Member of Financial Accounting Standards Foundation

Consolidated Financial Summary for the First Three Months of the Fiscal Year Ending March 2020 (IFRS)

July 31, 2019

Company name: Kanematsu Corporation

Stock Exchange listing: Tokyo Stock Exchange
Stock code: 8020 URL: http://www.kanematsu.co.jp
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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): August 9, 2019
Scheduled date for commencement of dividend payments: –
Supplementary documents for quarterly results: Yes
Quarterly results briefing: None

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

1. Consolidated business results for the first three months of the fiscal year ending March 2020 (April 1, 2019 – June 30, 2019)

(1) Consolidated business results (sum total) (%: Change from the same period of the previous fiscal year)

	Revenue		Operating profit		Profit before tax		Profit for the period		Profit attributable to owners of the parent		Total comprehensive income for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First Three Months to June 2019	168,416	(1.9)	5,840	(14.7)	5,779	(15.4)	3,995	(14.4)	3,523	(14.6)	1,977	(64.7)
First Three Months to June 2018	171,676	6.0	6,847	22.1	6,834	21.7	4,667	25.8	4,124	25.2	5,598	13.2

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
First Three Months to June 2019	42.19	42.17
First Three Months to June 2018	48.98	48.98

(Notes) The basic earnings per share and the diluted earnings per share are calculated based on the profit attributable to owners of the parent.

(2) Consolidated financial condition

	Total assets	Total equity	Equity attributable to owners of the parent	Percentage of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
As of June 30, 2019	543,786	156,831	124,147	22.8
As of March 31, 2019	549,459	158,698	125,246	22.8

2. Dividends

	Annual dividends				
(Record date)	End of first quarter	End of second quarter	End of third quarter	Year end	Fiscal
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2019	–	25.00	–	35.00	60.00
Fiscal year ending March 2020	–				
Fiscal year ending March 2020 (Forecasts)		30.00	–	30.00	60.00

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

3. Forecasts for consolidated results ending March 2020 (April 1, 2019 – March 31, 2020)

(%: Changes from the previous year)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of the parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	740,000	2.2	31,000	2.1	30,000	2.8	17,000	2.4	202.93

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

* Notes

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

(2) Changes in accounting policies and changes in accounting estimates

1. Changes in accounting policies required by IFRS: Yes
2. Changes in accounting policies other than 1.: None
3. Changes in accounting estimates: None

(Note) Refer to "2. Condensed Consolidated Financial Statements and Major Notes, (5) Notes on condensed consolidated financial statements (Changes in accounting policies)" on page 11 of the accompanying materials for further information.

(3) Number of outstanding shares (common shares)

1. Number of outstanding shares including treasury stock

First three months (2019/6):	84,500,202 shares	Fiscal year (2019/3):	84,500,202 shares

2. Number of treasury stock

First three months (2019/6):	994,883 shares	Fiscal year (2019/3):	994,666 shares

3. Average number of shares during the period (First three months)

First three months (2019/6):	83,544,458 shares	First three months (2018/6):	84,209,916 shares

* Quarterly consolidated financial summaries are not subject to quarterly review by a certified public accountant or an audit corporation.

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

The results forecasts and forward-looking statements included in this document are based on information that the Consolidated Group has obtained on the date of the announcement and certain assumptions that the Consolidated Group considers reasonable. The Consolidated Group makes no guarantees with respect to the achievement of its results forecasts or forward-looking statements. Actual results might be significantly different from the forecasts in the document, depending on various factors. Refer to "(3) Information on the future outlook, including consolidated business performance forecasts" in "1. Qualitative Information on Consolidated Results, Etc. for the First Three Months of the Fiscal Year Ending March 2020" on page 3 of accompanying materials for further information on results forecasts.

Accompanying Materials – Contents

1. Qualitative Information on Consolidated Results, Etc. for the First Three Months of the Fiscal Year Ending March 2020

(1) Details of consolidated results

In the first three months under review (from April 1, 2019 to June 30, 2019), the global economy tended to decelerate, mainly due to the impact of escalating trade friction which resulted in a review of capital investment. The U.S. economy started to slow amid sluggish growth in exports, despite signs of firmness in consumer spending and capital investment. Meanwhile, the European economic outlook remained clouded in uncertainty largely because of Brexit, despite a modest recovery in employment and income conditions. Emerging Asian countries maintained relatively steady growth driven by domestic demand. However, China experienced slower economic growth due to intensified trade friction, notwithstanding the government's fiscal and monetary measures to support the economy.
The Japanese economy was affected by the global economy, especially the trade friction between the U.S. and China but nonetheless continued to grow moderately, supported mainly by firm employment conditions and corporate earnings.

