

Good luck. Good life.



SANKYO CO., LTD.

*Aiming for Sustainable Growth*

*Annual Report 2018*

*Year ended March 31, 2018*

*2018*

A large, abstract graphic in the bottom half of the page. It consists of several overlapping circles and a series of parallel lines that create a sense of motion and depth. The colors are various shades of blue and white, with a bright light source at the bottom right.

## Aiming for Sustainable Growth

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

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

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### Cautionary Statements with Respect to Forward-Looking Statements

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

# Consolidated Financial Highlights

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

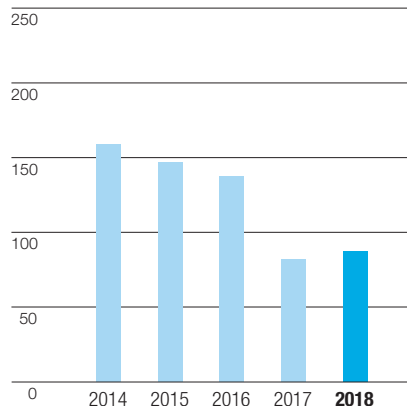
|                                                 | Millions of yen |          | Thousands of U.S. dollars (Note) |
|-------------------------------------------------|-----------------|----------|----------------------------------|
|                                                 | 2018            |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

|                        | Yen     | U.S. dollars |
|------------------------|---------|--------------|
| <b>Per share data:</b> |         |              |
| Net income (basic)     | ¥ 68.37 | ¥ 21.94      |
| Cash dividends         | 150.00  | 150.00       |

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

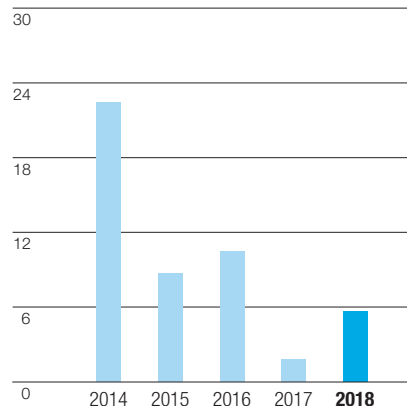
## Net Sales

(Billions of yen)



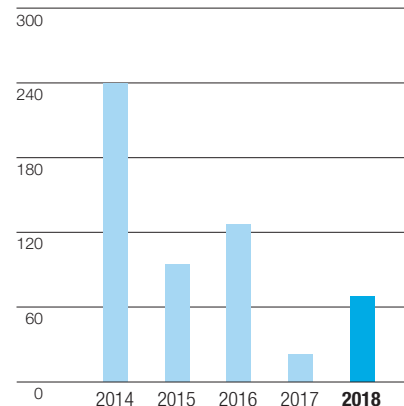
## Net Income Attributable to Owners of the Parent

(Billions of yen)



## Net Income per Share (basic)

(Yen)



# Interview with the Management



*H. Busujima*

Hideyuki Busujima  
Chairman of the Board & CEO



*K. Tsutsui*

Kimihisa Tsutsui  
President & COO

Q<sub>1</sub>

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

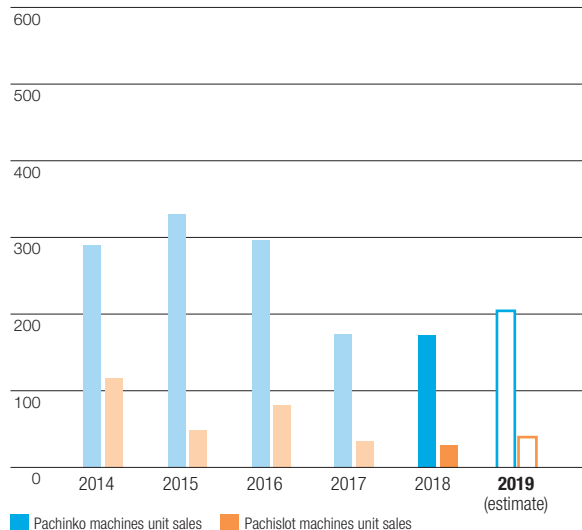
A

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

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

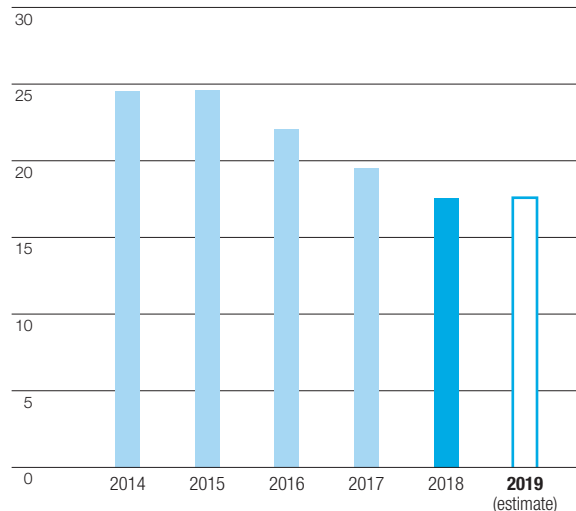
**Pachinko and Pachislot Machines Unit Sales of the SANKYO Group**

(Thousands of units)



**Trend of R&D Expenditure**

(Billions of yen)



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

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

**Q<sub>2</sub>**

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

**A**

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

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

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

## Q<sub>3</sub>

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

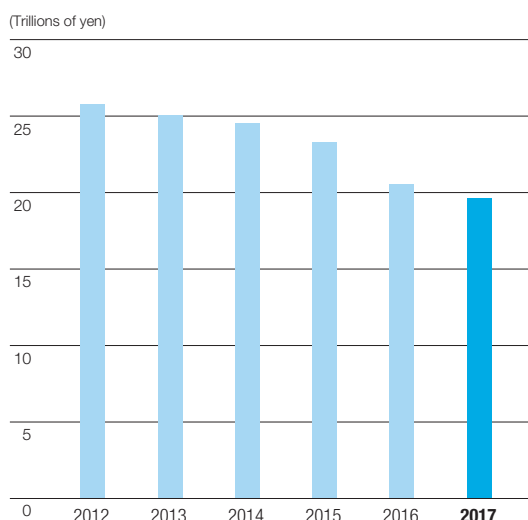
#### A

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

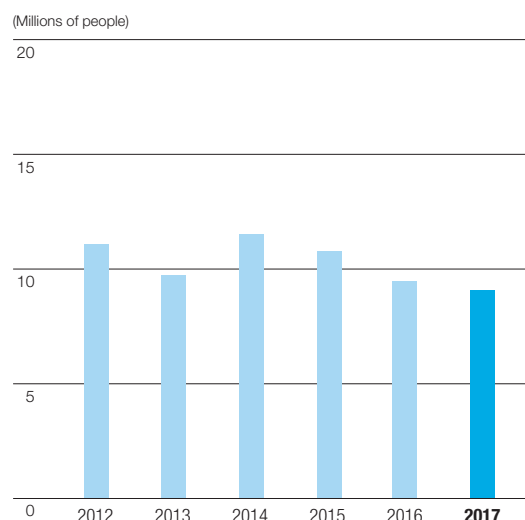
Reflecting these developments, the Amended Pachinko and Pachislot Machines Regulations came into force in February 2018. The pachinko and pachislot industry is implementing industry-wide measures to discourage players from becoming overly immersed in playing pachinko and pachislot, one of the objectives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

