

To the Shareholders

**Items Posted on Internet Concerning
Notice of the 17th Ordinary General Meeting of
Shareholders**

June 1, 2021

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, 2021

Not applicable.

(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, 2021

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, 2021	¥142 million
Total of cash and other profits that should be paid to independent auditors by the Company and its subsidiaries (together, the "Group")	¥271 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

(Outline of Resolutions Regarding Preparation of Internal Control System)

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 office 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, 2020 To March 31, 2021)

(Unit: millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balances as of April 1, 2020	29,953	118,564	206,334	(53,555)	301,296
Changes of items during the period					
Dividends from surplus			(7,052)		(7,052)
Profit attributable to owners of parent			1,274		1,274
Effect of changes in accounting period of consolidated subsidiaries			(4)		(4)
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock		(0)		5	5
Change in ownership interest of parent due to transactions with non-controlling interests		(88)			(88)
Tax effect of items other than shareholders' equity		(427)			(427)
Total changes of items during the period	-	(516)	(5,782)	(5)	(6,304)
Balances as of March 31, 2021	29,953	118,048	200,551	(53,561)	294,991

	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, 2020	4,470	(596)	(1,109)	(8,480)	(1,478)	(7,193)
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 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	(2,540)	(129)	-	4,612	1,019	2,961
Total changes of items during the period	(2,540)	(129)	-	4,612	1,019	2,961
Balances as of March 31, 2021	1,930	(725)	(1,109)	(3,867)	(459)	(4,231)

(Unit: millions of yen)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2020	813	1,941	296,858
Changes of items during the period			
Dividends from surplus			(7,052)
Profit attributable to owners of parent			1,274
Effect of changes in accounting period of consolidated subsidiaries			(4)
Purchase of treasury stock			(11)
Disposal of treasury stock			5
Change in ownership interest of parent due to transactions with non-controlling interests			(88)
Tax effect of items other than shareholders' equity			(427)
Net changes of items other than shareholders' equity	(813)	(1,444)	703
Total changes of items during the period	(813)	(1,444)	(5,601)
Balances as of March 31, 2021	-	496	291,256

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 63

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 10

Major non-consolidated subsidiaries: SEGA (SHANGHAI) SOFTWARE CO., 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 -

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, 2021, the consolidated subsidiary, MPandC INC. 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, 2020 to March 31, 2020 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

(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, 2021.

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 - 12 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, 2021 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, 2021.

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.

II Notes to Changes in Presentation Methods

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company applied “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) to the consolidated financial statements at the end of the current fiscal year, and disclosed the notes to the important accounting estimates with regard to the consolidated financial statements.

III Notes to Accounting Estimates

(1) Valuation for inventories in the Entertainment Contents Business

a. Amounts posted to the consolidated financial statements in the current fiscal year

Work in process	¥29,518 million
“Other” under intangible assets	¥6,729 million

b. Calculation method of the amounts posted to the consolidated financial statements in the current fiscal year

Work in process and software amounts etc. posted on account of production of game contents in the Entertainment Contents Business are stated at acquisition cost, and are routinely treated as cost in accordance with anticipated sales volumes and service schedule periods. However, in the event that the future recoverable value falls below that of the book value of work in process and software, the amount of said difference is posted to cost of sales.

c. Key assumptions used in the calculation of amount posted to the consolidated financial statements in the current fiscal year

The future recoverable value is an estimate based on sales forecasts for the following fiscal years.

d. Impact on the consolidated financial statements in the following fiscal year

In case of possible discrepancy between the forecasts and actual results due to the timing of release of new products from rival companies in the same market and the nature of hit businesses, there may be an impact to profit and loss.

(2) Valuation of Raw Materials in the Pachislot and Pachinko Machines Business

a. Amount posted to the consolidated financial statements in the current fiscal year

Raw materials ¥11,793 million

b. Calculation method of the amounts posted to the consolidated financial statements in the current fiscal year

Raw materials are posted using the acquisition cost, although in the event that anticipated future raw material usage falls below stock, the surplus is posted to cost of sales.

c. Key assumptions used in the calculation of amount posted to the consolidated financial statements in the current fiscal year

Raw material usage forecasts are estimated based on the projected volume of pachinko and pachislot machine sales for the following fiscal years, and replacement demand is projected based on the arrival of the withdrawal deadline for formerly compliant machines.

d. Impact on the consolidated financial statements in the following fiscal year

In case of possible discrepancy between the forecasts and actual results due to the timing of release of new products from rival companies in the same market and the nature of hit businesses, there may be an impact to profit and loss.

