

Consolidated Financial Results for the First Quarter Ended June 30, 2016 [J-GAAP]

Heiwa Corporation

August 5, 2016

Stock code: 6412
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Scheduled date of start of dividend payment: —

Preparation of supplementary briefing materials for quarterly financial results: Yes

Holding of any briefing session for quarterly financial results: None

Financial Highlights

As of and for the three months ended June 30, 2015 and 2016

(Amounts less than one million yen are omitted.)

1. Consolidated Operating Results

| | Three months ended June 30, 2015 | YoY | Three months ended June 30, 2016 | YoY |
|---|-------------------------------------|--------|-------------------------------------|------|
| | (million yen) | (%) | (million yen) | (%) |
| (1) Consolidated financial results | | | | |
| Net sales | 47,538 | (25.6) | 49,355 | 3.8 |
| Operating income | 11,453 | (40.6) | 13,287 | 16.0 |
| Ordinary income | 11,268 | (41.0) | 12,783 | 13.4 |
| Profit attributable to owners of parent | 6,003 | (47.2) | 7,649 | 27.4 |
| Earnings per share (yen) | 69.96 | | 77.69 | |
| Diluted earnings per share (yen) | 69.82 | | 77.60 | |

(Note) Comprehensive income: Three months ended June 30, 2016: ¥7,361 million, +14.0% YoY
 Three months ended June 30, 2015: ¥6,458 million, -47.4% YoY

| | As of March 31, 2016 | As of June 30, 2016 |
|-------------------------------------|----------------------|---------------------|
| | (million yen) | (million yen) |
| (2) Consolidated financial position | | |
| Total assets | 450,715 | 444,121 |
| Net assets | 198,873 | 202,300 |
| Shareholders' equity ratio (%) | 44.1 | 45.5 |
| Net assets per share (yen) | 2,019.56 | 2,054.28 |

(Reference) Shareholders' equity: As of June 30, 2016: ¥202,269 million
 As of March 31, 2016: ¥198,841 million

2. Dividends

| | Annual dividends per share | | | | |
|---------------------|----------------------------|--------|--------|----------|-------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | (yen) | | | | |
| FY3/2016 | — | 40.00 | — | 40.00 | 80.00 |
| FY3/2017 | — | | | | |
| FY3/2017 (Forecast) | | 40.00 | — | 40.00 | 80.00 |

(Note) Revision of the most recently disclosed dividend forecast: None

3. Consolidated Results Forecast for Year Ending March 31, 2017

| | FY 3/2017 | | | |
|---|---------------|--------|---------------|-------|
| | Six Months | YoY | Full year | YoY |
| | (million yen) | (%) | (million yen) | (%) |
| Net sales | 102,500 | (14.3) | 205,200 | (4.5) |
| Operating income | 23,400 | (11.5) | 39,000 | 0.1 |
| Ordinary income | 22,900 | (11.6) | 37,700 | 0.7 |
| Profit attributable to owners of parent | 15,700 | (18.4) | 30,000 | 6.6 |
| Earnings per share (yen) | 159.46 | | 304.70 | |

(Note) Revision of the most recently disclosed consolidated results forecast: None

* Notes

(1) Changes in significant subsidiaries during the three months ended June 30, 2016 (Changes in specified subsidiaries resulting in change in scope of consolidation): None

(2) Application of special accounting treatment peculiar to preparation of quarterly consolidated financial statements: Yes

(Note) Refer to “2. Summary information (notes) (2) Application of special accounting treatment peculiar to preparation of quarterly consolidated financial statements” on page 6 for details.

(3) Changes in accounting policies or estimates and retrospective restatements

- (i) Any change arising from revision of accounting standards: None
- (ii) Any change arising from factors other than (i) above: None
- (iii) Changes in accounting estimates: None
- (iv) Retrospective restatements: None

(4) Number of shares issued (common stock)

- (i) Number of shares issued (including treasury stock)
 - 99,809,060 shares as of June 30, 2016
 - 99,809,060 shares as of March 31, 2016
- (ii) Number of shares of treasury stock
 - 1,346,675 shares as of June 30, 2016
 - 1,351,011 shares as of March 31, 2016
- (iii) Average number of shares during the period
 - 98,460,036 shares for the three months ended June 30, 2016
 - 85,813,063 shares for the three months ended June 30, 2015

* Presentation of status of quarterly review procedures

This quarterly statement of financial results is not subject to the requirement to undergo quarterly review procedures based on the Financial Instruments and Exchange Act. However, the review procedures for quarterly consolidated financial statements based on the Financial Instruments and Exchange Act have been completed as of the release of this quarterly statement of financial results.

