Good luck. Good life.

SANKYO

SANKYO CO., LTD.

Proud of Where We Are and Where We Are Going

Annual Report 2019

Year ended March 31, 2019

2019

Proud of Where We Are and Where We Are Going

Values regarding material possession appear to be changing in this age, with signs of decline in the economy of mass production and mass consumption and the emergence of the sharing economy. This is also an age where people can instantly receive the information they desire thanks to advances in information technology. People are now shifting from material objects, which they get satisfaction out of owning, to intangible things, that enrich their hearts through experiences, for example. In these circumstances, the role of the entertainment industry is also undergoing massive changes. As a pachinko machine manufacturer, we at SANKYO have introduced many exciting, industry-leading pachinko and pachislot machines and have promoted the enjoyment of pachinko as a form of popular entertainment for around half a century ever since our founding. Among the dazzling achievements in the history of the industry, products such as *Fever* that revolutionized the industry and created the foundation of current gaming performance and the *Neon Genesis Evangelion* series continue to create new entertainment value, both demonstrating social and economic effects not confined to the bounds of one industry and having the influence to move many people emotionally.

Our slogan, “enriching society,” is instilled with our desire to delight our customers by striving to create more exciting products and bring smiles to our customers’ faces. With our long history as a top runner in the pachinko and pachislot machine industry, there are experiences that only we can provide. As a unique entity like no other, we will continue to deliver the experiences that we have been able to deliver thanks to all of our employees sharing our core spirit of “ingenuity” and having pursued entertainment. This is our unwavering conviction.

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.

Performance Highlights

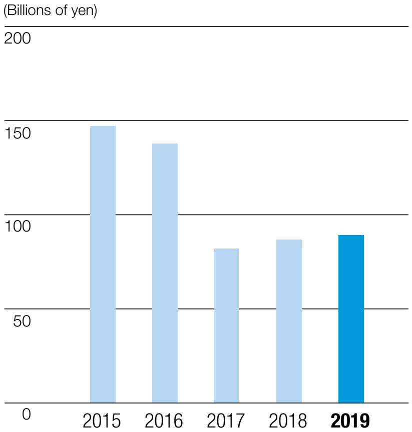
SANKYO CO., LTD. and Its Consolidated Subsidiaries
Years ended March 31, 2015, 2016, 2017, 2018 and 2019

	Millions of yen					Thousands of U.S. dollars (Note)
	2015	2016	2017	2018	**2019**	**2019**
For the year:						
Net sales	¥146,579	¥137,130	¥ 81,455	¥ 86,220	**¥ 88,558**	**$ 797,896**
Operating income	13,233	18,826	5,059	10,181	**21,286**	**119,783**
Net income attributable to owners of the parent	8,728	10,485	1,777	5,550	**13,384**	**120,592**
Free cash flows	30,414	28,678	29,096	34,382	**12,461**	**112,269**
At year-end:						
Total assets	434,648	414,183	390,585	396,291	**399,585**	**3,600,193**
Total net assets	371,670	348,941	340,287	337,242	**337,377**	**3,039,700**
	%					
Financial Indicators:						
Operating margin	9.0%	13.7%	6.2%	11.8%	**24.0%**	
Net Income ratio	6.0	7.6	2.2	6.4	**15.1**	
Return on equity (ROE)	2.2	2.9	0.5	1.6	**4.0**	
Total asset turnover (times)	0.33	0.32	0.20	0.22	**0.22**	
Financial leverage (times)	1.13	1.18	1.17	1.16	**1.18**	
	¥					U.S. dollars
Per share data:						
Net income (basic)	¥ 94.48	¥ 126.78	¥ 21.94	¥ 68.37	**¥ 164.88**	**$ 1.49**
Cash dividends	150.00	150.00	150.00	150.00	**150.00**	**1.35**
	Units					
Operating data:						
Pachinko machines unit sales	329,892	296,346	172,954	171,919	**196,007**	
Pachislot machines unit sales	48,137	80,125	32,959	29,431	**17,435**	
Emploees (persons)	1,077	1,084	1,065	1,026	**982**	

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥110.99=U.S.$1.
See Note 2 to the consolidated financial statements.

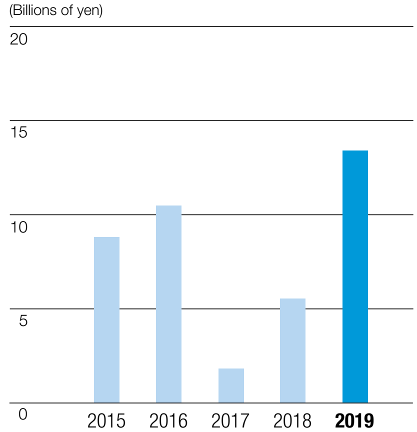
Net Sales

(Billions of yen)



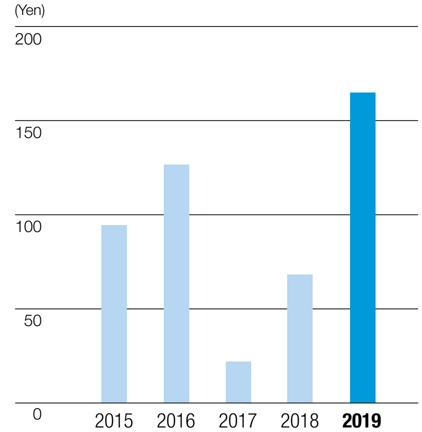
Net Income Attributable to Owners of the Parent

(Billions of yen)



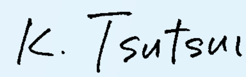
Net Income per Share (basic)

(Yen)



Interview with the Management

Hideyuki Busujima
Chairman of the Board & CEO



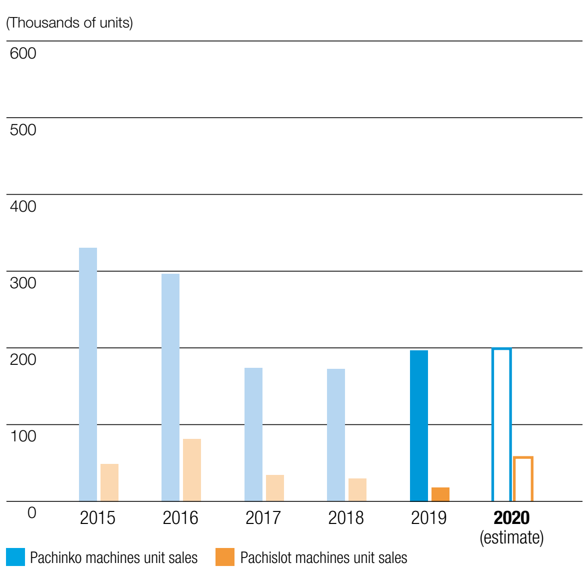
Kimihisa Tsutsui
President & COO

Q1 SANKYO recorded an increase in sales and a significant increase in profit for the fiscal year ended March 31, 2019. What factors led to this result, and how is the market environment in the pachinko and pachislot industry?

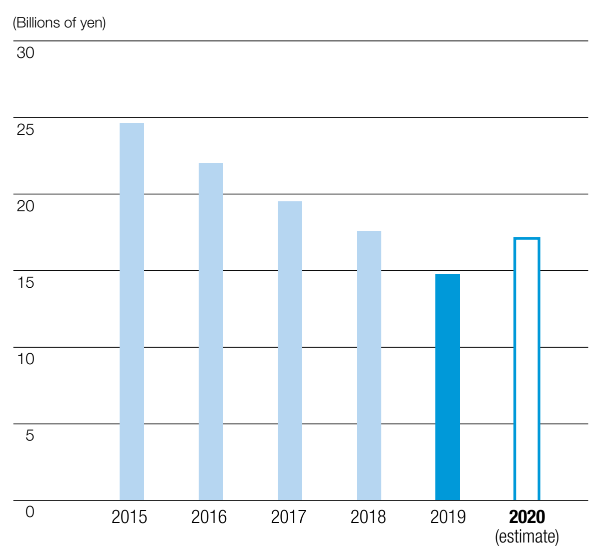
A For the fiscal year ended March 31, 2019, on a consolidated basis, our net sales were ¥88.5 billion, an increase of 2.7% year on year, operating income soared 109.1% to ¥21.2 billion, and net incom attributable to owners of the parent was ¥13.3 billion, a 141.1% increase year on year.

Regarding the environment surrounding the pachinko and pachislot industry, there is now a mix of pachinko and pachislot machines that are compliant with former regulations and those that are compliant with new regulations after 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") was enacted on February 1, 2018. Pachinko machines with payout settings, which are now permitted as per the Amended Pachinko and Pachislot Machines Regulations, have now hit the market and have created buzz. However, because of the grace

Pachinko and Pachislot Machines Unit Sales of the SANKYO Group



Trend of R&D Expenditure



period of up to the end of January 2021 to transition to pachinko machines compliant with the new regulations, parlors have not been proactively purchasing these machines, leading to limited recognition and popularization. For pachislot machines, meanwhile, there have been few titles sold of so-called #6 models, to which the Amended Pachinko and Pachislot Machines Regulations apply, and the market is lackluster.

In these circumstances, the SANKYO Group has gradually rolled out pachinko machines compliant with the new regulations onto the market along with machines compliant with the former regulations, and sold 12 pachinko titles (excluding reuse models). In August 2018, SANKYO launched *Fever Valvrave the Liberator W*, the first pachinko machine with payout settings in the pachinko industry. Furthermore, with regard to probability change high continuation rate pachinko machines that it newly became possible to install from February 2019 due to a revision of the internal regulations of the Japan Pachinko Machine Industry Association (“Nikkoso”), an association of pachinko manufacturers, we took the lead ahead of other companies in launching the SANKYO Group’s signature title *Evangelion Super berserk*. In this way, we exhibited the SANKYO Group’s strengths, and were able to speedily deal with changes in the environment surrounding us, such as the Amended Pachinko and Pachislot Machines Regulations. In addition, the long-running success of the *Fever Symphogear*, launched August 2017, led to additional sales, which significantly contributed to raising the standard of our performance. Meanwhile, we sold five pachislot machine titles, including one #6 model title.

In terms of profit and loss, our various initiatives were successful in improving our margin ratio, leading to significant increase in profit. Specific examples of these initiatives include reducing costs thanks to our continued efforts to standardize parts, streamlining of product development, and reducing research and development expenses by thoroughly implementing cost management per machine type.

Q2 What is the outlook for the fiscal year ending March 31, 2020?