(3) Valuation of Noncurrent Assets Held by PHOENIX RESORT CO., LTD.

a. Amounts posted to the consolidated financial statements in the current fiscal year

Property, plant and equipment ¥10,229 million

Intangible assets ¥272 million

b. Key assumptions used in the calculation of amount posted to the consolidated financial statements in the current fiscal year

Operating income and loss generated by operating activities continues to be negative, and indicators of impairment in the asset group are becoming apparent. Given this, the Company has calculated undiscounted future cash flow, and made a determination on whether or not to recognize an impairment loss.

Business plans and the medium-term management plan, which are fundamental to future cash flow under this determination, have been impacted by COVID-19, although formulations have been made based on the hotel occupancy rate, average daily rate, number of golf rounds, and golf round rates, with demand premised on a gradual recovery through the following fiscal year.

As a result, the Company has determined that an impairment loss should be recognized, and therefore consider the net realizable value based on the real estate appraisal value as recoverable value, and posted the difference with the book value to impairment loss.

c. Impact on the consolidated financial statements in the following fiscal year

Estimates of future cash flows are made based on best estimates from management. However, in the event that COVID-19 impacts demand trends which cause estimates to differ from actual results, there may be an impact on profit and loss.

(4) Valuation of Shares of Affiliates with Regard to PARADISE SEGASAMMY Co., Ltd.

- a. Shares of subsidiaries and affiliates ¥17,146 million
- b. Calculation method of the amounts posted to the consolidated financial statements in the current fiscal year

PARADISE SEGASAMMY Co., Ltd. (PSS) is an affiliate of the Company accounted for using the equity method. Investments into PSS are treated under equity method accounting.

PSS applies IFRS, and in addition to when there appears to be indicators of impairment in its cash generating unit groups, such as goodwill, it conducts impairment tests on a monthly basis. As a result of its impairment tests, in the event that the recoverable value declines below book value, the book value in the PSS financial statement is reduced to the recoverable value, and together with recognizing an impairment loss, this exerts an impact on the shares of affiliates of the Company through equity-method accounting.

PSS has posted ¥129,014 million in property, plant and equipment, including goodwill of ¥8,681 million.

- c. Key assumptions used in the calculation of amount posted to the consolidated financial statements in the current fiscal year

PSS conducts impairment tests on its cash generating unit groups, such as goodwill, and its cash generating unit groups that show indicators of impairment, and makes calculations for recoverable value based on value in use or on fair value after deducting disposal costs.

Key assumptions that utilize measurements of value in use are the business plans which are fundamental to calculations of future cash flow, as well as growth rates and discount rates. Business plans and medium-term management plans have been impacted by COVID-19, although formulations have been made based on the number of casino users and the drop amount (the amount of chips purchased at tables), premised on demand recovering gradually through the following fiscal year. In addition, for the period following the relevant term of the medium-term management plan, the discount rate is calculated using weighted average cost of capital as a basis and by reflecting the risk associated with businesses, which is determined based on external and internal information.

Fair value following the deduction of disposal costs uses the real estate appraisal value of external experts who take into consideration the repurchase cost of the relevant asset and such related cost factors.

- d. Impact on the consolidated financial statements in the following fiscal year

Estimates of future cash flows are made based on best estimates from management. However, in the event that COVID-19 impacts trends in the number of users which cause estimates to vary from actual results, there may be an impact on profit and loss.

(5) Accounting Estimates Associated with the Spread of COVID-19

Buffeted by the expanding rate of COVID-19 infections, in the current fiscal year the Group experienced delays to parts' procurement, postponements to development schedules, and the suspension of operations at various facilities.

Although there will be disparities in the impact of COVID-19 according to business or region in the following fiscal year, it is the Group's assumption that demand will recover gradually through the following fiscal year, and its accounting estimates are based on the determination of the recoverability of deferred tax assets and the determination on impairment losses, among other factors.

There is a high degree of uncertainty in these assumptions, and in the event of a change in the impact that COVID-19 has on the economic environment, there may be an impact on future financial position and management results.

