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Kanematsu Corporation
(Stock Exchange No.: 8020)

**NOTICE OF THE
126TH ORDINARY
GENERAL
MEETING OF
SHAREHOLDERS**

Date: June 24, 2020 (Wednesday) at 10:00 a.m.

Place: Tokyo Head Office of Kanematsu
Corporation,
19th Floor Conference Room,
Seavans North Bldg., 1-2-1 Shibaura,
Minato-ku, Tokyo

Items to Be Resolved:

Item 1: Election of Six (6) Directors

Item 2: Election of One (1) Audit & Supervisory
Board Member

Item 3: Election of One (1) Substitute Audit &
Supervisory Board Member

Deadline for submitting the Ballot Form in
writing or via the Internet, etc.:

No later than 5:10 p.m. on June 23, 2020
(Tuesday)

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CORPORATE PRINCIPLE

“Let us sow and nurture the seeds of global prosperity”

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

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

Our Beliefs: Kanematsu’s Guiding Principles

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



To Our Shareholders

I would like to express my sincere gratitude to you, our shareholders, for your continued support.

In 2019, despite the U.S. economy maintaining a moderate recovery trend, the global economy overall showed a tendency toward decelerated growth due to the prolongation of U.S.-China trade friction, a recession in the Chinese economy, and a slowdown in the recovery of the European and Japanese economies. Moreover, going into 2020, the global coronavirus outbreak has led to restrictions on economic activities both domestically and internationally, causing an immeasurable impact.

Amid this environment, the Kanematsu Group is following *future 135*, the medium-term vision to celebrate the 135th anniversary of its founding, to pursue expansion of the revenue base continuously through effective business investments and acquisition of added value, as well as to promote new businesses to translate technological innovations such as IoT and AI into business opportunities. Furthermore, with SDGs in mind, the Kanematsu Group intends to promote sustainability through business activities, as well as to conduct management in consideration of diversity and inclusion. Amid uncertainties in the global economy, the Kanematsu Group will work together as a whole to overcome difficulties and meet the expectations of our stakeholders with the aim of generating value that is unique to the Kanematsu Group.

I would like to take the opportunity to ask our shareholders for your continued understanding and support.

Kaoru Tanigawa
President

(Stock Exchange No.: 8020)

June 9, 2020

**NOTICE OF
THE 126TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholder:

We cordially notify you of the 126th Ordinary General Meeting of Shareholders of Kanematsu Corporation (hereinafter “the Company”), to be held as indicated below.

To avoid the risk of infection of the novel coronavirus (COVID-19) at this general meeting of shareholders, you are asked to consider refraining from attending the meeting in person.

Instead of attending the meeting in person, you may exercise your voting rights by one of the following methods. After reviewing the enclosed reference materials, please exercise your voting rights no later than 5:10 p.m. on Tuesday, June 23, 2020 (JST).

Sincerely,

Kaoru Tanigawa, President
Kanematsu Corporation
119 Ito-machi, Chuo-ku, Kobe

[Exercising voting rights in writing]

Please indicate “for” or “against” for each agenda item listed in the enclosed Ballot Form, and return it to the Company no later than the above mentioned exercise deadline.

[Exercising voting rights by electromagnetic means (via the Internet, etc.)]

Please access the website designated by the Company (<https://www.web54.net>) provided for exercising your voting rights and follow the instructions on the screen to indicate “for” or “against” for each agenda item by the above mentioned exercise deadline.

Meeting Details

1. Date: June 24, 2020 (Wednesday) at 10:00 a.m.

2. Place: Tokyo Head Office of Kanematsu Corporation, 19th Floor Conference Room,
Seavans North Bldg., 1-2-1 Shibaura, Minato-ku, Tokyo

3. Meeting Agenda

Items to Be Reported:

1. Business Report, Consolidated Financial Statements and Audit Reports of Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board, for the 126th Fiscal Term (April 1, 2019 to March 31, 2020)
2. Non-consolidated Financial Statements for the 126th Fiscal Term (April 1, 2019 to March 31, 2020)

Items to Be Resolved:

Item 1: Election of Six (6) Directors

Item 2: Election of One (1) Audit & Supervisory Board Member

Item 3: Election of One (1) Substitute Audit & Supervisory Board Member

Of the documents to be included with this notice, pursuant to laws and regulations and provisions of the Articles of Association of the Company, the Notes to the Consolidated Financial Statements and Notes to the Non-consolidated Financial Statements are disclosed on our website rather than being included in the documents accompanying this notice.

The documents accompanying this notice and the documents posted on the website below are included in the documents audited by the Audit & Supervisory Board Members and the Accounting Auditor during preparation for the Audit report and the Independent Auditors' Audit Reports, respectively.

If there are any amendments to the reference materials, Business Report, the Non-consolidated Financial Statements or Consolidated Financial Statements, the revised version will be posted on our website.

Company's website: <https://www.kanematsu.co.jp>

Reference Materials for the General Meeting of Shareholders

Item 1: Election of Six (6) Directors

The terms of office for all six (6) Directors will expire at the conclusion of this General Meeting of Shareholders. Accordingly, the Company proposes to elect six (6) Directors.

The candidates for Director are as follows:

Candidate

No. 1

Masayuki Shimojima

Reelection	Date of Birth	Number of the Company's shares owned
	August 6, 1951	26,700 shares



○ Career Summary, Positions and Responsibilities in the Company (Significant Concurrent Positions)

Apr. 1974	Joined the Company
Jul. 1995	Vice-President, Kanematsu USA Inc.
Jul. 2000	General Manager, IT Administration Office, the Company
Jun. 2002	President, Kanematsu USA Inc.
Jun. 2006	Director, the Company
Jun. 2009	Managing Director, the Company
Apr. 2010	President & CEO, the Company
Jun. 2017	Chairman, the Company (To the present)
(Incumbent)	Chief Officer, Internal Auditing

○ Reasons for Nomination as Candidate for Director

While serving as President & CEO from 2010, Mr. Masayuki Shimojima was responsible for making decisions on important matters in the management and supervision of the execution of operations, with a wealth of experience, track record, and knowledge as a manager. Since being appointed as Chairman in 2017, he has contributed to supervising the management of the Kanematsu Group, and is thus re-nominated as a candidate for Director.

Candidate

No. 2

Kaoru Tanigawa

Reelection	Date of Birth	Number of the Company's shares owned
	September 24, 1958	25,300 shares



○ **Career Summary, Positions and Responsibilities in the Company**
(Significant Concurrent Positions)

Apr. 1981	Joined the Company
Jul. 2004	General Manager, Somerset Branch, Kanematsu USA Inc.
Jan. 2008	General Manager, Information & Electronics Department, the Company
Jun. 2010	Temporary transferred to Kanematsu Communications Ltd. Director, Kanematsu Communications Ltd.
Apr. 2011	General Manager, Corporate Planning Department, the Company
Jun. 2013	Director, the Company
Jun. 2014	Retired from office of Director of the Company according to revision for improvement of executive officer system Managing Executive Officer, the Company
Jun. 2015	Director, Senior Managing Executive Officer, the Company
Jun. 2017	President, the Company (To the present)

○ **Reasons for Nomination as Candidate for Director**

Mr. Kaoru Tanigawa was appointed as a Director in 2013, responsible for the Electronics and Devices Division and Corporate Planning. He has contributed to business expansion and development of management strategies, with a wealth of experience and broad knowledge. Since being appointed as President in 2017, he has demonstrated leadership in promoting the Group's management, and is thus re-nominated as a candidate for Director.

Candidate No.

3

Yoshiya Miyabe

Reelection	Date of Birth	Number of the Company's shares owned
	January 21, 1959	13,500 shares



○ **Career Summary, Positions and Responsibilities in the Company**

Apr. 1983	Joined the Company
Apr. 1999	Manager, Section 1, Industrial Electronics Department, the Company
Jun. 2001	Worked at Chicago Branch, Kanematsu USA Inc.
Feb. 2006	General Manager, Industrial Electronics Department, the Company
Jun. 2012	Director, the Company
Jun. 2014	Retired from office of Director of the Company according to revision for improvement of executive officer system Managing Executive Officer, the Company
Jun. 2018 (Incumbent)	Director, Senior Managing Executive Officer, the Company (To the present) Chief Officer, Motor Vehicles and Aerospace Division, General Manager, Osaka Branch, General Manager, Nagoya Branch, Chief Officer, Technologies and Business Collaboration

○ **Significant Concurrent Positions**

Director, Kanematsu Sustech Corporation

○ **Reasons for Nomination as Candidate for Director**

Since joining the Company, Mr. Yoshiya Miyabe has been engaged primarily in the motor vehicles and parts and industrial electronics businesses. He was appointed as a Director in 2012 and has contributed to strengthening revenue base such as through development of overseas supply chains. Due to his wealth of experience and broad knowledge, he is re-nominated as a candidate for Director.

Candidate No.
4 Tetsuro Tsutano

Reelection	Date of Birth	Number of the Company's shares owned
	April 3, 1969	9,100 shares



○ **Career Summary, Positions and Responsibilities in the Company**
(Significant Concurrent Positions)

Apr. 1992 Joined the Company
 Aug. 2007 Manager, Managerial Accounting Section, Accounting Department, the Company
 Apr. 2012 Manager, Finance Section, Finance Department, the Company
 Apr. 2013 General Manager, Finance Department, the Company
 Jun. 2017 Director, Executive Officer, the Company
 Jun. 2018 Director, Senior Executive Officer, the Company (To the present)
 (Incumbent) Chief Officer, Finance, Accounting, Business Accounting

○ **Reasons for Nomination as Candidate for Director**

Since joining the Company, Mr. Tetsuro Tsutano has been engaged in finance and accounting. He has contributed to strengthening the Company's sound financial condition. Due to his wealth of experience and broad knowledge, he is re-nominated as a candidate for Director.

Candidate
No. 5 Yuko Tahara

Reelection	Outside Director	Independent officer	Date of Birth	Number of the Company's shares owned
			October 9, 1959	0 shares



○ **Career Summary, Positions and Responsibilities in the Company**

Apr. 1991 Joined MANPOWER JAPAN Co., Ltd.
 Aug. 1993 Joined RIC Co., Ltd
 General Manager, House Electrification Promotion Office, RIC Co., Ltd
 Jul. 1998 President and CEO, Basic Inc. (To the present)
 Jun. 2012 Representative Director, Frame & Work Module Promotion Association (To the present)
 Jun. 2018 Outside Director (Audit and Supervisory Committee Member), Sanyo Homes Corporation (To the present)
 Jun. 2019 Outside Director, the Company (To the present)
 Apr. 2020 Visiting Professor, Advanced Academic Institution, The Graduate School of Information & Communication (To the present)

○ **Significant Concurrent Positions**

President and CEO, Basic Inc.
 Representative Director, Frame & Work Module Promotion Association
 Outside Director (Audit and Supervisory Committee Member), Sanyo Homes Corporation

○ **Reasons for Nomination as Candidate for Outside Director**

Ms. Yuko Tahara possesses a wealth of experience in corporate management and deep insight gained through experiences in human resources and organizational consulting businesses and has been committed to management advisory and appropriate supervision of the execution of operations. Thus, she is re-nominated as a candidate for Outside Director.

