

SANKYO CO., LTD.

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

Shares listed: Tokyo (1st Section)

Code number: 6417

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Planned Date for Submittal of the Financial Statements Report: August 10, 2016

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 quarter of FY2017 (From April 1, 2016, to June 30, 2016)

(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 quarter of FY2017	9,371 (73.9%)	(2,662) -	(2,494) -	(1,910) -
1st quarter of FY2016	35,947 73.8%	5,770 -	6,202 -	4,282 -
(note) Comprehensive income	1st quarter of FY2017	(¥3,122) million [-%]	1st quarter of FY2016	¥4,819 million [-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st quarter of FY2017	(23.58)	-
1st quarter of FY2016	50.10	50.05

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of June 30, 2016	385,840	339,731	87.9	
As of March 31, 2016	414,183	348,941	84.1	
(reference) Shareholders' Equity	As of June 30, 2016	¥339,206 million	As of March 31, 2016	¥348,414 million

2. Dividends

	Cash dividend per share				
(Base date)	1st quarter	2nd quarter	3rd quarter	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	-	75.00	-	75.00	150.00
Year ended March 31, 2017	-	-	-	-	-
Year ended March 31, 2017 (Forecast)	-	75.00	-	75.00	150.00

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

3. Forecast for FY2017 (From April 1, 2016, to March 31, 2017)

(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, 2017	135,000 (1.6%)	16,000 (15.0%)	16,800 (15.9%)	11,100 5.9%	137.00

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

SANKYO Group manages its business plan on a full-year basis and thus only discloses full-year figures.

*** Notes**

(1) Changes for important subsidiaries during the 1st quarter of FY2016: Not applicable

(2) Application of peculiar accounting methods: Not applicable

(3) Changes in accounting procedures

- | | |
|---|----------------|
| a. Related to accounting standard revisions etc.: | 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 June 30, 2016: | 89,597,500 shares | As of March 31, 2016: | 89,597,500 shares |
| b. No. of treasury stock As of June 30, 2016: | 8,573,801 shares | As of March 31, 2016: | 8,574,381 shares |
| c. Average number of shares issued and outstanding 1st quarter of FY2017: | 81,023,173 shares | 1st quarter of FY2016: | 85,474,128 shares |

*** Note on the status of quarterly review procedures**

This quarterly report is not subject to quarterly review procedures in accordance with the Financial Instruments and Exchange Act, and the quarterly review procedures for the quarterly financial statements were not completed at the time of disclosure of this quarterly report.

*** 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 quarter of the fiscal year ending March 31, 2017 (from April 1, 2016 to June 30, 2016), a moderate recovery trend of the Japanese economy continued owing to improvement in the employment environment and personal incomes. However, the outlook of the Japanese economy remained unclear because of yen appreciation and the weak performance of the stock market since the beginning of 2016 as well as concerns about a downside risk to overseas economies.

In the pachinko and pachislot industry, Zennichiyuren, an association of pachinko parlor operators, decided to voluntarily refrain from replacing pachinko and pachislot machines throughout May coinciding with the holding of the "G7 Ise-Shima Summit." On June 27, the Pachislot and Pachinko Industry 21st Century Club comprising 14 industry organizations issued a "statement on promoting soundness in the pachinko and pachislot industry." The statement clarifies the industry's policy of collecting and removing "all the pachinko machines whose performance may differ from the models that were submitted for format inspection" by the end of the year and its commitment to improving the environment so that players can enjoy pachinko and pachislot affordably and at ease. Thus, it is incumbent on pachinko and pachislot machine manufacturers to develop diverse easy-to-play machines.

In view of the substantial moratorium on sales of pachinko and pachislot machines in May, the Group focused on original titles that do not use licensed content and decreased the number of titles released to three pachinko titles and one pachislot title. Meanwhile, amid uncertainty about the outlook because of extensive collection and removal of pachinko machines in line with the above-mentioned "statement," pachinko parlor operators lacked appetite for investment and remained restrained concerning purchasing of new pachinko and pachislot machines.

