Global Logistics Partner

Annual Report 2017

Kintetsu World Express, Inc.

Year Ended March 31, 2017

Corporate Philosophy

Contribute to the development of a global community through logistics services – by creating new values, sustaining the environment and collaborating with our clients, shareholders and employees.

Vision

A superior business partner supporting customers' strategic objectives and activities by providing comprehensive innovative supply chain solutions

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Expectations and Forecasts

This annual report contains statements about our expectations and forecasts regarding plans, strategies, and business results related to the future of Kintetsu World Express, Inc. (KWE). These statements reflect our expectations based on personal beliefs and assumptions that were determined in light of information that was available at the time the report was prepared. There are innumerable risk factors and uncertainties that could affect the future, including economic trends, competition in the logistics industry, market conditions, fuel prices, exchange rates, and tax or other regulatory system considerations. Please be well advised that because of these risk factors, actual results may differ from our expectations.

Our History

Steps toward becoming a "Global Logistics Partner"

1950s 1960s 1970s 1980s 1990s 2000s 2010s

1948

Company founded

Began air freight forwarding operation in Kintetsu Corporation

1969

Expanded overseas

Established local subsidiaries in Hong Kong and the United States

1989

Broadened business domains

Started sea freight forwarding and logistics operations on a full scale

2003

Stock market presence

Tokyo Stock Exchange listing upgraded to the First Section

2015

Major movement forward

Acquired APL Logistics Ltd

"Going to the Next Phase!"

Thorough reinforcement of our forwarding business

Roadmap to a leap forward

KWE's starting point was freight forwarding, and we are thoroughly reinforcing this business in order to expand handling volumes while aiming for sustainable growth. We will further enhance our presence in the global market in order to become a global player. In the fiscal year ended March 2017, we took challenges in the Trans-Pacific East Bound and consumer goods fields, and succeeded in identifying a clear roadmap toward a leap forward.

"Going to the Next Phase!"

Toward further volume expansion

We will accurately capture each customer's needs and bring to bear the Group's comprehensive strengths in order to design and provide optimal logistics services within a continuously changing business environment. We aim to be much more than a traditional logistics company: we aspire to become a true "Global Logistics Partner" that is indispensable to our customers' success in their business.

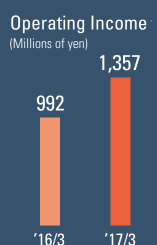
Collaboration with APLL in the U.S.-Canada customs clearing business

Bring to bear the Group's comprehensive strengths

Foundation for Creating New Value
—Outline of 6 Segments—

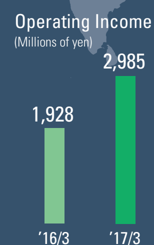
Europe, Middle East & Africa

Kintetsu World Express (U.K.) Ltd.
Kintetsu World Express (Deutschland) GmbH
Kintetsu World Express (France) S.A.S.
Kintetsu World Express (Benelux) B.V.
Kintetsu World Express (RUS), Inc. LLC.
Kintetsu World Express (Ireland) Ltd.
Kintetsu World Express South Africa (Pty) Ltd.
Kintetsu World Express (Switzerland) Ltd.
Kintetsu World Express (Italia) S.R.L.
Kintetsu World Express (Sweden) AB
Kintetsu World Express (Middle East) FZE
Kintetsu World Express (Czech) s.r.o.
Kintetsu World Express (Saudi Arabia) Ltd.
plus 3 other companies



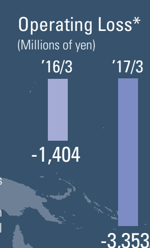
Southeast Asia

KWE-Kintetsu World Express (S) Pte Ltd.
Kintetsu World Express (Malaysia) Sdn. Bhd.
Kintetsu Logistics (M) Sdn. Bhd.
KWE-Kintetsu World Express (Thailand) Co., Ltd.
Kintetsu Logistics (Thailand) Co., Ltd.
Kintetsu World Express (India) Pvt. Ltd.
Gati-Kintetsu Express Pvt. Ltd.
PT. Kintetsu World Express Indonesia
PT. Kintetsu Logistics Indonesia
Kintetsu World Express (Vietnam), Inc.
Kintetsu Logistics (Vietnam), Inc.
Kintetsu World Express (Philippines) Inc.
Kintetsu World Express (Subic) Inc.
Kintetsu World Express (Clark) Inc.
Kintetsu Logistics (Philippines) Inc.
Kintetsu World Express (Cambodia) Co., Ltd.
plus 1 other company



APL Logistics Group

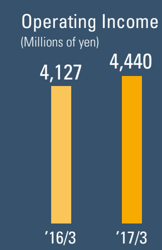
APL Logistics Ltd
plus 72 other companies



* Operating loss of APLL includes amortization of goodwill of ¥4,051 million in the fiscal year ended March 2016 and ¥6,024 million in the fiscal year ended March 2017.

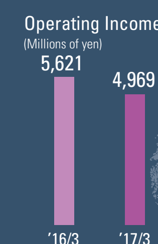
Japan

Kintetsu World Express, Inc.
Kintetsu Logistics Systems, Inc.
Kintetsu Transtech, Inc.
Kintetsu Cosmos, Inc.
Kintetsu World Express Sales, Inc.
Kintetsu World Express Shikoku, Inc.
Kintetsu Panasonic Trading Service Co., Ltd.
plus 3 other companies



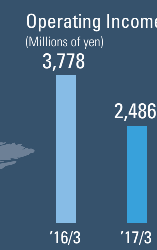
East Asia & Oceania

Kintetsu World Express (HK) Ltd.
Kintetsu World Express (Taiwan), Inc.
Kintetsu World Express (Australia) Pty Ltd.
Kintetsu World Express (Korea), Inc.
Kintetsu World Express (China) Co., Ltd.
Beijing Kintetsu World Express Co., Ltd.
Kintetsu World Express (Xiamen) Co., Ltd.
Kintetsu Logistics (Shenzhen) Co., Ltd.
Shanghai Kintetsu Logistics Co., Ltd.
Dalian Kintetsu Logistics Co., Ltd.
Suzhou Kintetsu Logistics Co., Ltd.
Kintetsu Logistics (Xiamen) Co., Ltd.
Yantai Kintetsu Logistics Co., Ltd.
Xi'an Kintetsu Logistics Co., Ltd.
Kintetsu World Express (Guangzhou) Ltd.
Trans Global Logistics Group Ltd.
plus 8 other companies



The Americas

Kintetsu World Express (U.S.A.), Inc.
Kintetsu World Express (Canada) Inc.
World Wide Customs Brokers Ltd.
Kintetsu World Express Mexico, S.A. de C.V.
KWE do Brasil Servicos Logisticos Ltda.



Other

Kintetsu Global I.T., Inc.
KWE Reinsurance, Inc.

Foundation for Creating New Value
—Our Services—

Air Freight

Main Services
- Air freight forwarding
- Trucking for pick-up and delivery
- Customs brokerage
- Customized packaging
- Installation of precision machinery

Items to handle
- Electronics components & products
- Automotive parts and components
- Healthcare products •Chemical products •Machinery and its parts
- Apparel •Aircraft components
- Alcoholic beverages, etc.

Net Sales (Millions of yen)

'16/3	168,768
'17/3	155,486

Sea Freight

Main Services
- Sea freight forwarding (FCL,LCL)
- Container drayage
- Trucking for pick-up and delivery
- Customs brokerage
- Buyer's consolidation
- PO Management

Items to handle
- Electronics components & products
- Automotive parts and components
- Plant equipment •Machinery and its parts •Chemical products •Equipment for events •General merchandise and retail goods, etc.

Net Sales (Millions of yen)

'16/3	115,961
'17/3	134,991

Logistics

Main Services
- Contract Logistics
  PO Management/Inventory control management/Cross-dock operation/Assembly works/Call center functions/Product inspection/VMI (Vendor Managed Inventory), etc.
- Logistics consulting
- Transportation via truck, trailer and rail
- Auto-related Logistics (transportation of finished vehicles, auto parts)

Items to handle
- Industrial products and components
- Automotive products •Healthcare products •Chemical products •Retail goods •Consumer goods, etc.

Net Sales (Millions of yen)

'16/3	101,380
'17/3	151,680

Other Operations

Main Services
- Domestic air freight forwarding
- Customized packaging, transport, and installation of precision machinery
- Temporary staffing, primarily for logistics and trading businesses
- Transport of art objects and other materials for events and exhibitions
- Hand carry service

Net Sales (Millions of yen)

'16/3	34,141
'17/3	32,172

Top Message

A Clear Roadmap

Steady Progress

Since I was appointed President in June 2016, I have pressed forward in line with our Medium-Term Management Plan, “Going to the Next Phase!” to thoroughly reinforce KWE’s core business of freight forwarding and to promote collaboration with APL Logistics, which we acquired in 2015.

As of today, several issues remain to be resolved. However, I believe we have identified the roadmap to take going forward in order to polish, complement, and harmonize KWE’s and APLL’s strengths and business bases. So, in the second year of the plan, we intend to keep moving steadily forward in order to achieve long-term growth in the entire KWE Group and in its corporate value.

If we compare our journey to climbing a mountain, we could say that under the current plan we are firmly establishing our base camp in order to actually head for the summit under the next Medium-Term Management Plan. By pulling together as a united corporate group and resolving issues one by one, we aim to reach great heights as a true “Global Logistics Partner”.

Your continuous support and patronage would be sincerely appreciated.

Nobutoshi Torii
Representative Director, President

Summary of Medium-Term Management Plan First Year Results

Although we fell short of achieving numerical targets, the Group without the APLL segment, achieved operating income comparable to the record high, and we have begun to see the roadmap for a leap forward based on continued collaboration with APLL.

Medium-Term Management Plan first-year initial targets unmet

The fiscal year ended March 2017 was the first year of our Medium-Term Management Plan "Going to the Next Phase!"

Net sales grew thanks to the contribution of APLL acquired in May 2015. However, we failed to reach our initial numerical targets because income declined due to changes in foreign currency exchange rates and a backlash of increased demand in the previous year in the Americas. In addition, the amortization of goodwill and costs for enhancement of APLL's business base associated with the separation from its former parent company impacted our results.

Steady progress toward thoroughly reinforcing our freight forwarding business

If we look at the KWE Group's organic growth, we achieved operating income comparable to the record high posted in the fiscal year ended March 2015. In Southeast Asia, we enjoyed growth in air freight volume, sea freight and logistics; in Europe, Middle East & Africa, we improved cost controls and boosted handling of automotive-related products; and in Japan, we enjoyed solid air freight demand for semiconductors and other electronic components within Asia. We can say that we made steady progress toward "thorough reinforcement of freight forwarding", one of the main strategies of the plan.

APLL's operations also performed solidly

Although we posted an operating loss for the APLL segment, it secured positive operating income before amortization of goodwill. APLL's operations have continued to perform well since the company joined the KWE Group. Moreover, we recognize the valuable achievements of the past year and the steady progress that we made toward enhancing APLL's business base following the separation from the former parent company. We have begun to see the roadmap for a leap forward through various collaborative projects with APLL.

Outline of Medium-Term Management Plan

Vision
A superior business partner supporting customers' strategic objectives and activities by providing comprehensive innovative supply chain solutions

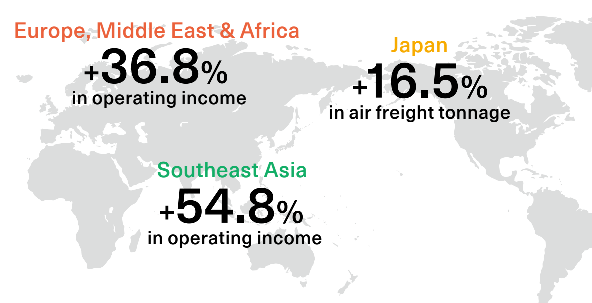
Slogan
"Going to the Next Phase !"
Toward Air Freight export 700,000 tons/
Sea Freight export 700,000 TEUs

Target by March 2019 (Revised on May 11, 2017)
Net Sales: **568** billion yen Operating Income: **18** billion yen

Key Strategies
- Become an industry leader providing comprehensive services
- Actively respond to customers' logistics needs at production locations and consumer markets
- Improve productivity by leveraging corporate capabilities

Core Competences
- Maximize efficient utilization of corporate resources
- Strengthen corporate risk management capabilities
- Heighten quality of operational performance

Medium-Term Management Plan: 1st Year Highlights



Business Environment

We expect to see innovations in the semiconductor and automotive industries, and structural changes in the Chinese market; we are preparing for these changes by thoroughly reinforcing our freight forwarding and logistics businesses.

Business Environment by Industry

In the semiconductor industry, developments in the AI and "Internet of Things" (IoT) markets have some people saying that the "silicon cycle" of booms and busts has evolved into a "supercycle". We expect to see continued strong growth in semiconductor transport demand. In the automotive markets, we can also expect further growth with new trends like electric vehicles and automated (self-driving) systems, in addition to robust demand based on the motorization of emerging markets. We foresee steady growth in the transport demand for healthcare, retail, and consumer-related products as the global population increases and the world's economies grow. While continuing to thoroughly reinforce KWE's freight forwarding business and APLL's broad variety of logistics operations as the driving forces of the KWE Group, we will steadily take advantage of new business opportunities.

Business Environment by Region

In the fiscal year ended March 2017 we saw a series of major political events including Brexit decision and the advent of the Trump administration in the U.S. So far, their impact on the Group's business has been limited. Even if the U.S. policies should cause a decline in automotive-related transport between Mexico and North America, as long as the global auto industry continues to grow, transport demands will definitely emerge along new or alternative lanes. It is precisely in this type of situation that we would like to transform changes into opportunities by making the most of our capacity for rapid response. Our advantage is having developed overseas locations based on light assets. In Europe, even if Brexit leads to some changes in distribution patterns, we don't see any factors that would be unavoidably negative for the Group.

Now that China is in the midst of transitioning from being "the world's factory" to being "the world's biggest consumer market", its market structure is clearly changing. Since the trend toward domestic production is expected to further accelerate in the future, we will maintain our competitive edge in the Chinese market by flexibly responding to changes as we develop new operating locations and new service models there.

Priority Measures for the Second Year of the Medium-Term Management Plan

We will strive to achieve the new numerical targets and focus on enhancing our management systems in order to leap forward in the next Medium-Term Management Plan.

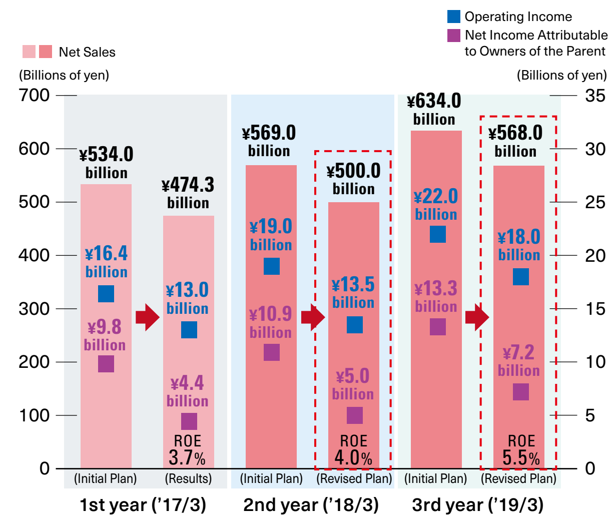
Revised numerical targets must be met

We carefully examined the numerical targets in the current Medium-Term Management Plan in light of the business results achieved in the first year, the current business environment, and the degree of progress already made toward enhancing APLL's business base. As a result, we revised the numerical targets for the Plan's final year — the fiscal year through March 2019 — downward to net sales of 568 billion yen and operating income of 18 billion yen. We recognize these revised figures as targets that we must meet. In addition, it will still take some time before we achieve the "700,000 tons of air freight and 700,000 TEUs of sea freight" that we must reach in order to compete successfully in the global market. The Group will continue to focus on expanding freight volumes keeping these targets firmly in mind, although we may not reach them until the next Medium-Term Management Plan takes effect.

Focus on enhancing our management systems to prepare for the next phase

Our current Medium-Term Management Plan directs us to steadily implement priority measures based on the premise that we must achieve our revised numerical targets, as well as focusing on enhancing management systems to prepare for a jump under the next Medium-Term Management Plan. First, KWE and APLL will aim to grow in their respective business domains as well as expanding business domains through collaboration. Specifically, we will work to expand freight forwarding sales by using APLL's channels to reach out to major customers that KWE could not have approached in the past, in order to achieve the volume expansion that is the Group's top-priority. Going forward, we will accelerate volume expansion by maintaining a flexible stance and more strategic agenda. Regarding APLL, we aim to quickly complete the enhancement of its business base, including the separation of its systems from the former parent company, and to establish a reliable management system.

Medium-Term Management Plan Results and Numerical Targets (Revised on May 11, 2017)



KWE

APL Logistics

Priority Measures for the Second Year of the Medium-Term Management Plan

We will continue to promote volume expansion leveraging KWE's own strength and collaboration with APLL.

Volume expansion of Trans-Pacific East Bound business

In order to expand the Group's overall handling volume, it is essential that we increase our volume in the Trans-Pacific East Bound lanes, where the world's largest freight volume travels. Our goal is to expand the Group's market share by actively engaging in joint sales with APLL, which has many U.S. customers. Collaborative sales are growing, and opportunities are gradually opening up with respect to customers that KWE could not have approached before the merger. In the second year of the Medium-Term Management Plan, we will focus on this objective even more intensely so that we can further build on the track record.

Business expansion among non-Japanese "Corporate Accounts"

We have already developed businesses with many non-Japanese global accounts, but most of their transactions have been focused in Japan and other parts of Asia. From the second year of the plan, we will further focus on expanding business with global accounts outside Japan, including collaboration with APLL.

Promotion of sales strategy by commodity

We have many promising customers in the electronics field where transport demand is expected to increase even further. Our high-quality service in this field is an important advantage, evidenced by our being the winner of the supplier excellence awards presented by some global semiconductor manufacturers. We will also take advantage of our strength in the electronics field to branch out in the automotive field, where the use of electronics is increasing. We will focus on transporting in-vehicle devices related to the full-scale introduction of automated driving. In the healthcare field, we have transported products mainly from overseas to Japan, but going forward we will develop more business from Europe to Asia and from the Americas to Europe. In the retail and consumer goods field, APLL is a strong player and we will deepen our collaboration with them and work to increase handling volume through joint sales.

Other priority measures

In addition to the above strategies, we will prepare a framework for our next major step forward by verifying the IT system, looking into the future, strengthening group governance for optimal group management, developing human resources, and optimal placement of human resources.

Message from William Villalon, President, APL Logistics

President
William Villalon

On January 1, 2017 I was appointed as the new President of APL Logistics. Stepping into this role, I felt as excited as if it was the first day I joined APLL nearly 33 years ago. I have been blessed with opportunities to work across the entire logistics supply chain before serving, in my immediate past position, as Global Head for the Automotive Vertical and as Region Head for North America.

When I first joined the company, APLL stood at the beginning of rolling out the rail-based double-decker container innovation called the ‘Stacktrain’ that disrupted the U.S. rail industry. This would be one of many ‘first to market’ APLL innovations, which includes ShipmentOptimizer, OceanGuaranteed, AutoLinx and AutoDirect.

APLL capitalized on innovation and a can-do drive to break through a tough, competitive market to become a leading logistics solutions provider. Going forward, we will use this experience and deep expertise to offer more solutions to customers, delivered with operational excellence.

APLL’s solution-driven product innovation will focus on expanding our origin services, technology and lead logistics provider (LLP) offerings in key markets across developed and emerging markets. We will also be taking steps to revitalize our network to realize greater scale efficiencies in delivering our solutions to customers.

