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Corporate Governance Report

Last Update: June 28, 2019
SANKYO CO., LTD.

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Securities Code: 6417

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

The corporate governance status of SANKYO CO., LTD. (the “Company”) is as follows.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The basic philosophy of the Company and its consolidated subsidiaries and affiliates (the “SANKYO Group”) is to fulfill its mission, namely, to contribute to the sound development of pachinko and pachislot, which are popular leisure activities in Japan, and to the quality of life in society at large as a leading company in the pachinko and pachislot industry. The SANKYO Group’s stakeholders include shareholders, pachinko parlors, which are the Group’s customers, pachinko players, suppliers, local communities, and employees. One of the most important management tasks is to maintain good relations with each of these stakeholders, and the Company recognizes this task as a basic component of corporate governance.

Based on the above, the Group has set the following fundamental policies for business operations:

1. Maximize stakeholder value and achieve the optimum distribution of that value
2. Ensure compliance with laws and regulations, social norms, and corporate ethics
3. Enhance efficiency and transparency of management
4. Inspire employees and develop their capabilities
5. Enhance society’s trust in the pachinko and pachislot industry

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

[Supplementary Principle 4.1.2] Roles and Responsibilities of the Board of Directors (1)

At this point the Company has not established a so-called mid-term business plan, but states basic views on management strategy on its website (<https://www.sankyo-fever.co.jp/corporate/ir/eng/policy.html>).

In addition, the Company strives to prepare its product lines in anticipation of the market environment two years into the future, in light of the lead times required for product development. With respect to specific numerical targets, the Company sets a target for each fiscal year with priority placed on realization of management centering on readiness to respond to changes in preparation for intense changes in the industry environment and competition with rival companies, and thereupon works to achieve the target. If the Company cannot attain the target it sets for a fiscal year, it will strive to analyze and explain the causes and measures taken to respond thereto.

[Supplementary Principles 4.3.2 and 4.3.3] Roles and Responsibilities of the Board of Directors (3)

The Company appoints/dismisses the CEO under objective, timely, and transparent procedures based on sufficient discussion at the Board of Directors meeting attended by multiple Independent Outside Directors.

Although the Company does not have a plan to establish a voluntary nomination committee for the time being, it will continue examination of the procedures for appointment/dismissal of the CEO in order to enhance objectivity, timeliness, and transparency.

[Supplementary Principle 4.10.1] Use of Voluntary Committees

The Company sufficiently deliberates nomination and remuneration of senior management at the Management Committee and nomination and remuneration of Directors at the Board of Directors meeting attended by multiple Independent Outside Directors accounting for one-third or more of the total number of Directors. The Company has no voluntary nomination or remuneration committee. In light of the purpose of the code, we will consider adopting a system with greater objectivity, timeliness, and transparency, as necessary.

[Disclosure Based on the Principles of the Corporate Governance Code] Updated

[Principle 1.4] Strategic Shareholdings

The Company does not engage in strategic shareholdings unless it considers it to be necessary. In addition, with respect to the standards for strategic shareholdings, such factors as the continuity of transactions and whether they will serve the mid- to long-term interests of the Company are assessed annually from a comprehensive viewpoint, and the results are informed to the Board of Directors.

With respect to the exercise of voting rights of strategic shareholdings, the Company will make decisions with top priority on whether it will lead to increases of the Company's corporate value.

[Principle 1.7] Related Party Transactions

The Company, in principle, does not engage in any transactions with its officers, major shareholders, etc. (i.e., related party transactions). With respect to related party transactions, the Board of Directors excludes the related parties from its discussions on those transactions in order to avoid harm on the interests of the Company or the common interests of its shareholders. In addition, the Company has its officers submit written confirmations on the status of such transactions once a year. If an officer is to engage in a significant transaction, the Company will request the officer to report to the Board of Directors.

[Principle 2.6] Roles of Corporate Pension Funds as Asset Owners

The Company has no corporate pension fund at present, and thus is not an asset owner.

[Principle 3.1] Full Disclosure

(i) [Management plans]

To maintain growth and increase profitability toward gaining the top market share in the industry, its long-term target, the Company will concentrate its resources on the game machines business in order to offer highly competitive innovative products that vitalize the pachinko and pachislot industry, while aiming to secure a competitive advantage as a manufacturer that continues to lead the market. At this point the Company states its basic views on management strategy on its website (<https://www.sankyo-fever.co.jp/corporate/ir/eng/policy.html>). In addition, the Company strives to prepare its product lines in anticipation of the market environment two years into the future, in light of the lead times required for product development. With respect to specific numerical targets, the Company sets a target for each fiscal year with priority placed on realization of management centering on readiness to respond to changes in preparation for intense changes in the industry environment and competition with rival companies, and thereupon works to achieve the target.

(ii) [Basic views and basic policy on corporate governance]

As stated in "I-1. Basic Views" of this Report.

(iii) [Policies in determining the remuneration of senior management and Directors]

Decisions on remuneration will be made upon discussion at the Board of Directors meeting based on the draft with a focus on increase of corporate value prepared by the Representative Directors.

(iv) [Board of Directors' policies in the appointment/dismissal of senior management and the nomination of candidates for Directors and Statutory Auditors]

When the Company will appoint/dismiss members of senior management, an officer in charge considers the candidates' qualifications, such as their experience and personal achievements, motivation to improve their

personal qualities, and their health, and the Management Committee fully discusses and makes a decision about appointment/dismissal in consideration of the opinion of the Representative Director, Chairman of the Board & CEO. When candidates for Directors and Statutory Auditors are to be nominated, the Representative Director, Chairman of the Board & CEO considers the candidates' qualifications, such as their experience and personal achievements, motivation to improve their personal qualities, and their health, and nominates the candidates in consideration of the opinions of the Outside Directors at the Board of Directors meeting.

