Consolidated Financial Statements for the First Six Months of FY2009

April 1, 2008, to September 30, 2008 (The Year Ending March 31, 2009)

November 6, 2008

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: November 14, 2008

Planned Date for Start of Dividend Payment: December 5, 2008

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

1. Consolidated results for the first six months of FY2009 (From April 1, 2008, to September 30, 2008)

(1) Consolidated operating results (six months ended September 30, 2009)

(Percentage figures denote year-over-year changes.)

	Net sales		Operating income		Recurring income		Net income	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen	
1st six months of FY2009	113,120	-	24,966	-	27,661	-	17,246	-
1st six months of FY2008	104,901	(5.5%)	24,887	(31.8%)	26,668	(30.3%)	16,270	(30.4%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2009	178.28	-
1st six months of FY2008	166.99	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2008	473,239	383,613	81.1	3,984.41
As of March 31, 2008	516,821	383,756	74.3	3,944.84

(reference) Shareholders' Equity As of Sep. 30, 2008 ¥383,613 million As of March 31, 2008 ¥383,756 million

2. Dividends

(Base date)	Cash dividend per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
FY2008	-	50.00	-	100.00	150.00
FY2009	-	75.00	-	-	150.00
FY2009 (Forecast)			-	75.00	

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

3. Forecast for FY2009 (From April 1, 2008, to March 31, 2009)

(Percentage figures denote year-over-year changes.)

	Net sales		Operating income		Recurring income		Net income		Net income per share
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Yen
Year ending March 31, 2009	277,000	(1.3%)	71,000	(1.8%)	76,000	0.3%	46,000	0.7%	477.77

Note: Changes in the forecasts of conslidated Financial results in this quarter : No

4. Other

(1) Changes for important subsidiaries during this period: Not applicable

(2) Application of simplified accounting methods: Applicable

(3) Changes on the basis of consolidated financial statements preparation

a. Related to accounting standard revisions etc.: Applicable

b. Other changes: Applicable

(4) Outstanding shares (common shares)

a. No. of shares outstanding (including treasury stock)	As of Sep. 30, 2008:	97,597,500 shares	As of March 31, 2008:	97,597,500 shares
b. No. of treasury stock	As of Sep. 30, 2008:	1,318,960 shares	As of March 31, 2008:	316,941 shares
c. Average number of shares issued and outstanding	1st 6M of FY2009:	96,740,955 shares	1st 6M of FY2008:	97,430,680 shares

Qualitative Information and Financial Statements

1. Qualitative Information on Consolidated Operating Results

During the first six months of the fiscal year ending March 31, 2009 (from April 1, 2008, to September 30, 2008), there were indications that the Japanese economy was slowing. While sharp increases in raw material and energy prices put pressure on corporate earnings and personal consumption, the worldwide financial crises triggered by the subprime mortgage problem in the U.S. adversely affected the Japanese economy.

The pachinko and pachislo industry refrained from replacement of game machines from early June to mid-July around the period of the G8 summit at Lake Toya in Hokkaido, in accordance with the decision of the pachinko parlor industry association. Although there was concern that the declining popularity of pachislo would have an impact on pachinko parlor operators' profitability, operators remained eager to replace game machines before and after the moratorium as they shifted emphasis from pachislo to pachinko to attract players. Although changes in the way of doing business to attract players, such as offering rental balls at low prices to minimize the cost of playing pachinko, were effective to some extent, they have not triggered a recovery of the pachinko player population. Amid fierce competition, the gulf is expected to widen between those pachinko parlor operators and manufacturers that are competitive and those that are not.

In these circumstances, SANKYO Group worked to stimulate demand by introducing products with distinctive gaming characteristics and clearly defined target players. At the same time, the Group implemented vigorous sales promotion of major products appealing to a wide range of players in order to create buzz and fuel sales growth. Although sales of pachislo machines amounted to 112,000 units and greatly exceeded the initial plan of 65,000 units, mainstay pachinko machine sales amounting to 259,000 units fell far short of the initial plan of 360,000 units.

Consequently, for the first six months period on a consolidated basis, net sales were ¥113.1 billion, an increase of 7.8% compared with the same period of the previous year, operating income edged up 0.3% to ¥24.9 billion, recurring income rose 3.7% to ¥27.6 billion, and net income rose 6.0% to ¥17.2 billion.

