

SANKYO CO., LTD.

<http://www.sankyo-fever.co.jp/>

Shares listed: Tokyo (1st Section)

Code number: 6417

Telephone: +81-3-5778-7777

Representative: Kimihisa Tsutsui, President & COO

Contact: Yoko Oshima, Executive Operating Officer

Planned Date for Submittal of the Financial Statements Report: February 13, 2018

Planned Date for Start of Dividend Payment: -

Supplementary materials for the quarterly financial statements: Yes

Presentation to explain for the quarterly financial statements: Yes

(Figures less than 1 million yen have been omitted.)

1. Consolidated results for the first nine months of FY2018 (From April 1, 2017, to December 31, 2017)

(1) Consolidated operating results

(Percentage figures denote year-over-year changes.)

	Net sales		Operating income		Recurring income		Profit attributable to owners of parent	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen	
1st nine months of FY2018	46,197	(31.8%)	(2,913)	-	(1,867)	-	(1,282)	-
1st nine months of FY2017	67,732	(31.9%)	6,201	(52.6%)	5,742	(60.0%)	3,417	(65.5%)
(note) Comprehensive income	1st nine months of FY2018		¥1,325 million [(71.9%)]		1st nine months of FY2017		¥4,714 million [(55.3%)]	

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st nine months of FY2018	(15.80)	-
1st nine months of FY2017	42.18	40.04

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of December 31, 2017	387,244	331,215	85.3	
As of March 31, 2017	390,585	340,287	86.9	
(reference) Shareholders' Equity	As of December 31, 2017	¥330,158 million	As of March 31, 2017	¥339,484 million

2. Dividends

(Base date)	Cash dividend per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	-	75.00	-	75.00	150.00
Year ended March 31, 2018	-	75.00	-	-	150.00
Year ended March 31, 2018 (Forecast)	-	75.00	-	75.00	150.00

Note: Changes in the projected cash dividends in this quarter : No

3. Forecast for FY2018 (From April 1, 2017, to March 31, 2018)

(Percentage figures denote year-over-year changes.)

	Net sales		Operating income		Recurring income		Profit attributable to owners of parent		Net income per share	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Yen	
Year ending March 31, 2018	84,000	3.1%	4,000	(20.9%)	5,000	30.5%	3,500	96.9%	43.12	

Note: Changes in the forecasts of consolidated Financial results in this quarter : No

*** Notes**

(1) Changes for important subsidiaries during the 1st Nine Months of FY2018:				Not applicable
(2) Application of peculiar accounting methods:				Not applicable
(3) Changes in accounting procedures				
a. Related to accounting standard revisions etc.:				Not applicable
b. Other changes:				Not applicable
c. Changes in accounting estimates:				Not applicable
d. Retrospective restatements:				Not applicable
(4) Outstanding shares (common shares)				
a. No. of shares outstanding (including treasury stock) As of Dec. 31, 2017:	89,597,500 shares	As of March 31, 2017:	89,597,500 shares	
b. No. of treasury stock As of Dec. 31, 2017:	8,421,159 shares	As of March 31, 2017:	8,574,481 shares	
c. Average number of shares issued and outstanding 1st 9M of FY2018:	81,176,636 shares	1st 9M of FY2017:	81,023,435 shares	

* This quarterly report is not subject to quarterly review procedures.

*** Disclaimer regarding Forward-looking Statements**

The statements concerning future performance that are presented in this document are based on judgments using information available to the Company and which are deemed reasonable as of the release date of this material, and they are not intended to assure the achievement of such forecasts presented herein. Actual results may differ due to various factors. For information regarding performance forecasts, please refer to "1. Qualitative Information and Financial Statements (3) Forecast of Consolidated Results and Other Forecast Information" in the accompanying material.

1. Qualitative Information and Financial Statements

(1) Operating Results

During the first nine months of the fiscal year ending March 31, 2018 (from April 1, 2017 to December 31, 2017), the Japanese economy experienced a moderate recovery as corporate earnings were robust and the labor market steadily improved.

Regarding the environment surrounding the pachinko and pachislot industry, as part of initiatives for countermeasures for compulsive gambling, the Regulations Partially Amending the Ordinance for Enforcement of the Act to Control Businesses That May Affect Public Morals and the Regulations Concerning the Certification and Official Inspection of Game Machines ("Amended Pachinko and Pachislot Machines Regulations") were promulgated in September 2017 and came into force on February 1, 2018. As a result, pachinko parlors, which are the Company's customers, are required to replace the pachinko and pachislot machines that are compliant with the current regulations with ones compliant with the amended regulations step by step during the three-year period for a transitional measure. As it is difficult in the current circumstances to forecast how players will react to introduction of the pachinko and pachislot machines compliant with the amended regulations, pachinko parlors are postponing decision-making on the revision of the current mix of pachinko and pachislot machines installed.

