

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

February 5, 2020

Company name: Kanematsu Corporation

Stock Exchange listing: Tokyo Stock Exchange

Stock code: 8020

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): February 14, 2020

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 nine months of the fiscal year ending March 2020 (April 1, 2019 – December 31, 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 Nine Months to December 2019	531,133	(1.1)	18,738	(13.6)	17,861	(14.5)	11,937	(16.6)	9,415	(20.1)	12,934	11.7
First Nine Months to December 2018	536,931	3.1	21,677	15.4	20,895	14.1	14,305	0.0	11,789	(3.5)	11,583	(41.7)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
First Nine Months to December 2019	112.75		112.70	
First Nine Months to December 2018	140.60		140.60	

(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 December 31, 2019	571,561	164,686	130,372	22.8
As of March 31, 2019	549,459	158,698	125,246	22.8

2. Dividends

(Record date)	Annual dividends				
	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

(Notes) 1. 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	710,000	(1.9)	29,000	(4.4)	28,000	(4.0)	15,000	(9.7)	179.05

(Note) Revisions to results forecasts published most recently: Yes

* 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 12 of the accompanying materials for further information.

(3) Number of outstanding shares (common shares)

- | | | | |
|---|-------------------|------------------------------|-------------------|
| 1. Number of outstanding shares including treasury stock | | | |
| First nine months (2019/12): | 84,500,202 shares | Fiscal year (2019/3): | 84,500,202 shares |
| 2. Number of treasury stock | | | |
| First nine months (2019/12): | 988,310 shares | Fiscal year (2019/3): | 994,666 shares |
| 3. Average number of shares during the period (First nine months) | | | |
| First nine months (2019/12): | 83,508,827 shares | First nine months (2018/12): | 83,853,964 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 Nine Months of the Fiscal Year Ending March 2020” on page 4 of accompanying materials for further information on results forecasts.

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

(1) Details of consolidated results

During the first nine months under review (from April 1, 2019 to December 31, 2019), the global economy tended to decelerate, due to the impact of the U.S.-China trade friction and geopolitical uncertainty. The U.S. economy continued to experience the longest-ever phase of expansion, but business confidence showed a worsening trend particularly in the manufacturing industry, which was affected by the trade friction. In Europe, business confidence was also 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 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 on the decelerating trend, affected by the consumption tax hike and domestic disasters amid the uncertain global economy.

In this environment, the results of the Group for the first nine months under review are as shown below.

Revenue increased in the meat products business where domestic sales increased associated with the effectuation of the TPP and the EPA. In contrast, revenue decreased 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. Profit increased in the ICT solutions business, where IT investment demand increased primarily in the virtualization and security markets. However, profit declined in the feedstuff business where transactions involving aquafeed had difficulty and the machine tools and industrial machinery business was affected by lower investments from the manufacturing industry.

Consolidated revenue fell ¥5,798 million (1.1%) year on year, to ¥531,133 million. Consolidated gross profit increased ¥487 million (0.6%) from a year earlier, to ¥79,830 million. Consolidated operating profit sank ¥2,939 million (13.6%) from a year earlier, to ¥18,738 million mainly due to an increase in selling, general and administrative expenses. Profit before tax declined ¥3,034 million (14.5%) year on year, to ¥17,861 million. Profit attributable to owners of the parent fell ¥2,374 million (20.1%) year on year, to ¥9,415 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 slowed down in the third quarter as a backlash to last-minute demand before the consumption tax hike and the introduction of plans separating handset payments and service charges in the first half. The electronics components business performed strongly but saw profit decline because of the absence of the effect of the temporary contribution to results from the consolidation of a subsidiary in the previous fiscal year.

As a result of these conditions, revenue in the Electronics and Devices segment fell ¥2,098 million year on year, to ¥185,662 million. Operating profit climbed ¥141 million, to ¥12,548 million.

(ii) Foods & Grain

The feedstuff business had a hard time due to the slump of transactions involving aquafeed and pet-related transactions, despite continued strong transactions in food soybeans and rice. 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 although domestic transactions slowed down temporarily before the Japan-U.S. trade agreement on goods (TAG) came into effect.

