Member of Financial Accounting Standards Foundation

Consolidated Financial Summary for the FY 2016 Ended March 31, 2016 (Japanese Accounting Standards)

May 10, 2016

Company name: Kanematsu Corporation
Stock Exchange listing: Tokyo Stock Exchange
Stock code: 8020 URL: http://www.kanematsu.co.jp
Representative: President and CEO, Masayuki Shimojima
Contact: General Manager of Accounting Dept., Takashi Otsuka
TEL (03) 5440-8111
Scheduled date for the Ordinary General Meeting of Shareholders: June 24, 2016
Scheduled date for commencement of dividend payments: June 6, 2016
Scheduled date for the submission of financial statements: June 24, 2016
Supplementary documents for financial results: Yes
Financial results briefing: Yes (for institutional investors and analysts)

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

1. Consolidated business results for the fiscal year ended March 2016 (April 1, 2015 – March 31, 2016)

(1) Consolidated business results (%: Change from the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended March 2016	1,062,822	(4.9)	17,238	(22.1)	17,108	(25.3)	9,391	(18.1)
Fiscal year ended March 2015	1,117,096	0.2	22,125	11.9	22,895	13.6	11,470	(2.8)

(Note) Comprehensive income: 6,118 million yen (-75.2%) for the fiscal year ended March 2016
24,708 million yen (16.1%) for the fiscal year ended March 2015

	Net income per share	Net income per share (diluted basis)	Return on equity	Ordinary income to total assets ratio	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended March 2016	22.32	–	10.2	3.8	1.6
Fiscal year ended March 2015	27.30	–	14.2	5.2	2.0

(Note) Equity in earnings of affiliated companies: 623 million yen for the fiscal year ended March 2016
1,145 million yen for the fiscal year ended March 2015

(2) Consolidated financial condition

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2016	439,409	121,885	21.2	221.63
As of March 31, 2015	459,011	118,731	19.6	214.10

(Reference) Shareholders' equity: 93,256 million yen as of March 31, 2016
90,101 million yen as of March 31, 2015

(3) Consolidated cash flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended March 2016	31,488	(4,489)	(5,830)	87,466
Fiscal year ended March 2015	10,115	(8,903)	(9,895)	67,377

2. Dividends

	Annual dividends					Annual total of dividend	Payout ratio (Consolidated)	Net assets dividend ratio (Consolidated)
(Record date)	End of first quarter	End of second quarter	End of third quarter	Year end	Fiscal			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended March 2015	–	2.50	–	1.50	4.00	1,685	14.7	2.1
Fiscal year ended March 2016	–	2.50	–	2.50	5.00	2,106	22.4	2.3
Fiscal year ending March 2017 (Forecasts)	–	3.00	–	3.00	6.00		22.0	

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

3. Forecasts for consolidated results ending March 2017 (April 1, 2016 – March 31, 2017)

(%: Changes from the previous year)

	Net sales		Operating income		Profit before tax		Net profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,250,000	–	22,000	–	21,000	–	11,500	–	27.33

(Note) The Company voluntarily adopted the International Financial Reporting Standards (IFRS) in preparing its consolidated financial statements beginning with those in the annual securities report for the fiscal year ended March 31, 2016.
The consolidated earnings forecast for the fiscal year ending March 31, 2017 has, therefore, been prepared in accordance with IFRS, and operating income is based on profit related to operating activities in the Consolidated Statements of Profit or Loss and basic earnings per share is based on profit attributable to the owners of parent.
Net sales represent the aggregate value of transactions conducted by the Group as principal and transactions for which the Group acted as agent in accordance with Japanese GAAP.

* Notes

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

(2) Changes in accounting policies and changes or restatement of accounting estimates

1. Changes in accounting policies associated with the revision of accounting standards, etc.: Yes
2. Changes in accounting policies other than 1.: None
3. Changes in accounting estimates: None
4. Restatement: None

(Note) These are items subject to Article 14-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements. For details, see “(5) Notes on the consolidated financial statements (Changes in accounting policies)” under “5. Consolidated Financial Statements” on page 19 of the accompanying materials.

(3) Number of outstanding shares (common shares)

1. Number of outstanding shares including treasury stock
   Fiscal year (2016/3): 422,501,010 shares Fiscal year (2015/3): 422,501,010 shares
2. Number of treasury stock
   Fiscal year (2016/3): 1,723,802 shares Fiscal year (2015/3): 1,663,126 shares
3. Average number of shares during the period
   Fiscal year (2016/3): 420,803,562 shares Fiscal year (2015/3): 420,211,658 shares

(Reference) Summary of Non-Consolidated Financial Results

1. Non-consolidated business results for the fiscal year ended March 2016 (April 1, 2015 – March 31, 2016)

(1) Non-consolidated business results (%: Change from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended March 2016	432,457	(9.0)	973	(76.5)	7,197	(31.4)	7,722	(1.8)
Fiscal year ended March 2015	475,249	2.4	4,140	44.3	10,497	23.0	7,862	8.9

	Net income per share	Net income per share (diluted basis)
	Yen	Yen
Fiscal year ended March 2016	18.33	–
Fiscal year ended March 2015	18.66	–

(2) Non-consolidated financial condition

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2016	270,298	79,803	29.5	189.43
As of March 31, 2015	278,894	75,358	27.0	178.85

(Reference) Shareholders’ equity: 79,803 million yen as of March 31, 2016
75,358 million yen as of March 31, 2015

* Status of a quarterly review
  This financial summary does not need to undergo a quarterly review under the Financial Instruments and Exchange Act. The quarterly consolidated financial statements have not been reviewed at the time of the announcement of this financial summary.

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

1. The results forecasts and forward-looking statements included in this document are based on information that the Company has obtained on the date of the announcement and certain assumptions that the Company considers reasonable. The Company makes no guarantees with respect to the achievement of its results forecasts or forward-looking statements. Actual results might be significantly different from the forecasts in the document, depending on various factors. Refer to the section “1. Analysis of Business Results and Financial Status, (1) Analysis of business results, 2) Forecast for the fiscal year ending March 2017” on page 3 of accompanying materials for further information on results forecasts.
2. The Company operates its businesses on a consolidated basis. The Company produces no forecast for non-consolidated business results.
3. The Company plans to hold a results briefing for institutional investors and analysts on Tuesday, May 17, 2016.

Accompanying Materials – Contents

1. Analysis of Business Results and Financial Status

(1) Analysis of business results

(i) Review of operations in the fiscal year ended March 2016

In the fiscal year under review, the U.S. economy expanded steadily with firm domestic demand, but there continued to be a fair share of uncertainty about the economies in other parts of the world. This uncertainty stemmed from political uncertainty in the Middle East and Europe, slowdown in China, the driver of global growth, deceleration of emerging Asian economies, and falling oil prices.

The Japanese economy maintained a modest recovery trend, backed by steady corporate performance and improvement in employment, despite the sluggish recovery seen in personal consumption.

In this environment, the results of the Group in the fiscal year under review are as shown below.

Consolidated net sales decreased ¥54,274 million (4.9%) from the previous fiscal year, to ¥1,062,822 million. The consolidated gross profit decreased ¥2,586 million (2.8%) from the previous fiscal year, to ¥88,855 million. Consolidated operating income declined ¥4,887 million (22.1%) from the previous fiscal year, to ¥17,238 million, due to an increase in selling, general and administrative expenses. Non-operating income/expenses deteriorated ¥898 million year on year, mainly reflecting a decrease in foreign exchange gains and a decrease in equity in the earnings of affiliates. As a result, ordinary income decreased ¥5,787 million (25.3%) from the previous fiscal year, to ¥17,108 million. Income before income taxes and non-controlling interests fell ¥6,533 million (28.0%) from a year ago, to ¥16,761 million due to an increase in extraordinary losses. Net income attributable to owners of the parent declined ¥2,079 million (18.1%) year on year, to ¥9,391 million.

