

SENKO

ANNUAL REPORT 2019

For the year ended March 31, 2019



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)

Integrity

Passion

Commitment

Respect

Diversity

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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, 2018 and March 31, 2019. However, some activities that took place after April 2019 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.

Financial and Nonfinancial Highlights

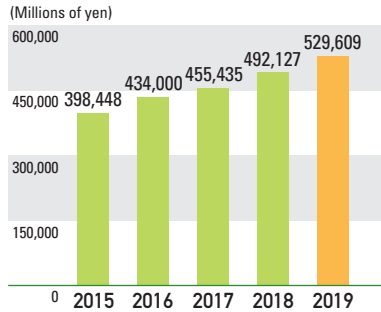
Financial Highlights

		FY2015	FY2016	FY2017	FY2018	FY2019	Thousands of U.S.\$ except per share amounts
Operating revenues	millions of yen	398,448	434,000	455,435	492,127	529,609	4,771,682
Operating profit	millions of yen	13,650	17,497	17,082	17,087	19,632	176,881
Net income attributable to owners of parent	millions of yen	7,074	8,542	8,951	9,504	11,681	105,244
Operating profit margin	(%)	3.4	4.0	3.8	3.5	3.7	—
Net assets per share	yen/US\$	581.46	613.71	661.61	741.44	785.08	7.07
Net income per share	yen/US\$	55.06	60.43	61.67	62.64	76.90	0.69
Cash dividends per share	yen/US\$	17.00	20.00	22.00	22.00	26.00	0.23
Dividend payout ratio	(%)	30.9	33.1	35.7	35.1	33.8	—
Net assets	millions of yen	92,745	100,010	114,091	118,057	126,896	1,143,310
Total assets	millions of yen	285,310	269,461	285,959	334,973	340,491	3,067,763
Equity ratio	(%)	28.4	32.6	35.1	33.7	35.0	—
Return on equity (ROE)	(%)	9.5	10.1	9.5	8.9	10.1	—
Price earnings ratio (PER)	times	14.17	11.35	11.63	13.22	11.95	—
Capital expenditures	millions of yen	14,182	17,500	17,662	37,625	21,227	191,251
Cash flows from operating activities	millions of yen	19,228	16,149	20,848	24,568	27,022	243,463
Cash flows from investing activities	millions of yen	(17,979)	(2,289)	(3,679)	(37,020)	(15,770)	(142,085)
Cash flows from financing activities	millions of yen	6,209	(21,492)	(8,627)	9,940	(13,224)	(119,146)
Cash and cash equivalents at end of year	millions of yen	25,476	17,765	26,197	23,796	22,802	205,442

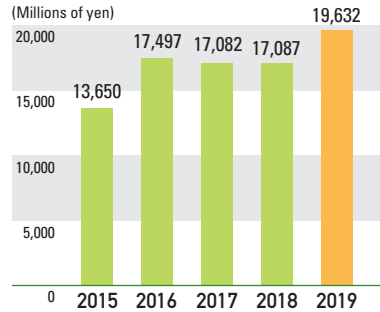
Nonfinancial Highlights

		FY2015	FY2016	FY2017	FY2018	FY2019
Number of Group employees	number	11,562	11,992	12,889	14,496	17,081
Logistics center storage space	millions m ²	2.81	2.94	3.22	3.42	3.66
Fleet of own trucks	units	4,530	4,745	5,180	6,020	6,412

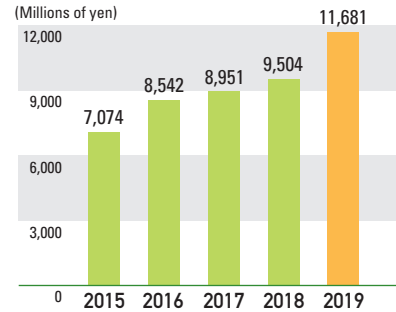
Operating revenues



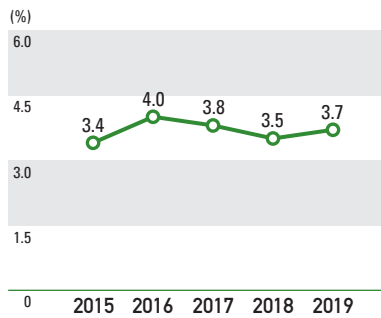
Operating profit



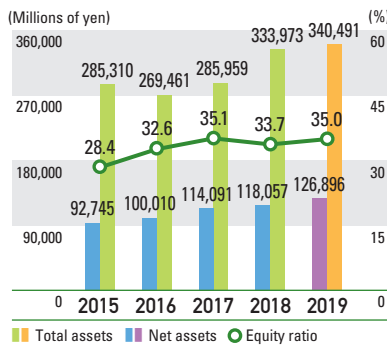
Net income attributable to owners of parent



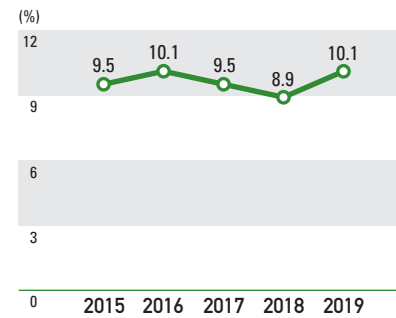
Operating profit margin



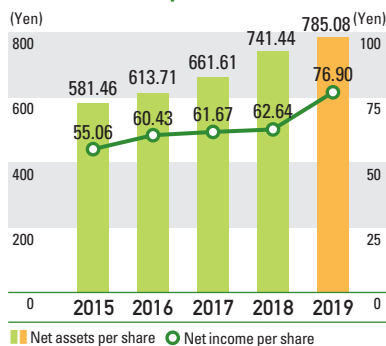
Total assets / Net assets / Equity ratio



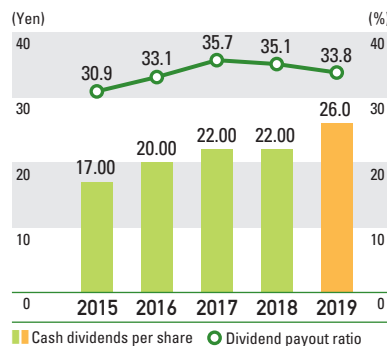
Return on equity (ROE)



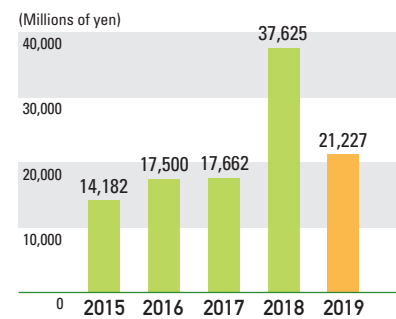
Net assets per share / Net income per share



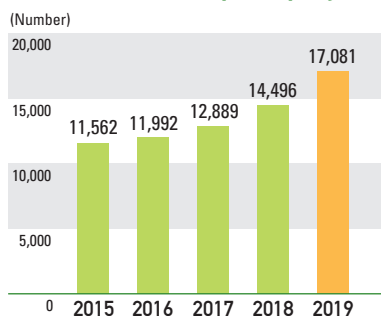
Cash dividends per share / Dividend payout ratio



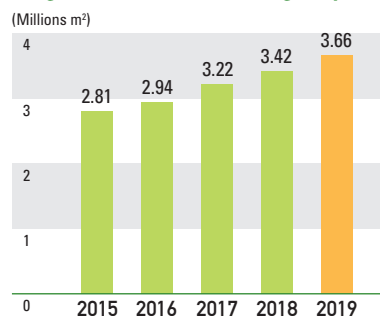
Capital expenditures



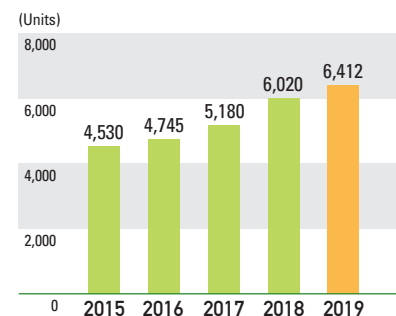
Number of Group employees



Logistics center storage space



Fleet of own trucks



We will be active in a range of businesses **in the third year** of our five-year medium-term business plan

Y. Fukuda

Yasuhisa Fukuda

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



□ Business Environment during Fiscal Year 2019

The Japanese economy in the fiscal year under review continued on a path to recovery backed by improvements in the employment/income environment and corporate earnings. Overseas economies also continued a moderate recovery overall, but uncertainties remain regarding the outlook due to increased trade friction between the United States and China and a slowdown in the Chinese economy.

In the logistics industry—which is our core business – freight volume has been steady, mainly for consumer- and production-related cargo.

□ Main Activities

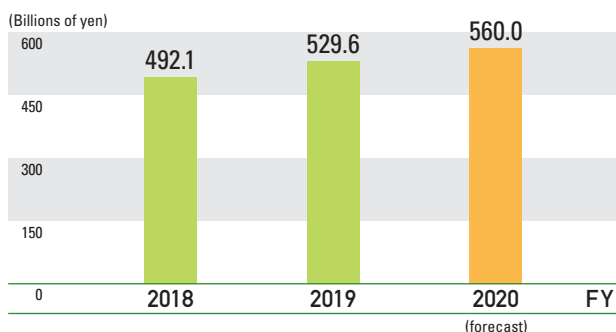
In the second year of the Senko Innovation Plan 2021 (SIP21), our five-year medium-term business plan, we worked to enlarge business areas, upgrade operational systems, and boost profitability.

To enlarge our business areas, SENKO Co., Ltd. started operation of the Higashi-Fuji PD Center (Shizuoka Prefecture) in April; the Nagareyama Logistics Center (Chiba Prefecture) in May; the Koga PD Center (Ibaraki Prefecture) and the Kazo PD Center Warehouse No. 2 (Saitama Prefecture) in August; and the Koto Warehouse (Shiga Prefecture) in November.

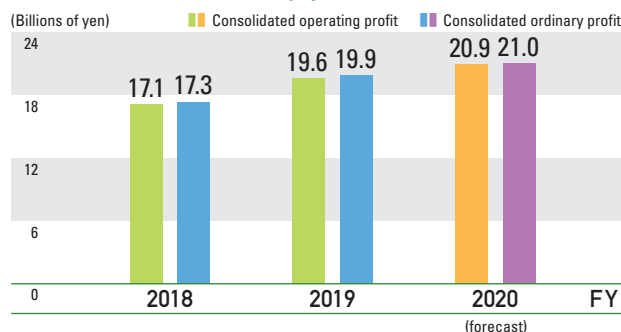
The Kazo PD Center Warehouse No. 2, jointly operated by SENKO Co., Ltd. and Runtec Corporation is the first logistics base with three temperature zones.

Also, Runtec Corporation started operating the Osaka Branch Nanko Center (Osaka Prefecture), increased the space at the Fukuoka Branch Center (Fukuoka Prefecture) in April, and opened the Keihin Branch Kawasaki FAZ Center (Kanagawa Prefecture) in December.

Consolidated operating revenues (Net sales)



Consolidated operating profit / Consolidated ordinary profit



Looking overseas, Shanghai Senko International Freight Forwarding Inc. began operating the Qingpu Logistics Center in Shanghai in May. Sinotrans Senko International Cold Logistics (Shanghai) Co., Ltd. started operating the Beijing Logistics Center in Beijing in November.

In Thailand, M-Senko Logistics Co., Ltd., a joint venture with major Thai restaurant chain MK Restaurant Group Public Company Limited, started operations from July. In September, we also welcomed Best Global Logistics Co., Ltd., an air and sea shipping company in Thailand, to our Group to strengthen operations in the ASEAN region.

To upgrade operational systems, we are promoting labor savings and the mechanization of logistics centers by adopting the latest technologies, such as arm articulated robots and driverless forklifts. In April, we launched an AI project and a robotics project to promote research and development, and in July we established innovatech studio Co., Ltd. to develop and sell next-generation technology systems, to further accelerate labor savings and mechanization programs.

In April, Senko Line Co., Ltd., which inherited the marine transportation business of SENKO Co., Ltd., began operating and is working on expanding our marine transportation business.

To boost profitability, we worked on other initiatives, such as making indirect operations more efficient and improving productivity at logistics centers.

Performance

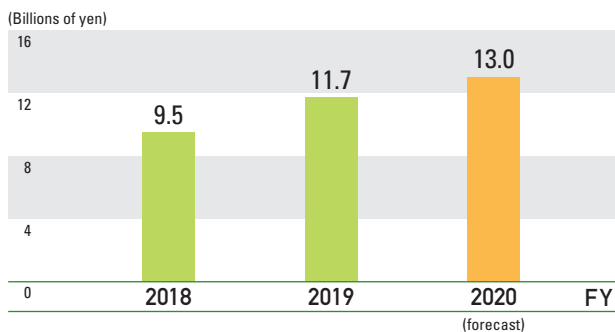
Consolidated operating revenues increased 7.6% year on year to ¥529,609 million. This result was mainly a reflection of higher sales and revised rates, the effect of year-on-year differences due to the timing of the consolidation of Anzen Yuso Co., Ltd. and Okumura Co., Ltd., which became consolidated subsidiaries in the previous fiscal year. Another factor contributing to higher sales was making living support companies our consolidated subsidiaries, including KEIHANNA helper station Co., Ltd., Venus Co., Ltd., and BLUE EARTH JAPAN Co., Ltd. in April and M-Senko Logistics Co., Ltd. in July.

