Good luck. Good life.

SANKYO

Building Our Future with Stakeholders

Annual Report 2015

Year ended March 31, 2015

2015

SANKYO CO., LTD.

Building Our Future with Stakeholders

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

Furthermore, the SANKYO Group has continued to provide stable dividends, in addition to purchasing treasury stock which is aimed at further increasing the return to shareholders and our capital efficiency.

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

Contents

Cautionary Statements with Respect to Forward-Looking Statements

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

Consolidated Financial Highlights

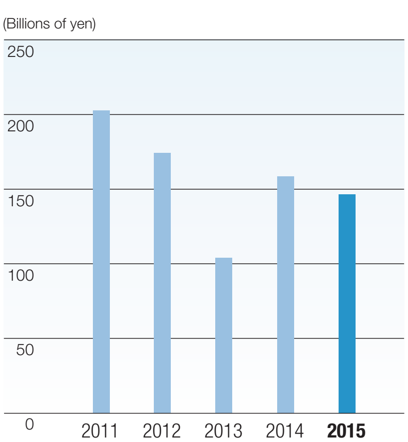
SANKYO CO., LTD. and Its Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note)
	2015	2014	**2015**
For the year:			
Net sales	**¥146,579**	¥158,453	**$1,219,767**
Operating income	**13,233**	28,023	**110,125**
Net income	**8,728**	22,400	**72,637**
At year-end:			
Total assets	**¥434,648**	¥451,149	**$3,616,950**
Total net assets	**371,670**	413,096	**3,092,872**

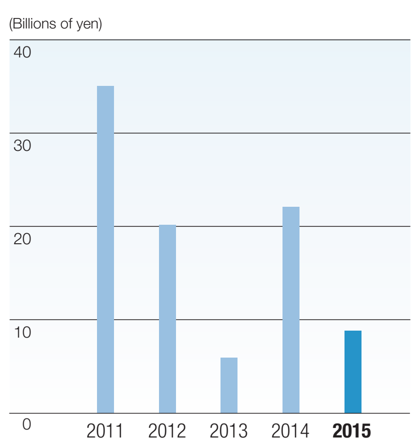
	Yen		U.S. dollars
Per share data:			
Net income (basic)	**¥ 94.48**	¥239.65	**$0.79**
Cash dividends	**150.00**	150.00	**1.25**

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥120.17=U.S.$1. See Note 2 to the consolidated financial statements.

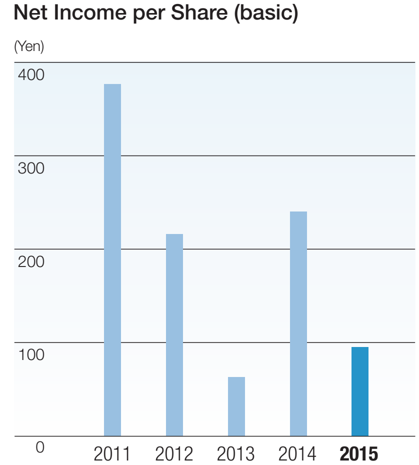
Net Sales

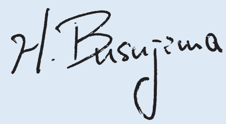


Net Income

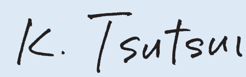


Net Income per Share (basic)





Hideyuki Busujima
Chairman of the Board & CEO



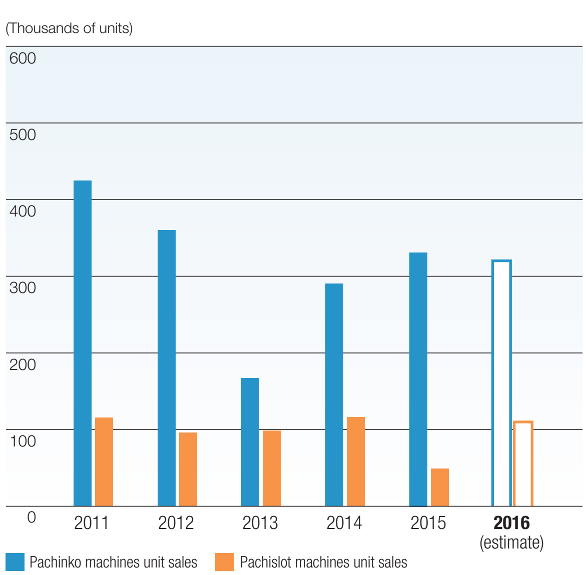
Kimihisa Tsutsui
President & COO

Q What factors led to the decreases in sales and profit for the fiscal year ended March 31, 2015?

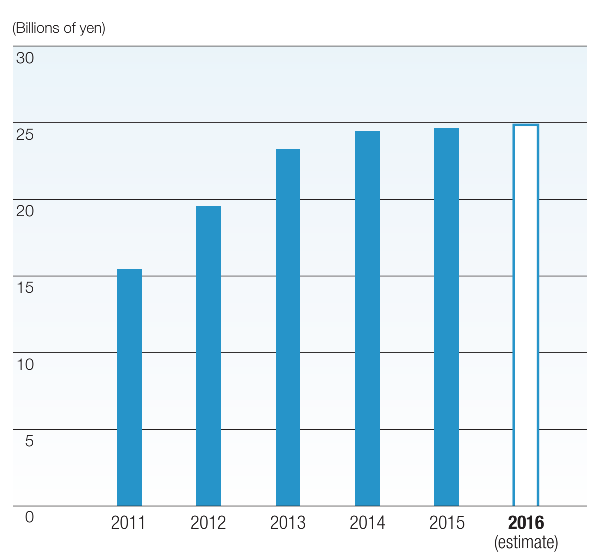
A SANKYO's financial performance on a consolidated basis for the fiscal year ended March 31, 2015 was unsatisfactory as sales were lower and profit decreased significantly compared with the previous year. Consolidated net sales declined 7.5% year on year to ¥146.5 billion, operating income decreased 52.8% to ¥13.2 billion, and net income fell 61.0% to ¥8.7 billion.

A decrease in the sales volume of pachislot machines had an adverse impact. Whereas the sales volume of pachinko machines increased by 37,000 units compared with the previous year to 329,000 units, the sales volume of pachislot machines decreased by 68,000 units to 48,000 units. This decrease reflected postponement of the launch of several titles because of the change in operation of the

Pachinko and Pachislot Machines Unit Sales of the SANKYO Group



Trend of R&D Expenditure



format inspection of pachislot machines in September 2014.

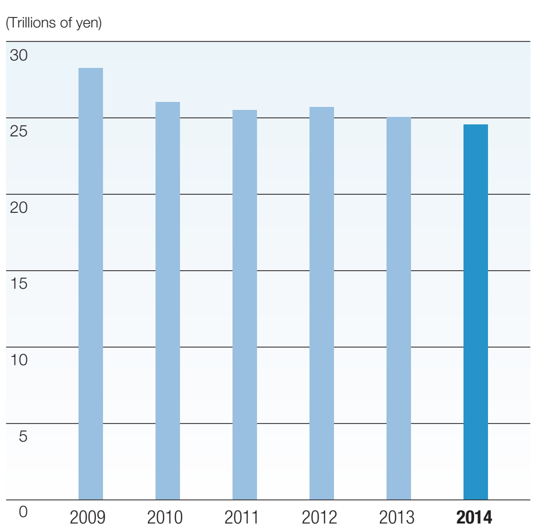
In addition to a decrease in operating income of the pachislot machines business because of a large decrease in segment sales, operating income of the pachinko machines business also decreased despite an increase in segment sales. The decrease in operating income is attributable to rising development costs of pachinko and pachislot machines as well as higher parts and materials costs, as competition among manufacturers to achieve product differentiation continues to center on the visual impact of increasingly sophisticated LCD presentation and movable gimmicks.

Q How do you view the current situation of the pachinko and pachislot industry and what do you consider to be the principal issues for the industry and SANKYO?

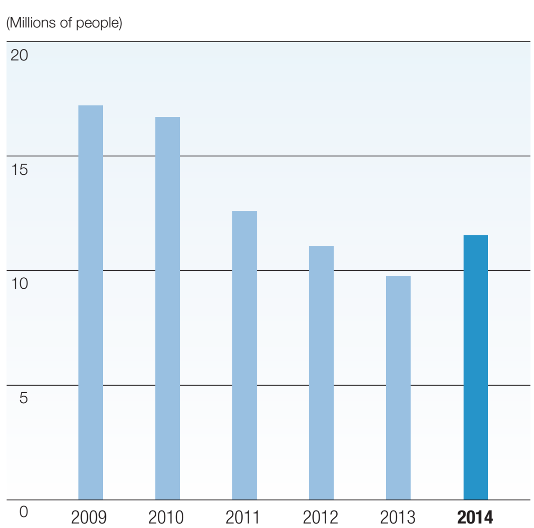
A In the pachinko and pachislot industry, the number of parlors has been declining and there have been bankruptcies among manufacturers of pachinko/pachislot machines. There is a growing sense of crisis among enterprises involved in the pachinko and pachislot industry about the declining player population, which is the largest factor causing the shrinkage of the market. The Pachinko/Pachislot Industry Vitalization Committee established by the Pachislot and Pachinko Industry 21st Century Club comprising 14 industry organizations is pursuing various initiatives to overcome this difficult situation and to halt the decline in the player population.

In view of these trends, the SANKYO Group is addressing three key management issues:
1) development of diverse pachinko/pachislot machines,
2) reinforcement of the pachislot machines business, and
3) cost reduction initiatives.

Trend of Ball/Token Rental Revenues



Trend of Pachinko/Pachislot Player Population



Source: 2015 Leisure White Paper, Japan Productive Center

Q What specific initiatives is each business pursuing and what is the outlook for the fiscal year ending March 31, 2016?

A The key issue for the pachinko machines business is the need to develop diverse machines. While the current mainstream pachinko machines are of the fever type with a large LCD screen featuring well-known content, it is apparent that the lack of diversity in gaming performance and the increase in the fee for playing pachinko are causing both existing players and new ones to drift away from pachinko. Meanwhile, there are moves to reduce the amount of money players spend on pachinko and pachislot. For example, Nikkoso, an association of pachinko machine manufacturers, has set a new lower limit of a jackpot probability for products to be released from November 2015 onward, as a measure to prevent players from becoming too immersed in playing.

