

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 10, 2017

Planned Date for Start of Dividend Payment: December 1, 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 six months of FY2018 (From April 1, 2017, to September 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 six months of FY2018	21,223 (33.3%)	(5,576) -	(4,969) -	(3,409) -
1st six months of FY2017	31,821 (57.4%)	(1,684) -	(1,757) -	(1,603) -
(note) Comprehensive income	1st six months of FY2018	¥(819) million [-%]	1st six months of FY2017	¥(2,621) million [-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2018	(42.00)	-
1st six months of FY2017	(19.78)	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of September 30, 2017	382,377	335,160	87.4	
As of March 31, 2017	390,585	340,287	86.9	
(reference) Shareholders' Equity	As of September 30, 2017	¥334,102 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	-	75.00	-	-	150.00
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

*** Notes**

(1) Changes for important subsidiaries during the 1st six months of FY2017:	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, 2017:	89,597,500 shares	As of March 31, 2017:	89,597,500 shares	
b. No. of treasury stock As of Sep. 30, 2017:	8,420,959 shares	As of March 31, 2017:	8,574,481 shares	
c. Average number of shares issued and outstanding 1st 6M of FY2018:	81,176,717 shares	1st 6M of FY2017:	81,023,402 shares	

*** 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 six months of the fiscal year ending March 31, 2018 (from April 1, 2017 to September 30, 2017), the Japanese economy continued on a moderate recovery track reflecting improvement in the labor market and robust corporate earnings, while the outlook remained unclear because of unstable international situations, including mounting geopolitical risks.

Regarding the environment surrounding the pachinko and pachislot industry, in line with the enactment of the Act Concerning Promotion of Development of Integrated Resort Areas ("Integrated Resort Promotion Act") in December 2016, consideration is underway for an implementation bill that presents concrete institutional design for development of integrated resorts including casinos, as well as the enactment of a basic law concerning countermeasures for compulsive gambling covering government-controlled competitive sports for which government-operated gambling is allowed, including pachinko. Reflecting this trend, as part of initiatives for countermeasures for compulsive gambling in the pachinko and pachislot industry, 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 ("Amended Pachinko and Pachislot Machines Regulations") were promulgated and are expected to come into force on February 1, 2018. As a result, pachinko parlors, which are the Company's customers, are required to replace the pachinko and pachislot machines that are compliant with the current regulations with ones compliant with the amended regulations step by step during the three-year period for a transitional measure. In view of the unclear outlook however, they are adopting a cautious stance on purchase of pachinko and pachislot machines.

In these circumstances, the Group introduced five pachinko titles and three pachislot titles. Regarding the pachinko machines business, sales in the first six months of the fiscal year ending March 31, 2018 were at a low level because they centered on additional sales of products first introduced in the previous year, albeit with new specifications.

As a result, on a consolidated basis, net sales were ¥21.2 billion, a decrease of 33.3% compared with the same period of the previous year, operating loss was ¥5.5 billion, compared with an operating loss of ¥1.6 billion for the same period of the previous year, recurring loss was ¥4.9 billion, compared with a recurring loss of ¥1.7 billion for the same period of the previous year, and loss attributable to owners of parent amounting to ¥3.4 billion, compared with a loss attributable to owners of parent amounting to ¥1.6 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 ¥9.6 billion, a decrease of 59.4% compared with the same period of the previous year, and operating loss amounted to ¥4.3 billion, compared with an operating income of ¥2.0 billion for the same period of the previous year. Sales of pachinko machines amounted to 24,000 units. Major titles released included *Fever Symphogear* (introduced in August 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 ¥7.6 billion, an increase of 51.7% compared with the same period of the previous year, and operating income was ¥1.2 billion, compared with operating loss of ¥0.6 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 17,000 units. Major titles released included *Pachislot Macross Frontier 3* (introduced in May 2017), *Pachislot Aquarion EVOL* (introduced in July 2017) and *Pachislot Golgo 13* (introduced in September 2017) under the SANKYO brand,

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥3.6 billion, an increase of 34.6% compared with the same period of the previous year, and operating income was ¥0.2 billion, an increase of 555.5%.