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

**Trend of Ball/Token Rental Revenues**



**Trend of Pachinko/Pachislot Player Population**



Source: 2018 Leisure White Paper, Japan Productive Center

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

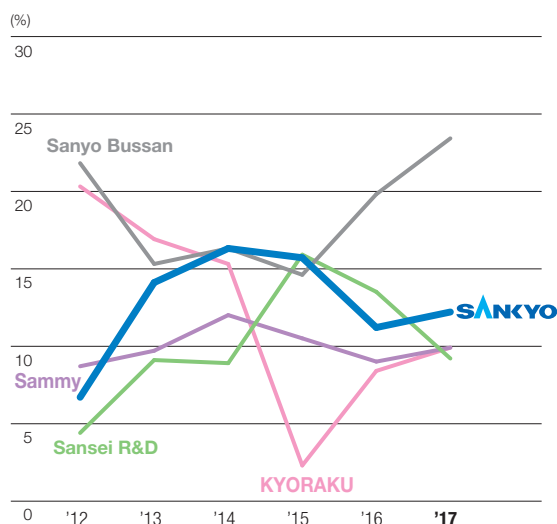
Q<sub>4</sub>

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

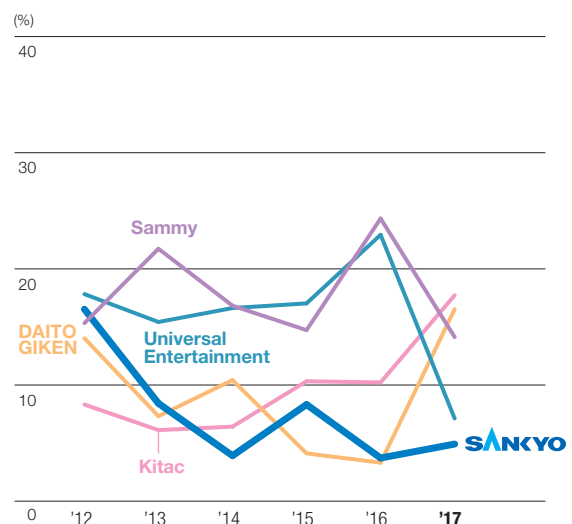
A

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

Pachinko Machine Sales Share



Pachislot Machine Sales Share



Source: Yano Research Institute

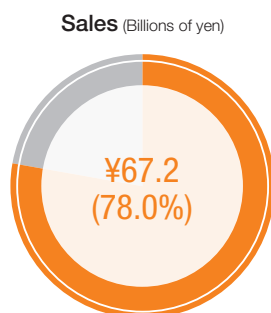
*Symphogear* gained the first place in the pachinko category of Players' Choice Pachinko and Pachislot Award 2017 held by the PACHINKO Advertising Association and the grand prix of the 7th Pachinko & Pachislot Award held by Nichiyukyo, an industry association.

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

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

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

## Pachinko Machines Business



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

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

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

### Principal models introduced and numbers of machines sold during fiscal 2018

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



*EVANGELION 2018 Model*  
©カラー



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

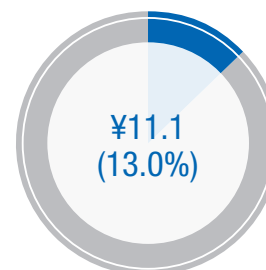
## Pachislot Machines Business

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

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

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

Sales (Billions of yen)



Principal models introduced and numbers of machines sold during fiscal 2018

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



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



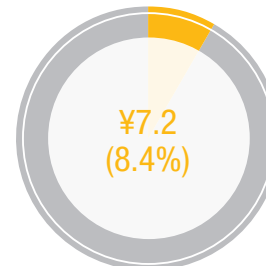
*Evangelion "to You the Sincerity 2"*  
©カラー/Project Eva.

## Ball Bearing Supply Systems Business

Ball bearing supply systems, card systems, related equipment for parlors and ball bearing supply system-related royalty income account for most of the sales of this segment, which contributed 8.4% of net sales.

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

Sales (Billions of yen)

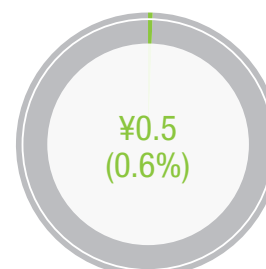


## Other Businesses

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

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

Sales (Billions of yen)



# T O P I C S

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

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

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

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

We are confident pachinko machines with payout settings will attract many players to pachinko parlors right

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

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

Please count on the SANKYO Group.



Six jackpot probabilities

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

*Fever Valvrave the Liberator W*  
©SUNRISE/VV Committee, MBS

# Financial Review

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

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

## Business Environment in Fiscal 2018

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

Regarding the environment surrounding the pachinko and pachislot industry, as part of initiatives for countermeasures for compulsive gambling, the Regulations Partially Amending the Ordinance for Enforcement of the Act to Control Businesses That May Affect Public Morals and the Regulations Concerning the Certification and Official Inspection of Game Machines ("Amended Pachinko and Pachislot Machines Regulations") were promulgated in September 2017 and came into force on February 1, 2018. The pachinko and pachislot machines that are compliant with the former regulations are required to be

removed or replaced with ones compliant with the new regulations during the three-year period for a transitional measure. However, during the fiscal year under review, as the launch of pachinko and pachislot machines certified by format inspection under the new regulations has not yet started, it is difficult to forecast how players will react to the pachinko and pachislot machines compliant with the new regulations that will be introduced in the market, and consequently pachinko parlors are postponing decision-making on the revision of the current mix of pachinko and pachislot machines installed. Thus, the market for sales of pachinko and pachislot machines remained sluggish.

