

# ANNUAL REPORT 2016

SEGA SAMMY HOLDINGS



Sc

profitability



# Getting Back on a Growth Track

## Fiscal 2015

### Cost Structure Reform Phase

We withdrew from or downsized businesses and services with little strategic significance and rightsized personnel numbers centered on the domestic operations of the former SEGA Group with a view to reducing fixed costs and improving profitability in fiscal 2016.

**Annual fixed cost reduction  
of approximately**

**¥6.0 billion**

**▶ P.44**

## Fiscal 2016

### Business Structure Reform Phase

The Group reorganized its business portfolio and changed the classification of businesses to differentiate clearly between stable revenue / maintain businesses and growth businesses. On that basis, we gave priority to investing cash from the former in the latter to foster growth drivers. In this way, we cemented foundations for the implementation phase beginning from fiscal 2017.

**▶ P.45**

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

\*2 Figures for fiscal 2016 have been retrospectively revised to reflect the Group's transfer of certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment in fiscal 2017. Hereinafter, the figures of fiscal 2016 have been retrospectively revised in all comparisons between the figures of fiscal 2016 and the figures of fiscal 2017 or the figures of fiscal years after fiscal 2017.

# Fiscal 2017

## Implementation Phase— Getting Back on a Growth Track

Based on new management strategies that call for an emphasis on profit margin and enhancement of capital efficiency, we will improve business processes rigorously and invest management resources in growth areas steadily and effectively. These efforts will get earnings back on a growth track and advance the Group toward achieving its fiscal 2020 targets.





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**Grasp the main points in business result trends and in fiscal 2016 business results**

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### DEFINITION OF TERMS

"Fiscal 2016" refers to the fiscal year ended March 31, 2016, and other fiscal years are referred to in a corresponding manner in this annual report.

### CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Statements in this annual report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and its 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 annual 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.]

## Editorial Policy of Annual Report 2016

Our business management reflects opinions obtained through dialogues with shareholders and investors. We use this valuable feedback when preparing management strategies and making management decisions. To provide a basis for further constructive dialogue, *Annual Report 2016* reflects the aims on the right.

- Organize information into Group strategies from the viewpoint of the holding company and business strategies from the viewpoint of each business segment
- Tell a growth story linking the past, present, and future
- Analyze long-term trends in management resources essential for strategy implementation: personnel, intellectual properties, and financial capital
- Illustrate industry structures and business models graphically
- Identify financial risks and identify main ESG risks and disclose their relationships with strategies

Also, from among information on business activities that the Group discloses pursuant to laws and listing regulations and in CSR reports, *Annual Report 2016* focuses on information that is of particular interest to shareholders and investors. Further, by emphasizing the interconnectedness of information to form a growth story, we have sought to offer the type of highly valuable information that voluntary disclosure tools are uniquely suited to providing.

For extensive information related to the Group's sustainability, please see *CSR Report 2016* and the Social Responsibility section of the Group's website.

## the GROUP

Discussion of the Group's Past and Present

**Get to know the Group's past and present**

**We explain business models and management resources from a Groupwide viewpoint as well as our track record for returns to shareholders.**

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## GOVERNANCE

### Check out corporate governance

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### Discussion Points

To provide basic information to those reading our annual report for the first time as well as a convenient tool for institutional investors and analysts, we have prepared discussion points, which summarizes the main content of *Annual Report 2016* in a compact format.



## FINANCIALS

### Access our financial information

We analyze business results in light of long-term trends and year-on-year comparisons.

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# Business Results Highlights

Years ended March 31

## Consolidated Business Highlights

	2007	2008	2009	2010	2011	2012	2013
Net sales	¥528,238	¥458,977	¥429,194	¥384,679	¥396,732	¥395,502	¥321,407
Gross profit	203,079	120,403	119,092	138,867	166,055	161,663	116,938
Selling, general and administrative (SG&A) expenses	126,548	126,232	110,728	102,154	97,304	103,279	97,865
Operating income (loss)	76,530	(5,829)	8,363	36,712	68,750	58,384	19,073
EBITDA* <sup>1</sup>	104,578	39,782	35,007	53,887	84,699	74,542	37,254
Profit (loss) attributable to owners of parent* <sup>2</sup>	43,456	(52,470)	(22,882)	20,269	41,510	21,820	33,460
R&D expenses, content production expenses* <sup>3</sup>	52,106	65,384	59,676	41,502	41,104	53,348	45,294
Capital expenditures	59,271	50,422	26,610	16,164	19,686	36,141	32,871
Depreciation and amortization* <sup>3</sup>	28,048	45,611	26,644	17,175	15,949	16,158	18,181
Net cash provided by (used in) operating activities	60,623	(25,878)	32,199	54,998	87,696	38,023	18,603
Net cash provided by (used in) investing activities	(75,395)	(10,399)	936	(7,640)	(29,585)	(59,012)	6,396
Net cash provided by (used in) financing activities	(1,712)	(7,579)	(7,653)	(3,401)	(57,168)	914	(1,116)
Free cash flows* <sup>4</sup>	(14,772)	(36,277)	33,135	47,358	58,111	(20,989)	24,999
Total assets	549,940	469,642	423,938	423,161	458,624	497,451	528,504
Total net assets	358,858	281,627	242,532	256,770	285,461	296,376	320,034
Number of shares outstanding (shares)	283,229,476	283,229,476	283,229,476	283,229,476	266,229,476	266,229,476	266,229,476
Number of employees (employees)	7,734	7,665	6,856	6,236	6,000	6,700	7,008
Net sales per employee	68.3	59.9	62.6	61.7	66.1	59.0	45.9

Per Share Data	2007	2008	2009	2010	2011	2012	2013
Net income (loss)	¥ 172.47	¥ (208.26)	¥ (90.83)	¥ 80.46	¥ 163.19	¥ 86.73	¥ 137.14
Diluted net income	172.35	—	—	—	163.01	86.54	136.85
Total net assets	1,341.80	1,030.09	882.47	937.80	1,093.23	1,167.59	1,304.44
Cash dividends	60.00	45.00	30.00	30.00	40.00	40.00	40.00

Key Ratios	2007	2008	2009	2010	2011	2012	2013
Gross profit margin	38.4	26.2	27.7	36.1	41.9	40.9	36.4
SG&A ratio	24.0	27.5	25.8	26.6	24.5	26.1	30.4
Operating margin	14.5	—	1.9	9.5	17.3	14.8	5.9
R&D expenses to net sales	9.9	14.2	13.9	10.8	10.4	13.5	14.1
ROE	13.3	—	—	8.8	16.2	7.7	11.0
ROA* <sup>5</sup>	7.9	—	—	4.8	9.1	4.4	6.3
Equity ratio	61.5	55.3	52.4	55.8	60.0	58.9	59.7

\*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 "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and 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 (used in) 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 stated otherwise

2014	2015*6	2016
¥378,011	¥366,813	¥347,981
147,970	135,371	127,372
109,437	117,876	109,754
38,533	17,495	17,617
58,276	39,242	38,632
30,721	(11,375)	5,369
59,219	67,622	58,042
38,182	28,780	28,046
16,182	17,615	16,624
75,201	37,010	16,906
(38,547)	(37,734)	(35,280)
(11,512)	(15,058)	14,285
36,654	(724)	(18,373)
542,936	528,659	532,957
348,270	322,452	299,950
266,229,476	266,229,476	266,229,476
7,472	7,888	7,606
50.6	46.5	45.8

2014	2015*6	2016
¥ 126.42	¥ (46.70)	¥ 22.90
125.39	—	22.90
1,409.27	1,336.54	1,257.43
40.00	40.00	40.00

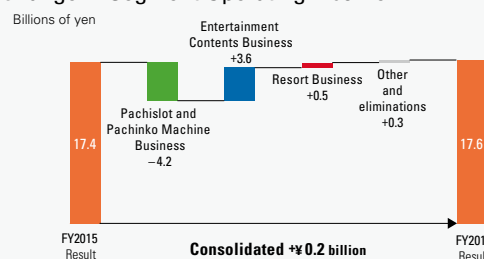
2014	2015*6	2016
39.1	36.9	36.6
29.0	32.1	31.5
10.2	4.8	5.1
15.7	18.4	16.7
9.3	—	1.8
5.7	—	1.0
63.2	60.0	55.3

1

## Operating Income

¥ **17.6** billion  
(up ¥0.2 billion, or 0.7% year on year)

### Change in Segment Operating Income



2

## Extraordinary Loss\*7

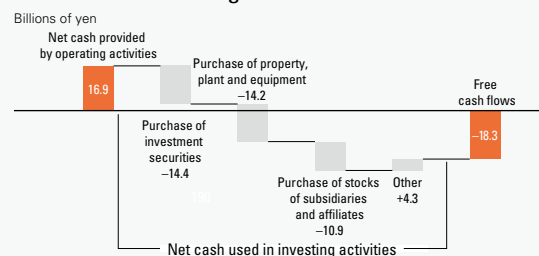
Impairment loss	¥1.3 billion
Early extra retirement payments	¥1.9 billion
Restructuring loss	¥1.2 billion
Other	¥1.2 billion

3

## Free Cash Flows

— ¥ **18.3** billion

### Main Causes of Changes in Free Cash Flows



\*7 Certain line items that are classified as other income (expenses) in consolidated statements of income and comprehensive income have been reclassified as extraordinary income or extraordinary loss in explanations. Details are on page 78.

## Business Results Highlights

Years ended March 31

## Business Results by Business Segment

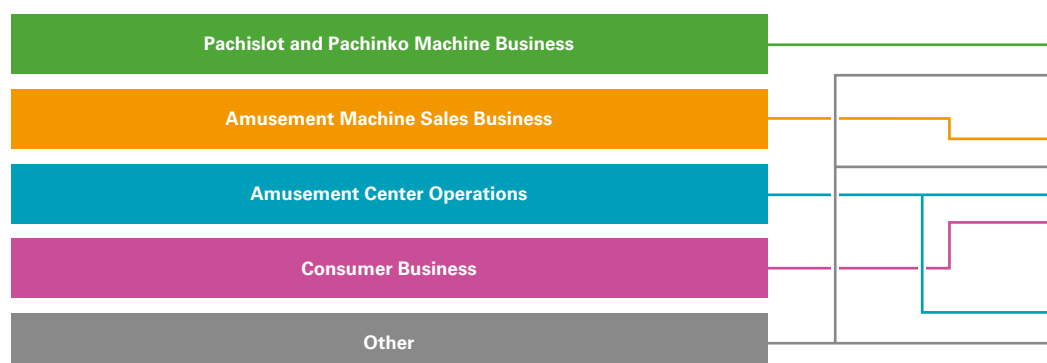
	Millions of yen, unless stated otherwise						
	2009	2010	2011	2012	2013	2014	2015
<b>Pachislot and Pachinko Machine Business</b>							
Net sales	¥161,691	¥160,376	¥212,060	¥212,189	¥142,281	¥181,834	¥149,160
Operating income	14,528	29,502	64,284	71,040	23,534	45,292	25,796
Operating margin (%)	9.0	18.4	30.3	33.5	16.5	24.9	17.3
R&D expenses, content production expenses*1	14,289	13,019	13,485	14,393	18,056	19,510	22,327
Capital expenditures	4,516	3,297	5,725	12,726	11,914	7,905	6,709
Pachislot machine unit sales (units)	123,286	162,932	302,270	300,866	202,221	301,575	207,828
Pachinko machine unit sales (units)	391,831	360,171	343,188	332,288	216,860	200,225	242,847
<b>Amusement Machine Sales Business</b>							
Net sales	¥61,926	¥45,117	¥47,237	¥49,929	¥39,134	¥38,604	¥39,641
Operating income (loss)	6,890	7,094	7,317	7,415	1,902	(1,264)	(2,536)
Operating margin (%)	11.1	15.7	15.5	14.9	4.9	—	—
R&D expenses, content production expenses*1	11,450	7,841	9,195	9,374	7,819	8,950	11,253
<b>Amusement Center Operations</b>							
Net sales	¥71,310	¥54,788	¥45,695	¥44,608	¥42,707	¥43,216	¥41,416
Operating income (loss)	(7,520)	(1,338)	342	355	1,194	60	(946)
Operating margin (%)	—	—	0.7	0.8	2.8	0.1	—
Capital expenditures	14,893	7,796	7,701	8,328	7,923	7,729	6,534
Depreciation and amortization*1	15,908	8,212	6,126	6,184	4,671	4,725	5,232
Number of domestic amusement centers*2 (centers)	322	260	249	241	236	198	198
Existing domestic amusement center sales year on year*3 (%)	92.4	91.7	99.3	100.5	93.8	96.1	100.1
<b>Consumer Business</b>							
Net sales	¥131,361	¥121,575	¥88,896	¥85,688	¥83,874	¥99,841	¥111,025
Operating income (loss)	(941)	6,332	1,969	(15,182)	(732)	2,089	4,033
Operating margin (%)	—	5.2	2.2	—	—	2.1	3.6
R&D expenses, content production expenses*1	32,875	19,644	18,150	29,316	19,538	30,166	33,467
Home video game software unit sales (thousands)	29,470	26,750	18,710	17,240	10,780	8,730	12,300

## Business Segmentation Change

## Changed from Five to Three Business Segments

We have reorganized our businesses into three business segments to establish a system that expedites decision making, increases efficiency where functions overlap, and enables appropriate deployment of management resources. Furthermore, we sought to adapt to changes in business conditions and heighten management efficiency.

From fiscal 2005 to fiscal 2015



\*1 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.

\*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.

\*4 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.

\*5 These figures are annual sales of domestic titles (gross revenues) in the digital game area divided by monthly active users (MAU).

Millions of yen, unless stated otherwise

Pachislot and Pachinko Machine Business	2015 *4	2016
Net sales	¥152,174	¥132,732
Operating income	25,780	21,548
Operating margin (%)	16.9	16.2
R&D expenses, content production expenses*1	22,336	18,583
Capital expenditures	6,949	5,014
Depreciation and amortization	6,484	6,325
Pachislot machine unit sales (units)	207,830	142,337
Pachinko machine unit sales (units)	241,425	199,014

Entertainment Contents Business	2015 *4	2016
Net sales	¥199,663	¥198,856
Operating income	63	3,653
Operating margin (%)	0.0	1.8
R&D expenses, content production expenses*1	45,705	39,222
Capital expenditures	19,522	17,867
Depreciation and amortization*1	9,569	8,659
ARPMU*5 (yen)	1,667	1,538
Number of domestic amusement centers*2 (centers)	198	194
Existing domestic amusement center sales year on year*2 (%)	100.1	103.1
Home video game software unit sales (thousands)	12,280	9,220

Resort Business	2015 *4	2016
Net sales	¥14,974	¥16,392
Operating income (loss)	(2,336)	(1,825)
Operating margin (%)	—	—
R&D expenses, content production expenses*1	235	591
Capital expenditures	2,152	5,045
Depreciation and amortization	995	1,047

1

#### Pachislot and Pachinko Machine Business: Reasons for business results changes

- Although series with established track records posted steady sales of pachislot machine titles, other title sales flagged due to a change in model-testing operation methods.

2

#### Entertainment Contents Business: Reasons for business results changes

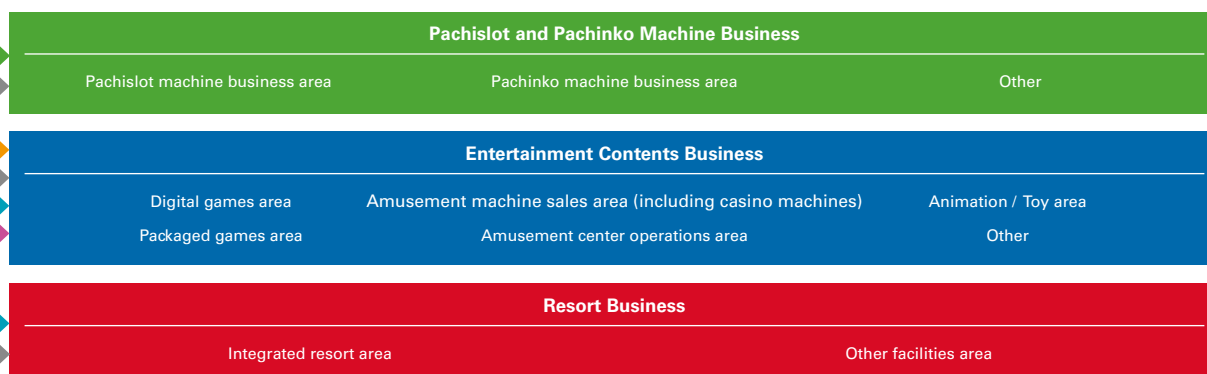
- The digital game area performed sluggishly due to the revision of the asset values of certain titles and higher advertising expenses. Thanks to improved profitability resulting from cost reductions, the business segment's overall earnings rose.

3

#### Resort Business: Reasons for business results changes

- Losses decreased because increases in average spending per customer at *Phoenix Seagaia Resort* and *TOKYO JOYPOLIS* counteracted higher depreciation and amortization and expenses incurred due to advance investment in integrated resorts.

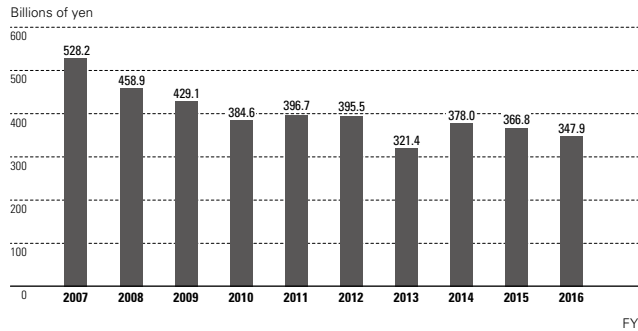
From fiscal 2016



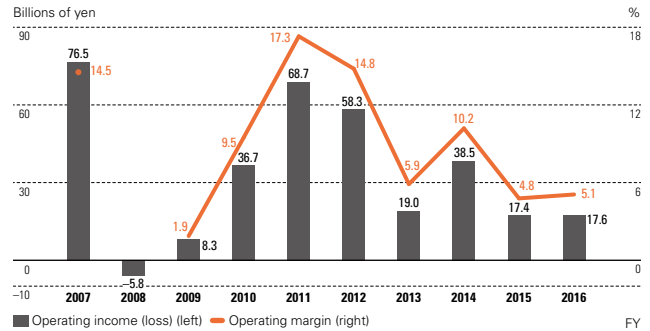
## Business Results Highlights

### Business Trends

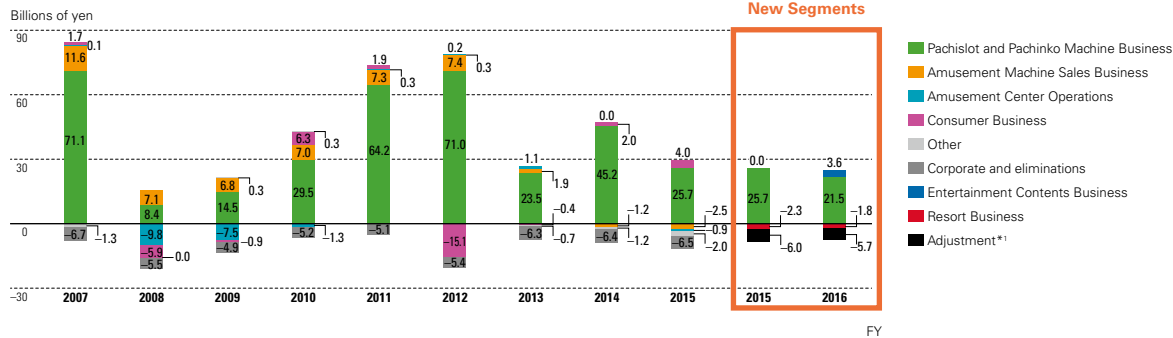
#### Net Sales



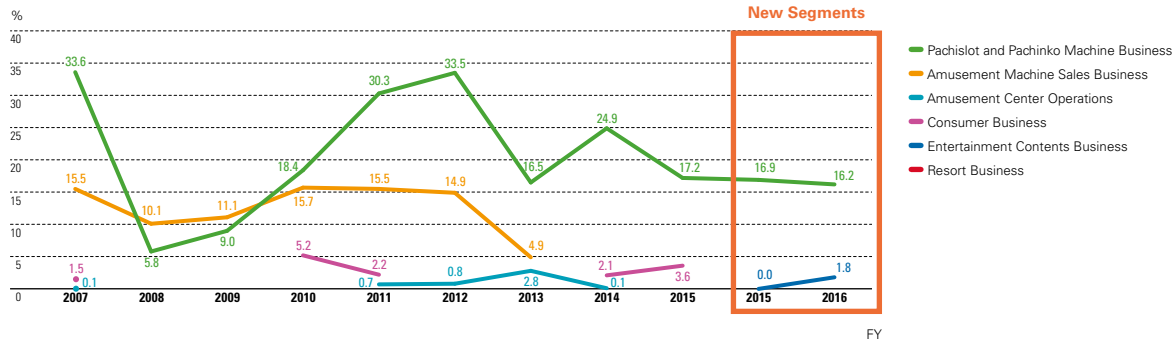
#### Operating Income (Loss) / Operating Margin



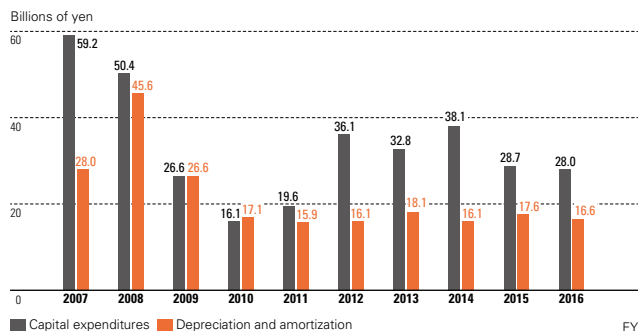
#### Operating Income (Loss) by Segment



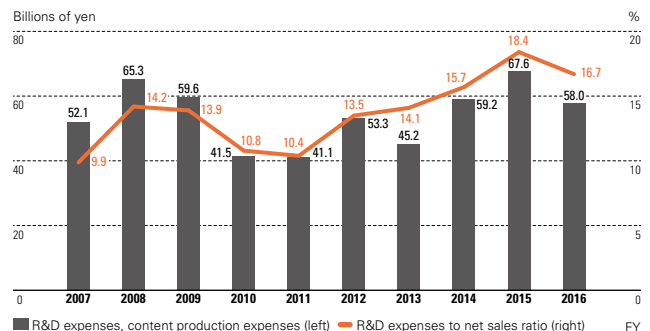
#### Operating Margin by Segment



#### Capital Expenditures / Depreciation and Amortization\*2



#### R&D Expenses, Content Production Expenses\*2 / R&D Expenses to Net Sales Ratio





\*1 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).

\*2 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.

\*3 In accordance with the adoption of "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and other accounting standards, net income (loss) was changed to profit (loss) attributable to owners of parent in fiscal 2016.

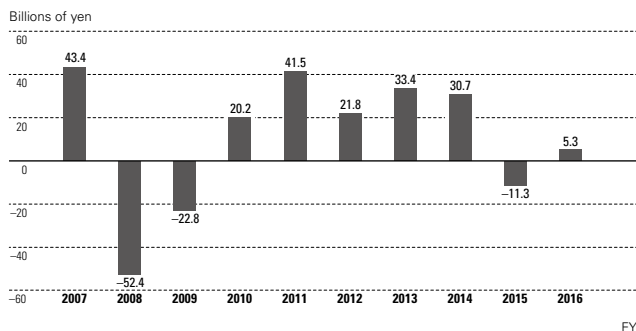
\*4 ROA = Profit attributable to owners of parent ÷ Total assets

\*5 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.

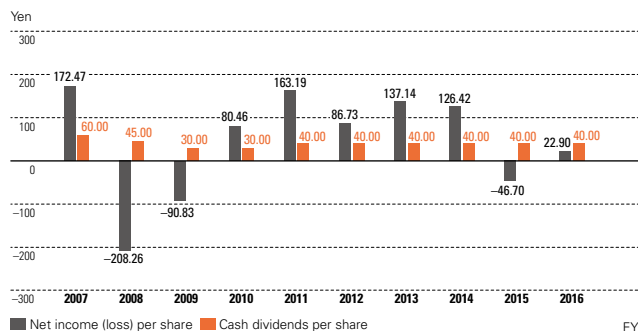
\*6 As a result of the abovementioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal 2014.

Note: 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.

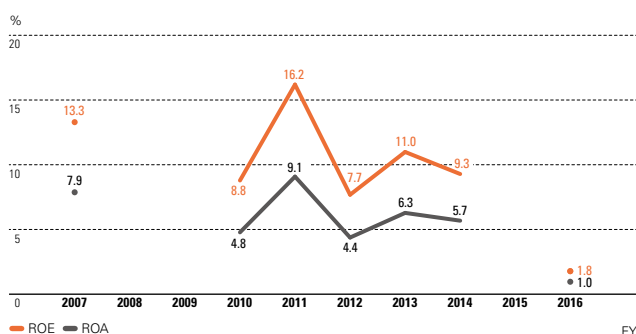
### Profit (Loss) Attributable to Owners of Parent\*3



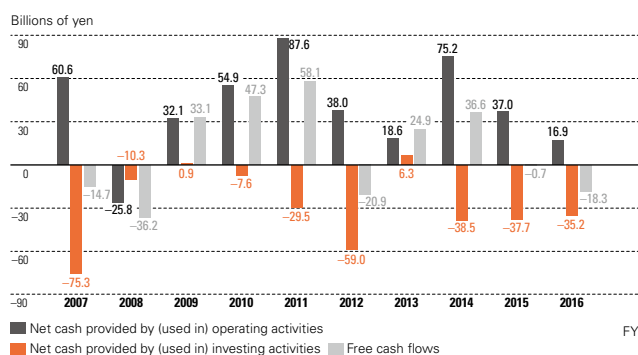
### Net Income (Loss) per Share / Cash Dividends per Share



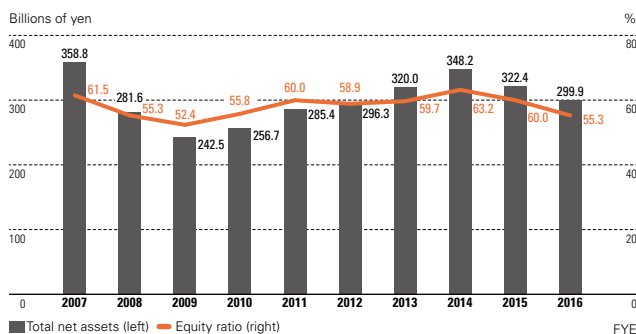
### ROE / ROA\*4



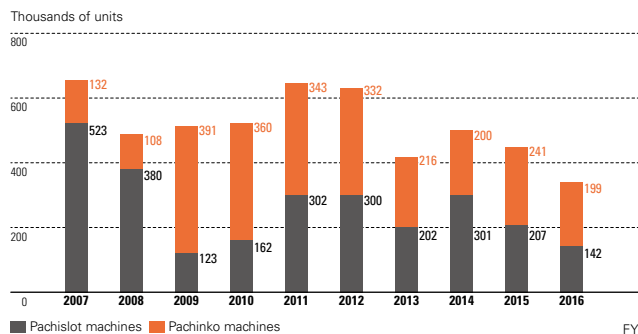
### Cash Flows



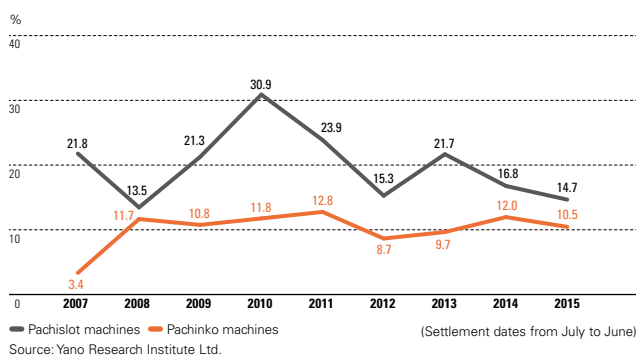
### Total Net Assets / Equity Ratio



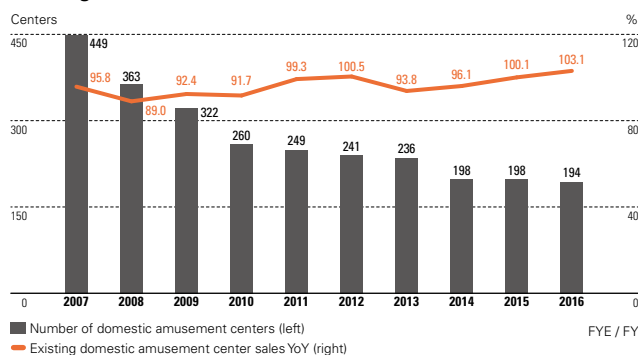
### Pachislot and Pachinko Machine Unit Sales



### Market Share of Pachislot and Pachinko Machines



### Number of Domestic Amusement Centers\*5 / Existing Domestic Amusement Center SalesYoY\*6



## A Message from the Chairman of the Board, CEO, and COO

A portrait of Hajime Satomi, Chairman of the Board, Chief Executive Officer, and Chief Operating Officer of SEGA SAMMY HOLDINGS INC. He is an older man with dark hair, wearing a dark pinstriped suit, a white shirt, and a yellow patterned tie. He is standing with his arms crossed, looking slightly to the right. The background is a solid orange color.

**Aiming to realize sustained enhancement of corporate value, the Group will make a concerted effort to implement strategies.**

**Hajime Satomi**

Chairman of the Board, Chief Executive Officer, and  
Chief Operating Officer  
SEGA SAMMY HOLDINGS INC.

## Fiscal 2016 Performance Report

### Lower Revenues, Higher Earnings

In fiscal 2016, the year ended March 31, 2016, the SEGA SAMMY Group recorded lower revenues and higher operating income. While net sales declined 5% year on year, to ¥347.9 billion, operating income rose 1%, to ¥17.6 billion. Also, we posted profit attributable to owners of parent of ¥5.3 billion, compared with the previous fiscal year's loss attributable to owners of parent of ¥11.3 billion.

### Net Sales

Lower revenues from the Pachislot and Pachinko Machine Business segment affected net sales. The pachislot machine business saw steady revenues from pachislot machines in well-established series. However, sales of non-mainstay titles flagged due to a change in the model-testing operation methods of the Security Communications Association, which tests pachinko and pachislot machine models. Consequently, revenues from the pachislot machine business declined 17% year on year. As for the pachinko machine business, the temporary effect of restructuring and the absence of titles that grew unit sales in the previous fiscal year caused a 9% year on year decrease in revenues. As a result, net sales of the Pachislot and Pachinko Machine Business were down 13%. In the Entertainment Contents Business segment, net sales were approximately unchanged because higher revenues in the amusement machine sales area, the amusement center operations area, the animation area, and the toy sales area compensated for lower sales in the digital game area and the packaged game software area. Regarding the Resort Business segment, net sales were up 9% year on year.

### Operating Income

In the Pachislot and Pachinko Machine Business segment, operating income decreased 16% due to lower unit sales. However, the Entertainment Contents Business segment realized a significant year-on-year increase in operating income to ¥3.6 billion. Although the segment's digital game area recorded an operating loss of ¥0.9 billion due to a review of the asset value of certain titles and higher advertising expenses, profitability improved in all other areas of the segment thanks to cost structure reform implemented in the previous fiscal year. In the Resort Business segment, which is at the advance investment stage, operating loss contracted. Further, the operating margin increased from the previous fiscal year's 4.8% to 5.1%.

### Profit (Loss) Attributable to Owners of Parent and Cash Dividends\*1

Extraordinary loss of ¥5.6 billion, which included early extra retirement payments, counteracted extraordinary income of ¥1.2 billion. Profit attributable to owners of parent was ¥5.3 billion, compared with the previous fiscal year's loss attributable to owners of parent of ¥11.3 billion. Net income per share was ¥22.90, and the Group paid 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.

### Cash Flows

The Group recorded negative free cash flows of ¥18.3 billion because net cash provided by operating activities of ¥16.9 billion did not offset net cash used in investing activities of ¥35.2 billion, reflecting purchase of investment securities and purchase of property, plant and equipment. Mainly due to proceeds from long-term loans payable and proceeds from issuance of bonds, net cash provided by financing activities was ¥14.2 billion.

### Fiscal 2017 Plan

In fiscal 2017, the year ending March 31, 2017, we expect net sales to increase 9%. In the Pachislot and Pachinko Machine Business segment, we plan to grow pachislot machine unit sales more than 60% year on year by marketing mainstay titles. Meanwhile, in the pachinko machine business, we expect temporary market instability stemming from a new agreement in relation to addiction countermeasures to lead to a 9% year-on-year decline in unit sales. The Entertainment Contents Business segment is targeting higher revenues through the introduction of new PC online games and the development of gaming platform businesses in Southeast Asia.

In addition, we expect operating income to increase 14%\*2 year on year as improved profitability in the Entertainment Contents Business segment—due to concentration on mainstay titles in the digital game area and reduction of advertising expenses and operating costs—counteracts a temporary dip in the Pachislot and Pachinko Machine Business segment's operating margin as a result of introducing new frames and components.

▶ Chart 01 ▶

\*1 Certain line items that are classified as other income (expenses) in the consolidated statements of income and comprehensive income have been reclassified as extraordinary income or extraordinary loss in explanations. Details are on page 78.

\*2 After retroactive adjustment

## A Message from the Chairman of the Board, CEO, and COO

## Cost Structure Reform and Business Structure Reform

## Fiscal 2016 Overall Evaluation

Fiscal 2016 results were disappointing because, although we secured roughly the same level of operating income as in the previous fiscal year, we did not meet initial targets for net sales and respective earnings classifications. This underperformance was mainly attributable to the fact that in the digital game area, which we have positioned as a driver of earnings growth, PC online games rolled out in overseas markets and long-awaited new titles for smartphones released in Japan did not become as popular as we had hoped.

Meanwhile, despite facing challenging business conditions, the Pachislot and Pachinko Machine Business segment fulfilled its role as the Group's earnings pillar. Further, in the Entertainment Contents Business segment, each business area, with the exception of the digital game area, improved profitability significantly, testifying to the concrete benefits of cost structure reform implemented in fiscal 2015.

## Steady Improvement in the Cost Structure

The markets our businesses cater to are shrinking because of the rapid spread of smartphones and stricter regulation of the pachinko and pachislot machine market. To continue investment in the digital game area and the Resort Business segment and to sustain growth, we urgently need to realize radical improvement in the profitability of each business, thereby establishing a robust earnings structure that will give us a stable revenue base.

With this in mind, we took decisive reform measures to strengthen cost structures in fiscal 2015. To eliminate overlaps among business areas, bolster collaboration among businesses, and clarify core businesses, we reorganized business segments into the Pachislot and Pachinko Machine Business, Entertainment Contents Business, and

Resort Business segments. Then, we sought to accelerate decision making and clarify management responsibility by establishing separate companies for each business. These efforts laid the foundations for strengthening management of our business portfolio. In addition, we adjusted employee numbers, optimized personnel deployment to reflect earnings levels, and concentrated resources on core businesses. These reform measures reduced annual fixed costs by approximately ¥6.0 billion. With this leaner cost structure as a base, the amusement center operations area successfully strengthened operational capabilities to achieve year-on-year growth of more than 3% in sales at existing amusement centers in fiscal 2016—one of the best performances in the amusement center industry. Further, having recorded an operating loss for the past two fiscal years, the amusement machine sales area has improved profitability to the verge of realizing operating income. The packaged game software area's simultaneous move into the black in Japan, the United States, and Europe is also praiseworthy. And, the toy sales area, which alternated between profit and loss, has built a structure capable of generating profits consistently. In preparation for our next stage, we continued reform aimed at establishing capabilities.

▶ Chart 01 ▶

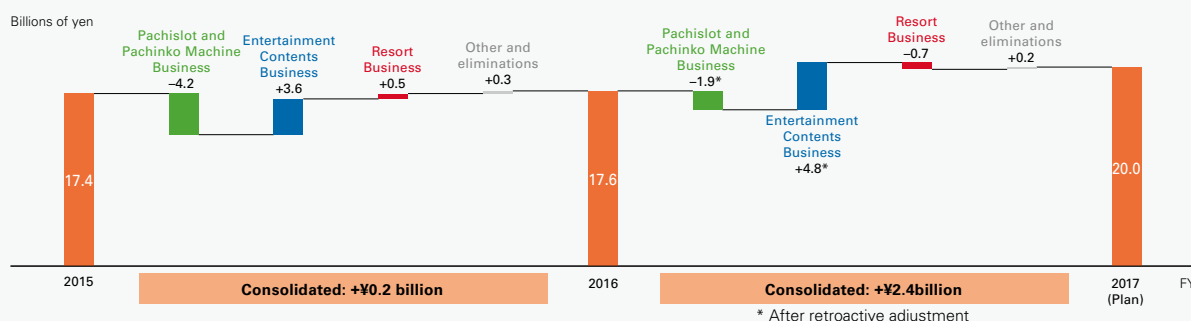
## Clarification of the Business Portfolio Strategy through Business Structure Reform

## Focusing on Efficiency and Our Long-Term Strategy

In fiscal 2016, business structure reform clarified a new business portfolio strategy. Given that many of our existing businesses operate in mature markets, for the whole business portfolio we established a clear strategy focused on profit margin rather than scale. Accordingly, we set raising the operating margin from fiscal 2016's 5.1% to 15% in fiscal 2020 as a target.

▶ Chart 01 ▶

## Operating Income Factor Analysis



## FY2016 Results

Pachislot and Pachinko Machine Business: Profits decreased due to decrease in unit sales impacted by the regulations on Pachislot and Pachinko machines.

Entertainment Contents Business: Improved profitability of those other than digital game software field due to the effects of cost reduction.

Resort Business: Loss decreased through efforts to enhance facility operating capabilities.

## FY2017 Forecasts

Pachislot and Pachinko Machine Business: Profit ratio is expected to take a temporary downturn due to the introduction of new parts.

Entertainment Contents Business: Profitability is forecast to improve through focusing on major titles in the digital game software field.

Resort Business: Depreciation burden will temporarily increase due to large-scale repair.

In addition, with a view to achieving ROA of 5.0% by fiscal 2020, we will pursue efficiency in the business portfolio by optimizing the allocation of management resources. The SEGA SAMMY Group is proceeding with advance investment to ensure long-term, sustained progress. In particular, if we achieve entry into the integrated resort business in Japan, we will have to embark upon large-scale investment. To ensure that we are able to make strategic investments stably and flexibly—even amid the inevitable earnings fluctuations that businesses focused on creating hit products experience—we aim to establish a net cash position of between ¥150.0 billion and ¥200.0 billion as surplus capital and maintain a certain level of shareholders' equity. To this end, rather than ROE, in which shareholders' equity is the denominator, we have set out ROA as an important management benchmark for monitoring efficiency. By clarifying the criteria for implementing or withdrawing investments, we will focus on investment efficiency and avoid increasing assets in an undisciplined manner. Also, to ensure support from shareholders for this long-term investment strategy, we have adopted a policy on returns to shareholders that will enable the payment of stable cash dividends even amid fluctuating earnings.

▶ Chart 02 ▶

#### Classifying Businesses to Lay the Foundations for Strategy Implementation

With our sights set on enhancing the profit margin, a priority in the whole business portfolio, we classified businesses as growth businesses, stable revenue / maintain businesses, or withdraw/downsize businesses by taking into account three attributes: market growth potential, profitability and room for improvement, and competitive advantage. Then, we clearly defined specific missions for each type of business. Stable revenue / maintain businesses will improve profit margins while generating stable

cash flows, from which we will invest in growth businesses to establish a positive cycle.

We have classified as stable revenue / maintain businesses the Pachislot and Pachinko Machine Business segment, the packaged game software area, the amusement machine sales area, the amusement center operations area, and the animation area. In our assessment, these businesses have established solid positions in mature markets and have the potential to leverage competitive advantages to enjoy the benefits of being industry survivors. In these businesses, we intend to take uncompromising measures to reform business processes.

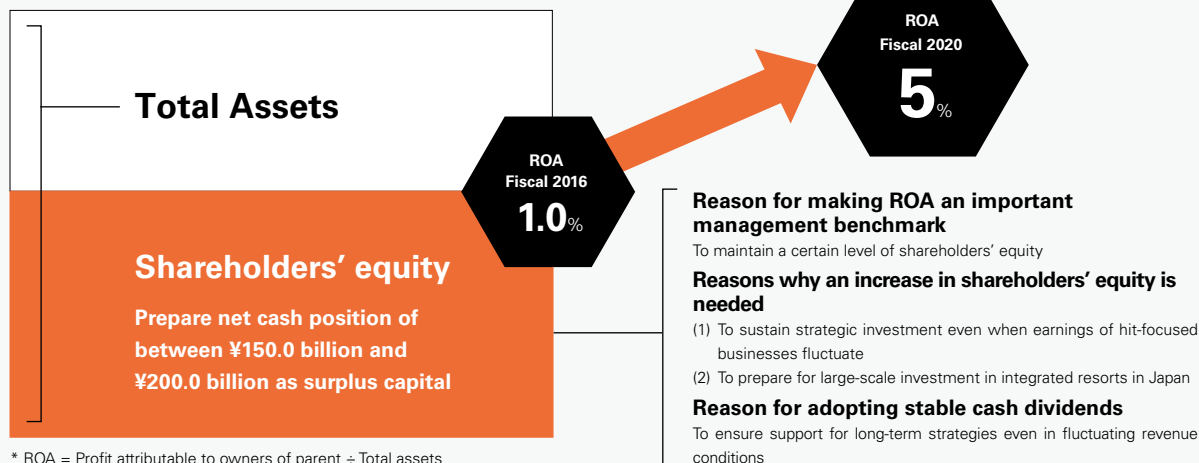
We classified the digital game area as a growth business. In contrast to the intense competitive conditions that the digital game area faces in Japan, significant scope for growth remains overseas. We have also classified the Resort Business segment as a growth business and aim to develop it into a third pillar of earnings. Furthermore, we will examine new areas with a view to establishing a fourth earnings pillar. In such efforts, we will stringently select entertainment-related investees whose corporate value we can boost by exploiting our management resources, and we will thoroughly analyze the rationality of acquisition prices. Meanwhile, we withdrew from the contents and solutions business and dining and darts bar business because their strategic significance had lessened.

With its business portfolio realigned in this way, the Group has been transitioning into a strategy implementation phase since the beginning of fiscal 2017.

▶ Chart 03 ▶

▶ Chart 02 ▶

#### Monitoring Asset Efficiency through ROA\*



## A Message from the Chairman of the Board, CEO, and COO

## Toward the Implementation Phase of Growth Strategies

### Launch of Strategies Aimed at Returning to a Growth Trajectory

#### Implementing Growth Strategies for Growth Businesses

In Japan's digital game market, growth has softened, and conditions are polarizing. Consequently, return on investment from digital games ranking lower than 30th position is becoming difficult. In Japan, we will improve profitability by concentrating resources on existing mainstay titles. For example, we will undertake major updates of *CHAIN CHRONICLE – Kizuna no Shintairiku*, *Hortensia Saga*, and other titles. At the same time, we will continue developing titles that can gain high positions in the market. Further, based on the *Noah Pass* system, a reciprocal-customer-sending system with more than 130 million users, we plan to diversify earnings sources through the development of advertising businesses and other businesses.

Also, we will sow seeds for the future. Southeast Asia has a population of roughly 600 million and extremely high smartphone penetration. There is a strong likelihood that the smartphone app market will expand significantly as personal income levels rise in Southeast Asia. Anticipating conditions in several years, we intend to foster markets in emerging countries in this and other regions. One example of such efforts is the establishment of *goPlay*, a digital game platform that is a service of the *Noah Pass* system and which caters to digital game producers who want to enter overseas markets.

Currently in the advance investment stage, the Resort Business segment's immediate task is to entrench the profitability of Phoenix Resort Co., Ltd., and other facilities in Japan. The next step will be to ensure the success of *PARADISE CITY*, scheduled to open in Incheon, South Korea, in April 2017. As well as this initiative, we will accumulate expertise in integrated resorts by sending personnel to *Paradise Casino Incheon*,

which *PARADISE SEGASAMMY Co., Ltd.*, manages. We believe that if integrated resorts are established in Japan, the Resort Business segment will become a major pillar of our earnings. Of course, at this stage there are many uncertainties. For example, Japan has yet to enact a bill legalizing the establishment of integrated resorts. However, we have adopted a conservative investment stance. Furthermore, we are envisioning new ways to exploit the resources we have accumulated. I am eager to continue this ambitious initiative to establish a new mainstay for the Group.

#### Implementing Growth Strategies for Stable Revenue / Maintain Businesses

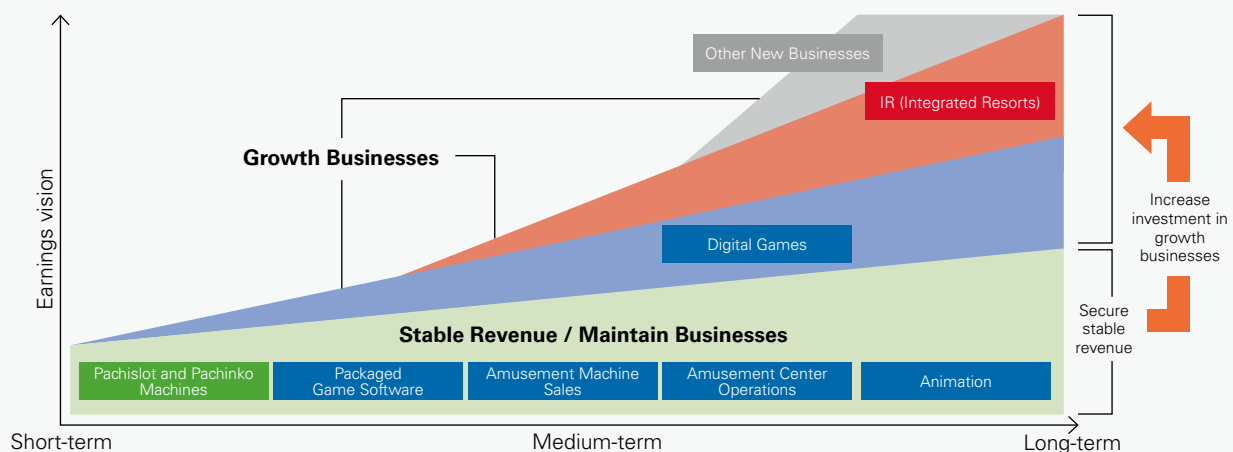
For the Pachislot and Pachinko Machine Business segment, we have set raising the operating margin from fiscal 2016's 14.8%\* to 30.0% in fiscal 2020 as a target. We will reach this target by establishing a robust earnings structure, which will entail increasing sales efficiency by revising our multibrand strategy to consolidate management resources while improving costs by promoting reuse through such measures as the introduction of common components.

Long-term decline in the player population and the 2014 change in the model-testing operation methods of the Security Communications Association are affecting the pachinko and pachislot machine market. On the other hand, challenging business conditions can offer opportunities. As the investment capacity of pachinko hall operators has declined, demand from them has focused increasingly on intellectual properties or the pachinko and pachislot machines of manufacturers that have the brand power to provide highly reliable returns on investment. Consequently, the contrast between winners and losers is becoming

\* After retroactive adjustment

▶ Chart 03 ▶

#### Business Classifications and Growth Scenarios





even more pronounced among pachinko and pachislot machine manufacturers. In these conditions, the Group has steadily increased the brand power not only of its pachislot machines, which have consistently claimed the leading share of their market, but also its pachinko machines. For example, *Pachinko CR Shin Hokuto Muso*, launched in March 2016, is recording brisk sales and stable utilization rates. The success of this product is a good example of how Sammy Corporation can respond to changing conditions by using its planning and development capabilities and creativity to realize gameplay on a par with that of old-format pachislot and pachinko machines.

In the pachinko and pachislot machine market, the responsibilities of manufacturers are expanding to include after-sales maintenance. This trend means low failure rates will become a differentiating factor for products, which could create a tailwind for the SEGA SAMMY Group because its offerings boast some of the lowest failure rates in the pachinko and pachislot machine industry. Therefore, through planning and development capabilities and product reliability, I want to cement our position among the industry's winners.

The Entertainment Contents Business segment's fiscal 2020 target is to achieve operating income of ¥20.0 billion. While the digital game area will drive efforts to meet this target, stable revenue / maintain businesses will need to almost double their earnings versus current levels. Based on a business management system strengthened through the establishment of separate companies, we aim to generate stable revenue in existing business areas while continuing reform. In the amusement machine sales area, in addition to introducing products targeting a wide player group, such as *KanColle Arcade*, we will explore the potential for establishing new business models through linkage with other media. In the amusement center operations area, we will continue focusing on improving profitability by strengthening operational capabilities, introducing major in-house titles, and increasing the number of prize game machines. Also, plans call for broadening the player group through such steps as introducing electronic money. In the packaged game software area, with efforts to improve profitability through an even stronger focus on mainstay intellectual properties as a premise, we will steadily grow the PC game area, mainly overseas. *Total War: WARHAMMER* has made a phenomenally good start, posting more than half a million unit sales in the first four days after its release in May 2016.

#### Establishing Tie-Ups to Revitalize the Industry

While the pachinko and pachislot machine market is contracting, high component prices and research and development expenses are affecting costs. To initiate efforts to address these structural problems, the Group has begun establishing tie-ups with competitors. In March 2016, the Group and Universal Entertainment Corporation established a joint venture, ZEEG Co. Ltd., and began collaborating in the purchase of components and related devices, manufacturing, development, and sales.

By introducing common units and components and collaborating in technology, we will simultaneously heighten entertainment value and strengthen earning power. Furthermore, we have our sights set on establishing a platform for units and components in the pachinko and pachislot machine industry. In the amusement center operations area, we have reached an agreement with Konami Digital Entertainment Co., Ltd., to explore the possibility of collaborating to establish electronic money infrastructure. The aim of such an alliance would be to counteract a decline in profitability accompanying consumption tax increases and expand the player group by establishing standard specifications for electronic money among companies, which have different systems at present.

Based on a shared sense of crisis with our long-standing competitors, we want to invigorate the market by cooperating actively in areas where collaboration is possible while continuing to compete with them in planning and other areas that originate added value.

#### Achievement of Fiscal 2020 Targets

More than 10 years have passed since the management integration of Sammy Corporation and the former SEGA CORPORATION. Unfortunately, despite ongoing structure reform of existing businesses, the SEGA SAMMY Group has yet to regain a growth trajectory. Looking back over this period since management integration, I am left with a deep sense of regret.

I have not given up my ambition of restoring operating income to the ¥100 billion level, which was achieved directly after management integration. From a shorter-term perspective, however, I want to identify issues clearly and focus the Group on improving profit margins as it makes concerted, steady efforts to implement strategies aimed at reaching the fiscal 2020 targets.

As we move forward, we would like to ask our shareholders and other investors for their continued support.

August 2016



**Hajime Satomi**  
Chairman of the Board,  
Chief Executive Officer, and  
Chief Operating Officer  
SEGA SAMMY HOLDINGS INC.



