Good luck. Good life.

SANKYO

Rising to the Next Challenges

Annual Report 2014

Year ended March 31, 2014

2014

SANKYO CO., LTD.

Rising to the Next Challenges

Ever since the establishment of SANKYO Co., Ltd. in 1966, inspired by our credo of "ingenuity" we have been a source of epoch-making, player-captivating pachinko machines and we have led the pachinko industry for nearly half a century, thus making a great contribution to the industry's development. In recent years, SANKYO has also secured a firm position as a manufacturer of pachislot with a substantial market share. Through a strategy focused on the pachinko and pachislot machine businesses, SANKYO has constructed stable revenue bases and achieved a sound financial position.

The SANKYO Group aspires to create attractive pachinko and pachislot machines by fully utilizing our great experience and wealth of know-how, to drive business growth and propel the industry's development.

Contents

Cautionary Statements with Respect to Forward-Looking Statements

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

Consolidated Financial Highlights

SANKYO CO., LTD. and Its Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

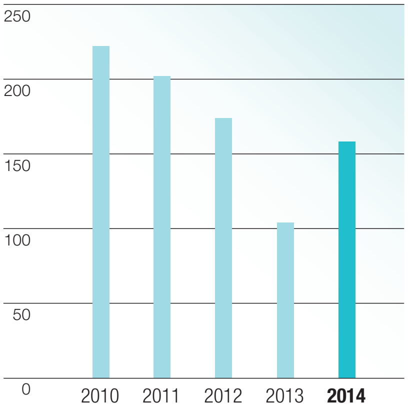
	Millions of yen		Thousands of U.S. dollars (Note)
	2014	2013	**2014**
For the year:			
Net sales	**¥158,453**	¥104,150	**$1,539,578**
Operating income	**28,023**	7,023	**272,288**
Net income	**22,400**	5,853	**217,654**
At year-end:			
Total assets	**¥451,149**	¥464,259	**$4,383,499**
Total net assets	**413,096**	402,918	**4,013,761**

	Yen		U.S. dollars
Per share data:			
Net income (basic)	**¥239.65**	¥62.62	**$2.33**
Cash dividends	**150.00**	150.00	**1.46**

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥102.92=U.S.$1. See Note 2 to the consolidated financial statements.

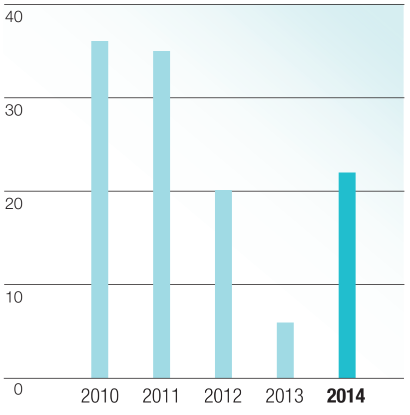
Net Sales

(Billions of yen)



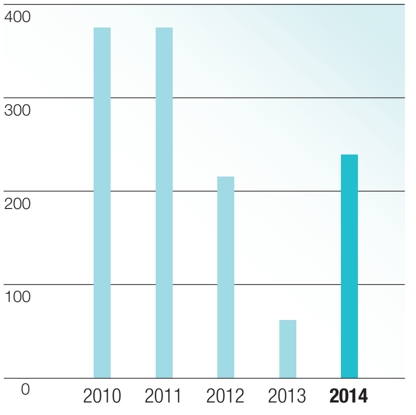
Net Income

(Billions of yen)



Net Income per Share (basic)

(Yen)



Interview with the Management

Hideyuki Busujima
Chairman of the Board & CEO

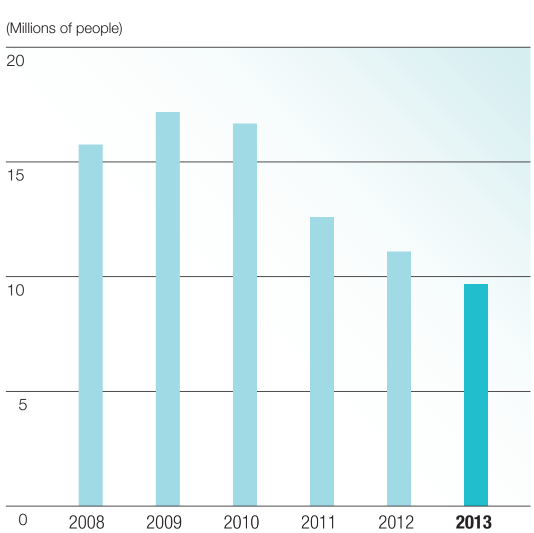
Kimihisa Tsutsui
President & COO

[Q] What is the current situation of the pachinko and pachislot industry?

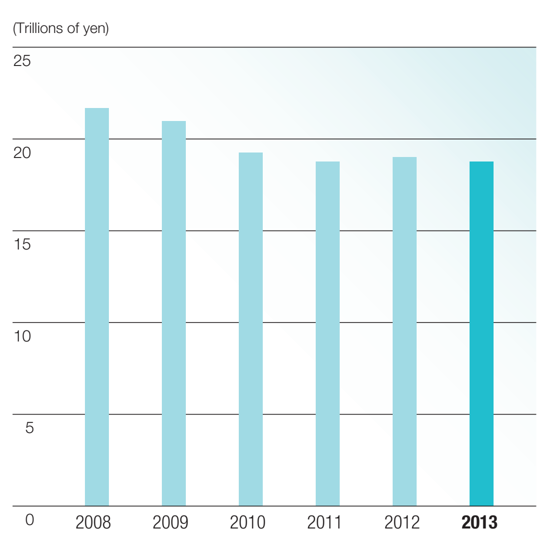
[A] According to the 2014 Leisure White Paper*, there are 9.7 million pachinko and pachislot players and the market is worth ¥18.8 trillion, making pachinko and pachislot Japan's foremost leisure pursuit on a value basis. However, the pachinko and pachislot market has been shrinking in recent years, reflecting the diversification of entertainment, spurred by the spread of smartphones, and sluggish personal consumption. The situation of pachinko and pachislot machine sales is also severe. As the offering of rental balls for as little as ¥1 per ball has become commonplace and pachinko machine utilization remains low, parlor operators are cutting costs to secure profit and becoming increasingly cautious about capital investment. They are curbing purchase volumes of new machines, which are the key

*Source: Japan Productivity Center

Pachinko/Pachislot Player Population



Ball/Token Rental Revenues



Source: 2014 Leisure White Paper, Japan Productive Center means of attracting customers. In particular, the number of new pachinko machines shipped is trending downward.

Meanwhile, in line with the ongoing recovery of the Japanese economy, we are hoping that expansion of personal consumption, including an increase in the monthly personal discretionary spending of salaried workers that correlates with ball/token rental revenues, will help energize the pachinko and pachislot industry. In addition, the industry organizations, covering pachinko/pachislot machine manufacturers and parlor operators, are jointly implementing measures to increase the player population. In this regard, the SANKYO Group is working to offer diverse pachinko and pachislot machines that light players and dormant players can play with ease.

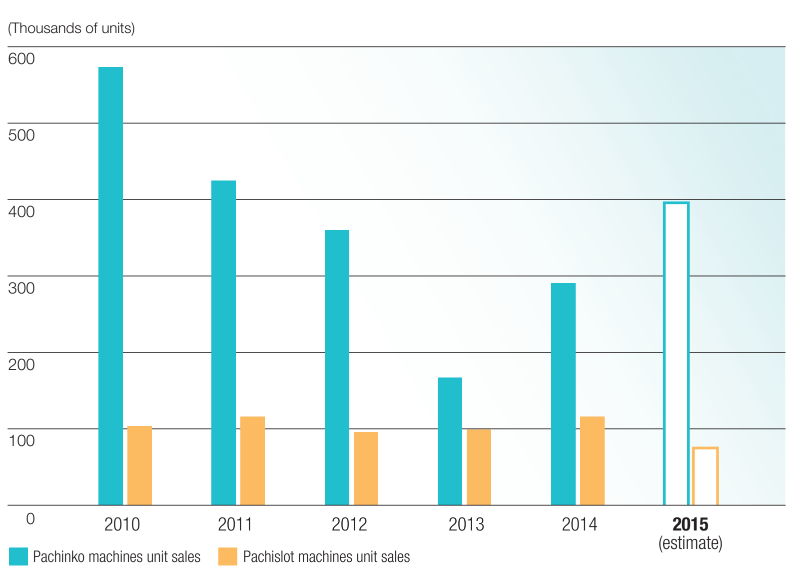
[Q] What's your view of the SANKYO Group's financial performance in the fiscal year ended March 2014?

[A]

We achieved a great increase in both sales and profit. Consolidated net sales amounted to ¥158.4 billion, an increase of 52.1% year on year, while operating income soared 299.0% to ¥28.0 billion and net income surged 282.7% to ¥22.4 billion.

