Good luck. Good life.

SANKYO

SANKYO Also Rises

Annual Report 2013

Year ended March 31, 2013

2013

SANKYO CO., LTD.

SANKYO Also Rises

Since its establishment in 1966, SANKYO Co., Ltd. has been the source of a stream of highly innovative industry-changing products displaying our credo of "ingenuity," and has developed synonymously with the pachinko industry. In particular, SANKYO whipped up a storm in the world of pachinko in 1980 with the launch of the first "Fever" series, defining the fundamentals of gaming performance that today's pachinko machines inherit. In recent years, SANKYO has also secured a firm position as a manufacturer of pachislot with a steady market share.

SANKYO aspires to provide enjoyment to the society by offering innovative pachinko and pachislot machines capable of propelling the industry's growth and development.

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note)
	2013	2012	**2013**
For the year:			
Net sales	**¥104,150**	¥173,682	**$1,107,391**
Operating income	**7,023**	40,315	**74,677**
Net income	**5,853**	20,182	**62,240**
At year-end:			
Total assets	**¥464,259**	¥495,988	**$4,936,306**
Total net assets	**402,918**	418,303	**4,284,092**

	Yen		U.S. dollars
Per share data:			
Net income (basic)	**¥62.62**	¥215.85	**$0.67**
Cash dividends	**150.00**	150.00	**1.59**

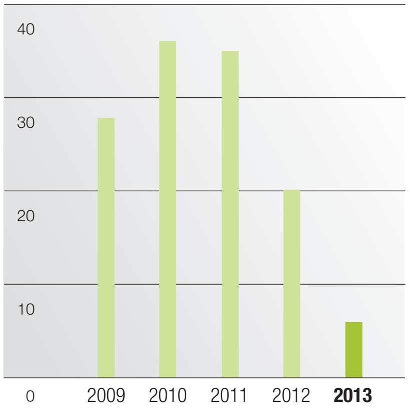
Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥94.05=U.S.$1. See Note 2 to the consolidated financial statements.

Net Sales

(Billions of yen)

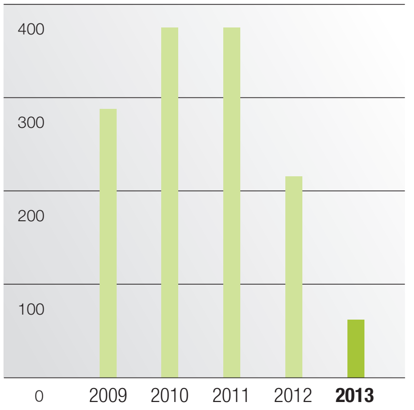
Net Income

(Billions of yen)



Net Income per Share (basic)

(Yen)



Interview with the Management

H. Busujima

Hideyuki Busujima
Chairman of the Board & CEO

K. Tsutsui

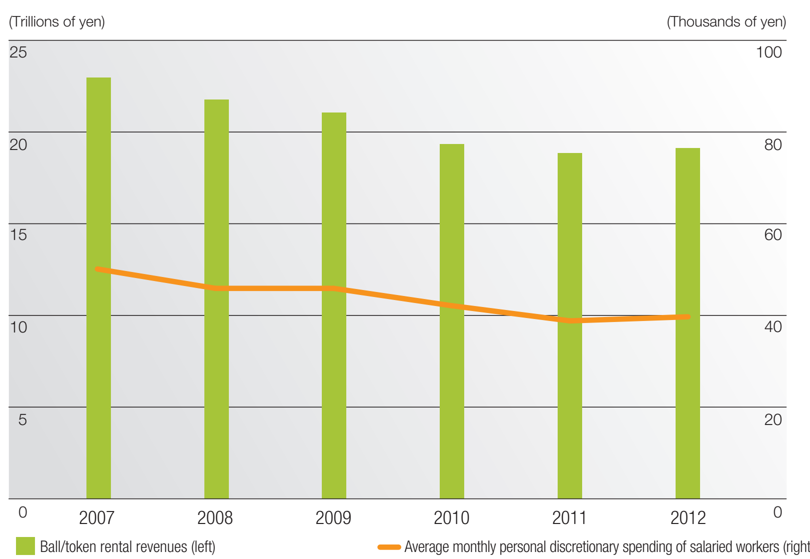
Kimihisa Tsutsui
President & COO

Q How would you sum up the current business environment of the pachinko and pachislot industry?

A Everyone in the pachinko and pachislot industry has been operating in a challenging business environment in recent years. The player population has been declining—a trend particularly noticeable among younger people, and ball/token rental revenues have been trending downward, too. Moreover, the industry is wrestling with growing competition from other platforms and powerful new trends in society, spurred by the spread of smartphones and a wave of social networking services.

In these circumstances, SANKYO Group is emphasizing products capable of appealing to a wide range of players. For example, we are developing pachinko and pachislot titles that feature instantly recognizable content or content with great appeal for younger people. We are pursuing ingenuity in specifications and gaming performance that hinges on thrilling ball trajectories. Pachinko parlor operators are also

Ball/Token Rental Revenues and
Monthly Personal Discretionary Spending of Salaried Workers



Source: 2013 Leisure White Paper, Japan Productivity Center   Source: Shinsei Bank taking initiatives to breathe new life into the industry, such as by opening parlors conceived as magnets for new players.

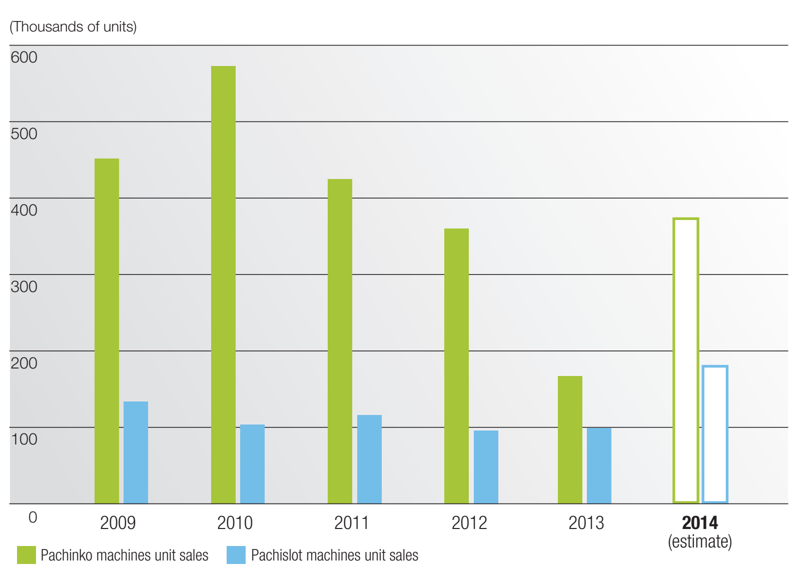
On the other hand, the indications are that prospects for the Japanese economy are getting brighter. For instance, economic indicators are trending toward improvement thanks to the positive impact of the government's policies. But the condition of the labor market and personal incomes are yet to be improved, and is likely to be a while before salaried workers see an upturn in monthly personal discretionary spending, which is closely linked to the performance of the pachinko and pachislot industry. We are hoping that the progression of a full-fledged economic recovery from now on will help give the pachinko and pachislot industry a large spring in its step.

Q Why did SANKYO's performance deteriorate in the fiscal year ended March 2013?

A The Group's initial plan for fiscal 2013 was to introduce 12 pachinko titles, excluding reused ones and variations of specifications, and 10 pachislot titles. However, as a result of the revision of the plan during the year, the Group introduced only seven titles each for pachinko and pachislot. In particular, postponing the launch of *Fever Mobile Suit Gundam*, which is positioned to become the flagship model of the SANKYO brand, had a large impact on the Group's performance. Whereas our initial plan called for annual sales of 432,000 pachinko machines and 188,000 pachislot machines, the results were 166,000 units and 99,000 units, respectively.

We accorded priority to enrichment of product capabilities rather than to short-term profit. Our objective was to maximize the probability of higher sales over the medium to long term, and this strategy was prompted by the unsatisfactory sales and modest popularity of the Group's products released in the first half of fiscal 2013. We extended the development period for uncompleted titles and sought to sharpen their market appeal. We also redesigned the development process by introducing a producer program.

Pachinko and Pachislot Machines Unit Sales of the SANKYO Group



Whereas the previous development process had been collegial, under the new program, we delegate authority to producers to speed decision-making in the development process, get the creative juices flowing, and encourage innovation. This approach is geared to the creation of innovative products based on clear concepts.

As a result, the Group's financial results for fiscal 2013 were among the lowest in recent years. Consolidated net sales decreased 40.0% year on year to ¥104.1 billion, operating income dropped 82.6% to ¥7.0 billion, and net income decreased 71.0% to ¥5.8 billion.

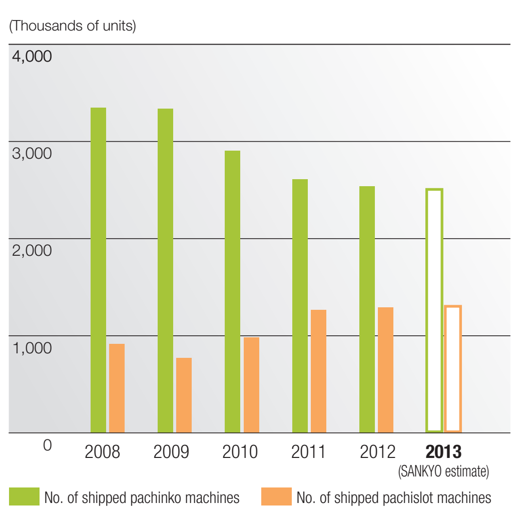
Q How is the market for pachinko and pachislot machines shaping up in the current fiscal year, and on what grounds can we see SANKYO achieving a V-shaped recovery in the business forecast for fiscal 2014?