## A Message from the Senior Managing Director

### Accumulating Expertise Related to the Integrated Resort Business Steadily

As we advance a range of initiatives in the Resort Business segment, we will keep in mind the realization of the SEGA SAMMY Group's medium-to-long-term mission of participating in Japan's integrated resort business. A near-term task is enhancing the profitability of *Phoenix Seagaia Resort*, *TOKYO JOYPOLIS*, and other existing facilities. Moreover, such existing facilities are based in high-value-added markets. At *Phoenix Seagaia Resort*, we are achieving high-value-added operations by remodeling guest rooms and reception areas while improving service quality and holding appealing events. Thanks to these efforts, we have enhanced customer satisfaction and our ability to attract customers. In addition, the higher numbers of visitors to Japan is providing a tailwind to our efforts.

At the indoor theme park *TOKYO JOYPOLIS*, we are combining expertise in the staging of various types of events and incorporating intellectual properties to create mold-breaking entertainment spaces. In fiscal 2016, the success

of collaborations incorporating major intellectual properties boosted visitor numbers significantly. Also, we are rolling out *TOKYO JOYPOLIS* overseas based on strategic curbing of risk through the establishment of a franchise network. Our first franchise, *SHANGHAI JOYPOLIS*, opened in February 2016. Such measures to increase the earning power of existing facilities help us accumulate operational know-how with a view to participation in Japan's integrated resort business. To accumulate such know-how in a more hands-on manner, we have been sending personnel to *Paradise Casino Incheon*,\* which is managed by PARADISE SEGASAMMY Co., Ltd.,\* since 2014. Currently, 21 employees are acquiring know-how related to casino management, marketing, IT, accounting duties, and operations.

### Looking to the Future of Japan and the SEGA SAMMY Group

The scenario for short-to-medium-term earnings growth entails the Resort Business segment getting *PARADISE CITY* on track as South Korea's first full-fledged integrated

resort after it opens in April 2017. The goal of *PARADISE CITY* is to claim a share of the market that Macau and Singapore have established. Given such advantages as geographical location, I think we have a very good chance of establishing a successful integrated resort business with a distinctive East Asian flavor.

Japan has extremely appealing tourism resources, and visitors to Japan are increasing. Unfortunately, the level of tourism is still low compared with other countries. One explanation for this is, I feel, dissatisfaction among tourists in relation to accommodation and entertainment in Japan. As well as helping address these issues, the integrated resort business in Japan promises to create an array of major benefits. Therefore, we will continue advancing ambitious initiatives while envisioning the future of Japan and the SEGA SAMMY Group.

## Resort Business

## We will continue ambitious initiatives to establish a third business pillar.

### Naoya Tsurumi

Senior Managing Director  
SEGA SAMMY HOLDINGS INC.

### Management Strategy Going Forward

#### Main Measures

1. Implement advance investment aimed at participation in the integrated resort business in Japan
2. Accumulate know-how through development and management of integrated resorts overseas
3. Enhance the brand value of *Phoenix Seagaia Resort*



A rendering of *PARADISE CITY* in Incheon, South Korea upon completion

©WATG

\* *Paradise Casino Incheon* is managed by PARADISE SEGASAMMY Co., Ltd., which is an equity-method affiliate of SEGA SAMMY HOLDINGS INC.

## A Message from the President of Sammy Corporation

### Advancing Structural Reform Aimed at Achieving an Operating Margin of 30%

The pachinko and pachislot machine industry underwent major changes in 2015. The first-ever simultaneously enforced self-regulatory measures for pachinko and pachislot machines, a problem related to pins, and a new distribution system were among the many issues we faced. To overcome these issues and open up a new future for the industry, Sammy Corporation needs to reestablish a shared sense of crisis and a common purpose. With this in mind, I introduced the mission pyramid concept after assuming control of Sammy's business management in April 2016. In descending order, the layers of this pyramid are mission, vision, goal, strategy, organization, and tactics. While maintaining our founding principle, "*Always Proactive, Always Pioneering*," as an unchanging value, I established *continuing to create moving experiences* as our mission. This mission reflects my belief that the essence of entertainment lies in surpassing customers' expectations. I believe that "moving experiences" arise from the disparity between expectations and actual experiences. In addition, I clarified our vision, or target

profile, which is for Sammy to be "the wellspring of new ideas as an innovator in the industry." Also, we set achieving an operating margin of 30% by fiscal 2020 as a goal, which we refer to as G30 (Goal 30%). To reach this goal, we established an overriding strategy, and we outlined the type of organization needed to implement the strategy. For the base of the pyramid, we prepared specific tactics in each area. Based on the companywide mission pyramid, each division prepared a mission pyramid. By inculcating the mission pyramids in departments, groups, and individuals, we will enable individual employees to take the initiative in the organizations or roles for which they are responsible. The accumulation of such efforts will lead to the achievement of the companywide mission. Thus, the mission pyramid provides a clear, effective structure for implementation. We will implement and embed measures steadily and undertake structural reform with a view to achieving an operating margin of 30%.

### Leading the Industry's Revitalization

I want to see a shared sense of crisis not only among our employees but also in the entire

industry. Accordingly, Sammy will lead the pachinko and pachislot machine industry in a concerted effort to expand customer groups and revitalize the industry. As part of this effort, we are developing unprecedented new partnerships. For example, in March 2016 we established a joint venture, ZEEG Co. Ltd., with Universal Entertainment Corporation, with which we previously had a solely competitive relationship. ZEEG's establishment reflects a strong desire to revitalize the industry as a whole on the part of both companies' senior management teams as well as the coalescence of a shared sense of crisis in the industry. Moreover, this joint effort shows that, rather than struggling against each other in the industry, we should be exploring the meaning and hidden potential of the joint initiative and seeking breakthrough solutions to the industry's crisis. Never postponing our responses to problems, we will take all measures promptly to bring to market "moving experiences" and realize self-reform steadily.

## Pachislot and Pachinko Business

## We will advance reform based on a strong sense of crisis.

### Haruki Satomi

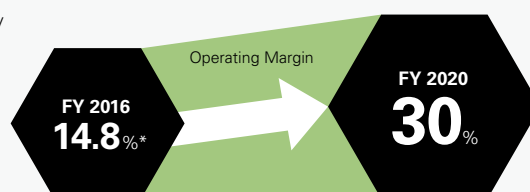
President, Representative Director, and  
Chief Operating Officer  
Sammy Corporation

### Management Strategy Going Forward

#### Main Measures

1. Strengthen collaboration with industry peers
2. Revise multibrand strategy
3. Select titles carefully
4. Promote reuse

#### Segment Target



\* After retroactive adjustment

## A Message from the President of SEGA Holdings Co., Ltd.

### Seeing the Concrete Benefits of Establishing Separate Companies

In fiscal 2016, the year ended March 31, 2016, the new SEGA Group set out *continuing to create moving experiences* as its mission and took its first step. Although titles introduced in the digital game area did not garner sufficient market endorsement, other business areas saw the tangible benefits of the previous fiscal year's cost structure reform as profitability improved markedly.

In the amusement center operations area, existing amusement centers achieved industry-leading, year-on-year sales growth, while the amusement machine sales area finally produced hit products, such as the music game *CHUNITHM*. Further, in the packaged game software area business, results contributed to a sense of real improvement, with operations in Japan, the United States, and Europe moving into the black in fiscal 2016. In particular, steady establishment of local development capabilities in the United States and Europe

through mergers and acquisitions has begun to bear fruit.

Structure reform efforts did not only entail reforming cost structures. We strengthened capabilities as an organization through efforts that included changing mindsets. Our sales growth testifies to the success of such efforts. As well as speeding up decision making, the establishment of separate companies has engendered a greater sense of responsibility and urgency in each independent business. I understand viscerally that senior management teams and individual employees have become intensely focused on growing their company.

### Shifting Viewpoints Constantly to Take on Fresh Challenges

Aiming to reach operating income of ¥20.0 billion in the fiscal year ending March 31, 2020, we will keep our foot on the gas in revenue structure reform. We must focus strongly on realizing self-sustaining growth. Of course, that is the mission in the digital game area,

which we view as a growth business. However, if businesses in which we hope to maintain earnings levels do not realize self-sustaining growth, even maintenance will become difficult. Therefore, in all business areas we intend to shift viewpoints constantly to take on fresh challenges. One example of a fresh challenge is our collaboration with Konami Digital Entertainment Co., Ltd., to develop digital e-money infrastructure, which will enable us to build business models that are not dependent on coin-based operations.

The SEGA Group will pursue a target profile based on *continuing to create moving experiences*. While we do not necessarily have to be as innovative as the former SEGA, I want us to keep our image as a group that does different, fun things. On the other hand, as the group's leader I am strongly committed to remaining focused on innovation in business management and achieving our targets for fiscal 2020.

## We will focus strongly on self-sustaining growth in all business areas.

### Hideki Okamura

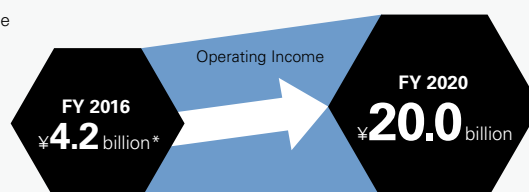
President, Representative Director,  
and Chief Operating Officer  
SEGA Holdings Co., Ltd.

#### Management Strategy Going Forward

##### Main Measures

1. Secure stable earnings by heighten the profit margins of amusement machines and home video games
2. Invest proactively in digital games for emerging markets overseas
3. Move casino machines into the black as soon as possible

##### Segment Target



\* After retroactive adjustment

# Game Changer

Discussion of  
the Group's  
Past and Present

The SEGA SAMMY Group will become a Game Changer by leveraging abundant intangible assets, including its personnel, intellectual properties, and brands.



## History of an Innovator

## SEGA

The former SEGA CORPORATION began as a creator of amusement machines in 1960. The company subsequently expanded into the amusement center operations and home video game software areas and continued to bring leading-edge products to market. Creating innovative products is in the SEGA Group's DNA.

\* The name SEGA derives from the first two letters of the words "service" and "games."

1960  
Incorporate

1975  
Established

## Sammy

Since its establishment in 1975, Sammy has driven the development of the pachinko and pachislot machine market by creating pachislot and pachinko machines with industry-leading gameplay. Aiming to open up new horizons in entertainment based on its "Always Proactive, Always Pioneering" founding principle, the company is engaged in all aspects of business activities, including development, manufacturing, and marketing.



SEGA 1000  
©SEGA

1960

Japan 1st

Developed first domestically produced juke-box, **SEGA 1000**

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

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.



UFO CATCHER  
©SEGA

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 mah-jong and pachinko gameplay.

TV JANQ  
©Sammy



ALADDIN  
©Sammy

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.



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. *Virtua Fighter* pioneered the 3D fighting game genre.



Dreamcast  
©SEGA

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 net-worked 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.

1995

World 1st

**Launched *Print Club* with ATULUS. 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



2003

Industry 1st

**Launched industry's first kids' card game, *MUSHIKING*:**

***The King of Beetles***

A mega-hit among elementary-school-age boys, this game established kids' card games into a new market.



MUSHIKING: The King of Beetles  
©SEGA

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.

1999

Industry 1st

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

Sammy was the first to incorporate LCDs into pachislot machines. LCDs are now indispensable for the images pachislot machines display.

2003

New record

**Launched pachislot machine, *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 620,000 unit sales remains an unbroken record for a pachislot machine.

Pachislot Hokuto No Ken  
©Buronson & Tetsuo Hara  
©Sammy



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. This success played a significant role in raising our presence in the pachinko machine market.

## Overview of the SEGA SAMMY Group

The SEGA SAMMY Group is a comprehensive entertainment corporate group created through the management integration of Sammy Corporation and SEGA CORPORATION (currently SEGA Games Co., Ltd.), which has produced many industry-first and world-first products. Using both companies' innovative DNA as its core competence, the Group generates a constant stream of new entertainment in a wide spectrum of areas.



### *CREATION IS OUR LIFE*

SEGA has a track record second to none for devising fresh types of gameplay ahead of the times. Its founding principle is "*CREATION IS OUR LIFE*," a mindset that the company passes on to each new generation of employees.



### *Always Proactive, Always Pioneering*

Since its establishment in 1975, Sammy has lived up to its "*Always Proactive, Always Pioneering*" founding principle by creating pachislot and pachinko machines with industry-leading gameplay.



## Business Model

We will leverage our three advantages to continue creating moving experiences and growing earnings.

### Three Advantages

#### Extensive Business Portfolio (Points of Contact with Customers)

Basis of advantage  
No companies with similar business portfolios

Result of advantage  
Wider potential for multifaceted rollouts of intellectual properties through extensive points of contact with customers

#### Innovative DNA

Basis of advantage  
Creativity of SEGA over past 56 years and of Sammy over past 40 years

Result of advantage  
Companies highly likely to continue creating innovative entertainment

#### Robust Financial Base

Basis of advantage  
No companies with cash cows similar to Pachislot and Pachinko Machine Business

Result of advantage  
Absorbs risk inherent in being producer of hit products and, by permitting failure, enables continuation of ambitious initiatives

### Three Types of Fundamental Capital

#### Intellectual Capital (Intellectual Properties)

The intellectual properties that we have accumulated during our long history, major intellectual properties introduced from outside, and the expertise to exploit intellectual properties are the management resources that underpin our sustained growth.

#### Financial Capital



SEGA-SAMMY  
HOLDINGS

#### Building an Optimal Portfolio

Human Capital

Intellectual Capital

#### Human Capital (Personnel)

Personnel create new intellectual properties and maximize their value. The 3,000-plus developmental personnel working in the Group are the source of its competitiveness.

#### Financial Capital

Because creating hit products is important in the entertainment industry, financial soundness and the cash generation capabilities of the Pachislot and Pachinko Machine Business segment are major advantages enabling the Group to win out against competitors.

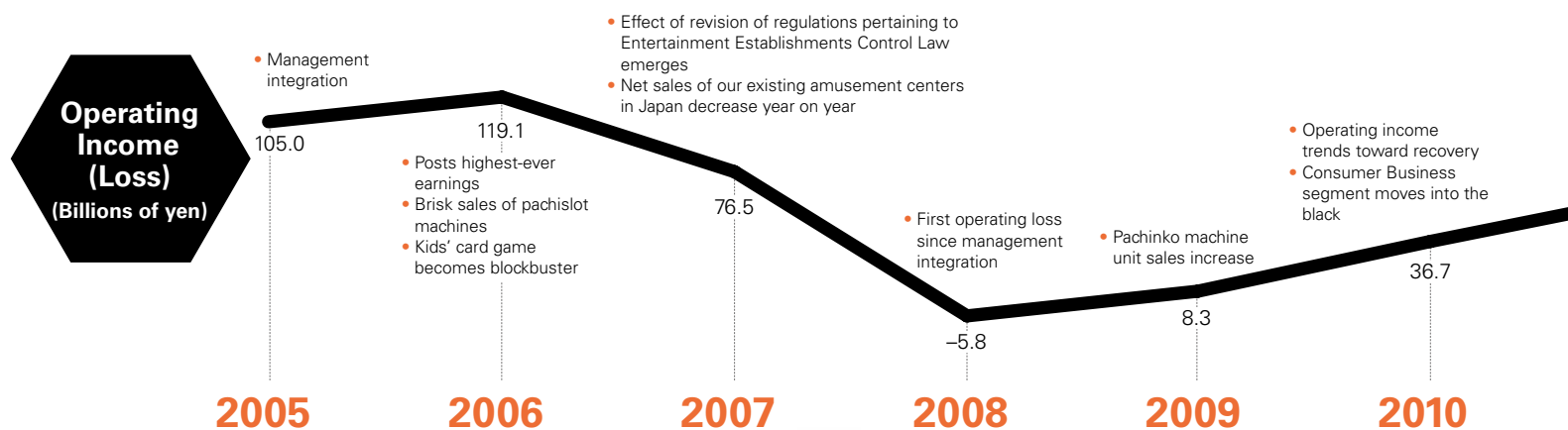
● Leveraging three advantages and types of capital to continue creating moving experiences

Moving  
Experiences

● Increasing profit margin and capital efficiency

## Since Management Integration

The SEGA SAMMY Group has strengthened its structures continuously in response to tough business conditions arising from such factors as a declining player population in the pachinko and pachislot machine market. The Group's decisive cost structure reform in fiscal 2015 and business structure reform in fiscal 2016 have established the basis for getting back on a growth track.



### 2006–2016

• Adjusts the number of amusement centers to an appropriate level

2010

### Management Measures

2007



Withdraws from pachislot and pachinko machine peripheral business and begins reducing costs by reusing parts

2008



Introduces new (revenue-sharing) business model to the amusement machine sales area

2009



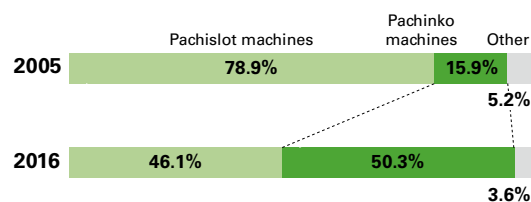
Strengthens the pachinko machine business (transfers to new development system and increases pachinko board sales as a percentage of net sales)

## Long-Term Changes in Business Structure

FY

### Pachislot and Pachinko Machine Business

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

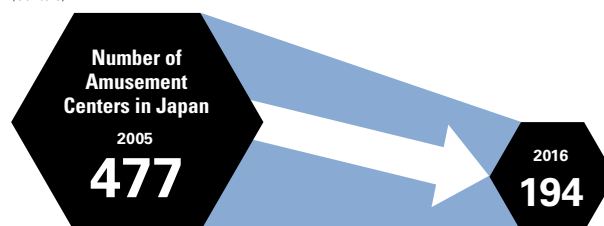


In response to changes in cyclical demand for pachinko and pachislot machines, we have succeeded in building a better-balanced product portfolio. By strengthening developmental capabilities for pachinko machines, we have reduced our reliance on pachislot machines.

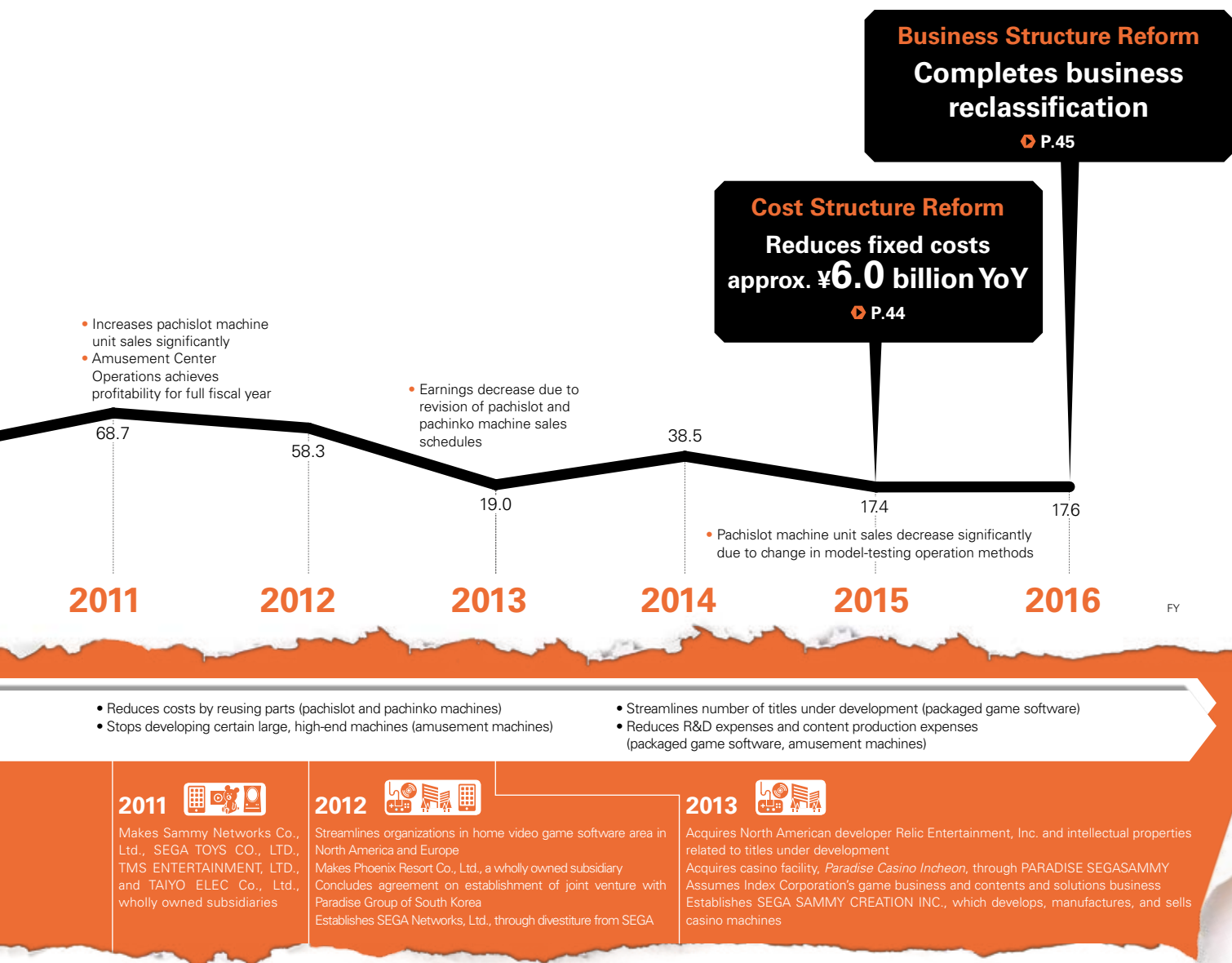
### Amusement Machine Sales Business Amusement Center Operations

Optimizing Amusement Center Portfolio

(Centers)



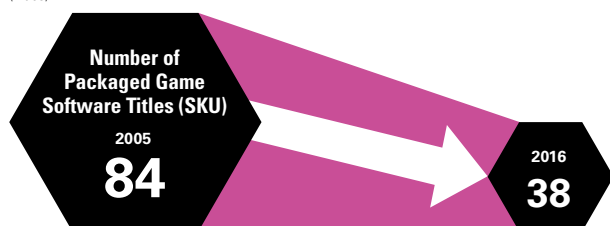
In the amusement machine sales area, we have stepped up the introduction of new business models to stimulate the market. As for the amusement center operations area, we have realized more robust profitability through the continuous closure and sale of amusement centers with low profitability or limited potential and the improvement of operational capabilities.



## Packaged Game Software Area

### Streamlining the Number of Titles

(Titles)

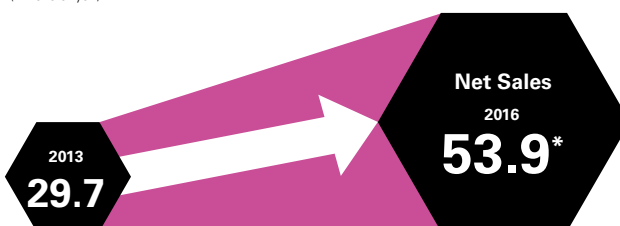


In the packaged game software area, which continues to shrink as the digital game content market expands, we have continued to streamline developmental organizations, streamline the number of titles under development, and improve investment efficiency.

## Digital Game Area

### Sales Growth in the Digital Game Area

(Billions of yen)



In the digital game area, we are building our presence steadily thanks to a combination of rich development resources and a team of experts in business model construction. Currently, we are accelerating expansion of our earnings base in the global market.

\* In fiscal 2016, the recognition of net sales was changed from a net basis to a gross basis.

## Fundamental Capital for Entertainment Value Creation

# Intellectual Properties

During their long histories, SEGA Games Co., Ltd., Sammy Corporation, and other operating companies have created and acquired diverse intellectual properties through in-house development and acquisition or licensing from third parties. The Group ensures that these precious management resources create long-term entertainment value through multifaceted rollouts catering to current needs.

### Maximizing Value of Intellectual Properties through Multifaceted Rollouts



#### PHANTASY STAR ONLINE 2

*PHANTASY STAR ONLINE 2* is the successor to the 3D online network role-playing game for home video game consoles, *PHANTASY STAR ONLINE*, which became the model for online network role-playing games in Japan. *PHANTASY STAR ONLINE* traces its origins to *PHANTASY STAR*, a role-playing game released in 1987.

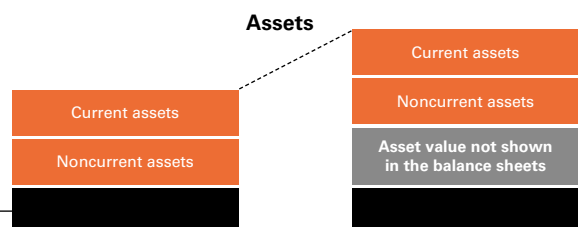
In the 15 years since the release of *PHANTASY STAR ONLINE*, we have introduced numerous titles, which have garnered a loyal fan base. At the same time, we have heightened the value of the intellectual property through multifaceted rollouts encompassing such areas as digital games, animation, and stage shows.

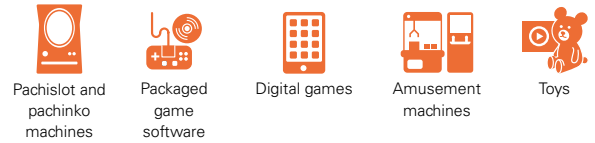
### Intangible Assets

Entertainment companies recognize intellectual properties obtained through the acquisition of companies in investment securities and goodwill. However, they do not recognize intellectual properties they have created in-house or licensed from third parties as assets. This means such intellectual properties are intangible assets that are not recognized in financial statements.

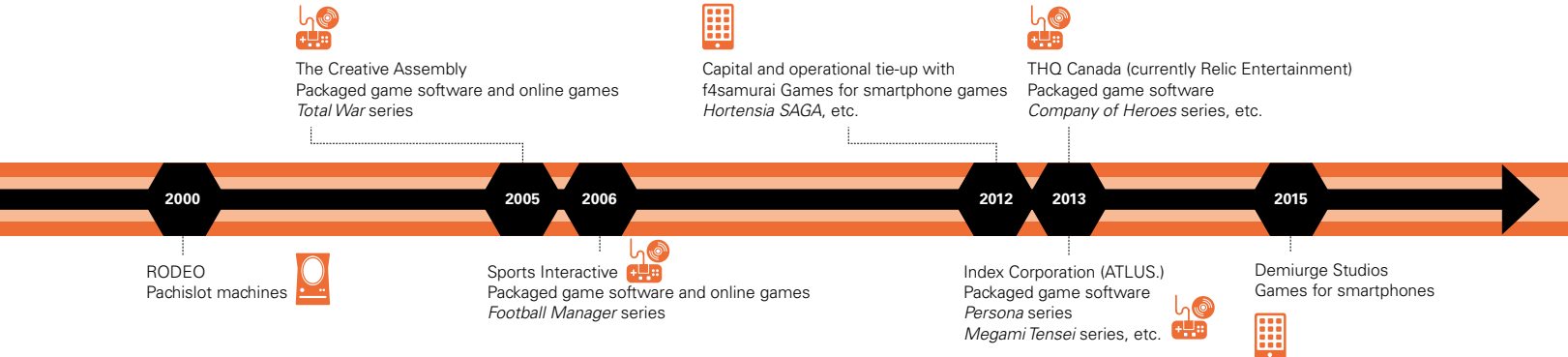
Total investments and other assets

Intellectual properties obtained through acquisitions recognized.  
Intellectual properties created in-house and licensed intellectual properties not recognized.





## Examples of Intellectual Properties Acquired through M&As



Examples of acquired intellectual properties	Intellectual property title	First appearance	Multifaceted rollout				Total editions	Cumulative unit sales / downloads
	<i>Megami Tensei</i> series	1987					28	Approx. <b>7.2</b> million units (packaged and digital total)
	<i>Persona</i> series	1996					12	Approx. <b>6.9</b> million units (packaged and digital total)
	<i>Etrian Odyssey</i> series	2007					7	Approx. <b>1.5</b> million units (packaged and digital total)

Examples of intellectual properties developed in-house	Intellectual property title	First appearance	Multifaceted rollout				Total editions	Cumulative unit sales / downloads
	<i>Sonic the Hedgehog</i> series	1991					—	Approx. <b>350</b> million (units / downloads) (packaged and digital total)
	<i>Puyopuyo</i> series	1991*1					—	Approx. <b>22.0</b> million (units / downloads) (packaged and digital total)
	<i>Ryu ga Gotoku</i> series	2005					68	Approx. <b>9.3</b> million (units / downloads) (packaged, digital, and mobile members total)
	<i>ALADDIN</i> series	1989					14	Approx. <b>570,000</b> units (pachislot and pachinko machines and amusement machines total)
	<i>Juoh</i> series	2001					14	Approx. <b>490,000</b> units (pachislot and pachinko machines and amusement machines total)
	<i>PHANTASY STAR</i> series	1987					—	Approx. <b>4.5</b> million IDs*2 (cumulative total for registered IDs)
	<i>CHAIN CHRONICLE</i> series	2013					3	Approx. <b>5.0</b> million downloads (packaged and digital 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*

Examples of intellectual properties licensed from third parties	SEGA feat. <i>HATSUNE MIKU Project</i> series	2009					45	Approx. <b>5.3</b> million (units / downloads) (packaged and digital total)
	<i>Hokuto No Ken</i> series	2002					30	Approx. <b>2.64</b> million units (pachislot and pachinko machines and amusement machines total)
	<i>SOUTEN-NO-KEN</i> series	2009					8	Approx. <b>390,000</b> units (pachislot and pachinko machines total)



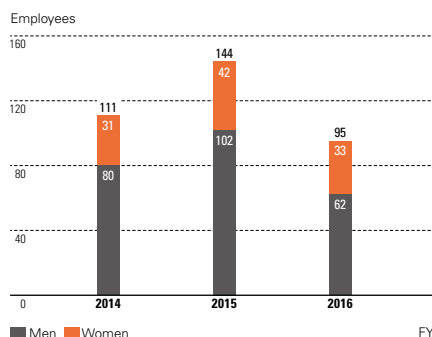
# Human Capital

The SEGA SAMMY Group's personnel are brimming with ideas for tomorrow's entertainment and have the creativity and drive to make them a reality. We view human capital as our most important management resource for realizing continuous growth. With this in mind, we provide workplaces conducive to heightening motivation and maximizing diverse talents.

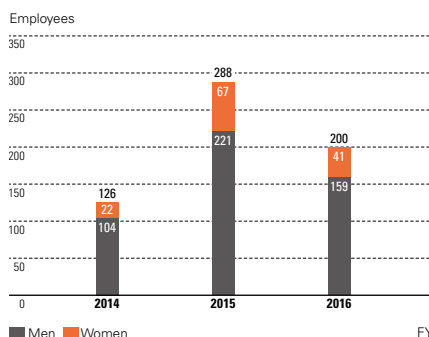
## Employment of Diverse Personnel

The Group seeks personnel who share its mission and vision and have a strong desire to create new entertainment. Based on the Group's personnel portfolio strategy and in light of their respective employment standards, operating companies employ and assign personnel based on consideration of diversity and appropriately matching the duties of personnel with their abilities and suitability regardless of gender or nationality. In fiscal 2016, the Group as a whole employed 95 new graduates, of whom 33 were women, and 200 mid-career personnel, of whom 41 were women.

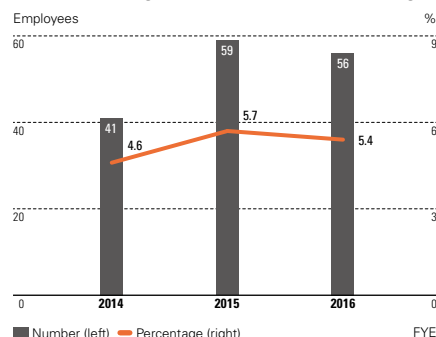
### New Graduate Hires



### Mid-Career Hires



### Female Managers: Number and Percentage



## Optimization of Personnel Portfolio in Accordance with Growth Strategies

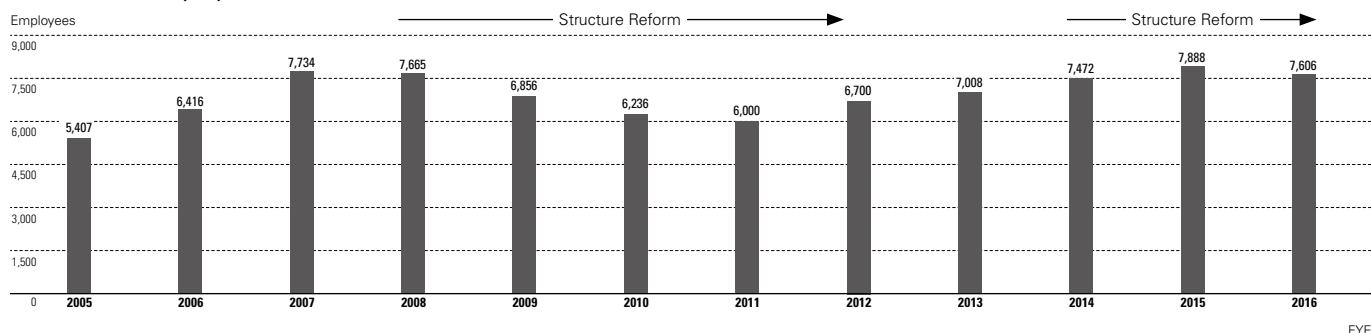
Employee numbers trended downward after fiscal 2008, when we recorded an operating loss and restructured. In particular, business structure reform aimed at improving the former SEGA CORPORATION's profitability led to the sale and closure of amusement centers with low profitability, which lowered the number of employees in the amusement center operations area significantly.

From fiscal 2012, however, consolidated employee numbers began trending upward again mainly because the Group included Phoenix Resort Co., Ltd., and THQ Canada Inc., currently Relic Entertainment

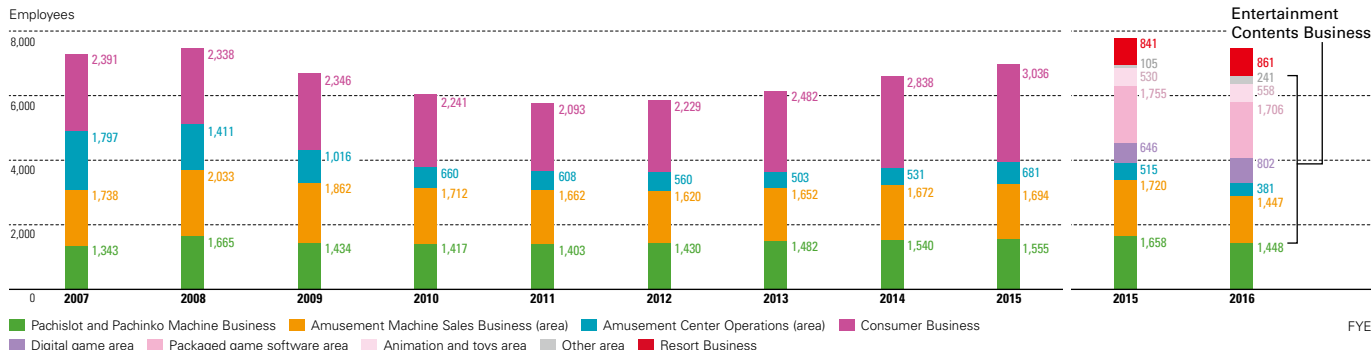
Inc., as subsidiaries, assumed Index Corporation's businesses, and increased business lines in the digital game area in Japan and overseas. In fiscal 2015, the Group implemented a voluntary retirement program that focused on the Amusement Machine Sales Business segment and the toy sales area.

In addition, we are redeploying development personnel flexibly to businesses in which the use of know-how from existing businesses promises to realize favorable growth and profitability. Also, we are redeploying personnel to areas in which they can accumulate new business know-how.

### Consolidated Employee Numbers

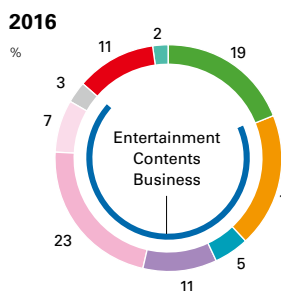


## Employee Numbers by Segment

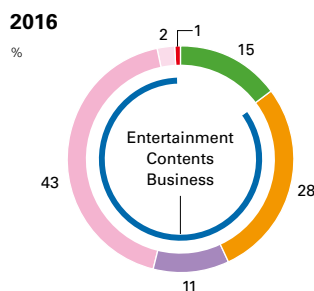


\* In fiscal 2015, the Group changed its business segments. The abovementioned "areas" are subsegments of the Entertainment Contents Business segment. For details about the reorganization of business segments, please see page 6.

## Employee Numbers by Segment



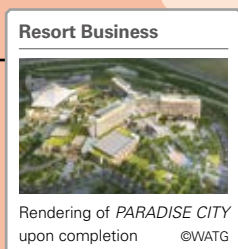
## Development Personnel by Segment



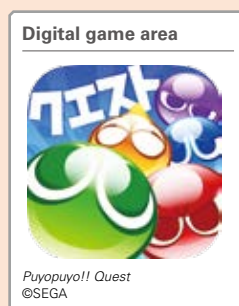
■ Pachislot and Pachinko Machine Business  
 ■ Amusement machine sales area  
 ■ Amusement center operations area  
 ■ Digital game area  
 ■ Packaged game software area  
 ■ Animation and toys area  
 ■ Other area  
 ■ Resort Business  
 ■ Corporate  
 FYE

## Redeployment of Personnel to Strategic Areas

We are optimizing the efficiency of human capital by redeploying personnel to areas with growth potential.



Since 2014, we have been sending personnel to *Paradise Casino Incheon*, where they have been acquiring expertise in business management, marketing, IT, accounting, and casino operations.



Redeploying personnel  
(Aim: Strengthen the digital game area)

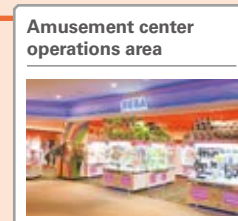
Redeploying personnel  
(Aim: Utilize graphics technologies)



Redeploying personnel  
(Aim: Absorb know-how related to integrated resorts)



Redeploying personnel  
(Aim: Utilize mechatronics expertise)





Fundamental Capital for Entertainment Value Creation  
Human Capital

# Human Capital × Creativity = Entertainment

Intangible assets that do not appear in financial statements, the personnel who create innovative entertainment are the basis upon which the SEGA SAMMY Group will build its future.



Creating world  
firsts in Japan and  
launching them!

**Shigeki Aoyama**

Managing Executive Officer,  
Planning & Management Dept.,  
PARADISE SEGASAMMY Co., Ltd.  
Responsible for:  
*Paradise Segasammy Incheon Casino*



Things that add  
spice to life

**Makoto Osaki**

Department Manager,  
R&D Div. #2,  
SEGA Interactive Co., Ltd.  
Representative work:  
*KanColle Arcade*

## What does entertain

Things that are  
fun for creators  
and players



**Jun Matsunaga**

Department Manager /  
Chief Team Director,  
Mobile Interactive Dept.,  
SEGA Interactive Co., Ltd.  
Representative work:  
*CHAIN CHRONICLE*  
*-Kizuna no Shintairiku*



Exciting things  
and places

**Tatsuya Nagashima**

General Manager /  
Corporate Officer, Golf Operation,  
*Phoenix Seagaia Resort*  
Responsible for:  
*Phoenix Country Club*  
*Tom Watson Golf Course*  
*Phoenix Golf Academy*

# invisible asset



**Fun and engaging escapism**

## Ian Roxburgh

Creative Assembly Ltd.  
Game Director, *Total War: WARHAMMER*  
Representative work:  
*Total War* series



**Constant surprises!**

## Takashi Saitoh

Chief Producer,  
PC Section 2, PC Research &  
Development Division,  
Research & Development Group Division,  
Sammy Corporation  
Representative work:  
*Pachinko CR Moh-Juoh* series  
*Pachinko CR Hokuto No Ken GO-SHO* series

## ment mean to you?



**Things that captivate you no matter how old you become!**

## Hidekazu Kouchi

Chief Producer,  
PS Section 1, PS Research &  
Development Division,  
Research & Development  
Group Division,  
Sammy Corporation  
Representative work:  
*Pachislot Ore no Sora*  
*Pachislot Juoh Ohyanokikan*



**Things that give vitality to life**

## Masayoshi Yokoyama

Deputy Department Manager,  
CS Studio #1,  
Consumer Online Company  
SEGA Games Co., Ltd.  
Representative work:  
*Ryu ga Gotoku* series

©SEGA

# Financial Capital

The SEGA SAMMY Group is engaged in hit-product businesses 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 Machine Business segment's cash generation capabilities enable continuous investment to develop captivating new products and to create businesses.

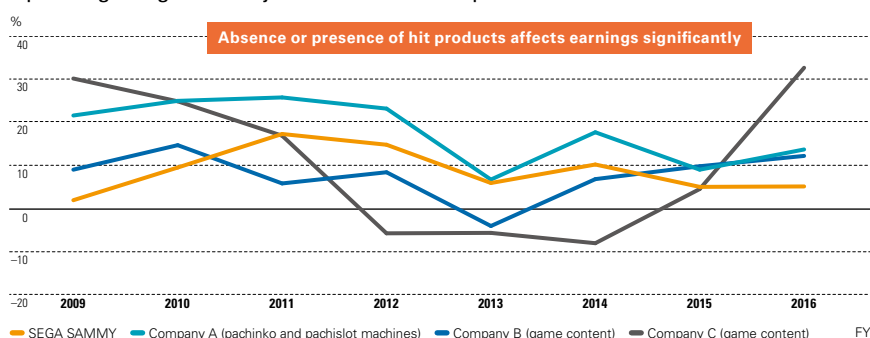
## Financial Capital Enabling Continuous Investment in Development

Due to the aging of society and the growing popularity of mobile devices, companies not only within the entertainment industry but from outside it are competing for users.

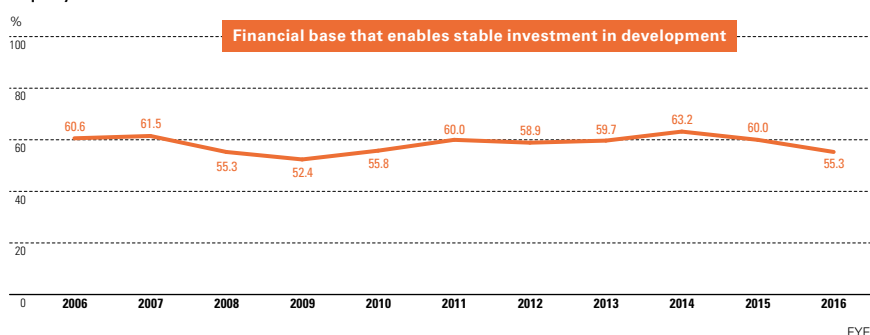
Against the backdrop of a gradually declining player population, the pachinko and pachislot machine market is seeing demand from pachinko hall operators focus more strongly than ever on machines that provide highly reliable returns on investment. Whether or not manufacturers have the development capabilities to continuously provide machines that incorporate leading-edge components as well as the financial strength to invest in such development is determining winners and losers. Similarly, amid the online game content market's fierce competition, the winners are those companies with the intellectual properties, development personnel, and funds to release content in a wide range of genres continuously and rapidly. Furthermore, business conditions in the amusement machine sales and amusement center operations areas have entered a phase in which only companies with the strength to market hit products continuously will enjoy the benefit of being industry survivors.

The SEGA SAMMY Group's business portfolio is advantageous for stable and forward-looking investment because it includes the Pachislot and Pachinko Machine Business segment, which enjoys a strong market presence, as well as the amusement machine sales and amusement center operations areas, which have improved their profitability through structure reform. In particular, our ability to invest underpins efforts to create high-value-added titles and differentiate ourselves in the digital game area, where many competitors operate exclusively in the area.

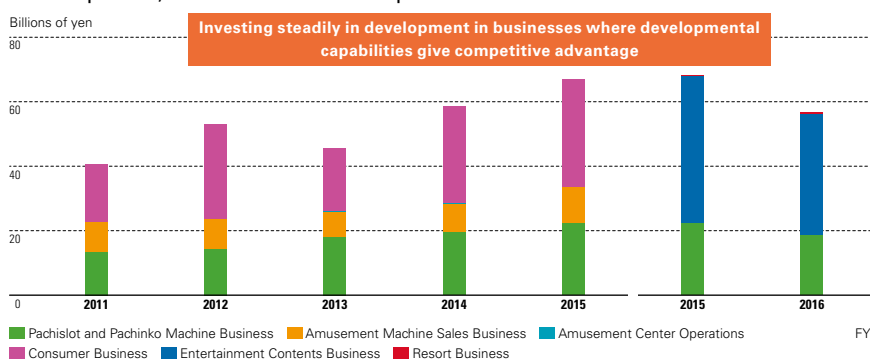
Operating Margins of Major Amusement Companies



Equity Ratio



R&D Expenses, Content Production Expenses\*



\* 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.

## Foundations Enabling Entry into the Integrated Resort Business

We are preparing to establish an integrated resort business, which we envision as becoming a future earnings mainstay for us. As well as prior investment to accumulate expertise, entry into this area will require large-scale investment. Financial stability provides foundations that enable the Group to make such forward-looking investments.

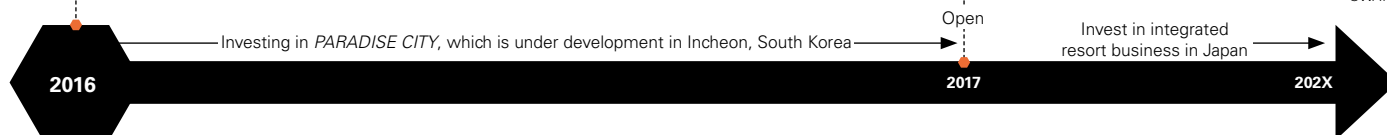
### Planning to open *PARADISE CITY* in April 2017



Construction site at the end of July 2016



Rendering of *PARADISE CITY* upon completion  
©WATG



**Assuming act promoting integrated resorts is enacted**

▶▶▶ ▶▶▶ ▶▶▶ **Within 2 years**

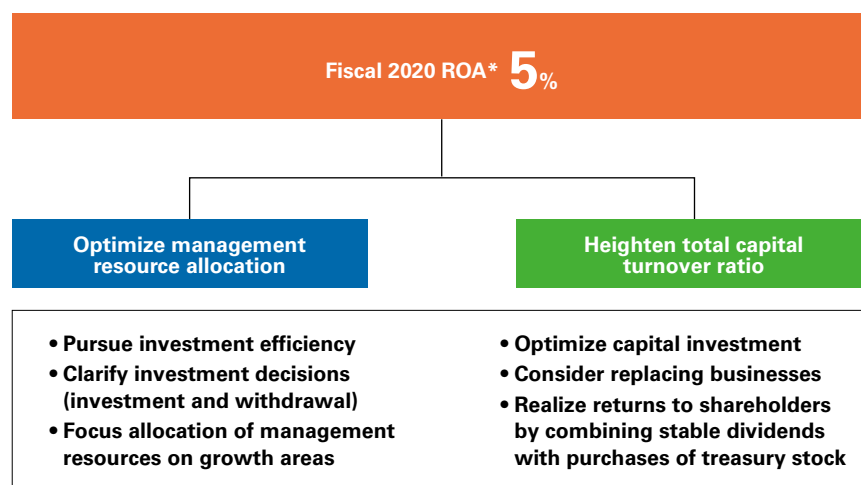
Passing of integrated resort enforcement act  
Establishing of designated tourism resort areas

▶▶▶ ▶▶▶ ▶▶▶ ▶▶▶

● Selecting of operators  
Implementing investment

## Enhancement of Asset Efficiency

The inherent nature of the hit-product businesses we are engaged in causes earnings to fluctuate. Growing shareholders' equity continuously is important to enable stable, flexible investment in strategy advancement—such as the large investment needed to participate in the integrated resort business in Japan. Therefore, rather than ROE, in which the denominator is shareholders' equity, the Group will focus on ROA, in which the denominator is total assets. We aim to heighten ROA by enhancing the capital turnover ratio while avoiding undisciplined increases in assets through measures to strengthen portfolio management, such as the optimization of management resource allocation.



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

# Intellectual Capital × Human Capital × Financial Capital = 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.

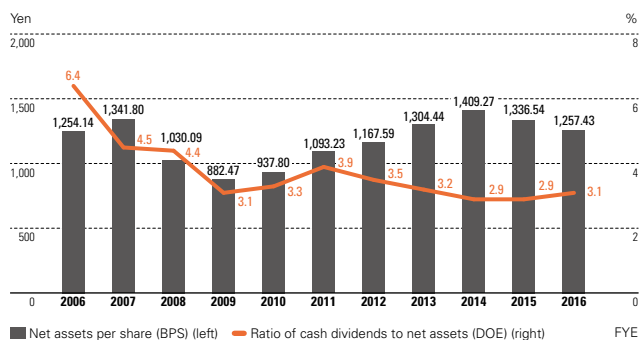
## Returning Profits to Shareholders—Policy, Results, and Outlook

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 future integrated resort business.

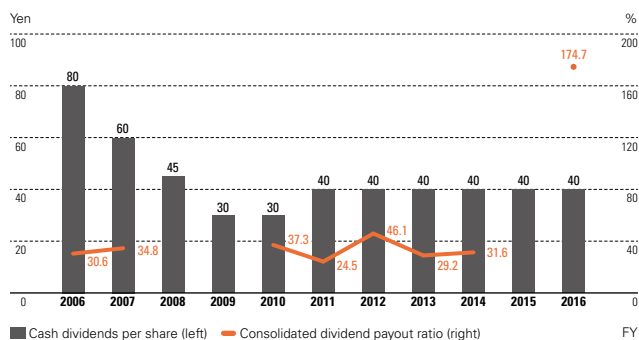
For fiscal 2016, we paid cash dividends of ¥40.00 per share. As a result, the ratio of cash dividends to net assets was 3.1%.

For fiscal 2017, ending March 31, 2017, 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.

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

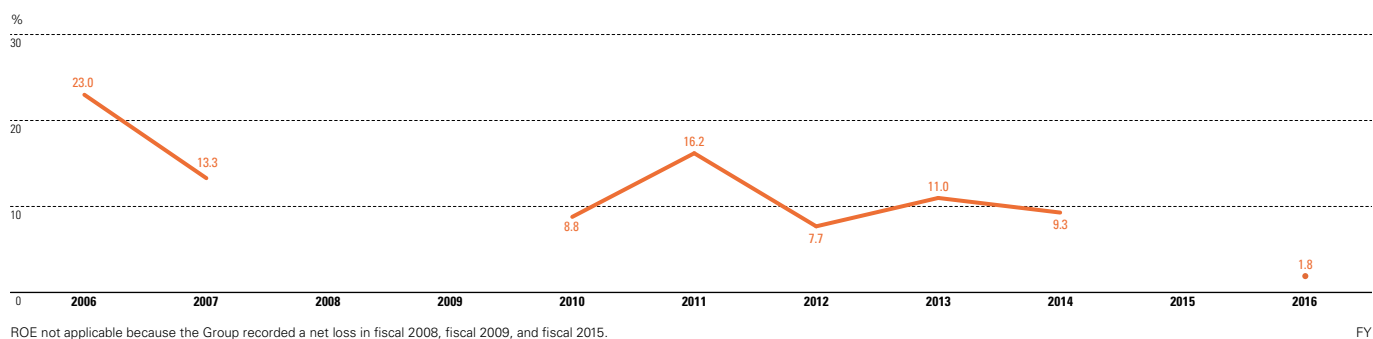


### Cash Dividends per Share / Consolidated Dividend Payout Ratio



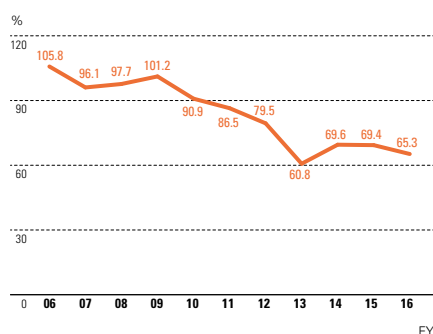
\* Consolidated dividend payout ratio not applicable because the Group recorded a net loss in fiscal 2008, fiscal 2009, and fiscal 2015.

