

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
6 Months Ended September 30, 2018

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <https://www.segasammy.co.jp/>)
Representative : Haruki Satomi
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Filing of Quarterly Report : November 9, 2018 (plan)

Start of cash dividend payments : December 3, 2018 (plan)

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 6 Months Ended September 30, 2018
(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, 2018	171,047	(12.2)	10,213	(61.9)	9,139	(63.8)	6,703	(62.3)
For 6 months ended September 30, 2017	194,706	14.9	26,812	74.5	25,245	63.1	17,762	(26.8)

(Note) Comprehensive income

For 6 months ended September 30, 2018 : ¥8,111 million ((60.9)%)

For 6 months ended September 30, 2017 : ¥20,747 million (63.6%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 6 months ended September 30, 2018	28.60	28.49
For 6 months ended September 30, 2017	75.78	75.62

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
September 30, 2018	478,218	314,238	65.1
March 31, 2018	473,467	310,456	65.0

(Reference) Shareholders' equity

September 30, 2018 : ¥311,402 million

March 31, 2018 : ¥307,951 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, 2018	—	20.00	—	20.00	40.00
Year ending March 31, 2019	—	20.00			
Year ending March 31, 2019 (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, 2019

(Percentage represents changes from the prior 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	390,000	20.5	21,000	18.5	16,000	9.7	12,000	34.4	51.20

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

4. Other

- (1) Significant changes in subsidiaries (scope of consolidation) during period: Yes
(Excluded) Company name: SEGA SAMMY BUSAN INC.
- (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, 2018 : 266,229,476
 - March 31, 2018 : 266,229,476
 2. Number of treasury stock at the end of the period
 - September 30, 2018 : 31,739,218
 - March 31, 2018 : 31,850,504
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 - For 6 months ended September 30, 2018 : 234,387,452
 - For 6 months ended September 30, 2017 : 234,385,877

(Note)

- This report is not required the auditing procedures by certified public accountants or accounting auditors.
- 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 2, 2018. The contents of the meeting, such as explanations about financial results (video and audio), 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, there is increasing anticipation for the introduction of pachislot machines (No. 6-type) that conform to the regulatory revision and new voluntary regulations. Meanwhile, in the pachinko machine market, in addition to machines which have already been licensed under regulations before the revision, the launch of pachinko machines that conform to the regulatory revision has also begun. In order to revitalize the market going ahead, it is essential to expand the range of players by developing and supplying machines that conform to the regulatory revision and such, are easier to play and provide innovative gameplay.

Regarding the environment of the Entertainment Contents Business, in the field of digital game software, the competitive environment is further intensifying, with titles that capitalize on powerful IPs (Intellectual Properties), in addition to being high-quality products, take up the top spots in sales rankings. 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 hardware of home video game console, while game distribution platforms such as Steam are expanding in the PC games market. As for the market for amusement centers and amusement machines, the rate of facilities utilization is stable mainly in new video games and prizes.

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, the “Act on the Establishment of Specified Integrated Resort Areas” was passed by the National Diet.

In this business environment, net sales for the first half of the fiscal year ending March 31, 2019 amounted to ¥171,047 million, a decrease of 12.2% for the same period in the previous fiscal year. The Group posted an operating income of ¥10,213 million (a decrease of 61.9% for the same period in the previous fiscal year), ordinary income of ¥9,139 million (a decrease of 63.8% for the same period in the previous fiscal year) and profit attributable to owners of parent of ¥6,703 million (a decrease of 62.3% for the same period in the previous fiscal year). During the first half of the fiscal year ending March 31, 2019, operating expenses of around ¥3,800 million were incurred as transitory operating expenses in line with the consolidation of headquarter functions.

Result of each segment is as follows

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

« Pachislot and Pachinko Machines »

In the pachislot machine business, overall sales of pachislot machines were 12 thousand units and unit sales decreased compared to the same period in the previous fiscal year, when there were sales of mainstay titles (Overall sales of pachislot machines were 75 thousand units for the same period in the previous fiscal year). In the pachinko machine business, the Group has launched titles including “Pachinko CR Shin Hokuto Muso Chapter 2,” leading to overall sales of pachinko machines of 117 thousand units (Overall sales of pachinko machines were 119 thousand units for the same period in the previous fiscal year).

