

# SENKO

## ANNUAL REPORT 2018

For the year ended March 31, 2018



# Our Philosophy

## Universal Mission

Vision

### Corporate Group Creating Future Trends

As a corporate group fostering people and supporting people's lives, we contribute to achieve a genuinely productive global society by continuously challenging efforts to create new trends in terms of products and services that shift the future; centering on our physical and commercial distribution business.

## Slogan

Our thoughts into a Mission & Vision

## Moving Global

Go beyond logistics

Make the world go round

Revolutionize business

## Corporate Values

Values that should be shared with  
all our group employees (IP CReD)

**I**ntegrity

**P**assion

**C**ommitment

**R**espect

**D**iversity



## Editorial Policy

### Scope of Report

The scope of coverage includes the activities of Senko Group Holdings Co., Ltd. and Group companies.

### Reporting Period

This report covers business activities for the period between April 1, 2017 and March 31, 2018. However, some activities that took place after April 2018 are also covered.

### Other Publications of the Company

- Notice of convocation of the annual meeting of shareholders
- Securities reports (Japanese only) and quarterly reports
- CSR reports (Japanese only)
- Senko Group report (Japanese only)

A variety of information other than that mentioned above is available on the Company's website.

<http://www.senkogrouphd.co.jp/en>

### Disclaimer

The Senko Group provides no guarantee concerning the outcome of the forward-looking statements in this annual report as they will be affected by various factors including unforeseen changes in economic conditions.

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# Financial and Nonfinancial Highlights

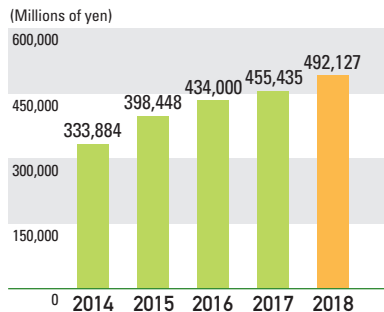
## Financial Highlights

		FY2014	FY2015	FY2016	FY2017	FY2018	FY2018(\$)
Operating revenues	millions of yen	333,884	398,448	434,000	455,435	492,127	4,632,219
Operating profit	millions of yen	12,122	13,650	17,497	17,082	17,087	160,834
Net income attributable to owners of parent	millions of yen	6,504	7,074	8,542	8,951	9,504	89,458
Operating profit margin	(%)	3.6	3.4	4.0	3.8	3.5	
Net assets per share	yen	539.52	581.46	613.71	661.61	741.44	6.98
Net income per share	yen	51.89	55.06	60.43	61.67	62.64	0.59
Cash dividends per share	yen	16.00	17.00	20.00	22.00	22.00	0.21
Dividend payout ratio	(%)	30.8	30.9	33.1	35.7	35.1	—
Net assets	millions of yen	72,303	92,745	100,010	114,091	118,057	1,111,230
Total assets	millions of yen	243,570	285,310	269,461	285,959	334,418	3,147,760
Equity ratio	(%)	27.8	28.4	32.6	35.1	33.7	—
Return on equity (ROE)	(%)	9.8	9.5	10.1	9.5	8.9	—
Price earnings ratio (PER)	times	8.63	14.17	11.35	11.63	13.22	—
Capital expenditures	millions of yen	24,000	14,182	17,500	17,662	37,625	354,000
Cash flows from operating activities	millions of yen	10,689	19,228	16,149	20,848	24,568	231,250
Cash flows from investing activities	millions of yen	(24,956)	(17,979)	(2,289)	(3,679)	(37,020)	(348,456)
Cash flows from financing activities	millions of yen	14,551	6,209	(21,492)	(8,627)	9,940	93,561
Cash and cash equivalents at end of year	millions of yen	17,667	25,476	17,765	26,197	23,796	223,983

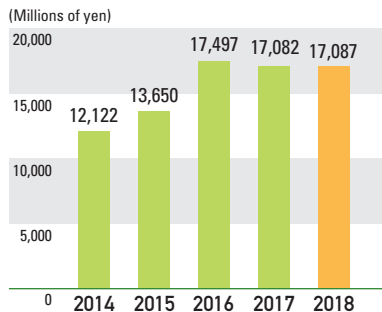
## Nonfinancial Highlights

		FY2014	FY2015	FY2016	FY2017	FY2018
Number of employees	number	8,738	11,562	11,992	12,889	14,496
Logistics center storage space	millions m <sup>2</sup>	2.52	2.81	2.94	3.22	3.42
Fleet of own trucks (including trailers)	units	3,352	4,530	4,745	5,180	6,020

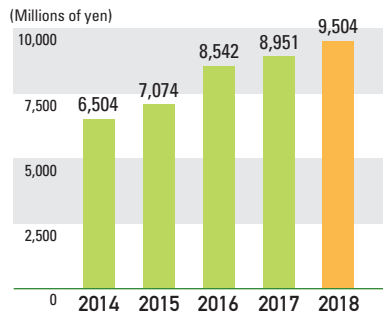
### Operating revenues



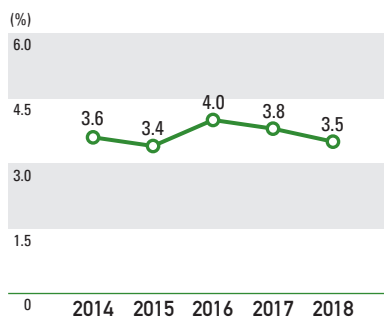
### Operating profit



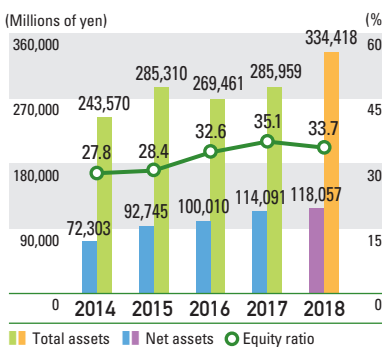
### Net income attributable to owners of parent



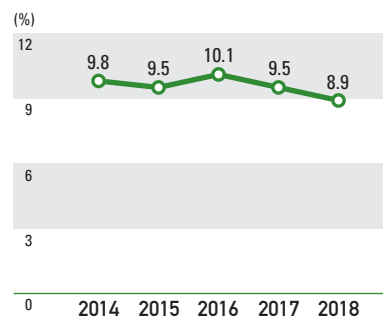
### Operating profit margin



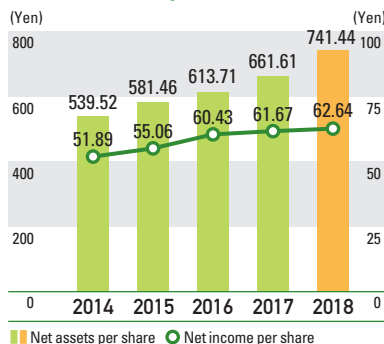
### Total assets / Net assets / Equity ratio



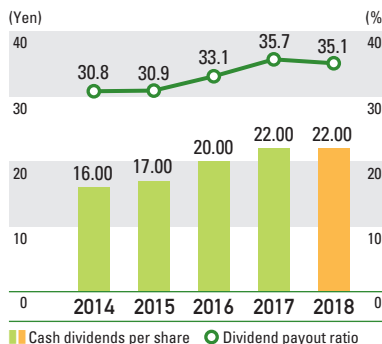
### Return on equity (ROE)



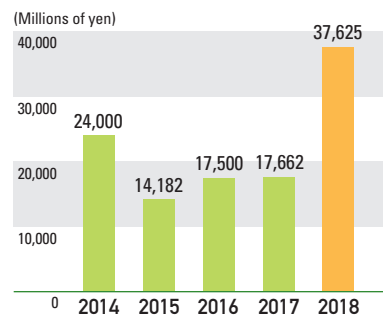
### Net assets per share / Net income per share



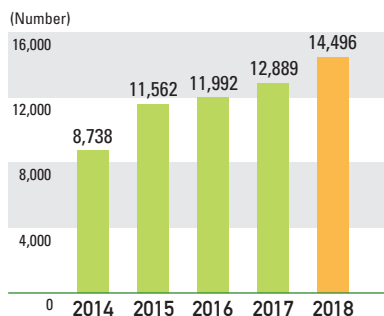
### Cash dividends per share / Dividend payout ratio



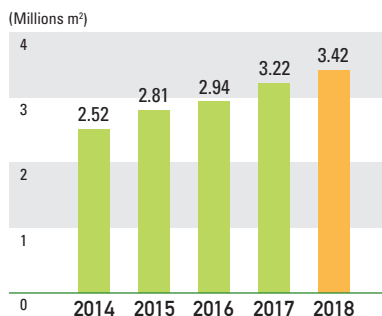
### Capital expenditures



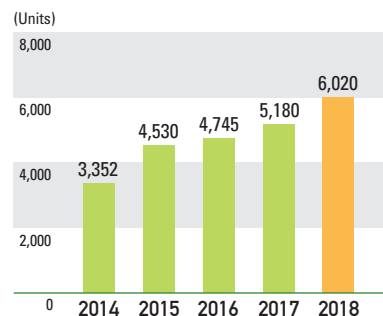
### Number of employees



### Logistics center storage space



### Fleet of own trucks



# We will move forward as a united Group with the second year targets of our Five-Year Medi



## Business Environment during Fiscal Year 2018

The Japanese economy in the fiscal year under review experienced a moderate recovery coupled with firm consumer spending and capital expenditure backed by higher corporate earnings and improved employment. At the same time, the outlook for overseas economies remained clouded by uncertainties, due in part to the potential impact of geopolitical risk, despite the solid trend of a continuing recovery, particularly in the United States and emerging countries in Asia.

In the logistics industry — where our core business operates — freight volume has been steady, mainly for consumer- and production-related cargo, but the business environment overall has remained challenging due to shortages of drivers and workers combined with increasing costs, particularly for leasing vehicles and other outsourcing costs, as well as fuel costs.

## Main Activities and Performance

The Senko Group worked hard on building the foundation for growth during the first fiscal year of the Five-Year Medium-Term

*Y. Fukuda*

Yasuhisa Fukuda

President and Representative Director  
Senko Group Holdings Co., Ltd.

# the aim of achieving um-Term Business Plan

Business Plan SIP21 (Senko Innovation Plan 2021), launched in April 2017.

In our Logistics segment, to further grow the marine shipping business, we added NIPPON MARINE CO., LTD., a marine transportation company for the JX Nippon Mining & Metals Group, as well as EIKICHI KAIUN CO., LTD. to the Group in April. We also added Kanto regional cargo truck company ANZEN YUSO CO., LTD. in October to increase the Group's own fleet.

For logistics centers, we began operations at the Yokkaichi PD No. 2 Center (Mie Prefecture) in April; the New Komaki PD Center (Aichi Prefecture) in July; and the Hiroshima PD Center (Hiroshima Prefecture) in December.

Also, to increase sales in major drug store-related logistics, we began operations at the Ranzan Logistics Center (Saitama Prefecture) in June; the Aomori Logistics Center (Aomori Prefecture), our first logistics center located in Aomori Prefecture, in September; and the Shin-Fuji PD Center (Shizuoka Prefecture) in October.

Moreover, to expand operations in fashion logistics, we began operating the Fujiiidera Logistics Center (Osaka) in January and the Narashino Logistics Center (Chiba Prefecture) in March. We also began operating the Hiroshima No. 2 Center (Hiroshima Prefecture) in February to further develop operations in cold and freezer logistics.

Outside Japan, Singapore-based Skylift Consolidator (Pte) Ltd., an international air and marine transportation company

with related operations, became a Group company in April, and we worked to upgrade our logistics network and strengthen our business infrastructure.

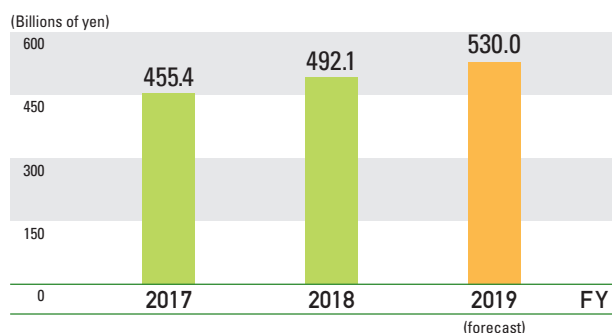
In Vietnam, our overseas subsidiary there launched full-scale forwarding operations in May serving Japanese companies in the suburbs of Ho Chi Minh City, and we completed the Pho Noi Logistics Center, our first logistics center in Vietnam, in January. In South Korea, in October we started operating the NH-SENKO Logistics Center, our second business in Busan New Port.

Further, in March we established M-Senko Logistics Co., Ltd. in a joint venture with major Thai restaurant chain MK Restaurant Group Public Company Limited.

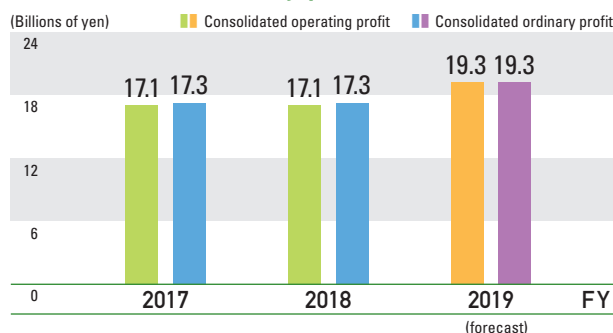
Going forward, we will leverage the Senko Group's technology and know-how to develop the cold and freezer logistics business in Thailand. In our Trading & Commerce segment, SMILE CORP. established an overseas subsidiary in Vietnam in April, and we welcomed OKUMURA CO., LTD., a company that manufactures and sells slippers, into the Group in September. We created the manufacturing enterprise part of the Group with the aims of bolstering product development and improving price competitiveness.

Moreover, we added companies to the Group with the aim of expanding our business areas, including Aya Construction Co., Ltd., a company in Miyazaki Prefecture operating construction and other businesses in July; fitness club operator BLUE EARTH Co., Ltd. (current name: BLUE EARTH JAPAN Co., Ltd.)

## Consolidated operating revenues (Net sales)



## Consolidated operating profit / Consolidated ordinary profit



## A Message from the President

in September; and in October, VENUS CO., LTD., a company that operates services that prevent the need for nursing care.

The Senko Group's consolidated operating revenues for the fiscal year under review increased 8.1% to ¥492,127 million. This result was mainly a reflection of aggressive sales expansion.

On the profit front, consolidated operating profit rose by only ¥5 million from the previous fiscal year to ¥17,087 million, despite rising profits from sales expansion and the consolidation of NIPPON MARINE CO., LTD., ANZEN YUSO CO., LTD., and other companies. This was largely attributable to factors that include a decline in freight volumes from existing customers; increased expenses for leasing vehicles and other outsourcing costs as well as fuel prices; and higher costs due to actuarial differences in accounting for retirement benefit obligations. Consolidated ordinary profit increased 0.1% year on year to ¥17,316 million, and profit attributable to owners of parent increased 6.2% year on year to ¥9,504 million.

### Future Initiatives

The Japanese economy going forward is expected to continue to be supported by rising capital expenditure and consumer spending. However, in the logistics industry, the challenging business environment is expected to continue, including rising costs and intensified competition, against the backdrop of other factors, including a labor shortage.

In this environment, the Senko Group will work to "expand business areas," "upgrade the operation system" and "boost profitability" in the second year of our Five-Year Medium-Term Business Plan.

To "expand business areas," the Group will further enlarge the logistics center business in Japan and overseas, centered on Retail Products Logistics, especially logistics bases with three temperature zones.

To "upgrade the operation system," we will find ways to improve the working environment, among other measures, with a commitment to further increasing the use of our own vehicles, while securing and training the necessary personnel.

To "boost profitability," we will review the transaction terms and revise our rates to counter rising costs, including fuel and outsourcing costs, particularly expenses for leasing vehicles.

### Maintained Annual Dividend of ¥22 per Share

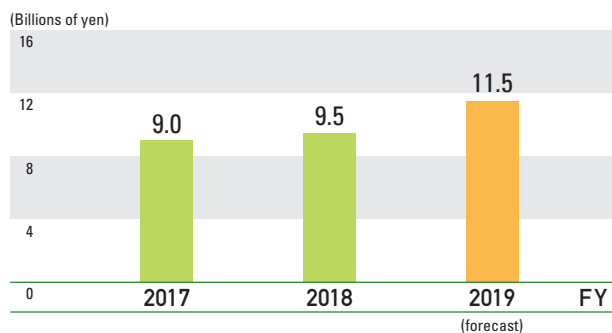
For dividends, our basic policy on distributing profits is to consistently pay out performance-based dividends.

Given this fundamental dividend policy, the year-end dividend for fiscal 2018, ended March 31, 2018, was ¥11.00 per share. Together with the interim dividend of ¥11.00 per share (already paid), we paid an annual dividend of ¥22.00 per share in fiscal 2018.

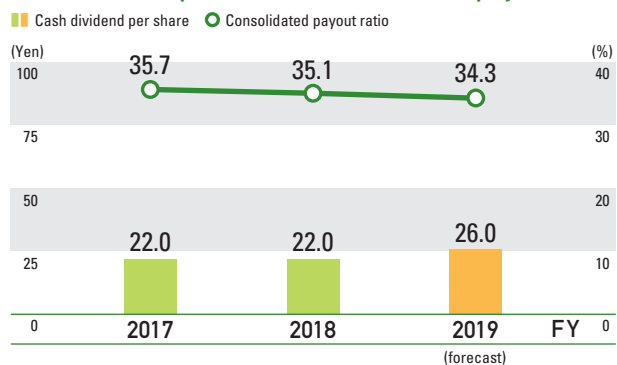
For fiscal 2019, ending March 31, 2019, we plan to pay an annual dividend of ¥26.00 per share (interim dividend: ¥13.00; year-end dividend: ¥13.00).

We would like to ask for the continued support and encouragement of our shareholders going forward.

### Net Income attributable to owners of parent



### Cash dividend per share / Consolidated payout ratio



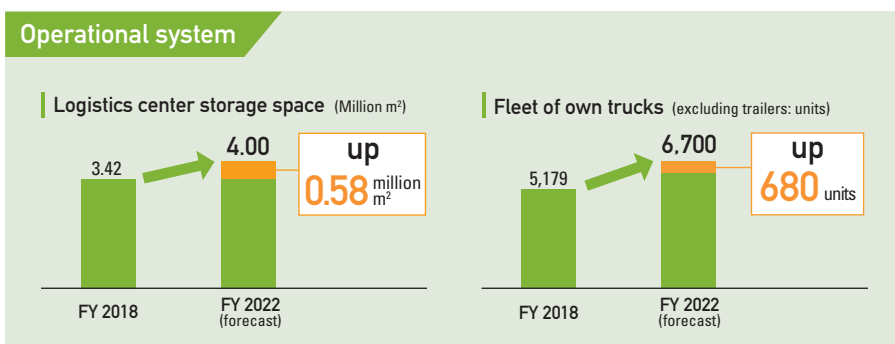
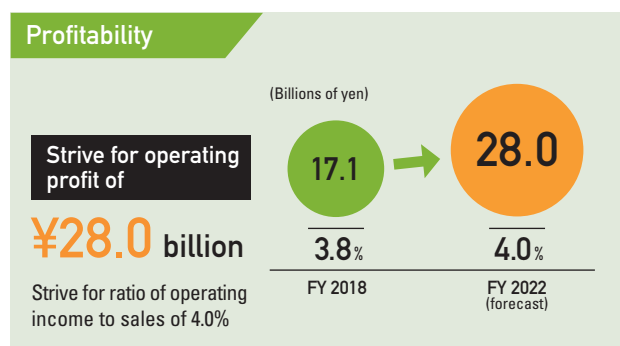
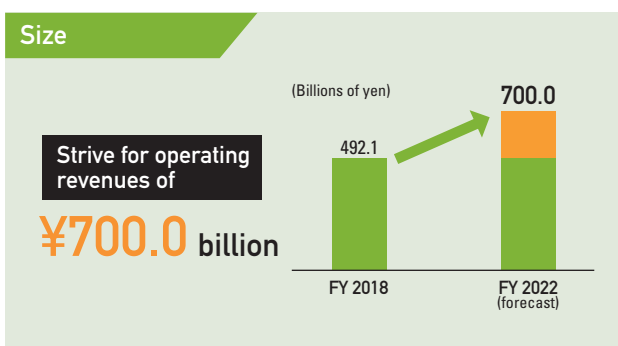


# Medium-Term Business Plan [SIP21]

The Senko Group has launched the Five-Year Medium-Term Business Plan SIP21 (Senko Innovation Plan 2021), which runs through fiscal year 2018 and fiscal year 2022.