Results for each business segment are described below.

Electronics & Devices

In the ICT solutions business, transactions of products for the manufacturing industry were firm, while the mobile business also remained strong. However, the semiconductor parts and manufacturing equipment business had a tough time, mainly due to the stagnation of the Chinese economy and slowdown in demand for smartphones.

As a result, net sales in the Electronics and Devices Division rose ¥1,150 million year on year, to ¥277,651 million. Operating income fell ¥67 million to ¥9,840 million.

Foods & Grain

The food business turned in a solid performance, driven by transactions for agricultural products. The meat products business and the feedstuff business faced difficult conditions. The main reason for these difficult conditions was that the higher import prices caused by the weak yen had a negative impact on profit.

As a result, in the Foods & Grain Division, net sales rose ¥15,323 million year on year, to ¥323,055 million. Operating income decreased ¥1,472 million, to ¥461 million.

Steel, Materials & Plant

The energy business performed solidly on the back of firm domestic demand for kerosene and heavy oil mainly attributable to the cold winter.

The functional chemicals business recovered from the slackness that was seen following the consumption tax hike.

In the plant and infrastructure business, transactions involving machine tools and industrial machinery were strong.

In the iron and steel business, the mainstay oilfield tubing business went through a tough time due to weak crude oil prices.

As a result, net sales in the Steel, Materials & Plant Division fell ¥89,493 million from the previous fiscal year, to ¥378,356 million. Operating income declined ¥3,561 million, to ¥3,722 million.

Motor Vehicles & Aerospace

In the motor vehicles and parts business, transactions involving automobile and motorcycle parts were firm. In the aerospace business, transactions of aircraft parts remained stable, and space-related transactions were also robust.

As a result, in the Motor Vehicles & Aerospace Division, net sales rose ¥11,556 million year on year, to ¥71,231 million. Operating income climbed ¥353 million, to ¥3,108 million.

Other

Net sales increased ¥7,189 million year on year, to ¥12,527 million. Operating income fell ¥72 million, to ¥97 million.

(ii) Forecast for the fiscal year ending March 2017

In the next consolidated fiscal year, the global economic outlook is likely to remain uncertain mainly due to slower growth in China and other emerging Asian economies and stagnation of European economies, despite continued economic growth in the United States on the back of the expansion of consumer spending amid gradual rate hikes.

Underpinned by monetary easing, the Japanese economy is expected to maintain a gradual economic recovery trend, primarily attributable to a recovery in consumer spending, due to improvement in the employment and income environment and higher capital expenditure on the back of the continued strong performance of companies.

In this environment, the Company forecasts consolidated net sales (Japanese GAAP) of ¥1,250 billion, profit from operating activities of ¥22 billion, profit before tax of ¥21 billion and net profit attributable to owners of parent of ¥11.5 billion for the fiscal year ending March 31, 2017.

The Company decided to voluntarily adopt International Financial Reporting Standards (IFRS), in place of the Japanese GAAP used previously, beginning with its consolidated financial statements in the annual securities report for the fiscal year ended March 31, 2016.

The consolidated earnings forecast for the fiscal year ending March 31, 2017 is, therefore, prepared in accordance with IFRS.

(Assumptions for the calculation of results forecast)

- Exchange rate: 1 US dollar = 110 yen
- Interest rates: Interest rates are expected to remain unchanged or to fall moderately.

* Note on forward-looking statements:

The above statements on future performance, such as the results forecasts, have been made based on information available to the Company at the time of the announcement and certain assumptions that the Company considers reasonable. The Company does not guarantee that the forecasts will be achieved. Actual results may differ materially from forecasts due to a number of factors.

(2) Analysis of financial status

(i) Assets, liabilities and net assets

Total assets at the end of the fiscal year under review declined ¥19,602 million from the end of the previous fiscal year, to ¥439,409 million.

Interest-bearing debt decreased ¥945 million from the end of the previous fiscal year, to ¥135,170 million. Net interest-bearing debt, which is interest bearing debt minus cash and bank deposits, decreased ¥20,530 million from the end of the previous fiscal year, to ¥47,116 million.

Net assets stood at ¥121,885 million, up ¥3,154 million from the end of the previous fiscal year, reflecting an increase in retained earnings as a result of the posting of net income attributable to owners of the parent, partially offset by deterioration in foreign currency translation adjustments. Shareholders' equity, obtained by subtracting non-controlling interests from net assets, increased ¥3,155 million from the end of the previous fiscal year, to ¥93,256 million.

As a result, the equity ratio improved 1.6 percentage points from the end of the previous fiscal year, to 21.2%. The net debt-equity ratio ("net DER") was 0.5 times.

(ii) Cash flows

Net cash provided by operating activities stood at ¥31,488 million (versus ¥10,115 million provided in the previous fiscal year), chiefly reflecting an increase in operating income. Net cash used in investing activities was ¥4,489 million (versus ¥8,903 million in the previous fiscal year), mainly due to the acquisition of investment securities and tangible fixed assets. Net cash used in financing activities amounted to ¥5,830 million (versus ¥9,895 million used in the previous fiscal year), mainly reflecting the repayment of debt, partially offset by proceeds from issuance of bonds.

As a result, cash and cash equivalents at the end of the fiscal year under review stood at ¥87,466 million, up ¥20,089 million from the end of the previous fiscal year.

(Reference) Changes in cash flow-related indicators

	Fiscal year ended March 2012	Fiscal year ended March 2013	Fiscal year ended March 2014	Fiscal year ended March 2015	Fiscal year ended March 2016
Equity ratio	9.8%	13.7%	16.7%	19.6%	21.2%
Equity ratio on a market value basis	10.4%	13.0%	15.7%	16.0%	15.7%
Ratio of interest-bearing debt to cash flow (year)	10.2	108.3	6.3	13.5	4.3
Interest coverage ratio	3.9	0.4	6.8	3.4	13.0

Equity ratio: Shareholders' equity/total assets
Equity ratio on a market value basis: Market capitalization/total assets
Ratio of interest-bearing debt to cash flow: Interest-bearing debt/free cash flow
Interest coverage ratio: Free cash flow/interest payments

* All of the above figures are calculated based on consolidated financial values.
* Market capitalization is calculated based on the following formula: Closing share price at the end of the period x Number of shares issued (net of treasury stock) at the end of the period.
* Cash flows from operating activities are used for cash flow. Interest-bearing debt includes all debts listed on the consolidated balance sheets to which the Company pays interests. For interest payments, the amount of interests paid listed on consolidated statements of cash flows is used.

(3) Basic policy for distribution of profits and dividends in the fiscal year ended March 2016 and the fiscal year ending March 2017

The Company regards the distribution of profits to shareholders as critical management issues. It adopts a basic policy for dividends of taking into consideration factors such as operating results and the need to increase internal reserves.

Under VISION-130, the Company's medium-term vision, the Company has set a qualitative goal of dividend payments in line with the profit level. Accordingly, in the fiscal year under review, it paid an interim dividend of 2.5 yen per share. A dividend payment of 2.5 yen is scheduled for the end of the current fiscal year under review as per the plan at the beginning of the year, which will give a total of 5.0 yen per share for the full fiscal year.

As for dividend payments for the next fiscal year, given the fact that internal reserves have reached a certain level as well as expectations for its continued solid performance, the Company revised the goal under VISION-130 to "provide a stable dividend on a continuous basis, targeting a consolidated dividend payout ratio of 25%," and plans to increase the annual dividend per share by 1.0 yen to 6.0 yen, comprising an interim dividend of 3.0 yen per share and a year-end dividend of 3.0 yen per share.

