

Translation

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Summary of Consolidated Financial Results for the Six Months Ended September 30, 2018 (Based on Japanese GAAP)

November 6, 2018

Company name: CRESCO LTD.
 Stock exchange listing: Tokyo
 Stock code: 4674 URL <https://www.cresco.co.jp/>
 Representative: President, Operating Officer Hiroyuki Nemoto
 Director, Managing Executive Officer,
 Inquiries: General Manager of Accounting & Finance Kazuo Sugiyama TEL +81-3-5769-8011
 Unit
 Scheduled date to file Quarterly Securities Report: November 7, 2018
 Scheduled date to commence dividend payments: December 3, 2018
 Preparation of supplementary material on quarterly financial results: No
 Holding of quarterly financial results meeting: Yes (for analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2018	17,041	4.8	1,405	(4.4)	1,720	2.0	1,076	(7.0)
Six months ended September 30, 2017	16,253	10.3	1,469	29.9	1,687	31.4	1,157	33.4

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2018	98.39	—
Six months ended September 30, 2017	103.44	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2018	24,089	15,834	65.7
As of March 31, 2018	24,127	15,109	62.5

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	29.00	—	43.00	72.00
Year ending March 31, 2019	—	32.00	—	—	—
Year ending March 31, 2019 (Forecast)	—	—	—	32.00	64.00

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	35,500	6.5	3,280	6.1	3,580	2.5	2,416	9.7	220.84

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2018: No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: No
 - Changes in accounting policies due to other reasons: No
 - Changes in accounting estimates: No
 - Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2018	12,000,000 shares	As of March 31, 2018	12,000,000 shares
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Number of treasury shares at the end of the period

As of September 30, 2018	1,059,877 shares	As of March 31, 2018	1,059,746 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2018	10,940,238 shares	Six months ended September 30, 2017	11,192,921 shares
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Quarterly consolidated financial statements
Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	6,895,374	6,096,871
Notes and accounts receivable - trade	6,660,839	6,807,563
Electronically recorded monetary claims - operating	3,589	1,342
Securities	700,534	1,585,112
Money held in trust	52,644	56,555
Merchandise and finished goods	34,404	23,208
Work in process	149,793	266,145
Supplies	1,424	1,583
Other	398,657	600,118
Allowance for doubtful accounts	(1,995)	(1,995)
Total current assets	14,895,266	15,436,507
Non-current assets		
Property, plant and equipment	504,846	544,806
Intangible assets		
Goodwill	452,511	410,325
Software	211,008	400,504
Other	13,659	13,633
Total intangible assets	677,179	824,463
Investments and other assets		
Investment securities	6,081,190	5,475,969
Other	2,073,232	1,912,118
Allowance for doubtful accounts	(103,934)	(103,934)
Total investments and other assets	8,050,488	7,284,153
Total non-current assets	9,232,514	8,653,423
Total assets	24,127,780	24,089,931

(Thousands of yen)

As of March 31, 2018

As of September 30, 2018

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	1,418,345	1,423,841
Short-term loans payable	131,000	70,000
Current portion of long-term loans payable	296,590	303,750
Income taxes payable	630,619	558,835
Provision for bonuses	1,148,842	1,081,102
Provision for loss on order received	23,272	8,280
Other	1,753,329	1,342,229
Total current liabilities	5,401,999	4,788,039
Non-current liabilities		
Long-term loans payable	936,250	780,000
Long-term accounts payable - other	460,010	515,259
Net defined benefit liability	2,021,580	2,088,777
Provision for directors' retirement benefits	111,102	–
Asset retirement obligations	78,708	79,371
Other	8,709	4,214
Total non-current liabilities	3,616,362	3,467,622
Total liabilities	9,018,361	8,255,662
Net assets		
Shareholders' equity		
Capital stock	2,514,875	2,514,875
Capital surplus	4,292,277	4,292,000
Retained earnings	9,367,782	9,973,749
Treasury shares	(1,871,132)	(1,871,518)
Total shareholders' equity	14,303,803	14,909,107
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	831,107	946,746
Remeasurements of defined benefit plans	(44,097)	(38,369)
Total accumulated other comprehensive income	787,009	908,377
Share acquisition rights	16,784	16,784
Non-controlling interests	1,822	–
Total net assets	15,109,419	15,834,269
Total liabilities and net assets	24,127,780	24,089,931

Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
Quarterly consolidated statements of income