A In the current fiscal year, the circumstances for pachinko machines is expected to remain challenging. Meanwhile, the installed base of pachislot machines is trending upward although the upward trend in the popularity of pachislot appears to be faltering. As a result, industry shipments of game machines in fiscal 2014 are expected to be the same level as for fiscal 2013, with 2.5 million pachinko machines and 1.3 million pachislot machines. In this environment, SANKYO Group's plan for fiscal 2014 calls for sales of 373,000 pachinko machines, up 123.4%, and 180,000 pachislot machines, up 81.4%. Accomplishment of the plan would give the Group market shares of approximately 15% for both pachinko and pachislot machines.

In order to come back strongly following the poor performance of fiscal 2013, the Group is offering products designed to satisfy diverse player preferences by leveraging the three brands—SANKYO, Bisty, and JB—whose product concepts and sales approaches differ from one another. Capitalizing on the restructuring of the development process, we intend to introduce a stream of pachinko and pachislot titles whose heightened market appeal will translate into higher sales volumes.

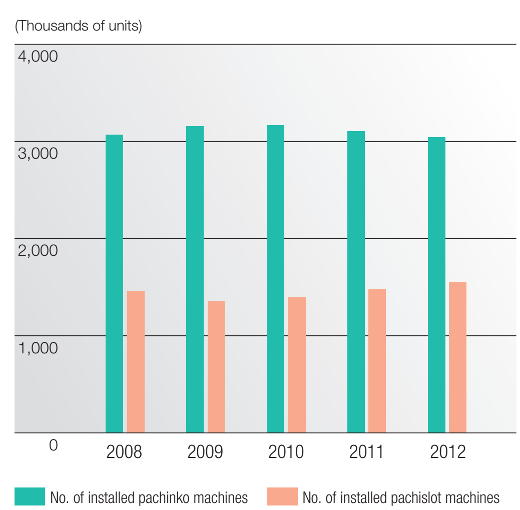
Regarding the SANKYO brand, *Fever Mobile Suit Gundam* introduced in April 2013 created a buzz that

Trends in Shipments of Pachinko & Pachislot Machines



Source: Yano Research Institute

Trends in Installation of Pachinko & Pachislot Machines



Source: National Police Agency

resulted in growing popularity, as evidenced by achievement of the targeted sales volume. In light of the success of *Fever Mobile Suit Gundam*, expectations of the SANKYO brand are rising among players and parlor operators. We intend to reinforce the SANKYO brand by introducing a stream of pachinko and pachislot machines with enhanced capabilities.

With regard to the Bisty brand, as well as introducing *Evangelion 8*, the latest in the flagship Evangelion series in July 2013, we intend to introduce several titles featuring major new content.

The JB brand won greater recognition among players and parlors through successive releases of pachinko machines based on distinctive themes, such as *hanemono* and *drums*, in the first half of the year, in addition to models with regular LCD screens.

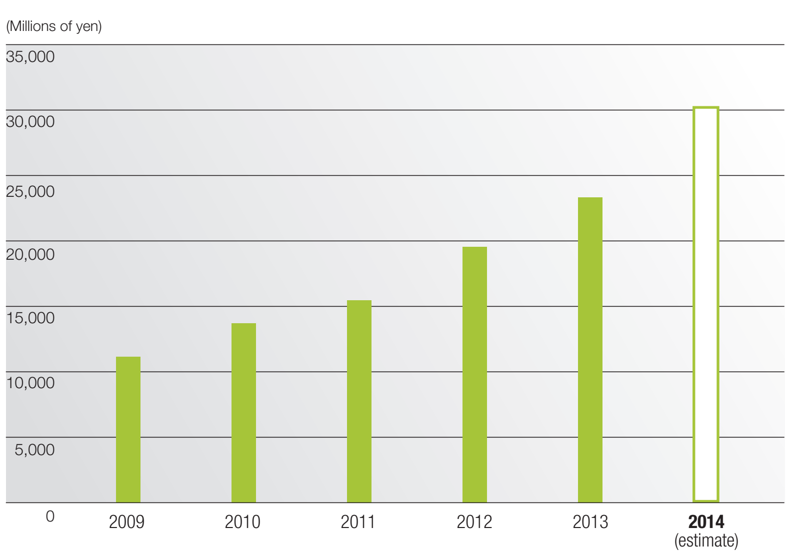
Through these initiatives, we forecast substantial year-on-year increases in sales and profit for fiscal 2014: net sales of ¥200.0 billion, up 92.0%, operating income of ¥32.0 billion, up 355.6%, and net income of ¥25.0 billion, up 327.1%.

Q Why has R&D expenditure been trending upward in recent years?

A R&D expenditure has been on the rise because we need to offer sophisticated graphics, such as captivating LCD presentations. Other factors contributing to the increase include prolongation of the development period. We consider certain increase in R&D expenditure necessary in order to create innovative products. We also regard investigation of a wide range of possibilities and tackling new challenges important.

Most top-tier manufacturers have major titles with enduring appeal that anchor the corporate brand. Whereas the Evangelion series of the Bisty brand is widely recognized, the Group has not yet completed the job of fostering a

Trend of R&D expenditure SANKYO (Consolidated)



SANKYO-brand series of comparable caliber. We view *Fever Mobile Suit Gundam*, launched in April 2013, as a seed from which we intend to grow a major series with staying power, and we are also endeavoring to develop mainstay series of other major titles.

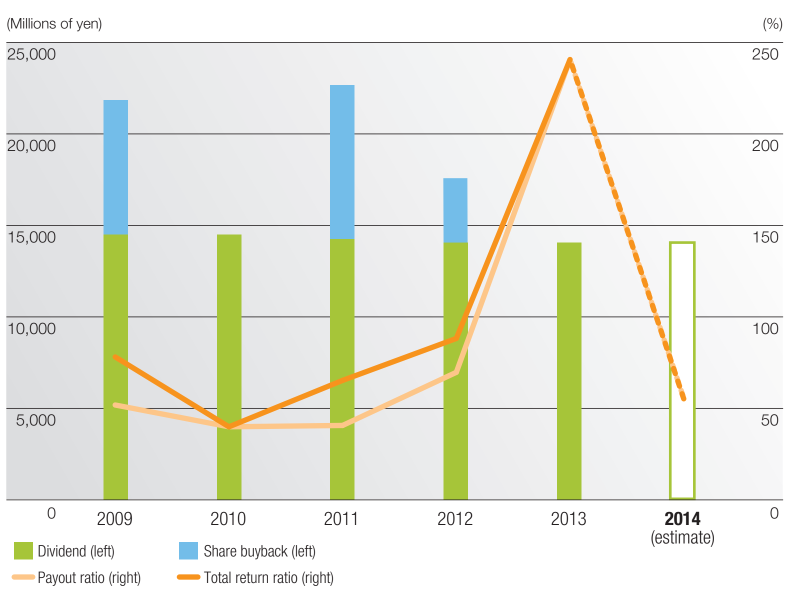
Once the brand power is on the road to recovery thanks to these initiatives, we consider sharpening our focus on reducing costs and improving efficiency will be an important task.

Q What is SANKYO's policy on shareholder returns?

A SANKYO regards the return of profits to shareholders as one of the most important management priorities. Our dividend policy is to maintain stable dividend payment with a payout ratio equivalent to 25% of consolidated net income as a yardstick. We aim to increase dividends by achieving medium- to long-term profit growth. Adhering to this policy, despite significant deterioration of the Group's financial performance, we paid out dividends of ¥150 per share as initially planned and resulted in a payout ratio of 239.5% for fiscal 2013. We expect SANKYO's financial performance to recover in fiscal 2014 and our plan for fiscal 2014 calls for dividends of ¥150 for the year and a payout ratio of 56.1%.

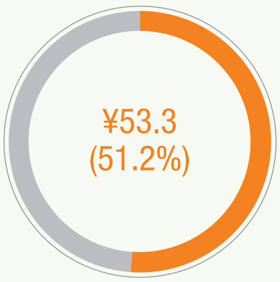
As a means of returning value to shareholders, the Company purchased its treasury stock twice in the past—in fiscal 2009 and in the period from fiscal 2011 to fiscal 2012. With a view to enhancing capital efficiency, we will continue to consider share buy-backs.

Trends of Dividend, Share Buyback, Payout Ratio and Total Return Ratio



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 51.2% of net sales.

Titles introduced under the SANKYO brand included *Fever Aquarion III* (introduced in July 2012) and *Fever Tiger Mask2* (introduced in January 2013). New titles under the Bisty brand were *Eva Light III* (introduced in May 2012), which is a new version of *Evangelion 7* (introduced in January 2012), *Smile Model* (introduced in December 2012), and *Sengoku BASARA 3-The Battle of Sekigahara* (introduced in July 2012). Under the JB brand, *Virus Breaker* (introduced in June 2012) and *J-RUSH2* (introduced in January 2013) were launched.

As a result, segment sales amounted to ¥53.3 billion, a decrease of 56.8% year on year, and operating income was ¥4.5 billion, down 88.0%. Sales of pachinko machines amounted to 166,000 units.

Principal models introduced and numbers of machines sold during fiscal 2013 (Only models with sales of at least 20,000 units are listed):

Principal models	Released	No. of machines sold (thousand machines)
*Evangelion 7 Eva Light III/Smile Model**	May/December 2012	28.4
Fever Aquarion III	July 2012	42.8
Fever Tiger Mask2	January 2013	33.3

* Bisty brand

Fever Aquarion III

Fever Tiger Mask2

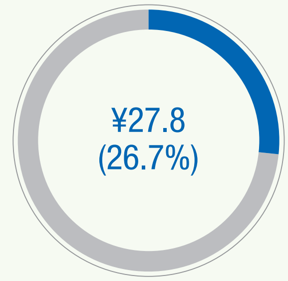
Pachislot Machines Business

This segment, which includes manufacturing and sales of pachislot machines, sales of related parts and pachislot machine-related royalty income, accounted for 26.7% of net sales.