A Regarding market environment for the next fiscal year ending March 31, 2020, the introduction of new machines and pachinko machines compliant with the new regulations from manufacturers will take center stage. It is expected that sales competition will intensify, with companies introducing products designed to ensure differentiation in terms of gaming performance and other factors. It is believed that demand for replacement pachinko machines will manifest as the deadline of the end of January 2021 to remove machines that are compliant with former regulations draws near. Concerning pachislot machines, meanwhile, we believe that the market will gradually expand toward the end of 2019 as demand increases for machines to replace pachislot machines that are compliant with former regulations, the certification and inspection of which will expire, and as companies progress with the development of #6 models.

In these circumstances, the SANKYO Group considers changes such as the new regulations and the revision of internal regulations to be a business chance. We will work to increase our market share by pushing forward with the development of pachinko and pachislot machines that leverage the gaming performance of the new regulations and providing a diverse product lineup. In addition, in the fiscal year ended March 31, 2019, our pachislot business struggled as parlors were disinclined to purchase pachislot machines. Nevertheless, the *EVANGELION AT 777*, the first Bisty brand #6 model launched at the end of the previous period became a hit product with over 10,000 machines. In this period, we expect a recovery in the pachislot business from launching the *Bomber Powerful III*, the first SANKYO brand #6 model, in April and releasing #6 models throughout the year.

Meanwhile, in terms of profit and loss, we expect a drop in the gross profit margin due to the effects of plans to introduce products with lower sales prices to promote a switchover to pachinko machines compliant with the new regulations and also due to an increase in the sales ratio of pachinko machines sold with frames due to releases of new frames. We also expect an increase in the expenses associated with sales and management toward the popularization and establishment of pachinko machines compliant with the new regulations, such as research and development expenses and advertising expenses. Nevertheless, we position now as a time for preemptive investment, and we will invest an appropriate amount in expenses toward ensuring an increase in sales and market share while still placing important on cost management.

The Group's plan for the fiscal year ending March 31, 2020 calls for sales of 200,000 pachinko machines and 58,000 pachislot machines. We forecast consolidated net sales of ¥99 billion, an increase of 11.8% year on year, operating income of ¥16 billion, a decline of 24.8% year on year, and net incom attributable to owners of the parent of ¥11 billion, a 17.8% decline year on year.

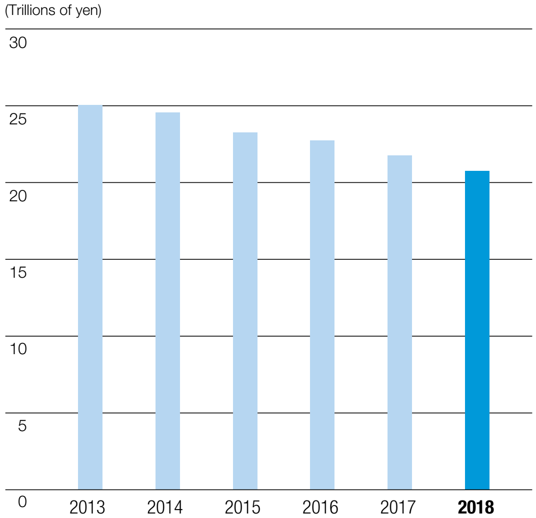
Q3 As the deadline for removing pachinko and pachislot machines that are compliant with former regulations draws near, how is the current market environment and what is the future outlook?

A The deadline for removing those machines is the end of January 2021, and there is now around one and a half years remaining of the transitional period to completely change pachinko and pachislot machines to models that are compliant with the new regulations. Currently, although the shift from pachinko and pachislot machines that are compliant with former regulations to those that are compliant with the new regulations is gradually progressing, most of the pachinko and pachislot machines currently installed are compliant with the former regulations.

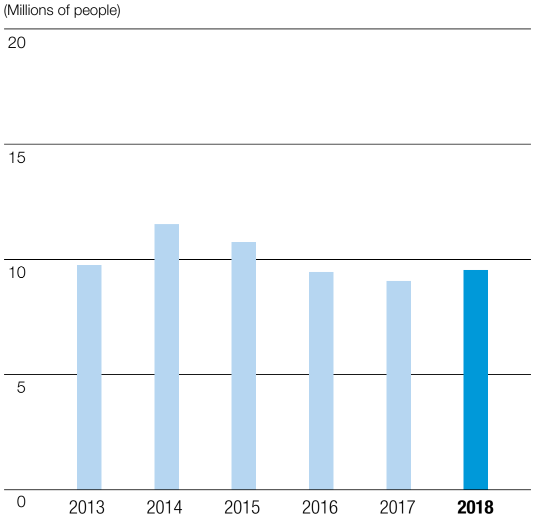
What this means is that in the remaining year and a half, including a switch to the pachinko and pachislot machines compliant with the new regulations that are already installed, the approximately 2.63 million pachinko machines and 1.66 million pachislot machines that are installed as of the end of December 2018 according to figures published by the National Police Agency in March 2019, could manifest into demand for a switchover to the pachinko and pachislot machines compliant with the new regulations to be released in the future.

The amendment to the Pachinko and Pachislot Machines Regulations has led to a transition to pachinko and pachislot machines with two thirds the ball payout performance of conventional machines. However, since the regulatory standards for ball payout performance have become clear, measures are being taken to abolish and

Trend of Ball/Token Rental Revenues



Trend of Pachinko/Pachislot Player Population



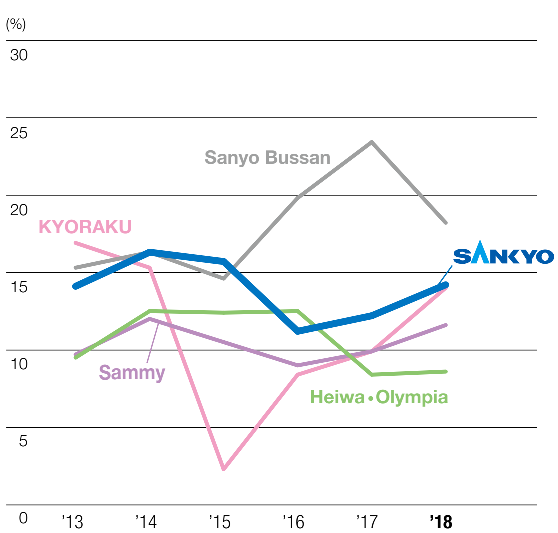
Source: 2019 Leisure White Paper, Japan Productive Center alleviate unnecessary voluntary measures taken by pachinko and pachislot machine manufacturers to restrict ball payout. Specific examples include the abolishment of the upper limit of 65% for variable probability high continuation, the "base 30" limit for normal mode, and limits on the number of prize balls such as start and per rotation, per electric tulip, and others. These revisions to internal regulations have made it possible to develop pachinko and pachislot machines with diverse gaming performances, and there is an increasing amount of room for ingenuity to develop products with extensive variety.

However, there are concerns that there will be a fall in the player population due to the lower gambling aspect stemming from the Amended Pachinko and Pachislot Machines Regulations. Up until now, the rising cost of playing pachinko games has also been one reason for a decline in the player population. In the future, while implementing measures to discourage players from becoming overly immersed in playing pachinko and pachislot, we will use this as an opportunity to restore pachinko and pachislot as familiar and easy-to-use popular entertainment. The industry will come together to strive to secure both dormant and new players and create a gaming environment that gives peace of mind to existing players as well. The SANKYO Group will continue to develop and offer products with diverse gaming performances while keeping the price to play low, upon consideration of the purpose of the changes in the regulatory environment, such as pachinko machines with payout settings that have newly been permitted with the new regulations and the probability change high continuation rate machines that it is now possible to develop in accordance with revisions to internal regulations.

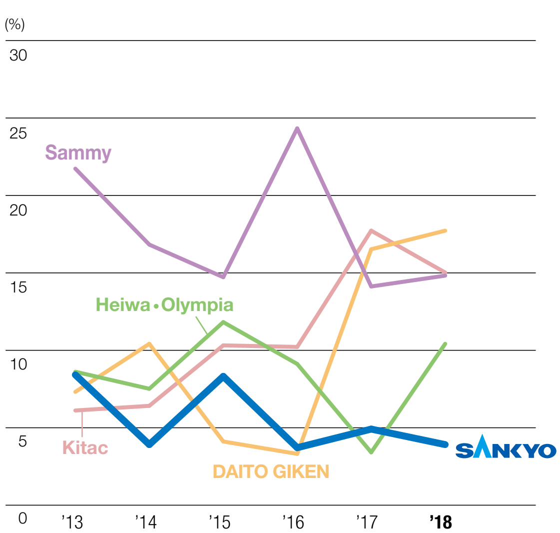
Q4 Given this difficult market environment, intense competition between pachinko and pachislot machine manufacturers is expected to continue in future. What are SANKYO's strengths?

A SANKYO has walked hand-in-hand with the pachinko industry for over half a century since our founding in 1966. We have concentrated our management resources in our pachinko and pachislot businesses and developed a variety of hit games. One of these was the *Fever* line released in 1980, significantly increasing the name recognition of our company as an epoch maker and also reigniting the pachinko industry, which had been struggling with competition from a series of hugely popular arcade games collectively called "Invader games."

Pachinko Machine Sales Share



Pachislot Machine Sales Share



Source: Yano Research Institute

When regulations were revised in 2004, we took the lead ahead of other companies and launched a model compliant with new standards, *Fever Daiyamato 2*, which went on to become a massive hit. This is just one of the many representative products we have introduced that are still talked about today. In 2018, when regulations were revised for the first time in 14 years and pachinko machines with payout settings were newly permitted, we released the industry's first such machine, *Fever Valvrave the Liberator W*. In this way, we have used our out-of-the-box thinking and change-resilient development capabilities to overcome industry crises and changes in regulations and other areas, secure the top market share over many years, and establish our position as a leading company.

As we advanced our intensive strategy focused on the pachinko and pachislot businesses, we made Daido Co., Ltd. (currently Bisty Co., Ltd.) into a subsidiary in 1996, and JB Co., Ltd. into a subsidiary in 2012. We are striving to both evolve as the SANKYO Group and secure differentiation through rolling out multiple brands. By also welcoming an anime production company*[1] and a design development company*[2] to the SANKYO Group, we have increased our competitive advantage by enabling ourselves to deal with ever-advancing LCD performance and pachinko and pachislot machine design.

Recent years have seen a trend in pachinko and pachislot machine development with a heightened entertainment factors, incorporating collaborations with celebrities and animes. At the same time, an increased number of components and soaring development costs have brought about an increase in the unit sales prices of pachinko and pachislot machines, and unit sales per title are on the decline. With parlors having high standards for choosing machines and some long-running pachinko and pachislot machine manufacturers facing the prospect of business collapse, the SANKYO Group strives to reduce costs and keep development expenses low without lowering the quality of our pachinko and pachislot machines. We are also dealing with the shift to smaller lots. The strength of the SANKYO Group is that we have established a robust financial constitution by securing stable earnings and having worked for many years on developing our business while considering our cash flow, even under a tough environment. In addition, as pachinko and pachislot machines become more advanced and complex, we became one of the first players in the industry to focus on intellectual asset strategy. As of the end of March 2019, we have over 10,000 patents, one of the highest in the industry.