As a result, revenue in the Foods & Grain segment rose ¥7,530 million year on year, to ¥191,225 million. Operating profit decreased ¥1,375 million, to ¥1,900 million.

(iii) Steel, Materials & Plant

The energy business, which had experienced difficulty in the previous fiscal year due to a fall in crude oil prices, performed strongly, driven by domestic transactions. The chemicals business also remained firm mainly in general chemicals and pharmaceuticals. However, the iron and steel business had difficulty both in Japan and export, affected by the weak market conditions worldwide, and the oilfield tubing business continued to slow down partly due to a sense of excess market inventory. The machine tools and industrial machinery business were also lackluster,

reflecting lower investments from the manufacturing industry due to the worsening business confidence. 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 ¥11,036 million year on year, to ¥95,443 million. Operating profit fell ¥1,398 million, to ¥1,764 million.

(iv) Motor Vehicles & Aerospace

The aerospace business remained strong. The motor vehicles and parts business had a strong showing overall but reported lower profit due to the suspension of transactions with the Middle East.

As a result, revenue in the Motor Vehicles & Aerospace Division rose ¥293 million year on year, to ¥49,927 million. Operating profit fell ¥327 million, to ¥1,802 million.

(v) Other

Revenue fell ¥488 million from a year earlier, to ¥8,874 million. Operating profit increased ¥46 million, to ¥730 million.

(2) Details of financial position

(i) Assets, liabilities and equity

Total assets at the end of the first nine months of the fiscal year under review increased ¥22,102 million from the end of the previous fiscal year, to ¥571,561 million.

Interest-bearing debt increased ¥17,329 million from the end of the previous fiscal year, to ¥156,833 million. Net interest-bearing debt after deducting cash and deposits rose ¥26,449 million from the end of the previous fiscal year, to ¥76,418 million.

In terms of equity, equity attributable to owners of the parent rose ¥5,126 million from the end of the previous fiscal year, to ¥130,372 million, chiefly due to 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 nine months under review fell ¥9,077 million from the end of the previous fiscal year, to ¥79,864 million.

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

(Cash flows from operating activities)

Net cash provided by operating activities in the first nine months under review stood at ¥13,208 million (versus net cash provided of ¥5,097 million in the first nine months 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 nine months under review stood at ¥8,829 million (versus net cash used of ¥4,550 million in the first nine months 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 nine months under review stood at ¥13,265 million (versus net cash provided of ¥990 million in the first nine months of the previous fiscal year), mainly reflecting cash dividends paid and the repayment of debt.

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

We have changed the forecasts for consolidated results that we announced on May 10, 2019 as described below in light of the results for the first nine months under review and the future outlook.

Revision of consolidated business performance for the fiscal year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

	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
Previously announced forecast (A)	740,000	31,000	30,000	17,000	202.93
Revised forecast (B)	710,000	29,000	28,000	15,000	179.05
Difference (B-A)	(30,000)	(2,000)	(2,000)	(2,000)	–
Increase/decrease (%)	(4.1)	(6.5)	(6.7)	(11.8)	–
(for reference) Actual results of the previous fiscal year	723,849	30,349	29,177	16,605	198.22

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 December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	88,941	79,864
Trade and other receivables	227,300	217,409
Inventories	96,232	106,841
Other financial assets	3,546	4,128
Other current assets	28,420	32,321
Total current assets	444,443	440,566
Non-current assets		
Property, plant and equipment	22,090	42,971
Goodwill	8,810	9,462
Intangible assets	23,051	23,121
Investments accounted for using the equity method	6,867	7,497
Trade and other receivables	1,449	1,664
Other investments	32,416	34,622
Other financial assets	4,216	7,429
Deferred tax assets	2,609	1,793
Other non-current assets	3,504	2,432
Total non-current assets	105,016	130,995
Total assets	549,459	571,561