Sales efforts centered on *Pachislot Macross Frontier* (introduced in April 2012) under the SANKYO brand and *EVANGELION* (introduced in February 2013) under the Bisty brand.

As a result, segment sales amounted to ¥27.8 billion, an increase of 14.6% year on year, and operating income was ¥6.7 billion, an increase of 24.1%. Sales of pachislot machines amounted to 99,000 units.

Sales (Billions of yen)



Principal models introduced and numbers of machines sold during fiscal 2013
(Only models with sales of at least 5,000 units are listed):

Principal models	Released	No. of machines sold (thousand machines)
Pachislot Macross Frontier	April 2012	17.1
*Yaoh**	August 2012	5.8
Pachislot Haouden ZERO	September 2012	8.7
*EVANGELION**	February 2012	56.9

* Bisty brand

Pachislot Macross Frontier

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製作委員会・MBS

EVANGELION

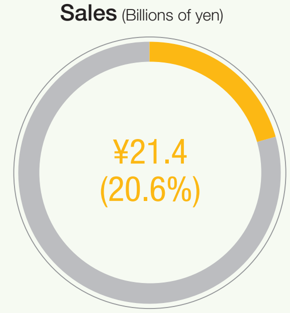
©カラー ©Bisty

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 20.6% of net sales.

Sales of the ball bearing supply systems business were ¥21.4 billion, a decrease of 12.1% year on year, due to a decrease in sales of individual machine counting systems. Operating income was ¥900 million, a decrease of 19.9%.

Sales (Billions of yen)

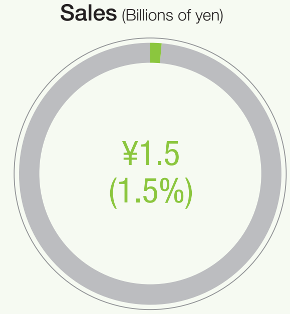


Other Businesses

Real estate rental revenues and sales of general molded parts account for most of the sales of this segment, which contributed 1.5% of net sales.

Sales of other businesses were ¥1.5 billion, a decrease of 3.6% year on year. An operating loss of ¥400 million was recorded compared with operating income of ¥600 million for the previous consolidated fiscal year.

Sales (Billions of yen)



Mobile Suit Gundam is now a Pachinko!

About Mobile Suit Gundam

Mobile Suit Gundam is the leading anime series of Japan, and since its first airing in 1979, it has spawned numerous television sequels, movies, and original video animation (OVA) titles. Gundam's popularity has soared into the stratosphere, being popular among people of all ages beyond generations. Plastic model kits depicting robots, ships, etc. that appear in the Gundam anime series, so-called "Gunpla," are also explosively popular.

About *Fever Mobile Suit Gundam*

A Gunpla-like Gundam gadget is mounted on the pachinko frame

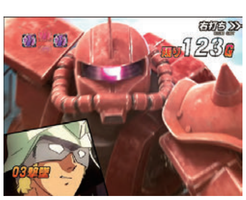
A huge gadget that is a detailed reproduction of a Gundam is mounted on the frame. It is the first in the industry to mount a gadget as large as this one. This will make *Fever Mobile Suit Gundam* stand out from the throng of pachinko machines in parlors, and as players can recognize it at a glance, they will be encouraged to play.

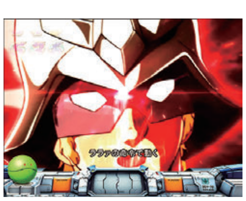
Anime more than thirty-years old, comes alive with latest computer graphics

A pachinko title's gaming performance and popularity largely depend on LCD presentations. By collaborating with NAMCO BANDAI Games Inc. in producing computer graphics, players are plunged into the action in a Gundam universe offering all the attributes of the original combined with the capabilities of cutting-edge CG technology with overwhelming liveliness.

Gaming performance profound yet simple

To cue players as their chances of winning rise, the color red, associated with Char Aznable, who is one of the main characters, is linked with high expectations as red is generally associated with good fortune in pachinko. In this way, gaming performance leading up to a jackpot is straightforward and instantly grasped by the player. This sets *Fever Mobile Suit Gundam* apart from pachinko titles that are complicated and difficult to understand.





Chance

Usual

Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2013 (fiscal 2013), 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 2013

During the fiscal year ended March 31, 2013, the Japanese economy began to recover, albeit at a modest pace, supported by demand associated with reconstruction in the aftermath of the Great East Japan Earthquake. The new government's economic measures and financial policies led to an upturn of the Japanese economy, supported by a weakening of the yen and rising share prices, as well as signs of recovery in personal consumption.

The pachinko and pachislot industry continued to experience decreases in the player population and the number of pachinko parlors. However, the installed base of game machines remained flat. As the offering of rental balls and tokens at low prices has become the norm in response to a persisting tendency toward frugality among players, the average spend per customer has declined. Consequently, parlors have become increasingly conscious of the need to reduce costs, and this is reflected in their purchasing of new machines, which are the key means of attracting customers. In the game machines market, the concentration of demand on sequels to previous popular titles and on promising titles backed by the manufacturers' brand power and newsworthiness has become conspicuous.

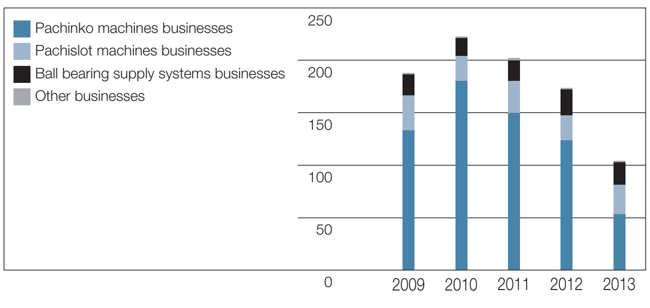
Net Sales

Having concluded that the various measures we had implemented in the last several years to strengthen product capabilities had not achieved sufficient results as of the end of the first six months of fiscal 2013, the Group reorganized the development structure and made a major revision to the sales plan for the third quarter onward. Specifically, the Group redesigned the development process and introduced a producer program to enable swift decision-making in product development, clarification of product concepts, and application of innovative ideas. In line with the launch of the new development process, the Group applied the new process to the several titles scheduled for introduction in fiscal 2013, and thus the number of titles introduced in fiscal 2013 was far lower than the initial plan.

As a result, consolidated net sales amounted to ¥104.1 billion, a decrease of 40.0% year on year, as operating income decreased 82.6% to ¥7.0 billion, and net income decreased 71.0% to ¥5.8 billion.

Net Sales

(Billions of yen)



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

Cost of sales for fiscal 2013 amounted to ¥54.7 billion. The ratio of cost of sales to net sales increased 1.3 percentage points from the previous fiscal year to 52.6%.

Selling, general and administrative expenses decreased ¥1.8 billion from the previous fiscal year, mainly owing to a decrease in sales commissions in line with a decrease in sales volume resulting from intensifying competition among manufacturers. However, the ratio of selling, general and administrative expenses to net sales increased 15.2 percentage points from the previous fiscal year to 40.7%, partly due to an increase in R&D expenditure. As a result, operating income decreased 82.6% to ¥7.0 billion and the ratio of operating income to net sales decreased 16.5 points from the previous fiscal year to 6.7%.

With respect to other income (expenses), other income, net, amounted to ¥2.4 billion, having improved by ¥5.9 billion as a result of decreases in a loss on sales of property, plant and equipment and a loss on sales of investments in securities.

Net income decreased ¥14.3 billion from ¥20.1 billion for the previous fiscal year to ¥5.8 billion. Net income per share (basic) was ¥62.62 compared with ¥215.85 for the previous fiscal year.

Segment Information by Business

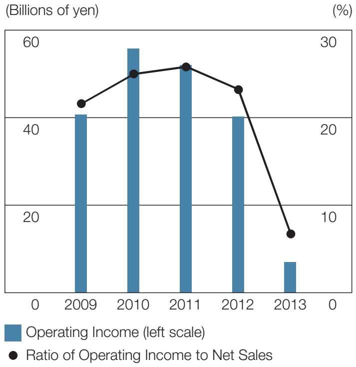
(Millions of yen)

Net sales:	2013	Year-on-year change	2012
Pachinko machines business	¥ 53,302	(56.8)%	¥123,353
Pachislot machines business	27,822	14.6	24,282
Ball bearing supply systems business	21,478	(12.1)	24,442
Other businesses	1,546	(3.6)	1,603
Total	¥104,150	(40.0)%	¥173,682

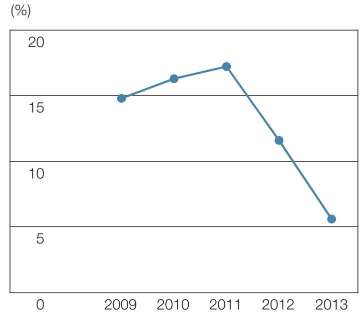
(Millions of yen)

Operating income:	2013	Year-on-year change	2012
Pachinko machines business	¥4,517	(88.0)%	¥37,695
Pachislot machines business	6,774	24.1	5,459
Ball bearing supply systems business	995	(20.0)	1,243
Other businesses	(410)	—	634
Elimination/Corporate	(4,853)	—	(4,717)
Total	¥7,023	(82.6)%	¥40,315

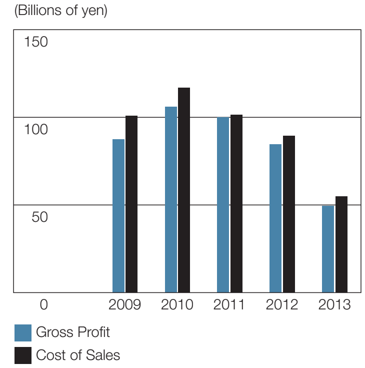
Operating Income and Ratio of Operating Income to Net Sales



Return on Sales (ROS)



Gross Profit and Cost of Sales



Fiscal 2014 Forecast

In view of the possibility of a recovery in personal consumption, there are indications that leisure-related consumption may increase in fiscal 2014. However, it is expected to take some time before a significantly positive impact becomes evident in the pachinko and pachislot industry. As shipments of game machines are expected to remain the same level as the previous year, competition among manufacturers is likely to intensify.

