

**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: Akihiko Ishihara, Director & Senior Executive Operating Officer  
 Planned Date for Submittal of the Financial Statements Report: November 13, 2012  
 Planned Date for Start of Dividend Payment: December 7, 2012  
 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 FY2013 (From April 1, 2012, to September 30, 2012)**

(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 FY2013	53,782 (24.8%)	6,952 (41.3%)	7,668 (44.9%)	4,607 (31.8%)
1st six months of FY2012	71,535 (39.6%)	11,841 (64.9%)	13,928 (61.5%)	6,754 (70.0%)
(note) Comprehensive income	1st six months of FY2013	¥4,053 million [(38.2%)]	1st six months of FY2012	¥6,560 million [(70.4%)]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2013	49.29	-
1st six months of FY2012	72.20	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of September 30, 2012	439,951	407,444	92.6	
As of March 31, 2012	495,988	418,303	84.3	
(reference) Shareholders' Equity	As of September 30, 2012	¥407,444 million	As of March 31, 2012	¥418,303 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, 2012	-	75.00	-	75.00	150.00
Year ended March 31, 2013	-	75.00	-	-	150.00
Year ended March 31, 2013 (Forecast)	-	75.00	-	75.00	150.00

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

**3. Forecast for FY2013 (From April 1, 2012, to March 31, 2013)**

(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, 2013	123,000 (29.2%)	12,000 (70.2%)	14,000 (68.5%)	8,000 (60.4%)	85.59

Note: Changes in the forecasts of consolidated Financial results in this quarter : Yes

**\* Notes**

(1) Changes for important subsidiaries during the 1st six months of FY2013:				Not applicable
(2) Application of peculiar accounting methods:				Not applicable
(3) Changes in accounting procedures				
a. Related to accounting standard revisions etc.:				Applicable
b. Other changes:				Not applicable
c. Changes in accounting estimates:				Applicable
d. Retrospective restatements:				Not applicable
(4) Outstanding shares (common shares)				
a. No. of shares outstanding (including treasury stock) As of Sep. 30, 2012:	97,597,500 shares	As of March 31, 2011:	97,597,500 shares	
b. No. of treasury stock As of Sep. 30, 2012:	4,124,016 shares	As of March 31, 2011:	4,123,691 shares	
c. Average number of shares issued and outstanding 1st 6M of FY2013:	93,473,727 shares	1st 6M of FY2012:	93,553,731 shares	

**\* 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 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, 2013 (from April 1, 2012, to September 30, 2012), the Japanese economy was characterized by a rugged recovery, supported by demand associated with reconstruction in the aftermath of the Great East Japan Earthquake. Economic conditions remained generally obscure owing to the persisting European sovereign debt crisis, the strong yen, and deflationary pressure in Japan. Prospects for the country's economy remained uncertain in view of concern about the impact on the world economy of the deceleration of the Chinese and other emerging-market economies.

In the pachinko and pachislot industry, the business environment remains challenging for parlor operators, not least because the uncertain economic outlook encourages players to economize spending. In response, pachinko parlors are becoming increasingly selective about the purchase of new machines, with the result that demand is concentrated on a handful of promising products.

In these circumstances, SANKYO Group made JB Co., Ltd. a subsidiary in March 2012 and started operations under three brands with the addition of JB to the Group's two brands, SANKYO and Bisty. In line with the revision in April 2012 of the internal regulations of the Nihon Yugiki Kogyo Kumiai (Nikkoso), one of the pachinko machine manufacturers associations, the Group, ahead of competitors, successfully introduced pachinko machines in compliance with the revised regulations. With a goal of enhancing the attractiveness of pachinko and pachislot, the Group also launched PAWA-PACHI and PAWA-SLO, new services linking mobile phones with game machines.

As a result of these initiatives, the SANKYO-brand pachislot machine *Pachislot Macross Frontier* (introduced in April 2012) maintained for a long term popularity among players, and in act accentuated the Group's powerful presence in the pachislot market.

