FINANCIALS

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Management's Discussion and Analysis

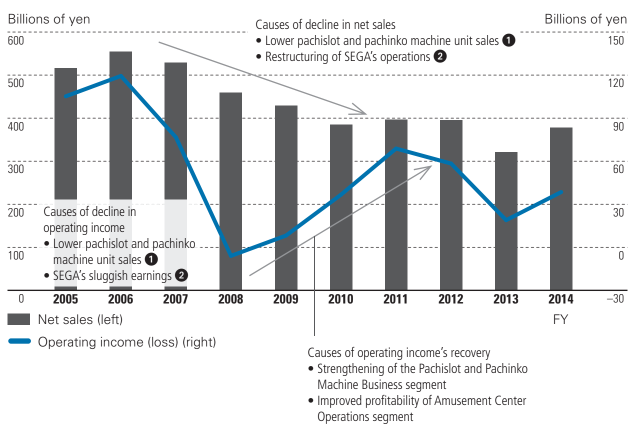
Revenue and Expenses Analysis

LONG-TERM TRENDS

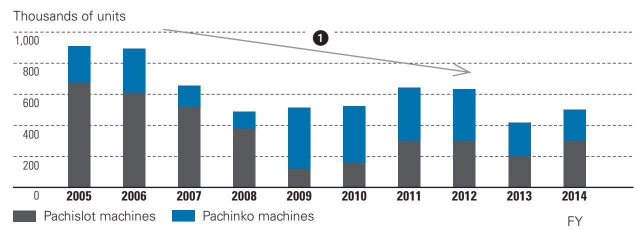
Net sales have declined from their level directly after management integration to the level of recent years for two main reasons. (1) Market conditions for the Pachislot and Pachinko Machine Business segment, which accounts for a significant share of net sales, changed dramatically after the ending in fall 2007 of the interim measures period for the revision of regulations pertaining to the Entertainment Establishments Control Law. (2) A decline in net sales resulting from restructuring aimed at strengthening the profitability of SEGA CORPORATION. (Restructuring entailed closing and selling amusement centers with low profitability or potential in the Amusement Center Operations segment and narrowing down the number of packaged game software titles to be developed.)

Regarding earnings, the Company recorded an operating loss in fiscal 2008, reflecting a decrease in unit sales of pachislot and pachinko machines, which have comparatively high profit margins; lackluster revenues in the Amusement Center Operations segment; and flagging sales of packaged game software. Since then, the Company has been advancing initiatives aimed at putting operating income on a growth track.

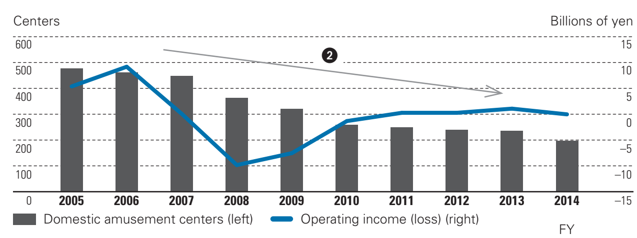
Net Sales and Operating Income (Loss): Long-Term Trends



Pachislot and Pachinko Machine Unit Sales



Number of Domestic Amusement Centers / Operating Income (Loss) of Amusement Center Operations



Comparing Fiscal 2014 and Fiscal 2013

In fiscal 2014, ended March 31, 2014, net sales rose 17.6%, or ¥56.6 billion, year on year, to ¥378.0 billion. This increase in revenues reflected contributions from a significant 27.8% year-on-year increase in revenues from the Pachislot and Pachinko Machine Business segment accompanying significant growth in pachislot machine unit sales and higher revenues from the Consumer Business segment, which saw the digital game area expand.

Cost of sales rose 12.5%, or ¥25.5 billion, year on year, to ¥230.0 billion, due to higher pachislot and pachinko machine unit sales. The cost of sales ratio improved 2.7 percentage points, to 60.9%, thanks to the increase in revenues of the Pachislot and Pachinko Machine Business segment, which has a comparatively high profit margin, and cost reduction efforts that included component reuse.

SG&A expenses were up 11.8%, or ¥11.5 billion, year on year, to ¥109.4 billion. This was attributable to a 69.3% year-on-year increase in sales commissions accompanying higher pachislot and pachinko machine unit sales as well as to increases in R&D expenses and advertising expenses in the Pachislot and Pachinko Machine Business and the Consumer Business segments.

As a result of the above, operating income rose 102.0%, or ¥19.4 billion, year on year, to ¥38.5 billion. The operating margin increased 4.3 percentage points year on year, to 10.2%.

Extraordinary income was ¥15.7 billion, which reflected gain on sales of noncurrent assets of ¥3.5 billion and gain on sales of investment securities of ¥11.9 billion, mainly stemming from the sale of 2,870,000 shares of common stock of Sanrio Company, Ltd. Meanwhile, extraordinary loss was ¥8.7 billion, which arose from impairment loss of ¥1.7 billion and loss on liquidation of subsidiaries and affiliates of ¥6.6 billion, which was primarily the result of a reversal of foreign currency translation adjustment due to the liquidation of certain subsidiaries in North America and Europe.

Net income declined 8.2%, or ¥2.7 billion, year on year, to ¥30.7 billion. This decrease mainly reflected the absence of the previous fiscal year's recognition of deferred tax assets for the amount expected to be deductible from future taxable income in relation to a tax loss, incurred due to the completion of liquidation of certain U.S. subsidiaries.

Summary of Consolidated Statements of Income and Comprehensive Income

Billions of yen

	2013	2014	YOY change	2015 (Plan)
Net sales	321.4	**378.0**	+56.6	450.0
Cost of sales	204.4	**230.0**	+25.5	—
Gross profit	116.9	**147.9**	+31.0	—
Selling, general and administrative expenses	97.8	**109.4**	+11.5	—
Operating income	19.0	**38.5**	+19.4	35.0
Non-operating income	4.5	**4.8**	+0.3	—
Non-operating expenses	2.6	**2.8**	+0.2	—
Ordinary income	20.9	**40.5**	+19.6	35.0
Extraordinary income	10.1	**15.7**	+5.6	0
Extraordinary loss	5.4	**8.7**	+3.3	0.5
Income before income taxes and minority interests	25.6	**47.5**	+21.9	34.5
Total income taxes	–8.1	**16.2**	+24.3	—
Net income	33.4	**30.7**	–2.7	21.0

Decreased due to the absence of the previous fiscal year's recognition of deferred tax assets for the amount expected to be deductible from future taxable income in relation to a tax loss, incurred due to the completion of liquidation of certain U.S. subsidiaries

Major Expenses

Billions of yen

	2013	2014	YOY change	2015 (Plan)
R&D expenses, content production expenses*1	45.2	**59.2**	—	69.6
Capital expenditures	32.8	**38.1**	+5.3	33.3
Depreciation and amortization*2	18.1	**16.1**	—	18.3
Advertising expenses*3	13.1	**16.0**	—	24.9

*1 As of fiscal 2014, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

*2 As of fiscal 2014, depreciation and amortization does not include amortization cost of digital game titles. As of fiscal 2014, R&D expenses and content production expenses include amortization cost of digital game titles.

*3 As of fiscal 2014, advertising expenses include advertising expenses recognized in cost of sales. Until fiscal 2013, advertising expenses were only recognized in SG&A expenses.

Extraordinary Income and Extraordinary Loss

Billions of yen

2013		2014	
Extraordinary income		**Extraordinary income**	
Gain on transfer of benefit obligations relating to employees' pension fund	6.3	**Gain on sales of investment securities**	**11.9**
Gain on sales of investment securities	1.9	**Gain on sales of noncurrent assets**	**3.5**
Other	1.9	**Other**	**0.3**
Total	10.1	**Total**	**15.7**
Extraordinary loss		**Extraordinary loss**	
Impairment loss	2.9	**Loss on liquidation of subsidiaries and affiliates**	**6.6**
Loss on liquidation of subsidiaries and affiliates	1.7	**Impairment loss**	**1.7**
Other	0.8	**Other**	**0.4**
Total	5.4	**Total**	**8.7**

(Reference)

Comprehensive Income

Billions of yen

	2013	2014
Net income	33.4	**30.7**
Minority interests in income	0.3	**0.5**
Income before minority interests	33.7	**31.3**
Other comprehensive income		
Valuation difference on available-for-sale securities	8.5	**(10.5)**
Deferred gains or losses on hedges	—	**0**
Foreign currency translation adjustment	4.3	**10.6**
Share of other comprehensive income of associates accounted for using equity method	0.8	**1.8**
Total other comprehensive income	13.6	**1.9**
Comprehensive income	47.4	**33.3**

Capital Expenditures and Depreciation and Amortization*4

Total capital expenditures increased 16.2%, or ¥5.3 billion, year on year, to ¥38.1 billion. This primarily comprised capital expenditures of ¥7.9 billion in the Pachislot and Pachinko Machine Business segment, mainly to acquire molds and construct a new plant; capital expenditures of ¥7.7 billion in amusement centers that SEGA ENTERTAINMENT Co., Ltd., operates; and acquisition of land in *Centum City* in Busan, South Korea, with a view to developing a resort complex. Depreciation and amortization decreased ¥1.9 billion, year on year, to ¥16.1 billion.

R&D Expenses, Content Production Expenses*4

R&D expenses and content production expenses, which are included in SG&A expenses and cost of sales, rose ¥13.9 billion year on year, to ¥59.2 billion. This rise largely resulted from investment to strengthen developmental capabilities with a view to growing the Pachislot and Pachinko Machine Business segment's market share and investment aimed at bolstering the Consumer Business segment's digital game area.

Fiscal 2015 Outlook

In fiscal 2015, ending March 31, 2015, the Company is targeting a 19% year-on-year increase in net sales, to ¥450.0 billion. The Company expects revenues to grow 20% year on year in the Pachislot and Pachinko Machine Business segment, due to higher pachislot and pachinko machine unit sales, and 19% in the Amusement Machine Sales Business segment. Also, we anticipate that increased earnings in the digital game area will grow revenues from the Consumer Business segment 29% year on year. Operating income is expected to decrease 9% year on year, to ¥35.0 billion, as lower earnings from the Pachislot and Pachinko Machine Business segment—due to a temporary deterioration in the profit margin accompanying higher component costs—counteract higher earnings in the Consumer Business segment. As a result, net income is expected to decrease 32% year on year, to ¥21.0 billion.

*4 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

Analysis by Business Segment

LONG-TERM TRENDS

The Pachislot and Pachinko Machine Business segment, which had a product mix overly weighted toward pachislot machines directly after management integration, saw net sales decrease significantly in fiscal 2007 and fiscal 2008 due to a slump in the pachislot machine market originating from regulatory revision in July 2004. In response, the Company strengthened the product appeal of pachinko machines to correct the imbalance between pachislot and pachinko machines in its product portfolio. As a result, the segment's net sales recovered after bottoming out in fiscal 2008. In recent years, however, net sales have tended to flag as growth slows in the pachinko and pachislot machine market. In addition, earnings have become more volatile due to developmental cost hikes and delays in developmental schedules.

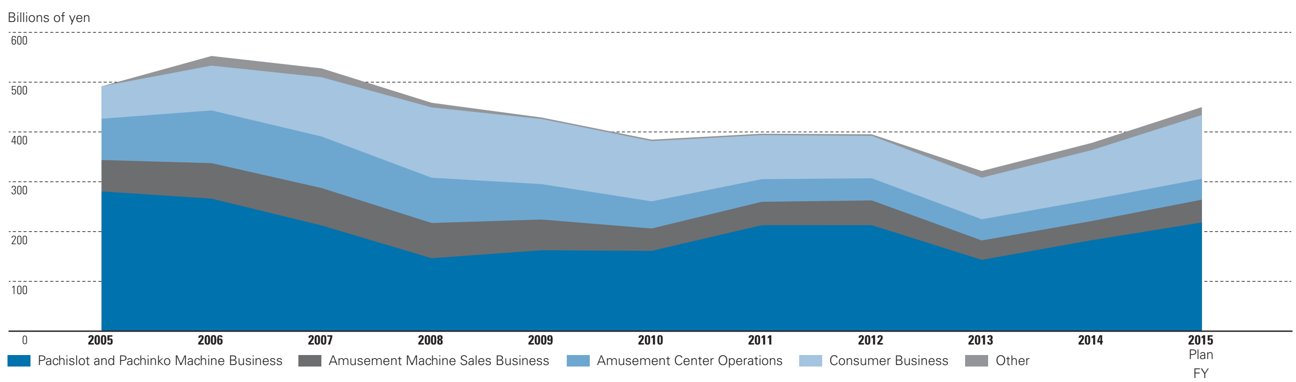
Since fiscal 2010, when a downturn in the amusement center operations market intensified, the Amusement Machine Sales Business segment has adopted a conservative approach to developing and marketing large, high-end machines. In addition, the business segment has introduced a revenue-sharing business model in which amusement center operators and SEGA share revenues based on players' use of amusement arcade machines. Although net sales have declined as a consequence, increased revenues from the revenue-sharing business model have stabilized earnings.

The Amusement Center Operations segment has been accelerating the closure and sale of amusement centers with low profitability or potential since recognizing an operating loss in fiscal 2008. As a result, the segment's net sales have decreased to less than half of their peak level, and earnings have been low.

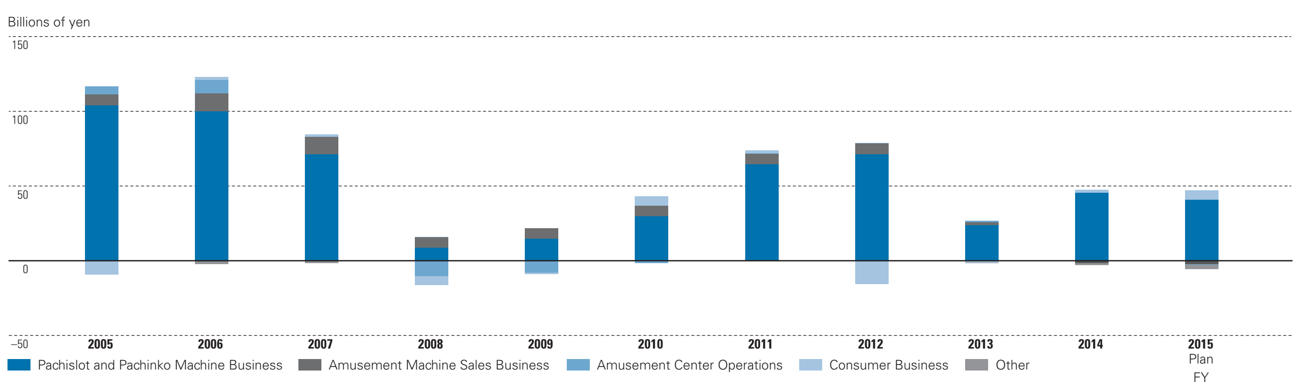
Since the packaged game software business recorded an operating loss in fiscal 2008, the Consumer Business segment has been reforming its profit structure primarily by narrowing down the number of titles it sells and rationalizing its organization. On the other hand, earnings from the digital game area are growing rapidly. In fiscal 2014, sales in the digital game area accounted for approximately 50% of game content sales.

The Company is highly reliant on the Pachislot and Pachinko Machine Business segment's revenues, which represent between 30% and 50% of net sales. Similarly, the business segment's earnings consistently account for the majority of the Company's operating income.