IV Notes to Consolidated Balance Sheet

- (1) Accumulated depreciation of property, plant and equipment ¥102,780 million
- (2) Assets pledged
- | | |
|-----------------------------|-----------------|
| Shares of affiliates (Note) | ¥17,146 million |
|-----------------------------|-----------------|
- (Note) For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. at the end of the current fiscal year ¥68,512 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: ¥140,525 million
Outstanding balance of commitment line: ¥78,000 million

V 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 ¥10,622 million
- (2) R&D expenses included in general and administrative expenses and the manufacturing cost for the current fiscal year ¥48,285 million

- (3) Breakdown of major extraordinary items

① Breakdown of gain on sales of noncurrent assets	
Machinery, equipment and vehicles	¥0 million
Land	¥15,249 million
<u>Other property, plant and equipment</u>	<u>¥8 million</u>
Total	¥15,258 million
② Breakdown of loss on sales of noncurrent assets	
Machinery, equipment and vehicles	¥0 million
<u>Other property, plant and equipment</u>	<u>¥0 million</u>
Total	¥0 million

③ Breakdown of impairment loss

(Unit: millions of yen)

Use	Location	Type	Amount
Amusement facilities	Machida-shi, Tokyo and 192 other locations	Buildings and structures	4,708
		Other property, plant and equipment, etc.	1,213
		Other intangible assets	32
Assets for business	Ota -ku, Tokyo and 8 other locations	Buildings and structures	3,405
		Machinery, equipment and vehicles	2
		Amusement machines and facilities	10,411
		Land	12
		Other property, plant and equipment	142
		Other intangible assets	1,161
		Total	21,091

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.

In addition, impairment loss of ¥17,743 million is included in “Structural reform expenses” as extraordinary losses.

(4) Structural reform expenses

The expenses were incurred by working to transform its business structure to adapt to the external environment.

VI Notes to Consolidated Statement of changes in Net Assets

(1) Issued Stock

(Unit: shares)

Type of stock	As of April 1, 2020	Increase	Decrease	As of March 31, 2021
Common stock	266,229,476	-	-	266,229,476

(2) Treasury Stock

(Unit: shares)

Type of stock	As of April 1, 2020	Increase	Decrease	As of March 31, 2021
Common stock	31,138,238	7,687	3,344	31,142,581

(Outline of Causes of Change)

The causes of the increase are as follows:

Increase due to purchase of odd-lot stock 7,687 shares

The causes of the decrease are as follows:

Decrease due to sales of odd-lot stock 144 shares

Decrease due to exercise of stock options 3,200 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, 2020	Common stock	4,701	20	March 31, 2020	June 4, 2020
Board of Directors' Meeting held on November 6, 2020	Common stock	2,350	10	September 30, 2020	December 1, 2020

- ② Dividends of which the record date is in the fiscal year ended March 31, 2021, 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, 2021	Common Stock	Retained Earnings	4,701	20	March 31, 2021	June 4, 2021

- (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, 2021

Not Applicable.

VII 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, 2021 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	154,972	154,972	-
(2) Notes and accounts receivable - trade	38,176	38,150	(26)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	608	610	2
2) Available-for-sale securities	4,254	4,254	-
3) Stocks of affiliates	805	972	166
(4) Notes and accounts payable - trade	16,994	16,994	-
(5) Long-term loans payable	42,000	41,939	60
(6) Bonds payable	10,000	9,918	81
(7) Derivative transactions (Note)			
1) Hedge accounting is not applied	-	-	-
2) Hedge accounting is applied	(725)	(725)	-

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, 2021 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

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.

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

(7) 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.	2,696
Investments in investment limited partnerships, etc.	9,784
Stocks of non-consolidated subsidiaries	345
Stocks of affiliates	19,024
Investments in capital of subsidiaries and affiliates	1,525

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.

VIII 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.

IX Note Regarding Per Share Information

Net assets per share	¥1,236.82
Net income per share	¥5.42

X Note Regarding Business Combination

(Transaction under common control)

The merger between consolidated subsidiaries completed as of April 1, 2020 based on the resolution of the Company’s Board of Directors’ meeting held 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

① 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.

② Overview of the companies involved in the merger (As of March 31, 2020)

Name	SEGA Games Co., Ltd. (Surviving company)	SEGA Interactive Co., Ltd. (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
Location	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo, Japan	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo, Japan
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 has been 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).

(Transfer shares of SEGA ENTERTAINMENT CO., LTD.)