### ROE

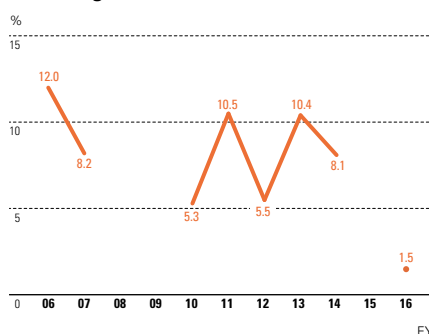


ROE not applicable because the Group recorded a net loss in fiscal 2008, fiscal 2009, and fiscal 2015.

### Total Assets Turnover Ratio

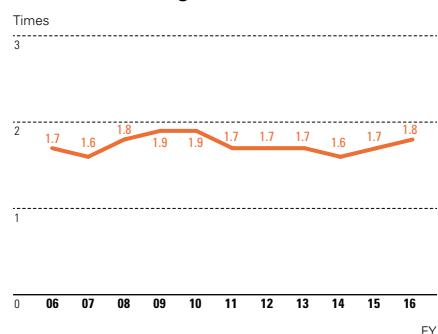


### Net Margin



Net margin not applicable because the Group recorded a net loss in fiscal 2008, fiscal 2009, and fiscal 2015.

### Financial Leverage

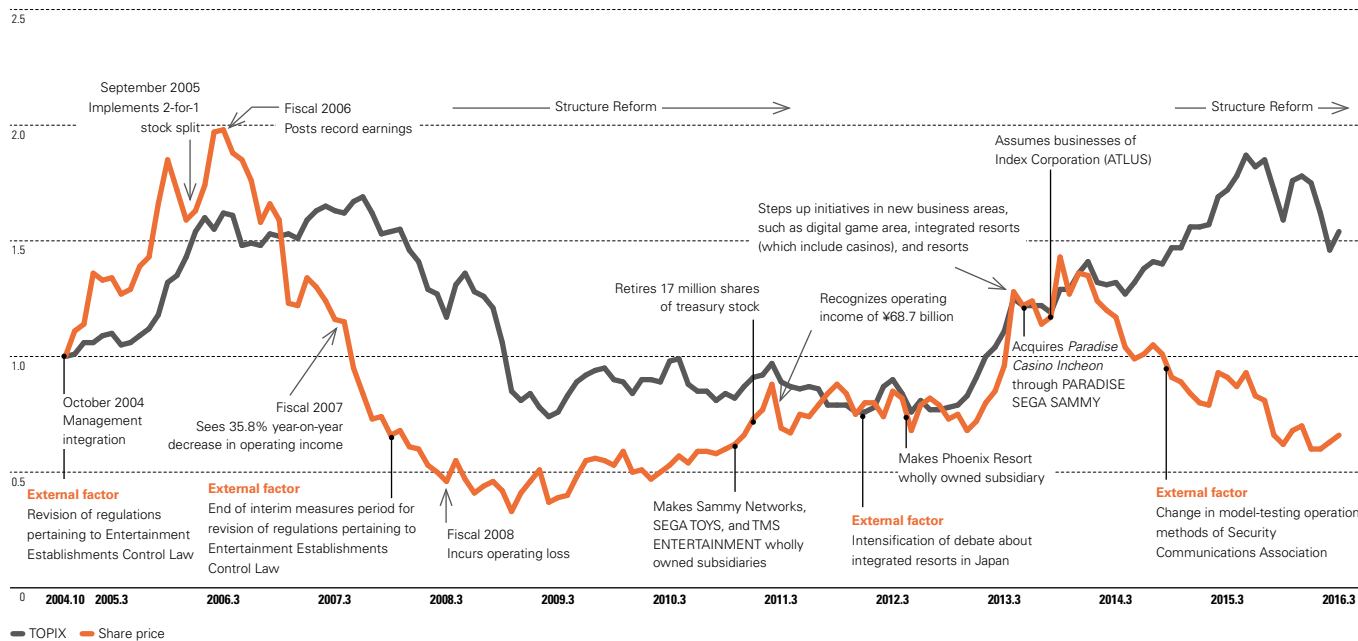




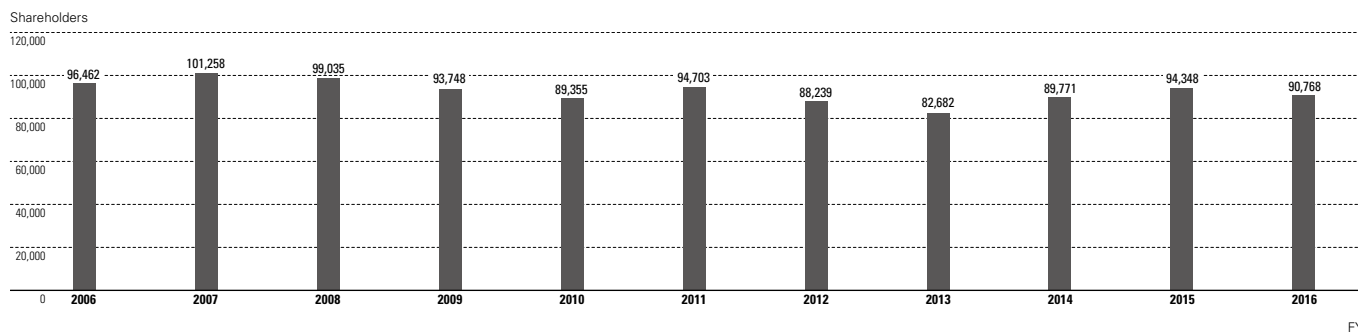
## Acquisition of Shares of Treasury Stock

FY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	—	—	—	—	—	—	14 million shares	5 million shares	10 million shares	—	10 million shares	—

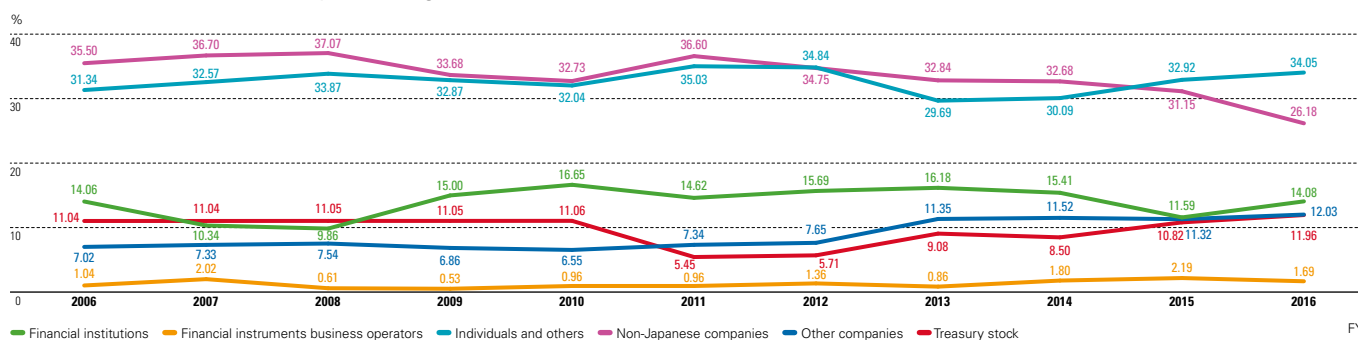
## Comparison of Share Price and Tokyo Stock Price Index (TOPIX) (Comparison based on monthly closing prices and value of 1 for October 2004 management integration)



## Number of Shareholders



## Breakdown of Shareholders (by Percentage of Shares Held)







The SEGA SAMMY Group will continue self-reform by securing steady earnings from stable revenue / maintain businesses and focusing the allocation of management resources on growth businesses.

# Transfo

Information

Information

Information

# SEGA SAMMY Group in the Big Picture

## Entertainment Universe

### Pachislot and Pachinko Machine Business

Market size  
¥**982.7** billion (2015)

Source: Yano Research Institute Ltd.

#### Main competitors

- SANKYO • FIELDS
- Universal Entertainment
- Heiwa, etc.

### Amusement Center Operations

Market size  
¥**422.2** billion (fiscal 2014)

Source: JAIA, Amusement Industry Survey 2014

#### Main competitors

- ROUND ONE
- BANDAI NAMCO
- SQUARE ENIX, etc.

### Amusement Machine Sales Business

Market size  
¥**161.1** billion (fiscal 2014)

Source: JAIA, Amusement Industry Survey 2014

#### Main competitors

- BANDAI NAMCO
- KONAMI • CAPCOM
- SQUARE ENIX, etc.

### Domestic Home Video Game (Consoles and Software)

Market size  
¥**305.2** billion (2015)

Source: Famitsu Game White Paper 2016

#### Main competitors

- Nintendo
- BANDAI NAMCO
- CAPCOM
- SQUARE ENIX, etc.

### Domestic Online Game Content

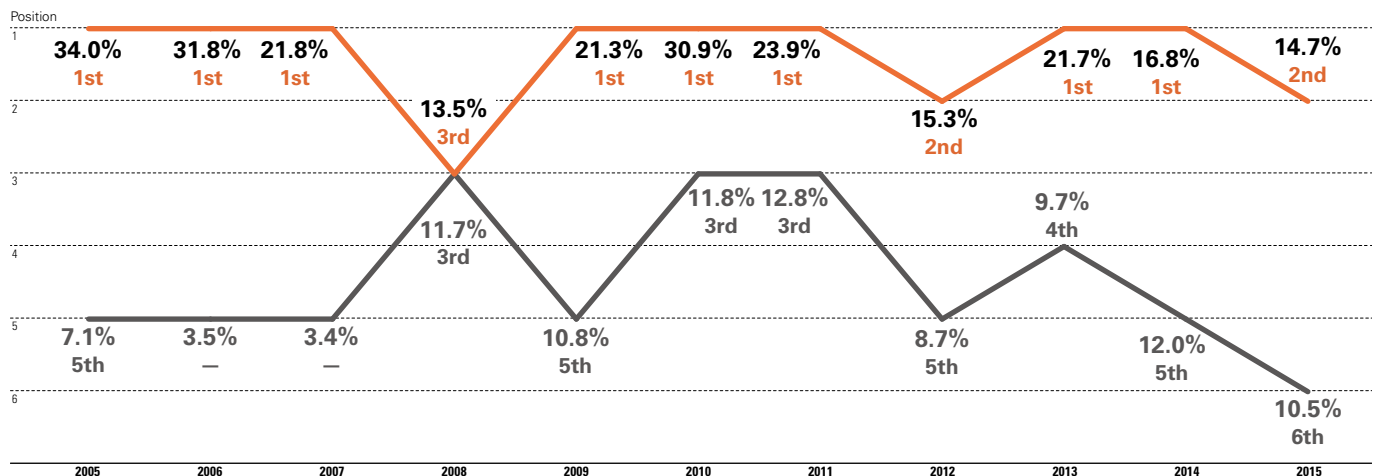
Market size  
¥**928.3** billion (2015)

Source: Famitsu Game White Paper 2016

#### Main competitors

- BANDAI NAMCO
- SQUARE ENIX
- CAPCOM
- COLOPL
- GungHo Online Entertainment
- CyberAgent
- mixi, etc.

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



Source: Yano Research Institute Ltd.

FY  
(Settlement dates from July to June)

## Peer Group Comparison Data

Billions of yen		Billions of yen		%	
Net Sales* <sup>1</sup>		Operating Income* <sup>1</sup>		Operating Margin* <sup>1</sup>	
BANDAI NAMCO	575.5	mixi	95.0	GungHo Online Entertainment	46.9
Nintendo	504.4	GungHo Online Entertainment	72.4	mixi	45.5
SEGA SAMMY	347.9	BANDAI NAMCO	49.6	COLOPL	44.6
CyberAgent	254.3	Heiwa	38.9	Heiwa	18.1
KONAMI	249.9	Nintendo	32.8	CAPCOM	15.6
Heiwa	214.9	CyberAgent	32.7	SANKYO	13.7
SQUARE ENIX	214.1	COLOPL	32.3	CyberAgent	12.9
mixi	208.7	SQUARE ENIX	26.0	SQUARE ENIX	12.2
GungHo Online Entertainment	154.3	KONAMI	24.6	KONAMI	9.9
SANKYO	137.1	SANKYO	18.8	BANDAI NAMCO	8.6
ROUND ONE	83.5	SEGA SAMMY	17.6	ROUND ONE	7.6
CAPCOM	77.0	CAPCOM	12.0	Nintendo	6.5
COLOPL	72.3	ROUND ONE	6.3	SEGA SAMMY	5.1
%		%		Billions of yen	
ROE* <sup>1</sup>		ROA* <sup>1,2</sup>		Market Capitalization* <sup>4</sup>	
mixi	69.7	GungHo Online Entertainment	40.2	Nintendo	2,266.7
COLOPL	52.6	mixi	37.0	BANDAI NAMCO	544.7
GungHo Online Entertainment	39.9	COLOPL	32.8	KONAMI	477.8
CyberAgent	24.4	CyberAgent	11.3	SANKYO	375.4
Heiwa	15.6	SQUARE ENIX	8.5	SQUARE ENIX	371.7
SQUARE ENIX	12.3	BANDAI NAMCO	7.7	mixi	352.3
BANDAI NAMCO	11.2	CAPCOM	6.9	GungHo Online Entertainment	335.3
CAPCOM	10.6	Heiwa	6.2	CyberAgent	330.6
KONAMI* <sup>3</sup>	4.9	KONAMI* <sup>3</sup>	3.2	SEGA SAMMY	326.6
SANKYO	2.9	SANKYO	2.5	COLOPL	300.1
SEGA SAMMY	1.8	Nintendo	1.3	Heiwa	232.8
Nintendo	1.4	SEGA SAMMY	1.0	CAPCOM	185.9
ROUND ONE	0.9	ROUND ONE	0.4	ROUND ONE	60.6
Billions of yen		Millions of units		Billions of yen	
Amusement Center Operation Sales* <sup>1</sup>		Unit Sales of Home Video Game Software (Global)* <sup>1</sup>		Net Sales of Amusement Machines* <sup>1</sup>	
ROUND ONE	83.5	BANDAI NAMCO	26.68	BANDAI NAMCO	57.9
AEON Fantasy	58.8	SQUARE ENIX	22.78	SEGA SAMMY	41.9
BANDAI NAMCO	58.6	CAPCOM	15.00	CAPCOM	13.3
SQUARE ENIX* <sup>5</sup>	41.1	SEGA SAMMY	9.22		
SEGA SAMMY	38.0	KOEI TECMO	5.57		
ADORE* <sup>6</sup>	14.7				
CAPCOM	9.0				
KOEI TECMO	1.2				

Note: The above is intended to give an idea of the Group's position in the industry and only covers companies for which information can be obtained from published documents, such as listed companies.

As there are unlisted companies that do not disclose information, this is not a completely accurate industry ranking.

\*1 Respective companies' settlement data. Source: Respective companies' published documents

\*2 ROA = Profit attributable to owners of parent ÷ Total assets

\*3 IFRS: ROE = Net income to equity attributable to owners of parent ratio; ROA = Net income attributable to owners of parent ÷ Total assets

\*4 Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 31, 2016.

\*5 "Amusement" including amusement centers and amusement machines

\*6 General Entertainment Business

## Outlook for Business Conditions

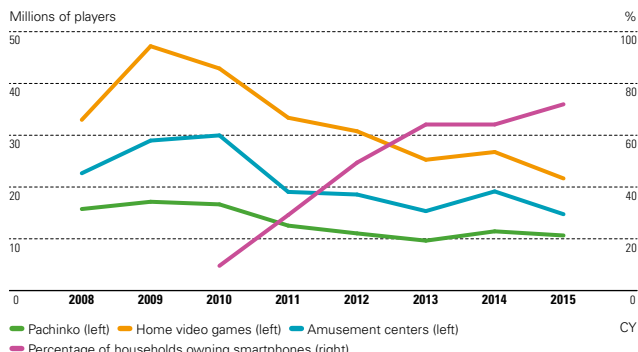
Market

1

### Decreasing Patronage of Existing Entertainment

Pachinko, home video games, and amusement centers had become Japan's national pastimes by the 2000s. Since 2010, however, they have seen a downward trend in player numbers. This decrease mainly reflects lackluster consumer spending, the aging population, and the diversifying ways in which the young generation, who are the core players, spend leisure time as smartphones become increasingly popular. Competition to monopolize the young generation's leisure time is transcending boundaries of the entertainment industry to include social networking services (SNS) and a wide range of other industries. Further, for entertainment companies, stimulating the market by developing middle-aged and elderly people, women, and the young generation as customer groups has become an important task.

Player Numbers and Percentage of Households Owning Smartphones



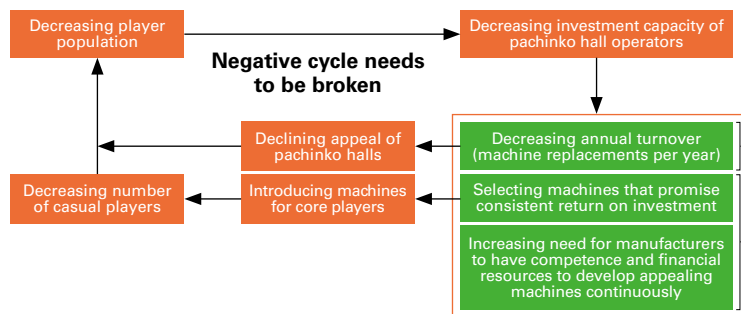
Sources: *White Paper on Leisure Industry 2016*, Japan Productivity Center, for pachinko, home video games, and amusement centers, and *Communications Usage Trend Survey*, Ministry of Internal Affairs and Communications, for percentage of households owning smartphones

Market

2

### Emerging Oligopoly in the Pachinko and Pachislot Machine Market Due to Regulations and Decrease in Player Population

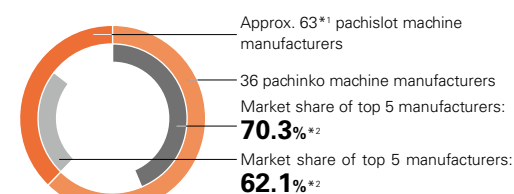
Long-term decline in the pachinko and pachislot player population has reduced pachinko hall operators' investment capacity, encouraging a bias in demand toward pachinko and pachislot machine manufacturers with machines able to provide reliable returns on investment. In addition, the introduction of stricter regulations in recent years has made the specifications for pachinko and pachislot machines more demanding. Consequently, the contrast between winners and losers is becoming even more pronounced due to differences in companies' ability to develop and manufacture advanced, high-quality products.



Shrinking Pachinko and Pachislot Machine Market



Emerging Oligopoly of Leading Manufacturers



Source: Yano Research Institute Ltd.

\*1 Calculation based on unit sales in fiscal 2016 (settlement dates from July to June)

\*2 Fiscal 2015 (settlement dates from July to June)

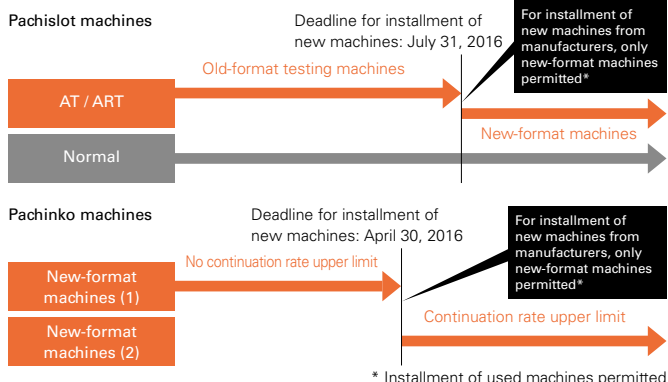
Market

3

### Continuing Effect of Regulations

Since September 2014, the pachinko and pachislot machine market has seen the gradual implementation of voluntary regulations. As a result, fewer new pachinko and pachislot machine titles have been released. Companies' ability to create durable, high-quality machines that comply with the new regulations while retaining appealing gameplay is likely to become a differentiating factor that widens the gap among companies even further.

Effect of Regulations



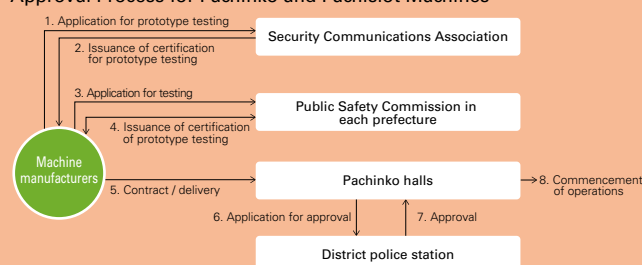
\* Installation of used machines permitted

## Conditions in the Pachinko and Pachislot Machine Market

### Pachinko and Pachislot Machine Market's Regulatory Process

Before launching new products, pachinko and pachislot machine manufacturers have to proceed through various approval processes based on the Entertainment Establishments Control Law. These approval processes inspect products to determine whether their materials, functions, and gameplay conform to the specifications that current regulations set. Not receiving certification can severely affect sales plans. Also, regulatory revision can affect gameplay.

#### Approval Process for Pachinko and Pachislot Machines

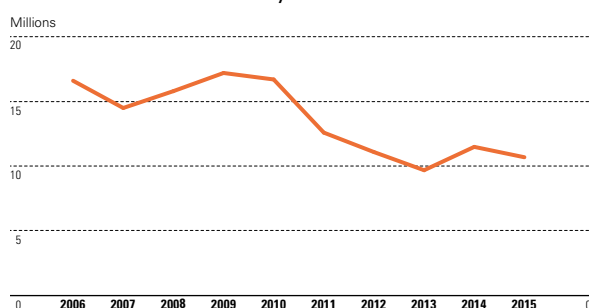


### Long-Term Market Trends

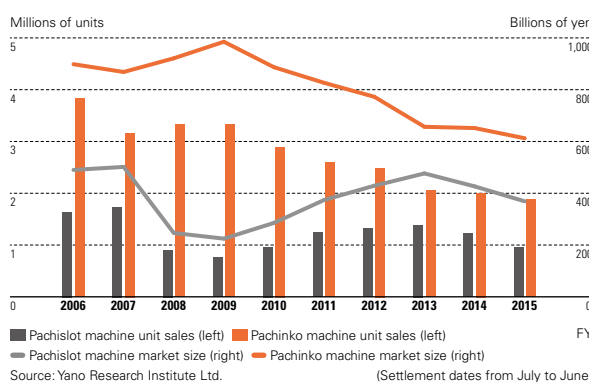
In the pachinko and pachislot machine market, the player population continues to decrease. Focused on controlling excessive gambling elements, the regulatory revision of July 2004 rapidly changed pachislot machines' gameplay and accelerated the decrease in the player population centered on casual players. Also, the price of pachinko machines rose. The resulting downturn in sales and higher investment burden worsened pachinko hall operators' business results. This demand-side situation affected competitive conditions for pachinko and pachislot machine manufacturers. Moreover, the introduction of new regulations from 2014 has changed conditions in the pachinko and pachislot machine market again.

→ Page 40 Market 3, Continuing Effect of Regulations

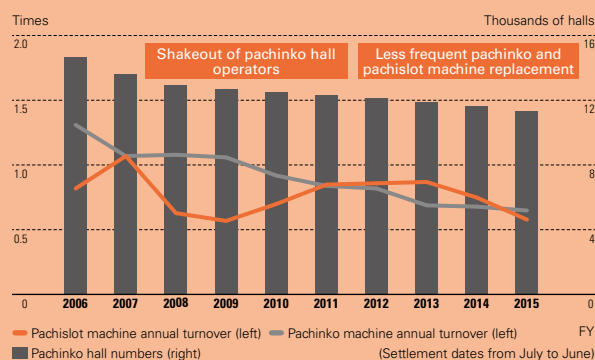
#### Pachinko and Pachislot Player Numbers



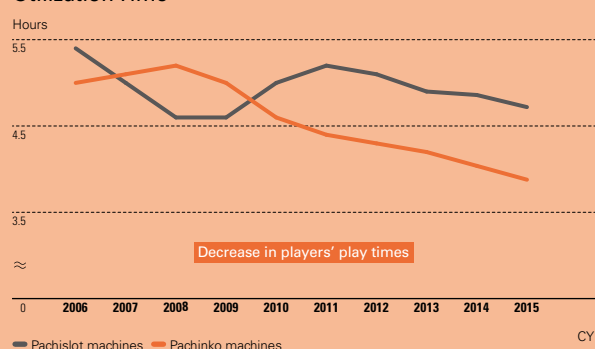
#### Pachinko and Pachislot Machines—Market Size and Unit Sales



#### Annual Turnover\* and Pachinko Hall Numbers



#### Utilization Time\*





## Outlook for Business Conditions

Market

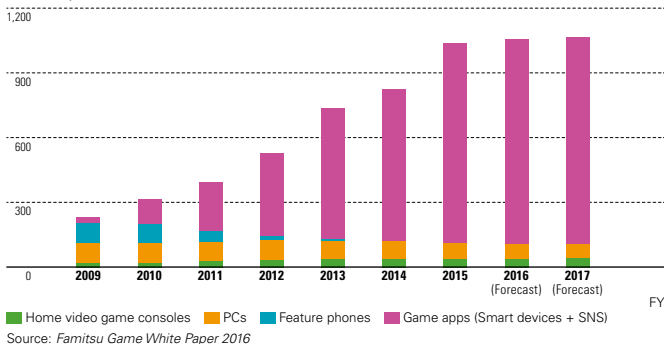
4

### Softening Growth in Japan's Digital Game Market

Smartphone apps have spurred phenomenal growth in online games. In particular, business models based on Free-to-Play (F2P) games for smartphones have made it easier for players to participate, thereby widening the range of players covered. In Japan, the pace of growth in the app market has been slowing steadily as the spread of smartphones reaches the end of a cycle.

#### Japan's Market for Online Game Content

Billions of yen



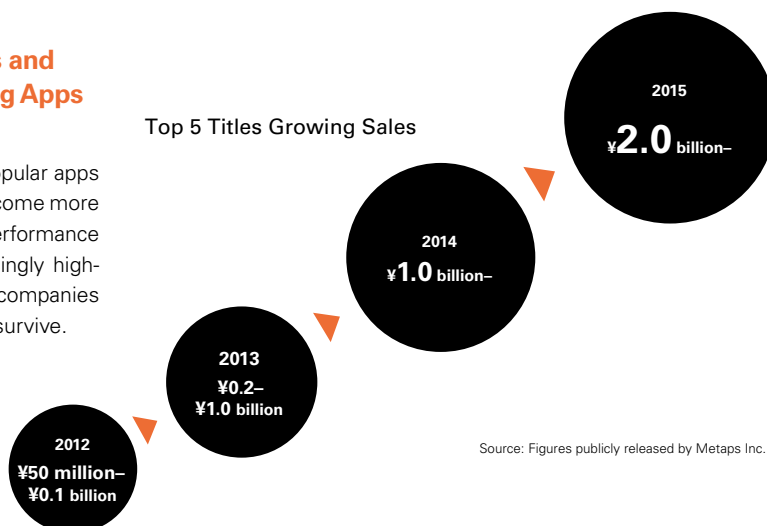
Market

5

### Increasing Sophistication of Apps and Growing Focus on Market-Leading Apps

In the smartphone app market, the focus of demand on popular apps is becoming marked as titles at the top of sales rankings become more dominant each year. Further, the emergence of high-performance smart devices is encouraging the development of increasingly high-end game apps. As a result, a market is forming in which companies with the competence and funds to develop such apps will survive.

#### Top 5 Titles Growing Sales



Market

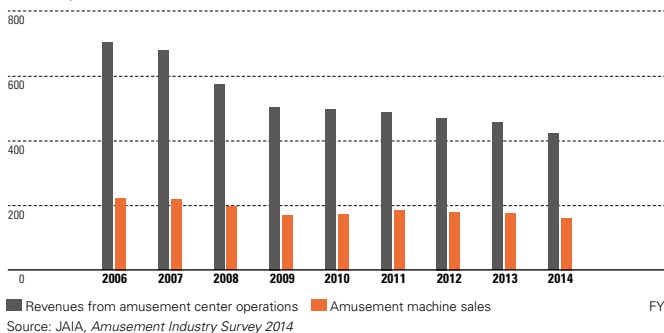
6

### Focusing on Revitalization of the Amusement Market

In the amusement center operations market, the player population is trending toward long-term decline. Further, a consumption tax increase and deterioration in the financial positions of amusement center operators have directly affected the amusement machine sales market. To revitalize the amusement market, the amusement machine sales and amusement center operations industries are taking a range of concerted measures, which include offering new business models, pursuing broader marketing that targets families' three generations, and stepping up business collaborations.

#### Amusement Market (Amusement Center Operations / Amusement Machine Sales)

Billions of yen



# Risks and Opportunities

## Principal Short-, Medium-, and Long-Term Risks and Opportunities

■ Pachislot and Pachinko Machine Business ■ Entertainment Contents Business ■ Resort Business

	Short-term and medium-term	Long-term
<b>Risks</b>	<p><b>Regulatory risk ▶ P.40</b> Market contraction accompanying stricter regulations directly affects sales of pachislot and pachinko machines.</p> <p><b>Decline in player population ▶ P.41</b> A decreasing player population lowers pachinko hall operators' ability to undertake capital investment and affects unit sales.</p> <p><b>Contraction of traditional amusement center market ▶ P.42</b> As well as affecting our earnings in the amusement center operations area, contraction of the traditional amusement center market directly affects our amusement machine sales.</p> <p><b>Contraction of packaged game software market in Japan ▶ P.57</b> Japan's packaged game software market is trending toward contraction over the long term. Also, popularity is becoming increasingly focused on major titles that have earned long-standing player endorsement.</p> <p><b>Intensification of competition in Japan's digital game market ▶ P.42</b> Due to fiercer competition resulting from softening growth and market saturation, the risk of being unable to achieve envisioned returns on investments is increasing.</p>	
<b>Opportunities</b>	<p><b>Trend toward increasingly high-end digital game content ▶ P.42</b> Higher-performance devices and more-advanced communication infrastructure are leading to the introduction of higher-end apps, providing a tailwind for the Group because it has adequate development capabilities and funds.</p> <p><b>Growth potential of the digital game market overseas ▶ P.58</b> There is significant growth potential for the app market overseas, particularly in parts of East Asia that have a cultural affinity with Japan.</p> <p><b>Establishment of the integrated resort industry in Japan ▶ P.16</b> The realization of integrated resorts in Japan could become a major business opportunity for the Group.</p> <p><b>Potential of the integrated resort business overseas</b> Due to China's increasing affluence and Southeast Asia's economic growth, the integrated resort market has significant potential overseas.</p> <p><b>Widening of the gap between winners and losers ▶ P.40</b> Development competence, financial resources, and product reliability will differentiate the Group in an expected shakeout of the pachinko and pachislot machine market, enabling the Group to enjoy the benefit of being an industry survivor.</p>	

## Priority Environmental, Social, and Governance (ESG) Risks

### Pachislot and Pachinko Machine Business

Pachislot and pachinko machine manufacturing processes at our plants use materials that could place a burden on the environment, including adhesives and such natural materials as wood. Further, we recycle or appropriately dispose of waste materials generated by manufacturing processes. Also, we have a responsibility to address such social issues as addiction.

#### [Environmental Risks]

- Raw material procurement
- Waste treatment

#### [Social Risks]

- Addiction problem
- Worsening of image due to corruption

▶ P.55

### Entertainment Contents Business

Supply chain management aimed at reducing environmental burden, managing chemicals, and protecting human rights is an important task because this business segment is fabless, meaning it contracts partner companies to conduct manufacturing in the amusement machine sales and home video game software areas. Measures to protect minors and address other social risks are required in all areas.

#### [Environmental Risks]

- Chemicals management

#### [Social Risks]

- Formation of healthy market
- Supply chain measures

▶ P.61

### Resort Business

Ensuring the safety of large attractions is an important task with a view to protecting brand value.

#### [Environmental Risks]

- Facility safety

▶ P.63

## Structure Reform to Get Back on a Growth Track

The SEGA SAMMY Group established a lean earnings structure by restructuring costs in fiscal 2015 and laid the foundations for stronger portfolio management by restructuring businesses in fiscal 2016. In fiscal 2017, the Group will implement growth strategies steadily with a view to getting back on a growth track.

Fiscal 2015

### Cost Structure Reform Phase

Reduction of annual fixed costs  
approx. ¥6 billion

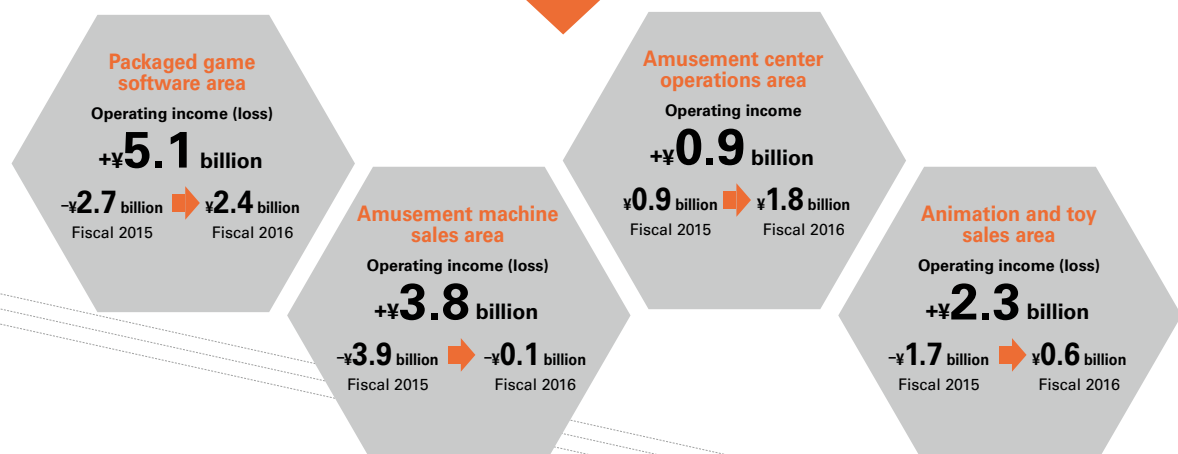
### Cost Structure Reform

We reorganized into three business segments and clarified core businesses. At the same time, we withdrew from businesses with low profitability and focused fixed cost reduction initiatives on the former SEGA CORPORATION. Thanks to these initiatives, in fiscal 2016 profitability improved significantly in areas where we had restructured costs.

#### Main Initiatives in the Cost Structure Reform Phase

Clarified core businesses	<ul style="list-style-type: none"> <li>Reorganized into three business segments</li> </ul>	<div> <div>Pachislot and Pachinko Machine Business</div> <div>Amusement Machine Sales Business</div> <div>Amusement Center Operations</div> <div>Consumer Business</div> </div>	<div> <div>Pachislot and Pachinko Machine Business</div> <div>Entertainment Contents Business</div> <div>Resort Business</div> </div>
Restructured unprofitable and underperforming businesses drastically	<ul style="list-style-type: none"> <li>Discontinued independent movie production project</li> <li>Withdrew from other unprofitable businesses and projects</li> <li>Offered voluntary early retirement and took other measures</li> </ul>		
Laid foundations for strengthening business portfolio management	<ul style="list-style-type: none"> <li>Established each business as separate company</li> </ul>	<ul style="list-style-type: none"> <li>Accelerated decision making by delegating authority at each level of business</li> <li>Established basis for further business reorganization</li> </ul>	
Optimized personnel deployment	<ul style="list-style-type: none"> <li>Adjusted personnel numbers to reflect earnings levels</li> </ul>	<ul style="list-style-type: none"> <li>Rejuvenated the workforce's age composition</li> <li>Focused resources on core businesses</li> </ul>	

Reduced costs by approx. **¥6.0 billion**



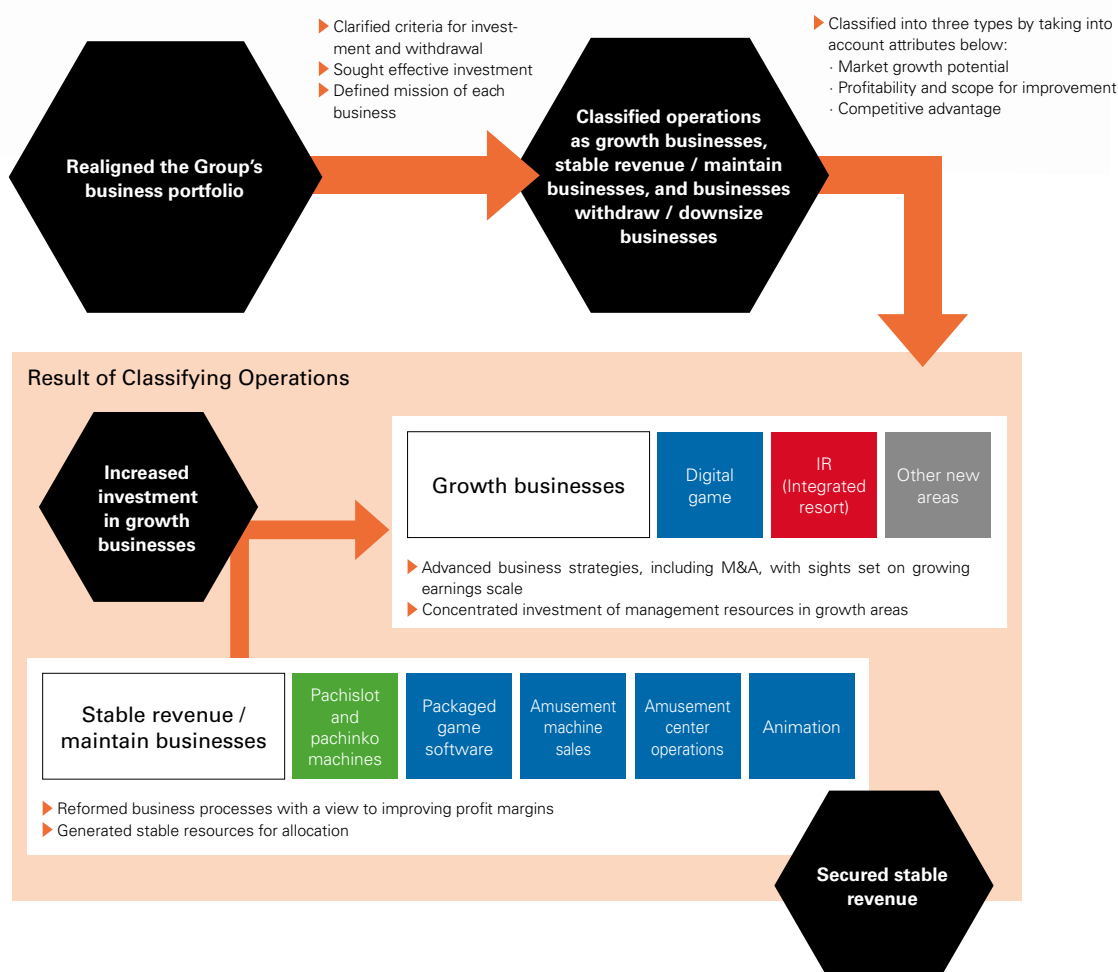
# Fiscal 2017~ Implementation Phase Getting on a Growth Track

## Fiscal 2016 Business Structure Reform Phase

Sorted businesses  
(Invested management  
resources effectively)

## Business Structure Reform Phase

Business structure reform established the basis for clear portfolio management. We classified businesses as growth businesses, stable revenue / maintain businesses, and businesses withdraw / downsize businesses. We will improve the profitability of stable revenue / maintain businesses to generate steady earnings and focus the investment of funds on growth businesses.



### Fiscal 2016 Measures

#### Pachislot and Pachinko Machine Business

Improved business efficiency

- ➡ Consolidated and improved efficiency of manufacturing and development
- ➡ Implemented voluntary early retirement program

#### Entertainment Contents Business

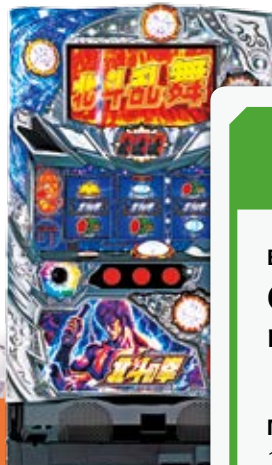
Withdrew from non-core businesses

- ➡ Content and solutions business (sold shares of Index Corporation)
- ➡ Dining and darts bar business (sold shares of Be Re-inc)

# The Group's Management Strategies (fiscal 2017–fiscal 2020)

With an emphasis on profit margin and enhancement of capital efficiency as overriding goals, the SEGA SAMMY Group will steadily implement management strategies in each business area from fiscal 2017. We aim to reach management benchmark targets by fiscal 2020 and sustain corporate development thereafter.

Pachislot Hokuto No Ken Tomo  
©Buronson&Tetsuo Hara/NSP1983  
©NSP2007, Approved No. YFC-128  
©Sammy



Pachinko CR Shin Hokuto Muso  
©Buronson & Tetsuo Hara/  
NSP 1983  
Approved No. KOJ-111  
©2010-2013  
KOEI TECMO GAMES CO., LTD.  
©Sammy



Dejihane CR Bakemonogatari  
©Nisioisin/ Kodansha, Aniplex Inc.,  
SHAFT INC.  
©Sammy

## Pachislot and Pachinko Machine Business

### Basic Strategy

**Generate stable revenue**

### Segment Target

**Operating margin of 30%**  
(fiscal 2020)

### Main Measures

1. Strengthen collaboration with industry peers
2. Revise multibrand strategy
3. Select titles carefully
4. Promote reuse

**Emphasis on Profit Margin**

**Enhancement of Capital Efficiency**

## Resort Business

### Basic Strategy

**Become third pillar**

### Segment Target

**Participate in the integrated resort business**

### Main Measures

1. Implement advance investment aimed at participation in the integrated resort business in Japan
2. Accumulate know-how through development and management of integrated resorts overseas
3. Enhance the brand value of *Phoenix Seagaia Resort*

Fiscal 2016

Operating Margin **5.1%**

ROA\* **1.0%**



© PHOENIX RESORT CO., LTD.  
© WATG © SEGA





Ryu ga Gotoku KIWAMI  
©SEGA



Puyopuyo!! Quest  
©SEGA



Hortensia Saga  
©SEGA / f4samurai



CHAIN CHRONICLE  
-Kizuna no Shintairiku  
© SEGA

## Important Management Benchmarks for Fiscal 2020

Operating Margin **15%**  
ROA\* **5%**

### Entertainment Contents Business

#### Basic Strategy

**Grow mainly through the digital game area**

#### Segment Target

**Operating income of ¥20 billion**  
(fiscal 2020)

#### Main Measures

1. Secure stable earnings by heighten the profit margins of amusement machines and home video games
2. Invest proactively in digital games for emerging markets overseas
3. Move casino machines into the black as soon as possible

**Make improvement of profit margin first priority**

**Heighten capital turnover ratio  
Optimize management resource allocation**



Ryu ga Gotoku 0: Chikai no Basho  
©SEGA

### New Businesses

#### Basic Strategy

**Fourth pillar**

#### Conditions for Participation in New Businesses

The Group will participate in new business areas if they enable it to create synergies by leveraging the management resources it has as a comprehensive entertainment corporate group. Mergers and acquisitions are an important option. However, we will only implement mergers and acquisitions if rigorous analysis of the potential corporate value of target companies indicates that we can heighten the value of their businesses.

#### Positioning of each business and management strategy

The three business segments will implement measures with a view to realizing earnings scale or profit margin in accordance with their respective portfolio positions.

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



# The Business Strategy of the Pachislot and Pachinko Machine Business

The Group will advance a new strategy in the Pachislot and Pachinko Machine Business segment to establish a lean system that overcomes tough competitive conditions and generates earnings stably.

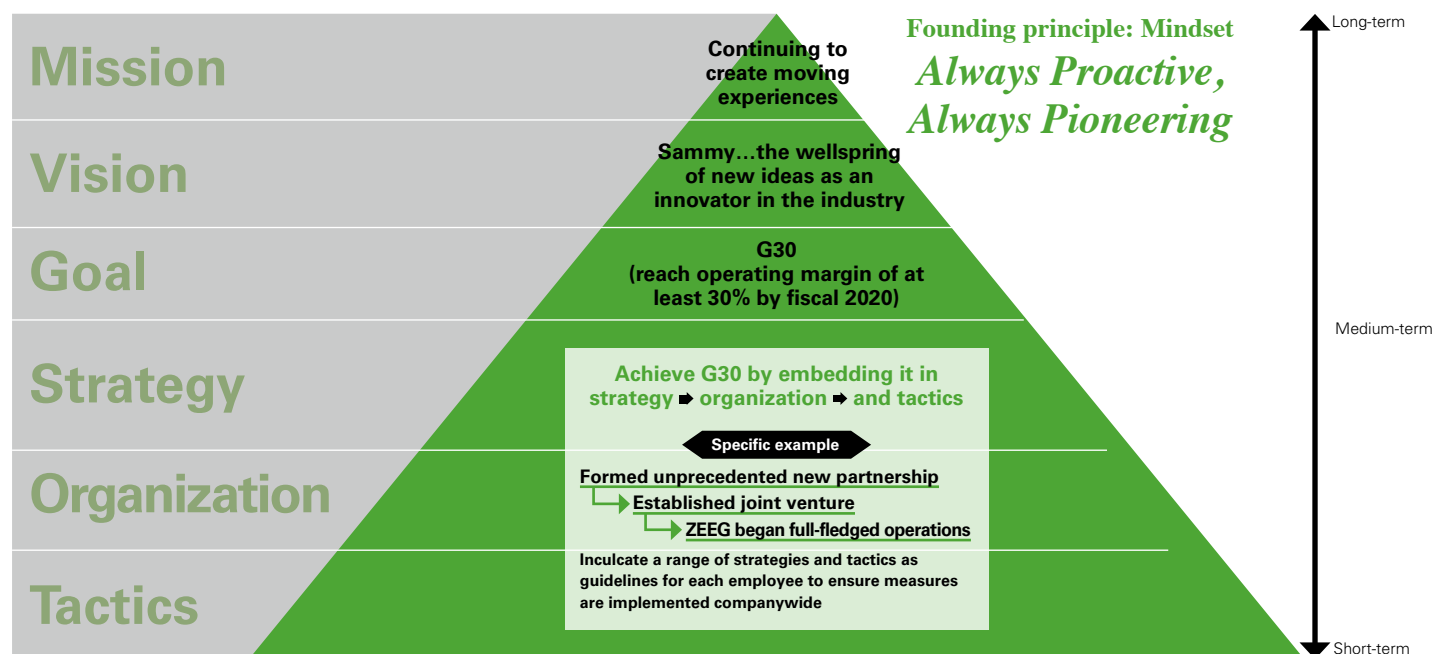
## Initiating Measures in the Pachislot and Pachinko Machine Business Aimed at Reaching G30

The pachinko and pachislot machine industry is facing extremely challenging business conditions due to a player population that is declining as leisure activities among the young generation diversify, the industry's reliance on strong gambling elements, and hikes in development costs and other costs. In response, as a stable revenue / maintain business, the Pachislot and Pachinko Machine Business segment strengthened earnings by consolidating development and manufacturing bases and offering voluntary early retirement in fiscal 2016. Having solidified foundations in this way, in fiscal 2017 we introduced a mission pyramid and set reaching an operating margin of at least 30% by fiscal 2020, or G30, as our new target.

The first two levels of the mission pyramid comprise a mission summarizing Sammy's reason for existence and a vision setting out a

target profile. The remaining layers are a specific goal for realization of the vision, a strategy for reaching the goal, an organization for implementing the strategy, and tactics for each area. In accordance with the companywide mission pyramid, each division has prepared a mission pyramid. By inculcating the mission pyramids in each employee, we will ensure companywide implementation of measures.

To build mission pyramids, we have formed an organization spanning in-house organizations, the Cross Functional Team, tasked with examining and implementing concrete measures for the enhancement of earning power and the profit margin.



## Aiming to Reach G30

With a view to achieving G30, we will improve costs significantly by revising the multibrand strategy so that we can efficiently leverage previously dispersed in-house resources, and by maximizing reuse benefits through a greater emphasis on common components and component reuse in designs. Further, we will increase business efficiency and revitalize the pachinko and pachislot machine industry by forming unprecedented business collaborations with industry peers

with which we have had solely competitive relationships. Already, in March 2016 we established a joint venture, ZEEG Co. Ltd., with Universal Entertainment Corporation, which was exclusively a competitor. The joint venture has begun creating synergy benefits and improving cost efficiency through component procurement and exploitation of both companies' hardware know-how.

## The Birth of the Industry's Strongest Trump Card: ZEEG

Universal Entertainment and Sammy Corporation have established a joint venture, ZEEG. The company's name is a combination of "zee," referring to the last letter in the alphabet, and "egg." The joint venture is providing standardized units and components that are highly secure and versatile. Also, the new company will enable technology tie-ups that result in the marketing of mold-breaking entertainment. For both companies, the joint venture will create synergy benefits by establishing an efficient earnings structure combining heightened entertainment value based on technological innovation and enhanced cost performance. We will advance this collaborative relationship on a long-term basis, with our sights set on inviting other manufacturers to join the initiative and establishing standardized platforms for pachinko and pachislot machine cabinets and components in the industry. Our goal is to revitalize the entire industry.



Details of business collaboration:

Development, manufacture, and sale of machine cabinets and next-generation machine cabinets

## Initiatives Aimed at Revitalizing the Industry

We aim to revitalize the industry not only through the beginning of operations at ZEEG but also through farsighted measures. To revitalize the industry, it is essential to put a brake on the decline in the player population and attract new players centered on the young generation. Therefore, we intend to step up marketing directly focused on players. We will mobilize inactive players and attract new players to pachinko halls by taking advantage of our unique resources as a comprehensive entertainment corporate group to communicate directly with players.

For example, we plan to communicate with them through the joint holding of the Sammy Festival and Universal Carnival fan events; the *Sammy 777 Town* website of Sammy Networks Co., Ltd.; *Pachi Gabu!* website, which provides the latest information on pachislot and pachinko machines; and the *MAX BEAT!!* event, which features uplifting live performances that enable fans to experience the worlds and visual displays of Sammy's pachislot and pachinko machine content.

## Thinking Out of the Box

### Increased Cost Efficiency

Maximization of reuse benefits, etc.

### Expansion of Fan Base

Holding of events for fans  
Direct communication with players, etc.

### Revitalization of the Industry

Strengthening of collaborations with industry peers  
Establishment of joint venture ZEEG, etc.



We will implement growth strategies to get earnings back on a growth track.

# Act



# ion

# Pachislot and Pachinko Machine Business

## Fiscal 2016 Summary

Although series with established track records posted steady sales of pachislot machine titles, such as *Pachislot Hokuto No Ken Tomo*, *Pachislot Nisemonogatari*, and *Pachislot Onimusha3 Jikuu Tenshou*, other title sales flagged. As a result, sales decreased 32% year on year, to 142,000 units. In addition, sales of pachinko machines declined 18% year on year, to 199,000 units, as solid sales of *Pachinko CR Shin-Juoh 2* and *Pachinko CR Shin Hokuto Muso*, which incorporates a new frame as well as new LCD images and gimmicks, did not completely compensate for the temporary effect of structure reform and the absence of the previous fiscal year's major title launches. As a result of the above, the business segment recorded year-on-year decreases of 12.8% in net sales, to ¥132.7 billion, and 16.4% in operating income, to ¥21.5 billion.



