

**SANKYO CO., LTD.**

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

Shares listed: Tokyo (1st Section)

Code number: 6417

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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 quarter of FY2015 (From April 1, 2014, to June 30, 2014)**

(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 quarter of FY2015       | 20,688 (67.4%)        | 19 (99.9%)            | 371 (98.2%)           | (1,005) -            |
| 1st quarter of FY2014       | 63,456 177.5%         | 20,487 -              | 20,707 -              | 16,277 -             |
| (note) Comprehensive income | 1st quarter of FY2015 | (¥1,458) million [-%] | 1st quarter of FY2014 | ¥16,349 million [-%] |

|                       | Net income per share | Fully diluted net income per share |
|-----------------------|----------------------|------------------------------------|
|                       | Yen                  | Yen                                |
| 1st quarter of FY2015 | (10.76)              | -                                  |
| 1st quarter of FY2014 | 174.14               | -                                  |

(2) Consolidated financial position

|                                  | Total assets        | Net assets       | Capital adequacy ratio |                  |
|----------------------------------|---------------------|------------------|------------------------|------------------|
|                                  | Millions of yen     | Millions of yen  | %                      |                  |
| As of June 30, 2014              | 436,910             | 404,637          | 92.6                   |                  |
| As of March 31, 2014             | 451,149             | 413,096          | 91.5                   |                  |
| (reference) Shareholders' Equity | As of June 30, 2014 | ¥404,539 million | As of March 31, 2014   | ¥412,992 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, 2014            | -                       | 75.00       | -           | 75.00    | 150.00    |
| Year ended March 31, 2015            | -                       | -           | -           | -        | -         |
| Year ended March 31, 2015 (Forecast) | -                       | 75.00       | -           | 75.00    | 150.00    |

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

**3. Forecast for FY2015 (From April 1, 2014, to March 31, 2015)**

(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, 2015 | 172,000 8.5%    | 19,200 (31.5%)   | 20,900 (30.7%)   | 14,200 (36.6%)  | 151.92               |

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

SANKYO Group manages its business plan on a full-year basis and thus only discloses full-year figures.

**\* Notes**

- (1) Changes for important subsidiaries during the 1st quarter of FY2015: 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: Applicable
  - c. Changes in accounting estimates: Not applicable
  - d. Retrospective restatements: Not applicable

Note: For details, please refer to "2.Notes on Summary Information (Other) (3)Changes in accounting policies, changes in accounting estimates, and retrospective restatements" of the attached documents on Page 4.

- (4) Outstanding shares (common shares)
- a. No. of shares outstanding (including treasury stock) As of June 30, 2014: 97,597,500 shares As of March 31, 2014: 97,597,500 shares
  - b. No. of treasury stock As of June 30, 2014: 4,125,561 shares As of March 31, 2014: 4,125,351 shares
  - c. Average number of shares issued and outstanding 1st quarter of FY2015: 93,472,052 shares 1st quarter of FY2014: 93,473,190 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 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 quarter of the fiscal year ending March 31, 2015 (from April 1, 2014 to June 30, 2014), the Japanese economy, underpinned by the effects of various policies, remained on a recovery track as corporate earnings improved and consumer prices increased moderately. Although personal consumption was somewhat weak in the aftermath of the last-minute demand in the run-up to the consumption tax increase, it is expected to gradually pick up in line with the improvement of the employment and personal income situations.

The pachinko and pachislot industry did not experience a large drop in facility utilization following the consumption tax increase. However, pachinko parlors have evidently started to strengthen initiatives to cut expenses in order to soften the impact of the increased tax burden. Meanwhile, pachinko machine utilization remained low. Because parlors are curbing purchase volumes of new pachinko machines, the pachinko market was sluggish.

In these circumstances, the Group aims to achieve a continuous increase in sales by creating popular products capable of boosting brand power. During the first quarter of fiscal 2015, the Group released reused Pachinko models, which are attractively priced but expected to have an impact comparable to that of new machines, as well as two new pachinko titles, and one new pachislot title.

In line with the final payment of retirement benefits to directors and statutory auditors upon abolition of the retirement benefit plan in accordance with the resolution at the 49th Ordinary General Meeting of Shareholders held on June 27, 2014, an extraordinary loss of ¥1.7 billion was recorded.

As a result, on a consolidated basis, net sales were ¥20.6 billion, a decrease of 67.4% compared with the same period of the previous year, operating income was ¥19 million, a decrease of 99.9%, recurring income was ¥0.3 billion, a decrease of 98.2%, and a net loss amounted to ¥1.0 billion, compared with net income of ¥16.2 billion in the same period of the previous fiscal year.

