

SANKYO CO., LTD.

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

Shares listed: Tokyo (1st Section)

Code number: 6417

Telephone: +81-3-5778-7777

Representative: Kimihisa Tsutsui, President & COO

Contact: Yoko Oshima, Executive Operating Officer

Planned Date for Submittal of the Financial Statements Report: February 10, 2017

Planned Date for Start of Dividend Payment: -

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. Consolidated results for the first nine months of FY2017 (From April 1, 2016, to December 31, 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 nine months of FY2017	67,732 (31.9%)	6,201 (52.6%)	5,742 (60.0%)	3,417 (65.5%)
1st nine months of FY2016	99,452 (12.4%)	13,077 19.9%	14,372 24.9%	9,905 41.6%
(note) Comprehensive income	1st nine months of FY2017	¥4,714 million [(55.3%)]	1st nine months of FY2016	¥10,553 million [47.0%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st nine months of FY2017	42.18	40.04
1st nine months of FY2016	118.96	115.58

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of December 31, 2016	402,759	341,755	84.7	
As of March 31, 2016	414,183	348,941	84.1	
(reference) Shareholders' Equity	As of December 31, 2016	¥340,952 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 : No

* Notes

(1) Changes for important subsidiaries during the 1st Nine 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.:

b. Other changes:

c. Changes in accounting estimates:

d. Retrospective restatements:

Applicable

Not applicable

Not applicable

Not applicable

(4) Outstanding shares (common shares)

a. No. of shares outstanding (including treasury stock) As of Dec. 31, 2016: 89,597,500 shares As of March 31, 2016: 89,597,500 shares

b. No. of treasury stock	As of Dec. 31, 2016:	8,574,201 shares	As of March 31, 2016:	8,574,381 shares
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c. Average number of shares issued and outstanding	1st 9M of FY2017:	81,023,435 shares	1st 9M of FY2016:	83,262,034 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.

1. Qualitative Information and Financial Statements

(1) Operating Results

During the first nine months of the fiscal year ending March 31, 2017 (from April 1, 2016 to December 31, 2016), the Japanese economy experienced a continued recovery in corporate earnings as well as the employment environment and personal incomes despite slower improvement seen in certain sectors. However, the outlook of the Japanese economy remained unclear in view of uncertainties concerning overseas economies.

The pachinko and pachislot industry launched an industry-wide initiative in January 2016 to collect and remove “all the pachinko machines whose performance may differ from that of the models submitted for format inspection” by the end of December 2016. From April 2016 onward, manufacturers began full-scale sales of models compliant with the new standards in response to voluntary regulations while encouraging pachinko parlors to replace the machines subject to collection and removal with machines compliant with the new standards. The market showed renewed vitality in the period from October to December as manufacturers released a stream of major titles on machines compliant with the new standards. However, putting these titles aside, pachinko parlors were generally reluctant to make purchases. With regard to pachislot, despite initiatives for a step by step reduction of the ratio of “pachislot machines that are not compliant with the new standards” on an installation basis in accordance with the decision by a pachinko parlor operators association, pachislot machines compliant with the former standards remained popular and sales of machines compliant with new standards remained sluggish.

In these circumstances, the Group introduced eight pachinko titles (excluding reuse models) and three pachislot titles. Whereas sales were brisk for *EVANGELION-Time to Rise*, a pachinko title in the Bisty brand's long-running series, sales of other titles were generally weak.

As a result, on a consolidated basis, net sales were ¥66.7 billion, a decrease of 31.9% compared with the same period of the previous year, operating income was ¥6.2 billion, a decrease of 52.6%, recurring income was ¥5.7 billion, a decrease of 60.0%, and profit attributable to owners of the parent amounted to ¥3.4 billion, a decrease of 65.5%.

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥53.8 billion, a decrease of 18.5% compared with the same period of the previous year, and operating income amounted to ¥11.8 billion, a decrease of 3.0%. Sales of pachinko machines amounted to 153,000 units. Major titles released included *Fever Tiger mask 3* (introduced in November 2016) under the SANKYO brand, and *EVANGELION-Time to Rise* (introduced in December 2016) under the Bisty brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥7.8 billion, a decrease of 64.5% compared with the same period of the previous year, and operating loss amounted to ¥1.5 billion, compared with operating income of ¥4.7 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 17,000 units. Major titles released included *Pachislot The Melancholy of Haruhi Suzumiya* (introduced in December 2016) under the SANKYO brand.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥5.6 billion, a decrease of 47.0% compared with the same period of the previous year, and operating income was ¥0.2 billion, a decrease of 22.2%.

Other Businesses

Sales of other businesses were ¥300 million, a decrease of 35.4% compared with the same period of the previous year, and operating loss was ¥500 million compared with an operating loss of ¥400 million a year earlier.

(2) Financial Position

Total assets at the end of the first nine months of the fiscal year ending March 31, 2017 amounted to ¥402.7 billion, having decreased ¥11.4 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥23.8 billion decrease in investment securities despite a ¥10.0 billion increase in marketable securities.

Total liabilities amounted to ¥61.0 billion, having decreased ¥4.2 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥8.7 billion decrease in notes and accounts payable-trade and a ¥1.5 billion decrease in accrued income taxes, despite a ¥5.2 billion increase in electronically recorded obligations-operating.

Net assets decreased ¥7.1 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to cash dividends paid amounting to ¥12.1 billion, while profit attributable to owners of parent amounted to ¥3.4 billion and net unrealized gain on other securities increased ¥1.2 billion. As a result, net assets amounted to ¥341.7 billion and the shareholders' equity ratio increased 0.6 percentage points to 84.7%.

