

SANKYO CO., LTD.

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

Shares listed: Tokyo (1st Section)

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Planned Date for Submittal of the Financial Statements Report: November 11, 2016

Planned Date for Start of Dividend Payment: December 2, 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 six months of FY2017 (From April 1, 2016, to September 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 six months of FY2017	31,821 (57.4%)	(1,684) -	(1,757) -	(1,603) -
1st six months of FY2016	74,648 102.6%	11,377 -	12,243 -	8,504 -
(note) Comprehensive income	1st six months of FY2017	¥(2,621) million [-%]	1st six months of FY2016	¥8,285 million [-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2017	(19.78)	-
1st six months of FY2016	100.79	98.93

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of September 30, 2016	391,299	340,509	86.8	
As of March 31, 2016	414,183	348,941	84.1	
(reference) Shareholders' Equity	As of September 30, 2016	¥339,706 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	-	75.00	-	-	150.00
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	90,000 (34.4%)	3,000 (84.1%)	4,000 (80.0%)	2,500 (76.2%)	30.86

Note: Changes in the forecasts of consolidated Financial results in this quarter : Yes

*** Notes**

(1) Changes for important subsidiaries during the 1st six months 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 Sep. 30, 2016: 89,597,500 shares As of March 31, 2016: 89,597,500 shares

b. No. of treasury stock As of Sep. 30, 2016: 8,573,971 shares As of March 31, 2016: 8,574,381 shares

c. Average number of shares issued and outstanding 1st 6M of FY2017: 81,023,402 shares 1st 6M of FY2016: 84,376,193 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 six months of the fiscal year ending March 31, 2017 (from April 1, 2016 to September 30, 2016), corporate earnings as well as the employment environment and personal incomes were on a moderate recovery track owing to economic and financial policies of the Japanese government. However, the outlook of the Japanese economy remained unclear because of concerns about a downside risk to overseas economies and the appreciation of the yen since the beginning of 2016.

In the pachinko and pachislot industry, the urgent issues are the need to collect and remove “all the pachinko machines whose performance may differ from the models that were submitted for format inspection” by the end of December 2016 and to develop and popularize new models compliant with new standards in response to voluntary regulations introduced since spring 2016. Accordingly, pachinko machine manufacturers are striving to expedite collection and removal of the machines within the scope and supply alternative ones. With regard to pachislot, initiatives are underway to reduce the ratio of “pachislot machines that are not compliant with new standards” on an installation basis step by step, in accordance with the decision by a pachinko parlor operators association. However, while committed players of both pachinko and pachislot are in favor of major titles on machines compliant with the former standards, the rollout of their sequels on machines compliant with new standards is not yet in full swing. Consequently, the market remained sluggish.

In these circumstances, the Group made a concerted effort to expand sales of the mainstay pachinko and pachislot machines businesses, introducing five pachinko titles (excluding reuse models) and two pachislot titles. Nevertheless, in the market environment described above, sales of both pachinko and pachislot machines fell short of the sales targets. Profit also suffered because of lackluster sales.

As a result, on a consolidated basis, net sales were ¥31.8 billion, a decrease of 57.4% compared with the same period of the previous year, operating loss was ¥1.6 billion, compared with an operating income of ¥11.3 billion for the same period of the previous year, recurring loss was ¥1.7 billion, compared with a recurring income of ¥12.2 billion for the same period of the previous year, and loss attributable to owners of parent amounting to ¥1.6 billion, compared with a profit attributable to owners of parent amounting to ¥8.5 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 ¥23.8 billion, a decrease of 55.3% compared with the same period of the previous year, and operating income amounted to ¥2.0 billion, a decrease of 81.5%. Sales of pachinko machines amounted to 77,000 units. Major titles released included *Fever a-nation* (introduced in July 2016) under the SANKYO brand, *Tekken 2 Toughin ver.* (introduced in August 2016), under the Bisty brand, and *Patrush J* (introduced in April 2016) under the JB brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥5.0 billion, a decrease of 66.3% compared with the same period of the previous year, and operating loss was ¥0.6 billion, compared with operating income of ¥3.3 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 11,000 units. Major titles released included *Pachislot Total Eclipse* (introduced in April 2016) and *Pachislot Symphogear* (introduced in August 2016) under the SANKYO brand,

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥2.7 billion, a decrease of 54.8% compared with the same period of the previous year, and operating income was ¥32 million, a decrease of 77.4%.

