Good luck. Good life.

SANKYO CO., LTD.

Transforming Change into Opportunity

Annual Report 2017

Year ended March 31, 2017

2017

Transforming Change into Opportunity

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. Currently the SANKYO Group is meeting diverse player needs by operating the business under multiple brands—SANKYO, Bisty, and JB. 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.

Right now, the pachinko and pachislot industry is at a turning point. Revision of regulations governing pachinko and pachislot machines is expected in February 2018, the first such revision in 14 years. The SANKYO Group has a track record of capturing business opportunities from previous regulatory changes to create a multitude of industry standards. Capitalizing on the experience and know-how that the SANKYO Group has accumulated, we aim to boost sales by expanding our market shares and improve earnings through cost reduction, and aspire to raise our corporate value while continuing stable dividend payments.

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, 2017 and 2016

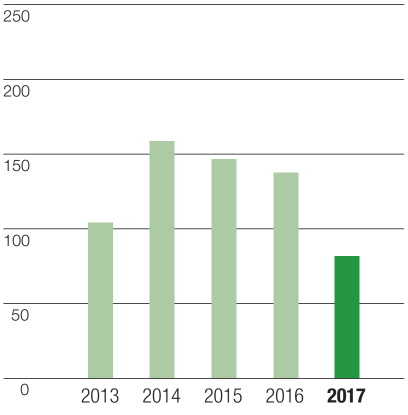
	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	**2017**
For the year:			
Net sales	**¥ 81,455**	¥137,130	**$ 726,049**
Operating income	**5,059**	18,826	**45,096**
Net income attributable to owners of the parent	**1,777**	10,485	**15,846**
At year-end:			
Total assets	**¥390,585**	¥414,183	**$3,481,467**
Total net assets	**340,287**	348,941	**3,033,133**

	Yen		U.S. dollars
Per share data:			
Net income (basic)	**¥ 21.94**	¥126.78	**$0.20**
Cash dividends	**150.00**	150.00	**1.34**

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥112.19=U.S.$1. See Note 2 to the consolidated financial statements.

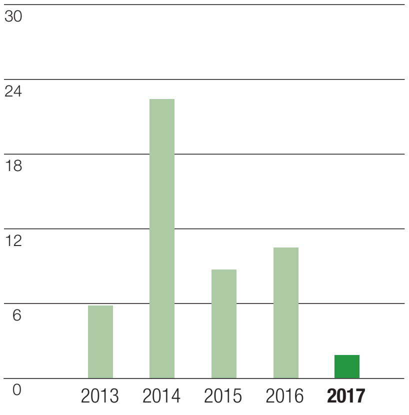
Net Sales

(Billions of yen)



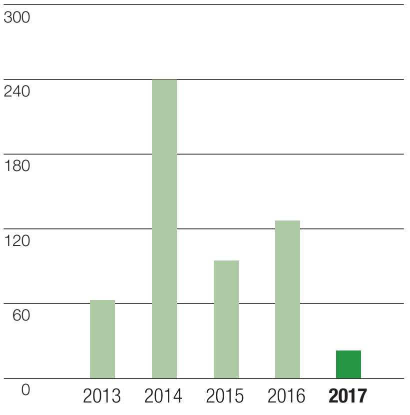
Net Income Attributable to Owners of Parent

(Billions of yen)



Net Income per Share (basic)

(Yen)



Interview with the Management

Hideyuki Busujima
Chairman of the Board & CEO

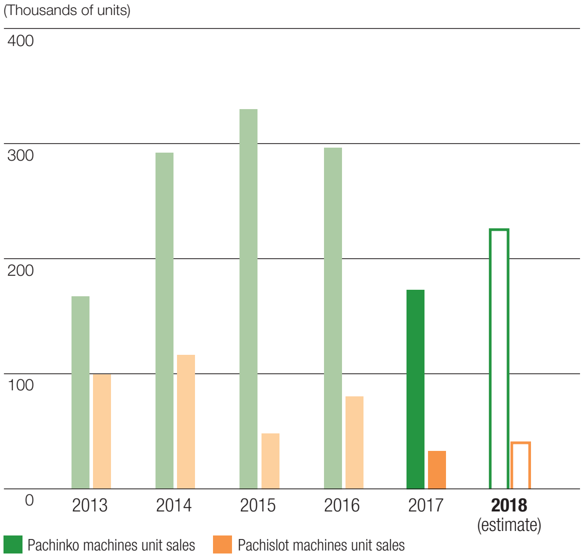
Kimihisa Tsutsui
President & COO

Q1 SANKYO recorded decreases in both sales and profit for the fiscal year ended March 31, 2017. What factors led to this result?

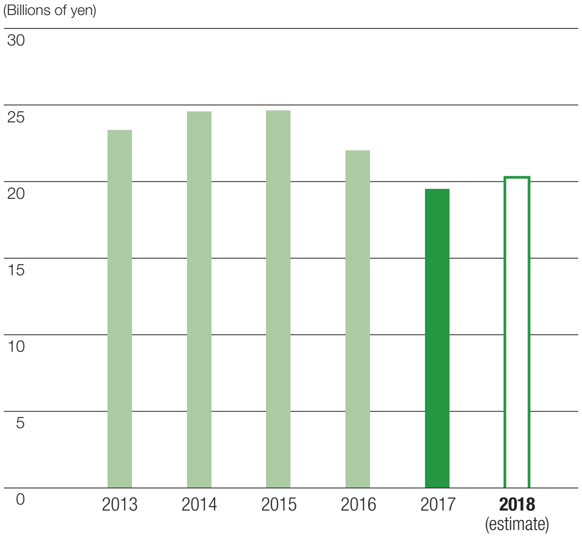
A For the fiscal year ended March 31, 2017 (fiscal 2017), our sales and profit both decreased. On a consolidated basis, net sales were ¥81.4 billion, a decrease of 40.6% year on year. Operating income was ¥5.0 billion, a decrease of 73.1%, and profit attributable to owners of parent was ¥1.7 billion, a decrease of 83.0%.

The pachinko and pachislot industry implemented industry-wide initiatives to promote replacement of pachinko and pachislot machines with models compliant with the new standards in response to voluntary regulations to prevent players becoming overly immersed in playing pachinko and pachislot. This was in addition to collection and removal of "all the pachinko machines whose performance may differ from that of the models

Pachinko and Pachislot Machines Unit Sales of the SANKYO Group



Trend of R&D Expenditure



submitted for format inspection" by the end of December 2016. As a result, manufacturers introduced major titles in rapid succession during the year-end season, which led to a temporary spike in demand. However, pachinko parlors continued to adopt a selective approach to the models. Thus, the sales market remained sluggish throughout the year.

In these circumstances, the SANKYO Group sold 172,000 pachinko machines, a decrease of 123,000 units compared with the previous year, and 32,000 pachislot machines, a decrease of 47,000 units. Whereas sales were brisk for the *EVANGELION-Time to Rise* pachinko title, which is a major title of the Group, sales of other titles were generally lackluster, partly affected by the overall market trend toward smaller-lot sales.

Q2 What is the outlook for the fiscal year ending March 31, 2018 and what do you expect to be the impact of the scheduled amendment of the pachinko and pachislot machines regulations?

A Regarding the market environment for the next fiscal year ending March 31, 2018, in line with the enactment of the Act Concerning Promotion of Development of Integrated Resort Areas ("Integrated Resort Promotion Act") in December 2016, the pachinko and pachislot industry, together with government-controlled competitive sports for which government-operated gambling is allowed, is urged to sincerely implement countermeasures for compulsive gambling. Following the enactment of the Integrated Resort Promotion Act, the amended Ordinance for Enforcement of the Act to Control Businesses That May Affect Public Morals and the Regulations Concerning the Certification and Official Inspection of Game Machines ("Pachinko and Pachislot Machines Regulations"), that include revisions to the standards for performance of payout of balls/tokens, are predicted to come into force on February 1, 2018.

The industry shares the recognition that its approach to maintain the scale of the market by the increase of customer spend led to the problem of excessive immersion of players in playing and the decrease in the player population. We hope that the new developments will provide a great opportunity for the industry to accelerate development of pachinko and pachislot machines that can be played at a reasonable cost and operation of pachinko parlors that do not depend on heavy players. The SANKYO Group views the change in the regulations as a business opportunity. Capitalizing on the development expertise cultivated over many years, we will work to maximize sales of products compliant with the current regulations and consider the possibilities brought about by the new regulations.

The Group's plan for the fiscal year ending March 31, 2018 calls for sales of 225,000 pachinko machines and 40,000 pachislot machines. We forecast consolidated net sales of ¥97.0 billion, an increase of 19.1% year on year, operating income of ¥8.1 billion, an increase of 60.1%, and net income attributable to owners of parent of ¥5.8 billion, an increase of 226.3%. However, even if the amended pachinko/pachislot machines regulations come into force on February 1, 2018, a transitional measure is expected to be implemented that will allow sales of pachinko and pachislot machines that secured compliance with the former regulations prior to the enforcement.

