

(Note) This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.
--

ITEMS DISCLOSED ON INTERNET CONCERNING NOTICE OF THE 126TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 1

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS .. 14

This document is provided on the Company's website pursuant to laws and regulations, and provisions of the Articles of Association of the Company.

This document is included in the scope of audits for an audit report and an accounting audit report that were conducted by the Audit & Supervisory Board Members and the Accounting Auditor during preparation, respectively.

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

Kanematsu Corporation

Notes to the Consolidated Financial Statements

1. Notes on significant matters forming the basis for preparing consolidated financial statements

1-1 Accounting standards for preparing consolidated financial statements

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") pursuant to the provisions of Article 120, paragraph 1 of the Regulation on Corporate Accounting.

Some description and notes required to be disclosed in IFRSs are omitted under the provision of the second sentence of the same paragraph.

1-2 Scope of consolidation

Number of consolidated subsidiaries: 92

Principal consolidated subsidiaries:

Kanematsu Electronics Ltd., Kanematsu Communications Ltd., Kanematsu Sustech Corporation, Kanematsu Trading Corp., Kanematsu KGK Corp., Kanematsu Petroleum Corp., Shintoa Corp., Kanematsu USA Inc., Kanematsu (Hong Kong) Ltd.

1-3 Application of the equity method

Number of companies accounted for by the equity method: 30

Principal companies accounted for by the equity method:

Hokushin Co., Ltd., Kantatsu Co., Ltd.

1-4 Accounting policies

(1) Valuation basis and methods for significant assets

1) Financial assets

The Consolidated Group classifies financial assets at initial recognition as financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income or financial assets measured at amortized cost. The Consolidated Group initially recognizes financial assets measured at amortized cost on the date that they arise and the other financial assets on the transaction date.

The Consolidated Group derecognizes a financial asset when, and only when (i) the contractual rights to cash flows from the financial asset expire, or (ii) it transfers the contractual rights to cash flows and substantially all the risks and rewards of ownership of the financial asset.

(i) Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flow and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Consolidated Group initially recognizes and measures a financial asset measured at amortized cost at its fair value plus any transaction costs directly attributable to the

acquisition of the financial asset. The Consolidated Group subsequently measures it at amortized cost using the effective interest method.

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

(a) Debt instruments

Debt instruments that meets both of the following conditions is classified as a financial asset measured at fair value through other comprehensive income:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flow and selling financial assets and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(b) Equity instruments

With regard to a financial asset that has been classified as a financial asset measured at fair value through profit or loss, IFRS 9 permits an entity to make an irrevocable election at initial recognition to present in other comprehensive income changes in fair value of an investment in an equity instrument that is not held for trading. The Consolidated Group makes this election on an instrument-by-instrument basis.

The Consolidated Group initially recognizes and measures an equity instrument measured at fair value through other comprehensive income at its fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The Consolidated Group subsequently measures it at fair value and recognizes the subsequent changes in fair value as other comprehensive income. When the equity instrument is derecognized, or its fair value substantially decreases, the Consolidated Group reclassifies the cumulative amount of other comprehensive income to retained earnings and not to profit or loss. Dividends are recognized as profit or loss except where they clearly form a portion of recovery of investment outlays.

(iii) Financial assets measured at fair value through profit or loss

A financial asset other than those classified as (a) and (b) above is classified as a financial asset measured at fair value through profit or loss.

The Consolidated Group initially recognizes and measures a financial asset measured at fair value through profit or loss at its fair value and expenses the transaction costs as incurred that are directly attributable to the acquisition of the financial asset. The Consolidated Group subsequently measures it at fair value and recognizes the subsequent changes in fair value in profit or loss.

2) Inventories

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

3) Property, plant and equipment

The Consolidated Group uses the cost model to measure an item of property, plant and equipment after initial recognition and carries it at its cost less any accumulated

depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes the cost directly attributable to the acquisition of the asset.

4) Goodwill and intangible assets

(i) Goodwill

Goodwill is carried at cost less any accumulated impairment losses.

(ii) Intangible assets

The Consolidated Group uses the cost model to measure an intangible asset after initial recognition and carries it at its cost less any accumulated amortization and any accumulated impairment losses.

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

5) Impairment of non-financial assets

The Consolidated Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, it estimates the recoverable amount of the asset or the cash-generating unit to which the asset belongs. Goodwill and an intangible asset with an indefinite useful life are tested for impairment annually and whenever there is an indication that such assets may be impaired. If the carrying amount of an individual asset or the cash-generating unit exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount, and that reduction is recognized as an impairment loss.

(2) Depreciation and amortization method for significant depreciable and amortizable assets

1) Property, plant and equipment

Property, plant and equipment are depreciated mainly using the straight-line method over the estimated useful life of each component thereof.

2) Intangible assets

An intangible asset with a finite useful life is amortized using the straight-line method over its estimated useful life from the year in which it arises.