In this environment, the results of the Group for the first three months under review are as shown below.
Revenue fell in the semiconductor parts and manufacturing equipment business, which was affected by the U.S.-China trade friction and stagnation of domestic demand in China. While profit increased in the mobile business, reflecting last-minute demand before the introduction of plans separating handset payments and service charges, profit fell in areas such as the plant infrastructure business and the motor vehicles and parts business due to decline in transactions with the Middle East.
Consolidated revenue fell ¥3,260 million (1.9%) year on year, to ¥168,416 million. Consolidated gross profit also decreased ¥236 million (0.9%) from a year earlier, to ¥25,220 million. Consolidated operating profit sank ¥1,007 million (14.7%) from a year earlier, to ¥5,840 million. Profit before tax decreased ¥1,055 million (15.4%) year on year, to ¥5,779 million, reflecting improvement in the share of profit (loss) of investment accounted for using the equity method from a year earlier but deterioration in finance income. Profit attributable to owners of the parent fell ¥601 million (14.6%) year on year, to ¥3,523 million.

Results for each business segment are described below.

(i) Electronics & Devices

The ICT solutions business got off to a weak start due to the extension of delivery dates for certain projects despite the concentration of efforts on IT investment demand in the server and storage markets, mainly from the manufacturing industry, educational institutions and government ministries and agencies, as well as the virtualization and security markets. The mobile business remained strong, partly due to last-minute demand before the introduction of plans separating handset payments and services charges. The electronics components business performed strongly thanks to the contribution of a card printer business that the Company made into a wholly-owned subsidiary in the previous fiscal year.
As a result of these conditions, revenue in the Electronics and Devices segment fell ¥1,282 million year on year, to ¥55,607 million. Operating profit climbed ¥285 million, to ¥2,803 million.

(ii) Foods & Grain

In the feedstuff business, prices were generally stable despite factors such as U.S.-China trade friction and ample South American harvests. However, transactions involving aquafeed got off to a weak start due to declining catches in South America. The food business was robust, supported by demand following the stabilization of transactions involving agricultural processed products. The meat products business remained firm for all livestock.
As a result, revenue in the Foods & Grain segment rose ¥571 million year on year, to ¥62,931 million. Operating profit decreased ¥224 million, to ¥1,492 million.

(iii) Steel, Materials & Plant

The energy business performed strongly, driven by domestic transactions. The iron and steel business was lackluster, continuing to be adversely affected by trade issues. The oilfield tubing business experienced a slight downturn in oilfield tubing prices on the back of falling oil prices. The plant infrastructure business also reported lower profit due to the suspension of transactions with the Middle East.
As a result, revenue in the Steel, Materials & Plant segment declined ¥857 million year on year, to ¥31,560 million. Operating profit fell ¥578 million, to ¥410 million.

(iv) Motor Vehicles & Aerospace

The aerospace business reported lower profits in reaction to the previous fiscal year's strong performance. The motor vehicles and parts business reported lower profits due to the suspension of transactions with the Middle East. As a result, revenue in the Motor Vehicles & Aerospace segment decreased ¥1,653 million year on year, to ¥15,342 million. Operating profit fell ¥503 million, to ¥861 million.

(v) Other

Revenue fell ¥38 million from a year earlier, to ¥2,975 million. Operating profit increased ¥13 million, to ¥267 million.

(2) Details of financial position

(i) Assets, liabilities and equity

Total assets at the end of the first quarter of the fiscal year under review declined ¥5,673 million from the end of the previous fiscal year, to ¥543,786 million.

Interest-bearing debt increased ¥17,386 million from the end of the previous fiscal year, to ¥156,890 million. Net interest-bearing debt after deducting cash and deposits rose ¥21,028 million from the end of the previous fiscal year, to ¥70,997 million.

In terms of equity, equity attributable to owners of the parent fell ¥1,099 million from the end of the previous fiscal year, to ¥124,147 million, due to a decrease in exchange differences on translation of foreign operations due to foreign exchange rate fluctuations, which offset an increase in retained earnings.

As a result, the ratio of equity attributable to owners of the parent came to 22.8%. The net debt-equity ratio ("net DER") was 0.6 times.

(ii) Cash flows

Cash and cash equivalents at the end of the first quarter under review fell ¥3,646 million from the end of the previous fiscal year, to ¥85,295 million.

The state of cash flows and factors for each category for the first three months of the fiscal year under review are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities in the first three months under review stood at ¥1,808 million (versus net cash provided of ¥1,879 million in the first three months of the previous fiscal year), primarily reflecting the accumulation of operating revenue.

(Cash flows from investing activities)

Net cash used in investing activities in the first three months under review stood at ¥1,138 million (versus net cash used of ¥604 million in the first three months of the previous fiscal year), mainly due to the acquisition of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities in the first three months under review stood at ¥4,099 million (versus net cash used of ¥2,460 million in the first three months of the previous fiscal year), reflecting factors such as cash dividends paid and the repayment of lease obligations.