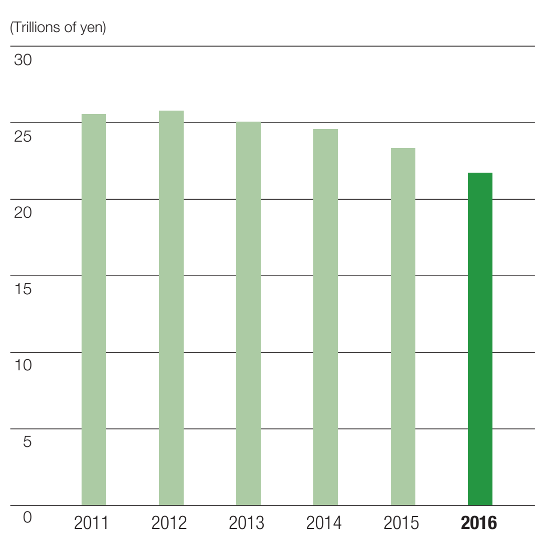
Q3 According to the 2017 Leisure White Paper, the pachinko player population decreased 1.4 million from the previous year to 9.4 million. How do you interpret the decline in the player population?

A The pachinko player population was about 30 million at its peak in the 1990s. Pachinko then was a popular leisure activity for a huge number of people. In recent years, the player population has been around 10 million, about one-third compared to that at its peak. Meanwhile, the trend of pachinko and pachislot balls/token rental revenues shows that the rate of decrease in the ball/token rental revenues has been exceeded by the rate of decrease in the player population, indicating that the scale of the market has been maintained by the increase of customer spend. Recognizing that the increasing dependence on heavy players is resulting in the decline of the pachinko and pachislot industry, the industry is addressing the key issue, namely, the development of an environment where players can relax and enjoy playing pachinko and pachislot, while taking into consideration the problem of compulsive gambling.

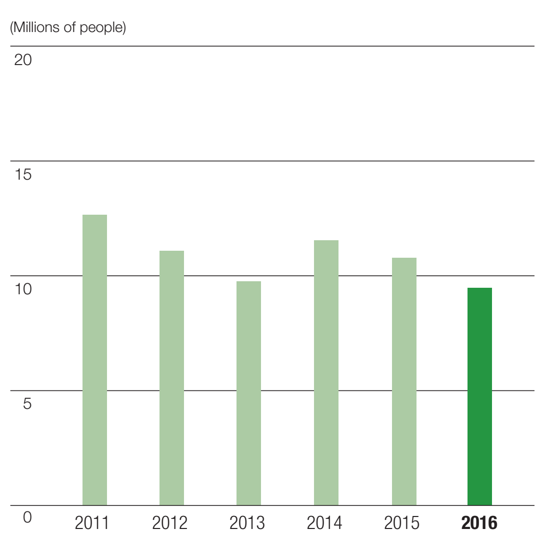
Q4 What specific initiatives are the pachinko and pachislot industry pursuing in order to achieve a recovery of the player population?

A According to a survey conducted by an industry body, new pachinko and pachislot players are usually introduced to this leisure pastime by their friends who are already pachinko and pachislot players. On the other hand, the survey also revealed that existing fans find it difficult to invite their friends and acquaintances

Trend of Ball/Token Rental Revenues



Trend of Pachinko/Pachislot Player Population

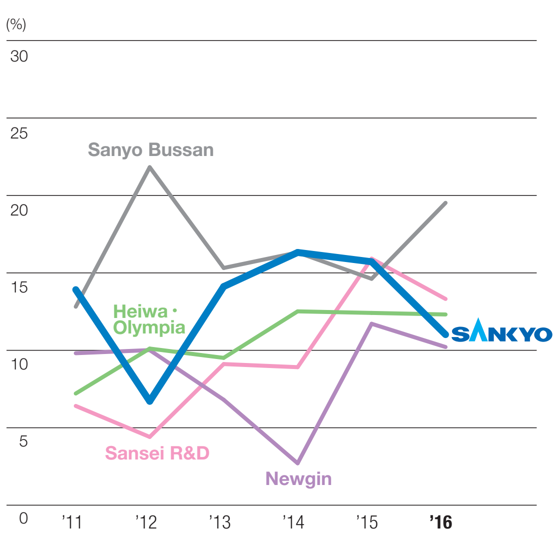


Source: 2017 Leisure White Paper, Japan Productive Center to play with them because of the rising cost of playing pachinko/pachislot. Moreover, new players and players who resume playing pachinko/pachislot after being dormant tend to play less frequently and to spend less than the existing players. In selecting a pachinko/pachislot machine, their emphasis tends to be on tie-up content and long playing time. Based on these results, the pachinko and pachislot industry has started developing an environment where players can relax and enjoy playing pachinko and pachislot at a reasonable cost with a view to cultivating new players and stimulating the dormant players who are estimated to number six to eight million.

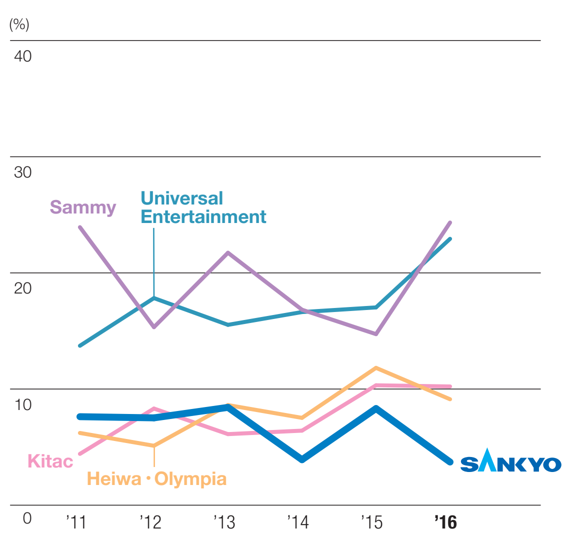
The industry's recent initiatives include collection and removal of pachinko machines with high gambling properties. This is in addition to collection and removal of "all the pachinko machines whose performance may differ from that of the models submitted for format inspection" by the end of December 2016. As for pachislot machines, based on the voluntary regulations, the industry is working to reduce the ratio of pachislot machines that are not compliant with the new standards on an installation basis step by step.

Meanwhile, manufacturers started offering "Choi-pachi" in 2016, which are pachinko machines with an approximately 1-in-40 jackpot probability, enabling players to experience a jackpot in a brief playing session at a reasonable cost. Moreover, while machines with LCDs and tie-ups with anime etc. are the mainstream, we must also offer simple, easy-to-play machines, such as drum-type and airplane-type models, in order to stimulate demand. It is vital to widen the options for players by offering a rich variety of machines.

Pachinko Machine Sales Share



Pachislot Machine Sales Share



Source: Yano Research Institute

Q5 A challenging market environment persists. What are SANKYO's initiatives to improve earnings?

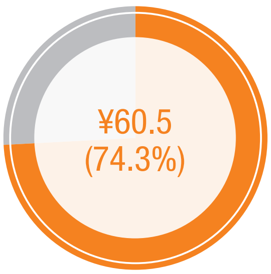
A The SANKYO Group is concentrating its management resources on the pachinko and pachislot machines businesses. In this way, we aim to boost sales by increasing our market share. We also aim to improve the ratio of operating income to net sales by reducing costs and curtailing selling, general and administrative expenses. As specific initiatives, we will emphasize development of original products that do not use licensed content and products without LCDs, in addition to tie-up titles featuring content of anime etc. Previously, a preoccupation with market trends led to uniformity. By clarifying concepts at the planning stage and promoting development of products equipped with functions that have never been seen before, we aim to achieve differentiation and enhance product appeal. In the run-up to the amendment of the Pachinko and Pachislot Machines Regulations, we share a sense of crisis with pachinko parlors in an environment that continues to be challenging with a declining player population, and are promoting development of pachinko and pachislot machines aligned with the needs of parlors and players.

Regarding cost reduction, besides shared use of visuals between pachinko and pachislot, we will design gimmicks that facilitate the sharing of parts and materials. Shortening lead times is another theme on which we are working. While maintaining the number of titles sold, we modulate allocation of costs according to the classification of products for thorough profit/loss management for each product in order to secure profit even in small-lot manufacturing and sales.

Amid this persistent challenging business environment, as a leading company we will endeavor to identify the turning point of the industry so as to position ourselves as the driving force of the market recovery and thus enhance corporate value by increasing the Group's shares of the pachinko and pachislot markets. 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 74.3% of net sales.

Major titles released included *Fever a-nation* (introduced in July 2016) and *Fever Tiger mask 3* (introduced in November 2016) under the SANKYO brand, *Tekken 2 Toushin ver.* (introduced in August 2016) and *EVANGELION-Time to Rise* (introduced in December 2016) under the Bisty brand, and *Fever Queen II* (introduced in January 2017) under the JB brand.