Under these circumstances, the Group is taking the initiative by developing diverse pachinko machines that light players and dormant players can enjoy with ease.

During the fiscal year ended March 31, 2015, products with easy-to-play gaming performance featuring SANKYO's original content were favorably received. They include Fever Queen, a drum-type machine without an LCD; and Fever Powerful, a reproduction of a mega-hit model from the dawn of pachinko machines with LCDs. As few manufacturers have the expertise for developing these kinds of products and it is also possible to lower development costs and manufacturing costs for such products compared with the current mainstream products, the Group will focus on development and penetration of diverse pachinko machines, with "ease-of-playing" as the key theme.

As for the pachislot machines business, the voluntary regulations designed to reduce the amount of money spent on playing will become applicable to pachislot machines from December 2015 onward. Although there is concern that this will drive certain heavy players away from pachislot, it will also be an opportunity to attract light players. Management considers that these voluntary regulations do not require the SANKYO Group to greatly change its pachislot development policy. By responding to new regulations ahead of competitors, we aim to enhance the Group's positioning in the pachislot market and reinforce the pachislot development system. At the same time, we will also work to enhance product competitiveness by enriching alliances.

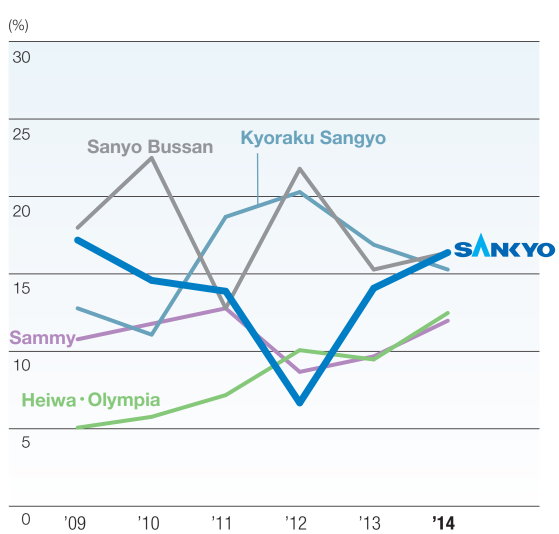
Q In view of the decline in the ratio of operating income to net sales, what measures is SANKYO taking to cut costs? And how do they relate to the forecast for the fiscal year ending March 31, 2016?

A As I mentioned, amid intensifying competition among manufacturers to achieve differentiation, development costs of pachinko/pachislot machines as well as costs of parts and materials are rising, resulting in deterioration of the gross margin ratio and the ratio of operating income to net sales despite an increase in unit sales prices. Moreover, a vicious circle persists in which increased unit sales prices are leading to a heavier investment burden on parlors and smaller sales lots, resulting in lower returns for players.

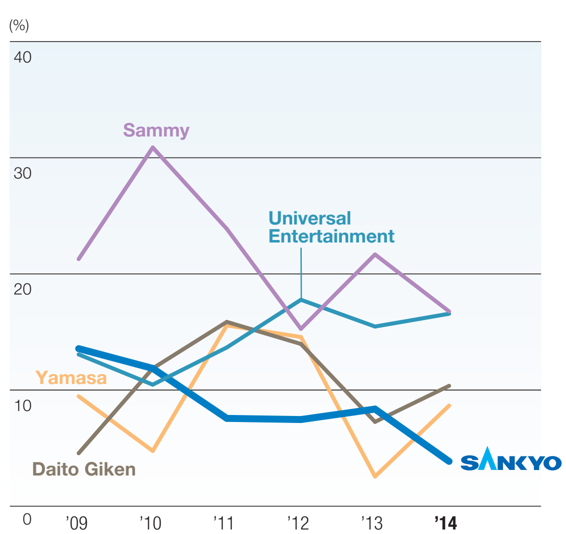
In order to break free from this vicious circle, the Group will conduct a fundamental review of the development cost of each pachinko/pachislot machine model and start initiatives to reduce manufacturing costs. The key initiative is adoption of a common frame for SANKYO-, Bisty-, and JB-brand pachinko machines to enable replacement of gauge boards of the Group's three brands in the same frame. Moreover, the Group's design of pachinko/pachislot machines will take into consideration the trade-in of used machines and recycling of parts and materials. By further promoting the sharing of parts and materials to facilitate cost reduction, the Group aims to reduce parlors' investment burden, thus cultivating an environment where parlors feel more inclined to purchase pachinko/pachislot machines, while at the same time targeting improved profitability.

For the fiscal year ending March 31, 2016, we forecast net sales of ¥150.0 billion, an increase of 2.3% year on year, operating income of ¥14.0 billion, up 5.8%, and profit attributable to owners of parent of ¥10.0 billion, up 14.6%. Although the impact of the initiatives to reduce manufacturing costs and development costs is not expected to materialize in the current fiscal year because product development takes around 18 to 24 months, we expect the impact to become evident in the fiscal year ending March 31, 2017.

Pachinko Machine Sales Share



Pachislot Machine Sales Share



Source: Yano Research Institute

Q You are putting greater emphasis to relationships with stakeholders. What initiatives is SANKYO pursuing in this regard?

A We are fully aware that with the introduction of the Japanese version of the stewardship code and the corporate governance code, greater emphasis is being placed on dialogue with shareholders and the wider investor community.

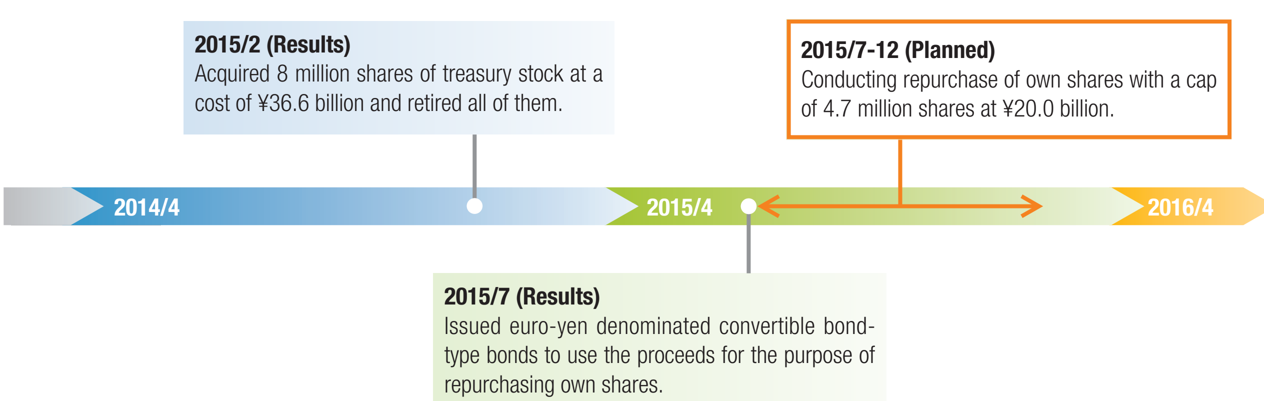
We are vigorously engaged in IR activities and are endeavoring to deepen dialogue with institutional investors and individual investors in Japan and abroad. In the course of these dialogues, we have listened attentively to various views, some of which have prompted us to take action following deliberations within the Company. In 2014 we abolished the retirement benefit plan for directors and statutory auditors, which tended to strongly reflect seniority, and introduced stock compensation-type stock options to firmly align the actions of senior executives in the management of the SANKYO Group with the interests of shareholders. At the ordinary general meeting of shareholders held in June 2015, SANKYO elected two outside directors for the first time. As the pachinko industry is undergoing a great change, we think the introduction of outside directors with new perspectives will strengthen corporate governance and be of great benefit to SANKYO.

As part of our efforts to return profits to shareholders and improve capital efficiency, in February 2015 SANKYO acquired 8 million shares of treasury stock at a cost of ¥36.6 billion and retired all of them. Furthermore, in July 2015, SANKYO issued euro-yen denominated convertible bond-type bonds with subscription rights to shares and intends to use the proceeds for the purpose of repurchasing own shares. We are conducting repurchase of own shares with a cap of 4.7 million shares at ¥20.0 billion by the end of December 2015.

Payment of cash dividends is the principal means of returning profits to shareholders. Our aim is to maintain stable dividend payment at a consolidated payout ratio of 25% and to increase dividends by increasing profit. Repurchase of own shares will improve capital efficiency through reduction of shareholders' equity. This will lead to enhancement of shareholder value as reduction of the number of shares issued and outstanding will increase ROE and EPS. Thus, repurchase of own shares will continue to be one of the tools that we can use.

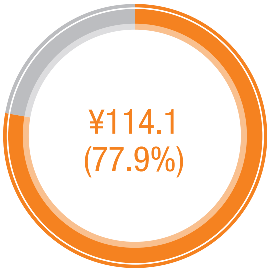
SANKYO's ROE has been low, reflecting the Company's low-key performance in recent years. Our priority is to recover the earning power of our core businesses so as to raise ROE. At the same time, adoption of a flexible capital policy is also an important management task.

Time Lines: Efforts to Return Profits to Shareholders and Improve Capital Efficiency



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 77.9% of net sales.

Major titles released under the SANKYO brand included *Fever The Melancholy of Haruhi Suzumiya* (introduced in July 2014), *FEVER KODA KUMI LEGEND LIVE* (introduced in October 2014) and *Fever Mobile Suit Gundam—Operation V* (introduced in March 2015), while titles released under the Bisty brand included *CR ayumi hamasaki 2* (introduced in October 2014) and *Evangelion 9* (introduced in December 2014). The Group also released *Uchi no Pochies* (introduced in May 2014) under the JB brand.

As a result, segment sales amounted to ¥114.1 billion, an increase of 12.9% year on year, and operating income amounted to ¥15.4 billion, down 28.7%.

Principal models introduced and numbers of machines sold during fiscal 2015

Principal models	Released	No. of machines sold (thousand machines)
*Fever The Melancholy of Haruhi Suzumiya**	July 2014	26.0
FEVER KODA KUMI LEGEND LIVE	October 2014	23.5
CR ayumi hamasaki 2	October 2014	23.6
Evangelion 9 series	December 2014	114.3
Fever Mobile Suit Gundam—Operation V	March 2015	35.6

* Includes reuse models

Fever Mobile Suit Gundam—Operation V
©創通・サンライズ

Evangelion 9
©カラー ©Bisty

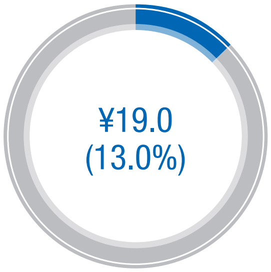
Pachislot Machines Business

This segment, which includes manufacturing and sales of pachislot machines, sales of related parts and pachislot machine-related royalty income, accounted for 13.0% of net sales.

