Since its establishment in 1966, SANKYO Co., Ltd. has been a source of pleasure for the Japanese people. As a leading manufacturer of pachinko machines, we have fostered pachinko as an immensely popular leisure activity unique to Japan and enjoyed by millions of people.

From the very beginning, ingenuity has been the hallmark of the SANKYO spirit. To cite just one example: our creation in 1980 of the highly entertaining Fever-type machine equipped with a slot-machine movement revolutionized the concept of pachinko machines. SANKYO’s track record as a developer and manufacturer of pachinko machines that set the pace in the pachinko industry is based on a tradition of out-of-the-box thinking and technological prowess.

The scope of SANKYO’s business extends beyond manufacturing and sales of pachinko machines to encompass production of pachislo machines as well as wide-ranging equipment for pachinko parlors such as parlor management computer systems, ball bearing supply systems and prepaid card systems.

These strengths underpin SANKYO’s powerful presence as a provider of cutting-edge items for pachinko parlors and pachinko players nationwide.
Consolidated Financial Highlights

SANKYO CO., LTD. and its Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

(Billions of yen)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>¥222,673</td>
<td>¥187,877</td>
</tr>
<tr>
<td>Operating income</td>
<td>55,776</td>
<td>40,626</td>
</tr>
<tr>
<td>Net income</td>
<td>36,198</td>
<td>27,883</td>
</tr>
</tbody>
</table>

(Yen)

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(Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
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<tr>
<td>For the year:</td>
<td></td>
<td></td>
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<tr>
<td>Net sales</td>
<td>¥222,673</td>
<td>$2,393,304</td>
</tr>
<tr>
<td>Operating income</td>
<td>55,776</td>
<td>599,484</td>
</tr>
<tr>
<td>Net income</td>
<td>36,198</td>
<td>389,058</td>
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At year-end:

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<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>¥461,358</td>
<td>¥494,866</td>
</tr>
<tr>
<td>Total net assets</td>
<td>408,024</td>
<td>386,187</td>
</tr>
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</table>

Per share data:

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<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (basic)</td>
<td>¥376.00</td>
<td>¥288.92</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>150.00</td>
<td>150.00</td>
</tr>
</tbody>
</table>

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥93.04=U.S.$1. See Note 2 to the consolidated financial statements.
30th Anniversary of the Debut of Fever—At the Start of Another 30-year Cycle

The year 2010 marks the 30th anniversary of the debut of Fever, a revolutionary pachinko machine that SANKYO introduced in 1980. Inspired by slot machines, Fever adopted a system in which three drums spin, the player hits the jackpot when the symbols on the drums match, and balls are paid out as if the machine is in frenzy. Fever rode to the rescue of the pachinko industry, winning back customers from video arcades where Space Invaders and similar offerings were all the rage.

Since the launch of Fever, SANKYO Group has maintained a top-tier market share in the rapidly evolving pachinko industry, sustained by the support of its shareholders and other stakeholders.

Our mission is to strive for never-ending development by using each success as a springboard to an even more successful future. At the start of another 30-year cycle, we will endeavor to create an epoch-making product while working to achieve steady growth of profits and enhance corporate value from the medium- to long-term perspective.

Return of Profits to Shareholders

SANKYO regards the return of profits to shareholders as one of the most important management priorities. Our dividend policy is to maintain a payout ratio of 25% of consolidated net income. While maintaining stable dividend payments, we aim to continuously increase dividends in line with the improvement of the financial performance.

Although sales and profits for the fiscal year ended March 31, 2010, fell below the initial targets, SANKYO maintained an annual dividend of ¥150 per share, which reflected management’s recognition of the importance of maintaining stable
dividend payments. As a result, the consolidated payout ratio was 39.9%.

Although lower sales and profits are forecast for the fiscal year ending March 2011 in view of the challenging operating environment, SANKYO intends to maintain a dividend of ¥150 per share. Furthermore, SANKYO is executing a share buyback with upper limits of 3 million shares and ¥15 billion in accordance with the resolution of the board of directors.

Positioning the payout ratio of 25% as the minimum requirement, we aim to improve financial performance and steadily increase dividends over the medium to long term. We will consider implementation of flexible measures to return profits to shareholders, taking into account not only the payout ratio but also the total return ratio including the share buyback.

To cultivate relationships with shareholders and investors, SANKYO provides briefings on the quarterly financial closing. The COO and IR staff have more than 200 meetings each year with institutional investors. Moreover, we vigorously participate in IR events designed to meet the needs of individual investors, taking every opportunity to strengthen communication with them. When meeting investors, in addition to disclosure of our business and management strategies, we discuss issues concerning enhancement of corporate value. We will continue to emphasize IR activities as part of our efforts to enhance the reliability and transparency of management.

We are resolved to make a concerted effort to be an enterprise that continually earns the trust of its stakeholders, including shareholders, investors, pachinko parlors, pachinko and pachislo players, suppliers, and employees. In these endeavors, we request your continued support.

Hideyuki Busujima
Chairman of the Board & CEO
Pachinko and pachislo became immensely popular pastimes in Japan, riding the wave of the post-war economic boom. Since the launch of *Fever* in 1980 in particular, SANKYO’s growth has been in step with the industry’s growth. The pachinko player population in 2009 was 17.2 million. One in every six adults in Japan is a pachinko player. Ball rental fees, which constitute the sales of pachinko parlors, amount to approximately ¥21 trillion each year. Accounting for 30% of the leisure market, the pachinko and pachislo industry is huge. However, both the pachinko player population and rental fees have declined around 20% over the past 10 years. Although the pachinko player population has increased for the second consecutive year, since hitting bottom in 2007 at 14.5 million, this increase is largely attributable to the offering of rental balls at prices as low as ¥1. The modest increase in the player population has not necessarily contributed to the earnings of pachinko parlor operators.

In these circumstances, pachinko parlor operators have become increasingly cautious about the purchase of new pachinko and pachislo machines, which are vital for attracting players. Although they are willing to purchase popular series with track records of success, such as SANKYO Group’s *Neon Genesis Evangelion* series, it is apparent that sales of products other than those popular series tend to be sluggish. This holds true even for products of major manufacturers featuring well-known content.

We need to strengthen product competitiveness to meet the expectations of pachinko parlor operators and players. In addition, SANKYO Group is keen to take the initiative in revitalizing the industry by adopting a flexible pricing policy underpinned by enhanced cost competitiveness. We believe this is also the path to increased corporate value.

---

**Interview with Mr. Akihiko Sawai, the President and COO**

**Q** | What are the recent market trends impacting the pachinko and pachislo industry?

---

**A**

Pachinko and pachislo became immensely popular pastimes in Japan, riding the wave of the post-war economic boom. Since the launch of *Fever* in 1980 in particular, SANKYO’s growth has been in step with the industry’s growth. The pachinko player population in 2009 was 17.2 million. One in every six adults in Japan is a pachinko player. Ball rental fees, which constitute the sales of pachinko parlors, amount to approximately ¥21 trillion each year. Accounting for 30% of the leisure market, the pachinko and pachislo industry is huge. However, both the pachinko player population and rental fees have declined around 20% over the past 10 years. Although the pachinko player population has increased for the second consecutive year, since hitting bottom in 2007 at 14.5 million, this increase is largely attributable to the offering of rental balls at prices as low as ¥1. The modest increase in the player population has not necessarily contributed to the earnings of pachinko parlor operators.

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We need to strengthen product competitiveness to meet the expectations of pachinko parlor operators and players. In addition, SANKYO Group is keen to take the initiative in revitalizing the industry by adopting a flexible pricing policy underpinned by enhanced cost competitiveness. We believe this is also the path to increased corporate value.
In the fiscal year ended March 2010, the Bisty-brand Evangelion series recorded among the highest sales volumes in the industry for both the pachinko and pachislo categories. However, sales of the Group’s other models, notably those of several of the SANKYO-brand pachinko machines introduced during the year, fell short of expectations. As the products did not captivate the market, the Group failed to achieve the initial sales plan.

In view of the commercial pressures pachinko parlor operators face, they crave machines with enduring popularity. Although market conditions made success difficult to achieve, we recognize that several SANKYO models were short-lived because they did not adequately address the needs of pachinko parlor operators. Additionally, we need to do a better job of communicating product concepts. We are determined to resolve these pressing issues swiftly and come roaring back into the market.

Whereas pachinko parlor operators are our direct customers, pachinko players ultimately judge whether a particular model has what it takes to deliver a great experience. Clearly, in order to resolve the issues that emerged in the previous year and move forward with renewed vigor, we must focus on products capable of captivating players and make a concerted effort to revive the SANKYO brand.

For this purpose, we established the Product Strategy Office, as one aspect of a reorganization executed in April 2010. Though belonging to the Development Group, the Product Strategy Office is positioned as a cross-functional organization supporting every phase from planning and development through to sales, analysis,

Q: How would you characterize SANKYO Group’s business results for fiscal 2010? What are the issues they raise?

A: In the fiscal year ended March 2010, the Bisty-brand Evangelion series recorded among the highest sales volumes in the industry for both the pachinko and pachislo categories. However, sales of the Group’s other models, notably those of several of the SANKYO-brand pachinko machines introduced during the year, fell short of expectations. As the products did not captivate the market, the Group failed to achieve the initial sales plan.

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Q: What are you doing to endow the SANKYO brand with renewed vigor? What are the prospects for fiscal 2011?

A: Whereas pachinko parlor operators are our direct customers, pachinko players ultimately judge whether a particular model has what it takes to deliver a great experience. Clearly, in order to resolve the issues that emerged in the previous year and move forward with renewed vigor, we must focus on products capable of captivating players and make a concerted effort to revive the SANKYO brand.