On the profit front, consolidated operating profit increased 14.9% year on year to ¥19,632 million and consolidated ordinary profit increased 14.8% year on year to ¥19,876 million. This was largely attributable to factors that include higher sales and revised rates, the effect of consolidation, and a decrease in the amount amortized for actuarial differences in accounting for retirement benefit obligations, despite the increased costs for outsourcing and higher fuel prices.

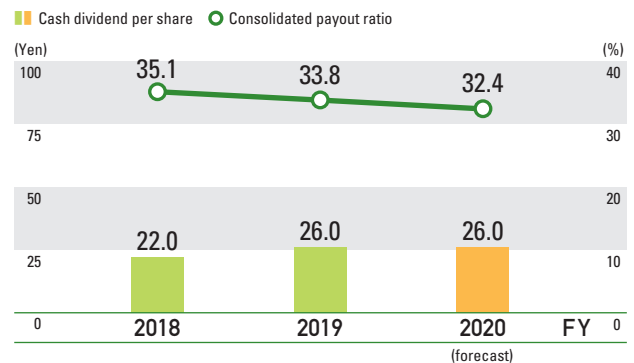
Profit attributable to owners of parent increased 22.9% year on year to ¥11,681 million due to the full consolidation of Runtec Corporation and other companies.

A Message from the President

Net Income attributable to owners of parent



Cash dividend per share / Consolidated payout ratio



Future Initiatives and Outlook

Going forward, the outlook for the Japanese economy is expected to remain uncertain due to concerns over a slowdown in the global economy, particularly in China.

In the logistics industry, the management environment is expected to become increasingly tough due to increased costs from labor shortages, including drivers, as well as an expected decrease in the total amount of freight.

Given this environment, the Senko Group will work, based on our five-year medium-term business plan, to expand business areas in the core logistics business as well as in trading and commerce as a corporate group that supports industry and people's livelihoods.

Our forecasts for consolidated performance for fiscal 2020, ending March 31, 2020, are consolidated operating revenues of ¥560,000 million, consolidated operating profit of ¥209,000 million, consolidated ordinary profit of ¥210,000 million, and profit attributable to owners of parent of ¥122,000 million.

Annual Dividend Increased to ¥26 per Share

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

Given this fundamental policy, the year-end dividend for fiscal 2019, ended March 31, 2019, was ¥13 per share, as expected. Together with the interim dividend of ¥13 per share (already paid), we paid an annual dividend of ¥26 per share in fiscal 2019.

For fiscal 2020, ending March 31, 2020, we again plan to pay an annual dividend of ¥26 per share (interim: ¥13; year-end: ¥13).

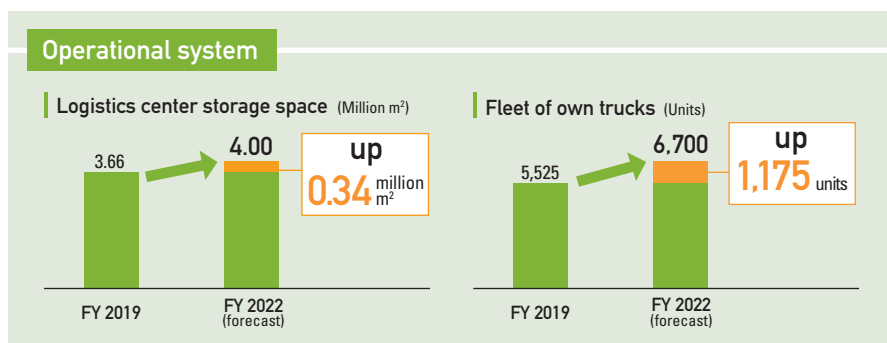
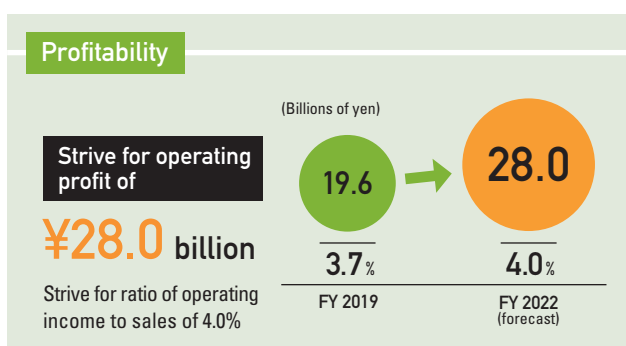
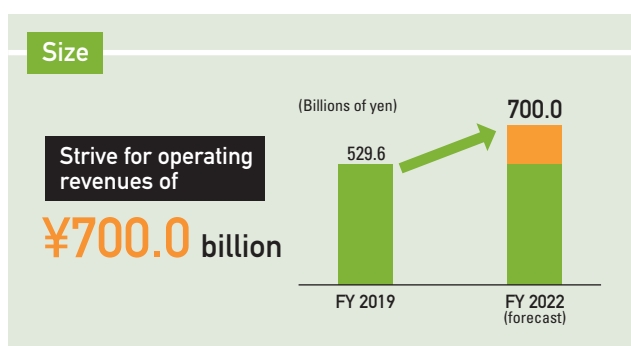
We would like to ask for the continued support and encouragement of our shareholders going forward. Going forward, the Group will continue to work as one on promoting CSR management to be a corporate group that supports the lives of people and businesses and that is trusted by all stakeholders. In addition, we will work over the long term on the United Nations sustainable development goals (SDGs).

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.

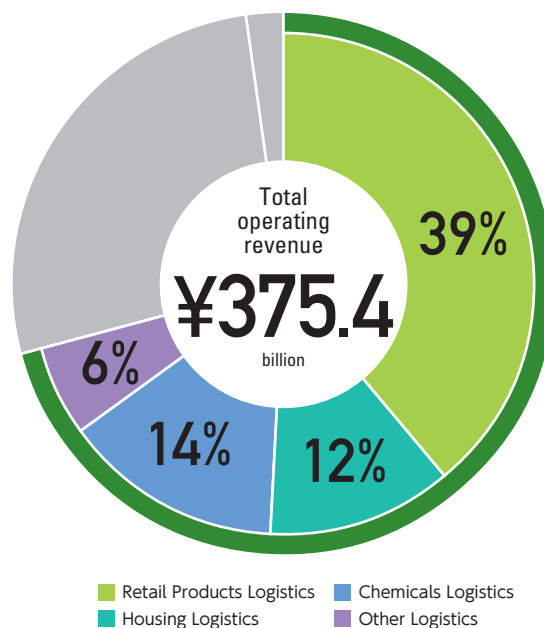
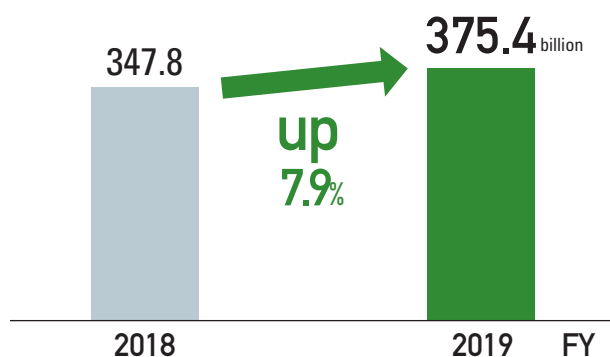
- 1 Expand business areas** Accelerate international business expansion, further enhance existing domestic businesses, and enter new business areas, such as Living Support and Business Support. Also, actively promote business partnerships and M&As to support the above.
- 2 Enhance brand value** Consolidate 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.



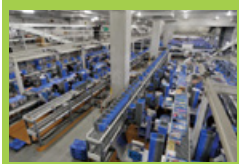
Review of Operations by Business Segment

Logistics

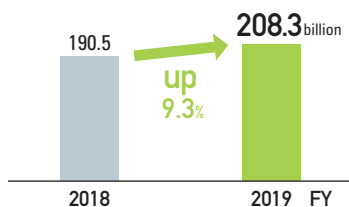
Operating revenue increased 7.9% year on year to ¥375.385 billion. This was mainly attributable to the effect of new large logistics centers; higher sales of products, such as daily necessities, food, apparel, and chemical products; the effect of revised rates; year-on-year differences related to the timing of consolidation of Anzen Yuso Co., Ltd.; and making M-Senko Logistics Co., Ltd. a consolidated subsidiary.



Retail Product Logistics



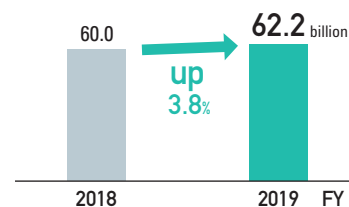
Operating revenue increased 9.3% year on year to ¥208.3 billion in this segment, mainly due to increased sales related to food, apparel, discount stores, and drug stores, as well as the year-on-year differences arising from mergers and acquisitions (M&As).



Housing Logistics



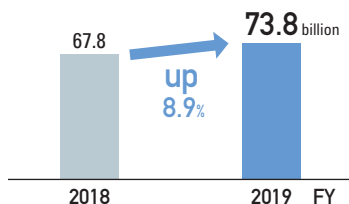
Operating revenue increased 3.8% year on year to ¥62.2 billion in this segment, mainly due to the growth of sales to new customers and the effect of revised rates.



Chemicals Logistics



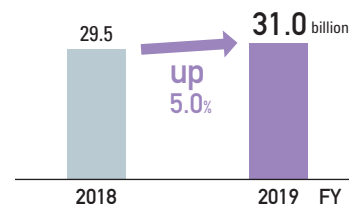
Operating revenue increased 8.9% year on year to ¥73.8 billion in this segment, mainly due to increased sales related to items such as chemicals, resins, and raw materials.



Other Logistics

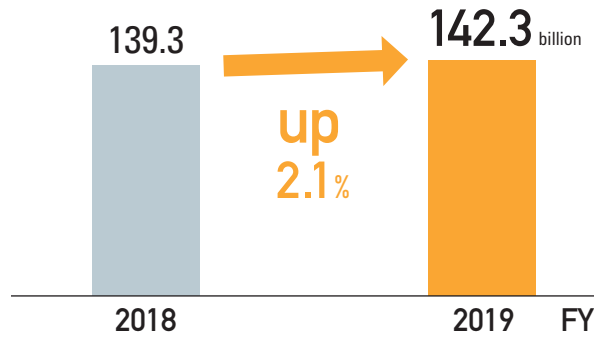
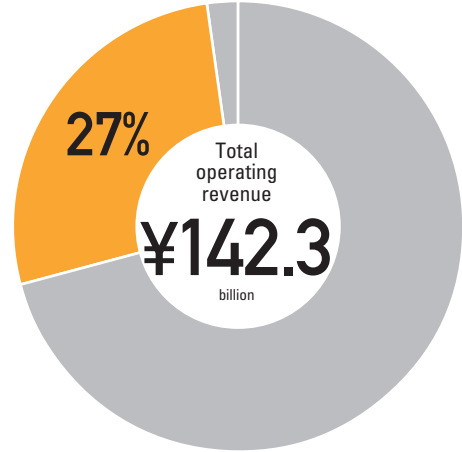


Operating revenue increased 5.0% year on year to ¥31.0 billion in this segment.



Trading & Commerce

Operating revenue increased 2.1% year on year to ¥142.294 billion in this segment, mainly because of increased operating revenue from the trading business and petroleum sales, as well as the effect of year-on-year differences related to the timing of the consolidation of OKUMURA CO., LTD.



Others

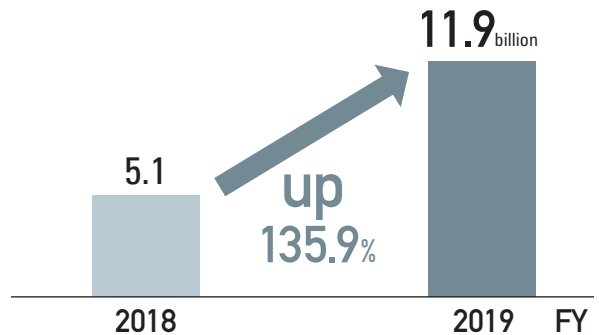
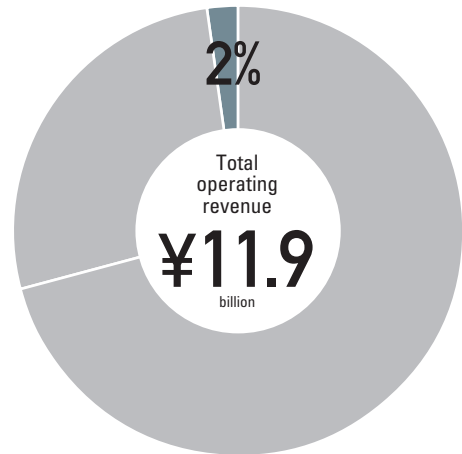
Operating revenue increased 135.9% year on year to ¥11.930 billion in this segment, mainly due to higher operating revenue following the consolidation of living support companies.



