

SANKYO CO., LTD.

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

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 Planned Date for Submittal of the Financial Statements Report: November 13, 2014
 Planned Date for Start of Dividend Payment: December 5, 2014
 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 FY2015 (From April 1, 2014, to September 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 six months of FY2015	36,844	(64.8%)	(4,853)	-	(4,380)	-	(4,162)	-
1st six months of FY2014	104,666	94.6%	26,415	279.9%	27,423	257.6%	21,080	357.5%
(note) Comprehensive income	1st six months of FY2015		¥(4,681) million [-%]		1st six months of FY2014		¥21,626 million [433.6%]	

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2015	(44.53)	-
1st six months of FY2014	225.52	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of September 30, 2014	453,430	401,670	88.5	
As of March 31, 2014	451,149	413,096	91.5	
(reference) Shareholders' Equity	As of September 30, 2014	¥401,412 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	-	75.00	-	-	150.00
Year ended March 31, 2015 (Forecast)	-	75.00	-	75.00	-

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

*** 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.:					Applicable
b. Other changes:					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, 2014:	97,597,500 shares	As of March 31, 2013:	97,597,500 shares		
b. No. of treasury stock As of Sep. 30, 2014:	4,125,826 shares	As of March 31, 2013:	4,125,351 shares		
c. Average number of shares issued and outstanding 1st 6M of FY2015:	93,471,915 shares	1st 6M of FY2014:	93,473,078 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 six months of the fiscal year ending March 31, 2015 (from April 1, 2014 to September 30, 2014), the Japanese economy remained on a moderate recovery trend underpinned by the effects of various government policies. Meanwhile, personal consumption was somewhat weak in the aftermath of the last-minute demand in the run-up to the consumption tax increase and also because of unsettled weather in the summer. However, it is expected to gradually pick up in line with the improvement of the employment and personal income situations.

In the pachinko and pachislot industry, parlors responded to a challenging business environment, where the player population is declining, by stepping up their initiatives to cut expenses. This is reflected in their purchasing of new pachinko and pachislot machines, which are the key means of attracting customers. The tendency to carefully select sequels to popular titles or focus on promising titles with newsworthy buzz has become conspicuous. Particularly as pachinko machine utilization is still low, parlors are curbing purchase volumes of new pachinko machines. Thus, the pachinko market was sluggish except for a handful of powerful titles.

In these circumstances, consolidated results of the SANKYO Group for the first six months of fiscal 2015 were as follows: net sales of ¥36.8 billion, a decrease of 64.8% compared with the same period of the previous year; operating loss of ¥4.8 billion, compared with operating income of ¥26.4 billion in the same period of the previous fiscal year; Recurring loss of ¥4.3 billion, compared with Recurring income of ¥27.4 billion in the same period of the previous fiscal year; and a net loss of ¥4.1 billion compared with net income of ¥21.0 billion for the same period of the previous year. The Group plans to focus on the introduction of major titles in the second six months of the year. Sales in the first six months were insufficient to absorb selling, general and administrative expenses, resulting in an operating loss. In addition, an extraordinary loss of ¥1.7 billion was recorded because of the final payment of retirement benefits to directors and statutory auditors upon abolition of the retirement benefit plan.

Release of several powerful new titles is scheduled in the second six months. They include *FEVER KODA KUMI LEGEND LIVE* (to be introduced in October 2014), a new pachinko title under the SANKYO brand, and two major titles under the Bisty brand, namely, *CR ayumi hamasaki 2* (to be introduced in October 2014) and *Evangelion 9* (to be introduced in December 2014).

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥20.2 billion, a decrease of 73.5% compared with the same period of the previous year, and an operating loss amounted to ¥3.5 billion, compared with operating income of ¥22.3 billion for the same period of the previous fiscal year. Sales of pachinko machines amounted to 71,000 units. Major titles released in the first half include *Fever Bodacious Space Pirates* (introduced in June 2014) and *Fever The Melancholy of Haruhi Suzumiya* (introduced in July 2014) under the SANKYO brand, *Uchi no Pochies* (introduced in May 2014) under the JB brand, and *Evangelion 8 Extreme Battle* (introduced in July 2014), which is a reuse model under the Bisty brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥11.0 billion, a decrease of 42.6% compared with the same period of the previous year, and operating income was ¥1.5 billion, a decrease of 78.0%. Sales of pachislot machines amounted to 28,000 units. A major title released in the first half was *Pachislot Macross Frontier II* (introduced in May 2014) under the SANKYO brand.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥5.1 billion, a decrease of 39.5% compared with the same period of the previous year, and operating income was ¥0.1 billion, a decrease of 42.6%.

