



Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2019 [J-GAAP] (Consolidated)

August 9, 2018

Company Name: Kintetsu World Express, Inc. (KWE)
 Stock exchange listed on: Tokyo Stock Exchange (First Section)
 Company code: 9375 URL: <https://www.kwe.co.jp>
 Representative: President and Chief Executive Officer Nobutoshi Torii
 Inquiries: General Manager, Accounting and Finance Dept. Hiroyuki Kasamatsu TEL: +81-3-6863-6445
 The date of filing the quarterly financial statements: August 10, 2018
 The date of the dividend payment start (planned): -
 Preparation of quarterly earnings presentation material: No
 Holding of quarterly financial results briefing: No

(Figures are rounded down to the nearest million yen.)

1. Consolidated earnings results for the first three months of the fiscal year ending March 2019 (April 1, 2018– June 30, 2018)

(1) Consolidated business results

(Percentages are changes from the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
First three months ended June 30, 2018	144,161	12.8	4,470	52.9	5,401	101.8	2,421	—
June 30, 2017	127,781	12.0	2,924	52.7	2,677	35.1	33	(51.5)

(Note) Comprehensive income First three months ended June 30, 2018: (4,384) million yen (- %)

First three months ended June 30, 2017: (3,007) million yen (- %)

	Net income per share		Diluted net income per share	
	(Yen)		(Yen)	
First three months ended June 30, 2018	33.63		—	
June 30, 2017	0.47		—	

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	(%)	(Yen)
As of June 30, 2018	382,583	123,126	29.8	1,584.43
As of March 31, 2018	389,582	128,988	30.7	1,662.72

(Reference) Shareholders' equity As of June 30, 2018: 114,074 million yen As of March 31, 2018: 119,712 million yen

* Due to the change in presentation as a result of applying the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan ("ASBJ") Statement No. 28, February 16, 2018) effective April 1, 2018, figures of the consolidated financial position as of March 31, 2018 have been restated retrospectively to reflect such change.

2. Dividends

	Annual dividends				
	Q1	Q2	Q3	Year-end	Full fiscal year
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal year ended March 31, 2018	—	10.00	—	16.00	26.00
Fiscal year ending March 31, 2019 (Forecasts)	—	10.00	—	16.00	26.00

(Note) Revisions to the most recently disclosed dividend forecasts: No

3. Consolidated earnings forecasts for the fiscal year ending March 2019 (April 1, 2018 – March 31, 2019)

(Percentages are changes from the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Yen)
First half	285,000	8.6	8,000	16.3	7,700	11.4	2,700	9.2	37.50
Full fiscal year	585,000	5.7	19,200	9.4	18,600	7.2	8,700	24.2	120.84

(Note) Revisions to the most recently disclosed earnings forecasts: No

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries in accordance with changes in the scope of consolidation): No

(2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: Yes

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Major Notes, (3) Notes to the Quarterly Consolidated Financial Statements (Application of Special Accounting Treatment in Preparing the Quarterly Consolidated Financial Statements)” on page 10.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of revisions

(a) Changes in accounting policies with revision of accounting standards, etc.: No

(b) Changes in accounting policies other than the above (a): No

(c) Changes in accounting estimates: No

(d) Restatement of revisions: No

(4) Number of issued shares (common shares)

(a) Number of issued shares (including treasury shares)	As of June 30, 2018:	72,000,000 shares	As of March 31, 2018:	72,000,000 shares
(b) Number of treasury shares	As of June 30, 2018:	2,364 shares	As of March 31, 2018:	2,364 shares
(c) Average number of shares during the period	First three months ended June 30, 2018:	71,997,636 shares	First three months ended June 30, 2017:	71,997,636 shares

* The Financial Results report is outside the scope of a quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of earnings forecasts and other special notes

(Remarks on forward-looking statements)

The statements about future described on this report such as earnings forecasts have been made based on information currently available and certain assumptions considered reasonable, and it is not intended to assure that we will achieve such results. Actual earnings may differ significantly from the above forecasts for various reasons. For the assumptions for earnings forecasts and cautions regarding the use of the earnings forecasts, please refer to “1. Qualitative Information concerning Consolidated Earnings Results for the First Three Months of the Fiscal Year Ending March 2019 (3) Explanation about Future Forecast Information including Consolidated Earnings Forecasts” on page 5.

