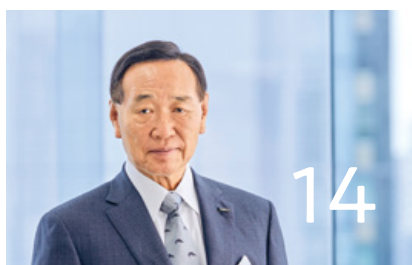




SEGA SAMMY HOLDINGS

Integrated Report 2018

CONTENTS



Statutory Disclosure Supplement

The Japanese version of the report for the fiscal year under review does not include financial statements. For detailed financial information, please use the link below.

https://www.segasammy.co.jp/japanese/ir/library/printing_yuhou.html

Cautionary Statement with Respect to Forward-Looking Statements

Statements in this integrated report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management. The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation. Actual results may vary significantly from the Company's forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate fluctuations, changes in laws and government systems, pressure from competitors' pricing and product strategies, declines in the marketability of the Group's existing and new products, disruptions to production, violations of the Group's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation. [This integrated report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]

Cautionary Statement for Investors and Shareholders with Respect to Nevada Gaming Statutes and Regulations

SEGA SAMMY HOLDINGS INC. ("the Company") is registered with the Nevada Commission as a publicly traded corporation and has been found suitable to directly or indirectly own the stock of SEGA SAMMY CREATION INC., and Sega Sammy Creation USA, Inc., both of which are subsidiaries that have been licensed as manufacturers and distributors of gaming devices in Nevada. Pursuant to Nevada law, the Company's shareholders are subject to the rules and regulations of the Nevada Gaming Authorities. A detailed explanation of Nevada gaming statutes and regulations can be found on the Company's corporate website: <https://www.segasammy.co.jp/english/ir/stock/regulation/>

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INTEGRATING OUR STRENGTHS

The mission of the SEGA SAMMY Group—which is also its reason for existence—calls on the Group to focus on *continuing to create moving experiences* and *making life more colorful*. We will realize this mission and sustain growth in corporate value by further improving and combining our strengths. These include the innovative DNA that SEGA and Sammy have passed down over successive generations, robust financial foundations, and a balanced business portfolio established through management integration.



©SEGA

Integrating Our Strengths

A Lineage of

While SEGA has brought the world completely unique offerings, Sammy has incorporated leading-edge technologies to give the world mold-breaking gameplay. Created through the management integration of the two companies, the SEGA SAMMY Group has fused these two different creative talents to develop innovative DNA that is a distinctive strength.

1960 SEGA Incorporated



SEGA 1000
©SEGA

1960 Japan 1st

Developed first domestically produced jukebox, **SEGA 1000**

First used as an abbreviation of Service Games, the name of the company's predecessor, "SEGA" later became the official company name.

1995 World 1st

Launched *Print Club* with ATLUS. CO., LTD.

This was the first amusement machine that allowed users to take photographs and print stickers based on them. Many similar machines appeared on the market. Mainly gaining popularity among young women, the machines became a social phenomenon.



Print Club
©SEGA

1975 Sammy Established

1979 Industry 1st

Launched *jankyu* machine incorporating a television monitor, **TV JANQ**

Sammy was the first company to incorporate monitors in "jankyu" machines, which combine mahjong and pachinko gameplay.



Virtua Fighter
©SEGA

1993 World 1st

Launched world's first 3D computer graphics (CG) fighting game for an amusement machine, **Virtua Fighter**

The first *Virtua Fighter* was an amusement machine. A version of the game for SEGA's home video game console, *SEGA Saturn*, became a major hit.

1989 Industry 1st

Launched single-bonus hitter pachislot machine, **ALADDIN**

As the industry's first pachislot machine to include hitters with a high probability of paying out "single-bonus" jackpots, this product ignited a pachislot boom.

1985 World 1st

Launched **UFO CATCHER**

A crane game in which players operate a crane to capture prizes, the product's name derives from the crane's resemblance to a UFO.



ALADDIN
©Sammy



UFO CATCHER
©SEGA

Innovative DNA



Dreamcast
©SEGA

1999 Industry 1st

Launched pachislot machine incorporating an LCD, *GeGeGe No Kitaro*

Sammy was the first to incorporate liquid crystal displays (LCDs) into pachislot machines. LCDs are now indispensable for the images pachislot machines display.

1997 Industry 1st

Launched pachislot machine utilizing characters, *Ultra Seven*

This model pioneered the incorporation of much-loved characters. Spreading throughout the industry, this strategy diversified gameplay and broadened the player base.

1998 World 1st

Launched home video game console, *Dreamcast*

As the world's first home video game console with Internet connectivity, this was a mold-breaker. However, it was our last such product because fiercer competition led us to withdraw from the home video game console area.

2000 Industry 1st

Launched first networked role-playing game (RPG) for a home video game console, *PHANTASY STAR ONLINE*

Although online games for home video game consoles are common today, SEGA created Japan's first such game. We have released versions of the game for many different platforms and established the title as a long seller.



Pachinko CR Hokuto No Ken
©1983 Buronson & Tetsuo Hara
©NSP2007, Approved No. SAE-307
©Sammy

2008 New record

Launched pachinko machine, *Pachinko CR Hokuto No Ken*

The first product marketed after transferring to a new development system, this title shipped more than 260,000 units, breaking our in-house record for pachinko machine unit sales.



Pachislot Hokuto No Ken
©Buronson & Tetsuo Hara
©Sammy

2003 New record

Launched pachislot machine, *Pachislot Hokuto No Ken*

Exemplifying Sammy's "Always Proactive, Always Pioneering" founding principle, this model featured a groundbreaking combination of gameplay, animation, and LCD images. The product's unit sales of more than 620,000 remains an unbroken record for a pachislot machine.

2003 Industry 1st

Launched industry's first kids' card game, *MUSHIKING: The King of Beetles*

A mega-hit among boys in the lower grades of elementary school, this game established kids' card games as a new market.



Strength

Innovative DNA

The heads of development at Sammy and SEGA discuss how the Group is continuing to evolve through the resonance and fusion of the innovative DNA of SEGA and Sammy.



Director, Chief Product Officer of Entertainment Contents HQ,
SEGA Games Co., Ltd.
Director, Chief Product Officer,
SEGA Interactive Co., Ltd.

Toshihiro Nagoshi

PROFILE

Joined the former SEGA CORPORATION in 1989; creator of the *Ryu ga Gotoku* series, which has shipped more than 11 million units worldwide



Ryu ga Gotoku 6: Inochi no Uta
©SEGA

Having a Common “Innovative” Approach to Creation

Nagoshi When I joined the former SEGA CORPORATION, amusement machines were the center of attraction. Companies that had made an early start were focusing efforts on ambitious initiatives to develop home video game consoles. We struggled to catch up with these companies. And, in the end, we withdrew from hardware. However, since then, one thing that has not changed at all is that SEGA places a great deal of trust in employees. The fundamental task of marketing is to seek overlaps between customer demand and the type of products we want to offer. More than anything, however, SEGA sets store in the passion of its creators. Through its products, the company has delivered creators’ “innovative” ideas to



Executive Vice President (Representative Director)
 Managing Director of Research & Development Group Division and
 Development Promotion Division, Sammy Corporation

Ayumu Hoshino

PROFILE

Joined Sammy Corporation in 1995; directs planning and development of the Pachislot *Hokuto No Ken*, which holds the No.1 cumulative sales record in the history of pachislot machines, with sales that have surpassed 620,000 units



*Pachislot Hokuto No Ken
 Shindensetsu souzou*
 ©Buronson & Tetsuo Hara/NSP 1983,
 ©NSP 2007 Approved No.YBJ-918
 ©Sammy

the world without adulteration. Therefore, I think this innovativeness has earned SEGA a unique reputation that sets it apart from peers.

Similarly, our Sales and Marketing Department takes pride in this innovativeness. While this approach has benefits, it also has risks. I think Sammy Corporation also has this dedication to the pursuit of attributes that other companies cannot match.

Hoshino I agree. Sammy has the same kind of respect for innovativeness. About 20 years ago, the company was really only a third or fourth class manufacturer. Unable to compete with the brand power of major manufacturers, we focused on how we could draw attention to our products. As a result, we came to the conclusion that if we included a host of industry-first functions, people would at the very least take an interest in our products. This was before we even had our current “Sammy... the wellspring of new ideas” slogan. Because we were always looking to incorporate some sort of new functions or gameplay, we often had setbacks. But it is precisely the experience of working with the

attitude that it is enough if 30% of new machine models become hit products that has given employees a deeply rooted pioneering mindset. There have been times when I have felt that we were moving forward a little too quickly, but I think SEGA is the same.

Nagoshi Without question, SEGA has also built its reputation precisely because it has always strode ahead of other companies. For example, we launched the industry’s first RPG with network compatibility, *PHANTASY STAR ONLINE*, at a time when broadband penetration was almost non-existent. When we realize a daring idea, it certainly causes a great deal of surprise. On the other hand, there is also the risk of a project ending up as pie in the sky. I think that our perseverance in refining these types of ambitious projects has enabled us to create progressive products that overwhelm the offerings of competitors and earn strong long-term endorsement from a large player base.

I also feel that when we push the envelope in our work, benefits invariably emerge afterwards. *Ryu ga Gotoku* is a product that exemplifies this. At university, I studied movies. I was very

puzzled by the fact that people would go to see a movie because it starred a famous actor or actress, but there was no video game that applied an equivalent model. When I began thinking that it would be interesting if an actor starred in a video game in the way that actors star in movies and TV dramas, I was sowing the seeds that grew into the concept for *Ryu ga Gotoku*. I expected that competitors would roll out titles based on similar concepts. In the end, however, they did not create any enduring products. In the past, competitors mentioned that they had no intention of creating such products because they would not be able to catch up with *Ryu ga Gotoku*, and these comments made an impression on me. I believe that we have established this position thanks to our creative team and by always adopting a forward-looking stance and continuing to evolve.

The unit sales of *Ryu ga Gotoku* overseas were only around several 10s of thousand until not that long ago. Recently, however, overseas unit sales have begun to increase as the product's reputation builds. The appeal of the product, which is the fruit of thoroughgoing efforts in Japan, is spreading over time. Creators have devoted a lot of energy to realizing this appeal, and I think players sense this and take an interest in the video game.

Looking back, I have a real sense of personal growth as a result of working on the project, which allows me to serve as an example for following employee. I think this is the process by which the next generation inherits innovative DNA.

Hoshino The importance of maintaining a proactive mindset is equally true when it comes to applying for the approval of new-format machines. Due to the February 2018 regulatory revision, manufacturers are submitting products for prototype testing

based on new regulations. Normally, manufacturers might initially submit a machine with safer specifications to acquire approval, and then steadily submit machines with more ambitious specifications. On the other hand, unafraid of the possibility of failing to acquire approval, Sammy pursues appealing machines and submits them for testing without compromising on the specifications.

SEGA and Sammy have similar approaches to their industries in the sense that they both value quality over speed in relation to development. At Sammy, our view is that postponing a launch until the next fiscal year is preferable to releasing a sketchy product. The real aim of our efforts to shorten development lead times under Road to 2020 is not to bring machines to market quickly. Instead, our aim is to use the time freed up through shortened development periods to rigorously refine machines.

Product creation must not overemphasize reaching immediate numerical targets and end up just being about making the figures match up. We will not betray the expectations of customers who always want to play the best possible machines. If there is an aspect we stick to figures, I think it is important to bringing forward development lead times a little so that we can conduct repeated product trials on finished machines to refine them and make them as exciting as possible.

Nagoshi I think we will have acquired the basic strength to respond to changes when we are able to reconcile contradictory aims and say "We will set aside time to increase the quality, but we must not miss the numerical targets." Previously, there have been times when, despite proceeding as planned, SEGA's projects have recorded deficits. I think a lack of "change" has been the problem at these time. Because the present management team favors change, instructions change on an almost daily basis. To be honest, frontline operations have undergone many changes as a result. Nonetheless, our figures have become much better. I think that continuing this type of change is needed to win out in today's volatile times.



Production must not just be about making the figures match up.

————— Ayumu Hoshino

When we push the envelope in our work, benefits invariably emerge afterwards.

Toshihiro Nagoshi

Hoshino I also feel that in order to move forward, continuing to change is essential. At Sammy, as well as focusing on embracing change to create quality products, our awareness of cost in relation to such strategies as reusing and recycling components has increased considerably. The attitude of frontline employees has changed. Previously, we invested capital in products that developers wanted to create. Now, we pursue return on investment by differentiating between areas where we should invest capital and those where we should curb costs. At the same time, we focus on creating products that satisfy players.

Nagoshi Under Road to 2020, SEGA is actively investing in intellectual properties (IP), including the creation of new IP and the revival of past IP. Revived IP are seeing some success. However, we should not forget that, in addition to long-standing fans, we have to reach current players. Having too much confidence in past successes and simply trying to duplicate them will not generate products that earn acceptance in today's environment. Setting our sights beyond 2020, I want to take an even more bullish, forward-focused approach to development and increase mainstay product lineup.

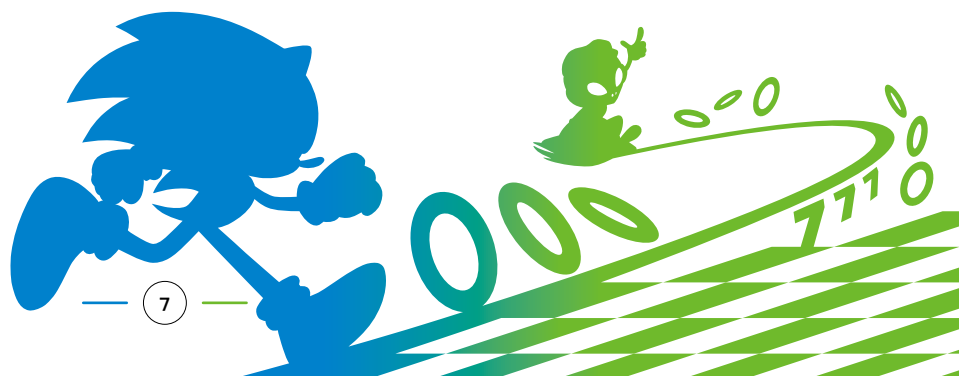
With the integration of offices in the summer, this is a year of major changes for the SEGA SAMMY Group. Until now, we have worked with Sammy on various projects. However, we could never synchronize perfectly due to our physical separation. Therefore, I expect that the integration of our offices will activate exchanges of information and accelerate coordination.

For SEGA employees engaged in product development, I think that being able to talk with Sammy's development personnel will be a great stimulus.



Hoshino Yes, I think you are right. It will also be very stimulating for Sammy's employees. Opportunities for communication among personnel will increase as a result of there being less physical distance between them. For example, the new office has a dining area. Therefore, if personnel can share interesting ideas about creating products and come up with new innovations, perhaps over a drink, it could give rise to completely new development projects that would not have occurred to us under the previous system. In the med-to-long term, we want to establish an environment in which increased day-to-day exchanges enhance the mobility of personnel and lead more employees experience the diversity of the Group's personnel.

Nagoshi Outside the Group, many people still see SEGA and Sammy as separate entities. I think the task for us going forward is to increase the occasions when we are viewed as a single entity under the "SEGA SAMMY" banner. I hope that the integration of our offices will further strengthen the Group's brand by enabling us to leverage the innovative DNA that each company has inherited and to align the values that underpin the SEGA SAMMY brand.



Strength

Financial Foundations

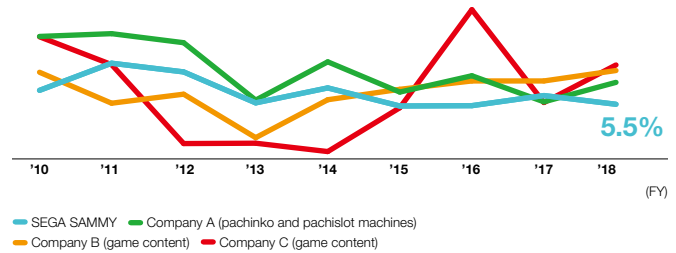
The SEGA SAMMY Group is engaged in hit product businesses, which require continuous investment in development to create hit products and in which hit products, or their absence, affect earnings significantly. The Group is able to prosper in this environment because its financial stability and the Pachislot and Pachinko Machines Business segment's cash generation capabilities enable continuous investment to develop new products and support strategic investments in the long term, such as Resort Business.



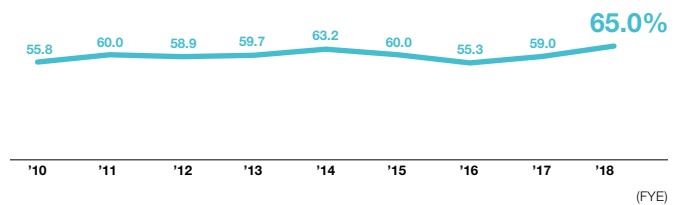
©SEGA

In the entertainment industry, where the absence or presence of hit products affects earnings significantly.

Operating Income Margins of Major Entertainment Companies



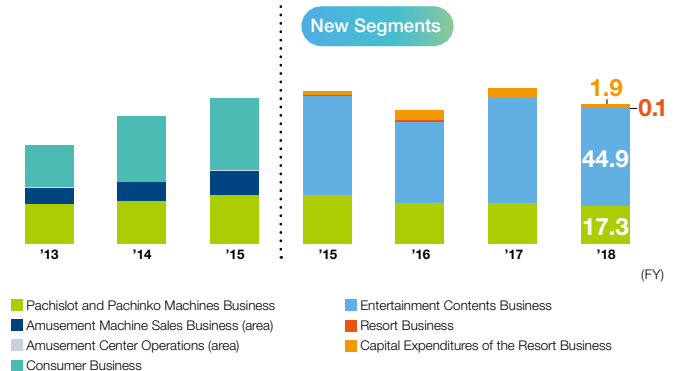
Equity Ratio



The Group's robust financial foundations are a competitive advantage because they enable stable investment in development.

R&D Expenses, Content Production Expenses* / Capital Expenditures of the Resort Business

Billions of yen

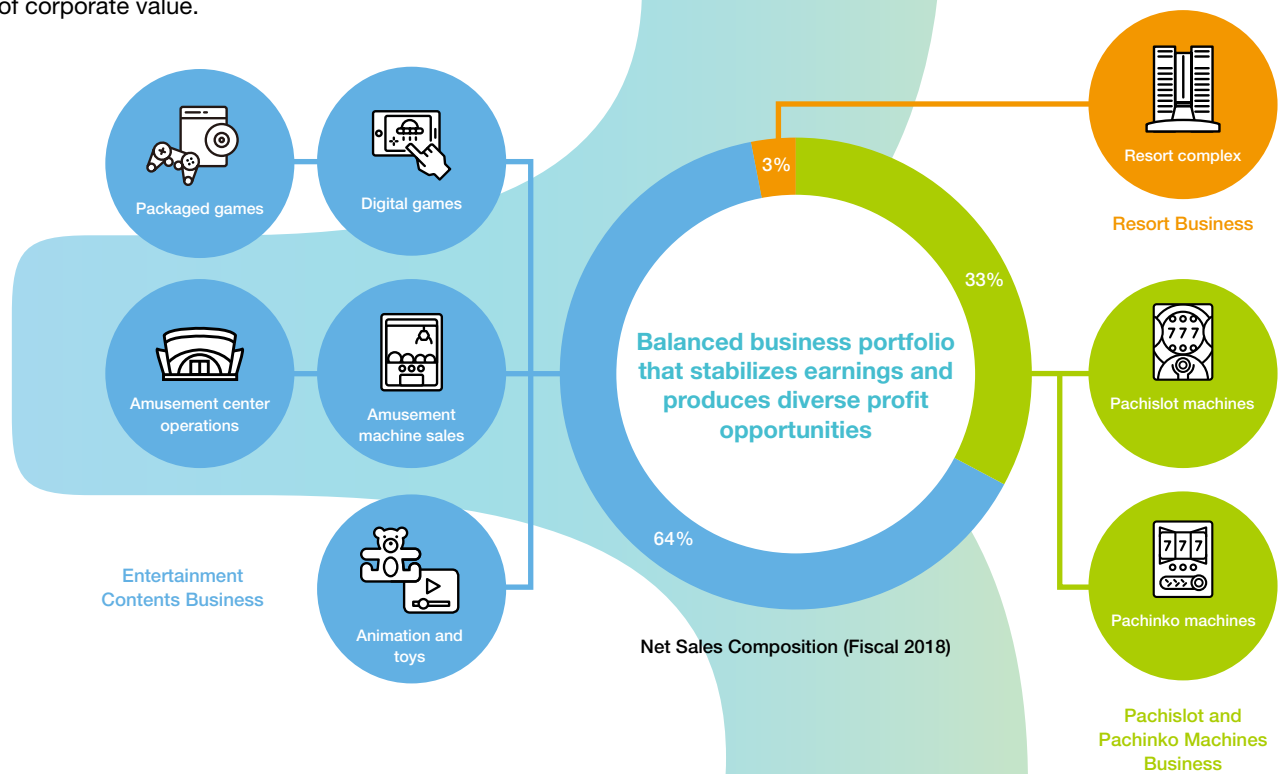


* The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

Strength

Business Portfolio

Through management integration, we have built a business portfolio that encompasses an extensive range of entertainment fields. By heightening our ability to withstand fluctuations in business environment and creating an array of profit opportunities, this portfolio underpins the sustained growth of corporate value.



A Balanced Business Portfolio That Reduces the Effect of Fluctuations in Business Environment

The SEGA SAMMY Group operates businesses across a broad range of entertainment fields. These include operations focused on pachislot and pachinko machines, video game contents such as digital games and packaged games, amusement arcade machines, amusement center operations, animation and toys, and resorts. With its balanced mix of entertainment fields, this business portfolio is an advantage in sustaining the growth of the Group's corporate value.

In recent years player's "playing options" have been increasing. For example, they can use amusement centers or smartphone apps. As a result, competition to attract players has been

intensifying in the entertainment field. The extensive business portfolio of the SEGA SAMMY Group enables it to develop profit opportunities even as business environment change. Moreover, our portfolio structure disperses environmental fluctuation risk, thereby ensuring the stability of our earnings and investment. In addition, the business portfolio helps increase asset efficiency by allowing the Group to make effective use of a single IP in multiple businesses. We leverage this attribute through multi-channel IP rollouts (▶ P.57) that encompass mobile games, games for home video game consoles, PC games, and amusement machines.

INTEGRATING OUR STRENGTHS THROUGH

UNITY

The Group will come together to
continue creating moving experiences.

1
Innovative
DNA

2
Financial
Foundations

3
Business
Portfolio



Human
Capital



SEGA Sammy

More than 10 years have passed since the management integration of SEGA and Sammy. During this time, business conditions have changed markedly. Against this backdrop, the SEGA SAMMY Group has renewed its brand logo to symbolize the Group's direction going forward. Sharing the commitment that this new brand logo encapsulates, the Group's employees are making a concerted effort to advance strategies based on the Road to 2020, which covers fiscal 2018 through fiscal 2020.



The SEGA SAMMY Group's Model for Creating *Moving Experiences*

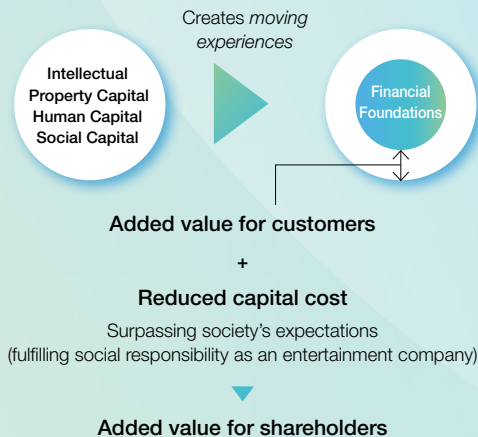
Sustaining Corporate Value Growth by Creating *Moving Experiences*

While always aware of the need to produce favorable short-term results, the SEGA SAMMY Group conducts business management that is focused on enhancing long-term corporate value. Our aim is to constantly increase corporate value by continuing to create *moving experiences* with value that surpasses customers' expectations, establishing environments that enable personnel to take maximum advantage of their talents, and fulfilling our social mission as an entertainment company.

Value Creation from the Viewpoint of Shareholder Value

By raising profitability through the provision of added value that goes beyond customers' expectations and by fulfilling our social responsibility as an entertainment company, we will increase capital productivity and reduce capital cost. In this way—by providing value to all stakeholders—the Group will sustain corporate value enhancement over the long term.

Non-Financial Capital



Management Resources that are Strengthened and Utilized Continually

- Intellectual Property Capital
 - Human Capital
- Customers • Social Capital
 - Natural Capital



Competitive Advantages

- Innovative DNA
- Financial Foundations
- Business Portfolio

MOVIE

OUTCOME

Surpass shareholders' expectations
(Increase financial value)

We aim to realize an operating income margin of at least 15% and ROA* of at least 5% in fiscal 2020.

* ROA = Profit attributable to owners of parent ÷ Total assets

OUTCOME

Surpass society's expectations
(Preserves and increases corporate value)

Our mainstay businesses are focused on making life more colorful by creating "positives" that outweigh negative aspects for society while taking sincere measures to address issues.

ESG

(Environmental, social, and governance factors)

- Work-style reform aimed at promoting diversity
 - Addition countermeasures
- Cooperation with competitors and partners
 - Lowering environmental burden and increasing profitability simultaneously
- Strengthening of monitoring and supervision of business management

Mission

Continuing to create moving experiences
— Making life more colorful —

Continuing a virtuous cycle that converts moving experiences into corporate value

Road To 2020

Corporate Strategies

As well as concentrating the investment of cash from core businesses on growth businesses, we are advancing a portfolio strategy with a view to participating in the integrated resort business in Japan.

🎧 P.16 A Message from the COO

Business Domain

Pachislot and Pachinko Machines Business
Entertainment Contents Business
Resort Business

OUTCOME

Cultivates a sense of coherence and creates moving experiences
(Surpass customers' expectations)

We will continue creating entertainment that surpasses customers' expectations in a good way.

ing Experiences

A Message from the CEO

We will realize sustained long-term growth in corporate value by tirelessly taking on challenges based on long-term viewpoints.

Hajime Satomi

Chairman and Group CEO (Representative Director)
SEGA SAMMY HOLDINGS INC.



Business Management Based on Long-Term Viewpoints It is important to permit “good failures” and continue surpassing the market’s expectations.

I took up the challenge of amusement machine sales in 1965, when I was 23. My base was an office of just 79 square meters. Since then, I have always ventured into uncharted territory, and I have experienced many failures. I have reached my position today by reviewing such failures and then using the lessons learned from them in subsequent ventures. Without experiencing failure, people and companies cannot grow. Sammy’s company credo, “*Always Proactive, Always Pioneering*” encapsulates this attitude. Similarly, “*Creation is Life*” the company credo of SEGA is imbued with the spirit of a pioneer, which the company has inherited from its foundation. The SEGA SAMMY Group, which was established through management integration with SEGA, maintains a culture that permits “good failures,” in other words a culture allowing failures that are the result of strenuous efforts to reach goals. When I am speaking to young personnel, I often urge them to “hurry up and experience a good failure.”

I always make an effort to approach business management from medium-to-long-term viewpoints. This approach stems from lessons learned from those times when we have pursued near-term business results overeagerly, introduced mediocre products or services, and damaged the carefully cultivated value of major IP as a result. Further, I believe this management stance is also necessary for permitting the “good failures” of our Group companies. I constantly tell employees that while reaching the fiscal year’s targets is an important mission, providing products and services that significantly surpass the expectations of customers is more important.

With this in mind, I have tried to set an example by rigorously checking products until I am convinced of their quality. Also, in the context of long-term business management, Road to 2020 (covering fiscal 2018 through fiscal 2020) shows the direction of new ambitions initiatives the Group should proceed.

Concentration of Investment on Growth Businesses We will steadily strengthen and develop our growth drivers.

We are positioning the Pachislot and Pachinko Machines Business and the packaged games, the amusement machine sales and the amusement center operations areas of the Entertainment Contents Business as core businesses that are not premised on sales growth and in which we will continually reform earnings structures with a view to realizing profit margin improvements and the stable generation of earnings. The Group’s portfolio strategy is to invest

the cash that these core businesses generate in growth businesses in a prioritized manner. We have positioned the digital game area as a medium-term growth driver, while we are developing the Resort Business as a third pillar from a long-term perspective. Through the Resort Business segment, we operate one of Japan’s premier resort complexes, *Phoenix Seagaia Resort*, and South Korea’s first integrated resort, *PARADISE CITY*, through a joint venture with the PARADISE GROUP of South Korea. We are also accumulating know-how through the operation and management of resorts with a view to participation in the integrated resort business in Japan.

For the Creation of the Group’s Future Integrated resorts will open up a wide range of possibilities for the Group.

The enactment of the Act on the Establishment of Specified Integrated Resort Areas in July 2018 clarified the road map for the introduction of integrated resorts to Japan. After the selection of operators and areas, we expect that the realization of commercial operations will become possible around 2024. We believe that the introduction of integrated resorts to Japan has the potential to become a powerful tool for activating Japan’s economy through the use of private-sector capital. Many companies have announced their intention to participate. However, I want the Group to hold the majority of projects and develop businesses in a broad range of fields with casino operations as the central focus. At present, we are laying the foundations for participation by accumulating know-how through *PARADISE CITY* and other resorts, establishing financial resources, and conducting multifaceted investigation and analysis. If we can realize participation and build successful businesses, it will open up a wide range of possibilities for the Group going forward, including the expansion of businesses in the global market using the know-how gained from such successes.

Through such ambitious initiatives, the future vision of the SEGA SAMMY Group is to become a corporate group that has a unique presence among global entertainment companies with respect to both revenue scale and business lines. I believe my mission is to meet the expectations of shareholders and all other stakeholders through the realization of this vision, and I will work unstintingly to realize it.

As we take on new challenges, we would like to ask our stakeholders for their continued support.

August 2018

Hajime Satomi
Chairman and Group CEO (Representative Director)
SEGA SAMMY HOLDINGS INC.

A Message from the COO

Aiming to achieve Road to 2020 and the future vision of the Group beyond it, we will maintain a sound, far-sighted approach, even if this means taking a roundabout route.

Haruki Satomi

President and Group COO (Representative Director)
SEGA SAMMY HOLDINGS INC.

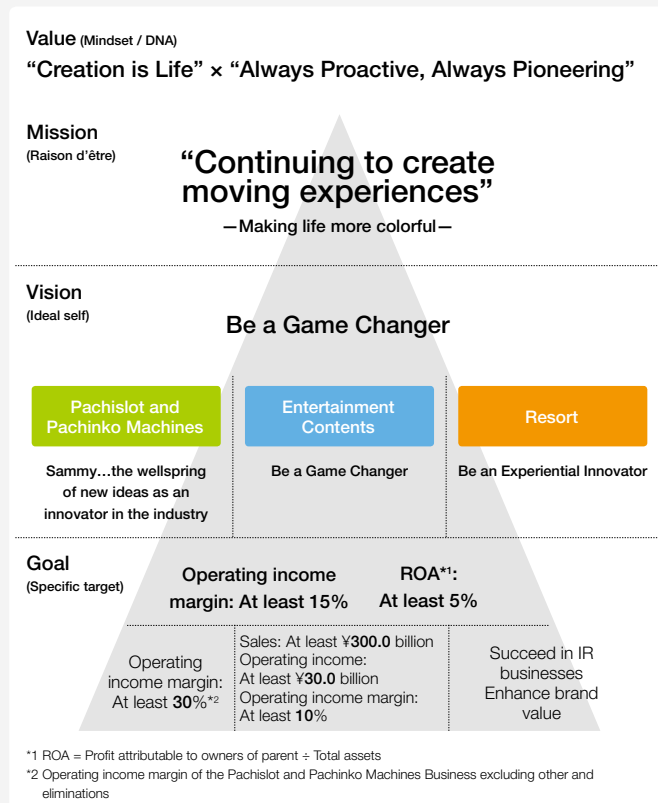


The Spirit within Our Mission Provide Society with Positives That Outweigh Negatives

Aiming to realize its long-term vision (P. 39), the SEGA SAMMY Group is advancing the Road to 2020 initiative, which maps out the Group's direction through fiscal 2020. In conjunction with these efforts, we are changing our mindset and motivating each employee to execute their action plans by embedding strategies into a mission pyramid that has value (mindset / DNA) at its pinnacle.

Before reporting the progress of Road to 2020, I would like to explain the spirit I embedded into the mission (raison d'être) of the mission pyramid. Through their mainstay businesses, companies are expected to help address a range of social issues, such as the shared global issues on which the Sustainable Development Goals (SDGs) focus. Our mainstream business is entertainment. I believe that, rather than simply providing products and services, the essence of entertainment lies in continuing to surpass customers' expectations. In other words, we should concentrate on continuing to provide greater-than-expected value. One intent is the belief that the mission of *continuing to create moving experiences* represents the value we should provide. In fact, the mission also includes another message directed at employees.

Mission Pyramid



The entertainment industry has both positive and negative effects on society. One example was our experience following the Great East Japan Earthquake in March 2011. At the time, criticism was directed at pachinko halls, amusement centers, and other entertainment facilities based on the large amounts of electricity they were consuming while planned power outages were being implemented due to electricity shortages. This brought the reason for the existence of entertainment into question. Many of our employees were distressed and felt helpless, some of them even questioned the propriety of continuing to operate amusement centers during such a crisis. I recall the chairman sent out the message that we should do what we could do to lift people's spirits precisely because we were in such circumstances. Hearing this boosted the morale of employees who had begun to feel despondent. Of course, providing the utilities and goods essential for daily life is the first priority in a disaster. For true restoration, however, "vitality for tomorrow" is essential, and I believe that this is something entertainment can provide.

Meanwhile, the entertainment industry must tackle potentially negative aspects head on. These include the influence of video games on children and addiction to playing pachinko and pachislot machines. I am convinced that society will continue to value us if we continue delivering positive excitement that outweighs such negative aspects. The subtitle of the mission, *making life more colorful*, includes this belief. I want our employees to always take pride in providing society with bright colors that outshine black, gray, and other dark colors.

Fiscal 2018 Performance Report Progressed Steadily under Road to 2020 Despite Missing Targets

Road to 2020 sets targets of at least 15% for the operating income margin and at least 5% for ROA in its final fiscal year, fiscal 2020. Also, the initiative calls for a steep increase in earnings in its third year, and we are steadily taking measures aimed at realizing these targets. (P. 38 Group Strategy—Road to 2020.)

In fiscal 2018, the year ended March 31, 2018, and the initiative's first fiscal year, we fell short of initial targets and recorded year-on-year declines of 11% in net sales and 40% in operating income.

In the Pachislot and Pachinko Machines Business, unit sales decreased due to major changes in the sales schedules of multiple titles in response to the enforcement of Rules for Partial Revision of Ordinance for Act on Control and Improvement of Amusement Business, etc., and Regulations for the Verification of Licenses, Formats, and Other Aspects of Pachislot and Pachinko Machines (regulatory revision) in February 2018.

Further, the Entertainment Contents Business marketed fewer titles than initially expected as a result of postponing the introduction of certain titles to the digital games area to fiscal 2019. On the other hand, the packaged games, amusement machine sales, and amusement center operations areas performed well, enabling the Entertainment Contents Business to surpass initial targets by a large margin.

Although lower revenues and earnings from the Pachislot and Pachinko Machines Business resulted in a disappointing performance relative to targets, my overall evaluation of fiscal 2018 is that we made steady progress in relation to Road to 2020. Here, I would like to explain the basis of this evaluation.

Progress under Road to 2020 Strategic Revision of the Release Schedule

In the pachinko and pachislot machine industry, the regulatory revision enforced in February 2018 greatly reduced the gambling element of pachinko and pachislot machines, which is their distinctive feature. Meanwhile, in response to the regulatory revision industry, bodies changed their voluntary regulations. Particularly for pachislot machines, although the changes in the voluntary regulations have significantly lowered overall gambling element, the changes have also broadened the scope for gameplay. Consequently, we believe the potential exists to offer appealing pachislot machines. (▶ P.46 No. 6 Model Changed the Market Environment)

Therefore, we determined that strategically revamping our pachislot machines based on the new regulations would allow us to offer products that match market demand going forward. As a result, we significantly revised our second-half release schedule. Thus, our product strategy in the second half of fiscal 2018 was based on a larger medium-term strategy.

Also, we are making good progress with the measures of Road to 2020 aimed at improving the profit margin. These include initiatives at our joint venture with Universal Entertainment Corporation, ZEEG Co. Ltd.; cost improvements through component reuse.



The Entertainment Contents Business outperformed initial targets and recorded earnings growth for the third consecutive fiscal year. In particular, we were in the black for the second straight fiscal year across all business areas and regions (Japan, other parts of Asia, North America, and Europe) for the first time, including the era of the former SEGA CORPORATION. I feel confident that our businesses are beginning to transition toward a favorable cycle based on a highly sustainable earnings structure

that stably generates income without being dependent on one major hit product.

The substantial growth of the packaged games area reflects increased sales in the global market as well as the progress of efforts under Road to 2020 aimed at creating a structure that advances global rollouts. Repeat sales of older titles have been rising robustly. For example, cumulative sales of *Persona5*, which we launched in April 2017, have surpassed 2.2 million units in Japan, North America, and Europe. This growth is proof that the product quality of our games is satisfying players worldwide and is, of course, a driver of profit margin improvement.

The amusement machine sales and amusement center operations areas, which have seen an ongoing recovery in the scales of their markets for two consecutive fiscal years, are showing solid results. The amusement machine sales area is realizing adequate profitability thanks to brisk sales of prize game machines and to the introduction of a revenue-sharing business model, which provides continuous revenues. Also, the amusement center operations area is reaping the benefits of tireless efforts to strengthen operations.

The revision of the release schedule in the digital games area also resulted from giving priority to improvement of product quality rather than to the fiscal year's sales figures. As I will explain later, our strategies will be more aggressive in this area in fiscal 2019.

As for the Resort Business, April 2017 saw the opening of the first stage of phase 1 development of *PARADISE CITY*, South Korea's first integrated resort. *PARADISE CITY* is proving extremely popular, with more guests visiting from Japan than anticipated.



PARADISE CITY
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On the other hand, some issues remain. An issue that applies to all of our businesses and business areas is the “probability of success.” If we breakdown results by title, hit titles are compensating for titles that do not meet targets. By repeatedly testing hypotheses, we intend to heighten the likelihood of success. Further, I view PHOENIX RESORT CO., LTD., which continues to recognize operating losses, as an important issue.

Fiscal 2019 Targets

Outperform Targets through the Pachislot and Pachinko Machines Business

In fiscal 2019, the year ending March 31, 2019, we are targeting year-on-year increases of 20% in net sales, to ¥390 billion, and 18% in operating income, to ¥21 billion. We expect an operating income margin of 5.4%, essentially unchanged year on year.

Also, we are planning to appropriate ¥7.5 billion for transfer expenses likely to arise from the consolidation of the head office functions of respective Group companies in stages beginning from August 2018. Excluding the effect of these one-off expenses, the actual target for operating income is year-on-year growth of 61%, to ¥28.5 billion. In the current fiscal year, mainly through contributions from the Pachislot and Pachinko Machines Business, we want to go beyond our targets.

The Pachislot and Pachinko Machines Business aims to increase revenues 15% and earnings 55% year on year. We plan to steadily market new-format pachislot machines from the second half of the current fiscal year through fiscal 2020. I am very optimistic about the new-format pachislot machines. While curbing gambling elements in accordance with the essence of the regulatory revision, we will be able to broaden the scope of development based on the changes in voluntary regulations. Until now, it has required five or six hours to fully enjoy playing a pachislot machine. Competing for customers' time with other forms of entertainment, playing time comparable with the time normally spent at a theme park has been a considerable disadvantage for pachislot machines. Going forward, however, it will become possible to get enough entertainment by playing pachislot machines for about two hours—roughly the time needed for such pastimes as karaoke, movies, and bowling. As a result, pachislot machines will once again become a local, convenient form of entertainment, enabling us to capture demand for entertainment that occupies short periods of free time.

As for pachinko machines, the fact that we have multiple old-format machines that have already acquired certifications of conformance with regulations is a major advantage. In fiscal 2019, we will focus sales strategy on old-format machines. At the same time, we will analyze trends among competitors with respect to new-format machines and develop new-format machines with our sights set on fiscal 2020. Launched in the current fiscal year, the old-format machine *Pachinko CR Nisemonogatari* has been meeting with high acclaim, recording favorable utilization rates, and receiving repeat sales orders. In the current fiscal year, we will also roll out *Pachinko CR Shin Hokuto Muso Chapter 2* as the successor to the *Pachinko CR Shin Hokuto Muso* pachinko machine. Marketed in 2016, the latter pachinko machine has reached cumulative sales of more than 80,000 units and is still being utilized. Given that the new offering is the successor of a popular pachinko machine, I want to make sure that we advance sales efforts proactively.



Pachinko CR Shin Hokuto Muso Chapter 2
©Buronson & Tetsuo Hara/NSP 1983, Approved No. KOK-115
© 2010-2013 Koei Tecmo Games Co., Ltd.
©Sammy

Fiscal 2019 Targets

Years ended / ending March 31

	2017	2018	2019 (Plan)
Net sales	366.9	323.6	390.0
Operating income	29.5	17.7	21.0
Operating income margin	8.0%	5.5%	5.4%
Ordinary income	28.5	14.5	16.0
Income before income taxes	33.7	12.4	17.0
Profit attributable to owners of parent	27.6	8.9	12.0
ROA*	5.2%	1.8%	—

* ROA = Profit attributable to owners of parent ÷ Total assets

Billions of yen

	Operating income (Before consideration)	One-off expenses of relocation	Operating income (After consideration)
Consolidated	28.5	(7.5)	21.0
Pachislot and Pachinko Machines	20.1	(1.6)	18.5
Entertainment Contents	18.5	(5.0)	13.5
Resort	(3.0)	0.0	(3.0)
Other / Eliminations	(7.1)	(0.9)	(8.0)

Entertainment Contents Business Strategy Maximize IP Value and Accelerate Global Rollouts

In the Entertainment Contents Business, we expect a 24% rise in revenues and a 9% decline in earnings year on year. The growth of earnings will be expected in the digital games area, which plans to launch 12 long-awaited titles. Similarly, the packaged games area is likely to see higher earnings thanks to increases in sales of new titles, sales in overseas markets, and repeat sales. Meanwhile, earnings from the amusement machine sales area, which will recognize the advance investment expenses of the casino machine area, and from the amusement center operations area will probably edge down. In the animation and toys area, we anticipate essentially unchanged earnings levels.

Through multi-channel rollouts in the global market, the Entertainment Contents Business will focus on maximizing the value of its IP portfolio, including new IP, huge amount of existing, and dormant IP, and third-party IP.

In the digital games area, April 2018 saw the release of *SEGA Pocket Club Manager* (commonly known in Japan as *Sakatsuku*), a new app for iOS and Android™ that recreates for smartphones the excitement of SEGA's highly popular *Sakatsuku* soccer game. As of August 2018, the app had surpassed 1 million downloads. Also, we will launch a series of new titles, including the latest offering from multiple hit producer f4samurai, Inc., *WONDER GRAVITY –BEST BUDDY: PINO & GRAVITOR–*, and a PlayStation®4 version of *BORDER BREAK*, which has been developing a large fan base as a network-enabled amusement machine since 2010.

In the packaged games area, our introduction of the latest installment in the *Ryu ga Gotoku* series to the U.S. market is part of initiatives to “fatten” existing IP through lateral rollouts. Further, we are reviving dormant IP that still have many highly enthusiastic fans. Specifically, this year we re-released *Shenmue I&II*, a revival of *Shenmue*, which debuted in 1999, and *Shenmue II*. And, a project is underway to revive the *Sakura Wars* series, which first appeared in 1996. We are also proactively incorporating third-party IP.



Yakuza 6: The Song of Life
©SEGA



Shenmue I&II
©SEGA

For example, we will begin providing an amusement machine version of the highly popular *Fate/Grand Order Arcade* smartphone app. (▶ P. 31 IP Strategy under Road to 2020)

Resort Business Strategy Leverage New Nevada Licenses as a Major Advantage

The Resort Business is expected to record operating loss of ¥3 billion due to advance investment aimed at realizing a domestic IR business. However, we intend to move PHOENIX RESORT into the black by improving its profitability. In Incheon, South Korea, the second stage of phase 1 development of *PARADISE CITY* is proceeding well, and the staged opening of entertainment and commercial facilities will make it a true integrated resort.

The SEGA SAMMY Group acquired licenses for the manufacture and sale of gaming machines in the U.S. State of Nevada in December 2017. As well as securing a sales channel in a third market—together with our sales channels in Macau and the Philippines, where we already have licenses—the acquisition of these licenses has great strategic significance.

In acquiring the license, the Group underwent multifaceted inspections of information relating to governance, compliance, financials, and taxes. Further, individual Group executives were scrutinized. Official recognition of conformity with the world's most exacting gaming-related standards will be advantageous not only when seeking IR licenses in Japan but also when collaborating with overseas partners.

As the only domestic corporate group on an equal footing with world-famous IR operators, the Group will express a strong determination to participate in the IR industry and steadily move forward with preparations. We have further increased the number of personnel sent to *PARADISE CITY* to accumulate know-how to approximately 60 employees. Moreover, we are ahead of other companies in taking steps toward the establishment of commercial operations. These efforts include identifying and conducting value chain analysis based on more than 118 key components of casino operations.

Long-Term Management Stance

Always Choose the Long-Term Rather Than the Short-Term Approach

Currently, we are conducting “Satomi Cram Schools” to instill the Group’s founding principles in mid-ranking managers and above. I believe that passing on the founding principles is indispensable for sustaining the Group’s development. The most important principle is that of favoring a sound, far-sighted approach. This business management philosophy reflects the belief that favoring a sound, far-sighted approach—even if it means taking a round-about route—leads to success more certainly than taking short-cuts in pursuit of short-term gains or acting in ways that leave us open to criticism. Based on this management philosophy, the Group has rigorously adhered to a long-term stance in conducting business management.

In fact, when I have to choose between long-term and short-term gains, without hesitation I give priority to long-term gains. For example, if an additional few months of development is going to produce a better product, I give instructions not to compromise and to further improve the product, even though we may go over budget. Adopting this approach earns the endorsement of end users and heightens brand value. Even when we fail, rather than making excuses, employees in frontline operations can learn lessons from such experiences if we analyze the reasons correctly. Instead of simply responding to situations in an ad hoc manner, I believe that rigorously adhering to a sound, far-sighted approach is important for sustaining our development.

