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Kanematsu Corporation
(Stock Exchange No.: 8020)

NOTICE OF THE 124TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

Date: June 22, 2018 (Friday) at 10:00 a.m.

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

Items to Be Resolved:

Item 1: Election of Eight (8) Directors

Item 2: Determination of Amount and Other
Details of Performance-Linked Stock
Compensation Plan for Directors

Deadline for submitting the Ballot Form:

No later than 5:10 p.m. on June 21, 2018
(Thursday)

CONTENTS

To Our Shareholders	2
Notice of the 124th Ordinary General Meeting of Shareholders	3
(Attached documents)	
Business Report	14
Consolidated Financial Statements	34
Non-Consolidated Financial Statements	37
Audit Reports	40

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.

We have established a new Medium-Term Business Plan and have also just announced “*future 135*,” a new six-year medium-term vision that outlines a track for further growth as we work toward our 135th anniversary since foundation. We will aim to further extend the strong businesses of the Kanematsu Group and achieve sustainable growth in business areas with a stable revenue base. We will also pursue the expansion of the revenue base and the enhancement of added value through effective business investments. In addition, we intend to promote and expand new businesses structured around advanced technologies.

The environment surrounding our business, such as the global economy, industry structure, and financial markets, is rapidly changing. In this environment, while cooperating and growing with our business partners, we aim to fulfill the true role of a trading company—to create new businesses and values to contribute to international society, and continually embrace new challenges. Working to meet the expectations of all our stakeholders, we will further strengthen our efforts in our aim to generate values that are 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 1, 2018

**NOTICE OF
THE 124TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholder:

You are cordially invited to attend the 124th Ordinary General Meeting of Shareholders of Kanematsu Corporation (hereinafter “the Company”) to be held as indicated below.

If you are unable to attend the meeting in person, you may exercise your voting rights in writing. After reviewing the enclosed reference materials, please indicate “for” or “against” for each agenda item listed in the enclosed Ballot Form, and return it to the Company by 5:10 p.m. on Thursday, June 21, 2018.

Sincerely,

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

Exercise of Voting Rights

Exercising voting rights by attending the meeting in person

Please bring the enclosed Ballot Form and submit it to the receptionist.

Exercising voting rights in writing

Please indicate “for” or “against” in the enclosed Ballot Form, and return it to the Company by 5:10 p.m. on Thursday, June 21, 2018.

Meeting Details

1. Date: June 22, 2018 (Friday) at 10:00 a.m.

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

3. Meeting Agenda

Items to Be Reported:

1. Business Report and Consolidated Financial Statements, as well as Audit Reports of Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 124th Fiscal Term (April 1, 2017 to March 31, 2018)
2. Non-Consolidated Financial Statements for the 124th Fiscal Term (April 1, 2017 to March 31, 2018)

Items to Be Resolved:

Item 1: Election of Eight (8) Directors

Item 2: Determination of Amount and Other Details of Performance-Linked Stock Compensation Plan for Directors

When you attend in person, please submit the enclosed Ballot Form to the receptionist at the meeting.

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 include an audit report and an accounting audit report that were audited by the Audit & Supervisory Board Members and the Accounting Auditor during preparation, 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: <http://www.kanematsu.co.jp>

Reference Materials for the General Meeting of Shareholders

Item 1: Election of Eight (8) Directors

The terms of office for all eight (8) Directors will expire at the conclusion of this General Meeting of Shareholders. Accordingly, the Company proposes to elect eight (8) Directors.

The candidates for Director are as follows:



Reelection

Number of the
Company's shares
owned
24,300 shares

Candidate No.	1 Masayuki Shimojima	Date of Birth August 6, 1951
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**□ 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)

□ 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.



Reelection

Number of the
Company's shares
owned
15,300 shares

Candidate No.	2 Kaoru Tanigawa	Date of Birth September 24, 1958
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**□ 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 Limited Director, Kanematsu Communications Limited
Apr. 2011	General Manager, Corporate Planning Department, the Company
Jun. 2013	Director, the Company
Jun. 2014	Retiring 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.



Reelection

Number of the
Company's shares
owned
5,500 shares

Candidate
No.

3 Masao Hasegawa

Date of Birth
April 20, 1955

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

Apr. 1979 Joined The Bank of Tokyo, Ltd. (present MUFG Bank, Ltd.)
May 2005 President, The Bank of Tokyo-Mitsubishi (Holland) N.V. (present MUFG Bank (Europe) N.V.)
Apr. 2008 Executive Officer, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (present MUFG Bank, Ltd.)
President, The Bank of Tokyo-Mitsubishi UFJ (Holland) N.V. (present MUFG Bank (Europe) N.V.)
May 2008 Executive Officer & General Manager, Corporate Risk Management Division, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (present MUFG Bank, Ltd.)
Jun. 2010 Managing Director (Representative Director), Mitsubishi UFJ Financial Group, Inc.
Jun. 2012 Deputy President, Mitsubishi UFJ Research and Consulting Co., Ltd.
Jun. 2014 Resigned from Deputy President, Mitsubishi UFJ Research and Consulting Co., Ltd.
Executive Vice President, the Company (To the present)
(incumbent) Chief Officer, Supporting Area, Chief Officer, Internal Auditing Department

□ **Reasons for nomination as candidate for Director**

Mr. Masao Hasegawa, an expert in comprehensive risk management, has gained a wealth of experience and track record by serving as Chief Risk Officer as well as Managing Director (Representative Director) of Mitsubishi UFJ Financial Group, Inc. Since being appointed as Executive Vice President of the Company in 2014, he has contributed to enhancing the Company's internal control system, etc. and is thus re-nominated as a candidate for Director.



New election

Number of the
Company's shares
owned
9,600 shares

Candidate
No.

4 Yoshiya Miyabe

Date of Birth
January 21, 1959

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

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 Retiring Director of the Company according to revision for improvement of executive officer system
Managing Executive Officer, the Company (To the present)
(incumbent) Chief Officer, Motor Vehicles and Aerospace Division

□ **Reasons for nomination as candidate for Director**

Since joining the Company, Mr. Yoshiya Miyabe has been engaged primarily in the motor vehicles & 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. He is thus newly nominated as a candidate for Director and expected to reflect his wealth of experience and broad knowledge into the Company's management.



Candidate
No.

5 Tetsuro Tsutano

Date of Birth
April 3, 1969

☐ **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 (To the present)
(incumbent) Chief Officer, Finance, Accounting, Business Accounting, General Manager, Accounting Department

Reelection

Number of the
Company's shares
owned
8,000 shares

☐ **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.

6 Yutaka Hirai

Date of Birth
November 11, 1945

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

Apr. 1970 Joined Daifuku Machinery Works Co., Ltd. (present Daifuku Co., Ltd.)
Jun. 2001 Director, Daifuku Co., Ltd.
Apr. 2003 Managing Director, Daifuku Co., Ltd.
Apr. 2004 Senior Managing Director, Daifuku Co., Ltd.
Apr. 2006 Vice-President, Daifuku Co., Ltd.
Jun. 2011 Audit & Supervisory Board Member, the Company
Jun. 2014 Director, the Company (To the present)

Reelection

Outside Director

Independent Officer

Number of the
Company's shares
owned
0 shares

☐ **Reasons for nomination as candidate for Outside Director**

While serving in positions including Vice-President of Daifuku Co., Ltd., Mr. Yutaka Hirai has been committed to management advisory and appropriate supervision of the execution of operations as an Outside Director of the Company, based on his long years of business experience and extensive knowledge, and is thus re-nominated as a candidate for Outside Director.



