

This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

Corporate Governance Report

Last Update: December 18, 2023

SANKYO CO., LTD.

Akihiko Ishihara, Representative Director, President & CEO

Contact: Corporate Planning Division TEL: +81-3-5778-7773

Securities Code: 6417

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

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

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

1. Basic Views

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

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

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

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

[Supplementary Principle 3.1.3] Sustainability initiatives, etc.

Positioning the “Basic Views on Corporate Governance” as the basic sustainability policy, the Company believes that promoting business activities in accordance with the policy will be beneficial for environmental protection and fulfilment of corporate social responsibilities, enabling the Company to achieve sustainable enhancement of corporate value while contributing to the sound development of pachinko and pachislot, which are popular leisure pursuits in Japan, and to the quality of life in society at large.

The Group disclosed its sustainability initiatives in the securities report and the corporate report. Moreover, the Company recognizes that human capital and intellectual property are sources of its competitiveness. The Company’s initiatives for human capital are stated in the “Approach and initiatives for sustainability” section of the securities report. Having established the Intellectual Property Division, the Company is promoting its intellectual property strategy. The Company has one of the largest number of patents in the pachinko and pachislot industry. The Company continues investing in the human capital and strengthening intellectual property strategy with the aim of introducing best-selling models, which set benchmarks of excellence in the pachinko and pachislot industry, and prospering together with the industry as a leading company.

The Company's information disclosure is not based on TCFD recommendations and other frameworks at present. However, in light of the recent emphasis on corporate initiatives related to sustainability, the Company is considering establishing deliberative bodies, such as a sustainability committee, to strengthen the structure for sustainability initiatives and also intends to enhance disclosure.

Securities Report

(<https://www.sankyo-fever.co.jp/corporate/ir/library/report.html>)

Corporate Report

(<https://www.sankyo-fever.co.jp/en/corporate/ir/library/annual.html>)

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

The Company develops gaming performance and specifications of pachinko and pachislot machines, its mainstay products, in accordance with the regulations for such machines stipulated by the Public Safety Commission and the voluntary rules and regulations of industry associations. However, revisions to regulations often require modification of the content of development and the business environment may be significantly affected, depending on the nature of revisions.

Therefore, if the Company were to formulate and announce a mid-term business plan, the assumptions on which the plan is based may change and the plan may mislead shareholders and investors. Thus, the Company considers that it is better to set targets for a single fiscal year and endeavor to achieve them while prioritizing management that emphasizes response to change.

The Company is promoting product development from a medium-term perspective, forecasting the market environment and players' preferences two years ahead, so as not to be circumscribed by nearsighted ideas.

If the Company fails to achieve the targets for a single fiscal year, the Company analyzes the reasons, formulates countermeasures, and provides explanation.

[Supplementary Principle 4.10.1] Use of Voluntary Committees

The Company sufficiently deliberates on nomination and remuneration of senior management at the Management Committee and on nomination and remuneration of Directors at the Board of Directors meeting. The Board of Directors of the Company is composed of five Directors, two of whom are Independent Outside Directors. Although Independent Outside Directors do not account for a majority of the Board of Directors, they represent a reasonable ratio and the Company believes that opinions of Independent Outside Directors can be properly reflected with this structure. Moreover, in the case of important decision-making in corporate management, such as nomination and remuneration of Directors, decisions are in principle made with the approval of all Directors. In the event of opposition or objection, sufficient deliberation is conducted for making decisions on matters to be resolved, by continuing deliberations, presenting alternative proposals or going through other procedures. Therefore, the current system is functioning appropriately and the Company has no voluntary nomination or remuneration committee at present.

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

[Principle 1.4] Strategic Shareholdings

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

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

[Principle 1.7] Related Party Transactions

With respect to related party transactions, if the Company engages in related party transactions, the Board of Directors excludes the related parties from its discussions on those transactions in order to avoid harm on the interests of the Company or the common interests of its shareholders. In addition, the Company has its officers submit written confirmations on the status of such transactions once a year. If an officer is to engage in a significant transaction, the Company will request the officer to report to the Board of Directors.

