

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

October 31, 2019

Company name: Kanematsu Corporation

Stock Exchange listing: Tokyo Stock Exchange

Stock code: 8020

URL: <http://www.kanematsu.co.jp>

Representative: President, Kaoru Tanigawa

Contact: General Manager of Accounting Dept., Reiki Fujii

TEL (03) 5440-8111

Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 8, 2019

Scheduled date for commencement of dividend payments: December 2, 2019

Supplementary documents for quarterly results: Yes

Quarterly results briefing: Yes

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

1. Consolidated business results for the first half of the fiscal year ending March 2020 (April 1, 2019 – September 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 Six Months to September 2019	356,955	(0.1)	14,698	(4.9)	14,220	(4.1)	9,793	(2.1)	7,810	(3.5)	8,098	(36.4)
First Six Months to September 2018	357,488	6.6	15,453	17.6	14,828	15.4	10,003	20.0	8,091	18.5	12,741	9.7

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
First Six Months to September 2019	93.53		93.49	
First Six Months to September 2018	96.32		96.32	

(Note) 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 September 30, 2019	543,339	163,053	128,727	23.7
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	—	30.00	—	—	—
Fiscal year ending March 2020 (Forecasts)	—	—	—	30.00	60.00

(Note) 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 half (2019/9): | 84,500,202 shares | Fiscal year (2019/3): | 84,500,202 shares |
| 2. Number of treasury stock | | | |
| First half (2019/9): | 987,454 shares | Fiscal year (2019/3): | 994,666 shares |
| 3. Average number of shares during the period (First six months) | | | |
| First half (2019/9): | 83,543,565 shares | First half (2018/9): | 84,006,143 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 Half of the Fiscal Year Ending March 2020” on page 3 of accompanying materials for further information on results forecasts.

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

(1) Details of consolidated results

In the first half under review (from April 1, 2019 to September 30, 2019), the global economy tended to decelerate, due to uncertainty caused by trade friction and the geopolitical situation. The U.S. economy grew more moderately due to declining business confidence in the manufacturing and other industries, despite the support of a shift in financial policy. Meanwhile in Europe, business confidence was worsening because of Brexit and a downturn in the manufacturing industry due to a slowdown in exports. The economies of emerging Asian countries also showed signs of decelerating, reflecting sluggish growth in exports mainly due to a slowdown in China and trade friction. China continued to experience slow economic growth in the face of the intensified trade friction.

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 half under review are as shown below.

Revenue fell in the semiconductor parts and manufacturing equipment business and the electronics devices and materials business, affected by the U.S.-China trade friction and the stagnation of domestic demand in China. In contrast, revenue rose in the feedstuff business, attributable to high prices in the market from the U.S.-China trade friction and an increase in the trading volume of grass. Profit increased in the ICT solutions business, where IT investment demand increased primarily in the virtualization and security markets. Profit also climbed in the mobile business, among others, due to last-minute demand before the consumption tax hike and the introduction of plans separating handset payments and services charges. However, profit fell in areas such as the plant infrastructure business where transactions with the Middle East were suspended and the motor vehicles and parts business.

Consolidated revenue fell ¥533 million (0.1%) year on year, to ¥356,955 million. Consolidated gross profit increased ¥819 million (1.5%) from a year earlier, to ¥54,956 million. Consolidated operating profit sank ¥755 million (4.9%) from a year earlier, to ¥14,698 million, due to increases in selling, general and administrative expenses and other expenses. Profit before tax decreased ¥608 million (4.1%) year on year, to ¥14,220 million as a result of improvement in the share of profit (loss) of investment accounted for using the equity method from a year earlier, despite deterioration in finance income. Profit attributable to owners of the parent fell ¥281 million (3.5%) year on year, to ¥7,810 million.

Results for each business segment are described below.

(i) Electronics & Devices

The ICT solutions business remained strong due to IT investment demand for servers and storages mainly from the manufacturing and the distribution industries, as well as in the virtualization and security markets. The mobile business also remained strong, partly due to last-minute demand before the consumption tax hike and the introduction of plans separating handset payments and service 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 ¥917 million year on year, to ¥126,837 million. Operating profit climbed ¥1,228 million, to ¥9,299 million.

