Good luck. Good life.

SANKYO

Innovating to become the best

Annual Report 2012

Year ended March 31, 2012

2012

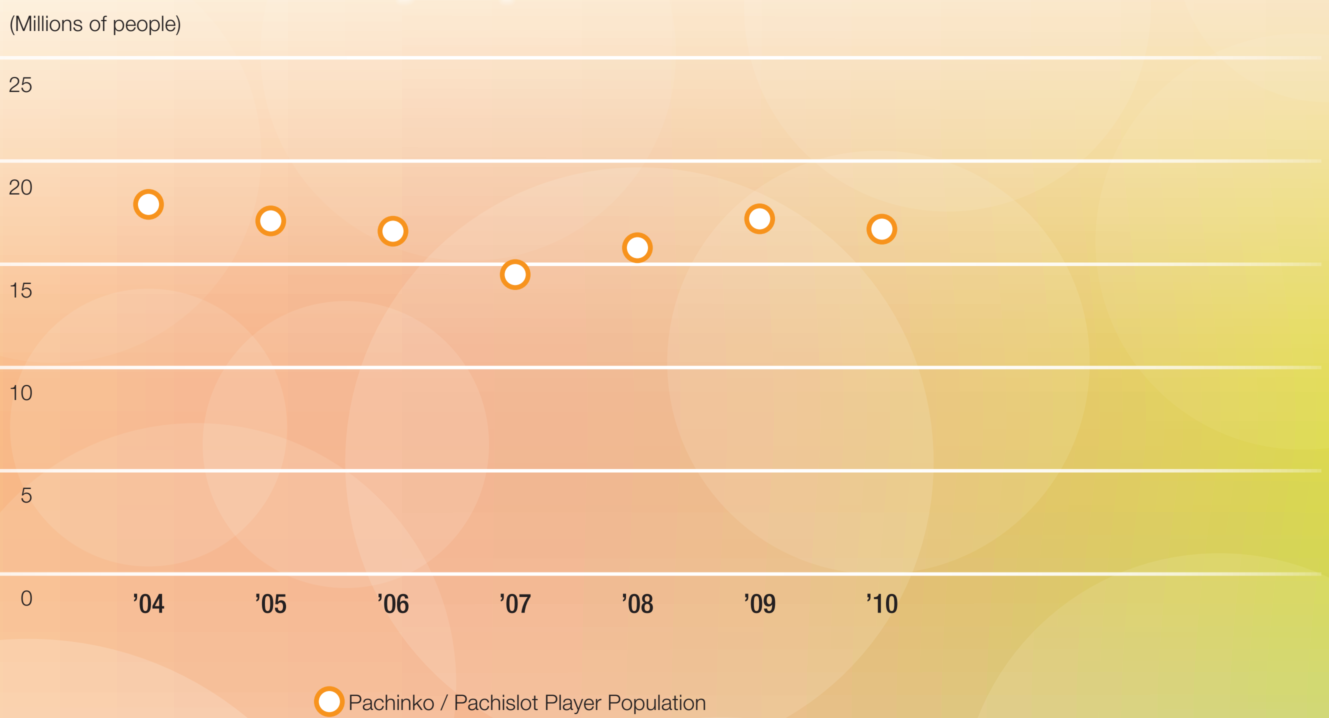
SANKYO CO., LTD.

Innovating to become the best

According to the Leisure White Paper 2011, despite diversification of entertainment and leisure, pachinko and pachislot still constitute the Japan's largest leisure industry, with revenues from rental of balls and tokens amounting to approximately ¥19 trillion. The player population of 16.70 million means that one in every 6.4 of the country's population aged 18 or older plays pachinko or pachislot.

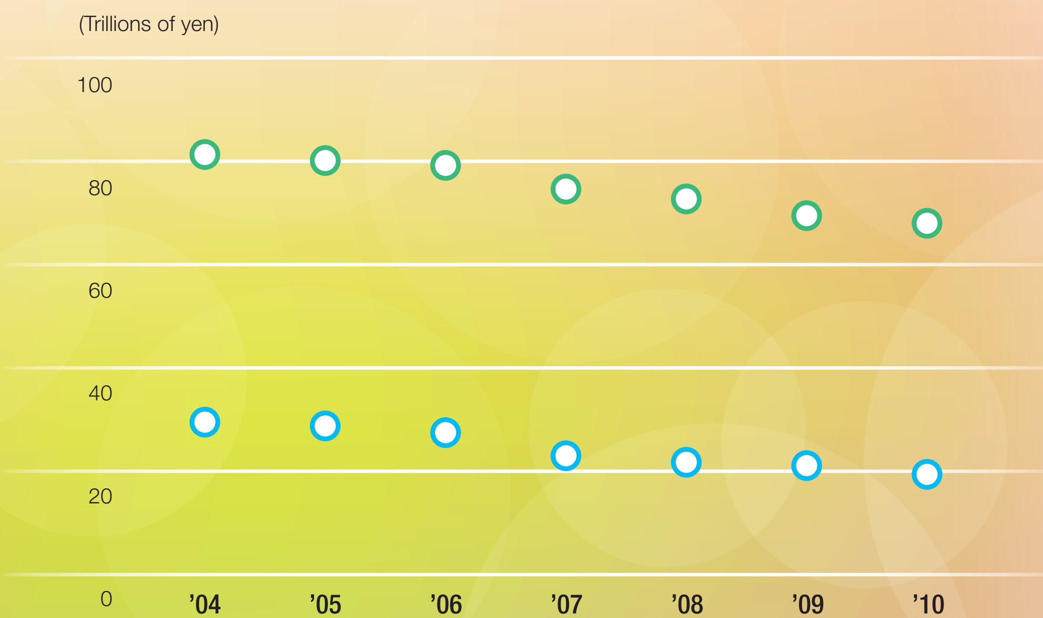
SANKYO's goal is for as many people as possible to experience the pleasure of playing pachinko and pachislot, major leisure pursuits in Japan. This desire is embodied in our corporate slogan "Good luck. Good life," which also appears in SANKYO's TV commercials. Our mission is to make sure the smiles of happy players throughout Japan continue to attest to the thrill of innovative pachinko and pachislot from SANKYO Group far into the future.

Pachinko / Pachislot Player Population



Source: Japan Productivity Center for Socio-Economic Development "Leisure Development Center"

Pachinko/Pachislot Market of Overall Leisure Market



*Pachinko and pachislot rental ball/token rental fees

Contents

Cautionary Statements with Respect to Forward-Looking Statements

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

Consolidated Financial Highlights

SANKYO CO., LTD. and Its Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

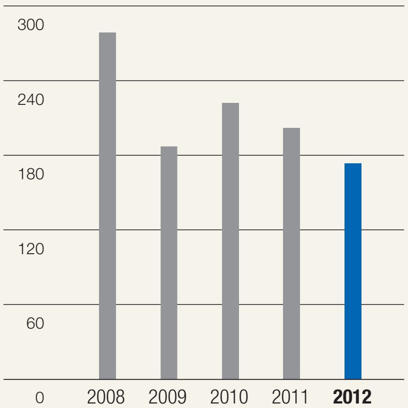
	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
For the year:			
Net sales	**¥173,682**	¥201,606	**$2,113,178**
Operating income	**40,315**	51,923	**490,517**
Net income	**20,182**	34,733	**245,556**
At year-end:			
Total assets	**¥495,988**	¥488,636	**$6,034,654**
Total net assets	**418,303**	419,658	**5,089,474**

	Yen		U.S. dollars
Per share data:			
Net income (basic)	**¥215.85**	¥364.09	**$2.63**
Cash dividends	**150.00**	150.00	**1.83**

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥82.19=U.S.$1. See Note 2 to the consolidated financial statements.

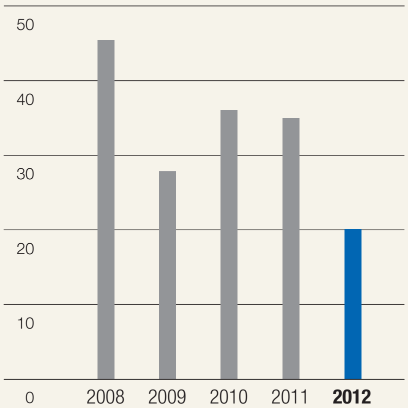
Net Sales

(Billions of yen)



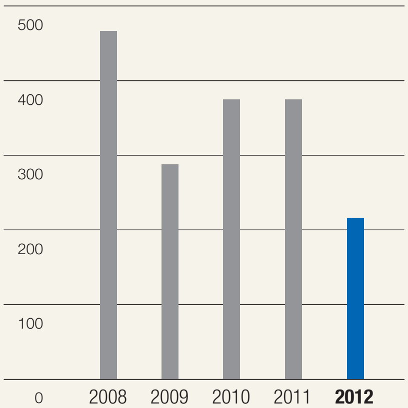
Net Income

(Billions of yen)



Net Income per Share (basic)

(Yen)



Interview with the Management

Hideyuki Busujima
Chairman of the Board & CEO

Kimihisa Tsutsui
President & COO

Q1 Mr. Tsutsui, you became the president and COO of SANKYO in April 2012. What do you aim to achieve?

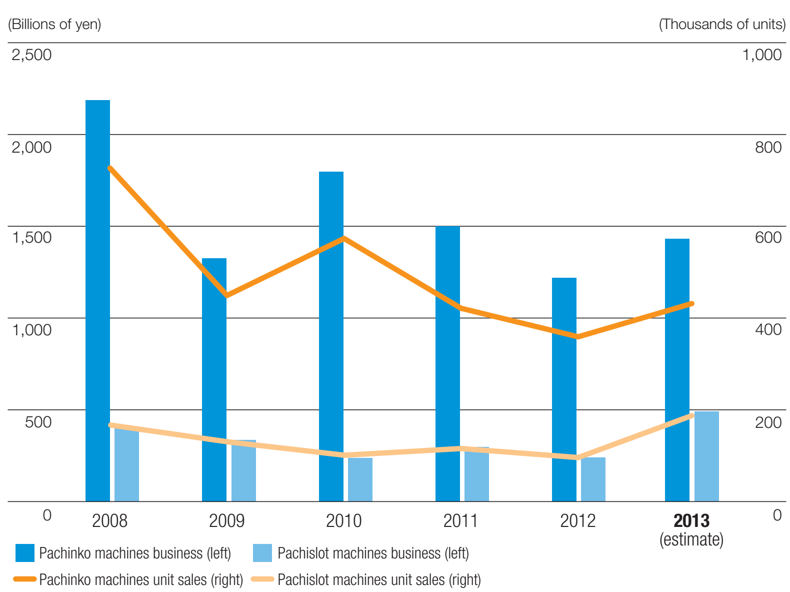
A

Prior to taking the helm, I worked in corporate planning at SANKYO for 20 years. I was involved in the initial public offering and organizational management. I was also the company's spokesperson and my responsibilities as the head of investor relations included responding to investors, analysts and the media.