As a result, on a consolidated basis, net sales were ¥9.3 billion, a decrease of 73.9% compared with the same period of the previous year, operating loss was ¥2.6 billion, compared with operating income of ¥5.7 billion for the same period of the previous year, recurring loss was ¥2.4 billion, compared with recurring income of ¥6.2 billion for the same period of the previous year, and loss attributable to owners of parent amounted to ¥1.9 billion, compared with profit attributable to owners of parent amounting to ¥4.2 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 ¥5.6 billion, a decrease of 72.9% compared with the same period of the previous year, and operating loss amounted to ¥1.5 billion, compared with operating income of ¥3.6 billion in the same period of the previous fiscal year. Sales of pachinko machines amounted to 15,000 units. Major titles released included *Fever Yumefukujin* (introduced in May 2016) under the SANKYO brand, and *Patrush J* (introduced in April 2016) under the JB brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥2.1 billion, a decrease of 81.6% compared with the same period of the previous year, and operating income was ¥19 million, a decrease of 99.4%. Sales of pachislot machines amounted to 4,000 units. Major titles released included *Pachislot Total Eclipse* (introduced in April 2016) under the SANKYO brand,

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥1.5 billion, a decrease of 56.5% compared with the same period of the previous year, and operating income was ¥29 million, a decrease of 64.3%.

Other Businesses

Sales of other businesses were ¥0.1 billion, a decrease of 36.2% compared with the same period of the previous year, and operating loss was ¥0.1 billion compared with an operating loss of ¥0.1 billion a year earlier.

(2) Financial Position

Total assets at the end of the first quarter of the fiscal year ending March 31, 2017 amounted to ¥385.8 billion, having decreased ¥28.3 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥17.0 billion decrease in notes and accounts receivable-trade, a ¥10.8 billion decrease in cash and deposits, and a ¥10.2 billion decrease in investment securities despite a ¥9.0 billion increase in marketable securities.

Total liabilities amounted to ¥46.1 billion, having decreased ¥19.1 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥13.2 billion decrease in notes and accounts payable-trade and a ¥4.7 billion decrease in accounts payable (included in "Other" of Current liabilities).

Net assets decreased ¥9.2 billion compared with the figure at the previous fiscal year-end. This decrease was attributable to cash dividends paid amounting to ¥6.0 billion, loss attributable to owners of parent amounting to ¥1.9 billion, and a ¥1.2 billion decrease in net unrealized gain on other securities. As a result, net assets amounted to ¥339.7 billion and the shareholders' equity ratio increased 3.8 percentage points to 87.9%.

(3)Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecasts of financial results for fiscal 2017 announced on May 11, 2016.

2. Notes on Summary Information (Other)

(1)Changes in significant subsidiaries during the period

Not applicable.

(2)Application of special accounting methods for presenting quarterly consolidated financial statements

Not applicable.

(3)Changes in accounting policies, changes in accounting estimates, and retrospective restatements

(Changes in accounting policies)

Effective from the first quarter of the fiscal year ending March 31, 2017, the Company has adopted the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (PITF No. 32 of June 17, 2016) in accordance with the revision of the Corporation Tax Act. Accordingly, the Company has changed the depreciation method applied to facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of this change on financial statements for the first quarter of the fiscal year ending March 31, 2017 is immaterial.

(4)Additional information

(Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the fiscal year ending March 31, 2017, the Company has adopted the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 of March 28, 2016).