(3) Information on the future outlook, including consolidated business performance forecasts

We have not changed the forecasts for consolidated results that we announced on May 10, 2019.

The forecasts above are based on information that the Company has obtained and certain assumptions that the Company considers reasonable. The Company does not guarantee that the forecasts will be achieved. Actual results may differ materially from forecasts due to a number of factors.

2. Condensed Consolidated Financial Statements and Major Notes

(1) Condensed consolidated statement of financial position

(Million yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and cash equivalents	88,941	85,295
Trade and other receivables	227,300	198,960
Inventories	96,232	103,921
Other financial assets	3,546	2,929
Other current assets	28,420	33,019
Total current assets	444,443	424,126
Non-current assets		
Property, plant and equipment	22,090	37,559
Goodwill	8,810	8,745
Intangible assets	23,051	22,914
Investments accounted for using the equity method	6,867	6,989
Trade and other receivables	1,449	1,735
Other investments	32,416	31,316
Other financial assets	4,216	4,265
Deferred tax assets	2,609	2,449
Other non-current assets	3,504	3,682
Total non-current assets	105,016	119,659
Total assets	549,459	543,786

(Million yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	196,054	176,002
Bonds and borrowings	74,316	74,641
Lease obligations	370	5,280
Other financial liabilities	5,722	7,473
Income taxes payable	3,469	658
Provisions	189	188
Other current liabilities	32,321	32,769
Total current liabilities	312,443	297,014
Non-current liabilities		
Bonds and borrowings	65,188	65,334
Long-term lease obligations	670	11,633
Other financial liabilities	1,966	1,958
Retirement benefits liabilities	6,555	6,578
Provisions	1,368	1,430
Deferred tax liabilities	1,362	2,158
Other non-current liabilities	1,205	846
Total non-current liabilities	78,317	89,940
Total liabilities	390,760	386,954
Equity		
Share capital	27,781	27,781
Capital surplus	26,882	26,931
Retained earnings	60,748	61,351
Treasury stock	(1,318)	(1,319)
Other components of equity		
Exchange differences on translation of foreign operations	1,865	971
Financial assets measured at fair value through other comprehensive income	9,580	8,914
Cash flow hedges	(293)	(484)
Total other components of equity	11,153	9,402
Total equity attributable to owners of the parent	125,246	124,147
Non-controlling interests	33,451	32,684
Total equity	158,698	156,831
Total liabilities and equity	549,459	543,786

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

(Condensed consolidated statements of income)

(First three months)

(Million yen)

	FY2019 First three months (From April 1, 2018 to June 30, 2018)	FY2020 First three months (From April 1, 2019 to June 30, 2019)
Revenue	171,676	168,416
Cost of sales	(146,219)	(143,196)
Gross profit	25,456	25,220
Selling, general and administrative expenses	(19,003)	(19,510)
Other income (expenses)		
Gain (loss) on sale or disposal of property, plant and equipment and intangible assets, net	8	(97)
Other income	561	378
Other expenses	(176)	(150)
Total other income (expenses)	394	131
Operating profit	6,847	5,840
Finance income		
Interest income	80	68
Dividend income	455	428
Total finance income	535	497
Finance costs		
Interest expenses	(592)	(708)
Other finance costs	(39)	(41)
Total finance costs	(632)	(750)
Share of profit (loss) of investments accounted for using the equity method	84	191
Profit before tax	6,834	5,779
Income tax expense	(2,166)	(1,783)
Profit for the period	4,667	3,995
Profit for the period attributable to:		
Owners of the parent	4,124	3,523
Non-controlling interests	542	472
Total	4,667	3,995
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	48.98	42.19
Diluted earnings per share (yen)	48.98	42.17

(Condensed consolidated statements of comprehensive income)
(First three months)

(Million yen)

	FY2019 First three months (From April 1, 2018 to June 30, 2018)	FY2020 First three months (From April 1, 2019 to June 30, 2019)
Profit for the period	4,667	3,995
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(566)	(694)
Remeasurement of defined benefit pension plans	5	2
Share of other comprehensive income of investments accounted for using the equity method	(3)	2
Total items that will not be reclassified to profit or loss	(565)	(689)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	979	(1,018)
Cash flow hedges	544	(188)
Share of other comprehensive income of investments accounted for using the equity method	(28)	(123)
Total items that may be reclassified to profit or loss	1,495	(1,329)
Other comprehensive income for the period, net of tax	930	(2,018)
Total comprehensive income for the period	5,598	1,977
Total comprehensive income for the period attributable to:		
Owners of the parent	4,867	1,774
Non-controlling interests	730	202
Total	5,598	1,977