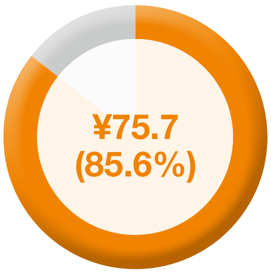
In the future, it is possible that the environment surrounding the industry will change at a dizzying pace, due to the establishment of laws relating to IR, the Amended Pachinko and Pachislot Machines Regulations enacted in 2018, and the Basic Act on Countermeasures Against Gambling Addiction. We will leverage the full potential of the SANKYO Group's strengths to overcome these changes, increase the market share of our pachinko and pachislot businesses to improve our corporate value, and work towards a new stage. In these endeavors, we request our shareholders and investors to extend their continued support.

*[1] SATELIGHT Inc.

*[2] ENVISION INCORPORATED

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 85.6% of net sales.

With regard to the pachinko machines business, sales of machines compliant with the former regulations remained brisk. Such machines included *Fever BIOHAZARD REVELATIONS* (introduced in November 2018) and *Fever Macross Frontier 3* (introduced in March 2019), as well as *Fever Symphogear*, a SANKYO-brand pachinko title introduced in August 2017, which became a long-running hit product. Regarding pachinko machines compliant with the new regulations, the Group introduced distinctive products such as those equipped with payout settings and those compliant with the new internal regulations of the Nihon Yugiki Kogyo Kumiai (hereinafter "Nikkoso"). Products included *Evangelion Super awakening* and *Evangelion Super berserk* (introduced in March 2019), both under the Bisty brand, and reuse models. Although the market trend toward smaller lots continued, the Group achieved a sales volume exceeding that for the previous fiscal year by offering a rich variety of products.

As a result, segment sales amounted to ¥75.7 billion, an increase of 12.7% year on year, and operating income amounted to ¥26.8 billion, up 84.4%. Sales of pachinko machines amounted to 196,000 units.

Principal models introduced and numbers of machines sold during fiscal 2019

Principal models	Released	No. of machines sold (thousand machines)
Fever Symphogear	August 2017	21.6
Fever Aquarion w	August 2018	14.2
Fever BIOHAZARD REVELATIONS	November 2018	24.2
Fever Symphogear light ver	November 2018	14.5
Fever Macross Frontier 3	March 2019	21.1
Evangelion Super awakening・Super berserk	March 2019	24.9

Fever BIOHAZARD REVELATIONS

Evangelion Super berserk

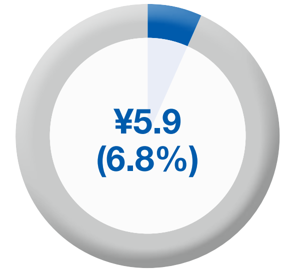
Pachislot Machines Business

This segment, which includes manufacturing and sales of pachislot machines, sales of related parts and pachislot machine-related royalty income, accounted for 6.8% of net sales.

In the pachislot machines business, the Group launched *Evangelion AT 777* (in February 2019) under the Bisty brand, the Group's first #6 model. This became a hit product with sales exceeding 10,000 units despite parlor operators' weak appetite for replacement with #6 models. However, the Group struggled as sales of other products were lackluster against the backdrop of a challenging market environment.

Accordingly, segment sales amounted to ¥5.9 billion, a decrease of 46.5% year on year, and the operating loss was ¥0.9 billion, compared with operating income of ¥0.1 billion in the previous fiscal year. Sales of pachislot machines amounted to 17,000 units.

Sales (Billions of yen)



Principal models introduced and numbers of machines sold during fiscal 2019

Principal models	Released	No. of machines sold (thousand machines)
Evangelion AT 777	February 2019	13.1

Total Eclipse
©吉宗鋼紀・ixtl／テレビ東京／オルタネイティヴ第一計画

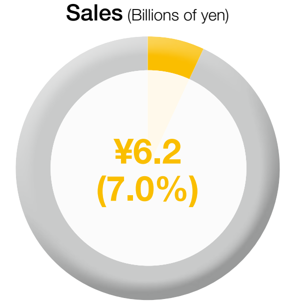
Evangelion AT 777
©カラー

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 7.0% of net sales.

Sales of the ball bearing supply systems business amounted to ¥6.2 billion, a decrease of 14.2% year on year, and operating income was ¥0.4 billion, down 11.7%.

Sales (Billions of yen)

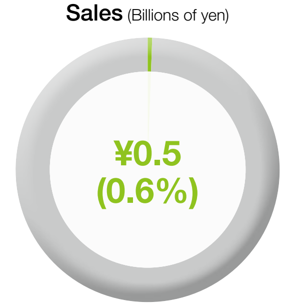


Other Businesses

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 totaled ¥0.5 billion, an increase of 7.7% year on year. An operating loss of ¥0.3 billion was recorded compared with an operating loss of ¥0.4 billion in the previous fiscal year.

Sales (Billions of yen)



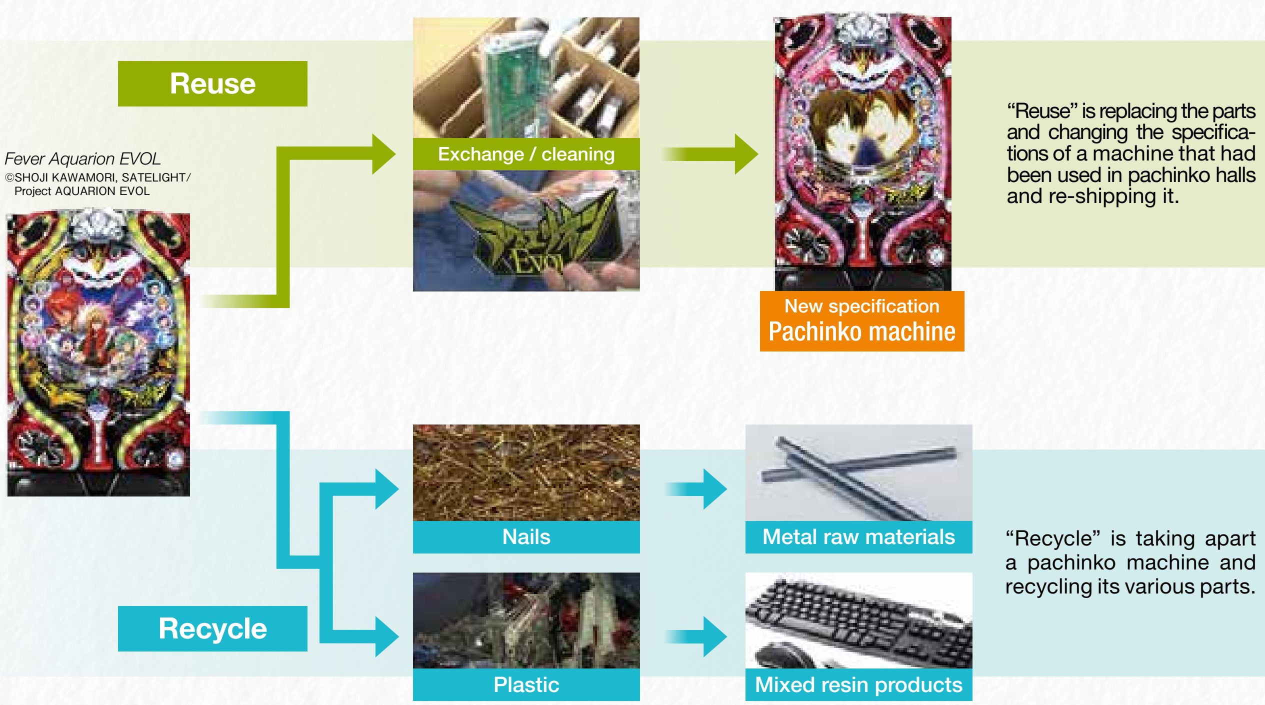
Pachinko and Pachislot Machine Recycling Initiatives from the Pachinko and Pachislot Industry and the SANKYO Group

The Pachinko and Pachislot Industry

The pachinko and pachislot industry is working on various recycling initiatives to reduce the burden on the environment. The Act on the Promotion of Effective Utilization of Resources (Revised Recycling Law) was enacted in April 2001 along with the establishment of the Basic Act on Establishing a Sound Material-Cycle Society in May 2000. Pachinko and pachislot machines were also specified as products subject to this law (resources-saved product/reuse-promoted product). In response, manufacturers took measures to deal with the “3 Rs” (reduce, reuse, recycle) in the design and manufacturing stages of pachinko and pachislot machines. The Japan Pachinko Machine Industry Association, an association of pachinko machine manufacturers, led the establishment of a pachinko and pachislot machine collection system to collect and process used pachinko and pachislot machines. The recycle rate of collected pachinko and pachislot machines is more or less 100%. Most parts such as LCD are reused and are reborn as new machines. Other parts are recycled and used as recycled resources.

SANKYO Group

The SANKYO Group is proactively working on recycling measures, such as manufacturing reused machines, promoting the standardization of parts among our brands, and expanding the range of parts that are subject to reuse. With regard to the manufacture of reuse models, we collect pachinko and pachislot machines installed in parlors, and replace and clean the surface of the board to manufacture reuse models with updated specifications and design on par with new models. Standardizing parts is contributing to the reduction of waste parts in our production process. In addition, we are strengthening our recycling measures from a variety of angles, such as by creating simple designs that are easy to recycle during the design stage. These measures both enable us to recycle and reap the cost benefits of reduced costs, significantly contributing to an improvement of our performance. We will continue to further strengthen our initiatives to reduce our environmental burden while further streamlining our business through cost reductions.



Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2019 (fiscal 2019), 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 2019

During the fiscal year ended March 31, 2019, the Japanese economy remained on a moderate recovery track as corporate earnings remained robust and the labor market and personal incomes continued to improve. Meanwhile, uncertainty about prospects persisted, in light of such factors as the impact of trade friction among certain countries and the slowdown in the Chinese economy.

In the pachinko and pachislot industry, following the enforcement of 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") on February 1, 2018, both pachinko and pachislot machines compliant with the former regulations that are available for sale and machines compliant with the new regulations that have satisfied format inspection are being sold. Regarding pachinko machines, pachinko machines with payout settings, a type of pachinko machine permitted after the amendment of the new regulations, debuted and attracted attention. However, pachinko parlor operators have yet to actively purchase such new machines because the final deadline for transitioning to pachinko machines compliant with the new regulations is January 31, 2021, and recognition and market penetration of pachinko machines compliant with the new regulations have been lackluster. As for pachislot machines, only a few #6 model titles compliant with the amended regulations have been introduced and the market has been sluggish.