These gratifying results are largely owing to the success of *Fever Mobile Suit Gundam* and *Evangelion 8*. The eagerly awaited introduction of *Fever Mobile Suit Gundam*, marketed under the SANKYO brand as the Group's new flagship model, resulted in sales of 80,000 units and *Evangelion 8*, a sequel to a mainstay title under the Bisty brand, won high popularity. Sales of other titles, however, slowed in the second half of the year, despite the introduction of new titles, primarily ones featuring new content and innovative gaming

Pachinko and Pachislot Machines Unit Sales of the SANKYO Group



performance, as parlor operators became increasingly conservative in selecting products following the government's decision in October 2013 to increase the consumption tax and demand was concentrated on well-established products of other manufacturers, such as sequels to previous popular titles.

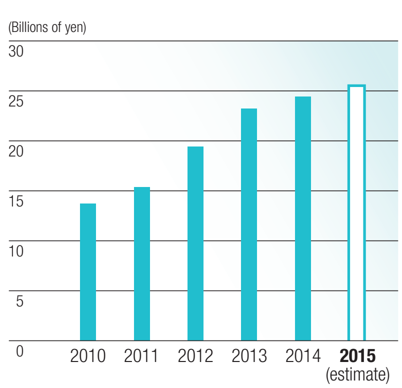
The substantial year-on-year increases in both sales and profit reflected our postponement of sales of *Fever Mobile Suit Gundam* and certain other titles, which were originally scheduled for introduction in fiscal 2013, to fiscal 2014 in order to sharpen their market appeal.

[Q] How is the SANKYO Group's financial performance for fiscal 2015 shaping up?

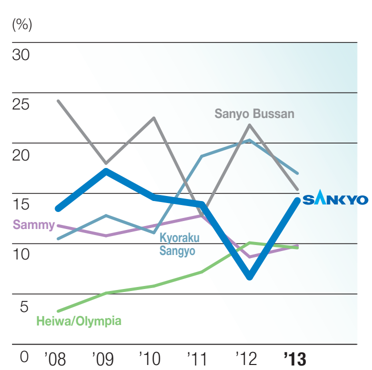
[A] Regarding the outlook for shipment volumes in the market as a whole for fiscal 2015, we expect the downward trend to continue for pachinko machines, while shipments of pachislot machines will likely remain at the same level as fiscal 2014. We forecast an increase in sales and a decrease in profit for fiscal 2015: net sales of ¥172.0 billion, up 8.5%, operating income of ¥19.2 billion, down 31.5%, and net income of ¥14.2 billion, down 36.6%. Our plans assume, on the one hand, an increase in the sales volume of pachinko machines in view of the introduction of a greater number of new titles and reuse models and, on the other hand, a decrease in the sales volume of pachislot machines because of the introduction of fewer titles.

With a view to achieving an uninterrupted rise in sales over the long term, the SANKYO Group will maintain its vigorous efforts to offer products capable of inspiring loyalty among players and parlors, while seeking to leverage the Group's brand power. For products slated for release in the near future, we are emphasizing high visual impact so that players and parlors will select them based on the powerful impression they make. However, we recognize that mounting more gimmicks on a pachinko board and

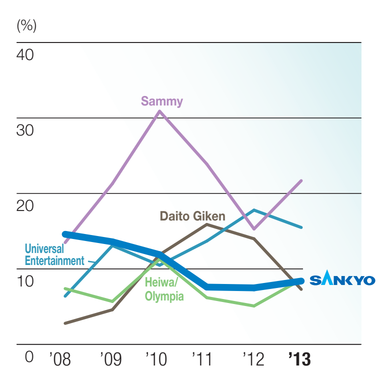
Trend of R&D Expenditure SANKYO (Consolidated)



Pachinko Machine Sales Share (unit basis)



Pachislot Machine Sales Share (unit basis)



Source: Yano Research Institute

maintaining our uncompromising commitment to quality will tend to increase the materials cost. At the same time, our ongoing initiatives to reinforce the quality in detail will result in higher R&D expenditure.

Although sales of pachinko machines are expected to trend upward due to the rollout of increasingly sophisticated products, profitability is likely to decline temporarily because of our measures to boost brand power.

Regarding pachislot, by reinforcing the quality in detail for each title and emphasizing the content and presentation of gaming performance, we aim to enhance the market presence of the SANKYO Group and establish a structure that will enable us to remain in the top tier. A good example of what we have in mind is *Pachislot Macross Frontier II*, a title that has won high popularity among players and achieved high machine utilization at parlors.

[Q] The declining player population appears to be the root cause of the challenging business environment. How is the pachinko and pachislot industry tackling this issue? What are SANKYO's initiatives?

[A] For the pachinko and pachislot industry as a whole, there are three principal: broadening the player base, improving the high-cost structure, and ensuring the soundness of the industry. To address these industry-wide issues, 14 industry organizations led by Nichiyukyo, Nikkoso, and Zennichiyuren established the Pachinko/Pachislot Industry Vitalization Committee in 2014.

The committee is promoting three initiatives addressing the urgent need to increase the player population: 1) development of diverse pachinko/pachislot machines, 2) creating parlors with a relaxing ambience for players, and 3) improvement of the industry's PR activities. The committee has set a policy calling for manufacturers of pachinko and pachislot machines and parlor operators to join forces, setting aside their narrow interests, in a concerted effort to develop diverse pachinko and pachislot machines that reflect parlors' preferences.

While most pachinko machine manufacturers tend to focus on fever-type pachinko machines, which are the current mainstream in the market, the SANKYO Group has also been releasing other types of pachinko machines every year in order to offer products that appeal to dormant pachinko players.

Unfortunately, these products did not gain the envisaged momentum in the market. Nevertheless, what started as SANKYO's initiative has been taken up by the entire industry. As the sense of crisis is shared by the industry, we believe SANKYO's pioneering efforts are showing the way forward for the industry. By introducing diverse products that leverage the distinctive characteristics of our three brands—SANKYO, Bisty, and JB—we are committed to contributing to vitalization of the pachinko and pachislot market.

[Q] The quality of corporate governance is having a greater impact on share prices in Japan, just as it is elsewhere. In light of this trend, what is SANKYO doing to enhance corporate value?

[A] Reinforcing corporate governance is one element of the Japanese government's new growth strategy and a Japanese version of the stewardship code has been introduced. In view of these developments, we recognize that strengthening corporate governance is at the heart of management, more so than ever before.

SANKYO's current management structure comprises the Board of Directors consisting of four directors, the Board of Auditors consisting of two statutory auditors and two outside auditors, and the operating officer system, and currently we have no outside director. However, we are by no means negative about the idea of appointing an outside director. Considering the challenges confronting the pachinko industry, we have concluded that the appointment of an outside director to reinforce corporate governance and offer new perspectives would be beneficial.

Although appointing an outside director was not proposed at the ordinary general meeting of shareholders held in June 2014, we intend to do so at the next ordinary general meeting of shareholders and will proceed with selection of candidates.

The SANKYO Group's basic management policy is to achieve profitable growth through increased market share by focusing on the core pachinko and pachislot machine business to enable stable payment of continuously increasing dividends. To ensure vigorous implementation of this policy, we have abolished the retirement benefit plan for directors and statutory auditors, which tended to strongly reflect seniority, and introduced stock compensation-type stock options to firmly align the actions of senior executives in their management of the SANKYO Group with the interests of shareholders. Directors and operating officers of SANKYO Co., Ltd. and directors of the subsidiaries are eligible for this stock option program. They will benefit from incentives to the extent that they enhance corporate value, focusing on the share price from a medium- to long-term perspective. SANKYO's return on equity (ROE) has been low, reflecting the Company's lackluster performance in recent years. By recovering the earnings power of our core businesses, we would like to raise ROE to around 8%.

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 63.8% of net sales.

Titles released under the SANKYO brand included *Fever Mobile Suit Gundam* (introduced in April 2013), *Fever Slayers Revolution* (introduced in October 2013), and *Fever Umizaru* (introduced in March 2014). The Group released *Beyond the Heavens* (introduced in May 2013), *Evangelion 8* (introduced in July 2013), and *TEKKEN* (introduced in November 2013) under the Bisty brand. Titles released under the JB brand included *Magicape* (introduced in May 2013), *Ghost Neo* (introduced in June 2013), *Slonko Flower* (introduced in August 2013), and *Cho Tenjiku* (introduced in January 2014).

As a result, segment sales amounted to ¥101.1 billion, an increase of 89.7% year on year, and operating income was ¥21.7 billion, an increase of 380.5%. Sales of pachinko machines amounted to 291,000 units.

Principal models introduced and numbers of machines sold during fiscal 2014

Principal models	Released	No. of machines sold (thousand machines)
*Fever Mobile Suit Gundam**	April 2013	106.3
Evangelion 8	July 2013	75.7
TEKKEN	November 2013	18.7

* Includes reuse models

Fever Mobile Suit Gundam

©創通・サンライズ

Evangelion 8

©カラー ©Bisty

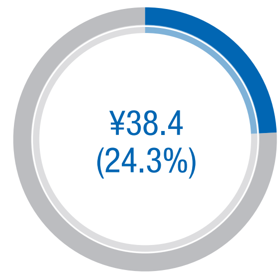
Pachislot Machines Business

This segment, which includes manufacturing and sales of pachislot machines, sales of related parts and pachislot machine-related royalty income, accounted for 24.3% of net sales.

