**246,243**
V. Finance income			
1. Interest income (Note 24)	**363**	421	**3,425**
2. Dividend income (Note 24)	**1,073**	1,116	**10,104**
3. Other finance income (Notes 24 & 30)	**10**	—	**94**
Total finance income	**1,447**	1,537	**13,623**
VI. Finance costs			
1. Interest expenses (Note 24)	**(2,414)**	(2,304)	**(22,723)**
2. Other finance costs (Notes 24 & 30)	**(730)**	(2,000)	**(6,871)**
Total finance costs	**(3,144)**	(4,304)	**(29,594)**
VII. Share of profit (loss) of investments accounted for using the equity method (Note 11)	**1,579**	(1,990)	**14,864**
Profit before tax	**26,043**	17,875	**245,135**
Income tax expense (Note 29)	**(6,384)**	(7,589)	**(60,097)**
Profit for the year	**19,658**	10,286	**185,038**
Profit for the year attributable to:			
Owners of the Parent	**16,317**	8,049	**153,588**
Non-controlling interests	**3,341**	2,237	**31,450**
Total	**19,658**	10,286	**185,038**
	Yen		U.S. dollars
Earnings per share attributable to owners of the Parent:			
Basic earnings per share (Note 25)	**193.79**	95.64	**1.82**
Diluted earnings per share (Note 25)	**193.79**	95.64	**1.82**

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

For the fiscal years ended March 31, 2018 and 2017

	JPY		USD (Note 2)
	2018	2017	**2018**
I. Profit for the year	**19,658**	10,286	**185,038**
II. Other comprehensive income			
Items that will not be reclassified to profit or loss:			
1. Financial assets measured at fair value through other comprehensive income (Note 26)	**3,402**	2,671	**32,022**
2. Remeasurement of defined benefit pension plans (Note 26)	**307**	(284)	**2,899**
3. Share of other comprehensive income of investments accounted for using the equity method (Note 26)	**0**	24	**4**
Total items that will not be reclassified to profit or loss	**3,710**	2,412	**34,925**
Items that may be reclassified to profit or loss:			
1. Exchange differences on translation of foreign operations (Note 26)	**(1,427)**	(829)	**(13,432)**
2. Cash flow hedges (Notes 26 & 30)	**(485)**	984	**(4,570)**
3. Share of other comprehensive income of investments accounted for using the equity method (Note 26)	**(57)**	109	**(543)**
Total items that may be reclassified to profit or loss	**(1,970)**	265	**(18,545)**
Other comprehensive income for the year, net of tax	**1,740**	2,678	**16,380**
Total comprehensive income for the year	**21,398**	12,965	**201,418**
Total comprehensive income for the year attributable to:			
Owners of the Parent	**18,354**	10,720	**172,766**
Non-controlling interests	**3,044**	2,244	**28,652**
Total	**21,398**	12,965	**201,418**

Consolidated Statement of Changes in Equity

For the fiscal years ended March 31, 2018 and 2017

	JPY		USD (Note 2)
	2018	2017	2018
Equity			
I . Share capital (Note 18)			
Balance at the beginning of the year	**27,781**	27,781	**261,494**
Balance at the end of the year	**27,781**	27,781	**261,494**
II . Capital surplus (Note 18)			
Balance at the beginning of the year	**26,797**	26,463	**252,234**
Disposition of treasury stock	**13**	3	**128**
Equity transactions with non-controlling interests	**(0)**	4	**(1)**
Other changes	**—**	326	**—**
Balance at the end of the year	**26,810**	26,797	**252,361**
III . Retained earnings (Note 18)			
Balance at the beginning of the year	**34,579**	29,103	**325,487**
Dividends	**(2,736)**	(2,314)	**(25,756)**
Profit for the year attributable to owners of the Parent	**16,317**	8,049	**153,588**
Reclassification from other components of equity	**398**	(259)	**3,755**
Balance at the end of the year	**48,559**	34,579	**457,074**
IV . Other components of equity (Note 26)			
Balance at the beginning of the year	**11,416**	8,486	**107,462**
Exchange differences on translation of foreign operations	**(1,073)**	(562)	**(10,107)**
Financial assets measured at fair value through other comprehensive income	**3,351**	2,613	**31,550**
Cash flow hedges	**(516)**	1,004	**(4,861)**
Remeasurement of defined benefit pension plans	**275**	(384)	**2,596**
Reclassification to retained earnings	**(398)**	259	**(3,755)**
Balance at the end of the year	**13,055**	11,416	**122,884**
V . Treasury stock (Note 18)			
Balance at the beginning of the year	**(217)**	(235)	**(2,051)**
Acquisition of treasury stock	**(6)**	(5)	**(61)**
Disposition of treasury stock	**30**	22	**285**
Balance at the end of the year	**(193)**	(217)	**(1,826)**
Total equity attributable to owners of the Parent	**116,012**	100,357	**1,091,988**
VI . Non-controlling interests			
Balance at the beginning of the year	**29,506**	29,107	**277,733**
Dividends to non-controlling interests	**(1,511)**	(1,324)	**(14,227)**
Equity transactions with non-controlling interests	**(1)**	(36)	**(12)**
Other changes	**—**	(484)	**—**
Profit for the year attributable to non-controlling interests	**3,341**	2,237	**31,450**
Other components of equity	**(297)**	6	**(2,798)**
Exchange differences on translation of foreign operations	**(378)**	(178)	**(3,567)**
Financial assets measured at fair value through other comprehensive income	**50**	82	**475**
Cash flow hedges	**(0)**	1	**(9)**
Remeasurement of defined benefit pension plans	**32**	100	**303**
Balance at the end of the year	**31,037**	29,506	**292,146**
Total equity	**147,050**	129,863	**1,384,133**
Comprehensive income for the year attributable to:			
Owners of the Parent	**18,354**	10,720	**172,766**
Non-controlling interests	**3,044**	2,244	**28,652**
Total comprehensive income for the year	**21,398**	12,965	**201,418**

Consolidated Statement of Cash Flows

For the fiscal years ended March 31, 2018 and 2017

	JPY		USD (Note 2)
	2018	2017	**2018**
I. Cash flows from operating activities			
Profit for the year	**19,658**	10,286	**185,038**
Depreciation and amortization	**3,145**	2,885	**29,612**
Impairment loss on property, plant and equipment and intangible assets	**2,148**	866	**20,226**
Finance income and costs	**1,696**	2,767	**15,972**
Share of (profit) loss of investments accounted for using the equity method	**(1,579)**	1,990	**(14,864)**
(Gain) loss on sale or disposal of property, plant and equipment and intangible assets, net	**250**	(384)	**2,361**
Income tax expense	**6,384**	7,589	**60,097**
(Increase) decrease in trade and other receivables	**(33,261)**	(10,613)	**(313,078)**
(Increase) decrease in inventories	**(13,729)**	200	**(129,229)**
Increase (decrease) in trade and other payables	**23,798**	6,861	**224,007**
Increase (decrease) in retirement benefits liabilities	**(297)**	(120)	**(2,801)**
Other	**(1,395)**	(1,437)	**(13,132)**
Sub total	**6,821**	20,890	**64,210**
Interest received	**358**	436	**3,375**
Dividends received	**2,159**	1,503	**20,328**
Interest paid	**(2,381)**	(2,291)	**(22,415)**
Income taxes paid	**(6,523)**	(8,686)	**(61,407)**
Net cash provided by (used in) operating activities	**434**	11,852	**4,090**
II. Cash flows from investing activities			
Payments for property, plant and equipment	**(2,136)**	(4,188)	**(20,107)**
Proceeds from sale of property, plant and equipment	**1,365**	3,424	**12,850**
Payments for intangible assets	**(544)**	(605)	**(5,126)**
Purchases of other investments	**(117)**	(986)	**(1,104)**
Proceeds from sale of other investments	**292**	733	**2,756**
Proceeds from sale of other financial assets	**1,010**	—	**9,507**
Proceeds from (payments for) acquisition of subsidiaries (Notes 5 & 27)	**(362)**	(12,786)	**(3,417)**
Proceeds from (payments for) sale of subsidiaries (Note 27)	**(22)**	(6)	**(209)**
Proceeds from transfer of business	**1,452**	—	**13,676**
Increase in loans receivable	**(1,522)**	(1,835)	**(14,334)**
Proceeds from collection of loans receivable	**1,378**	1,952	**12,979**
Other	**309**	(392)	**2,912**
Net cash provided by (used in) investing activities	**1,103**	(14,691)	**10,383**
III. Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net (Note 27)	**2,510**	7,044	**23,627**
Proceeds from long-term borrowings (Note 27)	**15,508**	18,786	**145,973**
Repayment of long-term borrowings (Note 27)	**(24,229)**	(28,857)	**(228,068)**
Proceeds from issuance of bonds (Note 27)	**9,928**	—	**93,450**
Dividends paid	**(2,730)**	(2,308)	**(25,705)**
Payments for acquisition of subsidiaries' interests from non-controlling interests	**—**	(30)	**—**
Dividends paid to non-controlling interests	**(1,542)**	(1,277)	**(14,521)**
Other (Note 27)	**(285)**	(262)	**(2,689)**
Net cash provided by (used in) financing activities	**(842)**	(6,904)	**(7,934)**
IV. Increase (decrease) in cash and cash equivalents, net	**694**	(9,743)	**6,539**
V. Cash and cash equivalents at the beginning of the year	**77,566**	87,466	**730,108**
VI. Effect of exchange rate changes on cash and cash equivalents	**(529)**	(156)	**(4,985)**
VII. Cash and cash equivalents at the end of the year (Note 27)	**77,731**	77,566	**731,662**

Notes to Consolidated Financial Statements

For the fiscal years ended March 31, 2018 and 2017

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, 2018 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 financial statements were authorized by Kaoru Tanigawa, President and CEO, on June 22, 2018.

(2) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for:

- 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 ¥106.24 to U.S.$1.00, the approximate exchange rate prevailing on March 31, 2018. 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. Current and Deferred Income Tax
- 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 much as it is available. Fair values are categorized into the following three hierarchy 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
- 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 amounts 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 and joint ventures

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.

Joint ventures are those entities with respect to which multiple parties, including the Consolidated Group, have joint control over the economic activities by contract and unanimous consent of all of such parties is required when deciding on the relevant activities, whereby the Consolidated Group has rights to the net assets of the arrangement.

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*, investments in associates and joint ventures ("equity method investee") are 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 and joint ventures from the date the Consolidated Group obtains significant influence or joint control until the date it loses such significant influence or joint control. 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 amounts 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 or 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 foreign operations

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

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

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

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

The amortization method, useful life and residual value of an intangible asset with a 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 an indefinite useful life are tested for impairment annually and whenever there is an indication that such assets may be impaired. If the carrying amount of an individual asset or the cash-generating unit exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount and that reduction is recognized as an impairment loss.

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 (a) the contractual rights to cash flows from the financial asset expire, or (b) it transfers the contractual rights to 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 flow and,

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(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 flow and selling financial assets and,

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(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 (i), (ii) and (iii) 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 amounts accumulated in other components of equity are reclassified from other components of equity to profit or loss in the same period that the transaction of the hedged item affects profit or loss; provided, however, that if hedging of a forecast transaction subsequently results in the recognition of a non-financial asset or liability, the amounts accumulated in other components of equity are then accounted for as an adjustment to the initial carrying amount of the non-financial asset or liability.

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

(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

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 amounts receivable from the customer; and,
- whether the amounts the Consolidated Group earns are predetermined, being either a fixed fee per transaction or a stated percentage of the amounts 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 amounts of benefits that employees will have earned in return for their services provided in the current and prior periods, and discounting such amounts in order to determine the present value. The fair value of any plan assets is deducted from the present value of the defined benefit obligations. The discount rate is determined by reference to the market yields on highly rated corporate bonds at the fiscal year-end that have maturity terms that are approximately the same as those of the Consolidated Group's defined benefit obligations and use the same currencies as those used for future benefits payments.

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

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

(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 amounts as of the reporting date that will be paid to the employees in return for their services without discounting that amounts 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 amounts 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 end of the fiscal year.

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 amounts 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) Leases

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, 2018. While the point of revenue recognition will change in accordance with the review of the recognition of performance obligation, the Consolidated Group assessed the effect of application of IFRS 15 would be negligible. The effect of application of IFRS 16 on the Consolidated Group is 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, 2017 was described as follows:

(1) Contents of the business combination

Name of the acquired company	Diamondtelecom, Inc.
Contents of business	Information communication business involved with sales of mobile communication devices and systems
Date of the business combination	April 1, 2016
Legal form of the business combination	Acquisition of the shares of Diamondtelecom, Inc. by Kanematsu Telecom Investment Co., Ltd., a wholly owned subsidiary of the Company. (Kanematsu Telecom Investment Co., Ltd. absorbed the acquired company as of April 1, 2016 and changed its company name to Diamondtelecom, Inc.)
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.

Diamondtelecom, Inc. ("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 Corporation, 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 the detail

	JPY
Acquisition costs (cash consideration)	17,400

(4) Acquisition-related costs and its line item

Acquisition-related costs for the business combination were ¥168 million, and they were recognized in selling, general and administrative expenses in the consolidated statement of income of the fiscal year ended March 31, 2016.

(5) Assets and liabilities on the day of the business combination

	JPY
Fair value of the consideration paid	17,400
Cash and cash equivalents	4,613
Trade receivables	12,828
Inventories	1,212
Other current assets	351
Property, plant and equipment	736
Goodwill (Note)	1,635
Intangible assets	13,930
Other non-current assets	764
Current liabilities	(17,746)
Non-current liabilities	(925)
Total	17,400

(Note) Goodwill consists primarily of future economic benefits and synergies with the Consolidated Group's existing businesses.
The total amount of goodwill that is expected to be deductible for tax purposes is ¥12,918 million.

(6) Effects on cash flows through business combination

	JPY
Payments for acquisition costs (cash consideration)	(17,400)
Cash and cash equivalents on the acquisition date	4,613
Payments for acquisition of subsidiaries	(12,786)

(7) Period of the performance of the acquired company in the consolidated financial statements

The performance of Diamond Telecom from April 1, 2016 to March 31, 2017 is included in the consolidated financial statements.

(8) Earnings since the acquisition date

	JPY
Revenue	27,800
Profit	161

There is no pro forma information presented since the business combination occurred at the beginning of the period.

There were no major business combinations that occurred during the fiscal year ended March 31, 2018.

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 transaction prices to external customers.

Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018) (JPY)

	Reportable segment					Others (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Total			
Revenue								
External	263,310	231,260	153,075	54,453	702,099	12,691	—	714,790
Inter-segment	277	4	80	11	374	62	(436)	—
Total revenue	263,587	231,265	153,155	54,464	702,743	12,753	(436)	714,790
Segment profit (loss)	17,556	2,149	3,930	2,541	26,179	(20)	2	26,160
Other profit or loss:								
Depreciation and amortization	1,205	562	838	425	3,032	135	(21)	3,145
Share of profit (loss) of investments accounted for using the equity method	361	62	19	33	476	1,102	0	1,579
Segment assets	194,788	118,829	121,456	42,898	477,972	9,112	32,803	519,889
Other assets:								
Investments accounted for using the equity method	873	1,337	83	326	2,620	2,552	(3)	5,169
Capital expenditures	1,359	600	486	384	2,831	120	153	3,105

Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018) (USD)

	Reportable segment					Others (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Total			
Revenue								
External	2,478,449	2,176,775	1,440,842	512,548	6,608,613	119,461	—	6,728,075
Inter-segment	2,611	46	760	105	3,523	586	(4,109)	—
Total revenue	2,481,060	2,176,821	1,441,602	512,653	6,612,136	120,047	(4,109)	6,728,075
Segment profit (loss)	165,256	20,233	37,001	23,927	246,416	(195)	22	246,243
Other profit or loss:								
Depreciation and amortization	11,346	5,299	7,890	4,005	28,540	1,271	(199)	29,611
Share of profit (loss) of investments accounted for using the equity method	3,399	591	180	316	4,486	10,374	3	14,864
Segment assets	1,833,473	1,118,501	1,143,230	403,787	4,498,992	85,772	308,772	4,893,536
Other assets:								
Investments accounted for using the equity method	8,220	12,588	790	3,069	24,667	24,024	(29)	48,662
Capital expenditures	12,800	5,655	4,581	3,619	26,654	1,134	1,447	29,235

(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 for segment profit (loss) of ¥2 million ($22 thousand) includes inter-segment elimination of ¥2 million ($22 thousand).
(2) Adjustment for segment assets of ¥32,803 million ($308,772 thousand) includes inter-segment elimination of ¥(15,610) million ($(146,936) thousand) and corporate assets of ¥48,414 million ($455,709 thousand) that are not allocated to any reportable segment. The corporate assets consist mainly of cash and bank deposits associated with financing activities and assets such as investment securities.
(3) Adjustment for depreciation and amortization of ¥(21) million ($(199) thousand) includes inter-segment elimination of ¥(21) million ($(199) thousand).
(4) Adjustment for Share of profit (loss) of investments accounted for using the equity method of ¥0 million ($3thousand) includes inter-segment elimination of ¥0 million ($3 thousand).
(5) Adjustment for investments accounted for using the equity method of ¥(3) million ($(29)thousand) includes inter-segment elimination of ¥(3) million ($(29) thousand).
(6) Adjustment for capital expenditures of ¥153 million ($1,447 thousand) includes inter-segment elimination of ¥(0) million ($(3) thousand) and corporate assets of ¥153 million ($1,449 thousand) that are not allocated to any reportable segment. The corporate assets consist mainly of lease equipment related to the information system of the subsidiary.

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017) (JPY)

	Reportable segment					Others (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Total			
Revenue								
External	254,280	227,764	131,201	50,419	663,664	11,914	—	675,579
Inter-segment	359	4	54	0	419	62	(481)	—
Total revenue	254,640	227,769	131,256	50,419	664,084	11,977	(481)	675,579
Segment profit (loss)	14,348	2,489	2,820	2,223	21,881	756	(5)	22,633
Other profit or loss:								
Depreciation and amortization	1,202	601	620	333	2,758	142	(15)	2,885
Share of profit (loss) of investments accounted for using the equity method	(2,494)	103	13	31	(2,346)	355	—	(1,990)
Segment assets	173,258	106,057	111,957	36,738	428,012	10,293	41,412	479,717
Other assets:								
Investments accounted for using the equity method	531	1,354	71	308	2,266	2,233	385	4,885
Capital expenditures	1,548	376	164	2,537	4,627	129	213	4,970

(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 for segment profit (loss) of ¥(5) million includes inter-segment elimination of ¥(5) million.

(2) Adjustment for segment assets of ¥41,412 million includes inter-segment elimination of ¥(13,794) million and corporate assets of ¥55,206 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 ¥(15) million includes inter-segment elimination of ¥(15) million.

(4) Adjustment for investments accounted for using the equity method of ¥385 million includes inter-segment elimination of ¥(2) million and corporate assets of ¥387 million that are not allocated to any reportable segment.

(5) Adjustment for capital expenditures of ¥213 million includes inter-segment elimination of ¥(22) million and corporate assets of ¥235 million that are not allocated to any reportable segment. The corporate assets consist mainly of lease equipment related to the information system of the subsidiary.

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

	JPY		USD
	2018	2017	**2018**
Segment profit	**26,160**	22,633	**246,243**
Finance income and finance costs	**(1,696)**	(2,767)	**(15,972)**
Share of profit (loss) of investments accounted for using the equity method	**1,579**	(1,990)	**14,864**
Profit before tax	**26,043**	17,875	**245,135**

(3) Information on products and services

This 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
	2018	2017	**2018**
Japan	**592,687**	575,263	**5,578,759**
Asia	**51,411**	46,620	**483,920**
North America	**48,665**	36,748	**458,076**
Europe	**17,397**	12,771	**163,760**
Others	**4,627**	4,176	**43,560**
Total	**714,790**	675,579	**6,728,075**

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
	2018	2017	**2018**
Japan	**42,172**	48,204	**396,955**
Asia	**991**	990	**9,329**
North America	**6,548**	4,946	**61,637**
Europe	**2,580**	3,731	**24,293**
Others	**35**	33	**336**
Total	**52,328**	57,906	**492,550**

(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, 2018 and March 31, 2017.

7. Trade and Other Receivables

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

	JPY		USD
	2018	2017	**2018**
Notes and accounts receivable	**215,705**	186,705	**2,030,362**
Loans receivable	**3,425**	3,078	**32,242**
Other	**5,021**	4,718	**47,267**
Less: loss allowance	**(1,985)**	(2,139)	**(18,693)**
Total	**222,166**	192,363	**2,091,178**
Current assets	**220,583**	191,193	**2,076,278**
Non-current assets	**1,582**	1,169	**14,900**
Total	**222,166**	192,363	**2,091,178**

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
	2018	2017	**2018**
Merchandise and finished goods	**91,334**	77,856	**859,701**
Raw materials and supplies	**2,045**	1,972	**19,251**
Work in progress	**577**	833	**5,440**
Total	**93,957**	80,662	**884,392**

The amounts of inventories that were recognized as expense during the fiscal year ended March 31, 2018 and March 31, 2017 are ¥592,212 million ($5,574,288 thousand) and ¥558,429 million, respectively.

The amount of write-downs on inventories that was recognized as expense during the fiscal year ended March 31, 2018 is ¥365 million ($3,444 thousand), and the amount of reversal of write-downs on inventories that was recognized as income during the fiscal year ended March 31, 2017 is ¥164 million.

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 April 1, 2016	16,476	25,959	12,545	484	55,466
Acquisitions	467	3,616	—	211	4,295
Acquisitions through business combinations	501	230	—	4	736
Transfers from construction in progress	11	57	—	(68)	—
Disposals	(1,037)	(1,952)	(1,954)	(0)	(4,946)
Exchange differences	(36)	(83)	(18)	(1)	(139)
Increases (decreases) due to a change in the scope of consolidation	(2)	(8)	—	—	(11)
Other	60	155	—	(41)	175
As of March 31, 2017	16,439	27,974	10,572	588	55,575
Acquisitions	822	1,331	2	336	2,493
Acquisitions through business combinations	1	4	—	—	6
Transfers from construction in progress	80	478	25	(591)	(6)
Disposals	(2,427)	(2,676)	(2,365)	(0)	(7,470)
Exchange differences	(6)	(289)	(6)	(13)	(316)
Increases (decreases) due to a change in the scope of consolidation	(12)	(18)	—	—	(31)
Other	500	21	75	(16)	580
As of March 31, 2018	15,400	26,825	8,303	301	50,831

[Accumulated depreciation and accumulated impairment losses] (JPY)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2016	(9,551)	(18,605)	(425)	—	(28,582)
Depreciation	(355)	(1,611)	—	—	(1,966)
Impairment losses	(37)	(4)	(132)	—	(173)
Disposals	290	1,117	519	—	1,928
Exchange differences	6	103	—	—	109
Increases (decreases) due to a change in the scope of consolidation	0	6	—	—	7
Other	(16)	(22)	—	—	(39)
As of March 31, 2017	(9,663)	(19,016)	(37)	—	(28,717)
Depreciation	(630)	(1,787)	—	—	(2,417)
Impairment losses	(69)	(1)	(2,074)	—	(2,146)
Disposals	2,047	1,369	963	—	4,380
Exchange differences	4	91	—	—	96
Increases (decreases) due to a change in the scope of consolidation	10	15	—	—	26
Other	(112)	35	(75)	—	(152)
As of March 31, 2018	(8,413)	(19,293)	(1,224)	—	(28,930)

[Carrying amount] (JPY)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of March 31, 2017	6,776	8,958	10,534	588	26,858
As of March 31, 2018	6,986	7,532	7,079	301	21,900

[Costs] (USD)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of March 31, 2017	154,743	263,317	99,514	5,541	523,114
Acquisitions	7,746	12,537	19	3,166	23,469
Acquisitions through business combinations	18	40	—	—	59
Transfers from construction in progress	759	4,502	243	(5,569)	(64)
Disposals	(22,848)	(25,196)	(22,261)	(9)	(70,314)
Exchange differences	(62)	(2,723)	(65)	(129)	(2,979)
Increases (decreases) due to a change in the scope of consolidation	(115)	(178)	—	—	(293)
Other	4,714	201	710	(159)	5,467
As of March 31, 2018	144,956	252,501	78,160	2,842	478,459

[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, 2017	(90,957)	(178,995)	(354)	—	(270,306)
Depreciation	(5,933)	(16,823)	—	—	(22,755)
Impairment losses	(658)	(12)	(19,531)	—	(20,202)
Disposals	19,268	12,887	9,073	—	41,228
Exchange differences	41	864	—	—	905
Increases (decreases) due to a change in the scope of consolidation	100	149	—	—	249
Other	(1,055)	330	(710)	—	(1,436)
As of March 31, 2018	(79,194)	(181,600)	(11,523)	—	(272,317)

[Carrying amount] (USD)

	Buildings and structures	Machinery, vehicles, tools, furniture and fixtures	Land	Construction in progress	Total
As of March 31, 2018	65,763	70,901	66,637	2,842	206,142

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 sales” and “Selling, general and administrative expenses” in the consolidated statement 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
	2018	2017	**2018**
Balance at the beginning of the year	**7,203**	5,387	**67,808**
Acquisitions through business combinations	**495**	1,842	**4,662**
Exchange differences	**(121)**	(25)	**(1,140)**
Balance at the end of the year	**7,578**	7,203	**71,330**

[Accumulated impairment losses]

	JPY		USD
	2018	2017	**2018**
Balance at the beginning of the year	**(899)**	(756)	**(8,464)**
Impairment losses	**(107)**	(143)	**(1,007)**
Exchange differences	**—**	—	**—**
Balance at the end of the year	**(1,006)**	(899)	**(9,471)**

[Carrying amount]

	JPY		USD
	2018	2017	**2018**
Carrying amount	**6,571**	6,304	**61,859**

2) Impairment test

The Consolidated Group's 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 amount of significant goodwill allocated to the Consolidated Group's cash-generating units was as follows:

	JPY		USD
	2018	2017	**2018**
Electronics & Devices segment			
Electronics business of the domestic subsidiaries	**1,763**	1,763	**16,597**
Mobile business of the domestic subsidiaries	**2,123**	1,635	**19,986**
Foods & Grain segment			
Pet-related businesses of the domestic subsidiaries	**319**	426	**3,003**
Steel, Materials & Plant segment			
Oilfield tubing business of the foreign subsidiaries	**2,151**	2,271	**20,250**

The recoverable amounts of the Consolidated Group's cash-generating units to which significant goodwill has been allocated were 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 rates of gross profits through such terms, such growth rates being consistent with the forecasts of the nominal GDP growth rates or the like of the countries in which such Consolidated Group's cash-generating units are situated. The ultimate growth rates are determined by considering the average long-term growth rates of the markets or countries to which the Consolidated Group's cash-generating units belong.

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

	2018	2017
Electronics & Devices segment		
Electronics business of the domestic subsidiaries	**2.8%**	3.3%
Mobile business of the domestic subsidiaries	**6.6%**	7.2%
Foods & Grain segment		
Pet-related businesses of the domestic subsidiaries	**5.6%**	5.7%
Steel, Materials & Plant segment		
Oilfield tubing business of the foreign subsidiaries	**13.4%**	13.0%

With respect to goodwill that has been allocated to the Consolidated Group's 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 Consolidated Group's 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 March 31, 2016	8,636	3,291	4,492	16,421
Acquisitions	609	—	4	614
Acquisitions through business combinations	68	13,849	—	13,917
Disposals	(728)	—	(55)	(784)
Exchange differences	(3)	—	(18)	(21)
Other	13	—	4	18
As of March 31, 2017	8,596	17,140	4,427	30,164
Acquisitions	322	—	63	386
Acquisitions through business combinations	0	—	1	1
Disposals	(313)	—	(14)	(328)
Exchange differences	(18)	—	(180)	(198)
Other	(19)	—	(1)	(20)
As of March 31, 2018	8,568	17,140	4,295	30,004

[Accumulated amortization and accumulated impairment losses] (JPY)

	Software	Carrier shop operating rights	Other	Total
As of March 31, 2016	(6,771)	(234)	(1,331)	(8,337)
Amortization	(568)	—	(331)	(899)
Impairment losses	(688)	—	(4)	(692)
Disposals	654	—	55	709
Exchange differences	3	—	0	3
Other	(12)	—	(0)	(12)
As of March 31, 2017	(7,383)	(234)	(1,611)	(9,228)
Amortization	(465)	—	(314)	(780)
Impairment losses	(1)	—	(1)	(2)
Disposals	279	—	0	279
Exchange differences	15	—	61	77
Other	25	—	1	27
As of March 31, 2018	(7,528)	(234)	(1,863)	(9,626)

[Carrying amount] (JPY)

	Software	Carrier shop operating rights	Other	Total
As of March 31, 2017	1,213	16,906	2,816	20,935
As of March 31, 2018	1,039	16,906	2,432	20,377

[Costs] (USD)

	Software	Carrier shop operating rights	Other	Total
As of March 31, 2017	80,915	161,341	41,673	283,929
Acquisitions	3,040	—	597	3,636
Acquisitions through business combinations	1	—	10	11
Disposals	(2,955)	—	(138)	(3,093)
Exchange differences	(173)	—	(1,698)	(1,871)
Other	(180)	—	(10)	(190)
As of March 31, 2018	80,649	161,341	40,434	282,424

[Accumulated amortization and accumulated impairment losses] (USD)

	Software	Carrier shop operating rights	Other	Total
As of March 31, 2017	(69,494)	(2,207)	(15,166)	(86,867)
Amortization	(4,383)	—	(2,959)	(7,342)
Impairment losses	(12)	—	(13)	(25)
Disposals	2,632	—	3	2,635
Exchange differences	145	—	580	725
Other	244	—	13	257
As of March 31, 2018	(70,867)	(2,207)	(17,542)	(90,615)

[Carrying amount] (USD)

	Software	Carrier shop operating rights	Other	Total
As of March 31, 2018	9,782	159,134	22,892	191,808

The carrier shop operating rights were recognized as intangible assets upon acquisition of the mobile business by the 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 Group's 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 rates of gross profits through such terms, such growth rates being consistent with the forecasts of the nominal GDP growth rates or the like of the countries in which such Consolidated Group's cash-generating units are situated.