Candidate

No. 6

Kazuhiro Tanaka

New election	Outside Director	Independent officer	Date of Birth	Number of the Company's shares owned
			August 31, 1966	0 shares



○ Career Summary, Positions and Responsibilities in the Company

Apr. 1990	Joined The Industrial Bank of Japan, Limited
Apr. 1999	Assistant Professor, Graduate School of Business Administration, Kobe University
Apr. 2003	Assistant Professor, Graduate School of Commerce and Management, Hitotsubashi University
Apr. 2007	Associate Professor, Graduate School of Commerce and Management, Hitotsubashi University
Apr. 2010	Professor, Graduate School of Commerce and Management, Hitotsubashi University
Apr. 2018	Professor, Graduate School of Business Administration, Hitotsubashi University (To the present)
Jan. 2019	Dean, Graduate School of Business Administration, Hitotsubashi University (To the present)
	Dean, Faculty of Commerce and Management, Hitotsubashi University (To the present)

○ Significant Concurrent Positions

Professor, Graduate School of Business Administration, Hitotsubashi University

○ Reasons for Nomination as Candidate for Outside Director

Although Mr. Kazuhiro Tanaka has not been directly involved in corporate management, he is a university professor specializing in business administration and has extensive expertise and deep insight regarding corporate management. He is thus newly nominated as a candidate for Outside Director.

- (Notes)
1. There is no special interest between any of the candidates and the Company.
 2. Ms. Yuko Tahara and Mr. Kazuhiro Tanaka are candidates for Outside Director.
 3. At the conclusion of this meeting, Ms. Yuko Tahara's tenure as Outside Director will have been one year.
 4. Limited liability agreement with Outside Directors
 - (1) The Company has entered into an agreement with Ms. Yuko Tahara with regard to limitation of liability for damages stipulated in Article 423, paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, paragraph 1 of the said act. If her reelection is approved and adopted, the Company plans to renew the agreement with her. The maximum amount of liability for damages under this agreement is the minimum liability amount provided for in Article 425, paragraph 1 of the Companies Act.
 - (2) If this proposal is approved and adopted, the Company plans to enter into an agreement with Mr. Kazuhiro Tanaka with regard to limitation of liability for damages stipulated in Article 423, paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, paragraph 1 of the said act. The maximum amount of liability for damages under this agreement is the minimum liability amount provided for in Article 425, paragraph 1 of the Companies Act.
 5. The Company has submitted notification to Tokyo Stock Exchange, Inc. that Ms. Yuko Tahara has been appointed as an independent officer as provided for by the aforementioned exchange. The Company plans to submit notification to Tokyo Stock Exchange, Inc. that Mr. Kazuhiro Tanaka is appointed as an independent officer as provided for by the aforementioned exchange.

Item 2: Election of One (1) Audit & Supervisory Board Member

The term of office for Audit & Supervisory Board Member Mr. Sohei Ogawa will expire at the conclusion of this General Meeting of Shareholders. Accordingly, the Company proposes to elect one (1) Audit & Supervisory Board Member.

The candidate for Audit & Supervisory Board Member is as follows:

Prior to our proposal of this item, we have already obtained the consent of the Audit & Supervisory Board.

Motohisa Hirai



New election	Date of Birth	Number of the Company's shares owned
	April 10, 1953	3,200 shares

○ Career Summary and Positions in the Company (Significant Concurrent Positions)

Apr. 1976	Joined the Company
Jun. 2003	President, Kanematsu (Hong Kong) Ltd.
Jun. 2004	General Manager, Finance & Accounting Department, the Company
Jun. 2005	Managing Director, Kanematsu-NNK Corporation (present Kanematsu Sustech Corporation)
Jun. 2014	Senior Managing Director, Kanematsu-NNK Corporation
Jun. 2019	Adviser, Kanematsu Sustech Corporation (To the present)

○ Reasons for Nomination as Candidate for Audit & Supervisory Board Member

Mr. Motohisa Hirai has served as General Manager of Finance & Accounting Department of the Company and as Senior Managing Director of Kanematsu Sustech Corporation. He is newly nominated as a candidate for Audit & Supervisory Board Member as he is expected to reflect his wealth of experience in corporate management and broad knowledge in finance and accounting on auditing of the Company.

- (Notes) 1. There is no special interest between Mr. Motohisa Hirai and the Company.
2. If this proposal is approved and adopted, the Company plans to enter into an agreement with Mr. Motohisa Hirai with regard to limitation of liability for damages stipulated in Article 423, paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, paragraph 1 of the said act. The maximum amount of liability for damages under this agreement is the minimum liability amount provided for in Article 425, paragraph 1 of the Companies Act.

Item 3: Election of One (1) Substitute Audit & Supervisory Board Member

In order to prepare for the event that the number of Audit & Supervisory Board Members falls below the required number stipulated by laws and regulations, the Company proposes to elect one (1) substitute Audit & Supervisory Board Member.

The candidate for substitute Audit & Supervisory Board Member is as follows:

Prior to our proposal of this item, we have already obtained the consent of the Audit & Supervisory Board.

Nobuko Inaba



Outside Audit & Supervisory Board Member	Independent officer	Date of Birth	Number of the Company's shares owned
		September 28, 1966	0 shares

○ Career Summary and Positions in the Company

Apr. 1989	Joined Nippon Telegraph And Telephone Corporation
Oct. 1993	Joined Century Audit Corporation (present Ernst & Young ShinNihon LLC)
Jul. 1999	Transferred to Inspection Department, Financial Supervisory Agency (present Supervision Bureau of Financial Services Agency)
Jul. 2001	Returned to Shin Nihon & Co. (present Ernst & Young ShinNihon LLC)
Oct. 2005	Opened Inaba Certified Accounting Office Representative, Inaba Certified Accounting Office (To the present)
Jul. 2007	Founded PAS Co., Ltd. (present Hayabusa Consulting Corporation) Representative Director, PAS Co., Ltd. (present Hayabusa Consulting Corporation) (To the present)
Nov. 2010	Founded Hayabusa Audit Corporation Representative Partner, Hayabusa Audit Corporation (To the present)
Jun. 2014	Outside Director, The Towa Bank, Ltd. Outside Corporate Auditor, Yachiyo Bank, Limited (present Kiraboshi Bank, Ltd.)
Oct. 2014	Outside Corporate Auditor, Tokyo TY Financial Group, Inc. (present Tokyo Kiraboshi Financial Group, Inc.) (To the present)
Dec. 2014	Senior Partner, Hayabusa Tax Corporation (To the present)
Jun. 2019	Outside Corporate Auditor, DeNA Co., Ltd. (To the present)

○ Significant Concurrent Positions

Representative, Inaba Certified Accounting Office
Representative Director, Hayabusa Consulting Corporation
Representative Partner, Hayabusa Audit Corporation
Senior Partner, Hayabusa Tax Corporation
Outside Corporate Auditor, Tokyo Kiraboshi Financial Group, Inc.
Outside Corporate Auditor, DeNA Co., Ltd.

○ Reasons for Nomination as Candidate for Substitute Audit & Supervisory Board Member

The Company requests that Ms. Nobuko Inaba be elected as substitute Outside Audit & Supervisory Board Member because she is expected to reflect her specialist knowledge and experience relating to accounting and tax affairs, which she accumulated as a certified public accountant and as a certified public tax accountant, on auditing of the Company.

- (Notes) 1. There is no special interest between Ms. Nobuko Inaba and the Company.
2. Ms. Nobuko Inaba is a candidate for substitute Outside Audit & Supervisory Board Member.
3. Kiraboshi Bank, Ltd. (formerly Yachiyo Bank, Limited), a subsidiary of Tokyo Kiraboshi Financial Group, Inc. (formerly Tokyo TY Financial Group, Inc.), where Ms. Nobuko Inaba serves as an Outside Corporate Auditor, announced that it punitively dismissed one of its employees for embezzling funds from customers' deposit accounts as a disciplinary action in July 2018, which is during Ms. Nobuko Inaba's term of office. Ms. Nobuko Inaba was not aware of the employee's conduct until an internal investigation was implemented at the request of the customer in July 2018. She had been thoroughly raising awareness of compliance including that of group companies at the Board of Directors, etc., as an Outside Corporate Auditor. Moreover, since the discovery of such conduct, she made proposals to further strengthen the compliance system and to thoroughly

implement preventive measures on the Group as a whole, and has been monitoring the progress of such proposals.

4. If Ms. Nobuko Inaba is appointed as Audit & Supervisory Board Member, the Company plans to enter into an agreement with her with regard to limitation of liability for damages stipulated in Article 423, paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, paragraph 1 of the said act. The maximum amount of liability for damages under this agreement is the minimum liability amount provided for in Article 425, paragraph 1 of the Companies Act.
5. If Ms. Nobuko Inaba is appointed as Audit & Supervisory Board Member, the Company plans to submit notification to Tokyo Stock Exchange, Inc. that she is appointed as an independent officer as provided for by the aforementioned exchange.

(Attached documents)

BUSINESS REPORT (from April 1, 2019 to March 31, 2020)

1. Items Regarding Status of Group Operations

(1) Overview of Operations

In the fiscal year under review, the global economy was already showing a clear tendency toward decelerated growth due to factors such as U.S.-China trade friction, Brexit and upheaval in the Middle East when, in the fourth quarter, the global outbreak of the novel coronavirus disease triggered a sharp downturn in economies around the world.

In the U.S. economy, consumer spending had been holding firm thanks to a favorable employment environment and an about-turn in monetary policy. However, during the fourth quarter, which was disrupted by the novel coronavirus disease outbreak, financial markets and the employment environment were also severely shaken, and the economy entered a downward phase. In Europe, Brexit and a slowdown in exports caused by economic slowdown in China were compounded by the novel coronavirus disease pandemic and the European economy began to rapidly deteriorate. Meanwhile, in China, where the effects of the novel coronavirus disease outbreak first appeared, a sharp decline on the supply side of the economy due to the suspension of production was compounded by a sharp decline on the demand side due to restrictions on citizen movement and China's economy marked its first quarterly contraction on record in the fourth quarter.

The Japanese economy showed clear signs of recession, impacted by natural disasters and the consumption tax hike in Japan as well as global economic downturn in the second half.

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

Revenue increased in the meat products business, where domestic sales increased in connection with the effectuation of the TPP and the EPA, and in the aerospace business, which performed strongly mainly due to growth in sales of aircraft and aircraft parts. In contrast, revenue decreased in other areas such as the mobile business, where the number of units sold declined due to the introduction of plans separating mobile phone and data costs and store footfall decreased due to the novel coronavirus disease outbreak, and the energy business where unit selling prices fell due to falling crude oil prices. On one hand, profit increased in the ICT solutions business, where IT investment demand increased primarily in the virtualization and security markets. However, on the other hand, profit declined in the feedstuff business, where pet-related transactions and transactions involving aquafeed had difficulty and the machine tools and industrial machinery business, which was affected by lower investments from the manufacturing industry.