We recorded our highest ever consolidated net sales in the fiscal year to March 2008, ¥280 billion, but SANKYO Group's financial performance has subsequently fallen short of that peak. My mission is to restore the Group's financial performance. Our specific goals are to capture the top share in the pachinko market and to become a permanent contender in the top tier of the pachislot market. For this purpose, we need to establish a development structure that enables us to offer an uninterrupted stream of captivating pachinko and pachislot machines while also boosting the efficiency of manufacturing and sales.

Although I have not previously been directly involved in product development or at the frontline of sales, I listen intently to our development and sales people and I am committed to creating an environment where they

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



can bring their capabilities into full play. By articulating a vision that all of us at SANKYO can share and work together to achieve, I want to motivate our people so that again they will taste success and experience the pride that comes with soaring sales. We will make a concerted effort to achieve our goals.

By tapping the ingenuity in SANKYO's corporate DNA, we can create highly competitive innovative products. We aim to become the pre-eminent pachinko and pachislot manufacturer, earning the confidence and support of players and parlors.

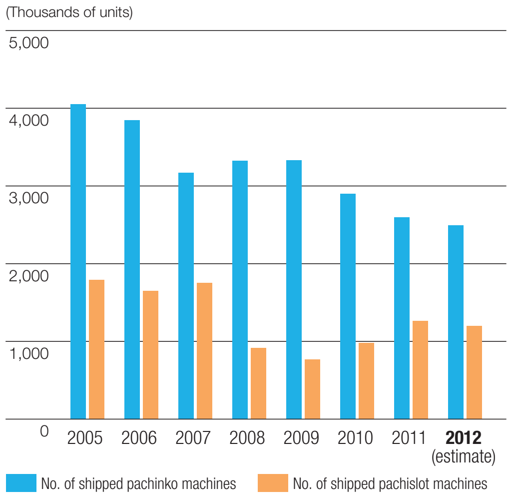
Q2 The rest of the questions are addressed to both Mr. Hideyuki Busujima, chairman of the board and CEO, and Mr. Tsutsui. What's your take on the business environment of the pachinko and pachislot industry in the fiscal year to March 2013?

A We expect 2.5 million pachinko machines to be shipped in 2013, 100,000 fewer than in the previous year, and 1.2 million pachislot machines, which is 50,000 lower than last year's figure.

The installed base of pachinko machines amounted to 3.1 million units as of December 31, 2011, around 30% of which are machines that can be played with low-priced rental balls, typically as low as ¥1 apiece. Although the increase in the number of pachinko parlors offering low-priced rental balls slowed somewhat, the high-margin core pachinko operation based on rental balls at ¥4 apiece continues to struggle to attract players. Thus, the business environment for parlor operators remains challenging. Accordingly, they are adopting a cautious approach to the purchase of pachinko machines and so demand is concentrated on a handful of major titles that are expected to greatly contribute to profits.

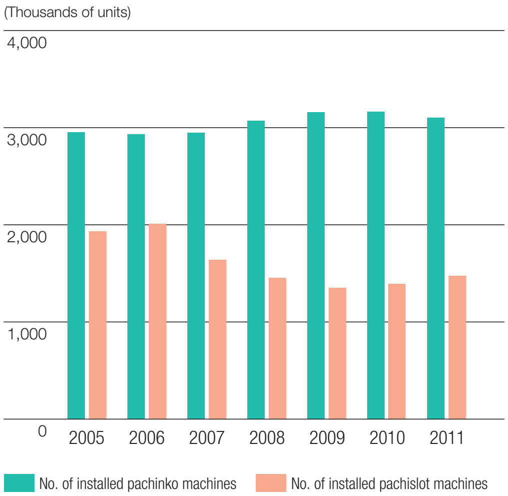
On the other hand, the installed base of pachislot machines amounted to 1.47 million units as of December 31, 2011, and only about 10% of pachislot machines can be played with low-priced tokens, which contrasts favorably with the 30% figure for cut-price pachinko. In view of the rising popularity of pachislot propelled by enhanced gaming performance, some parlors are switching from pachinko to pachislot, resulting in an upward trend in the number of pachislot machines installed. However, we expect shipments of pachislot machines to edge down this year as the market catches its breath following the debuts of several major titles in the previous year.

Trends in Shipments of Pachinko & Pachislot Machines



Source: Yano Research Institute

Trends in Installation of Pachinko & Pachislot Machines



Source: National Police Agency

Consumer confidence has been weak ever since Lehman Brothers collapsed. In the aftermath of the Great East Japan Earthquake and in a world beset by economic uncertainty, such as the unresolved European sovereign debt crisis, consumers have become more reluctant to spend on entertainment and leisure. Moreover, the unprecedentedly wide choice of entertainment clamoring for the consumer's attention, which now includes new forms of entertainment such as social networking services, is stoking competition. Consequently, it has become imperative to take decisive action to vitalize the pachinko and pachislot industry.

Q3 What is the significance of the April 2012 revision of the regulations of the Nihon Yugiki Kogyo Kumiai, the pachinko machine manufacturers association?

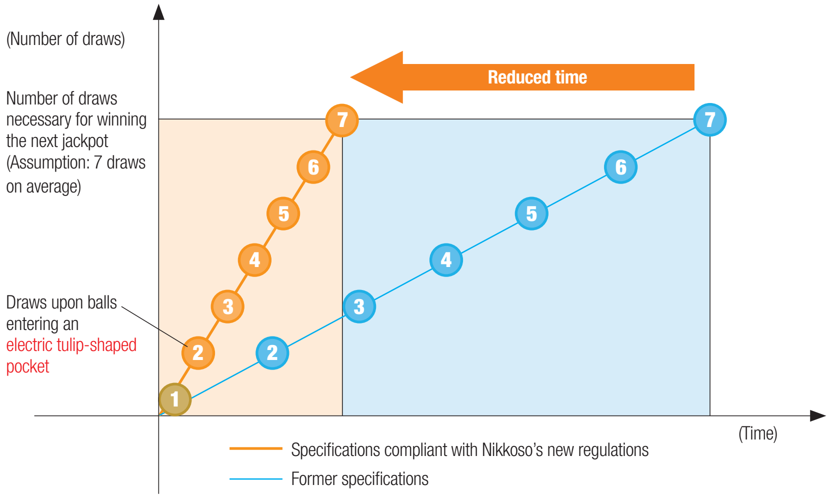
A

Pachinko and pachislot are governed by the Act to Control Businesses That May Affect Public Morals, the Regulations Concerning the Certification and Official Inspection of Game Machines and other laws and regulations. Manufacturers and parlor operators have to comply with them.

The Nihon Yugiki Kogyo Kumiai, Nikkoso for short, has regulations that complement the laws and regulations enacted by government and to keep the speculative aspect of game machines within reasonable bounds.

The revision of Nikkoso's regulations in April 2012 paved the way for pachinko machines with a wider range of gaming performance. Pachinko machines featuring new attributes in compliance with the revised regulations have been introduced since June. The major revision is the minimum payout of an electric tulip-shaped pocket*. Whereas previously the payout had to be at least three balls, a payout of less than three balls is now permitted under certain conditions, making it possible to pay out one or two balls in a probability change mode*.

Comparison of the period of time until the next jackpot between the specifications compliant with Nikkoso's new regulations and the former specifications



Electric tulip-shaped pocket* Petals of this tulip-shaped pocket open so that balls can easily enter. Whereas this pocket rarely opens in normal mode, it frequently opens in probability change mode. A jackpot draw takes place when a ball enters the pocket.

Probability change mode* While the pachinko machine is in this mode, the jackpot probability increases and electric tulip-shaped pockets frequently open or remain open so that a player can suppress the decrease of balls on hand. In this mode, there is a very high probability that the player will win the next jackpot.
*Probability change mode of mainstream pachinko machines

In response, SANKYO Group has devised and introduced pachinko machines featuring a shorter period of time until the next jackpot can be won in a probability change mode. The number of balls a pachinko machine is permitted to feed is restricted to a maximum of 100 balls per minute and no increase in the number of balls is permitted in a probability change mode. For example, when the payout in a probability change mode is three balls, it is mandatory to restrict the number of draws for a big jackpot to a maximum of 33 times per minute. But when the payout is one ball, the number of draws can be as many as 100. As a result, jackpot draws are performed three times faster than in the case of a conventional pachinko machine, making it theoretically possible to shorten the interval between jackpots. On the other hand, the number of balls may decrease in a probability change mode. This disadvantage for players can be offset by adjusting the specifications. We are confident that our pachinko machines compliant with the new regulations are captivating players eager for a quick session of pachinko.

The gaming performance made available by Nikkoso's revised regulations goes beyond what I have described. Our hope is that by offering a variety of pachinko machines with new gaming performance we will be able to vitalize the market.

Q4 What are SANKYO's strategies, key measures and tasks for the fiscal year to March 2013?

A SANKYO has focused on business fields related to game machines and concentrated resources on those businesses. We will continue to pursue growth of these businesses by increasing sales and market share.

As ingenuity is SANKYO's creed, we place a particular emphasis on R&D to create innovative products with a decisive advantage over competitors' offerings. In recent years, exploiting the improved performance of game machines, we have been able to captivate players with an all-encompassing, seamless experience expressing the distinctive worldview of each title, but this has pushed up R&D expenditure. We recognize that striking a balance between the extension of product capabilities and the control of R&D expenditure is a crucial task for us over the medium to long term. For the time being, we intend to absorb the increase in R&D expenditure by increasing sales and reducing costs.