Nevertheless, due to unsatisfactory sales of other products, the Group had no option but to revise the forecast of financial results for the first six months of fiscal 2013. The revision was announced on September 13, 2012, and results were as follows: on a consolidated basis, net sales were ¥53.7 billion, a decrease of 24.8% compared with the same period of the previous year; operating income was ¥6.9 billion, a decrease of 41.3%; recurring income was ¥7.6 billion, a decrease of 44.9%; and net income was ¥4.6 billion, a decrease of 31.8%.

Results of segments are presented below.

#### Pachinko Machines Business

Under the SANKYO brand, sales focused on *Fever Aquarion III* (introduced in July 2012), the third title of a popular series. New Bisty-brand titles were the light-spec *Eva Light III* (introduced in May 2012), the latest addition to the Evangelion series, and *Sengoku BASARA 3-The Battle of Sekigahara* (introduced in July 2012), a tie-up product with a popular game of CAPCOM Co., Ltd. The JB-brand *Virus Breaker* (introduced in June 2012) was the industry's first pachinko machine compliant with the revised regulations.

As a result, segment sales amounted to ¥29.9 billion, a decrease of 40.0% compared with the same period of the previous year, and operating income was ¥5.5 billion, a decrease of 52.5%. Sales of pachinko machines amounted to 89,000 units.

#### Pachislot Machines Business

In the pachislot machines business, the Group launched three Sankyo-brand series titles and two Bisty-brand series titles. The SANKYO-brand focused mainly on the title *Pachislot Macross Frontier* (introduced in April 2012) and also sold other titles such as *Pachislot Haouden ZERO* (introduced in September 2012). The new titles under the Bisty brand were *GTO Limit Break* (introduced in June 2012) and *Yaoh* (introduced in August 2012), which are tie-up products to popular manga.

As a result, segment sales amounted to ¥12.1 billion, an increase of 11.8% compared with the same period of the previous year, and operating income was ¥3.4 billion, an increase of 125.5%. Sales of pachislot machines amounted to 38,000 units.

#### Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥10.7 billion, an increase of 7.8% compared with the same period of the previous year, and operating income was ¥400 million, an increase of 14.4%.

#### Other Businesses

Sales of other businesses were ¥900 million, an increase of 21.5% compared with the same period of the previous year, and operating loss was ¥100 million compared with an operating income of ¥200 million a year earlier.

### (2) Qualitative Information on Consolidated Financial Position

Total assets at the end of the first six months of fiscal 2013 amounted to ¥439.9 billion, ¥56.0 billion lower than the figure for the previous fiscal year-end. Although there was a ¥9.9 billion increase in marketable securities, the decrease in total assets was mainly attributable to a ¥31.7 billion decrease in notes and accounts receivable-trade, an ¥18.8 billion decrease in investment in securities, and a ¥14.5 billion decrease in cash and deposits.

Total liabilities amounted to ¥32.5 billion, a decrease of ¥45.1 billion compared to the figure for the previous fiscal year-end. This decrease was mainly attributable to a ¥29.4 billion decrease in notes and accounts payable-trade, an ¥11.0 billion decrease in

accrued income taxes, and a ¥4.7 billion decrease in other payables (included in "Other" of current liabilities).

Net assets decreased ¥10.8 billion compared to the figure for the previous fiscal year-end. Whereas net income of ¥4.6 billion was recorded, change in the scope of consolidation resulted in a ¥7.8 billion decrease in net assets, and cash dividends paid amounted to ¥7.0 billion. As a result, net assets amounted to ¥407.4 billion and the shareholders' equity ratio increased 8.3 percentage points to 92.6%.

### **(3) Qualitative Information on Forecast of Consolidated Results**

In view of the recent trend, the Company revised the forecast of consolidated financial results for the full year of fiscal 2013 that was announced on May 9, 2012. Forecast of the sales volumes of pachinko machines and pachislot machines for the full year of fiscal 2013 were revised from 432,000 units to 190,000 units and from 188,000 units to 138,000 units, respectively. For details, please refer to the Notice concerning Revision of the Forecast of the Financial Results for Fiscal 2013 announced today.

The Company does not intend to revise the amount of the year-end dividend from its initial forecast of ¥75 per share (¥150 for the full year)

## **2. Other Information**

### **(1) Changes in significant subsidiaries during the period**

Not applicable.