Personnel as the Foundations of Sustained Growth Encourage Pride and Confidence among All Employees

Among all stakeholders, I give the highest priority to personnel because without talented personnel we cannot satisfy customers, and without customer satisfaction we cannot provide shareholder value.

In personnel development to date, we have taken a range of measures to allow employees to realize their capabilities to the utmost. Focusing on work-style reforms, we have thoroughly implemented reforms such as reducing working hours, reducing the number and length of meetings significantly, and diversifying work styles. In April 2018, we became the first company in the industry to introduce a *Job Plus* side job system. We introduced this system with a view to enhancing the capabilities of individuals and facilitating self-realization by respecting the autonomy of employees and enabling them to have experiences that would not be possible within the Group. We hope that this will result in employees making even greater contributions to the Group’s corporate value. The



The SEGA SAMMY Group's new brand logo

culmination of work style reforms will be the consolidation of the Group’s head office functions, which will mark a transition from a phase of work style reforms to a phase of work style improvements.

In managing the Group, we focus on balancing “centrifugal force” and “centripetal force.” “Centrifugal force” refers to delegating authority to Group companies to expedite management decision making and seeking maximized performance in line with brands and business formats. Meanwhile, the consolidation of head office functions is representative of “centripetal force.” The medium-to-long-term benefits of the consolidation will include enhancement of management efficiency, vitalization of personnel exchanges and operational coordination among operating companies, the realization of innovation with venture companies invited to use co-working spaces in the new office, and reductions in expenses arising from the Ordinary General Meeting of Shareholders and various other types of meetings.

One of my particular aims is to develop a Group culture through the consolidation. I want to combine the various cultures of operating companies to foster a SEGA SAMMY Group culture. Our revision of the Group’s brand logo stems from the same mindset. The new logo, in which all of letters are joined, symbolizes our commitment to continue growing based on solidarity among Group companies.

I want all employees to be able to take pride in and feel confident about the SEGA SAMMY Group. This may seem an indirect way of proceeding, however, I feel that fostering among our employees pride in and confidence about their work and the Group is the best way of cultivating awareness of compliance and governance. Moreover, I am convinced that this is a sound, far-sighted approach that will enable us to execute the measures of Road to 2020 without fail, realize sustained growth in corporate value, and meet the expectations of shareholders and all other stakeholders.

As we pursue a long-term approach, I would like to ask our stakeholders for their continued support of the SEGA SAMMY Group.

August 2018

Haruki Satomi
President and Group COO (Representative Director)
SEGA SAMMY HOLDINGS INC.

The SEGA SAMMY Group: Past and Present

Reforming Tirelessly to Overcome Adverse Conditions

Between Management Integration and Fiscal 2014

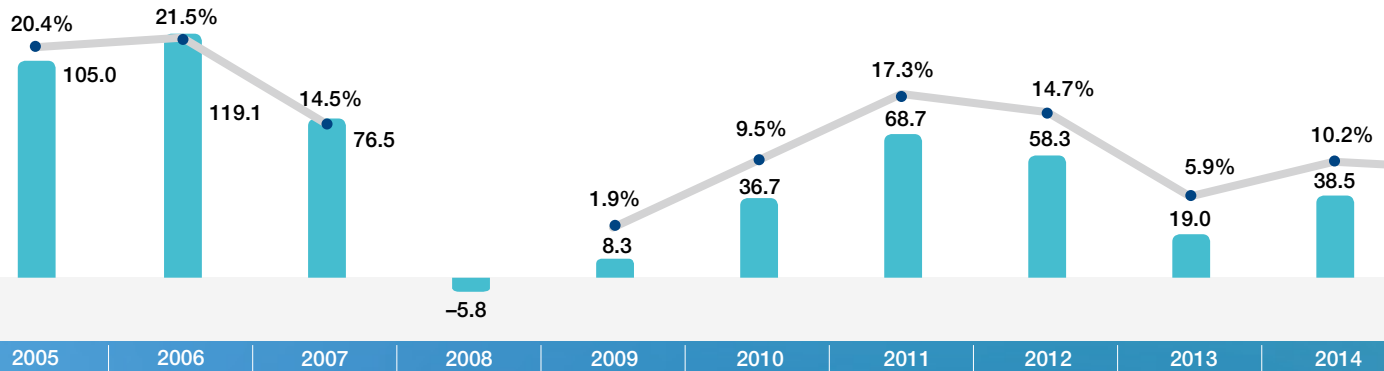
Management integration

2006–

- Optimize the number of amusement centers to an appropriate level

2010–

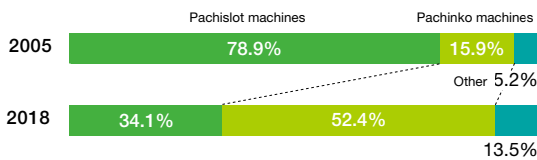
- Reduces costs by reusing components, etc. (pachislot and pachinko machines)
- Stops developing certain large, high-end machines (amusement machine sales)
- Streamlines number of titles under development (packaged games)
- Reduces R&D expenses and content production expenses (packaged games, amusement machine sales)



Long-Term Benefits of Structural Reform

Strengthening

Shift from Reliance on Pachislot Machines to a Balanced Portfolio (Net sales breakdown)



Our pachislot and pachinko machines have achieved a strong presence in their markets, and we have made progress in bolstering our business structure.

Rationalization

Optimizing Amusement Center Portfolio (Number of domestic amusement centers)



Streamlining the Number of Titles (Packaged games)



We have been rightsizing businesses in shrinking markets, such as those in the amusement center operations and the packaged games areas.

Refocusing Management Resources

Sales Growth in the Digital Games Area



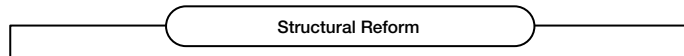
Personnel Dispatches for Accumulating Integrated Resort Insight



We have advanced business structure changes by concentrating management resources in the digital games area and the Resort Business, which we position as growth businesses.

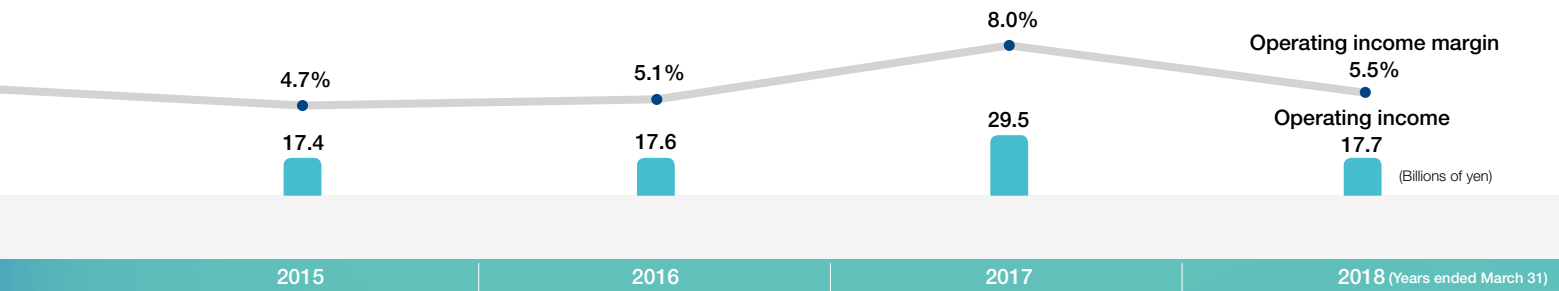
* Employees who are engaged in PARADISE CITY

The SEGA SAMMY Group has been reforming continuously since management integration in October 2014. Having established a solid platform by building a robust earnings structure through structural reform in fiscal 2015 and by strengthening its business portfolio management framework, the SEGA SAMMY Group set out Road to 2020, an initiative to achieve its long-term vision. Aiming to realize this vision and continuously grow corporate value, the Group will make concerted efforts to increase corporate value continuously through steady implementation of action plans.



Road to 2020

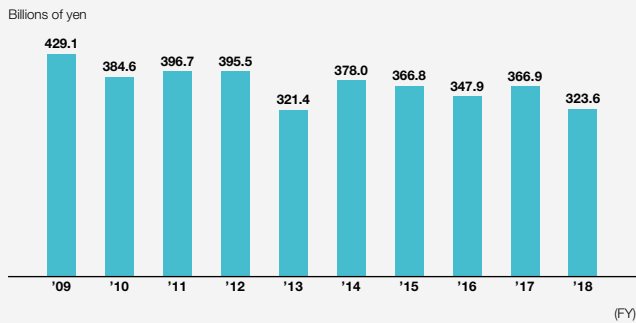
(Fiscal 2018 through Fiscal 2020) P. 38



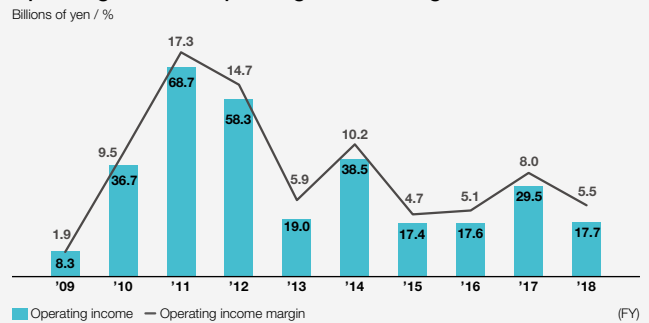
Cost Structure Reform	Business Structure Reform	Implementation Phase	To Growth Phase
<p>Reduced fixed expenses by ¥6 billion</p> <p>Clarified core businesses</p> <ul style="list-style-type: none"> Reorganized into three business segments <p>Pachislot and Pachinko Machines</p> <p>Entertainment Contents</p> <p>Resort</p> <hr/> <p>Restructured unprofitable and underperforming businesses drastically</p> <ul style="list-style-type: none"> Withdrew from unprofitable businesses Offered voluntary early retirement and took other measures <hr/> <p>Laid foundations for strengthening business portfolio management</p> <ul style="list-style-type: none"> Established separate companies Accelerated decision making <hr/> <p>Optimized personnel deployment</p> <ul style="list-style-type: none"> Reallocated personnel Focused resources on core businesses 	<p>Reviewed business portfolio</p> <p>Growth Businesses</p> <p>Digital Games</p> <p>Integrated Resort</p> <p>Other New Areas</p> <ul style="list-style-type: none"> Invested in growth businesses Grew sales <hr/> <p>Core Businesses</p> <p>Pachislot and Pachinko Machines</p> <p>Packaged Games</p> <p>Amusement Machine Sales</p> <p>Amusement Center Operations</p> <p>Animation</p> <ul style="list-style-type: none"> Reformed into profit structure Expanded fan base <hr/> <p>Improved Business Efficiency</p> <p>Pachislot and Pachinko Machines</p> <ul style="list-style-type: none"> Consolidated and streamlined development / production resources <p>Entertainment Contents</p> <ul style="list-style-type: none"> Disposed of non-core business 	<p>Implemented various initiatives</p> <p>Resort</p> <ul style="list-style-type: none"> Transfer of business (JOYPOLIS) Discontinuance of development of complex (Busan, South Korea) <hr/> <p>Packaged Games</p> <ul style="list-style-type: none"> Acquisition of PC game developer (Amplitude Studios SAS) <hr/> <p>Amusement Center Operations</p> <ul style="list-style-type: none"> Sold asset (Shinsaibashi, Osaka) <hr/> <p>Pachislot and Pachinko Machines</p> <p>ZEEG</p> <p>Joint venture ZEEG Co. Ltd. with Universal Entertainment Corporation</p>	<p>Implemented various initiatives</p> <p>Resort</p> <ul style="list-style-type: none"> Opened PARADISE CITY (April 20, 2017) Accumulated know-how on integrated resorts <p>©PARADISE SEGASAMMY Co., Ltd. All rights reserved.</p>

Business Trends

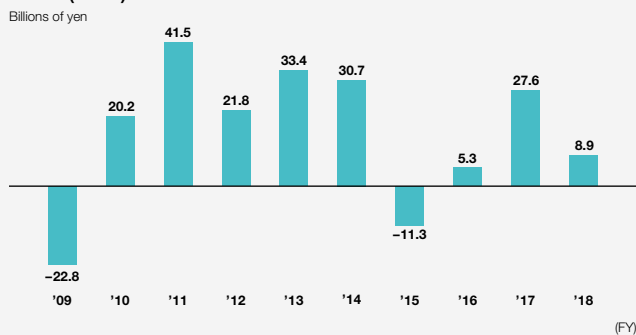
Net Sales*1



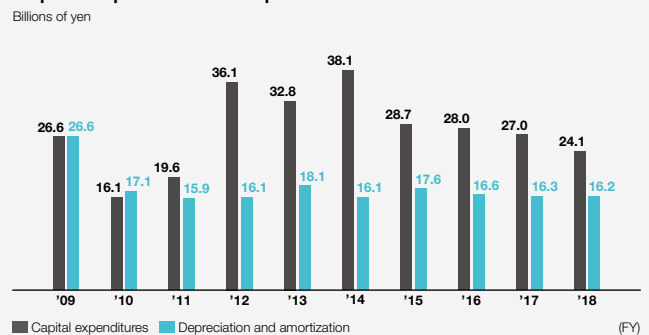
Operating Income / Operating Income Margin



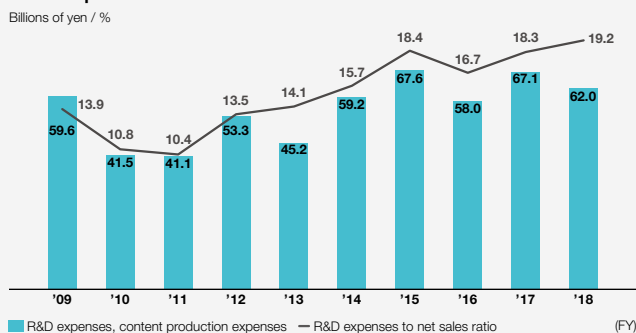
Profit (Loss) Attributable to Owners of Parent*2



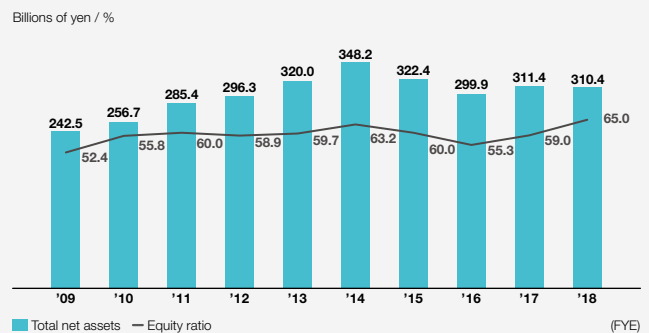
Capital Expenditures / Depreciation and Amortization*3



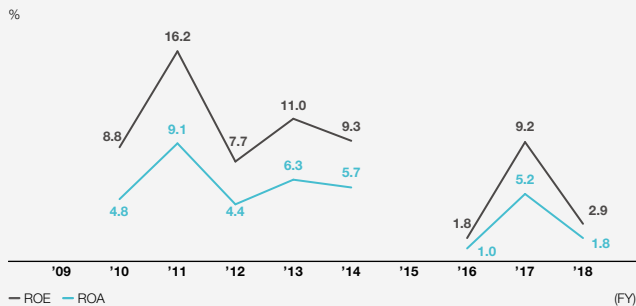
R&D Expenses, Content Production Expenses*3 / R&D Expenses to Net Sales Ratio



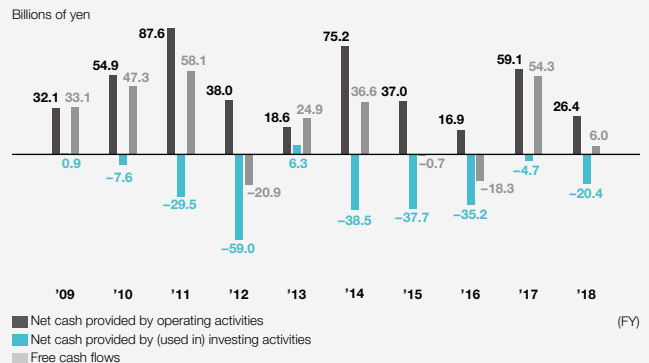
Total Net Assets / Equity Ratio



ROE / ROA*4



Cash Flows



*1 As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal 2016, figures for fiscal 2015 reflect these changes retrospectively.

*2 The Company has adopted the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and has presented "net income (loss)" as "profit (loss) attributable to owners of parent" from fiscal 2016.

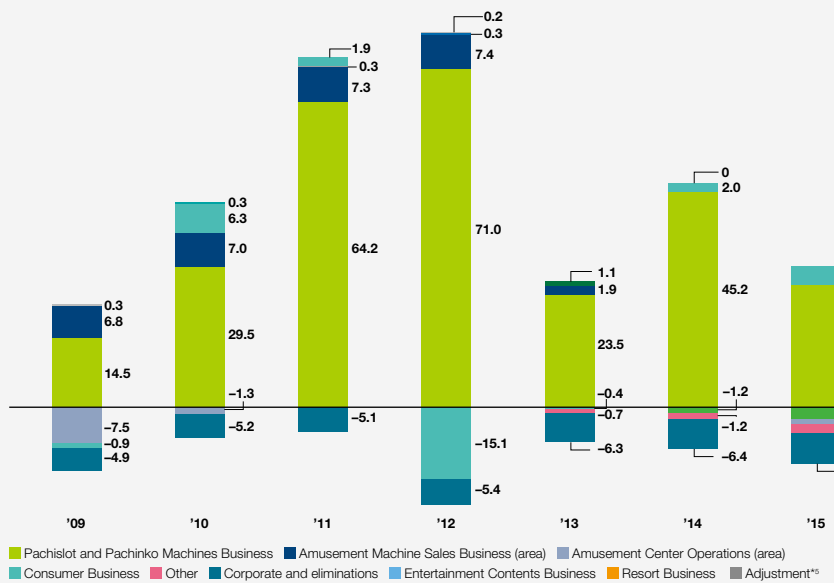
*3 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

*4 ROA = Profit attributable to owners of parent ÷ Total assets

*5 As of the fiscal 2016 change in segmentation, elimination of inter-segment transactions and general corporate expenses that are not allocated to the reporting segment are included in the adjustment to segment income (loss).

Operating Income (Loss) by Segment

Billions of yen



New Segmentation

Operating Income (Loss) of the Entertainment Contents Business

(Billions of yen)

(FY)	'15	'16	'17	'18
Digital games	8.0	(0.4)	4.9	3.3
Packaged games	(2.7)	2.4	2.6	6.5
Amusement machine sales	(3.9)	(0.1)	1.7	2.7
Amusement center operations	0.9	1.8	2.2	2.7
Animation and toys	(1.7)	0.6	1.2	2.0
Other and eliminations	(0.6)	(0.1)	(1.5)	(2.4)



Operating Income Margin by Segment

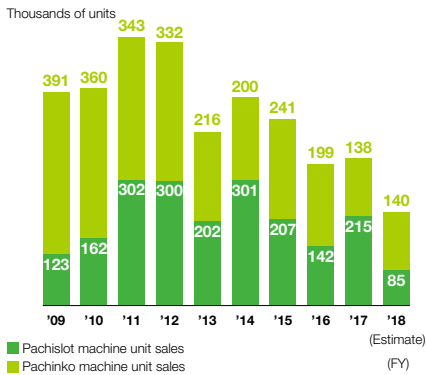
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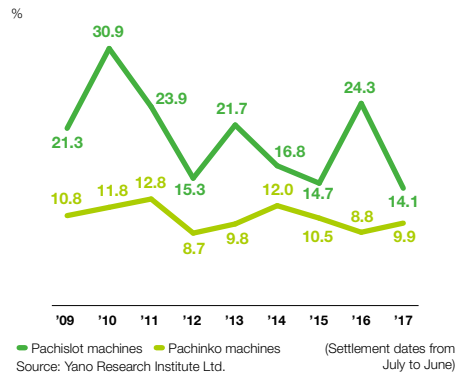
Operating Data

Pachislot and Pachinko Machines Business

Pachislot and Pachinko Machine Unit Sales

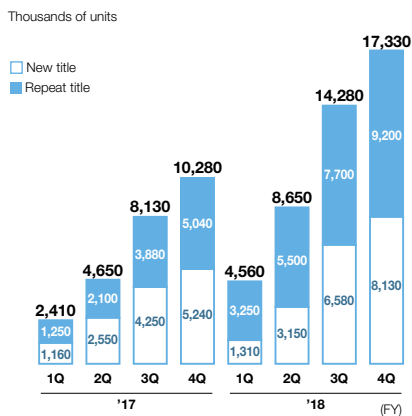


Market Share of Pachislot and Pachinko Machines

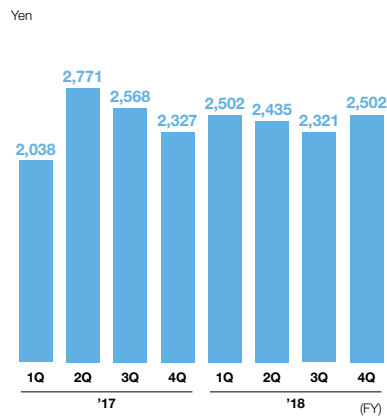


Entertainment Contents Business

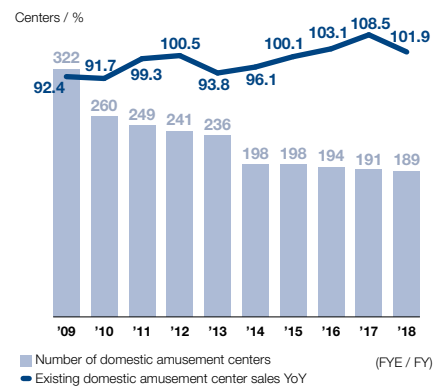
Home Video Game Unit Sales (Cumulative)



Average ARPMAU*1



Number of Domestic Amusement Centers*2 / Existing Domestic Amusement Center Sales YoY*3



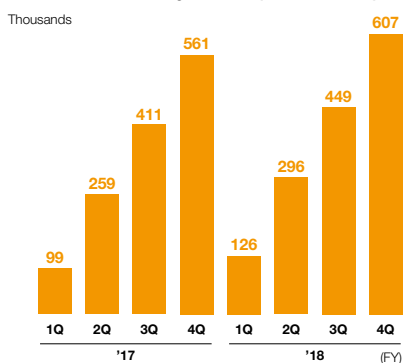
*1 Calculated from dividing sales by monthly active users (MAU). Figures are on a quarterly basis.

*2 The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the aggregate calculation method for the number of amusement centers has changed as of fiscal 2014.

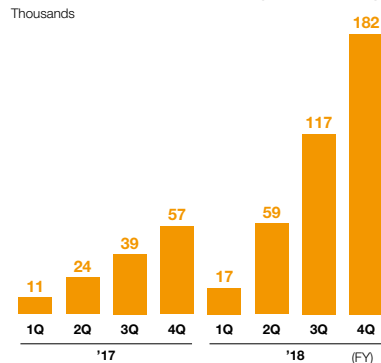
*3 As a result of the abovementioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal 2014.

Resort Business

PHOENIX RESORT: Number of Facility Users (Cumulative)



PARADISE CITY: Number of Casino Users (Cumulative)*4



*4 Figures for PARADISE SEGASAMMY Co., Ltd., are recorded with a three months delay.

Shareholder Value

We will meet shareholders' expectations by heightening shareholder value through the provision of stable returns to shareholders and the steady implementation of growth strategies.

Returning Profits to Shareholders—Policy, Results, and Outlook

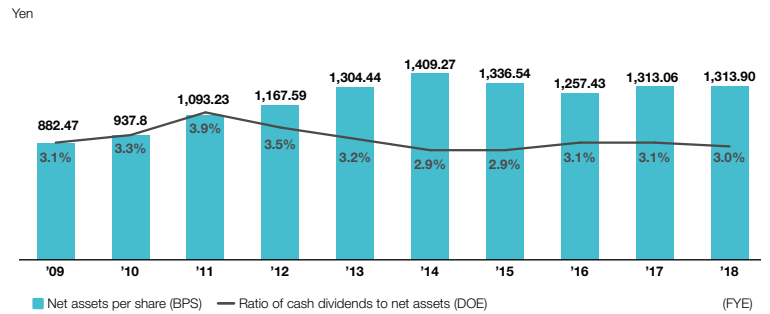
While directly returning profits to shareholders through stable cash dividends, we will retain the option of acquiring treasury stock in response to share price levels. Meanwhile, we will increase shareholder value continuously while taking care to balance strategic investment to win out against competitors in growth areas and to secure internal reserves needed for a further integrated resort business.

For fiscal 2018, we paid cash dividends of ¥40.00 per share. As a result, the ratio of cash dividends to net assets (DOE) was 3.0%.

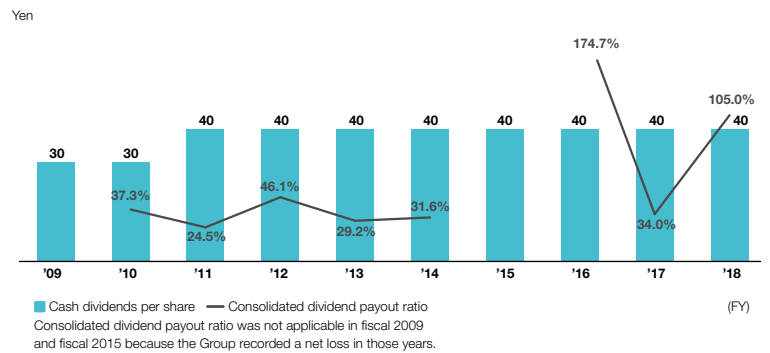
For fiscal 2019, we plan to pay interim cash dividends of ¥20.00 per share and year-end cash dividends of ¥20.00 per share, giving full-year cash dividends of ¥40.00 per share as same as in fiscal 2018

We have introduced shareholder incentive program from the year ending march 31, 2018.

Net Assets per Share (BPS) / Ratio of Cash Dividends to Net Assets (DOE)



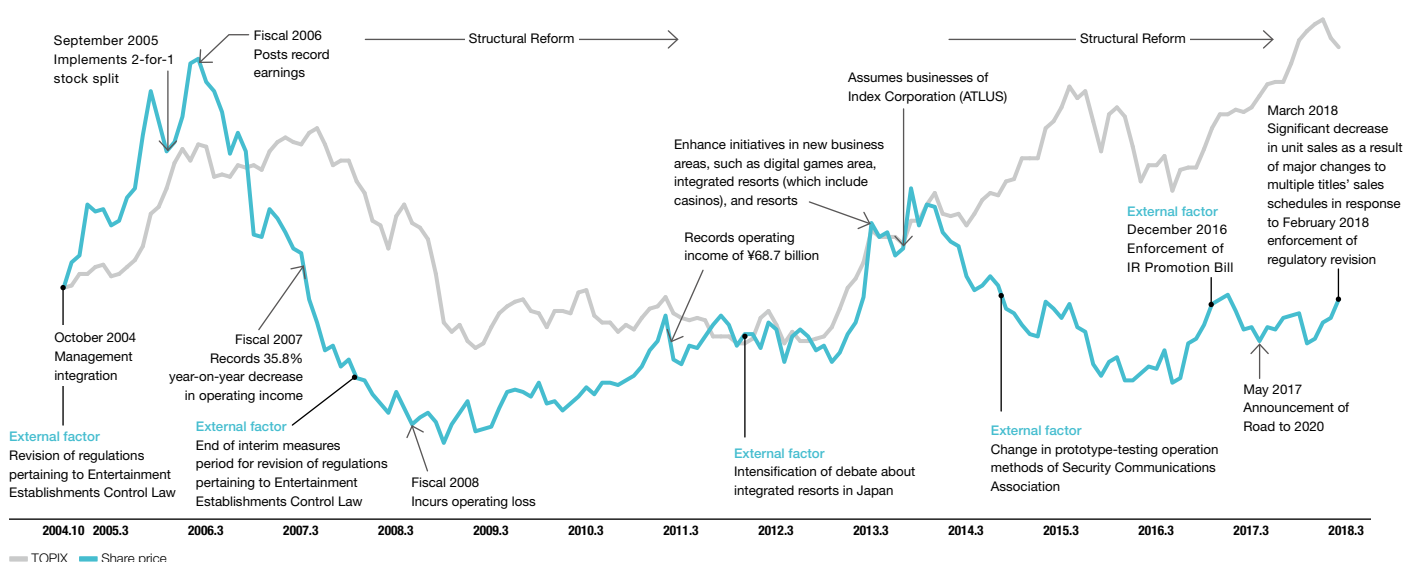
Cash Dividends per Share / Consolidated Dividend Payout Ratio



Acquisition of Shares of Treasury Stock

(FY)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	-	-	-	-	-	14 million shares	5 million shares	10 million shares	-	10 million shares	-	-	-

Comparison of Stock Price and Tokyo Stock Price Index (TOPIX) (Comparison based on monthly closing prices and value of 1 for October 2004 management integration)



Financial Data

Years ended March 31

	2012	2013	2014	2015*6	2016
Net sales	¥395,502	¥321,407	¥378,011	¥366,813	¥347,981
Gross profit	161,663	116,938	147,970	135,371	127,372
Selling, general and administrative (SG&A) expenses	103,279	97,865	109,437	117,876	109,754
Operating income	58,384	19,073	38,533	17,495	17,617
EBITDA*1	74,542	37,254	58,276	39,242	38,632
Profit (loss) attributable to owners of parent*2	21,820	33,460	30,721	(11,375)	5,369
R&D expenses, content production expenses*3	53,348	45,294	59,219	67,622	58,042
Capital expenditures	36,141	32,871	38,182	28,780	28,046
Depreciation and amortization*3	16,158	18,181	16,182	17,615	16,625
Net cash provided by operating activities	38,023	18,603	75,201	37,010	16,906
Net cash provided by (used in) investing activities	(59,012)	6,396	(38,547)	(37,734)	(35,280)
Net cash provided by (used in) financing activities	914	(1,116)	(11,512)	(15,058)	14,285
Free cash flows*4	(20,989)	24,999	36,654	(724)	(18,373)
Total assets	497,451	528,504	542,936	528,659	532,957
Total net assets	296,376	320,034	348,270	322,452	299,950
Number of shares outstanding (Shares)	266,229,476	266,229,476	266,229,476	266,229,476	266,229,476
Number of employees (Employees)	6,700	7,008	7,472	7,888	7,606
Net sales per employee	59.0	45.9	50.6	46.5	45.8

Per Share Data	2012	2013	2014	2015*6	2016
Net income (loss)	¥ 86.73	¥ 137.14	¥ 126.42	¥ (46.70)	¥ 22.90
Diluted net income	86.54	136.85	125.39	—	22.90
Total net assets	1,167.59	1,304.44	1,409.27	1,336.54	1,257.43
Cash dividends	40.00	40.00	40.00	40.00	40.00

Key Ratios	2012	2013	2014	2015*6	2016
Gross profit margin	40.9	36.4	39.1	36.9	36.6
SG&A ratio	26.1	30.4	29.0	32.1	31.5
Operating income margin	14.7	5.9	10.2	4.7	5.1
R&D expenses to net sales	13.5	14.1	15.7	18.4	16.7
ROE	7.7	11.0	9.3	—	1.8
ROA*5	4.4	6.3	5.7	—	1.0
Equity ratio	58.9	59.7	63.2	60.0	55.3

*1 EBITDA = Operating income (loss) + Depreciation and amortization; since fiscal 2014, calculations have been based on the inclusion of amortization cost of digital game titles in depreciation and amortization.

*2 The Company has adopted the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and has presented "net income (loss)" as "profit (loss) attributable to owners of parent" from fiscal 2016.

*3 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.

*4 Free cash flows = Net cash provided by operating activities + Net cash provided by (used in) investing activities

*5 ROA = Profit attributable to owners of parent ÷ Total assets

*6 As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal 2016, figures for fiscal 2015 reflect these changes retrospectively.

Millions of yen, unless otherwise stated

	2017	2018
	¥366,939	¥323,664
	135,678	120,734
	106,150	103,013
	29,527	17,720
	50,088	36,900
	27,607	8,930
	67,102	62,087
	27,063	24,196
	16,346	16,208
	59,126	26,487
	(4,767)	(20,422)
	(38,334)	(28,780)
	54,359	6,065
	521,599	473,505
	311,497	310,456
	266,229,476	266,229,476
	7,639	7,726
	48.0	41.9

Yen

	2017	2018
	¥ 117.79	¥ 38.10
	117.40	38.04
	1,313.06	1,313.90
	40.00	40.00

%

	2017	2018
	37.0	37.3
	28.9	31.8
	8.0	5.5
	18.3	19.2
	9.2	2.9
	5.2	1.8
	59.0	65.0

Millions of yen, unless otherwise stated

Pachislot and Pachinko Machines Business	2016	2017	2018
Net sales	¥141,037	¥148,222	¥105,649
Operating income	20,955	26,331	11,923
Operating income margin (%)	14.9	17.8	11.3
R&D expenses, content production expenses	18,583	18,883	16,480
Capital expenditures	5,014	5,871	3,656
Depreciation and amortization	7,913	5,844	5,364
Pachislot machine unit sales (Units)	142,337	215,736	85,041
Pachinko machine unit sales (Units)	199,014	138,321	140,013

Entertainment Contents Business	2016	2017	2018
Net sales	¥190,551	¥205,704	¥208,081
Operating income	4,216	11,176	14,841
Operating income margin (%)	2.2	5.4	7.1
R&D expenses, content production expenses	39,222	48,129	27,228
Capital expenditures	17,867	16,668	17,254
Depreciation and amortization	11,437	8,719	9,103
Number of domestic amusement centers (Centers)	194	191	189
Existing domestic amusement center sales year on year (%)	103.1	108.5	101.9
Home video games unit sales (Thousands)	9,220	10,280	17,330

Resort Business	2016	2017	2018
Net sales	¥ 16,392	¥ 13,012	¥ 9,932
Operating loss	(1,825)	(2,244)	(2,502)
Operating income margin (%)	—	—	—
R&D expenses, content production expenses	591	237	154
Capital expenditures	5,045	4,506	1,961
Depreciation and amortization	1,047	1,162	1,026

IP Portfolio

Examples of Intellectual Properties Acquired through M&As



Pachislot and Pachinko Machines



Packaged Games



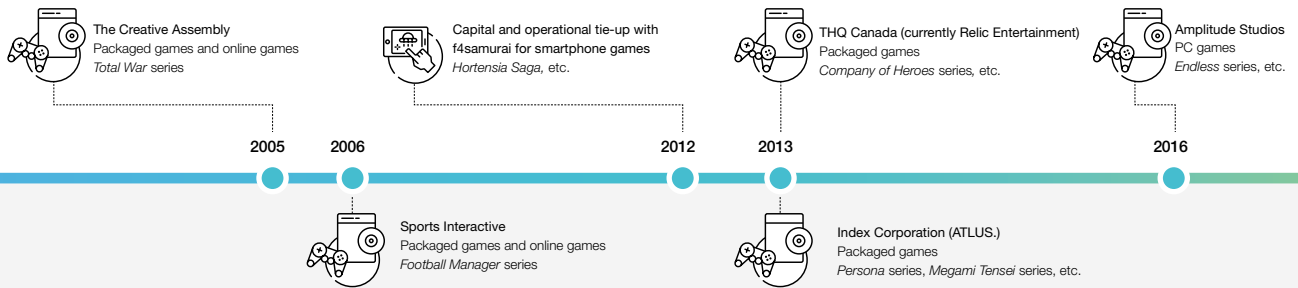
Digital Games



Amusement Machine Sales



Toys, etc.



Examples of acquired intellectual properties

Intellectual property title	First appearance	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
Megami Tensei series	1987		30	Approx. 12.4 million (Units / DL) (packaged and digital ³ total)
Persona series	1996		15	Approx. 9.3 million (Units / DL) (packaged and digital total)
Etrian Odyssey series	2007		10	Approx. 1.9 million (Units / DL) (packaged and digital total)
Total War series	2000		—	Approx. 22.0 million (Units / DL ^{*3}) (packaged and digital ³ total)
Football Manager series	2005		—	Approx. 18.1 million (Units / DL) (packaged and digital total)

Examples of intellectual properties developed in-house

Intellectual property title	First appearance	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
Sonic the Hedgehog series	1991		—	Approx. 800 million (Units / DL ^{*3}) (packaged and digital ³ total)
Puyo Puyo series	1991 ^{*1}		—	Approx. 27.0 million (Units / DL ^{*3} / ID) (packaged and digital ³ , AM-registered ID total (total for registrations after IP acquisition))
Ryu ga Gotoku series	2005		92	Approx. 11.0 million (Units / DL) (packaged and digital total)
ALADDIN series	1989		14	Approx. 570 thousand units (pachislot and pachinko machines and amusement machine total)
Beast King series	2001		15	Approx. 490 thousand units (pachislot and pachinko machines and amusement machine total)
PHANTASY STAR series	1987		—	Approx. 5.0 million ID ^{*2} (cumulative total for registered IDs)
CHAIN CHRONICLE series	2013		3	Approx. 15.0 million DL ^{*3} (packaged and digital ³ total)

^{*1} SEGA CORPORATION acquired the rights in 1998. Figures for cumulative unit sales are the totals for titles that SEGA sold after acquiring the rights.

^{*2} Total for PHANTASY STAR ONLINE 2

^{*3} Including downloads of free-to-play titles

Examples of intellectual properties licensed from third parties

SEGA feat. HATSUNE MIKU Project series	2009		61	Approx. 6.0 million units (packaged and digital total)
Hokuto No Ken series	2002		33	Approx. 2.74 million units (pachislot and pachinko machines and amusement machine total)
SOUTEN-NO-KEN series	2009		9	Approx. 440 thousand units (pachislot and pachinko machines total)

Relationship between IP and Business Sustainability

IP are a wellspring of value creation. Entertainment companies possessing competitive IP are able to secure stable earnings, which in turn can be utilized to further increase the value of these properties. Accordingly, the competitiveness of entertainment companies hinges on their ability to generate new IP, discern the value of properties licensed from outside, and develop systems for protecting their IP.

IP Strategy under Road to 2020

We have classified IP into four categories, and are utilizing IP strategically with a view to further business expansion.

Use More Intellectual Properties

Existing IP



Team Sonic Racing
©SEGA



SHIN MEGAMI TENSEI Liberation D×2
©SEGA/©ATLUS



Ryu ga Gotoku ONLINE
©SEGA



BORDER BREAK
©SEGA



IDOLA PHANTASY STAR SAGA
©SEGA

* Latest title in the PHANTASY STAR series

New IP



WONDER GRAVITY -BEST
BUDDY: PINO & GRAVITOR-
©SEGA・I4samurai



Readdy!
©SEGA

Revived IP



Shenmue I&II
©SEGA



New Sakura Wars (working title)
©SEGA

Outside IP



Hokuto ga Gotoku
©SEGA ©Buronson & Tetsuo Hara/
NSP 1983 Approved No.GA-217



Fate/Grand Order Arcade
©TYPE-MOON/FGO ARCADE
PROJECT

Leverage the distinctive characteristics of IP to realize multi-channel sales
(mobile devices, PCs, consoles)

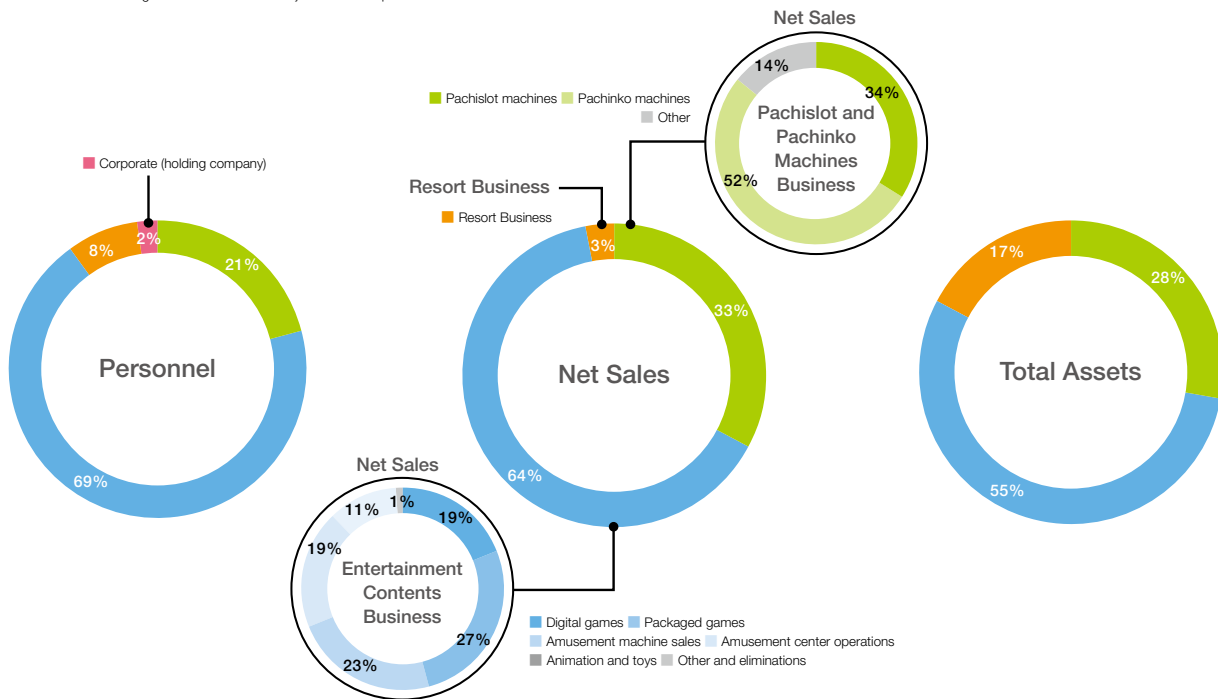
Strengthen publishing and localization and aim for simultaneous worldwide releases
(Asia, Europe, the U.S.)

A Bird's-Eye View of the SEGA SAMMY Group

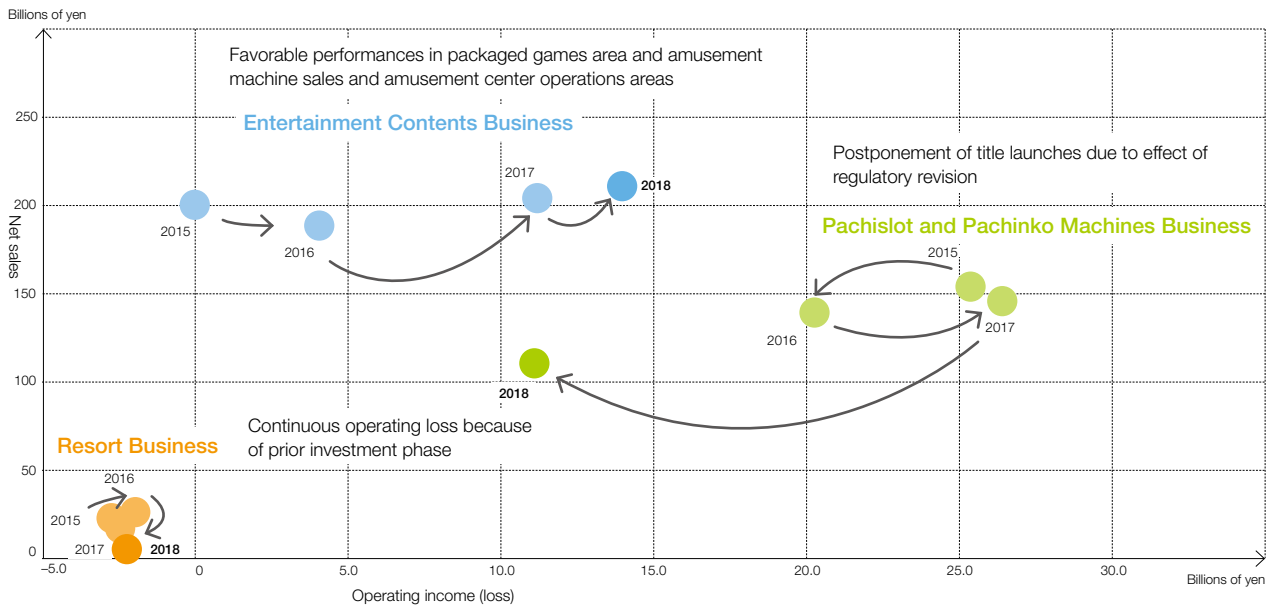
The SEGA SAMMY Group offers entertainment in a wide range of fields. As well as the Pachislot and Pachinko Machines Business, the Group operates the Entertainment Contents Business—comprising game contents such as digital games and packaged games, amusement machines, amusement centers, animation and toys—and the Resort Business, which aims to successfully establish integrated resorts.

Breakdown of Net Sales, Personnel, and Total Assets in Fiscal 2018

* Before elimination of inter-segment transactions and adjustment of corporate assets



Performance in Recent Fiscal Years

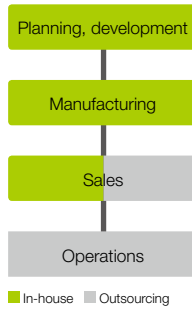


Our Positions in Industry Value Chains



Pachislot and Pachinko Machines Business

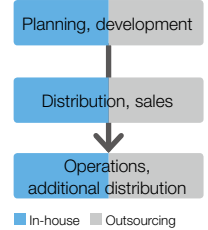
We conduct development, manufacturing, and sales in-house to enable us to cater to intensive short-term demand and develop products that reflect market demand. In recent years, we have been developing some machine cabinets through a joint venture company (ZEEG Co. Ltd.) with the aim of heightening the efficiency of the industry as a whole by establishing standardized machine cabinet platforms.



Entertainment Contents Business

Digital Games

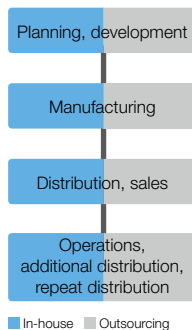
Specializing in planning, development, and distribution, this business plans, develops, distributes, and operates PC online games and games for smart-phones. The business offers a diverse range of titles, including not only titles that use in-house IP but also titles that use third party's IP.



Entertainment Contents Business

Packaged Games

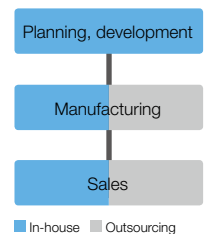
Since withdrawing from hardware sales in 2001, this business has been dedicated to rolling out software for multiple platforms. Because the online compatibility of packaged games is steadily rising, operations after releases are vital in the same way that they are with digital games. Also, repeat sales are becoming increasingly important.