A key task for fiscal 2013 is the launch of a flagship title under the SANKYO brand and making it a success. With regard to the Bisty brand, the Evangelion series has gained a commanding presence in the market as well as in popular culture. On the other hand, the SANKYO brand has no series comparable to Evangelion. We aim to create a blockbuster product that will win high popularity among players, have an overwhelming presence, and continuously generate large sales.

The second task is to increase the Group's presence in the pachislot market. As our share of the pachislot market declined in fiscal 2012, in the current fiscal year we are determined to make up for lost ground. Mirroring the situation in the pachinko market, the Bisty-brand Evangelion series is immensely popular in the pachislot market, too. We will also emphasize increasing the awareness and popularity of SANKYO-brand pachislot machines to boost sales. The SANKYO-brand *Pachislot Macross Frontier* introduced in April 2012 has gained an enthusiastic following in the market. This indicates that the initiatives we have undertaken to strengthen our offering of pachislot machines since the previous year are starting to bear fruit.

The third task is establishment of the three-brand structure as early as possible to achieve a sustained improvement of earnings. JB Co., Ltd., a game machine manufacturer, became a consolidated subsidiary of SANKYO in March 2012. As a result, the Group now has three brands—SANKYO, Bisty, and JB. In deploying the new structure, we will clearly distinguish each brand concept while enhancing the Group's comprehensive capabilities.

By accomplishing these three tasks, we are determined to enhance the corporate value by capturing the No. 1 position in terms of popularity among players.

Q5 How does the three-brand structure work in practice?

A We believe that having three differentiated brands will allow us to implement a highly effective product strategy. For the SANKYO brand, our strategy is to deploy our accumulated resources and experience by offering a complete line-up addressing the full spectrum of market needs. For the Bisty brand, Fields Corporation, which is the distributor of the Bisty-brand products, is also involved in product planning to conjure up the worldview embodied in the title concept. We are promoting a line-up of game machines equipped with LCDs, which are the current main stream. For the JB brand, by pursuing development of innovative products through an emphasis on specifications, we will offer entertainment unavailable solely with LCD presentation.

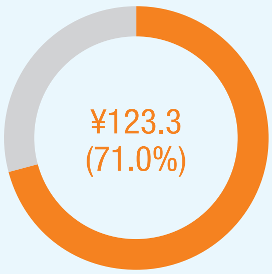
Fever Aquarion Ⅲ (SANKYO)
©2004, 2007 河森正治・サテライト／Project AQUARION

Sengoku BASARA3-The Battle of Sekigahara (Bisty)
©CAPCOM CO., LTD. ALL RIGHTS RESERVED.
©Bisty

Virus Breaker (JB)
©JB ©SANKYO

Pachinko Machines Business

Sales (Billions of yen)



This segment, which includes manufacturing and sales of pachinko machines and gauge boards, sales of related parts and pachinko machine-related royalty income, is SANKYO's mainstay business and accounted for 71.0% of net sales.

The Group launched eight titles for the SANKYO-brand series and two titles for the Bisty-brand series. Titles introduced under the SANKYO brand included *Fever Macross Frontier* (introduced in May 2011), *Fever Space Battleship Yamato-Revival* (introduced in December 2011), and *Fever Koda Kumi III-Love Romance-* (introduced in March 2012). Under the Bisty brand, *CR The story of ayumi hamasaki-introduction* (introduced in July 2011) and *Evangelion 7* (introduced in January 2012) were launched. Reflecting the substantial results underpinned by the new development structure, *Evangelion 7* achieved great popularity.

As a result, sales of pachinko machines amounted to 360,000 units, a decrease of 63,000 units from the previous year. Segment sales amounted to ¥123.3 billion, a decrease of 17.7% year on year, and segment profit was ¥37.6 billion, down 21.2%.

Principal models introduced and numbers of machines sold during fiscal 2012
(Only models with sales of at least 20,000 units are listed):

Principal models	Released	No. of machines sold (thousand machines)
Fever Macross Frontier	May 2011	46
*CR The story of ayumi hamasaki-introduction**	July 2011	83
Fever Space Battleship Yamato-Revival	December 2011	34
*Evangelion 7**	January 2012	100
Fever Koda Kumi III-Love Romance-	March 2012	40

* Bisty brand

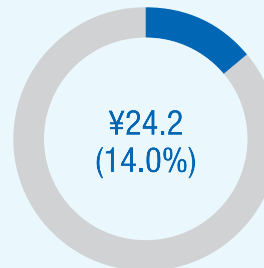
Fever Koda Kumi III-Love Romance-
©avex management inc.
©avex entertainment inc.

Evangelion 7
©カラー　©Bisty

Pachislot Machines Business

This segment, which includes manufacturing and sales of pachislot machines, sales of related parts and pachislot machine-related royalty income, accounted for 14.0% of net sales.

Sales (Billions of yen)



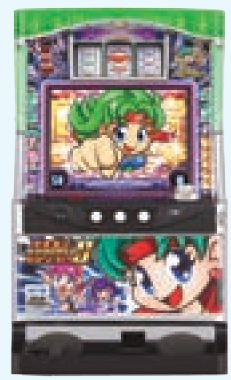
The Group launched two titles for the SANKYO-brand series and the Bisty-brand series, respectively. The SANKYO-brand titles were *Mumu World DXII* (introduced in September 2011) and *X JAPAN Kyokotoppa* (introduced in October 2011). Under the Bisty brand, in addition to sales of *SAMURAI 7* (introduced in May 2011) and *Evangelion—the Heartbeat of Life* (introduced in February 2012), a portion of the sales of *MOBASLO Evangelion—for your own wish* (introduced in March 2011), which debuted in the previous fiscal year, was recorded in fiscal 2012.

As a result, sales of pachislot machines decreased 20,000 units to 96,000 units. Segment sales were ¥24.2 billion, a decrease of 19.9% year on year, and segment profit was ¥5.4 billion, a decrease of 21.5%.

Principal models introduced and numbers of machines sold during fiscal 2012 (Only models with sales of at least 5,000 units are listed):

Principal models	Released	No. of machines sold (thousand machines)
*MOBASLO Evangelion—for your own wish**	March 2011	22
*SAMURAI 7**	May 2011	12
Mumu World DXII	September 2011	7
X JAPAN Kyokotoppa	October 2011	5
*Evangelion—the Heartbeat of Life**	February 2012	46

* Bisty brand



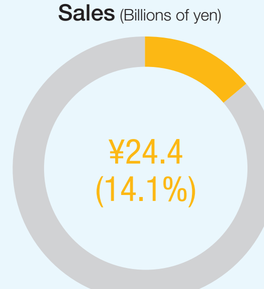
Mumu World DXII
©SANKYO

Evangelion—the Heartbeat of Life
©カラー　©Bisty

Ball Bearing Supply Systems Business

Ball bearing supply systems, card systems, related equipment for parlors and ball bearing supply system-related royalty income account for most of the sales of this segment, which contributed 14.1% of net sales.

Sales (Billions of yen)

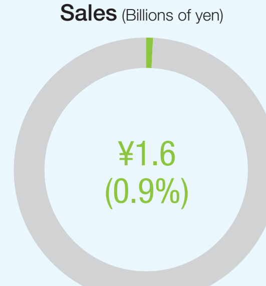


Segment sales were ¥24.4 billion, an increase of 24.4% year on year, and segment profit was ¥1.2 billion, a decrease of 2.6%, benefiting from increased projects for refurbishment to save energy, such as installation of LED lighting, introduction of individual machine counting systems to save labor, and installation work for pachislot zones at pachinko parlors.

Other Businesses

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

Sales (Billions of yen)



Sales from this segment, consisting primarily of rental revenues of consolidated subsidiary SANKYO Create Co., Ltd., amounted to ¥1.6 billion, a decrease of 9.0% year on year, and segment profit was ¥0.6 billion, a decrease of 2.7%.

IR Activities

We are vigorously promoting new IR activities to expand the investor base. Our IR initiatives in fiscal 2012 included the following:

CLSA JAPAN FORUM 2012

Top: Nikkei IR Fair
Bottom: Briefing session for individual investors

We met many institutional investors through participation in CLSA Japan Forum 2012 organized by Credit Lyonnais Securities Asia (CLSA) and other conferences for overseas institutional investors hosted by securities firms. In fiscal 2012, we participated in five conferences in Tokyo and intend to participate in such conferences in fiscal 2013.

We participated in Nikkei IR Fair 2011, an IR event for individual investors. This was the third time for SANKYO to take part in this event. As well as making a presentation to a large audience, we also had a private booth for face-to-face dialogues with individual investors to promote SANKYO. We also participated in Nikkei IR Fair 2012.

We hold IR meetings for individual investors at branches of securities firms. Most meetings held in fiscal 2012 were in Tokyo but we intend to hold IR meetings in major cities throughout Japan. Reports on the meetings, including Q&A, are available on SANKYO's website.

We will continue to proactively disseminate information and execute IR activities targeting both institutional and individual investors as part of our ongoing efforts to earn the trust of investors and expand the investor base.

Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2012 (fiscal 2012), are analyzed below.

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

Business Environment in Fiscal 2012

During the fiscal year ended March 31, 2012, the Japanese economy began to recover from the Great East Japan Earthquake. However, prospects for the country's economy remained uncertain owing to the yen's persisting strength and deflation, amid mounting concern that the continuing sovereign debt crisis in Europe was slowing the tempo of the world economy.

The pachinko and pachislot industry continued to operate in a challenging business environment in which ball/token rental revenues increased only slightly, reflecting the trend toward thrift among players while the player population remained flat. According to the 2011 White Paper on Adult Entertainment Businesses published by the National Police Agency of Japan in April 2012, while the number of pachinko parlors decreased 1.3% year on year to 12,323 as of December 31, 2011, the number of installed pachinko machines decreased 1.8% to 3,107,000 units. This was the first decrease in five years. In contrast, for the second consecutive year, the number of installed pachislot machines increased 6.1% to 1,474,000 units. Despite a moderate decline in the number of parlors, the total number of game machines installed continued to increase from the previous year and the shift toward larger parlors continued.