Net Sales by Segment



Operating Income (Loss) by Segment



Analysis by Business Segment

Comparing Fiscal 2014 and Fiscal 2013

Pachislot and Pachinko Machine Business: The pachislot machine business posted a significant year-on-year rise in unit sales because generally solid sales of titles launched compensated for revising some titles' launch schedules. Meanwhile, the pachinko machine business saw unit sales decline from the previous fiscal year's level as non-mainstay titles struggled in tough market conditions. As a result, the segment recorded year-on-year increases of 27.8%, or ¥39.5 billion, in net sales, to ¥181.8 billion; 92.5%, or ¥21.7 billion, in operating income, to ¥45.2 billion; and 8.4 percentage points in the operating margin, to 24.9%.

Amusement Machine Sales Business: Sales of CVT kits as well as cards and other consumables and revenues from revenue-sharing titles did not completely offset struggling sales of new titles amid sluggish market conditions. As a result, the segment's net sales declined 1.4%, or ¥0.5 billion, year on year, to ¥38.6 billion. The segment incurred an operating loss of ¥1.2 billion, compared with the previous fiscal year's operating income of ¥1.9 billion.

Amusement Center Operations: Despite continuing efforts to strengthen the management capabilities of existing amusement centers, the absence of market-driving titles led to a 3.9% decrease in the net sales of existing amusement centers in Japan. As a result, the segment's net sales rose 1.2%, or ¥0.5 billion, year on year, to ¥43.2 billion, while operating income decreased 95.0%, or ¥1.1 billion, year on year, to ¥0.06 billion.

Consumer Business: In the packaged game software area, sales of new titles were lackluster overseas, and unit sales declined year on year. Meanwhile, the digital game area, including games for mobile phones, smartphones, and PC downloads, performed well. In Japan, the segment distributed 141 titles, of which 73 were pay-to-play and 68 were free-to-play (F2P). The performance of the toy business was lackluster, but the animation business performed solidly. As a result, the segment's net sales increased 19.0%, or ¥15.9 billion, year on year, to ¥99.8 billion. The segment posted operating income of ¥2.0 billion, compared to the previous fiscal year's operating loss of ¥0.7 billion.

Fiscal 2015 Outlook

In fiscal 2015, although the Company is targeting higher revenues from all segments except the Amusement Center Operations segment, all segments except the Consumer Business segment are expected to record lower earnings or operating losses.

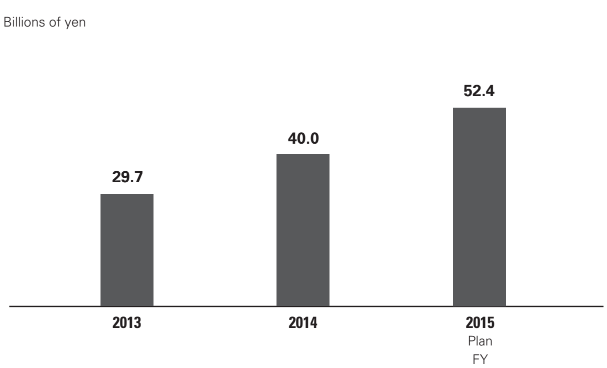
Pachislot and Pachinko Machine Business: The segment is targeting a 20% year-on-year increase in net sales, to ¥217.5 billion, and a 10% year-on-year decrease in operating income, to ¥40.5 billion. The launch of multiple mainstay titles by the pachislot and pachinko machine businesses is likely to grow unit sales. However, a temporary decline in the segment's profit margin—due to higher costs as the ROM capacities of LCD panels increase and movable gadgets increase—is expected to lower the operating margin 6.3 percentage points, to 18.6%.

Amusement Machine Sales Business: Market conditions are likely to remain challenging due to amusement center operators' restrained investment. The segment's net sales are expected to rise 19% year on year, to ¥46.0 billion, while operating loss is projected to increase from the previous fiscal year's ¥1.2 billion to ¥1.7 billion.

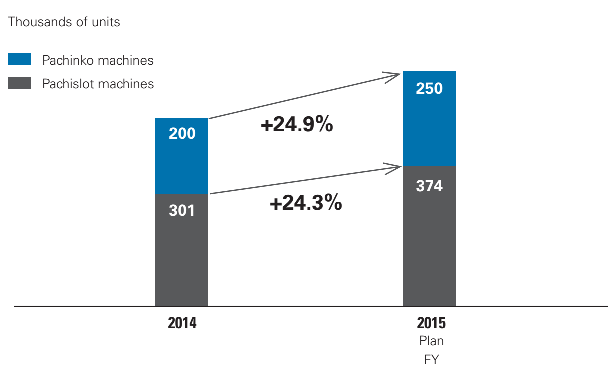
Amusement Center Operations: Given the likely effect of a further increase in consumption tax, the segment is expected to record a 3% decrease in net sales, to ¥42.0 billion, and an operating loss of ¥0.6 billion. Existing amusement centers in Japan are expected to see sales decline 2.5%.

Consumer Business: Due to higher earnings from the digital game area, the segment is targeting year-on-year increases of 29% in net sales, to ¥128.5 billion, and 230% in operating income, to ¥6.6 billion. In the packaged game software area, we expect existing mainstay titles and titles under the ATLUS. brand to grow unit sales. As for the digital game area, we aim to increase revenues more than 30% by continuing to step up efforts for PC online games, smartphones, and tablets.

Digital Game Area Net Sales



Pachislot and Pachinko Machine Unit Sales Target

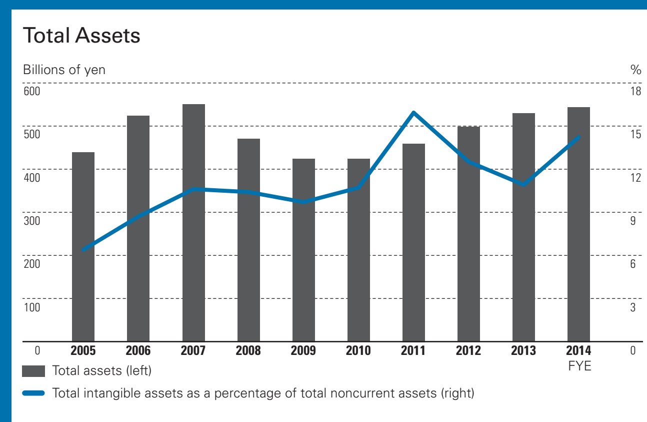


Financial Position Analysis

LONG-TERM TRENDS

Total assets rose in fiscal 2006 and fiscal 2007 due to an increase in property, plant and equipment and increases in respective assets that resulted from the new inclusion of companies in consolidation. However, from fiscal 2008 total assets declined as a consequence of valuation loss on securities and sales of securities accompanying restructuring. In recent years, although it has been selling amusement centers, the Company has seen total assets trend upward. This is attributable to the Pachislot and Pachinko Machine Business segment's construction of a new plant, the Company's development of resort complexes and integrated resorts, an increase in goodwill accompanying acquisitions in the digital game area, and an increase in investment securities as the market value of shares held has gone up. Although total assets are trending upward, for initiatives to develop resort complexes and integrated resorts the Company is exercising due diligence to avoid creating a bloated balance sheet.

The equity ratio has remained around 60% due to a policy of securing a certain level of internal reserves that enable investment to develop businesses in growth areas and the payment of stable cash dividends, even amid the earnings volatility that stems from the nature of the industry and the consequent presence or absence of hit products.



Comparing Fiscal 2014 and Fiscal 2013

Assets

Total assets at March 31, 2014, the fiscal year-end, stood at ¥542.9 billion, up ¥14.4 billion from the previous fiscal year-end.

Total current assets at the fiscal year-end amounted to ¥318.4 billion, edging down ¥0.1 billion from the previous fiscal year-end. This mainly resulted from a year-on-year decrease in cash and deposits, which offset a ¥103.4 billion rise in investment securities accompanying short-term fund management.

Total noncurrent assets at the fiscal year-end stood at ¥224.4 billion, up ¥14.5 billion from the previous fiscal year-end. This mainly stemmed from an increase in property, plant and equipment accompanying the acquisition of land in Busan, South Korea, and a rise in total intangible assets due to goodwill recognized as a result of the transfer of Index Corporation's businesses to the Company.

Liabilities

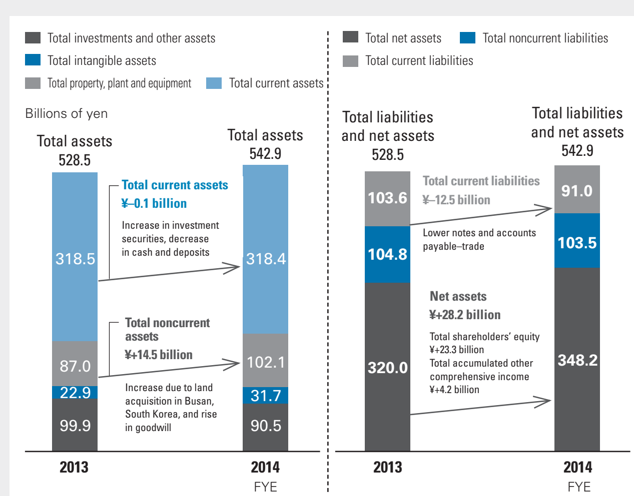
Total current liabilities at the fiscal year-end stood at ¥91.0 billion, down ¥12.5 billion from the previous fiscal year-end. This was principally related to lower notes and accounts payable–trade and the redemption of the current portion of bonds. The current ratio increased 42.3 percentage points, to 349.7%, reflecting the Company's continued high level of liquidity.

Total noncurrent liabilities at the fiscal year-end amounted to ¥103.5 billion, a decrease of ¥1.2 billion from the previous fiscal year-end. This primarily reflected lower long-term loans payable, which more than compensated for bond issuance. As a result, the ratio of fixed assets to shareholders' equity (ratio of total noncurrent assets to total shareholders' equity) was 65.4%, and the ratio of fixed assets to fixed liabilities (ratio of total noncurrent assets to total noncurrent liabilities) was 50.2%.

Interest-bearing debt at the fiscal year-end amounted to ¥96.0 billion, down ¥1.6 billion from the previous fiscal year-end. At ¥208.9 billion, liquidity in hand remained higher than interest-bearing debt, testifying to a sound financial position.

Net assets

Total net assets stood at ¥348.2 billion at the fiscal year-end, up ¥28.2 billion from the previous fiscal year-end. Total shareholders' equity increased because the recognition of net income and a decrease in treasury stock counteracted payments of cash dividends. Furthermore, although sales of investment securities led to a decrease in valuation difference on available-for-sale securities, foreign currency translation adjustment and remeasurements of defined benefit plans increased. The equity ratio rose 3.5 percentage points from the previous fiscal year-end, to 63.2%.

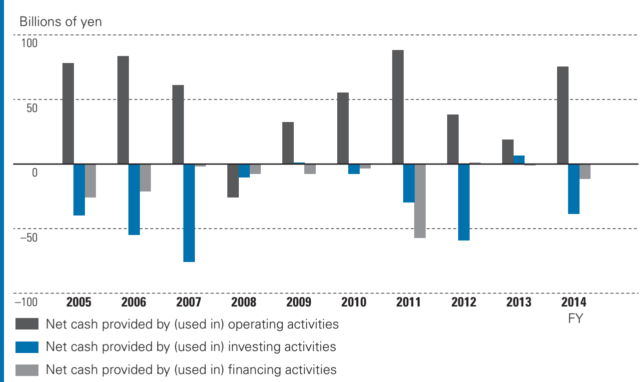


Cash Flows Analysis

LONG-TERM TRENDS

Since fiscal 2011, the Company has been investing in organizational restructuring. These efforts included investments to make three listed subsidiaries into wholly owned subsidiaries. In conjunction with these efforts, the Company has been investing actively in such growth areas as the integrated resort business and the digital game area.

Cash Flows



Comparing Fiscal 2014 and Fiscal 2013

Net cash provided by operating activities

Net cash provided by operating activities was ¥75.2 billion, compared with ¥18.6 billion in the previous fiscal year. This was mainly attributable to income before income taxes and minority interests of ¥47.5 billion, depreciation and amortization of ¥19.7 billion, and a ¥16.5 billion decrease in notes and accounts receivable–trade.

Net cash provided by (used in) investing activities

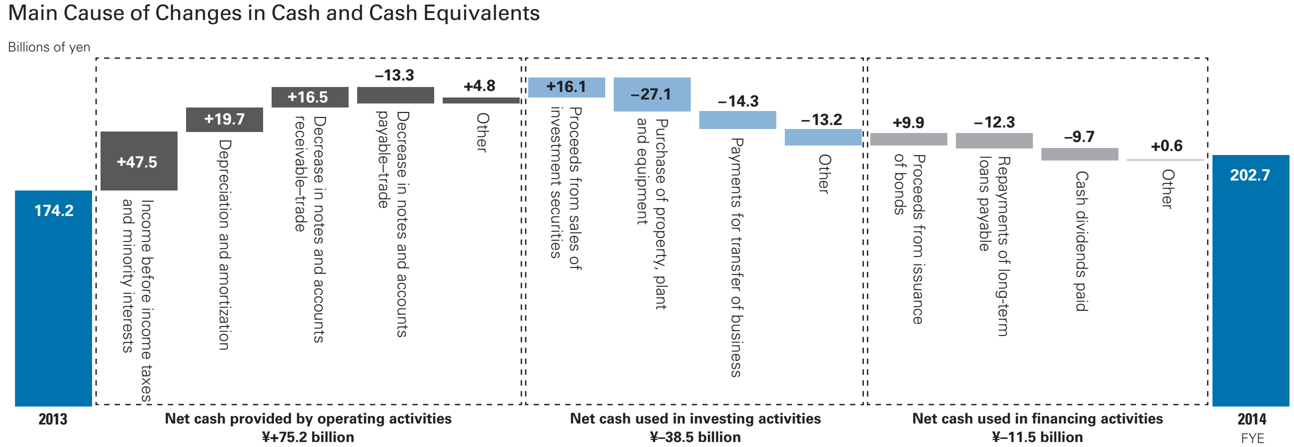
Net cash used in investing activities was ¥38.5 billion, compared with net cash provided by investing activities of ¥6.3 billion in the previous fiscal year. This primarily reflected, purchase of property, plant and equipment of ¥27.1 billion; payments for transfer of business of ¥14.3 billion; purchase of stocks of subsidiaries and affiliates of ¥7.8 billion; and purchase of intangible assets of ¥6.8 billion; which counteracted proceeds from sales of investment securities of ¥16.1 billion.

Net cash used in financing activities

Net cash used in financing activities was ¥11.5 billion, compared with ¥1.1 billion in the previous fiscal year. This mainly stemmed from cash dividends paid, including cash dividends paid to minority shareholders of ¥9.7 billion, and repayments of long-term loans payable of ¥12.3 billion, which counteracted proceeds from issuance of bonds of ¥9.9 billion.

As a result of the above, cash and cash equivalents at end of period amounted to ¥202.7 billion, up ¥28.5 billion from the previous fiscal year-end.

Main Cause of Changes in Cash and Cash Equivalents



Fiscal 2015 Outlook

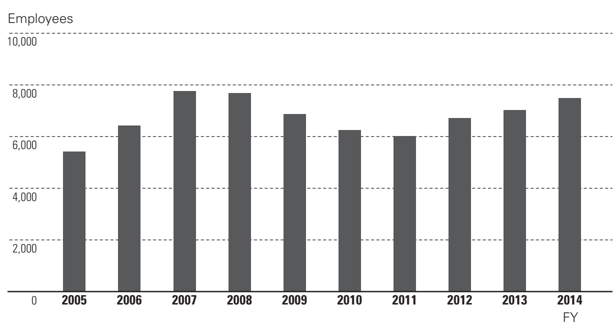
In fiscal 2015, net cash provided by operating activities is expected to decrease year on year because higher unit sales in the Pachislot and Pachinko Machine Business segment are unlikely to compensate completely for an increase in income taxes paid. Furthermore, net cash used in investing activities is projected to decline year on year given that recurring capital expenditures to acquire molds and other equipment are likely to account for the majority of investment. Net cash provided by financing activities is expected to increase year on year due to bond issuance.