As a result, revenue for the current fiscal year came to ¥721,802 million, down ¥2,047 million (0.3%) year on year. Gross profit rose ¥890 million (0.8%) year on year to ¥110,904 million. Operating profit decreased ¥1,997 million (6.6%) year on year to ¥28,352 million, reflecting an increase in selling, general and administrative expenses, etc. Furthermore, profit before tax decreased ¥2,233 million (7.7%) year on year to ¥26,944 million, as a result of a slight deterioration of finance income, and profit for the year attributable to owners of the parent decreased ¥2,206 million (13.3%) year on year to ¥14,399 million. As a result, the ratio of profit attributable to owners of the parent to equity attributable to owners of the parent or equity capital (ROE) stood at 11.2%.

As for the financial position, total assets rose ¥2,212 million from the end of the previous fiscal year to ¥551,671 million. Interest-bearing debt rose ¥3,890 million from the end of the previous fiscal year to ¥143,394 million. Net interest-bearing debt after deducting cash and deposits rose ¥1,838 million year on year to ¥51,807 million. Interest-bearing debt does not include lease liabilities. In terms of equity, equity attributable to owners of the parent (shareholders' equity) rose ¥5,583 million from the end of the previous fiscal year to ¥130,829 million, mainly reflecting an increase in retained earnings, which offsets decreases in other components of equity as a result of yen appreciation and falling share prices. As a result, the ratio of equity attributable to owners of the parent (equity ratio) came to 23.7%. The net debt-equity ratio (net D/E ratio) was 0.4 times. In this way, the Company maintained its financial soundness.

Overview of performance by business segment

Electronics & Devices

Revenue ¥254,516 million (down 4.1% year on year)

The ICT solutions business remained strong due to IT investment demand in the server and storage markets mainly from the manufacturing and the distribution industries, as well as in the virtualization and security markets. The mobile business performed well mainly due to improvement in the efficiency of store operations and an increase in corporate business. The semiconductor and LCD manufacturing equipment business were affected by the novel coronavirus disease outbreak in China. As a result, overall segment revenue decreased, and profit increased year on year.

A donut chart with a blue segment representing 35.3% of the total. The rest of the chart is light gray.

35.3%

Foods & Grain

Revenue ¥251,403 million (up 2.7% year on year)

In the food business, transactions involving agricultural processed products held firm thanks to the procurement of raw materials that matched consumer needs and product development. The meat products business remained firm, despite some fluctuation in prices caused by global demand and supply imbalances. The feedstuff business had a hard time due to the slump of pet-related transactions and transactions involving aquafeed. As a result, overall segment revenue increased, and profit decreased year on year.

A donut chart with an orange segment representing 34.8% of the total. The rest of the chart is light gray.

34.8%

Steel, Materials & Plant

Revenue ¥129,858 million (down 6.9% year on year)

The energy business, which had experienced difficulty in the previous fiscal year due to a sharp fall in crude oil prices, recovered in the fiscal year under review and performed strongly, driven by domestic transactions. The chemicals business also remained firm, especially in transactions involving pharmaceuticals. However, the oilfield tubing business remained in a slowdown under the impact of falling crude oil prices. The machine tools and industrial machinery business also experienced a slump in overseas transactions mainly in China and the U.S., and the plant infrastructure business also reported lower profit due to the suspension of transactions with the Middle East. As a result, overall segment revenue and profit decreased year on year.

A donut chart with a red segment representing 18.0% of the total. The rest of the chart is light gray.

18.0%

Motor Vehicles & Aerospace

Revenue ¥74,605 million (up 20.2% year on year)

In the aerospace business, core transactions involving aircraft parts held firm. The motor vehicles and parts business had a strong showing overall but reported lower profit due to the suspension of transactions with the Middle East. As a result, overall segment revenue increased, and profit decreased year on year.



10.3%

Other

Revenue ¥11,418 million (down 4.5% year on year)

In the other business segment, revenue and profit decreased year on year.



1.6%

(Revenue by business segment)

Business Segment	Amount (million yen)	Share of Total Revenue (%)	Year-on-year Change (%)
Electronics & Devices	254,516	35.3	(4.1)
Foods & Grain	251,403	34.8	2.7
Steel, Materials & Plant	129,858	18.0	(6.9)
Motor Vehicles & Aerospace	74,605	10.3	20.2
Other	11,418	1.6	(4.5)
Total	721,802	100.0	(0.3)

(Note) Inter-segment transactions have been eliminated.

(2) Capital Investment

No items to report.

(3) Financing Activities

In its financing activities, the Group follows a basic policy of low-cost and stable financing which is essential to achieve “sustainable growth” targeted in the medium-term vision for the six years *future 135*.

In the current fiscal year, the Group mainly procured funds using indirect financing thanks to good relations with main banks, regional banks, insurance companies and other financial institutions. The Group also procured funds from capital markets by issuing straight corporate bonds as a means of raising long-term capital.

As a result, at the end of the current fiscal year, the balance of net interest-bearing debt stood at ¥51,807 million, a year-on-year increase of ¥1,838 million from the end of the previous fiscal year.

(4) Status of Significant Business Realignment

Not applicable.

(5) Issues to Be Addressed.

Medium-term vision *future 135*

The Group has established *future 135*, its six-year medium-term vision (from April 2018 through March 2024), and has been carrying out initiatives of the vision.

(1) Quantitative targets

In *future 135*, the Company aims to achieve sustainable growth in business areas with a stable revenue base, as well as pursue the expansion of the revenue base and the acquisition of added value through effective and appropriate business investments in areas of strength, targeting consolidated profit for the year of ¥25.0 billion.

The Company will focus on capital efficiency based on the stability of the revenue and financial structures, setting the payout ratio (total return ratio) at 25–30%.

	Final Year Target (the fiscal year ending March 31, 2024)	March 31, 2020 Results
Consolidated profit for the year	¥25.0 billion	¥14.4 billion
ROE	13% - 15%	11.2%
Total return ratio	25% - 30%	34.8%

(Note) Consolidated profit for the year is profit for the year attributable to owners of the parent.

(2) Priority initiatives and progress at the end of current fiscal year

(i) Sustainable growth in fundamental businesses, the expansion of the revenue base through business investments, and acquisition of added value

The Company will work toward sustainable growth in fundamental businesses and carry out growth investment while achieving a balance between capital and risk assets, on the ground of its sound financial structure. The Company promoted business investments in areas of strength in the two strategies focused on the “revenue base expansion” and the “value added,” and carried out mainly the following business investments in the current fiscal year.

- For investments mainly for expansion of the revenue base, the Company made equity-method investment in a German photo printer business company, established a feed ingredient production plant in Dalian, China, increased investment in processed food manufacturing plant in Indonesia, purchased used aircraft from aircraft parts business in Ireland, and acquired a domestic sash specialist manufacturer.
- For investments mainly for acquisition of added value, the Company acquired a semiconductor image sensor downstream process business and a plant engineering company.

(ii) Response to technological innovation

The Company will make “innovation investment” in areas peripheral to the current business areas for future growth, and promote and expand new businesses structured around advanced technologies such as IoT and AI.

In the current fiscal year, as it is expected that data trading, exchange and utilization will expand in the Japanese market, the Company concluded a strategic partnership with a French company which develops and sells data exchange services; moreover, the Company concluded a capital and business alliance with a Japanese company that provides data trading consulting services, to promote the formation of a domestic data trading market.

(iii) Establishment of management infrastructure for achieving sustainable growth

In the current fiscal year, the Company mainly carried out the following initiatives.

Firstly, as part of developing the human resource for the management, the Company has started Kanematsu University that enhanced its internal training systems. This training system aims to develop human resource that can execute business investment and M&A, and later take responsibilities in the management. The curriculum takes approximately ten years to finish. Secondly, as part of the workstyle reforms, the Company examined the effectiveness of remote working such as the test operations on satellite offices with the aim to increase the alternatives of working environment and improve productivity. Moreover, the Company promoted computerization of internal documents and the enhancement of security. Such initiatives have also been utilized in the use of working from home in order to prevent further spread of the novel coronavirus disease, and we will continue to work on the issues concerning remote work and strive to build a working environment that is more friendly to our employees, aiming to understand and realize diverse working styles.

Thirdly, for the sustainable growth of both the Company and the society, the Company has developed the existing CSR Committee into the Sustainability Management Committee, starting from April of this year. Furthermore, the Company established Sustainability Management Section under the Corporate Planning Department, to promote business and management with more consideration for SDGs.

Despite implementing the above initiatives, in the current fiscal year, which is the second year of *future 135*, partly due to the deterioration of the economic environment in the second half of the year, the profit for the year attributable to owners of the parent came to ¥14.4 billion. Furthermore, the ratio of profit attributable to owners of the parent to equity attributable to owners of the parent or equity capital (ROE) came to 11.2%.

The year-end dividend will be ¥30 per share as the forecast for the dividend announced at the beginning of the year. The annual dividend per share will be ¥60 per share, including an interim dividend of ¥30 per share already paid. As a result, the payout ratio will be 34.8%, exceeding the upper value of the target of total return ratio.

(3) Forecast for the next fiscal year

As for the global economy in the next fiscal year, it is expected to continue facing challenging conditions, with both supply and demand expected to fall sharply due to the effects of the global novel coronavirus disease outbreak.

In this environment, due to the elimination of the negative factors in the feedstuff business that occurred in the current fiscal year and the forecast of an increase in profit of investment accounted for using the equity-method by investments in new businesses, etc., the Company forecasts that the profit for the year attributable to owners of the parent will be ¥14.5 billion in the next fiscal year, maintaining the level of the current fiscal year. In addition, the impact of the novel coronavirus disease outbreak has been calculated based on information available to the Company at the time of formulating the earnings forecast, assuming that the situation at that time will last until June.

As for the forecast for the dividend in the next fiscal year, the Company plans to pay ¥60 of annual dividends per share aiming at 34.6% of payout ratio, unchanged from the current fiscal year, in line with our basic policy of paying stable and sustained shareholder returns, despite the novel coronavirus disease outbreak and the economic uncertainty.

*Note on earnings forecasts

Earnings forecasts and other forward-looking statements contained in this material are projections based on information available to the Company on the date of the announcement of this material and reasonable assumptions. Accordingly, please note that the actual results may differ significantly from the forward-looking statements in this material due to various factors.

