

Non-consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2017 <under Japanese GAAP>

October 28, 2016

Company name: PALTAC CORPORATION
(URL: <http://www.paltac.co.jp/>)
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Scheduled date to submit the Quarterly Securities Report: November 11, 2016
Scheduled date to commence dividend payments: December 2, 2016
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors, analysts, etc.)

(Figures are rounded down to the nearest million yen)

1. Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2017 (From April 1, 2016 to September 30, 2016)

(1) Operating Results (cumulative) (% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Profit	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Six months ended September 30, 2016	475,080	11.7	10,695	26.9	11,923	26.8	8,128	30.6
September 30, 2015	425,492	6.0	8,431	17.7	9,403	18.0	6,223	25.3

	Earnings per share	Diluted earnings per share
Six months ended	(¥)	(¥)
September 30, 2016	127.92	–
September 30, 2015	97.93	–

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(¥ million)	(¥ million)	%	(¥)
September 30, 2016	381,509	160,678	42.1	2,528.47
March 31, 2016	351,880	154,976	44.0	2,438.74

Reference: Equity As of September 30, 2016: ¥160,678 million As of March 31, 2016: ¥154,976 million

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal year ended March 31, 2016	–	24.00	–	26.00	50.00
Fiscal year ending March 31, 2017	–	28.00			
Fiscal year ending March 31, 2017 (Forecast)			–	28.00	56.00

Note: Revision to the forecasts most recently announced: Yes

3. Forecast of Financial Results for the Fiscal Year Ending March 31, 2017

(From April 1, 2016 to March 31, 2017)

(% indicates year-on-year change)

Fiscal year	Net sales		Operating income		Ordinary income		Profit		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
	915,000	6.4	19,000	18.0	21,000	13.2	14,500	21.5	228.18

Note: Revision to the forecast most recently announced: Yes

* Notes

(1) Adoption of Accounting Treatments Specific to Preparation of Quarterly Financial Statements: No

(2) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements

- | | |
|--|-----|
| 1) Changes in accounting policies due to revisions to accounting standards, and other regulations: | Yes |
| 2) Changes in accounting policies due to other reasons: | No |
| 3) Changes in accounting estimates: | No |
| 4) Restatements: | No |

Note: For more information, please refer to the section "2. Summary Information (Notes) (1) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements" on page 6 of the attached material to this quarterly financial results report.

(3) Number of Issued Shares (common stock)

1) Number of issued shares at the end of the period (including treasury stock)

As of September 30, 2016	63,553,485 shares
As of March 31, 2016	63,553,485 shares

2) Number of treasury shares at the end of the period

As of September 30, 2016	5,858 shares
As of March 31, 2016	5,858 shares

3) Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

For the six months ended September 30, 2016	63,547,627 shares
For the six months ended September 30, 2015	63,547,670 shares

* Explanation regarding execution of quarterly review procedures

This quarterly financial results report is not subject to the quarterly review procedures in accordance with the Financial Instruments and Exchange Act of Japan. At the time of disclosure of this quarterly financial results report, the review procedures for the quarterly financial statements in accordance with the Financial Instruments and Exchange Act of Japan have not been completed.

* Information regarding proper use of the forecasts of financial results, and other special instructions

(Cautionary notes to the forward-looking statements)

The forward-looking statements contained in this report, including forecasts of financial results, are based on information currently available and assumptions that management believes to be reasonable. Actual financial and other results may differ substantially due to various factors. Please refer to the section “1. Qualitative Information for the Six Months Ended September 30, 2016 (3) Forecasts and Other Projections” on page 4 and 5 of the attached material to this quarterly financial results report for the suppositions that form the assumptions for the forecasts and cautions concerning the use thereof.

* Information regarding this report (including the attached material)

None of the information in this report constitutes solicitation to purchase or sell the stock of PALTAC CORPORATION. It was not prepared with the intention of providing investment advice about the stock of PALTAC CORPORATION.

