

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: August 13, 2015

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 FY2016 (From April 1, 2015, to June 30, 2015)

(1) Consolidated operating results

(Percentage figures denote year-over-year changes.)

	Net sales		Operating income		Recurring income		Profit attributable to owners of parent	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen	
1st quarter of FY2016	35,947	73.8%	5,770	-	6,202	-	4,282	-
1st quarter of FY2015	20,688	(67.4%)	19	(99.9%)	371	(98.2%)	(1,005)	-
(note) Comprehensive income	1st quarter of FY2016		¥4,819 million [-%]		1st quarter of FY2015		¥(1,458) million [-%]	

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st quarter of FY2016	50.10	50.05
1st quarter of FY2015	(10.76)	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of June 30, 2015	420,467	370,066	88.0	
As of March 31, 2015	434,648	371,670	85.5	
(reference) Shareholders' Equity	As of June 30, 2015	¥369,823 million	As of March 31, 2015	¥371,416 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, 2015	-	75.00	-	75.00	150.00
Year ended March 31, 2016	-	-	-	-	-
Year ended March 31, 2016 (Forecast)	-	75.00	-	75.00	150.00

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

3. Forecast for FY2016 (From April 1, 2015, to March 31, 2016)

(Percentage figures denote year-over-year changes.)

	Net sales		Operating income		Recurring income		Profit attributable to owners of parent		Net income per share
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Yen
Year ending March 31, 2016	150,000	2.3%	14,000	5.8%	15,000	0.9%	10,000	14.6%	116.99

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 FY2016: 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 June 30, 2015: 89,597,500 shares As of March 31, 2015: 89,597,500 shares
 - b. No. of treasury stock As of June 30, 2015: 4,123,451 shares As of March 31, 2015: 4,126,611 shares
 - c. Average number of shares issued and outstanding 1st quarter of FY2016: 85,474,128 shares 1st quarter of FY2015: 93,472,052 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, 2016 (from April 1, 2015 to June 30, 2015), despite limited growth in personal consumption and a risk of a possible downturn of overseas economies, notably the Chinese economy, the Japanese economy remained on a moderate recovery path, underpinned by the effects of government policies, as indicated by signs of improvement in employment and personal income reflecting improvement in corporate earnings and rising stock prices.

With regard to the pachinko and pachislot industry, in view of the revisions to the standards for both pachinko and pachislot machines scheduled toward the end of the year, the focus of attention is on major titles compliant with the current standards that are expected to be launched from this summer onward. Thus, the market in the first quarter of fiscal 2016 lacked vigor.

Under these circumstances, the SANKYO Group released new models as scheduled and continued to offer reuse products at low prices. *Fever Queen* and *Fever Powerful* introduced in the previous year, which are models with simple and easy-to-play gaming performance, remained popular and won repeat orders, resulting in constant sales.

As a result, on a consolidated basis, net sales were ¥35.9 billion, an increase of 73.8% compared with the same period of the previous year, operating income was ¥5.7 billion, compared with ¥19 million of the same period of the previous year, recurring income was ¥6.2 billion, compared with ¥0.3 billion of the same period of the previous year, and profit attributable to owners of the parent amounted to ¥4.2 billion, compared with a loss attributable to owners of the parent amounting to ¥1.0 billion in the same period of the previous fiscal year.

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥20.7 billion, a increase of 179.3% compared with the same period of the previous year, and operating income amounted to ¥3.6 billion, compared with operating loss of ¥2.4 billion in the same period of the previous fiscal year. Sales of pachinko machines amounted to 65,000 units. Major titles released included *Space Battleship Yamato* (introduced in May 2015) under the SANKYO brand, *CR EVANGELION 9 Type zero ver.* (introduced in May 2015), under the Bisty brand, and *PASSION MONSTER* (introduced in June 2015) under the JB brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥11.5 billion, a increase of 7.7% compared with the same period of the previous year, and operating income was ¥3.2 billion, a decrease of 15.9%. Sales of pachislot machines amounted to 35,000 units. Major titles released included *Pachislot Mutsuenmeiryugaiden SHURA no TOKI* (introduced in April 2015) under the SANKYO brand, and *EVANGELION-Spear of Hope* (introduced in June 2015) under the Bisty brand.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥3.4 billion, a increase of 49.0% compared with the same period of the previous year, and operating income was ¥84 million, a increase of 150.0%.