SIP21 is a growth strategy for the corporate group to support logistics for industry and people's lives as well as to take up the challenge of creating new services and products that will drive the future, based on Logistics and Trading & Commerce, for the next 100 years.

- 1 Expand business areas** Accelerate international business expansion, further enhance existing domestic businesses, and enter new business areas, such as Living Support and Business Support. Also, actively promote business partnerships and M&As to support the above.
- 2 Enhance brand value** Consolidate the Group's overall strength, deliver "services that surprise and delight," and evolve from "customer satisfaction" (CS) to "customer delight" (CD).
- 3 Improve employee satisfaction (ES)** Through the creation and active utilization of diverse programs, boost employee satisfaction to attract diverse personnel, help them to grow, and increase the value of their working environment.
- 4 Emphasize corporate social responsibility (CSR)** Grow alongside society, while preserving and fostering industry, culture, and nature in each area.
- 5 Gain trust from capital markets** Work to maximize the corporate value of the entire Group, while strengthening financial soundness.

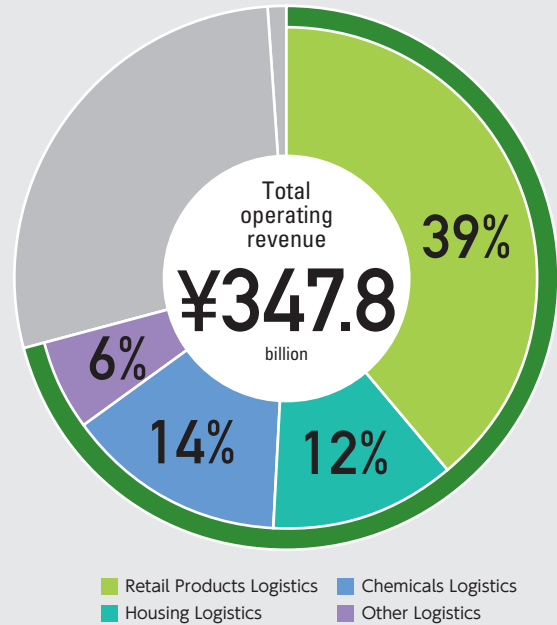
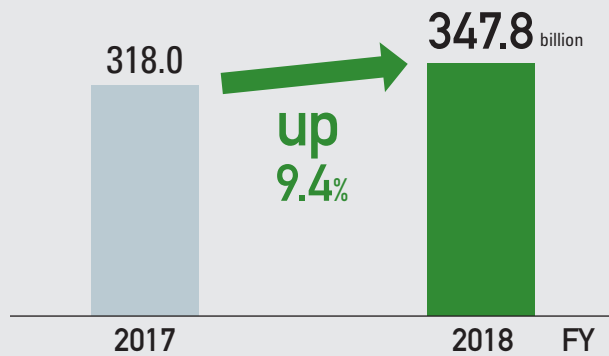




# Review of Operations by Business Segment

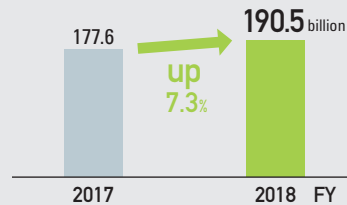
## Logistics

Operating revenue for the fiscal year ended March 31, 2018 grew 9.4% year on year to ¥347.8 billion in this segment. This was mainly attributable to increasing revenues from the consolidation of NIPPON MARINE CO., LTD., EIKICHI KAIUN CO., LTD., ANZEN YUSO CO., LTD., and other companies in addition to the large logistics centers built in the previous fiscal year plus higher sales from retailers and mass merchandisers.



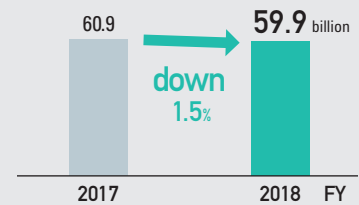
### Retail Product Logistics

Operating revenue for the fiscal year ended March 31, 2018 grew 7.3% year on year to ¥190.5 billion in this segment. This was mainly attributable to the growth of sales related to large supermarkets, drugstores, the cold and freezer sector, and apparel, as well as the effect of making ANZEN YUSO CO., LTD. into a subsidiary.



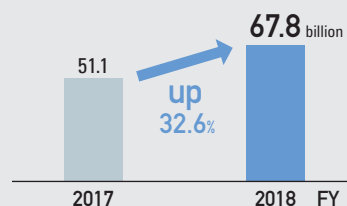
### Housing Logistics

Operating revenue for the fiscal year ended March 31, 2018 decreased 1.5% year on year to ¥59.9 billion in this segment due to a decline in existing cargo volumes, despite rising sales.



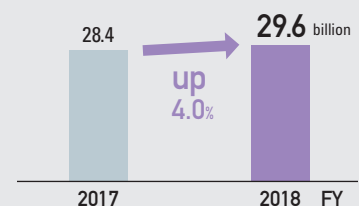
### Chemicals Logistics

Operating revenue for the fiscal year ended March 31, 2018 grew 32.6% year on year to ¥67.8 billion in this segment. This was mainly due to the effect of sales growth and the consolidation of NIPPON MARINE CO., LTD., EIKICHI KAIUN CO., LTD., and other companies.



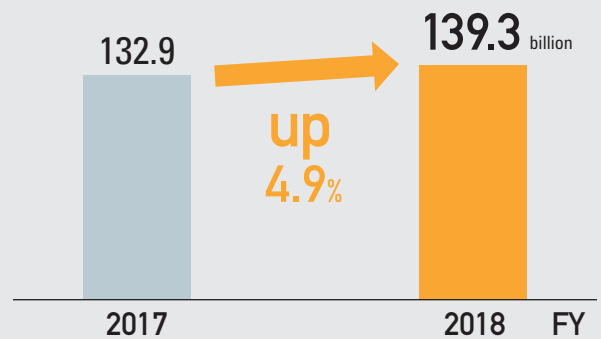
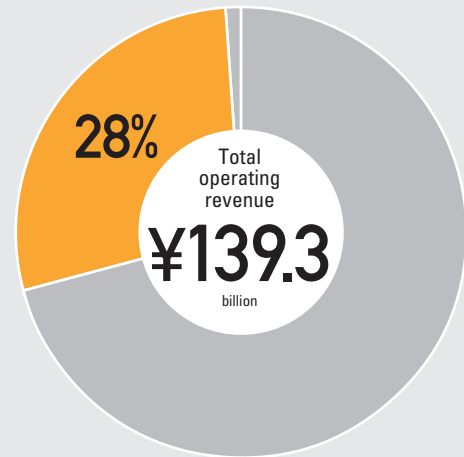
### Other Logistics

Operating revenue for the fiscal year ended March 31, 2018 increased by 4.0% year on year to ¥29.6 billion in this segment.



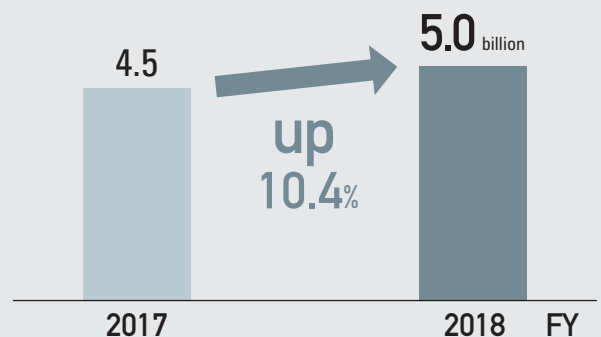
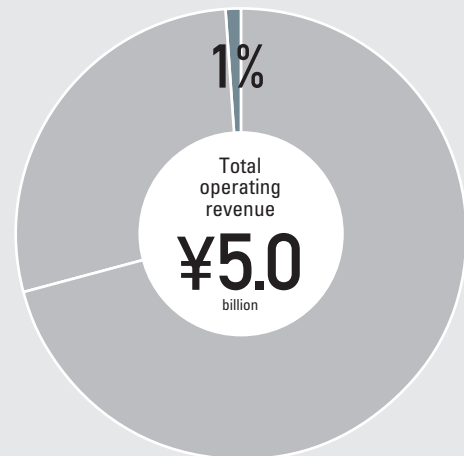
## Trading & Commerce

Operating revenue for the fiscal year ended March 31, 2018 grew 4.9% year on year to ¥139.3 billion in this segment. This was mainly attributable to the growth of sales to new customers and higher revenue accompanying the increase in oil prices, as well as the consolidation of OKUMURA CO., LTD.



## Others

Operating revenue for the fiscal year ended March 31, 2018 rose 10.4% year on year to ¥5.0 billion in this segment, the effect of higher sales from the call center and temporary personnel businesses, plus the sale of electricity from solar power generation.



# Topics

# 01

## Logistics

### Strengthening Logistics in Japan

Senko Co., Ltd. opened the Hiroshima PD Center (Hiroshima City, Hiroshima Prefecture) in 2017 and the Higashi Fuji PD Center (Fuji City, Shizuoka Prefecture) in 2018. They are well-located and cover, respectively, the entire Chugoku region and the area from Kanto to Chubu. The centers are also equipped with full security, and solar panels and other environmentally conscious equipment have been installed. In addition, the Hiroshima PD Center has a power generator and refueling station to support the business continuity plan (BCP).



## Logistics

# 02

### Runtec Co., Ltd. Expanded Cold and Freezer Warehouses

Runtec Co., Ltd., which operates a cold and freezer logistics business, opened the Hiroshima Branch No. 2 Center at a new site in Higashi Hiroshima City, Hiroshima Prefecture, in February 2018 and the Osaka Branch (Osaka City) in April 2018, in addition to extending the Fukuoka Branch in Hisayama-machi (Fukuoka Prefecture). All of these sites are primarily cold and freezer warehouses fitted with three-dimensional automated freezer systems to accommodate the expanding need for three-temperature zone logistics. The three-dimensional automated freezer warehouse at the Osaka Branch is one of Japan's largest seismically isolated structures.

Runtec is also adopting refrigerators that use energy-saving natural refrigerants to help reduce CO<sub>2</sub> emissions and counter global warming.



Hiroshima Branch No. 2 Center



Osaka Branch



Fukuoka Branch

## Logistics

### Full-scale Operation of First Logistics Center in Vietnam



The Pho Noi Logistics Center, built by Vietnamese subsidiary Senko Distribution Service (Vietnam) Co., Ltd., was completed in January 2018 and began full operations in April. In addition to preventing subsidence and having systems to ensure security, the new center also has emergency power generators to support the BCP and a bonded warehouse for handling import/export freight. The new center opens up the opportunity for the Group to continue providing high-quality logistics services and to build up the logistics infrastructure in Vietnam.

# 03

## Logistics

### Full Operation of the Qingpu Logistics Center in Shanghai, China



Shanghai Senko International Freight Forwarding Inc., a subsidiary in China, established the Qingpu Logistics Center in Shanghai and began to operate fully in May 2018. The new center, intended to strengthen logistics in the Shanghai region, not only has good access to the region and full security systems, it can also accommodate the need for three-temperature zone logistics, for which demand is expected to grow in the future, with the potential for later installing cold and freezer facilities.

# 04

## Logistics

### Joint Venture with MK Restaurant in Thailand to Increase Business for Cold and Freezer Logistics



In March 2018, SENKO Group Holdings Co., Ltd., Runtec Co., Ltd., a Senko Group company, and SENKO (Thailand) Co., Ltd., a subsidiary in Thailand, established M-SENKO Logistics Co., Ltd. ("M-SENKO") in a joint venture with MK Restaurant Group Public Company Limited ("MK Restaurant"), a Thai restaurant chain. MK Restaurant transferred its own logistics department to M-SENKO, which will build an efficient high-quality storage and shipping system, leveraging the cold and freezer technology and know-how of the Senko Group.

In addition, M-SENKO will establish a new three-temperature zone logistics center in Bangkok in 2019 and work to strengthen the logistics system with MK Restaurant, as well as cultivate customers other than MK Restaurant, to expand the cold and freezer logistics business in Thailand.

# 05

# CSR

## Corporate Social Responsibility



## CSR / Corporate Governance

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# Senko Group Stakeholders and Their Relationship with Us

We intend to earn the trust of all our stakeholders in all our business interactions



## Important Initiatives

### 1 Environmental Measures

We recognize that as a logistics company we have a serious role to play with regard to the environment, and we take on initiatives to reduce CO<sub>2</sub> emissions and to save energy, with specific numerical targets, and to implement green logistics.

### 2 Safety Initiatives

We have set reduction targets for vehicle and work accidents and have implemented safety initiatives based on the PDCA cycle. These will help us achieve our eventual goal of being a zero-accident workplace.

### 3 Health Initiatives

We aim to reduce health risks to a minimum through workplace improvements aimed at preventing health problems, self-care, and other personal health improvement programs, and by maintaining an extensive in-house health support system with industrial physicians and nurses.

### 4 Social Activities

We hold traffic safety classes and local clean-up drives to contribute to the local community, and we organize volunteer activities, such as education support, outside Japan.

# Environmental Initiatives

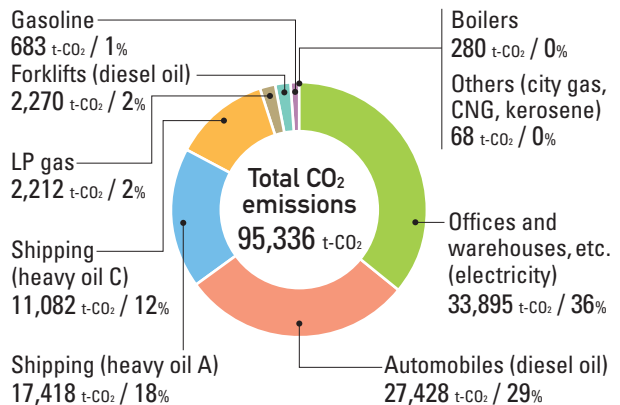
## Reducing CO<sub>2</sub> and Our Achievements

We track energy consumption and CO<sub>2</sub> emissions from business activities and measure these in the results of environmental initiatives. We have continued a range of programs aimed at reducing our environmental impact, and we aim to achieve the CO<sub>2</sub> reduction targets in our Five-Year Medium-Term Management Plan SIP21, which started in fiscal year 2018: a reduction of at least 8,310 tonnes over the five years of the plan.

### FY 2018 CO<sub>2</sub> Emissions by Energy Source

INPUT	
Diesel oil	11,528 kℓ
Heavy oil	10,231 kℓ
Gasoline	294 kℓ
Kerosene	35 kℓ
Electricity	66.2 million kWh
CNG (compressed natural gas)	36.6 km <sup>3</sup>
City gas	16.7 km <sup>3</sup>
LP gas	745 t

### FY 2018 CO<sub>2</sub> Emissions by Cause

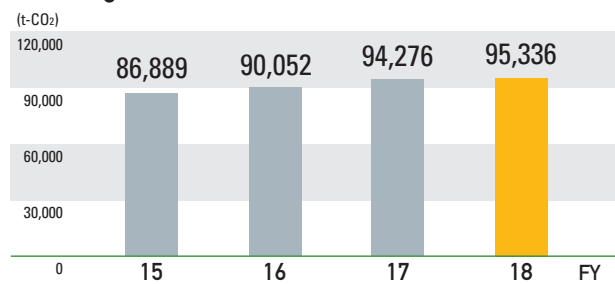


### Measures to Reduce CO<sub>2</sub>

Energy conservation target achievement rate **168%**  
 Industrial waste reduction target achievement rate **194%**

CO<sub>2</sub> emissions tend to increase as business expands, but we have achieved a reduction of 2,257 t-CO<sub>2</sub> by applying the following measures.

### Change in annual CO<sub>2</sub> emissions



### FY 2018 CO<sub>2</sub> Reduction Targets and Achievements

	Ongoing activities and FY 2018 measures	FY 2018 CO <sub>2</sub> reduction target	FY 2018 CO <sub>2</sub> reduction	Achievement rate
Energy conservation	Energy-saving logistics centers <ul style="list-style-type: none"> <li>Switching high/low voltage departments to new power company</li> <li>Increasing solar power sales and considering captive use</li> <li>Switching to energy-saving equipment (LED lighting/air conditioning)</li> </ul>	980 t	1,651 t	168%
	Improved vehicle fuel consumption <ul style="list-style-type: none"> <li>Switching to newer post long-term vehicles</li> <li>Introducing non-fossil fuel (natural gas) vehicles</li> <li>Switching to energy-saving vehicles and environmentally friendly forklifts</li> <li>Reducing fuel consumption with stop/start technology and eco-driving systems, etc.</li> </ul>	598 t	443 t	74%
Social recycling	Industrial waste recycling <ul style="list-style-type: none"> <li>Increasing the recycling volume and rate</li> <li>Cultivating recycling contractors for wooden pallets</li> <li>Using retreaded tires</li> </ul>	84 t	163 t	194%
Energy conservation + recycling total		1,662 t	2,257 t	136%
Other	Green logistics <ul style="list-style-type: none"> <li>Supporting the promotion of modal shifts</li> <li>Switching to eco-friendly materials and products</li> <li>Supporting joint delivery</li> </ul>	3,757 t	1,642 t	44%



## Using Rooftop Space to Increase Solar Power Generation

In FY 2014, we began generating solar power using the extensive rooftops at PD centers, contributing to the proliferation and promotion of renewable energy.

As of March 31, 2018, the total power output of our 18 sites nationwide was 13.5 MW.

In FY 2019, we will install solar panels at two new sites, and are planning to generate 15.5 MW of electricity Company-wide.

Power output  
(from FY 2017)

up **1.5 MW**

from  
**18 sites**  
across Japan

We are now generating

**13.5 MW**

\*Based on figures confirmed by the  
Ministry of Economy, Trade and Industry



May 2017, Senko Co., Ltd. Yokkaichi No. 2 PD Center



July 2017, Senko Co., Ltd. Shin Komaki PD Center



January 2018, Senko Co., Ltd. Hiroshima PD Center



March 2018, Senko Co., Ltd. Ibaraki Housing Branch

**Installation Plans for FY 2019**

Site name	Timing of operation	Location	Generating capacity
① Kazo PD Center Stage 2	August 2018	Kazo City, Saitama Prefecture	1,500 KW
② Higashi Fuji PD Center	November 2018	Fuji City, Shizuoka Prefecture	433 KW
Total			1,933 KW

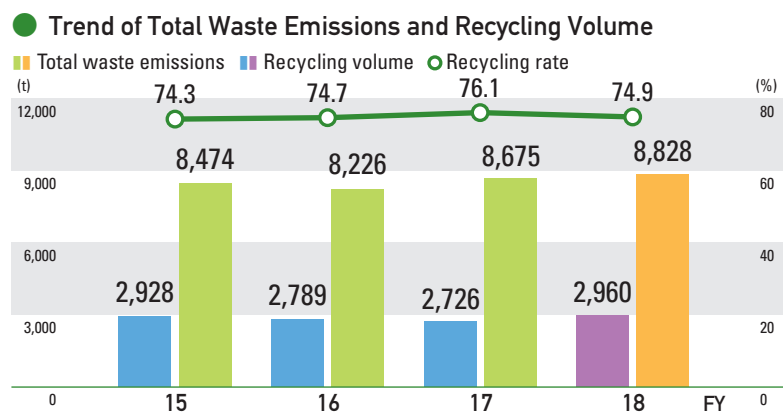
There will be soon **20 solar power installations nationwide.**

● Sites in operation  
○ FY 2019 plan

## Reducing Waste and Promoting Recycling

We are continuing to work on reducing waste and on promoting recycling. In FY 2018, the total amount of non-recyclable waste increased 8% year on year, due in part to the increase in the number of our sites. At the same time, recycling volume increased by 1.8%, and the rate of recycling declined 1.2% year on year to 74.9%.

Going forward, we will keep striving to reduce waste and increase the rate of recycling by continuing to separate trash.



# Safety Programs

## Senko Group Safety Policy

### Safety Philosophy

The Senko Group will “achieve an eventual goal of zero workplace accidents” based on the spirit of respect and by prioritizing safety over everything else.