Business support companies



Living support companies



01

Beijing Logistics Center Starts Operations to Increase Our Cold and Freezer Logistics Capacity in China

SENKO Co., Ltd. and Runtec Co., Ltd. established a joint venture called SINOTRANS SENKO INTERNATIONAL COLD LOGISTICS (SHANGHAI) CO., LTD. together with Sinotrans Air Transportation Development Co., Ltd. ("Sinotrans Air") and, in November 2018, began operating a logistics center in Beijing for handling cold and freezer logistics.

The center is a two-story cold and freezer warehouse owned by Sinotrans Air, where we lease approximately 9,000 m². It is located 5 km from Beijing Capital International Airport in a good location for covering the entire

city of Beijing thanks to its close proximity, 2 km, to the on and off ramps on the expressway connecting the airport and Beijing. The center also features ways to prevent global warming and reduce CO₂ emissions, such as freezers and refrigerators that use energy-saving natural refrigerants.

The Senko Group will promote initiatives to meet domestic demand for cold and freezer logistics in China by using the on-site experience of Senko and the technology and expertise of Runtec for cold and freezer logistics.



02

Two distinctive sites opened in Kanto



In August 2018, our Kazo PD Center in Kazo, Saitama Prefecture, was expanded. Warehouse No. 2 and three hazardous material warehouses now make it one of our Group's largest logistics sites. Warehouse No. 2 is our first jointly operated logistics base, with the normal temperature area operated by SENKO Co., Ltd. and the cold and freezer area operated by Runtec Co., Ltd.



In August 2018, the Koga PD Center was opened in Koga, Ibaraki Prefecture. Some compartments have dock shelters that are airtight and insect-proof for improved delivery, and they support holding temperature-controlled goods. The center also has warehouses for storing hazardous materials.

03

Brought an international forwarding company into the Group

In September 2018, SENKO Co., Ltd. made Best Global Logistics Co., Ltd. in Thailand a subsidiary. This company provides a forwarding service for imports from areas such as Europe to Thailand and exports from Thailand to other locations, such as the Asia-Pacific region.



04

Joint Cold and Freezer Logistics Venture Starts Shipping

In March 2018, SENKO Co., Ltd. established a joint venture for cold and freezer logistics called M-SENKO LOGISTICS CO., Ltd. together with local Thai restaurant chain MK Restaurant Group Public Company, and started business from July 2018.



05

Jointly Developed Products for Disaster Preparedness Exhibited at Bosai Festa

The Senko Group exhibited at Bosai Festa 2018 in Osaka in September 2018.

Bosai Festa is an exhibition for families with children to learn about the importance of disaster preparedness, and was visited by approximately 12,000 people. At the exhibition site, we displayed products useful for disaster preparedness developed in cooperation with our four trading and commerce Group companies. We received comments such as, "I was surprised to learn how many types of emergency food there are!"

Some products exhibited that are useful for disaster preparedness

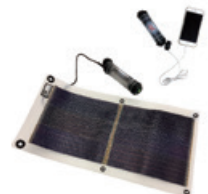
Canned bread, which has a long shelf life



Adzuki bean jelly in a convenient package for carrying and storage



Compact solar power charger for charging anywhere



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 CO₂ 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

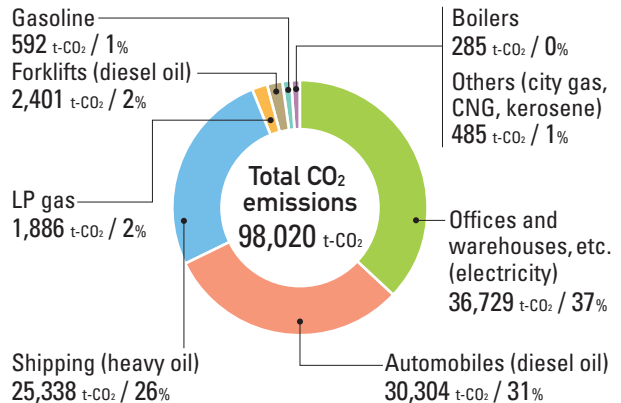
Reducing CO₂ and Our Achievements

We track energy consumption and CO₂ 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 CO₂ 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 2019 CO₂ Emissions by Energy Source

INPUT	
Diesel oil	12,652 kl
Heavy oil	9,447 kl
Gasoline	256 kl
Kerosene	31 kl
Electricity	71.0 million kWh
CNG (compressed natural gas)	37.0 km ³
City gas	145 km ³
LP gas	629 t

FY 2019 CO₂ Emissions by Cause



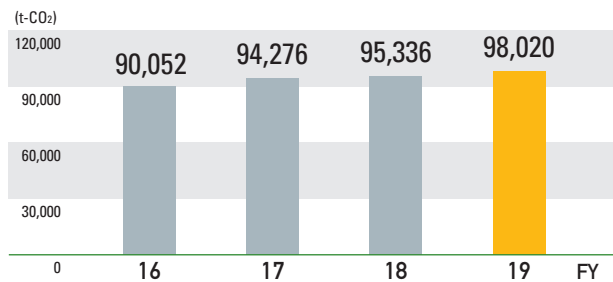
Measures to Reduce CO₂

Target achievement rate

122%

CO₂ emissions tend to increase as business expands, but we have achieved a reduction of 2,548 t-CO₂ by applying the following measures.

Change in annual CO₂ emissions



FY 2019 CO₂ Reduction Targets and Achievements (On a non-consolidated basis for SENKO Co.,Ltd.)

	Ongoing activities and FY 2019 measures	FY 2019 CO ₂ reduction target	FY 2019 CO ₂ reduction	Achievement rate
Energy conservation	Energy-saving logistics centers <ul style="list-style-type: none"> Switching high/low voltage departments to new power company Increasing solar power sales and considering captive use Switching to energy-saving equipment (LED lighting/air conditioning) 	1,530 t	2,073 t	135%
	Improved vehicle fuel consumption <ul style="list-style-type: none"> Switching to newer post long-term vehicles Introducing non-fossil fuel (natural gas) vehicles Switching to energy-saving vehicles and environmentally friendly forklifts Reducing fuel consumption with stop/start technology and eco-driving systems, etc. 	480 t	447 t	93%
Social recycling	Industrial waste recycling <ul style="list-style-type: none"> Increasing the recycling volume and rate Cultivating recycling contractors for wooden pallets Using retreaded tires 	80 t	28 t	35%
Energy conservation + recycling total		2,090 t	2,548 t	122%
Other	Green logistics <ul style="list-style-type: none"> Supporting the promotion of modal shifts Switching to eco-friendly materials and products Supporting joint delivery 	1,259 t	1,173 t	93%

Using Rooftops for Solar Power Generation

The Senko Group started solar power generation in FY 2014 in order to contribute to the proliferation and promotion of renewable energy. Operation started at two sites in Kazo and Higashi Fuji in FY 2019, and as of March 31, 2019, this has expanded to 20 sites across Japan.

In FY 2020, we will open our first large-scale solar power generating and company-use power site at the Runtec Co., Ltd. New Kansai Branch (Nishinomiya City, Hyogo Prefecture). We plan to generate and use around 1 MW of power.



Kazo PD Center warehouse No.2 (started operation in August 2018)



Higashi Fuji PD Center (started operation in April 2018, began operating solar power plant in December 2018)

Power output
(from FY 2018)

up **1.9** MW

from
20 sites
across Japan

We are now generating

15.5 MW

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

In FY 2020, we will have **21** sites in Japan generating solar power.

- Sites in operation
- FY 2020 plan

The Runtec Co., Ltd. New Kansai Branch planning to start operation in July 2019

● Installation Plans for FY 2020

Site name	Timing of operation	Location	Generating capacity
Runtec Co., Ltd. New Kansai Branch	July 2019	Nishinomiya City, Hyogo Prefecture	1 MW

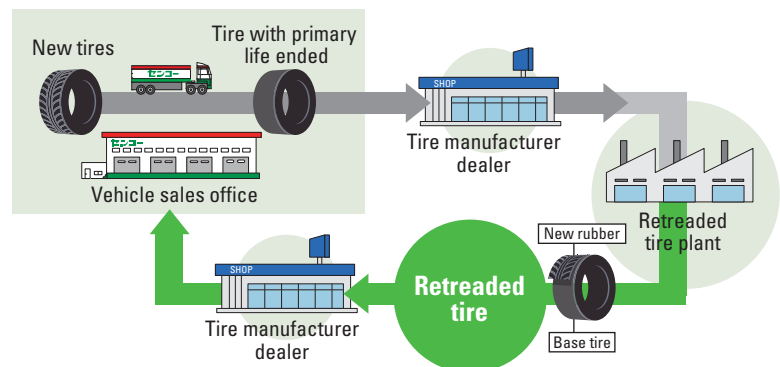
Reducing Waste and Promoting Recycling

As a new initiative for reducing waste and recycling, we have adopted retreaded tires as a way to reuse our truck tires. We are accelerating the adoption of retreaded tires, as they reportedly produce less than 50% of the CO₂ emissions compared with making new tires.

In FY 2019, the total amount of non-recyclable waste we generated increased by 12%* year on year. On the other hand, our rate of recycling was 74%*.

*On a non-consolidated basis for SENKO Co., Ltd.

● Retreaded tire consignment system



Safety Programs

Senko Group Safety Policy

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.

Safety Philosophy

- 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 health management.

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 2019)

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

	FY 2019 goals	FY 2019 achievements
Vehicle accident frequency rate	0.33 or lower	0.57
Occupational accident frequency rate	1.36 or lower	1.56

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 Business 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)



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

New "Coaching" Skills for Education Adopted in Model Areas, then Shared Nationwide

The Senko Group realizes that maintaining and improving safety is fundamental to our business activities. We also investigate and adopt more effective teaching methods for the safety education of our drivers. In fiscal 2019, we adopted a new "coaching" model in four areas around Japan to enable drivers to make realizations by themselves. We are now developing coaching trainers and deploying them nationwide.

This has enabled us to establish an education method for expert drivers that improves their ability to be safe via self-realizations.



Skill acquisition practical training



Encouraging drivers to make realizations



Seminars by external lecturers



Attentive listening training



Coaching theory training



Classes taken by management

Initiatives for Avoiding Hazardous Materials Risks

In addition to supplying varied opportunities for education and training for transportation safety when handling hazardous materials, we also focus on maintaining a safer workplace.

Nationwide Management System for Hazardous Materials

We assign people in charge of hazardous materials to 12 areas in Japan. They share information on hazardous materials and improve their knowledge and skills.



Hazardous material (truck) training



A certification exam for truck drivers



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.

Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500) for Two Consecutive Years

The Senko Group has been promoting health management for employees for many years as an important management theme. We continue to enrich our employee health management and promote healthy living via our Healthy Activities program.

This program was noticed; we were recognized by the Certified Health & Productivity Management Outstanding Organizations Recognition Program (also called White 500) on February 21, 2019 for the second consecutive year. Under this program, the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi jointly recognize companies that practice outstanding health management.



A Company Where Employees Can Work Healthily and Energetically

● Major Health Management Initiatives

Promoting Health via Healthy Activities

Healthy Activities is a program that we have been involved with since fiscal 2008. Employees set their own targets to make a habit of exercising in their daily lives so that they become healthier.



We also plan and hold voluntary sports events at our workplaces to promote employee health.

Tohoku Senko Transport Co., Ltd.
Softball tournament

Nurses Supporting Health

Twenty nurses (public health nurses and general nurses) are stationed at our main business sites in nine areas across Japan (as of April 2019).

These nurses provide professional health advice and support for physical and mental wellbeing based on the results of periodic health checkups and consultations.



Nurses in the Kansai area

Health Management also Conducted at Group Companies

Toyohashi Senko Transport Co., Ltd. and Harcob Co., Ltd. were recently recognized in the SME category by the Certified Health & Productivity Management Outstanding Organizations Recognition Program 2019.

We plan to continue supporting and expanding our initiatives for promoting employee health at our Group companies.

● Health Management Initiatives

Companies recognized by the SME category of the Certified Health & Productivity Management Outstanding Organizations Recognition Program 2019

Toyohashi Senko Transport Co., Ltd.

We are now developing activities that improve for the health of all our employees

We aim to promote awareness of the wellbeing via recreation activities and information on healthy recipes, in addition to following up on health checks.



Harcob Co., Ltd.

Publishing *Health News* to support employee health

We have also made a health management declaration and conduct activities with employees in charge of promotion. We clarify issues, recommend health checkups, set up a consultation service, hold voluntary events at each site, and periodically publish *Health News* to promote wellbeing of both the body and the mind.



Senko Business Support Co., Ltd.
Soft volleyball tournament



Senko Fashion Logistics Co., Ltd.
Yoga and barbecue



SENKO INFORMATION SYSTEM CO., LTD.
Walking along sites of the former JR Fukuchiyama Line

Social Activities

Improving Our Education System to Become a Workplace Where Everyone Can Work and Reach Their Potential

With the motto Moving Global, the Senko Group promotes diversity that enables our employees to reach their maximum potential by employing a diverse range of people, regardless of such factors as their race, gender, or faith.