In these circumstances, the Group introduced nine pachinko titles and three pachislot titles. Sales picked up compared with the situation in the first six months of the fiscal year ending March 31, 2018 because of the introduction of new titles through tie-ups with well-known content, targeting the replacement demand before the amendment of the regulations. However, operating results fell short of expectations, because pachinko parlors remained cautious regarding replacement with new pachinko and pachislot machines as mentioned above and also because demand was concentrated on signature titles with stable popularity.

As a result, on a consolidated basis, net sales were ¥46.1 billion, a decrease of 31.8% compared with the same period of the previous year, operating loss was ¥2.9 billion, compared with an operating income of ¥6.2 billion for the same period of the previous year, recurring loss was ¥1.8 billion, compared with a recurring income of ¥5.7 billion for the same period of the previous year, and loss attributable to owners of parent amounting to ¥1.2 billion, compared with a income attributable to owners of parent amounting to ¥3.4 billion for the same period of the previous fiscal year.

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥32.1 billion, a decrease of 40.4% compared with the same period of the previous year, and operating income amounted to ¥0.8 billion, a decrease of 92.9%. Sales of pachinko machines amounted to 80,000 units. Major titles released included *Fever Symphogear* (introduced in August 2017) under the SANKYO brand, *EVANGELION 2018 Model* (introduced in October 2017), under the Bisty brand, and *Shin-Natsumatsuri* (introduced in June 2017) under the JB brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥7.8 billion, a decrease of 0.3% compared with the same period of the previous year, and operating loss was ¥0.4 billion, compared with operating loss of ¥1.5 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 18,000 units. Major titles released included *Pachislot Macross Frontier 3* (introduced in May 2017). *Pachislot Aquarion EVOL* (introduced in July 2017) and *Pachislot Golgo 13* (introduced in September 2017) under the SANKYO brand,

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥5.8 billion, an increase of 3.5% compared with the same period of the previous year, and operating income was ¥0.3 billion, an increase of 44.6%.

Other Businesses

Sales of other businesses were ¥0.4 billion, an increase of 11.2% compared with the same period of the previous year, and operating loss was ¥0.3 billion compared with an operating loss of ¥0.5 billion a year earlier.

(2) Financial Position

Total assets at the end of the first nine months of the fiscal year ending March 31, 2018 amounted to ¥387.2 billion, having decreased ¥3.3 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥9.0 billion decrease in marketable securities, a ¥2.7 billion decrease in prepaid expenses (included in "Other" of Current assets), and a ¥2.2 billion decrease in cash and deposits, despite a ¥5.0 billion increase in accounts receivable for provision of parts and materials for value (included in "Other" of Current assets) and a ¥4.6 billion increase in investment securities.

Total liabilities amounted to ¥56.0 billion, having increased ¥5.7 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥6.7 billion increase in notes and accounts payable-trade and a ¥0.9 billion increase in electronically recorded obligations-operating, despite a ¥1.7 billion decrease in accounts payable (included in "Other" of Current liabilities).

Net assets decreased ¥9.0 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable

to cash dividends paid amounting to ¥12.1 billion and recording of loss attributable to owners of parent amounting to ¥1.2 billion, despite a ¥2.6 billion increase in net unrealized gain on other securities and an increase of ¥1.4 billion owing to the exclusion of Fields Corporation from the scope of equity method accounting. As a result, net assets amounted to ¥331.2 billion and the shareholders' equity ratio decreased 1.6 percentage points to 85.3%.

(3) Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecasts of financial results for fiscal 2018 announced on January 30, 2018.

2. Consolidated Financial Statements**(1) Consolidated Balance Sheets**

(Figures less than 1 million yen have been omitted.)

	As of March 31, 2017	As of Dec. 31, 2017
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	97,818	95,598
Notes and accounts receivable-trade	18,626	16,737
Marketable securities	188,007	178,999
Merchandise and finished goods	82	3,892
Work in process	289	5
Raw materials and inventories	1,334	1,444
Other	11,407	14,777
Allowance for doubtful accounts	(13)	(1)
Total current assets	317,552	311,453
Fixed assets:		
Tangible fixed assets	44,880	44,931
Intangible fixed assets		
Goodwill	267	166
Other	319	262
Total Intangible fixed assets	586	428
Investments and other assets:		
Investment securities	21,612	26,243
Other	6,357	4,587
Allowance for doubtful accounts	(24)	(22)
Allowance for investment loss	(379)	(379)
Total investments and other assets	27,565	30,429
Total fixed assets	73,032	75,790
Total assets	390,585	387,244

Consolidated Balance Sheets

(Figures less than 1 million yen have been omitted.)