(v) [Explanations with respect to the individual appointments and nominations when appointing senior management and nominating candidates for Directors and Statutory Auditors]

When nominating candidates for Outside Directors and Outside Statutory Auditors, the Company discloses the reasons for each nomination in the Reference Documents for the General Meeting of Shareholders.

* Reasons for nomination as a candidate for Director (NOTICE OF THE 53rd ORDINARY GENERAL MEETING OF SHAREHOLDERS)

https://www.sankyo-fever.co.jp/corporate/modify/tool/03/kabumtg_53rd_01_en.pdf

* Reasons for nomination as a candidate for Outside Statutory Auditors (NOTICE OF THE 54th ORDINARY GENERAL MEETING OF SHAREHOLDERS)

https://www.sankyo-fever.co.jp/corporate/modify/tool/03/kabumtg_54th_01_en.pdf

[Supplementary Principle 4.1.1] Roles and Responsibilities of the Board of Directors (1)

The Company has introduced an operating officer system for the purposes of strengthening corporate governance and securing swiftness and accuracy of decision-making. The Company specifies the Board of Directors as an organ that makes management decisions and oversees the execution of business operations, and positions operating officers as responsible persons entrusted by the Board of Directors with the authority to execute business operations in the fields under their charge.

In addition, the scope of authority entrusted to management is stipulated by the Board of Directors Regulations, the Regulations on the Execution of Duties of Directors and Statutory Auditors, the Operating Officers Regulations, the Regulations on Official Authority, and other internal rules.

[Principle 4.9] Independence Standards and Qualification for Independent Outside Directors

As stated in "II-1. Organizational Composition and Operation, Independent Directors/Statutory Auditors" of this Report.

[Supplementary Principle 4.11.1] Preconditions for Ensuring the Effectiveness of the Board of Directors and the Board of Statutory Auditors

The Company has three inside Directors and two Outside Directors out of five Directors.

The Directors of the Company are appointed from among the Operating Officers responsible for business divisions and administration divisions, based on their contributions to the Company and merits, personal achievements, performance, and experience. Accordingly, the Company has established the Board of Directors as a highly effective structure consisting of three persons, that is, the CEO, a person responsible for business operations, and a person responsible for administration.

Outside Directors are appointed from persons who are familiar with the industry, is endowed with highly professional knowledge in accounting, legal affairs, and other areas, and is expected to contribute to the Company mainly by providing advice on management from a neutral standpoint and wide field of vision through proactive remarks at the Board of Directors meeting and exchanges of opinions with other Directors.

[Supplementary Principle 4.11.2] Preconditions for Ensuring the Effectiveness of the Board of Directors and the Board of Statutory Auditors

If an Outside Director or Outside Statutory Auditor of the Company concurrently serves as an officer of another listed company, the Company shall request him/her to attend 80% or more of the Board of Directors meetings and to limit his/her concurrent service to no more than five other listed companies in order that he/she will assign sufficient active time necessary to appropriately fulfill the roles and responsibilities for the duties of Directors and Statutory Auditors. In addition, the status of concurrent service is disclosed in the notice of convocation of the General Meeting of Shareholders every year.

[Supplementary Principle 4.11.3] Preconditions for Ensuring the Effectiveness of the Board of Directors and the Board of Statutory Auditors

The Board of Directors of the Company is composed of a small number of four Directors, to enable active discussions among the Board of Directors as a whole including matters regarding the operations of the Board

of Directors.

In addition, given that the Board of Directors includes two Outside Director, the Board of Directors is considered to be organized in a manner conducive to the positive acceptance of minority and external viewpoints. We believe that the effectiveness of the Board of Directors is ensured because the above structure enables the Board of Directors to widely accept the respective opinions of the Directors and hold active discussions. In addition to the above, each year the Company carries out an evaluation of the Board of Directors based on a questionnaire from the secretariat to gather the opinions from Directors, aggregates and classifies the results, and presents them back to the Board of Directors as evaluation feedback. Further, if there are issues to address, measures will be studied and summaries of results will be disclosed.

In FY2016, the Company conducted an evaluation of the Board of Directors after the end of the first half.

* Purpose of implementation: Cooperation with the secretariat of the Board of Directors, operation on the day of the Board of Directors meeting, collection of current opinions from each Director and abstraction of issues in relation to the strategies of the Company and risk awareness.

* Questionnaire items: two major items evaluating the “Operation of the Board of Directors meetings” and “Effectiveness of the Board of Directors.”

* Summaries of results: the Directors recognized that the Board of Directors held appropriate and concrete discussions and exchanged opinions on strategy and risk awareness, while pointing out matters that require improvement such as the content, quantities of materials during the proceedings on the day of the Board of Directors meeting.

With regard to the opinions and issues brought to light in the results of this evaluation, the Company recognizes them as the ongoing issues to be addressed by the Board of Directors and is making efforts toward improvement.

[Supplementary Principle 4.14.2] Training for Directors and Statutory Auditors

The Company appropriately implements training for senior management for candidates for Operating Officers who meet the requirements for an Operating Officer according to the Company’s standards, so that they can deepen their understanding of the roles and responsibilities of an Operating Officer and acquire and renew necessary knowledge. In addition, for Independent Outside Directors/Statutory Auditors, the Company prepares opportunities to inspect its major facilities, plants, etc. and holds briefings, as necessary.

[Principle 5.1] Policy for Constructive Dialogue with Shareholders

The Board of Directors has established a policy for constructive dialogue with shareholders. The Company proactively conducts engagement activities such as dialogue with shareholders (interviews) in accordance with the policy.