Examples of this diversity include our education system developed by local staff in Thailand and the reception of technical interns from Vietnam. Not only do we provide interns with technical training, we also focus on education for the country that receives them and work to merge the human resources of both countries in a way that transcends culture and values. In our Group companies overseas, we also improve education and training systems so that we can provide the same “Senko quality” that is available in Japan.

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.

We are reorganizing our education systems at sites in Japan and overseas in order to handle the reception of people from other countries and technical interns.

By respecting each other’s cultures, recognizing our differences, and striving to understand each other better, we create workplaces where everyone is able to work freely.



Intern training at Noda Senko Logi Service Co., Ltd



Female staff from a local education team (in charge of safety) teaching others in Thailand

We Evaluate Social Contribution Activities within the Group and Give Awards for Outstanding Achievements



Traffic Safety Classes for Kids Secretariat at Crefeel Koto Co., Ltd. In Recognition of Originality and Continuity over Many Years

We received the outstanding performance award in recognition of our efforts, including holding Traffic Safety Classes for Kids, contributing to the region via children traffic park, and developing workplace experience programs.



Company representatives receiving the outstanding performance award and performance award (ceremony held in May 2018)



Traffic Safety Classes for Kids

New "Volunteer Vacation" System Created

We have started a new "volunteer vacation" system based on the idea of widening horizons by making a social contribution leading to personal growth. The Company augments this system to encourage employees to participate in social contribution activities, as well as to support self-improvement and work-life balance.

This system is for all SENKO Co., Ltd. employees. Various forms of social contribution activities are being conducted, and we hope for the further participation of employees in the future.

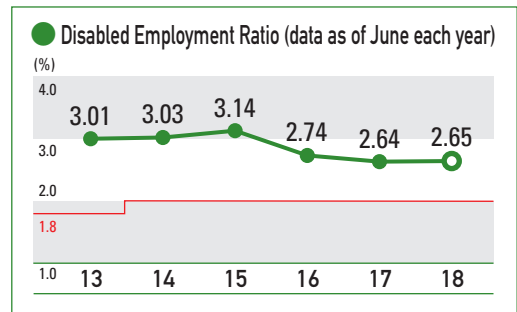
● Overview of Volunteer Vacation System

Number of vacation days granted	Five days over the year
Target employees	All employees
Target activities	No limit on target activities
Application method	1 Vacation days can be consecutive or spread out 2 Prior permission from a supervisor is required

Flow of applying for vacation days

Promoting Employment of the Disabled

The Senko Group aims to be a company that contributes to and is trusted by all people in society, not only our customers and employees. We make every effort to employ the disabled, including the opening of Senko School Farm Tottori Co., Ltd. (a special subsidiary). We constantly maintain a higher level of employment than is legally required, and disabled employees fully participate in their workplaces.



Linking with the Local Community

Holding Traffic Safety Classes in Japan

In addition to the Traffic Safety Classes for Kids that we have been holding at Crefeel Koto and other sites, from fiscal 2015 we have continued to hold school visit workshops at elementary and junior high schools, which are enjoyed by a large number of students.

We make every effort to ensure that the program enables children to enjoy learning about the importance of traffic safety. In the school visit workshop program, children think about safe ways to cross the road and use a crosswalk as well as experience the blind spots in a driver's line of sight by riding in a truck. These classes are enjoyed by both children and their guardians.

Class held at 20 sites with 1,701 participants

Contributing to the Region by Running Daycare Centers

The Senko Group currently runs six daycare centers.

These centers accept children from parents other than Group employees and are well-loved by local residents.



Senko Nakayoshi Nursery (at Senko Kazo PD Center)



Looking after the dreams, hope, and the future of children

Participating in Local Cleanups and Blood Donation Drives

We hold cleanup drives to contribute to the local region and to show appreciation for the roads that we rely on. In FY 2019, we had 18,859 participants, a large increase over last year. For blood donations, we had 972 participants, despite many of our sites canceling their plans due to natural disasters during the fiscal year.



Cleaning up near the Head Office in Osaka



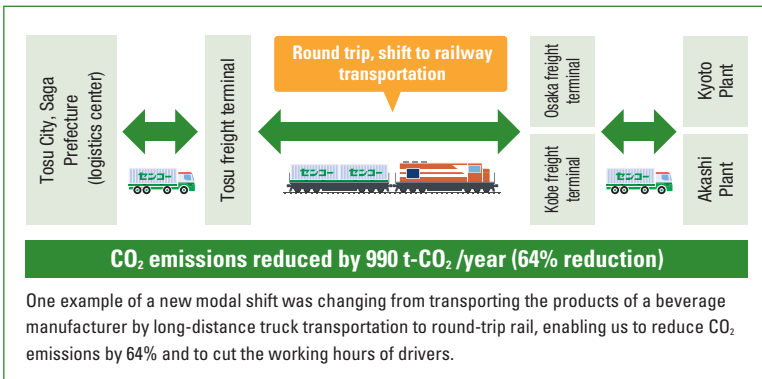
Blood donation drive jointly held by Senko Fashion Logistics Co., Ltd., Tokyo Nohin Daiko Co., Ltd., ACROSS TRANSPORT CO., LTD., and Senko A Line Amano Co., Ltd.



CSR Topics

Integrated Land and Sea Transportation for a Better Tomorrow

Robust logistics friendly to people and the environment



In the late 1990s, modal shifts drew attention as an environmental measure for the transportation industry to reduce CO₂ emissions. However, in recent years expectations have risen for modal shifting to solve the labor shortage crisis in Japan; there has been an increasing shortage of drivers due to the rapidly aging population and the promotion of work style reforms lead by the government. The requirement for shifting from long-distance transportation via trucks to driverless ship/railway transportation will likely continue to increase.



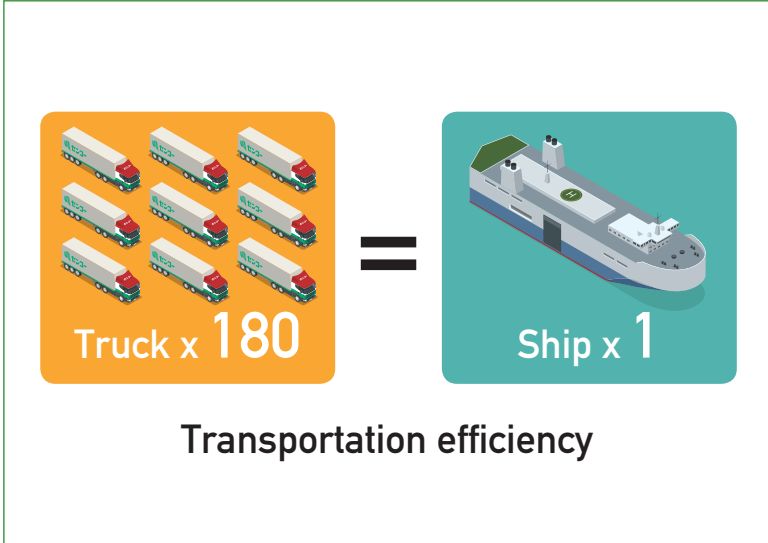
We have traditionally owned our own ships and have made proposals that used varied transportation modes. Going forward, we will further use the advantages of trucks, rail, and ships, efficiently using them for different purposes. We are developing a service that enables a wider range of transportation routes to be selected, which can be called a “new” modal shift.

Logistics That Are Friendly to People and the Environment

One way to reduce the environmental impact with a modal shift is adding methods suitable for shipping large volumes of cargo over long distances, such as ships and rail, to transportation routes that previously used only trucks. This shift enables the amount of energy required for transportation to be dramatically reduced.

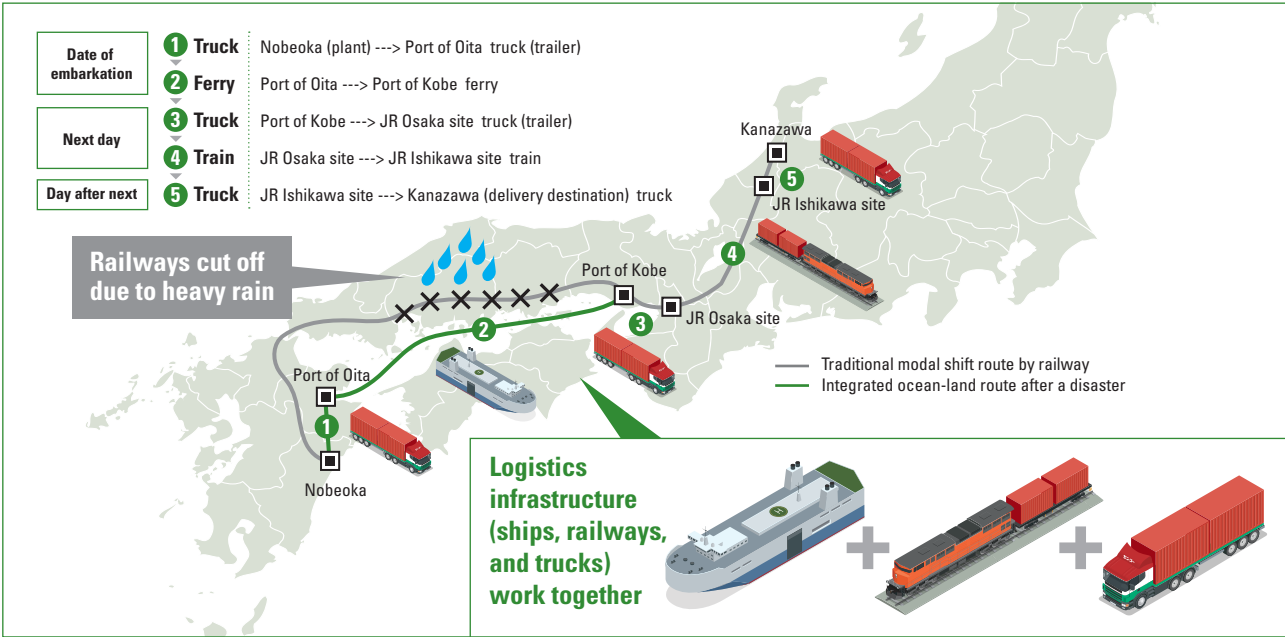
Furthermore, although the lead time required for a modal shift seems longer because freight needs to be unloaded and then reloaded, freight is carried for a time comparable to trucking by using items such as containers that enable easier linking with inland transportation.

Making a modal shift can also help alleviate the problem of a lack of drivers, because it is no longer necessary to drive trucks over long distances.



Logistics Resilient to Disasters

In the event of a disaster, alternative modes of transportation may not be available. In one case, Asahi Kasei usually shipped products produced at their Nobeoka Plant in Miyazaki Prefecture to Kanazawa via freight train. However, the JR Sanyo Line was cut due to sudden heavy rain in West Japan, and they asked us if we could help. Our Group includes marine shipping companies, and with our overview of the entire project we were able to provide effective support by proposing that we preferentially use ships on an alternative route for urgent freight.



Directors and Auditors (As of June 26, 2019)

President and Representative Director	Yasuhisa Fukuda	Responsible for Logistics President and Representative Director, SENKO Co., Ltd.
Directors Managing Executive Officer	Noburo Sasaki	General Manager of Business Support Promotion HQ
	Kenichi Shiraki	General Manager of Living Support Business Promotion HQ
	Masanobu Uenaka	Responsible for Finance Responsible for Business Administration, Director and Managing Executive Officer, Senko Co., Ltd.
	Shinichi Murao	General Manager of Strategic Planning HQ
Directors	Kazuhiro Yamanaka	Responsible for Refrigerated & Frozen Logistics President and Representative Director, Runtec Corporation President and Representative Director, Kouki Co., Ltd.
	Hiroshi Yoneji	Responsible for Trading & Commerce President and Representative Director, SENKO SHOJI CO., LTD.
	Akira Taniguchi	Responsible for Marine Logistics Director, and Chairman, Senko Line Co., Ltd. Director, and Chairman, NIPPON MARINE CO., LTD.
Outside Directors	Hiroko Ameno	Director (part-time), Senko Co., Ltd.
	Yasuyuki Sugiura	
	Yoko Araki	
Full-time Corporate Auditors	Keiji Matsubara	Corporate Auditor, SENKO Co., Ltd.
	Masami Washida	Corporate Auditor, SENKO Co., Ltd.
	Kanji Yasumitsu	Corporate Auditor, SENKO Co., Ltd.
Outside Corporate Auditors	Yasushi Matsutomo	Outside Corporate Auditor, SENKO Co., Ltd.

- 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.