In the game machines market, while the core pachinko operation based on rental balls at ¥4 each struggled to attract players and pachinko parlors offering rental balls at prices as low as ¥1 have become commonplace, there was a perceptible shift in demand from pachinko to pachislot underpinned by a resurgence in the popularity of pachislot thanks to enhanced gaming performance. Although the replacement of pachinko machines remains a key measure for pachinko parlors endeavoring to attract players, parlor operators are becoming increasingly discriminating in their evaluation of game machines, as evidenced by a marked tendency for them to only purchase captivating products likely to remain popular for a long time and contribute to profits. As the brand power of manufacturers able to stably create popular products is also viewed as an important factor, a gulf is opening up between those deemed to possess that attribute and those lacking it.

Net Sales

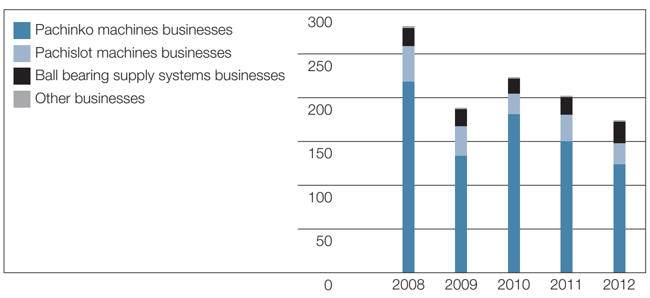
SANKYO Group vigorously invested in product development and expanded alliances under a new product development structure that emphasizes players' viewpoints in order to reinforce the brand power. Thanks to this strategy, the reputation of the Group's products has risen among both players and parlors. However, sales in fiscal 2012 were below the initial forecast because the Group postponed the introduction of certain titles scheduled for introduction in fiscal 2012 to the next fiscal year in order to increase quality.

The Company recorded extraordinary losses, including a ¥3.5 billion loss on sales of investment securities resulting from the transfer of the shares of Gamecard-Joyco Holdings, Inc. (JASDAQ Standard: Stock Code 6249), which was an affiliate of SANKYO Co., Ltd. accounted for by the equity method, and a ¥2.7 billion loss on sales or disposal of property, plant and equipment resulting from the transfer of a building for lease owned by SANKYO Create Co., Ltd., a consolidated subsidiary.

As a result, consolidated net sales amounted to ¥173.6 billion, a decrease of 13.9% year on year, as operating income decreased 22.4% to ¥40.3 billion, and net income decreased 41.9% to ¥20.1 billion.

Net Sales

(Billions of yen)



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

Cost of sales for fiscal 2012 amounted to ¥89.1 billion. The ratio of cost of sales to net sales increased 1.0 percentage points from the previous fiscal year to 51.3%.

Selling, general and administrative expenses decreased ¥4.0 billion from the previous fiscal year, mainly owing to a decrease in sales commissions in line with a decrease in sales volume resulting from intensifying competition among manufacturers. However, the ratio of selling, general and administrative expenses to net sales increased 1.6 percentage points from the previous fiscal year to 25.5%. As a result, operating income decreased 22.4% to ¥40.3 billion and the ratio of operating income to net sales decreased 2.6 percentage points from the previous fiscal year to 23.2%.

With respect to other income (expenses), other expenses, net, amounted to a ¥3.4 billion net loss. Main items were a ¥2.7 billion loss on sales or disposal of property, plant and equipment and a ¥3.5 billion loss on sales of investment in securities.

Net income decreased ¥14.5 billion from ¥34.7 billion for the previous fiscal year to ¥20.1 billion. Net income per share (basic) was ¥215.85 compared with ¥364.09 for the previous fiscal year.

Segment Information by Business

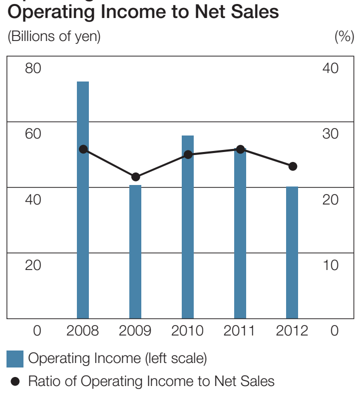
(Millions of yen)

Net sales:	2012	Year-on-year change	2011
Pachinko machines business	**¥123,353**	(17.7)%	¥149,876
Pachislot machines business	**24,282**	(19.9)	30,316
Ball bearing supply systems business	**24,442**	24.4	19,652
Other businesses	**1,603**	(9.0)	1,761
Total	**¥173,682**	(13.9)%	¥201,606

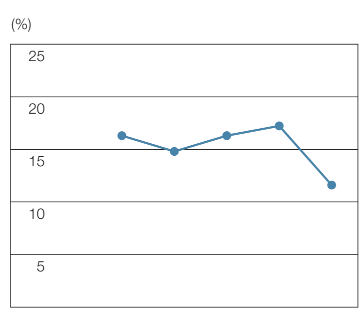
(Millions of yen)

Operating income:	2012	Year-on-year change	2011
Pachinko machines business	**¥37,695**	(21.2)%	¥47,822
Pachislot machines business	**5,459**	(21.5)	6,953
Ball bearing supply systems business	**1,243**	(2.6)	1,276
Other businesses	**634**	(2.7)	652
Elimination/Corporate	**(4,717)**	—	(4,781)
Total	**¥40,315**	(22.4)%	¥51,923

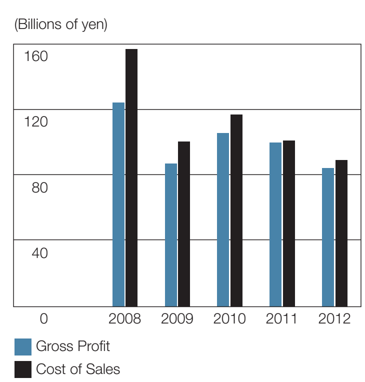
Operating Income and Ratio of Operating Income to Net Sales



Return on Sales (ROS)



Gross Profit and Cost of Sales



Fiscal 2013 Forecast

Although the Japanese economy is expected to recover thanks to the effect of various government stimulus measures, the tendency to curtail leisure-related consumption is likely to persist because of deflationary pressure and concerns about deterioration of the labor market.

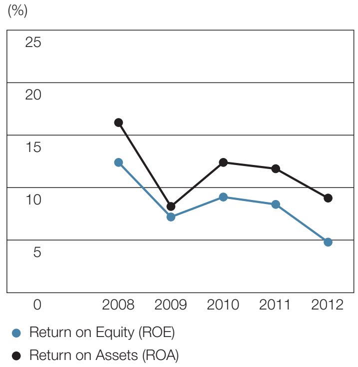
In the game machines market, shipments of pachinko machines are expected to be almost flat. It is hoped that revision of the internal regulations of the Nihon Yugiki Kogyo Kumiai (Nikkoso), which is a pachinko machine manufacturers association, in April 2012 will facilitate the advent of pachinko machines with new gaming-performance attributes, leading to vitalization of the market. In view of the continuing popularity of pachislot machines, their shipments are expected to remain robust.

We expect the Group's initiatives to strengthen the attractiveness of products—spearheaded by the development structure launched in April 2010 and the Pachislot Development Department established in April 2011—to yield valuable results. In addition, we will strive to coral players by offering new services centering on PAWA-COMI, SANKYO's unique online community that debuted in March 2012. PAWA-COMI fully supports the PAWA-PACHI and PAWA-SLO services, which link mobile phones with game machines. Through these initiatives, the Group's plan calls for sales volumes for the fiscal year ending March 31, 2013, of 432,000 pachinko machines and 188,000 pachislot machines. The forecast for consolidated business results in the fiscal year ending March 31, 2013, is as follows:

(Billions of yen)

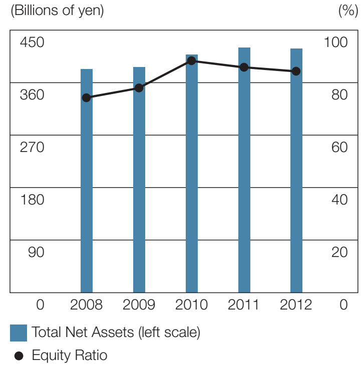
	2013 forecast	Year-on-year change	2012 results
Net sales	¥210.0	20.9%	¥173.6
Operating income	50.0	24.0	40.3
Net income	35.0	73.4	20.1

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

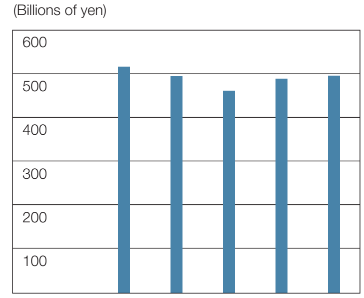


ROA=(Operating income + Interest and dividend income + Interest on marketable securities) / Total assets (yearly average)

Total Net Assets and Equity Ratio



Total Assets



Assets, Liabilities, and Net Assets

Total assets at the end of fiscal 2012 amounted to ¥495.9 billion, ¥7.3 billion higher than the figure at the previous fiscal year-end, mainly attributable to a ¥6.9 billion decrease in land and a ¥18.6 billion increase in notes and accounts receivable-trade.

Total liabilities amounted to ¥77.6 billion, having increased ¥8.7 billion compared with the previous fiscal year-end. This increase was mainly attributable to a ¥4.3 billion increase in notes and accounts payable—trade and an increase of ¥3.1 billion in long-term loans payable (including current portion of long-term loans payable).

Net assets decreased ¥1.3 billion compared with the previous fiscal year-end. Whereas net income of ¥20.1 billion was recorded, cash dividends paid amounted to ¥14.1 billion, a ¥5.1 billion decrease was recorded concerning the exclusion of Gamecard-Joyco Holdings from the scope of application of the equity method as a result of the sale of its shares, and purchase of treasury stock amounted to ¥3.7 billion. As a result, net assets amounted to ¥418.3 billion and the shareholders' equity ratio decreased 1.6 percentage points to 84.3%.

Cash Flows

Cash and cash equivalents at the fiscal year-end were ¥239.5 billion.

Cash flows from operating activities

Net cash provided by operating activities decreased ¥35.2 billion from the previous fiscal year to ¥13.1 billion. The principal factors included income before income taxes amounting to ¥36.8 billion and a decrease in cash resulting from an increase of ¥18.4 billion in notes and accounts payable—trade.