(3) Accounting policy for significant provisions

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

Where the effect of the time value of money is material, the Consolidated Group recognizes the provision by discounting it using a current pre-tax discount rate that reflects the risks specific to the liability.

(4) Accounting policy for revenue

1) Recognition of revenue

The Consolidated Group recognizes revenue from contracts with customers based on the following five-step approach.

Step 1: Identifying the contracts with customers

Step 2: Identifying the performance obligations in the contracts

Step 3: Determining the transaction price

Step 4: Allocating the transaction price to the performance obligations in the contracts

Step 5: Recognizing revenue when (or as) an entity satisfies the performance obligations

The Consolidated Group's principal business is to sell goods in the four segments of Electronics & Devices, Foods & Grain, Steel, Materials & Plant, and Motor Vehicles & Aerospace. It recognizes revenue from the sale of these goods at the time when performance obligations are delivered because customers obtain control of the goods and the performance obligations are satisfied at the time of delivery in many cases. In the provision of some services, the Consolidated Group recognizes revenue in accordance with the performance obligations that will be satisfied within a certain period of time according to the progress of individual contracts.

The Consolidated Group also measures revenue at an amount obtained by deducting discounts, rebates and returned goods from the promised consideration in the contract with the customer. If there is more than one identifiable performance obligation in a single contract, the contract is divided into each performance obligations, and revenue is recognized for each performance obligation. In addition, if an economic reality is not presented unless multiple contracts are considered as one, the Consolidated Group recognizes revenue by combining the multiple contracts.

If the Consolidated Group receives compensation from the customer before satisfying the performance obligations, the Consolidated Group recognizes it as a contract liability.

2) Presentation of revenues

If the Consolidated Group conducts a transaction as a party involved, the Consolidated Group presents revenue at the total amount of consideration received from the customer. If the Consolidated Group conducts a transaction as a proxy for a third party, the Consolidated Group presents revenue at the net amount of the commission.

When the Consolidated Group determines whether it conducts a transaction as a party involved or as a proxy for a third party, the Consolidated Group takes the following indicators into account.

- Whether the other party has the principal responsibility for fulfilling the contract.
- Whether a Kanematsu Group company has the inventory risk both when goods are shipped and when goods are returned before and after the customer places an order for the goods.
- Whether the benefits that a Kanematsu Group company can receive from the goods or services of the other party are limited because the Kanematsu Group company does not have discretion over the setting of the price of the goods or services of the other party.

(5) Basis for recording of leases

In the event that, at the beginning of the lease contract, the Consolidated Group transfers the rights governing use of specified assets over a fixed period in exchange for a consideration, said contract shall be deemed to be a lease or to include a lease. Leases or contracts that contain leases are recognized as lease liabilities and right-of-use assets.

On the commencement date of a lease contract, lease liabilities shall be measured at present value, after discounting unpaid lease payments, using the interest rate implicit in the lease or the incremental borrowing rate of the Consolidated Group. After the commencement date, the book value is increased or decreased so as to reflect the interest rate on the lease liability and the lease payments made. In addition, if there is a revision to the lease term or a

change in the assessment of an option, lease liability will be remeasured to be reflected in the book value. The lease term is determined by taking into consideration, during the non-cancellable period of the lease, any option to extend the lease term and any option to terminate the lease.

A right-of-use asset is measured by the acquisition cost that adjusts the initial measurement amount of lease liability on the commencement date of the lease contract mainly for initial direct costs and expenses for restoration to original state. It is amortized on a straight-line basis over the economic life of the right-of-use asset from the commencement date or when the lease term ends, whichever is shorter.

For short-term leases with a lease term of 12 months or less, the Consolidated Group, applying recognition exemption, does not recognize lease liabilities and right-of-use assets, and mainly recognizes them as expenses on a straight-line basis over the lease term.

When the Consolidated Group itself is the lessor in a lease, it divides leases into finance or operating leases, and treats them as follows.

1) Finance leases

Finance leases are leases that substantially transfer all of the risks and economic benefits of asset ownership. On the day of lease commencement, the Consolidated Group recognizes assets held based on finance leases in the consolidated statement of financial position, recording them as credits equivalent to total net investment in the lease.

2) Operating leases

Operating leases are leases other than finance leases. The Consolidated Group recognizes assets relating to operating leases in the consolidated statement of financial position. Lease payments receivable are recognized based on a straight-line basis over the lease term, or by using some other regular standard in the consolidated statement of income.

(6) Other significant matters forming the basis for preparing consolidated financial statements

1) Foreign currency translation

(i) Translation of foreign currency transactions

Foreign currency transactions are translated into functional currencies of individual companies using the exchange rates at the dates of such transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into functional currencies using the exchange rate at the end of each reporting period. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. Non-monetary items that are measured on a historical cost basis in a foreign currency are translated into the functional currency using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rates at the date when the fair value was measured.