*Pachinko CR Hokuto No Ken 6 Tenshou Hyakuretsu*  
©Buronson & Tetsuo Hara/NSP 1983,  
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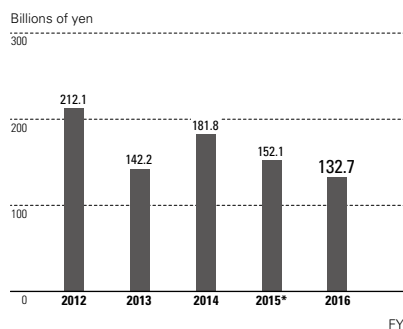


*Pachislot Hokuto No Ken Tomo*  
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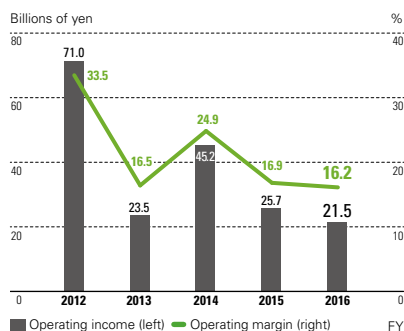
*Pachinko CR Shin Hokuto Muso*  
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### Net Sales

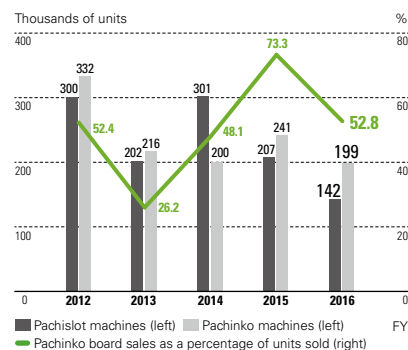


\* As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal 2016, figures for fiscal 2015 reflect these changes retrospectively.

### Operating Income / Operating Margin



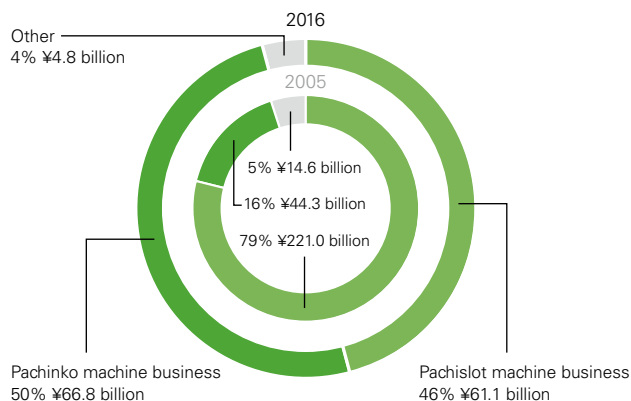
### Pachislot and Pachinko Machine Unit Sales



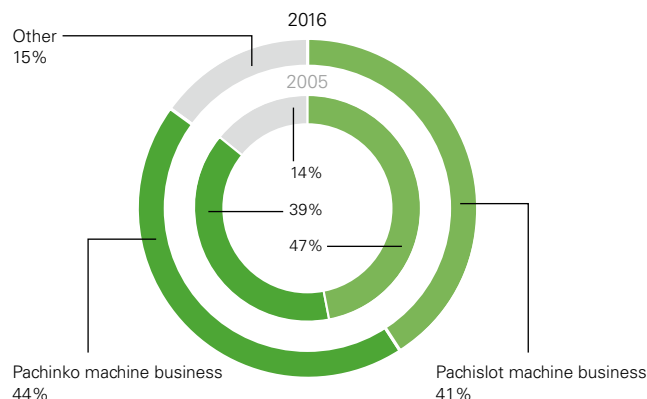
## Business Portfolio

By strengthening development capabilities and brand power for pachinko machines, we are building a business portfolio that has a well-balanced mix of pachislot and pachinko machines and is able to withstand changes in conditions.

### Net Sales Breakdown



### Development Personnel by Segment



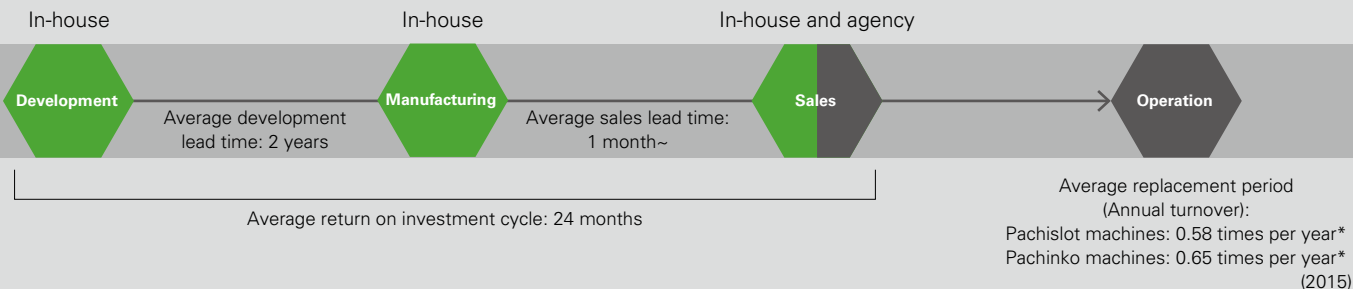


## Business Cycle of the Pachislot and Pachinko Machine Business

For most new pachinko and pachislot machines, the key to sales strategies is analyzing market trends and timing launches to gain a strategic advantage over competitors. On average, however, the development of pachinko and pachislot machines takes about two years. To reduce the risk of mismatches between development and marketing schedules, we are diversifying our product lineup through the establishment of multiple development lines, the creation of low-cost pachislot and pachinko machines, and the shortening of development lead times.

### Supply Chain of the Pachislot and Pachinko Machine Business

● In-house ● Other company



\* Sources: The Company's calculations based on data from the National Police Agency and Yano Research Institute Ltd.

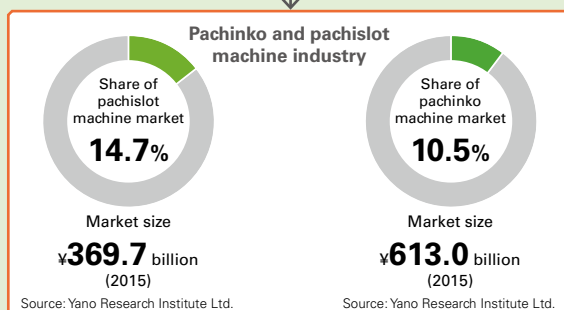
## Industry Trends Snapshot

Factors affecting the pachinko and pachislot machine industry include regulatory changes, the financial position of pachinko hall operators, players' preferences, and other entertainment trends.



### Supply side: Component manufacturers

Component costs continuing to rise due to advances in liquid crystal (LC) and board technology and yen depreciation



### External factors

#### Model-testing rules and internal regulations of industry

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.

▶ P.55

### Companies entering market

#### Substitute products Diversification of entertainment

The young generation is leaving the pachinko and pachislot market as entertainment diversifies, with smartphone apps being a representative example.



### Potential barriers to market entry

Development of manufacturing bases, development of sales channels, and accumulation of development capabilities centered on staging capabilities

### Demand side (1) Pachinko halls

As declining player numbers reduce their investment capacity, pachinko hall operators are carefully selecting only those machines that generate return on investment consistently (machines with high utilization rates).

#### Number of pachinko halls

1996 **18,164** ▶ 2015 **11,310**

Source: National Police Agency

### Demand side (2) Players

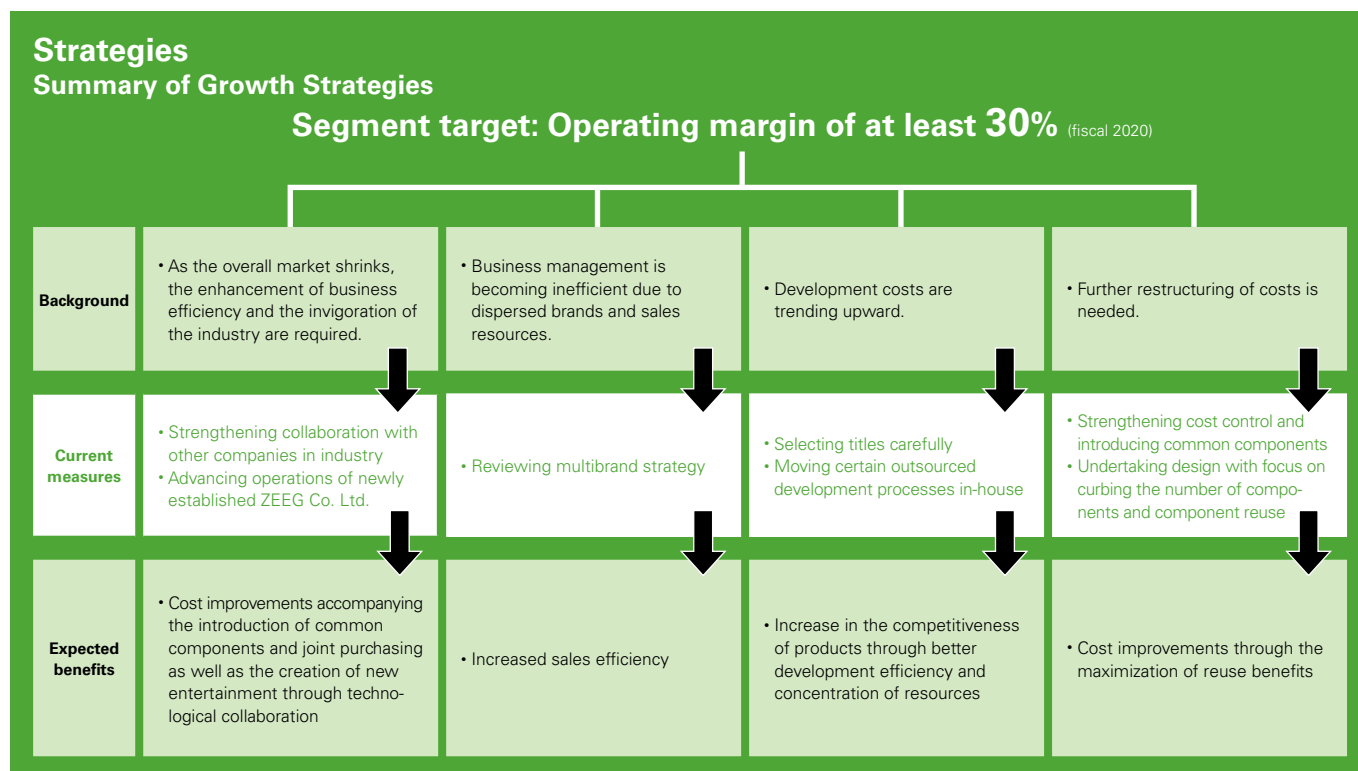
Player numbers are declining due to excessive gambling elements or changes in gameplay. As a result, pachinko halls' investment capacity is weakening.

#### Player population

1996 **27.6 million** ▶ 2015 **10.7 million**

Source: White Paper on Leisure Industry 2016, Japan Productivity Center

## Pachislot and Pachinko Machine Business



### Fiscal 2017 Outlook

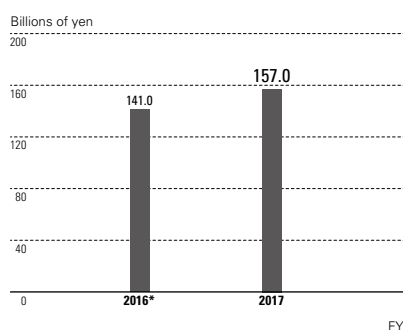
We plan to market multiple pachislot machine titles, including a new title in the mainstay *Hokuto No Ken* series, and grow sales by 88,000 units year on year, to 230,000 units. As for pachinko machines, we expect a 17,000 unit year-on-year decrease in sales, to 182,000 units, due to temporary market instability resulting from the adoption of a new agreement in relation to addiction countermeasures, which the pachinko machine manufacturers' industry association Nikkoso has concluded.

As a result of the above, the business segment is targeting net sales of ¥157.0 billion, compared with net sales of ¥141.0 billion\* in fiscal 2016. The business segment is targeting operating income of ¥19.0 billion, compared with operating income of ¥20.9 billion\* in

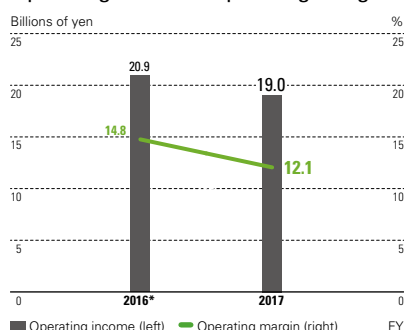
fiscal 2016, as the current fiscal year coincides with a period of widespread adoption of new frames and components.

Also, the Pachislot and Pachinko Machine Business segment will support industry associations' initiatives to enhance the soundness of the pachinko and pachislot machine industry. We will recall and remove "pachinko and pachislot machines classified as having strong gambling elements" and "pachinko machines that may perform differently from tested pachinko machines" and replace them with appropriate pachislot and pachinko machines, thereby enhancing the soundness of the pachinko and pachislot machine industry.

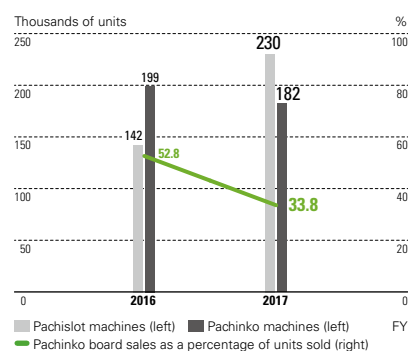
#### Net Sales



#### Operating Income / Operating Margin



#### Pachislot and Pachinko Machine Unit Sales

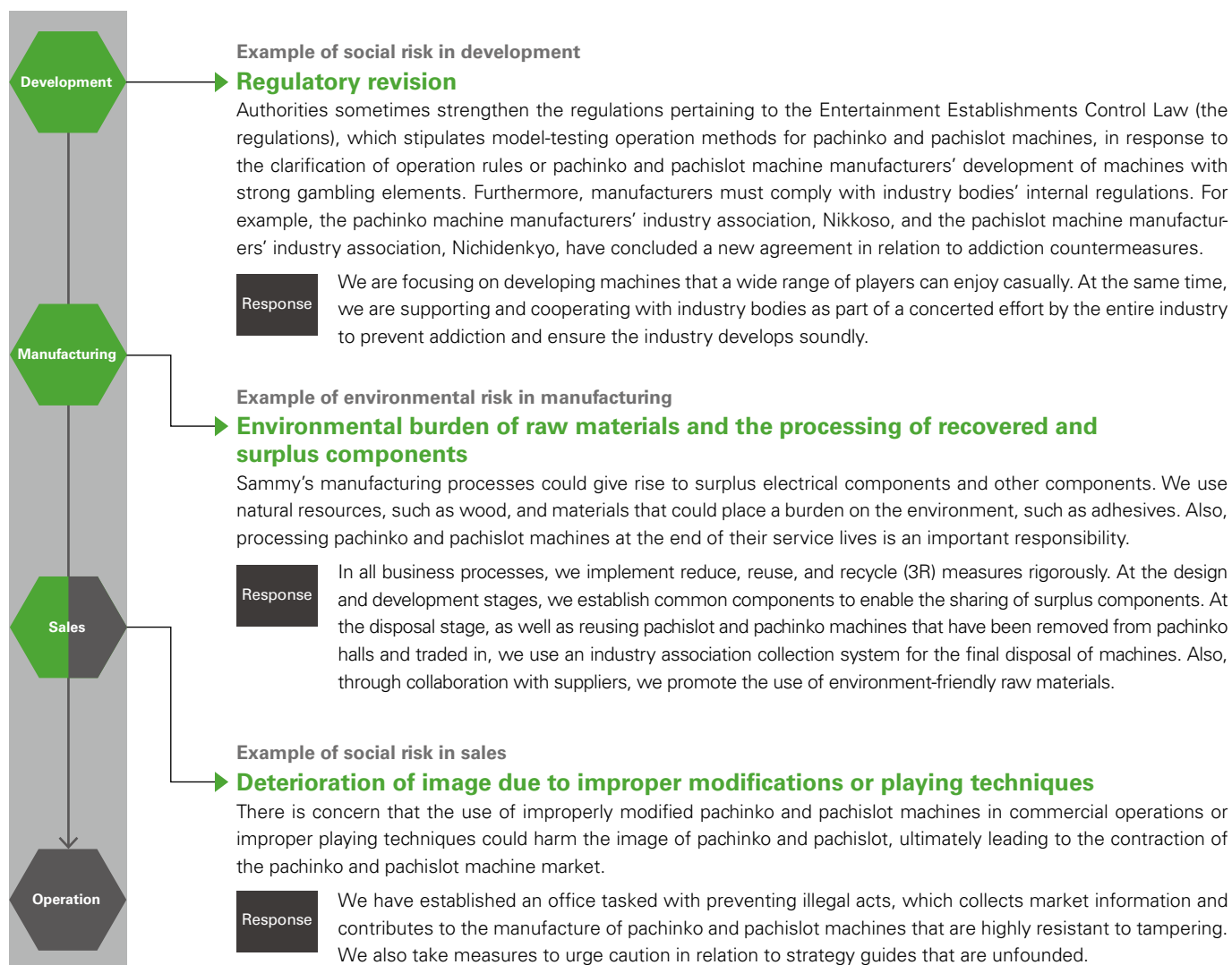


\* Figures for fiscal 2016 have been retrospectively revised to reflect the Group's transfer of certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment in fiscal 2017.

## ESG Risks and Responses in the Value Chain

In the Pachislot and Pachinko Machine Business segment, we prevent the impairment of corporate value by carefully analyzing the environmental, social, and governance (ESG) risks with the potential to halt respective business processes from development through to sales, incur additional costs, or damage brand value.

 In-house
  Other company



Pachislot Nisemonogatari  
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ANIPLEX, SHAFT  
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©Sammy



Pachislot Onimusha3  
Jikuu Tenshou  
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For details,  
please see  
**SEGA SAMMY Group**  
**CSR Report 2016.**



# Entertainment Contents Business

## Fiscal 2016 Summary

In the digital game area, we revalued assets for titles that did not become as popular as initially hoped, such as new online games designed for Asia's markets that we rolled out in South Korea and certain titles for smart devices. Also, advertising expenses and other costs rose. The packaged game software area recorded lower revenues due to its reduction of the number of titles on the market. However, the amusement machine sales, the amusement center operations, and animation and toy sales areas grew revenues by strengthening product appeal and operational capabilities.

Despite the above efforts, the business segment's revenues edged down 0.4% year on year, to ¥198.8 billion. Nonetheless, thanks to the improved profitability of existing businesses resulting from restructuring implemented in fiscal 2015, the business segment achieved operating income of ¥3.6 billion, compared with ¥63 million in the previous fiscal year.

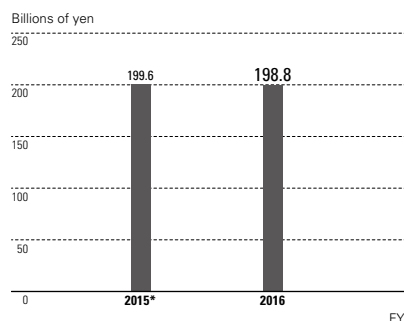


CHUNITHM PLUS  
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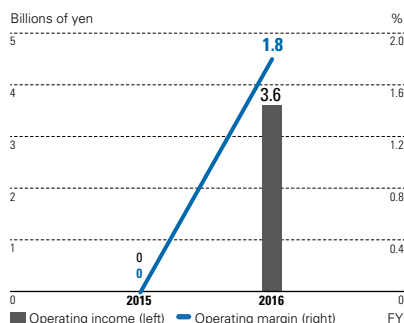
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### Net Sales



\* 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.

### Operating Income / Operating Margin



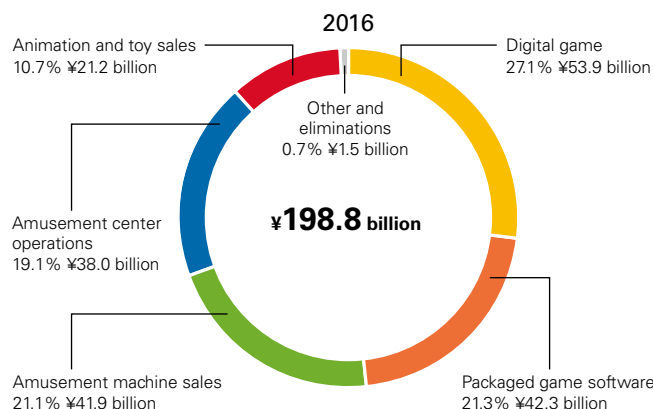
Puyopuyo!! Quest  
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## Business Portfolio

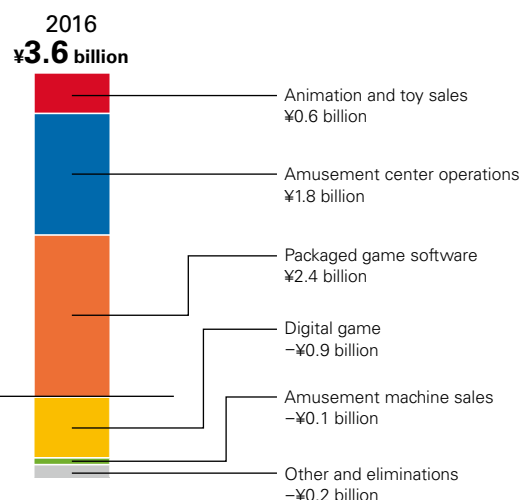
While the concentration of management resources in the digital game area is boosting its sales, other businesses' sales are flattening or declining as we optimize business sizes to match market sizes. With its

business results in fiscal 2016 being an exception, the digital game area usually accounts for the majority of the business segment's earnings. Also, the earnings of other existing businesses are improving steadily.

### Net Sales Breakdown

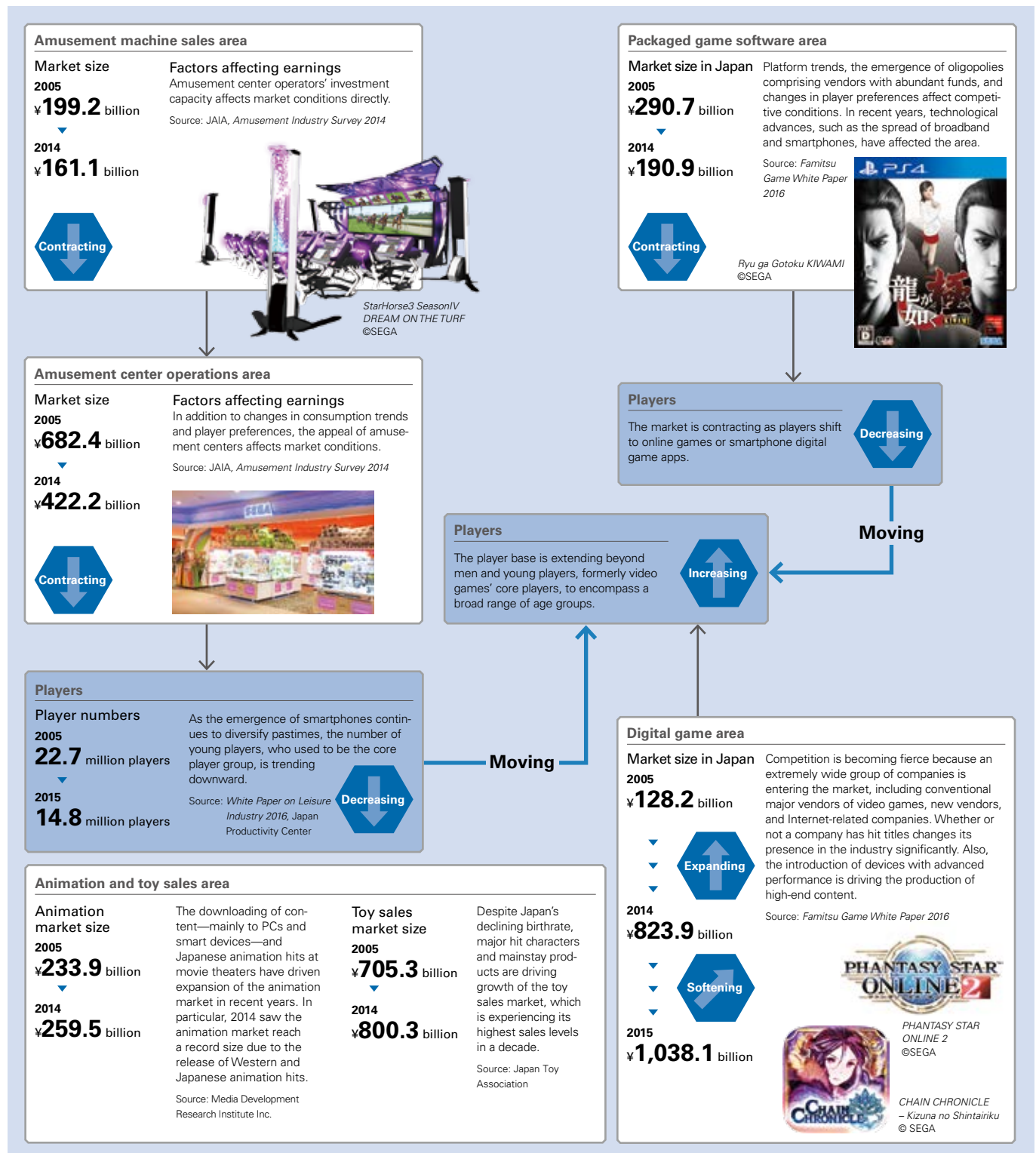


### Operating Income (Loss)



## 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.



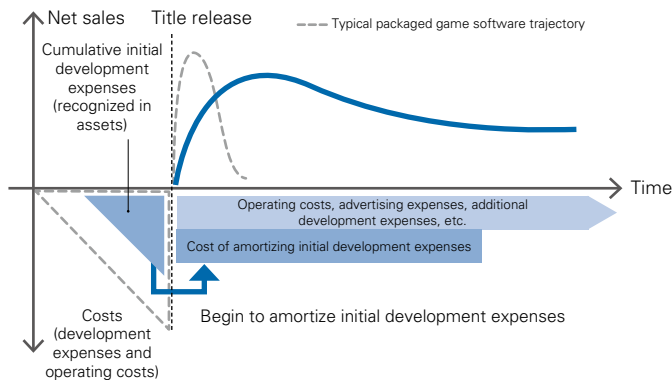


## Entertainment Contents Business

## Business Model ▶ Digital Game Area (1)

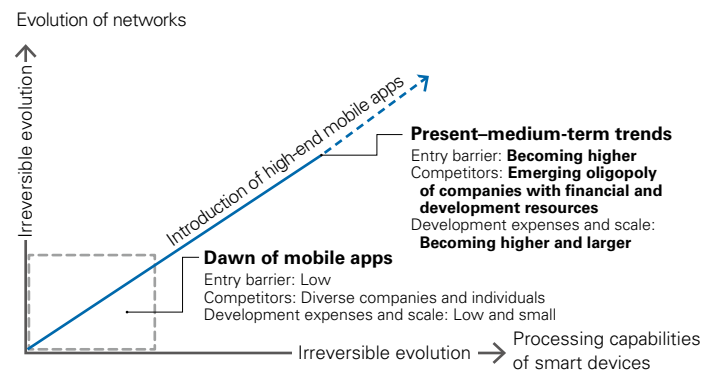
In the digital game market, apps are likely to become increasingly high-end as devices with more advanced performance emerge. In this type of market, the SEGA SAMMY Group will have the upper hand because it has the resources to support longer development lead times and their attendant development expenses.

## Earnings in a Free-to-Play (F2P) Business Model



Note: Initial development expenses for packaged game software are amortized over certain periods in accordance with sales results.

## Changes in Competitive Conditions as High-End Devices Emerge



## Business Model ▶ Digital Game Area (2)

The *Noah Pass* system is a marketing support tool that primarily enables apps to attract customers for each other and send customers to each other. Partly because it is free and unrestricted, the system is expanding steadily, accounting for a total of 145.3 million connected devices on a cumulative basis, 12.3 million players per month, 135 participating companies, and a cumulative total of 784 titles. By using the system as a platform, we are expanding advertising services for non-digital-game businesses by collaborating with a variety of IT

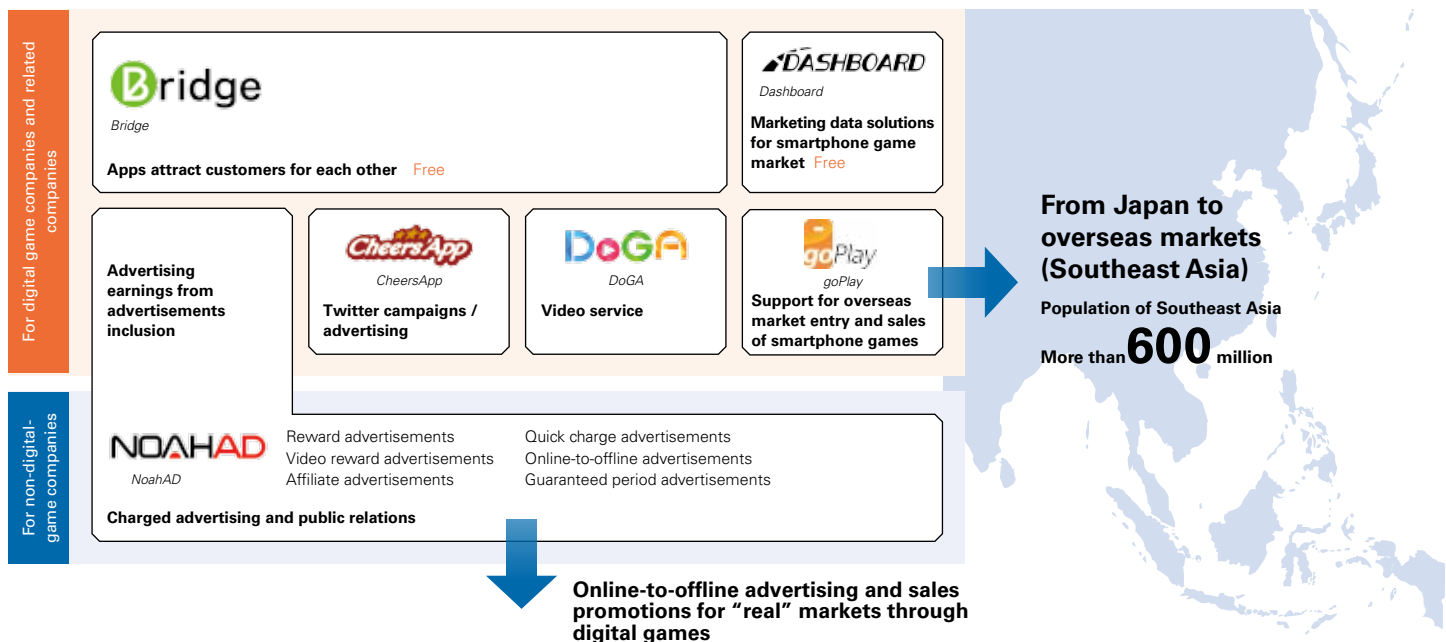
companies and companies with traditional businesses outside the digital game area. In Japan, we offer charged advertising, mainly through advertising network and marketing data solutions. Overseas, we are advancing the *goPlay* global publishing support service, which reduces business development costs for companies aiming to roll out products in the emerging markets of such countries and regions as Russia, Southeast Asia, and South Asia.

**NOAH**  
P A S S

Total cumulative connected devices: **145.34 million**  
Players per month: **12.36 million**

Participating companies: **135**  
Titles: **784**

As of June 30, 2016



## Business Model ▶ Amusement Machine Sales Area

UFO CATCHER9  
©SEGA

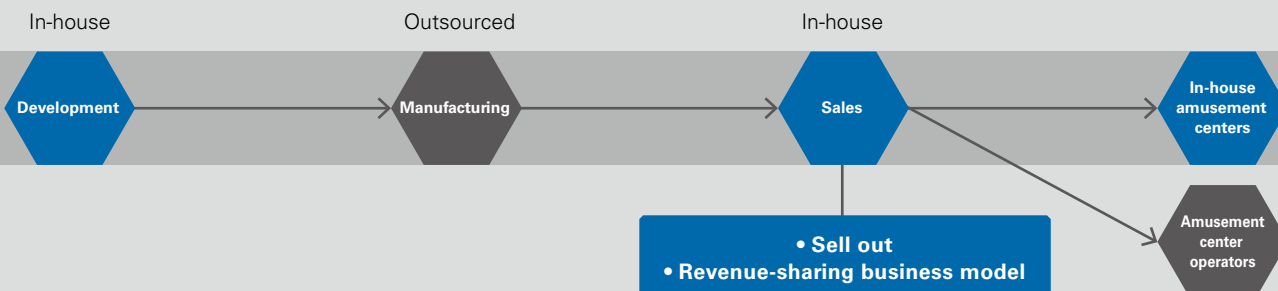


In the amusement machine sales area, we plan and develop products in-house but outsource manufacturing. In recent years, we have been introducing a range of business models aimed at lessening amusement center operators' investment burden and extending the player base.

### Supply Chain of the Amusement Machine Sales Business

◆ In-house

◆ Other company

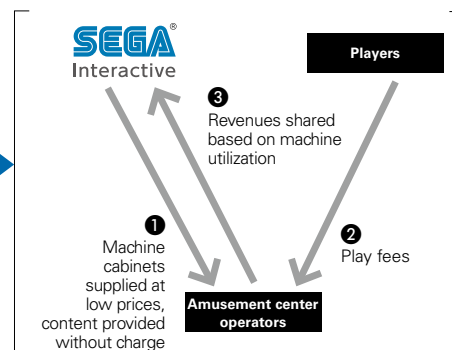


### CVT Kits

Amusement center operators use CVT kits to introduce the latest game content or replace the boards and exteriors of existing machines. CVT kits help lessen the investment burden of amusement center operators by enabling them to upgrade games without purchasing new machine cabinets.

### Revenue-Sharing Business Model

In the revenue-sharing business model, we provide low-priced machine cabinets and free content to amusement center operators, sharing revenues from the utilization of the amusement machines with them. Amusement center operators are able to introduce new products for a small initial investment. Although it lengthens the SEGA SAMMY Group's return-on-investment periods, this business model extends the Group's involvement beyond the sales of amusement machines and sustains earnings.



### Introduction of Electronic Money

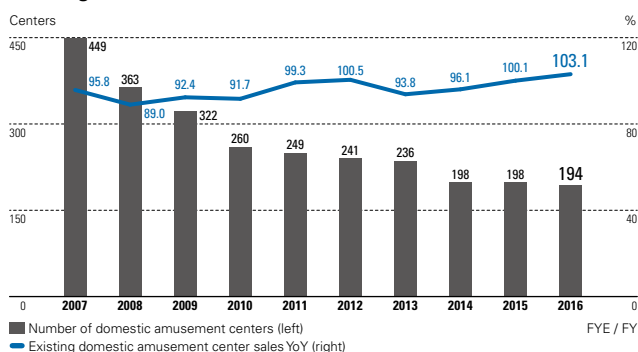
We are introducing electronic money to enable flexible adjustment of pricing, increase customer convenience through the realization of cashless payment, and heighten the efficiency of amusement center operations. Aiming to increase convenience for players and amusement center operators, we are partnering with competitors to build infrastructure that enables the use of a wide range of electronic money and which allows device manufacturers to provide a broad range of unique services.

## Business Model ▶ Amusement Center Operations Area

In Japan, we develop and operate amusement centers. By optimizing business size through continuous scrap and build and strengthening operational capabilities, we have realized one of the industry's highest levels of efficiency.



### Number of Domestic Amusement Centers\*1 / Existing Domestic Amusement Center Sales YoY\*2



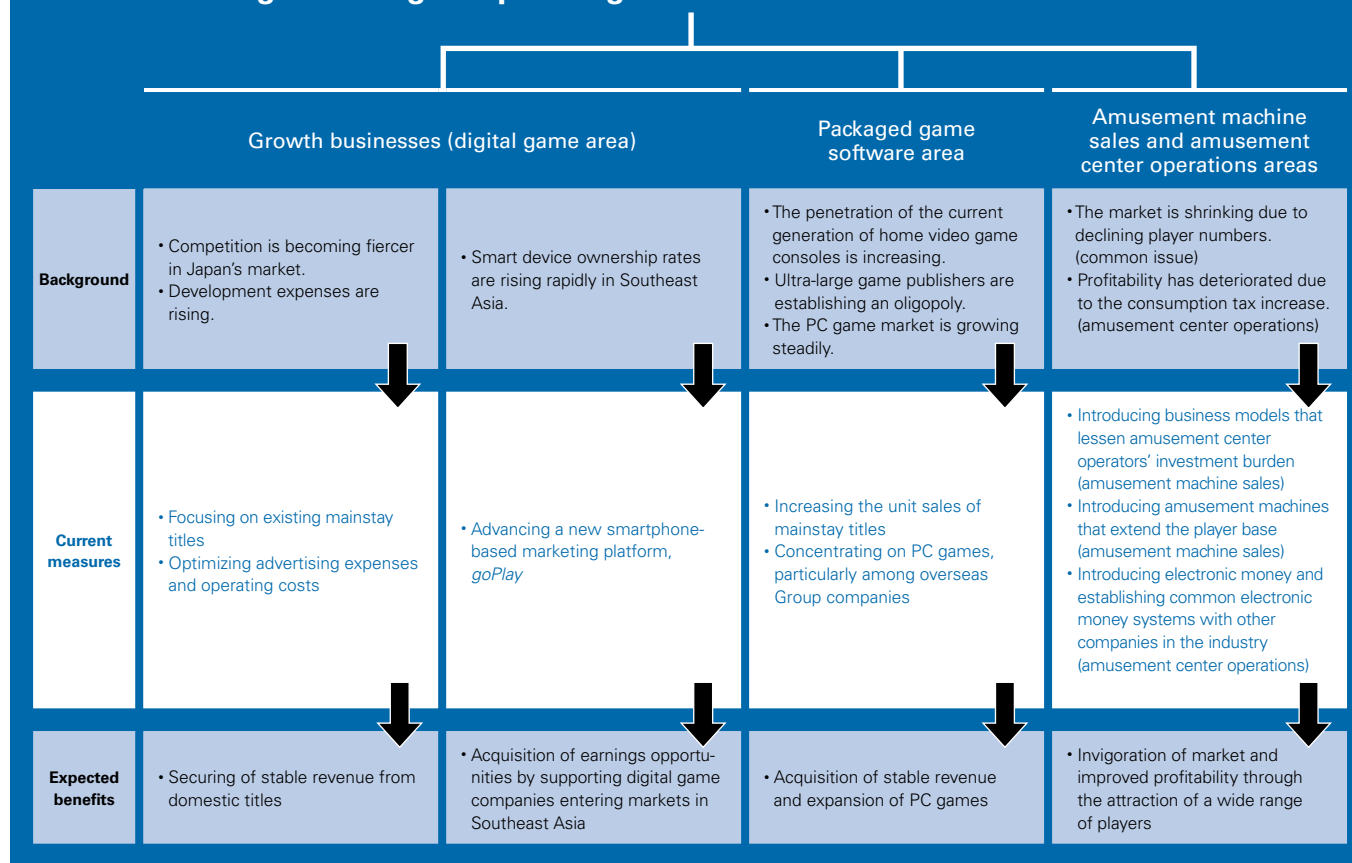
\*1 The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the aggregate calculation method for the number of amusement centers changed in fiscal 2014.

\*2 As a result of the abovementioned integration, the amusement centers classified as existing amusement centers changed in fiscal 2014.

## Strategies

## Summary of Growth Strategies

Segment target: Operating income of at least ¥20 billion (fiscal 2020)

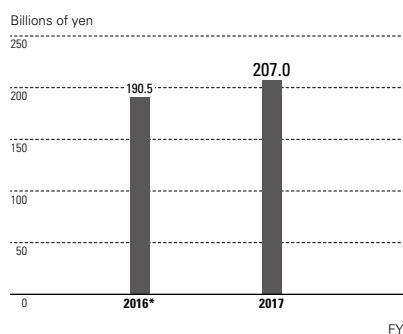


## Fiscal 2017 Outlook

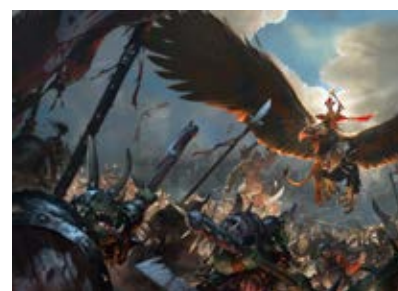
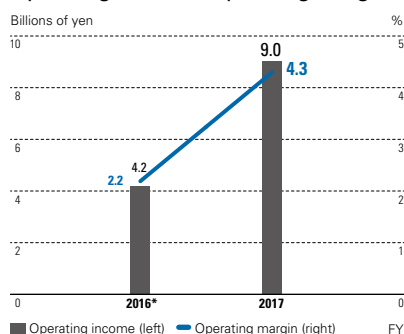
We plan to increase revenues in the digital game area by marketing new PC games.

In this area, we anticipate that improved profitability stemming from a focus on existing mainstay titles and the optimization of advertising expenses and operating costs will generate operating income of ¥8.0 billion, compared with an operating loss of ¥0.4 billion\* in fiscal 2016. As a result, the Entertainment Contents Business segment as a whole is expected to realize operating income of ¥9.0 billion.

## Net Sales



## Operating Income / Operating Margin



Total War: WARHAMMER

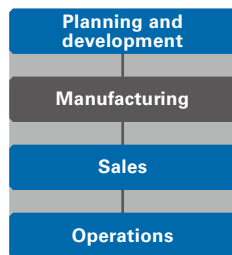
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\* Figures for fiscal 2016 have been retrospectively revised to reflect the Group's transfer of certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment in fiscal 2017.

## ESG Risks and Responses in the Value Chain

In the Entertainment Contents Business segment, which has businesses in a wide range of entertainment areas, we identify important ESG risks in light of the distinctive business models, customer groups, industry regulations, or societal expectations in each area and respond to them appropriately.

■ In-house ■ Other company



### Example of social risk in the digital game area

#### Excessive use by minors

In the digital game market, societal problems associated with minors who incur excessive fees when playing games based on the Gacha system, which encourages gambling, are not infrequent. This issue has led to calls for content vendors to take measures.

#### Response

For certain titles, we have enabled the use of age authentication to set upper limits on monthly fees. Also, we have established and implemented in-house guidelines to avoid the use of vague terms that can give players overly high expectations and to prevent the charging of excessive fees.



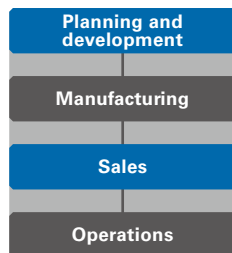
### Example of social risk in the digital game area

#### Customer support

Unlike packaged game software, digital games maintain contact between the provider and consumers. Therefore, the provision of ongoing support is necessary. Any shortcomings in such support could harm brands.

#### Response

Normally, we respond to customer inquiries through a player support helpdesk. If needed, however, we establish dedicated helpdesks. In September 2013, when a defect in an online game for PCs became apparent, we immediately disclosed the relevant information, corrected the defect, and established a dedicated helpdesk.



### Example of social and environmental risk in the amusement machine sales area

#### Compliance in relation to procurement

The amusement machine sales area has a fables 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.



### Example of social risk in the 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

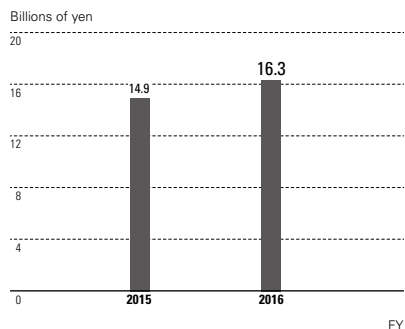
We educate employees based on an operational manual that clarifies how to respond appropriately with regard to restricting minors' access to venues and prohibiting smoking. In principle, we prohibit unaccompanied minors from entering amusement centers including restaurants that serve alcohol. If minors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

# Resort Business

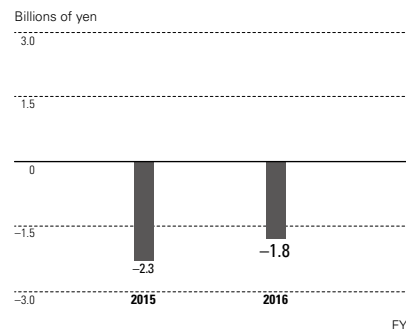
## Fiscal 2016 Summary

Net sales increased 9.5% year on year, to ¥16.3 billion, due to higher customer numbers at *TOKYO JOYPOLIS* and the opening of *QINGDAO JOYPOLIS*. Also, thanks to a rise in the average spending per customer of *Phoenix Seagaia Resort*, the operating loss improved to ¥1.8 billion, compared with an operating loss of ¥2.3 billion in the previous fiscal year.

### Net Sales



### Operating Income (Loss)



## Main Components of Business Portfolio

### Licensed facility SEGA REPUBLIC

Dubai



### Overseas integrated resorts *Paradise Casino Incheon* and *PARADISE CITY*

A joint venture operates *Paradise Casino Incheon*,\* which became South Korea's first casino exclusively for foreigners upon opening in 1967. Also, we are developing *PARADISE CITY*, which is scheduled to open in April 2017 as South Korea's first full-fledged integrated resort.

\* *Paradise Casino Incheon* is managed by *PARADISE SEGASAMMY Co., Ltd.*, which is an equity-method affiliate of *SEGA SAMMY HOLDINGS INC.*

### Large resort complex overseas Resort name: Undecided



### Theme park *TOKYO JOYPOLIS*

We have created one of the largest indoor theme parks in Japan. It offers new, progressive entertainment based on the "DigiReal" concept of integrating the digital and the real.



### Theme park *Orbi Yokohama*

This completely new type of museum recreates scenes from the natural world and gives visitors a visceral sense of the wonder of nature by combining the footage of *BBC EARTH* and SEGAs entertainment technologies.

### Theme park *UMEDA JOYPOLIS*



### Licensed facility *Orbi Osaka*



### Resort facility *Phoenix Seagaia Resort*

The resort includes accommodation facilities, such as *Sheraton Grande Ocean Resort*; a world-class convention center with a maximum capacity of 5,000 people; and sports facilities, including one of Japan's renowned golf courses, the *Phoenix Country Club*. In August 2016, *Sheraton Grande Ocean Resort* reopened following a major renovation that renewed guest rooms and a lounge.

### Theme park *QINGDAO JOYPOLIS*



### Licensed facility *SHANGHAI JOYPOLIS*

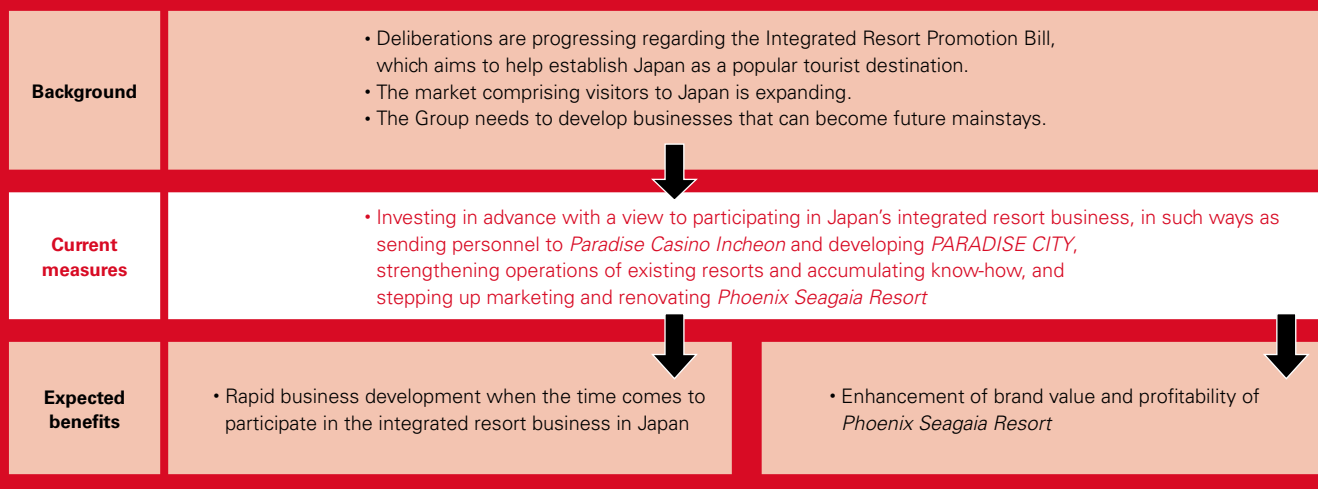
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## Strategies

### Summary of Growth Strategies

#### Segment target: Participation in the integrated resort business



## Fiscal 2017 Outlook

We expect to record a ¥2.5 billion operating loss, compared with a ¥1.8 billion operating loss in fiscal 2016, due to prior expenses in the integrated resort business and increased amortization cost arising from the largest renovation of *Phoenix Seagaia Resort* since it opened.

FY		2015	2016	YoY change	2017 (Plan)	YoY change
Net sales (Billions of yen)		14.9	16.3	+9%	16.0	-2%
Operating income (loss) (Billions of yen)		-2.3	-1.8	—	-2.5	—
<i>Phoenix Seagaia Resort</i>	Guests (Thousands of people)	643	571	-11%	570	—
	Average spending per customer (Yen)	14,468	15,845	+10%	16,902	+7%
<i>TOKYO JOYPOLIS</i>	Guests (Thousands of people)	614	687	+12%	650	-5%
	Average spending per customer (Yen)	3,426	3,545	+3%	3,723	+5%
<i>Orbi Yokohama</i>	Guests (Thousands of people)	400	323	-19%	371	+15%
	Average spending per customer (Yen)	2,283	2,282	—	2,050	-10%
<i>Paradise Casino Incheon*</i>	Casino net sales (Billions of KRW)	109	94	-14%	—	—
	Guests (Thousands of people)	58	48	-17%	—	—

\* The Group's equity-method affiliate PARADISE SEGASAMMY Co., Ltd., operates *Paradise Casino Incheon*. Figures for *Paradise Casino Incheon* are three months delayed.

## ESG Risks and Responses in the Value Chain

■ In-house ■ Other company



### Example of social risk in the theme park area

#### Safety of facilities

An accident that results from inadequate safety precautions at facilities that have large attractions on which customers ride could lead to the suspension of operations or brand damage.

#### Response

We check the safety of large attractions through reviews and diagnostic analysis at development stages. Also, we regularly conduct voluntary inspections of the management and control of such attractions based on a 100-item, in-house checklist.