For this purpose, we established the Product Strategy Office, as one aspect of a reorganization executed in April 2010. Though belonging to the Development Group, the Product Strategy Office is positioned as a cross-functional organization supporting every phase from planning and development through to sales, analysis,
of product reception in the market, and feedback of the results of that analysis to product development. In particular, the Product Strategy Office will focus on market research emphasizing the players’ perspective in order to optimize product development. Approaches adopted include simultaneous launch of different types of products to enable comparison of players’ responses and the use of focus groups so that development engineers can elicit players’ opinions.

Furthermore, in terms of the marketing and sales promotion strategy, we are devising measures to lock in a wider range of pachinko players as SANKYO fans. Going a step forward from conventional sales promotion centering on TV commercials, we will utilize Internet marketing and other techniques so that we can reach out to those who have even a spark of interest in pachinko or SANKYO.

The plan for the year ending March 2011 envisages lower sales and profits because our priorities are to deploy to maximum effect the new product development structure spearheaded by the Product Strategy Office and to create each model meticulously, which can be time consuming, so as to win the allegiance of players and pachinko parlor operators. Fiscal 2011 is a preparatory period necessary for us to secure the comeback of the SANKYO brand. I would appreciate our shareholders’ understanding of this. We intend to maintain an annual dividend of ¥150 per share to reward shareholders who have been holding SANKYO shares for a long time. Additionally, in order to increase capital efficiency and return profits to shareholders, SANKYO’s board of directors passed a resolution on June 11, 2010, concerning a share buyback with upper limits of 3 million shares and ¥15 billion. These measures to increase shareholder value are an aspect of our commitment to reviving the SANKYO brand and restoring financial performance in the fiscal year ending March 2012 and beyond.

Q | SANKYO is starting a pachinko-machine reuse business in order to revitalize the industry. What prompted this move?

A | The commercial pressures that the pachinko industry has been facing have fueled development competition among manufacturers over the past 10 years or so as they vie with one another to offer the most attractive pachinko machines for pachinko parlor operators and players. Consequently, the costs of machines have increased markedly. Efforts to recoup the increased costs
have taken a toll on players by raising the cost of playing pachinko, resulting in shrinkage of the player population and declining revenues. For their part, parlor operators are looking for ever more attractive pachinko machines in the hope of reversing the decline in their revenues. In short, the industry finds itself in a vicious circle.

In order to break out of this vicious circle, we have decided to launch the Fever Value System, a scheme for reuse of pachinko machines, starting with FEVER X JAPAN introduced in September 2010. Under a reuse scheme, the manufacturer recovers the pachinko machines from parlor operators once a specified period has elapsed since their introduction, endows them with new specifications, and delivers the revamped machines to parlors. Our intention is to offer attractive products at reasonable prices aimed at parlors offering low-priced rental balls, a tactic that has halted the decline of the pachinko player population. These revamped machines will also be a good fit with the substantial market that has emerged in recent years for pachinko machines with light specifications.

SANKYO will apply this scheme to all major titles introduced from now on. Whereas competitors charge about ¥125,000 to ¥180,000 for a reused machine, the price of a reused machine from SANKYO will not exceed ¥100,000. It is my earnest desire that our move will reduce the pressure on pachinko parlor operators and contribute to revitalization of the industry.

SANKYO has been a leader in the industry during the 30 years since the launch of Fever in 1980. Determined to remain a leading enterprise, we are eagerly embracing new challenges as we seek ways of contributing to the development of the industry while enhancing SANKYO’s corporate value.

Akihiko Sawai
President & COO
Pachinko Machines Business

This segment, which includes manufacturing and sales of pachinko machines and gauge boards, sales of related parts and pachinko machine-related royalty income, is SANKYO’s mainstay business and accounted for 81.0% of net sales.

With regard to pachinko machines, the Group launched nine titles for SANKYO-brand series and five for Bisty-brand series.

Major titles introduced during the year included Neon Genesis Evangelion—The Beginning and the End (Bisty brand, introduced in April 2009), which recorded the series’ highest ever sales of 237,000 units, and KODA KUMI FEVER LIVE IN HALL II (SANKYO brand, introduced in July 2009), which performed creditably with sales of 119,000 units. Meanwhile, the sales and popularity of Fever The Super Dimension Fortress Macross (SANKYO brand, introduced in November 2009) fell short of initial expectations. Although the Group implemented vigorous sales promotion activities for this new product through a tie-up with the well-known anime series, neither its readily graspable gaming characteristics nor the attractiveness of the new casing equipped with new functions were fully communicated to pachinko players.

The Group postponed introduction of certain products in line with the product strategy, which was revised in the fourth quarter based on the conviction that supply of products capable of maintaining their popularity is the key to gaining a strong market presence rooted in trust.

The number of pachinko machines sold was 572,000, an increase of 120,000 from the previous year. Segment sales amounted to ¥180.5 billion, having risen 35.5% year on year, and operating income was ¥55.2 billion, an increase of 39.6%.

Principal models introduced and numbers of machines sold during fiscal 2010 (Only models with sales of 20,000 units or more are listed):

<table>
<thead>
<tr>
<th>Principal models</th>
<th>Released</th>
<th>No. of machines sold (thousand machines)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neon Genesis Evangelion—The Beginning and the End*</td>
<td>April 2009</td>
<td>235</td>
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<tr>
<td>KODA KUMI FEVER LIVE IN HALL II</td>
<td>July 2009</td>
<td>118</td>
</tr>
<tr>
<td>Fever Martian Successor Nadeshiko</td>
<td>September 2009</td>
<td>35</td>
</tr>
<tr>
<td>KODA KUMI FEVER LIVE IN HALL II Light &amp; Happy 5</td>
<td>October 2009</td>
<td>20</td>
</tr>
<tr>
<td>Fever The Super Dimension Fortress Macross</td>
<td>November 2009</td>
<td>57</td>
</tr>
<tr>
<td>Neon Genesis Evangelion—The Angels are back again YF*</td>
<td>January 2010</td>
<td>24</td>
</tr>
</tbody>
</table>

*Bisty brand
Pachislo Machines Business

This segment, which includes manufacturing and sales of pachislo machines, sales of related parts and pachislo machine-related royalty income, accounted for 10.6% of net sales.

Although the market for pachislo machines remained weak, it seemed to be bottoming out as the downward trend of the number of pachislo machines installed became less marked. In addition, there were some bright signs. For example, certain titles captivated players and became long-running hits.

In view of this market environment, the Group shortlisted titles for market introduction and focused on sales and marketing of three Sankyo-brand titles and two Bisty-brand titles. Sales of the latest addition to the Bisty-brand blockbuster Neon Genesis Evangelion series, Neon Genesis Evangelion—Die spur der Seele (introduced in February 2010), were robust with a sales volume of 75,000 units. Although the number of pachislo machines sold decreased 29,000 units from the previous year to 104,000 units, the Group’s market share is expected to be virtually unchanged in the shrinking market.

Segment sales amounted to ¥23.7 billion, a decrease of 29.5% year on year, and operating income was ¥4.2 billion, a decrease of 37.8%.

Principal models released and numbers of machines sold during fiscal 2010 (Only models with sales of 5,000 units or more are listed):

<table>
<thead>
<tr>
<th>Principal models</th>
<th>Released</th>
<th>No. of machines sold (thousand machines)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motto Taro Seasar</td>
<td>May 2009</td>
<td>15</td>
</tr>
<tr>
<td>Martian Successor Nadeshiko</td>
<td>January 2010</td>
<td>7</td>
</tr>
<tr>
<td>Neon Genesis Evangelion—Die spur der Seele*</td>
<td>February 2010</td>
<td>75</td>
</tr>
</tbody>
</table>

*Bisty brand

Ball Bearing Supply Systems Business

Ball bearing supply systems, card systems, related equipment for parlors and ball bearing supply system-related royalty income account for most of the sales of this segment, which contributed 7.7% of net sales.

Sources of demand were the upgrading of facilities associated with the conversion of pachislo zones to pachinko zones in parlors and the shift to offering of rental balls at low prices. However, orders received for installation of facilities in parlors decreased, reflecting intensifying price competition and few openings of new parlors.

As a result, segment sales were ¥17.1 billion, a decrease of 12.5% year on year, and operating income was ¥0.4 billion, a decrease of 30.3%.

Other Businesses

Sales from this segment, consisting primarily of rental revenues of consolidated subsidiary SANKYO Create Co., Ltd., amounted to ¥1.4 billion, a decrease of 8.6% year on year, and operating income was ¥0.6 billion, a decrease of 3.6%.
Evangelion—Evangelical of the beginnings (Bisty Brand)

In June 2010, the sixth title in the blockbuster Evangelion series was launched. While the market has become increasingly circumspect about the purchase of new machines, this new model has been selling well, building on the success of the previous models. The immensely popular Evangelion TV anime series started the ball rolling 15 years ago. Subsequently, the debut of the Evangelion pachinko machine triggered another boom. Then, in 2009, the movie Evangelion: 2.0 You Can (Not) Advance was released. Now, Evangelion—Evangelical of the beginnings, featuring numerous images from the movie and equipped with an innovative casing, has won an enthusiastic following in the market. The Evangelion buzz created by pachinko has extended the value chain. Clearly, the Evangelion virtuous circle has great momentum.

