

SANKYO CO., LTD.

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

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 Planned Date for Submittal of the Financial Statements Report: November 13, 2018
 Planned Date for Start of Dividend Payment: December 3, 2018
 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. Results for the first six months of FY2019 (From April 1, 2018, to September 30, 2018)

(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 six months of FY2019	29,770	40.3%	3,249	-	3,786	-	2,904	-
1st six months of FY2018	21,223	(33.3%)	(5,576)	-	(4,969)	-	(3,409)	-
(note) Comprehensive income	1st six months of FY2019		¥1,119 million	[-%]	1st six months of FY2018		¥(819) million	[-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2019	35.79	33.93
1st six months of FY2018	(42.00)	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of September 30, 2018	376,402	332,546	88.0	
As of March 31, 2018	396,291	337,242	84.8	
(reference) Shareholders' Equity	As of September 30, 2018	¥331,214 million	As of March 31, 2018	¥336,185 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, 2018	-	75.00	-	75.00	150.00
Year ended March 31, 2019	-	75.00	-	-	-
Year ended March 31, 2019 (Forecast)	-	-	-	75.00	150.00

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

3. Forecast for FY2019 (From April 1, 2018, to March 31, 2019)

(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, 2019	90,000	4.4%	12,000	17.9%	13,000	14.8%	9,000	62.1%	110.87

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

*** Notes**

(1) Changes for important subsidiaries during the 1st six 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 Sep. 30, 2018:	89,597,500 shares	As of March 31, 2018:	89,597,500 shares	
b. No. of treasury stock As of Sep. 30, 2018:	8,421,699 shares	As of March 31, 2018:	8,421,329 shares	
c. Average number of shares issued and outstanding 1st 6M of FY2019:	81,176,013 shares	1st 6M of FY2018:	81,176,717 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 six months of the fiscal year ending March 31, 2019 (from April 1, 2018 to September 30, 2018), the Japanese economy remained on a moderate recovery track against the backdrop of a recovery in corporate earnings and improvement of both the labor market and personal incomes. Meanwhile, a series of natural disasters, including typhoons, torrential rains, and major earthquakes, had an impact on the Japanese economy to no small extent.

Regarding the environment surrounding the pachinko and pachislot industry, some pachinko and pachislot machines compliant with 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"), which came into force on February 1, 2018, have already satisfied format inspection and been introduced to the market.

During the first six months of the fiscal year ending March 31, 2019, the SANKYO Group became the first manufacturer in the industry to introduce a pachinko machine with payout settings, a type of pachinko machine permitted by the new regulations. Although pachinko parlors' introduction of pachinko and pachislot machines compliant with the new regulations was still on a trial basis, their potential to attract players and their other aspects generated considerable interest. However, replacement with new pachinko and pachislot machines remained at a low level because installation and use of pachinko and pachislot machines compliant with the former regulations are still permitted. Despite these circumstances, the Group recorded sales and profit exceeding the same period of the previous year as a result of introduction of four new pachinko titles and two new pachislot titles. Additional sales of *Fever Symphogear*, a pachinko title introduced in August 2017, which became a long-running hit product, also contributed to the financial performance.

As a result, on a consolidated basis, net sales were ¥29.7 billion, an increase of 40.3% compared with the same period of the previous year, operating income was ¥3.2 billion, compared with an operating loss of ¥5.5 billion for the same period of the previous year, recurring income was ¥3.7 billion, compared with a recurring loss of ¥4.9 billion for the same period of the previous year, and profit attributable to owners of parent amounting to ¥2.9 billion, compared with a loss 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 ¥25.7 billion, an increase of 165.9% compared with the same period of the previous year, and operating income amounted to ¥7.1 billion, compared with operating loss of ¥4.3 billion for the same period of the previous fiscal year. Sales of pachinko machines amounted to 69,000 units compared with 24,000 units for the same period of the previous fiscal year.

Major titles released included *Fever Aquarion w* (introduced in August 2018) under the SANKYO brand, *Drum☆EVANGELION PINK* (introduced in August 2018), under the Bisty brand, and *J-RUSH 4* (introduced in September 2018) under the JB brand. In addition, the Group launched *Fever Valvrave the Liberator W* (introduced in August 2018), the first pachinko machine with six-level payout settings compliant with the new regulations, although it was mainly sold as a reuse model.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥1.5 billion, a decrease of 79.7% compared with the same period of the previous year, and operating loss was ¥1.2 billion, compared with operating income of ¥1.2 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 3,000 units compared with 17,000 units for the same period of the previous fiscal year.