Titles released under the SANKYO brand included *Pachislot Aquarion II* (introduced in May 2013), *Pachislot Bomber Powerful II* (introduced in September 2013), and *Pachislot Tiger Mask* (introduced in November 2013). New titles released under the Bisty brand included *Pachislot Ultraman Wars* (introduced in October 2013), *Mobile Suit Gundam* (introduced in January 2014), and *Evangelion "Ketsui no Toki"* (introduced in February 2014).

As a result, segment sales amounted to ¥38.4 billion, an increase of 38.1% year on year, and operating income was ¥10.8 billion, an increase of 60.7%. Sales of pachislot machines amounted to 116,000 units.

Sales (Billions of yen)



Principal models introduced and numbers of machines sold during fiscal 2014

Principal models	Released	No. of machines sold (thousand machines)
Pachislot Aquarion II	May 2013	41.5
Pachislot Ultraman Wars	October 2013	23.4
Mobile Suit Gundam	January 2014	25.1
Evangelion "Ketsui no Toki"	February 2014	13.0

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

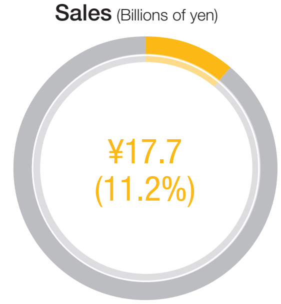
Mobile Suit Gundam
©創通・サンライズ
©Bisty

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 11.2% of net sales.

Sales of the ball bearing supply systems business were ¥17.7 billion, a decrease of 17.2% year on year, and operating income was ¥600 million, a decrease of 32.3%, due to lackluster sales reflecting a decrease in the number of new parlors opened.

Sales (Billions of yen)

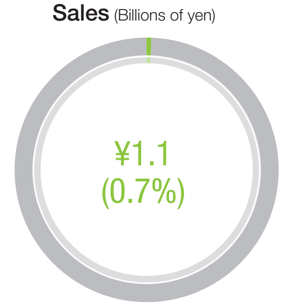


Other Businesses

Real estate rental revenues and sales of general molded parts account for most of the sales of this segment, which contributed 0.7% of net sales.

Sales of other businesses were ¥1.1 billion, a decrease of 26.2% year on year. An operating loss of ¥600 million was recorded compared with an operating loss of ¥400 million for the previous year.

Sales (Billions of yen)



Pachinko & Pachislot Festa 2014

The SANKYO Group participated in the Pachinko & Pachislot Festa 2014 held by Nichiyukyo. With broadening the player base as the theme, this event was an opportunity for players and people who have never played pachinko or pachislot before to experience the latest machines. In addition to the exhibition at the main venue in Akihabara, A booth was also held at Niconico Chokaigi 3* in Makuhari Messe. The event was a great success and visitors were mainly young people. The SANKYO Group showcased seven game machines. It was a golden opportunity for people new to pachinko or pachislot to have a go, experience the thrill, and want to play more.

* Niconico Chokaigi is a grand-scale Niconico fan event whose concept is to bring the Niconico Douga video community with over 30 million subscribers into reality. It is an annual event popular among young people. Guests of Niconico Chokaigi include well-known politicians, athletes, and celebrities.

Products Designed to Attract Dormant Players

The lack of diversity among machines is often cited as a factor contributing to the declining player population. In order to attract dormant players who may number as many as eight million, manufacturers are urged to develop pachinko and pachislot machines that address diverse player needs.

In addition to the fever-type* machines, which are the mainstream in the market, the SANKYO Group has been developing and offering simple, easy-to-understand machines, such as 7-segment type, drum type, and airplane type, that do not rely on LCD presentation and content. Drawing on our expertise in developing pachinko and pachislot machines, we strive to offer diverse machines that attract dormant players.

* The gaming performance of fever-type pachinko machines centers on content-based LCD presentation.

Fever type
Fever Suzumiya Haruhi no Yuutsu
©2006 谷川 流・いとうのいぢ/SOS団

7-segment type
©JB

Drum type
SLONKO FLOWER
©JB

Airplane type
Uchi no Pochies
©JB

Financial Review

The Company's financial position and operating results for the fiscal year ended March 31, 2014 (fiscal 2014), 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 2014

During the fiscal year ended March 31, 2014, underpinned by the effects of various policies, the Japanese economy remained on a moderate recovery track against a backdrop of improved corporate earnings and robust domestic demand. Regarding the outlook for the Japanese economy, a downturn of overseas economies and the impact of the consumption tax increase have emerged as concerns.

The operating environment for the pachinko and pachislot industry remained challenging as the player population continued to decline. Whereas pachislot machine utilization at parlors remained robust, supported by stable popularity among players, the downward trend of pachinko machine utilization continued. In addition, following the Japanese government's decision in October 2013 to raise consumption tax, parlor operators became increasingly cautious about capital investment and, in particular, they are curbing purchase volumes of new pachinko machines.

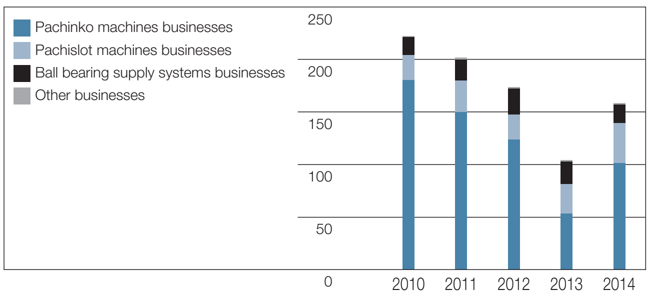
Net Sales

The Group strove to create popular products capable of boosting brand power under the new development structure, and released Fever Mobile Suit Gundam (introduced in April 2013) under the SANKYO brand and Evangelion 8 (introduced in July 2013) under the Bisty brand. The two titles achieved the planned sales levels and their evaluation among players and parlors was largely favorable. However, sales of other titles struggled despite featuring new content and innovative gaming performance.

As a result, consolidated net sales amounted to ¥158.4 billion, an increase of 52.1% year on year, operating income increased 299.0% to ¥28.0 billion, and net income increased 282.7% to ¥22.4 billion.

Net Sales

(Billions of yen)



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

Cost of sales for fiscal 2014 amounted to ¥84.0 billion. The ratio of cost of sales to net sales increased 0.4 percentage points from the previous fiscal year to 53.0%.

Selling, general and administrative expenses increased ¥4.0 billion from the previous fiscal year, mainly owing to an increase in sales commissions in line with an increase in sales volume. However, the ratio of selling, general and administrative expenses to net sales decreased 11.4 percentage points from the previous fiscal year to 29.3%. As a result, operating income surged 299.0% to ¥28.0 billion and the ratio of operating income to net sales increased 10.9 percentage points from the previous fiscal year to 17.7%.

With respect to other income (expenses), other income, net, amounted to ¥1.5 billion, having decreased ¥0.9 billion partly owing to a loss on sales of investment securities.

Net income increased ¥16.5 billion from ¥5.8 billion for the previous fiscal year to ¥22.4 billion. Net income per share (basic) was ¥239.65 compared with ¥62.62 for the previous fiscal year.

Segment Information by Business

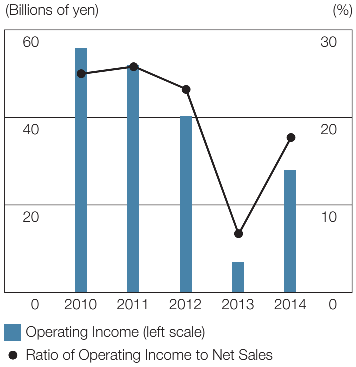
(Millions of yen)

Net sales	2014	Year-on-year change	2013
Pachinko machines business	**¥101,102**	89.7%	¥ 53,302
Pachislot machines business	**38,433**	38.1	27,822
Ball bearing supply systems business	**17,776**	(17.2)	21,478
Other businesses	**1,141**	(26.2)	1,546
Total	**¥158,453**	52.1%	¥104,150

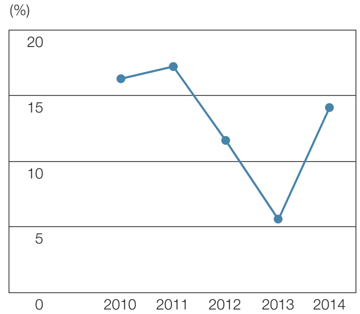
(Millions of yen)

Operating income	2014	Year-on-year change	2013
Pachinko machines business	**¥21,704**	380.5%	¥4,517
Pachislot machines business	**10,885**	60.7	6,774
Ball bearing supply systems business	**674**	(32.3)	995
Other businesses	**(621)**	—	(410)
Elimination/Corporate	**(4,618)**	—	(4,853)
Total	**¥28,023**	299.0%	¥7,023

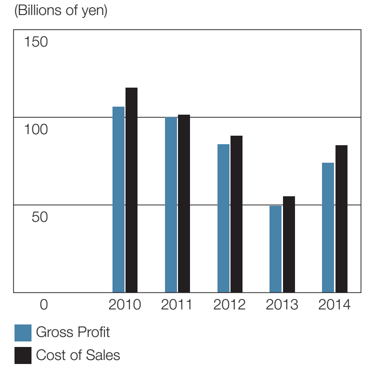
Operating Income and Ratio of Operating Income to Net Sales



Return on Sales (ROS)



Gross Profit and Cost of Sales



Fiscal 2015 Forecast

A marked upturn in the operating environment of the pachinko and pachislot industry is unlikely in the near term. Regarding the outlook for shipment volumes in the market as a whole for fiscal 2015, the downward trend is expected to continue for pachinko machines, while shipments of pachislot machines are expected to remain at the same level as the previous year.

