Good luck. Good life.
SANKYO

SANKYO CO., LTD.

Aiming for Sustainable Growth

Annual Report 2018

Year ended March 31, 2018

2018

Aiming for Sustainable Growth

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

The pachinko and pachislot industry is at a turning point. Among the major developments was the revision of the regulations governing pachinko and pachislot machines in February 2018, the first such revision in 14 years. The SANKYO Group has a track record of capturing business opportunities from previous regulatory changes to create a multitude of industry standards. Following the recent revision of the regulations, SANKYO developed and released a pachinko machine compliant with the new regulations, ahead of other manufacturers. Capitalizing on the experience and know-how that the SANKYO Group has accumulated, we aim to boost sales by expanding our market shares and improve earnings through cost reduction, and aspire to raise our corporate value while continuing stable dividend payments.

Contents

Cautionary Statements with Respect to Forward-Looking Statements

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

Consolidated Financial Highlights

SANKYO CO., LTD. and Its Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

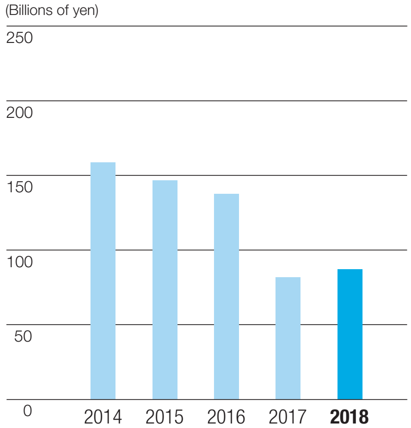
	Millions of yen		Thousands of U.S. dollars (Note)
	2018	2017	**2018**
For the year:			
Net sales	**¥ 86,220**	¥ 81,455	**$ 811,565**
Operating income	**10,181**	5,059	**95,830**
Net income attributable to owners of the parent	**5,550**	1,777	**52,244**
At year-end:			
Total assets	**¥396,291**	¥390,585	**$3,730,156**
Total net assets	**337,242**	340,287	**3,174,350**

	Yen		U.S. dollars
Per share data:			
Net income (basic)	**¥ 68.37**	¥ 21.94	**$0.64**
Cash dividends	**150.00**	150.00	**1.41**

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥106.24=U.S.$1. See Note 2 to the consolidated financial statements.

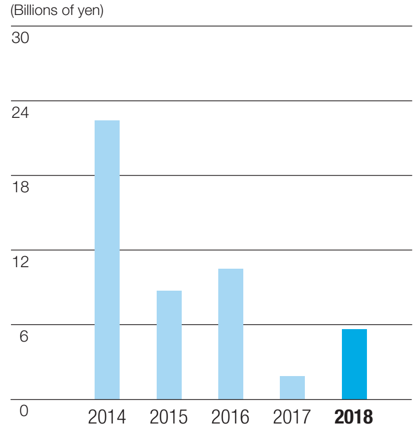
Net Sales

(Billions of yen)



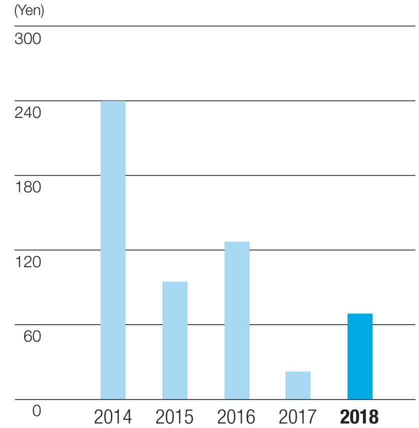
Net Income Attributable to Owners of the Parent

(Billions of yen)



Net Income per Share (basic)

(Yen)



Interview with the Management

H. Busujima

Hideyuki Busujima
Chairman of the Board & CEO

K. Tsutsui

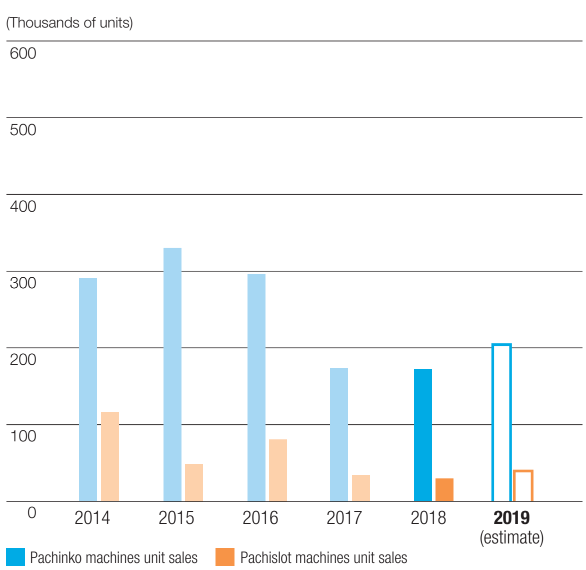
Kimihisa Tsutsui
President & COO

Q1 SANKYO recorded increases in both sales and profit for the fiscal year ended March 31, 2018. What factors led to this result?

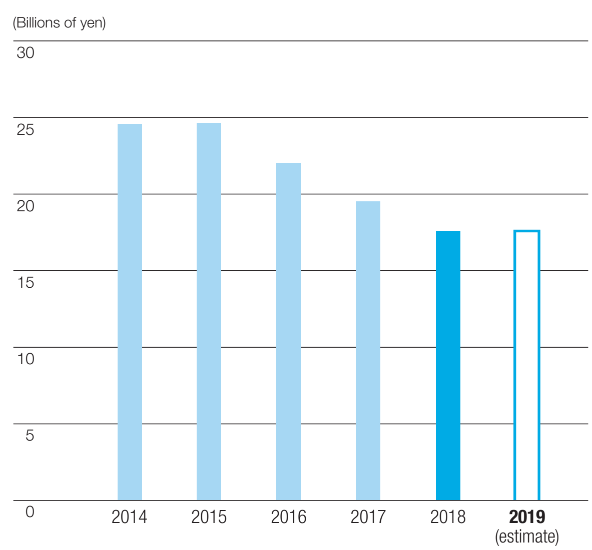
A For the fiscal year ended March 31, 2018 (fiscal 2018), SANKYO achieved higher sales and profit. On a consolidated basis, net sales were ¥86.2 billion, an increase of 5.9% year on year, operating income soared 101.2% to ¥10.1 billion, and profit attributable to owners of parent jumped 212.2% to ¥5.5 billion despite the recording of loss on impairment of fixed assets owned by SANKYO CREATE CO., LTD., a subsidiary.

Regarding the environment surrounding the pachinko and pachislot industry, as part of initiatives for countermeasures for compulsive gambling, the Regulations Partially Amending the Ordinance for Enforcement of the Act to Control Businesses That May Affect Public Morals and the Regulations Concerning the Certification and Official Inspection of Game Machines ("Amended Pachinko and Pachislot Machines Regulations") were

Pachinko and Pachislot Machines Unit Sales of the SANKYO Group



Trend of R&D Expenditure



promulgated in September 2017 and came into force on February 1, 2018. Under the Amended Pachinko and Pachislot Machines Regulations, a transitional measure is effective for up to three years. The pachinko and pachislot machines that are compliant with the former regulations have to be removed or replaced with ones compliant with the new regulations during this three-year period. However, for the time being, pachinko parlors have continued to position machines compliant with the former regulations with proven track records as the main components of their mix of installed pachinko and pachislot machines. They remained very selective in purchasing new models and the trend toward wide-variety small-lot continued. Thus, the pachinko and pachislot machines market remained sluggish.

In these circumstances, the Group introduced 15 pachinko titles and six pachislot titles. Although operating loss was recorded for the first nine months of the fiscal year ended March 31, 2018 because the Group introduced only five new pachinko titles during the first six months, we introduced 10 titles in the second half and regained momentum. Moreover, *Fever Symphogear*, a pachinko title introduced in August 2017, became a long-running hit product, leading to enhancement of the Group's brand power, which had a positive impact on our sales of other titles. In addition to high margin ratios of products introduced in the fourth quarter, our efforts to shorten development lead times in order to curtail development costs achieved results. As a result, a recovery trend of both sales and profit became apparent. Indeed, we achieved increases in both sales and profit.

Q2 What is the outlook for the fiscal year ending March 31, 2019?

A The next fiscal year ending March 31, 2019 is the first full year for enforcement of the Amended Pachinko and Pachislot Machines Regulations and of the three-year period for a transitional measure during which it is possible to continue sales of products that were certified by format inspection under the former regulations. Regarding machines compliant with the new regulations that will be introduced in the market from now on, the total payout of such machines is lower than that of machines compliant with the former regulations. However, the new regulations permit pachinko machines with payout settings, making it possible to offer pachinko players the thrill of guessing the payout setting, just as they can with pachislot. Regarding pachislot, as a result of the revision of the voluntary regulations, the degree of freedom has increased for development for example of AT (assist time) and ART (assist replay time), so you can expect to see pachislot machines with new gaming performance. Nevertheless, it is difficult to forecast how players will react to machines compliant with the new regulations, and moreover, pachinko parlors will likely prioritize machines compliant with the former regulations that have proven popularity. So we expect the pachinko and pachislot market to remain challenging.

The SANKYO Group views the regulatory change as a business opportunity. While working to maximize sales of the existing machines compliant with the former regulations, we will promote development of pachinko and pachislot machines that make the best use of the opportunities for new gaming performance opened up by the new regulations, thus endeavoring to launch products that will be well received by players.

The Group's plan for the fiscal year ending March 31, 2019 calls for sales of 205,000 pachinko machines and 39,000 pachislot machines. We forecast consolidated net sales of ¥90.0 billion, an increase of 4.4% year on year, operating income of ¥12.0 billion, an increase of 17.9%, and profit attributable to owners of parent of ¥9.0 billion, an increase of 62.1%.

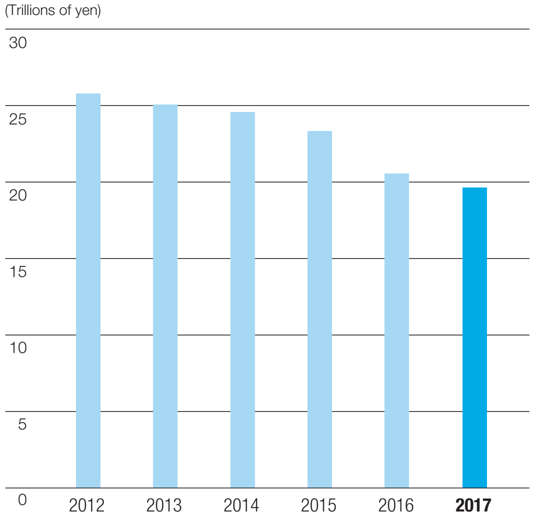
Q3 How is SANKYO responding to the enforcement of the Amended Pachinko and Pachislot Machines Regulations? What steps is SANKYO taking to recover the player population?