(ii) Foods & Grain

In the feedstuff business, transactions of food soybeans and rice were strong, but transactions involving aquafeed had a hard time due to a fall in prices of fish meal produced in South America. In the food business, transactions involving agricultural processed products remained robust, supported by stable demand. The meat products business remained firm for all livestock despite disease and market fluctuations.

As a result, revenue in the Foods & Grain segment rose ¥5,851 million year on year, to ¥127,477 million. Operating profit decreased ¥671 million, to ¥1,689 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. In the oilfield tubing business, demand for drilling experienced a slight downturn as oil prices remained low. 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 ¥5,555 million year on year, to ¥62,517 million. Operating profit fell ¥922 million, to ¥1,844 million.

(iv) Motor Vehicles & Aerospace

The aerospace business remained strong. 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 rose ¥59 million year on year, to ¥33,983 million. Operating profit fell ¥470 million, to ¥1,316 million.

(v) Other

Revenue increased ¥30 million from a year earlier, to ¥6,139 million. Operating profit climbed ¥87 million, to ¥542 million.

(2) Details of financial position

(i) Assets, liabilities and equity

Total assets at the end of the first half of the fiscal year under review declined ¥6,120 million from the end of the previous fiscal year, to ¥543,339 million. Interest-bearing debt increased ¥6,350 million from the end of the previous fiscal year, to ¥145,854 million. Net interest-bearing debt after deducting cash and deposits rose ¥15,694 million from the end of the previous fiscal year, to ¥65,663 million.

In terms of equity, equity attributable to owners of the parent rose ¥3,481 million from the end of the previous fiscal year, to ¥128,727 million, chiefly due to an increase in retained earnings.

As a result, the ratio of equity attributable to owners of the parent came to 23.7%. The net debt-equity ratio ("net DER") was 0.5 times.

(ii) Cash flows

Cash and cash equivalents at the end of the first half under review fell ¥9,296 million from the end of the previous fiscal year, to ¥79,645 million.

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

(Cash flows from operating activities)

Net cash provided by operating activities in the first half under review stood at ¥12,977 million (versus net cash provided of ¥2,162 million in the first half of the previous fiscal year), primarily reflecting the accumulation of operating income.

(Cash flows from investing activities)

Net cash used in investing activities in the first half under review stood at ¥5,177 million (versus net cash used of ¥1,396 million in the first half of the previous fiscal year), mainly due to the acquisition of property, plant and equipment and payments for leasehold deposits.

(Cash flows from financing activities)

Net cash used in financing activities in the first half under review stood at ¥16,780 million (versus ¥4,374 million in the first half of the previous fiscal year), reflecting factors such as the repayment of debt.

(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 September 30, 2019
Assets		
Current assets		
Cash and cash equivalents	88,941	79,645
Trade and other receivables	227,300	207,792
Inventories	96,232	97,832
Other financial assets	3,546	3,201
Other current assets	28,420	30,134
Total current assets	444,443	418,606
Non-current assets		
Property, plant and equipment	22,090	40,339
Goodwill	8,810	8,755
Intangible assets	23,051	23,035
Investments accounted for using the equity method	6,867	7,202
Trade and other receivables	1,449	1,507
Other investments	32,416	32,094
Other financial assets	4,216	6,761
Deferred tax assets	2,609	2,341
Other non-current assets	3,504	2,696
Total non-current assets	105,016	124,733
Total assets	549,459	543,339

(Million yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	196,054	180,235
Bonds and borrowings	74,316	68,092
Lease obligations	370	5,597
Other financial liabilities	5,722	5,160
Income taxes payable	3,469	2,654
Provisions	189	391
Other current liabilities	32,321	32,434
Total current liabilities	312,443	294,567
Non-current liabilities		
Bonds and borrowings	65,188	60,430
Lease obligations	670	11,733
Other financial liabilities	1,966	1,912
Retirement benefits liabilities	6,555	6,658
Provisions	1,368	1,736
Deferred tax liabilities	1,362	2,384
Other non-current liabilities	1,205	862
Total non-current liabilities	78,317	85,718
Total liabilities	390,760	380,285
Equity		
Share capital	27,781	27,781
Capital surplus	26,882	26,935
Retained earnings	60,748	65,640
Treasury stock	(1,318)	(1,308)
Other components of equity		
Exchange differences on translation of foreign operations	1,865	595
Financial assets measured at fair value through other comprehensive income	9,580	9,329
Cash flow hedges	(293)	(245)
Total other components of equity	11,153	9,679
Total equity attributable to owners of the parent	125,246	128,727
Non-controlling interests	33,451	34,325
Total equity	158,698	163,053
Total liabilities and equity	549,459	543,339

