



**INTEGRATED REPORT 2020**

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**SEGA**Sammy

SEGA SAMMY HOLDINGS

# Undertaking bold structural reforms, recovering a growth trajectory

Following the completion of the final year of the Road to 2020 medium-term management strategy that the SEGA SAMMY Group began implementing in fiscal year 2018, the Group was planning to enter a new phase targeting further growth in fiscal year 2021, but with the onset of COVID-19, the Group is facing a crisis across its business areas.

This Integrated Report 2020 aims to convey to stakeholders the path by which the Group is undertaking reforms to transform the business structure into one that can adapt to changing market conditions, pursuing a swift turnaround in profitability, and recovering a growth trajectory.

## Reforming the Business



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## Structure to Sustainably Generate Profit

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DISCUSSION POINTS 2020

For the convenience of stakeholders when engaged in dialogue with us, we have issued **DISCUSSION POINTS 2020**, which summarizes particularly important points. Further, we disclose comprehensive ESG information in the "Social Responsibility" section of our website, accessible via the URL at right.



<https://www.segasammy.co.jp/english/pr/commu/>

#### Cautionary Statement with Respect to Forward-Looking Statements

Statements in this integrated report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management. The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation. Actual results may vary significantly from the Company's forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate fluctuations, changes in laws and government systems, pressure from competitors' pricing and product strategies, declines in the marketability of the Group's existing and new products, disruptions to production, violations of the Group's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation. [This INTEGRATED REPORT includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]

#### Cautionary Statement for Investors and Shareholders with Respect to Nevada Gaming Statutes and Regulations

SEGA SAMMY HOLDINGS INC. ("the Company") is registered with the Nevada Commission as a publicly traded corporation and has been found suitable to directly or indirectly own the stock of SEGA SAMMY CREATION INC., and Sega Sammy Creation USA, Inc., both of which are subsidiaries that have been licensed as manufacturers and distributors of gaming devices in Nevada. Pursuant to Nevada law, the Company's shareholders are subject to the rules and regulations of the Nevada Gaming Authorities. A detailed explanation of Nevada gaming statutes and regulations can be found on the Company's corporate website: <https://www.segasammy.co.jp/english/ir/stock/regulation/>

## A Message from the CEO

### The Social Value of Entertainment

With the rampant worldwide spread of the novel coronavirus (COVID-19), we would like to express our deepest sympathies to all those affected and pray for the earliest possible recovery for all who are suffering. We would also like to express our deep gratitude to all healthcare professionals and those who are working hard to contain the spread of this virus.

In the midst of this unprecedented crisis, entertainment has often been categorized as a “non-essential, non-urgent” activity. In that sense, I feel that this pandemic differs in quality from the many challenges the Group has faced so far in its history. To overcome this adversity, the Group must transform its business model, including the ways in which we provide services and products, in response to sweeping changes in society. On the other hand, even if the current disaster is prolonged, I believe the essence of entertainment will never change. Since the dawn of history, when faced with unimaginable crises, human beings have sought daily refreshment and enjoyment from entertainment. Entertainment has been passed down and evolved to suit the times, helping to form cultures that make the world a richer place and contributing to the development of society.

Under public health measures directing people to refrain from going out, many entertainment facilities which involve contact between people have been forced to suspend their operations. On the other hand, new ways of playing and enjoying the arts using the internet are showing signs of growth. This is a testament to people’s desire for entertainment no matter what the circumstances. If people’s hearts are not healthy and content, they will be unable to overcome the overwhelming feeling of being locked up that pervades society. I am proud to lead a company that can create such wonderful entertainment. I feel more strongly than ever that this entertainment is the greatest value we can offer to society.



**Entertainment Is Precisely the Greatest Value Our Group Can Offer to Society.**

### Breakthrough Power for a Post-COVID Era

Our Group is part of an industry that relies on hit products. If a company puts out a big hit, it can boost its market share and even dominate the field. Naturally, there are no set rules for how to go about making a blockbuster title. What I can say from my experience so far, however, is that if you strive to create something new while drawing on “breakthrough power,” it is sure to pay off in the end. In other words, if a company has the courage to pursue innovative ideas, and persists in striving to create products and services to the most excellent possible level, users will respond with great enthusiasm. Making the movie *Sonic the Hedgehog* was my

long-cherished dream ever since the birth of the SEGA SAMMY Group. It took more than 10 years from conception, but the movie was finally released in the U.S. in February 2020, becoming a huge hit. I think it was “breakthrough power” that made this happen.

Going forward, to create value that exceeds the expectations of our customers, we will continue striving to foster a culture with “breakthrough power,” in which each and every employee pours their imagination and passion into a project, never giving up until they accomplish it. I am convinced that our repeated efforts to do this will allow us to keep

providing experiences that move the heart to people — the essence of the SEGA SAMMY Group — even in a post-COVID era. We would like to ask our investors and stakeholders for their continued support.

November 2020

#### Hajime Satomi

Chairman and Group CEO (Representative Director)  
SEGA SAMMY HOLDINGS INC.



## SEGA SAMMY Group Mission

### Mission Pyramid Shared Across the Group

SEGA SAMMY has established a Mission Pyramid, shared across the Group, to guide the business activities of SEGA and SAMMY and other group companies. The Mission Pyramid consists of Value (Mindset/DNA), Mission (Raison d'être), and Vision (Ideal self). The Group is striving to ensure that all its employees clearly understand the Mission Pyramid and work together to enhance corporate value.

## SEGASammy GROUP MISSION

**Value** (Mindset / DNA)

“Creation is Life” × “Always Proactive,  
Always Pioneering”

**Mission** (Raison d'être)

“Constantly Creating, Forever Captivating”

— Making life more colorful —

**Vision** (Ideal self)

**Be a Game Changer**



# Strengths That Realize Growth

# 2

## Hit-Making Power “Innovative DNA”

Throughout its history, the SEGA SAMMY Group has produced numerous hits. These kinds of hits become our IPs\* and they are not limited to a single medium, but spread across a wide range of fields such as pachislot, pachinko, consumer games, amusement machines, animation, and toys. There is no end to the SEGA SAMMY Group’s journey to discover the next big hit.

\*IP: Intellectual property



Released in 2001



Beast King ©Sammy

Released in 2017



Pachislot Beast King Ujya no kakusei ©Sammy

### Beast King series

The first *Beast King* title was released in 2001. This was the machine that set off the AT\* machine boom, which is a central chapter in the history of pachislot machines. With its “Savannah Chance,” the innovative, medal-increasing gameplay that overturned conventional concepts of pachislot, *Beast King* attracted a wide range of fans and became a huge hit, generating sales of 140,000 units. Subsequent series have continued to evolve and continue to attract users even today.

\*Models equipped with assist time functions.

Approx. **510,000** units  
Cumulative unit sales

(Pachislot and pachinko machines and amusement machines total)

Approx. **2.97** million units  
(Pachislot and pachinko machines total)

### Hokuto No Ken series

The initial *Pachislot Hokuto No Ken* machine boasts the largest sales volume ever in the pachislot market, with cumulative sales of approximately 620,000 units. Including pachinko machines, the total number of machines sold in the series is about 2.97 million, leading the pachislot and pachinko machine market.

Released in 2003

Pachislot Hokuto No Ken  
©Buronson & Tetsuo Hara ©Sammy

Released in 2019

Pachislot Hokuto No Ken Tenshou  
©Buronson & Tetsuo Hara/NSP 1983, ©NSP 2007 Approved No.YAF-420 ©Sammy

Released in 2008

Pachinko CR Hokuto No Ken  
©1983 Buronson & Tetsuo Hara ©NSP2007, Approved No. SAE-307 ©Sammy

Released in 2019

P Hokuto No Ken 8 Haou  
©Buronson & Tetsuo Hara/NSP 1983, ©NSP 2007 Approved No.YSE-020 ©Sammy



### Sonic the Hedgehog series

*Sonic the Hedgehog*, SEGA’s iconic IP, appeared in 1991 as a high-speed action game in which *Sonic* runs through game stages, passing through various ups and downs and loops at the speed of sound. This innovative IP continues to win the hearts of users around the world. The live-action movie *Sonic the Hedgehog*, released in 2020, was a huge hit worldwide.

Over **1.14** billion  
(Units and downloads\*)  
(Full games and F2P total)  
\*Including F2P title downloads

Released in 2017



Sonic Mania ©SEGA

Released in 2019



Team Sonic Racing ©SEGA

Released in 2005



Ryu ga Gotoku ©SEGA

Released in 2020



Yakuza: Like a Dragon ©SEGA

Approx. **14** million (Units)  
(Full games total)

### Ryu ga Gotoku series

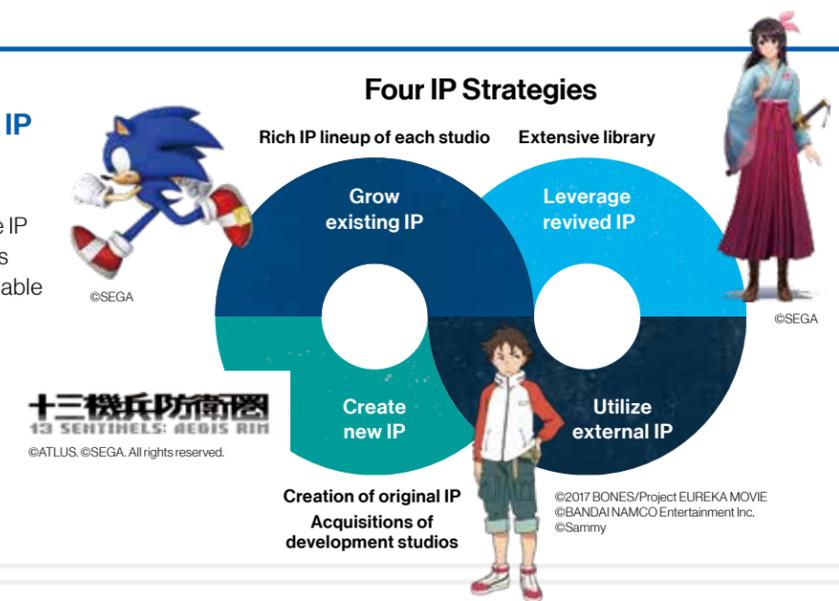
The IP that showcases “SEGA innovation,” *Ryu ga Gotoku* introduced a novel concept to the gaming scene in 2005, and has been a huge hit ever since, with a cumulative total of 14 million package sales to date. The series has garnered tremendous support due both to its innovative method of having real actors appear in its games, just like in a movie or drama, and to its unique gameplay.