(3) Condensed consolidated statement of changes in equity

(Million yen)

	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2018	27,781	26,810	48,559	(193)	1,275	12,684
Cumulative effects of changes in accounting policies			(61)			
Restated balance	27,781	26,810	48,498	(193)	1,275	12,684
Profit for the period			4,124			
Other comprehensive income					639	(499)
Total comprehensive income for the period	–	–	4,124	–	639	(499)
Dividends			(2,568)			
Dividends paid to non-controlling interests						
Acquisition of treasury stock				(0)		
Disposition of treasury stock						
Equity transactions with non-controlling interests		(0)				
Total transactions with owners	–	(0)	(2,568)	(0)	–	–
Transfer from other components of equity to retained earnings			20			(0)
Balance as of June 30, 2018	27,781	26,810	50,075	(194)	1,914	12,184

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity			Total equity attributable to owners of the parent		
	Cash flow hedges	Remeasurement of defined benefit pension plans	Total other components of equity			
Balance as of April 1, 2018	(905)	–	13,055	116,012	31,037	147,050
Cumulative effects of changes in accounting policies			–	(61)		(61)
Restated balance	(905)	–	13,055	115,951	31,037	146,989
Profit for the period			–	4,124	542	4,667
Other comprehensive income	582	19	742	742	187	930
Total comprehensive income for the period	582	19	742	4,867	730	5,598
Dividends			–	(2,568)		(2,568)
Dividends paid to non-controlling interests			–	–	(856)	(856)
Acquisition of treasury stock			–	(0)		(0)
Disposition of treasury stock			–	–		–
Equity transactions with non-controlling interests			–	(0)	(0)	(0)
Total transactions with owners	–	–	–	(2,568)	(857)	(3,425)
Transfer from other components of equity to retained earnings		(19)	(20)	–		–
Balance as of June 30, 2018	(322)	–	13,776	118,250	30,911	149,161

(Million yen)

	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	27,781	26,882	60,748	(1,318)	1,865	9,580
Cumulative effects of changes in accounting policies			–			
Restated balance	27,781	26,882	60,748	(1,318)	1,865	9,580
Profit for the period			3,523			
Other comprehensive income					(893)	(666)
Total comprehensive income for the period	–	–	3,523	–	(893)	(666)
Dividends			(2,922)			
Dividends paid to non-controlling interests						
Acquisition of treasury stock				(0)		
Disposition of treasury stock						
Equity transactions with non-controlling interests		31				
Share-based payment transactions		16				
Total transactions with owners	–	48	(2,922)	(0)	–	–
Transfer from other components of equity to retained earnings			2			–
Balance as of June 30, 2019	27,781	26,931	61,351	(1,319)	971	8,914

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity			Total equity attributable to owners of the parent		
	Cash flow hedges	Remeasurement of defined benefit pension plans	Total other components of equity			
Balance as of April 1, 2019	(293)	–	11,153	125,246	33,451	158,698
Cumulative effects of changes in accounting policies			–	–		–
Restated balance	(293)	–	11,153	125,246	33,451	158,698
Profit for the period			–	3,523	472	3,995
Other comprehensive income	(191)	2	(1,748)	(1,748)	(270)	(2,018)
Total comprehensive income for the period	(191)	2	(1,748)	1,774	202	1,977
Dividends			–	(2,922)		(2,922)
Dividends paid to non-controlling interests			–	–	(937)	(937)
Acquisition of treasury stock			–	(0)		(0)
Disposition of treasury stock			–	–		–
Equity transactions with non-controlling interests			–	31	(31)	(0)
Share-based payment transactions			–	16		16
Total transactions with owners	–	–	–	(2,874)	(969)	(3,844)
Transfer from other components of equity to retained earnings		(2)	(2)	–		–
Balance as of June 30, 2019	(484)	–	9,402	124,147	32,684	156,831

(4) Condensed consolidated statements of cash flows

(Million yen)