2. Capital Structure

Foreign Shareholding Ratio

From 20% to less than 30%

[Status of Major Shareholders] Updated

Name / Company Name	Number of Shares Owned	Percentage (%)
Marf Corporation	28,346,000	34.91
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,781,100	4.65
Japan Trustee Services Bank, Ltd. (Trust Account)	3,492,000	4.30
Noriko Akaishi	2,506,300	3.08
Akiko Busujima	2,506,200	3.08
Hideyuki Busujima	2,431,400	2.99
STATE STREET BANK WEST CLIENT TREATY 505234	1,559,665	1.92
THE BANK OF NEW YORK MELLON 140042	1,100,919	1.35
Japan Trustee Services Bank, Ltd. (Trust Account 5)	982,100	1.20
FIELDS CORPORATION	980,000	1.20

Controlling Shareholder (excluding Parent Company)	-----
Parent Company	None

Supplementary Explanation **Updated**

Percentages of shares owned stated for the Status of Major Shareholders are the ratios of the numbers of shares owned to the total number of shares outstanding excluding treasury stock (81,175,506 shares).

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (consolidated) as of the End of the Most Recent Fiscal Year Updated	From 500 to less than 1000
Sales (consolidated) as of the End of the Most Recent Fiscal Year	From ¥10 billion to less than ¥100 billion
Number of Consolidated Subsidiaries as of the End of the Most Recent Fiscal Year	Less than 10

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

5. Other Special Circumstances which may have Material Impact on Corporate Governance

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Statutory Auditors
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[Directors]

Maximum Number of Directors Stipulated in the Articles of Incorporation	10
Term of Office Stipulated in the Articles of Incorporation	2 years
Chairperson of the Board	Chairman of the Board (excluding cases where the Chairman concurrently serves as President)
Number of Directors	5
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Taro Kitani	Attorney at law												
Hiroyuki Yamasaki	Certified public accountant								○				

* Categories for “Relationship with the Company”

* “○” when the director presently falls or has recently fallen under the category;

“△” when the director fell under the category in the past

* “●” when a close relative of the director presently falls or has recently fallen under the category;

“▲” when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the Company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as an officer

g. Major shareholder of the Company (or an executive thereof if it is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which the Company mutually appoints outside officers (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Taro Kitani	○	-----	<p>Mr. Taro Kitani is well versed in corporate legal affairs as an attorney at law and has sufficient insight concerning corporate governance. He has been stating objective and fair opinions at meetings of the Board of Directors from a third-party perspective, considering the achievement of both economic performance and social performance. He is overseeing the Company's management appropriately and is contributing to strengthening of the Company's corporate governance.</p> <p>Although Mr. Kitani has never been directly involved in corporate management, the Company believes that, based on his professional knowledge and experience as an attorney at law, he will continue to be able to adequately perform decision-making on important matters of the Company's management and oversight of business execution. He also meets the standards for Independent Directors defined by Tokyo Stock Exchange, Inc. and is unlikely to cause conflict of interest with general shareholders. Therefore, the Company has appointed Mr. Kitani as Outside Director and designated him as Independent Director.</p> <p>Mr. Kitani has never been the Company's legal advisor.</p>
Hiroyuki Yamasaki	○	<p>The Director in question had been Managing Director of Ernst & Young ShinNihon LLC, which is the Company's accounting auditor, but retired from Ernst & Young ShinNihon LLC before assuming office as a Director of the Company.</p> <p>The Company pays audit fees to Ernst & Young ShinNihon LLC. However, the amount of the audit fees paid by the Company to Ernst & Young ShinNihon LLC is not large to the degree</p>	<p>The Director in question is a certified public accountant and the Company believes that, based on his professional knowledge and experience in finance and accounting, he will be able to adequately perform decision-making on important matters of the Company's management and oversight of business execution. As he has no transactional relations with or other interest in the Company, he is considered to satisfy the independence requirements. The Company therefore judges that he has no potential conflict of interest with shareholders, and thereby designates him as an Independent Director.</p>

		that Ernst & Young ShinNihon LLC is highly dependent on the Company. The Company therefore judges that independence of the Director is secured and he has no potential conflict of interest with general shareholders.	
Establishment of Voluntary Committee(s) Corresponding to Nomination Committee or Remuneration Committee		Not Established	

[Statutory Auditors]

Establishment of a Board of Statutory Auditors	Established
Maximum Number of Statutory Auditors Stipulated in the Articles of Incorporation	4
Number of Statutory Auditors	4

Cooperation among Statutory Auditors, Accounting Auditor and Internal Audit Department

Three parties of the Company, internal Statutory Auditors, the Board of Statutory Auditors, and Accounting Auditor, exchange opinions as necessary when drawing up audit plans and implementing interim audits and year-end audits. At meetings they exchange various opinions from the viewpoint of audit reporting, as well as improving audit quality, improving audit efficiency, and strengthening corporate governance. With respect to the internal audit structure of the SANKYO Group, the Internal Audit Office, an organization under the direct rule of the President, audits the status of compliance with internal rules and the appropriateness and efficiency, etc. of business activities in general for the Company and each group company, and provides instructions on operational improvement on site as necessary. The staff from the Internal Audit Office holds quarterly meetings for the Board of Statutory Auditors to report audit results and exchange various opinions from a standpoint of the soundness of corporate management, their target in common.