In April 2013, SANKYO introduced Fever Mobile Suit Gundam, which is a key test of the Group's initiatives to reboot brand power. Since Fever Mobile Suit Gundam has already earned a favorable evaluation among players and parlors, the Group considers that its recent initiatives will be reflected in business results.

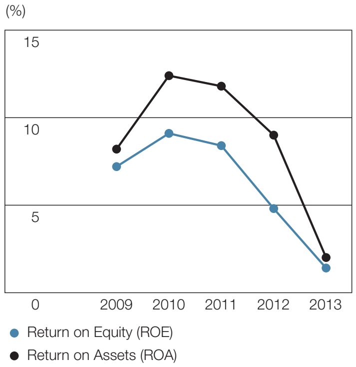
Through these initiatives, Group's plan calls for sales volumes for the fiscal year ending March 31, 2014, of 373,000 pachinko machines and 180,000 pachislot machines.

The forecast for consolidated business results in the fiscal year ending March 31, 2014, is as follows:

(Billions of yen)

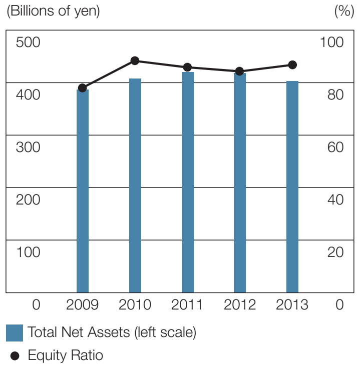
	2014 forecast	Year-on-year change	2013 results
Net sales	¥200.0	92.0%	¥104.1
Operating income	32.0	355.6	7.0
Net income	25.0	327.1	5.8

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

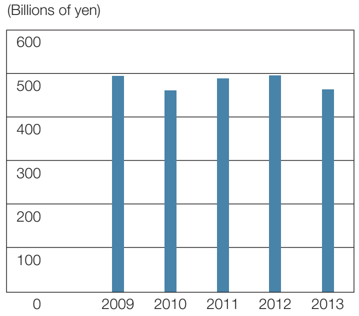


ROA=(Operating income + Interest and dividend income + Interest on marketable securities) / Total assets (yearly average)

Total Net Assets and Equity Ratio



Total Assets



Assets, Liabilities, and Net Assets

Total assets at the end of fiscal 2013 amounted to ¥464.2 billion, ¥31.7 billion lower than the figure at the previous fiscal year-end. This decrease in total assets, which occurred despite a ¥29.9 billion increase in marketable securities, was mainly attributable to a ¥44.2 billion decrease in cash and deposits and a ¥25.9 billion decrease in notes and accounts receivable—trade.

Total liabilities amounted to ¥61.3 billion, having decreased ¥16.3 billion compared with the previous fiscal year-end. This decrease was mainly attributable to a ¥11.3 billion decrease in accrued income taxes, a ¥2.8 billion decrease in other payables (included in "Other" of current liabilities), and a ¥2.1 billion decrease in notes and accounts payable—trade.

Net assets decreased ¥15.3 billion compared with the previous fiscal year-end. Whereas net income of ¥5.8 billion was recorded, cash dividends paid amounted to ¥14.0 billion and change of scope of consolidation resulted in a ¥7.8 billion decrease in net assets. As a result, net assets amounted to ¥402.9 billion and the shareholders' equity ratio increased 2.5 percentage points to 86.8%.

Cash Flows

Cash and cash equivalents (hereinafter "cash") at the fiscal year-end were ¥215.3 billion, having decreased ¥24.2 billion from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities decreased ¥8.1 billion from the previous fiscal year to ¥5.0 billion. While cash decreased ¥14.0 billion due to income taxes paid, cash increased ¥26.3 billion due to a decrease in notes and accounts receivable—trade.

Cash flows from investing activities

Net cash used in investing activities decreased ¥16.6 billion from the previous fiscal year to ¥15.6 billion. The principal factors that decreased cash included payments into time deposits amounting to ¥10.0 billion and payment for purchase of property, plant and equipment and intangible fixed assets amounting to ¥4.1 billion.

Cash flows from financing activities

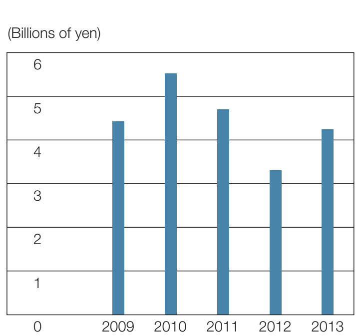
Net cash used in financing activities increased ¥3.8 billion from the previous fiscal year to ¥14.0 billion. The principal item was cash dividends paid amounting to ¥14.0 billion.

Forecast of the Financial Position in Fiscal 2014

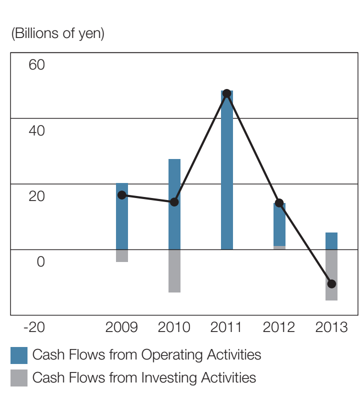
For fiscal 2014, the Company forecasts net cash provided by operating activities of ¥52.0 billion, net cash used in investing activities of ¥3.1 billion attributable to capital investment, and net cash used in financing activities of ¥14.0 billion mainly attributable to payment of cash dividends.

As a result, the Company forecasts an increase of ¥35.0 billion in the cash balance at the end of fiscal 2014 compared to the end of fiscal 2013.

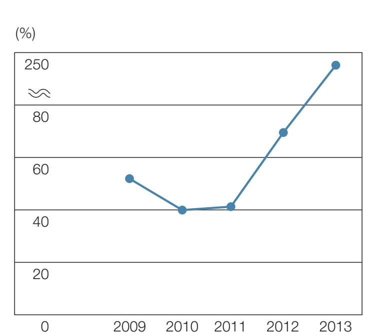
Depreciation



Free Cash Flows



Payout Ratio



Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2014 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 2013, but do not cover all potential risks.

Change in the market environment

The principal customers of the Group's core business, sales of game machines and ball bearing supply systems, are parlor operators nationwide. Therefore, deterioration of the business environment for parlors, accompanying reduction in demand or change in the market structure, 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, 2013 and 2012

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Current assets:			
Cash and deposits (Notes 3 and 18)	¥120,359	¥164,591	$1,279,738
Marketable securities (Notes 3, 4 and 18)	136,993	106,997	1,456,599
Notes and accounts receivable—trade (Notes 9 and 18)	44,401	70,340	472,104
Inventories (Note 6)	10,677	2,815	113,530
Deferred tax assets (Note 17)	2,812	3,278	29,900
Accounts receivable arising from outsourced production contracts	14,960	9,291	159,066
Other current assets	9,341	8,121	99,321
Allowance for doubtful accounts (Note 18)	(40)	(14)	(428)
Total current assets	339,504	365,423	3,609,830
Fixed assets:			
Property, plant and equipment:			
Land	23,320	22,638	247,961
Buildings and structures	26,995	21,682	287,035
Machinery and equipment (Note 8)	7,768	7,924	82,604
Tools, furniture and fixtures (Note 8)	18,284	17,443	194,408
Leased assets	37	94	396
Construction in progress	383	—	4,076
Other fixed assets	3,849	—	40,933
	80,639	69,782	857,413
Accumulated depreciation	(33,132)	(30,650)	(352,290)
Total property, plant and equipment	47,506	39,132	505,123
Intangible fixed assets:			
Goodwill	3,215	3,013	34,191
Other intangible fixed assets	351	342	3,737
Total intangible fixed assets	3,567	3,356	37,928
Investments and other assets:			
Investments in securities (Notes 4, 5 and 18)	68,344	83,452	726,681
Long-term loans	139	361	1,484
Deferred tax assets (Note 17)	4,950	4,164	52,639
Other assets	630	666	6,701
Allowance for doubtful accounts	(4)	(189)	(43)
Allowance for losses on investments in securities	(379)	(379)	(4,038)
Total investments and other assets	73,681	88,075	783,425
Total fixed assets	124,755	130,564	1,326,476
Total assets	¥464,259	¥495,988	$4,936,306