©SEGA

### Expanding profit opportunities by maximizing the value of the Group’s IP

SEGA SAMMY is carrying out an IP strategy centered on four categories: existing IP, new IP, revived IP, and external IP. By fully leveraging the IP lineup, the Group will expand profit opportunities and maximize IP value, which will lead to sustainable growth in corporate value.



IP Portfolio



Examples of acquired IP

IP title	First appearance year	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
<b>Shin Megami Tensei series</b> <i>真女神転生III EXTRA PLUS</i>	1992	-	30	Approx. 17.4 million (Units and downloads*2) (Full games and F2P total)
<b>Persona series</b>	1996	-	18	Approx. 13.1 million units
<b>Total War series</b>	2000	-  -	-	More than 34.3 million (Units and downloads)
<b>Football Manager series</b>	2004	-  -	-	More than 22.0 million (Units and downloads)

Examples of IP developed in-house

IP title	First appearance year	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
<b>Sonic the Hedgehog series</b>	1991		-	More than 1.14 billion (Units and downloads*2) (Full games and F2P total)
<b>Puyo puyo series</b>	1991*1		-	Approx. 32.0 million (Units and downloads*2/IDs) (Full games and F2P, AM-registered IDs total (Total for registrations after IP acquisition))
<b>Sakura Wars series</b>	1996	-	-	Approx. 4.1 million units (Full games and F2P total)
<b>Ryu ga Gotoku series</b>	2005	-	115	Approx. 14.0 million (Units and downloads) (Full games total)
<b>ALADDIN series</b>	1989	-	14	Approx. 560 thousand units (pachislot and pachinko machines and amusement machines total)
<b>Beast King series</b>	2001	-	15	Approx. 510 thousand units (pachislot and pachinko machines and amusement machines total)
<b>PHANTASY STAR series</b>	1987	-	-	Approx. 5.50 million users*3
<b>CHAIN CHRONICLE series</b>	2013	- -	4	Approx. 22.0 million (Units and downloads*2) (Full games and F2P total)

\*1 SEGA CORPORATION acquired the rights in 1998. Figures for cumulative unit sales are the totals for titles that SEGA sold after acquiring the rights.  
\*2 Including downloads of free-to-play titles \*3 Domestic total for PHANTASY STAR ONLINE 2

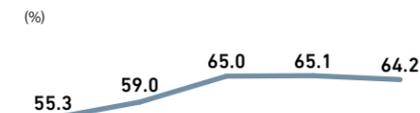
Examples of IP licensed from third parties

IP title	First appearance year	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
<b>SEGA feat. HATSUNE MIKU Project series</b>	2009	-	64	Approx. 6.4 million (Units and downloads) (Full games and F2P total)
<b>Hokuto No Ken series</b>	2002		34	Approx. 2.97 million units (pachislot and pachinko machines total)
<b>SOUTEN-NO-KEN series</b>	2009	-	13	Approx. 480 thousand units (pachislot and pachinko machines total)

A Robust Financial Foundation

Many of the Group's businesses are "hit-making businesses," in which continuous investment in development is required to generate hit titles, and the presence or lack of a hit has a significant impact on earnings. Financial stability and cash flow generated by the Pachislot and Pachinko Machines Business and other segments underpin stable development investment, and are also the foundation that enable the Group to continue doing business in pursuit of future growth, even amid harsh operating conditions.

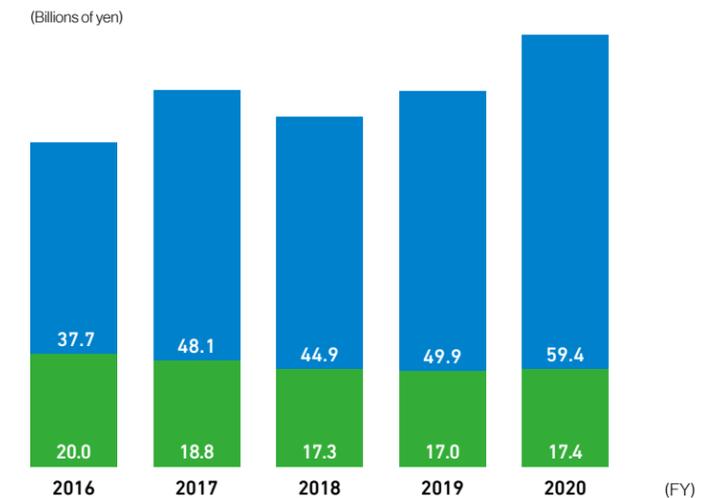
Equity Ratio



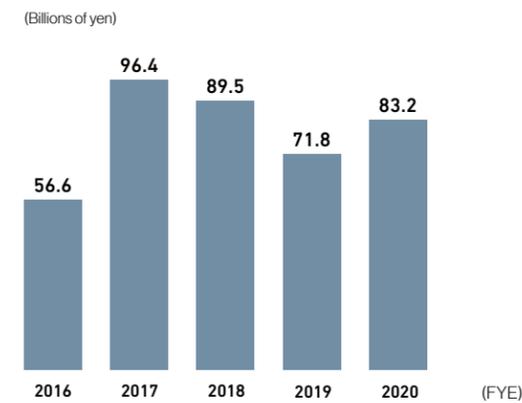
©Sammy

A robust financial foundation enabling steady investment in development

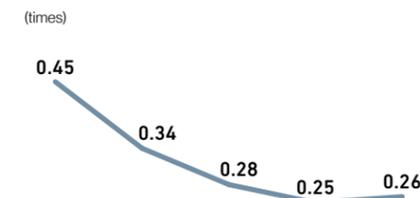
R&D Expenses and Content Production Expenses



Net Cash



Debt-to-equity ratio



■ Pachislot and Pachinko Machines Business  
■ Entertainment Contents Business



©SEGA



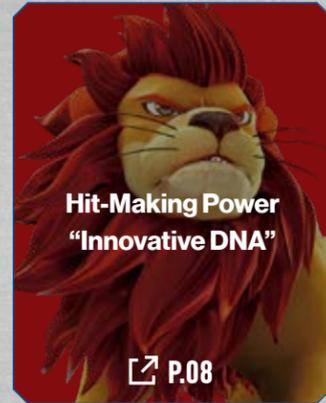
# SEGA SAMMY Group Value Creation Process

The Group will continue to provide value to all of its stakeholders by implementing effective strategies that take advantage of the broadly applicable strengths it has cultivated over the years.

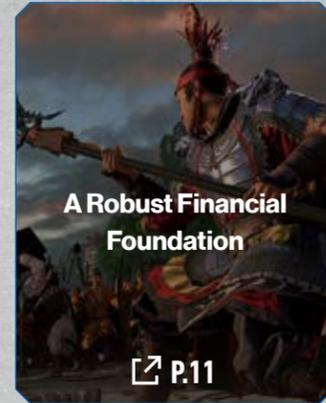
## Strengths That Realize Growth



**A Business Portfolio That Can Handle Changes in the Environment**  
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**Hit-Making Power "Innovative DNA"**  
[P.08](#)

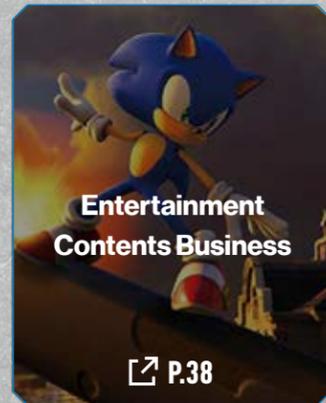


**A Robust Financial Foundation**  
[P.11](#)

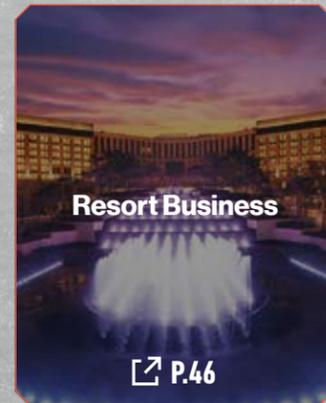
## Constantly Creating, Forever Captivating —Making Life More Colorful—



**Pachislot and Pachinko Machines Business**  
[P.32](#)



**Entertainment Contents Business**  
[P.38](#)



**Resort Business**  
[P.46](#)

## Effective Strategies

Corporate governance as a foundation for business  
[P.62](#)

## Value creation cycle

## Creation of Social Value

### Environment

#### Environmental Protection and Lower Power Consumption

- ◆ Lessening of environmental impact in the manufacturing process
- ◆ Recycling
- ◆ Reuse



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[P.53](#)



### Addiction

#### Countermeasures to Addiction

- ◆ Working together with the industry to raise awareness
- ◆ SEGA SAMMY initiatives to prevent addiction

### People

#### Reforming Working Styles and Creating Pleasant Working Environments

- ◆ Enhancing job satisfaction
- ◆ Increasing diversity
- ◆ Eliminating inequality

[P.54](#)



### Products and Services

#### Innovative Product Development, Higher Product and Service Quality, Safe and Secure Products

- ◆ Pachislot machine sales: 123,000 units
- ◆ Pachinko machine sales: 104,000 units
- ◆ Full game sales: 28.57 million units
- ◆ Phoenix Resort visitors: 839,000 guests (FY2020 results)

[P.55](#)



## OUTPUTS

## OUTCOME

## Creation of Economic Value



### Shareholders and Investors

#### Generating profit and shareholder returns

- ◆ Net sales: ¥366.5 billion
- ◆ Operating income: ¥27.6 billion
- ◆ Total cash dividends paid: ¥9.3 billion
- ◆ Cash dividends per share: ¥40 (FY2020 results)

## VALUE GENERATION

“Always Proactive, Always Pioneering”

“Creation is Life”

Value Shared Across the Group

SEGA SAMMY HOLDINGS

Addressing Social Needs to Realize a Sustainable Society and Enhance Corporate Value

## A Message from the COO

### Looking back on Road to 2020 and the Impact of COVID-19

The SEGA SAMMY Group announced Road to 2020, a medium-term management plan with the aim of realizing our long-term vision based on the Group's mission of *Constantly Creating, Forever Captivating — Making Life More Colorful —*. In the final year of the plan, the operating income margin was 7.5% and ROA was 3.0%, which fell short of our targets of an operating income margin of at least 15% and ROA of 5%.