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	196,054	191,159
Bonds and borrowings	74,316	78,827
Lease obligations	370	5,755
Other financial liabilities	5,722	7,412
Income taxes payable	3,469	852
Provisions	189	69
Other current liabilities	32,321	35,356
Total current liabilities	312,443	319,433
Non-current liabilities		
Bonds and borrowings	65,188	60,637
Lease obligations	670	11,612
Other financial liabilities	1,966	1,830
Retirement benefits liabilities	6,555	6,705
Provisions	1,368	1,871
Deferred tax liabilities	1,362	3,749
Other non-current liabilities	1,205	1,035
Total non-current liabilities	78,317	87,441
Total liabilities	390,760	406,875
Equity		
Share capital	27,781	27,781
Capital surplus	26,882	26,953
Retained earnings	60,748	64,863
Treasury stock	(1,318)	(1,309)
Other components of equity		
Exchange differences on translation of foreign operations	1,865	1,207
Financial assets measured at fair value through other comprehensive income	9,580	10,768
Cash flow hedges	(293)	107
Total other components of equity	11,153	12,083
Total equity attributable to owners of the parent	125,246	130,372
Non-controlling interests	33,451	34,314
Total equity	158,698	164,686
Total liabilities and equity	549,459	571,561

(2) Condensed consolidated statements of income / Condensed consolidated statements of comprehensive income
 (Condensed consolidated statements of income)
 (First nine months)

(Million yen)

	Previous first nine months (From April 1, 2018 to December 31, 2018)	First nine months under review (From April 1, 2019 to December 31, 2019)
Revenue	536,931	531,133
Cost of sales	(457,588)	(451,303)
Gross profit	79,343	79,830
Selling, general and administrative expenses	(58,533)	(61,142)
Other income (expenses)		
Gain (loss) on sale or disposal of property, plant and equipment and intangible assets, net	(14)	(110)
Impairment loss on property, plant and equipment and intangible assets	–	(106)
Other income	1,882	1,043
Other expenses	(1,000)	(775)
Total other income (expenses)	867	50
Operating profit	21,677	18,738
Finance income		
Interest income	280	214
Dividend income	696	669
Total finance income	976	883
Finance costs		
Interest expenses	(1,949)	(2,094)
Other finance costs	(122)	(145)
Total finance costs	(2,071)	(2,240)
Share of profit (loss) of investments accounted for using the equity method	313	480
Profit before tax	20,895	17,861
Income tax expense	(6,590)	(5,923)
Profit for the period	14,305	11,937
Profit for the period attributable to:		
Owners of the parent	11,789	9,415
Non-controlling interests	2,515	2,522
Total	14,305	11,937
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	140.60	112.75
Diluted earnings per share (yen)	140.60	112.70

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

(Million yen)

	Previous first nine months (From April 1, 2018 to December 31, 2018)	First nine months under review (From April 1, 2019 to December 31, 2019)
Profit for the period	14,305	11,937
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(4,075)	1,367
Remeasurement of defined benefit pension plans	5	2
Share of other comprehensive income of investments accounted for using the equity method	(9)	5
Total items that will not be reclassified to profit or loss	(4,079)	1,375
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	1,006	(661)
Cash flow hedges	411	400
Share of other comprehensive income of investments accounted for using the equity method	(59)	(117)
Total items that may be reclassified to profit or loss	1,358	(378)
Other comprehensive income for the period, net of tax	(2,721)	996
Total comprehensive income for the period	11,583	12,934
Total comprehensive income for the period attributable to:		
Owners of the parent	8,906	10,473
Non-controlling interests	2,677	2,461
Total	11,583	12,934

(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			11,789			
Other comprehensive income					606	(3,945)
Total comprehensive income for the period	–	–	11,789	–	606	(3,945)
Dividends			(4,655)			
Dividends paid to non-controlling interests						
Acquisition of treasury stock				(1,128)		
Disposition of treasury stock		2		1		
Equity transactions with non-controlling interests		(0)				
Share-based payment transactions		48				
Total transactions with owners	–	49	(4,655)	(1,127)	–	–
Transfer from other components of equity to retained earnings			29			(9)
Balance as of December 31, 2018	27,781	26,860	55,661	(1,321)	1,882	8,729