Other Businesses

Sales of other businesses were ¥0.2 billion, a decrease of 32.2% compared with the same period of the previous year, and operating loss was ¥0.3 billion compared with an operating loss of ¥0.3 billion a year earlier.

(2) Financial Position

Total assets at the end of the first six months of the fiscal year ending March 31, 2017 amounted to ¥391.2 billion, having decreased ¥22.8 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥18.3 billion decrease in investment securities, a ¥15.3 billion decrease in notes and accounts receivable-trade, and a ¥4.4 billion decrease in cash and deposits despite a ¥12.0 billion increase in marketable securities.

Total liabilities amounted to ¥50.7 billion, having decreased ¥14.4 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥10.8 billion decrease in notes and accounts payable-trade and a ¥2.6 billion decrease in accrued income taxes.

Net assets decreased ¥8.4 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, loss attributable to owners of parent amounting to ¥1.6 billion, and a ¥1.0 billion decrease in net unrealized gain on other securities. As a result, net assets amounted to ¥340.5 billion and the shareholders' equity ratio increased 2.7 percentage points to 86.8%.

(3) Forecast of Consolidated Results and Other Forecast Information

In view of the recent trend, the Company revised the forecast of consolidated financial results for the full year of fiscal 2017 that was announced on May 11, 2016. Forecast of the sales volumes of pachinko machines and pachislot machines for the full year of fiscal 2017 were revised from 297,000 units to 195,000 units and from 80,000 units to 39,000 units, respectively. For details, please refer to the Notice concerning Revision of the Forecast of the Financial Results for Fiscal 2017 announced today. The Company does not intend to revise the amount of the year-end dividend from its initial forecast of ¥75 per share (¥150 for the full year)

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 second 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 Sep. 30, 2016
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	96,906	92,435
Notes and accounts receivable-trade	33,841	18,518
Marketable securities	173,001	185,009
Merchandise and finished goods	47	25
Work in process	92	424
Raw materials and inventories	1,339	3,421
Other	11,081	11,335
Allowance for doubtful accounts	(2)	(1)
Total current assets	316,307	311,169
Fixed assets:		
Tangible fixed assets	44,488	44,635
Intangible fixed assets		
Goodwill	1,004	635
Other	342	337
Total Intangible fixed assets	1,347	972
Investments and other assets:		
Investment securities	46,131	27,799
Other	6,314	7,126
Allowance for doubtful accounts	(26)	(25)
Allowance for investment loss	(379)	(379)
Total investments and other assets	52,040	34,521
Total fixed assets	97,876	80,129
Total assets	414,183	391,299

Consolidated Balance Sheets

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

	As of March 31, 2016 Millions of yen	As of Sep. 30, 2016 Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	23,689	12,856
Accrued income taxes	3,113	472
Allowance for bonuses	839	1,018
Other	9,416	8,137
Total current liabilities	37,058	22,485
Long-term liabilities:		
Bonds with subscription rights to shares	20,086	20,076
Net defined benefit liabilities	4,445	4,577
Asset retirement obligations	63	63
Other	3,587	3,586
Total long-term liabilities	28,183	28,304
Total liabilities	65,241	50,789
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	345,918	338,225
Less: treasury stock, at cost	(39,700)	(39,698)
Total shareholders' equity	344,807	337,117
Accumulated other comprehensive income:		
Net unrealized gain on other securities	3,839	2,785
Remeasurements of defined benefit plans	(232)	(196)
Total accumulated other comprehensive income:	3,607	2,588
Subscription rights to shares	526	802
Total net assets	348,941	340,509
Total liabilities and total net assets	414,183	391,299