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

(Million yen)

	FY2019 First half (From April 1, 2018 to September 30, 2018)	FY2020 First half (From April 1, 2019 to September 30, 2019)
Revenue	357,488	356,955
Cost of sales	(303,350)	(301,999)
Gross profit	54,137	54,956
Selling, general and administrative expenses	(38,965)	(39,946)
Other income (expenses)		
Gain (loss) on sale or disposal of property, plant and equipment and intangible assets, net	0	(109)
Other income	774	516
Other expenses	(493)	(717)
Total other income (expenses)	281	(311)
Operating profit	15,453	14,698
Finance income		
Interest income	173	149
Dividend income	488	472
Total finance income	661	621
Finance costs		
Interest expenses	(1,257)	(1,428)
Other finance costs	(80)	(97)
Total finance costs	(1,338)	(1,525)
Share of profit (loss) of investments accounted for using the equity method	52	426
Profit before tax	14,828	14,220
Income tax expense	(4,825)	(4,427)
Profit for the period	10,003	9,793
Profit for the period attributable to:		
Owners of the parent	8,091	7,810
Non-controlling interests	1,911	1,983
Total	10,003	9,793
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	96.32	93.53
Diluted earnings per share (yen)	96.32	93.49

(Condensed consolidated statements of comprehensive income)
(First half)

(Million yen)

	FY2019 First half (From April 1, 2018 to September 30, 2018)	FY2020 First half (From April 1, 2019 to September 30, 2019)
Profit for the period	10,003	9,793
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	23	(238)
Remeasurement of defined benefit pension plans	5	2
Share of other comprehensive income of investments accounted for using the equity method	(5)	1
Total items that will not be reclassified to profit or loss	22	(234)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	1,929	(1,254)
Cash flow hedges	832	47
Share of other comprehensive income of investments accounted for using the equity method	(46)	(253)
Total items that may be reclassified to profit or loss	2,716	(1,460)
Other comprehensive income for the period, net of tax	2,738	(1,695)
Total comprehensive income for the period	12,741	8,098
Total comprehensive income for the period attributable to:		
Owners of the parent	10,407	6,340
Non-controlling interests	2,334	1,757
Total	12,741	8,098

(3) Condensed consolidated statement of changes in equity

(Million yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	
					Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
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			8,091			
Other comprehensive income					1,346	88
Total comprehensive income for the period	—	—	8,091	—	1,346	88
Dividends			(2,568)			
Dividends paid to non-controlling interests	—	—	—	—	—	—
Acquisition of treasury stock		—		(1,127)		
Disposition of treasury stock		0		0		
Equity transactions with non-controlling interests	—	(0)	—	—	—	—
Share-based payment transactions		31		—		
Total transactions with owners	—	30	(2,568)	(1,127)	—	—
Transfer from other components of equity to retained earnings			29			(9)
Balance as of September 30, 2018	27,781	26,841	54,050	(1,321)	2,622	12,764

	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			–	8,091	1,911	10,003
Other comprehensive income	861	19	2,316	2,316	422	2,738
Total comprehensive income for the period	861	19	2,316	10,407	2,334	12,741
Dividends			–	(2,568)		(2,568)
Dividends paid to non-controlling interests	–	–	–	–	(856)	(856)
Acquisition of treasury stock			–	(1,127)		(1,127)
Disposition of treasury stock			–	0		0
Equity transactions with non-controlling interests	–	–	–	(0)	(0)	(1)
Share-based payment transactions			–	31		31
Total transactions with owners	–	–	–	(3,665)	(856)	(4,521)
Transfer from other components of equity to retained earnings		(19)	(29)	–	–	–
Balance as of September 30, 2018	(44)	–	15,342	122,694	32,514	155,209

