

To the Shareholders

**Items Posted on Internet Concerning
Notice of the 16th Ordinary General Meeting of
Shareholders**

June 1, 2020

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"):
(<https://www.segasammy.co.jp/japanese/ir/stock/meeting/>).
Information in English will be posted on our English website
(<https://www.segasammy.co.jp/english/ir/stock/meeting/>).

1. Company's Share Subscription Rights

- (1) Outline of Share Subscription Rights Issued to the Company's Directors and Audit & Supervisory Board Members as Remuneration for Their Services as of the End of the Fiscal Year Ended March 31, 2020

Date of Resolutions of the Ordinary General Meeting of Shareholders	August 2, 2016
Number of individuals with rights Company Directors	3
Number of share subscription rights (Note 1)	766
Class of shares for share subscription rights	Common stock
Number of shares for share subscription rights	76,600
Payment on exercise of share subscription rights	There is no need of delivering payment to exchange with the share subscription rights.
Capital contribution upon exercise of share subscription rights (per share)	¥1,413
Period for exercise of share subscription rights	September 2, 2018 – September 1, 2020
Terms and conditions for exercise of share subscription rights	(Note 2)
Matters concerning the transfer of share subscription rights	When transferring share subscription rights, approval must be obtained from the Board of Directors

Notes: 1. Number of shares of share subscription rights is 100 per the right.

2. Terms and conditions for exercise of share subscription rights are as follows:

The grantee shall be Director, Audit & Supervisory Board Member, Executive Officer, Consultant, Counsel, or employee of the Company or any of its subsidiaries when he or she exercises the rights. However, the following cases are treated as exceptions.

- a. Where the loss of such position is due to expiration of the term of office or amendment of law or Articles of Incorporation of the Company or any of its subsidiaries;
- b. Where the loss of such position is due to company regulations, including mandatory retirement or termination on account of business contraction;
- c. Where, immediately after the loss of such position due to the reasons held by the Company, the grantee becomes Director, Audit & Supervisory Board Member, Executive Officer, Consultant, Counsel, or employee of the Company, any of its Group companies, any of its business partners or any other company sanctioned by the Company.

- (2) Outline of Share subscription rights Issued to Company Employees or Subsidiary Directors, Audit & Supervisory Board Members, or Employees as Remuneration for Their Services During the Fiscal Year Ended March 31, 2020

Not applicable.

2. Independent Auditors

(1) **Name**
KPMG AZSA LLC

(2) **Liability Limitation Agreement with Independent Auditors**

Although, the Company amended its articles of incorporation and established regulations regarding liability limitation agreements with independent auditors at the Second Ordinary General Meeting of Shareholders on June 20, 2006, the Company has not entered into the liability limitation agreement with KPMG AZSA LLC.

(3) **Remuneration, etc.**

	Remuneration, etc.
Remuneration, etc., related to the fiscal year ended March 31, 2020	¥141 million
Total of cash and other profits that should be paid to independent auditors by the Company and its subsidiaries (together, the “Group”)	¥376 million

Notes: 1. The Company’s subsidiaries, Sega Europe Ltd., etc. are audited by auditors that differ from the Company’s.
2. As a result of checking and reviewing the independent auditor’s audit plan and record of remuneration for the last year, the Audit & Supervisory Board of the Company gave consent to the remuneration etc. for the independent auditor pursuant to Article 399, Paragraph 1 of the Companies Act.
3. The non-audit services for which the Company paid remuneration to auditing certified public accountants and other accountants include contracted business research, which are outside the scope of the services stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Law.

(4) **Policy Regarding Determination of Termination or Not Reappointing**

The Company will include in objectives of the General Meeting of Shareholders the dismissal of the independent auditor prescribed in any clause within Article 340, Section 1 of the Companies Act as well as the dismissal or non-reappointment of the independent auditor if it is deemed difficult for the independent auditor to perform its duty appropriately.

3. Outline of Resolutions Regarding Preparation of Internal Control System and so forth to Ensure Appropriate Business Execution

Based on the Companies Act, the Company made the following resolutions regarding the “Basic Policy on Preparation of Internal Controls System” and has worked to prepare this system.

- (1) System to Ensure the Efficient Implementation of the Duties of the Company’s Directors and Compliance with Laws and the Articles of Incorporation
In accordance with the Group Mission, establish a Group CSR Charter, Group Code of Conduct, Group Management Policies, and Guidelines (hereinafter, collectively referred to as “Group Philosophy and Code”) and President (Representative Director) will repeatedly communicate the spirit of Group Philosophy and Code to employees in administrative post, in order to thoroughly establish compliance with laws, etc., as a condition for all corporate activities. These efforts will reflect the Company’s fundamental policy of fulfilling its social responsibility as a member of society and provide a basis for establishing a compliance system that comprises such policy.
In addition, in the interest of further strengthening corporate governance, the Board of Directors will make efforts to build an effective internal controls system and to secure a system for compliance with laws for the Company as a whole, based on the Group Management Policies stipulated for a unified management of the entire Group and the Guidelines that show the standard for operation and management of the entire Group so that the Company’s business execution is appropriate and sound. Also, the Audit & Supervisory Board will audit the effectiveness and functionality of this internal controls system, and make efforts to identify and correct issues early through regular inspection.
In order to prevent participation in management by anti-social forces, it will be specified that all relations with anti-social forces are removed in the Group Code of Conduct. Moreover, the Group

will contain so-called “Bo-hi jyoko” (terms and clauses concerning exclusion of organized crime groups) in contracts, establish a system to check whether or not our business partners correspond to anti-social forces, and establish a system to address systematically in corporation with outside organizations including the police and lawyers appropriately when anti-social forces approach the Group.