As a result, net sales in this segment were ¥58,636 million (a decrease of 33.7% for the same period in the previous fiscal year) and operating income was ¥9,669 million (a decrease of 54.9% for the same period in the previous fiscal year).

« Entertainment Contents »

In the field of digital game software, although sales of the new title “BORDER BREAK” (PlayStation®4 version) were robust, there were delays in the launch of some titles that were planned for release in the first half of the fiscal year, and development expenses and content production expenses were incurred in association with the launch of new titles in the first half.

In the packaged game software field, sales amounted to 11,180 thousand copies (8,650 thousand copies for the same period in the previous fiscal year), due to contribution of repeat sales from previously launched titles (catalog titles).

In the amusement machine field, sales were robust for the new video games and CVT kits.

In the amusement center operations field, new video games were introduced, and amusement center operations were conducted with a focus on prizes, like-for-like sales were 104.5% compared with the same period of the previous fiscal year.

In the animated film and toy field, the Group recorded income from distribution of the theater film and implemented the sale of new toy products.

As a result, net sales in this segment were ¥107,249 million (an increase of 5.6% for the same period in the previous fiscal year) and operating income was ¥6,193 million (a decrease of 38.9% for the same period in the previous fiscal year).

« **Resort** »

In the Resort Business, at “Phoenix Seagaia Resort,” one of the leading resorts in Japan, owing to the effects of major renovations and promotional activities mainly conducted in the Kyushu region, sales for accommodation increased compared with the same period in the previous fiscal year. The increase in the number of guests resulted in 41.2% compared with the same period in the previous fiscal year. Margin of loss of this segment decreased from the same period in the previous fiscal year in spite of the outbreak of the prior investment costs for the full-hedged integrated resort business.

As a result, net sales in this segment were ¥5,160 million (an increase of 8.2% for the same period in the previous fiscal year) and operating loss was ¥1,177 million (operating loss of ¥1,297 million for the same period in the previous fiscal year).

Overseas, PARADISE SEGASAMMY Co., Ltd. (affiliate accounted for using the equity method), a joint venture between Paradise Co., Ltd. and the Group is operating South Korea’s first integrated resort “PARADISE CITY” which Phase 1 Stage 2 development facilities, including the Club, the Spa and the shopping mall, opened on September 21, 2018. In addition, “WONDERBOX,” an indoor family entertainment facility, is scheduled to open in the first half of 2019.

(2) Forecast of Consolidated Operating Results

During the first half of the fiscal year ending March 31, 2019, the Group’s performance moved smoothly towards the forecast of consolidated operating results for the full year of the fiscal year ending March 31, 2019, announced on May 11, 2018. On the other hand, it is necessary to investigate the execution status of machine prototype testing in the Pachislot and Pachinko Machines Business, impact of the delay on launch of new titles and performance trends of new titles in the field of digital game software. From the above, no change has been made to the forecast announced on May 11, 2018. A modified forecast of the consolidated operating results 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 introduction of the No. 6-type machine has begun, and expectations for market revitalization are heightening. With regard to the Group, sales of “Pachislot CHAIN CHRONICLE,” the Group’s first title for the No. 6-type machine, will begin in the second half of the fiscal year. In addition, “Pachislot SOUTEN-NO-KEN PONYOU” has been verified to be compatible through prototype testing. In the pachinko machine business, a revision to the voluntary regulations has been decided by the Nihon Yugiki Kogyo Kumiai (Nikkoso), a union for pachinko machine manufacturers. In addition to conducting sales of machine models which have already been licensed under regulations before the revision, the Group will move forward with the development of machines that conform to the new voluntary regulations.