The Group will continue its efforts to offer products capable of inspiring loyalty among players and parlors, and thus boost the Group's brand power. In addition, with the aim of expanding market share, the Group will step up its efforts to promote reused Pachinko models, which are attractively priced but expected to have an impact comparable to that of new machines.

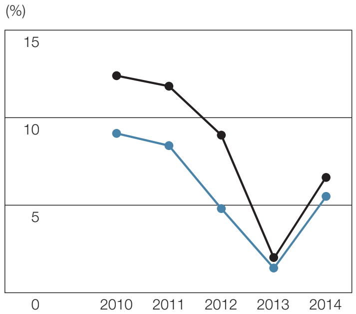
The Group's plan calls for sales volumes for the fiscal year ending March 31, 2015, of 396,000 pachinko machines and 75,000 pachislot machines.

The forecast for consolidated business results in the fiscal year ending March 31, 2015, are as follows:

(Billions of yen)

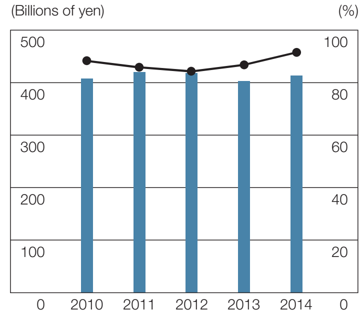
	2015 forecast	Year-on-year change	2014 results
Net sales	¥172.0	8.5%	¥158.4
Operating income	19.2	(31.5)	28.0
Net income	14.2	(36.6)	22.4

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



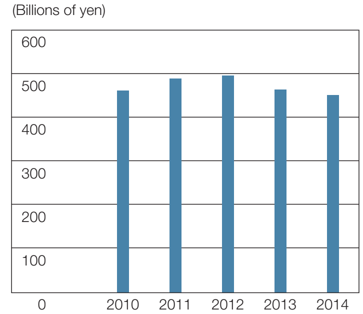
● Return on Equity (ROE)
● Return on Assets (ROA)
ROA=(Operating income + Interest and dividend income + Interest on marketable securities) / Total assets (yearly average)

Total Net Assets and Equity Ratio



Total Net Assets (left scale)
● Equity Ratio

Total Assets



Assets, Liabilities, and Net Assets

Total assets at the end of fiscal 2014 amounted to ¥451.1 billion, ¥13.1 billion lower than the figure at the previous fiscal year-end. This decrease in total assets, which occurred despite a ¥17.0 billion increase in marketable securities, was mainly attributable to a ¥14.5 billion decrease in accounts receivable for provision of parts and materials for value, a ¥9.6 billion decrease in notes and accounts receivable-trade, and a ¥9.0 billion decrease in merchandise and finished goods.

Total liabilities amounted to ¥38.0 billion, having decreased ¥23.2 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥26.0 billion decrease in notes and accounts payable-trade despite a ¥5.6 billion increase in accrued income taxes.

Net assets increased ¥10.1 billion compared with the figure at the previous fiscal year-end. Whereas cash dividends paid amounting to ¥14.0 billion was a factor decreasing net assets, this was more than offset by recording of net income amounting to ¥22.4 billion. As a result, net assets amounted to ¥413.0 billion and the shareholders' equity ratio increased 4.7 percentage points to 91.5%.

Cash Flows

Cash and cash equivalents (hereinafter "cash") at the fiscal year-end were ¥239.0 billion, having increased ¥23.7 billion from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities increased ¥34.4 billion from the previous fiscal year to ¥39.4 billion. The principle cash inflow items were income before income taxes and minority interests amounting to ¥29.5 billion, a ¥14.5 billion decrease in accounts receivable for provision of parts and materials for value, a ¥9.6 billion decrease in inventories, and a ¥9.6 billion decrease in notes and accounts receivable-trade. The principle cash outflow item was a ¥26.0 billion decrease in notes and accounts payable-trade.

Cash flows from investing activities

Net cash provided by investing activities increased ¥17.0 billion from the previous fiscal year to ¥1.4 billion. The principal cash inflow item was proceeds from withdrawal of time deposits amounting to ¥5.0 billion. The principle cash outflow item was payment for purchase of property, plant and equipment and intangible fixed assets amounting to ¥3.1 billion.

Cash flows from financing activities

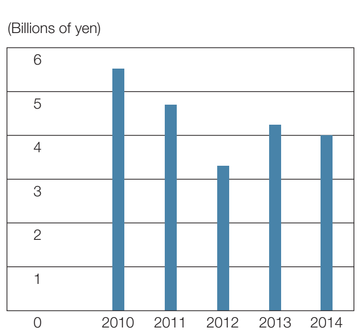
Net cash used in financing activities decreased ¥3.1 billion from the previous fiscal year to ¥17.2 billion. The principal items were cash dividends paid amounting to ¥14.0 billion and repayment of long-term loans payable amounting to ¥3.1 billion.

Forecast of the Financial Position in Fiscal 2015

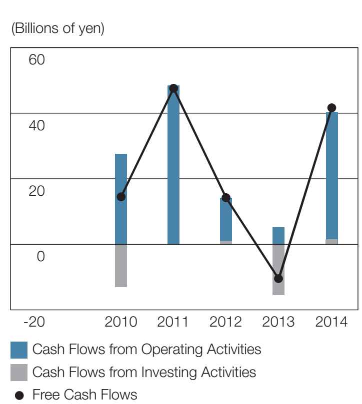
For fiscal 2015, the Company forecasts net cash provided by operating activities of ¥18.0 billion, net cash used in investing activities of ¥6.0 billion attributable to capital investment, and net cash used in financing activities of ¥14.0 billion mainly attributable to payment of cash dividends.

As a result, the Company forecasts a decrease of ¥2.0 billion in the cash balance at the end of fiscal 2015 compared to the end of fiscal 2014.

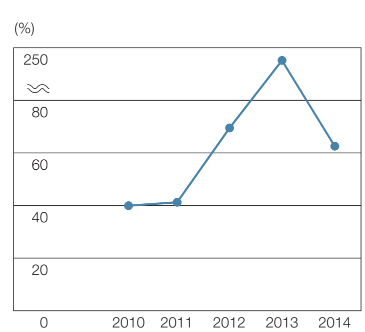
Depreciation



Free Cash Flows



Payout Ratio



Risks that may have an impact on the Group's business results, stock price and financial position for fiscal 2015 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 2014, but do not cover all potential risks.

Change in the market environment

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

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

Regulations

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

Intellectual property rights

A growing number of game machines introduced in recent years involve tie-ups with celebrities, animation characters and other popular characters. In accordance with this trend, as intellectual property rights, such as portrait rights and copyrights of characters used for game machines, become increasingly important to the business, the incidence of conflicts concerning intellectual property is rising. In regard to the handling of characters, centering on the Intellectual Property Division, the Group conducts thorough investigations and takes the greatest possible care to preclude such conflicts. However, in the event that new intellectual property rights are approved without the Company's knowledge, the Group may be subject to risk associated with claims for damage by the owners of the rights. In such case, if the Group is deemed to be liable, the Group's business results may be affected.

Development of new models

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

Consolidated Balance Sheets

SANKYO CO., LTD. and Its Consolidated Subsidiaries
As of March 31, 2014 and 2013

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Current assets:			
Cash and deposits (Notes 3 and 16)	¥124,546	¥120,359	$1,210,125
Marketable securities (Notes 3, 4 and 16)	153,995	136,993	1,496,266
Notes and accounts receivable—trade (Notes 8 and 16)	34,781	44,401	337,944
Inventories (Note 6)	985	10,677	9,573
Deferred tax assets (Note 15)	3,023	2,812	29,375
Accounts receivable arising from outsourced production contracts	455	14,960	4,423
Other current assets	8,566	9,341	83,238
Allowance for doubtful accounts (Note 16)	(10)	(40)	(100)
Total current assets	326,343	339,504	3,170,844
Fixed assets:			
Property, plant and equipment:			
Land	23,126	23,320	224,703
Buildings and structures	27,298	26,995	265,237
Machinery and equipment	7,770	7,768	75,498
Tools, furniture and fixtures	17,526	18,284	170,295
Leased assets	32	37	320
Construction in progress	356	383	3,468
Other fixed assets	4,284	3,849	41,626
	80,395	80,639	781,149
Accumulated depreciation	(33,773)	(33,132)	(328,149)
Total property, plant and equipment	46,622	47,506	452,999
Intangible fixed assets:			
Goodwill	2,478	3,215	24,082
Other intangible fixed assets	432	351	4,203
Total intangible fixed assets	2,911	3,567	28,284
Investments and other assets:			
Investments in securities (Notes 4, 5 and 16)	69,417	68,344	674,480
Long-term loans	17	139	167
Deferred tax assets (Note 15)	5,702	4,950	55,405
Other assets	542	630	5,269
Allowance for doubtful accounts	(26)	(4)	(259)
Allowance for losses on investments in securities	(379)	(379)	(3,690)
Total investments and other assets	75,272	73,681	731,372
Total fixed assets	124,806	124,755	1,212,655
Total assets	¥451,149	¥464,259	$4,383,499