The number of titles released decreased from the initial plan because of the revision of the release timing and only two titles under the SANKYO brand, *Pachislot Macross Frontier II* (introduced in May 2014) and *Pachislot Sokyu no Fafner* (introduced in December 2014), were released.

As a result, segment sales amounted to ¥19.0 billion, a decrease of 50.4% year on year, and operating income was ¥2.6 billion, a decrease of 76.0%. Sales of pachislot machines amounted to 48,000 units.

Sales (Billions of yen)



Principal models introduced and numbers of machines sold during fiscal 2015

Principal models	Released	No. of machines sold (thousand machines)
Pachislot Macross Frontier II	May 2014	28.1
Pachislot Sokyu no Fafner	December 2014	19.9

Pachislot Macross Frontier II
©2009, 2011 ビックウエスト／劇場版マクロスF製作委員会

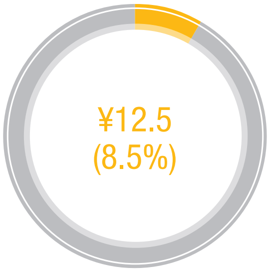
Pachislot Sokyu no Fafner
©XEBEC·竜宮島役場／©XEBEC·PLAN L／©XEBEC/FAFNER PROJECT

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 8.5% of net sales.

Sales of the ball bearing supply systems business were ¥12.5 billion, a decrease of 29.4% year on year, and operating income was ¥0.4 billion, a decrease of 34.3%, reflecting a decrease in both new openings and large-scale refurbishment of parlors.

Sales (Billions of yen)

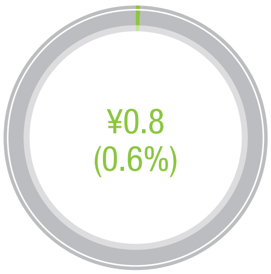


Other Businesses

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 ¥0.8 billion, a decrease of 26.9% year on year. An operating loss of ¥0.5 billion was recorded compared with an operating loss of ¥0.6 billion for the previous year.

Sales (Billions of yen)



Resolution to Issue Euro-Yen Denominated Convertible Bond-Type Bonds with Subscription Rights to Shares and to Repurchase Own Shares

By resolution at the meeting of the Board of Directors held on July 7, 2015, SANKYO decided to issue euro-yen denominated convertible bond-type bonds with subscription rights to shares (CB) due in 2020. These bonds with subscription rights to shares were offered on the Singapore Exchange on July 23 and SANKYO raised ¥20.0 billion in terms of face value. Coinciding with the resolution to issue the bonds with subscription rights to shares, SANKYO's Board of Directors also passed a resolution concerning repurchase of own shares. Using the funds raised by the issue of the bonds, SANKYO intends to repurchase up to 4.7 million shares at a cost of up to ¥20.0 billion through open-market purchase on the Tokyo Stock Exchange during the period from July 8, 2015 to December 31, 2015.

SANKYO regards the return of profits to shareholders as one of the most important management priorities. As well as maintaining payment of stable cash dividends, the Company has also repurchased its own shares for the purpose of implementing a flexible capital policy in tune with the changing business environment and returning profits to shareholders. We will effectively utilize retained earnings for product development, capital investment, and sales & marketing to improve business performance. Repurchase of own shares by utilizing liabilities is intended to improve capital efficiency and corporate value while facilitating the returning of profits to shareholders.

Repurchasing own shares by utilizing liabilities is advantageous in three respects:

1. Enhancement of capital efficiency and shareholder value

- Possible to enhance capital efficiency because of reduction of shareholders' equity and increase of return on equity (ROE) and net income per share (EPS) due to reduction in the number of shares issued and outstanding

2. Reduction of dividend payment burden

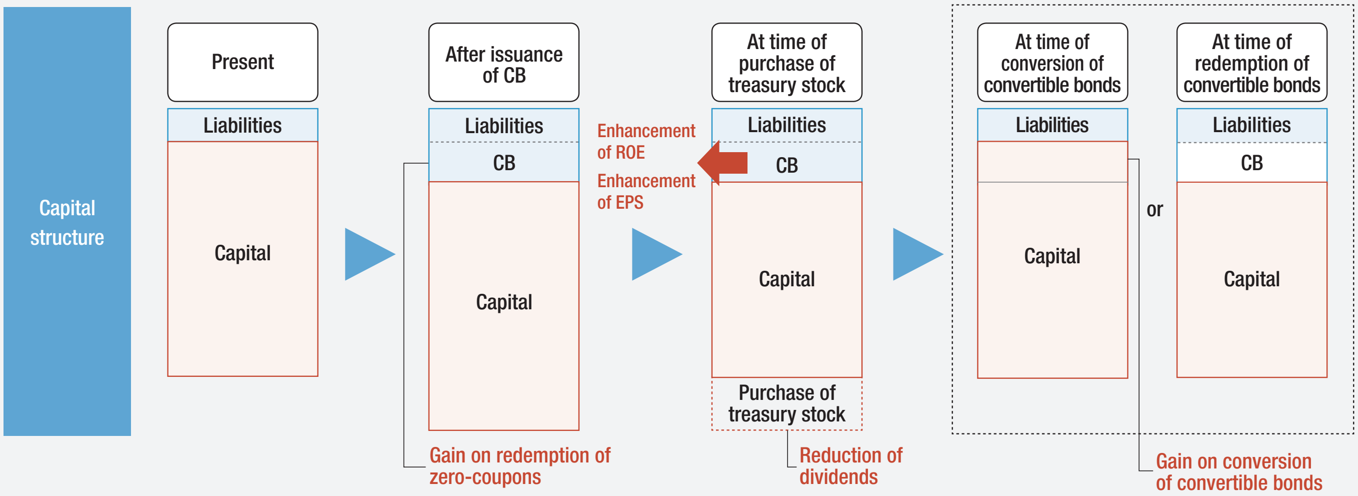
- Reduce dividend payment burden because no dividend is paid for treasury stock

3. Minimization of issuance cost

- As a result of the issue of zero-coupon bonds at a premium to face value of 100.5%, redemption gains can be expected.
- Even if all the bonds are converted to shares, conversion gains are likely because the conversion price is expected to exceed the share repurchase price. (Conversion price: ¥5,194)

General Mechanism of Recap Convertible Bonds

- Recap convertible bonds is the method of realizing "restructuring of capital structure (enhancement of ROE)" through implementation of issuance of convertible bonds and purchase of treasury stock at the same time.



Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2015 (fiscal 2015), 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 2015

During the fiscal year ended March 31, 2015, despite negative factors such as the consumption tax increase and rising prices of imports owing to the depreciation of the yen, the Japanese economy remained on a modest recovery path, underpinned by the effects of government policies, as indicated by improvement in corporate earnings and rises in stock prices as well as signs of improvement in employment and personal income.

With regard to the pachinko and pachislot industry, following the change in operation of the format inspection of pachislot machines by the Security Electronics and Communication Technology Association from September 16, 2014, the number of new pachislot products introduced decreased. For pachinko also, the tendency among parlors to be highly selective about purchases of new machines was unabated as they continued to focus primarily on popular titles that are likely to attract players. As a result, the game machine sales market was sluggish.

Net Sales

In the mainstay pachinko machines business, the SANKYO Group released a varied selection of products. The Group introduced titles that emphasize audiovisual presentation as well as the use of movable gimmicks to take advantage of the appeal of tie-up content, while at the same time the Group offered reuse products of these titles at low prices. On the other hand, the Group also introduced simple, easy-to-play products whose gaming performance appeals to players who have not played pachinko for a while because they were put off by the increasingly complex and stereotypical gaming performance of the general run of machines.

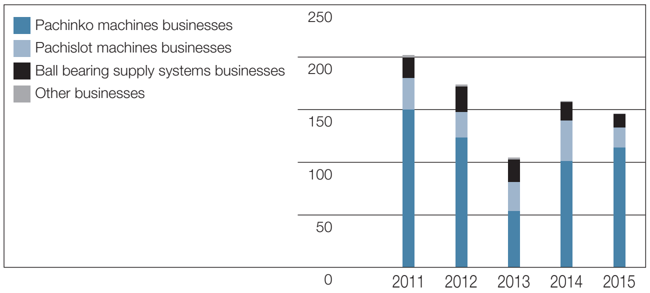
As a result, while *Evangelion 9*, a Bisty-brand staple pachinko title, became a hit with sales exceeding 100,000 units, SANKYO-brand pachinko titles, such as *Fever Queen and Fever Powerful* achieved high popularity among certain players for their simple gaming performance and have remained popular for a long time.

However, sales of *Fever Mobile Suit Gundam—Operation V*, a SANKYO-brand featured title for the current fiscal year, were lackluster. Development and marketing of this title were based on the concept of gaming performance with more frequent possibilities of jackpots so that players can enjoy a more varied gaming experience, but the response was divided between parlors that welcomed the innovative gaming performance and those that were cautious about introduction. With regard to the pachislot machines business, the number of titles introduced decreased from the initial plan partly owing to the revision of the schedule for product launches.

As a result, consolidated net sales amounted to ¥146.5 billion, a decrease of 7.5% year on year, as operating income decreased 52.8% to ¥13.2 billion, and net income decreased 61.0% to ¥8.7 billion.

Net Sales

(Billions of yen)



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

Cost of sales for fiscal 2015 amounted to ¥83.6 billion. The ratio of cost of sales to net sales increased 4.1 percentage points from the previous fiscal year to 57.1%.

Selling, general and administrative expenses increased ¥3.2 billion from the previous fiscal year, mainly owing to an increase in sales commissions and advertisement expenses, and the ratio of selling, general and administrative expenses to net sales increased 4.6 percentage points from the previous fiscal year to 33.9%. As a result, operating income decreased 52.8% to ¥13.2 billion and the ratio of operating income to net sales decreased 8.7 percentage points from the previous fiscal year to 9.0%.