1. Qualitative Information concerning Consolidated Earnings Results for the First Three Months of the Fiscal Year Ending March 2019

(1) Explanation about Operating Results

During the three months ended June 30, 2018, the U.S. economy continued to expand and Europe showed a steady recovery mainly in the Euro zone. In China, although domestic demands slowed down, the overall economy showed a steady movement due to increased exports, etc.

The Japanese economy continued to gradually recover overall due to an increase in capital investment and exports.

In the global market, demands for both air and sea freight continued to grow steadily and showed an upward trend overall.

Under such circumstances, the KWE Group's freight operations saw air freight exports rose 12.2% year-on-year to 153 thousand tons, and air freight imports increased 5.8% to 337 thousand shipments. Sea freight exports increased 12.4% to 175 thousand TEUs, and imports rose 10.5% to 73 thousand shipments. Logistics showed solid growth overall due to business expansion mainly in East Asia.

Operating results by each segment are as follows:

Japan

Air freight exports rose 15.1% year-on-year to 42 thousand tons due to a steady increase in automotive-related products and semiconductor-related products. Air freight imports increased 3.7% to 88 thousand shipments due to a growth mainly in electronic products. As for sea freight, exports increased 11.9% to 38 thousand TEUs due to increases mainly in machinery-related products, chemical products, and paper products, and imports grew 7.0% to 29 thousand shipments due to steady movements in electronic products and automotive-related products. In logistics, the handling volume grew due to increases mainly in healthcare-related products and electronic products.

As a result, net sales for the segment, including domestic subsidiaries, increased 22.4% to 35,917 million yen. However, operating income increased only 9.3% to 1,137 million yen due to an impact from higher direct cost ratio.

The Americas

Air freight exports rose 19.8% to 28 thousand tons due to active movements mainly in healthcare-related products and electronic products. Air freight imports increased 17.5% to 34 thousand shipments due to a growth in electronic products and machinery-related products. In sea freight, exports increased 8.8% to 13 thousand TEUs due to steady movements in semiconductor manufacturing equipment and aerospace products, and imports grew 6.3% to 8 thousand shipments due to an increase in machinery-related products. In logistics, the handling volume expanded in the U.S. and Canada.

As a result, net sales for the segment increased 20.0% to 14,993 million yen, and operating income rose 43.5% to 929 million yen.

The exchange rate was U.S.\$1 = ¥109.07 and U.S.\$1 = ¥111.09 for the three months ended June 30, 2018 and 2017, respectively.

Europe, Middle East & Africa

Air freight exports rose 19.1% to 16 thousand tons due to increases mainly in automotive-related products and healthcare-related products. Air freight imports increased 13.6% to 33 thousand shipments due to a growth in automotive-related products and chemical products. Sea freight exports decreased 0.8% to 4 thousand TEUs due to sluggish shipment overall, but imports grew 8.5% to 4 thousand shipments due to an increase in machinery-related products. In logistics, the handling volume increased in Russia and the Netherlands.

As a result, net sales for the segment increased 22.7% to 10,139 million yen, and operating income rose 37.2% to 260 million yen.

The exchange rate was €1 = ¥130.06 and €1 = ¥122.19 for the three months ended June 30, 2018 and 2017, respectively.

East Asia & Oceania

Air freight exports rose 6.8% to 36 thousand tons due to a steady increase mainly in electronic products. Air freight imports increased 2.8% to 124 thousand shipments due to a growth mainly in equipment-related products. As for sea freight, exports grew 24.4% to 56 thousand TEUs due to increases mainly in automotive-related products and electronic products, and imports increased 12.7% to 16 thousand shipments due to steady movements in equipment-related products and electronic products. In logistics, the handling volume increased mainly in China, South Korea, and Taiwan.

As a result, net sales for the segment increased 19.7% to 26,046 million yen, and operating income rose 35.6% to 1,650 million yen.