With respect to the exchange differences of a non-monetary item, when a gain or loss on a non-monetary item is recognized in other comprehensive income, the Consolidated Group recognizes any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, the Consolidated Group recognizes any exchange component of that gain or loss in profit or loss.

(ii) Translation of foreign operations

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

foreign operations are translated using the average exchange rate for the reporting period unless exchange rates fluctuate significantly.

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

2) Derivatives and hedge accounting

In order to hedge the foreign currency fluctuation risk, interest rate fluctuation risk and commodity price fluctuation risk, the Consolidated Group enters into derivative transactions such as forward exchange transactions, interest rate swap transactions and commodity futures and forwards transactions.

When initiating a hedge, the Consolidated Group designates and documents the risk management purposes and strategies regarding the hedge relationship and initiation of such hedge. Such documentation includes the designation of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and methods of assessing the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedging is assessed on an ongoing basis whether it was actually highly effective throughout the reporting periods for which such hedging was designated.

The Consolidated Group initially recognizes and measures derivatives at fair value and subsequently measures them at fair value and accounts for subsequent changes in fair value as follows:

(i) Fair value hedge

The Consolidated Group recognizes the changes in fair value of a derivative used as a hedging instrument in profit or loss, and the changes in fair value of a hedged item attributable to the hedged risk in profit or loss by adjusting the carrying amount of the hedged item.

(ii) Cash flow hedge

Of the changes in fair value of a derivative used as a hedging instrument, the portion determined to be effective is recognized in other comprehensive income, and the cumulative amount is included in other components of equity. Conversely, the portion determined to be ineffective is recognized in profit or loss. The amounts accumulated in other components of equity are reclassified from other components of equity to profit or loss in the same period that the transaction of the hedged item affects profit or loss; provided, however, that if hedging of a forecast transaction subsequently results in the recognition of a non-financial asset or liability, the amounts accumulated in other components of equity are then accounted for as an adjustment to the initial carrying amount of the non-financial asset or liability.

When the hedging instrument expires or is sold, terminated or exercised; or when the hedge no longer meets the criteria for the hedge accounting, the Consolidated Group discontinues the hedge accounting prospectively. Amounts accumulated as other components of equity are retained in equity at the time of discontinuation of hedge accounting; any recognized net profit or loss on forecast transactions is recognized as net profit or loss. If, however, the forecast transaction is no longer expected to occur, the amounts accumulated in other components of equity are reclassified immediately from other components of equity to profit or loss.

(iii) Derivatives not designated as hedging instruments

The Consolidated Group recognizes the changes in fair value of derivatives not designated as hedging instruments in profit or loss.

3) Retirement benefit liabilities

Defined benefit plans are retirement benefit plans other than defined contribution plans. Defined benefit obligations are calculated separately for each plan by estimating the future amounts of benefits that employees will have earned in return for their services provided in the current and prior periods and discounting such amounts in order to determine the present value. The fair value of any plan assets is deducted from the present value of the defined benefit obligations. The discount rate is determined by reference to the market yields on highly rated corporate bonds at the fiscal year-end that have maturity terms that are approximately the same as those of the Consolidated Group's defined benefit obligations and use the same currencies as those used for future benefits payments.

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

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

4) Consumption taxes

Consumption tax and local consumption tax on goods and services are not included in the revenue and expense amounts subject to such taxes in the accompanying consolidated statement of income.

5) Application of consolidated taxation system

The Company and its wholly owned domestic subsidiaries apply the consolidated taxation system.

1-5 Changes in accounting policies

Important accounting policies applied to the consolidated financial statements of the Consolidated Group are the same as the accounting policies applied to the consolidated financial statements for the previous fiscal year, except for the following.

IFRS 16 "Leases"

The Consolidated Group has adopted IFRS 16 "Leases" (hereinafter "IFRS 16") from the current fiscal year. On the occasion of adopting IFRS 16, the Consolidated Group has adopted a method of recognizing the cumulative effects of adopting this standard on the commencement date of adoption, which is accepted as a transitional measure.

Information on critical judgments in the application of accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is provided in "1-4 Accounting policies (5) Leases."

For the lease contracts of the lessee that were classified as operating leases and expensed upon their occurrence in the past by applying IAS 17 Leases (hereinafter "IAS 17"), the Consolidated Group recognizes lease liabilities and right-of-use assets associated with the application of IFRS 16.

Reconciliation of the amount of non-cancellable operating lease commitments disclosed by applying IAS 17 at the end of the previous consolidated fiscal year and lease liabilities

recognized in the consolidated statement of financial position on the date of initial application is as follows.