Entertainment Contents Business

Amusement Machine Sales

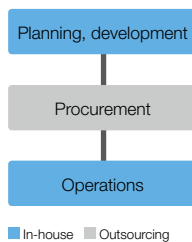
This business employs various business models. As well as planning, developing, and operating titles in-house, it jointly plans and develops titles and uses a revenue-sharing business model in which we share revenues from the utilization of the amusement machines with operators after the sales of titles. In addition, the business manufactures and sells such products as the *UFO CATCHER* prize game machine.



Entertainment Contents Business

Amusement Center Operations

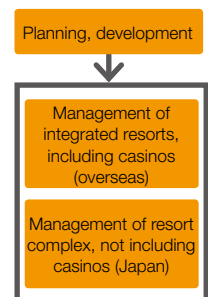
In Japan, we plan and develop amusement centers and operate them based on equipment procured from within the Group and external manufacturers. As well as traditional amusement centers, the business exploits SEGA's distinctive features to develop facilities in new areas under different business formats.



Resort Business

IR Capabilities

We have the ability to provide the wide range of products and services that are required for integrated resorts by drawing on our collective capabilities as a comprehensive entertainment corporate group. These include know-how with respect to the management of integrated resorts, which we are accumulating at *PARADISE CITY* in South Korea, and *PHOENIX RESORT*'s experience in the management of resort hotels.



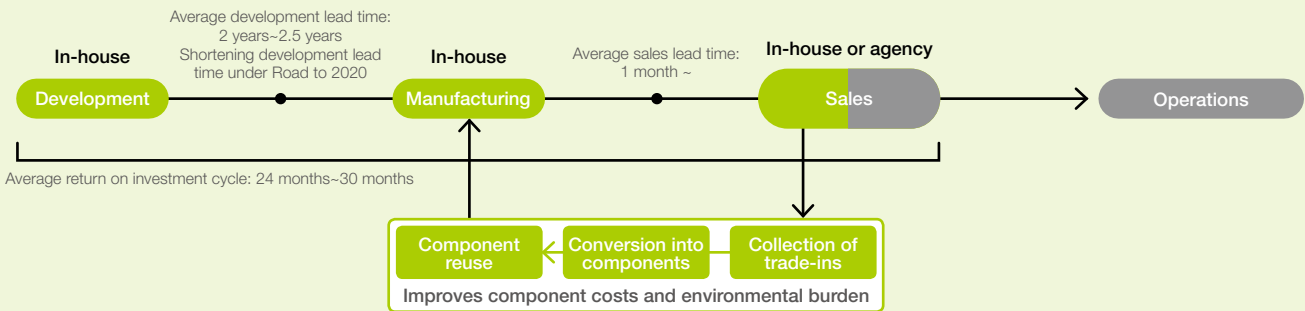
The Business Models of the Main Business Segments

The SEGA SAMMY Group advances business activities across an expansive area in the entertainment sector, and its business models in each field are markedly different. Moreover, we tirelessly adapt our business models to better reflect changes in operating environments.

Pachislot and Pachinko Machines Business

Features of this business are the susceptibility of product cycles and profit margins to new machine installations and utilization rates at pachinko halls as well as the high percentage of costs for which electronic components account. We are taking measures to realize efficient development while reusing more components to increase cost effectiveness.

Value Chain of the Pachislot and Pachinko Machines Business

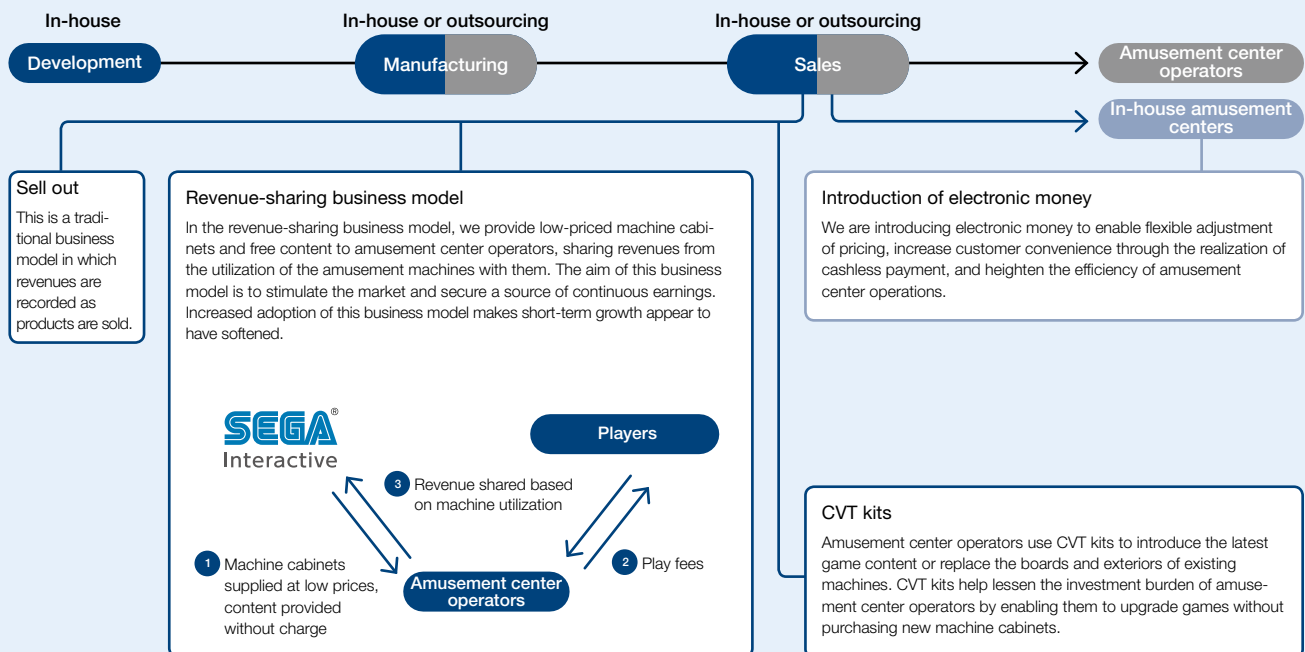


Amusement Machine Sales Area

Amusement Center Operations Area

In the amusement machine sales area, we have a fabless business model. We focus on planning, design, and development and contract manufacturing to partner companies. Also, we are diversifying sales models to stimulate the market. In the amusement center operations area, our business model is based on capital investment.

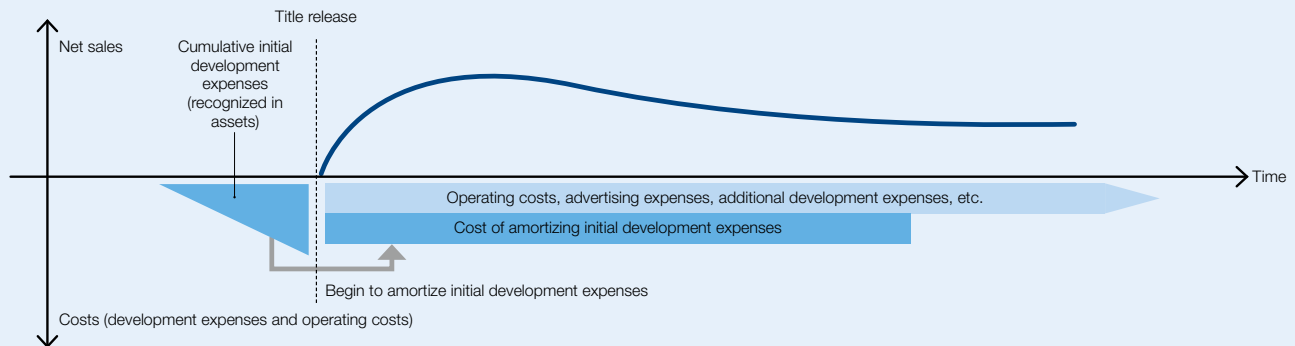
Supply Chain of the Amusement Machine Sales Area



Digital Games and Packaged Games Areas

In the digital games area, free-to-play (F2P) is the most common business model. This model entails continuously investing in apps after their release to extend their lifetimes while recovering initial investments (development and advertising costs). In the packaged games area, as well as selling standard packaged games through stores, we are strengthening online compatibility such as download sales, which is resulting in the increasing emergence of long-tail sales patterns.

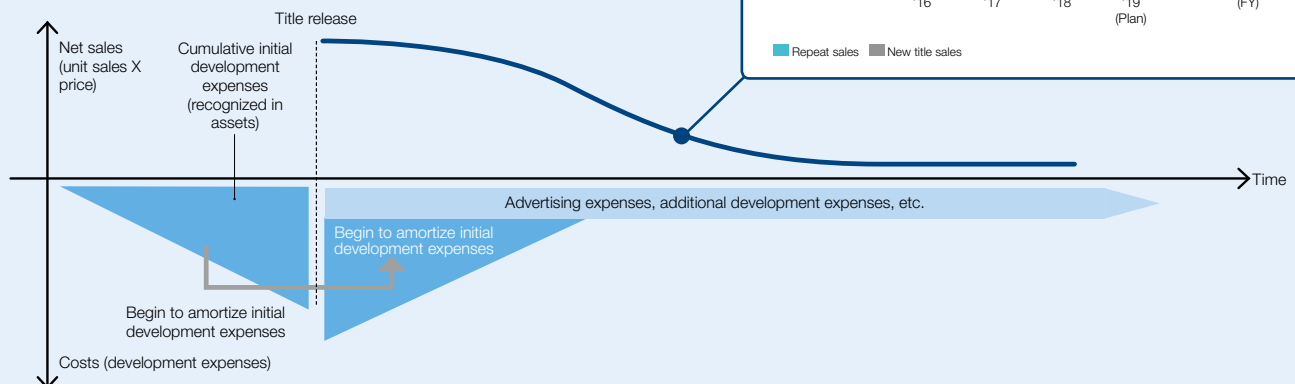
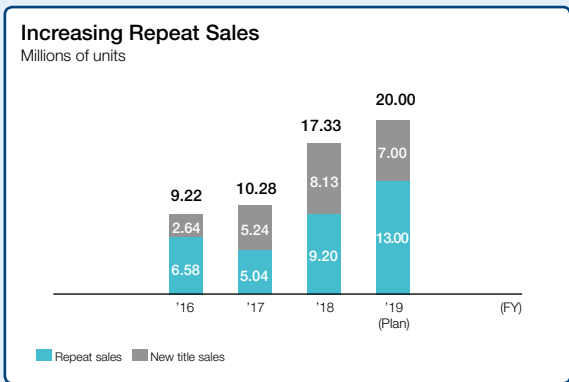
Earnings in a Business Model for F2P Digital Games



Earnings in a Business Model for Packaged Games

For packaged games, the long-tail sales pattern is progressing in download sales.

Further, in recent years a rise in repeat sales has been helping to lift the basic levels of unit sales and improve profitability.

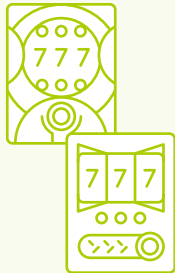


The SEGA SAMMY Group Going Forward

The Business Environment Surrounding the SEGA SAMMY Group

The Group conducts business activities in domains with differing industry characteristics and a variety of business environments. We focus on the business environment from a medium- to long-term perspective and continue to take the steps necessary for expanding corporate value.

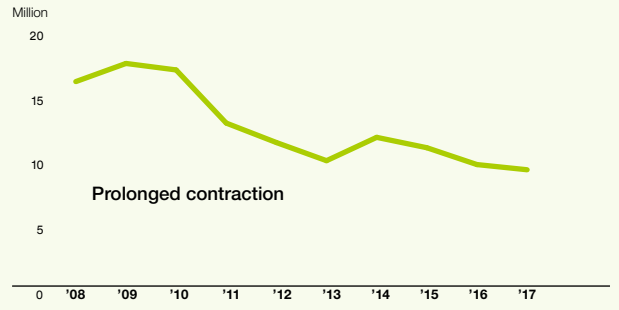
Business Environment



● Pachislot and Pachinko Machines Business

Since September 2014, the gradual strengthening of regulations has affected the market, causing declines in unit sales among other challenges. Going forward, while conforming to new rules and in addition to the degree to which we are able to create gameplay that appeals to users, we expect that durability and other machine quality issues will also become elements of differentiation and assume the disparities among manufacturers will widen even further.

Number of Pachinko and Pachislot Players



Source: White Paper on Leisure Industry 2018, Japan Productivity Center (CY)

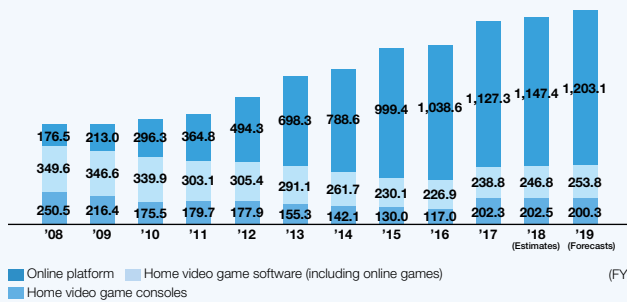


● Entertainment Contents Business

The F2P smartphone game app business model has broadened the range of users, but in recent years the pace of growth has been slowing steadily as the spread of smartphones has reached the end of a cycle. In the amusement center operations market, the player population has been trending toward long-term decline, but in recent years it has bottomed out and is beginning to improve.

Value of Japan's Home Video Game and Online Platform Markets

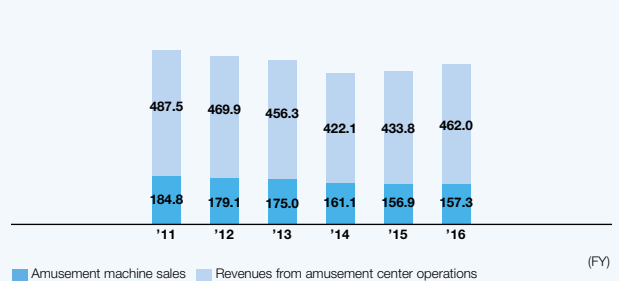
Billions of yen



Source: Famitsu Game White Paper 2018

Amusement Machine Sales / Revenues from Amusement Center Operations

Billions of yen

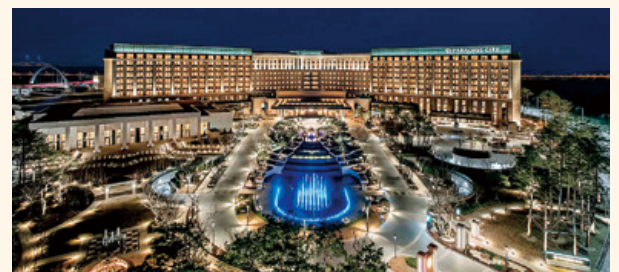


Source: Amusement Industry Survey 2016, JAIA (FY)



● Resort Business

As the Integrated Resort (IR) Implementation Bill, which includes casinos, went into effect in July 2018, a movement toward the full-fledged establishment of integrated resorts, which are positioned as the trump card in the government's plan to make Japan a travel destination goes underway. Numerous companies including global corporations have announced participation in integrated resorts in Japan and they are moving forward with preparations aimed at facility openings in the 2020s. We assume operator selection will be based on a variety of criteria including capital resources, operational know-how, and compliance.



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Assumed Opportunities and Risks Going Forward

Opportunities

Widening of the gap between winners and losers: Development capabilities, financial resources, and strong product reliability will differentiate the Group in the expected widening of the gap between winners and losers in the pachislot and pachinko machine market, enabling the Group to enjoy the benefit of being an industry survivor.

Risks

Regulatory risks: The strengthening of regulations has a direct impact on the sales of pachislot and pachinko machines.

Decline in player population: A decreasing player population lowers pachinko hall operators' ability to undertake capital investment and affects unit sales.

Opportunities

Packaged games market expansion: The packaged games market is expanding due to the spread of current-generation platforms.

Trend toward high-end digital content: The trend toward high-end apps due to advances in device functionality and telecommunications infrastructure is providing a tailwind for the Group given its development capabilities and financial resources.

Growth potential of overseas digital games markets: There is significant growth potential for the app market overseas, particularly in parts of East Asia that have a cultural affinity with Japan.

Risks

Intensification of competition in Japan's digital games market: Due to intensifying competition resulting from softening growth and market saturation, the risk of being unable to achieve envisioned returns on investments is increasing. (Digital games area)

Oligopoly in the global digital games market: Popularity is becoming increasingly focused on major titles that have earned long-standing player endorsement. (Digital games area)

Opportunities

Establishment of the integrated resort industry in Japan: The realization of integrated resorts in Japan could become a major business opportunity for the Group.

Risks

Delays in domestic integrated resort legislation delays: Delays in the development of integrated resort-related legislation will have a substantial impact on the Group's long-term scenario.

Responses

- Promote reuse
- Develop an industry platform
- Improve development efficiency
- ▶ P. 44, P. 52
(Special Feature, Business Strategy by Segment)
- BtoC* measures

* Business to consumer: A form of business where transactions are conducted directly between a company and general consumers.

- Create global hit titles
- Expand overseas publishing business
- Maintain earnings through long-term management of existing titles
- Develop titles for next-generation consoles, etc.
- Maximizing the value of intellectual portfolio
- ▶ P.48, P.56
(Special Feature, Business Strategy by Segment)

Acquire know-how for success in the integrated resort business

- ▶ P. 62
(Business Strategy by Segment)

Group Strategy—Road to 2020



Having established a solid platform by building a robust earnings structure during a structural reform phase and by strengthening its business portfolio management framework, the SEGA SAMMY Group set out a long-term vision. Aiming to realize this vision, we established Road to 2020, an initiative targeting fiscal 2020. In a concerted effort, the Group will implement concrete measures and overcome uncertain business conditions to realize medium-term performance targets and achieve continuous increases in corporate value over the long term.

Mission Pyramid

At the same time as implementing strategies, we are encouraging a change of mindset among employees. As part of these efforts, we have embedded Road to 2020, (covering fiscal 2018 through fiscal 2020) into a mission pyramid that comprises the unchanging components of our DNA: a value, a mission (raison d’être), a vision (ideal self), and a goal (specific target).

Value (Mindset / DNA)

“Creation is Life” × “Always Proactive, Always Pioneering”

Mission
(Raison d’être)

“Continuing to create moving experiences”
— Making life more colorful —

Be a Game Changer

Vision
(Ideal self)

Pachislot and Pachinko Machines

Sammy...the wellspring of new ideas as an innovator in the industry

Entertainment Contents

Be a Game Changer

Resort

Be an Experiential Innovator

Goal
(Specific target)

Operating income margin: At least 15% ROA*1: At least 5%

Operating income margin: At least 30%*2

Sales: At least ¥300.0 billion
Operating income: At least ¥30.0 billion
Operating income margin: At least 10%

Succeed in IR businesses
Enhance brand value

*1 ROA = Profit attributable to owners of parent ÷ Total assets

*2 Operating income margin of the Pachislot and Pachinko Machines Business excluding other and eliminations

Medium-Term Goals

We are transitioning into a phase of implementing measures aimed at making dramatic progress in the closing stages of Road to 2020. We intend to take measures that strengthen business portfolio management, enhance efficiency and growth simultaneously, and increase our profit margin.

Reinforce earnings base ▶ Enter new growth areas

Fiscal 2019 (Plan)

Operating income margin 5.4%
(Excluding relocation expenses associated with consolidation of head office functions 7.3%)

Pachislot and Pachinko Machines Business operating income margin 15.2%

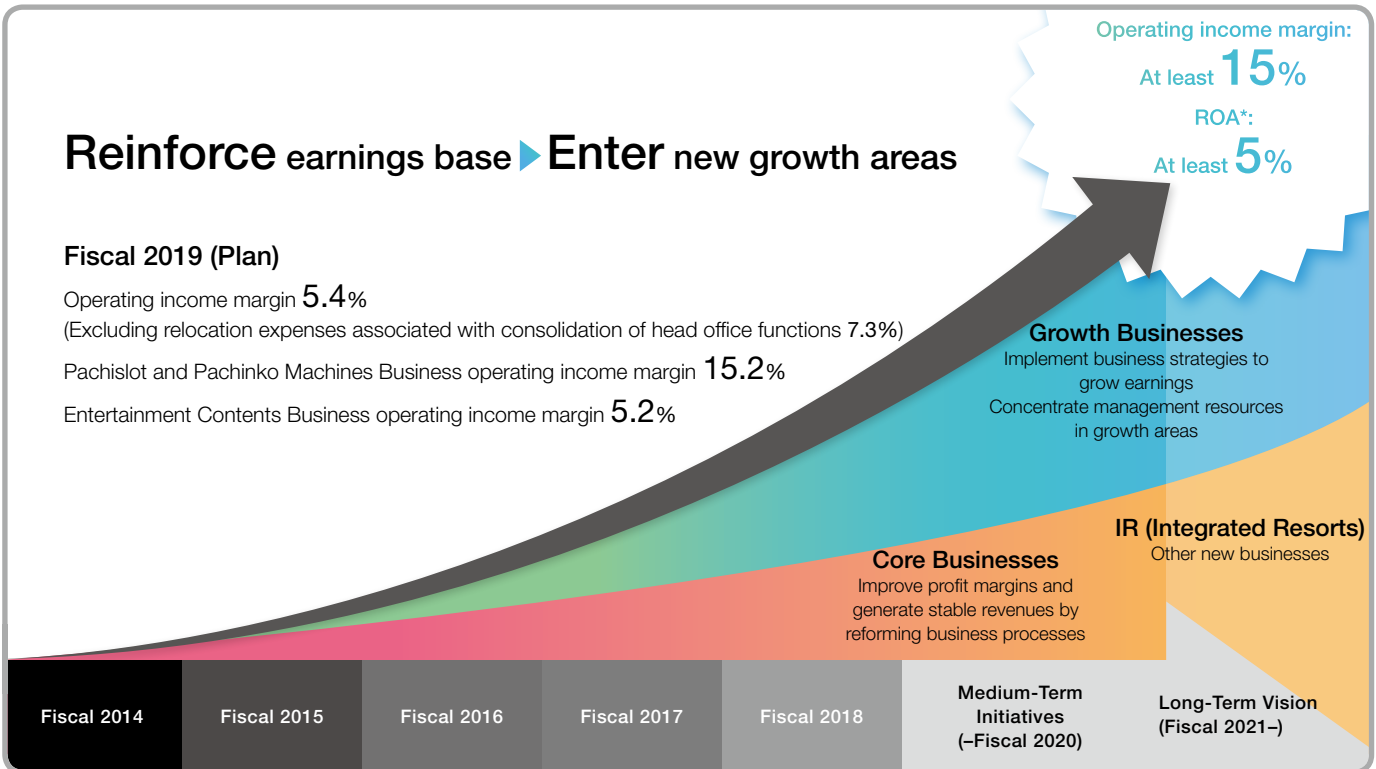
Entertainment Contents Business operating income margin 5.2%

Operating income margin:

At least 15%

ROA*:

At least 5%

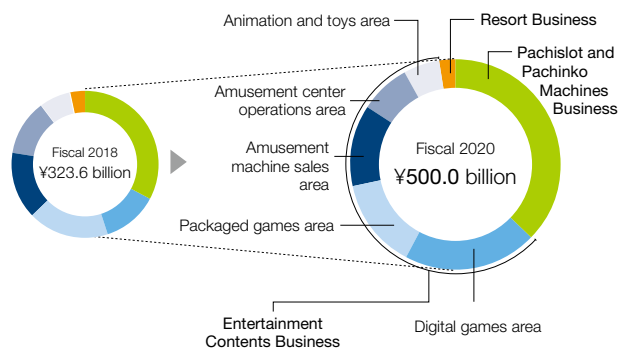


* ROA = Profit attributable to owners of parent ÷ Total assets

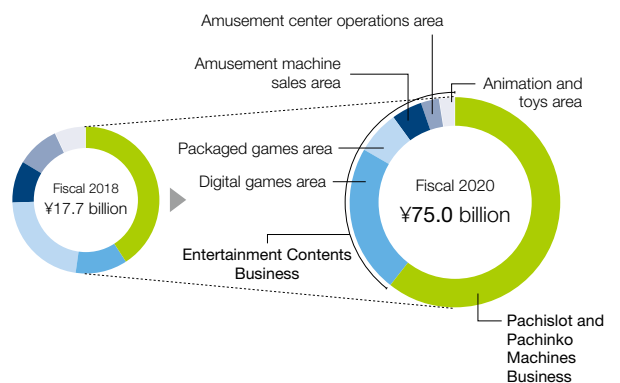
Portfolio Shift

Set the digital games area as the driver for increasing in net sales and operating income. Meanwhile, we anticipate an increase in the profitability of the Pachislot and Pachinko Machines Business.

Net Sales Breakdown



Operating Income Breakdown*



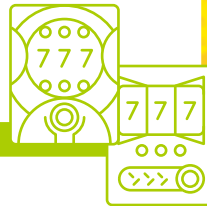
* Excluding the Resort Business, which is expected to record an operating loss of ¥1.0 billion

Road Map to Corporate Value Enhancement

The Group will unfailingly execute the following measures to continue exceeding the expectations of its customers, society and shareholders sustainably over the long term.

Surpass Customers' Expectations

Pachislot and Pachinko Machines Business



- 1 **Improve development efficiency**
 - ➔ Realize machine quality improvements and product launches in peak by shortening development periods
- 2 **Use ZEEG machine cabinets and strengthen reuse**
 - ➔ Enhance product capabilities, strengthen reuse efficacy, and build an industry platform through the use of high-quality machine cabinets
- 3 **Respond to regulatory revisions, implement BtoC measures**
 - ➔ Develop new machines compliance with regulatory revisions, expand fan base by implementing BtoC measures

Entertainment Contents Business



- 1 **Create titles that become global hits**
 - ➔ Reshuffle organizational structure, review product quality with awareness of user evaluations to achieve IP-centric innovations
- 2 **Shift from device-oriented to IP-oriented organization**
 - ➔ Studios take IP inventory and implement title strategies for each IP studio
- 3 **Optimize organizational structure for global deployment**
 - ➔ Expand overseas publishing, localize in accordance with local needs and early release overseas

Resort Business



- 1 **Acquire know-how to succeed in the integrated resort in Japan**
 - ➔ Implement value chain analysis, expand deployment of employees to overseas integrated resort facility
- 2 **Overseas integrated resort**
 - ➔ Achieve overseas IR business success and acquire IR business know-how, expand business through implementation of first-phase secondary development of *PARADISE CITY*
 - ➔ Acquire gaming machine manufacture and sales license in the U.S. State of Nevada

“Continuing to create moving experiences”

— Making life more colorful —

Be a Game Changer

Pachislot and Pachinko Machines

- Operating income margin: At least 30%

Entertainment Contents

- Sales: At least ¥300.0 billion
- Operating income: At least ¥30.0 billion
- Operating income margin: At least 10%

Resort Business

- Succeed in IR businesses
- Enhance brand value

Stable dividends

Enhance financial base and flexibility in secure fund procurement to participate in IR business

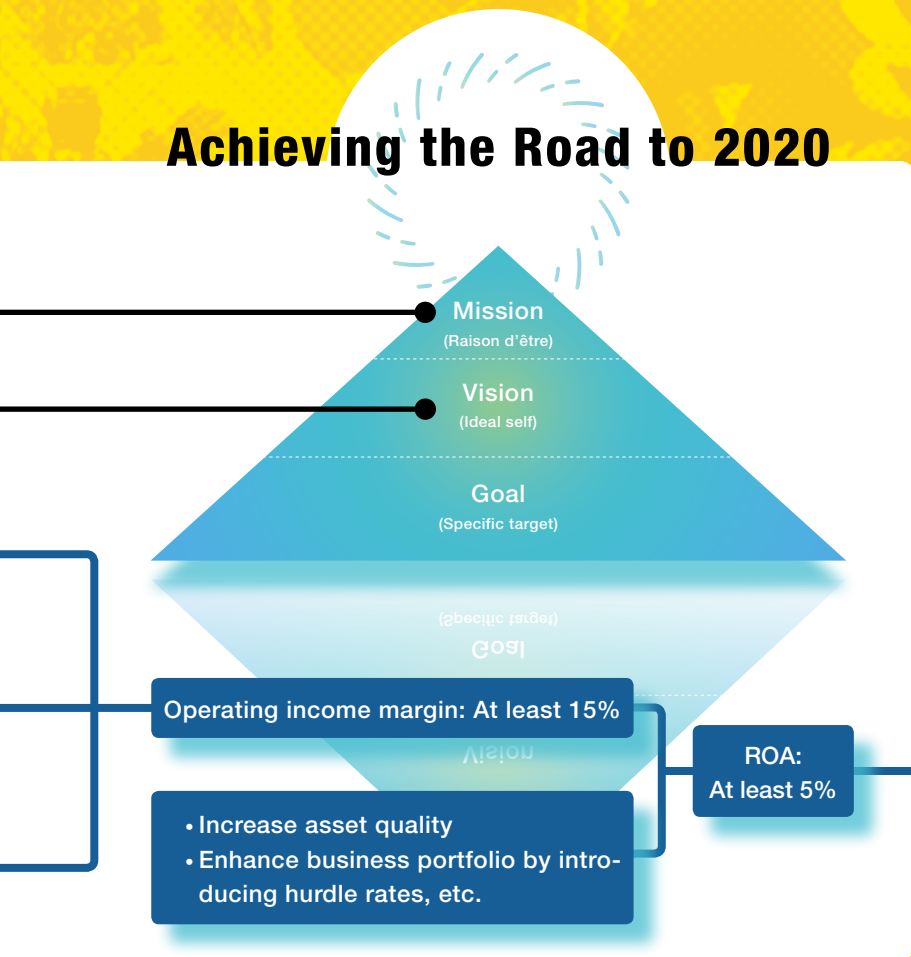
- Retain a diverse array of personnel
- Shift personnel to strategic domains
- Work-style innovations

- Make full use of existing IP, revival IP, and outside IP
- Launch new IP

Responses to social and environmental risks

Collaborate with partners and suppliers

Achieving the Road to 2020



Surpass Shareholders' Expectations

Improve capital efficiency

Sustainably Enhance Corporate Value

Exceed the expectations of all stakeholders

Leverage control
(maintain equity ratio at 50%–60%)

Increase employee productivity and strengthen innovative capabilities

Maximize value of IP

Mitigate risks and make effective use of outside resources

Surpass Society's Expectations

Maintain productivity and sustainability of non-financial capital

A Message from the CFO



While advancing financial strategies in light of medium-to-long-term perspectives, we will support the implementation of Road to 2020 and achieve continuous increases in corporate value.

Koichi Fukazawa

Executive Vice President and Group CFO (Director of the Board)
SEGA SAMMY HOLDINGS INC.

Our Basic Stance on Financial Strategies

We will support business strategies through financial strategies.

Based on Road to 2020, which covers the period through fiscal 2020, the SEGA SAMMY Group is advancing medium-term business strategies with its sights set on an operating income margin of at least 15% and ROA of at least 5% as management targets. Meanwhile, we are supporting business strategies by establishing medium-term financial strategies—which are on the opposite side of the same coin from the medium-term business strategies—and advancing measures in a planned manner.

In fiscal 2018, we completed a framework for the integrated control of the Group's domestic fund-raising and fund management, which we built over approximately two years. We have begun full-fledged fund management aimed at increasing the precision of cash flow forecasts, enhancing capital efficiency, and heightening the profitability of businesses. The next step is to establish global initiatives and risk exposure as financial themes.

At present, overseas sales only account for about 10% of the Group's revenues. However, given that the effect on Japan's market of the long-term decline in the birth rate is unavoidable, senior management views expanding overseas businesses centered on the digital games and packaged games areas as an important management task. Anticipating this management vision, we will begin by managing exchange rate exposure for overseas business transactions. Then, we want to extend the scope of our

efforts to manage the interest rate sensitivity of fund-raising and the Group's overall financial risk with respect to the global market. Looking further ahead, we hope to realize integrated control of fund-raising and fund management on a global basis.

Road to 2020 Financial and Capital Strategies and Fiscal 2019 Strategies

We will support investment in growth areas.

As a medium-term strategy, Road to 2020 calls for proactive investment in growth areas, centered on the digital games area, to create titles that become global hits. We will support such business strategies by securing adequate capital provision while paying close attention to financial discipline.

In fiscal 2019, accelerated marketing of new titles in the digital games area is expected to result in year-on-year increases of ¥11.3 billion in R&D expenses and content production expenses, to ¥73.3 billion, and ¥6.7 billion in advertising expenses, to ¥22.1 billion. Beginning in August 2018, we plan to transfer and consolidate the head office functions of respective Group companies in stages. As a result, we expect to record one-time transfer expenses of ¥7.5 billion. I want to maximize the benefits of this investment not only by strengthening coordination among businesses and creating synergies but also by actively standardizing and integrating corporate management functions and introducing common infrastructure.

Preparation for Participation in the IR Business

We are giving priority to maintaining robust financial foundations and a net cash position.

At this juncture, we are not sure about the future operational structure and finance format of integrated resorts in Japan, which we see as the pillar of long-term business strategy. However, we need to secure a high level of shareholders' equity as a risk buffer and maneuverable, flexible fund-raising. This will enable us to be responsive if corporate finance becomes the key factor in seizing the initiative in the IR industry as the only domestic corporate group on an equal footing with the major resort operators that have announced their intention to participate in Japan's IR industry. For these reasons, the Group is giving priority to maintaining a net cash position.

In fiscal 2018, we reduced interest-bearing debt, even though we expected the Pachislot and Pachinko Machines Business, which is our cash cow, to generate lower gross cash flows due to regulatory revision. As a result, interest-bearing debt was ¥86.9 billion, down ¥15.9 billion from the previous fiscal year-end, and net cash was ¥89.6 billion. Meanwhile, I want to continuously broaden our flexible fund-raising options by securing such facilities as commitment line agreements (approximately ¥55.0 billion) and overdraft agreements (approximately ¥75.4 billion).

equity, we are currently using ROA rather than ROE as an important index because ROA is a target that the SEGA SAMMY Group can advance toward cohesively.

To a certain extent, the rebalancing of assets that we implemented in fiscal 2017 improved the quality of assets. However, we are by no means completely satisfied with our current status. We constantly remain aware of capital cost as we rigorously evaluate businesses and strengthen management of the business portfolio with a view to realizing ROA of at least 5%.

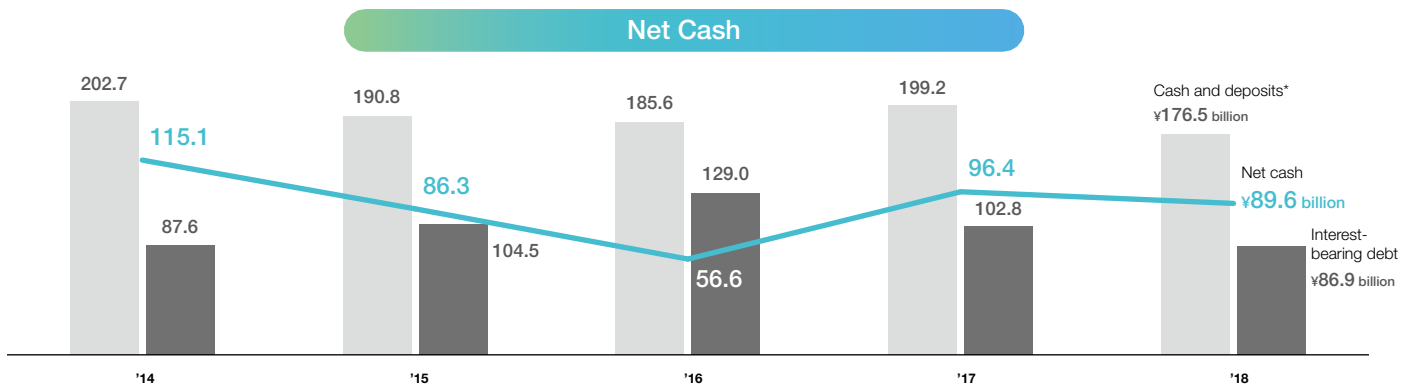
Despite the fact that the business is presently in an advance investment phase, we view the performance of the Resort Business as an important issue. In particular, I am aware of the need to strengthen the earnings model of PHOENIX RESORT CO., LTD. As well as setting a strict investment hurdle rate, I think that we must innovate to meet consumers' needs and foster our brand rather than relying on additional investment. Given that the Resort Business is positioned as the Group's third pillar and that the business aims to participate in the IR business in Japan in the near future, we are bracing ourselves to take on more-challenging goals and thereby heighten investment efficiency.

Until now, we have primarily used profit and loss as a uniform benchmark for evaluating businesses. Going forward, however, we will conduct multifaceted evaluations that better reflect the characteristics of businesses by incorporating non-financial key performance indicators, such as labor productivity and corporate vitality, in addition to financial key performance indicators, such as the cash base and asset efficiency. Based on these multifaceted evaluations, we intend to enhance the precision of planning and realize even stricter management of investment efficiency.

Business Portfolio Management

Never complacent about our current standing, we will stringently monitor asset efficiency.

In preparing for future participation in the IR business in Japan, as well as being in a phase of securing a high level of shareholders'



* Cash and cash equivalents at end of period in consolidated statements of cash flows

Special Topics

Special Topic 1

Overcoming Adversity in the Pachislot and Pachinko Machines Business

The Pachislot and Pachinko Machines Business has directly taken on various challenges brought about by changes in the business environment. By constantly changing ourselves and overcoming adversity, we have secured a position as a top manufacturer.

An Industry Affected by Regulations

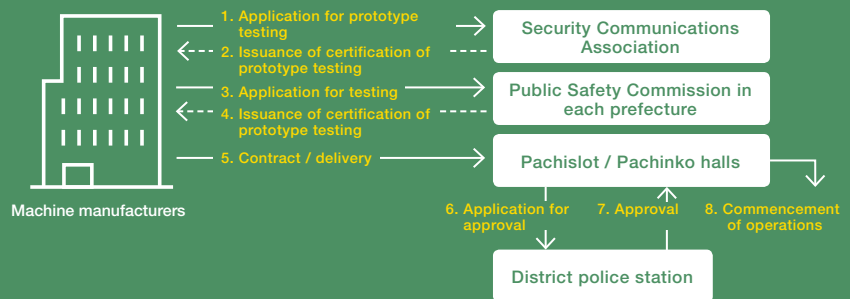
► Shock from No. 5 Pachislot Machine Models

Regulatory revisions implemented in July 2004 mainly focused on restricting excessive gambling elements in pachislot machines (No. 4 models) back then. Based on these unprecedentedly strict regulatory revisions, pachislot machines were switched out for models that complied with the new regulations (No. 5 models). The new regulations altered the gameplay in ways that advanced a decline in pachislot player numbers, strongly impacting pachinko halls. As a result, after a three-year interim measures period, in 2008 overall sales volume in the pachislot machine market had fallen 48% compared with that of the previous year.

Industry Affected by Regulations

Based on the Enforcement Regulation of Entertainment Establishments Control Law, pachinko and pachislot machine manufacturers are allowed to sell new machine models only after going through several approval processes. Machines are tested for compliance with regulations that determine the current rules for materials, performance, gameplay, and other aspects. For this reason, the number of acquired conformity qualifications can have an impact on sales plans and change gameplay in ways that lead to a decline in the player population.

Approval Process for Pachinko and Pachislot Machines

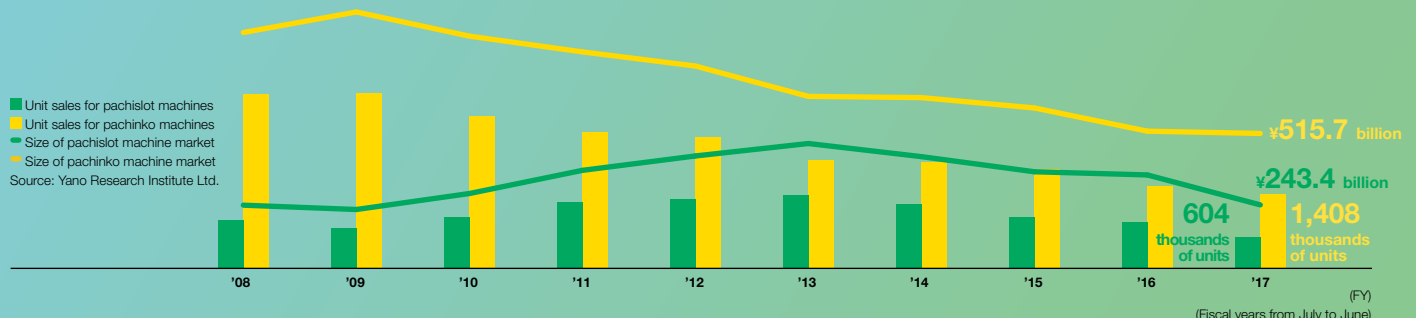


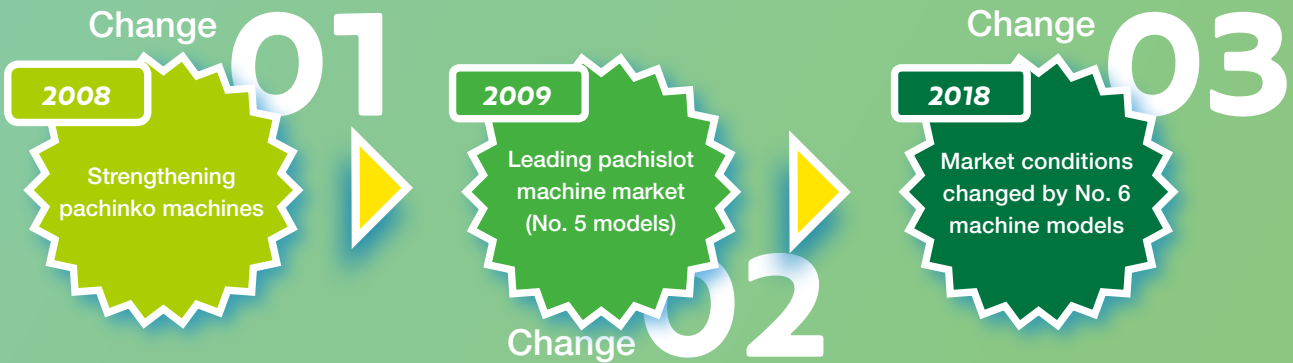
Constant Change in the Business Environment

► Long-Term Downtrend in Pachinko Machines since 2010

In contrast to the long-term ongoing downtrend in pachislot machines, pachinko machines followed an uptrend until 2009, boosted by the replacement of pachislot machines directly impacted by the “No. 5 machine model shock.” In 2010, however, pachinko machines entered a downtrend that still continues to date, owing to deterioration in business conditions for pachinko hall owners amid the shrinking population of players, weak replacement demand due to higher prices for the machines, and changes in voluntary regulations at industry associations. Marketing that focused on lower-priced pachinko balls in a bid to expand the user base failed to turn around market conditions.

Size of Pachinko and Pachislot Machine Market / Unit Sales





Strengthening Pachinko Machines

Amid stagnancy in pachislot machines, SEGA SAMMY moved to strengthen its development capabilities with the aim of improving its industry presence in pachinko machines to a level on par with pachislot machines. First, the Company reassessed its development structure and strengthened product development capabilities for pachinko machines. The Company reassigned some members of the pachislot development team to pachinko development and strengthened the appeal of products by incorporating outside opinions and using

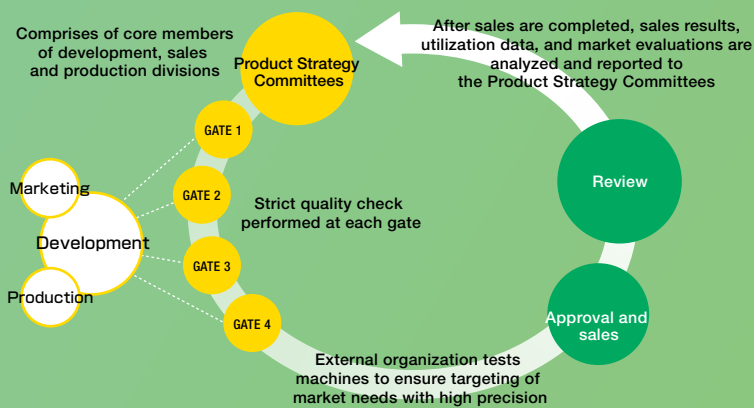
stringent production evaluation standards during development. Using market information gathered by our market research division, our development, sales, and production divisions share an integrated series of processes from development through to sales, and we have introduced a “gate management” system that entails strict product assessments at multiple stages. Having thoroughly refined our approach to market-savvy manufacturing, we launched *Pachinko CR Hokuto No Ken* in September 2008 based on the original *Hokuto No Ken*, which was popular on the pachislot scene at the time. This launch resulted in 260,000 unit sales, which have broken the unit sales record of previous pachinko machine at Sammy drastically and received strong support from users.

Thereafter, our pachinko machines continued to climb to the top of the rankings, leading to the creation of a balanced product portfolio.



Pachinko CR Hokuto No Ken
©1983 Buronson & Tetsuo Hara
©NSP2007, Approved No. SAE-307
©Sammy

Market-Savvy Development Structure Based on Close Collaboration of Three Divisions (2008)



Change
02

Leading Pachislot Machine Market (No. 5 Model)

Sammy has led the industry in creating novel game machines while complying with each regulatory revision. Even after the “No. 5 machine model shock” (▶ P. 44) in fiscal 2009, Sammy created titles with new gameplay, such as *Pachislot Spiderman* and *Pachislot Ring Ni Kakeru*, and won over players. In particular, with *Pachislot Psalms of Planets Eureka Seven*, we were able to create new gameplay within the framework of No. 5 machine models. This product became an engine for Sammy to overcome changes in the business environment ahead of rivals. At the same time, as other companies released similar products, the product began a trend and thereby stimulated expansion of the pachislot market.

Market Share in Pachislot Machines

2008 13.5%

▼
2010 **30.9%**



With “Always Proactive, Always Pioneering” as its company creed, Sammy will continue to polish its industry-leading development capabilities and create innovations one after the other while flexibly adapting to new regulatory revisions.

Change
03

Market Conditions Changed by No. 6 Machine Models

Although it restricts gambling aspects, the regulatory revision enforced in February 2018 has not only introduced maximum payout rates but also minimum payout rates. This change will allow companies to develop pachinko and pachislot machines with gameplay geared more toward the casual player.