(4) Business risks

Since the Kanematsu 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 Group are exposed to risks such as price fluctuations and liquidity risks of commodities, foreign exchange rates, funds (interest rates) and shares, default and credit risks, investment risks, country risks, and risks associated with changes in laws and regulations. These risks may affect business results and the financial position of the Group because they involve uncertainties unpredictable in the normal course of business. These risks can readily be eliminated. However, the Group seeks to control the risks by developing the systems and methods needed to manage each risk based on its nature.

(i) Risks Related to Overall Business Activities

(Market risk related to supply and demand and prices of goods traded)

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

(Foreign currency risk)

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

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

(Interest rate risk)

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

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

(Price fluctuation risk of marketable short-term investments, etc.)

The Group may hold shares in trade partners as means of strengthening its relationship with them. There is a risk of price fluctuation inherent in these shares, which could have an effect on the financial position of the Group through net unrealized gains (losses) on securities, net of tax.

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

(Default risk and credit risk)

The Group extends credit in a number of forms, including accounts receivable, advance payments, loans and guarantees in diverse business transactions with its trading partners in Japan and abroad. For this reason, late repayments and defaults may occur with developments such as a deterioration in the financial strength of its trading partners. The Group could also be forced to perform obligations that could be accompanied by a monetary loss in association with the conclusion and performance of a commodity supply agreement, a contract agreement, and subcontract agreement, or other agreements, 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 tend to be particularly wide in overseas businesses. Local laws and relationships with partners may also prevent the Group from executing its policy for operating or withdrawing from a business.

(Country risk)

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

(Legal risk related to changes in laws)

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

(Legal risk related to lawsuits and disputes)

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

(Security risk related to information systems and information security)

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

(Product and facility deterioration risk due to natural disasters and accidents)

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

(Compliance and fraud risk)

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

(ii) Risk Management

(Position management of foreign exchanges, interest rates and products)

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 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. We also reduce the price fluctuation risk of these positions by using derivatives as a hedge.

(Credit management of transactions)

When extending credit to clients in Japan and overseas, the Group regularly provides the rating to individual customers based on their financial data and other information and set a credit limit based on the rating and the type of credit. It controls credit risk by restricting credits so that the total amount of credits, including those arising from ordinary business transactions as well as loans and guarantees, does not exceed the limit. It has also established a system to prevent the expansion of unintended credit risks by regularly monitoring collection and frozen status and taking the necessary security steps.

The Group also prevents credits from exceeding the limit by systematically checking the credit limit when shipping goods to trading partners.

(Security trade control)

To prevent violations of laws related to security trade control, the Group takes every care in managing and operating processes by establishing the Security Export Control Regulations and a compliance program for the laws in question.

(Risk hedging against natural disasters and accidents)

The Group hedges the risk of the devaluation of and indemnification for facilities and equipment it holds in Japan and overseas, including business offices, warehouses and manufacturing plants, and cargo being stored or transported in Japan and other countries, by insuring each item against damage from natural disasters and accidents. In response to risks related to the suspension of its businesses in the event of disasters such as earthquakes, fires, floods, and riots, the Group is taking measures such as the implementation of regular disaster response training in order to safely and promptly respond to these situations, and the preparation of manuals for the establishment and management of a task force.

(Information security)

With respect to the security of information contained in information systems, the Group has adopted information security control rules to prevent leaks and outflows of important information, and has established unified regulations on the use of personal computers, networks, and e-mail for protecting company and personal information. It also reviews the systematic base for raising the security level on a constant basis, and maintain and operate the base to ensure the required and appropriate level of security.

(Compliance)

To comprehensively monitor compliance with laws and regulations, the Group has established the Internal Control and Compliance Committee. The Committee regularly reviews the compliance status and deals with problems that arise unexpectedly. The Group has also developed the Kanematsu Group Compliance Handbook and distributed it to its employees together with the compliance card to ensure that all employees are fully aware of the importance of compliance. Taking a step further, the Group has set up an internal hotline and an external attorney hot line for accepting reports and providing consultation services.

(Operations management)

To prevent operational risks arising from back-office work, the Group has established a system to prevent fraud, violations of rules and errors in recording in the workflow by processing all slip issuing activities after delivery and receipt operations in batches, with the implementation of Business Process Re-engineering (BPR).

(iii) Medium-term Vision

As stated in “3. Management Policies,” the Group has developed its five-year medium-term vision VISION-130 (from April 2014 to March 2019). The quantitative targets set out in this plan were adopted on the basis of certain assumptions and premises. We may not be able to achieve these targets because of factors such as economic conditions and industry trends that vary significantly from forecasts or our inability to take effective measures in response to changes in the operating environment.

2. Corporate Group

The Group operates its businesses as a "business creation team," which builds solid relationships of trust with its customers and works closely with them to develop new businesses by providing a broad array of products and services in diverse fields such as electronics and devices, foods and grain, steel, materials and plant, and motor vehicles and aerospace through the organic integration of domestic and international business networks, expertise acquired in each business area, and the functions of a trading company, including commodities trading, information gathering, market exploration, business development and organization, risk management, and distribution.
The Company classifies these businesses into categories according to the contents of goods traded and services, and the Group consists of a total of 122 companies including the Company, 92 subsidiaries and 30 affiliates (as of March 31, 2016). Among them, the Group has 90 consolidated subsidiaries and 27 equity-method affiliates.
The details of the goods traded and services based on each of the Group's business segments and its major subsidiaries and affiliates are as follows.

Business segments	Major products and services	Principal subsidiaries and affiliates
Electronics & Devices (27 companies)	Electronic parts and members, semiconductor/LCD/solar cell manufacturing equipment, communication equipment and parts, materials and indirect materials related to electronics, telecommunications technology systems and services, mobile communication terminals, mobile Internet systems and services, security equipment, etc.	(Subsidiaries: 13 subsidiaries in Japan and 9 subsidiaries overseas) Kanematsu Electronics Ltd. Kanematsu Communications Ltd. Nippon Office Systems Ltd. Kanematsu-NNK Corp. (Affiliates: 5 affiliates in Japan)
Foods & Grain (27 companies)	Canned/frozen/dried fruits, coffee, cocoa, sugar, sesame, peanuts, various beans, wines, meat and marine products, feed, fertilizer, soybeans, wheat, barley, rice, processed foods, cooked foods, pet foods, etc.	(Subsidiaries: 11 subsidiaries in Japan and 3 subsidiaries overseas) Kanematsu Shintoa Foods Corporation Kanematsu Agri-Tech Corporation (Affiliates: 3 affiliates in Japan and 10 affiliates overseas) Dalian Tiantianli Food Co., Ltd.
Steel, Materials & Plant (27 companies)	Steel plates, bars and wire rods, pipes, stainless products, general steel products, raw materials for iron and steel, battery materials, fertilizer materials, adhesive materials, solvents, functional food materials, nutritional supplements, pharmaceuticals and pharmaceutical intermediates, crude oil, petroleum products, LPG, greenhouse gas emission rights, biomass energy, chemical and petrochemical plants, papermaking machines, communication lines construction, optical fibers, electric power projects, ships and maritime equipment, machine tools, industrial tools, etc.	(Subsidiaries: 10 subsidiaries in Japan and 12 subsidiaries overseas) Kanematsu Trading Corporation Kanematsu Chemicals Corp. Kanematsu Petroleum Corp. Kanematsu KGK Corp. (Affiliates: 2 affiliates in Japan and 3 affiliates overseas)
Motor Vehicles & Aerospace (8 companies)	In-vehicle parts, mechanized parts, aircraft and aircraft parts, satellite equipment and parts, automobiles and automobile parts, industrial vehicles, construction machinery, general-purpose machines, forgings, foundry pieces, etc.	(Subsidiaries: 1 subsidiary in Japan and 6 subsidiaries overseas) Kanematsu Aerospace Corp. (Affiliates: 1 affiliate overseas)
Other (16 companies)	Textile materials, beds, bedding and interior goods, housing materials, medium-grade fiberboard, nonferrous metals, insurance agent/intermediary business, air/marine cargo agent business, customs clearing, real estate management and leasing business and others	(Subsidiaries: 8 subsidiaries in Japan and 2 subsidiaries overseas) Shintoa Corporation Kanematsu Logistics & Insurance Ltd. (Affiliates: 4 affiliates in Japan and 2 affiliates overseas) Kaneyo Co., Ltd. Hokushin Co., Ltd.