For the Pachislot and Pachinko Machines Business, Road to 2020 set out a road map to substantially increase profit and achieve an operating income margin of 30% or higher in fiscal year 2020 by means of cost reduction efforts centered on reuse. While we did not meet these goals, we were able to significantly improve the profit margin. Meanwhile, in the current fiscal year, the business environment for the industry as a whole has struggled under the impact of COVID-19 and the slowdown in demand due to the extension of the deadline for removing machines conforming to previous regulations.

In the Entertainment Contents Business, under Road to 2020 we took measures to reinforce profitability in our core business and create global hit titles in growth areas. Unfortunately, we were unable to put out the global hit we were aiming for, but we did see a notable contribution to earnings

in the packaged games area, primarily repeat sales in Asia, Europe, and North America. Expectations for global growth in the games business are rising, backed by the ongoing worldwide expansion of game distribution platforms in recent years and the boost in stay-at-home consumption brought about by the pandemic.

In the Resort Business, over the past three years we have successfully acquired extensive expertise in preparation for our entry into the domestic integrated resort field, and have announced various business partners and steadily made other preparations. However, the impact of COVID-19 has made it necessary to make adjustments to the schedule, business plan, and other aspects of the project, and the situation remains highly unpredictable.

While building on the results we achieved under Road to 2020 to target further growth, we recognize the need to continue making every effort to straightforwardly identify and address issues facing the Group.

### We will begin undertaking structural reforms to overcome current adversities.

We were planning to enter a new phase targeting further growth in the fiscal year ending March 2021, but with the onset of COVID-19, the Group is facing a crisis across its business

areas.

Under these conditions, we are undertaking structural reforms in response to rapidly changing conditions and building a robust business foundation with a view toward future growth.

In November 2020, we announced several structural reform initiatives. In order to build a business structure that can adapt to current market conditions, transform to a fixed expenses level commensurate with the business structure, and secure cash flows for growth investments, we are proceeding with a review of the business portfolio, streamlining of fixed expenses, and a review of non-business assets.

As a result of these initiatives, we are forecasting a net loss of ¥24.5 billion for fiscal year ending March 2021, and announced that we will pay an interim dividend of ¥10 while leaving the year-end dividend undecided.

We will revisit the year-end dividend after assessing how structural reforms are progressing and the extent to which the business has recovered in the months ahead. Although

there is no change to our basic policy of paying stable dividends, at present we intend to carry through with structural reforms and aim for a swift turnaround in performance.

We also have to reexamine our new medium-term management plan, which was due to be announced in the fiscal year ending March 2021, and would like to release it after the completion of key structural reforms.

We would like to ask our shareholders, who have entrusted us with their confidence, for their continued support as we work to overcome current adversities.

[See page 28 for details on structural reforms.](#)

### Results and Issues from Road to 2020 and Changes in the Environment due to COVID-19

	Road to 2020 (medium-term management plan) (FY2018/3 – FY2020/3)		Changes in the Environment due to COVID-19	Fiscal year ending March 2021
	Results	Issues	Changes in the Business Environment	
<b>Pachislot and Pachinko Machines Business</b>	<b>Improved profit margin</b>	Lower prototype approval rate	<ul style="list-style-type: none"> <li>▼ Extension of deadline for removing previous-regulation machines</li> <li>▼ Slowdown in pachinko hall operators' purchasing motivation</li> </ul>	<b>Change in business structure</b>  <b>Start of structural reforms</b>
<b>Entertainment Contents Business</b>	<b>Growth in full games Stable profit generation</b>	Creation of global hits	<ul style="list-style-type: none"> <li>▲ <b>Expanding stay-at-home consumption in Consumer Games area</b></li> <li>▼ Struggling performance in Amusement Center Operations and Amusement Machine Sales</li> </ul>	
<b>Resort Business</b>	<b>Acquired expertise</b>	—	<ul style="list-style-type: none"> <li>▼ Decline in user numbers due to facility suspensions</li> <li>▼ Review of scale of investment</li> </ul>	

[For details, see page 28](#)

## We are working to resolve issues facing the Group as quickly as possible.

### Haruki Satomi

President and Group COO (Representative Director)  
SEGA SAMMY HOLDINGS INC.



### Longer-Term Direction of the Group

Our long-term vision — as I noted at the beginning, the Mission (Raison d'être) of *Constantly Creating, Forever Captivating — Making Life More Colorful* — remains unchanged. It is my sense that, ever since this Mission was formulated, there has been a significant transformation in the awareness of the SEGA SAMMY Group as a whole.

The next step is to match our words with our actions (*genko itchi*), translating awareness into concrete measures. The distinctive corporate cultures of SAMMY and SEGA have been a wellspring of the experiences that move the heart we bring people through innovative products and services, and I believe maintaining these cultures is important. But for us to survive in the entertainment industry, which is constantly changing based on trends and tastes, each employee of the Group has to work to develop and grow, never becoming complacent with the status quo.

To this end, our immediate task is to carry through with structural reforms and build a robust business foundation that can adapt to changing conditions. Having done this, each Group company, with a shared focus on our Mission, needs to draw on its own distinctive strengths in formulating a strategy for the next stage of growth.

### Redefining ESG and SDGs materiality for the sustainable enhancement of corporate value

For the SEGA SAMMY Group, the key concept when we talk about ESG and SDGs is *Constantly Creating, Forever Captivating*.

*vating*. I remain committed to the belief that entertainment has the power to give people vitality in their day-to-day lives.

Faced with a crisis of unprecedented proportions, in which the true value of entertainment companies has been called into question, we need to reconsider what we have to do in order to continue to be seen as an “essential” company.

We have redefined the materiality of the SEGA SAMMY Group to reaffirm the value of the experiences that move the heart the Group provides through each of its business areas, and to guide our efforts to realize sustainable solutions to social issues and enhance corporate value. The newly defined materiality includes five categories: the environment, addiction, people, products and services, and governance.

Whenever business is conducted, it has both positive and negative impacts on society. Minimizing the negative impact, and then making an ongoing positive impact that far outweighs the negative by providing experiences that move the heart through our products and services is the underlying idea behind the Group's ESG and SDG initiatives. SEGA SAMMY's ultimate raison d'être as an entertainment company is to bring about a more peaceful world by acting through our core entertainment businesses to move people's hearts and bring excitement to everyday life, and continuing to offer a sense of accomplishment, well-being, joy, peace of mind, and a variety of other emotions.

See page 50 for details on ESG and SDG Materiality



**The role of entertainment is to move people's hearts and offer hope for living.**

[ *Genko Itchi* (Matching Words with Actions) ]  
A Japanese idiom meaning that content of one's statements and concrete actions are consistent and not contradictory. Following through with what one says one will do.

### Human resource development and training and the promotion of diversity will be the foundation for dramatic growth going forward

“People” is one of SEGA SAMMY's newly defined categories of materiality. Priorities in this area are to boost job satisfaction and diversity and eliminate inequality, because we believe that human resources are the wellspring out of which we continue to provide people with experiences that move the heart.

Unfortunately, current business conditions require us to call for voluntary early retirement in order to transform the business structure. Going forward, though, cultivating a culture in which diverse human resources can actively participate and anyone with drive and determination has the chance to show their potential will continue to be a crucial issue, the key to which is human resource development.

My greatest conviction is that we ought to give every employee equal opportunities for growth. Our in-house training program, SEGA SAMMY College, offers training and seminars based on different employee levels, as well as individual training programs across multiple genres. About 4,300 employees (total participants) underwent training programs in fiscal year 2020. Employees who take full advantage of these opportunities to continuously hone their skills will keep developing. On the other hand, employees who are passive and do not try to break out of their own shells cannot expect to grow in their careers. Down the road, there will always be a huge difference between what the former and the latter can achieve. Employees who grow and develop enter a kind of virtuous cycle in which their motivation increases, which in turn urges them on to even greater improvements.