The ultimate growth rates are determined by considering the average long-term growth rates of the markets or countries to which the Consolidated Group's cash-generating units belong.

There were no material internally-generated intangible assets as of March 31, 2018 and March 31, 2017.

Amortization expenses are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

The discount rates before tax used to determine the value in use of the Consolidated Group's cash-generating units are presented as follows:

	2018	2017
Electronics & Devices segment		
Mobile business of the domestic subsidiaries	**6.5%**	7.0%

With respect to the carrier shop operating rights, the recoverable amounts of the Consolidated Group's cash-generating units largely exceed their carrying amounts. 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 Consolidated Group's cash-generating units below the carrying amount.

11. Interests in Associates and Joint Ventures

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

The aggregate amounts 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
	2018	2017	**2018**
Associates	**5,057**	4,497	**47,604**
Joint ventures	**112**	387	**1,058**

[Profit or loss from continuing business]

	JPY		USD
	2018	2017	**2018**
Associates	**814**	(1,990)	**7,670**
Joint ventures	**764**	(21)	**7,193**

[Other comprehensive income]

	JPY		USD
	2018	2017	**2018**
Associates	**(57)**	134	**(539)**
Joint ventures	**—**	—	**—**

[Total comprehensive income]

	JPY		USD
	2018	2017	**2018**
Associates	**757**	(1,855)	**7,131**
Joint ventures	**764**	(21)	**7,193**

12. Other Investments

The breakdown of other investments is presented as follows:

	JPY		USD
	2018	2017	**2018**
Financial assets measured at fair value through profit or loss	**4,168**	5,054	**39,237**
Financial assets measured at fair value through other comprehensive income	**32,805**	28,063	**308,791**
Financial assets measured at amortized cost	**994**	994	**9,362**
Total	**37,969**	34,112	**357,390**

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
	2018	2017	**2018**
Advance payments	**11,001**	10,567	**103,549**
Prepaid expenses	**4,766**	4,299	**44,864**
Other	**7,666**	7,141	**72,161**
Total	**23,433**	22,008	**220,574**
Current assets	**19,955**	18,200	**187,834**
Non-current assets	**3,478**	3,807	**32,740**
Total	**23,433**	22,008	**220,574**

14. Trade and Other Payables

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

	JPY 2018	JPY 2017	USD 2018
Notes and accounts payable	**141,292**	120,673	**1,329,936**
Import bills payable	**36,468**	32,992	**343,263**
Accounts payable - commission	**11,030**	11,345	**103,827**
Total	**188,791**	165,011	**1,777,026**
Current liabilities	**188,791**	165,011	**1,777,026**
Non-current liabilities	**—**	—	**—**
Total	**188,791**	165,011	**1,777,026**

15. Bonds and Borrowings

The breakdown of bonds and borrowings is presented as follows:

	2018		2017	Average interest rate (Note)	Maturity date
	JPY	USD	JPY		
Current portion of bonds	**4,987**	**46,949**	—	—	—
Short-term borrowings	**42,653**	**401,486**	40,402	1.17%	—
Current portion of long-term borrowings	**13,568**	**127,716**	24,240	1.04%	—
Bonds (excluding the current portion)	**14,910**	**140,349**	9,945	—	—
Long-term borrowings (excluding the current portion)	**61,205**	**576,111**	59,255	1.19%	July 2019 to October 2029
Total	**137,326**	**1,292,610**	133,844		
Current liabilities	**61,210**	**576,151**	64,643		
Non-current liabilities	**76,116**	**716,460**	69,201		
Total	**137,326**	**1,292,610**	133,844		

(Note) The "average interest rate" is presented as the weighted average interest rate against the borrowings outstanding at the end of the fiscal 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 for bonds is presented in the "Details of bonds" below.

[Details of bonds]

Issuer	Bond Name	Issue date	2018		2017	Coupon rate	Collateral	Maturity date
			JPY	USD	JPY			
Kanematsu Corporation	Unsecured Straight Bonds No 1 (3-year bonds)	March 10, 2016	**4,987**	**46,949**	4,974	0.40% per annum	None	March 8, 2019
Kanematsu Corporation	Unsecured Straight Bonds No 2 (5-year bonds)	March 10, 2016	**4,978**	**46,861**	4,971	0.64% per annum	None	March 10, 2021
Kanematsu Corporation	Unsecured Straight Bonds No 3 (5-year bonds)	December 14, 2017	**4,965**	**46,740**	—	0.42% per annum	None	December 14, 2022
Kanematsu Corporation	Unsecured Straight Bonds No 4 (7-year bonds)	December 14, 2017	**4,966**	**46,748**	—	0.57% per annum	None	December 13, 2024

(Note) The maturity schedule of bonds after the end of the current fiscal year is presented as follows:

	Within one year		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		Over five years	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Corporate bonds	4,987	46,949	—	—	4,978	46,861	—	—	4,965	46,740	4,966	46,748

16. Provisions

Changes in provisions are presented as follows:

(JPY)

	Asset retirement obligations	Other	Total
As of April 1, 2017	981	444	1,426
Provisions made	344	117	462
Provisions used	(61)	(5)	(67)
Provisions reversed	—	(55)	(55)
Unwinding of discount	46	—	46
Foreign exchange translation differences	—	(14)	(14)
As of March 31, 2018	1,310	485	1,796

(USD)

	Asset retirement obligations	Other	Total
As of April 1, 2017	9,240	4,183	13,423
Provisions made	3,244	1,105	4,349
Provisions used	(580)	(54)	(633)
Provisions reversed	—	(526)	(526)
Unwinding of discount	434	—	434
Foreign exchange translation differences	—	(137)	(137)
As of March 31, 2018	12,338	4,571	16,909

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

	JPY		USD
	2018	2017	**2018**
Current liabilities	**156**	28	**1,475**
Non-current liabilities	**1,639**	1,397	**15,434**
Total	**1,796**	1,426	**16,909**

Asset retirement obligations are 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
	2018	2017	**2018**
Advances received	**8,392**	11,854	**78,992**
Accrued expenses	**3,337**	3,343	**31,414**
Unearned revenue	**3,029**	2,918	**28,515**
Other	**9,545**	8,788	**89,852**
Total	**24,304**	26,905	**228,773**
Current liabilities	**23,371**	26,291	**219,989**
Non-current liabilities	**933**	614	**8,784**
Total	**24,304**	26,905	**228,773**

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.

The Company also sets the maximum ratio of risk assets (See Note 2) and examines the appropriateness of scale of shareholders' equity in terms of it being a risk buffer to potential loss that could result from a deterioration in the companies' respective businesses, so that it could manage shareholders' equity more minutely.

The key indices which the Consolidated Group uses for management of shareholders' equity are as follows, and these indices are periodically reported to and monitored by management.

- Ratio of risk assets
- Net DER(See Note3)

(Note 1) Shareholders' equity is defined as equity attributable to owners of the Parent.
(Note 2) Ratio of risk assets is defined as a ratio of the amount of maximum potential loss to shareholders' equity. The amount of maximum potential loss is the amount of all assets and off balance sheet transactions on the consolidated financial statements multiplied by the original risk weight set by our consolidated group according to the potential risk of loss.
(Note 3) 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 March 31, 2018 and March 31, 2017 are presented as follows:

(Unit: times)

	2018	2017
Net DER	**0.5**	0.6

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)

	2018	2017
Shares authorized to be issued (No-par common stock)	**200,000,000**	200,000,000
Issued shares (No-par common stock)		
Balance at the beginning of the year	**84,500,202**	84,500,202
Changes during the period	—	—
Balance at the end of the year	**84,500,202**	84,500,202
Shares of treasury stock (No-par common stock)	**390,123**	506,359

(Notes) 1. The number of shares of treasury stock includes treasury stock held by the associates of the Company.
2. The Company consolidated its common shares at a ratio of five shares to one share on the effective date of October 1, 2017. Assuming that the company consolidated its shares on April 1, 2016, the number of shares after share consolidation is provided.

(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 amounts available for distribution are calculated based on the amounts 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) Amounts of dividends paid

Resolution	Type of stock	Source of dividends	Total amounts of dividends		Dividends per share		Record date	Effective date
			JPY	USD	Yen	U.S.$		
May 22, 2017 Board of Directors meeting	Common stock	Retained earnings	1,263	11,895	3.00	0.028	Mar. 31, 2017	Jun. 5, 2017
Oct. 31, 2017 Board of Directors meeting	Common stock	Retained earnings	1,474	13,877	3.50	0.033	Sep. 30, 2017	Dec. 1, 2017

Resolution	Type of stock	Source of dividends	Total amounts of dividends	Dividends per share	Record date	Effective date
			JPY	Yen		
May 23, 2016 Board of Directors meeting	Common stock	Retained earnings	1,053	2.50	Mar. 31, 2016	Jun. 6, 2016
Nov. 2, 2016 Board of Directors meeting	Common stock	Retained earnings	1,263	3.00	Sep. 30, 2016	Dec. 2, 2016

* The dividends per share resolved by the board of directors meeting on October 31, 2017, with record date on September 30, 2017 are provided as the amounts before share consolidation as of October 1, 2017.

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 amounts of dividends		Dividends per share		Record date	Effective date
			JPY	USD	Yen	U.S.$		
May 21, 2018 Board of Directors meeting	Common stock	Retained earnings	2,569	24,186	30.50	0.287	Mar. 31, 2018	Jun. 4, 2018

19. Revenue

The breakdown of revenue is presented as follows:

	JPY		USD
	2018	2017	**2018**
Revenue from the sale of goods	**694,337**	653,529	**6,535,553**
Revenue from rendering of services and others	**20,453**	22,050	**192,522**
Total	**714,790**	675,579	**6,728,075**

20. Selling, General and Administrative Expenses

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

	JPY		USD
	2018	2017	**2018**
Depreciation and amortization	**2,027**	1,822	**19,086**
Personnel expenses	**43,444**	42,834	**408,925**
Outsourcing service charges	**7,264**	6,827	**68,378**
Rent expenses	**6,742**	6,320	**63,465**
Other	**18,941**	18,358	**178,291**
Total	**78,420**	76,163	**738,145**

21. Gain or Loss on Sale or Disposal of Property, Plant and Equipment and Intangible Assets

The breakdown of gain or loss on sale or disposal of property, plant and equipment and intangible assets is presented as follows:

	JPY		USD
	2018	2017	**2018**
Gain on sale of property, plant and equipment	**43**	543	**413**
Total gain on sale of property, plant and equipment and intangible assets	**43**	543	**413**
Loss on sale of property, plant and equipment	**(68)**	(1)	**(642)**
Total loss on sale of property, plant and equipment and intangible assets	**(68)**	(1)	**(642)**
Loss on disposal of property, plant and equipment	**(192)**	(83)	**(1,809)**
Loss on disposal of intangible assets	**(34)**	(73)	**(324)**
Total loss on disposal of property, plant and equipment and intangible assets	**(226)**	(157)	**(2,133)**
Gain (loss) on sale or disposal of property, plant and equipment and intangible assets, net	**(250)**	384	**(2,361)**

22. Impairment Loss

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

The breakdown of impairment losses by class of assets is presented as follows. Impairment losses for property, plant and equipment and intangible assets are included in "Impairment loss on property, plant and equipment and intangible assets", and impairment losses for goodwill are included in "Other expenses" in the consolidated statement of income.

	JPY		USD
	2018	2017	**2018**
Property, plant and equipment	**(2,146)**	(173)	**(20,202)**
Goodwill	**(107)**	(143)	**(1,007)**
Intangible assets	**(2)**	(692)	**(25)**
Total	**(2,255)**	(1,009)	**(21,233)**

(2) Breakdown by reportable segment

The breakdown of impairment losses by reportable segment is presented as follows:

	JPY		USD
	2018	2017	**2018**
Electronics & Devices	**(2)**	(721)	**(25)**
Foods & Grain	**(107)**	(143)	**(1,007)**
Steel, Materials & Plant	**(5)**	(13)	**(49)**
Other/Adjustment and elimination	**(2,141)**	(132)	**(20,153)**
Total	**(2,255)**	(1,009)	**(21,233)**

For the fiscal year ended March 31, 2017, an impairment loss of ¥132 million was recognized as a result of reducing the carrying amount of land owned in Japan, which the Company determined to sell, to the recoverable amount of ¥589 million. The recoverable amount was based on fair value less costs of disposal and the fair value was estimated mainly based on the real estate appraisal. The asset belonged to the Other segment.

Regarding the pet-related business of the domestic subsidiary, an impairment loss of ¥143 million was recognized as a result of reducing the carrying amount of goodwill to the recoverable amount of ¥1,027 million because future cash flows anticipated to be generated was judged to be lower than originally assumed. The recoverable amount was based on the value in use and it was estimated by discounting future cash flows at a pre-tax rate of 4.61%. The asset belonged to the Foods & Grain segment.