Overseas local subsidiaries (17 companies)	Trading of products and provision of services overseas	(Subsidiaries: 17 subsidiaries) Kanematsu USA Inc. Kanematsu (Hong Kong) Ltd. Kanematsu (China) Co., Ltd. Kanematsu GmbH

(Note) Of the above companies, the subsidiaries whose stocks are listed on domestic stock exchanges are Kanematsu Electronics Ltd. (First Section of the Tokyo Stock Exchange) and Kanematsu-NNK Corporation (First Section of the Tokyo Stock Exchange).

3. Management Policies

(1) Basic management policies

The pioneering spirit and proactive ingenuity needed to constantly anticipate trends and boldly and ceaselessly taking on new business challenges have been principles that have guided us since our founding. We adopt Our Beliefs (established in 1967) as the basic principles, so that we can strengthen the bonds we enjoy with our customers, develop businesses and continued to be valued by society.

Our Beliefs

- We believe that we should achieve prosperity of our business through just and fair earnings in the pioneering spirit as fostered by our predecessors with the wisest use of our creative imagination and ingenuity.
- We believe that our Company should justify its existence by promoting a sound and flourishing business which fulfils its responsibilities toward the welfare of society and also contributes to the security and well-being of us all.
- We believe that each one of us should attend to business not as an individual but as a member of the organization abiding by company rules, carrying out duties with a sense of loyalty to the Company and a spirit of cooperation and understanding toward all other members of the organization.

(2) Medium- to long-term management strategies and issues facing the company

(i) Medium-term vision "VISION-130" (from April 2014 to March 2019)

Since announcing VISION-130 in May 2014 as a growth scenario for the next stage, the Company has steadily implemented a wide range of measures to achieve the goals articulated in the vision.

In light of recent developments, including the end of the previous three-year medium-term business plan on March 31, 2016, the slowdown in the Chinese economy and falling oil prices, a weaker yen and higher stock prices under Abenomics, and other major changes in the external environment, we have now partially revised and updated VISION-130.

Based on this VISION-130, the Company plans to continue working to maintain a sound financial position and enhance its management base, and to aim for the expansion of its revenue base through coexistence and development with its clients. The Company considers VISION-130 to be "Kanematsu's challenge," and intends to expand its strong business areas and seek to further increase its corporate value through new investments and other initiatives.

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

Quantitative targets	Consolidated ordinary income: ¥25 – ¥30 billion	Consolidated net income*: ¥15 billion (ROE: 12%)
	Consolidated net income: ¥15 billion (ROE: 15%)	
	Shareholders' equity: more than ¥100 billion (net DER: maintain the 1.0 level)	Shareholders' equity: more than ¥120 billion (net DER: less than 1.0)
Qualitative goals	Dividend payments appropriate for the profit level	Provide a stable dividend on a continuous basis, targeting a consolidated dividend payout ratio of 25%

(*) Net profit attributable to owners of parent

(ii) Strengthening the operating foundation

- Return to the origin of a trading company and the Company's basic philosophy, maintain the basic concept, including "Focusing on trading business," "Pursuing management efficiency," and "Aiming for coexistence and mutual development with business partners," and bolster the management base, including the enhancement of investment risk management and the strengthening of corporate governance, as the most important business issues.
- Subsequently, increase the added value of trading through the development of global value chains, pursue both horizontal and vertical expansion, develop new technologies and new products, take on new challenges combining active business investment and M&A, and expand the Company's revenue base.
- The Group will pursue the horizontal and vertical expansion of the businesses by focusing on six business areas in which the Group excels: "ICT solutions," "Mobile," "Food market in Asia," "North American shale market," "Global motorization," and "Overseas expansion of Japanese manufacturers."

- Also, as an innovation, the Group will focus its efforts on new business areas, including strengthening functions to “provide technical support” in the camera-related business and “respond to the TPP” in the foodstuff business.

4. Basic approach to selection of accounting standards

The Company decided to voluntarily adopt International Financial Reporting Standards (IFRS), in place of the Japanese GAAP used previously, beginning with its consolidated financial statements in the annual securities report for the fiscal year ended March 31, 2016 (122nd Term), to improve the global comparability of financial information in capital markets.

5. Consolidated Financial Statements

(1) Consolidated balance sheets

(Million yen)

	Fiscal 2015 (March 31, 2015)	Fiscal 2016 (March 31, 2016)
Assets		
Current assets		
Cash and bank deposits	68,468	88,053
Notes and accounts receivable	180,319	157,484
Lease investment assets	227	48
Short-term investments	3	1
Inventories	87,254	79,340
Short-term loans receivable	297	993
Deferred tax assets	3,250	3,015
Other	27,148	18,347
Allowance for doubtful accounts	(158)	(149)
Total current assets	366,811	347,135
Long-term assets		
Tangible fixed assets		
Leased properties, net	183	227
Buildings and structures, net	6,469	6,886
Machinery, equipment, vehicle, tools and fixtures, net	6,139	5,914
Land	13,755	12,119
Lease assets, net	1,504	1,256
Construction in progress	879	484
Total tangible fixed assets	28,931	26,889
Intangible fixed assets		
Goodwill	6,063	5,431
Other	8,661	7,865
Total intangible fixed assets	14,725	13,296
Investments and other assets		
Investments in securities	38,372	40,221
Long-term loans receivable	2,134	2,025
Doubtful accounts	765	668
Net defined benefit asset	199	213
Deferred tax assets	3,643	3,476
Other	6,098	7,800
Allowance for doubtful accounts	(2,671)	(2,393)
Total investments and other assets	48,543	52,013
Total long-term assets	92,200	92,199
Deferred assets		
Bond issuance cost	–	74
Total deferred assets	–	74
Total assets	459,011	439,409

(Million yen)

	Fiscal 2015 (March 31, 2015)	Fiscal 2016 (March 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable	116,567	101,246
Import bills payable	32,530	31,034
Short-term borrowings	61,688	60,218
Lease obligations	638	433
Accrued income taxes	2,492	2,274
Deferred tax liabilities	1	1
Asset retirement obligations	107	5
Other	38,322	33,704
Total current liabilities	252,347	228,920
Non-current liabilities		
Bonds payable	–	10,000
Long-term borrowings	74,426	64,952
Lease obligations	1,286	1,025
Deferred tax liabilities	488	358
Net defined benefit liability	5,137	5,863
Provision for retirement benefits for directors and statutory auditors	367	365
Asset retirement obligations	810	916
Other	5,414	5,121
Total non-current liabilities	87,931	88,602
Total liabilities	340,279	317,523
Net assets		
Shareholder's equity		
Capital stock	27,781	27,781
Capital surplus	27,502	27,403
Retained earnings	44,845	52,553
Treasury stock	(222)	(235)
Total shareholders' equity	99,906	107,502
Accumulated other comprehensive income		
Net unrealized gains on securities, net of tax	4,020	3,452
Net gains (losses) on deferred hedges, net of tax	559	(612)
Revaluation reserves for land	104	111
Foreign currency translation adjustments	(14,687)	(16,691)
Remeasurements of defined benefit plans	198	(504)
Total accumulated other comprehensive income	(9,805)	(14,246)
Non-controlling interests	28,630	28,629
Total net assets	118,731	121,885
Total liabilities and net assets	459,011	439,409

(2) Consolidated statements of income / consolidated statements of comprehensive income

Consolidated statements of income

(Million yen)