	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				11,789	2,515	14,305
Other comprehensive income	435	19	(2,883)	(2,883)	162	(2,721)
Total comprehensive income for the period	435	19	(2,883)	8,906	2,677	11,583
Dividends				(4,655)		(4,655)
Dividends paid to non-controlling interests				–	(1,682)	(1,682)
Acquisition of treasury stock				(1,128)		(1,128)
Disposition of treasury stock				3		3
Equity transactions with non-controlling interests				(0)	(0)	(1)
Share-based payment transactions				48		48
Total transactions with owners	–	–	–	(5,733)	(1,682)	(7,415)
Transfer from other components of equity to retained earnings		(19)	(29)	–		–
Balance as of December 31, 2018	(469)	–	10,142	119,124	32,032	151,157

(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			9,415			
Other comprehensive income					(657)	1,312
Total comprehensive income for the period	—	—	9,415	—	(657)	1,312
Dividends			(5,428)			
Dividends paid to non-controlling interests						
Acquisition of treasury stock				(5)		
Disposition of treasury stock		(0)		14		
Equity transactions with non-controlling interests		31				
Share-based payment transactions		38				
Total transactions with owners	—	70	(5,428)	9	—	—
Transfer from other components of equity to retained earnings			128			(125)
Balance as of December 31, 2019	27,781	26,953	64,863	(1,309)	1,207	10,768

	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				9,415	2,522	11,937
Other comprehensive income	400	2	1,057	1,057	(61)	996
Total comprehensive income for the period	400	2	1,057	10,473	2,461	12,934
Dividends				(5,428)		(5,428)
Dividends paid to non-controlling interests				—	(1,784)	(1,784)
Acquisition of treasury stock				(5)		(5)
Disposition of treasury stock				14		14
Equity transactions with non-controlling interests				31	185	216
Share-based payment transactions				38		38
Total transactions with owners	—	—	—	(5,348)	(1,599)	(6,947)
Transfer from other components of equity to retained earnings		(2)	(128)	—		—
Balance as of December 31, 2019	107	—	12,083	130,372	34,314	164,686

(4) Condensed consolidated statements of cash flows

(Million yen)

	Previous first nine months (From April 1, 2018 to December 31, 2018)	First nine months under review (From April 1, 2019 to December 31, 2019)
Cash flows from operating activities:		
Profit for the period	14,305	11,937
Depreciation and amortization	2,398	6,662
Impairment loss on property, plant and equipment and intangible assets	–	106
Finance income and costs	1,094	1,356
Share of (profit) loss of investments accounted for using the equity method	(313)	(480)
(Gain) loss on sale or disposal of property, plant and equipment and intangible assets	14	110
Income tax expense	6,590	5,923
(Increase) decrease in trade and other receivables	4,035	13,191
(Increase) decrease in inventories	(3,807)	(8,720)
Increase (decrease) in trade and other payables	(10,506)	(10,382)
Increase (decrease) in retirement benefit liabilities	1	160
Other	(2,642)	249
Sub total	11,171	20,117
Interest received	266	211
Dividends received	1,409	1,118
Interest paid	(1,819)	(1,983)
Income taxes paid	(5,930)	(6,256)
Net cash provided by (used in) operating activities	5,097	13,208
Cash flows from investing activities:		
Payments for property, plant and equipment	(2,171)	(5,871)
Proceeds from sales of property, plant and equipment	642	705
Payments for intangible assets	(328)	(576)
Purchases of other investments	(512)	(1,351)
Proceeds from sale of other investments	13	367
Payments for other financial assets	(0)	–
Proceeds from (payments for) acquisition of subsidiaries	(1,729)	(169)
Payments for acquisition of businesses	–	(380)
Increase in loans receivable	(732)	(236)
Proceeds from collection of loans receivable	242	173
Payments for leasehold deposits	(96)	(1,580)
Other	123	89
Net cash provided by (used in) investing activities	(4,550)	(8,829)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings (three months or less)	9,056	1,138
Proceeds from short-term borrowings (more than three months)	–	1,177
Repayment of short-term borrowings (more than three months)	–	(1,389)
Proceeds from long-term borrowings	7,051	1,458
Repayment of long-term borrowings	(7,628)	(4,575)
Dividends paid	(4,529)	(5,289)
Purchase of treasury stock	(1,129)	(4)
Capital contribution from holders of non-controlling interests	–	90
Dividends paid to non-controlling interests	(1,657)	(1,739)
Repayments of lease obligations	(166)	(4,143)
Other	(6)	12
Net cash provided by (used in) financing activities	990	(13,265)
Increase (decrease) in cash and cash equivalents, net	1,537	(8,886)
Cash and cash equivalents at the beginning of the period	77,731	88,941
Effect of exchange rate changes on cash and cash equivalents	282	(190)
Cash and cash equivalents at end of the period	79,551	79,864

