

**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 13, 2013

Planned Date for Start of Dividend Payment: December 6, 2013

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 FY2014 (From April 1, 2013, to September 30, 2013)**

(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 FY2014	104,666	94.6%	26,415	279.9%	27,423	257.6%	21,080	357.5%
1st six months of FY2013	53,782	(24.8%)	6,952	(41.3%)	7,668	(44.9%)	4,607	(31.8%)
(note) Comprehensive income	1st six months of FY2014		¥21,626 million [433.6%]		1st six months of FY2013		¥4,053 million [(38.2%)]	

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2014	225.52	-
1st six months of FY2013	49.29	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of September 30, 2013	471,606	417,522	88.5	
As of March 31, 2013	464,259	402,918	86.8	
(reference) Shareholders' Equity	As of September 30, 2013	¥417,387 million	As of March 31, 2013	¥402,918 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, 2013	-	75.00	-	75.00	150.00
Year ended March 31, 2014	-	75.00	-	-	150.00
Year ended March 31, 2014 (Forecast)	-	75.00	-	75.00	150.00

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

**3. Forecast for FY2014 (From April 1, 2013, to March 31, 2014)**

(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, 2014	200,000	92.0%	32,000	355.6%	34,000	258.3%	25,000	327.1%	267.46

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 FY2014:					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, 2013:	97,597,500 shares	As of March 31, 2012:	97,597,500 shares		
b. No. of treasury stock As of Sep. 30, 2013:	4,124,626 shares	As of March 31, 2012:	4,124,256 shares		
c. Average number of shares issued and outstanding 1st 6M of FY2014:	93,473,078 shares	1st 6M of FY2013:	93,473,727 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 the Company and on certain assumptions deemed rational. The company does not guarantee their realization. Actual results, performance or achievements may differ materially from those expressed in forward-looking statements owing to various factors.

## 1. Qualitative Information and Financial Statements

### (1) Operating Results

During the first six months of the fiscal year ending March 31, 2014 (from April 1, 2013 to September 30, 2013), the monetary easing and economic policies pursued by the Japanese government led to improved corporate earnings, putting the Japanese economy on a moderate recovery track. Despite persisting concerns about a downside risk to overseas economies and uncertainty about the impact of the consumption tax increase scheduled to start from next spring, marked improvement of the employment conditions, personal incomes, and consumer confidence is expected.

In the pachinko and pachislot industry, reflecting a tendency among players to economize, whereas the offering of rental balls for pachinko at low prices is already the norm, the offering of rental tokens for pachislot at low prices has also been increasing. In view of this development together with the impact of a shrinking player population, sales of parlor operators have not recovered. Reflecting the persistence of a challenging business environment, parlor operators have become keener to cut costs and increasingly selective when purchasing new pachinko and pachislot machines, which are the key means of attracting players. Therefore, demand is concentrated on high-profile products, such as popular series and major titles, and, in contrast, other products are struggling. Thus, market polarization is underway.

In this environment, SANKYO Group is working to revamp its brand power mainly by strengthening product capabilities with a view to achieving the sales increase over the medium to long term. During the first six months of the fiscal year under review, the Group's major products, namely, *Fever Mobile Suit Gundam*, a new flagship model of the SANKYO brand, and *Evangelion 8*, a sequel to a mainstay title under the Bisty brand, won high popularity.

As a result, on a consolidated basis, net sales were ¥104.6 billion, an increase of 94.6% compared with the same period of the previous year, operating income was ¥26.4 billion, a increase of 279.9%, recurring income was ¥27.4 billion, a increase of 257.6%, and net income was ¥21.0 billion, a increase of 357.5%.

Results of segments are presented below:

#### Pachinko Machines Business

With regard to the SANKYO brand, the Group focused its sales efforts on *Fever Mobile Suit Gundam* (introduced in April 2013). The Group released *Beyond the Heavens* (introduced in May 2013) and *Evangelion 8* (introduced in July 2013) under the Bisty brand and *Magicape* (introduced in May 2013), *Ghost Neo* (introduced in June 2013), and *Slonko Flower* (introduced in August 2013) under the JB brand.

As a result, segment sales amounted to ¥76.3 billion, a increase of 155.1% compared with the same period of the previous year, and operating income was ¥22.3 billion, a increase of 303.3%. Sales of pachinko machines amounted to 210,000 units.

#### Pachislot Machines Business

The Group launched *Pachislot Aquarion II* (introduced in May 2013) and *Bomber Powerful II* (introduced in September 2013) under the SANKYO brand.

