KANEMATSU CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2018

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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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KANEMATSU CORPORATION

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For the fiscal year ended March 31, 2018

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Consolidated Statement of Financial Position

	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.

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	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

KANEMATSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
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For the fiscal year ended March 31, 2018

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(a) Consolidated Statement of Income

	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

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CONSOLIDATED FINANCIAL STATEMENTS

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(b) Consolidated Statement of Comprehensive Income

	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

The accompanying notes are an integral part of these consolidated financial statements

KANEMATSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
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Consolidated Statement of Changes in Equity

	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

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	JPY		USD (Note 2)
	2018	2017	2018
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

KANEMATSU CORPORATION AND CONSOLIDATED SUBSIDIARIES

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Consolidated Statement of Cash Flows

	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

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	JPY		USD (Note 2)
	2018	2017	2018
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

The accompanying notes are an integral part of these consolidated financial statements

KANEMATSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2018

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.

KANEMATSU CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2018

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 April 1, 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 April 1, 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		USD
	2018	2017	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 deterionation 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 income and other finance costs are those related to financial assets measured at fair value through profit or loss and the details are presented in *Note 30. Financial Instruments: (6) -3) - (ii) Recurring fair value measurements categorized within Level 3 of the fair value hierarchy.*

25. Earnings Per Share Attributable to Owners of the Parent

(1) Basic earnings per share

	Yen		U.S. dollar
	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:

(JPN)

	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 differences	(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 April 1, 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 Mach 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.

KANEMATSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2018

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 (Note 1)	(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		USD
	2018	2017	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		USD
	2018	2017	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	Percentage of voting rights (%) 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)
[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)

Trade name	Location	Details of major operations	Percentage of voting rights (%)	
			2018	2017
[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

KANEMATSU CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2018

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		USD
	2018	2017	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.