SEGA GROUP CORPORATION (SHQ), a consolidated subsidiary of the Company, transferred a portion of its shares of SEGA ENTERTAINMENT CO., LTD. (renamed GENDA SEGA Entertainment Inc.) (SE) to GENDA Inc. on December 30, 2020. As a result of the transfer of shares, SHQ's voting rights in SE was 14.9%, and SE was excluded from the scope of consolidation.

(1) Overview of the business divestitures

① Name of successor company

GENDA Inc.

② Details of business divestitures

Planning and operation of amusement facilities

③ Reason for business divestitures

In light of the situation that many of the Group's business are significantly affected by COVID-19, the Company have established a Structural Reform Committee to reform the organization structure to adapt to the external environment, and working to review the balance sheet for non-business properties, to build an organizational structure that can adapt to changes in the market environment, and to reduce costs centered on group-wide fixed expenses, etc.

As the amusement center operations field in the Entertainment Contents Business is strongly affected by COVID-19, utilization of facilities has declined remarkably, and a significant loss was recorded at the first quarter of the fiscal year ended March 31, 2021. In addition, despite the recent recovery trend, the situation remains uncertain.

The Company had been considering various options in order to adapt to these changes in business aiming for improvement of the profitability and early recovery of sales of the amusement center operations field. In this process, the Company had discussed the transfer of SE shares to GENDA Inc., a company that has a strong desire to expand amusement center operations business and decided to conclude the share transfer agreement at Board of Directors meeting held on November 4, 2020.

④ Date of business divestitures

December 30, 2020

⑤ Items regarding other transactions including legal form

Share transfer whereby the consideration is specific assets such as cash

(2) Overview of accounting treatment

① Profit and loss on transfer

Structural reform expenses ¥187 million

② Book values and breakdown of the assets and liabilities of the transferred business

(millions of yen)

Current assets	6,881
Noncurrent assets	5,638
<hr/>	
Total assets	12,520
<hr/>	
Current liabilities	4,920
Noncurrent liabilities	7,626
<hr/>	
Total liabilities	12,547

③ Accounting treatment

The difference between the book value and transfer value of the transferred shares on a consolidated basis was recorded as structural reform expenses under extraordinary losses.

(3) Approximate amounts of profit or loss of the divested business included in the quarterly consolidated statements of income

Net sales ¥19,967 million

Ordinary loss ¥1,472 million

(Transfer shares of Sega Amusements International Ltd.)

SEGA CORPORATION (SOJ), a consolidated subsidiary of the Company, transferred of its shares of Sega Amusements International Ltd. (SAI) to KAIZEN ENTERTAINMENT Ltd. on March 30, 2021. As a result of the transfer of shares, SAI was excluded from the scope of consolidation.

(1) Overview of the business divestitures

① Name of successor company

KAIZEN ENTERTAINMENT Ltd.

② Details of business divestitures

Import, sales and manufacture of amusement machines

③ Reason for business divestitures

In light of the situation that many of our Group's business are significantly affected by COVID19, in order to reform our organizational structure to adapt to the external environment and we are continuing our effort to review the balance sheet for non-business properties, build an organizational structure that can adapt to changes in the market environment, reduce costs centered on group-wide fixed expenses and others.

Sales of amusement machines in the U.S. and Europe declined significantly as it is strongly affected by COVID-19 and recorded losses in the fiscal year ended March 31, 2021. In addition, the situation remains uncertain due to the factors such as the continuation of lockdown in the United Kingdom and others. The Group has been considering various options in order to respond flexibly and efficiently to these changes in business environment and within this process, the Group has been discussing transfer of SAI shares to KAIZEN, the newly established company by Paul Williams, SAI's current CEO, in the MBO method and have decided to conclude the share transfer agreement at the Board of Directors meeting held on March 25, 2021.

As for amusement machine sales in the U.S. and Europe territories, the Group will change the business scheme to grant the right to use Sega brand to SAI.

④ Date of business divestitures

March 30, 2021

⑤ Items regarding other transactions including legal form

Share transfer whereby the consideration is specific assets such as cash

(2) Overview of accounting treatment

① Profit and loss on transfer

Structural reform expenses ¥3,120 million

② Book values and breakdown of the assets and liabilities of the transferred business
(millions of yen)

Current assets	2,157
Noncurrent assets	1,342
Total assets	3,499
Current liabilities	522
Noncurrent liabilities	192
Total liabilities	715

③ Accounting treatment

The difference between the book value and transfer value of the transferred shares on a consolidated basis was recorded as structural reform expenses under extraordinary losses.