Results of segments are presented below:

#### Pachinko Machines Business

The Group released *Fever Bodacious Space Pirates* (introduced in June 2014) under the SANKYO brand and *Uchi no Pochies* (introduced in May 2014) under the JB brand. Reused models released included *Fever Slayers Revolution* (introduced in April 2014), *TEKKEN* (introduced in May 2014), and *Cho Tenjiku* (introduced in June 2014).

As a result, segment sales amounted to ¥7.4 billion, a decrease of 82.9% compared with the same period of the previous year, and an operating loss amounted to ¥2.4 billion, compared with operating income of ¥15.1 billion in the same period of the previous fiscal year. Sales of pachinko machines amounted to 24,000 units.

#### Pachislot Machines Business

The Group focused its sales efforts on *Pachislot Macross Frontier II* (introduced in May 2014). *Pachislot Macross Frontier II* has gained high popularity among players and its machine utilization at parlors has been high.

As a result, segment sales amounted to ¥10.6 billion, a decrease of 30.3% compared with the same period of the previous year, and operating income was ¥3.8 billion, a decrease of 40.2%. Sales of pachislot machines amounted to 27,000 units.

#### Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥2.3 billion, a decrease of 47.0% compared with the same period of the previous year, and operating income was ¥33 million, a decrease of 73.0%.

#### Other Businesses

Sales of other businesses were ¥0.2 billion, a decrease of 18.1% compared with the same period of the previous year, and operating loss was ¥0.1 billion compared with an operating loss of ¥96 million a year earlier.

### (2) Financial Position

Total assets at the end of the first quarter of fiscal 2014 amounted to ¥436.9 billion, having decreased ¥14.2 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to an ¥11.5 billion decrease in cash and deposits and a ¥5.3 billion decrease in notes and accounts receivable-trade despite a ¥2.0 billion increase in accounts receivable for provision of parts and materials for value (included in "other" of current assets).

Total liabilities amounted to ¥32.2 billion, having decreased ¥5.7 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥7.2 billion decrease in accrued income taxes and a ¥1.4 billion decrease in accrued consumption tax (included in "other" of current liabilities) despite a ¥2.6 billion increase in long-term accounts payable-other (included in "other" of long-term liabilities).

Net assets decreased ¥8.4 billion compared with the figure at the previous fiscal year-end. This decrease was attributable to cash dividends paid amounting to ¥7.0 billion and recording of net loss amounting to ¥1.0 billion. As a result, net assets amounted to ¥404.6 billion and the shareholders' equity ratio increased 1.1 percentage points to 92.6%.

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

No revision has been made to the forecasts of financial results for fiscal 2015 announced on May 8, 2014.

**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)

**a. Application of "Accounting Standard for Retirement Benefits"**

Effective from the first quarter of the fiscal year ending March 31, 2015, the Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012, hereinafter "Retirement Benefits Accounting Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on May 17, 2012, hereinafter "Retirement Benefits Guidance") pursuant to the main clause of Article 35 of the Retirement Benefits Accounting Standard and the main clause of Article 67 of the Retirement Benefits Guidance, reviewed the method of calculating retirement benefit obligations and service costs, and changed the method of determining the discount rate. The method was changed from the use of the discount rate based on the number of years approximating to the expected average remaining working lives of employees to the use of a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

This change has no impact on the quarterly consolidated financial statements or on the segment information.

**b. Application of "Accounting Standards for Business Combinations"**

"Accounting Standards for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2013, hereinafter "Business Combinations Accounting Standards"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on September 13, 2013, hereinafter "Consolidated Accounting Standard"), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issued on September 13, 2013, hereinafter "Business Divestitures Accounting Standard"), and other related accounting standards have become applicable from the beginning of accounting periods beginning on or after April 1, 2014. Consequently, effective from the first quarter of the fiscal year ending March 31, 2015, the Company adopted these accounting standards (with the exception of the provisions of Article 39 of the Consolidated Accounting Standard) and changed certain accounting methods. Accordingly, the Company records the difference attributable to changes in the Company's ownership interest in subsidiaries if the Company retains control over such subsidiaries as capital surplus and charges expenses related to additional acquisition of stocks to cost in the fiscal year in which such expenses were incurred. Regarding business combinations taking place from the beginning of the first quarter of fiscal 2015 onward, if the allocated amount of the acquisition cost is revised following the determination of the provisional accounting treatment, the Company reflects such revision in the quarterly consolidated financial statements of the quarterly period in which the business combination takes place.

The Business Combinations Accounting Standards and other related accounting standards are applied in accordance with the transitional handling set forth in Article 58-2 (4) of the Business Combinations Accounting Standards, Paragraph 44-5 (4) of the Consolidated Accounting Standard, and Paragraph 57-4 (4) of the Business Divestitures Accounting and the Company applies these accounting standards from the beginning of the first quarter of fiscal 2015.