With respect to pachislot machines, changes in voluntary regulations have enabled the development of pachislot machines that can be enjoyed in a shorter period of time. As for pachinko machines, it has become possible to use new settings (multi-stage payout ratio), meaning that companies can offer players a wider range of gameplay.

For pachislot machines in particular, shorter play

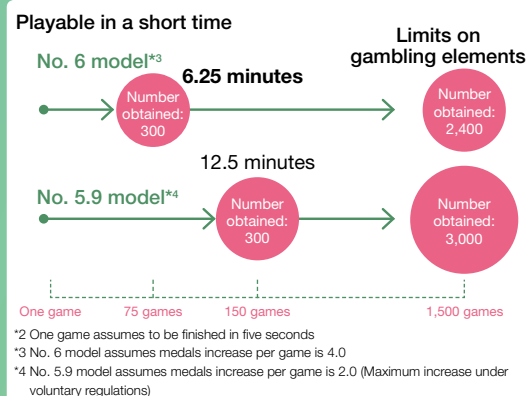
times for players of new-format machines create the potential for unearthing new demand. In recent years, the time needed to play pachislot machines has been lengthening. These longer play times were causing casual players to leave the pachislot machine market and were preventing the participation of new players. Given that it creates opportunities to provide players with pachinko and pachislot machines that can be played casually for short periods of time, the recent regulatory revision could lead to a return of former players and attract new players, thereby putting a brake on the decline in the pachinko and pachislot machine player population and the contraction of the pachinko and pachislot machine market.

Outline of February 2018 Regulatory Revision (Enacted on February 1, 2018)

Manufacturer	<ol style="list-style-type: none"> 1. Ball output regulations 2. Addition of specifications for machines to enable easy checking of ball output data*1 3. Introduction of settings for pachinko machines
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*1 Enables play without touching balls or medallions (electromagnetic recording and payment)

Estimate for Reaching 300 Tokens Using Pachislot Machine with AT Function*2



(AT: Abbreviation for pachislot machines' assist time)

Turning Changes in the Market Environment into New Opportunities

Amid contraction in the market environment, the promotion of reuse, which is a target under Road to 2020, will have a major impact on future earnings and the industry. The Reuse Promotion Department was established as the main entity overseeing reuse, and it is working for expanding the number of components qualified for reuse and promoting standardization of components to thoroughly control direct material costs.

In March 2016, Sammy established ZEEG Co. Ltd. as a joint venture with Universal Entertainment Corporation. By promoting the common use of units and components in machines, we are advancing collaboration across the industry toward the creation of a common platform.

Future Vision Painted by ZEEG

Sammy aims to improve product capabilities by fusing its accumulated technologies with the expertise that Universal Entertainment Corporation has in the hardware field. We have undertaken initiatives to generate considerable synergistic benefits by creating an efficient earnings structure that reduces procurement costs. We aim to help improve efficiency and invigorate the entire industry by getting as many game machine manufacturers involved as possible.

ZEEG has begun to develop software development kit (ZSDK) with an eye on the future of the game machine industry in addition to its initiatives related to increasing the reuse of hardware.

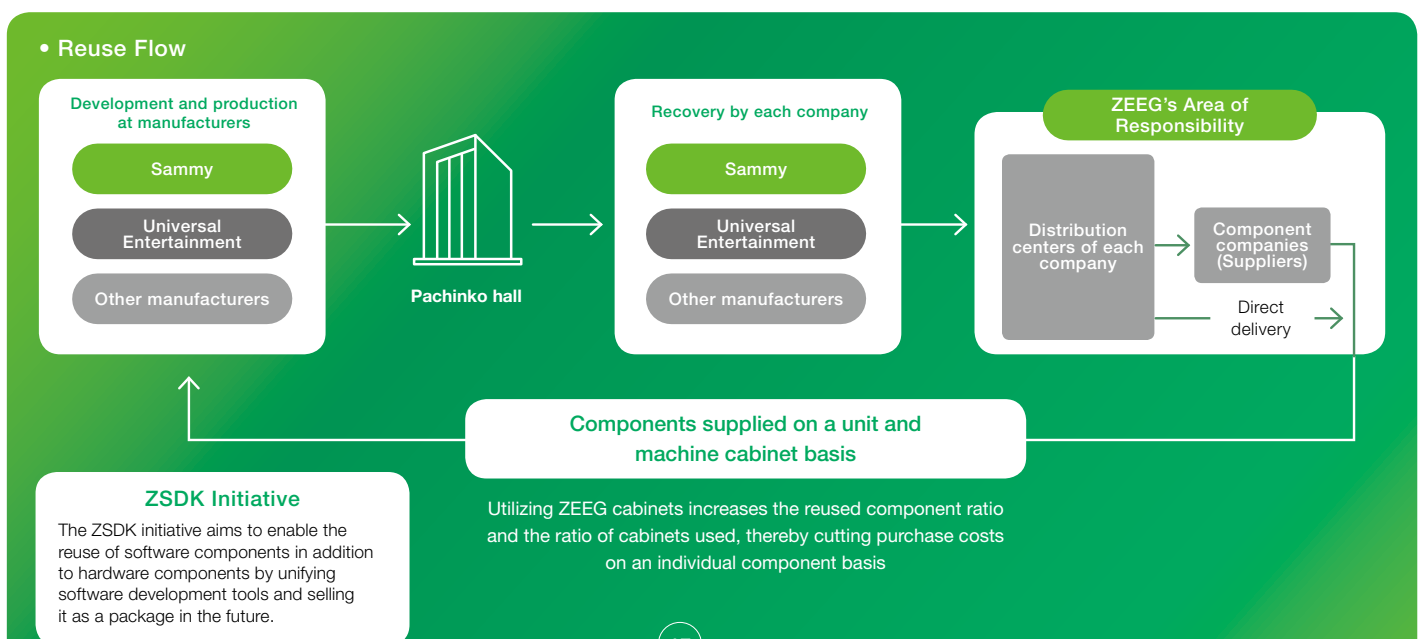
A word to watch is ZSDK, which stands for the ZEEG Amusement Machine Software Development Kit. The purpose of the ZSDK is to standardise software components that are essential for the development of game machines, which would enable sales unifying hardware and software in a way that makes it possible to create simply designed machines with universal software. By lowering barriers to entry, this will lead to more efficient machine development as the content development capabilities of other companies are brought into play. We hope it will also invigorate the entire market. The name ZEEG (meaning last egg) embodies these aspirations for creating an industry platform that will drive the entire industry forward.

ZEEG's Business Model: The Impact of Reuse across Corporate Boundaries

Reuse on a larger scale than at the individual company level will become possible, taking for example, a recovered Sammy machine cabinet that is used by Universal Entertainment Corporation.

This will lead to a considerable reduction in procurement costs.

If the number of companies participating in the reuse program increases, it will become possible to increase profits by selling these machine cabinets to other companies (for use as a general-purpose cabinet).



Special Topic 2

SEGA's World-Class Creativity

We aim to sustain profit growth by focusing on what customers truly desire and providing *moving experiences* to the world with a passion for quality, a strength of the SEGA Group.



Kenji Matsubara

President & COO
SEGA Games Co., Ltd.

“Passion for Creating” is a Strength of the SEGA Group

There is an ethos at SEGA Games Co., Ltd., that is always present and flowing throughout the SEGA Group. It is our passion for creating. Our thorough pursuit of quality is an undeniable strength that is evident in the innovative products and services that SEGA has created to date, including its graphics, game systems, world views, and music. This ethos is a strength of the entire SEGA Group,

shared among Group operating companies and studios inside and outside Japan. In the packaged games area, in recent years sales have remained brisk as a result of our leveraging this strength in overseas business, which is being reinforced under the Group's long-term vision Road to 2020. With overseas business a growth driver, earnings have been trending upward on a worldwide basis.

SEGA's World-Acclaimed Quality

Sonic is perhaps the SEGA Group's most widely recognized IP. Released in August 2017, *Sonic Mania* has become a major hit with over one million downloads worldwide. This game title is a tribute to the original *Sonic* titles that hails back to the *Mega Drive* (Sega Genesis) game console era, including *Sonic the Hedgehog* which was the first title of series released in 1991. While staying true to the world views of the original version, this game title is loaded with new elements that have won over many gamers, especially people overseas who have long been fans of *Sonic* since the time *Sonic* was a 2D graphic. Over the past few years, sales of packaged games in the overseas market have tended to be strongly influenced by ratings published on game review

websites. On Metacritic, one of these review websites for games, movies, and music, *Sonic Mania* has received very positive reviews.

Group company ATLUS. CO., LTD., released *Persona5* overseas in 2017, and it ranked No. 1 overall in PlayStation®4 ranking 2017 out of the huge number of games available, including the titles of global mega-publishers.

This game title is a successful hit with more than 2.2 million copies sold worldwide, and overseas sales are more than double the sales in Japan. I would like to stress that this success came despite the game being an RPG based on Japan's view of the world, with Japanese high school students as the main protagonists in the story.

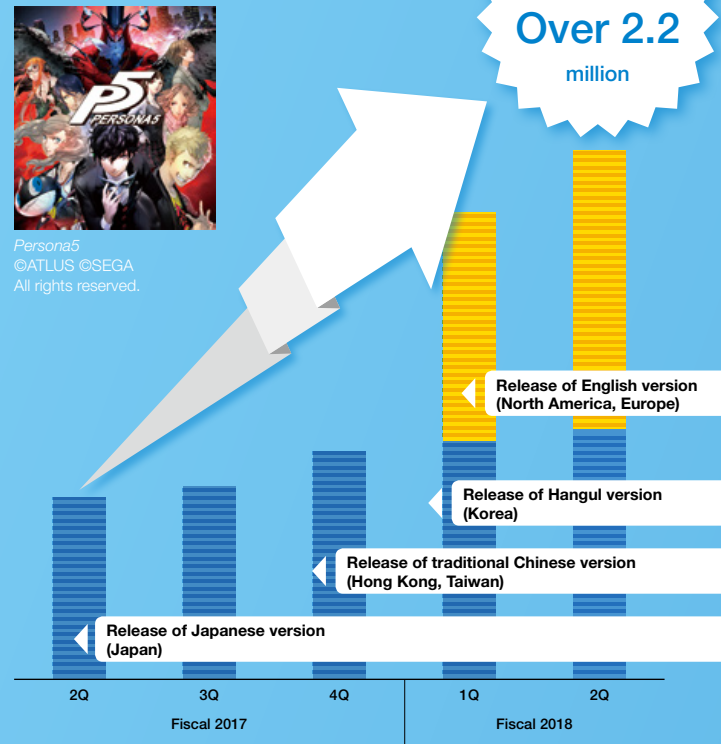
In *Yakuza 6: The Song of Life*, although the main character is played by the legendary Yakuza and set in Tokyo and Hiroshima, it has sold as many copies overseas as it has in Japan. In the past, the Japanese market has generated the bulk of sales for these series, and although it has elements that are appealing to overseas. However, the game was not developed with European and U.S. markets in mind. Thanks to painstaking efforts to create a game that Japanese fans will appreciate, the title has become popular not only in Japan but also won over fans overseas who praise the refined game sense of the title. I believe this is why *Yakuza 6: The Song of Life* has become such a popular hit around the world.

Improving perceptions of the SEGA Group are also a reflection of the steady repeat sales in foreign countries. In the past, the key was how many copies can be sold in the first two months of a game's release, because thereafter it was necessary to release discounted versions and cut prices in order to move inventory. Nowadays, however, repeat sales tend to hold steady thanks to demand remaining firm for titles that have been out a few years since their original release, owing in part to successful measures to introduce series titles like the *Sonic the Hedgehog* series, in addition to the popularity of the Steam a game distribution platform, which has created a huge market especially in Europe. Needless to say, repeat sales after development costs are amortized are a boon for profitability.

Localization Capabilities for Global Releases

There is one more key factor that explains the brisk sales overseas. Before a Japanese game is released overseas, it is localized into the language of each country and region. For example, *Persona5* has been translated into three languages (English, traditional Chinese, and Hangul). No matter if a game is popular in Japan, it is unlikely to win over fans around the world if the localization is insufficient. The SEGA Group has localization studios that make a huge difference when games are sold overseas. ATLUS became a member of SEGA Group due to the transfer of business in 2013, which has the studio located in California, U.S.A. The studio understands both Japanese and American games very well, and is able to localize Japanese games in a way that accurately conveys the unique world views of Japanese titles to local gamers. The studio is able to maximize the entertainment value of localized games that reflect these unique world views, and this has led to very positive reviews from local gamers. During the product development stage, game content is shared with the localization team

Persona5 Unit Sales / Downloads



for translation before the development is finished, facilitating the rapid release of foreign language versions of the game. We will strengthen such collaboration further with the aim of simultaneously releasing games around the world, which is an objective of Road to 2020.

Earn profits globally with localization that wins over fans in foreign countries



System for Designating Responsibility for Profits in Projects

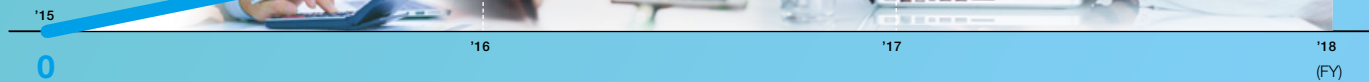
No matter how much we seek higher quality, unless profits can be earned, we would be unable to continue providing *moving experiences*. We have raised awareness to a higher level for thinking about what our customers truly desire, while at the same time clarifying responsibilities for profits (operating income) in each development project. The aim is to encourage the creation of games that can thrive on the market while giving everyone a sense of accomplishment and autonomously controlling development costs. While we cannot create popular hits intentionally, it is possible to gain some control over keeping unprofitable titles from emerging. When we judge if it is not worth spending additional investment to continue the project made based on a disciplined assessment of profitability, we have reluctantly made decisions to discontinue some projects. The instilling of this kind of framework for improving the cost efficiency of each project has also made a significant contribution to stronger profitability over the past few years.

In contrast to the strong-performance in packaged games area, the digital games area has struggled to grow these past few years with inadequate returns on investment. Time has passed since the launch of major titles including *CHAIN CHRONICLE*, *Puyopuyo!! Quest*, and *Hortensia Saga*, and these titles seem to

have run out of steam. Although new titles *SHIN MEGAMI TENSEI Liberation Dx2* and *kotodaman* have elicited a response, we still do not have enough popular titles. We must reassess what our customers truly desire in order to create new hit games, and strengthen management of development schedules and costs in addition to our post release operational capabilities. In this area, we are adopting the same approach—clarifying responsibilities and setting targets for operating income in each project—that led to results in the packaged games area. Since digital games take less time to develop than packaged games, we aim to enhance development precision, including schedules and costs, by carefully checking progress on a monthly basis in addition to reviews in meetings for each development phase.

P/L Responsibility and Preventing Unprofitable Projects

Operating Income/Loss in Entertainment Contents Business



¥ 14.8 billion

Aiming to Maximize the Value of Extensive IP Assets

Amid rapid growth of the digital games market, we split off companies along game device types, and our business expanded at the same pace as market growth. As market growth begins to taper off, however, it makes more sense to have a management structure that maximizes the value of our extensive IP assets by utilizing them regardless of game devices. For this reason, in April 2017

SEGA Games discontinued the company system based on game device type, and switched to an organization centered on IP. With the goal of creating global hit titles under Road to 2020, the Company is taking full advantage of IP assets, including existing IP, idle IP, new IP, and outside IP, to better coordinate IP in multiple channels and expand IP for global markets.

Global Collaboration to Revive IP

SEGA Europe gets involved in publishing



Shenmue I&II
(PS4 / X Box One / PC)
(2018)
©SEGA



Shenmue
Dreamcast version (1999)
©SEGA



Shenmue II
Dreamcast version (2001)
©SEGA

By realigning our organization along IP, development teams that used to create packaged games are now also working on digital games such as *Ryu ga Gotoku ONLINE*, as they challenge themselves to create games for different platforms. Collaboration across the organization has also picked up. One example of this collaboration is employees at ATLUS and SEGA Games working together on *SHIN MEGAMI TENSEI Liberation Dx2*, which was released in January 2018 as a smartphone app version of the *Megami Tensei* series of RPGs for home game consoles. Moreover, titles made in collaboration with outside IP owners, such as *Total War: WARHAMMER 2*, have been doing well.

Regarding idle IP, in 2018 we re-released *Shenmue I&II*, a revival of *Shenmue*, which debuted in 1999, and *Shenmue II*. This title was the culmination of cooperation across studios with SEGA Europe Ltd., our development studio based in the U.K., directly involved in its publishing. In addition to re-releases, we are also working on completely new games using idle IP like *New Sakura Wars* (working title), which was announced in April 2018.

The SEGA Group has more than 4,000 developers around the world. By working together across countries, regions, and studios, we aim to establish a framework for creating games globally for markets around the world.



Considerable Potential of the SEGA Group

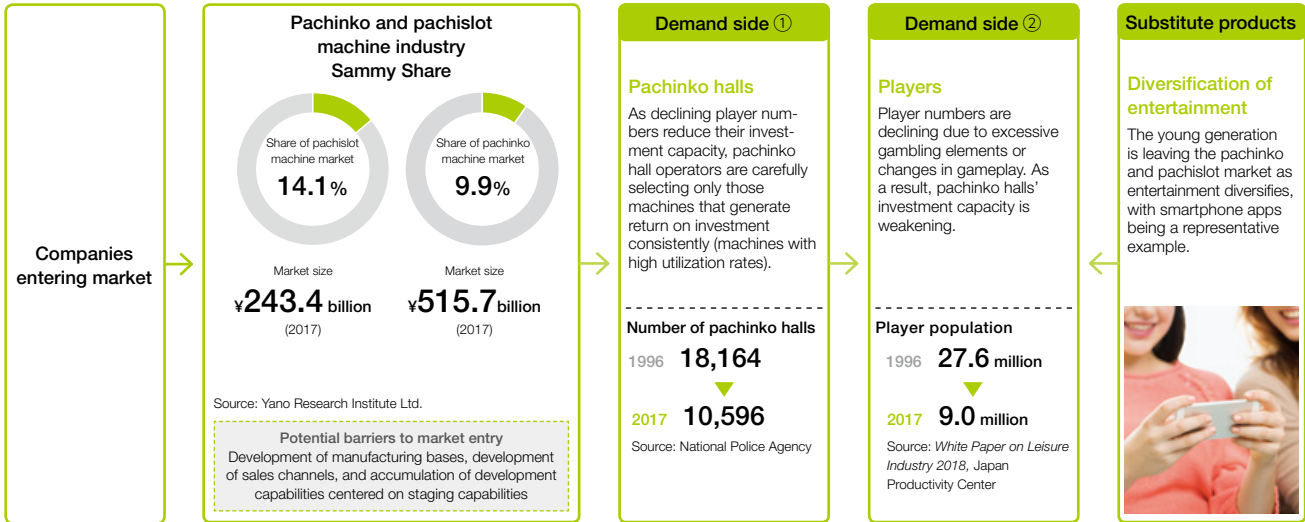
While we have successfully improved earnings to some degree, we have only just crossed the start line. We will be able to deliver *moving experiences* to more people around the world by taking a two-pronged approach to growing existing IP, reviving idle IP, and effectively utilizing outside IP, and to creating new IP. The SEGA

Group is confident there is considerable potential for growth in each prong of this approach. I believe realizing this growth potential would delight our shareholders as well. With our employees, we aim to draw out the considerable potential of the Group.

PACHISLOT & PACHINKO

Industry Structure

With the player population declining as a result of regulatory changes and entertainment diversification, pachinko hall operators' financial positions have worsened and the pachinko and pachislot machine market continues to contract. Consequently, the demand for expansion of the user segment base is rising.



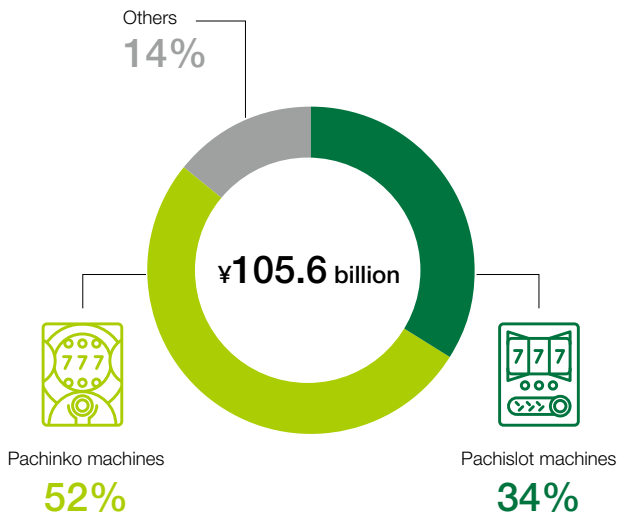
External factors

Prototype-testing rules and internal regulations of industry ● P.44

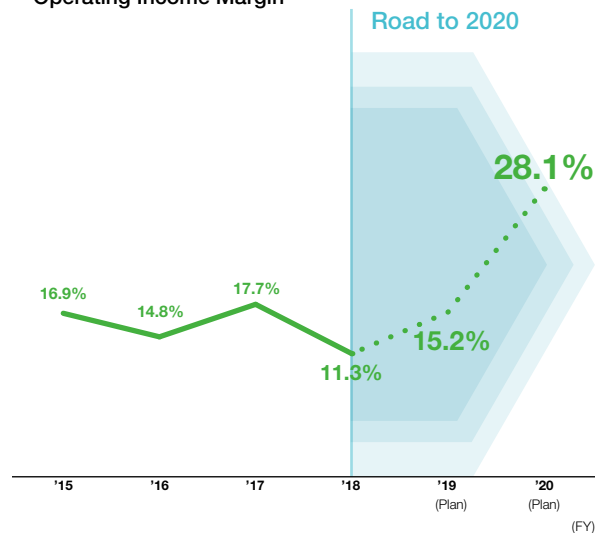
Changes in regulations for the development and sales of new pachinko and pachislot machines can affect the gameplay of products as well as the development schedules of pachinko and pachislot machine manufacturers.

Business Portfolio

Sales Breakdown Fiscal 2018



Operating Income Margin



Road to 2020 Business Strategy

Vision

Be a Game Changer

Sammy... the wellspring of new ideas as an innovator in the industry

Goal

Operating income margin*

At least **30%**

* Excluding "other and eliminations" of the Pachislot and Pachinko Machines Business

Major Tasks

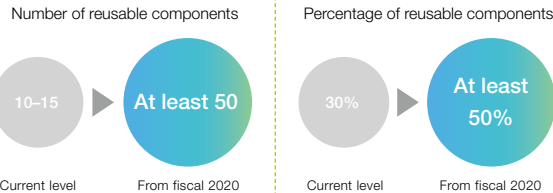
Promote Component Reuse

For pachislot machines, we aim to increase the number of reusable components to at least 50 so that they account for more than 50% of costs, versus the present level of 30%. Further, we will raise the common components ratio to at least 90% for pachislot machines and at least 50% for pachinko machines. The above measures will strengthen the earnings structure.

Increasing percentage of reusable components

- Design products with reuse in mind
- Formulate title lineup aimed at increasing reuse
- Increase reusable components

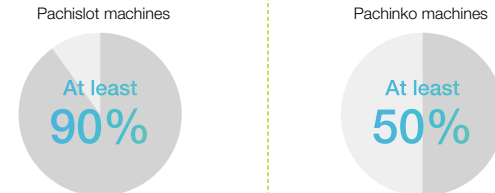
Targets for Number and Percentage of Reusable Components (Pachislot)



Promoting common components

- Promote common components
 - Increase components common to pachislot and pachinko machines
- Reduces disposal risk and increases reuse

Targets for Percentage of Common Components (Fiscal 2020)

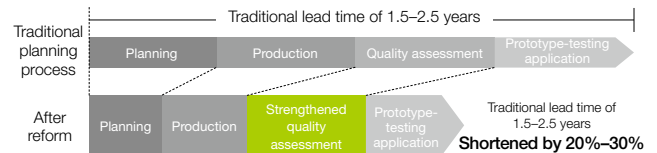


Build Industry Platform

Established as a joint venture with Universal Entertainment Corporation, ZEEG Co. Ltd. will lead efforts to introduce common component units to the industry as a whole, thereby enhancing product appeal and cost performance. Also, the company will help revitalize and raise the efficiency of the entire industry. In fiscal 2019, we plan to market a new title that uses a ZEEG-made machine cabinet.

Reforming development process and enhancing product quality

- Shorten development lead times to ensure product marketing coincides with peak market demand
 - ▶ Narrow down titles and increase personnel per title
 - ▶ Reform development process comprehensively (in-house approval system, quality control process, promotion of in-house production)
- Strengthen quality assessment process (test playing)



Shortening development lead times and strengthening the quality assessment process to realize timely product launches that tap into market demand

Implement Business-to-Consumer Measures

By holding offline events and operating information websites for smartphones, we are increasing direct communication with consumers and energizing the industry. In summer 2018, we held two events in connection with the SAMMY SUMMER PROJECT 2018 that were attended by many enthusiastic fans.



Fiscal 2018 Summary

Following February 2018 enforcement regulation revisions and the reconsideration of self regulations, strategic revisions to the sales schedule resulted in an approximately 60% decline in pachislot machine sales compared to the previous fiscal year

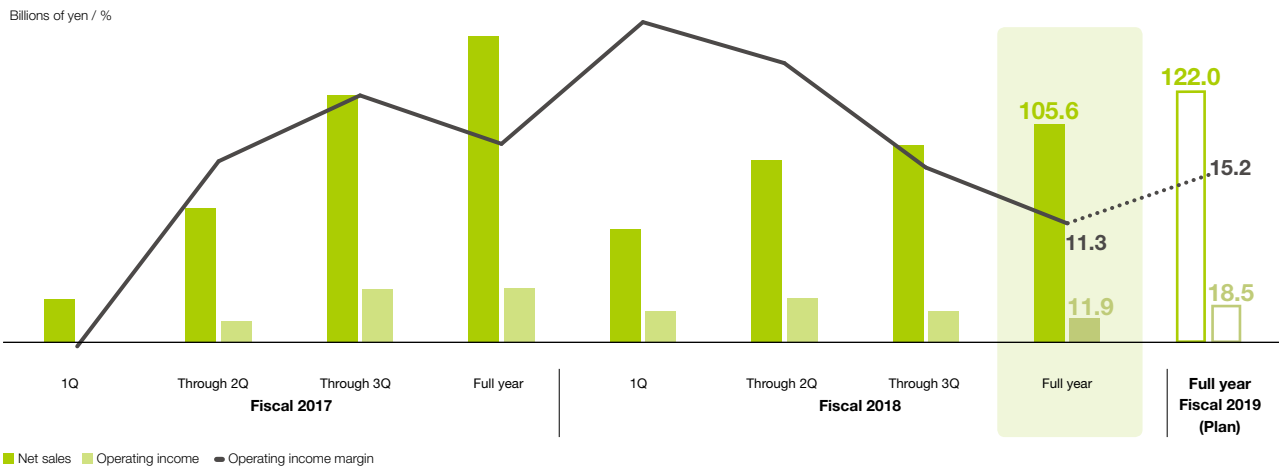
while pachinko machine sales remain unchanged. As a result, in fiscal 2018, net sales were ¥105.6 billion (a decrease of 28.7% from the previous fiscal year) and operating income was ¥11.9 billion (a decrease of 54.7% from the previous fiscal year).



Pachinko CR Hokuto No Ken 7 Resurrection
©Buronson & Tetsuo Hara/NSP 1983,
©NSP 2007 Approved No.YKO-116
©Sammy

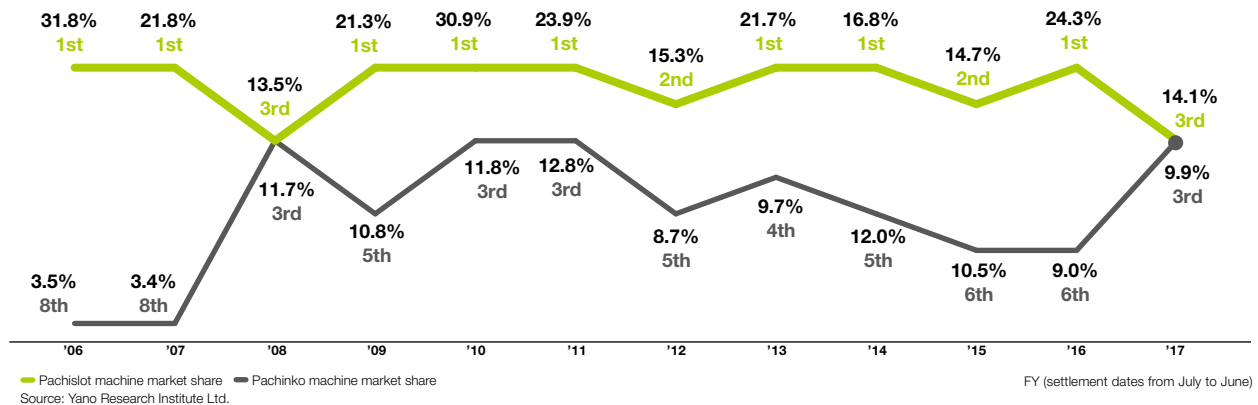


Pachislot Hokuto No Ken Shindensetsu souzou
©Buronson & Tetsuo Hara/NSP 1983,
©NSP 2007 Approved No.YBJ-918
©Sammy



SEGA SAMMY Group's Positions in the Pachinko and Pachislot Machine Market

Ranks



Strategic Actions and Topics for Fiscal 2019

In fiscal 2019, regarding pachislot machines, from the second half we are planning the full-scale introduction of machines conforming to new regulations (No. 6 machine models). We plan to release nine new titles and expect sales of 103,000 pachislot machine units (in the fiscal year under review, 85,000 units were sold). In terms of pachinko machines, sales will be focused on machines already licensed under regulations before the revisions. We plan to release nine new titles and expect sales of 201,000 pachinko machine units (in the fiscal year under review, 140,000 units were sold).

As a result, in fiscal 2019, we expect Pachislot and Pachinko Machines Business net sales of ¥122.0 billion, an increase of 15% from the previous fiscal year and operating income of ¥18.5 billion, an increase of 55% from the previous fiscal year. Operating income excluding relocation expenses associated with consolidation of head office functions amounts to ¥20.1 billion.

Launch of Pachinko CR Shin Hokuto Muso Official Successor Model

Since its market launch of *Pachinko CR Shin Hokuto Muso* in March 2016, cumulative *Hokuto Muso* series has sold over 80,000 units, and currently maintains a high utilization rate at pachinko halls. In September 2018, the official successor model *Pachinko CR Shin Hokuto Muso Chapter 2* (old-format machine) was released and is expected to drive pachinko machine sales in fiscal 2019. The pachinko machine lineup in fiscal 2019 will comprise mainly of old-format machines. Going forward, we will take time to engage in the creation of new-format machines.



Pachinko CR Shin Hokuto Muso Chapter 2
©Buronson & Tetsuo Hara/NSP 1983,
Approved No.KOK-115
© 2010-2013 Koei Tecmo Games Co., Ltd.
©Sammy

Accelerating the Launch of New-Format Pachislot Machines (No. 6 machine models) in the Second Half

Pachislot machine first-half sales is focusing mainly on type-5.9 machines, including change of specification titles such as *Pachislot Hokuto No Ken Syura No Kuni Hen Rasetsu Ver.*, with the full-scale introduction of No. 6 machines scheduled in the second half. As we already have new titles for No. 6 machines, we will accelerate the launch of No. 6 machines, including *Pachislot CHAIN CHRONICLE*. (▶P.46 for No. 6 machine model details)



Pachislot CHAIN CHRONICLE
©SEGA ©SEGA/CHAIN CHRONICLE FILM PARTNERS ©Sammy

Launch of Machines Using ZEEG-Made Machine Cabinets

Joint venture ZEEG Co. Ltd., established by the Sammy Corporation and the Universal Entertainment Corporation, plans to launch new titles using ZEEG-made machine cabinet during fiscal 2019. ZEEG Co., Ltd. promotes the use of common units and parts in an effort to reduce costs by reusing parts and building an industry platform. (▶P.47 for ZEEG details)

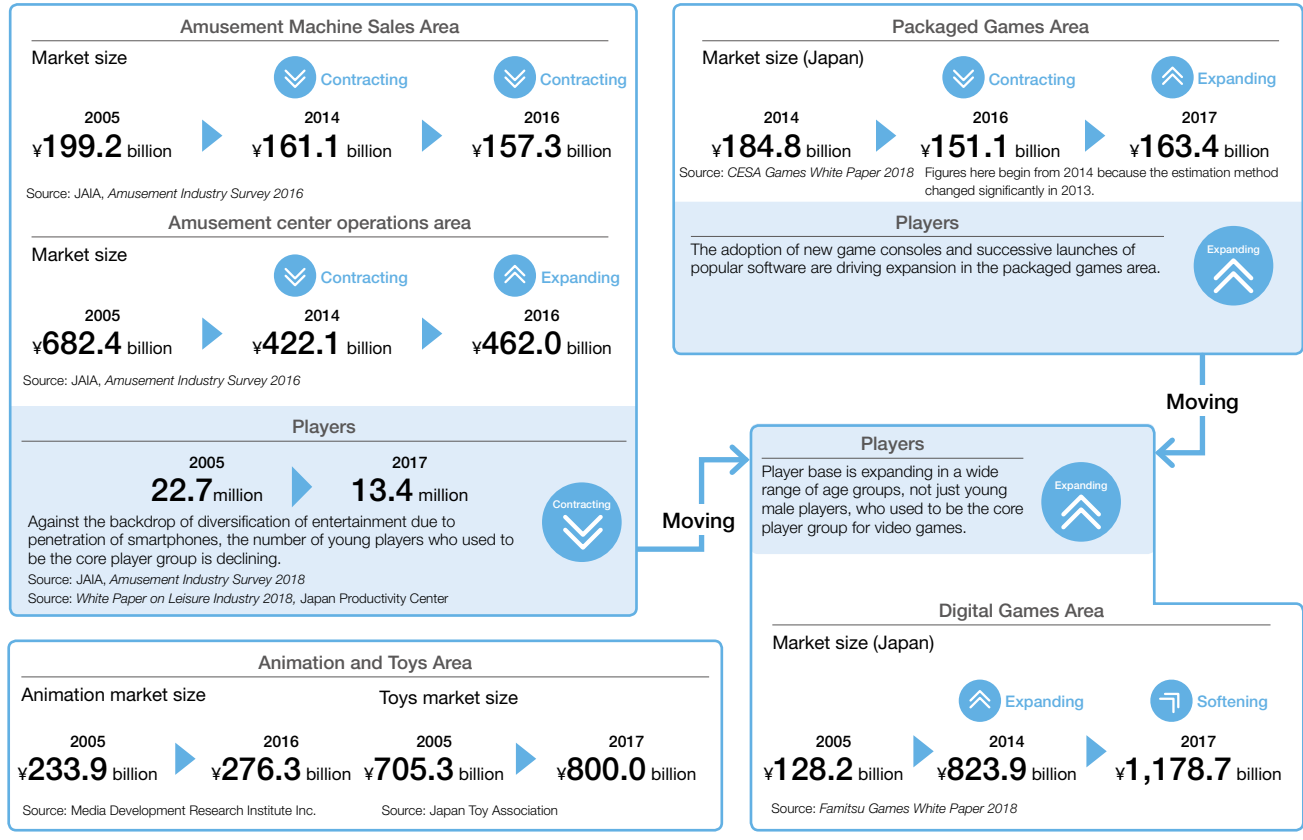


©ZEEG

ENTERTAINMENT

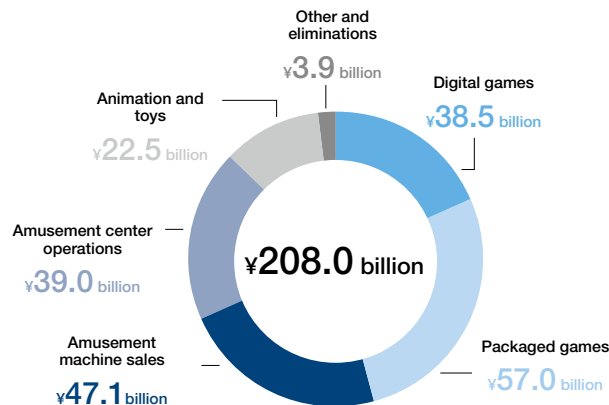
Industry Trends Snapshot

The Entertainment Contents Business segment operates in diverse entertainment areas that have markets with different growth potential and competitive conditions. Furthermore, as well as intensifying competition within the entertainment industry, the evolution of digital devices is leading to direct competition between the entertainment industry and other industries as they try to attract users.

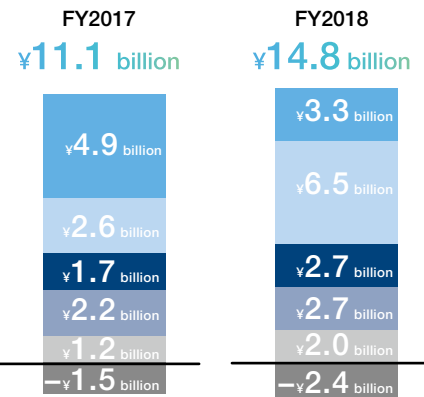


Business Portfolio

Sales Breakdown Fiscal 2018



Operating Income (Loss) Breakdown



■ Digital games ■ Packaged games ■ Amusement machine sales
■ Amusement center operations ■ Animation and toys ■ Other and eliminations

Road to 2020 Business Strategy

Vision

Be a Game Changer

Goal

Sales
At least
¥300.0 billion

Operating income
At least
¥30.0 billion

Operating income margin
At least
10%

Major Tasks

Create Titles That Become Global Hits

Focusing on digital games and packaged games, we will create major hit products in the global market by taking advantage of management resources, focusing investment on carefully selected titles, and building a business structure that facilitates global rollouts.

Transitioning from diversified to focused investment

- Select titles carefully (aim for major rather than mid-range hits)
- Focus investment on promising titles (reinforce promotion)

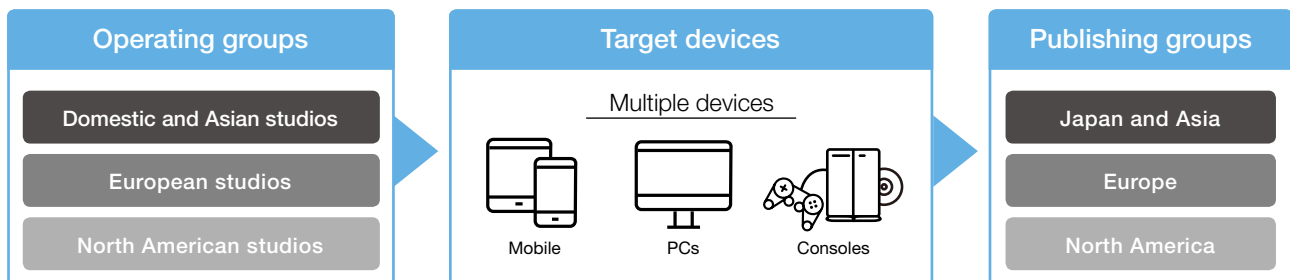
Creating a structure that facilitates global rollouts

- Shift from device-oriented to IP-oriented business
- Reinforce structure by integrating functions of regional bases

Restructuring Business Structure Including Organization to Achieve Strategies

Shift from Device-Oriented to IP-Oriented in Organization to Rolling Out Content through Multiple Channels

The Group has a huge amount of IP, including existing IP and idle IP. We will make full use of these new and outside IP as we roll out individual IP globally through multiple channels. This approach will maximize the value of IP. We will promote publishing and localization when rolling out content globally. Accordingly, we have also reorganized studios in each region around IP.



Grouping studios around IP and rolling out content for multiple devices globally
Increasing efficiency by integrating publishing functions regionally

Main Points by Area

We will generate stable profit based on a balanced portfolio without depending on a specific IP, title, or business.



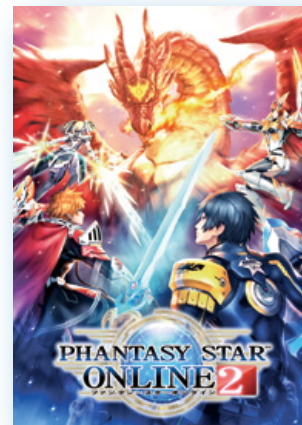
Digital games area

In addition to creating global hit titles, we aim to secure stable earnings through the long-term operation of existing titles and expand profit through the release of new titles based on IP strategy.

- Create global hit titles
- Expand overseas publishing business
- Maintain earnings through long-term operation of existing titles
- Develop next-generation titles



SHIN MEGAMI TENSEI Liberation Dx2 ©SEGA/ATLUS

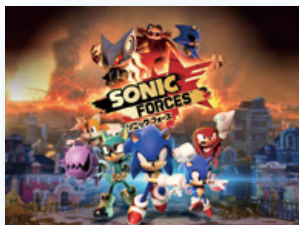


PHANTASY STAR ONLINE 2 ©SEGA



Packaged games area

Favorable PC content in North America and Europe. Also, the Group will utilize development engines effectively to heighten development efficiency.



SONIC FORCES ©SEGA



Total War: WARHAMMER 2

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- Increase sales of existing IP and obtain new IP for the PC content market in North America and Europe
- Build earnings base by undertaking contract development
- Take on challenge of developing new IP
- Revive major IP
- Utilize development engines effectively
- Conduct localization and sales in accordance with attributes of each global region



SEGA LaLaport FUJIMI
©SEGA ENTERTAINMENT Co., Ltd.



Amusement center operations area

We will change the sales composition of existing amusement centers according to the market environment and promote IT investment including the introduction of electronic money to enable flexible pricing strategies in the future and to enhance player convenience.



StarHorse3 Season VI FULL THROTTLE
©SEGA

Amusement machine sales area

We will increase investment efficiency through a “No. 1 in category” strategy and cost reductions.

- Launch “No. 1 in category” titles
- Step up cost reduction efforts



UFO CATCHER TRIPLE
©SEGA

- Improve operational efficiency by introducing electronic money
- Gain revenue from new businesses
- Respond to market structure according to the market environment



Disney&Disney/Pixar Characters Dream Switch
©Disney
©Disney. Based on the “Winnie the Pooh” works by A.A.Milne and E.H.Shepard.
©Disney/Pixar
Slinky®Dog. ©Poof-Slinky,Inc.
FIAT™ Model T™ Porsche™



“ANPANMAN” D.I.Y. Moving ANPANMANGO-CAR
©Takashi Yanase/Froebel-kan, TMS,NTV



Animation and toys area

We will increase the earning power of three mainstay animation IP: *Detective Conan*, *ANPANMAN*, and *Lupin the 3rd*. As for toy sales, we will grow earnings from existing IP while setting our sights on entering new fields through partnerships.



Yowamushi Pedal GLORY LINE
©Wataru Watanabe (Akitashoten) 2008/
Yowamushi Pedal 04 Film Partners 2018



Detective Conan: Zero the Enforcer
©2018 GOSHO AOYAMA/
DETECTIVE CONAN COMMITTEE
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Animation

- Increase earnings from three mainstay IP
Enhancing *Detective Conan*, *ANPANMAN*, and *Lupin the 3rd*
- Strengthen distribution business targeting Japan and overseas
- Reinforce 3D CG production

Toys

- Grow earnings from existing IP
Create stable earnings centered on *ANPANMAN* series
- Take on new fields through partnerships

Fiscal 2018 Summary

The results of prioritizing title improvements, the number of new titles launched falling short of initial assumption and lead to a decline in revenues and earnings in the digital games area. However, increased income in the packaged games, amusement machine sales, amusement center operations, and animation and toy areas resulted in fiscal 2018 net sales of ¥208.1 billion (an increase of 1.2% from the previous fiscal year) and operating income was ¥14.8 billion (an increase of 32.8% from the previous fiscal year). In the packaged games area, cumulative worldwide sales of *Persona5*, which began overseas development in the current fiscal year, exceeded 2.2 million units. Together with the expansion of repeat sales of previous launched titles (catalog titles), total unit sales of the packaged games growth exceeding 60%.

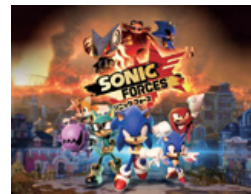
Persona5
©ATLUS ©SEGA
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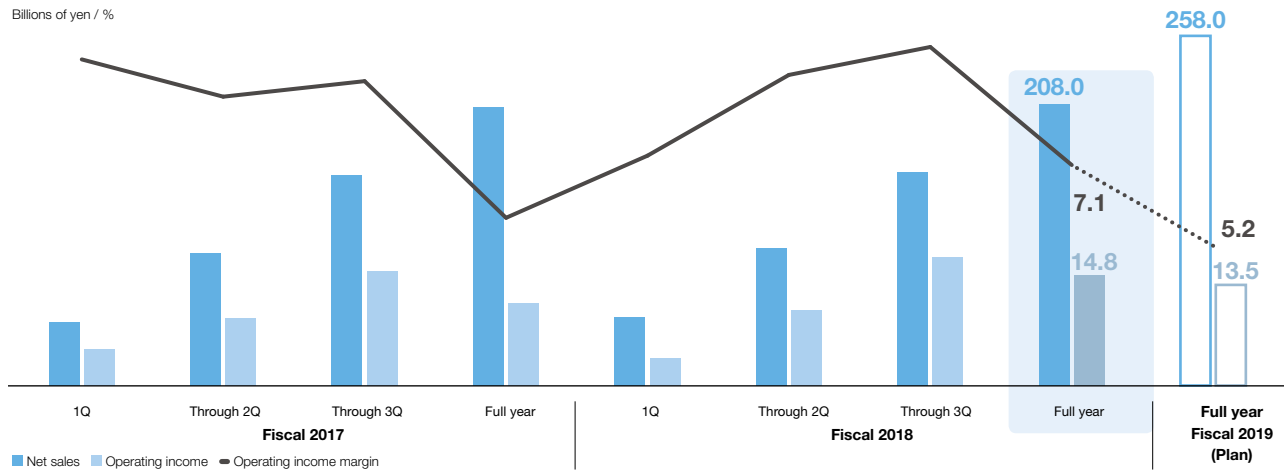
Sonic Mania
©SEGA



SONIC FORCES
©SEGA



Billions of yen / %



Strategic Actions and Topics for Fiscal 2019

In fiscal 2019, we will launch multiple new titles including major titles mainly in the digital games area, targeting a 24% increase in net sales and an 8% decrease in operating income compared to the previous fiscal year. Operating income excluding relocation expenses associated with consolidation of head office functions amounts to ¥18.5 billion.