Other income (expenses) decreased ¥1.7 billion mainly owing to directors' retirement allowance, resulting in other expenses, net, amounting to ¥0.2 billion.

Net income decreased ¥13.6 billion from ¥22.4 billion for the previous fiscal year to ¥8.7 billion. Net income per share (basic) was ¥94.48 compared with ¥239.65 for the previous fiscal year.

Segment Information by Business

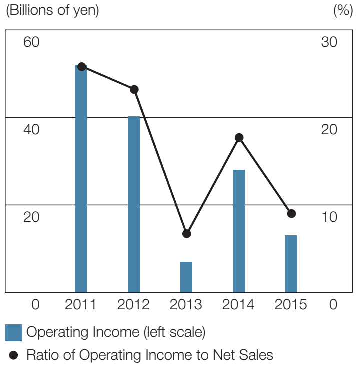
(Millions of yen)

Net sales	2015	Year-on-year change	2014
Pachinko machines business	¥114,137	12.9 %	¥101,102
Pachislot machines business	19,054	(50.4)	38,433
Ball bearing supply systems business	12,552	(29.4)	17,776
Other businesses	834	(26.9)	1,141
Total	¥146,579	(7.5)%	¥158,453

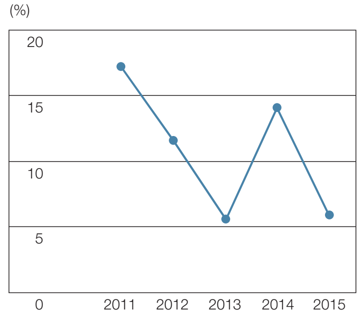
(Millions of yen)

Operating income	2015	Year-on-year change	2014
Pachinko machines business	¥15,481	28.7 %	¥21,704
Pachislot machines business	2,616	(76.0)	10,885
Ball bearing supply systems business	442	(34.4)	674
Other businesses	(544)	—	(621)
Elimination/Corporate	(4,763)	—	(4,618)
Total	¥13,233	(52.8)%	¥28,023

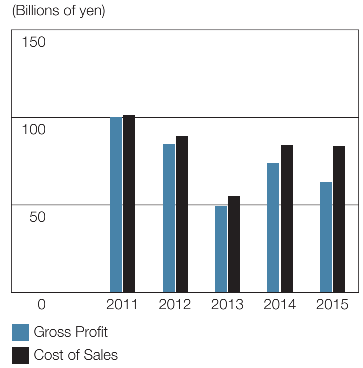
Operating Income and Ratio of Operating Income to Net Sales



Return on Sales (ROS)



Gross Profit and Cost of Sales



Fiscal 2016 Forecast

Despite some favorable indications concerning macroeconomic conditions, such as improvement in employment and personal income, the operating environment for the pachinko and pachislot industry is expected to remain challenging. For fiscal 2016, with regard to the outlook for shipment volumes in the market as a whole, shipments of pachinko machines are expected to remain at the same level as fiscal 2015, while shipments of pachislot machines are expected to decrease.

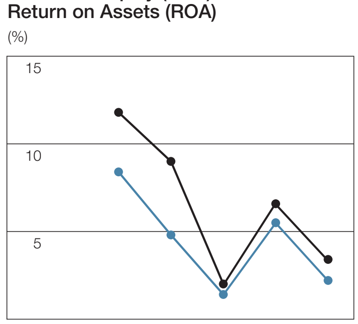
The SANKYO Group aims to expand market shares in the two mainstay businesses. In the pachinko machines business, the Group is promoting product development that emphasizes ease of playing across all categories of machines. In the pachislot machines business, the Group views the change in the regulations concerning product development as a business opportunity and intends to introduce models compliant with the new regulations ahead of competitors.

The Group's plan calls for sales volumes for the fiscal year ending March 31, 2016, of 320,000 pachinko machines and 110,000 pachislot machines. The consolidated business results forecast for the fiscal year ending March 31, 2016, are as follows:

(Billions of yen)

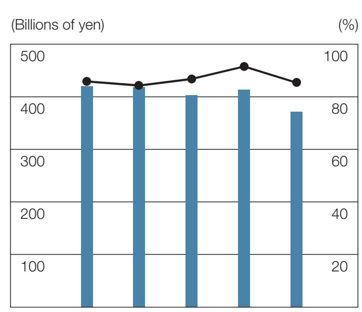
	2016 forecast	Year-on-year change	2015 results
Net sales	¥1,500	2.3%	¥1,465
Operating income	140	5.8	132
Net income	100	14.6	87

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



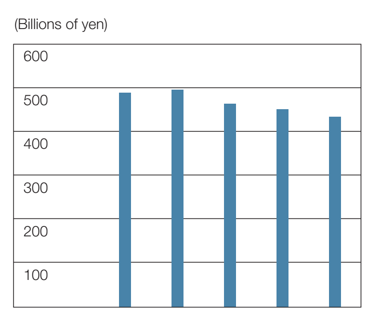
● Return on Equity (ROE)
● Return on Assets (ROA)
ROA=(Operating income + Interest and dividend income + Interest on marketable securities) / Total assets (yearly average)

Total Net Assets and Equity Ratio



■ Total Net Assets (left scale)
● Equity Ratio

Total Assets



Assets, Liabilities, and Net Assets

Total assets at the end of fiscal 2015 amounted to ¥434.6 billion, having decreased ¥16.5 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥23.9 billion decrease in marketable securities and a ¥15.3 billion decrease in investment securities despite a ¥10.2 billion increase in notes and accounts receivable-trade and a ¥9.1 billion increase in cash and deposits.

Total liabilities amounted to ¥62.9 billion, having increased ¥24.9 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥25.8 billion increase in notes and accounts payable-trade and a ¥2.5 billion increase in long-term accounts payable-other (included in "other" of current liabilities) despite a ¥3.5 billion decrease in accrued income taxes.

Net assets decreased ¥41.4 billion compared with the figure at the previous fiscal year-end. Whereas net income amounted to ¥8.7 billion, acquisition of treasury stock amounting to ¥36.6 billion and cash dividends paid amounting to ¥14.0 billion were factors decreasing net assets. As a result, net assets amounted to ¥371.6 billion and the shareholders' equity ratio decreased 6.0 percentage points to 85.5%.

Cash Flows

Cash and cash equivalents (hereinafter "cash") at the fiscal year-end were ¥218.6 billion, having decreased ¥20.3 billion from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities decreased ¥14.1 billion from the previous fiscal year to ¥25.3 billion. The principle cash inflow items were a ¥25.8 billion increase in notes and accounts payable-trade and income before income taxes and minority interests amounting to ¥13.0 billion. The principle cash outflow item was a ¥10.2 billion increase in notes and accounts receivable-trade.

Cash flows from investing activities

Net cash provided by investing activities increased ¥3.6 billion from the previous fiscal year to ¥5.1 billion. The principal cash inflow item was proceeds from redemption of investment securities amounting to ¥34.0 billion. Principle cash outflow items were payment for purchase of investment securities amounting to ¥24.0 billion and payment for purchase of property, plant and equipment and intangible fixed assets amounting to ¥5.2 billion.

Cash flows from financing activities

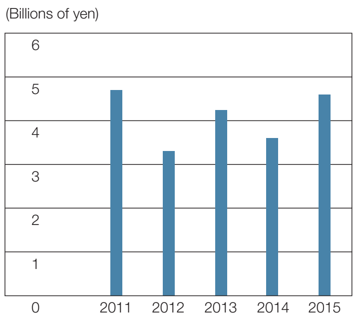
Net cash used in financing activities decreased ¥33.5 billion from the previous fiscal year to ¥50.7 billion. The principal items were payment for purchase of treasury stock amounting to ¥36.6 billion and cash dividends paid amounting to ¥14.0 billion.

Forecast of the Financial Position in Fiscal 2016

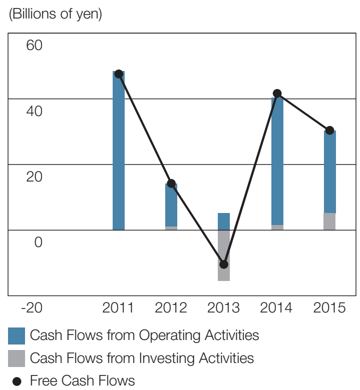
For fiscal 2016, the Company forecasts net cash provided by operating activities of ¥16.0 billion, net cash used in investing activities of ¥6.0 billion attributable to capital investment, and net cash used in financing activities of ¥13.0 billion attributable to payment of cash dividends.

As a result, the Company forecasts a decrease of ¥3.0 billion in the cash balance at the end of fiscal 2016 compared to the end of fiscal 2015.

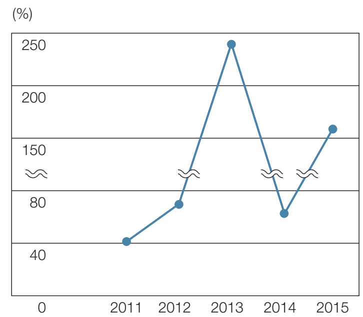
Depreciation



Free Cash Flows



Payout Ratio



Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2016 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 2015, 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, and an accompanying reduction in demand or change in the market structure, determines 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. Under the new product development structure, 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 the Group 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 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, 2015 and 2014

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Current assets:			
Cash and deposits (Notes 3 and 16)	¥133,675	¥124,546	$1,112,385
Marketable securities (Notes 3, 4 and 16)	129,999	153,995	1,081,795
Notes and accounts receivable-trade (Note 16)	45,070	34,781	375,056
Inventories (Note 6)	3,546	985	29,513
Deferred tax assets (Note 15)	2,986	3,023	24,852
Accounts receivable arising from outsourced production contracts	3,283	455	27,321
Other current assets	6,485	8,566	53,973
Allowance for doubtful accounts (Note 16)	(3)	(10)	(31)
Total current assets	325,043	326,343	2,704,865
Fixed assets:			
Property, plant and equipment:			
Land	23,126	23,126	192,448
Buildings and structures	27,339	27,298	227,509
Machinery and equipment	8,098	7,770	67,389
Tools, furniture and fixtures	19,104	17,526	158,976
Leased assets	46	32	388
Construction in progress	444	356	3,697
Other fixed assets	4,499	4,284	37,440
	82,658	80,395	687,847
Accumulated depreciation	(35,234)	(33,773)	(293,205)
Total property, plant and equipment	47,424	46,622	394,643
Intangible fixed assets:			
Goodwill	1,741	2,478	14,491
Other intangible fixed assets	436	432	3,634
Total intangible fixed assets	2,178	2,911	18,124
Investments and other assets:			
Investments in securities (Notes 4, 5 and 16)	54,106	69,417	450,246
Long-term loans	1	17	13
Deferred tax assets (Note 15)	5,616	5,702	46,742
Other assets	684	542	5,700
Allowance for doubtful accounts	(26)	(26)	(222)
Allowance for losses on investments in securities	(379)	(379)	(3,160)
Total investments and other assets	60,003	75,272	499,318
Total fixed assets	109,605	124,806	912,085
Total assets	¥434,648	¥451,149	$3,616,950

