

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 12, 2010

Planned Date for Start of Dividend Payment: December 3, 2010

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 six months of FY2011 (From April 1, 2010, to September 30, 2010)

(1) Consolidated operating results

(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 FY2011	118,502	(16.7%)	33,691	(13.6%)	36,217	(11.9%)	22,547	(8.8%)
1st six months of FY2010	142,330	25.8%	39,016	56.3%	41,086	48.5%	24,711	43.3%

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2011	235.02	-
1st six months of FY2010	256.69	-

(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, 2010	495,013	418,786	84.6	4,395.34
As of March 31, 2010	461,358	408,024	88.4	4,238.45

(reference) Shareholders' Equity

As of September 30, 2010 ¥418,786 million

As of March 31, 2010 ¥408,024 million

2. Dividends

(Base date)	Cash dividend per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2010	-	75.00	-	75.00	150.00
Year ended March 31, 2011	-	75.00	-	-	150.00
Year ended March 31, 2011 (Forecast)	-	75.00	-	75.00	150.00

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

3. Forecast for FY2011 (From April 1, 2009, to March 31, 2010)

(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, 2011	210,000	(5.7%)	56,000	0.4%	59,000	(0.6%)	37,000	2.2%	388.33

Note: Changes in the forecasts of consolidated 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: Not applicable
- (4) Outstanding shares (common shares)
- a. No. of shares outstanding (including treasury stock) As of Sep. 30, 2010: 97,597,500 shares As of March 31, 2010: 97,597,500 shares
- b. No. of treasury stock As of Sep. 30, 2010: 2,317,910 shares As of March 31, 2010: 1,330,130 shares
- c. Average number of shares issued and outstanding 1st 6M of FY2011: 95,940,653 shares 1st 6M of FY2010: 96,272,903 shares

*** Disclaimer regarding Forward-looking Statements**

The forecasts and other forward-looking statements contained in this report are based on information currently available to management. Actual results may be materially different from those expressed or implied by such forward-looking statements due to various factors.

1. Qualitative Information and Financial Statements

(1) Qualitative Information on Consolidated Operating Results

During the first six months of the fiscal year ending March 31, 2011 (from April 1, 2010, to September 30, 2010), there were indications that the Japanese economy might progress to a self-sustaining recovery in light of the positive impact of the Japanese government's policies and the broadly based recovery underway overseas. However, sharp appreciation of the yen, which put pressure on corporate earnings, coupled with the severe employment situation applied a break to the economy.

In the pachinko and pachislot industry, as a result of the spread of pachinko parlors offering rental balls at prices as low as ¥1 and a resurgence in the popularity of pachislot, there were signs of an upturn in the pachinko player population, which had previously been decreasing. Nevertheless, pachinko parlors continued to face a challenging operating environment. While declining personal incomes in a sluggish economy compel consumers to economize, causing pachinko and pachislot players to curb their spending. Consequently, regarding pachinko parlor operators' replacement of pachinko and pachislot machines, which is a key measure to attract players, demand is concentrated on popular series with successful track records and products of manufacturers with powerful brands since parlor operators believe such products are more likely to contribute to their revenues.

In these circumstances, at SANKYO Group, the Product Strategy Office established in April 2010 is spearheading the Group's efforts to develop richly entertaining products capable of captivating players and reinforce product competitiveness with the objective of enhancing the corporate brand. As well as providing a line-up of products meeting diverse needs, SANKYO has recently announced its commitment to reuse. Implementing a flexible pricing policy, SANKYO is endeavoring to vitalize the entire pachinko industry.

Although management's forecast of financial results for the first six months of fiscal 2011, was conservative in light of the challenging operating environment, actual results exceeded the initial forecast because of brisk sales of the Group's pachinko and pachislot machines.

As a result, on a consolidated basis, net sales were ¥118.5 billion, a decrease of 16.7% compared with the same period of the previous year, operating income was ¥33.6 billion, a decrease of 13.6%, recurring income was ¥36.2 billion, a decrease of 11.9%, and net income was ¥22.5 billion, a decrease of 8.8%.