Other Businesses

Sales of other businesses were ¥400 million, a decrease of 18.0% compared with the same period of the previous year, and operating loss was ¥300 million compared with an operating loss of ¥300 million a year earlier.

(2) Financial Position

Total assets at the end of the first six months of fiscal 2015 amounted to ¥453.4 billion, having increased ¥2.2 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥16.2 billion increase in accounts receivable for provision of parts and materials for value (included in "other" of current assets), a ¥7.0 billion increase in merchandise and finished goods, and a ¥4.0 billion increase in marketable securities, despite a ¥12.9 billion decrease in cash and deposits and a ¥10.6 billion decrease in notes and accounts receivable-trade.

Total liabilities amounted to ¥51.7 billion, having increased ¥13.7 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥19.4 billion increase in notes and accounts payable-trade, which more than offset a ¥7.1 billion decrease in accrued income taxes.

Net assets decreased ¥11.4 billion compared with the figure at the previous fiscal year-end. Main factors accounting for this decrease were cash dividends paid amounting to ¥7.0 billion and recording of net loss amounting to ¥4.1 billion. As a result, net assets amounted to ¥401.6 billion and the shareholders' equity ratio decreased 3.0 percentage points to 88.5%.

(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.

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.

(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 March 31, 2014	As of Sep. 30, 2014
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	124,546	111,576
Notes and accounts receivable-trade	34,781	24,114
Marketable securities	153,995	158,001
Merchandise and finished goods	4	7,028
Work in process	124	77
Raw materials and inventories	856	1,261
Other	12,045	30,419
Allowance for doubtful accounts	(10)	(6)
Total current assets	326,343	332,473
Fixed assets:		
Tangible fixed assets	46,622	47,797
Intangible fixed assets		
Goodwill	2,478	2,109
Other	432	416
Total Intangible fixed assets	2,911	2,526
Investments and other assets:		
Investment securities	69,417	64,341
Other	6,261	6,697
Allowance for doubtful accounts	(26)	(26)
Allowance for investment loss	(379)	(379)
Total investments and other assets	75,272	70,633
Total fixed assets	124,806	120,957
Total assets	451,149	453,430

Consolidated Balance Sheets

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

	As of March 31, 2014 Millions of yen	As of Sep. 30, 2014 Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	15,307	34,777
Accrued income taxes	7,324	197
Allowance for bonuses	832	1,021
Other	8,847	8,102
Total current liabilities	32,312	44,098
Long-term liabilities:		
Provision for special retirement bonuses for directors	753	-
Net defined benefit liabilities	3,847	3,904
Asset retirement obligations	59	59
Other	1,080	3,698
Total long-term liabilities	5,740	7,661
Total liabilities	38,053	51,760
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,879	23,879
Retained earnings	391,083	379,920
Less: treasury stock, at cost	(20,937)	(20,939)
Total shareholders' equity	408,865	397,701
Accumulated other comprehensive income:		
Net unrealized gain on other securities	4,104	3,690
Remeasurements of defined benefit plans	22	20
Total accumulated other comprehensive income:	4,126	3,711
Subscription rights to shares	-	257
Minority interests in consolidated subsidiaries	103	-
Total net assets	413,096	401,670
Total liabilities and total net assets	451,149	453,430