Results of segments are presented below.

Pachinko Machines Business

With regard to the mainstay pachinko machines and pachinko machine gauges, the Group launched three titles for SANKYO-brand series and three for Bisty-brand series. Regarding titles for the SANKYO brand, although *Patrush 2* (introduced in May 2008) sold well, taking to new heights the well-received speedy story development offered by *Patrush*, the first model in the series, sales of *Fever Dai-Natsumatsuri* (introduced in August 2008) were sluggish as the Group was unable to take full advantage of the impact of TV commercials and other sales promotion activities. On the other hand, sales of two products launched under the Bisty brand were robust. In the *Neon Genesis Evangelion* series, which has become a mainstay of pachinko parlors, the Group launched the *premium model* (introduced in May 2008) offering higher jackpot probability than the standard model. *Seven Samurai* (introduced in August 2008), which is based on Akira Kurosawa's timeless masterpiece, attracted attention because it features a new movie produced only for this pachinko machine. As a result, segment sales amounted to ¥75.4 billion, an increase of 32.5% compared with the same period of the previous year, and operating income was ¥20.8 billion, up 27.2%. Sales of pachinko machines amounted to 259,000 units.

Pachislo Machines Business

As the market for pachislo machines is expected to shrink greatly, the Group concentrated its efforts on promoting a smaller number of new releases. Under the SANKYO brand, the Group launched *Powerful Adventure* (introduced in May 2008), offering new gaming characteristics in the series featuring Mumu-Chan, SANKYO's original character. Under the Bisty brand, the third model in the *Neon Genesis Evangelion* series, *"That Time Has Come, Now They're Waiting for Us."* (introduced in September 2008), was launched. In particular, *"That Time Has Come, Now They're Waiting for Us."* was in the spotlight because of the track record of the *Neon Genesis Evangelion* series and its high-quality LCD presentation. With sales exceeding 73,000 units as of September 30, 2008, it is the No. 1 hit pachislo model in the current fiscal year. Indeed, the Group has been steadily raising its profile in the pachislo market. As a result, segment sales amounted to ¥28.5 billion, a decrease of 22.5% compared with the same period of the previous year, and operating income was ¥7.9 billion, down 26.4%. Sales of pachislo machines amounted to 112,000 units.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥8.3 billion, a decrease of 20.5% compared with the same period of the previous year, and operating income was ¥0.1 billion, a decrease of 39.0%

Other Businesses

Sales of other businesses were ¥0.7 billion, an increase of 19.6% compared with the same period of the previous year, and operating income was ¥0.2 billion, an increase of 47.3%.

* Percentage changes from the same period of the previous year presented in qualitative information are for reference.

2. Qualitative Information on Consolidated Financial Position

Analysis of assets, liabilities, and net assets

Total assets at the end of the first six months of fiscal 2009 were ¥43.5 billion lower than the figure at the previous fiscal year-end as current assets decreased ¥44.1 billion and fixed assets increased ¥0.5 billion. Total liabilities decreased ¥43.4 billion, centering on accounts payable. Net assets increased to ¥383.6 billion as a result of repurchase of the Company's shares. The shareholders' equity ratio increased 6.8 percentage points to 81.1%, reflecting decreases in assets and liabilities.

3. Qualitative Information on Forecast of Consolidated Results

Forecast for the full year

As announced in the Notice concerning the Revision of Forecast of Financial Results for Fiscal 2009, sales forecasts of pachinko machines and pachislo machines for the full year are 753,000 units and 151,000 units, respectively, in view of the recent trends. The forecast for consolidated business results for the fiscal year ending March 31, 2009, is as follows.

	Forecast		Year-on-year change		FY 2008 results	
Net sales	¥277.0	billion	1.3%	decrease	¥280.5	billion
Operating income	¥71.0	billion	1.8%	decrease	¥72.2	billion
Recurring income	¥76.0	billion	0.3%	increase	¥75.7	billion
Net income	¥46.0	billion	0.7%	increase	¥45.6	billion

4. Other

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

(2) Application of simplified accounting procedures or accounting procedures specific to preparation of quarterly consolidated financial statements

Tax expenses for consolidated subsidiaries are calculated by multiplying income before income taxes by a reasonably estimated effective tax rate for income before income taxes after application of deferred tax accounting.