- 1 We can and must prevent all accidents and disasters.
- 2 Managers are responsible for the safety of employees.
- 3 Every employee must believe in “eliminating all accidents.”
- 4 Safety ensures high quality and high productivity.

### Basic Approach

- 1 The Senko Group deeply recognizes the social mission of the logistics business and promotes efforts that all employees understand correctly and that contributes to the improvement of safety by ensuring safety in business activities is the basis of our business.
- 2 The top management will actively lead the field from the bottom to the top to unite and strive to secure safety and improve safety in business activities.
- 3 The basis of safety is to be strongly conscious of each person working in the Senko Group to be healthy mentally and physically, to practice proper

### Priority Measures

- 1 We comply with relevant laws and regulations and fulfill our social responsibilities.
- 2 We thoroughly carry out risk assessment and reduce all safety risks.
- 3 We prevent health problems by enhancing health management system and promoting independent health.
- 4 We actively disclose information on safety and health activities.

## Achievement of Safety Goals (FY 2018)

As not all goals were achieved, we will formulate and implement new measures.

	FY 2018 goals	FY 2018 achievements
Vehicle accident frequency rate	0.35 or lower	0.49
Occupational accident frequency rate	1.45 or lower	1.60

### Priority measures

- Reduce vehicle accidents and occupational accidents involving young employees
- Develop and strengthen the management system to accommodate the aging of employees
- Create an environment where safety can be substantially improved and introduce leading-edge technology based on the verification of results
- Strengthen the links between safety management systems and prevent accidents and disasters

## Medium-Term Safety Goals (FY 2018—FY 2022)

Based on our Five-Year Medium-Term Management Plan SIP21, we will promote Group-wide safety programs, including using the latest driver assistance technology and other measures.

We aim to reduce by half vehicle and occupational accidents from the FY 2017 level.

### ● Vehicle accident frequency rate (on-road accidents)



### ● Occupational accident frequency rate (occupational accidents with at least four lost workdays)



We will promote, as a strategic priority, the introduction of advanced safety equipment.

### ● Introduction of dash cams

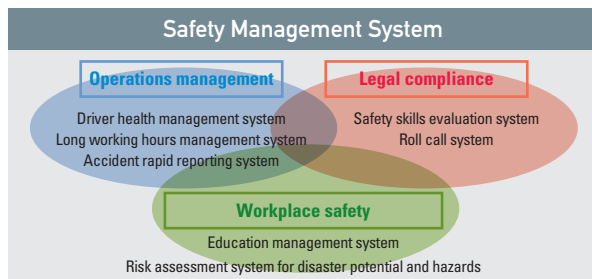


\*Figures for the Logistics Group do not include recently acquired companies.

## Safety Management Systems: From Development to Use

In FY 2018, we created a safety management system that links systems for safety, education, and health management. This system measures every item related to safety management and our progress, and we have been running PDCA cycles for safety management.

In FY 2019, we will use this data to manage operations to avoid accidents, with the aim of introducing the system at every worksite and Group company.



### Initiatives in FY 2018

#### Linking Safety Information Systems to Upgrade Management and Analysis Functions

We linked seven safety-related systems, including the driver health management system related to operation management and the risk assessment system for disaster potential and hazards, to improve workplace safety. Our objective is legal compliance with the Motor Truck Transportation Business Act for safe operations and the Industrial Safety and Health Act for improving workplace safety.

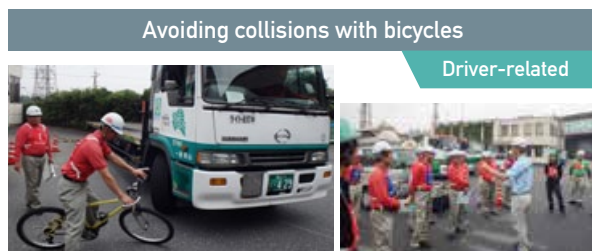
We are now able to visually represent safety management

By collecting all the information and visualizing the progress of our initiatives, we strengthened the safety management system.

**FY 2019 goal**  
Promoting the use and consolidation of the safety management system

## District Training and Initiatives to Enhance Safety Skills

We hold nationwide district training, or accident prevention training for which we simulate situations that have high accident rates. In fiscal year 2018, we provided training with the following two mandatory themes in an effort to increase safety awareness and skills.



We held practical skills training around Japan for situations with high accident rates, aiming for the complete elimination of accidents.

### Be Safe! Using Educational Videos that Match the Occupation and Type of Operation

There are a range of potential dangers in the logistics workplace. However, with only guidance from text and verbal communication, it is difficult for inexperienced drivers to get a real sense of these dangers. At the Senko Group, we have produced educational videos to ensure safety, and every workplace can select videos that match the characteristics of their operations to develop visually appealing safety education that can be edited and presented.



We released **45 videos** in FY 2018 and will continue producing videos in FY 2019 and beyond.



# Health Initiatives

## Announcing the Senko Group Health Management Declaration inside and outside the Company

The Health Management Declaration announced in September 2017 expresses our wish that employees will not only be healthy and happy at work, but that they will also be healthy and happy throughout their lives, even after their working life ends.

### Senko Group Health Management Declaration

The Senko Group hereby declares the following regarding the health of employees:

- ◎ Continuing to be “A corporate Group which nurtures people and supports their daily lives.”
- ◎ Ensuring that every Group employee can work in a healthy and lively manner.
- ◎ Placing the utmost importance on making sure employees can live healthy and happy lives.

In line with these goals, the Senko Group is implementing initiatives for promoting the health of employees, in order to become a truly affluent global company as a “Corporate Group Creating Future Trends.”

Yasuhisa Fukuda  
President and Representative Director  
Senko Group Holdings Co., Ltd.

## Implemented Initiatives

### (1) Enhanced health management systems

Information on employee health will be managed for a longer life expectancy, with initiatives such as increasing the number of nursing staff that are currently being allocated around the country, and providing specialist guidance to each and every employee.

### (2) Enhanced measures for mental health

In addition to further enhancing checkups for stress that are currently being implemented, improvements will be made to management systems for preventing mental health problems.

### (3) Implementation of activities for promoting health

Improvements will be made to the Healthy Activities program started in 2007 (a health promotion system using the Senko Group’s own methods for measuring the level of activity) to encourage health promotion activities throughout the Senko Group.

### (4) Management of workplace environment

Initiatives will focus on promoting a better work-life balance by reducing the amount of working hours and increasing the number of days off, and developing programs to assist with quitting smoking.

## Promotion System

These initiatives will mainly be administered by the Senko Group Health Management Division, in coordination with the Human Resources Department, government health insurance services, and external occupational physicians, to create and implement a road map for employee health that will help to achieve the Health Management Declaration.

## Examples of Specific Initiatives in FY 2018

### 1 Healthy Activities



Under the Healthy Activities program started in 2007, every employee sets goals based on the Ministry of Health, Labor and Welfare's Physical Activity Guidelines for Health to make exercise a habit in their daily life and to promote general good health.

### 2 Organizing Sports Events



Twice a year, we have periods for stepping up Healthy Activities, and employees enjoy physical activity in every workplace, working to promote good health. We also hold a variety of sports events, such as volleyball tournaments and walks.

### 3 Assigning Nurses



We have assigned 21 occupational health and general nurses to our main business sites in nine areas nationwide to provide expert health guidance and day-to-day mental and physical support based on the results of periodic employee health checkups and consultations.

## Recognized by the Certified Health & Productivity Management Outstanding Organizations Recognition Program 2018

The Senko Group has been promoting health management for employees for many years, including through the Healthy Activities program. To acknowledge this, we were recognized in the Certified Health & Productivity Management Outstanding Organizations Recognition Program 2018 (also called White 500) on February 20, 2018. Under this program, the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi jointly honor companies that practice outstanding health management.

The Senko Group's approach is founded on the desire for employees to be healthy and fulfilled at work and in their private lives. Based on this approach, we will continue to further improve the promotion of physical and mental health, not only stepping up our activities to promote health but also by promoting mental health and managing the workplace environment so that every employee can work energetically.



2018  
健康経営優良法人  
Health and productivity  
ホワイト500



# Social Activities

## Promoting Diversity, Allowing All Employees to Feel Comfortable at Work

The Senko Group is committed to promoting individual growth and performance as well as to improving corporate vitality by fostering an environment where every employee feels a sense of fulfillment. We promote the creation of a workplace environment where all employees can feel comfortable and continue working for a lifetime. We have implemented both tangible and intangible activities in our effort to improve and develop the employment environment.

### Basic Approach

**1** We allow all employees to play more active roles through mutual respect for diverse values, including nationality, culture or handicap, rather than gender alone.

**2** We make it possible to choose a work style that accommodates where employees might find themselves from time to time, as well as changing values.

Amid a shortage of labor, we have established the Foreign Employment Support Office, and we are promoting an increase in our hiring of non-Japanese nationals and technical interns.



Gunma office, Kanto Senko Transport Co., Ltd.

## Recognizing Social Contribution within the Group and Honoring Outstanding Achievements

The Senko Group established the Social Contribution Activities Commendation program in the fiscal year (ended March 31, 2017). The Social Contribution Promotion Committee examines social contribution activities submitted by Group companies and commends outstanding achievements.

In the fiscal year ended March 31, 2017, Runtec Co., Ltd. received an outstanding performance award in recognition of activities over many years. The award ceremony was held in May 2017.



### Recognizing activities that have continued for many years, the head office team, Runtec Co., Ltd.

Runtec Co., Ltd. received an outstanding performance award for activities that included holding traffic safety classes for children, fundraising drives, and directing traffic where children go to school.



Company representatives receiving outstanding performance awards



Traffic safety class for children

## Supporting Community and Cultural Activities through the Popularization of Go

We have held the GO Festival at the Senko Group's training facility Crefeel Koto in Higashi Omi, Shiga Prefecture, since 2006, and we have sponsored the Senko Cup Women's Championship, since 2016.

We also sponsored the Senko Cup World Go Women's Championship held in March 2018.



## Overseas Social Contribution Activities

Employees of our Thai subsidiary visit special care centers where people with mental handicaps, such as Downs syndrome and autism, are living. They donated play equipment, food, clothing, and other items.



Playing games with the children



Bringing meals and eating together

## Holding School Visit Workshops on Traffic Safety in Every Area

In addition to Traffic Safety Classes for Kids, which we hold in every area, we have been holding school visit workshops at elementary and junior high schools since the fiscal year ended March 31, 2015.

In the school visit workshop program, children learn about the importance of traffic safety in a fun way, which includes thinking about safe ways to cross the road and use a crosswalk, experience the blind spots in a truck driver's line of sight, and learn about the hazards of left-turn collisions.

The school visit workshop program makes the children happy and interested to see trucks up close, including a ride in a truck and other experiences.

**We held workshops  
in seven schools**

in Kanagawa, Hyogo, Fukuoka,  
Kumamoto, and Miyazaki  
Prefectures as well as Hokkaido.



Traffic safety classes for kids held by Senko Co., Ltd.



Experiencing the blind spots in a truck (Runtec Co., Ltd.)



How to use a crossroad (Minami-Kyushu Senko Co., Ltd.)

## Transportation Cross-Docking Reduces Long Distances and Driving Hours

The Senko Group began using a cross-docking transportation system to reduce the burden on drivers and make trucking more efficient, one solution to drivers getting older and labor shortages becoming more severe. To meet diverse transportation requirements while decreasing long driving hours, we are establishing new cross-docking transportation routes.

Long-distance driving means long working hours for drivers and has been one factor for the labor shortage. To resolve this issue, the Senko Group has established relay stations on routes with long-distance sections and uses cross-docking transportation to swap drivers and loads. By returning from the relay station, the driver can go there and back in a day. This enables drivers to maintain a work-life balance while working in good health.

In 2017, we established an additional 21 cross-docking routes and now operate 78 of these routes between the Tohoku and Kyushu regions. With plans to further double the number of routes over the next five years, we will establish diverse cross-docking transportation routes and hope to continue meeting customer needs, including transporting difficult-to-handle goods.



Cross-docking transportation: drivers go a central location and back in one day



Increasing cross-docking routes to meet diverse logistical needs



## Modal Shift in Food Transportation Helps Reduce CO<sub>2</sub> and the Burden on Drivers

The Senko Group is striving to reduce the environmental impact and shorten working hours for drivers through a modal shift from truck to railway transportation that will significantly reduce CO<sub>2</sub> emissions and energy consumption. In particular, Runtec Co., Ltd. has unique know-how due to the specialization in food logistics, and has maximized rail transportation for foodstuffs.

Runtec Co., Ltd. developed an original 31-foot cold and freezer container



Original container with seismic isolation to prevent damage to delicate foods



## Labor Saving and Mechanization to Reduce Onsite Workloads and Resolve Labor Shortages

The Senko Group is promoting labor saving and mechanization for heavy work such as reshipment, sorting, and onsite transportation at logistics centers. We intend to resolve labor shortages and increase productivity by reducing the burden on employees and by achieving a more comfortable workplace environment.

It is possible to prevent human error and improve the quality and consistency of service while reducing the work burden on employees through labor saving and mechanization, primarily for the reshipment of especially heavy items such as beverages being shipped to mass retailers and onsite transportation operations that require long working hours. At the same time, allowing people to work at a level that requires some judgement also increases their motivation.

In 2018, we launched a robotics project at the Senko Group's Logistics Research Institute. Going forward, we will carry out research into next-generation technology, particularly robot technology, across the Group from a medium-to-long term perspective and introduce this technology into logistics worksites.



A robotic arm automatically reshipping heavy freight



An unmanned forklift reduces the workload

with a GPS dynamic temperature monitoring system to preserve food quality and transport it safely, ahead of other companies, and to improve rail transportation for food. Amid the increase in single-serving meals and ready-to-eat items due to the decline in the birthrate and aging of the population, Runtec plans to increase the number of 31-foot cold and freezer containers from the current 160 to 200 by 2021.

In recognition of these initiatives, we received three Special Logistics Environment Awards from the Japan Association for Logistics and Transport at the 18th Logistics Environment Awards in the fiscal year ended March 31, 2018. We were also chosen for an Award for Excellent Business Entities Working on Modal Shift, recognizing that our percentage of rail and sea transportation for trunk sections has exceeded 40%.

The Senko Group had already obtained Eco-Ship Mark certification and Eco-Rail Mark certification as a logistics company that uses more than a certain level of environmentally friendly sea and rail transportation. We also propose environmentally friendly logistics services and shipping channels other than truck transportation.



Receiving three Special Logistics Environment Awards at the 18th Logistics Environment Awards



Eco-ship mark



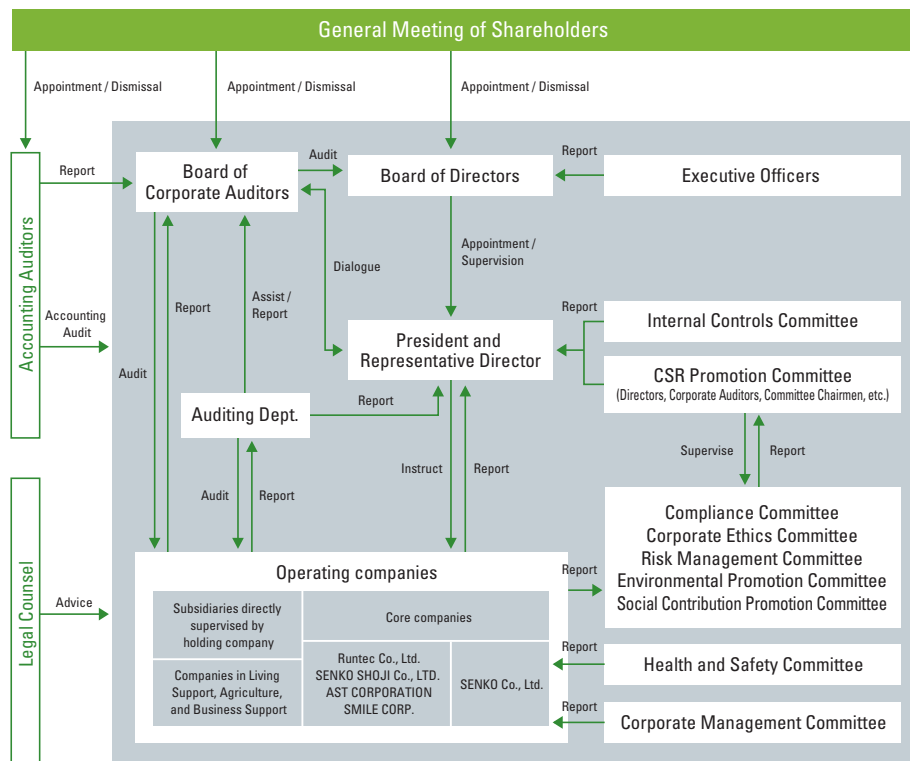
Eco Rail mark

## Basic Policy

The Senko Group is a logistics company involved in highly public work that fosters people's development and supports their lives. The Senko Group makes every effort to ensure that all corporate activities thoroughly comply with laws, based on the awareness that good corporate governance is the foundation of a business, as well as regarding governance as a high priority for management.

## Corporate Governance System

We have adopted the following corporate governance system, one that we consider to be optimal, in order to ensure management transparency and legal compliance based on the company's size, lines of business, organizational structure, and other features.



1

The Company's Board of Directors meets at least once a month and deliberates on issues as required by laws and regulations as well as important management concerns in addition to being an organization that oversees the execution of business. Furthermore, so that the Directors, Executive Officers, and key employees execute their duties appropriately and efficiently, the Company has established the Regulations of the Board of Directors and the Regulations for Administrative Authority to clarify authority and responsibility. We also verify the status of the implementation of operations and strive to have even more transparent management.

2

To promote Group-wide CSR-based management, the Group has established the Compliance Committee, the Corporate Ethics Committee, the Risk Management Committee, the Environmental Promotion Committee, and the Social Contribution Committee in addition to the CSR Promotion Committee, which supervises these committees.

Moreover, we have established the Group Safety and Environment Committee to improve the level of safety and environmental concern within the Group and the Internal Controls Committee to maintain and upgrade the Group's internal control systems.

3

The Corporate Auditors attend meetings of the Board of Directors and monitor the execution of operations by the Directors from an objective point of view. In addition, they conducting audits and collaborate with the Auditing Department and the Accounting Auditors (Otemae Audit Corporation) to ensure thorough compliance, which includes subsidiaries.

4

The Company has concluded audit agreements based on the Companies Act and the Financial Instruments and Exchange Act with Ohtemae Audit Corporation as the Accounting Auditors and receives advice on accounting. Three certified public accountants provide these services, and eight certified public accountants assist with audit operations.

5

The Auditing Department performs internal audits at the Company and subsidiaries with the aim of verifying the status of risk countermeasures, identifying the status of managing operations and of improvements, and ensuring the effectiveness of the operation management system. As well, the Auditing Department reports its findings to the Representative Director and the Corporate Auditors.

Further, to promote Group-wide CSR-based management, we established the Compliance Committee, the Corporate Ethics Committee, the Risk Management Committee, the Environmental Promotion Committee, and the Social Contribution Promotion Committee in addition to the CSR Promotion Committee, which supervises these committees, and the Internal Controls Committee to create a Group-wide CSR-based management system.



## Policy on Determining Compensation for Officers

Compensation for the Company's officers consists of basic remuneration, a performance-based stock compensation plan, stock options, and performance-based pay (bonuses). Specific amounts are controlled by internal regulations with basic remuneration and stock options being determined by their peers, while the performance-based stock compensation plan and performance-based bonus are based on varied circumstances, including the contribution of each person to the Company's financial performance, in addition to the Company's overall financial performance in a single fiscal year.

Category of Officer	Total Amount of Compensation, etc. (Millions of yen)	Total Amount of Each Type of Compensation, etc. (Millions of yen)				Number of eligible officers
		Basic remuneration	Stock options	Bonus	Retirement benefits	
Directors (excludes Outside Directors)	93	64	10	19	—	9
Corporate Auditors (excludes Outside Corporate Auditors)	35	30	1	4	—	3
Outside Officers	36	30	1	5	—	5

Senko has included some of the principle elements of Japan's Corporate Governance Code, which started being applied in June 2015, on the Company's website to clarify the Company position on working to enhance corporate governance based on this code. <http://www.senkogrouphd.co.jp/ir/governance/> (Japanese only)

- Corporate Governance Report
- Initiatives Based on Corporate Governance Principles

## Compliance-Based Management

Compliance-based management, which complies with laws and regulations and engages in ethical business activities, is the base for a company to fulfill its social responsibility and earn the trust of stakeholders.

