

To the Shareholders

**Items Posted on Internet Concerning  
Notice of the 13th Ordinary General Meeting of  
Shareholders**

June 1, 2017

**SEGA SAMMY HOLDINGS INC.**

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Pursuant to the provisions of laws and regulations and the Article 16 of the Articles of Incorporation, the above information shall be deemed to be provided to all shareholders by posting it on the website of SEGA SAMMY HOLDINGS INC. (the “Company”):

(<http://www.segasammy.co.jp/japanese/ir/event/meeting.html>).

Information in English will be posted on our English website

(<http://www.segasammy.co.jp/english/ir/event/meeting.html>).

## 1. Consolidated Statement of Changes in Net Assets

(From April 1, 2016 To March 31, 2017)

(Unit: millions of yen)

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

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

(Unit: millions of yen)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2016	801	4,415	299,950
Changes of items during the period			
Dividends from surplus			(9,375)
Profit attributable to owners of parent			27,607
Purchase of treasury stock			(11)
Disposal of treasury stock			0
Change of scope of consolidation			155
Change of scope of equity method			(312)
Purchase of shares of consolidated subsidiaries			(883)
Reversal of revaluation reserve for land			(4,941)
Net changes of items other than shareholders' equity	(497)	(987)	(693)
Total changes of items during the period	(497)	(987)	11,546
Balances as of March 31, 2017	303	3,428	311,497

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## 2. Notes to Consolidated Financial Statements

### I Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

#### (1) Scope of Consolidation

Number of consolidated subsidiaries 78

For a complete list of major consolidated subsidiaries, refer to the section “I Outline of the Group’s Business” under “7. Material Parent Company and Subsidiaries” of “(2) Relationships with subsidiaries”.

From the fiscal year ended March 31, 2017, the followings were included in the Company’s consolidated subsidiaries; Amplitude Studios SAS and three other companies, because of the Company’s acquisition.

From the fiscal year ended March 31, 2017, the followings have been excluded from the scope of consolidation; CA Sega Joypolis Ltd. (SEGA LIVE CREATION Inc. changed its name in January 2017) and two other companies, because of sale of the share of stocks; Sega Jinwin (Shanghai) Amusements Co., Ltd. and one other company, because of liquidation; patina Co.,Ltd. and one other company, because of merger with J-NEXT Co.,Ltd. (HONEST Co.,Ltd. changed its name in April 2016).

Number of non-consolidated subsidiaries 15

Major non-consolidated subsidiaries: GO GAME PTE. LTD. etc.

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

Number of non-consolidated subsidiaries accounted for under the equity-method 5

Major non-consolidated subsidiaries accounted for under the equity-method: GO GAME PTE. LTD. etc.

The following have been included in the scope of application of equity-method; GO GAME PTE. LTD. and four other companies, because of increase of importance.

Number of affiliated companies accounted for under the equity method 11

Major equity-method affiliates: PARADISE SEGASAMMY Co., Ltd. and INTERLIFE HOLDINGS CO., LTD. etc.

The following have been excluded from the scope of application of the equity-method; Zen Tiger S.à r.l., because of sale of the share of stocks.

Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method 13

Major non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method: CHARA-WEB.CO., LTD. etc.

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) Fiscal Year for Consolidated Subsidiaries

Consolidated subsidiaries whose fiscal year-ends differ from the consolidated balance sheet date are listed below. Necessary adjustments are made on consolidation for material transactions that occurred between the end of the fiscal years of these subsidiaries and the end of the consolidated balance sheet date.

<u>Consolidated subsidiary</u>	<u>Fiscal year-end</u>
Sega Amusements Taiwan Ltd.	December 31
Beijing SEGA Mobile Entertainment Technology Co., Ltd.	December 31
Dartslive China Ltd.	December 31
Play Heart, Inc.	December 31
Sega Black Sea EOOD	December 31

(4) Accounting Policies

① Valuation standards and accounting treatment for important assets

a. Held-to-maturity debt securities

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

b. 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, 2017.

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 Investment and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

c. Derivatives

Derivatives are stated at fair market value.

d. 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

a. Property, plant and equipment (excluding lease assets):

Depreciation is calculated primarily using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and Structures: 2-50 years

Machinery, equipment and vehicles: 2-16 years

Amusement machines and facilities: 2-5 years

b. 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).