(2) System Related to the Retention and Management of Information Related to the Implementation of the Duties of the Company’s Directors

President (Representative Director) will appoint the Director in charge of the Administrative Division as the person in charge of the entire Company with respect to preservation and management of information related to execution of Directors’ duties. Information related to execution of Directors’ duties will be recorded in writing or electronic media based on the Company regulations etc., and preserved and managed so that the Directors and Audit & Supervisory Board Members are able to appropriately view such information and also so that such information is easy to search.

In order to manage trade secrets and other information, etc., properly, policies concerning information management and IT security, as well as guidelines for IT security will be established, and it is planned that they will be fully informed of and complied with.

(3) Regulations and Other Systems Regarding Risk Management for Losses of the Company

With respect to risks related to the Company’s business, each relevant division and department will analyze and identify anticipated risks and clarify the risk management system. The Internal Audit Department will audit each division’s and department’s risk management and report the results regularly to the management decision-making body and executive and supervisory management organization.

In order to capture and manage properly important risks underlying inside and outside the management including emergency responses, policies concerning risk management and crisis management guidelines will be established as one of the Group Management Policies and Guidelines, and in the event of a situation likely to have a severe impact on the Group, crisis management teams of the Company and the Group companies shall cooperate to discuss about countermeasures for prompt and effective actions.

(4) System to Ensure that the Duties of the Company’s Directors are Implemented Efficiently

Adopt an Audit & Supervisory Board Member system for efficient execution of Directors’ duties, as well as for Company Directors and Audit & Supervisory Board Members to be well-informed about the Group’s businesses and promptly and appropriately make decisions for the Group. The system should also enable appropriate and efficient execution of duties under rules related to authorities and decision-making based on the Regulations of the Board of Directors, etc.

(5) System to Ensure Appropriate Compliance with Laws and the Articles of Incorporation Concerning the Implementation of the Duties of the Company’s Employees

The Company will promote the group compliance measures for employees to act appropriately in compliance with laws, the Articles of Incorporation, Company regulations, and social norms. These measures must be based on the Group Philosophy and Code as code of conduct.

Establish a “Hot Line” system that enables an employee to report as a whistle-blowing any violation of laws, the Articles of Incorporation, Company regulations, or conduct in violation of social norms that they learn. Also establish a system that enables the person in charge promptly to report any material matters to the Board of Directors and the Audit & Supervisory Board.

Such a whistle-blower will be kept in secret, and will not receive any disadvantageous treatments due to the report. Establish an internal reporting contact offices comprised of outside counsel, etc. as recipients of an informant’s report other than the ordinary reporting line, as part of a system that maintains transparency and accurately addresses relevant issues.

(6) System Shown Below and Other Systems to Ensure that the Businesses of the Group, Comprised of the Company, its Parent, and its Subsidiaries, are Implemented Properly

① System to report to the Company matters related to the execution of the duties by the directors,

the Statutory Executive Officers, officers executing the duties, and people who should execute the duties of Article 598, Section 1 of the Companies Act of the Company's subsidiaries (referred to as "the directors, etc." in ③ and ④ below)

By having the Company's employees in administrative post concurrently serve as the directors or the Audit & Supervisory Board members of its Group companies, a system will be established to report and share information of the Group companies to and with the Company through such officers.

At the same time, a system will be established to communicate important matters, report, share information on matters of whistle-blowing, report and share information on matters of accounting wrongdoings and errors based on the vertical chain of the Regulations of Management of Related Companies between the Company and its Group companies. However, the whistle-blower will be kept in secret, and will not receive any disadvantageous treatments due to the report.

Hold meetings, etc. for the Group's Compliance & Risk and the Group's Audit & Supervisory Board Members, where various problems in the Group or governance matters with material risks are addressed. The Company's internal audit department will conduct audits for the benefit of the Group as a whole, and efforts will be made to ensure to the extent possible that information is shared among members of the Group and businesses are properly executed.

② System regarding risk management for losses of the Company's subsidiaries

Regarding common priority items and measures of the Group that the Company has stipulated, while they will be addressed by each of its Group companies, specific risks of each subsidiary will be managed in consideration of scale, nature, business category, etc. of each of its Group companies.

