Good luck. Good life.

SANKYO

Boosting Stakeholder Value at Each Step

Annual Report 2016

Year ended March 31, 2016

2016

SANKYO CO., LTD.

Boosting Stakeholder Value at Each Step

Ever since the establishment of SANKYO Co., Ltd. in 1966, inspired by our credo of "ingenuity" we have been a source of epoch-making, player-captivating pachinko machines, thus making a great contribution to the industry's development. In recent years, SANKYO has secured a firm position as a pachislot machine manufacturer, maintaining a substantial market share in the pachislot machine industry. By focusing our management resources on the pachinko and pachislot machine businesses, we have created "ingenious and original products" that keep us ahead of the competition. As a result, the SANKYO Group has constructed stable revenue bases and achieved a sound financial position.

Furthermore, the SANKYO Group has continued to provide stable dividends, in addition to proactively purchasing treasury stock with the aim of increasing the return to shareholders.

Capitalizing on the experience and know-how that the SANKYO Group has accumulated, we aspire to secure our competitive advantage as a manufacturer that continues to lead the industry, thereby raising our corporate value.

Contents

Cautionary Statements with Respect to Forward-Looking Statements

Statements contained in this report with respects to the SANKYO Group's plans, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of the SANKYO Group which are based on management's assumptions and beliefs in light of the information currently available to it. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the SANKYO Group's actual results, performance or achievements to differ materially from the expectations expressed herein.

Consolidated Financial Highlights

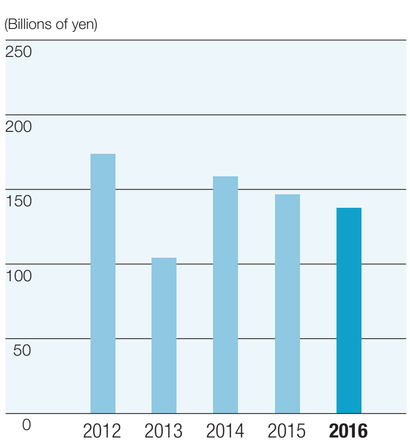
SANKYO CO., LTD. and Its Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	**2016**
For the year:			
Net sales	**¥137,130**	¥146,579	**$1,216,990**
Operating income	**18,826**	13,233	**167,079**
Net income attributable to owners of parent	**10,485**	8,728	**93,054**
At year-end:			
Total assets	**¥414,183**	¥434,648	**$3,675,748**
Total net assets	**348,941**	371,670	**3,096,750**

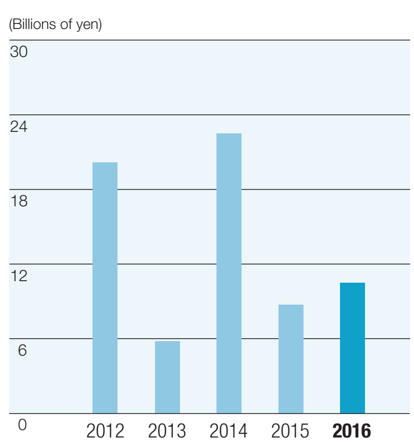
	Yen		U.S. dollars
Per share data:			
Net income (basic)	**¥126.78**	¥ 94.48	**$1.13**
Cash dividends	**150.00**	150.00	**1.33**

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥112.68=U.S.$1. See Note 2 to the consolidated financial statements.

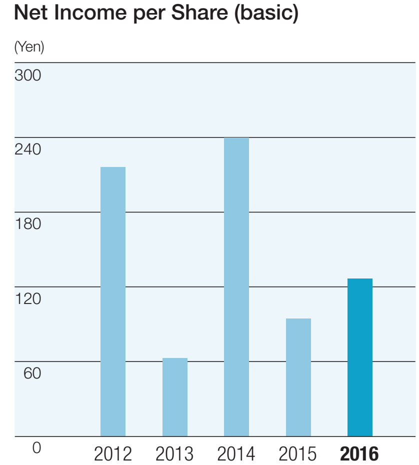
Net Sales



Net Income Attributable to Owners of Parent



Net Income per Share (basic)



Interview with the Management

H. Busujima

Hideyuki Busujima
Chairman of the Board & CEO

K. Tsutsui

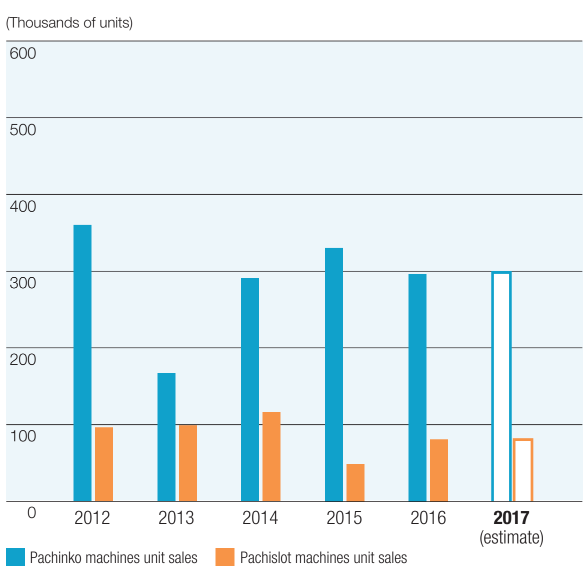
Kimihisa Tsutsui
President & COO

Q1 SANKYO recorded a decrease in sales but an increase in profit for the fiscal year ended March 31, 2016. What factors led to this result?

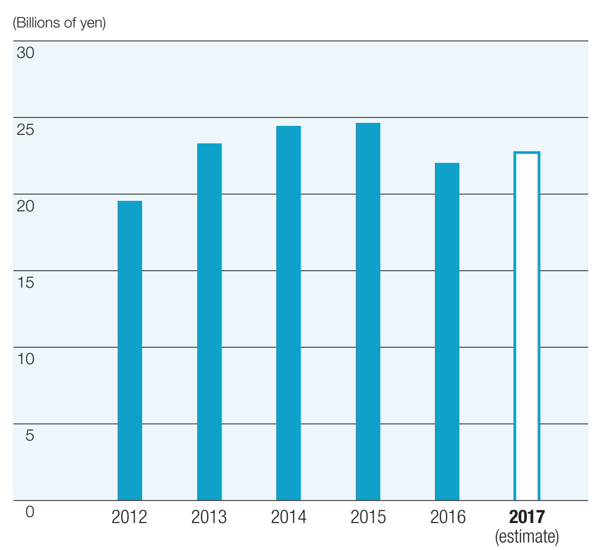
A For the fiscal year ended March 31, 2016 (fiscal 2016), our profit exceeded the previous year's level despite a decrease in sales. On a consolidated basis, net sales decreased 6.4% year on year to ¥137.1 billion, but operating income surged 42.3% to ¥18.8 billion and net income attributable to owners of parent rose 20.1% to ¥10.4 billion.

With the objective of achieving sound development of the market, the pachinko and pachislot industry is pursuing across-the-board initiatives to halt the decline in the player population. Manufacturers are promoting development of diverse easy-to-play machines in accordance with the voluntary regulations newly established by the industry organization to discourage players from becoming overly immersed in playing. However, as both pachinko and

Pachinko and Pachislot Machines Unit Sales of the SANKYO Group



Trend of R&D Expenditure



pachislot manufacturers are still on a quest for new gaming performance, the market continued to contract while competition among manufacturers intensified.

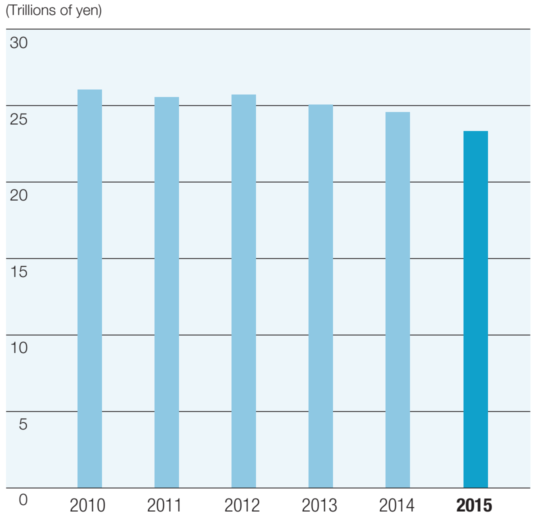
In these circumstances, the SANKYO Group sold 296,000 pachinko machines, a decrease of 33,000 units compared with the previous year, and 80,000 pachislot machines, an increase of 31,000 units. The total number of pachinko and pachislot machines sold was slightly less than the previous year's level. Although net sales decreased, brisk sales of original titles whose unit prices are low but whose margins are high contributed to an improvement of gross margin. In addition, decreases in both R&D expenditure and advertising expenses led to an increase in operating income.

Q2 How do you view the market environment for the time being and what are the issues?

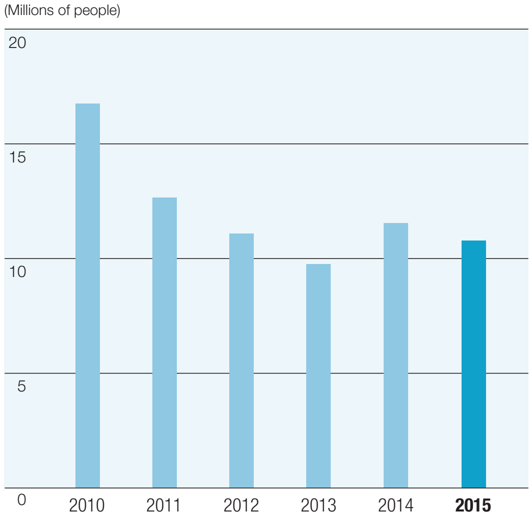
A

On June 27, 2016, the Pachislot and Pachinko Industry 21st Century Club comprising 14 industry organizations issued a "statement on promoting soundness in the pachinko and pachislot industry." The statement clarifies the industry's policy of collecting and removing "all the pachinko machines whose performance may differ from the models that were submitted for format inspection" by the end of the year and its commitment to improving the environment so that players can enjoy pachinko and pachislot affordably and at ease. Thus, it is incumbent on pachinko and pachislot machine manufacturers to develop diverse easy-to-play machines. It is pointed out that the increasing complexity and the lack of diversity in gaming performance and the rising cost of playing pachinko are causing both longstanding players and new ones to drift away from pachinko. The need to reestablish the pachinko and pachislot market has become a pressing issue for the industry.

Trend of Ball/Token Rental Revenues



Trend of Pachinko/Pachislot Player Population



Source: 2016 Leisure White Paper, Japan Productive Center

Q3 What is the outlook for the fiscal year ending March 31, 2017?

A

Zennichiyuren, an association of pachinko parlor operators, decided to voluntarily refrain from replacing pachinko and pachislot machines throughout May 2016 coinciding with the holding of the "G7 Ise-Shima Summit." Accordingly, pachinko and pachislot machine manufacturers, including the SANKYO Group, halted sales of pachinko and pachislot machines during this period.

Collection and removal of the non-compliant pachinko machines and supply of machines compliant with the new standards will have a major impact on the market for the fiscal year to March 31, 2017. However, pachinko parlors are showing caution toward purchases of machines compliant with the new standards because their evaluation in the market is still unknown; thus, we expect the markets for pachinko and pachislot machines to remain challenging. Seeing the regulatory change as a business opportunity, the SANKYO Group is pursuing expansion of the Group's market share in the two mainstay businesses by developing and launching diverse, easy-to-play models ahead of competitors.