- c. Lease assets
  - Finance leases which transfer ownership:  
Depreciation method for such assets is the same as that which applies to property, plant and equipment owned by the Company.
  - Finance leases which do not transfer ownership:  
Depreciated, using the straight-line method over a useful life equal to the lease period with a residual value of zero.
- ③ Accounting for deferred assets
  - Bond issue cost: All expenses are expensed when incurred.
- ④ Accounting for allowances and provisions
  - a. 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.
  - b. Provision for bonuses
    - The estimated amount of bonuses was recorded to meet the payment of employee bonuses, an amount corresponding to the current fiscal year.
  - c. Provision for directors' bonuses
    - The estimated amount of bonuses was recorded to meet the payment of Directors and Audit & Supervisory Board Members bonuses, an amount corresponding to the current fiscal year.
  - d. Provision for point card certificates
    - In order to provide for the usage of points granted to customers under the point system, the estimated future usage amount for the end of the fiscal year ended March 31, 2017 has been recorded.
  - e. Provision for dismantling of fixed assets
    - To provide for expenses for dismantling unused decrepit buildings, estimated future expenses are recorded.
- ⑤ Accounting method for retirement benefits
  - a. Attribution method for projected retirement benefits
    - In calculating retirement benefits obligations, benefit formula attribution is adopted for the purpose of attributing projected retirement benefits to the period up to the end of the fiscal year ended March 31, 2017.
  - b. Treatment of actuarial gains and losses and prior service costs
    - Prior service costs are amortized equally over a certain number of years (10 years in principle) within the average remaining years of service for the employees at the time of accrual, or are charged to income collectively at the time of accrual. Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 years in principle) within average remaining years of service for the employees at the time of accrual in each fiscal year, commencing from the following fiscal year after the accrual for each employee, or are charged to income collectively in the following fiscal year after the accrual.
- ⑥ Accounting for significant hedge
  - a. Hedge accounting
    - SEGA SAMMY Group (the "Group") adopts deferred hedge accounting. However, special treatment is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying currency swap transactions and forward exchange contracts.
  - b. Hedging instruments and hedged items
    - Hedging instrument: Currency swaps, interest rate swaps, and forward exchange contracts
    - Hedged item: Interest on loans payable, receivables and payables denominated in foreign currencies
  - c. 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.

d. Evaluation of hedge effectiveness

Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market between the hedged item and the hedging instrument. Evaluation of hedge effectiveness at fiscal year-end is omitted for currency swap transactions, as material conditions for the notional principal of hedging instruments and those for hedged items are the same and these transactions are deemed to offset the market fluctuations. Evaluation of hedge effectiveness at fiscal year-end is omitted also for interest rate swap transactions applied to special treatment.

⑦ Amortization method and period of goodwill

If the duration of the effect of goodwill can be rationally estimated, amortization is made over the estimated number of years by the straight-line method. In other cases, amortization is made over a five-year-period by the straight-line method.

⑧ Accounting method for consumption taxes

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

⑨ Application of the Consolidated Taxation System

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

(5) Additional information

① Application of Accounting Standard for implementation guidance on recoverability of deferred tax assets

The Company and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016), from the current fiscal year.

② Amendment of deferred tax assets and deferred tax liabilities due to changes in income tax rate

With the enactment of the “Act to Partially Revise the Act on Partial Revision to the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 85 of 2016) and the “Act to Partially Revise the Act for Partial Revision to the Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 86 of 2016) in the Diet on November 18, 2016, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities for the fiscal year ended March 31, 2017 has been changed from that for the previous fiscal year.

Due to these changes in statutory income tax rates, net deferred tax assets at the end of the fiscal year ended March 31, 2017 decreased by ¥352 million while income taxes-deferred increased by ¥352 million.

## II Changes in Accounting Estimates

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

This change has no impact on profit and loss for the consolidated fiscal year ended March 31, 2017. The Company and certain subsidiaries are currently in the process of determining the effect of this change on the consolidated financial statement.



③ Breakdown of impairment loss.

(Unit: millions of yen)

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

For each business segment, the Group 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 extraordinary loss.

