

Consolidated Quarterly Financial Results for the Six Months Ended September 30, 2018 [Japanese GAAP]

November 12, 2018

Company: **Hokuetsu Corporation**

Stock Exchange Listing: Tokyo

Stock Code: 3865

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Scheduled date of filing quarterly report: November 13, 2018

Scheduled date of commencement of dividend payments: December 4, 2018

Supplementary documents for quarterly results: Yes

Quarterly results briefing: Yes (for institutional investors and analysts)

(Figures rounded down to the nearest million yen)

1. Consolidated Business Results for the Six Months Ended September 30, 2018 (April 1, 2018 through September 30, 2018)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2018	134,819	1.8	1,937	(57.5)	4,370	(37.1)	2,667	(50.2)
Six months ended September 30, 2017	132,445	0.1	4,562	(26.3)	6,945	61.3	5,362	63.6

(Note) Comprehensive income: Six months ended September 30, 2018: 1,652 million yen (-74.5%)
Six months ended September 30, 2017: 6,489 million yen (261.2%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2018	14.12	13.54
Six months ended September 30, 2017	28.41	27.74

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	364,912	192,334	52.5
As of March 31, 2018	366,447	191,977	52.2

(Reference) Equity: As of September 30, 2018: 191,656 million yen
As of March 31, 2018: 191,154 million yen

2. Dividends

	Annual dividend per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	–	6.00	–	6.00	12.00
Fiscal year ending March 31, 2019	–	6.00			
Fiscal year ending March 31, 2019 (forecast)			–	6.00	12.00

(Note) Revisions to dividend forecasts published most recently: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2019 (April 1, 2018 through March 31, 2019)

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent company		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	275,000	2.2	10,000	(12.4)	13,000	(6.5)	8,500	(17.7)	44.98

(Note) Revisions to business forecasts published most recently: None

*** Notes**

(1) Changes in significant subsidiaries during the six months ended September 30, 2018 (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and restatement of prior period financial statements

(i) Changes in accounting policies due to revision of accounting standards: Yes

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement of prior period financial statements: None

(4) Shares outstanding (common stock)

(i) Number of shares outstanding (treasury stock included):

As of September 30, 2018	209,263,814 shares	As of March 31, 2018	209,263,814 shares
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(ii) Number of treasury stock:

As of September 30, 2018	20,263,882 shares	As of March 31, 2018	20,298,290 shares
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(iii) Average number of shares during period:

Six months ended September 30, 2018	188,986,098 shares	Six months ended September 30, 2017	188,734,297 shares
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*** Consolidated Quarterly Financial Results are exempted from quarterly review performed by a certified public accountant or an audit corporation.**

*** Explanation regarding appropriate use of business forecasts and other special instructions**

(Caution regarding forward-looking statements)

The forward-looking statements such as forecasts of financial results contained in this material are based on information available to the Company at the time of the publication of this document and certain assumptions that the Company considers to be reasonable, and may differ materially from the actual results due to various factors. Refer to “1. Qualitative Information on Consolidated Operating Results for the First Half; (3) Qualitative Information Concerning Consolidated Earnings Forecasts” on page 3 of the accompanying materials for matters related to results forecasts.

*** This document is an excerpt translation of the original in Japanese and is for reference purposes only. In case of any discrepancy between this document and the original in Japanese, the latter shall take precedence.**

1. Qualitative Information on Consolidated Operating Results for the First Half

(1) Qualitative Information Concerning Consolidated Operating Results

During the current six months, due primarily to a steep rise in raw fuel prices despite increased revenues as a result of strong sales at overseas subsidiaries, net sales amounted to 134,819 million yen (up 1.8% year on year) but operating income decreased to 1,937 million yen (down 57.5% year on year). Ordinary income fell to 4,370 million yen (down 37.1% year on year) and net income attributable to owners of parent company came to 2,667 million yen (down 50.2% year on year).

(2) Qualitative Information Concerning Consolidated Financial Position

Total assets decreased 1,535 million yen from the end of the previous fiscal year, to 364,912 million yen. Major factors included decreases in cash and deposits of 903 million yen, notes and accounts receivable of 5,301 million yen, and property, plant and equipment of 1,676 million yen due mainly to depreciation, offsetting an increase in investment securities of 6,457 million yen attributable primarily to rising stock prices.

