Good luck. Good life.

SANKYO

Always Growing with Customers

Annual Report 2011

Year ended March 31, 2011

2011

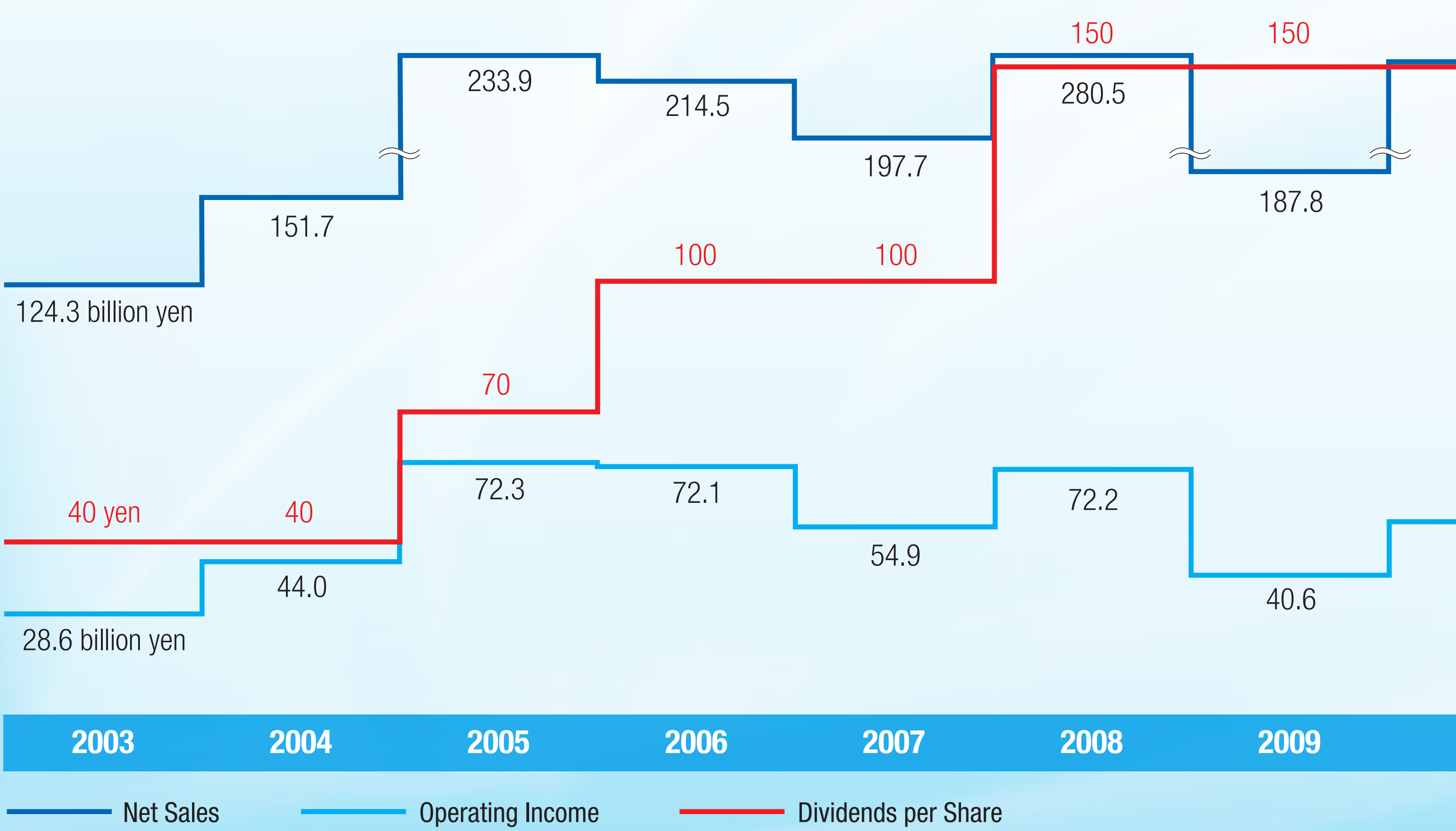
SANKYO CO., LTD.

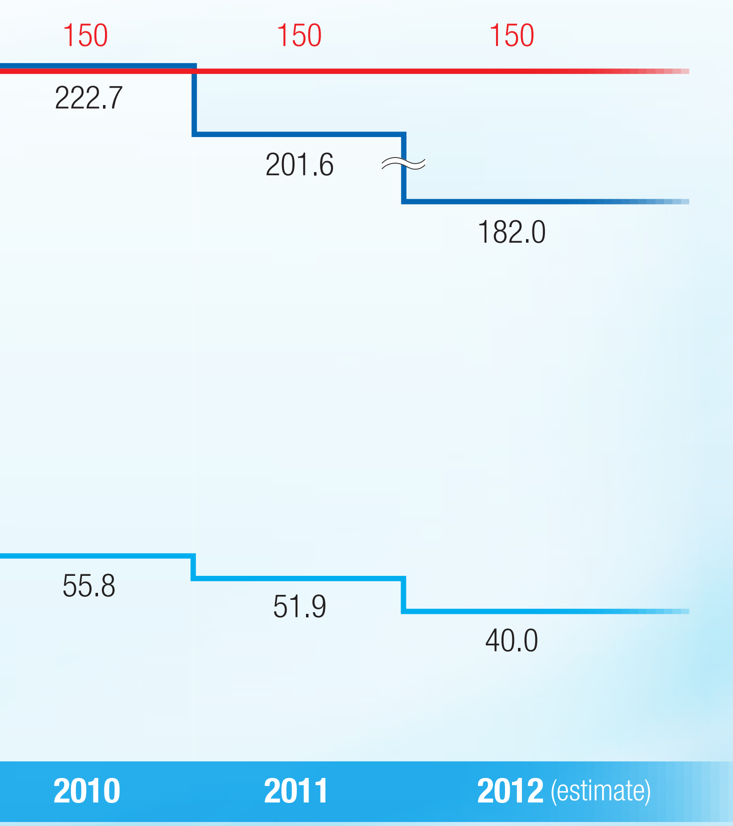
Always Growing with Customers

Securing a certain level of sales and profits has enabled SANKYO Group to increase the dividend payment to shareholders step by step even while the pachinko and pachislot player population was in protracted decline. Although the player population has not declined since 2007, average customer spend at parlors has decreased as the practice of offering rental balls at prices as low as ¥1 each has become increasingly widespread. Consequently, the pachinko and pachislot industry is operating in a challenging business environment.

SANKYO Group has been developing hand in hand with the pachinko and pachislot industry and we shall continue to adhere to our policy of concentrating our resources on development, manufacturing and sales of pachinko and pachislot machines. Therefore, our overriding objective is to continue to grow together with players and parlors by vigorously implementing measures to expand the market.

Through the initiatives introduced in this report, we are pursuing sustainable growth and will endeavor to increase the return of profits to shareholders.





Contents

Cautionary Statements with Respect to Forward-Looking Statements

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

Consolidated Financial Highlights

SANKYO CO., LTD. and Its Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

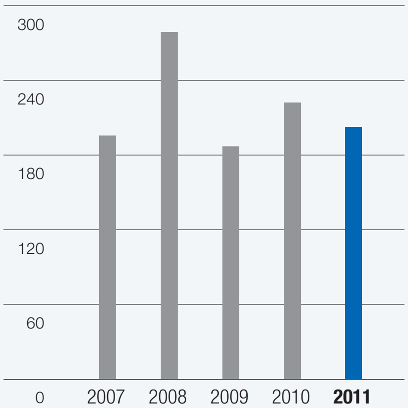
	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
For the year:			
Net sales	**¥201,606**	¥222,673	**$2,424,606**
Operating income	**51,923**	55,776	**624,450**
Net income	**34,733**	36,198	**417,715**
At year-end:			
Total assets	**¥488,636**	¥461,358	**$5,876,560**
Total net assets	**419,658**	408,024	**5,046,999**

	Yen		U.S. dollars
Per share data:			
Net income (basic)	**¥364.09**	¥376.00	**$4.38**
Cash dividends	**150.00**	150.00	**1.80**

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥83.15=U.S.$1. See Note 2 to the consolidated financial statements.

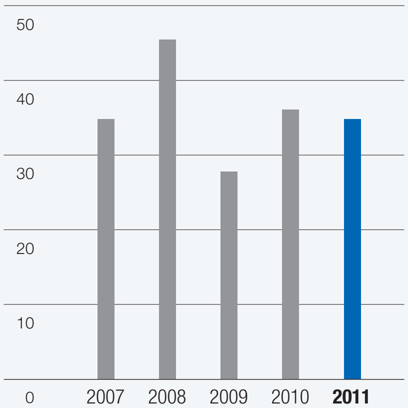
Net Sales

(Billions of yen)



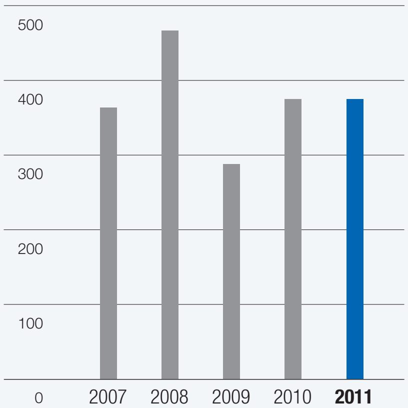
Net Income

(Billions of yen)



Net Income per Share (basic)

(Yen)



Interview with the Management

Hideyuki Busujima
Chairman of the Board & CEO

Akihiko Sawai
President & COO

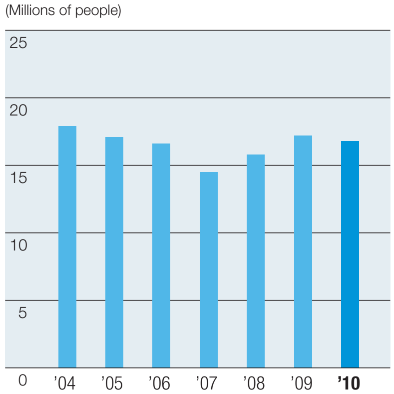
Q What are the major trends shaping the pachinko and pachislot industry and what are the prospects for the industry?

A Owing to the impact of the Great East Japan Earthquake, I expect to see a temporary decline in shipments of pachinko machines for the fiscal year ending March 2012. However, the sharp drop in customer traffic at parlors immediately following the earthquake was short-lived, with numbers soon recovering to the pre-quake level. Manufacturers' disrupted supply chains, which unsettled parts procurement, have taken longer to straighten out. However, despite the scale of the natural disaster, I expect the impact on our industry to be transitory. The pachislot machines market, which plunged in 2007 owing to the revised regulations, is expected to be relatively robust in fiscal 2012 as pachislot's popularity among players has been recovering and the number of pachislot machines installed is also trending upward.