## Discussion: The Governance of the SEGA SAMMY Group



**Yuji Iwanaga**  
Outside Director

**Takeshi Natsuno**  
Outside Director

**Two of the outside directors of SEGA SAMMY HOLDINGS exchanged opinions about the role outside directors should play in strengthening corporate governance of the Group, the type of corporate governance it should seek, growth strategies it should tackle, and other related management issues.**

### Overall Evaluation of Corporate Governance

**Natsuno** Partly because it is in a business where putting one foot wrong in measures for pachislot and pachinko machines or amusement centers can lead to criticism from society, the SEGA SAMMY Group has adopted a rigorous approach to corporate governance, compliance, and disclosure. Also, the Group has become more proactive in the appointment of outside directors. Japan's Corporate Governance Code calls for companies to appoint at least two outside directors. For this reason, many companies are appointing outside directors for the first time or increasing the number of outside directors. Among these companies, I have heard of some that are complying with the code and appointing outside directors reluctantly. However, SEGA SAMMY HOLDINGS appointed two outside directors in 2007—long before the establishment of the Corporate Governance Code. Moreover, the Group appointed an additional outside director in 2016. As a result, three of its eight directors are outside directors. I do not feel the Group has simply appointed outside directors; rather, it has established an appropriate culture in which outside directors can state opinions freely and business management reflects their recommendations and criticisms.

**Iwanaga** Yes, there have been times when outside directors' opinions have triggered complex discussions that have ultimately led to the withdrawal of proposals.

**Natsuno** I believe that is how a board of directors should be. As well as providing external knowledge and expertise, outside directors should encourage lively debate. If processes only include internal directors, they may discuss matters before submitting them to the board of directors for approval. In such cases, because having a proper discussion at the meeting of the board of directors is difficult, outside directors need to interject. I think meetings of the board of directors that rubber stamp proposals are meaningless.

**Iwanaga** In 2015, the Group established the Independent Advisory Committee.\* I think the creation of a formal forum that facilitates communication between the senior management team and outside directors and outside Audit and Supervisory Board members is really beneficial. Also, because we have recently had the opportunity to attend meetings of the Group Management Strategy Committee, we are able to understand the development of proposals before submission to the Board of Directors. I feel this helps us have discussions that are more in-depth.

\* Please see page 68.

**Natsuno** I think that precisely because outside directors do not always understand matters, they are in a good position to point out that things do not add up when a proposal seems irrational. Therefore, I ask the secretariat not to tell me too much about proposals or situations before meetings of the Group Management Strategy Committee or the Board of Directors. The Group did not establish the Independent Advisory Committee as a formality; it has really lively discussions. At meetings of the committee, I state opinions without reservation. Although, I have never been one to shy away from saying what I think.

**Iwanaga** Because I am a lawyer by profession, I choose my words carefully in certain situations. However, because I am also the type of person who clearly says what needs to be said, I have never held back in any way from pointing out issues. When examining agenda items submitted to the Board of Directors, I use the same rule of thumb to reach a decision: whether or not a proposal is good for the SEGA SAMMY Group. To be more specific about what is “good for” companies, decisions that contribute to the long-term enhancement of corporate value benefit shareholders without a doubt. Further, this should be an attribute of all decisions. I even think that shareholders who only focus on shareholder returns should not be valued.

**Natsuno** I think you are exactly right. Although we talk about things being “for shareholders,” there is essentially no conflict between shareholders and business managers. I think companies with effective corporate governance are companies that do not see their relationship with shareholders as confrontational. There are many positive aspects to companies in which the president owns more than half of the shares, including rapid decision making, interests that coincide with those of shareholders, business management based on a long-term viewpoint, and a willingness to incorporate external opinions. On the other hand, rather than whether or not directors are acting to benefit a

company, directors making statements and acting in a manner that panders to the majority shareholder’s inclinations is a danger that requires care. In other words, there is a potential conflict of interests with minority shareholders. Therefore, in my view our role is to provide oversight in this regard.

**Iwanaga** To put it another way, using “whether or not a proposal is good for the SEGA SAMMY Group” as a criterion means focusing on the development of a “good corporate group.” A good corporate group is one that benefits stakeholders in a balanced manner. For example, balanced measures are called for due to the partial conflict of interest between shareholders who seek short-term gain and those who expect long-term enhancement of corporate value. Of course, companies must carefully consider balance not only in relation to shareholders but in relation to diverse stakeholders who share the benefits of companies, including employees, local communities, and business partners. I believe it is also the responsibility of outside directors to provide oversight with respect to whether these conflicting interests are treated in a balanced manner and whether decision making is biased in favor of certain stakeholders. Also, as a lawyer, I keep a sharp eye on compliance. I think the Group’s strong commitment to conducting rigorous internal audits is praiseworthy. However, because the complete penetration of these efforts will take time, I request rigorous reporting on progress.

## Issues

**Natsuno** When proposals are submitted to the Board of Directors, in some cases they are based on logic that only makes sense from an in-house viewpoint. Based on a tacit understanding, internal directors tend to refrain from expressing opinions to one another. However, I focus on achieving appropriate discussions by clearly pointing out that other companies would not approve resolutions based on this type of logic. Particularly in periods like the one we

**As well as providing external knowledge and expertise, outside directors should play a role that counters insiders’ logic and encourages appropriate debate.**



## Discussion: The Governance of the SEGA SAMMY Group



**To enable the development of a “good corporate group,” I focus on ensuring balanced treatment of the interests of all stakeholders that support the Group—including shareholders, employees, local communities, and business partners.**

are in at the present, which is characterized by volatile external conditions, in-house and external views of events can diverge markedly. Therefore, caution is called for due to the risk of actions based only on in-house logic resulting in tardy responses.

**Iwanaga** Certainly, we must take care with respect to the kind of insiders’ logic that can prevail among a group of people who are highly familiar with an industry. However, all insiders’ logic is not necessarily bad. I think there are likely to be reasons for it, so I try as far as possible to understand how insiders arrive at their conclusions.

**Natsuno** In my response to the evaluation of the effectiveness of the Board of Directors, conducted in May 2016, I stated that, due to the significant differences between business areas, there is a tendency for directors to express opinions actively about businesses for which they are responsible but not to express opinions very actively about other businesses. Although the Group’s Board of Directors is diverse as a result of operating businesses in a wide range of entertainment fields, I think more “friction” is needed to make full use of this diversity. Friction is the source of innovation. Also, issues previously unseen or overlooked. And, discussions and measures to overcome such issues will strengthen the Group’s business management. I think a task going forward is to cultivate an atmosphere in which there is more exchange of challenging opinions across the boundaries of business areas.

**Iwanaga** I also think exchanges of opinions among officers are needed. Within the Group, there are officers who do not make statements about other subsidiaries’ businesses because the subsidiaries for which these officers are responsible are in different industries and the officers lack expertise in those industries.

Instead, given that there are probably things that such officers can see precisely because they are not immersed in other businesses, I would like them to make statements as if they were the outside directors of other subsidiaries.

## Integrated Resorts

**Natsuno** Initiatives to tackle integrated resorts exemplify the proactive business management that Japan’s Corporate Governance Code promotes. At present, uncertainties associated with existing businesses are increasing. Neither the Group nor any other corporate entity can say with certainty that it will grow stably over the next 10 or 20 years. Therefore, in spite of the inherent risk, seizing the opportunity that integrated resorts present makes sense, and I support this management decision.

**Iwanaga** I think doubts about taking on the challenge of integrated resorts are rooted in a view that there are many uncertainties and that integrated resorts are a special type of business. Admittedly, parts of this business area are currently prohibited in Japan. However, integrated resorts operate in many other countries. I have no objection to the Group tackling integrated resorts. The business area is unknown to most companies in Japan. Because the Group has the ability to utilize know-how and resources acquired through operations for pachislot and pachinko machines, amusement machine sales, and amusement centers it has a strong affinity with integrated resorts, and I think they represent an excellent opportunity.

**Natsuno** Overall, I could not agree more. However, with regard to strategic measures aimed at realizing integrated resorts, I do not think venturing into any business that is related to the Group’s



existing businesses is acceptable. Therefore, I intend to analyze business ideas to determine whether they will really contribute to the realization of long-term goals. And, I will continue sounding an alarm bell if decision making strikes me as simplistic.

## Medium-Term Management Plan and Sustained Development

**Natsuno** The Group has announced its first medium-term management plan, which sets out priority management benchmarks and goals. Currently, the Group is still in the process of regaining a growth trajectory. The regulation of pachinko and pachislot machines is becoming stricter. Clearly, that trend is not going to change, and we cannot expect the Group's businesses to continue realizing the high levels of earnings of days gone by. The Group has established a clear strategy for its earnings structure. Previously it relied on Sammy as a single pillar. Then, as a second pillar, the Group added the former SEGA Corporation. From a long-term perspective, the Group aims to build integrated resorts into a third pillar. All that remains is for the Group to focus efforts on implementing the strategy. In particular, the SEGA Group undoubtedly has the competence to heighten its presence in the PC online game area and in apps for smart devices. Accordingly, I would like to see this group realize its true strength during the period of the medium-term management plan.

**Iwanaga** Although regulations are becoming stricter in the pachinko and pachislot machine industry, there have been some positive developments in the SEGA Group recently. Meanwhile, the SEGA SAMMY Group is establishing a new business area. However, given the numerous uncertain factors facing the Group, I cannot say that I am 100% sure that it will reach its targets. Nonetheless, I share

with internal directors and executive officers a determination to achieve a certain level of progress toward targets.

**Natsuno** To achieve the targets of the medium-term management plan and sustain growth thereafter, the Group will have to continue taking on such new challenges as integrated resorts and focus on business management that realizes employees' potential fully. A problem all Japanese companies face is that if employees can receive salaries and employment until retirement by working in an orthodox fashion, a relationship of mutual dependence inevitably develops between managers and employees, and competitiveness dissipates steadily. I think the SEGA SAMMY Group should aim to be a corporate group that creates systems which remove such dependence, maximize individual talents, and provide compensation befitting employees' capabilities and performance.

**Iwanaga** I also think that personnel are the most important factor. Looking ahead to the shape of future entertainment, it is critical to foster employees who have the sensitivity to contribute to progressive operations. However, the Pachislot and Pachinko Machine Business segment, the amusement center operations area, and integrated resorts are all in very challenging industries where each revision of related regulations changes business conditions dramatically. Consequently, even if business plans are prepared, in many cases operations do not proceed as expected. With this in mind, the Group has to build up strength that will enable it overcome changes in conditions through independent efforts. To this end, it is vital that the Group secures talented personnel and creates an environment that allows them to work efficiently. Furthermore, by ensuring that the management vision is shared and concrete strategies are implemented throughout its organization, the Group will steadily approach the goals for fiscal 2020 and sustain progress thereafter.





# Corporate Governance System

## Corporate Governance System at a Glance (As of June 30, 2016)

Format	Audit and Supervisory Board member system
Reason for adoption of format	Based on the view that this system enables directors to make prompt, optimal management decisions amid volatile business conditions based on their wealth of expertise and experience regarding the industry, market trends, products, merchandise, and services
Directors	8
Of whom, outside directors	3
Voluntary committees	Independent Advisory Committee
Term of directors	1 year
Incentives granted to directors	Introduction of stock option system
Individual disclosure of directors' compensation	Disclosure only for directors with total compensation of ¥100 million or more
Audit and Supervisory Board members	4
Of whom, outside Audit and Supervisory Board members	2
Independent directors	5 (3 outside directors, 2 outside Audit and Supervisory Board members)
Independent auditor	KPMG AZSA LLC
Term of auditing contracts	Renewed annually
Adoption of executive officer system	Yes

### Main Measures to Strengthen Corporate Governance

1. Disclosed reasons for appointment of internal directors and Audit and Supervisory Board members
2. Established Independent Advisory Committee, comprising only independent outside directors and independent outside Audit and Supervisory Board members
3. Increased number of outside directors by one
4. Reduced number of directors by one
5. Disclosed medium-term management strategy and targeted management indicators

### Main Functions

- Analyzing and assessing effectiveness of Board of Directors
- Participating in decision-making process for compensation of directors
- Assessing candidates for positions of director and Audit and Supervisory Board member

### Basic Stance

SEGA SAMMY HOLDINGS and the SEGA SAMMY Group regard corporate governance as the most important foundation of corporate activities. Therefore, we have set forth Basic Policies on Corporate Governance consisting of three major corporate management tenets: enhance efficiency, secure a sound corporate organization, and increase transparency. These policies form the basis for addressing such important management issues as selecting Board candidates, deciding compensation for directors, implementing management oversight, and deciding compensation for Audit and Supervisory Board members. Further, the Company and the Group regard corporate social responsibility (CSR) activities as enabling the Group's sustained value creation and the ongoing advancement of stakeholders. To respond appropriately as a good corporate citizen to a wide range of social needs and expectations, the Group has established the Group CSR Promotion Office, which is dedicated to such activities. We have also established the Group Management Philosophy, the Group CSR Charter, the Group Code of Conduct, and the Group Management Policy, which are the foundations for our CSR activities. In addition, we establish or revise various in-house rules and manuals, which directly regulate and guide specific types of operational duties. Based on these structures, the whole Group develops CSR activities voluntarily and actively to build favorable relationships with its stakeholders.

### Overview of the 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 outside 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 Strategy 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.

## Responsibilities and Roles of the Board of Directors

The Company is a pure holding company. To expedite decision making, in principle, each operating company makes business-management decisions. However, the Board of Directors establishes separate monetary-amount standards for each operating company in light of its scale and business results, and resolutions of the Company's Board of Directors are required for important items relating to business management.

Also, actions of the Company as a shareholder in relation to operating companies, such as the approval of the appointment of subsidiaries' officers, require resolutions of the Board of Directors. In addition, resolutions of the Board of Directors decide important matters relating to the Company and the Group, such as items pursuant to laws and regulations or the Articles of Incorporation, Group reorganization or mergers and acquisitions, and entry into new business areas.

The Company controls the concurrent holding of the positions by directors and Audit and Supervisory Board members within reasonable limits to enable the performance of roles and duties. Directors and Audit and Supervisory Board members ensure that they have the necessary time and capabilities for the performance of roles and duties.

## Outside Directors and Audit and Supervisory Board Members

The Company has eight directors, three of whom are outside 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, outside directors and outside Audit and Supervisory Board members provide guidance and advice based on their abundant experience and highly specialized knowledge.

### Selection Procedures

Outside 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 outside directors from among attorneys and 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

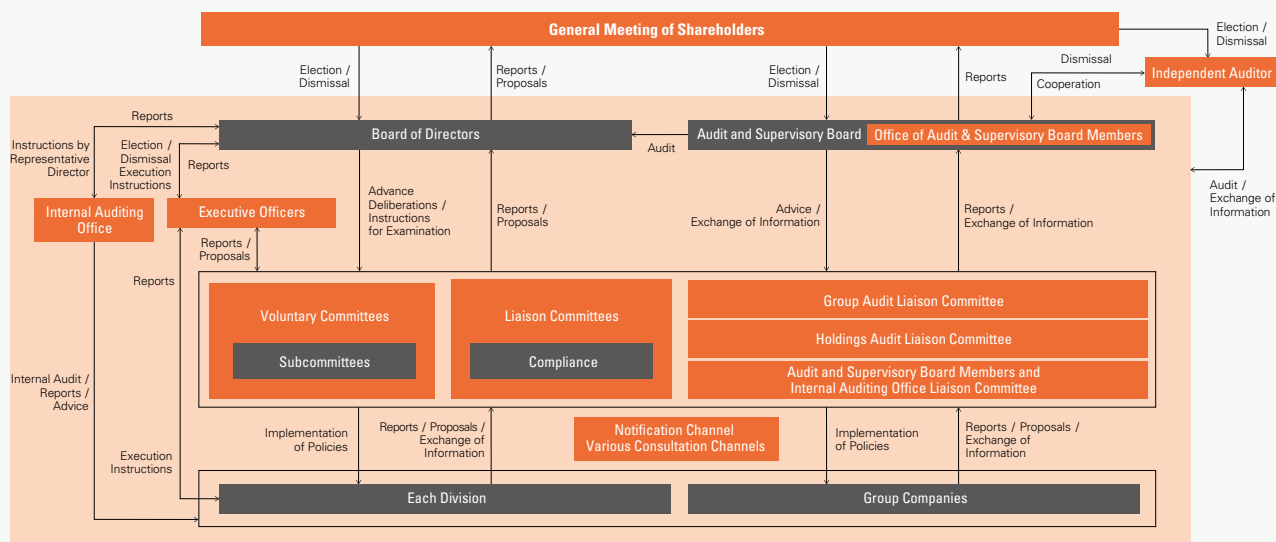
Regarding the independence of outside directors and outside Audit and Supervisory Board members, the Company determines "significant business partners" or "large monetary amounts," which are cited in the independence criteria stipulated by the Tokyo Stock Exchange (TSE), with reference to the publicly announced standard model for appointing independent directors and based on said criteria.

The Company has adopted a policy of appointing as independent directors all outside directors and outside Audit and Supervisory Board members that meet the independence criteria stipulated by the TSE. Accordingly, we have designated all currently serving outside directors and outside Audit and Supervisory Board members as independent directors.

### Support System for Outside Directors and Outside Audit and Supervisory Board Members

To support the activities of outside directors, we have established secretariats for executive meetings to facilitate appropriate information distribution and to ensure that outside directors have sufficient time to examine the details of matters for resolution by the Board of Directors. To support the work of outside Audit and Supervisory Board members, we have established the Office of Audit and Supervisory Board members, which is under the direct control of the Audit and Supervisory Board. In accordance with Audit and Supervisory Board members' orders, the office's personnel assist Audit and Supervisory Board members in their duties. Furthermore, to ensure the independence of the office from the Board of Directors, the Audit and Supervisory Board must approve the appointment, transfer, and evaluation of the office's personnel. In addition, we have secretariats for executive meetings, the Office of Audit and Supervisory Board Members, the Internal Auditing Office, and the Internal Control Department to facilitate appropriate information distribution and to ensure that outside Audit and Supervisory Board members have sufficient time to examine the details of proposals and other information related to the meetings they attend.

Corporate Governance System (As of June 30, 2016)



## Corporate Governance System

### Independent Advisory Committee

The Independent Advisory Committee comprises all of the Company's independent outside 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 analysis 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.

### Assessment of the Effectiveness of the Board of Directors

With reference to the self-evaluations of each director, 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 2016, each director responded to a questionnaire. In light of these responses, the Independent Advisory Committee conducted an assessment, reported the results to an ordinary Board of Directors' meeting convened at the end of May 2016, and discussed the issues raised. As a result, the committee confirmed the effectiveness of the Board of Directors. However, the committee's improvement recommendations indicated the need for (a) directors to express opinions more actively and to have livelier debate about business matters not related to their businesses and (b) rigorous follow-up reporting, including reporting on results and progress. In light of this effectiveness assessment, the Board of Directors will improve its functions and effectiveness.

#### Main points of the Independent Advisory Committee's assessment of the effectiveness of the Board of Directors (fiscal 2016)

- ▶ Confirmed the effectiveness of the Board of Directors
- Independent Advisory Committee's improvement recommendations**
- ▶ Need for directors to express opinions more actively and to have livelier debate about business matters not related to their businesses
- ▶ Need for rigorous follow-up reporting, including reporting on results and progress

### Policy for the 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 chief executive officer has nominated, interviews the candidates, and submits an opinion based on assessment results to the chief executive officer. With reference to these assessment results and in accordance with the above-mentioned policy, the chief executive officer 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 chief executive officer for the positions of director or Audit and Supervisory Board member.

Outside directors	Reason for appointment
Yuji Iwanaga	To reflect Mr. Iwanaga's perspective as an international attorney and extensive expertise in relation to business management of global corporations in the Company's business management
Takeshi Natsuno	To reflect Mr. Natsuno's wealth of experience and extensive expertise as a business executive in the Company's business management
Kohei Katsukawa	To reflect Mr. Katsukawa's wealth of experience and extensive expertise as a business executive in the Company's business management
Outside Audit and Supervisory Board members	Reason for appointment
Tomio Kazashi	To reflect Mr. Kazashi's wealth of experience and expertise 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

### 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.

### ► Compensation of Directors

The Company pays basic compensation to directors (excluding outside 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 chief executive officer 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 chief executive officer 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 chief executive officer based on the results. With reference to the committee's opinion, the chief executive officer 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.

### ► Management Strategies and Management Plans

Given the characteristics of its businesses, the Company has refrained from disclosing its medium-term management plans and targeted management indicators until now. However, the Company is aware of the increased expectations of capital markets and will actively provide disclosures and explanations. On announcing its fiscal 2016 financial results in May 2016, the Company disclosed details of its medium-term management plan for the period ending in fiscal 2020, priority management indicators, and management goals.

### ► 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.

### ► 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 and takes measures to reduce loss, minimize the loss of management resources, and prevent recurrence.

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.

► For details, please see *SEGA SAMMY Group CSR Report 2016*.



# Main Activities and Compensation in Fiscal 2016

Board of Directors	Meeting attendance
Board of Directors convened	15 times
Outside directors	
Yuji Iwanaga	Attended 15 of 15 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Takeshi Natsuno	Attended 14 of 15 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Outside directors' attendance	96.7%
Outside Audit and Supervisory Board members	
Tomio Kazashi	Attended 15 of 15 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Toshio Hirakawa	Attended 15 of 15 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Mineo Enomoto	Attended 15 of 15 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Outside Audit and Supervisory Board members' attendance	100%

Principal decisions	
April 2015	Reorganized organizations within the Group
September 2015	Advanced structure reform of the Pachislot and Pachinko Machine Business
November 2015	Decided to sell shares of Index Corporation
January 2016	Decided to sell shares of Be Re-inc
March 2016	Established joint venture ZEEG Co. Ltd. with Universal Entertainment Corporation through Sammy Corporation
May 2016	Announced medium-term management plan and important management benchmarks
June 2016	Sent additional personnel to <i>Paradise Casino Incheon</i>

## Compensation of Directors

Compensation of directors and Audit and Supervisory Board members for fiscal 2016 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	8	503	380	123	—
	Outside	2	32	32	—	—
Audit and Supervisory Board members	Internal	—	—	—	—	—
	Outside	2	26	26	—	—

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2016 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	448	The Company	248	50	—
			Sammy	—	150	—

## Main IR Activities in Fiscal 2016

Financial results briefings	2 times
Quarterly financial results briefings (telephone conferences)	2 times
Small-scale roundtable meetings	3 times
One-on-one meetings (domestic investors)	137 times
One-on-one meetings (overseas investors)	155 times
Explanatory meetings by business segment (includes tours of facilities)	2 times
Overseas roadshows	4 (North America 1, Asia 2, Europe 1) times
Conferences	5 times
Events for individual investors	2 times

## Corporate Value

	March 31, 2015	March 31, 2016	YoY change
SEGA SAMMY HOLDINGS INC. shares (closing price: Yen)	1,754	1,227	-30.0%
TOPIX (closing price: points)	1,543.11	1,347.20	-12.7%
Cash dividends paid	¥9,634 million	¥9,375 million	
Consolidated dividend payout ratio	—	174.7%	

## Principal IR Awards Received

FY2015 Nikkei Annual Report  
Award, Excellence Award  
(February 2016)

Internet IR Commendation Award 2015  
Daiwa Investor Relations Co., Ltd.  
(November 12, 2015)





# Directors, Audit and Supervisory Board Members, and Executive Officers

As of June 17, 2016

## Directors



**Hajime Satomi**

Chairman of the Board, Chief Executive Officer, and Chief Operating Officer

- 1980 President and Representative Director of Sammy Industry Co., Ltd. (now Sammy Corporation)
- 2003 Chairman and Director of Sammy Networks Co., Ltd.
- 2004 Chairman and Representative Director of SEGA CORPORATION (now SEGA Games Co., Ltd.)  
Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation  
Chairman, Representative Director, and Chief Executive Officer of SEGA CORPORATION  
Chairman of the Board and Chief Executive Officer of the Company
- 2005 Chairman and Director of SEGA TOYS CO., LTD.  
Chairman and Director of TMS ENTERTAINMENT CO., LTD.
- 2007 President, Representative Director, Chief Executive Officer, and Chief Operating Officer of SEGA Corporation
- 2008 Representative Director and Chief Executive Officer of the above
- 2012 Chairman of Sammy Corporation  
Chairman and Director of PHOENIX RESORT CO., LTD. (current position)  
Director of SEGA Networks Co., Ltd. (now SEGA Games Co., Ltd.)
- 2013 Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation (current position)
- 2015 Chairman, Representative Director, and Chief Executive Officer of SEGA Holdings Co., Ltd. (current position)
- 2016 Chairman of the Board, Chief Executive Officer, and Chief Operating Officer of the Company (current position)



**Naoya Tsurumi**

Senior Managing Director

- 1992 Joined Sega Enterprises, Ltd. (now SEGA Games Co., Ltd.)
- 2005 CEO of SEGA Publishing Europe Ltd.
- 2006 CEO and President of SEGA Holdings U.S.A., Inc.  
Chairman of SEGA of America, Inc.
- 2008 Director of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2009 Managing Director of the above  
Chairman of SEGA Europe Ltd.
- 2012 President, Representative Director, and Chief Operating Officer of SEGA CORPORATION  
CEO and President of SEGA Holdings Europe Ltd.  
Director of the Company
- 2014 Vice Chairman of SEGA CORPORATION  
Senior Managing Director and Representative Director of the Company  
Vice Chairman and Director of PHOENIX RESORT CO., LTD. (current position)
- 2015 Vice Chairman of the Board of SEGA Holdings Co., Ltd. (current position)  
Chairman, President, and Representative Director of SEGA LIVE CREATION Inc. (current position)
- 2016 Senior Managing Director of the Company in charge of New Business Development Department and Corporate Business Department (current position)



**Koichi Fukazawa**

Managing Director and Chief Financial Officer

- 2003 Joined Sammy Corporation  
Executive Officer and General Manager of the President's Office of the above
- 2004 Executive Officer and General Manager of the President's Office of the Company
- 2005 Director and General Manager of Chairman and President's Office of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2007 President and Representative Director of SEGA SAMMY ASSET MANAGEMENT INC. (now MARZA ANIMATION PLANET INC.)  
Senior Executive Officer in charge of the Corporate Strategy and External Affairs of the Company
- 2008 Director and Division Manager of New Business Division of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2009 President and Representative Director of SEGA SAMMY VISUAL ENTERTAINMENT INC. (now MARZA ANIMATION PLANET INC.)
- 2014 Senior Managing Director and Representative Director of SEGA TOYS CO., LTD.
- 2015 Director of the above  
Director of the Company
- 2016 Managing Director and Chief Financial Officer of the Company, in charge of Corporate Planning Division, Finance and Accounting Division, General Affairs Division, Group Legal Head Office, and Strategic Planning Department (current position)



**Haruki Satomi**

Managing Director

- 2004 Joined Sammy Corporation
- 2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2009 Vice President of Digital Business of SEGA of America, Inc.
- 2012 President, Representative Director, and Chief Executive Officer of Sammy Networks Co., Ltd.  
Director of SEGA CORPORATION  
Director of the Company (current position)  
President, Representative Director, and Chief Executive Officer of SEGA Networks, Ltd. (now SEGA Games Co., Ltd.)
- 2014 Director of Sammy Corporation  
Executive Vice President and Representative Director of SEGA CORPORATION
- 2015 Executive Vice President and Representative Director of SEGA Holdings Co., Ltd. (current position)  
President, Representative Director, and Chief Executive Officer of SEGA Games Co., Ltd. (current position)  
Executive Vice President and Representative Director of Sammy Corporation
- 2016 President, Representative Director, and Chief Operating Officer of the above (current position)  
Chairman, Representative Director of Sammy Networks Co., Ltd. (current position)  
Director of Sega of America, Inc. (current position)  
Director of Sega Europe Ltd. (current position)  
Managing Director of the Company (current position)



**Hideki Okamura**

Director

- 1987 Joined Sega Enterprises, Ltd. (now SEGA Games Co., Ltd.)
- 1997 Director and Deputy Division Manager of Consumer Business Group Division, General Manager of Saturn Business Division of the above
- 2000 Director in charge of Dreamcast Business Division of the above
- 2002 Vice President and Representative Director of DigiCube Co., Ltd.
- 2003 Senior Executive Officer, Division Manager of Consumer Business Group Division of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2004 Director of TMS ENTERTAINMENT CO., LTD.  
Managing Director, Division Manager of Consumer Business Group Division of SEGA CORPORATION  
Director of the Company
- 2007 Director of SEGA CORPORATION
- 2008 President and Representative Director of TMS ENTERTAINMENT CO., LTD.
- 2014 Vice Chairman and Director of the above  
President, Representative Director, and COO of SEGA CORPORATION  
Director of the Company (current position)
- 2015 President, Representative Director, and Chief Operating Officer of SEGA Holdings Co., Ltd. (current position)  
Chairman, Representative Director of SEGA Games Co., Ltd. (current position)  
Chairman of the Board of SEGA Interactive Co., Ltd. (current position)  
Chairman, Representative Director of TMS ENTERTAINMENT CO., LTD. (current position)  
Chairman, Representative Director of SEGA TOYS CO., LTD. (current position)  
Chairman, Representative Director of MARZA ANIMATION PLANET INC. (current position)  
Chairman, Representative Director of DARTSLIVE Co., Ltd. (current position)  
President, Director of SEGA ENTERTAINMENT Co., Ltd. (current position)

## Directors, Audit and Supervisory Board Members, and Executive Officers

## Outside Directors

**Yuji Iwanaga**\*<sup>1</sup>

Outside Director

- 1981 Registered with The Japan Federation of Bar Associations  
 1984 Partner of Lillick McHose and Charles Law Office  
 (now Pillsbury Winthrop Shaw Pittman LLP)  
 (current position)  
 Registered with the State Bar of California  
 2003 Outside Director of Manufacturers Bank  
 2005 Outside Director of JMS North America Corporation  
 (current position)  
 2006 Outside Director of TAIYO YUDEN Co., Ltd.  
 2007 Outside Director of the Company (current position)

**Takeshi Natsuno**\*<sup>1</sup>

Outside Director

- 2005 Executive Officer and Managing Director of Multimedia  
 Services Department of NTT DoCoMo, Inc.  
 2008 Outside Director of the Company (current position)  
 Director of PIA CORPORATION (current position)  
 Outside Director of transcosmos 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 (current position)  
 2009 Outside Director of DLE Inc. (current position)  
 Outside Director of GREE, Inc. (current position)  
 2010 Outside Director of U-NEXT, Inc. (current position)  
 2014 Director, Member of the Board of KADOKAWA DWANGO  
 CORPORATION (current position)  
 2016 Outside Director of Oracle Corporation Japan (current position)

**Kohei Katsukawa**\*<sup>1</sup>

Outside Director

- 1974 Joined Sumitomo Bank  
 (now Sumitomo Mitsui Banking Corporation)  
 2001 Executive Officer, Head of Osaka Corporate Banking  
 Division II of the above  
 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.  
 2016 Outside Director of the Company (current position)

## Audit and Supervisory Board Members



**Tomio Kazashi**\*2

Standing Audit & Supervisory Board Member

- 1990 Director of Cosmo Securities Co., Ltd.
- 1996 Managing Director of the above
- 1999 Managing Director of Cosmo Investment Management Co., Ltd.
- 2005 Standing Audit & Supervisory Board Member of Sammy Networks Co., Ltd.
- 2008 Substitute Audit & Supervisory Board Member of the Company
- 2009 Audit & Supervisory Board Member of Sammy Networks Co., Ltd.
- Audit & Supervisory Board Member of SEGATOYS CO., LTD. Standing Audit & Supervisory Board Member of the Company (current position)
- 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. (current position)



**Yukito Sakaue**

Audit & Supervisory Board Member

- 2003 Joined Sammy Corporation as General Manager of Audit Office
- 2004 General Manager of Legal Department of Administration Division of the above
- 2006 General Manager of Corporate Auditors' 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 Games Co., Ltd. (current position)
- Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (current position)
- Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD. (current position)
- Audit & Supervisory Board Member of MARZA ANIMATION PLANET INC. (current position)



**Shigeru Aoki**

Standing Audit & Supervisory Board Member

- 2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.) as Head Counselor
- Corporate Officer and General Manager of Office of China and Asia Business Management of the above
- 2006 President of SEGA Networks (China) Co., Ltd.
- 2008 Executive Officer and General Manager of Business Administration Department of Sammy Corporation
- Executive Officer and General Manager of Corporate Division of the above
- 2009 Director and General Manager of Corporate Division of the above
- 2011 Managing Director and General Manager of Corporate Division of the above
- 2012 President, Representative Director, and Chief Operating Officer of the above
- 2013 Director of the Company
- 2016 Vice Chairman, Representative Director of Sammy Corporation Standing Audit & Supervisory Board Member of the Company (current position)

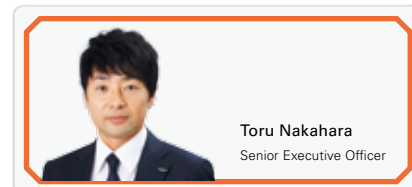


**Mineo Enomoto**\*2

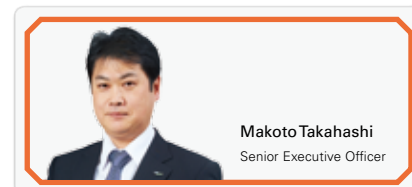
Audit & Supervisory Board Member

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

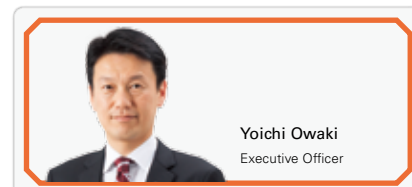
## Executive Officers



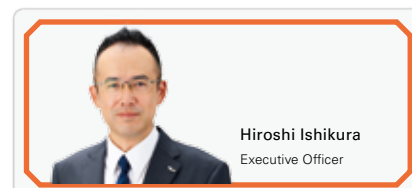
**Toru Nakahara**  
Senior Executive Officer



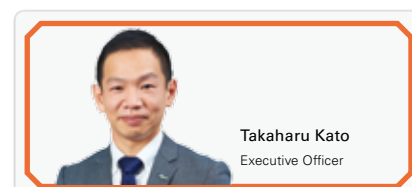
**Makoto Takahashi**  
Senior Executive Officer



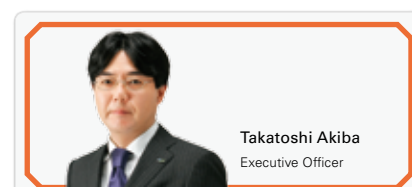
**Yoichi Owaki**  
Executive Officer



**Hiroshi Ishikura**  
Executive Officer



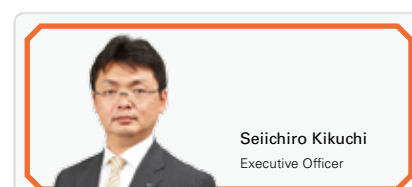
**Takaharu Kato**  
Executive Officer



**Takatoshi Akiba**  
Executive Officer



**Koichiro Ueda**  
Executive Officer



**Seiichiro Kikuchi**  
Executive Officer

\*1 Qualified outside director as provided in Paragraph 2, Clause 15 of the Companies Act of Japan.

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

# Management's Discussion and Analysis

## Revenue and Expenses Analysis

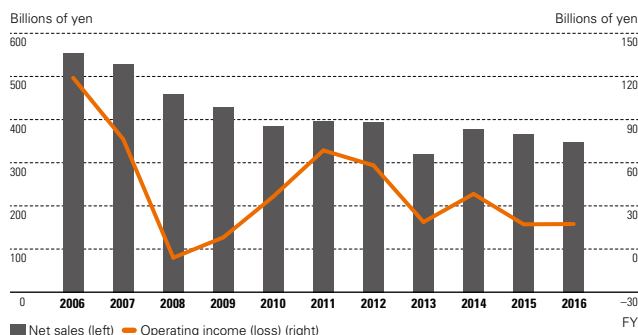
### Long-Term Trends

Net sales have declined for two main reasons. First, market conditions for the Pachislot and Pachinko Machine Business segment, which accounts for a significant share of net sales, changed dramatically due to the revision of regulations pertaining to the Entertainment Establishments Control Law implemented in July 2004, and regulations continued to be strengthened after this revision. Second, net sales of existing businesses declined due to changes in conditions of the target market of SEGA CORPORATION (currently SEGA Games Co., Ltd.) and restructuring, which entailed closing and selling amusement centers in the amusement center operations area and streamlining the number of packaged game software titles to be developed.

Regarding earnings, the Group recorded an operating loss in fiscal 2008, reflecting a decrease in unit sales of pachislot and pachinko

machines, which have comparatively high profit margins; lower revenues in the amusement center operations area; and flagging sales of packaged game software. Profits recovered through fiscal 2011. In recent years, however, overall profit levels have decreased due to deterioration in the profitability of the amusement machine sales area, the optimization of the scale of operations in the amusement center operations area and the packaged game software area, and changes in the operating environment of the Pachislot and Pachinko Machine Business segment. However, the restructuring of costs implemented in fiscal 2015 has improved the profitability of existing businesses, including the packaged game software area, the amusement machine sales area, and the amusement center operations area.

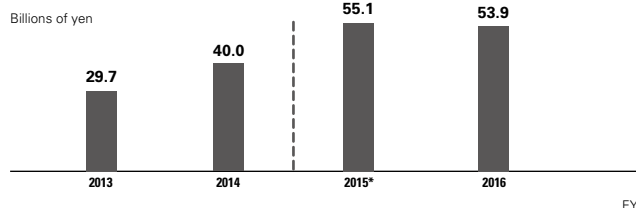
#### Long-Term Trends in Net Sales and Operating Income (Loss)



#### Principal Positive Factors

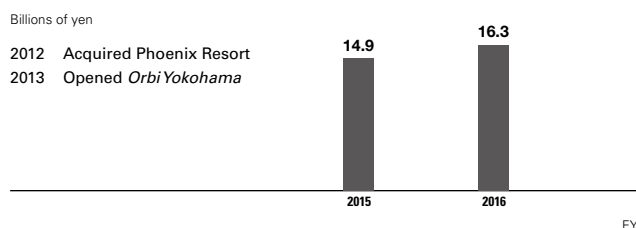
##### Earnings growth in the digital game area

##### Sales in the Digital Game Area



##### Establishment of the Resort Business

##### Net Sales of the Resort Business

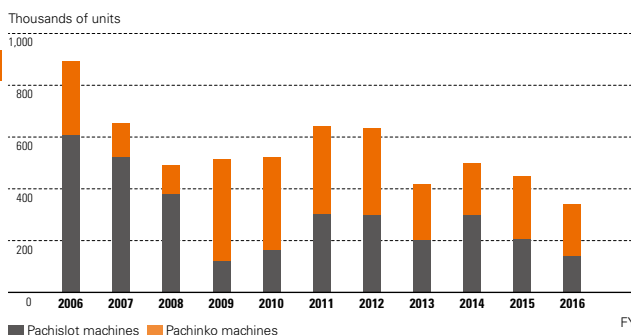


\* As the recognition of net sales was changed from a net basis to a gross basis in fiscal 2016, figures for fiscal 2015 reflect this change retrospectively.

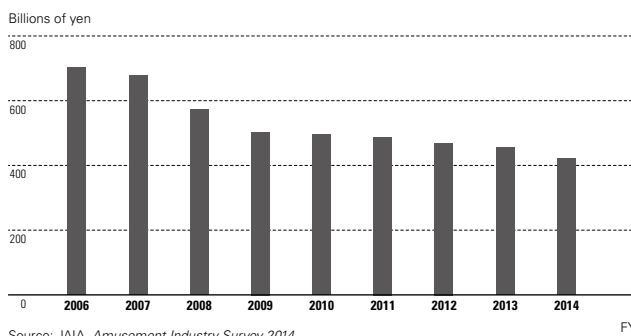
#### Principal Negative Factors

##### 1. Sluggish earnings growth in existing businesses, stemming from a shrinking market

##### Pachislot and Pachinko Machine Unit Sales



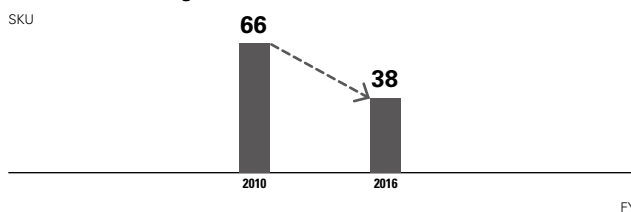
##### Revenues from Amusement Center Operations Area



Source: JAJA, Amusement Industry Survey 2014

##### 2. Reduction in the number of home video game software titles

##### Number of Packaged Game Software Titles Marketed



**Note: Change in the recognition of sales of merchandise and finished goods**

Previously, certain consolidated subsidiaries of the Group recognized revenues primarily on a shipment basis. In fiscal 2016, however, the Group changed to recognition of revenues on a delivery basis. As a result, the Group has revised the business results of the previous fiscal year retrospectively, as stated below. Please refer to Note 3 (2) on page 93.

**Effect on fiscal 2015 results**

- A decrease of ¥0.4 billion in net sales
- A decrease of ¥0.1 billion in gross profit and decreases of ¥0.1 billion in operating income and income before income taxes, respectively
- A decrease of ¥0.1 billion in the retained earnings balance at the beginning of the previous fiscal period due to retrospective reflection in the total net assets balance at the beginning of the previous fiscal period

**Note: Change in the presentation of net sales of the digital game area**

For sales in the digital game area and platform fees and other associated expenses, the Group has changed from presenting net sales net of the cost of sales and selling, general and administrative expenses to presenting the gross amount of net sales; of cost of sales; and of selling, general and administrative expenses. As a result, the Group has revised the business results of the previous fiscal year retrospectively, as stated below. Please refer to Note 3 (3) on page 93.

**Effect on fiscal 2015 results**

- A ¥12.3 billion increase in net sales
- A ¥0.6 billion increase in gross profit

This change has not affected operating income and income before income taxes.

**Comparing Fiscal 2016 and Fiscal 2015**

In fiscal 2016, ended March 31, 2016, net sales declined ¥18.8 billion, or 5.1%, year on year, to ¥347.9 billion. While the Entertainment Contents Business segment's net sales were largely unchanged year on year due to higher revenues from existing businesses, the Pachislot and Pachinko Machine Business segment recorded a 12.7% decline in revenues due to lower unit sales.

Cost of sales decreased ¥10.8 billion, or 4.7%, to ¥220.6 billion, due to lower pachislot and pachinko machine unit sales. The cost of sales ratio remained approximately unchanged year on year at 63.4%, as the reuse of components and other cost improvement measures absorbed higher component costs in the Pachislot and Pachinko Machine Business segment. Selling, general and administrative expenses amounted to ¥109.7 billion, down ¥8.1 billion, or 6.9%, year on year. This decrease reflected lower fixed costs resulting from the restructuring of costs implemented in the previous fiscal year and reductions in R&D expenses, content production expenses, and advertising expenses in the fiscal year under review.

As a result of these factors, operating income edged up ¥0.1 billion, or 0.7%, year on year, to ¥17.6 billion. The operating margin increased 0.3 percentage points, to 5.1%.

In the fiscal year under review, extraordinary loss was ¥5.6 billion, compared with extraordinary loss of ¥15.9 billion in the previous fiscal year, when the Group recorded restructuring-related expenses.

Total income taxes were ¥6.3 billion, compared with ¥12.3 billion in the previous fiscal year, when the Group reversed a portion of deferred tax assets and recorded them as deferred income taxes.

As a result, profit attributable to owners of parent was ¥5.3 billion, compared with a loss of ¥11.3 billion in the previous fiscal year.

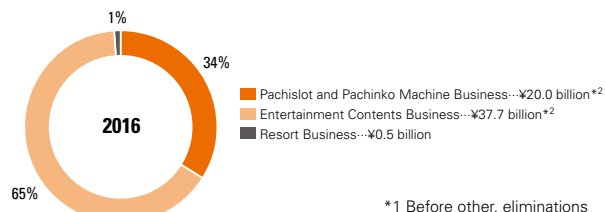
**Capital Expenditures and Depreciation and Amortization**

Total capital expenditures decreased ¥0.7 billion, or 2.6%, year on year, to ¥28.0 billion. Principal capital expenditures were ¥5.0 billion in

the Pachislot and Pachinko Machine Business segment, mainly to acquire molds; capital expenditures of ¥17.8 billion on amusement centers in the Entertainment Contents Business segment; and capital expenditures of ¥5.0 billion in the Resort Business segment. Depreciation and amortization decreased ¥1.0 billion, to ¥16.6 billion.

**R&D Expenses and Content Production Expenses**

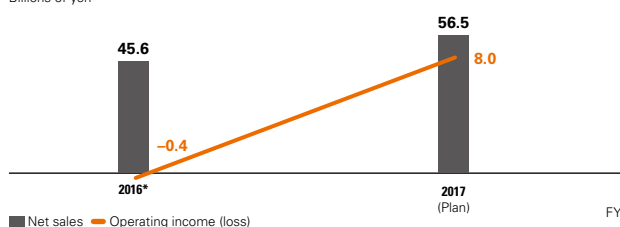
R&D expenses and content production expenses, which are included in cost of sales and general and administrative expenses, decreased 14.2% year on year, to ¥58.0 billion. The Pachislot and Pachinko Machine Business segment invested to enhance quality with a view to growing market share, while the Entertainment Contents Business segment invested to strengthen digital content.

**Breakdown of R&D Expenses and Content Production Expenses\*1****Fiscal 2017 Outlook**

In fiscal 2017, ending March 31, 2017, the Group is targeting a 9.2% year-on-year increase in net sales, to ¥380.0 billion. The Group expects that improved profitability mainly in the Entertainment Contents Business segment will grow operating income 13.5% year on year, to ¥20.0 billion. Profit attributable to owners of parent is expected to increase 86.2% year on year, to ¥10.0 billion.

**Digital Game Area Net Sales / Operating Income (Loss)**

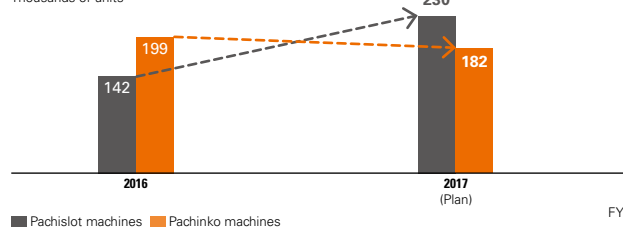
Billions of yen



\* In fiscal 2017, the Group transferred certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment.

**Pachislot and Pachinko Machine Unit Sales Target**

Thousands of units





## Management's Discussion and Analysis

## Summary of Consolidated Statements of Income and Comprehensive Income

	2015	2016	YoY change	Billions of yen 2017 (Plan)
<b>Net sales</b>	366.8	<b>347.9</b>	-18.8	380.0
Cost of sales	231.4	<b>220.6</b>	-10.8	—
<b>Gross profit</b>	135.3	<b>127.3</b>	-7.9	—
Selling, general and administrative expenses	117.8	<b>109.7</b>	-8.1	—
<b>Operating income</b>	17.4	<b>17.6</b>	0.1	20.0
Non-operating income	2.8	<b>3.1</b>	0.3	—
Non-operating expenses	3.4	<b>4.3</b>	0.9	—
<b>Ordinary income</b>	16.8	<b>16.4</b>	-0.4	20.0
Extraordinary income	1.0	<b>1.2</b>	0.2	—
Extraordinary loss	15.9	<b>5.6</b>	-10.2	—
Income before income taxes and minority interests	1.9	<b>12.0</b>	10.0	20.0
Total income taxes	12.3	<b>6.3</b>	-5.9	—
<b>Profit (loss) attributable to owners of parent</b>	(11.3)	<b>5.3</b>	16.7	10.0

## Major Expenses

	2015	2016	YoY change	Billions of yen 2017 (Plan)
R&D expenses, content production expenses	67.6	<b>58.0</b>	-9.6	67.1
Capital expenditures	28.7	<b>28.0</b>	-0.7	27.7
Depreciation and amortization	17.6	<b>16.6</b>	-1.0	15.6
Advertising expenses	19.1	<b>17.9</b>	-1.2	19.8

Note: Certain line items that are classified as other income (expenses) in the consolidated statements of income (loss) and comprehensive income (loss) have been presented as extraordinary income or extraordinary loss.

## Extraordinary Income and Extraordinary Loss

	2015	2016	Billions of yen
<b>Extraordinary income</b>		<b>Extraordinary income</b>	
Gain on sales of noncurrent assets	0.1	<b>Gain on sales of noncurrent assets</b>	<b>0.0</b>
Gain on sales of shares of subsidiaries and associates	0.1	<b>Gain on sales of shares of subsidiaries and associates</b>	<b>0.0</b>
Gain on sales of investment securities	0.1	<b>Gain on sales of investment securities</b>	<b>0.1</b>
Gain on reversal of subscription rights to shares	0.1	<b>Gain on liquidation of subsidiaries and affiliates</b>	<b>0.3</b>
Compensation income for expropriation	0.2	<b>Gain on reversal of subscription rights to shares</b>	<b>0.0</b>
Others	0.0	<b>Gain on reversal of provision for dismantling of fixed assets</b>	<b>0.5</b>
Total	1.0	<b>Others</b>	<b>0.2</b>
		<b>Total</b>	<b>1.2</b>
<b>Extraordinary loss</b>		<b>Extraordinary loss</b>	
Loss on sales of noncurrent assets	0.0	<b>Loss on sales of noncurrent assets</b>	<b>0.0</b>
Impairment loss	7.8	<b>Impairment loss</b>	<b>1.3</b>
Loss on valuation of investment securities	0.1	<b>Loss on valuation of investment securities</b>	<b>0.0</b>
Loss on valuation of shares of subsidiaries and associates	0.1	<b>Loss on valuation of shares of subsidiaries and associates</b>	<b>0.5</b>
Provision for dismantling of fixed assets	2.7	<b>Early extra retirement payments</b>	<b>1.9</b>
Loss on the discontinuance of independent film production	1.8	<b>Restructuring loss</b>	<b>1.2</b>
Early extra retirement payments	1.8	<b>Others</b>	<b>0.5</b>
Restructuring loss	0.8		
Others	0.3		
Total	15.9	<b>Total</b>	<b>5.6</b>

## (Reference)

## Comprehensive Income

	2015	2016	Billions of yen
<b>Profit (Loss)</b>	(10.4)	<b>5.6</b>	
(Breakdown)			
Profit (loss) attributable to owners of parent	(11.3)	<b>5.3</b>	
Profit attributable to non-controlling interests	0.9	<b>0.2</b>	
Other comprehensive income (loss)			
Valuation difference on available-for-sale securities	0.9	<b>(6.3)</b>	
Deferred gains or losses on hedges	0.0	<b>(0.0)</b>	
Revaluation reserve for land	0.0	<b>0.0</b>	
Foreign currency translation adjustment	4.3	<b>(3.3)</b>	
Remeasurements of defined benefit plans	(0.2)	<b>(1.5)</b>	
Share of other comprehensive income of associates accounted for using equity method	1.2	<b>(1.0)</b>	
Total other comprehensive income	6.3	<b>(12.1)</b>	
<b>Comprehensive income</b>	(4.0)	<b>(6.5)</b>	

## Analysis by Business Segment

### Long-Term Trends

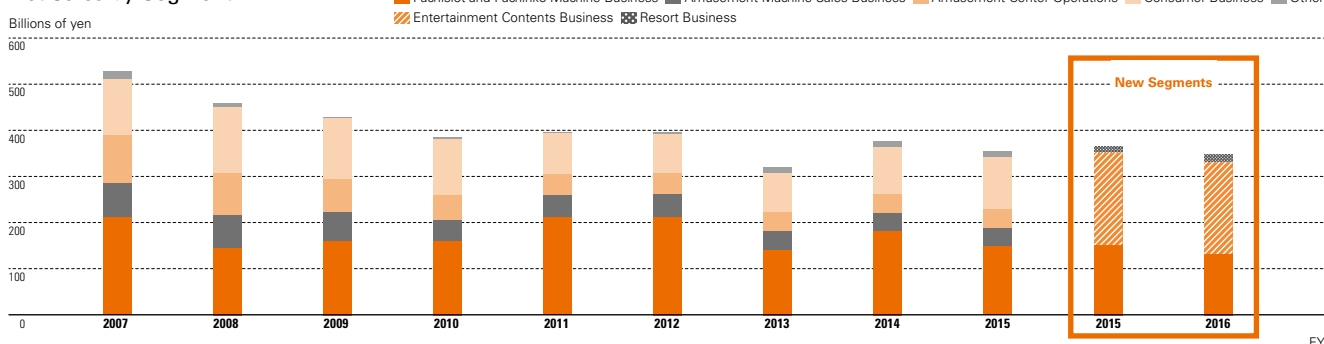
The Pachislot and Pachinko Machine Business segment, which had a product mix overly weighted toward pachislot machines, saw net sales decrease significantly in fiscal 2007 and fiscal 2008 due to a slump in the pachislot machine market originating from regulatory revision in July 2004. In response, the Group strengthened the product appeal of pachinko machines to correct the imbalance between pachislot and pachinko machines in its product portfolio. As a result, the segment's net sales recovered from fiscal 2009 onward. In recent years, however, net sales have tended to flag as the pachinko and pachislot machine market shrinks. In addition, earnings have remained sluggish due to ongoing increases in component procurement costs.