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)
	2015	2014	2015
Current liabilities:			
Notes and accounts payable-trade (Note 16)	¥ 41,204	¥ 15,307	$ 342,886
Accrued income taxes	3,804	7,324	31,659
Accrued employees' bonuses	833	832	6,936
Lease obligations	8	5	67
Other current liabilities	9,060	8,841	75,398
Total current liabilities	54,911	32,312	456,946
Long-term liabilities:			
Lease obligations	19	14	165
Accrued retirement allowances for directors and corporate auditors	—	753	—
Net defined benefit liabilities (Note 7)	4,388	3,847	36,519
Asset retirement obligations (Note 17)	63	59	525
Other long-term liabilities	3,595	1,066	29,923
Total long-term liabilities	8,067	5,740	67,133
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, 2015 and 97,597,500 shares as of March 31, 2014	14,840	14,840	123,492
Capital surplus	23,750	23,879	197,637
Retained earnings	347,975	391,083	2,895,696
Treasury stock	(19,724)	(20,937)	(164,141)
Total shareholders' equity	366,840	408,865	3,052,683
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 4)	4,794	4,104	39,898
Remeasurements of defined benefit plans (Note 7)	(218)	22	(1,821)
Total accumulated other comprehensive income	4,575	4,126	38,077
Subscription rights to shares (Notes 10 and 11)	253	—	2,112
Minority interests	—	103	—
Total net assets	371,670	413,096	3,092,872
Total liabilities and net assets	¥434,648	¥451,149	$3,616,950

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Net sales	¥146,579	¥158,453	$1,219,767
Cost of sales	83,676	84,009	696,321
Gross profit	62,902	74,444	523,446
Selling, general and administrative expenses (Note 13)	49,668	46,420	413,321
Operating income	13,233	28,023	110,125
Other income (expenses):			
Interest and dividend income	1,312	1,414	10,923
Equity in earnings of affiliates	202	630	1,686
Interest expense	(1)	(2)	(15)
Foreign currency exchange loss	—	(6)	—
Loss on sales or disposal of property, plant and equipment, net (Note 14)	(32)	(186)	(268)
Loss on sales of investments in securities	(1)	—	(11)
Loss on devaluation of investments in securities	(14)	(410)	(125)
Loss on investments in partnership	(86)	(121)	(719)
Retirement benefits for directors and corporate auditors	(1,790)	—	(14,898)
Other, net	209	206	1,744
Income before income taxes and minority interests	13,031	29,547	108,443
Income taxes (Note 15)**:**			
Current	4,225	8,924	35,166
Deferred	180	(1,881)	1,504
Total income taxes	4,406	7,043	36,670
Net income before minority interests	8,624	22,504	71,773
Minority interests in net income	(103)	103	(864)
Net income	¥ 8,728	¥ 22,400	$ 72,637

	Yen		U.S. dollars (Note 2)
Net income per share (Note 19)**:**			
Basic	¥ 94.48	¥239.65	$0.79
Diluted	94.39	—	0.79
Cash dividends per share (Note 10)	150.00	150.00	1.25

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Net income before minority interests	¥8,624	¥22,504	$71,773
Other comprehensive income (Note 9)**:**			
Unrealized gains on available-for-sale securities	722	1,667	6,014
Remeasurements of defined benefit plans (Note 7)	(238)	—	(1,985)
Share of other comprehensive income in affiliates accounted for by the equity method	(35)	31	(293)
Total other comprehensive income	448	1,699	3,735
Comprehensive income	9,073	24,204	75,508
Total comprehensive income attributable to:			
Owners of the parent	¥9,177	¥24,100	$76,372
Minority interests	(103)	103	(864)

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Common stock			
Beginning of year	¥ 14,840	¥ 14,840	$ 123,492
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 14,840	¥ 14,840	123,492
End of year	¥ 14,840	¥ 14,840	$ 123,492
Capital surplus			
Beginning of year	¥ 23,879	¥ 23,880	$ 198,718
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 23,879	¥ 23,880	$ 198,718
Disposal of treasury stock	(0)	(0)	(0)
Retirement of treasury stock	(33)	—	(278)
Change in ownership interest in a consolidated subsidiary	(96)	—	(804)
End of year	¥ 23,750	¥ 23,879	$ 197,637
Retained earnings			
Beginning of year	¥ 391,083	¥ 382,726	$ 3,254,416
Cumulative effect of accounting change	22	—	186
Beginning of year, as restated	¥ 391,105	¥ 382,726	$ 3,254,601
Net income	8,728	22,400	72,637
Dividend from surplus, ¥150 per share ($1.25 per share)	(14,043)	(14,044)	(116,867)
Retirement of treasury stock	(37,814)	—	(314,676)
End of year	¥ 347,975	¥ 391,083	$ 2,895,696
Treasury stock			
Beginning of year	¥ (20,937)	¥ (20,932)	$ (174,233)
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ (20,937)	¥ (20,932)	$ (174,233)
Purchase of treasury stock	(36,635)	(5)	(304,862)
Disposal of treasury stock	0	0	0
Retirement of treasury stock	37,848	—	314,954
End of year	¥ (19,724)	¥ (20,937)	$ (164,141)
Total shareholders' equity			
Beginning of year	¥ 408,865	¥ 400,513	$ 3,402,393
Cumulative effect of accounting change	22	—	186
Beginning of year, as restated	¥ 408,887	¥ 400,513	$ 3,402,579
Net income	8,728	22,400	72,637
Dividends from surplus ¥150 per share ($1.25 per share)	(14,043)	(14,044)	(116,867)
Purchase of treasury stock	(36,635)	(5)	(304,862)
Disposal of treasury stock	0	0	0
Retirement of treasury stock	—	—	—
Change in ownership interest in a consolidated subsidiary	(96)	—	(804)
End of year	¥ 366,840	¥ 408,865	$ 3,052,683
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities			
Beginning of year	¥ 4,104	¥ 2,405	$ 34,155
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 4,104	¥ 2,405	$ 34,155
Net changes in items other than shareholders' equity	690	1,699	5,743
End of year	¥ 4,794	¥ 4,104	$ 39,898
Remeasurements of defined benefit plans			
Beginning of year	¥ 22	¥ —	$ 187
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 22	¥ —	$ 187
Net changes in items other than shareholders' equity	(241)	22	(2,007)
End of year	¥ (218)	¥ 22	$ (1,821)
Total accumulated other comprehensive income			
Beginning of year	¥ 4,126	¥ 2,405	$ 34,342
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 4,126	¥ 2,405	$ 34,342
Net changes in items other than shareholders' equity	448	1,721	3,735
End of year	¥ 4,575	¥ 4,126	$ 38,077
Subscription rights to shares			
Beginning of year	¥ —	¥ —	$ —
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ —	¥ —	$ —
Net changes in items other than shareholders' equity	253	—	2,112
End of year	¥ 253	¥ —	$ 2,112
Minority interests			
Beginning of year	¥ 103	¥ —	$ 864
Cumulative effect of accounting change	—	—	—
Beginning of year, as restated	¥ 103	¥ —	$ 864
Net changes in items other than shareholders' equity	(103)	103	(864)
End of year	¥ —	¥ 103	$ —
Total net assets			
Beginning of year	¥ 413,096	¥ 402,918	$ 3,437,599
Cumulative effect of accounting change	22	—	186
Beginning of year, as restated	¥ 413,118	¥ 402,918	$ 3,437,785
Net income	8,728	22,400	72,637
Dividends from surplus ¥150 per share ($1.25 per share)	(14,043)	(14,044)	(116,867)
Purchase of treasury stock	(36,635)	(5)	(304,862)
Disposal of treasury stock	0	0	0
Retirement of treasury stock	—	—	—
Change in ownership interest in consolidated subsidiaries	(96)	—	(804)
Net changes in items other than shareholders' equity	598	1,825	4,983
End of year	¥ 371,670	¥ 413,096	$ 3,092,872

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 13,031	¥ 29,547	$ 108,443
Depreciation and amortization	4,615	3,669	38,411
Amortization of goodwill	737	737	6,134
Stock-based compensation expense	248	—	2,067
Decrease in allowance for doubtful accounts	(6)	(7)	(55)
Increase in accrued employees' bonuses	0	11	5
Increase in net defined benefit liabilities	184	209	1,533
(Decrease) increase in accrued retirement allowances for directors and corporate auditors	(753)	58	(6,270)
Interest and dividend income	(1,312)	(1,414)	(10,923)
Interest expense	1	2	15
Equity in earnings of affiliates	(202)	(630)	(1,686)
Loss on sales or disposal of property, plant and equipment, net	32	186	268
Loss on sales of investments in securities	1	—	11
Loss on devaluation of investments in securities	14	410	125
(Increase) decrease in notes and accounts receivable-trade	(10,289)	9,620	(85,623)
(Increase) decrease in inventories	(2,561)	9,689	(21,314)
Increase (decrease) in notes and accounts payable-trade	25,897	(26,020)	215,505
(Increase) decrease in accounts receivable arising from outsourced production contracts	(2,827)	14,504	(23,532)
Increase (decrease) in accounts payable-other	1,075	(1,068)	8,946
(Decrease) increase in consumption taxes payable	(1,312)	1,651	(10,923)
Other	4,923	(92)	40,975
Sub total	31,497	41,067	262,111
Interest and dividend income received	1,080	1,401	8,995
Interest paid	(1)	(53)	(15)
Income taxes paid	(7,263)	(2,925)	(60,447)
Net cash provided by operating activities	25,313	39,490	210,644
Cash flows from investing activities:			
Payment into time deposits	—	(500)	—
Proceeds from withdrawal of time deposits	500	5,030	4,161
Payment for purchase of marketable securities	(10,000)	(10,000)	(83,215)
Proceeds from redemption of marketable securities	10,000	10,000	83,215
Payment for purchase of property, plant and equipment and intangible fixed assets	(5,251)	(3,197)	(43,702)
Proceeds from sales of property, plant and equipment and intangible fixed assets	28	300	238
Payment for purchase of investments in securities	(24,009)	(32,480)	(199,794)
Proceeds from redemption of investments in securities	34,000	32,000	282,933
Collection of loans receivable	23	321	197
Other	(190)	(24)	(1,582)
Net cash provided by investing activities	5,101	1,450	42,450
Cash flows from financing activities:			
Repayment of long-term debt	—	(3,169)	—
Payment for finance lease obligations	(6)	(5)	(58)
Payment for purchase of treasury stock	(36,635)	(5)	(304,862)
Proceeds from disposal of treasury stock	0	0	0
Cash dividends paid	(14,043)	(14,044)	(116,867)
Payment for purchase of shares in a subsidiary which does not change the scope of consolidation	(96)	—	(804)
Net cash used in financing activities	(50,782)	(17,224)	(422,591)
Net (decrease) increase in cash and cash equivalents	(20,368)	23,716	(169,497)
Cash and cash equivalents at beginning of year	239,041	215,324	1,989,192
Cash and cash equivalents at end of year (Note 3)	¥218,672	¥239,041	$1,819,696