However, as there were no relevant transactions, early adoption of these accounting standards has no impact on the quarterly consolidated financial statements or on the segment information.

**(4) Additional information**

(Provision for special retirement bonuses for directors)

At the Ordinary General Meeting of Shareholders of the Company held on June 27, 2014, final payment of retirement benefits to directors and statutory auditors upon abolition of the retirement benefit plan was resolved. In accordance with this resolution, the entire amount of provision for special retirement bonuses for directors was reversed and accrued final payment amounting to ¥2,618 million is included in "other" of long-term liabilities as long-term accounts payable-other for presentation. ¥1,790 million is recorded as "directors' retirement benefits" in extraordinary losses.

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

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

|                                     | As of<br>March 31, 2014 | As of<br>June 30, 2014 |
|-------------------------------------|-------------------------|------------------------|
|                                     | Millions of yen         | Millions of yen        |
| Assets:                             |                         |                        |
| Current assets:                     |                         |                        |
| Cash and deposits                   | 124,546                 | 112,981                |
| Notes and accounts receivable-trade | 34,781                  | 29,458                 |
| Marketable securities               | 153,995                 | 155,998                |
| Merchandise and finished goods      | 4                       | 348                    |
| Work in process                     | 124                     | 377                    |
| Raw materials and inventories       | 856                     | 781                    |
| Other                               | 12,045                  | 14,392                 |
| Allowance for doubtful accounts     | (10)                    | (3)                    |
| Total current assets                | 326,343                 | 314,335                |
| Fixed assets:                       |                         |                        |
| Tangible fixed assets               | 46,622                  | 47,075                 |
| Intangible fixed assets:            |                         |                        |
| Goodwill                            | 2,478                   | 2,294                  |
| Other                               | 432                     | 426                    |
| Total intangible fixed assets       | 2,911                   | 2,720                  |
| Investments and other assets:       |                         |                        |
| Investment securities               | 69,417                  | 66,413                 |
| Other                               | 6,261                   | 6,770                  |
| Allowance for doubtful accounts     | (26)                    | (26)                   |
| Allowance for investment loss       | (379)                   | (379)                  |
| Total investments and other assets  | 75,272                  | 72,777                 |
| Total fixed assets                  | 124,806                 | 122,574                |
| Total assets                        | 451,149                 | 436,910                |

## Consolidated Balance Sheets

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

|  | As of<br>March 31, 2014 | As of<br>June 30, 2014 |
|--|-------------------------|------------------------|
|  | Millions of yen         | Millions of yen        |
| <b>Liabilities:</b>                                    |                         |                        |
| <b>Current liabilities:</b>                            |                         |                        |
| Notes and accounts payable-trade                       | 15,307                  | 14,227                 |
| Accrued income taxes                                   | 7,324                   | 87                     |
| Allowance for bonuses                                  | 832                     | 1,348                  |
| Other  | 8,847                   | 8,993                  |
| <b>Total current liabilities</b>                       | <b>32,312</b>           | <b>24,657</b>          |
| <b>Long-term liabilities:</b>                          |                         |                        |
| Provision for special retirement bonuses for directors | 753                     | -                      |
| Net defined benefit liabilities                        | 3,847                   | 3,859                  |
| Asset retirement obligations                           | 59                      | 59                     |
| Other  | 1,080                   | 3,696                  |
| <b>Total long-term liabilities</b>                     | <b>5,740</b>            | <b>7,615</b>           |
| <b>Total liabilities</b>                               | <b>38,053</b>           | <b>32,272</b>          |
| <b>Net Assets:</b>                                     |                         |                        |
| <b>Shareholders' equity:</b>                           |                         |                        |
| Common stock   | 14,840                  | 14,840                 |
| Capital surplus  | 23,879                  | 23,879                 |
| Retained earnings                                      | 391,083                 | 383,077                |
| Less: treasury stock, at cost                          | (20,937)                | (20,938)               |
| <b>Total shareholders' equity</b>                      | <b>408,865</b>          | <b>400,859</b>         |
| <b>Accumulated other comprehensive income:</b>         |                         |                        |
| Net unrealized gain on other securities                | 4,104                   | 3,658                  |
| Remeasurements of defined benefit plans                | 22                      | 21                     |
| <b>Total accumulated other comprehensive income:</b>   | <b>4,126</b>            | <b>3,680</b>           |
| Minority interests in consolidated subsidiaries        | 103                     | 97                     |
| <b>Total net assets</b>                                | <b>413,096</b>          | <b>404,637</b>         |
| <b>Total liabilities and total net assets</b>          | <b>451,149</b>          | <b>436,910</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 quarter<br>of FY2014 | 1st quarter<br>of FY2015 |
|--|--------------------------|--------------------------|
|  | Millions of yen          | Millions of yen          |
| Net sales  | 63,456                   | 20,688                   |
| Cost of sales  | 31,655                   | 10,609                   |
| Gross profit   | 31,800                   | 10,078                   |
| Selling, general and administrative expenses             | 11,313                   | 10,059                   |
| Operating income   | 20,487                   | 19                       |
| Non-operating income:                                    |                          |                          |
| Interest income  | 258                      | 239                      |
| Dividend income  | 228                      | 265                      |
| Other  | 81                       | 53                       |
| Total non-operating income                               | 569                      | 558                      |
| Non-operating expenses:                                  |                          |                          |
| Interest expenses  | 1                        | 0                        |
| Equity in losses of affiliates                           | 336                      | 197                      |
| Other  | 11                       | 8                        |
| Total non-operating expenses                             | 349                      | 206                      |
| Recurring income   | 20,707                   | 371                      |
| Extraordinary gains:                                     |                          |                          |
| Gain on sales of fixed assets                            | 4                        | -                        |
| Total extraordinary gains                                | 4                        | -                        |
| Extraordinary losses:                                    |                          |                          |
| Loss on disposal of fixed assets                         | 1                        | -                        |
| Directors' retirement benefits                           | -                        | 1,790                    |
| Total extraordinary losses                               | 1                        | 1,790                    |
| Income (loss) before income taxes and minority interests | 20,709                   | (1,418)                  |
| Income taxes:  |                          |                          |
| Current income taxes                                     | 8,260                    | 133                      |
| Deferred income taxes                                    | (3,828)                  | (540)                    |
| Total income taxes                                       | 4,432                    | (407)                    |
| Income (loss) before minority interests                  | 16,277                   | (1,011)                  |
| Minority interests in loss                               | -                        | (5)                      |
| Net income (loss)  | 16,277                   | (1,005)                  |