In the digital games area, we plan to launch 12 new titles. In the packaged games area, we will continue targeting earnings growth by further strengthening the global roll out of domestic titles, creating new IP and the repeat sales of existing titles.

In the amusement machine sales area, in addition to the sale of the *UFO CATCHER* series and other prize game machines, we plan to launch new titles including *Fate/Grand Order Arcade*, an amusement machine that uses as a motif the world of *Fate/Grand Order* for smartphones. In the amusement center operations area, we will continue efforts to enhance amusement center operations and promote the introduction of electronic money. In the animation and toys area, we will premiere new films and promote the online distribution of various animation series. We also plan to launch mainstay products in the toys area.

Proactively Launching Successive New Titles (Digital Games Area)

In fiscal 2019, we plan to launch 12 new titles in the digital games area. *kotodaman*, launched in April 2018, has been downloaded more than 8 million times and even now the user pool continues to expand as we nurture it from the medium-term view point. *SEGA Pocket Club Manager* is also performing favorably. We will continue to release new titles, *WONDER GRAVITY—BEST BUDDY: PINO & GRAVITOR—*, the new title from f4samurai, which is steadily producing hit titles such as *Hortensia Saga*, and the free-to-play game *Total War: Arena*, which has Wargaming, the world's largest publisher, as the publishing partner.



kotodaman
©SEGA



SEGA Pocket Club Manager
©SEGA All Rights Reserved By JFA. The use of images and names of the football players in this game is under license from FIFPro Commercial Enterprises BV. FIFPro is a registered trademark of FIFPro Commercial Enterprises BV.

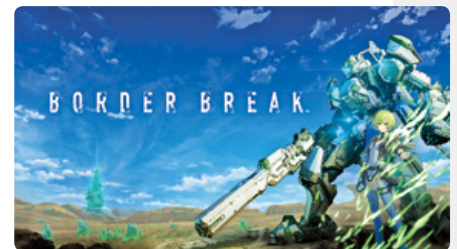
Expanding IP Utilization

We will promote the expanded use of IP based on the Road to 2020 policy prioritizing a shift from device-oriented to IP-oriented business.

As an improvement of IP value through the lateral deployment of existing IP, we began distribution of *BORDER BREAK* for the PlayStation®4, a title launched as an arcade game in 2010. We also plan to launch *Ryu ga Gotoku ONLINE*, the online version of *Ryu ga Gotoku*, a strong IP in the packaged games area. In terms of developments for the revival of idle IP, we brought back the *Shenmue* series, the very first title of which was launched in 1999, and will launch *New Sakura Wars* (working title), as brand-new title of *Sakura Wars* for the first time in 13 years for this series boasting a strong fan base. We will also move steadily forward with efforts to utilize outside IP such as *Fate/Grand Order Arcade* and *Total War: WARHAMMER 2*, which combines *Total War* and *WARHAMMER*.



WONDER GRAVITY—BEST BUDDY: PINO & GRAVITOR—
©SEGA•f4samurai



BORDER BREAK
©SEGA



Fate/Grand Order Arcade
©TYPE-MOON / FGO ARCADE PROJECT



O•N•G•E•K•I
©SEGA



Ryu ga Gotoku ONLINE
©SEGA

RESORT

Business Strategy | Resort Business

Business Strategy

Aiming to become a future pillar of the Group, the Resort Business segment will strengthen the profitability of its resort complex operations while accumulating expertise in the integrated resort business.

Vision

Be an Experiential Innovator

Goal

Succeed in the **IR business**

Enhance **brand value**

Major Tasks

Acquire Expertise to Ensure Success of the Integrated Resort Business

With our sights set on participating in the integrated resort business in Japan, we will acquire know-how in the operation of resort complexes through PHOENIX RESORT while accumulating expertise in the development and operation of integrated resorts through our business partnership with the PARADISE GROUP of South Korea.



One of Japan's Foremost Resort Complex

Phoenix Seagaia Resort

Situated on 700 hectares of land extending 11 kilometers north to south along the Pacific coast of Miyazaki Prefecture, *Phoenix Seagaia Resort* invites guests to experience a superb resort that makes the most of stunning surroundings. The resort complex comprises the *Sheraton Grande Ocean Resort* and two other accommodation facilities; a world-class convention center with a maximum capacity of 5,000 people; and sports facilities, which include one of Japan's renowned golf courses, the *Phoenix Country Club*, and a tennis club.

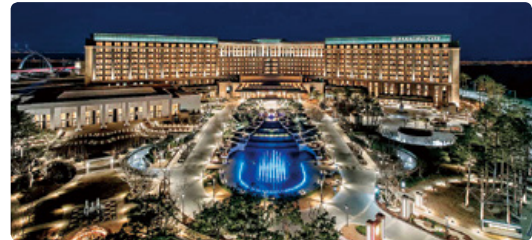
To increase the resort complex's ability to attract guests, we constantly add value to the resort facility. At the same time, we are working to acquire know-how in the operation of resort complexes.



©Phoenix Resort

PARADISE CITY, South Korea's First Integrated Resort Facility

PARADISE CITY, operated by PARADISE SEGASAMMY Co., Ltd., a joint venture with the PARADISE GROUP of South Korea, is the first integrated resort in South Korea equipped with a hotel, casino, convention hall, club, and other facilities. In addition to the aim of becoming the premier integrated resort facility in Northeast Asia through the provision of a high-quality atmosphere and services, we are promoting the accumulation of development and management know-how with the intention of entering the integrated resort business in Japan.



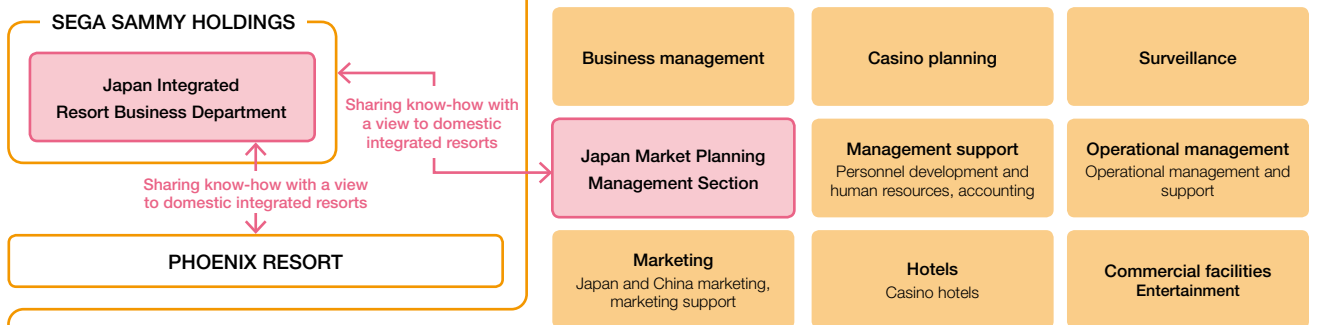
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We are conducting value chain analysis through local staff from Japan covering over 118 items, investigating the elements necessary for integrated resorts and considering our response. Through a variety of analyses, including the exploration of areas where we can expect to be able to differentiate by leveraging our strengths and areas where we can take specific measures, we will attempt to refine our strategy to enter the integrated resort business in Japan.

Transforming into the Only Company in Japan Able to Comprehensively Manage Integrated Resorts That Include Casinos

With a view to participation in the integrated resort business in Japan, the SEGA SAMMY Group is sending personnel overseas. As of October 1, 2018, we have deployed a total of 57 employees to the main business divisions of PARADISE CITY. These employees are accumulating know-how in relation to development and operations as they share information to the Japan Integrated Resort Business Department through Integration of Administration Functions. We are steadily transforming into the only company in Japan able to comprehensively manage integrated resorts that include casinos. This could become a major competitive advantage with respect to participation in the integrated resort business in Japan.

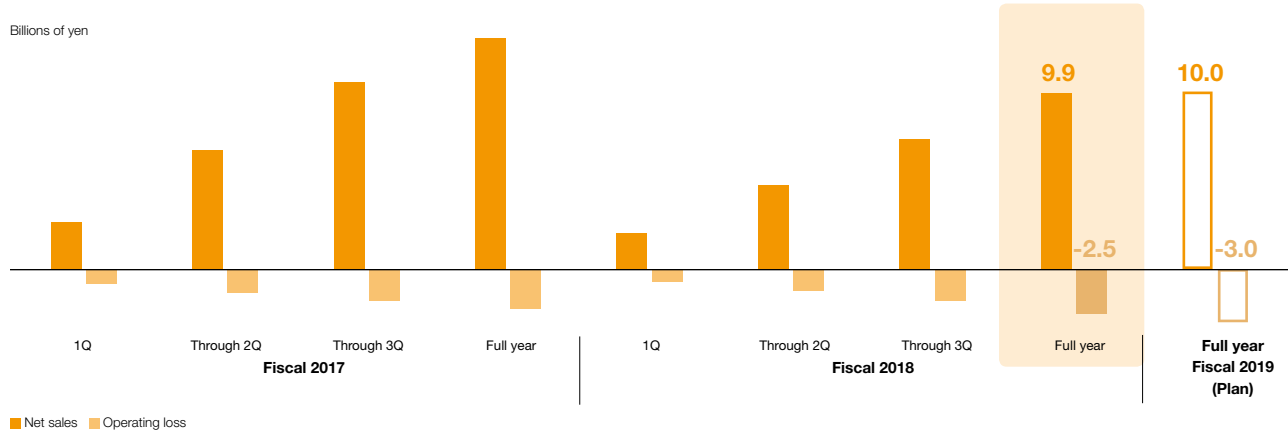
Coordination in the Integrated Resort Business



Organizational Category	Summary of Activities
Japan Market Planning Management Section	Conducts overall management aimed at expanding Japan's market and sharing know-how with Japan Integrated Resort Business Department
Surveillance	Ensures safety within casinos by using security cameras to monitor and analyze customers and employees
Casino Planning	Undertakes planning for casino business as a whole, including casino machine mixes and various types of promotions based on sales analysis
Personnel Development and Human Resources	Develops personnel for casino operations by preparing human resources plans, hiring personnel, and developing personnel
Accounting	Undertakes cash settlement and cash collection within facilities and conducts money laundering inspections
Operational Management	Manages table games in casinos, including management of dealers and floor persons
Operational Support	Provides support, including management of chips, playing cards, and peripheral equipment for games
Japan and China Marketing	Provides local customer services and sales activities for VIP customers and conducts direct customer services aimed at developing new customers
Marketing Support	Manages promotions targeting general customers and provides customer services through information helpdesks
Casino Hotels	Makes various types of arrangements and provides other services mainly for VIP casino customers
Commercial Facilities and Entertainment	Plans, develops, and operates commercial facilities and entertainment

Fiscal 2018 Summary

Despite an 8% increase in the number of *Phoenix Seagaia Resort* guests compared to the previous fiscal year, the Resort Business reported a decrease in income due to sales of a portion of shares of a company engaged in the development and operations of an indoor theme park in the previous fiscal year. In addition, prior investment costs for the full-fledged integrated resort business resulted in increased margin losses compared to the previous fiscal year. As a result, net sales were ¥9.9 billion (a decrease of 23.7% compared to the previous fiscal year) and there was an operating loss of ¥2.5 billion (compared to an operating loss of ¥2.2 billion in the previous fiscal year).



Strategic Actions and Topics for Fiscal 2019

In fiscal 2019, we will strive to attract more guests to the *Phoenix Seagaia Resort*. We will also work to enhance the value of *PARADISE CITY* facilities and acquire integrated resort development and operations know-how. In fiscal 2019, we expect net sales of ¥10.0 billion and an operating loss of ¥3.0 billion.

Toward the Participation in Integrated Resorts in Japan

PARADISE CITY Phase 1-2 Business Development Facilities Open

In September 2018, *PARADISE CITY* opened as 1-2 business development facilities comprising commercial and cultural facilities under the theme “art-tainment” including a premium spa, a club, entertainment facilities, and a boutique hotel. This marks the completion of 80% of the land development planned in phase one.



PARADISE CITY
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Acquisition of Nevada State Gaming Machine Manufacture and Distribution License

On December 1, 2017 (local time), Sega Sammy Creation USA, INC. (hereinafter, “SSCU”), acquired a Nevada state gaming machine manufacture and distribution license. To acquire this license, a strict examination of SSCU governance and compliance systems, financial and tax information, business partners, and litigation history was conducted. Meeting the world’s most rigorous licensing standards and eligibility criteria is a major strategic advance that also demonstrates the Group’s capability to engage in the integrated resort business in Japan.

ESG

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Toward Sustainable Growth in Corporate Value



We will realize true sustainability as a corporate group.

Haruki Satomi

President and Group COO (Representative Director)
SEGA SAMMY HOLDINGS INC.

Realizing Our Essential Value

In recent years, nations have been taking steps focused on shared international objectives under the banner of the SDGs (Sustainable Development Goals). At the same time, society is increasingly looking to companies to help address worsening social issues. Moreover, as investment in environmental, social, and governance (ESG) initiatives rises, society expects companies to conduct business management that emphasizes ESG factors and proactively discloses related information. As a corporate group that is a member of international society, we have a strong sense of our obligation to benefit society.

The SEGA SAMMY Group has made clear its commitment to fulfilling responsibilities and roles in international society by becoming a signatory to the United Nations Global Compact (UNGC) and is steadily advancing initiatives to these ends. In a wide range of business fields, we are promoting environment-friendly design and reducing energy consumption. For example, one of our business strategies is to simultaneously lower environmental burden and improve profitability by increasing the number and percentage of reused components in our products. Also, primarily in business areas where we have fabless business models, we undertake rigorous supply chain management based on such principles as the elimination of child labor and forced labor.

Other initiatives include our ongoing support for restoration of areas damaged by the Great East Japan Earthquake. We not only provide food, clothing, and housing but also morale-boosting support that we are particularly qualified to offer as a comprehensive entertainment corporate group. Through such activities as restoration support events that leverage our entertainment content, we will continue providing moving experiences to many people in areas that need help.

Further, we have confirmed that the aims of our existing initiatives coincide with the aims of 13 of the 17 SDGs. In relation to ESG information, the Group will strengthen disclosure and actively increase direct dialogues so that shareholders and investors can assess the Group's business management in light of long-term perspectives.

To heighten the effectiveness of such initiatives and ensure their continuity, we will carefully analyze and respond to such emerging trends as the emphasis on SDGs and ESG factors. At the same time, we will implement initiatives that reflect our essential value so that they do not become formulaic or superficial. Through business activities based on its mission of *CONTINUING TO CREATE MOVING EXPERIENCES* and *MAKING LIFE MORE COLORFUL*, the Group will earn recognition of its value from society and continue growing with it. In this way, we will realize true sustainability as a corporate group.

Focusing Efforts on Three New Themes

While continuing and strengthening existing initiatives, we will examine and implement concrete measures under the following three social issue-based themes, which we have identified as areas on which we should concentrate particular efforts.

The first theme is job satisfaction and diversity. The main focus of the Group's work-style reforms is the achievement of a balance between work and private life. We want employees to have quality time outside of the office so that they do not lose their creative drive. Well-established measures that the Group has introduced to reduce long overtime work have produced tangible results. Our employees do between 80% and 90% less long overtime work than they did in 2014. Launched in April 2018, the *Job Plus* sideline job system aims to encourage innovation by enabling employees to experience work and acquire skills in areas beyond their regular jobs. Creative ideas are generated through exchanges among people with different ways of thinking. We want to develop a corporate culture that accepts diverse values and eliminates inequality arising from gender, age, religion, and any form of attribute or disability and which enables employees to draw on their individuality in their jobs. Using the consolidation of head office functions as an opportunity and with reference to seven policies relating to job satisfaction and inequality (▶P.69), each company will set goals reflecting its situation and prepare and take specific measures.

Our second theme is addiction. The World Health Organization has recognized gaming disorder as a condition that results from immersion in video games and which seriously impairs health. This disorder, along with addiction to pachinko and pachislot machines, are important issues that the Group needs to address sincerely. Accordingly, we want to implement initiatives that spread and increase awareness of addiction prevention measures.

The third theme is the super-aging society. We believe that our products and services can help elderly people maintain their well-being and provide them with opportunities for communication. We also want to increase the opportunities for elderly people who seek employment or reemployment.

Reflecting the SDGs

Responsible for action plans and other planning functions, the Group CSR Promotion Office is currently revising the Group CSR Charter and all other existing CSR policies in light of the SDGs. Further, the Group CSR Promotion Office will carefully analyze the 17 SDGs and their 169 associated targets, identify areas where the Group can contribute, and then create concrete action plans. We want to involve all employees in the implementation of these plans. Therefore, through in-depth dialogue with employees we will ensure that each employee understands the connection between business activities based on the mission pyramid* and the SDGs.

As the SEGA SAMMY Group mobilizes its collective strength to create a bright future for society and sustain growth in corporate value, we would like to ask our stakeholders for their continued support.

* The Mission Pyramid comprises specific strategies aimed at realizing a mission (raison d'être), a vision (ideal self), and a goal. This strategy pyramid was established to ensure the implementation of measures that are focused on fiscal 2020 and based on Road to 2020.

SDGs Measures

- Positioned social contributions through mainstay businesses as an important task of business management and established the Group Mission
- Group CSR Promotion Office currently revising the Group CSR Charter and all other existing CSR policies in light of the SDGs
- Will carefully analyze and examine SDGs based on new CSR policies that reflect the SDGs



Human Resource Strategy

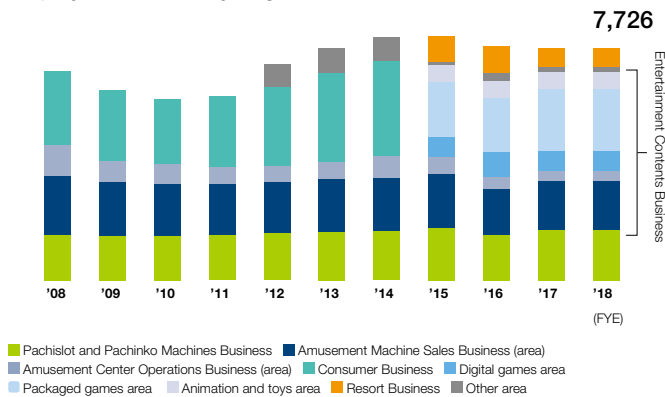
The Group continuously endeavors to create *moving experiences* by strengthening its human resources. We ensure stable recruitment and training of excellent personnel, secure the diversity that we believe to be the source of innovation, and implement work-style reforms aimed at raising labor productivity.

For more information regarding initiatives based on our CSR Charter or ESG-related data, please visit the Social Responsibility section of our corporate website: <https://www.segasammy.co.jp/english/pr/commu/>

● Shifts in Human Resources Portfolio Linked with Growth Strategy

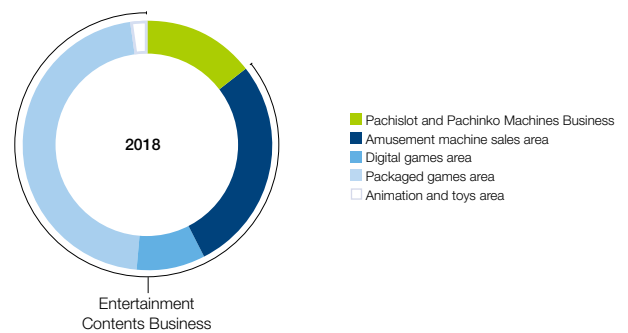
The number of consolidated Group employees has generally been increasing since fiscal 2012, when the Company began widely expanding business operations in the digital games area and the Resort Business. Employee numbers have increased in the digital games area due to domestic and international M&As, and intensified mid-career recruitment. In the Resort Business, numbers have increased mainly because of the acquisition of PHOENIX RESORT CO., LTD., and personnel shifts from other businesses and areas.

Employee Numbers by Segment



* In fiscal 2015, the Group changed its business segments. The abovementioned "areas" are subsegments of the Entertainment Contents Business segment.

Development Personnel by Segment



● Selected for Inclusion in SRI Indexes Adopted by the GPIF as ESG Indexes

SEGA SAMMY HOLDINGS was selected as a constituent for two socially responsible investment (SRI) indexes adopted by the Global Pension Investment Fund (GPIF) as ESG indexes: the MSCI Japan ESG Select Leaders Index and the MSCI Japan Empowering Women Index (WIN). The Company qualified for inclusion in the MSCI Japan ESG Select Leaders Index as a constituent of the MSCI Japan IMI Top 500 Index that particularly excels in ESG. Our selection for inclusion in the MSCI Japan Empowering Women Index was predicated upon the quality of our disclosure of information in accordance with the Act of Promotion of Women's Participation and Advancement in the Workplace compared to other constituents in the MSCI Japan IMI Top 500 Index.

● Work-Style Reforms Aimed at Promoting Diversity

Since 2014, the Group has produced definite results with its countermeasures geared toward reducing long overtime hours. These countermeasures are based on the ideal of “Let’s enjoy our private and professional lives by working hard, playing hard, and studying hard.” In April 2017, the Company informed all Group companies of its seven themes for work-style reforms.

Further Advancement of Work-Style Reforms Supported by Group Office Integration

In summer 2018, the Group consolidated its offices into one new office. The Company is currently establishing a state-of-the-art office environment that creates synergy and inspires business collaboration by eliminating isolation due to physical distances between offices. In support of this effort, we are doing our very best to take down walls between Group companies by giving mutual functions which encourage interaction between personnel. SEGA SAMMY HOLDINGS will pursue further productivity by introducing cutting-edge information and communications technology at all companies that relocate to the office and support the businesses of startup companies and individual entrepreneurs alike by establishing a co-working space of about 1,322 m² in its new office. Fenox Venture Capital, Silicon Valley company, is also stationed at the office, helping to make it a location that promotes the co-creation of innovation.

With this consolidation of offices, our Group’s work-style reforms have entered a new stage. Based on our seven themes, we are establishing targets and promoting specific measures that match the characteristics of each operating company.

Additionally, the SEGA SAMMY Group established an

information exchange site, Waku Lab, to encourage individual employees to autonomously devise work-style reforms through their own ingenuity. We are actively sharing work-style reforms across company boundaries.



Waku Lab information exchange site

Consolidated 20 companies and about 6,500 employees into the Osaki area in Tokyo



Seven Work-Style Reform Themes

- 1 Further rectification of long overtime hours
 - 2 Raise transparency of operations and avoid dependence on individual skills
 - 3 Implementation of diverse work styles such as flex time and telework
 - 4 Support for nursing and childcare and promotion of female participation
 - 5 Adoption of health guideline management
 - 6 Capacity development through provision of educational opportunities
 - 7 Reflection of work-style reforms in establishment of Company goals and the personnel evaluation system
- (▶ P.70-71)

Human Resource Strategy | Work-Style Reforms (Examples of initiatives related to the seven themes)

Theme
1

Further Rectification of Long Overtime Hours

Reduction of Long Overtime Hours

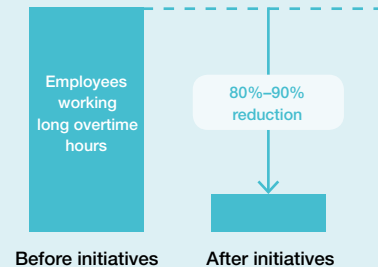
The Group launched initiatives aimed at reducing the number of employees working long overtime hours at SEGA Games Co., Ltd., SEGA ENTERTAINMENT CO., Ltd., TMS ENTERTAINMENT Co., Ltd, and SEGA TOYS CO., LTD., in 2013 and continued applying them until 2018. We also implemented measures geared toward reducing long overtime hours altogether, primarily at these five companies.

Primary Measures

- Occupational training, compliance training (establishing and improving awareness)
- Attendance management, enforcement of punching-in (check for excessive or unpaid overtime)
- Individual alerts for employees per month
- Monthly reports on number of employees working overtime and amounts of overtime (release report through executive committee or the council of managing directors, share information regarding actual conditions)
- Consultations with superiors for employees working long overtime hours
- Establishment and fixation of no-overtime and no-meeting days
- Adjustment of work volumes, streamlining of meetings, revision of operational flow, etc.

Results

- Reduced number of employees working long overtime hours (more than 80 hours per month) by 80%–90%
- Currently reviewing initiatives for further improvement moving forward



Theme
3

Implementation of Diverse Work Styles such as Flex Time and Telework

Adoption of Flex Time Systems and Review Regarding Telework Systems at Major Group Companies

With an eye on full-scale implementation, the Group is conducting training for directors and managers at its operating companies that is designed to improve understanding regarding work-style reforms. Additionally, we are promoting the review and implementation of work and vacation styles that properly recognize work-life balance at each Group company. In particular, our three primary companies have adopted flex time systems as a work-style diversification measure and are advancing ongoing reform initiatives such as telework system trials and participation in *Telework Days*.

* The Ministry of Public Management, Home Affairs, Posts and Telecommunications, the Ministry of Health, Labour and Welfare, the Ministry of Economy, Trade and Industry, the Ministry of Land, Infrastructure and Transport, the Cabinet Secretariat and Cabinet Office, the Tokyo prefectural government, and related organizations are collaborating to promote a national work-style reform movement. About 950 organizations and 63,000 people are currently participating.



Telework at an external rental office

Purpose in Adopting Telework (Basic Policies)

- 1 Raising Productivity**
Raise productivity by autonomously devising work styles and effectively utilizing time
- 2 Securing Working Power**
The Company will acknowledge diversity by preparing and offering various options for diverse work styles and secure excellent human resources. It will also prevent turnover due to factors such as childcare and nursing care.

Three Action Plans

- 1 Implement (Ongoing) Trials and Conduct Improvement Measures**
- 2 Formulate Guidelines for Promoting Telework**
- 3 Discuss Adoption of a Satellite Office or Offices**

Theme
4

Support for Nursing and Childcare and Promotion of Female Participation

Commitment from Top Management

Group management is engaging with diverse hierarchies at various operating companies to inform each individual Group employee about the intent behind work-style reforms and to ensure their steady implementation. In March 2018, we exclusively held our fourth Roundtable Discussion with the President for female employees at Sammy, a Group company. This discussion was a precious opportunity to hear concerns regarding childcare, thoughts on female management positions, remarks concerning balancing work responsibilities with child-raising, and requests for internal reviews for telecommuting and telework.



Roundtable Discussion with the President

Theme
6

Capacity Development through Provision of Educational Opportunities

Human Resource Development Aimed at Eliciting Innovation

SEGA SAMMY HOLDINGS is continuously introducing systems aimed at eliciting innovation from our employees that serve as the foundation for our competitiveness as an entertainment company, such as an overseas study system and side job systems.

▶ Job Plus (JOB+) Side Job System

We introduced the *Job Plus* (JOB+) side job system. This system allows full-time Group employees who have three or more years of continuous service with the Company to obtain side job employment outside of working hours with Company permission. The goal of this system is to raise the Group's corporate value and inspire the creation of new innovation through new skills and experiences acquired while working side jobs. Moving forward, SEGA SAMMY HOLDINGS will actively implement new measures and engage in work-style reforms across the whole Group.

▶ Overseas Study System That Provides Employees with the Opportunity to Obtain an MBA at a Foreign Business School

We adopted an overseas study system as part of our Global Leadership Training Program to provide employees with the opportunity to acquire their MBAs at foreign business schools.

Purpose in Adopting this System

- 1 Development of human resources capable of moving on to future management positions in preparation for M&As and the strengthening of overseas operations in the integrated resort and Entertainment contents businesses
- 2 Offering of autonomous career development opportunities to Group employees
- 3 Leadership training by providing opportunities for our diverse human resources to experience decision making among themselves and construction of a global-scale human network

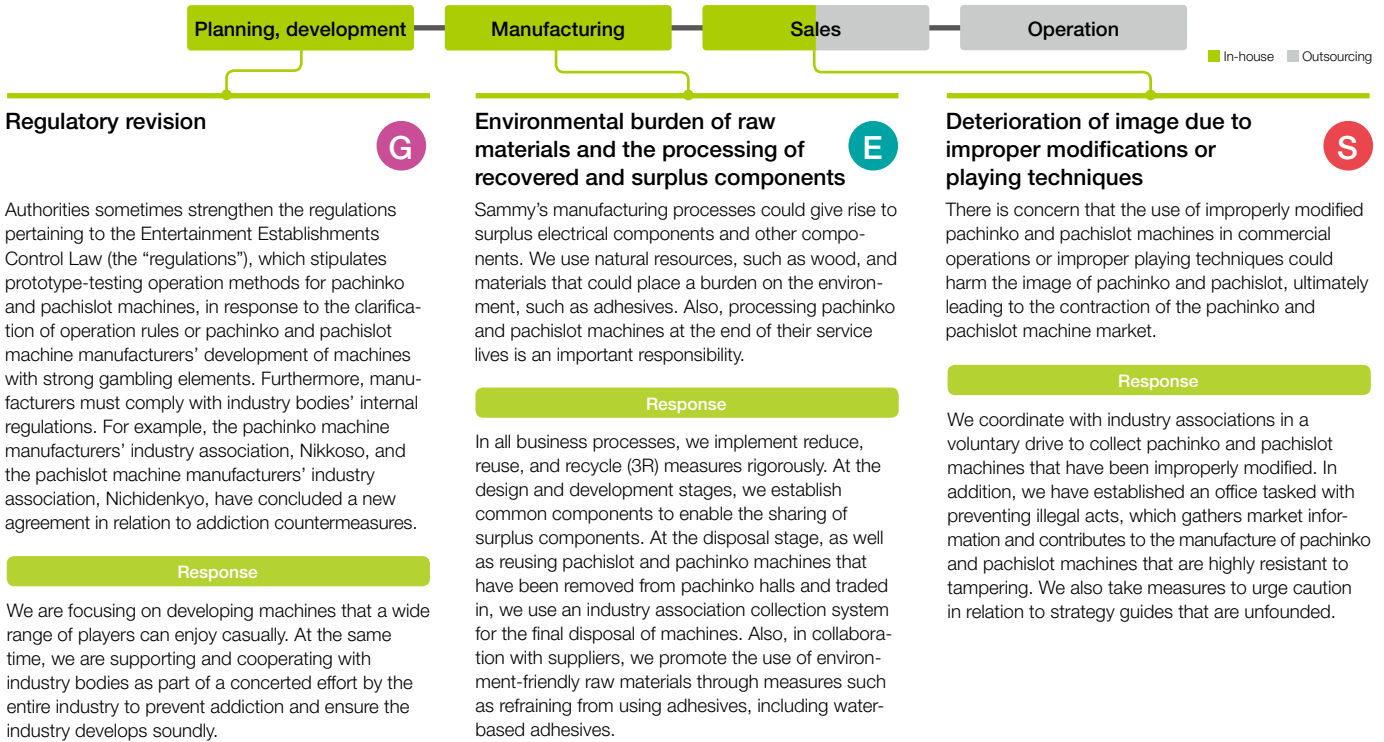


ESG Risks and Responses in the Value Chain

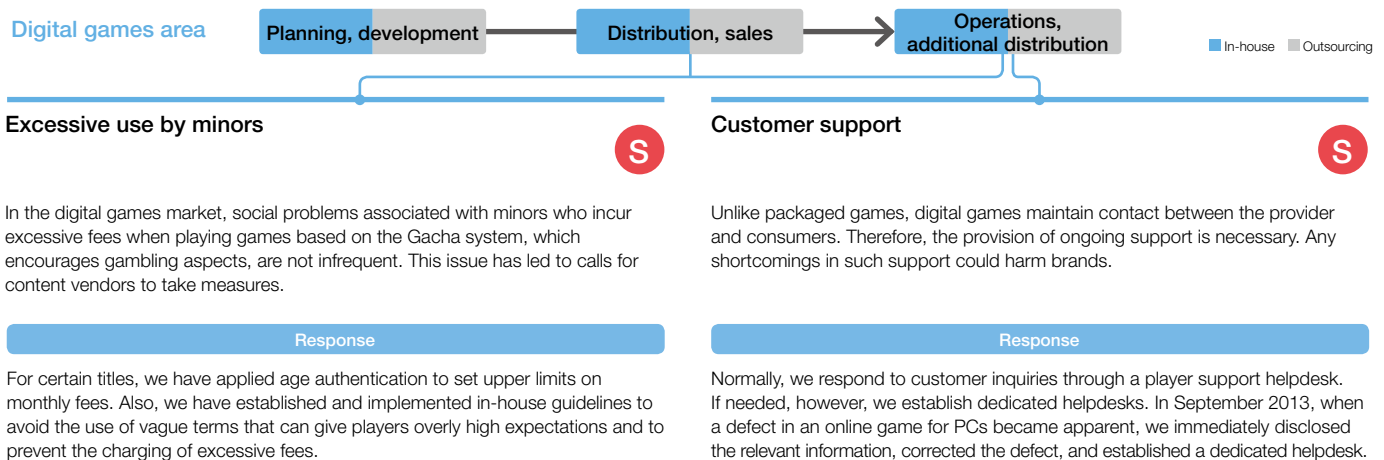
Steps are taken in Group businesses to address the diverse environmental, social, and governance (ESG) risks faced based on the different characteristics of each business' market, business model, and value chain.



Pachislot and Pachinko Machines Business



Entertainment Contents Business



E Environmental Risk **S** Social Risk **G** Governance Risk

Amusement machine sales area



Compliance in relation to procurement



The amusement machine sales area has a fabless business model. If we used our advantageous position to conduct unfair business transactions or failed to comply with the applicable laws in relation to labor practices, we could become subject to legal sanctions. Furthermore, failure to conform to the worldwide strengthening of environmental regulations could lead to the rejection of our products.

Response

The SEGA SAMMY Group strives to establish fair relationships with suppliers based on its Supply Chain Procurement Guidebook and the Group Code of Conduct. For the amusement machine sales area, which has numerous suppliers, we have established a separate AM Material Procurement Policy to ensure rigorously fair business transactions. In addition, we require all suppliers to establish and implement systems for chemicals management based on the SEGA Standards for Device and Product Chemicals. Moreover, we check suppliers' establishment and implementation of these systems as part of our efforts to realize appropriate chemicals management.

Amusement center operations area



Guidance and development of young people



As an operator of amusement centers, we have a social responsibility to take measures in relation to minors that comply with laws prohibiting smoking, restricting access to venues, restricting entry to amusement centers including restaurants that serve alcohol, and prohibiting alcohol consumption.

Response

We educate employees based on an operational manual that clarifies how to respond appropriately with regard to restricting minors' access to venues and prohibiting smoking. In principle, we prohibit unaccompanied minors from entering amusement centers including restaurants that serve alcohol. If minors enter facilities accompanied by guardians, we strictly prohibit the consumption of alcohol by minors.



Resort Business

Integrated Resorts



Compliance violations



Any litigation filed against us or any penalties incurred from regulatory authorities for violations of laws or ordinances may have an impact on our brand image and possibly affect our participation in domestic integrated resort operations.

Response

Under the Group Compliance Liaison Committee, we are working to build a corporate structure that fosters the development of sound corporate management in observance of laws, ordinances, and societal norms.

Social Factors

Relationship between Operational Sustainability, Regulations, and Compliance

In the Pachislot and Pachinko Machines Business and in the amusement center operations area, business activities are required to comply with the Act on Control and Improvement of Amusement Business, etc., and internal industrial rules. Criticism from society regarding issues such as addiction have an influence on revisions to these rules and these revisions have a large impact on our business activities and these revisions. Therefore, it is necessary that the Company take part in public outreach initiatives. Compliance is particularly important for our business category and any penalties or litigation incurred due to compliance violations could cause significant damage to our brand image.

Countermeasure to Addiction

Pachinko and pachislot machines have been a popular source of public entertainment in Japan for many years. However, these machines involve gambling elements and excessive addiction is seen as an important issue. Discussions regarding addiction began when the Society for Research on Pachinko Addiction was formed in 2003. The Recovery Support Network (RSN) was established with support from industry groups in 2006 and conducts wide-ranging problem-solving initiatives such as public outreach and telephone counseling while collaborating with public institutions. The industry is also developing a self-reporting program that allows customers to set limits on the amounts of money they use in machines. It is also in the process of stationing Secure Pachinko and Pachislot Advisors who provide consultation regarding addiction issues at pachinko halls across Japan. In January 2017, 14

groups from the pachinko and pachislot machine industry (collectively referred to as the 21st Century Pachinko and Pachislot Industry Association) released their Statement Regarding Issues Involving Pachinko and Pachislot Addiction and announced their

commitment to participating in industry-wide addiction countermeasures. The association resolved to strengthen its addiction issue countermeasures in November 2017 with an emphasis on enhancing its support for the RSN. The SEGA SAMMY Group will play a leading role in these types of initiatives and contribute to sound development in the industry.



Prevention of Improper Modification and Playing Techniques

In response to 2004 revisions to the enforcement of regulations regarding the Entertainment Establishments Control Law, we are promoting initiatives aimed at preventing cheating and other attempts to obtain returns through illicit means in the Pachislot and Pachinko Machines Business.

Starting April 2016, pachinko and pachislot machine manufacturers, who had only been responsible for their machines from factory production to shipment, became responsible for their machines until they are actually placed in pachinko halls. Under these circumstances, the Company and industry groups are advancing initiatives geared toward securing product traceability to prevent illegal modifications.

Expanding Scope of Responsibility

Previously up until shipment



Factory

Now up until installation



Hall

- Rigorous traceability measures for preventing improper modification
- Reinforced security during delivery

Prevention of Excessive Micro-Transaction Payments

The Gacha system has strong gambling elements that can lead to excessive micro-transaction payments. These regulation for the system is getting stricter based on concern for minors being entranced by these gambling elements. Out of consideration for issues regarding excessive game use and micro-transaction payment for minors, we have enabled the use of age authentication systems for certain titles that set upper limits on monthly fees. In addition, we have established in-house guidelines and are working to avoid the use of vague terms that can cause overly high expectations and excessive payment that can result from them.

Relationship between Partners and Suppliers and Business Sustainability

In the Pachislot and Pachinko Machines Business, we are dependent on numerous suppliers. Accordingly, our relationships with suppliers and manufacturing subcontractors can impact the sustainability of our business in areas where we conduct fables manufacturing, such as the packaged games area, amusement machines sales area, and toys area. Moreover, our relationships with partners in invigorating the industry have also been becoming more important in recent years.

● Fair and Impartial Business Transactions

Since fiscal 2016, basic transaction contracts have stipulated our expectations of understanding and adherence with the SEGA SAMMY Group's Supply Chain Procurement Guidebook. In the amusement machine sales area, we request that all suppliers conduct annual self-inspections of their environmental and quality initiatives using check sheets. In addition, procurement representatives visit the sites of major suppliers once a year to perform audits. For purchases in the Pachislot and Pachinko Machines Business segment, we engage in supply chain-spanning purchasing activities based on the Group CSR Charter and the Group Code of Conduct. In fiscal 2018, we performed audits for 96 supplier companies.



● Working to Eradicate Child and Forced Labor

In the Entertainment Contents Business, we are promoting initiatives related to the prohibition of child and forced labor, mainly at overseas factories to which we have outsourced manufacturing. At SEGA Interactive Co., Ltd., we visit factories entrusted with our prize product manufacturing once in every two months to conduct factory checks that include on-site inspections and factory audit by third-party factory that currently cover 92% of our suppliers. SEGA ENTERTAINMENT is working to minimize related risks associated with prize products for amusement centers by conducting surveys regarding slave labor and human trafficking at major suppliers, as well as verifying management conditions of them (Audits currently cover 60% of suppliers). SEGA TOYS CO., LTD., is currently reworking its basic manufacturing agreements to include compliance clauses regarding forced labor and child labor. It is also conducting training related to human rights and third-party checks to confirm if contracting factories have acquired labor standards compliance certificates. Currently, 95% of SEGA TOYS' suppliers are covered by these checks.

● Collaboration with Partners and Competitors

The markets are shrinking for the Pachislot and Pachinko Machines Business segment as well as for the amusement machine sales area. It is therefore necessary that we collaborate with competitors in order to invigorate the industry and streamline its structure. In the Pachislot and Pachinko Machines Business segment, Sammy and Universal Entertainment Corporation established ZEEG Co. Ltd. as a joint venture to engage in cabinet development and joint parts purchasing.

Efforts in the amusement machine sales area include sales of PFU Limited's multi-e-money system for amusement machines, which allows for transportation and other e-money cards to be charged with a single device. Targeting amusement facilities nationwide, these sales are being conducted through collaboration with Konami Digital Entertainment Co., Ltd.



Environmental

Environmental Factors

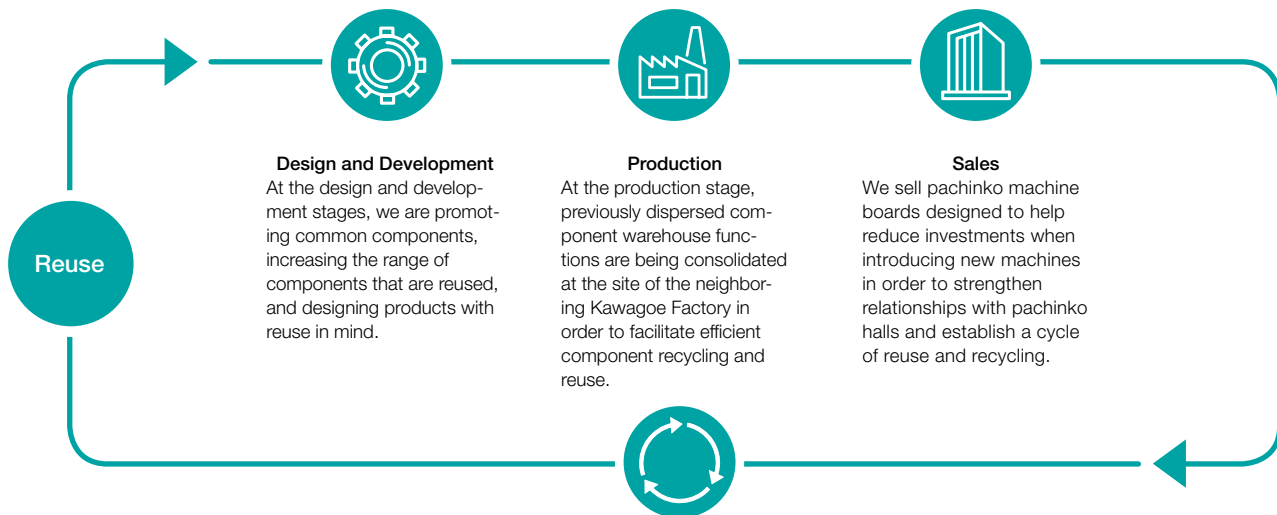
Relationship between Natural Capital and Business Sustainability

The Pachislot and Pachinko Machines Business segment operates the Group's only business in which hardware is produced in-house. Accordingly, this business consumes various natural resources in its use of components and in its manufacturing processes. It is therefore necessary to take steps to reduce the environmental impact of our manufacturing processes, and, given the relatively short lifecycles of our products, we must also stringently manage waste.

● Reduction of Environmental Impact and Improvement of Profitability in the Pachislot and Pachinko Machines Business

The SEGA SAMMY Group is pursuing optimization in all areas of the pachinko and pachislot machine value chain, including development, manufacturing, and sales. Through these efforts, we aim to reduce environmental impact by cutting back on component use while also improving profitability by reusing components. The range of components to which these initiatives apply is being expanded and we are also increasingly the rate of using common components. In addition, we are promoting these initiatives in the industry as a whole. We thereby aim to lead the industry in improving efficiency.

Promotion of Reuse across the Value Chain



Waste Disposal

The Group seeks to ensure proper disposal of used pachinko and pachislot machines that have reached the end of their lives of bringing joy to customers. We therefore promote recycling by offering trade-in programs with regard to our own machines and by utilizing an industry association collection system. We also participate in the used pachinko and pachislot machine collection system developed by industry associations to implement more advanced recycling measures (reduction of weight and appropriate treatment).

Environmental Indicators at Sammy's Kawagoe Factory

		(FY)	2016	2017	2018
Pachinko and pachislot machine recycle rate	Recycle rate		97.28%	97.21%	95.99%
Use of environment-friendly raw materials	Amount of wood used		1,077 t	1,494 t	566 t
	Of which, PEFC-certified wood*		45 t (4.2%)	84 t (5.6%)	38 t (6.8%)

* PEFC-certified wood: This refers to wood certified by the Programme for the Endorsement of Forest Certification. This wood is appropriately procured from forests that have received third-party certification as sustainably managed forests. Our use of PEFC-certified wood has declined due to a decrease in the volume of products that we manufacture for which PEFC-certified wood is usable. In fiscal 2014, we changed over to procuring bonded components. All of the components we procure use water-based adhesives, which place less burden on the environment. Components glued together using environmentally-friendly water-based adhesives have been purchased from suppliers since fiscal 2014.

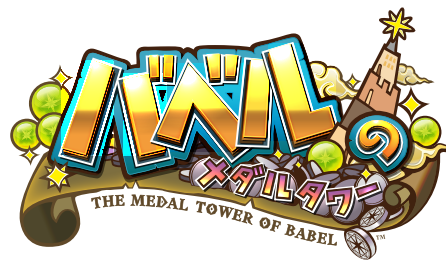
● Group Environmental Management System

The SEGA SAMMY Group conducts a wide range of businesses that extends from product manufacturing to facility management and believes that it must comprehend the environmental impact of all its business activities in order to reduce them. With this in mind, we gather, tabulate, and contextualize basic environmental data from our principal business locations and facilities and evaluate our progress on environmental impact. Moving forward, we will continue to actively promote the efficient use of lighting and air conditioning as well as conversion to energy-saving equipment in order to reduce our electrical power usage.

● Environment-Conscious Product Design

We are conducting ongoing energy conservation initiatives in the Entertainment Contents Business. Our token-operated game machine, *The Medal Tower of Babel*, uses 55% less energy than conventional machines, and we have designed our current amusement machines to have components that can be reused in later products in an effort to reduce waste. Sega Logistics Service Co., Ltd., manually disassembles and completely recycles the parts of discarded machines from amusement centers. Sega Logistics Services is achieving its goals of zero landfill waste and zero unnecessary waste incineration by inviting intermediary industrial waste disposal contractors to its business locations to reduce disposal costs and by rolling out a nationwide recycling system that prevents illegal waste dumping.

In the Pachislot and Pachinko Machines Business, the Group is working to raise the reusability of parts collected through machine trade-ins by standardizing machine parts, circuit boards, and components from the design and development stages. We are also establishing numerical targets for parts that can be reused over the medium term and promoting its expansion.