Although there was a change in the scope of consolidation as described below, the subsidiary in question is not within the scope of the specified subsidiaries stipulated in Article 19, Paragraph 10 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

(Significant change in the scope of consolidation)

Yoshii Country Club Co., Ltd. and ON THE NET Inc. are included in the scope of consolidation in view of its increased significance.

### **(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 that are difficult to distinguish from changes in accounting estimates)

In line with the revision to the Corporation Tax Act of Japan, effective from the first quarter of the fiscal year ending March 31, 2013, the Company and its domestic consolidated subsidiaries adopted a new depreciation method pursuant to the revised Corporation Tax Act for tangible fixed assets purchased on or after April 1, 2012. The impact of this change on operating income, income before income taxes and net income was immaterial.

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

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

	As of March 31, 2012	As of Sep. 30, 2012
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	164,591	149,992
Notes and accounts receivable-trade	70,340	38,551
Marketable securities	106,997	116,996
Merchandise and finished goods	214	7
Work in process	1,643	334
Raw materials and inventories	957	448
Other	20,691	11,085
Allowance for doubtful accounts	(14)	(24)
Total current assets	365,423	317,394
Fixed assets:		
Tangible fixed assets	39,132	48,492
Intangible fixed assets		
Goodwill	3,013	3,584
Other	342	361
Total Intangible fixed assets	3,356	3,945
Investments and other assets:		
Investment securities	83,452	64,609
Other	5,192	6,081
Allowance for doubtful accounts	(189)	(191)
Allowance for investment loss	(379)	(379)
Total investments and other assets	88,075	70,119
Total fixed assets	130,564	122,557
Total assets	495,988	439,951

## Consolidated Balance Sheets

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

	As of March 31, 2012	As of Sep. 30, 2012
	Millions of yen	Millions of yen
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Notes and accounts payable-trade	43,504	14,084
Long-term loans payable due within one year	335	335
Accrued income taxes	13,019	1,925
Allowance for bonuses	803	1,026
Other	11,950	6,954
<b>Total current liabilities</b>	<b>69,614</b>	<b>24,326</b>
<b>Long-term liabilities:</b>		
Long-term loans payable	2,816	2,811
Provision for special retirement bonuses for directors	715	666
Accrued retirement allowance for employees	3,387	3,551
Asset retirement obligations	58	58
Other	1,091	1,092
<b>Total long-term liabilities</b>	<b>8,069</b>	<b>8,180</b>
<b>Total liabilities</b>	<b>77,684</b>	<b>32,507</b>
<b>Net Assets:</b>		
<b>Shareholders' equity:</b>		
Common stock	14,840	14,840
Capital surplus	23,880	23,880
Retained earnings	398,805	388,501
Less: treasury stock, at cost	(20,930)	(20,931)
<b>Total shareholders' equity</b>	<b>416,595</b>	<b>406,290</b>
<b>Accumulated other comprehensive income:</b>		
Net unrealized gain on other securities	1,708	1,154
<b>Total accumulated other comprehensive income:</b>	<b>1,708</b>	<b>1,154</b>
<b>Total net assets</b>	<b>418,303</b>	<b>407,444</b>
<b>Total liabilities and total net assets</b>	<b>495,988</b>	<b>439,951</b>

**(2) Consolidated Statements of Income**

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

	1st Six Months of FY2012	1st Six Months of FY2013
	Millions of yen	Millions of yen
Net sales	71,535	53,782
Cost of sales	38,934	26,367
Gross profit	32,600	27,415
Selling, general and administrative expenses	20,759	20,463
Operating income	11,841	6,952
Non-operating income:		
Interest income	528	546
Dividend income	63	162
Equity in earnings of affiliates	1,342	-
Other	164	167
Total non-operating income	2,099	876
Non-operating expenses:		
Interest expenses	0	3
Equity in losses of affiliates	-	152
Other	11	5
Total non-operating expenses	11	161
Recurring income	13,928	7,668
Extraordinary gains:		
Gain on sales of golf course membership	8	-
Total extraordinary gains	8	-
Extraordinary losses:		
Loss on disposal of fixed assets	3	26
Loss on sales of investment securities	755	-
Loss on sales of golf course membership	6	-
Loss on change in equity	1,602	-
Total extraordinary losses	2,368	26
Income before income taxes and minority interests	11,568	7,641
Income taxes:		
Current income taxes	4,908	2,859
Deferred income taxes	(94)	174
Total income taxes	4,813	3,034
Income before minority interests	6,754	4,607
Net income	6,754	4,607