Human Capital and Intellectual Properties

Consolidated Employee Numbers

The consolidated number of employees in fiscal 2014 is as shown below. The number of employees in the Consumer Business segment increased significantly due to Index Corporation's transfer of its businesses to the Company in November 2013.

Consolidated Employee Numbers



Employee Numbers by Segment

Segment	2013	2014	YOY change
	Employees		
Pachislot and Pachinko Machine Business	1,482	**1,540**	+3.9%
Amusement Machine Sales Business	1,652	**1,672**	+1.2%
Amusement Center Operations	503	**531**	+5.6%
Consumer Business	2,482	**2,838**	+14.3%
Other	786	**772**	–1.8%
Corporate (holding company)	103	**119**	+15.5%
Total	7,008	**7,472**	+6.6%

Intellectual Properties Acquired in Fiscal 2014

Transfer of Index Corporation's businesses

Through the transfer of Index Corporation's businesses to it, the Company sought to increase corporate value by creating synergies with its existing businesses based on the leveraging of Index's extensive track record in the planning and development of content for mobile phones and high-quality intellectual properties and strong developmental capabilities in the home video game software area.

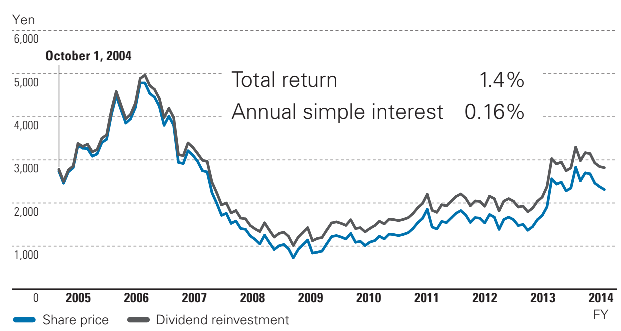
Date of business combination	November 1, 2013
Acquisition price	¥14,100 million
Acquisition expenses (advisory expenses)	¥259 million
Goodwill recognized	¥11,040 million

Outcome

Long-Term Trends

The basic policy of the Company is to heighten shareholder value through growth strategies that generate higher earnings and thereby increase market capitalization and through the realization of stable dividends consistent with the aim of paying out approximately 20% to 30% of post-tax income as dividends. Furthermore, the Company will retain the option of acquiring treasury stock in response to share price levels. In light of this basic policy, the Company has stably paid cash dividends of ¥40.00 per share for the past four fiscal years while purchasing treasury stock flexibly. Between the management integration on October 1, 2004, and March 31, 2014, total return based on aggregated capital gain and cash dividends was 1.4%, equivalent to an annual simple interest of 0.16%. (During the same period, the total return of TOPIX was 8.8%. As of October 1, 2004, the government bond interest rate was 1.48%.)

Total Return since Management Integration (October 1, 2004)



Fiscal 2014 Returns to Shareholders

Net income per share was ¥126.42, a decrease compared with the previous fiscal year's ¥137.14. This was mainly attributable to lower net income resulting from the incurring of extraordinary loss—which primarily reflected loss on liquidation of subsidiaries and affiliates accompanying a reversal of foreign currency translation adjustment due to the liquidation of certain subsidiaries in North America and Europe—and the absence of the previous fiscal year's recognition of deferred tax assets for the amount expected to be deductible from future taxable income in relation to a tax loss, incurred due to the completion of liquidation of certain U.S. subsidiaries. For fiscal 2014, the Company paid cash dividends of ¥40.00 per share, the same as for the previous fiscal year. As a result, the consolidated dividend payout ratio rose from the previous fiscal year's 29.2% to 31.6%, and the ratio of cash dividends to net assets declined from the previous fiscal year's 3.2% to 2.9%.

Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
ASSETS			
Current assets			
Cash and deposits	¥101,220	¥176,540	$ 983,868
Notes and accounts receivable-trade	48,108	63,886	467,622
Allowance for doubtful accounts	(323)	(386)	(3,140)
Short-term investment securities	107,713	4,260	1,046,985
Merchandise and finished goods	6,130	5,931	59,589
Work in process	13,610	12,773	132,299
Raw materials and supplies	16,189	23,850	157,363
Income taxes receivable	1,993	8,428	19,376
Deferred tax assets	12,627	10,965	122,736
Other	11,203	12,319	108,902
Total current assets	318,475	318,570	3,095,602
Noncurrent assets			
Property, plant and equipment			
Buildings and structures (Note 5 (1))	103,561	102,332	1,006,626
Accumulated depreciation	(69,458)	(70,270)	(675,139)
Buildings and structures, net	34,103	32,062	331,486
Machinery, equipment and vehicles	20,468	20,326	198,959
Accumulated depreciation	(11,427)	(10,944)	(111,075)
Machinery, equipment and vehicles, net	9,041	9,381	87,883
Amusement machines and facilities	52,971	50,282	514,882
Accumulated depreciation	(43,534)	(41,939)	(423,155)
Amusement machines and facilities, net	9,436	8,343	91,726
Land (Notes 5 (1) and (4))	39,029	27,229	379,369
Construction in progress	2,239	2,555	21,772
Other	51,762	48,273	503,131
Accumulated depreciation	(43,450)	(40,786)	(422,343)
Other, net	8,311	7,487	80,788
Total property, plant and equipment	102,162	87,060	993,026
Intangible assets			
Goodwill	18,915	10,206	183,858
Other	12,879	12,706	125,193
Total intangible assets	31,795	22,913	309,051
Investments and other assets			
Investment securities (Notes 5 (2) and (3))	60,825	72,797	591,228
Long-term loans receivable	710	663	6,910
Lease and guarantee deposits	13,342	12,492	129,686
Deferred tax assets	875	5,172	8,509
Other	15,554	9,831	151,191
Allowance for doubtful accounts	(805)	(997)	(7,826)
Total investments and other assets	90,503	99,960	879,699
Total noncurrent assets	224,461	209,933	2,181,777
Total assets	¥542,936	¥528,504	$5,277,379

See accompanying notes.

	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	¥ 37,292	¥ 50,142	$ 362,488
Short-term loans payable (Notes 5 (1) and (5))	12,918	12,867	125,571
Current portion of bonds	1,700	5,843	16,524
Income taxes payable	6,288	1,494	61,121
Accrued expenses	12,255	10,825	119,127
Provision for bonuses	3,868	3,893	37,600
Provision for directors' bonuses	614	654	5,968
Provision for business restructuring	243	907	2,371
Provision for point card certificates	56	—	549
Asset retirement obligations	325	229	3,165
Deferred tax liabilities	5	0	54
Other	15,499	16,778	150,660
Total current liabilities	91,069	103,637	885,204
Noncurrent liabilities			
Bonds payable	37,800	29,500	367,418
Long-term loans payable	35,198	44,926	342,129
Provision for retirement benefits	—	9,277	—
Net defined benefit liability	6,053	—	58,837
Provision for directors' retirement benefits	146	138	1,425
Deferred tax liabilities	4,294	5,124	41,738
Deferred tax liabilities for land revaluation	745	745	7,248
Asset retirement obligations	2,165	2,165	21,047
Other	17,192	12,953	167,116
Total noncurrent liabilities	103,596	104,831	1,006,962
Total liabilities	194,666	208,469	1,892,166
NET ASSETS			
Shareholders' equity			
Capital stock	29,953	29,953	291,146
Capital surplus	119,312	119,335	1,159,727
Retained earnings	219,684	198,924	2,135,342
Treasury stock	(37,971)	(40,540)	(369,090)
Total shareholders' equity	330,977	307,673	3,217,125
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	16,804	27,385	163,341
Deferred gains or losses on hedges	0	—	8
Revaluation reserve for land (Note 5 (4))	(4,705)	(4,705)	(45,737)
Foreign currency translation adjustment	(2,281)	(14,601)	(22,177)
Remeasurements of defined benefit plans	2,504	—	24,342
Total accumulated other comprehensive income	12,322	8,078	119,777
Subscription rights to shares	1,078	1,146	10,478
Minority interests	3,892	3,136	37,831
Total net assets	348,270	320,034	3,385,213
Total liabilities and net assets	¥542,936	¥528,504	$5,277,379

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	¥378,011	¥321,407	$3,674,294
Cost of sales (Notes 6 (1) and (2))	230,040	204,468	2,236,011
Gross profit	147,970	116,938	1,438,283
Selling, general and administrative expenses (Note 6 (2))	109,437	97,865	1,063,740
Operating income	38,533	19,073	374,543
Other income (expenses)			
Interest income	341	507	3,317
Dividends income	917	752	8,919
Equity in earnings of affiliates	—	15	—
Gain on investments in partnership	1,623	193	15,783
Income from operation of lease assets	—	67	—
Gain on valuation of derivatives	—	318	—
Foreign exchange gains	966	1,925	9,394
Interest expenses	(849)	(836)	(8,254)
Equity in losses of affiliates	(257)	—	(2,502)
Sales discounts	(125)	(139)	(1,215)
Commission fee	(91)	(204)	(891)
Loss on investments in partnership	(357)	(229)	(3,475)
Penalty payment for cancellation of game center lease agreement	(18)	(45)	(184)
Bond issuance cost	(64)	(373)	(627)
Loss on retirement of noncurrent assets	(400)	(232)	(3,891)
Gain on sales of noncurrent assets (Note 6 (3))	3,585	667	34,850
Gain on sales of shares of subsidiaries and associates	21	—	209
Gain on sales of investment securities	11,970	1,917	116,358
Gain on liquidation of subsidiaries and affiliates	—	20	—
Gain on transfer of benefit obligations relating to employees' pension fund	—	6,345	—
Loss on sales of noncurrent assets	(9)	(11)	(89)
Impairment loss (Note 6 (5))	(1,799)	(2,986)	(17,494)
Loss on valuation of investment securities	(196)	(6)	(1,905)
Restructuring loss	—	(489)	—
Loss on liquidation of subsidiaries and affiliates (Note 6 (4))	(6,601)	(1,795)	(64,163)
Other, net	356	1,179	3,460
Subtotal	9,012	6,558	87,600
Income before income taxes and minority interests	47,545	25,631	462,143
Income taxes-current	8,131	4,038	79,040
Income taxes-deferred	8,098	(12,201)	78,717
Total income taxes	16,230	(8,163)	157,757
Income before minority interests	31,315	33,795	304,385
Minority interests in income	593	334	5,772
Net income	30,721	33,460	298,612
Minority interests in income	593	334	5,772
Income before minority interests	31,315	33,795	304,385
Other comprehensive income (Note 6 (6))			
Valuation difference on available-for-sale securities	(10,580)	8,512	(102,840)
Deferred gains or losses on hedges	2	—	21
Foreign currency translation adjustment	10,692	4,325	103,930
Share of other comprehensive income of associates accounted for using equity method	1,878	847	18,261
Total other comprehensive income	1,993	13,686	19,373
Comprehensive income	33,308	47,481	323,758
(Breakdown)			
Comprehensive income attributable to owners of the parent	32,460	47,053	315,519
Comprehensive income attributable to minority interests	¥ 847	¥ 427	$ 8,239

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Shareholders' equity			
Capital stock			
Balance at the beginning of the period	**¥ 29,953**	¥ 29,953	**$ 291,146**
Changes of items during the period			
Total changes of items during the period	**—**	—	**—**
Balance at the end of the period	**29,953**	29,953	**291,146**
Capital surplus			
Balance at the beginning of the period	**119,335**	119,397	**1,159,952**
Changes of items during the period			
Disposal of treasury stock	**(14)**	(61)	**(141)**
Change of scope of consolidation	**(8)**	—	**(82)**
Total changes of items during the period	**(23)**	(61)	**(224)**
Balance at the end of the period	**119,312**	119,335	**1,159,727**
Retained earnings			
Balance at the beginning of the period	**198,924**	175,173	**1,933,561**
Changes of items during the period			
Dividends from surplus	**(9,701)**	(9,851)	**(94,298)**
Net income	**30,721**	33,460	**298,612**
Change of scope of consolidation	**(260)**	(21)	**(2,532)**
Reversal of revaluation reserve for land	**—**	163	**—**
Total changes of items during the period	**20,759**	23,751	**201,781**
Balance at the end of the period	**219,684**	198,924	**2,135,342**
Treasury stock			
Balance at the beginning of the period	**(40,540)**	(26,067)	**(394,053)**
Changes of items during the period			
Purchase of treasury stock	**(55)**	(16,220)	**(537)**
Disposal of treasury stock	**2,623**	1,747	**25,500**
Total changes of items during the period	**2,568**	(14,472)	**24,962**
Balance at the end of the period	**(37,971)**	(40,540)	**(369,090)**
Total shareholders' equity			
Balance at the beginning of the period	**307,673**	298,456	**2,990,606**
Changes of items during the period			
Dividends from surplus	**(9,701)**	(9,851)	**(94,298)**
Net income	**30,721**	33,460	**298,612**
Purchase of treasury stock	**(55)**	(16,220)	**(537)**
Disposal of treasury stock	**2,608**	1,686	**25,358**
Change of scope of consolidation	**(269)**	(21)	**(2,615)**
Reversal of revaluation reserve for land	**—**	163	**—**
Total changes of items during the period	**23,304**	9,217	**226,519**
Balance at the end of the period	**¥330,977**	¥307,673	**$3,217,125**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of the period	¥27,385	¥18,872	$266,190
Changes of items during the period			
Net changes of items other than shareholders' equity	(10,581)	8,513	(102,848)
Total changes of items during the period	(10,581)	8,513	(102,848)
Balance at the end of the period	16,804	27,385	163,341
Deferred gains or losses on hedges			
Balance at the beginning of the period	—	—	—
Changes of items during the period			
Net changes of items other than shareholders' equity	0	—	8
Total changes of items during the period	0	—	8
Balance at the end of the period	0	—	8
Revaluation reserve for land			
Balance at the beginning of the period	(4,705)	(4,541)	(45,737)
Changes of items during the period			
Reversal of revaluation reserve for land	—	(163)	—
Net changes of items other than shareholders' equity	—	—	—
Total changes of items during the period	—	(163)	—
Balance at the end of the period	(4,705)	(4,705)	(45,737)
Foreign currency translation adjustment			
Balance at the beginning of the period	(14,601)	(19,681)	(141,924)
Changes of items during the period			
Net changes of items other than shareholders' equity	12,319	5,079	119,747
Total changes of items during the period	12,319	5,079	119,747
Balance at the end of the period	(2,281)	(14,601)	(22,177)
Remeasurements of defined benefit plans			
Balance at the beginning of the period	—	—	—
Changes of items during the period			
Net changes of items other than shareholders' equity	2,504	—	24,342
Total changes of items during the period	2,504	—	24,342
Balance at the end of the period	2,504	—	24,342
Total accumulated other comprehensive income			
Balance at the beginning of the period	8,078	(5,350)	78,527
Changes of items during the period			
Reversal of revaluation reserve for land	—	(163)	—
Net changes of items other than shareholders' equity	4,243	13,593	41,249
Total changes of items during the period	4,243	13,429	41,249
Balance at the end of the period	12,322	8,078	119,777
Subscription rights to shares			
Balance at the beginning of the period	1,146	991	11,141
Changes of items during the period			
Net changes of items other than shareholders' equity	(68)	155	(663)
Total changes of items during the period	(68)	155	(663)
Balance at the end of the period	1,078	1,146	10,478
Minority interests			
Balance at the beginning of the period	3,136	2,279	30,482
Changes of items during the period			
Net changes of items other than shareholders' equity	756	856	7,348
Total changes of items during the period	756	856	7,348
Balance at the end of the period	3,892	3,136	37,831
Total net assets			
Balance at the beginning of the period	320,034	296,376	3,110,758
Changes of items during the period			
Dividends from surplus	(9,701)	(9,851)	(94,298)
Net income	30,721	33,460	298,612
Purchase of treasury stock	(55)	(16,220)	(537)
Disposal of treasury stock	2,608	1,686	25,358
Change of scope of consolidation	(269)	(21)	(2,615)
Reversal of revaluation reserve for land	—	—	—
Net changes of items other than shareholders' equity	4,931	14,604	47,935
Total changes of items during the period	28,235	23,658	274,455
Balance at the end of the period	¥348,270	¥320,034	$3,385,213