③ System to ensure that the duties of the directors, etc. of the Company's subsidiaries are executed efficiently

As with the Company, in its Group companies, adopt an Audit & Supervisory Board member system for efficient execution of directors' duties, as well as for Company Directors and Audit & Supervisory Board members to be well-informed about the Group's businesses and promptly and appropriately make decisions for the Group. The system should also enable appropriate and efficient execution of duties under rules related to authorities and decision-making based on the Regulations of the Board of Directors, etc. However, the system will be established in consideration of scale, nature, business category, etc. of each of its Group companies.

④ System to ensure appropriate compliance with laws and the Articles of Incorporation concerning execution of the duties of the directors, etc. and employees of the Company's subsidiaries

As with the Company, the Board of Directors of its Group companies will establish a compliance system in order to fulfill Group Philosophy and Code based on importance of compliance with laws, etc. and of fundamental policy of fulfilling social responsibilities as a member of a society.

(7) Matters Regarding Employees whom Audit & Supervisory Board Members of the Company with Audit & Supervisory Board Members Request to Assist Them in Their Duties, Matters Related to the Independence of the Employees from the Directors of the Company with Audit & Supervisory Board Members, and Matters Related to Ensuring Effectiveness of Instructions to the Employees by Audit & Supervisory Board Members of the Company with Audit & Supervisory Board Members
Establish an Audit & Supervisory Board Member's Office as an organization that reports directly to the Audit & Supervisory Board and employees in such office will assist the Audit & Supervisory Board Members' duties under their direction and order.

Employees who assist the Audit & Supervisory Board Members in their duties will be dedicated employees in principle and will not be directed or supervised by the Directors. However, under unavoidable circumstances, employees who serve concurrently in a position of the executive side will be assigned. Concerning such concurrent employees, independence will be especially considered. Appointment, dismissal, personnel transfer, evaluation, disciplinary action, revision of wages, etc. of the employees will require a prior agreement of the Audit & Supervisory Board.

(8) System Shown Below and Other Systems Related to Reporting to Audit & Supervisory Board Members of the Company with Audit & Supervisory Board Members

① System to enable Directors, Accounting Advisors, and employees of the Company with Audit &

Supervisory Board Members to report to Audit & Supervisory Board Members of the Company with Audit & Supervisory Board Members

The Directors and employees of the Company must report promptly to the Audit & Supervisory Board on material violations of laws and the Articles of Incorporation or a fact of illegal conduct related to execution of the duties or a fact that might cause conspicuous harm to the Company that they learn. Decisions that materially affect the Company's business or organization and results of internal audits will be treated in the same way.

- ② System to enable directors, Accounting Advisors, Audit & Supervisory Board members, Statutory Executive Officers, officers executing the duties, people who should execute the duties of Article 598, Section 1 of the Companies Act of subsidiaries of the Company with Audit & Supervisory Board members and other people equivalent to these people and employees or people who received reports from these people to report to the Audit & Supervisory Board Members of the Company with Audit & Supervisory Board Members

The directors, the Audit & Supervisory Board members, the Executive Officers, employees, etc. of the Group companies or people who received reports from these people must report promptly to the Audit & Supervisory Board of the Company on material violations of laws and the Articles of Incorporation or a fact of illegal conduct related to execution of the duties or a fact that might cause conspicuous harm to the Company that they learn. Decisions that materially affect the Company's business or organization and results of internal audits will be treated in the same way.

The Audit & Supervisory Board Members of the Company will make efforts to maintain systems from the perspective of focusing on so-called group management so that the Audit & Supervisory Board Members of the Group companies are able to become receivers of report from the business execution side and to become mediators.

- (9) System to Ensure that People Who Made the Report Described in the Previous Clause Will Not Receive Disadvantageous Treatments Because of Making Such Report

The reporter described in the previous clause will not receive disadvantageous treatments because of making such report. Such disadvantageous treatments will be subject to punitive action.

- (10) Matters Concerning Policies Related to Procedures of Prepayment or Reimbursement of Expenses Arising from Implementation of the Duties of the Audit & Supervisory Board Members of the Company with Audit & Supervisory Board Members and Other Treatments of Expenses or Liabilities Arising from Implementation of Such Duties

The Company will bear expenses arising from the execution of the duties of the Audit & Supervisory Board Members in accordance with the Company regulations, responding to requests from the Audit & Supervisory Board or Standing Audit & Supervisory Board Members. This includes expenses incurred in using outside advisors, etc., as prescribed in the clause (11).

- (11) Systems Established to Ensure the Efficacious Performance of Auditing Responsibilities by Audit & Supervisory Board Members of the Company with Audit & Supervisory Board Members

Representative Directors regularly will meet with Audit & Supervisory Board Members, exchange opinions related to Company management, in addition to business reports, and otherwise communicate effectively with them.

The Board of Directors will ensure Audit & Supervisory Board Members' participation in important work-related meetings to ensure that the Company's business is executed properly.

The Audit & Supervisory Board will use attorneys, certified public accountants, and other outside advisors, as necessary for itself, and its opportunities to receive advice related to audit work will be guaranteed.