Total liabilities declined 1,892 million yen from the end of the previous fiscal year, to 172,578 million yen. This was primarily due to a decrease in interest-bearing debt of 4,488 million yen, despite an increase of 1,961 million yen in accounts payable – facilities included in others under non-current liabilities.

Net assets rose 357 million yen from the end of the previous fiscal year, to 192,334 million yen. This chiefly reflected a decline in foreign currency translation adjustment of 2,998 million yen, despite an increase in retained earnings of 1,430 million yen chiefly due to an income attributable to owners of parent company, and an increase in unrealized holding gains on available-for-sale securities, net of taxes, of 2,032 million yen due mainly to an increase in stock prices.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

The full-year consolidated earnings forecasts announced on May 14, 2018 remain unchanged.

2. Consolidated Quarterly Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2018	As of September 30, 2018
(Assets)		
Current assets		
Cash and deposits	14,315	13,412
Notes and accounts receivable - trade	69,178	63,877
Electronically recorded monetary claims	5,954	6,220
Merchandise and finished goods	23,500	23,299
Work in process	2,030	2,393
Raw materials and supplies	23,659	24,187
Other	6,033	5,314
Allowance for doubtful accounts	(82)	(64)
Total current assets	144,590	138,640
Non-current assets		
Property, plant and equipment		
Buildings and structures	82,098	82,918
Accumulated depreciation	(49,456)	(49,837)
Buildings and structures, net	32,641	33,081
Machinery, vehicles, tools, furniture and fixtures	418,924	423,075
Accumulated depreciation	(342,140)	(348,123)
Machinery, vehicles, tools, furniture and fixtures, net	76,783	74,952
Other, net	30,547	30,263
Total property, plant and equipment	139,972	138,296
Intangible assets	3,091	3,005
Investments and other assets		
Investments in securities	71,725	78,182
Other	9,505	9,225
Allowance for doubtful accounts	(2,437)	(2,436)
Total investments and other assets	78,793	84,971
Total non-current assets	221,857	226,272
Total assets	366,447	364,912

(Million yen)

	As of March 31, 2018	As of September 30, 2018
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	21,840	21,038
Electronically recorded obligations	7,118	7,169
Short-term debt	21,941	18,249
Commercial papers	11,000	–
Current portion of bonds	10,000	10,000
Income taxes payable	1,801	1,153
Provision	3,277	3,489
Other	13,852	16,808
Total current liabilities	90,832	77,908
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term debt, less current maturities	45,064	55,235
Provision	977	1,553
Liability for defined benefit	11,772	11,928
Asset retirement obligations	2,950	2,738
Other	2,873	3,214
Total non-current liabilities	83,638	94,669
Total liabilities	174,470	172,578
Net assets		
Shareholders' equity		
Capital stock	42,020	42,020
Capital surplus	45,524	45,523
Retained earnings	98,814	100,245
Treasury stock	(9,976)	(9,947)
Total shareholders' equity	176,383	177,842
Accumulated other comprehensive income		
Unrealized holding gains on securities, net of taxes	11,360	13,392
Unrealized losses on hedging derivatives, net of taxes	(21)	29
Foreign currency translation adjustment	3,064	65
Remeasurements of retirement benefit, net of taxes	367	326
Total accumulated other comprehensive income	14,770	13,814
Subscription rights to shares	121	112
Non-controlling interests	701	565
Total net assets	191,977	192,334
Total liabilities and net assets	366,447	364,912

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
(Six-month period)

	(Million yen)	
	For the six -month ended September 30, 2017	For the six -month ended September 30, 2018
Net sales	132,445	134,819
Cost of sales	107,449	112,660
Gross profit	24,995	22,158
Selling, general and administrative expenses	20,433	20,221
Operating income	4,562	1,937
Non-operating income		
Interest income	33	38
Dividends income	664	594
Equity in income of affiliates	956	1,110
Foreign currency exchange gains	718	951
Others	646	1,120
Total non-operating income	3,019	3,814
Non-operating expenses		
Interest expenses	323	406
Environmental expenses	-	669
Others	311	304
Total non-operating expenses	635	1,380
Ordinary income	6,945	4,370
Extraordinary income		
Gain on sales of property, plant and equipment	228	214
Gain on sales of investment in securities	46	0
Gain on change in equity of affiliates	-	241
Gain on liquidation of subsidiaries and associates	29	-
Gain on transfer of business	-	87
Insurance income	20	24
Total extraordinary income	325	567
Extraordinary losses		
Loss on sales and retirement of property, plant and equipment	1,100	734
Impairment loss	-	5
Loss on disaster	-	322
Loss on reduction of property, plant and equipment	34	16
Loss on sales of shares of subsidiaries and associates	54	-
Total extraordinary losses	1,189	1,078
Income before income taxes	6,081	3,859
Income taxes - current	821	1,397
Income taxes - deferred	(191)	(162)
Total income taxes	630	1,235
Net income	5,451	2,624
Net income (loss) attributable to non-controlling interests	88	(43)
Net income attributable to owners of parent company	5,362	2,667