Appointment of Outside Statutory Auditors	Appointed
Number of Outside Statutory Auditors	2
Number of Independent Statutory Auditors	2

Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Yoshiro Sanada	Other													
Fumiyoshi Noda	Tax Accountant													

* Categories for “Relationship with the Company”
 * “o” when the statutory auditor presently falls or has recently fallen under the category;
 “Δ” when the statutory auditor fell under the category in the past

- * “●” when a close relative of the statutory auditor presently falls or has recently fallen under the category;
 “▲” when a close relative of the statutory auditor fell under the category in the past

- a. Executive of the Company or its subsidiary
- b. Non-executive director or accounting advisor of the Company or its subsidiaries
- c. Non-executive director or executive of a parent company of the Company
- d. Statutory auditor of a parent company of the Company
- e. Executive of a fellow subsidiary of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as an officer
- i. Major shareholder of the Company (or an executive thereof if it is a legal entity)
- j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the statutory auditor himself/herself only)
- k. Executive of a company, between which the Company mutually appoints outside officers (the statutory auditor himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the statutory auditor himself/herself only)
- m. Others

Relationship with the Company (2)

Name	Designation as Independent Statutory Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoshiro Sanada	○	-----	The Company judges that Mr. Yoshiro Sanada is qualified to serve as an Outside Statutory Auditor because he is a licensed Judicial Scrivener, has the considerable insight required to judge the appropriateness of the Company's corporate activities from a legal viewpoint, is familiar with organizational operation, and also has superior knowledge. As he has no transactional relations with or other interest in the Company, he is considered to satisfy the independence requirements. The Company therefore judges that he has no potential conflict of interest with shareholders, and thereby designates him as an Independent Statutory Auditor.
Fumiyoshi Noda	○	-----	The Company judges that Mr. Fumiyoshi Noda is qualified to serve as an Outside Statutory Auditor because he is a licensed Certified Tax Accountant, has considerable insight in finance and accounting, and also has superior knowledge. As he has no transactional relations with or other interest in the Company, he is considered to satisfy the independence requirements. The Company therefore judges that he has

			no potential conflict of interest with shareholders, and thereby designates him as an Independent Statutory Auditor.
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[Independent Directors/Statutory Auditors]

Number of Independent Directors/Statutory Auditors	4
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Matters relating to Independent Directors/Statutory Auditors

<input type="checkbox"/> The Company designates all Outside Directors/Statutory Auditors who meet the requirements for Independent Directors/Statutory Auditors as Independent Directors/Statutory Auditors. <input type="checkbox"/> The Company has established a minimal standards for attribute information (relationship with the Company): for a relationship with a customer or supplier or a person formerly working therefor, less than 2% of net sales of the Company and the customer or supplier; for a relationship with a donee or a person formerly working therefor, the total annual sum of the donation not exceeding ¥10 million or 30% of the total annual expenses of the donee, whichever is larger. <input type="checkbox"/> When appointing Outside Directors/Statutory Auditors, the Company judges their independence in accordance with independence criteria as shown in the Guidelines for Listing of the Tokyo Stock Exchange as well as the categorical standards model to assist in determining independence announced by the Japan Association of Corporate Directors, etc.
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[Incentives]

Implementation of measures on granting incentive to Directors	Introduction of a stock option system
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Supplementary Explanation

As part of the revisions to the remuneration system for Directors and Statutory Auditors, the Company abolished the retirement benefit plan for Directors and Statutory Auditors and instead introduced stock compensation-type stock options (subscription rights to shares) for Directors (resolved at the 49th Ordinary General Meeting of Shareholders held on June 27, 2014).
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Recipients of Stock Options	Inside Directors / Subsidiaries' Directors / Other
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Supplementary Explanation

<p>The Company introduced stock compensation-type stock options (subscription rights to shares) for Directors in order to enhance their motivation and morale toward contributing to improvement of the Company's mid-to-long-term performance and increasing corporate value and to seek business development with further emphasis on shareholders' interest, by sharing with shareholders not only the benefits of a rise in stock price but also the risk of a fall in stock price.</p> <p>In addition, the Company introduced subscription rights to shares as stock compensation-type stock options under the same conditions as above to the operating officers of the Company and directors of subsidiaries of the Company, by resolution at the Board of Directors meeting.</p>
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[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors
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Supplementary Explanation Updated
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The amount of remuneration, etc. for Directors and Statutory Auditors of the Company for the fiscal year ended March 31, 2019 was as follows.

Classification / Total remuneration, etc. / Basic remuneration / Stock option / Number of Directors and Statutory Auditors covered

Directors (excluding Outside Directors) / ¥595 million / ¥415 million / ¥179 million / 3

Statutory Auditors (excluding Outside Statutory Auditors) / ¥29 million / ¥29 million / - / 2

Outside Directors and Outside Statutory Auditors / ¥9 million / ¥9 million / - / 4

The amount of consolidated remuneration, etc. for each Director is as follows. (limited to a person whose total consolidated remuneration, etc. is ¥100 million or more)

Name / Classification / Total consolidated remuneration, etc. / Company classification, basic remuneration / Company classification, Stock option

Hideyuki Busujima / Director / ¥553 million / Filing company, ¥300 million; Sankyo Create Co., Ltd., ¥120 million / Filing company, ¥133 million

Kimihisa Tsutsui / Director / ¥100 million / Filing company, ¥65 million; Sankyo Create Co., Ltd., ¥6 million / Filing company, ¥29 million

Policy on Determining Remuneration Amounts and Calculation Methods Updated	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods
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Remuneration of Directors of the Company consists of fixed compensation and stock compensation-type stock options and is determined within the maximum amount of compensation determined by resolution at the General Meeting of Shareholders. It was resolved at the 41st Ordinary General Meeting of Shareholders held on June 29, 2006, that the maximum amount of compensation to be paid to Directors shall not exceed ¥800 million per year. (The number of Directors at the closing of the said Ordinary General Meeting of Shareholders was eleven and the maximum number of Directors specified by the Articles of Incorporation as of the date of submission of the securities report is ten.) Moreover, it was resolved at the 49th Ordinary General Meeting of Shareholders held on June 27, 2014, that subscription rights to shares to be granted to Directors as stock compensation-type stock options shall not exceed ¥200 million per year, separately from the maximum amount of monetary compensation for Directors stated above. (The number of Directors at the closing of the said Ordinary General Meeting of Shareholders was four and the maximum number of Directors specified by the Articles of Incorporation as of the date of submission of the securities report is ten.)