Overview of Business Results in Fiscal 2019

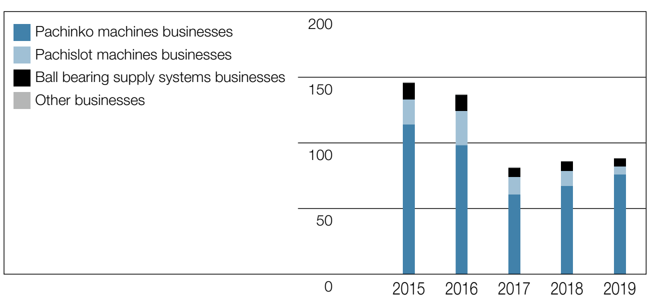
In these circumstances, the Group launched machines compliant with the new regulations step by step in addition to those compliant with the former regulations, offering a grand total of 12 pachinko titles (excluding reuse models). In August 2018, the Group launched *Fever Valvrave the Liberator W*, the industry's first pachinko machine with payout settings. Moreover, regarding products offering a high probability change continuation rate, which have become available for installation since February 2019 in accordance with the revision of the internal regulations of Nikkoso, an association of pachinko machine manufacturers, the Group took the lead over competitors by launching *Evangelion Super berserk*, the Group's iconic title. Bringing its strengths into full play, the Group was able to swiftly respond to change in the environment, such as the amendment of the regulations governing pachinko and pachislot machines. Meanwhile, the Group introduced five pachislot titles, including one #6 model title.

Regarding profitability, cost reduction by sharing of parts, which is a theme on which the Group has been working for some time, enhancement of efficiency of product development, and curtailment of R&D expenditure by thorough cost control for each model contributed to improvement of profitability. This resulted in a substantial increase in profit.

Consequently, net sales rose to ¥88.5 billion, up 2.7% year on year. Operating income was ¥21.2 billion, up 109.1%. Profit attributable to owners of parent increased by 141.1% to ¥13.3 billion, despite the recording of an extraordinary loss on valuation of investment securities.

Net Sales

(Billions of yen)



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

Cost of sales for fiscal 2019 amounted to ¥38.7 billion. The ratio of cost of sales to net sales decreased 5.5 percentage points from the previous fiscal year to 43.8%.

Selling, general and administrative expenses decreased ¥5.0 billion from the previous fiscal year, mainly owing to a decrease in sales commission and a reduction in R&D expenses, and the ratio of selling, general and administrative expenses to net sales decreased 6.7 percentage points from the previous fiscal year to 32.2%. As a result, operating income increased 109.1% to ¥21.2 billion and the ratio of operating income to net sales increased 12.2 percentage points from the previous fiscal year to 24.0%.

Regarding other income (expenses), other expenses, net, amounted to ¥2.9 billion, mainly reflecting the recording of an extraordinary loss on valuation of investment securities amounting to ¥3.6 billion.

Profit attributable to owners of parent increased ¥7.8 billion from ¥5.5 billion for the previous fiscal year to ¥13.3 billion. Earnings per share was ¥164.88 compared with ¥68.37 for the previous fiscal year.

Segment Information by Business

(Millions of yen)

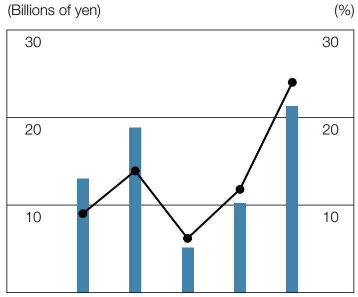
Net sales	2019	Year-on-year change	2018
Pachinko machines business	¥75,792	12.7%	¥67,271
Pachislot machines business	5,979	(46.5)	11,172
Ball bearing supply systems business	6,214	(14.2)	7,246
Other businesses	571	7.7	530
Total	¥88,558	2.7%	¥86,220

(Millions of yen)

Operating income	2019	Year-on-year change	2018
Pachinko machines business	¥26,861	84.4%	¥14,570
Pachislot machines business	(942)	—	130
Ball bearing supply systems business	400	(11.7)	453
Other businesses	(318)	—	(489)
Elimination/Corporate	(4,715)	—	(4,483)
Total	¥21,286	109.1%	¥10,181

Operating Income and Ratio of Operating Income to Net Sales

(Billions of yen) (%)

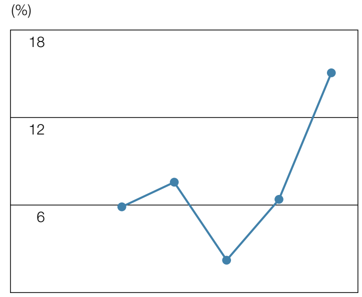


Operating Income (left scale)

Ratio of Operating Income to Net Sales

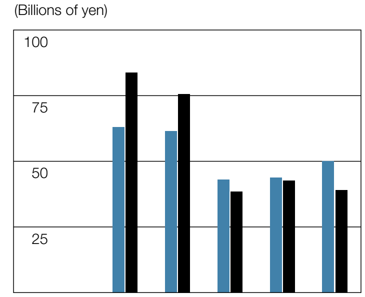
Return on Sales (ROS)

(%)



Gross Profit and Cost of Sales

(Billions of yen)



Gross Profit

Cost of Sales

Fiscal 2020 Forecast

Regarding the market environment for the next fiscal year ending March 31, 2020, replacement demand is expected to gradually become evident as fewer than two years remain before the final deadline for transitioning to pachinko and pachislot machines compliant with the new regulations. Machines compliant with the new regulations are expected to become the mainstream of new models introduced by manufacturers, and manufacturers are expected to introduce products differentiated in terms of gaming performance and other attributes, leading to intensified sales competition. Positioning the next fiscal year as the time for upfront investment to ensure that pachinko and pachislot machines compliant with the new regulations become more widely distributed and entrenched in the market, the Group will introduce pachinko and pachislot machines with diverse gaming performance. While emphasizing cost control, the Group will also invest appropriately to boost sales and increase its market share.

The Group's plan calls for sales volumes for the fiscal year ending March 31, 2020 of 200,000 pachinko machines and 58,000 pachislot machines.

(Billions of yen)

	2020 forecast	Year-on-year change	2019 results
Net sales	¥99.0	11.8%	¥88.5
Operating income	16.0	(24.8)	21.2
Profit attributable to owners of parent	11.0	(17.8)	13.3

Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year ended March 31, 2019 amounted to ¥399.5 billion, up ¥3.2 billion compared with the figure at the previous fiscal year-end. This expansion was mainly attributable to a ¥4.1 billion increase in notes and accounts receivable-trade, a ¥3.0 billion increase in marketable securities, and a ¥1.5 billion increase in accounts receivable for provision of parts and materials for value, despite a ¥5.7 billion decrease in investment securities mainly owing to the recording of an extraordinary loss on valuation of investment securities amounting to ¥3.6 billion.

Total liabilities amounted to ¥62.2 billion, up ¥3.1 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥2.0 billion increase in accrued income taxes and a ¥1.9 billion increase in notes and accounts payable-trade, despite a ¥1.2 billion decrease in electronically recorded obligations.

Net assets rose ¥0.1 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to the recording of profit attributable to owners of parent of ¥13.3 billion and a ¥0.2 billion increase in subscription rights to shares, despite cash dividends paid of ¥12.1 billion and a ¥1.4 billion decrease in net unrealized gain on other securities.

As a result, net assets totaled ¥337.3 billion and the shareholders' equity ratio decreased 0.7 percentage point to 84.1%.

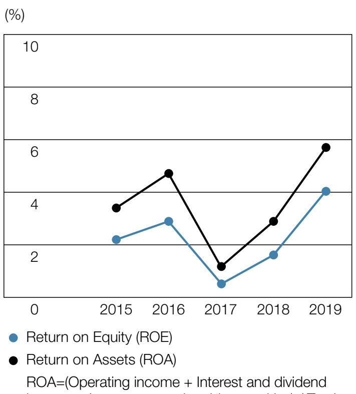
Cash Flows

At the fiscal year-end, cash and cash equivalents (hereinafter "cash") totaled ¥274.2 billion, up ¥0.2 billion from a year earlier.

Cash flows from operating activities

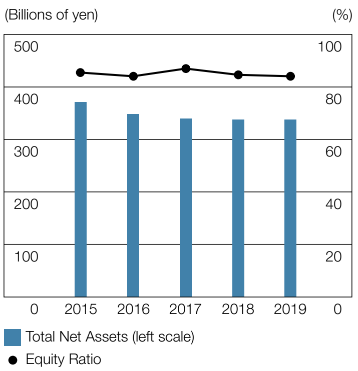
Net cash provided by operating activities increased ¥0.8 billion from the previous fiscal year to ¥16.8 billion. Principal cash inflow items were income before income taxes of ¥18.3 billion, loss on valuation of investment securities of ¥3.6 billion, and depreciation and amortization of ¥3.0 billion. The principal cash outflow items were a ¥4.1 billion increase in notes and accounts

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

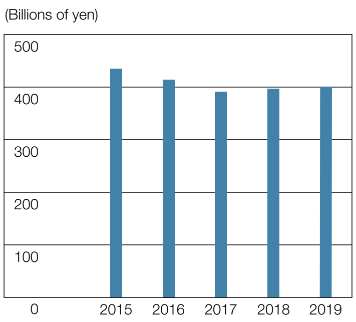


ROA=(Operating income + Interest and dividend income + Interest on marketable securities) / Total assets (yearly average)

Total Net Assets and Equity Ratio



Total Assets



receivable-trade, income taxes paid of ¥2.6 billion, and a ¥1.5 billion increase in accounts receivable for provision of parts and materials for value.

Cash flows from investing activities

Net cash used in investing activities decreased ¥22.7 billion from the previous fiscal year to ¥4.3 billion. Principal cash inflow items were proceeds from redemption of marketable securities of ¥76.0 billion and proceeds from withdrawal of time deposits of ¥11.1 billion. The principal cash outflow items were payment for purchase of marketable securities of ¥78.0 billion, payment into time deposits of ¥11.1 billion, and payment for purchase of property, plant and equipment and intangible fixed assets of ¥2.3 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 of ¥12.1 billion.

Shareholder Return and Dividend Policy

The Company regards the return of profits to shareholders as one of the most important management priorities. The Company's dividend policy is to maintain a payout ratio of 25% of consolidated profit attributable to owners of parent, and the aim is to continuously increase dividends. Since its listing on the stock exchange in 1991, the Company has a track record of maintaining shareholder return on a continuous and constant basis, recording not a single decrease in its dividend. Based on this policy, the Company paid a full-year dividend of ¥150 (including an interim dividend of ¥75) per share of common stock of the Company for the fiscal year ended March 31, 2019, and the same dividend amount is planned for the fiscal year ending March 31, 2020.