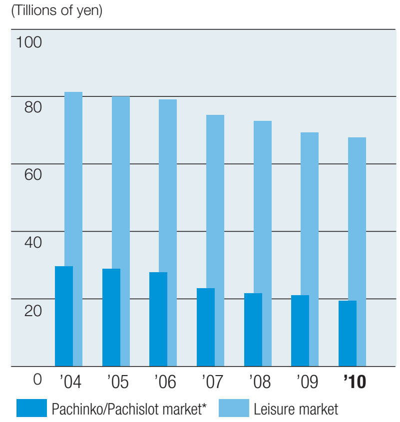
For the pachinko industry, the long-term decline in the player population, which declined to ¥14.5 million in 2007, having halved from its peak in the 1990s, poses a major challenge. Although the player population recovered to ¥16.7 million in 2010, this recovery was largely attributable to the increasingly widespread availability of rental balls at prices as low as ¥1. The modest increase in the player population has not necessarily contributed to the earnings of pachinko parlors. Although the offering of rental balls at low prices is welcomed by players and has become commonplace, parlors want to see a recovery in the number of players who are customers of their mainstay business where rental balls are ¥4 apiece and margins are high.

In this challenging environment, manufacturers of game machines are locked in fierce competition focused on development and sales. At present, no single manufacturer has all the

Pachinko Player Population



Pachinko/Pachislot Market of Overall Leisure Market



Source: Japan Productivity Center for Socio-Economic Development "Leisure Development Center" attributes—resources for development of an extensive line-up enriched with promising tie-up content, stable supply capabilities, immense popularity among players and parlors, and so on—needed to achieve a commanding lead in the market. As a result, when parlors introduce new game machines, they tend to purchase many models in small quantities.

To gain a decisive advantage in the market, SANKYO Group aims to achieve the top position in terms of market share, popularity, and market capitalization. In addition, we aim to achieve growth of sales and profits over the medium- to long-term by supporting the expansion of the pachinko and pachislot markets. We position the fiscal year to March 2012 as a period for laying the foundation for the implementation of measures from a medium- to long-term perspective to achieve these objectives.

Q **How would you characterize SANKYO Group's business results for fiscal 2011 and the achievements under the new framework?**

A In Fiscal 2011 we thoroughly reviewed the Group's strategy based on the theme of revival of the SANKYO brand, taking to heart the lessons learned in fiscal 2010 when the models we introduced lacked staying power because they did not adequately address players' needs.

Led by the Product Strategy Office established in April 2010, we are emphasizing product development from players' viewpoints throughout the company to revive the SANKYO brand. The policy of emphasizing the players' viewpoints may sound rather commonplace, but as SANKYO's direct customers are parlors, adopting this policy shows our determination to achieve the revival of the SANKYO brand. Indeed, we completely changed our strategy. The Product Strategy Office provides cross-functional support for establishment of a consistent product concept throughout all phases from planning and development through to sales, analysis of market evaluation, and feedback of the market evaluation to product development in pursuit of products capable of captivating players.

Although the Group's sales of pachinko machines in fiscal 2011 declined 147,000 units from fiscal 2010 to 424,000 units, *Fever X JAPAN* and *Fever Tiger Mask* SANKYO introduced during the year received a warm welcome in the market as these titles reflect the players' needs that we identified.

The Group vigorously promoted the pachislot machines business also under the SANKYO brand. The Group's sales of pachislot machines rose 12,000 units from fiscal 2010 to 116,000 units. Product development achieving a superb combination of sophisticated gaming performance and the spirit of the content enabled our products to earn a high reputation among players and parlors, leading to increased sales.

Wishing to prosper together with the pachinko and pachislot industry, we have introduced a new program for reuse of pachinko machines. By offering pachinko machines at attractive prices that parlor operators consider reasonable, we are motivating them to purchase pachinko machines while helping them reduce the cost of operating parlors. With respect to marketing and sales promotion strategy, going beyond sales promotion centering on TV commercials, we are utilizing Internet marketing to swiftly deliver accurate and detailed information to players and parlors. The SANKYO website had a complete makeover in October 2010 and we also launched a website specifically designed for parlors. We are emphasizing effective communication of corporate information, including IR information.

In the year since we introduced the new framework, the reputation of the SANKYO brand has risen markedly among players and parlors. I am confident that our strategic thrust is propelling SANKYO in the right direction.

Q	What are the prospects for fiscal 2012?

A We position fiscal 2012 as a period in which we will complete the foundation for the revival of the SANKYO brand—our priority since fiscal 2011. As the development of a game machine usually takes from one to two years, products to be launched from now on will reflect accumulated analytical results and players' viewpoints from the planning phase onward to boost players' and parlors' confidence in us and meet their expectations.

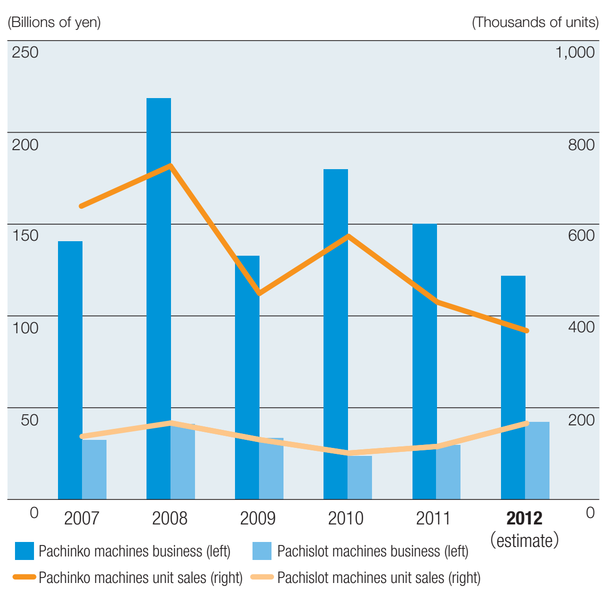
Regarding business results for fiscal 2012, we forecast decreases in both sales and profits compared with fiscal 2011 as a result of the temporary turmoil of the market in the aftermath of the Great East Japan Earthquake that occurred on March 11, 2011. However, as the Group has been promoting use of common parts for its products, we have minimized the impact of the supply chain disruption on production. Moreover, since our initiatives to revive the brand power are starting to bear fruit, we got off to a flying start in fiscal 2012.

Having established the Pachislot Development Department in April 2011, we are accelerating product development and working to enhance our competitiveness in the pachislot machines field. Capitalizing on the rising reputation of SANKYO-brand pachislot machines and seizing the opportunities created by the upward trend of the pachislot machines market, we intend to promote development of a stream of popular models to strengthen the earnings structure.

Moreover, we are exploiting the possibilities of Internet marketing. By linking our pachinko and pachislot machines with the web and mobile content, we will offer entertainment with added value. By using these tools in combination with game machines to take entertainment to new heights, we intend to lock in players.

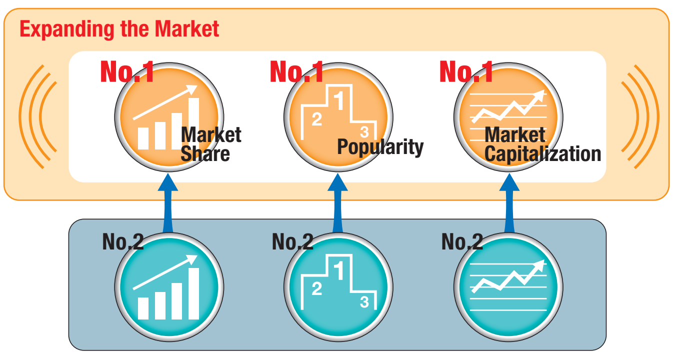
I expect completion in fiscal 2012 of the foundation for medium- to long-term growth and prosperity to spur the recovery of the Group's business results.

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



Q What are SANKYO's medium- to long-term strategies for boosting business performance?

A The Group's medium- to long-term goals are to become No. 1 in terms of market share, popularity and market capitalization while expanding the market so as to create opportunities for growth of both sales and profit.



Source: Yano Research Institute

No. 1 market share

The Group's share of the pachinko machines market peaked at 20% in fiscal 2008 and has subsequently been around 15%. While the Bisty brand centering on the *Evangelion* series greatly enhanced its market presence as the Group's second brand following the tie-up with Fields Corporation, sales of the SANKYO brand have faltered.

For the SANKYO brand, we are therefore emphasizing product development from players' viewpoints. Our product strategy stresses earning players' allegiance over the medium- to long- term rather than emphasizing short-term increases in sales. I believe this approach will position SANKYO as parlors' indispensable customer-pulling brand, leading to higher market share.

We intend to establish a robust two-brand structure by reviving the SANKYO brand as soon as possible and enhancing the Bisty brand's market presence. Our aim is to achieve a top market of well over 20% for the SANKYO Group.

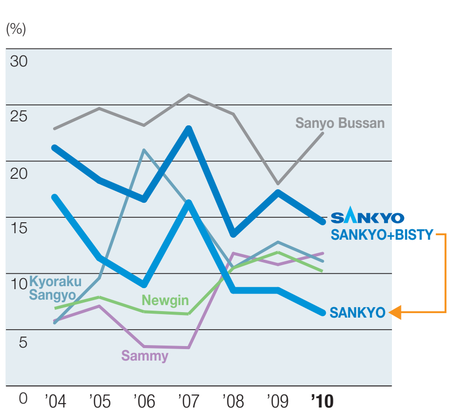
In the pachislot machines business, the Group has raised its profile as a result of the SANKYO brand's rise and the Bisty brand's stable market share. The newly established Pachislot Development Department is spearheading the Group's efforts to sharpen competitiveness and increase market share.

No. 1 popularity

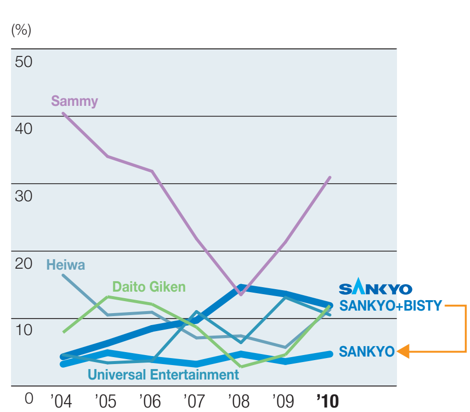
To build a sustainable business, a games machine manufacturer must develop products that lead to higher profits for parlors. Viewing the business from a fresh, player-oriented perspective, we are convinced that the development of game machines with enduring popularity that players want to play repeatedly is the best way of contributing to parlors' profits.

To become a trusted brand whose popularity endures, we must strengthen product capabilities and apply new ideas. In addition to deploying the in-house systems and procedures required for success, we are also actively seeking opportunities

Pachinko Machine Sales Share (unit basis)



Pachislot Machine Sales Share (unit basis)



Source:Yano Research Institute

for win-win alliances with capable partners. Our plans also call for harnessing the power of the web and mobile technologies to enrich the game-machine player's experience.

Through these initiatives to create player-captivating game machines of enduring popularity positioned at the heart of an awesome added-value-rich entertainment experience, we aim to increase the proportion of repeat players by cultivating a growing fan-base for the SANKYO brand. The reuse program launched in fiscal 2011 is part of this concerted effort. In pursuit of overwhelming popularity, we seek to advance the SANKYO brand with the enthusiastic support of players and parlors.

