

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
9 Months Ended December 31, 2016

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <http://www.segasammy.co.jp/>)
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Filing of Quarterly Report: February 14, 2017 (plan)

Start of cash dividend payments: —

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 9 Months Ended December 31, 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 9 months ended December 31, 2016	285,727	16.6	35,067	189.8	35,398	179.9	36,527	462.1
For 9 months ended December 31, 2015	245,002	(8.5)	12,101	11.7	12,645	17.2	6,498	—

(Note) Comprehensive income

For 9 months ended December 31, 2016 : ¥38,412 million (—%)

For 9 months ended December 31, 2015 : ¥2,160 million ((38.0)%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 9 months ended December 31, 2016	155.84	155.34
For 9 months ended December 31, 2015	27.71	27.71

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2016	533,616	321,436	59.6
March 31, 2016	532,957	299,950	55.3

(Reference) Shareholders' equity

December 31, 2016 : ¥317,902 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: No

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)
 - December 31, 2016 : 266,229,476
 - March 31, 2016 : 266,229,476
 2. Number of treasury stock at the end of the period
 - December 31, 2016 : 31,840,222
 - March 31, 2016 : 31,834,807
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 - For 9 months ended December 31, 2016 : 234,392,686
 - For 9 months ended December 31, 2015 : 234,499,538

(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 5.
- The Company plans to hold a telephone conference on financial results for analysts on February 7, 2017. The contents of the meeting will be posted on the Company's website on the same day.

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, in the pachinko machine market, based on the “Statement of Promoting Restoration of the Pachinko and Pachislot Industry” declaring collection or removal of “pachinko machines possibly different from the tested version” by Pachinko and Pachislot Industry 21st Century Club, comprised of 14 organizations in the industry, by the end of December 2016, with the purpose of further restoration of the pachislot and pachinko machine industry, the Group proceeded the collection and removal of applicable machines. 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 current 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 constantly, 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) was established, issued and enforced.

In this business environment, net sales for the first three quarters of the fiscal year ending March 31, 2017 amounted to ¥285,727 million, an increase of 16.6% for the same period in the previous fiscal year. The Group posted an operating income of ¥35,067 million (an increase of 189.8% for the same period in the previous fiscal year), ordinary income of ¥35,398 million (an increase of 179.9% for the same period in the previous fiscal year). In addition, as a result of recording extraordinary income of ¥12,875 million, including gain on sales of noncurrent assets, while recording extraordinary loss of ¥5,246 million, including impairment loss, the Group posted profit attributable to owners of parent of ¥36,527 million (an increase of 462.1% for the same period in the previous fiscal year).

Although in the “Notice of Change in Subsidiary (Share transfer) and Recording of Extraordinary Loss,” announced on October 31, 2016, it was stated that a loss on sales of shares of subsidiaries and associates was scheduled to be recorded as extraordinary loss, the Group recorded a portion of this loss as impairment loss in the financial results for the third quarter of the fiscal year ending March 31, 2017. This change makes little effect on total amount of extraordinary loss.

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 three quarters 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 11.

《Pachislot and Pachinko Machines》

In the pachislot machine business, the Group has delivered the mainstay title “Pachislot Hokuto No Ken Syura no kuni hen,” and launched titles including “Pachislot INUYASHA,” which pursued the uniqueness of intellectual property as well as playability, leading to overall sales of pachislot machines of 169 thousand units, above the results of the same period in the previous fiscal year (an increase of 48 thousand units from the same period in the previous fiscal year). In the pachinko machine business, the Group launched “Pachinko CR Monster Hunter 4,” which recreated the worldview of “Monster Hunter” as with its predecessor, and “Pachinko CR Shin Hokuto Muso 219Ver.,” which changed the specifications of its popular predecessor to improve ease of play, leading to overall sales of pachinko machines of 111 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 ¥119,739 million (an increase of 23.7% for the same period in the previous fiscal year) and operating income was ¥25,885 million (an increase of 71.7% 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, won the PlayStation™Network Award for the second consecutive year, and it continuously remained favorable. With regard to titles for smart devices, sales remained robust mainly for existing major titles including “Hortensia SAGA” and “Puyopuyo!! Quest,” for which the Group held various events, and “CHAIN CHRONICLE 3” the significant update and the third installment of “CHAIN CHRONICLE – Kizuna no Shintairiku.” In addition, as an initiative of “Multi-device × One Service,” which aims to maximize the contacts between players and game, “SOUL REVERSE ZERO,” the first installment of the “SOUL REVERSE” series for smart devices, was released.