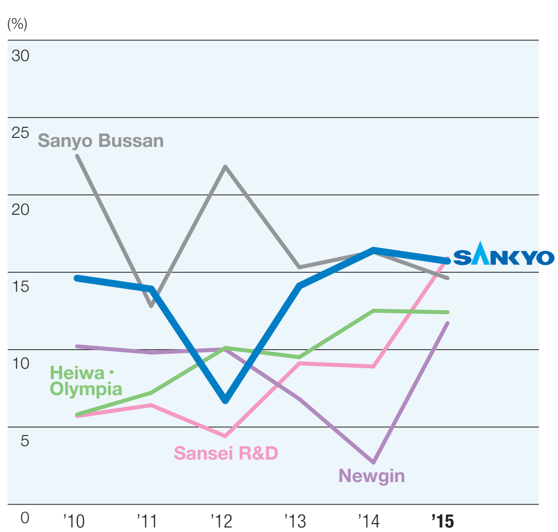
The Group's plan for the fiscal year ending March 31, 2017 calls for sales of 297,000 pachinko machines and 80,000 pachislot machines. We forecast consolidated net sales of ¥135.0 billion, a decrease of 1.6% year on year, operating income of ¥16.0 billion, a decrease of 15.0% due to increases in advertising expenses and sales commissions, and net income attributable to owners of parent of ¥11.1 billion, an increase of 5.9%.

Q4 In regard to the development of diverse, easy-to-play pachinko and pachislot machines, what initiatives is the SANKYO Group pursuing?

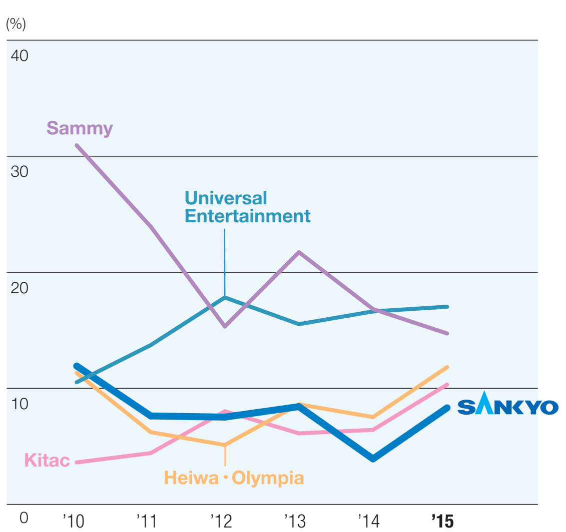
A

The SANKYO Group has already notched up some successes in development of diverse, easy-to-play pachinko and pachislot machines. At the Pachinko & Pachislo Award 2015, organized by industry body Nichiyukyo, *Fever Queen*

Pachinko Machine Sales Share



Pachislot Machine Sales Share



Source: Yano Research Institute

and *Evangelion 8 Premium Battle Y* were ranked first and second in the Yupachi Type Category (pachinko machines for light players). The Group has succeeded in winning the support of many pachinko parlors and players with pachinko machines made for players on modest budgets.

In step with this industry-wide movement, we are also engaged in development of choi-pachi, a type of pachinko machines suitable for a quick playing session. In July 2016, we introduced *Choi-pachi Aquarion EVOL 39*. The concept of choi-pachi arose at the Pachinko/Pachislot Machine Working Group of the Pachinko/Pachislot Industry Vitalization Committee where Nikkoso, an association of pachinko machine manufacturers, discussed with Zennichiyuren, and four other industry organizations. Pachinko machines in the choi-pachi category offer an approximately 1-in-40 jackpot probability. They are designed such that players can experience a jackpot in a brief playing session. While pachinko machine manufacturers are working to keep the prices of choi-pachi models low by maximizing the reuse of parts, pachinko parlor operators are opening choi-pachi corners at their parlors so that beginners can enjoy pachinko at ease.

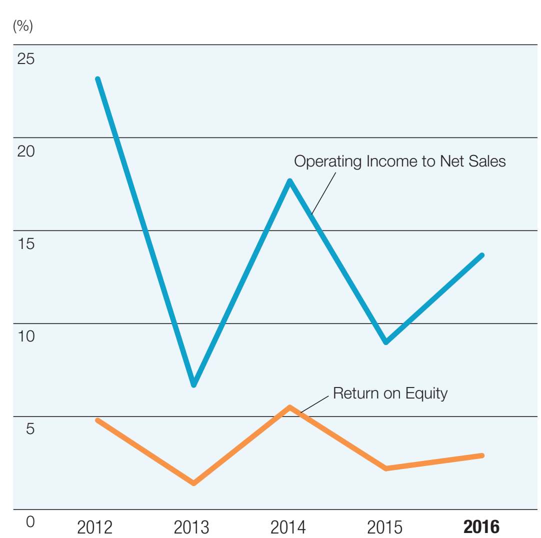
Q5 SANKYO's return on equity (ROE) has been low. How are you going to address this issue?

A SANKYO's ROE on a consolidated basis for fiscal 2016 was 2.9% whereas the average over the past five years was 3.4%. At this point in time, we do not have a specific target for ROE, but SANKYO's management team is not satisfied with the current level of ROE and recognizes that the need to increase ROE is an important management issue.

To increase ROE, we will focus on improving the return on sales while making an all-out effort to increase net sales and reduce costs.

Firstly, in order to increase sales, we will strive to enhance product capabilities and effectively promote our products. As a specific example, we are publicizing our products to anime fans and music fans through participation in Anime Japan 2016 held in Tokyo in March 2016

Operating Income to Net Sales/ROE



and the launch of FEVER a-nation in August 2016, a tie-up pachinko title, coinciding with the holding of a-nation, one of the largest annual outdoor summer music festivals in Japan. Moreover, with a view to increasing sales by strengthening sales capabilities, we contracted Yano Research Institute Ltd., which is a research firm with insight into the pachinko and pachislot industry, to conduct a survey. The survey results assured that overall evaluation of SANKYO's sale reps is in the top tier in the industry; on the other hand, we also recognize the need to strengthen sales reps' information-providing capabilities. While reinforcing our strengths, we will strive to overcome our weaknesses.

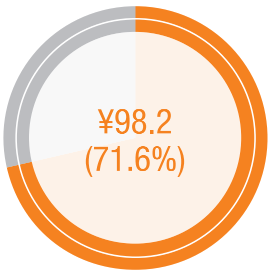
To reduce costs, we are strengthening development of original titles that do not use licensed content. In the past two years, we introduced sequels to our original titles from the past, such as *Fever Queen*, *Fever Powerful*, and *Great The King*. These titles are effective for capturing potential players. In addition, costs can be reduced because there are no licensing fees. So, we intend to increase the weight of original titles with the aim of tapping demand and improving the return on sales.

Besides cost-reduction efforts through sharing and recycling of parts and materials, we have advanced further with the use of a common frame, which was adopted for SANKYO-brand and Bisty-brand pachinko machines in 2015. Since 2016, we have adopted the common frame also for JB-brand pachinko machines to enable replacement of gauge boards of the Group's three brands in the same frame. This offers pachinko parlors that have the Group's frames a greater choice of new models for replacement. In turn, we can reduce development and manufacturing costs for pachinko frames.

Amid a challenging business environment, we will do our utmost to enhance corporate value through the initiatives I mentioned. In these endeavors, I request our shareholders and investors to extend their continued support.

Pachinko Machines Business

Sales (Billions of yen)



This segment, which includes manufacturing and sales of pachinko machines and gauge boards, sales of related parts and pachinko machine-related royalty income, is SANKYO's mainstay business and accounted for 71.7% of net sales.

Major titles released included *Fever Space Battleship Yamato* (introduced in May 2015), *Fever Macross Frontier 2* (introduced in August 2015) and *Fever Mobile Suit Gundam LAST SHOOTING* (introduced in March 2016) under the SANKYO brand, *EVANGELION X* (introduced in September 2015) under the Bisty brand, and *PASSION MONSTER* (introduced in June 2015) and *Great the King* (introduced in January 2016) under the JB brand.

As a result, segment sales amounted to ¥98.2 billion, a decrease of 13.9% year on year, and operating income amounted to ¥19.0 billion, an increase of 23.1%. Sales of pachinko machines amounted to 296,000 units.

Principal models introduced and numbers of machines sold during fiscal 2016

Principal models	Released	No. of machines sold (thousand machines)
*Fever Space Battleship Yamato**	May 2015	32.2
*Fever Macross Frontier 2 **	August 2015	26.5
EVANGELION X Series	September 2015	66.0
Fever Space Battleship Yamato ONLY ONE	January 2016	25.0
Fever Mobile Suit Gundam LAST SHOOTING	March 2016	26.2

* Includes reuse models

EVANGELION X
©カラー ©Bisty ©SANKYO

Fever Mobile Suit Gundam LAST SHOOTING
©創通・サンライズ

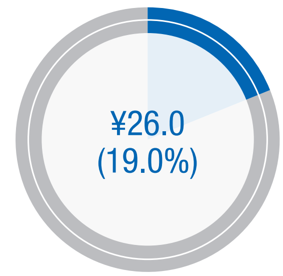
Pachislot Machines Business

This segment, which includes manufacturing and sales of pachislot machines, sales of related parts and pachislot machine-related royalty income, accounted for 19.0% of net sales.

Major titles released included *Pachislot Macross Frontier 2 Bonus Live Ver.* (introduced in September 2015) under the SANKYO brand, and *EVANGELION-Spear of Hope* (introduced in June 2015), *EVANGELION -Tamashii wo Tsunagumono* (introduced in December 2015) and *Pachislot Mobile Suit Gundam Awaking -Chained Battle-* (introduced in January 2016) under the Bisty brand.

As a result, segment sales amounted to ¥26.0 billion, an increase of 36.5% year on year, and operating income was ¥4.8 billion, an increase of 85.9%. Sales of pachislot machines amounted to 80,000 units.

Sales (Billions of yen)



Principal models introduced and numbers of machines sold during fiscal 2016

Principal models	Released	No. of machines sold (thousand machines)
Pachislot Mutsuenmeiryugaiden SHURA no TOKI	April 2015	11.1
EVANGELION-Spear of Hope	June 2015	26.6
Pachislot Macross Frontier 2 Bonus Live Ver.	September 2015	11.7
EVANGELION -Tamashii wo Tsunagumono	December 2015	15.2
Pachislot Mobile Suit Gundam Awaking -Chained Battle-	January 2016	12.5

Pachislot Macross Frontier 2 Bonus Live Ver.

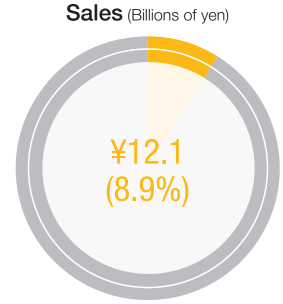
EVANGELION-Spear of Hope

Ball Bearing Supply Systems Business

Ball bearing supply systems, card systems, related equipment for parlors and ball bearing supply system-related royalty income account for most of the sales of this segment, which contributed 8.9% of net sales.

Sales of the ball bearing supply systems business were ¥12.1 billion, a decrease of 3.1% year on year, and operating income was ¥0.3 billion, a decrease of 17.2%.

Sales (Billions of yen)

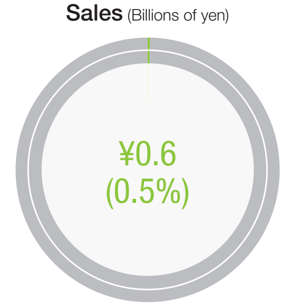


Other Businesses

Real estate rental revenues and sales of general molded parts account for most of the sales of this segment, which contributed 0.5% of net sales.

Sales of other businesses were ¥0.6 billion, a decrease of 17.4% year on year. An operating loss of ¥0.7 billion was recorded compared with an operating loss of ¥0.5 billion for the previous year.

Sales (Billions of yen)



SANKYO Increases Presence in Anime Events in Japan and Abroad

According to the statistics of the Japan National Tourism Organization, the number of foreign tourists to Japan exceeded 20 million in 2015. In addition to the impact of the Japanese government's ambitious policy to promote tourism, the number of foreign tourists is expected to rise in the run-up to the Tokyo Olympics in 2020.

In these circumstances, there is a move in the pachinko and pachislot industry to tap the demand from inbound tourists. Some pachinko parlors have already taken steps to offer a warm welcome to foreign tourists. They have prepared brochures for foreign players and have staff who can speak foreign languages. SANKYO sponsored and participated in anime-related events held overseas and exhibited pachinko titles featuring anime to attract the attention of visitors and kindle their interest in pachinko/pachislot. Although most visitors have never seen pachinko machines before, many show keen interest in pachinko when encountering it for the first time. We hope they will spread the word about pachinko and play pachinko whenever they visit Japan.