In the Group, sales growth in the Entertainment Contents Business segment's digital game area is partially offsetting declining sales in existing businesses. In the amusement machine sales area, sales have been trending downward due to continued sluggishness in the amusement center operations market, the introduction of a revenue-sharing business model in which amusement center operators and the Group share revenues based on players' use of amusement machines, and the absence of major hit titles. As a result of these factors, the

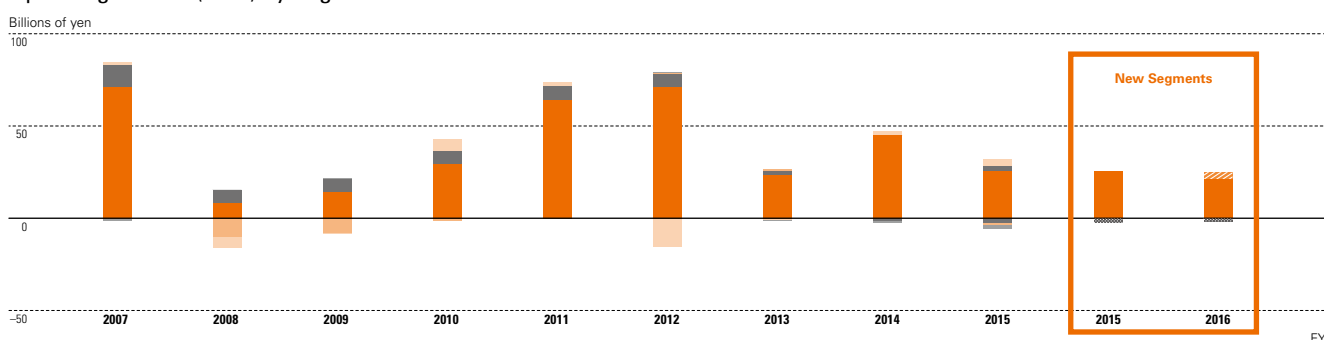
amusement machine sales area has recorded operating losses in the three years since fiscal 2014. However, thanks to cost reduction measures, profitability is recovering. The amusement center operations area has been accelerating the closure and sale of amusement centers with low profitability or limited potential since recognizing an operating loss in fiscal 2008. As a result, net sales in the amusement center operations area have decreased to less than half of their peak level. However, earnings levels are recovering due to strengthened management of prizes and other measures. The packaged game software area has been improving profitability through profit structure reform by streamlining the number of titles it sells and rationalizing its organization. As for the animation and toy sales area, cost reduction measures have been stabilizing earnings.

Because the SEGA SAMMY Group is engaged in hit-product businesses, hit products, or their absence, tend to cause significant fluctuations in earnings. In particular, an issue for the Group is the significant effect on its operating income of the sales trends of the Pachislot and Pachinko Machine Business segment, which consistently accounts for the majority of the Group's earnings.

### Net Sales by Segment



### Operating Income (Loss) by Segment



## Management's Discussion and Analysis

### Analysis by Business Segment

#### Comparing Fiscal 2016 and Fiscal 2015

##### Pachislot and Pachinko Machine Business

In the pachislot machine business, sales of pachislot machines that belong to series with proven track records were steady, but sales of other titles were lackluster. As for the pachinko machine business, unit sales declined due to the temporary effect of restructuring and the absence of the previous fiscal year's introduction of major titles. As a result, the segment recorded a year-on-year decline in net sales of ¥19.4 billion, or 12.8%, to ¥132.7 billion. Operating income declined ¥4.2 billion, or 16.4%, to ¥21.5 billion, and the operating margin decreased 0.7 percentage points, to 16.2%.

##### Entertainment Contents Business

Due to a decline in revenues from the digital game area, the segment posted a year-on-year decrease in net sales of ¥0.8 billion, or 0.4%, to ¥198.8 billion. Operating income rose significantly to ¥3.6 billion, compared with the previous fiscal year's ¥63 million, thanks to restructuring implemented in fiscal 2015.

##### Digital Game Area

The digital game area recorded an operating loss of ¥0.9 billion, which was attributable to the revaluation of assets for titles that did not become as popular as initially hoped, such as new online games rolled out in South Korea and certain titles for smart devices.

##### Packaged Game Software Area

Streamlining the number of titles and focusing efforts on the marketing of mainstay titles improved profitability. Although revenues were lower, the packaged game software area achieved operating income of ¥2.4 billion, compared with the previous fiscal year's operating loss.

##### Amusement Machine Sales Area

As a result of brisk sales of CVT kits and new amusement machines, revenues rose and operating loss contracted.

##### Amusement Center Operations Area

Reflecting strengthened operational capabilities, sales at existing amusement centers were favorable and increased 3.1% year on year. Consequently, revenues and earnings rose.

##### Animation and Toy Sales Area

In the animation area, sales of new programs and distribution revenues were favorable. In the toy sales area, profitability improved due to a streamlining of the product lineup. As a result, the animation and toy sales area posted higher revenues and achieved operating income, thereby moving into the black.

##### Resort Business

Net sales increased 9.5% year on year, or ¥1.4 billion, due to an increase in customer numbers at *TOKYO JOYPOLIS* and the opening of *QINGDAO JOYPOLIS*. Also, the average spending per customer of *Phoenix Seagaia Resort* rose. As a result of these factors, operating loss improved to ¥1.8 billion, compared with ¥2.3 billion in the previous fiscal year.

#### Fiscal 2017 Outlook

##### Note: Retrospective revision due to transfer of businesses

In fiscal 2017, the Group transferred certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment. The target figures of the Pachislot and Pachinko Machine Business segment and the digital game area for fiscal 2016 below are retrospectively revised figures reflecting the abovementioned transfer of businesses.

##### Pachislot and Pachinko Machine Business

This segment aims to increase net sales to ¥157.0 billion, compared with net sales of ¥141.0 billion in the fiscal year under review, by introducing multiple titles, including mainstay titles. As fiscal 2017 will coincide with a period of widespread adoption of new frames and components, the segment expects a temporary lowering of the operating margin. Therefore, the segment is targeting operating income of ¥19.0 billion and an operating margin of 12.1%, compared with operating income of ¥20.9 billion and an operating margin of 14.8% in the fiscal year under review.

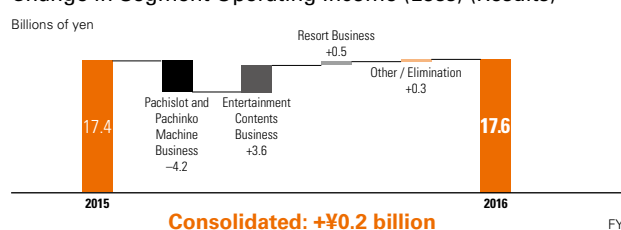
##### Entertainment Contents Business

The segment expects the concentration of efforts on existing mainstay titles in the digital game area to increase revenues and is targeting net sales of ¥207.0 billion, compared with net sales of ¥190.5 billion in the fiscal year under review. The segment aims to realize operating income of ¥9.0 billion, compared with operating income of ¥4.2 billion in the fiscal year under review, by improving profitability in the digital game area and stepping up restructuring of earnings in existing businesses.

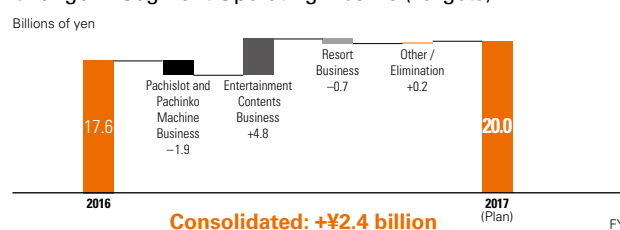
##### Resort Business

Net sales are expected to be approximately unchanged year on year at ¥16.0 billion. A ¥2.5 billion operating loss is expected, compared with a ¥1.8 billion operating loss in the fiscal year under review, due to higher depreciation and amortization accompanying investment to increase the utilization rates and profit margins of existing facilities as well as prior investment in integrated resorts.

#### Change in Segment Operating Income (Loss) (Results)



#### Change in Segment Operating Income (Targets)



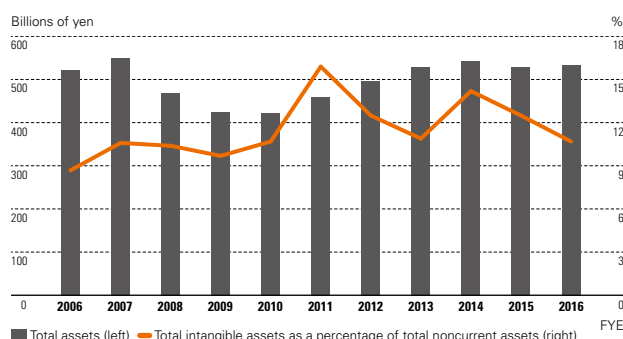
## Financial Position Analysis

### Long-Term Trends

Total assets rose in fiscal 2006 and fiscal 2007 due to an increase in property, plant and equipment and increases in respective assets that resulted from the new inclusion of companies in consolidation. However, from fiscal 2008 total assets declined as a consequence of valuation loss on securities and sales of securities accompanying restructuring. In recent years, although it has been selling amusement centers, the Group has seen total assets trend upward. This steady increase in assets is attributable to the Pachislot and Pachinko Machine Business segment's construction of a new plant, the Group's initiatives in the Resort Business segment, an increase in goodwill accompanying acquisitions in the digital game area, and an increase in investment securities accompanying new investment in growth areas. However, regarding to 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 and the payment of stable cash dividends, 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



### Comparing Fiscal 2016 and Fiscal 2015

#### Assets

Total assets at March 31, 2016, the fiscal year-end, stood at ¥532.9 billion, up ¥4.2 billion from the previous fiscal year-end.

Total current assets at the fiscal year-end amounted to ¥302.2 billion, up ¥4.2 billion. This rise was mainly due to increases in cash and deposits as well as in notes and accounts receivable—trade associated with pachislot and pachinko machines sold at the end of the fiscal year, which counteracted a decrease in short-term investment securities.

Total noncurrent assets at the fiscal year-end stood at ¥230.6 billion, up ¥26.0 million. This rise primarily reflected an increase in investment securities accompanying an additional acquisition of shares of PARADISE SEGASAMMY Co., Ltd., which offset a decrease in total intangible assets.

#### Liabilities

Total current liabilities at the fiscal year-end stood at ¥105.9 billion, up ¥19.2 billion from the previous fiscal year-end. This increase was attributable to higher notes and accounts payable—trade and the transfer of bonds payable from noncurrent liabilities to the current portion of bonds. The current ratio was 285.2%, reflecting the Group's continued high level of liquidity.

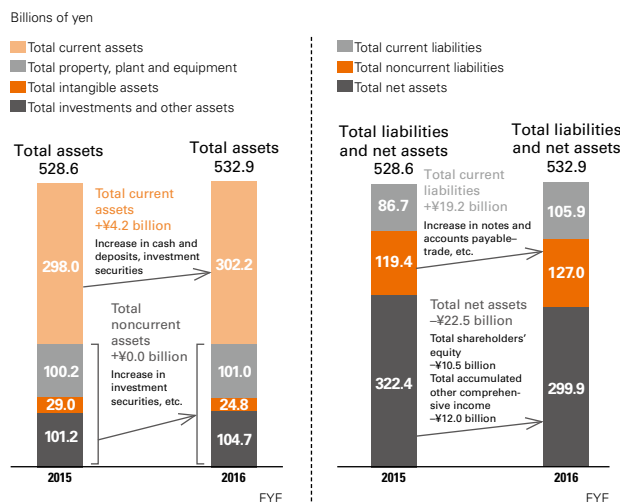
Total noncurrent liabilities at the fiscal year-end were ¥127.0 billion, up ¥7.5 billion from the previous fiscal year-end, due to such factors as fund-raising through long-term loans.

Interest-bearing debt at the fiscal year-end was ¥135.0 billion, an increase of ¥23.3 billion. Liquidity in hand of ¥189.7 billion remained higher than interest-bearing debt, testifying to a sound financial position.

### Net Assets

Total net assets at the fiscal year-end stood at ¥299.9 billion, down ¥22.5 billion. This decline resulted from lower total shareholders' equity, due to the payment of cash dividends and the acquisition of treasury stock, and decreases in valuation difference on available-for-sale securities and foreign currency translation adjustment, which counteracted the recognition of profit attributable to owners of parent. As a result, shareholders' equity stood at ¥294.7 billion at March 31, 2016, down ¥22.8 billion from a year earlier, and the equity ratio declined 4.7 percentage points, to 55.3%. The ratio of fixed assets to total noncurrent assets (ratio of total noncurrent assets to total noncurrent liabilities) was 54.7%.

### Fiscal 2015 versus Fiscal 2016

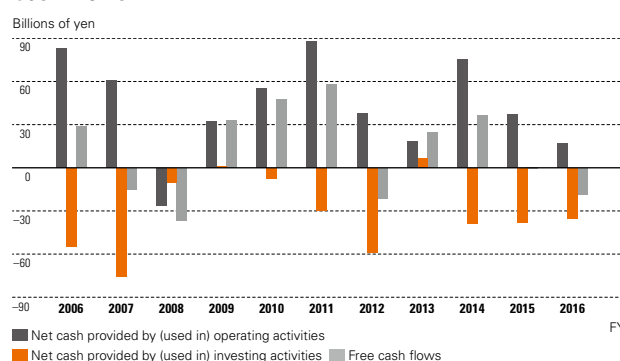


## Cash Flow Analysis

### 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 conjunction with these efforts, the Group has been investing actively in such growth areas as the integrated resort business and the digital game 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



### Comparing Fiscal 2016 and Fiscal 2015

#### Net Cash Provided by Operating Activities

Net cash provided by operating activities was ¥16.9 billion, compared with ¥37.0 billion in the previous fiscal year. This was primarily attributable to income before income taxes of ¥12.0 billion, depreciation and amortization of ¥21.0 billion, and a ¥6.9 billion increase in notes and accounts payable-trade, which counteracted an increase in notes and accounts receivable-trade of ¥17.6 billion and an increase in inventories of ¥5.1 billion.

#### Net Cash Used in Investing Activities / Free Cash Flows

Net cash used in investing activities was ¥35.2 billion, compared with ¥37.7 billion in the previous fiscal year. This was mainly due to expenditures of ¥15.4 billion for the acquisition of short-term investment securities and investment securities, ¥14.2 billion for the purchase of property, plant and equipment, and ¥10.9 billion for the purchase of stocks of subsidiaries and affiliates.

As a result, free cash flows amounted to a negative ¥18.3 billion, compared with a negative ¥0.7 billion in the preceding fiscal year.

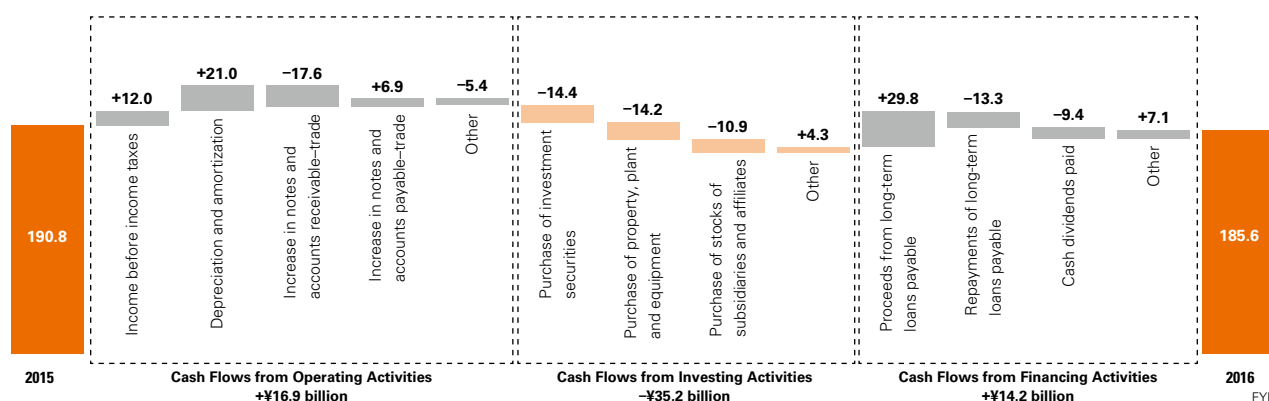
#### Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities was ¥14.2 billion, compared with net cash used in financing activities of ¥15.0 billion in the previous fiscal year. This mainly stemmed from proceeds from long-term loans payable of ¥29.8 billion and proceeds from issuance of bonds of ¥9.9 billion, which more than compensated for repayments of long-term loans payable of ¥13.3 billion and cash dividends paid of ¥9.4 billion.

As a result of the above, cash and cash equivalents at the end of the period amounted to ¥185.6 billion, down ¥5.2 billion from the previous fiscal year-end.

### Consolidated Cash Flows

Billions of yen

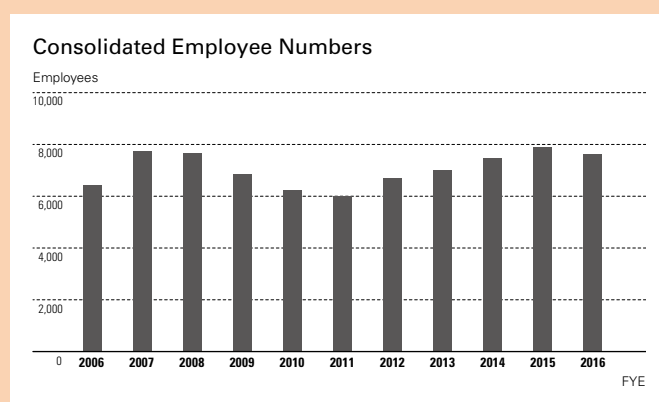




## Human and Intellectual Capital

### Consolidated Employee Numbers

At the end of fiscal 2016, the consolidated number of employees was 7,606, down 282 from the previous fiscal year-end. The average age of employees was 38.4, compared with 37.4 at the previous fiscal year-end. The Group is advancing the deployment of personnel to growth areas as a priority measure. Recently, the number of employees has been rising centered on the digital game area, while the number of employees in the existing businesses of the Entertainment Contents Business segment has been decreasing due to reductions in employee numbers through restructuring.



### Employee Numbers by Segment

Segment	2015	2016	YoY change
Pachislot and Pachinko Machine Business	1,658	1,448	-210
Entertainment Contents Business	5,271	5,135	-136
Resort Business	841	861	+20
Corporate (holding company)	118	162	+44
Total	7,888	7,606	-282

\* In fiscal 2015, business segments were changed. For a breakdown of employee numbers in the Entertainment Contents Business segment, please see page 29.

### Intellectual Property Creation Capabilities

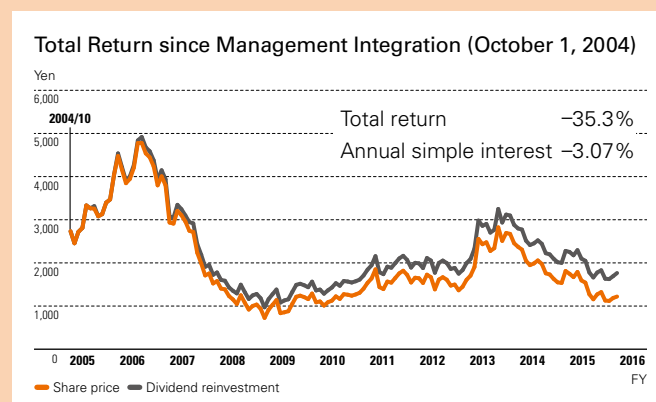
At the end of fiscal 2016, total intangible assets amounted to ¥24.8 billion, down ¥4.2 billion from the previous fiscal year-end.

Between fiscal 2014 and fiscal 2016, R&D expenses and content production expenses on average accounted for the equivalent of 16.9% of net sales.

## Shareholder Value

### Long-Term Trends

The basic policy of the Group is to heighten shareholder value through growth strategies that generate higher earnings and thereby increase market capitalization and through the realization of stable dividends consistent with the aim of paying out approximately 20% to 30% of post-tax income as dividends. Furthermore, the Group will retain the option of acquiring treasury stock in response to share price levels. In light of this basic policy, the Group has stably paid cash dividends of ¥40.00 per share for the past five fiscal years while purchasing treasury stock flexibly. Between the management integration on October 1, 2004, and March 31, 2016, total return based on aggregated capital gain and cash dividends was minus 35.3%, equivalent to an annual simple interest of minus 3.07%. (During the same period, the total return of TOPIX was 20.6%. As of October 1, 2004, the 10-year government bond interest rate was 1.48%.)



### Fiscal 2016 Returns to Shareholders

In fiscal 2016, net income per share was ¥22.90, compared with net loss per share of ¥46.70 in the previous fiscal year. For fiscal 2016, the Group paid cash dividends of ¥40.00 per share, the same as for the previous fiscal year. As a result, the ratio of cash dividends to net assets was 3.1%.

# Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
As of March 31, 2015 and 2016

	2015	2016
Millions of yen		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	¥102,260	¥141,316
Notes and accounts receivable-trade	38,526	55,612
Allowance for doubtful accounts	(389)	(681)
Short-term investment securities	97,210	48,401
Merchandise and finished goods	6,988	6,971
Work in process	12,281	17,382
Raw materials and supplies	9,967	10,123
Income taxes receivable	6,235	3,735
Deferred tax assets	6,054	6,286
Other	18,887	13,143
Total current assets	298,021	302,292
<b>Noncurrent assets</b>		
Property, plant and equipment		
Buildings and structures	104,191	105,839
Accumulated depreciation	(71,111)	(70,622)
Buildings and structures, net	33,079	35,216
Machinery, equipment and vehicles	20,229	17,121
Accumulated depreciation	(13,033)	(10,892)
Machinery, equipment and vehicles, net	7,196	6,229
Amusement machines and facilities	54,154	51,574
Accumulated depreciation	(44,287)	(40,189)
Amusement machines and facilities, net	9,866	11,385
Land (Note 6 (3))	39,822	38,742
Construction in progress	1,782	1,977
Other	52,624	51,259
Accumulated depreciation	(44,099)	(43,729)
Other, net	8,525	7,529
Total property, plant and equipment	100,272	101,080
Intangible assets		
Goodwill	14,668	12,201
Other	14,402	12,616
Total intangible assets	29,071	24,817
Investments and other assets		
Investment securities (Notes 6 (1) and (2))	70,051	76,504
Long-term loans receivable	865	703
Lease and guarantee deposits	14,081	12,727
Deferred tax assets	656	674
Other	16,429	14,705
Allowance for doubtful accounts	(790)	(549)
Total investments and other assets	101,293	104,765
Total noncurrent assets	230,637	230,664
<b>Total assets</b>	<b>¥528,659</b>	<b>¥532,957</b>

See accompanying notes.

Millions of yen

	2015	2016
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Notes and accounts payable-trade	¥ 26,964	¥ 33,011
Short-term loans payable (Note 6 (4))	13,842	14,002
Current portion of bonds	1,600	14,200
Income taxes payable	3,240	2,536
Accrued expenses	13,356	15,467
Provision for bonuses	4,339	4,608
Provision for directors' bonuses	488	606
Provision for business restructuring	217	136
Provision for point card certificates	36	—
Provision for dismantling of fixed assets	—	391
Asset retirement obligations	133	30
Deferred tax liabilities	11	34
Other	22,474	20,964
Total current liabilities	86,707	105,990
<b>Noncurrent liabilities</b>		
Bonds payable	56,200	52,000
Long-term loans payable	32,918	48,895
Net defined benefit liability	3,716	3,906
Provision for directors' retirement benefits	121	—
Deferred tax liabilities	4,274	3,258
Deferred tax liabilities for land revaluation	739	640
Asset retirement obligations	2,435	3,952
Provision for dismantling of fixed assets	3,395	2,368
Other	15,696	11,993
Total noncurrent liabilities	119,498	127,015
<b>Total liabilities</b>	206,206	233,006
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	119,282	118,404
Retained earnings	198,704	194,505
Treasury stock	(49,335)	(54,758)
Total shareholders' equity	298,604	288,105
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,794	11,494
Deferred gains or losses on hedges	10	(40)
Revaluation reserve for land (Note 6 (3))	(4,699)	(4,600)
Foreign currency translation adjustment	3,414	(876)
Remeasurements of defined benefit plans	2,206	651
Total accumulated other comprehensive income	18,726	6,628
Subscription rights to shares	832	801
Non-controlling interests	4,289	4,415
Total net assets	322,452	299,950
<b>Total liabilities and net assets</b>	¥528,659	¥532,957

See accompanying notes.

# Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

	Millions of yen	
	2015	2016
Net sales	¥366,813	¥347,981
Cost of sales (Notes 7 (1) and (2))	231,441	220,609
Gross profit	135,371	127,372
Selling, general and administrative expenses (Note 7 (2))	117,876	109,754
Operating income	17,495	17,617
Other income (expenses)		
Interest income	307	463
Dividends income	982	923
Equity in earnings of affiliates	26	—
Gain on investments in partnership	311	223
Foreign exchange gains	—	58
Gain on bad debts recovered	300	159
Interest expenses	(910)	(921)
Equity in losses of affiliates	—	(338)
Sales discounts	(58)	(2)
Commission fee	(159)	(204)
Loss on investments in partnership	(66)	(236)
Penalty payment for cancellation of game center lease agreement	(2)	(2)
Bond issuance cost	(155)	(41)
Loss on retirement of noncurrent assets	(585)	(481)
Settlement package	(418)	(3)
Foreign exchange losses	(390)	—
Loss on valuation of compound financial instruments	—	(1,127)
Gain on sales of noncurrent assets (Note 7 (3))	113	68
Gain on sales of shares of subsidiaries and associates	175	16
Gain on sales of investment securities	187	123
Gain on liquidation of subsidiaries and affiliates	—	306
Gain on reversal of subscription rights to shares	196	14
Compensation income for expropriation	277	—
Gain on reversal of provision for dismantling of fixed assets	—	523
Loss on sales of noncurrent assets (Note 7 (4))	(80)	(72)
Impairment loss (Note 7 (6))	(7,881)	(1,329)
Loss on valuation of investment securities	(100)	(19)
Loss on valuation of shares of subsidiaries and associates	(188)	(568)
Provision for dismantling of fixed assets	(2,778)	—
Loss on the discontinuance of independent film production	(1,826)	—
Early extra retirement payments	(1,868)	(1,956)
Restructuring loss (Note 7 (5))	(862)	(1,220)
Other, net	(72)	45
Subtotal	(15,527)	(5,601)
Income before income taxes	1,968	12,015
Income taxes-current	5,483	4,040
Income taxes-deferred	6,904	2,354
Total income taxes	12,388	6,395
Profit (loss)	(10,419)	5,620
(Breakdown)		
Profit (loss) attributable to owners of parent	(11,375)	5,369
Profit attributable to non-controlling interests	955	251
Other comprehensive income		
Valuation difference on available-for-sale securities	983	(6,300)
Deferred gains or losses on hedges	9	(51)
Revaluation reserve for land	5	99
Foreign currency translation adjustment	4,337	(3,309)
Remeasurements of defined benefit plans, net of tax	(238)	(1,547)
Share of other comprehensive income of associates accounted for using equity method	1,275	(1,077)
Total other comprehensive income (Note 7 (7))	6,373	(12,186)
Comprehensive income	(4,046)	(6,566)
(Breakdown)		
Comprehensive income attributable to owners of parent	(4,972)	(6,728)
Comprehensive income attributable to non-controlling interests	¥ 925	¥ 161

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

	Millions of yen	
	2015	2016
<b>Shareholders' equity</b>		
Capital stock		
Balance at the beginning of the period	¥ 29,953	¥ 29,953
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	29,953	29,953
Changes of items during the period		
Total changes of items during the period	—	—
Balance at the end of the period	29,953	29,953
Capital surplus		
Balance at the beginning of the period	119,312	119,282
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	119,312	119,282
Changes of items during the period		
Disposal of treasury stock	(30)	14
Purchase of shares of consolidated subsidiaries	—	(892)
Total changes of items during the period	(30)	(877)
Balance at the end of the period	119,282	118,404
Retained earnings		
Balance at the beginning of the period	219,684	198,704
Cumulative effects of changes in accounting policies	607	—
Balance at the beginning of the period which reflects changes in accounting policies	220,291	198,704
Changes of items during the period		
Dividends from surplus	(9,758)	(9,436)
Profit (loss) attributable to owners of parent	(11,375)	5,369
Effect of changes in accounting period of consolidated subsidiaries	—	(129)
Change of scope of consolidation	(231)	(1)
Change of scope of equity method	(222)	(0)
Total changes of items during the period	(21,587)	(4,198)
Balance at the end of the period	198,704	194,505
Treasury stock		
Balance at the beginning of the period	(37,971)	(49,335)
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	(37,971)	(49,335)
Changes of items during the period		
Purchase of treasury stock	(12,601)	(5,549)
Disposal of treasury stock	1,237	127
Total changes of items during the period	(11,363)	(5,422)
Balance at the end of the period	(49,335)	(54,758)
Total shareholders' equity		
Balance at the beginning of the period	330,977	298,604
Cumulative effects of changes in accounting policies	607	—
Balance at the beginning of the period which reflects changes in accounting policies	331,585	298,604
Changes of items during the period		
Dividends from surplus	(9,758)	(9,436)
Profit (loss) attributable to owners of parent	(11,375)	5,369
Effect of changes in accounting period of consolidated subsidiaries	—	(129)
Purchase of treasury stock	(12,601)	(5,549)
Disposal of treasury stock	1,207	141
Change of scope of consolidation	(231)	(1)
Change of scope of equity method	(222)	(0)
Purchase of shares of consolidated subsidiaries	—	(892)
Total changes of items during the period	(32,981)	(10,499)
Balance at the end of the period	¥298,604	¥288,105

See accompanying notes.



## Consolidated Statements of Changes in Net Assets

	2015	2016
Millions of yen		
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities		
Balance at the beginning of the period	¥ 16,804	¥ 17,794
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	16,804	17,794
Changes of items during the period		
Net changes of items other than shareholders' equity	990	(6,300)
Total changes of items during the period	990	(6,300)
Balance at the end of the period	17,794	11,494
Deferred gains or losses on hedges		
Balance at the beginning of the period	0	10
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	0	10
Changes of items during the period		
Net changes of items other than shareholders' equity	9	(50)
Total changes of items during the period	9	(50)
Balance at the end of the period	10	(40)
Revaluation reserve for land		
Balance at the beginning of the period	(4,705)	(4,699)
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	(4,705)	(4,699)
Changes of items during the period		
Net changes of items other than shareholders' equity	5	99
Total changes of items during the period	5	99
Balance at the end of the period	(4,699)	(4,600)
Foreign currency translation adjustment		
Balance at the beginning of the period	(2,281)	3,414
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	(2,281)	3,414
Changes of items during the period		
Net changes of items other than shareholders' equity	5,695	(4,290)
Total changes of items during the period	5,695	(4,290)
Balance at the end of the period	3,414	(876)
Remeasurements of defined benefit plans		
Balance at the beginning of the period	2,504	2,206
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	2,504	2,206
Changes of items during the period		
Net changes of items other than shareholders' equity	(297)	(1,554)
Total changes of items during the period	(297)	(1,554)
Balance at the end of the period	2,206	651
<b>Total accumulated other comprehensive income</b>		
Balance at the beginning of the period	12,322	18,726
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	12,322	18,726
Changes of items during the period		
Net changes of items other than shareholders' equity	6,403	(12,097)
Total changes of items during the period	6,403	(12,097)
Balance at the end of the period	18,726	6,628
<b>Subscription rights to shares</b>		
Balance at the beginning of the period	1,078	832
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	1,078	832
Changes of items during the period		
Net changes of items other than shareholders' equity	(245)	(31)
Total changes of items during the period	(245)	(31)
Balance at the end of the period	832	801
<b>Non-controlling interests</b>		
Balance at the beginning of the period	3,892	4,289
Cumulative effects of changes in accounting policies		
Balance at the beginning of the period which reflects changes in accounting policies	3,892	4,289
Changes of items during the period		
Net changes of items other than shareholders' equity	397	126
Total changes of items during the period	397	126
Balance at the end of the period	4,289	4,415
<b>Total net assets</b>		
Balance at the beginning of the period	348,270	322,452
Cumulative effects of changes in accounting policies	607	—
Balance at the beginning of the period which reflects changes in accounting policies	348,878	322,452
Changes of items during the period		
Dividends from surplus	(9,758)	(9,436)
Profit (loss) attributable to owners of parent	(11,375)	5,369
Effect of changes in accounting period of consolidated subsidiaries	—	(129)
Purchase of treasury stock	(12,601)	(5,549)
Disposal of treasury stock	1,207	141
Change of scope of consolidation	(231)	(1)
Change of scope of equity method	(222)	(0)
Purchase of shares of consolidated subsidiaries	—	(892)
Net changes of items other than shareholders' equity	6,555	(12,003)
Total changes of items during the period	(26,425)	(22,502)
Balance at the end of the period	¥322,452	¥299,950

See accompanying notes.

# Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

Millions of yen

	2015	2016
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥ 1,968	¥ 12,015
Depreciation and amortization	21,747	21,015
Impairment loss	7,881	1,329
Amount of transfer of equipment by amusement center operations business	(4,270)	(3,486)
Loss (gain) on sales of noncurrent assets	(33)	3
Loss on retirement of noncurrent assets	585	562
Loss (gain) on sales of shares of subsidiaries and associates	79	(8)
Loss (gain) on liquidation of subsidiaries and affiliates	—	(306)
Loss (gain) on sales of investment securities	(187)	(123)
Loss (gain) on valuation of investment securities	100	19
Loss (gain) on investments in partnership	(245)	12
Amortization of goodwill	3,625	2,364
Increase (decrease) in allowance for doubtful accounts	(24)	640
Increase (decrease) in provision for directors' bonuses	(126)	122
Increase (decrease) in net defined benefit liability	(1,179)	(1,561)
Increase (decrease) in provision for directors' retirement benefits	(25)	(41)
Increase (decrease) in provision for bonuses	277	390
Increase (decrease) in provision for dismantling of fixed assets	3,395	(588)
Increase (decrease) in provision for business restructuring	217	(70)
Interest and dividends income	(1,289)	(1,386)
Interest expenses	910	921
Foreign exchange losses (gains)	791	(85)
Equity in (earnings) losses of affiliates	(26)	338
Decrease (increase) in notes and accounts receivable-trade	9,606	(17,603)
Decrease (increase) in inventories	6,375	(5,141)
Increase (decrease) in notes and accounts payable-trade	(10,075)	6,922
Increase (decrease) in guarantee deposits received	(131)	(165)
Other, net	8,459	2,920
Subtotal	48,404	19,012
Interest and dividends income received	1,343	1,369
Interest expenses paid	(818)	(885)
Income taxes paid	(13,946)	(8,163)
Income taxes refund	2,026	5,574
Net cash provided by (used in) operating activities	¥ 37,010	¥ 16,906

See accompanying notes.

## Consolidated Statements of Cash Flows

	Millions of yen	
	2015	2016
<b>Cash flows from investing activities:</b>		
Payments into time deposits	¥ (2,704)	¥ (2,661)
Proceeds from withdrawal of time deposits	2,558	4,687
Purchase of short-term investment securities	(5,000)	(1,000)
Proceeds from redemption of securities	—	5,100
Purchase of trust beneficiary right	(3,924)	(1,241)
Proceeds from sales of trust beneficiary right	4,888	1,591
Purchase of property, plant and equipment	(16,115)	(14,277)
Proceeds from sales of property, plant and equipment	489	861
Purchase of intangible assets	(8,494)	(9,151)
Proceeds from sales of intangible assets	—	16
Purchase of investment securities	(7,068)	(14,405)
Proceeds from sales of investment securities	289	5,980
Proceeds from redemption of investment securities	400	2,446
Payments for investment in partnerships	(1,518)	(1,023)
Proceeds from distribution of investment in partnerships	128	449
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 9 (2))	(637)	(390)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation (Note 9 (3))	(96)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation (Note 9 (3))	—	425
Purchase of stocks of subsidiaries and affiliates	(1,039)	(10,949)
Payments of loans receivable	(459)	(308)
Collection of loans receivable	284	287
Payments for lease deposits	(1,245)	(858)
Collection of lease deposits	920	753
Other, net	609	(1,612)
Net cash provided by (used in) investing activities	(37,734)	(35,280)
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in short-term loans payable	—	(500)
Proceeds from long-term loans payable	10,900	29,880
Repayments of long-term loans payable	(12,423)	(13,361)
Proceeds from issuance of bonds	19,844	9,958
Redemption of bonds	(1,700)	(1,600)
Proceeds from exercise of stock options	1,078	3
Cash dividends paid	(9,690)	(9,422)
Purchase of treasury stock	(12,601)	(12)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(996)
Other, net (Note 9 (4))	(10,465)	336
Net cash provided by (used in) financing activities	(15,058)	14,285
<b>Effect of exchange rate change on cash and cash equivalents</b>	2,100	(1,128)
<b>Net increase (decrease) in cash and cash equivalents</b>	(13,681)	(5,217)
<b>Cash and cash equivalents at beginning of period</b>	202,741	190,837
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	1,778	73
<b>Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation</b>	—	(1)
<b>Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries</b>	—	(79)
<b>Cash and cash equivalents at end of period (Note 9 (1))</b>	¥190,837	¥185,613

See accompanying notes.

# Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

## NOTE 1

### Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2016 and 2015. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the classifications used in 2016. These changes had no impact on previously reported results of operations or shareholders' equity.

## NOTE 2

### Summary of Significant Accounting Policies

#### 1. Scope of consolidation

##### (1) Number of consolidated subsidiaries: 81

From the fiscal year ended March 31, 2016, the following were included in the Company's consolidated subsidiaries: Sammy Digital Security Co., Ltd. and two other companies, as they were newly established; Career Staff Co., Ltd., because of the Company's acquisition; SEGA Holdings Co., Ltd. and three other companies, establishment through an incorporation-type split; and Sammy Facility Service Co., Ltd. and one other company, because of the increase of importance. Play Heart, Inc., which was an equity-method affiliate in the previous fiscal year, has become a consolidated subsidiary from the current fiscal year due to additional acquisition of equity. With the deemed date of acquisition set at the end of the current fiscal year, only balance sheets of this company are consolidated and its financial results are recognized as equity in earnings/losses of affiliates for the current fiscal year.

From the fiscal year ended March 31, 2016, the following have been excluded from the scope of consolidation: Index Corporation, because of sale of the share of stocks; DxL CREATION Co., Ltd. and three other companies, because of liquidation; SEGA Networks Co., Ltd., because of merger with SEGA Games Co., Ltd.; and SAMMYHANBAI CORPORATION and one other company, because of merger with Sammy Corporation.

##### (2) Number of non-consolidated subsidiaries: 11

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: —

##### (2) Number of affiliated companies accounted for under the equity method: 12

The following have been included in the scope of application of the equity method: ZEEG Co. Ltd., as it was newly established; Cloudzilla, Inc., because of the Company's acquisition; and Zen Tiger S.à r.l., because of increase of importance.

The following have been excluded from the scope of application of the equity method: ELTEX, Inc., because of sale of the share of stocks; and Play Heart, Inc., because it has become a consolidated subsidiary due to additional acquisition of equity.

##### (3) Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method: 13

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

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, 2016.

Securities without quoted market prices:

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

The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Financial Instruments and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

## Notes to Consolidated Financial Statements

## 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 game machines: 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

Lease assets involving finance lease transactions of which the ownership is transferred to lessees:

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

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

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

## (3) 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 bonus payments to employees.

## 3) Provision for directors' bonuses

The estimated amount of bonuses was recorded to meet the bonus payments to Directors and Audit & Supervisory Board Members.

## 4) Provision for business restructuring

Of the expenses expected to be incurred in connection with business restructuring, those recognized to have incurred in the fiscal year are recorded.

## 5) Provision for directors' retirement benefits

Certain domestic consolidated subsidiaries provide provision for directors' retirement benefits to adequately cover payment of such benefits at the end of the applicable period in accordance with internal rules.

## 6) Provision for dismantling of fixed assets

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

## (4) Accounting method for retirement benefits

Attribution method for projected retirement benefits:

In calculating retirement benefit 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, 2016.

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.

## (5) Accounting for significant hedge

## 1) Hedge accounting

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

## 2) Hedging instruments and hedged items

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

Hedged item: Interest on loans payable, and 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.

## (6) 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.

## (7) 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.



#### (8) Consumption taxes

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

#### (9) Application of the Consolidated Taxation System

The Company applied the Consolidated Taxation System.

### NOTE 3

#### Changes in Accounting Policies

##### (1) Application of Accounting Standard for Business Combinations, etc.

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards"), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the prior year's comparative information were reclassified to conform to such changes in the current year's presentation.

In the consolidated statements of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities."

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

As a result, capital surplus as of the end of the current fiscal year decreased by ¥892 million. The impact of the change on profit and loss for the current fiscal year is immaterial.

#### (2) Change in revenue recognition for sales of merchandise and finished goods

Some of the Company's subsidiaries previously recognized revenue primarily on a shipping basis. Effective from the fiscal year ended March 31, 2016, the revenue recognition method was changed to an "on delivery" basis. From the fiscal year ended March 31, 2016, the Company's systems for identifying delivery dates were improved in line with the reinforcement of product delivery management mainly in the Pachislot and Pachinko Machine Business. Taking this improvement as an opportunity, the Company reconsidered the revenue recognition standard and judged that recognition of revenues upon delivery more accurately reflects actual transactions.

This change in the accounting policy is retroactively applied and consolidated financial statements for the previous fiscal year are presented after retroactive application of the change.

As a result, compared with the figures prior to retroactive application of the revised revenue recognition method, the following changes are made. On the consolidated statements of income and comprehensive income for the previous fiscal year, net sales decreased by ¥430 million, gross profit decreased by ¥127 million, and both operating income and income before income taxes decreased by ¥113 million. The beginning balance of retained earnings for the previous fiscal year decreased by ¥103 million, as cumulative effects of the change in the accounting policy are to be reflected in net assets at the beginning of the previous fiscal year.

The impacts on segment information and per share data are described in the related section.

#### (3) Change in revenue presentation in the field of digital game software

Regarding sales in the field of digital game software and platform fees and other associated expenses, some of the Company's subsidiaries previously recorded a net amount by offsetting net sales, the cost of sales and selling, general and administrative expenses. Effective from the fiscal year ended March 31, 2016, those subsidiaries changed the method to the recording of a gross amount of net sales, the cost of sales and selling, general and administrative expenses. Owing to the Company's decision to promote business development in the field of digital game software, which is positioned as a growth field in the Entertainment Contents Business, through reallocation of resources and new investment including overseas, quantitative materiality of the field of digital game software will increase from now on. Thus, the Company considered accounting treatment that more clearly presents the situation of the Company's business activities and concluded that presenting a gross amount of net sales and recording platform fees and other associated expenses as part of the cost of sales and selling, general and administrative expenses will more clearly represent the results of operations.

The change in the accounting policy is retroactively applied and the consolidated financial statements for the previous fiscal year are presented after retroactive application of the change.

As a result of this change, compared with the figures prior to retroactive application of the revised accounting treatment, net sales and gross profit for the previous fiscal year increased by ¥12,322 million and ¥621 million, respectively, but there is no impact on operating income and income before income taxes.

The impact on segment information is described in the related section.

## Notes to Consolidated Financial Statements

## NOTE 4

### Unapplied New Accounting Standards

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No. 26"))

#### (1) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

- 1) Treatment for an entity that does not meet any of the criteria in types 1 to 5;
- 2) Criteria for types 2 and 3;

3) Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;

4) Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and

5) Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

#### (2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

#### (3) Effects of application of the Guidance

The Company and its consolidated subsidiaries are currently in the process of determining the effects of application of the Implementation Guidance on the consolidated financial statements.

## NOTE 5

### Notes to Consolidated Balance Sheets

#### (1) Assets pledged

	2015	Millions of yen 2016
Shares of subsidiaries and associates	¥—	(Note) ¥23,119
Total	—	23,119

Note: For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. at the end of the current fiscal year, ¥40,074 million (KRW392,500 million), the shares of this company were provided as a pledge.

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

	2015	Millions of yen 2016
Investment securities (shares)	¥17,795	¥26,298
Investment securities (capital contributions)	288	938

#### (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, 2016 and 2015 are as follows:

	2015	Millions of yen 2016
Total amount of overdraft limit and commitment line agreements	¥70,925	¥119,625
Balance of executed loans	500	—
Unexecuted balance	70,425	119,625

**NOTE 6****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

	2015	2016
Cost of sales	¥6,195	¥4,588

Millions of yen

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

	2015	2016
	¥44,539	¥41,752

Millions of yen

(3) Gain on sales of noncurrent assets

	2015	2016
Buildings and structures	¥ —	¥ 2
Machinery, equipment and vehicles	—	4
Land	109	6
Other property, plant and equipment	3	55
Other intangible assets	—	0
Total	113	68

Millions of yen

(4) Loss on sales of noncurrent assets

	2015	2016
Machinery, equipment and vehicles	¥ —	¥ 8
Land	78	—
Other property, plant and equipment	1	64
Total	80	72

Millions of yen

(5) Restructuring loss

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Restructuring loss mainly resulted from business restructuring in the United States.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Restructuring loss mainly resulted from business restructuring in the United States and South Korea.

## Notes to Consolidated Financial Statements

## (6) Impairment loss

Previous fiscal year (From April 1, 2014 to March 31, 2015)

			Millions of yen
Use	Location	Type	Amount
Production facilities of pachislot and pachinko machines, etc.	Seto City, Aichi and 4 other locations	Buildings and structures	¥ 228
		Other property, plant and equipment	1,328
		Other intangible assets	32
		Land	33
Amusement facilities	Yokohama City, Kanagawa and 6 other locations	Buildings and structures	2,859
		Amusement machines and facilities	691
		Other property, plant and equipment	92
		Other intangible assets	68
Assets for business	Shibuya Ward, Tokyo and 10 other locations	Buildings and structures	338
		Amusement machines and facilities	563
		Other property, plant and equipment	417
		Other intangible assets	74
Other	Minato Ward, Tokyo	Goodwill	1,151
		Total	7,881

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 production facilities of pachislot and pachinko machines are calculated mainly as real estate appraisal amounts, while amusement facilities and assets for business are calculated as memorandum amounts mainly because future cash flows are not expected. Furthermore, recoverable value of goodwill is calculated by its useful value mainly with a discount rate of 17.5%.

Current fiscal year (From April 1, 2015 to March 31, 2016)

			Millions of yen
Use	Location	Type	Amount
Amusement facilities	Yokohama City, Kanagawa and 3 other locations	Buildings and structures	¥ 256
		Other property, plant and equipment	189
		Other intangible assets	1
Assets for business	Shinagawa Ward, Tokyo and 5 other locations	Buildings and structures	124
		Amusement machines and facilities	137
		Other property, plant and equipment	392
		Other intangible assets	204
Other	South Korea	Goodwill	22
		Total	1,329

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 are calculated as memorandum amounts mainly because future cash flows are not expected.

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

	2015	2016
Valuation difference on available-for-sale securities:		
The amount arising during the period	¥ 650	¥ (9,390)
Reclassification adjustments	(187)	(123)
Before adjustments to tax effects	463	(9,513)
The amount of tax effects	519	3,213
Valuation difference on available-for-sale securities	983	(6,300)
Deferred gains or losses on hedges:		
The amount arising during the period	14	(57)
Reclassification adjustments	—	—
Before adjustments to tax effects	14	(57)
The amount of tax effects	(5)	6
Deferred gains or losses on hedges	9	(51)
Revaluation reserve for land:		
The amount of tax effects	5	99
Revaluation reserve for land	5	99
Foreign currency translation adjustment:		
The amount arising during the period	4,337	(3,236)
Reclassification adjustments	—	(73)
Before adjustments to tax effects	4,337	(3,309)
The amount of tax effects	—	—
Foreign currency translation adjustment	4,337	(3,309)
Remeasurements of defined benefit plans, net of tax:		
The amount arising during the period	507	(1,972)
Reclassification adjustments	(220)	(32)
Before adjustments to tax effects	287	(2,004)
The amount of tax effects	(525)	457
Remeasurements of defined benefit plans, net of tax	(238)	(1,547)
Share of other comprehensive income of associates accounted for using equity method:		
The amount arising during the period	1,275	(1,077)
Reclassification adjustments	—	—
Share of other comprehensive income of associates accounted for using equity method	1,275	(1,077)
Total other comprehensive income	6,373	(12,186)

**NOTE 7**

**Notes to Consolidated Statements of Changes in Net Assets**

Previous fiscal year (From April 1, 2014 to March 31, 2015)

**1. Number of outstanding common stock**

Type of stock	As of April 1, 2014	Increase	Decrease	As of March 31, 2015
Common stock	266,229,476	—	—	266,229,476

**2. Number of outstanding treasury stock**

Type of stock	As of April 1, 2014	Increase	Decrease	As of March 31, 2015
Common stock	22,627,725	6,911,505	737,441	28,801,789

(Summary of the change)

Increase

Increase due to purchase in the market by resolution  
at the Board of Directors' meeting 6,901,600 shares  
Increase due to purchase of odd-lot stock 9,905 shares

Decrease

Decrease due to exercise of stock options 736,300 shares  
Decrease due to sales of odd-lot stock 1,141 shares



## Notes to Consolidated Financial Statements

## 3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)			Balance at March 31, 2015 (Millions of yen)
			As of April 1, 2014	Increase	Decrease	
The Company	Subscription rights to shares as stock options	—	—	—	—	¥832
Total			—	—	—	832

## 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 9, 2014	Common stock	¥4,872	¥20	March 31, 2014	May 28, 2014
Board of Directors' meeting held on October 31, 2014	Common stock	4,886	20	September 30, 2014	December 1, 2014

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2015, 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, 2015	Common stock	Retained earnings	¥4,748	¥20	March 31, 2015	May 27, 2015

Current fiscal year (From April 1, 2015 to March 31, 2016)

## 1. Number of outstanding common stock

Type of stock	Shares			
	As of April 1, 2015	Increase	Decrease	As of March 31, 2016
Common stock	266,229,476	—	—	266,229,476

## 2. Number of outstanding treasury stock

Type of stock	Shares			
	As of April 1, 2015	Increase	Decrease	As of March 31, 2016
Common stock	28,801,789	3,107,179	74,161	31,834,807

(Summary of the change)

Increase	Decrease
Increase due to purchase in the market by resolution at the Board of Directors' meeting	Decrease due to exercise of stock options
3,098,400 shares	73,500 shares
Increase due to purchase of odd-lot stock	Decrease due to sales of odd-lot stock
8,779 shares	661 shares

## 3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)			Balance at March 31, 2016 (Millions of yen)
			As of April 1, 2015	Increase	Decrease	
The Company	Subscription rights to shares as stock options	—	—	—	—	¥801
Total			—	—	—	801

## 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 11, 2015	Common stock	¥4,748	¥20	March 31, 2015	May 27, 2015
Board of Directors' meeting held on October 30, 2015	Common stock	4,687	20	September 30, 2015	December 1, 2015

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2016, 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 13, 2016	Common stock	Retained earnings	<b>¥4,687</b>	<b>¥20</b>	March 31, 2016	May 27, 2016

## NOTE 8

### Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2016 and 2015 consisted of the following:

	2015	2016
Cash and deposits	¥102,260	<b>¥141,316</b>
Short-term investment securities	97,210	<b>48,401</b>
Total	199,470	<b>189,718</b>
Time deposits with maturities of more than three months	(3,432)	<b>(2,704)</b>
Short-term investment securities with period from the acquisition date to the redemption date exceeding three months	(5,200)	<b>(1,400)</b>
Cash and cash equivalents	190,837	<b>185,613</b>

(2) Assets and liabilities of the company which has become a consolidated subsidiary due to acquisition of shares

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Demiurge Studios, Inc.