* Explanations about the appropriate use of consolidated results forecasts and other noteworthy points:

1. Forward-looking statements in this document, such as the consolidated financial results outlook, are based on information currently available to the Company and certain assumptions deemed reasonable. The Company does not guarantee the accuracy of these forecasts. Furthermore, actual results, etc. may differ significantly from forecast figures due to a number of factors. For assumptions on which results forecasts are based, as well as notes concerning the usage of forecasts, etc. refer to “1. Qualitative information on quarterly financial results (3) Explanation of future predictions, such as consolidated results forecasts” on page 5.

2. Supplementary briefing materials for the quarterly financial results will be posted on the Company’s homepage immediately after this statement of financial results is released.

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1. Qualitative information on quarterly financial results

(1) Explanation of operating results

In the consolidated cumulative first quarter under review, the Japanese economy continued to display a moderate trend towards recovery, due to individual consumption firming caused by improvements in employment and income among other factors. However, financial markets are unstable due to factors such as the further progression of the yen appreciation and declining share prices, attributable to concerns about slowing of overseas economies. The future outlook is unclear, with concerns that consumer sentiment may become cautious.

In the pachinko and pachislot machine industry, the industry as a whole has worked towards creating an environment that is attractive to a wider range of players, and implemented changes to the pachinko and pachislot machine standards and revision of the distribution system as part of this strategy. In addition, coinciding with the Ise-Shima Summit held in May, a self-imposed moratorium on replacement of pachinko and pachislot machines was conducted over a 1-month period, according to a decision by the pachinko parlor industry organization.

In the golf industry, visitors to golf courses were down year on year due to factors such as extremely high rainfall compared to previous years on the pacific side of Western Japan, which saw repeated low-pressure systems and fronts, in addition to the occurrence of the 2016 Kumamoto earthquake in April.

In this environment, the pachinko and pachislot machine business has adopted “producing machines that aim for novelty and differentiation” and “enhancing earning potential” as its basic policies, and promoted each accordingly. Similarly, the golf business has adopted “enhancing management structure,” “promoting membership,” and “promoting M&A and management outsourcing” as its basic policies, and implemented similar promotion.

As a result of the above, results for the cumulative first quarter period under review were as follows: Net sales amounted to 49,355 million yen (up 3.8% year on year); operating income amounted to 13,287 million yen (up 16.0% year on year); ordinary income amounted to 12,783 million yen (up 13.4% year on year); and profit attributable to owners of parent totaled 7,649 million yen (up 27.4% year on year).

Segment results are summarized below.

Furthermore, from the first quarter of the consolidated fiscal period under review, we have made changes to reporting segment classifications, and said changes have been applied to the results of the relevant segments for the same quarter in the previous year for the purpose of the following year on year comparisons.

(Pachinko and Pachislot Machine Business)

In the pachinko and pachislot machine business, we released the pachinko machines “*GIRLS und PANZER*,” which render a tank battle between high school girls using a unique device and display for pachinko machines; and “*Flame of Recca 2*,” which is the second machine model in its series, and is based on the popular comic books of the same name, selling a total of 41 thousand units (down 1 thousand units year on year). With regard to pachislot machines, we released “*Nangoku Monogatari*,” which is the newest iteration of the “*Nangoku*” series, and is fitted with a rotary lamp; and “*Maison Ikkoku: Sakura no Shita de*,” which features simple gameplay and moving episodes, selling a total of 29 thousand units (up 1 thousand units year on year).

As a result of the above, net sales amounted to 27,632 million yen (up 8.6% year on year), and operating income amounted to 9,222 million yen (up 28.4% year on year).

(Golf Business)

In the golf business, visitors to golf courses decreased. However, as a result of our efforts to set appropriate prices through careful observation of market trends, as well as the contribution of newly purchased golf courses,

revenue per customer increased year on year. Promoting membership has been a point of emphasis since last year. Results were highly favorable in the equivalent period last year, and although results fell short of that level in the period under review, they still exceeded our plans. Also, in the service area business, which had been calculated in the “other” segment until the previous period but has been calculated as part of the golf business segment from this period, net sales decreased due to the reduction of the number of sites from three to one, as a result of the expiration of leases in April. Operating income decreased year on year due to the decrease in net sales.

As a result of the above, net sales amounted to 21,722 million yen (down 1.7% year on year), and operating income amounted to 5,033 million yen (down 3.6% year on year).

(2) Explanation of financial position

Assets

Total assets amounted to 444,121 million yen, down 6,594 million yen from the end of the previous consolidated fiscal year.

Other (net) in property, plant and equipment increased by 819 million yen, securities increased by 697 million yen, and electronically recorded monetary claims - operating increased by 620 million yen. However, cash and deposits decreased by 3,444 million yen, merchandise and finished goods decreased by 1,589 million yen, other in current assets decreased by 1,468 million yen, investment securities decreased by 787 million yen, land decreased by 498 million yen, and raw materials and supplies decreased by 463 million yen.