Regarding intangible assets, an impairment loss of ¥656 million was recognized as the enterprise system, which had been in process of development but was abandoned, was evaluated to have a zero recoverable amount. The recoverable amount was based on the value in use. The asset belonged to the Electronic & Devices segment.

For the fiscal year ended March 31, 2018, an impairment loss of ¥1,161 million ($10,928 thousand) was recognized as a result of reducing the carrying amount of idle land owned in Japan to the recoverable amount of ¥602 million ($5,666 thousand). An impairment loss of ¥975 million ($9,184 thousand) was also recognized as a result of reducing the carrying amount of assets for transfer of golf business to the recoverable amount of ¥1,566 million ($14,747 thousand). The recoverable amount is based on fair value less costs of disposal and the fair value is estimated mainly based on sale value. The asset belongs to the Other segment.

Regarding the pet-related business of the domestic subsidiary, an impairment loss of ¥107 million ($1,007 thousand) was recognized as a result of reducing the carrying amount of goodwill to the recoverable amount of ¥359 million ($3,379 thousand) because future cash flows anticipated to be generated was judged to be lower than originally assumed. The recoverable amount is based on the value in use and it was estimated by discounting future cash flows at a pre-tax rate of 6.55%. The asset belongs to the Foods & Grain 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 *Note 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, 2018 and March 31, 2017 were ¥521 million ($4,913 thousand) and ¥(812) million, respectively and are included in "Other income" and "Other expenses" 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
	2018	2017	**2018**
Interest income			
Financial assets measured at amortized cost	**352**	399	**3,316**
Financial assets measured at fair value through profit or loss	**11**	22	**109**
Total interest income	**363**	421	**3,425**
Dividend income			
Financial assets measured at fair value through profit or loss	**268**	209	**2,525**
Financial assets measured at fair value through other comprehensive income	**805**	906	**7,580**
Total dividend income	**1,073**	1,116	**10,104**
Other finance income (Note)			
Other finance income	**10**	—	**94**
Total other finance income	**10**	—	**94**
Total finance income	**1,447**	1,537	**13,623**
Interest expenses			
Financial liabilities measured at amortized cost	**(2,144)**	(2,033)	**(20,184)**
Derivatives	**(269)**	(270)	**(2,539)**
Total interest expenses	**(2,414)**	(2,304)	**(22,723)**
Other finance costs (Note)			
Other finance costs	**(730)**	(2,000)	**(6,871)**
Total other finance costs	**(730)**	(2,000)	**(6,871)**
Total finance costs	**(3,144)**	(4,304)	**(29,594)**

(Note) The amounts of 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
	2018	2017	**2018**
Basic earnings per share	**193.79**	95.64	**1.82**

Diluted earnings per share is the same as basic earnings per share as there are no shares with a dilutive effect.

(2) Bases for calculation of basic earnings per share

	JPY		USD
	2018	2017	**2018**
Profit attributable to owners of the Parent	**16,317**	8,049	**153,588**
Amount not attributable to common shareholders of the Parent	**—**	—	**—**
Profit used to calculate basic earnings per share	**16,317**	8,049	**153,588**

	Thousand shares	
	2018	2017
Weighted average number of common shares	**84,202**	84,164

(Note) The Company consolidated its common shares at a ratio of five shares to one share on the effective date of October 1, 2017. Assuming that the company consolidated its shares on April 1, 2016, earnings per share attributable to owners of the parent is provided.

26. Other Components of Equity and Other Comprehensive Income

Changes in other components of equity are presented as follows:

	JPY		USD
	2018	2017	**2018**
Exchange differences on translation of foreign operations			
Balance at the beginning of the year	**2,349**	2,912	**22,116**
Changes during the period	**(1,073)**	(562)	**(10,107)**
Balance at the end of the year	**1,275**	2,349	**12,009**
Financial assets measured at fair value through other comprehensive income			
Balance at the beginning of the year	**9,455**	6,967	**89,005**
Changes during the period	**3,351**	2,613	**31,550**
Reclassification to retained earnings	**(123)**	(125)	**(1,159)**
Balance at the end of the year	**12,684**	9,455	**119,397**
Cash flow hedges			
Balance at the beginning of the year	**(388)**	(1,393)	**(3,660)**
Changes during the period	**(516)**	1,004	**(4,861)**
Balance at the end of the year	**(905)**	(388)	**(8,521)**
Remeasurements of defined benefit pension plans			
Balance at the beginning of the year	**—**	—	**—**
Changes during the period	**275**	(384)	**2,596**
Reclassification to retained earnings	**(275)**	384	**(2,596)**
Balance at the end of the year	**—**	—	**—**
Other components of equity			
Balance at the beginning of the year	**11,416**	8,486	**107,462**
Changes during the period	**2,037**	2,671	**19,178**
Reclassification to retained earnings	**(398)**	259	**(3,755)**
Balance at the end of the year	**13,055**	11,416	**122,884**

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

	JPY		USD
	2018	2017	**2018**
Financial assets measured at fair value through other comprehensive income			
Amount arising during the year	**4,980**	3,690	**46,875**
Amount before deferred tax	**4,980**	3,690	**46,875**
Deferred tax	**(1,577)**	(1,019)	**(14,853)**
Financial assets measured at fair value through other comprehensive income	**3,402**	2,671	**32,022**
Remeasurements of defined benefit pension plans			
Amount arising during the year	**322**	(323)	**3,037**
Amount before deferred tax	**322**	(323)	**3,037**
Deferred tax	**(14)**	39	**(138)**
Remeasurements of defined benefit pension plans	**307**	(284)	**2,899**
Exchange differences on translation of foreign operations			
Amount arising during the year	**(1,427)**	(826)	**(13,432)**
Reclassification adjustments	**—**	(2)	**—**
Exchange differences on translation of foreign operations	**(1,427)**	(829)	**(13,432)**
Cash flow hedges			
Amount arising during the year	**(751)**	467	**(7,073)**
Reclassification adjustments	**49**	918	**468**
Amount before deferred tax	**(701)**	1,386	**(6,605)**
Deferred tax	**216**	(401)	**2,035**
Cash flow hedges	**(485)**	984	**(4,570)**
Share of other comprehensive income of investments accounted for using the equity method			
Amount arising during the year	**(25)**	113	**(238)**
Reclassification adjustments	**(31)**	21	**(301)**
Share of other comprehensive income of investments accounted for using the equity method	**(57)**	134	**(539)**
Total other comprehensive income	**1,740**	2,678	**16,380**

27. Cash Flow Information

(1) Cash and cash equivalents

The breakdown of cash and cash equivalents and its reconciliation to the amounts presented in the consolidated statement of financial position are as follows:

	JPY		USD
	2018	2017	**2018**
Cash and bank deposits except for time deposits with original term of more than three months	**77,731**	77,230	**731,662**
Short-term investments with original maturity of three months or less	**—**	336	**—**
Cash and cash equivalents in the consolidated statement of financial position	**77,731**	77,566	**731,662**
Cash and cash equivalents in the consolidated statement of cash flows	**77,731**	77,566	**731,662**

(2) Net payment for acquisition of subsidiaries

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

	JPY		USD
	2018	2017	**2018**
Breakdown of assets at the acquisition date			
Current assets (including cash and cash equivalents)	**1,274**	19,005	**11,997**
Non-current assets	**300**	17,066	**2,826**
Breakdown of liabilities at the acquisition date			
Current liabilities	**(242)**	(17,746)	**(2,282)**
Non-current liabilities	**(232)**	(925)	**(2,188)**

	JPY		USD
	2018	2017	**2018**
Consideration paid	**(1,099)**	(17,400)	**(10,354)**
Cash and cash equivalents included in the assets at the time control thereof was acquired	**737**	4,613	**6,937**
Net proceeds from (payment for) acquisition of subsidiaries	**(362)**	(12,786)	**(3,417)**

(3) Net proceeds from sale of subsidiaries and transfer of business

The breakdown of the main assets and liabilities upon loss of control in the subsidiaries or other businesses over which control was lost as a result of the sale, and the relationship between consideration received and net proceeds from the sale are presented as follows:

	JPY		USD
	2018	2017	**2018**
Breakdown of assets upon loss of control			
Current assets (including cash and cash equivalents)	**505**	143	**4,758**
Non-current assets	**1,600**	61	**15,063**
Breakdown of liabilities upon loss of control			
Current liabilities	**(360)**	(85)	**(3,392)**
Non-current liabilities	**(105)**	(9)	**(989)**

	JPY		USD
	2018	2017	**2018**
Consideration received	**1,638**	66	**15,421**
Cash and cash equivalents included in the assets at the time control thereof was lost	**(207)**	(72)	**(1,954)**
Net proceeds from (payment for) sale of subsidiaries	**(22)**	(6)	**(209)**
Net proceeds from transfer of business	**1,452**	—	**13,676**

(4) Changes in liabilities for financing activities

Changes in liabilities for financing activities are as follows:

(JPY)

	2017	Cash flows	Non-cash movements		2018
			Exchange differences	Others	
Borrowings	123,899	(6,211)	(259)	—	**117,428**
Bonds	9,945	9,928	—	24	**19,898**
Lease obligations	1,285	(240)	0	125	**1,170**
Total	135,130	3,476	(258)	150	**138,497**

(USD)

	2017	Cash flows	Non-cash movements		2018
			Exchange differences	Others	
Borrowings	1,166,219	(58,468)	(2,438)	—	**1,105,313**
Bonds	93,617	93,450	—	231	**187,298**
Lease obligations	12,099	(2,261)	1	1,184	**11,021**
Total	1,271,935	32,720	(2,437)	1,415	**1,303,632**

(5) Significant non-cash transactions

There were no significant non-cash transactions for the fiscal years ended March 31, 2018 and March 31, 2017.

28. Employee Benefits

(1) Post-employment benefits

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

The Company has a 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 applicable 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 to 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, 2018 and March 31, 2017 are presented as follows:

(JPY)

	Present value of the defined benefit obligation	Fair value of plan assets	Effect of the asset ceiling	Net defined benefit liability (asset)
As of March 31, 2016	19,082	(13,309)	—	5,772
Current service cost	1,350	—	—	1,350
Net interest	54	(40)	—	14
Remeasurements	123	(61)	261	323
Foreign exchange translation difference	(8)	0	—	(7)
Employer contributions to the plan	—	(877)	—	(877)
Benefits paid	(1,625)	976	—	(649)
Effect of business combinations and disposals	706	—	—	706
Other	(56)	6	—	(50)
As of March 31, 2017	19,625	(13,305)	261	6,581
Current service cost	1,439	—	—	1,439
Net interest	69	(59)	—	9
Remeasurements	98	(159)	(261)	(322)
Foreign currency translation difference	(30)	8	—	(22)
Employer contributions to the plan	—	(959)	—	(959)
Benefits paid	(1,569)	1,024	—	(544)
Effect of business combinations and disposals	21	—	—	21
Other	5	8	—	13
As of March 31, 2018	19,659	(13,442)	—	6,217

(USD)

	Present value of the defined benefit obligation	Fair value of plan assets	Effect of the asset ceiling	Net defined benefit liability (asset)
As of March 31, 2017	184,732	(125,240)	2,461	61,953
Current service cost	13,548	—	—	13,548
Net interest	650	(556)	—	94
Remeasurements	930	(1,506)	(2,461)	(3,037)
Foreign currency translation difference	(288)	77	—	(211)
Employer contributions to the plan	—	(9,028)	—	(9,028)
Benefits paid	(14,774)	9,645	—	(5,129)
Effect of business combinations and disposals	199	—	—	199
Other	50	82	—	132
As of March 31, 2018	185,046	(126,526)	—	58,520

Remeasurements of the defined benefit obligation for the fiscal years ended March 31, 2018 and March 31, 2017 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
	2018	2017	**2018**
Defined benefit obligations of funded plan	**16,046**	15,379	**151,038**
Plan assets	**(13,442)**	(13,305)	**(126,526)**
Net defined benefit liability of funded plan	**2,604**	2,073	**24,512**
Defined benefit obligations of unfunded plan	**3,613**	4,246	**34,008**
Net liability or asset presented on the consolidated statements of financial position (Before the effect of the asset ceiling)	**6,217**	6,320	**58,520**

The measurement date used to determine the main benefit obligations is March 31 of each year.

The Company'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 Company'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 formulates 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, 44% debt securities, 36% life insurance company general accounts and 10% others.

The Company holds a meeting regularly with the asset management institutions and discusses important issues regarding pension assets investment.

(iii) Plan assets

The composition of the plan assets as of March 31, 2018.

	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	**1,382**	**13,011**	**(12)**	**(120)**
Debt securities	**4,242**	**39,935**	**445**	**4,191**
Life insurance company general accounts	**—**	**—**	**5,965**	**56,152**
Other	**96**	**905**	**1,323**	**12,454**
Total	**5,721**	**53,851**	**7,721**	**72,677**

The composition of the plan assets as of March 31, 2017.

	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	1,253	0
Debt securities	4,484	482
Life insurance company general accounts	—	6,168
Other	180	734
Total	5,918	7,386

(iv) Significant actuarial assumptions

	2018	2017
Discount rate	**0.4%**	0.5%

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
	2018	2017	**2018**
Increase in the defined benefit obligation with a 50-basis-point decrease in the discount rate	**735**	845	**6,919**
Decrease in the defined benefit obligation with a 50-basis-point increase in the discount rate	**(969)**	(994)	**(9,127)**

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 fluctuates. 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, 2018 and March 31, 2017 was 10.9 years.

(vii) Expected contribution to the plan for the year ending March 31, 2019

The amount of contribution to be made by the Consolidated Group to plan assets for the year ending March 31, 2019 is estimated to be ¥1,059 million ($9,977 thousand).

3) Defined contribution plan

Expenses recognized for the defined contribution plan for the years ended March 31, 2018 and March 31, 2017 were ¥172 million ($1,623 thousand) and ¥232 million, respectively.

(2) Employee benefit expenses

Employee benefit expenses recognized for the years ended March 31, 2018 and March 31, 2017 were ¥1,744 million ($16,423 thousand) and ¥1,683 million, respectively. Employee benefit expenses are included in “Cost of sales” and “Selling, general and administration expenses” in the consolidated statement of income.