**V Notes to Consolidated Statement of changes in Net Assets**

(1) Issued Stock

(Unit: shares)

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

(2) Treasury Stock

(Unit: shares)

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

(Outline of Causes of Change)

The causes of the increase are as follows:

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

The causes of the decrease are as follows:

Decrease due to sales of odd-lot stock 278 shares

(3) Dividends

① Dividend Amount

Resolution	Type of Stock	Total dividend (¥ million)	Dividend per share (¥)	Record date	Effective date
Board of Directors' Meeting held on May 13, 2016	Common stock	4,687	20	March 31, 2016	May 27, 2016
Board of Directors' Meeting held on November 2, 2016	Common stock	4,687	20	September 30, 2016	December 1, 2016

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

Resolution	Type of Stock	Resource of dividend	Total dividend (¥ million)	Dividend per share (¥)	Record date	Effective date
Board of Directors' Meeting held on May 12, 2017	Common Stock	Retained Earnings	4,687	20	March 31, 2017	June 2, 2017

(4) Number and type of shares to be issued upon exercise of subscription rights to shares (except for the ones before the first day of the exercisable period) as of the end of the fiscal year ended March 31, 2017.

Not applicable.

## VI Notes on the Financial Instruments

### (1) Matters regarding the current status of financial instruments

The Group's 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 borrowing or bond issue applying Cash Management System for the purpose of the efficient utilization of the Group 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 mainly used, not for speculative purposes, but to manage exposure to financial risks as described later.

Credit risks of the clients in terms of notes and accounts receivable - trade are mitigated under the credit management rules, etc. at each Group company.

Short-term investment securities are mainly negotiable certificates of deposit. The Group's credit risk exposure is minimal as these transactions are restricted to highly rated financial institutions in accordance with the capital management rules etc. of each Group company. Investment securities are mainly stocks and the relevant information such as market prices of these stocks and financial conditions of the issuers (business partners) is reviewed and reported to the Board of Directors of each Group company, etc. on a regular basis. Shareholding status is also continually reviewed in view of the relationship with business partners that issue these stocks. With certain compound financial instruments etc., the Group is exposed to risks associated with market price fluctuations etc. in the stock markets but periodically evaluates them on a mark-to-market basis.

Borrowings as well as bonds is intended to secure funds necessary for the purpose of working capital and capital expenditures etc. and diversify means for procuring funds. Each Group company reviews its own actual and projected cash position on a monthly basis, which is eventually verified collectively by the Company as part of the Group's liquidity risk management.

The Group's derivative transactions are restricted to forward exchange contracts and currency swap transactions as hedges against currency fluctuation risks on its foreign currency-denominated operating receivables and debt as well as foreign currency-denominated loans payable, and interest rate swap transactions etc. to mitigate interest rate risks on some of the Group's variable interest rate loans payable. These transactions are executed and managed mainly by the financial department or the accounting department upon obtaining internal approvals in compliance with the derivative transactions management rules, etc. of each Group company. Furthermore, reports on the status of the derivative transactions are made to the Board of Directors at each company as appropriate.

(2) Matters regarding the market value etc. of financial instruments

Consolidated balance sheet amounts and market values of the Group's financial instruments and the difference between the two as of the end of the fiscal year ended March 31, 2017 are as follows. Market values of financial instruments named in Note 2 below are extremely difficult to grasp, thus are not included in the following list.

(Unit: millions of yen)

	Consolidated balance sheet amount	Market value	Difference
(1) Cash and deposits	137,494	137,494	—
(2) Notes and accounts receivable - trade	44,500	44,499	(0)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,319	2,331	12
2) Available-for-sale securities (*1)	98,744	98,744	—
3) Stocks of affiliates	895	1,092	196
(4) Notes and accounts payable - trade	45,631	45,631	—
(5) Short-term loans payable	6,354	6,354	—
(6) Long-term loans payable	44,500	44,903	(403)
(7) Current portion of bonds	19,500	19,500	—
(8) Bonds payable	32,500	32,543	(43)
(9) Derivative transactions (*2)			
1) Transactions outside the scope of hedge accounting	(4)	(4)	—
2) Transactions subject to hedge accounting	(71)	(71)	—

(\*1) Since market 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: 1 Matters regarding the methods to calculate the market values of financial instruments and securities and derivative transactions

(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 market values approximate book values. In addition, of notes and accounts receivable - trade, those which more than a year to the payment date from the end of the fiscal year ended March 31, 2017 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 market values of stocks are determined using the quoted price at the stock exchange, and those of debt securities are determined using the quoted price at the stock exchange or the quoted price obtained from the 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 market values approximate book values.

(4) Notes and accounts payable – trade; (5) Short-term loans payable; and (7) Current portion of bonds

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

(6) Long-term loans payable; and (8) 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.

(9) Derivative transactions

Market values of these are the prices quoted by the counterparty financial institutions. Meanwhile, certain derivative transactions such as forward exchange contracts subject to allocation hedge accounting are treatment on a combined basis with the receivables and payables that are hedged; therefore, their fair values are presented as part of the fair values of such receivables and payables.

