SENKO Co., Ltd.

Summary of Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2017 [Japan GAAP]

October 31, 2016

Name of Listed Company: SENKO Co., Ltd. Stock Listed on: The First Section of the Tokyo Stock Exchange
Code Number: 9069 URL http://www.senko.co.jp/en/
Representative: Title: President Name: Yasuhisa Fukuda
Inquiries: Title: Executive Officer, Public Relations Name: Noburoh Sasaki Tel. (06) 6440-5155
Scheduled Date of Issue of Financial Report: November 14, 2016 Scheduled Date of Dividend Paid: December 6, 2016
Supplemental Information Materials: Yes
Scheduled Date of Quarterly Information Meeting: Yes (for institutional investors)

1. Consolidated Operating Results for the Six Months Ended September 30, 2016

(1) Consolidated Operating Results Note: Amounts less than ¥1 million have been rounded down.

	Operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2016	224,521	4.3	8,875	7.4	8,741	10.6	4,471	3.4
Six months ended September 30, 2015	215,232	17.1	8,266	53.7	7,906	54.1	4,324	40.9

(Note) Comprehensive income

Six months ended September 30, 2016: ¥5,094 million (-0.6%) Six months ended September 30, 2015: ¥5,124 million (40.7%)

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended September 30, 2016	31.24	29.39
Six months ended September 30, 2015	30.91	28.54

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2016	277,570	103,623	32.6	630.85
As of March 31, 2016	269,461	100,009	32.6	613.71

(Reference) Shareholders' equity:

As of September 30, 2016: ¥90,397 million As of March 31, 2016: ¥87,715 million

2. Dividends

	Annual dividend				
	June 30	September 30	December 31	March 31	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2016	-	9.00	-	11.00	20.00
Fiscal year ending March 31, 2017	-	11.00			
Fiscal year ending March 31, 2017 (Forecast)			-	11.00	22.00

(Note) Change in the estimation of dividend for the fiscal year in this period: None

Breakdown of the year-end dividend per share for the year ended March 31, 2016: ¥9 per share ordinary dividend, ¥2 per share commemorative dividend for the 70th anniversary of the foundation and 100th anniversary in business

3. Forecast of Consolidated Operating Results for the Fiscal Year Ending March 31, 2017 (From April 1, 2016 to March 31, 2017)

(Percentage figures represent year-on-year changes)

	Operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 2017	460,000	6.0	18,400	5.2	18,000	4.8	9,500	11.2	66.39

(Note) Change in the forecast made in this period: Yes

Forecast stated in the results of operations for the fiscal year ending March 2017 announced on August 3, 2016 has been revised.

Please refer to "Forecast for the fiscal year ending March 31, 2017" on page 4.

Notes

(1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries associated with change in scope of consolidation): None

(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting principles and estimates, and retrospective restatement

(a) Changes due to revision of accounting standards: Yes

(b) Changes other than in (a): None

(c) Changes in accounting estimates: Yes

(d) Retrospective restatement: None

(4) Shares outstanding (Common shares)

(a) Shares outstanding (including treasury shares)

As of September 30, 2016:	144,834,771 shares	As of March 31, 2016:	144,834,771 shares

(b) Treasury shares

As of September 30, 2016:	1,539,458 shares	As of March 31, 2016:	1,907,546 shares

(c) Average number of shares (quarterly consolidated cumulative period)

Six months ended September 30, 2016:	143,098,676 shares	Six months ended September 30, 2015:	139,903,708 shares

(Note) Starting with the first quarter of the consolidated fiscal year ended March 31, 2015 (the three months ended June 30, 2014), the number of treasury shares at term-end includes Senko shares owned by the employee stock ownership plan (ESOP) trust, following revisions to accounting principles due to the amendment of accounting standards. (As of September 30, 2016: 1,132,800 shares; as of March 31, 2016: 1,449,000 shares.)

Information concerning quarterly review procedure

This quarterly financial report is not subject to the quarterly review procedure prescribed by the Financial Instruments and Exchange Act. The review procedure prescribed by the Financial Instruments and Exchange Law for the quarterly consolidated financial statements had not been completed when this quarterly financial report was released.

Cautionary statement regarding forecasts of operating results and special notes

Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons. For information about the assumptions used for forecasts and precautions concerning the use of forecasts, please see “Forecast for the fiscal year ending March 31, 2017” on page 4.