(Million yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	
					Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
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			7,810			
Other comprehensive income					(1,270)	(250)
Total comprehensive income for the period	—	—	7,810	—	(1,270)	(250)
Dividends			(2,922)			
Dividends paid to non-controlling interests	—	—	—	—	—	—
Acquisition of treasury stock		—		(3)		
Disposition of treasury stock		(0)		14		
Equity transactions with non-controlling interests	—	31	—	—	—	—
Share-based payment transactions		20		—		
Total transactions with owners	—	52	(2,922)	10	—	—
Transfer from other components of equity to retained earnings			4			(1)
Balance as of September 30, 2019	27,781	26,935	65,640	(1,308)	595	9,329

	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			—	7,810	1,983	9,793
Other comprehensive income	47	2	(1,469)	(1,469)	(225)	(1,695)
Total comprehensive income for the period	47	2	(1,469)	6,340	1,757	8,098
Dividends			—	(2,922)		(2,922)
Dividends paid to non-controlling interests	—	—	—	—	(941)	(941)
Acquisition of treasury stock			—	(3)		(3)
Disposition of treasury stock			—	14		14
Equity transactions with non-controlling interests	—	—	—	31	58	90
Share-based payment transactions			—	20		20
Total transactions with owners	—	—	—	(2,859)	(883)	(3,743)
Transfer from other components of equity to retained earnings		(2)	(4)	—	—	—
Balance as of September 30, 2019	(245)	—	9,679	128,727	34,325	163,053

(4) Condensed consolidated statements of cash flows

(Million yen)

	FY2019 First half (From April 1, 2018 to September 30, 2018)	FY2020 First half (From April 1, 2019 to September 30, 2019)
Cash flows from operating activities:		
Profit for the period	10,003	9,793
Depreciation and amortization	1,594	4,287
Finance income and costs	676	903
Share of (profit) loss of investments accounted for using the equity method	(52)	(426)
(Gain) loss on sale or disposal of property, plant and equipment and intangible assets	(0)	109
Income tax expense	4,825	4,427
(Increase) decrease in trade and other receivables	2,753	20,504
(Increase) decrease in inventories	(6,772)	(2,483)
Increase (decrease) in trade and other payables	(6,607)	(16,168)
Increase (decrease) in retirement benefit liabilities	(24)	114
Other	(914)	(4,702)
Sub total	5,483	16,360
Interest received	176	147
Dividends received	904	836
Interest paid	(1,235)	(1,413)
Income taxes paid	(3,167)	(2,953)
Net cash provided by (used in) operating activities	2,162	12,977
Cash flows from investing activities:		
Payments for property, plant and equipment	(1,398)	(3,343)
Proceeds from sales of property, plant and equipment	463	487
Payments for intangible assets	(185)	(404)
Purchases of other investments	(498)	(588)
Proceeds from sale of other investments	13	195
Proceeds from (payments for) acquisition of subsidiaries	(9)	—
Increase in loans receivable	(20)	(214)
Proceeds from collection of loans receivable	182	89
Payments for leasehold deposits	(61)	(1,386)
Other	119	(11)
Net cash provided by (used in) investing activities	(1,396)	(5,177)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings (three months or less)	442	(7,342)
Proceeds from short-term borrowings (more than three months)	—	1,164
Repayment of short-term borrowings (more than three months)	—	(1,310)
Proceeds from long-term borrowings	7,060	1,350
Repayment of long-term borrowings	(7,211)	(4,239)
Dividends paid	(2,559)	(2,914)
Purchase of treasury stock	(1,128)	(2)
Capital contribution from holders of non-controlling interests	—	90
Dividends paid to non-controlling interests	(862)	(949)
Repayments of lease obligations	(110)	(2,638)
Other	(4)	12
Net cash provided by (used in) financing activities	(4,374)	(16,780)
Increase (decrease) in cash and cash equivalents, net	(3,607)	(8,980)
Cash and cash equivalents at the beginning of the period	77,731	88,941
Effect of exchange rate changes on cash and cash equivalents	543	(316)
Cash and cash equivalents at end of the period	74,667	79,645

(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 “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 half 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 “Lease obligations” of ¥670 million and “Other financial liabilities” of ¥1,966 million.