Cash flows from investing activities

Net cash provided by investing activities increased ¥1.8 billion from the previous year to ¥1.0 billion. The principal factors increasing cash flows included ¥5.3 billion in proceeds from sales of property, plant and equipment and intangible fixed assets, notwithstanding cash outflows of ¥2.6 billion resulting from the purchase, sale and redemption of investment in securities.

Cash flows from financing activities

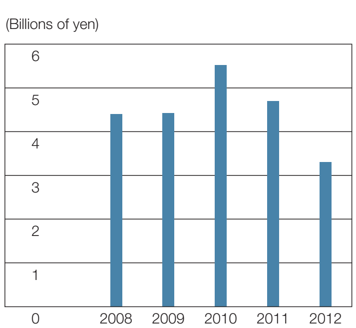
Net cash used in financing activities increased ¥4.9 billion from the previous year to ¥17.8 billion. The principal items were cash dividends paid amounting to ¥14.1 billion and purchase of treasury stock amounting to ¥3.7 billion.

Forecast of the Financial Position in Fiscal 2013

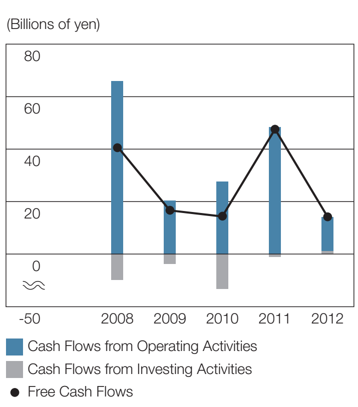
For fiscal 2013, the Company forecasts net cash provided by operating activities of ¥50.0 billion, net cash used in investing activities of ¥12.0 billion attributable to capital investment, and net cash used in financing activities of ¥14.0 billion mainly attributable to payment of cash dividends.

As a result, the Company forecasts an increase of ¥24.0 billion in the cash balance at the end of fiscal 2013 compared to the end of fiscal 2012.

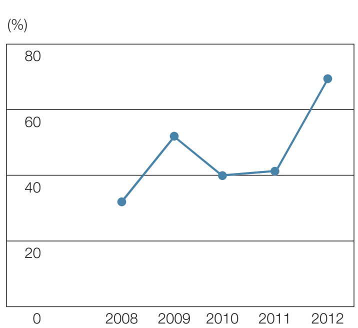
Depreciation



Free Cash Flows



Payout Ratio



Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2013 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 2012, but do not cover all the potential risks.

Change in the market environment

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

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

Regulations

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

Intellectual property rights

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

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

Development of new models

To manufacture and sell a pachinko, pachislot or other game machine, it is a prerequisite that the machine passes an official format inspection executed by a testing agency, such as *Hotsukyo* (Security Communications 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, 2012 and 2011

ASSETS	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 2) 2012
Current assets:			
Cash and deposits (Notes 3 and 18)	¥164,591	¥168,230	$2,002,579
Marketable securities (Notes 3, 4 and 18)	106,997	112,999	1,301,834
Notes and accounts receivable—trade (Notes 9 and 18)	70,340	51,685	855,831
Inventories (Note 6)	2,815	2,499	34,259
Deferred tax assets (Note 17)	3,278	3,102	39,888
Accounts receivable arising from outsourced production contracts	9,291	9,742	113,052
Other current assets	8,121	6,323	98,817
Allowance for doubtful accounts (Note 18)	(14)	(361)	(172)
Total current assets	365,423	354,220	4,446,087
Fixed assets:			
Property, plant and equipment:			
Land	22,638	29,619	275,437
Buildings and structures	21,682	23,119	263,806
Machinery and equipment (Note 8)	7,924	7,721	96,413
Tools, furniture and fixtures (Note 8)	17,443	16,653	212,234
Leased assets	94	197	1,153
	69,782	77,311	849,043
Accumulated depreciation	(30,650)	(29,085)	(372,918)
Total property, plant and equipment	39,132	48,225	476,125
Intangible fixed assets:			
Goodwill	3,013	—	36,667
Other intangible fixed assets	342	329	4,170
Total intangible fixed assets	3,356	329	40,837
Investments and other assets:			
Investments in securities (Notes 4, 5 and 18)	83,452	81,019	1,015,358
Long-term loans	361	582	4,398
Deferred tax assets (Note 17)	4,164	4,046	50,670
Other assets	666	758	8,109
Allowance for doubtful accounts	(189)	(166)	(2,310)
Allowance for losses on investments in securities	(379)	(379)	(4,621)
Total investments and other assets	88,075	85,860	1,071,605
Total fixed assets	130,564	134,415	1,588,568
Total assets	¥495,988	¥488,636	$6,034,654

The accompanying notes are integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Current liabilities:			
Notes and accounts payable—trade (Note 18)	¥43,504	¥39,168	$ 529,322
Current portion of long-term debt	335	—	4,080
Accrued income taxes	13,019	12,748	158,413
Accrued employees' bonuses	803	851	9,776
Lease obligations	6	24	80
Other current liabilities	11,944	10,570	145,325
Total current liabilities	69,614	63,364	846,997
Long-term liabilities:			
Long-term debt (Note 8)	2,816	—	34,268
Lease obligations	0	7	10
Accrued retirement allowances for directors and corporate auditors	715	653	8,705
Accrued retirement allowances for employees (Note 7)	3,387	3,209	41,219
Asset retirement obligations (Note 19)	58	59	707
Other long-term liabilities	1,091	1,683	13,275
Total long-term liabilities	8,069	5,612	98,184
Commitments and contingent liabilities (Notes 10 and 13)			
Net Assets:			
Shareholders' equity (Note 12)**:**			
Common stock,			
Authorized: 144,000,000 shares			
Issued: 97,597,500 shares	14,840	14,840	180,557
Capital surplus	23,880	23,880	290,548
Retained earnings	398,805	397,867	4,852,243
Treasury stock	(20,930)	(17,337)	(254,660)
Total shareholders' equity	416,595	419,250	5,068,688
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 4)	1,708	408	20,786
Total accumulated other comprehensive income	1,708	408	20,786
Total net assets	418,303	419,658	5,089,474
Total liabilities and net assets	¥495,988	¥488,636	$6,034,654

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Net sales	¥173,682	¥201,606	$2,113,178
Cost of sales	89,155	101,406	1,084,754
Gross profit	84,526	100,199	1,028,424
Selling, general and administrative expenses (Note 14)	44,210	48,276	537,907
Operating income	40,315	51,923	490,517
Other income (expenses):			
Interest and dividend income	1,179	1,477	14,350
Equity in earnings of affiliates	2,426	2,295	29,528
Interest expense	(2)	—	(26)
Loss on sales or disposal of property, plant and equipment, net (Note 15)	(2,762)	(84)	(33,612)
Loss on sales of investments in securities	(3,535)	—	(43,012)
Loss on revaluation of investments in securities	—	(116)	—
Loss on sales of golf club membership	(9)	—	(113)
Loss on revaluation of membership	(6)	(1)	(82)
Gain on reversal of loss accrual due to disaster (Note 16)	346	—	4,218
Reversal of allowance for doubtful accounts	—	57	—
Loss on investments in partnership	(3)	(280)	(47)
Loss on impairment	—	(262)	—
Loss on change in equity interest in affiliate	(1,602)	—	(19,502)
Loss due to disaster	—	(346)	—
Impact of accounting standard for asset retirement obligations	—	(48)	—
Other, net	480	492	5,846
Income before income taxes	36,826	55,107	448,066
Income taxes (Note 17)**:**			
Current	17,589	22,240	214,008
Deferred	(944)	(1,866)	(11,497)
Total income taxes	16,644	20,373	202,511
Net income before minority interests	20,182	34,733	245,556
Net income	¥ 20,182	¥ 34,733	$ 245,556

	Yen		U.S. dollars (Note 2)
Net income per share (Note 22)**:**			
Basic	¥215.85	¥364.09	$2.63
Cash dividends per share	150.00	150.00	1.83

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

Consolidated Statements of Comprehensive Income

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Net income before minority interests	¥20,182	¥34,733	$245,556
Other comprehensive income (Note 11)**:**			
Unrealized gains (losses) on available-for-sale securities	1,266	(386)	15,414
Share of other comprehensive income in affiliates	33	51	403
Total other comprehensive income	1,300	(335)	15,817
Comprehensive income	21,482	34,398	261,373
Total comprehensive income attributable to:			
Owner of the parent	¥21,482	¥34,398	$261,373
Minority interests	—	—	—

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

Consolidated Statements of Changes in Net Assets

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Common stock:			
Beginning of year	¥ 14,840	¥ 14,840	$ 180,557
End of year	¥ 14,840	¥ 14,840	$ 180,557
Capital surplus:			
Beginning of year	¥ 23,880	¥ 23,880	$ 290,549
Disposal of treasury stock	(0)	(0)	(2)
End of year	¥ 23,880	¥ 23,880	$ 290,548
Retained earnings:			
Beginning of year	¥397,867	¥377,529	$4,840,831
Dividends from surplus	(14,112)	(14,394)	(171,708)
Net income	20,182	34,733	245,556
Change of scope of equity method	(5,131)	—	(62,436)
Total changes during the year	937	20,338	11,411
End of year	¥398,805	¥397,867	$4,852,243
Treasury stock:			
Beginning of year	¥ (17,337)	¥ (8,969)	$ (210,948)
Acquisition of treasury stock	(3,721)	(8,370)	(45,274)
Disposal of treasury stock	0	2	8
Increase in treasury stock resulting from change in equity interest in affiliate	127	—	1,554
Total changes during the year	(3,592)	(8,368)	(43,712)
End of year	¥ (20,930)	¥ (17,337)	$ (254,660)
Shareholders' equity:			
Beginning of year	¥419,250	¥407,280	$5,100,990
Dividends from surplus	(14,112)	(14,394)	(171,708)
Net income	20,182	34,733	245,556
Acquisition of treasury stock	(3,721)	(8,370)	(45,274)
Disposal of treasury stock	0	1	7
Change of scope of equity method	(5,131)	—	(62,436)
Increase in treasury stock resulting from change in equity interest in affiliate	127	—	1,554
Total changes during the year	(2,654)	11,969	(32,302)
End of year	¥416,595	¥419,250	$5,068,688
Accumulated other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities:			
Beginning of year	¥ 408	¥ 744	$ 4,969
Net change in the year	1,300	(335)	15,817
End of year	¥ 1,708	¥ 408	$ 20,786
Net assets:			
Beginning of year	¥419,658	¥408,024	$5,105,959
Dividends from surplus	(14,112)	(14,394)	(171,708)
Net income	20,182	34,733	245,556
Acquisition of treasury stock	(3,721)	(8,370)	(45,274)
Disposal of treasury stock	0	1	7
Change of scope of equity method	(5,131)	—	(62,436)
Increase in treasury stock resulting from change in equity interest in affiliate	127	—	1,554
Other changes during the year	1,300	(335)	15,817
Total changes during the year	(1,354)	11,634	(16,485)
End of year	¥418,303	¥419,658	$5,089,474