In addition, we have set up a forum for mid-level and senior managers whom we hope will take over the future

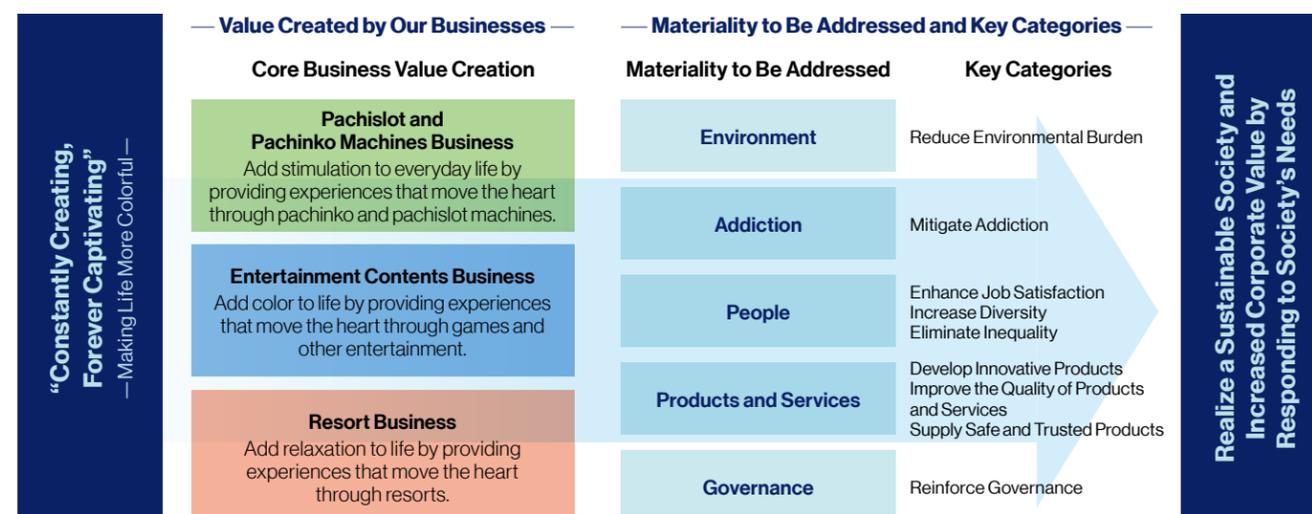
management of the Group, in which we can relate our vision of the Group's founding principles and management philosophy and hold discussions. Aside from myself, the founder, CEO Hajime Satomi, and outside directors also participate in these sessions. Direct dialogue with top management enables up-and-coming mid-level managers to grasp the thinking of the current management team and, as managers, cultivate a broader perspective on our business operations.

Although investing in human resources seldom bears noticeable fruit in the short term, we will continue to aggressively make such investments, confident that, five or ten years down the road, this will lay down a solid foundation to carry the Group forward.

Also, because the Group is engaged in diverse business areas, ranging from pachislot and pachinko machines to entertainment contents and resorts, the human resources needed in each area are different, as are the customers each area serves. For the entire Group to strive to grow the business, the inflow of fresh new ideas is essential. I believe that by drawing on the perspectives, experiences, and opinions of diverse people, we can generate new ideas and create innovative products and services.

No one should ever have to miss out on an opportunity to succeed due to gender, sexuality, nationality, or any other difference. This conviction is connected with the principle of “equal opportunity” I explained earlier. Even if we do not set diversity as a formal KPI for the Group, we should be able to build up an organization that is naturally diverse if we foster a climate in which every employee is equally able to take on challenges and produce results. My ideal image of a company is that diversity becomes so commonplace that it is no longer even talked about.

### The SEGA SAMMY Group's Value Creation and Materiality



### Sound and transparent governance

Top management constantly have to make speedy judgments under fast-changing business conditions. Sometimes managers can be so rushed to make a decision that they unintentionally, as it were, step down hard on the accelerator going in the wrong direction. At such times, outside directors and other officers are expected to play a critical role, that is, to act as a brake. The Group's outside directors are made up of members with diverse experience in finance, IT, and international business, who offer critical advice and counsel from a range of perspectives and areas of specialized knowledge. I believe this is essential for the healthy functioning of the Board of Directors.

In addition, in terms of improving the effectiveness of the Board of Directors, I feel it is essential to fully understand the circumstances and context of matters brought to the Board for resolution before a decision is made. To this end, in addition to creating a venue for internal and external directors to exchange opinions in advance of Board meetings, we also encourage internal and external directors to actively participate in various deliberative bodies such as the Group Management Strategy Committee. At such meetings, there are often lively debates between the management side and the executive side. I believe it is precisely because there are such differences of opinion that management can maintain a sense of urgency and be led on to better solutions.

In fiscal year 2019, we undertook a comprehensive review of the system of compensation for directors, with the aim of ensuring the transparency of governance and heightening incentives for directors to enhance corporate value. In particular, the standard for performance-linked remuneration was significantly revised, and is now based strictly on valuations of ordinary income and the degree to which the management plan is achieved. We will fulfill our accountability to shareholders by ensuring that our directors are committed to performance and by making their resulting compensation clearly visible.

### A wellspring for delivering excitement to customers

COVID-19 has wreaked havoc around the world. We need to recognize that this kind of cataclysmic event, so extensive that it even alters the shape of society, is not just a one-off phenomenon but that something like it is sure to reoccur at some point. To that end, looking ahead with the assumption that a pandemic or large-scale natural disaster will occur, we must build a management foundation that can ensure the sustainability of our businesses. In this regard, engagement with employees and other stakeholders is one of the things I find particularly crucial.

The Group defines stakeholders as employees, customers, business partners, shareholders and investors, and society (both in terms of social contribution and the environment) — putting top priority on employees. Naturally, in terms of putting into practice our stated Mission of *Constantly Creating, Forever Captivating*, and in terms of evaluating whether we are having a positive impact on society, the key factor is the customers who buy Group products and services and undergo the experiences. I believe the positive impact the Group has on society is precisely in the way we satisfy more customers and add color to their daily lives. And the wellspring for all of this is our employees. Our relationships with other stakeholders begin only when our employees first feel the desire to offer new products and services to the world, create them, and deliver them to customers. All the economic and social value created by the SEGA SAMMY Group springs out of the desire of employees to deliver experiences that move the heart to customers.

### Continuing to be seen by society as an “essential” company.



### To be “essential,” we will continue to implement sound, far-sighted measures.

In the midst of COVID-19, pachinko halls, amusement centers, resort facilities, and other public facilities had to refrain from operating for much of this year, causing the Group to face extremely difficult business conditions.

Assuming that a return to pre-COVID-19 conditions is impossible, for the Group to continue to create experiences that move the heart we have to take prompt action, implementing structural reforms to build a framework suited to post-COVID-19 conditions. Unfortunately, the structural reforms that are needed are painful ones. However, embracing the current adversity as an opportunity, I would like to build a robust corporate framework that can adapt to changes in the environment and seek to create a sustainable organization.

In recent years, as the notion of sustainable investment has taken root and spread, more importance is placed, not simply on corporate profitability, but on whether or not such investments contribute to the continual enhancement of corporate value in light of the need for social and environmental sustainability.

For SEGA SAMMY to continue to be seen by society as an “essential” company, we will carry out management in a way that is sincere and beyond reproach, continuing to implement sound, far-sighted measures.

November 2020

#### Haruki Satomi

President and Group COO (Representative Director)  
SEGA SAMMY HOLDINGS INC.

## A Message from the CFO

### Securing adequate financing to respond to adversity

In terms of the business environment in the fiscal year ending March 2021, apart from the Consumer Games area of the Entertainment Contents Business, the Group has been facing a serious crisis due to the impact of COVID-19.

We decided to raise the borrowing limit with the idea of creating an adequate safety net for the Group. At present, working capital needed for existing businesses is around ¥70.0 billion, but, given the current environment, we estimated an additional ¥30.0 billion is required for our crisis response, resulting in around ¥100.0 billion in necessary financing.

In response to this, as of the end of September 2020, in addition to ¥143.7 billion in cash, deposits and cash equivalents, we have commitment lines from financial institutions, overdraft lines, and unused lines of credit totaling ¥168.0 billion. Taken altogether, we have secured a sufficient amount of liquidity, totaling ¥311.7 billion.

In addition, net cash for the same period was ¥53.5 billion, and the equity ratio remained at a high level of 62.2% despite the impact of a sharp downturn in the stock market.

Unfortunately, we were unable to achieve the financial targets set out in the Road to 2020 medium-term management plan. However, having adequate financial resources will provide us with a solid foundation from which to overcome current adversities and substantially grow the business.

### Introducing ROIC management in each business area, pursuing ROE-focused management

The Road to 2020 set the operating margin and ROA as financial key performance indicators (KPIs). As the Group's businesses expand, introducing these indicators was a step toward shifting our thinking from management focused on sheer "amounts" to management focused on "ratios," where those in charge of each business area can be more keenly aware of the importance, not just of pursuing levels of earnings, but of using capital more efficiently.

For the next step, we plan to establish ROE and ordinary income as the KPIs in the next medium-term management plan currently being drawn up. We will further build shareholder value by improving ROE and ordinary income, and increasing earnings per share.

To engender a strong management focus on ROE, we will incorporate return on invested capital (ROIC) as an internal management indicator for each business area. ROIC is a KPI used to properly assess earning power. The advantage of ROIC is that it allows various businesses with differing characteristics to be evaluated objectively. The rate of return in terms of profit/loss depends on the particular business characteristics, but if we can evaluate each business using an equitable measure like ROIC, this enables us to make fair decisions about which business areas to concentrate resources on. Going forward, we will evaluate the degree to which each of our business activities has generated a return on invested capital.

For example, in a fast-growing area like Consumer Games\*, after ascertaining the size and growth potential of the market, and having formulated a viable sales strategy, we need to move forward with growth investments that are likely to generate sizable returns commensurate with the amount of capital invested.

## Building a robust financial foundation that can overcome adversity and realize sustainable growth for the Group

### Koichi Fukazawa

Senior Executive Vice President and Group CFO  
(Director of the Board)  
SEGA SAMMY HOLDINGS INC.

In this way, we will carry out appropriate business management making use of ROIC to help monitor the balance sheets and cash flows of each Group business activity, and manage the business portfolio in a way that maximizes earning power.