No. 1 market capitalization

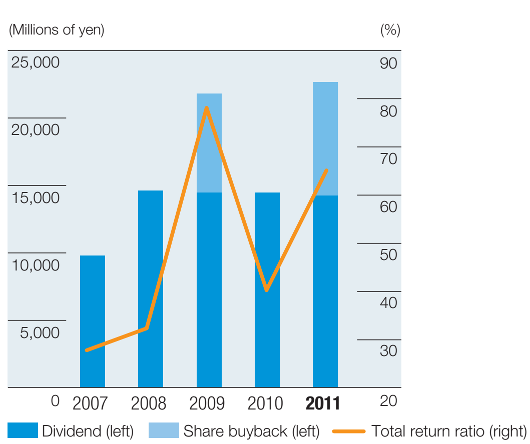
The SANKYO Group aims to have the largest market capitalization in the pachinko and pachislot industry and to enter the top tier of Japanese companies in the wider entertainment industry, including the game and amusement sector. With this in mind, I welcome opportunities to explain the Group's circumstances and growth strategy to the investor community.

In order to attract more investors, including individual investors, SANKYO vigorously participates in IR events and is enriching disclosure.

SANKYO regards the return of profits to shareholders as one of the most important management priorities. Our dividend policy is to maintain a payout ratio of 25% of consolidated net income. While maintaining stable dividend payments to reward shareholders who have owned SANKYO shares for a long time, we aim to continuously increase dividends in line with the improvement of the financial performance. Accordingly, we intend to maintain a cash dividend of ¥150 per share for fiscal 2012, unchanged from fiscal 2011, although the payout ratio will be 53.9%. As one of the measures to maximize shareholder value, SANKYO has executed share buybacks since June 2010. We have already purchased 2.83 million SANKYO shares, which account for 2.9% of the total number of shares outstanding, at a cost of approximately ¥12 billion. SANKYO Group's posture regarding measures to return profits to shareholders is proactive, taking into account not only the payout ratio but also the total return ratio including share buyback.

While fulfilling our commitment to returning profits to shareholders, we are striving to increase corporate value over the medium- to long-term by achieving the top market share as soon as possible through the deployment of resources to maximum effect. We are resolved to make a concerted effort so that our shareholders and investors will endorse SANKYO's medium- to long-term growth strategy.

Trends of Dividend, Share Buyback, and Total Return Ratio



Expanding the market

Pachinko and pachislot constitute Japan's largest leisure industry, with revenues from the rental of balls and tokens at parlors amounting to ¥19.3 trillion, accounting for approximately 28% of the leisure market.

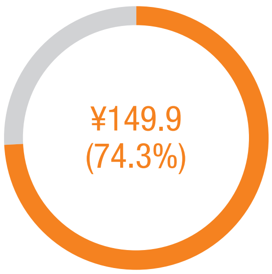
Although the player population has declined from its peak, the potential player population is huge as there are many millions of people who used to play pachinko or pachislot. Clearly, growth of the industry hinges on finding ways to attract these dormant players and cultivate new players and on persuading them to play pachinko and/or pachislot repeatedly. With a view to transforming these potential players into SANKYO fans, as a first step we would like to communicate the thrill of playing pachinko and pachislot by expanding the opportunities for enjoyment of these leisure pursuits.

Our measures include offering a pachinko game app free of charge through a leading social networking service and attracting fans of particular content via TV commercials etc. to view our websites, including mobile websites, where they can begin to appreciate the pleasure of playing pachinko. The aim is to encourage dormant players and potential new players to familiarize themselves with pachinko and eventually gravitate to playing pachinko in parlors.

These ongoing initiatives geared to the needs of the era are designed ensure a smooth flow of reactivated or new pachinko and pachislot fans and, above all, SANKYO fans to swell the player population.

Pachinko Machines Business

Sales (Billions of yen)



This segment, which includes manufacturing and sales of pachinko machines and gauge boards, sales of related parts and pachinko machine-related royalty income, is SANKYO's mainstay business and accounted for 74.3% of net sales.

In the pachinko machines business, the Group launched seven titles for SANKYO-brand series and three for Bisty-brand series.

SANKYO Group promoted product development reflecting players' viewpoints for major titles, which are core products. Titles introduced under the SANKYO brand included *FEVER X JAPAN* (introduced in September 2010), *Fever Tiger Mask* (introduced in December 2010), and *Fever Aquarion-Tenshihen* (introduced in March 2011). The reputation of SANKYO-brand pachinko machines gained greater luster in the market. Under the Bisty brand, sales of *Evangelion—Evangelical of The Beginnings* (introduced in June 2010), the sixth model of the Group's blockbuster Evangelion series, amounted to 215,000 units, a sales volume exceeding that of any other model on the market in fiscal 2011.

As a result, sales of pachinko machines amounted to 424,000 units, a decrease of 147,000 units from the previous year. Segment sales amounted to ¥149.9 billion, a decrease of 17.0% year on year, and segment profit was ¥47.8 billion, down 13.3%.

Principal models introduced and numbers of machines sold during fiscal 2011 (Only models with sales of at least 20,000 units are listed):

Principal models	Released	No. of machines sold (thousand machines)
*Evangelion—Evangelical of The Beginnings**	June 2010	215
Patrush 3	July 2010	31
FEVER X JAPAN	September 2010	49
Fever Tiger Mask	December 2010	32
Fever Aquarion-Tenshihen	March 2011	37

* Bisty brand

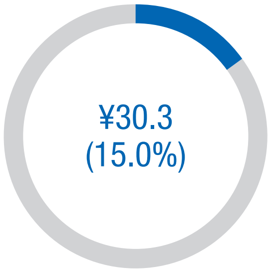
Evangelion—Evangelical of The Beginnings
© カラー

FEVER X JAPAN
©JMA

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 15.0% of net sales.

Sales (Billions of yen)



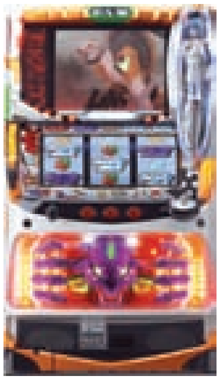
The Group launched four titles for SANKYO-brand series and two for Bisty-brand series. Sales of SANKYO-brand pachislot titles were robust centering on *The Super Dimension Fortress Macross* (introduced in November 2010) and *Aquarion* (introduced in March 2011), both of which were well received because of their sophisticated gaming performance attuned to market needs combined with attractive content. The Bisty-brand *MOBASLO Evangelion—for your own wish* (introduced in March 2011), the latest addition to the immensely popular Evangelion series, is a first of its kind among the Group's products in that an integrated approach encompassing both the machine itself and mobile website content was adopted, and order-taking was brisk. However, a portion of sales of this machine, initially scheduled to have been recorded in fiscal 2011, will in fact be recorded in fiscal 2012 because of rescheduling of deliveries to certain pachinko parlors in accordance with their requests owing to the impact of the Great East Japan Earthquake.

As a result, sales of pachislot machines increased 12,000 units to 116,000 units. Segment sales were ¥30.3 billion, an increase of 27.9% year on year, and segment profit was ¥7.0 billion, an increase of 64.2%.

Principal models introduced and numbers of machines sold during fiscal 2011 (Only models with sales of at least 5,000 units are listed):

Principal models	Released	No. of machines sold (thousand machines)
*Magical Shopping Arcade Abenobashi**	August 2010	5
The Super Dimension Fortress Macross	November 2010	17
Aquarion	March 2011	24
*MOBASLO Evangelion—for your own wish**	March 2011	55

* Bisty brand



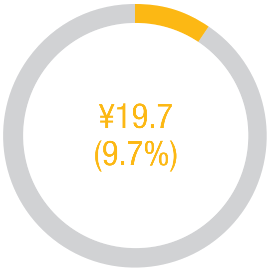
MOBASLO Evangelion—for your own wish
© カラー

Aquarion
©2004,2006,2007 河森正治・サテライト／Project AQUARION

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 9.7% of net sales.

Sales (Billions of yen)



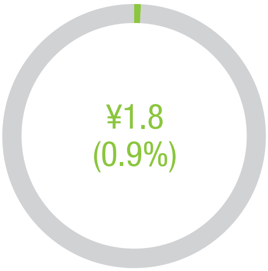
Royalty income increased and demand for individual counting systems was upbeat owing to the increasing recognition of the need to improve operational efficiency in line with the shift to the offering of rental balls at low prices.

As a result, segment sales were ¥19.7 billion, an increase of 14.8% year on year, and segment profit was ¥1.3 billion, an increase of 259.9%.

Other Businesses

Rental revenues and sales of plastic molding parts account for most of the sales of this segment, which contributed 0.9% of net sales.

Sales (Billions of yen)



Sales of this segment, consisting primarily of rental revenues of consolidated subsidiary SANKYO Create Co., Ltd., amounted to ¥1.8 billion, an increase of 25.8% year on year, and segment profit was ¥0.7 billion, an increase of 16.3%.

Launch of Gamecard-Joyco Holdings

On April 2011, management integration of Nippon Game Card Corp., an affiliate accounted for by the equity method, and Joyco Systems Corp. took place through a share transfer, and Gamecard-Joyco Holdings, Inc. (JASDAQ: 6249) was established.

Nippon Game Card is the leading supplier of prepaid card systems for pachinko parlors with a market share of over 40% on a membership basis. As a result of management integration with Joyco Systems, the two companies combined have a market share of over 50%.

Although the prepaid systems market has traditionally been tough, it is poised for dramatic change as individual counting systems, which count the number of balls dispensed in a jackpot using a ball counter and a card reader unit installed at each pachinko machine, are expected to rapidly become the norm. The B∞LEX developed by Nippon Game Card, which is a card reader unit compatible with individual counting systems, has been enjoying brisk sales. As of March 31, 2011, about 1,500 parlors had already installed individual counting systems, including those supplied by competitors. The number of parlors with individual counting systems is expected to exceed 2,000 in the year ending March 2012. As 83,000 Gamecard-Joyco Group card reader units compatible with individual counting systems are currently installed, enough for only 2.6% of the pachinko machines installed in Japan, we believe there is tremendous potential for growth.

SANKYO's stake in Nippon Game Card has decreased as a result of the share transfer associated with the management integration and the transfer of some shares to the seven game machine manufacturers that are major shareholders of Joyco Systems. However, as they have become distributors of Nippon Game Card, a powerful sales network is in place, considering that Sankyo Group and the seven companies account for more than 80% of the pachinko machines market.

Prepaid card systems for pachinko constitute infrastructure on which all game machine manufacturers depend. Collaboration among competing game machine manufacturers that are shareholders of Gamecard-Joyco Group as well as distributors of its products is expected to spur development of the industry, boost financial performance of Gamecard-Joyco Holdings, and contribute to SANKYO's consolidated financial accounts.