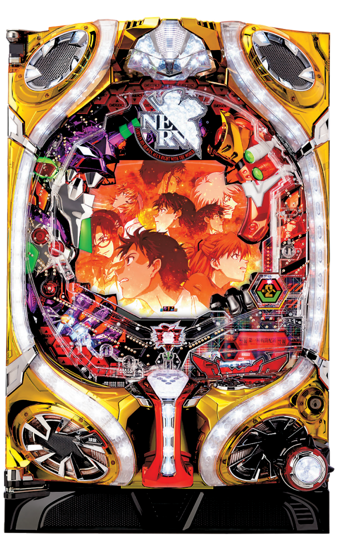
As a result, segment sales amounted to ¥60.5 billion, a decrease of 38.4% year on year, and operating income amounted to ¥10.4 billion, a decrease of 45.4%. Sales of pachinko machines amounted to 172,000 units.

Principal models introduced and numbers of machines sold during fiscal 2017

Principal models	Released	No. of machines sold (thousand machines)
*Fever a-nation**	July 2016	18.3
*Tekken 2 Toushin ver.**	August 2016	17.5
Fever Tiger mask 3	November 2016	15.9
EVANGELION-Time to Rise	December 2016	57.8

* Includes reuse models

Fever a-nation



EVANGELION-Time to Rise

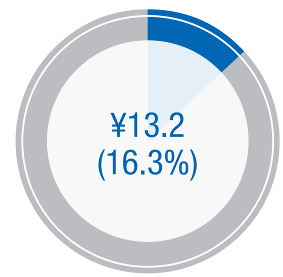
Pachislot Machines Business

This segment, which includes manufacturing and sales of pachislot machines, sales of related parts and pachislot machine-related royalty income, accounted for 16.3% of net sales.

Major titles released included *Pachislot Symphogear* (introduced in August 2016) and *Pachislot The Melancholy of Haruhi Suzumiya* (introduced in December 2016) under the SANKYO brand, and *EVANGELION-WISH OF VICTORY* (introduced in February 2017) and *Pachislot Mobile Suit Z Gundam* (introduced in March 2017) under the Bisty brand.

As a result, segment sales amounted to ¥13.2 billion, a decrease of 49.1% year on year, and operating loss was ¥0.2 billion, compared with operating income of ¥4.8 billion for the previous fiscal year. Sales of pachislot machines amounted to 32,000 units.

Sales (Billions of yen)



Principal models introduced and numbers of machines sold during fiscal 2017

Principal models	Released	No. of machines sold (thousand machines)
Pachislot Symphogear	August 2016	6.6
Pachislot The Melancholy of Haruhi Suzumiya	December 2016	7.1
EVANGELION-WISH OF VICTORY	February 2017	9.0

Pachislot The Melancholy of Haruhi Suzumiya

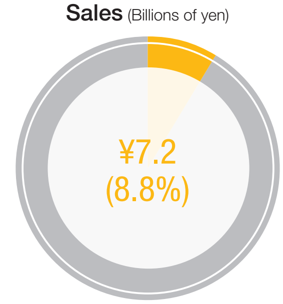
EVANGELION-WISH OF VICTORY

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 8.8% of net sales.

Sales of the ball bearing supply systems business were ¥7.2 billion, a decrease of 40.8% year on year, and operating income was ¥0.3 billion, a decrease of 8.9%.

Sales (Billions of yen)

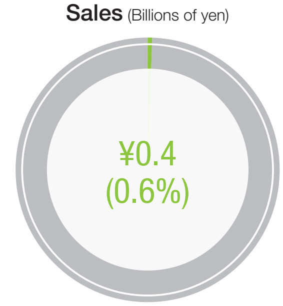


Other Businesses

Real estate rental revenues and sales of general molded parts account for most of the sales of this segment, which contributed 0.6% of net sales.

Sales of other businesses were ¥0.4 billion, a decrease of 30.8% year on year. An operating loss of ¥0.6 billion was recorded compared with an operating loss of ¥0.7 billion for the previous fiscal year.

Sales (Billions of yen)



Proven Capabilities in Responding to Regulatory Change

The pachinko and pachislot industry has experienced several changes in the regulatory framework over the years, which sometimes led to dramatic transformation of the business environment. The SANKYO Group takes pride in its track record of swiftly responding to such changes and addressing market needs.

Following the revision of the regulations in July 2004, the Group introduced *Fever Daiyamato 2*, which signaled the advent of pachinko machines complying with the new regulations, followed by *Neon Genesis Evangelion* and *Fever Star Wars*. These models attracted attention for their large LCDs, which were unusual in those days, and their gaming performance, gaining widespread recognition as notable examples of machines complying with the new regulations. For pachislot, though it was some time before competitors gained approval by format inspection, the SANKYO Group introduced *Neon Genesis Evangelion*, the first pachislot model complying with the new regulations. Comprising 11 pachinko and pachislot titles, *Evangelion* has become a signature series of the SANKYO Group. Moreover, the revised regulations allowed commercialization of palot machines whose gaming performance is the same as pachislot machines' but uses pachinko balls. The SANKYO Group made its mark in the palot category too, including the launch of the industry's first palot machine, *Palot Kagetsu Densetsu R*.

The SANKYO Group's strengths lie in having a wide development pipeline based on the three-brand system comprising SANKYO, Bisty, and JB, which became a consolidated subsidiary in 2012. We cater to the diverse needs of players and parlors by leveraging our three brands. SANKYO and Bisty mainly offer high-end models through tie-ups with licensed content while JB concentrates on offering original titles. We intend to meet market expectations by swiftly responding to the revision of the regulations expected in February 2018.

PACHINKO

Fever Star Wars

Neon Genesis Evangelion

PALOT

Palot Kagetsu Densetsu R

PACHISLOT

Neon Genesis Evangelion

Shinji ver.

Asuka ver.

Rei ver.

Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2017 (fiscal 2017), 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 2017

During the fiscal year ended March 31, 2017, while the Japanese economy experienced a continued recovery in corporate earnings as well as the employment environment and personal incomes, there were concerns about downside risks to the Japanese economy, including the orientation of policies of the new U.S. administration and their impact as well as uncertainties as to the prospects for China's economy and other emerging economies in Asia.

The pachinko and pachislot industry implemented industry-wide initiatives to promote replacement of pachinko and pachislot machines with models compliant with the new standards in response to voluntary regulations to prevent players becoming overly immersed in playing pachinko and pachislot. For pachinko, a decision was made to collect and remove "all the pachinko machines whose performance may differ from that of the models submitted for format inspection" by the end of December 2016. For pachislot, a step-by-step reduction of the ratio of "pachislot machines that are not compliant with the new standards" on an installation basis was decided. As a result, following the collection and removal of popular pachinko sequels, sales of their successor models picked up mainly in the year-end season. However, pachinko parlors largely adopted a wait-and-see approach to ascertain the reception of models compliant with the new standards. Thus, the market remained sluggish throughout the year for sales of both pachinko and pachislot machines.

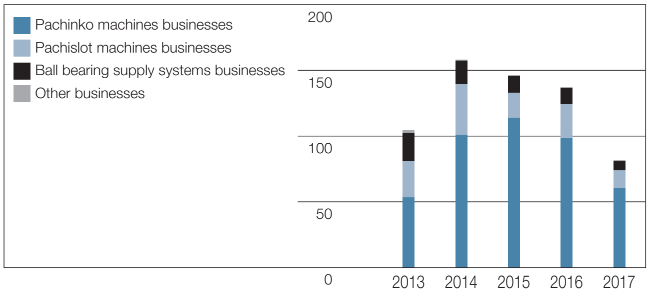
Net Sales

The SANKYO Group introduced 11 pachinko titles (excluding reuse models) and six pachislot titles. Whereas sales were brisk for the Bisty-brand *EVANGELION-Time to Rise* pachinko title, which has become a signature series, sales of other titles were generally lackluster, partly affected by the overall market trend toward smaller-lot sales.

As a result, consolidated net sales were ¥81.4 billion, a decrease of 40.6% year on year. Operating income was ¥5.0 billion, a decrease of 73.1%. Profit attributable to owners of parent decreased 83.0% to ¥1.7 billion.

Net Sales

(Billions of yen)



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

Cost of sales for fiscal 2017 amounted to ¥38.4 billion. The ratio of cost of sales to net sales decreased 8.0 percentage points from the previous fiscal year to 47.2%.

Selling, general and administrative expenses decreased ¥4.6 billion from the previous fiscal year, mainly owing to a decrease in advertising expenses, but the ratio of selling, general and administrative expenses to net sales increased 15.5 percentage points from the previous fiscal year to 46.6%. As a result, operating income decreased 73.1% to ¥5.0 billion and the ratio of operating income to net sales decreased 7.5 percentage points from the previous fiscal year to 6.2%.

Regarding other income (expenses), other expenses, net, amounted to ¥1.3 billion mainly owing to recording of equity in losses of affiliates amounting to ¥2.2 billion.

Profit attributable to owners of parent decreased ¥8.7 billion from ¥10.4 billion for the previous fiscal year to ¥1.7 billion. Earnings per share was ¥21.94 compared with ¥126.78 for the previous fiscal year.