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

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Current liabilities:			
Notes and accounts payable—trade (Note 16)	¥ 15,307	¥ 41,327	$ 148,730
Current portion of long-term debt	—	506	—
Accrued income taxes	7,324	1,677	71,170
Accrued employees' bonuses	832	821	8,094
Lease obligations	5	5	56
Other current liabilities	8,841	8,852	85,910
Total current liabilities	32,312	53,191	313,959
Long-term liabilities:			
Long-term debt	—	2,658	—
Lease obligations	14	14	138
Accrued retirement allowances for directors and corporate auditors	753	695	7,320
Accrued retirement allowances for employees (Note 7)	—	3,641	—
Net defined benefit liabilities (Note 7)	3,847	—	37,385
Asset retirement obligations (Note 17)	59	58	574
Other long-term liabilities	1,066	1,081	10,362
Total long-term liabilities	5,740	8,149	55,779
Commitments and contingent liabilities (Notes 9 and 12)			
Net Assets:			
Shareholders' equity (Note 11)**:**			
Common stock,			
Authorized: 144,000,000 shares			
Issued: 97,597,500 shares	14,840	14,840	144,190
Capital surplus	23,879	23,880	232,025
Retained earnings	391,083	382,726	3,799,875
Treasury stock	(20,937)	(20,932)	(203,435)
Total shareholders' equity	408,865	400,513	3,972,654
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Note 4)	4,104	2,405	39,880
Remeasurements of defined benefit plans (Note 7)	22	—	218
Total accumulated other comprehensive income	4,126	2,405	40,098
Minority interests	103	—	1,009
Total net assets	413,096	402,918	4,013,761
Total liabilities and net assets	¥451,149	¥464,259	$4,383,499

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

Consolidated Statements of Income

SANKYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Net sales	¥158,453	¥104,150	$1,539,578
Cost of sales	84,009	54,786	816,258
Gross profit	74,444	49,363	723,321
Selling, general and administrative expenses (Note 13)	46,420	42,340	451,033
Operating income	28,023	7,023	272,288
Other income (expenses):			
Interest and dividend income	1,414	1,380	13,739
Equity in earnings of affiliates	630	880	6,126
Interest expense	(2)	(5)	(24)
Foreign currency exchange loss	(6)	(19)	(66)
Gain (loss) on sales or disposal of property, plant and equipment, net (Note 14)	(186)	28	(1,811)
Loss on devaluation of investments in securities	(410)	—	(3,987)
Loss on investments in partnership	(121)	—	(1,179)
Loss on impairment	—	(24)	—
Other, net	206	228	2,009
Income before income taxes and minority interests	29,547	9,491	287,095
Income taxes (Note 15)**:**			
Current	8,924	4,303	86,713
Deferred	(1,881)	(665)	(18,281)
Total income taxes	7,043	3,637	68,432
Net income before minority interests	22,504	5,853	218,663
Minority interests in net income	103	—	1,009
Net income	¥ 22,400	¥ 5,853	$ 217,654

	Yen		U.S. dollars (Note 2)
Net income per share (Note 19)**:**			
Basic	¥239.65	¥ 62.62	$2.33
Cash dividends per share (Note 11)	150.00	150.00	1.46

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Net income before minority interests	¥22,504	¥5,853	$218,663
Other comprehensive income (Note 10)**:**			
Unrealized gains on available-for-sale securities	1,667	669	16,202
Share of other comprehensive income in affiliates accounted for by the equity method	31	27	308
Total other comprehensive income	1,699	696	16,510
Comprehensive income	24,204	6,550	235,174
Total comprehensive income attributable to:			
Owner of the parent	¥24,100	¥6,550	$234,165
Minority interests	103	—	1,009

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Common stock			
Beginning of year	¥ 14,840	¥ 14,840	$ 144,190
End of year	¥ 14,840	¥ 14,840	$ 144,190
Capital surplus			
Beginning of year	¥ 23,880	¥ 23,880	$ 232,025
Disposal of treasury stock	(0)	(0)	(1)
End of year	¥ 23,879	¥ 23,880	$ 232,025
Retained earnings			
Beginning of year	¥382,726	¥398,805	$3,718,676
Net income	22,400	5,853	217,654
Dividends from surplus, ¥150 per share ($1.46 per share)	(14,044)	(14,044)	(136,456)
Change of the scope of consolidation	—	(7,889)	—
End of year	¥391,083	¥382,726	$3,799,875
Treasury stock			
Beginning of year	¥ (20,932)	¥ (20,930)	$ (203,387)
Purchase of treasury stock	(5)	(2)	(53)
Disposal of treasury stock	0	0	5
End of year	¥ (20,937)	¥ (20,932)	$ (203,435)
Total shareholders' equity			
Beginning of year	¥400,513	¥416,595	$3,891,505
Net income	22,400	5,853	217,654
Dividends from surplus, ¥150 per share ($1.46 per share)	(14,044)	(14,044)	(136,456)
Purchase of treasury stock	(5)	(2)	(53)
Disposal of treasury stock	0	0	4
Change of the scope of consolidation	—	(7,889)	—
End of year	¥408,865	¥400,513	$3,972,654
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities			
Beginning of year	¥ 2,405	¥ 1,708	$ 23,369
Net changes in items other than shareholders' equity	1,699	696	16,510
End of year	¥ 4,104	¥ 2,405	$ 39,880
Remeasurements of defined benefit plans			
Beginning of year	¥ —	—	$ —
Net changes in items other than shareholders' equity	22	—	218
End of year	¥ 22	—	$ 218
Total accumulated other comprehensive income			
Beginning of year	¥ 2,405	¥ 1,708	$ 23,369
Net changes in items other than shareholders' equity	1,721	696	16,728
End of year	¥ 4,126	¥ 2,405	$ 40,098
Minority interests			
Beginning of year	¥ —	—	$ —
Net changes in items other than shareholders' equity	103	—	1,009
End of year	¥ 103	—	$ 1,009
Total net assets			
Beginning of year	¥402,918	¥418,303	$3,914,874
Net income	22,400	5,853	217,654
Dividends from surplus, ¥150 per share ($1.46 per share)	(14,044)	(14,044)	(136,456)
Purchase of treasury stock	(5)	(2)	(53)
Disposal of treasury stock	0	0	4
Change of the scope of consolidation	—	(7,889)	—
Net changes in items other than shareholders' equity	1,825	696	17,738
End of year	¥413,096	¥402,918	$4,013,761

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 29,547	¥ 9,491	$ 287,095
Depreciation and amortization	3,669	4,238	35,658
Amortization of goodwill	737	737	7,162
Decrease in allowance for doubtful accounts	(7)	(159)	(72)
Increase in accrued employees' bonuses	11	12	114
Increase in accrued retirement allowances for employees	—	241	—
Increase in net defined benefit liabilities	209	—	2,040
Increase (decrease) in accrued retirement allowances for directors and corporate auditors	58	(20)	566
Interest and dividend income	(1,414)	(1,380)	(13,739)
Interest expense	2	5	24
Equity in earnings of affiliates	(630)	(880)	(6,126)
Loss (gain) on sales or disposal of property, plant and equipment, net	186	(28)	1,811
Loss on impairment	—	24	—
Loss on devaluation of investments in securities	410	—	3,987
Decrease in notes and accounts receivable-trade	9,620	26,383	93,472
Decrease (increase) in inventories	9,689	(7,841)	94,143
Decrease in notes and accounts payable-trade	(26,020)	(2,347)	(252,818)
Decrease (increase) in accounts receivable arising from outsourced production contracts	14,504	(5,668)	140,934
Decrease in accounts payable-other	(1,068)	(2,804)	(10,379)
Increase (decrease) in consumption taxes payable	1,651	(426)	16,046
Other	(92)	(1,994)	(898)
Sub total	41,067	17,583	399,021
Interest and dividend income received	1,401	1,505	13,621
Interest paid	(53)	(1)	(522)
Income taxes paid	(2,925)	(14,019)	(28,422)
Net cash provided by operating activities	39,490	5,067	383,698
Cash flows from investing activities:			
Payment into time deposits	(500)	(10,030)	(4,858)
Proceeds from withdrawal of time deposits	5,030	5,000	48,878
Payment for purchase of marketable securities	(10,000)	(5,000)	(97,163)
Proceeds from redemption of marketable securities	10,000	—	97,163
Payment for purchase of property, plant and equipment and intangible fixed assets	(3,197)	(4,165)	(31,064)
Proceeds from sales of property, plant and equipment and intangible fixed assets	300	83	2,923
Payment for purchase of investments in securities	(32,480)	(33,525)	(315,592)
Proceeds from redemption of investments in securities	32,000	32,000	310,921
Collection of loans receivable	321	221	3,128
Other	(24)	(184)	(240)
Net cash provided by (used in) investing activities	1,450	(15,600)	14,096
Cash flows from financing activities:			
Repayment of long-term debt	(3,169)	—	(30,797)
Payment for finance lease obligations	(5)	(10)	(57)
Payment for purchase of treasury stock	(5)	(2)	(53)
Proceeds from disposal of treasury stock	0	0	4
Cash dividends paid	(14,044)	(14,044)	(136,456)
Net cash used in financing activities	(17,224)	(14,056)	(167,358)
Net increase (decrease) in cash and cash equivalents	23,716	(24,589)	230,436
Cash and cash equivalents at beginning of year	215,324	239,591	2,092,157
Increase in cash and cash equivalents resulting from change of scope of consolidation	—	322	—
Cash and cash equivalents at end of year (Note 3)	¥239,041	¥215,324	$2,322,593

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 2013 financial statements to conform to the classifications used in 2014. 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 (five in 2013) 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.