	Millions of yen
Current assets	<b>¥ 168</b>
Noncurrent assets	<b>70</b>
Goodwill	<b>883</b>
Current liabilities	<b>(30)</b>
Foreign currency translation adjustment	<b>(2)</b>
Acquisition cost of shares	<b>1,090</b>
Cash and cash equivalents	<b>(106)</b>
Accounts payable—other, etc.	<b>(498)</b>
Payments for acquisition of shares, net	<b>(485)</b>

Current fiscal year (From April 1, 2015 to March 31, 2016)

Play Heart, Inc.

	Millions of yen
Current assets	<b>¥ 87</b>
Noncurrent assets	<b>68</b>
Goodwill	<b>441</b>
Current liabilities	<b>(51)</b>
Non-controlling interests	<b>(5)</b>
Total	<b>541</b>
Acquisition cost before gaining of control	<b>(95)</b>
Acquisition cost of additional shares	<b>446</b>
Cash and cash equivalents	<b>(85)</b>
Payments for acquisition of shares, net	<b>(360)</b>

## Notes to Consolidated Financial Statements

(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, 2014 to March 31, 2015)

Sammy Design Co., Ltd.

	Millions of yen
Current assets	¥ 1,892
Noncurrent assets	529
Current liabilities	(1,572)
Noncurrent liabilities	(50)
Loss on sales of shares, etc.	(319)
Sales price of shares	480
Cash and cash equivalents	(576)
Payments for sales of shares, net	(96)

Current fiscal year (From April 1, 2015 to March 31, 2016)

Index Corporation

	Millions of yen
Current assets	¥ 813
Noncurrent assets	316
Current liabilities	(304)
Noncurrent liabilities	(1)
Gain on sales of shares, etc.	16
Sales price of shares	839
Cash and cash equivalents	(414)
Proceeds from sales of shares, net	425

(4) Other

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Out of the ¥20,000 million of contribution for purchase of treasury stock, ¥7,413 million of money held in trust was included in "Other, net" as of March 31, 2015.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Out of the ¥20,000 million of contribution for purchase of treasury stock, ¥1,876 million of refunded money held in trust was included in "Other, net" as of March 31, 2016.

## NOTE 9

### 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, 2016 and 2015, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous fiscal year (From April 1, 2014 to March 31, 2015)

	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, 2015 to March 31, 2016)

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

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

Future lease payments as of March 31, 2016 and 2015

	Millions of yen	
	2015	2016
Due within one year	¥ 151	<b>¥ 151</b>
Due after one year	1,224	<b>1,072</b>
Total	1,375	<b>1,224</b>

Accumulated impairment loss on leased assets as of March 31, 2016 and 2015

	Millions of yen	
	2015	2016
Accumulated impairment loss on leased assets	¥1,084	<b>¥956</b>

(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, 2016 and 2015, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen	
	2015	2016
Lease payments	¥ 151	<b>¥151</b>
Reversal of allowance for impairment loss on leased assets	—	<b>128</b>
Depreciation	124	<b>124</b>
Interest expenses	30	<b>27</b>
Impairment loss	1,084	<b>—</b>

## Notes to Consolidated Financial Statements

**1. Finance lease transactions****(1) Details of lease assets**

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

**2. Operating lease transactions**

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2016 and 2015 are as follows:

	2015	2016
Due within one year	¥2,422	¥1,057
Due after one year	2,768	1,322
Total	5,191	2,380

Millions of yen

**NOTE 10**  
**Financial Instruments****1. Outline of financial instruments****(1) Policy for financial instruments**

SEGA SAMMY Group (the "Group") signed an agreement concerning commitment lines 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

**(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.

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 "(5) 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). 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.

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

Trade payables and loans are exposed to liquidity risk. In the Group, liquidity risk is managed by setting an appropriate fund balance for each company, and by each company updating fund plans monthly to

maintain the balance that exceeds the set fund balance, and by the Company confirming each company's cash position.

#### (4) Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 12 - Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

## 2. Matters concerning the fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments as 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, 2014 to March 31, 2015)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥102,260	¥102,260	¥ —
(2) Notes and accounts receivable—trade	39,239	39,239	(0)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	2,373	2,376	2
2) Available-for-sale securities (**1)	138,879	138,879	—
3) Equity securities issued by affiliated companies	886	1,016	130
<b>Total assets</b>	<b>283,639</b>	<b>283,772</b>	<b>132</b>
(1) Notes and accounts payable—trade	26,964	26,964	—
(2) Short-term loans payable	13,842	13,842	—
(3) Long-term loans payable	32,918	32,837	81
(4) Current portion of corporate bonds	1,600	1,600	—
(5) Corporate bonds payable	56,200	55,854	345
<b>Total liabilities</b>	<b>131,525</b>	<b>131,098</b>	<b>426</b>
Derivative transactions (**2)			
1) Derivative transactions to which hedge accounting is not applied	(1)	(1)	—
2) Derivative transactions to which hedge accounting is applied	17	17	—
<b>Total derivative transactions</b>	<b>16</b>	<b>16</b>	<b>—</b>

\*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.

## Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2015 to March 31, 2016)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥141,316	¥141,316	¥ —
(2) Notes and accounts receivable—trade	55,612	55,612	(0)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	3,374	3,378	4
2) Available-for-sale securities <sup>(*1)</sup>	84,629	84,629	—
3) Equity securities issued by affiliated companies	892	791	(100)
Total assets	285,825	285,728	(97)
(1) Notes and accounts payable—trade	33,011	33,011	—
(2) Short-term loans payable	14,002	14,002	—
(3) Long-term loans payable	48,895	48,870	25
(4) Current portion of corporate bonds	14,200	14,200	—
(5) Corporate bonds payable	52,000	51,713	286
Total liabilities	162,110	161,798	311
Derivative transactions <sup>(*2)</sup>			
1) Derivative transactions to which hedge accounting is not applied	4	4	—
2) Derivative transactions to which hedge accounting is applied	(39)	(39)	—
Total derivative transactions	(35)	(35)	—

\*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 11 - Investment Securities."

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable and (4) Current portion of corporate bonds

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

(3) Long-term loans payable and (5) Corporate bonds payable

These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts 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 12 - Derivative Transactions."

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

	Millions of yen	
Item	2015	2016
Unlisted equity securities, etc.	¥ 3,542	¥ 3,011
Investments in limited liability investment partnerships, etc.	4,382	6,653
Equity securities issued by non-consolidated subsidiaries	436	1,195
Equity securities issued by affiliated companies	16,472	24,211
Investments in capital of affiliated companies	288	938

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.

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

Previous fiscal year (From April 1, 2014 to March 31, 2015)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥102,260	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	39,229	9	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	100	1,500	650	100
Available-for-sale securities with maturities (Negotiable certificates of deposit)	63,600	—	—	—
Available-for-sale securities with maturities (Other)*	20,099	—	200	1,800
Total	225,290	1,509	850	1,900

\* 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, 2015 to March 31, 2016)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥141,316	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	55,571	41	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	400	1,800	950	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	32,000	—	—	—
Available-for-sale securities with maturities (Other)*	16,500	5,000	—	400
Total	245,788	6,841	950	600

\* 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, 2015)

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	¥13,842	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	14,010	6,372	7,515	5,010	9
Corporate bonds payable	1,600	14,200	19,500	10,000	12,500	—
Lease obligations	536	1,846	230	120	75	183
Other interest-bearing debt:						
Accounts payable—facilities	1,318	1,329	1,079	451	—	—

Current fiscal year (As of March 31, 2016)

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	¥14,002	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	6,365	15,849	13,350	13,325	4
Corporate bonds payable	14,200	19,500	10,000	12,500	10,000	—
Lease obligations	1,920	339	213	106	65	136
Other interest-bearing debt:						
Accounts payable—facilities	1,403	1,154	528	77	7	—

## Notes to Consolidated Financial Statements

## NOTE 11

## Investment Securities

## 1. Held-to-maturity debt securities

Previous fiscal year (As of March 31, 2015)

(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	1,554	1,566	11
3) Other	—	—	—
Total	1,554	1,566	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	818	809	(8)
3) Other	—	—	—
Total	818	809	(8)

Current fiscal year (As of March 31, 2016)

(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	2,471	2,486	15
3) Other	—	—	—
Total	2,471	2,486	15

(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	903	892	(11)
3) Other	—	—	—
Total	903	892	(11)

## 2. Available-for-sale securities

Previous fiscal year (As of March 31, 2015)

(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	¥36,328	¥10,605	¥25,722
2) Bonds	1,417	1,400	17
3) Other	3,417	3,400	17
Total	41,163	15,405	25,758

(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	¥ 7	¥ 8	¥(0)
2) Bonds	5,598	5,600	(1)
3) Other	92,110	92,110	—
Total	97,715	97,718	(2)

Current fiscal year (As of March 31, 2016)

(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	¥26,823	¥ 9,870	¥16,952
2) Bonds	606	600	6
3) Other	1,412	1,373	39
Total	28,842	11,843	16,998

(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	¥ 1,972	¥ 2,646	¥ (673)
2) Bonds	5,133	5,256	(123)
3) Other	48,681	48,924	(243)
Total	55,787	56,827	(1,040)

Note: Compound financial instruments are included in "Bonds" and valuation difference of ¥1,127 million is recorded under "Other expenses."

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

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥289	¥187	¥—
2) Bonds	—	—	—
3) Other	—	—	—
Total	289	187	—

Current fiscal year (From April 1, 2015 to March 31, 2016)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥ 964	¥106	¥—
2) Bonds	—	—	—
3) Other	5,015	16	—
Total	5,980	123	—

### 4. Impairment loss on securities

Previous fiscal year (From April 1, 2014 to March 31, 2015)

During the fiscal year ended March 31, 2015, the Group recognized impairment loss on available-for-sale securities in an amount of ¥100 million.

Current fiscal year (From April 1, 2015 to March 31, 2016)

During the fiscal year ended March 31, 2016, the Group recognized impairment loss on available-for-sale securities in an amount of ¥19 million.

## Notes to Consolidated Financial Statements

## NOTE 12

### Derivative Transactions

#### 1. Derivative transactions to which hedge accounting is not applied

##### (1) Currency-related derivatives

Previous fiscal year (As of March 31, 2015)

					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	¥26	¥—	¥(1)	¥(1)
	Euro	16	—	0	0
Total		43	—	(1)	(1)

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

Current fiscal year (As of March 31, 2016)

					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	¥129	¥—	¥3	¥3
	Euro	35	—	0	0
Total		165	—	4	4

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

##### (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 11 - Investment Securities."

#### 2. Derivative transactions to which hedge accounting is applied

##### (1) Currency-related derivatives

Previous fiscal year (As of March 31, 2015)

						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	¥585	¥—	¥17	
Payables translated using forward exchange contract rates	Forward exchange contracts:					
	Buying					
	U.S. dollar	Accounts payable-trade	82	—	Note 2	

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

2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable-trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable-trade, since they are used for recording accounts payable-trade as hedged items.

Current fiscal year (As of March 31, 2016)

						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	¥956	¥—	¥(39)	
Payables translated using forward exchange contract rates	Forward exchange contracts:					
	Buying					
	U.S. dollar	Accounts payable-trade	150	—	Note 2	

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

2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable-trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable-trade, since they are used for recording accounts payable-trade as hedged items.



## (2) Interest rate-related derivatives

Previous fiscal year (As of March 31, 2015)

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥ 5,730	¥2,778	Note
Special treatment for interest rate and currency swaps	Interest rate and currency swaps: Floating rate into fixed rate	Long-term loans payable	5,988	5,988	Note
Total			11,718	8,766	—

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

Current fiscal year (As of March 31, 2016)

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	<b>¥35,730</b>	<b>¥31,725</b>	<b>Note</b>
Special treatment for interest rate and currency swaps	Interest rate and currency swaps: Floating rate into fixed rate	Long-term loans payable	<b>5,988</b>	<b>988</b>	<b>Note</b>
Total			<b>41,718</b>	<b>32,713</b>	<b>—</b>

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

## NOTE 13

### Retirement Benefits

#### 1. Overview of retirement benefit plans

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

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

#### 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	
		2015	2016
Projected benefit obligations at the beginning of the period		¥19,777	<b>¥19,724</b>
Cumulative effects of changes in accounting policies		(812)	—
Balances of projected benefit obligations at the beginning of the period which reflect changes in accounting policies		18,965	<b>19,724</b>
Service costs—benefits earned during the year		1,618	<b>1,683</b>
Interest cost on projected benefit obligations		229	<b>173</b>
Actuarial differences accrued		(317)	<b>1,754</b>
Retirement benefit paid		(802)	<b>(889)</b>
Other		30	<b>60</b>
Projected benefit obligations at the end of the period		19,724	<b>22,506</b>

## Notes to Consolidated Financial Statements

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

	2015	2016
Plan assets at the beginning of the period	¥14,328	¥16,635
Expected return on plan assets	263	321
Actuarial differences accrued	185	(117)
Contribution of employer	2,326	3,207
Retirement benefit paid	(467)	(834)
Plan assets at the end of the period	16,635	19,211

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

	2015	2016
Net defined benefit liability at the beginning of the period	¥603	¥ 628
Retirement benefit expenses	123	124
Retirement benefit paid	(76)	(139)
Other	(22)	(1)
Net defined benefit liability at the end of the period	628	612

## (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 sheet

	2015	2016
Funded projected benefit obligations	¥ 19,724	¥ 22,506
Plan assets	(16,635)	(19,211)
	3,088	3,294
Unfunded projected benefit obligations	628	612
Net amount of liabilities and assets recorded in the consolidated balance sheet	3,716	3,906
Net defined benefit liability	3,716	3,906
Net amount of liabilities and assets recorded in the consolidated balance sheet	3,716	3,906

Note: Retirement benefit scheme applying the simplified method is included.

## (5) Breakdown of retirement benefit expenses

	2015	2016
Service costs—benefits earned during the year	¥1,618	¥1,683
Interest cost on projected benefit obligations	229	173
Expected return on plan assets	(263)	(321)
Amortization of actuarial difference	(227)	(122)
Amortization of prior service cost	45	44
Retirement benefit expenses using the simplified method	123	124
Other	41	71
Retirement benefit expenses of defined benefit pension plan	1,567	1,653

Note: Other than the retirement benefit expenses stated above, early extra retirement payments of ¥1,868 million and ¥1,956 million were recorded under other expenses for the years ended March 31, 2015 and 2016, respectively.

(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).

	2015	2016
Actuarial difference	¥287	¥(2,004)
Total	287	(2,004)

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).

	2015	2016
Unrecognized actuarial differences	¥3,107	¥1,102
Total	3,107	1,102

Millions of yen

(8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

	2015	2016
Debt securities	62%	62%
Share of stock	21	17
Cash and deposits	1	11
General account	15	9
Other	0	1
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

	2015	2016
Discount rate	0.7–1.4%	0.0–1.1%
Long-term expected rate of return on plan assets	1.0–2.0%	1.6–2.5%

### 3. Defined contribution pension plans

The amount to be paid by consolidated subsidiaries to the defined contribution pension plans were ¥300 million and ¥268 million for the years ended March 31, 2015 and 2016, respectively.

## Notes to Consolidated Financial Statements

## NOTE 14

### Stock Option Plan

#### 1. Contents, scale and movement of stock options

Previous fiscal year (From April 1, 2014 to March 31, 2015)

(1) The following table summarizes the contents of stock options as of March 31, 2015.

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

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

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

(2) The following table summarizes the scale and movement of stock as of March 31, 2015.

Shares					
Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Not exercisable stock options					
Stock options outstanding at April 1, 2014	—	—	—	250,000	3,432,200
Stock options granted	—	—	—	—	—
Forfeitures	—	—	—	—	9,800
Conversion to exercisable stock options	—	—	—	250,000	3,422,400
Stock options outstanding at March 31, 2015	—	—	—	—	—
Exercisable stock options					
Stock options outstanding at April 1, 2014	47,900	979,400	233,900	—	—
Conversion from not exercisable stock options	—	—	—	250,000	3,422,400
Stock options exercised	44,100	649,600	7,500	—	35,100
Forfeitures	3,800	329,800	226,400	—	32,500
Stock options outstanding at March 31, 2015	—	—	—	250,000	3,354,800

Shares		
Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Not exercisable stock options		
Stock options outstanding at April 1, 2014	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2015	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2014	34,100	300
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	2,400	100
Stock options outstanding at March 31, 2015	31,700	200

The following table summarizes the price information of stock options as of March 31, 2015.

Yen					
Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	¥1,312	¥1,312	¥1,753	¥1,686	¥1,686
Average market price of the stock at the time of exercise	1,978	2,010	2,145	—	1,763
Fair value of the stock option at the date of grant	306	306	386	231	231

## Notes to Consolidated Financial Statements

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

Current fiscal year (From April 1, 2015 to March 31, 2016)

(1) The following table summarizes the contents of stock options as of March 31, 2016.

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

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



(2) The following table summarizes the scale and movement of stock as of March 31, 2016.

Shares				
Company name	The Company	The Company	Butterfly Corporation	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	October 29, 2010	January 19, 2011
Not exercisable stock options				
Stock options outstanding at April 1, 2015	—	—	—	—
Stock options granted	—	—	—	—
Forfeitures	—	—	—	—
Conversion to exercisable stock options	—	—	—	—
Stock options outstanding at March 31, 2016	—	—	—	—
Exercisable stock options				
Stock options outstanding at April 1, 2015	250,000	3,354,800	31,700	200
Conversion from not exercisable stock options	—	—	—	—
Stock options exercised	70,000	3,500	—	—
Forfeitures	—	62,800	24,000	100
Stock options outstanding at March 31, 2016	180,000	3,288,500	7,700	100

The following table summarizes the price information of stock options as of March 31, 2016.

Yen				
Company name	The Company	The Company	Butterfly Corporation	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	October 29, 2010	January 19, 2011
Exercise price	¥1,686	¥1,686	¥2,000	¥2,000
Average market price of the stock at the time of exercise	1,750	1,680	—	—
Fair value of the stock option at the date of grant	231	231	—	—

## 2. Estimation of fair value of the stock options

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Not applicable

Current fiscal year (From April 1, 2015 to March 31, 2016)

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.

## Notes to Consolidated Financial Statements

## NOTE 15

### Income Taxes

#### 1. Significant components of deferred tax assets and liabilities

	2015	2016
Millions of yen		
Deferred tax assets:		
Allowance for doubtful accounts	¥ 831	¥ 1,305
Loss on valuation of inventories	2,294	1,780
Provision for bonuses	1,586	1,570
Net defined benefit liability	1,718	1,143
Depreciation expense	12,300	11,749
Loss on valuation of investment securities	485	410
Impairment loss	3,185	2,782
Other	21,818	20,170
Tax loss carryforward	74,405	72,205
Total	118,625	113,117
Valuation allowance	(106,232)	(101,403)
Offset against deferred tax liabilities	(5,681)	(4,753)
Net deferred tax assets	6,711	6,961
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(8,860)	(5,610)
Other	(1,846)	(3,077)
Subtotal of deferred tax liabilities	(10,706)	(8,688)
Offset against deferred tax assets	5,681	4,753
Total	(5,025)	(3,934)
Recorded deferred tax assets	1,685	3,026

Note: As stated in "Note 3 – Changes in Accounting Policies," some of the consolidated subsidiaries of the Company have changed revenue recognition methods for sales of merchandise and finished goods, etc. Accordingly, the amounts for the fiscal year ended March 31, 2015 are restated after reflecting retroactive treatments.

#### 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, 2015 and 2016

	2015	2016
Statutory tax rate	35.6%	33.1%
(Reconciliation)		
Changes in valuation allowance	(229.8)	40.7
Permanently non-deductible expenses including entertainment expenses	69.3	8.2
Amortization of goodwill	52.2	3.2
Difference of tax rates for consolidated subsidiaries	(0.1)	0.6
Tax credit for experiment and research expenses	(33.0)	(5.5)
Tax loss carryforward	558.7	(3.9)
Effect of adjustment for consolidation	143.4	(28.1)
Adjustments of deferred tax assets for enacted changes in tax laws and rates	32.9	1.7
Other	0.1	3.4
Effective tax rate for financial statement purposes	629.4	53.2

Note: As stated in "Note 3 – Changes in Accounting Policies," some of the consolidated subsidiaries of the Company have changed revenue recognition methods for sales of merchandise and finished goods, etc. Accordingly, the amounts for the fiscal year ended March 31, 2015 are restated after reflecting retroactive treatments.

#### 3. Amendments to deferred tax assets and deferred tax liabilities due to changes in income tax rate

With the enactment of the "Act on Partial Revision to the Income Tax Act" (Act No. 15 of 2016) and the "Act on Partial Revision to the Local Tax Act" (Act No. 13 of 2016) in the National Diet on March 29, 2016, the income tax rate will be reduced from consolidated fiscal years beginning on or after April 1, 2016.

As a result of the changes, net deferred tax assets at the end of the fiscal year ended March 31, 2016, income taxes–deferred, valuation difference on available-for-sale securities, revaluation reserve for land and remeasurements of defined benefit plans have increased by ¥243 million, ¥200 million, ¥340 million, ¥99 million and ¥4 million, respectively.

## NOTE 16

### Business Combination

#### 1. Transactions under common control

The Company established the Group Structure Reform Division, and has held discussions to review the earnings structure of the entire Group from a medium- to long-term perspective, and implemented the organizational restructuring within the Group as well as the change of trade names of some subsidiaries on April 1, 2015 based on the resolutions of the Board of Directors' meetings held on January 30, 2015 and February 12, 2015.

##### (1) Purpose of the corporate divestiture and merger

As part of the measures for restructuring into three business groups, the Company implemented the organizational restructuring within the Group on April 1, 2015 as a policy to clarify the responsible business field of each Group company and thereby continuously review businesses owned by the Group to promote further business reorganization.

##### (2) Overview of the corporate divestiture

###### 1) Legal form of the business combination

An incorporation-type demerger, designating SEGA CORPORATION as a transferor company and establishing new companies (SEGA Holdings Co., Ltd., SEGA Interactive Co., Ltd. and SEGA LIVE CREATION Inc.)

###### 2) Overview of newly established companies

Name	SEGA Holdings Co., Ltd. (As of April 1, 2015)	SEGA Interactive Co., Ltd. (As of April 1, 2015)	SEGA LIVE CREATION Inc. (As of April 1, 2015)
Business description	Management of its Group as the holding company of the SEGA Group and all related businesses	Development, manufacture and sales of amusement machines	Planning, development and operation of entertainment theme parks in the Resort Business
Head office	1-39-9, Higashi-Shinagawa, Shinagawa Ward, Tokyo	1-2-12, Haneda, Ota Ward, Tokyo	1-39-9, Higashi-Shinagawa, Shinagawa Ward, Tokyo
Capital stock	¥100 million	¥100 million	¥100 million
Principal shareholder and shareholding ratios	SEGA SAMMY HOLDINGS INC.:100%	SEGA Holdings Co., Ltd.: 100%	SEGA SAMMY HOLDINGS INC.: 100%

##### (3) Overview of the merger

###### 1) Legal form of the business combination

An absorption-type merger, designating SEGA CORPORATION as the surviving company and dissolving SEGA Networks Co., Ltd. as the absorbed company

###### 2) Overview of merging companies

Name	SEGA CORPORATION (Surviving company) (As of April 1, 2015)	SEGA Networks Co., Ltd. (Absorbed company) (As of April 1, 2015)
Business description	Development, production and sales of amusement machines, development and sales of game software	Business involved in the planning, development, design, sales, delivery, and management and operation of products and services that utilize the Internet and other means of communication
Head office	1-2-12, Haneda, Ota Ward, Tokyo	1-6-1, Roppongi, Minato Ward, Tokyo
Capital stock	¥100 million	¥10 million

\* SEGA CORPORATION changed its trade name to SEGA Games Co., Ltd. on April 1, 2015.

##### (4) Overview of the accounting procedures applied

Based on the "Business Combinations Accounting Standard" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013), the Company applied an accounting procedure as a transaction under common control.

## Notes to Consolidated Financial Statements

**2. Business combination through acquisition****(1) Details and amounts of adjustments in case of significant adjustments to the initial allocation of acquisition cost**

In the previous fiscal year, allocation of acquisition cost for the acquisition of Demiurge Studios, Inc. was not finalized, as it was calculated with a provisional accounting treatment, based on available and reasonable information as of the time of the preparation of the consolidated financial statements.

The adjusted amounts of goodwill following the revision of the allocation of acquisition cost for the fiscal year ended March 31, 2016 are as described below.

Adjusted items	Millions of yen
	Amount of adjustment to goodwill
Goodwill (before adjustment)	¥ 883
Intangible assets	(203)
Amount of adjustment to goodwill	(203)
Goodwill (after adjustment)	680

**(2) Goodwill recognized, reason for recognition, and amortization method and period**

1) Goodwill recognized: ¥680 million

2) Reason for recognition

Goodwill was recognized as a result of reasonable estimate of the expected future excess earning power from future business development.

3) Amortization method and period

10 years using the straight-line method

**(3) Amount allocated to intangible assets other than goodwill, breakdown by category, and amortization method and period**

1) Amount allocated to intangible assets: ¥203 million

2) Breakdown by category

Intangible assets related to contracts: ¥203 million

3) Amortization method and period

10 years using the straight-line method

## NOTE 17

### 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.

Line of business at each reporting segment is as follows:

Segment	Main product and business
Pachislot and Pachinko Machine 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 theme parks in the integrated resorts business and other facilities businesses

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 Machine Business,” the “Entertainment Contents Business” and the “Resort Business” are the reporting segments.

(Change in classification of reporting segments)

Effective from the fiscal year ended March 31, 2016, in line with the reorganization, the classification of the reporting segments has been revised. The reporting segments, which previously consisted of the "Pachislot and Pachinko Machine Business," the "Amusement Machines Sales Business," the "Amusement Center Operations Business" and the "Consumer Business," now consist of the "Pachislot and Pachinko Machine Business," the "Entertainment Contents Business" and the "Resort Business," in line with the reorganization within the Group as of April 1, 2015.

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

## 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."

(Change in revenue recognition for sales of merchandise and finished goods)

As described in "Note 3 – Changes in Accounting Policies," some of the Company's subsidiaries changed revenue recognition for sales of merchandise and finished goods. The change in the accounting policy is retroactively applied and the segment information of the previous fiscal year is presented after retroactive application of the change.

As a result of this change, compared with figures prior to retroactive application, net sales and segment income (loss) of the previous fiscal year changed as follows: in the Pachislot and Pachinko Machine Business, net sales decreased by ¥482 million and segment income decreased by ¥151 million; in the Entertainment Contents Business, net sales increased by ¥51 million and segment income increased by ¥37 million.

(Change in revenue presentation in the field of digital game software)

As described in "Note 3 – Changes in Accounting Policies," some of the Company's subsidiaries changed revenue presentation in the field of digital game software. The change in the accounting policy is retroactively applied and the segment information of the previous fiscal year is presented after retroactive application of the change.

As a result of this change, compared with figures prior to retroactive application, net sales of the previous fiscal year increased by ¥12,322 million in the Entertainment Contents Business but there is no impact on segment income (loss).

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

Previous fiscal year (From April 1, 2014 to March 31, 2015)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal		
Net sales:						
Sales to third parties	¥152,174	¥199,663	¥14,974	¥366,813	¥ —	¥366,813
Inter-segment sales and transfers	589	1,047	80	1,716	(1,716)	—
Total	152,763	200,711	15,054	368,530	(1,716)	366,813
Segment income (loss)	25,780	63	(2,336)	23,507	(6,012)	17,495
Segment assets	91,851	194,282	43,569	329,703	198,955	528,659
Other items:						
Depreciation	6,484	13,666	995	21,147	600	21,747
Investments in associates accounted for by the equity method	325	387	15,234	15,947	886	16,833
Increases in property, plant and equipment and intangible assets	6,949	19,511	2,162	28,623	157	28,780

Notes: 1. Elimination of inter-segment transactions of ¥41 million and general corporate expenses of ¥(6,053) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(6,012) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.

2. Adjustments for segment assets of ¥198,955 million includes elimination of inter-segment transactions of ¥(25,455) million and general corporate assets of ¥224,411 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 associates accounted for using the equity method are investments in associates 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

Current fiscal year (From April 1, 2015 to March 31, 2016)

	Reporting segment				Millions of yen	
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal	Adjustment (Note)	Amount in consolidated financial statements
Net sales:						
Sales to third parties	¥132,732	¥198,856	¥16,392	¥347,981	¥ —	¥347,981
Inter-segment sales and transfers	675	863	57	1,596	(1,596)	—
Total	133,407	199,720	16,450	349,577	(1,596)	347,981
Segment income (loss)	21,548	3,653	(1,825)	23,376	(5,759)	17,617
Segment assets	109,997	181,328	56,208	347,534	185,422	532,957
Other items:						
Depreciation	6,325	13,049	1,047	20,422	592	21,015
Investments in associates accounted for by the equity method	545	825	23,127	24,498	892	25,390
Increases in property, plant and equipment and intangible assets	5,014	17,867	5,045	27,927	119	28,046

Notes: 1. Elimination of inter-segment transactions of ¥98 million and general corporate expenses of ¥(5,858) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(5,759) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.  
2. Adjustments for segment assets of ¥185,422 million includes elimination of inter-segment transactions of ¥(33,979) million and general corporate assets of ¥219,401 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 associates accounted for using the equity method are investments in associates 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.

[Related information]

Previous fiscal year (From April 1, 2014 to March 31, 2015)

**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
¥325,414	¥19,668	¥13,487	¥8,245	¥366,813

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
¥83,968	¥13,532	¥2,771	¥100,272

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, 2015 to March 31, 2016)

### 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
¥312,726	¥20,377	¥5,883	¥8,993	¥347,981

(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
¥84,004	¥12,908	¥4,167	¥101,080

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.

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

Previous fiscal year (From April 1, 2014 to March 31, 2015)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal		
Impairment loss	¥1,623	¥5,963	¥294	¥7,881	¥—	¥7,881

Current fiscal year (From April 1, 2015 to March 31, 2016)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal		
Impairment loss	¥—	¥1,232	¥97	¥1,329	¥—	¥1,329

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

Previous fiscal year (From April 1, 2014 to March 31, 2015)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal		
Amortization	¥241	¥ 3,383	¥ —	¥ 3,625	¥—	¥ 3,625
Balance as of March 31, 2015	65	14,404	198	14,668	—	14,668

## Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2015 to March 31, 2016)

	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal		
Amortization	¥44	¥ 2,253	¥ 66	¥ 2,364	¥—	¥ 2,364
Balance as of March 31, 2016	38	12,030	132	12,201	—	12,201

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

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Not applicable

Current fiscal year (From April 1, 2015 to March 31, 2016)

Not applicable

## NOTE 18

### 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, 2014 to March 31, 2015)

Not applicable

Current fiscal year (From April 1, 2015 to March 31, 2016)

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)	¥ 9,252	—	¥—
		Provision of security (Note 2)	23,119	—	—

Note: 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, 2014 to March 31, 2015)

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	¥ 2
		Payment of outsourcing fee (Note 2)	9	—	—
		Rental income from real estate and equipment (Note 2)	3	Current liabilities— other	0

Note: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.

2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2015 to March 31, 2016)

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
Haruki Satomi	Director of the Company	Exercise of stock options (Note 1)	¥118	—	¥—
FSC Co., Ltd. (Note 2)	Non-life insurance agent	Payment of insurance (Note 3)	11	Prepaid expenses	6
		Payment of outsourcing fee (Note 3)	0	—	—
		Rental income from real estate and equipment (Note 3)	3	—	—

Notes: 1. Stock options which were granted based on the resolution at the ordinary Board of Directors' meeting held on July 31, 2012 and exercised during the current fiscal year are listed. The transaction amount listed herein is calculated by multiplying the number of shares granted upon exercise of stock options during the current fiscal year by the amount of payment upon exercise.

2. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.

3. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

4. 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, 2014 to March 31, 2015)

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
FSC Co., Ltd. (Note 1)	Non-life insurance agent	Payment of insurance (Note 2)	¥42	Prepaid expenses	¥24
				Accrued expenses	0
		Receipt and remittance of insurance	1	—	—
		Payment of welfare expenses (Note 2)	2	—	—

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.

2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2015 to March 31, 2016)

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
FSC Co., Ltd. (Note 1)	Non-life insurance agent	Payment of insurance (Note 2)	¥39	Prepaid expenses	¥24
				Accrued expenses	0
		Payment of welfare expenses (Note 2)	1	—	—

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.

2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

3. Consumption taxes are not included in transaction amount.

## NOTE 19 Per Share Data

		Yen	
Item		2015	2016
Net assets per share		¥1,336.54	¥1,257.43
Net income (loss) per share		(46.70)	22.90
Net income per share (diluted)		—	22.90

Notes: 1. Dilutive shares existed but the amount for diluted net income per share has been omitted because the Company recorded a net loss per share for the fiscal year ended March 31, 2015.

2. As stated in "Note 3 – Changes in Accounting Policies," some of the consolidated subsidiaries of the Company have changed revenue recognition methods for sales of merchandise and finished goods, etc. Accordingly, per share data for the fiscal year ended March 31, 2015 is restated after reflecting retroactive treatments.

As a result of the change, net assets per share decreased by ¥0.93 and net loss per share increased by ¥0.48 for the fiscal year ended March 31, 2015.

3. The actuarial assumptions of net income (loss) per share and diluted net income per share are as follows.

Item	2015	2016
Net income (loss) per share:		
Profit (loss) attributable to owners of parent	¥(11,375) million	¥5,369 million
Amount not attributable to common stockholders	¥—million	¥—million
Profit (loss) attributable to owners of parent for common stock	¥(11,375) million	¥5,369 million
Average number of common stocks	243,611 thousand shares	234,473 thousand shares
Diluted net income per share:		
Profit (loss) attributable to owners of parent adjustment	¥— million	¥— million
Increase of common stock	— thousand shares	0 thousand shares
(Stock options)	— thousand shares	0 thousand shares

## Notes to Consolidated Financial Statements

## NOTE 20

## Significant Subsequent Events

## 1. Change in classification of reporting segments

For the purpose of driving improvements in business performance through further display of Group synergy in the Pachislot and Pachinko Machine Business, the Pachislot and Pachinko Machines Related Business of Sammy Networks Co., Ltd., which was previously included in the Entertainment Contents Business as the Group's classification of reporting segments, will be changed to be included in the Pachislot and Pachinko Machine Business from the fiscal year ending March 31, 2017.

Information on the amounts of net sales and income (loss) by each reporting segment after the change is as follows.

Current fiscal year (From April 1, 2015 to March 31, 2016)

						Millions of yen
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal	Adjustment (Note 1)	Amount in consolidated financial statements (Note 2)
Net sales:						
Sales to third parties	¥141,037	¥190,551	¥16,392	¥347,981	¥ —	¥347,981
Inter-segment sales and transfers	640	1,018	57	1,715	(1,715)	—
Total	141,677	191,570	16,450	349,697	(1,715)	347,981
Segment income (loss)	20,955	4,216	(1,825)	23,346	(5,728)	17,617

Notes: 1. Elimination of inter-segment transactions of ¥129 million and general corporate expenses of ¥(5,858) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(5,728) million. General corporate expenses are mainly 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. Business combination by acquisition

The Company resolved at a Board of Directors' meeting on June 27, 2016, to acquire all shares of Amplitude Studios SAS (Headquarters: Paris, France) through SEGA Games Co., Ltd., a consolidated subsidiary of the Company. The Company acquired shares of said company as of July 1, 2016 and made it a consolidated subsidiary.

## (1) Outline of business combination

## 1) Name and business of acquired company

Name of acquired company	Amplitude Studios SAS
Description of business	Development and sales of content for the PC market in the U.S. and European regions
Capital stock	€0.2 million

## 2) Reason for business combination

Content for the PC market in the U.S. and European regions owned by Amplitude Studios SAS will further enhance the presence of SEGA Games Co., Ltd. in the U.S. and European game market, and the profitability is expected to be strengthened as a result of enabling the Group to provide entertainment content of further superior quality by leveraging excellent content development capabilities as well as accumulated developmental know-how held by Amplitude Studios SAS.

## 3) Date of business combination

July 1, 2016

## 4) Legal structure

Purchase of shares with cash

## 5) Name of companies after the business combination

Unchanged

## 6) Share of voting rights acquired

100%

## (2) Acquisition cost of the acquired company

Consideration for acquisition <sup>(Note)</sup>

Cash ¥2,462 million (€21.5 million)

Note: Contingent consideration for acquisition is not included in the consideration for acquisition. Contingent consideration for acquisition has yet to be determined at this time because it is specified in the agreement that the contingent consideration for acquisition shall be paid based on the future performance of the acquired company over a certain period of time. In the event where the payment of additional consideration for acquisition is required, the Company shall adjust the acquisition cost by deeming such additional amount has been paid at the time of the acquisition, and the amount of goodwill and amortization thereof shall be revised accordingly.

## (3) Goodwill recognized, reason for recognition, and amortization method and period

Yet to be determined as the allocation of the acquisition cost has not been completed.

## (4) Amount of assets acquired and liabilities assumed on the date of the business combination

Yet to be determined.

## 3. Transfer of noncurrent assets

The Company resolved at a Board of Directors' meeting on July 13, 2016, to transfer noncurrent assets held by SEGA Holdings Co., Ltd., a consolidated subsidiary of the Company.

### (1) Reasons for the transfer

The Group set "improve profitability" and "improve capital efficiency" as the mid-term management goal, and aims to realize the ratio of consolidated operating income of 15% and consolidated ROA of 5% by the fiscal year ending March 2020. Transfer of the concerned noncurrent assets was decided in order to further improve financial structure toward realizing the medium-term management goal.

### (2) Details of the transferred assets

Name and location of the assets	Transfer price (plan)	Book value	Gain from transfer (approximation)	Current status
2-11-3 Shinsaibashisuji, Chuo Ward, Osaka City, Osaka, and 6 other lots Land: 941.95m <sup>2</sup> Buildings (total floor space): 2,909.29m <sup>2</sup>	¥12,000 million	¥2,518 million	¥9,400 million	Shinsaibashi GIGO (amusement facility)

Notes: Gain from transfer (approximation) shown above is the approximated amount after deducting the estimated amount of costs, etc., associated with the transfer.

### (3) Overview of the transferee

The transferee is a limited liability company established by the investment company in Tokyo. However, due to the agreement with the transferee, no details are disclosed. Also, there are no capital relationships, personal relationships, or business relationships between the transferee and the Company, and the transferee is not a related party of the Company.

### (4) Schedule

1) Resolution at the Board of Directors' meeting	July 13, 2016
2) Conclusion of transfer agreement	July 13, 2016
3) Date of the transfer	September 27, 2016 (plan)

### (5) Effects on consolidated profit or loss

Due to the transfer of the noncurrent assets, approximately ¥9.4 billion of gain on sales of noncurrent assets is scheduled to be recorded as other income in the consolidated operating results for the second quarter of the fiscal year ending March 31, 2017.

## Notes to Consolidated Financial Statements

## NOTE 21

## Supplemental Information

## Supplemental schedule of corporate bonds

Company name	Name of bond	Issuance date	Balance as of April 1, 2015 (Millions of yen)	Balance as of March 31, 2016 (Millions of yen)	Interest rate (%)	Type	Date of maturity
The Company	1st unsecured bonds (Private placement bond)	March 29, 2013	¥ 8,000	¥ 8,000	0.44	Unsecured	March 29, 2018
	2nd unsecured bonds (Private placement bond)	March 29, 2013	4,800	3,200 (1,600)	0.42	Unsecured	March 29, 2018
	1st unsecured bonds (Publicly offered bonds)	July 25, 2013	5,000	5,000	0.73	Unsecured	July 25, 2018
	2nd unsecured bonds (Publicly offered bonds)	July 25, 2013	5,000	5,000 (5,000)	0.49	Unsecured	July 25, 2016
	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	10,000	0.44	Unsecured	September 26, 2019
	4th unsecured bonds (Publicly offered bonds)	June 15, 2015	—	10,000	0.57	Unsecured	June 15, 2020
SEGA Holdings Co., Ltd. (Note 2)	13th unsecured bonds	June 30, 2011	5,000	5,000 (5,000)	0.72	Unsecured	June 30, 2016
	14th unsecured bonds	December 20, 2011	2,600	2,600 (2,600)	0.66	Unsecured	December 20, 2016
	15th unsecured bonds	June 29, 2012	5,000	5,000	0.58	Unsecured	June 30, 2017
	16th unsecured bonds	September 28, 2012	2,400	2,400	0.51	Unsecured	September 29, 2017
Total	—	—	57,800	66,200 (14,200)	—	—	—

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2016" represent the current portion of corporate bonds.

2. From April 2015, SEGA Holdings Co., Ltd. (established in April 2015 through an incorporation-type demerger, designating SEGA CORPORATION as a transferor company) has acted as an intermediate holding company. Consequently, the name of the issuer has been changed from SEGA CORPORATION to SEGA Holdings Co., Ltd.

3. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2016 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
¥14,200	¥19,500	¥10,000	¥12,500	¥10,000

## Supplemental schedule of borrowings

Category	Balance as of April 1, 2015 (Millions of yen)	Balance as of March 31, 2016 (Millions of yen)	Average interest rate (%)	Repayment terms
Short-term loans payable	¥ 500	¥ —	—	—
Current portion of long-term loans payable due within one year	13,342	14,002	1.0	—
Current portion of lease obligations	536	1,920	Note 2	—
Long-term loans payable (Excluding current portion)	32,918	48,895	0.8	2017–2023
Lease obligations (Excluding current portion)	2,455	860	Note 2	2017–2024
Other interest-bearing debt:				
Accounts payable–facilities	1,318	1,403	—	—
Accounts payable–facilities (Excluding current portion)	2,860	1,768	—	2017–2021
Total	53,933	68,850	—	—

Notes: 1. "Average interest rate" represents the weighted-average interest rate over the year-end balance of loans.

2. The average interest rate on lease obligations is not listed because lease obligations is posted in the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.

3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2016 is summarized as follows:

Millions of yen					
Category	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Long-term loans payable	¥6,365	¥15,849	¥13,350	¥13,325	¥ 4
Lease obligations	339	213	106	65	136
Other interest-bearing debt:					
Accounts payable–facilities	1,154	528	77	7	—



# 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, 2016 and 2015, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

As described in Note 21, SEGA SAMMY HOLDINGS INC. resolved at a Board of Directors' meeting on July 13, 2016, to transfer noncurrent assets held by SEGA Holdings Co., Ltd., a consolidated subsidiary of SEGA SAMMY HOLDINGS INC.

Our opinion is not qualified in respect of this matter.

KPMG AZSA LLC

August 10, 2016  
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



# Discussion Points

# Overview of the SEGA SAMMY Group

The SEGA SAMMY Group is a comprehensive entertainment corporate group created through the management integration of SEGA CORPORATION (currently SEGA Games Co., Ltd.) and Sammy Corporation, which have produced many industry-first and world-first products.



Since its establishment in 1975, Sammy has lived up to its "Always Proactive, Always Pioneering" founding principle by creating pachislot and pachinko machines with industry-leading gameplay.



Our mission is *continuing to create moving experiences* for customers worldwide. With this in mind, we will roll out entertainment across a broad spectrum of areas.



Pachislot CODE GEASS  
Lelouch of the Rebellion R2  
©SUNRISE/PROJECT GEASS  
Character Design  
©2006 CLAMP-ST  
©SUNRISE/PROJECT GEASS  
Character Design  
©2006-2008 CLAMP-ST  
©BANDAI NAMCO  
Entertainment Inc. ©Sammy



Pachinko CR Hokuto No Ken 6  
Tenshou Hyakuretsu  
©Burorson & Tetsuo Hara/  
NSP 1983, ©NSP 2007  
Approved No.YTK-805 ©Sammy

**Date of Establishment: October 1, 2004**  
**Capital: ¥29.9 billion**  
**Total Shares Issued and Outstanding: 266,229,476**  
**Number of Shareholders: 90,768**  
**Number of Employees: 7,606 (consolidated)**  
**(as of March 31, 2016)**

## The Group Management Philosophy

By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture.



maimai PINK  
©SEGA

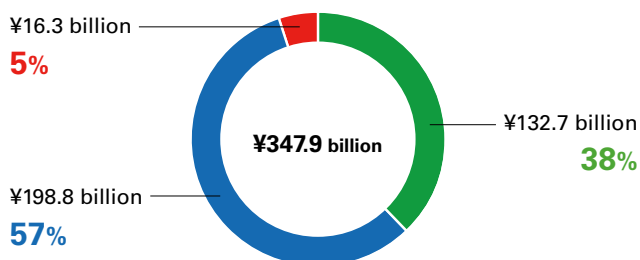


Sonic the Hedgehog  
©SEGA

## The Group's Structure

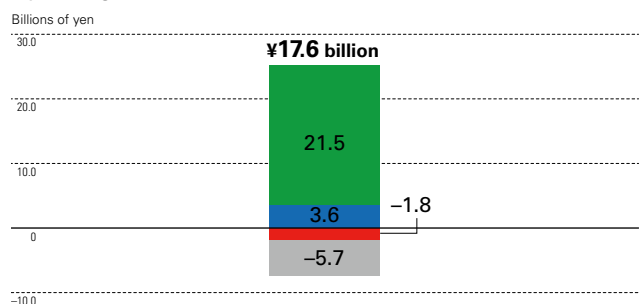
The SEGA SAMMY Group offers a wide spectrum of entertainment. Its Pachislot and Pachinko Machine Business segment is centered on Sammy Corporation. Meanwhile, the SEGA Group's digital game business is the core of the Entertainment Contents Business segment, which develops packaged game software and amusement machines, operates amusement centers, produces animation, and sells toys. Further, the Resort Business segment develops and manages hotels, theme parks, and integrated resorts.

### Net Sales Breakdown (Fiscal 2016)



■ Pachislot and Pachinko Machine Business ■ Entertainment Contents Business ■ Resort Business

### Operating Income (Fiscal 2016)



■ Pachislot and Pachinko Machine Business ■ Entertainment Contents Business ■ Resort Business ■ Corporate and eliminations



## Learning about Our Products and Services

By taking maximum advantage of the abundant intellectual properties at its disposal across an extensive range of entertainment fields, the SEGA SAMMY Group will continue providing *moving experiences*.