Segment Information by Business

(Millions of yen)

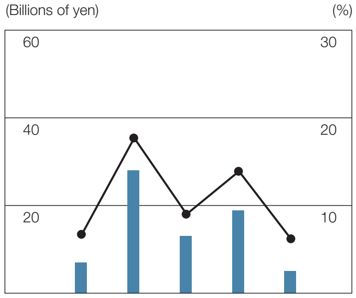
Net sales	2017	Year-on-year change	2016
Pachinko machines business	¥60,534	(38.4)%	¥ 98,273
Pachislot machines business	13,238	(49.1)	26,007
Ball bearing supply systems business	7,204	(40.8)	12,159
Other businesses	477	(30.8)	689
Total	¥81,455	(40.6)%	¥137,130

(Millions of yen)

Operating income	2017	Year-on-year change	2016
Pachinko machines business	¥10,402	(45.4)%	¥19,053
Pachislot machines business	(225)	(104.6)	4,864
Ball bearing supply systems business	333	(9.0)	366
Other businesses	(665)	—	(706)
Elimination/Corporate	(4,785)	—	(4,752)
Total	¥ 5,059	(73.1)%	¥18,826

Operating Income and Ratio of Operating Income to Net Sales

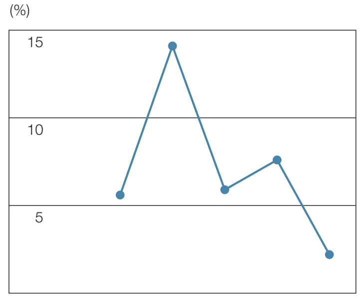
(Billions of yen) (%)



Operating Income (left scale)
Ratio of Operating Income to Net Sales

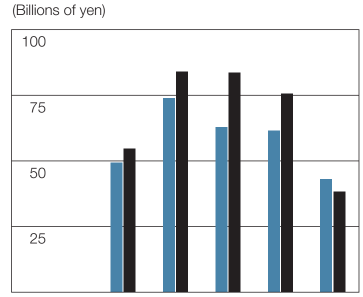
Return on Sales (ROS)

(%)



Gross Profit and Cost of Sales

(Billions of yen)



Gross Profit
Cost of Sales

Fiscal 2018 Forecast

Regarding the market environment for the next fiscal year ending March 31, 2018, in line with the enactment of the Act Concerning Promotion of Development of Integrated Resort Areas (“Integrated Resort Promotion Act”) in December 2016, the pachinko and pachislot industry, together with government-controlled competitive sports for which government-operated gambling is allowed, is urged to sincerely implement countermeasures for compulsive gambling. Therefore, change in the market environment is expected, including review of regulations. However, it is also a great opportunity for the pachinko and pachislot industry to change its direction and address the industry’s enduring issue, namely, the development of an environment where players can relax and enjoy playing pachinko and pachislot. The Company will continue development of pachinko and pachislot machines offering diverse gaming performance while promoting cost reduction to recover profitability.

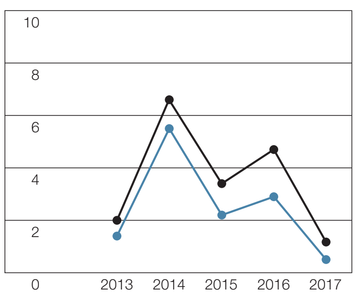
The Group’s plan calls for sales volumes for the fiscal year ending March 31, 2018, of 225,000 pachinko machines and 40,000 pachislot machines. The consolidated business results forecast for the fiscal year ending March 31, 2018, are as follows:

(Billions of yen)

	2018 forecast	Year-on-year change	2017 results
Net sales	¥97.0	19.1%	¥81.4
Operating income	8.1	60.1	5.0
Profit attributable to owners of parent	5.8	226.3	1.7

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

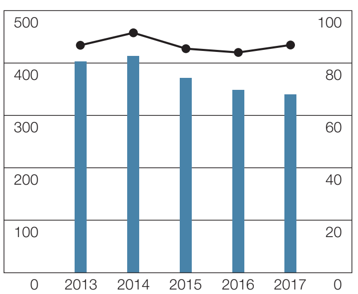
(%)



● 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

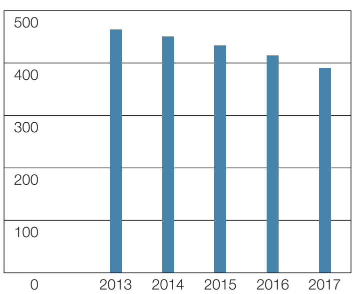
(Billions of yen) (%)



Total Net Assets (left scale)
● Equity Ratio

Total Assets

(Billions of yen)



Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year ended March 31, 2017 amounted to ¥390.5 billion, having decreased ¥23.5 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥24.5 billion decrease in investment securities and a ¥15.2 billion decrease in notes and accounts receivable-trade, despite a ¥15.0 billion increase in marketable securities.

Total liabilities amounted to ¥50.2 billion, having decreased ¥14.9 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to an ¥18.0 billion decrease in notes and accounts payable-trade and a ¥3.8 billion decrease in accounts payable (included in “Other” of Current liabilities), despite an ¥8.1 billion increase in electronically recorded obligations-operating.

Net assets decreased ¥8.6 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to cash dividends paid amounting to ¥12.1 billion, while profit attributable to owners of parent amounted to ¥1.7 billion and net unrealized gain on other securities increased ¥1.4 billion. As a result, net assets amounted to ¥340.2 billion and the shareholders’ equity ratio increased 2.8 percentage points to 86.9%.

Cash Flows

Cash and cash equivalents (hereinafter “cash”) at the fiscal year-end were ¥251.8 billion, having increased ¥16.9 billion from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities decreased ¥8.7 billion from the previous fiscal year to ¥8.5 billion. Principal cash inflow items were a ¥15.2 billion decrease in notes and accounts receivable-trade, income before income taxes amounting to ¥3.6 billion, and depreciation and amortization amounting to ¥2.9 billion. Principal cash outflow items were an ¥11.8 billion decrease in notes and accounts payable-trade and income taxes paid amounting to ¥3.2 billion.

Cash flows from investing activities

Net cash provided by investing activities increased ¥9.1 billion from the previous fiscal year to ¥20.5 billion. Principal cash inflow items were proceeds from redemption of investment securities amounting to ¥30.0 billion and proceeds from redemption of marketable securities amounting to ¥6.0 billion. Principal cash outflow items were payment for purchase of marketable securities amounting to ¥11.0 billion and payment for purchase of property, plant and equipment and intangible fixed assets amounting to ¥3.9 billion.

Cash flows from financing activities

Net cash used in financing activities increased ¥0.2 billion from the previous fiscal year to ¥12.1 billion. The principal cash outflow item was cash dividends paid amounting to ¥12.1 billion.

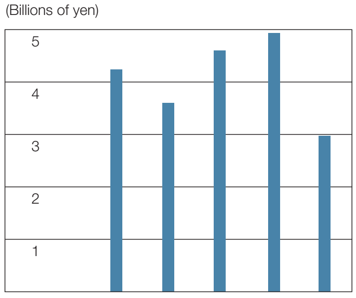
Forecast of the Financial Position in Fiscal 2018

For fiscal 2018, the Company forecasts net cash provided by operating activities of ¥15.0 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 a decrease of ¥2.0 billion in the cash balance at the end of fiscal 2018 compared to the end of fiscal 2017.

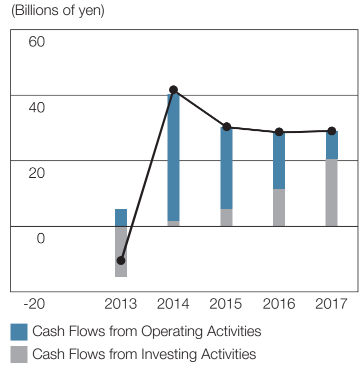
Depreciation

(Billions of yen)



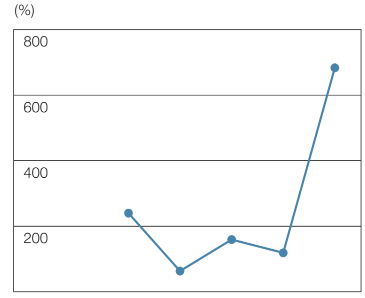
Free Cash Flows

(Billions of yen)



Payout Ratio

(%)



Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2018 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 2017, 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 likely to 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, 2017 and 2016