Furthermore, this report is an English translation of the original, which was prepared in Japanese.

In the event of any discrepancies between the Japanese original and the English translation, the Japanese original shall prevail.

Attached Material

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1. Qualitative Information for the Six Months Ended September 30, 2016

(1) Operating Results

In the six months ended September 30, 2016, the Japanese economy followed a moderate recovery track, mainly on the back of improvement in the employment environment, reflecting such positive developments as the effects of various measures instituted by the Japanese government. Nevertheless, the outlook for the economy remained uncertain, partly because of the sharp rise in the yen due to the effect of the issue of the UK leaving the EU and also concerns that economic underperformances overseas, including emerging countries in Asia, such as China, could have a detrimentally effect on the Japanese economy.

In the market of cosmetics and daily necessities and the market of over-the-counter (OTC) pharmaceuticals, the market environment continued to be flat, mainly reflecting consumption sentiment that had mostly stalled and a normalization of inbound consumption.

Under these circumstances, PALTAC CORPORATION (the “Company”) undertook a variety of efforts, aiming to optimize and streamline the entire supply chain, in accordance with its position as an intermediate distributor providing a full lineup of health and beauty products essential for daily life under the corporate identity, “maximizing customer satisfaction and minimizing distribution costs.” The Company is working to strengthen its sales systems to support effective product lines and sales activities for retailers, and to strengthen its safe-and-secure, high-quality, low-cost distribution capabilities. Aiming for more than just a system that provides stable supply under normal conditions, the Company is making efforts to ensure a low-cost and stable supply of products to retailers, and by extension to its customers, even in an emergency through the “non-stop logistics” system.

For the fiscal year under review, the second year of the Company’s medium-term management plan that has the vision of “Initiative to be an intermediate distributor essential to society,” the Company will focus efforts on “enhanced information systems” in order to contribute to sophisticated information provision, a key strategy, and “develop human resources” who can pursue sophisticating and streamlining operations. By doing so, the Company “further boosted productivity” not only in-house, but also across the entire supply chain by cooperating with retailers and manufacturers, and accelerated efforts to “strengthen functions” performed by the Company as an intermediate distributor handling sales, distribution and other operations on the basis of its commitment to safety and security. By carrying out these initiatives, the Company strives to increase corporate value through sustained business growth.

Furthermore, aiming to strengthening the operating base for the future in accordance with the management plan, the Company proceeded with capital investment, such as beginning construction of “(provisional name) FDC Hiroshima,” located in Saeki-ku, Hiroshima, and “(provisional name) FDC Shiraoka,” located in Shiraoka-shi, Saitama and acquiring land for the expansion of “RDC Okinawa,” located in Uruma-shi, Okinawa.

In addition, the Company is working to strengthen its operations in the Kanto area, which is our largest market, enhance the services function and improve management efficiency. To realize these objectives, in November 2016, the Company plans to merge its Tokyo Branch Office and Kanto Branch Office, and commence new operations based in Kita-ku, Tokyo.

As a result of the above, net sales for the six months ended September 30, 2016 were ¥475,080 million (up 11.7% year on year), operating income was ¥10,695 million (up 26.9%), ordinary income was ¥11,923 million (up 26.8%), and profit was ¥8,128 million (up 30.6%).

- (Notes) 1. RDCs (Regional Distribution Centers) are large-scale logistics centers.
2. FDCs (Front Distribution Centers) are logistics centers where frequently ordered case products are held. They support the RDCs.

As the Company has one reportable segment, disclosure by segment information has been omitted.

(2) Financial Position

1) Assets, liabilities and net assets

(Assets)

Total assets as of the end of the Second quarter were ¥381,509 million, an increase of ¥29,629 million from the end of the previous fiscal year. This was primarily the result of increases in cash and deposits of ¥11,787 million, in notes and accounts receivable-trade of ¥13,508 million, in merchandise and finished goods of ¥4,033 million and in Land of ¥2,704 million.