Index to accompanying materials

1. Results of Operations and Financial Condition

(1) Results of operations

In the six-month period of the fiscal year ending March 31, 2017 (April 1, 2016 to September 30, 2016), there were signs of improvements including a solid trend in capital expenditure. However, the economic recovery in Japan remained subdued due in part to the appreciation of the yen, the economic slowdown overseas and stagnant consumer spending.

In the logistics industry, the business environment also remained challenging, as the shortage of drivers and workers continued amid slowing freight volume mainly for export and consumer-related cargo.

In this environment, the Senko Group has strived to enhance its competitiveness, expand its business areas, and upgrade its operating system, among other measures.

The following provides an outline of our main activities in the second quarter of the current fiscal year.

In Japan, we acquired all the shares in ACROSS TRANSPORT CO., LTD., a department store delivery agent involved in the fashion logistics business in April, welcoming it into the Senko Group. We are promoting business expansion by boosting cooperation with each of the Senko Group companies in charge of the fashion logistics businesses as well as promoting joint distribution and mutual use of business bases and human resources.

With regard to the commencement of operations at large-scale distribution centers, in May we opened the Narita Fashion Logistics Center II (Tomisato City, Chiba Prefecture) to strengthen our logistics services for imported brands in the Narita area. In addition, we opened Nishikanto LC (Logistics Center) (Aikawa Town, Kanagawa Prefecture) in August and started logistics operations for major general merchandise store outlets located in the western Kanto region. Furthermore, logistics operations for a drugstore in the Kansai region, launched from January to March 2016, are steadily expanding.

Outside Japan, initiatives aimed at expanding our business scale and functions have been taken. These included the establishment of a freezer warehouse at Kentucky Logistics Center (Kentucky, the United States) in August, which contributes to the strengthening of our business foundation in the south eastern region of the United States. In October, we started operation at our first Three-Temperature Zone Logistics Center in Myanmar. By applying the Japanese-style cold and freezer logistics technologies and expertise to equipment and delivery vehicles, we will work to expand our business in the country. In addition, we have commenced construction of the second distribution center at Busan New Port in South Korea, an international hub port, aiming at commencement of operations in October 2017.

In the trading & commerce business segment, efforts such as making in-house logistics operations for goods handled at each of the Senko Group companies which engage in trade business, development of new products and sales network expansion of existing products have been made.

Meanwhile, regarding initiatives in the new business domain, we established a subsidiary SENKO REAL ESTATE, Co., Ltd. in August, advancing into the real estate business. In October, we officially launched a nursing care business by making Keihanna helper station Co., Ltd., which operates a nursing care business in Nara Prefecture, into a Senko Group subsidiary.

To upgrade our operating system, we have promoted a modal shift to reduce the environmental impact and resolve the shortage of drivers by changing the method of long-distance transportation for beverage and building materials from trucks to railways and ships, while boosting the use of our own trucks.

To ensure financial soundness, in September we transferred seven distribution centers to a real estate investment company (a private REIT) managed by Senko Asset Management Co., Ltd. Funds raised will be utilized for business expansion and growth through the construction of new distribution centers and other purposes.

Furthermore, in October we established SENKO UNIVERSITY, an in-house university for raising the sophistication and specialization of training content for human resources and developing strategic human resources. In addition, as part of efforts to promote active participation by women, we are creating businesses that make use of the sensibilities of women through an in-house entrepreneurship support program and proceeding with promoting women to managerial positions.

The six-month-period performance was as follows.

(Unit: Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016	Change	%
Operating revenue	215,232	224,521	9,289	4.3
Operating income	8,266	8,875	609	7.4
Ordinary income	7,906	8,741	835	10.6
Profit attributable to owners of parent	4,324	4,471	146	3.4

Consolidated operating revenue for the six-month period ended September 30, 2016 of the current fiscal year increased 4.3% year on year to ¥224,521 million. This result reflected the aggressive expansion of sales and the contribution of ACROSS TRANSPORT CO., LTD., which was made a consolidated subsidiary of the Company.

On the profit front, consolidated operating income grew to ¥8,875 million, up 7.4% year on year, while consolidated ordinary income rose to ¥8,741 million, up 10.6% year on year, due primarily to the sales expansion, revision of freight charges and lower fuel prices, despite a decline in freight volumes from existing customers. Profit attributable to owners of parent increased 3.4% to ¥4,471 million.

The six-month-period operating revenue by segment was as follows.