Remuneration of Statutory Auditors of the Company consists only of fixed compensation from the viewpoint of independence and objectivity and is determined within the maximum amount of compensation determined by resolution at the General Meeting of Shareholders. It was resolved at the 41st Ordinary General Meeting of Shareholders held on June 29, 2006, that the maximum amount of compensation to be paid to Statutory Auditors shall not exceed ¥50 million per year. (The number of Statutory Auditors at the closing of the said Ordinary General Meeting of Shareholders was four and the maximum number of Statutory Auditors specified by the Articles of Incorporation as of the date of submission of the securities report is four.)

(Fixed compensation)

Fixed compensation for Directors is determined by the Board of Directors in which two or more Independent Outside Directors who account for more than one-third of the Board of Directors participate, with all the Directors being involved in the determination, taking into consideration various factors, such as responsibilities, performance, and the degree of contribution, based on the proposal presented by the Representative Director. Fixed compensation for Statutory Auditors is determined by the Board of Statutory Auditors upon consultation, taking into consideration whether a Statutory Auditor is full time or part time and other matters, such as the situation of division of duties.

(Stock compensation-type stock options)

Allocation of stock compensation-type stock options for Directors is determined by the Board of Directors, in which two or more Independent Outside Directors who account for more than one-third of the Board of Directors participate, upon consultation by all the Directors based on the proposed allocation calculated according to the title of each Director.

[Supporting System for Outside Directors and/or Outside Statutory Auditors]

For Outside Directors, a person in charge distributes the relevant materials for agenda, etc. at the Board of Directors meeting in advance and gives explanations while appropriately providing information as necessary. In addition, a “Secretariat of the Board of Statutory Auditors” has been established in order to assist the performance of duties by the Board of Statutory Auditors, including the Outside Statutory Auditors.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions, etc. (Overview of Current Corporate Governance System) Updated

Overview of current system

The Company adopts “a company with Board of Statutory Auditors” and has five Directors (including two Outside Directors) and four Statutory Auditors (including two Outside Statutory Auditors) as of June 30, 2019. In addition, in April 2008 the Company introduced an operating officer system for the purposes of strengthening corporate governance and securing swiftness and accuracy of decision-making. The Company specifies the Board of Directors as an organ that makes management decisions and oversees the execution of business operations, and positions operating officers as responsible persons entrusted by the Board of Directors with the authority to execute business operations in the fields under their charge.

Pursuant to of Article 427, Paragraph 1 of the Companies Act, the Company enters into agreements with Outside Directors and Statutory Auditors to limit the liability of the Outside Directors and Statutory Auditors for damages resulting from negligence in the performance of their duties. The limit of their liability for damages under these agreements shall be the amount stipulated by laws and regulations.

(Composition of Directors, Statutory Auditors and operating officers)

Directors (five members): composed of four members, including one Director concurrently serving as an operating officer and two Outside Directors who meet the requirements for Independent Director. All five Directors are male.

Statutory Auditors (four members): composed of four members, including two Outside Statutory Auditors who meet the requirements for Independent Statutory Auditor. All four Statutory Auditors are male.

Operating officers (not concurrently serving as Directors) (eleven members): composed of ten male operating officers and one female operating officer.

In addition to the Board of Directors, the Company has established a “Management Committee” consisting of Directors, Operating Officers and senior managers to be held regularly each month. The Management Committee makes preliminary deliberations on matters to be resolved at the Board of Directors meeting and makes swift and accurate decisions on matters relating to business strategies and supervision of overall compliance and risk management, and instructs each division of the Company and each group company to execute matters decided. In addition, to promote flexible business operations, the Company has established several committees for specific objectives, such as a “Sales Strategy Committee” and “Product Committee.”

With respect to the organization for internal audits and audits by Statutory Auditors, the Company has established an Internal Audit Office composed of five members under the direct rule of the President as an internal audit department, while the Board of Statutory Auditors consists of four members, including two Outside Statutory Auditors. When implementing audits, the Company confirms and deliberates whether business activities in each division or base are in compliance with laws and regulations and various rules, etc. and operate appropriately and efficiently, based on an audit plan formulated at the beginning of the fiscal year. In addition, the Company forms the “J-SOX Project” across the Company for internal control, and the Internal Audit Office points out or makes proposals conducive to improvement to the Project from a viewpoint of an internal statutory auditor. Besides, the Board of Statutory Auditors investigates the Project by conducting hearings, etc., as necessary, to oversee and verify the status of maintenance and operation. The Board of Statutory Auditors also exchanges opinions with the Accounting Auditor on the Project as necessary to mutually grasp and cooperate on matters to be shared.

Status of accounting audit

The Company and all of the group companies have concluded an audit agreement with Ernst & Young ShinNihon LLC to serve as an accounting auditor pursuant to the Companies Act and to conduct accounting audit pursuant to the Financial Instruments and Exchange Act.