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 47,545	¥ 25,631	$ 462,143
Depreciation and amortization	19,743	18,181	191,905
Impairment loss	1,799	2,986	17,494
Amount of transfer of equipment by amusement center operations business	(3,287)	(3,054)	(31,955)
Loss (gain) on sales of noncurrent assets	(3,576)	(655)	(34,760)
Loss on retirement of noncurrent assets	400	232	3,891
Loss (gain) on sales of shares of subsidiaries and associates	(21)	2	(209)
Loss (gain) on liquidation of subsidiaries and affiliates	6,601	1,774	64,163
Loss (gain) on sales of investment securities	(11,941)	(1,917)	(116,073)
Loss (gain) on valuation of investment securities	196	6	1,905
Loss (gain) on investments in partnership	(1,266)	36	(12,308)
Amortization of goodwill	2,997	2,225	29,132
Increase (decrease) in allowance for doubtful accounts	(294)	(420)	(2,858)
Increase (decrease) in provision for directors' bonuses	(48)	(267)	(468)
Increase (decrease) in provision for retirement benefits	—	(5,263)	—
Increase (decrease) in net defined benefit liability	(398)	—	(3,869)
Increase (decrease) in provision for directors' retirement benefits	8	(169)	81
Increase (decrease) in provision for bonuses	(78)	(540)	(760)
Interest and dividends income	(1,258)	(1,259)	(12,237)
Interest expenses	849	836	8,254
Foreign exchange losses (gains)	(1,318)	(2,230)	(12,816)
Equity in (earnings) losses of affiliates	257	(15)	2,502
Decrease (increase) in notes and accounts receivable-trade	16,517	10,819	160,546
Decrease (increase) in inventories	8,616	(7,590)	83,754
Increase (decrease) in notes and accounts payable-trade	(13,384)	(10,197)	(130,099)
Increase (decrease) in guarantee deposits received	186	86	1,810
Other, net	3,260	(1,513)	31,691
Subtotal	72,104	27,723	700,859
Interest and dividends income received	1,273	1,274	12,375
Interest expenses paid	(835)	(813)	(8,122)
Income taxes paid	(5,818)	(16,336)	(56,552)
Income taxes refund	8,477	6,754	82,399
Net cash provided by operating activities	¥ 75,201	¥ 18,603	$ 730,960

See accompanying notes.

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash flows from investing activities:			
Payments into time deposits	**¥ (5,860)**	¥ (1,127)	**$ (56,959)**
Proceeds from withdrawal of time deposits	**1,939**	2,058	**18,856**
Purchase of short-term investment securities	**—**	(100)	**—**
Proceeds from redemption of securities	**—**	42,650	**—**
Purchase of trust beneficiary right	**(4,941)**	(5,494)	**(48,029)**
Proceeds from sales of trust beneficiary right	**6,195**	5,879	**60,218**
Purchase of property, plant and equipment	**(27,123)**	(21,896)	**(263,639)**
Proceeds from sales of property, plant and equipment	**3,461**	3,830	**33,646**
Purchase of intangible assets	**(6,870)**	(8,068)	**(66,785)**
Proceeds from sales of intangible assets	**1,895**	—	**18,424**
Purchase of investment securities	**(4,768)**	(5,025)	**(46,348)**
Proceeds from sales of investment securities	**16,199**	7,274	**157,457**
Proceeds from redemption of investment securities	**4,755**	150	**46,218**
Payments for investment in partnerships	**(383)**	(162)	**(3,730)**
Proceeds from distribution of investment in partnerships	**978**	264	**9,514**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**(398)**	(3,226)	**(3,877)**
Proceeds from liquidation of subsidiaries	**—**	16	**—**
Purchase of stocks of subsidiaries and affiliates	**(7,846)**	(5,139)	**(76,265)**
Payments of loans receivable	**(694)**	(510)	**(6,750)**
Collection of loans receivable	**124**	164	**1,213**
Purchase of money held in trust	**—**	(5,800)	**—**
Payments for lease deposits	**(1,421)**	(377)	**(13,816)**
Collection of lease deposits	**674**	1,034	**6,559**
Payments for transfer of business (Note 8 (2))	**(14,359)**	—	**(139,574)**
Proceeds from transfer of business	**—**	184	**—**
Other, net	**(104)**	(180)	**(1,013)**
Net cash provided by (used in) investing activities	**(38,547)**	6,396	**(374,681)**
Cash flows from financing activities:			
Proceeds from long-term loans payable	**2,488**	33,000	**24,191**
Repayments of long-term loans payable	**(12,369)**	(10,472)	**(120,233)**
Proceeds from issuance of bonds	**9,935**	23,026	**96,573**
Redemption of bonds	**(5,843)**	(23,515)	**(56,801)**
Proceeds from exercise of stock options	**2,031**	1,365	**19,749**
Proceeds from stock issuance to minority shareholders	**—**	299	**—**
Cash dividends paid	**(9,706)**	(9,839)	**(94,343)**
Cash dividends paid to minority shareholders	**(17)**	(19)	**(170)**
Purchase of treasury stock	**(56)**	(16,220)	**(545)**
Other, net	**2,024**	1,257	**19,680**
Net cash provided by (used in) financing activities	**(11,512)**	(1,116)	**(111,900)**
Effect of exchange rate change on cash and cash equivalents	**3,357**	3,599	**32,637**
Net increase (decrease) in cash and cash equivalents	**28,499**	27,482	**277,016**
Cash and cash equivalents at beginning of period	**174,210**	146,599	**1,693,338**
Increase in cash and cash equivalents from newly consolidated subsidiary	**31**	128	**302**
Cash and cash equivalents at end of period (Note 8 (1))	**¥202,741**	¥174,210	**$1,970,657**

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2014 and 2013

NOTE 1
Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2014 and 2013. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the classifications used in 2014. These changes had no impact on previously reported results of operations or shareholders' equity.

The translation of the Japanese yen amounts into U.S. dollars is rounded down to the nearest unit amount, and is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.88 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

NOTE 2
Summary of Significant Accounting Policies

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant inter-company balances, transactions and unrealized profits have been eliminated. The number of consolidated subsidiaries is 67 in 2014.

From the year ended March 31, 2014, the following companies became the consolidated subsidiaries of the Company: SEGASAMMY BUSAN INC. and two other companies, because of the newly establishment; Liverpool Co., Ltd. and one other company, because of the Company's acquisition of shareholdings; SEGA SAMMY CREATION INC., because of establishment through an incorporation-type split; DARTSLIVE EUROPE Ltd., because of increase of importance.

From the year ended March 31, 2014, the following companies have been excluded from the scope of consolidation: Sega Publishing America, Inc. and eight other companies, because of its liquidation.

The number of non-consolidated subsidiaries is 15 in 2014.

Main non-consolidated subsidiaries: Sega (Shanghai) Software Co., Ltd., etc.

All non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amounts in assets, net sales, net income and retained earnings applicable to the equity interest of the Company are immaterial.

(2) Equity method

Investments in affiliated companies over which the Company has the ability to exercise significant influence over their operation and financial policies are accounted for by the equity method.

The number of non-consolidated subsidiaries accounted for under the equity method is 1 in 2014.

From the year ended March 31, 2014, the following company has been included in the scope of application of the equity method; SEGA PUBLISHING KOREA LTD., because of increase of importance.

The number of affiliated companies accounted for under the equity method is 7 in 2014.

Main equity-method affiliated companies: PARADISE SEGASAMMY Co., Ltd., CRI Middleware Co., Ltd., INTERLIFE HOLDINGS CO., LTD. and four other companies.

From the year ended March 31, 2014, IP4. INC. and one other company have been excluded from the scope of application of the equity method because of sales of shareholdings.

The number of non-consolidated subsidiaries and affiliated companies which are not accounted for by the equity method is 20 in 2014.

Main non-consolidated subsidiaries and affiliated companies not accounted for by the equity method:
Chara-Web Co., Ltd., etc.

The equity method was not applied to non-consolidated subsidiaries and affiliated companies because the combined amounts of these companies in net income and retained earnings applicable to the equity interest of the Company are immaterial.

(3) Valuation and accounting treatment for important assets

a. Held-to-maturity debt securities are stated at amortized cost (the straight-line method).

b. Available-for-sale securities

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in net assets, with cost of sales determined by the moving-average method.

c. Available-for-sale securities without quoted market prices are carried at cost, which is determined by the moving-average method.
The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Financial Instruments and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.
d. Derivatives
Derivatives are stated at fair market value.
e. Inventories
Inventories are stated at cost, cost being determined mainly by the gross-average method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

Also, work in process is stated at cost, cost being determined mainly by the specific identification method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

(4) Depreciation and amortization for important assets

a. Property, plant and equipment (excluding lease assets)
Depreciation is calculated primarily using the straight-line method.
Range of useful life for the assets is as follows:

Buildings and structures:	2–50 years
Machinery, equipment and vehicles:	2–16 years
Amusement game machines:	2–5 years

b. Intangible assets (excluding lease assets)
Depreciation is calculated using the straight-line method. The straight-line method is adopted over the useful life of within five years for software for internal use.
c. Lease assets
Lease assets involving finance lease transactions of which the ownership is transferred to lessees:

Depreciation method for such assets is the same as that which applies to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions of which the ownership is not transferred to lessees:

Depreciation method is the straight-line method with their residual values being zero over their leased periods used as the number of years for useful life.

(5) Allowances and provisions

a. Allowance for doubtful accounts
Allowance for doubtful accounts is provided in the amount sufficient to cover possible losses based on a historical write-off of general receivables. Receivables with default possibility and bankrupt receivables are calculated based on an individual assessment of the possibility of collection.
b. Provision for bonuses
Accrued employees' bonuses are provided based on the estimated amount to be paid.
c. Provision for directors' bonuses
The estimated amount of bonuses was recorded to meet the bonus payments to directors and corporate auditors.
d. Provision for business restructuring
Of the expenses expected to incur in connection with business restructuring, those recognized to have incurred in the fiscal year are recorded.
e. Provision for directors' retirement benefits
Certain domestic consolidated subsidiaries provide provision for directors' retirement benefits to adequately cover payment of such benefits at the end of the applicable period in accordance with internal regulations.
f. Provision for point card certificates
In order to provide for the usage of points granted to customers under the point system, the estimated future usage amount for the end of the fiscal year ended March 31, 2014 has been recorded.

(6) Accounting method for retirement benefits

a. Attribution method for projected retirement benefits
In calculating retirement benefits obligations, straight-line attribution is adopted for the purpose of attributing projected retirement benefits to the period up to the end of the fiscal year ended March 31, 2014.
b. Treatment of actuarial gains and losses and prior service costs
Prior service costs are amortized equally over a certain number of years (10 years in principle) within the average remaining years of service for the employees at the time of accrual, or are charged to income collectively at the time of accrual. Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 years in principle) within average remaining years of service for the employees at the time of accrual in each fiscal year, commencing from the following fiscal year after the accrual for each employee, or are charged to income collectively in the following fiscal year after the accrual.
(Changes in accounting policies)
The "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued on May 17, 2012; the "Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012; the "Guidance") were adopted from the end of the fiscal year ended March 31, 2014 (except for provisions set in the main clause of Paragraph 35 of the Standard and Paragraph 67 of the Guidance) to change the method to the new one by which retirement benefit obligations less pension assets are recognized as net defined benefit liability, and unrecognized actuarial differences and prior service costs were recognized as net defined benefit liability.

The application of the Standard, etc. follows the transitional rules set in Paragraph 37 of the Standard, and adjustments associated with this change are recorded in accumulated other comprehensive income as of the end of the fiscal year ended March 31, 2014.

As a result, ¥6,053 million ($58,837 thousand) has been recorded in net defined benefit liability at the end of the fiscal year ended March 31, 2014. In addition, deferred tax assets have decreased ¥322 million ($3,130 thousand), and accumulated other comprehensive income has increased ¥2,504 million ($24,342 thousand).

Meanwhile, the impact on per share information is stipulated in the relevant section.

(7) Accounting for significant hedge

a. Hedge accounting

The Company adopts deferred hedge accounting. However, special treatment is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying currency swap transactions and forward exchange contracts.

b. Hedging instruments and hedged items

Hedging instrument: Currency swaps, interest rate swaps, forward exchange contracts

Hedged item: Interest on loans payable, receivables and payables denominated in foreign currencies

c. Hedge policy

Derivative instruments are used to mitigate risks associated with foreign exchange and interest rate fluctuations.

As a rule, hedging is only used for items in which actual demand exists, and not for speculative purposes.

d. Evaluation of hedge effectiveness

Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market between the hedged item and the hedging instrument. Evaluation of hedge effectiveness at fiscal year-end is omitted for currency swap transactions, as material conditions for the notional principal of hedging instruments and those for hedged items are the same and these transactions are deemed to offset the market fluctuations. Evaluation of hedge effectiveness at fiscal year-end is omitted also for interest rate swap transactions applied to special treatment.

(8) Amortization method and period of goodwill

If the duration of the effect of goodwill can be rationally estimated, amortization is made over the estimated number of years by the straight-line method. In other cases, amortization is made over a five-year period by the straight-line method.

(9) Cash and cash equivalents in the consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(10) Consumption taxes

Consumption taxes and local consumption taxes are accounted using the net-of-tax method, and non-deductible consumption taxes and local consumption taxes on assets are posted mainly as expenses when incurred.

(11) Application of the Consolidated Taxation System

The Company applied the Consolidated Taxation System.

NOTE 3

Unapplied New Accounting Standards

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012)

"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012)

(1) Summary

Accounting standard for retirement benefits has been revised from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how unrecognized actuarial differences and unrecognized prior service costs should be accounted for, (b) how retirement benefit obligations and service costs should be determined and (c) enhancement of disclosures.

(2) Effective dates

The Company will adopt the amendments to the method for calculating retirement benefit obligations and service costs from the beginning of the fiscal year ending March 31, 2015.

(3) Effect of application of the standard

As a result of application of the accounting standard, net defined benefit liability for the fiscal year ending March 31, 2015 will be decreased by ¥800 million ($7,783 thousand).

Effects to operating income and income before income taxes and minority interests are minor.

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013)

"Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on September 13, 2013)

"Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013)

"Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, issued on September 13, 2013)

"Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013)

"Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, issued on September 13, 2013)

(1) Summary

These accounting standards have been mainly revised: (i) accounting treatment for changes in the parent's ownership interests in a subsidiary when the parent continues to retain control of that subsidiary after the additional acquisition of the parent's ownership interest in that subsidiary, (ii) accounting treatment for acquisition-related costs, (iii) presentation of net income as well as the change of minority interests to non-controlling interests and (iv) provisional accounting treatment.