(j) Accrued Employees' Bonuses

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

(k) Accrued Retirement Allowances for Directors and Corporate Auditors

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

(l) Accounting for Retirement Benefits

The projected benefit obligations are attributed to periods on a straight-line basis.

Actuarial gains and losses are amortized from the fiscal year when the gain or loss is recognized by the straight-line method over a period of five years, which falls within the average remaining service years of employees.

In determining the amount of net defined benefit liabilities and retirement benefit costs, certain smaller consolidated subsidiaries apply a simplified method where the amount required for voluntary termination of employees at the fiscal year-end is treated as the projected benefit obligations.

(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 without 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 adopt 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 Taxes

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

(t) Amortization of Goodwill

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

(u) Reclassification

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

(v) Changes in Accounting Policies

Accounting Standard for Retirement Benefits

Effective March 31, 2014, the Company applied "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012), except for the provisions stated in Paragraph 35 of ASBJ Statement No. 26 and Paragraph 67 of ASBJ Guidance No. 25 and recorded projected benefit obligations as net defined benefit liabilities, recognizing unrecognized actuarial differences as net defined benefit liabilities.

In applying the accounting standard and guidance, pursuant to the transitional treatments prescribed in Paragraph 37 of ASBJ Statement No. 26, the Company adjusted the effects of the changes as remeasurements of defined benefit plans under accumulated other comprehensive income.

As a result, net defined benefit liabilities in the amount of ¥3,847 million ($37,385 thousand) were recorded in the accompanying consolidated balance sheet as of March 31, 2014 and accumulated other comprehensive income increased by ¥22 million ($218 thousand).

The effects on per share information are described in Note 19.

(w) Accounting Standards Not Yet Adopted

Revised Accounting Standards for Business Combinations and Related Standards and Guidance

On September 13, 2013, the ASBJ issued ASBJ Statement No. 21, "Accounting Standard for Business Combinations," ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements," ASBJ Statement No. 7, "Accounting Standard for Business Divestitures," and ASBJ Statement No. 2, "Accounting Standard for Earnings per Share" and ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures" and ASBJ Guidance No. 4, "Guidance on Accounting Standard for Earnings per Share."

(1) Overview

These accounting standards were revised principally concerning (i) Treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control in the additional acquisitions of shares in a subsidiary, (ii) Accounting for acquisition related costs, (iii) Presentation of net income and change from minority interests to non-controlling interests, and (iv) Transitional accounting treatments.

(2) Expected adoption date

The Company expects to apply these standards and guidance from the beginning of the fiscal year ending March 31, 2015, except for above (iii) Presentation of net income and change from minority interests to non-controlling interests. Transitional accounting treatments will be applied for business combinations to be implemented on or after April 1, 2014.

(3) Effects of the adoption of the accounting standard
The Company is currently in the process of measuring the effects of applying these revised accounting standards.

Revised Accounting Standard for Retirement Benefits

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25).

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

(2) Expected adoption date
The Company expects to apply the revised calculation methods of retirement benefit obligation and service costs from the beginning of the fiscal year ending March 31, 2015.

(3) Effects of the adoption of the accounting standard
The Company is currently in the process of measuring the effects of applying the revised accounting standard.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥102.92= U.S. $1, the rate of exchange on March 31, 2014, has been used for the translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

3. Cash and Cash Equivalents

A reconciliation of cash and cash equivalents to the accounts disclosed on the balance sheets at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and deposits	¥124,546	¥120,359	$1,210,125
Marketable securities	153,995	136,993	1,496,266
Total	278,541	257,352	2,706,391
Bonds and debentures, investment funds and others whose original maturity is more than three months	(39,000)	(36,997)	(378,940)
Time deposits whose original maturity is more than three months	(500)	(5,030)	(4,858)
Cash and cash equivalents	¥239,041	¥215,324	$2,322,593

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2014 and 2013 were as follows:

(a) Held-to-Maturity Debt Securities

	Millions of yen							
	2014				2013			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Japanese government bonds	¥ 80,014	¥114	¥ 1	¥ 80,127	¥ 80,001	¥193	¥—	¥ 80,195
Short-term corporate bonds	29,995	—	2	29,993	14,995	—	1	14,994
Certificates of deposit	90,000	—	—	90,000	90,000	—	—	90,000
Total	¥200,009	¥114	¥ 3	¥200,120	¥184,997	¥193	¥ 1	¥185,190

	Thousands of U.S. dollars			
	2014			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:				
Japanese government bonds	$ 777,442	$1,112	$17	$ 778,537
Short-term corporate bonds	291,442	—	21	291,421
Certificates of deposit	874,466	—	—	874,466
Total	$1,943,349	$1,112	$38	$1,944,423

(b) Available-for-Sale Securities

	Millions of yen							
	2014				2013			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fair value available:								
Equity securities	¥6,119	¥6,140	¥—	¥12,260	¥5,688	¥3,731	¥176	¥9,243
Total	¥6,119	¥6,140	¥—	¥12,260	¥5,688	¥3,731	¥176	¥9,243

	Thousands of U.S. dollars			
	2014			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Fair value available:				
Equity securities	$59,463	$59,662	$—	$119,126
Total	$59,463	$59,662	$—	$119,126

5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Investments in securities	¥11,046	¥10,998	$107,327

6. Inventories

Inventories at March 31, 2014 and 2013 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finished goods and merchandise	¥ 4	¥ 9,039	$ 44
Work in process	124	300	1,208
Raw materials and supplies	856	1,338	8,321
Total	¥985	¥10,677	$9,573

7. Retirement Benefit Plan

For the year ended March 31, 2014

1. Overview of retirement benefit plans

The Company and consolidated subsidiaries have lump-sum severance benefit plans as a defined benefit plan. Certain consolidated subsidiaries calculate net defined benefit liabilities and retirement benefit costs using a simplified method for their lump-sum severance benefit plans.

2. Defined benefit plans

(1) The changes in retirement benefit obligation for the year ended March 31, 2014, were as follows (excluding the plans to which a simplified method was applied):

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥3,434	$33,373
Service cost	243	2,365
Interest cost	50	493
Actuarial differences	1	19
Benefits paid	(108)	(1,056)
Balance at end of year	¥3,622	$35,193

(2) The changes in plan assets for the year ended March 31, 2014, were as follows (excluding the plans to which a simplified method was applied):
There is no corresponding information to be reported.

(3) The changes in net defined benefit liabilities under the plans to which a simplified method was applied for the year ended March 31, 2014:

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥212	$2,062
Retirement benefit costs	41	400
Benefits paid	(27)	(270)
Balance at end of year	¥225	$2,192

(4) Reconciliation between the balance of retirement benefit obligation and net defined benefit liabilities recorded in the consolidated balance sheet was as follows:

	Millions of yen	Thousands of U.S. dollars
Unfunded retirement benefit obligation	¥3,847	$37,385
Net defined benefit liabilities	3,847	37,385
Liability for retirement benefits	3,847	37,385
Net liability recorded in the consolidated balance sheet	¥3,847	$37,385

(Note) The above amount includes the plans to which a simplified method is applied.

(5) The components of retirement benefit costs for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥243	$2,365
Interest cost	50	493
Amortization of actuarial differences	11	109
Retirement benefit costs calculated using a simplified method	41	400
Retirement benefit costs on defined benefit plans	¥346	$3,366

(6) Remeasurements of defined benefit plans (before adjusting for tax effects) as of March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial differences	¥(3)	$(38)
Total	¥(3)	$(38)

(7) Actuarial assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	1.5%

For the year ended March 31, 2013

The Company and consolidated subsidiaries have lump-sum severance benefit plans as a defined benefit plan.