Members of audit corporation engaged in the audit of the Company for the fiscal year ended March 31, 2019

Name of the certified public accountants engaged in the audit

Designated partner: Kazuhiro Suzuki

Designated partner: Motoaki Ikeuchi

Number of audit assistants

Certified public accountants: 7

Other: 18

Details of audit remuneration

Remuneration for audit certification services: ¥71 million

Remuneration for non-audit services: -

3. Reasons for Adoption of Current Corporate Governance System

The Company adopts “a company with Board of Statutory Auditors” and has five Directors and four Statutory Auditors. Two of the Directors are Outside Directors and two of the Statutory Auditors are Outside Statutory Auditors, amounting to half of all Statutory Auditors.

In addition, the Company has adopted an operating officer system for the purposes of strengthening the oversight function and securing swiftness and accuracy of decision-making. The Company specifies the Board of Directors as an organ that makes management decisions and oversees the execution of business operations, and positions operating officers as responsible persons entrusted by the Board of Directors with the authority to execute business operations in the fields under their charge.

With the addition of two Outside Directors to a small number of Directors who are well versed in the business and have rich experience, the speed and accuracy of decision-making by the Company’s Board of Directors are secured. Moreover, legality of management is secured by audits by the Board of Statutory Auditors that includes two Outside Statutory Auditors. The Company therefore judges that the current corporate governance system is effective.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Meeting of Shareholders and Smooth Exercise of Voting Rights

Updated

	Supplementary Explanations
Early Notification of General Meeting of Shareholders	The convocation notice of the Ordinary General Meeting of Shareholders held in June 2019 was sent five days before the statutory limit date. Prior to sending of the convocation notice, it was disclosed online on the Company's website, Tokyo Stock Exchange's website, and ICJ's online website.
Allowing Electronic Exercise of Voting Rights	In use, starting from the Ordinary General Meeting of Shareholders held in June 2010.
Participation in Electronic Voting Platform and other measures to facilitate exercise of voting rights by institutional investors	In use, starting from the Ordinary General Meeting of Shareholders held in June 2010.
Providing Convocation Notice (Summary) in English	Disclosed on the Company's website, etc., starting from the Ordinary General Meeting of Shareholders held in June 2009.
Other	Introduced the use of visual media, starting from the Ordinary General Meeting of Shareholders held in June 2006, to promote shareholders' understanding of the Company.

2. IR Activities

Updated

	Supplementary Explanations	Explanation by Representative
Regular Investor Briefings for Individual Investors	Held briefings as necessary for individual investors at the branch offices, etc. of securities companies. Held five briefings for the fiscal year ended March 31, 2019. Among them, the Representative Director, President & COO participated in one briefings. Intends to continuously provide the same activities to individual investors on an ongoing basis.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	Held briefings (four times a year) on business results for each quarterly settlement. In addition, held briefings on occasions other than announcements of quarterly settlements, as necessary.	Yes
Regular Investor Briefings for Overseas Investors	Regularly participated in conferences in Japan sponsored by securities companies to which many overseas investors were invited. Visited investors in North America in March 2017.	Yes
Posting of IR Materials on Website	Posted various press releases, financial statements ("kessan tanshin"), reports, an English version of the financial statements, results briefings materials, securities reports, financial historical data, annual reports, etc.	
Establishment of Department and/or Manager in Charge of IR	Established the IR Office in the Corporate Planning Division as a department dedicated to IR.	
Other	Otherwise conducted meetings to observe facilities and product briefings, etc. in a timely manner.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	As with the Basic Views on Corporate Governance, we express our stance of primary emphasis on stakeholders in our basic philosophy.
Implementation of Environmental Activities, CSR Activities etc.	With regard to “pachinko and pachislot machines,” our key products, we make efforts on product development based on recycling in order to restrain industrial waste and reuse parts and resources.
Development of Policies on Information Provision to Stakeholders	In addition to statutory information disclosure, we define information on facts expected to significantly affect the SANKYO Group’s management and the Company’s stock price, etc. as “Material Information,” formulate a policy to work with proactive information disclosure, and implement it.
Other	<Career advancement of women> When making decisions on employment, promotion, etc., the Company evaluates employees according to their abilities and personal performance regardless of sex. Currently, one operating officer and five employees in managerial positions are female.

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

Basic Views

The SANKYO Group has established a basic policy on constructing and operating an internal control system by resolution at the Board of Directors, in order to realize its basic stance toward corporate governance, namely, “to maintain good relations with each of these stakeholders, including shareholders, pachinko parlors, which are the Group’s customers, pachinko players, suppliers, local communities, and employees.” The basic policy is established with close attention paid to the viewpoints of shareholders among Group stakeholders by emphasizing the construction and maintenance of “reliable financial reporting,” “effectiveness and efficiency of business,” and the “compliance system.”

The Group operates in an environment which is conducive to nurturing the perception of legal compliance, because the development, manufacturing, and sale of game machines, the key businesses of the Group since its foundation, require permissions and approvals as preconditions pursuant to laws and regulations such as the “Act on Control and Improvement of Amusement and Entertainment Business.”

Progress of system development

1. System to ensure that the execution of duties by Directors and employees complies with laws and regulations and the Articles of Incorporation

The SANKYO Group shall supervise corporate ethics and overall compliance and formulate policies and measures at a “Management Committee” consisting of Directors, operating officers, and senior managers of the Company. In addition, the Company seeks to improve transparency and ensure objectivity of management by appointing multiple Independent Directors/Statutory Auditors.

The Internal Audit Office of the Company (hereinafter, the “Internal Audit Office”) audits the Group’s status of compliance with laws and regulations and internal rules by conducting regular internal audits. The Internal Audit Office shall report the results of audits to the President of the Company and promptly formulate measures for compliance or assist improvement if any problems are detected. In addition, the Group distributes slogans on the execution of operations to all of its officers and employees, in order to spread awareness of the importance of compliance and the specific code of daily conduct, while providing guidance and supplementary training mainly at outside educational institutions, etc., as necessary.