[Supplementary Principle 2.4.1] Ensuring diversity in the appointment of core human resources, etc.

Comprehensively considering the experience and skills of employees, the Company promotes employees to managerial positions regardless of their gender or nationality, or whether they joined the Company immediately after they graduated from schools or after they worked at another company. Nevertheless, the Company has never appointed foreign nationals as managers due to the characteristics of the pachinko and pachislot business that the Company operates, which is limited to the domestic market. When it comes to the appointment of women and mid-career hires to managerial positions, the ratios of women and of mid-career hires to all employees were 12% and 52%, respectively, as of March 31, 2022. The ratios of female managers and of mid-career hires in managerial positions were 4% and 41%, respectively.

Owing to the nature of the pachinko and pachislot industry, men account for over 85% of the new graduate applicants for the Company, and the number of female applicants is low. In these circumstances, with the aim of increasing the ratios of female employees and female managers, the Company has set targets for the ratio of female hires (ratio of female hires to total hires: target of 15% or more) and the average length of service of female workers (average length of service of female workers: target of 17 years or more) and is promoting various measures linked to the degree of achievement of these targets.

The Company's initiatives for promotion of diversity and inclusion are disclosed in the "Approach and initiatives for sustainability" section of the securities report.

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

The Company has no corporate pension fund at present, and thus is not an asset owner. However, in order to support asset building by employees, the Company has a defined contribution pension plan for which the employees themselves provide investment instructions. In order to facilitate stable asset building by employees, the Company has selected an investment management institution with sophisticated expertise in asset investment. The Company has established systems that contribute to stable asset building by employees, such as the holding of seminars on defined contribution pensions as part of employee education in order to provide employees with basic knowledge about the plan upon the start of investment, points to bear in mind concerning investment, and so on.

[Principle 3.1] Full Disclosure

(i) [Management plans]

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

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

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

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

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

Details are disclosed in the securities report.

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

When the Company will appoint/dismiss members of senior management, an officer in charge considers the candidates' qualifications, such as their experience and personal achievements, motivation to improve their personal qualities, and their health, and the Management Committee fully discusses and makes a decision about appointment/dismissal in consideration of the opinion of the Representative Director. When candidates for Directors and Statutory Auditors are to be nominated, the Representative Director considers the

candidates' qualifications, such as their experience and personal achievements, motivation to improve their personal qualities, and their health, and nominates the candidates in consideration of the opinions of the Outside Directors at the Board of Directors meeting.

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

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

* Reasons for nomination as a candidate for Directors (NOTICE OF THE 58th ORDINARY GENERAL MEETING OF SHAREHOLDERS)

https://www.sankyo-fever.co.jp/corporate/modify/IR_EN/Meeting/files/kabumtg_58th_01_en.pdf

* Reasons for nomination as a candidate for Statutory Auditors (NOTICE OF THE 58th ORDINARY GENERAL MEETING OF SHAREHOLDERS)

https://www.sankyo-fever.co.jp/corporate/modify/IR_EN/Meeting/files/kabumtg_58th_01_en.pdf

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

The Board of Directors Regulations specifies procedures for convocation of meetings of the Board of Directors, the method of resolution, etc. and the Regulations on Official Authority specifies matters to be deliberated and decided. The Board of Directors is operated in accordance with laws and regulations, the Articles of Incorporation, and the Board of Directors Regulations. The Company has an operating officer system for the purposes of strengthening corporate governance and securing swiftness and accuracy of decision-making and specifies the Board of Directors as an organ that makes management decisions and oversees the execution of business operations. Regarding matters decided by the Board of Directors, such as matters concerning a new business plan; matters concerning organizational management; matters concerning personnel affairs; matters concerning establishment, change, reform and abolition of organizations, management executes business in accordance with the Regulations on the Execution of Duties of Directors and Statutory Auditors, the Operating Officers Regulations, the Regulations on Official Authority, and other internal rules.