ROIC is simply an internal management tool for each business area, but if it takes root and leads to improved performance, we are confident that it will naturally also lead to increased ROE for the Group as a whole. Improvement of ROE can be realized by raising financial leverage, but the

appropriate leverage ratio is determined by the risk characteristics of a given business activity. Since the Group's core businesses are affected by the creation of hit products, we face high business volatility, and so consider it essential to have an adequate buffer against risks. For this reason, it remains our policy to maintain a high capital adequacy ratio going forward.

\* In the fiscal year ending March 2021, the Digital Games and Packaged Game areas within the Entertainment Contents Business were integrated into a new Consumer Games area.

### Allocating funds toward growth and shareholder returns

In the recent Road to 2020 medium-term management plan, the impact of changing regulations in the Pachislot and Pachinko Machine Business and other factors prevented us from reaching our sales goals, and we fell short of our target of increasing the operating income margin to at least 30%. However, through reuse initiatives and other measures, we believe we were able to fortify the earnings structure of the business.

The Entertainment Contents Business has seen some successful cases in consumer games. Compared with some of our competitors in Japan and overseas, the Group must strive to win business opportunities at a higher level, but there is no doubt that we are well-positioned to be a leading contender in the industry. I believe this is one of the business areas where we should focus the bulk of our management resources in order to realize strong growth going forward.

The Group has defined Value (Mindset/DNA), Mission (Raison d'être), and Vision (Ideal Self) according to a Mission Pyramid. With regard to investments, we always screen potential projects not only in terms of numerical aspects such as profitability but also in terms of whether or not, as a Group business, the project is compatible with our Mission (Raison d'être).

Regarding shareholder returns, we set the interim dividend for the fiscal year ending March 2021 at ¥10, and announced that the year-end dividend remains undecided. As for the year-end dividend, we intend to let our stakeholders know at an appropriate time while carefully assessing the progress of structural reforms and developments in business results in the second half.

There is no change to our basic policy of paying stable dividends, but at present, while net cash is under downward

pressure from COVID-19, we feel the prudent course is to steadily implement structural reforms and aim for a swift recovery in performance.

We will be investing more aggressively in growth going forward, including entry into the domestic integrated resort business, which I will touch on later. Consequently, our priority now is to enhance engagement with shareholders and investors to gain their understanding of our business strategy. We will strive to achieve greater returns, even as we take steps to manage a different set of risks than before. We would like to ask our shareholders' support for the Group's strategy as we pursue such returns together.

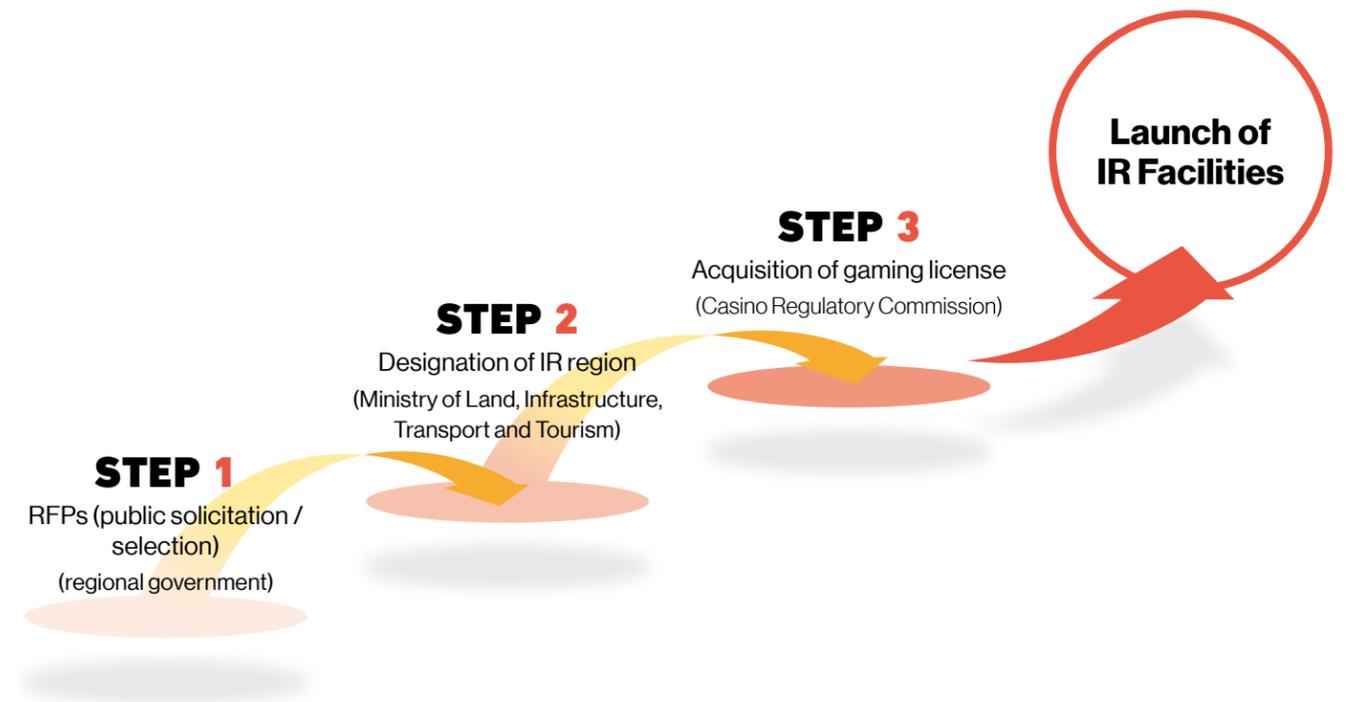
### Moving forward with entry into Integrated Resort (IR) business

The integrated resort field in Japan is poised to finally make concrete progress in and after 2021. Although it is an attempt to carry out an unprecedented national project, the Group is positioning IR as a strategic business that is critical to supporting our long-term growth.

The Group has made all the preparations needed to enter the domestic IR field: We have gained practical experience through our management of the South Korean IR facility *PARADISE CITY*, acquired a casino equipment sales license in Nevada, and made strides in researching the issue of gambling addiction. Moreover, SEGA SAMMY took part in the *1st JAPAN IR EXPO in Yokohama* held at PACIFICO Yokohama in January 2020 (see page 49).

Going forward, we will enter the selection process by submitting a request for proposal (RFP) to the regional government. The government announced its draft IR basic policy in October 2020, at the same time revising the submission period of RFPs for IR development.

### Process Leading up to IR Launch



The Group will continue to carefully monitor the conditions of entry and other feasibility factors with the aim of entering the IR business going forward.

### Executing financial strategies to realize the Group's long-term vision

COVID-19 has introduced uncertainty into all areas of corporate management. So far, however, the Group has secured sufficient financing and is well positioned to withstand adversities and overcome the current business crisis. After the

pandemic is behind us, we will swiftly create and maintain a sturdy financial foundation, a platform from which we can support robust business growth going forward.

November 2020

### Koichi Fukazawa

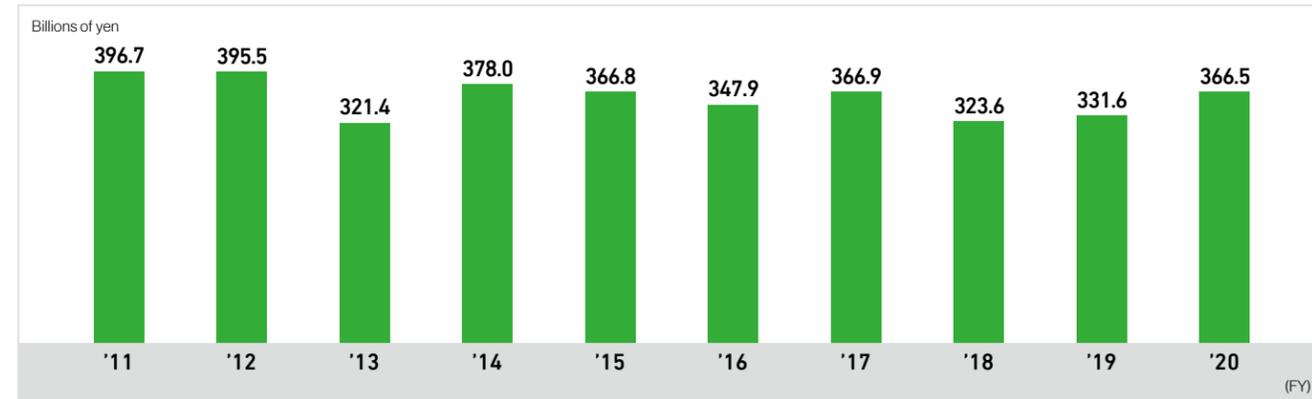
Senior Executive Vice President and Group CFO  
(Director of the Board)  
SEGA SAMMY HOLDINGS INC.

# Financial Performance

## Net Sales<sup>\*1</sup>

Due to an increase in pachislot unit sales and solid performance in the packaged games area, sales increased 10.5% year on year to ¥366.5 billion.

