

# Consolidated Financial Results for the Third Quarter Ended December 31, 2016 [J-GAAP]

## Heiwa Corporation

February 9, 2017

Stock code: 6412  
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Preparation of supplementary briefing materials for quarterly financial results: Yes

Holding of any briefing session for quarterly financial results: No

## Financial Highlights

As of and for the nine months ended December 31, 2015 and 2016

(Amounts less than one million yen are omitted.)

### 1. Consolidated Operating Results

	Nine months ended December 31, 2015	YoY	Nine months ended December 31, 2016	YoY
	(million yen)	(%)	(million yen)	(%)
(1) Consolidated financial results				
Net sales	173,390	14.9	149,502	(13.8)
Operating income	39,078	8.3	35,834	(8.3)
Ordinary income	38,280	8.2	35,370	(7.6)
Profit attributable to owners of parent	28,321	33.2	23,417	(17.3)
Earnings per share (yen)	305.03		237.81	
Diluted earnings per share (yen)	304.54		237.53	

(Note) Comprehensive income: Nine months ended December 31, 2016: ¥ 22,813 million, -20.8% YoY  
 Nine months ended December 31, 2015: ¥ 28,820 million, +30.4% YoY

	As of March 31, 2016	As of December 31, 2016
	(million yen)	(million yen)
(2) Consolidated financial position		
Total assets	450,715	447,969
Net assets	198,873	213,832
Shareholders' equity ratio (%)	44.1	47.7
Net assets per share (yen)	2,019.56	2,170.91

(Reference) Shareholders' equity: As of December 31, 2016: ¥ 213,805 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	—	40.00	—		
FY3/2017 (Forecast)				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	
	Full year (million yen)	YoY (%)
Net sales	205,200	(4.5)
Operating income	39,000	0.1
Ordinary income	37,700	0.7
Profit attributable to owners of parent	30,000	6.6
Earnings per share (yen)	304.70	

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

#### \* Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 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 December 31, 2016
  - 99,809,060 shares as of March 31, 2016
- (ii) Number of shares of treasury stock
  - 1,322,261 shares as of December 31, 2016
  - 1,351,011 shares as of March 31, 2016
- (iii) Average number of shares during the period
  - 98,474,535 shares for the nine months ended December 31, 2016
  - 92,847,322 shares for the nine months ended December 31, 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 soon after this financial results is released.

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## 1. Qualitative information on quarterly financial results

### (1) Explanation of operating results

In the consolidated cumulative third quarter under review, the Japanese economy displayed a moderate trend towards recovery, due to improvements in employment and income. However, the future outlook is unclear with large fluctuations in share prices and exchange rates due to factors such as Britain's exit from the EU and the US presidential election.

In the pachinko and pachislot machine industry, under the leadership of the industry organization, we have been transitioning to machines that comply with the new standards by having limited addictiveness, with the aim of creating an environment that is attractive to a wider range of players. Furthermore, our competitors released pachinko and pachislot machines in a more focused manner in the third quarter and competition with other pachinko machine manufacturers has intensified, due to collection and removal from the market of "pachinko machines with features that may differ from tested machines" by the end of December 2016, based on the "Statement on Promoting Soundness in the Pachinko and Pachislot Industry," released in June of the same year by the Pachinko and Pachislot Industry 21<sup>st</sup> Century Club, which comprises 14 industrial organizations.

In the golf industry the effects of the 2016 Kumamoto earthquake, which occurred in April, and inclement weather, such as several typhoons making landfall in August and September, and record-breaking early snowfall being recorded in the Kanto region in November, affected demand for golf.

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 has 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 has implemented similar promotion.

As a result of the above, results for the cumulative third quarter period under review were as follows: Net sales amounted to 149,502 million yen (down 13.8% year on year); operating income amounted to 35,834 million yen (down 8.3% year on year); ordinary income amounted to 35,370 million yen (down 7.6% year on year); and profit attributable to owners of parent totaled 23,417 million yen (down 17.3% year on year).