In addition, the Company has shorten the terms of office of Directors from two years to one year in order to establish a management structure responding promptly to changes in the business environment by further defining the management responsibility of Directors, and at the same time strengthening corporate governance by increasing opportunities for gaining the confidence of shareholders.

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

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

[Supplementary Principle 4.11.1] Views on the appropriate balance among knowledge, experience and skills of the Board of Directors as a whole, and on diversity and the size

The Company has five Directors, of whom three are inside Directors and two are Outside Directors.

The Directors of the Company are appointed from among the Operating Officers based on their contributions to the Company and merits, personal achievements, performance, experience, etc. They are appointed from among officers responsible for business division and administration divisions, which makes the Board of Directors well-balanced and creates a highly effective structure.

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

The Company disclosed a skills matrix, listing the knowledge, experience, skills, etc. expected of each Director, in the Reference Documents for the General Meeting of Shareholders.

* Directors' and Statutory Auditors' Skills Matrix (NOTICE OF THE 58th ORDINARY GENERAL MEETING OF SHAREHOLDERS)

https://www.sankyo-fever.co.jp/corporate/modify/IR_EN/Meeting/files/kabumtg_58th_01_en.pdf

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

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

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

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

The Company carries out an evaluation of the Board of Directors based on a questionnaire from the secretariat to gather the opinions from Directors on “operation of the Board of Directors meetings” and “effectiveness of the Board of Directors.” The secretariat aggregates and classifies the results, and presents them to the Board of Directors as evaluation feedback. The Board of Directors analyzes and evaluates the feedback. The Company considers that appropriate operation of the Board of Directors is generally secured.

Going forward, the Company will continue efforts to invigorate discussions at the Board of Directors meetings and enhance effectiveness of the Board of Directors.

[Supplementary Principle 4.14.2] Training for Directors and Statutory Auditors

Upon their assumption of office, the Company briefs Directors and Statutory Auditors on operation of the Board of Directors based on various regulations and also briefs them on regulations concerning Directors and Statutory Auditors and other regulations to facilitate their understanding. The Company is implementing measures to ensure that Directors and Statutory Auditors can appropriately fulfill their duties. For example, in addition to explanation on corporate governance, Directors and Statutory Auditors are also briefed on compliance. In addition, for Independent Outside Directors/Statutory Auditors, the Company prepares opportunities to inspect its major facilities, plants, etc. and holds briefings, as necessary.

[Principle 5.1] Policy for Constructive Dialogue with Shareholders

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

[Action to Implement Management that is Conscious of Cost of Capital and Stock Price (Under Consideration)]

The Company will consider disclosing its policies and other information at an appropriate time and in an appropriate format.

[Better Dialogue with Shareholders and Related Disclosure]

This information is disclosed in the Corporate Report, disclosed on the Company’s website in September 2023.

Corporate Report

(<https://www.sankyo-fever.co.jp/en/corporate/ir/library/annual.html>)

2. Capital Structure

Foreign Shareholding Ratio Updated

More than 30%

[Status of Major Shareholders] Updated

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,461,400	10.08
Marf Corporation	5,000,000	9.23

Hikari Tsushin K.K.	3,340,900	6.17
Custody Bank of Japan, Ltd. (Trust Account)	2,319,100	4.28
Hideyuki Busujima	2,000,000	3.69
JP MORGAN CHASE BANK 380055	1,837,329	3.39
Akiko Busujima	976,200	1.80
Resona Bank, Limited.	937,900	1.73
Noriko Akaishi	906,300	1.67
Takeshi Busujima	867,900	1.60

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

Supplementary Explanation Updated

Percentages of shares owned stated for the Status of Major Shareholders are the ratios of the numbers of shares owned to the total number of shares outstanding excluding treasury stock (54,140,273 shares) as of September 30, 2023.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange Prime Market
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (consolidated) as of the End of the Most Recent Fiscal Year	From 500 to less than 1000
Sales (consolidated) as of the End of the Most Recent Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Most Recent Fiscal Year	Less than 10