	As of March 31, 2017	As of Dec. 31, 2017
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	5,607	12,337
Electronically recorded obligations-operating	8,113	9,079
Accrued income taxes	1,623	677
Allowance for bonuses	834	407
Other	5,750	4,984
Total current liabilities	21,930	27,486
Long-term liabilities:		
Bonds with subscription rights to shares	20,066	20,051
Net defined benefit liabilities	4,671	4,840
Asset retirement obligations	63	63
Other	3,565	3,585
Total long-term liabilities	28,368	28,541
Total liabilities	50,298	56,028
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	335,518	322,666
Less: treasury stock, at cost	(39,700)	(38,782)
Total shareholders' equity	334,408	322,474
Accumulated other comprehensive income:		
Net unrealized gain on other securities	5,264	7,804
Remeasurements of defined benefit plans	(188)	(120)
Total accumulated other comprehensive income	5,076	7,684
Subscription rights to shares	802	1,057
Total net assets	340,287	331,215
Total liabilities and total net assets	390,585	387,244

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

Consolidated Statements of Income

(Figures less than 1 million yen have been omitted.)

	1st Nine Months of FY2017	1st Nine Months of FY2018
	Millions of yen	Millions of yen
Net sales	67,732	46,197
Cost of sales	31,277	23,433
Gross profit	36,455	22,763
Selling, general and administrative expenses	30,253	25,676
Operating income (loss)	6,201	(2,913)
Non-operating income:		
Interest income	256	144
Dividend income	482	733
Other	142	170
Total non-operating income	881	1,048
Non-operating expenses:		
Equity in losses of affiliates	1,336	-
Loss on management of investment partnership	0	-
Other	3	3
Total non-operating expenses	1,340	3
Recurring income (loss)	5,742	(1,867)
Extraordinary gains:		
Gain on sales of fixed assets	8	-
Gain on sales of golf club membership	-	2
Total extraordinary gains	8	2
Extraordinary losses:		
Loss on sales of fixed assets	24	2
Loss on disposal of fixed assets	35	13
Loss on sales of investment securities	-	42
Loss on sales of golf course membership	7	-
Total extraordinary losses	66	58
Income (loss) before income taxes and minority interests	5,684	(1,924)
Income taxes:		
Current income taxes	1,961	640
Deferred income taxes	305	(1,282)
Total income taxes	2,267	(642)
Profit (loss)	3,417	(1,282)
Profit (loss) attributable to owners of parent	3,417	(1,282)

Consolidated Statements of Comprehensive Income

(Figures less than 1 million yen have been omitted.)

	1st Nine Months of FY2017	1st Nine Months of FY2018
	Millions of yen	Millions of yen
Profit (loss)	3,417	(1,282)
Other comprehensive income:		
Net unrealized gain (loss) on other securities	1,236	2,621
Remeasurements of defined benefit plans	49	57
Share of other comprehensive income of associates accounted for using equity method	10	(71)
Total other comprehensive income	1,296	2,607
Comprehensive income	4,714	1,325
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	4,714	1,325
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to the quarterly Consolidated Financial Statements

Notes on premise of a going concern

Not applicable

Notes on significant changes in shareholders' equity

1st Nine Months of FY2018 (From April 1, 2017, to December 31, 2017)

Not applicable

Segment Information

(Segment information by business category)

1st Nine Months of FY2017 (From April 1, 2016, to December 31, 2016)

(Figures less than 1 million yen have been omitted.)

	1st Nine Months of FY2017 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	53,868	7,847	5,647	67,363	369	67,732	-	67,732
Intersegment	-	-	-	-	-	-	-	-
Total	53,868	7,847	5,647	67,363	369	67,732	-	67,732
Segment income	11,841	(1,534)	262	10,569	(525)	10,043	(3,841)	6,201

1st Nine Months of FY2018 (From April 1, 2017, to December 31, 2017)

(Figures less than 1 million yen have been omitted.)

	1st Nine Months of FY2018 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	32,117	7,821	5,847	45,786	410	46,197	-	46,197
Intersegment	-	-	-	-	-	-	-	-
Total	32,117	7,821	5,847	45,786	410	46,197	-	46,197
Segment income	844	(409)	379	814	(359)	455	(3,368)	(2,913)