In the packaged game software field, sales amounted to 8,130 thousand copies, which were higher than the level for the same period in the previous fiscal year, thanks to the launch of mainstay titles including “Football Manager 2017,” a new installment in the “Football Manager” series and “Ryu ga Gotoku 6: Inochi no Uta,” a new installment in the “Ryu ga Gotoku” series.

In the amusement machine field, as operations of “KanColle Arcade” continued to be favorable, and sales of “SANGOKUSHI TAISEN,” a new version of the popular trading card game, were also strong.

In the amusement center operations field, like-for-like sales were robust at 110.3% 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, “Detective Conan The Darkest Nightmare,” a popular theater film in Japan, was released in China. The Group continued to record production income mainly from TV animation and animated films. In addition, the Group launched new toy products including “Puni♡Gel YumePuniAccessories DX.”

As a result, net sales in this segment were ¥155,440 million (an increase of 13.7% for the same period in the previous fiscal year) and operating income was ¥15,387 million (an increase of 449.4% for the same period in the previous fiscal year).

《Resort》

In the Resort Business, for “Phoenix Seagaia Resort,” one of the leading resorts in Japan, the Group conducted promotions and other efforts particularly in the Kyushu region. In addition, bridal banquet room “La Tierra” was opened in October 2016, and although it contributed to an increase in bridal events, depreciation and other expenses increased due to various renovations. At the supercharged nature experience “Orbi Yokohama,” measures were implemented to attract guests during the Halloween and Christmas seasons, resulting in an increase of guests. Meanwhile, at the indoor theme park “TOKYO JOYPOLIS” the Group implemented seasonal events, including a collaboration event with popular animations.

Overseas, the Group operates existing casino facilities in Incheon, South Korea, through PARADISE SEGASAMMY Co., Ltd. (associate accounted for using the equity method), a joint venture between Paradise Co., Ltd., a major tourism enterprise in South Korea, and the Company.

As a result, net sales in this segment were ¥10,547 million (a decrease of 8.4% for the same period in the previous fiscal year) and operating loss was ¥1,822 million (operating loss of ¥1,371 million for the same period in the previous fiscal year).

(2) Forecast of Consolidated Operating Results

During the first three quarters of the fiscal year ending March 31, 2017, operating income, ordinary income and profit attributable to owners of parent surpassed the forecast of consolidated operating results for the full year of the fiscal year ending March 31, 2017 announced on November 2, 2016, mainly as a result of concentration of launches of several large titles by each business. However, no change has been made to the forecast announced on November 2, 2016, as no launches of large title is scheduled by each business in the fourth quarter and we need to discern the status of sales trends, incurrence of operating expenses, and other factors. A modified forecast of the consolidated operating result will be released promptly if any adjustment is necessary.

The future plans for business segments are as follows.

《Pachislot and Pachinko Machines》

In the pachislot machine business, the Group will promote the sales of titles including “Pachislot Eureka Seven AO,” a sequel to the popular “Pachislot Eureka Seven” series; the pachislot machine “Pachislot GARO-Mamorishimono-” developed through the fusion of “CR GARO” series by SANSEI R&D CORPORATION, which boasts a top operating record for pachinko machines, with the system of the Group’s subsidiary Sammy Corporation, as well as “Pachislot STAR BLAZERS 2199,” which perfectly recreates the worldview of the original animation series. In the pachinko machine business, the Group will promote the sales of titles including “Pachinko CR Shin Hokuto Muso Mugentouran,” which completely changed its playability from its predecessor, and “Dejihane CR SUPER ROBOT WARS OG.”