## Consolidated Statements of Comprehensive Income

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

	1st Six Months of FY2012	1st Six Months of FY2013
	Millions of yen	Millions of yen
Income before minority interests	6,754	4,607
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(210)	(546)
Share of other comprehensive income of associates accounted for using equity method	16	(7)
Total other comprehensive income	(193)	(553)
Comprehensive income	6,560	4,053
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	6,560	4,053
Comprehensive income attributable to minority interests	-	-



**(3) Consolidated Statements of Cash Flows**

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

	1st Six Months of FY2012	1st Six Months of FY2013
	Millions of yen	Millions of yen
<b>Cash flows from operating activities:</b>		
Income before income taxes and minority interests	11,568	7,641
Depreciation and amortization	1,400	1,761
Amortization of goodwill	-	368
Increase (decrease) in allowance for doubtful accounts	347	331
Interest and dividend income	(591)	(708)
Interest expense	0	3
(Gain) loss on equity in earnings of affiliates	(1,342)	152
(Gain) loss on sales of investment securities	755	-
(Gain) loss on sales of golf course membership	(1)	-
(Gain) loss on change in equity	1,602	-
(Increase) decrease in notes and accounts receivable-trade	18,139	32,233
(Increase) decrease in inventories	(1,282)	2,042
Increase (decrease) in notes and accounts payable-trade	(17,878)	(29,590)
Other	1,468	2,972
Subtotal	14,186	17,207
Interest and dividend income received	810	757
Interest paid	(0)	(1)
Income taxes paid	(12,545)	(12,873)
Net cash (used in) provided by operating activities	2,450	5,089
<b>Cash flows from investing activities:</b>		
Payment into time deposits	-	(5,000)
Payment for purchase of tangible fixed assets and intangible fixed assets	(930)	(2,365)
Proceeds from sale of tangible fixed assets and intangible fixed assets	0	30
Payment for purchase of investment securities	(24,408)	(16,615)
Proceeds from sale of investment securities	444	-
Proceeds from redemption of investment securities	20,000	16,000
Proceeds from collection of long-term loans	2	8
Other	27	(42)
Net cash (used in) provided by investing activities	(4,864)	(7,984)
<b>Cash flows from financing activities:</b>		
Repayment for obligations under finance leases	(14)	(7)
Payment for purchase of treasury stock, net	3,720	(1)
Proceeds from sale of treasury stock, net	0	0
Cash dividends paid	(7,090)	(7,022)
Net cash (used in) provided financing activities	(10,824)	(7,030)
Net increase (decrease) in cash and cash equivalents	(13,239)	(9,925)
Cash and cash equivalents at beginning of the period	243,230	239,591
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	322
Cash and cash equivalents at end of the period	229,990	229,989

**(4) Notes on premise of a going concern**

1st Six Months of FY2013 (From April 1, 2012, to September 30, 2012)

Not applicable

**(5) Segment Information**

(Segment information by business category)

1st Six Months of FY2012 (From April 1, 2011, to September 30, 2011)

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

	1st Six Months of FY2012 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	49,927	10,874	9,935	70,736	798	71,535	-	71,535
Intersegment	-	-	-	-	-	-	-	-
Total	49,927	10,874	9,935	70,736	798	71,535	-	71,535
Segment income	11,637	1,551	380	13,569	269	13,839	(1,998)	11,841

1st Six Months of FY2013 (From April 1, 2012, to September 30, 2012)

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

	1st Six Months of FY2013 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	29,948	12,154	10,710	52,813	969	53,782	-	53,782
Intersegment	-	-	-	-	-	-	-	-
Total	29,948	12,154	10,710	52,813	969	53,782	-	53,782
Segment income	5,532	3,497	435	9,466	(164)	9,301	(2,349)	6,952

**(6) Notes on significant changes in shareholders' equity**

As a result of the change in the scope of consolidation and payment of cash dividends, retained earnings at the end of the first six months of fiscal 2013 were JPY14,911 million lower than the figure for the previous fiscal year-end.