We continue to compete under challenging business conditions. Even as APLL pursues profitable growth, the company will exercise financial discipline in running and modernizing its business functions; and look for ways to increase productivity and efficiency within APLL and with KWE.

Synergies with KWE

During 2016, APLL and KWE worked closer together to bring our complementary strengths to customers. In the process, we gained many valuable learnings and refined our approach to achieve encouraging results. Our efforts resulted in:

- Multiple ocean freight wins in Transpacific and Intra-Asia trade lanes
- First joint air freight win from Asia to U.S.
- Indonesia distribution and China 4PL APLL wins to existing KWE customers
- Utilizing KWE warehouses for APLL customers in South-East Asia

APLL is committed to close and continued collaboration to generate more opportunities for commercial wins and operational efficiencies.

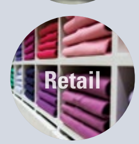
APL Logistics Verticals:

APL Logistics offers Vertically-focused solutions and services that span across the supply chain, including sourcing & in-bound manufacturing, order and freight management, order fulfilment, reverse logistics, trade & customs compliance and consulting services.

The Automotive Vertical is focused on helping customers in vehicle manufacturing, suppliers and distributors manage supply chain complexities in both developed and growth markets.

The Consumer Vertical is focused on helping customers in the consumer electronics, fast-moving consumer goods (FMCG), consumer durables, food and beverage sectors.

The Industrials Vertical focuses on customers in the precision parts, power, motorized electronics and industrial machinery sectors.



The Retail Vertical focuses on customers in the apparel, fashion, lifestyle, home furnishings, general department store merchandise and e-retailers.

Japan

Guide the Group as the control tower

As the core of the Group, KWE Japan will lead the entire Group to strengthen management base. In the fiscal year through March 2018, we will focus on the measures outlined below.

01 For the Benefit of the Entire Group;

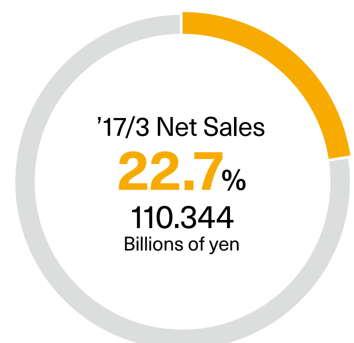
(1) Business expansion through cooperation with group companies
(2) Sales strategy by commodity
(3) Offshore business traffics
(4) Quality and efficiency improvement of operations
(5) Continued efforts to improve earnings

02 Reinforce Customer Relationships

(1) Air and sea freight volume growth
(2) Logistics business expansion

03 Enhance Global Administrative Functions

(1) Group governance for optimal group management
(2) Personnel training/optimal human resource placement
(3) Global risk management



Freight Movements

Fiscal year through March 2017

	Exports	Imports
Air freight	Up 16.5%*1	Up 3.2%*2
Sea freight	Up 9.9%*3	Up 4.2%*2

*1 based on weight *2 based on number of shipments
*3 based on TEUs (Twenty-foot Equivalent Units)

The Americas

General Manager,
The Americas
Tetsuya Yamanaka

Major Countries and Regions
United States, Canada, Mexico, and Latin American countries

Focus on volume expansion as the growth driver for the entire Group

The Americas covers the world's largest importing and consuming region. It includes the U.S. and Canada – home to many major global companies – as well as Mexico and Latin American counties, which hold promise for large-scale growth in the future. The Americas serves as the growth driver for the entire Group. In the fiscal year through March 2018, we will focus on the measures outlined below.

01 Sales Strategy by Commodity

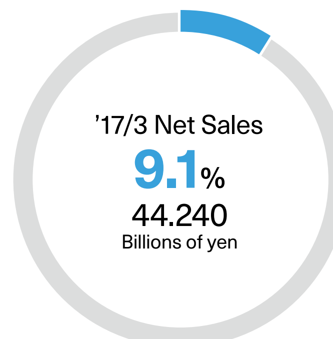
Amid increasingly frequent shipments to Japan, Asia, South America, and Europe of automotive parts made in North America by Japanese-affiliated manufacturers, we will work actively to expand handling volume in this field. In the healthcare field, we will strengthen the partnerships we have cultivated with major customers through Americas-to-Japan shipments, and expand handling volume to destinations other than Japan as well.

02 Trans-Pacific/Service Strategies

In order to increase import volumes in the Trans-Pacific East Bound market where the world's greatest transport demand is concentrated, we will promote collaboration and joint sales with East Asia & Oceania, Southeast Asia, and APLL. In addition, we will build solutions designed to meet customers' needs, such as NAFTA Cross-Border Trucking Business that reaches Canada and the U.S. and Mexico, and air freight imports using Toronto Pearson International Airport as a gateway into the Midwestern U.S.

03 Mexico

We must increase sales locations in Mexico, where the transport demand will continue to grow primarily in the automotive industry. We opened Queretaro Sales Office in January 2017 and Aguascalientes Sales Office in March, giving us a total of eight operating locations where we will press forward to boost handling volume.



Freight Movements

Fiscal year through March 2017

	Exports	Imports
Air freight	Down 4.8%*1	Down 9.3%*2
Sea freight	Up 15.3%*3	Up 8.0%*2

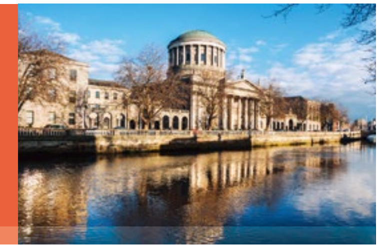
*1 based on weight *2 based on number of shipments
*3 based on TEUs (Twenty-foot Equivalent Units)

Europe, Middle East & Africa

General Manager, Europe, Middle East & Africa
Shin Ogawa

Major Countries and Regions

The United Kingdom, Germany, France, Italy, the Netherlands, Belgium, Switzerland, Ireland and other European countries; Russia, African and Middle Eastern countries



Take maximum advantage of the Group's specialties and strengths

We aim to increase the entire Group's handling volume by making the most of our specialties and strengths in this region. In the fiscal year through March 2018, we will further expand sales by offering the following specialized services.

01 Europe

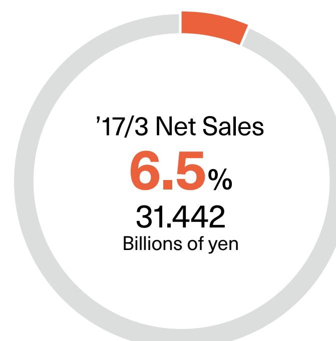
We have a wealth of experience in the healthcare products in Ireland, and our business is growing markedly in this field. In the past several years, KWE has been ranked among the top group in terms of overall air freight exports from Ireland. We have enhanced air freight handling volume in Germany and the U.K. by focusing on automotive vertical. KWE's Netherlands operation is functioning as the Europe Gateway for healthcare vertical. In Italy, we are able to offer fiscal warehouse services as we do in Benelux subsidiary.

02 Middle East

In addition to Middle Eastern subsidiary in Dubai, we established Kintetsu World Express Middle East Logistics L.L.C in December 2016 and began customs clearing services. Saudi Arabian subsidiary covers Saudi Arabia and Bahrain; with two operating locations and a total of more than 13,000 m^2 of warehouse space, we provide high-quality services like those available in Europe.

03 Africa Region

In South Africa, we have built a service structure that is superior to competitors in Europe, the U.S., and Japan. We meet customers' needs not only by providing logistics services in six operating locations with a total of more than 57,000m^2 warehouse space, but also extending services into the sub-Saharan region north of South Africa through the "Africa Desk" in South African head office.



Freight Movements

Fiscal year through March 2017

	Exports	Imports
Air freight	Up 11.0%*1	Up 2.6%*2
Sea freight	Down 0.8%*3	Down 9.3%*2

*1 based on weight *2 based on number of shipments
*3 based on TEUs (Twenty-foot Equivalent Units)

East Asia & Oceania

General Manager,
East Asia & Oceania
Makoto Saito

Major Countries and Regions

Hong Kong, China, South Korea, Taiwan, and Australia

Flexibly respond to market changes and increase handling volume

The East Asia & Oceania handles the largest volume in the Group. Amid a spate of changes in China's economic and industrial structure, we are striving to expand business by developing new types of services. To lead the volume growth in the Trans-Pacific East Bound market, we will further expand handling volume in the electronics, automotive, healthcare, and various manufacturing equipment fields. In the fiscal year through March 2018, we will further increase sales by the following specialized services.

01 Collaboration, Specialization, Standardization, and Expansion

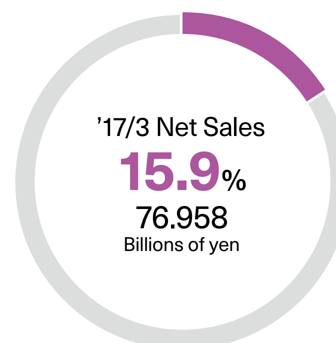
Based on the above keywords, we will focus on providing valuable services through combination of the Group's subsidiaries, as well as enhancing our selling points.

02 Healthcare Products

As the only non-Chinese logistics company holding the China Food and Drug Administration (CFDA) license in Shanghai, we will expand handling of healthcare products, of which transport demand is expected to spark in the future.

03 Promote "Clear, Easy to Use" IT services

This year, we have developed new Tracking Management System in addition to Proof of Delivery (POD) service via smartphones and other mobile devices for domestic deliveries in China, which we launched in 2016. Going forward, we intend to offer more convenience by expanding these services to each subsidiary in this region.



Freight Movements

Fiscal year through March 2017

	Exports	Imports
Air freight	Down 1.9%*1	Up 0.3%*2
Sea freight	Up 8.3%*3	Down 1.9%*2

*1 based on weight *2 based on number of shipments
*3 based on TEUs (Twenty-foot Equivalent Units)

Southeast Asia

General Manager,
Southeast Asia
Yasuhiro Kaneda

Major Countries and Regions

Singapore, Malaysia, Thailand, India, Indonesia, Vietnam, the Philippines, and Cambodia

Strong growth helps boost handling volume

In the fiscal year through March 2017, Southeast Asia recorded the highest growth rate in the Group as a result of the Group's largest investment in recent years. In the fiscal year through March 2018, we shall further invest in business development for this prominent market related activities which will provide a strategic thrust towards the expansion of our handling volume, with particular focus on growth in the Trans-Pacific East Bound market, alongside the East Asia & Oceania region.

01 Air Freight

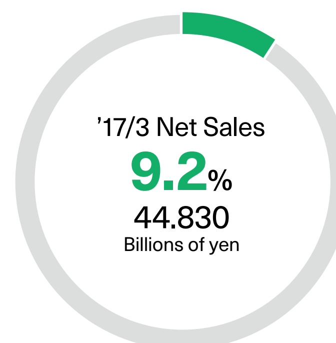
The fiscal year through March 2017 saw a healthy double-digit growth in our air freight handling volume, and this was fueled mainly by strong Intra-Asian trade. In the fiscal year through March 2018, the Trans-Pacific market will remain our key area of focus, and for this reason we will continue our North America-bound Bangkok Gateway Program to provide high-quality and reliable services based on the stable procurement of rates as well as cargo space throughout the year.

02 Sea Freight

Sea freight has been our main engine of growth in the past several years and will continue to provide the impetus for our future growth due to our more potentiality. We will continue with our business expansion through the collaborative efforts among our group companies including APLL and Trans Global Logistics Group Ltd. Some degrees of operations integration with them will generate more synergy values and hence can be considered in the foreseeable future.

03 Logistics

Our Prachinburi (Thailand) warehouse, which we opened in April 2015, has been increasing its handling volume mainly in automotive-related products, and we plan to open a second warehouse in December 2017. In the cross-border trucking services, we will develop a Mekong Delta network, using Thailand as our base.



Freight Movements

Fiscal year through March 2017

	Exports	Imports
Air freight	Up 24.4%*1	Down 1.9%*2
Sea freight	Up 24.9%*3	Up 6.8%*2

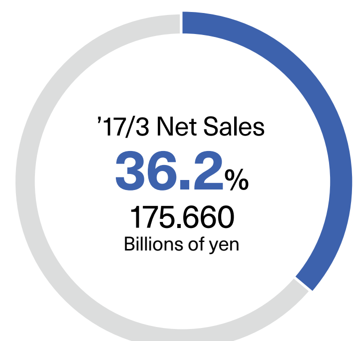
*1 based on weight *2 based on number of shipments
*3 based on TEUs (Twenty-foot Equivalent Units)

APLL

General Manager,
APLL
Kazuhisa Kawamura

Vertical solutions delivered with operational excellence

Leveraging our operational and network strength, APLL is focused on delivering innovative service offerings in the Automotive, Consumer, Industrials and Retail verticals across key origin and destination markets. Our key policies for the fiscal year through March 2018 will be as follows:



01 Vertical Focus and Expertise

- Automotive: Expand finished vehicle distribution business and invest in new car rakes to increase our leading India market position
- Consumer & Industrials: Scale up growth and network opportunities under single leadership
- Retail: Expand focus on origin management and distribution services at key locations across our global network

02 Differentiated Solutions

- Increase market differentiation with specialized solutions selling, supported by global trade compliance and supply chain engineering
- Innovate solution offerings for buyer's consolidation and control tower
- Broaden and deepen IT solutions offering with roll out of APL Logistics SuperSuite, Phase 2

03 Synergies with KWE

- Expand cross-selling with KWE for new and existing customers
- Pursue joint procurement and scale efficiencies in Sea Freight and Air Freight forwarding, IT and other relevant functions

Corporate Governance

Basic Philosophy

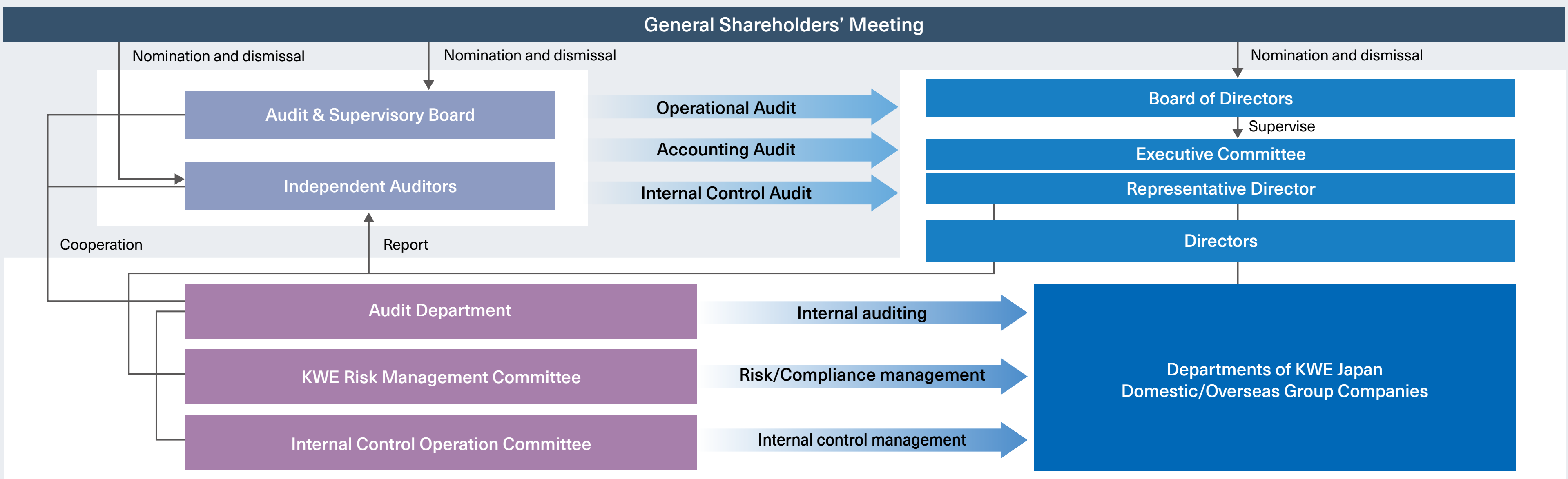
The KWE Group's corporate philosophy is to "Contribute to the development of a global community through logistics services–by creating new values, sustaining the environment and collaborating with our clients, shareholders and employees". We work at building corporate value while maintaining good relationships with all stakeholders. From this perspective, it is important that our management strengthens corporate governance and makes its decision-making processes more transparent and fair.

Special Features of KWE's Governance

KWE's governance system basically consists of the Board of Directors and the Audit & Supervisory Board. In order to strengthen the management supervisory functions of the Board of Directors and speed up decision-making through the delegation of authority, we have adopted a managing officer system and have elected 19 managing officers (including five who also serve as Directors). In addition, we have established an "Executive Committee" under the supervision of the Board of Directors, in order to provide better forums for resolving general management policies and important issues related to business execution.

Board of Directors

KWE's Board of Directors consists of nine members, including three Outside Directors. We select candidates for Directors and Audit & Supervisory Board Members after giving full consideration to each individual's capabilities as a manager, sense of proportion and past performance, etc. A Representative Director then provides an explanation and gains approval for these candidates at a meeting of the Board of Directors. Directors are appointed for one-year terms, in order to establish clear accountability and to allow for quick response to changes in business conditions.



Compensation for Directors is structured to reflect each Director's position and the Company's financial results, based on prescribed Company standards.

The Board of Directors held 12 meetings in the fiscal year ended March 2017, and the four Outside Directors attended these meetings as follows.

Position	Name	Meeting attendance
Director	**Masanori Yamaguchi**	Attended 8 of 12 meetings
Director	**Tetsuya Kobayashi**	Attended 11 of 12 meetings
Director *Independent Director	**Yukio Ueno**	Attended 11 of 12 meetings
Director *Independent Director	**Sanae Tanaka**	Attended 12 of 12 meetings

Audit & Supervisory Board Members

KWE's internal auditing is supervised by our Audit Department, which audits operations and accounting, and works to improve operations and management efficiency.

Each of our four Audit & Supervisory Board Members (including two Outside Audit & Supervisory Board Members) conducts audits according to auditing plans determined by the Audit & Supervisory Board. The system allows for adequate supervision of Directors' job execution, with important documents being turned over to Audit & Supervisory Board Members and the standing Audit & Supervisory Board Members attending important meetings such as the Executive Committee. As a rule, the Board meets once a month. In addition to determining basic policies regarding auditing, etc., board members report to each other the findings of their daily auditing activities and exchange views.

We established the Audit & Supervisory Board Members' Office to support clerical work related to the Audit & Supervisory Board and the Board Members' work, and it operates in close coordination with the Audit Department. We have also established mechanisms that enable the Board Members to demand whatever reports they require from Directors, managing officers, or employees, and to investigate the status of business and assets at KWE Group companies at any time.

KWE's accounting auditor is KPMG AZSA LLC. Audits were conducted thoroughly throughout the fiscal term, and we have created an environment that facilitates auditing.

Our Audit Department, the Audit & Supervisory Board, and accounting auditor meet regularly to coordinate their annual schedules and report on operations, etc. They cooperate even more closely by exchanging information as necessary.

The Audit & Supervisory Board held 14 meetings in the fiscal year ended March 2017, and the two Outside Audit & Supervisory Board Members attended these meetings as follows.

Position	Name	Meeting attendance
Audit & Supervisory Board Member * Independent Officer	**Masao Kishida**	Attended 13 of 14 meetings
Audit & Supervisory Board Member	**Kazuyasu Ueda**	Attended 13 of 14 meetings

Outside Directors and Outside Audit & Supervisory Board Members

Outside Director Tetsuya Kobayashi is a Chairman of the Board at Kintetsu Group Holdings Co., Ltd. We think Mr. Kobayashi is qualified to serve as an Outside Director, regardless of the status of independence, for the reasons cited on **Page 23** under "Reasons for selection of Directors and Audit & Supervisory Board Members".