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes	¥ 36,826	¥ 55,107	$448,066
Depreciation and amortization	3,306	4,710	40,234
(Decrease) increase in allowance for doubtful accounts	(323)	102	(3,942)
(Decrease) increase in accrued employees' bonuses	(51)	34	(622)
Increase in accrued retirement allowances for employees	173	276	2,115
Increase in accrued retirement allowances for directors and corporate auditors	61	30	747
Interest and dividend income	(1,179)	(1,477)	(14,350)
Interest expense	2	—	26
Equity in earnings of affiliates	(2,426)	(2,295)	(29,528)
Loss on sales or disposal of property, plant and equipment, net	2,762	84	33,612
Loss on sales of investments in securities	3,535	—	43,012
Loss on devaluation of investments in securities	—	116	—
Loss on sales of golf club membership	9	—	113
Loss on devaluation of membership	6	1	82
Loss on change in equity interest in affiliate	1,602	—	19,502
Increase in notes and accounts receivable-trade	(18,412)	(1,816)	(224,019)
(Increase) decrease in inventories	(303)	816	(3,691)
Increase in notes and accounts payable-trade	4,035	8,986	49,098
Decrease (increase) in accounts receivable arising from outsourced production contracts	450	(3,617)	5,480
Increase in accounts payable-other	1,387	1,834	16,878
Decrease in consumption taxes payable	(486)	(956)	(5,917)
Other	(3,953)	(262)	(48,102)
Sub total	27,023	61,674	328,794
Interest and dividend income received	1,774	1,917	21,585
Interest paid	(2)	—	(26)
Income taxes paid	(15,620)	(15,186)	(190,056)
Net cash provided by operating activities	13,174	48,405	160,297
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment and intangible fixed assets	(1,969)	(2,206)	(23,962)
Proceeds from sales of property, plant and equipment and intangible fixed assets	5,331	—	64,866
Payment for purchase of investments in securities	(44,290)	(40,799)	(538,881)
Proceeds from sales of investments in securities	3,143	—	38,244
Proceeds from redemption of investments in securities	38,500	40,235	468,435
Proceeds from acquisition of subsidiaries resulting in change of scope of consolidation	78	—	949
Collection of loans receivable	204	1,998	2,484
Other	47	(10)	581
Net cash provided by (used in) investing activities	1,045	(782)	12,716
Cash flows from financing activities:			
Payment for finance lease obligations	(24)	(46)	(303)
Payment for purchase of treasury stock	(3,721)	(8,370)	(45,274)
Proceeds from disposal of treasury stock	0	1	7
Cash dividends paid	(14,112)	(14,394)	(171,708)
Net cash used in financing activities	(17,858)	(22,810)	(217,279)
Net (decrease) increase in cash and cash equivalents	(3,638)	24,813	(44,266)
Cash and cash equivalents at beginning of year	243,230	218,416	2,959,365
Cash and cash equivalents at end of year (Note 3)	¥239,591	¥243,230	$2,915,099

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

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation of Consolidated Financial Statements

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

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in the accompanying consolidated financial statements for the convenience of readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2011 financial statements to conform to the classifications used in 2012. In conformity with the Companies Act of Japan and the other relevant regulations, all Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share data. Accordingly, the total of each account may not be equal to the combined total of individual items.

(b) Consolidation Principles

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

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

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

(c) Foreign Currency Translation

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

(d) Cash and Cash Equivalents

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

(e) Marketable Securities and Investments in Securities

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

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

(f) Allowance for Doubtful Accounts

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

(g) Allowance for Losses on Investments in Securities

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

(h) Inventories

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

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

(i) Property, Plant and Equipment

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

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

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

(j) Accrued Employees' Bonuses

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

(k) Accrued Retirement Allowances for Directors and Corporate Auditors

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

(l) Accrued Retirement Allowances for Employees

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

(m) Leases

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

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

(n) Research and Development and Computer Software

Research and development expenses are charged to income as incurred.

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

(o) Construction Contracts

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

(p) Income Taxes

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

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

(q) Appropriation of Retained Earnings

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

(r) Net Income and Cash Dividends per Share

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

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

(s) Consumption Tax

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

(t) Amortization method and, period of goodwill

Straight-Line method amortization over 5 years

(u) Accounting Changes and Error Corrections

On December 4, 2009, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Effective April 1, 2011, the Company applies this standard for accounting changes and corrections of prior period errors.

(v) 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 ¥82.19= U.S. $1, the rate of exchange on March 30, 2012, 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

1. A reconciliation of cash and cash equivalents to the accounts disclosed on the balance sheets at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥164,591	¥168,230	$2,002,579
Marketable securities	106,997	112,999	1,301,834
Total	271,589	281,229	3,304,413
Bonds and debentures, investment funds and others whose original maturity is more than three months	(31,997)	(37,999)	(389,314)
Cash and cash equivalents	¥239,591	¥243,230	$2,915,099

2. A summery of assets acquired, liabilities assumed and proceeds from acquisition as a result of making JB CO., LTD. a consolidated subsidiary by acquisition of its shares as of the effective date of the business combination is as follows:

As of March 31, 2012	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 689	$ 8,386
Fixed assets	236	2,878
Goodwill	3,013	36,667
Current liabilities	(810)	(9,858)
Long-term liabilities	(2,821)	(34,326)
Acquisition cost of shares of JB CO., LTD.	308	3,747
Cash and cash equivalents of JB CO., LTD.	(386)	(4,697)
Proceeds from acquisition of JB CO., LTD.	¥ 78	$ 949

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2012 and 2011 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2012				2011			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Japanese government bonds	¥ 79,997	¥153	¥0	¥ 80,150	¥ 79,998	¥78	¥13	¥ 80,063
Certificates of deposit	75,000			75,000	75,000			75,000
Total	¥154,997	¥153	¥0	¥155,150	¥154,998	¥78	¥13	¥155,063

	Thousands of U.S. dollars			
	2012			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Japanese government bonds	$ 973,324	$1,869	$4	$ 975,189
Certificates of deposit	912,520			912,520
Total	$1,885,843	$1,869	$4	$1,887,709

(b) Available-for-Sale Securities

	Millions of yen							
	2012				2011			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Equity securities	¥4,288	¥2,527	¥10	¥6,805	¥2,106	¥600	¥—	¥2,707
Total	¥4,288	¥2,527	¥10	¥6,805	¥2,106	¥600	¥—	¥2,707

	Thousands of U.S. dollars			
	2012			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Equity securities	$52,179	$30,750	$122	$82,807
Total	$52,179	$30,750	$122	$82,807

(c) Change in classification of investments securities

In the fiscal year ended on March 31, 2012, the shares of Gamecard-Joyco Holdings, Inc., which were held as investments in subsidiaries and affiliates, have been reclassified as available-for-sale securities because a portion of the shares held by the Company were sold resulting in a decrease in equity interest. As a result, investments in securities decreased by ¥2,950 million ($ 35,904 thousand) and net unrealized gains on available-for-sale securities increased by ¥1,375 million ($16,732 thousand).

5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Investments in securities	¥28,559	¥36,225	$347,481

6. Inventories

Inventories at March 31, 2012 and 2011 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished goods and merchandise	¥ 214	¥1,140	$ 2,613
Work in process	1,643	313	19,993
Raw materials and supplies	957	1,046	11,653
Total	¥2,815	¥2,499	$34,259

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, 2012 and 2011 were determined as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligations	¥3,465	¥3,333	$42,165
Unrecognized actuarial differences	(77)	(123)	(946)
Accrued retirement allowance for employees	¥3,387	¥3,209	$41,219

The net pension expense relating to retirement benefits for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service costs	¥229	¥222	$2,786
Interest costs	47	44	574
Amortization of actuarial differences	59	63	729
Total	¥336	¥330	$4,090

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

	2012	2011
Discount rate	1.50%	1.50%
Method of attributing the projected benefits to service periods	Straight-line basis	Straight-line basis
Amortization of actuarial differences	Over five years	Over five years

8. Pledged Assets

Pledged assets at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Machinery and equipment*	¥61	¥—	$749
Tools, furniture and fixtures*	4	—	53
Total	¥65	—	$801

* These assets are pledged as collateral for long-term debt in an amount of ¥348 million ($4,238 thousand) at March 31, 2012.