We also sponsored and participated in AnimeJapan 2016, one of the largest anime-related events in Japan, and approached anime fans who tend to have little interest in pachinko or pachislot, including young people and women who are infrequent players of pachinko, by introducing pachinko and pachislot titles that are highly related to anime. In particular, a pachislot technique called "*meoshi*," which involves the player pressing the stop button to halt the spinning reel so that it shows a specific pattern at a particular moment, is considered to be a high hurdle for beginners. At the event, we offered tips on how to successfully execute *meoshi* by having two female personalities with completely different pachislot skill levels—one being an advanced player and the other a beginner, actually play pachislot.

SANKYO will continue promoting the thrill of pachinko and pachislot to a wider audience in Japan and abroad to capture demand from inbound tourists and increase the player population, thus contributing to the development of the industry.

Overview of our participation in events

C3 in Hong Kong 2016 (Hong Kong)	From February 19 to 21, 2016
AnimeJapan 2016 (Tokyo)	From March 25 to 27, 2016
ANIME EXPO 2016 (Los Angeles)	From July 1 to 4, 2016
C3 CharaExpo 2016 (Singapore)	From July 9 to 10, 2016

Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2016 (fiscal 2016), are analyzed below.

Forward-looking statements in this annual report are based on the SANKYO Group's judgment as of the date of issue of this annual report.

Business Environment in Fiscal 2016

During the fiscal year ended March 31, 2016, the moderate recovery trend of the Japanese economy continued as indicated by signs of improvement in the employment environment and personal incomes. However, the outlook of the Japanese economy remained unclear because of fluctuations in prices of natural resources and foreign currency exchange rates and the slowdown of emerging economies and other factors.

The pachinko and pachislot industry is implementing across-the-board initiatives to halt the decline in the player population. The manufacturers are promoting development of diverse easy-to-play machines under the voluntary regulations to discourage players from becoming overly immersed in playing.

Net Sales

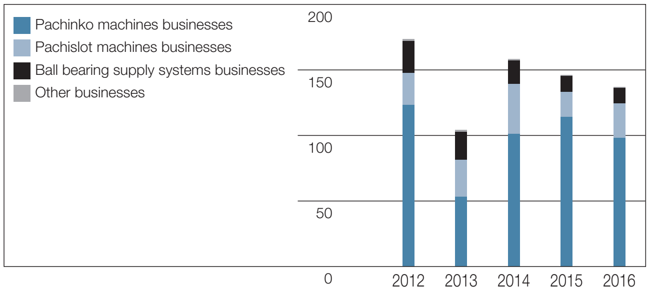
The SANKYO Group swiftly responded to the new standards and proactively launched models with diverse specifications and gaming performance, including not only tie-up titles that capitalize on the worlds conjured up by well-known licensed content but also drum-type and airplane-type models that are not dependent on licensed content. The Group also continued to sell reuse products.

However, affected by fierce competition to secure sales of models compliant with the former standards before the transition to the new standards, and owing to a decrease in demand after the transition to the new standards, sales were sluggish and lower than the figure for the previous year.

As a result, consolidated net sales were ¥137.1 billion, a decrease of 6.4% year on year. On the other hand, operating income increased 42.3% to ¥18.8 billion because of an improvement of the cost of sales ratio resulting from a change in the sales mix and an increase in unit sales prices and because of lower research and development expenses and advertising expenses. Net income attributable to owners of parent amounted to ¥10.4 billion, an increase of 20.1%, owing to recording of impairment loss on fixed assets amounting to ¥3.2 billion.

Net Sales

(Billions of yen)



Cost of Sales, Selling, General & Administrative Expenses, and Income

Cost of sales for fiscal 2016 amounted to ¥75.6 billion. The ratio of cost of sales to net sales decreased 1.9 percentage points from the previous fiscal year to 55.2%.

Selling, general and administrative expenses decreased ¥7.0 billion from the previous fiscal year, mainly owing to a decrease in sales commissions and the ratio of selling, general and administrative expenses to net sales decreased 2.8 percentage points from the previous fiscal year to 31.1%. As a result, operating income increased 42.3% to ¥18.8 billion and the ratio of operating income to net sales increased 4.7 percentage points from the previous fiscal year to 13.7%.

Other income (expenses) decreased ¥2.0 billion mainly owing to a loss on impairment of fixed assets amounting to ¥3.2 billion, resulting in other expenses, net, amounting to ¥2.2 billion.

Net income attributable to owners of parent increased ¥1.7 billion from ¥8.7 billion for the previous fiscal year to ¥10.4 billion. Earnings per share was ¥126.78 compared with ¥94.48 for the previous fiscal year.

Segment Information by Business

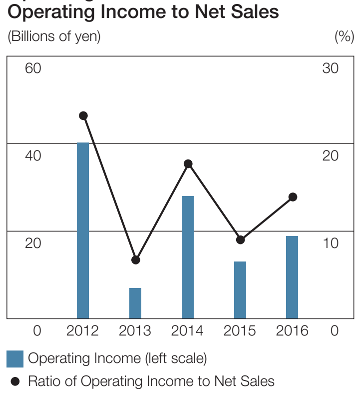
(Millions of yen)

Net sales	2016	Year-on-year change	2015
Pachinko machines business	¥ 98,273	(13.9)%	¥114,137
Pachislot machines business	26,007	36.5	19,054
Ball bearing supply systems business	12,159	(3.1)	12,552
Other businesses	689	(17.4)	834
Total	¥137,130	(6.4)%	¥146,579

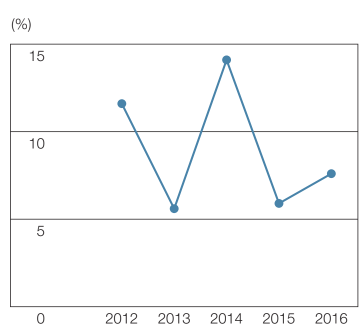
(Millions of yen)

Operating income	2016	Year-on-year change	2015
Pachinko machines business	¥19,053	23.1 %	¥15,481
Pachislot machines business	4,864	85.9	2,616
Ball bearing supply systems business	366	(17.2)	442
Other businesses	(706)	—	(544)
Elimination/Corporate	(4,752)	—	(4,763)
Total	¥18,826	42.3 %	¥13,233

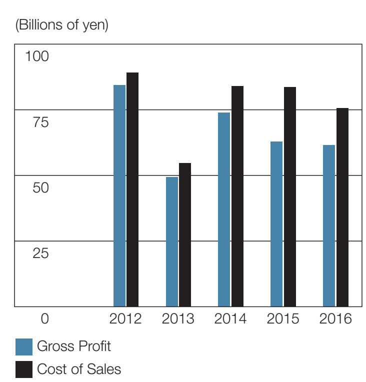
Operating Income and Ratio of Operating Income to Net Sales



Return on Sales (ROS)



Gross Profit and Cost of Sales



Fiscal 2017 Forecast

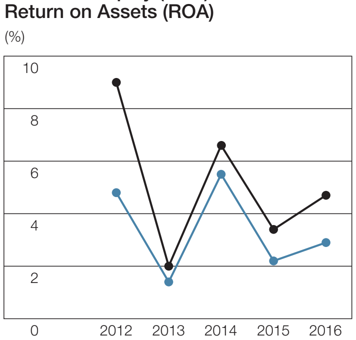
With regard to the market environment for fiscal 2017 (fiscal year ending March 31, 2017), the standards for both pachinko and pachislot machines will change greatly because of the voluntary regulations. The SANKYO Group views the change in the regulations as a business opportunity and is pursuing expansion of the Group's market share in the two mainstay businesses by developing and launching models compliant with the new standards ahead of competitors. On the other hand, evaluation of the models compliant with the new standards is still unknown and pachinko parlor operators are adopting a cautious attitude toward purchases. Therefore, the management projects that the pachinko and pachislot machine markets will be more challenging in fiscal 2017 than in fiscal 2016.

The Group's plan calls for sales volumes for the fiscal year ending March 31, 2017, of 297,000 pachinko machines and 80,000 pachislot machines. The consolidated business results forecast for the fiscal year ending March 31, 2017, are as follows:

(Billions of yen)

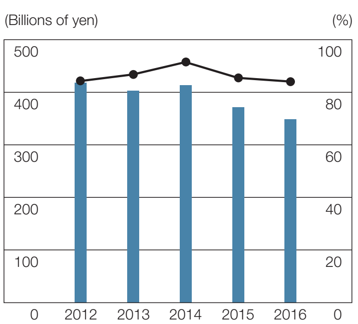
	2017 forecast	Year-on-year change	2016 results
Net sales	¥135.0	(1.6)%	¥137.1
Operating income	16.0	(15.0)	18.8
Net income attributable to owners of parent	11.1	5.9	10.4

Return on Equity (ROE)
Return on Assets (ROA)



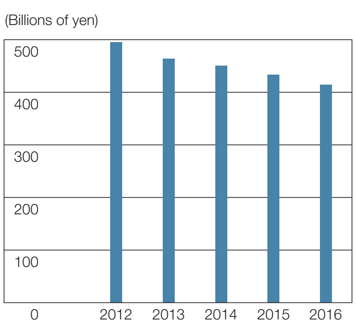
● Return on Equity (ROE)
● Return on Assets (ROA)
ROA=(Operating income + Interest and dividend income + Interest on marketable securities) / Total assets (yearly average)

Total Net Assets and Equity Ratio



Total Net Assets (left scale)
● Equity Ratio

Total Assets



Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year ended March 31, 2016 amounted to ¥414.1 billion, having decreased ¥20.4 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥36.7 billion decrease in cash and deposits, a ¥11.2 billion decrease in notes and accounts receivable-trade, a ¥7.9 billion decrease in investment securities, and a ¥2.9 billion decrease in tangible fixed assets, despite a ¥43.0 billion increase in marketable securities.

Total liabilities amounted to ¥65.2 billion, having increased ¥2.2 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥20.0 billion increase in bonds with subscription rights to shares despite a ¥17.5 billion decrease in notes and accounts payable-trade.

Net assets decreased ¥22.7 billion compared with the figure at the previous fiscal year-end. This decrease was attributable to purchase of treasury stock amounting to ¥20.0 billion and cash dividends paid amounting to ¥12.5 billion, whereas net income attributable to owners of parent amounting to ¥10.4 billion was recorded. As a result, net assets amounted to ¥348.9 billion and the shareholders' equity ratio decreased 1.4 percentage points to 84.1%.

Cash Flows

Cash and cash equivalents (hereinafter "cash") at the fiscal year-end were ¥234.9 billion, having increased ¥16.2 billion from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities decreased ¥8.0 billion from the previous fiscal year to ¥17.3 billion. Principal cash inflow items were income before income taxes amounting to ¥16.5 billion, a ¥11.2 billion decrease in notes and accounts receivable-trade, depreciation and amortization amounting to ¥4.9 billion, and impairment loss amounting to ¥3.2 billion. Principal cash outflow items were a ¥17.5 billion decrease in notes and accounts payable-trade and income taxes paid amounting to ¥5.2 billion.

Cash flows from investing activities

Net cash provided by investing activities increased ¥6.2 billion from the previous fiscal year to ¥11.3 billion. The principal cash inflow item was proceeds from redemption of investment securities amounting to ¥40.0 billion. Principal cash outflow items were payment for purchase of investment securities amounting to ¥24.0 billion and payment for purchase of property, plant and equipment and intangible fixed assets amounting to ¥4.7 billion.

Cash flows from financing activities

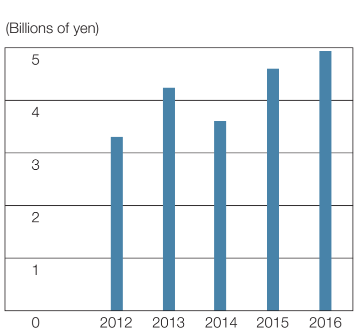
Net cash used in financing activities decreased ¥38.3 billion from the previous fiscal year to ¥12.4 billion. Principal cash outflow items were payment for purchase of treasury stock amounting to ¥20.0 billion and cash dividends paid amounting to ¥12.5 billion. The principal cash inflow item was proceeds from issuance of bonds with subscription rights to shares amounting to ¥20.1 billion.