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	16,253,884	17,041,403
Cost of sales	13,228,577	13,974,280
Gross profit	3,025,307	3,067,122
Selling, general and administrative expenses		
Advertising expenses	13,818	16,143
Directors' compensations, salaries and allowances	640,828	700,247
Provision for bonuses	92,263	91,073
Retirement benefit expenses	17,862	19,063
Provision for directors' retirement benefits	–	2,778
Legal welfare expenses	90,794	98,056
Recruiting expenses	67,113	80,298
Entertainment expenses	21,072	23,800
Rents	83,499	86,485
Supplies expenses	30,707	34,775
Enterprise tax	77,307	82,254
Other	420,828	426,850
Total selling, general and administrative expenses	1,556,097	1,661,827
Operating profit	1,469,209	1,405,294
Non-operating income		
Interest income	44,841	112,885
Dividend income	62,293	68,811
Gain on sales of securities	30,667	64,084
Gain on valuation of securities	70,435	25,160
Gain on investments in money held in trust	2,977	3,910
Subsidy income	8,544	6,935
Gain on valuation of derivatives	–	35,969
Share of profit of entities accounted for using equity method	22,524	10,927
Other	5,077	8,079
Total non-operating income	247,361	336,763
Non-operating expenses		
Interest expenses	936	2,385
Commission for purchase of treasury shares	21,607	–
Investment advisory fee	–	17,353
Other	6,813	1,322
Total non-operating expenses	29,356	21,062
Ordinary profit	1,687,213	1,720,996

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Extraordinary income		
Gain on sales of investment securities	96,219	7,539
Gain on redemption of investment securities	6,550	–
Surrender value of insurance	–	15,734
Compensation income	–	11,800
Other	10,778	–
Total extraordinary income	113,548	35,074
Extraordinary losses		
Loss on retirement of non-current assets	18,783	18,060
Loss on sales of investment securities	42,253	0
Loss on valuation of investment securities	19,771	6,453
Office transfer expenses	5,560	33,205
Cost related to the anniversary of the establishment	–	84,411
Other	3,432	10,477
Total extraordinary losses	89,800	152,608
Profit before income taxes	1,710,961	1,603,462
Income taxes - current	485,185	493,308
Income taxes - deferred	67,559	33,756
Total income taxes	552,744	527,064
Profit	1,158,217	1,076,398
Profit attributable to non-controlling interests	431	–
Profit attributable to owners of parent	1,157,785	1,076,398

Quarterly consolidated statements of comprehensive income

	(Thousands of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	1,158,217	1,076,398
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,082)	115,639
Foreign currency translation adjustment	(5,172)	–
Remeasurements of defined benefit plans, net of tax	9,858	5,728
Share of other comprehensive income of entities accounted for using equity method	(19)	–
Total other comprehensive income	584	121,368
Comprehensive income	1,158,801	1,197,766
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,158,369	1,197,766
Comprehensive income attributable to non-controlling interests	431	–

Consolidated statements of cash flows

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	1,710,961	1,603,462
Depreciation	99,445	93,848
Increase (decrease) in provision for bonuses	(27,158)	(67,740)
Increase (decrease) in provision for loss on order received	(59,348)	(14,991)
Increase (decrease) in provision for directors' retirement benefits	(9,867)	(111,102)
Increase (decrease) in net defined benefit liability	73,637	67,196
Interest and dividend income	(107,134)	(181,696)
Loss (gain) on sales of securities	(30,667)	(64,084)
Share of loss (profit) of entities accounted for using equity method	(22,524)	(10,927)
Loss (gain) on sales of investment securities	(53,966)	(7,538)
Loss (gain) on valuation of investment securities	19,771	6,453
Decrease (increase) in notes and accounts receivable - trade	(78,448)	(144,477)
Decrease (increase) in inventories	(9,304)	(105,315)
Increase (decrease) in notes and accounts payable - trade	(56,992)	5,495
Increase (decrease) in long-term accounts payable - other	9,867	55,248
Increase (decrease) in accrued consumption taxes	(30,709)	(134,387)
Other, net	(26,275)	(215,308)
Subtotal	1,401,286	774,134
Interest and dividend income received	95,693	135,963
Proceeds from compensation	–	11,800
Interest expenses paid	(1,694)	(2,296)
Income taxes paid	(535,281)	(568,162)
Net cash provided by (used in) operating activities	960,002	351,437

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from investing activities		
Payments into time deposits	(3,000)	(3,000)
Proceeds from withdrawal of time deposits	11,000	3,000
Purchase of securities	(1,163,202)	(1,507,155)
Proceeds from sales of securities	686,894	466,332
Proceeds from redemption of securities	–	380,000
Purchase of property, plant and equipment	(71,024)	(121,300)
Purchase of intangible assets	(29,541)	(153,778)
Purchase of investment securities	(1,392,009)	(629,655)
Proceeds from sales of investment securities	1,228,568	466,594
Proceeds from redemption of investment securities	323,252	555,777
Proceeds from cancellation of insurance funds	5	79,436
Other, net	(73,910)	(2,792)
Net cash provided by (used in) investing activities	(482,966)	(466,541)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	–	(61,000)
Proceeds from long-term loans payable	1,300,000	–
Repayments of long-term loans payable	(19,240)	(149,090)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(2,100)
Cash dividends paid	(328,553)	(470,018)
Purchase of treasury shares	(1,818,504)	(385)
Other, net	(576)	(805)
Net cash provided by (used in) financing activities	(866,874)	(683,399)
Effect of exchange rate change on cash and cash equivalents	255	–
Net increase (decrease) in cash and cash equivalents	(389,583)	(798,502)
Cash and cash equivalents at beginning of period	5,503,941	6,892,874
Cash and cash equivalents at end of period	5,114,357	6,094,371