(2) Effective dates

The Company and its consolidated subsidiaries will adopt the revised accounting standards effective from the beginning of the year ending March 31, 2016. In addition, the Company and its consolidated subsidiaries will adopt the provisional accounting for those business combinations initiated after the beginning of the year ending March 31, 2016.

(3) Effect of application of the standards

The Company and its domestic consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

NOTE 4

Changes in Presentation

(Consolidated Statements of Income and Comprehensive Income)

(1) "Loss on retirement of noncurrent assets" that was included in "Other, net" under "Other expenses" for the previous fiscal year (¥232 million) has increased in importance, and is therefore separately itemized beginning from the fiscal year ended March 31, 2014.

NOTE 5

Notes to Consolidated Balance Sheets

(1) Assets pledged

Millions of yen

Assets pledged	2014	Liabilities to be covered	2014
Buildings and structures	¥212	Short-term loans payable	¥350
Land	210		
Total	423	Total	350

Thousands of U.S. dollars (Note 1)

Assets pledged	2014	Liabilities to be covered	2014
Buildings and structures	$2,067	Short-term loans payable	$3,402
Land	2,049		
Total	4,117	Total	3,402

Millions of yen

Assets pledged	2013	Liabilities to be covered	2013
Buildings and structures	¥179	Short-term loans payable	¥350
Land	210		
Total	390	Total	350

(2) Investment securities to non-consolidated subsidiaries and affiliated companies

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Investment securities (shares)	¥17,780	¥7,451	$172,831
Investment securities (capital contributions)	155	137	1,511

(3) Loan securities

Loan securities of ¥358 million are included in investment securities as of March 31, 2013.

(4) Revaluation reserve for land

Consolidated subsidiary SEGA CORPORATION has revalued land for commercial use, pursuant to Japan's Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and Amendments to the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001). SEGA CORPORATION has recorded an item for the revaluation reserve for land under net assets.

SEGA CORPORATION computed the value of land based on the methodology regarding rational adjustments to valuation of fixed assets stipulated in Article 2-3, and appraisals by licensed real estate appraisers prescribed in Article 2-5 of the Enforcement Ordinance No. 119 (March 31, 1998) pertaining to the Law Concerning Revaluation of Land.

Date of revaluation: March 31, 2002

(5) Overdraft agreements and commitment line agreements

The Company and its consolidated subsidiaries have overdraft agreements and commitment line agreements with 13 banks for effective procurement of working capital.

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Total amount of overdraft limit and commitment line agreements	¥71,425	¥61,425	$694,255
Balance of executed loans	500	500	4,860
Unexecuted balance	70,925	60,925	689,395

NOTE 6

Notes to Consolidated Statements of Income and Comprehensive Income

(1) Devaluation of inventories

The book value devaluation of inventories held for normal sales purpose based on decline in profitability included in cost of sales amounted to ¥3,885 million ($37,763 thousand) and ¥3,320 million for the years ended March 31, 2014 and 2013, respectively.

(2) Research and development expenses

Expenses relating to research and development activities have been charged to income as incurred and amounted to ¥40,070 million ($389,488 thousand) and ¥37,046 million for the years ended March 31, 2014 and 2013, respectively.

(3) Gain on sales of noncurrent assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Buildings and structures	¥ 521	¥289	$ 5,068
Land	2,299	373	22,353
Other property, plant and equipment	12	4	121
Other intangible assets	751	—	7,306
Total	3,585	667	34,850

(4) Loss on liquidation of subsidiaries and affiliates

Year ended March 31, 2014

Loss on liquidation of subsidiaries and affiliates was recognized mainly by realization of foreign currency translation adjustment resulted from the completion of the liquidation of some of the subsidiaries in the United Kingdom and the United States.

Year ended March 31, 2013

Loss on liquidation of subsidiaries and affiliates was recognized by realization of foreign currency translation adjustment resulted from the completion of the liquidation of certain subsidiaries in the United States.

(5) Impairment loss

Year ended March 31, 2014

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values for assets for business are calculated as memorandum amounts as they are mainly due to be disposed, while recoverable values for amusement facilities are calculated by their useful value mainly with a discount rate of 1.4%.

Details of impairment loss

			Impairment loss	
Use	Location	Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Assets for business	Shibuya -ward, Tokyo and 6 other locations	Buildings and structures	¥ 51	$ 502
		Other property, plant and equipment	91	892
		Other intangible assets	175	1,710
		Land	1	17
Amusement facilities	Minato -ward, Tokyo and 2 other locations	Buildings and structures	543	5,286
		Amusement machines and facilities	799	7,766
		Other property, plant and equipment	118	1,148
		Other intangible assets	17	169
		Total	1,799	17,494

Year ended March 31, 2013

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values for assets for business and amusement facilities are calculated as memorandum amounts as they are mainly due to be disposed, while recoverable values for unutilized assets are calculated by real estate appraisal amounts.

Further, for goodwill, the book value of goodwill owned by a consolidated subsidiary in the United States is written down to a recoverable amount based on the evaluation of a third party.

Recoverable amount is measured by its useful value with a discount rate of 16.0%.

Details of impairment loss

Use	Location	Type	Impairment loss Millions of yen
Assets for business	Nakano-ward, Tokyo and 6 other locations	Buildings and structures	¥ 22
		Amusement machines and facilities	0
		Other property, plant and equipment	5
		Other intangible assets	145
		Land	174
Amusement facilities	Chuo-ward, Chiba-city, Chiba and 16 other locations	Buildings and structures	225
		Amusement machines and facilities	413
		Other property, plant and equipment	4
		Other intangible assets	4
Unutilized assets	Kitahiroshima-city, Hokkaido and 2 other locations	Buildings and structures	5
		Land	281
Other	The United States	Goodwill	1,480
		Other intangible assets	222
		Total	2,986

(6) Reclassification adjustments and the related tax effects concerning other comprehensive income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Valuation difference on available-for-sale securities			
The amount arising during the period	**¥ (4,845)**	¥14,830	**$ (47,098)**
Reclassification adjustments	**(11,713)**	(1,912)	**(113,851)**
Before adjustments to tax effects	**(16,558)**	12,917	**(160,950)**
The amount of tax effects	**5,978**	(4,404)	**58,109**
Valuation difference on available-for-sale securities	**(10,580)**	8,512	**(102,840)**
Deferred gains or losses on hedges			
The amount arising during the period	**3**	—	**34**
Reclassification adjustments	**—**	—	**—**
Before adjustments to tax effects	**3**	—	**34**
The amount of tax effects	**(1)**	—	**(12)**
Deferred gains or losses on hedges	**2**	—	**21**
Foreign currency translation adjustment			
The amount arising during the period	**4,492**	2,597	**43,665**
Reclassification adjustments	**6,200**	1,728	**60,265**
Before adjustments to tax effects	**10,692**	4,325	**103,930**
The amount of tax effects	**—**	—	**—**
Foreign currency translation adjustment	**10,692**	4,325	**103,930**
Share of other comprehensive income of associates accounted for using equity method			
The amount arising during the period	**1,878**	847	**18,261**
Reclassification adjustments	**—**	—	**—**
Share of other comprehensive income of associates accounted for using equity method	**1,878**	847	**18,261**
Total other comprehensive income	**1,993**	13,686	**19,373**

NOTE 7

Notes to Consolidated Statements of Changes in Net Assets

(1) Number of outstanding common stock

Shares

	2014	2013
Balance at beginning of the year	**266,229,476**	266,229,476
Increase	**—**	—
Decrease	**—**	—
Balance at end of the year	**266,229,476**	266,229,476

(2) Number of outstanding treasury stock

Shares

	2014	2013
Balance at beginning of the year	**24,169,675**	15,194,836
Increase due to purchase in the market by the resolution at the Board of Directors' meeting	**—**	10,000,000
Increase due to purchase of odd stock	**21,851**	16,931
Decrease due to exercise of stock options	**1,562,900**	1,040,700
Decrease due to sale of odd stock	**901**	1,392
Balance at end of the year	**22,627,725**	24,169,675

(3) Subscription rights to shares

Year ended March 31, 2014

		Balance at March 31, 2014	
Company name	Breakdown	Millions of yen	Thousands of U.S. dollars (Note 1)
The Company	Subscription rights to shares as stock options	**¥1,078**	**$10,478**
Total		**1,078**	**10,478**

Year ended March 31, 2013

		Balance at March 31, 2013
Company name	Breakdown	Millions of yen
The Company	Subscription rights to shares as stock options	¥1,146
Total		1,146

(4) Dividends

Year ended March 31, 2014

1 Dividend

Resolution	Type of stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 10, 2013	Common stock	**¥4,841**	**¥20**	March 31, 2013	May 28, 2013
Board of Directors' meeting held on November 1, 2013	Common stock	**4,860**	**20**	September 30, 2013	December 2, 2013

Resolution	Type of stock	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' meeting held on May 10, 2013	Common stock	**$47,056**	**$0.19**	March 31, 2013	May 28, 2013
Board of Directors' meeting held on November 1, 2013	Common stock	**47,241**	**0.19**	September 30, 2013	December 2, 2013

2 Of the dividends of which the record date is in the fiscal year ended March 31, 2014, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 9, 2014	Common stock	Retained earnings	**¥4,872**	**¥20**	March 31, 2014	May 28, 2014

Resolution	Type of stock	Resource of dividend	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' meeting held on May 9, 2014	Common stock	Retained earnings	**$47,356**	**$0.19**	March 31, 2014	May 28, 2014

Year ended March 31, 2013

1 Dividend

Resolution	Type of stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 11, 2012	Common stock	¥5,020	¥20	March 31, 2012	May 29, 2012
Board of Directors' meeting held on November 2, 2012	Common stock	4,831	20	September 30, 2012	December 3, 2012

2 Of the dividends of which the record date is in the fiscal year ended March 31, 2013, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 10, 2013	Common stock	Retained earnings	¥4,841	¥20	March 31, 2013	May 28, 2013

NOTE 8

Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash and deposits	**¥101,220**	¥176,540	**$ 983,868**
Short-term investment securities	**107,713**	4,260	**1,046,985**
Total	**208,934**	180,800	**2,030,853**
Time deposits with maturities of more than three months	**(5,690)**	(5,834)	**(55,313)**
Short-term investment securities with period from the acquisition date to the redemption date exceeding three months	**(502)**	(755)	**(4,882)**
Cash and cash equivalents	**202,741**	174,210	**1,970,657**

(2) Increase of assets and liabilities resulted from business transfer

Year ended March 31, 2014

Index Corporation

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 2,028	$ 19,716
Noncurrent assets	1,783	17,333
Goodwill	11,040	107,310
Current liabilities	(492)	(4,785)
Payments for transfer of business	14,359	139,574

NOTE 9
Information for Certain Leases

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value for the years ended March 31, 2014 and 2013, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Year ended March 31, 2014
Not applicable

Year ended March 31, 2013
Not applicable

A summary of assumed amounts of lease payments, reversal of liability of impairment loss for lease assets, assumed depreciation and interest expenses for the years ended March 31, 2014 and 2013, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Lease payments	**¥—**	¥ 0	**$—**
Reversal of liability of impairment loss for lease assets	**—**	—	**—**
Depreciation	**—**	0	**—**
Interest expenses	**—**	0	**—**

Finance lease transactions:
Lease assets mainly consist of the following: Buildings and structures, land for office-related facilities and facilities for amusement center operations, such as buildings and structures, and amusement game machines.

The methods of depreciation for lease assets are as follows: Lease assets involving finance lease transactions under which the ownership of the lease assets is transferred to lessees are the same methods that are applied to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions under which the ownership of the lease assets is not transferred to lessees are the straight-line method, with their residual values being zero over their leased periods used as the number of years for useful life.

Operating lease transactions:
Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Due within one year	**¥2,297**	¥ 760	**$22,335**
Due after one year	**3,377**	2,227	**32,827**
Total	**5,675**	2,987	**55,163**

NOTE 10

Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

SEGA SAMMY Group (the "Group") signed an agreement concerning commitment lines by the syndicated method, such as securing medium- to long-term fund liquidity with the Company as the holding company, as a safety net for the entire Group. In addition, capital for each business is financed based on the financial plan as needed, through bank borrowing or bond issue applying the Cash Management System for purpose of the efficient utilization of the Group's funds. Funds are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

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

Receivables such as notes and accounts receivable–trade are exposed to customer credit risks. In addition, foreign currency-denominated trade receivables are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Short-term investment securities and investment securities are mainly held-to-maturity debt securities and the stocks acquired for business collaborations with business partners, and are exposed to the risk of market price fluctuations.

Of the payables such as notes and accounts payable–trade, trade payables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Loans and bonds payable are for the purpose of procurement of funds necessary for operating funds and capital investment, and parts of them have floating interest rates. For this reason, they are exposed to interest rate fluctuation risks.

Derivative transactions consist of forward exchange contracts intended to hedge foreign currency exchange fluctuation risks for trade receivables and payables denominated in foreign currencies, as well as loan receivables denominated in foreign currencies, interest swap transactions intended to hedge fluctuation risks of interests on loans, and currency swap transactions intended to hedge interest rate fluctuation risks for loans. For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to "(7) Accounting for significant hedge" in "Note 2 – Summary of Significant Accounting Policies."

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

With respect to trade receivables, departments in charge regularly monitor the situations of major customers in compliance with each company's management regulations for receivables, to control payment terms and balances of customers, in order to detect collection concerns such as worsening of financial conditions early and to lessen the possibilities for collection problems.

The credit risk for held-to-maturity debt securities is minimal because the investments of these financial assets are limited to high credit rating issuers in accordance with the fund operation management rules.

Customers of derivative transactions are in principle limited to correspondent financial institutions.

The amount of maximum risk as of the consolidated settlement date is expressed by the amounts of financial assets exposed to credit risks in the balance sheet.

2) Market risk management (foreign currency exchange and interest rate fluctuation risks)

Certain consolidated subsidiaries use forward exchange contracts to hedge foreign currency exchange fluctuation risks identified by currency and by month, in parts of trade receivables and payables and loan receivables denominated in foreign currencies, and trade receivables and payables which are expected to certainly occur due to exports and imports (forecasted transactions). In addition, interest rate swap transactions are used to hedge fluctuation risks of interests on variable interest loans. With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. In addition, holding of short-term investment securities and investment securities other than held-to-maturity debt securities are continuously reviewed in consideration of relationships with the counterparties.

With regards to derivative transactions, the financial department or the accounting department executes and manages transactions upon obtaining internal approvals in compliance with the derivative transactions management rules of each Group company. In addition, reports on the situations of derivative transactions are made to each company's Board of Directors' meeting when and where appropriate.

3) Liquidity risk management on fund raising (risk for delinquency)

Trade payables and loans are exposed to liquidity risk. In the Group, liquidity risk is managed by setting an appropriate fund balance for each company, and by each company updating fund plans monthly to maintain the balance that exceeds the set fund balance, and by the Company confirming each company's cash position.

(4) Supplementary explanations 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 calculating the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 12 – Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

2. Matters concerning the fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments as of March 31, 2014 and 2013 as well as the differences between these values are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2 below.)