Distribution

Operating revenue grew 5.0% year on year to ¥157,479 million in this segment. This was mainly attributable to a rise in operating revenue resulting from the consolidation of ACROSS TRANSPORT CO., LTD. and expansion of sales to new and existing customers, including a major drugstore.

Trading & commerce

Operating revenue grew 2.3% year on year to ¥64,704 million in this segment. This primarily reflected the result of an increase in sales volume of existing products and sales expansion to new customers, despite a decline in sales caused by a drop in fuel prices in the petroleum marketing business.

Others

Operating revenue rose 14.5% year on year to ¥2,337 million in this segment. This was attributable to the growth of sales in the data processing services and expansion of the sales of electricity produced by solar power generation.

(2) Financial condition

1) Assets, liabilities and net assets

Total assets

Total assets as of September 30, 2016 were ¥277,570 million, ¥8,109 million higher than at the end of the previous fiscal year. Current assets amounted to ¥109,562 million, up ¥16,181 million from the end of the previous fiscal year. This mainly reflected increases of ¥13,527 million in cash and deposits and ¥1,928 million in notes and operating accounts receivable. Non-current assets totaled ¥167,911 million, down ¥8,059 million from the end of the previous fiscal year. This was primarily due to a decrease in property, plant and equipment of ¥13,153 million as a result of transfers of seven distribution centers to the private REIT, despite increases in intangible assets of ¥1,864 million and investments and other assets of ¥3,228 million, respectively.

Liabilities

Liabilities as of September 30, 2016 increased ¥4,495 million from the end of the previous fiscal year to ¥173,947 million. Current liabilities totaled ¥94,629 million, up ¥8,982 million from the end of the previous fiscal year. This was mainly due to increases of ¥5,081 million in electronically recorded obligations−operating, ¥6,036 million in short-term loans payable and ¥550 million in provision for bonuses, despite a decrease of ¥4,389 million in notes and operating accounts payable−trade. Non-current liabilities totaled ¥79,317 million, down ¥4,486 million from the end of the previous fiscal year. This was primarily due to a decrease in long-term loans payable of ¥5,639 million.

Net assets

Net assets as of September 30, 2016 rose ¥3,613 million from the end of the previous fiscal year to ¥103,623 million. This was mainly attributable to increases of ¥2,899 million in retained earnings and ¥896 million in non-controlling interests. The equity ratio as of September 30, 2016 was 32.6%.

2) Cash flows

Cash and cash equivalents as of September 30, 2016 totaled ¥31,739 million, up ¥13,974 million from the end of the previous fiscal year.

Net cash provided by operating activities was ¥10,685 million. Major factors affecting this cash flow were profit before income taxes of ¥8,654 million, depreciation and amortization of ¥5,038 million and income taxes paid of ¥3,456 million.

Net cash provided by investing activities was ¥7,323 million. Major factors affecting this cash flow were proceeds from sales of property, plant and equipment of ¥17,296 million, purchase of property, plant and equipment of ¥6,471 million and purchase of shares of subsidiaries and associates of ¥2,735 million.

Net cash used in financing activities was ¥3,800 million. Major factors affecting this cash flow were proceeds from long-term loans payable of ¥3,050 million, repayments of long-term loans payable of ¥4,038 million, repayments of finance lease obligations of ¥1,336 million, and cash dividends paid of ¥1,585 million.

(3) Forecast for the fiscal year ending March 31, 2017

Although the Japanese economy is expected to recover at a moderate pace amid an ongoing improvement in employment and income conditions, the outlook remains uncertain due in part to concerns about economic downturns in China and other Asian emerging countries as well as in resource-rich nations.

In the logistics industry as well, the challenging environment is expected to continue amid labor shortage of drivers and intensifying competition in the industry, with no recovery expected in freight movement.

In this environment, the Senko Group will continue trying to enhance its competitiveness, expand its business areas, and upgrade its operating system.