Segment results are summarized below.

Furthermore, from the first quarter of the consolidated fiscal period, 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 pachinko machines, such as "*GIRLS und PANZER*," which renders a tank battle between high school girls using a unique device and display for pachinko machines, and "*Lupin the Third: Lupin The End*," which comes in a specialist body featuring a "*Lupin trigger*," selling a total of 153 thousand units (down 41 thousand units year on year). With regard to pachislot machines, we released titles such as "*Nangoku Monogatari*," which is the newest iteration of the "*Nangoku*" series, and is fitted with a rotary lamp; and "*Lupin the Third: Kesareta Lupin*," which is the pachislot edition of our popular pachinko machine, which has received high praise for its rendering, selling a total of 63 thousand units (down 22 thousand units year on year).

As a result of the above, net sales amounted to 86,115 million yen (down 21.2% year on year), and operating

income amounted to 26,569 million yen (down 6.5% year on year).

(Golf business)

In the golf business, the number of visitors and revenue per customer slightly increased year on year; however, our net sales fell year on year, mainly caused by the contraction of the service area business, which is calculated in the golf business segment from this fiscal year onwards, in addition to membership promotion falling short of the favorable level of last year. Operating income fell in conjunction with the reduction in net sales; however, the reduction in utilities costs, due to the slump in oil prices, etc., contributed to cost reductions to some extent.

Furthermore, in the third quarter under review, we promoted M&A of golf courses such as acquiring two golf courses and concluding a sponsorship agreement and a stock transfer agreement.

As a result of the above, net sales amounted to 63,386 million yen (down 1.1% year on year), and operating income amounted to 12,155 million yen (down 9.2% year on year).

(2) Explanation of financial position

Assets

Total assets amounted to 447,969 million yen, down 2,745 million yen from the end of the previous consolidated fiscal year. Securities increased by 24,368 million yen, investment securities increased by 2,306 million yen, electronically recorded monetary claims - operating increased by 1,668 million yen, buildings and structures (net) increased by 1,441 million yen, and merchandise and finished goods increased by 1,208 million yen; however, cash and deposits decreased by 30,563 million yen, and other in current assets decreased by 2,848 million yen.

Liabilities

Liabilities amounted to 234,136 million yen, down 17,705 million yen from the end of the previous consolidated fiscal year. Electronically recorded obligations - operating increased by 7,918 million yen, and short-term loans payable increased by 3,000 million yen; however, long-term loans payable (including the current portion of long-term loans payable) decreased by 13,650 million yen, current portion of bonds decreased by 8,000 million yen, other in current liabilities decreased by 5,082 million yen, and provision decreased by 1,710 million yen.

Net Assets

Net assets increased by 14,959 million yen from the end of the previous consolidated fiscal year to 213,832 million yen, due to factors such as retained earnings decreasing by 7,877 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 23,417 million yen, as well as valuation differences on available-for-sale securities decreasing by 736 million yen.

As a result, the shareholders' equity ratio was 47.7%, 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 third 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 third 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.

### 3. Consolidated financial statements

#### (1) Consolidated balance sheet

(Million yen)