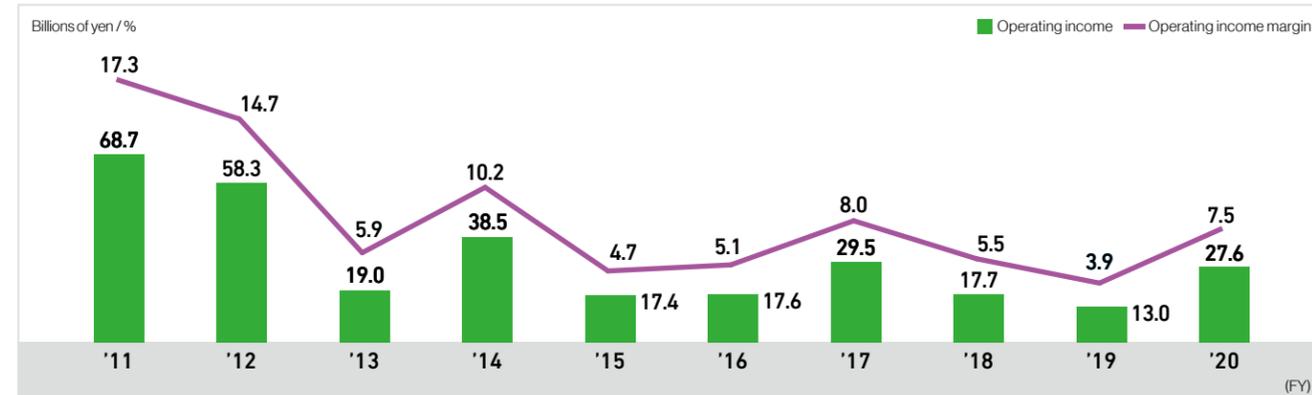
**¥366.5 billion**



## Operating Income / Operating Income Margin

In the Pachislot and Pachinko Machines Business, the operating income margin improved and operating income rose 111.3% year on year to ¥27.6 billion.

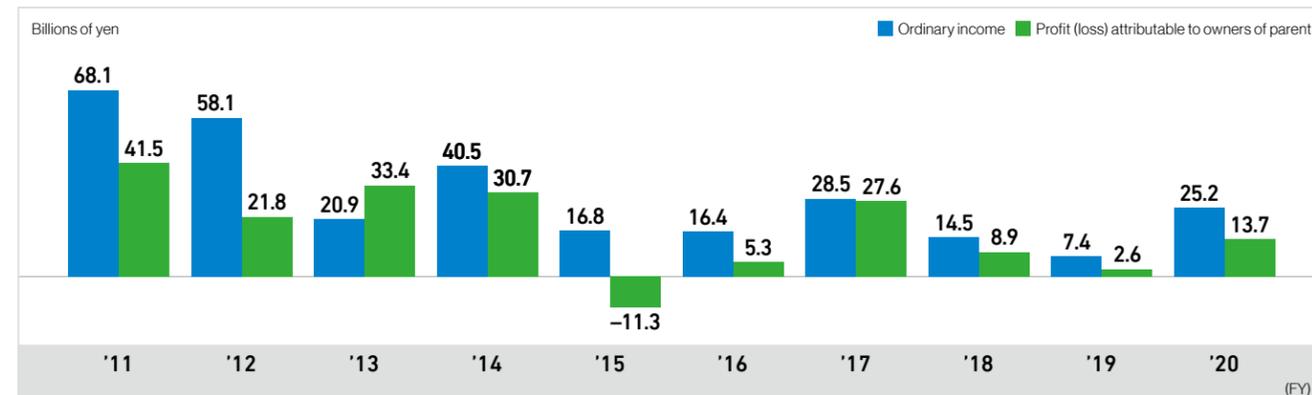
**¥27.6 billion / 7.5%**



## Ordinary Income / Profit (Loss) Attributable to Owners of Parent<sup>\*2</sup>

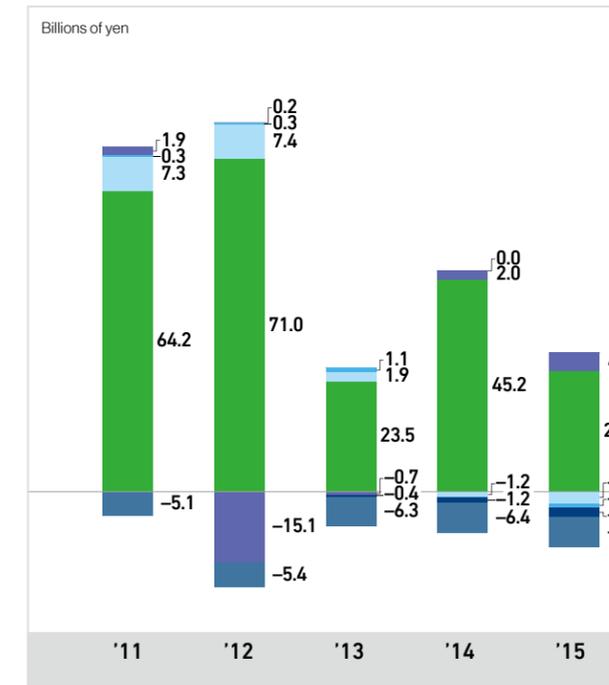
Profit attributable to owners of parent increased 421.3% year on year to ¥13.7 billion.

**¥25.2 billion / ¥13.7 billion**



<sup>\*1</sup> As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal year 2016, figures for fiscal year 2015 reflect these changes retrospectively.  
<sup>\*2</sup> The Company has adopted the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and has presented "net income (loss)" as "profit (loss) attributable to owners of parent" from fiscal year 2016.

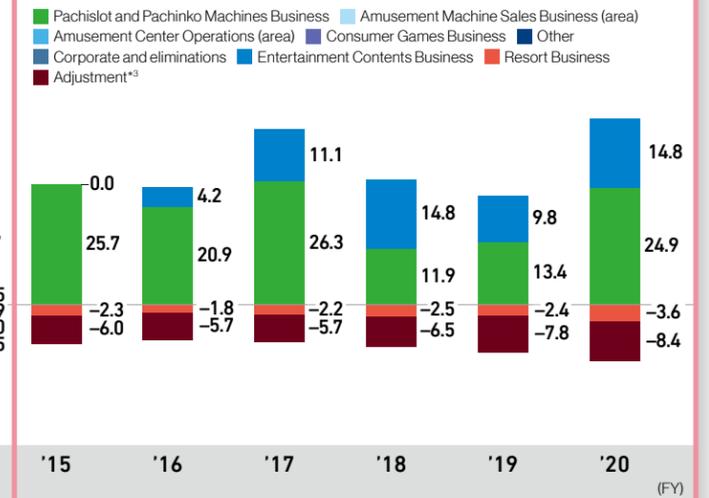
## Operating Income (Loss) by Segment



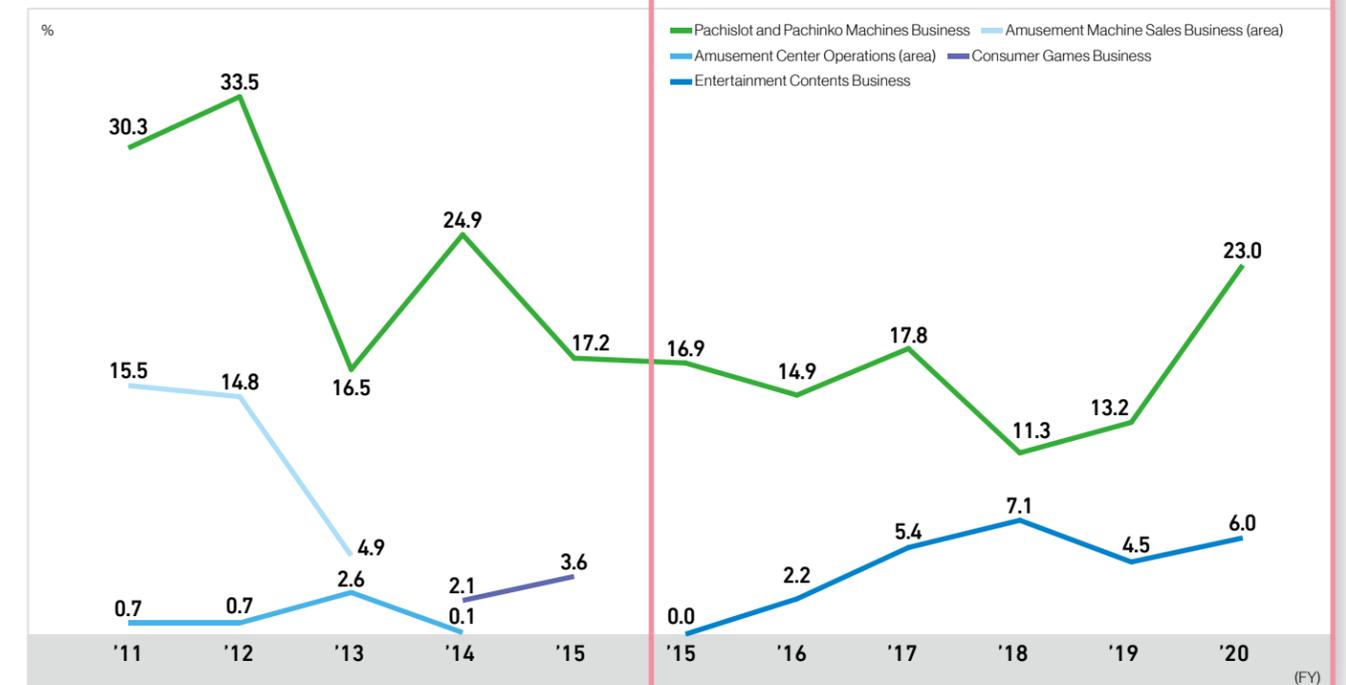
## New Segmentation

Breakdown of Operating Income (Loss) of the Entertainment Contents Business

	'15	'16	'17	'18	'19	'20
Digital Games	8.0	-0.4	4.9	3.3	-1.9	9.8
Packaged Games	-2.7	2.4	2.6	6.5	8.2	4.8
Amusement Machine Sales	-3.9	-0.1	1.7	2.7	1.5	-2.3
Amusement Center Operations	0.9	1.8	2.2	2.7	2.6	1.4
Animation and Toys	-1.7	0.6	1.2	2.0	2.5	2.7
Other and eliminations	-0.6	-0.1	-1.5	-2.4	-3.1	-1.6