Results of segments are presented below. Effective from the first quarter of the year ending March 31, 2011, the Company adopted the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17, March 27, 2009) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008). There was no change to the classification of businesses, and thus, comparison with the same period of the previous fiscal year is presented.

Pachinko Machines Business

With regard to pachinko machines, the Group launched four titles for SANKYO-brand series and two for Bisty-brand series. Titles introduced under the SANKYO brand included FEVER X JAPAN (introduced in September 2010), which involves collaboration with a popular rock band, and Patrush 3 (introduced in July 2010), which is characterized by a visual presentation using dots and a speedy gaming performance. Regarding the Bisty brand, sales of CR Evangelion—Evangelical of The Beginnings (introduced in June 2010), the sixth model of the Evangelion series, exceeded the initial forecast. Repeating the strong performance of the fifth model, more than 200,000 units were sold.

As a result, segment sales amounted to ¥105.0 billion, a decrease of 17.3% compared with the same period of the previous year, and operating income was ¥34.7 billion, down 17.2%. Sales of pachinko machines amounted to 294,000 units.

Pachislot Machines Business

There are signs that the market for pachislot machines is recovering. Pachislot is gaining in popularity thanks to the advent of machines whose gaming performance captivates players. Meanwhile, the decrease in the number of pachislot machines installed seems to have bottomed out. The Group focused its sales efforts on the SANKYO-brand God Hunter (introduced in June 2010) and the Bisty-brand Neon Genesis Evangelion series, Neon Genesis Evangelion—Die spur der Seele (introduced in February 2010) and Magical Shopping Arcade Abenobashi (introduced in August 2010). Segment sales were ¥4.2 billion, an increase of 30.1% compared with the same period of the previous year, and operating income was ¥64 million. Sales of pachislot machines amounted to 16,000 units.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥8.3 billion, a decrease of 26.2% compared with the same period of the previous year, and operating income was ¥700 million, an increase of 151.2%.

Other Businesses

Sales of other businesses were ¥800 million, an increase of 29.0% compared with the same period of the previous year, and operating income was ¥200 million, an increase of 19.8%.

(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 2011 amounted to ¥495.0 billion, ¥33.6 billion higher than the figure at the previous fiscal year-end. The rise was mainly attributable to a ¥27.8 billion increase in cash and deposits and a ¥5.1 billion increase in notes and accounts receivable-trade

Total liabilities amounted to ¥76.2 billion, having increased ¥22.8 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥15.9 billion increase in notes and accounts payable-trade.

Net assets increased ¥10.7 billion compared with the figure at the previous fiscal year-end. Whereas net income of ¥22.5 billion was recorded, cash dividends paid amounted to ¥7.2 billion and purchase of treasury stock amounted to ¥4.1 billion. As a result, net assets amounted to ¥418.7 billion and the shareholders' equity ratio decreased 3.8 percentage points to 84.6%.

(3) Qualitative Information on Forecast of Consolidated Results

No revision has been made to the forecasts of financial results for the full year announced in the "Notice concerning Revision of the Forecast of the Financial Results for the Year Ending March 31, 2011," announced on September 9, 2010.

2. Other Information

(1) Overview of changes in significant subsidiaries

None.

(2) Overview of application of simplified accounting procedures or specific accounting procedures

Description is omitted because of lack of materiality.

(3) Overview of changes in accounting principles and procedures as well as the method of presentation

Changes in the matters concerning accounting standards

- i. Application of the Accounting Standard for Equity Method of Accounting for Investments and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method

Effective from the first quarter of fiscal 2011, the Company adopted the Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No. 16, March 10, 2008) and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (ASBJ PITF No. 24, March 10, 2008).

This change has no impact on income.

- ii. Application of the Accounting Standard for Asset Retirement Obligations

Effective from the first quarter of fiscal 2011, the Company adopted the Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, March 31, 2008) and the Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, March 31, 2008).