(6) Trend in Assets and Profit/Loss

Category	123rd Term (FY2017)	124th Term (FY2018)	125th Term (FY2019)	126th Term (Fiscal year under review) (FY2020)
Revenue million yen	675,579	714,790	723,849	721,802
Profit for the year attributable to owners of the parent million yen	8,049	16,317	16,605	14,399
Basic earnings per share yen	95.64	193.79	198.22	172.43
Total assets million yen	479,717	519,889	549,459	551,671
Total equity million yen	129,863	147,050	158,698	166,174

- (Notes) 1. Pursuant to Article 120, paragraph 1 of the Regulation on Corporate Accounting, the Company has been preparing its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs), commencing with those for the 123rd term.
2. Basic earnings per share since the 125th term is calculated based on the average number of shares during the period after the shares of the Company owned by the stock issuance trust for officers are deducted.
3. The Company conducted a consolidation of shares of its common stock at a rate of one share for every five shares on October 1, 2017. Basic earnings per share is calculated based on the assumption that the consolidation of shares was conducted at the beginning of the 123rd term.

(7) Significant Subsidiaries

Company Name	Capital (million yen)	Equity Share (%)	Major Areas of Operation
Kanematsu Electronics Ltd.	9,031	58.21	Development, sales and maintenance of IT system products and software
Kanematsu Communications Ltd.	1,425	100.00	Sales of mobile communication related and network related equipment and services therefor
Kanematsu Sustech Corporation	3,325	52.83	Sales of security equipment; geotech (ground improvement works); wood machining; petroleum products business
Kanematsu Trading Corp.	260	100.00	Sales of general steel and construction materials
Kanematsu KGK Corp.	706	97.84	Sales of machine tools and industrial machinery
Kanematsu Petroleum Corp.	1,000	100.00	Sales of petroleum products and liquid petroleum gas
Shintoa Corp.	500	100.00	Beverage-vending machine operations; aircraft engines; export/import and sales of livestock feed raw materials, etc.
Kanematsu USA Inc.	(thousand USD) 100,000	100.00	Export/import and sales of merchandise
Kanematsu (Hong Kong) Ltd.	(thousand HKD) 852,343	100.00	Export/import and sales of merchandise

(Note) The figure stated for equity share is the total of equity share owned by the Company and equity share owned by subsidiaries of the Company.

(8) Major Areas of Operation (as of March 31, 2020)

The Group provides a broad array of products and services in diverse fields such as electronics and devices, foods and grain, steel, materials and plant, and motor vehicles and aerospace through the organic integration of domestic and international business networks, expertise acquired in each business area, and the functions of a trading company, including commodities trading, information gathering, market exploration, business development and organization, risk management, and logistics.

(9) Major Business Locations (as of March 31, 2020)

(i) The Company's Major Offices

Japan: Kobe Head Office (Chuo-ku, Kobe)
Tokyo Head Office (Minato-ku, Tokyo)
Osaka Branch (Chuo-ku, Osaka)

Overseas: Manila Branch

(ii) Major Subsidiaries' Offices

Japan: Kanematsu Electronics Ltd. (Chuo-ku, Tokyo)
Kanematsu Communications Ltd. (Shibuya-ku, Tokyo)
Kanematsu Sustech Corporation (Chuo-ku, Tokyo)
Kanematsu Trading Corp. (Chuo-ku, Tokyo)
Kanematsu KGK Corp. (Chuo-ku, Tokyo)
Kanematsu Petroleum Corp. (Chiyoda-ku, Tokyo)
Shintoa Corp. (Chiyoda-ku, Tokyo)

Overseas: Kanematsu USA Inc. (U.S.A.)
Kanematsu (Hong Kong) Ltd. (Hong Kong)

(10) Employees (as of March 31, 2020)

Business Segment	Number of Employees (persons)	Year-on-Year Change (persons)
Electronics & Devices	4,203	45
Foods & Grain	750	(28)
Steel, Materials & Plant	1,221	131
Motor Vehicles & Aerospace	343	84
Other	235	13
Corporate (Common)	430	22
Total	7,182	267

(Note) The number of employees is the number of workers.

(11) Major Lenders (as of March 31, 2020)

Lender	Loan Balance at End of Fiscal Year (million yen)
MUFG Bank, Ltd.	27,787
Mizuho Bank, Ltd.	17,513
The Norinchukin Bank	13,234
Sumitomo Mitsui Trust Bank, Limited	13,130
Aozora Bank, Ltd.	14,238

(12) Other Significant Matters

No items to report.

2. Items Regarding Shares of the Company (as of March 31, 2020)

- (1) **Number of Shares Authorized to Be Issued** 200,000,000 shares
- (2) **Number of Issued Shares** 84,500,202 shares
(including 259,527 shares of treasury stock)
- (3) **Number of Shareholders** 19,139
- (4) **Principal Shareholders (top 10 shareholders)**

Shareholder Name	Number of Shares Held (thousand shares)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust account)	10,237	12.15
The Master Trust Bank of Japan, Ltd. (Trust account)	5,761	6.83
MSIP CLIENT SECURITIES	2,553	3.03
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,322	2.75
SSBTC CLIENT OMNIBUS ACCOUNT	2,194	2.60
GOVERNMENT OF NORWAY	2,119	2.51
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,710	2.03
JP MORGAN CHASE BANK 385151	1,535	1.82
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,505	1.78
The Bank of New York Mellon Corporation 140044	1,422	1.68

(Note) The shareholding ratio is calculated after the treasury stock (259,527 shares) was deducted. Treasury stock (259,527 shares) does not include the shares of the Company owned by the stock issuance trust for officers (702,500 shares).

3. Items Regarding Directors/Audit & Supervisory Board Members of the Company

(1) Directors and Audit & Supervisory Board Members (as of March 31, 2020)

Title	Name	Responsibilities in the Company and Significant Concurrent Positions
Chairman	Masayuki Shimojima	Chief Officer, Internal Auditing
President	Kaoru Tanigawa	
Director	Yoshiya Miyabe	Chief Officer, Motor Vehicles and Aerospace Division General Manager, Osaka Branch General Manager, Nagoya Branch Chief Officer, Technologies and Business Collaboration Director, Kanematsu Sustech Corporation
Director	Tetsuro Tsutano	Chief Officer, Finance, Accounting, Business Accounting
Director	Seiichi Katayama	Professor Emeritus, Kobe University
Director	Yuko Tahara	President and CEO, Basic Inc. Representative Director, Frame & Work Module Promotion Association Outside Director (Audit and Supervisory Committee Member), Sanyo Homes Corporation
Audit & Supervisory Board Member (Full-time)	Tetsuro Murao	
Audit & Supervisory Board Member (Full-time)	Sohei Ogawa	
Audit & Supervisory Board Member	Tsukasa Miyachi	Certified public accountant
Audit & Supervisory Board Member	Yusaku Kurahashi	Attorney at law

- (Notes) 1. Mr. Seiichi Katayama and Ms. Yuko Tahara are Outside Directors as stipulated in Article 2, item 15 of the Companies Act.
2. Messrs. Sohei Ogawa, Tsukasa Miyachi, and Yusaku Kurahashi are Outside Audit & Supervisory Board Members as stipulated in Article 2, item 16 of the Companies Act.
3. The Audit & Supervisory Board Members' financial and accounting insight is as follows:
- Audit & Supervisory Board Member Tetsuro Murao has the experience of serving for many years in corporate management at important positions, giving him a suitable level of insight concerning finance and accounting.
 - Audit & Supervisory Board Member Sohei Ogawa has the experience of serving for many years in a financial institution, giving him a suitable level of insight concerning finance and accounting.
 - Audit & Supervisory Board Member Tsukasa Miyachi is qualified as a certified public accountant, giving him a suitable level of insight concerning finance and accounting.
4. The Company has submitted notification to Tokyo Stock Exchange, Inc. that Outside Directors Seiichi Katayama, Yuko Tahara and Outside Audit & Supervisory Board Members Tsukasa Miyachi and Yusaku Kurahashi have been appointed as independent officers as provided for by the aforementioned exchange.

6. The Company adopts the executive officer system. As of April 1, 2020, the following people hold the position of Executive Officer.

Title	Name	Responsibilities in the Company
* President	Kaoru Tanigawa	
* Senior Managing Executive Officer	Yoshiya Miyabe	Chief Officer, Motor Vehicles and Aerospace Division General Manager, Osaka Branch General Manager, Nagoya Branch Chief Officer, Technologies and Business Collaboration
Senior Managing Executive Officer	Toshihide Motoshita	Chief Officer, Credit Control, Legal and Compliance
Managing Executive Officer	Eiji Kan	Chief Officer, Steel, Materials and Plant Division
Senior Executive Officer	Masayuki Hamasaki	Chief Officer, Grain, Oilseeds and Feedstuff Division
Senior Executive Officer	Masahiro Harada	Chief Officer, Electronics and Devices Division
Senior Executive Officer	Kazuo Tanaka	Chief Officer, Human Resources and General Affairs, Traffic and Insurance
* Senior Executive Officer	Tetsuro Tsutano	Chief Officer, Finance, Accounting, Business Accounting
Executive Officer	Koichi Koizumi	Deputy Chief Officer, Motor Vehicles and Aerospace Division
Executive Officer	Ryoichi Kidokoro	President, Kanematsu USA Inc.
Executive Officer	Osamu Iwata	Deputy Chief Officer, Steel, Materials and Plant Division
Executive Officer	Hiroshi Yamashina	President, Kanematsu G.m.b.H President, Kanematsu Europe PLC
Executive Officer	Yoichiro Muramatsu	Chief Officer, Corporate Planning, IT Planning
Executive Officer	Jun Nakajima	Deputy Chief Officer, Grain, Oilseeds and Feedstuff Division General Manager, Grain & Feedstuff Department
Executive Officer	Toru Hashimoto	Chief Officer, Meat Products Division General Manager, Meat Products Department No.1 General Manager, Meat Products Department No.2
Executive Officer	Koichi Nishimura	Chief Officer, Foods Division

(Note) The Executive Officers marked by an asterisk (*) concurrently hold the position of Director.

(2) Summary of Details of Limited Liability Agreement

Pursuant to the provisions of Article 427, paragraph 1 of the Companies Act, the Company has concluded an agreement with Outside Directors Seiichi Katayama and Yuko Tahara, Audit & Supervisory Board Member Tetsuro Murao, and Outside Audit & Supervisory Board Members Sohei Ogawa, Tsukasa Miyachi, and Yusaku Kurahashi, respectively, to make the limitation of liability for damages as stipulated in Article 423, paragraph 1 of the Companies Act, up to the maximum amount, which is the amount stipulated in Article 425, paragraph 1 of the said act.

(3) Directors' and Audit & Supervisory Board Members' Compensation

Category	Number of Persons	Total Amount (million yen)
Directors (excluding Outside Directors)	5	238
Outside Directors	4	21
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	2	28
Outside Audit & Supervisory Board Members	4	47
Total	15	337

- (Notes) 1. The amount of compensation that can be awarded by resolution of the General Meeting of Shareholders is ¥300 million or less a year for Directors (of which ¥30 million is to Outside Directors), and ¥84 million or less a year for Audit & Supervisory Board Members.
(Resolution at the 121st Ordinary General Meeting of Shareholders held on June 24, 2015)
2. The Company had four Directors (excluding Outside Directors), two Outside Directors, one Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Members), and three Outside Audit & Supervisory Board Members at the end of the fiscal year under review. The reason for the difference with the Number of Persons shown above is the inclusion of one Director (excluding Outside Directors), two Outside Directors, one Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Members), and one Outside Audit & Supervisory Board Member who retired at the conclusion of the 125th Ordinary General Meeting of Shareholders held on June 21, 2019.