## Net Sales

The Group introduced 15 pachinko titles (excluding re-use models) and six pachislot titles.

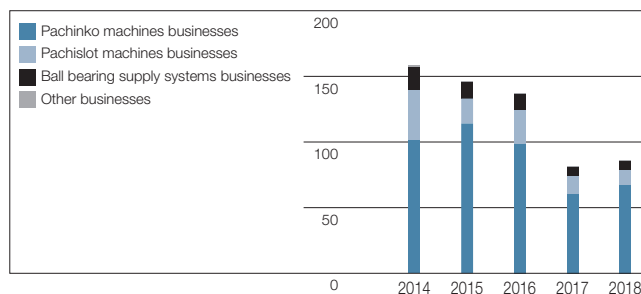
Although an operating loss was recorded for the first nine months of the fiscal year ended March 31, 2018 because the Group introduced only five new pachinko titles during the first six months, the Group introduced 10 titles in the second half to regain momentum. Moreover, *Fever Symphogear*, a pachinko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

recovery trend of both sales and profit became apparent.

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

### Net Sales

(Billions of yen)



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

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

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

ratio of operating income to net sales increased 5.6 percentage points from the previous fiscal year to 11.8%.

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

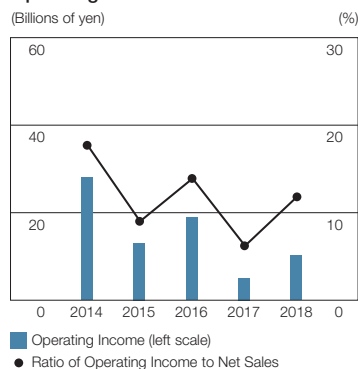
Profit attributable to owners of parent increased ¥3.7 billion from ¥1.7 billion for the previous fiscal year to ¥5.5 billion. Earnings per share was ¥68.37 compared with ¥21.94 for the previous fiscal year.

## Segment Information by Business

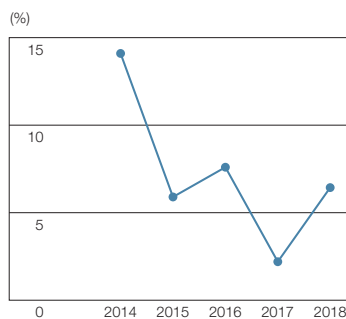
| (Millions of yen)                    |         |                     |         |
|--------------------------------------|---------|---------------------|---------|
| Net sales                            | 2018    | Year-on-year change | 2017    |
| Pachinko machines business           | ¥67,271 | 11.1%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

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

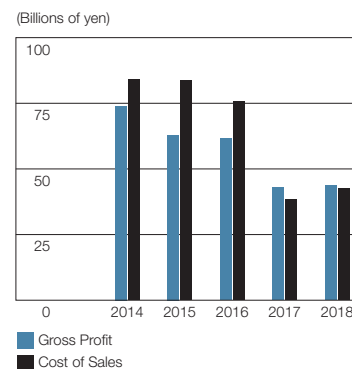
Operating Income and Ratio of Operating Income to Net Sales



Return on Sales (ROS)



Gross Profit and Cost of Sales



## Fiscal 2019 Forecast

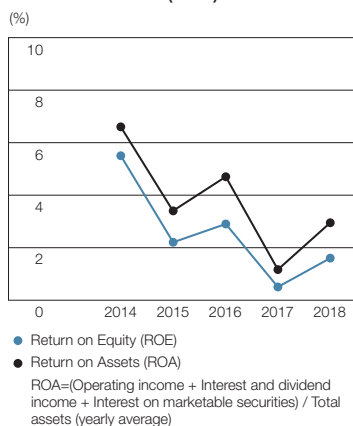
The next fiscal year ending March 31, 2019 is the first full year for enforcement of the Amended Pachinko and Pachislot Machines Regulations and of the three-year period for a transitional measure during which it is possible to continue sales of products that were certified by format inspection under the former regulations. Regarding machines compliant with the new regulations that will be introduced in the market from now on, it is difficult to forecast how players will react to them because the total payout of such machines is lower than that of machines compliant with the former regulations. However, competition in development of products that can be played at a

more reasonable cost is expected and there are certain elements that lead to new gaming performance, such as pachinko machines with payout settings. Therefore, the Group intends to vigorously apply for format inspection of machines compliant with the new regulations so that they can be introduced to the market in parallel with sales of machines compliant with the former regulations.

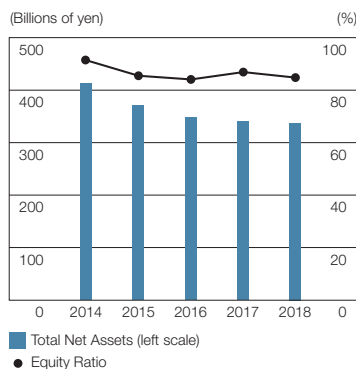
The Group's plan calls for sales volumes for the fiscal year ending March 31, 2019, of 205,500 pachinko machines and 39,000 pachislot machines.

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

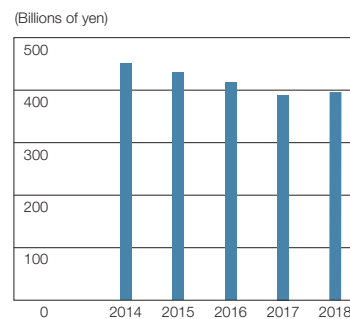
**Return on Equity (ROE)  
Return on Assets (ROA)**



**Total Net Assets and Equity Ratio**



**Total Assets**



## Assets, Liabilities, and Net Assets

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

Total liabilities amounted to ¥59.0 billion, having increased ¥8.7 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥3.6 billion increase in notes and accounts payable-trade, a ¥3.2 billion increase in electronically

recorded obligations, and a ¥1.0 billion increase in accounts payable-other (included in “Other” of Current liabilities).