Reelection
Outside Director
Independent Officer

Number of the
 Company's shares
 owned
 0 shares

Candidate
 No.

7 Seiichi Katayama

Date of Birth
 April 18, 1943

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

Apr. 1971	Assistant, Kobe University of Commerce
Sep. 1980	Visiting Professor at The Evergreen State College
Apr. 1987	Professor, Kobe University of Commerce
Dec. 1993	Professor, Research Institute for Economics and Business Administration, Kobe University
Apr. 2000	Director, Research Institute for Economics and Business Administration, Kobe University
Apr. 2007	Professor Emeritus, Kobe University (To the present) Professor, Faculty of Business and Commerce, Aichi Gakuin University
Apr. 2013	Professor, Faculty of Economics, Aichi Gakuin University
Apr. 2014	Visiting Professor, Faculty of Economics, Aichi Gakuin University
Jun. 2015	Director, the Company (To the present)
Apr. 2017	Specially Appointed Researcher, Aichi Gakuin University (To the present)

► **Significant concurrent position**

Professor Emeritus, Kobe University

► **Reasons for nomination as candidate for Outside Director**

Although Mr. Seiichi Katayama has not been directly involved in corporate management in ways other than being an outside corporate officer, he is a university professor specializing in economics and has been committed to management advisory and appropriate supervision of the execution of operations as an Outside Director of the Company, based on his extensive expertise and deep insight regarding corporate management. Thus, he is re-nominated as a candidate for Outside Director.



Reelection
Outside Director
Independent Officer

Number of the
Company's shares
owned
0 shares

Candidate
No.

8 Tsutomu Yajima

Date of Birth
April 7, 1949

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

Apr. 1973	Joined Kawasaki Steel Corporation (present JFE Steel Corporation)
Jul. 2001	Senior Associate Officer and General Manager, Sales Division, Kawasaki Steel Corporation
Apr. 2003	Senior Associate Officer and General Manager, Steel and Terre Armees Division, Kawasho Corporation (present JFE Shoji Trade Corporation)
Jun. 2003	Executive Officer, Kawasho Corporation
Jun. 2004	Director and Managing Executive Officer, Kawasho Corporation
Oct. 2004	Director and Managing Executive Officer, JFE Shoji Trade Corporation
Apr. 2005	Managing Executive Officer, JFE Steel Corporation
Apr. 2008	Senior Managing Executive Officer, JFE Steel Corporation
Apr. 2010	Executive Vice President, JFE Steel Corporation
Apr. 2012	Executive Vice President, JFE Shoji Trade Corporation
Apr. 2013	President & CEO, JFE Shoji Trade Corporation
Apr. 2016	Senior Advisor, JFE Shoji Trade Corporation
Jun. 2017	Director, the Company (To the present)
Apr. 2018	Advisor, JFE Shoji Trade Corporation (To the present) Executive Alumnus, JFE Steel Corporation (To the present)

☐ **Reasons for nomination as candidate for Outside Director**

Mr. Tsutomu Yajima has gained a wealth of experience and deep insight in corporate management by serving as Executive Vice President of JFE Steel Corporation, and President & CEO of JFE Shoji Trade Corporation, among others. He is thus re-nominated as a candidate for Outside Director and expected to be committed to management advisory and appropriate supervision of the execution of operations.

- (Notes)
1. There are no special interests between the Company and the candidates.
 2. Messrs. Yutaka Hirai, Seiichi Katayama and Tsutomu Yajima are candidates for Outside Director.
 3. Mr. Yutaka Hirai's tenure as Audit & Supervisory Board Member was three years and, at the conclusion of this meeting, his tenure as Outside Director will have been four years. At the conclusion of this meeting, Mr. Seiichi Katayama's tenure as Outside Director will have been three years. In addition, at the conclusion of this meeting, Mr. Tsutomu Yajima's tenure as Outside Director will have been one year.
 4. Limited liability agreement with Outside Directors
The Company has entered into agreements with Messrs. Yutaka Hirai, Seiichi Katayama and Tsutomu Yajima 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 their reelection is approved, the Company plans to renew these agreements with them.
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 Messrs. Yutaka Hirai, Seiichi Katayama and Tsutomu Yajima have been appointed as independent officers as provided for by the aforementioned exchange.

Item 2: Determination of Amount and Other Details of Performance-Linked Stock Compensation Plan for Directors

1. Rationale behind Proposal and Justification for the Plan

The Company's Directors' compensation currently consists of fixed monthly compensation and performance-linked compensation. The Company requests that shareholders approve introduction of a new performance-linked stock compensation plan (hereinafter referred to as the "Plan") for its Directors (excluding Outside Directors; likewise below). The Company wishes to leave the details of the Plan's adoption to the discretion of its Board of Directors within the scope set forth below in section 2.

The Plan aims to more clearly link Directors' compensation with the Company's earnings and share price performance and have Directors share the benefits and risks of share price movements together with shareholders, thereby elevating Directors' consciousness of contributing to improving the Company's medium- to long-term earnings performance and increasing its corporate value. The Company believes the Plan's adoption is justified. As a result of introduction of the Plan, compensation of Directors of the Company will consist of "fixed monthly compensation," "performance-linked compensation" and "performance-linked stock compensation."

The Plan will pay performance-based stock compensation to Directors who are in office during the period covered by the Company's Medium-Term Management Plan (initially set as the six fiscal years from the one ending March 31, 2019, through the one ending March 31, 2024). Said stock compensation will not be subject to the limit on Directors' compensation approved at the 121st Ordinary General Meeting of Shareholders held on June 24, 2015 (up to ¥300 million per year (Outside Directors' share of which is up to ¥30 million per year), but not including the employee salary portion).

If Item 1, "Election of Eight (8) Directors," is approved and adopted as originally proposed, five Directors would be eligible to participate in the Plan.

* If this proposal is approved and adopted as originally proposed, the Company plans to adopt a similar stock compensation plan for Executive Officers with whom the Company has entered into mandate agreements.

2. Amount and Nature of Compensation Under the Plan

(1) Outline of the Plan

The Plan is a stock compensation plan whereby a trust (hereinafter referred to as the "Trust") established by the Company through the contribution of money will acquire shares of the Company, and the shares of the Company in the number equivalent to the number of points granted to each Director by the Company will be delivered to each Director via the Trust.

Directors will receive delivery of the Company's Shares, etc. upon their retirement, in principle.