《Entertainment Contents》

With regard to the Entertainment Contents Business, in the field of digital games software, the Group will host events focused on existing major titles, and in the packaged game software field, the Group will launch “Valkyria: Azure Revolution,” a new title in the “Valkyria Chronicles” series, and “Puyo Puyo Tetris” for the Nintendo Switch™.

In the amusement machine field, the Group plans to launch “INITIAL D ARCADE STAGE Zero,” a new title in the “INITIAL D ARCADE STAGE.” In the amusement center operations field, the Group will work to enhance amusement center operations with a focus on prizes and video games. In the animated film and toy field, the Group expects to record production income and other incomes from the new TV animations “Yowamushi Pedal NEW GENERATION” and “Onihei,” etc. In addition, the Group will implement the sale of mainly regular and major products including “ANPANMAN” series and “Puni♡Gel” series.

《Resort》

At “Phoenix Seagaia Resort,” one of the leading resort facilities in Japan holding facilities such as hotels, golf courses and international conference venues, the Group is working to attract more guests by continuously creating new experience value, including the opening of the Italian restaurant “Ristorante ARCO” supervised by Chef Tsutomu Ochiai on the 42nd floor of “Sheraton Grande Ocean Resort” in February 2017.

In the Resort Business, the Group has announced the discontinuation of the complex development project in Busan Metropolitan City, South Korea, and the sale of a portion of the shares of a company engaged in an indoor theme park development and operation.

Overseas, the Group endeavors to operate existing casino facilities in Incheon, South Korea, through PARADISE SEGASAMMY Co., Ltd. (associate accounted for using equity method) which is a joint venture between the Company and Paradise Co., Ltd., a major tourism company in South Korea. In addition to these efforts, the Group will proceed with the development of South Korea’s first full-fledged integrated resort “PARADISE CITY” which is scheduled for opening in April 2017.

(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 DECEMBER 31, 2016 AND MARCH 31, 2016

(Unit : Millions of yen)

	Prior year (As of March 31, 2016)	Current period (As of December 31, 2016)
Assets		
Current assets		
Cash and deposits	141,316	139,539
Notes and accounts receivable – trade	55,612	54,952
Short-term investment securities	48,401	64,002
Merchandise and finished goods	6,971	7,980
Work in process	17,382	15,482
Raw materials and supplies	10,123	11,256
Other	23,165	25,653
Allowance for doubtful accounts	(681)	(356)
Total current assets	302,292	318,510
Noncurrent assets		
Property, plant and equipment		
Land	38,742	32,980
Other, net	62,338	59,687
Total property, plant and equipment	101,080	92,667
Intangible assets		
Goodwill	12,201	12,263
Other	12,616	13,509
Total intangible assets	24,817	25,772
Investments and other assets		
Investment securities	76,504	72,108
Other	28,810	25,311
Allowance for doubtful accounts	(549)	(754)
Total investments and other assets	104,765	96,665
Total noncurrent assets	230,664	215,106
Total assets	532,957	533,616

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

(Unit : Millions of yen)

	Prior year (As of March 31, 2016)	Current period (As of December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	33,011	38,709
Short - term loans payable	14,002	11,146
Income taxes payable	2,536	9,918
Provision	5,742	4,666
Asset retirement obligations	30	13
Other	50,666	37,537
Total current liabilities	105,990	101,992
Noncurrent liabilities		
Bonds payable	52,000	43,800
Long - term loans payable	48,895	44,538
Net defined benefit liability	3,906	2,713
Asset retirement obligations	3,952	3,828
Provision for dismantling of fixed assets	2,368	600
Other	15,892	14,708
Total noncurrent liabilities	127,015	110,188
Total liabilities	233,006	212,180
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	118,404	117,521
Retained earnings	194,505	216,807
Treasury stock	(54,758)	(54,766)
Total shareholders' equity	288,105	309,516
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,494	12,329
Deferred gains or losses on hedges	(40)	(212)
Revaluation reserve for land	(4,600)	268
Foreign currency translation adjustment	(876)	(4,782)
Remeasurements of defined benefit plans	651	783
Total accumulated other comprehensive income	6,628	8,386
Subscription rights to shares	801	174
Non-controlling interests	4,415	3,359
Total net assets	299,950	321,436
Total liabilities and net assets	532,957	533,616