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

LIABILITIES AND NET ASSETS	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 2) 2013
Current liabilities:			
Notes and accounts payable—trade (Note 18)	¥ 41,327	¥ 43,504	$ 439,419
Current portion of long-term debt	506	335	5,388
Accrued income taxes	1,677	13,019	17,838
Accrued employees' bonuses	821	803	8,732
Lease obligations	5	6	59
Other current liabilities	8,852	11,944	94,130
Total current liabilities	53,191	69,614	565,565
Long-term liabilities:			
Long-term debt (Note 8)	2,658	2,816	28,265
Lease obligations	14	0	149
Accrued retirement allowances for directors and corporate auditors	695	715	7,392
Accrued retirement allowances for employees (Note 7)	3,641	3,387	38,720
Asset retirement obligations (Note 19)	58	58	624
Other long-term liabilities	1,081	1,091	11,500
Total long-term liabilities	8,149	8,069	86,649
Commitments and contingent liabilities (Notes 10 and 13)			
Net Assets:			
Shareholders' equity (Note 12)**:**			
Common stock,			
Authorized: 144,000,000 shares			
Issued: 97,597,500 shares	14,840	14,840	157,788
Capital surplus	23,880	23,880	253,908
Retained earnings	382,726	398,805	4,069,390
Treasury stock	(20,932)	(20,930)	(222,568)
Total shareholders' equity	400,513	416,595	4,258,519
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 4)	2,405	1,708	25,573
Total accumulated other comprehensive income	2,405	1,708	25,573
Total net assets	402,918	418,303	4,284,092
Total liabilities and net assets	¥464,259	¥495,988	$4,936,306

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

Consolidated Statements of Income

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Net sales	¥104,150	¥173,682	$1,107,391
Cost of sales	54,786	89,155	582,523
Gross profit	49,363	84,526	524,868
Selling, general and administrative expenses (Note 14)	42,340	44,210	450,191
Operating income	7,023	40,315	74,677
Other income (expenses):			
Interest and dividend income	1,380	1,179	14,674
Equity in earnings of affiliates	880	2,426	9,358
Interest expense	(5)	(2)	(54)
Foreign currency exchange loss	(19)	—	(202)
Gain (loss) on sales or disposal of property, plant and equipment, net (Note 15)	28	(2,762)	300
Loss on sales of investments in securities	—	(3,535)	—
Loss on sales of golf club membership	—	(9)	—
Loss on revaluation of golf club membership	—	(6)	—
Gain on reversal of loss accrual due to disaster	—	346	—
Loss on investments in partnership	—	(3)	—
Loss on impairment (Note 16)	(24)	—	(264)
Loss on change in equity in affiliates	—	(1,602)	—
Other, net	228	480	2,431
Income before income taxes	9,491	36,826	100,919
Income taxes (Note 17)**:**			
Current	4,303	17,589	45,756
Deferred	(665)	(944)	(7,077)
Total income taxes	3,637	16,644	38,679
Net income before minority interests	5,853	20,182	62,240
Net income	¥ 5,853	¥ 20,182	$ 62,240

	Yen		U.S. dollars (Note 2)
Net income per share (Note 21)**:**			
Basic	¥ 62.62	¥215.85	$0.67
Cash dividends per share	150.00	150.00	1.59

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Net income before minority interests	¥5,853	¥20,182	$62,240
Other comprehensive income (Note 11)**:**			
Unrealized gains on available-for-sale securities	669	1,266	7,121
Share of other comprehensive income in affiliates accounted for by the equity method	27	33	287
Total other comprehensive income	696	1,300	7,408
Comprehensive income	6,550	21,482	69,649
Total comprehensive income attributable to:			
Owner of the parent	¥6,550	¥21,482	$69,649
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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Common stock:			
Beginning of year	¥ 14,840	¥ 14,840	$ 157,788
End of year	¥ 14,840	¥ 14,840	$ 157,788
Capital surplus:			
Beginning of year	¥ 23,880	¥ 23,880	$ 253,909
Disposal of treasury stock	(0)	(0)	(1)
End of year	¥ 23,880	¥ 23,880	$ 253,908
Retained earnings:			
Beginning of year	¥398,805	¥397,867	$4,240,360
Dividends from surplus	(14,044)	(14,112)	(149,326)
Net income	5,853	20,182	62,240
Change of the scope of equity method	—	(5,131)	—
Change of the scope of consolidation	(7,889)	—	(83,883)
Total changes during the year	(16,079)	937	(170,969)
End of year	¥382,726	¥398,805	$4,069,390
Treasury stock:			
Beginning of year	¥ (20,930)	¥ (17,337)	$ (222,546)
Acquisition of treasury stock	(2)	(3,721)	(25)
Disposal of treasury stock	0	0	3
Increase in treasury stock resulting from change in equity interest in affiliate	—	127	—
Total changes during the year	(2)	(3,592)	(22)
End of year	¥ (20,932)	¥ (20,930)	$ (222,568)
Total shareholders' equity:			
Beginning of year	¥416,595	¥419,250	$4,429,511
Dividends from surplus	(14,044)	(14,112)	(149,326)
Net income	5,853	20,182	62,240
Acquisition of treasury stock	(2)	(3,721)	(25)
Disposal of treasury stock	0	0	2
Change of the scope of equity method	—	(5,131)	—
Change of the scope of consolidation	(7,889)	—	(83,883)
Increase in treasury stock resulting from change in equity interest in affiliate	—	127	—
Total changes during the year	(16,081)	(2,654)	(170,992)
End of year	¥400,513	¥416,595	$4,258,519
Accumulated other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities:			
Beginning of year	¥ 1,708	¥ 408	$ 18,165
Net change in the year	696	1,300	7,408
End of year	¥ 2,405	¥ 1,708	$ 25,573
Net assets:			
Beginning of year	¥418,303	¥419,658	$4,447,675
Dividends from surplus	(14,044)	(14,112)	(149,326)
Net income	5,853	20,182	62,240
Acquisition of treasury stock	(2)	(3,721)	(25)
Disposal of treasury stock	0	0	2
Change of the scope of equity method	—	(5,131)	—
Change of the scope of consolidation	(7,889)	—	(83,883)
Increase in treasury stock resulting from change in equity interest in affiliate	—	127	—
Other changes during the year	696	1,300	7,408
Total changes during the year	(15,385)	(1,354)	(163,584)
End of year	¥402,918	¥418,303	$4,284,092

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes	¥ 9,491	¥ 36,826	$ 100,919
Depreciation and amortization	4,238	3,306	45,068
Amortization of goodwill	737	—	7,838
Decrease in allowance for doubtful accounts	(159)	(323)	(1,698)
Increase (decrease) in accrued employees' bonuses	12	(51)	137
Increase in accrued retirement allowances for employees	241	173	2,566
(Decrease) increase in accrued retirement allowances for directors and corporate auditors	(20)	61	(216)
Interest and dividend income	(1,380)	(1,179)	(14,674)
Interest expense	5	2	54
Equity in earnings of affiliates	(880)	(2,426)	(9,358)
(Gain) loss on sales or disposal of property, plant and equipment, net	(28)	2,762	(300)
Loss on impairment	24	—	264
Loss on sales of investments in securities	—	3,535	—
Loss on sales of golf club membership	—	9	—
Loss on devaluation of membership	—	6	—
Loss on change in equity in affiliate	—	1,602	—
Decrease (increase) in notes and accounts receivable—trade	26,383	(18,412)	280,532
Increase in inventories	(7,841)	(303)	(83,371)
(Decrease) increase in notes and accounts payable—trade	(2,347)	4,035	(24,963)
(Increase) decrease in accounts receivable arising from outsourced production contracts	(5,668)	450	(60,271)
(Decrease) increase in accounts payable—other	(2,804)	1,387	(29,823)
Decrease in consumption taxes payable	(426)	(486)	(4,539)
Other	(1,994)	(3,953)	(21,209)
Sub total	17,583	27,023	186,956
Interest and dividend income received	1,505	1,774	16,008
Interest paid	(1)	(2)	(21)
Income taxes paid	(14,019)	(15,620)	(149,064)
Net cash provided by operating activities	5,067	13,174	53,879
Cash flows from investing activities:			
Payment into time deposits	(10,030)	—	(106,651)
Proceeds from withdrawal of time deposits	5,000	—	53,163
Payment for purchase of marketable securities	(5,000)	—	(53,163)
Payment for purchase of property, plant and equipment and intangible fixed assets	(4,165)	(1,969)	(44,287)
Proceeds from sales of property, plant and equipment and intangible fixed assets	83	5,331	888
Payment for purchase of investments in securities	(33,525)	(44,290)	(356,465)
Proceeds from sales of investments in securities	—	3,143	—
Proceeds from redemption of investments in securities	32,000	38,500	340,245
Proceeds from acquisition of subsidiaries resulting in change of the scope of consolidation	—	78	—
Collection of loans receivable	221	204	2,355
Other	(184)	47	(1,956)
Net cash (used in) provided by investing activities	(15,600)	1,045	(165,871)
Cash flows from financing activities:			
Payment for finance lease obligations	(10)	(24)	(110)
Payment for purchase of treasury stock	(2)	(3,721)	(25)
Proceeds from disposal of treasury stock	0	0	2
Cash dividends paid	(14,044)	(14,112)	(149,326)
Net cash used in financing activities	(14,056)	(17,858)	(149,458)
Net decrease in cash and cash equivalents	(24,589)	(3,638)	(261,451)
Cash and cash equivalents at beginning of year	239,591	243,230	2,547,495
Increase in cash and cash equivalents resulting from change of scope of consolidation	322	—	3,427
Cash and cash equivalents at end of year (Note 3)	¥215,324	¥239,591	$2,289,471

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

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by SANKYO CO., LTD. (the "Company") and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Companies Act of Japan and the Financial Instruments and Exchange Act of Japan and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in the accompanying consolidated financial statements for the convenience of readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2012 financial statements to conform to the classifications used in 2013. In conformity with the Companies Act of Japan and the other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items.