Other Businesses

Sales of other businesses were ¥0.1 billion, a decrease of 16.5% compared with the same period of the previous year, and operating loss was ¥0.1 billion compared with an operating loss of ¥0.1 billion a year earlier.

(2) Financial Position

Total assets at the end of the first quarter of the fiscal year ending March 31, 2016 amounted to ¥420.4 billion, having decreased ¥14.1 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥6.9 billion decrease in notes and accounts receivable-trade, a ¥5.0 billion decrease in marketable securities, a ¥1.5 billion decrease in investment securities, and a ¥1.3 billion decrease in cash and deposits.

Total liabilities amounted to ¥50.4 billion, having decreased ¥12.5 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥11.4 billion decrease in notes and accounts payable-trade and a ¥2.2 billion decrease in accrued income taxes.

Net assets decreased ¥1.6 billion compared with the figure at the previous fiscal year-end. This decrease was attributable to cash dividends paid amounting to ¥6.4 billion, whereas profit attributable to owners of the parent amounting to ¥4.2 billion and net unrealized gain on other securities amounting to ¥0.5 billion were recorded. As a result, net assets amounted to ¥370.0 billion and the shareholders' equity ratio increased 2.5 percentage points to 88.0%.

(3) Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecasts of financial results for fiscal 2016 announced on May 12, 2015.

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

Not applicable.

(4) Additional information

(Accounting standards for business combinations)

The Company adopted the provisions in Paragraph 39 of the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on September 13, 2013), and changed the presentation of net income, etc. as well as the presentation of minority interests to non-controlling interests. To reflect these changes in the presentations, the quarterly consolidated financial statements for the first quarter of the previous fiscal year and the consolidated financial statements for the previous fiscal year have been reclassified.

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

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

	As of March 31, 2015	As of June 30, 2015
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	133,675	132,287
Notes and accounts receivable-trade	45,070	38,116
Marketable securities	129,999	124,998
Merchandise and finished goods	62	78
Work in process	741	387
Raw materials and supplies	2,742	2,479
Other	12,755	14,525
Allowance for doubtful accounts	(3)	(3)
Total current assets	325,043	312,869
Fixed assets:		
Tangible fixed assets	47,424	47,523
Intangible fixed assets:		
Goodwill	1,741	1,557
Other	436	420
Total intangible fixed assets	2,178	1,977
Investments and other assets:		
Investment securities	54,106	52,584
Other	6,303	5,918
Allowance for doubtful accounts	(26)	(26)
Allowance for investment loss	(379)	(379)
Total investments and other assets	60,003	58,097
Total fixed assets	109,605	107,597
Total assets	434,648	420,467

Consolidated Balance Sheets

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

	As of March 31, 2015	As of June 30, 2015
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	41,204	29,783
Accrued income taxes	3,804	1,548
Allowance for bonuses	833	1,339
Other	9,068	9,652
Total current liabilities	54,911	42,323
Long-term liabilities:		
Net defined benefit liabilities	4,388	4,431
Asset retirement obligations	63	63
Other	3,615	3,582
Total long-term liabilities	8,067	8,076
Total liabilities	62,978	50,400
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	347,975	345,829
Less: treasury stock, at cost	(19,724)	(19,709)
Total shareholders' equity	366,840	364,709
Accumulated other comprehensive income:		
Net unrealized gain on other securities	4,794	5,318
Remeasurements of defined benefit plans	(218)	(205)
Total accumulated other comprehensive income	4,575	5,113
Subscription rights to shares	253	243
Total net assets	371,670	370,066
Total liabilities and total net assets	434,648	420,467