A In line with the enactment of the Act Concerning Promotion of Development of Integrated Resort Areas ("Integrated Resort Promotion Act") in December 2016, the Diet resolution accompanying it requires strengthening of countermeasures for compulsive gambling covering government-controlled competitive sports for which government-operated gambling is allowed, including pachinko. The passage of the Bill on Development of Specified Complex Tourist Facilities Areas ("IR Development Act") in July 2018 is expected to spur discussion on countermeasures for compulsive gambling.

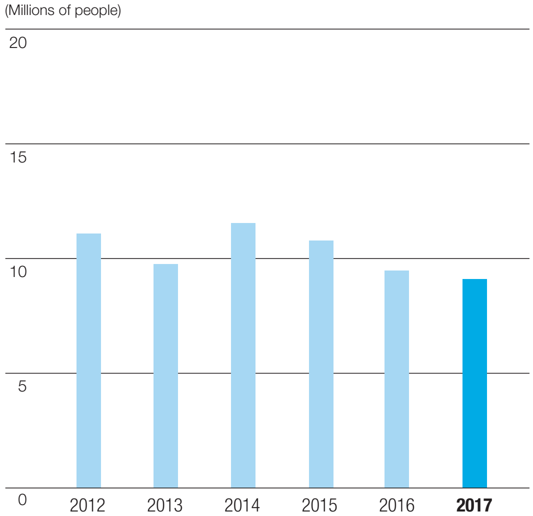
Reflecting these developments, the Amended Pachinko and Pachislot Machines Regulations came into force in February 2018. The pachinko and pachislot industry is implementing industry-wide measures to discourage players from becoming overly immersed in playing pachinko and pachislot, one of the objectives of the amended regulations. First and foremost, the industry is supporting the RECOVERY SUPPORT NETWORK (RSN), a nonprofit organization offering a telephone consultation service about pachinko/pachislot addiction. As well as strengthening its counselling system and enriching its features, RSN launched a new program in December 2017 that imposes restrictions on use through notification by the player or by his/her family.

Whereas the pachinko player population was about 30 million at its peak in the 1990s, the player population has been around 10 million in recent years. Diversification of leisure and the rising cost of playing pachinko/pachislot are cited as causes of the decline in the player population. While implementing measures to discourage players from becoming overly immersed in playing pachinko and pachislot, we recognize that one of the most important issues for the industry is the need to restore pachinko and pachislot to their position as affordable popular entertainment that can be enjoyed at ease. With the machines compliant with the new regulations, the gambling aspect is less pronounced. We hope that these easy-to-play machines, which are expected to become

Trend of Ball/Token Rental Revenues



Trend of Pachinko/Pachislot Player Population

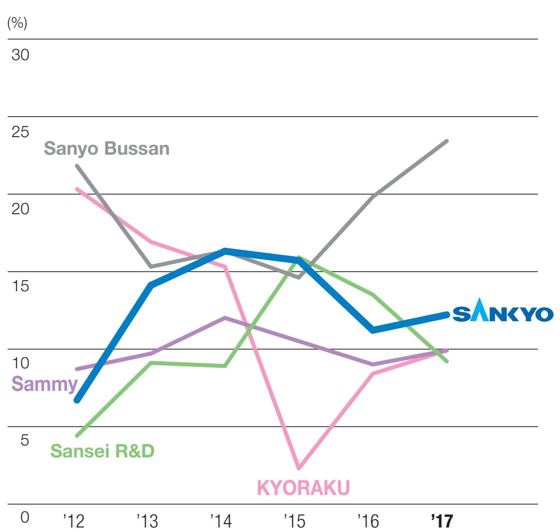


Source: 2018 Leisure White Paper, Japan Productive Center mainstream from now on, will attract dormant players and new players. Also, the industry wishes to deliver satisfaction to the existing players by offering pachinko machines with payout settings and pachislot machines with new gaming performance, characteristic of machines compliant with the new regulations. The industry will work as one to establish an environment where players can relax and enjoy playing pachinko and pachislot. As well as offering a variety of sophisticated pachinko and pachislot machines, the SANKYO Group is committed to speedy development of pachinko and pachislot machines that can be played at a reasonable cost and to take the lead in diffusing such machines in the market.

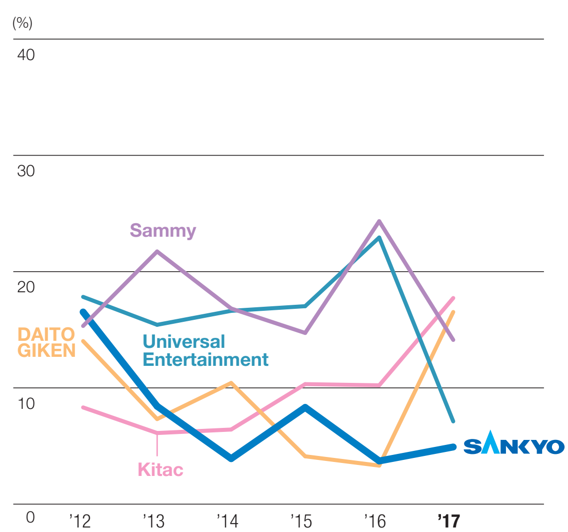
Q4 A challenging market environment persists. What are SANKYO's initiatives to improve earnings?

A The SANKYO Group is concentrating its management resources on the pachinko and pachislot machines businesses to boost sales by increasing our market share. We also aim to improve the ratio of operating income to net sales by reducing costs and curtailing selling, general and administrative expenses. I believe our development and offering of pachinko and pachislot machines that are well received by players and remain in operation for a long period will lead to enhancement of the Group's brand and increased sales, while at the same time, contributing to parlors' sales and profit. In this regard, although *Fever Symphogear*, a SANKYO-brand pachinko machine, sold only about 4,000 units upon its launch, it soon captivated the younger generation, which is the target of the Symphogear anime, and its popularity expanded to other age groups owing to synergy between the content and its specifications and gaming performance. Currently, about 45,000 units of this title are in operation at parlors nationwide. Although sales of a new pachinko title generally stabilize within about a month of its introduction, *Fever Symphogear* gained additional orders even in fiscal 2019, becoming an enduring strong-seller and a hit product adding luster to the Group's brand power. Attesting to this success, *Fever*

Pachinko Machine Sales Share



Pachislot Machine Sales Share



Source: Yano Research Institute

Symphogear gained the first place in the pachinko category of Players' Choice Pachinko and Pachislot Award 2017 held by the PACHINKO Advertising Association and the grand prix of the 7th Pachinko & Pachislot Award held by Nichiyukyo, an industry association.

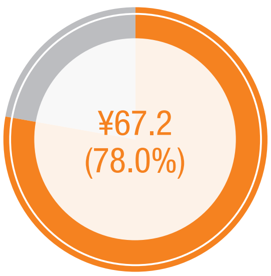
By pursuing synergy between intellectual property (IP) and content, taking advantage of the world they conjure up, and specifications and gaming performance, the Group will work to appeal to players from a broad demographic. At the same time, the Group will promote development and sales of pachinko and pachislot machines that can be played at a reasonable cost and of pachinko machines with payout settings. Our overriding aim is to increase SANKYO's market share.

In recent years, manufacturing costs and R&D expenditure have soared owing to the pursuit of pachinko and pachislot machines offering superior sophisticated entertainment performance, including diverse LCD presentation, in addition to distinctively designed gimmicks and lavish external appearance. Moreover, sales of pachinko and pachislot machines have been increasingly gravitating toward smaller lots, putting pressure on profit. In response, the SANKYO Group is making efforts to reduce the manufacturing cost and R&D expenditure. Illustrative of this is the curbing of the Group's R&D expenditure, which peaked at ¥24.5 billion in fiscal 2015, but was ¥17.4 billion in fiscal 2018. As a measure to further improve earnings, we are working to shorten the development lead time. Although the development lead time varies according to the types of pachinko/pachislot machines, it typically takes 2.5 to 3 years from the start of development to completion for a typical LCD-type machine. Our current target is to get the average development lead time down to 1.5 to 2 years by determining the development lead time for each project and applying due progress control. *Fever Symphogear* is a flagship title in this drive to shorten the development lead time. Its development lead time was about 1 year, confirming our ability to create a product that captivates players even if the development lead time is short. Moreover, the Group classifies its products into high-end models or low-end models and models through tie-up with licensors or models featuring original content and modulates allocation of costs, such as manufacturing cost and R&D expenditure, according to the classification of products for thorough profit/loss management for each product in order to secure profit even in small-lot manufacturing and sales.

Amid this protracted challenging business environment, we view the legislation on integrated resorts and the enforcement of the Amended Pachinko and Pachislot Machines Regulations as a turning point for the industry. As a leading company in the industry, we intend to position ourselves as the driving force of the market recovery and thus enhance corporate value by increasing the Group's shares of the pachinko and pachislot markets. In these endeavors, I request our shareholders and investors to extend their continued support.

Pachinko Machines Business

Sales (Billions of yen)



This segment, which includes manufacturing and sales of pachinko machines and gauge boards, sales of related parts and pachinko machine-related royalty income, is SANKYO's mainstay business and accounted for 78.0% of net sales.

Regarding the pachinko machines business, the Group introduced 15 titles (excluding reuse models), exceeding the number of titles introduced in the previous fiscal year (11 titles) and achieved approximately the same sales volume as the previous fiscal year. Major titles released included *Fever Symphogear* (introduced in August 2017) and *Fever Mobile Suit Zeta GUNDAM* (introduced in January 2018) under the SANKYO brand, *EVANGELION 2018 Model* (introduced in October 2017) and *CODE GEASS "Emperor Road"* (introduced in February 2018) under the Bisty brand, and *Fever Powerful 2018* (introduced in February 2018) and *Fever Queen 2018* (introduced in February 2018) under the JB brand.

As a result, segment sales amounted to ¥67.2 billion, an increase of 11.1% year on year, and operating income amounted to ¥14.5 billion, an increase of 40.1%. Sales of pachinko machines amounted to 171,000 units.