(Outline of implementation status of internal control system to ensure appropriate business execution)

The implementation status of the foregoing Basic Policy of the Company is as outlined below:

- (1) Compliance

① Compliance training is held every fiscal year for the officers of the Company and the Group, divided into separate groups of new officers and existing officers. For Directors of the Company,

officer training is held (theme of labor laws, including long work hours was held during the current fiscal year).

- ② As a place to share important issues and relevant measures for internal controls such as compliance and risk management, the Group compliance liaison meeting is in place. The main contents of the meeting are presented as feedback to the Board of Directors, etc. of major Group companies.
- ③ In an effort to enhance the compliance system, the Company designates priority compliance matters each fiscal year that are common across the Group, from among all social requirements and issues affecting the Group, and implements group training. The Company also engages in “compliance promotion activities” on a continual basis for the purpose of boosting compliance awareness and knowledge among the Group employees.
- ④ As an initiative to eliminate anti-social forces, the Company has introduced a Group-wide checking system to detect if business partners apply as anti-social forces and supports its implementation.
- ⑤ For the purpose of early detection and preventing misconduct such as violations of laws and regulations, the Company has established “Corporate Ethics Hot Line” as a whistle-blowing system. The Company is actively involved in informing employees of the system.
- ⑥ The Company’s internal audit department conducts internal audits of the Company and the Group companies and strives to further enhance the internal audit system by sharing audit information and strengthening mutual cooperation with the internal audit departments of the Group companies.

(2) Risk management

By identifying significant risks underlying inside and outside management and clarifying issues to be addressed, the Company and the Group companies are committed to business executions and mitigating loss of management resources and recurrence thereof.

(3) Effectiveness of audits by Audit & Supervisory Board Members

- ① In order to complement enhanced information provision to Audit & Supervisory Board Members for internal control purposes, the meetings of “Holdings Audit Liaison Committee” consisting of Audit & Supervisory Board Members and the Independent Auditor, “Audit & Supervisory Board Members and Internal Auditing Office Liaison Committee” where Audit & Supervisory Board Members and the internal audit department discuss progress in audits and exchange information, and “Group Audit Liaison Committee” consisting of all Standing Audit & Supervisory Board Members of the Group are held.
- ② The Company assigns employees dedicatedly serving as an assistant to Audit & Supervisory Board Members to provide support for Audit & Supervisory Board Members in executing their duties.

4. Consolidated Statement of Changes in Net Assets

(From April 1, 2019 To March 31, 2020)

(Unit: millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balances as of April 1, 2019	29,953	117,142	201,889	(54,168)	294,816
Cumulative effects of changes in accounting policies			135		135
Restated balance	29,953	117,142	202,024	(54,168)	294,952
Changes of items during the period					
Dividends from surplus			(9,390)		(9,390)
Profit attributable to owners of parent			13,775		13,775
Effect of changes in accounting period of consolidated subsidiaries			10		10
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		(39)		622	582
Change in scope of consolidation			(85)		(85)
Purchase of shares of consolidated subsidiaries		(33)			(33)
Change in ownership interest of parent due to transactions with non-controlling interests		880			880
Tax effect of items other than shareholders' equity		614			614
Total changes of items during the period	—	1,421	4,309	613	6,344
Balances as of March 31, 2020	29,953	118,564	206,334	(53,555)	301,296

	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, 2019	14,354	—	(1,109)	(4,888)	(524)	7,832
Cumulative effects of changes in accounting policies	(283)					(283)
Restated balance	14,071	—	(1,109)	(4,888)	(524)	7,548
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Effect of changes in accounting period of consolidated subsidiaries						
Purchase of treasury stock						
Disposal of treasury stock						
Change in scope of consolidation						
Purchase of shares of consolidated subsidiaries						
Change in ownership interest of parent due to transactions with non-controlling interests						
Tax effect of items other than shareholders' equity						
Net changes of items other than shareholders' equity	(9,600)	(596)	—	(3,591)	(954)	(14,742)
Total changes of items during the period	(9,600)	(596)	—	(3,591)	(954)	(14,742)
Balances as of March 31, 2020	4,470	(596)	(1,109)	(8,480)	(1,478)	(7,193)

(Unit: millions of yen)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2019	912	1,776	305,337
Cumulative effects of changes in accounting policies			(147)
Restated balance	912	1,776	305,189
Changes of items during the period			
Dividends from surplus			(9,390)
Profit attributable to owners of parent			13,775
Effect of changes in accounting period of consolidated subsidiaries			10
Purchase of treasury stock			(8)
Disposal of treasury stock			582
Change in scope of consolidation			(85)
Purchase of shares of consolidated subsidiaries			(33)
Change in ownership interest of parent due to transactions with non-controlling interests			880
Tax effect of items other than shareholders' equity			614
Net changes of items other than shareholders' equity	(98)	165	(14,676)
Total changes of items during the period	(98)	165	(8,331)
Balances as of March 31, 2020	813	1,941	296,858

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

5. Notes to Consolidated Financial Statements

I Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

(1) Scope of Consolidation

Number of consolidated subsidiaries 68

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”.

