

SANKYO CO., LTD.

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

Shares listed: Tokyo (1st Section)

Code number: 6417

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Representative: Kimihisa Tsutsui, President & COO

Contact: Yoko Oshima, Executive Operating Officer

Planned Date for Submittal of the Financial Statements Report: November 12, 2015

Planned Date for Start of Dividend Payment: December 4, 2015

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 FY2016 (From April 1, 2015, to September 30, 2015)

(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 FY2016	74,648 102.6%	11,377 -	12,243 -	8,504 -
1st six months of FY2015	36,844 (64.8%)	(4,853) -	(4,380) -	(4,162) -
(note) Comprehensive income	1st six months of FY2016	¥8,285 million [-%]	1st six months of FY2015	¥(4,681) million [-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2016	100.79	98.93
1st six months of FY2015	(44.53)	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of September 30, 2015	427,397	355,142	83.0	
As of March 31, 2015	434,648	371,670	85.5	
(reference) Shareholders' Equity	As of September 30, 2015	¥354,605 million	As of March 31, 2015	¥371,416 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, 2015	-	75.00	-	75.00	150.00
Year ended March 31, 2016	-	75.00	-	-	150.00
Year ended March 31, 2016 (Forecast)	-	75.00	-	75.00	150.00

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

3. Forecast for FY2016 (From April 1, 2015, to March 31, 2016)

(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, 2016	150,000 2.3%	14,000 5.8%	15,000 0.9%	10,000 14.6%	120.92

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 FY2015: 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, 2015:	89,597,500 shares	As of March 31, 2015:	89,597,500 shares
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b. No. of treasury stock As of Sep. 30, 2015:	8,273,841 shares	As of March 31, 2015:	4,126,611 shares
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c. Average number of shares issued and outstanding 1st 6M of FY2016:	84,376,193 shares	1st 6M of FY2015:	93,471,915 shares
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*** 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. In addition, net income per share in the forecasts of consolidated financial results was calculated based on the average number of shares issued and outstanding in the period, which takes into account the Company's repurchase of 302,900 of its own shares, as announced on October 9, 2015 in "Notice regarding Status and Completion of Repurchase of Own Shares."

1. Qualitative Information and Financial Statements

(1) Operating Results

During the first six months of the fiscal year ending March 31, 2016 (from April 1, 2015 to September 30, 2015), the Japanese economy remained on a moderate recovery path as indicated by signs of improvement in the employment environment and personal incomes. On the other hand, there are concerns about the risk posed to the Japanese economy by the downturn in emerging economies in Asia, notably the Chinese economy.

In the pachinko and pachislot industry, 14 industry organizations, including those consisting of machine manufacturers and those consisting of parlors, have begun efforts to create an environment conducive to players' enjoyment and relaxation, with the aim of halting the protracted decline in the player population. Initiatives undertaken by the manufacturers have a common theme: development of diverse easy-to-play machines that adhere to voluntary regulations on machine specifications designed to discourage players from becoming overly immersed in playing.

Under these circumstances, the SANKYO Group released new models as scheduled, including *Evangelion X*, the 10th title in the blockbuster series, and also continued to offer reuse products. Furthermore, the popularity of *Fever Queen* and *Fever Powerful*—simple and easy-to-play models introduced in the previous fiscal year—remained at a steady level, and received repeat orders.

However, affected by fierce competition to secure sales of models compliant with the former standards before the transition to new standards in accordance with the voluntary regulations, sales were sluggish, particularly for new models. On the other hand, the Group is progressing rapidly toward achievement of the profit target for the current fiscal year because, in addition to the curtailment of advertising and sales promotion expenses, a part of R&D expenditure has been carried over to the second half, reflecting effects of the voluntary regulations. Nevertheless, as the impact will be negligible for the full year, the forecast of consolidated financial results for the full year remains unchanged.

As a result, on a consolidated basis, net sales were ¥74.6 billion, an increase of 102.6% compared with the same period of the previous year, operating income was ¥11.3 billion, compared with an operating loss of ¥4.8 billion for the same period of the previous year, recurring income was ¥12.2 billion, compared with a recurring loss of ¥4.3 billion for the same period of the previous year, and profit attributable to owners of parent amounted to ¥8.5 billion, compared with a loss attributable to owners of parent amounting to ¥4.1 billion for the same period of the previous fiscal year. Whereas a loss was recorded in the same period last year when the sales plan was weighted toward the second half of the year, the SANKYO Group was in the black in the period under review.