## Consolidated Statements of Comprehensive Income

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

|   | 1st quarter<br>of FY2014 | 1st quarter<br>of FY2015 |
|---|--------------------------|--------------------------|
|   | Millions of yen          | Millions of yen          |
| Income (loss) before minority interests   | 16,277                   | (1,011)                  |
| Other comprehensive income:   |                          |                          |
| Net unrealized gain (loss) on other securities                                      | 36                       | (451)                    |
| Remeasurements of defined benefit plans   | -                        | 0                        |
| Share of other comprehensive income of associates accounted for using equity method | 36                       | 4                        |
| Total other comprehensive income  | 72                       | (446)                    |
| Comprehensive income  | 16,349                   | (1,458)                  |
| Comprehensive income attributable to  |                          |                          |
| Comprehensive income attributable to owners of the parent                           | 16,349                   | (1,452)                  |
| Comprehensive income attributable to minority interests                             | -                        | (5)                      |



**(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 quarter of FY2015 (From April 1, 2014, to June 30, 2014)

Not applicable

**Segment Information**

(Segment information by business category)

1st quarter of FY2014 (From April 1, 2013, to June 30, 2013)

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

|                | 1st quarter 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      | 43,428                                  | 15,327                      | 4,416                                | 63,172   | 284   | 63,456 | -           | 63,456       |
| Intersegment   | -                                       | -                           | -                                    | -        | -     | -      | -           | -            |
| Total          | 43,428                                  | 15,327                      | 4,416                                | 63,172   | 284   | 63,456 | -           | 63,456       |
| Segment income | 15,144                                  | 6,460                       | 124                                  | 21,729   | (96)  | 21,632 | (1,145)     | 20,487       |

1st quarter of FY2015 (From April 1, 2014, to June 30, 2014)

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

|                | 1st quarter of FY2015 (Millions of yen) |                             |                                      |          |       |        |             |              |
|----------------|---|-----------------------------|--------------------------------------|----------|-------|--------|-------------|--------------|
|                | Reportable segments                     |                             |                                      |          | Other | Total  | Adjustments | Consolidated |
|                | Pachinko machines business              | Pachislot machines business | Ball bearing supply systems business | Subtotal |       |        |             |              |
| Sales          |   |                             |                                      |          |       |        |             |              |
| Customers      | 7,433                                   | 10,683                      | 2,339                                | 20,455   | 233   | 20,688 | -           | 20,688       |
| Intersegment   | -                                       | -                           | -                                    | -        | -     | -      | -           | -            |
| Total          | 7,433                                   | 10,683                      | 2,339                                | 20,455   | 233   | 20,688 | -           | 20,688       |
| Segment income | (2,497)                                 | 3,864                       | 33                                   | 1,400    | (190) | 1,210  | (1,190)     | 19           |