Principal models introduced and numbers of machines sold during fiscal 2018

Principal models	Released	No. of machines sold (thousand machines)
Fever Symphogear	August 2017	23.2
EVANGELION 2018 Model	October 2017	44.0
Fever Mobile Suit Zeta GUNDAM	January 2018	30.9
CODE GEASS "Emperor Road"	February 2018	10.5
Fever Valvrave the Liberator	March 2018	11.3

EVANGELION 2018 Model
©カラー

Fever Mobile Suit Zeta GUNDAM
©創通・サンライズ

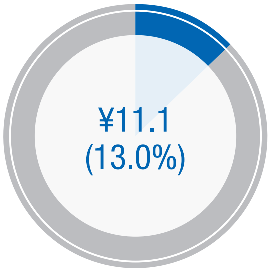
Pachislot Machines Business

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

With regard to the pachislot machines business, parlor operators were reluctant to purchase new pachislot machines because of concerns that pachislot machines may be more affected by the revision of the regulations than pachinko machines, and thus the Group's sales volume of pachislot machines was also lackluster. Major titles released included *Pachislot Macross Frontier 3* (introduced in May 2017) and *Pachislot Aquarion EVOL* (introduced in July 2017) under the SANKYO brand, and *Evangelion "to You the Sincerity 2"* (introduced in January 2018) under the Bisty brand.

As a result, segment sales amounted to ¥11.1 billion, a decrease of 15.6% year on year, and operating income was ¥0.1 billion, compared with an operating loss of ¥0.2 billion for the previous fiscal year. Sales of pachislot machines amounted to 29,000 units.

Sales (Billions of yen)



Principal models introduced and numbers of machines sold during fiscal 2018

Principal models	Released	No. of machines sold (thousand machines)
Pachislot Macross Frontier 3	May 2017	8.4
Evangelion "to You the Sincerity 2"	January 2018	9.5

Pachislot Macross Frontier 3
©2009,2011 ビックウエスト／劇場版マクロスF製作委員会

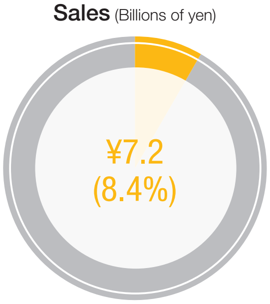
Evangelion "to You the Sincerity 2"
©カラー/Project Eva.

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 8.4% of net sales.

Sales of the ball bearing supply systems business were ¥7.2 billion, an increase of 0.6% year on year, and operating income was ¥0.4 billion, an increase of 35.9%, reflecting parlor operators' low motivation for opening new parlors.

Sales (Billions of yen)

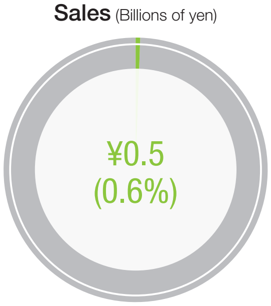


Other Businesses

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 ¥0.5 billion, an increase of 11.0% year on year. An operating loss of ¥0.4 billion was recorded compared with an operating loss of ¥0.6 billion for the previous fiscal year.

Sales (Billions of yen)



TOPICS

The First Pachinko Title Equipped with Six-Level Payout Settings Launched

In August 2018, with the introduction of *Fever Valvrave the Liberator W*, SANKYO became the first company in the industry to launch a pachinko title compliant with the Amended Pachinko and Pachislot Machines Regulations (new regulations). The new regulations allow incorporation of up to six-level jackpot probability settings in pachinko machines, whose use was previously restricted to pachislot machines. Quick to note the attractiveness of this function, we have been pursuing development.

Whereas in the case of previous pachinko machines, each title offered a single jackpot probability, *Fever Valvrave the Liberator W* has six jackpot probabilities (1/159.8, 1/154.2, 1/150.7, 1/147.3, 1/140.9, 1/119.2) and is designed so that pachinko parlors can set their preferred jackpot probability selected from these six levels.

From the viewpoint of players, this title gives them the additional thrill of guessing the jackpot probability while enjoying the gaming performance. Moreover, as it is the very first pachinko title compliant with the new regulations, players are eager to experience it. The jackpot probability in the range from 1/119 to 1/159 is a specification for light-middle models and is considered to correspond to "easy-to-play" machines in terms of the gambling aspect.

We are confident pachinko machines with payout settings will attract many players to pachinko parlors right from its debut, in view of players' psychology, namely, the desire to find a machine with higher payout setting ahead of other players. Coupled with the characteristics of its IP, we think this title also has appeal for younger players. Although pachinko machines with a selectable payout setting function existed in the past, there are few players today who experienced playing on such pachinko machines. Pachislot players are the ones familiar with the thrill of playing on machines with a setting function, and we expect pachinko machines with payout settings will also attract them. From the viewpoint of pachinko parlors' business, pachinko machines with payout settings are beneficial for profit adjustment and administration.

There is a view that the lower payout due to the revision of the regulations undermines the attractiveness of playing pachinko and pachislot, driving players away. In contrast, SANKYO considers it is a great opportunity to promote the diffusion of easy-to-play pachinko and pachislot machines in order to halt the decline of the player population and is therefore responding proactively to the new regulations. "Controlled pachinko machines," a new category specified in the new regulations, is also expected to lead to a business opportunity.

Please count on the SANKYO Group.

Six jackpot probabilities

	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
Low probability	1/159.8	1/154.2	1/150.7	1/147.3	1/140.9	1/119.2
High probability	1/50.0	1/48.2	1/47.1	1/46.0	1/44.0	1/37.2

Fever Valvrave the Liberator W

Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2018 (fiscal 2018), 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 2018

During the fiscal year ended March 31, 2018, the Japanese economy experienced a moderate recovery as corporate earnings were robust and the labor market steadily improved.

Regarding the environment surrounding the pachinko and pachislot industry, as part of initiatives for countermeasures for compulsive gambling, the Regulations Partially Amending the Ordinance for Enforcement of the Act to Control Businesses That May Affect Public Morals and the Regulations Concerning the Certification and Official Inspection of Game Machines ("Amended Pachinko and Pachislot Machines Regulations") were promulgated in September 2017 and came into force on February 1, 2018. The pachinko and pachislot machines that are compliant with the former regulations are required to be removed or replaced with ones compliant with the new regulations during the three-year period for a transitional measure. However, during the fiscal year under review, as the launch of pachinko and pachislot machines certified by format inspection under the new regulations has not yet started, it is difficult to forecast how players will react to the pachinko and pachislot machines compliant with the new regulations that will be introduced in the market, and consequently pachinko parlors are postponing decision-making on the revision of the current mix of pachinko and pachislot machines installed. Thus, the market for sales of pachinko and pachislot machines remained sluggish.

Net Sales

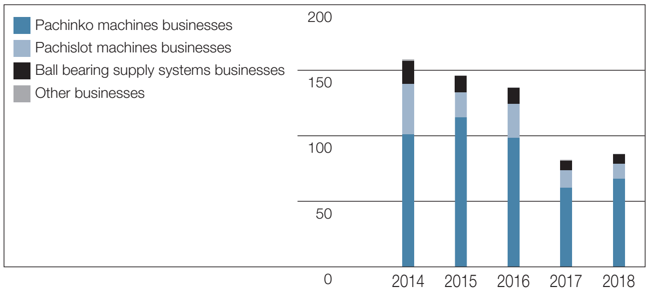
The Group introduced 15 pachinko titles (excluding reuse models) and six pachislot titles.

Although an operating loss was recorded for the first nine months of the fiscal year ended March 31, 2018 because the Group introduced only five new pachinko titles during the first six months, the Group introduced 10 titles in the second half to regain momentum. Moreover, *Fever Symphogear*, a pachinko title introduced in August 2017, became a long-running hit product, leading to enhancement of the Group's brand power, and a recovery trend of both sales and profit became apparent.

As a result, net sales were ¥86.2 billion, an increase of 5.9% year on year. Operating income was ¥10.1 billion, an increase of 101.2%. Profit attributable to owners of parent increased by 212.2% to ¥5.5 billion, owing to the recording of loss on impairment of fixed assets owned by SANKYO CREATE CO., LTD. announced on April 27, 2018.

Net Sales

(Billions of yen)



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

Cost of sales for fiscal 2018 amounted to ¥42.5 billion. The ratio of cost of sales to net sales increased 2.1 percentage points from the previous fiscal year to 49.3%.

Selling, general and administrative expenses decreased ¥4.4 billion from the previous fiscal year, mainly owing to a decrease in sales commission and R&D cost reduction, and the ratio of selling, general and administrative expenses to net sales decreased 7.7 percentage points from the previous fiscal year to 38.9%. As a result, operating income increased 101.2% to ¥10.1 billion and the ratio of operating income to net sales increased 5.6 percentage points from the previous fiscal year to 11.8%.

Regarding other income (expenses), other expenses, net, amounted to ¥2.1 billion mainly owing to the recording of loss on impairment of fixed assets owned by SANKYO CREATE CO., LTD. amounting to ¥3.2 billion.

Profit attributable to owners of parent increased ¥3.7 billion from ¥1.7 billion for the previous fiscal year to ¥5.5 billion. Earnings per share was ¥68.37 compared with ¥21.94 for the previous fiscal year.

Segment Information by Business

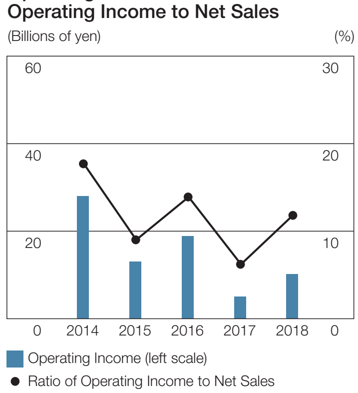
(Millions of yen)

Net sales	2018	Year-on-year change	2017
Pachinko machines business	¥67,271	11.1%	¥60,534
Pachislot machines business	11,172	(15.6)	13,238
Ball bearing supply systems business	7,246	0.6	7,204
Other businesses	530	11.1	477
Total	¥86,220	5.9%	¥81,455

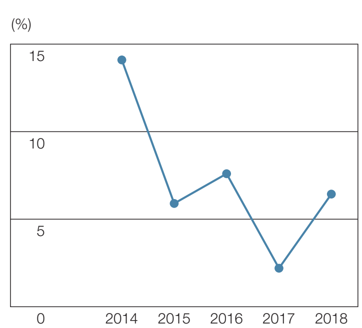
(Millions of yen)

Operating income	2018	Year-on-year change	2017
Pachinko machines business	¥14,570	40.1%	¥10,402
Pachislot machines business	130	—	(225)
Ball bearing supply systems business	453	36.0	333
Other businesses	(489)	—	(665)
Elimination/Corporate	(4,483)	—	(4,785)
Total	¥10,181	101.2%	¥ 5,059

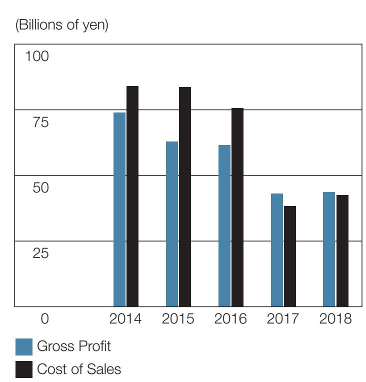
Operating Income and Ratio of Operating Income to Net Sales



Return on Sales (ROS)



Gross Profit and Cost of Sales



Fiscal 2019 Forecast

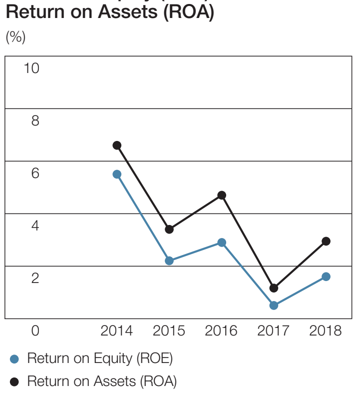
The next fiscal year ending March 31, 2019 is the first full year for enforcement of the Amended Pachinko and Pachislot Machines Regulations and of the three-year period for a transitional measure during which it is possible to continue sales of products that were certified by format inspection under the former regulations. Regarding machines compliant with the new regulations that will be introduced in the market from now on, it is difficult to forecast how players will react to them because the total payout of such machines is lower than that of machines compliant with the former regulations. However, competition in development of products that can be played at a more reasonable cost is expected and there are certain elements that lead to new gaming performance, such as pachinko machines with payout settings. Therefore, the Group intends to vigorously apply for format inspection of machines compliant with the new regulations so that they can be introduced to the market in parallel with sales of machines compliant with the former regulations.