9. Notes Falling due the Fiscal Year-End

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Notes	¥3,541	¥—	$43,091

10. Contingent Liabilities

Contingent liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
As an endorser of notes endorsed	¥87	¥130	$1,070

11. Other Comprehensive Income

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

	Millions of yen	Thousands of U.S. dollars
Unrealized gains (losses) on available-for-sale securities:		
Gain incurred during the year	¥1,950	$23,730
Reclassification adjustment to net income	(33)	(409)
Amount before tax effect	1,916	23,322
Tax effect	(649)	(7,908)
Unrealized gains on available-for-sale securities	¥1,266	$15,414
Share of other comprehensive income in affiliate accounted for by the equity method:		
Gain incurred during the year	33	403
Total other comprehensive income	¥1,300	$15,817

12. Shareholders' Equity

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

a) Type and number of shares outstanding and treasury stock

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

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

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

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

b) Matters related to dividends

For the year ended March 31, 2012

i) Dividend payment

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

Dividends on common stock	
Total amount of dividends	**¥7,090 million ($86,271 thousand)**
Dividends per share	**¥75.00**
Record date	**March 31, 2011**
Effective date	**June 30, 2011**

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

Dividends on common stock	
Total amount of dividends	**¥7,022 million ($85,437 thousand)**
Dividends per share	**¥75.00**
Record date	**September 30, 2011**
Effective date	**December 2, 2011**

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

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

Dividends on common stock	
Total amount of dividends	**¥7,022 million ($85,437 thousand)**
Dividends per share	**¥75.00**
Record date	**March 31, 2012**
Effective date	**June 29, 2012**

For the year ended March 31, 2011

i) Dividend payment

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

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

Approvals by the Board of Directors' meeting held on November 4, 2010 were as follows:

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

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

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

Dividends on common stock	
Total amount of dividends	¥7,090 million ($86,271 thousand)
Dividends per share	¥75.00
Record date	March 31, 2011
Effective date	June 30, 2011

13. Leases

Operating Leases

Future lease payments for non-cancellable operating leases as a lessee at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥16	¥16	$206
Due after one year	23	36	288
Total	¥40	¥53	$495

14. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Sales commission	¥11,086	¥14,580	$134,891
Advertisement expenses	3,592	6,460	43,715
Salaries and wages	3,806	3,922	46,319
Provision for reserve for bonuses	392	455	4,779
Accrued retirement allowances for directors and corporate auditors	62	64	765
Retirement benefit costs	220	215	2,687
Provision for allowance for doubtful accounts	25	—	312
Research and development expenses	19,502	15,405	237,290

15. Sales and Disposal of Property, Plant and Equipment

Gain or loss on sales and loss on disposal of property, plant and equipment for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Gain on sales of property, plant and equipment:			
Machinery and equipment	¥ 2	—	$ 25
Loss on sales of property, plant and equipment:			
Land	¥(2,647)	—	$(32,215)
Buildings and structures	(83)	—	(1,018)
Total	¥(2,731)	—	$(33,232)
Loss on disposal of property, plant and equipment:			
Buildings and structures	¥ (7)	¥(23)	$(91)
Machinery and equipment	—	(18)	—
Tools, furniture and fixtures	(25)	(40)	(314)
Others	—	(2)	—
Total	¥ (33)	¥(84)	$ (404)
Loss on sales and disposal of property, plant and equipment, net	¥(2,762)	¥(84)	$(33,612)

16. Reversal of Loss Due to Disaster

With regard to the Company's clients affected by the Great East Japan Earthquake, an estimated amount of loss due to disaster was recorded in case of delays in recovery, reduction or exemption of debts, etc. in the previous fiscal year. However, the total amount was reversed in the current fiscal year.

17. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate of approximately 40.5% for the years ended March 31, 2012 and 2011.

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, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Accrued enterprise taxes	¥ 914	¥1,074	$ 11,129
Unrealized profits on inventories	5	99	72
Accrued employees' bonuses	304	345	3,703
Allowance for doubtful accounts	23	163	289
Accrued retirement allowances for employees	1,203	1,300	14,637
Accrued retirement allowances for directors and corporate auditors	254	265	3,091
Accumulated depreciation	3,035	2,033	36,933
Unrealized profit on property, plant and equipment	292	292	3,553
Allowance for losses on investments in securities	134	153	1,640
Research and development expenses	1,542	1,141	18,766
Loss on impairment	97	110	1,184
Tax loss carryforwards	1,315	—	16,006
Other	211	415	2,571
Sub-total deferred tax assets	¥9,334	¥7,395	$113,574
Less-valuation allowance	(995)	—	(12,106)
Deferred tax assets	¥8,339	¥7,395	$101,468
Deferred tax liabilities:			
Net unrealized losses on available-for-sale securities	¥ (893)	¥ (243)	$ (10,870)
Other	(3)	(3)	(40)
Deferred tax liabilities	(896)	(246)	(10,909)
Deferred tax assets, net	¥7,442	¥7,148	$ 90,558

Deferred tax assets, net at March 31, 2012 and 2011 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets in current assets	¥3,278	¥3,102	$39,888
Deferred tax assets in fixed assets	5,061	4,293	61,580
Deferred tax liabilities in long-term liabilities	(896)	(246)	(10,909)

A reconciliation between the statutory tax rate and the effective income tax rate at March 31, 2012 and 2011 is as follows:

	2012	2011
Normal effective statutory tax rate	40.5%	40.5%
Expenses not deductible for income tax purposes	0.2	0.2
Non-taxable income	(0.1)	(0.1)
Tax credit for research and development costs	(2.7)	(1.6)
Equity in earnings of affiliates accounted for by the equity method	(2.7)	(1.7)
Reduction of deferred tax assets due to tax rate changes	1.6	—
Effect of sale shares in equity-method affiliate	6.2	—
Loss on change in equity interest in affiliate	1.8	—
Other – net	0.4	(0.3)
Actual effective tax rate	45.2%	37.0%

On December 2, 2011, the Act for Partial Amendment to the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated. Consequently, the corporate tax will be reduced and a special recovery tax will be imposed. In accordance with this tax reform, the effective statutory tax rate, which is used to measure deferred tax assets and deferred tax liabilities, has been reduced from 40.5% to 37.87% for temporary differences that are expected to be eliminated during the period from April 1, 2012 through March 31, 2015 and 35.49% for temporary differences to be eliminated on or after April 1, 2015. As a result, deferred tax assets in current assets and net deferred tax assets in fixed assets (the amount after deducting deferred tax liabilities in long-term liabilities) decreased by ¥133 million ($1,622 thousand) and ¥335 million ($4,080 thousand), respectively. In addition, net unrealized gains (losses) on available-for-sale securities and income taxes-deferred increased by ¥127 million ($1,547 thousand) and ¥595 million ($7,248 thousand), respectively as of and for fiscal year ended March 31, 2012.

18. Financial Instruments and Related Disclosures

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

(3) Supplementary explanation concerning fair values of financial instruments

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

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2012 and 2011 were as follows. Financial instruments whose fair values are not readily determinable are excluded from the following table. (See Note 2 of the table)

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

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

March 31, 2012	Thousands of U.S. dollars Carrying amount	 Fair value	 Unrealized gain (loss)
(1) Cash and deposits	$2,002,579	$2,002,579	$ —
(2) Notes and accounts receivable—trade	855,831		
Allowance for doubtful accounts	(172)		
	855,658	843,491	(12,168)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	1,885,843	1,887,709	1,866
Available-for-sale securities	82,807	82,807	—
Total assets	$4,826,888	$4,816,586	$(10,302)
(4) Notes and accounts payable—trade	$ 529,322	$ 529,322	$ —
Total liabilities	$ 529,322	$ 529,322	$ —

Notes: 1. Calculation method of fair values of financial instruments and securities transactions
(1) Cash and deposits
Since these are settled in a short time period, their fair values approximate their carrying amounts.
(2) Notes and accounts receivable—trade
The fair values are stated at their current values, which are calculated for each receivables group categorized by the remaining period to the maturity discounted by the interest rate applicable to the period and the credit risk.
(3) Marketable securities and investments in securities
The fair values of these securities are determined using the quoted price at the stock exchange. Debt securities are determined using the quoted prices obtained from correspondent financial institutions. Matters to be noted in respect of securities by holding purpose are stated in "Marketable Securities and Investments in Securities."
(4) Notes and accounts payable—trade
Since these are settled in a short time period, their fair values approximate their carrying amounts.
2. Since it is extremely difficult to determine the fair values of unlisted equity securities amounting to ¥20,545 million ($249,970 thousand) and ¥15,965 million at March 31, 2012 and 2011, respectively, as there are no market prices available and it is impossible to estimate the future cash flow, they are not included in "(3) Marketable securities and investments in securities."

3. Redemption schedule of monetary assets and securities with contractual maturities at March 31, 2012 and 2011 were as follows

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

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

	Thousands of U.S. dollars	
March 31, 2012	Within one year	One to five years
(1) Cash and deposits	**$2,002,579**	**$ —**
(2) Notes and accounts receivable—trade	**603,441**	**252,389**
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	**389,342**	**584,013**
Held-to-maturity debt securities (Certificates of deposits)	**912,520**	**—**

19. Asset Retirement Obligations

Asset retirement obligations recorded on consolidated balance sheets at March 31, 2012 and 2011 were as follows:

(1) Overview of asset retirement obligations

Asset retirement obligations at March 31, 2012 and 2011 were based on restoration obligations, etc. in real estate lease of buildings.

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Beginning balance*	**¥59**	¥58	**$721**
Increase due to acquisition of property, plant and equipment	**3**	—	**43**
Adjustment by time elapsed	**0**	0	**7**
Decrease due to fulfillment of asset retirement obligation	**(5)**	—	**(64)**
Ending balance	**¥58**	¥59	**$707**

Note: * The beginning balance in the year ended March 31, 2011 was the effect of applying the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, March 31, 2008).

20. Business Combination

For the year ended March 31, 2012

1. Outline of the business combination

(1) Name and business description of the acquired company

Name: JB CO., LTD.

Business: Production and sales of gaming machines

(2) Primary reason for the business combination

The Company aims to enhance products such as Pachinko machines and Pachislot machines and expand market share through strengthening of coordination between JB CO., LTD. and the Companies, and growing the brand of JB CO., LTD. as a third brand of the Companies.

(3) Effective date of the business combination
Date of acquisition of shares: March 30, 2012
Deemed date of acquisition of shares: March 31, 2012

(4) Legal structure of the business combination
Acquisition of shares with cash consideration

(5) Name of the entity after the business combination
JB CO., LTD.

(6) Percentage of voting rights acquired
40%

(7) Determination of Acquired Company
The acquired company is substantially controlled by the Company after payment of a cash consideration for 40% of voting rights.

2. Period for the operating results of the acquired company included in the consolidated financial statements

Operating results of the acquired company are not included in the accompanying consolidated financial statements since the acquired company is consolidated as of March 31, 2012.