(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 nine months 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 nine months of the previous fiscal year, and “Repayments of lease obligations,” which was included in “Other” of “Cash flows from financing activities” in the first nine months of the previous fiscal year, are presented separately in the first nine months under review because their monetary significance in terms of value has increased. Associated with this, ¥27 million presented in “Other” of “Cash flows from investing activities” in the condensed consolidated statements of cash flows in the first nine months of the previous fiscal year has been reclassified into “Payments for leasehold deposits” of -¥96 million and “Other” of ¥123 million, and -¥172 million presented in “Other” of “Cash flows from financing activities” in the condensed consolidated statements of cash flows in the first nine months of the previous fiscal year has been reclassified into “Repayments of lease obligations” of -¥166 million and “Other” of -¥6 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 nine months (From April 1, 2018 to December 31, 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	187,760	183,695	106,479	49,634	527,569	9,362	–	536,931
Inter-segment	198	1	57	23	280	68	(349)	–
Total revenues	187,959	183,696	106,536	49,657	527,850	9,431	(349)	536,931
Segment profit (loss)	12,407	3,275	3,162	2,129	20,974	684	17	21,677

(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 ¥17 million for segment profit (loss) includes an inter-segment elimination of ¥17 million.

II. First nine months under review (From April 1, 2019 to December 31, 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	185,662	191,225	95,443	49,927	522,259	8,874	–	531,133
Inter-segment	292	1	79	6	380	190	(570)	–
Total revenues	185,954	191,227	95,522	49,934	522,639	9,064	(570)	531,133
Segment profit (loss)	12,548	1,900	1,764	1,802	18,016	730	(8)	18,738

(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 -¥8 million for segment profit (loss) includes an inter-segment elimination of -¥8 million.

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

	(Million yen)	
	Previous first nine months (From April 1, 2018 to December 31, 2018)	First nine months under review (From April 1, 2019 to December 31, 2019)
Segment profit	21,677	18,738
Finance income and finance costs	(1,094)	(1,356)
Share of profit (loss) of investments accounted for using the equity method	313	480
Profit before tax	20,895	17,861

(Matters related to business combinations, etc.)

The major business combination that took place in the first nine months of the previous fiscal year (from April 1, 2018 to December 31, 2018) was as follows.

(1) Details of the business combination

Name of the acquired company:	G-Printec, Inc.
Business of the acquired company:	Development, manufacture and sale of card printers and related devices
Acquisition date:	December 3, 2018
Legal form of the business combination:	Acquisition of shares with cash as consideration
Name of the controlling entity after the business combination:	G-Printec, Inc.
Percentage share of voting rights acquired:	Percentage share of voting rights owned immediately before the acquisition date
	40.0%
	Percentage share of voting rights additionally acquired on the acquisition date
	60.0%
	Percentage share of voting rights after acquisition
	100.0%

(2) Main reasons for carrying out the business combination

The card printer business, one of the key businesses in the Electronics & Devices segment, has been focusing on the distribution of card printers for many years. We position G-Printec, Inc. as an important strategic function to further enhance the added value of the card printer business, and we have decided that the acquisition of the printer design and development functions of G-Printer, Inc. will contribute to the enhancement of the corporate value of the Consolidated Group, because it will enable us to mutually generate synergistic effects by meeting even more diversified customer needs.