	(Million yen)
Non-cancellable operating lease commitments at the end of the previous consolidated fiscal year	5,481
Short-term lease commitments for which lease liability is not recognized	(23)
Finance lease commitments at the end of the previous consolidated fiscal year	1,041
Non-cancellable operating lease contracts	11,396
Lease liabilities at the beginning of the current consolidated fiscal year	17,895

The Consolidated Group has decided that the impact of the discount is not material in the measurement of lease liabilities to be newly recognized on the date of initial application, given the size of the leases and the current financial environment. With respect to right-of-use assets, the Consolidated Group recognizes ¥16,667 million, included in property, plant and equipment, at the beginning of the current consolidated fiscal year, taking into consideration the amount of lease liabilities to be newly recognized and the amount of prepaid or accrued lease payments relating to the leases. There is no impact on retained earnings at the beginning of the period.

The Consolidated Group uses the following practical expedients when applying IFRS 16 to leases previously classified as operating leases applying IAS 17.

- Evaluate whether leases are disadvantageous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets directly before the date of initial application and revise right-of-use assets as of the date of initial application in an amount equal to the provision for disadvantageous leases recognized in this evaluation.
- Account for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases.
- Exclude initial direct costs from the measurement of right-of-use assets on the date of initial application.
- Use hindsight, such as when determining the lease term for contracts that contain options to extend or terminate the lease.

2. Notes to consolidated statement of financial position

(1) Assets pledged as collateral and associated secured obligations

1) Assets pledged as collateral for obligations

	(Million yen)
	As of March 31, 2020
Pledged assets	
Other financial assets (non-current)	20
Property, plant and equipment	1,464
Total	1,484
Associated secured obligations	
Borrowings (current)	1,466
Borrowings (non-current)	921
Total	2,388

2) Assets pledged in lieu of guarantee money

(Million yen)	
	As of March 31, 2020
Assets pledged in lieu of guarantee money or guarantee funds	
Other financial assets (current)	50
Other financial assets (non-current)	60
Other investments	3,143
Total	3,253

(2) Allowance for doubtful accounts directly deducted from assets

Allowance for doubtful accounts directly deducted from current assets, including trade and other receivables ¥157 million

Allowance for doubtful accounts directly deducted from non-current assets, including trade and other receivables ¥1,885 million

(3) Accumulated depreciation and accumulated impairment losses of property, plant and equipment ¥34,750 million

(4) Guarantee obligations

(Million yen)	
	As of March 31, 2020
Debt guarantees for equity method investees	119
Debt guarantees for third parties	906
Total	1,025

(Note) However, debt guarantees for third parties include the debt guarantees covered by the insurance agreement with one non-life insurance company that is limited to ¥897 million.

3. Notes to consolidated statement of changes in equity

(1) Type of stock and total number of issued shares as of the end of the fiscal year

Common stock 84,500,202 shares

(2) Dividends of surplus

1) Amounts of dividends paid

Resolution	Type of stock	Total amounts of dividends	Dividends per share	Record date	Effective date
May 20, 2019 Board of Directors meeting	Common stock	¥2,948 million	¥35.00	March 31, 2019	June 3, 2019
October 31, 2019 Board of Directors meeting	Common stock	¥2,527 million	¥30.00	September 30, 2019	December 2, 2019

(Note) The total amounts of dividends stated above include dividends on the Company's shares owned by the stock issuance trust for officers (¥24 million by resolution at a meeting of the Board of Directors held on May 20, 2019, and ¥21 million by resolution at a meeting of the Board of Directors on October 31, 2019).

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

Resolution (planned)	Type of stock	Source of dividends	Total amounts of dividends	Dividends per share	Record date	Effective date
May 26, 2020 Board of Directors meeting	Common stock	Retained earnings	¥2,527 million	¥30.00	March 31, 2020	June 10, 2020

(Note) The total amount of dividends for which a resolution is planned to be adopted by the Board of Directors on May 26, 2020 includes ¥21 million of dividends on the Company's shares owned by the stock issuance trust for officers.

4. Notes on financial instruments

4-1 Status of financial instruments

The Consolidated Group restricts fund management to short-term deposits etc. and uses borrowings from financial institutions, mainly banks, and bond issuance for its financing needs.

The Consolidated Group mitigates customers' credit risks related to trade and other receivables in accordance with risk management regulations. Other investments are principally financial assets measured at fair value through other comprehensive income, and their fair values are assessed on a quarterly basis.

The Consolidated Group uses bonds and borrowings to fund working capital (mainly short-term) and business investments. The Consolidated Group uses interest rate swaps and fixes interest expenses for some long-term borrowings to hedge their interest rate fluctuation risks. In principle, derivative transactions are conducted within the limit of actual needs in accordance with the Company's regulations and investment policy.

4-2 Fair value, etc. of financial instruments

Carrying amounts and fair values of major financial instruments at the end of the current fiscal year by type are as follows.