KWE has three independent officers—Yukio Ueno, Sanae Tanaka, and Yusuke Kawasaki. None of these three individuals come from a KWE affiliated company, a major shareholder, or a major business partner, and because they are Outside Directors or Audit & Supervisory Board Members with a high level of independence to avoid the risk of conflicts of interest with general shareholders, we designate them as independent officers based on provisions of the Tokyo Stock Exchange and notify the exchange of this designation.

Outside Director Yukio Ueno is a Corporate Advisor at Mitsubishi Corporation. Mitsubishi and KWE have business relations that include freight forwarding, but the amounts of these transactions are minor (less than 1%).

[Career summary of three independent officers]

Yukio Ueno

Apr. 1968	Joined Mitsubishi Corporation
Jun. 1998	Director at the company
Apr. 2005	Senior Executive Vice President at the company
Jun. 2010	Audit & Supervisory Board Member at the company
Jun. 2014	Corporate Advisor at the company (current position)
Jun. 2015	Director at Kintetsu World Express, Inc. (current position)

Sanae Tanaka

Apr. 1989	Registered as attorney
Sep. 1991	Representative, Sanae Tanaka Law Office (current position)
Jun. 2015	Director at Kintetsu World Express, Inc. (current position)

Yusuke Kawasaki

Oct. 1984	Joined Asahi & Co. (currently KPMG AZSA LLC)
Jun. 2010	Representative Partner, KPMG AZSA LLC (retired Jun. 2016)
Jul. 2016	Head, Yusuke Kawasaki C.P.A. Office (current position)
Jun. 2017	Audit & Supervisory Board Member at Kintetsu World Express, Inc. (current position)

Outside Audit & Supervisory Board Member Yoshihiro Yasumoto is a Director, Senior Managing Executive Officer at Kintetsu Group Holdings Co., Ltd. Kintetsu Group Holdings is the primary shareholder of KWE with a 44.11% stake, but there is no particular business relations between KWE and Kintetsu Group Holdings, and our Outside Directors and Outside Audit & Supervisory Board Member have no particular vested interests in KWE.

KWE judges an Outside Director or Outside Audit & Supervisory Board Member to be independent when he or she does not fall under any of the criteria set forth below.

1. An executive of KWE and its affiliated companies (hereinafter referred to as the “KWE Group”), including a person who performed in this capacity at KWE within the past ten years.
2. A party to whom the KWE Group is a major business partner, or an executive of such party (including a party to whom the KWE Group was previously a major business partner, or a person who was an executive of such party within the past five years).
3. A party who is a major business partner of the KWE Group (a company whose total amount of transactions with the KWE Group exceeded 1% of the consolidated net sales of either company in the most recent fiscal year), or an executive of such party.
4. A major shareholder (person or party) of KWE who directly or indirectly holds 10% or more of KWE’s total voting rights, or an executive of such party.
5. A party who receives a large amount of donations equal to 10 million yen or more per annum from the KWE Group, or an executive of such party.
6. A consultant, certified public accountant or other accountant, or an attorney or other legal professional who receives a large amount of monetary consideration or other property benefits totaling 10 million yen or more per annum from the KWE Group in addition to his or her officer compensation (in cases where the party receiving property is an organization such as a legal entity or an association, or a person belonging to such organization).
7. A person belonging to an audit firm that carries out statutory audits of the KWE Group, including a person who has carried out audit services as an employee of such audit corporation for KWE or a subsidiary of KWE within the past five years.
8. A spouse or a relative within the second degree of kinship of a person listed below:
   •An officer or an employee of KWE; or
   •A person to whom any of criteria 2 through 7 above applies.

Reasons for selection of Directors and Audit & Supervisory Board Members

Directors

(Based on the information as of June 27, 2017)

	Significant concurrent positions	Reasons for selection
Kazuyasu Ueda Chairman of the Board	Senior Executive Vice President, Kintetsu Group Holdings Co., Ltd.	As a manager of Kintetsu Group Holdings Co., Ltd., a major shareholder of the Company, Mr. Kazuyasu Ueda has a wealth of experience, achievements, and insights regarding operations in accounting and financial departments. The Company believes that he has the capability to strengthen the management supervisory functions of the Company.
Nobutoshi Torii Representative Director President		Mr. Nobutoshi Torii possesses a wealth of experience, achievements, and insights in the sales field of the Company. He has been leading the management as President & CEO since June 2016, and has worked to expand the Group's business scope and improve its corporate value. He possesses knowledge regarding the overall management of the Company.
Joji Tomiyama Director Executive Vice President		Mr. Joji Tomiyama possesses a wealth of experience, achievements, and insights in the sales field of the Company, as well as possesses knowledge regarding the overall management of the Company through experience as a President of an overseas subsidiary and is currently responsible for the information systems division and the APLL Group for the strengthening of the business and management.
Keisuke Hirata Director Managing Executive Officer		Mr. Keisuke Hirata possesses a wealth of experience, achievements, and insights in the sales field of the Company, as well as possesses knowledge regarding the overall management of the Company through experience as a President of an overseas subsidiary and current posts in charge of sales to major customers with global business operation.
Katsufumi Takahashi Director Managing Officer		Subsequent to gaining a wealth of experience and achievements in the sales field of the Company, Mr. Katsufumi Takahashi currently serves as the person responsible for general affairs that is tasked with legal affairs, compliance, IR and PR, etc. He possesses knowledge regarding the overall management of the Company.
Kiyoyuki Hirosawa Director Managing Officer		Subsequent to gaining a wealth of experience and achievements in the sales field of the Company, Mr. Kiyoyuki Hirosawa became General Manager responsible for the audit division. Furthermore, he served as Audit & Supervisory Board Member, and thus possesses knowledge regarding the overall management of the Company.

Outside Director

	Independent Officer	Significant concurrent positions	Reasons for selection
Tetsuya Kobayashi		Chairman of the Board, Kintetsu Group Holdings Co., Ltd. Chairman of the Board, KNT-CT Holdings Co., Ltd. Chairman of the Board, Kintetsu Department Store Co., Ltd. Director, Mie Kotsu Group Holdings, Inc. Director, Kin-Ei Corp. Director, The Kansai Electric Power Company, Incorporated	As a manager of Kintetsu Group Holdings, a major shareholder of the Company, Mr. Tetsuya Kobayashi has a wealth of experience and broad insights and has given advice on management decision-making from a wide range of perspectives.
Yukio Ueno	○	Corporate Advisor, Mitsubishi Corporation Director, Dream Incubator Inc.	Mr. Yukio Ueno possesses a wealth of experience and insights as a Senior Executive Vice President and Audit & Supervisory Board Member of Mitsubishi Corporation, and from an independent standpoint he has been providing opinions on management decisions from diversified viewpoints.
Sanae Tanaka	○	Representative, Sanae Tanaka Law Office Director, Noevir Holdings Co., Ltd. Director, PILOT CORPORATION Director, Shochiku Co., Ltd.	Although Ms. Sanae Tanaka has not been directly involved in corporate management, she possesses specialized insights and a wealth of experience as an attorney-at-law, and from an independent standpoint she has been providing opinions on management decisions from diversified viewpoints.

Standing Audit & Supervisory Board Members

(Based on the information as of June 27, 2017)

	Independent Officer	Significant concurrent positions	Reasons for selection
Takashi Sakai			Subsequent to attaining a wealth of experience and achievements in the sales field of the Company, Mr. Takashi Sakai serves as the person responsible for customs compliance, and since he is well versed in laws and regulations and business laws, etc., related to the Company's business and possesses a wealth of operational experience.
Katsumi Watanabe			Mr. Katsumi Watanabe possesses a wealth of experience and achievements in the accounting and finance divisions of the Company and its subsidiaries, and also possesses knowledge regarding the overall management of the Company through being responsible for the audit division of the Company.

Outside Audit & Supervisory Board Members

	Independent Officer	Significant concurrent positions	Reasons for selection
Yusuke Kawasaki	○	Head, Yusuke Kawasaki C.P.A. Office	Mr. Yusuke Kawasaki possesses a wealth of experience, achievements, and insights as a certified public accountant. The Company believes that he has the capability to strengthen the audit structure of the Company.
Yoshihiro Yasumoto		Director, Senior Managing Executive Officer, Kintetsu Group Holdings Co., Ltd. Audit & Supervisory Board Member, Mie Kotsu Group Holdings, Inc. Audit & Supervisory Board Member, Kin-Ei Corp.	Having worked in the Accounting and Finance Dept. of Kintetsu Group Holdings Co., Ltd., a major shareholder of the Company, Mr. Yoshihiro Yasumoto has a wealth of experience, achievements, and insights. The Company believes that he has the capability to strengthen the management supervisory functions of the Company.

Executive Committee

KWE's Executive Committee is composed of full-time Directors and Audit & Supervisory Board Members, managing officers, division managers, and other relevant personnel. The committee meets twice monthly under the supervision of the Board of Directors, and it serves as a forum to resolve on important matters related to overall management policies and business execution.

Director and Audit & Supervisory Board Member Compensation

KWE policy stipulates that Director compensation is allocated within the range resolved at the General Shareholders' Meeting. Such compensation is divided into monthly- and performance-based compensation. The amount of compensation is decided based on amounts prescribed in internal regulations, KWE 's performance, economic conditions and other matters, and how well Directors contribute individually to the performance of KWE. In the year ended March 2017, we paid a total of ¥357 million to 16 Directors, including ¥33 million to the four Outside Directors.

KWE determines Audit & Supervisory Board Members compensation based on discussions with the Audit & Supervisory Board. In the fiscal year ended March 2017, we paid a total of ¥54 million to five Audit & Supervisory Board Members (including one Audit & Supervisory Board Member who retired), including ¥12 million to the two Outside Audit & Supervisory Board Members.

Compliance

KWE clearly states that it will comply with and respect laws, regulations, and ethical standards in its Corporate Philosophy, KWE Group Corporate Guidelines and KWE Group Code of Conduct, which provide a foundation for the activities of officers and employees of KWE Group companies. We have outlined a basic approach to business execution in the KWE Group Compliance Basic Policy, which shows a basic stance on corporate behavior. To promote rigorous compliance management, we have appointed a Chief of Compliance (Director) and clarified compliance responsibilities according to each position, based in part on the KWE Group Compliance Rules. We have established a Committee chaired by the Chief of Compliance to promote corporate behavior that complies with laws, regulations, and corporate ethics.

We have prepared a whistle-blower system to aid in the early detection and correction of violations of laws, regulations, and corporate ethics, and to protect whistle-blowers from prejudicial treatment. Group companies have prepared compliance manuals and regularly conduct compliance training and auditing.

Risk Management

KWE has established the KWE Group Risk Management Basic Policy to facilitate integrated and ongoing risk management on a global basis. We have appointed a Chief of Risk Management (Director) and clarified risk management responsibilities according to each position, based in part on the KWE Group Risk Management Rules. We have established a Risk Management Committee chaired by the Chief of Risk Management to help identify risks that face group companies from a company-wide perspective and take appropriate action. We have also created a crisis plan, which includes the KWE Group Crisis Management Rules, to prepare for emergency situations that could emerge suddenly and seriously impact our business operations.

Investor Relations

KWE has established an IR Group within the Planning and General Affairs Department, and officer responsible for the Department is also the officer responsible for Investor Relations. In order to make our management more transparent, we disclose information about the status of our business through our website and other means, and work at maintaining good relations with shareholders and investors. We appropriately disclose financial and business information in our financial statements, business results presentations, annual reports, data books, and other materials.

We disclose on our website monthly air freight volume for KWE and the overall industry in Japan. We also disclose quarterly overseas air freight volume for KWE. In addition, the Company strives to help investors understand its businesses by providing informational videos on the website that clarify its operations and by providing segment information.

To a reasonable extent, KWE places importance on responding proactively to the dialogue had with shareholders, investors and analysts. We hold business results presentations twice yearly for full-year and interim results (May and November) in order to explain our business performance and policies to institutional investors and analysts. In addition, we participate in small meetings, IR conferences and telephone conferences at the request of securities companies, and the like. We also hold briefings for individual investors irregularly to provide an opportunity to communicate with these investors.

Disclosure Based on Principles of Corporate Governance Code

[Principle 1.4: Cross-Shareholdings]

1. Cross-Shareholdings Policy

   Investments in cross-shareholdings are aimed at maintaining and strengthening business alliances and transactions, and are made when they will help maintain and improve the corporate value of the KWE Group.

2. Criteria for Exercising Voting Rights

   KWE will exercise its voting rights and make decisions for or against proposals from the standpoint of whether the company issuing the proposal is making appropriate decisions which will help increase its corporate value over the medium to long term, and improve the corporate value of the KWE Group as a whole.

[Principle 1.7: Related Party Transactions]

Directors' competing transactions and transactions between Directors and KWE (conflict-of-interest transactions) are required to be resolved by the Board of Directors. Also, unusual transactions must be audited by standing Audit & Supervisory Board Members before being carried out.

[Principle 3.1: Full Disclosure]

(i) KWE's corporate philosophy, management strategy and management plan (the Medium-Term Management Plan) are disclosed on KWE's website and in its financial results briefing materials and other IR materials.

- Corporate philosophy
  https://www.kwe.co.jp/en/about-contents/philosophies
- Management strategy and management plan (the Medium-Term Management Plan)
  https://www.kwe.co.jp/en/ir-contents/strategy

(ii) KWE's perspective on corporate governance is disclosed on KWE's website and in corporate governance reports, securities reports and the Annual Report.

•KWE's perspective on corporate governance
https://www.kwe.co.jp/en/about-contents/governance

(iii) KWE's method for determining Director compensation: Please see the Director and Audit & Supervisory Board Member Compensation section on **Page 24.**

(iv) KWE's method for nominating executive leadership, Director and Audit & Supervisory Board Member: Please see the Board of Directors section on **Page 20.**

(v) KWE discloses the individual selection reasons for its Director and Audit & Supervisory Board Member candidates in the Reference Documents for the 48th Ordinary General Meeting of Shareholders. Details are listed in the Notice of Convocation of the 48th Ordinary General Meeting of Shareholders, which can be downloaded from our website at the following URL.
https://www.kwe.co.jp/en/wp-content/uploads/sites/2/2017/06/en_stockholder48.pdf

[Supplementary Principle 4.1.1]
KWE has established Board of Directors Regulations and matters to be deliberated on and decided at Board of Directors' meetings are set in accordance with laws and regulations. KWE has also established Organization and Duties Authority Regulations, which clarify the scope of actions which can be executed by management.

[Principle 4.8: Effective Use of Independent Outside Directors]
[Principle 4.9: Independence Standards and Qualification for Independent Outside Directors]
Please see the Board of Directors section on **Page 20** and the Outside Directors and Outside Audit & Supervisory Board Members section on **Page 21.**

[Supplementary Principle 4.11.1]
Please see the Board of Directors section on **Page 20.**

[Supplementary Principle 4.11.2]
Information about Directors and Audit & Supervisory Board Members who serve concurrently as officers at other listed companies is provided in the Notice of Convocation of the 48th Ordinary General Meeting of Shareholders, which can be downloaded from our website at the following URL.
https://www.kwe.co.jp/en/wp-content/uploads/sites/2/2017/06/en_stockholder48.pdf

[Supplementary Principle 4.11.3]
KWE receives feedback and advice from Outside Directors on the analysis and evaluation of how effectively the Board of Directors is performing. We started evaluating the effectiveness of the overall Board of Directors with reference to the individual evaluations of each Director in 2016.

[Supplementary Principle 4.14.2]
From the fiscal year ending March 2018, in addition to conducting seminars for officers on the Companies Act and laws and regulations to the business activities of KWE, standing Directors and Audit & Supervisory Board Members will undergo continuous governance training to ensure that they are able to effectively perform their roles and fulfill the responsibilities expected of them as persons involved in important governance bodies.

For newly appointed Directors and Audit & Supervisory Board Members, training will be given so they can acquire the necessary knowledge and are equipped to handle the responsibilities they have as Directors and Audit & Supervisory Board Members, including those related to KWE's business, financial affairs and organization.

Upon invitation from KWE, Outside Directors and Audit & Supervisory Board Members will visit various facilities and have training to attain the necessary information on the industry in which KWE is involved, KWE's history, business profile, financial affairs, strategies, organization, etc.

[Principle 5.1: Policy for Constructive Dialogue with Shareholders]
Please see the Investor Relations section on **Page 25.**

Reasons for Non-compliance with the Principles of the Corporate Governance Code

[Supplementary Principle 1.2.4]
KWE has decided against introducing the Electronic Voting Platform as shareholders accounting for approximately 90% of total voting rights have exercised their right to vote in recent years. KWE provides convocation notices of General Shareholder's Meetings in English from 2016.

[Supplementary Principle 1.2.5]
While KWE considers shareholders with voting rights recorded in the shareholder register as of the record date eligible to exercise voting rights, it does not permit

institutional investors to vote on behalf of trust banks or other institutions.

[Supplementary Principle 4.2.1]
Director and Audit & Supervisory Board Member compensation is determined based on the method described in the Director and Audit & Supervisory Board Member Compensation section on **Page 24**, and we will consider the possibility of introducing treasury stock-based compensation and stock options.

[Supplementary Principle 4.10.1]
Although KWE has not established optional advisory committees, explanations regarding Director Candidates are given to Independent Outside Directors and opinions are sought from them before Board of Directors' meetings where proposals to appoint officers are considered. These proposals will later be presented at the General Shareholders' Meeting. We will continuously consider the possibility of establishing Nominating and Compensation Committee.

Relationship with Customers

The KWE Group seeks to increase customer satisfaction through aggressive efforts to maintain and improve quality. We are working to improve the quality of operations and services through Quality Management System (QMS) activities, based on the KWE Group Quality Control Policy.

Specifically, for various quality-related standards, our 27 group companies are certified under the ISO 9001: 2008 quality management system, 12 group companies have acquired Authorized Economic Operator (AEO) certification, one group company is certified under the ISO 13485: 2016 medical devices -- quality management systems, five group companies have acquired Good Distribution Practice (GDP) certification, and 21 facilities have acquired Transported Asset Protection Association (TAPA) certification.

We have also conducted Web-based customer satisfaction surveys in an effort to place the greatest priority on our customers.

GDP certification

Relationship with Employees

The KWE Group believes that providing an environment that allows all employees to demonstrate their maximum potential will contribute to the further growth and development of the Group. To this end, we are working to create an environment that respects each and every employee and fosters a high level of creativity and humanity.

We provide education and training programs to cultivate professional employees and encourage the development of personnel well suited for their positions based on one-to-one work training for new employees, on-the-job training for younger employees, and other training according to seniority. We have an overseas training program that each year sends many younger employees in Japan to work at overseas group companies. We hold our annual Business Leader Program to provide executive training to selected employees.

Our employee evaluation system does not look solely at performance, but places emphasis on how much employees demonstrate their individual capabilities to produce maximum results. To deepen communication between management and employees even further, we regularly hold a "Sunshine Meeting" in which board members and executives visit various departments and speak directly with employees.

To promote diversity, we do not tolerate discrimination in any form, whether by race, ethnicity, nationality, gender, or disability, and we provide equal opportunities for everyone to play an active role. We have launched personnel exchanges between various countries to allow employees who work at a local subsidiary in one country to take on the major challenge of working in another country. Going forward, we plan to accumulate data on personnel who work at local subsidiaries in each country and assign personnel beyond the framework of individual companies. Additionally, KWE prepared a three-year action plan starting in the fiscal year ended March 2017 in response to the Act on the Promotion of Women's Participation and Advancement in the Workplace coming into force in Japan. KWE is pursuing a variety of initiatives with the objectives of raising the percentage of female employees to 30% of its overall workforce and newly assigning more female employees to local overseas subsidiaries, where such assignments have been limited.