The Group's plan calls for sales volumes for the fiscal year ending March 31, 2019, of 205,500 pachinko machines and 39,000 pachislot machines.

(Billions of yen)

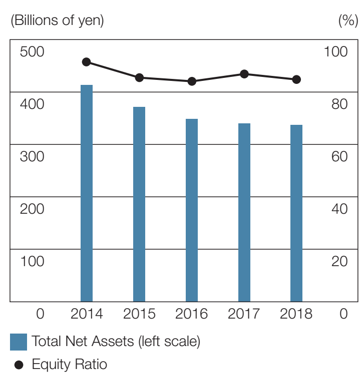
	2019 forecast	Year-on-year change	2018 results
Net sales	¥90.0	4.4%	¥86.2
Operating income	12.0	17.9	10.1
Profit attributable to owners of parent	9.0	62.1	5.5

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

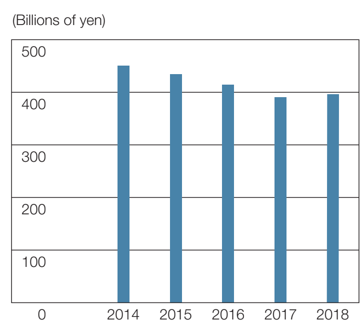


ROA=(Operating income + Interest and dividend income + Interest on marketable securities) / Total assets (yearly average)

Total Net Assets and Equity Ratio



Total Assets



Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year ended March 31, 2018 amounted to ¥396.2 billion, having increased ¥5.7 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥7.8 billion increase in notes and accounts receivable-trade and a ¥7.7 billion increase in cash and deposits, despite a ¥6.0 billion decrease in marketable securities and a ¥4.1 billion decrease in prepaid expenses (included in "Other" of Current assets).

Total liabilities amounted to ¥59.0 billion, having increased ¥8.7 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥3.6 billion increase in notes and accounts payable-trade, a ¥3.2 billion increase in electronically recorded obligations, and a ¥1.0 billion increase in accounts payable-other (included in "Other" of Current liabilities).

Net assets decreased ¥3.0 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to cash dividends paid amounting to ¥12.1 billion despite recording of profit attributable to owners of parent amounting to ¥5.5 billion, a ¥1.7 billion increase in net unrealized gain on other securities and an increase of ¥1.4 billion owing to the exclusion of Fields Corporation from the scope of equity method accounting. As a result, net assets amounted to ¥337.2 billion and the shareholders' equity ratio decreased 2.1 percentage points to 84.8%.

Cash Flows

Cash and cash equivalents (hereinafter "cash") at the fiscal year-end were ¥274.0 billion, having increased ¥22.1 billion from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities increased ¥7.4 billion from the previous fiscal year to ¥15.9 billion. Principal cash inflow items were income before income taxes amounting to ¥8.0 billion, a ¥7.2 billion increase in notes and accounts payable-trade, and a ¥4.1 billion decrease in prepaid expenses (included in "Other"). The principal cash outflow item was a ¥7.8 billion increase in notes and accounts receivable-trade.

Cash flows from investing activities

Net cash provided by investing activities decreased ¥2.1 billion from the previous fiscal year to ¥18.4 billion. Principal cash inflow items were proceeds from redemption of marketable securities amounting to ¥70.0 billion, proceeds from redemption of investment securities amounting to ¥24.0 billion, and proceeds from withdrawal of time deposits amounting to ¥5.5 billion. Principal cash outflow items were payment for purchase of marketable securities amounting to ¥68.0 billion and payment into time deposits amounting to ¥11.0 billion.

Cash flows from financing activities

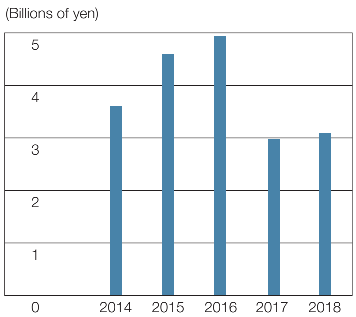
Net cash used in financing activities amounted to ¥12.1 billion, virtually unchanged from the previous fiscal year. The principal cash outflow item was cash dividends paid amounting to ¥12.1 billion.

Forecast of the Financial Position in Fiscal 2019

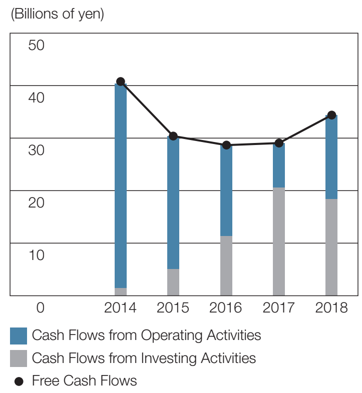
For fiscal 2019, the Company forecasts an increase in net cash provided by operating activities of ¥21.0 billion, a decrease in net cash provided by investing activities of ¥3.0 billion attributable to capital investment, and a decrease in net cash used in financing activities of ¥12.0 billion attributable to payment of cash dividends.

As a result, the Company forecasts an increase of ¥6.0 billion in the cash balance at the end of fiscal 2019 compared to the figure at the end of fiscal 2018.

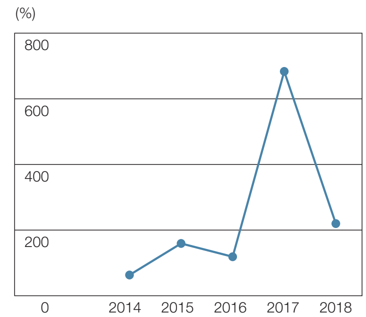
Depreciation



Free Cash Flows



Payout Ratio



Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2019 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 2018, but do not cover all potential risks.

Change in the market environment

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

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

Regulations

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

Intellectual property rights

A growing number of game machines introduced in recent years involve tie-ups with celebrities, animation characters and other popular characters. In accordance with this trend, as intellectual property rights, such as portrait rights and copyrights of characters used for game machines, become increasingly important to the business, the incidence of conflicts concerning intellectual property is rising.

In regard to the handling of characters, centering on the Intellectual Property Division, the Group conducts thorough investigations and takes the greatest possible care to preclude such conflicts. However, in the event that new intellectual property rights are approved without the Company's knowledge, the Group may be subject to risk associated with claims for damage by the owners of the rights. In such case, if the Group is deemed to be liable, the Group's business results may be affected.

Development of new models

To manufacture and sell a pachinko, pachislot or other game machine, it is a prerequisite that the machine passes an official format inspection executed by a testing agency, such as Hotsukyo (Security Electronics and Communication Technology Association), designated by the National Public Safety Commission, in accordance with the Enforcement Regulation of the Act to Control Businesses That May Affect Public Morals and other regulations. While it is necessary to satisfy the increasingly sophisticated expectations of players and keep abreast of the progress of game machine technology, in the event that it takes longer than expected for a format inspection or a machine of the Group is rejected by a format inspection, the Group's business results may be affected. 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, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Current assets:			
Cash and deposits (Notes 3 and 17)	¥105,568	¥ 97,818	$ 993,676
Marketable securities (Notes 3, 5 and 17)	181,999	188,007	1,713,097
Notes and accounts receivable-trade (Notes 4 and 17)	26,489	18,626	249,334
Inventories (Note 7)	2,162	1,707	20,352
Deferred tax assets (Note 16)	2,173	2,073	20,456
Accounts receivable arising from outsourced production contracts	4,359	1,796	41,038
Other current assets	2,083	7,536	19,612
Allowance for doubtful accounts (Note 17)	(2)	(13)	(20)
Total current assets	324,833	317,552	3,057,546
Fixed assets:			
Property, plant and equipment (Note 15):			
Land	22,628	22,985	212,997
Buildings and structures	26,460	27,769	249,065
Machinery and equipment	7,479	7,592	70,401
Tools, furniture and fixtures	19,534	20,016	183,875
Leased assets	30	30	289
Construction in progress	—	0	—
Other fixed assets	1,850	3,074	17,421
	77,985	81,469	734,049
Accumulated depreciation	(36,708)	(36,588)	(345,520)
Total property, plant and equipment	41,277	44,880	388,529
Intangible fixed assets:			
Goodwill	132	267	1,248
Other intangible fixed assets	231	319	2,182
Total intangible fixed assets	364	586	3,430
Investments and other assets:			
Investments in securities (Notes 5, 6 and 17)	25,015	21,612	235,459
Long-term loans	154	544	1,457
Deferred tax assets (Note 16)	4,567	5,319	42,993
Other assets	480	493	4,520
Allowance for doubtful accounts	(21)	(24)	(204)
Allowance for losses on investments in securities	(379)	(379)	(3,575)
Total investments and other assets	29,816	27,565	280,651
Total fixed assets	71,458	73,032	672,610
Total assets	¥396,291	¥390,585	$3,730,156

