

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, 2017

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 FY2018 (From April 1, 2017, to June 30, 2017)

(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 FY2018	11,108 18.5%	(2,340) -	(1,818) -	(1,167) -
1st quarter of FY2017	9,371 (73.9%)	(2,662) -	(2,494) -	(1,910) -
(note) Comprehensive income	1st quarter of FY2018	(¥928) million [-%]	1st quarter of FY2017	(¥3,122) million [-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st quarter of FY2018	(14.39)	-
1st quarter of FY2017	(23.58)	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of June 30, 2017	380,990	334,797	87.7	
As of March 31, 2017	390,585	340,287	86.9	
(reference) Shareholders' Equity	As of June 30, 2017	¥333,994 million	As of March 31, 2017	¥339,484 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, 2017	-	75.00	-	75.00	150.00
Year ended March 31, 2018	-	-	-	-	-
Year ended March 31, 2018 (Forecast)	-	75.00	-	75.00	150.00

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

3. Forecast for FY2018 (From April 1, 2017, to March 31, 2018)

(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, 2018	97,000 19.1%	8,100 60.1%	8,700 127.0%	5,800 226.3%	71.45

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 FY2018: Not applicable

(2) Application of peculiar accounting methods:	Not applicable
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(3) Changes in accounting procedures

a. Related to accounting standard revisions etc.:	Not applicable
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a. Related to accounting standard revisions: ☐	Not applicable
b. Other changes: ☐	Not applicable

c. Changes in accounting estimates:	Not applicable
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d. Retrospective restatements:	Not applicable
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(4) Outstanding shares (common shares)

a. No. of shares outstanding (including treasury stock) As of June 30, 2017: 89,597,500 shares As of March 31, 2017: 89,597,500 shares

b. No. of treasury stock	As of June 30, 2017:	8,420,704 shares	As of March 31, 2017:	8,574,481 shares
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c. Average number of shares issued and outstanding	1st quarter of FY2018:	81,176,811 shares	1st quarter of FY2017:	81,023,173 shares
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* 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 three months of the fiscal year ending March 31, 2018 (from April 1, 2017 to June 30, 2017), in the Japanese economy, against the backdrop of improvement in the labor market and recovery of consumer confidence, both personal consumption and capital investment remained firm and corporate earnings trended upward. Meanwhile, geopolitical risks and trends of policies of the U.S. and European countries are recognized as among the downside risks for the Japanese economy over the medium to long term.

In line with the enactment of the Act Concerning Promotion of Development of Integrated Resort Areas ("Integrated Resort Promotion Act") in December 2016, the pachinko and pachislot industry, together with government-controlled competitive sports for which government-operated gambling is allowed, is considering strengthening initiatives for countermeasures for compulsive gambling. As part of these initiatives, the National Police Agency announced a draft of 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 ("draft of the Amended Pachinko and Pachislot Machines Regulations") and the amended regulations are expected to come into force on February 1, 2018. In step with these developments, the pachinko and pachislot industry is addressing the priority issue of developing an environment in which players can enjoy pachinko and pachislot at a reasonable cost while giving consideration to the problem of compulsive gambling.

In these circumstances, the Group introduced three pachinko titles and one pachislot title. Regarding the mainstay pachinko machines business, sales in the first quarter were at a low level because they centered on additional sales of products first introduced in the previous year, albeit with new specifications. Introductions of major titles are scheduled for the second quarter onward.

As a result, on a consolidated basis, net sales were ¥11.1 billion, a increase of 18.5% compared with the same period of the previous year, operating loss was ¥2.3 billion, compared with operating loss of ¥2.6 billion for the same period of the previous year, recurring loss was ¥1.8 billion, compared with recurring loss of ¥2.4 billion for the same period of the previous year, and loss attributable to owners of parent amounted to ¥1.1 billion, compared with loss attributable to owners of parent amounting to ¥1.9 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 0.3% compared with the same period of the previous year, and operating loss amounted to ¥1.9 billion, compared with operating loss of ¥1.5 billion in the same period of the previous fiscal year. Sales of pachinko machines amounted to 14,000 units. Major titles released included *Fever KODA KUMI V SPECIAL LIVE BIG or SMALL ~LIGHT Ver.~* (introduced in June 2017) under the SANKYO brand, *EVANGELION-Time to Rise Premium Model* (introduced in June 2017) under the Bisty brand, and *Shin-Natsumatsuri* (introduced in June 2017) under the JB brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥3.9 billion, a increase of 85.0% compared with the same period of the previous year, and operating income was ¥0.8 billion, compared with operating income of ¥19 million in the same period of the previous fiscal year. Sales of pachislot machines amounted to 9,000 units. Major titles released included *Pachislot Macross Frontier 3* (introduced in May 2017) under the SANKYO brand,

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥1.4 billion, a decrease of 2.5% compared with the same period of the previous year, and operating income was ¥66 million, a increase of 120.8%.

Other Businesses

Sales of other businesses were ¥0.1 billion, a decrease of 1.3% 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 three months of the fiscal year ending March 31, 2018 amounted to ¥380.9 billion, having decreased ¥9.5 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥5.3 billion decrease in notes and accounts receivable-trade, a ¥4.2 billion decrease in cash and deposits, and a ¥3.0 billion decrease in marketable securities despite a ¥1.2 billion increase in investment securities.