29. Current and Deferred Income Tax

(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
	2018	2017	**2018**
Deferred tax assets			
Retirement benefits liabilities	**1,643**	1,872	**15,465**
Loss allowance	**2,770**	588	**26,076**
Inventories	**463**	477	**4,360**
Impairment loss	**776**	500	**7,311**
Other investments	**649**	819	**6,118**
Golf club memberships	**112**	195	**1,059**
Tax losses carried forward	**2,188**	3,904	**20,600**
Cash flow hedges	**383**	173	**3,609**
Goodwill	**1,872**	2,658	**17,627**
Other	**4,323**	4,359	**40,696**
Total deferred tax assets	**15,183**	15,549	**142,921**
Offset against deferred tax liabilities	**(11,487)**	(10,530)	**(108,128)**
Total deferred tax assets, net	**3,696**	5,018	**34,793**
Deferred tax liabilities			
Retained earnings in subsidiaries	**(423)**	(74)	**(3,991)**
Financial assets measured at fair value through other comprehensive income	**(5,682)**	(4,096)	**(53,489)**
Intangible assets	**(5,287)**	(5,292)	**(49,774)**
Other	**(734)**	(1,491)	**(6,916)**
Total deferred tax liabilities	**(12,129)**	(10,954)	**(114,170)**
Offset against deferred tax assets	**11,487**	10,530	**108,128**
Total deferred tax liabilities, net	**(641)**	(424)	**(6,042)**
Net deferred tax assets	**3,054**	4,594	**28,751**

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
	2018	2017	**2018**
Beginning balance of net deferred tax assets	**4,594**	8,786	**43,244**
Deferred tax expense	**(330)**	(2,589)	**(3,114)**
Income tax on other comprehensive income	**(1,376)**	(1,381)	**(12,956)**
Acquisition through business combinations	**70**	(17)	**662**
Other	**97**	(203)	**915**
Ending balance of net deferred tax assets	**3,054**	4,594	**28,751**

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
	2018	2017	**2018**
Deductible temporary differences	**9,982**	19,466	**93,966**
Tax losses carried forward			
Within one year to expiry	**19,444**	170	**183,025**
Between one and five years to expiry	**24,637**	28,172	**231,908**
Between five and ten years to expiry	**3,257**	13,350	**30,665**
Over ten years to expiry	**223**	251	**2,105**
Total tax losses carried forward	**47,563**	41,944	**447,702**

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, 2018 and March 31, 2017 are ¥24,562 million ($231,203 thousand) and ¥20,136 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
	2018	2017	**2018**
Current tax expense (Note 1)	**(6,053)**	(4,999)	**(56,983)**
Deferred tax expense (Note 2)			
Origination and reversal of temporary differences	**(2,473)**	(1,754)	**(23,286)**
Reassessment of recoverability of deferred tax assets	**2,143**	(834)	**20,172**
Total deferred tax expense	**(330)**	(2,589)	**(3,114)**
Total income taxes	**(6,384)**	(7,589)	**(60,097)**

(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, 2018 and March 31, 2017 were ¥685 million ($6,448 thousand) and ¥22 million, respectively, and these benefits were included in the current tax expenses.

2. Major causes for deferred tax expense by type are loss allowance of ¥2,181 million ($20,538 thousand) and tax losses carried forward of ¥(1,715) million ($(16,151) thousand) for the fiscal year ended March 31, 2018, and tax losses carried forward of ¥(1,724) million and goodwill of ¥(797) million for the fiscal year ended March 31, 2017.

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:

	2018	2017
Statutory effective tax rate	**30.8%**	30.8%
(Adjustments)		
Permanent differences—additions such as entertainment expenses	**0.6%**	2.9%
Effect of reassessment of recoverability of deferred tax assets	**(8.2)%**	4.7%
Effect of tax rate differences	**1.0%**	2.1%
Share of profit (loss) of investments accounted for using the equity method	**(0.8)%**	3.3%
Other	**1.2%**	(1.4)%
Average effective tax rate	**24.5%**	42.5%

The statutory effective tax rate for the fiscal year ended March 31, 2018 is calculated to be 30.8% based on the Corporation Tax, Inhabitant Tax and Business Tax in Japan.

30. Financial Instruments

(1) Classification of financial instruments

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

	JPY		USD
	2018	2017	2018
Financial assets			
Cash and cash equivalents	**77,731**	77,566	**731,662**
Financial assets measured at amortized cost			
Trade and other receivables	**222,166**	192,363	**2,091,178**
Other investments	**994**	994	**9,362**
Other financial assets	**6,531**	6,635	**61,477**
Total financial assets measured at amortized cost	**229,692**	199,993	**2,162,017**
Financial assets measured at fair value through profit or loss			
Other investments	**4,168**	5,054	**39,237**
Other financial assets	**382**	2,365	**3,598**
Total financial assets measured at fair value through profit or loss	**4,550**	7,420	**42,835**
Financial assets measured at fair value through other comprehensive income			
Other investments	**32,805**	28,063	**308,791**
Total financial assets measured at fair value through other comprehensive income	**32,805**	28,063	**308,791**
Total financial assets	**344,781**	313,043	**3,245,305**
Financial liabilities			
Financial liabilities measured at amortized cost			
Trade and other payables	**188,791**	165,011	**1,777,026**
Bonds and borrowings	**137,326**	133,844	**1,292,610**
Other financial liabilities	**7,456**	9,477	**70,183**
Total financial liabilities measured at amortized cost	**333,574**	308,334	**3,139,820**
Financial liabilities measured at fair value through profit or loss			
Other financial liabilities	**2,406**	1,896	**22,653**
Total financial liabilities measured at fair value through profit or loss	**2,406**	1,896	**22,653**
Total financial liabilities	**335,981**	310,230	**3,162,472**

(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 limits 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 conditions 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 cases where the cash collection of the financial assets was delayed (as well as the case of request for a grace period) after the trade date. However, even when a 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, the risk of default would be low and objective data such as external credit ratings would reveal their ability to fulfill the obligation of contractual cash flow in the near future.

However, 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 levels.

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 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 a material economic change, the provision rate calculated based upon the historical credit loss experience is adjusted to reflect current and future economic prospect.

Even when a 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 a strong ability to fulfill 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-months expected credit losses collectively based upon historical credit loss experience. When those receivables are affected by a material economic change, the provision rate calculated based upon the historical credit loss experience is adjusted to reflect current and future economic prospect.

However, when there has been a significant increase in credit risk since initial recognition as of the end of the 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-months expected credit losses. However, when there has been a significant increase in credit risk since initial recognition as of the end of the 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 amounts 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 March 31, 2016	7	2,375
1. Reclassification to credit-impaired financial assets	(0)	63
2. Incurrence or collection	0	(138)
3. Direct write-off	—	(166)
4. Changes due to foreign exchange	—	1
5. Increase (decrease) resulting from changes in the provision rate based on historical credit loss experience	(4)	—
As of March 31, 2017	3	2,135
1. Reclassification to credit-impaired financial assets	—	37
2. Incurrence or collection	0	(106)
3. Direct write-off	—	(80)
4. Changes due to foreign exchange	—	(3)
5. Increase (decrease) resulting from changes in the provision rate based on historical credit loss experience	(0)	—
As of March 31, 2018	3	1,981

(JPY)

Gross carrying amount	Lifetime expected credit losses	
	Collective assessment	Credit-impaired financial assets
As of April 1, 2016	163,646	2,737
1. Financial assets reclassified to credit-impaired financial assets	(63)	63
2. Incurrence or collection	28,502	(219)
3. Direct write-off	—	(166)
4. Changes due to foreign exchange	—	1
As of March 31, 2017	192,085	2,416
1. Financial assets reclassified to credit-impaired financial assets	(42)	42
2. Incurrence or collection	29,869	(134)
3. Direct write-off	—	(80)
4. Changes due to foreign exchange	—	(3)
As of March 31, 2018	221,912	2,239

(USD)

Loss allowance	Lifetime expected credit losses	
	Collective assessment	Credit-impaired financial assets
As of March 31, 2017	35	20,099
1. Reclassification to credit-impaired financial assets	—	349
2. Incurrence or collection	5	(1,000)
3. Direct write-off	—	(762)
4. Changes due to foreign exchange	—	(31)
5. Increase (decrease) resulting from changes in the provision rate based on historical credit loss experience	(2)	—
As of March 31, 2018	37	18,656

(USD)

Gross carrying amount	Lifetime expected credit losses	
	Collective assessment	Credit-impaired financial assets
As of March 31, 2017	1,808,037	22,746
1. Financial assets reclassified to credit-impaired financial assets	(399)	399
2. Incurrence or collection	281,150	(1,268)
3. Direct write-off	—	(762)
4. Changes due to foreign exchange	—	(31)
As of March 31, 2018	2,088,788	21,083

(ii) Other investments (debt instrument securities)

(JPY)

Loss allowance	Expected credit losses		
	12 months	Lifetime	
		Individual assessment	Credit-impaired financial assets
As of April 1, 2016	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. Incurrence or collection	—	—	—
3. Direct write-off	—	—	—
4. Increase (decrease) due to changes in default rate	5	—	—
As of March 31, 2017	5	—	—
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. Increase (decrease) due to changes in default rate	(0)	—	—
As of March 31, 2018	5	—	—

(JPY)

Gross carrying amount	Expected credit losses		
	12 months	Lifetime	
		Individual assessment	Credit-impaired financial assets
As of April 1, 2016	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, 2017	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, 2018	1,000	—	—

(USD)

Loss allowance	Expected credit losses		
	12 months	Lifetime	
		Individual assessment	Credit-impaired financial assets
As of March 31, 2017	53	—	—
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. Increase (decrease) due to changes in default rate	(2)	—	—
As of March 31, 2018	51	—	—

(USD)

Gross carrying amount	Expected credit losses		
	12 months	Lifetime	
		Individual assessment	Credit-impaired financial assets
As of March 31, 2017	9,413	—	—
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, 2018	9,413	—	—

(iii) There is no contractual, uncollected balance for financial assets written off during the fiscal year ended March 31, 2018, for which collecting efforts are still being made.

4) Credit risk exposure

(i) Trade and other receivables

As of March 31, 2018

	Balance of receivables (gross)		Provision rate based on historical credit loss experience	Lifetime expected credit losses	
	JPY	USD		JPY	USD
Performing receivables	**221,912**	**2,088,788**	**0.00%**	**3**	**37**
Past due receivables	**2,239**	**21,083**	**88.49%**	**1,981**	**18,656**
Total	**224,152**	**2,109,871**	**—**	**1,985**	**18,693**

Past due receivables include loans receivable of ¥1,760 million ($16,569 thousand), for which a loss allowance of ¥1,502 million ($14,141 thousand) has been already recognized.

As of March 31, 2017

	Balance of receivables (gross)	Provision rate based on historical credit loss experience	Lifetime expected credit losses
	JPY		JPY
Performing receivables	192,085	0.00%	3
Past due receivables	2,416	88.37%	2,135
Total	194,502	—	2,139

Past due receivables include loans receivable of ¥1,876 million, for which a loss allowance of ¥1,595 million has been already recognized.

(ii) Other investments (Debt instrument securities)

As of March 31, 2018

External rating	Gross carrying amount			
	Debt instrument securities			
	Lifetime		12 months	
	JPY	USD	JPY	USD
AAA-AA	**—**	**—**	**—**	**—**
A	**—**	**—**	**—**	**—**
BBB-BB	**—**	**—**	**1,000**	**9,413**
B	**—**	**—**	**—**	**—**
Total	**—**	**—**	**1,000**	**9,413**

As of March 31, 2017

External rating	Gross carrying amount	
	Debt instrument securities	
	Lifetime	12 months
	JPY	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. 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, 2018

	Gross carrying amount		Loss allowance		Maximum credit risk exposure (gross)		Total collaterals pledged and credit enhancements		Maximum credit risk exposure (net)	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Cash and cash equivalents	**77,731**	**731,662**	**—**	**—**	**77,731**	**731,662**	**—**	**—**	**77,731**	**731,662**
Financial assets measured at amortized cost										
Trade and other receivables	**224,152**	**2,109,871**	**(1,985)**	**(18,693)**	**222,166**	**2,091,178**	**(126)**	**(1,186)**	**222,040**	**2,089,992**
Other financial assets	**6,913**	**65,075**	**—**	**—**	**6,913**	**65,075**	**—**	**—**	**6,913**	**65,075**
Other investments	**1,000**	**9,413**	**(5)**	**(51)**	**994**	**9,362**	**—**	**—**	**994**	**9,362**
Total	**309,798**	**2,916,021**	**(1,991)**	**(18,744)**	**307,806**	**2,897,277**	**(126)**	**(1,186)**	**307,680**	**2,896,091**

The amount of loss allowance for credit-impaired financial assets is reduced by ¥126 million ($1,186 thousand) through collateral pledged and credit enhancements.

As of March 31, 2017

	Gross carrying amount	Loss allowance	Maximum credit risk exposure (gross)	Total collaterals pledged and credit enhancements	Maximum credit risk exposure (net)
	JPY	JPY	JPY	JPY	JPY
Cash and cash equivalents	77,566	—	77,566	—	77,566
Financial assets measured at amortized cost					
Trade and other receivables	194,502	(2,139)	192,363	(141)	192,221
Other financial assets	6,635	—	6,635	—	6,635
Other investments	1,000	(5)	994	—	994
Total	279,704	(2,144)	277,560	(141)	277,418

The amount of loss allowance for credit-impaired financial assets is reduced by ¥141 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 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 ¥10.0 billion ($94,127 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, 2018

	Within one year		Between one and five years		Over five years		Total	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Trade and other payables	**188,791**	**1,777,026**	**—**	**—**	**—**	**—**	**188,791**	**1,777,026**
Bonds	**5,100**	**48,007**	**10,254**	**96,519**	**5,048**	**47,521**	**20,403**	**192,047**
Borrowings	**57,122**	**537,675**	**61,419**	**578,121**	**1,283**	**12,085**	**119,826**	**1,127,880**
Lease obligations	**428**	**4,032**	**778**	**7,324**	**113**	**1,066**	**1,319**	**12,422**
Deposits received	**3,728**	**35,098**	**—**	**—**	**0**	**3**	**3,729**	**35,101**
Guarantee deposits received	**951**	**8,955**	**—**	**—**	**1,498**	**14,101**	**2,449**	**23,056**
Other	**106**	**1,004**	**—**	**—**	**—**	**—**	**106**	**1,004**
Total	**256,229**	**2,411,796**	**72,451**	**681,964**	**7,944**	**74,776**	**336,625**	**3,168,537**

As of March 31, 2017

	Within one year	Between one and five years	Over five years	Total
	JPY	JPY	JPY	JPY
Trade and other payables	165,011	—	—	165,011
Bonds	52	10,112	—	10,164
Borrowings	65,697	55,088	6,052	126,838
Lease obligations	436	939	62	1,437
Deposits received	2,707	—	2,916	5,624
Guarantee deposits received	984	—	1,464	2,449
Other	118	—	—	118
Total	235,008	66,140	10,495	311,645

The Consolidated Group has guarantee obligations of ¥1,830 million ($17,226 thousand) and ¥1,881 million as of March 31, 2018 and March 31, 2017 respectively

2) Derivative liabilities

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

As of March 31, 2018

	Within one year		Between one and five years		Over five years		Total	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD
Currency-related derivatives								
Cash inflows	**44,421**	**418,121**	**2,496**	**23,499**	**581**	**5,475**	**47,499**	**447,095**
Cash outflows	**45,983**	**432,831**	**2,585**	**24,337**	**627**	**5,906**	**49,196**	**463,074**
Sub total	**1,562**	**14,710**	**89**	**838**	**45**	**431**	**1,697**	**15,979**
Interest rate-related derivatives	**215**	**2,026**	**400**	**3,768**	**—**	**—**	**615**	**5,794**
Commodity-related derivatives	**128**	**1,208**	**—**	**—**	**—**	**—**	**128**	**1,208**
Total	**1,906**	**17,944**	**489**	**4,606**	**45**	**431**	**2,441**	**22,981**

As of March 31, 2017

	Within one year	Between one and five years	Over five years	Total
	JPY	JPY	JPY	JPY
Currency-related derivatives				
Cash inflows	33,361	64	—	33,425
Cash outflows	34,098	67	—	34,165
Sub total	737	3	—	740
Interest rate-related derivatives	268	593	15	876
Commodity-related derivatives	317	—	—	317
Total	1,323	596	15	1,934

(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 Consolidated Group enters 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 Consolidated Group also enters into forward exchange contracts to hedge against foreign currency-denominated receivables and payables that are 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 Japanese Yen against U.S. dollars.