(4) Items Regarding Outside Directors/Audit & Supervisory Board Members

- (i) Status of Significant Concurrent Positions of Other Companies, etc. and Relationships Between the Company and Those Companies, Etc.
- Director Yuko Tahara is President and CEO of Basic Inc., Representative Director of Frame & Work Module Promotion Association, and Outside Director (Audit and Supervisory Committee Member) of Sanyo Homes Corporation. There are no special trading relationships between the Company and Basic Inc., the Company and Frame & Work Module Promotion Association, or the Company and Sanyo Homes Corporation.

(ii) Key Activities in the Fiscal Year under Review

Category	Name	Attendance at Meetings of the Board of Directors	Attendance at Meetings of the Audit & Supervisory Board	Remarks
Director	Seiichi Katayama	19/19	—	He is a university professor specializing in economics and properly offers necessary comments based on his extensive expertise and deep insight regarding corporate management.
	Yuko Tahara	14/15	—	She properly offers necessary comments based on her abundant experience in corporate management and extensive knowledge.
Audit & Supervisory Board Member	Sohei Ogawa	19/19	15/15	He properly offers necessary comments based on his abundant experience in internal management practices and extensive knowledge that he acquired at financial institutions.
	Tsukasa Miyachi	18/19	14/15	He properly offers necessary comments based on his specialist knowledge and experience as a certified public accountant.
	Yusaku Kurahashi	14/15	10/10	He properly offers necessary comments based on his specialist knowledge and experience as an attorney at law.

- (Notes) 1. Director Yuko Tahara was elected at the 125th Ordinary General Meeting of Shareholders held on June 21, 2019, and because of this, the number shown for meetings of the Board of Directors held differs from those of other Outside Directors and Outside Audit & Supervisory Board Members.
2. Audit & Supervisory Board Member Yusaku Kurahashi was appointed at the 125th Ordinary General Meeting of Shareholders held on June 21, 2019, and because of this, the numbers shown for meetings of the Board of Directors held and meetings of the Audit & Supervisory Board held differ from those of other Outside Directors and Outside Audit & Supervisory Board Members.

4. Status of Accounting Auditor

(1) Name of Accounting Auditor

PricewaterhouseCoopers Aarata LLC

(2) Amount of Compensation, etc.

Category	Audit Fees (million yen)	Non-audit Fee (million yen)
The Company	146	0
Consolidated subsidiaries	196	—
Total	342	0

- (Notes) 1. The audit contract between the Company and the Accounting Auditor does not clearly distinguish between compensation paid for the audit conducted in accordance with the Companies Act and compensation paid for the audit conducted in accordance with the Financial Instruments and Exchange Act. Accordingly, the amount of Audit Fees includes the compensation, etc. paid for the audit conducted in accordance with the Financial Instruments and Exchange Act.
2. The amount of Non-audit Fee includes the compensation, etc. paid for agreed processing services associated with the tax declarations, etc. of overseas offices as part of tasks other than work set forth in Article 2, paragraph 1 of the Certified Public Accountants Act (non-auditing tasks).
3. After having performed the necessary verification as to the appropriateness of matters such as the content of the Accounting Auditor's audit plan, the status of performance of their duties, and the basis for the calculation of the estimated compensation for the Accounting Auditor, the Audit & Supervisory Board has consented to the amount of compensation, etc. to be paid to the Accounting Auditor.
4. Among significant subsidiaries of the Company, Kanematsu USA Inc., and Kanematsu (Hong Kong) Ltd. are audited (within the meaning of being audited as required by the Companies Act [including laws and regulations in other countries equivalent to the said law]) by audit firms (including entities possessing the qualifications in other countries equivalent to these qualifications) other than PricewaterhouseCoopers Aarata LLC.

(3) Policy Regarding Dismissal or Non-reappointment of Accounting Auditor

If it is deemed that the Accounting Auditor falls within any of the items of Article 340, paragraph 1 of the Companies Act and that no improvement in the situation is expected, the Audit & Supervisory Board shall dismiss the Accounting Auditor based on the consent of all the Audit & Supervisory Board Members. Besides the foregoing, if the Accounting Auditor is deemed unable to adequately perform their duties, the Audit & Supervisory Board shall decide the details of a proposal on the dismissal or non-reappointment of the Accounting Auditor, and the Board of Directors will submit the proposal to the General Meeting of Shareholders on the basis of that decision.

5. Corporate Structure and Policies

(1) Systems for Ensuring Appropriate Business Operations and Operation Status of the System

(i) Systems for Ensuring Appropriate Business Operations

Details of the systems for ensuring appropriate business operations resolved by the Board of Directors of the Company are as follows. (Final revision made on April 21, 2020)

“Basic Policy on the Establishment of Internal Control Systems”

The Company’s “Basic Policy on the Establishment of Internal Control Systems” is set forth in accordance with Article 362, paragraph 4, item 6 of the Companies Act, and Article 100, paragraphs 1 and 3 of the Regulation for Enforcement of the Companies Act as follows.

As part of the Company’s “Corporate Principle,” the Company has set forth “Our Beliefs” as mainstay bases of management.

<Our Beliefs>

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

In addition, the Company has set forth “Kanematsu’s Code of Conduct” as guidelines for daily operations.

The respective items set forth in the Companies Act and the Regulation for Enforcement of the Companies Act are as follows.

(1) Systems for Ensuring Execution of Duties by Directors and Employees of the Company in Compliance with Laws and Regulations, and the Articles of Association

- (i) In light of the importance of corporate legal compliance, the Company has set up an Internal Control and Compliance Committee to strengthen its compliance system.
- (ii) The Company has created a Compliance Handbook filled with countermeasures for specific case examples that can be read on the Company’s intranet in order to ensure full compliance awareness from the Directors down to all employees.
- (iii) The Company has introduced a hotline system for directly reporting to or consulting with the Internal Control and Compliance Committee or an outside lawyer, and it has created the Hotline Operation Rules.
- (iv) The Company works to enhance education and training to ensure not only compliance with laws and regulations but also constant attention to sensible behavioral ethics.

- (v) The Company clearly states in its Compliance Handbook that it cuts off all ties with antisocial forces, and it ensures that this position is widely known.

(2) Systems for Retention and Managing Information Concerning the Execution of Duties by Directors of the Company

- (i) The Board of Directors Rules stipulates that the minutes of the Board of Directors meetings must be held for a period of 10 years at the Company's Head Office.
- (ii) In its Detailed Rules for Document Custody and Retention, the Company has established standards for the custody, retention, and disposal of accounting records, balance sheets, agreements and contracts concerning the basic rights and obligations of the Company, certificates related to properties, and other similar documents, and retains documents according to these rules.
- (iii) The Company has established in these Detailed Rules for Document Custody and Retention, a system that enables any documents deemed necessary for the execution of Directors' duties to be read appropriately.

(3) Regulations and Other Systems for Management of the Risk of Loss of the Company

- (i) With respect to business risks that may affect the Company's operations, such as market risk, credit risk, investment risk, or country risk, the Company has designated departments responsible for each type of risk based on the Rules on Delegation of Authority, established internal regulations and detailed enforcement regulations, and prepared Operational Guidelines. It has also taken measures to ensure everyone has received necessary information through training, etc.
- (ii) The Company sets up cross-departmental committees as necessary to control risks.
- (iii) To comprehensively assess risks facing the Company, promote operational effectiveness and efficiency, and ensure the reliability of financial reporting, the Company has established the Internal Control and Compliance Committee as a groupwide organization.
- (iv) The Company has established an internal approval request system based on the Rules on Delegation of Authority to minimize business risks. The Project Deliberation Committee considers important investments and loans by comprehensively examining relevant risks.
- (v) To address the risk of crises related to the occurrence of major events, such as natural disasters, the Company has put in place a system, including specific rules and guidelines of action, to ensure the appropriate management of the Group at such extraordinary times.

(4) Systems for Ensuring that Directors of the Company Appropriately and Efficiently Execute Duties

- (i) The Company has established the Board of Directors Rules and in principle it holds regular Board of Directors meetings once per month and extraordinary Board of Directors meetings as necessary. While deciding matters stipulated by laws and regulations, or the Articles of Association, management policy and other important matters, the Board of Directors, which is composed by Directors including Outside Directors, also supervises the execution of duties by the Directors. Audit & Supervisory Board Members also attend the Board of Directors meetings and state their opinions.
- (ii) The Company has adopted an executive officer system to improve the flexibility of business execution by speeding up management decision making and by further clarifying roles and

responsibilities through the separation of supervisory and executive functions. The Executive Officers, who are appointed by the Board of Directors, are in charge of the execution of company business.

- (iii) The Company has set up a Management Committee composed of Executive Officers, including the Chairman and the President, in order to realize speedier decision making and flexible management. The Committee establishes basic policies for the Company's general business execution in accordance with policies determined by the Board of Directors and provides instruction and guidance on the execution of business.
- (iv) The Company has established the Rules on Delegation of Authority, which sets forth the relationships between the allocated duties of Directors, Executive Officers and employees and the authority delegated to them, and criteria so that the corporate business activities can be carried out fairly under an organized structure.
- (v) So as to enhance debate and speed up decision making on important projects, the Company has established the Project Deliberation Committee to consider and discuss matters from a Companywide perspective and submit recommendations to the designated decision makers before the matters are decided by the decision makers set forth in the Rules on Delegation of Authority.
- (vi) The Company establishes Companywide targets by preparing a Medium-Term Business Plan for the Company's business operations that takes into account the future business environment, and, in addition, formulating an annual business plan every fiscal year. Each division formulates and executes concrete strategies for achieving these targets.
- (vii) To ensure that proper accounting records are kept and to monitor appropriate business execution, the Company has established Auditing Rules, in accordance with which the Internal Auditing Department conducts internal audits of all divisions and subsidiaries.

(5) Systems for Ensuring Appropriate Business Operations by the Company and its Subsidiaries (hereinafter, the "Group")

- (i) While respecting the autonomy of subsidiaries' management, the Company has set up a system whereby subsidiaries, in principle, obtain in advance the Company's approval based on joint discussion for the establishment of basic policies and important management matters in accordance with the Details of Delegation of Authority for Business Operations of Subsidiaries and Affiliates, provided for in the Rules on Delegation of Authority. The Company has also set up a system for affiliates whereby in principle, intra-company approval of the affiliate is obtained beforehand for important management matters that are subject to final decision by shareholders' vote at a General Meeting of Shareholders.
- (ii) The senior management of the Company and its major subsidiaries and affiliates meet several times a year and at other times as necessary to share information on management matters. These meetings are aimed at ensuring mutual understanding and a shared awareness of corporate governance issues.
- (iii) For the purpose of coordinating the Company's activities to control and manage risks with those of its subsidiaries, the Company provides guidance and suggests adjustments for the risk management activities of subsidiaries while conducting internal audits into the control and management of business risks in subsidiaries.