Patrush 3 & Fever King Blade (SANKYO Brand)

Patrush 3 introduced in July 2010 and Fever King Blade introduced in February 2010 buck the recent trend toward machines designed to attract players through tie-ups with well-known content and lavish LCD presentation. These machines featuring SANKYO’s original characters have won praise for their high cost-performance. Patrush 3 employs dots and revolving lights, which are popular attributes of the series. Fever King Blade is equipped with a new retro-style drum. With their simple yet high-impact designs, these two machines have captivated pachinko players by their dynamic presentation that is a refreshing change from the prevailing LCD presentation.
## Five-Year Summary

**SANKYO CO., LTD. and Its Consolidated Subsidiaries**


### For the year:

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<th></th>
</tr>
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<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>¥222,673</td>
<td>¥187,877</td>
<td>¥280,511</td>
<td>¥197,723</td>
<td>¥214,500</td>
<td>$2,393,304</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>105,715</td>
<td>87,208</td>
<td>123,729</td>
<td>92,982</td>
<td>108,545</td>
<td>1,136,232</td>
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<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>49,938</td>
<td>46,582</td>
<td>51,434</td>
<td>38,072</td>
<td>36,407</td>
<td>536,737</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>55,776</td>
<td>40,626</td>
<td>72,295</td>
<td>54,910</td>
<td>72,138</td>
<td>599,484</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>36,198</td>
<td>27,883</td>
<td>45,672</td>
<td>35,578</td>
<td>45,443</td>
<td>389,058</td>
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<tr>
<td><strong>Research and development expenditure</strong></td>
<td>13,748</td>
<td>11,411</td>
<td>8,492</td>
<td>7,485</td>
<td>7,324</td>
<td>147,764</td>
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### At year-end:

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<th></th>
<th></th>
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<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>¥461,358</td>
<td>¥494,866</td>
<td>¥516,821</td>
<td>¥420,504</td>
<td>¥406,611</td>
<td>$4,958,706</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>408,024</td>
<td>386,187</td>
<td>383,756</td>
<td>351,104</td>
<td>328,676</td>
<td>4,385,469</td>
</tr>
</tbody>
</table>

### Per share data:

<table>
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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td>¥ 376.00</td>
<td>¥ 288.92</td>
<td>¥ 468.78</td>
<td>¥ 365.26</td>
<td>¥ 463.77</td>
<td>$ 4.04</td>
</tr>
<tr>
<td><strong>Cash dividends</strong></td>
<td>150.00</td>
<td>150.00</td>
<td>150.00</td>
<td>100.00</td>
<td>100.00</td>
<td>1.61</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>4,238.45</td>
<td>4,011.37</td>
<td>3,944.84</td>
<td>3,603.59</td>
<td>3,371.93</td>
<td>45.56</td>
</tr>
</tbody>
</table>

### Ratios:

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on equity</td>
<td>9.1</td>
<td>7.2</td>
<td>12.4</td>
<td>10.5</td>
<td>14.7</td>
<td></td>
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<tr>
<td>Equity ratio</td>
<td>88.4</td>
<td>78.0</td>
<td>74.3</td>
<td>83.5</td>
<td>80.8</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
1. The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥93.04=U.S.$1. See Note 2 to the consolidated financial statements.
2. Due to the change of the Accounting Standards, the conventional "shareholders’ equity" is presented as "net assets". For details, please refer to Note 1(s)(2) to the Consolidated Financial Statements. According to the new standards, total net assets are defined as follows: Total net assets = total shareholders’ equity + valuation and translation adjustments + minority interests.
The Company’s financial position and operating results for the fiscal year ended March 31, 2010 (fiscal 2010), are analyzed below.

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

Business Environment in Fiscal 2010

During the fiscal year ended March 31, 2010, the Japanese economy picked up somewhat, as signaled by exports, production, personal consumption, and certain other economic indicators. However, in view of continuing pressure on employment and personal incomes, it is uncertain whether the Japanese economy has bottomed out.

In the pachinko and pachislo industry, with pachinko parlors endeavoring to attract players during the economic downturn by offering rental balls at prices as low as ¥1, the long-standing downward trend of the pachinko player population halted. However, pachinko parlors in general continued to struggle with low revenues. Consequently, pachinko parlor operators adopted an increasingly cautious approach to the purchase of pachinko and pachislo machines, fueling intense competition among manufacturers.

Net Sales

In this environment, SANKYO Group launched new titles for both pachinko and pachislo machines in the popular Bisty-brand Neon Genesis Evangelion series, which were well received by pachinko parlor operators and players. Sales of other titles, however, were sluggish in general, partly because the product concepts were not fully communicated. As a result, consolidated net sales amounted to ¥222.7 billion, an increase of 18.5% year on year, operating income soared 37.3% to ¥55.8 billion, recurring income rose 32.2% to ¥59.4 billion, and net income advanced 29.8% to ¥36.2 billion.

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

Cost of sales for fiscal 2010 amounted to ¥117.0 billion, having increased 16.2% from the previous fiscal year, mainly owing to higher sales volumes of pachinko machines. Gross profit increased 21.2% to ¥105.7 billion and the gross profit margin increased 1.1 percentage points from the previous fiscal year to 47.5%.

Selling, general and administrative expenses increased 7.2% from the previous fiscal year, mainly owing to increases in sales commissions and research and development expenses. However, the ratio of selling, general and administrative expenses to net sales decreased 2.4 percentage points from the previous fiscal year to 22.4%. As a result, operating income increased 37.3% to ¥55.8 billion and the ratio of operating income to net sales increased 3.4 percentage points from the previous fiscal year to 25.0%.

Net income increased 29.8% to ¥36.2 billion. Net income per share was ¥376.00 compared with ¥288.92 for the previous fiscal year.
Segment Information by Business

<table>
<thead>
<tr>
<th>Sales:</th>
<th>2010</th>
<th>Year-on-year change</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pachinko machines business</td>
<td>¥180,471</td>
<td>35.5%</td>
<td>¥133,195</td>
</tr>
<tr>
<td>Pachislo machines business</td>
<td>23,698</td>
<td>(29.5)</td>
<td>33,598</td>
</tr>
<tr>
<td>Ball bearing supply systems business</td>
<td>17,118</td>
<td>(12.5)</td>
<td>19,566</td>
</tr>
<tr>
<td>Other businesses</td>
<td>1,385</td>
<td>(8.6)</td>
<td>1,516</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>¥222,673</strong></td>
<td>18.5%</td>
<td><strong>¥187,877</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating income:</th>
<th>2010</th>
<th>Year-on-year change</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pachinko machines business</td>
<td>¥55,182</td>
<td>39.6%</td>
<td>¥39,521</td>
</tr>
<tr>
<td>Pachislo machines business</td>
<td>4,235</td>
<td>(37.8)</td>
<td>6,810</td>
</tr>
<tr>
<td>Ball bearing supply systems business</td>
<td>354</td>
<td>(30.3)</td>
<td>508</td>
</tr>
<tr>
<td>Other businesses</td>
<td>560</td>
<td>(3.6)</td>
<td>581</td>
</tr>
<tr>
<td>Elimination/Corporate</td>
<td>(4,556)</td>
<td>—</td>
<td>(6,796)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>¥55,776</strong></td>
<td>37.3%</td>
<td><strong>¥40,626</strong></td>
</tr>
</tbody>
</table>

**Fiscal 2011 Forecast**

As the unclear outlook for employment and personal incomes is expected to continue to depress leisure-related consumer spending in the fiscal year ending March 31, 2011, pachinko parlors are likely to become more cautious about the purchase of game machines.

In these circumstances, the Group accords the highest priority to development of products capable of captivating not only pachinko parlor operators, which are the Group’s direct customers, but also pachinko and pachislo players, who are the parlors’ customers. We intend to revise our product strategy and re-establish a framework for supplying products capable of maintaining stable popularity. The Product Strategy Office established in April 2010 will spearhead the Group’s efforts to create captivating products with a consistent product concept based on meticulous marketing. In this way, we will strive to restore the power of our brands with a view to recapturing market share.

The forecast for consolidated business results in the fiscal year ending March 31, 2011, is as follows:

<table>
<thead>
<tr>
<th>(Billions of yen)</th>
<th>2011 forecasts</th>
<th>Year-on-year change</th>
<th>2010 results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥183.0</td>
<td>(17.8)%</td>
<td>¥222.7</td>
</tr>
<tr>
<td>Operating income</td>
<td>43.0</td>
<td>(22.9)</td>
<td>55.8</td>
</tr>
<tr>
<td>Net income</td>
<td>29.0</td>
<td>(19.9)</td>
<td>36.2</td>
</tr>
</tbody>
</table>

Operating Income and Ratio of Operating Income to Net Sales

Return on Sales (ROS)

Gross Profit and Cost of sales
Assets, Liabilities and Net Assets

Total assets at the end of fiscal 2010 were ¥33.5 billion lower than the figure at the previous fiscal year-end as current assets, principally finished goods and merchandise, decreased ¥35.0 billion. Total liabilities, principally accounts payable, were ¥55.3 billion lower. As a result, net assets increased ¥21.8 billion. The shareholders’ equity ratio increased 10.4 percentage points to 88.4%, reflecting decreases in assets and liabilities.

Cash Flows

Cash and cash equivalents at the fiscal year-end were ¥218.4 billion, having decreased ¥92 million from the previous fiscal year-end.

Cash flows from operating activities
Net cash provided by operating activities increased ¥7.2 billion from the previous fiscal year to ¥27.5 billion. The principal factors increasing cash flows included income before income taxes amounting to ¥59.2 billion and a decrease of ¥22.8 billion in inventories. Cash outflows included a decrease of ¥41.8 billion in notes and accounts payable-trade and income taxes paid amounting to ¥23.5 billion.

Cash flows from investing activities
Net cash used in investing activities increased ¥9.3 billion from the previous year to ¥13.0 billion. The increase was mainly attributable to payments of ¥8.2 billion for the purchase of fixed assets and cash outlays of ¥3.0 billion due to an increase in the balance of investment securities held by the Group.

Cash flows from financing activities
Net cash used in financing activities decreased ¥9.8 billion from the previous year to ¥14.5 billion. The principal items were cash dividends paid amounting to ¥14.4 billion.

Forecast of the Financial Position in Fiscal 2011

For fiscal 2011, the Company forecasts net cash provided by operating activities of ¥50.0 billion, net cash used in investing activities of ¥4.0 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 ¥32.0 billion in the cash balance at the end of fiscal 2011 compared to the figure at the end of the previous fiscal year.