(b) Consolidation Principles

The consolidated financial statements include the accounts of the Company and its five significant wholly owned subsidiaries and a subsidiary substantially controlled by the Company. The remaining unconsolidated subsidiaries have assets, net sales and net income which are not significant in relation to those of the Companies, and, accordingly, the accounts of such subsidiaries have been excluded from consolidation.

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

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

(c) Foreign Currency Translation

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

(d) Cash and Cash Equivalents

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

(e) Marketable Securities and Investments in Securities

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

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

(f) Allowance for Doubtful Accounts

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

(g) Allowance for Losses on Investments in Securities

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

(h) Inventories

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

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

(i) Property, Plant and Equipment

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

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

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

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 expenses are charged to income as incurred.

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

(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) 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.

(q) Appropriation of Retained Earnings

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

(r) Net Income and Cash Dividends per Share

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

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

(s) Consumption Tax

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

(t) Amortization of Goodwill

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

(u) Reclassification

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

(v) Changes in Accounting Policies That Are Difficult to Distinguish from Changes in Accounting Estimates

From the fiscal year ended March 31, 2013, in accordance with the amendment to the Corporation Tax Act of Japan, the Company and its domestic subsidiaries have changed their depreciation method for property, plant and equipment. These fixed assets acquired on or after April 1, 2012 are depreciated based on the amended Corporation Tax Act. This change had a minimal impact on operating income and income before income taxes for the fiscal year ended March 31, 2013.

(w) Accounting Standards Not Yet Adopted

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Overview

The accounting standard for retirement benefits has been revised from the viewpoint of improvement of financial reporting and international trends, mainly focusing on the methods of accounting for unrecognized actuarial differences and unrecognized past service costs, calculation methods of projected benefit obligation and service costs, and expansion of the related disclosure requirements.

(2) Expected adoption date

The Company expects to apply the revised accounting standard from the end of the fiscal year ending March 31, 2014. The revision of calculation methods for retirement benefit obligation and service costs will be adopted from the beginning of the fiscal year ending March 31, 2015.

(3) Effects of the adoption of the accounting standard

The Company is currently in the process of measuring the effects of applying the revised accounting standard.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥94.05= U.S. $1, the rate of exchange on March 29, 2013, has been used for the translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

3. Cash and Cash Equivalents

A reconciliation of cash and cash equivalents to the accounts disclosed on the balance sheets at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and deposits	¥120,359	¥164,591	$1,279,738
Marketable securities	136,993	106,997	1,456,599
Total	257,352	271,589	2,736,337
Bonds and debentures, investment funds and others whose original maturity is more than three months	(42,027)	(31,997)	(446,866)
Cash and cash equivalents	¥215,324	¥239,591	$2,289,471

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2013 and 2012 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2013				2012			
	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	¥ 80,001	¥193	¥—	¥ 80,195	¥ 79,997	¥153	¥0	¥ 80,150
Short-term corporate bonds	14,995	—	1	14,994	—	—	—	—
Certificates of deposit	90,000	—	—	90,000	75,000	—	—	75,000
Total	¥184,997	¥193	¥ 1	¥185,190	¥154,997	¥153	¥0	¥155,150

	Thousands of U.S. dollars			
	2013			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Japanese government bonds	$ 850,629	$2,062	$—	$ 852,691
Short-term corporate bonds	159,446	—	15	159,431
Certificates of deposit	956,938	—	—	956,938
Total	$1,967,013	$2,062	$15	$1,969,060

(b) Available-for-Sale Securities

	Millions of yen							
	2013				2012			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Equity securities	¥5,688	¥3,731	¥176	¥9,243	¥4,288	¥2,527	¥10	¥6,805
Total	¥5,688	¥3,731	¥176	¥9,243	¥4,288	¥2,527	¥10	¥6,805

	Thousands of U.S. dollars			
	2013			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Equity securities	$60,483	$39,678	$1,874	$98,288
Total	$60,483	$39,678	$1,874	$98,288

5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Investments in securities	¥10,998	¥28,559	$116,946

6. Inventories

Inventories at March 31, 2013 and 2012 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Finished goods and merchandise	¥ 9,039	¥ 214	$ 96,111
Work in process	300	1,643	3,191
Raw materials and supplies	1,338	957	14,228
Total	¥10,677	¥2,815	$113,530

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, 2013 and 2012 were determined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligations	¥3,646	¥3,465	$38,777
Unrecognized actuarial differences	(5)	(77)	(57)
Accrued retirement allowance for employees	¥3,641	¥3,387	$38,720

The net pension expense relating to retirement benefits for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service costs	¥227	¥229	$2,424
Interest costs	48	47	517
Amortization of actuarial differences	46	59	493
Total	¥323	¥336	$3,435

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

	2013	2012
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. Pledged Assets

Pledged assets at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Machinery and equipment*	¥46	¥61	$491
Tools, furniture and fixtures*	2	4	22
Total	¥48	¥65	$512

* These assets are pledged as collateral for long-term debt in an amount of ¥348 million ($3,704 thousand) at March 31, 2013.

9. Notes Falling due the Fiscal Year-End

As settlement of notes receivable occurs on the date clearance since March 31, 2013 and 2012 was a holiday for financial institutions, the followings were included in the respective balance sheets and were settled on the next business day:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Notes	¥1,462	¥3,541	$15,547

10. Contingent Liabilities

Contingent liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
As an endorser of notes endorsed	¥120	¥87	$1,284

11. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gains on available-for-sale securities:			
Gain incurred during the year	¥1,038	¥1,950	$11,039
Reclassification adjustment to net income	—	(33)	—
Amount before tax effect	1,038	1,916	11,039
Tax effect	(368)	(649)	(3,918)
Unrealized gains on available-for-sale securities	669	1,266	7,121
Share of other comprehensive income in affiliates accounted for by the equity method:			
Gain incurred during the year	27	33	287
Share of other comprehensive income in affiliates accounted for by the equity method:	27	33	287
Total other comprehensive income	¥ 696	¥1,300	$ 7,408

12. Shareholders' Equity

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

(a) Type and Number of Shares Outstanding and Treasury Stock

For the year ended March 31, 2013

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2012	**97,597,500**	**4,123,691**
Increase in the number of shares during the accounting period ended March 31, 2013	**—**	**615**[*1]
Decrease in the number of shares during the accounting period ended March 31, 2013	**—**	**50**[*2]
Number of shares as of March 31, 2013	**97,597,500**	**4,124,256**

Notes: *1. Increase due to the purchase of odd shares (615 shares)
*2. Decrease due to sales upon the request from odd shareholders (50 shares)

For the year ended March 31, 2012

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2011	97,597,500	3,248,685
Increase in the number of shares during the accounting period ended March 31, 2012	—	914,551[*1]
Decrease in the number of shares during the accounting period ended March 31, 2012	—	39,545[*2]
Number of shares as of March 31, 2012	97,597,500	4,123,691

Notes: *1. Increase due to the purchase of odd shares (555 shares), purchase of treasury stock based on the resolution of the Board of Directors (913,800 shares), and attribution to the Company of own treasury stock resulting from a change in affiliates accounted for by the equity method (196 shares)
*2. Decrease due to sales upon the request from odd shareholders (135 shares) and exclusion of affiliate from application of the equity method (39,410 shares)

(b) Matters Related to Dividends

For the year ended March 31, 2013

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 28, 2012 were as follows:

Dividends on common stock	
Total amount of dividends	**¥7,022 million ($74,663 thousand)**
Dividends per share	**¥75.00**
Record date	**March 31, 2012**
Effective date	**June 29, 2012**

Approvals by the Board of Directors' meeting held on November 5, 2012 were as follows:

Dividends on common stock	
Total amount of dividends	**¥7,022 million ($74,663 thousand)**
Dividends per share	**¥75.00**
Record date	**September 30, 2012**
Effective date	**December 7, 2012**

ii) Dividends whose record date is attributed to the year ended March 31, 2013 but become effective after the said year.

The Company obtained the following approval at the general meeting of shareholders held on June 27, 2013:

Dividends on common stock	
Total amount of dividends	**¥7,022 million ($74,663 thousand)**
Dividends per share	**¥75.00**
Record date	**March 31, 2013**
Effective date	**June 28, 2013**

For the year ended March 31, 2012

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 29, 2011 were as follows:

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

Approvals by the Board of Directors' meeting held on November 4, 2011 were as follows:

Dividends on common stock	
Total amount of dividends	¥7,022 million
Dividends per share	¥75.00
Record date	September 30, 2011
Effective date	December 2, 2011

ii) Dividends whose record date is attributed to the year ended March 31, 2012 but become effective after the said year.

The Company obtained the following approval at the general meeting of shareholders held on June 28, 2012:

Dividends on common stock	
Total amount of dividends	¥7,022 million ($74,663 thousand)
Dividends per share	¥75.00
Record date	March 31, 2012
Effective date	June 29, 2012

13. Leases

Operating Leases

Future lease payments for non-cancellable operating leases as a lessee at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Due within one year	**¥16**	¥16	**$171**
Due after one year	**17**	23	**189**
Total	**¥33**	¥40	**$361**

14. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Sales commission	¥ 3,036	¥11,086	$ 32,286
Advertisement expenses	4,551	3,592	48,393
Salaries and wages	3,503	3,806	37,248
Provision for reserve for bonuses	424	392	4,510
Accrued retirement allowances for directors and corporate auditors	62	62	662
Retirement benefit costs	211	220	2,253
Provision for allowance for doubtful accounts	28	25	299
Research and development expenses	23,288	19,502	247,617

15. Sales and 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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Gain on sales of property, plant and equipment:			
Land	¥ 178	¥ —	$ 1,902
Machinery and equipment	—	2	—
Tools, furniture and fixtures	0	—	1
Total	¥ 178	¥ 2	$ 1,903
Loss on sales of property, plant and equipment:			
Land	¥ —	¥(2,647)	$ —
Buildings and structures	—	(83)	—
Total	¥ —	¥(2,731)	$ —
Loss on disposal of property, plant and equipment:			
Buildings and structures	¥ (84)	¥ (7)	$ (896)
Machinery and equipment	(20)	—	(215)
Tools, furniture and fixtures	(6)	(25)	(68)
Others	(39)	—	(424)
Total	¥(150)	¥ (33)	$(1,603)
Gain (loss) on sales and disposal of property, plant and equipment, net	¥ 28	¥(2,762)	$ 300

16. Loss on Impairment

Loss on impairment for the year ended March 31, 2013 was as follows;

Location	Classification	Description	Millions of yen	Thousands of U.S. dollars
Chiyoda-ku, Tokyo	Assets to be disposed	Land	¥24	$264

Business assets are grouped based on the classification adopted for management accounting, and idle assets and assets to be disposed, which are intend to be scrapped or sold, are grouped individually. In addition, the facilities related to the administrative department, the research and development department and the welfare facilities are recognized as common assets since they do not generate cash flows independently.