Year ended March 31, 2014

			Millions of yen
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥101,220	¥101,220	¥ —
(2) Notes and accounts receivable–trade	48,108	48,092	(16)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,061	2,048	(13)
2) Available-for-sale securities (*1)	144,820	144,820	—
3) Equity securities issued by affiliated companies	832	707	(125)
Total assets	297,043	296,888	(155)
(1) Notes and accounts payable–trade	37,292	37,292	—
(2) Short-term loans payable	12,918	12,918	—
(3) Long-term loans payable	35,198	35,115	82
(4) Current portion of corporate bonds	1,700	1,700	—
(5) Corporate bonds payable	37,800	37,922	(122)
Total liabilities	124,909	124,950	(40)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(0)	(0)	—
2) Derivative transactions to which hedge accounting is applied	3	3	—
Total derivative transactions	3	3	—

			Thousands of U.S. dollars (Note 1)
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	$ 983,868	$ 983,868	$ —
(2) Notes and accounts receivable–trade	467,622	467,459	(162)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	20,034	19,906	(127)
2) Available-for-sale securities (*1)	1,407,662	1,407,662	—
3) Equity securities issued by affiliated companies	8,089	6,872	(1,217)
Total assets	2,887,277	2,885,769	(1,507)
(1) Notes and accounts payable–trade	362,488	362,488	—
(2) Short-term loans payable	125,571	125,571	—
(3) Long-term loans payable	342,129	341,328	800
(4) Current portion of corporate bonds	16,524	16,524	—
(5) Corporate bonds payable	367,418	368,610	(1,191)
Total liabilities	1,214,131	1,214,523	(391)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(2)	(2)	—
2) Derivative transactions to which hedge accounting is applied	34	34	—
Total derivative transactions	(32)	(32)	—

(*1) Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.
(*2) Receivables and payables incurred by derivative transactions are presented in net amount.

Year ended March 31, 2013

	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
			Millions of yen
(1) Cash and deposits	¥176,540	¥176,540	¥ —
(2) Notes and accounts receivable–trade	63,886	63,868	(18)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,326	2,321	(5)
2) Available-for-sale securities (*1)	64,352	64,352	—
3) Equity securities issued by affiliated companies	612	765	153
Total assets	307,718	307,847	129
(1) Notes and accounts payable–trade	50,142	50,142	—
(2) Short-term loans payable	12,867	12,867	—
(3) Long-term loans payable	44,926	44,819	107
(4) Current portion of corporate bonds	5,843	5,843	—
(5) Corporate bonds payable	29,500	29,655	(155)
Total liabilities	143,280	143,328	(48)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(19)	(19)	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	(19)	(19)	—

(*1) Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.
(*2) Receivables and payables incurred by derivative transactions are presented in net amount.

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions
Assets
(1) Cash and deposits and (2) Notes and accounts receivable–trade
Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable–trade, those which have more than a year to the payment date from March 31, 2014 are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.
(3) Short-term investment securities and investment securities
The fair values of stocks are determined using the quoted price on the stock exchange, and those of bonds are determined using the quoted price on the exchange or the quoted price obtained from the financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 11–Investment Securities."
Liabilities
(1) Notes and accounts payable–trade, (2) Short-term loans payable and (4) Current portion of corporate bonds
Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.
(3) Long-term loans payable and (5) Corporate bonds payable
These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

Derivative transactions
For notes concerning derivatives, please see "Note 12 – Derivative Transactions."

Note 2: Financial instruments whose fair values are not readily determinable

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Item	Consolidated balance sheet amount		
Unlisted equity securities, etc.	¥ 1,504	¥1,535	$ 14,620
Investment in limited liability investment partnerships, etc.	2,217	1,255	21,552
Equity securities issued by non-consolidated subsidiaries	2,265	318	22,023
Equity securities issued by affiliated companies	14,682	6,520	142,718
Investments in capital of affiliated companies	155	137	1,511

These items are not included in "(3) Short-term investment securities and investment securities," because there is no market price, future cash flows cannot be estimated and it is very difficult to identify fair values.

Notes to Consolidated Financial Statements

Note 3: Redemption schedule of monetary assets and securities with contractual maturities

Year ended March 31, 2014

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	**¥101,220**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable–trade	**47,898**	**210**	**—**	**—**
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	**400**	**900**	**750**	**—**
Available-for-sale securities with maturities(Negotiable certificates of deposit)	**88,900**	**—**	**—**	**—**
Available-for-sale securities with maturities (Other)*	**6,999**	**—**	**200**	**1,800**
Total	**245,417**	**1,110**	**950**	**1,800**

	Thousands of U.S. dollars (Note 1)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	**$ 983,868**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable–trade	**465,572**	**2,049**	**—**	**—**
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	**3,888**	**8,748**	**7,290**	**—**
Available-for-sale securities with maturities(Negotiable certificates of deposit)	**864,113**	**—**	**—**	**—**
Available-for-sale securities with maturities (Other)*	**68,035**	**—**	**1,944**	**17,496**
Total	**2,385,477**	**10,797**	**9,234**	**17,496**

* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Year ended March 31, 2013

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥176,540	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	63,639	247	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	655	900	750	—
Available-for-sale securities with maturities(Corporate bonds)*	—	3,000	—	1,000
Available-for-sale securities with maturities(Negotiable certificates of deposit)	100	—	—	—
Available-for-sale securities with maturities (Other)*	3,505	—	200	1,800
Total	244,439	4,147	950	2,800

* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Note 4: For redemption supplemental schedules of corporate bonds payable, long-term loans payable, lease obligations and other interest-bearing liabilities, please refer to "Supplemental schedule of corporate bonds" and "Supplemental schedule of borrowings" in "Note 21 – Supplemental Information."

NOTE 11

Investment Securities

1. Held-to-maturity debt securities

Year ended March 31, 2014

(1) Securities whose market value exceeds the consolidated balance sheet amount

			Millions of yen
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	803	807	4
c. Other	—	—	—
Total	803	807	4

			Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	$ —	$ —	$ —
b. Corporate bonds	7,810	7,851	41
c. Other	—	—	—
Total	7,810	7,851	41

(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

			Millions of yen
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,257	1,240	(17)
c. Other	—	—	—
Total	1,257	1,240	(17)

			Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	$ —	$ —	$ —
b. Corporate bonds	12,224	12,055	(168)
c. Other	—	—	—
Total	12,224	12,055	(168)

Year ended March 31, 2013

(1) Securities whose market value exceeds the consolidated balance sheet amount

			Millions of yen
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,010	1,012	2
c. Other	—	—	—
Total	1,010	1,012	2

(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

			Millions of yen
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,316	1,308	(7)
c. Other	—	—	—
Total	1,316	1,308	(7)

2. Available-for-sale securities

Year ended March 31, 2014

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	**¥35,311**	**¥9,305**	**¥26,006**
b. Bonds	**—**	**—**	**—**
c. Other	**300**	**300**	**0**
Total	**35,612**	**9,605**	**26,006**

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	**$343,226**	**$90,446**	**$252,780**
b. Bonds	**—**	**—**	**—**
c. Other	**2,925**	**2,916**	**9**
Total	**346,151**	**93,362**	**252,789**

(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	**¥ 85**	**¥ 100**	**¥ (15)**
b. Bonds	**1,811**	**2,000**	**(188)**
c. Other	**107,311**	**107,311**	**—**
Total	**109,208**	**109,412**	**(204)**

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	**$ 828**	**$ 981**	**$ (153)**
b. Bonds	**17,607**	**19,440**	**(1,832)**
c. Other	**1,043,075**	**1,043,075**	**—**
Total	**1,061,511**	**1,063,497**	**(1,986)**

Year ended March 31, 2013

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥55,779	¥13,142	¥42,637
b. Bonds	—	—	—
c. Other	—	—	—
Total	55,779	13,142	42,637

(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥ 291	¥ 367	¥ (76)
b. Bonds	4,676	5,000	(323)
c. Other	3,605	3,605	—
Total	8,572	8,972	(400)

3. Available-for-sale securities sold during the fiscal year

Year ended March 31, 2014

	Millions of yen		
Category	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	**¥16,227**	**¥11,970**	**¥(29)**
b. Bonds	**—**	**—**	**—**
c. Other	**—**	**—**	**—**
Total	**16,227**	**11,970**	**(29)**

	Thousands of U.S. dollars (Note 1)		
Category	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	**$157,728**	**$116,358**	**$(284)**
b. Bonds	**—**	**—**	**—**
c. Other	**—**	**—**	**—**
Total	**157,728**	**116,358**	**(284)**

Year ended March 31, 2013

	Millions of yen		
Category	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	¥3,708	¥1,917	¥(0)
b. Bonds	4,000	—	—
c. Other	—	—	—
Total	7,708	1,917	(0)

4. Impairment loss on securities

Year ended March 31, 2014

During the year ended March 31, 2014, the Group recognized impairment loss on available-for-sale securities in an amount of ¥196 million ($1,905 thousand).

Year ended March 31, 2013

During the year ended March 31, 2013, the Group recognized impairment loss on available-for-sale securities in an amount of ¥6 million.

NOTE 12

Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Year ended March 31, 2014

Category		Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
					Millions of yen
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	**¥105**	**¥ —**	**¥(0)**	**¥(0)**
	Euro	**31**	**—**	**(0)**	**(0)**
Total		**137**	**—**	**(0)**	**(0)**

Category		Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
					Thousands of U.S. dollars (Note 1)
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	**$1,023**	**$ —**	**$(1)**	**$(1)**
	Euro	**310**	**—**	**(1)**	**(1)**
Total		**1,333**	**—**	**(2)**	**(2)**

Note: Fair values are calculated using prices quoted by financial institutions.

Year ended March 31, 2013

Category		Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
					Millions of yen
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	¥106	¥—	¥(10)	¥(10)
	Euro	59	—	(2)	(2)
	Korean won	328	—	(7)	(7)
Total		494	—	(19)	(19)

Note: Fair values are calculated using prices quoted by financial institutions.

(2) Composite financial instruments

With respect to composite financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire composite financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in "Note 11 – Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Year ended March 31, 2014

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
					Millions of yen
Primary method	Forward exchange contracts Buying U.S. dollar	Accounts payable–trade	¥438	¥ —	¥3
Payables translated using forward exchange contract rates	Forward exchange contracts Buying U.S. dollar	Accounts payable–trade	162	—	Note 2

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
					Thousands of U.S. dollars (Note 1)
Primary method	Forward exchange contracts Buying U.S. dollar	Accounts payable–trade	$4,260	$ —	$34
Payables translated using forward exchange contract rates	Forward exchange contracts Buying U.S. dollar	Accounts payable–trade	1,581	—	Note 2

Notes: 1. Fair values are calculated using prices quoted by financial institutions.
2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable–trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable–trade, since they are used for recording accounts payable–trade as hedged items.

Year ended March 31, 2013

Not applicable

(2) Interest rate-related derivatives

Year ended March 31, 2014

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
					Millions of yen
Special treatment for interest rate swaps	Interest rate swaps Floating rate into fixed rate	Long-term loans payable	¥ 5,730	¥3,700	Note
Special treatment for interest rate and currency swaps	Interest rate and currency swaps Floating rate into fixed rate	Long-term loans payable	5,988	5,988	Note
Total			11,718	9,688	—

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
					Thousands of U.S. dollars (Note 1)
Special treatment for interest rate swaps	Interest rate swaps Floating rate into fixed rate	Long-term loans payable	$ 55,695	$35,964	Note
Special treatment for interest rate and currency swaps	Interest rate and currency swaps Floating rate into fixed rate	Long-term loans payable	58,211	58,211	Note
Total			113,907	94,175	—

Note: With respect to "interest rate swaps" and "interest rate and currency swaps" which meet certain conditions, fair values of the interest rate swaps and currency swaps are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

Year ended March 31, 2013

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
					Millions of yen
Special treatment for interest rate swaps	Interest rate swaps Floating rate into fixed rate	Long-term loans payable	¥ 9,730	¥ 7,707	Note
Special treatment for interest rate and currency swaps	Interest rate and currency swaps Floating rate into fixed rate	Long-term loans payable	5,000	5,000	Note
Total			14,730	12,707	—

Note: With respect to "interest rate swaps" and "interest rate and currency swaps" which meet certain conditions, fair values of the interest rate swaps and currency swaps are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

NOTE 13

Retirement Benefits

Year ended March 31, 2014

Overview of retirement benefits plans

Domestic consolidated subsidiaries offer, based on retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer defined contribution pension plans.

Under the lump-sum retirement benefit plans that the Company and certain domestic consolidated subsidiaries have, net defined benefit liability and severance and retirement benefit expenses are calculated by the simplified method.

Defined benefit pension plan

(1) Reconciliation of the difference between the amount of projected benefit obligations as of April 1, 2013 and March 31, 2014 (excluding pension plan using the simplified method)

	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligations as of April 1, 2013	¥18,515	$179,972
Service costs – benefits earned during the year	1,636	15,910
Interest cost on projected benefit obligations	198	1,924
Actuarial differences accrued	167	1,627
Retirement benefit paid	(606)	(5,899)
Other	(133)	(1,293)
Projected benefit obligations as of March 31, 2014	19,777	192,242

(2) Reconciliation of the difference between the amount of plan assets as of April 1, 2013 and March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
Plan assets as of April 1, 2013	¥10,848	$105,449
Expected return on plan assets	196	1,905
Actuarial differences accrued	1,549	15,064
Contribution of employer	2,260	21,976
Retirement benefit paid	(527)	(5,122)
Plan assets as of March 31, 2014	14,328	139,273

(3) Reconciliation of the difference between the amount of net defined benefit liability under pension plan using the simplified method as of April 1, 2013 and March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net defined benefit liability of April 1, 2013	¥580	$5,645
Retirement benefit expenses	111	1,080
Retirement benefit paid	(88)	(856)
Net defined benefit liability of March 31, 2014	603	5,869

(4) Reconciliation of the difference between the amount of projected benefit obligations and plan assets as of March 31, 2014 and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet as of March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
Funded projected benefit obligations	¥ 19,777	$ 192,242
Plan assets	(14,328)	(139,273)
	5,449	52,968
Unfunded projected benefit obligations	603	5,869
Net amount of liabilities and assets recorded in the consolidated balance sheet as of March 31, 2014	6,053	58,837
Net defined benefit liability	6,053	58,837
Net amount of liabilities and assets recorded in the consolidated balance sheet as of March 31, 2014	6,053	58,837

(Note) Retirement benefit scheme applying the simplified method is included

(5) Breakdown of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs – benefits earned during the year	¥1,636	$15,910
Interest cost on projected benefit obligations	198	1,924
Expected return on plan assets	(196)	(1,905)
Amortization of actuarial difference	401	3,900
Retirement benefit expenses using the simplified method	133	1,294
Other	0	4
Retirement benefit expenses of defined benefit pension plan	2,173	21,128

(6) Remeasurements of defined benefit plans

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction)

	Millions of yen	Thousands of U.S. dollars (Note 1)
Unrecognized actuarial differences	¥2,819	$27,409
Total	2,819	27,409

(7) Matters concerning plan assets

a Breakdown of plan assets

Ratio of main classes of plan assets

Debt securities	59%
Share of stock	21
Cash and deposits	4
General account	16
Other	0
Total	100

b Rate of long-term expected return on plan assets

In determining long-term expected rate of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, as well as current and future long-term rate of returns for the various assets which makes up the plan assets.

(8) Matters concerning basis for the actuarial calculation

Basis for the actuarial calculation as of March 31, 2014

Discount rate	0.5~1.4%
Rate of long-term expected return on plan assets	1.0~2.0%

Defined contribution pension plans

The amount to be paid by consolidated subsidiaries to the defined contribution pension plans was ¥247 million ($2,409 thousand) for the year ended March 31, 2014.

Year ended March 31, 2013

Overview of retirement benefits plans

The Company and domestic consolidated subsidiaries offer, based on retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer defined contribution pension plans.

Pursuant to the Defined-Benefit Corporate Pension Act, some of the subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to future employee services under the substitutional portion of the pension fund on May 1, 2013 and the portion related to prior services on March 1, 2013.

Additionally, some of the domestic consolidated subsidiaries withdrew from the employees' pension fund on February 27, 2013.