As a result, segment sales amounted to ¥19.1 billion, a increase of 57.9% compared with the same period of the previous year, and operating income was ¥6.9 billion, a increase of 98.6%. Sales of pachislot machines amounted to 52,000 units.

#### Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥8.5 billion, a decrease of 20.0% compared with the same period of the previous year, and operating income was ¥0.1 billion, a decrease of 54.2%.

#### Other Businesses

Sales of other businesses were ¥500 million, a decrease of 46.5% compared with the same period of the previous year, and operating loss was ¥300 million compared with an operating loss of ¥100 million a year earlier.

### (2) Financial Position

Total assets at the end of the first six months of fiscal 2014 amounted to ¥471.6 billion, having increased ¥7.3 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥14.9 billion increase in marketable securities and an ¥8.7 billion increase in cash and deposits despite a ¥7.8 billion decrease in accounts receivable for provision of parts and materials for value (included in "other" of current assets), a ¥6.5 billion decrease in merchandise and finished goods, and a ¥2.8 billion decrease in notes and accounts receivable-trade.

Total liabilities amounted to ¥54.0 billion, having decreased ¥7.2 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥13.2 billion decrease in notes and accounts payable-trade, which more than offset a ¥6.4 billion increase in accrued income taxes.

Net assets increased ¥14.6 billion compared with the figure at the previous fiscal year-end. Whereas cash dividends paid amounting to ¥7.0 billion was a factor decreasing net assets, this was more than offset by recording of net income amounting to ¥21.0 billion.

As a result, net assets amounted to ¥417.5 billion and the shareholders' equity ratio increased 1.7 percentage points to 88.5%.

### (3) Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecast of financial results for the full year announced on May 9, 2013.

## 2. Notes on Summary Information (Other)

### (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.

(Change in the scope of consolidation)

Yoshii Country Club Co., Ltd., which was a consolidated subsidiary in the previous fiscal year, was liquidated as a result of an absorption-type merger with consolidated subsidiary Sankyo Create Co., Ltd. on April 1, 2013, with Sankyo Create being the surviving company. Accordingly, Yoshii Country Club is excluded from the scope of consolidation.

### (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

Not applicable.

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

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

	As of March 31, 2013	As of Sep. 30, 2013
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	120,359	129,091
Notes and accounts receivable-trade	44,401	41,580
Marketable securities	136,993	151,991
Merchandise and finished goods	9,039	2,504
Work in process	300	169
Raw materials and inventories	1,338	991
Other	27,113	18,421
Allowance for doubtful accounts	(40)	(41)
Total current assets	339,504	344,710
Fixed assets:		
Tangible fixed assets	47,506	47,640
Intangible fixed assets		
Goodwill	3,215	2,847
Other	351	415
Total Intangible fixed assets	3,567	3,262
Investments and other assets:		
Investment securities	68,344	69,429
Other	5,720	6,947
Allowance for doubtful accounts	(4)	(3)
Allowance for investment loss	(379)	(379)
Total investments and other assets	73,681	75,993
Total fixed assets	124,755	126,896
Total assets	464,259	471,606

## Consolidated Balance Sheets

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

	As of March 31, 2013	As of Sep. 30, 2013
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	41,327	28,087
Long-term loans payable due within one year	506	-
Accrued income taxes	1,677	8,158
Allowance for bonuses	821	1,004
Other	8,858	11,234
<b>Total current liabilities</b>	<b>53,191</b>	<b>48,486</b>
Long-term liabilities:		
Long-term loans payable	2,658	-
Provision for special retirement bonuses for directors	695	728
Accrued retirement allowance for employees	3,641	3,720
Asset retirement obligations	58	58
Other	1,095	1,090
<b>Total long-term liabilities</b>	<b>8,149</b>	<b>5,598</b>
<b>Total liabilities</b>	<b>61,340</b>	<b>54,084</b>
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,880	23,880
Retained earnings	382,726	396,784
Less: treasury stock, at cost	(20,932)	(20,934)
<b>Total shareholders' equity</b>	<b>400,513</b>	<b>414,570</b>
Accumulated other comprehensive income:		
Net unrealized gain on other securities	2,405	2,816
<b>Total accumulated other comprehensive income:</b>	<b>2,405</b>	<b>2,816</b>
Minority interests in consolidated subsidiaries	-	134
<b>Total net assets</b>	<b>402,918</b>	<b>417,522</b>
<b>Total liabilities and total net assets</b>	<b>464,259</b>	<b>471,606</b>