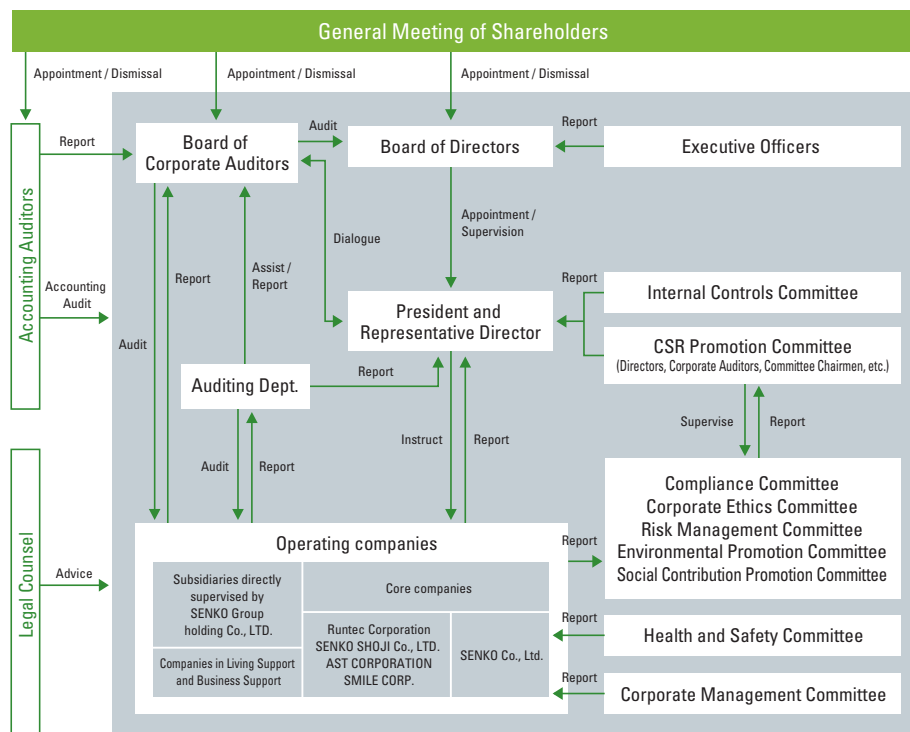
Corporate Governance

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 conduct 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 nine 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 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	Performance-linked stock compensation	
Directors (excludes Outside Directors)	158	65	10	58	23	8
Corporate Auditors (excludes Outside Corporate Auditors)	41	30	1	10	—	2
Outside Officers	45	30	2	12	—	4

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, 2019).

<p>1 Laws and Regulations</p>	<p>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.</p>
<p>2 Sharp Increases in the Price of Crude Oil</p>	<p>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.</p>
<p>3 Occurrence of a Serious Accident</p>	<p>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.</p>
<p>4 Occurrence of a Disaster, etc.</p>	<p>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.</p>
<p>5 IT System Failure</p>	<p>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.</p>
<p>6 Management of Customer Information</p>	<p>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.</p>

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.

2019

Financial Information

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Financial Review

Consolidated operating revenues increased 7.6% year on year to ¥529.609 billion for the fiscal year under review. This result was mainly a reflection of increased sales and revised rates; the effect of year-on-year differences related to the timing of consolidation of Anzen Yuso Co., Ltd., and Okumura Co., Ltd., which became consolidated subsidiaries in the previous fiscal year; as well as making living support companies consolidated subsidiaries including KEIHANNA helper station Co., Ltd., Venus Co., Ltd., and BLUE EARTH JAPAN Co., Ltd.) in April and M-Senko Logistics Co., Ltd. in July.

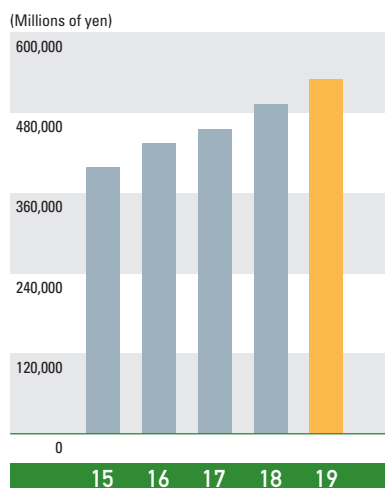
On the profit front, consolidated operating profit increased 14.9% year on year to ¥19.631 billion and consolidated ordinary profit increased 14.8% year on year to ¥19.876 billion. This was largely attributable to factors that include higher sales and revised rates; the effect of consolidations; and the decrease in the amount amortized for actuarial differences in accounting for retirement benefit obligations, despite increased costs for outsourcing as well as higher fuel prices.

Profit attributable to owners of parent increased 22.9% year on year to ¥11.681 billion due to the full consolidation of Runtec Corporation and other companies.

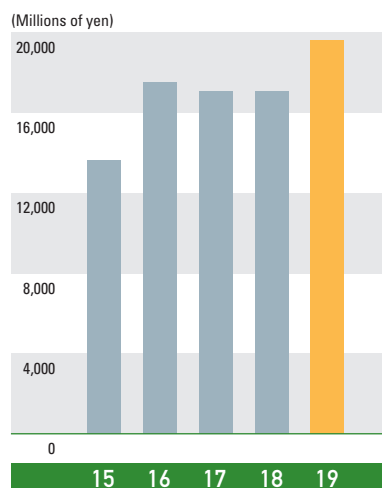
Billions of yen

For the fiscal years ended March 31	2019		2018		Difference	Growth rate (%)
	Operating revenues	Component ratio (%)	Operating revenues	Component ratio (%)		
Logistics	¥ 375.4	70.9	¥ 347.8	70.7	¥ 276	7.9
Retail product	208.3	55.5	190.5	54.8	178	9.3
Housing	62.2	16.6	60.0	17.3	23	3.8
Chemicals	73.8	19.7	67.8	19.5	61	8.9
Other	31	8.3	29.5	8.5	15	5.0
Trading & Commerce	142.3	26.9	139.3	28.3	30	2.1
Others	11.9	2.2	5.1	1.0	69	135.9
Total	529.6	100.0	492.1	100.0	375	7.6

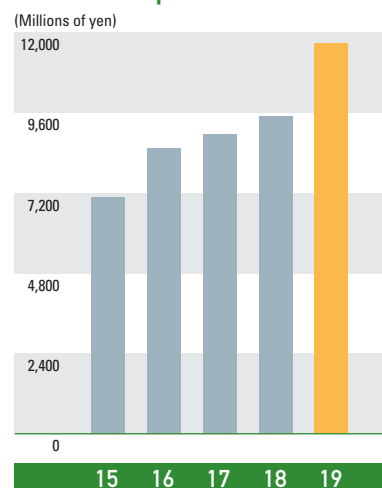
Operating revenues



Operating profit



Net income attributable to owners of parent



Logistics

Operating revenue increased 7.9% year on year to ¥375.384 billion. This was mainly attributable to the effect of new large logistics centers, expanded sales of products such as daily necessities, food, apparel, and chemical products; the effect of revised rates; year-on-year differences related to the timing of consolidation of Anzen Yuso Co., Ltd.; and making M-Senko Logistics Co., Ltd. a consolidated subsidiary.

Trading & Commerce

Operating revenue increased 2.1% year on year to ¥142.294 billion in this segment, mainly due to increased operating revenue from the trading business and petroleum sales as well as the effect of year-on-year differences related to the timing of consolidation of Okumura Co., Ltd.

Others

Operating revenue increased 135.9% year on year to ¥11.930 billion in this segment, mainly attributable to increased operating revenue due to the consolidation of living support companies.

Assets, Liabilities and Net Assets

Assets

Total assets as of March 31, 2019 were ¥340,491 million, an increase of ¥6,518 million (2.0%) compared with the end of the previous fiscal year.

Current assets came to ¥117,263 million, up ¥3,114 million (2.7%) from the end of the previous fiscal year. This was mainly a reflection of increases of ¥2,570 million in notes and operating accounts receivable-trade and ¥1,219 million in merchandise and finished goods.

Non-current assets were ¥223,195 million, up ¥3,428 million (1.6%). This was mainly due to an increase in property, plant, and equipment of ¥2,143 million and an increase in intangible assets of ¥1,275 million.

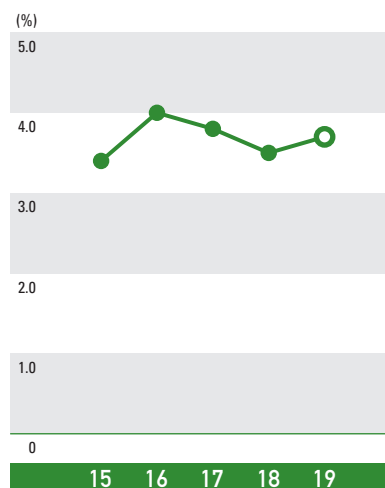
Liabilities

Liabilities as of March 31, 2019 decreased ¥2,320 million (1.1%) from the end of the previous fiscal year to ¥213,595 million.

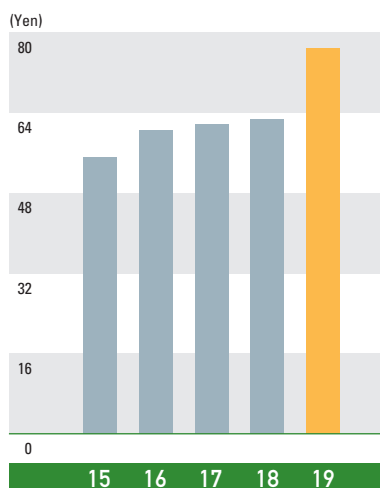
Current liabilities totaled ¥98,669 million, down ¥7,379 million (7.0%) from the end of the previous fiscal year. This was mainly due to a decrease in short-term loans payable of ¥7,770 million.

Non-current liabilities as of March 31, 2019 rose ¥5,059 million (4.6%) from the end of the previous fiscal year to ¥114,926 million due to increases in long-term loans payable of ¥1,464 million and lease obligations of ¥3,157 million.

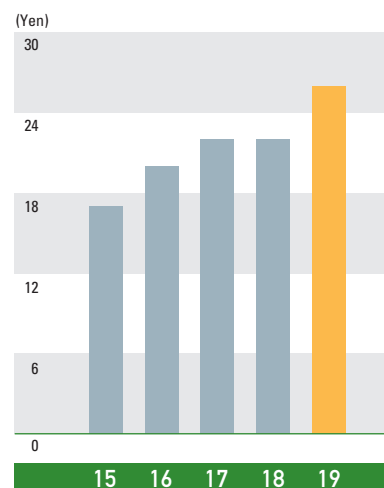
Operating profit margin (↻)



Net income per share



Cash dividends per share



Net Assets

Net assets as of March 31, 2019 rose ¥8,838 million (7.5%) from the end of the previous fiscal year to ¥126,895 million. This was attributable to such factors as increases in retained earnings of ¥8,015 million and non-controlling interests of ¥2,225 million, despite decreases in net unrealized holdings gain on securities of ¥424 million and re-measuring the defined benefit plans of ¥877 million.

The equity ratio increased by 1.3 percentage points from the end of the previous fiscal year to 35.0%.

Capital Expenditures and Depreciation

Capital expenditures in the fiscal year under review decreased ¥16,398 million, or 77.3%, to ¥21,227 million, compared with the previous fiscal year. The Company opened logistics centers in Osaka, Shizuoka and Fukuoka Prefectures as well as China in the fiscal year under review. As a result, the total warehouse space as of March 31, 2019 expanded by 210,000 m² from the end of the previous fiscal year to 3,660,000 m². In the fiscal year ending March 31, 2020, capital expenditures are expected to decrease ¥12,804 million, or 30.1%, to ¥16,232 million.

Depreciation increased ¥1,895 million, or 15.2%, to ¥14,334 million, compared with the previous fiscal year, and is expected to rise ¥875 million, or 6%, to ¥15,387 million in the fiscal year ending March 31, 2020.

Cash Flows

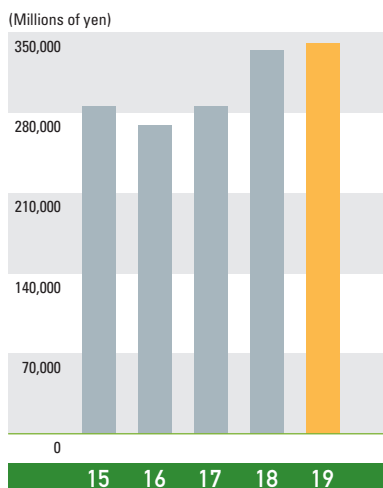
Cash and cash equivalents at the end of the fiscal year decreased by ¥993 million (4.2%) year on year to ¥22,801 million.

Net cash provided by operating activities came to ¥27,022 million, an increase of ¥2,455 million (10.0%) year on year. This was mainly due to a fall in cash of ¥2,138 million and from an increase in trade receivable and ¥7,649 million in income taxes paid, despite profit before income taxes of ¥18,901 million, depreciation and amortization of ¥14,335 million, an increase in trade payables of ¥871 million, and increased cash of ¥1,441 million due to a decrease in consumption taxes refund receivable, etc.

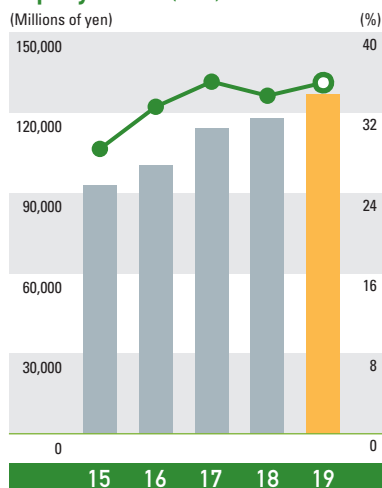
Net cash used in investing activities totaled ¥15,770 million, a decrease of ¥21,250 million (57.4%) year on year. This was mainly due to payments for purchases of fixed assets of ¥24,376 million; payments for purchases of shares of newly consolidated subsidiaries of ¥1,380 million; and payments for purchases of non-consolidated subsidiaries of ¥1,296 million, despite ¥14,094 million in proceeds from sales of fixed assets.