(3) Approximate amounts of profit or loss of the divested business included in the quarterly consolidated statements of income

Net sales	¥1,220 million
Ordinary loss	¥196 million

XI Note Regarding Significant Subsequent Events

(Transaction under common control)

(1) Purpose of company split and absorption-type merger

The Group has been working on structural reform to transform its business structure to adapt to the external environment. Furthermore, the Company resolved to restructure the organization of the Company and the Group in order to build an even more efficient structure at Board of Directors meeting held on January 29, 2021, and implemented the split and absorption-type merger with an effective date of April 1, 2021, and implemented the split and absorption-type merger with an effective date of April 1, 2021.

(2) Overview of the company of the split

① Details of business to be split

Sammy Corporation : Corporate functions and other administrative functions

SEGA GROUP CORPORATION : Corporate functions and other administrative functions

② Legal form of business combination

This was an absorption-type company split in which Sammy and SEGA GROUP CORPORATION were made into the splitting company in absorption-type split and the Company was the successor of absorption-type company split.

③ Overview of the companies of the split (As of March 31, 2021)

	Succeeding company	Split company in absorption-type merger	Split company in absorption-type merger
Name	SEGA SAMMY HOLDINGS INC.	SEGA GROUP CORPORATION	Sammy Corporation
Details of business	Business management and incidental operations of the Group as a holding company for a comprehensive entertainment corporate group	Business management and incidental operations of SEGA Group	Development, manufacturing, and sales of pachinko, pachislot, arrange-ball, and jankyu machines, etc.
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	Sumitomo Fudosan Osaki Garden Tower, 1-1-1, Nishi-Shinagawa, Shinagawa-ku, Tokyo
Capital stock	¥29,953 million	¥44,092 million	¥18,221 million

(3) Overview of the absorption-type merger

① Legal form of business combination

SEGA GROUP CORPORATION was disappeared through an absorption-type merger with SEGA CORPORATION as the surviving company.

② Overview of the companies involved in the merger (As of March 31, 2021)

	Surviving company	Disappearing company
Name	SEGA CORPORATION	SEGA GROUP CORPORATION
Details of business	Planning, development, and sales of game-related contents for mobile phones, PCs, smart devices, and home video game consoles, and development and sales of Amusement Machines	Business management and incidental operations of SEGA Group
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	¥44,092 million

(4) 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, 2020 To March 31, 2021)

(Unit: millions of yen)

	Shareholders' equity			
	Capital stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balances as of April 1, 2020	29,953	29,945	162,234	192,179
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, 2021	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, 2020	111,595	111,595	(53,833)	279,894
Changes of items during the period				
Dividends from surplus	(7,052)	(7,052)		(7,052)
Net income	10,046	10,046		10,046
Purchase of treasury stock			(11)	(11)
Disposal of treasury stock			5	5
Total changes of items during the period	2,993	2,993	(5)	2,987
Balances as of March 31, 2021	114,589	114,589	(53,839)	282,881

	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, 2020	3,374	3,374	813	284,082
Changes of items during the period				
Dividends from surplus				(7,052)
Net income				11,046
Purchase of treasury stock				(11)
Disposal of treasury stock				5
Net changes of items other than shareholders' equity	(3,290)	(3,290)	(813)	(4,104)
Total changes of items during the period	(3,290)	(3,290)	(813)	(1,117)
Balances as of March 31, 2021	83	83	-	282,965

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

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

② 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, 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, 2021.

Securities without fair value

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

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, 2021.

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.

II Notes to Changes in Accounting Estimates

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company applied “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) to the non-consolidated financial statements at the end of the current fiscal year, and disclosed the note to the important accounting estimates with regard to the non-consolidated financial statements.

III Notes to Accounting Estimates

(1) Valuation of Shares of Affiliates with Regard to PARADISE SEGASAMMY Co., Ltd.

- a. Shares of subsidiaries and affiliates ¥30,557 million
- b. Calculation method of the amounts posted to the non-consolidated financial statements in the current fiscal year

PARADISE SEGASAMMY Co., Ltd. (PSS) is an affiliate of the Company, and its acquisition cost is recorded as the value in the balance sheet, because its market value is deemed extremely difficult to ascertain.