	Fiscal 2015 (From April 1, 2014 to March 31, 2015)	Fiscal 2016 (From April 1, 2015 to March 31, 2016)
Net sales	1,117,096	1,062,822
Cost of sales	1,025,655	973,967
Gross trading profit	91,441	88,855
Selling, general and administrative expenses		
Salaries and bonuses	29,424	29,887
Retirement benefit expenses	1,166	1,254
Outsourcing service charges	6,468	6,481
Provision of allowance for doubtful accounts	51	195
Other	32,203	33,797
Total selling, general and administrative expenses	69,315	71,616
Operating income	22,125	17,238
Non-operating income		
Interest income	414	469
Dividend income	1,118	917
Equity in earnings of affiliates	1,145	623
Foreign exchange gains	1,835	660
Other	1,358	1,290
Total non-operating income	5,872	3,961
Non-operating expenses		
Interest expenses	2,949	2,418
Other	2,153	1,673
Total non-operating expenses	5,103	4,091
Ordinary income	22,895	17,108
Extraordinary gains		
Gain on sale of tangible fixed assets	70	41
Gain on sale of investment in securities	106	1,389
Gain on liquidation of subsidiaries and affiliates	84	14
Gain on step acquisitions	1,123	–
Total extraordinary gains	1,385	1,445
Extraordinary losses		
Loss on disposal of fixed assets	138	351
Impairment loss on fixed assets	580	94
Loss on sale of investments in securities	62	1,181
Impairment loss on investments in securities	29	26
Provision of allowance for doubtful accounts for subsidiaries and affiliates	174	48
Loss on step acquisitions	–	90
Total extraordinary losses	985	1,792
Income before income taxes and non-controlling interests	23,294	16,761
Income taxes – current	5,378	4,095
Income taxes – deferred	3,547	1,338
Total income taxes	8,925	5,433
Net income	14,369	11,328
Net income attributable to non-controlling interests	2,898	1,937
Net income attributable to owners of the parent	11,470	9,391

Consolidated statements of comprehensive income

(Million yen)

	Fiscal 2015 (From April 1, 2014 to March 31, 2015)	Fiscal 2016 (From April 1, 2015 to March 31, 2016)
Net income	14,369	11,328
Other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	2,236	(572)
Net gains (losses) on deferred hedges, net of tax	569	(1,146)
Foreign currency translation adjustment	7,092	(3,586)
Remeasurements of defined benefit plans	316	(800)
Share of other comprehensive income of associates accounted for using equity method	124	896
Total other comprehensive income	10,339	(5,209)
Comprehensive income	24,708	6,118
Comprehensive income attributable to		
Comprehensive income attributable to the owners of the parent	20,698	4,949
Comprehensive income attributable to non-controlling interests	4,009	1,168

(3) Consolidated statements of changes in net assets

Fiscal 2015 (From April 1, 2014 to March 31, 2015)

(Million yen)

	Shareholder's equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the fiscal year	27,781	27,493	35,737	(321)	90,690
Cumulative effects of changes in accounting policies			(681)		(681)
Restated balance	27,781	27,493	35,055	(321)	90,008
Changes during the fiscal year					
Dividends			(1,680)		(1,680)
Net income attributable to owners of the parent			11,470		11,470
Acquisition of treasury stock				(13)	(13)
Disposition of treasury stock		8		155	164
Change of scope of consolidation				(42)	(42)
Change in equity of parent arising from transactions with non-controlling shareholders					–
Net changes of items other than shareholders' equity during the fiscal year					
Total changes during the fiscal year	–	8	9,789	99	9,897
Balance at the end of the fiscal year	27,781	27,502	44,845	(222)	99,906

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized gains on securities, net of tax	Net gains (losses) on deferred hedges, net of tax	Revaluation reserves for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the fiscal year	1,743	(18)	104	(20,758)	(104)	(19,033)	24,547	96,204
Cumulative effects of changes in accounting policies							(155)	(837)
Restated balance	1,743	(18)	104	(20,758)	(104)	(19,033)	24,391	95,367
Changes during the fiscal year								
Dividends								(1,680)
Net income attributable to owners of the parent								11,470
Acquisition of treasury stock								(13)
Disposition of treasury stock								164
Change of scope of consolidation								(42)
Change in equity of parent arising from transactions with non-controlling shareholders								–
Net changes of items other than shareholders' equity during the fiscal year	2,277	577	(0)	6,071	302	9,228	4,238	13,466
Total changes during the fiscal year	2,277	577	(0)	6,071	302	9,228	4,238	23,364
Balance at the end of the fiscal year	4,020	559	104	(14,687)	198	(9,805)	28,630	118,731

Fiscal 2016 (From April 1, 2015 to March 31, 2016)

(Million yen)

	Shareholder's equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the fiscal year	27,781	27,502	44,845	(222)	99,906
Cumulative effects of changes in accounting policies					–
Restated balance	27,781	27,502	44,845	(222)	99,906
Changes during the fiscal year					
Dividends			(1,683)		(1,683)
Net income attributable to owners of the parent			9,391		9,391
Acquisition of treasury stock				(12)	(12)
Disposition of treasury stock		0		0	0
Change of scope of consolidation					–
Change in equity of parent arising from transactions with non-controlling shareholders		(99)			(99)
Net changes of items other than shareholders' equity during the fiscal year					
Total changes during the fiscal year	–	(98)	7,707	(12)	7,596
Balance at the end of the fiscal year	27,781	27,403	52,553	(235)	107,502

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized gains on securities, net of tax	Net gains (losses) on deferred hedges, net of tax	Revaluation reserves for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensi ve income		
Balance at the beginning of the fiscal year	4,020	559	104	(14,687)	198	(9,805)	28,630	118,731
Cumulative effects of changes in accounting policies								–
Restated balance	4,020	559	104	(14,687)	198	(9,805)	28,630	118,731
Changes during the fiscal year								
Dividends								(1,683)
Net income attributable to owners of the parent								9,391
Acquisition of treasury stock								(12)
Disposition of treasury stock								0
Change of scope of consolidation								–
Change in equity of parent arising from transactions with non-controlling shareholders								(99)
Net changes of items other than shareholders' equity during the fiscal year	(568)	(1,172)	7	(2,004)	(702)	(4,441)	(0)	(4,442)
Total changes during the fiscal year	(568)	(1,172)	7	(2,004)	(702)	(4,441)	(0)	3,154
Balance at the end of the fiscal year	3,452	(612)	111	(16,691)	(504)	(14,246)	28,629	121,885

(4) Consolidated statements of cash flows

(Million yen)

	Fiscal 2015 (From April 1, 2014 to March 31, 2015)	Fiscal 2016 (From April 1, 2015 to March 31, 2016)
Cash flows from operating activities:		
Income before income taxes and non-controlling interests	23,294	16,761
Depreciation and amortization	3,245	3,332
(Decrease) Increase in allowance for doubtful accounts	65	(68)
Increase in net defined benefit liability	(654)	274
Interest and dividends income	(1,532)	(1,386)
Interest expenses	2,949	2,418
Equity in gains of affiliates	(1,145)	(623)
(Gain) Loss on disposal of fixed assets	67	309
Impairment loss on fixed assets	580	94
Gain on sale of investments in securities, net	(44)	(207)
Impairment loss on investments in securities	29	26
Gain on liquidation of subsidiaries and affiliates	(84)	(14)
(Gain) Loss on step acquisitions	(1,123)	90
(Increase) Decrease in notes and accounts receivable	6,263	19,388
Decrease (increase) in inventories	(17,072)	6,806
Increase (decrease) in notes and accounts payable	975	(17,238)
Other	1,274	7,175
Sub total	17,089	37,139
Interest and dividends received	1,301	1,662
Interest paid	(2,954)	(2,426)
Payments for business structure improvement expenses	(530)	–
Income taxes paid	(4,790)	(4,887)
Net cash provided by operating activities	10,115	31,488
Cash flows from investing activities:		
Decrease (Increase) in time deposits, net	(743)	414
Payments for tangible fixed assets	(3,807)	(2,080)
Proceeds from sales of tangible fixed assets	914	556
Payments for intangible fixed assets	(656)	(497)
Payments for investments in securities	(2,053)	(5,053)
Proceeds from sales of investments in securities	50	502
Payments for purchase of investments in subsidiaries	(2,030)	–
Payments for purchase of investments in subsidiaries resulting in change in scope of consolidation	(171)	–
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	–	1,178
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	–	(159)
Payments for transfer of business	(87)	–
Increase in loans receivable	(437)	(916)
Proceeds from collection of loans receivable	629	1,006
Other	(509)	558
Net cash used in investing activities	(8,903)	(4,489)