GC•JOYCO HOLDINGS
(JASDAQ: 6249)

Ownership of SANKYO:
April 1, 2011 31.54% (from 39.41%)
July 8, 2011 28.37%

Strengths of New Company:
- Expansion of sales network by management integration
- The major shareholders are composed of leading manufacturers of pachinko and pachislot machines

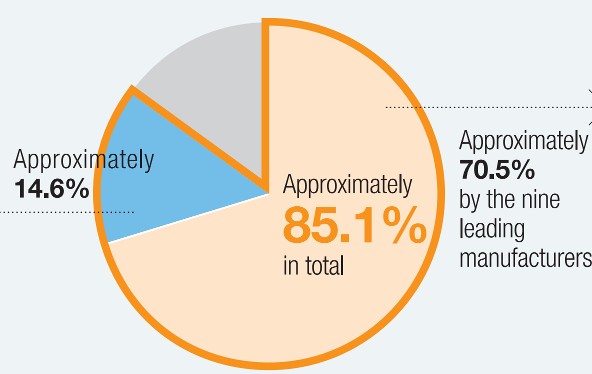
100% wholly owned subsidiary

100% wholly owned subsidiary

Nippon Game Card Corp.

SANKYO

Pachinko Machine Sales Share FY 2010



Joyco Systems Corp.

Daiichi Shokai
Fuji Shoji (JASDAQ: 6257)
Heiwa (TSE 1*: 6412)
Kyoraku Sangyo
Newgin
Oizumi (TSE 1*: 6428)
Sammy
Sanyo Bussan
Sophia

*Tokyo Stock Exchange First Section

Integration effects:
- To build up an effective cooperation structure with the leading pachinko and pachislot manufactures as major shareholders
- To develop new affiliated parlors through the dominant sales channels

Source: Yano Research Institute

Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2011 (fiscal 2011), 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 2011

During the fiscal year ended March 31, 2011, the Japanese economy picked up somewhat owing to the beneficial effect of the Japanese government's policies and the improved performance of major economies overseas. However, the Great East Japan Earthquake that occurred on March 11, 2011 pushed the Japanese economy into a crisis, a situation compounded by the strong yen and historically high unemployment.

In the pachinko and pachislot industry, the tempo of business of mainstay pachinko parlors, offering rental balls at ¥4 apiece, slowed as the Japanese economy's uncertain prospects prompted thrift among consumers. Consequently, shipments of pachinko machines trended downward. On a positive note, shipments of pachislot machines appear to have bottomed out, reflecting a resurgence in pachislot's popularity among players, following pachislot's lengthy spell in the doldrums.

According to the 2010 white paper on adult entertainment businesses published by the National Police Agency of Japan in April 2011, while the number of pachinko parlors decreased 1.4% year on year to 12,479 as of December 31, 2010, the installed base of pachinko machines edged up 0.2% to 3,163,000 units and that of pachislot machines increased 3.2% to 1,390,000 units, the first rise for pachislot in four years. The survey also revealed a shift toward larger parlors. The earthquake and ensuing crisis prompted parlors to exercise caution concerning capital investment because the number of players plateaued as a result of shorter opening hours introduced to reduce power consumption and the voluntary ban on advertising and replacement of game machines in the aftermath of the natural disaster. However, parlors are still reluctant to forego replacement of game machines, a key measure to attract customers.

Net Sales

SANKYO Group vigorously promoted product development reflecting players' viewpoints in order to raise the Group's profile and increase market share. The Product Strategy Office established in April 2010 is spearheading efforts to enhance products by clarifying players' evaluations and opinions concerning the Company's products and those of competitors through web surveys and dialogues with players.

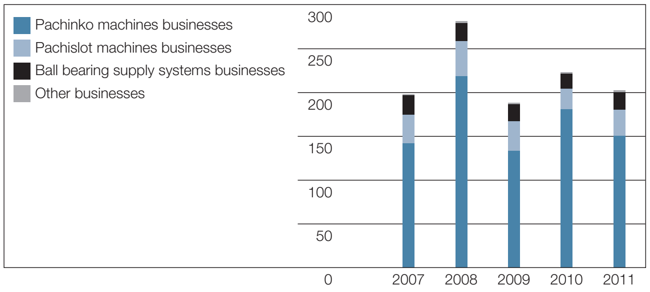
In terms of the sales promotion strategy, the Company has established a framework enabling swift and persuasive communication of the information players and parlors want by shifting the weight of sales promotion from traditional mass media to the Internet and mobile phone content. Additionally, SANKYO has introduced a new program for reuse of pachinko machines featuring a flexible pricing policy.

Although these measures enhanced the reputation of the Group's products among players and parlors, they did not lead to increased sales. In addition, deliveries of *MOBASLO Evangelion—for your own wish*, a new pachislot machine introduced in March 2011, have been partially rescheduled to the next fiscal year owing to the earthquake.

As a result, consolidated net sales amounted to ¥201.6 billion, a decrease of 9.5% year on year, operating income decreased 6.9% to ¥51.9 billion, and net income decreased 4.0% to ¥34.7 billion.

Net Sales

(Billions of yen)



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

Cost of sales for fiscal 2011 amounted to ¥101.4 billion, having decreased 13.3% from the previous fiscal year, mainly owing to lower sales volumes of pachinko and pachislot machines. Gross profit decreased 5.2% to ¥100.2 billion and the gross profit margin increased 2.2 percentage points from the previous fiscal year to 49.7%.

Selling, general and administrative expenses decreased 3.3% from the previous fiscal year, mainly owing to decreases in sales commissions and advertising expenses. However, the ratio of selling, general and administrative expenses to net sales increased 1.5 percentage points from the previous fiscal year to 23.9%. As a result, operating income decreased 6.9% to ¥51.9 billion and the ratio of operating income to net sales increased 0.8 percentage points from the previous fiscal year to 25.8%.

Net income decreased 4.0% to ¥34.7 billion. Net income per share (basic) was ¥364.09 compared with ¥376.00 for the previous fiscal year.

Segment Information by Business

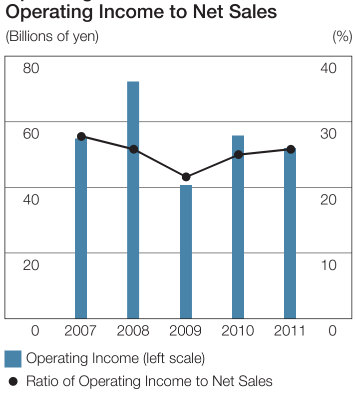
(Millions of yen)

Sales:	2011	Year-on-year change	2010
Pachinko machines business	¥149,876	(17.0)%	¥180,471
Pachislot machines business	30,316	27.9	23,698
Ball bearing supply systems business	19,652	14.8	17,118
Other businesses	1,761	25.8	1,385
Total	¥201,606	(9.5)%	¥222,673

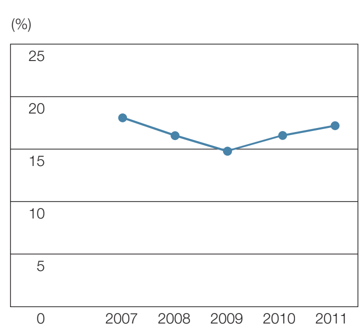
(Millions of yen)

Operating income:	2011	Year-on-year change	2010
Pachinko machines business	¥47,822	(13.3)%	¥55,182
Pachislot machines business	6,953	64.2	4,235
Ball bearing supply systems business	1,276	259.9	354
Other businesses	652	16.3	560
Elimination/Corporate	(4,781)	—	(4,556)
Total	¥51,923	(6.9)%	¥55,776

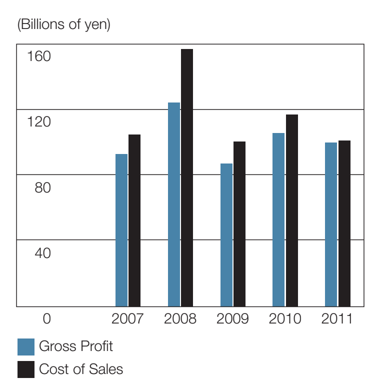
Operating Income and Ratio of Operating Income to Net Sales



Return on Sales (ROS)



Gross Profit and Cost of Sales



Fiscal 2012 Forecast

Prospects for fiscal 2012 are uncertain in the aftermath of the Great East Japan Earthquake. With so much electricity generating capacity out of order, an important question is the extent of the impact of electricity shortages on pachinko parlors, which may well arise when electricity demand peaks in the summer. Moreover, the tendency to curtail leisure-related consumption is likely to persist for a considerable time. Therefore, the markets for pachinko and pachislot machines are expected to shrink temporarily.

With the aim of increasing market share over the medium to long term, the Group is reinforcing product competitiveness by focusing on products capable of captivating players and is establishing a structure to enable the Group to continually offer products with the attributes necessary for enduring popularity. Emphasizing product development from players' viewpoints, we expect the effectiveness of the new structure centering on the Product Strategy Office to become increasingly apparent, leading to increased sales. Regarding pachislot, the Company established the Pachislot Development Department in April 2011. The aim is to capture a greater share of the expanding market for pachislot machines by establishing powerful brands through accelerated product development and enhanced competitiveness. Although the business environment is likely to remain challenging, the Group is striving to increase corporate value by establishing powerful brands and winning greater market share.

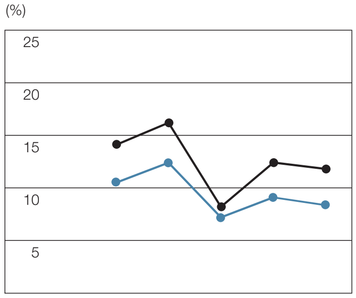
The forecast for consolidated business results in the fiscal year ending March 31, 2012, is as follows:

(Billions of yen)

	2012 forecasts	Year-on-year change	2011 results
Net sales	¥182.0	(9.7)%	¥201.6
Operating income	40.0	(23.0)	51.9
Net income	26.0	(25.1)	34.7

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

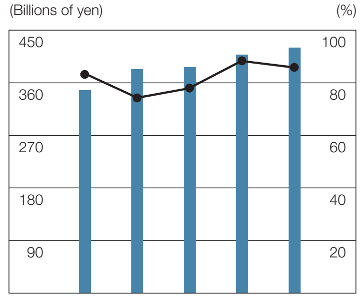
(%)



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

Total Net Assets and Equity Ratio

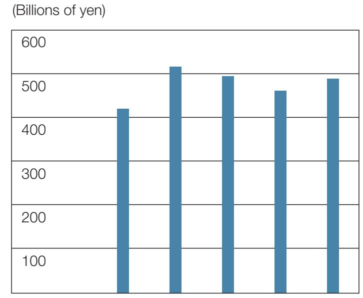
(Billions of yen) (%)



■ Total Net Assets (left scale)
● Equity Ratio

Total Assets

(Billions of yen)



Assets, Liabilities, and Net Assets

Total assets at the end of fiscal 2011 were ¥27.2 billion higher than the figure at the previous fiscal year-end as current assets, principally cash and deposits, increased ¥27.6 billion. Total liabilities, principally notes and accounts payable—trade, were ¥15.6 billion higher. As a result, net assets increased ¥11.6 billion. The shareholders' equity ratio decreased 2.5 percentage points to 85.9%, reflecting an increase in assets.

Cash Flows

Cash and cash equivalents at the fiscal year-end were ¥243.2 billion, having increased ¥24.8 billion from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities increased ¥20.8 billion from the previous fiscal year to ¥48.4 billion. The principal factors increasing cash flows included income before income taxes amounting to ¥55.1 billion and an increase of ¥8.9 billion in notes and accounts payable—trade. Cash outflows included income taxes paid amounting to ¥15.1 billion.