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)
	2018	2017	2018
Current liabilities:			
Notes and accounts payable-trade (Note 17)	¥ 9,304	¥ 5,607	$ 87,583
Electronically recorded obligations (Note 17)	11,326	8,113	106,617
Accrued income taxes	2,369	1,623	22,305
Accrued employees' bonuses	803	834	7,568
Lease obligations	4	5	42
Asset retirement obligations (Note 18)	3	—	31
Other current liabilities	6,785	5,745	63,874
Total current liabilities	30,599	21,930	288,019
Long-term liabilities:			
Bonds with subscription rights to shares (Note 17)	20,046	20,066	188,692
Lease obligations	4	8	43
Net defined benefit liabilities (Note 8)	4,784	4,671	45,038
Asset retirement obligations (Note 18)	59	63	557
Other long-term liabilities	3,554	3,557	33,458
Total long-term liabilities	28,449	28,368	267,787
Commitments and contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity (Note 10)**:**			
Common stock,			
Authorized: 144,000,000 shares			
Issued: 89,597,500 as of March 31, 2018 and 2017	14,840	14,840	139,684
Capital surplus	23,750	23,750	223,550
Retained earnings	329,499	335,518	3,101,465
Treasury stock	(38,782)	(39,700)	(365,049)
Total shareholders' equity	329,306	334,408	3,099,650
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 5)	6,952	5,264	65,438
Remeasurements of defined benefit plans (Note 8)	(73)	(188)	(691)
Total accumulated other comprehensive income	6,878	5,076	64,746
Subscription rights to shares (Notes 10 and 11)	1,057	802	9,953
Non-controlling interests	—	—	—
Total net assets	337,242	340,287	3,174,350
Total liabilities and net assets	¥396,291	¥390,585	$3,730,156

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Net sales	¥86,220	¥81,455	$811,565
Cost of sales (Note 11)	42,506	38,409	400,099
Gross profit	43,714	43,045	411,467
Selling, general and administrative expenses (Notes 11 and 13)	33,533	37,986	315,636
Operating income	10,181	5,059	95,830
Other income (expenses):			
Interest and dividend income	923	800	8,691
Equity in loss of affiliates	—	(2,216)	—
Loss on sales or disposal of property, plant and equipment, net (Note 14)	(21)	(52)	(202)
Loss on impairment (Note 15)	(3,202)	—	(30,143)
Loss on sale of investments in securities (Note 17)	(42)	—	(397)
Loss on devaluation of investments in securities	—	(85)	—
Loss on investments in partnership	—	(3)	—
Gain (loss) on sale of golf club membership	2	(8)	19
Other, net	214	192	2,022
Income before income taxes	8,055	3,685	75,821
Income taxes (Note 16)**:**			
Current	2,655	2,105	24,996
Deferred	(150)	(198)	(1,419)
Total income taxes	2,504	1,907	23,576
Net income	5,550	1,777	52,244
Net income attributable to:			
Owners of the parent	¥ 5,550	¥ 1,777	$ 52,244

	Yen		U.S. dollars (Note 2)
Net income per share (Note 20)**:**			
Basic	¥ 68.37	¥ 21.94	$0.64
Diluted	64.86	20.73	0.61
Cash dividends per share (Note 10)	150.00	150.00	1.41

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Net income	¥5,550	¥1,777	$52,244
Other comprehensive income (Note 9)**:**			
Unrealized gains on available-for-sale securities	1,768	1,421	16,650
Remeasurements of defined benefit plans (Note 8)	105	33	988
Share of other comprehensive (loss) income of affiliates accounted for by the equity method	(71)	13	(672)
Total other comprehensive income	1,802	1,469	16,966
Comprehensive income	7,352	3,246	69,210
Total comprehensive income attributable to:			
Owners of the parent	¥7,352	¥3,246	$69,210

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Common stock			
Beginning of year	¥ 14,840	¥ 14,840	$ 139,684
End of year	¥ 14,840	¥ 14,840	$ 139,684
Capital surplus			
Beginning of year	¥ 23,750	¥ 23,750	$ 223,550
End of year	¥ 23,750	¥ 23,750	$ 223,550
Retained earnings			
Beginning of year	¥ 335,518	¥ 345,918	$ 3,158,118
Net income attributable to owners of the parent	5,550	1,777	52,244
Dividend from surplus, ¥150 per share ($1.41 per share)	(12,176)	(12,176)	(114,613)
Change of scope of equity method	607	—	5,716
Disposal of treasury stock	(0)	(0)	(1)
End of year	¥ 329,499	¥ 335,518	$ 3,101,465
Treasury stock			
Beginning of year	¥ (39,700)	¥ (39,700)	$ (373,684)
Purchase of treasury stock	(2)	(2)	(23)
Disposal of treasury stock	0	2	3
Change in treasury stock arising from change in equity in affiliates accounted for by the equity method	919	—	8,655
End of year	¥ (38,782)	¥ (39,700)	$ (365,049)
Total shareholders' equity			
Beginning of year	¥ 334,408	¥ 344,807	$ 3,147,668
Net income attributable to owners of the parent	5,550	1,777	52,244
Dividends from surplus, ¥150 per share ($1.41 per share)	(12,176)	(12,176)	(114,613)
Change of scope of equity method	607	—	5,716
Purchase of treasury stock	(2)	(2)	(23)
Disposal of treasury stock	0	1	2
Change in treasury stock arising from change in equity in affiliates accounted for by the equity method	919	—	8,655
End of year	¥ 329,306	¥ 334,408	$ 3,099,650
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities			
Beginning of year	¥ 5,264	¥ 3,839	$ 49,557
Net changes in items other than shareholders' equity	1,687	1,424	15,881
End of year	¥ 6,952	¥ 5,264	$ 65,438
Remeasurements of defined benefit plans			
Beginning of year	¥ (188)	¥ (232)	$ (1,776)
Net changes in items other than shareholders' equity	115	44	1,085
End of year	¥ (73)	¥ (188)	$ (691)
Total accumulated other comprehensive income			
Beginning of year	¥ 5,076	¥ 3,607	$ 47,780
Net changes in items other than shareholders' equity	1,802	1,469	16,966
End of year	¥ 6,878	¥ 5,076	$ 64,746
Subscription rights to shares			
Beginning of year	¥ 802	¥ 526	$ 7,556
Net changes in items other than shareholders' equity	254	275	2,397
End of year	¥ 1,057	¥ 802	$ 9,953
Total net assets			
Beginning of year	¥ 340,287	¥ 348,941	$ 3,203,005
Net income attributable to owners of the parent	5,550	1,777	52,244
Dividends from surplus, ¥150 per share ($1.41 per share)	(12,176)	(12,176)	(114,613)
Change of scope of equity method	607	—	5,716
Purchase of treasury stock	(2)	(2)	(23)
Disposal of treasury stock	0	1	2
Change in treasury stock arising from change in equity in affiliates accounted for by the equity method	919	—	8,655
Net changes in items other than shareholders' equity	2,057	1,744	19,363
End of year	¥ 337,242	¥ 340,287	$ 3,174,350

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 8,055	¥ 3,685	$ 75,821
Depreciation and amortization	3,081	2,971	29,009
Amortization of goodwill	134	737	1,265
Stock-based compensation expense	249	272	2,350
(Decrease) increase in allowance for doubtful accounts	(14)	8	(135)
Decrease in accrued employees' bonuses	(30)	(4)	(291)
Increase in net defined benefit liabilities	265	275	2,498
Interest and dividend income	(923)	(800)	(8,691)
Equity in loss of affiliates	—	2,216	—
Loss on sales or disposal of property, plant and equipment, net	21	52	202
Loss on impairment	3,202	—	30,143
Loss on sale of investments in securities	42	—	397
Loss on devaluation of investments in securities	—	85	—
(Gain) loss on sale of golf club membership	(2)	8	(19)
(Increase) decrease in notes and accounts receivable-trade	(7,862)	15,215	(74,009)
Increase in inventories	(454)	(206)	(4,280)
Increase (decrease) in notes and accounts payable-trade	7,267	(11,867)	68,409
(Increase) decrease in accounts receivable arising from outsourced production contracts	(2,562)	1,989	(24,124)
Decrease in accounts payable-other	(145)	(178)	(1,369)
Increase (decrease) in consumption taxes payable	1,132	(950)	10,660
Other	4,993	(2,540)	47,004
Sub total	16,449	10,969	154,837
Interest and dividend income received	728	783	6,855
Income taxes paid	(1,457)	(3,205)	(13,721)
Income taxes refund	242	2	2,283
Net cash provided by operating activities	15,962	8,549	150,254
Cash flows from investing activities:			
Payments into time deposits	(11,098)	—	(104,463)
Proceeds from withdrawal of time deposits	5,548	—	52,227
Payment for purchase of marketable securities	(68,000)	(11,000)	(640,060)
Proceeds from redemption of marketable securities	70,000	6,000	658,886
Payment for purchase of property, plant and equipment and intangible fixed assets	(2,930)	(3,917)	(27,586)
Proceeds from sales of property, plant and equipment and intangible fixed assets	—	35	—
Payment for purchase of investments in securities	(9)	(30)	(85)
Proceeds from sale of investments in securities	544	—	5,126
Proceeds from redemption of investments in securities	24,000	30,000	225,904
Collection of loans receivable	565	—	5,326
Payment for loans receivable	(200)	(544)	(1,883)
Other	(0)	5	(3)
Net cash provided by investing activities	18,420	20,547	173,389
Cash flows from financing activities:			
Payment for finance lease obligations	(5)	(5)	(51)
Payment for purchase of treasury stock	(2)	(2)	(23)
Proceeds from disposal of treasury stock	0	0	2
Cash dividends paid	(12,176)	(12,176)	(114,613)
Net cash used in financing activities	(12,184)	(12,184)	(114,685)
Net increase in cash and cash equivalents	22,199	16,912	208,958
Cash and cash equivalents at beginning of year	251,818	234,905	2,370,277
Cash and cash equivalents at end of year (Note 3)	¥274,017	¥251,818	$2,579,235

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 2017 financial statements to conform to the classifications used in 2018. 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. All significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated on consolidation.

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.

There was no affiliate accounted for by the equity method at March 31, 2018, since Fields Corporation, which used to be an affiliate accounted for by the equity method, was excluded from the scope of equity method due to sales of a part of the shares in the company.

Other immaterial unconsolidated subsidiaries and affiliates are stated at cost.

Any difference between the acquisition cost of investment in a consolidated subsidiary and the fair value of the net assets of the subsidiary (goodwill) is amortized using the straight-line method over a period of 6 years through 8 years.

(c) Foreign Currency Translation

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

(d) Cash and Cash Equivalents

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

(e) Marketable Securities and Investments in Securities

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

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

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

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

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

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

(i) Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation except for leased assets is computed principally by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain buildings of the Company and domestic consolidated subsidiaries acquired on or after April 1, 1998 and building improvements and structures acquired on or after April 1, 2016, for which the straight-line method is applied.

Deferred gain on property, plant and equipment due to government subsidies in the amount of ¥40 million ($380 thousand), consisting of ¥2 million ($25 thousand) for buildings and structures and ¥37 million ($355 thousand) for machinery and equipment, is deducted from acquisition costs at March 31, 2018 and 2017, respectively.