(Million yen)

	Fiscal 2015 (From April 1, 2014 to March 31, 2015)	Fiscal 2016 (From April 1, 2015 to March 31, 2016)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings, net	2,245	(8,754)
Proceeds from long-term borrowings	38,511	18,687
Repayment of long-term borrowings	(47,756)	(22,231)
Proceeds from issuance of bonds	–	9,923
Cash dividends paid	(1,675)	(1,678)
Proceeds from sales of shares of parent held by subsidiaries	355	–
Other	(1,574)	(1,777)
Net cash used in financing activities	(9,895)	(5,830)
Effect of exchange rate changes on cash and cash equivalents	2,511	(1,205)
Net increase (decrease) in cash and cash equivalents	(6,171)	19,962
Cash and cash equivalent at beginning of year	73,548	67,377
Net increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	–	125
Cash and cash equivalents at end of year	67,377	87,466

(5) Notes on the consolidated financial statements

(Notes on the going concern assumption)

Not applicable.

(Significant items regarding the preparation of consolidated financial statements)

Disclosure is omitted as there were no important changes from those stated in the most recent securities report (submitted on June 24, 2015), with the exception of those described below.

(Changes in accounting policies)

(Application of Accounting Standard for Business Combinations and other standards)

Starting in the consolidated fiscal year under review, standards such as the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013; hereinafter "the Accounting Standard for Business Combinations"), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013; hereinafter "the Accounting Standard for Consolidated Financial Statements"), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013; hereinafter "the Accounting Standard for Business Divestitures") have been applied. Accordingly, the method of appropriating changes in the Company's ownership interests in a subsidiary while retaining the controlling financial interests in the subsidiary as capital surplus and appropriating expenses related to this acquisition as expenses in the consolidated fiscal year in which they arise has been adopted. Furthermore, for business combinations carried out on or after the beginning of the consolidated fiscal year under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the consolidated financial statements for the consolidated fiscal year to which the date of business combination belongs. In addition, the manner in which net income is presented has been changed, and the presentation of minority interests has been changed to non-controlling interests. To reflect these changes, the Company has reclassified its consolidated financial statements for the previous consolidated fiscal year.

In regards to the Accounting Standard for Business Combinations, this standard was adopted at the beginning of the consolidated fiscal year under review, and will continue to be applied in the future in accordance with the provisional measures specified in Item 58-2 (4) of the Accounting Standard for Business Combinations, Item 44-5 (4) of the Accounting Standards for Consolidated Financial Statements, and Item 57-4 (4) of the Accounting Standard for Business Divestitures.

As a result of these changes, capital surplus at the end of the consolidated fiscal year under review declined ¥99 million. In the consolidated fiscal year under review, operating income, ordinary income, and income before income taxes and non-controlling interests each decreased ¥177 million.

In the consolidated statements of cash flows for the consolidated fiscal year under review, cash flows related to the acquisition or sales of investments in subsidiaries not resulting in a change in the scope of consolidation are classified under "cash flows from financing activities," and cash flows related to expenses arising from the acquisition of investments in subsidiaries resulting in a change in the scope of consolidation or cash flows related to expenses arising from the acquisition or sales of investments in subsidiaries not resulting in a change in the scope of consolidation are classified under "cash flows from operating activities."

The balance at the end of the fiscal year for capital surplus in the Consolidated Statements of Changes in Net Assets for the fiscal year under review declined ¥99 million.

The effect on net assets per share, net income per share and net income per share (diluted basis) for the consolidated fiscal year under review is negligible.

(Segment information)

(i) Overview of Reportable Segments

The reportable segments of the Group are those units for which separate financial information can be obtained among the constituent units of the Group and for which the management of the Group normally and regularly assesses its business performance and examines the allocation of management resources.

The Group operates its businesses by offering a broad array of merchandise and services based on an organic combination of expertise that has been cultivated through networks in Japan and in other countries and in each business field, and trading functions such as commercial trade, information gathering, market development, business development and arrangement, risk management, and logistics.

The 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 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, together with services including development and proposals. 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

This segment integrates the handling of a broad array of food and foodstuffs, with operations ranging from reliably sourcing raw materials to providing food and foodstuffs, including high value-added goods. 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.

(ii) Methods for calculating net sales, profits or losses, assets, and amounts for other items by reportable segment

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

Inter-segment revenue and transfers are based on prevailing market prices or third-party transaction prices.

Application of Accounting Standard for Business Combinations and other standards

As stated in (Changes in accounting policies), starting in the consolidated fiscal year under review, standards such as the Accounting Standard for Business Combinations have been applied. Accordingly, the method of appropriating changes in the Company’s ownership interests in a subsidiary while retaining the controlling financial interests in the subsidiary as capital surplus and appropriating expenses related to this acquisition as expenses in the consolidated fiscal year in which they arise has been adopted. Furthermore, for business combinations carried out on or after the beginning of the consolidated fiscal year under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the consolidated financial statements for the consolidated fiscal year to which the date of business combination belongs.

As a result of these changes, segment income decreased by ¥9 million for Foods & Grain and ¥168 million for Electronics & Devices compared with the results under the previous method.

(iii) Information on net sales and profits or losses by reported segment

Fiscal 2015 (From April 1, 2014 to March 31, 2015)

(Million yen)

	Reported segments					Others (Note 1)	Total	Adjustment (Note 2)	Amount posted in consolidated statements of income (Note 3)
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Sub-total				
Net sales									
Customers	276,501	307,732	467,849	59,675	1,111,758	5,338	1,117,096	–	1,117,096
Inter-segment	353	5	111	0	471	59	530	(530)	–
Total	276,854	307,738	467,960	59,675	1,112,229	5,397	1,117,627	(530)	1,117,096
Segment income	9,907	1,933	7,283	2,755	21,880	169	22,050	75	22,125
Segment assets	133,002	105,375	121,010	29,966	389,355	11,642	400,998	58,013	459,011
Other items									
Depreciation and amortization	1,257	577	912	422	3,170	79	3,250	(4)	3,245
Investments in equity method affiliates	2,146	837	50	300	3,335	1,910	5,246	174	5,420
Increases in tangible fixed assets and intangible fixed assets	1,704	1,018	1,610	906	5,240	61	5,302	732	6,035

(Note 1) "Others" is a business segment that is not included in the reportable segments and includes the logistics and insurance service business and the geotech business, etc.

(Note 2) Adjustments are as follows.

(1) Adjustment of ¥75 million for segment income includes a net goodwill write-down of ¥62 million and inter-segment elimination of ¥12 million.

(2) Adjustment for segment assets amounting to ¥58,013 million includes inter-segment elimination of negative ¥8,530 million and Group assets of ¥66,543 million that have not been distributed to reportable segments. These Group assets consist mainly of cash and bank deposits in connection with financing activities and assets such as investments in securities.

(3) Adjustment for depreciation and amortization amounting to negative ¥4 million includes inter-segment elimination of negative ¥4 million.

