Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2018 [J-GAAP] (Consolidated)

August 8, 2017

Company Name: Kintetsu World Express, Inc. (KWE)
Stock exchange listed on: Tokyo Stock Exchange (First Section)
Company code: 9375 URL: https://www.kwe.co.jp
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The date of filing the quarterly financial statements: August 10, 2017
The date of the dividend payment start (planned): –
Preparation of quarterly earnings presentation material: No
Holding of quarterly financial results briefing: No

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

1. Consolidated earnings results for the first three months of the fiscal year ending March 2018 (April 1, 2017– June 30, 2017)

(1) Consolidated business results

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
First three months ended	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
June 30, 2017	127,781	12.0	2,924	52.7	2,677	35.1	33	(51.5)
June 30, 2016	114,074	37.9	1,915	(25.3)	1,981	(30.4)	69	(95.0)

(Note) Comprehensive income First three months ended June 30, 2017: (3,007) million yen (— %)
First three months ended June 30, 2016: (16,736) million yen (— %)

	Net income per share	Diluted net income per share
First three months ended	(Yen)	(Yen)
June 30, 2017	0.47	—
June 30, 2016	0.96	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	(%)	(Yen)
As of June 30, 2017	378,494	121,442	29.8	1,567.03
As of March 31, 2017	379,244	126,016	30.9	1,627.84

(Reference) Shareholders' equity As of June 30, 2017: 112,822 million yen As of March 31, 2017: 117,200 million yen

2. Dividends

	Annual dividends				
	Q1	Q2	Q3	Year-end	Full fiscal year
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal year ended March 31, 2017	—	10.00	—	16.00	26.00
Fiscal year ending March 31, 2018	—				
Fiscal year ending March 31, 2018 (Forecasts)		10.00	—	16.00	26.00

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

3. Consolidated earnings forecasts for the fiscal year ending March 2018 (April 1, 2017 – March 31, 2018)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Yen)
First half	243,000	6.9	5,300	23.6	5,100	8.7	1,100	(6.6)	15.28
Full fiscal year	500,000	5.4	13,500	3.2	13,000	(0.3)	5,000	11.4	69.45

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

＊ Notes

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

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

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

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

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

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

(c) Changes in accounting estimates: No

(d) Restatement of revisions: No

(4) Number of issued shares (common shares)

(a) Number of issued shares (including treasury shares)	As of June 30, 2017:	72,000,000 shares	As of March 31, 2017:	72,000,000 shares
(b) Number of treasury shares	As of June 30, 2017:	2,364 shares	As of March 31, 2017:	2,364 shares
(c) Average number of shares during the period	First three months ended June 30, 2017:	71,997,636 shares	First three months ended June 30, 2016:	71,997,691 shares

＊ The quarterly review procedures are not applicable to this Financial Results report.

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

(Remarks on forward-looking statements)

The statements about future described on this report such as earnings forecasts have been made based on information currently available and certain assumptions considered reasonable, and it is not intended to assure that we will achieve such results. Actual earnings may differ significantly from the above forecasts for various reasons. For the assumptions for earnings forecasts and cautions regarding the use of the earnings forecasts, please refer to "1. Qualitative Information concerning Consolidated Earnings Results for the First Three Months of the Fiscal Year Ending March 2018 (3) Explanation about Future Forecast Information including Consolidated Earnings Forecast" on page 5.

1. Qualitative Information concerning Consolidated Earnings Results for the First Three Months of the Fiscal Year Ending March 2018

(1) Explanation about Operating Results

During the three months ended June 30, 2017, the U.S. economy continued to expand at a moderate pace and Europe showed a steady recovery mainly in the Euro zone. In Asia, the Chinese economy showed a sign of recovery due to the effects of various policies.

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, demands for air freight showed a favorable recovery and demands for sea freight showed steady movements overall.

Under such circumstances, the KWE Group's freight operations saw air freight exports rose 26.0%*1 year-on-year, and air freight imports increased 11.7%*2. Sea freight exports rose 20.6%*3, and imports increased 9.9%*2. Logistics showed solid growth overall due to business expansion mainly in East Asia.

Operating results by each segment are as follows.

Japan

Air freight exports rose 18.3%*1 year-on-year due mainly to favorable shipment of semiconductor-related products and electronic components. Air freight imports rose 15.7%*2 due to a growth mainly in electronic products. As for sea freight, exports increased 13.6%*3 due to increases mainly in equipment and machinery, and imports grew 10.3%*2 due to steady movements in automotive-related products and electronic products. In logistics, the volume grew due to an increase mainly in electronic products.