Net cash used in financing activities totaled ¥13,224 million (¥9,940 million provided by financing activities in the previous fiscal year). This was mainly due to a decrease in short-term loans, net of ¥5,332 million; repayment of long-term debt of ¥9,865 million; repayment of finance lease obligations of ¥3,871 million; and cash dividends paid of ¥3,659 million, despite proceeds from long-term debt of ¥7,711 million and proceeds from issuing shares to non-controlling shareholders of ¥2,305 million.

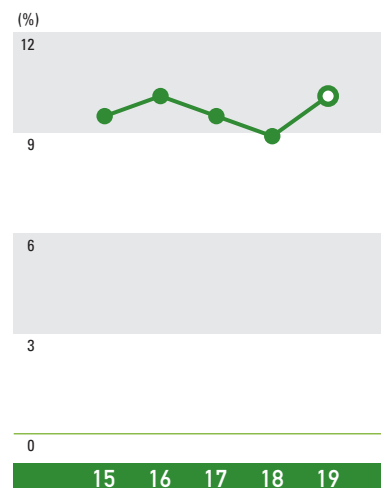
Total assets



Net assets (■) / Equity ratio (○)



ROE (○)



Consolidated Balance Sheets

SENKO Group Holdings Co., Ltd. and Consolidated Subsidiaries
March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 22,802	¥ 23,796	\$ 205,442
Trade accounts and notes receivable—			
Non-consolidated subsidiaries	2	3	18
Others	73,095	70,524	658,572
Less : allowance for doubtful accounts	(14)	(16)	(125)
Inventories	9,767	8,181	87,999
Prepaid expenses and other current assets	11,611	11,660	104,613
Total current assets	117,263	114,148	1,056,519
Investments in and long-term loans receivable to non-consolidated subsidiaries	18,420	20,008	165,961
Investment securities (Notes 7 and 12)	6,651	7,209	59,924
Property and equipment, at cost (Notes 9 and 12)	294,519	301,788	2,653,563
Less : accumulated depreciation	(132,305)	(141,717)	(1,192,044)
Net property and equipment	162,214	160,071	1,461,519
Long-term deferred tax assets (Note 16)	5,139	4,317	46,302
Net defined benefit assets	3,089	3,659	27,831
Other assets	27,683	24,503	249,419
Deferred assets:			
Business commencement expenses	32	58	288
Total deferred assets	32	58	288
Total assets	¥ 340,491	¥ 333,973	\$ 3,067,763

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 10)	¥ 14,610	¥ 19,891	\$ 131,634
Current portion of long-term debt (Note 10)	7,019	9,509	63,240
Lease obligations	3,182	3,074	28,669
Trade accounts and notes payable—			
Non-consolidated subsidiaries	1	0	9
Others	44,649	44,608	402,279
Accrued expenses	11,635	10,040	104,829
Accrued income taxes	4,242	4,509	38,220
Other current liabilities	13,331	14,418	120,110
Total current liabilities	98,669	106,049	888,990
Long-term debt, less current portion (Note 10)	91,847	90,440	827,525
Lease obligations	10,500	7,343	94,603
Net defined benefit liabilities (Note 11)	6,971	6,902	62,808
Other long-term liabilities	5,608	5,182	50,527
Contingent liabilities (Note 13)			
Net assets (Note 14):			
Shareholders' equity			
Common stock:			
Authorized—294,999,000 shares			
Issued—152,861,921 shares in 2019 and 152,861,921 shares in 2018	26,529	26,529	239,022
Capital surplus	29,842	29,730	268,871
Retained earnings	62,983	54,969	567,466
Less : Treasury stock, at cost—1,024,460 shares in 2019 and 937,015 shares in 2018	(698)	(590)	(6,289)
Total Shareholders' equity	118,656	110,638	1,069,070
Accumulated other comprehensive income :			
Net unrealized holdings gain on securities	1,351	1,775	12,172
Gain (loss) on deferred hedges	(4)	(61)	(36)
Translation adjustments	122	335	1,099
Remeasurements of defined benefit plans	(920)	(43)	(8,289)
Total accumulated other comprehensive income :	549	2,006	4,946
Stock acquisition rights (Note 15)	425	373	3,829
Non-controlling interests	7,266	5,040	65,465
Total net assets	126,896	118,057	1,143,310
Total liabilities and net assets	¥ 340,491	¥ 333,973	\$ 3,067,763

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Operating revenues	¥ 529,609	¥ 492,127	\$ 4,771,682
Operating costs and expenses:			
Operating costs of revenues	471,129	440,671	4,244,788
Selling, general and administrative expenses	38,848	34,369	350,013
	509,977	475,040	4,594,801
Operating profit	19,632	17,087	176,881
Other income (expenses):			
Interest and dividend income	269	238	2,424
Interest expenses	(1,036)	(977)	(9,334)
Others, net	36	588	324
	(731)	(151)	(6,586)
Income before income taxes	18,901	16,936	170,295
Income taxes (Note 16):			
Current	7,102	5,778	63,988
Deferred	(296)	(9)	(2,667)
	6,806	5,769	61,321
Net income	12,095	11,167	108,974
Net income attributable to non-controlling interests	(414)	(1,663)	(3,730)
Net income attributable to owners of parent	¥ 11,681	¥ 9,504	\$ 105,244
Per share of common stock	Yen		U.S. dollars
Net income	¥ 76.90	¥ 62.64	\$ 0.69
Diluted net income	71.31	58.08	0.64
Cash dividends applicable to the year	26.00	22.00	0.23

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income	¥ 12,095	¥ 11,167	\$ 108,974
Other comprehensive income (Note 5):			
Net unrealized holdings gain (loss) on securities	(434)	430	(3,910)
Gain (loss) on deferred hedges	59	(66)	532
Translation adjustments	(294)	105	(2,649)
Remeasurements of defined benefit plans	(878)	1,257	(7,911)
Total other comprehensive income	(1,547)	1,726	(13,938)
Comprehensive income	¥ 10,548	¥ 12,893	\$ 95,036
Total comprehensive income attributable to:			
Owners of parent	¥ 10,228	¥ 11,158	\$ 92,153
Non-controlling interests	¥ 320	¥ 1,735	\$ 2,883

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, 2019 and 2018

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
Balance at March 31, 2017	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
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)
Balance at March 31, 2018	152,861	¥ 26,529	¥ 29,730	¥ 54,969	¥ (590)	¥ 1,775	¥ (61)	¥ 335	¥ (43)	¥ 373	¥ 5,040	¥ 118,057
Net income attributable to owners of parent	–	–	–	11,681	–	–	–	–	–	–	–	11,681
Cash dividends	–	–	–	(3,661)	–	–	–	–	–	–	–	(3,661)
Purchases of treasury stock	–	–	–	–	(128)	–	–	–	–	–	–	(128)
Retirement of treasury stock	–	–	(2)	–	20	–	–	–	–	–	–	18
Adjustment of retained earnings for newly consolidated subsidiaries	–	–	–	(6)	–	–	–	–	–	–	–	(6)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	–	114	–	–	–	–	–	–	–	–	114
Other changes	–	–	–	–	–	(424)	57	(213)	(877)	52	2,226	821
Balance at March 31, 2019	152,861	¥ 26,529	¥ 29,842	¥ 62,983	¥ (698)	¥ 1,351	¥ (4)	¥ 122	¥ (920)	¥ 425	¥ 7,266	¥ 126,896

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
Balance at March 31, 2018	\$ 239,022	\$ 267,862	\$ 495,261	\$ (5,316)	\$ 15,992	\$ (550)	\$ 3,018	\$ (387)	\$ 3,361	\$ 45,409	\$ 1,063,672
Net income attributable to owners of parent	–	–	105,244	–	–	–	–	–	–	–	105,244
Cash dividends	–	–	(32,985)	–	–	–	–	–	–	–	(32,985)
Purchases of treasury stock	–	–	–	(1,153)	–	–	–	–	–	–	(1,153)
Retirement of treasury stock	–	(18)	–	180	–	–	–	–	–	–	162
Adjustment of retained earnings for newly consolidated subsidiaries	–	–	(54)	–	–	–	–	–	–	–	(54)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	1,027	–	–	–	–	–	–	–	–	1,027
Other changes	–	–	–	–	(3,820)	514	(1,919)	(7,902)	468	20,056	7,397
Balance at March 31, 2019	\$ 239,022	\$ 268,871	\$ 567,466	\$ (6,289)	\$ 12,172	\$ (36)	\$ 1,099	\$ (8,289)	\$ 3,829	\$ 65,465	\$ 1,143,310

Consolidated Statements of Cash Flows

SENKO Group Holdings Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥ 18,901	¥ 16,936	\$ 170,295
Adjustments for:			
Depreciation and amortization	14,335	12,440	129,156
Impairment loss	32	–	288
Gain (loss) on sales of investment securities	(259)	(66)	(2,333)
Loss on valuation of shares of subsidiaries and associates	675	–	6,082
Loss on valuation of investments in affiliates	–	57	–
Gain on sales of property and equipment	(349)	(414)	(3,144)
Loss on disposals of property and equipment	335	127	3,018
Loss on reduction of property and equipment	1,565	651	14,100
Subsidy income	(1,587)	(639)	(14,299)
Loss on disaster	111	–	1,000
Loss (gain) on liquidation of subsidiaries and associates	(79)	–	(712)
Loss on liquidation of subsidiaries	200	–	1,802
Loss on office withdrawal	134	–	1,207
Decrease (increase) in accrued retirement benefits	(58)	471	(523)
Decrease (increase) in net defined benefit liabilities	(598)	(257)	(5,388)
Increase (decrease) in accrued bonuses to employees	584	190	5,262
Increase (decrease) in provision for share-based remuneration	124	–	1,117
Increase (decrease) in provision for loss on disaster	103	–	928
Interest and dividends income	(272)	(238)	(2,451)
Interest expenses	1,036	977	9,334
Decrease (increase) in trade receivables	(2,138)	(3,863)	(19,263)
Decrease (increase) in inventories	(1,547)	63	(13,938)
Increase (decrease) in trade payables	871	2,260	7,848
Increase (decrease) in accrued consumption taxes	(648)	2,120	(5,838)
Decrease (increase) in consumption taxes refund receivable	1,441	(2,056)	12,983
Other	485	(373)	4,370
Subtotal	33,397	28,386	300,901
Proceeds from subsidy income	1,587	1,892	14,298
Interest and dividends income received	718	520	6,469
Interest expenses paid	(1,031)	(968)	(9,289)
Income tax paid	(7,649)	(5,262)	(68,916)
Net cash provided by operating activities	27,022	24,568	243,463
Cash flows from investing activities:			
Payments into time deposits	(3,596)	(319)	(32,399)
Proceeds from withdrawal of time deposits	2,413	417	21,741
Payments for purchases of fixed assets	(24,376)	(37,042)	(219,623)
Proceeds from sales of fixed assets	14,095	11,121	126,993
Payments for purchases of investment securities	(116)	(387)	(1,045)
Proceeds from sales of investment securities	378	155	3,406
Payments for purchase of shares of newly consolidated subsidiaries	(1,380)	(2,140)	(12,434)
Payments for purchases of non-consolidated subsidiaries	(1,296)	(5,131)	(11,677)
Payments for guarantee deposits	(1,576)	(1,332)	(14,200)
Other	(316)	(2,362)	(2,847)
Net cash used in investing activities	(15,770)	(37,020)	(142,085)
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	(5,332)	9,778	(48,040)
Proceeds from long-term debt	7,711	22,106	69,475
Repayment of long-term debt	(9,865)	(17,792)	(88,882)
Repayments of finance lease obligations	(3,871)	(3,855)	(34,877)
Proceeds from issuance of corporate bond	–	10,000	–
Proceeds from issuing shares to non-controlling shareholders	2,305	–	20,767
Payments for purchase of shares of usual consolidated subsidiaries	(170)	(6,884)	(1,532)
Dividends paid	(3,659)	(3,341)	(32,967)
Other	(343)	(72)	(3,090)
Net cash provided by (used in) financing activities	(13,224)	9,940	(119,146)
Effect of exchange rate changes on cash and cash equivalents	(116)	55	(1,045)
Net increase (decrease) in cash and cash equivalents	(2,088)	(2,457)	(18,813)
Cash and cash equivalents at beginning of year	23,796	26,197	214,398
Net increase in cash and cash equivalents of newly consolidated subsidiaries	1,094	56	9,857
Cash and cash equivalents at end of year	¥ 22,802	¥ 23,796	\$ 205,442

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, 2019, which was ¥110.99 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	2 to 60 years	Machinery and equipment	2 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.

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.

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

- 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 351,000 shares valued at ¥286 million (\$2,577thousand) 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 353,000 shares valued at ¥296 million (\$2,667thousand) for the current consolidated fiscal year.