(3) Acquisition cost of the acquired company and its breakdown

Consideration for acquisition	
Fair value on the acquisition date of shares of the acquired company held immediately before the acquisition date	¥1,440 million
Fair value of shares of the acquired company additionally acquired on the acquisition date	¥2,160 million
Acquisition cost	¥3,600 million

(4) Gain from remeasurement relating to business combinations

Gain from remeasurement relating to business combinations of ¥610 million is recorded in "Other income" in the condensed consolidated statements of income as a result of re-measuring the fair value on the acquisition date of equity interest in the acquired company held immediately before the acquisition date.

(5) Estimated fair values of assets acquired and liabilities assumed at the date of acquisition and amount of goodwill recognized
(Million yen)

Items	Amounts
Fair values of assets acquired and liabilities assumed	
Cash and cash equivalents	439
Trade receivables	845
Inventories	301
Other current assets	91
Property, plant and equipment	124
Intangible assets	2,856
Other non-current assets	25
Current liabilities	(1,740)
Non-current liabilities	(1,831)
<u>Amount of goodwill recognized</u>	<u>2,485</u>
Total	3,600

(Note) The details of goodwill are mainly excess earning power and synergy effects with the existing businesses. The amount of goodwill recognized does not include the amount that is expected to be deductible for tax purposes.

(6) Impacts of the business combination on cash flows

Payment of acquisition cost:	-¥2,160 million
Cash and cash equivalents of the acquired company:	439 million
Net payment for acquisition of subsidiaries:	-¥1,720 million

(7) Impact on the operating results of the Consolidated Group

Business results of the acquired company from the acquisition date to December 31, 2018 were not significant.

No important business combinations took place in the first nine months under review (from April 1, 2019 to December 31, 2019).

(Significant subsequent events)

Not applicable.

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

■ **Both revenue and profits decreased.**

◇ Revenue	531.1 billion yen	1.1% down
◇ Operating profit	18.7 billion yen	13.6% down
◇ Profit before tax	17.9 billion yen	14.5% down
◇ Profit attributable to owners of the parent	9.4 billion yen	20.1% down

■ **The full-year forecast has been revised downward.**

(Profit before tax is forecast to fall 4.0% year on year. Profit attributable to owners of the parent is forecast to decrease 9.7% year on year.)

■ **The year-end dividend forecast is left unchanged at 30 yen per share (60 yen for the annual dividend forecast).**

Profit & loss statement						
(Unit: billion yen)	Q3 of FY2019	Q3 of FY2020	Year-on-year		FY2020	
			Change	Change(%)	Forecast	Progress (%)
Revenue	536.9	531.1	(5.8)	(1.1%)	710.0	74.8%
Gross profit	79.3	79.8	0.5	0.6%	-	-
Selling, general and administrative expenses	(58.5)	(61.1)	(2.6)	-	-	-
Other income (expenses)	0.9	0.1	(0.8)	(94.2%)	-	-
Operating profit	21.7	18.7	(2.9)	(13.6%)	29.0	64.6%
Interest income (expenses)	(1.7)	(1.9)	(0.2)	-	-	-
Dividend income	0.7	0.7	(0.0)	-	-	-
Other finance income (costs)	(0.1)	(0.1)	(0.0)	-	-	-
Finance income (costs)	(1.1)	(1.4)	(0.3)	-	-	-
Share of profit (loss) of investments accounted for using the equity method	0.3	0.5	0.2	53.4%	-	-
Profit before tax	20.9	17.9	(3.0)	(14.5%)	28.0	63.8%
Income tax expense	(6.6)	(5.9)	0.7	-	-	-
Profit for the period	14.3	11.9	(2.4)	(16.6%)	-	-
Profit attributable to owners of the parent	11.8	9.4	(2.4)	(20.1%)	15.0	62.8%
Earnings per share (yen)	140.60	112.70	(27.90)	-	179.05	-

【Revenue】
Decreased 5.8 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 2.9 billion yen, despite a slight increase in the Electronics & Devices segment.