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
	2018	2017	**2018**
Profit before tax			
U.S. dollar	**(4)**	(26)	**(44)**
Other comprehensive income			
U.S. dollar	**(246)**	(230)	**(2,323)**

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 for the Consolidated Group may increase with a rise in interest rates.

The Company and certain consolidated subsidiaries enter into 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 amounts affecting profit before tax assuming that the interest rate increases by 1%.

Under the analysis, the amounts affecting profit before tax are calculated by multiplying the net balance of floating rate financial instruments as of March 31, 2018 and 2017 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
	2018	2017	**2018**
Profit before tax	**(779)**	(758)	**(7,340)**

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 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 amounts affecting profit before tax and other comprehensive income (before the tax effect) assuming 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
	2018	2017	**2018**
Profit before tax	**(67)**	(88)	**(634)**
Foods	**(47)**	(68)	**(449)**
Fuels	**(19)**	(19)	**(185)**
Other comprehensive income	**(2)**	0	**(23)**
Foods	**(2)**	0	**(23)**
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 holds 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 amounts affecting other comprehensive income (before the tax effect) assuming 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
	2018	2017	**2018**
Other comprehensive income	**(186)**	(160)	**(1,758)**

(6) Fair value of financial instruments

1) Fair value measurement

Fair values of financial instruments are presented as follows:

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

2) Financial instruments measured at amortized cost

Type	2018				2017	
	Carrying amount		Fair value		Carrying amount	Fair value
	JPY	USD	JPY	USD	JPY	
Financial assets						
Trade and other receivables	**1,582**	**14,900**	**1,582**	**14,900**	1,169	1,169
Other investments (Debt instrument securities)	**994**	**9,362**	**994**	**9,362**	994	994
Guarantee deposits	**3,867**	**36,399**	**3,867**	**36,399**	3,679	3,679
Other financial assets	**612**	**5,769**	**612**	**5,769**	616	616
Total	**7,057**	**66,430**	**7,057**	**66,430**	6,459	6,459
Financial liabilities						
Bonds and borrowings	**76,116**	**716,460**	**76,269**	**717,894**	69,201	69,289
Long-term lease obligations	**788**	**7,419**	**788**	**7,419**	899	899
Long-term deposits received	**0**	**3**	**0**	**3**	2,916	2,916
Long-term guarantee deposits received	**1,498**	**14,101**	**1,498**	**14,101**	1,464	1,464
Total	**78,403**	**737,983**	**78,555**	**739,417**	74,481	74,569

The carrying amounts of trade and other receivables, other financial assets, trade and other payables, bonds and borrowings and other financial liabilities, all of which are categorized into current assets or current liabilities of financial instruments 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 instrument securities)

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

(iii) Guarantee deposits

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

(iv) Other financial assets

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

(vii) Long-term deposits received

The fair value of 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.

(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, 2018 and March 31, 2017.

As of March 31, 2018

	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	**—**	**—**	**—**	**—**	**4,168**	**39,237**	**4,168**	**39,237**
Financial assets measured at fair value through other comprehensive income								
Stock	**18,672**	**175,754**	**—**	**—**	**14,133**	**133,038**	**32,805**	**308,791**
Other financial assets								
Derivative transactions:								
Foreign exchange	**—**	**—**	**286**	**2,693**	**—**	**—**	**286**	**2,693**
Interest rate	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Commodity	**96**	**905**	**—**	**—**	**—**	**—**	**96**	**905**
Liabilities								
Other financial liabilities								
Derivative transactions:								
Foreign exchange	**—**	**—**	**(1,697)**	**(15,979)**	**—**	**—**	**(1,697)**	**(15,979)**
Interest rate	**—**	**—**	**(580)**	**(5,466)**	**—**	**—**	**(580)**	**(5,466)**
Commodity	**(128)**	**(1,208)**	**—**	**—**	**—**	**—**	**(128)**	**(1,208)**
Total	**18,639**	**175,451**	**(1,992)**	**(18,752)**	**18,302**	**172,275**	**34,950**	**328,973**

As of March 31, 2017

	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	—	—	5,054	5,054
Financial assets measured at fair value through other comprehensive income				
Stock	16,014	—	12,049	28,063
Other financial assets				
Financial assets measured at fair value through profit or loss				
Convertible bonds	—	—	1,033	1,033
Derivative transactions:				
Foreign exchange	—	1,048	—	1,048
Interest rate	—	—	—	—
Commodity	280	3	—	283
Liabilities				
Other financial liabilities				
Derivative transactions:				
Foreign exchange	—	(740)	—	(740)
Interest rate	—	(838)	—	(838)
Commodity	(317)	—	—	(317)
Total	15,976	(526)	18,137	33,587

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

(a) Other investments and convertible bonds
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 flows, 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 fair value of convertible bonds is calculated using valuation methods including discounted future cash flows and net asset value, and is categorized within fair value hierarchy Level 3.

The Company determines the policies and procedures for measuring the fair value of unlisted shares and convertible bonds, and reviews the approach to measuring fair value on a recurring basis including the valuation model, by obtaining the information on business operations 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 flows discounted by an interest rate that reflects time to settlement, as well as market conditions.

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

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 changes 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, 2018 and March 31, 2017.

	2018								2017			
	Other investments				Other financial assets		Total		Other investments		Other financial assets	Total
	FVPL		FVOCI		FVPL				FVPL	FVOCI	FVPL	
	JPY	USD	JPY	USD	JPY	USD	JPY	USD	JPY	JPY	JPY	JPY
Balance at the beginning of the year	**5,054**	**47,577**	**12,049**	**113,413**	**1,033**	**9,729**	**18,137**	**170,719**	5,637	10,836	—	16,474
Total gains or losses												
Profit or loss (Note1)	**(730)**	**(6,871)**	**—**	**—**	**10**	**94**	**(720)**	**(6,777)**	(2,000)	—	—	(2,000)
Other comprehensive income (Note 2)	**—**	**—**	**2,106**	**19,827**	**—**	**—**	**2,106**	**19,827**	—	1,025	—	1,025
Purchase	**—**	**—**	**61**	**576**	**—**	**—**	**61**	**576**	—	223	33	257
Sale	**—**	**—**	**(117)**	**(1,110)**	**(1,010)**	**(9,507)**	**(1,127)**	**(10,616)**	—	(36)	—	(36)
Foreign currency translation difference	**(158)**	**(1,492)**	**—**	**—**	**—**	**—**	**(158)**	**(1,492)**	(79)	—	—	(79)
Increase (decrease) due to changes in scope of consolidation	**—**	**—**	**0**	**1**	**—**	**—**	**0**	**1**	—	—	—	—
Other	**2**	**24**	**35**	**330**	**(33)**	**(317)**	**3**	**38**	1,497	—	1,000	(2,497)
Balance at the end of the year	**4,168**	**39,237**	**14,133**	**133,038**	**—**	**—**	**18,302**	**172,275**	5,054	12,049	1,033	18,137

FVPL: Financial assets measured at fair value through profit or loss.
FVOCI: 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 statement 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 ¥(730) million ($(6,871) thousand) for the fiscal year ended March 31, 2018 and ¥(2,000) million for the fiscal year ended March 31, 2017.
2. The gains or losses are included in "Financial assets measured at fair value through other comprehensive income" in the consolidated statement 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, 2018

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	**2,668**	**25,118**	Discounted cash flow method	Discount rate	**3.3 %**
Financial assets measured at fair value through profit or loss	**1,500**	**14,119**	Net asset value method	—	**—**
Financial assets measured at fair value through other comprehensive income	**13,119**	**123,491**	Market multiple method	P/B ratio Illiquidity discount	**1.3 times** **30.0 %**
Financial assets measured at fair value through other comprehensive income	**1,014**	**9,547**	Net asset value method	—	**—**

As of March 31, 2017

Category	Fair value	Valuation technique	Significant unobservable inputs	Weighted average of input values
	JPY			
Financial assets measured at fair value through profit or loss	3,590	Discounted cash flow method	Discount rate	3.7%
Financial assets measured at fair value through profit or loss	2,497	Net asset value method	—	—
Financial assets measured at fair value through other comprehensive income	10,984	Market multiple method	P/B ratio Illiquidity discount	1.1 times 30.0%
Financial assets measured at fair value through other comprehensive income	1,064	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, 2018

Name of issuer	Amount	
	JPY	USD
MARUDAI FOOD CO., LTD.	**3,078**	**28,975**
Tokio Marine Holdings, Inc.	**2,837**	**26,704**
Nissin Seifun Group Inc.	**1,919**	**18,065**
nms Holdings Corporation	**1,910**	**17,983**
BOT Lease Co., Ltd.	**1,701**	**16,019**
Sotsu Corporation	**1,687**	**15,885**
SHIN KURUSHIMA DOCKYARD CO., LTD.	**1,299**	**12,234**
DAIO PAPER CORPORATION	**1,152**	**10,851**
The Norinchukin Bank	**1,011**	**9,517**
F.C.C. Co., Ltd.	**924**	**8,698**
Other	**15,283**	**143,859**

As of March 31, 2017

Name of issuer	Amount
	JPY
MARUDAI FOOD CO., LTD.	2,921
Tokio Marine Holdings, Inc.	2,815
Nissin Seifun Group Inc.	1,511
BOT Lease Co., Ltd.	1,414
SHIN KURUSHIMA DOCKYARD CO., LTD.	1,304
Sotsu Corporation	1,190
DAIO PAPER CORPORATION	1,093
The Norinchukin Bank	1,061
F.C.C. Co., Ltd.	686
Alpha Group Inc.	634
Other	13,427

2) Dividend income

	JPY 2018	JPY 2017	USD 2018
Investments derecognized during the year	**0**	3	**8**
Investments held at the end of the year	**804**	902	**7,572**
Total	**805**	906	**7,580**

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

The Consolidated Group periodically reviews its held shares and sells those shares that it holds without a 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 2018	JPY 2017	USD 2018
Fair value on the date of sale	**242**	647	**2,287**
Cumulative gains (losses) on sale	**130**	132	**1,224**

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, 2018 and March 31, 2017 were ¥123 million ($1,159 thousand) and ¥125 million, respectively.

(8) Hedge Accounting

(Cash Flow Hedge)

A cash flow hedge is a hedge of the exposure to variability in future cash flows 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 other comprehensive income in the Consolidated Statement of Comprehensive Income. The Consolidated Group continues such accounting treatment until variability in future cash flows arising from unrecognized forecast transactions or recognized assets or liabilities designated as hedged items are recorded in profit or loss. Moreover, portions determined to be ineffective for hedging accounting are recognized in profit or loss.

The Consolidated Group designates the following instruments as cash flow hedges: forward exchange contracts to fix cash flows from foreign currency denominated receivables and payables, foreign currency denominated firm commitments and foreign currency denominated forecast transactions, interest rate swaps to fix variable interest rate on floating rate financial liabilities, and commodity futures to fix cash flows from forecast transactions of commodity trade.

When applying hedge accounting, the Consolidated Group confirms that there are economic relationships 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 the value of hedged items and hedging instruments by the same risk offset each other, in order to confirm there are economic relationships 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 establishes appropriate hedge ratios considering an economic relationship between hedging instruments and hedged items 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, 2018 and March 31, 2017. In addition, the amounts reclassified from valuation differences on cash flow hedges to profit or loss are immaterial because the forecast transactions are no longer expected to occur.

Following are the carrying amounts of the hedging instruments as of March 31, 2018 and March 31, 2017. 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, 2018

	Notional amount		Carrying amount			
			Derivative assets		Derivative liabilities	
	JPY	USD	JPY	USD	JPY	USD
Foreign currency risk						
Forward exchange contracts	**30,823**	**290,128**	**67**	**637**	**720**	**6,784**
Interest rate risk						
Interest rate swap contracts	**23,500**	**221,197**	**—**	**—**	**580**	**5,466**
Commodity price risk						
Commodity futures contracts	**686**	**6,466**	**8**	**82**	**38**	**366**

As of March 31, 2017

	Notional amount	Carrying amount	
		Derivative assets	Derivative liabilities
	JPY	JPY	JPY
Foreign currency risk			
Forward exchange contracts	30,026	503	250
Interest rate risk			
Interest rate swap contracts	28,600	—	838
Commodity price risk			
Commodity futures contracts	435	16	4

The longest terms of hedging cash flow fluctuation risks by "Forward exchange contracts", "Interest rate swap contracts" and "Commodity price risk" are about 6 years 6 months, 4 years 6 months and 1 year, respectively.

The following tables present the carrying amount of cash flow hedge reserve as of March 31, 2018 and March 31, 2017.