The Company has continued to provide stable cash dividends and repurchased treasury stock to flexibly implement capital policies adapting to changes in the business environment and to ensure further return of profits to shareholders. Since its first share repurchase in 2008, the Company has repurchased treasury stock four times. Over the past 10 years, the Company has repurchased approximately 16.3 million shares worth approximately ¥76 billion, or 16.7% of the total outstanding shares, of which 8.0 million shares were canceled in 2015. At the Board of Directors Meeting held on August 6, 2019, for the purpose of further shareholder return and capital efficiency improvement, the Company decided to acquire treasury stock and to make a tender offer for treasury stock as follows ("Notice concerning Repurchase and Tender Offer of Own Shares" disclosed August 6, 2019).

Summary of purchase

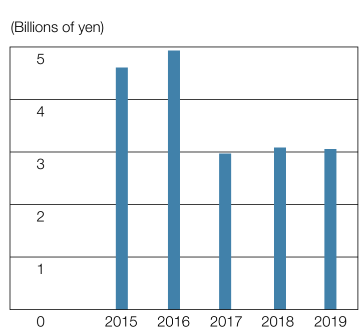
Period of purchase, etc.	From August 7, 2019 to September 4, 2019
Number of share certificates scheduled to be purchased	22,000,000 shares (an ownership ratio of 27.10%)
Price of purchase, etc.	¥3,426 per share (6.27% discount from the closing price on August 5, 2019)

Notes: 1. Of the 28,346,000 shares (an ownership ratio of 34.92%) owned by Marf Corporation, the Company's largest shareholder, the Company plans to subscribe 20,000,000 shares (an ownership ratio of 24.64%).

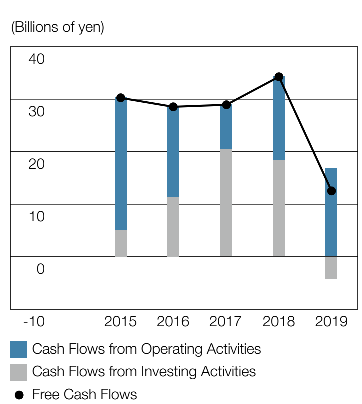
2. Marf Corporation, an asset management company of Hideyuki Busujima, Representative Director and Chairman of the Board of the Company, has no plans to sell the 8,346,000 shares that do not apply for the tender offer at this time, and will continue to be the largest shareholder of the Company. As such, Hideyuki Busujima will continue to be involved in the management of the Company as Representative Director and Chairman of the Company.

3. Treasury shares acquired by the Company through the tender offer are scheduled to be canceled after the completion of the tender offer.

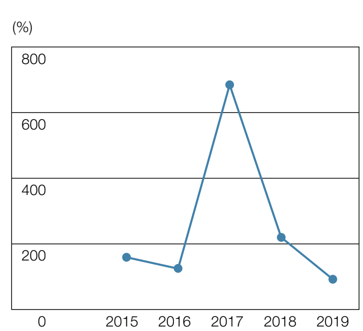
Depreciation



Free Cash Flows



Payout Ratio



Forecast of the Financial Position in Fiscal 2020

For fiscal 2020, the Company forecasts an increase in net cash provided by operating activities of ¥21.0 billion, a decrease in net cash used in investing activities of ¥4.0 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 ¥5.0 billion in the cash balance at the end of fiscal 2020 compared to the figure at the end of fiscal 2019.

Risk Factors

Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2020 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 2019, 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, 2019 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2019	2018	2019
Current assets:			
Cash and deposits (Notes 3 and 17)	¥104,847	¥105,568	$ 944,653
Marketable securities (Notes 3, 5 and 17)	184,999	181,999	1,666,812
Notes and accounts receivable-trade (Notes 4 and 17)	30,627	26,489	275,951
Inventories (Note 7)	2,876	2,162	25,916
Accounts receivable arising from outsourced production contracts	5,867	4,359	52,867
Other current assets	2,899	2,083	26,124
Allowance for doubtful accounts (Note 17)	(2)	(2)	(25)
Total current assets	332,115	322,660	2,992,298
Fixed assets:			
Property, plant and equipment (Note 15):			
Land	22,515	22,628	202,864
Buildings and structures	26,404	26,460	237,899
Machinery and equipment	7,517	7,479	67,731
Tools, furniture and fixtures	16,927	19,534	152,510
Leased assets	34	30	311
Other fixed assets	1,850	1,850	16,675
	75,250	77,985	677,990
Accumulated depreciation	(34,809)	(36,708)	(313,625)
Total property, plant and equipment	40,440	41,277	364,365
Intangible fixed assets:			
Goodwill	45	132	409
Other intangible fixed assets	180	231	1,622
Total intangible fixed assets	225	364	2,031
Investments and other assets:			
Investments in securities (Notes 5, 6 and 17)	19,233	25,015	173,291
Long-term loans	131	154	1,181
Deferred tax assets (Note 16)	7,366	6,740	66,372
Other assets	473	480	4,264
Allowance for doubtful accounts	(20)	(21)	(187)
Allowance for losses on investments in securities	(379)	(379)	(3,422)
Total investments and other assets	26,803	31,989	241,499
Total fixed assets	67,470	73,631	607,895
Total assets	¥399,585	¥396,291	$3,600,193

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)
	2019	2018	2019
Current liabilities:			
Notes and accounts payable-trade (Note 17)	¥ 11,246	¥ 9,304	$ 101,329
Electronically recorded obligations (Note 17)	10,042	11,326	90,479
Accrued income taxes	4,372	2,369	39,392
Accrued employees' bonuses	791	803	7,128
Lease obligations	3	4	35
Asset retirement obligations (Note 18)	—	3	—
Other current liabilities	7,308	6,785	65,844
Total current liabilities	33,763	30,599	304,207
Long-term liabilities:			
Bonds with subscription rights to shares (Note 17)	20,026	20,046	180,437
Lease obligations	4	4	41
Net defined benefit liabilities (Note 8)	4,799	4,784	43,242
Asset retirement obligations (Note 18)	62	59	562
Other long-term liabilities	3,551	3,554	31,996
Total long-term liabilities	28,444	28,449	256,278
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, 2019 and 2018	14,840	14,840	133,706
Capital surplus	23,750	23,750	213,983
Retained earnings	330,707	329,499	2,979,617
Treasury stock	(38,785)	(38,782)	(349,451)
Total shareholders' equity	330,512	329,306	2,977,855
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 5)	5,460	6,952	49,198
Remeasurements of defined benefit plans (Note 8)	73	(73)	661
Total accumulated other comprehensive income	5,533	6,878	49,858
Subscription rights to shares (Notes 10 and 11)	1,331	1,057	11,996
Non-controlling interests	—	—	—
Total net assets	337,377	337,242	3,039,709
Total liabilities and net assets	¥399,585	¥396,291	$3,600,193

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2019	2018	2019
Net sales	¥88,558	¥86,220	$797,896
Cost of sales (Note 11)	38,771	42,506	349,326
Gross profit	49,786	43,714	448,569
Selling, general and administrative expenses (Notes 11 and 13)	28,500	33,533	256,786
Operating income	21,286	10,181	191,783
Other income (expenses):			
Interest and dividend income	736	923	6,638
Loss on sales or disposal of property, plant and equipment, net (Note 14)	(17)	(21)	(154)
Loss on impairment (Note 15)	(310)	(3,202)	(2,796)
Loss on sale of investments in securities	—	(42)	—
Loss on devaluation of investments in securities (Note 5)	(3,631)	—	(32,720)
Gain on sale of golf club membership	—	2	—
Loss on devaluation of golf club membership	(1)	—	(10)
Other, net	278	214	2,506
Income before income taxes	18,340	8,055	165,249
Income taxes (Note 16)**:**			
Current	4,988	2,655	44,947
Deferred	(32)	(150)	(291)
Total income taxes	4,956	2,504	44,657
Net income	13,384	5,550	120,592
Net income attributable to:			
Owners of the parent	¥13,384	¥ 5,550	$120,592

	Yen		U.S. dollars (Note 2)
Net income per share (Note 20)**:**			
Basic	¥164.88	¥ 68.37	$1.49
Diluted	156.49	64.86	1.41
Cash dividends per share (Note 10)	150.00	150.00	1.35

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2019	2018	2019
Net income	¥13,384	¥5,550	$120,592
Other comprehensive (loss) income (Note 9)**:**			
Unrealized (losses) gains on available-for-sale securities	(1,491)	1,768	(13,440)
Remeasurements of defined benefit plans (Note 8)	146	105	1,322
Share of other comprehensive loss of affiliates accounted for by the equity method	—	(71)	—
Total other comprehensive (loss) income	(1,344)	1,802	(12,117)
Comprehensive income	12,039	7,352	108,475
Total comprehensive income attributable to:			
Owners of the parent	¥12,039	¥7,352	$108,475

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2019	2018	2019
Common stock			
Beginning of year	¥ 14,840	¥ 14,840	$ 133,706
End of year	¥ 14,840	¥ 14,840	$ 133,706
Capital surplus			
Beginning of year	¥ 23,750	¥ 23,750	$ 213,983
End of year	¥ 23,750	¥ 23,750	$ 213,983
Retained earnings			
Beginning of year	¥ 329,499	¥ 335,518	$ 2,968,732
Net income attributable to owners of the parent	13,384	5,550	120,592
Dividend from surplus, ¥150 per share ($1.35 per share)	(12,176)	(12,176)	(109,707)
Change of scope of equity method	—	607	—
Disposal of treasury stock	—	(0)	—
End of year	¥ 330,707	¥ 329,499	$ 2,979,617
Treasury stock			
Beginning of year	¥ (38,782)	¥ (39,700)	$ (349,426)
Purchase of treasury stock	(2)	(2)	(25)
Disposal of treasury stock	—	0	—
Change in treasury stock arising from change in equity in affiliates accounted for by the equity method	—	919	—
End of year	¥ (38,785)	¥ (38,782)	$ (349,451)
Total shareholders' equity			
Beginning of year	¥ 329,306	¥ 334,408	$ 2,966,995
Net income attributable to owners of the parent	13,384	5,550	120,592
Dividends from surplus, ¥150 per share ($1.35 per share)	(12,176)	(12,176)	(109,707)
Change of scope of equity method	—	607	—
Purchase of treasury stock	(2)	(2)	(25)
Disposal of treasury stock	—	0	—
Change in treasury stock arising from change in equity in affiliates accounted for by the equity method	—	919	—
End of year	¥ 330,512	¥ 329,306	$ 2,977,855
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities			
Beginning of year	¥ 6,952	¥ 5,264	$ 62,637
Net changes in items other than shareholders' equity	(1,491)	1,687	(13,440)
End of year	¥ 5,460	¥ 6,952	$ 49,198
Remeasurements of defined benefit plans			
Beginning of year	¥ (73)	¥ (188)	$ (662)
Net changes in items other than shareholders' equity	146	115	1,322
End of year	¥ 73	¥ (73)	$ 661
Total accumulated other comprehensive income			
Beginning of year	¥ 6,878	¥ 5,076	$ 61,975
Net changes in items other than shareholders' equity	(1,344)	1,802	(12,117)
End of year	¥ 5,533	¥ 6,878	$ 49,858
Subscription rights to shares			
Beginning of year	¥ 1,057	¥ 802	$ 9,527
Net changes in items other than shareholders' equity	274	254	2,469
End of year	¥ 1,331	¥ 1,057	$ 11,996
Total net assets			
Beginning of year	¥ 337,242	¥ 340,287	$ 3,038,498
Net income attributable to owners of the parent	13,384	5,550	120,592
Dividends from surplus, ¥150 per share ($1.35 per share)	(12,176)	(12,176)	(109,707)
Change of scope of equity method	—	607	—
Purchase of treasury stock	(2)	(2)	(25)
Disposal of treasury stock	—	0	—
Change in treasury stock arising from change in equity in affiliates accounted for by the equity method	—	919	—
Net changes in items other than shareholders' equity	(1,070)	2,057	(9,648)
End of year	¥ 337,377	¥ 337,242	$ 3,039,709