3. Acquisition cost details

	Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition	¥ 308	$ 3,747
Acquisition cost	¥ 308	$ 3,747

4. Amount of goodwill incurred, reason thereof, method and period of amortization

(1) Amount of goodwill incurred
¥3,013 million ($36,667 thousand)

(2) Reason
Excess earning power expected through JB CO., LTD.'s business development

(3) Amortization method and period
Straight-Line method amortization over 5 years

5. Details of assets acquired and liabilities assumed on the date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 689	$ 8,386
Fixed assets	236	2,878
Total assets	¥ 925	$ 11,264
Current liabilities	¥ 810	$ 9,858
Long-term liabilities	2,821	34,326
Total liabilities	¥ 3,631	$ 44,184

6. Estimated impact on the consolidated statement of income for the year ended March 31, 2012, if the business combination had been completed April 1, 2011

	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 866	$ 10,543
Operating income	(461)	(5,614)
Income before income taxes	(506)	(6,163)
Net income	(508)	(6,181)

	Yen	U.S. dollars
Net income per share	¥ (5.43)	$ (0.07)

The amounts were computed based on the difference between the operating results of the Company for the current fiscal year as if this business combination had been completed April 1, 2011, and the consolidated operating results of the Company. In addition, net income per share was calculated using the weighted average number of common stock (93,499,783 shares).
These amounts were unaudited.

21. Segment Information

1. Overview of the reportable segments

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

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

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

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

Millions of yen

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

Millions of yen

	For the year ended March 31, 2011							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	¥149,876	¥30,316	¥19,652	¥199,844	¥1,761	¥201,606	—	¥201,606
Intersegment	—	—	—	—	—	—	—	—
Total	149,876	30,316	19,652	199,844	1,761	201,606	—	201,606
Segment profit	47,822	6,953	1,276	56,052	652	56,704	(4,781)	51,923
Segment asset	41,188	26,747	20,273	88,208	13,629	101,837	386,798	488,636
Others								
Depreciation and amortization	3,674	587	133	4,395	121	4,516	194	4,710
Increase in fixed assets and intangible fixed assets	1,995	70	38	2,104	21	2,125	143	2,269

	Thousands of U.S. dollars							
	For the year ended March 31, 2012							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other[*1]	Total	Adjustment[*2]	Consolidated[*3]
Sales:								
Customers	$1,500,828	$295,446	$297,392	$2,093,666	$ 19,512	$2,113,178	$ –	$2,113,178
Intersegment	–	–	–	–	–	–	–	–
Total	1,500,828	295,446	297,392	2,093,666	19,512	2,113,178	–	2,113,178
Segment profit	458,636	66,423	15,129	540,189	7,724	547,913	(57,396)	490,517
Segment asset	888,899	233,779	328,129	1,450,807	65,265	1,516,072	4,518,583	6,034,654
Others								
Depreciation and amortization	29,506	6,180	764	36,449	1,356	37,805	2,429	40,234
Increase in fixed assets and intangible fixed assets	50,180	11,630	256	62,066	71	62,136	423	62,559

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

Related Information

1. Product and service segment information

Product and service segment information has been omitted since similar description is disclosed in segment information for the years ended March 31, 2012 and 2011.

2. Geographical segment information

(1) Sales

There are no sales to customers outside Japan and no applicable data for the years ended March 31, 2012 and 2011.

(2) Fixed assets

There are no fixed assets located outside Japan and no applicable data for the years ended March 31, 2012 and 2011.

3. Major customer information

For the year ended March 31, 2012

Name of customer	Sales (Millions of yen, Thousands of U.S. dollars)	Name of related segment
Fields Corporation	¥ 19,943 ($242,657)	Pachinko machine business and Pachislot machine business

Major customer information is not shown since there is no customer accounting for more than 10% of the sales in the consolidated statement of income for the year ended March 31, 2011.

Information on Losses on Impairment of Fixed Assets by segment

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

For the year ended March 31, 2011

	(Millions of yen)						
	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other	Eliminations/ Corporate*	Total
Loss on impairment	–	–	–	–	–	¥262	¥262

Notes: * Amount shown is related to idle assets.

Information on Amortization of Goodwill and Remaining Balance by segment

As of and for the year ended March 31, 2012

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

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other	Eliminations/ Corporate	Total
Amortization of goodwill during the year	–	–	–	–	–	–	–
Balance at end of year	¥2,459 ($29,921)	¥554 ($6,747)	–	¥3,013 ($36,667)	–	–	¥3,013 ($36,667)

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

There is no corresponding information as of and for the year ended March 31, 2011.

Information on Gain on Negative Goodwill by segment

There is no corresponding information the years ended March 31, 2012 and 2011.

22. Per Share Information

	Yen		U.S. dollars
	2012	2011	2012
Net asset per share	¥4,475.09	¥4,447.95	$54.45
Net income per share	215.85	364.09	2.63

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

Above information was computed based on the following data:

	Year ended March 31,	
	2012	2011
Net asset per share:		
Total net assets	¥418,303 million	¥419,658 million
Net assets attributable to common stock	¥418,303 million	¥419,658 million
Number of outstanding shares of common stock	97,597,500 shares	97,597,500 shares
Number of treasury stock	4,123,691 shares	3,248,685 shares
Number of common stock used in computing net asset per share	93,473,809 shares	94,348,815 shares
Net income per share:		
Net income	¥20,182 million	¥34,733 million
Net income attributable to common stock	¥20,182 million	¥34,733 million
Net income not attributable to common stock shareholders	–	–
Weighted average number of common stock	93,499,783 shares	95,398,765 shares

23. Related Party Transaction

The transactions for the years ended March 31, 2012 and 2011 and related account balances outstanding at each year end were as follows:

For the year ended March 31, 2012

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

Description	Name	Address	Capital	Business line/ occupation	Voting rights owned by the Company	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliate company	Fields Corporation	Shibuya-ku, Tokyo	¥7,948 ($96,703)	Development, purchase and sales of game machines	Direct 15.69% (The company owns 1.05% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥19,943 ($242,645)	Accounts receivable-trade	¥10,119 ($123,121)
							Consignment sales of game machines	¥9,200 ($111,944)	Accounts payable-other	¥2,056 ($25,027)
							Royalty	¥1,727 ($21,019)	Accounts payable-other	¥435 ($5,300)

For the year ended March 31, 2011 (Millions of yen)

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

24 Significant Subsequent Event

There was no significant subsequent event to be reported for the years ended March 31, 2012 and 2011.

25. Significant Subsidiaries and Affiliates

The domestic consolidated subsidiaries and affiliates accounted for by the equity method at March 31, 2012 and 2011 were as follows:

	Ownership		
At March 31	2012	2011	Consolidation method
SANKYO EXCEL CO., LTD.	100%	100%	Full consolidation
BISTY CO., LTD.	100%	100%	Full consolidation
SANKYO CREATE CO., LTD.	100%	100%	Full consolidation
INTERNATIONAL CARD SYSTEM CO., LTD.	100%	100%	Full consolidation
JB CO., LTD.*1	40%	—	Full consolidation
NIPPON GAME CARD CORPORATION *2	—	39.41%	Equity method
FIELDS CORPORATION	15.69%	15.67%	Equity method

Notes:
*1. JB CO., LTD. was newly consolidated due to the acquisition of its shares at March 30, 2012. In the fiscal year ended March 31, 2012, only its balance sheet was consolidated since it is consolidated as of March 31, 2012.
*2. NIPPON GAME CARD CORPORATION, which was accounted for by the equity method in the fiscal year ended March 31, 2011, has been excluded from the application of equity method accounting as of March 31, 2012 due to the sale of its shares.

Report of Independent Auditors

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Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

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

Independent Auditor's Report

The Board of Directors
SANKYO Co., Ltd.

We have audited the accompanying consolidated financial statements of SANKYO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SANKYO Co., Ltd. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

June 22, 2012
Tokyo, Japan

Ernst & Young ShinNihon LLC

Board of Directors

(As of June 28, 2012)

Honorary Chairman
Kunio Busujima

Representative Director, Chairman of the Board & CEO
Hideyuki Busujima

Representative Director, President & COO
Kimihisa Tsutsui

Director & Senior Executive Operating Officer
Akihiko Ishihara

Standing Statutory Auditor
Shohachi Ugawa

Statutory Auditor
Toshiaki Ishiyama

Outside Auditors
Yoshiro Sanada
Fumiyoshi Noda

Executive Operating Officers
Satoshi Kouketsu
Junko Takimoto
Ichiro Tomiyama

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

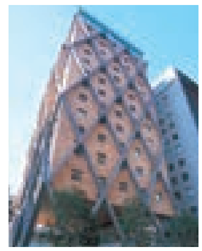
For Further Information Contact:
Corporate Planning Division, SANKYO CO., LTD.
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7773 Facsimile: 81(3)5778-6731
http://www.sankyo-fever.co.jp

Corporate Data

(As of March 31, 2012)

Company Name
SANKYO CO., LTD.

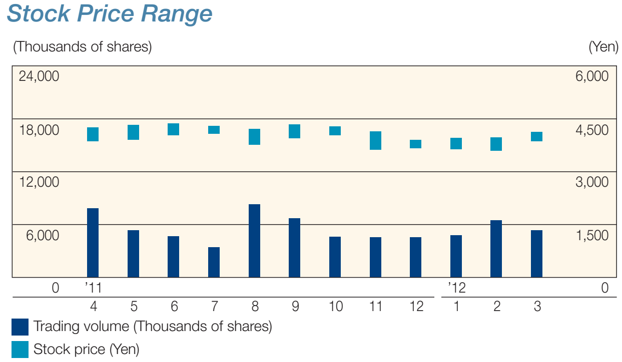
Head Office
3-29-14 Shibuya, Shibuya-ku, Tokyo 150-8327, Japan
Telephone: 81(3)5778-7777 Facsimile:81(3)5778-6731



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

Established	April 1966
Paid-in Capital	¥14,840 million
Number of Employees	1,087 (Consolidated) 915 (SANKYO CO., LTD.)
Number of Shares Authorized	144,000,000
Number of Shares Issued	97,597,500
Number of Shareholders	12,604

Stock Price Range



Stock Exchange Listing
The Tokyo Stock Exchange, First Section,
Code Number 6417
Transfer Agent
Sumitomo Mitsui Trust Bank, Limited
Auditor
Ernst & Young ShinNihon LLC

Good luck. Good life.

SANKYO

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