### Pachislot and Pachinko Machine Business



**Pachislot**  
**Hokuto No Ken Tomo**  
©Buronson&Tetsuo Hara/  
NSP1983  
©NSP2007/Approved  
No.YFC-128  
©Sammy



**Pachinko CR**  
**Shin Hokuto Muso**  
©Buronson & Tetsuo Hara/  
NSP 1983 Approved No.KOU-111  
©2010-2013  
KOEI TECMO GAMES CO., LTD.  
©Sammy

### Resort Business



**Phoenix Seagaia Resort**  
©PHOENIX RESORT CO., LTD.



**TOKYO JOYPOLIS**  
©SEGA

### Entertainment Contents Business



**Persona5**  
©ATLUS ©SEGA  
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**StarHorse3 Season V**  
**EXCEED THE LIMIT**  
©SEGA



**PHANTASY STAR ONLINE 2**  
©SEGA



**Anpanman Uncle Jam's Bakery**  
©Takashi Yanase/Froebel-kan,TMS,NTV



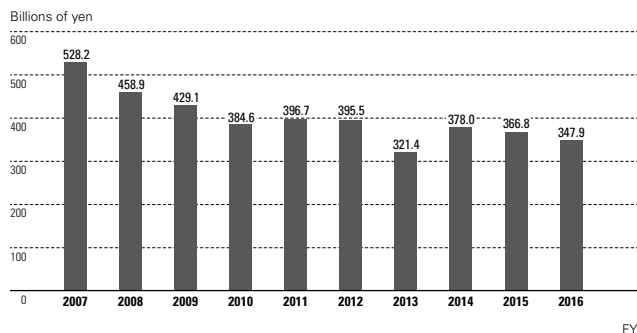
**Detective Conan**  
**The Darkest Nightmare**  
© 2016 GOSHO AOYAMA / DETECTIVE CONAN COMMITTEE  
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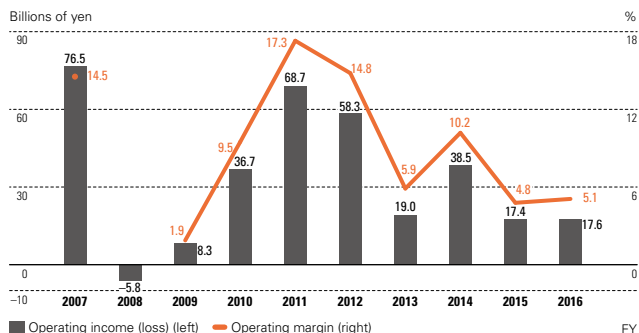
**Puyopuyo!! Quest**  
©SEGA

# Overview of Key Numbers

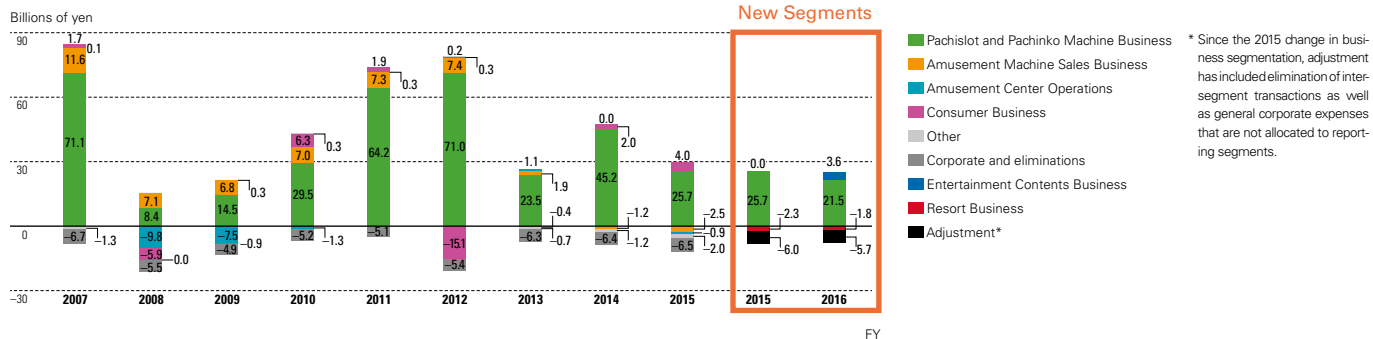
## Net Sales



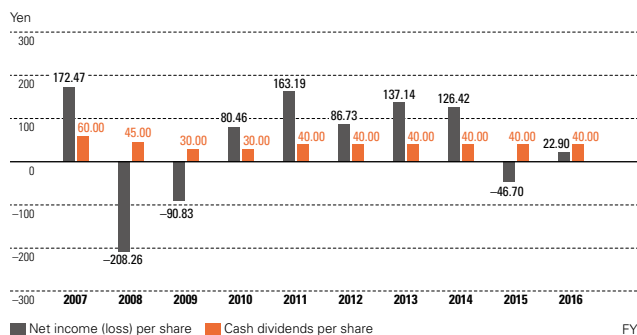
## Operating Income (Loss) / Operating Margin



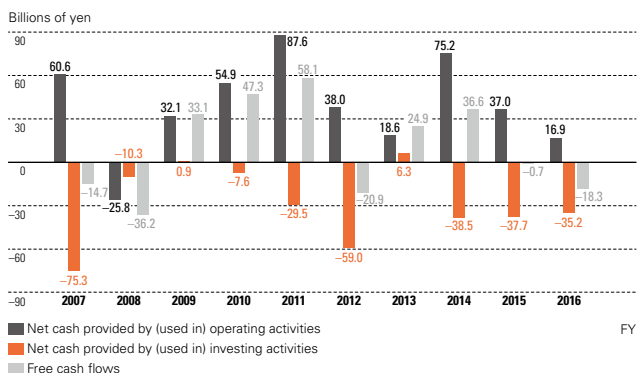
## Operating Income (Loss) by Segment



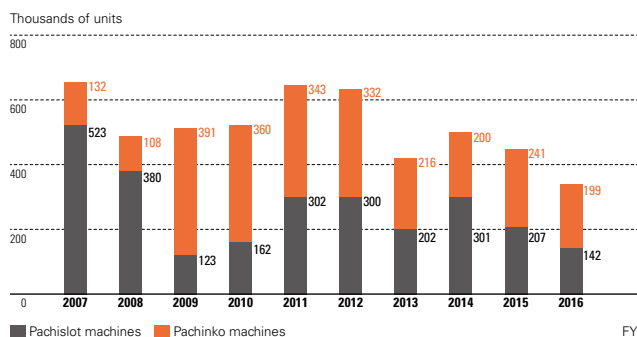
## Net Income (Loss) per Share / Cash Dividends per Share



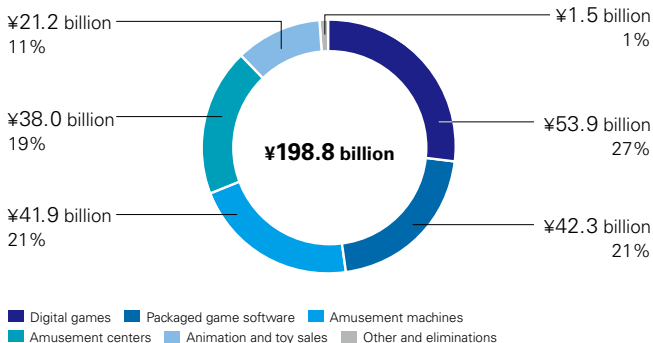
## Cash Flows



## Pachislot and Pachinko Machine Unit Sales

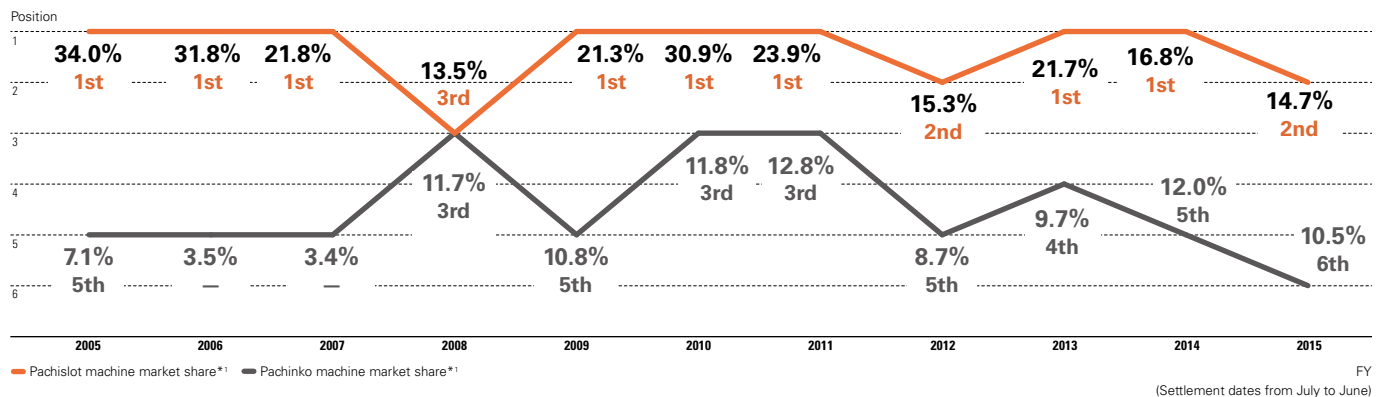


## Breakdown of Net Sales of the Entertainment Contents Business (Fiscal 2016)



## Peer Group Comparison Data

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



Billions of yen	
Net Sales*2	
BANDAI NAMCO	575.5
Nintendo	504.4
SEGA SAMMY	347.9
CyberAgent	254.3
KONAMI	249.9
Heiwa	214.9
SQUARE ENIX	214.1
mixi	208.7
GungHo Online Entertainment	154.3
SANKYO	137.1
ROUND ONE	83.5
CAPCOM	77.0
COLOPL	72.3

%	
ROE*2	
mixi	69.7
COLOPL	52.6
GungHo Online Entertainment	39.9
CyberAgent	24.4
Heiwa	15.6
SQUARE ENIX	12.3
BANDAI NAMCO	11.2
CAPCOM	10.6
KONAMI*4	4.9
SANKYO	2.9
SEGA SAMMY	1.8
Nintendo	1.4
ROUND ONE	0.9

Billions of yen	
Amusement Center Operation Sales*2	
ROUND ONE	83.5
AEON Fantasy	58.8
BANDAI NAMCO	58.6
SQUARE ENIX*6	41.1
SEGA SAMMY	38.0
ADORES*7	14.7
CAPCOM	9.0
KOEI TECMO	1.2

Billions of yen	
Operating Income*2	
mixi	95.0
GungHo Online Entertainment	72.4
BANDAI NAMCO	49.6
Heiwa	38.9
Nintendo	32.8
CyberAgent	32.7
COLOPL	32.3
SQUARE ENIX	26.0
KONAMI	24.6
SANKYO	18.8
SEGA SAMMY	17.6
CAPCOM	12.0
ROUND ONE	6.3

%	
ROA*2, 3	
GungHo Online Entertainment	40.2
mixi	37.0
COLOPL	32.8
CyberAgent	11.3
SQUARE ENIX	8.5
BANDAI NAMCO	7.7
CAPCOM	6.9
Heiwa	6.2
KONAMI*4	3.2
SANKYO	2.5
Nintendo	1.3
SEGA SAMMY	1.0
ROUND ONE	0.4

Millions of units	
Unit Sales of Home Video Game Software (Global)*2	
BANDAI NAMCO	26.68
SQUARE ENIX	22.78
CAPCOM	15.00
SEGA SAMMY	9.22
KOEI TECMO	5.57

%	
Operating Margin*2	
GungHo Online Entertainment	46.9
mixi	45.5
COLOPL	44.6
Heiwa	18.1
CAPCOM	15.6
SANKYO	13.7
CyberAgent	12.9
SQUARE ENIX	12.2
KONAMI	9.9
BANDAI NAMCO	8.6
ROUND ONE	7.6
Nintendo	6.5
SEGA SAMMY	5.1

Billions of yen	
Market Capitalization*5	
Nintendo	2,266.7
BANDAI NAMCO	544.7
KONAMI	477.8
SANKYO	375.4
SQUARE ENIX	371.7
mixi	352.3
GungHo Online Entertainment	335.3
CyberAgent	330.6
SEGA SAMMY	326.6
COLOPL	300.1
Heiwa	232.8
CAPCOM	185.9
ROUND ONE	60.6

Billions of yen	
Net Sales of Amusement Machines*2	
BANDAI NAMCO	57.9
SEGA SAMMY	41.9
CAPCOM	13.3

Note: The above is intended to give an idea of the Group's position in the industry and only covers companies for which information can be obtained from published documents, such as listed companies. As there are unlisted companies that do not disclose information, this is not a completely accurate industry ranking.

\*1 Source: Yano Research Institute Ltd.

\*2 Respective companies' settlement data. Source: Respective companies' published documents

\*3 ROA = Profit attributable to owners of parent ÷ Total assets

\*4 IFRS: ROE = Net income to equity attributable to owners of parent ratio; ROA = Net income attributable to owners of parent ÷ Total assets

\*5 Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 31, 2016.

\*6 "Amusement" including amusement centers and amusement machines

\*7 General Entertainment Business



# Analyzing SWOT

## Pachislot and Pachinko Machine Business

### STRENGTHS

- Product appeal underpinned by strong development capabilities
- Intellectual properties promising high utilization
- Large share in the pachislot machine market
- Significant production capacity

### OPPORTUNITIES

- Scope for growth in pachinko machine market
- Capturing of demand from casual players due to regulatory change

### WEAKNESSES

- Variability of earnings
- Business development limited to Japan
- Inefficiency of business activities (development of products with excessively high quality, multibrand strategy)

### THREATS

- Declining player numbers
- Financial position of pachinko hall operators
- Increase in component costs

## Entertainment Contents Business

### STRENGTHS

- One of the industry's largest development teams, comprising approximately 2,000 personnel (the SEGA Group)
- Industry-leading portfolio depth (digital games)
- Marketing support tool *Noah Pass* (digital games)
- Accumulation of numerous major intellectual properties (packaged game software, digital games, amusement machines, animation, and toys)
- Recovery trend in earning power (packaged game software, digital games, amusement machines, amusement centers, animation, and toys)
- Product lineup catering to a broad range of player groups (amusement machines)
- One of industry's highest levels of operational efficiency (amusement centers)

### OPPORTUNITIES

- Trend toward high-end game apps as smartphones become more advanced (digital games)
- Rapid spread of smartphones in Southeast Asia (digital games)
- Spread of new-generation home video game consoles (packaged game software)
- Broadening market for families' three generations and new facilities including restaurants (amusement machines and amusement centers)
- Increase in interest in Japanese culture overseas due to government's "Cool Japan" policy (packaged game software, digital games, animation, toys)
- Revision of Act on Control and Improvement of Amusement Business, etc. (amusement centers)

### WEAKNESSES

- Absence of major hit titles (digital games)
- Low profit margins and capital turnover ratio (amusement centers)

### THREATS

- Intensification of competition in Japan's digital game market
- Challenging financial positions of amusement center operators (amusement machines)
- Diversification of entertainment (packaged game software, amusement machines, amusement centers)
- Decline in player numbers due to lower birthrate (packaged game software, amusement machines, amusement centers)
- Increase in consumption tax (amusement machines, amusement centers)

## Resort Business

### STRENGTHS

- Robust financial base that can support large-scale investment
- Lead in accumulation of know-how related to integrated resorts
- Expertise in creating entertainment spaces and exploitable content
- Early entry into South Korea's integrated resort market

### OPPORTUNITIES

- Increase in overseas visitors to Japan
- Tokyo 2020 Olympic and Paralympic Games
- Moves toward realization of integrated resorts in Japan

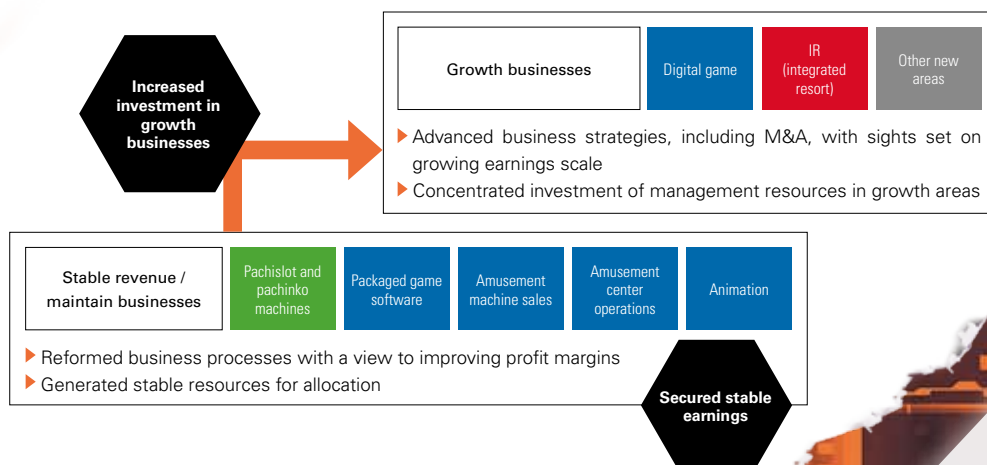
### WEAKNESSES

- Continuing recognition of operating loss because at prior investment stage

### THREATS

- Uncertainty of realization of integrated resorts in Japan
- Intensification of competition within Asia related to integrated resorts

# Evaluating Strategies



## Positioning of each business and management strategy

The three business segments will implement measures with a view to realizing earnings scale or profit margin in accordance with their respective portfolio positions.

## Important Management Benchmarks for Fiscal 2020

Operating Margin

15%

ROA\*

5%

### Pachislot and Pachinko Machine Business

#### Basic Strategy

**Generate stable revenue**

#### Segment Target

**Operating margin of 30%**  
(fiscal 2020)

#### Main Measures

1. Strengthen collaboration with industry peers
2. Revise multibrand strategy
3. Select titles carefully
4. Promote reuse

### Entertainment Contents Business

#### Basic Strategy

**Grow mainly through the digital game area**

#### Segment Target

**Operating income of ¥20 billion**  
(fiscal 2020)

#### Main Measures

1. Secure stable earnings by heighten the profit margins of amusement machines and home video games
2. Invest proactively in digital games for emerging markets overseas
3. Move casino machines into the black as soon as possible

**Emphasis on Profit Margin**

**Make improvement of profit margin first priority**

**Enhancement of Capital Efficiency**

**Heighten capital turnover ratio  
Optimize management resource allocation**

### Resort Business

#### Basic Strategy

**Become third pillar**

#### Segment Target

**Participate in the integrated resort business**

#### Main Measures

1. Implement advance investment aimed at participation in the integrated resort business in Japan
2. Accumulate know-how through development and management of integrated resorts overseas
3. Enhance the brand value of *Phoenix Seagaia Resort*

### New Businesses

#### Basic Strategy

**Fourth pillar**

#### Conditions for Participation in New Businesses

The Group will participate in new business areas if they enable it to create synergies by leveraging the management resources it has as a comprehensive entertainment corporate group. Mergers and acquisitions are an important option. However, we will only implement mergers and acquisitions if rigorous analysis of the potential corporate value of target companies indicates that we can heighten the value of their businesses.

Fiscal 2016

Operating Margin

5.1%

ROA\*

1.0%

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

# Examining the Governance System

## Corporate Governance System at a Glance (As of June 30, 2016)

<b>Format</b>	Audit and Supervisory Board member system	<b>Individual disclosure of directors' compensation</b>	Disclosure only for directors with total compensation of ¥100 million or more
<b>Reason for adoption of format</b>	Based on the view that this system enables directors to make prompt, optimal management decisions amid volatile business conditions based on their wealth of expertise and experience regarding the industry, market trends, products, merchandise, and services	<b>Audit and Supervisory Board members</b>	4
<b>Directors</b>	8	<b>Of whom, outside Audit and Supervisory Board members</b>	2
<b>Of whom, outside directors</b>	3	<b>Independent directors</b>	5 (3 outside directors, 2 outside Audit and Supervisory Board members)
<b>Voluntary committees</b>	Independent Advisory Committee	<b>Independent auditor</b>	KPMG AZSA LLC
<b>Term of directors</b>	1 year	<b>Term of auditing contracts</b>	Renewed annually
<b>Incentives granted to directors</b>	Introduction of stock option system	<b>Adoption of executive officer system</b>	Yes

## Compensation of Directors

Compensation of directors and Audit and Supervisory Board members for fiscal 2016 is as follows.

Position	Directors / Audit and Supervisory Board members	Total compensation (¥ million)	Total compensation by type (¥ million)		
			Basic compensation	Bonus	Stock options
Directors	Internal	8	503	380	123
	Outside	2	32	—	—
Audit and Supervisory Board members	Internal	—	—	—	—
	Outside	2	26	—	—

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2016 is as follows.

Name	Position	Total consolidated compensation, etc. (¥ million)	Company	Total consolidated compensation by type (¥ million)		
				Basic compensation	Bonus	Stock options
Hajime Satomi	Director	448	The Company	248	50	—
			Sammy	—	150	—

## Outside Directors



**Yuji Iwanaga\***

Outside Director

1981 Registered with The Japan Federation of Bar Associations  
 1984 Partner of Lillick McHose and Charles Law Office (now Pillsbury Winthrop Shaw Pittman LLP) (current position)  
 Registered with the State Bar of California  
 2003 Outside Director of Manufacturers Bank  
 2005 Outside Director of JMS North America Corporation (current position)  
 2006 Outside Director of TAIYO YUDEN Co., Ltd.  
 2007 Outside Director of the Company (current position)



**Takeshi Natsuno\***

Outside Director

2005 Executive Officer and Managing Director of Multimedia Services Department of NTT DoCoMo, Inc.  
 2008 Outside Director of the Company (current position)  
 Director of PIA CORPORATION (current position)  
 Outside Director of transcosmos 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 (current position)  
 2009 Outside Director of DLE Inc. (current position)  
 Outside Director of GREE, Inc. (current position)  
 2010 Outside Director of U-NEXT, Inc. (current position)  
 2014 Director, Member of the Board of KADOKAWA DWANGO CORPORATION (current position)  
 2016 Outside Director of Oracle Corporation Japan (current position)



**Kohei Katsukawa\***

Outside Director

1974 Joined Sumitomo Bank  
 (now Sumitomo Mitsui Banking Corporation)  
 2001 Executive Officer, Head of Osaka Corporate Banking Division II of the above  
 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.  
 2016 Outside Director of the Company (current position)

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

# Assessing the Creation of Shareholder Value

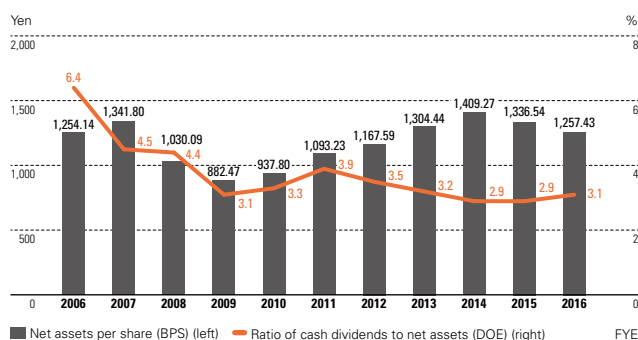
## Returning Profits to Shareholders—Policy, Results, and Outlook

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 internal reserves needed for a future integrated resort business.

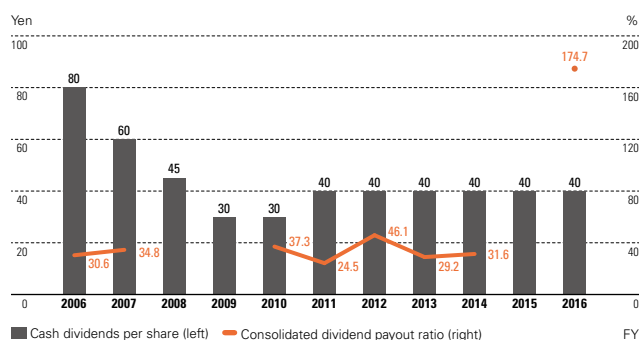
For fiscal 2016, we paid cash dividends of ¥40.00 per share. As a result, the ratio of cash dividends to net assets was 3.1%.

For fiscal 2017, ending March 31, 2017, 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.

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



Cash Dividends per Share / Consolidated Dividend Payout Ratio

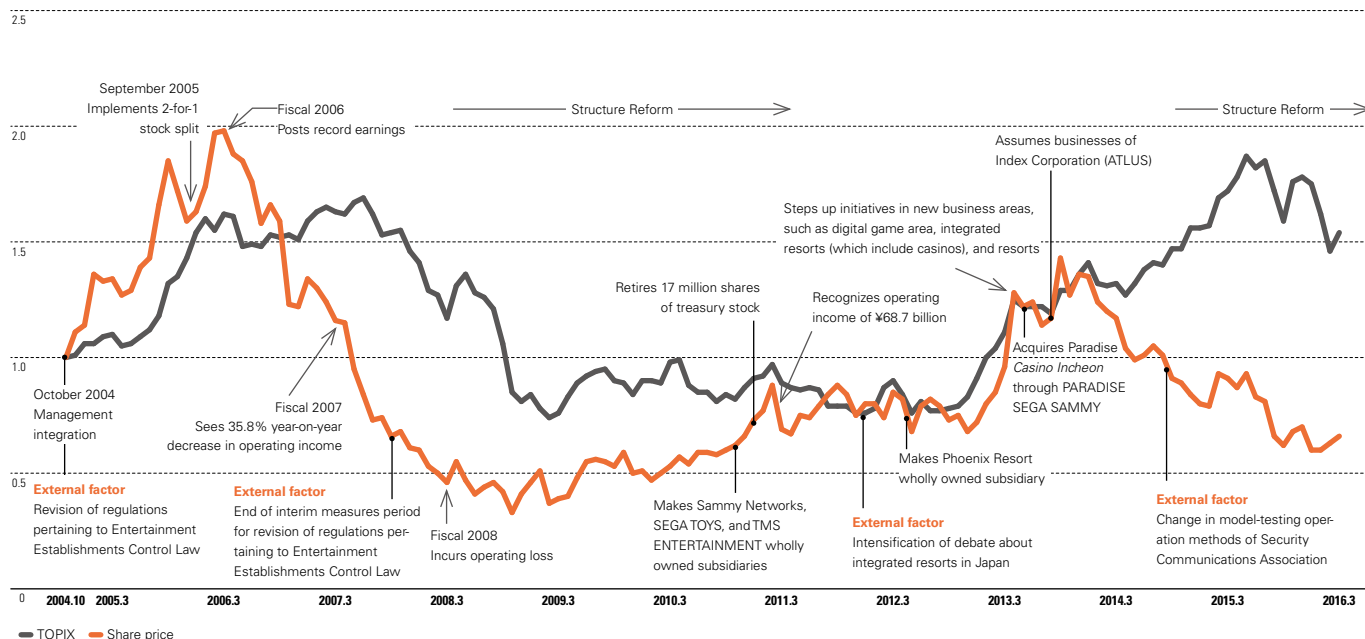


\* Consolidated dividend payout ratio not applicable because the Group recorded a net loss in fiscal 2008, fiscal 2009, and fiscal 2015.

## Acquisition of Shares of Treasury Stock

FY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	—	—	—	—	—	—	14 million shares	5 million shares	10 million shares	—	10 million shares	—

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



## Basic Information about the Pachinko and Pachislot Machine Market (Reference)

### Size of Pachinko and Pachislot Markets

Pachinko machines trace their origins to bagatelle boards, imported to Japan in the 1920s. Pachinko is a game in which players manipulate a handle in order to mechanically shoot steel pachinko balls with diameters of about 11mm onto a vertically positioned board studded with numerous pins. When the balls fall into certain devices or the jackpot mouth, additional pachinko balls are won. The main difference between pinball and pachinko is that in a pachinko machine the board is nearly vertical.

Meanwhile, the roots of pachislot are said to be slot machines brought from the United States after the end of the Second World War. The 1960s saw the emergence of slot machines requiring a certain level of playing skill because they incorporated buttons that allowed players to stop the reels spinning. These machines spread to pachinko halls throughout Japan.

As one of Japan's flagship leisure industries, pachinko and pachislot claims a major share of the country's leisure market. Comprising the ball and token rental fees that the pachinko halls charge, this market accounts for roughly 32.1% of the leisure market, revenues of ¥23.2 trillion,\*<sup>1</sup> and 10.7 million players.\*<sup>1</sup> In the pachinko and pachislot machine manufacturing industry, machine sales are worth approximately ¥982.7 billion.\*<sup>2</sup>

\*<sup>1</sup> 2015. Source: *White Paper on Leisure Industry 2016*, Japan Productivity Center

\*<sup>2</sup> Fiscal 2015 (settlement dates from July to June). Source: Yano Research Institute Ltd.

### Regulatory Environment

Before launching a machine, manufacturers are required to navigate an approval process in accordance with the Entertainment Establishments Control Law. First, they must file an application for prototype testing with the Security Communications Association and acquire certification that elements such as materials, functions, and gameplay are in conformance with the law. Next, the machines are verified by the Public Safety Commission in each prefecture. Only then can they be supplied to pachinko halls. Before commencing operations, the pachinko hall operators must acquire approval from district police stations.

The Entertainment Establishments Control Law and the internal regulations of industry bodies have been revised frequently with a view to the sound development of the industry. Each revision has affected the pachinko and pachislot machine market.

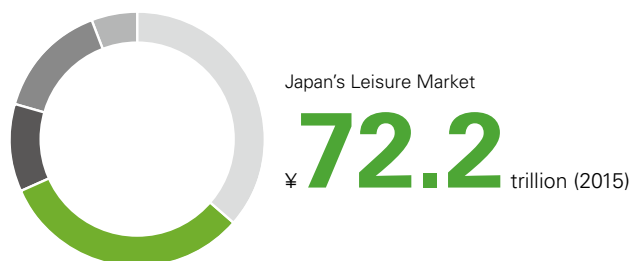


Pachinko CR Shin-Juoh 2  
©Sammy



Pachislot Nisemonogatari  
©NISIOISIN/KODANSHA,  
ANIPLEX, SHAFT  
All Rights Reserved.  
©Sammy

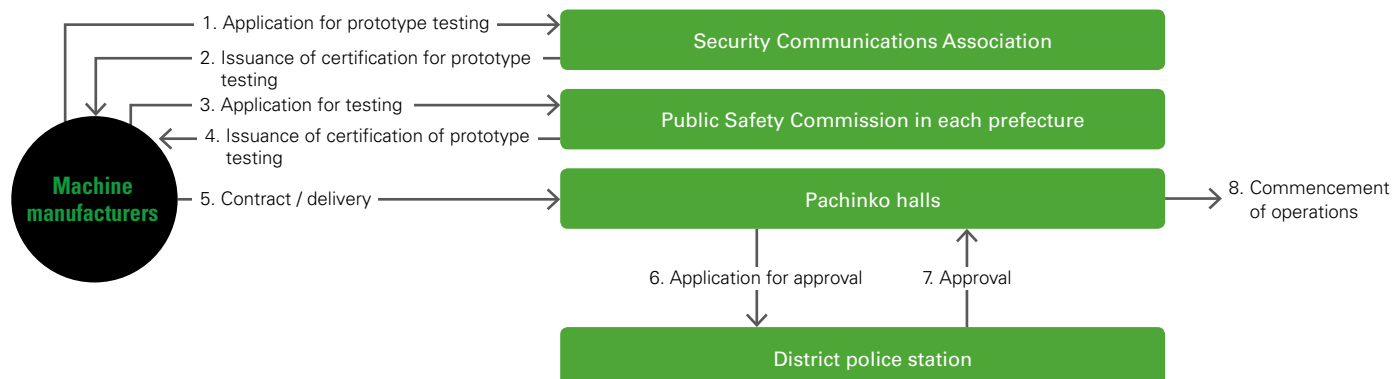
### Shares of Pachinko and Pachislot in Japan's Leisure Market



Source: *White Paper on Leisure Industry 2016*, Japan Productivity Center

\*<sup>3</sup> Total amounts of hall ball and token rentals

### Approval Process for Pachinko and Pachislot Machines



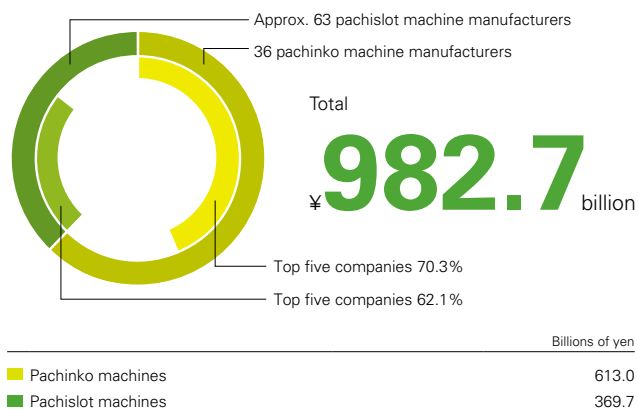
### Strengthening Oligopoly among Leading Titles and Companies

In the pachinko machine market, pachinko machines are sold by 36\*<sup>4</sup> companies. In the pachislot machine market, pachislot machines are sold by approximately 63\*<sup>5</sup> companies. Pachinko hall operators have been facing challenging business conditions due to the decline in the player population since the enforcement of a revision of regulations pertaining to the Entertainment Establishments Control Law (the regulatory revision) in 2004. As a result, a pronounced bias has emerged in market demand toward titles and manufacturers that promise reliable returns on investment. Partly reflecting the heightened difficulty of development as regulations continue to become stricter, recent years have seen the emergence of an increasingly well-defined oligopoly comprising titles and brands with solid utilization time track records and companies with robust development capabilities and abundant funds for investment.

\*<sup>4</sup> Source: Yano Research Institute Ltd.

\*<sup>5</sup> Due to the large number of organizations and companies, the current number of pachislot machine manufacturers is the Group's estimate.

### Pachinko and Pachislot Machine Market Scale



Source: The number of pachislot machine manufacturers is the Group's estimate. Market shares are from Yano Research Institute Ltd. (Unit sales basis, fiscal 2016 (settlement dates from July to June))

## Guide

## Keywords in the Pachinko and Pachislot Machine Market

### Pachinko Machine Boards and Frames

The frame is the cabinet part of a pachinko machine. It physically controls the shooting and paying out of pachinko balls. Meanwhile, the board comprises LCDs, "Yakumono," and numerous pins. The board incorporates electronic components, such as boards and sensors that control gameplay, including images and win chances presented by LCDs, and payouts. Because frames can be used continuously for certain periods, pachinko hall operators can introduce new pachinko machines by purchasing boards and simply attaching them to frames already installed at pachinko halls. The price of a pachinko board is less than that of an entire machine (a frame and board), which enables pachinko hall operators to lighten their investment burden. For manufacturers, sales of pachinko boards provide higher margins than sales of entire machines. Furthermore, under this sales model, the installation of a frame promises to generate continuous demand.

Frame



Boards



Pachinko CR Shin Hokuto Muso  
©Buronson & Tetsuo Hara/  
NSP 1983 Approved No.KOJ-111  
©2010-2013  
KOEI TECMO GAMES CO., LTD.  
©Sammy

**New pachinko machines  
can be introduced by  
simply attaching boards  
to frames**



Pachinko CR GAOGAOKING 2  
©Sammy

### Key Indicators for Analysis of Conditions in the Pachinko and Pachislot Machine Markets

$$\text{Annual turnover} = \frac{\text{Annual pachinko and pachislot machine unit sales}}{\text{Pachinko and pachislot machine installations}}$$

Shows the number of times pachinko hall operators replace machines during one year and their capital investment appetite.

Extra capital investment capacity **Increasing** ↑

Annual Turnover

Extra capital investment capacity **Decreasing** ↓

Down

**Utilization rate = The number of hours per business day that pachinko or pachislot machines are utilized**

Shows players' interest in pachinko and pachislot machines.



## Market Conditions for Each Business

### Pachinko and Pachislot Machine Market

#### Long-Term Downward Trend in the Player Population

The number of players peaked in 1995 and began trending downward due to casual players leaving the market because an increasing number of machines featured more complicated gameplay or strong gambling elements. As a result, the pachinko and pachislot machine market\*<sup>1</sup> entered a period of long-term decline.

Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. After the interim measures period\*<sup>2</sup> ended in fall 2007, pachinko hall operators proceeded to replace pachislot machines with those compliant with the new regulations. As a result, the departure from the market of players, particularly pachislot core players, accelerated due to the major change in gameplay.

From 2010, the decrease in the pachinko and pachislot player population accelerated even further. In particular, the decline in interest in pachinko and pachislot among young adults has been marked. In the period from 2009 to 2015, this group shrank significantly, with the percentage of men under 20 playing pachinko and pachislot falling from 11.4% to 1.7% and the percentage of men in their 20s playing pachinko and pachislot falling from 24.5% to 6.8%. A likely cause of this trend was the diversification of pastimes that coincided with this period and which resulted from the expansion of the market for game apps for smart devices. A further cause of the trend was the further departure of casual players from the pachinko market due to the increasing installation of

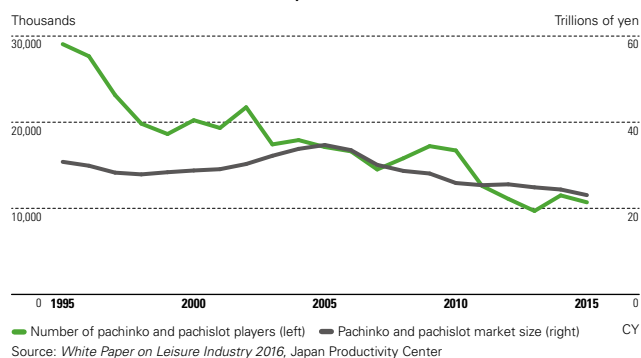
pachinko machines with a strong gambling element. Such machines were known as "Max-type" and promised an early return on investment.

As the player population decreased, the decline in player numbers and the deterioration in pachinko hall operators' financial positions became more pronounced, affecting the pachinko and pachislot machine market significantly.

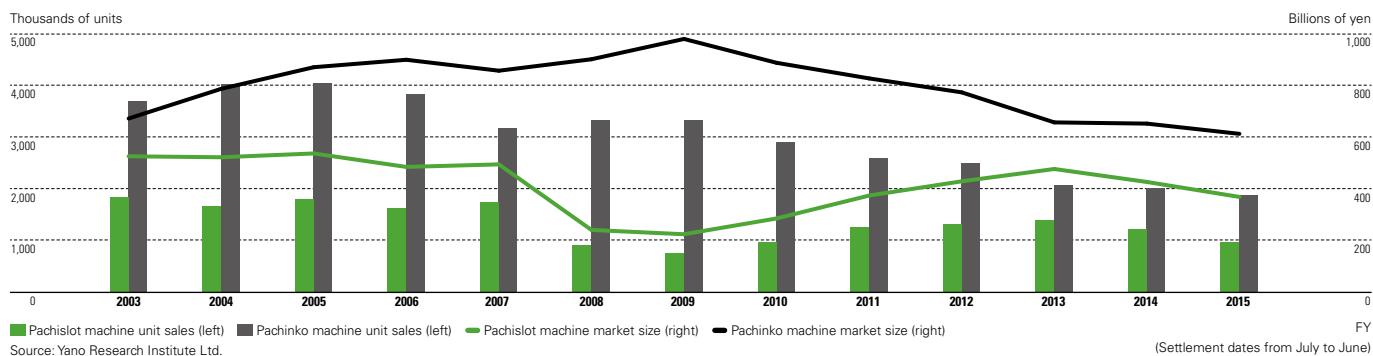
\*<sup>1</sup> The total of pachinko hall operators' ball rental fees and token rental fees

\*<sup>2</sup> Aiming to mitigate a sudden change of conditions and investment burden of pachinko hall operators, the regulatory revision of July 2004 included a three-year interim measures period for replacing old machines with new-format machines.

#### Pachinko and Pachislot—Player Numbers and Market Size



#### Pachinko and Pachislot Machines—Unit Sales and Market Size



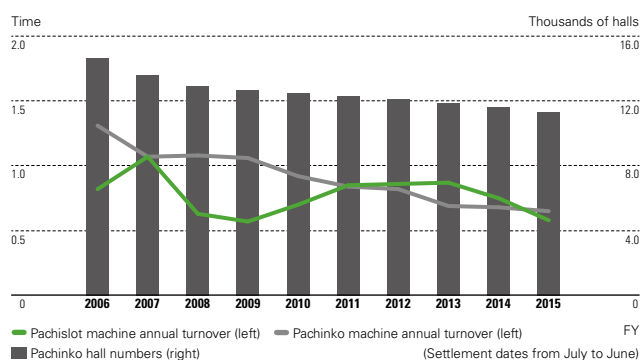
#### Shakeout of Pachinko Hall Operators and Polarization among Pachinko and Pachislot Machine Manufacturers

The number of pachinko halls is on a long-term downward trend. From the perspective of pachinko hall operators, while the continuing decline in the player population is undermining their capacity to invest, prices for machines are rising. Consequently, as the declining annual turnover\*<sup>3</sup> in the graph on the right shows, pachinko hall operators are replacing machines less often. This is directly linked to the contraction of the pachinko and pachislot machine market. Seeking reliable returns on the limited investments they can make, pachinko hall operators have been introducing machines that promise favorable utilization times.\*<sup>4</sup> This has polarized the market further into two groups: leading manufacturers—who have competitive intellectual properties as well as robust financial bases to support development capabilities—and other manufacturers (Please see page 10).

\*<sup>3</sup> Annual turnover = Annual pachinko and pachislot machine unit sales ÷ Pachinko and pachislot machine installations

\*<sup>4</sup> The number of hours per business day that pachinko or pachislot machines are utilized

#### Annual Turnover and Pachinko Hall Numbers



### Need for Initiatives to Break the Negative Cycle

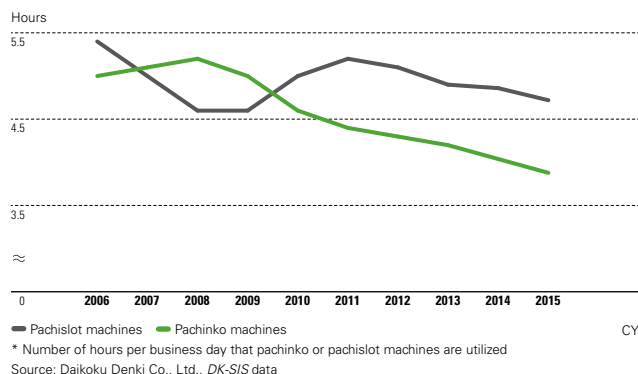
In an effort to broaden the player base, manufacturers developed and pachinko hall operators introduced pachinko machines with weaker gambling elements. Although lowering ball rental fees increased utilization times, it led to a decline in sales per machine for pachinko hall operators. As a result, the business results of pachinko hall operators worsened, further reducing their capital investment appetite and thereby delaying the revitalization of pachinko halls. Furthermore, poor business results encouraged pachinko hall operators to seek rapid returns on investments by introducing machine models with stronger gambling elements. However, this led to even more casual players leaving the market and to frequent players becoming the main player group. The resulting emergence of addiction as a problem among frequent players has spurred the strengthening of regulations. To break this negative cycle, the industry needs to make a concerted effort to revitalize the industry.

### Mold-Breaking Cooperation in the Industry

Pachinko and pachislot machine manufacturers and pachinko hall operators have been stepping up efforts to increase the soundness of the industry by resolving its problems, such as addiction and improperly modified pachinko and pachislot machines, both of which have caused a decline in the player population. Pachinko and pachislot machine manufacturers have been making industry-wide efforts to introduce a series of voluntary regulations aimed at curbing functions that encourage excessive gambling. The extremely significant change in conditions is having a short-term impact on pachinko and pachislot machine manufacturers. Major changes in gameplay designed to resolve the problem of addiction have forced manufacturers to change development schedules. Further, although some new-format machines compliant with the new regulations are achieving high utilization rates, there is concern that the change in gameplay could unsettle the market over the short term. In fact, pachinko hall operators are approaching the introduction of new-format machines circumspectly, and the pachinko and pachislot machine market is expected to flag over the short-to-medium term.

Aiming to overcome such impacts and extend the player base to revitalize the industry over the long term, industry competitors are forming partnerships that would have been unthinkable previously. These partnerships are focused on establishing industry-wide platforms that will increase cost efficiency through the joint purchasing of components and the use of common components. Also, collaboration among competitors promises to create new gameplay.

### Utilization Time\*



### Negative Cycle of the Pachinko and Pachislot Machine Market



### Pachislot Machine Market Trends

	FY2015 (Result)	FY2016 (Result)	FY2017 (Forecast)
Market unit sales (thousands of units)	1,230	960	900
Market units installed (thousands of units)	1,640	1,670	1,610

### Pachinko Machine Market Trends

	FY2015 (Result)	FY2016 (Result)	FY2017 (Forecast)
Market unit sales (thousands of units)	2,010	1,880	1,770
Market units installed (thousands of units)	2,950	2,910	2,810

Sources: National Police Agency and Yano Research Institute Ltd. (Data for which definitive values have not been formally issued and figures for fiscal 2016 and fiscal 2017 are estimates and forecasts of the Group.)

## Market Conditions for Each Business

## Game Content Market

## Asia Driving Growth of the Game Content Market

In 2015, sales in the global game content market,\*<sup>1</sup> comprising packaged game software and online game content, rose 23.1% year on year, to approximately ¥8,266.7 billion.\*<sup>2</sup> In Asia (Japan, China, and South Korea), the game content market grew 57.9%, centered on mobile game apps, and drove growth in the global market. Digital downloads (digital downloads to mobile devices, PCs, and home video game consoles) are increasing world-wide. In 2015, they grew 34.4% to account for 84.0% of the market as a whole. This growth is in marked contrast to packaged game software, which shrank 15.0% year on year.

## Growth of Mobile Game Apps Softening in Japan

In 2015, the Japan's home video game market (the value of the game software market, including store sales, download sales, and Free-to-Play (F2P)) decreased 12.1% year on year, to ¥230.1 billion.\*<sup>2</sup> The trend toward online distribution has become clear, with store sales down 15.7%\*<sup>2</sup> and download sales and F2P up 11.0%.\*<sup>2</sup> Meanwhile, online game content rose 26.7% year on year, to ¥998.9 billion,\*<sup>2</sup> which is more than four times larger than the Japan's home video game market. Mobile game apps (games for smart devices) account for the majority of online game content sales. The significant presence of mobile game apps is a unique feature of Japan's market that is not evident in other countries or regions.

In the past three years, Japan's mobile game app market has approximately doubled to become the largest market of its kind in the world. Currently, however, growth is softening in Japan's mobile game app market. Also, the tendency for popularity to focus on titles at the top of the rankings is strengthening, and the introduction of devices with upgraded performance is spurring the release of higher-end apps. As a result, developing and marketing costs are rising, which is creating an increasingly conspicuous oligopoly among leading companies with powerful intellectual properties and solid financial bases.

## China and ASEAN Region Growing Markedly among Overseas Markets

North America's game content market grew 5.6%\*<sup>2</sup> year on year, mainly reflecting digital sales of home video game software, while growth in mobile game apps produced a 5.7%\*<sup>2</sup> year-on-year increase in Europe's game content market. The enduring popularity of home video games and PC online games differentiates the North American and European markets from Japan's market. As the transition from old-generation to new-generation home video game consoles proceeds steadily, popularity continues to concentrate on titles that are released by major publishers and belong to well-known series.

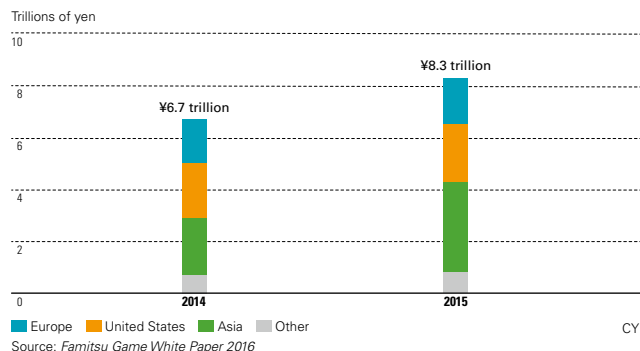
China's game content market grew 22.9%\*<sup>2</sup> year on year. This market is seeing remarkable growth in mobile game apps, sales of which were up 87.2%\*<sup>2</sup> year on year in 2015. Further expansion is expected in step with the upgrading of network capabilities.

Also, the ASEAN region has emerged as a new growth market. The game industry promises to grow particularly vigorously in Indonesia due to its large working-age population, high smartphone penetration, and government measures to promote industry.

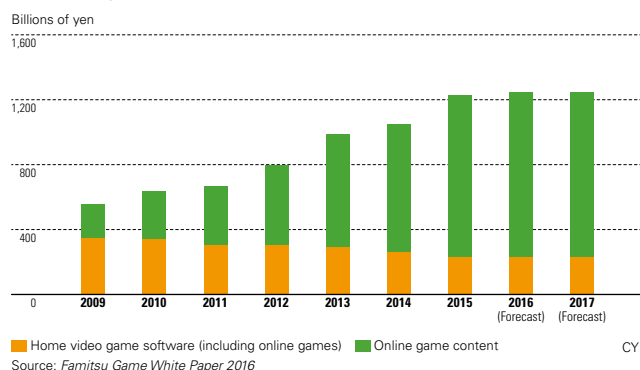
\*<sup>1</sup> Total for mobile game apps, PC online games, and home video game software downloads

\*<sup>2</sup> Source: Famitsu Game White Paper 2016

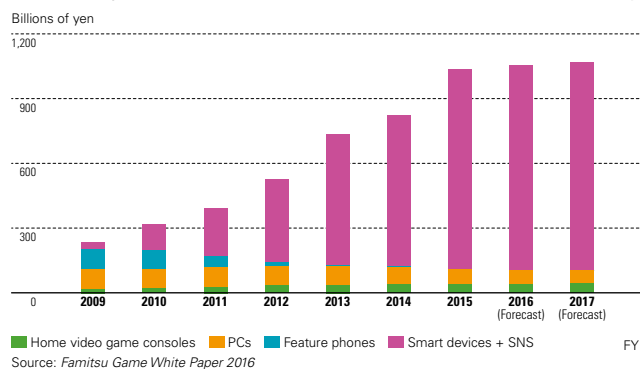
## Estimated Value of Global Game Content Market



## Value of Japan's Home Video Game and Online Game Content Markets



## Value of Japan's Market for Game Content with Network Connectivity



## Virtual Reality, Augmented Reality, and E-Sports Emerging as New Trends

In the game content market, innovations in virtual reality technology are creating a new trend. In tandem with the launches of virtual reality devices, companies are releasing a steady stream of compatible content. By offering players new experiences, this development promises to invigorate the home video game software market. Also, a mobile game app that uses augmented reality technology and location information has become a massive worldwide hit. In this way, the integration of the real and virtual is evolving a new game content market in the Internet of Things (IoT) era.

Further, e-sports is attracting attention as a new growth market. The e-sports approach to gaming, which focuses on highly competitive game content, is rapidly gaining popularity overseas, and tournaments are being held in large venues.



Hatsune Miku: VR Future Live

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## Amusement Market (Amusement Machines / Amusement Center Operations)

### Tough Conditions Continuing Due to Increase in Consumption Tax

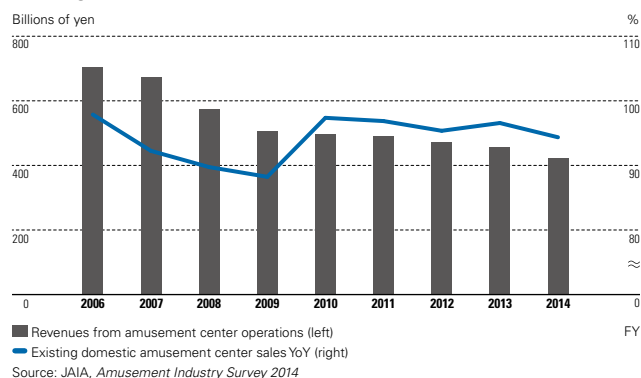
As leisure activities diversify due to the spread of smartphones and other factors, the amusement center operations market has been contracting. During the eight years between the years ended March 2008 and March 2015, it shrank approximately 40%. In the year ended March 2015, the market contracted a significant 7.5%\*<sup>3</sup> year on year as a result of a consumption tax increase in April 2014. Existing amusement centers' sales have been declining year on year since the year ended March 2008 and decreased 5.7%\*<sup>3</sup> year on year in the year ended March 2015. Similarly, the amusement machine market has continued to contract. In the year ended March 2015, the total value of the amusement machine markets in Japan and overseas was 8.0%\*<sup>3</sup> less than in the previous fiscal year.

Aiming to invigorate the amusement market, amusement center operators and amusement machine manufacturers have been taking a range of initiatives. Amusement machine manufacturers are introducing a range of different business models. For example, they are introducing revenue-sharing business models that help invigorate amusement centers by enabling the introduction of new products through a format that reduces the initial investment burden for amusement center operators. Further, the amusement industry is taking measures to attract customer groups that do not tend to visit amusement centers. Also, growing numbers of amusement centers are introducing electronic money with a view to facilitating adjustments reflecting consumption tax increases, enabling flexible pricing based on play demand, and increasing player convenience.

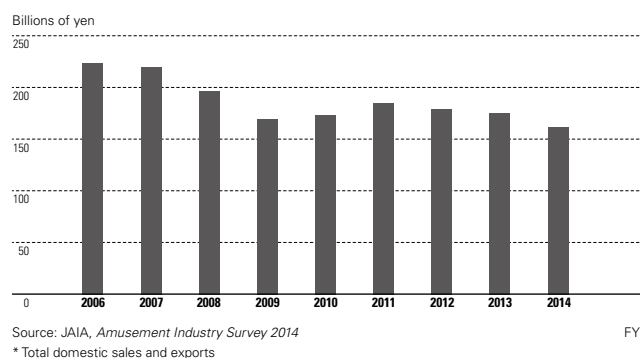
Currently, there are signs that the amusement market is moving away from its long-term contraction trend thanks to a tailwind resulting from the abovementioned concerted industry efforts, the emergence of hit titles that have succeeded in earning endorsement from a broad group of players, and the June 2016 enforcement of a revision of the Act on Control and Improvement of Amusement Business, etc., which mainly eases age restrictions on admission to amusement centers.

\*3 Source: JAIA, Amusement Industry Survey 2014

### Revenues from Amusement Center Operations / Existing Domestic Amusement Center Sales YoY



### Amusement Machine Sales\*





**SEGA SAMMY HOLDINGS INC.**

Shiodome Sumitomo Building, 1-9-2 Higashi Shimbashi,  
Minato-ku, Tokyo 105-0021, Japan  
[www.segasammy.com](http://www.segasammy.com)