As a result, net sales for the segment, including domestic subsidiaries, increased 13.1% to 29,339 million yen, and operating income rose 130.2% to 1,040 million yen partly due to an improvement in profitability year-on-year.

The Americas

Air freight exports rose 24.0%*1 due to increases in chemical products and automotive-related products. Air freight imports increased 22.6%*2 as a result of favorable growth mainly in electronics products. In sea freight, exports grew 15.1%*3 due to steady growth in LCD-related products and grains, etc. and imports increased 9.2%*2 due to increases in equipment and machinery, and electronic products. In logistics, the volume increased in Canada.

As a result, net sales for the segment increased 20.0% to 12,497 million yen, and operating income rose 23.8% to 647 million yen.

The exchange rate was U.S.$1 = ¥ 111.09 and U.S.$1 = ¥ 108.14 for the three months ended June 30, 2017 and 2016, respectively.

Europe, Middle East & Africa

Air freight exports rose 22.7%*1 due to increases mainly in healthcare-related products and chemical products. Air freight imports increased 7.8%*2 due to a steady growth in automotive-related products and electronic products. Sea freight exports decreased 0.5%*3 due to sluggish shipment overall, but imports grew 14.9%*2 due to an increase in telecommunication-related products. In logistics, the volume increased mainly in Netherlands and South Africa.

As a result, net sales for the segment increased 17.5% to 8,262 million yen, and operating income rose 58.5% to 190 million yen.

The exchange rate was €1 = ¥ 122.19 and €1 = ¥ 122.02 for the three months ended June 30, 2017 and 2016, respectively.

East Asia & Oceania

Air freight exports rose 37.6%*1 as active market and sales expansion resulted in an increase mainly in electronic products. Air freight imports grew 10.3%*2 due to increases in equipment-related products and electronic products. As for sea freight, exports rose 24.6%*3 due to stable shipment of existing customers and sales expansion, and imports increased 8.8%*2 due to an increase mainly in electronic products. In logistics, the volume increased in China.

As a result, net sales for the segment increased 18.2% to 21,764 million yen. However, operating income decreased 9.2% to 1,217 million yen due to an impact from higher direct cost ratio.

Southeast Asia

Air freight exports rose 27.0%*1 as a result of favorable growth in electronics products. Air freight imports increased 6.0%*2 due to an increase mainly in smartphone-related products. For sea freight, exports rose 42.4%*3 due to active movement mainly in electronic products and motorcycles, and imports also increased 9.6%*2 due to increased handling volume of automotive-related products and electronic products. In logistics, the volume decreased in Thailand and Philippines.

As a result, net sales for the segment increased 20.8% to 12,621 million yen, and operating income rose 44.8% to 718 million yen.

APLL

As for logistics services for automotive, the handling volume of parts transportation between the U.S. and Mexico and finished cars transportation in India saw steady growth. Logistics services for retail, consumer and industrial field remained the same level as previous year overall.

As a result, net sales of APLL increased 4.9% to 46,018 million yen and the company secured operating income of 579 million yen (increased 24.2%) despite costs for enhancement of business base associated with the separation from the former parent company, but recorded net operating loss of 988 million yen (operating loss of 1,125 million yen a year earlier) as amortization of goodwill related to APLL acquisition is included in this segment.

The exchange rate was U.S. $1 = ¥ 113.64 and U.S. $1 = ¥ 115.48 for the three months ended June 30, 2017 and 2016, respectively (APLL used the average rate for the period from January 1 to March 31 because APLL's fiscal year-end is December 31).

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

As described above, net sales for the three months ended June 30, 2017 increased 12.0% to 127,781 million yen, operating income rose 52.7% to 2,924 million yen, ordinary income increased 35.1% to 2,677 million yen, and net income attributable to owners of the parent decreased 51.5% to 33 million yen.

(2) Explanation about Financial Position

Assets, liabilities, and net assets

Total assets as of June 30, 2017 decreased 750 million yen from March 31, 2017 to 378,494 million yen. Current assets increased 4,926 million yen to 183,028 million yen due to increases in cash and deposits of 3,215 million yen and in notes and operating accounts receivable of 1,610 million yen and in other current assets of 294 million yen. Non-current assets decreased 5,677 million yen to 195,465 million yen due to decreases in property, plant and equipment of 65 million yen and in intangible assets of 5,615 million yen due to amortization of goodwill.