Concerning safety initiatives, we are taking specific actions at our various business facilities. The Hong Kong subsidiary acquired certification to the OHSAS 18001 occupational health and safety management system, and the Thai subsidiary is conducting safe driving courses led by the safety committee. Additionally, domestic group company Kintetsu Transtech, Inc. is holding regular safety training, including a general safety promotion meeting that is held twice yearly and targets all employees.

KWE Group Environmental Protection Policy

Based on its corporate philosophy, the KWE Group has established the following policies in order to do our best to conserve limited natural resources and protect the global environment and to contribute to global society through our logistics services.

1 Work to prevent environmental pollution and to continuously improve our actions

2 Comply with the environmental protection-related laws, regulations, and requirements of each country in which we operate, and take initiatives even beyond what is required

3 Establish the following as KWE's priority goals for environmental management relative to our business activities:
- Reduce/Control greenhouse gas emissions
  - Reduce/Control electric power consumption
  - Reduce/Control emissions from vehicles and equipment
- Reduce waste and promote recycling

4 Prevent environmental pollution through cooperation with business partners, suppliers and affiliates

5 Make all KWE Group employees aware of our environmental protection policies, and communicate them to the public as well

Based on these policies, we will make ongoing efforts to minimize, monitor, and improve the environmental impact of our business activities. As part of these efforts, we acquired certification under the ISO 14001 Environmental Management System at nine group companies.

ISO14001certification

Social Contribution Activities

The KWE Group undertakes social contribution activities in support of environmental protection, public welfare, culture, and other areas. It held a total of 30 events at 11 subsidiaries in the fiscal year ended March 2017, including the Girl's Glory Project as a project to promote the education of girls at the Indian subsidiary and the planting of mangrove trees at the Thai subsidiary.

Girl's Glory Project (Indian subsidiary)


Mangrove afforestation (Thai subsidiary)

Messages from Independent Directors

I will give my full support to the forces that drive KWE to the "Next Phase".

KWE has been in the midst of its transformation toward "Next Phase" especially after acquisition of APLL in May 2015.
I have been watching the KWE Group's business from a variety of angles, and despite my experience in managing a major general trading company (sogo shosha), the changes in international logistics business look so rapid or even drastic for me. I am sure that enthusiasm of every KWE staff to provide customers with the maximum added value supports the Group today and is the driving force to open the door to the "Next Phase".

Based on my particular standpoint as an independent officer, I would like to give my full support to this important transformation utilizing my experience in compliance, public relations, legal affairs, and CSR.

Yukio Ueno

I will actively make proposals aimed at maximizing corporate value.

Two years have passed since I took up my post as an outside director of KWE. In Board of Directors' meetings, I asked questions whenever I had, and made suggestions from my viewpoint as an attorney. In this process, I came to realize that human resource is always the key for KWE's strength in helping customers to build up optimal supply chains with consideration for each customer's business strategies. So how to exploit each staff's competence is quite important, and it will have a big impact on the Group's competitiveness going forward.

I intend to make good use of the experience I have cultivated over many years through my work as an attorney and through my interactions with many different corporations, individuals and organizations. I will continue to suggest Board of Directors effective supports to maximize corporate value of KWE.

Sanae Tanaka

Management

Kazuyasu Ueda
Chairman of the Board

Nobutoshi Torii
Representative Director
President

Joji Tomiyama
Director
Executive Vice President

Keisuke Hirata
Director
Managing Executive Officer

Katsufumi Takahashi
Director
Managing Officer

Kiyoyuki Hirosawa
Director
Managing Officer

Tetsuya Kobayashi
Outside Director

Yukio Ueno
Outside Director

Sanae Tanaka
Outside Director

Management's Discussion and Analysis

OVERVIEW

The KWE Group consists of Kintetsu World Express, Inc., 136 consolidated subsidiaries, 1 non-consolidated subsidiary accounted for using the equity method and 9 affiliates accounted for using the equity method, for a total of 147 companies. Our main business are freight forwarding business using air, sea, and logistics operations and other related business.

The KWE Group has six reportable segments. Five are geographical segments comprising Japan; the Americas; Europe, Middle East & Africa; East Asia & Oceania; and Southeast Asia. KWE acquired all shares of APLL (APL Logistics Ltd and its group companies, headquartered in Singapore) in May 2015, and added it as a sixth reportable segment.

We divide our operations into the following four categories: air freight forwarding (accounting for 32.8% of net sales in the fiscal year ended March 2017), sea freight forwarding (28.4%), logistics (32.0%), and other operations (6.8%).

A breakdown of net sales* by segment shows that Japan accounts for 22.7%, the Americas for 9.1%, Europe, Middle East & Africa for 6.5%, East Asia & Oceania for 15.9%, Southeast Asia for 9.2%, APLL for 36.2%, and other for 0.4%.

* Based on simple totals before eliminations. "Other" is a business segment not included in reportable segments. It consists mainly of incidental logistics operations within the Group.

OPERATIONS

During the fiscal year ended March 31, 2017, the U.S. economy continued to expand due to solid domestic demands and improvement in employment environment, and Europe gradually recovered in spite of the Brexit concerns. In Asia, while the economic growth in China slowed down, the overall economy showed moderate recovery in the second half of the fiscal year.

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

In the global market, amid the stagnant world trade volume, demand for both air freight and sea freight forwarding showed only moderate growth.

Under such conditions, the KWE Group's air freight exports rose by 8.4% (based on weight) year-on-year, and air freight imports remained the same level as previous year (based on number of shipments). Sea freight exports rose by 22.3% (based on volume: TEUs), and imports increased by 2.9% (based on number of shipments). Logistics showed stable growth overall due to business expansion mainly in Asian countries.

Net Sales

The KWE Group's consolidated net sales totaled ¥474.330 billion in the fiscal year ended March 2017, up by 12.9%, or ¥54.078 billion, from the previous year.

By business, net sales in air freight forwarding fell by 7.9%, sea freight forwarding rose by 16.4%, logistics increased by 49.6%, and other operations were down by 5.8%.

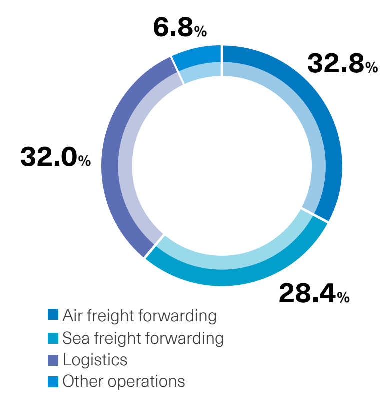
By segment*, net sales in Japan increased by 0.8% year on year, the Americas decreased by 14.8%, Europe, Middle East & Africa fell by 12.6%, East Asia & Oceania decreased by 15.7%, and Southeast Asia was down by 4.2%.

* APLL was included in the scope of consolidation from the third quarter of the fiscal year ended March 31, 2016 and therefore year-on-year comparisons are omitted.

Cost of Sales

Cost of sales totaled ¥389.316 billion in the fiscal year ended March 2017, up by 11.8%, or ¥40.826 billion, from the previous year. The percentage to net sales was 82.1%, falling by 0.8 percentage points from 82.9% in the previous year.

Net Sales by Category



Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled ¥71.939 billion in the fiscal year ended March 2017, up by 27.5%, or ¥15.533 billion, from the previous year. The percentage to net sales was 15.2%, rising by 1.8 percentage points from 13.4% in the previous year.

Operating Income

Operating income totaled ¥13.075 billion in the fiscal year ended March 2017, down by 14.9%, or ¥2.281 billion, from the previous year. The operating margin was 2.8%, declining by 0.9 percentage points from 3.7% in the previous year. Cost of sales to net sales improved by decreasing by 0.8 percentage points from the previous year, but selling, general, and administrative expenses to net sales increased by 1.8 percentage points from the previous year.

Other Income (Expenses)

Other net expenses totaled ¥0.588 billion in the fiscal year ended March 2017, down from other net income of ¥2.490 billion in the previous fiscal year. The factors contributing to the decrease include recording equity in losses of affiliates, net of ¥0.875 billion mainly due to recognizing impairment loss for goodwill associated with a non-consolidated subsidiary accounted for using equity method in the current fiscal year while ¥0.651 billion of equity in earnings of affiliates, net was recorded in the previous year, as well as a decrease in foreign currency exchange gain, net of ¥0.602 billion, and recording provision for loss on litigation of ¥0.227 billion, and loss on arbitration ruling of ¥0.747 billion.

Income before Income Taxes

Income before income taxes totaled ¥12.486 billion in the fiscal year ended March 2017, down by 30.0%, or ¥5.361 billion, from the previous year.

Income Taxes

Income taxes totaled ¥6.982 billion in the fiscal year ended March 2017, down by 1.9%, or ¥0.133 billion, from the previous year. The effective tax rate was 55.9%, up from 39.9% in the previous year.

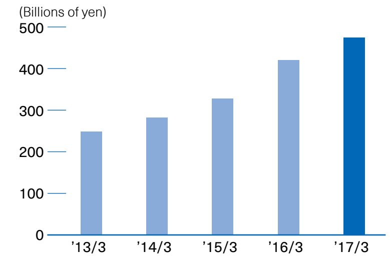
Net Income Attributable to Owners of the Parent, Net Income per Share, Return on Equity

Net income attributable to owners of the parent fell by 54.1% from the previous year to ¥4.487 billion in the fiscal year ended March 2017. As a result, net income per share decreased to ¥62.33, down from ¥135.74 in the previous year. ROE decreased to 3.7% from 7.9% in the previous year.

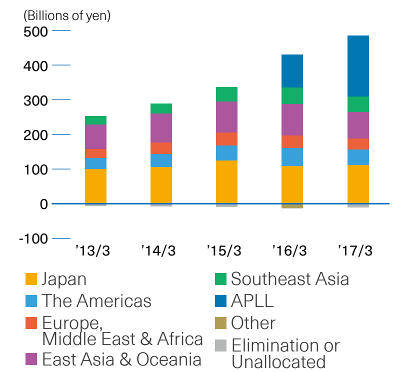
OUTLOOK FOR THE YEAR THROUGH MARCH 2018

In the fiscal year ending March 2018, the global logistics market appears to remain unpredictable due to possible impacts of the policy trends in the U.S. and major European countries on the global economy and industry, and the economic tendency in emerging countries including China, as well as actualization of the geopolitical risks. Under these circumstances, the Group will continue to work on various measures in the second year of the Medium-Term Management Plan, which we started in the year ended March 2017, to realize its vision of becoming "A superior business partner supporting customers' strategic objectives and activities by providing comprehensive innovative supply chain solutions" We will further strengthen our main businesses, air freight and sea freight forwarding, in order to establish and reinforce management base enabling us to compete with major players in the global market, as well as focus on increasing the total handling volume of the Group to sustain a long-term growth. In the fiscal year ending March 2018, we forecast net sales to grow by 5.4% from the fiscal year ended March 2017 to ¥500.000 billion, operating income to increase by 3.2% to ¥13.500

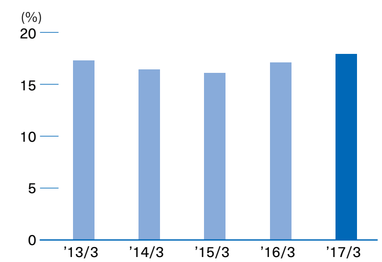
Net Sales



Net Sales by Segment



Operating Gross Profit Margin



billion, and net income attributable to owners of the parent to increase by 11.4% to ¥5.000 billion.

SEGMENT TRENDS BY REGION

For a breakdown of segment trends, please refer to the Report by Six Segments on pages 14 to 19.

FINANCIAL POSITION

The KWE Group's total assets as of March 31, 2017 decreased by ¥6.657 billion from the previous year to ¥379.244 billion. Current assets were ¥178.101 billion, down by 0.2%, or ¥0.353 billion from the previous year, mainly due to decreases in other current assets of ¥7.252 billion and in cash and time deposits of ¥0.304 billion despite an increase in notes and accounts receivable-trade of ¥7.023 billion.

Total non-current assets decreased by ¥6.304 billion from the previous year to ¥201.142 billion, mainly due to the decrease in total intangible assets of ¥6.068 billion which includes amortization of goodwill, as well as a decrease in investments and other assets of ¥0.402 billion which includes impairment losses for goodwill associated with a non-consolidated subsidiary, despite an increase in property and equipment of ¥0.165 billion.

Total liabilities were ¥253.228 billion, up ¥2.525 billion from the previous year. Current liabilities increased by 6.1%, or ¥6.043 billion, to ¥104.450 billion, mainly due to increases in notes and accounts payable–trade of ¥0.719 billion, in current portion of long-term debt of ¥4.906 billion, and in income taxes payable of ¥0.352 billion.

Long-term liabilities decreased by ¥3.518 billion to ¥148.777 billion, mainly due to a decrease in long-term debt of ¥3.082 billion including the transfer to short-term loans payable.

Net assets were ¥126.016 billion, down by 6.8%, or ¥9.183 billion, from ¥135.199 billion in the previous year, mainly due to decreases in foreign currency translation adjustments of ¥12.225 billion as a result of a stronger yen compared to March 31, 2016 and in non-controlling interests of ¥1.003 billion, despite an increase of ¥3.866 billion in retained earnings resulting from recording net income attributable to owners of the parent of ¥4.487 billion and adjustment due to change in the fiscal period of consolidated subsidiaries of ¥1.250 billion, and being decreased by cash dividends paid of ¥1.871 billion. The equity ratio at the end of the fiscal year was 30.9%, down from 32.5% at the end of the previous year.

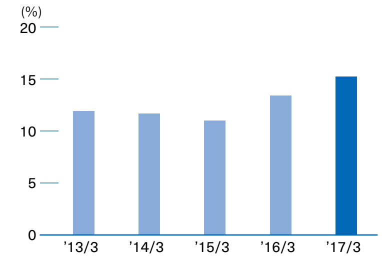
LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities totaled ¥14.589 billion in the fiscal year ended March 2017, down by 27.6%, or ¥5.553 billion, from ¥20.143 billion in the previous year. This mainly reflected cash inflows due to income before income taxes of ¥12.486 billion, depreciation and amortization of ¥10.729 billion, and an increase in notes and accounts payable of ¥4.385 billion, and cash outflows due to an increase in notes and accounts receivable of ¥10.668 billion, and income taxes paid of ¥5.726 billion.

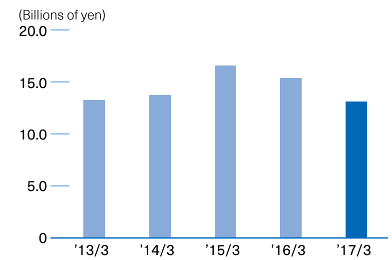
Net cash used in investing activities totaled ¥5.342 billion in the fiscal year ended March 2017, down ¥141.864 billion from ¥147.207 billion in the previous year. This mainly reflected cash inflows due to proceeds from sales of securities of ¥3.179 billion, and cash outflows due to payments for purchase of property and equipment of ¥3.762 billion, and purchase of securities of ¥3.991 billion.

Net cash used in financing activities amounted to ¥5.657 billion in the fiscal year ended March 2017 from ¥144.744 billion provided in the previous year. This mainly reflected cash inflows due to proceeds from long-term debt of ¥3.000 billion, and cash outflows due to net decrease in short-term debt of ¥4.849 billion, payments for long-term debt of ¥1.046 billion, and payments of cash dividends of ¥1.872 billion.

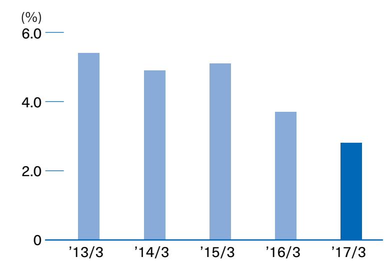
SGA Expenses to Net Sales



Operating Income



Operating Margin



As a result of the above, cash and cash equivalents totaled ¥65.506 billion as of March 31, 2017, up by 2.5%, or ¥1.602 billion, from ¥63.903 billion as of March 31, 2016.

BASIC POLICY ON THE DISTRIBUTION OF PROFITS

The KWE Group primarily focuses on maintaining stable dividends, but also strives to increase dividends in view of business performance and the dividend payout ratio, giving full consideration to strengthening shareholder return, future business expansion, and stronger business base.

We paid a full-year dividend of ¥26 per share in the fiscal year ended March 2017. The dividend payout ratio was 41.7%, up from 19.2% in the previous year, due to a decline in net income attributable to owners of the parent. We forecast a full-year dividend of ¥26 in the fiscal year ending March 2018, a dividend payout ratio of 37.4%.

DISCLOSURE OF RISK
SIGNIFICANT RISK FACTORS WITH POTENTIAL TO IMPACT OPERATING RESULTS

The followings are the major risk factors that the Group recognizes as having the potential to affect our performance and financial condition.

1. Economic conditions

The Group's performance and financial condition is affected by global economic trends and shipping demands at our customers. Our performance and financial condition could also be affected in the event of a global economic crisis, natural disaster, pandemic, terrorist attack, or other social disruption.

2. Exchange rate fluctuations

As the Group conducts global operations, fluctuations in foreign exchange rates in any of these regions could affect our performance and financial condition. We use foreign exchange forward contracts to avoid the risk of fluctuations in foreign exchange rates in relation to foreign currency denominated receivables and payables and to foreign currency denominated scheduled transactions. Our policy is to execute and manage forward contracts according to internal company rules, to not enter into contracts with terms of more than one year in principle, and to not engage in speculative dealings or highly leveraged transactions.

3. Fluctuations in fuel prices

The Group maintains close relationships with transport companies, including air and sea carriers, and works to expand channels, given that a surge in fuel prices could affect transport. However, unforeseen circumstances could impact our performance.

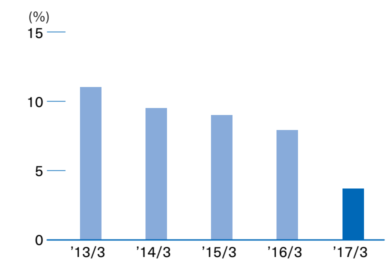
4. Fluctuations in freight costs

The Group requests that customers bear any cost increases resulting from higher freight costs at the transport companies (e.g., air and sea carriers). However, the inability to pass costs on selling prices for some reason could impact our performance.

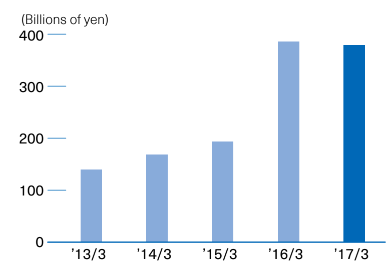
5. M&A, capital and business alliances

The Group acquires other companies and forms capital and business alliances with other companies in order to increase its competitiveness to achieve further growth. We acquired APL Logistics Ltd (including its consolidated subsidiaries), which operates a global logistics business, in May 2015. Our performance and financial condition could be affected if it incurs impairment losses on goodwill in the event of earnings at an acquired company falling short of expectations at the time of the acquisition, or a determination that expected results cannot be achieved due to changes in the business environment, competitive conditions, or other factors.

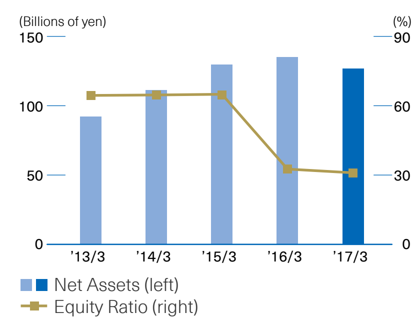
ROE



Total Assets



Net Assets and Equity Ratio



6. Financial covenants

The Group's major loan agreements with financial institutions include financial covenants. A breach of these covenants could adversely affect our operation, performance and financial condition.