(4) Adjustment for investments in equity method affiliates amounting to ¥174 million includes inter-segment elimination of negative ¥0 million and Group assets of ¥174 million that have not been distributed to reportable segments.

(5) Adjustment for increases in tangible fixed assets and intangible fixed assets amounting to ¥732 million includes inter-segment elimination of negative ¥32 million and Group assets of ¥765 million that have not been distributed to reportable segments.

(Note 3) Segment income is adjusted for operating income in the consolidated statements of income.

Fiscal 2016 (From April 1, 2015 to March 31, 2016)

(Million yen)

	Reported segments					Others (Note 1)	Total	Adjustment (Note 2)	Amount posted in consolidated statements of income (Note 3)
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Sub-total				
Net sales									
Customers	277,651	323,055	378,356	71,231	1,050,295	12,527	1,062,822	–	1,062,822
Inter-segment	219	5	528	1	754	72	827	(827)	–
Total	277,871	323,061	378,884	71,232	1,051,049	12,600	1,063,650	(827)	1,062,822
Segment income	9,840	461	3,722	3,108	17,133	97	17,231	7	17,238
Segment assets	151,563	108,113	98,392	24,623	382,693	10,029	392,723	46,686	439,409
Other items									
Depreciation and amortization	1,207	614	1,024	355	3,201	141	3,343	(10)	3,332
Investments in equity method affiliates	3,917	1,331	56	331	5,637	1,977	7,615	(0)	7,614
Increases in tangible fixed assets and intangible fixed assets	1,601	432	649	263	2,947	117	3,064	258	3,322

(Note 1) "Others" is a business segment that is not included in the reportable segments and includes the logistics and insurance service business and the geotech business, etc.

(Note 2) Adjustments are as follows.

(1) Adjustment of ¥7 million for segment income includes the inter-segment elimination of ¥7 million.

(2) Adjustment for segment assets amounting to ¥46,686 million includes inter-segment elimination of negative ¥11,971 million and Group assets of ¥58,657 million that have not been distributed to reportable segments. These Group assets consist mainly of cash and bank deposits in connection with financing activities and assets such as investments in securities.

(3) Adjustment for depreciation and amortization amounting to negative ¥10 million includes inter-segment elimination of negative ¥10 million.

(4) Adjustment for investments in equity method affiliates amounting to negative ¥0 million includes inter-segment elimination of negative ¥0 million.

(5) Adjustment for increases in tangible fixed assets and intangible fixed assets amounting to ¥258 million includes inter-segment elimination of negative ¥71 million and Group assets of ¥329 million that have not been distributed to reportable segments.

(Note 3) Segment income is adjusted for operating income in the consolidated statements of income.

(Per share information)

	Fiscal 2015 (From April 1, 2014 to March 31, 2015)	Fiscal 2016 (From April 1, 2015 to March 31, 2016)
Net assets per share (yen)	214.10	221.63
Net income per share (yen)	27.30	22.32

(Notes) 1. Net income per share on a diluted basis is not written, as there are no potential shares.
2. The bases for the calculation of net assets per share are as follows:

	Fiscal 2015 (As of March 31, 2015)	Fiscal 2016 (As of March 31, 2016)
Total net assets (million yen)	118,731	121,885
Amount subtracted from total net assets (million yen)	28,630	28,629
[Non-controlling interests]	(28,630)	(28,629)
Net assets for common shares (million yen)	90,101	93,256
Number of common shares issued (thousand shares)	422,501	422,501
Number of common shares held as treasury stock (thousand shares)	1,663	1,723
Number of common shares used for the calculation of net assets per share (thousand shares)	420,837	420,777

3. The bases for the calculation of net income per share are as follows:

	Fiscal 2015 (From April 1, 2014 to March 31, 2015)	Fiscal 2016 (From April 1, 2015 to March 31, 2016)
Net income attributable to owners of the parent (million yen)	11,470	9,391
Amount that does not belong to common shares (million yen)	–	–
Net income attributable to owners of the parent for common shares (million yen)	11,470	9,391
Average number of common shares for the period (thousand shares)	420,211	420,803

(Significant subsequent events)

On April 1, 2016, Kanematsu Telecom Investment Co., Ltd. (headquartered in Minato-ku, Tokyo, Japan; hereinafter “Kanematsu Telecom”), a newly established and wholly owned subsidiary of the Company, acquired Diamondtelecom, Inc. (headquartered in Chuo-ku, Tokyo, Japan; hereinafter “Diamond Telecom”), a wholly owned subsidiary of Mitsubishi Electric Corporation (headquartered in Chiyoda-ku, Tokyo, Japan; hereinafter “Mitsubishi Electric”), in accordance with a merger agreement for the acquisition of Diamond Telecom concluded with the Company and Mitsubishi Electric concerning an absorption-type merger on January 18, 2016.

1. Purpose of the Merger

The mobile business of the Kanematsu Group is driven mainly by Kanematsu Communications Limited (headquartered in Shibuya-ku, Tokyo, Japan (hereinafter “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 of the Group as well as one of the focus areas under the Group’s medium-term vision, VISION-130.

Diamond Telecom has been engaging in the mobile phone sales business for more than 20 years since its foundation in 1994 as a wholly owned subsidiary of Mitsubishi Electric, and owns a dominant number of carrier-certified shops throughout Japan.

As a result of the acquisition of Diamond Telecom, the 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 Kanematsu 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 knowhow and the enhancement of management efficiency for both companies.

2. Effective date of the merger

April 1, 2016

3. Merger method

The merger was an absorption-type merger with cash consideration, whereby Kanematsu Telecom is the surviving company and Diamond Telecom is the non-surviving company.

4. Outline of new company after the merger

(1) Trade name: Diamondtelecom, Inc.

(2) Location: 1-3-17 Shinkawa, Chuo-ku, Tokyo, Japan

(3) Title and name of Representatives: Isao Fujii, Representative Directors and Chairman; sami Koichi Asami, Representative Director and President

(4) Capital: 1,501 million yen

(Note) Kanematsu Telecom, the surviving company, changed its trade name to Diamondtelecom, Inc, as of April 1, 2016 and made the location of its headquarters Chuo-ku, Tokyo Japan.

5. Acquisition consideration and acquisition-related costs

Kanematsu Telecom paid Mitsubishi Electric, the wholly owning parent of Diamond Telecom, a total of 17.4 billion yen for the 9,000 shares of Diamond Telecom owned by Mitsubishi Electric (1,933,334 yen per share).

Acquisition-related costs are 168 million yen.

6. Non-Consolidated Financial Statements

(1) Non-consolidated balance sheets

(Million yen)

	Fiscal 2015 (March 31, 2015)	Fiscal 2016 (March 31, 2016)
Assets		
Current assets		
Cash and bank deposits	10,491	15,550
Notes receivable	3,769	2,880
Accounts receivable	74,465	56,942
Short-term investments	3	1
Inventories	41,348	35,600
Advance payments to suppliers	4,686	3,511
Prepaid expenses	572	621
Deferred tax assets	924	1,095
Short-term loans receivable	25	23
Short-term loans to affiliates	13,264	27,692
Accrued income	5,653	4,259
Derivatives obligations	2,961	262
Other	2,892	3,462
Allowance for doubtful accounts	(16)	(2)
Total current assets	161,042	151,901
Long-term assets		
Tangible fixed assets		
Buildings	483	394
Structures	7	4
Machinery and equipment	51	244
Vehicle	8	19
Tools and fixtures	123	107
Land	3,818	3,695
Leased assets	617	491
Construction in progress	3	13
Total tangible fixed assets	5,115	4,971
Intangible fixed assets		
Software	233	327
Telephone subscription rights	7	7
Other	197	193
Total intangible fixed assets	439	528
Investments and other assets		
Investments in securities	14,483	15,315
Shares in affiliates	86,170	86,488
Bonds of subsidiaries and associates	1,000	1,000
Investments and guarantees	1,457	1,698
Equity investment in affiliates	4,225	3,768
Long-term loans receivable	1,583	1,489
Long-term loans to employees	53	34
Long-term loans to affiliates	8,023	7,467
Doubtful accounts	421	406
Long-term prepaid expenses	1	164
Deferred tax assets	3,319	2,853
Other	1,535	1,626
Allowance for doubtful accounts	(9,977)	(9,490)
Total investments and other assets	112,297	112,822
Total long-term assets	117,852	118,322
Deferred assets		
Bond issuance cost	–	74
Total deferred assets	–	74
Total assets	278,894	270,298