(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 FY2016	1st Six Months of FY2017
	Millions of yen	Millions of yen
Net sales	74,648	31,821
Cost of sales	40,849	14,621
Gross profit	33,798	17,200
Selling, general and administrative expenses	22,420	18,885
Operating income (loss)	11,377	(1,684)
Non-operating income:		
Interest income	353	185
Dividend income	295	332
Equity in earnings of affiliates	186	-
Other	150	99
Total non-operating income	985	617
Non-operating expenses:		
Equity in losses of affiliates	-	686
Loss on management of investment partnership	47	-
Bond issuance cost	70	-
Other	2	3
Total non-operating expenses	120	690
Recurring income (loss)	12,243	(1,757)
Extraordinary gains:		
Gain on sales of fixed assets	-	8
Total extraordinary gains	-	8
Extraordinary losses:		
Loss on sales of fixed assets	-	10
Loss on disposal of fixed assets	8	9
Loss on sales of golf course membership	-	7
Total extraordinary losses	8	26
Income (loss) before income taxes and minority interests	12,234	(1,775)
Income taxes:		
Current income taxes	2,928	322
Deferred income taxes	801	(494)
Total income taxes	3,729	(172)
Profit (loss)	8,504	(1,603)
Profit (loss) attributable to owners of parent	8,504	(1,603)

Consolidated Statements of Comprehensive Income

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

	1st Six Months of FY2016	1st Six Months of FY2017
	Millions of yen	Millions of yen
Profit (loss)	8,504	(1,603)
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(197)	(1,035)
Remeasurements of defined benefit plans	29	33
Share of other comprehensive income of associates accounted for using equity method	(50)	(15)
Total other comprehensive income	(218)	(1,018)
Comprehensive income	8,285	(2,621)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	8,285	(2,621)
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 FY2016	1st Six Months of FY2017
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income (loss) before income taxes and minority interests	12,234	(1,775)
Depreciation and amortization	2,069	1,644
Amortization of goodwill	368	368
Share-based compensation expenses	287	272
Increase (decrease) in allowance for doubtful accounts	179	176
Increase (decrease) in net defined benefit liabilities	129	179
Interest and dividend income	(648)	(517)
(Gain) loss on equity in earnings of affiliates	(186)	686
(Increase) decrease in notes and accounts receivable-trade	(160)	15,323
(Increase) decrease in inventories	(93)	(2,375)
Increase (decrease) in notes and accounts payable-trade	(13,369)	(10,832)
Other	2,670	(622)
Subtotal	3,480	2,528
Interest and dividend income received	642	490
Income taxes paid	(3,629)	(2,877)
Net cash (used in) provided by operating activities	493	142
Cash flows from investing activities:		
Payment for purchase of marketable securities	(5,000)	-
Proceeds from redemption of marketable securities	5,000	5,000
Payment for purchase of tangible fixed assets and intangible fixed assets	(2,063)	(2,005)
Proceeds from sale of tangible fixed assets and intangible fixed assets	102	22
Payment for purchase of investment securities	(16,026)	(30)
Proceeds from redemption of investment securities	20,000	20,000
Payment for increase in loans-receivable	-	(544)
Proceeds from collection of long-term loans	10	-
Other	(4)	37
Net cash (used in) provided by investing activities	2,018	22,479
Cash flows from financing activities:		
Repayment for obligations under finance leases	(4)	(2)
Payment for purchase of treasury stock, net	(18,685)	(0)
Proceeds from issuance of bonds with subscription rights to shares	20,100	-
Cash dividends paid	(6,421)	(6,088)
Other	0	0
Net cash (used in) provided financing activities	(5,011)	(6,091)
Net increase (decrease) in cash and cash equivalents	(2,499)	16,530
Cash and cash equivalents at beginning of the period	218,672	234,905
Cash and cash equivalents at end of the period	216,173	251,435

(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 FY2017 (From April 1, 2016, to September 30, 2016)

Not applicable

Segment Information

(Segment information by business category)

1st Six Months of FY2016 (From April 1, 2015, to September 30, 2015)

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

	1st Six Months 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	53,377	14,932	5,987	74,298	349	74,648	-	74,648
Intersegment	-	-	-	-	-	-	-	-
Total	53,377	14,932	5,987	74,298	349	74,648	-	74,648
Segment income	10,865	3,315	143	14,324	(322)	14,001	(2,624)	11,377

1st Six Months of FY2017 (From April 1, 2016, to September 30, 2016)

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

	1st Six 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	23,839	5,037	2,707	31,584	237	31,821	-	31,821
Intersegment	-	-	-	-	-	-	-	-
Total	23,839	5,037	2,707	31,584	237	31,821	-	31,821
Segment income	2,005	(653)	32	1,384	(352)	1,032	(2,716)	(1,684)