(Condensed consolidated statements of cash flows)

“Payments for leasehold deposits,” which was included in “Other” of “Cash flows from investing activities” in the first half of the previous fiscal year, and “Repayments of lease obligations,” which was included in “Other” of “Cash flows from financing activities” in the first half of the previous fiscal year, are presented separately in the first half under review because their monetary significance in terms of value has increased. Associated with this, ¥57 million presented in “Other” of “Cash flows from investing activities” in the condensed consolidated statements of cash flows in the first half of the previous fiscal year has been reclassified into “Payments for leasehold deposits” of -¥61 million and “Other” of ¥119 million, and -¥114 million presented in “Other” of “Cash flows from financing activities” in the condensed consolidated statements of cash flows in the first half of the previous fiscal year has been reclassified into “Repayments of lease obligations” of -¥110 million and “Other” of -¥4 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 six months (From April 1, 2018 to September 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	127,754	121,626	68,072	33,924	351,379	6,109	—	357,488
Inter-segment	126	0	43	12	182	53	(235)	—
Total revenues	127,880	121,627	68,116	33,937	351,561	6,162	(235)	357,488
Segment profit (loss)	8,071	2,360	2,766	1,786	14,985	455	12	15,453

(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 ¥12 million for segment profit (loss) includes an inter-segment elimination of ¥12 million.

II. First six months under review (From April 1, 2019 to September 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	126,837	127,477	62,517	33,983	350,816	6,139	—	356,955
Inter-segment	239	1	65	4	311	58	(369)	—
Total revenues	127,077	127,478	62,582	33,988	351,127	6,197	(369)	356,955
Segment profit (loss)	9,299	1,689	1,844	1,316	14,149	542	6	14,698

(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 ¥6 million for segment profit (loss) includes an inter-segment elimination of ¥6 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 half (From April 1, 2018 to September 30, 2018)	FY2020 First half (From April 1, 2019 to September 30, 2019)
Segment profit	15,453	14,698
Finance income and finance costs	(676)	(903)
Share of profit (loss) of investments accounted for using the equity method	52	426
Profit before tax	14,828	14,220

(Significant subsequent events)

Not applicable.

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

■ **Both revenue and profits decreased. Progress achievement of profit for the period attributable to owners of the parent improved to 46%.**

◇ Revenue	357.0 billion yen	0.1% down
◇ Operating profit	14.7 billion yen	4.9% down
◇ Profit before tax	14.2 billion yen	4.1% down
◇ Profit attributable to owners of the parent	7.8 billion yen	3.5% down

Profit & loss statement							
(Unit: billion yen)		Q2 of FY2019	Q2 of FY2020	Year-on-year		FY2020	
				Change	Change(%)	Forecast	Progress (%)
Revenue		357.5	357.0	(0.5)	(0.1%)	740.0	48.2%
Gross profit		54.1	55.0	0.8	1.5%	-	-
Selling, general and administrative expenses		(39.0)	(39.9)	(1.0)	-	-	-
Other income (expenses)		0.3	(0.3)	(0.6)	-	-	-
Operating profit		15.5	14.7	(0.8)	(4.9%)	31.0	47.4%
	Interest income (expenses)	(1.1)	(1.3)	(0.2)	-	-	-
	Dividend income	0.5	0.5	(0.0)	-	-	-
	Other finance income (costs)	(0.1)	(0.1)	(0.0)	-	-	-
Finance income (costs)		(0.7)	(0.9)	(0.2)	-	-	-
Share of profit (loss) of investments accounted for using the equity method		0.1	0.4	0.4	-	-	-
Profit before tax		14.8	14.2	(0.6)	(4.1%)	30.0	47.4%
Income tax expense		(4.8)	(4.4)	0.4	-	-	-
Profit for the period		10.0	9.8	(0.2)	(2.1%)	-	-
Profit attributable to owners of the parent		8.1	7.8	(0.3)	(3.5%)	17.0	45.9%
Earnings per share (yen)		96.32	93.53	(2.79)	(2.9%)	202.93	45.9%

【Revenue】
Decreased 0.5 billion yen, affected by falls in the Steel, Materials & Plant and the Electronics & Devices segments, despite increases in other segments, including the Foods & Grain segment.