The SANKYO Group adopts a resolute stand against anti-social forces and bodies, works in close cooperation with the police and other relevant organizations, and always strives to take sensible actions so as to not take part in anti-social acts, with common sense and a sense of justice in mind.

2. System to store and manage information on the execution of duties by Directors and employees

The Company shall manage information on the execution of duties and store and manage related documents, etc. in accordance with laws and regulations and internal rules. The Company shall continue to monitor and guide the status of storage and management of information mainly through internal audits, etc. by the Internal Audit Office. In addition, the Company shall promptly disclose the stored information as necessary in cooperation with a person responsible for handling information for timely disclosure.

3. Rules and other systems pertaining to management over risks of loss

The “Management Committee” shall supervise overall risks in relation to the business operations of the Company and set forth a policy on specific responses upon the occurrence of significant crises and a policy on the risk management system. In addition, the Internal Audit Office shall abstract potential risks of the SANKYO Group, deliberate on measures to mitigate risks, and revise internal rules, etc. as necessary, so as to enable the response system to take root in the Group. With respect to risk management in ordinary business operations, each division of the Group shall take control in accordance with internal rules and the status of compliance shall be monitored and supervised through internal audits by the Internal Audit Office.

4. System to ensure the efficient execution of duties by Directors

In addition to ordinary meetings of its Board of Directors, the Company and each company of the SANKYO Group shall hold extraordinary meetings of its Board of Directors for swift decision-making as necessary, in order to make important management decisions and oversee the execution of operations by Directors.

The Company has introduced an operating officer system to strengthen management decision-making functions and oversight functions by the Board of Directors. In addition, the “Management Committee” shall be periodically held each month to make detailed preliminary deliberations on matters to be resolved at the

Board of Directors meeting, and shall make swift and accurate decisions on matters relating to management strategies, etc. Furthermore, for the flexible promotion of Group business, the Company has established several committees for specific objectives, such as the “Product Committee” to discuss the development of new products and the “Sales Strategy Committee” to decide sales policy, and thereby clarifies the responsibilities and roles regarding the execution of duties by Directors under the division of duties.

5. System for ensuring appropriate business operations within the Group

Each company of the SANKYO Group shall periodically report management conditions, etc. to the Accounting Division of the Company each month. Fairness and efficiency, as well as the status of compliance, etc., of each group company shall be monitored through internal audits by the Internal Audit Office. In addition, with regard to the dissemination of compliance, the Company shall establish a system under which the Company not only gives daily guidance by distributing and posting slogans on the execution of operations, but also offers opportunities to participate in the Company’s training as necessary. With regard to the management of each group company, the Company shall receive reports on important matters at the “Management Committee” and discuss them in advance, while respecting its autonomy.

6. System for ensuring reliability of financial reporting

The Company and each major company of the SANKYO Group shall formulate the “Basic Policy for Internal Control” in order to ensure the appropriateness of documents related to financial accounting as set forth in the Financial Instruments and Exchange Act and other information, and establish and operate a system under which internal control over financial reporting is implemented on a company-wide level and operational process level in accordance with the Policy.

7. Matters related to the employees if Statutory Auditors request for employees assisting with their duties

The Company may establish a Secretariat of the Board of Statutory Auditors to assist Statutory Auditors’ duties, assign employees as full-time staff or staff serving concurrently at other departments as necessary, and decide upon personnel affairs thereof after consulting in advance by and between the Directors and Statutory Auditors.

8. Matters to ensure the independence of employees assisting with the Statutory Auditors’ duties from the Directors, and the effectiveness of instructions to the employees

If the Company assigns full-time staff at the Secretariat of the Board of Statutory Auditors, such staff shall be under the command and control of Statutory Auditors. Any concurrent service of the staff at another department or his/her performance evaluations or personnel changes shall be decided with approval from Statutory Auditors in advance.

9. System for reporting by Directors and employees to the Statutory Auditors and other reporting to the Statutory Auditors, and systems to ensure that persons who report to the Statutory Auditors are not treated disadvantageously because of their reporting

The Company shall maintain a system under which the Board of Statutory Auditors shall request the Directors and employees, etc. of the SANKYO Group to report or explain facts as necessary to fully monitor the status of execution of duties and compliance by Directors.

In addition, to grasp the process of important decision-making and the status of execution of operations, Statutory Auditors may attend the Board of Directors meetings and other important meetings of the Company and receive reports about important information of the Group, as well as inspect major approval documents and others concerning the execution of operations, and request Directors, etc. to report or explain the facts.

If Directors and employees, etc. of the SANKYO Group discover a fact likely to significantly damage the Group, they shall report the fact to a department in charge, etc. or the Statutory Auditors of the Company, pursuant to laws and regulations, etc. Directors and employees, etc. of the Group who have reported to Statutory Auditors shall not be treated disadvantageously in any way whatsoever as a consequence of such reporting, and the Company shall seek the thorough elimination of such disadvantageous treatment.

10. Matters related to procedures for the advance payment or redemption of expenses arising from the execution of duties by Statutory Auditors and other policies for handling of expenses or liabilities arising from the execution of their duties

Expenses arising from the execution of duties by Statutory Auditors shall be borne by the Company upon request by the Statutory Auditor unless the Company proves that the expenses or liabilities relating to such

request are not required for the execution of duties by the Statutory Auditor. In addition, if a Statutory Auditor requests the Company to make an advance payment of such expenses, the Company will comply with the request.

11. Other systems for ensuring effective audits by Statutory Auditors

The Internal Audit Office shall regularly report to the Board of Statutory Auditors on the implementation status of internal audits, and exchange opinions. In addition, Statutory Auditors may request attorneys at law or other professionals to give advice, etc. on audit operations as necessary.