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

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

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

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

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

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

Leased assets concerning finance lease transactions that do not transfer ownership to the lessee are depreciated on a straight-line basis over the estimated useful lives without residual value.

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

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

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

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

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

(p) Appropriation of Retained Earnings

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

(q) Net Income and Cash Dividends per Share

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

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

(r) Consumption Taxes

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

(s) Amortization of Goodwill

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

(t) Reclassification

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

(u) New Accounting Pronouncements

Implementation Guidance on Tax Effect Accounting, etc.

On February 16, 2018, the Accounting Standard Board of Japan (ASBJ) issued "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

Under these guidances, accounting treatments for temporary differences to be added in future related to investments in subsidiaries in the non-consolidated financial statements have been revised and treatments on recoverability of deferred tax assets of the entities classified as "Category 1" have been clarified.

The Company will apply these guidances from April 1, 2018.

The effects of these applications are being assessed at the time of preparation of the accompanying consolidated financial statements.

Accounting Standard for Revenue Recognition, etc.

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

These are comprehensive accounting standards for revenue recognition.

An entity should recognize revenue by applying the following five steps:

Step 1: Identify the contracts with a customer
Step 2: Identify the performance obligations under the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations under the contract
Step 5: Recognize revenue when (or as) the entity satisfies the performance obligation

The Company will apply the accounting standard and guidance from April 1, 2021.

The effects of applying the accounting standard and guidance are being assessed at the time of preparation of the accompanying consolidated financial statement.

(v) Changes in Presentation

Consolidated Statements of Cash Flows

"Income taxes refund," which had been included in "Income taxes paid" under "Cash flows from operating activities" in the past, has been separately presented from the year ended March 31, 2018, since its monetary materiality increased. In order to reflect the change in presentation, the consolidated financial statements for the year ended March 31, 2017 have been reclassified.

As a result, "Income taxes paid" in an amount of ¥(3,203) million presented under "Cash flows from operating activities" in the consolidated statement of cash flows for the year ended March 31, 2017 was reclassified to "Income taxes paid" in an amount of ¥(3,205) million and "Income taxes refund" in an amount of ¥2 million.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥106.24= U.S. $1, the rate of exchange on March 31, 2018, has been used for the translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

3. Cash and Cash Equivalents

Reconciliation of cash and cash equivalents to the accounts disclosed on the balance sheets at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥105,568	¥ 97,818	$ 993,676
Marketable securities	181,999	188,007	1,713,097
Total	287,567	285,825	2,706,773
Bonds and debentures, investment funds and others whose original maturity is more than three months	(8,000)	(34,007)	(75,301)
Time deposits whose deposit term is more than three months	(5,549)	—	(52,237)
Cash and cash equivalents	¥274,017	¥251,818	$2,579,235

4. Notes Receivable

Notes due on the fiscal year end are settled on the date of exchange of the notes. The following notes receivable are included in the outstanding balance of "Notes and accounts receivable-trade" as of March 31, 2018, since March 31, 2018 fell on a bank holiday:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Notes receivable-trade	¥1,125	¥—	$10,592

5. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2018 and 2017 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2018				2017			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Japanese government bonds	¥ —	¥—	¥—	¥ —	¥ 24,007	¥16	¥—	¥ 24,023
Short-term corporate bonds	28,999	0	—	29,000	23,999	—	2	23,997
Certificates of deposit	145,000	—	—	145,000	135,000	—	—	135,000
Total	¥173,999	¥ 0	¥—	¥174,000	¥183,007	¥16	¥ 2	¥183,021

	Thousands of U.S. dollars			
	2018			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Japanese government bonds	$ —	$—	$—	$ —
Short-term corporate bonds	272,961	6	—	272,967
Certificates of deposit	1,364,834	—	—	1,364,834
Total	$1,637,796	$ 6	$—	$1,637,801

(b) Available-for-Sale Securities

	Millions of yen							
	2018				2017			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Equity securities	¥13,353	¥11,457	¥1,437	¥23,373	¥ 6,119	¥7,470	¥—	¥13,590
Other	8,000	—	—	8,000	5,000	—	—	5,000
Total	¥21,353	¥11,457	¥1,437	¥31,373	¥11,119	¥7,470	¥—	¥18,590

	Thousands of U.S. dollars			
	2018			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Fair value available:				
Equity securities	$125,691	$107,849	$13,531	$220,009
Other	75,301	—	—	75,301
Total	$200,992	$107,849	$13,531	$295,310

(c) Securities whose holding purpose was changed

During the year ended March 31, 2018, shares of Fields Corporation, which were held as investments in affiliates in the past, were reclassified to available-for-sale securities (carrying amount of ¥5,795 million ($54,555 thousand)), since the company was excluded from the scope of equity method due to sales of a part of the shares in the company.

6. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Investments in securities	¥1,562	¥7,942	$14,704

7. Inventories

Inventories at March 31, 2018 and 2017 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished goods and merchandise	¥ 248	¥ 82	$ 2,339
Work in process	285	289	2,683
Raw materials and supplies	1,628	1,334	15,330
Total	¥2,162	¥1,707	$20,352

8. 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, 2018 and 2017, were as follows (excluding the plans to which a simplified method was applied):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥4,418	¥4,210	$41,592
Service cost	267	264	2,520
Interest cost	26	25	250
Actuarial differences	(49)	58	(469)
Benefits paid	(175)	(139)	(1,647)
Balance at end of year	¥4,488	¥4,418	$42,245

(2) The changes in plan assets for the years ended March 31, 2018 and 2017, 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, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥252	¥234	$2,381
Retirement benefit costs	52	33	494
Benefits paid	(8)	(15)	(82)
Balance at end of year	¥296	¥252	$2,793

(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
	2018	2017	2018
Unfunded retirement benefit obligation	¥4,784	¥4,671	$45,038
Net liability recorded in the consolidated balance sheets	4,784	4,671	45,038
Net defined benefit liabilities	4,784	4,671	45,038
Net liability recorded in the consolidated balance sheets	¥4,784	¥4,671	$45,038

(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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥267	¥264	$2,520
Interest cost	26	25	250
Amortization of actuarial differences	102	107	964
Retirement benefit costs calculated using a simplified method	52	33	494
Retirement benefit costs on defined benefit plans	¥449	¥430	$4,227

(6) Remeasurements of defined benefit plans (before adjusting for tax effects) on other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial differences	¥152	¥49	$1,433
Total	¥152	¥49	$1,433

(7) Remeasurements of defined benefit plans (before adjusting for tax effects) on accumulated other comprehensive income as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial differences	¥105	¥258	$996
Total	¥105	¥258	$996

(8) Actuarial assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	0.6%	0.6%
Estimated salary increase rate	1.3-5.6%	1.3-5.6%

9. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gains on available-for-sale securities:			
Gain incurred during the year	¥2,549	¥2,049	$23,998
Reclassification adjustment to net income	—	—	—
Amount before tax effects	2,549	2,049	23,998
Tax effects	(780)	(627)	(7,348)
Unrealized gains on available-for-sale securities	1,768	1,421	16,650
Remeasurements of defined benefit plans			
Gain (loss) incurred during the year	39	(46)	376
Reclassification adjustment to net income	112	95	1,058
Amount before tax effects	152	49	1,433
Tax effects	(47)	(15)	(445)
Remeasurements of defined benefit plans	105	33	988
Share of other comprehensive (loss) income in an affiliate accounted for by the equity method:			
(Loss) gain incurred during the year	(71)	7	(672)
Reclassification adjustment to net income	—	5	—
Share of other comprehensive (loss) income in affiliates accounted for by the equity method:	(71)	13	(672)
Total other comprehensive income	¥1,802	¥1,469	$16,966

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, 2018

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2017	89,597,500	8,574,481
Increase in the number of shares during the accounting period ended March 31, 2018	—	675*1
Decrease in the number of shares during the accounting period ended March 31, 2018	—	153,827*2
Number of shares as of March 31, 2018	89,597,500	8,421,329

Notes: *1. Increase due to the purchase of odd shares (675 shares)
*2. Decrease in treasury stock attributed to the Company due to exclusion of an affiliate from the scope of equity method (153,762 shares) and decrease due to sales responding to the purchase request of odd shares (65 shares)

For the year ended March 31, 2017

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

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

(b) Stock Acquisition Rights

For the year ended March 31, 2018

Issuer	Components	Type of stock to be granted	Number of shares to be granted				Outstanding balance at March 31, 2018
			April 1, 2017	Increase	Decrease	March 31, 2018	
SANKYO CO., LTD.	Stock acquisition rights as stock options	—	—	—	—	—	**¥1,057 million ($9,953 thousand)**

For the year ended March 31, 2017

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

(c) Matters Related to Dividends

For the year ended March 31, 2018

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 29, 2017 were as follows:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($57,307 thousand)**
Dividends per share	**¥75.00 ($0.71)**
Record date	**March 31, 2017**
Effective date	**June 30, 2017**

Approvals by the Board of Directors' meeting held on November 9, 2017 were as follows:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($57,306 thousand)**
Dividends per share	**¥75.00 ($0.71)**
Record date	**September 30, 2017**
Effective date	**December 1, 2017**

ii) Dividends whose record date is attributed to the year ended March 31, 2018 but become effective after the said year.

The Company obtained the following approval at the general meeting of shareholders held on June 28, 2018:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($57,306 thousand)**
Dividends per share	**¥75.00 ($0.71)**
Record date	**March 31, 2018**
Effective date	**June 29, 2018**

For the year ended March 31, 2017

i) Dividend payment

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

Dividends on common stock	
Total amount of dividends	¥6,088 million
Dividends per share	¥75.00
Record date	March 31, 2016
Effective date	June 30, 2016

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

Dividends on common stock	
Total amount of dividends	¥6,088 million
Dividends per share	¥75.00
Record date	September 30, 2016
Effective date	December 2, 2016

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

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

Dividends on common stock	
Total amount of dividends	¥6,088 million
Dividends per share	¥75.00
Record date	March 31, 2017
Effective date	June 30, 2017

11. Stock Options

The Company recorded stock option related costs under the following accounts for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cost of sales	¥ 5	¥ 6	$ 54
Selling, general and administrative expenses	243	266	2,296
Total	¥249	¥272	$2,350

The stock options outstanding as of March 31, 2018 are as follows:
(1) Details of stock options

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

Issuer	SANKYO CO., LTD.	SANKYO CO., LTD.
Date of resolution	July 5, 2016	July 5, 2017
Persons granted	3 directors of the Company	3 directors of the Company
	11 executive officers of the Company	11 executive officers of the Company
	14 directors of subsidiaries of the Company	14 directors of subsidiaries of the Company
Type and number of shares granted	Common stock 98,300 shares	Common stock 96,900 shares
Date of grant	July 21, 2016	July 21, 2017
Vesting conditions	Not defined	Not defined
Number of service years	Not defined	Not defined
Exercise period	From July 22, 2016 through July 21, 2066 The eligible holder of subscription rights to shares may exercise stock options within the above period and may exercise all stock options outstanding within 10 days following the loss of status as director, corporate auditor or executive officer of the Company or its affiliates. Other conditions for exercise shall be decided pursuant to the resolution of the Board of Directors.	From July 22, 2017 through July 21, 2067 The eligible holder of subscription rights to shares may exercise stock options within the above period and may exercise all stock options outstanding within 10 days following the loss of status as director, corporate auditor or executive officer of the Company or its affiliates. Other conditions for exercise shall be decided pursuant to the resolution of the Board of Directors.