The accrued retirement allowance for employees as of March 31, 2013 was as follows:

	Millions of yen
Retirement benefit obligations	¥3,646
Unrecognized actuarial differences	(5)
Accrued retirement allowance for employees	¥3,641

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

	Millions of yen
Service costs	¥227
Interest costs	48
Amortization of actuarial differences	46
Total	¥323

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

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

8. Notes Falling due the Fiscal Year-End

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

	Millions of yen
Notes	¥1,462

9. Contingent Liabilities

Contingent liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
As an endorser of notes endorsed	**¥135**	¥120	**$1,320**

10. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized gains on available-for-sale securities:			
Gain incurred during the year	¥2,584	¥1,038	$25,116
Reclassification adjustment to net income	—	—	—
Amount before tax effect	2,584	1,038	25,116
Tax effect	(917)	(368)	(8,914)
Unrealized gains on available-for-sale securities	1,667	669	16,202
Share of other comprehensive income in an affiliate accounted for by the equity method:			
Gain incurred during the year	34	27	336
Reclassification adjustment to net income	(2)	—	(28)
Share of other comprehensive income in affiliates accounted for by the equity method:	31	27	308
Total other comprehensive income	¥1,699	¥ 696	$16,510

11. Shareholders' Equity

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

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

For the year ended March 31, 2014

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2013	97,597,500	4,124,256
Increase in the number of shares during the accounting period ended March 31, 2014	—	1,195*1
Decrease in the number of shares during the accounting period ended March 31, 2014	—	100*2
Number of shares as of March 31, 2014	97,597,500	4,125,351

Notes: *1. Increase due to the purchase of odd shares (1,195 shares)
*2. Decrease due to sales upon the request from odd shareholders (100 shares)

For the year ended March 31, 2013

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

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

(b) Matters Related to Dividends

For the year ended March 31, 2014

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 27, 2013 were as follows:

Dividends on common stock	
Total amount of dividends	**¥7,022 million ($68,228 thousand)**
Dividends per share	**¥75.00**
Record date	**March 31, 2013**
Effective date	**June 28, 2013**

Approvals by the Board of Directors' meeting held on November 6, 2013 were as follows:

Dividends on common stock	
Total amount of dividends	**¥7,021 million ($68,228 thousand)**
Dividends per share	**¥75.00**
Record date	**September 30, 2013**
Effective date	**December 6, 2013**

ii) Dividends whose record date is attributed to the year ended March 31, 2014 but become effective after the said year.

The Company obtained the following approval at the general meeting of shareholders held on June 27, 2014:

Dividends on common stock	
Total amount of dividends	**¥7,021 million ($68,227 thousand)**
Dividends per share	**¥75.00**
Record date	**March 31, 2014**
Effective date	**June 30, 2014**

For the year ended March 31, 2013

i) Dividend payment

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

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

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

Dividends on common stock	
Total amount of dividends	¥7,022 million
Dividends per share	¥75.00
Record date	September 30, 2012
Effective date	December 7, 2012

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

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

Dividends on common stock	
Total amount of dividends	¥7,022 million
Dividends per share	¥75.00
Record date	March 31, 2013
Effective date	June 28, 2013

12. Leases

Operating Leases

Future lease payments for non-cancellable operating leases as a lessee at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	¥10	¥16	$ 99
Due after one year	7	17	69
Total	¥17	¥33	$169

13. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Sales commission	¥ 7,942	¥ 3,036	$ 77,167
Advertisement expenses	3,541	4,551	34,413
Salaries and wages	3,470	3,503	33,716
Provision for reserve for bonuses	413	424	4,020
Accrued retirement allowances for directors and corporate auditors	58	62	566
Retirement benefit costs	183	211	1,787
Provision for allowance for doubtful accounts	(2)	28	(24)
Research and development expenses	24,499	23,288	238,041

14. Sales and Disposal of Property, Plant and Equipment

Gain or loss on sales and disposal of property, plant and equipment for the years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Gain on sales of property, plant and equipment:			
Land	¥ 10	¥178	$ 104
Tools, furniture and fixtures	—	0	—
Total	¥ 10	¥178	$ 104
Loss on disposal of property, plant and equipment:			
Buildings and structures	¥(118)	¥ (84)	$(1,156)
Machinery and equipment	(3)	(20)	(33)
Tools, furniture and fixtures	(6)	(6)	(67)
Others	(67)	(39)	(660)
Total	¥(197)	¥(150)	$(1,916)
Gain (loss) on sales and disposal of property, plant and equipment, net	¥(186)	¥ 28	$(1,811)

15. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of different taxes based on income which, in aggregate, indicate a statutory effective tax rate of approximately 37.9% for the years ended March 31, 2014 and 2013.

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

Significant components of deferred tax assets and liabilities at March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued enterprise taxes	¥ 629	¥ 140	$ 6,113
Unrealized profits on inventories	0	26	4
Accrued employees' bonuses	295	311	2,874
Allowance for doubtful accounts	8	2	87
Accrued retirement allowances for employees	—	1,292	—
Net defined benefit liabilities	1,365	—	13,269
Accrued retirement allowances for directors and corporate auditors	267	246	2,601
Accumulated depreciation	4,874	4,393	47,362
Unrealized profit on property, plant and equipment	123	123	1,201
Allowance for losses on investments in securities	134	134	1,310
Research and development expenses	1,637	2,229	15,910
Loss on impairment	1,239	1,288	12,046
Loss on devaluation of investments in securities	145	—	1,415
Tax loss carryforwards	1,422	2,771	13,818
Other	212	186	2,064
Sub-total deferred tax assets	¥12,357	¥13,149	$120,074
Less—valuation allowance	(1,451)	(4,122)	(14,101)
Deferred tax assets	¥10,906	¥ 9,027	$105,973
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥ (2,179)	¥ (1,261)	$ (21,174)
Other	(1)	(2)	(19)
Deferred tax liabilities	¥ (2,181)	¥ (1,264)	$ (21,193)
Deferred tax assets, net	¥ 8,725	¥ 7,762	$ 84,780

Deferred tax assets, net at March 31, 2014 and 2013 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets in current assets	¥ 3,023	¥ 2,812	$ 29,375
Deferred tax assets in fixed assets	5,702	4,950	55,405

A reconciliation between the statutory tax rate and the effective income tax rate for the year ended March 31, 2014 is as follows:

	2014
Normal effective statutory tax rate	37.9%
Expenses not deductible for income tax purposes	0.2
Non-taxable income	(0.3)
Tax credit for research and development costs	(6.8)
Equity in earnings of affiliates accounted for by the equity method	0.8
Reduction of deferred tax assets due to tax rate changes	1.1
Changes in valuation allowance	(8.2)
Other—net	(0.9)
Actual effective tax rate	23.8%

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

Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate:
The "Act for Partial Amendment of the Income Tax Act, etc." was promulgated on March 31, 2014 and the Company will no longer be subject to the Special Reconstruction Corporation Tax from the fiscal year beginning on or after April 1, 2014. As a result, the normal effective statutory tax rate to be used in computing deferred tax assets and liabilities has been reduced from 37.9% to 35.5% for the temporary differences estimated to be settled from the fiscal year beginning on April 1, 2014. As a result, deferred tax assets in current assets and in fixed assets decreased by ¥102 million ($998 thousand) and ¥224 million ($2,186 thousand), respectively, and income taxes – deferred increased by ¥327 million ($3,184 thousand) as of and for the year ended March 31, 2014.

16. 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, 2014 and 2013 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, 2014	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥124,546	¥124,546	¥ —
(2) Notes and accounts receivable—trade	34,781		
Allowance for doubtful accounts	(9)		
	34,771	34,007	(763)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	200,009	200,120	110
Available-for-sale securities	12,260	12,260	—
Total assets	¥371,587	¥370,933	¥(653)
(4) Notes and accounts payable—trade	¥ 15,307	¥ 15,307	¥ —
Total liabilities	¥ 15,307	¥ 15,307	¥ —

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

	Thousands of U.S. dollars		
March 31, 2014	Carrying amount	Fair Value	Unrealized gain (loss)
(1) Cash and deposits	$1,210,125	$1,210,125	$ —
(2) Notes and accounts receivable—trade	337,944		
Allowance for doubtful accounts	(96)		
	337,848	330,425	(7,422)
(3) Marketable securities and investments in securities:			
Held-to-maturity debt securities	1,943,349	1,944,423	1,074
Available-for-sale securities	119,126	119,126	—
Total assets	$3,610,447	$3,604,099	$ (6,348)
(4) Notes and accounts payable—trade	$ 148,730	$ 148,730	$ —
Total liabilities	$ 148,730	$ 148,730	$ —

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 ¥1,985 million ($19,292 thousand) and ¥2,363 million at March 31, 2014 and 2013, 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."

The Company recorded a loss on devaluation of investments in securities amounting to ¥410 million ($3,987 thousand) for the year ended March 31, 2014.