Number of non-consolidated subsidiaries 16

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 6

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

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.

Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method 11

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.

From the fiscal year ended March 31, 2020, the consolidated subsidiary, Dartslive China Ltd. has changed the fiscal year-end from 31 December to 31 March in order to disclose the consolidated financial statements more appropriately. Due to the change in the accounting period, profit and loss for the three months from January 1, 2019 to March 31, 2019 was adjusted as changes in retained earnings.

<u>Consolidated subsidiary</u>	<u>Fiscal year-end</u>
Sega Amusements Taiwan Ltd.	December 31
Beijing SEGA Mobile Entertainment Technology Co., Ltd.	December 31
Sega Black Sea Ltd.	December 31
MPandC INC.	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 value

Securities with fair value are stated at fair value. The difference between acquisition cost and fair 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, 2020.

Securities without fair value

Securities without fair value 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 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: 2-15 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.

d. Right-of-use assets

The lease period or the useful life of the asset, whichever is shorter, is used as the useful life, and the residual value is calculated as 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, 2020 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, 2020.
 - 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
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.

⑩ Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System

With respect to the transition to the group tax sharing system created under the Act for Partial Revision of the Income Tax Act and Other Acts (Act No. 8 of 2020) and the items on which non-consolidated taxation system was revised in conjunction with the transition to the group tax sharing system, due to the treatment prescribed in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020), the Company will not apply the provisions under Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018), and the amount of deferred tax assets and deferred tax liabilities are based on the provisions of the Income Tax Act prior to the amendment.

(5) Additional information

(Accounting estimates associated with the spread of COVID-19)

Due to the impact from the spread of COVID-19, a state of emergency was declared in Japan on April 7, 2020. As a result, the Group is experiencing delays in parts' procurement, changes to development schedules, and the suspension of operations at various facilities.

For this reason, in light of the Group's assumption that COVID-19 will continue to spread until at least June 2020, accounting estimates are reflected in accounting treatment based on certain assumptions, including those used to determine the recoverability of deferred tax assets and those used to determine impairment losses.

However, there are many uncertainties over the impact from the spread of COVID-19, which could affect the Group's financial position and operating results for the fiscal year ending March 31, 2021.

II Note to Changes in accounting policies

(1) Application of IFRS 16 "Leases"

Subsidiaries applying the International Financial Reporting Standards, applied IFRS 16 "Leases" from the current fiscal year. Herewith, lessees, in principle, record all leases as assets and liabilities on the balance sheets. In initially applying the accounting standard, retained earnings have been adjusted for the cumulative effects of the application at the beginning of the fiscal year with the transitional treatment of the standard.

As a result, "Other, net" in noncurrent assets increased by ¥3,569 million, and "Other" in current liabilities and in noncurrent liabilities increased by ¥581 million and ¥2,979 million, respectively, for the end of the fiscal year. Also retained earnings decreased by ¥147 million at the beginning of the fiscal year. The impact of these changes on the profit for the fiscal year was immaterial.

(2) Application of ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities"

Subsidiaries applying the U.S. Accounting Standards, applied the U.S. FASB (Financial Accounting Standards Board) Accounting Standards Update (ASU) No. 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" (hereinafter, "ASU No. 2016-01") from the current fiscal year. As a result, investments in equity securities, with the exception of

equity-method investments and consolidated investments, are measured at fair value and their fluctuations are recognized in net profit. In initially applying ASU No. 2016-01, retained earnings have been adjusted for the cumulative effects of the application at the beginning of the fiscal year with the transitional treatment of the standard.

As a result, retained earnings increased by ¥283 million, and the valuation difference on available-for-sale securities decreased by ¥283 million at the beginning of the fiscal year. The impact of these changes on the profit for the fiscal year was immaterial.

III Notes to Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ¥136,684 million

(2) Assets pledged

Shares of affiliates (Note) ¥22,130 million

(Note) For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. at the end of the current fiscal year ¥68,222 million (KR¥725,000 million), the shares of this company were provided as a pledge.

(3) Revaluation reserve for Land

Consolidated subsidiary SEGA Holdings Co., Ltd. has revalued land for business, 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 the revaluation March 31, 2002

Difference between the fair value at the end of the fiscal year and the book value after revaluation of revalued land ¥(425) million

(4) Outstanding balance of overdraft account: ¥90,397 million

Outstanding balance of commitment line: ¥60,000 million

IV Notes to Consolidated Statement of Income

(1) The book value devaluation of inventories held for normal sales purpose based on decline in profitability.