(i)	Directors eligible to participate in the Plan	Directors of the Company (excluding Outside Directors)
(ii)	Initial trust period	Around six years, starting in August 2018 (scheduled) and ending in August 2024 (scheduled)
(iii)	Maximum amount of money to be contributed by the Company during the initial trust period specified in (ii) to acquire Company shares needed to deliver to Directors	Total ¥450 million
(iv)	Method of acquisition of shares of the Company	Means of acquisition from the stock market (including off-floor trading) or from the Company by means of the disposal of treasury stock
(v)	The upper limit of the aggregate number of points granted to Directors of (i)	140,000 points multiplied by the number of years covered by the Medium-Term Management Plan

(vi) Criteria for granting points	Points will be granted according to the roles and the level of achievement of performance targets, etc.
(vii) Timing of delivering shares of the Company to the Directors specified in (i)	Generally at the end of their tenure as a Director

(2) Maximum Amount of Money to Be Contributed by the Company

The Trust's initial trust period will be approximately six years. The Company will create the Trust, with Directors fulfilling certain specific requirements as the beneficiaries, by contributing, as compensation for Directors in office during the initial period of the Medium-Term Management Plan, money up to a limit of four hundred and fifty million yen (¥450,000,000) in total as funds for acquiring shares of the Company needed for delivery to Directors under the Plan during the period of the Trust. The Trust will use the money left in trust by the Company as the source of funds to acquire shares of the Company either by means of acquisition from the stock market (including off-floor trading) or from the Company by means of the disposal of treasury stock.

Note: The money the Company will actually entrust to the Trust will be the sum of the abovementioned funds for acquiring shares of the Company and the expected amount of costs necessary for trust fees, trust administrator fees, etc. If the Company also introduces a similar plan for its Executive Officers, as explained earlier, the Company will also entrust funds for acquiring shares of the Company needed for delivery to Executive Officers.

If the Company reaches the performance targets under the Medium-Term Management Plan between the start of the second fiscal year and the end of the penultimate fiscal year of the Medium-Term Management Plan period, the Medium-Term Management Plan will end as of the fiscal year in which the performance targets are reached, and the Company may establish a Medium-Term Management Plan (hereinafter referred to as the "New Medium-Term Management Plan") that will cover no more than six fiscal years. In this case, each time the expiration date of the final fiscal year under the New Medium-Term Management Plan exceeds the expiration date of the period of the Trust, before expiration of the period of the Trust, the Company may, by a resolution of its Board of Directors, extend the period of the Trust to align it with the period of the New Medium Term Management Plan (includes when the Company for all extents and purposes extends the period of the Trust by transferring the trust property of the Trust to a trust with a purpose identical to that of the Trust established by the Company; the same shall apply hereinafter).

Regardless of whether or not the performance targets under the Medium-Term Management Plan are reached, each time the period of the Trust expires (or each time the extended period of the Trust expires if the Company extends the period of the Trust in accordance with the procedure explained above or below), the Company may, by a resolution of its Board of Directors, extend the period of the Trust to align it with a Medium-Term Management Plan period covering up to a limit of the next six fiscal years, and continue the Plan.

If the Company extends the period of the Trust in accordance with either of the foregoing, the Company will additionally contribute money up to a limit of the amount obtained by multiplying the number of years of the extension of the period of the Trust by ¥75 million to the Trust as funds for acquiring additional shares of the Company that will need to be distributed to Directors under the Plan. Furthermore, in this case, the Company will continue to award points as explained in (3) below and deliver shares of the Company within the extended period of the Trust.

Even if the Company does not extend the period of the Trust and does not continue the Plan, etc., if, at the time of expiration of the period of the Trust, there are any Directors who have already been granted points but have not yet retired, the Company may extend the period of the Trust until such Directors retire and delivery of shares of the Company is completed.

(3) Calculation Method and Upper Limit of Shares of the Company to Be Delivered to Directors

(i) Method of granting points to Directors

In accordance with the stock delivery rules established by the Board of Directors of the Company, each time a Medium-Term Management Plan ends (however, for Directors who retire or die during the period of a Medium-Term Management Plan, on the day when they retire or die), the Company will grant points to each Director according to their roles and the level of achievement of performance targets, etc. set out in the Medium-Term Management Plan, on a point granting date stipulated in the stock delivery rules within the period of the Trust.

The upper limit of the aggregate number of points granted to Directors by the Company will be the number obtained when the number of years of such Medium-Term Management Plan is multiplied by 140,000 points. Since the upper limit of the Medium-Term Management period is six fiscal years, the upper limit of the aggregate number of points granted to Directors for a Medium-Term Management Plan will be 840,000 points in total. If the performance targets under the Medium-Term Management Plan are reached before the end of the period of such Medium-Term Management Plan period, and the Company establishes a new Medium-Term Management Plan, the upper limit of the aggregate number of points granted to Directors by the Company will be the number obtained by multiplying the number of years of the Medium-Term Management period until the fiscal year in which the performance targets are reached by 140,000 points.

(ii) Delivery of shares of the Company according to the number of points granted

The Directors will receive the delivery of shares of the Company in accordance with the procedure explained in (iii) below according to the number of points they have been awarded based on (i) above.

One point represents one share of the Company's stock; provided, however, that if a share split, reverse share split or other event for which it would be considered reasonable to adjust the number of shares of the Company to be delivered occurs with respect to the shares of the Company, then the Company will make reasonable adjustments depending on the ratio of such stock split or reverse stock split, etc.

(iii) Delivery of shares of the Company to Directors

Delivery of shares of the Company described in (ii) above to each Director will be made from the Trust after the Director performs the established beneficiary determination procedures at the time of the Director's retirement.

However, a certain portion of such shares will be sold and converted into money in the Trust to allow the Company to withhold funds for the payment of withholding income tax, etc., and will be distributed in cash instead of the shares. If the shares of the Company left within the Trust are converted into money, for example, if a tender offer is accepted and settled with respect to such shares, the Company may make delivery in money instead of the shares of the Company.

(4) Exercise of Voting Rights

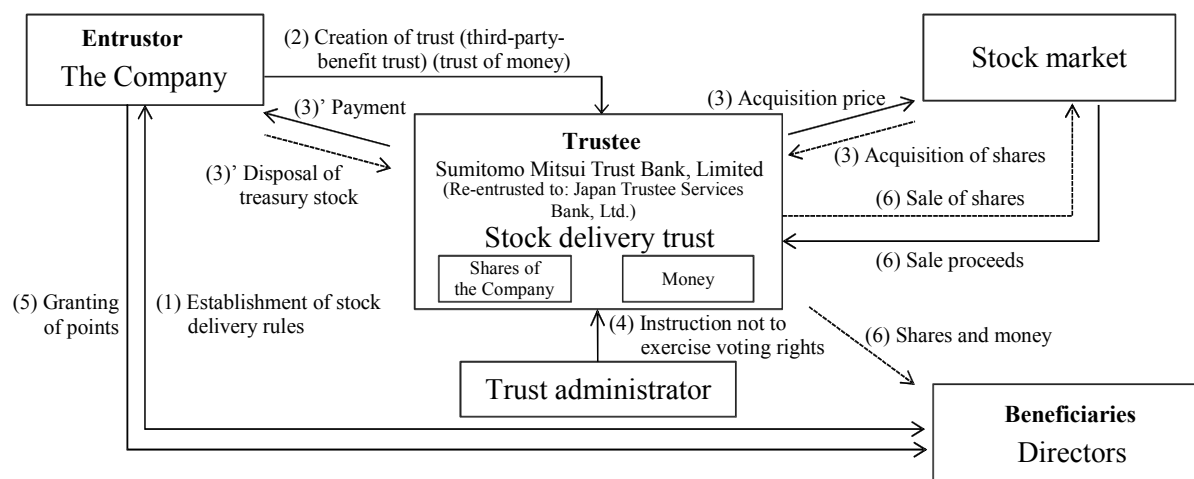
Pursuant to the instructions of the trust administrator who will be independent of the Company and its Officers, the voting rights associated with the shares of the Company kept within the Trust will not be exercised without exception, which will assure the neutrality of the Company's management in relation to exercise of the voting rights of such shares.

