

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
6 Months Ended September 30, 2016

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <http://www.segasammy.co.jp/>)
Representative: Hajime Satomi
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Filing of Quarterly Report: November 11, 2016 (plan)
 Start of cash dividend payments: December 1, 2016 (plan)

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 6 Months Ended September 30, 2016**(1) RESULTS OF CONSOLIDATED OPERATIONS**

(Percentage represents changes from the prior period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For 6 months ended September 30, 2016	169,501	9.9	15,364	167.5	15,475	163.8	24,251	—
For 6 months ended September 30, 2015	154,302	(2.5)	5,744	110.3	5,867	123.8	964	—

(Note) Comprehensive income

For 6 months ended September 30, 2016 : ¥17,554 million (—%)

For 6 months ended September 30, 2015 : ¥173 million (—%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 6 months ended September 30, 2016	103.47	103.15
For 6 months ended September 30, 2015	4.11	4.11

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
September 30, 2016	521,500	306,124	58.1
March 31, 2016	532,957	299,950	55.3

(Reference) Shareholders' equity

September 30, 2016 : ¥302,849 million

March 31, 2016 : ¥294,733 million

2. Cash Dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	—	20.00	—	20.00	40.00
Year ending March 31, 2017	—	20.00			
Year ending March 31, 2017 (plan)			—	20.00	40.00

(Note) Revision of the forecast from latest announcement: No

3. Forecast of Consolidated Operating Results for the Year ending March 31, 2017

(Percentage represents changes from the prior period/year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Entire – year	373,000	7.2	28,000	58.9	27,000	64.5	30,000	458.7	127.99

(Note) Revision of the forecast from latest announcement: Yes

4. Other

- (1) Significant changes in subsidiaries (scope of consolidation) during period: No
- (2) Adoption of the simplified method of accounting as well as specific accounting for preparing the quarterly consolidated financial statements: Yes
- (3) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the quarterly consolidated financial statements:
 1. Changes associated with revision in accounting standards: No
 2. Other changes: No
- (4) Number of shares outstanding (common stock)
 1. Number of shares outstanding at the end of the period (including treasury stock)
 - September 30, 2016 : 266,229,476
 - March 31, 2016 : 266,229,476
 2. Number of treasury stock at the end of the period
 - September 30, 2016 : 31,837,261
 - March 31, 2016 : 31,834,807
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 - For 6 months ended September 30, 2016 : 234,393,482
 - For 6 months ended September 30, 2015 : 234,550,372

(Note)

- At the time of this report's release, the quarterly review procedures under the Financial Instruments and Exchange Law have not been completed.
- The forward-looking statements, such as results forecasts, included in this document are based on information available to the SEGA SAMMY HOLDINGS INC. (the "Company") at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors. For the assumptions prerequisite to the results forecasts and the points to be noted in the use of the forecasts, please see "Forecast of Consolidated Operating Results" on page 4.
- The Company plans to hold a briefing on financial results for analysts on November 4, 2016. The contents of the meeting, such as explanations about financial results (audio), will be posted on the Company's website soon after the briefing.

Operating Results and Financial Position

(1) Overview

With regard to the pachislot and pachinko industry, in the pachislot machine market, pachinko parlor operators have adopted a cautious approach to replacement of machines to those compliant with the change in the application of the model test procedure by the Security Communications Association, which conducts model tests for pachislot and pachinko machines. Meanwhile, pachinko machine market remains uncertain, in line with the application of the voluntary agreement on measures to prevent players from becoming too immersed in playing, which were decided by Nikkoso, an association of pachinko machine manufacturers. Under such circumstances, titles receiving high appraisal are arising mainly in some series with successful track records, and in order to revitalize the market going ahead, it is essential to develop and supply machines that are compliant with various voluntary regulations and capable of appealing to a wide range of players.

Regarding the environment of the Entertainment Contents Business, a slowdown in the spread of smartphones in Japan and the predominance of leading publishers are accelerating in the market for digital games for smart devices. Therefore, provision of higher-quality content is expected, resulting in a trend of longer development lead times and higher operating costs. Meanwhile, in overseas business, future growth is expected mainly in Asia. With regard to the packaged game software market, expectations are rising for future expansion of the market due to the penetration of next generation hardware of home video game console. In Europe, the U.S., and Asia, large markets have been developed for PC games. As for the market for amusement centers and amusement machines, signs of improvement in facilities utilization and expansion of the player base are showing mainly in new video game titles.