(3) Changes in accounting principles and procedures as well as the method of presentation related to the preparation of quarterly consolidated financial statements

i. Effective from the first quarter of fiscal 2009, the "Accounting Standard for Quarterly Financial Reporting" (Accounting Standards Board of Japan (ASBJ) Statement No. 2, March 14, 2007) and the "Implementation Guidance for Accounting Standard for Quarterly Financial Statements" (ASBJ Guidance No. 14, March 14, 2007) are applied. Quarterly consolidated financial statements are prepared in accordance with the "Rules for Quarterly Consolidated Financial statements."

ii. Effective from the first quarter of fiscal 2009, the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006) is applied and inventories, previously stated at cost, are stated at the lower of cost or net selling value by write-down.
This change has no impact on income.

iii. Finance lease transactions without transfer of ownership were previously accounted in accordance with the accounting procedure for operating leases. It is permissible to apply the "Accounting standard for Lease Transactions" (ASBJ Statement No. 13 (June 17, 1993 (First Committee of the Business Accounting Council), revised on March 30, 2007)) and the "Implementation Guidance for Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 (January 18, 1994 (Accounting Standards Committee of The Japanese Institute of Certified Public Accountants), revised March 30, 2007)) to quarterly consolidated financial statements of fiscal years starting on or after April 1, 2008. Accordingly, effective from the first quarter of fiscal 2009, these accounting standards are applied, and finance lease transactions without transfer of ownership are accounted in accordance with the accounting procedure for ordinary sales transactions.
Leased assets related to finance lease transactions without transfer of ownership are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value.
This change has no impact on income.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

	As of Sep. 30, 2008	As of March 31, 2008
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	148,782	160,556
Notes and accounts receivable-trade	67,643	89,952
Marketable securities	88,388	98,775
Merchandise and Finished goods	868	383
Work in process	222	87
Raw materials and Inventories	5,028	3,115
Other	27,467	30,037
Allowance for doubtful accounts	(530)	(890)
Total current assets	337,870	382,017
Fixed assets:		
Tangible fixed assets	49,666	49,533
Intangible fixed assets	196	195
Investments and other assets:		
Investment securities	82,542	82,147
Other	3,894	3,807
Allowance for doubtful accounts	(550)	(499)
Allowance for investment loss	(379)	(379)
Total investments and other assets	85,506	85,075
Total fixed assets	135,369	134,804
Total assets	473,239	516,821

Consolidated Balance Sheets

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

	As of Sep. 30, 2008	As of March 31, 2008
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	61,439	90,730
Accrued income taxes	9,733	20,857
Allowance for bonuses	915	710
Other	12,432	15,266
Total current liabilities	84,521	127,565
Long-term liabilities:		
Accrued retirement allowance for employees	552	1,210
Provision for special retirement bonuses for directors	2,583	2,449
Other	1,969	1,840
Total long-term liabilities	5,105	5,499
Total liabilities	89,626	133,065
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,883	23,833
Retained earnings	352,398	344,898
Less: treasury stock, at cost	(8,910)	(1,570)
Total shareholders' equity	382,211	382,051
Valuation and translation adjustment:		
Net unrealized gain on other securities	1,401	1,705
Total valuation and translation adjustment	1,401	1,705
Total net assets	383,613	383,756
Total liabilities and total net assets	473,239	516,821

(2) Consolidated Statements of Income

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

	1st six months of FY2009 Millions of yen	1st six months of FY2008 Millions of yen
Net sales	113,120	104,901
Cost of sales	61,590	61,166
Gross profit	51,529	43,734
Selling, general and administrative expenses	26,563	18,846
Operating income	24,966	24,887
Non-operating income:		
Interest income	1,094	923
Dividend income	164	54
Equity in earnings of affiliates	1,143	577
Other	337	299
Total non-operating income	2,739	1,855
Non-operating expenses:		
Interest expenses	1	-
Other	42	75
Total non-operating expenses	44	75
Recurring income	27,661	26,668
Extraordinary gains:		
Reversal of allowance for doubtful accounts	309	-
Other	23	0
Total extraordinary gains	332	0
Extraordinary losses:		
Loss on disposal of fixed assets	116	34
Other	2	0
Total extraordinary losses	118	35
Income before income taxes	27,875	26,633
Income taxes:		
Current income taxes	9,793	10,557
Deferred income taxes	835	(193)
Total income taxes	10,629	10,363
Net income	17,246	16,270