The Senko Group has established, based on a thorough understanding of the Group's social obligations, the Senko Standards of Business Conduct which prescribes all items that executives and employees must observe for every aspect of their jobs.



# Risk Management

## Business Risks

The risks related to the business, financial position, and operating results, etc. of the Senko Group that may have a material impact on the judgment of investors are described below. Forward-looking statements are based on the judgment of the Senko Group (the Company and consolidated subsidiaries) as of the last day of the fiscal year under review (March 31, 2018).

<b>1</b> Laws and Regulations	The Group is engaged in transportation, distribution processing, and other businesses, and provides a wide range of logistics services. These businesses are subject to regulation under the Motor Truck Transportation Business Act, the Consigned Freight Forwarding Business Act, the Warehousing Business Act and other legislation. It is necessary to receive registration or approval from the Minister of Land, Infrastructure and Transport to engage in these businesses, and there is a mandatory post-notification system for setting and revising fees. Moreover, environmental legislation, including regulations on truck exhaust, has also been strengthened. The performance of the Group could be affected by legal revisions in the future and by trends for tightening or loosening regulations.
<b>2</b> Sharp Increases in the Price of Crude Oil	Higher prices for light oil due to a sharp increase in the price of crude oil will push up transportation costs. The performance of the Group, where truck transportation is the mainstay business, could be affected in the future by price trends.
<b>3</b> Occurrence of a Serious Accident	In case a serious vehicle or freight accident occurs, the performance of the Group could be affected by a loss in customer and public confidence, suspension of vehicle use, administrative penalties such as business suspension, etc.
<b>4</b> Occurrence of a Disaster, etc.	The performance of the Group could be affected by a system shutdown due to transportation routes being blocked or electricity being suspended during a disaster, such as a storm or an earthquake, or by a blackout.
<b>5</b> IT System Failure	The Group leverages IT technology to manage customer freight information and for control systems for warehouses. The performance of the Group could be affected if these systems are shut down due to a natural disaster, computer virus, or computer hacking.
<b>6</b> Management of Customer Information	The Group handles customer information when providing logistics services and has worked hard on information management through in-house education. However, the Group's performance could be affected by claims for compensation for damages if there is an external leak of information or loss of data.

## Risk Management System

The Senko Group's key management issues include ensuring stable earnings and establishing a sound management base by managing all risks associated with the execution of operations. The risk management system is described below.

- 1 To systematically and effectively prevent the risks from occurring that the Group faces and to take corrective measures, we have established the Risk Management Regulations. Every department that controls risk formulates and disseminates regulations, etc. aimed at reducing risks and taking effective action when risks arise.
- 2 When a risk materializes and is expected to cause serious damage, the department controlling this risk and the department in which the risk is expected to arise collaborate on reporting to the Board of Directors.
- 3 The Auditing Department verifies the status of risk countermeasures, etc. and reports to the Representative Director and the Board of Corporate Auditors.

## Establishing Business Continuity Plans (BCPs)

Every Group location has established a business continuity plan (BCP) in order to swiftly recover logistics in the event of a disaster. In an emergency, support and recovery activities will be carried out promptly under the direction of the head office and the manager of the department taking countermeasures on the ground using the BCP.

When data centers are affected by a disaster, a backup data center will restore systems within 30 minutes, even if the server shuts down to ensure that logistics systems can be maintained.



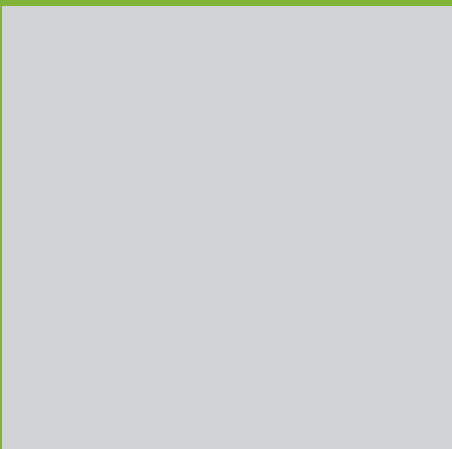
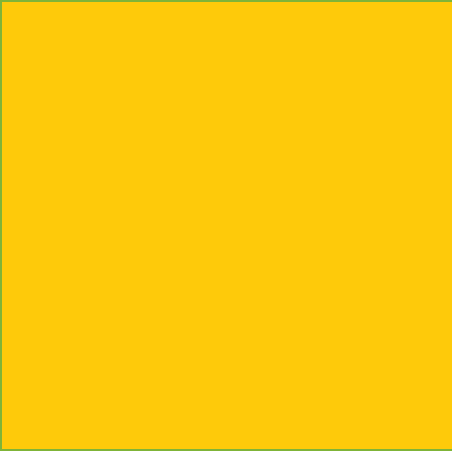
# Directors and Auditors



President and  
Representative Director  
**Yasuhisa Fukuda**

President and Representative Director	<b>Yasuhisa Fukuda</b>	Responsible for Logistics & International Business Head of Promotion Division, Business Support President and Representative Director, Senko Co., Ltd. Representative Director and Chairman, Zenkoku Tsuun Co., Ltd.
Directors (Managing Executive Officers)	<b>Yoshihiro Kawase</b>	Responsible for IT & Training, President and Representative Director, SENKO INFORMATION SYSTEM Co., Ltd.
	<b>Noburo Sasaki</b>	Responsible for PR, IR, & Real Estate President and Representative Director, Senko Real Estate Co., Ltd.
	<b>Kenichi Shiraki</b>	Head of Business Promotion Division, Living Support
	<b>Masanobu Uenaka</b>	Director and Managing Executive Officer, Responsible for Management Strategy Director and Managing Executive Officer, Senko Co., Ltd.
Directors	<b>Takeyo Tezuka</b>	Responsible for Trading & Commerce, Director and Chairman, SENKO SHOJI Co., Ltd., President and Representative Director, Marufuji Co., Ltd. President and Representative Director, Obata Co., Ltd.
	<b>Kengo Tanaka</b>	
	<b>Kazuhiro Yamanaka</b>	Representative for Refrigerated & Frozen Logistics President and Representative Director, Runtec Corporation President and Representative Director, KOUKI Co., Ltd.
	<b>Hiroko Ameno</b>	Professor, Faculty of Commerce at Kansai University, Director (part-time), Senko Co., Ltd.
	<b>Yasuyuki Sugiura</b>	Advisor, Mitsubishi Corporation, Managing Director, Toyo Bunko, Outside Director, IBJ Leasing Company, Limited
Full-time Corporate Auditors	<b>Keiji Matsubara</b>	
	<b>Masami Washida</b>	Auditor, Senko Co., Ltd.
	<b>Keiichiro Yoshimoto</b>	
	<b>Kanji Yasumitsu</b>	

- Both the directors Hiroko Ameno and Yasuyuki Sugiura are outside directors.
- Both the full-time corporate auditors Keiichiro Yoshimoto and Kanji Yasumitsu are outside corporate auditors.
- The full-time corporate auditor Keiji Matsubara has served in the Company's Accounting Department and has considerable knowledge of finance and accounting.
- The Company has submitted statements to the Tokyo Stock Exchange designating directors Hiroko Ameno and Yasuyuki Sugiura and Full-time Corporate Auditor Keiichiro Yoshimoto as Independent Officers.



# 2018

## Financial Information

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## Performance

The Senko Group's consolidated operating revenues for the fiscal year under review increased 8.1% year on year to ¥492,127 million. This result mainly reflects the aggressive expansion of sales and the consolidation of NIPPON MARINE CO., LTD., ANZEN YUSO CO., LTD., and other companies.

On the profit front, consolidated operating income rose by only ¥5 million from the previous fiscal year to ¥17,087 million, despite factors buoying profits brought about by sales expansion and the consolidation of NIPPON MARINE CO., LTD., ANZEN YUSO CO., LTD., and other companies. This was largely

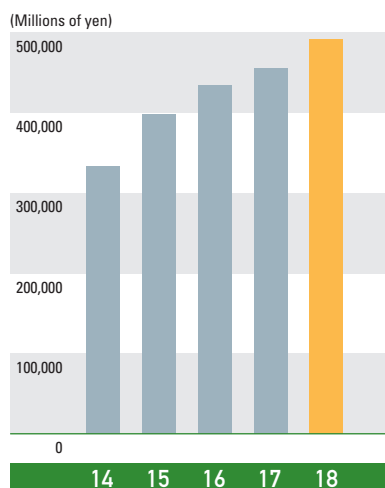
attributable to several factors that include a decline in freight volumes from existing customers, rising expenses for leasing vehicles and other outsourcing costs, as well as fuel prices and higher costs due to actuarial differences in accounting for retirement benefit obligations. Consolidated ordinary profit also increased 0.1% year on year to ¥17,316 million, and net income attributable to owners of parent increased 6.2% year on year to ¥9,504 million.

Operating revenues by segment for the fiscal year under review were as follows.

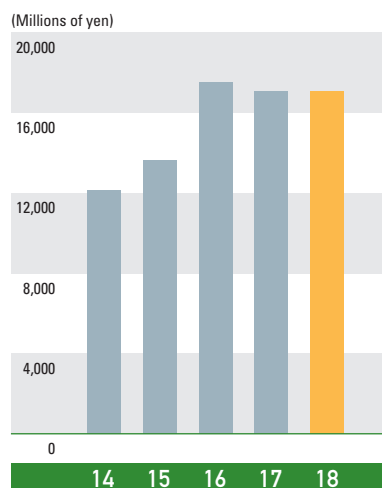
Billions of yen

For the fiscal years ended March 31	2018		2017		Difference	Growth rate (%)
	Operating revenues	Component ratio (%)	Operating revenues	Component ratio (%)		
Distribution	¥ 347.8	70.7	¥ 318.0	69.8	¥ 29.8	9.4
Retail product	190.5	54.8	177.6	55.9	12.9	7.3
Housing	59.9	17.2	60.9	19.2	(0.9)	(1.5)
Chemicals	67.8	19.5	51.1	16.1	16.7	32.6
Other	29.6	8.5	28.3	8.9	1.1	4.0
Trading & commerce	139.3	28.3	132.9	29.2	6.4	4.9
Others	5.0	1.0	4.5	1.0	0.5	10.4
Total	¥ 492.1	100.0	¥ 455.4	100.0	¥ 36.7	8.1

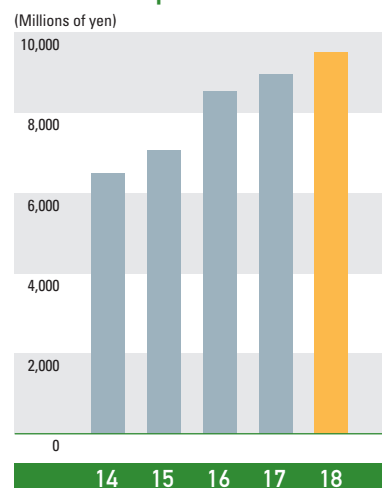
### Operating revenues



### Operating profit



### Net income attributable to owners of parent



## Distribution

Operating revenue grew 9.4% year on year to ¥347,752 million in this segment. This was mainly attributable to a rise in revenues due to the consolidation of NIPPON MARINE CO., LTD., ANZEN YUSO CO., LTD., and other companies in addition to the large-scale logistics centers built in the previous fiscal year and higher sales from retailers and mass merchandisers, particularly major drugstore chains.

## Trading & Commerce

Operating revenue grew 4.9% year on year to ¥139,317 million in this segment. This was mainly attributable to higher revenue from increasing fuel sales prices along with the growth in sales to new customers and the consolidation of OKUMURA CO., LTD.

## Others

Operating revenue rose 10.4% year on year to ¥5,058 million in this segment. This was mainly attributable to higher revenue from the call center business.

## Assets, Liabilities and Net Assets

### Total Assets

Total assets as of March 31, 2018 were ¥334,418 million, an increase of ¥48,459 million compared with the end of the

previous fiscal year. Current assets came to ¥117,127 million, up ¥8,428 million from the end of the previous fiscal year. This was mainly a reflection of increases of ¥8,551 million in notes and operating accounts receivable-trade, despite decreases of ¥2,167 million in cash and deposits.

Non-current assets were ¥217,232 million, up ¥40,056 million from the end of the previous fiscal year. This was mainly due to increases in property, plant and equipment of ¥29,957 million from M&As and new capital expenditure, despite the downward effect from the transfers of three logistics centers to the private REIT, an increase in intangible assets of ¥1,043 million, and an increase in investments and other assets of ¥9,056 million.

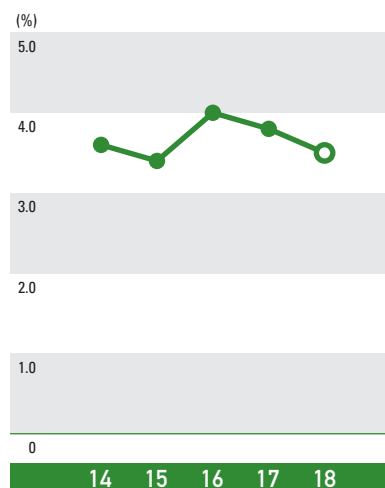
### Liabilities

Liabilities as of March 31, 2018 increased ¥44,492 million from the end of the previous fiscal year to ¥216,360 million.

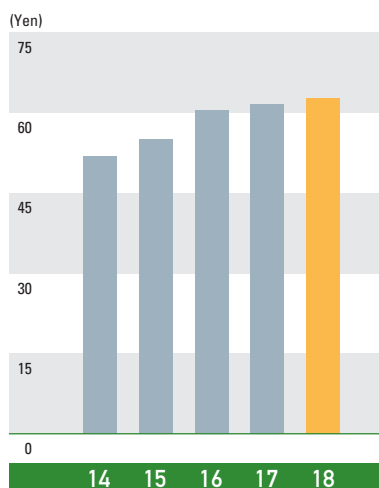
Current liabilities totaled ¥106,050 million, up ¥12,135 million from the end of the previous fiscal year. This was mainly due to increases in notes and operating accounts payable-trade of ¥3,687 million, electronically recorded obligations-operating of ¥416 million, short-term loans payable of ¥3,719 million and income taxes payable of ¥592 million.

Non-current liabilities as of March 31, 2018 rose ¥32,357 million from the end of the previous fiscal year to ¥110,311 million. This was due to increases in bonds payable of ¥10,168 million, long-term loans payables of ¥20,748 million and lease obligations of ¥976 million.

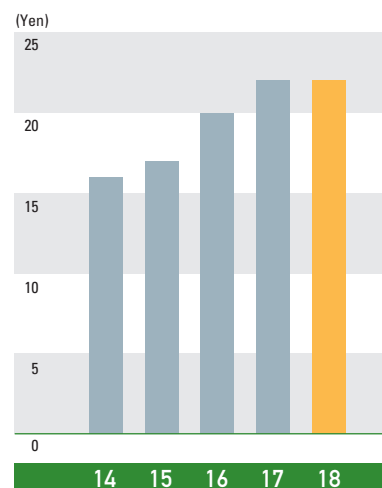
### Operating profit margin (→)



### Net income per share



### Cash dividends per share





## Net Assets

Net assets as of March 31, 2018 rose ¥3,966 million from the end of the previous fiscal year to ¥118,057 million. This was due to such factors as increases in capital surplus of ¥4,319 million, retained earnings of ¥6,314 million, and re-measurements of defined benefit plans of ¥1,250 million, despite a decrease of ¥8,366 million in non-controlling interests mainly due to the acquisition of an additional equity stake in RUNTEC Co., Ltd., a consolidated subsidiary. The equity ratio decreased by 1.4 percentage points from the end of the previous fiscal year to 33.7%.

## Capital Expenditures and Depreciation

Capital expenditures in the fiscal year under review increased ¥19,963 million, or 113.0%, to ¥37,625 million, compared with the previous fiscal year. The Company opened logistics centers in the Aichi and Hiroshima Prefectures as well as Vietnam and South Korea in the fiscal year ending March 2018. As a result, the total warehouse space as of March 31, 2018 expanded by 200,000 m<sup>2</sup> from the end of the previous fiscal year to 3,420,000 m<sup>2</sup>. In the fiscal year ending March 31, 2019, capital expenditures are expected to decrease ¥12,804 million, or 34.0%, to ¥24,821 million.

Depreciation increased ¥2,224 million, or 21.8%, to ¥12,440 million, compared with the previous fiscal year, and is expected to rise ¥2,072 million, or 16.7%, to ¥14,512 million in the fiscal year ending March 31, 2019.

## Cash Flows

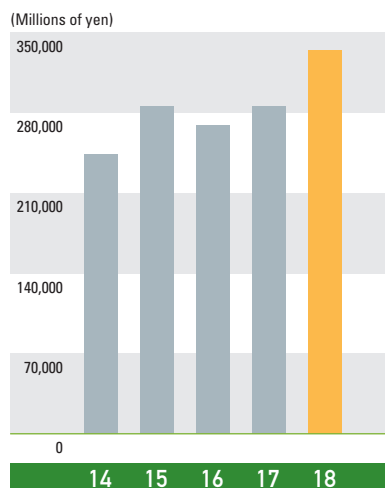
Cash and cash equivalents at the end of the fiscal year decreased by ¥2,401 million year on year to ¥23,796 million.

Net cash provided by operating activities amounted to ¥24,568 million. This was mainly due to a fall in cash of ¥3,863 million from an increase in trade receivable and payments of ¥5,262 million in income taxes paid, despite profit before income taxes of ¥16,936 million, depreciation and amortization of ¥12,439 million, an increase in trade payable of ¥2,260 million and proceeds from subsidy income of ¥1,892 million.

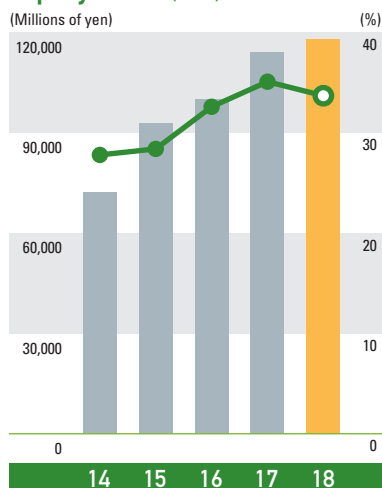
Net cash used in investing activities totaled ¥37,020 million. This was mainly due to the purchase of fixed assets of ¥37,042 million and payments of ¥2,140 million for purchase of shares of newly consolidated subsidiaries accompanied by a change in the scope of consolidation and ¥5,131 million for the purchase of non-consolidated subsidiaries despite ¥11,121 million in proceeds from the sale of fixed assets.

Net cash provided by financing activities totaled ¥9,940 million. This was mainly due to a net increase of ¥9,778 million in short-term loans payable, proceeds from long-term debt of ¥22,106 million, and proceeds from issuance of corporate bond of ¥10,000 million, despite repayments of long-term debt of ¥17,792 million, repayments of finance lease obligations of ¥3,855 million, the purchase of shares of usual consolidated subsidiaries not accompanied by changes in the scope of consolidation of ¥6,884 million, and cash dividends paid of ¥3,471 million.