【Profit before tax】
Decreased 3.0 billion yen due to a decrease in operating profit.

【Profit attributable to owners of the parent】
Decreased 2.4 billion yen due to a decline in profit before tax.

Assets, Liabilities and Net Assets

(Unit: billion yen)	3/2020	12/2020	Comparison with 3/2020	
			Change	Change(%)
Total assets	549.5	571.6	22.1	4.0%
Gross interest-bearing debt (Note 1)	139.5	156.8	17.3	12.4%
Net interest-bearing debt	50.0	76.4	26.4	52.9%
Shareholders' equity (Note 2)	125.2	130.4	5.1	4.1%
Retained earnings	60.7	64.9	4.1	6.8%
Other components of equity	11.2	12.1	0.9	8.3%
Equity ratio (Note 3)	22.8%	22.8%	Almost same	-
Net debt-equity ratio (Note 4)	0.40times	0.59times	0.19pt up	-

【Total assets】

Increased 22.1 billion yen mainly due to increases in inventories and property, plant and equipment.

【Interest-bearing debt】

Net interest-bearing debt rose 26.4 billion yen. (Including an increase of 16.9 billion yen due to the application of IFRS 16 [leases].)

【Shareholders' equity】

Increased 5.1 billion yen chiefly due to the accumulation of retained earnings.

Equity ratio is 22.8%.

Net debt-equity ratio stood at 0.59 times. (0.45 times based on calculation without applying IFRS 16 [leases])

(Note1) 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.

(Note2) 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

(Unit: billion yen)	Q3 of FY2019	Q3 of FY2020
CF from investing activities	(4.6)	(8.8)
Free cash flows	0.5	4.4
CF from financing activities	1.0	(13.3)
Increase (decrease) in cash and cash equivalents	1.5	(8.9)

【CF from operating activities】

Net cash provided by operating activities was 13.2 billion yen, mainly reflecting the accumulation of operating revenue.

【CF from investing activities】

Net cash used in investing activities was 8.8 billion yen, mainly due to the acquisition of a subsidiary and property, plant and equipment, and payments for leasehold deposits.

【CF from financing activities】

Net cash used in financing activities was 13.3 billion yen, mainly due to repayment of borrowings, lease obligations repaid, and cash dividends paid.

(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 4.1 billion yen and cash flows from financing activities decreased 4.1 billion yen, respectively, compared to the levels before the application.

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%	33.5%

Segment information						
(Unit: billion yen)	Revenue			Operating profit		
	Q3 of FY2019	Q3 of FY2020	Change	Q3 of FY2019	Q3 of FY2020	Change
Electronics & Devices	187.8	185.7	(2.1)	12.4	12.5	0.1
Foods & Grain	183.7	191.2	7.5	3.3	1.9	(1.4)
Steel, Materials & Plant	106.5	95.4	(11.0)	3.2	1.8	(1.4)
Motor Vehicles & Aerospace	49.6	49.9	0.3	2.1	1.8	(0.3)
Total for reportable segments	527.6	522.3	(5.3)	21.0	18.0	(3.0)
Other (including adjustment)	9.4	8.9	(0.5)	0.7	0.7	0.0
Grand total	536.9	531.1	(5.8)	21.7	18.7	(2.9)

【Electronics&Devices】 A decline in revenue and increase in profit

The ICT solutions business remained strong due to IT investment demand for servers and storage mainly from the manufacturing and the distribution industries, as well as in the virtualization and security markets. The mobile business slowed in the third quarter as a backlash to last-minute demand before the consumption tax hike. The electronics components business performed strongly but saw profit decline because of the absence of the effect of temporary contribution to results from the consolidation of a subsidiary in the previous fiscal year.