As of March 31, 2018

	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	**(653)**	**(6,147)**	**—**	**—**
Interest rate risk				
Interest rate swap contracts	**(580)**	**(5,466)**	**—**	**—**
Commodity price risk				
Commodity futures contracts	**(30)**	**(284)**	**(3)**	**(29)**

As of March 31, 2017

	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	253	—
Interest rate risk		
Interest rate swap contracts	(838)	—
Commodity price risk		
Commodity futures contracts	11	8

The following tables present the carrying amounts of transactions that affected the consolidated statements of comprehensive income as a result of applying hedge accounting for the fiscal years ended March 31, 2018 and March 31, 2017.

Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

	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	**(706)**	**(6,647)**	**(199)**	**(1,882)**	Other income
Interest rate risk					
Interest rate swap contracts	**(11)**	**(113)**	**269**	**2,539**	Interest expenses
Commodity price risk					
Commodity futures contracts	**(33)**	**(313)**	**(20)**	**(189)**	Cost of sales

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

	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	352	607	Other expenses
Interest rate risk			
Interest rate swap contracts	96	270	Interest expenses
Commodity price risk			
Commodity futures contracts	19	40	Cost of sales

(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 amount of ¥5,273million ($49,639 thousand) and ¥7,509 million as of March 31, 2018 and March 31, 2017, 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 amount of ¥5,273 million ($49,639 thousand) and ¥7,509 million as of March 31, 2018 and March 31, 2017, 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.

(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, 2018 and March 31, 2017.

	JPY		USD
	2018	2017	**2018**
Amounts of financial assets presented in the consolidated statement of financial position	**382**	1,332	**3,598**
Foreign exchange	**286**	1,048	**2,693**
Interest rate	**—**	—	**—**
Commodity	**96**	283	**905**
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	**(247)**	(695)	**(2,326)**
Net amounts	**135**	636	**1,272**

	JPY		USD
	2018	2017	**2018**
Amounts of financial liabilities presented in the consolidated statements of financial position	**2,406**	1,896	**22,653**
Foreign exchange	**1,697**	740	**15,979**
Interest rate	**580**	838	**5,466**
Commodity	**128**	317	**1,208**
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	**(247)**	(695)	**(2,326)**
Financial collateral pledged	**(56)**	(276)	**(529)**
Net amounts	**2,103**	924	**19,798**

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. Leases

(1) Lessee

1) Finance leases

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

The carrying amounts of the leased assets, net of accumulated depreciation and accumulated impairment losses, as of March 31, 2018 and March 31, 2017 are as follows:

	JPY		USD
	2018	2017	**2018**
Machinery, equipment, vehicle, tools and fixtures	**770**	1,002	**7,254**
Other	**287**	145	**2,709**
Total	**1,058**	1,148	**9,963**

The future minimum lease payments for finance leases as of March 31, 2018 and March 31, 2017 are as follows:

	Future minimum lease payments			Present value of future minimum lease payments		
	JPY		USD	JPY		USD
	2018	2017	**2018**	**2018**	2017	**2018**
Within one year	**428**	436	**4,032**	**382**	387	**3,602**
Between one and five years	**778**	939	**7,324**	**690**	845	**6,499**
Over five years	**113**	62	**1,066**	**97**	52	**920**
Total	**1,319**	1,437	**12,422**	**1,170**	1,285	**11,021**
Less future finance costs	**(148)**	(152)	**(1,401)**			
Present value of future minimum lease payments	**1,170**	1,285	**11,021**			

The future minimum lease payments receivable under the non-cancellable subleases as of March 31, 2018 and March 31, 2017 are ¥8 million ($81 thousand) and ¥12 million, respectively.

2) Operating leases

The Consolidated Group leases office buildings, 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, 2018 and March 31, 2017 are as follows:

	JPY		USD
	2018	2017	**2018**
Within one year	**141**	34	**1,334**
Between one and five years	**387**	43	**3,643**
Over five years	**145**	—	**1,371**
Total	**674**	77	**6,348**

The total lease payments recognized as expenses under the cancellable or non-cancellable operating leases for the fiscal year ended March 31, 2018 and March 31, 2017 are ¥7,442 million ($70,052 thousand) and ¥6,980 million, respectively.

The future minimum lease payments receivable under the non-cancellable subleases as of March 31, 2018 and March 31, 2017 are ¥316 million ($2,976 thousand) and ¥37 million, respectively.

(2) Lessor

1) Finance leases

The Consolidated Group leases out machinery, equipment and other assets that are classified as finance leases. The future minimum lease payments receivable for finance leases as of March 31, 2018 and March 31, 2017 are as follows:

	Future minimum lease payments receivable and unguaranteed residual value			Present value of future minimum lease payments receivable		
	JPY		USD	JPY		USD
	2018	2017	**2018**	**2018**	2017	**2018**
Within one year	**6**	5	**63**	**4**	3	**41**
Between one and five years	**26**	22	**246**	**16**	15	**160**
Over five years	**13**	13	**124**	**8**	9	**79**
Total	**45**	42	**433**	**29**	28	**280**
Unguaranteed residual value	**—**	—	**—**			
Less future finance income	**(16)**	(14)	**(153)**			
Present value of future minimum lease payments receivable	**29**	28	**280**			

32. Pledged Assets

(1) Pledged assets and associated secured obligations

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

	JPY		USD
	2018	2017	**2018**
Pledged assets:			
Other financial assets (non-current)	**20**	47	**188**
Property, plant and equipment	**643**	658	**6,057**
Total	**663**	706	**6,245**
Associated secured obligations:			
Short-term borrowings (current)	**1,130**	1,101	**10,640**
Long-term borrowings (non-current)	**747**	732	**7,040**
Total	**1,878**	1,833	**17,680**

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
	2018	2017	**2018**
Assets pledged in lieu of guarantee money or guarantee funds			
Other financial assets (current)	**49**	36	**469**
Other financial assets (non-current)	**30**	—	**282**
Other investments	**3,216**	3,118	**30,278**
Total	**3,296**	3,155	**31,029**

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
	2018	2017	**2018**
Debt guarantees for equity method investees	**156**	537	**1,476**
Debt guarantees for third parties	**1,673**	1,344	**15,750**
Total	**1,830**	1,881	**17,226**

(Notes)1. The above amounts include those for quasi-guarantee acts.
2. Debt guarantees for third parties include the debt guarantees covered by the insurance agreements that is limited to ¥1,609 million ($15,152 thousand) for the fiscal year ended March 31, 2018 and ¥1,276 million for the fiscal year ended March 31, 2017, respectively.

34. Significant Subsidiaries

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

Trade name	Location	Details of major operations	Percentage of voting rights (%)	
			2018	2017
[Electronics & Devices]				
Kanematsu Electronics Ltd.	Chuo-ku, Tokyo, Japan	System integration of ICT and communications equipment	**58.32 (0.40)**	58.32 (0.40)
Nippon Office Systems Ltd.	Koto-ku, Tokyo, Japan	Development of software for and sales and maintenance of computers and computer peripherals, etc.	**100.00 (100.00)**	100.00 (100.00)
Kanematsu Communications Ltd.	Shibuya-ku, Tokyo, Japan	Sales of mobile communications devices; Mobile internet systems and services	**100.00**	100.00
Kanematsu Granks, Corp.	Shinjuku-ku, Tokyo, Japan	Mobile contents delivery and mobile-related solution business	**100.00 (100.00)**	100.00 (100.00)
Kanematsu BD Communications Ltd.	Kurume-shi, Fukuoka, Japan	Sales of mobile communication device	**100.00 (100.00)**	100.00 (100.00)
Kanematsu Sustech Corp.	Chuo-ku, Tokyo, Japan	Manufacture and sales of home-construction materials; Ground inspection services and improvement work; Sales of security systems	**52.96**	52.96
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	Duesseldorf, Germany	Sales and maintenance of parts for car audio systems	**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
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	Details of major operations	Percentage of voting rights (%) 2018	2017
[Foods & Grain]				
Kanematsu Shintoa Foods Corp.	Minato-ku, Tokyo, Japan	Food wholesaling and cold storage	**100.00**	100.00
Kanematsu Agritec Co., Ltd.	Matsudo-shi, Chiba, Japan	Manufacture and sales of feed and fertilizer	**100.00**	100.00
Kanematsu Soytech Corp.	Chuo-ku, Osaka, Japan	Sales of soybeans, millet, and grain	**100.00**	100.00
North Pet Co., Ltd.	Kuriyama-cho, Yubari-gun, Hokkaido, Japan	Manufacture of pet snacks (jerky, dried meat, biscuits)	**100.00**	100.00
KG Agri Products, Inc.	Ohio, U.S.A.	Seed development; Contract farming; Sorting, processing, and sales of food soybeans	**100.00**	100.00
Kai Enterprises, Inc.	Washington, U.S.A.	Sales of hay and roughage	**100.00 (15.00)**	100.00 (15.00)
P.T. Kanemory Food Service	Serang, Indonesia	Manufacture of processed foods for central kitchen and home-meal replacement	**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
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)
Kanematsu Chemicals Corp.	Chuo-ku, Tokyo, Japan	Sales of petrochemicals and automobile-related chemicals	**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)
Kanematsu Petroleum Corp.	Chiyoda-ku, Tokyo, Japan	Sales of petroleum products and LPG	**100.00**	100.00
Kanematsu Yuso Co., Ltd.	Chiyoda-ku, Tokyo, Japan	Delivery and storage of petroleum products and LPG	**100.00**	100.00
Kanematsu KGK Corp.	Nerima-ku, Tokyo, Japan	Sales of machine tools and industrial machinery	**97.89**	97.89
Benoit Holding Company	Illinois, U.S.A.	Holding company	**85.18 (85.18)**	85.18 (85.18)
Benoit Premium Threading, LLC	Louisiana, U.S.A.	Oil well casing fabrication; Manufacture and sales of oil well-related parts	**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)
KGK International Corp.	Illinois, U.S.A.	Sales of machine tools	**100.00 (100.00)**	100.00 (100.00)
[Motor Vehicles & Aerospace]				
Kanematsu Aerospace Corp.	Minato-ku, Tokyo, Japan	Sales of aircraft, defense, and aerospace-related products	**100.00**	100.00
Aries Motor Ltd.	Warsaw, Poland	Sales of automobiles	**93.59**	93.59
Aries Power Equipment Ltd.	Warsaw, Poland	Sales of engines, generators, and other general-purpose machinery	**60.00**	60.00
KG Aircraft Rotables Co., Ltd.	Dublin, Ireland	Replacement and maintenance of aircraft rotable components; Leasing	**96.67**	96.67
[Others]				
Aso Kanko Kaihatsu Co., Ltd.	Minato-ku, Tokyo, Japan	—	**100.00**	100.00
Shintoa Corp.	Chiyoda-ku, Tokyo, Japan	Beverage-vending machine operations; Imports, exports, and sales of aircraft engines and feedstuffs	**100.00**	100.00
Kanematsu Logistics & Insurance Ltd.	Chuo-ku, Tokyo, Japan	Insurance agency; Consigned freight forwarding business	**100.00**	100.00

Trade name	Location	Details of major operations	Percentage of voting rights (%) 2018	2017
[Overseas local subsidiaries]				
Kanematsu USA Inc.	Illinois, U.S.A.	Export, import and sales of merchandise	**100.00**	100.00
Kanematsu (Hong Kong) Ltd.	Hong Kong, China	Export, import and sales of merchandise	**100.00**	100.00
Kanematsu (China) Co., Ltd.	Shanghai, China	Export, import and sales of merchandise	**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)
Watana Inter-Trade Co., Ltd.	Bangkok, Thailand	Export, import and sales of merchandise	**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)
Kanematsu Taiwan Corp.	Taipei, Taiwan	Export, import and sales of merchandise	**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)
Kanematsu GmbH	Duesseldorf, Germany	Export, import and sales of merchandise	**100.00**	100.00
Kanematsu Australia Ltd.	Sydney, Australia	Export, import and sales of merchandise	**100.00**	100.00
Kanematsu New Zealand Ltd.	Auckland, New Zealand	Export, import and sales of merchandise	**100.00**	100.00

(Note) The figures in the parentheses 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 is 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 2018	JPY 2017	USD 2018
Current assets	**58,881**	55,788	**554,236**
Current liabilities	**15,810**	16,866	**148,816**
Current assets (net)	**43,071**	38,922	**405,419**
Non-current assets	**5,621**	5,875	**52,911**
Non-current liabilities	**2,561**	2,687	**24,110**
Non-current assets (net)	**3,059**	3,187	**28,801**
Equity	**46,131**	42,109	**434,220**
Cumulative amounts of non-controlling interests	**19,294**	17,620	**181,613**

[Condensed statements of income and comprehensive income]

	JPY		USD
	2018	2017	**2018**
Revenue	**62,222**	64,175	**585,677**
Profit for the year	**6,590**	5,499	**62,037**
Other comprehensive income	**32**	280	**308**
Total comprehensive income	**6,623**	5,780	**62,345**
Profit for the year attributable to non-controlling interests	**2,746**	2,303	**25,848**
Dividends paid to non-controlling interests	**1,133**	954	**10,669**

[Condensed statement of cash flows]

	JPY		USD
	2018	2017	**2018**
Cash flows from operating activities	**5,822**	6,223	**54,802**
Cash flows from investing activities	**(220)**	1,435	**(2,079)**
Cash flows from financing activities	**(2,731)**	(2,308)	**(25,714)**
Increase (decrease) in cash and cash equivalents, net	**2,869**	5,350	**27,009**

(3) Transaction with non-controlling interests

There was no transaction with significant non-controlling interests for the fiscal year ended March 31, 2018 and March 31, 2017.

35. Related Parties

(1) Related party transactions

For the fiscal year ended March 31, 2018

Type	Name	Detail of related party relationship	Transaction amount		Outstanding amount	
			JPY	USD	JPY	USD
Associate	Sage Hill Northwest, Inc.	Purchase of merchandise	**1,397**	**13,154**	**136**	**1,288**
Associate (including subsidiaries of the associate)	Kantatsu Co., Ltd.	Purchase of merchandise	**895**	**8,430**	**1,223**	**11,515**
Associate	Shangdong Lufeng Foods Shanhai Corp.	Purchase of merchandise	**1,138**	**10,718**	**1**	**17**
Associate	Growth D Ltd.	Purchase of merchandise	**1,041**	**9,808**	**—**	**—**

(Notes) 1. The related party transaction amounts are determined through negotiation with consideration given to the prevailing market prices.
2. As described in *Note 33 Contingent Liabilities,* debt guarantees are provided to the equity method investees.
3. Growth D Ltd. was excluded from scope of consolidation due to sale of shares for the fiscal year ended March 31, 2018.