(5) Handling of Dividends

Dividends on the shares of the Company kept within the Trust will be received by the Trust, and will be appropriated for the payment for acquisition of the shares of the Company, trust fees for the trustee associated with the Trust, etc.

Reference

<Outline of Structure of the Plan>



* If the Company also introduces the Plan for its Executive Officers as well, the Executive Officers will also be beneficiaries of the Trust.

- (1) The Company will establish stock delivery rules that apply to its Directors.
- (2) The Company will create a stock delivery trust (third-party-benefit trust) with Directors as beneficiaries. When doing so, the Company will entrust the amount of money (limited to an amount within the purview approved by the General Shareholders' Meeting) equivalent to funds for the acquisition of shares to the Trustee.
- (3) The Trustee will collectively acquire shares of the Company equivalent to the number expected to be delivered in future (either by means of acquisition from the stock market (including off-floor trading) or by means of the disposal of treasury stock by the Company).
- (4) Throughout the period of the Trust, the Company will appoint a trust administrator (to be limited to be a party independent of the Company and its Officers) who is responsible for protecting the interests of the beneficiaries who are covered by the stock delivery rules and supervising the Trustee. The trust administrator will give instructions not to exercise any voting rights associated with the shares of the Company kept within the Trust, and the Trustee will not exercise voting rights throughout the period of the Trust in accordance with such instructions.
- (5) Pursuant to the stock delivery rules, the Company will grant points to Directors.
- (6) The Directors fulfilling requirements prescribed in the stock delivery rules and the trust agreement relating to the Trust will receive from the Trustee, as beneficiaries of the Trust, delivery of shares of the Company according to the points they have been granted. In certain specific cases set forth in advance in the stock delivery rules and the trust agreement, the Company may sell part of the shares of the Company to be delivered in the stock market and deliver money.

Of the residual property left within the Trust at the time of termination of the Trust, the Company plans to acquire all residual shares of the Company without consideration and to then cancel them by a resolution of the Board of Directors.

Of the residual property left within the Trust at the time of termination of the Trust, pursuant to the provisions of the stock delivery rules and the trust agreement, the Company plans to donate a certain amount of residual cash to specified public-service promotion corporations having no stake in the Directors of the Company.

Sumitomo Mitsui Trust Bank, Limited, which will be the Trustee under the Plan, will delegate (re-entrust) management of the trust property to Japan Trustee Services Bank, Ltd.

(Attached documents)

BUSINESS REPORT (from April 1, 2017 to March 31, 2018)

1. Items Regarding Status of Group Operations

(1) Overview of Operations

In the fiscal year under review, the global economy continued to grow moderately, despite uncertainties such as the geopolitical risk. The U.S. economy remained firm, driven by the continued expansion of production activities of companies and consumer spending. The European economy continued to grow favorably, despite concerns regarding Brexit. The Chinese economy continued to grow, reflecting solidly expanding consumption, despite concerns about protectionist trade policies in the U.S., and emerging Asian countries remained generally favorable.

The Japanese economy maintained its expansion thanks to growing capital investment and employment and a high level of corporate earnings following the solid domestic and overseas economies.

In this environment, the Kanematsu Group sought to achieve further growth by carry out initiatives aimed at realizing both “sustainability of financial soundness” and “expansion of revenue base,” management objectives of VISION-130, the Group’s medium-term vision. The Company’s progress toward these goals was as follows.

The main initiatives to expanding revenue base were as follows. In the mobile business, the Group conducted a merger between Kanematsu Communications Limited (“Kanematsu Communications”), the Company’s subsidiary operating mobile phone sales distribution stores and Diamondtelecom, Inc., on April 1, 2017. As a result, the Group expanded the scale of the mobile business and started the operation under the new incarnation of Kanematsu Communications. The mobile business achieved expanded revenues from the improved management efficiency and generated synergy obtained through the initial year of merged operations. In the aerospace business, the Group expanded revenues through concluding a sales contract for three aircraft with the Acquisition, Technology & Logistics Agency, who adopted a next-generation flight inspection aircraft based on the highly reliable Citation 680A manufactured by US company Textron that was proposed by the Company, as well as entering into an exclusive representative agreement with US company Vector, which provides rockets and related services for launching micro satellites, to sell that company’s products and services in Japan and three Asian countries including India, Thailand and South Korea.

In regard to maintaining financial soundness, in addition to increasing total assets by increasing trade receivables and inventories, the Company also increased equity attributable to owners of the parent (shareholders’ equity) by such methods as accumulating retained earnings. As a result, the ratio of equity attributable to owners of the parent (equity ratio) came to 22.3%. The net debt-equity ratio (net D/E ratio) was 0.5 times. In this way, the Company maintained its financial soundness.

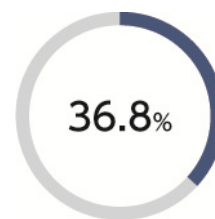
Revenue for the current fiscal year came to ¥714,790 million, up 5.8% or ¥39,211 million year on year. Gross profit rose 6.2%, or ¥6,232 million year on year to ¥106,371 million. Operating profit rose 15.6% or ¥3,527 million year on year to ¥26,160 million, reflecting an increase in gross profit. Furthermore, mainly as a result of a decrease in finance costs and an improvement in the share of profit (loss) of investments accounted for using the equity method, profit before tax rose 45.7% or ¥8,168 million year on year to ¥26,043 million, and profit for the year attributable to owners of the parent rose 102.7% or ¥8,268 million year on year to ¥16,317 million.

Overview of performance by business segment

Electronics & Devices

Revenue ¥263,310 million (up 3.6% year on year)

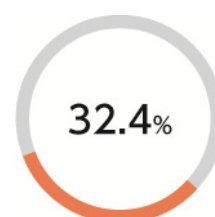
In the ICT solutions business, transactions remained strong, primarily with the manufacturing and the service industries. The mobile business performed well, partly due to the integration effect of mobile phone distribution subsidiaries. In the semiconductors manufacturing equipment business, sales to China increased, contributing to an improvement from the previous fiscal year. As a result, overall segment revenue and profit increased year on year.



Foods & Grain

Revenue ¥231,260 million (up 1.5% year on year)

The foods business performed solidly. The meat products business slowed down in the second half of the year. The grain, oilseeds & feedstuff business remained almost flat. As a result, overall segment revenue increased and profit declined year on year.



Steel, Materials & Plant

Revenue ¥153,075 million (up 16.7% year on year)

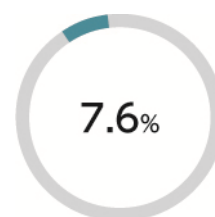
The oilfield tubing business improved significantly in North America, given higher oil prices. The functional chemicals and the plant businesses also continued to grow. As a result, overall segment revenue and profit increased year on year.