2 Financial instruments whose market values are not readily determined

Category	Consolidated balance sheet amount (Millions of yen)
Investments in unlisted stocks, etc.	2,228
Investments in investment limited partnerships, etc.	6,430
Stocks of non-consolidated subsidiaries	298
Stocks of affiliates	22,893
Investments in capital of subsidiaries and associates	1,238

Items above 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 very difficult to identify market values.

**VII Note Regarding Investment and Rental Property**

Status and market value of investment and rental property

This disclosure is omitted due to the immateriality of the total amount of the investment and rental property.

**VIII Note Regarding Per Share Information**

Net assets per share                      ¥1,313.06

Net income per share                      ¥117.79

**IX Note Regarding Material Subsequent Events**

Not applicable.

### 3. Non-Consolidated Statement of Changes in Net Assets

(From April 1, 2016 To March 31, 2017)

(Unit: millions of yen)

	Shareholders' equity			
	Capital stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balances as of April 1, 2016	29,953	29,945	162,299	192,244
Changes of items during the period				
Dividends from surplus				
Net income				
Purchase of treasury stock				
Disposal of treasury stock			(0)	(0)
Total changes of items during the period	—	—	(0)	(0)
Balances as of March 31, 2017	29,953	29,945	162,299	192,244

	Shareholders' equity			
	Retained earnings		Treasury stock	Total shareholders' equity
	Other retained earnings	Total retained earnings		
	Retained earnings brought forward			
Balances as of April 1, 2016	136,472	136,472	(55,043)	303,626
Changes of items during the period				
Dividends from surplus	(9,375)	(9,375)		(9,375)
Net income	2,076	2,076		2,076
Purchase of treasury stock			(11)	(11)
Disposal of treasury stock			0	0
Total changes of items during the period	(7,299)	(7,299)	(10)	(7,310)
Balances as of March 31, 2017	129,172	129,172	(55,054)	296,316

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available - for - sale securities	Total valuation and translation adjustments		
Balances as of April 1, 2016	8,263	8,263	801	312,691
Changes of items during the period				
Dividends from surplus				(9,375)
Net income				2,076
Purchase of treasury stock				(11)
Disposal of treasury stock				0
Net changes of items other than shareholders' equity	(657)	(657)	(497)	(1,154)
Total changes of items during the period	(657)	(657)	(497)	(8,465)
Balances as of March 31, 2017	7,606	7,606	303	304,226

Note: Figures shown in millions of yen have been rounded down to the nearest million.

#### 4. Notes to Non-Consolidated Financial Statements

##### I Notes Regarding Material Matters Related to Accounting Policies

###### 1. Valuation standards and accounting treatment for assets

(1) Valuation standards and methods for securities

① Stocks of subsidiaries and affiliates are stated at moving-average cost.

② Available-for-sale securities

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, 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, 2017.

Securities without fair market value are stated at moving-average cost.

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

(2) Derivatives

Derivatives are stated at fair market value.

###### 2. Depreciation and amortization of noncurrent assets

(1) Property, plant and equipment

Depreciation is calculated by the straight-line method.

Range of useful life for the assets is as follows:

Buildings	: 2 - 50 years
Structures	: 2 - 47 years
Aircraft	: 8 years
Tools, furniture and fixtures	: 2 - 15 years

(2) Intangible 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. Accounting for deferred assets

Bond issue cost: All expenses are expensed when incurred.

###### 4. Accounting for provisions

(1) Allowance for doubtful accounts

The reserve for doubtful accounts is provided in amount sufficient to cover possible losses. Allowance for doubtful accounts is calculated on an individual assessment of the possibility of collection.

(2) Provision for bonuses

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

(3) Provision for directors' bonuses

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

(4) Provision for retirement benefits

The liability for retirement benefits is based on the estimated amount of benefit obligations at the end of the fiscal year. Simplified method is used to calculate provision for retirement benefits.

**5. Accounting for hedge**

(1) Accounting for hedge

Allocation hedge accounting is used for qualifying currency swap transactions, while special treatment is applied to qualifying interest rate swap transactions.

(2) Hedging instruments and hedged items

Hedging instrument: Currency swaps, Interest rate swaps

Hedged item: Foreign currency-denominated loans payable and associated interest

(3) Hedge policy

The Company engages in currency swap transactions with the purpose to avoid risks associated with foreign exchange fluctuations of loans payable, along with interest rate swap transactions with the purpose to avoid risks associated with interest rate fluctuations of loans payable. The Company has a policy not to engage in speculative derivative transactions.