## Operating Income Margin by Segment



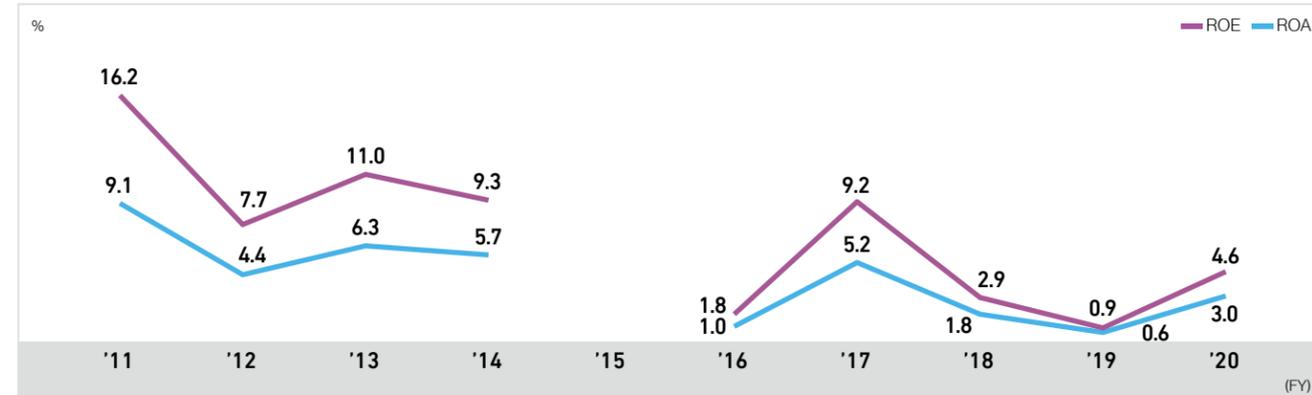
<sup>\*3</sup> As of the fiscal year 2016 change in segmentation, elimination of inter-segment transactions and general corporate expenses that are not allocated to the reporting segment are included in the adjustment to segment income (loss).

**ROE / ROA<sup>\*4</sup>**

ROE increased 3.7 points from the previous fiscal year to 4.6%.  
ROA increased by 2.4 points to 3.0%.

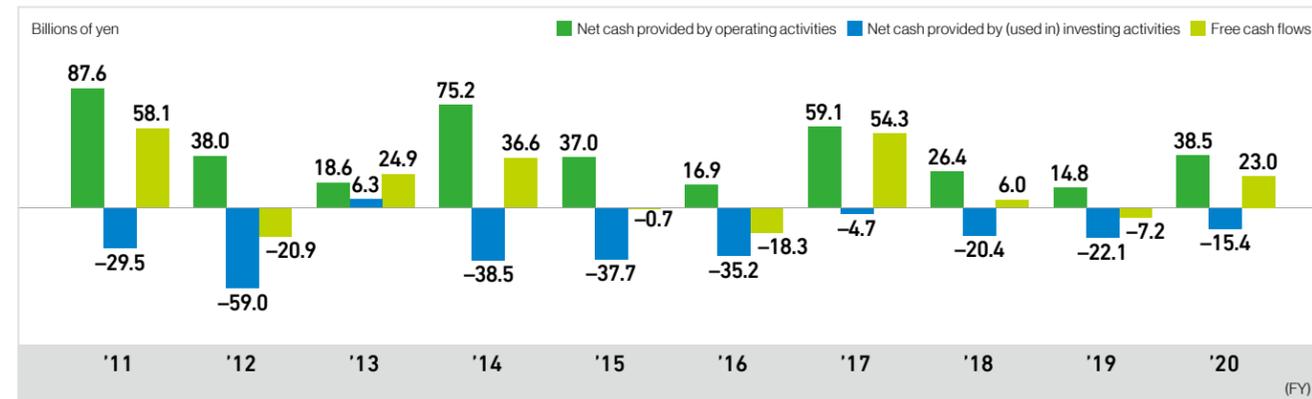
\*4 ROA = Profit attributable to owners of parent ÷ Total assets

**4.6% / 3.0%**



**Cash Flows**

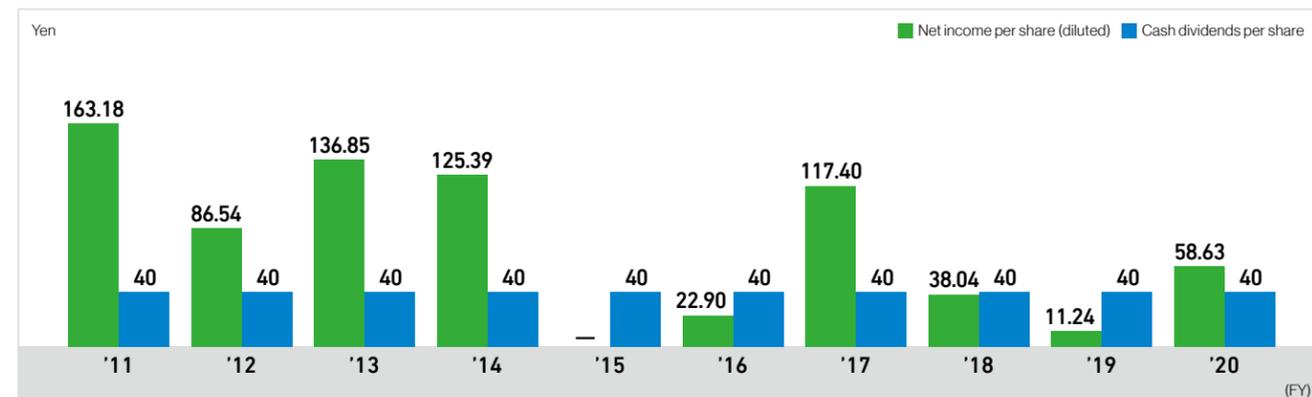
Cash flow from operating activities in fiscal year 2020 was ¥38.5 billion, compared with ¥14.8 billion in the previous fiscal year.  
Cash flow from investing activities was ¥15.4 billion, down from ¥22.1 billion a year earlier.



**Net Income per Share / Cash Dividends per Share**

Net income per share (diluted) increased by ¥47.39 from the previous fiscal year to ¥58.63.  
The Company continues to pay a stable (annual) dividend of ¥40 yen per share.

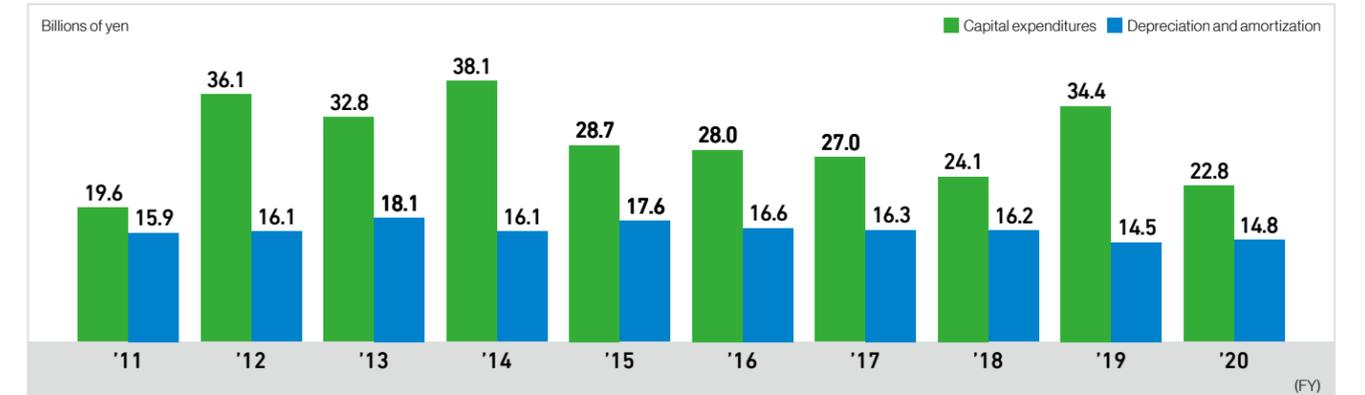
**¥58.63 / ¥40**



**Capital Expenditures / Depreciation and Amortization<sup>\*5</sup>**

Capital expenditures decreased 33.7% year on year to ¥22.8 billion.  
Depreciation and amortization increased 2.1% to ¥14.8 billion.

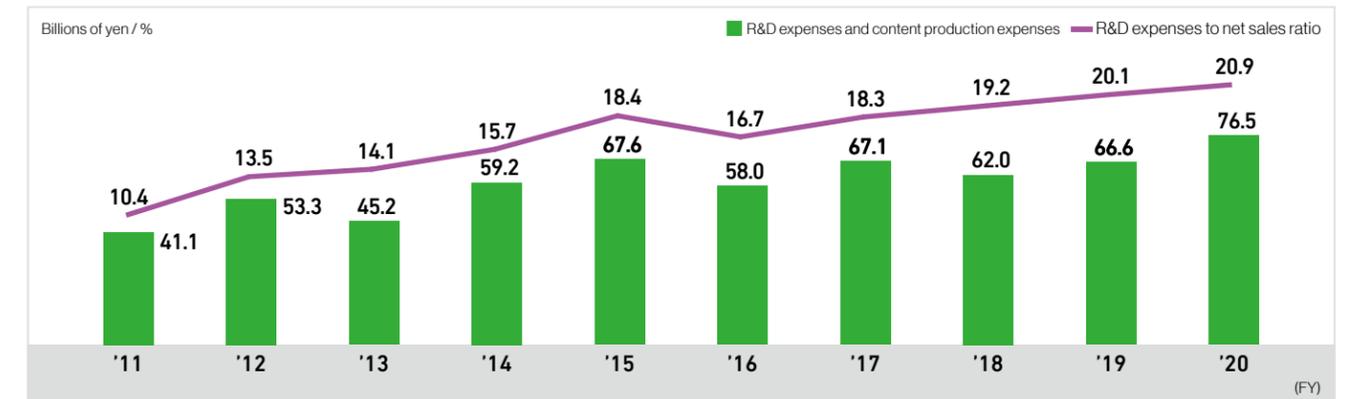
**¥22.8 billion / ¥14.8 billion**



**R&D Expenses and Content Production Expenses<sup>\*5</sup> / R&D Expenses to Net Sales Ratio**

R&D expenses and content production expenses increased 14.9% to ¥76.5 billion, due to the launch of multiple new packaged game titles and other factors.