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

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

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

1. Organizational Composition and Operation

Organization Form	Company with Statutory Auditors
-------------------	---------------------------------

[Directors]

Maximum Number of Directors Stipulated in the Articles of Incorporation	10
Term of Office Stipulated in the Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	5
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Relationship with the Company (1)

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

* Categories for "Relationship with the Company"

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

"△" when the director fell under the category in the past

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

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

a. Executive of the Company or its subsidiaries

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

c. Executive of a fellow subsidiary of the Company

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

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

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

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

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

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

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

k. Others

Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Taro Kitani	○	-----	<p>Mr. Taro Kitani is well versed in corporate legal affairs as an attorney at law and has sufficient insight into corporate governance. He has been stating objective and fair opinions at meetings of the Board of Directors from a third-party perspective, considering the achievement of both economic performance and social performance. He is overseeing the Company's management appropriately and is contributing to strengthening of the Company's corporate governance.</p> <p>Although Mr. Kitani has never been directly involved in corporate management, for the reasons stated above, the Company believes that he will continue to be able to adequately perform decision-making on important matters of the Company's management and oversight of business execution. He also meets the standards for Independent Directors defined by Tokyo Stock Exchange, Inc. and is unlikely to cause conflict of interest with general shareholders. Therefore, the Company has nominated Mr. Kitani as a candidate for Outside Director. The Company expects him to continue to fulfill the role stated above following his election.</p> <p>Mr. Kitani has never been the Company's legal advisor.</p>
Hiroyuki Yamasaki	○	<p>The Director in question had been Managing Director of Ernst & Young ShinNihon LLC, which is the Company's accounting auditor, but retired from Ernst & Young ShinNihon LLC before assuming office as a Director of the Company.</p> <p>The Company pays audit fees to Ernst & Young ShinNihon LLC. However, the amount of the audit fees paid by the Company to Ernst & Young ShinNihon LLC is not large to the degree that Ernst & Young</p>	<p>Mr. Hiroyuki Yamasaki has a wealth of professional knowledge on finance and accounting cultivated through his career as a certified public accountant. He also has many years of experience in conducting accounting audits of companies at audit firms. He is providing advice and suggestions on overall management from an independent, objective standpoint based on his expertise, including experience as a manager of a listed company, and is contributing to strengthening the effectiveness of the decision-making function and the oversight function of the Company's Board of Directors.</p> <p>For the reasons stated above, the Company believes that he will continue to be able to adequately perform decision-making on important matters of</p>

		ShinNihon LLC is highly dependent on the Company. The Company therefore judges that independence of the Director is secured and he has no potential conflict of interest with general shareholders.	the Company's management and oversight of business execution as an Outside Director. He also meets the standards for Independent Directors defined by Tokyo Stock Exchange, Inc. and is unlikely to cause conflict of interest with general shareholders. Therefore, the Company has nominated Mr. Hiroyuki Yamasaki as a candidate for Outside Director. The Company expects him to continue to fulfill the role stated above following his election.
Establishment of Voluntary Committee(s) Corresponding to Nomination Committee or Remuneration Committee		Not Established	

[Statutory Auditors]

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

Cooperation among Statutory Auditors, Accounting Auditor and Internal Audit Department

Regarding mutual collaboration for audit operations, three parties of the Company, internal Statutory Auditors, the Board of Statutory Auditors, and Accounting Auditor, exchange opinions as necessary when drawing up audit plans and implementing interim audits and year-end audits. At meetings they exchange various opinions from the viewpoint of audit reporting, as well as improving audit quality, improving audit efficiency, and strengthening corporate governance.

With respect to the internal audit structure of the SANKYO Group, the Internal Audit Office, an organization under the direct rule of the President, audits the status of compliance with internal rules and the appropriateness and efficiency, etc. of business activities in general for the Company and each group company, and provides instructions on operational improvement on site as necessary. The staff from the Internal Audit Office holds quarterly meetings for the Board of Statutory Auditors to report audit results and exchange various opinions from a standpoint of the soundness of corporate management, their target in common.