3. Redemption schedule of monetary assets and securities with contractual maturities at March 31, 2014 and 2013 were as follows

	Millions of yen	
March 31, 2014	Within one year	One to five years
(1) Cash and deposits	¥124,546	¥ —
(2) Notes and accounts receivable—trade	16,380	18,400
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	34,000	46,000
Held-to-maturity debt securities (Short-term corporate bonds)	30,000	—
Held-to-maturity debt securities (Certificates of deposits)	90,000	—

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

March 31, 2014	Thousands of U.S. dollars Within one year	 One to five years
(1) Cash and deposits	$1,210,125	$ —
(2) Notes and accounts receivable—trade	159,157	178,787
(3) Marketable securities and investments in securities		
Held-to-maturity debt securities (Japanese government bonds)	330,354	446,949
Held-to-maturity debt securities (Short-term corporate bonds)	291,489	—
Held-to-maturity debt securities (Short-term corporate bonds)	874,466	—

17. Asset Retirement Obligations

Asset retirement obligations recorded on consolidated balance sheets at March 31, 2014 and 2013 were as follows:

(1) Overview of asset retirement obligations
Asset retirement obligations at March 31, 2014 and 2013 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
	2014	2013	2014
Beginning balance	¥58	¥58	$570
Adjustment by time elapsed	0	0	4
Ending balance	¥59	¥58	$574

18. 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, 2014	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	¥101,102	¥38,433	¥17,776	¥157,311	¥ 1,141	¥158,453	¥ —	¥158,453
Intersegment	—	—	—	—	—	—	—	—
Total	101,102	38,433	17,776	157,311	1,141	158,453	—	158,453
Segment profit (loss)	21,704	10,885	674	33,263	(621)	32,642	(4,618)	28,023
Segment asset	102,537	37,201	24,592	164,331	15,973	180,305	270,844	451,149
Others								
Depreciation and amortization*4	2,350	626	33	3,010	463	3,473	196	3,669
Amortization of goodwill	491	110	—	602	134	737	—	737
Increase in fixed assets and intangible fixed assets*4	1,465	499	6	1,971	1,098	3,070	186	3,256

Millions of yen

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

	Thousands of U.S. dollars							
	For the year ended March 31, 2014							
	Reporting segment							
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*1	Total	Adjustment*2	Consolidated*3
Sales:								
Customers	$982,336	$373,429	$172,721	$1,528,487	$ 11,092	$1,539,578	$ —	$1,539,578
Intersegment	—	—	—	—	—	—	—	—
Total	982,336	373,429	172,721	1,528,487	11,092	1,539,578	—	1,539,578
Segment profit (loss)	210,886	105,764	6,552	323,202	(6,037)	317,165	(44,877)	272,288
Segment asset	996,288	361,459	238,944	1,596,691	155,207	1,751,898	2,631,601	4,383,499
Others								
Depreciation and amortization*4	22,837	6,083	329	29,249	4,500	33,749	1,909	35,658
Amortization of goodwill	4,779	1,078	—	5,856	1,306	7,162	—	7,162
Increase in fixed assets and intangible fixed assets*4	14,239	4,850	65	19,154	10,676	29,830	1,813	31,644

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

Related Information

1. Product and service segment information

Product and service segment information has been omitted since similar description is disclosed in segment information for the years ended March 31, 2014 and 2013.

2. Geographical segment information

(1) Sales

There were no sales to customers outside Japan and no applicable data for the years ended March 31, 2014 and 2013.

(2) Fixed assets

There were no fixed assets located outside Japan and no applicable data for the years ended March 31, 2014 and 2013.

3. Major customers segment information

For the year ended March 31, 2014

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

Name of customer	Sales	Name of related segment
Fields Corporation	¥18,062 ($175,499)	Pachinko machine business and Pachislot machine business

For the year ended March 31, 2013

(Millions of yen)

Name of customer	Sales	Name of related segment
Fields Corporation	¥16,594	Pachinko machine business and Pachislot machine business

Information on Losses on Impairment of Fixed Assets by Segment

There was no loss on impairment recognized for the year ended March 31, 2014.

For the year ended March 31, 2013

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

Note: * Amount shown corresponds to idle assets.

Information on Amortization of Goodwill and Remaining Balance by Segment

For the year ended March 31, 2014

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

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate	Total
Amortization of goodwill during the year	491 ($4,779)	110 ($1,078)	—	602 ($5,856)	134 ($1,306)	—	737 ($7,162)
Balance at end of year	¥1,475 ($14,336)	¥332 ($3,233)	—	¥1,808 ($17,569)	¥670 ($6,513)	—	¥2,478 ($24,082)

Note: * Amounts shown correspond to mobile contents service.

For the year ended March 31, 2013

(Millions of yen)

	Reporting segment						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Total	Other*	Eliminations/ Corporate	Total
Amortization of goodwill during the year	491	110	—	602	134	—	737
Balance at end of year	¥1,967	¥443	—	¥2,410	¥804	—	¥3,215

Note: * Amounts shown correspond to mobile contents service.

Information on Gain on Negative Goodwill by Segment

There was no corresponding information for the years ended March 31, 2014 and 2013.

19. Per Share Information

	Yen		U.S. dollars
	2014	2013	2014
Net assets per share	¥4,418.35	¥4,310.53	$42.93
Net income per share	239.65	62.62	2.33

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

As noted in Note 1(v), the Company applied the revised accounting standard for retirement benefits and guidance effective March 31, 2014 and followed the transitional treatments prescribed in Paragraph 37 of ASBJ Statement No. 26. As a result, net assets per share increased by ¥0.24 ($0.00) at March 31, 2014.

Above information was computed based on the following data:

	Year ended March 31,	
	2014	2013
Net assets per share:		
Total net assets	¥413,096 million ($4,013,761 thousand)	¥402,918 million
Amount to be deducted from total net assets	¥103 million ($1,009 thousand)	—
(of which minority interests)	(¥103 million) ($1,009 thousand)	(—)
Net assets attributable to common stock	¥412,992 million ($4,012,752 thousand)	¥402,918 million
Number of outstanding shares of common stock	97,597,500 shares	97,597,500 shares
Number of treasury stock	4,125,351 shares	4,124,256 shares
Number of common stock used in computing net asset per share	93,472,149 shares	93,473,244 shares
Net income per share:		
Net income	¥22,400 million ($217,654 thousand)	¥5,853 million
Net income attributable to common stock	¥22,400 million ($217,654 thousand)	¥5,853 million
Net income not attributable to common stock shareholders	—	—
Weighted average number of common stock	93,472,780 shares	93,473,550 shares

20. Related Party Transaction

The transactions for the years ended March 31, 2014 and 2013 and related account balances outstanding at each year end were as follows:

For the year ended March 31, 2014 (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	¥18,052 ($175,405)	Accounts receivable-trade	¥7,500 ($72,873)
							Consignment sales of game machines	¥5,683 ($55,226)	Accounts payable-other	¥17 ($167)
							Royalty	¥1,007 ($9,791)	Accounts payable-other	¥56 ($554)

For the year ended March 31, 2013 (Millions of yen)

Description	Name	Address	Capital	Business line/ occupation	Voting rights owned by the Company	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliate company	FIELDS CORPORATION	Shibuya-ku, Tokyo	¥7,948	Development, purchase and sales of game machines	Direct 15.69% (The company owns 1.05% of the Company's shares)	Sales and consignment sales of game machines	Sales of the game machines	¥16,594	Accounts receivable-trade	¥12,055
							Consignment sales of game machines	¥1,635	Accounts payable-other	¥171
							Royalty	¥457	Accounts payable-other	¥195

21. Significant Subsequent Event

Abolition of Directors' Retirement Allowance System and Introduction of Stock Compensation-type Stock Options

At the Board of Directors' meeting held on May 27, 2014 and the ordinary general meeting of shareholders held on June 27, 2014, the Company resolved to abolish the directors' retirement allowance system and introduce stock compensation-type stock options for the directors and executive officers of the Company and directors of subsidiaries after having reviewed the directors' remuneration system.

22. Significant Subsidiaries and an Affiliate

The domestic consolidated subsidiaries and an affiliate accounted for by the equity method at March 31, 2014 and 2013 were as follows:

	Ownership		
At March 31	2014	2013	Consolidation method
SANKYO EXCEL CO., LTD.	100%	100%	Full consolidation
BISTY CO., LTD.	100%	100%	Full consolidation
SANKYO CREATE CO., LTD.	100%	100%	Full consolidation
INTERNATIONAL CARD SYSTEM CO., LTD.	100%	100%	Full consolidation
JB CO., LTD.	40%	40%	Full consolidation
YOSHII COUNTRY CLUB CO., LTD. *	—	100%	See note below.
FIELDS CORPORATION	15.69%	15.69%	Equity method

Note: *YOSHII COUNTRY CLUB CO., LTD., which was fully consolidated at March 31, 2013, was deconsolidated due to liquidation because the company was merged into SANKYO CREATE CO., LTD. on April 1, 2013.

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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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 27, 2014
Tokyo, Japan

Board of Directors

(As of June 27, 2014)

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

Director & Executive Operating Officer
Ichiro Tomiyama

Standing Statutory Auditor
Shohachi Ugawa

Statutory Auditor
Toshiaki Ishiyama

Outside Auditors
Yoshiro Sanada
Fumiyoshi Noda

Executive Operating Officers
Junko Takimoto
Yuji Togo

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

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

Corporate Data

(As of March 31, 2014)

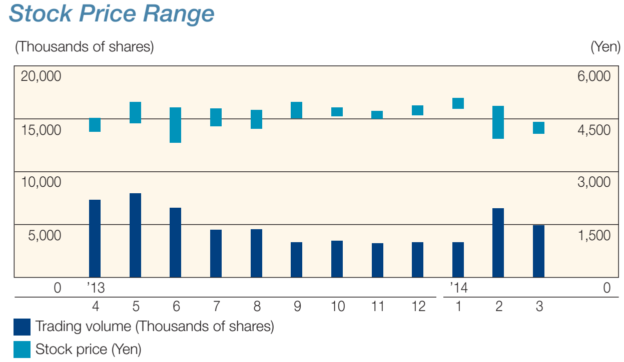
Company Name
SANKYO CO., LTD.

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	1,088 (Consolidated) 870 (SANKYO CO., LTD.)
Number of Shares Authorized	144,000,000
Number of Shares Issued	97,597,500
Number of Shareholders	12,157

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

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