Major titles released included *Pachislot Total Eclipse* (introduced in May 2018) under the SANKYO brand,

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥2.2 billion, a decrease of 39.1% compared with the same period of the previous year, and operating income was ¥81 million, a decrease of 61.4%.

Other Businesses

Sales of other businesses were ¥0.2 billion, a increase of 6.8% compared with the same period of the previous year, and operating loss was ¥0.2 billion compared with an operating loss of ¥0.2 billion a year earlier.

(2) Financial Position

Total assets at the end of the first six months of the fiscal year ending March 31, 2019 amounted to ¥376.4 billion, having decreased ¥19.8 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥13.0 billion decrease in notes and accounts receivable-trade, a ¥6.8 billion decrease in cash and deposits, and a ¥2.6 billion decrease in investment securities, despite a ¥2.9 billion increase in marketable securities.

Total liabilities amounted to ¥43.8 billion, having decreased ¥15.1 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥6.5 billion decrease in electronically recorded obligations-operating, a ¥4.5 billion

decrease in notes and accounts payable-trade, a ¥3.0 billion decrease in accounts payable (included in "Other" of Current liabilities), and a ¥1.4 billion decrease in accrued income taxes.

Net assets decreased ¥4.6 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to cash dividends paid amounting to ¥6.0 billion and a ¥1.8 billion decrease in net unrealized gain on other securities, despite recording of profit attributable to owners of parent amounting to ¥2.9 billion. As a result, net assets amounted to ¥332.5 billion and the shareholders' equity ratio increased 3.2 percentage points to 88.0%.

(3) Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecasts of financial results for fiscal 2019 announced on May 10, 2018.

2. Quarterly Consolidated Financial Statements and Primary Notes**(1) Consolidated Balance Sheets**

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

	As of March 31, 2018	As of Sep. 30, 2018
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	105,568	98,705
Notes and accounts receivable-trade	26,489	13,430
Marketable securities	181,999	184,999
Merchandise and finished goods	248	324
Work in process	285	164
Raw materials and inventories	1,628	2,740
Other	6,443	4,101
Allowance for doubtful accounts	(2)	(1)
Total current assets	322,660	304,464
Fixed assets:		
Tangible fixed assets	41,277	41,249
Intangible fixed assets		
Goodwill	132	88
Other	231	221
Total Intangible fixed assets	364	310
Investments and other assets:		
Investment securities	25,015	22,390
Other	7,375	8,388
Allowance for doubtful accounts	(21)	(20)
Allowance for investment loss	(379)	(379)
Total investments and other assets	31,989	30,378
Total fixed assets	73,631	71,937
Total assets	396,291	376,402

Consolidated Balance Sheets

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

	As of March 31, 2018	As of Sep. 30, 2018
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	9,304	4,798
Electronically recorded obligations - operating	11,326	4,779
Accrued income taxes	2,369	961
Allowance for bonuses	803	946
Asset retirement obligations	3	-
Other	6,790	3,884
Total current liabilities	30,599	15,370
Long-term liabilities:		
Bonds with subscription rights to shares	20,046	20,036
Net defined benefit liabilities	4,784	4,881
Asset retirement obligations	59	62
Other	3,559	3,505
Total long-term liabilities	28,449	28,485
Total liabilities	59,048	43,856
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	329,499	326,316
Less: treasury stock, at cost	(38,782)	(38,784)
Total shareholders' equity	329,306	326,121
Accumulated other comprehensive income:		
Net unrealized gain on other securities	6,952	5,130
Remeasurements of defined benefit plans	(73)	(38)
Total accumulated other comprehensive income:	6,878	5,092
Subscription rights to shares	1,057	1,331
Total net assets	337,242	332,546
Total liabilities and total net assets	396,291	376,402

(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 Six Months of FY2018	1st Six Months of FY2019
	Millions of yen	Millions of yen
Net sales	21,223	29,770
Cost of sales	10,414	12,529
Gross profit	10,809	17,241
Selling, general and administrative expenses	16,385	13,992
Operating income (loss)	(5,576)	3,249
Non-operating income:		
Interest income	99	94
Dividend income	407	319
Other	104	129
Total non-operating income	610	542
Non-operating expenses:		
Other	3	5
Total non-operating expenses	3	5
Recurring income (loss)	(4,969)	3,786
Extraordinary gains:		
Gain on sales of golf course membership	2	-
Total extraordinary gains	2	-
Extraordinary losses:		
Loss on sales of fixed assets	2	-
Loss on disposal of fixed assets	10	2
Loss on sales of investment securities	42	-
Total extraordinary losses	55	2
Income (loss) before income taxes and minority interests	(5,022)	3,784
Income taxes:		
Current income taxes	91	1,116
Deferred income taxes	(1,705)	(236)
Total income taxes	(1,613)	879
Profit (loss)	(3,409)	2,904
Profit (loss) attributable to owners of parent	(3,409)	2,904