Cost of sales ¥5,268 million

(2) R&D expenses included in general and administrative expenses and the manufacturing cost for the current fiscal year ¥49,746 million

(3) Breakdown of major extraordinary items

① Breakdown of gain on sales of noncurrent assets

Buildings and structures ¥105 million

Machinery, equipment and vehicles ¥0 million

Land ¥2,802 million

Other property, plant and equipment ¥8 million

Total ¥2,917 million

② Breakdown of loss on sales of noncurrent assets

Machinery, equipment and vehicles ¥0 million

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Other property, plant and equipment	¥0 million
Total	¥0 million

③ Breakdown of impairment loss

(Unit: millions of yen)

Use	Location	Type	Amount
Amusement facilities	Yokohama-shi, Kanagawa and 1 other location	Buildings and structures	85
		Other property, plant and equipment, etc.	20
Assets for business	Ota -ward, Tokyo and 4 other locations	Buildings and structures	8
		Amusement machines and facilities	157
		Other property, plant and equipment	60
		Other intangible assets	38
		Total	371

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 fair 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, 2019	Increase	Decrease	As of March 31, 2020
Common stock	266,229,476	—	—	266,229,476

(2) Treasury Stock

(Unit: shares)

Type of stock	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Common stock	31,493,927	6,000	361,689	31,138,238

(Outline of Causes of Change)

The causes of the increase are as follows:

Increase due to purchase of odd-lot stock 6,000 shares

The causes of the decrease are as follows:

Decrease due to sales of odd-lot stock 589 shares

Decrease due to exercise of stock options 304,800 shares

Decrease due to stock compensation with restriction of transfer 56,300 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 10, 2019	Common stock	4,694	20	March 31, 2019	June 3, 2019
Board of Directors' Meeting held on October 31, 2019	Common stock	4,695	20	September 30, 2019	December 2, 2019

② Dividends of which the record date is in the fiscal year ended March 31, 2020, 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 13, 2020	Common Stock	Retained Earnings	4,701	20	March 31, 2020	June 4, 2020

(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, 2020

Common stock 3,178,700 shares

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 fair values 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 fair value 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 fair value etc. of financial instruments

Consolidated balance sheet amounts and fair values of the Group's financial instruments and the difference between the two as of the end of the fiscal year ended March 31, 2020 are as follows. Fair 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	Fair values	Difference
(1) Cash and deposits	159,013	159,013	—
(2) Notes and accounts receivable - trade	40,408	40,381	(26)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	809	802	(7)
2) Available-for-sale securities	23,106	23,106	—
3) Stocks of affiliates	803	646	(156)
(4) Notes and accounts payable - trade	17,834	17,834	—
(5) Short-term loans payable	13,331	13,331	—
(6) Long-term loans payable	42,003	41,896	107
(7) Current portion of bonds	10,000	10,000	—
(8) Bonds payable	10,000	9,888	111
(9) Derivative transactions (Note)			
1) Hedge accounting is not applied	—	—	—
2) Hedge accounting is applied	(596)	(596)	—

Note : Net receivables and payables resulting from derivative transactions are shown as net amount.

Notes: 1. Matters regarding the methods to calculate the fair 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 fair 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, 2020 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 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 fair 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 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 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

These market prices are based on the prices offered by the financial institutions.

2. Financial instruments whose fair values are not readily determined

Category	Consolidated balance sheet amount (Millions of yen)
Investments in unlisted stocks, etc.	2,704
Investments in investment limited partnerships, etc.	8,631
Stocks of non-consolidated subsidiaries	345
Stocks of affiliates	23,357
Investments in capital of subsidiaries and affiliates	685

Items above are not included in “(3) Short-term investment securities and investment securities,” because there is no fair value, future cash flows cannot be estimated and it is very difficult to identify fair values.

VII Note Regarding Investment and Rental Property

Status and fair 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 ¥1,251.02

Net income per share ¥58.65

IX Note Regarding Significant Subsequent Events

(Merger between consolidated subsidiaries)

The merger between consolidated subsidiaries completed as of April 1, 2020 based on the resolution of the Company's Board of Directors' meeting on December 24, 2019.

(1) Objectives of the merger

The Company expects for the global game market to continue expanding as new game platforms and business models become more widespread with the development of technologies and infrastructures such as 5G and the Cloud. In order to increase the presence of the Group and realize further growth, the Company decided to reorganize the Group because of the necessity of integrating the two major consolidated subsidiaries of the Company, SEGA Games Co., Ltd. and SEGA Interactive Co., Ltd., in order to make reallocation of the domestic R&D resources of the Group more flexibly than ever before, thereby strengthening our competitiveness in global markets.

(2). Overview of the merger

i) Legal form of business combination

SEGA Interactive Co., Ltd. was disappeared on the effective date through an absorption-type merger with SEGA Games Co., Ltd. as the surviving company.

ii) Overview of the companies involved in the merger (As of March 31, 2020)

Name	SEGA Games Co., Ltd. (The surviving company)	SEGA Interactive Co., Ltd. (The disappearing company)
Details of business	Planning, development, and sales of game-related contents for mobile phones, PCs, smart devices, and home video game consoles	Development and sales of amusement machines

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Location	Sumitomo Fudosan Osaki Garden Tower, 1-1-1, Nishi-Shinagawa, Shinagawa-ku, Tokyo	Sumitomo Fudosan Osaki Garden Tower, 1-1-1, Nishi-Shinagawa, Shinagawa-ku, Tokyo
Capital stock	¥100 million	¥100 million

Note: SEGA Games Co., Ltd. changed the company name to SEGA CORPORATION as of April 1, 2020.