05 Comprehensive Income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized holdings gain (loss) on securities:			
Amount recognized in the period under review	¥ (360)	¥ 693	\$ (3,243)
Amount of recycling	(259)	(67)	(2,334)
Before income tax effect adjustments	(619)	626	(5,577)
Amount of income tax effect	185	(196)	1,667
Net unrealized holdings gain (loss) on securities	(434)	430	(3,910)
Gain (loss) on deferred hedges:			
Amount recognized in the period under review	87	(97)	784
Before income tax effect adjustments	87	(97)	784
Amount of income tax effect	(28)	31	(252)
Gain (loss) on deferred hedges	59	(66)	532
Translation adjustments			
Amount recognized in the period under review	(294)	105	(2,649)
Remeasurements of defined benefit plans:			
Amount recognized in the period under review	(1,814)	425	(16,344)
Amount of recycling	541	1,383	4,874
Before income tax effect adjustments	(1,273)	1,808	(11,470)
Amount of income tax effect	395	(551)	3,559
Remeasurements of defined benefit plans	(878)	1,257	(7,911)
Total other comprehensive income	¥ (1,547)	¥ 1,726	\$ (13,938)

06 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

2019	Book value	Market value	Difference
(1) Cash and cash equivalents	¥ 25,233	¥ 25,233	¥ -
(2) Trade accounts and notes receivable	73,097	73,097	-
(3) Investment securities	6,238	6,238	-
(4) Long-term loans receivable (including current portion) Less allowance for doubtful accounts (*1)	3,791 (185)		
	3,606	3,562	(44)
Total assets	¥ 108,174	¥ 108,130	¥ (44)
(1) Trade accounts and notes payable	¥ 44,650	¥ 44,650	¥ -
(2) Short-term loans	14,610	14,610	-
(3) Bond	17,168	17,106	(62)
(4) Convertible bond	10,030	9,866	(164)
(5) Long-term debt (including current portion)	71,668	72,440	772
(6) Lease obligations (including current portion)	13,682	13,539	(143)
Total liabilities	¥ 171,808	¥ 172,211	¥ 403
Derivatives (*2)	¥ 1	¥ 1	¥ -

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
Total assets	¥ 105,477	¥ 106,240	¥ 763
(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)
Total liabilities	¥ 174,865	¥ 174,828	¥ (37)
Derivatives (*2)	¥ (61)	¥ (61)	¥ -

Thousands of U.S. dollars

2019	Book value	Market value	Difference
(1) Cash and cash equivalents	\$ 227,345	\$ 227,345	\$ —
(2) Trade accounts and notes receivable	658,590	658,590	—
(3) Investment securities	56,203	56,203	—
(4) Long-term loans receivable (including current portion) Less allowance for doubtful accounts (*1)	34,156 (1,667)		
	32,489	32,093	(396)
Total assets	\$ 974,627	\$ 974,231	\$ (396)
(1) Trade accounts and notes payable	\$ 402,288	\$ 402,288	\$ —
(2) Short-term loans	131,634	131,634	—
(3) Bond	154,680	154,122	(558)
(4) Convertible bond	90,369	88,891	(1,478)
(5) Long-term debt (including current portion)	645,716	652,672	6,956
(6) Lease obligations (including current portion)	123,272	121,984	(1,288)
Total liabilities	\$ 1,547,959	\$ 1,551,591	\$ 3,632
Derivatives (*2)	\$ 9	\$ 9	\$ —

*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
	2019	2018	2019
Unlisted shares	¥ 14,023	¥ 15,829	\$ 126,345

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

Millions of yen

2019	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and cash equivalents	¥ 25,233	¥ –	¥ –	¥ –
Trade accounts and notes receivable	73,097	–	–	–
Investment securities	–	–	–	–
Other securities with maturity period				
(1) Government bond, local government bond	–	–	–	–
(2) Bond	–	16	–	–
(3) Other	–	–	–	–
Long-term loans receivable	96	2,535	925	235
Total	¥ 98,426	¥ 2,551	¥ 925	¥ 235

Millions of yen

2018	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

Thousands of U.S.dollars

2019	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and cash equivalents	\$ 227,345	\$ –	\$ –	\$ –
Trade accounts and notes receivable	658,590	–	–	–
Investment securities	–	–	–	–
Other securities with maturity period				
(1) Government bond, local government bond	–	–	–	–
(2) Bond	–	144	–	–
(3) Other	–	–	–	–
Long-term loans receivable	865	22,840	8,334	2,117
Total	\$ 886,800	\$ 22,984	\$ 8,334	\$ 2,117

07 Investment Securities

The carrying amounts of investment securities at March 31, 2019 and 2018, consisted of the following:

Thousands of
U.S. dollars

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Marketable securities	¥ 6,238	¥ 6,814	\$ 56,203
Non-marketable securities	413	395	3,721
	¥ 6,651	¥ 7,209	\$ 59,924

The following is a summary of marketable securities included in investment securities, at March 31, 2019 and 2018.

Millions of yen

2019	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Market value)
Equity security	¥ 3,530	¥ 2,644	¥ 102	¥ 6,072
Bond and Others	169	–	3	166
	¥ 3,699	¥ 2,644	¥ 105	¥ 6,238

Millions of yen

2018	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

Thousands of U.S.dollars

2019	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Market value)
Equity security	\$ 31,804	\$ 23,822	\$ 919	\$ 54,707
Bond and Others	1,523	–	27	1,496
	\$ 33,327	\$ 23,822	\$ 946	\$ 56,203

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

Millions of yen

Hedge accounting method	Type of contracts	Item hedged	2019		
			Contract amounts	Over 1 year out of contract amounts	Market value
	Forward exchange contracts				
	Buy				
Designated transactions for forward exchange contracts	U.S. dollars	Trade accounts payable	¥ 2,459	¥ –	¥ 11
	Euros	Trade accounts payable	379	–	(13)
	Chinese yen	Trade accounts payable	277	–	3
	Danish kroner	Trade accounts payable	6	–	(0)
	Australian dollars	Trade accounts payable	4	–	0
	Total		¥ 3,125	¥ –	¥ 1

Millions of yen

Hedge accounting method	Type of contracts	Item hedged	2018		
			Contract amounts	Over 1 year out of contract amounts	Market value
	Forward exchange contracts				
	Sell				
Designated transactions for forward exchange contracts	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

Thousands of U.S.dollars

Hedge accounting method	Type of contracts	Item hedged	2019		
			Contract amounts	Over 1 year out of contract amounts	Market value
	Forward exchange contracts				
Designated transactions for forward exchange contracts	Buy				
	U.S. dollars	Trade accounts payable	\$ 22,155	\$ –	\$ 99
	Euros	Trade accounts payable	3,415	–	(117)
	Chinese yen	Trade accounts payable	2,496	–	27
	Danish kroner	Trade accounts payable	54	–	(0)
	Australian dollars	Trade accounts payable	36	–	0
	Total		\$ 28,156	\$ –	\$ 9

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	2019		
			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	¥ 17,450	¥ 17,000	¥ –

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)

Thousands of U.S.dollars

Hedge accounting method	Type of contracts	Item hedged	2019		
			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	\$ 157,221	\$ 153,167	\$ –

09 Property and Equipment

At March 31, 2019 and 2018, property and equipment at cost consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Land	¥ 59,670	¥ 59,614	\$ 537,616
Buildings and structures	142,722	146,448	1,285,900
Machinery and equipment, vehicle and vessels	62,544	59,003	563,510
Tools, furniture and fixtures	8,398	7,271	75,664
Construction in Progress	4,309	16,450	38,823
Lease assets	16,876	13,002	152,050
	¥ 294,519	¥ 301,788	\$ 2,653,563

10

Short-term Loans and Long-term Debt

At March 31, 2019 and 2018, short-term loans consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
0.24% to 0.67% unsecured loans from banks	¥ 14,610	¥ 19,891	\$ 131,634

At March 31, 2019 and 2018, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
0.50% bond due 2021	¥ 7,000	¥ 7,000	\$ 63,069
0.10% bond due 2022	168	216	1,513
0.48% bond due 2027	10,000	10,000	90,098
Convertible bond due 2022	10,030	10,040	90,369
0.19% to 3.49% loans from banks and insurance companies:			
Unsecured	71,668	72,693	645,716
	98,866	99,949	890,765
Less current portion	(7,019)	(9,509)	(63,240)
	¥ 91,847	¥ 90,440	\$ 827,525

On March 28, 2017, the Company issued ¥10,050 million (\$90,549 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 (\$8.38) per share.

The annual maturities of long-term debt at March 31, 2019 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥ 7,019	\$ 63,240
2021	14,189	127,840
2022	20,022	180,395
2023	10,633	95,802
2024	9,407	84,755
There after	37,566	338,463

At March 31, 2019, the Company has committed line and overdraft contracts with 24 banks aggregating ¥49,165 million (\$442,968 thousand). Of the total credit limit, ¥14,610 million (\$131,634 thousand) was used as the above short-term and long-term borrowing, and the rest ¥34,555 million (\$311,334 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
	2019	2018	2019
Benefits obligation at the beginning of the year	¥ 25,624	¥ 25,637	\$ 230,868
Service cost	1,046	1,083	9,424
Interest cost	88	109	793
Accrued actuarial differences	536	300	4,829
Retirement benefits paid	(1,849)	(1,606)	(16,659)
Others	(6)	101	(54)
Benefits obligation at the end of the year	¥ 25,439	¥ 25,624	\$ 229,201

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
	2019	2018	2019
Fair value of plan assets at the beginning of the year	¥ 22,381	¥ 20,909	\$ 201,649
Expected return on plan assets	671	627	6,046
Accrued actuarial differences	(1,278)	725	(11,515)
Contribution by employers	520	726	4,685
Retirement benefits paid	(737)	(606)	(6,640)
Fair value of plan assets at the end of the year	¥ 21,557	¥ 22,381	\$ 194,225

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
	2019	2018	2019
Benefits obligation under the funded benefit plan	¥ 19,656	¥ 19,844	\$ 177,097
Fair value of plan assets	(21,557)	(22,381)	(194,225)
	(1,901)	(2,537)	(17,128)
Benefits obligation under the unfunded benefit plan	5,783	5,780	52,105
Net amounts of assets and liabilities on the consolidated balance sheets	3,882	3,243	34,977
Net defined benefit assets	3,089	3,659	27,831
Net defined benefit liabilities	6,971	6,902	62,808
Net amounts of assets and liabilities on the consolidated balance sheets	¥ 3,882	¥ 3,243	\$ 34,977

d. Breakdown of retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 1,046	¥ 1,083	\$ 9,424
Interest cost	88	109	793
Expected return on plan assets	(671)	(627)	(6,045)
Recognized actuarial differences	541	1,383	4,874
Retirement benefit costs for the defined benefit plan	¥ 1,004	¥ 1,948	\$ 9,046

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
	2019	2018	2019
Recognized actuarial differences	¥ (1,273)	¥ 1,808	\$ (11,470)
Total	(1,273)	1,808	(11,470)

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
	2019	2018	2019
Unrecognized actuarial differences	¥(1,433)	¥(159)	\$ (12,911)
Total	(1,433)	(159)	(12,911)

g. Items concerning plan assets

(i) Main items of plan assets

	2019	2018
Bonds	26%	25%
Stocks	55%	58%
Others	19%	17%
Total	100%	100%

(Note) 43% and 44% of total pension assets are in a "Retirements Benefit Trust" for the defined benefit pension plans as of March 31, 2019 and 2018, 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

	2019	2018
Discount rate		
Defined benefit pension plans	0.33%	0.51%
Retirements lump-sum plans	0.12%	0.21%
Expected rate of return on plan assets	3.00%	3.00%

(2) Defined contribution plan

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Contributions to defined contribution plan by the Company and its consolidated subsidiaries	¥ 806	¥ 693	\$ 7,262

12 | Pledged Assets

The following assets were pledged as collateral as at March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Land	¥ 6,670	¥ 6,606	\$ 60,096
Buildings	2,253	2,496	20,299
Structures	23	27	207
Ship	1,351	1,426	12,172
Investment securities	10	22	90
	¥ 10,307	¥ 10,577	\$ 92,864

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Long-term debt, including current portion	¥ 5,575	¥ 6,160	\$ 50,230

13 | Contingent Liabilities

At March 31, 2019 and 2018, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Guarantees of some obligations	¥ 782	¥ 573	\$ 7,046
Buyback obligations associated with securitization of receivables	369	445	3,324
Recourse obligation associated with securitization of guarantee deposits	83	83	748
Trade notes endorsed	112	103	1,009
	¥ 1,346	¥ 1,204	\$ 12,127

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, 2019, included the Company's legal reserve of ¥1,506 million (\$13,569 thousand).