Liabilities

Liabilities amounted to 241,821 million yen, down 10,020 million yen from the end of the previous fiscal year.

Current portion of long-term loans payable decreased by 3,095 million yen, long-term loans payable decreased by 2,078 million yen, provision decreased by 1,893 million yen, other in current liabilities decreased by 1,174 million yen, and income taxes payable decreased by 1,074 million yen.

Net Assets

Net assets increased by 3,426 million yen from the end of the previous consolidated fiscal year to 202,300 million yen, due to factors such as retained earnings decreasing by 3,938 million yen due to distribution of surplus, in spite of the inclusion of profit attributable to owners of parent causing retained earnings to increase by 7,649 million yen, as well as valuation difference on available-for-sale securities decreasing by 332 million yen.

As a result, the shareholders' equity ratio was 45.5%, as opposed to 44.1% at the end of the previous consolidated fiscal year.

(3) Explanation of future predictions, such as consolidated results forecasts

Consolidated results forecasts for the year ending March 31, 2017 remain unchanged from the announcement on May 11, 2016.

2. Summary information (notes)

(1) Changes in significant subsidiaries during the consolidated cumulative first quarter under review

No matters to record.

(2) Application of special accounting treatment peculiar to preparation of quarterly consolidated financial statements

With regard to tax expenses of the Company and some subsidiaries, the Company has estimated the effective tax rate after the application of tax effect accounting to the income before taxes for the consolidated fiscal year, including the first quarter consolidated accounting period. Tax expenses were calculated by multiplying the quarterly income before taxes by said estimate of the effective tax rate.

(3) Changes in accounting policies or estimates and retrospective restatements

No matters to record.

(4) Additional information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) has been applied starting from the consolidated first quarter under review.

3. Consolidated financial statements

(1) Consolidated balance sheet

(Million yen)

| | As of March 31, 2016 | As of June 30, 2016 |
|---|----------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 95,101 | 91,657 |
| Notes and accounts receivable - trade | 16,076 | 15,813 |
| Electronically recorded monetary claims - operating | 1,628 | 2,249 |
| Securities | 11,401 | 12,099 |
| Merchandise and finished goods | 5,066 | 3,476 |
| Raw materials and supplies | 5,597 | 5,133 |
| Other | 16,672 | 15,204 |
| Allowance for doubtful accounts | (529) | (579) |
| Total current assets | 151,013 | 145,054 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 58,785 | 58,423 |
| Land | 195,715 | 195,216 |
| Other, net | 17,430 | 18,249 |
| Total property, plant and equipment | 271,931 | 271,890 |
| Intangible assets | 6,363 | 6,233 |
| Investments and other assets | | |
| Investment securities | 10,526 | 9,739 |
| Other | 11,427 | 11,749 |
| Allowance for doubtful accounts | (546) | (545) |
| Total investments and other assets | 21,407 | 20,943 |
| Total non-current assets | 299,701 | 299,066 |
| Total assets | 450,715 | 444,121 |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 20,183 | 19,884 |
| Current portion of long-term loans payable | 48,488 | 45,392 |
| Current portion of bonds | 8,000 | 8,000 |
| Income taxes payable | 3,975 | 2,901 |
| Provision | 3,684 | 1,791 |
| Other | 18,870 | 17,695 |
| Total current liabilities | 103,202 | 95,665 |
| Non-current liabilities | | |
| Long-term loans payable | 85,447 | 83,369 |
| Net defined benefit liability | 4,264 | 4,183 |
| Other | 58,927 | 58,604 |
| Total non-current liabilities | 148,639 | 146,156 |
| Total liabilities | 251,842 | 241,821 |

(Million yen)

| | As of March 31, 2016 | As of June 30, 2016 |
|---|----------------------|---------------------|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 16,755 | 16,755 |
| Capital surplus | 54,842 | 54,843 |
| Retained earnings | 128,087 | 131,799 |
| Treasury shares | (1,512) | (1,508) |
| Total shareholders' equity | 198,172 | 201,888 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,250 | 918 |
| Remeasurements of defined benefit plans | (582) | (537) |
| Total accumulated other comprehensive income | 668 | 380 |
| Subscription rights to shares | 31 | 30 |
| Non-controlling interests | 0 | 0 |
| Total net assets | 198,873 | 202,300 |
| Total liabilities and net assets | 450,715 | 444,121 |