Forecast of the Financial Position in Fiscal 2017

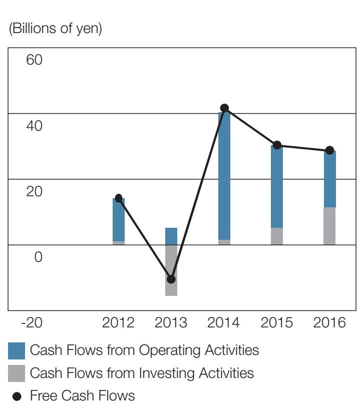
For fiscal 2017, the Company forecasts net cash provided by operating activities of ¥20.0 billion, net cash used in investing activities of ¥5.0 billion attributable to capital investment, and net cash used in financing activities of ¥12.0 billion attributable to payment of cash dividends.

As a result, the Company forecasts an increase of ¥3.0 billion in the cash balance at the end of fiscal 2017 compared to the end of fiscal 2016.

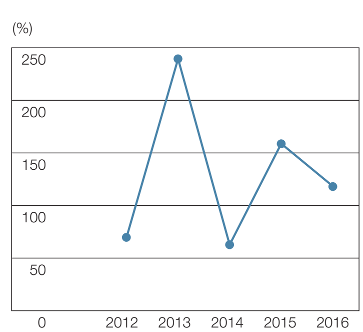
Depreciation



Free Cash Flows



Payout Ratio



Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2017 and beyond include the items described below. Forward-looking statements in this document represent the Group's assumptions and judgment as of the end of fiscal 2016, but do not cover all potential risks.

Change in the market environment

The principal customers of the Group's core business, sales of game machines and ball bearing supply systems, are parlor operators nationwide. Therefore, deterioration of the business environment for parlors, accompanying reduction in demand or change in the market structure, would determine the Group's sales results.

As parlor operators are becoming more discriminating in their evaluation of game machines, there is a marked tendency for them to only purchase captivating products that remain popular for a long time, and most other products fail to attract sufficient attention to achieve substantial sales. The Group is strengthening product competitiveness with the aim of increasing the market share. However, because product development takes one or two years, if the Group fails to respond flexibly to changes in market demand after commencement of development, or if the timing of the introduction of one of the Group's new products coincides with the introduction of a competitor's highly popular product, the Group's sales plans and business results may be affected.

Regulations

The main business of the Group, namely, the development, manufacture and sales of game machines, is governed by the Act to Control Businesses That May Affect Public Morals and other regulations and is required to strictly comply with the relevant laws and regulations. Thus, material revisions to relevant laws and regulations may affect the Group's sales plans and business results.

Intellectual property rights

A growing number of game machines introduced in recent years involve tie-ups with celebrities, animation characters and other popular characters. In accordance with this trend, as intellectual property rights, such as portrait rights and copyrights of characters used for game machines, become increasingly important to the business, the incidence of conflicts concerning intellectual property is rising. In regard to the handling of characters, centering on the Intellectual Property Division, the Group conducts thorough investigations and takes the greatest possible care to preclude such conflicts. However, in the event that new intellectual property rights are approved without the Company's knowledge, the Group may be subject to risk associated with claims for damage by the owners of the rights. In such case, if the Group is deemed to be liable, the Group's business results may be affected.

Development of new models

To manufacture and sell a pachinko, pachislot or other game machine, it is a prerequisite that the machine passes an official format inspection executed by a testing agency, such as Hotsukyo (Security Electronics and Communication Technology Association), designated by the National Public Safety Commission, in accordance with the Enforcement Regulation of the Act to Control Businesses That May Affect Public Morals and other regulations. While it is necessary to satisfy the increasingly sophisticated expectations of players and keep abreast of the progress of game machine technology, in the event that it takes longer than expected for a format inspection or a machine of the Group is rejected by a format inspection, the Group's business results may suffer. The Group will strive to smoothly introduce new models in accordance with the initial plan by capitalizing on its long-cultivated product development capabilities and know-how.

Consolidated Balance Sheets

SANKYO CO., LTD. and Its Consolidated Subsidiaries
As of March 31, 2016 and 2015

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Current assets:			
Cash and deposits (Notes 3 and 17)	¥ 96,906	¥133,675	$ 860,018
Marketable securities (Notes 3, 4 and 17)	173,001	129,999	1,535,331
Notes and accounts receivable-trade (Note 17)	33,841	45,070	300,337
Inventories (Note 6)	1,478	3,546	13,123
Deferred tax assets (Note 16)	2,056	2,986	18,246
Accounts receivable arising from outsourced production contracts	3,786	3,283	33,603
Other current assets	5,239	6,485	46,496
Allowance for doubtful accounts (Note 17)	(2)	(3)	(27)
Total current assets	316,307	325,043	2,807,129
Fixed assets:			
Property, plant and equipment (Note 15):			
Land	22,991	23,126	204,046
Buildings and structures	26,302	27,339	233,425
Machinery and equipment	8,090	8,098	71,805
Tools, furniture and fixtures	18,741	19,104	166,323
Leased assets	46	46	414
Construction in progress	1,471	444	13,062
Other fixed assets	2,972	4,499	26,380
	80,617	82,658	715,456
Accumulated depreciation	(36,128)	(35,234)	(320,632)
Total property, plant and equipment	44,488	47,424	394,824
Intangible fixed assets:			
Goodwill	1,004	1,741	8,912
Other intangible fixed assets	342	436	3,044
Total intangible fixed assets	1,347	2,178	11,956
Investments and other assets:			
Investments in securities (Notes 4, 5 and 17)	46,131	54,106	409,407
Long-term loans	—	1	—
Deferred tax assets (Note 16)	5,781	5,616	51,309
Other assets	532	684	4,729
Allowance for doubtful accounts	(26)	(26)	(235)
Allowance for losses on investments in securities	(379)	(379)	(3,370)
Total investments and other assets	52,040	60,003	461,840
Total fixed assets	97,876	109,605	868,620
Total assets	¥414,183	¥434,648	$3,675,748

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Current liabilities:			
Notes and accounts payable-trade (Note 17)	¥ 23,689	¥ 41,204	$ 210,236
Accrued income taxes	3,113	3,804	27,627
Accrued employees' bonuses	839	833	7,451
Lease obligations	5	8	48
Other current liabilities	9,411	9,060	83,521
Total current liabilities	37,058	54,911	328,883
Long-term liabilities:			
Bonds with subscription rights to shares (Note 17)	20,086	—	178,263
Lease obligations	14	19	128
Net defined benefit liabilities (Note 7)	4,445	4,388	39,450
Asset retirement obligations (Note 18)	63	63	563
Other long-term liabilities	3,573	3,595	31,712
Total long-term liabilities	28,183	8,067	250,115
Commitments and contingent liabilities (Notes 8 and 12)			
Net assets:			
Shareholders' equity (Note 10)**:**			
Common stock,			
Authorized: 144,000,000 shares			
Issued: 89,597,500 as of March 31, 2016 and 2015	14,840	14,840	131,700
Capital surplus	23,750	23,750	210,774
Retained earnings	345,918	347,975	3,069,915
Treasury stock	(39,700)	(19,724)	(352,327)
Total shareholders' equity	344,807	366,840	3,060,062
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 4)	3,839	4,794	34,078
Remeasurements of defined benefit plans (Note 7)	(232)	(218)	(2,067)
Total accumulated other comprehensive income	3,607	4,575	32,012
Subscription rights to shares (Notes 10 and 11)	526	253	4,676
Non-controlling interests	—	—	—
Total net assets	348,941	371,670	3,096,750
Total liabilities and net assets	¥414,183	¥434,648	$3,675,748

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Net sales	¥137,130	¥146,579	$1,216,990
Cost of sales (Note 11)	75,638	83,676	671,267
Gross profit	61,492	62,902	545,724
Selling, general and administrative expenses (Notes 11 and 13)	42,665	49,668	378,645
Operating income	18,826	13,233	167,079
Other income (expenses):			
Interest and dividend income	1,143	1,312	10,150
Equity in (loss) earnings of affiliates	(109)	202	(976)
Interest expense	—	(1)	—
Bond issuance cost	(70)	—	(626)
Loss on sales or disposal of property, plant and equipment, net (Note 14)	(119)	(32)	(1,064)
Loss on impairment (Note 15)	(3,264)	—	(28,967)
Loss on sales of investments in securities	—	(1)	—
Loss on devaluation of investments in securities	—	(14)	—
Loss on investments in partnership	(93)	(86)	(830)
Retirement benefits for directors and corporate auditors	—	(1,790)	—
Other, net	269	209	2,390
Income before income taxes	16,581	13,031	147,156
Income taxes (Note 16)**:**			
Current	4,773	4,225	42,364
Deferred	1,322	180	11,737
Total income taxes	6,096	4,406	54,102
Net income	10,485	8,624	93,054
Net income (loss) attributable to:			
Non-controlling interests	—	(103)	—
Owners of the parent	¥ 10,485	¥ 8,728	$ 93,054

	Yen		U.S. dollars (Note 2)
Net income per share (Note 20)**:**			
Basic	¥126.78	¥ 94.48	$1.13
Diluted	122.54	94.39	1.09
Cash dividends per share (Note 10)	150.00	150.00	1.33

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Net income	¥10,485	¥8,624	$93,054
Other comprehensive (loss) income (Note 9)**:**			
Unrealized (losses) gains on available-for-sale securities	(922)	722	(8,185)
Remeasurements of defined benefit plans (Note 7)	23	(238)	209
Share of other comprehensive loss of affiliates accounted for by the equity method	(69)	(35)	(621)
Total other comprehensive (loss) income	(968)	448	(8,597)
Comprehensive income	9,516	9,073	84,458
Total comprehensive income (loss) attributable to:			
Owners of the parent	¥ 9,516	¥9,177	$84,458
Non-controlling interests	—	(103)	—

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Common stock			
Beginning of year	¥ 14,840	¥ 14,840	$ 131,700
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 14,840	¥ 14,840	$ 131,700
End of year	¥ 14,840	¥ 14,840	$ 131,700
Capital surplus			
Beginning of year	¥ 23,750	¥ 23,879	$ 210,774
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 23,750	¥ 23,879	$ 210,774
Disposal of treasury stock	—	(0)	—
Retirement of treasury stock	—	(33)	—
Change in ownership interest in a consolidated subsidiary	—	(96)	—
End of year	¥ 23,750	¥ 23,750	$ 210,774
Retained earnings			
Beginning of year	¥ 347,975	¥ 391,083	$ 3,088,177
Cumulative effect of accounting change	—	22	—
Beginning of year, as restated	¥ 347,975	¥ 391,105	$ 3,088,177
Net income attributable to owners of the parent	10,485	8,728	93,054
Dividend from surplus, ¥150 per share ($1.33 per share)	(12,532)	(14,043)	(111,223)
Disposal of treasury stock	(10)	—	(92)
Retirement of treasury stock	—	(37,814)	—
End of year	¥ 345,918	¥ 347,975	$ 3,069,915
Treasury stock			
Beginning of year	¥ (19,724)	¥ (20,937)	$ (175,052)
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ (19,724)	¥ (20,937)	$ (175,052)
Purchase of treasury stock	(20,005)	(36,635)	(177,545)
Disposal of treasury stock	30	0	270
Retirement of treasury stock	—	37,848	—
End of year	¥ (39,700)	¥ (19,724)	$ (352,327)
Total shareholders' equity			
Beginning of year	¥ 366,840	¥ 408,865	$ 3,255,599
Cumulative effect of accounting change	—	22	—
Beginning of year, as restated	¥ 366,840	¥ 408,887	$ 3,255,599
Net income attributable to owners of the parent	10,485	8,728	93,054
Dividends from surplus, ¥150 per share ($1.33 per share)	(12,532)	(14,043)	(111,223)
Purchase of treasury stock	(20,005)	(36,635)	(177,545)
Disposal of treasury stock	19	0	177
Change in ownership interest in a consolidated subsidiary	—	(96)	—
End of year	¥ 344,807	¥ 366,840	$ 3,060,062
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities			
Beginning of year	¥ 4,794	¥ 4,104	$ 42,550
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 4,794	¥ 4,104	$ 42,550
Net changes in items other than shareholders' equity	(954)	690	(8,472)
End of year	¥ 3,839	¥ 4,794	$ 34,078
Remeasurements of defined benefit plans			
Beginning of year	¥ (218)	¥ 22	$ (1,942)
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ (218)	¥ 22	$ (1,942)
Net changes in items other than shareholders' equity	(14)	(241)	(125)
End of year	¥ (232)	¥ (218)	$ (2,067)
Total accumulated other comprehensive income			
Beginning of year	¥ 4,575	¥ 4,126	$ 40,608
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 4,575	¥ 4,126	$ 40,608
Net changes in items other than shareholders' equity	(968)	448	(8,597)
End of year	¥ 3,607	¥ 4,575	$ 32,012
Subscription rights to shares			
Beginning of year	¥ 253	¥ —	$ 2,252
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 253	¥ —	$ 2,252
Net changes in items other than shareholders' equity	273	253	2,424
End of year	¥ 526	¥ 253	$ 4,676
Non-controlling interests			
Beginning of year	¥ —	¥ 103	$ —
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ —	¥ 103	$ —
Net changes in items other than shareholders' equity	—	(103)	—
End of year	¥ —	¥ —	$ —
Total net assets			
Beginning of year	¥ 371,670	¥ 413,096	$ 3,298,459
Cumulative effect of accounting change	—	22	—
Beginning of year, as restated	¥ 371,670	¥ 413,118	$ 3,298,459
Net income attributable to owners of the parent	10,485	8,728	93,054
Dividends from surplus, ¥150 per share ($1.33 per share)	(12,532)	(14,043)	(111,223)
Purchase of treasury stock	(20,005)	(36,635)	(177,545)
Disposal of treasury stock	19	0	177
Change in ownership interest in consolidated subsidiaries	—	(96)	—
Net changes in items other than shareholders' equity	(695)	598	(6,172)
End of year	¥ 348,941	¥ 371,670	$ 3,096,750