(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 of FY2015	1st quarter of FY2016
	Millions of yen	Millions of yen
Net sales	20,688	35,947
Cost of sales	10,609	20,422
Gross profit	10,078	15,524
Selling, general and administrative expenses	10,059	9,754
Operating income	19	5,770
Non-operating income:		
Interest income	239	180
Dividend income	265	295
Other	53	94
Total non-operating income	558	570
Non-operating expenses:		
Interest expenses	0	-
Equity in losses of affiliates	197	110
Other	8	27
Total non-operating expenses	206	138
Recurring income	371	6,202
Extraordinary losses:		
Loss on disposal of fixed assets	-	7
Directors' retirement benefits	1,790	-
Total extraordinary losses	1,790	7
Income (loss) before income taxes and minority interests	(1,418)	6,195
Income taxes:		
Current income taxes	133	1,610
Deferred income taxes	(540)	302
Total income taxes	(407)	1,913
Profit (loss)	(1,011)	4,282
Profit (loss) attributable to non-controlling interests	(5)	-
Profit (loss) attributable to owners of parent	(1,005)	4,282

Consolidated Statements of Comprehensive Income

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

	1st quarter of FY2015	1st quarter of FY2016
	Millions of yen	Millions of yen
Profit (loss)	(1,011)	4,282
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(451)	521
Remeasurements of defined benefit plans	0	14
Share of other comprehensive income of associates accounted for using equity method	4	1
Total other comprehensive income	(446)	537
Comprehensive income	(1,458)	4,819
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(1,452)	4,819
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 FY2016 (From April 1, 2015, to June 30, 2015)

Not applicable

Segment Information

(Segment information by business category)

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

1st quarter of FY2016 (From April 1, 2015, to June 30, 2015)

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

	1st quarter of FY2016 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	20,762	11,504	3,486	35,753	194	35,947	-	35,947
Intersegment	-	-	-	-	-	-	-	-
Total	20,762	11,504	3,486	35,753	194	35,947	-	35,947
Segment income	3,650	3,251	84	6,986	(177)	6,808	(1,038)	5,770

(Significant Subsequent Events)

(Issue of Euro-Yen Denominated Convertible Bond-Type Bonds with Subscription Rights to Shares due in 2020)

At the meeting of the Board of Directors held on July 7, 2015, the Company resolved to issue euro-yen denominated convertible bond-type bonds with subscription rights to shares due in 2020 and payment was completed on July 23, 2015. The details are described below.

1. Bond name
SANKYO CO., LTD. Euro-Yen Denominated Convertible Bond-type Bonds with Subscription Rights to Shares due in 2020 (hereinafter referred to as the "Bonds with Subscription Rights to Shares." Of the Bonds with Subscription Rights to Shares, Convertible Bond-type Bonds alone are referred to as the "Bonds" and Subscription Rights to Shares alone are referred to as the "Subscription Rights to Shares").
2. Issue value (paid-in amount)
100.5% of the Bonds' face value (face value: ¥10 million each)
3. Issue price (offer price)
103.0% of the Bonds' face value
4. Total amount of issue value
¥20,100 million and the Bonds' aggregate face value concerning replacement bond certificates with subscription rights to shares
5. Bond interest rate
Non-interest bearing
6. Payment date and date of issue
July 23, 2015
7. Redemption method and maturity
Redemption at 100% of the Bonds' face value on July 23, 2020 (due date). However, there are certain provisions according to the terms and conditions of the issue.
8. Details of the Subscription Rights to Shares
 - (1) Class, content and number of shares to be issued upon exercise of Subscription Rights to Shares
 - 1) Class and content
Company's common stock (one tradable unit consisting of 100 shares)
 - 2) Number of shares
The number of shares of the Company's common stock to be granted upon exercise of the Subscription Rights to Shares shall be the Bonds' aggregate face value concerning the requests of exercise divided by the conversion price stated in (3) below. Fractions of less than one unit resulting from such exercise shall be rounded down and shall not be adjusted by cash.
 - (2) Total number of Subscription Rights to Shares to be issued
2,000 and the Bonds' aggregate face value concerning replacement bond certificates with subscription rights to shares divided by ¥10 million
 - (3) Amount to be paid in upon exercise of Subscription Rights to Shares
 - 1) Upon exercise of the Subscription Rights to Shares, the Bonds pertaining to the Subscription Rights to Shares shall be contributed and the value of such Bonds shall be the same as their face value.
 - 2) The initial conversion price shall be ¥5,194.
 - 3) Adjustment of the conversion price
If, after the issue of the Bonds with Subscription Rights to Shares, the Company issues shares of the Company's common stock or disposes of shares of the Company's common stock owned by the Company at a paid-in price below the market value of the Company's common stock, the conversion price shall be adjusted by the formula below. "Number of issued shares" in the formula below is the number of issued shares of the Company's common stock (excluding those owned by the Company).