Southeast Asia

Air freight exports rose 5.2% to 29 thousand tons due to a steady increase mainly in automotive-related products. Air freight imports increased 5.0% to 55 thousand shipments due to a growth in healthcare-related products. As for sea freight, exports rose 29.0% to 40 thousand TEUs due to strong movements in electronic products, automotive-related products, and motorcycles, and imports grew 19.3% to 14 thousand shipments due to increases in electronic products and motorcycles. In logistics, the handling volume increased mainly in India and Thailand.

As a result, net sales for the segment increased 11.7% to 14,099 million yen. However, operating income decreased 14.6% to 613 million yen due to an impact from higher direct cost ratio.

APLL

As for logistics services for automotive, the handling volume saw steady growth due to business expansion with major customers and rail transportation in India. Retail-related logistics service continued a steady growth overall. Logistics services for consumer and industrial fields secured the handling volume exceeding the previous year's level.

As a result, net sales of APLL increased 0.5% to 46,270 million yen and the company secured operating income of 1,252 million yen (rose 116.2%) through its effort to improve operating gross profit margin, but recorded net operating loss of 255 million yen (operating loss of 988 million yen a year earlier) as amortization of goodwill related to APLL acquisition is still included in this segment.

The exchange rate was U.S. \$1 = ¥108.30 and U.S. \$1 = ¥113.64 for the three months ended June 30, 2018 and 2017, respectively (APLL used the average rate for the period from January 1 to March 31 because APLL's fiscal year-end is December 31).

As described above, net sales for the three months ended June 30, 2018 increased 12.8% to 144,161 million yen, operating income rose 52.9% to 4,470 million yen, ordinary income increased 101.8% to 5,401 million yen, and net income attributable to owners of the parent rose 7,130.9% to 2,421 million yen.

(2) Explanation about Financial Position

Assets, liabilities, and net assets

Total assets as of June 30, 2018 decreased 6,999 million yen from March 31, 2018 to 382,583 million yen. Current assets increased 1,636 million yen to 195,157 million yen mainly due to an increase in cash and deposits of 4,095 million yen despite a decrease in notes and operating accounts receivable of 3,176 million yen. Non-current assets decreased 8,636 million yen to 187,425 million yen due to decreases in property, plant and equipment of 300 million yen and in intangible assets of 8,015 million yen mainly due to amortization of goodwill.

Total liabilities decreased 1,137 million yen to 259,456 million yen. Current liabilities decreased 5,193 million yen to 117,854 million yen due to a decrease in short-term loans payable of 5,073 million yen resulting from payment of current portion of long-term loans payable. Non-current liabilities increased 4,056 million yen to 141,601 million yen mainly due to an increase in long-term loans payable of 4,744 million yen.

Total net assets as of June 30, 2018 decreased 5,861 million yen to 123,126 million yen mainly due to decreases in foreign currency translation adjustment of 6,851 million yen as a result of a stronger yen compared to March 31, 2018 and non-controlling interests of 224 million yen, despite an increase in retained earnings of 1,269 million yen resulting from recording net income attributable to owners of the parent of 2,421 million yen and cash dividends paid of 1,151 million yen.

Consequently, the equity ratio decreased to 29.8% from 30.7% as of March 31, 2018.

(3) Explanation about Future Forecast Information including Consolidated Earnings Forecasts

The future prospect appears to remain unpredictable due to continuing high freight costs and geopolitical risks as well as protectionism spreading around the world while the demand for air and sea freight forwarding is expected to be strong.

Under such circumstances, the Group will work on various measures to increase total handling volume of air and sea freight forwarding in order to sustain a mid- to long-term growth.