- (iv) The Company provides its subsidiaries with guidance on how to establish their own crisis management systems, and it makes the necessary adjustments to ensure the Group can stage a coordinated response if a crisis risk occurs.
- (v) The Company formulates a Medium-Term Business Plan and an annual business plan every fiscal year for the business operations of the Group, and it provides guidance to subsidiaries for formulating and executing concrete measures to achieve these plans.
- (vi) The Company has established a Compliance Handbook that covers the business operations of the Group and makes every effort to ensure the officers and employees of the Group become familiarized with the content. In addition, the Company has established a system whereby the Company's Internal Control and Compliance Committee controls and promotes compliance across the entire Group.

(6) Matters Concerning the Employees Who Are to Assist Audit & Supervisory Board Members of the Company

- (i) The Company ensures that a system is in place to assist in an Audit & Supervisory Board Member's performance of duties if an Audit & Supervisory Board Member requests the placement of an employee to assist in such duties.

(7) Matters Concerning the Independence of the Employees Who Are to Assist Audit & Supervisory Board Members of the Company From the Directors, and the Effectiveness of Instructions From Audit & Supervisory Board Members to Said Employees

- (i) The Company takes care to ensure that the employees who are to assist in the Audit & Supervisory Board Members' performance of duties are independent from the Directors and that Audit & Supervisory Board Members are able to effectively instruct the said employees.

(8) Systems for Reporting to Audit & Supervisory Board Members of the Company

- (i) Directors and employees must promptly report to an Audit & Supervisory Board Member with respect to any discovery of an incident where a Director is in violation of laws and regulations, or an incident that threatens to cause significant damage to the Company.
- (ii) The Directors who are in charge of the Internal Control and Compliance Committee must report to the Audit & Supervisory Board Members at least once a month concerning the circumstances of operations relating to compliance in the Group, on a case-by-case basis, about material matters.
- (iii) Directors and employees, if so requested by Audit & Supervisory Board Members, shall promptly report matters relating to business executions.
- (iv) In addition to attending the Board of Directors meetings, Audit & Supervisory Board Members shall attend the Management Committee meetings, Project Deliberation Committee meetings, Internal Control and Compliance Committee meetings, as well as any other important conference or committee meeting, and receive reports on important management matters within the Group to effectively conduct Audit & Supervisory Board Members' audits. Also, in cases when not attending such meetings, the Audit & Supervisory Board Members shall be given explanation on the agenda items of the meeting, and allowed the opportunity to read the meeting materials, such as internal circulars for managerial decision and reports, and the minutes of the meeting.
- (v) Audit & Supervisory Board Members shall regularly hold Group Company Audit & Supervisory Board Member Liaison Meetings at which Group-company Audit & Supervisory Board Members

attend, and facilitate information sharing among Group-company Audit & Supervisory Board Members.

- (vi) It is prohibited throughout the Group to dismiss or otherwise disadvantageously treat a person making a report to the Audit & Supervisory Board Members because of the act of making the report.

(9) Other Systems for Ensuring Efficient Audits by Audit & Supervisory Board Members of the Company

- (i) Audit & Supervisory Board Members are provided preliminary explanations with respect to annual plans for internal audits to be implemented by the internal auditing departments, and they may state their opinions when deemed necessary. Moreover, Audit & Supervisory Board Members may be appropriately provided reports regarding the status of internal audit implementation within the Group, and may state their opinions concerning the performance of additional audits, measures to improve business operations and other such statements, when deemed necessary.
- (ii) Audit & Supervisory Board Members shall ensure the Accounting Auditor's independence from the Directors and be provided preliminary reports on the Accounting Auditor's audit plan. In addition, the Audit & Supervisory Board Members' consent is one of the required steps to approve the Accounting Auditor's compensation and the non-auditing tasks requested of the Accounting Auditor.
- (iii) Audit & Supervisory Board Members and the Audit & Supervisory Board shall meet regularly with the Representative Directors, and in addition to making sure of their understanding of the Representative Directors' management policy, they shall exchange opinions in regard to not only the issues to be addressed by the Company and the risks faced by the Company, but also the status of the environment that has been set up for the Audit & Supervisory Board Member's audits and the important issues concerning audits to deepen a mutual awareness and relationship of trust with the Representative Directors.
- (iv) If an Audit & Supervisory Board Member requests upfront payment or reimbursement for the payment of expenses needed for executing his/her duties, the Company shall pay such expenses promptly.

(ii) Summary of Operation Status of the Systems for Ensuring Appropriate Business Operations

In accordance with the above-mentioned basic policy, the Company has set internal control systems in place. A summary of the operation status for fiscal year under review is provided below.

- Status of Compliance and Risk Management

The President repeatedly made statements to officers and employees of the Company and its subsidiaries about the importance of compliance and the establishment of ethics of individual employees. In addition, efforts were made to ensure compliance through such means as revising the Kanematsu Group Compliance Handbook, ensuring awareness concerning preventions for harassment and establishing new consultation office for it, case introductions at internal compliance trainings, and thorough execution of immediate report upon recognition of concerns over violation of compliance.

To realize greater efficiency and effectiveness of operational controls and risk management, the Company revised the Rules on Delegation of Authority and Details of Delegation of Authority. Moreover, as measures against new risks, the Company have been raising awareness relating to

scams using business emails and have been establishing system for business execution when there are restrictions on working at the offices due to outbreak of diseases, etc.

The Internal Control and Compliance Committee was held in total twice to discuss such matters as the establishment, operation, evaluation, and improvement of internal control systems in the Company and its subsidiaries with the viewpoint of conducting a comprehensive evaluation of the risks.

In addition, the issues and information relating to the overall internal control, compliance and risk management of the Group were shared by way of holding the Affiliate Presidents Meeting, where the senior management of the Company and its major subsidiaries and affiliates gather, twice.

- Status of Performance of Duties by Directors, etc.

The Board of Directors meetings, which in principle are held monthly, were held in total 19 times. At these meetings, management policies and other important matters of the Company and the Group, such as the management principle, medium- to long-term strategy, and corporate governance were decided.

Management Committee meetings, which in principle are held twice monthly, were held in total 26 times to discuss matters relating to the leadership and guidance of business execution in accordance with the management policy established by the Board of Directors. In addition, Project Deliberation Committee meetings, which in principle are held twice monthly, were held in total 24 times to submit recommendations to the designated decision makers on important projects based on the preliminary deliberation.

The Company has a controlling division set up to manage matters relating to management of subsidiaries. This division received submissions from subsidiaries to approve important matters in advance and requested subsidiaries to provide reports regarding such matters.

Besides promoting the medium-term vision *future 135*, in order to grow further, the Company also implemented initiatives from the viewpoint of “investing on the persons.” In order to develop the human resource for the management, the Company established Kanematsu University, which is a new training system that reinforced and systematized the existing human resource training systems. In addition, the Company implemented various initiatives to promote diversity and inclusion (the realization of working styles fitting for diverse senses of values), such as creating an environment as the base for the workstyle reforms (e.g. thorough management of working time, promotion of taking paid leaves, working short hours / the flextime system and enriching the initiatives for supporting childcares, and examination for effectiveness of utilizing satellite offices, etc.) and formulating the Action Plan to Help Women Excel.

- Securing the Effectiveness of Audits by Audit & Supervisory Board Members

In conducting audits of the execution of duties by Directors, the Audit & Supervisory Board Members received reports from the Representative Directors, other Directors and Executive Officers, General Managers, and other employees as appropriate concerning the execution of business operations and the status of risk management, and attended all Board of Directors meetings and Management Committee meetings, in addition to important meetings and committees. In addition, the Audit & Supervisory Board Members received reports from the Representative Directors of major Group companies, concerning the execution of business operations and other information, and shared information as appropriate with the Group companies' Audit & Supervisory Board Members through holding Group Company Audit & Supervisory Board Member Meetings and through individual meetings.

The Internal Auditing Department, which is a department for internal audits, conducted regular meetings with the Audit & Supervisory Board Members to explain matters pertaining to the annual plan, the status of audit implementation, and the results of internal audits, etc., including those for subsidiary audits for the purpose of coordinating the internal audits and Audit & Supervisory Board Members' audits.

In addition, the Audit & Supervisory Board Members met regularly with the Accounting Auditor to confirm the Accounting Auditor's independence from the Directors, and to evaluate the system and operation quality of the Accounting Auditor by exchanging opinions on the accounting audit's plan

and status of implementation, matters that have an effect on the Company's business performance and financial position, and other matters.

(2) Policy Concerning Decisions on Dividends from Surplus, etc.

The Company regards providing returns to shareholders as a critical management issue. The Company's basic policy in this regard is to provide distribution of profit that is reflective of business results, while maintaining a balance between returns to shareholders and an appropriate level of internal reserves for growth investment in the future.

In the medium-term vision *future 135*, the Company aims to pay stable and sustained shareholder returns with a target payout ratio (total return ratio) of 25% to 30%.

Pursuant to the provisions in Article 459, paragraph 1 of the Company Act, it is stipulated in the Articles of Association of the Company that dividends from surplus can be determined by a resolution of the Board of Directors. Likewise, the record date of the interim dividend and of the year-end dividend should be September 30 and March 31 of every fiscal year, respectively, as stipulated in the Articles of Association and dividend shall be paid twice annually by a resolution of the Board of Directors, in principle.

Consolidated Financial Statements

Consolidated statement of financial position (As of March 31, 2020)

(Million yen)

Item	Amount	Item	Amount
<u>ASSETS</u>		<u>LIABILITIES</u>	
Current assets	426,756	Current liabilities	284,503
Cash and cash equivalents	91,105	Trade and other payables	172,922
Trade and other receivables	204,920	Bonds and borrowings	68,164
Inventories	100,766	Lease liabilities	6,303
Other financial assets	5,383	Other financial liabilities	4,614
Other current assets	24,580	Income taxes payable	3,393
		Provisions	30
		Other current liabilities	29,073
Non-current assets	124,915	Non-current liabilities	100,994
Property, plant and equipment	40,756	Bonds and borrowings	75,229
Goodwill	10,304	Lease liabilities	11,251
Intangible assets	23,382	Other financial liabilities	2,063
Investments accounted for using the equity method	7,506	Retirement benefit liabilities	6,779
		Provisions	1,914
Trade and other receivables	1,428	Deferred tax liabilities	2,385
Other investments	28,279	Other non-current liabilities	1,369
Other financial assets	7,370		
Deferred tax assets	2,761	Total liabilities	385,497
Other non-current assets	3,126	<u>EQUITY</u>	
		Equity	
		Share capital	27,781
		Capital surplus	26,957
		Retained earnings	69,540
		Treasury stock	(1,309)
		Other components of equity	7,860
		Exchange differences on translation of foreign operations	930
		Financial assets measured at fair value through other comprehensive income	6,816
		Cash flow hedges	113
		Total equity attributable to owners of the Parent	130,829
		Non-controlling interests	35,344
Total assets	551,671	Total equity	166,174
		Total liabilities and equity	551,671

(Note) Figures are rounded down to the nearest million yen.