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 16,581	¥ 13,031	$ 147,156
Depreciation and amortization	4,933	4,615	43,787
Amortization of goodwill	737	737	6,542
Stock-based compensation expense	287	248	2,549
Decrease in allowance for doubtful accounts	(0)	(6)	(8)
Increase in accrued employees' bonuses	5	0	53
Increase in net defined benefit liabilities	102	184	907
Decrease in accrued retirement allowances for directors and corporate auditors	—	(753)	—
Interest and dividend income	(1,143)	(1,312)	(10,150)
Interest expense	—	1	—
Equity in loss (earnings) of affiliates	109	(202)	976
Loss on sales or disposal of property, plant and equipment, net	119	32	1,064
Loss on impairment	3,264	—	28,967
Loss on sales of investments in securities	—	1	—
Loss on devaluation of investments in securities	—	14	—
Decrease (increase) in notes and accounts receivable-trade	11,228	(10,289)	99,650
Decrease (increase) in inventories	2,067	(2,561)	18,352
(Decrease) increase in notes and accounts payable-trade	(17,515)	25,897	(155,442)
Increase in accounts receivable arising from outsourced production contracts	(503)	(2,827)	(4,466)
Increase in accounts payable-other	56	1,075	505
Increase (decrease) in consumption taxes payable	924	(1,312)	8,202
Other	178	4,923	1,585
Sub total	21,435	31,497	190,229
Interest and dividend income received	1,157	1,080	10,276
Interest paid	—	(1)	—
Income taxes paid	(5,289)	(7,263)	(46,943)
Net cash provided by operating activities	17,303	25,313	153,563
Cash flows from investing activities:			
Proceeds from withdrawal of time deposits	—	500	—
Payment for purchase of marketable securities	(10,000)	(10,000)	(88,747)
Proceeds from redemption of marketable securities	10,000	10,000	88,747
Payment for purchase of property, plant and equipment and intangible fixed assets	(4,783)	(5,251)	(42,448)
Proceeds from sales of property, plant and equipment and intangible fixed assets	198	28	1,765
Payment for purchase of investments in securities	(24,041)	(24,009)	(213,357)
Proceeds from redemption of investments in securities	40,000	34,000	354,988
Collection of loans receivable	15	23	141
Other	(15)	(190)	(135)
Net cash provided by investing activities	11,375	5,101	100,953
Cash flows from financing activities:			
Proceeds from issuance of bonds with subscription rights to shares	20,100	—	178,381
Payment for finance lease obligations	(8)	(6)	(71)
Payment for purchase of treasury stock	(20,005)	(36,635)	(177,545)
Proceeds from disposal of treasury stock	0	0	0
Cash dividends paid	(12,532)	(14,043)	(111,223)
Payment for purchase of shares in a subsidiary which does not change the scope of consolidation	—	(96)	—
Net cash used in financing activities	(12,446)	(50,782)	(110,458)
Net increase (decrease) in cash and cash equivalents	16,232	(20,368)	144,058
Cash and cash equivalents at beginning of year	218,672	239,041	1,940,653
Cash and cash equivalents at end of year (Note 3)	¥234,905	¥218,672	$2,084,711

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by SANKYO CO., LTD. (the "Company") and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Companies Act of Japan and the Financial Instruments and Exchange Act of Japan and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in the accompanying consolidated financial statements for the convenience of readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2015 financial statements to conform to the classifications used in 2016. In conformity with the Companies Act of Japan and the other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items.

(b) Consolidation Principles

The consolidated financial statements include the accounts of the Company and its five significant wholly owned subsidiaries. The remaining unconsolidated subsidiaries have assets, net sales and net income which are not significant in relation to those of the Companies, and, accordingly, the accounts of such subsidiaries have been excluded from consolidation.

Investments in an affiliate are accounted for under the equity method. Other immaterial unconsolidated subsidiaries and affiliates are stated at cost. All significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated on consolidation.

Any difference between the acquisition cost of investment in a consolidated subsidiary and the fair value of the net assets of the subsidiary is charged to income when acquired.

(c) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The resulting gains and losses are included in net income or loss for the period.

(d) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits available for withdrawal on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(e) Marketable Securities and Investments in Securities

Held-to-maturity debt securities that the Company and its consolidated subsidiaries intend to hold to maturity are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity. Available-for-sale securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in net assets, net of taxes. Available-for-sale securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates not accounted for by the equity method, or available-for-sale securities has declined significantly and such impairment of value is not deemed temporary, those securities are written down to fair value and the resulting losses are included in net income or loss for the period.

(f) Allowance for Doubtful Accounts
The allowance for doubtful accounts is calculated on the basis of the actual bad debt ratio for general accounts receivable and the assessed recoverability of individual doubtful accounts receivable.

(g) Allowance for Losses on Investments in Securities
Allowance for losses on investments in securities is provided at an estimated amount of possible investment losses for investment in affiliates etc., based on the financial condition of the investees.

(h) Inventories
Inventories are stated at the lower of cost, or selling value.
The cost is determined as follows:

Finished goods, merchandise and raw materials:	Gross average method
Work in process and supplies:	Specific identification method

(i) Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation except for leased assets is computed principally by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for buildings, for which the straight-line method is applied.

Deferred gain on property, plant and equipment due to government subsidies in the amount of ¥40 million ($362 thousand), consisting of ¥2 million ($24 thousand) for buildings and structures and ¥37 million ($335 thousand) for machinery and equipment, is deducted from acquisition costs at March 31, 2016 and 2015, respectively.

Property, plant and equipment whose acquisition costs are more than ¥100,000 and less than ¥200,000 are depreciated using the straight-line method over three years.

(j) Accrued Employees' Bonuses
Accrued employees' bonuses are recorded based on the estimated amounts payable at the end of the fiscal year.

(k) Accounting for Retirement Benefits
The projected benefit obligations are attributed to periods on a straight-line basis.

Actuarial gains and losses are amortized from the fiscal year when the gain or loss is recognized by the straight-line method over a period of five years which falls within the average remaining service years of employees.

In determining the amount of net defined benefit liabilities and retirement benefit costs, certain smaller consolidated subsidiaries apply a simplified method where the amount required for voluntary termination of employees at the fiscal year-end is treated as the projected benefit obligations.

(l) Leases
All finance leases are capitalized to recognize lease assets and lease obligations in the consolidated balance sheets.

Leased assets are depreciated on a straight-line basis over the estimated useful lives without residual value.

(m) Research and Development and Computer Software
Research and development expenses are charged to income as incurred.

Expenditures relating to computer software developed for internal use are charged to income as incurred, except where the software contributes to the generation of income or to future cost savings, in which case such expenditures are capitalized and amortized using the straight-line method over the estimated useful life of the software (five years).

(n) Construction Contracts
Under this accounting standard, the construction revenue and construction costs are recognized by the percentage-of-completion method for the construction contracts whose outcome for the completed portion can be estimated reasonably, except for short-term construction contracts. The percentage of completion is determined using the cost incurred to the estimated total cost. Other construction contracts are applied by the completed-contract method.

(o) Income Taxes
Income taxes of the Company and its consolidated subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

The Company and its consolidated subsidiaries adopt the deferred tax accounting method. Deferred taxes are determined using the asset-and-liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(p) Appropriation of Retained Earnings
The Companies Act of Japan stipulates that appropriations of retained earnings require approval by the shareholders at a general meeting. The appropriations of retained earnings are, therefore, not reflected in the consolidated financial statements for the period to which they relate but are recorded in the consolidated financial statements in the subsequent accounting period after shareholders' approval has been obtained.

(q) Net Income and Cash Dividends per Share
Net income per share of common stock shown in the accompanying consolidated statements of income is computed based on the weighted average number of shares outstanding during each year.
Cash dividends per share shown in the accompanying consolidated statements of income represent dividends declared and paid as applicable to the respective fiscal year.

(r) Consumption Taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(s) Amortization of Goodwill
Goodwill is amortized using the straight-line method over periods ranging from 5 to 10 years.

(t) Reclassification
Certain reclassifications of previously reported amounts have been made to conform to current classifications.

(u) Changes in Presentation Method
Accounting Standard for Business Combinations
Effective the year ended March 31, 2016, the Company adopted the provisions stated in Paragraph 39 of "Accounting Standard for Consolidated Financial Statements" and changed the presentation of net income and other related items and changed the presentation of "minority interests" to "non-controlling interests." In order to reflect these changes in presentation, the consolidated financial statements for the year ended March 31, 2015 were reclassified.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥112.68= U.S. $1, the rate of exchange on March 31, 2016, has been used for the translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

3. Cash and Cash Equivalents

Reconciliation of cash and cash equivalents to the accounts disclosed on the balance sheets at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and deposits	**¥ 96,906**	¥133,675	**$ 860,018**
Marketable securities	**173,001**	129,999	**1,535,331**
Total	**269,907**	263,674	**2,395,349**
Bonds and debentures, investment funds and others whose original maturity is more than three months	**(35,002)**	(45,001)	**(310,638)**
Cash and cash equivalents	**¥234,905**	¥218,672	**$2,084,711**

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2016 and 2015 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2016				2015			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Japanese government bonds	¥ 54,030	¥85	¥0	¥ 54,115	¥ 70,010	¥76	¥0	¥ 70,087
Short-term corporate bonds	22,998	0	0	22,999	9,997	—	0	9,997
Certificates of deposit	120,000	—	—	120,000	80,000	—	—	80,000
Total	¥197,028	¥86	¥0	¥197,114	¥160,008	¥76	¥0	¥160,084

	Thousands of U.S. dollars			
	2016			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Japanese government bonds	$ 479,504	$756	$1	$ 480,259
Short-term corporate bonds	204,103	8	1	204,110
Certificates of deposit	1,064,963	—	—	1,064,963
Total	$1,748,570	$764	$2	$1,749,332

(b) Available-for-Sale Securities

	Millions of yen							
	2016				2015			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Equity securities	¥6,119	¥5,421	¥—	¥11,541	¥6,119	¥6,922	¥—	¥13,042
Total	¥6,119	¥5,421	¥—	¥11,541	¥6,119	¥6,922	¥—	¥13,042

	Thousands of U.S. dollars			
	2016			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Equity securities	$54,313	$48,117	$—	$102,429
Total	$54,313	$48,117	$—	$102,429

5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investments in securities	¥10,483	¥10,975	$93,035

6. Inventories

Inventories at March 31, 2016 and 2015 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Finished goods and merchandise	¥ 47	¥ 62	$ 420
Work in process	92	741	817
Raw materials and supplies	1,339	2,742	11,887
Total	¥1,478	¥3,546	$13,123

7. Retirement Benefit Plan

1. Overview of retirement benefit plans

The Company and consolidated subsidiaries have lump-sum severance benefit plans as a defined benefit plan. Certain consolidated subsidiaries calculate net defined benefit liabilities and retirement benefit costs using a simplified method for the lump-sum severance benefit plans.