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Current assets:			
Cash and deposits (Notes 3 and 17)	¥ 97,818	¥ 96,906	$ 871,899
Marketable securities (Notes 3, 4 and 17)	188,007	173,001	1,675,792
Notes and accounts receivable-trade (Note 17)	18,626	33,841	166,027
Inventories (Note 6)	1,707	1,478	15,219
Deferred tax assets (Note 16)	2,073	2,056	18,481
Accounts receivable arising from outsourced production contracts	1,796	3,786	16,017
Other current assets	7,536	5,239	67,179
Allowance for doubtful accounts (Note 17)	(13)	(2)	(124)
Total current assets	317,552	316,307	2,830,491
Fixed assets:			
Property, plant and equipment (Note 15):			
Land	22,985	22,991	204,877
Buildings and structures	27,769	26,302	247,524
Machinery and equipment	7,592	8,090	67,677
Tools, furniture and fixtures	20,016	18,741	178,415
Leased assets	30	46	274
Construction in progress	0	1,471	3
Other fixed assets	3,074	2,972	27,401
	81,469	80,617	726,170
Accumulated depreciation	(36,588)	(36,128)	(326,133)
Total property, plant and equipment	44,880	44,488	400,037
Intangible fixed assets:			
Goodwill	267	1,004	2,380
Other intangible fixed assets	319	342	2,851
Total intangible fixed assets	586	1,347	5,232
Investments and other assets:			
Investments in securities (Notes 4, 5 and 17)	21,612	46,131	192,644
Long-term loans	544	—	4,852
Deferred tax assets (Note 16)	5,319	5,781	47,418
Other assets	493	532	4,395
Allowance for doubtful accounts	(24)	(26)	(217)
Allowance for losses on investments in securities	(379)	(379)	(3,385)
Total investments and other assets	27,565	52,040	245,707
Total fixed assets	73,032	97,876	650,976
Total assets	¥390,585	¥414,183	$3,481,467

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)
	2017	2016	2017
Current liabilities:			
Notes and accounts payable-trade (Note 17)	¥ 5,607	¥ 23,689	$ 49,983
Electronically recorded obligations (Note 17)	8,113	—	72,316
Accrued income taxes	1,623	3,113	14,475
Accrued employees' bonuses	834	839	7,442
Lease obligations	5	5	49
Other current liabilities	5,745	9,411	51,211
Total current liabilities	21,930	37,058	195,476
Long-term liabilities:			
Bonds with subscription rights to shares (Note 17)	20,066	20,086	178,863
Lease obligations	8	14	80
Net defined benefit liabilities (Note 7)	4,671	4,445	41,641
Asset retirement obligations (Note 18)	63	63	568
Other long-term liabilities	3,557	3,573	31,705
Total long-term liabilities	28,368	28,183	252,858
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, 2017 and 2016	14,840	14,840	132,276
Capital surplus	23,750	23,750	211,694
Retained earnings	335,518	345,918	2,990,627
Treasury stock	(39,700)	(39,700)	(353,866)
Total shareholders' equity	334,408	344,807	2,980,732
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 4)	5,264	3,839	46,928
Remeasurements of defined benefit plans (Note 7)	(188)	(232)	(1,682)
Total accumulated other comprehensive income	5,076	3,607	45,246
Subscription rights to shares (Notes 10 and 11)	802	526	7,156
Non-controlling interests	—	—	—
Total net assets	340,287	348,941	3,033,133
Total liabilities and net assets	¥390,585	¥414,183	$3,481,467

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Net sales	¥81,455	¥137,130	$726,049
Cost of sales (Note 11)	38,409	75,638	342,364
Gross profit	43,045	61,492	383,685
Selling, general and administrative expenses (Notes 11 and 13)	37,986	42,665	338,589
Operating income	5,059	18,826	45,096
Other income (expenses):			
Interest and dividend income	800	1,143	7,133
Equity in loss of affiliates	(2,216)	(109)	(19,752)
Bond issuance cost	—	(70)	—
Loss on sales or disposal of property, plant and equipment, net (Note 14)	(52)	(119)	(471)
Loss on impairment (Note 15)	—	(3,264)	—
Loss on devaluation of investments in securities (Note 17)	(85)	—	(766)
Loss on investments in partnership	(3)	(93)	(36)
Loss on sale of golf club membership	(8)	—	(77)
Other, net	192	269	1,720
Income before income taxes	3,685	16,581	32,848
Income taxes (Note 16)**:**			
Current	2,105	4,773	18,769
Deferred	(198)	1,322	(1,767)
Total income taxes	1,907	6,096	17,001
Net income	1,777	10,485	15,846
Net income attributable to:			
Owners of the parent	¥ 1,777	¥ 10,485	$ 15,846

	Yen		U.S. dollars (Note 2)
Net income per share (Note 20)**:**			
Basic	¥ 21.94	¥126.78	$0.20
Diluted	20.73	122.54	0.18
Cash dividends per share (Note 10)	150.00	150.00	1.34

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Net income	¥1,777	¥10,485	$15,846
Other comprehensive income (Note 9)**:**			
Unrealized gains (losses) on available-for-sale securities	1,421	(922)	12,671
Remeasurements of defined benefit plans (Note 7)	33	23	303
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	13	(69)	120
Total other comprehensive income (loss)	1,469	(968)	13,095
Comprehensive income	3,246	9,516	28,941
Total comprehensive income attributable to:			
Owners of the parent	¥3,246	¥ 9,516	$28,941

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Common stock			
Beginning of year	¥ 14,840	¥ 14,840	$ 132,276
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 14,840	¥ 14,840	$ 132,276
End of year	¥ 14,840	¥ 14,840	$ 132,276
Capital surplus			
Beginning of year	¥ 23,750	¥ 23,750	$ 211,694
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 23,750	¥ 23,750	$ 211,694
End of year	¥ 23,750	¥ 23,750	$ 211,694
Retained earnings			
Beginning of year	¥ 345,918	¥ 347,975	$ 3,083,324
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 345,918	¥ 347,975	$ 3,083,324
Net income attributable to owners of the parent	1,777	10,485	15,846
Dividend from surplus, ¥150 per share ($1.34 per share)	(12,176)	(12,532)	(108,535)
Disposal of treasury stock	(0)	(10)	(7)
End of year	¥ 335,518	¥ 345,918	$ 2,990,627
Treasury stock			
Beginning of year	¥ (39,700)	¥ (19,724)	$ (353,866)
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ (39,700)	¥ (19,724)	$ (353,866)
Purchase of treasury stock	(2)	(20,005)	(24)
Disposal of treasury stock	2	30	25
End of year	¥ (39,700)	¥ (39,700)	$ (353,866)
Total shareholders' equity			
Beginning of year	¥ 344,807	¥ 366,840	$ 3,073,427
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 344,807	¥ 366,840	$ 3,073,427
Net income attributable to owners of the parent	1,777	10,485	15,846
Dividends from surplus, ¥150 per share ($1.34 per share)	(12,176)	(12,532)	(108,535)
Purchase of treasury stock	(2)	(20,005)	(24)
Disposal of treasury stock	1	19	17
End of year	¥ 334,408	¥ 344,807	$ 2,980,732
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities			
Beginning of year	¥ 3,839	¥ 4,794	$ 34,227
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 3,839	¥ 4,794	$ 34,227
Net changes in items other than shareholders' equity	1,424	(954)	12,701
End of year	¥ 5,264	¥ 3,839	$ 46,928
Remeasurements of defined benefit plans			
Beginning of year	¥ (232)	¥ (218)	$ (2,076)
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ (232)	¥ (218)	$ (2,076)
Net changes in items other than shareholders' equity	44	(14)	393
End of year	¥ (188)	¥ (232)	$ (1,682)
Total accumulated other comprehensive income			
Beginning of year	¥ 3,607	¥ 4,575	$ 32,151
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 3,607	¥ 4,575	$ 32,151
Net changes in items other than shareholders' equity	1,469	(968)	13,095
End of year	¥ 5,076	¥ 3,607	$ 45,246
Subscription rights to shares			
Beginning of year	¥ 526	¥ 253	$ 4,697
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 526	¥ 253	$ 4,697
Net changes in items other than shareholders' equity	275	273	2,459
End of year	¥ 802	¥ 526	$ 7,156
Total net assets			
Beginning of year	¥ 348,941	¥ 371,670	$ 3,110,275
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 348,941	¥ 371,670	$ 3,110,275
Net income attributable to owners of the parent	1,777	10,485	15,846
Dividends from surplus, ¥150 per share ($1.34 per share)	(12,176)	(12,532)	(108,535)
Purchase of treasury stock	(2)	(20,005)	(24)
Disposal of treasury stock	1	19	17
Net changes in items other than shareholders' equity	1,744	(695)	15,554
End of year	¥ 340,287	¥ 348,941	$ 3,033,133