### Total assets



### Net assets (■) / Equity ratio (○)



### ROE (○)



# Consolidated Balance Sheets

SENKO Group Holdings Co., Ltd. and Consolidated Subsidiaries

March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥ 23,796	¥ 26,197	\$ 223,983
Trade accounts and notes receivable–			
Non-consolidated subsidiaries	3	6	28
Others	70,524	61,970	663,818
Less : allowance for doubtful accounts	(16)	(22)	(150)
Inventories	8,181	7,604	77,005
Deferred tax asset (Note 16)	2,979	2,827	28,040
Prepaid expenses and other current assets	11,660	10,117	109,752
<b>Total current assets</b>	<b>117,127</b>	<b>108,699</b>	<b>1,102,476</b>
<b>Investments in and long-term loans receivable to non-consolidated subsidiaries</b>	<b>20,008</b>	<b>13,267</b>	<b>188,328</b>
<b>Investment securities (Notes 7 and 12)</b>	<b>7,209</b>	<b>6,033</b>	<b>67,856</b>
<b>Property and equipment, at cost (Notes 9 and 12)</b>	<b>301,788</b>	<b>241,236</b>	<b>2,840,625</b>
<b>Less : accumulated depreciation</b>	<b>(141,717)</b>	<b>(111,122)</b>	<b>(1,333,933)</b>
<b>Net property and equipment</b>	<b>160,071</b>	<b>130,114</b>	<b>1,506,692</b>
<b>Long-term deferred tax assets (Note 16)</b>	<b>1,783</b>	<b>2,051</b>	<b>16,783</b>
<b>Net defined benefit assets</b>	<b>3,659</b>	<b>2,359</b>	<b>34,441</b>
<b>Other assets</b>	<b>24,503</b>	<b>23,353</b>	<b>230,638</b>
<b>Deferred assets:</b>			
Business commencement expenses	58	83	546
<b>Total deferred assets</b>	<b>58</b>	<b>83</b>	<b>546</b>
<b>Total assets</b>	<b>¥ 334,418</b>	<b>¥ 285,959</b>	<b>\$ 3,147,760</b>

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term loans (Note 10)	¥ 19,891	¥ 9,035	\$ 187,227
Current portion of long-term debt (Note 10)	9,509	16,597	89,505
Lease obligations	3,074	2,794	28,934
Trade accounts and notes payable–			
Non-consolidated subsidiaries	0	25	0
Others	44,608	40,480	419,880
Accrued expenses	10,040	8,630	94,503
Accrued income taxes	4,509	3,916	42,441
Other current liabilities	14,419	12,438	135,721
<b>Total current liabilities</b>	<b>106,050</b>	<b>93,915</b>	<b>998,211</b>
<b>Long-term debt, less current portion (Note 10)</b>	<b>90,440</b>	<b>59,534</b>	<b>851,280</b>
<b>Lease obligations</b>	<b>7,343</b>	<b>6,366</b>	<b>69,117</b>
<b>Net defined benefit liabilities (Note 11)</b>	<b>6,902</b>	<b>7,088</b>	<b>64,966</b>
<b>Other long-term liabilities</b>	<b>5,626</b>	<b>4,965</b>	<b>52,956</b>
<b>Contingent liabilities (Note 13)</b>			
<b>Net assets (Note 14):</b>			
Shareholders' equity			
Common stock:			
Authorized–294,999,000 shares			
Issued–152,861,921 shares in 2018 and 152,861,921 shares in 2017	26,529	26,529	249,708
Capital surplus	29,730	25,411	279,838
Retained earnings	54,969	48,655	517,404
Less : Treasury stock, at cost–937,015 shares in 2018 and 1,279,937 shares in 2017	(590)	(658)	(5,553)
<b>Total Shareholders' equity</b>	<b>110,638</b>	<b>99,937</b>	<b>1,041,397</b>
Accumulated other comprehensive income :			
Net unrealized holdings gain on securities	1,775	1,392	16,707
Gain (loss) on deferred hedges	(61)	2	(574)
Translation adjustments	335	251	3,154
Remeasurements of defined benefit plans	(43)	(1,293)	(405)
<b>Total accumulated other comprehensive income :</b>	<b>2,006</b>	<b>352</b>	<b>18,882</b>
Stock acquisition rights (Note 15)	373	396	3,511
Non-controlling interests	5,040	13,406	47,440
<b>Total net assets</b>	<b>118,057</b>	<b>114,091</b>	<b>1,111,230</b>
<b>Total liabilities and net assets</b>	<b>¥ 334,418</b>	<b>¥ 285,959</b>	<b>\$ 3,147,760</b>

See the accompanying notes to the consolidated financial statements.

# Consolidated Statements of Income

SENKO Group Holdings Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	2018
<b>Operating revenues</b>	¥492,127	¥ 455,435	¥ 434,000	\$ 4,632,219
<b>Operating costs and expenses:</b>				
Operating costs of revenues	440,671	405,758	386,321	4,147,882
Selling, general and administrative expenses	34,369	32,595	30,182	323,503
	475,040	438,353	416,503	4,471,385
<b>Operating profit</b>	17,087	17,082	17,497	160,834
<b>Other income (expenses):</b>				
Interest and dividend income	238	232	293	2,240
Interest expenses	(977)	(927)	(1,102)	(9,196)
Others, net	588	186	(272)	5,535
	(151)	(509)	(1,081)	(1,421)
<b>Income before income taxes</b>	16,936	16,573	16,416	159,413
<b>Income taxes (Note 16):</b>				
Current	5,778	5,930	5,528	54,386
Deferred	(9)	(148)	638	(84)
	5,769	5,782	6,166	54,302
<b>Net income</b>	11,167	10,791	10,250	105,111
<b>Net income attributable to non-controlling interests</b>	(1,663)	(1,840)	(1,708)	(15,653)
<b>Net income attributable to owners of parent</b>	¥ 9,504	¥ 8,951	¥ 8,542	\$ 89,458
<b>Per share of common stock</b>	Yen			U.S. dollars
Net income	¥ 62.64	¥ 61.67	¥ 60.43	\$ 0.59
Diluted net income	58.08	58.74	56.32	0.55
Cash dividends applicable to the year	22.00	22.00	20.00	0.21

See the accompanying notes to the consolidated financial statements.

# Consolidated Statements of Comprehensive Income

SENKO Group Holdings Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	2018
<b>Net income</b>	¥ 11,167	¥ 10,791	¥ 10,250	\$ 105,111
<b>Other comprehensive income (Note 5):</b>				
Net unrealized holdings gain on securities	430	52	(353)	4,047
Gain (loss) on deferred hedges	(66)	98	(95)	(620)
Translation adjustments	105	(236)	(153)	988
Remeasurements of defined benefit plans	1,257	1,544	(1,019)	11,832
<b>Total other comprehensive income</b>	1,726	1,458	(1,620)	16,247
<b>Comprehensive income</b>	¥ 12,893	¥ 12,249	¥ 8,630	\$ 121,358
<b>Total comprehensive income attributable to:</b>				
Owners of parent	¥ 11,158	¥ 10,337	¥ 7,088	\$ 105,027
Non-controlling interests	¥ 1,735	¥ 1,912	¥ 1,542	\$ 16,331

See the accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

SENKO Group Holdings Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2018, 2017 and 2016

Millions of yen

	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock (at cost)	Net unrealized holdings gain on securities	Gain (loss) on deferred hedges	Translation adjustments	Remeasurements of defined benefit plans	Stock acquisition rights	Non-controlling interests	Total net assets
<b>Balance at March 31, 2015</b>	141,927	¥ 23,099	¥ 21,915	¥ 36,677	¥ (1,183)	¥ 1,820	¥ (4)	¥ 544	¥ (1,840)	¥ 289	¥ 11,428	¥ 92,745
Net income attributable to owners of parent	—	—	—	8,542	—	—	—	—	—	—	—	8,542
Conversion of convertible bonds	2,907	913	913	—	—	—	—	—	—	—	—	1,826
Cash dividends	—	—	—	(2,571)	—	—	—	—	—	—	—	(2,571)
Purchases of treasury stock	—	—	—	—	(10)	—	—	—	—	—	—	(10)
Retirement of treasury stock	—	—	—	—	250	—	—	—	—	—	—	250
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	197	—	—	—	—	—	—	—	197
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	10	—	—	—	—	—	—	—	—	10
Other changes	—	—	—	—	—	(371)	(88)	(116)	(981)	71	506	(979)
<b>Balance at March 31, 2016</b>	144,834	¥ 24,012	¥ 22,838	¥ 42,845	¥ (943)	¥ 1,449	¥ (92)	¥ 428	¥ (2,821)	¥ 360	¥ 11,934	¥ 100,010
Cumulative effects of changes in accounting policies	—	—	—	19	—	—	—	—	—	—	20	39
<b>Restated balance</b>	144,834	¥ 24,012	¥ 22,838	¥ 42,864	¥ (943)	¥ 1,449	¥ (92)	¥ 428	¥ (2,821)	¥ 360	¥ 11,954	¥ 100,049
Net income attributable to owners of parent	—	—	—	8,951	—	—	—	—	—	—	—	8,951
Conversion of convertible bonds	8,027	2,517	2,517	—	—	—	—	—	—	—	—	5,034
Cash dividends	—	—	—	(3,177)	—	—	—	—	—	—	—	(3,177)
Purchases of treasury stock	—	—	—	—	(1)	—	—	—	—	—	—	(1)
Retirement of treasury stock	—	—	—	—	286	—	—	—	—	—	—	286
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	17	—	—	—	—	—	—	—	17
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	56	—	—	—	—	—	—	—	—	56
Other changes	—	—	—	—	—	(57)	94	(177)	1,528	36	1,452	2,876
<b>Balance at March 31, 2017</b>	152,861	¥ 26,529	¥ 25,411	¥ 48,655	¥ (658)	¥ 1,392	¥ 2	¥ 251	¥ (1,293)	¥ 396	¥ 13,406	¥ 114,091
Net income attributable to owners of parent	—	—	—	9,504	—	—	—	—	—	—	—	9,504
Conversion of convertible bonds	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends	—	—	—	(3,355)	—	—	—	—	—	—	—	(3,355)
Purchases of treasury stock	—	—	—	—	(455)	—	—	—	—	—	—	(455)
Retirement of treasury stock	—	—	(13)	—	523	—	—	—	—	—	—	510
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	165	—	—	—	—	—	—	—	165
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	4,332	—	—	—	—	—	—	—	—	4,332
Other changes	—	—	—	—	—	383	(63)	84	1,250	(23)	(8,366)	(6,735)
<b>Balance at March 31, 2018</b>	152,861	¥ 26,529	¥ 29,730	¥ 54,969	¥ (590)	¥ 1,775	¥ (61)	¥ 335	¥ (43)	¥ 373	¥ 5,040	¥ 118,057

Thousand of U.S. dollars

	Common stock	Capital surplus	Retained earnings	Treasury stock (at cost)	Net unrealized holdings gain on securities	Gain (loss) on deferred hedges	Translation adjustments	Remeasurements of defined benefit plans	Stock acquisition rights	Non-controlling interests	Total net assets
<b>Balance at March 31, 2017</b>	\$ 249,708	\$ 239,185	\$ 457,972	\$ (6,193)	\$ 13,102	\$ 19	\$ 2,363	\$ (12,171)	\$ 3,727	\$ 126,186	\$ 1,073,898
Net income attributable to owners of parent	—	—	89,458	—	—	—	—	—	—	—	89,458
Conversion of convertible bonds	—	—	—	—	—	—	—	—	—	—	—
Cash dividends	—	—	(31,579)	—	—	—	—	—	—	—	(31,579)
Purchases of treasury stock	—	—	—	(4,283)	—	—	—	—	—	—	(4,283)
Retirement of treasury stock	—	(123)	—	4,923	—	—	—	—	—	—	4,800
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	1,553	—	—	—	—	—	—	—	1,553
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	40,776	—	—	—	—	—	—	—	—	40,776
Other changes	—	—	—	—	3,605	(593)	791	11,766	(216)	(78,746)	(63,393)
<b>Balance at March 31, 2018</b>	\$ 249,708	\$ 279,838	\$ 517,404	\$ (5,553)	\$ 16,707	\$ (574)	\$ 3,154	\$ (405)	\$ 3,511	\$ 47,440	\$ 1,111,230

# Consolidated Statements of Cash Flows

SENKO Group Holdings Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	2018
<b>Cash flows from operating activities:</b>				
Income before income taxes	¥ 16,936	¥ 16,573	¥ 16,416	\$ 159,413
Adjustments for:				
Depreciation and amortization	12,440	10,216	9,925	117,093
Loss on disposals of property and equipment	127	130	182	1,195
Loss on valuation of investments in affiliates	57	–	–	537
Gain on sales of property and equipment	(414)	(251)	(248)	(3,897)
Loss on reduction of property and equipment	651	1,225	–	6,128
Subsidy income	(639)	–	–	(6,015)
State subsidy	–	(1,253)	–	–
Gain on sales of investment securities	(66)	(537)	–	(621)
Loss on valuation of shares of subsidiaries and associates	–	575	104	–
Loss on sales of shares of subsidiaries and associates	–	–	32	–
Decrease (increase) in accrued retirement benefits	471	(419)	–	4,433
Decrease in net defined benefit liabilities	(257)	(243)	(1,761)	(2,419)
Increase in accrued bonuses to employees	190	144	58	1,788
Interest and dividends income	(238)	(232)	(293)	(2,240)
Interest expenses	977	927	1,102	9,196
Increase in trade receivables	(3,863)	(1,695)	(1,748)	(36,361)
Decrease (increase) in inventories	63	(67)	(405)	593
Increase in trade payables	2,260	1,071	1,694	21,273
Other	(309)	608	(2,276)	(2,908)
<b>Subtotal</b>	<b>28,386</b>	<b>26,772</b>	<b>22,782</b>	<b>267,188</b>
Proceeds from subsidy income	1,892	–	–	17,809
Interest and dividends income received	520	390	226	4,894
Interest expenses paid	(968)	(954)	(1,096)	(9,112)
Income tax paid	(5,262)	(5,360)	(5,763)	(49,529)
<b>Net cash provided by operating activities</b>	<b>24,568</b>	<b>20,848</b>	<b>16,149</b>	<b>231,250</b>
<b>Cash flows from investing activities:</b>				
Payments for purchases of fixed assets	(37,042)	(16,253)	(17,995)	(348,663)
Proceeds from sales of fixed assets	11,121	17,883	21,728	104,678
Payments for purchases of investment securities	(387)	(60)	(120)	(3,643)
Proceeds from sales of investment securities	155	637	524	1,459
Payments for purchases of non-consolidated subsidiaries	(5,131)	(5,282)	(4,579)	(48,296)
Payments for purchase of shares of newly consolidated subsidiaries	(2,140)	(325)	–	(20,143)
Payments for sales of shares of consolidated subsidiaries	–	–	(96)	–
Other	(3,596)	(279)	(1,751)	(33,848)
<b>Net cash used in investing activities</b>	<b>(37,020)</b>	<b>(3,679)</b>	<b>(2,289)</b>	<b>(348,456)</b>
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term loans, net	9,778	252	(12,800)	92,037
Proceeds from long-term debt	22,106	3,150	5,780	208,076
Repayment of long-term debt	(17,792)	(10,871)	(9,645)	(167,470)
Proceeds from issuance of convertible bond	–	10,050	–	–
Proceeds from issuance of corporate bond	10,000	–	–	94,127
Payments for redemption of bond	(24)	(5,000)	(20)	(226)
Payments for purchase of shares of usual consolidated subsidiaries	(6,884)	–	–	(64,797)
Repayments of finance lease obligations	(3,855)	(2,802)	(2,116)	(36,286)
Purchases of treasury stock	(455)	(1)	(9)	4,282
Sales of treasury stock	683	406	250	6,428
Dividends paid	(3,341)	(3,173)	(2,571)	(31,448)
Other	(276)	(638)	(361)	(2,598)
<b>Net cash provided by (used in) financing activities</b>	<b>9,940</b>	<b>(8,627)</b>	<b>(21,492)</b>	<b>93,561</b>
Effect of exchange rate changes on cash and cash equivalents	55	(116)	(79)	518
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,457)</b>	<b>8,426</b>	<b>(7,711)</b>	<b>(23,127)</b>
Cash and cash equivalents at beginning of year	26,197	17,765	25,476	246,583
Net increase in cash and cash equivalents of newly consolidated subsidiaries	56	6	–	527
<b>Cash and cash equivalents at end of year</b>	<b>¥ 23,796</b>	<b>¥ 26,197</b>	<b>¥ 17,765</b>	<b>\$ 223,983</b>

See the accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

SENKO Group Holdings Co., Ltd. and Consolidated Subsidiaries

## 01 Basis of Presenting Consolidated Financial Statements:

SENKO Group Holdings Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japan Companies Act and the Financial Instruments and Exchange Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in several respects as to the accounting and disclosure requirements of International Accounting Standards.

The Company's foreign subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its subsidiaries (the "Companies") which were filed with the Director of Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the exchange rate prevailing at March 31, 2018, which was ¥106.24 to US\$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 02 Summary of Significant Accounting Policies:

### (a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions are eliminated.

Non-consolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant in relation to those of the consolidation with the Companies.

The investments in other insignificant unconsolidated subsidiaries and affiliates are stated at cost.

### (b) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

### (c) Investment Securities

Investment securities are classified and accounted for, depending on management's intent.

Marketable other securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

Non-marketable other securities are stated at cost.

The cost of other securities sold is determined by the moving-average method.

The Companies classified all securities as other securities.

### (d) Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Companies' past credit loss experience or an evaluation of potential losses in the receivables outstanding.

### (e) Inventories

Purchased goods are stated principally at cost determined by the moving-average method (with book values written down on the balance sheets based on decreased profitability of assets). Finished goods, real estate for sale and work in process are stated principally at cost determined by the specific method (with book values written down on the balance sheets based on decreased profitability of assets). Raw materials are stated at cost determined by the last purchase cost method (with book values written down on the balance sheets based on decreased profitability of assets). Supplies are principally stated at cost determined by the moving-average method (with book values written down on the balance sheets based on decreased profitability of assets).

### (f) Property and Equipment and Depreciation (Except for Leased Assets)

Property and equipment are stated at cost. Depreciation is computed on the straight-line method for the buildings (including fixtures attached to the buildings), structures and vehicles, and on the declining-balance method for the others, on the estimated useful lives of assets.

The principal estimated useful lives are as follows:

Buildings and structures	3 to 51 years	Machinery and equipment	3 to 17 years
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### **(g) Leased Assets**

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees are accounted for in a similar way to purchases and depreciation for lease assets is computed under the straight-line method with zero residual value over the lease term.

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees, which commenced in fiscal years beginning prior to April 1, 2008, are accounted for in a similar way to operating leases.

### **(h) Accounting for significant deferred assets**

Method and period for amortization of business commencement expenses

Business commencement expenses are amortized by the straight-line method over five years.

### **(i) Retirement Benefits**

The Company and certain consolidated subsidiaries have retirement benefit plans for their employees that consist of funded and unfunded defined benefit pension plans and a defined contribution pension plan. The Company terminated a part of the retirement lump-sum plan and transferred to a defined contribution pension plan on July 1, 2013.

Under the defined benefit pension plans (all of which are funded benefit plans), lump-sum benefits or pensions are paid based on salary and the length of service. The Company has set up a retirement benefit trust scheme for certain defined benefit pension plans.

Under the retirement lump-sum plans (though the plans are basically unfunded, some were turned into funded plans after the setting up of a retirement benefit trust scheme), lump-sum benefits are paid based on salary and length of service.

Net defined benefit liabilities have been provided for employees' retirement benefits, based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the balance sheet date.

Actuarial gains and losses are amortized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the Companies' employees. The amortization of such gains and losses is recognized effective the year subsequent to the year in which they are incurred. Prior service costs are amortized in the fiscal year in which they are incurred.

Certain consolidated subsidiaries also have a severance indemnity plan for directors and corporate auditors, whose accrued severance indemnities are stated at 100% of the amount which is computed according to internal rules.

### **(j) Income Taxes**

Deferred income taxes are recognized by the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are determined based on difference of between financial reporting and the tax basis of the assets and liabilities, and are measured using the enacted tax rate and laws that will be in effect when the differences are expected to reverse.

### **(k) Goodwill**

Goodwill amortized over a period of 5 years by the straight-line method. If the economic useful life can be estimated, the useful life is used as the amortization period.

### **(l) Derivatives and hedge accounting**

The Company and consolidated subsidiaries state derivative financial instruments at market value and recognize changes in the market value as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and consolidated subsidiaries defer recognition of gain or loss resulting from changes in the market value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. However, when forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the foreign currency receivables or payables are translated at the contracted rate. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the asset or liability for which the swap contract was executed.

### **(m) Per Share Information**

Basic net income per share is computed on the basis of the weighted-average number of shares of common stock outstanding for the period.

Diluted net income per share is computed on the basis of the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds and exercise of stock acquisition rights.

Cash dividends per share are dividends applicable to the respective years including dividends to be paid after the end of the year.

### **(n) Translation of Foreign Currencies**

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. Revenue and expenses are translated at the rate of exchange prevailing when transactions are made.

Foreign currency financial statements amounts of overseas consolidated subsidiaries are translated into Japanese yen at the exchange rate for prevailing at the respective balance sheet dates of those subsidiaries for assets and liabilities, and at the historical exchange rate for net assets.

All income and expense amounts are translated at the average rate of exchange during the fiscal year of those subsidiaries.

The resulting translation adjustments are included in net assets as translation adjustments.