Motor Vehicles & Aerospace

Revenue ¥54,453 million (up 8.0% year on year)

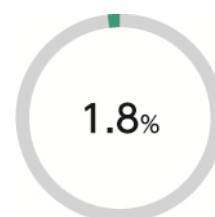
In the motor vehicles and parts business, exports to the Middle East remained steady. The aerospace business also maintained a strong performance, mainly due to the strong performance of transactions of space-related products and aircraft parts. As a result, overall segment revenue and profit increased year on year.



Other

Revenue ¥12,691 million (up 6.5% year on year)

In the other business, an impairment of fixed assets associated with the transfer of the golf business was recorded. As a result, overall segment revenue increased and profit declined year on year.



(Revenue by business segment)

Business Segment	Amount (million yen)	Share of Total Revenue (%)	Year-on-year Change (%)
Electronics & Devices	263,310	36.8	3.6
Foods & Grain	231,260	32.4	1.5
Steel, Materials & Plant	153,075	21.4	16.7
Motor Vehicles & Aerospace	54,453	7.6	8.0
Other	12,691	1.8	6.5
Total	714,790	100.0	5.8

(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 aimed at realizing “sustainability of financial soundness” and “expansion of revenue base,” which are fundamental principles in the medium-term vision for the five years “VISION-130.”

In the current fiscal year, the Group procured funds using indirect financing while ensuring a sufficient level of cash and cash equivalents and maintaining a suitable debt-equity balance. In the current fiscal year, the Group also procured funds directly from the market by issuing 10 billion yen straight corporate bonds to cover for repayment of borrowings and operating capital.

As a result, at the end of the current fiscal year, the balance of net interest-bearing debt stood at ¥59,045 million, a year-on-year increase of ¥3,616 million from the end of the previous fiscal year.

(4) Material Transfers or Acquisitions of Business, Absorption-Type Mergers, Absorption-Type Company Splits, or Acquisition or Disposition of Shares or Other Equities or Stock Acquisition Rights, etc. of Other Companies

Kanematsu Communications Limited and Diamondtelecom, Inc.

Kanematsu Communications Limited, a wholly owned subsidiary of the Company absorbed Diamondtelecom, Inc., a wholly owned subsidiary of the Company, through an absorption-type merger on April 1, 2017.

(5) Issues to be Addressed

The Company established VISION-130, its five-year medium-term vision, as the growth strategy for the next stage of development and has implemented various initiatives to realize the targets. Although the final year of VISION-130 was originally the fiscal year ending March 31, 2019, the Company achieved the earnings target of consolidated profit for the year of ¥15.0 billion one year ahead of schedule in the fiscal year ended March 31, 2018, and ROE as the efficiency target also reached 15%. The Company has sustained financial soundness, as indicated by a steady increase in shareholders' equity toward the target level and net D/E ratio of 0.5.

Since the Company achieved the targets in VISION-130 in the previous fiscal year ended March 31, 2018, the Company has established *future 135*, its six-year medium-term vision ending 2024 when the

Company celebrates the 135th anniversary of its founding, bearing the Kanematsu Group's future growth path in mind.

Medium-term vision *future 135*

In *future 135*, the Company will continue to extend the strong businesses of the Kanematsu Group and achieve sustainable growth in business areas with a stable revenue base. It aims to achieve consolidated profit for the year of ¥25.0 billion by pursuing the expansion of the revenue base and the enhancement of added value through effective business investments.

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%.

The period will be six years from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2024.

[Quantitative targets] (Final year: the fiscal year ending March 31, 2024)

Consolidated profit for the year	¥25.0 billion
ROE	13% - 15%
Total return ratio	25% - 30%

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

[Priority initiatives]

- (i) Sustainable growth in fundamental businesses and the expansion of the revenue base through business investments

The Company will achieve sustainable growth by maintaining a stable revenue structure and carry out business investments while achieving a balance between capital and risk assets, based on its stable financial structure. The Company will promote business investments in areas of strength in the two strategies focused on the “revenue base expansion” and the “value added.”

- (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 technology such as IoT and AI.

- (iii) Establishment of management infrastructure for achieving sustainable growth

The Company will build a global framework including expansion of business companies in key overseas locations. The Company will continue to facilitate the development of human resources to train the next generation of corporate leaders while striving to improve employee satisfaction (ES) such as promotion of workstyle reforms.

The Company will carry out individual initiatives and aim for numerical targets based on an operational plan for a single fiscal year in tune with the speed of changes in the environment surrounding the Company and intends to revisit the direction three years later at the halfway point based on the progress of business investments, etc.

*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	121st Term (FY2015)	122nd Term (FY2016)	123rd Term (FY2017)	124th Term (Fiscal year under review) (FY2018)
Revenue (million yen)	704,211	668,374	675,579	714,790
Profit for the year attributable to owners of the parent (million yen)	10,546	8,959	8,049	16,317
Basic earnings per share (yen)	125.49	106.46	95.64	193.79
Total assets (million yen)	466,314	443,592	479,717	519,889
Total equity (million yen)	119,015	120,706	129,863	147,050

- (Notes) 1. Pursuant to Article 120, paragraph 1 of the Ordinance on Accounting of Companies, 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 (previous fiscal year). For ease of reference, the figures shown here for the 121st and 122nd terms are also stated in accordance with the International Financial Reporting Standards (IFRSs).
2. Basic earnings per share is calculated based on the average number of issued shares during the period.
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 121st 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 Limited	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) 1,447,427	100.00	Export/import and sales of merchandise

- (Notes) 1. 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.

2. Diamondtelecom, Inc. was excluded from the significant subsidiaries since it was merged with Kanematsu Communications Limited on April 1, 2017.

(8) Major Areas of Operation (as of March 31, 2018)

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, 2018)

(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 Limited (Shibuya-ku, Tokyo)
 Kanematsu Sustech Corporation (Chuo-ku, Tokyo)
 Kanematsu Trading Corp. (Chuo-ku, Tokyo)
 Kanematsu KGK Corp. (Nerima-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, 2018)

Business Segment	Number of Employees (persons)	Year-on-year Change (persons)
Electronics & Devices	3,981	(115)
Foods & Grain	752	37
Steel, Materials & Plant	1,054	46
Motor Vehicles & Aerospace	250	18
Other	216	(54)
Corporate (Common)	413	7
Total	6,666	(61)

(Note) The number of employees is the number of workers (excluding people dispatched from the Group to outside the Group, but including people dispatched from outside the Group to the Group).

(11) Major Lenders (as of March 31, 2018)

Lender	Loan Balance at End of Fiscal Year (million yen)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	23,972
Mizuho Bank, Ltd.	16,101
The Norinchukin Bank	12,070
Sumitomo Mitsui Trust Bank, Limited	12,502
Aozora Bank, Ltd.	12,728

(Note) The Bank of Tokyo-Mitsubishi UFJ, Ltd. was changed its company name to MUFG Bank, Ltd., effective April 1, 2018.

(12) Other Significant Matters

No items to report.

2. Items Regarding Shares of the Company (as of March 31, 2018)

(1) Number of Shares Authorized to be issued 200,000,000 shares

(Note) The Company resolved at the 123rd Ordinary General Meeting of Shareholders held on June 23, 2017, to conduct a 5-to-1 share consolidation and partially amend the Articles of Association of the Company. Accordingly, the number of shares authorized to be issued decreased by 816,653,604 shares to 200,000,000 shares on October 1, 2017, the effectuation date for the consolidation of shares.