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

## Cash Flows

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

### Cash flows from operating activities

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

### Cash flows from investing activities

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

### Cash flows from financing activities

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

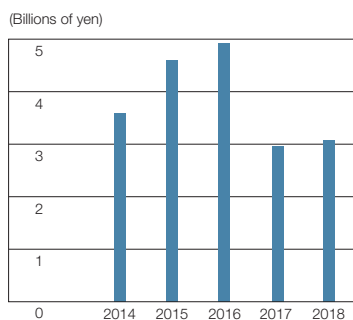
## Forecast of the Financial Position in Fiscal 2019

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

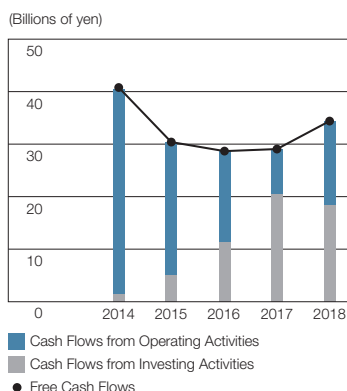
utable to payment of cash dividends.

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

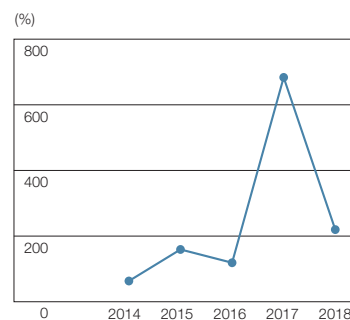
Depreciation



Free Cash Flows



Payout Ratio



## Risk Factors

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Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2019 and beyond include the items described below. Forward-looking statements in this document represent the Group's assumptions and judgment as of the end of fiscal 2018, but do not cover all potential risks.

### ***Change in the market environment***

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

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

### ***Regulations***

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

### ***Intellectual property rights***

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

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

### ***Development of new models***

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

# Consolidated Balance Sheets

SANKYO CO., LTD. and Its Consolidated Subsidiaries  
As of March 31, 2018 and 2017

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

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

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

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

# Consolidated Statements of Income

SANKYO CO., LTD. and Its Consolidated Subsidiaries  
For the years ended March 31, 2018 and 2017

|                                                                              | Millions of yen |         | Thousands of<br>U.S. dollars<br>(Note 2) |
|------------------------------------------------------------------------------|-----------------|---------|------------------------------------------|
|                                                                              | 2018            | 2017    | 2018                                     |
| <b>Net sales</b>                                                             | <b>¥86,220</b>  | ¥81,455 | <b>\$811,565</b>                         |
| <b>Cost of sales</b> (Note 11)                                               | <b>42,506</b>   | 38,409  | <b>400,099</b>                           |
| Gross profit                                                                 | <b>43,714</b>   | 43,045  | <b>411,467</b>                           |
| <b>Selling, general and administrative expenses</b> (Notes 11 and 13)        | <b>33,533</b>   | 37,986  | <b>315,636</b>                           |
| Operating income                                                             | <b>10,181</b>   | 5,059   | <b>95,830</b>                            |
| <b>Other income (expenses):</b>                                              |                 |         |                                          |
| Interest and dividend income                                                 | <b>923</b>      | 800     | <b>8,691</b>                             |
| Equity in loss of affiliates                                                 | —               | (2,216) | —                                        |
| Loss on sales or disposal of property, plant<br>and equipment, net (Note 14) | <b>(21)</b>     | (52)    | <b>(202)</b>                             |
| Loss on impairment (Note 15)                                                 | <b>(3,202)</b>  | —       | <b>(30,143)</b>                          |
| Loss on sale of investments in securities (Note 17)                          | <b>(42)</b>     | —       | <b>(397)</b>                             |
| Loss on devaluation of investments in securities                             | —               | (85)    | —                                        |
| Loss on investments in partnership                                           | —               | (3)     | —                                        |
| Gain (loss) on sale of golf club membership                                  | <b>2</b>        | (8)     | <b>19</b>                                |
| Other, net                                                                   | <b>214</b>      | 192     | <b>2,022</b>                             |
| Income before income taxes                                                   | <b>8,055</b>    | 3,685   | <b>75,821</b>                            |
| <b>Income taxes</b> (Note 16):                                               |                 |         |                                          |
| Current                                                                      | <b>2,655</b>    | 2,105   | <b>24,996</b>                            |
| Deferred                                                                     | <b>(150)</b>    | (198)   | <b>(1,419)</b>                           |
| Total income taxes                                                           | <b>2,504</b>    | 1,907   | <b>23,576</b>                            |
| <b>Net income</b>                                                            | <b>5,550</b>    | 1,777   | <b>52,244</b>                            |
| <b>Net income attributable to:</b>                                           |                 |         |                                          |
| Owners of the parent                                                         | <b>¥ 5,550</b>  | ¥ 1,777 | <b>\$ 52,244</b>                         |
|                                                                              | Yen             |         | U.S. dollars<br>(Note 2)                 |
| <b>Net income per share</b> (Note 20):                                       |                 |         |                                          |
| Basic                                                                        | <b>¥ 68.37</b>  | ¥ 21.94 | <b>\$0.64</b>                            |
| Diluted                                                                      | <b>64.86</b>    | 20.73   | <b>0.61</b>                              |
| <b>Cash dividends per share</b> (Note 10)                                    | <b>150.00</b>   | 150.00  | <b>1.41</b>                              |

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

# Consolidated Statements of Comprehensive Income

SANKYO CO., LTD. and Its Consolidated Subsidiaries  
For the years ended March 31, 2018 and 2017

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

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

# Consolidated Statements of Changes in Net Assets

SANKYO CO., LTD. and Its Consolidated Subsidiaries  
For the years ended March 31, 2018 and 2017

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

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

# Consolidated Statements of Cash Flows

SANKYO CO., LTD. and Its Consolidated Subsidiaries  
For the years ended March 31, 2018 and 2017

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

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

# Notes to the Consolidated Financial Statements

## 1. Summary of Significant Accounting Policies

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### **(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 Kan-to Finance Bureau in Japan have been reclassified in the accompanying consolidated financial statements for the convenience of readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2017 financial statements to conform to the classifications used in 2018. In conformity with the Companies Act of Japan and the other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items.

### **(b) Consolidation Principles**

The consolidated financial statements include the accounts of the Company and its five significant wholly owned subsidiaries. All significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated on consolidation.

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

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

Other immaterial unconsolidated subsidiaries and affiliates are stated at cost.

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

### **(c) Foreign Currency Translation**

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

### **(d) Cash and Cash Equivalents**

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

### **(e) Marketable Securities and Investments in Securities**

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

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates not accounted for by the equity method, or available-for-sale securities

has declined significantly and such impairment of value is not deemed temporary, those securities are written down to fair value and the resulting losses are included in net income or loss for the period.

**(f) Allowance for Doubtful Accounts**

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

**(g) Allowance for Losses on Investments in Securities**

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

**(h) Inventories**

Inventories are stated at the lower of cost, or selling value.