(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 FY2014	1st Six Months of FY2015
	Millions of yen	Millions of yen
Net sales	104,666	36,844
Cost of sales	51,999	19,674
Gross profit	52,667	17,170
Selling, general and administrative expenses	26,251	22,023
Operating income (loss)	26,415	(4,853)
Non-operating income:		
Interest income	526	468
Dividend income	228	265
Equity in earnings of affiliates	150	-
Other	114	95
Total non-operating income	1,020	828
Non-operating expenses:		
Interest expenses	2	0
Equity in losses of affiliates	-	343
Foreign exchange losses	6	-
Other	3	11
Total non-operating expenses	12	355
Recurring income (loss)	27,423	(4,380)
Extraordinary gains:		
Gain on sales of fixed assets	4	1
Total extraordinary gains	4	1
Extraordinary losses:		
Loss on disposal of fixed assets	49	7
Directors' retirement benefits	-	1,790
Total extraordinary losses	49	1,797
Income (loss) before income taxes and minority interests	27,378	(6,176)
Income taxes:		
Current income taxes	8,400	174
Deferred income taxes	(2,237)	(2,084)
Total income taxes	6,163	(1,910)
Income (loss) before minority interests	21,215	(4,266)
Minority interests in income (loss)	134	(103)
Net income (loss)	21,080	(4,162)

Consolidated Statements of Comprehensive Income

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

	1st Six Months of FY2014	1st Six Months of FY2015
	Millions of yen	Millions of yen
Income (loss) before minority interests	21,215	(4,266)
Other comprehensive income:		
Net unrealized gain (loss) on other securities	345	(361)
Remeasurements of defined benefit plans	-	0
Share of other comprehensive income of associates accounted for using equity method	66	(54)
Total other comprehensive income	411	(415)
Comprehensive income	21,626	(4,681)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	21,492	(4,577)
Comprehensive income attributable to minority interests	134	(103)

(3) Consolidated Statements of Cash Flows

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

	1st Six Months of FY2014	1st Six Months of FY2015
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income (loss) before income taxes and minority interests	27,378	(6,176)
Depreciation and amortization	1,580	1,674
Amortization of goodwill	368	368
Share-based compensation expenses	-	251
Increase (decrease) in allowance for doubtful accounts	296	(569)
Increase (decrease) in net defined benefit liabilities	-	57
Interest and dividend income	(754)	(733)
Interest expense	2	0
(Gain) loss on equity in earnings of affiliates	(150)	343
(Increase) decrease in notes and accounts receivable-trade	2,820	10,666
(Increase) decrease in inventories	7,017	(7,380)
Increase (decrease) in notes and accounts payable-trade	(13,239)	19,470
Other	11,283	(15,228)
Subtotal	36,601	2,745
Interest and dividend income received	833	609
Interest paid	(53)	(0)
Income taxes paid	(1,615)	(7,143)
Net cash (used in) provided by operating activities	35,765	(3,788)
Cash flows from investing activities:		
Payment into time deposits	(500)	-
Proceeds from withdrawal of time deposits	5,030	500
Payment for purchase of marketable securities	(5,000)	(5,000)
Proceeds from redemption of marketable securities	5,000	5,000
Payment for purchase of tangible fixed assets and intangible fixed assets	(1,603)	(2,030)
Proceeds from sale of tangible fixed assets and intangible fixed assets	148	1
Payment for purchase of investment securities	(16,469)	(16,005)
Proceeds from redemption of investment securities	16,000	16,000
Proceeds from collection of long-term loans	108	1
Other	(23)	(121)
Net cash (used in) provided by investing activities	2,691	(1,654)
Cash flows from financing activities:		
Payment for long-term debt	(3,169)	-
Repayment for obligations under finance leases	(3)	(3)
Payment for purchase of treasury stock, net	(1)	(1)
Cash dividends paid	(7,022)	(7,021)
Net cash (used in) provided financing activities	(10,196)	(7,027)
Net increase (decrease) in cash and cash equivalents	28,260	(12,470)
Cash and cash equivalents at beginning of the period	215,324	239,041
Cash and cash equivalents at end of the period	243,585	226,571

(4) Notes to the quarterly Consolidated Financial Statements

Notes on premise of a going concern

1st Six Months of FY2015 (From April 1, 2014, to September 30, 2014)

Not applicable

Notes on significant changes in shareholders' equity

1st Six Months of FY2015 (From April 1, 2014, to September 30, 2014)

Not applicable

Segment Information

(Segment information by business category)

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

1st Six Months of FY2015 (From April 1, 2014, to September 30, 2014)

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

	1st Six Months 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	20,218	11,012	5,188	36,419	425	36,844	-	36,844
Intersegment	-	-	-	-	-	-	-	-
Total	20,218	11,012	5,188	36,419	425	36,844	-	36,844
Segment income	(3,550)	1,528	114	(1,907)	(310)	(2,217)	(2,635)	(4,853)