As a result of this application, operating income and recurring income for the first six months of fiscal 2011 decreased ¥1 million each and income before income taxes decreased ¥49 million. Loss on adjustment for changes of the accounting standard for asset retirement obligations amounted to ¥58 million.

Changes in the method of presentation

Consolidated statements of income

In line with the enforcement of the Cabinet Office Ordinance for Partial Amendment of the Regulations Concerning Terminology, Forms and Methods of Preparation of Financial Statements (March 24, 2009, Cabinet Office Ordinance No. 5) based on the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, December 26, 2008), "income before minority interests" is included in the consolidated financial statements for the first six months of fiscal 2011.

3. Consolidated Financial Statements**(1) Consolidated Balance Sheets**

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

	As of Sep. 30, 2010	As of March 31, 2010
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	171,303	143,416
Notes and accounts receivable-trade	55,049	49,868
Marketable securities	114,999	115,004
Merchandise and finished goods	1,110	36
Work in process	1,056	244
Raw materials and inventories	1,730	3,020
Other	14,182	15,092
Allowance for doubtful accounts	(51)	(75)
Total current assets	359,380	326,608
Fixed assets:		
Tangible fixed assets	50,153	51,055
Intangible fixed assets	319	310
Investments and other assets:		
Investment securities	78,446	77,373
Other	7,302	6,739
Allowance for doubtful accounts	(208)	(349)
Allowance for investment loss	(379)	(379)
Total investments and other assets	85,160	83,384
Total fixed assets	135,632	134,750
Total assets	495,013	461,358

Consolidated Balance Sheets

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

	As of June 30, 2010	As of March 31, 2010
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	46,169	30,182
Accrued income taxes	14,251	7,259
Allowance for bonuses	1,022	817
Other	9,262	9,766
Total current liabilities	70,705	48,025
Long-term liabilities:		
Provision for special retirement bonuses for directors	655	623
Accrued retirement allowance for employees	3,107	2,933
Asset retirement obligations	59	-
Other	1,698	1,752
Total long-term liabilities	5,520	5,309
Total liabilities	76,226	53,334
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,880	23,880
Retained earnings	392,842	377,529
Less: treasury stock, at cost	(13,140)	(8,969)
Total shareholders' equity	418,422	407,280
Valuation and translation adjustment:		
Net unrealized gain on other securities	363	744
Total valuation and translation adjustment	363	744
Total net assets	418,786	408,024
Total liabilities and total net assets	495,013	461,358

(2) Consolidated Statements of Income

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

	1st Six Months of FY2010	1st Six Months of FY2011
	Millions of yen	Millions of yen
Net sales	142,330	118,502
Cost of sales	73,691	56,305
Gross profit	68,639	62,197
Selling, general and administrative expenses	29,622	28,505
Operating income	39,016	33,691
Non-operating income:		
Interest income	883	697
Dividend income	48	131
Equity in earnings of affiliates	902	1,414
Other	252	292
Total non-operating income	2,087	2,535
Non-operating expenses:		
Interest expenses	0	-
Other	17	10
Total non-operating expenses	17	10
Recurring income	41,086	36,217
Extraordinary gains:		
Reversal of allowance for doubtful accounts	110	29
Total extraordinary gains	110	29
Extraordinary losses:		
Loss on disposal of fixed assets	357	8
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	48
Total extraordinary losses	357	56
Income before income taxes	40,839	36,189
Income taxes:		
Current income taxes	11,205	14,527
Deferred income taxes	4,922	(885)
Total income taxes	16,127	13,641
Income before income taxes and minority interests	-	22,547
Net income	24,711	22,547