The cost is determined as follows:

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

**(i) Property, Plant and Equipment**

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

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

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

**(j) Accrued Employees' Bonuses**

Accrued employees' bonuses are recorded based on the estimated amounts payable at the end of the fiscal year.

**(k) Accounting for Retirement Benefits**

The projected benefit obligations are attributed to periods on a straight-line basis.

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

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

**(l) Leases**

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

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

**(m) Research and Development and Computer Software**

Research and development expenses are charged to income as incurred.

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

**(n) Construction Contracts**

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

**(o) Income Taxes**

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

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

**(p) Appropriation of Retained Earnings**

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

**(q) Net Income and Cash Dividends per Share**

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

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

**(r) Consumption Taxes**

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

**(s) Amortization of Goodwill**

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

**(t) Reclassification**

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

**(u) New Accounting Pronouncements**

**Implementation Guidance on Tax Effect Accounting, etc.**

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

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

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

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

**Accounting Standard for Revenue Recognition, etc.**

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

These are comprehensive accounting standards for revenue recognition.

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

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

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

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

**(v) Changes in Presentation**

**Consolidated Statements of Cash Flows**

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

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

## 2. U.S. Dollar Amounts

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

## 3. Cash and Cash Equivalents

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

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

## 4. Notes Receivable

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

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

## 5. Marketable Securities and Investments in Securities

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

### (a) Held-to-Maturity Debt Securities

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

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

**(b) Available-for-Sale Securities**

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

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

**(c) Securities whose holding purpose was changed**

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

## 6. Investments in Unconsolidated Subsidiaries and Affiliates

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

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

## 7. Inventories

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

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

## 8. Retirement Benefit Plan

### 1. Overview of retirement benefit plans

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

### 2. Defined benefit plans

(1) The changes in retirement benefit obligation for the years ended March 31, 2018 and 2017, were as follows (excluding the plans to which a simplified method was applied):

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

(2) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows (excluding the plans to which a simplified method was applied):  
There is no corresponding information to be reported.

(3) The changes in net defined benefit liabilities under the plans to which a simplified method was applied for the years ended March 31, 2018 and 2017:

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

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

|                                                           | Millions of yen |        | Thousands of U.S. dollars |
|-----------------------------------------------------------|-----------------|--------|---------------------------|
|                                                           | 2018            | 2017   | 2018                      |
| Unfunded retirement benefit obligation                    | ¥4,784          | ¥4,671 | \$45,038                  |
| Net liability recorded in the consolidated balance sheets | 4,784           | 4,671  | 45,038                    |
| Net defined benefit liabilities                           | 4,784           | 4,671  | 45,038                    |
| Net liability recorded in the consolidated balance sheets | ¥4,784          | ¥4,671 | \$45,038                  |

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

(5) The components of retirement benefit costs for the years ended March 31, 2018 and 2017, were as follows:

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

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

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

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

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

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

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

## 9. Other Comprehensive Income

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

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

## 10. Shareholders' Equity

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

### (a) Type and Number of Shares Outstanding and Treasury Stock For the year ended March 31, 2018

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

Notes: \*1. Increase due to the purchase of odd shares (675 shares)

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

**For the year ended March 31, 2017**

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

Notes: \*1. Increase due to the purchase of odd shares (700 shares)

\*2. Decrease due to exercise of stock options (600 shares)

**(b) Stock Acquisition Rights**

**For the year ended March 31, 2018**

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

**For the year ended March 31, 2017**

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

**(c) Matters Related to Dividends**

**For the year ended March 31, 2018**

**i) Dividend payment**

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

|                           |                                           |
|---------------------------|-------------------------------------------|
| Dividends on common stock |                                           |
| Total amount of dividends | <b>¥6,088 million (\$57,307 thousand)</b> |
| Dividends per share       | <b>¥75.00 (\$0.71)</b>                    |
| Record date               | <b>March 31, 2017</b>                     |
| Effective date            | <b>June 30, 2017</b>                      |

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

|                           |                                           |
|---------------------------|-------------------------------------------|
| Dividends on common stock |                                           |
| Total amount of dividends | <b>¥6,088 million (\$57,306 thousand)</b> |
| Dividends per share       | <b>¥75.00 (\$0.71)</b>                    |
| Record date               | <b>September 30, 2017</b>                 |
| Effective date            | <b>December 1, 2017</b>                   |

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

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

|                           |                                           |
|---------------------------|-------------------------------------------|
| Dividends on common stock |                                           |
| Total amount of dividends | <b>¥6,088 million (\$57,306 thousand)</b> |
| Dividends per share       | <b>¥75.00 (\$0.71)</b>                    |
| Record date               | <b>March 31, 2018</b>                     |
| Effective date            | <b>June 29, 2018</b>                      |

**For the year ended March 31, 2017****i) Dividend payment**

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

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

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

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

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

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

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

**11. Stock Options**

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

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

The stock options outstanding as of March 31, 2018 are as follows:

(1) Details of stock options

|                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issuer                            | SANKYO CO., LTD.                                                                                                                                                                                                                                                                                                                                                                                                                          | SANKYO CO., LTD.                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Date of resolution                | July 4, 2014                                                                                                                                                                                                                                                                                                                                                                                                                              | July 3, 2015                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Persons granted                   | 4 directors of the Company<br>8 executive officers of the Company<br>11 directors of subsidiaries of the Company                                                                                                                                                                                                                                                                                                                          | 3 directors of the Company<br>12 executive officers of the Company<br>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<br>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<br>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<br>11 executive officers of the Company<br>14 directors of subsidiaries of the Company                                                                                                                                                                                                                                                                                                                         | 3 directors of the Company<br>11 executive officers of the Company<br>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<br>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<br>The eligible holder of subscription rights to shares may exercise stock options within the above period and may exercise all stock options outstanding within 10 days following the loss of status as director, corporate auditor or executive officer of the Company or its affiliates. Other conditions for exercise shall be decided pursuant to the resolution of the Board of Directors. |