	As of March 31, 2016	As of December 31, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	95,101	64,537
Notes and accounts receivable - trade	16,076	14,861
Electronically recorded monetary claims - operating	1,628	3,296
Securities	11,401	35,769
Merchandise and finished goods	5,066	6,274
Raw materials and supplies	5,597	5,913
Other	16,672	13,824
Allowance for doubtful accounts	(529)	(557)
Total current assets	151,013	143,921
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	58,785	60,226
Land	195,715	194,774
Other, net	17,430	18,517
Total property, plant and equipment	271,931	273,518
Intangible assets	6,363	6,516
Investments and other assets		
Investment securities	10,526	12,832
Other	11,427	11,720
Allowance for doubtful accounts	(546)	(539)
Total investments and other assets	21,407	24,013
Total non-current assets	299,701	304,048
<b>Total assets</b>	<b>450,715</b>	<b>447,969</b>
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	20,183	19,766
Electronically recorded obligations - operating	-	7,918
Short-term loans payable	-	3,000
Current portion of long-term loans payable	48,488	21,073
Current portion of bonds	8,000	-
Income taxes payable	3,975	5,544
Provision	3,684	1,974
Other	18,870	13,788
Total current liabilities	103,202	73,064
Non-current liabilities		
Long-term loans payable	85,447	99,211
Net defined benefit liability	4,264	4,300
Other	58,927	57,560
Total non-current liabilities	148,639	161,072
<b>Total liabilities</b>	<b>251,842</b>	<b>234,136</b>

(Million yen)

	As of March 31, 2016	As of December 31, 2016
Net assets		
Shareholders' equity		
Capital stock	16,755	16,755
Capital surplus	54,842	54,847
Retained earnings	128,087	143,627
Treasury shares	(1,512)	(1,488)
Total shareholders' equity	198,172	213,740
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,250	514
Remeasurements of defined benefit plans	(582)	(449)
Total accumulated other comprehensive income	668	64
Subscription rights to shares	31	27
Non-controlling interests	0	0
Total net assets	198,873	213,832
Total liabilities and net assets	450,715	447,969



## (2) Consolidated statements of income and comprehensive income

(Million yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	173,390	149,502
Cost of sales	107,583	87,116
Gross profit	65,806	62,385
Selling, general and administrative expenses	26,728	26,551
Operating income	39,078	35,834
Non-operating income		
Interest income	202	106
Dividend income	48	31
Gain on sales of securities	-	44
Gain on redemption of securities	347	625
Income from sales of electric power	121	121
Other	346	410
Total non-operating income	1,067	1,339
Non-operating expenses		
Interest expenses	905	703
Commission fee	322	173
Provision for loss on disaster	-	297
Other	637	629
Total non-operating expenses	1,865	1,803
Ordinary income	38,280	35,370
Extraordinary income		
Gain on sales of non-current assets	3	-
Gain on reversal of subscription rights to shares	0	-
Total extraordinary income	3	-
Extraordinary losses		
Loss on sales of non-current assets	-	8
Loss on retirement of non-current assets	-	8
Impairment loss	-	518
Loss on sales of shares of subsidiaries and associates	282	-
Total extraordinary losses	282	535
Profit before income taxes	38,001	34,834
Income taxes	9,096	11,416
Profit	28,904	23,418
Profit attributable to		
Profit attributable to owners of parent	28,321	23,417
Profit attributable to non-controlling interests	583	0
Other comprehensive income		
Valuation difference on available-for-sale securities	(159)	(736)
Remeasurements of defined benefit plans, net of tax	75	132
Total other comprehensive income	(83)	(604)
Comprehensive income	28,820	22,813
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	28,237	22,813
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 third quarter (April 1, 2015 to December 31, 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	109,270	64,120	173,390	-	173,390
Internal net sales and transfers between segments	-	2	2	(2)	-
Total	109,270	64,122	173,392	(2)	173,390
Segment profit	28,407	13,389	41,796	(2,718)	39,078

(Notes)

1. The figure of -2,718 million yen for segment profit adjustments includes 14 million yen in elimination of transactions between segments and -2,732 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 third quarter under review (April 1, 2016 to December 31, 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	86,115	63,386	149,502	-	149,502
Internal net sales and transfers between segments	-	12	12	(12)	-
Total	86,115	63,398	149,514	(12)	149,502
Segment profit	26,569	12,155	38,725	(2,891)	35,834

(Notes)

1. The figure of -2,891 million yen for segment profit adjustments includes 6 million yen in elimination of transactions between segments and -2,897 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, 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 third 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 third quarter under review.