In the resort industry, although the growth rate is slowing down, the number of foreign visitors to Japan is increasing continuously, and an upward trend in the hotel occupancy rate is still evident. With a view to establishing Japan as a popular tourist destination, a bill concerning the promotion of the establishment of specified integrated resort areas (Integrated Resort Promotion Bill) has been submitted to the Diet.

In this business environment, net sales for the first half of the fiscal year ending March 31, 2017 amounted to ¥169,501 million, an increase of 9.9% for the same period in the previous fiscal year. The Group posted an operating income of ¥15,364 million (an increase of 167.5% for the same period in the previous fiscal year), ordinary income of ¥15,475 million (an increase of 163.8% for the same period in the previous fiscal year). In addition, as a result of recording extraordinary gain of ¥11,994 million, including gain on sales of noncurrent assets, the Group posted profit attributable to owners of parent of ¥24,251 million (profit attributable to owners of parent of ¥964 million for the same period in the previous fiscal year).

Result of each segment is as follows

Net sales in each segment here do not include Inter-segment sales between segments.

Some businesses formerly included in the “Entertainment Contents Business” were reclassified as the “Pachislot and Pachinko Machines Business” effective from the first quarter of the fiscal year ending March 31, 2017, and comparison and analysis of results for the first half of the fiscal year ending March 31, 2017 are based on the segment classification after the change. For details of segment information, please refer to “SEGMENT INFORMATION, (2) Change of reporting segments, etc., (Change in classification of reporting segments)” on page 10.

《Pachislot and Pachinko Machines》

In the pachislot machine business, despite delivery of the major title “Pachislot Hokuto No Ken Syura no kuni hen” was limited, sales were strong for “Pachislot BLOOD+ futari no joou” added with many new features on its previous title, whose original gameplay was well supported, leading to overall sales of pachislot machines of 81 thousand units, above the results of the same period in the previous fiscal year (an increase of 11 thousand units from the same period in the previous fiscal year). In the pachinko machine business, sales were strong for titles such as “Pachinko CR SOUTEN-NO-KEN Tenki,” where newly loaded gimmick is integrated with LCD effect renewed from the previous title in the series, and the “Pachinko CR GAOGAOKING 2” series, the latest title of the “GAOGAOKING” series with the attractive reel action, where easy-to-understand gameplay is added with a new way to play, leading to overall sales of pachinko machines of 75 thousand units, around the same level as the previous year (a decrease of 4 thousand units from the same period in the previous fiscal year).

In addition, the Group is working to improve profitability through cost improvements by reusing components, and reducing expenses including development expenses.

As a result, net sales in this segment were ¥64,926 million (an increase of 6.6% for the same period in the previous fiscal year) and operating income was ¥10,639 million (an increase of 25.9% for the same period in the previous fiscal year).

《Entertainment Contents》

With regard to the Entertainment Contents Business, in the field of digital game software, “PHANTASY STAR ONLINE 2,” which celebrated its fourth anniversary since its release, topped 4.5 million IDs in Japan and continued to maintain its strengths. With regard to titles for smart devices, sales remained robust mainly for major titles including “Puyopuyo!! Quest,” for which real-time competition among players officially started in September has been well-received, as well as “CHAIN CHRONICLE – Kizuna no Shintairiku” and “Hortensia SAGA,” which held various events. In addition, the Group released a chain scenario RPG “WORLD CHAIN” as a new title in September.

In the packaged game software field, sales amounted to 4,650 thousand copies, which were higher than the level for the same period in the previous fiscal year, as sales were strong for major titles such as “Persona5,” the latest title in the “Persona” series launched in September.

In the amusement machine field, as operations of “KanColle Arcade” continued to be favorable, revenue share models made contributions to income. Sales of CVT KIT “StarHorse3 Season V EXCEED THE LIMIT” from the “StarHorse” series, a horse racing medal game, now in its 16th year of evolution, were robust.

In the amusement center operations field, like-for-like sales were robust at 110.8% compared with the same period of the previous fiscal year owing to reinforced management of prizes etc. at the existing game center operations and favorable operations of mainly video games, including the new title “KanColle Arcade.”

In the animated film and toy field, the Group recorded income from distributing a theater film “Detective Conan The Darkest Nightmare.” In addition, the Group implemented the sale of toy products mainly regular and major products.