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2013 consists of the following:

	Millions of yen
	2013
1) Projected benefit obligations	¥(19,096)
2) Pension assets	10,848
3) Unrecognized projected benefit obligations	(8,247)
4) Unrecognized actuarial differences	(1,086)
5) Unrecognized prior service cost	135
6) Prepaid pension cost	78
7) Provision for retirement benefits	(9,277)

Note: Some consolidated subsidiaries use the simplified method for calculating projected benefit obligations.

Included in the consolidated statements of income and comprehensive income for the year ended March 31, 2013, severance and retirement benefit expenses comprise the following:

	Millions of yen
	2013
Service costs–benefits earned during the year	¥ 1,810
Interest cost on projected benefit obligations	506
Expected return on plan assets	(351)
Amortization of actuarial difference	565
Non-recurring additional retirement allowance paid, etc.	0
Other	414
Severance and retirement benefit expenses	2,945
Gain or loss related to exemption from the substitutional portion of the pension fund	(6,345)
Total	(3,399)

Notes: 1. Retirement benefit expenses of consolidated subsidiaries using the simplified method are added up in "Service costs."
2. "Other" includes premium paid to the defined contribution pension plan as well as contribution for withdrawal from the employees' pension fund which is recorded under "Other expense."

Discount rate	0.5~2.0%
Rate of expected return on plan assets	1.0~2.5%

NOTE 14

Stock Option Plan

1. Contents, scale and movement of stock options

Year ended March 31, 2014

(1) The following table summarizes the contents of stock options as of March 31, 2014.

Company name	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010
Position and number of grantees	The Company's directors: 4	The Company's executive officers: 3 The Company's employees: 11 The Company's subsidiaries' directors: 8 The Company's subsidiaries' executive officers: 22 The Company's subsidiaries' employees: 1,831	The Company's subsidiaries' directors: 12 The Company's subsidiaries' executive officers: 6 The Company's subsidiaries' employees: 151
Class and number of stock	Common stock 172,000	Common stock 3,417,800	Common stock 464,000
Date of issue	July 31, 2010	July 31, 2010	February 1, 2011
Condition of settlement of rights	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from February 1, 2011 to February 1, 2013
Period grantees provide service in return for stock options	July 31, 2010 to July 31, 2012	July 31, 2010 to July 31, 2012	February 1, 2011 to February 1, 2013
Period subscription rights are to be exercised	August 1, 2012 to July 31, 2014	August 1, 2012 to July 31, 2014	February 2, 2013 to February 1, 2015

Company name	The Company	The Company	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	October 29, 2010
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 6 The Company's employees: 11 The Company's subsidiaries' directors: 27 The Company's subsidiaries' executive officers: 17 The Company's subsidiaries' employees: 1,206	Butterfly Corporation's directors: 3 Butterfly Corporation's corporate auditors: 1 Butterfly Corporation's employees: 56
Class and number of stock	Common stock 250,000	Common stock 3,483,000	Common stock 49,000
Date of issue	September 1, 2012	September 1, 2012	November 1, 2010
Condition of settlement of rights	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from November 1, 2010 to October 29, 2012
Period grantees provide service in return for stock options	September 1, 2012 to September 1, 2014	September 1, 2012 to September 1, 2014	November 1, 2010 to October 29, 2012
Period subscription rights are to be exercised	September 2, 2014 to September 1, 2016	September 2, 2014 to September 1, 2016	October 30, 2012 to October 28, 2020

Company name	Butterfly Corporation
Date of the resolution	January 19, 2011
Position and number of grantees	Butterfly Corporation's employees: 10
Class and number of stock	Common stock 1,000
Date of issue	February 1, 2011
Condition of settlement of rights	Continue to work from February 1, 2011 to October 29, 2012
Period grantees provide service in return for stock options	February 1, 2011 to October 29, 2012
Period subscription rights are to be exercised	October 30, 2012 to October 28, 2020

(2) The following table summarizes the scale and movement of stock as of March 31, 2014.

Shares

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Not exercisable stock options					
Stock options outstanding at April 1, 2013	—	—	—	250,000	3,475,800
Stock options granted	—	—	—	—	—
Forfeitures	—	—	—	—	43,600
Conversion to exercisable stock options	—	—	—	—	—
Stock options outstanding at March 31, 2014	—	—	—	250,000	3,432,200
Exercisable stock options					
Stock options outstanding at April 1, 2013	132,900	2,308,800	383,600	—	—
Conversion from not exercisable stock options	—	—	—	—	—
Stock options exercised	85,000	1,328,400	149,500	—	—
Forfeitures	—	1,000	200	—	—
Stock options outstanding at March 31, 2014	47,900	979,400	233,900	—	—

Shares

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Not exercisable stock options		
Stock options outstanding at April 1, 2013	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2014	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2013	39,800	800
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	5,700	500
Stock options outstanding at March 31, 2014	34,100	300

The following tables summarize the price information of stock options as of March 31, 2014.

Yen

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	¥1,312	¥1,312	¥1,753	¥1,686	¥1,686
Average market price of the stock at the time of exercise	2,749	2,483	2,546	—	—
Fair value of the stock option at the date of grant	306	306	386	231	231

Yen

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	¥2,000	¥2,000
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

U.S. dollars (Note 1)

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	$12	$12	$17	$16	$16
Average market price of the stock at the time of exercise	26	24	24	—	—
Fair value of the stock option at the date of grant	2	2	3	2	2

U.S. dollars (Note 1)

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	$19	$19
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

Year ended March 31, 2013

(1) The following table summarizes the contents of stock options as of March 31, 2013.

Company name	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010
Position and number of grantees	The Company's directors: 4	The Company's executive officers: 3 The Company's employees: 11 The Company's subsidiaries' directors: 8 The Company's subsidiaries' executive officers: 22 The Company's subsidiaries' employees: 1,831	The Company's subsidiaries' directors: 12 The Company's subsidiaries' executive officers: 6 The Company's subsidiaries' employees: 151
Class and number of stock	Common stock 172,000	Common stock 3,417,800	Common stock 464,000
Date of issue	July 31, 2010	July 31, 2010	February 1, 2011
Condition of settlement of rights	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from February 1, 2011 to February 1, 2013
Period grantees provide service in return for stock options	July 31, 2010 to July 31, 2012	July 31, 2010 to July 31, 2012	February 1, 2011 to February 1, 2013
Period subscription rights are to be exercised	August 1, 2012 to July 31, 2014	August 1, 2012 to July 31, 2014	February 2, 2013 to February 1, 2015

Company name	The Company	The Company	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	October 29, 2010
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 6 The Company's employees: 11 The Company's subsidiaries' directors: 27 The Company's subsidiaries' executive officers: 17 The Company's subsidiaries' employees: 1,206	Butterfly Corporation's directors: 3 Butterfly Corporation's corporate auditors: 1 Butterfly Corporation's employees: 56
Class and number of stock	Common stock 250,000	Common stock 3,483,000	Common stock 49,000
Date of issue	September 1, 2012	September 1, 2012	November 1, 2010
Condition of settlement of rights	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from November 1, 2010 to October 29, 2012
Period grantees provide service in return for stock options	September 1, 2012 to September 1, 2014	September 1, 2012 to September 1, 2014	November 1, 2010 to October 29, 2012
Period subscription rights are to be exercised	September 2, 2014 to September 1, 2016	September 2, 2014 to September 1, 2016	October 30, 2012 to October 28, 2020

Company name	Butterfly Corporation
Date of the resolution	January 19, 2011
Position and number of grantees	Butterfly Corporation's employees: 10
Class and number of stock	Common stock 1,000
Date of issue	February 1, 2011
Condition of settlement of rights	Continue to work from February 1, 2011 to October 29, 2012
Period grantees provide service in return for stock options	February 1, 2011 to October 29, 2012
Period subscription rights are to be exercised	October 30, 2012 to October 28, 2020

(2) The following table summarizes the scale and movement of stock as of March 31, 2013.

Shares

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Not exercisable stock options					
Stock options outstanding at April 1, 2012	172,000	3,339,900	393,100	—	—
Stock options granted	—	—	—	250,000	3,483,000
Forfeitures	—	24,100	6,700	—	7,200
Conversion to exercisable stock options	172,000	3,315,800	386,400	—	—
Stock options outstanding at March 31, 2013	—	—	—	250,000	3,475,800
Exercisable stock options					
Stock options outstanding at April 1, 2012	—	—	—	—	—
Conversion from not exercisable stock options	172,000	3,315,800	386,400	—	—
Stock options exercised	39,100	1,000,600	1,000	—	—
Forfeitures	—	6,400	1,800	—	—
Stock options outstanding at March 31, 2013	132,900	2,308,800	383,600	—	—

Shares

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Not exercisable stock options		
Stock options outstanding at April 1, 2012	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2013	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2012	40,100	1,000
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	300	200
Stock options outstanding at March 31, 2013	39,800	800

Note: Amounts in "Stock options outstanding at April 1, 2012" of Butterfly Corporation are due to the consolidation of Butterfly Corporation by the Company during fiscal year ended March 31, 2013.

The following tables summarize the price information of stock options as of March 31, 2013

Yen

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	¥1,312	¥1,312	¥1,753	¥1,686	¥1,686
Average market price of the stock at the time of exercise	1,526	1,660	1,794	—	—
Fair value of the stock option at the date of grant	306	306	386	231	231

Yen

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	¥2,000	¥2,000
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

2. Estimation of fair value of the stock options

Year ended March 31, 2014
Not applicable

Year ended March 31, 2013
Estimation of fair value of the stock options granted by the Company

(1) Estimation method
Black-Scholes option-pricing model

(2) Assumptions used and estimation method

(i) Volatility of stock price	Granted on September 1, 2012 (For directors of the Company)	28.765%
	Granted on September 1, 2012 (For other than directors of the Company)	28.765%
(ii) Estimated remaining outstanding period	3 years The estimated remaining outstanding period is based on the assumption that subscription rights to shares are exercised in the middle of their exercisable periods because it cannot be reasonably estimated due to insufficient accumulated data.	
(iii) Estimated dividend yield	Granted on September 1, 2012 (For directors of the Company)	¥40 / share ($0.38 / share)
	Granted on September 1, 2012 (For other than directors of the Company)	¥40 / share ($0.38 / share)
(iv) Risk-free interest rate	Granted on September 1, 2012 (For directors of the Company)	0.100%
	Granted on September 1, 2012 (For other than directors of the Company)	0.100%
	Risk-free interest rate is based on government bond yield for a term consistent with the estimated remaining outstanding period.	

3. Estimation of number of exercisable stock options
Only the actual forfeitures are reflected because it is difficult to estimate future forfeitures reasonably.

NOTE 15

Income Taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 1,516**	¥ 1,544	**$ 14,736**
Loss on valuation of inventories	**2,386**	2,615	**23,195**
Provision for bonuses	**1,571**	1,613	**15,275**
Provision for retirement benefits	**—**	3,320	**—**
Net defined benefit liability	**2,863**	—	**27,831**
Depreciation expense	**12,852**	13,197	**124,927**
Loss on valuation of investment securities	**466**	675	**4,532**
Impairment loss	**2,804**	3,155	**27,262**
Other	**22,171**	19,399	**215,512**
Tax loss carry forward	**77,838**	61,095	**756,599**
Total	**124,471**	106,616	**1,209,873**
Valuation allowance	**(105,070)**	(79,155)	**(1,021,292)**
Offset against deferred tax liabilities	**(5,898)**	(11,321)	**(57,334)**
Net deferred tax assets	**13,502**	16,138	**131,245**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(9,387)**	(15,373)	**(91,245)**
Other	**(1,556)**	(1,819)	**(15,131)**
Subtotal of deferred tax liabilities	**(10,944)**	(17,192)	**(106,376)**
Offset against deferred tax assets	**5,898**	11,321	**57,334**
Total	**(5,045)**	(5,870)	**(49,041)**
Recorded deferred tax assets	**8,457**	10,267	**82,203**

(2) Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the years ended March 31, 2014 and 2013

	2014	2013
Statutory tax rate	**38.0%**	38.0%
(Adjustment)		
Changes in valuation allowance	**(8.9)**	(65.1)
Permanently non-deductible expenses including entertainment expenses	**2.0**	3.4
Amortization of goodwill	**2.1**	2.5
Difference of tax rates for consolidated subsidiaries	**(1.3)**	(3.9)
Tax loss carry forward	**(2.0)**	(1.1)
Effect of adjustment for consolidation	**2.6**	(3.2)
Adjustments of deferred tax assets for enacted changes in tax laws and rates	**3.1**	—
Other	**(1.6)**	(2.5)
Effective tax rate for financial statement purposes	**34.1**	(31.9)

(3) Amendments to deferred tax assets and deferred tax liabilities due to changes in income tax rate

The "Partial Amendment of the Income Tax Act" (Act No. 10 of 2014) was officially announced on March 31, 2014, and the special corporate tax for reconstruction will no longer be imposed on consolidated fiscal years beginning on or after April 1, 2014.

As a result, net deferred tax assets by the end of the fiscal year ended March 31, 2014 have decreased by ¥1,429 million ($13,895 thousand), income taxes—deferred have increased by ¥1,459 million ($14,189 thousand).

NOTE 16

Business Combination

(Business transfer from Index Corporation)

1. Outline of business combination

(1) Name and business of counterparty

Name	Description of business
Index Corporation	Digital game business (design and development of console games and social games); Contents and solutions business (delivery of contents, development of systems, consigned development related to amusement machines, internet advertising, etc.); Amusement business (development and sales of commercial amusement machines) and related businesses

(2) Reason for business combination

SEGA DREAM CORPORATION, which is a new wholly owned company established by SEGA CORPORATION, the Company's consolidated subsidiary, has acquired businesses from Index Corporation to increase enterprise value of the Group through creation of synergies between the existing businesses of the Group, which utilizes excellent IP in developing home video game software, and the extensive experience of Index Corporation in planning and development of content for mobile phones. (SEGA DREAM CORPORATION changed its name to Index Corporation on November 1, 2013 and changed it to ATLUS CO., LTD. on April 1, 2014.)

(3) Date of business combination

November 1, 2013

(4) Legal structure

Business transfer

(5) Name of company after the combination

Index Corporation (changed its trade name to ATLUS CO., LTD. on April 1, 2014)

2. Period for which the acquired company's financial results are included in the consolidated financial statements

From November 1, 2013 to March 31, 2014

3. Acquisition costs

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration of the acquisition	Cash	¥14,100	$137,052
Direct costs for the acquisitions	Advisory costs, etc.	259	2,521
Total acquisition costs		14,359	139,574

4. Goodwill recognized, reason for recognition and amortization method and period

(1) Goodwill recognized

¥11,040 million ($107,310 thousand)

(2) Reason for recognition

Acquisition cost exceeded net asset value at the business combination date.

(3) Amortization method and period

10 years using the straight-line method

5. Summary of assets and liabilities assumed at date of business combination

(1) Amount of assets

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥2,028	$19,716
Noncurrent assets	1,783	17,333
Total	3,811	37,049

(2) Amount of liabilities

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥492	$4,785
Noncurrent assets	—	—
Total	492	4,785

6. Estimated impact on the consolidated statement of income and comprehensive income for the fiscal year ended March 31, 2014 if the business combination had been completed as of the beginning of the fiscal year ended March 31, 2014

This disclosure is omitted due to the immateriality of the effect.

NOTE 17

Segment Information

1. Outline of reporting segments

Reporting segments of the Company are the organizational units for which separated financial information is available, and on the basis of which the Board of Directors makes decisions on the allocation of management resources and examines financial performance on a regular basis.

Planning of business development and strategies as well as execution of business activities in respect of each product and service are carried out by each Group company that provides such product and service.