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥ 18,340	¥ 8,055	$ 165,249
Depreciation and amortization	3,057	3,081	27,544
Amortization of goodwill	87	134	786
Stock-based compensation expense	264	249	2,387
Decrease in allowance for doubtful accounts	(0)	(14)	(3)
Decrease in accrued employees' bonuses	(12)	(30)	(116)
Increase in net defined benefit liabilities	226	265	2,038
Interest and dividend income	(736)	(923)	(6,638)
Loss on sales or disposal of property, plant and equipment, net	17	21	154
Loss on impairment	310	3,202	2,796
Loss on sale of investments in securities	—	42	—
Loss on devaluation of investments in securities	3,631	—	32,720
Gain on sale of golf club membership	—	(2)	—
Loss on devaluation of golf club membership	1	—	10
Increase in notes and accounts receivable-trade	(4,138)	(7,862)	(37,287)
Increase in inventories	(714)	(454)	(6,435)
Increase in notes and accounts payable-trade	798	7,267	7,196
Increase in accounts receivable arising from outsourced production contracts	(1,507)	(2,562)	(13,585)
Increase (decrease) in accounts payable-other	342	(145)	3,087
(Decrease) increase in consumption taxes payable	(75)	1,132	(678)
Other	(1,096)	4,993	(9,876)
Sub total	18,795	16,449	169,348
Interest and dividend income received	692	728	6,243
Income taxes paid	(2,660)	(1,457)	(23,968)
Income taxes refund	—	242	—
Net cash provided by operating activities	16,828	15,962	151,623
Cash flows from investing activities:			
Payments into time deposits	(11,101)	(11,098)	(100,027)
Proceeds from withdrawal of time deposits	11,100	5,548	100,011
Payment for purchase of marketable securities	(78,000)	(68,000)	(702,766)
Proceeds from redemption of marketable securities	76,000	70,000	684,746
Payment for purchase of property, plant and equipment and intangible fixed assets	(2,387)	(2,930)	(21,510)
Payment for purchase of investments in securities	—	(9)	—
Proceeds from sale of investments in securities	—	544	—
Proceeds from redemption of investments in securities	—	24,000	—
Collection of loans receivable	23	565	213
Payment for loans receivable	—	(200)	—
Other	(2)	(0)	(22)
Net cash (used in) provided by investing activities	(4,367)	18,420	(39,354)
Cash flows from financing activities:			
Payment for finance lease obligations	(4)	(5)	(38)
Payment for purchase of treasury stock	(2)	(2)	(25)
Proceeds from disposal of treasury stock	—	0	—
Cash dividends paid	(12,176)	(12,176)	(109,707)
Net cash used in financing activities	(12,183)	(12,184)	(109,771)
Net increase in cash and cash equivalents	277	22,199	2,498
Cash and cash equivalents at beginning of year	274,017	251,818	2,468,852
Cash and cash equivalents at end of year (Note 3)	¥274,295	¥274,017	$2,471,350

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 2018 financial statements to conform to the classifications used in 2019. 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, 2019.

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 7 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 ($368 thousand), consisting of ¥2 million ($24 thousand) for buildings and structures and ¥37 million ($340 thousand) for machinery and equipment, is deducted from acquisition costs at March 31, 2019 and 2018, 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 7 to 8 years.

(t) Reclassification

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

(u) New Accounting Pronouncements

Accounting Standard for Revenue Recognition, etc.

On March 30, 2018, the Accounting Standards Board of Japan (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 statements.

(v) Changes in Presentation

Partial Amendments to Accounting Standard for Tax Effect Accounting

On February 16, 2018, the ASBJ issued "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28). The Company has applied the accounting standard from April 1, 2018 and "Deferred tax assets" has been presented under "Investments and other assets."

As a result, "Deferred tax assets" in an amount of ¥2,173 million presented under "Current assets" in the consolidated balance sheets as of March 31, 2018 was reclassified to "Deferred tax assets" in an amount of ¥6,740 million presented under "Investments and other assets."

In addition, description has been added to Note 16 "Income Taxes" regarding notes 8 (excluding total amount of valuation allowance), and 9 on the interpretation of the "Accounting Standard for Tax Effect Accounting" provided in paragraphs 3 to 5 of the ASBJ Statement No. 28. However, the additional information corresponding to the previous fiscal year is not shown, following the transitional treatment prescribed in paragraph 7 of the ASBJ Statement No. 28.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥110.99= U.S. $1, the rate of exchange on March 31, 2019, 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and deposits	¥104,847	¥105,568	$ 944,653
Marketable securities	184,999	181,999	1,666,812
Total	289,846	287,567	2,611,465
Bonds and debentures, investment funds and others whose original maturity is more than three months	(10,000)	(8,000)	(90,098)
Time deposits whose deposit term is more than three months	(5,551)	(5,549)	(50,017)
Cash and cash equivalents	¥274,295	¥274,017	$2,471,350

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, 2019 and 2018, since March 31, 2019 and 2018 fell on a bank holiday:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Notes receivable-trade	¥1,154	¥1,125	$10,401

5. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2019 and 2018 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2019				2018			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Short-term corporate bonds	¥ 29,999	¥ 2	¥—	¥ 30,002	¥ 28,999	¥ 0	¥—	¥ 29,000
Certificates of deposit	145,000	—	—	145,000	145,000	—	—	145,000
Total	¥174,999	¥ 2	¥—	¥175,002	¥173,999	¥ 0	¥—	¥174,000

	Thousands of U.S. dollars			
	2019			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Short-term corporate bonds	$ 270,290	$23	$—	$ 270,313
Certificates of deposit	1,306,424	—	—	1,306,424
Total	$1,576,714	$23	$—	$1,576,737

(b) Available-for-Sale Securities

	Millions of yen							
	2019				2018			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Equity securities	¥ 9,721	¥7,870	¥—	¥17,592	¥13,353	¥11,457	¥1,437	¥23,373
Other	10,000	—	—	10,000	8,000	—	—	8,000
Total	¥19,721	¥7,870	¥—	¥27,592	¥21,353	¥11,457	¥1,437	¥31,373

	Thousands of U.S. dollars			
	2019			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Fair value available:				
Equity securities	$ 87,592	$70,910	$—	$158,503
Other	90,098	—	—	90,098
Total	$177,691	$70,910	$—	$248,601

(c) Write down of securities

Securities with a carrying amount of ¥3,631 million ($32,720 thousand) (available-for-sale securities in the amount of ¥3,631 million ($32,720 thousand)) were written down during the year ended March 31, 2019.

No securities were written down during the year ended March 31, 2018.

(d) Loss on devaluation of investments in securities

For the year ended March 31, 2019, loss on devaluation of investments in securities (equity securities) was recognized in an amount of ¥3,631 million ($32,720 thousand).

6. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Investments in securities	¥1,562	¥1,562	$14,075

7. Inventories

Inventories at March 31, 2019 and 2018 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Finished goods and merchandise	¥ 75	¥ 248	$ 682
Work in process	118	285	1,067
Raw materials and supplies	2,682	1,628	24,166
Total	¥2,876	¥2,162	$25,916

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, 2019 and 2018, were as follows (excluding the plans to which a simplified method was applied):

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥4,488	¥4,418	$40,437
Service cost	260	267	2,345
Interest cost	26	26	243
Actuarial differences	(136)	(49)	(1,234)
Benefits paid	(173)	(175)	(1,561)
Balance at end of year	¥4,465	¥4,488	$40,230

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, 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, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥296	¥252	$2,674
Retirement benefit costs	58	52	523
Benefits paid	(20)	(8)	(184)
Balance at end of year	¥334	¥296	$3,012

(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
	2019	2018	2019
Unfunded retirement benefit obligation	¥4,799	¥4,784	$43,242
Net liability recorded in the consolidated balance sheets	4,799	4,784	43,242
Net defined benefit liabilities	4,799	4,784	43,242
Net liability recorded in the consolidated balance sheets	¥4,799	¥4,784	$43,242

(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, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥260	¥267	$2,345
Interest cost	26	26	243
Amortization of actuarial differences	74	102	672
Retirement benefit costs calculated using a simplified method	58	52	523
Retirement benefit costs on defined benefit plans	¥419	¥449	$3,783

(6) Remeasurements of defined benefit plans (before adjusting for tax effects) on other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial differences	¥211	¥152	$1,906
Total	¥211	¥152	$1,906

(7) Remeasurements of defined benefit plans (before adjusting for tax effects) on accumulated other comprehensive income as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized actuarial differences	¥(105)	¥105	$(952)
Total	¥(105)	¥105	$(952)

(8) Actuarial assumptions used for the years ended March 31, 2019 and 2018, were set forth as follows:

	2019	2018
Discount rate	0.6%	0.6%
Estimated salary increase rate	1.3-5.2%	1.3-5.6%

9. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized (losses) gains on available-for-sale securities:			
Loss (gain) incurred during the year	¥(5,781)	¥2,549	$(52,091)
Reclassification adjustment to net income	3,631	—	32,720
Amount before tax effects	(2,149)	2,549	(19,371)
Tax effects	658	(780)	5,931
Unrealized (losses) gains on available-for-sale securities	(1,491)	1,768	(13,440)
Remeasurements of defined benefit plans			
Gain incurred during the year	109	39	987
Reclassification adjustment to net income	102	112	919
Amount before tax effects	211	152	1,906
Tax effects	(64)	(47)	(584)
Remeasurements of defined benefit plans	146	105	1,322
Share of other comprehensive loss in an affiliate accounted for by the equity method:			
Loss incurred during the year	—	(71)	—
Total other comprehensive (loss) income	¥(1,344)	¥1,802	$(12,117)

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, 2019

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2018	89,597,500	8,421,329
Increase in the number of shares during the accounting period ended March 31, 2019	—	665*
Decrease in the number of shares during the accounting period ended March 31, 2019	—	—
Number of shares as of March 31, 2019	89,597,500	8,421,994

Note: *Increase due to the purchase of odd shares (665 shares)

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)

(b) Stock Acquisition Rights

For the year ended March 31, 2019

Issuer	Components	Type of stock to be granted	Number of shares to be granted: April 1, 2018	Increase	Decrease	March 31, 2019	Outstanding balance at March 31, 2019
SANKYO CO., LTD.	Stock acquisition rights as stock options	—	—	—	—	—	**¥1,331 million ($11,996 thousand)**

For the year ended March 31, 2018

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

(c) Matters Related to Dividends

For the year ended March 31, 2019

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 28, 2018 were as follows:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($54,853 thousand)**
Dividends per share	**¥75.00 ($0.68)**
Record date	**March 31, 2018**
Effective date	**June 29, 2018**

Approvals by the Board of Directors' meeting held on November 9, 2018 were as follows:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($54,853 thousand)**
Dividends per share	**¥75.00 ($0.68)**
Record date	**September 30, 2018**
Effective date	**December 3, 2018**

ii) Dividends whose record date is attributed to the year ended March 31, 2019, but become effective after the said year.

The Company obtained the following approval at the ordinary general meeting of shareholders held on June 27, 2019:

Dividends on common stock	
Total amount of dividends	**¥6,088 million ($54,853 thousand)**
Dividends per share	**¥75.00 ($0.68)**
Record date	**March 31, 2019**
Effective date	**June 28, 2019**

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
Dividends per share	¥75.00
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
Dividends per share	¥75.00
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 ordinary general meeting of shareholders held on June 28, 2018:

Dividends on common stock	
Total amount of dividends	¥6,088 million
Dividends per share	¥75.00
Record date	March 31, 2018
Effective date	June 29, 2018

11. Stock Options

The Company recorded stock option related costs under the following accounts for the years ended March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cost of sales	¥ 5	¥ 5	$ 54
Selling, general and administrative expenses	258	243	2,333
Total	¥264	¥249	$2,387

The stock options outstanding as of March 31, 2019 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.

Issuer	SANKYO CO., LTD.
Date of resolution	July 4, 2018
Persons granted	3 directors of the Company
	11 executive officers of the Company
	17 directors of subsidiaries of the Company
Type and number of shares granted	Common stock 78,200 shares
Date of grant	July 20, 2018
Vesting conditions	Not defined
Number of service years	Not defined
Exercise period	From July 21, 2018 through July 20, 2068 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.	SANKYO CO., LTD.
Date of resolution	July 4, 2014	July 3, 2015	July 5, 2016	July 5, 2017	July 4, 2018
Non-vested:					
March 31, 2018 — Outstanding	—	—	—	—	—
Granted	—	—	—	—	78,200
Forfeited	—	—	—	—	—
Vested	—	—	—	—	78,200
March 31, 2019 — Outstanding	—	—	—	—	—
Vested:					
March 31, 2018 — Outstanding	80,600	82,800	98,300	96,900	—
Vested	—	—	—	—	78,200
Exercised	—	—	—	—	—
Forfeited	—	—	—	—	—
March 31, 2019 — Outstanding	80,600	82,800	98,300	96,900	78,200

Unit price information

Issuer	SANKYO CO., LTD.	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	July 4, 2018
Exercise price	¥1 ($0.01)	¥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 ($26.62)	¥3,465 ($31.22)	¥2,826 ($25.46)	¥2,628 ($23.68)	¥3,504 ($31.57)

The estimation method of fair value of stock options granted in the year ended March 31, 2019
a. The valuation technique is Black-Scholes model.
b. Main basic assumptions and estimation method

Stock price volatility	(Note 1)	22.07%
Expected remaining service period	(Note 2)	6.84 years
Expected cash dividend	(Note 3)	¥150 per share ($1.35)
Risk-free interest rate	(Note 4)	-0.059%

Notes: 1. Stock price volatility is computed based on actual stock prices for the period of 6 years and 10 months (September 2011 through July 2018).
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, 2018.
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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Due within one year	¥13	¥11	$119
Due after one year	25	27	228
Total	¥38	¥38	$347

13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Sales commission	¥ 2,824	¥ 4,308	$ 25,447
Advertisement expenses	1,180	1,931	10,639
Salaries and wages	3,125	3,058	28,163
Provision for reserve for bonuses	386	380	3,482
Retirement benefit costs	204	228	1,845
Provision for allowance for doubtful accounts	(0)	(14)	(3)
Research and development expenses	14,631	17,482	131,828

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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Gain on sales of property, plant and equipment:			
Machinery and equipment	¥ 1	¥ —	$ 10
Total	¥ 1	¥ —	$ 10
Loss on sales of property, plant and equipment			
Other	¥ —	¥ (2)	$ —
Total	¥ —	¥ (2)	$ —
Loss on disposal of property, plant and equipment:			
Buildings and structures	¥ (3)	¥ (3)	$ (31)
Machinery and equipment	(1)	(7)	(11)
Tools, furniture and fixtures	(13)	(7)	(122)
Total	¥(18)	¥(18)	$(164)
Loss on sales and disposal of property, plant and equipment, net	¥(17)	¥(21)	$(154)

15. Loss on Impairment

The Companies recorded a loss on impairment for the following groups of assets for the years ended March 31, 2019 and 2018:

Year ended March 31, 2019

Location	Use	Type	Millions of yen	Thousands of U.S. dollars
Kiryu city,	Idle assets	Buildings and structures	¥181	$1,639
Gunma Pref.		Land	128	1,157

Year ended March 31, 2018

Location	Use	Type	Millions of yen
Takasaki city,	Golf course	Buildings and structures	¥1,622
Gunma Pref.		Other	1,223
Kiryu city,	Idle assets	Land	356
Gunma Pref.			

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

For the year ended March 31, 2019, the carrying amounts of the above assets at Kiryu-Sakaino Plant were reduced to their recoverable amounts and the reduced amounts were recorded as loss on impairment under "Other expenses," since a determination was made to demonish the buildings, etc. in the year ended March 31, 2019.

The recoverable amount is measured at the net selling value. The carrying amounts of buildings and structures are reduced to nil since they will be demolished, and the recoverable amount of land is measured based on the carrying amount.

For the year ended March 31, 2018, 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.

16. Income Taxes

The Companies are subject to a number of different taxes based on income which, in aggregate, indicate statutory effective tax rates of approximately 30.6% and 30.9% for the years ended March 31, 2019 and 2018, respectively.

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, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Accrued enterprise taxes	¥ 272	¥ 208	$ 2,458
Unrealized profits on inventories	4	6	39
Accrued employees' bonuses	242	246	2,185
Allowance for doubtful accounts	7	7	65
Net defined benefit liabilities	1,469	1,465	13,243
Accumulated depreciation	2,620	3,406	23,612
Unrealized profit on property, plant and equipment	122	122	1,101
Allowance for losses on investments in securities	116	116	1,048
Research and development expenses	1,494	917	13,465
Loss on impairment	3,411	3,356	30,740
Loss on devaluation of investments in securities	9	9	87
Long-term payables	767	767	6,918
Subscription rights to shares	399	317	3,595
Tax loss carryforwards (Note 2)	518	505	4,669
Deferred assets	461	463	4,160
Other	250	238	2,257
Sub-total deferred tax assets	¥12,168	¥12,156	$109,640
Valuation allowance on the total of future deductible temporary differences	(2,390)	—	(21,534)
Less-valuation allowance (Note 1)	(2,390)	(2,345)	(21,534)
Deferred tax assets	¥ 9,778	¥ 9,810	$ 88,106
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥ (2,409)	¥ (3,068)	$ (21,713)
Other	(2)	(1)	(21)
Deferred tax liabilities	(2,412)	(3,069)	(21,734)
Deferred tax assets, net	¥ 7,366	¥ 6,740	$ 66,372

Notes: 1. There were no significant changes in the valuation allowance from the previous fiscal year.
2. Tax loss carryforwards and deferred tax assets at March 31, 2019 are as follows:

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

	Within one year	After one year within two years	After two years within three years	After three years within four years	After four years within five years	After five years	Total
Tax loss carryforwards (a)	¥—	¥139	¥224	¥—	¥—	¥154	¥518
	($—)	($1,260)	($2,021)	($—)	($—)	($1,389)	($4,669)
Valuation allowance	—	—	—	—	—	—	—
Deferred tax assets	—	139	224	—	—	154	(b) ¥518
	(—)	(1,260)	(2,021)	(—)	(—)	(1,389)	(4,669)

(a) Tax loss carryforwards are computed by multiplying with the statutory tax rate.
(b) Deferred tax assets of ¥518 million ($4,669 thousand) were recorded on tax loss carryforwards of ¥518 million ($4,669 thousand) (multiplied by the statutory tax rate).
No valuation allowance was recognized on the said tax loss carryforwards, since all the amounts are considered to be recoverable judging from the estimated future taxable income.

Reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2019 is as follows:

	2019
Normal effective statutory tax rate	30.6%
Expenses not deductible for income tax purposes	0.3
Non-taxable income	(0.4)
Per capita inhabitant taxes	0.3
Tax credit for research and development expenses	(4.0)
Changes in valuation allowance	0.2
Other – net	0.0
Actual effective tax rate	27.0%

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%.

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, 2019 and 2018 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, 2019	Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	¥104,847	¥104,847	¥ —
(2) Notes and accounts receivable—trade	30,627		
Allowance for doubtful accounts	(2)		
	30,625	30,411	(214)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	174,999	175,002	2
Available-for-sale securities	27,592	27,592	—
Total assets	¥338,064	¥337,852	¥(212)
(4) Notes and accounts payable—trade	¥ 11,246	¥ 11,246	¥ —
(5) Electronically recorded obligations	10,042	10,042	—
(6) Bonds with subscription rights to shares	20,026	19,987	(39)
Total liabilities	¥ 41,315	¥ 41,275	¥ (39)

	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

	Thousands of U.S. dollars		
March 31, 2019	Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	$ 944,653	$ 944,653	$ —
(2) Notes and accounts receivable—trade	275,951		
Allowance for doubtful accounts	(19)		
	275,932	273,998	(1,934)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	1,576,714	1,576,737	23
Available-for-sale securities	248,601	248,601	—
Total assets	$3,045,900	$3,043,989	$(1,911)
(4) Notes and accounts payable—trade	101,329	101,329	—
(5) Electronically recorded obligations	90,479	90,479	—
(6) Bonds with subscription rights to shares	180,437	180,079	(357)
Total liabilities	$ 372,245	$ 371,887	$ (357)

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 ($14,788 thousand) and ¥1,641 million at March 31, 2019 and 2018, 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.”