(4) Evaluation of hedge effectiveness

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 as they adopt special treatment.

**6. Other material matters that form the basis of accounting documents**

(1) Accounting method for consumption taxes

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

(2) Application of the Consolidated Taxation System

The Company applied the Consolidated Taxation System.

**7. Additional information**

The Company adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016), from the current fiscal year.

**II Changes in Accounting Estimates**

At a meeting of the Board of Directors held on March 31, 2017, the Company resolved to relocate the headquarters of the Company and some of the operating companies of the SEGA SAMMY Group located in the Tokyo metropolitan area. As a result, the Company has shorten the useful lives of the noncurrent assets that will become unable to use as a result of the relocation, and such change is effective into the future.

These changes have no impact on profit and loss for the fiscal year ended March 31, 2017. Meanwhile, the impact of these changes on profit and loss for the fiscal year ending March 31, 2018 onward is in the process of being calculated.

### III Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ¥3,379 million

(2) Assets pledged

Shares of subsidiaries and associates (Note) ¥20,737 million

(Note) For loans from financial institutions to the affiliated company PARADISE SEGASAMMY Co., Ltd. at the end of the current fiscal year ¥62,258 million (KR₩642,500 million), the shares of this company were provided as a pledge.

(3) Guaranteed obligation

Guarantee	Amount	Description
SEGA Holdings Co., Ltd.	¥445 million (US \$4 million)	Accounts payable - other

(4) Receivables from and payables to affiliates

Short-term receivables from affiliates	¥7,731 million
Short-term payables to affiliates	¥63,185 million
Long-term payables to affiliates	¥17,500 million

### IV Notes to Statement of Income

(1) Transactions with affiliates

Consulting fee income	¥5,763 million
Dividends income (Operating revenue)	¥7,686 million
SG&A expenses	¥109 million
Non-operating transactions	¥523 million

(2) Extraordinary loss

¥2,607 million of loss on support to subsidiaries and associates is recorded due to debt forgiveness of loans receivable from two of the Company's subsidiaries.

### V Notes to Statement of Changes in Net Assets

Number and type of Treasury stock as of the end of the fiscal year ended March 31, 2017

Common stock	31,841,869 shares
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## VI Notes Regarding Tax Effect Accounting

### (1) Significant components of deferred tax assets and deferred tax liabilities

	(Unit: millions of yen)
Deferred tax assets	
Loss carried forward	1,384
Exclusion from the deductible expenses of provision for bonuses	50
Exclusion from the deductible expenses of provision of allowance for doubtful accounts	1,599
Exclusion from the deductible expenses of loss on valuation of shares of subsidiaries and associates	8,073
Disallowed portion of loss on investments in partnership	5
Valuation difference on available-for-sale securities	91
Other	411
Subtotal deferred tax assets	11,616
Valuation allowance	(11,542)
Offset against deferred tax liabilities	(1)
Total deferred tax assets	72
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(3,486)
Other	(87)
Subtotal deferred tax liabilities	(3,574)
Offset against deferred tax assets	1
Total deferred tax liabilities	(3,573)
Deferred tax liabilities, net	(3,500)

### (2) Breakdown by major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item.

Normal effective statutory tax rate	30.9%
(Adjustment)	
Permanently non-deductible expenses including entertainment expenses	13.0%
Exclusion from the deductible expenses of donation	62.6%
Changes in valuation allowance	130.9%
Amount excluded from gross revenue such as dividend income	(213.0%)
Adjustment of book value of investment in shares of subsidiaries	(84.4%)
Other	(1.6%)
Effective tax rate after tax effect accounting	(61.6%)

### (3) Amendment to deferred tax assets and deferred tax liabilities due to changes in income tax rate

With the enactment of the “Act to Partially Revise the Act on Partial Revision to the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 85 of 2016) and the “Act to Partially Revise the Act for Partial Revision to the Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 86 of 2016) in the Diet on November 18, 2016, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities for the fiscal year ended March 31, 2017 has been changed from that for the previous fiscal year.

As a result, net deferred tax assets at the end of the fiscal year ended March 31, 2017 decreased by ¥4 million while income taxes-deferred increased by ¥4 million.