	(Million yen)	
	As of March 31, 2020	
	Carrying amount	Fair value
Financial assets		
Trade and other receivables	1,428	1,428
Other investments		
Financial assets measured at fair value through profit or loss	3,647	3,647
Financial assets measured at fair value through other comprehensive income	24,632	24,632
Guarantee deposits	6,783	6,783
Other financial assets		
Financial assets measured at amortized cost	586	586
Derivative financial assets	2,116	2,116
Total	39,194	39,194
Financial liabilities		
Bonds and borrowings	75,229	75,273
Long-term lease liabilities	11,251	11,251
Long-term deposits received	0	0
Long-term guarantee deposits received	1,862	1,862
Derivative financial liabilities	712	712
Total	89,057	89,101

The carrying amounts of financial instruments measured at amortized cost reported in current assets and liabilities such as trade and other receivables, other financial assets, trade and other payables, bonds and borrowings, and other financial liabilities, approximate their fair values; therefore, those amounts are not included in the table above.

4-3 Breakdowns of financial instruments by level of market price

(1) Method of measuring fair value

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Consolidated Group can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly

Level 3: Unobservable inputs

(2) Analysis of fair value by hierarchy level

The following table provides a breakdown by hierarchy level of financial assets and liabilities that are measured at fair value on a recurring basis. No financial assets or liabilities are measured at fair value on a non-recurring basis.

(Million yen)

Item	As of March 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trade and other receivables		1,428		1,428
Other investments				
Financial assets measured at fair value through profit or loss			3,647	3,647
Financial assets measured at fair value through other comprehensive income	14,385		10,246	24,632
Guarantee deposits		6,783		6,783
Other financial assets				
Financial assets measured at amortized cost		586		586
Derivative financial assets				
Foreign exchange		1,146		1,146
Interest rate				
Commodity	966	2		969
Total	15,352	9,948	13,893	39,194
Financial liabilities				
Bonds and borrowings		75,273		75,273
Long-term lease liabilities		11,251		11,251
Long-term deposits received		0		0
Long-term guarantee deposits received		1,862		1,862
Derivative financial liabilities				
Foreign exchange		411		411
Interest rate		213		213
Commodity	55	32		87
Total	55	89,045	—	89,101

The fair values stated above are calculated as follows:

1) Trade and other receivables

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

2) Other investments

The fair value of listed shares is the quoted price in an active market and is categorized within fair value hierarchy Level 1.

The fair value of unlisted shares is calculated using valuation methods including those based on discounted future cash flows, on market prices of comparable companies and on net asset value, and is categorized within fair value hierarchy Level 3. Measuring the fair value of unlisted shares involves the use of unobservable inputs such as discount rate and valuation multiples, as well as any necessary adjustments including certain illiquidity discount.

Decisions regarding valuation methods and procedures for fair value of unlisted shares are taken at the Company. For measurement of fair value, including valuation models, the Company obtains information about and business planning details of issuers of individual share, etc., and regularly reviews developments at comparable listed companies, etc.

3) Guarantee deposits

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

4) Other financial assets

Financial assets measured at amortized cost

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

5) Bonds and borrowings

The fair value of bonds is determined based on their market price.

The fair value of borrowings is the present value of the sum of principal and interest payments discounted using an assumed interest rate on equivalent incremental borrowings.

6) Long-term lease liabilities

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

7) Long-term deposits received

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

8) Long-term guarantee deposits received

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

9) Derivative financial assets and liabilities

Currency-related derivatives

The fair value of forward exchange transactions is calculated based on the forward exchange rate at the end of the fiscal year.

Interest rate-related derivatives

The fair value of interest-rate swaps is the present value of future cash flows discounted by an interest rate that reflects time to settlement, as well as market conditions.

Commodity-related derivatives

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

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

(3) Recurring fair value measurements categorized within Level 3 of the fair value hierarchy

Changes in financial assets and liabilities measured at fair value on a recurring basis and categorized within Level 3 of the fair value hierarchy are presented as follows.

(Million yen)

	Current fiscal year (April 1, 2019 to March 31, 2020)		
	Other investments		Total
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	
Balance as of April 1, 2019	3,962	11,862	15,825
Total gains or losses			
Profit or loss (Note)	(452)		(452)
Other comprehensive income		(1,692)	(1,692)
Purchase	179	351	531
Sale		(202)	(202)
Exchange differences	(42)	(0)	(42)
Other		(72)	(72)
Balance as of March 31, 2020	3,647	10,246	13,893

(Note) Included in “other finance costs” in the consolidated statement of income.

(4) Quantitative information about financial instruments categorized within fair value hierarchy Level 3

The following table presents quantitative information on the significant assets categorized within Level 3 of the fair value hierarchy, measured at fair value on a recurring basis.