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥53.3 billion, a increase of 164.0% compared with the same period of the previous year, and operating income amounted to ¥10.8 billion, compared with operating loss of ¥3.5 billion in the same period of the previous fiscal year. Sales of pachinko machines amounted to 153,000 units. Major titles released included *Fever Space Battleship Yamato* (introduced in May 2015) and *Fever Macross Frontier 2* (introduced in August 2015) under the SANKYO brand, *EVANGELION X* (introduced in September 2015), under the Bisty brand, and *PASSION MONSTER* (introduced in June 2015) under the JB brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥14.9 billion, a increase of 35.6% compared with the same period of the previous year, and operating income was ¥3.3 billion, a increase of 116.9%. Sales of pachislot machines amounted to 44,000 units. Major titles released included *Pachislot Mutsuenmeiryugaiden SHURA no TOKI* (introduced in April 2015) and *Pachislot Macross Frontier 2 Bonus Live Ver.* (introduced in September 2015) under the SANKYO brand, and *EVANGELION-Spear of Hope* (introduced in June 2015) under the Bisty brand.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥5.9 billion, a increase of 15.4% compared with the same period of the previous year, and operating income was ¥0.1 billion, a increase of 24.8%.

Other Businesses

Sales of other businesses were ¥0.3 billion, a decrease of 17.8% 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, 2016 amounted to ¥427.3 billion, having decreased ¥7.2 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥27.4 billion decrease in cash and deposits and a ¥4.3 billion decrease in investment securities despite a ¥25.0 billion increase in marketable securities.

Total liabilities amounted to ¥72.2 billion, having increased ¥9.2 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥20.0 billion increase in bonds with subscription rights to shares and a ¥3.4 billion increase in accounts payable-other (included in “other” of current liabilities), which offset the ¥13.3 billion decrease in notes and accounts payable-trade.

Net assets decreased ¥16.5 billion compared with the figure at the previous fiscal year-end. This decrease was attributable to purchase of treasury stock amounting to ¥18.6 billion and cash dividends paid amounting to ¥6.4 billion, whereas profit attributable to owners of parent amounting to ¥8.5 billion was recorded. As a result, net assets amounted to ¥355.1 billion and the shareholders' equity ratio decreased 2.5 percentage points to 83.0%.

(3) Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecasts of financial results for fiscal 2016 announced on May 12, 2015.

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

Not applicable.

(4) Additional information

(Accounting standards for business combinations)

The Company adopted the provisions in Paragraph 39 of the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on September 13, 2013), and changed the presentation of net income, etc. as well as the presentation of minority interests to non-controlling interests. To reflect these changes in the presentations, the quarterly consolidated financial statements for the second quarter of the previous fiscal year and the consolidated financial statements for the previous fiscal year have been reclassified.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

	As of March 31, 2015	As of Sep. 30, 2015
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	133,675	106,175
Notes and accounts receivable-trade	45,070	45,231
Marketable securities	129,999	154,999
Merchandise and finished goods	62	419
Work in process	741	896
Raw materials and inventories	2,742	2,324
Other	12,755	12,718
Allowance for doubtful accounts	(3)	(2)
Total current assets	325,043	322,763
Fixed assets:		
Tangible fixed assets	47,424	47,428
Intangible fixed assets		
Goodwill	1,741	1,372
Other	436	396
Total Intangible fixed assets	2,178	1,769
Investments and other assets:		
Investment securities	54,106	49,782
Other	6,303	6,060
Allowance for doubtful accounts	(26)	(26)
Allowance for investment loss	(379)	(379)
Total investments and other assets	60,003	55,436
Total fixed assets	109,605	104,633
Total assets	434,648	427,397

Consolidated Balance Sheets

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

	As of March 31, 2015 Millions of yen	As of Sep. 30, 2015 Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	41,204	27,835
Accrued income taxes	3,804	2,933
Allowance for bonuses	833	1,013
Other	9,068	12,183
Total current liabilities	54,911	43,965
Long-term liabilities:		
Bonds with subscription rights to shares	-	20,096
Net defined benefit liabilities	4,388	4,474
Asset retirement obligations	63	63
Other	3,615	3,653
Total long-term liabilities	8,067	28,288
Total liabilities	62,978	72,254
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	347,975	350,052
Less: treasury stock, at cost	(19,724)	(38,393)
Total shareholders' equity	366,840	350,248
Accumulated other comprehensive income:		
Net unrealized gain on other securities	4,794	4,578
Remeasurements of defined benefit plans	(218)	(221)
Total accumulated other comprehensive income:	4,575	4,357
Subscription rights to shares	253	537
Total net assets	371,670	355,142
Total liabilities and total net assets	434,648	427,397