**VII Notes Regarding Transactions with Related Parties**

(1) Subsidiaries and Affiliates

(Unit: millions of yen)

Type	Name of the company	Voting rights (%)	Relationship	Description of the transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year
Subsidiary	Sammy Corporation	100.0	Management guidance to the company, interlocking directorate	Consulting fee income(Note 2)	3,458	Accounts receivable - trade	311
				Consolidated taxation system	—	Accounts receivable - other	4,098
				Reception of deposits(Note 3)	—	Deposits received	52,619
				Payment of interests(Note 4)	115	Long-term deposits received	15,000
Subsidiary	SEGA Holdings Co., Ltd.	100.0	Management guidance to the company, interlocking directorate	Interest payable	82	Interest payable	82
				Consulting fee income(Note 2)	2,305	Accounts receivable-trade	207
				Consolidated taxation system	—	Accounts receivable - other	706
				Lending of funds	5,636	—	—
				Collection of loans receivable	6,010	—	—
				Debt forgiveness (Note 5)	1,765	—	—
				Reception of interests(Note 4)	60	—	—
				Reception of deposits(Note 3)	—	Deposits received	6,008
Payment of interests(Note 4)	19	Long-term deposits received	2,500				
Subsidiary	SEGA Games Co., Ltd.	100.0	Interlocking directorate	Interest payable	7	Interest payable	7
				Collection of loans receivable	10,720	—	—
Subsidiary	SEGA SAMMY CREATION INC.	100.0	Interlocking directorate	Reception of interests(Note 4)	91	—	—
				Lending of funds	1,700	Long-term loans receivable from subsidiaries and associates(Note 6)	6,200
Subsidiary	SEGA SAMMY CREATION INC.	100.0	Interlocking directorate	Reception of interests(Note 4)	77	Accrued interest	0
				Lending of funds	1,700	Deferred interest	0

(Unit: millions of yen)

Type	Name of the company	Voting rights (%)	Relationship	Description of the transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year		
Subsidiary	PHOENIX RESORT CO., LTD.	100.0	Interlocking directorate	Lending of funds	6,290	Long-term loans receivable from subsidiaries and associates	8,196		
				Collection of loans receivable	3,440				
				Debt forgiveness (Note 7)	841				
				Reception of interests(Note 4)	108			Accrued interest	3
				Underwriting of capital increase (Note 8)	3,360			—	—
Affiliate	PARADISE SEGASAMMY Co., Ltd.	45.0	Interlocking directorate	Provision of security (Note 9)	20,737	—	—		

Notes: 1. Consumption taxes are not included in transaction amounts.

2. The amount of the Consulting fee income is decided based on the Company's necessary expenses.
3. Cash management system transactions are used for the purpose of uniformly and efficiently procuring and managing funds within the Group. Lending and borrowing of funds is executed at any time between the Group companies, thus the transaction amount is omitted.
4. Interest is determined with consideration to market interest rates.
5. For ¥1,765 million of long-term loans receivable from SEGA Holdings Co., Ltd., the Company implemented debt forgiveness. Debt forgiveness of ¥1,765 million of long-term loans receivable was recorded as loss on support to subsidiaries and associates for the fiscal year ended March 31, 2017.
6. For long-term loans receivable from subsidiaries and associates from SEGA SAMMY CREATION INC., the Company recorded provision of allowance for doubtful accounts of ¥5,216 million while recorded allowance for doubtful accounts of ¥2,004 million for the fiscal year ended March 31, 2017.
7. For ¥841 million of long-term loans receivable from PHOENIX RESORT CO., LTD., the Company implemented debt forgiveness. Debt forgiveness of ¥841 million of long-term loans receivable was recorded as loss on support to subsidiaries and associates for the fiscal year ended March 31, 2017.
8. The Company underwrote a capital increase through allotment to shareholders.
9. 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.

(Unit: millions of yen)

Type	Name of related individual and company	Voting rights (%)	Relationship	Description of the transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year
Company in which Directors or their relatives own majority voting rights	FSC Co., Ltd. (Note 2)	5.57	Insurance representative	Payment of insurance premium (Note 3)	8	Prepaid expenses	5
			Lending of real-estate and equipment	Rental income from real-estate and equipment (Note 3)	3	—	—

Notes: 1. Consumption taxes are not included in transaction amounts.

2. Hajime Satomi, Chairman of the Board and CEO and COO, and Haruki Satomi, Executive Vice President (Director of the Board,) directly hold a majority of the shares of FSC Co., Ltd.

3. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

**VIII Note Regarding Per Share Information**

Net assets per share	¥1,296.67
Net income per share	¥8.86

**IX Notes Regarding Material Subsequent Events**

Not applicable.