(2) Stock option activity is as follows:

Issuer	SANKYO CO., LTD.	SANKYO CO., LTD.	SANKYO CO., LTD.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015	July 5, 2016	July 5, 2017
Non-vested:				
March 31, 2017 — Outstanding	—	—	—	—
Granted	—	—	—	96,900
Forfeited	—	—	—	—
Vested	—	—	—	96,900
March 31, 2018 — Outstanding	—	—	—	—
Vested:				
March 31, 2017 — Outstanding	80,600	82,800	98,300	—
Vested	—	—	—	96,900
Exercised	—	—	—	—
Forfeited	—	—	—	—
March 31, 2018 — Outstanding	80,600	82,800	98,300	96,900

Unit price information

Issuer	SANKYO CO., LTD.	SANKYO CO., LTD.	SANKYO CO., LTD.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015	July 5, 2016	July 5, 2017
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average stock price at the time of exercise	—	—	—	—
Fair value at the date of grant	¥2,954 ($27.80)	¥3,465 ($32.61)	¥2,826 ($26.60)	¥2,628 ($24.74)

The estimation method of fair value of stock options granted in the year ended March 31, 2018
a. The valuation technique is Black-Scholes model.
b. Main basic assumptions and estimation method

Stock price volatility	(Note 1)	21.94%
Expected remaining service period	(Note 2)	7.94 years
Expected cash dividend	(Note 3)	¥150 per share ($1.41)
Risk-free interest rate	(Note 4)	0.015%

Notes: 1. Stock price volatility is computed based on actual stock prices for the period of 7 years and 11 months (August 2009 through July 2017).
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, 2017.
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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥11	¥ 5	$108
Due after one year	27	11	258
Total	¥38	¥17	$366

13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Sales commission	¥ 4,308	¥ 5,355	$ 40,559
Advertisement expenses	1,931	2,024	18,181
Salaries and wages	3,058	3,163	28,789
Provision for reserve for bonuses	380	393	3,584
Retirement benefit costs	228	230	2,154
Provision for allowance for doubtful accounts	(14)	8	(135)
Research and development expenses	17,482	19,411	164,556

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, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Gain on sales of property, plant and equipment:			
Machinery and equipment	¥ —	¥ 8	$ —
Total	¥ —	¥ 8	$ —
Loss on sales of property, plant and equipment			
Land	¥ —	¥ (3)	$ —
Machinery and equipment	—	(10)	—
Other	(2)	(11)	(28)
Total	¥ (2)	¥(24)	$ (28)
Loss on disposal of property, plant and equipment:			
Buildings and structures	¥ (3)	¥ (1)	$ (30)
Machinery and equipment	(7)	(34)	(71)
Tools, furniture and fixtures	(7)	(1)	(72)
Total	¥(18)	¥(37)	$(174)
Loss on sales and disposal of property, plant and equipment, net	¥(21)	¥(52)	$(202)

15. Loss on Impairment

The Companies recorded a loss on impairment for the following groups of assets for the year ended March 31, 2018:

Location	Use	Type	Millions of yen	Thousands of U.S. dollars
Takasaki city, Gunma Pref.	Golf course	Buildings and structures	¥1,622	$15,275
		Other	1,223	11,514
Kiryu city, Gunma Pref.	Idle assets	Land	356	3,355

The Companies group business assets by business for management accounting purposes and idle assets by individual item.

The carrying amounts of the above golf course assets were reduced to their recoverable amounts and the reduced amounts were recorded as loss on impairment under “Other expenses,” since the carrying amounts of said assets are expected to exceed future cash flows due to the revision of the business plan.

The recoverable amount is measured using value in use and determined by discounting future cash flows by 4.4%.

In addition, the carrying amounts of the Kiryu-Sakaino Plant and parking lots were reduced to the assessment value principally based on the real estate appraisal value and the reduced amounts were recorded as loss on impairment under “Other expenses,” since their use was discontinued in the year ended March 31, 2018.

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

16. Income Taxes

The Companies are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate of approximately 30.9% for the years ended March 31, 2018 and 2017.

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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Accrued enterprise taxes	¥ 208	¥ 148	$ 1,960
Unrealized profits on inventories	6	15	65
Accrued employees' bonuses	246	257	2,320
Allowance for doubtful accounts	7	11	69
Net defined benefit liabilities	1,465	1,431	13,794
Accumulated depreciation	3,406	3,807	32,064
Unrealized profit on property, plant and equipment	122	122	1,150
Allowance for losses on investments in securities	116	116	1,095
Research and development expenses	917	940	8,636
Loss on impairment	3,356	2,263	31,595
Loss on devaluation of investments in securities	9	157	91
Long-term payables	767	767	7,227
Subscription rights to shares	317	241	2,992
Tax loss carryforwards	505	706	4,758
Deferred assets	463	281	4,364
Other	238	147	2,244
Sub-total deferred tax assets	¥12,156	¥11,416	$114,422
Less-valuation allowance	(2,345)	(1,701)	(22,076)
Deferred tax assets	¥ 9,810	¥ 9,715	$ 92,346
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥ (3,068)	¥ (2,287)	$ (28,880)
Other	(1)	(34)	(17)
Deferred tax liabilities	(3,069)	(2,322)	(28,897)
Deferred tax assets, net	¥ 6,740	¥ 7,393	$ 63,449

Deferred tax assets, net at March 31, 2018 and 2017 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets in current assets	¥2,173	¥2,073	$20,456
Deferred tax assets in fixed assets	4,567	5,319	42,993

Reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2018 is not disclosed because the difference was not more than 5%.

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

	2017
Normal effective statutory tax rate	30.9%
Expenses not deductible for income tax purposes	1.3
Non-taxable income	(1.0)
Per capita inhabitant taxes	1.6
Tax credit for research and development expenses	(3.8)
Equity in loss of affiliates	18.6
Amortization of goodwill	6.2
Changes in valuation allowance	(2.9)
Other – net	0.9
Actual effective tax rate	51.8%

17. Financial Instruments and Related Disclosures

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

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

(3) Supplementary explanation concerning fair values of financial instruments

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

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2018 and 2017 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, 2018	Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	¥105,568	¥105,568	¥ —
(2) Notes and accounts receivable—trade	26,489		
Allowance for doubtful accounts	(1)		
	26,487	26,342	(145)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	173,999	174,000	0
Available-for-sale securities	31,373	31,373	—
Total assets	¥337,428	¥337,284	¥(144)
(4) Notes and accounts payable—trade	¥ 9,304	¥ 9,304	¥ —
(5) Electronically recorded obligations	11,326	11,326	—
(6) Bonds with subscription rights to shares	20,046	20,125	78
Total liabilities	¥ 40,678	¥ 40,756	¥ 78

	Millions of yen		
March 31, 2017	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 97,818	¥ 97,818	¥ —
(2) Notes and accounts receivable—trade	18,626		
Allowance for doubtful accounts	(13)		
	18,612	18,461	(151)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	183,007	183,021	14
Available-for-sale securities	18,590	18,590	—
Total assets	¥318,029	¥317,891	¥(137)
(4) Notes and accounts payable—trade	¥ 5,607	¥ 5,607	¥ —
(5) Electronically recorded obligations	8,113	8,113	—
(6) Bonds with subscription rights to shares	20,066	20,374	307
Total liabilities	¥ 33,787	¥ 34,094	¥307

March 31, 2018	Thousands of U.S. dollars Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	$ 993,676	$ 993,676	$ —
(2) Notes and accounts receivable—trade	249,334		
Allowance for doubtful accounts	(16)		
	249,318	247,950	(1,369)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	1,637,796	1,637,801	6
Available-for-sale securities	295,310	295,310	—
Total assets	$3,176,100	$3,174,737	$(1,363)
(4) Notes and accounts payable—trade	$ 87,583	$ 87,583	$ —
(5) Electronically recorded obligations	106,617	106,617	—
(6) Bonds with subscription rights to shares	188,692	189,430	737
Total liabilities	$ 382,893	$ 383,630	$ 737

Notes: 1. Calculation method of fair values of financial instruments and securities transactions
(1) Cash and deposits
Since these are settled in a short time period, their fair values approximate their carrying amounts.
(2) Notes and accounts receivable—trade
The fair values are stated at their current values, which are calculated for each receivables group categorized by the remaining period to the maturity discounted by the interest rate applicable to the period and the credit risk.
(3) Marketable securities and investments in securities
The fair values of these securities are determined using the quoted price at the stock exchange. Debt securities are determined using the quoted prices obtained from correspondent financial institutions. Matters to be noted in respect of securities by holding purpose are stated in "Marketable Securities and Investments in Securities."
(4) Notes and accounts payable—trade and (5) electronically recorded obligations
Since these are settled in a short time period, their fair values approximate their carrying amounts.
(6) Bonds with subscription rights to shares
The fair values are determined using the quoted price obtained from the counterparty financial institutions.
2. Since it is extremely difficult to determine the fair values of unlisted equity securities amounting to ¥1,641 million ($15,449 thousand) and ¥1,911 million at March 31, 2018 and 2017, respectively, as there are no market prices available and it is impossible to estimate the future cash flow, they are not included in "(3) Marketable securities and investments in securities."
The Company recorded a loss on devaluation of investments in securities amounting to ¥85 million for the year ended March 31, 2017.

3. Redemption schedule of monetary assets and securities with contractual maturities at March 31, 2018 and 2017 was as follows:

March 31, 2018	Millions of yen Within one year	One to five years
(1) Cash and deposits	¥105,568	¥ —
(2) Notes and accounts receivable—trade	24,222	2,266
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Short-term corporate bonds)	29,000	—
Held-to-maturity debt securities (Certificates of deposits)	145,000	—

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

	Thousands of U.S. dollars	
March 31, 2018	Within one year	One to five years
(1) Cash and deposits	$ 993,676	$ —
(2) Notes and accounts receivable—trade	227,997	21,337
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Short-term corporate bonds)	272,967	—
Held-to-maturity debt securities (Certificates of deposits)	1,364,834	—

4. Redemption schedule of bonds with subscription rights to shares at March 31, 2018 and 2017 was as follows:

	Millions of yen	
March 31, 2018	Within one year	One to five years
(1) Bonds with subscription rights to shares	¥—	¥20,000

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

	Thousands of U.S. dollars	
March 31, 2018	Within one year	One to five years
(1) Bonds with subscription rights to shares	$—	$188,253

18. Asset Retirement Obligations

Asset retirement obligations recorded on the consolidated balance sheets at March 31, 2018 and 2017 were as follows:

(1) Overview of asset retirement obligations
Asset retirement obligations at March 31, 2018 and 2017 were based on restoration obligations, etc. in real estate lease of buildings.