Considering the operating results for the six-month period ended September 30, 2016 as well as surrounding economic conditions, the trend of cargo volumes and other factors, the Company has revised the forecast of consolidated operating results for the fiscal year ending March 31, 2017 as follows:

	Operating revenue	Operating income	Ordinary income	Profit attributable to owners of parent	Profit per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A)	460,000	18,100	17,700	9,400	65.77
Revised forecast (B)	460,000	18,400	18,000	9,500	66.39
Difference (B – A)	−	300	300	100	−
Difference (%)	−	1.7	1.7	1.1	−
Reference: Previous operating results (the fiscal year ended March 31, 2016)	434,000	17,497	17,178	8,542	60.43

2. Other Information

(1) Changes in significant subsidiaries

None

(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements

None

(3) Changes in accounting principles and estimates, and retrospective restatement

Changes in accounting principles

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Effective from the first quarter of the fiscal year ending March 31, 2017, certain consolidated subsidiaries of the Company began applying the Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 (Accounting Standards Board of Japan's [ASBJ] Practical Issues Task Force [PITF] No. 32 of June 17, 2016) as a result of revisions to Japan's Corporate Tax Act. The solution was adopted to change from the declining-balance method to the straight-line method for depreciation of facilities attached to buildings or structures acquired on and after April 1, 2016.

The above change had only a negligible effect on the profit and loss.

Changes in accounting estimates

(Change in the amortization period for actuarial gains and losses from accounting treatments of defined benefit plans)

With regard to actuarial gains and losses from accounting treatments of defined benefit plans that previously have been amortized over a certain period (mainly 13 years), which is within the estimated average remaining years of service of the Companies' employees, the Company has shortened the period to mainly 10 years effective from the first quarter of the fiscal year ending March 31, 2017, as the current estimated average remaining years of service fell short of the previous amortization period of 13 years.

In line with this change, when compared with the figures calculated for the previous amortization period, operating income, ordinary income and profit before income taxes for the second quarter of the current fiscal year decreased by ¥144 million for each.

(4) Additional information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the fiscal year ending March 31, 2017, the Company has adopted the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 of March 28, 2016).

3. Consolidated Financial Statements

(1) Consolidated balance sheets

(Unit: Millions of Yen)

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	18,477	32,005
Notes and operating accounts receivable	58,107	60,036
Merchandise and finished goods	6,967	7,124
Real estate for sale	3	-
Work in process	200	309
Raw materials and supplies	335	301
Other	9,317	9,808
Allowance for doubtful accounts	(29)	(23)
Total current assets	93,380	109,562
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	62,412	50,453
Land	60,486	55,939
Other, net	13,824	17,177
Total property, plant and equipment	136,723	123,570
Intangible assets		
Goodwill	4,038	5,805
Other	3,906	4,004
Total intangible assets	7,945	9,810
Investments and other assets		
Guarantee deposits	10,572	11,187
Deferred tax assets	2,553	2,606
Other	19,203	21,702
Allowance for doubtful accounts	(1,026)	(965)
Total investments and other assets	31,302	34,531
Total non-current assets	175,971	167,911
Deferred assets		
Business commencement expenses	108	95
Total deferred assets	108	95
Total assets	269,461	277,570

(Unit: Millions of Yen)

	As of March 31, 2016	As of September 30, 2016
Liabilities		
Current liabilities		
Notes and operating accounts payable−trade	37,125	32,736
Electronically recorded obligations−operating	1,601	6,683
Current portion of bonds	5,000	5,000
Short-term loans payable	18,388	24,424
Income taxes payable	3,219	2,826
Provision for bonuses	3,959	4,510
Provision for directors' bonuses	220	104
Other	16,131	18,344
Total current liabilities	85,647	94,629
Non-current liabilities		
Bonds payable	7,000	7,000
Convertible bond-type bonds with subscription rights to shares	5,037	5,035
Long-term loans payable	55,943	50,303
Provision for directors' retirement benefits	363	267
Provision for special repairs	39	46
Net defined benefit liability	7,621	7,624
Asset retirement obligations	518	757
Other	7,279	8,282
Total non-current liabilities	83,804	79,317
Total liabilities	169,451	173,947
Net assets		
Shareholders' equity		
Capital stock	24,011	24,011
Capital surplus	22,838	22,864
Retained earnings	42,845	45,744
Treasury shares	(942)	(786)
Total shareholders' equity	88,752	91,835
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,448	1,252
Deferred gains or losses on hedges	(91)	(119)
Foreign currency translation adjustment	427	86
Remeasurements of defined benefit plans	(2,820)	(2,657)
Total accumulated other comprehensive income	(1,036)	(1,438)
Subscription rights to shares	359	396
Non-controlling interests	11,933	12,829
Total net assets	100,009	103,623
Liabilities and net assets	269,461	277,570

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

(For the six months ended September 30, 2015 and 2016)

(Unit: Millions of Yen)