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

Relationship with the Company (1)

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

* Categories for "Relationship with the Company"

* "○" when the statutory auditor presently falls or has recently fallen under the category;

"△" when the statutory auditor fell under the category in the past

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

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

Relationship with the Company (2)

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

			shareholders, and thereby designates him as an Independent Statutory Auditor.
--	--	--	---

[Independent Directors/Statutory Auditors]

Number of Independent Directors/Statutory Auditors	4
--	---

Matters relating to Independent Directors/Statutory Auditors

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

[Incentives]

Implementation of measures on granting incentive to Directors	Introduction of performance-linked compensation
---	---

Supplementary Explanation

The Company resolved at the meeting of the Board of Directors held on May 11, 2023 to introduce a performance-linked stock compensation plan and the proposal to introduce this plan was approved at the 58th Ordinary General Meeting of Shareholders held on June 29, 2023.

With regard to the compensation limit of the stock-compensation-type stock options for the Company's Directors (in an amount not exceeding ¥200 million per year), which was approved at the 49th Ordinary General Meeting of Shareholders held on June 27, 2014, the Company abolished such compensation limit by the introduction of this plan, and shall not make any allotment of share acquisition rights in the future. However, such share acquisition rights already granted to the Company's Directors shall survive unless they have been exercised.

For details on the performance-linked compensation, please refer to "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" in this Report. For details on status of share acquisition rights already granted to the Company's Directors, please refer to securities report.

Recipients of Stock Options	
-----------------------------	--

Supplementary Explanation

-

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors
--	--------------------

Supplementary Explanation

The amount of remuneration, etc. for Directors and Statutory Auditors of the Company for the fiscal year ended March 31, 2023 was as follows.

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

Directors (excluding Outside Directors) / ¥572 million / ¥383 million / ¥188 million / 3

Statutory Auditors (excluding Outside Statutory Auditors) / ¥14 million / ¥14 million / - / 2

Outside Directors and Outside Statutory Auditors / ¥11 million / ¥11 million / - / 4

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

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

Hideyuki Busujima / Director / ¥420 million / Filing company, ¥277 million / Filing company, ¥142 million

Policy on Determining Remuneration Amounts and Calculation Methods	Established
--	-------------

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Matters related to the policy on determining the details of remuneration for individual Directors
The Policy on Determining the Details of Remuneration, etc. for Individual Directors (hereinafter, the "Determination Policy") described below was resolved by the Board of Directors of the Company (resolution made on February 8, 2021, the revision made on June 29, 2023).

The Company's system for remuneration, etc. of Directors is designed to enhance linkage with shareholders' interests in order to function effectively as an incentive for Directors to achieve sustainable and stable enhancement of the Company's performance and corporate value. To determine remuneration of individual Directors, the Company's basic policy is to ensure that the level of remuneration reflects the responsibilities, performance, the degree of contribution, and other factors. Directors' remuneration consists of basic compensation, which is fixed compensation, performance-linked compensation as bonuses, and performance-linked stock compensation. As for remuneration of Outside Directors, only basic compensation is paid in view of their duties.

i. Basic compensation

The basic compensation for Directors of the Company is fixed compensation: monthly salaries in the same amounts are paid at the end of each month. Basic compensation for Directors is determined by the Board of Directors, with all the Directors being involved in the determination, taking into consideration various factors, such as responsibilities, performance, and the degree of contribution, based on the proposal presented by the Representative Director.

ii. Performance-linked compensation and non-monetary compensation, etc.

Performance-linked compensation (bonus) shall be paid on the bonus payment date in July. Amounts of performance-linked compensation shall be determined by the Board of Directors within a range of 0% to 150% of the standard amount, without exceeding the maximum amount of compensation determined by resolution of the General Meeting of Shareholders, based on the degree of achievement of consolidated operating income for the previous fiscal year, while also considering the business environment and other factors in the current fiscal year. The amount of bonus for executive officers is also determined within the range of 0% to 150% of the standard amount. Bonuses for Operating Officers are also linked to business performance in the same manner as those for Directors.