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 2014 financial statements to conform to the classifications used in 2015. In conformity with the Companies Act of Japan and the other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items.

(b) Consolidation Principles

The consolidated financial statements include the accounts of the Company and its five significant wholly owned subsidiaries.

The remaining unconsolidated subsidiaries have assets, net sales and net income which are not significant in relation to those of the Companies, and, accordingly, the accounts of such subsidiaries have been excluded from consolidation.

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

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

(c) Foreign Currency Translation

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

(d) Cash and Cash Equivalents

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

(e) Marketable Securities and Investments in Securities

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

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

(f) Allowance for Doubtful Accounts

The allowance for doubtful accounts is calculated on the basis of the actual bad debt ratio for general accounts receivable and the assessed recoverability of individual doubtful accounts receivable.

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

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

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

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

Deferred gain on property, plant and equipment due to government subsidies in the amount of ¥40 million ($339 thousand), consisting of ¥2 million ($22 thousand) for buildings and structures and ¥37 million ($314 thousand) for machinery and equipment, is deducted from the acquisition costs at March 31, 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

(q) Net Income and Cash Dividends per Share

Net income per share of common stock shown in the accompanying consolidated statements of income is computed based on the weighted average number of shares outstanding during each year.

Cash dividends per share shown in the accompanying consolidated statements of income represent dividends declared and paid as applicable to the respective fiscal year.

(r) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(s) Amortization of Goodwill

Goodwill is amortized using the straight-line method over periods ranging from 5 to 10 years.

(t) Reclassification

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

(u) Changes in Accounting Policies

Accounting Standard for Retirement Benefits

Effective from the year ended March 31, 2015, the Company adopted the provisions stated in the main clause of Paragraph 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Paragraph 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015). Under these provisions, the Company reviewed the computation method of retirement benefit obligations and service costs and changed the method of determining the discount rate from the method based on the periods approximate to the employees' average remaining service years to the method of using a single weighted average discount rate reflecting the expected payment period and amount of benefit payment for each expected period.

There is no effect on the consolidated financial statements.

Accounting Standard for Business Combinations

As ASBJ Statement No. 21, "Accounting Standard for Business Combinations," ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements," and ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" became applicable from the beginning of fiscal years beginning on or after April 1, 2014, the Company adopted these accounting standards (except for the provisions stated in Paragraph 39 of "Accounting Standard for Consolidated Financial Statements") from the year ended March 31, 2015. Accordingly, the Company recorded the changes in the Company's ownership interest in a subsidiary that do not result in a loss of control under capital surplus and recorded acquisition related costs as expenses for the fiscal year in which they were incurred. In addition, for business combinations to be implemented on or after April 1, 2014, the review results of amounts allocated to acquisition costs after finalizing provisional accounting treatments will be reflected in the consolidated financial statements corresponding to the date on which the business combination take place.

These accounting standards related to business combinations were applied in accordance with the transitional treatment set forth in Paragraph 58-2 (4) of "Accounting Standard for Business Combinations," Paragraph 44-5 (4) of "Accounting Standard for Consolidated Financial Statements" and Paragraph 57-4 (4) of "Accounting Standard for Business Divestitures" for the fiscal years beginning on and after April 1, 2014.

As a result, capital surplus as of March 31, 2015 decreased by ¥96 million ($804 thousand), and its effect on the consolidated statement of income was immaterial.

In the consolidated statement of cash flows for the year ended March 31, 2015, cash flows related to payment for purchase of shares in a subsidiary which does not change the scope of consolidation are recorded under "Cash flows from financing activities."

The effect on per share amounts for the year ended March 31, 2015 is noted in Note 19, "Per Share Information."

(v) Retirement Allowances for Directors and Corporate Auditors

At the ordinary meeting of shareholders held on June 27, 2014, it was resolved to make a final payment of retirement allowances in accordance with the abolition of the retirement benefit plan for directors and statutory auditors. As a result, accrued retirement allowances for directors and corporate auditors were fully reversed and the payables for the final payment of retirement allowances in an amount of ¥2,525 million ($21,018 thousand) were recorded as "Long-term payables" under "Long-term liabilities." Retirement allowances to directors and corporate auditors in an amount of ¥1,790 million ($14,897 thousand) were recorded under "Other income (expenses)".

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.17= U.S. $1, the rate of exchange on March 31, 2015, 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

A reconciliation of cash and cash equivalents to the accounts disclosed on the balance sheets at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and deposits	¥133,675	¥124,546	$1,112,385
Marketable securities	129,999	153,995	1,081,795
Total	263,674	278,541	2,194,181
Bonds and debentures, investment funds and others whose original maturity is more than three months	(45,001)	(39,000)	(374,485)
Time deposits whose original maturity is more than three months	—	(500)	—
Cash and cash equivalents	¥218,672	¥239,041	$1,819,696

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2015 and 2014 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2015				2014			
	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	¥ 70,010	¥76	¥0	¥ 70,087	¥ 80,014	¥114	¥1	¥ 80,127
Short-term corporate bonds	9,997	—	0	9,997	29,995	—	2	29,993
Certificates of deposit	80,000	—	—	80,000	90,000	—	—	90,000
Total	¥160,008	¥76	¥0	¥160,084	¥200,009	¥114	¥3	¥200,120

	Thousands of U.S. dollars			
	2015			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Japanese government bonds	$ 582,597	$638	$2	$ 583,232
Short-term corporate bonds	83,194	—	4	83,190
Certificates of deposit	665,724	—	—	665,724
Total	$1,331,515	$638	$6	$1,332,146

(b) Available-for-Sale Securities

	Millions of yen							
	2015				2014			
	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	¥6,922	¥—	¥13,042	¥6,119	¥6,140	¥—	¥12,260
Total	¥6,119	¥6,922	¥—	¥13,042	¥6,119	¥6,140	¥—	¥12,260

	Thousands of U.S. dollars			
	2015			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Fair value available:				
Equity securities	$50,928	$57,607	$—	$108,535
Total	$50,928	$57,607	$—	$108,535

5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Investments in securities	¥10,975	¥11,046	$91,333

6. Inventories

Inventories at March 31, 2015 and 2014 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Finished goods and merchandise	¥ 62	¥ 4	$ 516
Work in process	741	124	6,173
Raw materials and supplies	2,742	856	22,824
Total	¥3,546	¥985	$29,513

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, 2015 and 2014, were as follows (excluding the plans to which a simplified method was applied):

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of year	¥3,622	¥3,434	$30,141
Service cost	236	243	1,965
Interest cost	53	50	445
Actuarial differences	449	1	3,736
Benefits paid	(157)	(108)	(1,311)
Transfer to long-term payables due to abolition of the retirement benefit plan for directors and statutory auditors	(62)	—	(521)
Balance at end of year	¥4,140	¥3,622	$34,456

(2) The changes in plan assets for the years ended March 31, 2015 and 2014, 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, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of year	¥225	¥212	$1,877
Retirement benefit costs	46	41	387
Benefits paid	(24)	(27)	(200)
Balance at end of year	¥247	¥225	$2,064

(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
	2015	2014	2015
Unfunded retirement benefit obligation	¥4,388	¥3,847	$36,519
Net liability recorded in the consolidated balance sheets	4,388	3,847	36,519
Net defined benefit liabilities	4,388	3,847	36,519
Net liability recorded in the consolidated balance sheets	¥4,388	¥3,847	$36,519

(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, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥236	¥243	$1,965
Interest cost	53	50	445
Amortization of actuarial differences	92	11	768
Retirement benefit costs calculated using a simplified method	46	41	387
Retirement benefit costs on defined benefit plans	¥428	¥346	$3,565

(6) Remeasurements of defined benefit plans (before adjusting for tax effects) on other comprehensive income as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actuarial differences	¥(356)	¥—	$(2,968)
Total	¥(356)	¥—	$(2,968)

(7) Remeasurements of defined benefit plans (before adjusting for tax effects) on accumulated other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized actuarial differences	¥352	¥(3)	$2,936
Total	¥352	¥(3)	$2,936

(8) Actuarial assumptions used for the year ended March 31, 2015 and 2014, were set forth as follows:

	2015	2014
Discount rate	0.6%	1.5%
Estimated salary increase rate	1.3-5.6%	1.3-5.6%

8. Contingent Liabilities

Contingent liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
As an endorser of notes endorsed	¥73	¥135	$613

9. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrealized gains on available-for-sale securities:			
Gain incurred during the year	¥782	¥2,584	$6,509
Reclassification adjustment to net income	—	—	—
Amount before tax effects	782	2,584	6,509
Tax effects	(59)	(917)	(495)
Unrealized gains on available-for-sale securities	722	1,667	6,014
Remeasurements of defined benefit plans			
Loss incurred during the year	(359)	—	(2,989)
Reclassification adjustment to net income	2	—	21
Amount before tax effects	(356)	—	(2,968)
Tax effects	118	—	983
Remeasurements of defined benefit plans	(238)	—	(1,985)
Share of other comprehensive income in an affiliate accounted for by the equity method:			
Gain incurred during the year	16	34	139
Reclassification adjustment to net income	(51)	(2)	(432)
Share of other comprehensive income in affiliates accounted for by the equity method:	(35)	31	(293)
Total other comprehensive income	¥448	¥1,699	$3,735

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, 2015

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

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

For the year ended March 31, 2014

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2013	97,597,500	4,124,256
Increase in the number of shares during the accounting period ended March 31, 2014	—	1,195[*1]
Decrease in the number of shares during the accounting period ended March 31, 2014	—	100[*2]
Number of shares as of March 31, 2014	97,597,500	4,125,351

Notes: *1. Increase due to the purchase of odd shares (1,195 shares)
*2. Decrease due to sales upon the request from odd shareholders (100 shares)

(b) Stock acquisition rights

For the year ended March 31, 2015

Issuer	Components	Type of stock to be granted	Number of shares to be granted: April 1, 2014	Increase	Decrease	March 31, 2015	Outstanding balance at March 31, 2015
SANKYO CO., LTD.	Stock acquisition rights as stock options	**—**	**—**	**—**	**—**	**—**	**¥253 million ($2,112 thousand)**

(c) Matters Related to Dividends

For the year ended March 31, 2015

i) Dividend payment

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

Dividends on common stock	
Total amount of dividends	**¥7,021 million ($58,433 thousand)**
Dividends per share	**¥75.00 ($0.62)**
Record date	**March 31, 2014**
Effective date	**June 30, 2014**

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

Dividends on common stock	
Total amount of dividends	**¥7,021 million ($58,433 thousand)**
Dividends per share	**¥75.00 ($0.62)**
Record date	**September 30, 2014**
Effective date	**December 5, 2014**

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

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

Dividends on common stock	
Total amount of dividends	**¥6,421 million ($53,440 thousand)**
Dividends per share	**¥75.00 (0.62)**
Record date	**March 31, 2015**
Effective date	**June 29, 2015**

For the year ended March 31, 2014

i) **Dividend payment**

Approvals by the ordinary general meeting of shareholders held on June 27, 2013 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,022 million
Dividends per share	¥75.00
Record date	March 31, 2013
Effective date	June 28, 2013

Approvals by the Board of Directors' meeting held on November 6, 2013 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,021 million
Dividends per share	¥75.00
Record date	September 30, 2013
Effective date	December 6, 2013

ii) **Dividends whose record date is attributed to the year ended March 31, 2014 but become effective after the said year.**

The Company obtained the following approval at the general meeting of shareholders held on June 27, 2014:

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

11. Stock Options

The Company recorded stock option related costs under the following accounts for the years ended March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cost of sales	**¥ 12**	¥—	**$ 106**
Selling, general and administrative expenses	**235**		**1,961**
Total	**¥248**	¥—	**$2,067**

The Company recorded gains from the forfeiture of non-exercised stock options in an amount of ¥3 million ($ 27 thousand) in the year ended March 31, 2015.

The stock options outstanding as of March 31, 2015 are as follows:
(1) Details of stock options

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

(2) Stock option activity is as follows:

Issuer	SANKYO CO., LTD.
Date of resolution	July 4, 2014
Non-vested:	
March 31, 2014 – Outstanding	—
Granted	87,100
Forfeited	—
Vested	87,100
March 31, 2015 – Outstanding	—
Vested:	
March 31, 2014 — Outstanding	—
Vested	87,100
Exercised	—
Forfeited	1,200
March 31, 2015 — Outstanding	85,900

Unit price information

Issuer	SANKYO CO., LTD.
Date of resolution	July 4, 2014
Exercise price	¥1 ($0.01)
Average stock price at the time of exercise	—
Fair value at the date of grant	¥2,954 ($24.58)

The estimation method of fair value of stock options granted in the year ended March 31, 2015
a. The valuation technique is Black-Scholes model.
b. Main basic assumptions and estimation method

Stock price volatility	(Note 1)	26.88%
Expected remaining service period	(Note 2)	7.90 years
Expected cash dividend	(Note 3)	150 per share ($1.25)
Risk-free interest rate	(Note 4)	0.364%

Notes: 1. Stock price volatility is computed based on actual stock prices for the period of 7 years and 11 months (August 2006 through July 2014).
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, 2014.
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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Due within one year	¥ 5	¥10	$44
Due after one year	6	7	50
Total	¥11	¥17	$95

13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Sales commission	¥ 9,226	¥ 7,942	$ 76,775
Advertisement expenses	4,308	3,541	35,856
Salaries and wages	3,607	3,470	30,023
Provision for reserve for bonuses	403	413	3,357
Accrued retirement allowances for directors and corporate auditors	12	58	105
Retirement benefit costs	228	183	1,903
Provision for allowance for doubtful accounts	(6)	(2)	(55)
Research and development expenses	24,559	24,499	204,374

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, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Gain on sales of property, plant and equipment:			
Land	¥ —	¥ 10	$ —
Machinery and equipment	1	—	11
Tools, furniture and fixtures	2	—	23
Others	10	—	87
Total	¥ 14	¥ 10	$ 122
Loss on disposal of property, plant and equipment:			
Buildings and structures	¥(27)	¥(118)	$ (230)
Machinery and equipment	(5)	(3)	(50)
Tools, furniture and fixtures	(3)	(6)	(30)
Others	(9)	(67)	(81)
Total	¥(46)	¥(197)	$ (390)
Loss on sales and disposal of property, plant and equipment, net	¥(32)	¥(186)	$ (268)

15. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate of approximately 35.5% and 37.9% for the years ended March 31, 2015 and 2014.

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, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Accrued enterprise taxes	¥ 392	¥ 629	$ 3,263
Unrealized profits on inventories	1	0	10
Accrued employees' bonuses	275	295	2,296
Allowance for doubtful accounts	6	8	57
Net defined benefit liabilities	1,421	1,365	11,833
Accrued retirement allowances for directors and corporate auditors	—	267	—
Accumulated depreciation	4,326	4,874	36,002
Unrealized profit on property, plant and equipment	130	123	1,085
Allowance for losses on investments in securities	122	134	1,022
Research and development expenses	1,914	1,637	15,933
Loss on impairment	1,177	1,239	9,796
Loss on devaluation of investments in securities	132	145	1,104
Long-term payables	821	—	6,837
Tax loss carryforwards	1,162	1,422	9,677
Other	395	212	3,295
Sub-total deferred tax assets	¥12,282	¥12,357	$102,209
Less-valuation allowance	(1,390)	(1,451)	(11,574)
Deferred tax assets	¥10,891	¥10,906	$ 90,636
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥ (2,238)	¥ (2,179)	$ (18,630)
Other	(49)	(1)	(412)
Deferred tax liabilities	(2,288)	(2,181)	(19,042)
Deferred tax assets, net	¥ 8,603	¥ 8,725	$ 71,593

Deferred tax assets, net at March 31, 2015 and 2014 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets in current assets	¥ 2,986	¥ 3,023	$ 24,852
Deferred tax assets in fixed assets	5,616	5,702	46,742

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

A reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2014 is as follows:

	2014
Normal effective statutory tax rate	37.9%
Expenses not deductible for income tax purposes	0.2
Non-taxable income	(0.3)
Tax credit for research and development costs	(6.8)
Equity in earnings of affiliates accounted for by the equity method	0.8
Reduction of deferred tax assets due to tax rate changes	1.1
Changes in valuation allowance	(8.2)
Other – net	(0.9)
Actual effective tax rate	23.8%

Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate:

The "Act for Partial Amendment of the Income Tax Act, etc." was promulgated on March 31, 2015 and as a result, the corporate income tax rates were reduced for fiscal years beginning on or after April 1, 2015.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 35.5% to 33.1% for the temporary differences expected to be settled in the fiscal year beginning on April 1, 2015 and to 32.3% for the temporary differences expected to be settled from the fiscal years beginning on and after April 1, 2016.

The effect of this change in the effective statutory tax rate on the accompanying consolidated financial statements for the year ended March 31, 2015 resulted in a decrease of deferred tax assets under current assets and deferred tax assets under fixed assets by ¥217 million ($1,808 thousand) and ¥421 million ($3,504 thousand), respectively, and an increase of income taxes – deferred and net unrealized gains on available-for-sale securities by ¥856 million ($7,127 thousand) and ¥218 million ($1,815 thousand), respectively.

16. Financial Instruments and Related Disclosures

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

(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, 2015 and 2014 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, 2015	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥133,675	¥133,675	¥ —
(2) Notes and accounts receivable—trade	45,070		
Allowance for doubtful accounts	(3)		
	45,067	44,616	(450)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	160,008	160,084	75
Available-for-sale securities	13,042	13,042	—
Total assets	¥351,793	¥351,418	¥(374)
(4) Notes and accounts payable—trade	¥ 41,204	¥ 41,204	¥ —
Total liabilities	¥ 41,204	¥ 41,204	¥ —

March 31, 2014	Millions of yen Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	¥124,546	¥124,546	¥ —
(2) Notes and accounts receivable—trade	34,781		
Allowance for doubtful accounts	(9)		
	34,771	34,007	(763)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	200,009	200,120	110
Available-for-sale securities	12,260	12,260	—
Total assets	¥371,587	¥370,933	¥(653)
(4) Notes and accounts payable—trade	¥ 15,307	¥ 15,307	¥ —
Total liabilities	¥ 15,307	¥ 15,307	¥ —

March 31, 2015	Thousands of U.S. dollars Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	$1,112,385	$1,112,385	$ —
(2) Notes and accounts receivable—trade	375,056		
Allowance for doubtful accounts	(27)		
	375,029	371,278	(3,751)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	1,331,515	1,332,146	632
Available-for-sale securities	108,535	108,535	—
Total assets	$2,927,464	$2,924,344	$(3,119)
(4) Notes and accounts payable—trade	$ 342,886	$ 342,886	$ —
Total liabilities	$ 342,886	$ 342,886	$ —

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

(1) Cash and deposits

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

(2) Notes and accounts receivable—trade

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

(3) Marketable securities and investments in securities

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

(4) Notes and accounts payable—trade

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

2. Since it is extremely difficult to determine the fair values of unlisted equity securities amounting to ¥1,967 million ($16,373 thousand) and ¥1,985 million at March 31, 2015 and 2014, respectively, as there are no market prices available and it is impossible to estimate the future cash flow, they are not included in "(3) Marketable securities and investments in securities."