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 9 MONTHS ENDED DECEMBER 31, 2015 AND 2016

(Unit : Millions of yen)

	Prior period From April 1, 2015 To December 31, 2015	Current period From April 1, 2016 To December 31, 2016
Net sales	245,002	285,727
Cost of sales	150,491	172,077
Gross profit	94,510	113,649
Selling, general and administrative expenses	82,409	78,582
Operating income (loss)	12,101	35,067
Non-operating income		
Interest income	380	231
Dividends income	913	918
Foreign exchange gains	69	265
Gain on investments in partnership	198	317
Gain on valuation of compound financial instruments	—	604
Other	1,180	1,016
Total non-operating income	2,741	3,352
Non-operating expenses		
Interest expenses	690	734
Equity in losses of affiliates	315	889
Bond issuance cost	41	—
Commission fee	66	34
Other	1,083	1,363
Total non-operating expenses	2,197	3,021
Ordinary income (loss)	12,645	35,398
Extraordinary income		
Gain on sales of noncurrent assets	29	9,516
Gain on sales of investment securities	89	1,132
Gain on liquidation of subsidiaries and affiliates	306	290
Gain on liquidation of silent partnership	—	1,087
Gain on reversal of subscription rights to shares	11	801
Gain on reversal of provision for dismantling of fixed assets	521	5
Other	137	41
Total extraordinary income	1,094	12,875
Extraordinary losses		
Loss on sales of noncurrent assets	66	3
Impairment loss	523	4,801
Loss on valuation of investment securities	19	26
Loss on sales of shares of subsidiaries and associates	8	40
Early extra retirement payments	1,606	—
Restructuring loss	0	267
Other	284	106
Total extraordinary losses	2,509	5,246
Income (loss) before income taxes	11,230	43,027
Income taxes-current	4,572	6,106
Total income taxes	4,572	6,106
Profit (loss)	6,657	36,920
(Breakdown)		
Profit (loss) attributable to owners of parent	6,498	36,527
Profit (loss) attributable to non-controlling interests	159	393

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 9 MONTHS ENDED DECEMBER 31, 2015 AND 2016

(Unit : Millions of yen)

	Prior period From April 1, 2015 To December 31, 2015	Current period From April 1, 2016 To December 31, 2016
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,246)	826
Deferred gains or losses on hedges	(13)	(0)
Revaluation reserve for land	64	4,869
Foreign currency translation adjustment	(1,059)	(1,832)
Remeasurements of defined benefit plans, net of tax	(95)	127
Share of other comprehensive income of associates accounted for using equity method	(1,145)	(2,499)
Total other comprehensive income	(4,496)	1,491
Comprehensive income	2,160	38,412
Comprehensive income attributable to owners of parent	2,077	38,285
Comprehensive income attributable to non-controlling interests	83	127

SEGMENT INFORMATION

1. Prior period (From April 1, 2015 to December 31, 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	96,794	136,687	11,519	245,002	—	245,002
(2) Inter-segment sales and transfers	499	742	27	1,268	(1,268)	—
Total	97,293	137,430	11,547	246,271	(1,268)	245,002
Segment income (loss)	15,075	2,800	(1,371)	16,503	(4,402)	12,101

(Notes) 1. Elimination of inter-segment transactions of ¥117 million and general corporate expenses of ¥(4,519) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(4,402) 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 December 31, 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	119,739	155,440	10,547	285,726	0	285,727
(2) Inter-segment sales and transfers	573	768	34	1,376	(1,376)	—
Total	120,313	156,209	10,581	287,103	(1,376)	285,727
Segment income (loss)	25,885	15,387	(1,822)	39,450	(4,382)	35,067

(Notes) 1. Elimination of inter-segment transactions of ¥0 million and general corporate expenses of ¥(4,383) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(4,382) 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 three quarters of the previous fiscal year is based on the segment classification after the change.