Non-monetary compensation, etc. is performance-linked stock compensation. The purpose is to clarify the linkage between compensation of Directors of the Company and the Company's performance and stock value,

enhance their motivation toward contributing to improvement of the med- to long-term performance and increasing corporate value, by sharing them with the shareholders not only the benefits of a rise in stock price but also the risk of a fall in stock price. The ratio of the fixed portion to the performance-linked portion is 1:4. Performance-linked stock compensation is granted at approximately the same time each year as points, without exceeding the maximum amount determined by resolution of the General Meeting of Shareholders, based on the degree of achievement of consolidated operating income for the previous fiscal year. Performance-linked stock compensation is also granted to Operating Officers in a manner similar to that for Directors.

The amounts of performance-linked compensation (bonus) and non-monetary compensation, etc. (performance-linked stock compensation) vary depending on the achievement of consolidated operating income for each fiscal year and changes in stock value. Therefore, the proportions of remuneration change, however, basic compensation, performance-linked compensation (bonus), and non-monetary compensation, etc. (performance-linked stock compensation) are determined such that the ratio is approximately 5:3:2, when performance-linked compensation is paid in standard amounts.

- Matters related to resolution at the General Meeting of Shareholders on remuneration, etc. of Directors and Statutory Auditors

It was resolved at the 41st Ordinary General Meeting of Shareholders held on June 29, 2006, that the maximum amount of compensation to be paid to Directors shall not exceed ¥800 million per year. (The number of Directors at the closing of the said Ordinary General Meeting of Shareholders was eleven.) It was resolved at the 58th Ordinary General Meeting of Shareholders held on June 29, 2023, that the maximum amount of performance-linked stock compensation shall not exceed 400 million yen and 100,000 shares a year, separately from the maximum amount of monetary compensation for Directors stated above (The number of eligible Directors for this plan at the closing of the said Ordinary General Meeting of Shareholders was three).

It was resolved at the 41st Ordinary General Meeting of Shareholders held on June 29, 2006, that the maximum amount of compensation to be paid to Statutory Auditors shall not exceed ¥50 million per year. (The number of Statutory Auditors at the closing of the said Ordinary General Meeting of Shareholders was four.) Remuneration of Statutory Auditors consists only of fixed compensation from the viewpoint of independence and objectivity and the amounts of remuneration of individual Statutory Auditors are determined upon consultation by Statutory Auditors.

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

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

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

- Overview of current system

The Company adopts “a company with Board of Statutory Auditors” and has five Directors (including two Outside Directors) and four Statutory Auditors (including two Outside Statutory Auditors) as of December 18, 2023. In addition, in April 2008 the Company introduced an operating officer system for the purposes of strengthening corporate governance and securing swiftness and accuracy of decision-making. The Company specifies the Board of Directors as an organ that makes management decisions and oversees the execution of business operations, and positions operating officers as responsible persons entrusted by the Board of Directors with the authority to execute business operations in the fields under their charge.

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

(Composition of Directors, Statutory Auditors and operating officers)

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

Statutory Auditors (four members): composed of four members, including two Outside Statutory Auditors who meet the requirements for Independent Statutory Auditor. Three Statutory Auditors are male and one Statutory Auditor is female.

Operating officers (not concurrently serving as Directors) (fourteen members): composed of fourteen male operating officers.

In addition to the Board of Directors, the Company has established a “Management Committee” consisting of Directors and Operating Officers to be held regularly each month. The Management Committee makes preliminary deliberations on matters to be resolved at the Board of Directors meeting and makes swift and accurate decisions on matters relating to business strategies and supervision of overall compliance and risk management, and instructs each division of the Company and each group company to execute matters decided.