Risk Factors

Risks that may have an impact on the Group’s business results, stock price and financial position for fiscal 2011 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 2010, but do not cover all the potential risks.

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

Assets, Liabilities and Net Assets

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

<table>
<thead>
<tr>
<th>(%)</th>
<th>25</th>
<th>20</th>
<th>15</th>
<th>10</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
</tr>
</tbody>
</table>

Total Net Assets and Equity Ratio

<table>
<thead>
<tr>
<th>(Billions of yen)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>450</td>
<td>100</td>
</tr>
<tr>
<td>360</td>
<td>80</td>
</tr>
<tr>
<td>270</td>
<td>60</td>
</tr>
<tr>
<td>180</td>
<td>40</td>
</tr>
<tr>
<td>90</td>
<td>20</td>
</tr>
</tbody>
</table>

Total Assets

<table>
<thead>
<tr>
<th>(Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>600</td>
</tr>
<tr>
<td>500</td>
</tr>
<tr>
<td>400</td>
</tr>
<tr>
<td>300</td>
</tr>
<tr>
<td>200</td>
</tr>
<tr>
<td>100</td>
</tr>
</tbody>
</table>
As pachinko parlor operators are becoming more discriminating in their evaluation of game machines, there is a marked tendency for them to endeavor to captivate players through the introduction of large numbers of units of particular models offering excellent entertainment features and characterized by newsworthiness. However, because most products fail to attract sufficient attention, the gulf between popular products and the rest has been widening in terms of the numbers of units sold. The Group aims to increase sales through tie-ups with celebrities, animation and popular characters and by engaging in vigorous sales promotion in addition to strengthening the development process. However, because product development takes approximately 12 months, 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 very popular product, the Group’s sales plans and business results may be affected.

The Group will strive to manufacture and sell game machines meeting the diverse preferences of not only players but also the needs of parlors by fully utilizing original ideas, cutting-edge technology and other know-how.

**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, pachislo 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, 2010 and 2009

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen 2010</th>
<th>Thousands of U.S. dollars 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and deposits (Notes 3 and 14)</td>
<td>¥143,416</td>
<td>$1,541,445</td>
</tr>
<tr>
<td>Marketable securities (Notes 3, 4 and 14)</td>
<td>115,004</td>
<td>1,236,071</td>
</tr>
<tr>
<td>Notes and accounts receivable–trade (Note 14)</td>
<td>49,868</td>
<td>535,985</td>
</tr>
<tr>
<td>Inventories (Note 6)</td>
<td>3,301</td>
<td>35,479</td>
</tr>
<tr>
<td>Deferred tax assets (Note 13)</td>
<td>2,081</td>
<td>22,367</td>
</tr>
<tr>
<td>Accounts receivable arising from outsourced production contracts</td>
<td>6,124</td>
<td>65,821</td>
</tr>
<tr>
<td>Other current assets</td>
<td>6,886</td>
<td>74,001</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(75)</td>
<td>(806)</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>326,608</td>
<td>3,510,404</td>
</tr>
<tr>
<td><strong>Fixed assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>29,875</td>
<td>321,098</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>23,070</td>
<td>247,958</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>7,735</td>
<td>83,136</td>
</tr>
<tr>
<td>Tools, furniture and fixtures</td>
<td>16,183</td>
<td>173,936</td>
</tr>
<tr>
<td>Leased assets</td>
<td>221</td>
<td>2,375</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(26,030)</td>
<td>(279,772)</td>
</tr>
<tr>
<td><strong>Total property, plant and equipment</strong></td>
<td>51,055</td>
<td>548,742</td>
</tr>
<tr>
<td><strong>Intangible fixed assets</strong></td>
<td>310</td>
<td>3,332</td>
</tr>
<tr>
<td><strong>Investments and other assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in securities (Notes 4, 5 and 14)</td>
<td>77,373</td>
<td>831,610</td>
</tr>
<tr>
<td>Long-term loans</td>
<td>2,197</td>
<td>23,613</td>
</tr>
<tr>
<td>Deferred tax assets (Note 13)</td>
<td>2,937</td>
<td>31,567</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,605</td>
<td>17,251</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(349)</td>
<td>(3,751)</td>
</tr>
<tr>
<td>Allowance for losses on investments in securities</td>
<td>(379)</td>
<td>(4,074)</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>83,384</td>
<td>896,217</td>
</tr>
<tr>
<td><strong>Total fixed assets</strong></td>
<td>134,750</td>
<td>1,448,302</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>¥461,358</td>
<td>$4,958,706</td>
</tr>
</tbody>
</table>

The accompanying notes are integral part of these financial statements.
## LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen 2010</th>
<th>Millions of yen 2009</th>
<th>Thousands of U.S. dollars 2010 (Note 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and accounts payable–trade</td>
<td>¥ 30,182</td>
<td>¥ 72,077</td>
<td>$ 324,398</td>
</tr>
<tr>
<td>Accrued income taxes</td>
<td>7,259</td>
<td>13,179</td>
<td>78,020</td>
</tr>
<tr>
<td>Accrued employees’ bonuses</td>
<td>817</td>
<td>752</td>
<td>8,781</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>46</td>
<td>69</td>
<td>494</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>9,719</td>
<td>17,446</td>
<td>104,460</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>48,025</td>
<td>103,525</td>
<td>516,176</td>
</tr>
<tr>
<td><strong>Long-term liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease obligations</td>
<td>32</td>
<td>80</td>
<td>344</td>
</tr>
<tr>
<td>Accrued retirement allowances for directors and corporate auditors</td>
<td>623</td>
<td>584</td>
<td>6,696</td>
</tr>
<tr>
<td>Accrued retirement allowances for employees (Note 7)</td>
<td>2,933</td>
<td>2,683</td>
<td>31,524</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>1,720</td>
<td>1,805</td>
<td>18,487</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>5,309</td>
<td>5,154</td>
<td>57,061</td>
</tr>
<tr>
<td><strong>Commitments and contingent liabilities</strong> (Notes 8 and 10)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity (Note 9):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized: 144,000,000 shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued: 97,597,500 shares</td>
<td>14,840</td>
<td>14,840</td>
<td>159,501</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>23,880</td>
<td>23,882</td>
<td>256,664</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>377,529</td>
<td>355,800</td>
<td>4,057,706</td>
</tr>
<tr>
<td>Treasury stock</td>
<td>(8,969)</td>
<td>(8,940)</td>
<td>(96,399)</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>407,280</td>
<td>385,582</td>
<td>4,377,472</td>
</tr>
<tr>
<td><strong>Revaluation and translation adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized gains on other securities (Note 4)</td>
<td>744</td>
<td>604</td>
<td>7,997</td>
</tr>
<tr>
<td>Total revaluation and translation adjustments</td>
<td>744</td>
<td>604</td>
<td>7,997</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>408,024</td>
<td>386,187</td>
<td>4,385,469</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>¥461,358</td>
<td>¥494,866</td>
<td>$4,958,706</td>
</tr>
</tbody>
</table>

The accompanying notes are integral part of these financial statements.
## Consolidated Statements of Income

**SANKYO CO., LTD. and Its Consolidated Subsidiaries**  
*For the years ended March 31, 2010 and 2009*

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th></th>
<th>Thousands of U.S. dollars (Note 2)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>¥222,673</td>
<td>¥187,877</td>
<td>$2,393,304</td>
<td></td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>116,958</td>
<td>100,668</td>
<td>1,257,072</td>
<td></td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>105,715</td>
<td>87,208</td>
<td>1,136,232</td>
<td></td>
</tr>
<tr>
<td>Selling, general and administrative expenses (Note 11)</td>
<td>49,938</td>
<td>46,582</td>
<td>536,737</td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>55,776</td>
<td>40,626</td>
<td>599,484</td>
<td></td>
</tr>
<tr>
<td><strong>Other income (expenses):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>1,739</td>
<td>2,301</td>
<td>18,691</td>
<td></td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>1,424</td>
<td>1,457</td>
<td>15,305</td>
<td></td>
</tr>
<tr>
<td>Loss on sales or disposal of property, plant and equipment, net (Note 12)</td>
<td>(531)</td>
<td>(174)</td>
<td>(5,707)</td>
<td></td>
</tr>
<tr>
<td>Loss on devaluation of investment securities</td>
<td>—</td>
<td>(119)</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Reversal of allowance for doubtful accounts</td>
<td>440</td>
<td>469</td>
<td>4,729</td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>426</td>
<td>387</td>
<td>4,579</td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>59,276</td>
<td>44,949</td>
<td>637,102</td>
<td></td>
</tr>
<tr>
<td><strong>Income taxes (Note 13):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>18,038</td>
<td>21,987</td>
<td>193,874</td>
<td></td>
</tr>
<tr>
<td>Deferred</td>
<td>5,040</td>
<td>(4,922)</td>
<td>54,170</td>
<td></td>
</tr>
<tr>
<td>Total income taxes</td>
<td>23,078</td>
<td>17,065</td>
<td>248,044</td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>¥ 36,198</td>
<td>¥ 27,883</td>
<td>$ 389,058</td>
<td></td>
</tr>
</tbody>
</table>

### Net income per share (Note 16):

- **Basic**  
  - Yen: ¥376.00  
  - U.S. dollars (Note 2): $4.04
- **Cash dividends per share**  
  - Yen: 150.00  
  - U.S. dollars: 1.61