(2) Stock option activity is as follows:

| Issuer                                      | SANKYO CO., LTD.    | SANKYO CO., LTD.    | SANKYO CO., LTD.    | SANKYO CO., LTD.    |
|---------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Date of resolution                          | July 4, 2014        | July 3, 2015        | July 5, 2016        | July 5, 2017        |
| <b>Non-vested:</b>                          |                     |                     |                     |                     |
| March 31, 2017 — Outstanding                | —                   | —                   | —                   | —                   |
| Granted                                     | —                   | —                   | —                   | 96,900              |
| Forfeited                                   | —                   | —                   | —                   | —                   |
| Vested                                      | —                   | —                   | —                   | 96,900              |
| March 31, 2018 — Outstanding                | —                   | —                   | —                   | —                   |
| <b>Vested:</b>                              |                     |                     |                     |                     |
| March 31, 2017 — Outstanding                | 80,600              | 82,800              | 98,300              | —                   |
| Vested                                      | —                   | —                   | —                   | 96,900              |
| Exercised                                   | —                   | —                   | —                   | —                   |
| Forfeited                                   | —                   | —                   | —                   | —                   |
| March 31, 2018 — Outstanding                | 80,600              | 82,800              | 98,300              | 96,900              |
| Unit price information                      |                     |                     |                     |                     |
| Issuer                                      | SANKYO CO., LTD.    | SANKYO CO., LTD.    | SANKYO CO., LTD.    | SANKYO CO., LTD.    |
| Date of resolution                          | July 4, 2014        | July 3, 2015        | July 5, 2016        | July 5, 2017        |
| Exercise price                              | ¥1<br>(\$0.01)      | ¥1<br>(\$0.01)      | ¥1<br>(\$0.01)      | ¥1<br>(\$0.01)      |
| Average stock price at the time of exercise | —                   | —                   | —                   | —                   |
| Fair value at the date of grant             | ¥2,954<br>(\$27.80) | ¥3,465<br>(\$32.61) | ¥2,826<br>(\$26.60) | ¥2,628<br>(\$24.74) |

The estimation method of fair value of stock options granted in the year ended March 31, 2018

a. The valuation technique is Black-Scholes model.

b. Main basic assumptions and estimation method

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

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

2. The expected remaining service period is estimated by adding 10 days, the exercise period after retirement, to the average remaining service period up to the retirement age.

3. Actual cash dividends for the fiscal year ended March 31, 2017.

4. Risk-free interest rate refers to yields of Japanese government bonds corresponding to the expected remaining period.

The estimation method of the number of stock options to be vested:

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

## 12. Leases

### Operating Leases

Future lease payments for non-cancellable operating leases as a lessee at March 31, 2018 and 2017 were as follows:

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

### 13. Selling, General and Administrative Expenses

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

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

### 14. Sales and Disposal of Property, Plant and Equipment

Gain or loss on sales and disposal of property, plant and equipment for the years ended March 31, 2018 and 2017 consisted of the following:

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

### 15. Loss on Impairment

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

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

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

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

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

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

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

## 16. Income Taxes

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

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

Significant components of deferred tax assets and liabilities at March 31, 2018 and 2017, were as follows:

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

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

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

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

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

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

## 17. Financial Instruments and Related Disclosures

### 1. Outline of financial instruments

#### (1) Policy for financial instruments

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

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

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

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

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

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

#### (3) Supplementary explanation concerning fair values of financial instruments

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

### 2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2018 and 2017 were as follows. Financial instruments whose fair values are not readily determinable are excluded from the following table. (See Note 2 of the table)

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

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

Thousands of U.S. dollars

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

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

(1) Cash and deposits

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

(2) Notes and accounts receivable—trade

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

(3) Marketable securities and investments in securities

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

(4) Notes and accounts payable—trade and (5) electronically recorded obligations

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

(6) Bonds with subscription rights to shares

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

2. Since it is extremely difficult to determine the fair values of unlisted equity securities amounting to ¥1,641 million (\$15,449 thousand) and ¥1,911 million at March 31, 2018 and 2017, respectively, as there are no market prices available and it is impossible to estimate the future cash flow, they are not included in "(3) Marketable securities and investments in securities."

The Company recorded a loss on devaluation of investments in securities amounting to ¥85 million for the year ended March 31, 2017.

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

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

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

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

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

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

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

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

## 18. Asset Retirement Obligations

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

- (1) Overview of asset retirement obligations  
Asset retirement obligations at March 31, 2018 and 2017 were based on restoration obligations, etc. in real estate lease of buildings.
- (2) Calculation method of the amount of asset retirement obligations  
The amount of asset retirement obligations was calculated considering the estimated period of 13 years from obtaining the asset, and using the discount rate of 1.7%.
- (3) Gain or loss of total amount of asset retirement obligations