	Six months ended September 30, 2015 (April 1, 2015–September 30, 2015)	Six months ended September 30, 2016 (April 1, 2016–September 30, 2016)
Operating revenue	215,232	224,521
Operating cost	191,875	199,642
Operating gross profit	23,356	24,879
Selling, general and administrative expenses	15,090	16,003
Operating income	8,266	8,875
Non-operating income		
Interest income	102	61
Dividend income	71	81
Other	352	597
Total non-operating income	526	739
Non-operating expenses		
Interest expenses	585	499
Other	300	374
Total non-operating expenses	885	873
Ordinary income	7,906	8,741
Extraordinary income		
Gain on sales of non-current assets	257	186
Total extraordinary income	257	186
Extraordinary losses		
Expenses related to commemorative works for centennial anniversary	31	133
Loss on disaster	-	88
Loss on retirement of non-current assets	52	51
Loss on cancellation of leases	115	-
Loss on sales of non-current assets	54	-
Cancel penalty	35	-
Loss on sales of shares of subsidiaries and associates	32	-
Total extraordinary losses	322	273
Profit before income taxes	7,841	8,654
Income taxes−current	1,959	2,658
Income taxes−deferred	663	469
Total income taxes	2,623	3,128
Profit	5,217	5,526
Profit attributable to non-controlling interests	893	1,055
Profit attributable to owners of parent	4,324	4,471

(Consolidated statements of comprehensive income)

(For the six months ended September 30, 2015 and 2016)

(Unit: Millions of Yen)

	Six months ended September 30, 2015 (April 1, 2015–September 30, 2015)	Six months ended September 30, 2016 (April 1, 2016–September 30, 2016)
Profit	5,217	5,526
Other comprehensive income		
Valuation difference on available-for-sale securities	(230)	(117)
Deferred gains or losses on hedges	(30)	(31)
Foreign currency translation adjustment	50	(448)
Remeasurements of defined benefit plans, net of tax	116	165
Total other comprehensive income	(93)	(431)
Comprehensive income	5,124	5,094
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,278	4,069
Comprehensive income attributable to non-controlling interests	845	1,025

(3) Consolidated statements of cash flows

(Unit: Millions of Yen)

	Six months ended September 30, 2015 (April 1, 2015–September 30, 2015)	Six months ended September 30, 2016 (April 1, 2016–September 30, 2016)
Cash flows from operating activities		
Profit before income taxes	7,841	8,654
Depreciation and amortization	4,930	5,038
Loss (gain) on sales of non-current assets	(202)	(185)
Loss on retirement of non-current assets	52	51
Increase (decrease) in net defined benefit liability	(256)	2
Increase (decrease) in provision for bonuses	367	521
Interest and dividends income	(173)	(142)
Interest expenses	585	499
Decrease (increase) in notes and accounts receivable-trade	(29)	68
Decrease (increase) in inventories	(513)	(197)
Increase (decrease) in notes and accounts payable-trade	26	(688)
Increase (decrease) in accrued consumption taxes	(1,305)	861
Other	(1,499)	(40)
Sub-total	9,825	14,443
Interest and dividends income received	150	199
Interest expenses paid	(578)	(501)
Income taxes paid	(3,250)	(3,456)
Net cash provided by (used in) operating activities	6,145	10,685
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,370)	(6,471)
Proceeds from sales of property, plant and equipment	21,447	17,296
Purchase of investment securities	(91)	(40)
Proceeds from sales of investment securities	524	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(325)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(96)	-
Purchase of shares of subsidiaries and associates	(4,060)	(2,735)
Other	(1,572)	(400)
Net cash provided by (used in) investing activities	7,780	7,323
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(7,500)	135
Proceeds from long-term loans payable	4,130	3,050
Repayment of long-term loans payable	(6,990)	(4,038)
Repayments of finance lease obligations	(1,048)	(1,336)
Purchase of treasury shares	(5)	0
Proceeds from sales of treasury shares	124	203
Cash dividends paid	(1,341)	(1,585)
Dividends paid to non-controlling interests	-	(59)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(58)
Other	(150)	(109)
Net cash provided by (used in) financing activities	(12,782)	(3,800)
Effect of exchange rate change on cash and cash equivalents	21	(239)
Net increase (decrease) in cash and cash equivalents	1,165	13,968
Cash and cash equivalents at beginning of period	25,476	17,765
Increase in cash and cash equivalents from newly consolidated subsidiary	-	5
Cash and cash equivalents at end of period	26,641	31,739