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥ 3,685	¥ 16,581	$ 32,848
Depreciation and amortization	2,971	4,933	26,486
Amortization of goodwill	737	737	6,571
Stock-based compensation expense	272	287	2,428
Increase (decrease) in allowance for doubtful accounts	8	(0)	78
(Decrease) increase in accrued employees' bonuses	(4)	5	(41)
Increase in net defined benefit liabilities	275	102	2,457
Interest and dividend income	(800)	(1,143)	(7,133)
Equity in loss of affiliates	2,216	109	19,752
Loss on sales or disposal of property, plant and equipment, net	52	119	471
Loss on impairment	—	3,264	—
Loss on devaluation of investments in securities	85	—	766
Loss on sale of golf club membership	8	—	77
Decrease in notes and accounts receivable-trade	15,215	11,228	135,621
(Increase) decrease in inventories	(206)	2,067	(1,844)
Decrease in notes and accounts payable-trade	(11,867)	(17,515)	(105,780)
Decrease (increase) in accounts receivable arising from outsourced production contracts	1,989	(503)	17,733
(Decrease) increase in accounts payable-other	(178)	56	(1,591)
(Decrease) increase in consumption taxes payable	(950)	924	(8,476)
Other	(2,540)	178	(22,647)
Sub total	10,969	21,435	97,774
Interest and dividend income received	783	1,157	6,987
Income taxes paid	(3,203)	(5,289)	(28,553)
Net cash provided by operating activities	8,549	17,303	76,209
Cash flows from investing activities:			
Payment for purchase of marketable securities	(11,000)	(10,000)	(98,048)
Proceeds from redemption of marketable securities	6,000	10,000	53,481
Payment for purchase of property, plant and equipment and intangible fixed assets	(3,917)	(4,783)	(34,922)
Proceeds from sales of property, plant and equipment and intangible fixed assets	35	198	313
Payment for purchase of investments in securities	(30)	(24,041)	(267)
Proceeds from redemption of investments in securities	30,000	40,000	267,404
Collection of loans receivable	—	15	—
Payment for loans receivable	(544)	—	(4,852)
Other	5	(15)	45
Net cash provided by investing activities	20,547	11,375	183,152
Cash flows from financing activities:			
Proceeds from issuance of bonds with subscription rights to shares	—	20,100	—
Payment for finance lease obligations	(5)	(8)	(49)
Payment for purchase of treasury stock	(2)	(20,005)	(24)
Proceeds from disposal of treasury stock	0	0	0
Cash dividends paid	(12,176)	(12,532)	(108,535)
Net cash used in financing activities	(12,184)	(12,446)	(108,608)
Net increase in cash and cash equivalents	16,912	16,232	150,753
Cash and cash equivalents at beginning of year	234,905	218,672	2,093,816
Cash and cash equivalents at end of year (Note 3)	¥251,818	¥234,905	$2,244,569

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 2016 financial statements to conform to the classifications used in 2017. 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 certain buildings of the Company and domestic consolidated subsidiaries acquired on or after April 1,1998 and building improvements and structures acquired on or after April 1, 2016, 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 ($364 thousand), consisting of ¥2 million ($24 thousand) for buildings and structures and ¥37 million ($336 thousand) for machinery and equipment, is deducted from acquisition costs at March 31, 2017 and 2016, 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 concerning finance lease transactions that do not transfer ownership to the lessee 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 Accounting Policies
Effective from the year ended March 31, 2017, the Company adopted "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (ASBJ Practical Issues Task Force ("PITF") No. 32, June 17, 2016) and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of this change on the consolidated financial statements for the year ended March 31, 2017 is immaterial.

(v) Additional Information
Effective from the year ended March 31, 2017, the Company adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥112.19= U.S. $1, the rate of exchange on March 31, 2017, 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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥ 97,818	¥ 96,906	$ 871,899
Marketable securities	188,007	173,001	1,675,792
Total	285,825	269,907	2,547,691
Bonds and debentures, investment funds and others whose original maturity is more than three months	(34,007)	(35,002)	(303,122)
Cash and cash equivalents	¥251,818	¥234,905	$2,244,569

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2017 and 2016 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2017				2016			
	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	¥ 24,007	¥16	¥—	¥ 24,023	¥ 54,030	¥85	¥0	¥ 54,115
Short-term corporate bonds	23,999	—	2	23,997	22,998	0	0	22,999
Certificates of deposit	135,000	—	—	135,000	120,000	—	—	120,000
Total	¥183,007	¥16	¥ 2	¥183,021	¥197,028	¥86	¥0	¥197,114

	Thousands of U.S. dollars			
	2017			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Japanese government bonds	$ 213,988	$147	$ —	$ 214,135
Short-term corporate bonds	213,922	—	20	213,901
Certificates of deposit	1,203,316	—	—	1,203,316
Total	$1,631,225	$147	$20	$1,631,352

(b) Available-for-Sale Securities

	Millions of yen							
	2017				2016			
	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	¥7,470	¥—	¥13,590	¥6,119	¥5,421	¥—	¥11,541
Other	5,000	—	—	5,000	—	—	—	—
Total	¥11,119	¥7,470	¥—	¥18,590	¥6,119	¥5,421	¥—	¥11,541

	Thousands of U.S. dollars			
	2017			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Fair value available:				
Equity securities	$54,550	$66,591	$—	$121,141
Other	44,567	—	—	44,567
Total	$99,117	$66,591	$—	$165,708

5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Investments in securities	¥7,942	¥10,483	$70,797

6. Inventories

Inventories at March 31, 2017 and 2016 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished goods and merchandise	¥ 82	¥ 47	$ 738
Work in process	289	92	2,583
Raw materials and supplies	1,334	1,339	11,898
Total	¥1,707	¥1,478	$15,219

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, 2017 and 2016, were as follows (excluding the plans to which a simplified method was applied):

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥4,210	¥4,140	$37,528
Service cost	264	262	2,359
Interest cost	25	24	225
Actuarial differences	58	52	517
Benefits paid	(139)	(270)	(1,243)
Balance at end of year	¥4,418	¥4,210	$39,386

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, 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, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥234	¥247	$2,094
Retirement benefit costs	33	31	300
Benefits paid	(15)	(44)	(139)
Balance at end of year	¥252	¥234	$2,255

(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
	2017	2016	2017
Unfunded retirement benefit obligation	¥4,671	¥4,445	$41,641
Net liability recorded in the consolidated balance sheets	4,671	4,445	41,641
Net defined benefit liabilities	4,671	4,445	41,641
Net liability recorded in the consolidated balance sheets	¥4,671	¥4,445	$41,641

(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, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥264	¥262	$2,359
Interest cost	25	24	225
Amortization of actuarial differences	107	98	955
Retirement benefit costs calculated using a simplified method	33	31	300
Retirement benefit costs on defined benefit plans	¥430	¥417	$3,839

(6) Remeasurements of defined benefit plans (before adjusting for tax effects) on other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial differences	¥49	¥45	$438
Total	¥49	¥45	$438

(7) Remeasurements of defined benefit plans (before adjusting for tax effects) on accumulated other comprehensive income as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial differences	¥258	¥307	$2,301
Total	¥258	¥307	$2,301

(8) Actuarial assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
As an endorser of notes endorsed	¥—	¥38	$—

9. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gains (losses) on available-for-sale securities:			
Gain (loss) incurred during the year	¥2,049	¥(1,500)	$18,264
Reclassification adjustment to net income	—	—	—
Amount before tax effects	2,049	(1,500)	18,264
Tax effects	(627)	578	(5,592)
Unrealized gains (losses) on available-for-sale securities	1,421	(922)	12,671
Remeasurements of defined benefit plans			
Loss incurred during the year	(46)	(42)	(414)
Reclassification adjustment to net income	95	87	852
Amount before tax effects	49	45	438
Tax effects	(15)	(21)	(135)
Remeasurements of defined benefit plans	33	23	303
Share of other comprehensive income (loss) in an affiliate accounted for by the equity method:			
Gain (loss) incurred during the year	7	(53)	67
Reclassification adjustment to net income	5	(16)	53
Share of other comprehensive income (loss) in affiliates accounted for by the equity method:	13	(69)	120
Total other comprehensive income (loss)	¥1,469	¥ (968)	$13,095

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, 2017

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2016	**89,597,500**	**8,574,381**
Increase in the number of shares during the accounting period ended March 31, 2017	**—**	**700***1
Decrease in the number of shares during the accounting period ended March 31, 2017	**—**	**600***2
Number of shares as of March 31, 2017	**89,597,500**	**8,574,481**

Notes: *1. Increase due to the purchase of odd shares (700 shares)
*2. Decrease due to exercise of stock options (600 shares)

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)

(b) Stock Acquisition Rights

For the year ended March 31, 2017

Issuer	Components	Type of stock to be granted	Number of shares to be granted: April 1, 2016	Increase	Decrease	March 31, 2017	Outstanding balance at March 31, 2017
SANKYO CO., LTD.	Stock acquisition rights as stock options	**—**	**—**	**—**	**—**	**—**	**¥802 million ($7,156 thousand)**

For the year ended March 31, 2016

Issuer	Components	Type of stock to be granted	Number of shares 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

(c) Matters Related to Dividends

For the year ended March 31, 2017

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 29, 2016 were as follows:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($54,267 thousand)**
Dividends per share	**¥75.00 ($0.67)**
Record date	**March 31, 2016**
Effective date	**June 30, 2016**

Approvals by the Board of Directors' meeting held on November 8, 2016 were as follows:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($54,267 thousand)**
Dividends per share	**¥75.00 ($0.67)**
Record date	**September 30, 2016**
Effective date	**December 2, 2016**

ii) Dividends whose record date is attributed to the year ended March 31, 2017 but become effective after the said year.

The Company obtained the following approval at the general meeting of shareholders held on June 29, 2017:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($54,267 thousand)**
Dividends per share	**¥75.00 ($0.67)**
Record date	**March 31, 2017**
Effective date	**June 30, 2017**

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
Dividends per share	¥75.00
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
Dividends per share	¥75.00
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
Dividends per share	¥75.00
Record date	March 31, 2016
Effective date	June 30, 2016

11. Stock Options

The Company recorded stock option related costs under the following accounts for the years ended March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cost of sales	¥ 6	¥ 6	$ 55
Selling, general and administrative expenses	266	280	2,373
Total	¥272	¥287	$2,428

The Company recorded gains from forfeiture of non-exercised stock options in an amount of nil and ¥0 million in the years ended March 31, 2017 and 2016, respectively.