Quarterly Consolidated Statements of Comprehensive Income
(Six-month period)

(Million yen)

	For the six -month ended September 30, 2017	For the six -month ended September 30, 2018
Net income	5,451	2,624
Other comprehensive income		
Unrealized holding gains (loss) on securities, net of taxes	1,224	1,527
Unrealized gains (loss) on hedging derivatives, net of taxes	44	35
Foreign currency translation adjustment	(903)	(3,013)
Remeasurements of retirement benefit, net of taxes	(37)	(60)
Share of other comprehensive income of associates accounted for using equity method	711	540
Total other comprehensive income	1,038	(971)
Comprehensive income	6,489	1,652
Comprehensive income attributable to owners of parent company	6,404	1,711
Comprehensive income attributable to non-controlling interests	85	(58)

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	For the six-month ended September 30, 2017	For the six-month ended September 30, 2018
Cash flows from operating activities		
Income before income taxes	6,081	3,859
Depreciation	9,523	9,119
Impairment loss	–	5
Amortization of goodwill	63	67
Insurance income	(20)	(24)
Increase (decrease) in net defined benefit liability	2	111
Interest and dividend income	(698)	(632)
Interest expenses	323	406
Equity in (income) losses of affiliates	(956)	(1,110)
Loss on reduction of property, plant and equipment	34	16
Loss (gain) on sales or disposal of property, plant and equipment	872	520
Decrease (increase) in notes and accounts receivable - trade	2,636	4,333
Decrease (increase) in inventories	(1,650)	(1,605)
Decrease (increase) in consumption taxes refund receivable	(15)	529
Increase (decrease) in notes and accounts payable - trade	(1,113)	(526)
Increase (decrease) in accrued consumption taxes	(655)	181
Other	(281)	901
Subtotal	14,144	16,153
Interest and dividend income received	884	881
Interest paid	(321)	(381)
Income taxes paid	(1,528)	(2,287)
Net cash provided by (used in) operating activities	13,179	14,365
Cash flows from investing activities		
Payments for purchases of investment in securities	(26)	(2,824)
Payments for purchases of property, plant and equipment	(4,936)	(6,158)
Proceeds from sales of property, plant and equipment	291	627
Payments of loans receivable	(57)	(112)
Collection of loans receivable	11	57
Other	(450)	(667)
Net cash provided by (used in) investing activities	(5,169)	(9,078)
Cash flows from financing activities		
Net increase (decrease) in short-term loans	1,733	(3,033)
Net increase (decrease) in commercial papers	1,500	(11,000)
Proceeds from long-term loans	3,441	12,200
Repayments of long-term loans	(8,278)	(2,826)
Dividends paid	(1,136)	(1,136)
Dividends paid to non-controlling interests	(93)	(77)
Payments for purchases of treasury stock	(1)	(0)
Other	(171)	(46)
Net cash provided by (used in) financing activities	(3,006)	(5,921)
Translation (loss) gain on cash and cash equivalents	19	(235)
Net increase (decrease) in cash and cash equivalents	5,022	(869)
Cash and cash equivalents at beginning of period	19,284	14,281
Cash and cash equivalents at end of period	24,307	13,412

(4) Notes to Quarterly Consolidated Financial Statements

(Notes to Going Concern Assumption)

Not applicable.

(Notes on Any Significant Change in the Value of Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

Overseas consolidated subsidiaries that have adopted IFRSs commenced the application of IFRS 15: Revenue from Contracts with Customers in the first quarter of the current fiscal year. The impact of the application of these accounting standards on the Company's consolidated quarterly financial statements is immaterial.

(Additional Information)

The Company commenced the application of the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) in the first quarter of the current fiscal year; accordingly, the amount of deferred tax assets is presented under "investments and other assets," and the amount of deferred tax liabilities is presented under "non-current liabilities."