7. Legal regulations

The Group's business activities are affected by the various legal regulations enacted in each country with respect to transport, warehouse storage management, and other operations. These consist mainly of social regulations (to ensure safety) and legal regulations governing transport operations. It is possible that changes to existing regulations could cause a temporary spike in capital spending, which could affect our performance. It is also possible that inadequate compliance or serious violation of various regulations could affect our performance and brand image, including sanctions restricting business activities or monetary penalties.

8. Litigation and disputes

The Group could face various forms of lawsuits or other actions related to our business activities, and depending on the content and outcome of these actions, it could impact our performance and financial condition.

9. Transport accidents

The Group takes the utmost care as we develop our international logistics business, based on accumulated know-how as a freight forwarder. Nevertheless, our performance could be affected in the event of a transport accident occurring, for example, due to an unpredictable disaster.

10. Storage and security at logistics facilities

The Group provides services at our logistics facilities globally, and we take all steps necessary to ensure the storage and security. However, our performance could be affected by a natural disaster, war, terrorist attack, or other events.

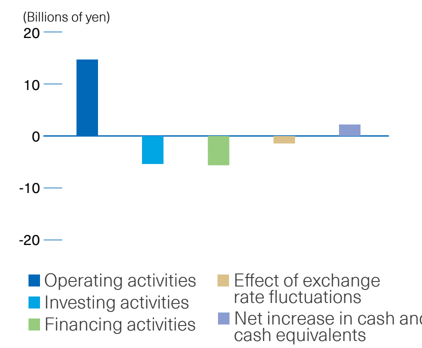
11. Customer data management / information leaks

The Group systematically manages customer and freight movement information through our intra-Group information network. We perform regular audits and inspections to ensure that there are no information leaks. In addition, in accordance with Japan's Act on the Protection of Personal Information, we instituted a company-wide policy regarding the safeguarding of personal information, and we strive to make every employee familiar with it. Nevertheless, in the unlikely event that for some reason customer information should be leaked to an outside party, the resulting loss of trust in the Company could affect our performance.

12. Information system security

The Group uses integrated computer systems group-wide and manages much of its global operations with IT systems. We strive to ensure that these information systems operate reliably by using a redundant structure of data centers and network connections, and have hardware and software safeguards against unauthorized access and viruses. Nevertheless, our performance could be adversely affected if these information systems temporarily malfunction as a result of unforeseen virus, hacker attacks or blackouts, etc.

Cash Flows



Financial Highlights

Kintetsu World Express, Inc. and Consolidated Subsidiaries / For years ended March 31

	Millions of yen								Thousands of U.S. dollars[*2]
	2010	2011	2012	2013	2014	2015	2016	2017	2017
Results of Operation (Millions of yen)									
Net sales	¥ 211,836	¥ 267,688	¥ 264,403	¥ 247,977	¥ 281,505	¥ 327,192	¥ 420,252	¥ 474,330	$ 4,227,916
Operating income	7,451	11,898	13,824	13,295	13,742	16,563	15,356	13,075	116,543
Income before income taxes	7,596	12,676	14,954	14,170	14,916	16,372	17,847	12,486	111,293
Net income attributable to owners of the parent	4,570	7,880	9,545	9,134	9,417	10,489	9,773	4,487	39,994
Financial Position (Millions of yen)									
Total assets	¥ 116,640	¥ 120,280	¥ 125,437	¥ 140,116	¥ 167,966	¥ 194,553	¥ 385,902	¥ 379,244	$ 3,380,372
Property and equipment	34,631	32,764	31,661	32,512	35,988	39,831	45,944	46,109	410,990
Interest-bearing debt	16,254	14,676	14,469	14,562	15,078	15,734	166,187	166,260	1,481,950
Long-term liabilities	6,569	6,633	6,885	3,659	9,291	11,093	152,296	148,777	1,326,116
Total liabilities	48,602	48,963	47,356	47,919	56,735	64,865	250,703	253,228	2,257,135
Net assets	68,038	71,317	78,080	92,197	111,231	129,687	135,199	126,016	1,123,237
Cash Flows (Millions of yen)									
Net cash provided by (used in) operating activities	¥ 6,259	¥ 9,843	¥ 11,118	¥ 8,855	¥ 10,756	¥ 9,457	¥ 20,143	¥ 14,589	$ 130,038
Net cash provided by (used in) investing activities	(3,834)	779	(3,820)	(8,044)	(5,016)	(10,870)	(147,207)	(5,342)	(47,615)
Net cash provided by (used in) financing activities	(3,995)	(2,703)	(1,396)	(1,785)	(1,864)	(1,424)	144,744	(5,657)	(50,423)
Cash and cash equivalents at end of year	25,045	30,966	36,096	38,271	47,963	48,700	63,903	65,506	583,884
Capital expenditures for property and equipment (cash basis)	3,322	1,465	1,549	1,625	3,776	4,889	5,735	3,762	33,532
Depreciation and amortization	3,114	2,998	2,659	2,536	2,615	2,806	7,236	10,729	95,632
Per Share Data (Yen)[*1]									
Net income	¥ 63.49	¥ 109.46	¥ 132.58	¥ 126.86	¥ 130.80	¥ 145.68	¥ 135.74	¥ 62.33	$ 0.55
Cash dividends	12.00	15.00	17.50	18.50	20.00	23.00	26.00	26.00	0.23
Net assets	911.48	962.95	1,056.84	1,250.56	1,504.84	1,750.16	1,741.44	1,627.84	14.50
Management Indicators									
Operating margin (%)	3.5	4.4	5.2	5.4	4.9	5.1	3.7	2.8	
Return on equity (%)	7.3	11.7	13.1	11.0	9.5	9.0	7.9	3.7	
Current ratio (Times)	1.7	1.8	2.1	2.1	2.4	2.4	1.8	1.7	
Debt-to-equity (Times)	0.3	0.2	0.2	0.2	0.1	0.1	1.3	1.4	
Number of employees (consolidated)	8,893	9,238	9,671	10,047	10,219	10,680	17,311	18,159	

*1 The Company conducted a stock split at a ratio of 1:2 of common stock on October 1, 2015.
Per share data is calculated based on the assumption that the stock split was conducted on April 1, 2009.
*2 U.S. dollars is included solely for the convenience of readers outside Japan,
using the prevailing exchange rate at March 31, 2017 which is ¥112.19 to U.S.$1.

Consolidated Balance Sheets

Kintetsu World Express, Inc. and Subsidiaries
As of March 31, 2017 and 2016

ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current assets:			
Cash and time deposits (Notes 3, 5 and 13)	¥ 70,275	¥ 70,580	$ 626,392
Notes and accounts receivable-trade (Note 13)	95,523	88,500	851,439
Less: Allowance for doubtful accounts	(1,189)	(1,153)	(10,598)
Marketable securities (Notes 4 and 13)	3,278	3,253	29,218
Deferred tax assets (Note 10)	893	702	7,959
Other current assets	9,319	16,571	83,064
Total current assets	178,101	178,454	1,587,494
Property and equipment:			
Land	14,181	14,006	126,401
Buildings and structures	39,113	39,633	348,631
Machinery and equipment	5,275	3,857	47,018
Leased assets	1,329	1,439	11,845
Others	19,904	18,895	177,413
	79,804	77,831	711,328
Less: Accumulated depreciation	(33,694)	(31,887)	(300,329)
Total property and equipment	46,109	45,944	410,990
Intangible assets:			
Goodwill (Notes 15 and 16)	71,925	75,768	641,099
Customer-related intangible assets (Note 15)	38,349	41,797	341,821
Other intangible assets	17,774	16,550	158,427
Total intangible assets	128,049	134,117	1,141,358
Investments and other assets:			
Investments in: (Notes 4 and 13)			
Affiliates	13,978	15,351	124,592
Others	5,583	4,966	49,763
Long-term loans receivable (Note 13)	52	78	463
Net defined benefit asset (Note 9)	6	96	53
Deferred tax assets (Note 10)	1,147	1,084	10,223
Other investments	6,274	5,894	55,922
Less: Allowance for doubtful accounts	(58)	(86)	(516)
Total investments and other assets	26,983	27,386	240,511
Total assets (Note 16)	¥ 379,244	¥ 385,902	$ 3,380,372

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Notes and accounts payable-trade (Notes 5 and 13)	¥ 41,057	¥ 40,338	$ 365,959
Short-term debt (Notes 8 and 13)	25,617	27,273	228,335
Current portion of long-term debt (Notes 8, 13 and 14)	5,822	916	51,894
Lease obligations (Note 8)	157	205	1,399
Income taxes payable (Notes 10 and 13)	3,823	3,470	34,076
Deferred tax liabilities (Note 10)	286	293	2,549
Accrued bonuses to employees	4,405	4,008	39,263
Accrued bonuses to directors and corporate auditors	369	335	3,289
Provision for loss on litigation	230	–	2,050
Other current liabilities	22,680	21,564	202,157
Total current liabilities	104,450	98,406	931,009
Long-term liabilities:			
Long-term debt (Notes 8, 13 and 14)	134,237	137,320	1,196,514
Lease obligations (Note 8)	425	471	3,788
Net defined benefit liability (Note 9)	2,520	2,640	22,461
Deferred tax liabilities (Note 10)	9,561	9,866	85,221
Other long-term liabilities	2,032	1,998	18,112
Total long-term liabilities	148,777	152,296	1,326,116
Contingent liabilities (Note 6)			
Net assets (Note 11):			
Shareholders' equity:			
Common stock			
Authorized 240,000,000 shares			
Issued 72,000,000 shares	7,216	7,216	64,319
Capital surplus	4,018	4,293	35,814
Retained earnings	107,137	103,271	954,960
Treasury stock	(3)	(3)	(26)
Total shareholders' equity	118,367	114,777	1,055,058
Accumulated other comprehensive income			
Unrealized gains (losses) on available-for-sale securities	1,754	1,338	15,634
Deferred gains (losses) on hedges	–	(4)	–
Foreign currency translation adjustments	(2,751)	9,473	(24,520)
Remeasurements of defined benefit plans	(170)	(205)	(1,515)
Total accumulated other comprehensive income	(1,167)	10,602	(10,401)
Non-controlling interests in consolidated subsidiaries	8,815	9,819	78,572
Total net assets	126,016	135,199	1,123,237
Total liabilities and net assets	¥ 379,244	¥ 385,902	$ 3,380,372

See accompanying notes.

Consolidated Statements of Income

Kintetsu World Express, Inc. and Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Note 16)	¥ 474,330	¥ 420,252	$ 4,227,916
Cost of sales	389,316	348,489	3,470,148
Operating gross profit	85,014	71,762	757,768
Selling, general and administrative expenses (Notes 16 and 17)	71,939	56,405	641,224
Operating income (Note 16)	13,075	15,356	116,543
Other income (expenses):			
Interest and dividend income	540	665	4,813
Interest expenses	(913)	(802)	(8,137)
Foreign currency exchange gain, net	888	1,491	7,915
Equity in earnings (losses) of affiliates, net (Note 16)	(875)	651	(7,799)
Subsidy income	160	553	1,426
Gain on sales of fixed assets	137	–	1,221
Gain on revision of retirement benefit plan (Note 9)	–	523	–
Settlement received	431	–	3,841
Impairment loss (Notes 7 and 16)	(55)	(559)	(490)
Loss on disposal of fixed assets	(51)	(12)	(454)
Loss on valuation of investment securities	–	(10)	–
Loss on litigation	(36)	–	(320)
Provision for loss on litigation	(227)	–	(2,023)
Loss on arbitration ruling	(747)	–	(6,658)
Others, net (Notes 4, 16 and 18)	160	(9)	1,426
	(588)	2,490	(5,241)
Income before income taxes	12,486	17,847	111,293
Income taxes (Note 10):			
Current	7,396	5,931	65,923
Deferred	(414)	1,184	(3,690)
	6,982	7,115	62,233
Net income	5,504	10,731	49,059
Net income attributable to non-controlling interests	1,017	958	9,064
Net income attributable to owners of the parent	¥ 4,487	¥ 9,773	$ 39,994

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kintetsu World Express, Inc. and Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net Income	¥ 5,504	¥ 10,731	$ 49,059
Other comprehensive income (Note 19):			
Unrealized gains (losses) on available-for-sale securities	416	(851)	3,707
Deferred gains (losses) on hedges	4	(43)	35
Foreign currency translation adjustments	(7,804)	(4,200)	(69,560)
Remeasurements of defined benefit pension plans	121	(294)	1,078
Share of other comprehensive income of entities accounted for using equity method	(1,261)	(735)	(11,239)
Total other comprehensive income	(8,524)	(6,125)	(75,978)
Comprehensive income	¥ (3,020)	¥ 4,606	$ (26,918)
Comprehensive income attributable to			
Owners of the parent	¥ (3,664)	¥ 4,037	$ (32,658)
Non-controlling interests	644	568	5,740

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kintetsu World Express, Inc. and Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen												
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2015	36,000	¥ 7,216	¥ 4,867	¥ 97,526	¥ (2)	¥ 109,607	¥ 2,187	¥ 39	¥ 14,089	¥ 84	¥ 16,400	¥ 3,679	¥ 129,687
Cumulative effect of change in accounting policies	–	–	(574)	(2,264)	–	(2,838)	–	–	(62)	–	(62)	–	(2,900)
Balance at April 1, 2015, as restated	–	7,216	4,293	95,262	(2)	106,769	2,187	39	14,027	84	16,338	3,679	126,787
Stock split (Note 11)	36,000	–	–	–	–	–	–	–	–	–	–	–	–
Cash dividends paid	–	–	–	(1,763)	–	(1,763)	–	–	–	–	–	–	(1,763)
Net income attributable to owners of the parent	–	–	–	9,773	–	9,773	–	–	–	–	–	–	9,773
Purchase of treasury stock	–	–	–	–	(1)	(1)	–	–	–	–	–	–	(1)
Net changes in items other than shareholders' equity	–	–	–	–	–	–	(848)	(43)	(4,553)	(290)	(5,735)	6,140	404
Balance at April 1, 2016	**72,000**	**¥ 7,216**	**¥ 4,293**	**¥ 103,271**	**¥ (3)**	**¥ 114,777**	**¥ 1,338**	**¥ (4)**	**¥ 9,473**	**¥ (205)**	**¥ 10,602**	**¥ 9,819**	**¥ 135,199**
Cash dividends paid	–	–	–	**(1,871)**	–	**(1,871)**	–	–	–	–	–	–	**(1,871)**
Net income attributable to owners of the parent	–	–	–	**4,487**	–	**4,487**	–	–	–	–	–	–	**4,487**
Purchase of treasury stock	–	–	–	–	**(0)**	**(0)**	–	–	–	–	–	–	**(0)**
Adjustment due to change in the fiscal period of consolidated subsidiaries	–	–	–	**1,250**	–	**1,250**	–	–	–	–	–	–	**1,250**
Change in equity of parent related to transaction with non-controlling shareholders (Note 15)	–	–	**(275)**	–	–	**(275)**	–	–	–	–	–	–	**(275)**
Net changes in items other than shareholders' equity	–	–	–	–	–	–	**416**	**4**	**(12,225)**	**34**	**(11,769)**	**(1,003)**	**(12,773)**
Balance at March 31, 2017	**72,000**	**¥ 7,216**	**¥ 4,018**	**¥ 107,137**	**¥ (3)**	**¥ 118,367**	**¥ 1,754**	**¥ –**	**¥ (2,751)**	**¥ (170)**	**¥ (1,167)**	**¥ 8,815**	**¥ 126,016**

See accompanying notes.

	Thousands of U.S. dollars (Note 1)												
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2016	**72,000**	**$ 64,319**	**$ 38,265**	**$ 920,500**	**$ (26)**	**$ 1,023,059**	**$ 11,926**	**$ (35)**	**$ 84,437**	**$ (1,827)**	**$ 94,500**	**$ 87,521**	**$ 1,205,089**
Cash dividends paid	–	–	–	**(16,677)**	–	**(16,677)**	–	–	–	–	–	–	**(16,677)**
Net income attributable to owners of the parent	–	–	–	**39,994**	–	**39,994**	–	–	–	–	–	–	**39,994**
Purchase of treasury stock	–	–	–	–	**(0)**	**(0)**	–	–	–	–	–	–	**(0)**
Adjustment due to change in the fiscal period of consolidated subsidiaries	–	–	–	**11,141**	–	**11,141**	–	–	–	–	–	–	**11,141**
Change in equity of parent related to transaction with non-controlling shareholders (Note 15)	–	–	**(2,451)**	–	–	**(2,451)**	–	–	–	–	–	–	**(2,451)**
Net changes in items other than shareholders' equity	–	–	–	–	–	–	**3,707**	**35**	**(108,966)**	**303**	**(104,902)**	**(8,940)**	**(113,851)**
Balance at March 31, 2017	**72,000**	**$ 64,319**	**$ 35,814**	**$ 954,960**	**$ (26)**	**$ 1,055,058**	**$ 15,634**	**$ –**	**$ (24,520)**	**$ (1,515)**	**$ (10,401)**	**$ 78,572**	**$ 1,123,237**

See accompanying notes.

Consolidated Statements of Cash Flows

Kintetsu World Express, Inc. and Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥ 12,486	¥ 17,847	$ 111,293
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	10,729	7,236	95,632
Impairment loss	55	559	490
Increase (Decrease) in accrued bonuses to employees	526	373	4,688
Increase (Decrease) in accrued bonuses to directors and corporate auditors	130	75	1,158
Increase (Decrease) in net defined benefit liability	(29)	(966)	(258)
Increase (Decrease) in provision for loss on litigation	227	–	2,023
Interest and dividend income	(540)	(665)	(4,813)
Interest expense	913	802	8,137
Equity in losses (earnings) of affiliates	875	(651)	7,799
Loss on valuation of investment securities	–	10	–
Gain on revision of retirement benefit plan	–	(523)	–
Settlement received	(431)	–	(3,841)
Loss on litigation	36	–	320
Loss on arbitration ruling	747	–	6,658
Changes in assets and liabilities:			
(Increase) Decrease in notes and accounts receivable	(10,668)	9,581	(95,088)
Increase (Decrease) in notes and accounts payable	4,385	(5,046)	39,085
(Increase) Decrease in other assets	(601)	(695)	(5,356)
Increase (Decrease) in other liabilities	(40)	231	(356)
Others, net	1,228	373	10,945
Subtotal	20,032	28,542	178,554
Interest and cash dividend received	800	984	7,130
Interest paid	(911)	(788)	(8,120)
Settlement package received	431	–	3,841
Payments for loss on litigation	(36)	–	(320)
Income taxes paid	(5,726)	(8,594)	(51,038)
Net cash provided by (used in) operating activities	14,589	20,143	130,038

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for time deposit	(6,642)	(6,889)	(59,203)
Proceeds from withdrawal of time deposit	7,401	6,450	65,968
Payments for purchases of securities	(3,991)	(2,907)	(35,573)
Proceeds from sales of securities	3,179	2,478	28,335
Payments for purchases of property and equipment	(3,762)	(5,735)	(33,532)
Proceeds from sales of property and equipment	448	142	3,993
Proceeds from loans receivable	28	326	249
Payments for loans receivable	(0)	(302)	(0)
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 3)	–	(139,804)	–
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 3)	243	–	2,165
Others, net	(2,247)	(964)	(20,028)
Net cash provided by (used in) investing activities	(5,342)	(147,207)	(47,615)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in short-term debt	(4,849)	15,731	(43,221)
Payments of capital lease obligations	(201)	(183)	(1,791)
Proceeds from long-term debt	3,000	131,949	26,740
Payments for long-term debt	(1,046)	(466)	(9,323)
Payments of cash dividends	(1,872)	(1,764)	(16,685)
Payments of cash dividends to non-controlling interests	(687)	(520)	(6,123)
Others, net	(0)	(1)	(0)
Net cash provided by (used in) financing activities	(5,657)	144,744	(50,423)
Effect of exchange rate fluctuations on cash and cash equivalents	(1,418)	(2,476)	(12,639)
Net increase (decrease) in cash and cash equivalents	2,172	15,203	19,360
Cash and cash equivalents at beginning of year	63,903	48,700	569,596
Increase (Decrease) in cash and cash equivalents resulting from change in the fiscal period of consolidated subsidiaries	(569)	–	(5,071)
Cash and cash equivalents at end of year (Note 3)	¥ 65,506	¥ 63,903	$ 583,884

See accompanying notes.