	FY2019 First three months (From April 1, 2018 to June 30, 2018)	FY2020 First three months (From April 1, 2019 to June 30, 2019)
Cash flows from operating activities:		
Profit for the period	4,667	3,995
Depreciation and amortization	817	2,109
Finance income and costs	97	252
Share of (profit) loss of investments accounted for using the equity method	(84)	(191)
(Gain) loss on sale or disposal of property, plant and equipment and intangible assets	(8)	97
Income tax expense	2,166	1,783
(Increase) decrease in trade and other receivables	25,403	29,276
(Increase) decrease in inventories	(8,308)	(8,149)
Increase (decrease) in trade and other payables	(18,964)	(20,875)
Increase (decrease) in retirement benefit liabilities	(19)	32
Other	(1,311)	(2,667)
Sub total	4,455	5,664
Interest received	83	66
Dividends received	857	726
Interest paid	(489)	(622)
Income taxes paid	(3,026)	(4,026)
Net cash provided by (used in) operating activities	1,879	1,808
Cash flows from investing activities:		
Payments for property, plant and equipment	(696)	(713)
Proceeds from sales of property, plant and equipment	183	236
Payments for intangible assets	(72)	(114)
Purchases of other investments	(160)	(91)
Proceeds from sale of other investments	1	–
Proceeds from (payments for) acquisition of subsidiaries	(9)	–
Increase in loans receivable	(1)	(204)
Proceeds from collection of loans receivable	74	34
Other	76	(285)
Net cash provided by (used in) investing activities	(604)	(1,138)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings (three months or less)	696	406
Proceeds from short-term borrowings (more than three months)	–	1,089
Repayment of short-term borrowings (more than three months)	–	(906)
Proceeds from long-term borrowings	169	345
Repayment of long-term borrowings	(118)	(185)
Dividends paid	(2,359)	(2,704)
Dividends paid to non-controlling interests	(790)	(860)
Repayment of lease obligations	(55)	(1,282)
Other	(2)	(1)
Net cash provided by (used in) financing activities	(2,460)	(4,099)
Increase (decrease) in cash and cash equivalents, net	(1,185)	(3,429)
Cash and cash equivalents at the beginning of the period	77,731	88,941
Effect of exchange rate changes on cash and cash equivalents	232	(216)
Cash and cash equivalents at end of the period	76,778	85,295

(5) Notes on condensed consolidated financial statements

(Notes on the going concern assumption)

Not applicable.

(Changes in accounting policies)

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

IFRS 16 Leases

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

For the lease contracts of the lessee that were classified as operating leases and expensed upon their occurrence in the past by applying IAS 17 Leases (hereinafter "IAS 17"), the Consolidated Group recognizes lease liabilities and right-of-use assets associated with the application of IFRS 16.
Lease liability is measured by the present value that is obtained by discounting unpaid lease payments, using the interest rate implicit in the lease or the Consolidated Group's incremental borrowing rate, at the commencement date of the lease contract. After the commencement date, the book value will be increased or decreased so that interest rate on the lease liability and lease payments made will be reflected in the book value. In addition, if there is a revision to the lease term or a change in the assessment of an option, lease liability will be remeasured to be reflected in the book value. The lease term is determined by taking into consideration an option to terminate the lease and an option to extend the lease term during the non-cancellable period of the lease.
A right-of-use asset is measured by the acquisition cost that adjusts the initial measurement amount of lease liability on the commencement date of the lease contract mainly for initial direct costs and expenses for restoration to original state, and it is amortized on a straight-line basis over the economic life of the right-of-use asset from the commencement date or when the lease term ends, whichever is shorter.
For short-term leases with a lease term of 12 months or less, the Consolidated Group does not recognize lease liability and a right-of-use asset by applying recognition exemption, and recognizes them as expenses on a straight-line basis over the lease term.

In the condensed quarterly consolidated statement of cash flows, cash flows from operating activities increased, while cash flows from financing activities decreased associated with changes in the presentation of cash flows relating to operating leases that were expensed in the past.

Reconciliation of the amount of non-cancellable operating lease commitments disclosed by applying IAS 17 at the end of the previous consolidated fiscal year and lease liabilities recognized in the condensed quarterly consolidated statement of financial position on the date of initial application is as follows.

(Million yen)

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

The Consolidated Group has decided that the impact of the discount is not material in the measurement of lease liabilities to be newly recognized on the date of initial application, given the size of the leases and the current financial environment. With respect to right-of-use assets, the Consolidated Group recognizes ¥16,667 million, included in property, plant and equipment, at the beginning of the current consolidated fiscal year, taking into consideration the amount of lease liabilities to be newly recognized and the amount of prepaid or accrued lease payments relating to the leases. There is no impact on retained earnings at the beginning of the period.
The Consolidated Group uses the following practical expedients when applying IFRS 16 to leases previously classified as operating leases applying IAS 17.

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

(Changes in presentation method)

(Condensed consolidated statement of financial position)

"Lease obligations" that were included in "Other financial liabilities" of "Current liabilities" and "Long-term lease obligations" that were included in "Other financial liabilities" of "Non-current liabilities" at the end of the previous consolidated fiscal year are presented separately at the end of the first quarter of the current consolidated fiscal year, because their amount has increased in significance. Associated with this, ¥6,093 million presented in "Other financial liabilities" of "Current liabilities in the consolidated statement of financial position at the end of the previous consolidated fiscal year are reclassified as "Lease obligations" of ¥370 million and "Other financial liabilities" of ¥5,722 million. The ¥2,636 million presented in "Other financial liabilities" of "Non-current liabilities" are reclassified as "Long-term lease obligations" of ¥670 million and "Other financial liabilities" of ¥1,966 million.