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

## 19. Segment Information

### 1. Overview of the reportable segments

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

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

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

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

| Millions of yen                                                                    |                            |                             |                                      |            |                    |            |                         |                           |
|------------------------------------------------------------------------------------|----------------------------|-----------------------------|--------------------------------------|------------|--------------------|------------|-------------------------|---------------------------|
| For the year ended March 31, 2018                                                  |                            |                             |                                      |            |                    |            |                         |                           |
|                                                                                    | Reporting segment          |                             |                                      |            | Other <sup>1</sup> | Total      | Adjustment <sup>2</sup> | Consolidated <sup>3</sup> |
|                                                                                    | Pachinko machines business | Pachislot machines business | Ball bearing supply systems business | Total      |                    |            |                         |                           |
| 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 <sup>4</sup>                                         | 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 <sup>4</sup> | 1,659                      | 622                         | 0                                    | 2,283      | 303                | 2,587      | 16                      | 2,603                     |
| Millions of yen                                                                    |                            |                             |                                      |            |                    |            |                         |                           |
| For the year ended March 31, 2017                                                  |                            |                             |                                      |            |                    |            |                         |                           |
|                                                                                    | Reporting segment          |                             |                                      |            | Other <sup>1</sup> | Total      | Adjustment <sup>2</sup> | Consolidated <sup>3</sup> |
|                                                                                    | Pachinko machines business | Pachislot machines business | Ball bearing supply systems business | Total      |                    |            |                         |                           |
| Sales:                                                                             |                            |                             |                                      |            |                    |            |                         |                           |
| Customers                                                                          | ¥60,534                    | ¥13,238                     | ¥7,204                               | ¥ 80,978   | ¥ 477              | ¥ 81,455   | ¥ —                     | ¥ 81,455                  |
| Intersegment                                                                       | —                          | —                           | —                                    | —          | —                  | —          | —                       | —                         |
| Total                                                                              | 60,534                     | 13,238                      | 7,204                                | 80,978     | 477                | 81,455     | —                       | 81,455                    |
| Segment profit (loss)                                                              | 10,402                     | (225)                       | 333                                  | 10,509     | (665)              | 9,844      | (4,785)                 | 5,059                     |
| Segment asset                                                                      | 79,570                     | 25,654                      | 9,397                                | 114,622    | 13,910             | 128,532    | 262,052                 | 390,585                   |
| Others                                                                             |                            |                             |                                      |            |                    |            |                         |                           |
| Depreciation and amortization <sup>4</sup>                                         | 1,891                      | 464                         | 22                                   | 2,377      | 405                | 2,783      | 188                     | 2,971                     |
| Amortization of goodwill                                                           | 491                        | 110                         | —                                    | 602        | 134                | 737        | —                       | 737                       |
| Increase in property, plant and equipment and intangible fixed assets <sup>4</sup> | 2,122                      | 1,002                       | 9                                    | 3,135      | 368                | 3,503      | 130                     | 3,633                     |
| Thousands of U.S. dollars                                                          |                            |                             |                                      |            |                    |            |                         |                           |
| For the year ended March 31, 2018                                                  |                            |                             |                                      |            |                    |            |                         |                           |
|                                                                                    | Reporting segment          |                             |                                      |            | Other <sup>1</sup> | Total      | Adjustment <sup>2</sup> | Consolidated <sup>3</sup> |
|                                                                                    | Pachinko machines business | Pachislot machines business | Ball bearing supply systems business | Total      |                    |            |                         |                           |
| Sales:                                                                             |                            |                             |                                      |            |                    |            |                         |                           |
| Customers                                                                          | \$ 633,207                 | \$105,161                   | \$68,207                             | \$ 806,576 | \$ 4,990           | \$ 811,565 | \$ —                    | \$ 811,565                |
| Intersegment                                                                       | —                          | —                           | —                                    | —          | —                  | —          | —                       | —                         |
| Total                                                                              | 633,207                    | 105,161                     | 68,207                               | 806,576    | 4,990              | 811,565    | —                       | 811,565                   |
| Segment profit (loss)                                                              | 137,147                    | 1,231                       | 4,270                                | 142,647    | (4,611)            | 138,036    | (42,206)                | 95,830                    |
| Segment asset                                                                      | 1,002,591                  | 212,782                     | 85,565                               | 1,300,938  | 94,263             | 1,395,201  | 2,334,955               | 3,730,156                 |
| Others                                                                             |                            |                             |                                      |            |                    |            |                         |                           |
| Depreciation and amortization <sup>4</sup>                                         | 16,495                     | 7,232                       | 193                                  | 23,921     | 3,448              | 27,370     | 1,639                   | 29,009                    |
| Amortization of goodwill                                                           | —                          | —                           | —                                    | —          | 1,265              | 1,265      | —                       | 1,265                     |
| Increase in fixed assets and intangible fixed assets <sup>4</sup>                  | 15,624                     | 5,862                       | 7                                    | 21,493     | 2,860              | 24,353     | 156                     | 24,509                    |

#### Notes:

\*1. The other segment is not a reporting segment, which includes mobile contents service, real estate rental, operation of a golf club, and general-molded parts.

\*2. Adjustments are as follows:

(1) Adjustment for segment profit (loss) is general and administrative expenses related to administrative operations not attributable to a reporting segment.

(2) Adjustment for segment asset is corporate asset not associated with the reporting segments. The main items were surplus funds (cash and deposits, and marketable securities), long-term investments (investments in securities), and assets related to administrative operations.

\*3. Segment profit (loss) includes operating income and adjustment in consolidated statements of income.

\*4. Depreciation and amortization and increase in property, plant and equipment and intangible fixed assets include depreciation and increase related to long-term prepaid expenses.

## Related Information

### 1. Product and service segment information

Product and service segment information has been omitted since similar description is disclosed in segment information for the years ended March 31, 2018 and 2017.

### 2. Geographical segment information

#### (1) Sales

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

#### (2) Property, plant and equipment

There were no property, plant and equipment located outside Japan and no applicable data for the years ended March 31, 2018 and 2017.

### 3. Major customer segment information

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

## Information on Losses on Impairment of Fixed Assets by Segment

For the year ended March 31, 2018

| (Millions of yen, Thousands of U.S. dollars) |                                  |                                   |                                            |       |                      |                             |                      |
|----------------------------------------------|----------------------------------|-----------------------------------|--------------------------------------------|-------|----------------------|-----------------------------|----------------------|
|                                              | Reporting segment                |                                   |                                            |       | Other*               | Eliminations/<br>Corporate* | Total                |
|                                              | Pachinko<br>machines<br>business | Pachislot<br>machines<br>business | Ball bearing<br>supply systems<br>business | Total |                      |                             |                      |
| Loss on impairment                           | ¥—                               | ¥—                                | ¥—                                         | ¥—    | ¥2,846<br>(\$26,789) | ¥356<br>(\$3,355)           | ¥3,202<br>(\$30,143) |

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

For the year ended March 31, 2017

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

## Information on Amortization of Goodwill and Remaining Balance by Segment

For the year ended March 31, 2018

| (Millions of yen, Thousands of U.S. dollars) |                                  |                                   |                                            |       |                   |                            |                   |
|----------------------------------------------|----------------------------------|-----------------------------------|--------------------------------------------|-------|-------------------|----------------------------|-------------------|
|                                              | Reporting segment                |                                   |                                            |       | Other*            | Eliminations/<br>Corporate | Total             |
|                                              | Pachinko<br>machines<br>business | Pachislot<br>machines<br>business | Ball bearing<br>supply systems<br>business | Total |                   |                            |                   |
| Amortization of goodwill during the year     | ¥—                               | ¥—                                | ¥—                                         | ¥—    | ¥134<br>(\$1,265) | ¥—                         | ¥134<br>(\$1,265) |
| Balance at end of year                       | ¥—                               | ¥—                                | ¥—                                         | ¥—    | ¥132<br>(\$1,248) | ¥—                         | ¥132<br>(\$1,248) |

Note: \* Amounts shown correspond to mobile contents service.

For the year ended March 31, 2017

| (Millions of yen)                        |                                  |                                   |                                            |       |        |                            |       |
|------------------------------------------|----------------------------------|-----------------------------------|--------------------------------------------|-------|--------|----------------------------|-------|
|                                          | Reporting segment                |                                   |                                            |       | Other* | Eliminations/<br>Corporate | Total |
|                                          | Pachinko<br>machines<br>business | Pachislot<br>machines<br>business | Ball bearing<br>supply systems<br>business | Total |        |                            |       |
| Amortization of goodwill during the year | ¥491                             | ¥110                              | ¥—                                         | ¥602  | ¥134   | ¥—                         | ¥737  |
| Balance at end of year                   | ¥ —                              | ¥ —                               | ¥—                                         | ¥ —   | ¥267   | ¥—                         | ¥267  |

Note: \* Amounts shown correspond to mobile contents service.