The Company reduced the book values of the above assets to the recoverable amounts and recognized the loss on impairment upon determination of sale.

The recoverable amounts are based on net realizable values calculated by using the estimated selling prices of the assets.

17. 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 37.9% and 40.5% for the years ended March 31, 2013 and 2012, respectively.

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, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued enterprise taxes	¥ 140	¥ 914	$ 1,498
Unrealized profits on inventories	26	5	286
Accrued employees' bonuses	311	304	3,315
Allowance for doubtful accounts	2	23	30
Accrued retirement allowances for employees	1,292	1,203	13,747
Accrued retirement allowances for directors and corporate auditors	246	254	2,626
Accumulated depreciation	4,393	3,035	46,712
Unrealized profit on property, plant and equipment	123	292	1,314
Allowance for losses on investments in securities	134	134	1,433
Research and development expenses	2,229	1,542	23,707
Loss on impairment	1,288	97	13,702
Tax loss carryforwards	2,771	1,315	29,466
Other	186	211	1,978
Sub-total deferred tax assets	¥13,149	¥9,334	$139,813
Less—valuation allowance	(4,122)	(995)	(43,830)
Deferred tax assets	¥ 9,027	¥8,339	$ 95,983
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥ (1,261)	¥ (893)	$ (13,417)
Other	(2)	(3)	(27)
Deferred tax liabilities	(1,264)	(896)	(13,444)
Deferred tax assets, net	¥ 7,762	¥7,442	$ 82,540

Deferred tax assets, net at March 31, 2013 and 2012 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets in current assets	¥2,812	¥3,278	$29,900
Deferred tax assets in fixed assets	6,215	5,061	66,083
Deferred tax liabilities in long-term liabilities	(1,264)	(896)	(13,444)

A reconciliation between the statutory tax rate and the effective income tax rate at March 31, 2012 is as follows:

	2012
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	(2.7)
Equity in earnings of affiliates accounted for by the equity method	(2.7)
Reduction of deferred tax assets due to tax rate changes	1.6
Effect of sales shares in equity-method affiliate	6.2
Loss on change in equity interest in affiliate	1.8
Other—net	0.4
Actual effective tax rate	45.2%

The reconciliation of the difference between the statutory tax rate and the effective income tax rate for the year ended March 31, 2013 has not been disclosed because the difference was immaterial.

18. Financial Instruments and Related Disclosures

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

(3) Supplementary explanation concerning fair values of financial instruments

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

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2013 and 2012 were as follows. Financial instruments whose fair values are not readily determinable are excluded from the following table. (See Note 2 of the table)

	Millions of yen		
March 31, 2013	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	**¥120,359**	**¥120,359**	**¥ —**
(2) Notes and accounts receivable—trade	**44,401**		
Allowance for doubtful accounts	**(34)**		
	44,366	**43,399**	**(967)**
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	**184,997**	**185,190**	**192**
Available-for-sale securities	**9,243**	**9,243**	**—**
Total assets	**¥358,967**	**¥358,192**	**¥(775)**
(4) Notes and accounts payable—trade	**¥ 41,327**	**¥ 41,327**	**¥ —**
Total liabilities	**¥ 41,327**	**¥ 41,327**	**¥ —**

	Millions of yen		
March 31, 2012	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥164,591	¥164,591	¥ —
(2) Notes and accounts receivable—trade	70,340		
Allowance for doubtful accounts	(14)		
	70,326	69,326	(1,000)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	154,997	155,150	153
Available-for-sale securities	6,805	6,805	—
Total assets	¥396,721	¥395,875	¥ (846)
(4) Notes and accounts payable—trade	¥ 43,504	¥ 43,504	¥ —
Total liabilities	¥ 43,504	¥ 43,504	¥ —

	Thousands of U.S. dollars		
March 31, 2013	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	$1,279,738	$1,279,738	$ —
(2) Notes and accounts receivable—trade	472,104		
Allowance for doubtful accounts	(369)		
	471,735	461,446	(10,289)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	1,967,013	1,969,060	2,047
Available-for-sale securities	98,288	98,288	—
Total assets	$3,816,774	$3,808,533	$ (8,241)
(4) Notes and accounts payable—trade	$ 439,419	$ 439,419	$ —
Total liabilities	$ 439,419	$ 439,419	$ —

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

(1) Cash and deposits

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

(2) Notes and accounts receivable—trade

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

(3) Marketable securities and investments in securities

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

(4) Notes and accounts payable—trade

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

2. Since it is extremely difficult to determine the fair values of unlisted equity securities amounting to ¥2,363 million ($25,127 thousand) and ¥20,545 million at March 31, 2013 and 2012, respectively, as there are no market prices available and it is impossible to estimate the future cash flow, they are not included in "(3) Marketable securities and investments in securities."

3. Redemption schedule of monetary assets and securities with contractual maturities at March 31, 2013 and 2012 were as follows

	Millions of yen	
March 31, 2013	Within one year	One to five years
(1) Cash and deposits	¥120,359	¥ —
(2) Notes and accounts receivable—trade	23,729	20,671
(3) Marketable securities and investments in securities:		
Held-to-maturity debt securities (Japanese government bonds)	32,000	48,000
Held-to-maturity debt securities (Short-term corporate bonds)	15,000	—
Held-to-maturity debt securities (Certificates of deposits)	90,000	—

	Millions of yen	
March 31, 2012	Within one year	One to five years
(1) Cash and deposits	¥164,591	¥ —
(2) Notes and accounts receivable—trade	49,596	20,743
(3) Marketable securities and investments in securities:		
Held-to-maturity debt securities (Japanese government bonds)	32,000	48,000
Held-to-maturity debt securities (Certificates of deposits)	75,000	—

	Thousands of U.S. dollars	
March 31, 2013	Within one year	One to five years
(1) Cash and deposits	$1,279,738	$ —
(2) Notes and accounts receivable—trade	252,307	219,797
(3) Marketable securities and investments in securities:		
Held-to-maturity debt securities (Japanese government bonds)	340,245	510,367
Held-to-maturity debt securities (Short-term corporate bonds)	159,490	—
Held-to-maturity debt securities (Certificates of deposits)	956,938	—

19. Asset Retirement Obligations

Asset retirement obligations recorded on consolidated balance sheets at March 31, 2013 and 2012 were as follows:

(1) Overview of asset retirement obligations

Asset retirement obligations at March 31, 2013 and 2012 were based on restoration obligations, etc. in real estate lease of buildings.

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Beginning balance	¥58	¥59	$618
Increase due to acquisition of property, plant and equipment	—	3	—
Adjustment by time elapsed	0	0	6
Decrease due to fulfillment of asset retirement obligation	—	(5)	—
Ending balance	¥58	¥58	$624

20. Segment Information

1. Overview of the reportable segments

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

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

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

As described in “Changes in Accounting Policies That Are Difficult to Distinguish from Changes in Accounting Estimates”, from the fiscal year ended March 31, 2013, in accordance with the amendment to the Corporation Tax Act, the Company and its domestic subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012. depreciation method for the reporting segments has been changed to reflect the amendment in Corporation Tax Act. This change had an immaterial impact on segment profit (loss) for the fiscal year ended March 31, 2013.