2. Defined benefit plans

(1) The changes in retirement benefit obligation for the years ended March 31, 2016 and 2015, were as follows (excluding the plans to which a simplified method was applied):

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥4,140	¥3,622	$36,746
Service cost	262	236	2,331
Interest cost	24	53	220
Actuarial differences	52	449	469
Benefits paid	(270)	(157)	(2,401)
Transfer to long-term payables due to abolition of the retirement benefit plan for directors and statutory auditors	—	(62)	—
Balance at end of year	¥4,210	¥4,140	$37,365

(2) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows (excluding the plans to which a simplified method was applied):
There is no corresponding information to be reported.

(3) The changes in net defined benefit liabilities under the plans to which a simplified method was applied for the years ended March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥247	¥225	$2,201
Retirement benefit costs	31	46	282
Benefits paid	(44)	(24)	(398)
Balance at end of year	¥234	¥247	$2,085

(4) The reconciliation between the balance of the retirement benefit obligation and net defined benefit liabilities recorded in the consolidated balance sheets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unfunded retirement benefit obligation	¥4,445	¥4,388	$39,450
Net liability recorded in the consolidated balance sheets	4,445	4,388	39,450
Net defined benefit liabilities	4,445	4,388	39,450
Net liability recorded in the consolidated balance sheets	¥4,445	¥4,388	$39,450

(Note) The above amount includes the plans to which a simplified method is applied.

(5) The components of retirement benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥262	¥236	$2,331
Interest cost	24	53	220
Amortization of actuarial differences	98	92	873
Retirement benefit costs calculated using a simplified method	31	46	282
Retirement benefit costs on defined benefit plans	¥417	¥428	$3,706

(6) Remeasurements of defined benefit plans (before adjusting for tax effects) on other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial differences	¥45	¥(356)	$404
Total	¥45	¥(356)	$404

(7) Remeasurements of defined benefit plans (before adjusting for tax effects) on accumulated other comprehensive income as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized actuarial differences	¥307	¥352	$2,727
Total	¥307	¥352	$2,727

(8) Actuarial assumptions used for the years ended March 31, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	0.6%	0.6%
Estimated salary increase rate	1.3-5.6%	1.3-5.6%

8. Contingent Liabilities

Contingent liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
As an endorser of notes endorsed	¥38	¥73	$338

9. Other Comprehensive (Loss) Income

The components of other comprehensive (loss) income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized (losses) gains on available-for-sale securities:			
(Loss) gain incurred during the year	¥(1,500)	¥782	$(13,320)
Reclassification adjustment to net income	—	—	—
Amount before tax effects	(1,500)	782	(13,320)
Tax effects	578	(59)	5,135
Unrealized (losses) gains on available-for-sale securities	(922)	722	(8,185)
Remeasurements of defined benefit plans			
Loss incurred during the year	(42)	(359)	(375)
Reclassification adjustment to net income	87	2	779
Amount before tax effects	45	(356)	404
Tax effects	(21)	118	(195)
Remeasurements of defined benefit plans	23	(238)	209
Share of other comprehensive loss of affiliates accounted for by the equity method:			
(Loss) gain incurred during the year	(53)	16	(473)
Reclassification adjustment to net income	(16)	(51)	(148)
Share of other comprehensive loss of affiliates accounted for by the equity method:	(69)	(35)	(621)
Total other comprehensive (loss) income	¥ (968)	¥448	$ (8,597)

10. Shareholders' Equity

The Japanese companies are subject to the Companies Act of Japan. The Companies Act provides that at least 50% of the issue price of new shares shall be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital (a component of capital surplus). Under the Companies Act, an amount equal to at least 10% of cash dividends and other appropriations of retained earnings paid out with respect to each financial period is set aside in a legal reserve (a component of retained earnings) until the total amount of additional paid-in capital and legal reserve equals 25% of the stated capital. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders. The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

(a) Type and Number of Shares Outstanding and Treasury Stock

For the year ended March 31, 2016

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2015	**89,597,500**	**4,126,611**
Increase in the number of shares during the accounting period ended March 31, 2016	**—**	**4,454,270**[*1]
Decrease in the number of shares during the accounting period ended March 31, 2016	**—**	**6,500**[*2]
Number of shares as of March 31, 2016	**89,597,500**	**8,574,381**

Notes: *1. Increase due to purchase of treasury stock based on the resolution of the Board of Directors' meeting (4,453,000 shares)
Increase due to the purchase of odd shares (1,270 shares)
*2. Decrease due to exercise of stock options (6,500 shares)

For the year ended March 31, 2015

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2014	97,597,500	4,125,351
Increase in the number of shares during the accounting period ended March 31, 2015	—	8,001,265[*2]
Decrease in the number of shares during the accounting period ended March 31, 2015	8,000,000[*1]	8,000,005[*3]
Number of shares as of March 31, 2015	89,597,500	4,126,611

Notes: *1. Decrease due to retirement of treasury stock (8,000,000 shares)
*2. Increase due to purchase of treasury stock based on the resolution of the Board of Directors' meeting (8,000,000 shares)
Increase due to the purchase of odd shares (1,265 shares)
*3. Decrease due to retirement of treasury stock (8,000,000 shares)
Decrease due to sales upon the request from odd shareholders (5 shares)

(b) Stock Acquisition Rights

For the year ended March 31, 2016

			Number of shares to be granted				
Issuer	Components	Type of stock to be granted	April 1, 2015	Increase	Decrease	March 31, 2016	Outstanding balance at March 31, 2016
SANKYO CO., LTD.	Stock acquisition rights as stock options	**—**	**—**	**—**	**—**	**—**	**¥526 million ($4,676 thousand)**

For the year ended March 31, 2015

			Number of shares to be granted				
Issuer	Components	Type of stock to be granted	April 1, 2014	Increase	Decrease	March 31, 2015	Outstanding balance at March 31, 2015
SANKYO CO., LTD.	Stock acquisition rights as stock options	—	—	—	—	—	¥253 million

(c) Matters Related to Dividends

For the year ended March 31, 2016

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 26, 2015 were as follows:

Dividends on common stock	
Total amount of dividends	**¥6,421 million ($56,992 thousand)**
Dividends per share	**¥75.00 ($0.67)**
Record date	**March 31, 2015**
Effective date	**June 29, 2015**

Approvals by the Board of Directors' meeting held on November 5, 2015 were as follows:

Dividends on common stock	
Total amount of dividends	**¥6,110 million ($54,232 thousand)**
Dividends per share	**¥75.00 ($0.67)**
Record date	**September 30, 2015**
Effective date	**December 4, 2015**

ii) **Dividends whose record date is attributed to the year ended March 31, 2016 but become effective after the said year.**

The Company obtained the following approval at the general meeting of shareholders held on June 29, 2016:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($54,031 thousand)**
Dividends per share	**¥75.00 ($0.67)**
Record date	**March 31, 2016**
Effective date	**June 30, 2016**

For the year ended March 31, 2015

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 27, 2014 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,021 million
Dividends per share	¥75.00
Record date	March 31, 2014
Effective date	June 30, 2014

Approvals by the Board of Directors' meeting held on November 6, 2014 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,021 million
Dividends per share	¥75.00
Record date	September 30, 2014
Effective date	December 5, 2014

ii) **Dividends whose record date is attributed to the year ended March 31, 2015 but become effective after the said year.**

The Company obtained the following approval at the general meeting of shareholders held on June 26, 2015:

Dividends on common stock	
Total amount of dividends	¥6,421 million
Dividends per share	¥75.00
Record date	March 31, 2015
Effective date	June 29, 2015

11. Stock Options

The Company recorded stock option related costs under the following accounts for the years ended March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cost of sales	¥ 6	¥ 12	$ 62
Selling, general and administrative expenses	280	235	2,487
Total	¥287	¥248	$2,549

The Company recorded gains from forfeiture of non-exercised stock options in an amount of ¥0 million ($6 thousand) and ¥3 million in the years ended March 31, 2016 and 2015, respectively.

The stock options outstanding as of March 31, 2016 are as follows:
(1) Details of stock options

Issuer	SANKYO CO., LTD.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015
Persons granted	4 directors of the Company	3 directors of the Company
	8 executive officers of the Company	12 executive officers of the Company
	11 directors of subsidiaries of the Company	12 directors of subsidiaries of the Company
Type and number of shares granted	Common stock 87,100 shares	Common stock 84,800 shares
Date of grant	July 22, 2014	July 23, 2015
Vesting conditions	Not defined	Not defined
Number of service years	Not defined	Not defined
Exercise period	From July 23, 2014 through July 22, 2064 The eligible holder of subscription rights to shares may exercise stock options within the above period and may exercise stock all options outstanding within 10 days following the loss of status as director, corporate auditor or executive officer of the Company or its affiliates. Other conditions for exercise shall be decided pursuant to the resolution of the Board of Directors.	From July 24, 2015 through July 23, 2065 The eligible holder of subscription rights to shares may exercise stock options within the above period and may exercise stock all options outstanding within 10 days following the loss of status as director, corporate auditor or executive officer of the Company or its affiliates. Other conditions for exercise shall be decided pursuant to the resolution of the Board of Directors.

(2) Stock option activity is as follows:

Issuer	SANKYO CO., LTD.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015
Non-vested:		
March 31, 2015 — Outstanding	—	—
Granted	—	84,800
Forfeited	—	—
Vested	—	84,800
March 31, 2016 — Outstanding	—	—
Vested:		
March 31, 2015 — Outstanding	85,900	—
Vested	—	84,800
Exercised	5,000	1,500
Forfeited	—	200
March 31, 2016 — Outstanding	80,900	83,100

Unit price information

Issuer	SANKYO CO., LTD.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015
Exercise price	¥1 ($0.01)	¥1 ($0.01)
Average stock price at the time of exercise	¥4,345 ($38.56)	¥4,230 ($37.54)
Fair value at the date of grant	¥2,954 ($26.22)	¥3,465 ($30.75)

The estimation method of fair value of stock options granted in the year ended March 31, 2016
a. The valuation technique is Black-Scholes model.
b. Main basic assumptions and estimation method

Stock price volatility	(Note 1)	26.19%
Expected remaining service period	(Note 2)	9.54 years
Expected cash dividend	(Note 3)	¥150 per share ($1.33)
Risk-free interest rate	(Note 4)	0.395%

Notes: 1. Stock price volatility is computed based on actual stock prices for the period of 9 years and 6 months (January 2006 through July 2015).
2. The expected remaining service period is estimated by adding 10 days, the exercise period after retirement, to the average remaining service period up to the retirement age.
3. Actual cash dividends for the fiscal year ended March 31, 2015.
4. Risk-free interest rate refers to yields of Japanese government bonds corresponding to the expected remaining period.

The estimation method of the number of stock options to be vested:
The Company uses the method that reflects the actual number of forfeited options, since it is difficult to estimate the number of stock options to be forfeited in the future on a reasonable basis.