In the valuation of Shares of subsidiaries and affiliates, the acquisition cost is compared with the actual value reflecting excess earning power, and if the actual value declines significantly due to deterioration in the financial position of PSS, unless the possibility of recovery is supported by sufficient evidence, a substantial reduction is made and treated as a loss in the current fiscal year, which affects the valuation of Shares of subsidiaries and affiliates of the Company.

- c. Key assumptions used in the calculation of amount posted to the non-consolidated financial statements in the current fiscal year

PSS conducts impairment tests on its cash generating unit groups, such as goodwill, and its cash generating unit groups that show indicators of impairment, and makes calculations for recoverable value based on value in use or on fair value after deducting disposal costs.

Key assumptions that utilize measurements of value in use are the business plans which are fundamental to calculations of future cash flow, as well as growth rates and discount rates. Business plans and medium-term management plans have been impacted by COVID-19, although formulations have been made based on the number of casino users and the drop amount (the amount of chips purchased at tables), premised on demand recovering gradually through the following fiscal year. In addition, for the period following the relevant term of the medium-term management plan, the discount rate is calculated using weighted average cost of capital as a basis and by reflecting the risk associated with businesses, which is determined based on external and internal information.

Fair value following the deduction of disposal costs uses the real estate appraisal value of external experts who take into consideration the repurchase cost of the relevant asset and such related cost factors.

As a result of the above impairment test, the Company does not recognize a loss on valuation of shares of subsidiaries and affiliates, because its actual value did not decline significantly during the current fiscal year.

- d. Impact on the non-consolidated financial statements in the following fiscal year

Estimates of future cash flows are made based on best estimates from management. However, in the event that COVID-19 impacts trends in the number of users which cause estimates to vary from actual results, there may be an impact on profit and loss.

(2) Accounting Estimates Associated with the Spread of COVID-19

In light of the situation that many of the Group's business are significantly affected by COVID-19 in the current fiscal year, the Group worked to adapt to the external environment, for reviewing the balance sheet for non-business properties, building an organizational structure that can adapt to changes in the market environment, and reducing costs centered on group-wide fixed expenses to reform the organization structure. In light of the Group's assumption that demands will gradually recover through the fiscal year ending March 2022 although differ from businesses and regions, 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, which could affect the Group's financial position and operating results in the future, in the case of changing the impact for the economic environment from the spread of COVID-19.

IV Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment	¥6,458 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 ¥68,512 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	¥3,629 million
Short-term payables to subsidiaries and affiliates	¥37,518 million

V Notes to Statement of Income

Transactions with subsidiaries and affiliates	
Consulting fee income	¥7,467 million
Shared service fee income	¥4,700 million
Dividends income (Operating revenue)	¥7,045 million
SG&A expenses	¥616 million
Non-operating transactions	¥352 million

VI 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, 2021	
Common stock	31,142,581 shares

VII 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	821
Provision for bonuses	84
Allowance for doubtful account	2,958
Loss on valuation of shares of subsidiaries and affiliates	7,629
Valuation difference on available-for-sale securities	41
Other	949
Subtotal deferred tax assets	12,484
Valuation allowance for tax loss carry forward	(821)
Valuation allowance for deductible temporary difference	(11,397)
Subtotal valuation allowance	(12,218)
Offset against deferred tax liabilities	(266)
Total deferred tax assets	-
Deferred tax liabilities	
Valuation difference on available-for-sale securities	96
Gain (loss) on valuation of investments in partnerships	387
Asset retirement obligations	189
Subtotal deferred tax liabilities	673
Offset against deferred tax assets	(266)
Total deferred tax liabilities	407
Deferred tax liabilities, net	(407)

(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	0.8%
Gain on reversal of subscription rights to shares	(2.1%)
Changes in valuation allowance	(1.7%)
Tax loss carry forward	4.3%
Amount excluded from gross revenue such as dividend income	(18.7%)
Other	(0.8%)
Effective tax rate after tax effect accounting	14.0%