While the Group earnings may fluctuate due to factors including the global economy and exchange rates, the consolidated earnings forecasts for the six months ending September 30, 2018 and the year ending March 31, 2019 remain unchanged at this point from those announced on May 11, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY3/18 (As of March 31, 2018)	First quarter of FY3/19 (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	72,832	76,927
Notes and operating accounts receivable	110,005	106,828
Other	12,781	13,199
Allowance for doubtful accounts	(2,098)	(1,798)
Total current assets	193,520	195,157
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,279	19,490
Land	14,082	14,053
Other, net	13,387	12,904
Total property, plant and equipment	46,749	46,449
Intangible assets		
Goodwill	65,586	60,820
Customer-related assets	35,139	32,551
Other	20,602	19,941
Total intangible assets	121,328	113,312
Total investments and other assets	27,984	27,663
Total non-current assets	196,062	187,425
Total assets	389,582	382,583
Liabilities		
Current liabilities		
Notes and operating accounts payable-trade	51,622	52,152
Short-term loans payable	42,024	36,951
Income taxes payable	3,867	3,525
Provision for bonuses	4,616	3,899
Provision for directors' bonuses	250	120
Other	20,666	21,205
Total current liabilities	123,048	117,854
Non-current liabilities		
Long-term loans payable	123,651	128,395
Net defined benefit liability	2,877	2,933
Other	11,016	10,272
Total non-current liabilities	137,545	141,601
Total liabilities	260,594	259,456

(Millions of yen)

	FY3/18 (As of March 31, 2018)	First quarter of FY3/19 (As of June 30, 2018)
Net assets		
Shareholders' equity		
Capital stock	7,216	7,216
Capital surplus	4,084	4,084
Retained earnings	112,268	113,537
Treasury shares	(3)	(3)
Total shareholders' equity	123,565	124,834
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,893	1,816
Foreign currency translation adjustment	(5,268)	(12,120)
Remeasurements of defined benefit plans	(478)	(456)
Total accumulated other comprehensive income	(3,853)	(10,759)
Non-controlling interests	9,276	9,051
Total net assets	128,988	123,126
Total liabilities and net assets	389,582	382,583

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Consolidated Statements of Income)

(Millions of yen)

	First three months of FY3/18 (April 1, 2017 – June 30, 2017)	First three months of FY3/19 (April 1, 2018 – June 30, 2018)
Net sales	127,781	144,161
Operating cost	106,847	120,995
Operating gross profit	20,933	23,165
Selling, general and administrative expenses	18,009	18,695
Operating income	2,924	4,470
Non-operating income		
Interest income	127	155
Dividends income	16	18
Amortization of negative goodwill	2	2
Share of profit of entities accounted for using equity method	–	215
Foreign exchange gains	–	721
Miscellaneous income	87	164
Total non-operating income	233	1,278
Non-operating expenses		
Interest expenses	233	276
Share of loss of entities accounted for using equity method	156	–
Foreign exchange losses	61	–
Miscellaneous expenses	29	70
Total non-operating expenses	480	346
Ordinary income	2,677	5,401
Extraordinary loss		
Loss on retirement of non-current assets	2	–
Total extraordinary losses	2	–
Income before income taxes	2,674	5,401
Income taxes	2,330	2,487
Net income	344	2,913
Net income attributable to non-controlling interests	310	492
Net income attributable to owners of the parent	33	2,421

(Consolidated statements of comprehensive income)

(Millions of yen)

	First three months of FY3/18 (April 1, 2017 – June 30, 2017)	First three months of FY3/19 (April 1, 2018 – June 30, 2018)
Net income	344	2,913
Other comprehensive income		
Valuation difference on available-for-sale securities	111	(77)
Foreign currency translation adjustment	(3,562)	(6,579)
Remeasurements of defined benefit plans	12	23
Share of other comprehensive income of entities accounted for using equity method	87	(663)
Total other comprehensive income	(3,351)	(7,297)
Comprehensive income	(3,007)	(4,384)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(3,226)	(4,485)
Comprehensive income attributable to non-controlling interests	219	101

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes concerning Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Significant Subsidiaries during the Period)

Not applicable.

(Application of Special Accounting Treatment in Preparing the Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

Tax expenses are calculated as income before income taxes for the period multiplied by the estimated effective tax rate.

The effective tax rate is reasonably estimated taking into consideration deferred tax accounting as the rate applicable to income before income taxes for the consolidated fiscal year including the quarter ended June 30, 2018.

(Additional information)

Following the application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) effective April 1, 2018, deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in non-current liabilities.