Notes to Consolidated Financial Statements

Kintetsu World Express, Inc. and Subsidiaries
For the years ended March 31, 2017 and 2016

Note 1: Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Kintetsu World Express, Inc. (The "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain aspects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles. In accordance with the accounting standard, "Revised Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements (issued by the Accounting Standards Board of Japan ("ASBJ") on March 26, 2015)", certain differences between Japanese GAAP and those in overseas are adjusted in the consolidation process. The accompanying consolidated financial statements have been reformatted and translated into English with some expanded descriptions from the consolidated financial statements of the Company provided in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

All Japanese yen figures have been rounded down to million yen. The translation of the Japanese yen amounts into U.S. dollars is rounded down to thousand dollars and is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017 which is ¥112.19 to U.S. $1. The convenience translations should not be construed as representations of possible future amounts, converted into U.S. dollars at this or any other rate of exchange.

Certain prior year amounts have been reclassified to conform to the year 2017 presentation.

Note 2: Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Consolidated financial statements include the accounts of the Company and 136 subsidiaries for the year ended March 31, 2017. At March 31, 2016 the Company had 130 subsidiaries and consolidated all of them.

The Company and the consolidated subsidiaries are together referred to as the "Group" hereinafter.

(2) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits are eliminated, and the portion thereof attributable to non-controlling interests charged to net income attributable to non-controlling interests.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling interests, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

(3) Investments in Non-consolidated Subsidiaries and Affiliates

During the fiscal year ended March 31, 2017, 1 company changed its status from an affiliate to a non-consolidated subsidiary accounted for using the equity method as the Company acquired additional shares but its impact on the consolidated financial statements is low importance.

At March 31, 2017, 1 non-consolidated subsidiary and 9 affiliates, of which the Company has the ability to exercise significant influence over operating and financial policies, are accounted for by the equity method. At March 31, 2016, 10 affiliates were accounted for by the equity method.

(4) Accounting Period

The Company's accounting period begins each year on April 1 and ends the following year on March 31.

The fiscal year end of APL Logistics Ltd and its 71 consolidated subsidiaries is the last Friday of December of each year.

The difference between the fiscal year end of the Company and that of APL Logistics and its subsidiaries exceeds 3 months hence financial statements based on preliminary closing date of December 31 is used.

Necessary adjustments have been made in the consolidation process to address material transactions that occurred between closing dates different to the Company.

44 consolidated subsidiaries have changed the fiscal year-end from December 31 to March 31 starting from April 1, 2016, and 18 consolidated subsidiaries have changed to prepare the provisional financial statement at March-end in order to ensure more appropriate disclosure of the consolidated financial statement. As a result of these changes, the Company consolidated the 12 months' result from April 1, 2016 to March 31, 2017. As for those 62 companies, 3 months gains and losses from January 1, 2016 to March 31, 2016, are included in the retained earnings on the Balance Sheet. Additionally, 3 months cash flows during the period are included in an adjustment item of cash and cash equivalents at the beginning of year on the Statement of Cash Flows.

(5) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(6) Securities

In applying Japanese GAAP, securities are classified as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group does not hold any security defined as securities held for trading purposes, as of March 31, 2017 and 2016. Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with market value are stated at market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income in net assets. Realized gains and losses on sales of such securities are computed using weighted-average cost. Other securities that do not have market value are stated at weighted-average cost. If the market value of available-for-sale securities declines significantly, such securities are stated at market value and the difference between market value and the carrying amounts is recognized as loss in the period of the decline.

(7) Allowance for Doubtful Accounts

The Company and domestic consolidated subsidiaries adopted the policy of providing the allowance for doubtful accounts using the actual rate of bad debt losses experienced in the past for the receivable other than those, for which allowance is provided based on individual evaluation of their possibility of collection.

The allowance for doubtful accounts held by overseas consolidated subsidiaries represents the amount deemed necessary to cover possible losses.

(8) Property and Equipment excluding Leased Assets

Property and equipment are stated at cost and have been depreciated over the estimated useful lives of the respective assets on the straight-line method. The range of useful lives is principally as follows:

Buildings and Structures	5-43 years
Machinery and equipment	2- 8 years
Others	1-15 years

(9) Intangible Assets excluding Leased Assets

Amortization of intangible assets is computed using the straight-line method. Software for internal use is amortized on the straight-line method over their useful lives (primarily 5-10 years). Goodwill and negative goodwill which was accounted on or before March 31, 2010 are amortized on the straight-line method primarily over 20 years. Immaterial goodwill is amortized as incurred. Customer-related intangible assets and Trademark rights which were identified in business combination are amortized on the straight-line method over their useful lives of 20 years.

(10) Leased Assets under Finance Lease without Transfer of Ownership

Assets used under finance lease arrangements are capitalized. Depreciation for Leased Assets is amortized on the straight-line method with their residual values being zero over their leased periods used as the number of years for useful lives.

(11) Accounting for Impairment of Fixed Assets
The Group reviews their long lived assets for impairment whenever changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(12) Accrued Bonuses to Employees
Bonuses to employees are provided for the portion of relevant to the current year of the estimated amount of bonus payments.

(13) Accrued Bonuses to Directors and Corporate Auditors
Bonuses to directors and corporate auditors are provided for the portion relevant to the current year of the estimated amount of bonus payments.

(14) Accounting for Retirement Benefits
The Group adopts the accounting standard for employees' severance and retirement benefits, under which allowance and expenses for severance and pension benefits are determined based on the amounts obtained by actuarial calculations.

The Company and certain consolidated subsidiaries have a defined benefit pension plan while certain overseas subsidiaries have either a defined benefit pension plan or a defined contribution pension plan.

Under such conditions, the Group adopts following policies about the Accounting for Retirement Benefits.

a) The calculation method of the retirement benefit obligation
The retirement benefit obligation amount to be amortized in the period of the year ended March 31, 2017 is calculated under benefit formula bases.

b) Actuarial gains and losses and past service costs
The past service cost is amortized on the straight-line method over the period of 13 years.
Actuarial gains and losses are amortized evenly commencing from the following fiscal year on the straight-line method over the period prescribed by the average of the estimated remaining service period of 13 years.

c) The simplified method for the retirement benefit obligation
Some consolidated subsidiaries calculate the amounts of net defined benefit liability and retirement benefit cost by utilizing the simplified method that the estimated severance amount for all employees at the year-end is deemed as the retirement benefit obligation for the year.

(15) Foreign Currency Transactions
All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the year-end date. The foreign exchange gains and losses from transactions are recognized in the consolidated statements of income and the consolidated statements of comprehensive income to the extent that they are not hedged by forward exchange contracts.

(16) Foreign Currency Financial Statements
The balance sheet accounts of foreign consolidated subsidiaries and affiliates are translated into Japanese yen at current exchange rates prevailing at the relevant balance sheet date except for equity, which is translated at the historical rates. Revenue and expense accounts of the foreign consolidated subsidiaries and affiliates are translated into Japanese yen at the average exchange rates. The differences arising from such translations were shown as "Foreign currency translation adjustments" and "Non-controlling interests in consolidated subsidiaries" in separate components of equity.

(17) Income Taxes
Income taxes consist of corporation, inhabitant and enterprise taxes. The provision for income taxes is computed based on the pretax income of each of the Company and its consolidated subsidiaries with certain adjustments required for tax purposes. The Company and its consolidated subsidiaries recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax purposes and financial reporting purposes, together with the assessment of the recoverability of deferred tax assets.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(18) Derivatives
The Group uses derivative financial instruments to manage their exposure to fluctuations in foreign currency exchange and interest rates. Derivative financial instruments are stated at fair value and changes in their fair values are recognized as gains or losses.

(19) Hedging Activities
For derivatives used for hedging purposes, gains or losses on derivatives are deferred until the period in which the hedged transactions are recognized. Interest rate and currency swaps, which qualify for hedge accounting and meet specific matching criteria, are not measured at fair value. The net payment and receipt under the swap agreements are instead recognized and included in interest expense, and hedged items denominated in a foreign currency are translated at the contracted rate (integral accounting).

The following summarizes hedging derivative financial instruments used by the Group.

Hedging instruments	Hedged object
Interest and currency swaps	Long-term debt denominated in foreign currency
Forward foreign exchange contracts	Foreign currency scheduled transactions

The evaluation of hedge effectiveness is based on a comparison between the cumulative fluctuations in rates or fluctuation of cash flows on hedged object and hedging instruments. The evaluation of hedge effectiveness for interest and currency swaps is omitted as they meet the requirements of integral accounting.

(20) Per Share Information
Net income per share of common stock is computed based upon the weighted-average number of shares outstanding during the year. Diluted earnings per share of common stock for the years ended March 31, 2017 and 2016 are not presented since the Company had no securities with dilutive effect. Cash dividends per share presented in the consolidated statements of income represent dividends declared as applicable to the respective year, including dividends paid after the end of the year.

(21) Changes in Presentation
Consolidated statement of cash flows
Prior to April 1, 2016, "Equity in losses (earnings) of affiliates" was included in "Other" in the cash flows from operating activities section of the consolidated statement of cash flows. Since the materiality of the amount increased during this fiscal year ended March 31, 2017, such amount was disclosed separately in the cash flows from operating activities section of the consolidated statement of cash flows. The amount of "Other" for the year ended March 31, 2016 was ¥(278) million prior to the changes in presentation.

(22) Additional Information
The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the current fiscal year.

Note 3: Consolidated Statements of Cash Flows

1. Reconciliations of cash and cash equivalents to the amounts presented in the accompanying consolidated balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash and time deposits	**¥ 70,275**	¥ 70,580	**$ 626,392**
Time deposits with maturities exceeding three months	**(4,768)**	(6,676)	**(42,499)**
Cash and cash equivalents	**¥ 65,506**	¥ 63,903	**$ 583,884**

2. Assets and liabilities of newly consolidated subsidiaries by acquisition

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares in APL Logistics Ltd and its group companies for the year ended March 31, 2016, related acquisition cost and net payment:

	Millions of yen
	2016
Current assets	¥ 56,936
Non-current assets	72,904
Goodwill	78,158
Current liabilities	(39,585)
Non-current liabilities	(11,256)
Non-controlling interests	(5,490)
Foreign currency translation adjustments	(3,004)
Acquisition cost	148,661
Cash and cash equivalents of newly consolidated subsidiaries	(8,857)
Payments for the acquisition	¥ (139,804)

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares in India Infrastructure and Logistics Private Limited for the year ended March 31, 2017, related acquisition cost and net proceeds:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Current assets	¥ 1,458	$ 12,995
Non-current assets	2,325	20,723
Goodwill	2,703	24,093
Current liabilities	(1,868)	(16,650)
Non-current liabilities	(45)	(401)
Acquisition cost	4,572	40,752
Cash and cash equivalents of newly consolidated subsidiaries	(243)	(2,165)
Debt equivalent to the shares	(4,572)	(40,752)
Proceeds for the acquisition	¥ 243	$ 2,165

3. Significant non-cash transactions

(1) The amounts of assets and obligations related to finance lease transactions that were newly recorded in the current fiscal year ended March 31, 2017 and the fiscal year ended March 31, 2016 are ¥150 million ($1,337 thousand) and ¥113 million, respectively.

(2) The amounts to exchange debts for acquisition of subsidiaries' shares in the current fiscal year ended March 31, 2017 is ¥5,914 million ($52,717 thousand).

Note 4: Securities

The following tables summarized acquisition costs, book values and fair values of securities with available fair values at March 31, 2017 and 2016:

Held-to-maturity debt securities, at March 31, 2017: None

Held-to-maturity debt securities, at March 31, 2016:	Millions of yen		
	Book value	Fair value	Difference
Securities with available fair values exceeding book value	¥ 139	¥ 140	¥ 0
Securities with available fair values not exceeding book value	–	–	–
Total	¥ 139	¥ 140	¥ 0

Available-for-sale securities, at March 31, 2017:	Millions of yen			Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition costs	¥ 5,126	¥ 2,657	¥ 2,468	$ 45,690	$ 23,683	$ 21,998
Securities with book value not exceeding acquisition costs	3,353	3,362	(9)	29,886	29,967	(80)
Total	¥ 8,479	¥ 6,019	¥ 2,459	$ 75,577	$ 53,650	$ 21,918

Available-for-sale securities, at March 31, 2016:	Millions of yen		
	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition costs	¥ 4,489	¥ 2,584	¥ 1,904
Securities with book value not exceeding acquisition costs	3,246	3,264	(18)
Total	¥ 7,735	¥ 5,849	¥ 1,886

Available-for-sale securities sold during the years ended March 31, 2017 and 2016:

Available-for-sale securities	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Sales proceeds	¥ 281	¥ 72	$ 2,504
Gain on sales	19	9	169
Loss on sales	–	–	–

Note 5: Pledged Assets and Secured Liabilities

1. At March 31, 2017 and 2016, assets pledged as collateral for secured liabilities were as follows:

Assets pledged as collateral	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and time deposits	¥ 22	¥ 159	$ 196
Total	¥ 22	¥ 159	$ 196

2. At March 31, 2017 and 2016, liabilities related to these assets pledged as collateral were as follows:

Secured liabilities	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Notes and accounts payable-trade	¥ 5	¥ 59	$ 44
Total	¥ 5	¥ 59	$ 44

Note 6: Contingent Liabilities

At March 31, 2017 and 2016, guarantees were as follows:

	Millions of yen		Thousands of U.S. dollars
Guarantees	2017	2016	2017
Borrowing from financial institution by non-consolidated subsidiary accounted for using equity method	¥ 718	¥ –	$ 6,399
Total	¥ 718	¥ –	$ 6,399

Note 7: Impairment Loss

Impairment loss for the year ended March 31, 2017
The Group primarily classifies its assets by management accounting unit and reviewed its long-lived assets for impairment and recognized an impairment loss of ¥55 million ($490 thousand) as other expenses.

The impairment loss was recognized on goodwill of India Infrastructure and Logistics Private Limited in India (APLL Segment), and the Group reduced the book value of these assets to their recoverable amount because it is no longer foreseen to generate revenues that was expected at share acquisition. The recoverable amount was measured by value in use calculated by discounting future cash flows at a discount rate of 14.0%.

Impairment loss for the year ended March 31, 2016
The Group primarily classifies its assets by management accounting unit and reviewed its long-lived assets for impairment and recognized an impairment loss of ¥559 million as other expenses.

The impairment loss was recognized on business assets ("containers") in United States (APLL Segment) and the Group reduced the book value of these assets to their recoverable amount due to the recognition of continuous operating loss.

The recoverable amount of the business assets was measured at the net realizable value.

Note 8: Short-term Debt and Long-term Debt

1. Short-term debt consists principally of borrowings from banks. The weighted average interest rate of short-term debt as of March 31, 2017 and 2016 are 1.8% and 0.9%, respectively.

2. Long-term debt including lease obligations at March 31, 2017 and 2016 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Long-term debt from banks and other financial institutions due 2016 to 2026, with average interest of 0.4% for 2017 and 2016			
Unsecured	¥140,643	¥ 138,913	$1,253,614
Less: Portion due within one year	(5,980)	(1,122)	(53,302)
Long-term debt, less current portion	¥134,663	¥ 137,791	$1,200,311

3. Annual maturities of long-term debt including lease obligations at March 31, 2017 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 10,739	$ 95,721
2020	10,545	93,992
2021	30,160	268,829
2022 and thereafter	83,217	741,750
Total	¥ 134,663	$ 1,200,311

4. Financial covenants

As of March 31, 2017

The Company's long-term debt (including current portion of long-term debt) from bank of ¥130,000 million ($1,158,748 thousand) includes financial covenants, with which the Company is in compliance as follows:

(a) Maintain the amount of shareholders' equity recorded on the Company's consolidated balance sheets as of the end of each fiscal year at not less than 75% of the total shareholders' equity recorded on the Company's consolidated balance sheets as of the end of the previous fiscal year or the fiscal year ended March 31, 2015.

(b) As of the end of each fiscal year, the Company shall not recognize ordinary losses as recorded in its consolidated statements of income for two consecutive periods.

(c) Maintain net debt equity ratio on the Company's consolidated balance sheets as of the end of each fiscal year at less than three times.

As of March 31, 2016

The Company's long-term debt from bank of ¥130,000 million includes financial covenants, with which the Company is in compliance as follows:

(a) Maintain the amount of shareholders' equity recorded on the Company's consolidated balance sheets as of the end of each fiscal year at not less than 75% of the total shareholders' equity recorded on the Company's consolidated balance sheets as of the end of the previous fiscal year or the fiscal year ended March 31, 2015.

(b) As of the end of each fiscal year, the Company shall not recognize ordinary losses as recorded in its consolidated statements of income for two consecutive periods.

(c) Maintain net debt equity ratio on the Company's consolidated balance sheets as of the end of each fiscal year at less than three times.

Note 9: Accounting for Retirement Benefits

1. Defined benefit pension plans

(1) Changes in retirement benefit obligations except pension plans applying simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year, as previously reported	¥ 14,134	¥ 17,133	$ 125,982
Increase due to business combination	10	616	89
Service cost	788	915	7,023
Interest cost	169	151	1,506
Actuarial differences incurred during the year	(117)	63	(1,042)
Benefits paid	(878)	(587)	(7,826)
Effect of change in accounting period	34	–	303
Decrease due to partial transfer to defined contribution pension plan	–	(4,112)	–
Other (Foreign currency exchange)	(29)	(45)	(258)
Balance at end of year	¥ 14,114	¥ 14,134	$ 125,804

(2) Changes in plan assets except pension plans applying simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥ 13,423	¥ 15,584	$119,645
Increase due to business combination	5	132	44
Expected return on plan assets	398	447	3,547
Actuarial differences incurred during the year	71	(414)	632
Contributions paid by the employer	550	825	4,902
Contributions paid by the employee	97	97	864
Benefits paid	(868)	(583)	(7,736)
Effect of change in accounting period	(114)	–	(1,016)
Decrease due to partial transfer to defined contribution pension plan	–	(2,650)	–
Other (Foreign currency exchange)	(14)	(15)	(124)
Balance at end of year	¥ 13,549	¥ 13,423	$120,768

(3) Changes in retirement benefit obligations applying simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥ 1,832	¥ 1,745	$ 16,329
Retirement benefit costs	428	533	3,814
Benefits paid	(128)	(81)	(1,140)
Contributions paid by the employer	(214)	(327)	(1,907)
Effect of change in accounting period	30	–	267
Other (Foreign currency exchange)	0	(37)	0
Balance at end of year	¥ 1,949	¥ 1,832	$ 17,372

(4) Reconciliation of retirement benefit obligations and plan assets with net defined benefit liability and asset on the consolidated balance sheet (including the Companies applying simplified method)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	¥ 14,427	¥ 14,378	$128,594
Plan assets	(14,214)	(13,975)	(126,695)
	212	403	1,889
Unfunded projected benefit obligations	2,301	2,140	20,509
Net liability (asset) on the consolidated balance sheet	¥ 2,513	¥ 2,543	$ 22,399
Net defined benefit liability	2,520	2,640	22,461
Net defined benefit asset	(6)	(96)	(53)
Net amount of liability (asset) on the consolidated balance sheet	¥ 2,513	¥ 2,543	$ 22,399

(5) The components of retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 691	¥ 817	$ 6,159
Interest cost	169	151	1,506
Expected return on plan assets	(398)	(447)	(3,547)
Amortization on actuarial gains and losses	(14)	149	(124)
Amortization on prior service cost	0	1	0
Retirement benefit cost with simplified method	428	533	3,814
Net retirement benefit costs of defined benefit pension plan	¥ 877	¥ 1,205	$ 7,817
Gain due to partial transfer to defined contribution pension plan	¥ –	¥ 523	$ –

Note: As a result of partial transfer from defined benefit pension plan to defined contribution plan on January 2016, the Group recorded gain on revision of retirement benefit plan of ¥523 million for the year ended March 31, 2016.