Cash flows from investing activities

Net cash used in investing activities increased ¥12.2 billion from the previous year to ¥0.7 billion. The principal factors increasing cash flows included proceeds from collection of long-term loans amounting to ¥1.9 billion. Cash outflows included payment for purchase of property, plant and equipment and intangible fixed assets amounting to ¥2.2 billion and an increase of ¥0.5 billion in the balance of investment securities held by the Group.

Cash flows from financing activities

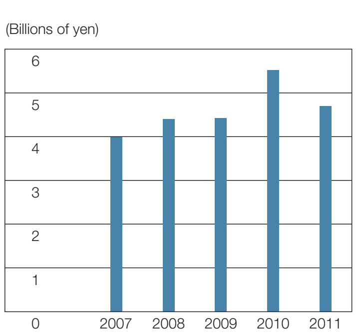
Net cash used in financing activities decreased ¥8.2 billion from the previous year to ¥22.8 billion. The principal items were cash dividends paid amounting to ¥14.3 billion and purchase of treasury stock amounting to ¥8.3 billion.

Forecast of the Financial Position in Fiscal 2012

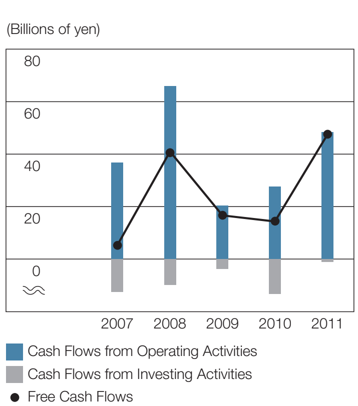
For fiscal 2012, the Company forecasts net cash provided by operating activities of ¥29.0 billion, net cash used in investing activities of ¥4.0 billion attributable to capital investment, and net cash used in financing activities of ¥18.0 billion mainly attributable to payment of cash dividends.

As a result, the Company forecasts an increase of ¥7.0 billion in the cash balance at the end of fiscal 2012 compared to the figure at the end of the current fiscal year.

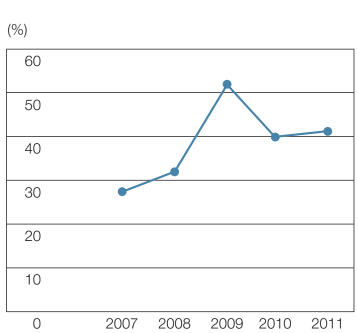
Depreciation



Free Cash Flows



Payout Ratio



Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2012 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 2011, but do not cover all the 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, determines the Group's sales results.

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

Regulations

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

Intellectual property rights

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

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

Development of new models

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

Consolidated Balance Sheets

SANKYO CO., LTD. and Its Consolidated Subsidiaries
As of March 31, 2011 and 2010

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Current assets:			
Cash and deposits (Notes 3 and 17)	¥168,230	¥143,416	$2,023,211
Marketable securities (Notes 3, 4 and 17)	112,999	115,004	1,358,978
Notes and accounts receivable—trade (Note 17)	51,685	49,868	621,587
Inventories (Note 6)	2,499	3,301	30,054
Deferred tax assets (Note 16)	3,102	2,081	37,306
Accounts receivable arising from outsourced production contracts	9,742	6,124	117,162
Other current assets	6,323	6,886	76,043
Allowance for doubtful accounts	(361)	(75)	(4,342)
Total current assets	354,220	326,608	4,260,012
Fixed assets:			
Property, plant and equipment:			
Land	29,619	29,875	356,212
Buildings and structures	23,119	23,070	278,040
Machinery and equipment	7,721	7,735	92,856
Tools, furniture and fixtures	16,653	16,183	200,277
Leased assets	197	221	2,369
	77,311	77,086	929,778
Accumulated depreciation	(29,085)	(26,030)	(349,790)
Total property, plant and equipment	48,225	51,055	579,976
Intangible fixed assets	329	310	3,957
Investments and other assets:			
Investments in securities (Notes 4, 5 and 17)	81,019	77,373	974,372
Long-term loans	582	2,197	6,999
Deferred tax assets (Note 16)	4,046	2,937	48,659
Other assets	758	1,605	9,116
Allowance for doubtful accounts	(166)	(349)	(1,996)
Allowance for losses on investments in securities	(379)	(379)	(4,558)
Total investments and other assets	85,860	83,384	1,032,592
Total fixed assets	134,415	134,750	1,616,536
Total assets	¥488,636	¥461,358	$5,876,560

The accompanying notes are integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Current liabilities:			
Notes and accounts payable—trade	¥ 39,168	¥ 30,182	$ 471,052
Accrued income taxes	12,748	7,259	153,313
Accrued employees' bonuses	851	817	10,235
Lease obligations	24	46	289
Other current liabilities	10,570	9,719	127,120
Total current liabilities	63,364	48,025	762,044
Long-term liabilities:			
Lease obligations	7	32	84
Accrued retirement allowances for directors and corporate auditors	653	623	7,853
Accrued retirement allowances for employees (Note 7)	3,209	2,933	38,593
Asset retirement obligations (Note 18)	59	—	710
Other long-term liabilities	1,683	1,720	20,241
Total long-term liabilities	5,612	5,309	67,492
Commitments and contingent liabilities (Notes 8 and 11)			
Net assets:			
Shareholders' equity (Note 10)**:**			
Common stock,			
Authorized : 144,000,000 shares			
Issued : 97,597,500 shares	14,840	14,840	178,473
Capital surplus	23,880	23,880	287,192
Retained earnings	397,867	377,529	4,784,931
Treasury stock	(17,337)	(8,969)	(208,503)
Total shareholders' equity	419,250	407,280	5,042,093
Accumulated other comprehensive income			
Net unrealized gains on other securities (Note 4)	408	744	4,907
Total accumulated other comprehensive income	408	744	4,907
Total net assets	419,658	408,024	5,046,999
Total liabilities and net assets	¥488,636	¥461,358	$5,876,560

The accompanying notes are integral part of these financial statements.

Consolidated Statements of Income

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Net sales	¥201,606	¥222,673	$2,424,606
Cost of sales	101,406	116,958	1,219,555
Gross profit	100,199	105,715	1,205,039
Selling, general and administrative expenses (Note 12)	48,276	49,938	580,589
Operating income	51,923	55,776	624,450
Other income (expenses):			
Interest and dividend income	1,477	1,739	17,763
Equity in earnings of affiliates	2,295	1,424	27,601
Loss on sales or disposal of property, plant and equipment, net (Note 13)	(84)	(531)	(1,010)
Loss on revaluation of investment securities	(116)	—	(1,395)
Reversal of allowance for doubtful accounts	57	440	686
Loss on investments in partnership	(280)	—	(3,367)
Loss on impairment	(262)	—	(3,151)
Loss on disaster	(346)	—	(4,161)
Impact of accounting standards for asset retirement obligations	(48)	—	(577)
Other, net	491	426	5,905
Income before income taxes	55,107	59,276	662,742
Income taxes (Note 16)**:**			
Current	22,240	18,038	267,468
Deferred	(1,866)	5,040	(22,441)
Total income taxes	20,373	23,078	245,015
Income before minority interests	34,733	—	417,715
Net income	¥ 34,733	¥ 36,198	$ 417,715

	Yen		U.S. dollars (Note 2)
Net income per share (Note 20):			
Basic	¥364.09	¥376.00	$4.38
Cash dividends per share	150.00	150.00	1.80

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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Net Income before minority interests	¥34,733	¥—	$417,715
Other comprehensive income (Note 9)			
Unrealized loss on available-for-sale securities	(386)	—	(4,642)
Share of other comprehensive income in associates	51	—	613
Total other comprehensive income	(335)	—	(4,029)
Comprehensive income	34,398	—	413,686
Total comprehensive income attributable to (Note 9)			
Owners of the parent	¥34,398	¥—	$413,686
Minority interests	—	—	—

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, 2011 and 2010

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 2) 2011
Common stock:			
Beginning of year	¥ 14,840	¥ 14,840	$ 178,473
End of year	¥ 14,840	¥ 14,840	$ 178,473
Capital surplus:			
Beginning of year	¥ 23,880	¥ 23,882	$ 287,192
Disposal of treasury stock	(0)	(1)	(0)
End of year	¥ 23,880	¥ 23,880	$ 287,192
Retained earnings:			
Beginning of year	¥377,529	¥355,800	$4,540,337
Dividends from surplus	(14,394)	(14,469)	(173,109)
Net income	34,733	36,198	417,715
Total changes during the year	20,338	21,728	244,594
End of year	¥397,867	¥377,529	$4,784,931
Treasury stock:			
Beginning of year	¥ (8,969)	¥ (8,940)	$ (107,865)
Acquisition of treasury stock	(8,370)	(22)	(100,661)
Disposal of treasury stock	2	4	24
Increase in treasury stock resulting from a change in equity in an affiliate accounted for by the equity method	—	(11)	—
Total changes during the year	(8,368)	(29)	(100,637)
End of year	¥ (17,337)	¥ (8,969)	$ (208,503)
Shareholders' equity:			
Beginning of year	¥407,280	¥385,582	$4,898,136
Dividends from surplus	(14,394)	(14,469)	(173,109)
Net income	34,733	36,198	417,715
Acquisition of treasury stock	(8,370)	(22)	(100,661)
Disposal of treasury stock	1	3	12
Increase in treasury stock resulting from a change in equity in an affiliate accounted for by the equity method	—	(11)	—
Total changes during the year	11,969	21,697	143,945
End of year	¥419,250	¥407,280	$5,042,093
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities:			
Beginning of year	¥ 744	¥ 604	$ 8,948
Net change in the year	(335)	139	(4,029)
End of year	¥ 408	¥ 744	$ 4,907
Total net assets:			
Beginning of year	¥408,024	¥386,187	$4,907,084
Dividends from surplus	(14,394)	(14,469)	(173,109)
Net income	34,733	36,198	417,715
Acquisition of treasury stock	(8,370)	(22)	(100,661)
Disposal of treasury stock	1	3	12
Increase in treasury stock resulting from a change in equity in an affiliate accounted for by the equity method	—	(11)	—
Other changes during the year	(335)	139	(4,029)
Total changes during the year	11,634	21,837	139,916
End of year	¥419,658	¥408,024	$5,046,999