【Operating profit】
Decreased 0.8 billion yen, despite an increase in the Electronics & Devices segment.

【Profit before tax】
Decreased 0.6 billion yen due to a decrease in operating profit.

【Profit attributable to owners of the parent】
Decreased 0.3 billion yen due to a decline in profit before tax.

Segment information							【Electronics&Devices】 A decline in revenue and increase in profit	
(Unit: billion yen)		Revenue			Operating profit			The ICT solutions business remained strong, chiefly reflecting IT investment demand in the server and storage markets, mainly from the manufacturing and distribution industries, as well as the virtualization and security markets. The mobile business also remained solid, partly due to last-minute demand before the consumption tax hike and 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.
		Q2 of FY2019	Q2 of FY2020	Change	Q2 of FY2019	Q2 of FY2020	Change	
	Electronics & Devices	127.8	126.8	(0.9)	8.1	9.3	1.2	【Foods&Grain】 An increase in revenue and a decline in profit In the feedstuff business, transactions involving food soybeans and rice were strong. However, aquafeed transactions were weak due to a fall in prices of fish meal produced in South America. In the food business, processed agricultural products transactions were robust, aided by stable demand. The meat products business remained solid in all livestock categories despite livestock disease and market fluctuations. 【Steel, Materials & Plant】 A decline in revenue and profit The energy business performed strongly, mainly driven by domestic transactions. Meanwhile, the steel business continued to perform poorly, mainly due to trade issues. In the oil field tubing business, demand for drilling experienced a slight slowdown as oil prices remained low. In the plant infrastructure business, profits fell due to the suspension of transactions with the Middle East. 【Motor Vehicles & Aerospace】 An increase in revenue and a decline in profit The aerospace business remained strong. In the motor vehicles and parts business, profits declined due to the suspension of transactions with the Middle East.
	Foods & Grain	121.6	127.5	5.9	2.4	1.7	(0.7)	
	Steel, Materials & Plant	68.1	62.5	(5.6)	2.8	1.8	(0.9)	
	Motor Vehicles & Aerospace	33.9	34.0	0.1	1.8	1.3	(0.5)	
	Total for reportable segments	351.4	350.8	(0.6)	15.0	14.1	(0.8)	
Other (including adjustment)		6.1	6.1	0.0	0.4	0.5	0.1	
Grand total		357.5	357.0	(0.5)	15.5	14.7	(0.8)	

Assets, Liabilities and Net Assets					【Total assets】 Declined 6.1 billion yen, mainly due to decreases in trade and other receivables, despite an increase in property, plant and equipment.
(Unit: billion yen)	3/2019	9/2019	Comparison with 3/2019		
			Change	Change(%)	
Total assets	549.5	543.3	(6.1)	(1.1%)	【Interest-bearing debt】 Net interest-bearing debt rose 15.7 billion yen. (Including an increase of 16.9 billion yen due to the application of IFRS 16 [leases])
Gross interest-bearing debt (Note 1)	139.5	145.9	6.4	4.6%	
Net interest-bearing debt	50.0	65.7	15.7	31.4%	
Shareholders' equity (Note 2)	125.2	128.7	3.5	2.8%	【Shareholders' equity】 Increased 3.5 billion yen chiefly due to the accumulation of retained earnings.
Retained earnings	60.7	65.6	4.9	8.1%	
Other components of equity	11.2	9.7	(1.5)	(13.7%)	
Equity ratio (Note 3)	22.8%	23.7%	0.9pt up	-	Equity ratio is 23.7%. Net debt-equity ratio stood at 0.51 times (0.38 times based on calculation without applying IFRS 16).
Net debt-equity ratio (Note 4)	0.40times	0.51times	0.11pt up	-	