Consolidated Statements of Comprehensive Income

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

	1st Six Months of FY2018	1st Six Months of FY2019
	Millions of yen	Millions of yen
Profit (loss)	(3,409)	2,904
Other comprehensive income:		
Net unrealized gain (loss) on other securities	2,622	(1,821)
Remeasurements of defined benefit plans	38	35
Share of other comprehensive income of associates accounted for using equity method	(71)	-
Total other comprehensive income	2,590	(1,785)
Comprehensive income	(819)	1,119
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(819)	1,119
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Cash Flows

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

	1st Six Months of FY2018	1st Six Months of FY2019
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income (loss) before income taxes and minority interests	(5,022)	3,784
Depreciation and amortization	1,223	1,219
Amortization of goodwill	67	43
Share-based compensation expenses	249	264
Increase (decrease) in allowance for doubtful accounts	144	140
Increase (decrease) in net defined benefit liabilities	172	147
Interest and dividend income	(506)	(413)
(Increase) decrease in notes and accounts receivable-trade	7,565	13,059
(Increase) decrease in inventories	(2,176)	(1,067)
Increase (decrease) in notes and accounts payable-trade	(280)	(10,910)
Other	(3,219)	(1,300)
Subtotal	(1,783)	4,968
Interest and dividend income received	389	361
Income taxes paid	(1,394)	(2,059)
Income taxes refund	242	-
Net cash (used in) provided by operating activities	(2,545)	3,271
Cash flows from investing activities:		
Payment into time deposits	(5,548)	(5,550)
Proceeds from withdrawal of time deposits	-	5,549
Payment for purchase of marketable securities	(35,000)	(38,000)
Proceeds from redemption of marketable securities	35,000	36,000
Payment for purchase of tangible fixed assets and intangible fixed assets	(1,650)	(1,053)
Payment for purchase of investment securities	(9)	-
Proceeds from redemption of investment securities	16,000	-
Proceeds from sale of investment securities	544	-
Payment for increase in loans-receivable	(200)	-
Proceeds from collection of long-term loans	554	11
Other	6	(0)
Net cash (used in) provided by investing activities	9,696	(3,042)
Cash flows from financing activities:		
Repayment for obligations under finance leases	(2)	(2)
Payment for purchase of treasury stock, net	(1)	(1)
Cash dividends paid	(6,088)	(6,088)
Other	0	-
Net cash (used in) provided financing activities	(6,091)	(6,092)
Net increase (decrease) in cash and cash equivalents	1,059	(5,863)
Cash and cash equivalents at beginning of the period	251,818	274,017
Cash and cash equivalents at end of the period	252,877	268,154

(4) Notes to the quarterly Consolidated Financial Statements**Notes on premise of a going concern**

Not applicable

Notes on significant changes in shareholders' equity

1st Six Months of FY2019 (From April 1, 2018, to September 30, 2018)

Not applicable

Additional Information

Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." and other standards Effective from the beginning of the first quarter of the fiscal year ending March 31, 2019, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, February 16, 2018) and other standards, and accordingly deferred tax assets are presented under investments and other assets.

Segment Information

(Segment information by business category)

1st Six Months of FY2018 (From April 1, 2017, to September 30, 2017)

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

	1st Six 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	9,673	7,642	3,644	20,960	263	21,223	-	21,223
Intersegment	-	-	-	-	-	-	-	-
Total	9,673	7,642	3,644	20,960	263	21,223	-	21,223
Segment income	(4,321)	1,257	212	(2,851)	(284)	(3,135)	(2,440)	(5,576)

1st Six Months of FY2019 (From April 1, 2018, to September 30, 2018)

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

	1st Six Months of FY2019 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	25,721	1,548	2,218	29,489	281	29,770	-	29,770
Intersegment	-	-	-	-	-	-	-	-
Total	25,721	1,548	2,218	29,489	281	29,770	-	29,770
Segment income	7,195	(1,247)	81	6,029	(217)	5,811	(2,562)	3,249