(3) Forecast of Consolidated Results and Other Forecast Information

Operating income, recurring income, and profit attributable to owners of parent for the first nine months of the fiscal year ending March 31, 2017, each exceeded the forecast of consolidated financial results for the full year. However, the sales environment in the fourth quarter is challenging owing to the dampening of demand in reaction to the above-mentioned replacement demand associated with the collection and removal of the "pachinko machines whose performance may differ from that of the models submitted for format inspection." In addition, a portion of the expenses pertaining to the collection and removal will be booked in the fourth quarter. Therefore, the Company has not revised the forecast of consolidated financial results announced on November 8, 2016 at this point in time. If any revision becomes necessary, the Company will disclose such revision without delay.

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 third 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 Dec. 31, 2016
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	96,906	92,964
Notes and accounts receivable-trade	33,841	37,642
Marketable securities	173,001	183,012
Merchandise and finished goods	47	529
Work in process	92	285
Raw materials and inventories	1,339	1,611
Other	11,081	13,887
Allowance for doubtful accounts	(2)	(2)
Total current assets	316,307	329,929
Fixed assets:		
Tangible fixed assets	44,488	44,158
Intangible fixed assets		
Goodwill	1,004	451
Other	342	289
Total Intangible fixed assets	1,347	741
Investments and other assets:		
Investment securities	46,131	22,330
Other	6,314	6,003
Allowance for doubtful accounts	(26)	(24)
Allowance for investment loss	(379)	(379)
Total investments and other assets	52,040	27,929
Total fixed assets	97,876	72,830
Total assets	414,183	402,759

Consolidated Balance Sheets

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

	As of March 31, 2016	As of Dec. 31, 2016
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	23,689	14,926
Electronically recorded obligations-operating	-	5,204
Accrued income taxes	3,113	1,545
Allowance for bonuses	839	427
Other	9,416	10,552
Total current liabilities	37,058	32,656
Long-term liabilities:		
Bonds with subscription rights to shares	20,086	20,071
Net defined benefit liabilities	4,445	4,630
Asset retirement obligations	63	63
Other	3,587	3,582
Total long-term liabilities	28,183	28,347
Total liabilities	65,241	61,004
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	345,918	337,158
Less: treasury stock, at cost	(39,700)	(39,699)
Total shareholders' equity	344,807	336,048
Accumulated other comprehensive income:		
Net unrealized gain on other securities	3,839	5,082
Remeasurements of defined benefit plans	(232)	(178)
Total accumulated other comprehensive income	3,607	4,903
Subscription rights to shares	526	802
Total net assets	348,941	341,755
Total liabilities and total net assets	414,183	402,759

(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 Nine Months of FY2016	1st Nine Months of FY2017
	Millions of yen	Millions of yen
Net sales	99,452	67,732
Cost of sales	54,745	31,277
Gross profit	44,707	36,455
Selling, general and administrative expenses	31,629	30,253
Operating income	13,077	6,201
Non-operating income:		
Interest income	506	256
Dividend income	487	482
Equity in earnings of affiliates	215	-
Other	223	142
Total non-operating income	1,433	881
Non-operating expenses:		
Equity in losses of affiliates	-	1,336
Loss on management of investment partnership	65	0
Bond issuance cost	70	-
Other	2	3
Total non-operating expenses	138	1,340
Recurring income	14,372	5,742
Extraordinary gains:		
Gain on sales of fixed assets	-	8
Total extraordinary gains	-	8
Extraordinary losses:		
Loss on sales of fixed assets	56	24
Loss on disposal of fixed assets	36	35
Loss on sales of golf course membership	-	7
Total extraordinary losses	92	66
Income before income taxes and minority interests	14,279	5,684
Income taxes:		
Current income taxes	3,258	1,961
Deferred income taxes	1,115	305
Total income taxes	4,374	2,267
Net income	9,905	3,417
Profit attributable to owners of parent	9,905	3,417

Consolidated Statements of Comprehensive Income

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

	1st Nine Months of FY2016	1st Nine Months of FY2017
	Millions of yen	Millions of yen
Net income	9,905	3,417
Other comprehensive income:		
Net unrealized gain (loss) on other securities	657	1,236
Remeasurements of defined benefit plans	43	49
Share of other comprehensive income of associates accounted for using equity method	(53)	10
Total other comprehensive income	648	1,296
Comprehensive income	10,553	4,714
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	10,553	4,714
Comprehensive income attributable to non-controlling 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 Nine Months of FY2017 (From April 1, 2016, to December 31, 2016)

Not applicable

Segment Information

(Segment information by business category)

1st Nine Months of FY2016 (From April 1, 2015, to December 31, 2015)

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

	1st Nine 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	66,123	22,110	10,647	98,880	571	99,452	-	99,452
Intersegment	-	-	-	-	-	-	-	-
Total	66,123	22,110	10,647	98,880	571	99,452	-	99,452
Segment income	12,203	4,715	336	17,255	(459)	16,796	(3,718)	13,077

1st Nine Months of FY2017 (From April 1, 2016, to December 31, 2016)

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

	1st Nine 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	53,868	7,847	5,647	67,363	369	67,732	-	67,732
Intersegment	-	-	-	-	-	-	-	-
Total	53,868	7,847	5,647	67,363	369	67,732	-	67,732
Segment income	11,841	(1,534)	262	10,569	(525)	10,043	(3,841)	6,201