The Medal Tower of Babel
©SEGA

● Proper Management of Products Containing Potentially Hazardous Chemicals

SEGA Interactive, which is involved with the Group's Entertainment Contents Business, requires all of our suppliers to build and apply a Management System for Products Containing Potentially Hazardous Chemicals based on the SEGA Standards for Device and Product Chemicals. Suppliers conduct self-inspections on their systems and report results to us. We then visit our suppliers' manufacturing bases to verify progress on the construction and application of their management systems. Through these efforts, we are working to secure proper management of products containing potentially hazardous chemicals throughout our supply chain.

Social Contributions

Social Contributions

“Making Life More Colorful”

The SEGA SAMMY Group conducts ongoing fund-raising, donation activities, and activities to deliver *moving experiences* with the power of entertainment to areas stricken by natural disasters, such as the 2011 Great East Japan Earthquake and the 2016 Kumamoto Earthquakes. The Group is also searching for ways in which it can offer unique contributions to society as Japan's population rapidly ages.

● Group Employee Volunteer Work and Events Supporting Disaster-Stricken Areas

Under the theme of “delivering smiles and well-being” through entertainment, volunteer Group employees have been continuously holding support events for areas affected by the Great East Japan Earthquake since June 2011. In addition to beach cleanings, support for the fishing industry and temporary housing assistance, the SEGA SAMMY Group holds various events using its diverse products and services, including events featuring celebrities. We also incorporate visits to disaster-stricken areas into training for new Group employees. On top of its support activities, the Company is performing Group works, such as publishing reconstruction measures, that inspire a will to contribute to society. We will make use of this will in our future endeavors.



● Toy Donation

SEGA SAMMY Group are donating toys and goods for children of its operating companies to nonprofit organizations (NPOs) that the Company selects in collaboration with the Japan NPO Center, a certified specific non-profit corporation. We have been conducting this charitable initiative since fiscal 2010 and are now welcoming our ninth set of donations. In fiscal 2018, the Group donated about 50 products from SEGA TOYS to Family House, an authorized NPO that provides resident support for families raising children with pediatric cancer or incurable diseases.

Additionally, Group employees regularly visit accommodations for these children and, along with general volunteers, sterilize and mend stuffed toys.



● Contributing to an Aging Society through Entertainment

Sammy Corporation invites visitors from facilities for the elderly to enjoy its pachinko and pachislot machines along with volunteer Group employees once or twice per month. We started this activity on June 27, 2006 in response to an employee's suggestion and have held 247 events as of March 2018. We continue to engage in this activity as it offers us opportunities to provide social value to Japan's aging society through entertainment.

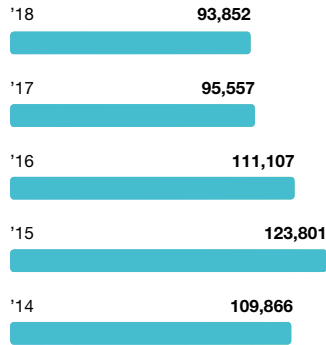


Non-Financial Data

Years ended March 31



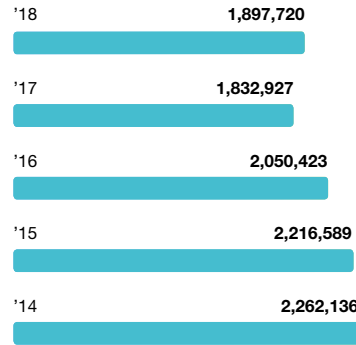
CO₂ Emissions
t-CO₂



(FY)



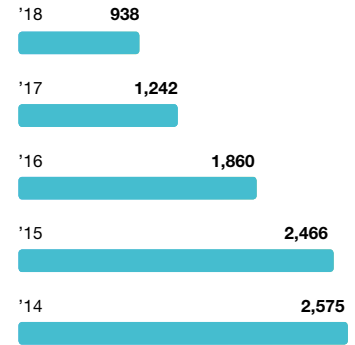
Total Energy Input
GJ



(FY)



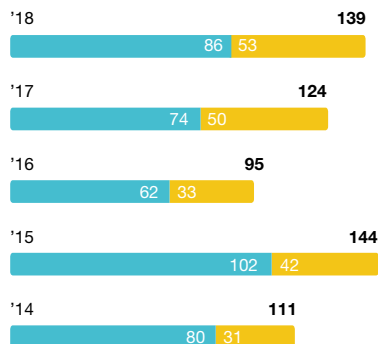
Industrial Waste Discharged
t



(FY)



Number of New Graduates
People

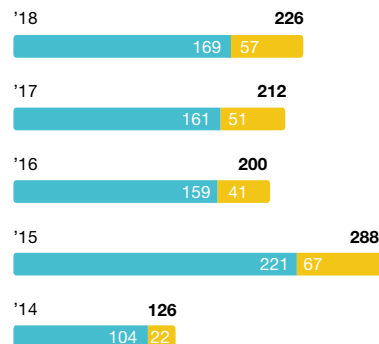


(FY)

■ Male
■ Female



Number of Mid-Career Recruits
People

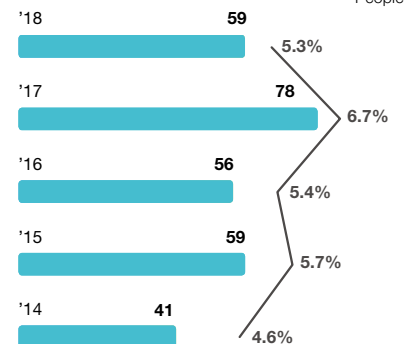


(FY)

■ Male
■ Female



Number of Female Management-Level Staff / Percentage of Female Management-Level Staff
People

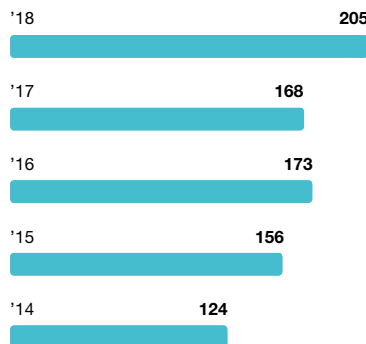


(FYE)

■ Number of female management-level staff
— Percentage of female management-level staff



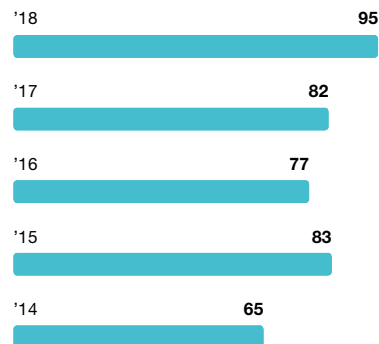
Number of Physically Challenged Employees
People



(FY)



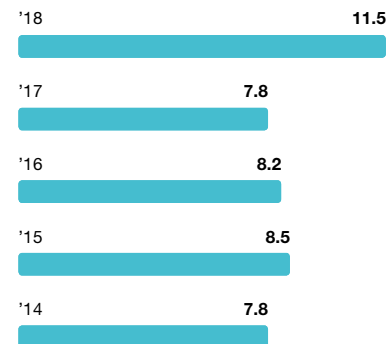
Number of Employees Who Have Taken Childcare Leave
People



(FY)



Number of Days of Paid Leave Taken
Days

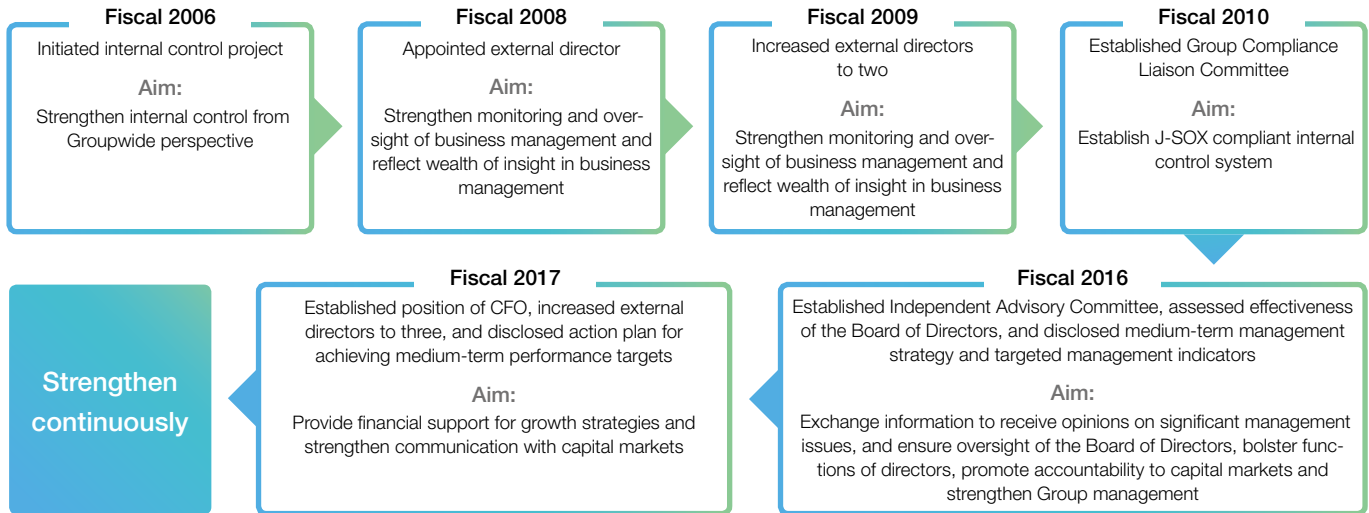


(FY)

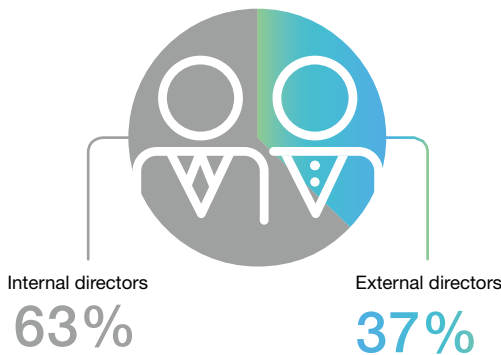
Corporate Governance

Corporate Governance

Corporate Governance System



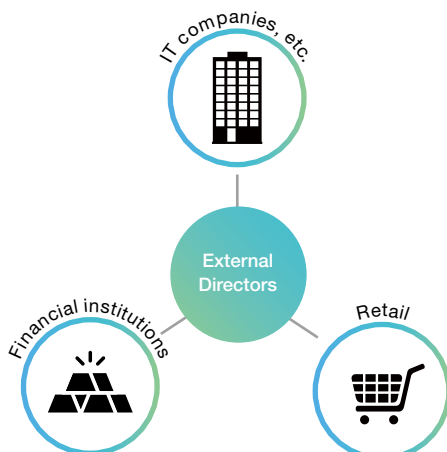
Composition of External Directors



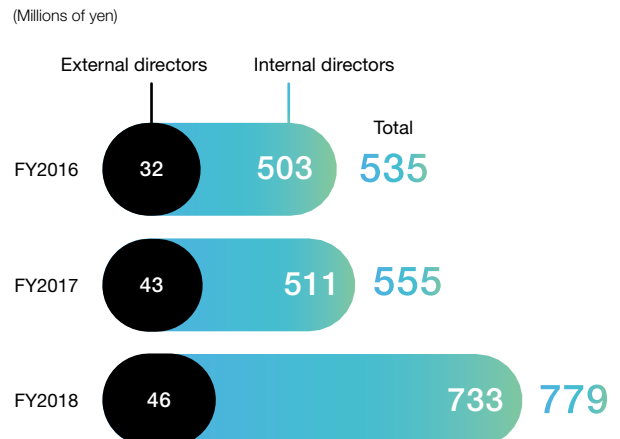
Internal Directors' Periods of Service (As of August 2018)



Careers of External Directors



Compensation of Directors (SEGA SAMMY HOLDINGS non-consolidated)



Overview of Governance Structure

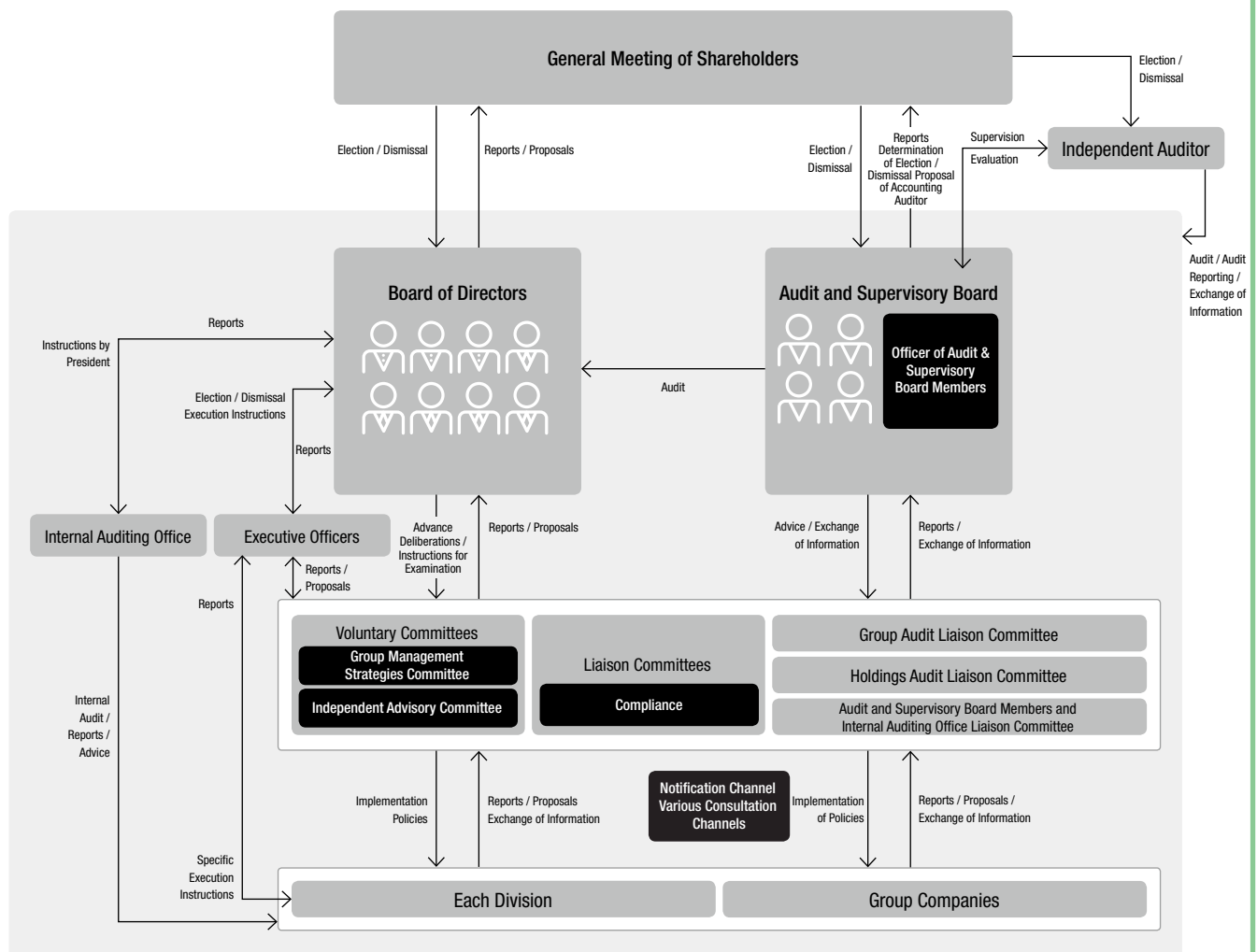
The SEGA SAMMY Group has adopted an Audit and Supervisory Board member system to enable directors to make prompt, optimal decisions amid volatile business conditions based on their wealth of expertise and experience regarding the industry, market trends, products, merchandise, and services. At the same time, we have appointed external directors and strengthened our executive officer system and internal auditing system, thereby reinforcing corporate governance with respect to operational management and oversight.

Comprising eight directors, the Board of Directors strives for agile business management. It convenes once a month in principle, holding extraordinary sessions as required.

Comprising four members, the Audit and Supervisory Board thoroughly examines and analyzes specific issues. It meets once a month and holds extraordinary sessions as required.

The SEGA SAMMY Group has established voluntary committees—the Group Management Strategies Committee and the Independent Advisory Committee—as well as the Group Compliance Liaison Committee, the Group Audit Liaison Committee, the Holdings Audit Liaison Committee, and the Audit and Supervisory Board Members and Internal Auditing Office Liaison Committee. These committees were established to facilitate intra-Group information sharing, discussion, verification, and coordination, and they are also tasked with issuing reports and making proposals to the Board of Directors. Furthermore, the Company has adopted an executive officer system with the aim of expediting management decision making and enhancing operational implementation and related oversight functions.

Corporate Governance System (As of June 30, 2018)



External Directors and Audit and Supervisory Board Members

The Company has eight directors, three of whom are external directors and independent directors, as well as four Audit and Supervisory Board members, two of whom are outside Audit and Supervisory Board members and independent directors. At the various meetings that they attend, external directors and outside Audit and Supervisory Board members provide guidance and advice based on their abundant experience and highly specialized knowledge.

Selection Policy

External directors provide advice on raising the corporate value of the Company and the Group from an external perspective, based on their extensive expertise and experience. Aiming to enable the oversight of directors' implementation of operations, we appoint external directors from among business executives. We appoint outside Audit and Supervisory Board members with extensive expertise and experience in a wide range of areas because we appreciate the important role outside Audit and Supervisory Board members perform in realizing corporate governance by heightening the impartiality and independence of the auditing system. Also, we aim to ensure the soundness of business management through auditing from an objective standpoint.

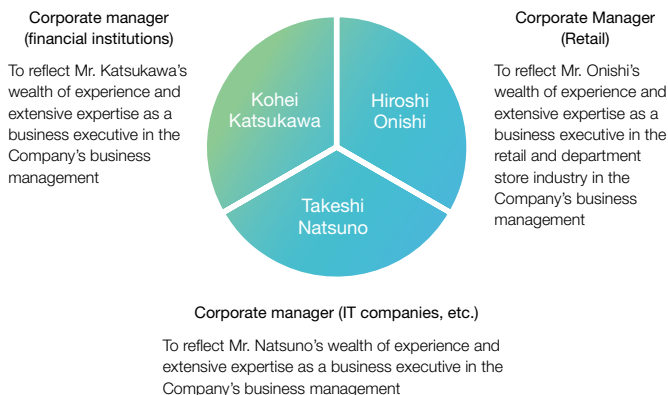
Policy Regarding Independence

Regarding the independence of external directors and external Audit and Supervisory Board members, the Company determines based on "significant business partners" or "large monetary amounts," which are cited in the independence criteria stipulated by the Tokyo Stock Exchange (TSE), with reference to the publicly announced standard model for appointing independent directors and based on said criteria. We deem that persons satisfying the requirements of the said criteria do not have conflicts of interest with general shareholders. The Company has adopted a policy of appointing all independent directors as external directors and outside Audit and Supervisory Board members that meet the independence criteria stipulated by the TSE. Accordingly, we have designated all currently serving external directors and outside Audit and Supervisory Board members as independent directors.

Independent Advisory Committee

The Independent Advisory Committee comprises all of the Company's independent external directors and independent outside Audit and Supervisory Board members. In response to consultation by the Board of Directors or the chief executive officer, the Independent Advisory Committee provides opinions from an independent standpoint that primarily relate to analyses and assessments of the effectiveness of the Board of Directors as a whole; involvement in the decision-making process for compensation; and assessments of candidates for the positions of director or Audit and Supervisory Board member.

Reason for Appointment of External Directors



Reason for Appointment of Outside Audit and Supervisory Board Members

Outside Audit and Supervisory Board Members	Reason for Appointment
Tomio Kazashi	To reflect Mr. Kazashi's wealth of expertise and practical experience in business and as an Audit and Supervisory Board member in the Company's auditing
Mineo Enomoto	To reflect Mr. Enomoto's expert perspective as an attorney and extensive expertise in relation to business management in the Company's auditing

Activity in Fiscal 2018

Board of Directors	Meeting Attendance
Board of Directors convened	14 times
External directors	
Yuji Iwanaga	Attended 14 of 14 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Takeshi Natsuno	Attended 13 of 14 meetings (including 11 of 12 ordinary Board of Directors' meetings)
Kohei Katsukawa	Attended 13 of 14 meetings (including 11 of 12 ordinary Board of Directors' meetings)
External directors' attendance	95%
Outside Audit & Supervisory Board members	
Tomio Kazashi	Attended 14 of 14 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Mineo Enomoto	Attended 12 of 14 meetings (including 10 of 12 ordinary Board of Directors' meetings)
Outside Audit & Supervisory Board members' attendance	93%

Message from a Newly Appointed External Director



Hiroshi Onishi

My name is Hiroshi Onishi, and I was recently appointed as an outside director. Until now, I was engaged in management for many years in the retail and department store industry.

In the retail and department store industry, amid contraction in the industry overall, we emphasized “workplace skills” while repeatedly taking on challenges and engaging in innovation to break down notions of common sense and existing frameworks. In the entertainment industry as well, end-user

preferences are undergoing dramatic changes and the SEGA SAMMY Group is taking on the challenge of innovations that do not follow conventions of the past. I will make full use of my experience up to now, limited though it may be, and work diligently to transform the SEGA SAMMY Group and enhance its corporate value with the intention of meeting the expectations of shareholders and all other stakeholders.

Assessment of the Effectiveness of the Board of Directors

The Independent Advisory Committee analyzes and assesses the Board of Directors as a whole with respect to its size, composition, management method, deliberations, and support systems as well as other matters that are important for the effective performance of roles and duties by the Board of Directors. In fiscal 2018, each director responded to a questionnaire. In light of these responses, the Independent Advisory Committee conducted an assessment and reported that the effectiveness of the Company's Board of Directors was being maintained at an ordinary Board of Directors' meeting convened at the end of May 2018. The Independent Advisory Committee favorably evaluated measures to encourage in-depth discussions of matters, which included creating opportunities to discuss important matters in advance of Board of Directors' meetings. At the same time, the Committee recommended that (a) thorough feedback be provided with regard to remarks and opinions provided during advance discussions and that (b) explanations of matters already explained beforehand at Board of Directors' meetings be streamlined to ensure adequate time for deliberation in order to ensure effective management. In light of this effectiveness assessment, the Board of Directors will improve its functions and effectiveness.

Compensation of Directors

The Company pays basic compensation to directors (excluding external directors) commensurate with the significance of their positions and the scope of their duties and responsibilities. Also, the Company pays variable compensation, comprising bonuses and stock options, in light of its business results in the relevant fiscal year.

The president indicates the basic policy on the determination of compensation to the Board of Directors. Based on delegation through a resolution of the Board of Directors, the president consults with the Independent Advisory Committee regarding the assessment of each director. The committee assesses directors and the Board of Directors based on the achievements of each director. The committee submits an opinion to the president based on the results. With reference to the committee's opinion, the president determines an amount of compensation that is within the limit that the Ordinary General Meeting of Shareholders has approved for compensation* and reports the decision to the Board of Directors.

* A resolution of the Ordinary General Meeting of Shareholders in June 2012 set the limit for directors' compensation at ¥1 billion. A resolution of the Ordinary General Meeting of Shareholders of Sammy Corporation and a resolution of the Ordinary General Meeting of Shareholders of SEGA CORPORATION in June 2004 set the limit for Audit and Supervisory Board members' compensation at ¥50 million.

Compensation of directors and Audit and Supervisory Board members for fiscal 2018 is as follows.

Position		Directors / Audit and Supervisory Board members	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)		
				Basic compensation	Bonus	Stock options
Directors	Internal	5	733	432	269	32
	Outside	3	46	46	—	—
Audit and Supervisory Board members	Internal	1	18	18	—	—
	Outside	2	22	22	—	—

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2018 is as follows.

Name	Position	Total consolidated compensation, etc. (Millions of yen)	Company	Total consolidated compensation by type (Millions of yen)		
				Basic compensation	Bonus	Stock options
Hajime Satomi	Director	458	The Company	276	173	9
Haruki Satomi	Director	196	The Company	60	65	11
			Sammy	36	—	—
			SEGA Holdings	12	—	—
			SEGA Games	6	—	—
			Sammy Networks	6	—	—

Nomination of Directors and Audit and Supervisory Board Members

In determining candidates for the positions of director and Audit and Supervisory Board member, the Company's basic policy is to conduct a comprehensive assessment of their personal qualities, expertise, knowledge, capabilities, and experience. The Independent Advisory Committee considers the candidates that the president has nominated, interviews the candidates, and submits an opinion based on assessment results to the president. With reference to these assessment results and in accordance with the abovementioned policy, the president determines candidates for the position of director or Audit and Supervisory Board member, and the Board of Directors examines and approves the candidates. The same procedure is followed if the Independent Advisory Committee recommends a candidate to the president for the positions of director or Audit and Supervisory Board member.

Training of Directors and Audit and Supervisory Board Members

When appointing a director or Audit and Supervisory Board member, the Company conducts an orientation about its systems and provides opportunities to participate in training aimed at the acquisition of knowledge about the roles and duties that a director or Audit and Supervisory Board member of a listed company is expected to fulfill as well as about related laws and regulations and compliance. After appointing a director or Audit and Supervisory Board member, the Company continuously provides opportunities for them to acquire required knowledge. For example, after meetings of the Board of Directors the Company holds workshops, which are conducted by outside lecturers who are lawyers or specialists in particular fields. Also, the Company encourages self-improvement by supporting participation in outside seminars or workshops.

Shares Held for Strategic Reasons

In addition to shares it holds purely as investments, the Company holds shares to enable the expansion of operational alliances and business transactions and thereby enhance corporate and shareholder value. Meetings of the Board of Directors regularly verify economic rationality and outlooks in relation to such shares and consider the pros and cons of holding the shares going forward. In exercising voting rights associated with the shares, the Company's criterion is whether proposals will contribute to the sustained growth of the Company and the investee and thereby enhance corporate value over the medium-to-long term.

Transactions with Related Parties

Transactions between the Company and directors or between the Company and companies under the effective control of directors that would constitute a conflict of interest or competition with the Company require approval through a resolution of the Board of Directors pursuant to laws and regulations. Further, in securities reports the Company discloses transaction conditions and policies on the determination of transaction conditions. The Company has established systems to ensure that transactions with directors or companies under the effective control of directors and transactions with customers that are major shareholders do not disadvantage the Company.

Internal Control

In addition, an internal control project launched in fiscal 2006 established an assessment and reporting framework for internal control in accordance with the stipulations of Japan's Financial Instruments and Exchange Act, which requires "Management Assessment and Audit concerning Internal Control Over Financial Reporting" (J-SOX). Also, the Company has rectified deficiencies that the project identified. As a result, systems to ensure the reliability of financial reports have become firmly established in the Group. We believe that internal controls operated effectively in relation to the financial reports the Group issued for fiscal 2018. As we continue to ensure the reliability of financial reports, we will maintain and build internal control systems to increase efficiency and ensure soundness.

For details, please see Our Stance and Status on the Corporate Governance Code on our corporate website:
https://www.segasammy.co.jp/english/media/file/pr/corp/governance/governance_report.pdf

Compliance

Based on the Group Code of Conduct and the Group Management Policy, the SEGA SAMMY Group is undertaking a variety of initiatives to ensure that all employees are aware of compliance and to enable them to act appropriately. Furthermore, having identified loss risks within and outside the scope of its business management and clarified the tasks it should address, the Group implements operations, minimizes the loss of management resources, and prevents recurrence.

Because inculcating the Group Code of Conduct among employees is important to our compliance program, we distribute a CSR guidebook to employees that includes the Group Mission, the Group Management Philosophy, and the Group CSR Charter. Employees can also view these and the Group Management Policy on the Company's intranet.

Compliance Promotion Structure

Established in fiscal 2010 to strengthen initiatives throughout the Group, the Group Compliance Liaison Committee spearheads efforts to build internal structures that enable sound management in accordance with statutory laws and regulations and social norms. Also, the Company is developing and implementing Groupwide initiatives.

These include continuation of Compliance Advancement Initiatives, which it began in fiscal 2010, and informing employees about a comprehensive revision of the whistleblower system to ensure operational duties are performed appropriately.

Informing Employees about the Group Code of Conduct and Other Commitments

The SEGA SAMMY Group complies rigorously with corporate ethics and statutory laws and regulations by ensuring all employees of the Group understand the Group CSR Charter and by providing guidance on conduct and performance of duties consistent with the spirit of this charter in the Group Code of Conduct and the Group Management Policy.

Communication with Shareholders and Other Investors

The Company has defined its basic stance toward information disclosure described in its Investor Relations Policy. Based on this stance, the director in charge of the Finance & Accounting Division, who is also responsible for information management, guides the Investor Relations Department within the Finance & Accounting Division in conducting information disclosure. The disclosure activities of this specialized organization are advanced in accordance with the Financial Instruments and Exchange Act and other laws and ordinances as well as the Regulations Governing the Timely Disclosure of Corporate Information by Issuer of Listed Securities set forth by the TSE. In addition to information disclosure mandated by laws or the abovementioned timely disclosure regulations, the Company also conducts proactive voluntary disclosure of information with the potential to significantly influence the decisions of investors. Further, we participate in conferences that securities companies organize.

Whistleblower System

The Group has established a whistleblower system to enable self-correction within the Group and to prevent scandals due to illegal or unfair practices. Each Group company has established a whistleblower system and a contact point at an external law office. The Group investigates reported matters, rectifies them, and takes measures to prevent recurrence of such issues. Also, the Group has established a system that protects whistleblowers and uses its intranet and posters to inform all employees about the system. In fiscal 2017, the Group introduced a whistleblower system to overseas operations.

In Japan, the whistleblower system responded to 21 cases in fiscal 2015, 9 in fiscal 2016, 16 in fiscal 2017, and 19 in fiscal 2018. Breaking down whistleblower reports between fiscal 2014 and fiscal 2018, suspected power harassment cases accounted for 35% of reports, suspected rule or law violation cases 25%, suspected sexual harassment cases 12%, employment-related cases 8%, and other cases 20%. As for the whistleblowers, 52% were employees; 15% were part-time or temporary personnel; 8% were retirees, family members, or business partners; and 25% were unknown due to anonymous reporting.

In addition, the Company continually takes measures to further investors' understanding of its business activities. For example, we are increasing and improving the investor relations-related materials available on our corporate website. Moreover, our web site has a section for individual investors that includes readily understandable explanations of the Group.

Furthermore, the Company endeavors to heighten the objectivity of its business management by reflecting valuable opinions and requests received from shareholders and investors in its business management.



Directors, Audit and Supervisory Board Members, and Executive Officers

(As of June 22, 2018)

Directors



Hajime Satomi

Chairman and Group CEO (Representative Director)

- 1980 President (Representative Director) of Sammy Industry Co., Ltd. (now Sammy Corporation)
- 2004 Chairman of the Board (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Chairman and CEO (Representative Director) of Sammy Corporation
Chairman and CEO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Chairman, President and CEO (Representative Director) of the Company
- 2007 President, CEO and COO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2008 Chairman and CEO (Representative Director) of the above
- 2012 Chairman of the Board of Sammy Corporation
Chairman of the Board of PHOENIX RESORT CO., LTD.
- 2013 Chairman and CEO (Representative Director) of Sammy Corporation
- 2015 Chairman and CEO (Representative Director) of SEGA Holdings Co., Ltd.
- 2016 Chairman, President, CEO and COO (Representative Director) of the Company
- 2017 Chairman and CEO (Representative Director) of the Company
Chairman of the Board (Representative Director) of Sammy Corporation (current position)
Honorary Chairman of the Board of SEGA Holdings Co., Ltd. (current position)
Chairman of the Board of MARZA ANIMATION PLANET INC. (current position)
- 2018 Chairman and Group CEO (Representative Director) of the Company (current position)
Senior Advisor (Director of the Board) of PHOENIX RESORT CO., LTD. (current position)



Haruki Satomi

President and Group COO (Representative Director)

- 2004 Joined Sammy Corporation
- 2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.)
Director of SEGA of America, Inc.
- 2011 Senior Vice President (Director of the Board) of Sammy Networks Co., Ltd.
- 2012 President and CEO (Representative Director) of the above
Senior Vice President (Director of the Board) of the Company
Senior Vice President (Director of the Board) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
President and CEO (Representative Director) of SEGA Networks Co., Ltd. (now SEGA Games Co., Ltd.)
- 2014 Senior Vice President (Director of the Board) of Sammy Corporation
Deputy COO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2015 Deputy COO (Representative Director) of SEGA Holdings Co., Ltd.
President and CEO (Representative Director) of SEGA Games Co., Ltd.
Deputy COO (Representative Director) of Sammy Corporation
- 2016 President and COO (Representative Director) of the above
Chairman of the Board (Representative Director) of Sammy Networks Co., Ltd. (current position)
Executive Vice President (Director of the Board) of the Company
- 2017 President and COO (Representative Director) of the Company
President and CEO (Representative Director) of Sammy Corporation (current position)
Chairman and CEO (Representative Director) of SEGA Holdings Co., Ltd. (current position)
Chairman and CEO (Representative Director) of SEGA Games Co., Ltd. (current position)
Chairman of the Board of Sega Sammy Golf Entertainment Inc. (current position)
- 2018 President and Group COO (Representative Director) of the Company (current position)
Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)



Naoya Tsurumi

Senior Executive Vice President (Director of the Board)

- 1992 Joined SEGA Enterprises, Ltd. (now SEGA Games Co., Ltd.)
- 2004 Vice President, Executive Officer of SEGA CORPORATION (now SEGA Games Co., Ltd.)
CEO of SEGA Publishing Europe Ltd.
- 2005 CEO of SEGA Publishing Europe Ltd.
- 2006 Vice President, Senior Executive Officer of SEGA CORPORATION (now SEGA Games Co., Ltd.)
CEO and President of SEGA Holdings U.S.A., Inc.
Chairman of SEGA of America, Inc.
- 2008 Senior Vice President (Director of the Board) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2009 Executive Vice President (Director of the Board) of the above
Chairman of SEGA Europe Ltd.
- 2012 President and COO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Vice Chairman and CEO of Sega Jinwin (Shanghai) Amusements Co., Ltd.
Senior Vice President (Director of the Board) of the Company
CEO and President of SEGA Holdings Europe Ltd.
- 2014 Senior Executive Vice President (Representative Director) of the Company
Vice Chairman of the Board of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Vice Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
Member of the Board of Directors of PARADISE SEGASAMMY Co., Ltd.
- 2015 Vice Chairman of the Board of SEGA Holdings Co., Ltd.
Chairman, Representative Director and President of SEGA LIVE CREATION Inc. (now CA Sega Joypolis Ltd.)
Chairman of the Board of Sega Sammy Golf Entertainment Inc. (current position)
- 2016 Senior Executive Vice President (Director of the Board) of the Company (current position)
- 2017 Chairman and Director of CA Sega Joypolis Ltd. (current position)
Senior Executive Vice President of PARADISE SEGASAMMY Co., Ltd. (current position)

External Directors



Takeshi Natsuno*

Director of the Board (External)

- 2005 Executive Officer and General Manager of Multimedia Services Department of NTT Mobile Communications Network, Inc. (now NTT DOCOMO, Inc.)
- 2008 Director of the Board (External) of the Company (current position)
Outside Director of transcossmos inc. (current position)
Director of DWANGO Co., Ltd. (current position)
Director of NTT Resonant Inc. (current position)
Guest Professor, Graduate School of Media and Governance of Keio University
- 2009 Outside Director of DLE, Ltd. (current position)
Outside Director of GREE, Inc. (current position)



Kohei Katsukawa*

Director of the Board (External)

- 2010 Outside Director of U-NEXT Co., Ltd. (Now USEN-NEXT HOLDINGS Co., Ltd.) (current position)
- 2013 Guest Professor, Graduate School of Media and Governance of Keio University (current position)
- 2016 Outside Director of Oracle Corporation Japan (current position)
- 2017 Outside Director of AWS Holdings (now Ubitcom Holdings) (current position)
Outside Director of GENETEC CORPORATION (current position)
Outside Director of Cool Japan Fund Inc. (current position)
- 1974 Joined Sumitomo Bank (now Sumitomo Mitsui Banking Corporation)
- 2001 Executive Officer, Head of Osaka Corporate Banking Division II of Sumitomo Mitsui Banking Corporation
- 2005 Managing Executive Officer, Deputy Head of Wholesale Banking Unit (in charge of East Japan) of the above
- 2007 Executive Vice President and Representative Director of NIF SMBC Ventures Co., Ltd. (now SMBC Venture Capital Co., Ltd.)
- 2010 President and Representative Director of SMBC Venture Capital Co., Ltd.
- 2014 President and Representative Director of GINSEN Co., Ltd.
Outside Director of Kyoto University Innovation Capital Co., Ltd. (current position)



Koichi Fukazawa

Executive Vice President and Group CFO (Director of the Board)

- 2003 Joined Sammy Corporation
Vice President, Executive Officer and Managing Director of President's Office of the above
- 2004 Vice President, Executive Officer and Managing Director of President's Office of the Company
Vice President, Executive Officer and Managing Director of Chairman's Office and President's Office of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2005 Senior Vice President (Director of the Board) and Managing Director of Chairman's Office and President's Office of the above
- 2007 President (Representative Director) of SEGA SAMMY ASSET MANAGEMENT INC. (now MARZA ANIMATION PLANET INC.)
Senior Executive Officer and in charge of Corporate Strategy and External Affairs of the Company
- 2008 Senior Vice President (Director of the Board) and Managing Director of New Business Division of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2009 President (Representative Director) of SEGASAMMY VISUAL ENTERTAINMENT INC. (now MARZA ANIMATION PLANET INC.)
- 2014 Senior Executive Vice President (Representative Director) of SEGA TOYS CO., LTD.
- 2015 Senior Vice President (Director of the Board) of the above
Senior Vice President (Director of the Board) of the Company
- 2016 Executive Vice President and CFO (Director of the Board) of the Company
- 2018 Executive Vice President and Group CFO (Director of the Board) of the Company (current position)



Hideki Okamura

Executive Vice President (Director of the Board)

- 1987 Joined SEGA Enterprises, Ltd. (now SEGA Games Co., Ltd.)
- 1997 Senior Vice President (Director of the Board) of the above
- 2003 Vice President, Senior Executive Officer of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2004 Director of the Board of TMS ENTERTAINMENT CO., LTD.
Executive Vice President (Director of the Board) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Senior Vice President (Director of the Board) of the Company
- 2007 Senior Vice President (Director of the Board) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2008 President (Representative Director) of TMS ENTERTAINMENT CO., LTD.
- 2014 Vice Chairman of the Board of the above
President and COO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Senior Vice President (Director of the Board) of the Company
- 2015 President and COO (Representative Director) of SEGA Holdings Co., Ltd. (current position)
Chairman of the Board (Representative Director) of SEGA Games Co., Ltd.
Chairman of the Board of SEGA Interactive Co., Ltd. (current position)
Chairman of the Board (Representative Director) of TMS ENTERTAINMENT CO., LTD. (current position)
Chairman of the Board (Representative Director) of SEGA TOYS CO., LTD. (current position)
Chairman of the Board (Representative Director) of MARZA ANIMATION PLANET INC.
Chairman of the Board (Representative Director) of DARTSLIVE Co., Ltd. (current position)
President (Director of the Board) of SEGA ENTERTAINMENT Co., Ltd.

- 2017 Executive Vice President (Director of the Board) of the Company (current position)
Senior Vice President (Director of the Board) of SEGA Games Co., Ltd. (current position)
President (Representative Director) of MARZA ANIMATION PLANET INC. (current position)
Chairman of the Board of SEGA ENTERTAINMENT Co., Ltd. (current position)



Hiroshi Onishi*

Director of the Board (External)

- 2016 Director of the Board (External) of the Company (current position)
Special Advisor of GINSEN Co., Ltd. (current position)
Outside Director of ELECOM CO., LTD. (current position)
- 2017 Director of DX ANTENNA CO., LTD. (current position)

- 1979 Joined Isetan Co., Ltd. (now Isetan Mitsukoshi Ltd.)
- 2005 Executive Officer, Manager, General Planning Section, Management Planning Department of the above
- 2009 President, Representative Director and Executive Officer of Isetan Co., Ltd. (now Isetan Mitsukoshi Ltd.)
- 2010 Director of Isetan Mitsukoshi Holdings Ltd.
- 2011 President, Representative Director, Executive Officer and Division Manager / Department Store Business Planning & Operation Headquarters of Isetan Mitsukoshi Ltd.

- 2012 President, Representative Director and Executive Officer of Isetan Mitsukoshi Holdings. Ltd.
President, Representative Director and Executive Officer of Isetan Mitsukoshi Ltd.
- 2016 Chairman of Japan Department Stores Association
- 2017 Director of Isetan Mitsukoshi Holdings. Ltd.
- 2018 Director of the Board (External) of the Company (current position)
Executive Vice President of Japan Airport Terminal Co., Ltd.

* Qualified external director as provided in Paragraph 2, Clause 15 of the Companies Act of Japan

Audit and Supervisory Board Members



Shigeru Aoki

Standing Audit & Supervisory Board Member

- 2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.) as Head Councilor Vice President, Executive Officer and Managing Director of Office of China and Asia Business Management of the above
- 2006 President of Sega Networks (China) Co., Ltd.
- 2008 Vice President, Executive Officer and Managing Director of Business Administration Department of Sammy Corporation Vice President, Executive Officer and Managing Director of Corporate Division of the above
- 2009 Senior Vice President (Director of the Board) and Managing Director of Corporate Division of the above
- 2011 Executive Vice President (Director of the Board) and Managing Director of Corporate Division of the above
- 2012 President and COO (Representative Director) of the above
- 2013 Senior Vice President (Director of the Board) of the Company
- 2016 Vice Chairman of the Board (Representative Director) of Sammy Corporation Standing Audit & Supervisory Board Member of the Company (current position) Audit & Supervisory Board Member of Japan Multimedia Services Corporation (now JMS-United Co. Ltd.) (current position)
- 2017 Audit & Supervisory Board Member of SEGA SAMMY BUSINESS SUPPORT INC. (current position)
- 2018 Audit & Supervisory Board Member of Sammy Corporation (current position)



Yukito Sakaue

Audit & Supervisory Board Member

- 2003 Joined Sammy Corporation as Director of Audit Office
- 2004 Director of Legal Department of Administration Division of the above
- 2006 Director of Audit & Supervisory Board Members' Office of the Company
- 2014 Audit & Supervisory Board Member of the Company (current position) Standing Audit & Supervisory Board Member of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2015 Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (current position) Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (current position) Audit & Supervisory Board Member of SEGA Games Co., Ltd. (current position) Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD. (current position) Audit & Supervisory Board Member of SEGA ENTERTAINMENT CO., Ltd. (current position) Audit & Supervisory Board Member of MARZA ANIMATION PLANET INC. (current position)



Tomio Kazashi*

Audit & Supervisory Board Member (External)

- 1990 Director of Cosmo Securities Co., Ltd. (now IwaiCosmo Securities Co., Ltd.)
- 1996 Managing Director of the above
- 1999 Managing Director of Cosmo Investment Management Co., Ltd. (now Meiji Yasuda Asset Management Company Ltd.)
- 2005 Standing Audit & Supervisory Board Member of Sammy Networks, Co., Ltd.
- 2008 Substitute Audit & Supervisory Board Member (External) of the Company
- 2009 Standing Audit & Supervisory Board Member (External) of the Company
- Audit & Supervisory Board Member of Sammy Networks Co., Ltd. Audit & Supervisory Board Member of SEGA TOYS CO., LTD.
- 2012 Audit & Supervisory Board Member of SEGA Networks Co., Ltd. (now SEGA Games Co., Ltd.)
- 2015 Audit & Supervisory Board Member of SEGA LIVE CREATION Inc. (now CA Sega Joypolis Ltd.) Audit & Supervisory Board Member of SEGA SAMMY BUSINESS SUPPORT INC.
- 2017 Audit & Supervisory Board Member (External) of the Company (current position)



Mineo Enomoto*

Audit & Supervisory Board Member (External)

- 1978 Registered with the Japan Federation of Bar Associations
- 2000 Established Enomoto Law Office
- 2004 Audit & Supervisory Board Member (External) of Sammy Networks Co., Ltd. Audit & Supervisory Board Member (External) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2005 Substitute Audit & Supervisory Board Member (External) of the Company
- 2006 Outside Audit & Supervisory Board Member of the Company (current position)
- 2007 Audit & Supervisory Board Member (External) of the Company (current position)
- 2014 Outside Audit & Supervisory Board Member of SHIMOJIMA Co., Ltd. (current position)
- 2015 External Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (current position) Audit & Supervisory Board Member of SEGA Games Co., Ltd. Audit & Supervisory Board Member of SEGA Interactive Co., Ltd.

* Qualified outside company auditor as provided in Paragraph 2, Clause 16 of the Companies Act of Japan

Executive Officers



Yuichi Amari

Vice President, Senior Executive Officer



Makoto Takahashi

Vice President, Senior Executive Officer



Toru Nakahara

Vice President, Senior Executive Officer



Yoichi Owaki

Vice President, Senior Executive Officer



Hiroshi Ishikura

Vice President, Executive Officer



Koichi Takahashi

Vice President, Executive Officer



Takaharu Kato

Vice President, Executive Officer

FINANCIALS

Management's Discussion and Analysis

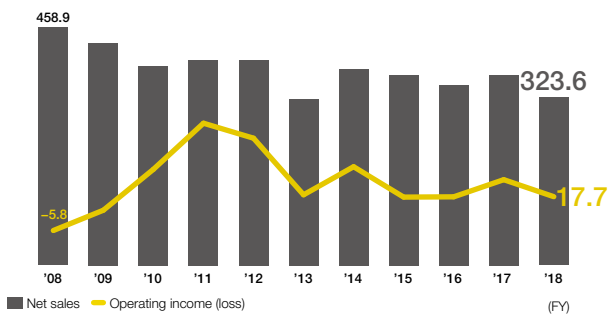
Consolidated Statements of Income and Comprehensive Income

Long-Term Trends

The principal factors that have caused net sales to decline are (1) the dramatic change in market conditions faced by the Pachislot and Pachinko Machines Business, which accounts for a large percentage of net sales, due to the continuous strengthening of regulations and (2) a decrease in the sales and structural reform of the existing businesses (including the closure and sales of amusement centers in the amusement center operations area and the narrowing down of packaged games to be developed). Regarding earnings, after recognizing an operating loss in fiscal 2008, earnings trended toward recovery through fiscal 2011, due mainly to improved profitability in the Pachislot and Pachinko Machines Business. Subsequently, business conditions in existing businesses continued to deteriorate, and earnings trended downward once again. However, profitability has been improving, especially in the Entertainment Contents Business, since the implementation of structural reforms in fiscal 2015.