(2) Number of Issued Shares 84,500,202 shares (including 254,123 shares of treasury stock)

(Note) The Company resolved at the 123rd Ordinary General Meeting of Shareholders held on June 23, 2017, to conduct a 5-to-1 share consolidation. Accordingly, the number of issued shares decreased by 338,000,808 shares to 84,500,202 shares on October 1, 2017, the effectuation date for the consolidation of shares. The Company also resolved to partially amend the Articles of Association of the Company and changed the number of shares constituting one unit from 1,000 shares to 100 shares on October 1, 2017.

(3) Number of Shareholders 20,035

(4) Principal Shareholders (top 10 shareholders)

Shareholder Name	Number of Shares Held (thousand shares)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust account)	10,735	12.74
The Master Trust Bank of Japan, Ltd. (Trust account)	4,125	4.89
GOVERNMENT OF NORWAY	2,632	3.12
Mitsui Sumitomo Insurance Company, Limited	2,322	2.75
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,322	2.75
State Street Bank and Trust Company	1,650	1.95
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,604	1.90
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,417	1.68
The Norinchukin Bank	1,249	1.48
The Bank of New York Mellon Corporation 140044	1,192	1.41

- (Notes) 1. The shareholding ratio is calculated after the treasury stock (254,123 shares) was deducted.
2. The Bank of Tokyo-Mitsubishi UFJ, Ltd. was changed its company name to MUFG Bank, Ltd., effective April 1, 2018.

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

(1) Directors and Audit & Supervisory Board Members (as of March 31, 2018)

Title	Name	Responsibilities in the Company and Significant Concurrent Positions
Chairman	Masayuki Shimojima	
President	Kaoru Tanigawa	
Executive Vice President	Masao Hasegawa	Chief Officer, Supporting Area, Chief Officer, Internal Auditing Department
Director	Takashi Gunji	Chief Officer, Steel, Materials and Plant Division, General Manager, Osaka Branch, General Manager, Nagoya Branch Outside Executive Director, KANEYO CO., Ltd.
Director	Tetsuro Tsutano	Chief Officer, Finance, Accounting, Business Accounting, General Manager, Accounting Department
Director	Yutaka Hirai	
Director	Seiichi Katayama	Professor Emeritus, Kobe University
Director	Tsutomu Yajima	
Audit & Supervisory Board Member (Full-time)	Fumihiko Nashimoto	
Audit & Supervisory Board Member (Full-time)	Sohei Ogawa	Outside Auditor, KANEYO CO., Ltd.
Audit & Supervisory Board Member	Yonosuke Yamada	Attorney at law Outside Corporate Auditor, Mitsubishi Logistics Corporation, Outside Director & Audit and Supervisory Committee Member, SANYO TRADING CO., LTD., Supervisory Director, Activia Properties Inc.
Audit & Supervisory Board Member	Tsukasa Miyachi	Certified public accountant

- (Notes)
- Messrs. Yutaka Hirai, Seiichi Katayama and Tsutomu Yajima are outside directors as stipulated in Article 2, item 15 of the Companies Act.
 - Messrs. Sohei Ogawa, Yonosuke Yamada, and Tsukasa Miyachi are outside audit & supervisory board members as stipulated in Article 2, item 16 of the Companies Act.
 - The Audit & Supervisory Board Members' financial and accounting insight is as follows:
 - Audit & Supervisory Board Member Fumihiko Nashimoto has the experience of serving for many years in corporate management as the representative of a subsidiary in Japan, 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.
 - The Company has submitted notification to Tokyo Stock Exchange, Inc. that Outside Directors Yutaka Hirai, Seiichi Katayama, Tsutomu Yajima and Outside Audit & Supervisory Board Members Yonosuke Yamada and Tsukasa Miyachi have been appointed as independent officers as provided for by the aforementioned exchange.

5. The Company adopts the executive officer system. As of April 1, 2018, the following people hold the position of Executive Officer.

Title	Name	Responsibilities in the Company
* President	Kaoru Tanigawa	
* Executive Vice President	Masao Hasegawa	Chief Officer, Supporting Area, Chief Officer, Internal Auditing Department
* Senior Managing Executive Officer	Takashi Gunji	Chief Officer, Steel, Materials and Plant Division, General Manager, Osaka Branch, General Manager, Nagoya Branch
Managing Executive Officer	Tetsuya Kaneko	Chief Officer, IT Planning, Traffic and Insurance
Managing Executive Officer	Yoshiya Miyabe	Chief Officer, Motor Vehicles and Aerospace Division
Managing Executive Officer	Kazuo Shibata	Chief Officer, Credit Control, Legal and Compliance, General Manager, Credit Control Department
Executive Officer	Eiji Kan	Deputy Chief Officer, Steel, Materials and Plant Division
Executive Officer	Katsumi Morita	President, Kanematsu USA Inc.
Executive Officer	Masayuki Hamasaki	Chief Officer, Grain, Oilseeds & Feedstuff Division
Executive Officer	Hiroyasu Hirasawa	Chief Officer, Foods Division
Executive Officer	Masahiro Harada	Chief Officer, Electronics and Devices Division
Executive Officer	Kazuo Tanaka	Chief Officer, Human Resources & General Affairs, Corporate Planning
* Executive Officer	Tetsuro Tsutano	Chief Officer, Finance, Accounting, Business Accounting, General Manager, Accounting Department

(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 Yutaka Hirai, Seiichi Katayama and Tsutomu Yajima, full-time Audit & Supervisory Board Member Fumihiko Nashimoto, and Outside Audit & Supervisory Board Members Sohei Ogawa, Yonosuke Yamada and Tsukasa Miyachi, 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	6	219
Outside Directors	3	19
Audit & Supervisory Board Members	1	26
Outside Audit & Supervisory Board Members	3	41
Total	13	307

- (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 five Directors, three Outside Directors, one Audit & Supervisory Board Member, 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 who retired at the close of the 123rd Ordinary General Meeting of Shareholders held on June 23, 2017.

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

- (i) Status of Significant Concurrent Positions of Other Companies, etc. and Relationships between Those Companies, etc. and the Company
- Audit & Supervisory Board Member Sohei Ogawa also serves as an Outside Auditor of KANEYO CO., Ltd. There is no material trading relationship between the Company and KANEYO CO., Ltd.
 - Audit & Supervisory Board Member Yonosuke Yamada is an Outside Corporate Auditor of Mitsubishi Logistics Corporation, an Outside Director & Audit and Supervisory Committee Member of SANYO TRADING CO., LTD., and a Supervisory Director of Activia Properties Inc. There are no material trading relationships between the Company and Mitsubishi Logistics Corporation, the Company and SANYO TRADING CO., LTD., or the Company and Activia Properties Inc.