3. Redemption schedule of monetary assets and securities with contractual maturities at March 31, 2019 and 2018 was as follows:

	Millions of yen	
March 31, 2019	Within one year	One to five years
(1) Cash and deposits	¥104,847	¥ —
(2) Notes and accounts receivable—trade	27,264	3,363
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Short-term corporate bonds)	30,000	—
Held-to-maturity debt securities (Certificates of deposits)	145,000	—

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, 2019	Thousands of U.S. dollars Within one year	 One to five years
(1) Cash and deposits	$ 944,653	$ —
(2) Notes and accounts receivable—trade	245,645	30,306
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Short-term corporate bonds)	270,295	—
Held-to-maturity debt securities (Certificates of deposits)	1,306,424	—

4. Redemption schedule of bonds with subscription rights to shares at March 31, 2019 and 2018 was as follows:

March 31, 2019	Millions of yen Within one year	 One to five years
(1) Bonds with subscription rights to shares	¥—	¥20,000

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

March 31, 2019	Thousands of U.S. dollars Within one year	 One to five years
(1) Bonds with subscription rights to shares	$—	$180,196

18. Asset Retirement Obligations

Asset retirement obligations recorded on the consolidated balance sheets at March 31, 2019 and 2018 were as follows:

(1) Overview of asset retirement obligations
Asset retirement obligations at March 31, 2019 and 2018 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 2019	 2018	Thousands of U.S. dollars 2019
Beginning balance	¥62	¥63	$562
Increase due to purchase of property, plant and equipment	2	—	27
Adjustment by time elapsed	0	0	3
Decrease due to settlement of asset retirement obligations	(3)	(1)	(29)
Ending balance	¥62	¥62	$562

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, 2019

	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustment[*2]	Consolidated[*3]
Sales:								
Customers	¥ 75,792	¥ 5,979	¥6,214	¥ 87,987	¥ 571	¥ 88,558	¥ —	¥ 88,558
Intersegment	—	—	—	—	—	—	—	—
Total	75,792	5,979	6,214	87,987	571	88,558	—	88,558
Segment profit (loss)	26,861	(942)	400	26,320	(318)	26,001	(4,715)	21,286
Segment asset	117,114	17,456	9,612	144,183	9,865	154,049	245,536	399,585
Others								
Depreciation and amortization[*4]	2,174	452	13	2,640	244	2,884	172	3,057
Amortization of goodwill	—	—	—	—	87	87	—	87
Increase in property, plant and equipment and intangible fixed assets[*4]	1,934	394	0	2,329	85	2,414	70	2,485

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

	Thousands of U.S. dollars							
	For the year ended March 31, 2019							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	$ 682,881	$ 53,878	$55,990	$ 792,750	$ 5,146	$ 797,896	$ —	$ 797,896
Intersegment	—	—	—	—	—	—	—	—
Total	682,881	53,878	55,990	792,750	5,146	797,896	—	797,896
Segment profit (loss)	242,020	(8,489)	3,611	237,141	(2,868)	234,273	(42,490)	191,783
Segment asset	1,055,182	157,277	86,606	1,299,065	88,889	1,387,954	2,212,239	3,600,193
Others								
Depreciation and amortization*4	19,590	4,077	121	23,788	2,201	25,989	1,555	27,544
Amortization of goodwill	—	—	—	—	786	786	—	786
Increase in property, plant and equipment and intangible fixed assets*4	17,428	3,557	4	20,989	767	21,756	634	22,390

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 (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, 2019 and 2018.
2. Geographical segment information
   (1) Sales
   There were no sales to customers outside Japan and no applicable data for the years ended March 31, 2019 and 2018.
   (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, 2019 and 2018.
3. Major customer segment information
   Major customer segment information is omitted for the years ended March 31, 2019 and 2018 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, 2019

	(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	¥—	¥—	¥—	¥—	¥— ($—)	¥310 ($2,796)	¥310 ($2,796)

Note: * “Eliminations/Corporate” corresponds to loss on impairment of corporate assets not attributed to any reporting segment.

For the year ended March 31, 2018

	(Millions of yen)						
	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate*	Total
Loss on impairment	¥—	¥—	¥—	¥—	¥2,846	¥356	¥3,202

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.

Information on Amortization of Goodwill and Remaining Balance by Segment
For the year ended March 31, 2019

(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	¥—	¥—	¥—	¥—	¥87 ($786)	¥—	¥87 ($786)
Balance at end of year	¥—	¥—	¥—	¥—	¥45 ($409)	¥—	¥45 ($409)

Note: * Amounts shown correspond to mobile contents service.

For the year ended March 31, 2018

(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	¥—	¥—	¥—	¥—	¥134	¥—	¥134
Balance at end of year	¥—	¥—	¥—	¥—	¥132	¥—	¥132

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, 2019 and 2018.

20. Per Share Information

	Yen		U.S. dollars
	2019	2018	2019
Net assets per share*1	¥4,139.74	¥4,141.43	$37.30
Net income per share*2	164.88	68.37	1.49
Diluted net income per share*3	156.49	64.86	1.41

Above information was computed based on the following data:

	Year ended March 31,	
	2019	2018
*1 Net assets per share:		
Total net assets	¥337,377 million ($3,039,709 thousand)	¥337,242 million
Amount to be deducted from total net assets	¥1,331 million ($11,996 thousand)	¥1,057 million
(Of which subscription rights to shares)	(¥1,331 million) (($11,996 thousand))	(¥1,057 million)
Net assets attributable to common stock	¥336,045 million ($3,027,713 thousand)	¥336,185 million
Number of outstanding shares of common stock	89,597,500 shares	89,597,500 shares
Number of treasury stock	8,421,994 shares	8,421,329 shares
Number of common stock used in computing net asset per share	81,175,506 shares	81,176,171 shares

*2 Net income per share:		
Net income attributable to owners of the parent	¥13,384 million ($120,592 thousand)	¥5,550 million
Net income not attributable to common stock shareholders of the parent	—	—
Net income attributable to common stock shareholders	¥13,384 million ($120,592 thousand)	¥5,550 million
Weighted average number of common stock	81,175,841 shares	81,176,540 shares

*3 Diluted net income per share:	2019	2018
Adjustment to net income	¥(13) million ($(125) thousand)	¥(13) million
Increase in common stock	4,263,519 shares	4,179,373 shares
(Of which bonds with subscription rights to shares)	(3,850,597 shares)	(3,850,597 shares)
(Of which subscription rights to shares)	(412,922 shares)	(328,776 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

There were no related party transactions to be noted for the years ended March 31, 2019 and 2018.

22. Significant Subsequent Events

There are no significant subsequent events to be reported.

23. Significant Subsidiaries

The domestic consolidated subsidiaries at March 31, 2019 and 2018 were as follows:

	Ownership		
At March 31	2019	2018	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

Building a better working world

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1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan

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Fax: +81 3 3503 1506
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Independent Auditor's Report

The Board of Directors
SANKYO Co., Ltd.

We have audited the accompanying consolidated financial statements of SANKYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, 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, 2019, 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

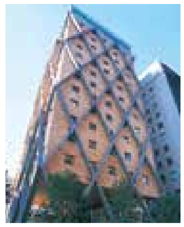
June 28, 2019
Tokyo, Japan

Company Information / Stock Information

Corporate Data (As of March 31, 2019)

Company Name
SANKYO CO., LTD.

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



Head Office

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

Sanwa Plant

Established	April 1966
Paid-in Capital	¥14,840 million
Number of Employees	982 (Consolidated) 778 (SANKYO CO., LTD.)

Board of Directors (As of June 27, 2019)

Representative Director, Chairman of the Board & CEO
Hideyuki Busujima

Representative Director, President & COO
Kimihisa Tsutsui

Director & Senior Executive Vice President
Ichiro Tomiyama

Outside Directors
Taro Kitani
Hiroyuki Yamasaki

Standing Statutory Auditor
Takafumi Okubo

Statutory Auditor
Toshiaki Ishiyama

Outside Statutory Auditors
Yoshiro Sanada
Fumiyoshi Noda

Senior Executive Operating Officer
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

Stock Information (As of March 31, 2019)

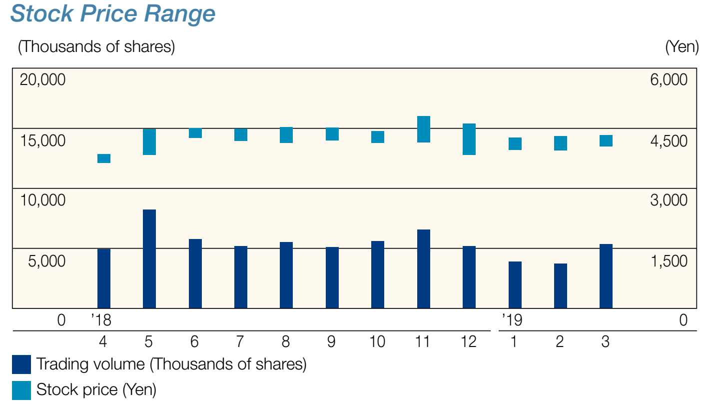
Number of Shares Authorized	144,000,000
Number of Shares Issued	89,597,500
Number of Shareholders	10,539

Major Shareholders (As of March 31, 2019)

Name of shareholde	Number of Shares held (Thousands)	Shareholding Ratio (%)
Marf Corporation	28,346	34.91
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,781	4.65
Japan Trustee Services Bank, Ltd. (Trust Account)	3,492	4.30
Noriko Akaishi	2,506	3.08
Akiko Busujima	2,506	3.08
Hideyuki Busujima	2,431	2.99
STATE STREET BANK WEST CLIENT-TREATY 505234	1,559	1.92
THE BANK OF NEW YORK MELLON 140042	1,100	1.35
Japan Trustee Services Bank, Ltd. (Trust Account 5)	982	1.20
FIELDS CORPORATION	980	1.20

Notes: 1. Number of shares less than 1,000 is truncated.
2. Percentage of shareholding is calculated excluding treasury stock (8,421,994 shares).

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

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

Good luck. Good life.

SANKYO

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