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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes	¥ 55,107	¥ 59,276	$ 662,742
Depreciation and amortization	4,710	5,516	56,645
Increase (decrease) in allowance for doubtful accounts	102	(459)	1,227
Increase in accrued employees' bonuses	34	64	409
Increase in accrued retirement allowances for employees	276	249	3,319
Increase in accrued retirement allowances for directors and corporate auditors	30	38	361
Interest and dividend income	(1,477)	(1,739)	(17,763)
Interest expense	—	0	—
Equity in earnings of affiliates	(2,295)	(1,424)	(27,601)
Loss on sales or disposal of property, plant and equipment, net	84	531	1,010
Loss on devaluation of investment securities	116	—	1,395
Increase in notes and accounts receivable—trade	(1,816)	(9,841)	(21,840)
Decrease in inventories	816	22,850	9,814
Increase (decrease) in notes and accounts payable—trade	8,986	(41,894)	108,070
(Increase) decrease in accounts receivable arising from outsourced production contracts	(3,617)	20,879	(43,500)
(Decrease) increase in consumption taxes payable	(956)	1,938	(11,497)
Increase in accounts payable—other	1,834	408	22,057
Decrease in other current assets	—	1,716	—
Decrease in other current liabilities	—	(8,952)	—
Other, net	(260)	(144)	(3,127)
Sub total	61,674	49,014	741,720
Interest and dividend income received	1,917	2,069	23,055
Interest paid	—	(0)	—
Income taxes paid	(15,186)	(23,565)	(182,634)
Net cash provided by operating activities	48,405	27,518	582,141
Cash flows from investing activities:			
Payments into time deposits	—	(2,514)	—
Proceeds from withdrawal of time deposits	—	2,514	—
Payment for purchase of property, plant and equipment and intangible fixed assets	(2,206)	(8,471)	(26,530)
Proceeds from sale of property, plant and equipment and intangible fixed assets	—	95	—
Payment for purchase of investment securities	(40,799)	(37,027)	(490,667)
Proceeds from sale of investment securities	40,235	34,000	483,885
Payment in loans receivable	—	(1,906)	—
Collection of loans receivable	1,998	205	24,029
Other, net	(10)	51	(120)
Net cash used in investing activities	(782)	(13,053)	(9,405)
Cash flows from financing activities:			
Payment for finance lease obligations	(46)	(69)	(553)
Payment for purchase of treasury stock	(8,370)	(22)	(100,661)
Proceeds from sales of treasury stock	1	3	12
Cash dividends paid	(14,394)	(14,469)	(173,109)
Net cash used in financing activities	(22,810)	(14,557)	(274,324)
Net increase (decrease) in cash and cash equivalents	24,813	(92)	298,413
Cash and cash equivalents at beginning of year	218,416	218,509	2,626,771
Cash and cash equivalents at end of year (Note 3)	¥243,230	¥218,416	$2,925,195

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

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by SANKYO CO., LTD. (the "Company") and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Corporate Law of Japan and the Financial Instruments and Exchange Law 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 Law.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in the accompanying consolidated financial statements for the convenience of readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2010 financial statements to conform to the classifications used in 2011. In conformity with the Corporate Law 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 four significant wholly owned subsidiaries. The remaining unconsolidated subsidiaries have assets, net sales and net income which are not significant in relation to those of the Companies, and, accordingly, the accounts of such subsidiaries have been excluded from consolidation.

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

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

(c) Foreign Currency Translation

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

(d) Cash and Cash Equivalents

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

(e) Marketable Securities and Investments in Securities

Held-to-maturity debt securities that the Company and its consolidated subsidiaries intend to hold to maturity are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity. Other 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. Other 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 under the equity method, or other 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 of investment 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	Specific identification method
Supplies	Last purchase price method

(i) Property, Plant and Equipment

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

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.

Leased assets are depreciated over respective lease periods by the straight-line method without residual values.

(j) Accrued Employees' Bonuses

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

(k) Accrued Retirement Allowances for Directors and Corporate Auditors

The accrued retirement allowances for directors and corporate auditors are stated at the estimated amount which would be required to be paid based on the internal rule if all eligible directors and corporate auditors were to leave the Company at the balance sheet date.

(l) Accrued Retirement Allowances for Employees

The accrued retirement allowances for employees represent the estimated present value of projected benefit obligations, less/plus unrecognized actuarial differences and unrecognized prior service costs, which are amortized on a straight-line basis over a period of five years from the year in which they arise.

(m) Leases

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

Leased assets are depreciated on a straight-line basis over the estimated useful lives with zero residual value.

(n) Research and Development and Computer Software

Research and development expenditures 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).

(o) 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.

(p) Asset Retirement Obligations

The Company is applying the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, March 31, 2008) beginning the year ended March 31, 2011. As a result, operating income for the fiscal year decreased by ¥2 million ($24 thousand), and net income before taxes decreased by ¥50 million ($601 thousand).

(q) Presentation of Income before Minority Interests

Effective the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries have adopted the "Cabinet Office Ordinance on Partial Amendments to Regulations on Terminology Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No.5, March 24, 2009), corresponding to "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, December 26, 2008), and newly presented the account item income before minority interests in the statements of income.

(r) Presentation of Comprehensive Income

The Company is applying the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, June 30, 2010) effective the year ended March 31, 2011. However, the amounts for the "accumulated other comprehensive income" and "total accumulated other comprehensive income" in the accompanying consolidated balance sheets had been reported as "valuation and translation adjustments" and "total valuation and translation adjustments in previous years".

(s) 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 have adopted 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.

(t) Appropriation of Retained Earnings

The Corporate Law of Japan stipulates that appropriations of retained earnings require approval by the shareholders at an ordinary 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.

(u) Net Income and 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.

(v) Consumption tax

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

(w) Reclassification

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

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥83.15=U.S. $1, the rate of exchange on March 31, 2011, has been used for the translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

3. Cash and Cash Equivalents

A reconciliation of cash and cash equivalents to the accounts disclosed on the balance sheet at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and deposits	¥168,230	¥143,416	$2,023,211
Marketable securities	112,999	115,004	1,358,978
Total	281,229	258,420	3,382,189
Bonds and debentures, investment funds and others whose original maturity is more than three months	(37,999)	(40,004)	(456,993)
Cash and cash equivalents	¥243,230	¥218,416	$2,925,195

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2011 and 2010 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2011				2010			
	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	¥ 79,998	¥78	¥13	¥ 80,063	¥ 80,001	¥268	¥6	¥ 80,263
Certificates of deposit	75,000			75,000	75,000			75,000
Total	¥154,998	¥78	¥13	¥155,063	¥155,001	¥268	¥6	¥155,263

	Thousands of U.S. dollars			
	2011			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Japanese government bonds	$ 962,093	$938	$156	$ 962,874
Certificates of deposit	901,984			901,984
Total	$1,864,077	$938	$156	$1,864,859

(b) Other Securities

	Millions of yen							
	2011				2010			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Equity securities	¥2,106	¥600	¥—	¥2,707	¥1,641	¥1,250	¥—	¥2,891
	¥2,106	¥600	¥—	¥2,707	¥1,641	¥1,250	¥—	¥2,891

	Thousands of U.S. dollars			
	2011			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Equity securities	$25,328	$7,216	$—	$32,556
	$25,328	$7,216	$—	$32,556

5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Investments in securities	¥36,225	¥34,377	$435,658

6. Inventories

Inventories at March 31, 2011 and 2010 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished goods and merchandise	¥1,140	¥ 36	$13,710
Work in process	313	244	3,764
Raw materials and supplies	1,046	3,020	12,580
Total	¥2,499	¥3,301	$30,054

7. Retirement Benefit Plan

Employees whose service with the Company and consolidated subsidiaries is terminated are usually entitled to receive lump-sum severance indemnities based on a defined benefit formula, which takes into account current rates of payments and length of service.

The accrued retirement allowance for employees as of March 31, 2011 and 2010 were determined as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligations	¥3,333	¥3,097	$40,084
Unrecognized actuarial differences	(123)	(164)	(1,479)
Accrued retirement allowance for employees	¥3,209	¥2,933	$38,593

The net pension expense relating to retirement benefits for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service costs	¥222	¥214	$2,670
Interest costs	44	41	529
Amortization of actuarial differences	63	63	758
Total	¥330	¥319	$3,969

Assumptions used in the calculation of the preceding information are as follows:

	2011	2010
Discount rate	1.50%	1.50%
Method of attributing the projected benefits to service periods	Straight-line basis	Straight-line basis
Amortization of actuarial differences	Over five years	Over five years

8. Contingent Liabilities

Contingent liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
As an endorser of notes endorsed	**¥130**	¥—	**$1,563**

9. Comprehensive Income

Total comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Total comprehensive income attributable to:	
Owners of the parent	¥36,337
Minority interests	—
Total comprehensive income	¥36,337

Other comprehensive income for the year March 31, 2010 consisted of the following:

	Millions of yen
	2010
Other comprehensive income	
Unrealized gain on available-for-sale securities	¥139
Total other comprehensive income	¥139

10. Shareholders' Equity

The Japanese companies are subject to the Corporate Law of Japan. The Corporate Law 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 Corporate Law, 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law 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 Corporate Law 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

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2010	97,597,500	1,330,130
Increase in the number of shares during the accounting period ended March 31, 2011	**—**	**1,918,905***1
Decrease in the number of shares during the accounting period ended March 31, 2011	**—**	**350***2
Number of shares as of March 31, 2011	**97,597,500**	**3,248,685**

Notes: *1. Increase due to the purchase of odd shares (2,005 shares), purchase of treasury stock based on the resolution of the Board of Directors (1,916,900 shares)
*2. Decrease due to sales upon the request from odd shareholders (350 shares)

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2009	97,597,500	1,324,326
Increase in the number of shares during the accounting period ended March 31, 2010	—	6,504*1
Decrease in the number of shares during the accounting period ended March 31, 2010	—	700*2
Number of shares as of March 31, 2010	97,597,500	1,330,130

Notes: *1. Increase due to the purchase of odd shares (4,544 shares) and inclusion of the shares owned by an affiliate newly accounted for under the equity method (1,960 shares)
*2. Decrease due to sales upon the request from odd shareholders (700 shares)

b) Matters related to dividends

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 29, 2010 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,234 million ($86,999 thousand)
Dividends per share	¥75.00
Record date	March 31, 2010
Effective date	June 30, 2010

Approvals by the Board of Directors' meeting held on November 5, 2010 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,160 million ($86,109 thousand)
Dividends per share	¥75.00
Record date	September 30, 2010
Effective date	December 3, 2010

ii) Dividends whose record date is attributed to the accounting period ended March 31, 2011 but become effective after the said accounting period.

The Company obtained the following approval at the general meeting of shareholders held on June 29, 2011:

Dividends on common stock	
Total amount of dividends	¥7,090 million ($85,268 thousand)
Dividends per share	¥75.00
Record date	March 31, 2011
Effective date	June 30, 2011

iii) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 26, 2009 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,234 million
Dividends per share	¥75.00
Record date	March 31, 2009
Effective date	June 29, 2009

Approvals by the Board of Directors' meeting held on November 5, 2009 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,234 million
Dividends per share	¥75.00
Record date	September 30, 2009
Effective date	December 4, 2009

iv) Dividends whose record date is attributed to the accounting period ended March 31, 2010 but become effective after the said accounting period.