(Liabilities)

Total liabilities as of the end of the Second quarter were ¥220,831 million, an increase of ¥23,927 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts payable-trade of ¥12,660 million, in current portion of long-term loans payable of ¥2,754 million, and in long-term loans payable of ¥7,360 million.

(Net assets)

Net assets as of the end of the Second quarter were ¥160,678 million, an increase of ¥5,702 million from the end of the previous fiscal year. This was primarily the result of an increase in retained earnings of ¥6,476 million and a decrease in valuation difference on available-for-sale securities of ¥779 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the Second quarter were ¥29,870 million, an increase of ¥11,787 million from the end of the previous fiscal year.

Status of each cash flow during the six months under review and main factors thereof are as follows:

(Cash flow from operating activities)

Net cash provided by operating activities was ¥7,012 million (compared with net cash of ¥6,368 million used in the same period of the previous fiscal year). Main factors were ¥11,868 million of income before income taxes, ¥2,421 million of depreciation and amortization, ¥13,508 million of increase in notes and accounts receivable-trade, ¥4,033 million of increase in inventories, ¥13,241 million of increase in notes and accounts payable-trade, and ¥3,421 million of income taxes paid.

(Cash flow from investing activities)

Net cash used in investing activities was ¥4,633 million (down ¥4,712 million year on year). Main factor was ¥4,857 million of purchase of property, plant and equipment.

(Cash flow from financing activities)

Net cash provided by financing activities was ¥9,408 million (down ¥7,859 million year on year). Main factors were ¥1,000 million of net increase in short-term loans payable, ¥14,000 million of proceeds from long-term loans payable, ¥3,886 million of repayments of long term loans payable and ¥1,654 million of cash dividends paid.

(3) Forecasts and Other Projections

The Company announced “Notice of Difference between Financial Result Forecast and Actual Financial Results for the First Six Months, Revision of the Financial Result Forecast for the Fiscal Year, and Revision of Second Quarter (interim) Dividend and Year-End Dividend Forecast for the Fiscal Year Ending March 31, 2017” on October 28, 2016.

The summary of the notice is as follows.

1) Difference between financial result forecast and actual financial results for the first six months of the fiscal year ending March 31, 2017

	Net sales	Operating income	Ordinary income	Profit	Earnings per share
	(¥ million)	(¥ million)	(¥ million)	(¥ million)	(¥)
Previous forecast (A)	460,000	9,200	10,200	6,900	108.58
Actual results (B)	475,080	10,695	11,923	8,128	127.92
Variance (B-A)	15,080	1,495	1,723	1,228	
Change (%)	3.3	16.3	16.9	17.8	
Reference: Results for the first six months of the fiscal year ended March 31, 2016	425,492	8,431	9,403	6,223	97.93

2) Revision of the financial result forecast for the fiscal year ending March 31, 2017

	Net sales	Operating income	Ordinary income	Profit	Earnings per share
	(¥ million)	(¥ million)	(¥ million)	(¥ million)	(¥)
Previous forecast (A)	900,000	17,500	19,500	13,200	207.72
Revised forecast (B)	915,000	19,000	21,000	14,500	228.18
Variance (B-A)	15,000	1,500	1,500	1,300	
Change (%)	1.7	8.6	7.7	9.8	
Reference: Results for the fiscal year ended March 31, 2016	860,350	16,101	18,556	11,929	187.73

(Reason)

In the six months ended September 30, 2016, net sales have surpassed those announced previously because of strong sales of seasonal merchandise, strengthening of initiatives with retailers and manufacturers, and the ripple effect of enhancing productivity within the company. Moreover, further boosting efficiency across all processes from the ordering and receipt of products to their dispatch and delivery to retailers, operating income, ordinary income and profit have surpassed those announced previously. In consideration of those six months’ results, the Company has upwardly revised its full-year financial result forecast as stated above.