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

Millions of yen

For the year ended March 31, 2013	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustment[*2]	Consolidated[*3]
Sales:								
Customers	¥53,302	¥27,822	¥21,478	¥102,604	¥ 1,546	¥104,150	¥ —	¥104,150
Intersegment	—	—	—	—	—	—	—	—
Total	53,302	27,822	21,478	102,604	1,546	104,150	—	104,150
Segment profit (loss)	4,517	6,774	995	12,287	(410)	11,877	(4,853)	7,023
Segment asset	39,033	25,426	26,043	90,503	16,807	107,310	356,948	464,259
Others:								
Depreciation and amortization[*4]	3,063	644	39	3,748	303	4,051	186	4,238
Amortization of goodwill	491	110	—	602	134	737	—	737
Increase in fixed assets and intangible fixed assets[*4]	2,355	507	20	2,883	1,771	4,655	62	4,717

Millions of yen

For the year ended March 31, 2012	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustment[*2]	Consolidated[*3]
Sales:								
Customers	¥123,353	¥24,282	¥24,442	¥172,078	¥1,603	¥173,682	¥ —	¥173,682
Intersegment	—	—	—	—	—	—	—	—
Total	123,353	24,282	24,442	172,078	1,603	173,682	—	173,682
Segment profit	37,695	5,459	1,243	44,398	634	45,032	(4,717)	40,315
Segment asset	73,058	19,214	26,968	119,241	5,364	124,605	371,382	495,988
Others:								
Depreciation and amortization[*4]	2,425	507	62	2,995	111	3,107	199	3,306
Increase in fixed assets and intangible fixed assets[*4]	4,124	955	21	5,101	5	5,106	34	5,141

	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	$566,748	$295,831	$228,374	$1,090,953	$ 16,439	$1,107,391	$ —	$1,107,391
Intersegment	—	—	—	—	—	—	—	—
Total	566,748	295,831	228,374	1,090,953	16,439	1,107,391	—	1,107,391
Segment profit (loss)	48,032	72,029	10,584	130,645	(4,360)	126,284	(51,608)	74,677
Segment asset	415,032	270,354	276,909	962,295	178,703	1,140,998	3,795,307	4,936,306
Others:								
Depreciation and amortization*4	32,578	6,858	417	39,852	3,228	43,080	1,988	45,068
Amortization of goodwill	5,229	1,179	—	6,409	1,429	7,838	—	7,838
Increase in fixed assets and intangible fixed assets*4	25,047	5,391	223	30,661	18,839	49,500	659	50,159

Thousands of U.S. dollars; For the year ended March 31, 2013

Notes:
*1. The other segment is not a reporting segment, which includes mobile contents service, real estate rental, operation of a golf club, and general-molded parts for the year ended March 31, 2013, and real estate rental and sales of general-molded parts for the year ended March 31, 2012.
*2. Adjustments are as follows:
(1) Adjustment for segment profit (loss) is general and administrative expenses related to administrative operations not attributable to a reporting segment.
(2) Adjustment for segment asset is corporate asset not associated with the reporting segments. The main items were surplus funds (cash and deposits, and marketable securities), long-term investments (investments in securities), and assets related to administrative operations.
*3. Segment profit (loss) includes operating income and adjustment in consolidated statements of income.
*4. Depreciation and amortization and increase in fixed assets and intangible fixed assets include depreciation and increase related to long-term prepaid expenses.

Related Information

1. Product and service segment information

Product and service segment information has been omitted since similar description is disclosed in segment information for the years ended March 31, 2013 and 2012.

2. Geographical segment information

(1) Sales

There were no sales to customers outside Japan and no applicable data for the years ended March 31, 2013 and 2012.

(2) Fixed assets

There were no fixed assets located outside Japan and no applicable data for the years ended March 31, 2013 and 2012.

3. Major customers segment information

For the year ended March 31, 2013

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

Name of customer	Sales	Name of related segment
Fields Corporation	¥16,594 ($176,444)	Pachinko machine business and Pachislot machine business

For the year ended March 31, 2012

(Millions of yen)

Name of customer	Sales	Name of related segment
Fields Corporation	¥19,943	Pachinko machine business and Pachislot machine business

Information on Losses on Impairment of Fixed Assets by Segment

For the year ended March 31, 2013

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

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other	Eliminations/ Corporate*	Total
Loss on impairment	—	—	—	—	—	¥24 ($264)	¥24 ($264)

Note: * Amount shown corresponds to idle assets.

There was no corresponding information for the year ended March 31, 2012.

Information on Amortization of Goodwill and Remaining Balance by segment

For the year ended March 31, 2013

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

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate*	Total
Amortization of goodwill during the year	¥491 ($5,229)	¥110 ($1,179)	—	¥602 ($6,409)	¥134 ($1,429)	—	¥737 ($7,838)
Balance at end of year	¥1,967 ($20,918)	¥443 ($4,717)	—	¥2,410 ($25,635)	¥804 ($8,556)	—	¥3,215 ($34,191)

Note: *Amounts shown correspond to mobile contents service.

For the year ended March 31, 2012

(Millions of yen)

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other	Eliminations/ Corporate	Total
Amortization of goodwill during the year	—	—	—	—	—	—	—
Balance at end of year	¥2,459	¥554	—	¥3,013	—	—	¥3,013

Note: The fiscal year-end of consolidation was the deemed acquisition date, therefore amortization of goodwill was not recorded in the consolidated statements of income.

Information on Gain on Negative Goodwill by Segment

There was no corresponding information the years ended March 31, 2013 and 2012.

21. Per Share Information

	Yen 2013	Yen 2012	U.S. dollars 2013
Net asset per share	¥4,310.53	¥4,475.09	$45.83
Net income per share	62.62	215.85	0.67

Diluted net income per share has not been disclosed since there was no potential share.

Above information was computed based on the following data:

	Year ended March 31, 2013	2012
Net asset per share:		
Total net assets	¥402,918 million	¥418,303 million
Net assets attributable to common stock	¥402,918 million	¥418,303 million
Number of outstanding shares of common stock	97,597,500 shares	97,597,500 shares
Number of treasury stock	4,124,256 shares	4,123,691 shares
Number of common stock used in computing net asset per share	93,473,244 shares	93,473,809 shares
Net income per share:		
Net income	¥5,853 million	¥20,182 million
Net income attributable to common stock	¥5,853 million	¥20,182 million
Net income not attributable to common stock shareholders	—	—
Weighted average number of common stock	93,473,550 shares	93,499,783 shares

22. Related Party Transaction

The transactions for the years ended March 31, 2013 and 2012 and related account balances outstanding at each year end were as follows:

For the year ended March 31, 2013 (Millions of yen, Thousands of U.S. dollars)

Description	Name	Address	Capital	Business line/ occupation	Voting rights owned by the Company	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliate company	Fields Corporation	Shibuya-ku, Tokyo	¥7,948 ($84,509)	Development, purchase and sales of game machines	Direct 15.69% (The company owns 1.05% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥16,594 ($176,438)	Accounts receivable-trade	¥12,055 ($128,180)
							Consignment sales of game machines	¥1,635 ($17,387)	Accounts payable-other	¥171 ($1,823)
							Royalty	¥457 ($4,866)	Accounts payable-other	¥195 ($2,082)

For the year ended March 31, 2012 (Millions of yen)

Description	Name	Address	Capital	Business line/ occupation	Voting rights owned by the Company	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliate company	Fields Corporation	Shibuya-ku, Tokyo	¥7,948	Development, purchase and sales of game machines	Direct 15.69% (The company owns 1.05% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥19,943	Accounts receivable-trade	¥10,119
							Consignment sales of game machines	¥9,200	Accounts payable-other	¥2,056
							Royalty	¥1,727	Accounts payable-other	¥435

23. Significant Subsequent Event

There was no significant subsequent event to be reported for the years ended March 31, 2013 and 2012.

24. Significant Subsidiaries and Affiliates

The domestic consolidated subsidiaries and affiliates accounted for by the equity method at March 31, 2013 and 2012 were as follows:

	Ownership		
At March 31	2013	2012	Consolidation method
SANKYO EXCEL CO., LTD.	**100%**	100%	Full consolidation
BISTY CO., LTD.	**100%**	100%	Full consolidation
SANKYO CREATE CO., LTD.	**100%**	100%	Full consolidation
INTERNATIONAL CARD SYSTEM CO., LTD.	**100%**	100%	Full consolidation
JB CO., LTD.	**40%**	40%	Full consolidation
YOSHII COUNTRY CLUB CO., LTD. *	**100%**	100%	Full consolidation
FIELDS CORPORATION	**15.69%**	15.69%	Equity method

Note: *YOSHII COUNTRY CLUB CO., LTD., which is owned indirectly by the Company, was newly consolidated due to an increase in importance.

Independent Auditor's Report

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

Independent Auditor's Report

The Board of Directors
SANKYO Co., Ltd.

We have audited the accompanying consolidated financial statements of SANKYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SANKYO Co., Ltd. and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 21, 2013
Tokyo, Japan

A member firm of Ernst & Young Global Limited

Board of Directors

(As of June 27, 2013)

Honorary Chairman
Kunio Busujima

Representative Director, Chairman of the Board & CEO
Hideyuki Busujima

Representative Director, President & COO
Kimihisa Tsutsui

Director & Senior Executive Operating Officer
Akihiko Ishihara

Standing Statutory Auditor
Shohachi Ugawa

Statutory Auditor
Toshiaki Ishiyama

Outside Auditors
Yoshiro Sanada
Fumiyoshi Noda

Executive Operating Officers
Satoshi Kouketsu
Junko Takimoto
Ichiro Tomiyama

Operating Officers
Minoru Yoshikawa
Hiroshi Kodaira
Takashi Fukuda
Yuji Togo
Toshio Ogura
Katsumasa Takai
Yoko Oshima

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

Corporate Data

(As of March 31, 2013)

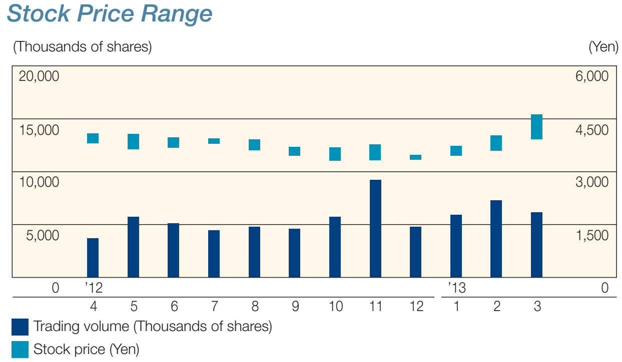
Company Name
SANKYO CO., LTD.

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

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

Established	April 1966
Paid-in Capital	¥14,840 million
Number of Employees	1,108 (Consolidated)
	875 (SANKYO CO., LTD.)
Number of Shares Authorized	144,000,000
Number of Shares Issued	97,597,500
Number of Shareholders	12,411

Stock Price Range



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

Transfer Agent
Sumitomo Mitsui Trust Bank, Limited

Auditor
Ernst & Young ShinNihon LLC