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

	As of March 31, 2016	As of June 30, 2016
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	96,906	86,053
Notes and accounts receivable-trade	33,841	16,796
Marketable securities	173,001	182,005
Merchandise and finished goods	47	311
Work in process	92	21
Raw materials and supplies	1,339	1,584
Other	11,081	11,077
Allowance for doubtful accounts	(2)	(1)
Total current assets	316,307	297,849
Fixed assets:		
Tangible fixed assets	44,488	44,395
Intangible fixed assets:		
Goodwill	1,004	819
Other	342	321
Total intangible fixed assets	1,347	1,141
Investments and other assets:		
Investment securities	46,131	35,915
Other	6,314	6,944
Allowance for doubtful accounts	(26)	(25)
Allowance for investment loss	(379)	(379)
Total investments and other assets	52,040	42,453
Total fixed assets	97,876	87,991
Total assets	414,183	385,840

Consolidated Balance Sheets

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

	As of March 31, 2016 Millions of yen	As of June 30, 2016 Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	23,689	10,473
Accrued income taxes	3,113	222
Allowance for bonuses	839	1,351
Other	9,416	5,817
Total current liabilities	37,058	17,864
Long-term liabilities:		
Bonds with subscription rights to shares	20,086	20,081
Net defined benefit liabilities	4,445	4,521
Asset retirement obligations	63	63
Other	3,587	3,578
Total long-term liabilities	28,183	28,244
Total liabilities	65,241	46,109
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	345,918	337,918
Less: treasury stock, at cost	(39,700)	(39,697)
Total shareholders' equity	344,807	336,811
Accumulated other comprehensive income:		
Net unrealized gain on other securities	3,839	2,609
Remeasurements of defined benefit plans	(232)	(214)
Total accumulated other comprehensive income	3,607	2,395
Subscription rights to shares	526	524
Total net assets	348,941	339,731
Total liabilities and total net assets	414,183	385,840

(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 quarter of FY2016	1st quarter of FY2017
	Millions of yen	Millions of yen
Net sales	35,947	9,371
Cost of sales	20,422	4,568
Gross profit	15,524	4,803
Selling, general and administrative expenses	9,754	7,466
Operating income (loss)	5,770	(2,662)
Non-operating income:		
Interest income	180	102
Dividend income	295	332
Other	94	62
Total non-operating income	570	496
Non-operating expenses:		
Equity in losses of affiliates	110	326
Other	27	1
Total non-operating expenses	138	328
Recurring income	6,202	(2,494)
Extraordinary losses:		
Loss on disposal of fixed assets	7	8
Loss on sales of golf club membership	-	7
Total extraordinary losses	7	15
Income (loss) before income taxes and minority interests	6,195	(2,510)
Income taxes:		
Current income taxes	1,610	162
Deferred income taxes	302	(763)
Total income taxes	1,913	(600)
Profit (loss)	4,282	(1,910)
Profit (loss) attributable to owners of parent	4,282	(1,910)

Consolidated Statements of Comprehensive Income

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

	1st quarter of FY2016	1st quarter of FY2017
	Millions of yen	Millions of yen
Profit (loss)	4,282	(1,910)
Other comprehensive income:		
Net unrealized gain (loss) on other securities	521	(1,222)
Remeasurements of defined benefit plans	14	16
Share of other comprehensive income of associates accounted for using equity method	1	(5)
Total other comprehensive income	537	(1,211)
Comprehensive income	4,819	(3,122)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	4,819	(3,122)
Comprehensive income attributable to minority 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 quarter of FY2017 (From April 1, 2016, to June 30, 2016)

Not applicable

Segment Information

(Segment information by business category)

1st quarter of FY2016 (From April 1, 2015, to June 30, 2015)

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

	1st quarter of FY2016 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	20,762	11,504	3,486	35,753	194	35,947	-	35,947
Intersegment	-	-	-	-	-	-	-	-
Total	20,762	11,504	3,486	35,753	194	35,947	-	35,947
Segment income	3,650	3,251	84	6,986	(177)	6,808	(1,038)	5,770

1st quarter of FY2017 (From April 1, 2016, to June 30, 2016)

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

	1st quarter 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	5,619	2,111	1,517	9,247	124	9,371	-	9,371
Intersegment	-	-	-	-	-	-	-	-
Total	5,619	2,111	1,517	9,247	124	9,371	-	9,371
Segment income	(1,505)	19	29	(1,455)	(193)	(1,649)	(1,013)	(2,662)