Total liabilities increased 3,823 million yen to 257,052 million yen. Current liabilities increased 9,015 million yen to 113,465 million yen due to increases in notes and operating accounts payable-trade of 4,728 million yen and in short-term loans payable of 6,951 million yen resulting from a transfer of current portion of long-term loans payable. Non-current liabilities decreased 5,191 million yen to 143,586 million yen due mainly to decreases in long-term loans payable of 4,820 million yen resulting from the aforementioned transfer to short-term loans payable.

Net assets as of June 30, 2017 decreased 4,574 million yen to 121,442 million yen due to retained earnings being decreased by cash dividends paid of 1,118 million yen, and decreases in foreign currency translation adjustment of 3,381 million yen as a result of a stronger yen compared to March 31, 2017 and non-controlling interests of 195 million yen.

Consequently, the equity ratio decreased to 29.8% from 30.9 % as of March 31, 2017.

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

In terms of the future prospect, the global economy is expected to remain unpredictable due to an economic trend in China and actualization of geopolitical risks despite expectation for continuing moderate economic recovery in the U.S. and major European countries.

Under such circumstances, the Group will work on various measures to increase total handling volume of air and sea freight forwarding in order to sustain a long-term growth in the second year of its Medium-Term Management Plan “Going to the Next Phase!” (for the three-year period from the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2019).

While the Group earnings going forward are likely to be affected by the global economy, exchange rates, and other factors, the forecast for the fiscal year ending March 31, 2018 at this point are net sales of 500,000 million yen (up 5.4%), operating income of 13,500 million yen (up 3.2%), ordinary income of 13,000 million yen (down 0.3%) and net income attributable to owners of the parent of 5,000 million yen (up 11.4%), which remain the same as those announced on May 11, 2017.

(Note) Cautionary Statement concerning Earnings Forecasts

The forecasts above are based on information currently available. Actual performance may differ from the above forecasts due to various factors.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY3/17 (As of March 31, 2017)	First quarter of FY3/18 (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	70,275	73,491
Notes and operating accounts receivable	95,523	97,133
Other	13,492	13,786
Allowance for doubtful accounts	(1,189)	(1,383)
Total current assets	178,101	183,028
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,900	19,653
Land	14,181	14,210
Other, net	12,027	12,179
Total property, plant and equipment	46,109	46,044
Intangible assets		
Goodwill	71,925	68,359
Customer-related assets	38,349	36,420
Other	17,774	17,652
Total intangible assets	128,049	122,433
Total investments and other assets	26,983	26,988
Total non-current assets	201,142	195,465
Total assets	379,244	378,494
Liabilities		
Current liabilities		
Notes and operating accounts payable-trade	41,057	45,785
Short-term loans payable	31,439	38,391
Income taxes payable	3,823	3,368
Provision for bonuses	4,405	3,592
Provision for directors' bonuses	369	178
Provision for loss on litigation	230	232
Other	23,125	21,916
Total current liabilities	104,450	113,465
Non-current liabilities		
Long-term loans payable	134,237	129,416
Net defined benefit liability	2,520	2,589
Other	12,019	11,580
Total non-current liabilities	148,777	143,586
Total liabilities	253,228	257,052

(Millions of yen)	FY3/17 (As of March 31, 2017)	First quarter of FY3/18 (As of June 30, 2017)
Net assets		
Shareholders' equity		
Capital stock	7,216	7,216
Capital surplus	4,018	4,018
Retained earnings	107,137	106,019
Treasury shares	(3)	(3)
Total shareholders' equity	118,367	117,249
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,754	1,865
Foreign currency translation adjustment	(2,751)	(6,132)
Remeasurements of defined benefit plans	(170)	(159)
Total accumulated other comprehensive income	(1,167)	(4,427)
Non-controlling interests	8,815	8,619
Total net assets	126,016	121,442
Total liabilities and net assets	379,244	378,494

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

(Consolidated Statements of Income)

(Millions of yen)

	First three months of FY3/17 (April 1, 2016 – June 30, 2016)	First three months of FY3/18 (April 1, 2017 – June 30, 2017)
Net sales	114,074	127,781
Operating cost	94,409	106,847
Operating gross profit	19,665	20,933
Selling, general and administrative expenses	17,749	18,009
Operating income	1,915	2,924
Non-operating income		
Interest income	135	127
Dividends income	12	16
Amortization of negative goodwill	2	2
Share of profit of entities accounted for using equity method	95	–
Foreign exchange gains	2	–
Miscellaneous income	83	87
Total non-operating income	332	233
Non-operating expenses		
Interest expenses	234	233
Share of loss of entities accounted for using equity method	–	156
Foreign exchange losses	–	61
Miscellaneous expenses	31	29
Total non-operating expenses	266	480
Ordinary income	1,981	2,677
Extraordinary income		
Settlement received	431	–
Total extraordinary income	431	–
Extraordinary loss		
Loss on retirement of non-current assets	5	2
Total extraordinary losses	5	2
Income before income taxes	2,407	2,674
Income taxes	2,022	2,330
Net income	384	344
Net income attributable to non-controlling interests	315	310
Net income attributable to owners of the parent	69	33