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

Billions of yen

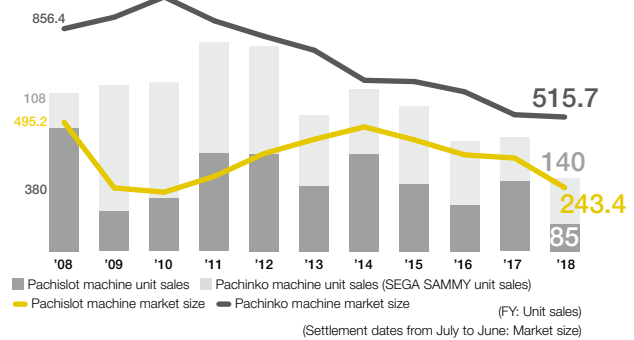


Principal Negative Factors

1. Net Sales: Declining Earnings within Existing Businesses amid Market Contraction

SEGA SAMMY Unit Sales / Pachislot and Pachinko Market Size

Thousands of units / Billions of yen

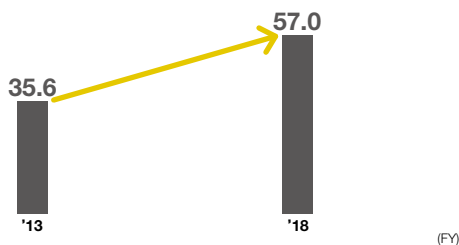


Principal Positive Factors

Net Sales: Packaged Games Area Earnings Growth

Packaged Games Area Net Sales

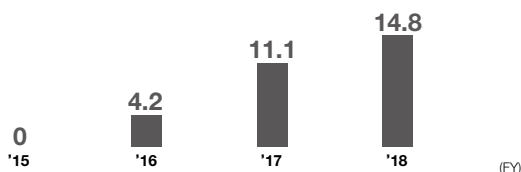
Billions of yen



Operating Income: Entertainment Contents Business Profitability Improvement

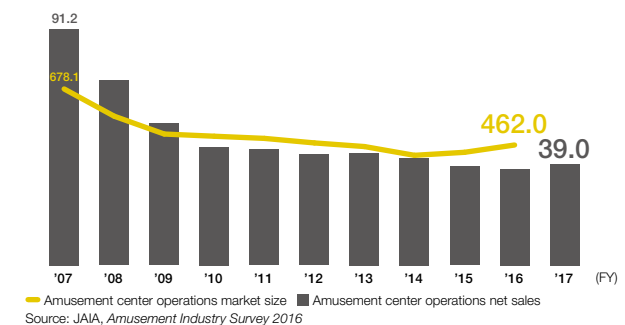
Entertainment Contents Business Operating Income

Billions of yen



SEGA SAMMY Amusement Center Area Net Sales / Amusement Center Operations Market Size

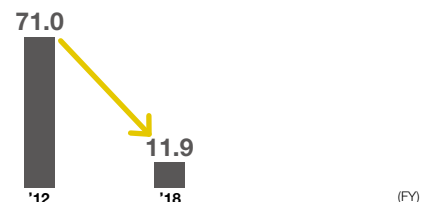
Billions of yen



2. Operating Income: Pachislot and Pachinko Machines Business Earnings Decline

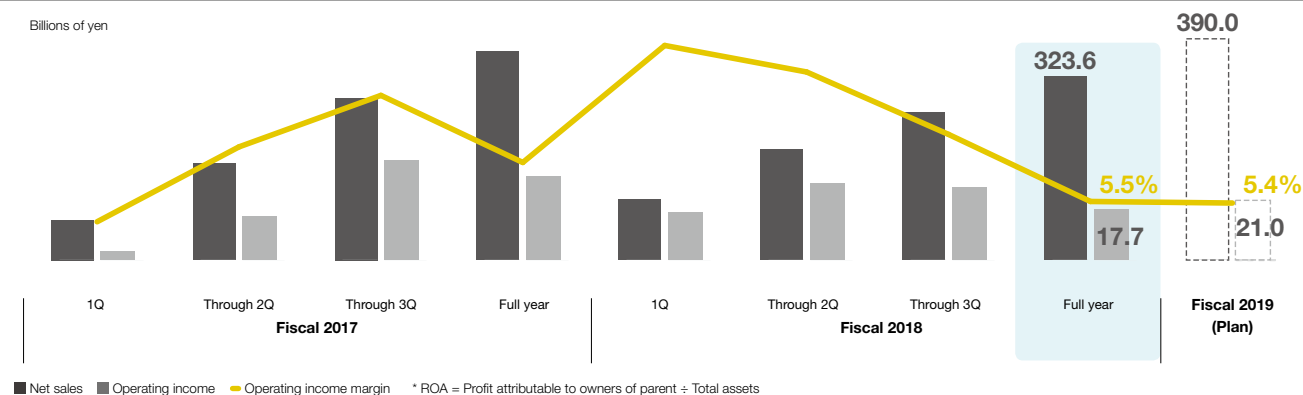
Pachislot and Pachinko Machines Business Operating Income

Billions of yen



● Comparing Fiscal 2018 and Fiscal 2017

Net sales: **¥323.6 billion** | Operating income: **¥17.7 billion** | Operating income margin: **5.5%** | ROA*: **1.8%**
(Fiscal 2018)



Summary of Consolidated Financial Statements

	2017	2018	YoY Change
Net sales	366.9	323.6	-12%
Pachislot and Pachinko Machines Business	148.2	105.6	-29%
Entertainment Contents Business	205.7	208.0	+1%
Resort Business	13.0	9.9	-24%
Cost of sales	231.2	202.9	-12%
Gross profit	135.6	120.7	-11%
Selling, general and administrative (SG&A) expenses	106.1	103.0	-3%
Operating income (loss)	29.5	17.7	-40%
Pachislot and Pachinko Machines Business	26.3	11.9	-55%
Entertainment Contents Business	11.1	14.8	+33%
Resort Business	-2.2	-2.5	-
Other and eliminations	-5.7	-6.5	-
Operating income margin	8.0%	5.5%	-2.5 pts.
Non-operating income	3.8	3.2	-16%
Non-operating expenses	4.8	6.4	+33%
Ordinary income	28.5	14.5	-49%
Extraordinary income	13.3	0.9	-
Extraordinary loss	8.1	3.1	-
Income before income taxes	33.7	12.4	-63%
Total income taxes	5.6	3.0	-
Profit attributable to owners of parent	27.6	8.9	-68%
Cash dividends per share (Yen)	40	40	-
Net income per share (Yen)	117.79	38.10	-
Total net assets per share (Yen)	1,313.06	1,313.90	-

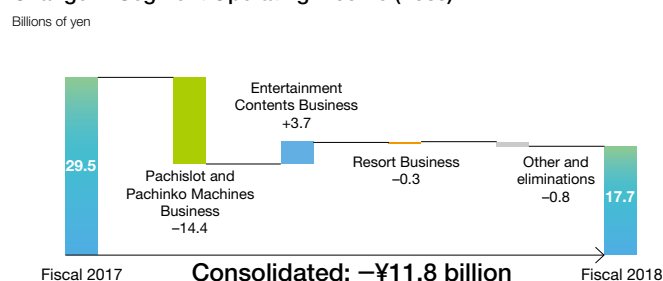
Net Sales

Although performance in the Entertainment Contents Business was generally favorable, revenue declined in the Pachislot and Pachinko Machines Business due to major sales schedule revision caused by revised regulations in the second half.

Operating Income (Loss)

In the Entertainment Contents Business, although existing businesses remained robust and profitability improved, revenue declined in the Pachislot and Pachinko Machines Business due to sales schedule revision. The operating income margin dropped 2.5 percentage points.

Change in Segment Operating Income (Loss)



Non-Operating Expenses

The ¥1.4 billion of equity in losses of affiliates in the previous fiscal year mainly due to PARADISE SEGA SAMMY increased to ¥4.3 billion, resulting in an increase in non-operating expenses.

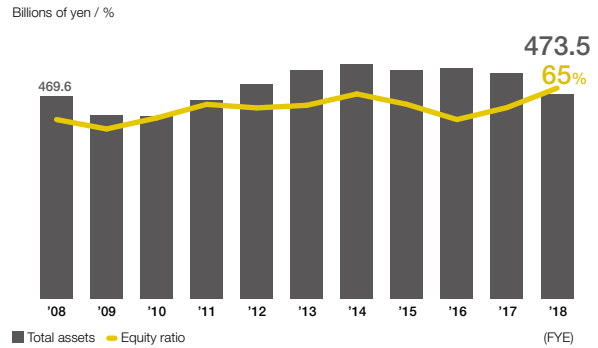
Note: Certain line items that are classified as other income (expenses) in the Consolidated Statements of Income and Comprehensive Income have been presented as extraordinary income or extraordinary loss.

Consolidated Financial Position

● Long-Term Trends

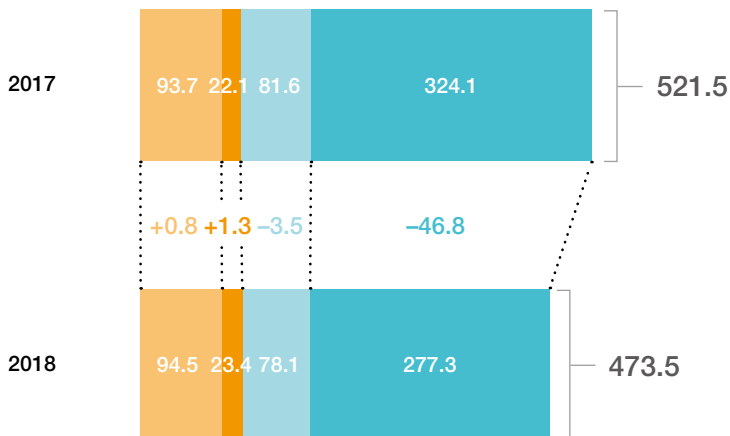
In fiscal 2008, total assets began decreasing as a consequence of valuation loss on securities and sales of securities. In recent years, although it has been selling amusement centers, the Group has seen total assets trend upward. This steady increase in assets is attributable to the Group's initiatives in preparation for participation in the IR Business, an increase in goodwill accompanying acquisitions in the Entertainment Contents Business, and an increase in investment securities accompanying new investment in growth areas. Regarding investments in growth areas, the Group is exercising due diligence to avoid creating a bloated balance sheet. The equity ratio has remained consistently around 60% due to a policy of securing a certain level of internal reserves that enable investment in growth areas, the payment of stable cash dividends and ensuring financial soundness in consideration of future participation in the domestic IR business, even amid the earnings volatility stemming from the consequent presence or absence of hit products, which is the nature of the Group's businesses.

Total Assets and Equity Ratio



● Comparing Fiscal 2018 and Fiscal 2017

Assets (Billions of yen)



Liabilities and Net Assets (Billions of yen)



■ Total investments and other assets

+ ¥ 0.8 billion

■ Total intangible assets

+ ¥ 1.3 billion

■ Total property, plant and equipment

- ¥ 3.5 billion

■ Total current assets

- ¥ 46.8 billion

- Declined due to a decrease in notes and accounts receivable-trade and short-term investment securities.

■ Total net assets

- ¥ 1.0 billion

- While total shareholders' equity was down due to cash dividends paid, profit attributable to owners of parent was recorded.

- The equity ratio rose 6.0 percentage points, to 65.0%.

■ Total liabilities

- ¥ 47.1 billion

- Total liabilities decreased due to payment of accounts payable-trade and redemption of bonds.

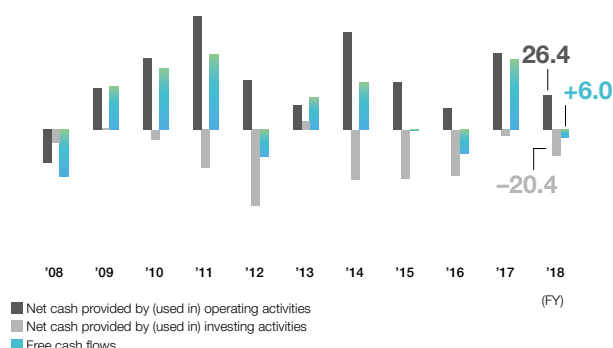
Consolidated Cash Flows

● Long-Term Trends

With the exception of certain fiscal periods, the Group has continued to record net cash outflows in investing activities due to M&As in growth areas and strategic investments to raise production capacity. Since fiscal 2011, the Group has been investing in organizational restructuring. These efforts included investments to make three listed subsidiaries into wholly owned subsidiaries. In addition, the Group is investing actively in such growth areas as the IR business and the digital games area. Through a cash management system, the Group uses internal capital efficiently. Also, the Group uses a range of methods to support liquidity and meet its investment needs flexibly, including borrowings and bond issuance.

Cash Flows

Billions of yen

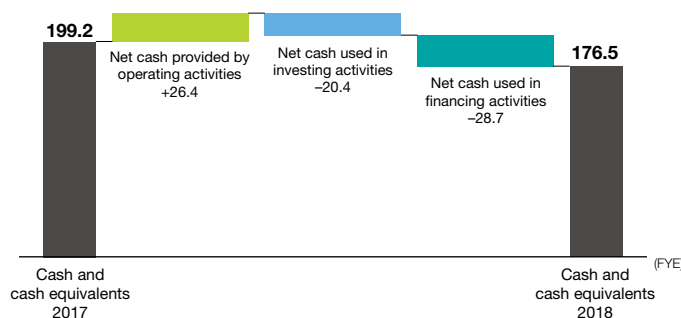


Fiscal 2018 Cash Flows

Cash and cash equivalents at the end of fiscal 2015 amounted to ¥176,566 million, down ¥22,642 million from the previous fiscal year-end.

Consolidated Cash Flows

Billions of yen



Breakdown of Cash Flows

Billions of yen

Cash Flows from Operating Activities	
Income before income taxes	+12.4
Depreciation and amortization	+19.1
Increase / decrease in notes and accounts receivable-trade (- = increase)	+15.1
Decrease in notes and accounts payable-trade (- = decrease)	-23.7
Cash Flows from Investing Activities	
Purchase of property, plant and equipment	-10.9
Purchase of intangible assets	-10.5
Proceeds from sales of property, plant and equipment	+9.5
Cash Flows from Financing Activities	
Redemption of bonds	-19.5
Cash dividends paid	-9.3
Proceeds from long-term loans payable	+10.0

■ Net cash provided by operating activities

+ ¥26.4 billion

Factors including ¥12,413 million in income before income taxes, ¥19,180 million of depreciation and amortization, and a ¥15,179 million decrease in notes and accounts receivable-trade, despite a ¥23,760 million decrease in notes and accounts payable-trade, resulted in ¥26,487 million of net cash provided by operating activities in the fiscal year under review (¥59,126 million inflow in the previous fiscal year).

■ Net cash used in investing activities

- ¥20.4 billion

Factors including investing of ¥10,942 million for purchase of property, plant and equipment, ¥10,529 million for purchase of intangible assets, ¥6,206 million for purchase of stocks of subsidiaries and affiliates, and ¥5,192 million for payments of lease deposits, despite ¥9,564 million proceeds from sales of property, plant and equipment, resulted in ¥20,422 million of net cash used in investing activities in the fiscal year under review (¥4,767 million outflow in the previous fiscal year).

■ Net cash used in financing activities

- ¥28.7 billion

Expenditures of ¥6,354 million for repayment of long-term loans payable, ¥19,500 million for redemption of bonds, and ¥9,380 million for cash dividends paid, despite ¥10,000 million proceeds from long-term loans payable, resulted in ¥28,780 million of net cash used in financing activities in the fiscal year under review (¥38,334 million outflow in the previous fiscal year).

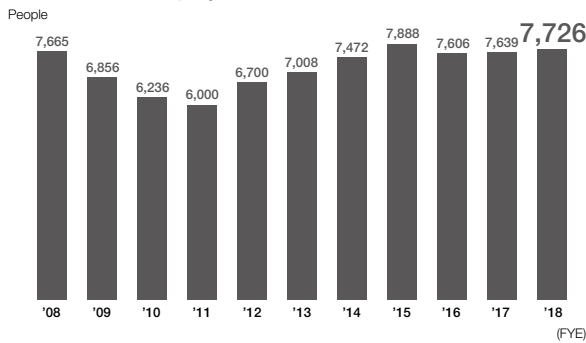
Non-Financial Assets

Human Capital

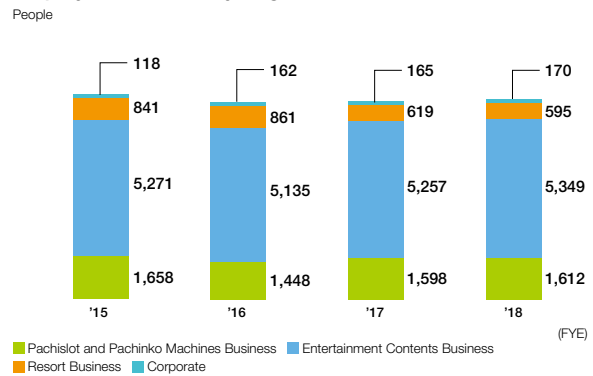
Consolidated Employee Numbers

At the end of fiscal 2018, the consolidated number of employees was 7,726, up 87 from the previous fiscal year-end. The Group is advancing the deployment of personnel to growth areas as a priority measure.

Consolidated Employee Numbers



Employee Numbers by Segment



IP

R&D Expenses and Content Production Expenses

For the three-period between fiscal 2016 and fiscal 2018, R&D and content production expenses were equivalent to over 18% of net sales on average. In recent years in particular, we have proactively invested in expanding our lineup in the digital games area over the medium term. In fiscal 2018, expenditures were ¥62.0 billion, a 7.6% decline compared to the previous fiscal year due to postponed investment in new titles within the digital games area.

Reference

Recognition of R&D Expenses and Content Production Expenses by Product and Service

The Group undertakes stable, long-term investment in R&D and content production with the aim of creating and strengthening IP—which are a source of the Group’s competitiveness—and generating earnings continuously. The method and timing of expense recognition differs based on development lead times and product lifecycles.

Pachislot and Pachinko Machines Business and casino machines of the amusement machine sales area

Expenses recognized as they arise (process outsourcing expenses recognized when work is inspected)

Digital games area

Recognize in intangible assets during development period, and basic straight-line amortization period is 24 months from month of service commencement (The amortization period differs depending on the title. Titles with long lifecycles can have amortization periods of more than 36 months.)

Packaged games area and amusement machine sales area (excluding casino machines)

- 1 Primarily content for home video game consoles and amusement machines
Recognized as work in process during development, and recognized as expenses linked to units sales after launch.
- 2 Primarily PC games
Recognized as work in process during development, and recognize as expenses after launch but recognition rule of packaged game sales and download sales are different.

Company Profile / Stock Information

Company Profile

Company name	SEGA SAMMY HOLDINGS INC.
Address	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo 141-0033, Japan
URL	https://www.segasammy.co.jp/english/
Established	2004/10/1
Capital	29,900 million yen (As of March 31, 2018)
Principal business	Management of SEGA SAMMY Group as the holding company

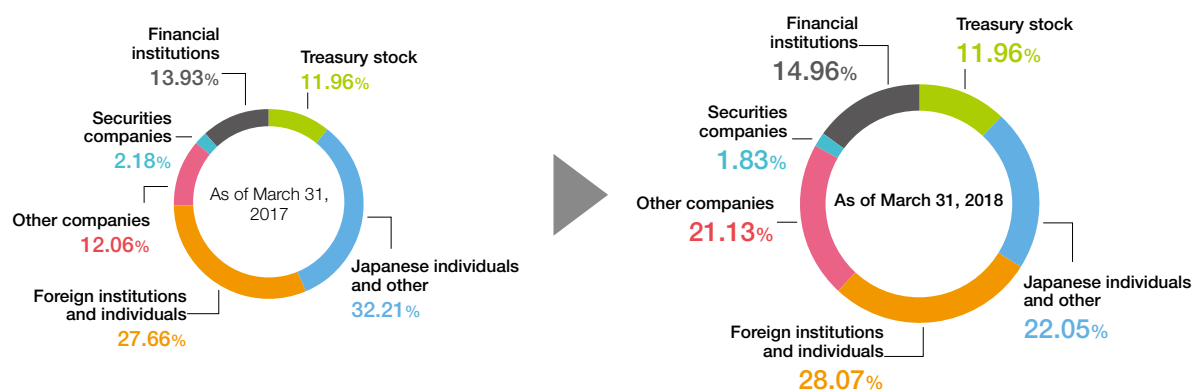
Stock Information (As of March 31, 2018)

Number of shares authorized for issue	800,000,000
Total shares issued and outstanding	266,229,476
Number of Shareholders	80,330

Major Shareholders (As of March 31, 2018)

Name of shareholder	Shares held (thousands)	Shares ratio excluding Company's treasury stock (%)
HS Company	35,308	15.06
FSC Co., Ltd.	13,562	5.78
Japan Trustee Services Bank, Ltd. (Trust account)	10,754	4.58
Hajime Satomi	7,721	3.29
The Master Trust Bank of Japan, Ltd. (Trust account)	7,084	3.02
ORBIS SICAV	4,599	1.96
JP MORGAN CHASE BANK 385632	4,055	1.73
Japan Trustee Services Bank, Ltd. (Trust account 5)	3,790	1.61
STATE STREET BANK WEST CLIENT - TREATY 505234	3,236	1.38
GOLDMAN, SACHS & CO. REG	3,195	1.36
Total	93,308	39.81

Breakdown of Shareholders



Notes:

- Of the abovementioned numbers of shares held, the numbers of shares related to trust businesses are as follows.
 Japan Trustee Services Bank, Ltd.(Trust account) 10,754,000 shares
 The Master Trust Bank of Japan, Ltd. (Trust account) 7,084,000 shares
 Japan Trustee Services Bank, Ltd.(Trust account 5) 3,790,000 shares
- At the end of the previous fiscal year, Hajime Satomi was a major shareholder. At the end of the fiscal year under review, Hajime Satomi was no longer a major shareholder, and HS Company had become a new major shareholder. Further, Chairman and Group CEO (Representative Director) of SEGA SAMMY HOLDINGS INC. Hajime Satomi and his family hold all shares of HS Company, which is an asset management company.
- In addition to the abovementioned, SEGA SAMMY HOLDINGS INC. holds 31,850,000 shares of treasury stock.

Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2017 and 2018

	2017	2018
		Millions of yen
Assets		
Current assets		
Cash and deposits	¥137,494	¥157,896
Notes and accounts receivable—trade (Note 6 (5))	44,500	29,339
Allowance for doubtful accounts	(329)	(259)
Short-term investment securities	65,203	24,694
Merchandise and finished goods	18,669	8,036
Work in process	14,838	18,347
Raw materials and supplies	13,933	14,190
Income taxes receivable	1,559	4,454
Deferred tax assets	6,929	5,018
Other	21,317	15,630
Total current assets	324,115	277,350
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	101,210	93,528
Accumulated depreciation	(65,645)	(59,701)
Buildings and structures, net	35,564	33,826
Machinery, equipment and vehicles	15,724	13,469
Accumulated depreciation	(10,802)	(9,855)
Machinery, equipment and vehicles, net	4,921	3,613
Amusement machines and facilities	46,783	43,635
Accumulated depreciation	(37,204)	(34,354)
Amusement machines and facilities, net	9,579	9,280
Land (Note 6 (3))	23,740	23,741
Construction in progress	577	1,603
Other	50,767	48,887
Accumulated depreciation	(43,540)	(42,807)
Other, net	7,226	6,079
Total property, plant and equipment	81,609	78,145
Intangible assets		
Goodwill	10,807	8,541
Other	11,352	14,942
Total intangible assets	22,160	23,483
Investments and other assets		
Investment securities (Notes 6 (1) and (2))	69,845	70,216
Long-term loans receivable	1,757	1,549
Lease and guarantee deposits	11,123	12,180
Net defined benefit assets	828	1,908
Deferred tax assets	535	1,412
Other	10,363	7,707
Allowance for doubtful accounts	(739)	(449)
Total investments and other assets	93,713	94,526
Total noncurrent assets	197,483	196,155
Total assets	¥521,599	¥473,505

See accompanying notes.

Millions of yen

	2017	2018
Liabilities		
Current liabilities		
Notes and accounts payable-trade (Note 6 (5))	¥ 45,631	¥21,716
Short-term loans payable	6,354	15,838
Current portion of bonds	19,500	10,000
Income taxes payable	2,950	1,482
Accrued expenses	13,961	13,011
Provision for bonuses	5,907	5,872
Provision for directors' bonuses	595	608
Provision for point card certificates	5	18
Provision for dismantling of fixed assets	815	—
Asset retirement obligations	303	1,734
Deferred tax liabilities	15	32
Other	16,524	14,169
Total current liabilities	112,567	84,484
Noncurrent liabilities		
Bonds payable	32,500	22,500
Long-term loans payable	44,500	38,661
Net defined benefit liability	3,303	3,572
Deferred tax liabilities	2,574	1,852
Deferred tax liabilities for land revaluation	640	640
Asset retirement obligations	3,735	2,234
Provision for dismantling of fixed assets	420	420
Other	9,860	8,682
Total noncurrent liabilities	97,534	78,564
Total liabilities	210,102	163,049
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,521	117,345
Retained earnings	207,639	207,174
Treasury stock	(54,769)	(54,781)
Total shareholders' equity	300,345	299,691
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,041	10,528
Deferred gains or losses on hedges	(71)	17
Revaluation reserve for land (Note 6 (3))	340	340
Foreign currency translation adjustment	(4,479)	(2,147)
Remeasurements of defined benefit plans	588	(479)
Total accumulated other comprehensive income	7,419	8,259
Subscription rights to shares	303	819
Non-controlling interests	3,428	1,685
Total net assets	311,497	310,456
Total liabilities and net assets	¥521,599	¥473,505

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	2017	2018
Net sales	¥366,939	¥323,664
Cost of sales (Notes 7 (1) and (2))	231,261	202,930
Gross profit	135,678	120,734
Selling, general and administrative expenses (Note 7 (2))	106,150	103,013
Operating income	29,527	17,720
Other income (expenses)		
Interest income	337	361
Dividends income	929	952
Gain on investments in partnership	460	888
Foreign exchange gains	294	—
Gain on valuation of compound financial instruments	520	52
Interest expenses	(940)	(712)
Equity in losses of affiliates	(1,457)	(4,368)
Commission fee	(58)	(86)
Loss on investments in partnership	(243)	(77)
Foreign exchange losses	—	(49)
Loss on retirement of noncurrent assets	(685)	(619)
Settlement package	(505)	(7)
Gain on sales of noncurrent assets (Note 7 (3))	9,518	64
Gain on sales of investment securities	1,382	532
Gain on liquidation of subsidiaries and affiliates	290	—
Gain on reversal of subscription rights to shares	801	—
Gain on reversal of provision for dismantling of fixed assets	177	233
Gain on reversal of restructuring loss	—	124
Loss on sales of noncurrent assets (Note 7 (4))	(81)	(220)
Impairment loss (Note 7 (6))	(6,034)	(2,474)
Loss on valuation of investment securities	(1,105)	(142)
Early extra retirement payments	(149)	(22)
Restructuring loss (Note 7 (5))	(419)	—
Other, net	1,181	265
Subtotal	4,210	(5,306)
Income before income taxes	33,738	12,413
Income taxes—current	6,354	2,541
Income taxes—deferred	(686)	503
Total income taxes	5,667	3,045
Profit	28,070	9,368
(Breakdown)		
Profit attributable to owners of parent	27,607	8,930
Profit attributable to non-controlling interests	462	437
Other comprehensive income		
Valuation difference on available-for-sale securities	(456)	(500)
Deferred gains or losses on hedges	39	(0)
Foreign currency translation adjustment	(2,561)	189
Remeasurements of defined benefit plans, net of tax	(57)	(1,039)
Share of other comprehensive income of entities accounted for using equity method	(1,381)	2,191
Total other comprehensive income (Note 7 (7))	(4,416)	841
Comprehensive income	23,653	10,209
(Breakdown)		
Comprehensive income attributable to owners of parent	23,457	9,771
Comprehensive income attributable to non-controlling interests	¥ 196	¥ 438

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

Prior year (From April 1, 2016 to March 31, 2017)

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	¥29,953	¥118,404	¥194,505	¥(54,758)	¥288,105
Changes of items during the period					
Dividends from surplus			(9,375)		(9,375)
Profit attributable to owners of parent			27,607		27,607
Effect of changes in accounting period of consolidated subsidiaries					—
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock		(0)		0	0
Change in scope of consolidation			155		155
Change in scope of equity method			(312)		(312)
Purchase of shares of consolidated subsidiaries		(883)			(883)
Reversal of revaluation reserve for land			(4,941)		(4,941)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(883)	13,133	(10)	12,239
Balance as of March 31, 2017	¥29,953	¥117,521	¥207,639	¥(54,769)	¥300,345

Millions of yen

	Accumulated other comprehensive income					Total accumulated other comprehensive income
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	
Balance as of April 1, 2016	¥11,494	¥(40)	¥(4,600)	¥ (876)	¥651	¥6,628
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Effect of changes in accounting period of consolidated subsidiaries						
Purchase of treasury stock						
Disposal of treasury stock						
Change in scope of consolidation						
Change in scope of equity method						
Purchase of shares of consolidated subsidiaries						
Reversal of revaluation reserve for land						
Net changes of items other than shareholders' equity	(452)	(31)	4,941	(3,602)	(63)	790
Total changes of items during the period	(452)	(31)	4,941	(3,602)	(63)	790
Balance as of March 31, 2017	¥11,041	¥(71)	¥ 340	¥(4,479)	¥588	¥7,419

Millions of yen

	Subscription rights to shares	Non-controlling interests	Total net assets
	Balance as of April 1, 2016	¥ 801	¥4,415
Changes of items during the period			
Dividends from surplus			(9,375)
Profit attributable to owners of parent			27,607
Effect of changes in accounting period of consolidated subsidiaries			—
Purchase of treasury stock			(11)
Disposal of treasury stock			0
Change in scope of consolidation			155
Change in scope of equity method			(312)
Purchase of shares of consolidated subsidiaries			(883)
Reversal of revaluation reserve for land			(4,941)
Net changes of items other than shareholders' equity	(497)	(987)	(693)
Total changes of items during the period	(497)	(987)	11,546
Balance as of March 31, 2017	¥ 303	¥3,428	¥311,497

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Current year (From April 1, 2017 to March 31, 2018)

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2017	¥29,953	¥117,521	¥207,639	¥(54,769)	¥300,345
Changes of items during the period					
Dividends from surplus			(9,375)		(9,375)
Profit attributable to owners of parent			8,930		8,930
Effect of changes in accounting period of consolidated subsidiaries			(20)		(20)
Purchase of treasury stock				(13)	(13)
Disposal of treasury stock		(0)		0	0
Change in scope of consolidation					—
Change in scope of equity method					—
Purchase of shares of consolidated subsidiaries		(175)			(175)
Reversal of revaluation reserve for land					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(175)	(465)	(12)	(654)
Balance as of March 31, 2018	¥29,953	¥117,345	¥207,174	¥(54,781)	¥299,691

Millions of yen

	Accumulated other comprehensive income					Total accumulated other comprehensive income
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	
Balance as of April 1, 2017	¥11,041	¥(71)	¥340	¥(4,479)	¥ 588	¥7,419
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Effect of changes in accounting period of consolidated subsidiaries						
Purchase of treasury stock						
Disposal of treasury stock						
Change in scope of consolidation						
Change in scope of equity method						
Purchase of shares of consolidated subsidiaries						
Reversal of revaluation reserve for land						
Net changes of items other than shareholders' equity	(512)	89	—	2,331	(1,067)	840
Total changes of items during the period	(512)	89	—	2,331	(1,067)	840
Balance as of March 31, 2018	¥10,528	¥ 17	¥340	¥(2,147)	¥ (479)	¥8,259

Millions of yen

	Subscription rights to shares	Non-controlling interests	Total net assets
	Balance as of April 1, 2017	¥303	¥ 3,428
Changes of items during the period			
Dividends from surplus			(9,375)
Profit attributable to owners of parent			8,930
Effect of changes in accounting period of consolidated subsidiaries			(20)
Purchase of treasury stock			(13)
Disposal of treasury stock			0
Change in scope of consolidation			—
Change in scope of equity method			—
Purchase of shares of consolidated subsidiaries			(175)
Reversal of revaluation reserve for land			—
Net changes of items other than shareholders' equity	515	(1,742)	(386)
Total changes of items during the period	515	(1,742)	(1,040)
Balance as of March 31, 2018	¥819	¥ 1,685	¥310,456

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	2017	2018
Millions of yen		
Net cash provided by (used in) operating activities:		
Income before income taxes	¥ 33,738	¥ 12,413
Depreciation and amortization	20,561	19,180
Impairment loss	6,034	2,474
Amount of transfer of equipment by amusement center operations business	(3,554)	(2,757)
Loss (gain) on sales of noncurrent assets	(9,437)	156
Loss on retirement of noncurrent assets	685	619
Loss (gain) on liquidation of subsidiaries and affiliates	(290)	0
Loss (gain) on sales of investment securities	(1,323)	(531)
Loss (gain) on valuation of investment securities	1,105	142
Loss (gain) on investments in partnership	(216)	(810)
Amortization of goodwill	2,456	2,169
Increase (decrease) in allowance for doubtful accounts	(107)	(57)
Increase (decrease) in provision for directors' bonuses	(4)	9
Increase (decrease) in net defined benefit liability	(871)	(857)
Increase (decrease) in provision for bonuses	1,383	(27)
Increase (decrease) in provision for dismantling of fixed assets	(1,105)	(233)
Increase (decrease) in provision for business restructuring	(129)	—
Interest and dividends income	(1,266)	(1,313)
Interest expenses	940	712
Foreign exchange losses (gains)	(240)	69
Equity in (earnings) losses of affiliates	1,457	4,368
Decrease (increase) in notes and accounts receivable—trade	10,664	15,179
Decrease (increase) in inventories	(12,778)	6,953
Increase (decrease) in notes and accounts payable—trade	12,496	(23,760)
Increase (decrease) in guarantee deposits received	(478)	407
Other, net	3,003	(1,841)
Subtotal	62,723	32,665
Interest and dividends income received	1,291	1,308
Interest expenses paid	(962)	(726)
Income taxes paid	(6,859)	(7,901)
Income taxes refund	2,933	1,140
Net cash provided by (used in) operating activities	¥ 59,126	¥ 26,487

See accompanying notes.

Consolidated Statements of Cash Flows

	2017	2018
		Millions of yen
Net cash provided by (used in) investing activities:		
Payments into time deposits	¥ (992)	¥ (36)
Proceeds from withdrawal of time deposits	6,437	2,711
Purchase of short-term investment securities	(3,000)	(3,000)
Proceeds from redemption of securities	1,000	3,000
Purchase of trust beneficiary right	(1,026)	(1,360)
Proceeds from sales of trust beneficiary right	1,001	1,058
Purchase of property, plant and equipment	(15,295)	(10,942)
Proceeds from sales of property, plant and equipment	13,406	9,564
Purchase of intangible assets	(9,250)	(10,529)
Proceeds from sales of intangible assets	0	—
Purchase of investment securities	(1,194)	(744)
Proceeds from sales of investment securities	3,688	2,166
Proceeds from redemption of investment securities	1,990	1,500
Payments for investment in partnerships	(1,148)	(2,161)
Proceeds from distribution of investment in partnerships	717	1,105
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 9 (2))	(2,250)	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(11)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation (Note 9 (3))	972	—
Purchase of stocks of subsidiaries and affiliates	(839)	(6,206)
Payments of loans receivable	(1,757)	(1,587)
Collection of loans receivable	703	528
Reduction of investments in trusts	600	200
Payments for lease deposits	(988)	(5,192)
Collection of lease deposits	1,089	763
Other, net	1,379	(1,259)
Net cash provided by (used in) investing activities	(4,767)	(20,422)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	(1)	(0)
Proceeds from long-term loans payable	2,000	10,000
Repayments of long-term loans payable	(14,043)	(6,354)
Redemption of bonds	(14,200)	(19,500)
Purchase of treasury stock	(11)	(13)
Purchase of treasury stock of subsidiaries	—	(2,201)
Cash dividends paid	(9,376)	(9,380)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(984)	—
Other, net	(1,718)	(1,329)
Net cash provided by (used in) financing activities	(38,334)	(28,780)
Effect of exchange rate change on cash and cash equivalents	(1,124)	72
Net increase (decrease) in cash and cash equivalents	14,900	(22,642)
Cash and cash equivalents at beginning of period	185,613	199,208
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	25
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(1,305)	—
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries	—	(25)
Cash and cash equivalents at end of period (Note 9 (1))	¥199,208	¥176,566

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

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 2017 and 2018. 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. Each amount of the accompanying consolidated financial statements is rounded down to the nearest one million yen.

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 2017 consolidated financial statements to conform to the classifications used in 2018. These changes had no impact on previously reported results of operations or shareholders' equity.

2 Summary of Significant Accounting Policies

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 75

From the fiscal year ended March 31, 2018, the following was included in the Company's consolidated subsidiaries; J-NEXT Career Co., Ltd. (Oceanize Career Co., Ltd changed its name in July 2017), because of additional acquisition of shares.

From the fiscal year ended March 31, 2018, the followings have been excluded from the scope of consolidation; J-NEXT Career Co., Ltd., because of merger with J-NEXT Co.,Ltd.; Atlas Holding, Inc., because of merger with Atlas U.S.A., Inc.; iDarts Group Limited, because of merger with DARTSLIVE ASIA LIMITED; TMS MUSIC (HK) LIMITED, because of liquidation in October 2017.

(2) Number of non-consolidated subsidiaries: 16

Non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amount of each of assets, net sales and net income corresponding to the percentage of equity interest held by the Company, and the combined amount of retained earnings corresponding to the percentage of equity interest held by the Company, do not have significant effect on the consolidated financial statements.

2. Application of the equity method

(1) Number of non-consolidated subsidiaries accounted for under the equity method: 6

From the fiscal year ended March 31, 2018, the following has been included in the scope of application of equity-method; GO GAME MALAYSIA SDN. BHD., because of acquisition of shares.

(2) Number of affiliated companies accounted for under the equity method: 11

(3) Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method: 11

Some of the Company's non-consolidated subsidiaries and affiliates are not accounted for under the equity method because the combined amount of net income corresponding to the percentage of equity interest held by the Company, and the combined amount of retained earnings corresponding to the percentage of equity interest held by the Company do not have significant effect on the consolidated financial statements even if they are excluded from the scope of equity method, and have no significance as a whole.

3. Accounting policies

(1) Valuation and accounting treatment for important assets

1) Held-to-maturity debt securities

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

2) Available-for-sale securities

Securities with fair market value:

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

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and unrealized gains or losses are reported as income or expenses for the fiscal year ended March 31, 2018.

Securities without quoted market prices:

Securities without quoted market prices are carried at cost, which is determined by the moving-average method.

Notes to Consolidated Financial Statements

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 Investment 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.

3) Derivatives

Derivatives are stated at fair market value.

4) Inventories

Inventories are stated at cost, cost being determined mainly by the gross-average method (or at the net realizable value (NRV) calculated by writing down the book value to reflect a decrease in the NRV).

Work in process is also stated at cost, cost being determined by the specific identification method (or at the NRV calculated by writing down the book value to reflect a decrease in the NRV).

(2) Depreciation and amortization for important assets

1) 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 machines and facilities: 2–5 years

2) Intangible assets (excluding lease assets)

Amortization is calculated using the straight-line method. The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (less than 5 years).

3) Lease assets

Finance leases which transfer ownership:

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

Finance leases which do not transfer ownership:

Depreciated, using the straight-line method over a useful life equal to the lease period with a residual value of zero.

(3) Accounting for deferred assets

Bond issue cost: All expenses are expensed when incurred.

(4) Accounting for allowances and provisions

1) 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.

2) Provision for bonuses

The estimated amount of bonuses was recorded to meet the payment of employee bonuses, an amount corresponding to the current fiscal year.

3) Provision for directors' bonuses

The estimated amount of bonuses was recorded to meet the payment of Directors and Audit & Supervisory Board Members bonuses, an amount corresponding to the current fiscal year.

4) 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, 2018 has been recorded.

5) Provision for dismantling of fixed assets

To provide for expenses for dismantling unused decrepit buildings, estimated future expenses are recorded.

(5) Accounting method for retirement benefits

1) Attribution method for projected retirement benefits:

In calculating retirement benefits obligations, benefit-formula 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, 2018.

2) 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.

(6) Accounting for significant hedge

1) Hedge accounting

The Group 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.

2) Hedging instruments and hedged items

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

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

3) 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.

4) 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.

(7) 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.

(8) 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.

(9) Accounting method for 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.

(10) Application of the Consolidated Taxation System

The Company and certain domestic consolidated subsidiaries applied the Consolidated Taxation System.

3 Unapplied New Accounting Standards

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 30, 2018)

- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued “Revenue from Contracts with Customers” in May 2014 (IASB’s IFRS 15 and FASB’s Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

(2) Scheduled date of application

These ASBJ statement and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of application of the accounting standards

The effects of the application are under assessment at the time of preparing these consolidated financial statements.

4 Changes in Presentation

(Consolidated statements of income and comprehensive income)

“Gain on bad debts recovered” (¥0 million in the previous fiscal year), “Sales discounts” (¥(9) million in the previous fiscal year), “Penalty payment for cancellation of game center lease agreement” (¥(48) million in the previous fiscal year) and “Loss on valuation of shares of subsidiaries and affiliates” (¥(56) million in the previous fiscal year) which were presented separately under “Other income (expenses)” in the previous fiscal year, are included in “Other, net” for the fiscal year, because the amount became immaterial. To reflect the changes to presentation, the consolidated financial statements of the previous fiscal year have been reclassified.

(Consolidated statements of cash flows)

“Loss (gain) on sales of shares of subsidiaries and affiliates” (¥67 million in the previous fiscal year) which was presented separately under “Net cash provided by (used in) operating activities” in the previous fiscal year, is included in “Other, net” under “Net cash provided by (used in) operating activities” for the fiscal year, because the amount became immaterial. To reflect the changes to presentation, the consolidated financial statements of the previous fiscal year have been reclassified.

Notes to Consolidated Financial Statements

5 Additional Information

(Impact of the change of the useful lives of the noncurrent assets)

At a meeting of the Board of Directors held on March 31, 2017, the Company resolved to relocate the headquarters of the Company and some of the companies of the SEGA SAMMY Group located in the Tokyo metropolitan area. As a result, at the end of the previous fiscal year, the Company and certain subsidiaries had shortened the useful lives of the noncurrent assets that will become unable to use as a result of the relocation, and the effects of this change are accounted for prospectively.

Comparing results with the previous method, operating income and income before income taxes were decreased by ¥1,816 million, respectively, for the fiscal year ended March 31, 2018. The impacts on segment information is described in the related section.

(Dissolution of employees' pension fund and transition of retirement benefit plan)

Regarding "The Pension Fund of Japan Electronics Information Technology

Industry" which the Company and some consolidated subsidiaries are members of, a representatives meeting held on December 5, 2017 resolved to dissolve the said Fund, and the Minister of Health, Labour and Welfare approved of the dissolution on March 31, 2018. Regarding the regulatory revision of the defined benefit pension plan that will be the succeeding plan for the Company and one of the consolidated subsidiaries after the dissolution of the said Fund, an agreement has been reached between the management and the employees on January 23, 2018.

In line with this dissolution and the transition to a new plan, the "Accounting Treatment for Transfer between Plans concerning Multiple Employer Plans" (Q&A 9) in "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (PITF No. 2) were adopted, and the Group recorded ¥156 million as loss due to transfer of retirement benefit plan under "Other income (expenses)" for the fiscal year ended March 31, 2018.

6 Notes to Consolidated Balance Sheets

(1) Assets pledged

	Millions of yen	
	2017	2018
Shares of subsidiaries and affiliates	¥21,274	¥25,973
Total	21,274	25,973

Note: For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. as of March 31, 2018 and 2017, ¥73,920 million (KRW700,000 million) and ¥62,258 million (KRW642,500 million), respectively, the shares of this company were provided as a pledge.

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

	Millions of yen	
	2017	2018
Investment securities (shares)	¥24,087	¥27,946
Investment securities (capital contributions)	1,238	1,601

(3) Revaluation reserve for land

Consolidated subsidiary SEGA Holdings Co., Ltd. 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).

Accordingly, SEGA Holdings Co., Ltd. has recorded an item for the revaluation reserve for land under net assets.

Revaluation method

SEGA Holdings Co., Ltd. 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.

(4) Overdraft agreements and commitment line agreements

The Company and its consolidated subsidiaries have overdraft agreements and commitment line agreements with 15 banks for the effective procurement of working capital.

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2018 and 2017 are as follows:

	Millions of yen	
	2017	2018
Total amount of overdraft limit and commitment line agreements	¥123,400	¥130,400
Balance of executed loans	—	—
Unexecuted balance	123,400	130,400

(5) Accounting treatment of notes expiring on the end of fiscal year

Notes matured at the end of the current fiscal year were settled as of the note exchange date.

Because the end of the current fiscal year was a holiday, the following notes that matured on March 31, 2018 were included in the balance as of March 31, 2018:

	Millions of yen	
	2017	2018
Notes receivable-trade	¥—	¥749
Notes payable-trade	—	341

7 Notes to Consolidated Statements of Income and Comprehensive Income

(1) The book value devaluation of inventories held for normal sales purpose based on decline in profitability

	Millions of yen	
	2017	2018
Cost of sales	¥7,228	¥5,860

(2) Research and development expenses included in selling, general and administrative expenses and manufacturing cost

	Millions of yen	
	2017	2018
	¥44,612	¥43,525

(3) Gain on sales of noncurrent assets

	Millions of yen	
	2017	2018
Buildings and structures	¥ 721	¥31
Machinery, equipment and vehicles	2	0
Land	8,790	27
Other property, plant and equipment	3	4
Other intangible assets	0	—
Total	9,518	64

(4) Loss on sales of noncurrent assets

	Millions of yen	
	2017	2018
Buildings and structures	¥69	¥ —
Machinery, equipment and vehicles	—	0
Amusement machines and facilities	—	220
Other property, plant and equipment	11	—
Total	81	220

Notes to Consolidated Financial Statements

(5) Restructuring loss

Previous fiscal year (From April 1, 2016 to March 31, 2017)

Restructuring loss mainly resulted from business restructuring in South Korea.