(Condensed consolidated statements of cash flows)

"Repayment of lease obligations," which was included in "Other" of "Cash flows from financing activities" in the first three months of the previous fiscal year, is presented separately in the first three months under review because its significance in terms of value has increased. Associated with this, -¥58 million presented in "Other" of "Cash flows from financing activities" in the condensed consolidated statements of cash flows in the first three months of the previous fiscal year has been reclassified into "Repayment of lease obligations" of -¥55 million and "Other" of -¥2 million.

(Segment information)

Income figures for reportable segments are based on operating profit for the segments.

Inter-segment revenue and transfers are determined according to transaction prices with outside customers.

I. Previous first three months (From April 1, 2018 to June 30, 2018)

(Million yen)

	Reported segments					Other (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Sub-total			
Revenue								
External	56,889	62,360	32,417	16,995	168,663	3,013	–	171,676
Inter-segment	64	0	28	0	93	22	(116)	–
Total revenues	56,954	62,360	32,446	16,995	168,756	3,035	(116)	171,676
Segment profit (loss)	2,518	1,716	988	1,364	6,587	254	4	6,847

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

(Note 2) The adjustment of ¥4 million for segment profit (loss) includes an inter-segment elimination of ¥4 million.

II. First three months under review (From April 1, 2019 to June 30, 2019)

(Million yen)

	Reported segments					Other (Note 1)	Adjustment (Note 2)	Consolidated
	Electronics & Devices	Foods & Grain	Steel, Materials & Plant	Motor Vehicles & Aerospace	Sub-total			
Revenue								
External	55,607	62,931	31,560	15,342	165,441	2,975	–	168,416
Inter-segment	48	0	15	0	64	24	(88)	–
Total revenues	55,655	62,931	31,575	15,343	165,505	2,999	(88)	168,416
Segment profit (loss)	2,803	1,492	410	861	5,568	267	5	5,840

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

(Note 2) The adjustment of ¥5 million for segment profit (loss) includes an inter-segment elimination of ¥5 million.

The adjustment from segment profit (operating profit) to profit before tax in the condensed consolidated statements of income is as follow.

(Million yen)

	FY2019 First three months (From April 1, 2018 to June 30, 2018)	FY2020 First three months (From April 1, 2019 to June 30, 2019)
Segment profit	6,847	5,840
Finance income and finance costs	(97)	(252)
Share of profit (loss) of investments accounted for using the equity method	84	191
Profit before tax	6,834	5,779

(Significant subsequent events)

Not applicable.

July 31, 2019
Kanematsu Corporation

Highlights of Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 2020 (IFRS)

■Both revenue and profits decreased. Progress in the achievement of profit for the period (attributable to owners of the parent) was approximately 21%.

◇Revenue	168.4 billion yen	1.9% down
◇Operating profit	5.8 billion yen	14.7% down
◇Profit before tax	5.8 billion yen	15.4% down
◇Profit attributable to owners of the parent	3.5 billion yen	14.6% down

(Unit: billion yen)	Q1 of FY2019	**Q1 of FY2020**	Year-on-year Change	Year-on-year Change(%)	FY2020 Forecast	FY2020 Progress (%)
Revenue	171.7	**168.4**	(3.3)	(1.9%)	740.0	22.8%
Gross profit	25.5	**25.2**	(0.2)	(0.9%)	-	-
Selling, general and administrative expenses	(19.0)	**(19.5)**	(0.5)	-	-	-
Other income (expenses)	0.4	**0.1**	(0.3)	(66.8%)	-	-
Operating profit	6.8	**5.8**	(1.0)	(14.7%)	31.0	18.8%
Interest income (expenses)	(0.5)	**(0.6)**	(0.1)	-	-	-
Dividend income	0.5	**0.4**	(0.0)	-	-	-
Other finance income (costs)	(0.0)	**(0.0)**	(0.0)	-	-	-
Finance income (costs)	(0.1)	**(0.3)**	(0.2)	-	-	-
Share of profit (loss) of investments accounted for using the equity method	0.1	**0.2**	0.1	-	-	-
Profit before tax	6.8	**5.8**	(1.1)	(15.4%)	30.0	19.3%
Income tax expense	(2.2)	**(1.8)**	0.4	-	-	-
Profit for the period	4.7	**4.0**	(0.7)	(14.4%)	-	-
Profit attributable to owners of the parent	4.1	**3.5**	(0.6)	(14.6%)	17.0	20.7%
Earnings per share (yen)	48.98	**42.19**	(6.79)	(13.9%)	202.93	20.7%

【Revenue】
Decreased 3.3 billion yen, mainly affected by the Motor Vehicles & Aerospace and Electronics & Devices segments, despite an increase in the Foods & Grain segment

【Operating profit】
Decreased 1.0 billion yen, mainly affected by the Steel, Materials & Plant and Motor Vehicles & Aerospace segments, despite an increase in the Electronics & Devices segment.