Item	Fair value (Million yen)	Method of valuation	Significant unobservable inputs	Weighted average of input values
Financial assets measured at fair value through profit or loss	1,887	Discounted cash flow method	Discount rate	2.6%
Financial assets measured at fair value through profit or loss	1,759	Valuation method based on net asset value	—	—
Financial assets measured at fair value through other comprehensive income	9,241	Valuation method based on market prices of comparable companies	PBR ratio Illiquidity discount	0.9 times 30.0%
Financial assets measured at fair value through other comprehensive income	1,004	Valuation method based on net asset value	—	—

Measuring the fair value of unlisted shares involves the use of major unobservable inputs such as discount rate, illiquidity discount and PBR ratio. Any significant increase (decrease) in the discount rate will cause a significant decrease (increase) in fair value. Any significant increase (decrease) in illiquidity discount will cause a significant decrease (increase) in fair value. Any significant increase (decrease) in PBR ratio will cause a significant rise (fall) in fair value.

5. Notes on per share information

- | | |
|---|-----------|
| (1) Equity attributable to owners of the Parent per share | ¥1,566.60 |
| (2) Basic earnings per share (attributable to owners of the Parent) | ¥172.43 |
| (3) Diluted earnings per share (attributable to owners of the Parent) | ¥172.28 |

(Note) With regard to the number of outstanding shares at the end of the current fiscal year used to calculate equity attributable to owners of the Parent per share and the average number during the period used to calculate basic earnings per share, the portion of shares held under own name is deducted, and the Company's shares held under the stock issuance trust for officers (end of the current fiscal year: 702,500 shares, average number of shares during the period: 705,961 shares) is deducted for calculation purposes.

Notes to the Non-consolidated Financial Statements

1. Notes on significant accounting policies

1-1 Valuation basis and methods for assets

(1) Valuation basis and method for short-term investments

- Held-to-maturity bonds: Debt securities are stated at cost less the amortization of any premium or discounts, which are amortized over the period to maturities.
- Shares of subsidiaries and affiliates: Shares of subsidiaries and affiliates are stated at cost using the moving-average method.
- Other short-term investments

Marketable Securities: Marketable securities are stated at fair value. Net unrealized gains or losses on securities recorded in “Net assets” are net of tax amounts. The cost for marketable securities that have been sold is determined using the moving-average method. The fair value is determined based on the daily market price of the fiscal year-end.

Non-marketable securities: Non-marketable securities are stated at cost using the moving-average method.

(2) Valuation basis and method for derivatives

Derivatives are stated at fair value method.

(3) Valuation basis and method for inventories

Inventories are stated at cost method principally determined by the moving-average method (carried at the lower of cost or market value on the balance sheet).

1-2 Depreciation and amortization method for long-term assets

(1) Tangible fixed assets (excluding lease assets)

The straight-line method is used.

(2) Intangible fixed assets

The straight-line method is used. Software for internal use is amortized by the straight-line method over the internally estimated useful lives (five years).

(3) Lease assets

Depreciation on lease assets associated with finance lease transactions that do not transfer the ownership to the lessee is recorded using the straight-line method over the lease term, assuming a residual value of zero.

Of finance lease transactions that do not transfer the ownership to the lessee, lease transactions that commenced on or before March 31, 2008 are accounted for as operating leases.

1-3 Accounting policy for provisions

(1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided to cover credit losses, based on estimates of collectability of individual accounts and past bad debt loss experiences.

(2) Provision for employees' retirement and severance benefits

A provision for employees' retirement and severance benefits is provided for the payment of employee retirement benefits and recognized based on the projected amount of retirement benefit obligations and plan assets at the end of the current fiscal year.

In calculating retirement benefit obligations, the benefit formula basis is used to attribute projected benefits to the period up to the end of the current fiscal year.

Past service costs are amortized as expenses on a straight-line basis over five years, a predetermined number of years, within the average expected remaining service period of the employees.

Actuarial gains and losses are amortized on a straight-line basis over five years, within the average expected remaining service period of the employees, and are recorded as expenses in the subsequent years in which the gains or losses are recognized.

(3) Provision for stock benefits

A provision for stock benefits is provided for delivery, etc. of shares of the Company to Directors and Executive Officers in accordance with the stock delivery rules based on the projected amount of payment for stock benefits at the end of the current fiscal year.

(4) Provision for loss on affiliated business

A provision for loss on affiliated business is provided for the future burden of funds that arises due to losses, etc. incurred by affiliated business at an estimated amount to be borne, which is set individually in view of the counterparty's financial condition.

1-4 Other significant matters forming the basis for preparing non-consolidated financial statements

(1) Basis for translation of assets and liabilities denominated in foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into yen at spot exchange rates prevailing at the balance sheet date. Resulting translation gains and losses are included in determination of income or loss for the period.

(2) Hedge accounting

1) Hedge accounting method

In principle, the Company applies hedge accounting whereby gains and losses on hedged transactions are deferred and recognized over future periods. For certain interest rate swaps designated as hedging instruments that meet specific matching criteria, the amounts received or paid under such interest rate swap agreements are added to or deducted from the interest on the hedged assets or liabilities when paid.