(Notes to Quarterly Consolidated Statement of Income)

(Share of loss of entities accounted for using equity method)

First three months of the fiscal year ended March 2018 (April 1, 2017 – June 30, 2017)

Impairment loss of 151 million yen for goodwill associated with a non-consolidated subsidiary accounted for using equity method in Hong Kong is included.

First three months of the fiscal year ending March 2019 (April 1, 2018 – June 30, 2018)

Not applicable.

(Segment Information, etc.)

I First three months of the fiscal year ended March 2018 (April 1, 2017 – June 30, 2017)

1. Information about sales, income/loss for each reportable segment

(Millions of yen)

	Reportable segment							Other Note 1	Total	Adjustment Note 2	Carrying amount on quarterly consolidated statements of income Note 3
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total				
Net sales											
Net sales to outside customers	28,542	11,532	8,003	21,282	12,339	45,994	127,695	86	127,781	—	127,781
Inter-segment sales/transfers	796	965	258	481	281	24	2,807	479	3,287	(3,287)	—
Total net sales	29,339	12,497	8,262	21,764	12,621	46,018	130,503	565	131,069	(3,287)	127,781
Segment income (loss)	1,040	647	190	1,217	718	(988)	2,825	97	2,923	0	2,924

Notes: 1. Other refers to business not included in reportable segments and mainly consists of incidental logistics operations within the Group.

2. The 0 million yen adjustment in segment income (loss) is an elimination of income generated from business between segments.

3. Segment income (loss) has been adjusted for the operating income appearing in the quarterly consolidated statements of income.

4. Major countries or regions except Japan and APLL in each category are as follows:

- (1) The Americas: United States, Canada, Mexico, and Latin American countries
- (2) Europe, Middle East & Africa: United Kingdom, Germany, France, Italy, Netherlands, Belgium, Switzerland, Ireland, other European countries, Russia, African countries, and Middle Eastern countries
- (3) East Asia & Oceania: Hong Kong, China, South Korea, Taiwan, and Australia
- (4) Southeast Asia: Singapore, Malaysia, Thailand, India, Indonesia, Vietnam, Philippines, and Cambodia

2. Information regarding impairment loss of non-current assets or goodwill for each reportable segment

(Significant impairment loss of non-current assets)

For the three months ended June 30, 2017, “East Asia & Oceania” segment recorded impairment loss of 151 million yen for goodwill associated with a non-consolidated subsidiary accounted for using equity method in Hong Kong.

II First three months of the fiscal year ending March 2019 (April 1, 2018 – June 30, 2018)

Information about sales, income/loss for each reportable segment

(Millions of yen)

	Reportable segment							Other Note 1	Total	Adjustment Note 2	Carrying amount on quarterly consolidated statements of income Note 3
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total				
Net sales											
Net sales to outside customers	35,022	13,943	9,727	25,427	13,715	46,230	144,066	94	144,161	—	144,161
Inter-segment sales/transfers	894	1,050	411	619	383	40	3,399	557	3,957	(3,957)	—
Total net sales	35,917	14,993	10,139	26,046	14,099	46,270	147,466	651	148,118	(3,957)	144,161
Segment income (loss)	1,137	929	260	1,650	613	(255)	4,336	131	4,468	2	4,470

Notes: 1. Other refers to business not included in reportable segments and mainly consists of incidental logistics operations within the Group.

2. The 2 million yen adjustment in segment income (loss) is an elimination of income generated from business between segments.

3. Segment income (loss) has been adjusted for the operating income appearing in the quarterly consolidated statements of income.

4. Major countries or regions except Japan and APLL in each category are as follows:

- | | |
|-----------------------------------|---|
| (1) The Americas: | United States, Canada, Mexico, and Latin American countries |
| (2) Europe, Middle East & Africa: | United Kingdom, Germany, France, Italy, Netherlands, Belgium, Switzerland, Ireland, other European countries, Russia, African countries, and Middle Eastern countries |
| (3) East Asia & Oceania: | Hong Kong, China, South Korea, Taiwan, and Australia |
| (4) Southeast Asia: | Singapore, Malaysia, Thailand, India, Indonesia, Vietnam, Philippines, and Cambodia |