In addition, to promote flexible business operations, the Company has established several committees for specific objectives, such as a “Sales Strategy Committee” and “Product Committee.”

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

Status of accounting audit

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

Members of audit corporation engaged in the audit of the Company for the fiscal year ended March 31, 2023

Name of the certified public accountants engaged in the audit

Designated partner engagement partner: Motoaki Ikeuchi

Designated partner engagement partner: Tatsuya Suzuki

Number of audit assistants

Certified public accountants: 7

Other: 17

Details of audit remuneration

Remuneration for audit certification services: ¥67 million

Remuneration for non-audit services: -

3. Reasons for Adoption of Current Corporate Governance System

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

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

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

III. Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary Explanations
Early Notification of General Meeting of Shareholders	For the Ordinary General Meeting of Shareholders held on June 29, 2023, the Company commenced electronic provision of information on June 5, 2023 and sent the notice of convocation on June 9, 2023.
Allowing Electronic Exercise of Voting Rights	In use, starting from the Ordinary General Meeting of Shareholders held in June 2010.
Participation in Electronic Voting Platform and other measures to facilitate exercise of voting rights by institutional investors	In use, starting from the Ordinary General Meeting of Shareholders held in June 2010.
Providing Convocation Notice (Summary) in English	Disclosed on the Company's website, etc., starting from the Ordinary General Meeting of Shareholders held in June 2009.
Other	Introduced the use of visual media, starting from the Ordinary General Meeting of Shareholders held in June 2006, to promote shareholders' understanding of the Company.

2. IR Activities

	Supplementary Explanations	Explanation by Representative
Regular Investor Briefings for Individual Investors	Held briefings as necessary for individual investors at the branch offices, etc. of securities companies. Did not hold briefings in the fiscal year ended March 31, 2022 in view of the COVID-19 pandemic. Intends to continuously provide the same activities to individual investors on an ongoing basis.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	Held briefings on business results following the closing of the fiscal year and following the closing of the first six-month period. Held briefings as necessary, in addition to the above. Beginning with the briefing on business results for the second quarter of the fiscal year ending March 31, 2022, a transcription of the contents of the briefing will be posted on the Company's website and distributed through information vendors.	Yes
Regular Investor Briefings for Overseas Investors	Regularly participated in conferences in Japan sponsored by securities companies to which many overseas investors were invited. Visited investors in North America in March 2017.	Yes
Posting of IR Materials on Website	Posted various press releases (Japanese/English), financial statements ("kessan tanshin") (Japanese/English), securities reports, quarterly report, results briefings materials (Japanese/English), financial historical data (Japanese/English), corporate reports (Japanese/English), etc.	
Establishment of Department and/or Manager in Charge of IR	Established the IR Office in the Corporate Planning Division as a department dedicated to IR.	

Other	Otherwise conducted meetings to observe facilities and product briefings, etc. in a timely manner.
-------	--

3. Measures to Ensure Due Respect for Stakeholders

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

IV. Matters Related to the Internal Control System

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

Basic Views

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

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

Progress of system development

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

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

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

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

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

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

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

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

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

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

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

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

5. System for ensuring appropriate business operations within the Group

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

6. System for ensuring reliability of financial reporting

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

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

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

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

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

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

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

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

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

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

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

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

11. Other systems for ensuring effective audits by Statutory Auditors

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

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

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

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
------------------------------------	-------------