## Information on Gain on Negative Goodwill by Segment

There was no corresponding information for the years ended March 31, 2018 and 2017.

## 20. Per Share Information

|                                           | Yen       |           | U.S. dollars |
|-------------------------------------------|-----------|-----------|--------------|
|                                           | 2018      | 2017      | 2018         |
| Net assets per share <sup>1</sup>         | ¥4,141.43 | ¥4,189.98 | \$38.98      |
| Net income per share <sup>2</sup>         | 68.37     | 21.94     | 0.64         |
| Diluted net income per share <sup>3</sup> | 64.86     | 20.73     | 0.61         |

Above information was computed based on the following data:

|                                                                                                                               |                                            | Year ended March 31, |      |
|-------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------------|------|
|                                                                                                                               |                                            | 2018                 | 2017 |
| <b>*1 Net assets per share:</b>                                                                                               |                                            |                      |      |
| Total net assets                                                                                                              | ¥337,242 million<br>(\$3,174,350 thousand) | ¥340,287 million     |      |
| Amount to be deducted from total net assets                                                                                   | ¥1,057 million<br>(\$9,953 thousand)       | ¥802 million         |      |
| (Of which subscription rights to shares)                                                                                      | (¥1,057 million)<br>((¥9,953 thousand))    | (¥802 million)       |      |
| Net assets attributable to common stock                                                                                       | ¥336,185 million<br>(\$3,164,396 thousand) | ¥339,484 million     |      |
| Number of outstanding shares of common stock                                                                                  | 89,597,500 shares                          | 89,597,500 shares    |      |
| Number of treasury stock                                                                                                      | 8,421,329 shares                           | 8,574,481 shares     |      |
| Number of common stock used in computing net asset per share                                                                  | 81,176,171 shares                          | 81,023,019 shares    |      |
| <b>*2 Net income per share:</b>                                                                                               |                                            |                      |      |
| Net income attributable to owners of the parent                                                                               | ¥5,550 million<br>(\$52,244 thousand)      | ¥1,777 million       |      |
| Net income not attributable to common stock shareholders of the parent                                                        | —                                          | —                    |      |
| Net income attributable to common stock shareholders                                                                          | ¥5,550 million<br>(\$52,244 thousand)      | ¥1,777 million       |      |
| Weighted average number of common stock                                                                                       | 81,176,540 shares                          | 81,023,346 shares    |      |
| <b>*3 Diluted net income per share:</b>                                                                                       |                                            |                      |      |
| Adjustment to net income                                                                                                      | ¥(13) million<br>(\$ (130) thousand)       | ¥(13) million        |      |
| Increase in common stock                                                                                                      | 4,179,373 shares                           | 4,082,206 shares     |      |
| (Of which bonds with subscription rights to shares)                                                                           | (3,850,597 shares)                         | (3,850,597 shares)   |      |
| (Of which subscription rights to shares)                                                                                      | (328,776 shares)                           | (231,609 shares)     |      |
| Summary of securities excluded from the computation of diluted net income per share because they do not have dilutive effects | —                                          | —                    |      |

## 21. Related Party Transaction

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

For the year ended March 31, 2018

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

For the year ended March 31, 2017

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

## 22. Information about Parent Company or Significant Affiliates

Condensed financial information of a significant affiliate

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

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

## 23. Significant Subsequent Events

There is no significant subsequent event to be reported.

## 24. Significant Subsidiaries and an Affiliate

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

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

# Independent Auditor's Report



Ernst & Young ShinNihon LLC  
Hibiya Mitsui Tower, Tokyo Midtown Hibiya  
1-1-2 Yurakucho, Chiyoda-ku  
Tokyo 100-0006, Japan

Tel: +81 3503 1036  
Fax: +81 3503 1506  
ey.com

## Independent Auditor's Report

The Board of Directors  
SANKYO Co., Ltd.

We have audited the accompanying consolidated financial statements of SANKYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SANKYO Co., Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

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

*Ernst & Young ShinNihon LLC*

June 29, 2018  
Tokyo, Japan

# Board of Directors

(As of June 28, 2018)

## **Representative Director, Chairman of the Board & CEO**

Hideyuki Busujima

## **Representative Director, President & COO**

Kimihisa Tsutsui

## **Director & Senior Executive Vice President**

Ichiro Tomiyama

## **Outside Director**

Taro Kitani

## **Outside Director**

Hiroyuki Yamasaki

## **Standing Statutory Auditor**

Shohachi Ugawa

## **Statutory Auditor**

Toshiaki Ishiyama

## **Outside Statutory Auditor**

Yoshiro Sanada  
Fumiyoshi Noda

## **Senior Executive Operating Officers**

Toshio Ogura

## **Executive Operating Officers**

Katsumasa Takai  
Yoko Oshima

## **Operating Officers**

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

### **For Further Information Contact:**

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

# Corporate Data

(As of March 31, 2018)

## **Company Name**

SANKYO CO., LTD.

## **Head Office**

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



## **Sanwa Plant**

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



## **Established**

April 1966

## **Paid-in Capital**

¥14,840 million

## **Number of Employees**

1,026 (Consolidated)  
817 (SANKYO CO., LTD.)

## **Number of Shares Authorized**

144,000,000

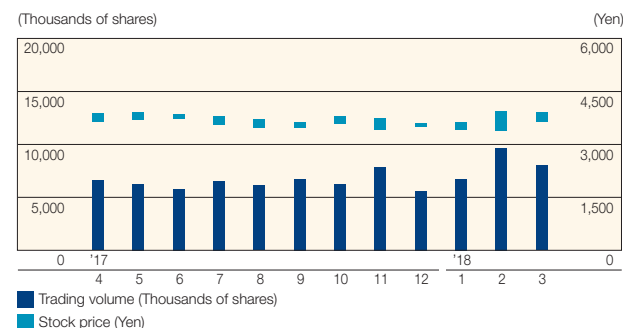
## **Number of Shares Issued**

89,597,500

## **Number of Shareholders**

13,560

## **Stock Price Range**



## **Stock Exchange Listing**

The Tokyo Stock Exchange, First Section,  
Code Number 6417

## **Transfer Agent**

Sumitomo Mitsui Trust Bank, Limited

## **Auditor**

Ernst & Young ShinNihon LLC

Good luck. Good life.



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