# 03

## Accounting Standard, etc., Issued but Not Yet Adopted

- Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, revised on February 16, 2018 by the Accounting Standards Board of Japan (ASBJ))
- Implementation Guidance on the Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, final revision on February 16, 2018, Accounting Standards Board of Japan)

### (1) Outline

The Implementation Guidance on Tax Effect Accounting, etc. underwent the following revisions deemed necessary on the transfer of the Practical Guidelines on Tax Effect Accounting of the Japanese Institute of Certified Public Accountants to the ASBJ, by adhering to the basic contents. (Major revised accounting treatment)

- The accounting treatment for the taxable temporary difference for subsidiaries' shares, etc. in the non-consolidated financial statements
- The accounting treatment on the recoverability of deferred tax assets at companies that fall under Category 1

### (2) Planned application date

To be applied from the beginning of the fiscal year ending March 31, 2019

### (3) Impact of the application of the above accounting standards, etc.

The impact of the application of the Implementation Guidance on Tax Effect Accounting, etc. on the consolidated financial statements is currently being assessed.

- The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 issued on March 30, 2018 by ASBJ)
- The Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 issued on March 30, 2018 by ASBJ)

### (1) Outline

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States jointly developed comprehensive accounting standards for revenue recognition and published the Revenue from Contracts with Customers (IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014. Given that IFRS 15 will be applied from the fiscal year starting on or after January 1, 2018, and that Topic 606 will be applied from the fiscal year starting after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and has published them together with the implementation guidance.

The policy of the ASBJ in developing accounting standards for revenue recognition is to set accounting standards that incorporate the basic principles of IFRS 15 as a starting point. The goal is to have comparability between financial statements, one of the benefits of ensuring consistency with IFRS 15, and to add alternative accounting treatments without losing comparability if there is an item that should be taken into account in the practices, etc. that have been followed in Japan.

### (2) Planned application date

To be applied from the beginning of the fiscal year ending March 31, 2022

### (3) Impact of the application of the above accounting standard, etc.

The impact of the application of the Accounting Standard for Revenue Recognition, etc. on the consolidated financial statements is currently being assessed.

# 04

## Additional Information

(Employee Stock Ownership Plan Trust (ESOP Trust))

### (1) Outline of the transaction

The Company introduced the ESOP Trust with the aim of improving the benefit program for employees. In addition, the ESOP Trust will foster a sense of belonging to the Group, creating an awareness of participation in management, and will increase awareness about contributing to improvements in the Group's medium-to-long term business performance and increasing corporate value through a program that is common across the Group. The ESOP Trust is an incentive plan that delivers the Company's shares acquired by the Trust to eligible employees who meet certain requirements based on predetermined share distribution rules. As the funds for purchasing the Company's shares that the Trust acquires are contributed by every eligible company, there is no contribution from eligible employees.

### (2) The Company's own stock remaining in the trusts

The Company's own stock remaining in the ESOP Trusts is posted as treasury stock under net assets at a book value recorded in the ESOP Trusts (excluding ancillary expenses). The amount and book value of the applicable treasury stock is 349,000 shares valued at ¥285 million

(\$2,683thousand) for the current consolidated fiscal year.

(Officer Remuneration Board Incentive Plan (BIP Trust))

### (1) Outline of Transactions

The Company has introduced the Board Incentive Plan Trust (BIP Trust) as an executive officer remuneration plan for directors of the Company and the Group's subsidiaries (excluding outside directors and non-residents of Japan). This incentive plan is strongly linked to the Group's financial performance as well as being highly transparent and objective to help increase awareness of contributing to improving the Group's medium-to-long term business performance and increasing the corporate value. The BIP Trust is a plan that delivers the Company's shares and/or pays an amount of cash equivalent to the converted value of the Company's shares to directors based on their position in the company and their financial performance in the same way as the Performance-based Stock Compensation Plan (Performance Share) and the Restricted Stock Compensation Plan (Restricted Stock) in Europe and the United States.

### (2) The Company's own stock remaining in the trusts

The Company's own stock remaining in the BIP Trusts is posted as treasury stock under net assets at a book value recorded in the BIP Trusts (excluding ancillary expenses). The amount and book value of the applicable treasury stock is 210,000 shares valued at ¥170 million (\$1,601 thousand) for the current consolidated fiscal year.

## 105 Comprehensive Income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2018, 2017 and 2016 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	2018
Net unrealized holdings gain on securities:				
Amount recognized in the period under review	¥ 693	¥ 563	¥ (658)	\$ 6,523
Amount of recycling	(67)	(513)	6	(631)
Before income tax effect adjustments	626	50	(652)	5,892
Amount of income tax effect	(196)	2	299	(1,845)
Net unrealized holdings gain on securities	430	52	(353)	4,047
Gain (loss) on deferred hedges:				
Amount recognized in the period under review	(97)	143	(138)	(913)
Before income tax effect adjustments	(97)	143	(138)	(913)
Amount of income tax effect	31	(45)	43	293
Gain (loss) on deferred hedges	(66)	98	(95)	(620)
Translation adjustments:				
Amount recognized in the period under review	105	(236)	(153)	988
Remeasurements of defined benefit plans:				
Amount recognized in the period under review	425	1,791	(1,127)	4,000
Amount of recycling	1,383	460	(276)	13,018
Before income tax effect adjustments	1,808	2,251	(1,403)	17,018
Amount of income tax effect	(551)	(707)	384	(5,186)
Remeasurements of defined benefit plans	1,257	1,544	(1,019)	11,832
Total other comprehensive income	¥ 1,726	¥ 1,458	¥ (1,620)	\$ 16,247

## 106 Financial Instruments

### (a) Status of financial instruments

#### (1) Policy on financial instruments

The Company and certain of its subsidiaries raise the funds required for capital investment plans for further growth from bank loans and the issuance of bond. The Companies manage any temporary surplus funds using highly stable financial assets. The Companies use derivatives in order to hedge against currency risks associated with merchandise imports as well as interest rate fluctuations risks in loans payable, and do not engage in speculative transactions.

(2) Details of financial instruments, their risks and management systems

Trade accounts and notes receivable, which are operating receivables, are exposed to the credit risk of the customer and the Companies operate systems to manage both payment deadlines and balances for each customer and grasp the credit status of each customer. Investment securities are mainly the shares of companies with which the Companies have a business relationship and the shares related to capital alliances, and these are exposed to the risk of fluctuations in market prices.

Trade accounts and notes payable, which are operating liabilities, have payment dates of within 1 year.

Trade accounts payable in foreign currencies are exposed to risks of foreign exchange fluctuations. To hedge such fluctuation risks, a consolidated subsidiary has entered into foreign exchange forward contracts.

Short-term loans are fund procurement related mainly to operating transactions. Long-term debt are fund procurement related mainly to capital investment.

Loans with variable interest rate are exposed to the risk of fluctuations in payable interest rates, but the Company conduct interest rate swap transactions in order to hedge the risk of fluctuations in payable interest rates for some long-term debt among variable interest rate loans. In addition, operating liabilities and loans payable are exposed to liquidity risk, but the Companies implement integrated fund management through the concentration of funds in the Company, which carries out fund settlement, fund procurement, monitoring of balances and fund management for the Companies.

Regarding derivatives, the Companies use foreign exchange forward contracts to hedge against foreign exchange rates fluctuation risks, and interest rate swap transactions aimed at hedging against the risk of future interest rate fluctuations, and also reduce the cost of fund procurement by converting variable interest rate liabilities into fixed interest rate liabilities.

Primary risks pertaining to derivative transactions include market risk and credit risk. Market risk is the risk that the value of an investment position will decrease due to changes in market factors, and a derivative transaction is exposed to foreign exchange and interest rate fluctuation risks. The Companies' derivatives effectively offset the risks of assets and liabilities on the balance sheets, and there were no important transaction risks. Credit risk is the risk that, in the case of default of the other party, the relevant party would become incapable of benefiting from the effect that would have obtained in the future if the transaction had continued. The Companies' derivative transaction partners are limited to financial institutions with high credit ratings and the Companies do not foresee the occurrence of losses due to debt default on the part of transaction partners.

The Company manages derivatives based on authority-related regulations in the Business Management Division. The execution of transactions requires the permission of the director responsible for the management of derivatives and the details of transactions are reported to the general manager of the Business Management Division and the director after their execution.

Consolidated subsidiaries also manage derivatives based on authority-related regulations, as does the Company.

(3) Supplementary explanation of the estimated market values of financial instruments

The market value of financial instruments includes prices based on market prices and reasonably estimated prices if there are no market prices. Because estimations of the prices incorporate fluctuating factors, application of different assumptions can in some cases change the prices.

## (b) Market value of financial instruments

The values on the consolidated balance sheets, market values and the differences between them are as follows. Financial instruments for which apprehension of the market value is recognized to be extremely difficult are not included.

Millions of yen

2018	Book value	Market value	Difference
(1) Cash and cash equivalents	¥ 24,996	¥ 24,996	¥ —
(2) Trade accounts and notes receivable	70,527	70,527	—
(3) Investment securities	6,814	6,814	—
(4) Long-term loans receivable (including current portion) Less allowance for doubtful accounts (*1)	3,980 (840)		
	3,140	3,903	763
<b>Total assets</b>	<b>¥ 105,477</b>	<b>¥ 106,240</b>	<b>¥ 763</b>
(1) Trade accounts and notes payable	¥ 44,608	¥ 44,608	¥ —
(2) Short-term loans	19,891	19,891	—
(3) Bond	17,216	16,923	(293)
(4) Convertible bond	10,040	9,769	(271)
(5) Long-term debt (including current portion)	72,693	73,277	584
(6) Lease obligations (including current portion)	10,417	10,360	(57)
<b>Total liabilities</b>	<b>¥ 174,865</b>	<b>¥ 174,828</b>	<b>¥ (37)</b>
<b>Derivatives (*2)</b>	<b>¥ (61)</b>	<b>¥ (61)</b>	<b>¥ —</b>

Millions of yen

2017	Book value	Market value	Difference
(1) Cash and cash equivalents	¥ 27,163	¥ 27,163	¥ -
(2) Trade accounts and notes receivable	61,976	61,976	-
(3) Investment securities	5,597	5,597	-
(4) Long-term loans receivable (including current portion) Less allowance for doubtful accounts <sup>(*)</sup>	3,791 (646)		
	3,145	3,872	727
<b>Total assets</b>	<b>¥ 97,881</b>	<b>¥ 98,608</b>	<b>¥ 727</b>
(1) Trade accounts and notes payable	¥ 40,505	¥ 40,505	¥ -
(2) Short-term loans	9,035	9,035	-
(3) Bond	7,000	6,953	(47)
(4) Convertible bond	10,050	9,702	(348)
(5) Long-term debt (including current portion)	59,081	59,702	621
(6) Lease obligations (including current portion)	9,160	8,602	(558)
<b>Total liabilities</b>	<b>¥ 134,831</b>	<b>¥ 134,499</b>	<b>¥ (332)</b>
Derivatives <sup>(**)</sup>	¥ 2	¥ 2	¥ -

Thousands of U.S. dollars

2018	Book value	Market value	Difference
(1) Cash and cash equivalents	\$ 235,279	\$ 235,279	\$ -
(2) Trade accounts and notes receivable	663,846	663,846	-
(3) Investment securities	64,138	64,138	-
(4) Long-term loans receivable (including current portion) Less allowance for doubtful accounts <sup>(*)</sup>	37,463 (7,907)		
	29,556	36,738	7,182
<b>Total assets</b>	<b>\$ 992,819</b>	<b>\$ 1,000,001</b>	<b>\$ 7,182</b>
(1) Trade accounts and notes payable	\$ 419,880	\$ 419,880	\$ -
(2) Short-term loans	187,227	187,227	-
(3) Bond	162,048	159,290	(2,758)
(4) Convertible bond	94,503	91,952	(2,551)
(5) Long-term debt (including current portion)	684,234	689,731	5,497
(6) Lease obligations (including current portion)	98,051	97,515	(536)
<b>Total liabilities</b>	<b>\$ 1,645,943</b>	<b>\$ 1,645,595</b>	<b>\$ (348)</b>
Derivatives <sup>(**)</sup>	\$ (574)	\$ (574)	\$ -

\*1. Allowance for doubtful accounts recognized in long-term loans receivable is offset.

\*2. "Derivatives" shows net receivables and liabilities generated by derivative transactions, with net liabilities shown in parentheses.

## Calculation of the market value of financial instruments and items relating to investment securities and derivatives

● **Assets**

## (1) Cash and cash equivalents, (2) Trade accounts and notes receivable

Because these are settled in a short period of time and market values are roughly equivalent to book values, market value are calculated based on book values.

## (3) Investment securities

The market values of shares are based on stock exchange prices and the market values of bond are based on stock exchange prices and the prices offered by correspondent financial institutions. With regard to details of the investment securities by purpose, please see "Note 6"

## (4) Long-term loans receivable

The market values of long-term loans receivable are calculated based on the current value discounting future cash flow by a rate adding credit risk to appropriate indices such as the yield on government bond.

● **Liabilities**

## (1) Trade accounts and notes payable, (2) Short-term loans

Because these are settled in a short period of time and market values are roughly equivalent to book values, market values are calculated based on the book values.

## (3) Bond, (4) Convertible bond

The market values of bond issued by the Company are calculated based on the current value discounting the total value of principal and interest by a rate adding the remaining period of the bond in question and credit risk.

(5) Long-term debt

The market values of long-term debt are calculated based on the current value discounting the total value of principal and interest by a rate envisioned if a new loan of the same value was taken out. Long-term debt based on variable interest rates are subject to special processing using interest rate swaps, and are calculated based on the current value discounting the total value of principal and interest processed as a unit with the relevant interest rate swaps by a rate estimated rationally and applied if a loan of the same value was taken out.

(6) Lease obligations

The market values of lease obligations are calculated based on the current value discounting the total value of principal and interest by a rate envisioned if a new loan of the same value was taken out.

● Derivatives

See "Note 8"

Financial instruments for which it is extremely difficult to determine market value

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unlisted shares	¥ 15,829	¥ 10,856	\$ 148,993

The financial instruments listed above are not included in "(3) Investment securities," as there is no market price and determination of their market value is extremely difficult.

**(c) Planned redemption amounts after the balance sheets date for monetary assets and investment securities with maturity dates**

2018	Millions of yen			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and cash equivalents	¥ 24,996	¥ –	¥ –	¥ –
Trade accounts and notes receivable	70,527	–	–	–
Investment securities	–	–	–	–
Other securities with maturity period				
(1) Government bond, local government bond	–	–	–	–
(2) Bond	–	16	–	–
(3) Other	–	–	–	–
Long-term loans receivable	538	2,914	217	311
Total	¥ 96,061	¥ 2,930	¥ 217	¥ 311

2017	Millions of yen			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and cash equivalents	¥ 27,163	¥ –	¥ –	¥ –
Trade accounts and notes receivable	61,976	–	–	–
Investment securities	–	–	–	–
Other securities with maturity period				
(1) Government bond, local government bond	–	–	–	–
(2) Bond	–	16	–	–
(3) Other	–	–	–	–
Long-term loans receivable	844	1,357	1,481	109
Total	¥ 89,983	¥ 1,373	¥ 1,481	¥ 109

2018	Thousands of U.S. dollars			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and cash equivalents	\$ 235,279	\$ –	\$ –	\$ –
Trade accounts and notes receivable	663,846	–	–	–
Investment securities	–	–	–	–
Other securities with maturity period				
(1) Government bond, local government bond	–	–	–	–
(2) Bond	–	151	–	–
(3) Other	–	–	–	–
Long-term loans receivable	5,064	27,428	2,043	2,928
Total	\$ 904,189	\$ 27,579	\$ 2,043	\$ 2,928

# 07

## Investment Securities

The carrying amounts of investment securities at March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Marketable securities	¥ 6,814	¥ 5,597	\$ 64,138
Non-marketable securities	395	436	3,718
	¥ 7,209	¥ 6,033	\$ 67,856

The following is a summary of marketable securities included in investment securities, at March 31, 2018 and 2017.

2018	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Market value)
Equity security	¥ 3,465	¥ 3,252	¥ 62	¥ 6,655
Bond and Others	162	0	3	159
	¥ 3,627	¥ 3,252	¥ 65	¥ 6,814

2017	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Market value)
Equity security	¥ 2,891	¥ 2,609	¥ 34	¥ 5,466
Bond and Others	133	0	2	131
	¥ 3,024	¥ 2,609	¥ 36	¥ 5,597

2018	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Market value)
Equity security	\$ 32,615	\$ 30,610	\$ 584	\$ 62,641
Bond and Others	1,525	0	28	1,497
	\$ 34,140	\$ 30,610	\$ 612	\$ 64,138

# 08

## Derivatives

1. Derivative transactions to which hedge accounting is not applied  
Not applicable.

2. Derivative transactions to which hedge accounting is applied

(1) Currency transactions

Hedge accounting method	Type of contracts	Item hedged	Millions of yen		
			Contract amounts	Over 1 year out of contract amounts	Market value
	Forward exchange contracts				
Designated transactions for forward exchange contracts	Sell				
	U.S. dollars	Trade accounts receivable	¥ 10	¥ -	¥ 0
	Buy				
	U.S. dollars	Trade accounts payable	¥ 2,151	¥ -	¥ 274
	Euros	Trade accounts payable	698	-	(5)
	Chinese yen	Trade accounts payable	212	-	2
	Danish kroner	Trade accounts payable	7	-	(0)
	Total		¥ 3,078	¥ -	¥ 271

Millions of yen

Hedge accounting method	Type of contracts	Item hedged	2017		
			Contract amounts	Over 1 year out of contract amounts	Market value
	Forward exchange contracts				
	Sell				
	U.S. dollars	Trade accounts receivable	¥ 58	¥ –	¥ 0
	Euros	Trade accounts receivable	2	–	0
Designated transactions for forward exchange contracts	Buy				
	U.S. dollars	Trade accounts payable	¥ 1,954	¥ –	¥ 6
	Euros	Trade accounts payable	572	–	1
	Chinese yen	Trade accounts payable	147	–	5
	Danish kroner	Trade accounts payable	5	–	0
	Pounds sterling	Trade accounts payable	3	–	0
	Total		¥ 2,741	¥ –	¥ 12

Thousands of U.S.dollars

Hedge accounting method	Type of contracts	Item hedged	2018		
			Contract amounts	Over 1 year out of contract amounts	Market value
	Forward exchange contracts				
	Sell				
	U.S. dollars	Trade accounts receivable	\$ 94	\$ –	\$ 0
Designated transactions for forward exchange contracts	Buy				
	U.S. dollars	Trade accounts payable	\$ 20,247	\$ –	\$ 2,579
	Euros	Trade accounts payable	6,570	–	(47)
	Chinese yen	Trade accounts payable	1,995	–	19
	Danish kroner	Trade accounts payable	66	–	(0)
	Total		\$ 28,972	\$ –	\$ 2,551

Market value is measured based on prices and other criteria presented by our correspondent financial institutions.

## (2) Interest rate swaps

Millions of yen

Hedge accounting method	Type of contracts	Item hedged	2018		
			Contract amounts	Over 1 year out of contract amounts	Market value
Exceptional accounting method for interest-rate swap transactions	Interest rate swap contracts Floating rate receivable/ Fixed rate payable	Long-term debt	¥ 18,950	¥ 17,450	¥ –
Principle accounting method	Interest rate swap contracts Floating rate receivable/ Fixed rate payable	Long-term debt	¥ 1,038	¥ 973	(27)
	Total		¥ 19,988	¥ 18,423	¥ (27)

Millions of yen

Hedge accounting method	Type of contracts	Item hedged	2017		
			Contract amounts	Over 1 year out of contract amounts	Market value
Exceptional accounting method for interest-rate swap transactions	Interest rate swap contracts Floating rate receivable/ Fixed rate payable	Long-term debt	¥ 30,600	¥ 18,950	¥ – (*)

Hedge accounting method	Type of contracts	Item hedged	2018		
			Contract amounts	Over 1 year out of contract amounts	Market value
Exceptional accounting method for interest-rate swap transactions	Interest rate swap contracts Floating rate receivable/ Fixed rate payable	Long-term debt	\$ 178,370	\$ 164,251	\$ –
Principle accounting method	Interest rate swap contracts Floating rate receivable/ Fixed rate payable	Long-term debt	\$ 9,770	\$ 9,159	(254)
Total			\$ 188,140	\$ 173,410	\$ (254)

\* Items treated under exceptional accounting method for interest-rate swap transactions are recorded together with long-term debt included in items hedged. Therefore, the market value of such items is included in the market value of the relevant long-term debt.