Consolidated statement of income (From April 1, 2019 to March 31, 2020)

(Million yen)

Item	Amount	
Revenue		721,802
Cost of sales		(610,897)
Gross profit		110,904
Selling, general and administrative expenses		(82,716)
Other income (expenses)		
Gain (loss) on sale or disposal of property, plant and equipment and intangible assets, net	(118)	
Impairment loss on property, plant and equipment and intangible assets	(551)	
Other income	1,958	
Other expenses	(1,123)	165
Operating profit		28,352
Finance income		
Interest income	271	
Dividend income	1,143	1,415
Finance costs		
Interest expenses	(2,761)	
Other finance costs	(452)	(3,214)
Share of profit (loss) of investments accounted for using the equity method		389
Profit before tax		26,944
Income tax expense		(8,710)
Profit for the year		18,233
Profit for the year attributable to:		
Owners of the Parent		14,399
Non-controlling interests		3,834

(Note) Figures are rounded down to the nearest million yen.

Consolidated statement of changes in equity (From April 1, 2019 to March 31, 2020)

(Million yen)

	Equity attributable to owners of the Parent							
	Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity			
					Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income	Cash flow hedges	Re-measurement of defined benefit pension plans
Balance as of March 31, 2019	27,781	26,882	60,748	(1,318)	1,865	9,580	(293)	–
Cumulative effects of changes in accounting policies								
Restated balance	27,781	26,882	60,748	(1,318)	1,865	9,580	(293)	–
Profit			14,399					
Other comprehensive income					(935)	(2,926)	406	(17)
Total comprehensive income for the year	–	–	14,399	–	(935)	(2,926)	406	(17)
Dividends			(5,428)					
Dividends paid to non-controlling interests								
Acquisition of treasury stock				(5)				
Disposition of treasury stock		(0)		14				
Equity transactions with non-controlling interests		31						
Share-based payment transactions		42						
Total transactions with owners	–	74	(5,428)	8	–	–	–	–
Reclassification from other components of equity to retained earnings			(179)			162		17
Balance as of March 31, 2020	27,781	26,957	69,540	(1,309)	930	6,816	113	–

	Equity attributable to owners of the Parent		Non-controlling interests	Total equity
	Other components of equity	Total equity attributable to owners of the Parent		
	Total other components of equity			
Balance as of March 31, 2019	11,153	125,246	33,451	158,698
Cumulative effects of changes in accounting policies	–	–		–
Restated balance	11,153	125,246	33,451	158,698
Profit	–	14,399	3,834	18,233
Other comprehensive income	(3,472)	(3,472)	(229)	(3,702)
Total comprehensive income for the year	(3,472)	10,927	3,604	14,531
Dividends	–	(5,428)		(5,428)
Dividends paid to non-controlling interests	–	–	(1,891)	(1,891)
Acquisition of treasury stock	–	(5)		(5)
Disposition of treasury stock	–	14		14
Equity transactions with non-controlling interests	–	31	179	211
Share-based payment transactions	–	42		42
Total transactions with owners	–	(5,344)	(1,711)	(7,056)
Reclassification from other components of equity to retained earnings	179	–		–
Balance as of March 31, 2020	7,860	130,829	35,344	166,174

(Note) Figures are rounded down to the nearest million yen.

Non-consolidated Financial Statements

Non-consolidated balance sheet (As of March 31, 2020)

(Million yen)

Item	Amount	Item	Amount
<u>ASSETS</u>		<u>LIABILITIES</u>	
Current assets	168,154	Current liabilities	114,229
Cash and bank deposits	21,869	Notes payable	173
Notes receivable	1,259	Import bills payable	45,900
Accounts receivable	57,023	Accounts payable	19,585
Short-term investments	1	Current portion of bonds	5,000
Inventories	43,499	Short-term borrowings	20,238
Advance payments to suppliers	7,795	Lease obligations	64
Prepaid expenses	641	Other accounts payable	7,048
Short-term loans receivable	6	Accrued expenses	601
Short-term loans to affiliates	25,228	Accrued income taxes	322
Other accounts receivable	4,427	Advances received	7,598
Derivatives	2,030	Deposits received	7,321
Other	4,402	Deferred revenue	13
Allowance for doubtful accounts	(32)	Derivatives	359
		Other	2
Long-term assets	112,951	Non-current liabilities	70,474
Tangible fixed assets	2,284	Bonds	10,000
Buildings	334	Long-term borrowings	59,563
Structures	0	Lease obligations	195
Machinery and equipment	95	Provision for employees' retirement and severance benefits	83
Vehicles	3	Provision for loss on affiliated business	47
Tools and fixtures	181	Provision for stock benefits	111
Land	1,434	Asset retirement obligations	216
Lease assets	233	Deferred tax liabilities	62
Intangible fixed assets	484	Other	195
Software	189	Total liabilities	184,703
Telephone subscription rights	7		
Other	287	<u>NET ASSETS</u>	
Investments and other assets	110,182	Shareholders' equity	93,371
Investments in securities	16,326	Common stock	27,781
Shares of affiliates	83,629	Capital surplus	26,887
Equity investments	1,556	Legal capital surplus	26,887
Equity investment in affiliates	5,848	Other capital surplus	0
Long-term loans receivable	1,257	Retained earnings	40,001
Long-term loans to employees	12	Legal retained earnings	131
Long-term loans to subsidiaries and affiliates	1,732	Other retained earnings	39,869
Doubtful accounts	285	Voluntary reserve	1,836
Long-term prepaid expenses	40	Retained earnings brought forward	38,033
Other	2,108	Treasury stock	(1,298)
Allowance for doubtful accounts	(2,614)	Valuation and translation adjustments	3,079
Deferred assets	50	Net unrealized gains on securities, net of tax	2,790
Bond issuance costs	50	Net losses on deferred hedges, net of tax	289
		Total net assets	96,451
Total assets	281,155	Total liabilities and net assets	281,155

(Note) Figures are rounded down to the nearest million yen.

Non-consolidated statement of income (From April 1, 2019 to March 31, 2020)

(Million yen)

Item	Amount	
Net sales		389,593
Cost of sales		375,940
Gross profit		13,653
Selling, general and administrative expenses		13,741
Operating loss		(87)
Non-operating income		
Interest income	544	
Dividend income	11,041	
Foreign exchange gains	1,407	
Other	440	13,433
Non-operating expenses		
Interest expenses	1,966	
Other	261	2,228
Ordinary income		11,118
Extraordinary gains		
Gain on sale of tangible fixed assets	4	
Gain on sale of investments in securities	197	
Gain on liquidation of subsidiaries and affiliates	9	211
Extraordinary losses		
Loss on disposal of fixed assets	149	
Impairment loss on fixed assets	382	
Loss on sale of investments in securities	6	
Impairment loss on investments in securities	215	
Loss on refunding due to capital reduction of subsidiaries and affiliates	1,652	
Provision of allowance for doubtful accounts for subsidiaries and affiliates and loss on affiliated business	541	2,948
Income before income taxes		8,381
Income taxes - current	(1,107)	
Income taxes - deferred	533	(574)
Net income		8,956

(Note) Figures are rounded down to the nearest million yen.

Non-consolidated statement of changes in equity (From April 1, 2019 to March 31, 2020)

(Million yen)

	Shareholders' equity							
	Common stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						Voluntary reserve	Retained earnings brought forward	
Balance at the beginning of the fiscal year	27,781	26,887	0	26,887	131	1,836	34,553	36,521
Changes during the fiscal year								
Dividends							(5,475)	(5,475)
Net income							8,956	8,956
Acquisition of treasury stock								—
Disposition of treasury stock								—
Net changes of items other than shareholders' equity during the fiscal year								—
Total changes during the fiscal year	—	—	—	—	—	—	3,480	3,480
Balance at the end of the fiscal year	27,781	26,887	0	26,887	131	1,836	38,033	40,001

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury stock	Total shareholders' equity	Net unrealized gains on securities, net of tax	Net gains (losses) on deferred hedges, net of tax	Total valuation and translation adjustments	
Balance at the beginning of the fiscal year	(1,307)	89,882	3,973	69	4,043	93,925
Changes during the fiscal year						
Dividends		(5,475)			—	(5,475)
Net income		8,956			—	8,956
Acquisition of treasury stock	(5)	(5)			—	(5)
Disposition of treasury stock	14	14			—	14
Net changes of items other than shareholders' equity during the fiscal year		—	(1,183)	219	(963)	(963)
Total changes during the fiscal year	8	3,489	(1,183)	219	(963)	2,525
Balance at the end of the fiscal year	(1,298)	93,371	2,790	289	3,079	96,451

(Note) Figures are rounded down to the nearest million yen.

Independent Auditors' Audit Report

May 22, 2020

To the Board of Directors of
Kanematsu Corporation

PricewaterhouseCoopers Aarata LLC

Designated Limited Liability Partner,
Certified Public Accountant:
Kensuke Koda (Seal)

Designated Limited Liability Partner,
Certified Public Accountant:
Takayoshi Yano (Seal)

Designated Limited Liability Partner,
Certified Public Accountant:
Masaki Nitta (Seal)

Opinion

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements, of Kanematsu Corporation (the "Company") for the fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the consolidated financial statements referred to above, which were prepared with some disclosure items required under International Financial Reporting Standards omitted pursuant to the provisions of the latter part of Article 120, paragraph 1 of the Regulation on Corporate Accounting, present fairly, in all material respects, the financial position and results of operations of the Company and its consolidated subsidiaries for the period covered by these consolidated financial statements.

Basis for the Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in "*Auditor's Responsibility for the Audit of the Consolidated Financial Statements*." We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and we comply with other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management, Audit & Supervisory Board Members, and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements pursuant to the provisions of the latter part of Article 120, paragraph 1 of the Regulation on Corporate Accounting, which permits companies to omit some disclosure items required under International Financial Reporting Standards in preparing consolidated financial statements, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these consolidated financial statements, management is responsible for evaluating the appropriateness of preparing the consolidated financial statements on a going concern assumption, excluding the cases where management intends to liquidate or suspend the business or when there are no realistic alternatives other than the aforementioned, and disclosing matters related to a going concern when disclosure is obligatory based on the provisions of the latter part of Article 120, paragraph 1 of the Regulation on Corporate Accounting which permits companies to omit some disclosure items required under International Financial Reporting Standards.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the performance of duties by the Directors in designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

The auditor's responsibility is to obtain reasonable assurance on if the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on these consolidated financial statements from an independent position in the audit report based on the audit conducted by the auditor. Misstatement can occur due to fraud or error, and its materiality is determined by reasonably estimating whether it individually or cumulatively influences the decision-making of the users of the consolidated financial statements. The auditor conducts the following in accordance with auditing standards generally accepted in Japan and makes judgements as professional specialist throughout the auditing process, while maintaining professional skepticism.