« **Entertainment Contents** »

In the field of digital game software, the Group plans to launch multiple new titles. In the packaged game software field, besides sales of new titles that capitalize on existing and new IPs, the Group expects to continue conducting sales of previously launched titles. In the amusement machine field, the Group will implement the sale of new titles in addition to profitability through contribution to income by revenue share titles. The titles scheduled to be released in the field of digital game software, the packaged game software field, and the amusement machine field in and after the third quarter of the fiscal year ending March 31, 2019 are as follows.

Digital Games	IDORA PHANTASY STAR SAGA Ryu ga Gotoku ONLINE WONDER GRAVITY ~BEST BUDDY: PINO & GRAVITOR~ Readyyy! Revolve8	Existing IP Existing IP New IP New IP New IP
Packaged Games	Football Manager 2019 Total War: THREE KINGDOMS Project JUDGE(working title)	Existing IP Existing IP New IP
Amusement Machine Sales	WCCF FOOTISTA 2019	Existing IP

In the amusement center operations field, the Group will work to enhance amusement center operations with a focus on prizes and new titles of video game.

In the animated film and toy field, the Group plans to record earnings from video distribution and will implement the sale of mainstay toy products and new toy products.

« **Resort** »

In the Resort Business, at “Phoenix Seagaia Resort,” the Group is working to strengthen the ability to acquire guests. Such efforts include various measures being conducted for the 45th Dunlop Phoenix Tournament, as well as plans to conduct numerous projects and accommodation plans related to the 25th anniversary of Seagaia’s opening going forward. Overseas, at “PARADISE CITY,” the Group will work towards opening Phase 1 Stage 2 development facilities and strengthening promotional activities targeting customers in Japan. The Group will continue to endeavor to accumulate further integrated resorts development and operational know-how through dispatching personnel to “PARADISE CITY.”

From August 2018, the Group has progressively consolidated headquarter functions of each Group company previously dispersed in the Tokyo metropolitan area, with the aims of making Group management more efficient, promoting workstyle reform, creating collaboration and synergy between businesses, and promoting active interaction between personnel. In the current fiscal year, transitory operating expenses and other expenses related to the above of around ¥7,500 million are expected to be incurred.

(3) Other

(Significant changes in subsidiaries during period)

SEGA SAMMY BUSAN INC. was excluded from the scope of consolidation in the second quarter because of its completion of liquidation.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2018 AND MARCH 31, 2018

(Unit: Millions of yen)

	Prior year (As of March 31, 2018)	Current period (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	157,896	94,141
Notes and accounts receivable – trade	29,339	57,425
Short-term investment securities	24,694	46,922
Merchandise and finished goods	8,036	8,074
Work in process	18,347	21,889
Raw materials and supplies	14,190	15,570
Other	20,084	19,920
Allowance for doubtful accounts	(259)	(357)
Total current assets	272,331	263,587
Noncurrent assets		
Property, plant and equipment		
Land	23,741	23,736
Other, net	54,403	61,816
Total property, plant and equipment	78,145	85,553
Intangible assets		
Goodwill	8,541	7,525
Other	14,942	15,846
Total intangible assets	23,483	23,371
Investments and other assets		
Investment securities	70,216	74,104
Other	29,739	32,037
Allowance for doubtful accounts	(449)	(436)
Total investments and other assets	99,506	105,705
Total noncurrent assets	201,136	214,630
Total assets	473,467	478,218

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2018 AND MARCH 31, 2018

(Unit: Millions of yen)

	Prior year (As of March 31, 2018)	Current period (As of September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	21,716	32,850
Short - term loans payable	15,838	15,344
Current portion of bonds	10,000	15,000
Income taxes payable	1,482	3,555
Provision	6,499	5,106
Asset retirement obligations	1,734	1,061
Other	27,181	31,392
Total current liabilities	84,452	104,310
Noncurrent liabilities		
Bonds payable	22,500	10,000
Long - term loans payable	38,661	29,510
Net defined benefit liability	3,572	3,736
Asset retirement obligations	2,234	3,761
Provision for dismantling of fixed assets	420	420
Other	11,170	12,240
Total noncurrent liabilities	78,558	59,669
Total liabilities	163,010	163,980
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,345	117,340
Retained earnings	207,174	209,188
Treasury stock	(54,781)	(54,590)
Total shareholders' equity	299,691	301,890
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,528	13,023
Deferred gains or losses on hedges	17	9
Revaluation reserve for land	340	342
Foreign currency translation adjustment	(2,147)	(3,658)
Remeasurements of defined benefit plans	(479)	(204)
Total accumulated other comprehensive income	8,259	9,512
Subscription rights to shares	819	984
Non-controlling interests	1,685	1,851
Total net assets	310,456	314,238
Total liabilities and net assets	473,467	478,218