The Company recorded a loss on devaluation of investments in securities amounting to ¥14 million ($125 thousand) and ¥410 million for the years ended March 31, 2015 and 2014, respectively.

3. Redemption schedule of monetary assets and securities with contractual maturities at March 31, 2015 and 2014 were as follows

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

March 31, 2014	Millions of yen Within one year	 One to five years
(1) Cash and deposits	¥124,546	¥ —
(2) Notes and accounts receivable—trade	16,380	18,400
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	34,000	46,000
Held-to-maturity debt securities (Short-term corporate bonds)	30,000	—
Held-to-maturity debt securities (Certificates of deposits)	90,000	—

March 31, 2015	Thousands of U.S. dollars Within one year	 One to five years
(1) Cash and deposits	$1,112,385	$ —
(2) Notes and accounts receivable—trade	318,350	56,707
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	332,862	249,646
Held-to-maturity debt securities (Short-term corporate bonds)	83,215	—
Held-to-maturity debt securities (Certificates of deposits)	665,724	—

17. Asset Retirement Obligations

Asset retirement obligations recorded on consolidated balance sheets at March 31, 2015 and 2014 were as follows:

(1) Overview of asset retirement obligations
Asset retirement obligations at March 31, 2015 and 2014 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 2015	 2014	Thousands of U.S. dollars 2015
Beginning balance	¥59	¥58	$491
Increase due to acquisition of property, plant and equipment	5	—	50
Adjustment by time elapsed	0	0	2
Decreased due to performance of asset retirement obligations	(2)	—	(19)
Ending balance	¥63	¥59	$525

18. Segment Information

1. Overview of the reportable segments

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

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

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

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

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

	Millions of yen							
	For the year ended March 31, 2014							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	¥101,102	¥38,433	¥17,776	¥157,311	¥ 1,141	¥158,453	¥ —	¥158,453
Intersegment	—	—	—	—	—	—	—	—
Total	101,102	38,433	17,776	157,311	1,141	158,453	—	158,453
Segment profit (loss)	21,704	10,885	674	33,263	(621)	32,642	(4,618)	28,023
Segment asset	102,537	37,201	24,592	164,331	15,973	180,305	270,844	451,149
Others								
Depreciation and amortization*4	2,350	626	33	3,010	463	3,473	196	3,669
Amortization of goodwill	491	110	—	602	134	737	—	737
Increase in property, plant and equipment and intangible fixed assets*4	1,465	499	6	1,971	1,098	3,070	186	3,256

	Thousands of U.S. dollars							
	For the year ended March 31, 2015							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustment[*2]	Consolidated[*3]
Sales:								
Customers	$ 949,801	$158,564	$104,458	$1,212,823	$ 6,944	$1,219,767	$ —	$1,219,767
Intersegment	—	—	—	—	—	—	—	—
Total	949,801	158,564	104,458	1,212,823	6,944	1,219,767	—	1,219,767
Segment profit (loss)	128,834	21,774	3,685	154,293	(4,532)	149,761	(39,636)	110,125
Segment asset	1,078,071	266,201	170,092	1,514,363	149,649	1,664,013	1,952,937	3,616,950
Others								
Depreciation and amortization[*4]	26,752	5,964	247	32,964	3,707	36,671	1,740	38,411
Amortization of goodwill	4,093	923	—	5,016	1,119	6,134	—	6,134
Increase in fixed assets and intangible fixed assets[*4]	34,276	7,027	139	41,442	5,070	46,512	1,084	47,596

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, 2015 and 2014.
2. Geographical segment information
   (1) Sales
   There were no sales to customers outside Japan and no applicable data for the years ended March 31, 2015 and 2014.
   (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, 2015 and 2014.
3. Major customer segment information
   For the year ended March 31, 2015
   Major customer segment information is omitted for the year ended March 31, 2015 since there is no specific customer who accounts for more than 10% of total sales.

For the year ended March 31, 2014

	(Millions of yen)	
Name of customer	Sales	Name of related segment
Fields Corporation	¥18,062	Pachinko machine business and Pachislot machine business

Information on Losses on Impairment of Fixed Assets by Segment

There was no loss on impairment recognized for the years ended March 31, 2015 and 2014.

Information on Amortization of Goodwill and Remaining Balance by Segment

For the year ended March 31, 2015

	(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 ($4,093)	¥110 ($923)	—	¥602 ($5,016)	¥134 ($1,119)	—	¥737 ($6,134)
Balance at end of year	¥983 ($8,186)	¥221 ($1,846)	—	¥1,205 ($10,031)	¥535 ($4,459)	—	¥1,741 ($14,491)

Note: * Amounts shown correspond to mobile contents service.

For the year ended March 31, 2014

(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	¥110	—	¥602	¥134	—	¥737
Balance at end of year	¥1,475	¥332	—	¥1,808	¥670	—	¥2,478

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, 2015 and 2014.

19. Per Share Information

	Yen		U.S. dollars
	2015	2014	2015
Net assets per share *1	¥4,345.53	¥4,418.35	$36.16
Net income per share *2	94.48	239.65	0.79
Diluted net income per share *3	94.39	—	0.79

Diluted net income per share for the year ended March 31, 2014 was not disclosed since there was no potential share.

As noted in Note 1(u), the Company applied the revised accounting standards for business combinations and followed the transitional treatment set forth in Paragraph 58-2 (4) of "Accounting Standard for Business Combinations," Paragraph 44-5 (4) of "Accounting Standard for Consolidated Financial Statements" and Paragraph 57-4 (4) of "Accounting Standard for Business Divestitures" effective the year biginning on April 1, 2014. As a result, net assets per share as of March 31, 2015 decreased by ¥1.13 ($0.01).

Above information was computed based on the following data:

	Year ended March 31,	
	2015	2014
*1 Net assets per share:		
Total net assets	¥371,670 million ($3,092,872 thousand)	¥413,096 million
Amount to be deducted from total net assets	¥253 million ($2,112 thousand)	¥103 million
(of which subscription rights to shares)	(¥253 million) ($2,112 thousand)	—
(of which minority interests)	(¥—) ($—)	(¥103 million)
Net assets attributable to common stock	¥371,416 million ($3,090,760 thousand)	¥412,992 million
Number of outstanding shares of common stock	89,597,500 shares	97,597,500 shares
Number of treasury stock	4,126,611 shares	4,125,351 shares
Number of common stock used in computing net asset per share	85,470,889 shares	93,472,149 shares
*2 Net income per share:		
Net income	¥8,728 million ($72,637 thousand)	¥22,400 million
Net income attributable to common stock	¥8,728 million ($72,637 thousand)	¥22,400 million
Net income not attributable to common stock shareholders	—	—
Weighted average number of common stock	92,386,716 shares	93,472,780 shares
*3 Diluted net income per share:		
Adjustment to net income	—	—
Increase in common stock	85,879 shares	—
(Of which subscription rights shares)	85,879 shares	—
Summary of securities excluded from the computation of diluted net income per share because they do not have dilutive effects	—	—

20. Related Party Transaction

The transactions for the years ended March 31, 2015 and 2014 and related account balances outstanding at each year end were as follows:

For the year ended March 31, 2015 (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 ($66,140)	Development, purchase and sales of game machines	Direct 15.69% (The company owns 1.14% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥436 ($3,631)	Accounts receivable-trade	¥31 ($265)
							Consignment sales of game machines	¥7,002 ($58,271)	Accounts payable-other	¥460 ($3,830)
							Royalty	¥2,129 ($17,724)	Accounts payable-other	¥81 ($681)

For the year ended March 31, 2014 (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 1.05% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥18,052	Accounts receivable-trade	¥7,500
							Consignment sales of game machines	¥5,683	Accounts payable-other	¥17
							Royalty	¥1,007	Accounts payable-other	¥56

21. Significant Subsidiaries and an Affiliate

The domestic consolidated subsidiaries and an affiliate accounted for by the equity method at March 31, 2015 and 2014 were as follows:

	Ownership		
At March 31	2015	2014	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%	40%	Full consolidation
FIELDS CORPORATION	15.69%	15.69%	Equity method

EY
Building a better working world

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Independent Auditor's Report

The Board of Directors
SANKYO Co., Ltd.

We have audited the accompanying consolidated financial statements of SANKYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, 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, 2015, 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 26, 2015
Tokyo, Japan

Board of Directors

(As of June 26, 2015)

Honorary Chairman
Kunio Busujima

Representative Director, Chairman of the Board & CEO
Hideyuki Busujima

Representative Director, President & COO
Kimihisa Tsutsui

Director & Senior Executive Operating Officer
Ichiro Tomiyama

Outside Director
Taro Kitani
Takashi Miura

Standing Statutory Auditor
Shohachi Ugawa

Statutory Auditor
Toshiaki Ishiyama

Outside Statutory Auditor
Yoshiro Sanada
Fumiyoshi Noda

Executive Operating Officers
Yuji Togo
Toshio Ogura
Katsumasa Takai
Yoko Oshima

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

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

Corporate Data

(As of March 31, 2015)

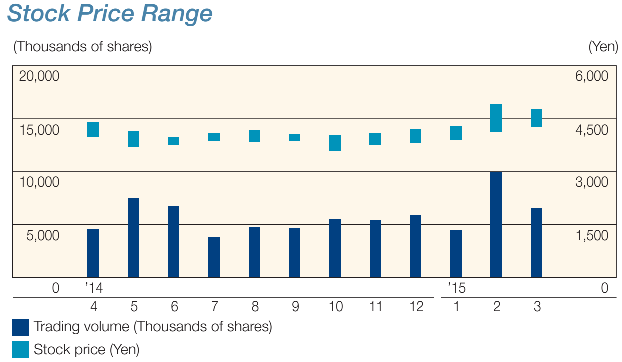
Company Name
SANKYO CO., LTD.

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	1,077 (Consolidated) 859 (SANKYO CO., LTD.)
Number of Shares Authorized	144,000,000
Number of Shares Issued	89,597,500
Number of Shareholders	12,813

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