The stock options outstanding as of March 31, 2017 are as follows:
(1) Details of stock options

Issuer	SANKYO CO., LTD.	SANKYO CO., LTD.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015	July 5, 2016
Persons granted	4 directors of the Company	3 directors of the Company	3 directors of the Company
	8 executive officers of the Company	12 executive officers of the Company	11 executive officers of the Company
	11 directors of subsidiaries of the Company	12 directors of subsidiaries of the Company	14 directors of subsidiaries of the Company
Type and number of shares granted	Common stock 87,100 shares	Common stock 84,800 shares	Common stock 98,300 shares
Date of grant	July 22, 2014	July 23, 2015	July 21, 2016
Vesting conditions	Not defined	Not defined	Not defined
Number of service years	Not defined	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 all stock 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 all stock 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 22, 2016 through July 21, 2066 The eligible holder of subscription rights to shares may exercise stock options within the above period and may exercise all stock 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.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015	July 5, 2016
Non-vested:			
March 31, 2015 — Outstanding	—	—	—
Granted	—	—	98,300
Forfeited	—	—	—
Vested	—	—	98,300
March 31, 2016 — Outstanding	—	—	—
Vested:			
March 31, 2015 — Outstanding	80,900	83,100	—
Vested	—	—	98,300
Exercised	300	300	—
Forfeited	—	—	—
March 31, 2016 — Outstanding	80,600	82,800	98,300

Unit price information

Issuer	SANKYO CO., LTD.	SANKYO CO., LTD.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015	July 5, 2016
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at the time of exercise	¥3,780 ($33.69)	¥3,780 ($33.69)	—
Fair value at the date of grant	¥2,954 ($26.33)	¥3,465 ($30.89)	¥2,826 ($25.19)

The estimation method of fair value of stock options granted in the year ended March 31, 2017
a. The valuation technique is Black-Scholes model.
b. Main basic assumptions and estimation method

Stock price volatility	(Note 1)	26.58%
Expected remaining service period	(Note 2)	8.94 years
Expected cash dividend	(Note 3)	¥150 per share ($1.34)
Risk-free interest rate	(Note 4)	(0.296)%

Notes: 1. Stock price volatility is computed based on actual stock prices for the period of 8 years and 11 months (August 2007 through July 2016).
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, 2016.
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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 5	¥ 5	$ 53
Due after one year	11	9	104
Total	¥17	¥14	$156

13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Sales commission	¥ 5,355	¥ 6,163	$ 47,738
Advertisement expenses	2,024	3,454	18,047
Salaries and wages	3,163	3,364	28,196
Provision for reserve for bonuses	393	401	3,508
Retirement benefit costs	230	249	2,058
Provision for allowance for doubtful accounts	8	(0)	77
Research and development expenses	19,411	21,959	173,025

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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Gain on sales of property, plant and equipment:			
Machinery and equipment	¥ 8	¥ —	$ 78
Tools, furniture and fixtures	—	—	—
Others	—	—	—
Total	¥ 8	¥ —	$ 78
Loss on sales of property, plant and equipment			
Land	¥ (3)	¥ —	$ (27)
Buildings and structures	—	(56)	—
Machinery and equipment	(10)	(1)	(90)
Other	(11)	—	(99)
Total	¥(24)	¥ (57)	$(216)
Loss on disposal of property, plant and equipment:			
Buildings and structures	¥ (1)	¥ (8)	$ (15)
Machinery and equipment	(34)	(32)	(304)
Tools, furniture and fixtures	(1)	(5)	(14)
Others	—	(16)	—
Total	¥(37)	¥ (62)	$(333)
Loss on sales and disposal of property, plant and equipment, net	¥(52)	¥(119)	$(471)

15. Loss on Impairment

No loss on impairment was recognized for the year ended March 31, 2017.

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
Takasaki city, Gunma Pref.	Golf course	Buildings and structures	¥1,243
		Construction in progress	693
		Other	1,327

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 expected to exceed 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 30.9% and 33.0% for the years ended March 31, 2017 and 2016.

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, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Accrued enterprise taxes	¥ 148	¥ 217	$ 1,320
Unrealized profits on inventories	15	1	137
Accrued employees' bonuses	257	259	2,299
Allowance for doubtful accounts	11	9	104
Net defined benefit liabilities	1,431	1,362	12,760
Accumulated depreciation	3,807	3,561	33,935
Unrealized profit on property, plant and equipment	122	123	1,089
Allowance for losses on investments in securities	116	116	1,036
Research and development expenses	940	1,296	8,379
Loss on impairment	2,263	2,279	20,180
Loss on devaluation of investments in securities	157	125	1,408
Long-term payables	767	768	6,844
Subscription rights to shares	241	157	2,152
Tax loss carryforwards	706	862	6,296
Deferred assets	281	14	2,506
Other	147	189	1,317
Sub-total deferred tax assets	¥11,416	¥11,344	$101,764
Less-valuation allowance	(1,701)	(1,803)	(15,165)
Deferred tax assets	¥ 9,715	¥ 9,540	$ 86,599
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥ (2,287)	¥ (1,660)	$ (20,390)
Other	(34)	(42)	(310)
Deferred tax liabilities	(2,322)	(1,702)	(20,700)
Deferred tax assets, net	¥ 7,393	¥ 7,837	$ 65,899

Deferred tax assets, net at March 31, 2017 and 2016 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets in current assets	¥2,073	¥2,056	$18,481
Deferred tax assets in fixed assets	5,319	5,781	47,418

Reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2017 and 2016 is as follows:

	2017	2016
Normal effective statutory tax rate	30.9%	33.0%
Expenses not deductible for income tax purposes	1.3	0.4
Non-taxable income	(1.0)	(0.5)
Per capita inhabitant taxes	1.6	0.1
Tax credit for research and development expenses	(3.8)	(3.2)
Equity in loss of affiliates	18.6	0.2
Reduction of deferred tax assets due to tax rate changes	—	2.6
Amortization of goodwill	6.2	1.5
Changes in valuation allowance	(2.9)	2.6
Other – net	0.9	0.1
Actual effective tax rate	51.8%	36.8%

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 and electronically recorded obligations, 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, 2017 and 2016 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, 2017	Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	¥ 97,818	¥ 97,818	¥ —
(2) Notes and accounts receivable—trade	18,626		
Allowance for doubtful accounts	(13)		
	18,612	18,461	(151)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	183,007	183,021	14
Available-for-sale securities	18,590	18,590	—
Total assets	¥318,029	¥317,891	¥(137)
(4) Notes and accounts payable—trade	¥ 5,607	¥ 5,607	¥ —
(5) Electronically recorded obligations	8,113	8,113	—
(6) Bonds with subscription rights to shares	20,066	20,374	307
Total liabilities	¥ 33,787	¥ 34,094	¥ 307

	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) Electronically recorded obligations	—	—	—
(6) Bonds with subscription rights to shares	20,086	20,575	488
Total liabilities	¥ 43,776	¥ 44,264	¥ 488

March 31, 2017	Thousands of U.S. dollars Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	$ 871,899	$ 871,899	$ —
(2) Notes and accounts receivable—trade	166,027		
Allowance for doubtful accounts	(122)		
	165,905	164,552	(1,353)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	1,631,225	1,631,352	127
Available-for-sale securities	165,708	165,708	—
Total assets	$2,834,738	$2,833,512	$(1,226)
(4) Notes and accounts payable—trade	$ 49,983	$ 49,983	$ —
(5) Electronically recorded obligations	72,316	72,316	—
(6) Bonds with subscription rights to shares	178,863	181,603	2,739
Total liabilities	$ 301,162	$ 303,901	$ 2,739

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 and (5) electronically recorded obligations

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

(6) 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 ¥1,911 million ($17,039 thousand) and ¥1,967 million at March 31, 2017 and 2016, 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 ¥85 million ($766 thousand) for the year ended March 31, 2017.

3. Redemption schedule of monetary assets and securities with contractual maturities at March 31, 2017 and 2016 was as follows:

March 31, 2017	Millions of yen Within one year	One to five years
(1) Cash and deposits	¥ 97,818	¥ —
(2) Notes and accounts receivable—trade	16,121	2,504
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	24,000	—
Held-to-maturity debt securities (Short-term corporate bonds)	24,000	—
Held-to-maturity debt securities (Certificates of deposits)	135,000	—

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	—

	Thousands of U.S. dollars	
March 31, 2017	Within one year	One to five years
(1) Cash and deposits	$ 871,899	$ —
(2) Notes and accounts receivable—trade	143,700	22,327
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	213,923	—
Held-to-maturity debt securities (Short-term corporate bonds)	213,923	—
Held-to-maturity debt securities (Certificates of deposits)	1,203,316	—

4. Redemption schedule of bonds with subscription rights to shares at March 31, 2017 and 2016 was as follows:

	Millions of yen	
March 31, 2017	Within one year	One to five years
(1) Bonds with subscription rights to shares	¥—	¥20,000

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

	Thousands of U.S. dollars	
March 31, 2017	Within one year	One to five years
(1) Bonds with subscription rights to shares	$—	$178,269

18. Asset Retirement Obligations

Asset retirement obligations recorded on the consolidated balance sheets at March 31, 2017 and 2016 were as follows:

(1) Overview of asset retirement obligations

Asset retirement obligations at March 31, 2017 and 2016 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
	2017	2016	2017
Beginning balance	¥63	¥63	$565
Adjustment by time elapsed	0	0	3
Ending balance	¥63	¥63	$568

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."