2) Hedging instruments and hedged items

(Hedging instruments)

Commodity-related: Commodity futures transactions / Commodity forward contracts

Foreign exchange-related: .. Forward exchange contracts / Foreign currency swaps / Foreign currency options

Interest rate-related: Interest rate swaps / Interest rate options

(Hedged items)

Commodity-related: Forecasted transactions on commodity trading

Foreign exchange-related: .. Foreign currency-denominated monetary assets and liabilities / Forecasted foreign currency transactions

Interest rate-related: Borrowings

3) Hedging policy

The Company has internal policies to utilize the above hedging instruments for the purpose of reducing its exposures to the risk of fluctuations in commodity prices, foreign currencies and interest rates, for its operating and financing activities.

4) Method of evaluating the effectiveness of hedging activities

The Company evaluates the effectiveness of its hedging activities by comparing accumulated fluctuations in prices or cash flows of the hedged items with those of the hedging instruments and examining the degree of their correlation.

5) Other

Risk management is performed by the management division, which is independent of the trading section. Also, reporting to management is performed in accordance with the internal rules of the Company on a regular basis.

(3) Accounting policy for deferred assets

Bond issuance costs are amortized using the interest method over the period up to bond redemption.

(4) Consumption taxes

Consumption tax and local consumption tax on goods and services are not included in the revenue and expense amounts subject to such taxes in the accompanying non-consolidated statement of income.

(5) Application of consolidated taxation system

The consolidated taxation system is applied. As for the items subjected to the transition to the group tax sharing system established under the Act for Partial Amendment to the Income Tax Act, etc., (Act No. 8 of 2020), as well as to the review of the non-consolidated taxation system in association therewith, the Company has not applied the provisions of Section 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018), but applied the provisions of the Income Tax Act before the amendment to the amounts of deferred tax assets and deferred tax liabilities, by virtue of Section 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020).

2. Changes in accounting policies

(Early application of accounting standards, etc., relating to calculation of market prices)

From the end of the current fiscal year, the Company has undertaken application of the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) as well as the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019). The impact of application of both on the non-consolidated financial statements is immaterial.

3. Notes to non-consolidated balance sheet

(1) Assets pledged as collateral and associated secured obligations

Although there was no remaining balance of assets pledged as collateral and associated secured obligations as of March 31, 2020, investments in securities of ¥3,143 million have been pledged as substitute for guarantee money or guarantee funds.

(2) Accumulated depreciation of tangible fixed assets ¥1,605 million

(3) Guarantee obligations

The Company guarantees the borrowings from financial institutions, etc. and business transactions of the following companies.

Kanematsu (China) Co., Ltd.	¥4,854 million
Kanematsu USA Inc.	¥2,720 million
Kanematsu Futuretech Solutions Corporation	¥1,370 million
Kanematsu Petroleum Corp.	¥1,048 million
Kanematsu (Singapore) Pte. Ltd.	¥849 million
Other	¥2,240 million
Total	¥13,084 million
(4) Discounted notes receivable	¥3,492 million
(5) Monetary receivables from and payables to subsidiaries and affiliates (excluding those presented separately)	
Short-term monetary receivables	¥22,237 million
Short-term monetary payables	¥31,074 million
Long-term monetary payables	¥236 million
(6) Breakdown of inventories	
Merchandise and finished goods	¥36,593 million
Goods in transit	¥6,524 million
Work in progress	¥380 million
Total	¥43,499 million

4. Notes to non-consolidated statement of income

Transactions with subsidiaries and affiliates

Sales	¥91,234 million
Purchases	¥87,083 million
Non-operating transactions	¥17,890 million

5. Notes to non-consolidated statement of changes in equity

Type of stock and number of shares of treasury stock at the end of the current fiscal year

Common stock	962,027 shares
--------------	----------------

(Note) Total of treasury shares includes the Company's shares owned by the stock issuance trust for officers (start of the current fiscal year: 711,500 shares, end: 702,500 shares). The total reduction in shares transferred under the stock issuance trust for officers included in treasury shares was 9,000 shares in the current fiscal year.

6. Notes on tax effect accounting

The main reasons for the occurrence of deferred tax assets are tax losses carried forward, unrecognized losses on valuation of investments in securities, impairment loss on land, excess of maximum tax deductible amount of allowance for doubtful accounts and others, and valuation allowance has been deducted from deferred tax assets.

7. Notes on long-term assets used through leases

In addition to the long-term assets recorded on the non-consolidated balance sheet, some buildings are finance lease transactions that do not transfer ownership of the lease assets to the lessee and commenced on or before March 31, 2008, and therefore they continue to be accounted for as operating leases.