(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

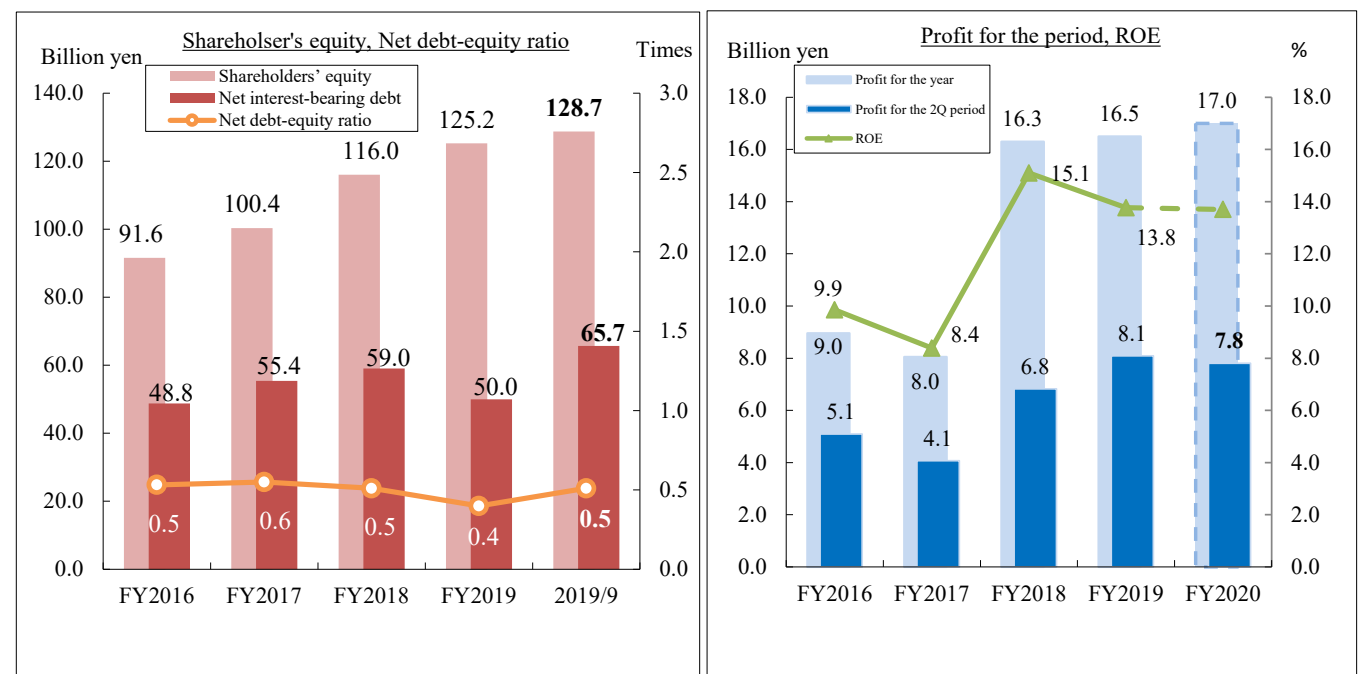
Cash Flows			【CF from operating activities】 Net cash provided by operating activities was 13.0 billion yen, mainly reflecting the accumulation of operating revenue. 【CF from investing activities】 Net cash used in investing activities was 5.2 billion yen, mainly due to the acquisition of property, plant and equipment and payments for leasehold deposits. 【CF from financing activities】 Net cash used in financing activities was 16.8 billion yen, mainly due to repayment of borrowings, lease obligations repaid, and cash dividends paid.
(Unit: billion yen)	Q2 of FY2019	Q2 of FY2020	
CF from operating activities	2.2	13.0	
CF from investing activities	(1.4)	(5.2)	
Free cash flows	0.8	7.8	
CF from financing activities	(4.4)	(16.8)	
Increase (decrease) in cash and cash equivalents	(3.6)	(9.0)	
(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 2.6 billion yen and cash flows from financing activities decreased 2.6 billion yen, respectively, compared to the levels before the application.			

Dividends			
【FY2019】 Interim25.0 yen per share Year-end35.0 yen per share Annual60.0 yen per share			
【FY2020】 Interim30.0 yen per share Year-end (Plan)30.0 yen per share Annual (Plan)60.0 yen per share			
Annual	FY2018	FY2019	FY2020 (Plan)
Consolidated payout ratio	24.8%	30.3%	29.6%

Dividends

【FY2019】		
Interim	25.0 yen per share	
Year-end	35.0 yen per share	
Annual	60.0 yen per share	
【FY2020】		
Interim	30.0 yen per share	
Year-end (Plan)	30.0 yen per share	
Annual (Plan)	60.0 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.