The Company obtained the following approval at the general meeting of shareholders held on June 29, 2010:

Dividends on common stock	
Total amount of dividends	¥7,234 million ($86,999 thousand)
Dividends per share	¥75.00
Record date	March 31, 2010
Effective date	June 30, 2010

11. Leases

Operating Leases

Future lease payments for non-cancellable operating leases as a lessee at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥16	¥10	$192
Due after one year	36	25	433
Total	¥53	¥35	$637

12. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the fiscal years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Sales commission	¥14,580	¥16,356	$175,346
Advertisement expenses	6,460	8,401	77,691
Salaries and wages	3,922	4,172	47,168
Provision for reserve for bonuses	455	451	5,472
Accrued retirement allowances for directors and corporate auditors	64	63	770
Retirement benefit costs	215	210	2,586
Research and development expenses	15,405	13,748	185,268

13. Gain or Loss on Sales and Loss on Disposal of Property, Plant and Equipment

Gain or loss on sales and loss on disposal of property, plant and equipment for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Gain on sales of property, plant and equipment:			
Tools, furniture and fixtures	¥ —	¥ 48	$ —
Loss on sales of property, plant and equipment:			
Buildings and structures	¥ —	¥ 65	$ —
Machinery and equipment	—	19	—
Total	¥ —	¥ 36	$ —
Loss on disposal of property, plant and equipment, etc.:			
Buildings and structures	¥23	¥105	$ 277
Machinery and equipment	18	291	216
Tools, furniture and fixtures	40	98	481
Others	2	0	24
Total	¥84	¥494	$1,010

14. Loss on Impairment

Loss on impairment corresponding to the following asset group for the year ended March 31, 2011 was as follows:

Use	Type of assets	Location	Millions of yen	Thousands of U.S. dollars
Idle Assets	Land	Ota city, Gunma Pref. etc.	¥262	$3,151

The Group periodically reviews their fixed assets for impairments grouping assets by income generating units or idle assets. An impairment loss on assets that had been idle due to the business office relocation, etc. was recognized, and the book value was reduced to the recoverable value (actual salable value) since there was no plan for future use in the future. The recoverable value was measured at the amount based on land tax assessments with reasonable adjustments.

15. Loss on disaster

With regard to the Company's clients affected by the Great East Japan Earthquake, an estimated amount of loss due to the disaster was recorded for delays related to the recovery, and reductions or exemptions of debts, etc.

16. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate of approximately 40.5% for the years ended March 31, 2011 and 2010.

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

Significant components of deferred tax assets and liabilities at March 31, 2011 and 2010, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued enterprise taxes	¥1,074	¥ 623	$12,916
Unrealized profits on inventories	99	2	1,191
Accrued employees' bonuses	345	330	4,149
Allowance for doubtful accounts	163	46	1,960
Accrued retirement allowances for employees	1,300	1,188	15,634
Accrued retirement allowances for directors and corporate auditors	265	252	3,187
Accumulated depreciation	2,033	1,321	24,450
Unrealized profit on property, plant and equipment	292	292	3,512
Allowance for losses on investments in securities	153	153	1,840
Research and development expenses	1,141	945	13,722
Loss on impairment	110	—	1,323
Other	415	367	4,991
Deferred tax assets	7,395	5,525	88,936
Deferred tax liabilities:			
Net unrealized gains on securities	(243)	(506)	(2,922)
Allowance for doubtful accounts	(3)	—	(36)
Deferred tax liabilities	(246)	(506)	(2,959)
Deferred tax assets, net	¥7,148	¥5,018	$85,965

A reconciliation between the statutory tax rate and the effective income tax rate at March 31, 2011 is as follows:

	2011
Normal effective statutory tax rate	40.5%
Expenses not deductible for income tax purposes	0.2
Non-taxable income	(0.1)
Tax credit for research and development costs	(1.6)
Equity in earnings of affiliates accounted for by the equity method	(1.7)
Other – net	(0.3)
Actual effective tax rate	37.0%

Since the difference between the statutory tax rate and the effective income tax rate was 5% or less of the statutory tax rate, the breakdown of the difference at March 31, 2010 is not required.

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.

Short-term investment securities and investments in securities are exposed to the risk of market price fluctuations, however, the fair values of all short-term investment securities and investments in securities are periodically determined. Other securities are mostly the shares of companies with which the companies have business relationships, and equity securities issued by unconsolidated subsidiaries and affiliates are the shares of two affiliates accounted for by the equity method. Debt Securities are purchased for the temporary management of surplus funds.

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

(3) Supplementary explanation concerning fair values of financial instruments

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

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2011 and 2010, were as follows. Financial instruments whose fair values are not readily determinable are excluded from the following table. (See Note 2)

	Millions of yen		
March 31,2011	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥168,230	¥168,230	¥ —
(2) Notes and accounts receivable—trade	51,685		
Allowance for doubtful accounts	(361)		
	51,323	50,536	(787)
(3) Short-term investment securities and investments in securities:			
Held-to-maturity debt securities	154,998	155,063	64
Other securities	2,707	2,707	—
Total assets	¥377,260	¥376,537	¥(722)
(4) Notes and accounts payable—trade	¥ 39,168	¥ 39,168	¥ —
Total liabilities	¥ 39,168	¥ 39,168	¥ —

	Millions of yen		
March 31,2010	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥143,416	¥143,416	¥ —
(2) Notes and accounts receivable—trade	49,868		
Allowance for doubtful accounts	(54)		
	49,814	49,096	(717)
(3) Short-term investment securities and investments in securities:			
Held-to-maturity debt securities	155,001	155,263	262
Other securities	2,891	2,891	—
Equity securities issued by unconsolidated subsidiaries and affiliates	18,499	10,520	(7,978)
Total assets	¥369,623	¥361,189	¥(8,434)
(4) Notes and accounts payable—trade	¥ 30,182	¥ 30,182	¥ —
Total liabilities	¥ 30,182	¥ 30,182	¥ —

	Thousands of U.S. dollars		
March 31,2011	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	$2,023,211	$2,023,211	$ —
(2) Notes and accounts receivable—trade	621,587		
Allowance for doubtful accounts	(4,342)		
	617,234	607,769	(9,465)
(3) Short-term investment securities and investments in securities:			
Held-to-maturity debt securities	1,864,077	1,864,859	770
Other securities	32,556	32,556	—
Total assets	$4,537,102	$4,528,406	$(8,683)
(4) Notes and accounts payable—trade	$ 471,052	$ 471,052	$ —
Total liabilities	$ 471,052	$ 471,052	$ —

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) Short-term investment securities and investments in securities

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

(4) Notes and accounts payable—trade

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

2. Since it is extremely difficult to determine the fair values of unlisted equity securities (¥15,965 million: $192,002 thousand) as there are no market prices available and it is impossible to estimate the future cash flow, they are not included in “(3) Short-term investment securities and investments in securities.”

3. Redemption schedule of monetary assets and marketable securities with contractual maturities at March 31 2011 and 2010, were as follows

	Millions of yen	
March 31 2011	Within one year	One to five years
(1) Cash and deposits	¥168,230	¥ —
(2) Notes and accounts receivable—trade	36,538	15,147
(3) Short-term investment securities and investments in securities:		
Held-to-maturity debt securities (Japanese government bonds)	38,000	42,000
Held-to-maturity debt securities (Certificates of deposits)	75,000	—

March 31 2010	Millions of yen Within one year	One to five years
(1) Cash and deposits	¥143,416	¥ —
(2) Notes and accounts receivable—trade	36,174	13,694
(3) Short-term investment securities and investments in securities:		
Held-to-maturity debt securities (Japanese government bonds)	40,000	40,000
Held-to-maturity debt securities (Certificates of deposits)	75,000	—

March 31 2011	Thousands of U.S. dollars Within one year	One to five years
(1) Cash and deposits	$2,023,211	$ —
(2) Notes and accounts receivable—trade	439,423	182,165
(3) Short-term investment securities and investments in securities:		
Held-to-maturity debt securities (Japanese government bonds)	457,005	505,111
Held-to-maturity debt securities (Certificates of deposits)	901,984	—

18. Asset Retirement Obligations

Asset retirement obligations recorded on the consolidated balance sheet at March 31, 2011 were as follows:

(1) Overview of asset retirement obligations

Asset retirement obligations in this fiscal year were based on restoration obligations, etc. related to real estate leasing of buildings.

(2) Calculation method of the amount of asset retirement obligations

The amount of asset retirement obligations was calculated considering an estimated period of 13 years from obtaining the asset, and using a discount rate of 1.7%.

(3) Changes in asset retirement obligations in this fiscal year

	Millions of yen	Thousands of U.S. dollars
Balance as of April 1, 2010*1	¥58	$698
Accretion expense	0	6
Balance as of March 31, 2011	¥59	$710

Notes: *1. The Company is applying the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, March 31,2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, March 31, 2008) beginning with the fiscal year under review, and the beginning balance is the effect of this change.

19. Segment Information

For the year ended March 31, 2011

Effective the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries have adopted the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, Revised, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008).

Following are the required information to be disclosed under the new accounting standard for segment information disclosures for the year ended March 31, 2011:

1. Overview of the Reportable Segments

The Company's reportable segments are determined on the basis that separate financial information of such segments is 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. The Pachinko machines business is involved in production and sales of Pachinko machines, machine gauges, and related parts, and their royalty-related business. The Pachislot machines business is involved in production and sales of Pachislot machines and related parts, and by their royalty-related business. The Ball bearing supply systems business is involved in production and sales of Pachinko and Pachislot ball feeders, card system equipments, and parlor equipments and peripherals, and royalty-related business.

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

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

3. Information on reportable segment income (loss) and asset amounts

Previous fiscal year (from April 1, 2009 to March 31, 2010)

Reportable segment information for this period was omitted since the consolidated financial statements prepared under the previous standard disclosed the same information and was compliant with current standards such as "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17, Revised, 2009), etc.

Current fiscal year (from April 1, 2010 to March 31, 2011)

Millions of yen

	Reportable segments							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustments*2	Consolidated*3
Sales:								
Customers	¥149,876	¥30,316	¥19,652	¥199,844	¥ 1,761	¥201,606	¥ —	¥201,606
Intersegment	—	—	—	—	—	—	—	—
Total	149,876	30,316	19,652	199,844	1,761	201,606	—	201,606
Segment income	¥ 47,822	¥ 6,953	¥ 1,276	¥ 56,052	¥ 652	¥ 56,704	¥ (4,781)	¥ 51,923
Segment assets	¥ 41,188	¥26,747	¥20,273	¥ 88,208	¥13,629	¥101,837	¥386,798	¥488,636
Others								
Depreciation and amortization	¥ 3,674	¥ 587	¥ 133	¥ 4,395	¥ 121	¥ 4,516	¥ 194	¥ 4,710
Increase in fixed assets and intangible assets	¥ 1,995	¥ 70	¥ 38	¥ 2,104	¥ 21	¥ 2,125	¥ 143	¥ 2,269

Notes:

*1. The Other segment is not a reportable segment. It includes real estate rental and sales of general-molded parts.

*2. Adjustments are as follows:

(1) Adjustments for segment income are general and administrative expenses related to administrative operations not attributable to a reportable segment.

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

*3. Segment income includes operating income and adjustment in consolidated income statement.

*4. Depreciation and amortization and Increase in fixed assets and intangible assets include depreciation and increase related to long-term prepaid expenses.