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, 2010 and 2009

<table>
<thead>
<tr>
<th>Common stock:</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>¥ 14,840</td>
<td>$ 159,501</td>
</tr>
<tr>
<td>End of year</td>
<td>¥ 14,840</td>
<td>$ 159,501</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital surplus:</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>¥ 23,882</td>
<td>¥ 23,883</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>End of year</td>
<td>¥ 23,880</td>
<td>¥ 23,882</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retained earnings:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>¥355,800</td>
<td>$3,824,162</td>
</tr>
<tr>
<td>Dividends from surplus</td>
<td>(14,469)</td>
<td>(155,514)</td>
</tr>
<tr>
<td>Net income</td>
<td>36,198</td>
<td>27,883</td>
</tr>
<tr>
<td>Total changes during the year</td>
<td>21,728</td>
<td>10,902</td>
</tr>
<tr>
<td>End of year</td>
<td>¥377,529</td>
<td>$4,057,706</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Treasury stock:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>¥ (8,940)</td>
<td>$(96,088)</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>4</td>
<td>43</td>
</tr>
<tr>
<td>Increase in treasury stock resulting from a change in equity in an affiliate accounted for by the equity method</td>
<td>(11)</td>
<td>(25)</td>
</tr>
<tr>
<td>Total changes during the year</td>
<td>(29)</td>
<td>(7,369)</td>
</tr>
<tr>
<td>End of year</td>
<td>¥ (8,969)</td>
<td>$(96,399)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholders’ equity:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>¥385,582</td>
<td>$4,144,261</td>
</tr>
<tr>
<td>Dividends from surplus</td>
<td>(14,469)</td>
<td>(155,514)</td>
</tr>
<tr>
<td>Net income</td>
<td>36,198</td>
<td>27,883</td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td>(22)</td>
<td>(7,353)</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Increase in treasury stock resulting from a change in equity in an affiliate accounted for by the equity method</td>
<td>(11)</td>
<td>(25)</td>
</tr>
<tr>
<td>Total changes during the year</td>
<td>21,697</td>
<td>3,531</td>
</tr>
<tr>
<td>End of year</td>
<td>¥407,280</td>
<td>$4,377,472</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revaluation and translation adjustments:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized gains on other securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>¥ 604</td>
<td>$ 6,492</td>
</tr>
<tr>
<td>Net change in the year</td>
<td>139</td>
<td>1,494</td>
</tr>
<tr>
<td>End of year</td>
<td>¥ 744</td>
<td>$ 7,997</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total net assets:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>¥386,187</td>
<td>$4,150,763</td>
</tr>
<tr>
<td>Dividends from surplus</td>
<td>(14,469)</td>
<td>(155,514)</td>
</tr>
<tr>
<td>Net income</td>
<td>36,198</td>
<td>27,883</td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td>(22)</td>
<td>(7,353)</td>
</tr>
<tr>
<td>Disposal of treasury stock</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Increase in treasury stock resulting from a change in equity in an affiliate accounted for by the equity method</td>
<td>(11)</td>
<td>(25)</td>
</tr>
<tr>
<td>Total changes during the year</td>
<td>21,837</td>
<td>2,430</td>
</tr>
<tr>
<td>End of year</td>
<td>¥408,024</td>
<td>$4,385,469</td>
</tr>
</tbody>
</table>

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, 2010 and 2009

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Thousands of U.S. dollars (Note 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>¥ 59,276</td>
<td>¥ 44,949</td>
<td>$ 637,102</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>5,516</td>
<td>4,426</td>
<td>59,286</td>
</tr>
<tr>
<td>Decrease in allowance for doubtful accounts</td>
<td>(459)</td>
<td>(505)</td>
<td>(4,933)</td>
</tr>
<tr>
<td>Increase in accrued employees’ bonuses</td>
<td>64</td>
<td>42</td>
<td>688</td>
</tr>
<tr>
<td>Increase in accrued retirement allowances for employees</td>
<td>249</td>
<td>234</td>
<td>2,676</td>
</tr>
<tr>
<td>Increase (decrease) in accrued retirement allowances for directors and corporate auditors</td>
<td>38 (625)</td>
<td></td>
<td>408</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>(1,739)</td>
<td>(2,301)</td>
<td>(18,691)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>(1,424)</td>
<td>(1,457)</td>
<td>(15,305)</td>
</tr>
<tr>
<td>Loss on sales or disposal of property, plant and equipment, net</td>
<td>531</td>
<td>174</td>
<td>5,707</td>
</tr>
<tr>
<td>Gain on sales of golf membership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on settlement of lawsuit</td>
<td></td>
<td>(23)</td>
<td></td>
</tr>
<tr>
<td>Loss on devaluation of investment securities</td>
<td></td>
<td>(23)</td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in notes and accounts receivable–trade</td>
<td>(9,461)</td>
<td>49,924</td>
<td>(105,772)</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>22,856</td>
<td>(22,570)</td>
<td>245,593</td>
</tr>
<tr>
<td>Decrease in notes and accounts payable–trade</td>
<td>(41,894)</td>
<td>(18,653)</td>
<td>(450,279)</td>
</tr>
<tr>
<td>Decrease (increase) in accounts receivable arising from outsourced production contracts</td>
<td>20,879</td>
<td>(5,189)</td>
<td>224,409</td>
</tr>
<tr>
<td>Increase (decrease) in consumption taxes payable</td>
<td>1,938</td>
<td>(1,430)</td>
<td>20,830</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable–other</td>
<td>408</td>
<td>(5,730)</td>
<td>4,385</td>
</tr>
<tr>
<td>Decrease (increase) in other current assets</td>
<td>1,716</td>
<td>(3,185)</td>
<td>16,444</td>
</tr>
<tr>
<td>Increase (decrease) in other current liabilities</td>
<td>(8,952)</td>
<td>8,656</td>
<td>(96,217)</td>
</tr>
<tr>
<td>Other</td>
<td>(144)</td>
<td>(29)</td>
<td>(1,548)</td>
</tr>
<tr>
<td>Sub total</td>
<td>49,014</td>
<td>46,976</td>
<td>526,806</td>
</tr>
<tr>
<td>Interest and dividend income received</td>
<td>2,069</td>
<td>2,533</td>
<td>22,238</td>
</tr>
<tr>
<td>Interest paid</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Increase in income taxes paid</td>
<td>(23,565)</td>
<td>(29,073)</td>
<td>(253,278)</td>
</tr>
<tr>
<td>Payment of settlement</td>
<td></td>
<td>(150)</td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>27,518</td>
<td>20,283</td>
<td>295,765</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities:** |             |             |                                   |
| Payments into time deposits | (2,514)     | —           | (27,021)                          |
| Proceeds from withdrawal of time deposits | 2,514       | —           | 27,021                            |
| Proceeds from sale of marketable securities | —           | 1,000       | —                                 |
| Payment for purchase of property, plant and equipment and intangible fixed assets | 8,471       | (4,221)     | (91,047)                          |
| Proceeds from sale of property, plant and equipment and intangible fixed assets | 95          | 24          | 1,021                             |
| Payment for purchase of investment securities | (37,027)    | (32,016)    | (397,969)                         |
| Proceeds from sale of investment securities | 34,000      | 32,000      | 365,434                           |
| Payment in loans receivable | (1,906)     | (537)       | (20,486)                          |
| Collection of loans receivable | 205         | 110         | 2,203                             |
| Other | 51          | (40)        | 548                                |
| Net cash used in investing activities | (13,053)    | (3,680)     | (140,294)                         |

| **Cash flows from financing activities:** |             |             |                                   |
| Payment for finance lease obligations | (68)        | (85)        | (742)                             |
| Payment for purchase of treasury stock | (22)        | (7,353)     | (236)                             |
| Proceeds from sales of treasury stock | 3           | 8           | 32                                |
| Cash dividends paid | (14,469) | (16,981) | (155,514) |
| Net cash used in financing activities | (14,557)     | (24,422)    | (156,460)                        |

| **Net decrease in cash and cash equivalents** | (92) | (7,820) | (989) |
| **Cash and cash equivalents at beginning of year** | 218,509       | 226,329    | 2,348,549 |
| **Cash and cash equivalents at end of year** (Note 3) | ¥218,416 | ¥218,509 | $2,347,549 |

The accompanying notes are an integral part of these financial statements.
1. Summary of Significant Accounting Policies

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

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in the accompanying consolidated financial statements for the convenience of readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2009 financial statements to conform to the classifications used in 2010. In conformity with the Corporate Law of Japan and the other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items.

(b) Consolidation Principles
The consolidated financial statements include the accounts of the Company and its four significant wholly owned subsidiaries. The remaining unconsolidated subsidiaries have assets, net sales and net income which are not significant in relation to those of the Companies, and, accordingly, the accounts of such subsidiaries have been excluded from consolidation.

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Item</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished goods, merchandise and raw materials</td>
<td>Gross average method</td>
</tr>
<tr>
<td>Work in process</td>
<td>Specific identification method</td>
</tr>
<tr>
<td>Supplies</td>
<td>Last purchase price method</td>
</tr>
</tbody>
</table>

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

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

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

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

(k) Accrued Retirement Allowances for Directors and Corporate Auditors
The accrued retirement allowances for directors and statutory auditors are stated at the estimated amount which would be required to be paid based on the internal rule if all eligible directors and statutory auditors were to leave the Company at the balance sheet date.

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

(Change in accounting policies)
Effective the year ended March 31, 2010, the Company adopted “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (Accounting Standards Board of Japan (ASBJ) Statement No. 19, issued on July 31, 2008). This change had no impact on operating income, income before income taxes and net income for the year ended March 31, 2010.

(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
Effective the year ended March 31, 2010, the Company adopted ASBJ Statement No. 15 “Accounting Standard for Construction Contracts” and ASBJ Guidance No. 18 “Guidance on Accounting Standard for Construction Contracts” (issued on December 27, 2007 by the ASBJ). Under the previous accounting standard, the completed-contract method had been applied to all construction contracts. Under the new 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.
However, there were no construction contracts, for which the percentage-of-completion method was applied, for the year ended March 31, 2010.
Therefore, this change had no impact on net income for the year ended March 31, 2010.

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

(r) Net Income and Dividends per Share
Net income per share of common stock shown in the accompanying consolidated statements of income is computed based on the weighted average number of shares outstanding during each year.
Cash dividends per share shown in the accompanying consolidated statements of income represent dividends declared and paid as applicable to the respective fiscal year.