(3) Overview of the accounting treatment adoption

The merger will be treated as a transaction under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019), and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

6. Non-Consolidated Statement of Changes in Net Assets

(From April 1, 2019 To March 31, 2020)

(Unit: millions of yen)

	Shareholders' equity			
	Capital stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balances as of April 1, 2019	29,953	29,945	162,277	192,222
Changes of items during the period				
Dividends from surplus				
Net income				
Purchase of treasury stock				
Disposal of treasury stock			(42)	(42)
Total changes of items during the period	—	—	(42)	(42)
Balances as of March 31, 2020	29,953	29,945	162,234	192,179

	Shareholders' equity			
	Retained earnings		Treasury stock	Total shareholders' equity
	Other retained earnings	Total retained earnings		
Balances as of April 1, 2019	115,987	115,987	(54,450)	283,712
Changes of items during the period				
Dividends from surplus	(9,390)	(9,390)		(9,390)
Net income	4,998	4,998		4,998
Purchase of treasury stock			(8)	(8)
Disposal of treasury stock			625	582
Total changes of items during the period	(4,391)	(4,391)	616	(3,818)
Balances as of March 31, 2020	111,595	111,595	(53,833)	279,894

	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, 2019	11,531	11,531	912	296,157
Changes of items during the period				
Dividends from surplus				(9,390)
Net income				4,998
Purchase of treasury stock				(8)
Disposal of treasury stock				582
Net changes of items other than shareholders' equity	(8,157)	(8,157)	(98)	(8,255)
Total changes of items during the period	(8,157)	(8,157)	(98)	(12,074)
Balances as of March 31, 2020	3,374	3,374	813	284,082

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

7. 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 Shares of subsidiaries and affiliates are stated at moving-average cost.

② Available-for-sale securities

Securities with fair value are stated at fair value. The difference between acquisition cost and fair 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, 2020.

Securities without fair 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 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
 - 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, 2020.
 - b. Treatment of actuarial gains and losses and prior service costs
Actuarial gains and losses are charged to income collectively in the following fiscal year after the accrual. Prior service costs are charged to income collectively at the time of accrual.

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.
- (3) Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System
With respect to the transition to the group tax sharing system created under the Act for Partial Revision of the Income Tax Act and Other Acts (Act No. 8 of 2020) and the items on which non-consolidated taxation system was revised in conjunction with the transition to the group tax sharing system, due to the treatment prescribed in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020), the Company will not apply the provisions under Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018), and the amount of deferred tax assets and deferred tax liabilities are based on the provisions of the Income Tax Act prior to the amendment.

7. Additional information

(Accounting estimates associated with the spread of COVID-19)

Due to the impact from the spread of COVID-19, a state of emergency was declared in Japan on April 7, 2020. As a result, the Group is experiencing delays in parts' procurement, changes to development schedules, and the suspension of operations at various facilities.

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For this reason, in light of the Group's assumption that COVID-19 will continue to spread until at least June 2020, accounting estimates are reflected in accounting treatment based on certain assumptions, including those used to determine the recoverability of deferred tax assets and those used to determine impairment losses.

However, there are many uncertainties over the impact from the spread of COVID-19, which could affect the Group's financial position and operating results for the fiscal year ending March 31, 2021.

II Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment	¥5,666 million
(2) Assets pledged	
Shares of affiliates (Note)	¥30,557 million
(Note) For loans from financial institutions to the affiliated company PARADISE SEGASAMMY Co., Ltd. at the end of the current fiscal year ¥68,222 million (KR₩725,000 million), the shares of this company were provided as a pledge.	
(3) Receivables from and payables to subsidiaries and affiliates	
Short-term receivables from subsidiaries and affiliates	¥6,627 million
Short-term payables to subsidiaries and affiliates	¥30,454 million
Long-term payables to subsidiaries and affiliates	¥19,000 million

III Notes to Statement of Income

Transactions with subsidiaries and affiliates	
Consulting fee income	¥8,829 million
Shared service fee income	¥3,069 million
Dividends income (Operating revenue)	¥9,381 million
SG&A expenses	¥557 million
Non-operating transactions	¥425 million
Purchase of assets	¥95 million

IV 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, 2020	
Common stock	31,138,238 shares

V Notes Regarding Tax Effect Accounting

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

(Unit: millions of yen)

Deferred tax assets	
Tax loss carry forward	1,393
Provision for bonuses	104
Allowance for doubtful account	2,768
Loss on valuation of shares of subsidiaries and affiliates	6,767
Valuation difference on available-for-sale securities	169
Other	1,095
Subtotal deferred tax assets	12,299
Valuation allowance for tax loss carry forward	(1,393)
Valuation allowance for deductible temporary difference	(10,905)
Subtotal valuation allowance	(12,299)
Offset against deferred tax liabilities	—
Total deferred tax assets	—
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(1,734)
Other	(235)
Subtotal deferred tax liabilities	(1,969)
Offset against deferred tax assets	—
Total deferred tax liabilities	(1,969)
Deferred tax liabilities, net	(1,969)

(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.