12. Leases

Operating Leases
Future lease payments for non-cancellable operating leases as a lessee at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within one year	¥ 5	¥ 5	$ 49
Due after one year	9	6	83
Total	¥14	¥11	$132

13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Sales commission	¥ 6,163	¥ 9,226	$ 54,703
Advertisement expenses	3,454	4,308	30,659
Salaries and wages	3,364	3,607	29,863
Provision for reserve for bonuses	401	403	3,560
Accrued retirement allowances for directors and corporate auditors	—	12	—
Retirement benefit costs	249	228	2,214
Provision for allowance for doubtful accounts	(0)	(6)	(8)
Research and development expenses	21,959	24,559	194,884

14. Sales and Disposal of Property, Plant and Equipment

Gain or loss on sales and disposal of property, plant and equipment for the years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Gain on sales of property, plant and equipment:			
Machinery and equipment	¥ —	¥ 1	$ —
Tools, furniture and fixtures	—	2	—
Others	—	10	—
Total	¥ —	¥ 14	$ —
Loss on sales of property, plant and equipment:			
Buildings and structures	¥ (56)	¥ —	$ (498)
Machinery and equipment	(1)	—	(9)
Total	¥ (57)	¥ —	$ (507)
Loss on disposal of property, plant and equipment:			
Buildings and structures	¥ (8)	¥(27)	$ (76)
Machinery and equipment	(32)	(5)	(285)
Tools, furniture and fixtures	(5)	(3)	(51)
Others	(16)	(9)	(145)
Total	¥ (62)	¥(46)	$ (557)
Loss on sales and disposal of property, plant and equipment, net	¥(119)	¥(32)	$(1,064)

15. Loss on Impairment

The Companies recorded a loss on impairment for the following groups of assets for the year ended March 31, 2016:

Location	Use	Type	Millions of yen	Thousands of U.S. dollars
Takasaki city, Gunma Prefecture	Golf course	Buildings and structures	¥1,243	$11,034
		Construction in progress	693	6,153
		Other	1,327	11,781

The Companies group assets by business for management accounting purposes.

The carrying amounts of the above assets were reduced to their recoverable amounts and the reduced amounts were recorded as loss on impairment under "Other expenses," since the carrying amounts of said assets are exceeded expected future cash flows due to additional investment.

The recoverable amount is measured using value in use and determined by discounting future cash flows by 5.3%.

16. Income Taxes

The Companies are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate of approximately 33.0% and 35.5% for the years ended March 31, 2016 and 2015.

Tax losses can be carried forward for a nine-year period and be offset against future taxable income.

Significant components of deferred tax assets and liabilities at March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Accrued enterprise taxes	¥ 217	¥ 392	$ 1,929
Unrealized profits on inventories	1	1	11
Accrued employees' bonuses	259	275	2,302
Allowance for doubtful accounts	9	6	80
Net defined benefit liabilities	1,362	1,421	12,089
Accumulated depreciation	3,561	4,326	31,607
Unrealized profit on property, plant and equipment	123	130	1,097
Allowance for losses on investments in securities	116	122	1,032
Research and development expenses	1,296	1,914	11,504
Loss on impairment	2,279	1,177	20,225
Loss on devaluation of investments in securities	125	132	1,115
Long-term payables	768	821	6,818
Tax loss carryforwards	862	1,162	7,650
Other	362	395	3,219
Sub-total deferred tax assets	¥11,344	¥12,282	$100,678
Less-valuation allowance	(1,803)	(1,390)	(16,010)
Deferred tax assets	¥ 9,540	¥10,891	$ 84,668
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥ (1,660)	¥ (2,238)	$ (14,733)
Other	(42)	(49)	(380)
Deferred tax liabilities	(1,702)	(2,288)	(15,113)
Deferred tax assets, net	¥ 7,837	¥ 8,603	$ 69,555

Deferred tax assets, net at March 31, 2016 and 2015 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets in current assets	¥ 2,056	¥ 2,986	$ 18,246
Deferred tax assets in fixed assets	5,781	5,616	51,309

Reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2016 is as follows:

	2016
Normal effective statutory tax rate	33.0%
Expenses not deductible for income tax purposes	0.4
Non-taxable income	(0.5)
Tax credit for research and development expenses	(3.2)
Reduction of deferred tax assets due to tax rate changes	2.6
Amortization of goodwill	1.5
Changes in valuation allowance	2.6
Other – net	0.4
Actual effective tax rate	36.8%

Reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2015 is not disclosed because the difference was immaterial.

Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate:
The “Act for Partial Amendment of the Income Tax Act, etc.” and the “Act for Partial Amendment, etc. of the Local Income Tax Act, etc.” were enacted in the Japanese Diet on March 29, 2016 and as a result, the corporate income tax rates were reduced for the fiscal years beginning on and after April 1, 2016.

As a result, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 32.3% to 30.9% for the temporary differences expected to be settled in the period beginning on April 1, 2016 until March 31, 2018 and to 30.6% for the temporary differences expected to be settled from the fiscal years beginning on and after April 1, 2018.

The effect of this change on the effective statutory tax rate on the accompanying consolidated financial statements for the year ended March 31, 2016 resulted in decreases of deferred tax assets under current assets and deferred tax assets under fixed assets of ¥93 million ($828 thousand) and ¥239 million ($2,130 thousand), respectively, and increases of income taxes – deferred and net unrealized gains on available-for-sale securities of ¥426 million ($3,787 thousand) and ¥93 million ($828 thousand), respectively.

17. Financial Instruments and Related Disclosures

1. Outline of financial instruments

(1) Policy for financial instruments

The Companies have a policy for fund management of focusing only on low risk financial assets while avoiding speculative transactions.

(2) Nature and extent of risks arising from financial instruments and risk management

Receivables such as notes and accounts receivable—trade, are exposed to customer credit risk. The risks are managed in accordance with the credit management rules that determine credit management and that facilitate the development of a system to evaluate the financial status of each customer.

Marketable securities and investments in securities are exposed to the risk of market price fluctuations. However, the fair values of all marketable securities and investments in securities are periodically determined. Available-for-sale securities are mostly the shares of companies with which the companies have business relationships. Debt securities are purchased for the temporary management of surplus funds.

Payment terms of payables, such as notes and accounts payable—trade, are less than one year. Although current liabilities, including these payables, are exposed to liquidity risk at settlement, each subsidiary develops a cash flow plan every month to avoid this risk.

Bonds with subscription rights to shares are issued for financing purpose to purchase treasury stock.

(3) Supplementary explanation concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions.

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2016 and 2015 were as follows. Financial instruments whose fair values are not readily determinable are excluded from the following table. (See Note 2 of the table)

	Millions of yen		
March 31, 2016	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 96,906	¥ 96,906	¥ —
(2) Notes and accounts receivable—trade	33,841		
Allowance for doubtful accounts	(2)		
	33,839	33,529	(309)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	197,028	197,114	85
Available-for-sale securities	11,541	11,541	—
Total assets	¥339,316	¥339,092	¥(224)
(4) Notes and accounts payable—trade	¥ 23,689	¥ 23,689	¥ —
(5) Bonds with subscription rights to shares	20,086	20,575	488
Total liabilities	¥ 43,776	¥ 44,264	¥ 488

March 31, 2015	Millions of yen Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥133,675	¥133,675	¥ —
(2) Notes and accounts receivable—trade	45,070		
Allowance for doubtful accounts	(3)		
	45,067	44,616	(450)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	160,008	160,084	75
Available-for-sale securities	13,042	13,042	—
Total assets	¥351,793	¥351,418	¥(374)
(4) Notes and accounts payable—trade	¥ 41,204	¥ 41,204	¥ —
Total liabilities	¥ 41,204	¥ 41,204	¥ —

March 31, 2016	Thousands of U.S. dollars Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	$ 860,018	$ 860,018	$ —
(2) Notes and accounts receivable—trade	300,337		
Allowance for doubtful accounts	(22)		
	300,314	297,564	(2,750)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	1,748,570	1,749,332	762
Available-for-sale securities	102,429	102,429	—
Total assets	$3,011,332	$3,009,344	$(1,989)
(4) Notes and accounts payable—trade	$ 210,236	$ 210,236	$ —
(5) Bonds with subscription rights to shares	178,263	182,597	4,334
Total liabilities	$ 388,499	$ 392,833	$ 4,334

Notes: 1. Calculation method of fair values of financial instruments and securities transactions

(1) Cash and deposits

Since these are settled in a short time period, their fair values approximate their carrying amounts.

(2) Notes and accounts receivable—trade

The fair values are stated at their current values, which are calculated for each receivables group categorized by the remaining period to the maturity discounted by the interest rate applicable to the period and the credit risk.

(3) Marketable securities and investments in securities

The fair values of these securities are determined using the quoted price at the stock exchange. Debt securities are determined using the quoted prices obtained from correspondent financial institutions. Matters to be noted in respect of securities by holding purpose are stated in "Marketable Securities and Investments in Securities."

(4) Notes and accounts payable—trade

Since these are settled in a short time period, their fair values approximate their carrying amounts.

(5) Bonds with subscription rights to shares

The fair values are determined using the quoted price obtained from the counterparty financial institutions.

2. Since it is extremely difficult to determine the fair values of unlisted equity securities amounting to ¥1,967 million ($17,461 thousand) and ¥1,967 million at March 31, 2016 and 2015, respectively, as there are no market prices available and it is impossible to estimate the future cash flow, they are not included in "(3) Marketable securities and investments in securities."

The Company recorded a loss on devaluation of investments in securities amounting to ¥14 million for the year ended March 31, 2015.

3. Redemption schedule of monetary assets and securities with contractual maturities at March 31, 2016 and 2015 was as follows:

March 31, 2016	Millions of yen Within one year	One to five years
(1) Cash and deposits	¥ 96,906	¥ —
(2) Notes and accounts receivable—trade	28,318	5,523
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	30,000	24,000
Held-to-maturity debt securities (Short-term corporate bonds)	23,000	—
Held-to-maturity debt securities (Certificates of deposits)	120,000	—

	Millions of yen	
March 31, 2015	Within one year	One to five years
(1) Cash and deposits	¥133,675	¥ —
(2) Notes and accounts receivable—trade	38,256	6,814
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	40,000	30,000
Held-to-maturity debt securities (Short-term corporate bonds)	10,000	—
Held-to-maturity debt securities (Certificates of deposits)	80,000	—

	Thousands of U.S. dollars	
March 31, 2016	Within one year	One to five years
(1) Cash and deposits	$ 860,018	$ —
(2) Notes and accounts receivable—trade	251,318	49,018
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	266,241	212,993
Held-to-maturity debt securities (Short-term corporate bonds)	204,118	—
Held-to-maturity debt securities (Certificates of deposits)	1,064,963	—

4. Redemption schedule of bonds with subscription rights to shares at March 31, 2016 was as follows:

	Millions of yen	
March 31, 2016	Within one year	One to five years
Bonds with subscription rights to shares	¥—	¥20,000

	Thousands of U.S. dollars	
March 31, 2016	Within one year	One to five years
Bonds with subscription rights to shares	$—	$177,494

18. Asset Retirement Obligations

Asset retirement obligations recorded on the consolidated balance sheets at March 31, 2016 and 2015 were as follows:

(1) Overview of asset retirement obligations
Asset retirement obligations at March 31, 2016 and 2015 were based on restoration obligations, etc. in real estate lease of buildings.

(2) Calculation method of the amount of asset retirement obligations
The amount of asset retirement obligations was calculated considering the estimated period of 13 years from obtaining the asset, and using the discount rate of 1.7%.

(3) Gain or loss of total amount of asset retirement obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance	¥63	¥59	$560
Increase due to acquisition of property, plant and equipment	—	5	—
Adjustment by time elapsed	0	0	3
Decreased due to performance of asset retirement obligations	—	(2)	—
Ending balance	¥63	¥63	$563

19. Segment Information

1. Overview of the reportable segments

The Company's reportable segments are determined on the basis that separate financial information of such segments are available and examined periodically by the Board of Directors to make decisions regarding the allocation of management resources and assess the business performances of such segments. Core businesses of the Company are production and sales of Pachinko and Pachislot machines, installation and sales of Pachinko and Pachislot supply systems. Thus, the Company has divided its business operations into the three reportable segments of Pachinko machines business, Pachislot machines business, and ball bearing supply systems business. Pachinko machines business is operated by production and sales of Pachinko machines, machine gauges, and related parts, and by their royalty-related business. Pachislot machines business is operated by production and sales of Pachislot machines and related parts, and by their royalty-related business. Ball bearing supply systems business is operated by production and sales of Pachinko and Pachislot ball feeders, card system equipment, and parlor equipment and peripherals, and by their royalty-related business.