As a result, net sales in this segment were ¥97,829 million (an increase of 13.8% for the same period in the previous fiscal year) and operating income was ¥9,143 million (an increase of 436.8% for the same period in the previous fiscal year).

《Resort》

In the Resort Business, the Group reopened “Phoenix Seagaia Resort,” one of the leading resorts in Japan, as “New Seagaia” in August with renovated guest rooms in “Sheraton Grande Ocean Resort” and newly opened common areas “KAZE-MACHI TERRACE” and “Jikka Kurogi” exclusively to hotel guests. For summer holiday events, fireworks and night markets were held on weekends, and activities including “Sea Turtle Hatching Tour” and “Kids Hotelier Experience Program” were implemented to attract guests. In addition, the Group is continuing its efforts to improve hotel reservations, which were suffering a few cancellations caused by influences of the 2016 Kumamoto Earthquake.

At the supercharged nature experience “Orbi Yokohama,” facilities utilization was low despite increased guests owing to implementation of fee structure reviews and measures to attract customers including “ANIMAL STUDIO”. Meanwhile, facilities utilization at the indoor theme park “TOKYO JOYPOLIS” was robust, backed by “ZERO LATENCY VR” introduced in July, as well as the success of other new attractions.

As a result, net sales in this segment were ¥6,745 million (a decrease of 9.1% for the same period in the previous fiscal year) and operating loss was ¥1,312 million (operating loss of ¥1,218 million for the same period in the previous fiscal year).

(2) Forecast of Consolidated Operating Results

Adjustments have been made to the forecast of consolidated operating results for the full year announced on May 13, 2016. For details, please refer to “Notice of Adjustment of Full-Year Consolidated Operating Results Forecast,” announced on November 2, 2016.

(3) Other

(Additional information)

Effective from the first quarter of the fiscal year ending March 31, 2017, the Company adopted “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, issued on March 28, 2016)

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2016 AND MARCH 31, 2016

(Unit : Millions of yen)

	Prior year (As of March 31, 2016)	Current period (As of September 30, 2016)
Assets		
Current assets		
Cash and deposits	141,316	131,132
Notes and accounts receivable – trade	55,612	42,880
Short-term investment securities	48,401	59,403
Merchandise and finished goods	6,971	20,277
Work in process	17,382	16,009
Raw materials and supplies	10,123	9,897
Other	23,165	24,757
Allowance for doubtful accounts	(681)	(317)
Total current assets	302,292	304,040
Noncurrent assets		
Property, plant and equipment		
Land	38,742	34,997
Other, net	62,338	61,130
Total property, plant and equipment	101,080	96,127
Intangible assets		
Goodwill	12,201	12,441
Other	12,616	13,204
Total intangible assets	24,817	25,645
Investments and other assets		
Investment securities	76,504	68,703
Other	28,810	27,754
Allowance for doubtful accounts	(549)	(772)
Total investments and other assets	104,765	95,686
Total noncurrent assets	230,664	217,460
Total assets	532,957	521,500

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2016 AND MARCH 31, 2016

(Unit : Millions of yen)

	Prior year (As of March 31, 2016)	Current period (As of September 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	33,011	41,793
Short - term loans payable	14,002	12,240
Income taxes payable	2,536	5,560
Provision	5,742	6,853
Asset retirement obligations	30	7
Other	50,666	38,791
Total current liabilities	105,990	105,246
Noncurrent liabilities		
Bonds payable	52,000	43,800
Long - term loans payable	48,895	44,621
Net defined benefit liability	3,906	3,101
Asset retirement obligations	3,952	3,792
Provision for dismantling of fixed assets	2,368	600
Other	15,892	14,213
Total noncurrent liabilities	127,015	110,129
Total liabilities	233,006	215,376
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	118,404	118,404
Retained earnings	194,505	209,219
Treasury stock	(54,758)	(54,761)
Total shareholders' equity	288,105	302,816
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,494	8,993
Deferred gains or losses on hedges	(40)	(562)
Revaluation reserve for land	(4,600)	268
Foreign currency translation adjustment	(876)	(9,408)
Remeasurements of defined benefit plans	651	741
Total accumulated other comprehensive income	6,628	32
Subscription rights to shares	801	43
Non-controlling interests	4,415	3,231
Total net assets	299,950	306,124
Total liabilities and net assets	532,957	521,500