8. Notes on related party transactions

(Million yen)

Type	Name of company, etc.	Percentage of voting rights, etc. owning (owned)	Relationship with related party	Type of transaction	Transaction amount (Note 10)	Accounting title	Ending balance (Note 10)
Subsidiaries	Kanematsu Shintoa Foods Corp.	(Owning) Direct: 100.00%	The Company's supplier/customer Concurrent positions of officers	Sale of products (Note 1)	20,270	Accounts receivable	3,949
	Kanematsu Communications Ltd.	(Owning) Direct: 100.00%	Financial support Concurrent positions of officers	Repayment of funds (Notes 2)	2,000	Short-term loans receivable	3,000
				Receipt of interest (Note 2)	52	—	—
				Deposits of funds (Note 3)	5,061	Deposits received	5,061
				Repayment of interest (Note 2)	2	—	—
	Kanematsu Advanced Materials Corp.	(Owning) Direct: 100.00%	Financial support Concurrent positions of officers	Lending of funds (Note 2, 4)	49	Short-term loans receivable	2,899
				Receipt of interest (Note 2)	42	—	—
	Kanematsu Futuretech Solutions Corporation	(Owning) Direct: 100.00%	Financial support Concurrent positions of officers	Repayment of funds (Note 4)	1,637	Short-term loans receivable	7,405
				Receipt of interest (Note 2)	86	—	—
	Kanematsu USA Inc.	(Owning) Direct: 100.00%	Overseas subsidiary The Company's supplier/customer Concurrent positions of officers	Sale of products (Note 1)	20,997	Accounts receivable	4,185
				Purchase of products (Note 5)	66,674	Import bills payable and accounts payable	16,492
	Kanematsu (Hong Kong) Ltd.	(Owning) Direct: 100.00%	Overseas subsidiary The Company's supplier/customer Concurrent positions of officers	Refunding due to capital reduction	3,779	—	—
				Loss on refunding due to capital reduction of subsidiaries and affiliates	1,652	—	—
				Purchase of securities of subsidiaries (Note 6)	2,184	—	—
				Purchase of investments in subsidiaries (Note 6)	2,008	—	—
	Kanematsu Australia Ltd.	(Owning) Direct: 100.00%	Overseas subsidiary The Company's supplier/customer Concurrent positions of officers	Purchase of securities (Note 7)	2,126	—	—
				Intermediary trade (Note 8)	—	Import bills payable and accounts payable	3,411
	Kanematsu (China) Co., Ltd.	(Owning) Direct: 100.00%	Overseas subsidiary The Company's supplier/customer	Guarantee of obligation (Note 9)	4,854	—	—

Type	Name of company, etc.	Percentage of voting rights, etc. owning (owned)	Relationship with related party	Type of transaction	Transaction amount (Note 10)	Accounting title	Ending balance (Note 10)
			Concurrent positions of officers	Receipt of guarantee commission (Note 9)	12	Other accounts receivable	9
	KG Aircraft Rotables Co., Ltd.	(Owning) Direct: 96.67%	Financial support Concurrent positions of officers	Lending of funds (Note 2)	3,081	Short-term loans receivable	3,263
				Repayment of funds (Notes 2)	953	—	—
				Receipt of interest (Note 2)	111	—	—

<Transaction-related conditions and policies for determining such conditions, etc.>

- (Notes) 1. For sale of products, the price is determined through negotiation with consideration given to the prevailing market prices.
2. For lending of funds, interest rates on loans are determined based on market interest rates.
3. Deposits of funds relates to “cash management system,” and the transaction amount represents the amount of net increase or decrease.
4. Lending of funds relates to “cash management system,” and the transaction amount represents the amount of net increase or decrease.
5. For purchase of products, the price is determined through negotiation with consideration given to the prevailing market prices.
6. Prices of acquisition of securities and investments in subsidiaries are decided through consultation, in light of the net book value of assets of the said company and a third-party valuation as of September 30, 2019.
7. Acquisition prices for securities are decided through consultation, in light of the valuation amount using the discounted cash flow method at the time of transfer.
8. Since intermediary trade is a transaction of purchase from a third-party supplier and not a transaction with this company, the transaction amount is not provided.
9. Guarantee of obligation is a guarantee provided for borrowings of this company, and the amount of guarantee commission received is determined with consideration given to the actual trading price.
10. Transaction amounts do not include consumption taxes. Ending balance includes consumption taxes.

For highly doubtful receivables from subsidiaries and others, a total of ¥997 million of allowance for doubtful accounts and ¥47 million of provision for loss on affiliated business were recorded, and a total of ¥541 million of provisions of allowance for doubtful accounts for subsidiaries and affiliates and loss on affiliated business was recorded in the current fiscal year.

9. Notes on per share information

- | | |
|--------------------------|-----------|
| (1) Net assets per share | ¥1,154.58 |
| (2) Net income per share | ¥107.21 |

(Note) With regard to the number of outstanding shares at the end of the fiscal year used to calculate net assets per share and the average number of common stock during the period used to calculate basic earnings per share, the portion of shares held under own name has been deducted, and the Company's shares held under the stock issuance trust for officers (end of the current fiscal year: 702,500 shares, average number of shares during the period: 705,961 shares) have been deducted for calculation purposes.