(6) Other comprehensive income on remeasurements of defined benefit pension plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs	¥ 0	¥ 2	$ 0
Actuarial differences	173	(429)	1,542
Total	¥ 174	¥ (426)	$ 1,550

Note: Past service costs and actuarial differences for the year ended March 31, 2016 included the effects of partial transfer to defined contribution pension plan which amounted to ¥1 million and ¥(99) million, respectively.

(7) Remeasurements of defined benefit pension plans in accumulated other comprehensive income, before tax

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized past service costs	¥ 3	¥ 4	$ 26
Unrecognized actuarial differences	283	334	2,522
Total	¥ 287	¥ 338	$ 2,558

(8) Plan assets

(a) Components of plan assets	2017	2016
Bonds	36.9%	51.6%
Equity securities	23.2%	22.7%
Cash and time deposits	8.6%	8.1%
Life insurance company account	3.7%	3.7%
Alternative investments	27.2%	13.4%
Other	0.4%	0.5%
Total	100.0%	100.0%

Notes:
1. Plan asset consists of retirement benefit trust set to the defined benefit pension plan which accounted for 0.6% and 0.9% of the plan assets as of March 31, 2017 and 2016, respectively.
2. Alternative investments are mainly investments on hedge funds.

(b) Method of determining the long-term expected rate of return on plan assets

Long-term expected rate of return on plan assets is determined considering the long-term rates of return which are currently expected and expected in the future from the variety of assets portfolio components.

(9) Actuarial assumptions (stated at weighted-average)

	2017	2016
Discount rate	1.2%	0.9%
Long-term expected rate of return on plan assets	3.0%	2.9%

2. Defined contribution pension plan
Contributions to defined contribution pension plans by the Company and its certain consolidated subsidiaries for the years ended March 31, 2017 and 2016 were ¥1,136 million ($10,125 thousand) and ¥547 million, respectively.

Note 10: Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

1. Significant components of deferred tax assets and liabilities
Significant components of deferred tax assets and liabilities resulting from temporary differences as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Loss carryforwards	¥ 5,397	¥ 4,991	$ 48,105
Accrued bonuses	659	577	5,873
Accrued enterprise tax	115	34	1,025
Net defined benefit liability	1,102	1,097	9,822
Valuation loss on investment securities	178	175	1,586
Allowance for doubtful accounts	177	171	1,577
Allowance for paid leave	377	335	3,360
Others	1,507	1,020	13,432
Gross deferred tax assets	9,514	8,405	84,802
Less: Valuation allowance	(6,469)	(5,355)	(57,661)
Total deferred tax assets	3,044	3,049	27,132
Deferred tax liabilities:			
Depreciation	(1,081)	(1,123)	(9,635)
Reserved profit of foreign subsidiaries	(122)	(115)	(1,087)
Unrealized holding gains on securities	(718)	(559)	(6,399)
Valuation difference on business combination	(8,324)	(9,065)	(74,195)
Others	(603)	(558)	(5,374)
Total deferred tax liabilities	(10,851)	(11,421)	(96,719)
Net deferred tax assets (liabilities)	¥ (7,806)	¥ (8,372)	$ (69,578)

2. Reconciliation between the statutory income tax and effective tax rate
The reconciliations of the difference between the statutory income tax rate and the effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Statutory tax rate	30.9%	33.1%
Entertainment expenses and other non-deductible permanent differences	8.5	2.9
Dividend income and other non-taxable income	(2.2)	(2.4)
Difference of the statutory tax rate among countries other than Japan	(1.2)	(5.3)
Amortization of goodwill	8.7	3.7
Expense owing directly to business combination	–	1.5
Corporate inhabitant tax, withholding tax	5.3	3.5
Valuation allowance, utilization of tax losses	2.0	2.3
Equity in earnings (losses) of affiliates, net	3.2	(1.2)
Effect of elimination of intercompany dividends received	1.5	0.5
Other, net	(0.8)	1.3
Effective tax rate	55.9%	39.9%

Note 11: Consolidated Statements of Changes in Net Assets

1. Shareholders' Equity
Under Japanese laws and regulations, the entire amount paid for new shares must be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act ("the Act"), in cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings under certain conditions.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act.

2. Dividends from surplus, etc.
(1) Number of shares issued

	Shares	
	2017	2016
Number of shares at the beginning of the fiscal year	72,000,000	36,000,000
Increase	–	(Note 2) 36,000,000
Decrease	–	–
Number of shares at the end of the fiscal year	72,000,000	72,000,000

Notes:
1. Type of all share issued is common stock.
2. The Company conducted a stock split at a ratio of 1:2 of common stock on October 1, 2015 as the effective date. Increase in number of 36,000,000 shares issued of common stock is due to this stock split.

(2) Number of treasury stock shares

		Shares		
		2017		2016
Number of shares at the beginning of the fiscal year		2,309		790
Increase	(Note 2)	55	(Notes 3 and 4)	1,519
Decrease		–		–
Number of shares at the end of the fiscal year		2,364		2,309

Notes:
1. Type of all share issued is common stock.
2. The 55 shares increase of treasury stock shares for the fiscal year ended March 31, 2017 is due to the purchase of shares less than standard unit.
3. The Company conducted a stock split at a ratio of 1:2 of common stock on October 1, 2015 as the effective date.
4. The 1,519 shares increase in the number of treasury stock shares for the fiscal year ended March 31, 2016 consists of increase of 49 shares from the purchase of shares of less than standard unit before this stock split, increase of 839 shares as a result of this stock split and increase of 631 shares from the purchase of shares less than standard unit after this stock split.

(3) Items related to dividends
(a) Dividend paid

Resolutions	Dividend paid: Millions of yen	Dividend paid: Thousands of U.S. dollars	Dividend per share: Yen	Dividend per share: U.S. dollars	Record date	Effective date
Year ended March 31, 2017						
Ordinary general meeting of shareholders held on June 21, 2016	**¥ 1,151**	**$ 10,259**	**¥ 16.00**	**$ 0.14**	**March 31, 2016**	**June 22, 2016**
Board of Directors' meeting held on November 8, 2016	**719**	**6,408**	**10.00**	**0.08**	**September 30, 2016**	**December 9, 2016**
Year ended March 31, 2016						
Ordinary general meeting of shareholders held on June 16, 2015	¥ 1,043		¥ 29.00		March 31, 2015	June 17, 2015
Board of Directors' meeting held on November 9, 2015	719		20.00		September 30, 2015	December 10, 2015

Notes:
1. Type of all share issued is common stock.
2. Source of dividends is retained earnings.
3. The Company conducted a stock split at a ratio of 1:2 of common stock on October 1, 2015 as the effective date, therefore, the dividend per share for the year ended March 31, 2016 in the above table (a) are amounts prior to the stock split.

(b) Dividends with a record date during the years ended March 31, 2017 and 2016 but an effective date subsequent to the following fiscal year.

Resolutions	Dividend paid: Millions of yen	Dividend paid: Thousands of U.S. dollars	Dividend per share: Yen	Dividend per share: U.S. dollars	Record date	Effective date
Year ended March 31, 2017						
Ordinary general meeting of shareholders held on June 27, 2017	**¥ 1,151**	**$ 10,259**	**¥ 16.00**	**$ 0.14**	**March 31, 2017**	**June 28, 2017**
Year ended March 31, 2016						
Ordinary general meeting of shareholders held on June 21, 2016	¥ 1,151		¥ 16.00		March 31, 2016	June 22, 2016

Notes:
1. Type of all share issued is common stock.
2. Source of dividends is retained earnings.

Note 12: Accounting for Leases

Lease obligations under non-cancellable operating leases for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Payments due within one year	¥ 8,424	¥ 7,237	$ 75,086
Payments due after one year	19,753	15,220	176,067
Total	¥ 28,178	¥ 22,457	$ 251,163

Note 13: Financial Instruments

1. Qualitative information on financial instruments
(1) Group policy for financial instruments
The Group limits the use of financial instruments for fund management purposes to short term bank deposit, high credit rating debt securities and to loans from banks for financing. Utilizing derivative is not for speculative purposes but to manage financial risks as described in detail below.
(2) Details of financial instruments used and the exposures to risks and policies and processes for managing the risks
Notes and accounts receivable-trade are exposed to credit risk of customers. To minimize the credit risk, the Group performs due date controls and balance controls for each customer in accordance with internal customer credit management rule and regularly screens customers' credit status.

Investment securities are held-to-maturity debt securities, high credit rating debt securities and shares of companies with which the Group has operational relationships and they are exposed to stock market fluctuation risks. To control the risks, the Group are continuously monitoring the investees' financial position and the market values.

Credit risk arising from held-to-maturity debt securities and high credit rating debt securities is minimal.

Maturities of notes and accounts payable-trade are mostly within one year. Among loans payable, short-term debts are mainly for financing related to business transactions and long-term debts are mainly for financing related to capital investments and mergers and acquisitions.

Those payables and debts are exposed to liquidity risk at time of settlement. However, the Group reduces that risk by having each company reviews its financing plans periodically and by controlling the liquidity position.

As for derivative transactions, the Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain receivables and payables, and scheduled transactions denominated in foreign currencies. Also the Group enters into interest rate and currency swap contracts to manage interest and currency exposures on debt from financial institutions.

As for foreign exchange forward contracts, it is executed and controlled under the Group's internal rules and regulations.

The credit risk of derivative transactions is deemed to be very low because the Group only conducts transactions with financial institutions with high credit ratings.

2. Fair value of financial instruments
The carrying amounts on the consolidated balance sheets, fair value, and differences as of March 31, 2017 were as follows.

Moreover, financial instruments, for which it is extremely difficult to measure the fair value, are not included. (See Note 2)

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits	¥ 70,275	¥ 70,275	¥ –	$ 626,392	$ 626,392	$ –
(2) Notes and accounts receivable-trade	95,523	95,523	–	851,439	851,439	–
(3) Marketable securities						
Available-for-sale securities	3,278	3,278	–	29,218	29,218	–
(4) Investment securities						
Equity securities	6,303	3,120	(3,182)	56,181	27,809	(28,362)
Other securities	5,200	5,200	–	46,349	46,349	–
(5) Long-term loans receivable (including current portion of long-term loan receivable)	52	52	–	463	463	–
Total	¥180,634	¥177,451	¥ (3,182)	$1,610,072	$1,581,700	$(28,362)
Liabilities:						
(6) Notes and accounts payable-trade	¥ 41,057	¥ 41,057	¥ –	$ 365,959	$ 365,959	$ –
(7) Short-term debt	25,617	25,617	–	228,335	228,335	–
(8) Income taxes payable	3,823	3,823	–	34,076	34,076	–
(9) Long-term debt (including current portion of long-term debt)	140,060	139,919	(140)	1,248,417	1,247,161	(1,247)
Total	¥210,558	¥210,417	¥ (140)	$1,876,798	$1,875,541	$ (1,247)
Derivative transactions(*):						
(1) Hedge accounting is not applied	¥ (8)	¥ (8)	¥ –	$ (71)	$ (71)	$ –
(2) Hedge accounting is applied	–	–	–	–	–	–
Total	¥ (8)	¥ (8)	¥ –	$ (71)	$ (71)	$ –

(*)Derivative assets and liabilities are presented on net basis. Net liabilities are disclosed in brackets.

Notes:
1. Fair value measurement of financial instruments
Assets
(1) Cash and time deposits and (2) Notes and accounts receivable-trade
The relevant book values are used because the settlement periods of the above items are short in nature and their fair values are approximate to their book values.
(3) Marketable securities and (4) Investment securities
The fair value equals quoted market price or price provided by financial institutions.
(5) Long-term loans receivable (including current portion of long-term loan receivable)
The relevant book values are used because their fair values are approximate to their book values in view of loan collection schedule and condition of interest rates.

Liabilities
(6) Notes and accounts payable-trade, (7) Short-term debt and (8) Income taxes payable
The relevant book values are used because the settlement periods of the above items are short in nature and their fair values are approximate to their book values.
(9) Long-term debt (including current portion of long-term debt)
Long-term debt (including those in foreign currencies) consists of interest rate and currency swaps, which meet the specific matching criteria of integral accounting. The fair value is computed by discounting the aggregate value of the principal and interest, together with the interest rate and currency swaps, using the interest rate that would be assumed if a similar loan agreement were entered.

Derivative transactions
The fair value information for derivatives is included in Note 15.

2. Financial instruments whose fair value cannot be reliably determined
Investments in equity instruments that do not have a quoted market price in an active market as of March 31, 2017 were as follows:

	Book value	
	Millions of yen	Thousands of U.S. dollars
Investments in affiliates	¥ 382	$ 3,404
Investments in others	8,057	71,815

Notes:
1. These investments are not included in Assets (4) Investment securities.
2. Certain unlisted security was impaired and valuation loss on investment security of ¥1,054 million ($9,394 thousand) was recorded for the year ended March 31, 2017.
3. The redemption schedule for monetary claim and debt securities with maturity dates subsequent to the consolidated balance sheet is as follows:

	Millions of yen			Thousands of U.S. dollars		
	One year or less	One to five years	Over five years	One year or less	One to five years	Over five years
Assets						
(1) Cash and time deposits	¥ 70,275	¥ –	¥ –	$ 626,392	$ –	$ –
(2) Notes and accounts receivable-trade	95,523	–	–	851,439	–	–
(3) Marketable securities						
Held-to-maturity debt securities (government securities)	–	–	–	–	–	–
Available-for-sale securities						
Other securities with maturity date (corporate bonds)	3,270	40	–	29,146	356	–
Other securities with maturity date (government securities)	8	44	–	71	392	–
(4) Long-term loans receivable	–	52	–	–	463	–
Total	¥169,078	¥ 137	¥ –	$ 1,507,068	$ 1,221	$ –

Note 14: Derivatives

1. Derivative transactions to which hedge accounting was not applied as of March 31, 2017

[Currency related]

	Millions of yen			Thousands of U.S. dollars		
	Contract amounts due within one year	Fair value	Unrealized gain (loss)	Contract amounts due within one year	Fair value	Unrealized gain (loss)
Over-the-counter transactions						
Foreign currency forward contracts to						
Purchase U.S. dollar	¥ 707	¥ (5)	¥ (5)	$ 6,301	$ (44)	$ (44)
Purchase euro	276	(2)	(2)	2,460	(17)	(17)
Purchase British pound	42	(0)	(0)	374	(0)	(0)
Purchase Thai baht	32	(0)	(0)	285	(0)	(0)
Purchase Hong Kong dollar	18	(0)	(0)	160	(0)	(0)
Purchase Swiss franc	26	(0)	(0)	231	(0)	(0)
Purchase Swedish krona	3	(0)	(0)	26	(0)	(0)
	¥ 1,106	¥ (8)	¥ (8)	$ 9,858	$ (71)	$ (71)

Note: Fair value is based on information provided by financial institutions at the end of fiscal year.

2. Derivative transactions to which hedge accounting was applied as of March 31, 2017

[Interest and Currency related]

	Millions of yen			Thousands of U.S. dollars		
Hedged items and hedge accounting method	Contract amounts	Contract amounts due over one year	Fair value	Contract amounts	Contract amounts due over one year	Fair value
Hedged items: Long-term debt and interest Hedge accounting method: Integral accounting for interest rate and currency swaps Currency and interest rate swaps to Floating-rate receipt , fixed-rate payment Receipt in U.S. dollars, payment in yen	¥ 69,000	¥ 69,000	Note	$ 615,028	$ 615,028	Note

Note: Currency and interest rate swaps which qualify for hedge accounting and meet specific criteria are not remeasured at market value but the differential paid or received under the swap agreement is recognized and included in interest expense of the long-term debt.

Note 15: Business Combination

(Business combination by acquisition)
1. Overview of business combination
(1) Name and business of the acquired company
India Infrastructure and Logistics Private Limited - Railway transportation businesses

(2) Purpose for business combination
The Company considers that the investment in India Infrastructure and Logistics Private Limited which engages in railway transportation business in India allows the Company to take in transportation demand with expanded transportation services in the Indian domestics transportation market which has high growth potential as well as to strengthen logistics business in India. We also consider that it will provide more opportunities to capture demand of international freight transportation connected to Indian domestic transportation, which will contribute to the KWE Group's business expansion.

(3) Date of the business combination
January 15, 2016

(4) Legal form of business combination
Acquisition of shares

(5) Name of company after business combination
India Infrastructure and Logistics Private Limited

(6) Share of voting rights acquired
Voting rights at the date of business combination : 100%

(7) Basis of determining the acquisition
APL Logistics Ltd and APL Logistics Americas, Ltd., our subsidiaries, acquired all shares of the company in exchange for promissory note.

2. Period for inclusion of acquired company's performance in the consolidated financial statements
From January 1, 2016 to December 31, 2016

3. Acquisition cost:

	Millions of yen	Thousands of U.S. dollars
Promissory note for acquisition of share	¥ 4,572	$ 40,752

4. Expense owing directly to acquisition (mainly advisory fees):
None
5. Amount of goodwill recognized, its sources, and its amortization method and period
(1) Amount of goodwill recognized
¥2,703 million ($24,093 thousand)

(2) Source of goodwill
The goodwill is attributable to the excess future profitability.

(3) Amortization of goodwill and period
Straight-line method over 20 years

6. Details of assets acquired and liabilities assumed on the date of the business combination:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,458	$ 12,995
Non-current assets	2,325	20,723
Total assets	3,783	33,719
Current liabilities	1,868	16,650
Non-current liabilities	45	401
Total liabilities	¥ 1,913	$ 17,051

7. Amounts allocated to intangible assets other than goodwill and the weighted average amortization period by components:

	Millions of yen	Thousands of U.S. dollars	The weighted average amortization period
Customer-related intangible assets	¥ 106	$ 944	5 years
Total	¥ 106	$ 944	5 years

8. Approximate amount of impact on the consolidated statement of income for the year ended March 31, 2017 assuming that the business combination was completed on January 1, 2016:
Not applicable (Deemed business combination date: January 1, 2016)

(Transaction under common control)
Additional acquisition of shares in subsidiary
1. Overview of the transaction
(1) Name and business of the company under the transaction
APL Logistics Vascor Automotive Private Limited - Railway transportation businesses and Automotive-related logistics business in India

(2) Date of the transaction
March 11, 2016

(3) Legal form of the transaction
Acquisition of shares from non-controlling interest

(4) Name of company after the transaction
APL Logistics Vascor Automotive Private Limited

(5) Other matters related to the transaction
In order to strengthen transportation business in Indian domestic market which has high growth potential, APL Logistics Ltd, our subsidiary, acquired shares of APL Logistics Vascor Automotive Private Limited held by non-controlling interest, resulting in the shareholding ratio of 75% in the company (including indirect holdings).