	Reportable segments							
Thousands of U.S. dollars	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustments[*2]	Consolidated[*3]
Sales:								
Customers	$1,802,477	$364,594	$236,344	$2,403,416	$ 21,179	$2,424,606	$ –	$2,424,606
Intersegment	–	–	–	–	–	–	–	–
Total	1,802,477	364,594	236,344	2,403,416	21,179	2,424,606	–	2,424,606
Segment profit	$ 575,129	$ 83,620	$ 15,346	$ 674,107	$ 7,841	$ 681,948	$ (57,498)	$ 624,450
Segment asset	$ 495,346	$321,672	$243,812	$1,060,830	$163,909	$1,224,738	$4,651,810	$5,876,560
Others								
Depreciation and amortization	$ 44,185	$ 7,060	$ 1,600	$ 52,856	$ 1,455	$ 54,311	$ 2,333	$ 56,645
Increase in fixed assets and intangible assets	$ 23,993	$ 842	$ 457	$ 25,304	$ 253	$ 25,556	$ 1,720	$ 27,288

Notes:
*1. The Other segment is not a reportable segment. It includes real estate rental and sales of general-molded parts.
*2. Adjustments are as follows:
(3) Adjustments for segment income are general and administrative expenses related to administrative operations not attributable to a reportable segment.
(4) Adjustments for segment assets includes corporate assets not associated with the reportable segments. The main items were surplus funds (cash, deposits, and securities), long-term investments (investments in securities), and assets related to administrative operations.
*3. Segment income includes operating income and adjustment in consolidated income statement.
*4. Depreciation and amortization and Increase in fixed assets and intangible assets include depreciation and increase related to long-term prepaid expenses.

Related information for the year ended March 31, 2011 is as follows:

1. Product and service information
   Product and service information by segment has been omitted since a similar description is disclosed in segment information.
2. Geographical segment information
   (1) Sales
   There are no sales to customers outside Japan and no applicable data.
   (2) Tangible fixed assets
   There are no tangible fixed assets located outside Japan and no applicable data.
3. Major customers segment information
   Major customers segment information is not shown since there is no customer accounting for more than 10 % of net sales in the consolidated income statement.

Losses on impairment of fixed assets by segment for the year ended March 31, 2011 is summarized as follows:

	Reportable segments						
Millions of yen	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other	Eliminations/ Corporate*	Total
Loss on impairment	–	–	–	–	–	¥262	¥262

* Amount shown is related to idle assets.

	Reportable segments						
Thousands of U.S. dollars	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other	Eliminations/ Corporate*	Total
Loss on impairment	–	–	–	–	–	$3,151	$3,151

* Amount shown is related to idle assets.

Amortization of goodwill and remaining balance by segment as of and the year ended March 31, 2011 is summarized as follows:

There is no corresponding information.

Gain on negative goodwill by segment for the year ended March 31, 2011 is as follows:

There is no corresponding information.

For the year ended March 31, 2010

The Companies operate within four business segments in Japan: pachinko machines business, pachislot machines business, ball bearing supply systems business and other business.

Pachinko machines business	Pachinko machines, machine gauges, related parts and royalty income relating to pachinko machines
Pachislot machines business	Pachislot machines, related parts and royalty income relating to pachislot machines
Ball bearing supply systems business	Pachinko ball feeders, parlor equipment and peripherals and royalty income relating to ball feeders
Other business	Real estate rental, general parts

Corporate items include general and administrative expenses and other expenses not identified with business segments.

The Company had no overseas consolidated subsidiaries for the year ended March 31, 2010.

Sales of the Company and its consolidated subsidiaries from sources outside Japan for the years ended 31 March 2010 were not significant (less than 10 percent of consolidated sales for each of the respective years).

Information by industry segment for the year ended March 31, 2010 was as follows:

	Millions of yen					
	2010					
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Other business	Elimination or corporate items	Consolidated
Sales:						
Customers	¥180,471	¥23,698	¥17,118	¥ 1,385	¥ —	¥222,673
Intersegment	33	—	—	15	(48)	—
Total	¥180,504	¥23,698	¥17,118	¥ 1,400	¥ (48)	¥222,673
Operating expenses	125,322	19,463	16,763	839	4,507*1	166,897
Operating income	¥ 55,182	¥ 4,235	¥ 354	¥ 560	¥ (4,556)	¥ 55,776
Identifiable assets	¥ 50,909	¥20,332	¥18,935	¥13,141	¥358,039*2	¥461,358
Depreciation and amortization	¥ 4,430	¥ 658	¥ 78	¥ 121	¥ 226	¥ 5,516
Capital expenditures	¥ 5,861	¥ 924	¥ 144	¥ 251	¥ 248	¥ 7,430

*1. Non-allocable operating expenses: ¥4,556 million
*2. Corporate assets: ¥358,039 million

20. Per Share Information

	Yen		U.S. dollars
	2011	2010	2011
Net asset per share	¥4,447.95	¥4,238.45	$53.49
Net income per share	364.09	376.00	4.38

Diluted net income per share is not disclosed since there is no potential share.

Above information was computed based on the following data:

	Year ended March 31,	
	2011	2010
Net asset per share:		
Total net assets	¥419,658 million	¥408,024 million
Net assets attributable to common stock	419,658 million	408,024 million
Number of outstanding shares of common stock	97,597,500 shares	97,597,500 shares
Number of treasury stock	3,248,685 shares	1,330,130 shares
Number of common stock used in computing net asset per share	94,348,815 shares	96,267,370 shares
Net income per share:		
Net income per consolidated statements of income	¥34,733 million	¥36,198 million
Net income attributable to common stock	¥34,733 million	¥36,198 million
Net income not attributable to common stock shareholders	—	—
Weighted average number of common stock	95,398,765 shares	96,271,849 shares

21. Related Party Transaction

The transactions for the years ended March 31, 2011 and 2010 and related account balances outstanding at each year end were as follows:

For the year ended March 31, 2011 (Millions of yen, Thousands of U.S. dollars)

Description	Name	Address	Capital	Business line/ occupation	Voting rights owned by the Company	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliate corporation	Fields Corporation	Shibuya-ku, Tokyo	¥7,948 ($95,586)	Development, purchase and sales of game machines	Direct 15.67% (The company owns 1.04% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥16,469 ($198,064)	Accounts receivable-trade	¥12,733 ($153,133)
							Consignment sales of game machines	¥12,312 ($148,070)	Accounts payable-other	¥283 ($3,403)
							Royalty	¥1,002 ($12,051)	Accounts payable-other	¥198 ($2,381)

For the year ended March 31, 2010 (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 corporation	Fields Corporation	Shibuya-ku, Tokyo	¥7,948	Development, purchase and sales of game machines	Direct 15.67% (The company owns 1.02% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥17,945	Accounts receivable-trade	¥16,223
							Consignment sales of game machines	¥14,394	Accounts payable-other	¥622
							Royalty	¥1,365	Accounts payable-other	¥286

22 Significant subsequent events

There was no significant subsequent event to be reported for the fiscal year ended March 31, 2011.
Significant subsequent events reported for the fiscal year ended March 31, 2010 were as follows:
Acquisition of treasury stock based on the Provisions of Articles of Incorporation under Article 165, Paragraph 2 of the Companies Act.

At the Board of Directors' meeting held on June 11, 2010, the Company resolved an agreement on acquisition of treasury stock under Article 156 of the Corporate Law, which replaced Article 165, Paragraph 3 of the Corporate Law.

(1) Purpose of the acquisition of treasury stock
The acquisition of treasury stock was agreed to improve the capital efficiency, to execute a dynamic capital policy to cope with changes in the business environment and to provide a better return of profits to the shareholders.

(2) Type of shares
Common stock

(3) Total number of shares to be acquired
3,000,000 shares (Upper limit)

(4) Total acquisition cost of stock
¥15,000 million (Upper limit)

(5) Acquisition period
From June 14, 2010 to December 30, 2010

23. Significant Subsidiaries and Affiliates

The domestic consolidated subsidiaries and affiliates accounted for under the equity method at March 31, 2011 and 2010 were as follows:

	Ownership		
At March 31	2011	2010	Consolidation method
SANKYO EXCEL CO., LTD.	100%	100%	Full consolidation
BISTY CO., LTD.	100%	100%	Full consolidation
SANKYO CREATE CO., LTD.	100%	100%	Full consolidation
INTERNATIONAL CARD SYSTEM CO., LTD.	100%	100%	Full consolidation
NIPPON GAME CARD CORPORATION	39.41%	39.41%	Equity method
FIELDS CORPORATION	15.67%	15.67%	Equity method

Report of Independent Auditors

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1100
Fax: +81 3 3503 1197

Report of Independent Auditors

The Board of Directors
SANKYO CO., LTD.

We have audited the accompanying consolidated balance sheets of SANKYO CO., LTD. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SANKYO CO., LTD. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

June 24, 2011 Ernst & Young ShinNihon LLC

Board of Directors

(As of June 29, 2011)

Honorary Chairman
Kunio Busujima

Representative Director, Chairman of the Board & CEO
Hideyuki Busujima*

Representative Director, President & COO
Akihiko Sawai*

Director & Senior Executive Vice President
Kimihisa Tsutsui

Standing Statutory Auditor
Shohachi Ugawa

Statutory Auditor
Toshiaki Ishiyama

Outside Auditors
Yoshiro Sanada
Fumiyoshi Noda

Senior Executive Operating Officer
Akihiko Ishihara

Executive Operating Officer
Satoshi Kouketsu

Operating Officers
Junko Takimoto
Ritoku Kotabe
Ichiro Tomiyama
Minoru Yoshikawa
Hiroshi Kodaira
Takashi Fukuda
Yuji Togo

*Representative Director

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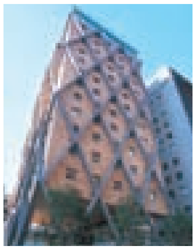
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7773 Facsimile: 81(3)5778-6731
http://www.sankyo-fever.co.jp

Corporate Data

(As of March 31, 2011)

Company Name
SANKYO CO., LTD.

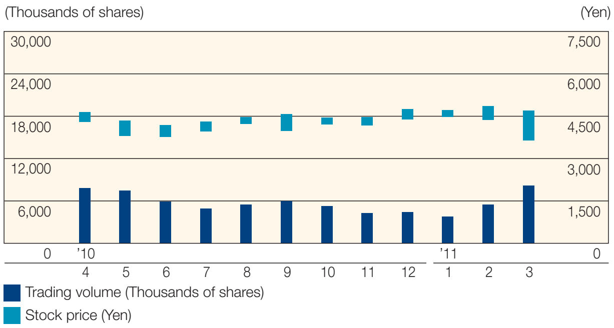
Head Office
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7777 Facsimile:81(3)5778-6731



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

Established	April 12, 1966
Paid-in Capital	¥14,840 million
Number of Employees	1,113 (Consolidated) 937 (SANKYO CO., LTD.)
Number of Shares Authorized	144,000,000
Number of Shares Issued	97,597,500
Number of Shareholders	12,660

Stock Price Range



Stock Exchange Listing
The Tokyo Stock Exchange, First Section,
Code Number 6417

Transfer Agent
The Chuo Mitsui Trust and Banking Company, Limited

Auditor
Ernst & Young ShinNihon LLC

Good luck. Good life.

SANKYO

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

Printed in Japan