(2) Consolidated statements of income and comprehensive income

(Million yen)

| | Three Months Period Ended June 30, 2015 | Three Months Period Ended June 30, 2016 |
|--|--|--|
| Net sales | 47,538 | 49,355 |
| Cost of sales | 27,659 | 27,261 |
| Gross profit | 19,879 | 22,093 |
| Selling, general and administrative expenses | 8,426 | 8,806 |
| Operating income | 11,453 | 13,287 |
| Non-operating income | | |
| Interest income | 71 | 26 |
| Dividend income | 26 | 26 |
| Gain on redemption of securities | 308 | 29 |
| Income from sales of electric power | 48 | 45 |
| Other | 108 | 95 |
| Total non-operating income | 563 | 223 |
| Non-operating expenses | | |
| Interest expenses | 307 | 257 |
| Commission fee | 177 | — |
| Provision for loss on disaster | — | 344 |
| Other | 263 | 124 |
| Total non-operating expenses | 748 | 727 |
| Ordinary income | 11,268 | 12,783 |
| Extraordinary income | | |
| Gain on reversal of subscription rights to shares | 0 | — |
| Total extraordinary income | 0 | — |
| Extraordinary losses | | |
| Loss on sales of non-current assets | — | 6 |
| Impairment loss | — | 518 |
| Total extraordinary losses | — | 525 |
| Profit before income taxes | 11,268 | 12,257 |
| Income taxes | 4,681 | 4,607 |
| Profit | 6,587 | 7,650 |
| Profit attributable to | | |
| Profit attributable to owners of parent | 6,003 | 7,649 |
| Profit attributable to non-controlling interests | 583 | 0 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (153) | (332) |
| Remeasurements of defined benefit plans, net of tax | 25 | 44 |
| Total other comprehensive income | (128) | (288) |
| Comprehensive income | 6,458 | 7,361 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 5,875 | 7,361 |
| Comprehensive income attributable to non-controlling interests | 583 | 0 |

(3) Notes concerning quarterly consolidated financial statements

(Notes concerning the assumption of a going concern)

No matters to record.

(Notes in case of significant fluctuations in value of shareholders' equity)

No matters to record.

(Segment information, etc.)

[Segment information]

I. Previous consolidated cumulative first quarter (April 1, 2015 to June 30, 2015)

Information concerning net sales and profit and loss by reporting segment

(Million yen)

| | Reporting segment | | | Adjustments (Note 1) | Amount recorded in quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2) |
|--|---|------------------|--------|-------------------------|--|
| | Pachinko and pachislot machine business | Golf business | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 25,436 | 22,102 | 47,538 | - | 47,538 |
| Internal net sales and transfers between segments | - | 1 | 1 | (1) | - |
| Total | 25,436 | 22,103 | 47,540 | (1) | 47,538 |
| Segment profit | 7,180 | 5,222 | 12,403 | (949) | 11,453 |

(Notes)

1. The figure of -949 million yen for segment profit adjustments includes 5 million yen in elimination of transactions between segments and -955 million yen in unclassifiable operating expenses. Unclassifiable operating expenses are expenses relating to management departments of the reporting company.

2. Segment profit is adjusted according to the operating income recorded in quarterly consolidated statements of income and consolidated statements of comprehensive income.

II. Consolidated cumulative first quarter under review (April 1, 2016 to June 30, 2016)

1. Information concerning net sales and profit and loss by reporting segment

(Million yen)

| | Reporting segment | | | Adjustments (Note 1) | Amount recorded in quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2) |
|--|---|------------------|--------|-------------------------|--|
| | Pachinko and pachislot machine business | Golf business | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 27,632 | 21,722 | 49,355 | - | 49,355 |
| Internal net sales and transfers between segments | - | 2 | 2 | (2) | - |
| Total | 27,632 | 21,724 | 49,357 | (2) | 49,355 |
| Segment profit | 9,222 | 5,033 | 14,256 | (969) | 13,287 |

(Notes)

1. The figure of -969 million yen for segment profit adjustments includes 3 million yen in elimination of transactions between segments and -972 million yen in unclassifiable operating expenses. Unclassifiable operating expenses are expenses relating to management departments of the reporting company.
2. Segment profit is adjusted according to the operating income recorded in quarterly consolidated statements of income and consolidated statements of comprehensive income.

2. Matters relating to changes in reporting segments, etc.

Starting from the consolidated first quarter under review, the information service business, which had previously been included under “Other,” has been reclassified under the “Pachinko and pachislot machine business” reporting segment, and the service area restaurant and shop operating business, which had previously been included under “Other,” has been reclassified under the “Golf business” reporting segment as a result of revisions to management classifications.

The segment information for the previous consolidated cumulative first quarter was created using the new segment classifications.

3. Information relating to impairment loss or goodwill, etc. on non-current assets by reporting segment

(Major impairment loss relating to non-current assets)

With regard to corporate assets not allocated to reporting segments, impairment loss on land classified as idle assets was calculated as an extraordinary loss.

The amount of impairment loss was calculated as 518 million yen for the consolidated cumulative first quarter under review.