As noted in Note 1 *(u) "Changes in Accounting Policies*," the Company adopted "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" effective from the year ended March 31, 2017 and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of this change on segment profit (loss) for the year ended March 31, 2017 is immaterial.

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

Millions of yen

For the year ended March 31, 2017	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustment[*2]	Consolidated[*3]
Sales:								
Customers	¥60,534	¥13,238	¥7,204	¥ 80,978	¥ 477	¥ 81,455	¥ —	¥ 81,455
Intersegment	—	—	—	—	—	—	—	—
Total	60,534	13,238	7,204	80,978	477	81,455	—	81,455
Segment profit (loss)	10,402	(225)	333	10,509	(665)	9,844	(4,785)	5,059
Segment asset	79,570	25,654	9,397	114,622	13,910	128,532	262,052	390,585
Others								
Depreciation and amortization[*4]	1,891	464	22	2,377	405	2,783	188	2,971
Amortization of goodwill	491	110	—	602	134	737	—	737
Increase in property, plant and equipment and intangible fixed assets[*4]	2,122	1,002	9	3,135	368	3,503	130	3,633

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

	Thousands of U.S. dollars							
	For the year ended March 31, 2017							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustment[*2]	Consolidated[*3]
Sales:								
Customers	$539,573	$118,004	$64,217	$ 721,794	$ 4,256	$ 726,049	$ –	$ 726,049
Intersegment	–	–	–	–	–	–	–	–
Total	539,573	118,004	64,217	721,794	4,256	726,049	–	726,049
Segment profit (loss)	92,718	(2,013)	2,975	93,680	(5,933)	87,748	(42,652)	45,096
Segment asset	709,251	228,666	83,764	1,021,681	123,990	1,145,672	2,335,795	3,481,467
Others								
Depreciation and amortization[*4]	16,856	4,137	201	21,193	3,616	24,810	1,676	26,486
Amortization of goodwill	4,384	989	–	5,372	1,198	6,571	–	6,571
Increase in fixed assets and intangible fixed assets[*4]	18,922	8,938	85	27,945	3,280	31,225	1,166	32,391

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, 2017 and 2016.
2. Geographical segment information
(1) Sales
There were no sales to customers outside Japan and no applicable data for the years ended March 31, 2017 and 2016.
(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, 2017 and 2016.
3. Major customer segment information
For the year ended March 31, 2017
Major customer segment information is omitted for the year ended March 31, 2017 since there is no specific customer who accounts for more than 10% of total sales

For the year ended March 31, 2016

(Millions of yen)

Name of customer	Sales	Name of related segment
Fields Corporation	¥15,860	Pachinko machine business and Pachislot machine business

Information on Losses on Impairment of Fixed Assets by Segment

For the year ended March 31, 2017
There was no loss on impairment recognized for the year ended March 31, 2017.

For the year ended March 31, 2016

(Millions of yen)

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate	Total
Loss on impairment	–	–	–	–	¥3,264	–	¥3,264

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

Information on Amortization of Goodwill and Remaining Balance by Segment

For the year ended March 31, 2017

(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 ($4,384)	¥110 ($989)	—	¥602 ($5,372)	¥134 ($1,198)	—	¥737 ($6,571)
Balance at end of year	—	—	—	—	¥267 ($2,380)	—	¥267 ($2,380)

Note: * Amounts shown correspond to mobile contents service.

For the year ended March 31, 2016

(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	¥491	¥110	—	¥602	¥401	—	¥1,004

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, 2017 and 2016.

20. Per Share Information

	Yen		U.S. dollars
	2017	2016	2017
Net assets per share *1	¥4,189.98	¥4,300.19	$37.35
Net income per share *2	21.94	126.78	0.20
Diluted net income per share *3	20.73	122.54	0.18

Above information was computed based on the following data:

	Year ended March 31,	
	2017	2016
*1 Net assets per share:		
Total net assets	¥340,287 million ($3,033,133 thousand)	¥348,941 million
Amount to be deducted from total net assets	¥802 million ($7,156 thousand)	¥526 million
(Of which subscription rights to shares)	(¥802 million) ($7,156 thousand)	(¥526 million)
Net assets attributable to common stock	¥339,484 million ($3,025,978 thousand)	¥348,414 million
Number of outstanding shares of common stock	89,597,500 shares	89,597,500 shares
Number of treasury stock	8,574,481 shares	8,574,381 shares
Number of common stock used in computing net asset per share	81,023,019 shares	81,023,119 shares

*2 Net income per share:		
Net income attributable to owners of the parent	¥1,777 million ($15,846 thousand)	¥10,485 million
Net income attributable to common stock shareholders of the parent	¥1,777 million ($15,846 thousand)	¥10,485 million
Net income not attributable to common stock shareholders	—	—
Weighted average number of common stock	81,023,346 shares	82,705,072 shares

*3 Diluted net income per share:

Adjustment to net income	¥(13) million ($(123) thousand)	¥(8) million
Increase in common stock	4,082,206 shares	2,791,577 shares
(Of which bonds with subscription rights to shares)	(3,850,597 shares)	(2,651,231 shares)
(Of which subscription rights to shares)	(231,609 shares)	(140,346 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, 2017 and 2016 and related account balances outstanding at each year end were as follows:

For the year ended March 31, 2017 (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 ($70,844)	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	¥4,796 ($42,752)	Accounts receivable–trade	¥4,009 ($35,735)
							Consignment sales of game machines	¥4,377 ($39,017)	Accounts payable–other	¥1,252 ($11,167)
							Royalty	¥794 ($7,083)	Accounts payable–other	¥176 ($1,575)

For the year ended March 31, 2016 (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 1.21% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥15,860	Accounts receivable–trade	¥3,550
							Consignment sales of game machines	¥4,270	Accounts payable–other	¥446
							Royalty	¥1,038	Accounts payable–other	¥72

22. Information about Parent Company or Significant Affiliates

Condensed financial information of a significant affiliate
Fields Corporation is a significant affiliate of the Company in the year ended March 31, 2017 and its condensed financial information is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total current assets	¥ 41,731	—	$ 371,976
Total fixed assets	34,281	—	305,569
Total current liabilities	20,213	—	180,171
Total long-term liabilities	13,554	—	120,814
Total net assets	42,246	—	376,559
Net sales	64,155	—	571,843
Loss before income taxes	(12,094)	—	(107,800)
Net loss	(13,559)	—	(120,866)

Fields Corporation is treated as a significant affiliate since its materiality increased in the year ended March 31, 2017.

23. Significant Subsequent Events

There is no significant subsequent event to be reported.

24. Significant Subsidiaries and an Affiliate

The domestic consolidated subsidiaries and an affiliate accounted for by the equity method at March 31, 2017 and 2016 were as follows:

	Ownership		
At March 31	2017	2016	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

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
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Tokyo, Japan 100-0011

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Fax: +81 3 3503 1197
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Building a better working world

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, 2017, 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, 2017, 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 20, 2017
Tokyo, Japan

Board of Directors

(As of June 29, 2017)

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

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:
Corporate Planning Division, SANKYO CO., LTD.
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

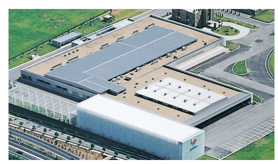
Corporate Data

(As of March 31, 2017)

Company Name
SANKYO CO., LTD.

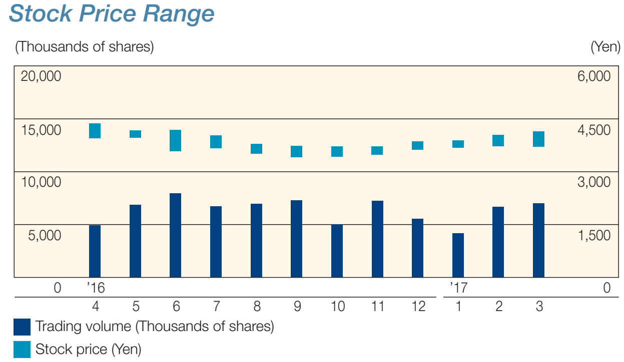
Head Office
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7777 Facsimile:81(3)5778-6731

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



Established	April 1966
Paid-in Capital	¥14,840 million
Number of Employees	1,065 (Consolidated) 849 (SANKYO CO., LTD.)
Number of Shares Authorized	144,000,000
Number of Shares Issued	89,597,500
Number of Shareholders	12,235

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/