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Stock Option Plans

The stock option plans of the Company approved by the shareholders in accordance with the Japan Companies Act at March 31, 2019 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
2018 Stock options (27th)	7 directors 4 auditors	19,000 shares	July 2, 2018	¥ 1	Common stock	July 3, 2018- June 30, 2038
2018 Stock options (28th)	1 operating officers 4 assistant directors 9 executives of the subsidiaries 24 operating officers of the subsidiaries 24 assistant directors of the subsidiaries	83,000 shares	July 2, 2018	¥ 1	Common stock	July 3, 2018- June 30, 2048

(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, 2019. 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, 2018	Granted	Forfeited	Vested	At March 31, 2019	At March 31, 2018	Vested	Exercised	Forfeited	At March 31, 2019
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	-	2,000	-	4,000
2009 Stock options (6th)	-	-	-	-	-	30,000	-	-	-	30,000
2009 Stock options (7th)	-	-	-	-	-	20,000	-	5,000	-	15,000
2010 Stock options (8th)	-	-	-	-	-	35,000	-	-	-	35,000
2010 Stock options (9th)	-	-	-	-	-	32,000	-	7,000	-	25,000
2011 Stock options (10th)	-	-	-	-	-	62,000	-	6,000	-	56,000
2011 Stock options (11th)	-	-	-	-	-	75,000	-	6,000	-	69,000
2012 Stock options (12th)	-	-	-	-	-	66,000	-	7,000	-	59,000
2012 Stock options (13th)	-	-	-	-	-	80,000	-	7,000	-	73,000
2013 Stock options (15th)	-	-	-	-	-	59,000	-	5,000	-	54,000
2013 Stock options (16th)	-	-	-	-	-	73,000	-	2,000	-	71,000
2014 Stock options (18th)	-	-	-	-	-	46,000	-	3,000	-	43,000
2014 Stock options (19th)	-	-	-	-	-	69,000	-	2,000	-	67,000
2015 Stock options (20th)	-	-	-	-	-	49,000	-	-	-	49,000
2015 Stock options (21th)	-	-	-	-	-	60,000	-	1,000	-	59,000
2016 Stock options (22th)	-	-	-	-	-	32,000	-	-	-	32,000
2016 Stock options (23th)	-	-	-	-	-	43,000	-	2,000	-	41,000
2017 Stock options (25th)	-	-	-	-	-	21,000	-	-	-	21,000
2017 Stock options (26th)	-	-	-	-	-	77,000	-	2,000	-	75,000
2018 Stock options (27th)	-	19,000	-	19,000	-	-	19,000	-	-	19,000
2018 Stock options (28th)	-	83,000	-	83,000	-	-	83,000	-	-	83,000

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 30.6 % for the years ended March 31, 2019 and 30.9 % for the years ended March 31, 2018.

(1) Significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Net defined benefit liabilities	¥ 2,800	¥ 2,572	\$ 25,227
Accrued bonuses to employees	1,700	1,611	15,317
Loss carry forward	416	418	3,748
Impairment losses	642	508	5,784
Accrued enterprise tax	310	406	2,793
Social insurance premium	239	212	2,153
Asset retirement obligations	317	258	2,856
Loss on revaluation of golf club membership	159	121	1,433
Other	1,910	1,739	17,209
Gross deferred tax assets	8,493	7,845	76,520
Less: valuation allowance	(1,272)	(1,361)	(11,460)
Total deferred tax assets	7,221	6,484	65,060
Deferred tax liabilities:			
Reserve for reduction in costs of fixed assets	(739)	(729)	(6,658)
Asset retirement obligations	(110)	(71)	(991)
Net unrealized holdings gain on other securities	(795)	(981)	(7,163)
Other	(697)	(804)	(6,280)
Gross deferred tax liabilities	(2,341)	(2,585)	(21,092)
Net deferred tax assets	¥ 4,880	¥ 3,899	\$ 43,968

(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, 2019 and 2018 were as follows:

	2019	2018
Statutory tax rate	30.6%	30.9%
Adjustment:		
Non-deductible expenses	1.7	1.3
Inhabitants' per capita taxes	1.5	1.6
Non-taxable dividends income	(0.4)	(0.3)
Special deduction of income taxes	(0.1)	(0.6)
Changes in valuation allowance	(0.1)	0.7
Other	2.8	0.5
Income tax rate as a percentage of income before income taxes and non-controlling interests	36.0%	34.1%

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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 3 to 30 years and a discount rate generally set between 0.0% and 2.5% were assumed.

(c) Increase in the total amount of asset retirement obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the term	¥ 819	¥ 817	\$ 7,379
Increase due to acquisition of a consolidated subsidiary	22	–	198
Increase due to acquisition of fixed assets	156	5	1,406
Reconciliation associated with the passage of time	14	13	126
Decrease due to settlement	–	(16)	–
Balance at the end of the term	¥ 1,011	¥ 819	\$ 9,109

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.

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

	2019					
	Distribution	Trading & Commerce	Others	Total	Adjustments and eliminations	Consolidated
Operating revenues:						
Customers	¥ 375,385	¥ 142,294	¥ 11,930	¥ 529,609	¥ –	¥ 529,609
Intersegment	2,722	11,853	10,368	24,943	(24,943)	–
Total operating revenues	378,107	154,147	22,298	554,552	(24,943)	529,609
Segment income (loss)	16,211	2,280	1,680	20,171	(539)	19,632
Segment assets	265,087	46,863	21,061	333,011	7,480	340,491
Other items						
Depreciation	11,777	250	686	12,713	892	13,605
Impairment loss	32	–	–	32	–	32
Increase in tangible and intangible fixed assets	42,145	208	2,072	44,425	775	45,200

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	261,319	45,584	18,333	325,236	8,737	333,973
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

Thousands of U.S. dollars

	2019					
	Distribution	Trading & Commerce	Others	Total	Adjustments and eliminations	Consolidated
Operating revenues:						
Customers	\$ 3,382,152	\$ 1,282,043	\$ 107,487	\$ 4,771,682	\$ –	\$ 4,771,682
Intersegment	24,525	106,793	93,414	224,732	(224,732)	–
Total operating revenues	3,406,677	1,388,836	200,901	4,996,414	(224,732)	4,771,682
Segment income (loss)	146,058	20,542	15,136	181,736	(4,855)	176,881
Segment assets	2,388,386	422,227	189,756	3,000,369	67,394	3,067,763
Other items						
Depreciation	106,109	2,252	6,181	114,542	8,036	122,578
Impairment loss	288	–	–	288	–	288
Increase in tangible and intangible fixed assets	379,719	1,874	18,668	400,261	6,983	407,244

(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 amortization of goodwill and amortization balance by business segment)

Millions of yen

	2019				
	Distribution	Trading & Commerce	Others	Adjustments and eliminations	Consolidated
Amortization of goodwill	¥ 276	¥ 150	¥ 58	¥ –	¥ 484
Balance at the end of period	4,106	1,909	1,431	–	7,446

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

Thousands of U.S. dollars

	2019				
	Distribution	Trading & Commerce	Others	Adjustments and eliminations	Consolidated
Amortization of goodwill	\$ 2,487	\$ 1,351	\$ 523	\$ –	\$ 4,361
Balance at the end of period	36,994	17,200	12,893	–	67,087

(Information on negative goodwill by business segment)

No significant items to be reported.

Report of Independent Auditors

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of SENKO Group Holdings Co.,Ltd. and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year 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 accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, 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 accordance 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, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance 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 26, 2019



Ohtemae Audit Corporation

Stock Information / Corporate Data

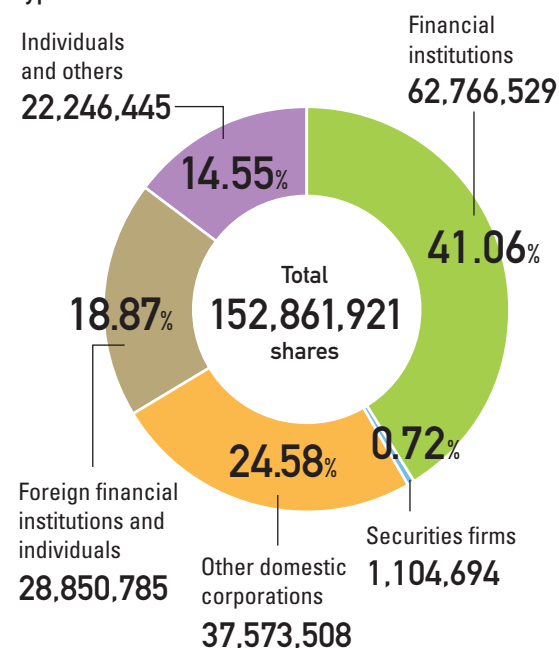
Stock Information (As of March 31, 2019)

Stock Listing	First Section of the Tokyo Stock Exchange
Stock Code	9069
Authorized Shares	294,999,000
Outstanding Shares	152,861,921
Number of Shareholders	8,422
Administrator of Shareholders' Register	Mitsubishi UFJ Trust and Banking Corporation, Osaka Stock Transfer Agent Division 3-6-3, Fushimi Machi, Chuo-ku, Osaka 541-8502, Japan
Independent Auditors	Ohtemae Audit Corporation

Major Shareholders

	Number of Shares (thousands)	Percentage Held
Japan Trustee Services Bank, Ltd.	24,889	16.32%
Asahi Kasei Corporation	11,676	7.65%
The Master Trust Bank of Japan, Ltd.	10,417	6.83%
Sekisui Chemical Co., Ltd.	6,785	4.45%
Senko Group Employee's Stockholding	6,215	4.07%
Mitsubishi UFJ Trust and Banking Corporation	4,252	2.79%
State Street Bank and Trust Company	4,091	2.68%
Isuzu Motors Ltd.	4,039	2.65%
J.P. Morgan Bank Luxembourg S.A.	3,685	2.42%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,439	2.25%

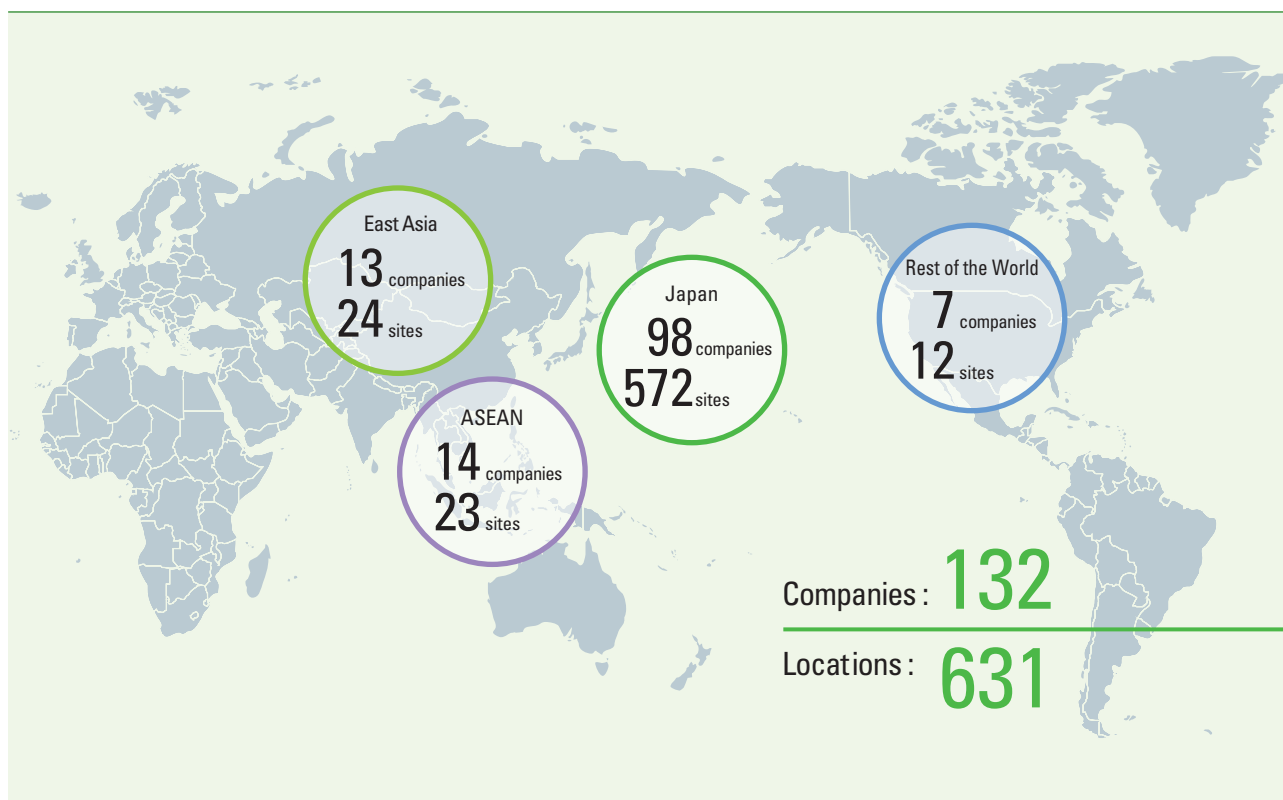
Type of Shareholder



Corporate Data (As of March 31, 2019)

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	17,081
Fleet of Own Trucks	6,412 (including trailers)
Vessels	69
Total Warehouse Space	3,660,000 m ²

Global Network



Main Group Companies

Domestic		Overseas
SENKO Co., Ltd.	Osaka Senko Transport 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.

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