For the fiscal year ended March 31, 2017

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	6,570	804
Associate	Growth D Ltd.	Purchase of merchandise	3,245	535
Associate	Sage Hill Northwest, Inc.	Purchase of merchandise	1,011	111

(Notes) 1. The related party transaction amounts are determined through negotiation with consideration given to the prevailing market prices.
2. As described in *Note 33 Contingent Liabilities,* debt guarantees are provided to the equity method investees.

(2) Remuneration to management executives

The amount of remuneration to the Company's directors for the fiscal years ended March 31, 2018 and March 31, 2017 is ¥307 million ($2,895 thousand) and ¥277 million, respectively. The remuneration to the directors consists of base salary and directors' bonus. The remuneration to the auditors consists of base salary.

36. Subsequent Events

Not applicable.

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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, 2018, 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, 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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

July 9, 2018

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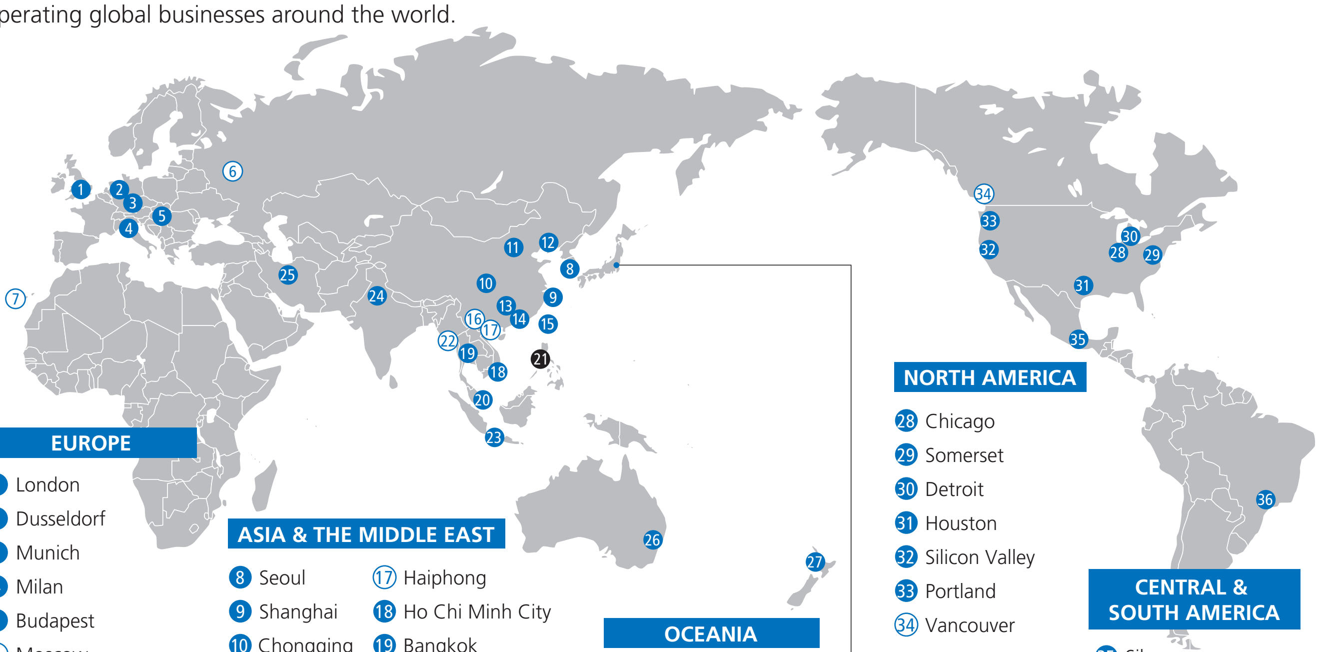
Major Group Companies (As of April 1, 2018)

* 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 Sustech Corporation	Manufacture and sales of home-construction materials; Ground inspection services and improvement work; Sales of security cameras
	Kanematsu Communications Ltd.	Sales of mobile communications devices; Mobile internet systems and services
	Kanematsu Futuretech Solutions Corporation	Import, export, processing, development, design, manufacture, sales and EMS of semiconductors, electronic components, and module products
	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 and manufacture of plastic lenses for smartphones, medical equipment, and automobiles
	G-Printec, Inc.	Development, manufacture, and sales (OEM) of card printers and related equipment
	China	
	Kanekoh Electronics (Shanghai) Co., Ltd.	Development, manufacture, and sales of control modules for lithium ion batteries
Foods & Grain	**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. Abadi Tunggal Lestari	Operation of Japanese cuisine restaurant chain
	PT. Agrapana Niaga Gemilang	Operation of Japanese cuisine restaurant chain
	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
	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 March 31, 2018)

Kanematsu supplies products and services through its large network of business bases in Japan and overseas. In addition to the Company, the Kanematsu Group comprises 114 companies (88 consolidated subsidiaries and 26 equity-method affiliates) operating global businesses around the world.



EUROPE
1. London
2. Dusseldorf
3. Munich
4. Milan
5. Budapest
6. Moscow
7. Las Palmas

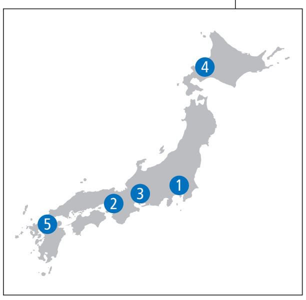
ASIA & THE MIDDLE EAST
8. Seoul
9. Shanghai
10. Chongqing
11. Beijing
12. Dalian
13. Shenzhen
14. Hong Kong
15. Taipei
16. Hanoi
17. Haiphong
18. Ho Chi Minh City
19. Bangkok
20. Singapore
21. Manila
22. Yangon
23. Jakarta
24. New Delhi
25. Tehran

OCEANIA
26. Sydney
27. Auckland

NORTH AMERICA
28. Chicago
29. Somerset
30. Detroit
31. Houston
32. Silicon Valley
33. Portland
34. Vancouver

CENTRAL & SOUTH AMERICA
35. Silao
36. Sao Paulo

● Overseas subsidiaries and their branches
○ Representative offices
● Branches



DOMESTIC OFFICES
1. Tokyo Head Office
2. Osaka Midosuji Office
3. Nagoya
4. Hokkaido
5. Kyushu

Organization Chart (As of April 1, 2018)

- 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.
- Electronics Planning Office

Foods Division
- Food Dept. No. 1
- Food Dept. No. 2
- Meat Dept. No. 1
- Meat Dept. No. 2
- Foods and Grain Planning Office
- Food Safety Management System Office

Grain, Oilseeds & Feedstuff Division
- Grain and Feedstuff Dept.
- Grain & Oilseeds Dept.
- 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
- Human Resources & General Affairs Dept.
- Finance Dept.
- Accounting Dept.
- Business Accounting Dept.
- Legal & Compliance Dept.
- Credit Control Dept.
- Traffic & Insurance Dept.
- IT Planning Dept.
- Internal Auditing Dept.
- Corporate Planning Dept.

Network (As of June 30, 2018)

Japan

Tokyo Head Office
2-1, Shibaura 1-chome, Minato-ku,
Tokyo 105-8005, Japan
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FAX: 81-6-6205-3322

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FAX: 81-6-6251-7770

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Nagoya 460-0008, Japan
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Overseas

ASIA & THE MIDDLE EAST

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FAX: 86-21-6340-4290

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FAX: 86-23-63235650

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Beijing 100125, China
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FAX: 86-10-8591-1535

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Dalian 116001, P.R. China
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FAX: 84-225-368-6373

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Overseas

INDIA

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FAX: 91-124-4001371

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FAX: 36-1-320-4953

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FAX: 34-928-275632

OCEANIA

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FAX: 61-2-9283-3095

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Kanematsu New Zealand Ltd.
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FAX: 64-9-309-3877

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FAX: 1-847-981-6760

Somerset Branch
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FAX: 1-732-271-7357

Detroit Office
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TEL: 1-248-347-3216
FAX: 1-248-347-3219

Houston Branch
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TEL: 1-713-975-7200
FAX: 1-713-975-7966

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FAX: 1-408-501-1499

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FAX: 1-604-689-0655

CENTRAL & SOUTH AMERICA

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Kanematsu Mexico S. de R.L. de C.V.
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FAX: 52-472-748-9221

BRAZIL

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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, 2018)

	Number of Employees (consolidated basis)	Number of Affiliated Companies
Electronics & Devices	3,981	22 (Japan:15, Overseas:7)
Foods & Grain	752	25 (Japan:13, Overseas:12)
Steel, Materials & Plant	1,054	25 (Japan:13, Overseas:12)
Motor Vehicles & Aerospace	250	8 (Japan:1, Overseas:7)
Others	216	16 (Japan:12, Overseas:4)
Companywide (common)	413	
Overseas subsidiaries		18
Total	**6,666**	**114**

Notes:
1. Number of employees on a non-consolidated basis is 842.
2. Of affiliated companies, 88 are consolidated subsidiaries and 26 are equity-method affiliates.

Corporate Profile

Corporate Profile

Company Name	KANEMATSU CORPORATION
Established	August 15, 1889
Foundation	March 18, 1918
President	Kaoru Tanigawa
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 5 Overseas: 36
Number of Employees*	842 (Consolidated: 6,666)

* As of March 31, 2018

Investor Information

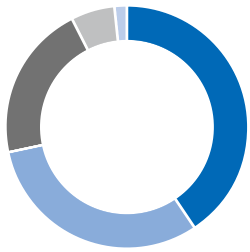
(As of March 31, 2018)

Stock Exchange Listings	Tokyo
Stock Code	8020
Transfer Agent for Common Stock	Sumitomo Mitsui Trust Bank, Limited
Shares Authorized	200,000,000
Shares Outstanding	84,500,202 (including 254,123 treasury shares)
Minimum Trading Unit*	100
Number of Shareholders	20,035

* Kanematsu executed a share consolidation on October 1, 2017, at a ratio of five common shares to one. As a result, the number of shares authorized decreased by 816,653,604 shares, and the number of shares outstanding decreased 338,000,808. Accordingly, pursuant to a partial amendment to the Articles of Incorporation, the minimum trading unit was changed from 1,000 shares to 100 shares, effective October 1, 2007.

Composition of Shareholders

Financial institutions	40.59%
Foreign institutions and individuals	31.16%
Individuals and others (including treasury shares)	20.77%
Other corporations	5.87%
Securities firms	1.61%

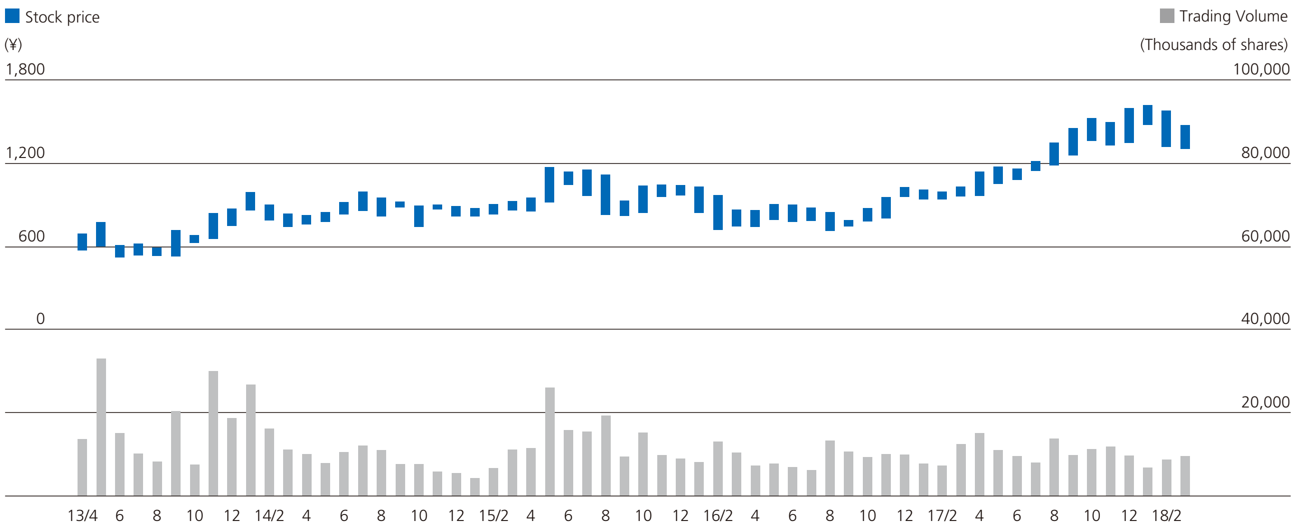


Principal Shareholders

	Number of shares held (thousands)	Percentage of voting rights (%)
Japan Trustee Services Bank, Ltd. (trust account)	10,735	12.74
The Master Trust Bank of Japan, Ltd. (trust account)	4,125	4.89
GOVERNMENT OF NORWAY	2,632	3.12
Mitsui Sumitomo Insurance Co., Ltd.	2,322	2.75
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,322	2.75
State Street Bank and Trust Company	1,650	1.95
Japan Trustee Services Bank, Ltd. (trust account 5)	1,604	1.90
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,417	1.68
The Norinchukin Bank	1,249	1.48
The Bank of New York Mellon	1,192	1.41

1. Calculated after deduction of treasury shares (254,123 shares)
2. The Bank of Tokyo-Mitsubishi UFJ, Ltd. was renamed MUFG Bank, Ltd. on April 1, 2018.

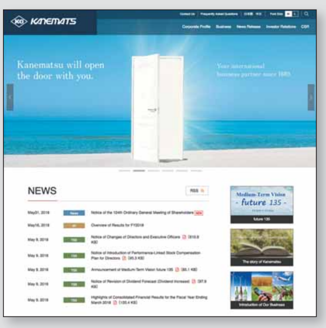
Stock Price/Trading Volume



Note: Kanematsu executed a share consolidation on October 1, 2017, at a ratio of five shares to one. Figures for all periods in the above graph are calculated based on the assumption that said consolidation had already occurred.

JPX-NIKKEI 400 JPX-NIKKEI Mid Small

Kanematsu stock has been selected for inclusion in the JPX-Nikkei Index 400 and the JPX-Nikkei Mid and Small Cap Index for, respectively, the last five and three consecutive years.



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/**

For more information on this *Integrated Report*, or to obtain additional copies, please contact:

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