【Foods&Grain】 An increase in revenue and decline in profit

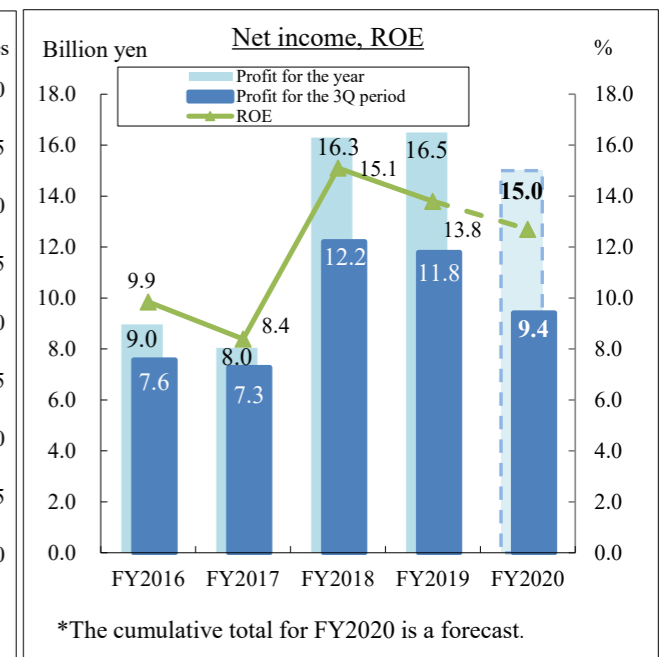
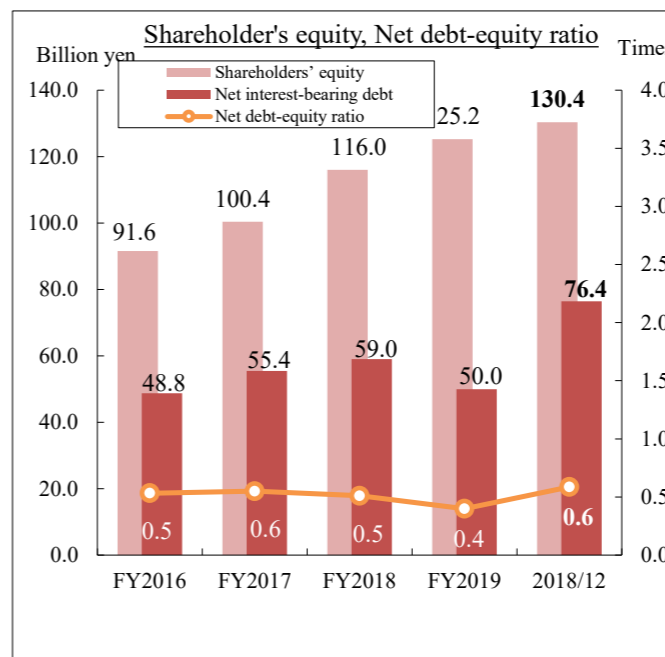
The feedstuff business struggled given the slump in transactions involving aquafeed and pet-related businesses. The food business was robust, supported by demand following the stabilization of transactions involving agricultural processed products. The meat products business remained firm for all livestock although domestic transactions slowed temporarily before the Japan-U.S. trade agreement on goods (TAG) came into effect.

【Steel, Materials & Plant】 A decline in revenue and profit

The energy business performed strongly, driven by domestic transactions. The chemicals business also remained firm, mainly in general chemicals and pharmaceuticals. However, the iron and steel business faced a difficult time both in Japan and in export markets, affected by the weak market conditions worldwide, and the oilfield tubing business continued to slow partly due to a sense of excess market inventory. The machine tools and industrial machinery business also had difficulty, reflecting lower investments from the manufacturing industry due to the worsening business confidence. The plant infrastructure business also reported lower profit due to the suspension of transactions with the Middle East.

【Motor Vehicles & Aerospace】 An increase in revenue and decline in profit

The aerospace business remained strong. The motor vehicles and parts business had a strong showing overall but reported lower profit due to the suspension of transactions with the Middle East.



*The cumulative total for FY2020 is a forecast.

* 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.