(Consolidated statements of comprehensive income)

(Millions of yen)

	First three months of FY3/17 (April 1, 2016 – June 30, 2016)	First three months of FY3/18 (April 1, 2017 – June 30, 2017)
Net income	384	344
Other comprehensive income		
Valuation difference on available-for-sale securities	159	111
Deferred gains or losses on hedges	4	–
Foreign currency translation adjustment	(16,243)	(3,562)
Remeasurements of defined benefit plans	(7)	12
Share of other comprehensive income of entities accounted for using equity method	(1,033)	87
Total other comprehensive income	(17,121)	(3,351)
Comprehensive income	(16,736)	(3,007)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(16,345)	(3,226)
Comprehensive income attributable to non-controlling interests	(390)	219

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes concerning Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Significant Subsidiaries during the Period)

Not applicable.

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

(Calculation of tax expenses)

Tax expenses are calculated as income before income taxes for the period multiplied by the estimated effective tax rate. The effective tax rate is reasonably estimated taking into consideration deferred tax accounting as the rate applicable to income before income taxes for the consolidated fiscal year including the quarter ended June 30, 2017.

(Notes to quarterly consolidated statement of income)

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

First three months of the fiscal year ended March 2017 (April 1, 2016 – June 30, 2016)

Not applicable.

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

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

(Segment Information, etc.)

I First three months of the fiscal year ended March 2017 (April 1, 2016 – June 30, 2016)

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

(Millions of yen)

	Reportable segment							Other Note 1	Total	Adjustment Note 2	Carrying amount on quarterly consolidated statements of income Note 3
	Japan	The Americas	Europe, Middle East & Africa	East Asia & Oceania	Southeast Asia	APLL	Total				
Net sales											
Net sales to outside customers	25,302	9,716	6,821	18,052	10,221	43,879	113,994	80	114,074	—	114,074
Inter-segment sales/transfers	649	699	210	366	228	0	2,153	436	2,590	(2,590)	—
Total net sales	25,951	10,416	7,031	18,419	10,449	43,879	116,148	517	116,665	(2,590)	114,074
Segment income (loss)	452	522	119	1,340	496	(1,125)	1,805	108	1,914	0	1,915

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

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

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

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

(1) The Americas: United States, Canada, Mexico, and Latin American countries

(2) Europe, Middle East & Africa: United Kingdom, Germany, France, Italy, Netherlands, Belgium, Switzerland, Ireland, other European countries, Russia, African countries, and Middle Eastern countries

(3) East Asia & Oceania: Hong Kong, China, South Korea, Taiwan, and Australia

(4) Southeast Asia: Singapore, Malaysia, Thailand, India, Indonesia, Vietnam, Philippines, and Cambodia

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

(Significant change in goodwill)

During the three months ended June 30, 2016, "APLL" segment acquired shares of India Infrastructure and Logistics Private Limited and consolidated the company, which resulted in an increase in goodwill of 2,406 million yen. The amount of goodwill is based on a provisional calculation as allocation of the acquisition cost has not been completed.

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

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

(Millions of yen)

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

Notes: 1. Other refers to business not included in reportable segments and mainly consists of incidental logistics operations within the Group.
2. The 0 million yen adjustment in segment income is an elimination of income generated from business between segments.
3. Segment income (loss) has been adjusted for the operating income appearing in the quarterly consolidated statements of income.
4. Major countries or regions except Japan and APLL in each category are as follows:
(1) The Americas: United States, Canada, Mexico, and Latin American countries
(2) Europe, Middle East & Africa: United Kingdom, Germany, France, Italy, Netherlands, Belgium, Switzerland, Ireland, other European countries, Russia, African countries, and Middle Eastern countries
(3) East Asia & Oceania: Hong Kong, China, South Korea, Taiwan, and Australia
(4) Southeast Asia: Singapore, Malaysia, Thailand, India, Indonesia, Vietnam, Philippines, and Cambodia

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

(Significant impairment loss of non-current assets)

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