(3) Consolidated Statements of Cash Flows

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

	1st six months of FY2009	(Reference) 1st six months of FY2008
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income before income taxes	27,875	26,633
Depreciation and amortization	1,861	1,893
Increase in allowance for doubtful accounts	(627)	433
Interest and dividend income	(1,258)	(978)
Interest expense	1	-
Equity in earnings of affiliates	(1,143)	(577)
(Increase) decrease in notes and accounts receivable-trade	22,308	(8,330)
(Increase) decrease in inventories	(2,525)	1,873
Increase (decrease) in notes and accounts payable-trade	(29,291)	10,742
Other	(1,094)	(8,698)
Subtotal	16,107	22,990
Interest and dividend income received	1,307	829
Interest paid	(1)	-
Income taxes paid	(20,873)	(7,944)
Net cash (used in) provided by operating activities	(3,460)	15,875
Cash flows from investing activities:		
Payment for purchase of tangible fixed assets and intangible fixed assets	(1,314)	(7,154)
Proceeds from sale of tangible fixed assets and intangible fixed assets	-	1
Proceeds from redemption of marketable securities	1,000	1,700
Payment for purchase of investment securities	(16,010)	(20,540)
Proceeds from redemption of investment securities	16,000	16,000
Payment for increase in long-term loans	(237)	-
Proceeds from collection of long-term loans	10	-
Other	(4)	(628)
Net cash (used in) provided by investing activities	(556)	(10,622)
Cash flows from financing activities:		
Repayment for obligations under finance leases	(51)	-
Proceeds from sale of treasury stock, net	6	0
Payment for purchase of treasury stock, net	(7,348)	(11)
Cash dividends paid	(9,746)	(4,873)
Net cash (used in) provided financing activities	(17,140)	(4,885)
Difference on conversion of cash and cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	(21,157)	368
Cash and cash equivalents at beginning of the period	226,329	195,157
Cash and cash equivalents at end of the period	205,171	195,526

(4) Notes on premise of a going concern

1st six months of FY2009 (From April 1, 2008, to September 30, 2008)

Not applicable

(5) Segment information

(Segment information by business category)

1st six months of FY2009 (From April 1, 2008, to September 30, 2008)

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

	1st six months of FY2009						
	Millions of yen						
	Pachinko machines business	Pachislo machines business	Ball bearing supply systems business	Other business	Total	Elimination or corporate items	Consolidated
Sales							
(1) Customers	75,487	28,528	8,312	792	113,120	-	113,120
(2) Intersegment	5	-	-	1	7	(7)	-
Total	75,492	28,528	8,312	794	113,127	(7)	113,120
Operating income	20,809	7,973	164	259	29,206	(4,240)	24,966

1st six months of FY2008 (From April 1, 2007, to September 30, 2007)

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

	1st six months of FY2008						
	Millions of yen						
	Pachinko machines business	Pachislo machines business	Ball bearing supply systems business	Other business	Total	Elimination or corporate items	Consolidated
Sales							
(1) Customers	56,964	36,810	10,461	664	104,901	-	104,901
(2) Intersegment	4	-	-	-	4	(4)	-
Total	56,969	36,810	10,461	664	104,905	(4)	104,901
Operating expenses	40,615	25,971	10,191	487	77,265	2,747	80,013
Operating income	16,353	10,839	269	176	27,639	(2,751)	24,887

(6) Notes on significant changes in shareholders' equity

The Company repurchased its own shares under Article 156 of the Company Law as applied pursuant to Article 165, Paragraph 3 of the Company Law in accordance with the resolution of the board of directors at the meeting held on June 13, 2008. As a result, treasury stock increased ¥7,348 million at the end of the second quarter of fiscal 2009.