Total liabilities amounted to ¥46.1 billion, having decreased ¥4.1 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥3.1 billion decrease in electronically recorded obligations-operating and a ¥1.8 billion decrease in accounts payable (included in "Other" of Current liabilities).

Net assets decreased ¥5.4 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 and recording of loss attributable to owners of parent amounting to ¥1.1 billion despite an increase of ¥1.4 billion owing to the exclusion of Fields Corporation from the scope of equity method accounting. As a result, net assets amounted to ¥334.7 billion and the shareholders' equity ratio increased 0.8 percentage points to 87.7%.

(3) Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecasts of financial results for fiscal 2018 announced on May 12, 2017. As mentioned above, the Amended Pachinko and Pachislot Machines Regulations are scheduled to come into force on February 1, 2018. However, a transitional measure is expected to be implemented that, for a certain period of time following the date of enforcement of the amended regulations, will allow sales and installation of pachinko and pachislot machines that had been certified or that received format inspection under the current standard. Thus, at this point in time, management believes the impact of the amended regulations on the development and sales schedules for the current fiscal year will be limited.

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, 2017	As of June 30, 2017
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	97,818	93,531
Notes and accounts receivable-trade	18,626	13,290
Marketable securities	188,007	185,002
Merchandise and finished goods	82	728
Work in process	289	637
Raw materials and supplies	1,334	1,295
Other	11,407	12,590
Allowance for doubtful accounts	(13)	(13)
Total current assets	317,552	307,063
Fixed assets:		
Tangible fixed assets	44,880	45,217
Intangible fixed assets:		
Goodwill	267	233
Other	319	293
Total intangible fixed assets	586	526
Investments and other assets:		
Investment securities	21,612	22,875
Other	6,357	5,710
Allowance for doubtful accounts	(24)	(23)
Allowance for investment loss	(379)	(379)
Total investments and other assets	27,565	28,183
Total fixed assets	73,032	73,926
Total assets	390,585	380,990

Consolidated Balance Sheets

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

	As of March 31, 2017	As of June 30, 2017
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	5,607	6,240
Electronically recorded obligations - operating	8,113	5,012
Accrued income taxes	1,623	77
Allowance for bonuses	834	1,333
Other	5,750	5,087
Total current liabilities	21,930	17,751
Long-term liabilities:		
Bonds with subscription rights to shares	20,066	20,061
Net defined benefit liabilities	4,671	4,731
Asset retirement obligations	63	63
Other	3,565	3,585
Total long-term liabilities	28,368	28,442
Total liabilities	50,298	46,193
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	335,518	328,869
Less: treasury stock, at cost	(39,700)	(38,780)
Total shareholders' equity	334,408	328,679
Accumulated other comprehensive income:		
Net unrealized gain on other securities	5,264	5,474
Remeasurements of defined benefit plans	(188)	(159)
Total accumulated other comprehensive income	5,076	5,315
Subscription rights to shares	802	802
Total net assets	340,287	334,797
Total liabilities and total net assets	390,585	380,990

(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 FY2017	1st quarter of FY2018
	Millions of yen	Millions of yen
Net sales	9,371	11,108
Cost of sales	4,568	5,376
Gross profit	4,803	5,732
Selling, general and administrative expenses	7,466	8,072
Operating income (loss)	(2,662)	(2,340)
Non-operating income:		
Interest income	102	51
Dividend income	332	406
Other	62	64
Total non-operating income	496	522
Non-operating expenses:		
Equity in losses of affiliates	326	-
Other	1	1
Total non-operating expenses	328	1
Recurring income (loss)	(2,494)	(1,818)
Extraordinary gains:		
Gain on sales of golf club membership	-	2
Total extraordinary gains	-	2
Extraordinary losses:		
Loss on sales of fixed assets	-	2
Loss on disposal of fixed assets	8	-
Loss on sales of investment securities	-	42
Loss on sales of golf club membership	7	-
Total extraordinary losses	15	45
Income (loss) before income taxes and minority interests	(2,510)	(1,861)
Income taxes:		
Current income taxes	162	23
Deferred income taxes	(763)	(717)
Total income taxes	(600)	(693)
Profit (loss)	(1,910)	(1,167)
Profit (loss) attributable to owners of parent	(1,910)	(1,167)

Consolidated Statements of Comprehensive Income

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

	1st quarter of FY2017	1st quarter of FY2018
	Millions of yen	Millions of yen
Profit (loss)	(1,910)	(1,167)
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(1,222)	290
Remeasurements of defined benefit plans	16	19
Share of other comprehensive income of associates accounted for using equity method	(5)	(71)
Total other comprehensive income	(1,211)	238
Comprehensive income	(3,122)	(928)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(3,122)	(928)
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 FY2018 (From April 1, 2017, to June 30, 2017)

Not applicable

Segment Information

(Segment information by business category)

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)

1st quarter of FY2018 (From April 1, 2017, to June 30, 2017)

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

	1st quarter 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	5,600	3,906	1,479	10,986	122	11,108	-	11,108
Intersegment	-	-	-	-	-	-	-	-
Total	5,600	3,906	1,479	10,986	122	11,108	-	11,108
Segment income	(1,970)	814	66	(1,089)	(165)	(1,255)	(1,085)	(2,340)