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED SEPTEMBER 30, 2017 AND 2018

(Unit: Millions of yen)

	Prior period From April 1, 2017 To September 30, 2017	Current period From April 1, 2018 To September 30, 2018
Net sales	194,706	171,047
Cost of sales	115,223	107,159
Gross profit	79,482	63,888
Selling, general and administrative expenses	52,670	53,674
Operating income (loss)	26,812	10,213
Non-operating income		
Interest income	182	152
Dividends income	523	280
Foreign exchange gains	—	51
Gain on investments in partnership	377	499
Gain on valuation of compound financial instruments	136	71
Other	587	268
Total non-operating income	1,808	1,322
Non-operating expenses		
Interest expenses	372	297
Equity in losses of affiliates	2,269	1,198
Foreign exchange loss	132	—
Commission fee	32	57
Other	567	842
Total non-operating expenses	3,375	2,396
Ordinary income (loss)	25,245	9,139
Extraordinary income		
Gain on sales of noncurrent assets	59	54
Gain on sales of investment securities	441	491
Gain on liquidation of subsidiaries and affiliates	—	1,220
Gain on reversal of provision for dismantling of fixed assets	233	—
Other	124	10
Total extraordinary income	859	1,775
Extraordinary losses		
Loss on sales of noncurrent assets	0	10
Impairment loss	374	137
Loss on sales of investment securities	—	98
Other	96	3
Total extraordinary losses	471	250
Income (loss) before income taxes	25,634	10,665
Income taxes-current	7,643	3,806
Total income taxes	7,643	3,806
Profit (loss)	17,990	6,859
(Breakdown)		
Profit (loss) attributable to owners of parent	17,762	6,703
Profit (loss) attributable to non-controlling interests	227	155

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED SEPTEMBER 30, 2017 AND 2018

(Unit: Millions of yen)

	Prior period From April 1, 2017 To September 30, 2017	Current period From April 1, 2018 To September 30, 2018
Other comprehensive income		
Valuation difference on available-for-sale securities	1,266	2,498
Deferred gains or losses on hedges	2	10
Foreign currency translation adjustment	1,371	14
Remeasurements of defined benefit plans, net of tax	(150)	268
Share of other comprehensive income of entities accounted for using equity method	267	(1,539)
Total other comprehensive income	2,757	1,251
Comprehensive income	20,747	8,111
Comprehensive income attributable to owners of parent	20,518	7,954
Comprehensive income attributable to non-controlling interests	229	156

SEGMENT INFORMATION

1. Prior period (From April 1, 2017 to September 30, 2017)

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	88,385	101,552	4,767	194,705	0	194,706
(2) Inter-segment sales and transfers	365	699	5	1,071	(1,071)	—
Total	88,751	102,252	4,773	195,776	(1,070)	194,706
Segment income (loss)	21,449	10,137	(1,297)	30,289	(3,477)	26,812

(Notes) 1. Elimination of inter-segment transactions of ¥9 million and general corporate expenses of ¥(3,486) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(3,477) 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, 2018 to September 30, 2018)

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	58,636	107,249	5,160	171,046	0	171,047
(2) Inter-segment sales and transfers	475	656	21	1,152	(1,152)	—
Total	59,111	107,905	5,181	172,199	(1,151)	171,047
Segment income (loss)	9,669	6,193	(1,177)	14,684	(4,470)	10,213

(Notes) 1. Elimination of inter-segment transactions of ¥(1) million and general corporate expenses of ¥(4,469) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(4,470) 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.