Supplementary Explanation

2. Other Matters Concerning Corporate Governance System

Efforts to conduct timely disclosure

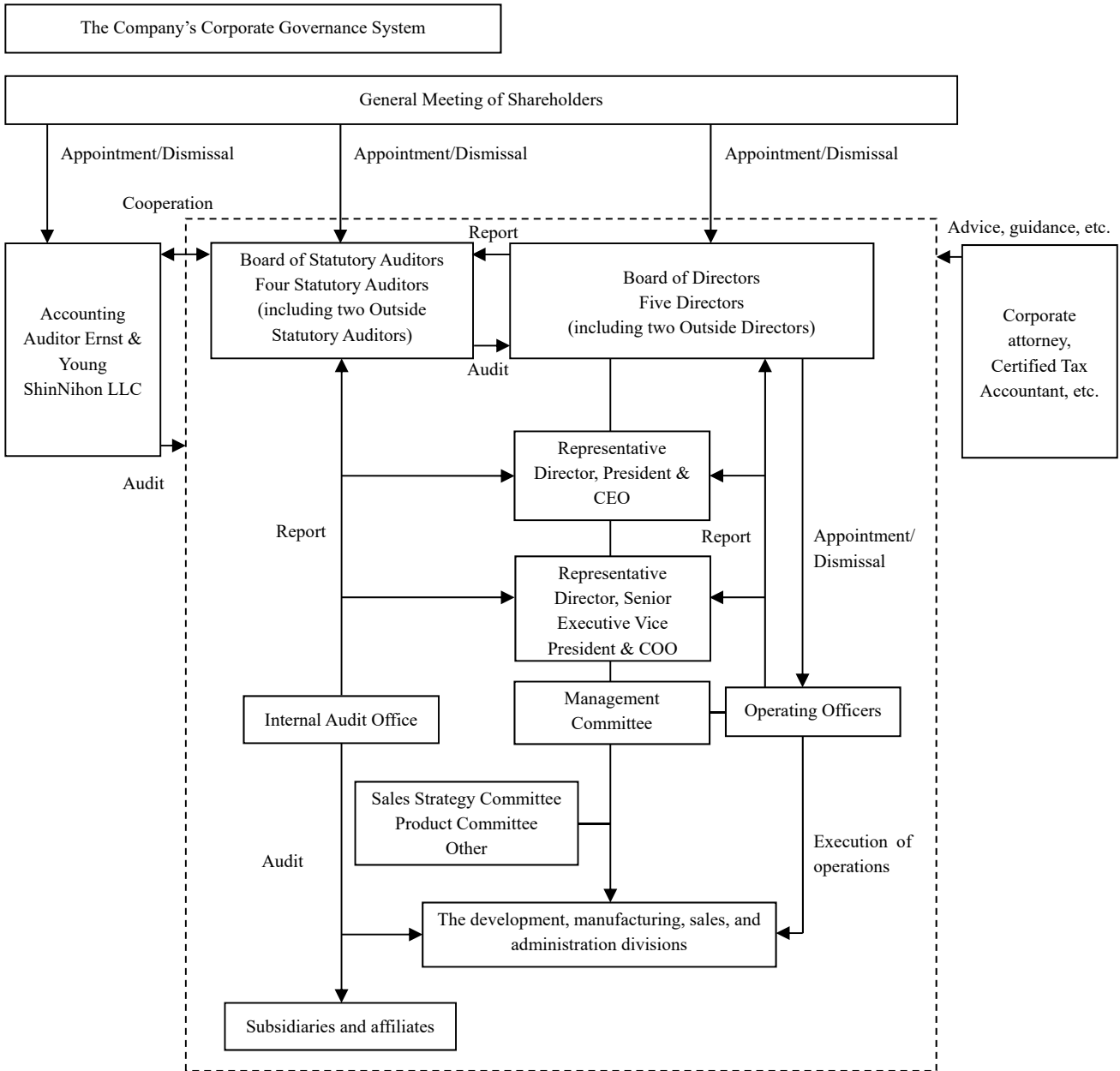
To conduct fair and equitable information disclosure in a timely and appropriate manner, the Company complies with laws and regulations and rules and has established a disclosure system in accordance with the “Regulations on the Management of Internal Information,” its internal rules. The IR Office,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

Judgment for timely disclosure

We define information on facts expected to significantly affect the SANKYO Group’s management and the Company’s stock price, etc. as “Material Information.” “Material Information” is reported by the person responsible for handling information to the Representative Directors and Board of Directors, which deliberates whether or not to disclose the information.

Internal system relating to timely disclosure

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



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