【Profit before tax】
Decreased 1.1 billion yen due to a decrease in operating profit.

【Profit attributable to owners of the parent】
Decreased 0.6 billion yen due to a decline in profit before tax.

(Unit: billion yen)	Revenue Q1 of FY2019	Revenue **Q1 of FY2020**	Revenue Change	Operating profit Q1 of FY2019	Operating profit **Q1 of FY2020**	Operating profit Change
Electronics & Devices	56.9	**55.6**	(1.3)	2.5	**2.8**	0.3
Foods & Grain	62.4	**62.9**	0.6	1.7	**1.5**	(0.2)
Steel, Materials & Plant	32.4	**31.6**	(0.9)	1.0	**0.4**	(0.6)
Motor Vehicles & Aerospace	17.0	**15.3**	(1.7)	1.4	**0.9**	(0.5)
Total for reportable segments	168.7	**165.4**	(3.2)	6.6	**5.6**	(1.0)
Other (including adjustment)	3.0	**3.0**	(0.0)	0.3	**0.3**	0.0
Grand total	171.7	**168.4**	(3.3)	6.8	**5.8**	(1.0)

【Electronics&Devices】 A decline in revenue and an increase in profit
The ICT solutions business had a sluggish start chiefly due to the extension of deliveries for certain projects. The mobile business remained solid partly due to last-minute demand before the introduction of plans separating handset payments and services charges. The electronic equipment business was firm, aided by the conversion of a card printer company into a consolidated subsidiary in the previous year.

【Foods&Grain】 An increase in revenue and a decline in profit
In the feedstuff business, market price conditions remained stable. However, aquafeed transactions had a discouraging start due to a decline in fish catches in South America. In the food business, processed agricultural products transactions were solid, aided by stable demand. The meat business remained solid in all livestock categories.

【Steel, Materials & Plant】 A decline in revenue and profit
The energy business performed strongly, mainly driven by domestic transactions. The steel business continued to perform poorly, mainly due to trade issues. In the oil field tubing business, the oil field tubing market registered a slight slowdown against the backdrop of a decline in oil prices. In the plant infrastructure business, profits fell due to the suspension of transactions with the Middle East.

【Motor Vehicles & Aerospace】 A decline in revenue and profit
In the aerospace business, profits decreased due to the absence of strong performances in the previous year. In the motor vehicles and parts business, profits declined due to the suspension of transactions with the Middle East.

(Unit: billion yen)	3/2019	**6/2019**	Comparison with 3/2019 Change	Comparison with 3/2019 Change(%)
Total assets	549.5	**543.8**	(5.7)	(1.0%)
Gross interest-bearing debt (Note 1)	139.5	**156.9**	17.4	12.5%
Net interest-bearing debt	50.0	**71.0**	21.0	42.1%
Shareholders' equity (Note 2)	125.2	**124.1**	(1.1)	(0.9%)
Retained earnings	60.7	**61.4**	0.6	1.0%
Other components of equity	11.2	**9.4**	(1.8)	(16.2%)
Equity ratio (Note 3)	22.8%	**22.8%**	Level	-
Net debt-equity ratio (Note 4)	0.40times	**0.57times**	0.17pt up	-

【Total assets】
Declined 5.7 billion yen, mainly due to decreases in trade and other receivables.

【Interest-bearing debt】
Net interest-bearing debt rose 21.0 billion yen. (Includes an increase of 16.9 billion yen due to the application of IFRS 16 (leases))

【Shareholders' equity】
Decreased 1.1 billion yen due to a decline in exchange differences on the translation of foreign operations due to foreign exchange rate fluctuations, despite the accumulation of retained earnings.

Equity ratio is 22.8%.
Net debt-equity ratio stood at 0.57 times (0.44 times based on calculation without applying IFRS 16).