(s) Consumption Tax
Transactions subject to consumption tax are recorded at amounts exclusive of consumption tax.

(t) Reclassification
Certain reclassifications of previously reported amounts have been made to conform with current classifications.
2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥93.04 = U.S.$1, the rate of exchange on March 31, 2010, has been used for the translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

3. Cash and Cash Equivalents

A reconciliation of cash and cash equivalents to the accounts disclosed on the balance sheet at March 31, 2010 and 2009 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>¥143,416</td>
<td>$1,541,445</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>115,004</td>
<td>89,999</td>
</tr>
<tr>
<td>Total</td>
<td>258,420</td>
<td>252,510</td>
</tr>
<tr>
<td>Bonds and debentures, investment funds and others whose original maturity is more than three months</td>
<td>(40,004)</td>
<td>(34,001)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥218,416</td>
<td>$2,347,549</td>
</tr>
</tbody>
</table>

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2010 and 2009 were as follows:

(a) Held-to-Maturity Debt Securities

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying amounts</td>
<td>Gross unrealized gains</td>
</tr>
<tr>
<td>Fair value available:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese government bonds</td>
<td>¥80,001</td>
<td>¥268</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>¥75,000</td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥155,001</td>
<td>¥268</td>
</tr>
<tr>
<td>Fair value not available:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates of deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥155,000</td>
<td></td>
</tr>
</tbody>
</table>

Thousands of U.S. dollars

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying amounts</td>
</tr>
<tr>
<td>Fair value available:</td>
<td></td>
</tr>
<tr>
<td>Japanese government bonds</td>
<td>$859,856</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>$806,104</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,665,950</td>
</tr>
<tr>
<td>Fair value not available:</td>
<td></td>
</tr>
<tr>
<td>Certificates of deposits</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>
(b) Other Securities

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Gross unrealized gains</th>
<th>Gross unrealized losses</th>
<th>Fair value</th>
<th>Cost</th>
<th>Gross unrealized gains</th>
<th>Gross unrealized losses</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair value available:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥1,641</td>
<td>¥1,250</td>
<td>¥—</td>
<td>¥2,891</td>
<td>¥1,641</td>
<td>¥1,016</td>
<td>¥—</td>
<td>¥2,657</td>
</tr>
<tr>
<td></td>
<td>¥1,641</td>
<td>¥1,250</td>
<td>¥—</td>
<td>¥2,891</td>
<td>¥1,641</td>
<td>¥1,016</td>
<td>¥—</td>
<td>¥2,657</td>
</tr>
<tr>
<td><strong>Fair value not available:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td></td>
<td></td>
<td></td>
<td>¥2,891</td>
<td></td>
<td></td>
<td></td>
<td>¥2,759</td>
</tr>
</tbody>
</table>

**Thousands of U.S. dollars**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair value available:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>$17,638</td>
<td>$13,435</td>
<td>$—</td>
</tr>
<tr>
<td></td>
<td>$17,638</td>
<td>$13,435</td>
<td>$—</td>
</tr>
<tr>
<td><strong>Fair value not available:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td></td>
<td></td>
<td>$31,073</td>
</tr>
</tbody>
</table>

5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2010 and 2009 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Investments in securities</td>
<td>¥34,377</td>
<td>¥30,384</td>
</tr>
</tbody>
</table>

6. Inventories

Inventories at March 31, 2010 and 2009 comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Finished goods and merchandise</td>
<td>¥ 36</td>
<td>¥22,319</td>
</tr>
<tr>
<td>Work in process</td>
<td>244</td>
<td>145</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>3,020</td>
<td>3,694</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥3,301</td>
<td>¥26,159</td>
</tr>
</tbody>
</table>

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, 2010 and 2009 were determined as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Projected benefit obligations</td>
<td>¥3,097</td>
<td>¥2,869</td>
</tr>
<tr>
<td>Unrecognized actuarial differences</td>
<td>(164)</td>
<td>(185)</td>
</tr>
<tr>
<td>Accrued retirement allowance for employees</td>
<td>¥2,933</td>
<td>¥2,683</td>
</tr>
</tbody>
</table>
The net pension expense relating to retirement benefits for the years ended March 31, 2010 and 2009 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service costs</td>
<td>¥214</td>
<td>$2,300</td>
</tr>
<tr>
<td>Interest costs</td>
<td>41</td>
<td>441</td>
</tr>
<tr>
<td>Amortization of actuarial differences</td>
<td>63</td>
<td>677</td>
</tr>
<tr>
<td>Total</td>
<td>¥319</td>
<td>$3,429</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>1.50%</td>
<td>1.50%</td>
</tr>
<tr>
<td>Method of attributing the projected benefits to service periods</td>
<td>Straight-line basis</td>
<td>Straight-line basis</td>
</tr>
<tr>
<td>Amortization of actuarial differences</td>
<td>Over five years</td>
<td>Over five years</td>
</tr>
</tbody>
</table>

8. Contingent Liabilities

Contingent liabilities at March 31, 2010 and 2009 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>As an endorser of notes endorsed</td>
<td>¥—</td>
<td>$—</td>
</tr>
</tbody>
</table>

9. Shareholders’ Equity

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

a) Type and number of shares outstanding and treasury stock

<table>
<thead>
<tr>
<th></th>
<th>Type of shares outstanding</th>
<th>Type of treasury stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares as of March 31, 2009</td>
<td>97,597,500</td>
<td>1,324,326</td>
</tr>
<tr>
<td>Increase in the number of shares during the accounting period ended March 31, 2010</td>
<td>—</td>
<td>6,504&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Decrease in the number of shares during the accounting period ended March 31, 2010</td>
<td>—</td>
<td>700&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Number of shares as of March 31, 2010</td>
<td>97,597,500</td>
<td>1,330,130</td>
</tr>
</tbody>
</table>

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

i) Dividend payment

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

<table>
<thead>
<tr>
<th>Dividends on common stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of dividends</td>
</tr>
<tr>
<td>Dividends per share</td>
</tr>
<tr>
<td>Record date</td>
</tr>
<tr>
<td>Effective date</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Dividends on common stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of dividends</td>
</tr>
<tr>
<td>Dividends per share</td>
</tr>
<tr>
<td>Record date</td>
</tr>
<tr>
<td>Effective date</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Dividends on common stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of dividends</td>
</tr>
<tr>
<td>Dividends per share</td>
</tr>
<tr>
<td>Record date</td>
</tr>
<tr>
<td>Effective date</td>
</tr>
</tbody>
</table>

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 27, 2008 were as follows:

<table>
<thead>
<tr>
<th>Dividends on common stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of dividends</td>
</tr>
<tr>
<td>Dividends per share</td>
</tr>
<tr>
<td>Record date</td>
</tr>
<tr>
<td>Effective date</td>
</tr>
</tbody>
</table>

Approvals by the Board of Directors’ meeting held on November 6, 2008 were as follows:

<table>
<thead>
<tr>
<th>Dividends on common stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of dividends</td>
</tr>
<tr>
<td>Dividends per share</td>
</tr>
<tr>
<td>Record date</td>
</tr>
<tr>
<td>Effective date</td>
</tr>
</tbody>
</table>
ii) **Dividends whose record date is attributed to the accounting period ended March 31, 2009 but become effective after the said accounting period.**

The Company obtained the following approval at the general meeting of shareholders held on June 26, 2009:
- Dividends on common stock
  - Total amount of dividends: ¥7,234 million
  - Dividends per share: ¥75.00
  - Record date: March 31, 2009
  - Effective date: June 29, 2009

**10. Leases**

**Operating Leases**

Future lease payments for non-cancellable operating leases as a lessee at March 31, 2010 and 2009 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within one year</td>
<td>¥10, ¥7</td>
<td>$107</td>
</tr>
<tr>
<td>Due after one year</td>
<td>25, 20</td>
<td>269</td>
</tr>
<tr>
<td>Total</td>
<td>¥35, ¥27</td>
<td>$376</td>
</tr>
</tbody>
</table>

**11. Selling, General and Administrative Expenses**

The main components of “Selling, general and administrative expenses” for the fiscal years ended March 31, 2010 and 2009 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Sales commission</td>
<td>¥16,356</td>
<td>¥10,658</td>
</tr>
<tr>
<td>Advertisement expenses</td>
<td>8,401</td>
<td>11,807</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>4,172</td>
<td>3,886</td>
</tr>
<tr>
<td>Provision for reserve for bonuses</td>
<td>451</td>
<td>415</td>
</tr>
<tr>
<td>Accrued retirement allowances for directors and corporate auditors</td>
<td>63</td>
<td>67</td>
</tr>
<tr>
<td>Retirement benefit costs</td>
<td>210</td>
<td>192</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>13,748</td>
<td>11,411</td>
</tr>
</tbody>
</table>

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

Gain or loss on sales and loss on disposal of property, plant and equipment for the years ended March 31, 2010 and 2009 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Gain on sales of property, plant and equipment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tools, furniture and fixtures</td>
<td>¥48</td>
<td>—</td>
</tr>
<tr>
<td>Loss on sales of property, plant and equipment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>¥65</td>
<td>—</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>19</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>¥36</td>
<td>—</td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment, etc.:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>¥105</td>
<td>¥111</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>291</td>
<td>32</td>
</tr>
<tr>
<td>Tools, furniture and fixtures</td>
<td>98</td>
<td>20</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>¥494</td>
<td>¥174</td>
</tr>
</tbody>
</table>

Gain: ¥5,310,000
13. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate of approximately 40.5% for the years ended March 31, 2010 and 2009.