As such, the Group is comprised of segments classified by product and service provided through the business run by each company, in which "Pachislot and Pachinko Machines," "Amusement Machine Sales," "Amusement Center Operations" and "Consumer Business" are the reporting segments.

Line of business at each reporting segment is as follows:

Segment	Business
(1) Pachislot and Pachinko Machines	Development, manufacture and sales of pachislot and pachinko machines and design for parlors
(2) Amusement Machine Sales	Development, manufacture and sales of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sales of home video game software; development, manufacture and sales of toys; planning and production of entertainment contents for mobile phones, etc.; planning, production and sales of animated movies

2. Basis of measurement for net sales, income (loss), assets and other items by each reporting segment

The accounting treatment for the Group's reporting segments is generally the same as described in "Note 2 – Summary of Significant Accounting Policies."

3. Information on the amounts of net sales, income (loss), assets and other items by each reporting segment

Year ended March 31, 2014

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥181,834	¥38,604	¥43,216	¥99,841	¥363,498	¥14,513	¥378,011
Inter-segment sales and transfers	149	5,251	10	699	6,110	712	6,823
Total	181,984	43,855	43,227	100,541	369,609	15,225	384,835
Segment income (loss)	45,292	(1,264)	60	2,089	46,178	(1,200)	44,978
Segment assets	105,018	34,814	40,483	111,634	291,951	23,417	315,369
Other items							
Depreciation	5,887	1,970	4,725	6,248	18,832	529	19,362
Increase in property, plant and equipment and intangible assets	7,905	2,037	7,729	8,389	26,061	12,052	38,114

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	$1,767,445	$375,238	$420,070	$970,470	$3,533,224	$141,069	$3,674,294
Inter-segment sales and transfers	1,452	51,044	105	6,795	59,398	6,927	66,325
Total	1,768,898	426,282	420,176	977,265	3,592,622	147,997	3,740,620
Segment income (loss)	440,247	(12,288)	586	20,306	448,853	(11,664)	437,189
Segment assets	1,020,786	338,401	393,504	1,085,096	2,837,788	227,623	3,065,411
Other items							
Depreciation	57,231	19,157	45,934	60,732	183,055	5,145	188,200
Increase in property, plant and equipment and intangible assets	76,841	19,802	75,128	81,550	253,322	117,154	370,477

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2013

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
							Millions of yen
Net sales							
Sales to third parties	¥142,281	¥39,134	¥42,707	¥83,874	¥307,997	¥13,409	¥321,407
Inter-segment sales and transfers	515	3,485	20	865	4,887	879	5,766
Total	142,796	42,620	42,728	84,740	312,885	14,288	327,173
Segment income (loss)	23,534	1,902	1,194	(732)	25,899	(484)	25,415
Segment assets	138,014	31,843	41,915	103,703	315,476	14,338	329,814
Other items							
Depreciation	5,416	1,570	4,671	6,040	17,699	478	18,177
Increase in property, plant and equipment and intangible assets	11,914	2,308	7,923	8,393	30,539	1,559	32,098

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

4. Major differences between the total amount of all reporting segments and the amounts on the consolidated financial statements (reconciliation of the difference)

Net sales	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
Total net sales in the reporting segments	¥369,609	¥312,885	$3,592,622
Segment net sales in Other	15,225	14,288	147,997
Elimination of inter-segment transactions	(6,823)	(5,766)	(66,325)
Net sales in the consolidated financial statements	378,011	321,407	3,674,294

Income (loss)	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
Total income in the reporting segments	¥46,178	¥25,899	$448,853
Segment income (loss) in Other	(1,200)	(484)	(11,664)
Elimination of inter-segment transactions	120	(61)	1,167
General corporate expenses (Note)	(6,565)	(6,280)	(63,813)
Operating income in the consolidated financial statements	38,533	19,073	374,543

(Note) "General corporate expenses" mainly consist of expenses of the Group management incurred by the holding company.

Assets	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
Total assets in the reporting segments	¥291,951	¥315,476	$2,837,788
Segment assets in Other	23,417	14,338	227,623
General corporate assets (Note)	246,878	201,720	2,399,672
Other adjustments	(19,311)	(3,031)	(187,704)
Total assets in the consolidated financial statements	542,936	528,504	5,277,379

(Note) "General corporate assets" mainly consist of excess funds in the Company, etc. and other assets, etc. of the Company.

Other	Subtotal	Other	Adjustment	Amount in consolidated financial statements
				Millions of yen
				2014
Depreciation	¥18,832	¥ 529	¥381	¥19,743
Increase in property, plant and equipment and intangible assets	26,061	12,052	67	38,182

Other	Subtotal	Other	Adjustment	Amount in consolidated financial statements
				Thousands of U.S. dollars (Note 1)
				2014
Depreciation	$183,055	$ 5,145	$3,704	$191,905
Increase in property, plant and equipment and intangible assets	253,322	117,154	654	371,131

(Note) "Adjustment" includes corporate and elimination of inter-segment transactions.

Other	Subtotal	Other	Adjustment	Amount in consolidated financial statements
				Millions of yen
				2013
Depreciation	¥17,699	¥ 478	¥ 3	¥18,181
Increase in property, plant and equipment and intangible assets	30,539	1,559	772	32,871

(Note) "Adjustment" includes corporate and elimination of inter-segment transactions.

[Related information]

Year ended March 31, 2014

1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

2. Geographical segment information

(1) Net sales

Millions of yen

Japan	North America	Europe	Other	Total
¥351,290	**¥10,951**	**¥10,305**	**¥5,464**	**¥378,011**

Thousands of U.S. dollars (Note 1)

Japan	North America	Europe	Other	Total
$3,414,561	**$106,446**	**$100,174**	**$53,112**	**$3,674,294**

(Note) Net sales are geographically classified by country or region in which customers are located.

(2) Property, plant and equipment

Millions of yen

Japan	Korea	Other	Total
¥88,061	**¥11,710**	**¥2,391**	**¥102,162**

Thousands of U.S. dollars (Note 1)

Japan	Korea	Other	Total
$855,959	**$113,824**	**$23,242**	**$993,026**

(Note) Property, plant and equipment are geographically classified by country or region in which customers are located.

3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

Year ended March 31, 2013

1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

2. Geographical segment information

(1) Net sales

Millions of yen

Japan	North America	Europe	Other	Total
¥293,047	¥11,954	¥10,570	¥5,834	¥321,407

(2) Property, plant and equipment

Nothing is stated herein as the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheets.

3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

[Information on the amount of impairment loss on noncurrent assets by each reporting segment]

Year ended March 31, 2014

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	**¥12**	**¥1**	**¥1,478**	**¥222**	**¥86**	**¥1,799**

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	**$117**	**$9**	**$14,370**	**$2,158**	**$837**	**$17,494**

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2013

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	¥18	¥3	¥651	¥2,312	¥—	¥2,986

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

[Information on amortization of goodwill and unamortized balance by each reporting segment]

Year ended March 31, 2014

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	**¥283**	**¥ —**	**¥ —**	**¥ 2,688**	**¥25**	**¥ 2,997**
Balance as of March 31, 2014	**212**	**178**	**—**	**18,431**	**92**	**18,915**

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	**$2,753**	**$ —**	**$ —**	**$26,129**	**$250**	**$ 29,132**
Balance as of March 31, 2014	**2,064**	**1,737**	**—**	**179,158**	**897**	**183,858**

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2013

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	¥283	¥—	¥—	¥1,935	¥7	¥2,225
Balance as of March 31, 2013	495	—	—	9,591	119	10,206

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

[Information on gain on negative goodwill by each reporting segment]

Year ended March 31, 2014

Not applicable

Year ended March 31, 2013

Not applicable

NOTE 18

Related Party Transactions

Information on related party transactions for the years ended March 31, 2014 and 2013 and the related amounts as of those dates is summarized as follows.

1. Material transactions of the Company with related individuals or companies

Year ended March 31, 2014

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
			Millions of yen		
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥ 8	Prepaid expenses	¥ 4
		Payment of outsourcing fee (*2)	10	—	—

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
			Thousands of U.S. dollars (Note 1)		
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	$ 79	Prepaid expenses	$40
		Payment of outsourcing fee (*2)	102	—	—

(*):1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amounts.

Year ended March 31, 2013

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
			Millions of yen		
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥ 6	Prepaid expenses	¥ 3
		Payment of outsourcing fee (*2)	10	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet (*3)	140	—	—

(*):1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. The Company has the payment of usage fee of a business jet to Hajime Satomi, Chairman of the Board and Chief Executive Officer and the owner of the business jet. Transaction prices are based on current market price.
4. Consumption taxes are not included in transaction amounts.

2. Material transactions of the Company's consolidated subsidiaries with related individuals or companies

Year ended March 31, 2014

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥41	Prepaid expenses	¥28
				Accrued expenses	0
		Receipt and remittance of insurance	0	—	—
		Payment of welfare expenses (*2)	2	—	—

Thousands of U.S. dollars (Note 1)

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	$402	Prepaid expenses	$275
				Accrued expenses	0
		Receipt and remittance of insurance	0	—	—
		Payment of welfare expenses (*2)	19	—	—

(*):1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amounts.

Year ended March 31, 2013

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥55	Prepaid expenses	¥19
		Receipt and remittance of insurance	1	—	—
		Payment of welfare expenses (*2)	2	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Contract for reconstruction of residence etc. (*2)	55	—	—

(*):1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amounts.

NOTE 19

Per Share Data

Per share data is as follows

	Millions of yen 2014	2013	U.S. dollars (Note 1) 2014
Per share data			
Net assets per share	**¥1,409.27**	¥1,304.44	**$13.69**
Net income per share	**126.42**	137.14	**1.22**
Net income per share (diluted)	**125.39**	136.85	**1.21**

(Note) Net income per share and Diluted net income per share

Item	2014	2013
Net income per share		
Net income	¥30,721 million ($298,612 thousand)	¥33,460 million
Amount not attributable to common stockholders	¥— million ($— thousand)	¥— million
Net income for common stock	¥30,721 million ($298,612 thousand)	¥33,460 million
Average number of common stocks	243,017 thousand shares	243,981 thousand shares
Diluted net income per share		
Net income adjustment	¥— million ($— thousand)	¥— million
Increase of common stock	1,990 thousand shares	522 thousand shares
(stock options)	1,990 thousand shares	522 thousand shares

NOTE 20

Significant Subsequent Events

Year ended March 31, 2014

The Company issued the following straight corporate bonds

Name of bond	SEGA SAMMY HOLDINGS INC. Third unsecured straight bonds (with inter-bond pari passu clause)
Issuing amount	¥10,000 million ($97,200 thousand)
Date of issuance	June 17, 2014
Issue price	¥100 for ¥100 par value of each bond
Interest rate	0.519% per annum
Date of maturity	June 17, 2019
Use of proceeds	Repayment of loans payable

NOTE 21

Supplemental Information

Supplemental schedule of corporate bonds

Company	Name of bond	Issuance date	Balance as of April 1,2013 (Millions of yen)	Balance as of March31, 2014 (Millions of yen)	Balance as of March31, 2014 Thousands of U.S. dollars (Note 1))	Interest rate (%)	Type	Date of maturity
The Company	1st unsecured bonds (Private placement bond)	March 29, 2013	¥8,000	¥8,000	$77,760	0.44	Unsecured	March 29, 2018
	2nd unsecured bonds (Private placement bond)	March 29, 2013	8,000	6,400 (1,600)	62,208 (15,552)	0.42	Unsecured	March 29, 2018
	1st unsecured bonds (Publicly offered bonds)	July 25, 2013	—	5,000	48,600	0.73	Unsecured	July 25, 2018
	2nd unsecured bonds (Publicly offered bonds)	July 25, 2013	—	5,000	48,600	0.49	Unsecured	July 25, 2016
Sammy Corporation	3rd unsecured bonds	August 27, 2008	1,875	—	—	Note 2	Unsecured	August 27, 2013
	4th unsecured bonds	September 25, 2008	1,650	—	—	Note 3	Unsecured	September 25, 2013
SEGA CORPORATION	11th unsecured bonds	September 30, 2008	500	—	—	1.21	Unsecured	September 30, 2013
	13th unsecured bonds	June 30, 2011	5,000	5,000	48,600	0.72	Unsecured	June 30, 2016
	14th unsecured bonds	December 20, 2011	2,600	2,600	25,272	0.66	Unsecured	December 20, 2016
	15th unsecured bonds	June 29, 2012	5,000	5,000	48,600	0.58	Unsecured	June 30, 2017
	16th unsecured bonds	September 28, 2012	2,400	2,400	23,328	0.51	Unsecured	September 29, 2017
SEGA TOYS CO., LTD.	5th unsecured bonds	September 25, 2008	62	—	—	0.48 Note 4	Unsecured	September 25, 2013
	6th unsecured bonds	September 30, 2008	56	—	—	1.36	Unsecured	September 30, 2013
	8th unsecured bonds	March 31, 2010	200	100 (100)	972 (972)	0.74	Unsecured	March 31, 2015
Total	—	—	35,343	39,500 (1,700)	383,942 (16,524)	—	—	—

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2014" represent the current portion of corporate bonds.
2. The interest on Sammy Corporation's third debenture is a variable rate that uses six-month Japanese yen TIBOR.
3. The interest on Sammy Corporation's fourth debenture is a variable rate six-month Japanese yen TIBOR added 0.10%.
4. The interest on SEGA TOYS CO., LTD.'s fifth debenture is a variable rate that is 0.95% less than the standard interest set for each interest-bearing period. The interest rate listed above is the rate as of March 31, 2014.
5. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2014 is as follows:

Millions of yen

Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
¥1,700	¥1,600	¥14,200	¥17,000	¥5,000

Thousands of U.S. dollars (Note 1)

Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
$16,524	$15,552	$138,024	$165,241	$48,600

Notes to Consolidated Financial Statements

Supplemental schedule of borrowings

Category	Balance as of April 1, 2013 (Millions of yen)	Balance as of March31, 2014 (Millions of yen)	Balance as of March31, 2014 (Thousands of U.S. dollars (Note 1))	Average interest rate (%)	Repayment terms
Short-term loans payable	¥ 500	¥ 500	$ 4,860	0.7	—
Current portion of long-term loans payable due within one year	12,367	12,418	120,711	0.9	—
Current portion of lease obligations	925	818	7,956	Note 2	—
Long-term loans payable (Excluding current portion)	44,926	35,198	342,129	1.0	2015–2019
Lease obligations (Excluding current portion)	989	2,081	20,232	Note 2	2015–2020
Other interest-bearing debt					
Accounts payable–facilities	590	1,307	12,711	—	—
Accounts payable–facilities (Excluding current portion)	—	4,179	40,623	—	2015–2018
Total	60,300	56,504	549,224	—	—

Notes: 1. The "Average interest rate" represents weighted-average interest rate over the year-end balance of loans.
2. The average interest rate on lease obligations is not listed because lease obligations is posted in the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.
3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2014 is summarized as follows:

Millions of yen

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term loans payable	¥13,331	¥13,999	¥6,361	¥1,504	¥ 1
Lease obligations	390	1,633	39	13	4
Other interest-bearing debt					
Accounts payable–facilities	1,318	1,329	1,079	451	—

Thousands of U.S. dollars (Note 1)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term loans payable	$129,584	$136,072	$61,835	$14,621	$15
Lease obligations	3,792	15,880	386	129	43
Other interest-bearing debt					
Accounts payable–facilities	12,819	12,919	10,493	4,390	—

Independent Auditor's Report

To the Board of Directors of SEGA SAMMY HOLDINGS INC.:

We have audited the accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

July 25, 2014
Tokyo, Japan

KPMG AZSA LLC