2. Valuation method for reportable segment profit (loss) and asset amounts

The accounting method for reportable business segments is basically presented in accordance with "Summary of Significant Account Policies."

3. Segment information of reportable segment profit (loss) and asset amounts

Millions of yen

	For the year ended March 31, 2016							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	¥98,273	¥26,007	¥12,159	¥136,440	¥ 689	¥137,130	¥ —	¥137,130
Intersegment	—	—	—	—	—	—	—	—
Total	98,273	26,007	12,159	136,440	689	137,130	—	137,130
Segment profit (loss)	19,053	4,864	366	24,284	(706)	23,578	(4,752)	18,826
Segment asset	93,411	23,689	14,434	131,534	14,984	146,519	267,664	414,183
Others								
Depreciation and amortization*4	3,579	719	31	4,329	408	4,737	196	4,933
Amortization of goodwill	491	110	—	602	134	737	—	737
Increase in property, plant and equipment and intangible fixed assets*4	2,952	508	47	3,508	1,195	4,704	31	4,735

Millions of yen

	For the year ended March 31, 2015							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	¥114,137	¥19,054	¥12,552	¥145,744	¥ 834	¥146,579	¥ —	¥146,579
Intersegment	—	—	—	—	—	—	—	—
Total	114,137	19,054	12,552	145,744	834	146,579	—	146,579
Segment profit (loss)	15,481	2,616	442	18,541	(544)	17,996	(4,763)	13,233
Segment asset	129,551	31,989	20,439	181,981	17,983	199,964	234,684	434,648
Others								
Depreciation and amortization*4	3,214	716	29	3,961	445	4,406	209	4,615
Amortization of goodwill	491	110	—	602	134	737	—	737
Increase in property, plant and equipment and intangible fixed assets*4	4,118	844	16	4,980	609	5,589	130	5,719

	Thousands of U.S. dollars							
	For the year ended March 31, 2016							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustment[*2]	Consolidated[*3]
Sales:								
Customers	$872,149	$230,807	$107,914	$1,210,870	$ 6,120	$1,216,990	$ –	$1,216,990
Intersegment	–	–	–	–	–	–	–	–
Total	872,149	230,807	107,914	1,210,870	6,120	1,216,990	–	1,216,990
Segment profit (loss)	169,094	43,172	3,253	215,519	(6,267)	209,253	(42,174)	167,079
Segment asset	828,996	210,233	128,099	1,167,327	132,984	1,300,311	2,375,437	3,675,748
Others								
Depreciation and amortization[*4]	31,764	6,383	276	38,423	3,621	42,044	1,743	43,787
Amortization of goodwill	4,365	984	–	5,349	1,193	6,542	–	6,542
Increase in fixed assets and intangible fixed assets[*4]	26,203	4,516	420	31,139	10,610	41,749	279	42,027

Notes:
*1. The other segment is not a reporting segment, which includes mobile contents service, real estate rental, operation of a golf club, and general-molded parts.
*2. Adjustments are as follows:
(1) Adjustment for segment profit (loss) is general and administrative expenses related to administrative operations not attributable to a reporting segment.
(2) Adjustment for segment asset is corporate asset not associated with the reporting segments. The main items were surplus funds (cash and deposits, and marketable securities), long-term investments (investments in securities), and assets related to administrative operations.
*3. Segment profit (loss) includes operating income and adjustment in consolidated statements of income.
*4. Depreciation and amortization and increase in property, plant and equipment and intangible fixed assets include depreciation and increase related to long-term prepaid expenses.

Related Information

1. Product and service segment information
   Product and service segment information has been omitted since similar description is disclosed in segment information for the years ended March 31, 2016 and 2015.
2. Geographical segment information
   (1) Sales
   There were no sales to customers outside Japan and no applicable data for the years ended March 31, 2016 and 2015.
   (2) Property, plant and equipment
   There were no property, plant and equipment located outside Japan and no applicable data for the years ended March 31, 2016 and 2015.
3. Major customer segment information
   For the year ended March 31, 2016

(Millions of yen, Thousands of U.S. dollars)

Name of customer	Sales	Name of related segment
Fields Corporation	¥15,860 ($140,756)	Pachinko machine business and Pachislot machine business

For the year ended March 31, 2015

Major customer segment information is omitted for the year ended March 31, 2015 since there is no specific customer who accounts for more than 10% of total sales.

Information on Losses on Impairment of Fixed Assets by Segment

For the year ended March 31, 2016

(Millions of yen, Thousands of U.S. dollars)

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate	Total
Loss on impairment	—	—	—	—	¥3,264 ($28,967)	—	¥3,264 ($28,967)

Note: * "Other" is related to the golf course management business.

There was no loss on impairment recognized for the year ended March 31, 2015.

Information on Amortization of Goodwill and Remaining Balance by Segment

For the year ended March 31, 2016

(Millions of yen, Thousands of U.S. dollars)

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate	Total
Amortization of goodwill during the year	¥491 ($4,365)	¥110 ($984)	—	¥602 ($5,349)	¥134 ($1,193)	—	¥737 ($6,542)
Balance at end of year	¥491 ($4,365)	¥110 ($984)	—	¥602 ($5,349)	¥401 ($3,563)	—	¥1,004 ($8,912)

Note: * Amounts shown correspond to mobile contents service.

For the year ended March 31, 2015

(Millions of yen)

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate	Total
Amortization of goodwill during the year	¥491	¥110	—	¥602	¥134	—	¥737
Balance at end of year	¥983	¥221	—	¥1,205	¥535	—	¥1,741

Note: * Amounts shown correspond to mobile contents service.

Information on Gain on Negative Goodwill by Segment

There was no corresponding information for the years ended March 31, 2016 and 2015.

20. Per Share Information

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share *1	¥4,300.19	¥4,345.53	$38.16
Net income per share *2	126.78	94.48	1.13
Diluted net income per share *3	122.54	94.39	1.09

Above information was computed based on the following data:

	Year ended March 31,	
	2016	2015
*1 Net assets per share:		
Total net assets	¥348,941 million ($3,096,750 thousand)	¥371,670 million
Amount to be deducted from total net assets	¥526 million ($4,676 thousand)	¥253 million
(Of which subscription rights to shares)	(¥526 million) ($4,676 thousand)	(¥253 million)
Net assets attributable to common stock	¥348,414 million ($3,092,074 thousand)	¥371,416 million
Number of outstanding shares of common stock	89,597,500 shares	89,597,500 shares
Number of treasury stock	8,574,381 shares	4,126,611 shares
Number of common stock used in computing net asset per share	81,023,119 shares	85,470,889 shares

*2 Net income per share:		
Net income attributable to owners of the parent	¥10,485 million ($93,054 thousand)	¥8,728 million
Net income attributable to common stock shareholders of the parent	¥10,485 million ($93,054 thousand)	¥8,728 million
Net income not attributable to common stock shareholders	—	—
Weighted average number of common stock	82,705,072 shares	92,386,716 shares

*3 Diluted net income per share:		
Adjustment to net income	¥(8,913) million ($(79,107) thousand)	—
Increase in common stock	2,791,577 shares	85,879 shares
(Of which bonds with subscription rights to shares)	(2,651,231 shares)	(—)
(Of which subscription rights to shares)	(140,346 shares)	(85,879 shares)
Summary of securities excluded from the computation of diluted net income per share because they do not have dilutive effects	—	—

21. Related Party Transaction

The transactions for the years ended March 31, 2016 and 2015 and related account balances outstanding at each year end were as follows:

For the year ended March 31, 2016 (Millions of yen, Thousands of U.S. dollars)

Description	Name	Address	Capital	Business line/ occupation	Voting rights owned by the Company	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliate company	FIELDS CORPORATION	Shibuya-ku, Tokyo	¥7,948 ($70,536)	Development, purchase and sales of game machines	Direct 15.69% (The Company owns 1.21% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥15,860 ($140,756)	Accounts receivable–trade	¥3,550 ($31,506)
							Consignment sales of game machines	¥4,270 ($37,902)	Accounts payable–other	¥446 ($3,961)
							Royalty	¥1,038 ($9,219)	Accounts payable–other	¥72 ($641)

For the year ended March 31, 2015 (Millions of yen)

Description	Name	Address	Capital	Business line/ occupation	Voting rights owned by the Company	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliate company	FIELDS CORPORATION	Shibuya-ku, Tokyo	¥7,948	Development, purchase and sales of game machines	Direct 15.69% (The Company owns 1.14% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥436	Accounts receivable–trade	¥31
							Consignment sales of game machines	¥7,002	Accounts payable–other	¥460
							Royalty	¥2,129	Accounts payable–other	¥81

22. Significant Subsequent Events

There is no significant subsequent event to be reported.

23. Significant Subsidiaries and an Affiliate

The domestic consolidated subsidiaries and an affiliate accounted for by the equity method at March 31, 2016 and 2015 were as follows:

	Ownership		
At March 31	2016	2015	Consolidation method
SANKYO EXCEL CO., LTD.	100%	100%	Full consolidation
BISTY CO., LTD.	100%	100%	Full consolidation
SANKYO CREATE CO., LTD.	100%	100%	Full consolidation
INTERNATIONAL CARD SYSTEM CO., LTD.	100%	100%	Full consolidation
JB CO., LTD.	100%	100%	Full consolidation
FIELDS CORPORATION	15.69%	15.69%	Equity method

EY
Building a better working world

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Independent Auditor's Report

The Board of Directors
SANKYO Co., Ltd.

We have audited the accompanying consolidated financial statements of SANKYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SANKYO Co., Ltd. and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 30, 2016
Tokyo, Japan

Board of Directors

(As of June 29, 2016)

Honorary Chairman
Kunio Busujima

Representative Director, Chairman of the Board & CEO
Hideyuki Busujima

Representative Director, President & COO
Kimihisa Tsutsui

Director & Senior Executive Operating Officer
Ichiro Tomiyama

Outside Director
Taro Kitani
Takashi Miura

Standing Statutory Auditor
Shohachi Ugawa

Statutory Auditor
Toshiaki Ishiyama

Outside Statutory Auditor
Yoshiro Sanada
Fumiyoshi Noda

Executive Operating Officers
Yuji Togo
Toshio Ogura
Katsumasa Takai
Yoko Oshima

Operating Officers
Hiroshi Kodaira
Takashi Fukuda
Junichi Tsutsumi
Fumitaka Sekine
Hisashi Kamoda
Katsuki Amako
Hotaka Makita

For Further Information Contact:
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3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7773 Facsimile: 81(3)5778-6731
http://www.sankyo-fever.co.jp

Corporate Data

(As of March 31, 2016)

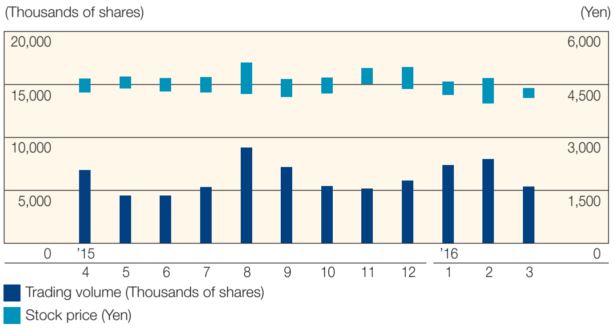
Company Name
SANKYO CO., LTD.

Head Office
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7777 Facsimile:81(3)5778-6731

Sanwa Plant
2732-1 Sanwa-cho, Isesaki-shi, Gunma 372-0011, Japan

Established	April 1966
Paid-in Capital	¥14,840 million
Number of Employees	1,084 (Consolidated)
	862 (SANKYO CO., LTD.)
Number of Shares Authorized	144,000,000
Number of Shares Issued	89,597,500
Number of Shareholders	11,113

Stock Price Range



Stock Exchange Listing
The Tokyo Stock Exchange, First Section,
Code Number 6417
Transfer Agent
Sumitomo Mitsui Trust Bank, Limited
Auditor
Ernst & Young ShinNihon LLC

Good luck. Good life.

SANKYO

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