$$\text{Conversion price after adjustment} = \text{Conversion price before adjustment} \times \frac{\text{Number of issued shares} + \frac{\text{Number of shares to be issued or disposed of} \times \text{Paid-in price per share}}{\text{Market value}}}{\text{Number of issued shares} + \text{Number of shares to be issued or disposed of}}$$

Additionally, the conversion price shall also be adjusted if the Company conducts a stock split or a reverse stock split of the Company's common stock, pays a certain amount of dividends of surplus, or issues subscription rights to shares that grant rights of subscription to shares of the Company's common stock at a price below the market value of the Company's common stock (including those attached to bonds with subscription rights to shares), or in certain other circumstances.

- (4) Period during which subscription rights to shares may be exercised
From August 6, 2015 to July 9, 2020 (local time of the place where requests for exercise are received). However, there are certain provisions according to the terms and conditions of the issue.
- (5) Capital stock and legal capital surplus to be increased due to the issue of shares upon exercise of Subscription Rights to Shares
The amount of capital stock to be increased due to the issue of shares upon exercise of Subscription Rights to Shares shall be the increase limit of stated capital, etc., which is calculated in accordance with Article 17 of the Ordinance on Accounting of Companies, multiplied by 0.5 and fractions of less than ¥1 resulting from the calculation shall be rounded up. The amount of legal capital surplus to be increased shall be equal to the increase limit of stated capital, etc. less the amount by which capital stock is increased.
- (6) Issue of subscription rights to shares by the succeeding entity in the case of corporate restructuring of the Company
There are certain provisions according to the terms and conditions of the issue.

9. Collateral or guarantee of the Bonds

The Bonds will be issued without collateral or guarantees.

10. Use of proceeds

The proceeds from the issue of the Bonds with Subscription Rights to Shares shall be used for repurchase of own shares by December 31, 2015 for the purpose of enhancing return of profits to shareholders and increasing corporate value by the flexible repurchase of own shares.

Regarding the repurchase of own shares conducted before the payment date of the Bonds with Subscription Rights to Shares, the proceeds from the issue of the Bonds with Subscription Rights to Shares were used to make up part of cash on hand used for the repurchase of own shares on and after the payment date. As repurchase of own shares is conducted taking the market environment and other factors into consideration, the aggregate amount of the repurchase cost may be less than the proceeds from the issue of the Bonds with Subscription Rights to Shares mentioned above. In such case, the proceeds shall be used as part of working capital, such as research and development expenses.

(Repurchase of the Company's Own Shares under the provisions of the Articles of Incorporation pursuant to Article 165, Paragraph 2 of the Company Law)

At the Board of Directors' meeting held on July 7, 2015, the Company resolved to repurchase its own shares under Article 156 of the Company Law as applied pursuant to Article 165, Paragraph 3 of the Company Law.

1. Reason for Repurchase of Own Shares

The purpose is to enhance return of profits to shareholders and improve capital efficiency.

2. Details of Share Repurchase

- | | |
|---|--|
| (1) Type of shares to be repurchased: | Common stock |
| (2) Aggregate number of shares eligible for repurchase: | Up to 4,700,000 shares |
| (3) Aggregate amount of repurchase cost: | Up to 20.0 billion yen |
| (4) Period of repurchase: | From July 8, 2015 to December 31, 2015 |
| (5) Method of repurchase: | Open-market purchase on the Tokyo Stock Exchange |