## 09 Property and Equipment

At March 31, 2018 and 2017, property and equipment at cost consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Land	¥ 59,614	¥ 56,700	\$ 561,126
Buildings and structures	146,448	124,740	1,378,464
Machinery and equipment, vehicle and vessels	59,003	37,669	555,375
Tools, furniture and fixtures	7,271	6,955	68,439
Construction in Progress	16,450	3,637	154,838
Lease assets	13,002	11,535	122,383
	¥ 301,788	¥ 241,236	\$ 2,840,625

## 10 Short-term Loans and Long-term Debt

At March 31, 2018 and 2017, short-term loans consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
0.24% to 4.80% unsecured loans from banks	¥ 19,891	¥ 9,035	\$ 187,227

At March 31, 2018 and 2017, long-term debt consisted of the following:-

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
0.50% bond due 2021	¥ 7,000	¥ 7,000	\$ 65,889
0.10% bond due 2022	216	–	2,033
0.48% bond due 2027	10,000	–	94,126
Convertible bond due 2022	10,040	10,050	94,503
0.20% to 2.40% loans from banks and insurance companies: Unsecured	72,693	59,081	684,234
	99,949	76,131	940,785
Less current portion	(9,509)	(16,597)	(89,505)
	¥ 90,440	¥ 59,534	\$ 851,280

On March 9, 2017, the Company issued ¥10,050 million (\$94,597 thousand) of zero coupon convertible bond with stock acquisition rights due in 2022. The stock acquisition rights are exercisable during the period from March 14, 2022 at a conversion price of ¥930 (\$8.75) per share.



The annual maturities of long-term debt at March 31, 2018 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 9,509	\$ 89,505
2020	6,780	63,818
2021	13,987	131,655
2022	19,929	187,585
2023	10,573	99,520
There after	39,131	368,326

At March 31, 2018, the Company has committed line and overdraft contracts with twenty five banks aggregating ¥58,165 million (\$547,487 thousand). Of the total credit limit, ¥20,245 million (\$190,559 thousand) was used as the above short-term and long-term borrowing, and the rest ¥37,920 million (\$356,928 thousand) was unused.

# 11 Retirement Benefits

## (1) Defined benefit plan

### a. Table for adjusting benefits obligation at the beginning and end of the year

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Benefits obligation at the beginning of the year	¥ 25,637	¥ 26,264	\$ 241,312
Service cost	1,083	1,137	10,194
Interest cost	109	78	1,026
Accrued actuarial differences	300	(442)	2,824
Retirement benefits paid	(1,606)	(1,673)	(15,117)
Others	101	274	951
Benefits obligation at the end of the year	¥ 25,624	¥ 25,638	\$ 241,190

### b. Table for adjusting fair value of plan assets at the beginning and end of the year

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Fair value of plan assets at the beginning of the year	¥ 20,909	¥ 18,643	\$ 196,809
Expected return on plan assets	627	559	5,902
Accrued actuarial differences	725	1,397	6,824
Contribution by employers	726	1,011	6,834
Retirement benefits paid	(606)	(701)	(5,704)
Fair value of plan assets at the end of the year	¥ 22,381	¥ 20,909	\$ 210,665

### c. Table for adjusting benefits obligation, fair value of plan assets at the end of the year, and net defined benefit liabilities and net defined benefit assets on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Benefits obligation under the funded benefit plan	¥ 19,844	¥ 20,095	\$ 186,785
Fair value of plan assets	(22,381)	(20,909)	(210,665)
	(2,537)	(814)	(23,880)
Benefits obligation under the unfunded benefit plan	5,780	5,542	54,405
Net amounts of assets and liabilities on the consolidated balance sheets	3,243	4,728	30,525
Net defined benefit assets	3,659	2,360	34,441
Net defined benefit liabilities	6,902	7,088	64,966
Net amounts of assets and liabilities on the consolidated balance sheets	¥ 3,243	¥ 4,728	\$ 30,525

d. Breakdown of retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 1,083	¥ 1,137	\$ 10,194
Interest cost	109	78	1,026
Expected return on plan assets	(627)	(559)	(5,902)
Recognized actuarial differences	1,383	480	13,018
Retirement benefit costs for the defined benefit plan	¥ 1,948	¥ 1,136	\$ 18,336

e. Remeasurements of defined benefit plans (Other Comprehensive Income)

The breakdown of items posted as re-measurement of defined benefit plans (before tax effect deduction) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Recognized actuarial differences	¥ 1,808	¥ 2,252	\$ 17,018
Total	1,808	2,252	17,018

f. Remeasurements of defined benefit plans (Accumulated Other Comprehensive Income)

The breakdown of items posted as re-measurement of defined benefit plans (before tax effect deduction) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial differences	¥ (159)	¥ (1,967)	\$ (1,497)
Total	(159)	(1,967)	(1,497)

g. Items concerning plan assets

(i) Main items of plan assets

	2018	2017
Bonds	25%	25%
Stocks	58%	58%
Others	17%	17%
Total	100%	100%

(Note) 44% and 44% of total pension assets are in a "Retirements Benefit Trust" for the defined benefit pension plans as of March 31, 2018 and 2017, respectively.

(ii) Method of setting the expected rate of long-term return on plan assets

The Company has taken into account a forecasted allocation of plan assets and the present and expected long-term return on various assets that consist of the plan assets to determine the expected rate of long-term return on plan assets.

h. Items concerning the essential basis for actuarial calculation

	2018	2017
Discount rate		
Defined benefit pension plans	0.51%	0.61%
Retirements lump-sum plans	0.21%	0.26%
Expected rate of return on plan assets	3.00%	3.00%

(2) Defined contribution plan

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Contributions to defined contribution plan by the Company and its consolidated subsidiaries	¥ 693	¥ 621	\$ 6,523

# 12 | Pledged Assets

The following assets were pledged as collateral as at March 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Land	¥ 6,606	¥ 5,834	\$ 62,180
Buildings	2,496	2,744	23,494
Structures	27	31	254
Ship	1,426	–	13,422
Investment securities	22	22	207
	¥ 10,577	¥ 8,631	\$ 99,557

Obligations which were secured on the above assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Long-term debt, including current portion	¥ 6,160	¥ 4,581	\$ 57,982

# 13 | Contingent Liabilities

At March 31, 2018 and 2017, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Guarantees of some obligations	¥ 573	¥ 2,052	\$ 5,393
Buyback obligations associated with securitization of receivables	445	605	4,189
Recourse obligation associated with securitization of guarantee deposits	83	83	781
Trade notes endorsed	103	84	970
	¥ 1,204	¥ 2,824	\$ 11,333

# 14 | Net Assets

The Japan Companies Act provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until such reserve and additional paid-in capital equals 25% of the common stock account. The Japan Companies Act also stipulates that, on condition that the sum of the additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2018, included the Company's legal reserve of ¥1,506 million (\$14,175 thousand).

The stock option plans of the Company approved by the shareholders in accordance with the Japan Companies Act at March 31, 2018 were as follows:

(1) Description of stock options

Stock option	Grantees	Number of shares with warrants granted	Date of grant	Option price per warrant	Shares with warrants granted	Exercise period
2007 Stock options (1st)	10 directors 3 auditors	61,000 shares	July 20, 2007	¥ 1	Common stock	July 21, 2007- June 30, 2027
2007 Stock options (2nd)	9 operating officers	18,000 shares	July 20, 2007	¥ 1	Common stock	July 21, 2007- June 30, 2027
2008 Stock options (4th)	10 directors 3 auditors	71,000 shares	July 1, 2008	¥ 1	Common stock	July 2, 2008- June 30, 2028
2008 Stock options (5th)	10 operating officers	22,000 shares	July 1, 2008	¥ 1	Common stock	July 2, 2008- June 30, 2028
2009 Stock options (6th)	11 directors 4 auditors	74,000 shares	July 1, 2009	¥ 1	Common stock	July 2, 2009- June 30, 2029
2009 Stock options (7th)	12 operating officers	27,000 shares	July 1, 2009	¥ 1	Common stock	July 2, 2009- June 30, 2029
2010 Stock options (8th)	11 directors 4 auditors	90,000 shares	July 1, 2010	¥ 1	Common stock	July 2, 2010- June 30, 2030
2010 Stock options (9th)	13 operating officers 13 assistant directors	42,000 shares	July 1, 2010	¥ 1	Common stock	July 2, 2010- June 30, 2040
2011 Stock options (10th)	12 directors 4 auditors	102,000 shares	July 1, 2011	¥ 1	Common stock	July 2, 2011- June 30, 2031
2011 Stock options (11th)	15 operating officers 20 assistant directors	96,000 shares	July 1, 2011	¥ 1	Common stock	July 2, 2011- June 30, 2041
2012 Stock options (12th)	12 directors 4 auditors	107,000 shares	July 2, 2012	¥ 1	Common stock	July 3, 2012- June 30, 2032
2012 Stock options (13th)	16 operating officers 22 assistant directors	92,000 shares	July 2, 2012	¥ 1	Common stock	July 3, 2012- June 30, 2042
2013 Stock options (15th)	12 directors 4 auditors	71,000 shares	July 1, 2013	¥ 1	Common stock	July 2, 2013- June 30, 2033
2013 Stock options (16th)	18 operating officers 26 assistant directors	82,000 shares	July 1, 2013	¥ 1	Common stock	July 2, 2013- June 30, 2043
2014 Stock options (18th)	12 directors 4 auditors	56,000 shares	July 1, 2014	¥ 1	Common stock	July 2, 2014- June 30, 2034
2014 Stock options (19th)	18 operating officers 32 assistant directors	74,000 shares	July 1, 2014	¥ 1	Common stock	July 2, 2014- June 30, 2044
2015 Stock options (20th)	12 directors 4 auditors	52,000 shares	July 1, 2015	¥ 1	Common stock	July 2, 2015- June 30, 2035
2015 Stock options (21th)	20 operating officers 30 assistant directors	60,000 shares	July 1, 2015	¥ 1	Common stock	July 2, 2015- June 30, 2045
2016 Stock options (22th)	10 directors 4 auditors	35,000 shares	July 1, 2016	¥ 1	Common stock	July 2, 2016- June 30, 2036
2016 Stock options (23th)	23 operating officers 15 assistant directors	43,000 shares	July 1, 2016	¥ 1	Common stock	July 2, 2016- June 30, 2046
2017 Stock options(25th)	6 directors 4 auditors	21,000 shares	July 3, 2017	¥ 1	Common stock	July 4,2017- June 30,2037
2017 Stock options(26th)	2 operating officers 4 assistant directors 9 executives of the subsidiaries 23 operating officers of the subsidiaries 20 assistant directors of the subsidiaries	77,000 shares	July 3, 2017	¥ 1	Common stock	July 4,2017- June 30,2047

(2) Changes in the number of stock options

The following describes changes in the number of stock options that existed during the year ended March 31, 2018. The number of stock options is translated into the number of shares

Stock option	Share subscription rights which are not yet vested (shares):					Share subscription rights which have already been vested (shares):				
	At March 31, 2017	Granted	Forfeited	Vested	At March 31, 2018	At March 31, 2017	Vested	Exercised	Forfeited	At March 31, 2018
2007 Stock options (1st)	-	-	-	-	-	24,000	-	-	-	24,000
2007 Stock options (2nd)	-	-	-	-	-	4,000	-	-	-	4,000
2008 Stock options (4th)	-	-	-	-	-	27,000	-	-	-	27,000
2008 Stock options (5th)	-	-	-	-	-	6,000	-	-	-	6,000
2009 Stock options (6th)	-	-	-	-	-	30,000	-	-	-	30,000
2009 Stock options (7th)	-	-	-	-	-	20,000	-	-	-	20,000
2010 Stock options (8th)	-	-	-	-	-	35,000	-	-	-	35,000
2010 Stock options (9th)	-	-	-	-	-	34,000	-	2,000	-	32,000
2011 Stock options (10th)	-	-	-	-	-	62,000	-	-	-	62,000
2011 Stock options (11th)	-	-	-	-	-	81,000	-	6,000	-	75,000
2012 Stock options (12th)	-	-	-	-	-	66,000	-	-	-	66,000
2012 Stock options (13th)	-	-	-	-	-	85,000	-	5,000	-	80,000
2013 Stock options (15th)	-	-	-	-	-	63,000	-	4,000	-	59,000
2013 Stock options (16th)	-	-	-	-	-	76,000	-	3,000	-	73,000
2014 Stock options (18th)	-	-	-	-	-	49,000	-	3,000	-	46,000
2014 Stock options (19th)	-	-	-	-	-	70,000	-	1,000	-	69,000
2015 Stock options (20th)	-	-	-	-	-	52,000	-	3,000	-	49,000
2015 Stock options (21th)	-	-	-	-	-	60,000	-	-	-	60,000
2016 Stock options (22th)	-	-	-	-	-	35,000	-	3,000	-	32,000
2016 Stock options (23th)	-	-	-	-	-	43,000	-	-	-	43,000
2017 Stock options(25th)	-	21,000	-	21,000	-	-	21,000	-	-	21,000
2017 Stock options(26th)	-	77,000	-	77,000	-	-	77,000	-	-	77,000

# 16 | Income Taxes

The Company and its subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a normal effective statutory tax rates of approximately 30.9 % for the years ended March 31, 2018 and 30.8 % for the years ended March 31, 2017.

(1) Significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>Deferred tax assets:</b>			
Net defined benefit liabilities	¥ 2,572	¥ 2,966	\$ 24,209
Accrued bonuses to employees	1,611	1,591	15,164
Loss carry forward	418	409	3,934
Impairment losses	243	258	2,287
Loss on revaluation of land	265	265	2,494
Accrued enterprise tax	406	318	3,823
Social insurance premium	212	216	1,995
Asset retirement obligations	258	258	2,428
Loss on revaluation of golf club membership	121	102	1,139
Other	1,739	1,744	16,369
<b>Gross deferred tax assets</b>	<b>7,845</b>	<b>8,127</b>	<b>73,842</b>
Less: valuation allowance	(1,361)	(1,244)	(12,810)
<b>Total deferred tax assets</b>	<b>6,484</b>	<b>6,883</b>	<b>61,032</b>
<b>Deferred tax liabilities:</b>			
Reserve for reduction in costs of fixed assets	(729)	(689)	(6,862)
Asset retirement obligations	(71)	(32)	(668)
Net unrealized holdings gain on other securities	(981)	(697)	(9,234)
Other	(804)	(971)	(7,568)
<b>Gross deferred tax liabilities</b>	<b>(2,585)</b>	<b>(2,389)</b>	<b>(24,332)</b>
<b>Net deferred tax assets</b>	<b>¥ 3,899</b>	<b>¥ 4,494</b>	<b>\$ 36,700</b>

(2) Reconciliation of the statutory effective income tax rate and the income tax rate as a percentage of income before income taxes and non-controlling interests at March 31, 2018 and 2017 were as follows:

	2018	2017
Statutory tax rate	30.9%	30.8%
Adjustment:		
Non-deductible expenses	1.3	1.3
Inhabitants' per capita taxes	1.6	1.5
Non-taxable dividends income	(0.3)	(0.4)
Special deduction of income taxes	(0.6)	(0.6)
Changes in valuation allowance	0.7	1.4
Other	0.5	0.9
<b>Income tax rate as a percentage of income before income taxes and non-controlling interests</b>	<b>34.1%</b>	<b>34.9%</b>

Common control transaction, etc.

1. Outline of transaction

a. Name of applicable business and business description

All businesses, excluding the Senko Group's business management business

b. Date of business restructuring

April 1, 2017

c. Legal form of business structure

Absorption-type split with the Company as the splitting company, and SENKO Co., Ltd., the Company's consolidated subsidiary, as the successor company.

d. Name of the restructured (holding) company

SENKO Co., Ltd. (consolidated subsidiary of the Company)

e. Other matters concerning the outline of the transaction

As a result of the transition to a holding company structure through an absorption-type split, the Company aims to further reinforce the Group's structure and enhance corporate value by:

- 1) strengthening the governance system;
- 2) clarifying the responsibility and authority of each operating company; and
- 3) accelerating decision-making.
  - The pure holding company will plan strategy and allocate resources from a medium-to-long term perspective and provide support for the growth and expansion of the operating companies in addition to handling new business development and M&As.
  - The operating companies will respond appropriately to changes in the business environment with the goal of pursuing growth in their own business domains.

2. Outline of accounting procedure

The business restructuring (combination) was treated as a common control transaction in accordance with the Revised Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, revised on September 13, 2013) and the Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Implementation Guidance No. 10, revised on September 13, 2013).

Additional acquisition of shares of subsidiaries

1. Outline of transaction

a. Name of the constituent company and its business description

Name of the constituent company : Runtec Co., Ltd.

Business description: temperature-controlled transportation of frozen food, chilled food, fresh food products, etc., warehousing, truck maintenance, etc.

temperature-controlled transportation of frozen food, chilled food, fresh food products, etc., warehousing, truck maintenance, etc.

b. Date of business restructuring

February 28, 2018

c. Legal form of business structure

Acquisition of shares from non-controlling shareholders

d. Other matters concerning the outline of the transaction

The Company acquired the equity interest owned by non-controlling shareholders in order to accelerate initiatives aimed at creating synergistic effects among Group companies. As a result, the percentage of voting rights owned by the Group has increased from 47.7% to 98.7%.

2. Outline of accounting procedure

The business restructuring was treated as a transaction with non-controlling shareholders in the category of common control transactions, etc. in accordance with the Revised Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, revised on September 13, 2013) and the Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Implementation Guidance No. 10, revised on September 13, 2013).

3. Matters concerning additional acquisition of shares of subsidiaries  
Acquisition cost and breakdown by type of consideration

		Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition	Cash and deposits	¥ 6,764	\$ 63,667
Acquisition cost		¥ 6,764	\$ 63,667

4. Matters related to changes in equity of the Company for transactions with non-controlling shareholders

a. Major causes of changes in capital surplus

Additional acquisition of shares of subsidiaries

b. Amount of increase in capital surplus due to transactions with non-controlling shareholders

¥4,240 million (\$39,911 thousand)

## 18 | Asset Retirement Obligations

1. Asset retirement obligations recorded in the consolidated balance sheets

a. Outline of the relevant asset retirement obligations

Of property lease contracts for the Company's distribution centers, asset retirement obligations are recognized where restoration is required in the fixed-term leasehold contracts and in the property lease contracts of some consolidated subsidiaries as well as expenses for removing asbestos in buildings the Company owns.

b. Calculation method for the relevant asset retirement obligations

In calculating the amount of asset retirement obligations recorded under liabilities, an estimated period of use of 10 to 30 years and a discount rate of 0.1% to 2.5% were assumed.

c. Increase in the total amount of asset retirement obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the term	¥ 817	¥ 519	\$ 7,690
Increase due to acquisition of a consolidated subsidiary	—	232	—
Increase due to acquisition of fixed assets	5	52	47
Reconciliation associated with the passage of time	13	14	122
Decrease due to settlement	(16)	—	(150)
Balance at the end of the term	¥ 819	¥ 817	\$ 7,709

2. Asset retirement obligations not recorded in the consolidated balance sheets

The Group has restoration obligations to the original state at the withdrawal for some offices used on lease agreements. Since the use period of the leased asset pertaining to the obligations is unclear and transfer is not scheduled at present, asset retirement obligations cannot be measured reasonably. Therefore, asset retirement obligations corresponding to the obligations have not been recorded.

## 19 | Segment Information

1. Summary of reportable segment

The reportable segments of the Companies are components for which separate financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Companies divide business operations into three segments: Distribution, Trading & Commerce, and Others

Distribution mainly includes truck transport, railway forwarding, marine transport, global logistics service, integrated retail logistics (distribution centers) etc.

Trading & Commerce mainly includes the sale of petroleum products and the trading business.

Others mainly includes data processing outsourcing services, automobile maintenance and insurance agency services

2. Calculation of sales, income (loss), and assets, etc. of each reportable segment

The accounting policies of the segments are substantially the same as those described in the "Summary of Significant Accounting Policies."

Income (loss) of reportable segments is based on operating income or loss.