3) Payment of second quarter (interim) dividend and revision of year-end dividend forecast for the fiscal year ending March 31, 2017

a) Detail of second quarter (interim) dividend

	Details of resolution	Previous forecast (Announced on May 12, 2016)	Result for the fiscal year ended March 31, 2016
Record date	September 30, 2016	September 30, 2016	September 30, 2015
Dividend per share	¥28.00	¥27.00	¥24.00
Total dividend amount	¥1,779 million	–	¥1,525 million
Effective date	December 2, 2016	–	December 1, 2015
Source of dividend	Retained earnings	–	Retained earnings

b) Revision of dividend forecast

	Dividend per share		
	Second quarter	Year-end	Total
Previous forecast	¥27.00	¥27.00	¥54.00
Revised forecast		¥28.00	¥56.00
Results for the fiscal year ending March 31, 2017	¥28.00		
Results for the fiscal year ended March 31, 2016	¥24.00	¥26.00	¥50.00

(Reason)

Following the favorable financial results in the six months ended September 30, 2016 and the financial result forecast for the fiscal year ending March 31, 2017 announced today, based on the dividend policy, the Company has decided to upwardly revise the interim dividend to ¥28 per share, up ¥1 from the previous forecast. The Company also decided on a revision of the year-end dividend forecast to ¥28 per share, up ¥1 from the previous forecast in the fiscal year ending March 31, 2017. Therefore, a total full-year dividend payout for the fiscal year ending March 31, 2017 is forecasted to be an increase of ¥2 per share from the previous forecast and of ¥6 per share from the previous fiscal year.

* The above financial result and dividend forecasts are based on information currently available to the Company. Due to various factors, actual results may differ from these forecasts.

2. Summary Information (Notes)

(1) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements

Changes in accounting policies

Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Effective from the first quarter ended June 30, 2016, the Company has applied "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016"(PTIF No.32, June 17, 2016) in relation to a change in the Corporation Tax Act. Under this application, the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 has changed from the declining balance method to the straight line method. The effect of this change on the profit and loss for the first quarter under review is immaterial.

(2) Supplementary Information

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the first quarter ended June 30, 2016, the Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets"(ASBJ Guidance No.26, March 28, 2016).

3. Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	18,082	29,870
Notes and accounts receivable-trade	165,482	178,991
Merchandise and finished goods	39,217	43,250
Other	18,420	17,842
Allowance for doubtful accounts	(22)	(23)
Total current assets	241,180	269,930
Non-current assets		
Property, plant and equipment		
Land	38,894	41,598
Other	49,067	48,570
Total property, plant and equipment	87,962	90,169
Intangible assets	1,087	991
Investments and other assets		
Investments and other assets	21,899	20,468
Allowance for doubtful accounts	(248)	(49)
Total investments and other assets	21,650	20,418
Total non-current assets	110,700	111,579
Total assets	351,880	381,509
Liabilities		
Current liabilities		
Notes and accounts payable-trade	127,618	140,279
Short-term loans payable	23,400	24,400
Current portion of long-term loans payable	5,378	8,132
Income taxes payable	3,672	3,797
Provision for bonuses	2,029	1,565
Provision for sales returns	216	167
Other	15,777	16,569
Total current liabilities	178,092	194,911
Non-current liabilities		
Long-term loans payable	12,150	19,510
Provision for retirement benefits	2,036	2,107
Other	4,625	4,302
Total non-current liabilities	18,812	25,919
Total liabilities	196,904	220,831

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	103,354	109,830
Treasury shares	(7)	(7)
Total shareholders' equity	147,043	153,520
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,970	7,190
Deferred gains or losses on hedges	(37)	(32)
Total valuation and translation adjustments	7,932	7,158
Total net assets	154,976	160,678
Total liabilities and net assets	351,880	381,509