- Identify and assess the risks of material misstatement due to fraud or error. Design and perform audit procedure that deals with the risks of material misstatement. The selection and application of the audit procedures depend on the auditor's judgment. Moreover, obtain sufficient and appropriate audit evidence to provide a basis for expressing the audit opinion.
- The purpose of the audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, the auditor considers internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used by management and the application methods thereof, as well as the reasonableness of accounting estimates made by management and the propriety of relevant notes.
- Conclude whether the preparation of consolidated financial statements by management under the going concern assumption is appropriate or not and, based on the audit evidence obtained, conclude if there are material uncertainties regarding events and conditions where significant doubt is cast upon the going concern assumption. When there are material uncertainties regarding the going concern assumption, the auditor is required to raise awareness concerning the notes to the consolidated financial statements in the audit report. When the notes to the consolidated financial statements regarding material uncertainties are concluded to be inappropriate, it is required that the auditor expresses a qualified opinion with exceptions on the consolidated financial statements. Although the conclusion by the auditor is based on audit evidence obtained up until the issue date of the audit report, there are possibilities where the Company may not continue as a going concern due to future events and conditions.
- Evaluate whether the presentation and the relevant notes of the consolidated financial statements are prepared pursuant to the provisions of the latter part of Article 120, paragraph 1 of the Regulation on Corporate Accounting, which permits companies to omit some disclosure items required under International Financial Reporting Standards, as well as evaluate whether the presentation, structure and content of the consolidated financial statements, including the relevant notes, and the transactions and accounting events based on the consolidated financial statements are presented fairly.
- Obtain sufficient and appropriate audit evidence concerning the financial information of the Company and its subsidiaries in order to express an opinion on these consolidated financial statements. The auditor is responsible for instructing, monitoring, and performing the audit of the consolidated financial statements. The auditor is solely responsible for the audit opinion.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board on the scope and the performing period of the audit planned, important matters related to the audit including material weakness in internal control identified during the audit, and other matters required by the auditing standards.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board on compliance of the provisions related to professional ethics in Japan concerning independence, matters which are reasonably considered to be of influence on the independence of the auditor, and any safeguard measures taken to eliminate or reduce hindering factors.

Conflicts of Interest

We have no interest in the Company and its consolidated subsidiaries which should be disclosed in compliance with the Certified Public Accountants Act.

Independent Auditors' Audit Report

May 22, 2020

To the Board of Directors of
Kanematsu Corporation

PricewaterhouseCoopers Aarata LLC

Designated Limited Liability Partner,
Certified Public Accountant:
Kensuke Koda (Seal)

Designated Limited Liability Partner,
Certified Public Accountant:
Takayoshi Yano (Seal)

Designated Limited Liability Partner,
Certified Public Accountant:
Masaki Nitta (Seal)

Opinion

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the non-consolidated financial statements, namely, the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity, the notes to the non-consolidated financial statements, and the supplementary schedules (hereinafter the “non-consolidated financial statements and others”), of Kanematsu Corporation (the “Company”) for the 126th fiscal term from April 1, 2019 to March 31, 2020.

In our opinion, the non-consolidated financial statements and others referred to above present fairly, in all material respects, the financial position and results of operations of the Company for the period covered by these non-consolidated financial statements and others in conformity with accounting principles generally accepted in Japan.

Basis for the Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in “*Auditor’s Responsibility for the Audit of the Non-consolidated Financial Statements and Others.*” We are independent of the Company in accordance with the provisions related to professional ethics in Japan, and we comply with other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management, Audit & Supervisory Board Members, and the Audit & Supervisory Board for the Non-consolidated Financial Statements and Others

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements and others in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements and others that are free from material misstatement, whether due to fraud or error.

In preparing these non-consolidated financial statements and others, management is responsible for evaluating the appropriateness of preparing the non-consolidated financial statements and others on a going concern assumption, and disclosing matters related to a going concern when disclosure is obligatory in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the performance of duties by the Directors in designing and operating the financial reporting process.

Auditor’s Responsibility for the Audit of the Non-consolidated Financial Statements and Others

The auditor’s responsibility is to obtain reasonable assurance on if the non-consolidated financial statements and others as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on these non-consolidated financial statements and others from an independent position in the audit report based on the audit conducted by the auditor. Misstatement can occur due to fraud or error, and its materiality is determined by

reasonably estimating whether it individually or cumulatively influences the decision-making of the users of the non-consolidated financial statements and others.

The auditor conducts the following in accordance with auditing standards generally accepted in Japan and makes judgements as professional specialist throughout the auditing process, while maintaining professional skepticism.

- Identify and assess the risks of material misstatement due to fraud or error. Design and perform audit procedure that deals with the risks of material misstatement. The selection and application of the audit procedures depend on the auditor's judgment. Moreover, obtain sufficient and appropriate audit evidence to provide a basis for expressing the audit opinion.
- The purpose of the audit of the non-consolidated financial statements and others is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, the auditor considers internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used by management and the application methods thereof, as well as the reasonableness of accounting estimates made by management and the propriety of relevant notes.
- Conclude whether the preparation of the non-consolidated financial statements and others by management under the going concern assumption is appropriate or not and, based on the audit evidence obtained, conclude if there are material uncertainties regarding events and conditions where significant doubt is cast upon the going concern assumption. When there are material uncertainties regarding the going concern assumption, the auditor is required to raise awareness concerning the notes to the non-consolidated financial statements and others in the audit report. When the notes to the non-consolidated financial statements and others regarding material uncertainties are concluded to be inappropriate, it is required that the auditor expresses a qualified opinion with exceptions on the non-consolidated financial statements and others. Although the conclusion by the auditor is based on audit evidence obtained up until the issue date of the audit report, there are possibilities where the Company may not continue as a going concern due to future events and conditions.
- Evaluate whether the presentation and the relevant notes of the non-consolidated financial statements and others are prepared in accordance with accounting principles generally accepted in Japan, as well as evaluate whether the presentation, structure and content of the non-consolidated financial statements and others, including its relevant notes, and the transactions and accounting events based on the non-consolidated financial statements and others are presented fairly.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board on the scope and the performing period of the audit planned, important matters related to the audit including material weakness in internal control identified during the audit, and other matters required by the auditing standards.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board on compliance of the provisions related to professional ethics in Japan concerning independence, matters which are reasonably considered to be of influence on the independence of the auditor, and any safeguard measures taken to eliminate or reduce hindering factors.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Audit Report

The Audit & Supervisory Board, hereby reports as follows regarding the performance of duties by the Directors of Kanematsu Corporation (the “Company”) during its 126th fiscal term, from April 1, 2019 to March 31, 2020. This Audit Report was prepared based on reports prepared by each Audit & Supervisory Board Member, and as a result of subsequent deliberations.

1. Method of the audits by the individual Audit & Supervisory Board Members and the Audit & Supervisory Board; content of audits
 - (1) In addition to receiving reports on the progress in and results of audits by the individual Audit & Supervisory Board Members, based on the Audit & Supervisory Board’s policies and audit plans for the current fiscal term, the Audit & Supervisory Board also received reports from the Directors and the Accounting Auditor regarding the performance of its duties, and requested explanations from it as necessary.
 - (2) In accordance with the auditing standards set forth by the Audit & Supervisory Board, and in compliance with the policies and audit plans for the current fiscal term, each of the Audit & Supervisory Board Members worked to communicate with the Directors, the Internal Auditing Department, and other employees in collecting information and establishing an appropriate audit environment, and audits were implemented as follows:
 - (i) Audit & Supervisory Board Members participated in meetings of the Board of Directors and other key meetings, received reports from the Directors and other employees regarding the performance of their duties, and when necessary, requested explanations of those reports. Audit & Supervisory Board Members also reviewed key decision documents, and conducted surveys of the operations and assets of both the head office and major local offices. Regarding subsidiaries, Audit & Supervisory Board Members worked to communicate with those subsidiaries’ Directors, Audit & Supervisory Board Members and other parties and received business reports from subsidiaries as necessary.
 - (ii) As for the details of the resolution of the Board of Directors related to the establishment of the systems as indicated in the Business Report to ensure that the execution of the duties of Directors conform to laws and regulations and the Articles of Association, and the systems necessary to ensure appropriate operations of corporations and their subsidiaries as stipulated in Article 100, paragraphs 1 and 3 of the Regulation for Enforcement of the Companies Act, and the condition of the systems put in place in accordance with the aforesaid resolution (internal control system), we received periodical reporting from the Directors and other employees, sought explanations as necessary, and provided our recommendations.
 - (iii) While also monitoring and reviewing the audit of the Accounting Auditor to ensure it maintained an independent position and conducted its audits fairly, Audit & Supervisory Board Members received reports from them regarding the performance of its duties, and when necessary, asked for further explanation regarding those reports. Audit & Supervisory Board Members also received notice from the Accounting Auditor in accordance with “the system for ensuring appropriate execution of its duties” (as enumerated in each item of Article 131 of the Regulation on Corporate Accounting) in compliance with the “Quality Control Standards Relating to Auditing” (adopted by the Business Accounting Deliberations Council on October 28, 2005), and, where necessary, Audit & Supervisory Board Members requested further explanation regarding that notice.

Based on the above methods, Audit & Supervisory Board Members proceeded to review the Business Report and supplementary schedules, the Non-consolidated Financial Statements (consist of the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity, and the notes to the non-consolidated financial statements) with supplementary schedules, and the Consolidated Financial Statements (consist of the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of changes in equity, and the notes to the consolidated financial statements) for the fiscal year under review.

2. Audit Results
 - (1) Results of Audit of Business Report, etc.
 - (i) The Audit & Supervisory Board confirms that the Business Report and supplementary schedules conformed to laws and regulations, and the Articles of Association, and that they accurately present the situation of the Company.

- (ii) With respect to the performance of duties by Directors, the Audit & Supervisory Board found no improper acts or important violation of laws and regulations or the Articles of Association.
 - (iii) The Audit & Supervisory Board confirms that decisions by the Board of Directors regarding the Company's internal control systems to be fair and adequate, and found no areas that require mention regarding the description of the internal control systems in the Business Report and the performance of duties by Directors.
- (2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules
The Audit & Supervisory Board confirms that the methods used and results achieved by the Accounting Auditor, PricewaterhouseCoopers Aarata LLC, to be fair and adequate.
- (3) Results of Audit of Consolidated Financial Statements
The Audit & Supervisory Board confirms that the methods used and results achieved by the Accounting Auditor, PricewaterhouseCoopers Aarata LLC, to be fair and adequate.

May 26, 2020

Audit & Supervisory Board
Kanematsu Corporation

Tetsuro Murao (Seal)
Audit & Supervisory Board Member (Full-time)

Sohei Ogawa (Seal)
Outside Audit & Supervisory Board Member (Full-time)

Tsukasa Miyachi (Seal)
Outside Audit & Supervisory Board Member

Yusaku Kurahashi (Seal)
Outside Audit & Supervisory Board Member