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

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beginning balance	¥63	¥63	$600
Adjustment by time elapsed	0	0	3
Decrease due to settlement of asset retirement obligations	(1)	—	(15)
Ending balance	¥62	¥63	$587

19. Segment Information

1. Overview of the reportable segments

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

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

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

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

Millions of yen — For the year ended March 31, 2018

	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	¥ 67,271	¥11,172	¥7,246	¥ 85,690	¥ 530	¥ 86,220	¥ —	¥ 86,220
Intersegment	—	—	—	—	—	—	—	—
Total	67,271	11,172	7,246	85,690	530	86,220	—	86,220
Segment profit (loss)	14,570	130	453	15,154	(489)	14,664	(4,483)	10,181
Segment asset	106,515	22,605	9,090	138,211	10,014	148,226	248,065	396,291
Others								
Depreciation and amortization*4	1,752	768	20	2,541	366	2,907	174	3,081
Amortization of goodwill	—	—	—	—	134	134	—	134
Increase in property, plant and equipment and intangible fixed assets*4	1,659	622	0	2,283	303	2,587	16	2,603

Millions of yen — For the year ended March 31, 2017

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

Thousands of U.S. dollars — For the year ended March 31, 2018

	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustmen*2	Consolidated*3
Sales:								
Customers	$ 633,207	$105,161	$68,207	$ 806,576	$ 4,990	$ 811,565	$ —	$ 811,565
Intersegment	—	—	—	—	—	—	—	—
Total	633,207	105,161	68,207	806,576	4,990	811,565	—	811,565
Segment profit (loss)	137,147	1,231	4,270	142,647	(4,611)	138,036	(42,206)	95,830
Segment asset	1,002,591	212,782	85,565	1,300,938	94,263	1,395,201	2,334,955	3,730,156
Others								
Depreciation and amortization*4	16,495	7,232	193	23,921	3,448	27,370	1,639	29,009
Amortization of goodwill	—	—	—	—	1,265	1,265	—	1,265
Increase in fixed assets and intangible fixed assets*4	15,624	5,862	7	21,493	2,860	24,353	156	24,509

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, 2018 and 2017.

2. Geographical segment information

   (1) Sales

   There were no sales to customers outside Japan and no applicable data for the years ended March 31, 2018 and 2017.

   (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, 2018 and 2017.

3. Major customer segment information

   Major customer segment information is omitted for the years ended March 31, 2018 and 2017 since there is no specific customer who accounts for more than 10% of total sales.

Information on Losses on Impairment of Fixed Assets by Segment

For the year ended March 31, 2018

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

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate*	Total
Loss on impairment	¥—	¥—	¥—	¥—	¥2,846 ($26,789)	¥356 ($3,355)	¥3,202 ($30,143)

Note: * "Other" corresponds to the golf course management business and "Eliminations/Corporate" corresponds to loss on impairment of corporate assets not attributed to any reporting segment.

For the year ended March 31, 2017

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

Information on Amortization of Goodwill and Remaining Balance by Segment

For the year ended March 31, 2018

(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	¥—	¥—	¥—	¥—	¥134 ($1,265)	¥—	¥134 ($1,265)
Balance at end of year	¥—	¥—	¥—	¥—	¥132 ($1,248)	¥—	¥132 ($1,248)

Note: * Amounts shown correspond to mobile contents service.

For the year ended March 31, 2017

(Millions of yen)

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate	Total
Amortization of goodwill during the year	¥491	¥110	¥—	¥602	¥134	¥—	¥737
Balance at end of year	¥ —	¥ —	¥—	¥ —	¥267	¥—	¥267

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, 2018 and 2017.

20. Per Share Information

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share[*1]	¥4,141.43	¥4,189.98	$38.98
Net income per share[*2]	68.37	21.94	0.64
Diluted net income per share[*3]	64.86	20.73	0.61

Above information was computed based on the following data:

	Year ended March 31, 2018	2017
*1 Net assets per share:		
Total net assets	¥337,242 million ($3,174,350 thousand)	¥340,287 million
Amount to be deducted from total net assets	¥1,057 million ($9,953 thousand)	¥802 million
(Of which subscription rights to shares)	(¥1,057 million) (($9,953 thousand))	(¥802 million)
Net assets attributable to common stock	¥336,185 million ($3,164,396 thousand)	¥339,484 million
Number of outstanding shares of common stock	89,597,500 shares	89,597,500 shares
Number of treasury stock	8,421,329 shares	8,574,481 shares
Number of common stock used in computing net asset per share	81,176,171 shares	81,023,019 shares

	2018	2017
*2 Net income per share:		
Net income attributable to owners of the parent	¥5,550 million ($52,244 thousand)	¥1,777 million
Net income not attributable to common stock shareholders of the parent	—	—
Net income attributable to common stock shareholders	¥5,550 million ($52,244 thousand)	¥1,777 million
Weighted average number of common stock	81,176,540 shares	81,023,346 shares

	2018	2017
*3 Diluted net income per share:		
Adjustment to net income	¥(13) million ($(130) thousand)	¥(13) million
Increase in common stock	4,179,373 shares	4,082,206 shares
(Of which bonds with subscription rights to shares)	(3,850,597 shares)	(3,850,597 shares)
(Of which subscription rights to shares)	(328,776 shares)	(231,609 shares)
Summary of securities excluded from the computation of diluted net income per share because they do not have dilutive effects	—	—

21. Related Party Transaction

The transactions for the years ended March 31, 2018 and 2017 and related account balances outstanding at each year end were as follows:

For the year ended March 31, 2018

There was no related party transaction to be noted for the year ended March 31, 2018.

For the year ended March 31, 2017

(Millions of yen)

Description	Name	Address	Capital	Business line/ occupation	Voting rights owned by the Company	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliate company	FIELDS CORPORATION	Shibuya-ku, Tokyo	¥7,948	Development, purchase and sales of game machines	Direct 15.69% (The Company owns 1.21% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥4,796	Accounts receivable–trade	¥4,009
							Consignment sales of game machines	¥4,377	Accounts payable–other	¥1,252
							Royalty	¥794	Accounts payable–other	¥176

22. Information about Parent Company or Significant Affiliates

Condensed financial information of a significant affiliate

Fields Corporation, which was classified as a significant affiliate of the Company in the year ended March 31, 2017, was excluded from the scope of affiliates, due to sale of a part of shares in the company during the year ended March 31, 2018.

	Millions of yen	
	2018	2017
Total current assets	¥—	¥ 41,731
Total fixed assets	—	34,281
Total current liabilities	—	20,213
Total long-term liabilities	—	13,554
Total net assets	—	42,246
Net sales	—	64,155
Loss before income taxes	—	(12,094)
Net loss	—	(13,559)

23. Significant Subsequent Events

There is no significant subsequent event to be reported.

24. Significant Subsidiaries and an Affiliate

The domestic consolidated subsidiaries and an affiliate accounted for by the equity method at March 31, 2018 and 2017 were as follows:

	Ownership		
At March 31	2018	2017	Consolidation method
SANKYO EXCEL CO., LTD.	100%	100%	Full consolidation
BISTY CO., LTD.	100%	100%	Full consolidation
SANKYO CREATE CO., LTD.	100%	100%	Full consolidation
INTERNATIONAL CARD SYSTEM CO., LTD.	100%	100%	Full consolidation
JB CO., LTD.	100%	100%	Full consolidation
FIELDS CORPORATION	—	15.69%	Not applicable (See Note 22)

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Building a better working world

Independent Auditor's Report

The Board of Directors
SANKYO Co., Ltd.

We have audited the accompanying consolidated financial statements of SANKYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, 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, 2018, 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 29, 2018
Tokyo, Japan

Board of Directors

(As of June 28, 2018)

Representative Director, Chairman of the Board & CEO
Hideyuki Busujima

Representative Director, President & COO
Kimihisa Tsutsui

Director & Senior Executive Vice President
Ichiro Tomiyama

Outside Director
Taro Kitani

Outside Director
Hiroyuki Yamasaki

Standing Statutory Auditor
Shohachi Ugawa

Statutory Auditor
Toshiaki Ishiyama

Outside Statutory Auditor
Yoshiro Sanada
Fumiyoshi Noda

Senior Executive Operating Officers
Toshio Ogura

Executive Operating Officers
Katsumasa Takai
Yoko Oshima

Operating Officers
Yuji Togo
Hiroshi Kodaira
Takashi Fukuda
Junichi Tsutsumi
Fumitaka Sekine
Hisashi Kamoda
Katsuki Amako
Hiroshi Takahashi
Hotaka Makita (Part Time)

For Further Information Contact:
Corporate Planning Division, SANKYO CO., LTD.
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7773 Facsimile: 81(3)5778-6731
https://www.sankyo-fever.co.jp

Corporate Data

(As of March 31, 2018)

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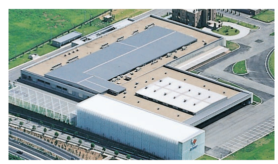
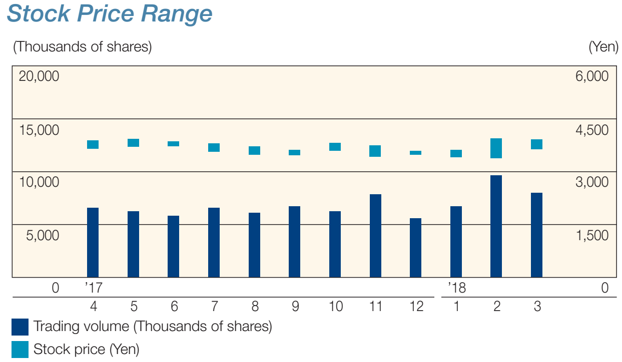
Head Office
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7777 Facsimile:81(3)5778-6731

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



Established	April 1966
Paid-in Capital	¥14,840 million
Number of Employees	1,026 (Consolidated) 817 (SANKYO CO., LTD.)
Number of Shares Authorized	144,000,000
Number of Shares Issued	89,597,500
Number of Shareholders	13,560

Stock Price Range



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

Good luck. Good life.

SANKYO

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