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, 2010 and 2009, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued enterprise taxes</td>
<td>¥ 623</td>
<td>$ 6,696</td>
</tr>
<tr>
<td>Unrealized profits on inventories</td>
<td>2</td>
<td>21</td>
</tr>
<tr>
<td>Accrued employees’ bonuses</td>
<td>330</td>
<td>3,547</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>46</td>
<td>494</td>
</tr>
<tr>
<td>Accrued retirement allowances for employees</td>
<td>1,188</td>
<td>12,769</td>
</tr>
<tr>
<td>Accrued retirement allowances for directors and corporate auditors</td>
<td>252</td>
<td>2,709</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>1,321</td>
<td>14,198</td>
</tr>
<tr>
<td>Unrealized profit on property, plant and equipment</td>
<td>292</td>
<td>3,138</td>
</tr>
<tr>
<td>Allowance for losses on investments in securities</td>
<td>153</td>
<td>1,644</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>945</td>
<td>10,157</td>
</tr>
<tr>
<td>Other</td>
<td>367</td>
<td>3,945</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>5,525</td>
<td>59,383</td>
</tr>
<tr>
<td>Deferred tax liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized gains on securities</td>
<td>(506)</td>
<td>(5,439)</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(39)</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(506)</td>
<td>(5,439)</td>
</tr>
<tr>
<td>Deferred tax assets, net</td>
<td>¥5,018</td>
<td>¥10,153</td>
</tr>
</tbody>
</table>

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

A reconciliation between the statutory tax rate and the effective income tax rate at March 31, 2009 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal effective statutory tax rate</td>
<td>40.5%</td>
</tr>
<tr>
<td>Expenses not deductible for income tax purposes</td>
<td>0.2</td>
</tr>
<tr>
<td>Non-taxable income</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Tax credit for research and development costs</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Equity in earnings of affiliates accounted for by the equity method</td>
<td>(1.3)</td>
</tr>
<tr>
<td>Other – net</td>
<td>0.2</td>
</tr>
<tr>
<td>Actual effective tax rate</td>
<td>38.0%</td>
</tr>
</tbody>
</table>

14. Financial Instruments and Related Disclosures

Effective the year ended March 31, 2010, the Company adopted the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, issued on March 10, 2008) and “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued on March 10, 2008).

1. Outline of financial instruments

(1) Policy for financial instruments

The Companies have a policy for fund management of focusing only on low risk financial assets while avoiding speculative transactions.
(2) **Nature and extent of risks arising from financial instruments and risk management**

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

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

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

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

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

**2. Fair values of financial instruments**

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

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
<th>Fair value</th>
<th>Unrealized gain (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Cash and deposits</td>
<td>¥143,416</td>
<td>¥143,416</td>
<td>¥ —</td>
</tr>
<tr>
<td>(2) Notes and accounts receivable–trade</td>
<td>49,868</td>
<td>49,096 (717)</td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(54)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Short-term investment securities and investments in securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Held-to-maturity debt securities</td>
<td>155,001</td>
<td>155,263 262</td>
<td></td>
</tr>
<tr>
<td>Other securities</td>
<td>2,891</td>
<td>2,891 —</td>
<td></td>
</tr>
<tr>
<td>Equity securities issued by unconsolidated subsidiaries and affiliates</td>
<td>18,499</td>
<td>10,520 (7,978)</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥369,623</td>
<td>¥361,189 (8,434)</td>
<td></td>
</tr>
<tr>
<td>(4) Notes and accounts payable–trade</td>
<td>¥30,182</td>
<td>¥30,182 —</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>¥30,182</td>
<td>¥30,182 —</td>
<td></td>
</tr>
</tbody>
</table>
Thousands of U.S. dollars

<table>
<thead>
<tr>
<th></th>
<th>Carring amount</th>
<th>Fair value</th>
<th>Unrealized gain (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Cash and deposits</td>
<td>$1,541,445</td>
<td>$1,541,445</td>
<td>$</td>
</tr>
<tr>
<td>(2) Notes and accounts receivable–trade</td>
<td>535,985</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(580)</td>
<td></td>
<td>7,706</td>
</tr>
<tr>
<td>(3) Short-term investment securities and investments in securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Held-to-maturity debt securities</td>
<td>1,665,961</td>
<td>1,668,777</td>
<td>2,816</td>
</tr>
<tr>
<td>Other securities</td>
<td>31,073</td>
<td>31,073</td>
<td></td>
</tr>
<tr>
<td>Equity securities issued by unconsolidated subsidiaries and affiliates</td>
<td>198,828</td>
<td>113,070</td>
<td>(8,574)</td>
</tr>
<tr>
<td>Total assets</td>
<td>$3,972,732</td>
<td>$3,882,083</td>
<td>$(90,649)</td>
</tr>
<tr>
<td>(4) Notes and accounts payable–trade</td>
<td>$324,398</td>
<td>$324,398</td>
<td>$</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$324,398</td>
<td>$324,398</td>
<td>$</td>
</tr>
</tbody>
</table>

* Equity securities issued by unconsolidated subsidiaries and affiliates are the shares of two affiliates accounted for by the equity method. Therefore, under the equity method, the value in the above table includes the portion of income earned by the affiliates that is proportional to the size of the equity investment. The acquisition cost of the two affiliates is ¥9,611 million ($103,300 thousand).

Notes: 1. Calculation method of fair values of financial instruments and securities transactions
   (1) Cash and deposits
       Since these are settled in a short time period, their fair values approximate their carrying amounts.
   (2) Notes and accounts receivable–trade
       The fair values are stated at their current values, which are calculated for each receivables group categorized by the remaining period to the maturity discounted by the interest rate applicable to the period and the credit risk.
   (3) Short-term investment securities and investments in securities
       The fair values of these securities are determined using the quoted price at the stock exchange. Debt securities are determined using the quoted prices obtained from correspondent financial institutions. Matters to be noted in respect of securities by holding purpose are stated in "Marketable Securities and Investments in Securities."
   (4) Notes and accounts payable-trade
       Since these are settled in a short time period, their fair values approximate their carrying amounts.

2. Since it is extremely difficult to determine the fair values of unlisted equity securities (¥15,985 million: $171,808 thousand) as there are no market prices available and it is impossible to estimate the future cash flow, they are not included in "(3) Short-term investment securities and investments in securities."

3. Redemption schedule of monetary assets and marketable securities with contractual maturities

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Within one year</td>
<td>One to five years</td>
</tr>
<tr>
<td>(1) Cash and deposits</td>
<td>¥143,416</td>
<td></td>
</tr>
<tr>
<td>(2) Notes and accounts receivable–trade</td>
<td>36,174</td>
<td>13,694</td>
</tr>
<tr>
<td>(3) Short-term investment securities and investments in securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Held-to-maturity debt securities (Japanese government bonds)</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Held-to-maturity debt securities (Certificates of deposit)</td>
<td>75,000</td>
<td></td>
</tr>
</tbody>
</table>

Thousands of U.S. dollars

<table>
<thead>
<tr>
<th></th>
<th>Within one year</th>
<th>One to five years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Cash and deposits</td>
<td>$1,541,445</td>
<td>$</td>
</tr>
<tr>
<td>(2) Notes and accounts receivable–trade</td>
<td>388,801</td>
<td>147,184</td>
</tr>
<tr>
<td>(3) Short-term investment securities and investments in securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Held-to-maturity debt securities (Japanese government bonds)</td>
<td>429,923</td>
<td>429,923</td>
</tr>
<tr>
<td>Held-to-maturity debt securities (Certificates of deposit)</td>
<td>806,105</td>
<td></td>
</tr>
</tbody>
</table>
## 15. Segment Information

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

<table>
<thead>
<tr>
<th>Segment Information</th>
<th>Pachinko machines business</th>
<th>Pachislo machines business</th>
<th>Ball bearing supply systems business</th>
<th>Other business</th>
<th>Elimination or corporate items</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pachinko machines business</td>
<td>machine gauges, related parts and royalty income relating to pachinko machines</td>
<td>Pachislo machines, related parts and royalty income relating to pachislo machines</td>
<td>Pachinko ball feeders, parlor equipment and peripherals and royalty income relating to ball feeders</td>
<td>Real estate rental, general parts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

The Company had no overseas consolidated subsidiaries for the years ended March 31, 2010 and 2009.

Sales of the Company and its consolidated subsidiaries from sources outside Japan for the years ended 31 March 2010, and 2009 were not significant (less than 10 percent of consolidated sales for each of the respective years).

Information by industry segment for the years ended March 31, 2010 and 2009 were as follows:

### 2010

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

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

### 2009

<table>
<thead>
<tr>
<th></th>
<th>Pachinko machines business</th>
<th>Pachislo machines business</th>
<th>Ball bearing supply systems business</th>
<th>Other business</th>
<th>Elimination or corporate items</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>¥133,195</td>
<td>¥33,598</td>
<td>¥19,566</td>
<td>¥1,516</td>
<td>¥</td>
<td>¥187,877</td>
</tr>
<tr>
<td>Intersegment</td>
<td>16</td>
<td>—</td>
<td>—</td>
<td>3</td>
<td>(19)</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>¥133,211</td>
<td>¥33,598</td>
<td>¥19,566</td>
<td>¥1,519</td>
<td>¥(19)</td>
<td>¥187,877</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>93,689</td>
<td>26,787</td>
<td>19,058</td>
<td>938</td>
<td>6,776</td>
<td>147,251</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥39,521</td>
<td>¥6,810</td>
<td>¥508</td>
<td>¥581</td>
<td>¥(6,796)</td>
<td>¥40,626</td>
</tr>
<tr>
<td>Identifiable assets</td>
<td>¥105,623</td>
<td>¥8,605</td>
<td>¥20,711</td>
<td>¥11,951</td>
<td>¥347,975</td>
<td>¥494,866</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>¥3,589</td>
<td>¥471</td>
<td>¥52</td>
<td>¥114</td>
<td>¥198</td>
<td>¥4,426</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>¥4,394</td>
<td>¥525</td>
<td>¥99</td>
<td>¥23</td>
<td>¥47</td>
<td>¥5,091</td>
</tr>
</tbody>
</table>