(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 FY2015	1st Six Months of FY2016
	Millions of yen	Millions of yen
Net sales	36,844	74,648
Cost of sales	19,674	40,849
Gross profit	17,170	33,798
Selling, general and administrative expenses	22,023	22,420
Operating income (loss)	(4,853)	11,377
Non-operating income:		
Interest income	468	353
Dividend income	265	295
Equity in earnings of affiliates	-	186
Other	95	150
Total non-operating income	828	985
Non-operating expenses:		
Interest expenses	0	-
Equity in losses of affiliates	343	-
Loss on management of investment partnership	8	47
Bond issuance cost	-	70
Other	2	2
Total non-operating expenses	355	120
Recurring income (loss)	(4,380)	12,243
Extraordinary gains:		
Gain on sales of fixed assets	1	-
Total extraordinary gains	1	-
Extraordinary losses:		
Loss on disposal of fixed assets	7	8
Directors' retirement benefits	1,790	-
Total extraordinary losses	1,797	8
Income (loss) before income taxes and minority interests	(6,176)	12,234
Income taxes:		
Current income taxes	174	2,928
Deferred income taxes	(2,084)	801
Total income taxes	(1,910)	3,729
Profit (loss)	(4,266)	8,504
Profit (loss) attributable to non-controlling interests	(103)	-
Profit (loss) attributable to owners of parent	(4,162)	8,504

Consolidated Statements of Comprehensive Income

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

	1st Six Months of FY2015	1st Six Months of FY2016
	Millions of yen	Millions of yen
Profit (loss)	(4,266)	8,504
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(361)	(197)
Remeasurements of defined benefit plans	0	29
Share of other comprehensive income of associates accounted for using equity method	(54)	(50)
Total other comprehensive income	(415)	(218)
Comprehensive income	(4,681)	8,285
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(4,577)	8,285
Comprehensive income attributable to non-controlling interests	(103)	-

(3) Consolidated Statements of Cash Flows

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

	1st Six Months of FY2015	1st Six Months of FY2016
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income (loss) before income taxes and minority interests	(6,176)	12,234
Depreciation and amortization	1,674	2,069
Amortization of goodwill	368	368
Share-based compensation expenses	251	287
Increase (decrease) in allowance for doubtful accounts	(569)	179
Increase (decrease) in net defined benefit liabilities	57	129
Interest and dividend income	(733)	(648)
Interest expense	0	-
(Gain) loss on equity in earnings of affiliates	343	(186)
(Increase) decrease in notes and accounts receivable-trade	10,666	(160)
(Increase) decrease in inventories	(7,380)	(93)
Increase (decrease) in notes and accounts payable-trade	19,470	(13,369)
Other	(15,228)	2,670
Subtotal	2,745	3,480
Interest and dividend income received	609	642
Interest paid	(0)	-
Income taxes paid	(7,143)	(3,629)
Net cash (used in) provided by operating activities	(3,788)	493
Cash flows from investing activities:		
Proceeds from withdrawal of time deposits	500	-
Payment for purchase of marketable securities	(5,000)	(5,000)
Proceeds from redemption of marketable securities	5,000	5,000
Payment for purchase of tangible fixed assets and intangible fixed assets	(2,030)	(2,063)
Proceeds from sale of tangible fixed assets and intangible fixed assets	1	102
Payment for purchase of investment securities	(16,005)	(16,026)
Proceeds from redemption of investment securities	16,000	20,000
Proceeds from collection of long-term loans	1	10
Other	(121)	(4)
Net cash (used in) provided by investing activities	(1,654)	2,018
Cash flows from financing activities:		
Repayment for obligations under finance leases	(3)	(4)
Payment for purchase of treasury stock, net	(1)	(18,685)
Proceeds from issuance of bonds with subscription rights to shares	-	20,100
Cash dividends paid	(7,021)	(6,421)
Other	-	0
Net cash (used in) provided financing activities	(7,027)	(5,011)
Net increase (decrease) in cash and cash equivalents	(12,470)	(2,499)
Cash and cash equivalents at beginning of the period	239,041	218,672
Cash and cash equivalents at end of the period	226,571	216,173

(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 FY2016 (From April 1, 2015, to September 30, 2015)

Following the resolution at its board of directors' meeting on July 7, 2015, the Company bought back its shares in accordance with the provisions of Article 156 of the Companies Act applicable pursuant to Article 165, Paragraph 3, of the said Act. As a result, treasury stock at the end of the second quarter of fiscal 2016 increased JPY18.6 billion.

Segment Information

(Segment information by business category)

1st Six Months of FY2015 (From April 1, 2014, to September 30, 2014)

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

	1st Six Months of FY2015 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	20,218	11,012	5,188	36,419	425	36,844	-	36,844
Intersegment	-	-	-	-	-	-	-	-
Total	20,218	11,012	5,188	36,419	425	36,844	-	36,844
Segment income	(3,550)	1,528	114	(1,907)	(310)	(2,217)	(2,635)	(4,853)

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