(3) Consolidated Statements of Cash Flows

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

	1st Six Months of FY2010	1st Six Months of FY2011
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income before income taxes	40,839	36,189
Depreciation and amortization	2,170	2,118
Increase in allowance for doubtful accounts	330	246
Interest and dividend income	(932)	(828)
Interest expense	0	-
Equity in earnings of affiliates	(902)	(1,414)
(Increase) decrease in notes and accounts receivable-trade	(8,536)	(5,180)
(Increase) decrease in inventories	22,190	(595)
Increase (decrease) in notes and accounts payable-trade	(39,279)	15,987
Other	13,823	236
Subtotal	29,704	46,759
Interest and dividend income received	1,195	929
Interest paid	(0)	-
Income taxes paid	(12,861)	(6,631)
Net cash (used in) provided by operating activities	18,039	41,057
Cash flows from investing activities:		
Payment for purchase of tangible fixed assets and intangible fixed assets	(2,514)	-
Proceeds from sale of tangible fixed assets and intangible fixed assets	(4,558)	(1,179)
Payment for purchase of investment securities	(19,028)	(20,562)
Proceeds from redemption of investment securities	16,000	20,000
Payment for increase in long-term loans	(1,806)	-
Proceeds from collection of long-term loans	15	1
Other	30	2
Net cash (used in) provided by investing activities	(11,861)	(1,737)
Cash flows from financing activities:		
Repayment for obligations under finance leases	(37)	(26)
Proceeds from sale of treasury stock, net	2	0
Payment for purchase of treasury stock, net	(6)	(4,172)
Cash dividends paid	(7,234)	(7,234)
Net cash (used in) provided financing activities	(7,277)	(11,432)
Net increase (decrease) in cash and cash equivalents	(1,099)	27,887
Cash and cash equivalents at beginning of the period	218,509	218,416
Cash and cash equivalents at end of the period	217,409	246,303

(4) Notes on premise of a going concern

1st Six Months of FY2011 (From April 1, 2010, to September 30, 2010)

Not applicable

(5) Segment Information

(Segment information by business category)

1st Six Months of FY2010 (From April 1, 2009, to September 30, 2009)

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

	1st Six Months of FY2010 (Millions of yen)						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Other business	Total	Elimination or corporate items	Consolidated
Sales							
(1) Customers	127,079	3,231	11,358	659	142,330	-	142,330
(2) Intersegment	14	-	-	7	22	(22)	-
Total	127,094	3,231	11,358	667	142,352	(22)	142,330
Operating income	41,907	(1,257)	308	232	41,190	(2,173)	39,016

(Additional information)

Effective from the first quarter of the year ending March 31, 2011, the Company adopted the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No.17, March 27, 2009) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008).

1. Overview of reportable segments

The Company's segments are the Company's components for which discrete financial information is available and whose operating results are regularly reviewed by the Company's board of directors to make decisions about resources to be allocated to the segments and to assess their performance.

The Company's principal businesses are manufacturing and sales of pachinko and pachislot machines and installation and sales of ball bearing supply systems. Therefore, the Company's reportable segments are the pachinko machines business, the pachislot machines business, and the ball bearing supply systems business.

The pachinko machines business includes manufacturing and sales of pachinko machines and gauge boards, and related parts and pachinko machine-related royalty income. The pachislot machines business includes manufacturing and sales of pachislot and palot machines, and related parts and pachislot machine-related royalty income. The ball bearing supply systems business includes manufacturing and sales of ball bearing supply systems, card systems, and related equipment for parlors, and ball bearing supply system-related royalty income.

2. Information about sales and income/loss in reportable segments

1st Six Months of FY2011 (From April 1, 2010, to September 30, 2010)

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

	1st Six Months of FY2011 (Millions of yen)						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Other business	Total	Adjustments	Consolidated
Sales							
(1) Customers	105,055	4,203	8,381	861	118,502	-	118,502
(2) Intersegment	-	-	-	-	-	-	-
Total	105,055	4,203	8,381	861	118,502	-	118,502
Segment income	34,713	64	776	278	35,831	(2,140)	33,691

(6) Notes on significant changes in shareholders' equity

Following the resolution at its board of directors' meeting on June 11, 2010, 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 first quarter of fiscal 2011 increased JPY4.1 billion.