*1. Non-allocable operating expenses: ¥6,796 million  
*2. Corporate assets: ¥347,975 million
Thousands of U.S. dollars

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>Elimination or corporate items</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>$1,934,714</td>
<td>$14,886</td>
<td>$2,393,304</td>
</tr>
<tr>
<td>Intersegment</td>
<td>355</td>
<td>161</td>
<td>(516)</td>
</tr>
<tr>
<td>Total</td>
<td>$1,940,069</td>
<td>$15,047</td>
<td>$2,393,304</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1,346,969</td>
<td>9,018</td>
<td>48,442</td>
</tr>
<tr>
<td>Operating income</td>
<td>$593,100</td>
<td>6,019</td>
<td>1,793,820</td>
</tr>
<tr>
<td>Identifiable assets</td>
<td>$547,173</td>
<td>$141,240</td>
<td>$599,484</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$47,614</td>
<td>$1,301</td>
<td>$59,286</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>$66,994</td>
<td>$2,698</td>
<td>$79,858</td>
</tr>
</tbody>
</table>

*1. Non-allocable operating expenses: $48,968 thousand
*2. Corporate assets: $3,848,227 thousand

16. Per Share Information

<table>
<thead>
<tr>
<th></th>
<th>Yen</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net asset per share</td>
<td>¥4,238.45</td>
<td>$45.56</td>
</tr>
<tr>
<td>Net income per share</td>
<td>376.00</td>
<td>4.04</td>
</tr>
</tbody>
</table>

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

Above information was computed based on the following data:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net asset per share:</td>
<td>¥408,024 million</td>
<td>¥386,187 million</td>
</tr>
<tr>
<td>Net assets attributable to common stock</td>
<td>408,024 million</td>
<td>386,187 million</td>
</tr>
<tr>
<td>Number of outstanding shares of common stock</td>
<td>97,597,500 shares</td>
<td>97,597,500 shares</td>
</tr>
<tr>
<td>Number of treasury stock</td>
<td>1,330,130 shares</td>
<td>1,324,326 shares</td>
</tr>
<tr>
<td>Number of common stock used in computing net asset per share</td>
<td>96,267,370 shares</td>
<td>96,273,174 shares</td>
</tr>
<tr>
<td>Net income per share:</td>
<td>¥36,198 million</td>
<td>¥27,883 million</td>
</tr>
<tr>
<td>Net income attributable to common stock</td>
<td>¥36,198 million</td>
<td>¥27,883 million</td>
</tr>
<tr>
<td>Net income not attributable to common stock shareholders</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Weighted average number of common stock</td>
<td>96,271,849 shares</td>
<td>96,510,188 shares</td>
</tr>
</tbody>
</table>

17. Related Party Transaction

The transactions for the years ended March 31, 2010 and 2009 and related account balances outstanding at each year end were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Name</th>
<th>Address</th>
<th>Capital</th>
<th>Business line/occupation</th>
<th>Voting rights owned by the Company</th>
<th>Relationship</th>
<th>Transaction</th>
<th>Transaction amount</th>
<th>Account</th>
<th>Year-end balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affiliate corporation</td>
<td>Fields Corporation Tokyo</td>
<td>Shibuya-ku, Tokyo</td>
<td>¥7,948</td>
<td>Development, purchase and sales of game machines</td>
<td>Direct 15.67% (The company owns 1.02% of the Company’s shares)</td>
<td>Sales and consignment sales of game machines</td>
<td>Sales of the game machines</td>
<td>¥17,945</td>
<td>Accounts receivable trade</td>
<td>¥16,223</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>($85,426)</td>
<td></td>
<td></td>
<td>Consignment sales of game machines</td>
<td>Consignment sales of game machines</td>
<td>¥14,394</td>
<td>Accounts payable other</td>
<td>¥622</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Royalty</td>
<td>Royalty</td>
<td>¥1,365</td>
<td>Accounts payable other</td>
<td>¥286</td>
</tr>
</tbody>
</table>
For the year ended March 31, 2009 (Millions of yen)

<table>
<thead>
<tr>
<th>Description</th>
<th>Name</th>
<th>Address</th>
<th>Capital</th>
<th>Business line/occupation</th>
<th>Voting rights owned by the Company</th>
<th>Relationship</th>
<th>Transaction</th>
<th>Transaction amount</th>
<th>Account</th>
<th>Year-end balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affiliate corporation</td>
<td>Fields Corporation</td>
<td>Shibuya-ku, Tokyo</td>
<td>¥7,948</td>
<td>Development, purchase and sales of game machines</td>
<td>Direct 15.47% (The company owns 1.02% of the Company’s shares)</td>
<td>Sales and consignment sales of game machines</td>
<td>Sales of the game machines</td>
<td>¥21,016</td>
<td>Accounts receivable-trade</td>
<td>¥171</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Consignment sales of game machines</td>
<td>¥8,061</td>
<td>Accounts payable-other</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Royalty</td>
<td>¥1,349</td>
<td>Accounts payable-other</td>
</tr>
</tbody>
</table>

18. Significant Subsequent Events

Acquisition of treasury stock based on the Provisions of Articles of Incorporation under Article 165, Paragraph 2 of the Companies Act.

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

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

(2) Type of shares
   Common stock

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

(4) Total acquisition cost of stock
   ¥15,000 million (Upper limit) ($161,221 thousand)

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

19. Significant Subsidiaries and Affiliates

The domestic consolidated subsidiaries and affiliates accounted for under the equity method at March 31, 2010 and 2009 were as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Ownership 2010</th>
<th>Ownership 2009</th>
<th>Consolidation method</th>
</tr>
</thead>
<tbody>
<tr>
<td>SANKYO EXCEL CO., LTD.</td>
<td>100%</td>
<td>100%</td>
<td>Full consolidation</td>
</tr>
<tr>
<td>BISTY CO., LTD.</td>
<td>100%</td>
<td>100%</td>
<td>Full consolidation</td>
</tr>
<tr>
<td>SANKYO CREATE CO., LTD.</td>
<td>100%</td>
<td>100%</td>
<td>Full consolidation</td>
</tr>
<tr>
<td>INTERNATIONAL CARD SYSTEM CO., LTD.</td>
<td>100%</td>
<td>100%</td>
<td>Full consolidation</td>
</tr>
<tr>
<td>NIPPON GAME CARD CORPORATION</td>
<td>39.41%</td>
<td>39.41%</td>
<td>Equity method</td>
</tr>
<tr>
<td>FIELDS CORPORATION</td>
<td>15.67%</td>
<td>15.47%</td>
<td>Equity method</td>
</tr>
</tbody>
</table>
Report of Independent Auditors

The Board of Directors
SANKYO CO., LTD.

We have audited the accompanying consolidated balance sheets of SANKYO CO., LTD. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SANKYO CO., LTD. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

June 24, 2010
Board of Directors
(As of June 29, 2010)

Honorary Chairman
Kunio Busujima

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

Representative Director, President & COO
Akihiko Sawai*

Directors & Senior Executive Vice Presidents
Junzo Hamaguchi
Kimihisa Tsutsui

Standing Statutory Auditor
Shohachi Ugawa

Statutory Auditor
Toshiaki Ishiyama

Outside Auditors
Yoshiro Sanada
Fumiyoshi Noda

Executive Operating Officers
Yasuji Suzuki
Akihiko Ishihara

Operating Officers
Junzo Takimoto
Satoshi Kouketsu
Ichiro Tomiyama
Minoru Yoshikawa
Ritoku Kotabe
Hiroshi Kodaira
Takashi Fukuda

*Representative Director

Corporate Data
(As of March 31, 2010)

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
Telephone: 81(270)40-7777 Facsimile: 81(270)22-3007

Established
April 12, 1966

Paid-in Capital
¥14,840 million

Number of Employees
925

Number of Shares Authorized
144,000,000

Number of Shares Issued
97,597,500

Number of Shareholders
14,090

Stock Price Range
(Thousands of shares) (Yen)

Trading volume (Thousands of shares)
Stock price (Yen)

For Further Information Contact:
Corporate Planning Division, SANKYO CO., LTD.
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7777 Facsimile: 81(3)5778-6731
http://www.sankyo-fever.co.jp
Since its establishment in 1966, SANKYO Co., Ltd. has been a source of pleasure for the Japanese people. As a leading manufacturer of pachinko machines, we have fostered pachinko as an immensely popular leisure activity unique to Japan and enjoyed by millions of people.

From the very beginning, ingenuity has been the hallmark of the SANKYO spirit. To cite just one example: our creation in 1980 of the highly entertaining Fever-type machine equipped with a slot-machine movement revolutionized the concept of pachinko machines. SANKYO’s track record as a developer and manufacturer of pachinko machines that set the pace in the pachinko industry is based on a tradition of out-of-the-box thinking and technological prowess.

The scope of SANKYO’s business extends beyond manufacturing and sales of pachinko machines to encompass production of pachislo machines as well as wide-ranging equipment for pachinko parlors such as parlor management computer systems, ball bearing supply systems and prepaid card systems.

These strengths underpin SANKYO’s powerful presence as a provider of cutting-edge items for pachinko parlors and pachinko players nationwide.

Profile

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1 Consolidated Financial Highlights
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3 Divisional Review
4 Ground-Breaking Products
5 Five-Year Summary
6 Financial Review
7 Consolidated Balance Sheets
8 Consolidated Statements of Income
9 Consolidated Statements of Changes in Net Assets
10 Consolidated Statements of Cash Flows
11 Notes to the Consolidated Financial Statements
35 Report of Independent Auditors
36 Board of Directors / Corporate Data

Cautionary Statements with Respect to Forward-Looking Statements

Statements contained in this report with respect 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.
Challenges the Change
Annual Report 2010
Year ended March 31, 2010