**(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 FY2013	1st Six Months of FY2014
	Millions of yen	Millions of yen
Net sales	53,782	104,666
Cost of sales	26,367	51,999
Gross profit	27,415	52,667
Selling, general and administrative expenses	20,463	26,251
Operating income	6,952	26,415
Non-operating income:		
Interest income	546	526
Dividend income	162	228
Equity in earnings of affiliates	-	150
Other	167	114
Total non-operating income	876	1,020
Non-operating expenses:		
Interest expenses	3	2
Equity in losses of affiliates	152	-
Foreign exchange losses	-	6
Other	5	3
Total non-operating expenses	161	12
Recurring income	7,668	27,423
Extraordinary gains:		
Gain on sales of fixed assets	-	4
Total extraordinary gains	-	4
Extraordinary losses:		
Loss on disposal of fixed assets	26	49
Total extraordinary losses	26	49
Income before income taxes and minority interests	7,641	27,378
Income taxes:		
Current income taxes	2,859	8,400
Deferred income taxes	174	(2,237)
Total income taxes	3,034	6,163
Income before minority interests	4,607	21,215
Minority interests in income	-	134
Net income	4,607	21,080

## Consolidated Statements of Comprehensive Income

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

	1st Six Months of FY2013	1st Six Months of FY2014
	Millions of yen	Millions of yen
Income before minority interests	4,607	21,215
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(546)	345
Share of other comprehensive income of associates accounted for using equity method	(7)	66
Total other comprehensive income	(553)	411
Comprehensive income	4,053	21,626
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	4,053	21,492
Comprehensive income attributable to minority interests	-	134



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

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

	1st Six Months of FY2013	1st Six Months of FY2014
	Millions of yen	Millions of yen
<b>Cash flows from operating activities:</b>		
Income before income taxes and minority interests	7,641	27,378
Depreciation and amortization	1,761	1,580
Amortization of goodwill	368	368
Increase (decrease) in allowance for doubtful accounts	331	296
Interest and dividend income	(708)	(754)
Interest expense	3	2
(Gain) loss on equity in earnings of affiliates	152	(150)
(Increase) decrease in notes and accounts receivable-trade	32,233	2,820
(Increase) decrease in inventories	2,042	7,017
Increase (decrease) in notes and accounts payable-trade	(29,590)	(13,239)
Other	2,972	11,283
Subtotal	17,207	36,601
Interest and dividend income received	757	833
Interest paid	(1)	(53)
Income taxes paid	(12,873)	(1,615)
Net cash (used in) provided by operating activities	5,089	35,765
<b>Cash flows from investing activities:</b>		
Payment into time deposits	(5,000)	(500)
Proceeds from withdrawal of time deposits	-	5,030
Payment for purchase of marketable securities	-	(5,000)
Proceeds from redemption of marketable securities	-	5,000
Payment for purchase of tangible fixed assets and intangible fixed assets	(2,365)	(1,603)
Proceeds from sale of tangible fixed assets and intangible fixed assets	30	148
Payment for purchase of investment securities	(16,615)	(16,469)
Proceeds from redemption of investment securities	16,000	16,000
Proceeds from collection of long-term loans	8	108
Other	(42)	(23)
Net cash (used in) provided by investing activities	(7,984)	2,691
<b>Cash flows from financing activities:</b>		
Payment for long-term debt	-	(3,169)
Repayment for obligations under finance leases	(7)	(3)
Payment for purchase of treasury stock, net	(1)	(1)
Proceeds from sale of treasury stock, net	0	-
Cash dividends paid	(7,022)	(7,022)
Net cash (used in) provided financing activities	(7,030)	(10,196)
Net increase (decrease) in cash and cash equivalents	(9,925)	28,260
Cash and cash equivalents at beginning of the period	239,591	215,324
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	322	-
Cash and cash equivalents at end of the period	229,989	243,585

**(4) Notes to the quarterly Consolidated Financial Statements**

Notes on premise of a going concern

1st Six Months of FY2014 (From April 1, 2013, to September 30, 2013)

Not applicable

Notes on significant changes in shareholders' equity

1st Six Months of FY2014 (From April 1, 2013, to September 30, 2013)

Not applicable

Segment Information

(Segment information by business category)

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

1st Six Months of FY2014 (From April 1, 2013, to September 30, 2013)

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

	1st Six Months of FY2014 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	76,384	19,189	8,573	104,147	519	104,666	-	104,666
Intersegment	-	-	-	-	-	-	-	-
Total	76,384	19,189	8,573	104,147	519	104,666	-	104,666
Segment income	22,312	6,945	199	29,458	(367)	29,090	(2,674)	26,415