2. Basic Views on Eliminating Anti-Social Forces and the Progress of System Development

The Company adopts a resolute stand against anti-social forces and bodies, works in close cooperation with the police and other relevant organizations, and always strives to take sensible actions so as to not take part in anti-social acts, with common sense and a sense of justice in mind.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation

2. Other Matters Concerning Corporate Governance System

Efforts to conduct timely disclosure

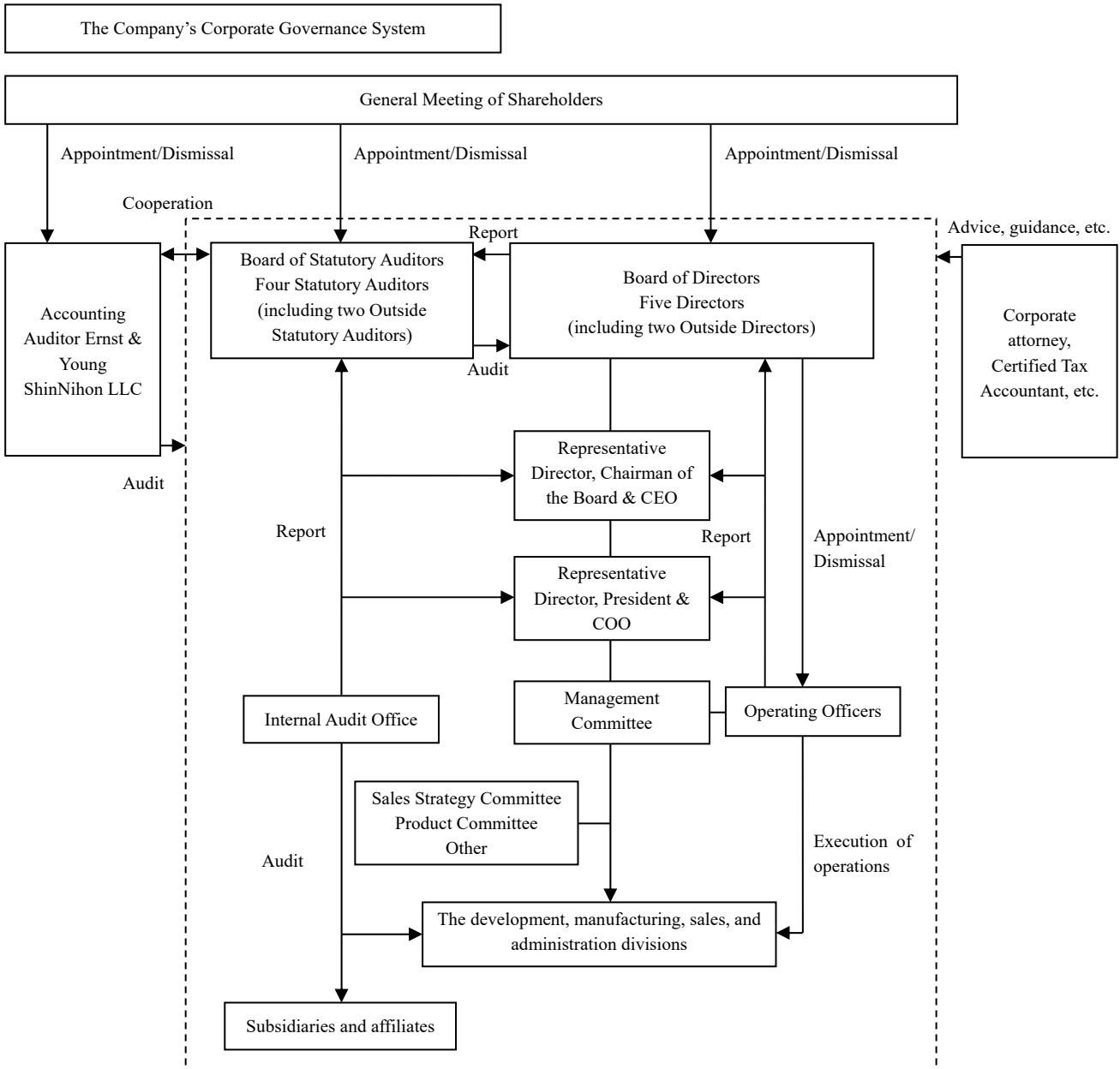
To conduct fair and equitable information disclosure in a timely and appropriate manner, the Company complies with laws and regulations and rules and has established a disclosure system in accordance with the “Regulations on the Management of Internal Information,” its internal rules. The IR Office, Corporate Planning Division takes charge of information disclosure under a person responsible for handling information; provided, however, that the IR Office discloses account settlement-related information in cooperation with the Accounting Division.

Judgment for timely disclosure

We define information on facts expected to significantly affect the SANKYO Group’s management and the Company’s stock price, etc. as “Material Information.” “Material Information” is reported by the person responsible for handling information to the Management Committee chaired by the Representative Director, Chairman of the Board & CEO, which deliberates whether or not to disclose the information. The Management Committee consists of Directors, including the Chairman of the Board, the President, operating officers, etc., and is therefore the de facto highest decision-making body for timely disclosure, and strives to make appropriate decisions based on consultations across the Company from a wide range of viewpoints. We regularly hold the Management Committee each month and have further established a flexible system for holding the Committee at any time necessary when matters to be disclosed arise.

Internal system relating to timely disclosure

For details on the Company’s internal system relating to timely disclosure, please see the attachment.



<<Attachment>> Schematic of the Internal System concerning Timely Disclosure