(Note 1) Increased, reflecting the recognition of lease obligations amounting to approximately 16.9 billion yen at the beginning of the fiscal year due to the mandatory application of IFRS 16 (leases), starting from the fiscal year ending March 31, 2020.
(Note 2) Shareholder's equity = Total equity attribute to owners of the parent (Note 3)Equity ratio = Shareholder's equity / Total assets
(Note 4) Net debt-equity ratio = Net interest-bearing debt / Equity capital

(Unit: billion yen)	Q1 of FY2019	**Q1 of FY2020**
CF from operating activities	1.9	**1.8**
CF from investing activities	(0.6)	**(1.1)**
Free cash flows	1.3	**0.7**
CF from financing activities	(2.5)	**(4.1)**
Increase (decrease) in cash and cash equivalents	(1.2)	**(3.4)**

(Note) Due to the mandatory application of IFRS 16 (leases), starting from the fiscal year ending March 31, 2020, cash flows from operating activities increased 1.2 billion yen and cash flows from financing activities decreased 1.2 billion yen, respectively, compared to the levels before the application.

【CF from operating activities】
Net cash provided by operating activities was 1.8 billion yen, mainly reflecting the accumulation of operating revenue.

【CF from investing activities】
Net cash used in investing activities was 1.1 billion yen, mainly due to the acquisition of property, plant and equipment.

【CF from financing activities】
Net cash used in financing activities was 4.1 billion yen, mainly due to cash dividends paid and lease obligations repaid.

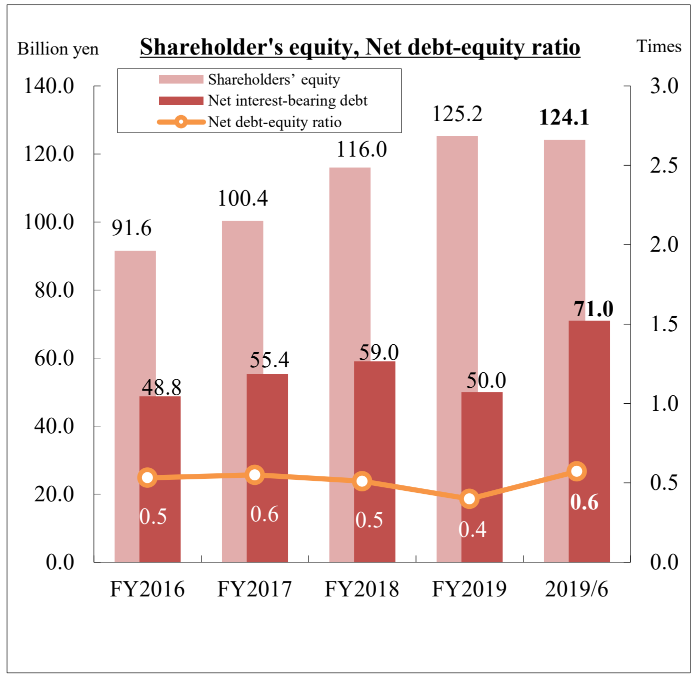
【FY2019】

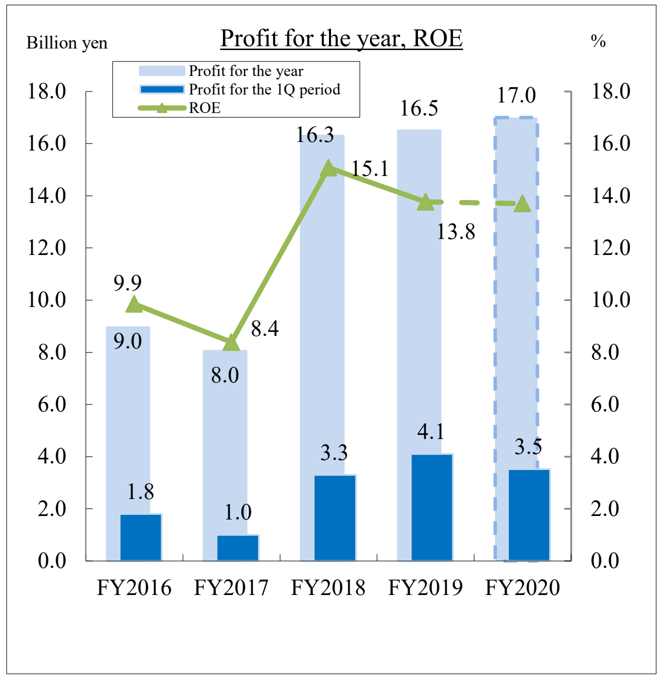
Interim	25 yen per share
Year-end	35 yen per share
Annual	60 yen per share

【FY2020】

Interim (Plan)	**30 yen per share**
Year-end (Plan)	**30 yen per share**
Annual (Plan)	**60 yen per share**

Annual	FY2018	FY2019	FY2020 (plan)
Consolidated payout ratio	24.8%	30.3%	29.6%





* The forward-looking statements, including results forecasts, included in this material are based on information that the Company has obtained and certain assumptions that the Company considers reasonable. The Company does not promise to achieve them. Actual results might differ materially from the forecasts due to a number of factors.
* Since the figures above are rounded off to the nearest 100 million yen, the sum of each item and the total may differ.