3. Sales, income (loss), and assets, etc. of each reportable segment



Millions of yen

	2018					
	Distribution	Trading & Commerce	Others	Total	Adjustments and eliminations	Consolidated
Operating revenues:						
Customers	¥ 347,752	¥ 139,317	¥ 5,058	¥ 492,127	¥ –	¥ 492,127
Intersegment	2,157	12,294	8,878	23,329	(23,329)	–
Total operating revenues	349,909	151,611	13,936	515,456	(23,329)	492,127
Segment income (loss)	13,709	2,855	896	17,460	(373)	17,087
Segment assets	261,639	45,706	18,336	325,681	8,737	334,418
Other items						
Depreciation	10,903	283	416	11,602	838	12,440
Increase in tangible and intangible fixed assets	34,851	305	2,763	37,919	6,459	44,378

Millions of yen

	2017					
	Distribution	Trading & Commerce	Others	Total	Adjustments and eliminations	Consolidated
Operating revenues:						
Customers	¥ 317,985	¥ 132,868	¥ 4,582	¥ 455,435	¥ –	¥ 455,435
Intersegment	1,999	12,000	4,409	18,408	(18,408)	–
Total operating revenues	319,984	144,868	8,991	473,843	(18,408)	455,435
Segment income (loss)	13,419	3,209	870	17,498	(416)	17,082
Segment assets	221,505	42,880	12,260	276,645	9,314	285,959
Other items						
Depreciation	8,634	277	311	9,222	994	10,216
Increase in tangible and intangible fixed assets	15,165	457	822	16,444	6,619	23,063

Thousands of U.S. dollars

	2018					
	Distribution	Trading & Commerce	Others	Total	Adjustments and eliminations	Consolidated
Operating revenues:						
Customers	\$ 3,273,268	\$ 1,311,342	\$ 47,609	\$ 4,632,219	\$ –	\$ 4,632,219
Intersegment	20,303	115,719	83,566	219,588	(219,588)	–
Total operating revenues	3,293,571	1,427,061	131,175	4,851,807	(219,588)	4,632,219
Segment income (loss)	129,038	26,873	8,434	164,345	(3,511)	160,834
Segment assets	2,462,716	430,215	172,590	3,065,521	82,239	3,147,760
Other items						
Depreciation	102,626	2,664	3,916	109,206	7,887	117,093
Increase in tangible and intangible fixed assets	328,040	2,871	26,007	356,918	60,796	417,714

## (1) Products and Services Information

Information for specific products and services is not shown because the same information is in the segment information.

## (2) Geographic Segment Information

## a. Sales

Sales information by geographic segment is not shown because sales in Japan accounted for over 90% of operating revenue on the consolidated statements of income.

## b. Property, plant and equipment

Property, plant and equipment information by geographic segment is not shown because property, plant and equipment in Japan accounted for over 90% of property, plant and equipment on the consolidated balance sheets.

## (3) Information by Major Clients

Information by major clients is not shown because sales to major clients accounted for less than 10% of operating revenue on the consolidated statements of income.

(Information on impairment losses in fixed assets by business segment)

No significant items to be reported.

(Information on amortization of goodwill and amortization balance by business segment)

Millions of yen

	2018				
	Distribution	Trading & Commerce	Others	Adjustments and eliminations	Consolidated
Amortization of goodwill	¥ 260	¥ 145	¥ 8	¥ –	¥ 413
Balance at the end of period	4,382	1,922	218	–	6,522

Millions of yen

	2017				
	Distribution	Trading & Commerce	Others	Adjustments and eliminations	Consolidated
Amortization of goodwill	¥ 227	¥ 144	¥ 5	¥ –	¥ 376
Balance at the end of period	3,472	2,060	86	–	5,618

Thousands of U.S. dollars

	2018				
	Distribution	Trading & Commerce	Others	Adjustments and eliminations	Consolidated
Amortization of goodwill	\$ 2,447	\$ 1,365	\$ 75	\$ –	\$ 3,887
Balance at the end of period	41,246	18,091	2,052	–	61,389

(Information on negative goodwill by business segment)

No significant items to be reported.

## 20 Subsequent Event

### (1) Payment of Dividends

Shareholders approved the following appropriation of retained earning at the annual meeting held on June 27, 2018

	Millions of yen	Thousands of U.S. dollars
	Cash dividends	¥ 1,677



# Report of Independent Auditors

## Report of Independent Auditors

To the Board of Directors of SENKO Group Holdings Co.,Ltd.

We have audited the accompanying consolidated balance sheets of SENKO Group Holdings Co.,Ltd. and its consolidated subsidiaries as of March 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for each of the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SENKO Group Holdings Co.,Ltd. and its consolidated subsidiaries as of March 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in Japan.

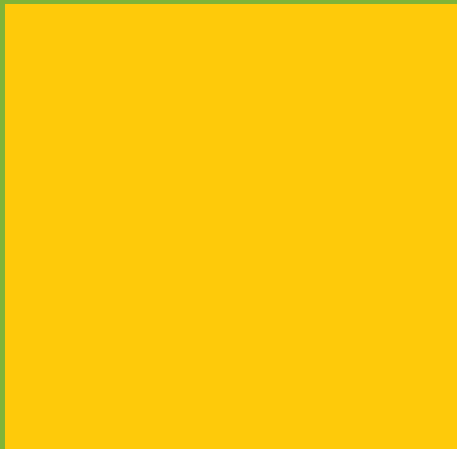
### Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Osaka, Japan  
June 27, 2018

*Ohtemae Audit Co.*

Ohtemae Audit Corporation

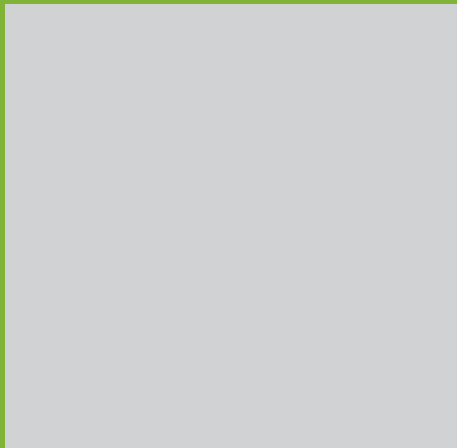


# Corporate Information

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# Stock Information / Corporate Data

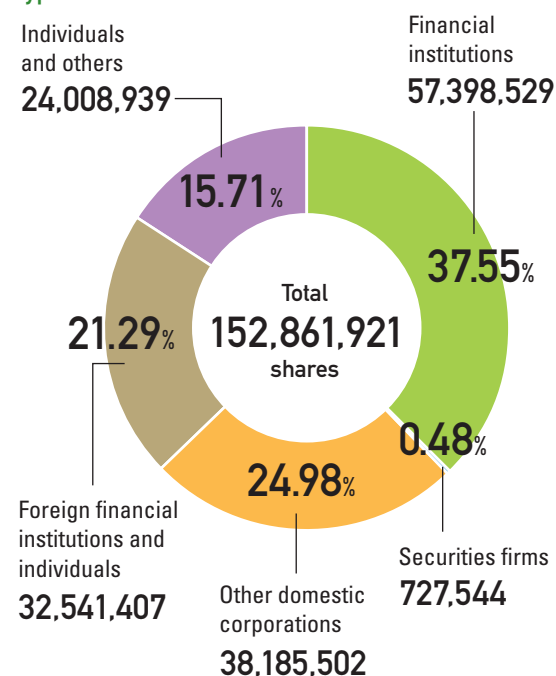
## Stock Information (As of March 31, 2018)

<b>Stock Listing</b>	First Section of the Tokyo Stock Exchange
<b>Stock Code</b>	9069
<b>Authorized Shares</b>	294,999,000
<b>Outstanding Shares</b>	152,861,921
<b>Number of Shareholders</b>	8,588
<b>Administrator of Shareholders' Register</b>	Mitsubishi UFJ Trust and Banking Corporation, Osaka Stock Transfer Agent Division 3-6-3, Fushimi Machi, Chuo-ku, Osaka 541-8502, Japan
<b>Independent Auditors</b>	Ohtemae Audit Corporation

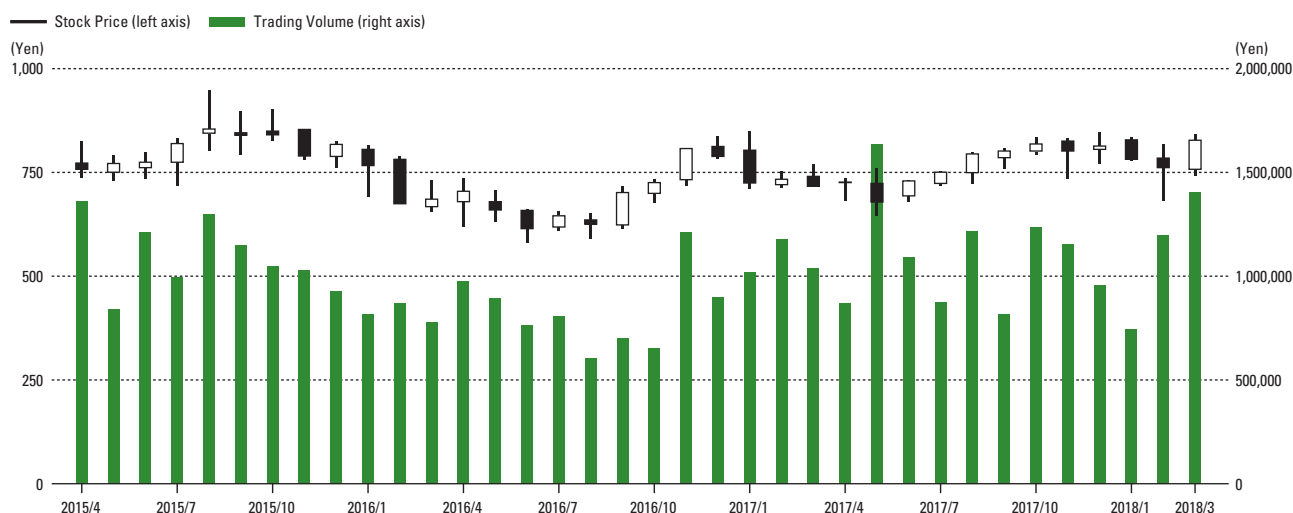
### Major Shareholders

	Number of Shares (thousands)	Percentage Held
Japan Trustee Services Bank, Ltd.	22,757	14.92%
Asahi Kasei Corporation	11,676	7.66%
The Master Trust Bank of Japan, Ltd.	8,444	5.54%
Sekisui Chemical Co., Ltd.	6,785	4.45%
Senko Group Employee's Stockholding	6,280	4.12%
Mitsubishi UFJ Trust and Banking Corporation	4,252	2.79%
Isuzu Motors Ltd.	4,039	2.65%
State Street Bank and Trust Company	3,992	2.62%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,439	2.26%
J.P. Morgan Bank Luxembourg S.A.	3,179	2.08%

### Type of Shareholder



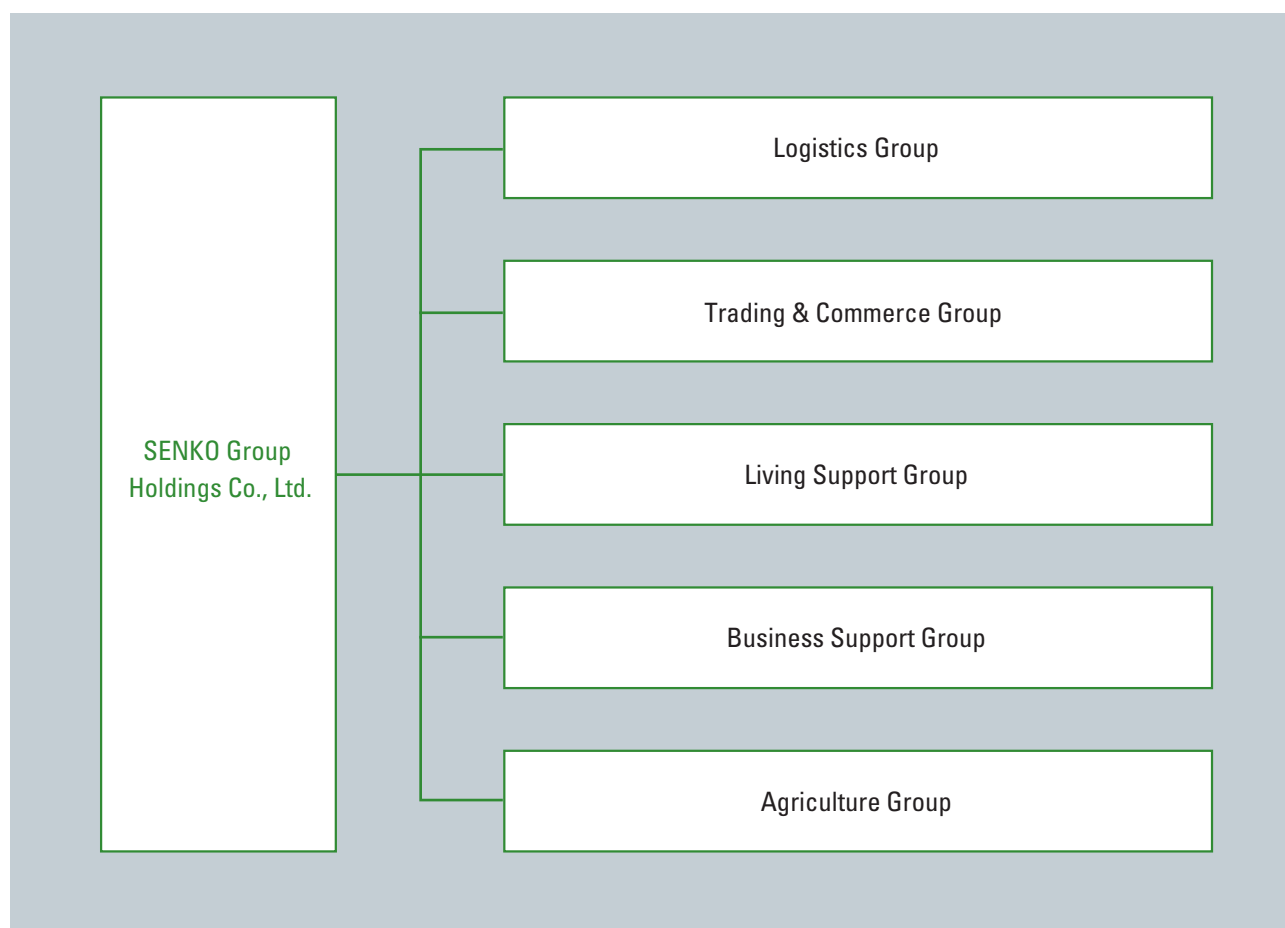
## Stock Price and Trading Volume



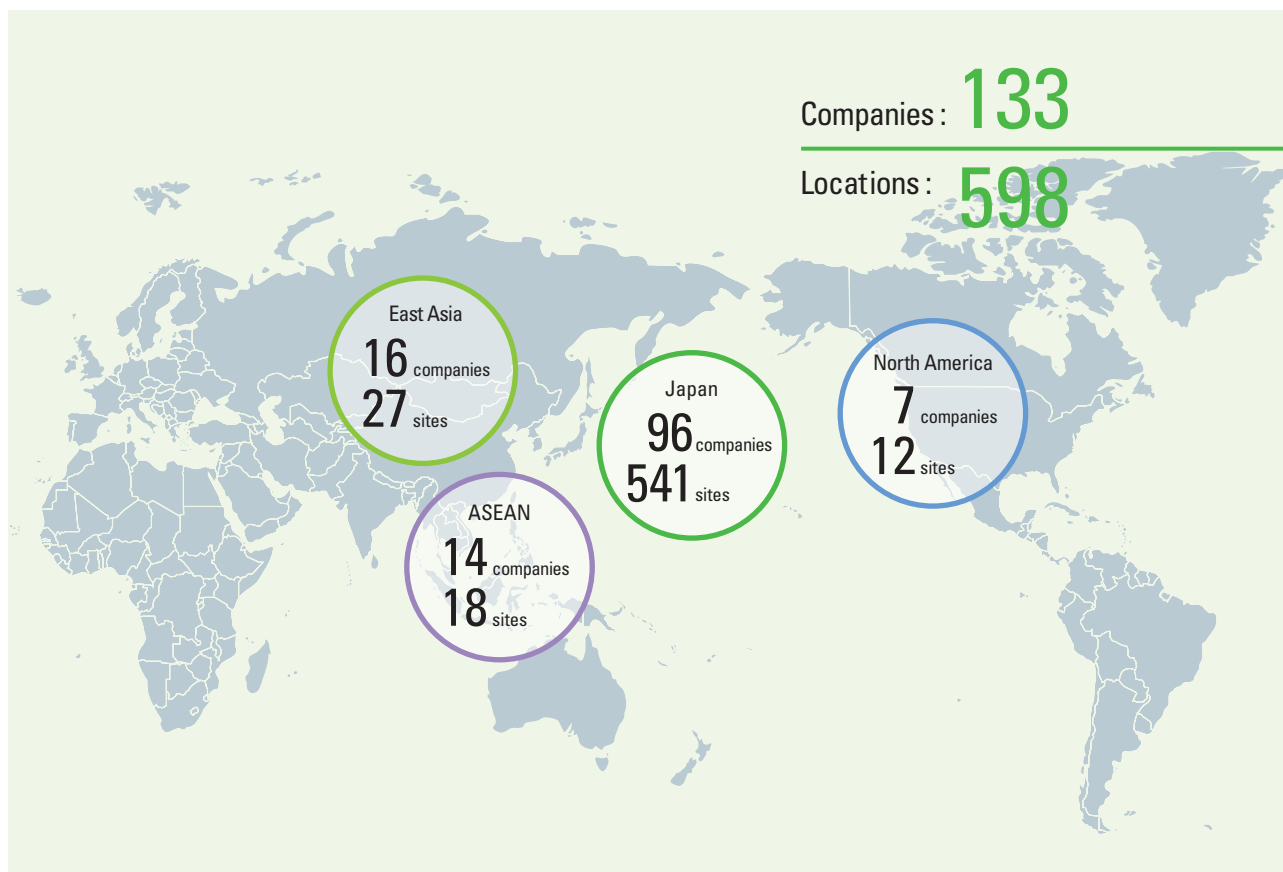
## Corporate Data (As of March 31, 2018)

Trade Name	SENKO Group Holdings Co., Ltd.
Capital	26,528 million yen
Established	September 1916
Incorporated	July 1946
Head Office	Shiomi SIF Bldg., 2-8-10 Shiomi, Koto-ku, Tokyo 135-0052
Representative	Yasuhisa Fukuda, President and Representative Director
Group Employees	15,876
Vehicles	5,179 (6,020: including trailers)
Vessels	68
Total Warehouse Space	3,420,000 m <sup>2</sup>

## Group



## Global Network



## Main Group Companies

Domestic		Overseas
SENKO Co., Ltd.	Osaka SenkoTransport Co., Ltd.	DALIAN TRI-ENTERPRISE LOGISTICS CO., LTD.
Runtec Corporation	Minami Osaka Senko Transport Co., Ltd.	SHANGHAI SENKO INTERNATIONAL FREIGHT FORWARDING INC.
Tokyo Nohin Daiko Co., Ltd.	Kyushu Senko Logistics Co., Ltd.	GUANGZHOU SENKO LOGISTICS CO., LTD.
Senko A Line Amano Co., Ltd.	Minami Kyushu Senko Co., Ltd.	Senko International Logistics Pte. Ltd.
NIPPON MARINE CO., LTD.	SENKO SHOJI CO., LTD.	SHANGHAI SMILE CORP.
ACROSS TRANSPORT CO., LTD.	SMILE CORP.	HONG KONG SMILE CORP LIMITED
Hokkaido Senko Co., Ltd.	AST CORPORATION	KOREA SMILE CORP LIMITED
SENKO Line CO., LTD.	Marufuji Co., Ltd.	SMILE CORP VIENTNAM CO., LTD
ANZEN YUSO CO., LTD.	SENKO INFORMATION SYSTEM Co., Ltd.	
Senko Fashion Logistics Co., Ltd.	Logi Solution Co., Ltd.	

# SENKO Group Holdings Co., Ltd.

Shiomi SIF Bldg., 2-8-10 Shiomi, Koto-ku, Tokyo Japan

<http://www.senkogrouphd.co.jp/en/>