(2) Quarterly Statements of Income

	(Millions of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	425,492	475,080
Cost of sales	392,391	438,647
Gross profit	33,100	36,433
Selling, general and administrative expenses	24,669	25,737
Operating income	8,431	10,695
Non-operating income		
Dividend income	142	142
Research fee income	685	846
Real estate rent	122	70
Other	187	315
Total non-operating income	1,137	1,375
Non-operating expenses		
Interest expenses	94	104
Rent cost of real estate	68	25
Other	1	16
Total non-operating expenses	165	146
Ordinary income	9,403	11,923
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	32	0
Total extraordinary income	33	0
Extraordinary losses		
Loss on sales of non-current assets	-	0
Loss on retirement of non-current assets	40	14
Impairment loss	-	33
Other	2	8
Total extraordinary losses	43	55
Income before income taxes	9,393	11,868
Income taxes-current	3,062	3,425
Income taxes-deferred	108	315
Total income taxes	3,170	3,740
Profit	6,223	8,128

(3) Quarterly Statements of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Net cash provided by (used in) operating activities		
Income before income taxes	9,393	11,868
Depreciation and amortization	2,294	2,421
Impairment loss	–	33
Increase (decrease) in allowance for doubtful accounts	(0)	(197)
Increase (decrease) in provision for bonuses	(429)	(464)
Increase (decrease) in provision for sales returns	(9)	(48)
Increase (decrease) in provision for retirement benefits	153	190
Interest and dividend income	(142)	(142)
Interest expenses	94	104
Loss (gain) on sales of investment securities	(30)	5
Decrease (increase) in notes and accounts receivable-trade	(12,131)	(13,508)
Decrease (increase) in inventories	(4,951)	(4,033)
Increase (decrease) in notes and accounts payable-trade	7,197	13,241
Decrease (increase) in consumption taxes refund receivable	(799)	1,580
Increase (decrease) in accrued consumption taxes	(2,674)	781
Other, net	(1,190)	(1,443)
Subtotal	(3,225)	10,389
Interest and dividend income received	142	142
Interest expenses paid	(84)	(98)
Income taxes paid	(3,201)	(3,421)
Net cash provided by (used in) operating activities	(6,368)	7,012
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(9,513)	(4,857)
Proceeds from sales of property, plant and equipment	194	411
Purchase of intangible assets	(42)	(68)
Purchase of investment securities	(77)	(76)
Proceeds from sales of investment securities	71	30
Other, net	20	(72)
Net cash provided by (used in) investing activities	(9,346)	(4,633)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	8,000	1,000
Proceeds from long-term loans payable	14,500	14,000
Repayments of long-term loans payable	(3,726)	(3,886)
Repayments of lease obligations	(42)	(51)
Purchase of treasury shares	(0)	–
Cash dividends paid	(1,462)	(1,654)
Net cash provided by (used in) financing activities	17,268	9,408
Net increase (decrease) in cash and cash equivalents	1,553	11,787
Cash and cash equivalents at beginning of period	21,507	18,082
Cash and cash equivalents at end of period	23,061	29,870

(4) Notes to Quarterly Financial Statements

(Notes on premise of going concern)

No items to report

(Notes on significant changes in the amount of shareholders' equity)

No items to report

4. Supplementary Information

(1) Sales Status

(Sales results)

1) Sales results for the six months ended September 30, 2016 by product category are as follows:

Product classification	Six months ended September 30, 2016	Year-on-year change (%)
	Amount (Millions of yen)	
Cosmetics	121,831	116.0
Daily necessities	207,127	113.2
OTC pharmaceuticals	67,893	104.8
Health and sanitary related products	72,042	108.7
Others	6,184	96.8
Total	475,080	111.7

Notes: Above figures are exclusive of consumption taxes.

2) Sales results for the six months ended September 30, 2016 by customer category are as follows:

Customer category		Six months ended September 30, 2016	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	294,484	115.1
HC	Home centers (DIY stores)	48,215	103.6
CVS	Convenience stores	34,439	114.7
SM	Supermarkets	29,627	103.5
DS	Discount stores	26,844	110.4
GMS	General merchandising stores	24,296	100.5
Others	Export and others	17,171	107.9
Total		475,080	111.7

Notes: Above figures are exclusive of consumption taxes.