2. Outline of accounting treatment
The transaction was accounted for as a transaction with non-controlling interest shareholders under common control, in accordance with "Accounting Standard for Business Combinations" and "Guideline on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

3. Acquisition cost:

	Millions of yen	Thousands of U.S. dollars
Promissory note for acquisition of shares	¥ 979	$ 8,726

4. Change in the portion held by the Company in connection with the transaction with non-controlling interest
(1) Major reasons for changes in capital surplus
Additional acquisition of the subsidiary's shares

(2) Decreases in capital surplus due to transaction with non-controlling interest
¥275 million ($2,451 thousand)

Note 16: Segment Information

1. Overview of reportable segments
Reportable segments of the Group are components of an entity for which separate financial information is available and such information is evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.
The Company has established a Corporate Strategy Headquarters that sets global strategy and controls overall business activities of the Group.
The Company and its consolidated subsidiaries consist of 6 reportable segments namely "Japan", "The Americas", "Europe, Middle East & Africa", "East Asia & Oceania", "Southeast Asia" and "APLL".

2. Services of each reportable segments
"Japan", "The Americas", "Europe, Middle East & Africa", "East Asia & Oceania" and "Southeast Asia" segments perform business activities mainly in Air freight forwarding, Sea freight forwarding and Logistics (Warehouse operation) services. "APLL" segment provides services related to Logistics (Truck and Rail transportation and Warehouse operation) and Sea freight forwarding.

3. Calculation for net sales, segment income or loss, assets and other of reportable segments
Accounting practice for reportable segments is the same as the practice described in Note 1 "Basis of Presenting the Consolidated Financial Statements".
Income of reportable segments is stated on the basis of operating income. Inter-segment sales or transfer are based on market price to be used under general business conditions.

4. Net sales, segment income or loss, assets and others of reportable segments
The segment information of the Companies for the years ended March 31, 2017 and 2016 are presented below:

	Millions of yen										
	Reportable Segments										
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total	Other (1)	Total	Adjustment (2)	Consolidated (3)
Year ended March 31, 2017:											
Net sales											
Net sales to outside customers	**¥ 107,493**	**¥ 41,318**	**¥ 30,410**	**¥ 75,362**	**¥ 43,830**	**¥ 175,578**	**¥ 473,995**	**¥ 335**	**¥ 474,330**	**¥ –**	**¥ 474,330**
Inter-segment sales/transfers	**2,850**	**2,921**	**1,031**	**1,595**	**999**	**82**	**9,481**	**1,626**	**11,108**	**(11,108)**	**–**
Total net sales	**110,344**	**44,240**	**31,442**	**76,958**	**44,830**	**175,660**	**483,476**	**1,961**	**485,438**	**(11,108)**	**474,330**
Operating expenses	**105,903**	**41,753**	**30,084**	**71,988**	**41,844**	**179,014**	**470,589**	**1,779**	**472,369**	**(11,113)**	**461,255**
Segment income (loss)	**¥ 4,440**	**¥ 2,486**	**¥ 1,357**	**¥ 4,969**	**¥ 2,985**	**¥ (3,353)**	**¥ 12,887**	**¥ 182**	**¥ 13,069**	**¥ 5**	**¥ 13,075**
At March 31, 2017:											
Segment assets	**¥ 70,261**	**¥ 20,175**	**¥ 16,854**	**¥ 50,601**	**¥ 27,097**	**¥ 195,181**	**¥ 380,170**	**¥ 2,065**	**¥ 382,236**	**¥ (2,992)**	**¥ 379,244**
Year ended March 31, 2017:											
Other:											
Depreciation	**¥ 1,361**	**¥ 218**	**¥ 222**	**¥ 617**	**¥ 408**	**¥ 4,223**	**¥ 7,052**	**¥ 43**	**¥ 7,095**	**¥ –**	**¥ 7,095**
Amortization of goodwill	**47**	**–**	**–**	**–**	**–**	**3,598**	**3,645**	**–**	**3,645**	**–**	**3,645**
Investments in affiliates	**2,427**	**–**	**202**	**731**	**4,313**	**6,303**	**13,978**	**–**	**13,978**	**–**	**13,978**
Increase in property and equipment and other intangible assets	**910**	**142**	**199**	**362**	**276**	**4,380**	**6,272**	**47**	**6,319**	**–**	**6,319**
Year ended March 31, 2016:											
Net sales											
Net sales to outside customers	¥ 106,635	¥ 48,409	¥ 34,886	¥ 89,740	¥ 45,833	¥ 94,399	¥ 419,905	¥ 346	¥ 420,252	¥ –	¥ 420,252
Inter-segment sales/transfers	2,791	3,504	1,088	1,545	963	2	9,897	1,762	11,659	(11,659)	–
Total net sales	109,427	51,914	35,975	91,286	46,797	94,401	429,802	2,109	431,911	(11,659)	420,252
Operating expenses	105,300	48,136	34,983	85,665	44,868	95,805	414,759	1,800	416,559	(11,664)	404,895
Segment income (loss)	¥ 4,127	¥ 3,778	¥ 992	¥ 5,621	¥ 1,928	¥ (1,404)	¥ 15,043	¥ 308	¥ 15,351	¥ 4	¥ 15,356
At March 31, 2016:											
Segment assets	¥ 69,577	¥ 24,181	¥ 16,341	¥ 54,642	¥ 25,815	¥ 199,606	¥ 390,164	¥ 2,117	¥ 392,282	¥ (6,380)	¥ 385,902
Year ended March 31, 2016:											
Other:											
Depreciation	¥ 1,180	¥ 246	¥ 241	¥ 740	¥ 517	¥ 2,267	¥ 5,193	¥ 61	¥ 5,255	¥ –	¥ 5,255
Amortization of goodwill	47	–	–	–	–	1,944	1,992	–	1,992	–	1,992
Investments in affiliates	2,155	–	183	1,768	4,702	6,541	15,351	–	15,351	–	15,351
Increase in property and equipment and other intangible assets	3,032	166	397	545	450	2,440	7,032	79	7,112	–	7,112

	Thousands of U.S.dollars										
	Reportable Segments										
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total	Other	Total	Adjustment	Consolidated
Year ended March 31, 2017:											
Net sales											
Net sales to outside customers	$ 958,133	$ 368,285	$ 271,058	$ 671,735	$ 390,676	$ 1,565,005	$ 4,224,930	$ 2,986	$ 4,227,916	$ –	$ 4,227,916
Inter-segment sales/transfers	25,403	26,036	9,189	14,216	8,904	730	84,508	14,493	99,010	(99,010)	–
Total net sales	983,545	394,331	280,256	685,961	399,589	1,565,736	4,309,439	17,479	4,326,927	(99,010)	4,227,916
Operating expenses	943,961	372,163	268,152	641,661	372,974	1,595,632	4,194,571	15,857	4,210,437	(99,055)	4,111,373
Segment income (loss)	$ 39,575	$ 22,158	$ 12,095	$ 44,290	$ 26,606	$ (29,886)	$ 114,867	$ 1,622	$ 116,489	$ 44	$ 116,543
At March 31, 2017:											
Segment assets	$ 626,267	$ 179,828	$ 150,227	$ 451,029	$ 241,527	$ 1,739,736	$ 3,388,626	$ 18,406	$ 3,407,041	$ (26,669)	$ 3,380,372
Year ended March 31, 2017:											
Other:											
Depreciation	$ 12,131	$ 1,943	$ 1,978	$ 5,499	$ 3,636	$ 37,641	$ 62,857	$ 383	$ 63,240	$ –	$ 63,240
Amortization of goodwill	418	–	–	–	–	32,070	32,489	–	32,489	–	32,489
Investments in affiliates	21,632	–	1,800	6,515	38,443	56,181	124,592	–	124,592	–	124,592
Increase in property and equipment and other intangible assets	8,111	1,265	1,773	3,226	2,460	39,040	55,905	418	56,324	–	56,324

Notes:
1. "Other" is segment which is not included in reportable segments and provides incidental logistics related services within the Group.
2. "Adjustment" includes:
Segment income of ¥5 million ($44 thousand) and ¥4 million for the years ended March 31, 2017 and 2016, respectively represents elimination of inter-segment transactions.
Segment assets of ¥(2,992) million ($(26,669) thousand) and ¥(6,380) million at March 31, 2017 and 2016, respectively consist of elimination of inter-segment transactions of ¥(11,918) million ($(106,230) thousand) and ¥(15,024) million at March 31, 2017 and 2016, respectively and surplus fund (cash and time deposit) of the Company of ¥8,926 million ($79,561 thousand) and ¥8,643 million, which are not allocated to each segment at March 31, 2017 and 2016, respectively.
3. Segment income is adjusted with operating income in the consolidated statements of income.

5. Net sales by Service
Net sales by service for the years ended March 31, 2017 and 2016 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net sales by Service:			
Air freight forwarding	¥155,486	¥ 168,768	$1,385,916
Sea freight forwarding	134,991	115,961	1,203,235
Logistics	151,680	101,380	1,351,992
Others	32,172	34,141	286,763
	¥474,330	¥ 420,252	$4,227,916

6. Net sales classified by Country or Geographic area
Net sales classified by country or geographic area for the years ended March 31, 2017 and 2016 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net sales classified by Country or Geographic area:			
Japan	¥107,552	¥ 106,662	$ 958,659
North America	113,918	88,952	1,015,402
China	77,911	82,233	694,455
Asia and Oceania	88,406	76,649	788,002
Europe	39,559	37,804	352,607
Latin America	39,647	20,230	353,391
Others	7,335	7,718	65,380
	¥474,330	¥ 420,252	$4,227,916

Note: Amounts are classified by country or geographic where service is rendered.

7. Property and equipment classified by Country or Geographic area
Property and equipment classified by country or geographic area for the years ended March 31, 2017 and 2016 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Property and equipment classified by Country or Geographic area:			
Japan	¥ 25,752	¥ 26,304	$ 229,539
North America	5,566	5,815	49,612
China	2,758	3,020	24,583
Asia and Oceania	10,427	9,158	92,940
Europe	382	508	3,404
Latin America	670	801	5,972
Others	552	334	4,920
	¥ 46,109	¥ 45,944	$ 410,990

8. Information regarding impairment loss of long-lived assets of reportable segments

Impairment loss of non-current assets by reportable segments for the years ended March 31, 2017 and 2016 are presented below:

	Millions of yen								
	Reportable Segments								
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total	Other	Total
Year ended March 31, 2017									
Impairment loss of non-current assets	**¥ –**	**¥ –**	**¥ –**	**¥ 1,054**	**¥ –**	**¥ 55**	**¥ 1,110**	**¥ –**	**¥ 1,110**
Year ended March 31, 2016									
Impairment loss of non-current assets	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 559	¥ 559	¥ –	¥ 559

	Thousands of U.S. dollars								
	Reportable Segments								
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total	Other	Total
Year ended March 31, 2017									
Impairment loss of non-current assets	**$ –**	**$ –**	**$ –**	**$ 9,394**	**$ –**	**$ 490**	**$ 9,893**	**$ –**	**$ 9,893**

Note: East Asia & Oceania segment recognized impairment loss for goodwill associated with a non-consolidated subsidiary accounted for using equity method and recorded it in equity in earnings (losses) of affiliates, net.

9. Information on amortization of goodwill and balance of goodwill of reportable segments

Amortization of goodwill and the balance of goodwill by reportable segments for the years ended March 31, 2017 and 2016 are presented below:

	Millions of yen								
	Reportable Segments								
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total	Other	Total
Year ended March 31, 2017									
Goodwill									
Amortization of goodwill	**¥ 47**	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ 3,598**	**¥ 3,645**	**¥ –**	**¥ 3,645**
Balance of goodwill	**806**	**–**	**–**	**–**	**–**	**71,249**	**72,055**	**–**	**72,055**
Negative goodwill									
Amortization of negative goodwill	**–**	**–**	**–**	**–**	**11**	**–**	**11**	**–**	**11**
Balance of negative goodwill	**–**	**–**	**–**	**–**	**130**	**–**	**130**	**–**	**130**
Year ended March 31, 2016									
Goodwill									
Amortization of goodwill	¥ 47	¥ –	¥ –	¥ –	¥ –	¥ 1,944	¥ 1,992	¥ –	¥ 1,992
Balance of goodwill	853	–	–	–	–	75,059	75,913	–	75,913
Negative goodwill									
Amortization of negative goodwill	–	–	–	–	11	–	11	–	11
Balance of negative goodwill	–	–	–	–	144	–	144	–	144

	Thousands of U.S. dollars								
	Reportable Segments								
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total	Other	Total
Year ended March 31, 2017									
Goodwill									
Amortization of goodwill	**$ 418**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 32,070**	**$ 32,489**	**$ –**	**$ 32,489**
Balance of goodwill	**7,184**	**–**	**–**	**–**	**–**	**635,074**	**642,258**	**–**	**642,258**
Negative goodwill									
Amortization of negative goodwill	**–**	**–**	**–**	**–**	**98**	**–**	**98**	**–**	**98**
Balance of negative goodwill	**–**	**–**	**–**	**–**	**1,158**	**–**	**1,158**	**–**	**1,158**

Note 17: Selling, General and Administrative Expenses

Selling, general and administrative expenses during the years ended March 31, 2017 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Personnel expenses	¥ 42,910	¥ 34,849	$ 382,476
Facility expenses	8,068	6,041	71,913
Office expenses	4,071	3,454	36,286
Depreciation	4,406	2,913	39,272
Amortization of goodwill	3,645	1,992	32,489
Others	8,835	7,153	78,750
Total	¥ 71,939	¥ 56,405	$ 641,224

Note 18: Other Income (Expenses)

Others, net during the years ended March 31, 2017 and 2016 were summarized as follows :

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Amortization of negative goodwill	¥ 11	¥ 11	$ 98
Other, net	149	(20)	1,328
	¥ 160	¥ (9)	$ 1,426

Note 19: Consolidated Statements of Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gains (losses) on available-for-sale securities			
Increase (Decrease) during the year	¥ 591	¥ (1,339)	$ 5,267
Reclassification	(18)	0	(160)
Subtotal, before tax	573	(1,339)	5,107
Tax (expense) or benefit	(156)	487	(1,390)
Subtotal, net of tax	416	(851)	3,707
Deferred gains or losses on hedges			
Increase (Decrease) during the year	11	(4)	98
Reclassification	(7)	(58)	(62)
Subtotal, before tax	4	(63)	35
Tax (expense) or benefit	(0)	20	(0)
Subtotal, net of tax	4	(43)	35
Foreign currency translation adjustments			
Increase (Decrease) during the year	(7,804)	(4,200)	(69,560)
Reclassification	–	–	–
Subtotal, before tax	(7,804)	(4,200)	(69,560)
Tax (expense) or benefit	–	–	–
Subtotal, net of tax	(7,804)	(4,200)	(69,560)
Remeasurements of defined benefit plans			
Increase (Decrease) during the year	188	(478)	1,675
Reclassification	(13)	51	(115)
Subtotal, before tax	174	(426)	1,550
Tax (expense) or benefit	(53)	132	(472)
Subtotal, net of tax	121	(294)	1,078
Share of other comprehensive income of associates accounted for using equity method			
Increase (Decrease) during the year	(1,085)	(730)	(9,671)
Reclassification	(176)	(4)	(1,568)
Subtotal	(1,261)	(735)	(11,239)
Total other comprehensive income	¥ (8,524)	¥ (6,125)	$ (75,978)

Note 20: Amounts Per Share

Net assets per share as of March 31, 2017 and 2016 and net income per share for the years ended March 31, 2017 and 2016 were summarized as follows:

	Yen		U.S. dollars
	2017	2016	**2017**
Net assets per share	**¥ 1,627.84**	¥ 1,741.44	**$ 14.50**
Earnings per share	**62.33**	135.74	**0.55**

Notes:
1. Diluted net income per share for the years ended March 31, 2017 and 2016 are omitted, because the Company has no dilutive shares.
2. The Company conducted a stock split at a ratio of 1:2 of common stock on October 1, 2015 as the effective date. Accordingly, the amount of net assets per share and net income per share which are presented in the above table is calculated based on the assumption that the stock split was conducted at the beginning of the previous year (fiscal year 2016).
3. Basis for calculation of earnings per share for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net income attributable to owners of the parent	**¥ 4,487**	¥ 9,773	**$ 39,994**
Net income not attributable to common shareholders	**–**	–	**–**
Net income attributable to common shareholders	**¥ 4,487**	¥ 9,773	**$ 39,994**

	Shares	
	2017	2016
Weighted-average number of shares of common stock outstanding	**71,997,672**	71,998,046

Note: The Company conducted a stock split at a ratio of 1:2 of common stock on October 1, 2015 as the effective date. Accordingly, the weighted-average number of shares of common stock outstanding which is presented in the above table is calculated based on the assumption that the stock split was conducted at the beginning of the previous year (fiscal year 2016).

Note 21: Subsequent Events

None

KPMG

Independent Auditor's Report

To the Board of Directors of Kintetsu World Express, Inc.:

We have audited the accompanying consolidated financial statements of Kintetsu World Express, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of Kintetsu World Express, Inc. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Investor Information

(As of March 31, 2017)

Head Office:
Shinagawa Intercity TowerA-24Fl.
2-15-1 Konan, Minato-ku, Tokyo 108-6024, Japan
Tel: +81-3-6863-6440

Established:
January 1970

Paid-in Capital
¥ 7,216 million

Number of Common Stocks

Authorized	240,000,000 shares
Issued and outstanding	72,000,000 shares

General Shareholders' Meeting:
General Shareholders' Meeting is held every June in Tokyo, Japan.

Shareholder Register Administrator:
Mitsubishi UFJ Trust and Banking Corporation

Number of Employees:
18,159 (worldwide)

Investor Relations:
Shinagawa Intercity TowerA-24Fl.
2-15-1 Konan, Minato-ku, Tokyo 108-6024, Japan
Tel: +81-3-6863-6443 / Fax: +81-3-5462-8501

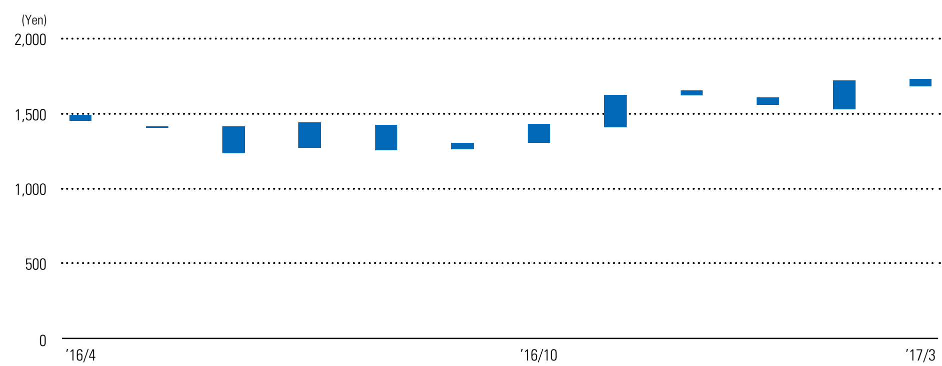
Website Address:
http://www.kwe.com

Major Shareholders

(As of March 31, 2017)

Shareholder	Number of shares held	% of shares held
Kintetsu Group Holdings Co., Ltd.	31,755,800	44.11%
Mitsui O.S.K. Lines, Ltd.	3,599,000	5.00%
Japan Trustee Services Bank, Ltd. (Trust Account)	2,770,700	3.85%
NORTHERN TRUST CO. (AVFC) RE HSD00	2,605,900	3.62%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,942,600	2.70%
Hokko Daiwa Taxi Co., Ltd.	1,875,000	2.60%
JUNIPER	1,320,800	1.83%
National Mutual Insurance Federation of Agricultural Cooperatives	1,281,400	1.78%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,236,700	1.72%
NORTHERN TRUST CO. (AVFC) RE HCR00	1,078,800	1.50%

Stock Price



Global Logistics Partner

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