Other Businesses

Sales of other businesses were ¥0.2 billion, an increase of 11.1% compared with the same period of the previous year, and operating loss was ¥0.2 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, 2018 amounted to ¥382.3 billion, having decreased ¥8.2 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to an ¥11.0 billion decrease in marketable securities and a ¥7.5 billion decrease in notes and accounts receivable-trade, despite a ¥4.6 billion increase in investment securities, a ¥2.9 billion increase in accounts receivable for provision of parts and materials for value (included in "Other" of Current assets), and a ¥1.6 billion increase in cash and deposits.

Total liabilities amounted to ¥47.2 billion, having decreased ¥3.0 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥3.9 billion decrease in electronically recorded obligations-operating, a ¥1.8 billion decrease in accounts payable (included in "Other" of Current liabilities), and a ¥1.4 billion decrease in accrued income taxes, despite a ¥3.7 billion increase in notes and accounts payable-trade.

Net assets decreased ¥5.1 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 ¥3.4 billion despite a ¥2.5 billion increase in net unrealized gain on other securities and 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 ¥335.1 billion and the shareholders' equity ratio increased 0.5 percentage points to 87.4%.

(3) Forecast of Consolidated Results and Other Forecast Information

Although an operating loss was recorded in the first six months of the fiscal year ending March 31, 2018, a certain level of demand is expected for both pachinko and pachislot machines compliant with the current regulations from the end of 2017 to the beginning of 2018 and pachinko and pachislot machine manufacturers are preparing for the filing of applications for official format inspection of new models under the current regulations and for their release.

In these circumstances, the Group, with its three brands, is preparing to offer diverse lineups for both pachinko and pachislot machines, including leading titles that gained stable popularity in the past, and intends to introduce new titles by flexibly identifying the release timing that can maximize sales in the second half of the fiscal year. Therefore, no revision has been made to the forecasts of financial results for fiscal 2018 announced on May 12, 2017.

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 Sep. 30, 2017
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	97,818	99,426
Notes and accounts receivable-trade	18,626	11,061
Marketable securities	188,007	177,000
Merchandise and finished goods	82	1,014
Work in process	289	210
Raw materials and inventories	1,334	2,659
Other	11,407	14,539
Allowance for doubtful accounts	(13)	(1)
Total current assets	317,552	305,909
Fixed assets:		
Tangible fixed assets	44,880	45,459
Intangible fixed assets		
Goodwill	267	199
Other	319	263
Total Intangible fixed assets	586	463
Investments and other assets:		
Investment securities	21,612	26,245
Other	6,357	4,702
Allowance for doubtful accounts	(24)	(22)
Allowance for investment loss	(379)	(379)
Total investments and other assets	27,565	30,545
Total fixed assets	73,032	76,467
Total assets	390,585	382,377

Consolidated Balance Sheets

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

	As of March 31, 2017	As of Sep. 30, 2017
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	5,607	9,371
Electronically recorded obligations - operating	8,113	4,178
Accrued income taxes	1,623	199
Allowance for bonuses	834	993
Other	5,750	3,979
Total current liabilities	21,930	18,722
Long-term liabilities:		
Bonds with subscription rights to shares	20,066	20,056
Net defined benefit liabilities	4,671	4,787
Asset retirement obligations	63	63
Other	3,565	3,585
Total long-term liabilities	28,368	28,494
Total liabilities	50,298	47,217
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	335,518	326,628
Less: treasury stock, at cost	(39,700)	(38,781)
Total shareholders' equity	334,408	326,436
Accumulated other comprehensive income:		
Net unrealized gain on other securities	5,264	7,805
Remeasurements of defined benefit plans	(188)	(139)
Total accumulated other comprehensive income:	5,076	7,666
Subscription rights to shares	802	1,057
Total net assets	340,287	335,160
Total liabilities and total net assets	390,585	382,377