Statutory tax rate	30.6%
(Reconciliation)	
Permanently non-deductible expenses including entertainment expenses	4.6%
Tax credit for experimentation and research expenses	(0.0%)
Changes in valuation allowance	16.4%
Tax loss carry forward	2.2%
Amount excluded from gross revenue such as dividend income	(61.7%)
Other	(0.3%)
Effective tax rate after tax effect accounting	(8.2%)

VI 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)	4,149	Accounts receivable - trade	380
				Shared service fee income (Note 3)	981	Accounts receivable - trade	89
				Consolidated taxation system	—	Accounts receivable - other	3,264
				Deposits received / paid (Note 4)	—	Deposits received	25,768
				Payment of interests (Note 5)	177	Long-term deposits received	15,000
						Current liabilities - other	52
Subsidiary	SEGA Holdings Co., Ltd.	100.0	Management guidance to the company, interlocking directorate	Consulting fee income (Note 2)	4,679	Accounts receivable - trade	428
				Shared service fee income (Note 3)	2,069	Accounts receivable - trade	197
				Consolidated taxation system	—	Accounts payables - other	735
				Reception of interests (Note 5)	71	—	—
				Deposits received / paid (Note 4)	—	Short-term loans receivable from subsidiaries and affiliates	10,593
Subsidiary	SEGA SAMMY CREATION INC.	100.0	—	Lending of funds	1,400	Long-term loans receivable from subsidiaries and affiliates (Note 6)	10,400
				Reception of interests (Note 5)	64	Current liabilities - other	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	—	Short-term loans receivable from subsidiaries and affiliates	900
				Collection of loans receivable	800	Long-term loans receivable from subsidiaries and affiliates	3,515
				Reception of interests (Note 4)	32	—	—
Subsidiary	Sammy Networks Co., Ltd.	100.0	Interlocking directorate	Shared service fee income (Note 3)	18	Accounts receivable - trade	1
				Consolidated taxation system	—	Accounts payables – other	109
				Deposits received / paid (Note 4)	—	Deposits received	1,000
				Payment of interests (Note 5)	7	Long-term deposits received	4,000
						Current liabilities - other	7
Affiliate	PARADISE SEGASAMMY Co., Ltd.	45.0	Interlocking directorate	Fiduciary obligation (Note 7)	15	Accounts receivable - other	11
				Provision of security (Note 8)	30,557	—	—

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. The amount of the shared service fee is determined based on the necessary expenses for the relevant business.

4. 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.

5. Interest is determined with consideration to market interest rates.

6. For long-term loans receivable from subsidiaries and affiliates from SEGA SAMMY CREATION INC., the Company recorded provision of allowance for doubtful accounts of ¥9,034 million while recorded allowance for doubtful accounts of ¥1,424 million for the fiscal year ended March 31, 2020.

7. Transaction prices are determined in the same way as for general transactions and with reference to fair values.

8. 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
Director	Hajime Satomi	3.35	Director of the Company	Grant of stock compensation with restriction of transfer (Note 2)	48	—	—
				Receipt of fixed asset usage fees (Note 3)	23	—	—
Director	Haruki Satomi	1.59	Director of the Company Chairman of SEGA SAMMY ARTS FOUNDATION	Grant of stock compensation with restriction of transfer (Note 2)	18	—	—
				payment of donation (Note 4)	103	—	—
Director	Koichi Fukazawa	0.01	Director of the Company	Exercise of stock options (Note 5)	11	—	—
Director	Hideo Yoshizawa	0.00	Director of the Company	Exercise of stock options (Note 5)	22	—	—
Company in which Directors or their relatives own majority voting rights	FSC Co., Ltd. (Note 6)	5.82	Insurance representative	Payment of insurance premium (Note 3)	12	Prepaid expenses	14
						Long-term prepaid expenses	1

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

2. At the Ordinary General Meeting of Shareholders on June 21, 2019, approval was received with respect to the amount of remuneration as monetary compensation receivables provided in order to grant stock compensation with restriction of transfer. At the Board of Directors Meeting on July 19, 2019, the specific timing of the provision and allocation were determined based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of the Board of Directors Meeting.
3. Transaction prices are determined in the same way as for general transactions and with reference to fair values.
4. The contribution amount of donations to the Foundation has been decided based on approval by the Board of Directors.
5. Stock options which were granted based on the resolution at the interim Board of Directors meeting on August 2, 2016 and exercised for the fiscal year ended March 31, 2020 are listed. The transaction amount listed herein is calculated by multiplying the number of shares granted upon exercise of stock options for the fiscal year ended March 31, 2020 by the amount of payment upon exercise.
6. Hajime Satomi, Chairman and CEO (Representative Director), and Haruki Satomi, President and COO (Representative Director), directly hold a majority of the shares of FSC Co., Ltd.

VII Note Regarding Per Share Information

Net assets per share	¥1,204.93
Net income per share	¥21.29