(ii) Key Activities in the Fiscal Year under Review

Category	Name	Attendance at Meetings of the Board of Directors	Attendance at Meetings of the Board or Audit & Supervisory Board Members	Remarks
Director	Yutaka Hirai	22/22	—	He properly offers necessary comments based on his long years of business experience and extensive knowledge.
	Seiichi Katayama	22/22	—	He is a university professor specializing in economics and properly offers necessary comments based on his extensive expertise and deep insight regarding corporate management.
	Tsutomu Yajima	17/17	—	He properly offers necessary comments based on his abundant experience in corporate management and extensive knowledge.
Audit & Supervisory Board Member	Sohei Ogawa	22/22	14/14	He properly offers necessary comments based on his abundant experience in internal management practices and extensive knowledge that he acquired at financial institutions.
	Yonosuke Yamada	21/22	14/14	He properly offers necessary comments based on his specialist knowledge and experience as an attorney at law.
	Tsukasa Miyachi	22/22	14/14	He properly offers necessary comments based on his specialist knowledge and experience as a certified public accountant.

(Note) Director Tsutomu Yajima was appointed at the 123rd Ordinary General Meeting of Shareholders held on June 23, 2017, and because of this, the number shown for meetings of the Board of Directors held differs from those of other Outside Directors.

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)
Reporting company	148	2
Consolidated subsidiaries	196	6
Total	344	8

- (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 paid for a preparation of comfort letters and 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 27, 2015)

“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 Ordinance 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 Ordinance 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 document 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, speed up management decision making, and further clarify 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 by 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. The Management Committee is also attended by the Outside Directors and Outside Audit & Supervisory Board Members.
- (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. The Project Deliberation Committee is also attended by the Audit & Supervisory Board Members.
- (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 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 the current fiscal year is provided below.

- Status of Compliance and Risk Management

The President repeatedly gave statements about ensuring the proper establishment of ethics of individual employees and the importance of compliance to officers and employees of the Company and its subsidiaries. In addition, efforts were made to ensure compliance through such means as implementing compliance training on each stratum of management, posting key points regarding compliance on the intranet, and implementing self-inspections on compliance with the internal company rules.

As part of continued efforts at revising internal company rules, revision of the Enforcement Rules on Decision Making Procedures, Committee Rules, and other rules was carried out to realize greater efficiency and effectiveness of operational controls.

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, and holding the Group Functions Liaison Meeting, where the officers and general managers in charge of the administrative divisions of these companies gather, once.

- Status of Performance of Duties by Directors, etc.

The Board of Directors meetings, which in principle are held monthly, were held in total 22 times. At these meetings, discussions and resolutions were carried out concerning management issues and other important matters, including those related to subsidiaries, such as the management principle, medium- to long-term strategy, and corporate governance.

Management Committee meetings, which in principle are held twice monthly, were held in total 25 times to discuss matters relating to the leadership and guidance of business execution.

In addition, Project Deliberation Committee meetings, which in principle are held twice monthly, were held in total 21 times to conduct discussion on important projects such as investments and loans.

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.

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

The Audit & Supervisory Board Members conducted audits of the execution of duties by Directors. They received reports from the Representative Directors, other Directors and Executive Officers, General Managers, 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.

For major Group companies, the Audit & Supervisory Board Members received reports from the Representative Directors concerning the execution of business operations and other information, and shared information with the Group companies' Audit & Supervisory Board Members through holding Group Company Audit & Supervisory Board Member Meetings and through individual meetings.

Internal Auditing Department, which is a department for internal audits, held regular meetings with the Audit & Supervisory Board Members, kept close-knit cooperation with them through providing explanation on audit plans, including those for subsidiary audits and reports on the status of audit implementation, and ensured the effectiveness of internal audits.

In addition, the Audit & Supervisory Board Members met regularly with the Accounting Auditor and shared information through 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 issues relating to the Company's audit.

(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 "VISION-130," the Company aims to provide stable and continuous payment of dividends with a target consolidated payout ratio of 25%.

In accordance with this policy, the Company shall pay a year-end dividend of ¥30.50 per share. Together with the interim dividend of ¥17.50 per share already paid at the end of the first half of the fiscal year, the annual dividends for the current fiscal year will be ¥48 per share.

(Note) 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. The interim dividend per share is calculated based on the assumption that the consolidation of shares was conducted at the beginning of the current fiscal year.

(Note) Monetary figures and numbers of shares in this business report are rounded down to the units shown.

Consolidated Financial Statements

Consolidated statement of financial position (As of March 31, 2018)

(Million yen)

Item	Amount	Item	Amount
<u>ASSETS</u>		<u>LIABILITIES</u>	
Current assets	414,662	Current liabilities	284,313
Cash and cash equivalents	77,731	Trade and other payables	188,791
Trade and other receivables	220,583	Bonds and borrowings	61,210
Inventories	93,957	Other financial liabilities	7,009
Other financial assets	2,433	Income taxes payable	3,773
Other current assets	19,955	Provisions	156
		Other current liabilities	23,371
Non-current assets	105,226	Non-current liabilities	88,525
Property, plant and equipment	21,900	Bonds and borrowings	76,116
Goodwill	6,571	Other financial liabilities	2,853
Intangible assets	20,377	Retirement benefit liabilities	6,340
Investments accounted for using the equity method	5,169	Provisions	1,639
Trade and other receivables	1,582	Deferred tax liabilities	641
Other investments	37,969	Other non-current liabilities	933
Other financial assets	4,479		
Deferred tax assets	3,696	Total liabilities	372,838
Other non-current assets	3,478	<u>EQUITY</u>	
		Equity	
		Share capital	27,781
		Capital surplus	26,810
		Retained earnings	48,559
		Treasury stock	(193)
		Other components of equity	13,055
		Exchange differences on translation of foreign operations	1,275
		Financial assets measured at fair value through other comprehensive income	12,684
		Cash flow hedges	(905)
		Total equity attributable to owners of the Parent	116,012
		Non-controlling interests	31,037
		Total equity	147,050
Total assets	519,889	Total liabilities and equity	519,889

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

Consolidated statement of income (From April 1, 2017 to March 31, 2018)

(Million yen)

Item	Amount	
Revenue		714,790
Cost of sales		(608,419)
Gross profit		106,371
Selling, general and administrative expenses		(78,420)
Other income (expenses)		
Gain (loss) on sale or disposal of property, plant and equipment and intangible assets, net	(250)	
Impairment loss on property, plant and equipment and intangible assets	(2,148)	
Other income	1,560	
Other expenses	(950)	(1,790)
Operating profit		26,160
Finance income		
Interest income	363	
Dividend income	1,073	
Other finance income	10	1,447
Finance costs		
Interest expenses	(2,414)	
Other finance costs	(730)	(3,144)
Share of profit (loss) of investments accounted for using the equity method		1,579
Profit before tax		26,043
Income tax expense		(6,384)
Profit for the year		19,658
Profit for the year attributable to:		
Owners of the Parent		16,317
Non-controlling interests		3,341

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

Consolidated statement of changes in equity (From April 1, 2017 to March 31, 2018)

(Million yen)