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED SEPTEMBER 30, 2015 AND 2016

(Unit : Millions of yen)

	Prior period From April 1, 2015 To September 30, 2015	Current period From April 1, 2016 To September 30, 2016
Net sales	154,302	169,501
Cost of sales	93,416	102,163
Gross profit	60,885	67,338
Selling, general and administrative expenses	55,141	51,974
Operating income (loss)	5,744	15,364
Non-operating income		
Interest income	250	137
Dividends income	480	507
Foreign exchange gains	—	597
Gain on investments in partnership	178	159
Other	859	783
Total non-operating income	1,769	2,185
Non-operating expenses		
Interest expenses	465	504
Equity in losses of affiliates	15	539
Bond issuance cost	41	—
Foreign exchange losses	153	—
Commission fee	52	23
Loss on valuation of compound financial instruments	332	77
Other	585	929
Total non-operating expenses	1,647	2,073
Ordinary income (loss)	5,867	15,475
Extraordinary income		
Gain on sales of noncurrent assets	25	9,514
Gain on sales of investment securities	31	254
Gain on liquidation of subsidiaries and affiliates	291	290
Gain on liquidation of silent partnership	—	1,087
Gain on reversal of subscription rights to shares	8	801
Other	147	47
Total extraordinary income	505	11,994
Extraordinary losses		
Loss on sales of noncurrent assets	65	1
Impairment loss	328	168
Early extra retirement payments	1,625	—
Restructuring loss	—	68
Other	286	117
Total extraordinary losses	2,305	355
Income (loss) before income taxes	4,067	27,114
Income taxes-current	2,985	2,696
Total income taxes	2,985	2,696
Profit (loss)	1,081	24,418
(Breakdown)		
Profit (loss) attributable to owners of parent	964	24,251
Profit (loss) attributable to non-controlling interests	117	167

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED SEPTEMBER 30, 2015 AND 2016

(Unit : Millions of yen)

	Prior period From April 1, 2015 To September 30, 2015	Current period From April 1, 2016 To September 30, 2016
Other comprehensive income		
Valuation difference on available-for-sale securities	(213)	(2,502)
Deferred gains or losses on hedges	(14)	(328)
Revaluation reserve for land	64	4,869
Foreign currency translation adjustment	(649)	(5,731)
Remeasurements of defined benefit plans, net of tax	(72)	85
Share of other comprehensive income of associates accounted for using equity method	(22)	(3,256)
Total other comprehensive income	(907)	(6,864)
Comprehensive income	173	17,554
Comprehensive income attributable to owners of parent	98	17,655
Comprehensive income attributable to non-controlling interests	75	(101)

SEGMENT INFORMATION

1. Prior period (From April 1, 2015 to September 30, 2015)

(1) Information on the amounts of net sales, income (loss) by each reporting segment

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	60,911	85,967	7,422	154,302	—	154,302
(2) Inter-segment sales and transfers	337	506	18	862	(862)	—
Total	61,249	86,474	7,441	155,164	(862)	154,302
Segment income (loss)	8,452	1,703	(1,218)	8,937	(3,193)	5,744

(Notes) 1. Elimination of inter-segment transactions of ¥55 million and general corporate expenses of ¥(3,248) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(3,193) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

2. Current period (From April 1, 2016 to September 30, 2016)

(1) Information on the amounts of net sales, income (loss) by each reporting segment

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	64,926	97,829	6,745	169,501	0	169,501
(2) Inter-segment sales and transfers	262	463	27	753	(753)	—
Total	65,189	98,292	6,773	170,255	(753)	169,501
Segment income (loss)	10,639	9,143	(1,312)	18,471	(3,107)	15,364

(Notes) 1. Elimination of inter-segment transactions of ¥7 million and general corporate expenses of ¥(3,114) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(3,107) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

(2) Change of reporting segments, etc.

(Change in classification of reporting segments)

Effective from the first quarter of the fiscal year ending March 31, 2017, pachislot and pachinko machines related business of Sammy Networks Co., Ltd. that was formerly included in the “Entertainment Contents Business” was reclassified as the “Pachislot and Pachinko Machines Business” to enhance business performance through the leveraging of the Group synergies in the Pachislot and Pachinko Machines Business.

Segment information for the first half of the previous fiscal year is based on the segment classification after the change.