Current fiscal year (From April 1, 2017 to March 31, 2018)

Not applicable.

(6) Impairment loss

Previous fiscal year (From April 1, 2016 to March 31, 2017)

				Millions of yen
Use	Location	Type	Amount	
Amusement facilities	China and 5 other locations	Buildings and structures	¥ 261	
		Amusement machines and facilities	886	
		Other property, plant and equipment	346	
		Other intangible assets	117	
Assets for business	Toshima-ward, Tokyo and 8 other locations	Buildings and structures	93	
		Amusement machines and facilities	116	
		Other property, plant and equipment	207	
		Other intangible assets	91	
A complex consisting of a hotel, entertainment facilities, and commercial facilities	South Korea	Other property, plant and equipment	914	
		Other intangible assets	0	
		Land	2,568	
Other	Minato-ward, Tokyo and 2 other locations	Goodwill	430	
Total			6,034	

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 amusement facilities and assets for business and goodwill are calculated as memorandum amounts mainly because future cash flows are not expected. The values of complex facilities that consist of a hotel, entertainment and commercial facilities are measured at the net selling value based on the agreement on termination of sale and purchase agreement of municipal properties.

Current fiscal year (From April 1, 2017 to March 31, 2018)

				Millions of yen
Use	Location	Type	Amount	
Amusement facilities	Nagoya -shi, Aichi and 2 other locations	Buildings and structures	¥ 155	
		Other property, plant and equipment, etc.	19	
Assets for business	Shinagawa -ward, Tokyo and 15 other locations	Buildings and structures	448	
		Machinery, equipment and vehicles	155	
		Amusement machines and facilities	98	
		Other property, plant and equipment	556	
		Other intangible assets	335	
Unutilized assets	Nanyo -shi, Yamagata	Construction in progress	69	
		Land	11	
Other	The United States of America and 1 other location	Goodwill	620	
Total			2,474	

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 amusement facilities and unutilized assets are calculated as memorandum amounts mainly because future cash flows are not expected. Recoverable values of assets for business and goodwill are primarily measured based on values in use with a principal discount rate of 8.9%. However, assets groups which are expected to generate no future cash flow are calculated as memorandum amounts.

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

Millions of yen

	2017	2018
Valuation difference on available-for-sale securities:		
The amount arising during the period	¥ 62	¥ (624)
Reclassification adjustments	(1,062)	(183)
Before adjustments to tax effects	(999)	(807)
The amount of tax effects	543	307
Valuation difference on available-for-sale securities	(456)	(500)
Deferred gains or losses on hedges:		
The amount arising during the period	(8)	2
Reclassification adjustments	47	(3)
Before adjustments to tax effects	39	(0)
The amount of tax effects	—	—
Deferred gains or losses on hedges	39	(0)
Foreign currency translation adjustment:		
The amount arising during the period	(2,193)	491
Reclassification adjustments	(367)	—
Before adjustments to tax effects	(2,561)	491
The amount of tax effects	—	(301)
Foreign currency translation adjustment	(2,561)	189
Remeasurements of defined benefit plans, net of tax:		
The amount arising during the period	(322)	(797)
Reclassification adjustments	185	(379)
Before adjustments to tax effects	(137)	(1,176)
The amount of tax effects	80	137
Remeasurements of defined benefit plans, net of tax	(57)	(1,039)
Share of other comprehensive income of entities accounted for using equity method:		
The amount arising during the period	(1,381)	2,191
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for using equity method:	(1,381)	2,191
Total other comprehensive income	¥(4,416)	¥ 841

8 Notes to Consolidated Statements of Changes in Net Assets

Previous fiscal year (From April 1, 2016 to March 31, 2017)

1. Number of outstanding common stock

Type of stock	Shares			
	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Common stock	266,229,476	—	—	266,229,476

2. Number of outstanding treasury stock

Type of stock	Shares			
	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Common stock	31,834,807	7,340	278	31,841,869

(Summary of the change)

Increase		Decrease	
Increase due to purchase of odd-lot stock	7,340 shares	Decrease due to sales of odd-lot stock	278 shares

Notes to Consolidated Financial Statements

3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)			As of March 31, 2017	Balance at March 31, 2017 (Millions of yen)
			As of April 1, 2016	Increase	Decrease		
The Company	Subscription rights to shares as stock options	—	—	—	—	—	¥303
Total			—	—	—	—	303

4. Dividends

(1) Dividends

Resolution	Type of stock	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 13, 2016	Common stock	¥4,687	¥20	March 31, 2016	May 27, 2016
Board of Directors' meeting held on November 2, 2016	Common stock	4,687	20	September 30, 2016	December 1, 2016

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2017, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 12, 2017	Common stock	Retained earnings	¥4,687	¥20	March 31, 2017	June 2, 2017

Current fiscal year (From April 1, 2017 to March 31, 2018)

1. Number of outstanding common stock

Type of stock	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Common stock	266,229,476	—	—	266,229,476

2. Number of outstanding treasury stock

Type of stock	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Common stock	31,841,869	9,029	394	31,850,504

(Summary of the change)

Increase		Decrease	
Increase due to purchase of odd-lot stock	9,029 shares	Decrease due to sales of odd-lot stock	394 shares

3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)			As of March 31, 2018	Balance at March 31, 2018 (Millions of yen)
			As of April 1, 2017	Increase	Decrease		
The Company	Subscription rights to shares as stock options	—	—	—	—	—	¥819
Total			—	—	—	—	819

4. Dividends

(1) Dividends

Resolution	Type of stock	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 12, 2017	Common stock	¥4,687	¥20	March 31, 2017	June 2, 2017
Board of Directors' meeting held on November 2, 2017	Common stock	4,687	20	September 30, 2017	December 1, 2017

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2018, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 11, 2018	Common stock	Retained earnings	¥4,687	¥20	March 31, 2018	June 1, 2018

9 Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2018 and 2017 consisted of the following:

	2017	2018
		Millions of yen
Cash and deposits	¥137,494	¥157,896
Short-term investment securities	65,203	24,694
Total	202,697	182,591
Time deposits with maturities of more than three months	(288)	(334)
Short-term investment securities with period from the acquisition date to the redemption date exceeding three months	(3,200)	(5,690)
Cash and cash equivalents	199,208	176,566

(2) Assets and liabilities of the company which has become a consolidated subsidiary due to acquisition of shares
Previous fiscal year (From April 1, 2016 to March 31, 2017)

Amplitude Studios SAS

	Millions of yen
Current assets	¥ 880
Noncurrent assets	544
Goodwill	1,329
Current liabilities	(123)
Noncurrent liabilities	(168)
Acquisition cost of shares	2,462
Cash and cash equivalents	(450)
Payments for acquisition of shares, net	(2,011)

Current fiscal year (From April 1, 2017 to March 31, 2018)

Not applicable.

(3) Assets and liabilities of the company which has been excluded from consolidated subsidiaries due to sales of shares
Previous fiscal year (From April 1, 2016 to March 31, 2017)

Disclosure is omitted due to insignificance.

Current fiscal year (From April 1, 2017 to March 31, 2018)

Not applicable.

Notes to Consolidated Financial Statements

10 Information for Certain Leases

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment loss and net book value for the years ended March 31, 2018 and 2017, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous fiscal year (From April 1, 2016 to March 31, 2017)

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings	¥2,103	¥968	¥1,135	¥—
Total	2,103	968	1,135	—

Current fiscal year (From April 1, 2017 to March 31, 2018)

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings	¥2,103	¥968	¥1,135	¥—
Total	2,103	968	1,135	—

(2) Future lease payments and accumulated impairment loss on leased assets

Future lease payments as of March 31, 2018 and 2017

	Millions of yen	
	2017	2018
Due within one year	¥ 151	¥151
Due after one year	921	769
Total	1,072	921

Accumulated impairment loss on leased assets as of March 31, 2018 and 2017

	Millions of yen	
	2017	2018
Accumulated impairment loss on leased assets	¥830	¥706

(3) A summary of assumed amounts of lease payments, reversal of allowance for impairment loss on leased assets, depreciation, interest expenses and impairment loss for the years ended March 31, 2018 and 2017, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen	
	2017	2018
Lease payments	¥151	¥151
Reversal of allowance for impairment loss on leased assets	125	123
Depreciation	124	124
Interest expenses	24	21

1. Finance lease transactions

(1) Details of lease assets

Lease assets mainly consist of the following: “Machinery, equipment and vehicles,” “Other property, plant and equipment” and “Other intangible assets” for office-related facilities.

(2) The methods of depreciation for lease assets

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.

2. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2018 and 2017 are as follows:

	2017	2018
Due within one year	¥1,108	¥1,665
Due after one year	871	17,707
Total	1,980	19,372

Millions of yen

11 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group signed an agreement concerning commitment lines with financial institutions, such as securing medium to long-term fund liquidity with the Company as a 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 borrowings or bond issues applying the Cash Management System for the purpose of efficient utilization of the Group's funds. Most funds are invested primarily in low-risk and high-liquidity financial assets, while some are invested in compound financial instruments such as bonds, etc., for the purpose of efficiently managing funds. 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 negotiable certificates of deposit and the stocks acquired for business collaborations with business partners, and the latter are exposed to the risk of market price fluctuations. Some compound financial instruments, etc., are also exposed to the risk of market price fluctuations in the stock markets, etc.

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 and currency swap transactions as hedges against currency fluctuation risks on their foreign currency-denominated operating receivables and debt as well as foreign currency-denominated loans payable, and interest rate swap transactions as hedges against interest rate risks on loans payable. For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to “(6) Accounting for significant hedge” in “Note 2 - Summary of Significant Accounting Policies, 3. 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 negotiable certificates of deposit and major bonds, etc., is minimal because the investments of these financial assets are limited to high credit rating issuers. 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)

Forward exchange contracts are used 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).

Notes to Consolidated Financial Statements

In addition, interest rate swap transactions, etc., are used to hedge fluctuation risks of interests on variable interest loans and currency swap transactions are used to hedge currency fluctuation risks on foreign currency-denominated loans payables, etc.

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. Major holdings of shares are continuously reviewed in consideration of relationships with the counterparties. In addition, some compound financial instruments are also continuously reviewed by regularly checking their fair values.

With regard 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.

2. Matters concerning the fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments 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.)

Previous fiscal year (From April 1, 2016 to March 31, 2017)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥137,494	¥137,494	¥ —
(2) Notes and accounts receivable—trade	44,500	44,499	(0)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	2,319	2,331	12
2) Available-for-sale securities ^(*)	98,744	98,744	—
3) Equity securities issued by affiliated companies	895	1,092	196
Total assets	283,953	284,162	209
(1) Notes and accounts payable—trade	45,631	45,631	—
(2) Short-term loans payable	6,354	6,354	—
(3) Long-term loans payable	44,500	44,903	(403)
(4) Current portion of corporate bonds	19,500	19,500	—
(5) Corporate bonds payable	32,500	32,543	(43)
Total liabilities	148,486	148,933	(446)
Derivative transactions ^(**)			
1) Derivative transactions to which hedge accounting is not applied	(4)	(4)	—
2) Derivative transactions to which hedge accounting is applied	(71)	(71)	—
Total derivative transactions	(76)	(76)	—

*1 Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire compound financial instruments are evaluated, and included in investment securities.

**2 Receivables and payables incurred by derivative transactions are presented in net amount.

Current fiscal year (From April 1, 2017 to March 31, 2018)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥157,896	¥157,896	¥ —
(2) Notes and accounts receivable-trade	29,339	29,339	(0)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	2,114	2,124	9
2) Available-for-sale securities ⁽¹⁾	51,987	51,987	—
3) Equity securities issued by affiliated companies	839	1,112	273
Total assets	242,177	242,460	283
(1) Notes and accounts payable-trade	21,716	21,716	—
(2) Short-term loans payable	15,838	15,838	—
(3) Long-term loans payable	38,661	38,885	(224)
(4) Current portion of corporate bonds	10,000	10,000	—
(5) Corporate bonds payable	22,500	22,591	(91)
Total liabilities	108,716	109,032	(315)
Derivative transactions ⁽²⁾			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	17	17	—
Total derivative transactions	17	17	—

¹ Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire compound 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 the end of the current fiscal year 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 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 12 - 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 with special treatment applied and by interest rate and currency swap contracts with combined treatment applied (subject to special treatment and allocation hedge accounting) are calculated by combining them with the relevant interest rate swap or interest rate and currency swap.

Derivative transactions

For notes concerning derivatives, please see "Note 13 - Derivative Transactions."

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

	Millions of yen	
Item	2017	2018
Investments in unlisted stocks, etc.	¥ 2,228	¥ 2,599
Investments in investment limited partnerships, etc.	6,430	8,661
Stocks of non-consolidated subsidiaries	298	339
Stocks of affiliates	22,893	26,767
Investments in capital of subsidiaries and affiliates	1,238	1,601

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 extremely difficult to identify fair values.

Notes to Consolidated Financial Statements

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

Previous fiscal year (From April 1, 2016 to March 31, 2017)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥137,494	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	44,470	29	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	200	1,400	500	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	42,000	—	—	—
Available-for-sale securities with maturities (Other)*	23,000	4,650	—	—
Total	247,164	6,079	500	200

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

Current fiscal year (From April 1, 2017 to March 31, 2018)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥157,896	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	29,328	11	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	700	700	500	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	5,000	—	—	—
Available-for-sale securities with maturities (Other)*	19,400	950	—	—
Total	212,325	1,661	500	200

* 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: Redemption schedules of loans payable, corporate bonds payable, lease obligations and other interest-bearing liabilities

Previous fiscal year (As of March 31, 2017)

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥ 6,354	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	15,838	13,341	13,320	—	2,000
Corporate bonds payable	19,500	10,000	12,500	10,000	—	—
Lease obligations	407	280	171	122	81	91
Other interest-bearing debt:						
Accounts payable—facilities	939	539	88	18	10	16

Current fiscal year (As of March 31, 2018)

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥15,838	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	13,341	13,320	—	10,000	2,000
Corporate bonds payable	10,000	12,500	10,000	—	—	—
Lease obligations	333	228	175	104	55	50
Other interest-bearing debt:						
Accounts payable—facilities	542	92	22	14	14	10

12 Investment Securities

1. Held-to-maturity debt securities

Previous fiscal year (As of March 31, 2017)

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

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥ —
2) Corporate bonds	1,619	1,636	16
3) Other	—	—	—
Total	1,619	1,636	16

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

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥ —
2) Corporate bonds	700	695	(4)
3) Other	—	—	—
Total	700	695	(4)

Current fiscal year (As of March 31, 2018)

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

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥ —
2) Corporate bonds	1,614	1,626	11
3) Other	—	—	—
Total	1,614	1,626	11

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

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥ —
2) Corporate bonds	500	497	(2)
3) Other	—	—	—
Total	500	497	(2)

2. Available-for-sale securities

Previous fiscal year (As of March 31, 2017)

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

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥24,488	¥ 9,541	¥14,947
2) Bonds	3,202	3,200	2
3) Other	2,380	2,213	167
Total	30,071	14,954	15,116

Notes to Consolidated Financial Statements

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

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥ 1,357	¥ 1,465	¥(107)
2) Bonds	4,489	4,551	(61)
3) Other	62,825	62,836	(10)
Total	68,672	68,852	(180)

Note: Compound financial instruments are included in "Bonds" and valuation difference of ¥520 million is recorded under "Other income."

Current fiscal year (As of March 31, 2018)

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

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥23,009	¥ 9,596	¥13,413
2) Bonds	3,201	3,200	1
3) Other	2,945	2,543	402
Total	29,157	15,339	13,817

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

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥ 365	¥ 420	¥ (55)
2) Bonds	2,965	3,073	(107)
3) Other	19,499	19,499	—
Total	22,830	22,993	(163)

Note: Compound financial instruments are included in "Bonds" and valuation difference of ¥52 million is recorded under "Other income."

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

Previous fiscal year (As of March 31, 2017)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥3,057	¥1,382	¥40
2) Bonds	400	—	—
3) Other	231	—	18
Total	3,688	1,382	59

Current fiscal year (As of March 31, 2018)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥1,647	¥508	¥ 1
2) Bonds	—	—	—
3) Other	518	23	—
Total	2,166	532	1

4. Impairment loss on securities

Previous fiscal year (From April 1, 2016 to March 31, 2017)

During the fiscal year ended March 31, 2017, the Group recognized impairment loss on available-for-sale securities in an amount of ¥1,105 million.

Current fiscal year (From April 1, 2017 to March 31, 2018)

During the fiscal year ended March 31, 2018, the Group recognized impairment loss on available-for-sale securities in an amount of ¥142 million.

13 Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2017)

		Millions of yen			
Category		Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
Transactions other than market transactions	Forward exchange contracts:				
	Selling				
	U.S. dollar	¥79	¥—	¥(4)	¥(4)
	Euro	14	—	0	0
Total		93	—	(4)	(4)

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

Current fiscal year (As of March 31, 2018)

Not applicable.

(2) Compound financial instruments

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in "Note 12, Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2017)

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Payables translated using forward exchange contract rates	Forward exchange contracts:				
	Buying				
	U.S. dollar	Accounts payable—trade	¥133	¥—	Note

Note: 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.

Current fiscal year (As of March 31, 2018)

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts:				
	Buying				
	U.S. dollar	Accounts payable—trade	¥202	¥—	¥(0)

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

(2) Interest rate-related derivatives

Previous fiscal year (As of March 31, 2017)

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Primary method (Note 2)	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	¥18,564	¥18,555	¥(71)
Special treatment for interest rate swaps	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	33,000	30,000	Note 3
Special treatment for interest rate and currency swaps	Interest rate and currency swaps:				
	Floating rate into fixed rate	Long-term loans payable	988	988	Note 3
Total			52,553	49,544	—

Notes: 1. Fair values are calculated using prices quoted by financial institutions.

2. Derivatives for which primary method is applied are interest rate swaps to hedge interest rate risk on long-term loans payable of the companies accounted for under equity method. The contract value and fair value are calculated by multiplying the company's holding ratio.

3. 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.

Notes to Consolidated Financial Statements

Current fiscal year (As of March 31, 2018)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method (Note 2)	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥20,196	¥20,196	¥18
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	30,000	21,660	Note 3
Special treatment for interest rate and currency swaps	Interest rate and currency swaps: Floating rate into fixed rate	Long-term loans payable	988	—	Note 3
Total			51,184	41,856	—

Notes: 1. Fair values are calculated using prices quoted by financial institutions.

2. Derivatives for which primary method is applied are interest rate swaps to hedge interest rate risk on long-term loans payable of the companies accounted for under equity method. The contract value and fair value are calculated by multiplying the company's holding ratio.

3. 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.

14 Retirement Benefits

1. Overview of retirement benefit 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.

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.

Regarding "The Pension Fund of Japan Electronics Information Technology Industry" which the Company and some consolidated subsidiaries are members of, a representatives meeting held on December 5, 2017 resolved to dissolve the said Fund, and the Minister of Health, Labour and Welfare approved of the dissolution on March 31, 2018. Regarding the regulatory revision of the defined benefit pension plan that will be the succeeding plan for the Company and one of the consolidated subsidiaries after the dissolution of the said Fund, an agreement has been reached between the management and the employees on January 23, 2018.

2. Defined benefit pension plan

(1) Reconciliation of the difference between the amounts of projected benefit obligations (excluding pension plan using the simplified method)

	Millions of yen	
	2017	2018
Projected benefit obligations at the beginning of the period	¥22,506	¥23,845
Service costs—benefits earned during the year	1,862	1,910
Interest cost on projected benefit obligations	79	112
Actuarial differences accrued	47	949
Retirement benefit paid	(684)	(401)
Prior service costs incurred	—	(67)
Increased liability following transition of retirement benefit plan	—	564
Impact of the change from the simplified method to the principle method	—	91
Other	34	60
Projected benefit obligations at the end of the period	23,845	27,066

(2) Reconciliation of the difference between the amounts of plan assets

	Millions of yen	
	2017	2018
Plan assets at the beginning of the period	¥19,211	¥22,030
Expected return on plan assets	370	423
Actuarial differences accrued	(275)	84
Contribution of employer	3,277	3,396
Retirement benefit paid	(528)	(346)
Estimated amount of distribution from fund following transition of retirement benefit plan	—	408
Impact of the change from the simplified method to the principle method	—	6
Other	(26)	—
Plan assets at the end of the period	22,030	26,002

(3) Reconciliation of the difference between the amounts of net defined benefit liability under pension plans using the simplified method

	Millions of yen	
	2017	2018
Net defined benefit liability at the beginning of the period	¥612	¥659
Retirement benefit expenses	122	105
Retirement benefit paid	(79)	(70)
Impact of the change from the simplified method to the principle method	—	(85)
Other	3	(8)
Net defined benefit liability at the end of the period	659	600

(4) Reconciliation of the difference between the amount of projected benefit obligations and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets

	Millions of yen	
	2017	2018
Funded projected benefit obligations	¥23,845	¥25,340
Plan assets	(22,030)	(26,002)
Unfunded projected benefit obligations	1,815	(662)
Net amount of liabilities and assets recorded on the consolidated balance sheets	659	2,326
Net defined benefit liability	2,474	1,663
Net defined benefit asset	3,303	3,572
Net amount of liabilities and assets recorded on the consolidated balance sheets	(828)	(1,908)
	2,474	1,663

Note: The retirement benefit scheme applying the simplified method is included.

(5) Breakdown of retirement benefit expenses

	Millions of yen	
	2017	2018
Service costs—benefits earned during the year	¥1,862	¥1,910
Interest cost on projected benefit obligations	79	112
Expected return on plan assets	(370)	(423)
Amortization of actuarial difference	185	(311)
Amortization of prior service cost	—	(67)
Retirement benefit expenses using the simplified method	122	105
Other	6	6
Retirement benefit expenses of defined benefit pension plan	1,885	1,332

Note: Other than the retirement benefit expenses stated above, early extra retirement payments of ¥149 million and ¥22 million were recorded under other expenses for the years ended March 31, 2017 and 2018, respectively. Additionally, losses arising from the dissolution of employees' pension fund and a transfer of retirement benefit plan have been recorded as other expenses. The recorded amount was ¥156 million for the current fiscal year.

Notes to Consolidated Financial Statements

(6) Remeasurements of defined benefit plans, net of tax

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

	2017	2018
Actuarial difference	¥(137)	¥(1,176)
Total	(137)	(1,176)

Millions of yen

(7) Remeasurements of defined benefit plans

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

	2017	2018
Unrecognized actuarial differences	¥964	¥(211)
Total	964	(211)

Millions of yen

(8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

	2017	2018
Debt securities	59%	56%
Share of stock	17	21
Cash and deposits	7	6
General account	10	11
Other	7	6
Total	100	100

2) Long-term expected rate of 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 make up the plan assets.

(9) Matters concerning basis for the actuarial calculation

Basis for the actuarial calculation

	2017	2018
Discount rate	0.1–0.9%	0.0–1.3%
Long-term expected rate of return on plan assets	1.6–2.0%	1.6–2.0%
Salary increase ratio (Note)	Principally, salary increase index by ages as of March 31, 2012 is used.	Principally, salary increase index by ages as of March 31, 2016 is used.

Note: Some consolidated subsidiaries do not use salary increase ratio for the calculation of retirement benefits obligations.

3. Defined contribution pension plans

The amount to be paid by consolidated subsidiaries to the defined contribution pension plans were ¥288 million and ¥332 million for the years ended March 31, 2017 and 2018, respectively.

15 Stock Option Plan

1. Contents, scale and movement of stock options

Previous fiscal year (From April 1, 2016 to March 31, 2017)

(1) The following table summarizes the contents of stock options as of March 31, 2017.

Company name	The Company	The Company	The Company
Date of the resolution	July 31, 2012	July 31, 2012	August 2, 2016
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	The Company's directors: 5
Class and number of stock	Common stock 250,000	Common stock 3,483,000	Common stock 250,000
Date of issue	September 1, 2012	September 1, 2012	September 1, 2016
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 September 1, 2016 to September 1, 2018
Period grantees provide service in return for stock options	September 1, 2012 to September 1, 2014	September 1, 2012 to September 1, 2014	September 1, 2016 to September 1, 2018
Period subscription rights are to be exercised	September 2, 2014 to September 1, 2016	September 2, 2014 to September 1, 2016	September 2, 2018 to September 1, 2020

Company name	The Company	Butterfly Corporation	Butterfly Corporation
Date of the resolution	August 2, 2016	October 29, 2010	January 19, 2011
Position and number of grantees	The Company's executive officers: 7 The Company's employees: 11 The Company's subsidiaries' directors: 43 The Company's subsidiaries' executive officers: 46 The Company's subsidiaries' employees: 822	Butterfly Corporation's directors: 3 Butterfly Corporation's corporate auditors: 1 Butterfly Corporation's employees: 56	Butterfly Corporation's employees: 10
Class and number of stock	Common stock 3,844,500	Common stock 49,000	Common stock 1,000
Date of issue	September 1, 2016	November 1, 2010	February 1, 2011
Condition of settlement of rights	Continue to work from September 1, 2016 to September 1, 2018	Continue to work from November 1, 2010 to October 29, 2012	Continue to work from February 1, 2011 to October 29, 2012
Period grantees provide service in return for stock options	September 1, 2016 to September 1, 2018	November 1, 2010 to October 29, 2012	February 1, 2011 to October 29, 2012
Period subscription rights are to be exercised	September 2, 2018 to September 1, 2020	October 30, 2012 to October 28, 2020	October 30, 2012 to October 28, 2020

Notes to Consolidated Financial Statements

(2) The following table summarizes the scale and movement of stock as of March 31, 2017.

Company name	Shares					
	The Company	The Company	The Company	The Company	Butterfly Corporation	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	August 2, 2016	August 2, 2016	October 29, 2010	January 19, 2011
Not exercisable stock options						
Stock options outstanding at April 1, 2016	—	—	—	—	—	—
Stock options granted	—	—	250,000	3,844,500	—	—
Forfeitures	—	—	—	24,500	—	—
Conversion to exercisable stock options	—	—	—	—	—	—
Stock options outstanding at March 31, 2017	—	—	250,000	3,820,000	—	—
Exercisable stock options						
Stock options outstanding at April 1, 2016	180,000	3,288,500	—	—	7,700	100
Conversion from not exercisable stock options	—	—	—	—	—	—
Stock options exercised	—	—	—	—	—	—
Forfeitures	180,000	3,288,500	—	—	7,700	100
Stock options outstanding at March 31, 2017	—	—	—	—	—	—

The following table summarizes the price information of stock options as of March 31, 2017.

Company name	Yen					
	The Company	The Company	The Company	The Company	Butterfly Corporation	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	August 2, 2016	August 2, 2016	October 29, 2010	January 19, 2011
Exercise price	¥1,686	¥1,686	¥1,413	¥1,413	¥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	231	231	256	256	—	—

Current fiscal year (From April 1, 2017 to March 31, 2018)

(1) The following table summarizes the contents of stock options as of March 31, 2018.

Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 7 The Company's employees: 11 The Company's subsidiaries' directors: 43 The Company's subsidiaries' executive officers: 46 The Company's subsidiaries' employees: 822
Class and number of stock	Common stock 250,000	Common stock 3,844,500
Date of issue	September 1, 2016	September 1, 2016
Condition of settlement of rights	Continue to work from September 1, 2016 to September 1, 2018	Continue to work from September 1, 2016 to September 1, 2018
Period grantees provide service in return for stock options	September 1, 2016 to September 1, 2018	September 1, 2016 to September 1, 2018
Period subscription rights are to be exercised	September 2, 2018 to September 1, 2020	September 2, 2018 to September 1, 2020

(2) The following table summarizes the scale and movement of stock as of March 31, 2018.

Company name	Shares	
	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Not exercisable stock options		
Stock options outstanding at April 1, 2017	—	—
Stock options granted	250,000	3,820,000
Forfeitures	—	28,500
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2018	250,000	3,791,500
Exercisable stock options		
Stock options outstanding at April 1, 2017	—	—
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	—	—
Stock options outstanding at March 31, 2018	—	—

Notes to Consolidated Financial Statements

The following table summarizes the price information of stock options as of March 31, 2018.

	Yen	
Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Exercise price	¥1,413	¥1,413
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	256	256

2. Estimation of fair value of the stock options

Previous fiscal year (From April 1, 2016 to March 31, 2017)

Method to estimate the fair value of stock option granted by the Company

(1) Measurement technique used

Black-Scholes model

(2) Major assumption used and method to estimate the assumption

- | | | |
|---|--|--------------|
| (i) Stock price volatility | Stock option granted on September 1, 2016 (For directors of the Company) | 33.056% |
| | Stock option granted on September 1, 2016 (For other than directors of the Company) | 33.056% |
| (ii) Remaining period assumed ... 3 years | Since there is not enough data to make reasonable assumptions, the remaining period is estimated based on an assumption that the option would be exercised at the mid-point of exercise periods. | |
| (iii) Dividends assumed | Stock option granted on September 1, 2016 (For directors of the Company) | 40 yen/share |
| | Stock option granted on September 1, 2016 (For other than directors of the Company) | 40 yen/share |
| (iv) Risk-free interest rate | Stock option granted on September 1, 2016 (For directors of the Company) | (0.194)% |
| | Stock option granted on September 1, 2016 (For other than directors of the Company) | (0.194)% |
- Interest rates of Japanese government bonds for the assumed remaining period are used.

Current fiscal year (From April 1, 2017 to March 31, 2018)

Not applicable.

3. Estimation of number of exercisable stock options

Only the actual forfeitures are reflected because it is difficult to estimate future forfeitures reasonably.

16 Income Taxes

1. Significant components of deferred tax assets and liabilities

	Millions of yen	
	2017	2018
Deferred tax assets:		
Allowance for doubtful accounts	¥ 1,443	¥ 225
Loss on valuation of inventories	1,903	1,436
Provision for bonuses	1,996	1,845
Net defined benefit liability	1,666	1,431
Depreciation expense	14,120	15,627
Loss on valuation of investment securities	680	621
Impairment loss	2,796	2,768
Other	11,807	10,112
Tax loss carryforward	67,507	49,987
Total	103,920	84,055
Valuation allowance	(90,215)	(71,427)
Offset against deferred tax liabilities	(6,241)	(6,196)
Net deferred tax assets	7,464	6,431
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(5,105)	(4,799)
Other	(4,366)	(4,057)
Subtotal of deferred tax liabilities	(9,472)	(8,857)
Offset against deferred tax assets	6,241	6,331
Total	(3,231)	(2,525)
Recorded deferred tax assets	4,232	3,905

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 fiscal years ended March 31, 2017 and 2018

	2017	2018
Statutory tax rate	30.9%	30.9%
(Reconciliation)		
Changes in valuation allowance	(4.2)	(129.6)
Permanently non-deductible expenses including entertainment expenses	1.7	5.6
Amortization of goodwill	1.6	5.6
Difference of tax rates for consolidated subsidiaries	(1.0)	1.6
Tax credit for experiment and research expenses	(4.4)	(14.5)
Tax loss carryforward	(1.4)	67.1
Effect of adjustment for consolidation	(4.7)	4.1
Adjustments of deferred tax assets for enacted changes in tax laws and rates	1.0	56.7
Reversal of revaluation reserve for land	(4.5)	—
Other	1.8	(3.0)
Effective tax rate for financial statement purposes	16.8	24.5

17 Business Combination

The information is omitted due to its insignificance.

18 Segment Information

1. Outline of reporting segments

Reporting segments of the Group are the organizational units for which separated financial information is available, and on the basis of which the Board of Directors makes decision 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 is carried out by each Group company that provides such product and service.

As such, the Group comprises segments classified by product and service provided through the business run by each company, in which the “Pachislot and Pachinko Machines Business,” the “Entertainment Contents Business” and the “Resort Business” are the reporting segments.

Line of business at each reporting segment is as follows:

Segment	Main product and business
Pachislot and Pachinko Machines Business	Development, manufacture and sales of pachislot and pachinko machines
Entertainment Contents Business	Development and sales of digital game software serving as the main axis of segments; development and sales of packaged game software and amusement machines; development and operation of amusement centers; planning, production and sales of animated films; development, manufacture and sales of toys
Resort Business	Development and operation of hotels and golf courses, etc. in the integrated resorts business and other facilities businesses

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.”

(Impact of the change of the useful lives of the noncurrent assets)

As described in “Note 5 - Additional Information,” at the end of the previous fiscal year, the Company and some of the companies of the SEGA SAMMY Group located in the Tokyo metropolitan area had shortened the useful lives of the noncurrent assets that will become unable to use as a result of the relocation, and the effects of this change are accounted for prospectively.

Comparing the result with the previous method, segment income for “Pachislot and Pachinko Machines Business” decreased by ¥571 million, “Entertainment Contents Business” decreased by ¥1,102 million, respectively, for the fiscal year ended March 31, 2018. In addition, general corporate expenses included in “Adjustment” increased by ¥142 million.

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

Previous fiscal year (From April 1, 2016 to March 31, 2017)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal		
	Millions of yen					
Net sales:						
Sales to third parties	¥148,222	¥205,704	¥13,012	¥366,939	¥ 0	¥366,939
Inter-segment sales and transfers	752	1,152	48	1,953	(1,953)	—
Total	148,974	206,857	13,060	368,892	(1,952)	366,939
Segment income (loss)	26,331	11,176	(2,244)	35,263	(5,735)	29,527
Segment assets	117,325	170,845	48,428	336,599	184,999	521,599
Other items:						
Depreciation	7,600	11,177	1,162	19,940	620	20,561
Investments in affiliates accounted for by the equity method	337	1,359	21,274	22,970	895	23,866
Increases in property, plant and equipment and intangible assets	5,871	16,667	4,505	27,045	18	27,063

- Notes: 1. Elimination of inter-segment transactions of ¥7 million and general corporate expenses of ¥(5,742) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(5,735) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
2. Adjustments for segment assets of ¥184,999 million includes elimination of inter-segment transactions of ¥(99,861) million and general corporate assets of ¥284,861 million which are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.
3. The adjustment to depreciation is mainly depreciation associated with the Company.
4. Adjustments for investments in affiliates accounted for using the equity method are investments in affiliates accounted for using the equity method that are not attached to each reporting segment.
5. The adjustment to property, plant and equipment and intangible assets is mainly the purchase of noncurrent assets associated with the Company.
6. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

Current fiscal year (From April 1, 2017 to March 31, 2018)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal		
	Millions of yen					
Net sales:						
Sales to third parties	¥105,649	¥208,081	¥ 9,932	¥323,663	¥ 1	¥323,664
Inter-segment sales and transfers	759	1,482	22	2,263	(2,263)	—
Total	106,409	209,563	9,954	325,927	(2,262)	323,664
Segment income (loss)	11,923	14,841	(2,502)	24,262	(6,541)	17,720
Segment assets	84,129	167,135	53,373	304,638	168,866	473,505
Other items:						
Depreciation	6,233	11,168	1,026	18,427	752	19,180
Investments in affiliates accounted for by the equity method	463	572	25,973	27,009	839	27,848
Increases in property, plant and equipment and intangible assets	3,656	17,254	1,961	22,873	1,323	24,196

- Notes: 1. Elimination of inter-segment transactions of ¥18 million and general corporate expenses of ¥(6,560) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(6,541) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
2. Adjustments for segment assets of ¥168,866 million includes elimination of inter-segment transactions of ¥(16,815) million and general corporate assets of ¥185,682 million which are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.
3. The adjustment to depreciation is mainly depreciation associated with the Company.
4. Adjustments for investments in affiliates accounted for using the equity method are investments in affiliates accounted for using the equity method that are not attached to each reporting segment.
5. The adjustment to property, plant and equipment and intangible assets is mainly the purchase of noncurrent assets associated with the Company.
6. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

Notes to Consolidated Financial Statements

[Related information]

Previous fiscal year (From April 1, 2016 to March 31, 2017)

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
¥325,393	¥23,894	¥7,136	¥10,516	¥366,939

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
¥78,600	¥7	¥3,001	¥81,609

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 statements of income and comprehensive income.

Current fiscal year (From April 1, 2017 to March 31, 2018)

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
¥267,992	¥34,608	¥10,236	¥10,826	¥323,664

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

(2) Property, plant and equipment

Description is omitted, since property, plant and equipment in Japan exceeded 90% of those stated 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 statements of income and comprehensive income.

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

Previous fiscal year (From April 1, 2016 to March 31, 2017)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal		
	Impairment loss	¥134	¥1,106	¥4,794		

Current fiscal year (From April 1, 2017 to March 31, 2018)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal		
	Impairment loss	¥270	¥2,203	¥—		

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

Previous fiscal year (From April 1, 2016 to March 31, 2017)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal		
	Amortization	¥196	¥ 2,227	¥33		
Balance as of March 31, 2017	17	10,789	—	10,807	—	10,807

Current fiscal year (From April 1, 2017 to March 31, 2018)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal		
	Amortization	¥43	¥2,126	¥—		
Balance as of March 31, 2018	—	8,541	—	8,541	—	8,541

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

Previous fiscal year (From April 1, 2016 to March 31, 2017)

Not applicable.

Current fiscal year (From April 1, 2017 to March 31, 2018)

Not applicable.

19 Related-Party Transactions

1. Related-party transactions

(1) Transactions between the Company and related parties

1) Non-consolidated subsidiaries and affiliated companies of the Company

Previous fiscal year (From April 1, 2016 to March 31, 2017)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
PARADISE SEGASAMMY Co., Ltd.	Resort business	Provision of security ^(Note)	¥21,274	—	¥—

Note: For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2017 to March 31, 2018)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
PARADISE SEGASAMMY Co., Ltd.	Resort business	Underwriting of capital increase ^(Note 1)	¥ 5,383	—	¥—
		Provision of security ^(Note 2)	25,973	—	—

Notes: 1. The Company underwrote a capital increase through allotment to shareholders.

2. For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

2) Directors, key individual shareholders, etc., of the Company
Previous fiscal year (From April 1, 2016 to March 31, 2017)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
FSC Co., Ltd. ^(Note 1)	Non-life insurance agent	Payment of insurance ^(Note 2)	¥8	Prepaid expenses	¥5
		Rental income from real estate and equipment ^(Note 2)	3	—	—

Notes: 1. Hajime Satomi, Chairman of the Board and CEO and COO, and Haruki Satomi, Executive Vice President (Director of the Board), directly hold a majority of the shares of 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 amount.

Current fiscal year (From April 1, 2017 to March 31, 2018)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
FSC Co., Ltd. ^(Note 1)	Non-life insurance agent	Payment of insurance ^(Note 2)	¥7	Prepaid expenses	¥3
		Receipt of insurance monies ^(Note 2)	1	Long-term prepaid expenses	2
		Rental income from real estate and equipment ^(Note 2)	3	—	—

Notes: 1. Hajime Satomi, Chairman and CEO (Representative Director), and Haruki Satomi, President and COO (Representative Director), directly hold a majority of the shares of 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 amount.

(2) Transactions between subsidiaries of the Company and related parties

Directors, key individual shareholders, etc., of the Company
Previous fiscal year (From April 1, 2016 to March 31, 2017)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
FSC Co., Ltd. ^(Note 1)	Non-life insurance agent	Payment of insurance ^(Note 2)	¥35	Prepaid expenses	¥21
				Accrued expenses	1

Notes: 1. Hajime Satomi, Chairman of the Board and CEO and COO, and Haruki Satomi, Executive Vice President (Director of the Board), directly hold a majority of the shares of 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 amount.

Current fiscal year (From April 1, 2017 to March 31, 2018)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
FSC Co., Ltd. ^(Note 1)	Non-life insurance agent	Payment of insurance ^(Note 2)	¥28	Prepaid expenses	¥19

Notes: 1. Hajime Satomi, Chairman and CEO (Representative Director), and Haruki Satomi, President and COO (Representative Director), directly hold a majority of the shares of 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 amount.

2. Notes on the parent company or significant affiliates

(1) Information on the parent company

Not applicable.

(2) Summarized financial information of significant affiliates

PARADISE SEGASAMMY Co., Ltd., is a significant affiliates in the current fiscal year, and its summarized financial statements are as follows.

	2017	2018
Total current assets	¥27,482	¥ 21,327
Total noncurrent assets	81,720	114,547
Total current liabilities	3,170	6,533
Total noncurrent liabilities	61,770	73,947
Total net assets	44,261	55,393
Net sales	9,061	19,948
Income (loss) before income taxes	(417)	(5,469)
Income (loss)	(413)	(5,349)

Note: PARADISE SEGASAMMY Co., Ltd., has become a significant affiliate from the current fiscal year due to an increase in its materiality.

20 Per Share Data

Item	2017	2018
Net assets per share	¥1,313.06	¥1,313.90
Net income per share	117.79	38.10
Net income per share (diluted)	117.40	38.04

The assumptions of net income (loss) per share and diluted net income per share are as follows.

Item	2017	2018
Net income per share:		
Profit attributable to owners of parent	¥27,607 million	¥8,930 million
Amount not attributable to common stockholders	¥— million	¥— million
Profit attributable to owners of parent for common stock	¥27,607 million	¥8,930 million
Average number of common stocks	234,391 thousand shares	234,383 thousand shares
Diluted net income per share:		
Profit attributable to owners of parent adjustment	¥— million	¥— million
Increase of common stock	770 thousand shares	363 thousand shares
(Stock options)	770 thousand shares	363 thousand shares

21 Significant Subsequent Events

Dissolution and liquidation of specified subsidiary

At the Board of Directors' meeting held on April 6, 2018, the Company resolved to dissolve and liquidate a specified subsidiary SEGA SAMMY BUSAN INC., and completed all of the relevant procedures on July 12, 2018.

(1) Reasons for dissolution

At a meeting of the Board of Directors held on December 22, 2016, the Company resolved to discontinue its complex development project in Busan Metropolitan City, South Korea. Following the resolution, the Company reached an agreement with Busan Metropolitan City, South Korea on the return of acquired land. Since related procedures including the receipt of the land cost were completed in March 2018, the Company has determined to dissolve and liquidate the subsidiary.

(2) Overview of the dissolution subsidiary

1) Name	SEGA SAMMY BUSAN INC.
2) Head office	233, Jungang-daero, Dong-gu, Busan, Republic of Korea
3) Title and name of representative	Naoya Tsurumi, President (Representative Director)
4) Capital	124,000 million KRW
5) Business description	Development and operation of a complex comprised of hotel, entertainment facilities, commercial facilities, etc.
6) Major shareholders and ownership percentage	SEGA SAMMY HOLDINGS INC. 100.0% (including indirect ownership: 25%)

(3) Schedule of dissolution and liquidation

Resolution of dissolution of the subsidiary: April 6, 2018

Completion of liquidation: July 12, 2018

(4) Financial situation of the dissolution subsidiary (As of March 31, 2018)

Total assets KRW94,431 million (¥9,452 million)

Total liabilities KRW18,913 million (¥1,893 million)

(5) Estimated amount of profit (loss) by this dissolution

Said company began the procedures for dissolution and liquidation in accordance with local laws and regulations, and the Company received a distribution of residual assets from said company on July 12, 2018. Following said dissolution and liquidation, the Company is expecting to record a ¥1,220 million gain on liquidation of subsidiaries and affiliates as extraordinary income in the second quarter of the fiscal year ending March 31, 2019.

(6) Significant impact from this dissolution on operating activities, etc.

The impact from this dissolution and liquidation on operating activities, etc. is expected to be insignificant.

22 Supplemental Information

Supplemental schedule of corporate bonds

Company name	Name of bond	Issuance date	Balance as of April 1, 2017 (Millions of yen)	Balance as of March 31, 2018 (Millions of yen)	Interest rate (%)	Type	Date of maturity
The Company	1st unsecured bonds (Private placement bond)	March 29, 2013	¥ 8,000	¥ —	0.44	Unsecured	March 29, 2018
	2nd unsecured bonds (Private placement bond)	March 29, 2013	1,600	—	0.42	Unsecured	March 29, 2018
	1st unsecured bonds (Publicly offered bonds)	July 25, 2013	5,000	5,000 (5,000)	0.73	Unsecured	July 25, 2018
	3rd unsecured bonds (Publicly offered bonds)	June 17, 2014	10,000	10,000	0.52	Unsecured	June 17, 2019
	3rd unsecured bonds (Private offered bonds)	September 26, 2014	10,000	7,500 (5,000)	0.44	Unsecured	September 26, 2019
	4th unsecured bonds (Publicly offered bonds)	June 15, 2015	10,000	10,000	0.57	Unsecured	June 15, 2020
SEGA Holdings Co., Ltd.	15th unsecured bonds	June 29, 2012	5,000	—	0.58	Unsecured	June 30, 2017
	16th unsecured bonds	September 28, 2012	2,400	—	0.51	Unsecured	September 29, 2017
Total	—	—	52,000	32,500 (10,000)	—	—	—

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2018" represent the current portion of corporate bonds.
2. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2018 is as follows:

Millions of yen				
Within one year	One to two years	Two to three years	Three to four years	Four to five years
¥10,000	¥12,500	¥10,000	¥—	¥—

Supplemental schedule of borrowings

Category	Balance as of April 1, 2017 (Millions of yen)	Balance as of March 31, 2018 (Millions of yen)	Average interest rate (%)	Repayment terms
Short-term loans payable	¥ 0	¥ —	—	—
Current portion of long-term loans payable due within one year	6,354	15,838	0.8	—
Current portion of lease obligations	407	333	(Note 2)	—
Long-term loans payable (Excluding current portion)	44,500	38,661	0.6	2019–2024
Lease obligations (Excluding current portion)	747	613	(Note 2)	2019–2024
Other interest-bearing debt:				
Accounts payable–facilities	939	542	1.0	—
Accounts payable–facilities (Excluding current portion)	674	152	1.2	2019 - 2024
Total	53,623	56,143	—	—

Notes: 1. "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 are posted on 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, 2018 is summarized as follows:

Category	Millions of yen				
	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Long-term loans payable	¥13,341	¥13,320	¥ —	¥10,000	¥2,000
Lease obligations	228	175	104	55	50
Other interest-bearing debt:					
Accounts payable–facilities	92	22	14	14	10

Independent Auditor's Report



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, 2018 and 2017, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 judgment, 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, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

KPMG AZSA LLC
August 27, 2018
Tokyo, Japan



SEGA SAMMY HOLDINGS INC.

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