Item	Amount
Equity	
Share capital	
Balance at the beginning of the year	27,781
Balance at the end of the year	27,781
Capital surplus	
Balance at the beginning of the year	26,797
Disposition of treasury stock	13
Equity transactions with non-controlling interests	(0)
Balance at the end of the year	26,810
Retained earnings	
Balance at the beginning of the year	34,579
Dividends	(2,736)
Profit for the year attributable to owners of the Parent	16,317
Reclassification from other components of equity	398
Balance at the end of the year	48,559
Other components of equity	
Balance at the beginning of the year	11,416
Exchange differences on translation of foreign operations	(1,073)
Financial assets measured at fair value through other comprehensive income	3,351
Cash flow hedges	(516)
Remeasurement of defined benefit pension plans	275
Reclassification to retained earnings	(398)
Balance at the end of the year	13,055
Treasury stock	
Balance at the beginning of the year	(217)
Acquisition of treasury stock	(6)
Disposition of treasury stock	30
Balance at the end of the year	(193)
Total equity attributable to owners of the Parent	116,012
Non-controlling interests	
Balance at the beginning of the year	29,506
Dividend payments to non-controlling interest shareholders	(1,511)
Equity transactions with non-controlling interests	(1)
Profit for the year attributable to non-controlling interests	3,341
Other components of equity	(297)
Exchange differences on translation of foreign operations	(378)
Financial assets measured at fair value through other comprehensive income	50
Cash flow hedges	(0)
Remeasurement of defined benefit pension plans	32
Balance at the end of the year	31,037
Total equity	147,050

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

Non-Consolidated Financial Statements

Non-consolidated balance sheet (As of March 31, 2018)

(Million yen)

Item	Amount	Item	Amount
<u>ASSETS</u>		<u>LIABILITIES</u>	
Current assets	163,122	Current liabilities	113,385
Cash and bank deposits	14,854	Notes payable	838
Notes receivable	3,657	Import bills payable	36,026
Accounts receivable	70,461	Accounts payable	32,103
Short-term investments	16	Current portion of bonds	5,000
Inventories	39,874	Short-term borrowings	20,937
Advance payments to suppliers	5,809	Lease obligations	112
Prepaid expenses	654	Accounts payable - other	7,566
Deferred tax assets	538	Accrued expenses	898
Short-term loans receivable	5	Accrued income taxes	1,068
Short-term loans to affiliates	18,904	Advances received	4,180
Other accounts receivable	4,672	Deposits received	2,823
Derivative assets	211	Unearned revenue	20
Other	3,464	Asset retirement obligations	43
Allowance for doubtful accounts	(4)	Derivatives liabilities	1,679
Long-term assets	114,634	Other	85
Tangible fixed assets	2,874	Non-current liabilities	71,214
Buildings	465	Bonds	15,000
Structures	2	Long-term borrowings	55,214
Machinery and equipment	172	Lease obligations	189
Vehicles	13	Provision for employees' retirement and severance benefits	322
Tools and fixtures	137	Provision for loss on affiliated business	71
Land	1,813	Asset retirement obligations	207
Lease assets	269	Other	210
Intangible fixed assets	350	Total liabilities	184,599
Software	215	<u>NET ASSETS</u>	
Telephone subscription rights	7	Shareholders' equity	88,496
Other	127	Common stock	27,781
Investments and other assets	111,410	Capital surplus	26,887
Investments in securities	18,705	Legal capital surplus	26,887
Shares of affiliates	83,150	Other capital surplus	0
Equity investments	1,517	Retained earnings	34,007
Equity investment in affiliates	3,768	Legal retained earnings	131
Long-term loans receivable	1,280	Other retained earnings	33,875
Long-term loans to employees	16	Voluntary reserve	1,836
Long-term loans to subsidiaries and affiliates	10,188	Retained earnings brought forward	32,039
Doubtful accounts	165	Treasury stock	(178)
Long-term prepaid expenses	93	Valuation and translation adjustments	4,761
Deferred tax assets	1,602	Net unrealized gains on securities, net of tax	5,185
Other	1,017	Net losses on deferred hedges, net of tax	(423)
Allowance for doubtful accounts	(10,095)	Total net assets	93,258
Deferred assets	101	Total liabilities and net assets	277,858
Bond issuance costs	101		
Total assets	277,858		

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

Non-consolidated statement of income (From April 1, 2017 to March 31, 2018)

(Million yen)

Item	Amount	
Net sales		443,507
Cost of sales		425,857
Gross profit		17,650
Selling, general and administrative expenses		14,507
Operating income		3,142
Non-operating income		
Interest income	538	
Dividend income	7,831	
Foreign exchange gains	405	
Other	1,172	9,948
Non-operating expenses		
Interest expenses	1,891	
Other	638	2,530
Ordinary income		10,560
Extraordinary gains		
Gain on sale of tangible fixed assets	24	
Gain on sale of investments in securities	28	52
Extraordinary losses		
Loss on disposal of fixed assets	2	
Impairment loss on fixed assets	1,161	
Loss on sale of investments in securities	0	
Impairment loss on investments in securities	150	
Loss on liquidation of subsidiaries and affiliates	71	
Provision of allowance for doubtful accounts for subsidiaries and affiliates and loss on affiliated business	55	1,442
Income before income taxes		9,170
Income taxes - current	(135)	
Income taxes - deferred	(808)	(943)
Net income		10,114

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

Non-consolidated statement of changes in equity (From April 1, 2017 to March 31, 2018)

(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	24,662	26,630
Changes during the fiscal year								
Dividends							(2,738)	(2,738)
Net income							10,114	10,114
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	—	—	—	—	—	—	7,376	7,376
Balance at the end of the fiscal year	27,781	26,887	0	26,887	131	1,836	32,039	34,007

	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	(172)	81,126	3,888	189	4,077	85,204
Changes during the fiscal year						
Dividends		(2,738)			—	(2,738)
Net income		10,114			—	10,114
Acquisition of treasury stock	(6)	(6)			—	(6)
Disposition of treasury stock		—			—	—
Net changes of items other than shareholders' equity during the fiscal year		—	1,296	(612)	684	684
Total changes during the fiscal year	(6)	7,369	1,296	(612)	684	8,053
Balance at the end of the fiscal year	(178)	88,496	5,185	(423)	4,761	93,258

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

Independent Auditors' Audit Report

May 17, 2018

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)

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, 2017 to March 31, 2018.

Management's Responsibility 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 Ordinance on Accounting of Companies, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit in accordance to such plan to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements 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 Ordinance on Accounting of Companies, 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.

Conflicts of Interest

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

Independent Auditors' Audit Report

May 17, 2018

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)

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 of Kanematsu Corporation (the "Company") for the 124th fiscal term from April 1, 2017 to March 31, 2018.

Management's Responsibility for the Non-Consolidated Financial Statements and Others

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements and the supplementary schedules 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 the supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements and the supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit in accordance to such plan to obtain reasonable assurance about whether the non-consolidated financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the supplementary schedules, whether due to fraud or error. The purpose of an audit 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 entity's preparation and fair presentation of the non-consolidated financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements and the supplementary schedules 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 the supplementary schedules in conformity with accounting principles generally accepted in Japan.

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 124th fiscal term, from April 1, 2017 to March 31, 2018. 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 Directors, Audit & Supervisory Board Members, and other parties at those subsidiaries, 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 Ordinance 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 Ordinance on Accounting of Companies) 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 21, 2018

Audit & Supervisory Board
Kanematsu Corporation

Fumihiko Nashimoto (Seal)
Audit & Supervisory Board Member (Full-time)

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

Yonosuke Yamada (Seal)
Outside Audit & Supervisory Board Member

Tsukasa Miyachi (Seal)
Outside Audit & Supervisory Board Member