(Million yen)

	Fiscal 2015 (March 31, 2015)	Fiscal 2016 (March 31, 2016)
Liabilities		
Current liabilities		
Notes payable	2,421	824
Import bills payable	40,792	35,724
Accounts payable	37,143	25,446
Short-term borrowings	27,506	32,441
Lease obligations	140	128
Accrued liabilities	7,317	5,809
Accrued expenses	601	236
Accrued income taxes	756	301
Advances received from customers	6,809	4,524
Deposits received	3,868	6,408
Deferred revenue	67	17
Derivatives obligations	365	2,482
Other	115	31
Total current liabilities	127,906	114,377
Non-current liabilities		
Bonds payable	–	10,000
Long-term borrowings	72,940	63,831
Lease obligations	539	416
Provision for employees' retirement and severance benefits	820	620
Allowance for business losses for subsidiaries and affiliates	1,031	942
Asset retirement obligations	139	142
Other	158	164
Total non-current liabilities	75,629	76,117
Total liabilities	203,536	190,495
Net assets		
Shareholder's equity		
Common stock	27,781	27,781
Capital surplus		
Legal capital surplus	26,887	26,887
Other capital surplus	0	0
Total capital surplus	26,887	26,887
Retained earnings		
Earned legal reserve	131	131
Other retained earnings		
Special reserve fund	1,836	1,836
Deferred retained earnings	15,212	21,249
Total retained earnings	17,180	23,217
Treasury stock	(154)	(167)
Total shareholder's equity	71,694	77,718
Valuation and translation adjustments		
Net unrealized gains on securities, net of tax	2,992	2,625
Net gains (losses) on deferred hedges, net of tax	671	(541)
Total valuation and translation adjustments	3,664	2,084
Total net assets	75,358	79,803
Total liabilities and net assets	278,894	270,298

(2) Non-consolidated statements of income

(Million yen)

	Fiscal 2015 (From April 1, 2014 to March 31, 2015)	Fiscal 2016 (From April 1, 2015 to March 31, 2016)
Net sales	475,249	432,457
Cost of sales	457,584	417,911
Gross trading profit	17,664	14,546
Selling, general and administrative expenses	13,524	13,572
Operating income	4,140	973
Non-operating income		
Interest income	452	486
Dividend income	6,778	6,527
Foreign exchange gains	1,755	1,163
Other	606	493
Total non-operating income	9,593	8,671
Non-operating expenses		
Interest expenses	2,462	2,032
Other	774	415
Total non-operating expenses	3,236	2,448
Ordinary income	10,497	7,197
Extraordinary gains		
Gain on sale of tangible fixed assets	52	0
Gain on sale of investment in securities	–	731
Gain on liquidation of subsidiaries and affiliates	–	4
Total extraordinary gains	52	735
Extraordinary losses		
Loss on disposal of fixed assets	8	12
Impairment loss on fixed assets	91	–
Loss on sale of investments in securities	13	472
Impairment loss on investments in securities	24	21
Loss on closure of business	65	55
Provisions for loss on bad debt of affiliates and loss on business	168	4
Total extraordinary losses	371	566
Income before income taxes	10,178	7,366
Income taxes – current	(693)	(1,496)
Income taxes – deferred	3,009	1,141
Total income taxes	2,315	(355)
Net income	7,862	7,722

(3) Non-consolidated statements of changes in net assets

Fiscal 2015 (From April 1, 2014 to March 31, 2015)

(Million yen)

	Shareholder's equity									
	Common stock	Capital surplus			Retained earnings				Treasury stock	Total shareholder's equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Earned legal reserve	Other retained earnings		Total retained earnings		
						Special reserve fund	Deferred retained earnings			
Balance at the beginning of the fiscal year	27,781	26,887	0	26,887	131	1,836	9,945	11,913	(141)	66,439
Cumulative effects of changes in accounting policies							(909)	(909)		(909)
Restated balance	27,781	26,887	0	26,887	131	1,836	9,035	11,003	(141)	65,529
Changes during the fiscal year										
Dividends of surplus							(1,685)	(1,685)		(1,685)
Net income							7,862	7,862		7,862
Acquisition of treasury stock									(13)	(13)
Disposition of treasury stock			0	0					0	0
Net changes of items other than shareholders' equity during the fiscal year										
Total changes during the fiscal year	–	–	0	0	–	–	6,177	6,177	(12)	6,164
Balance at the end of the fiscal year	27,781	26,887	0	26,887	131	1,836	15,212	17,180	(154)	71,694

	Valuation and translation adjustments			Total net assets
	Net unrealized gains on securities, net of tax	Net gains (losses) on deferred hedges, net of tax	Total valuation and translation adjustments	
Balance at the beginning of the fiscal year	1,214	(85)	1,129	67,569
Cumulative effects of changes in accounting policies				(909)
Restated balance	1,214	(85)	1,129	66,659
Changes during the fiscal year				
Dividends				(1,685)
Net income				7,862
Acquisition of treasury stock				(13)
Disposition of treasury stock				0
Net changes of items other than shareholders' equity during the fiscal year	1,777	756	2,534	2,534
Total changes during the fiscal year	1,777	756	2,534	8,699
Balance at the end of the fiscal year	2,992	671	3,664	75,358

Fiscal 2016 (From April 1, 2015 to March 31, 2016)

(Million yen)

	Shareholder's equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Total capital surplus	Earned legal reserve	Special reserve fund	Deferred retained earnings	Total retained earnings	Treasury stock	Total shareholder's equity
Balance at the beginning of the fiscal year	27,781	26,887	0	26,887	131	1,836	15,212	17,180	(154)	71,694
Cumulative effects of changes in accounting policies										–
Restated balance	27,781	26,887	0	26,887	131	1,836	15,212	17,180	(154)	71,694
Changes during the fiscal year										
Dividends of surplus							(1,685)	(1,685)		(1,685)
Net income							7,722	7,722		7,722
Acquisition of treasury stock									(12)	(12)
Disposition of treasury stock			0	0					0	0
Net changes of items other than shareholders' equity during the fiscal year										
Total changes during the fiscal year	–	–	0	0	–	–	6,036	6,036	(12)	6,024
Balance at the end of the fiscal year	27,781	26,887	0	26,887	131	1,836	21,249	23,217	(167)	77,718

	Valuation and translation adjustments			
	Net unrealized gains on securities, net of tax	Net gains (losses) on deferred hedges, net of tax	Total valuation and translation adjustments	Total net assets
Balance at the beginning of the fiscal year	2,992	671	3,664	75,358
Cumulative effects of changes in accounting policies				–
Restated balance	2,992	671	3,664	75,358
Changes during the fiscal year				
Dividends				(1,685)
Net income				7,722
Acquisition of treasury stock				(12)
Disposition of treasury stock				0
Net changes of items other than shareholders' equity during the fiscal year	(366)	(1,213)	(1,579)	(1,579)
Total changes during the fiscal year	(366)	(1,213)	(1,579)	4,444
Balance at the end of the fiscal year	2,625	(541)	2,084	79,803

(4) Notes to non-consolidated financial statements

(Notes on the going concern assumption)

Not applicable.

7. Other

(1) Changes in directors

Changes in directors are as separately disclosed on a timely basis.

(2) Other

Not applicable.