(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 FY2017	1st Six Months of FY2018
	Millions of yen	Millions of yen
Net sales	31,821	21,223
Cost of sales	14,621	10,414
Gross profit	17,200	10,809
Selling, general and administrative expenses	18,885	16,385
Operating income (loss)	(1,684)	(5,576)
Non-operating income:		
Interest income	185	99
Dividend income	332	407
Other	99	104
Total non-operating income	617	610
Non-operating expenses:		
Equity in losses of affiliates	686	-
Other	3	3
Total non-operating expenses	690	3
Recurring income (loss)	(1,757)	(4,969)
Extraordinary gains:		
Gain on sales of fixed assets	8	-
Gain on sales of golf course membership	-	2
Total extraordinary gains	8	2
Extraordinary losses:		
Loss on sales of fixed assets	10	2
Loss on disposal of fixed assets	9	10
Loss on sales of investment securities	-	42
Loss on sales of golf course membership	7	-
Total extraordinary losses	26	55
Income (loss) before income taxes and minority interests	(1,775)	(5,022)
Income taxes:		
Current income taxes	322	91
Deferred income taxes	(494)	(1,705)
Total income taxes	(172)	(1,613)
Profit (loss)	(1,603)	(3,409)
Profit (loss) attributable to owners of parent	(1,603)	(3,409)

Consolidated Statements of Comprehensive Income

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

	1st Six Months of FY2017	1st Six Months of FY2018
	Millions of yen	Millions of yen
Profit (loss)	(1,603)	(3,409)
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(1,035)	2,622
Remeasurements of defined benefit plans	33	38
Share of other comprehensive income of associates accounted for using equity method	(15)	(71)
Total other comprehensive income	(1,018)	2,590
Comprehensive income	(2,621)	(819)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(2,621)	(819)
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 FY2017	1st Six Months of FY2018
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income (loss) before income taxes and minority interests	(1,775)	(5,022)
Depreciation and amortization	1,644	1,223
Amortization of goodwill	368	67
Share-based compensation expenses	272	249
Increase (decrease) in allowance for doubtful accounts	176	144
Increase (decrease) in net defined benefit liabilities	179	172
Interest and dividend income	(517)	(506)
(Gain) loss on equity in earnings of affiliates	686	-
(Increase) decrease in notes and accounts receivable-trade	15,323	7,565
(Increase) decrease in inventories	(2,375)	(2,176)
Increase (decrease) in notes and accounts payable-trade	(10,832)	(280)
Other	(622)	(3,219)
Subtotal	2,528	(1,783)
Interest and dividend income received	490	389
Income taxes paid	(2,879)	(1,394)
Income taxes refund	2	242
Net cash (used in) provided by operating activities	142	(2,545)
Cash flows from investing activities:		
Payment into time deposits	-	(5,548)
Payment for purchase of marketable securities	-	(35,000)
Proceeds from redemption of marketable securities	5,000	35,000
Payment for purchase of tangible fixed assets and intangible fixed assets	(2,005)	(1,650)
Proceeds from sale of tangible fixed assets and intangible fixed assets	22	-
Payment for purchase of investment securities	(30)	(9)
Proceeds from redemption of investment securities	20,000	16,000
Proceeds from sale of investment securities	-	544
Payment for increase in loans-receivable	(544)	(200)
Proceeds from collection of long-term loans	-	554
Other	37	6
Net cash (used in) provided by investing activities	22,479	9,696
Cash flows from financing activities:		
Repayment for obligations under finance leases	(2)	(2)
Payment for purchase of treasury stock, net	(0)	(1)
Cash dividends paid	(6,088)	(6,088)
Other	0	0
Net cash (used in) provided financing activities	(6,091)	(6,091)
Net increase (decrease) in cash and cash equivalents	16,530	1,059
Cash and cash equivalents at beginning of the period	234,905	251,818
Cash and cash equivalents at end of the period	251,435	252,877

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

Not applicable

Segment Information

(Segment information by business category)

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)

1st Six Months of FY2018 (From April 1, 2017, to September 30, 2017)

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

	1st Six Months 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	9,673	7,642	3,644	20,960	263	21,223	-	21,223
Intersegment	-	-	-	-	-	-	-	-
Total	9,673	7,642	3,644	20,960	263	21,223	-	21,223
Segment income	(4,321)	1,257	212	(2,851)	(284)	(3,135)	(2,440)	(5,576)