VIII 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)	3,285	Accounts receivable – trade	301
				Shared service fee income (Note 3)	1,346	Accounts receivable - trade	123
				Consolidated taxation system	-	Accounts payable - other	1,253
				Deposits received / paid (Note 4)	-	Deposits received	8,47
				Payment of interests (Note 5)	148	Current liabilities - other	45
Subsidiary	RODEO Co., Ltd.	100%	-	Deposits received / paid (Note 4)	-	Deposits received	4,742
Subsidiary	TAIYO ELEC Co., Ltd.	100%	-	Deposits received / paid (Note 4)	-	Deposits received	9,612
Subsidiary	SEGA GROUP CORPORATION	100.0	Management guidance to the company, interlocking directorate	Consulting fee income (Note 2)	4,181	Accounts receivable - trade	383
				Shared service fee income (Note 3)	2,346	Accounts receivable - trade	215
				Consolidated taxation system	-	Accounts payable - other	2,981
				Deposits received / paid (Note 4)	-	Deposits received	10,876
				Reception of interests (Note 5)	69	Short-term loans receivable from subsidiaries and affiliates	1,000
						Long-term loans receivable from subsidiaries and affiliates	4,265
Subsidiary	SEGA CORPORATION	100	Management guidance to the company, interlocking directorate	Shared service fee income (Note 3)	843	Accounts receivable - trade	77
				Consolidated taxation system	-	Accrued income – other	1,193
Subsidiary	SEGA SAMMY CREATION INC.	100.0	-	Lending of funds	1,350	Long-term loans receivable from subsidiaries and affiliates (Note 6)	11,750
				Reception of interests (Note 5)	65	Current liabilities – other	-

(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	Consolidated taxation system	-	Accounts payables - other	249
				Deposits received / paid (Note 4)	-	Deposits paid	17
				Lending of funds	172	Short-term loans receivable from subsidiaries and affiliates	1,000
				Reception of interests (Note 4)	32	Long-term loans receivable from subsidiaries and affiliates	4,487
Subsidiary	Sammy Networks Co., Ltd.	100.0	Interlocking directorate	Shared service fee income (Note 3)	41	Accounts receivable - trade	3
				Consolidated taxation system	-	Accounts payables - other	123
				Deposits received / paid (Note 4)	-	Deposits received	5,001
				Payment of interests (Note 5)	15	Current liabilities - other	6
Affiliate	PARADISE SEGASAMMY Co., Ltd.	45.0	Interlocking directorate	Provision of security (Note 7)	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 are 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 ¥9,616 million while recorded allowance for doubtful accounts of ¥582 million for the fiscal year ended March 31, 2021.

7. 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	Haruki Satomi	1.59	Chairman of SEGA SAMMY ARTS FOUNDATION	Payment of donation (Note 2)	112	-	-
Company in which Directors or their relatives own majority voting rights	FSC Co., Ltd. (Note 4)	5.85	Insurance representative	Payment of insurance premium (Note 3)	21	Prepaid expenses Long-term prepaid expenses	9 0

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

2. The contribution amount of donations to the Foundation has been decided based on approval by the Board of Directors.

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

4. Hajime Satomi, Chairman and Group CEO, Representative Director, and Haruki Satomi, President and Group COO, Representative Director, directly hold a majority of the shares of FSC Co., Ltd.

IX Note Regarding Per Share Information

Net assets per share	¥1,203.66
Net income per share	¥42.73

X Note Regarding Significant Subsequent Events

(Transaction under common control)

(1) Purpose of company split and absorption-type merger

The Group has been working on structural reform to transform its business structure to adapt to the external environment. Furthermore, the Company resolved to restructure the organization of the Company and the Group in order to build an even more efficient structure at Board of Directors meeting held on January 29, 2021, and implemented the split and absorption-type merger with an effective date of April 1, 2021.

(2) Overview of the company of the split

① Details of business to be split

Sammy Corporation : Corporate functions and other administrative functions

SEGA GROUP CORPORATION : Corporate functions and other administrative functions

② Legal form of business combination

This was an absorption-type company split in which Sammy and SEGA GROUP CORPORATION were made into the splitting company in absorption-type split and the Company was the successor of absorption-type company split.

③ Overview of the companies of the split (As of March 31, 2021)

	Succeeding company	Split company in absorption-type merger	Split company in absorption-type merger
Name	SEGA SAMMY HOLDINGS INC.	SEGA GROUP CORPORATION	Sammy Corporation
Details of business	Business management and incidental operations of the Group as a holding company for a comprehensive entertainment corporate group	Business management and incidental operations of SEGA Group	Development, manufacturing, and sales of pachinko, pachislot, arrange-ball, and jankyu machines, etc.
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	Sumitomo Fudosan Osaki Garden Tower, 1-1-1, Nishi-Shinagawa, Shinagawa-ku, Tokyo
Capital stock	¥29,953 million	¥44,092 million	¥18,221 million

(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).