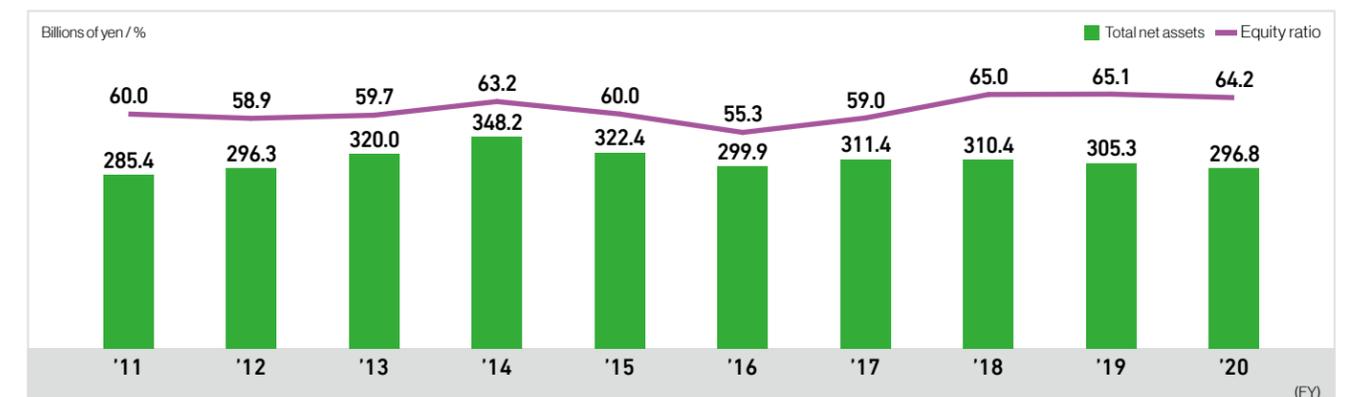
**¥76.5 billion / 20.9%**



**Total Net Assets / Equity Ratio**

Total net assets were down by ¥8.4 billion from the previous fiscal year to ¥296.8 billion.  
The equity ratio was down 0.9 points to 64.2%.

**¥296.8 billion / 64.2%**



\*5 The aggregate calculation method has changed as of fiscal year 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal year 2013, depreciation and amortization included amortization cost of digital game titles.

# PERFORMANCE & STRATEGIES

Implementing structural reforms to achieve a rapid turnaround in profitability

# Reforming the Business Structure

Achieving a swift turnaround in profitability and realizing sustainable growth going forward

Structural reforms to adapt to changing business conditions

The SEGA SAMMY Group carried out the Road to 2020 medium-term management strategy from fiscal year 2018 to fiscal year 2020 with the aim of realizing its long-term vision. During the three-year period, reuse and other cost reduction measures in the Pachislot and Pachinko Business area resulted in improvement in the operating income margin, while sales in the Entertainment Contents Business, primarily sales of repeat titles in Asia, Europe, and the North America, grew. In the Resort Business, which is positioned to be a future driver of earnings, the Group steadily acquired the expertise needed to enter the integrated resort field in Japan.

The Group was planning to enter a new phase targeting further growth in fiscal year 2021, but the onset of COVID-19 caused a major crisis across its business areas. The Group is undertaking structural reform with a view to transforming the business structure in a way that can adapt to such changes in the environment and achieving a swift turnaround in profitability.

## Changes in Business Environment in Each Segment Due to COVID-19

### Pachislot and Pachinko Machines Business

▼ Sales declined as extension of deadline for removing previous-regulation machines decreased purchasing motivation of pachinko hall operators

### Entertainment Contents Business

▲ Demand in Consumer Games area expanded due to stay-at-home consumption  
▼ Amusement Center Operations and Amusement Machine Sales struggled as amusement center operations were suspended

### Resort Business

▼ User numbers declined due to facility suspension, travel restrictions, etc.

## Implementation of Structural Reform

Reviewing balance sheet with a focus on non-business assets

Building an organizational framework that can adapt to changes in the market environment

Cost reduction centered on fixed costs across the Group

## Overview of Structural Reforms as of the second quarter of fiscal year 2021

## Impact on Operating Results

		Profit/loss impact in current fiscal year (forecast)	Profit/loss impact in next fiscal year (forecast)
<b>1. Review of business structure</b>	<ul style="list-style-type: none"> <li>Transfer of shares of a subsidiary in the Amusement Center Operations area</li> <li>Closing of Orbi Yokohama nature museum</li> </ul>	<b>- ¥20.5 billion</b> (extraordinary loss)	<b>+ ¥5.0 billion</b> (ordinary income)
<b>2. Fixed cost reductions</b>	<ul style="list-style-type: none"> <li>Calling for about 650 volunteers for early retirement Group-wide</li> </ul>	<b>- ¥10.0 billion</b> (extraordinary loss)	<b>+ ¥10.0 billion</b> (ordinary income)
<b>3. Review of balance sheet</b>	<ul style="list-style-type: none"> <li>Gain on sale of investment securities</li> <li>Ongoing review of non-business assets</li> </ul>	<b>+ ¥5.9 billion</b> (extraordinary income)	—

Net loss attributable to owner of parent of ¥24.5 billion is expected for fiscal year 2021 due to greater losses associated with the recording of structural reform expenses.

Building an organizational framework that can adapt to changes in the environment, achieve a swift turnaround in profitability and realize sustainable growth going forward.

- ▶ Interim dividend revised to ¥10, year-end dividend undecided
- ▶ 30% reduction in executive compensation (Representative Directors of the Company), etc.

- ▶ Recovery in Pachislot and Pachinko Machines Business performance
- ▶ Focus on global business opportunities in the Consumer Games area
- ▶ Entry into Japan integrated resort business

## Outlook for Fiscal Year 2021

The Consumer Games areas is expected to continue to perform well. In addition, the exemption of Amusement Center Operations from consolidation from the fourth quarter of fiscal year 2021 is expected to yield a much larger-than-forecast improvement in the ordinary loss, although we also expect to incur extraordinary income and extraordinary losses associated with the implementation of structural reforms. Net loss attributable to owners of parent is expected to be ¥24.5 billion.

	(Billions of yen)	
	FY2020	FY2021 (revised forecast)
<b>Net sales</b>	<b>366.5</b>	<b>283.0</b>
Pachislot and Pachinko Machines Business	108.5	60.0
Entertainment Contents Business	247.6	216.0
Resort Business	10.4	6.5
Other and elimination	0	0.5
<b>Operating income (loss)</b>	<b>27.6</b>	<b>-1.5</b>
Pachislot and Pachinko Machines Business	23.2	-10.0
Entertainment Contents Business	16.5	21.5
Resort Business	-3.6	-5.5
Other and elimination	-8.5	-7.5
<b>Non-operating income</b>	<b>3.2</b>	<b>5.0</b>
<b>Non-operating expenses</b>	<b>5.5</b>	<b>8.5</b>
<b>Ordinary income (loss)</b>	<b>25.2</b>	<b>-5.0</b>
Pachislot and Pachinko Machines Business	22.7	-10.5
Entertainment Contents Business	16.2	24.0
Resort Business	-5.3	-11.0
Other and elimination	-8.4	-7.5
<b>Extraordinary income</b>	<b>3.1</b>	<b>7.5</b>
<b>Extraordinary losses</b>	<b>1.2</b>	<b>34.0</b>
<b>Income (loss) before income taxes</b>	<b>27.1</b>	<b>-31.5</b>
<b>Profit (loss) attributable to owners of parent</b>	<b>13.7</b>	<b>-24.5</b>

## Market environment, business conditions, etc., for fiscal year 2021

Gradual recovery is expected in both the market environment and in business conditions, although downward pressure will remain in business areas other than Consumer Games.

FY2021	2020						2021					
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
<b>Pachislot and Pachinko Machines</b>	<ul style="list-style-type: none"> <li>Pachinko halls suspended operations</li> <li>Deadline for removal extended</li> </ul>			Hall utilization moves into a recovery trend following resumption of operations			<ul style="list-style-type: none"> <li>Utilization stabilizes at about 70% to 80%; previous-regulation machines are expected to start being removed from the second half.</li> <li>Recovery in purchasing motivation of pachinko hall operators is expected to take time as removal deadline is extended.</li> </ul>					
<b>Consumer Games</b>	<ul style="list-style-type: none"> <li>Growth in sales driven by stay-at-home consumption</li> </ul>			<ul style="list-style-type: none"> <li>Stay-at-home consumption levels off, but repeat sales and other sales are expected to remain firm.</li> </ul>								
<b>Amusement Machine Sales</b>	<ul style="list-style-type: none"> <li>Revenue from revenue-sharing model and machine sales decreased due to temporary closures and falling utilization.</li> </ul>			<ul style="list-style-type: none"> <li>Sales conditions are expected to improve gradually as utilization of facilities recovers.</li> </ul>								
<b>Amusement Center Operations</b>	<ul style="list-style-type: none"> <li>Sequential temporary closures of facilities is carried out.</li> <li>Sales of existing facilities YoY: 27.4%</li> </ul>			<ul style="list-style-type: none"> <li>Ongoing recovery in utilization of facilities is expected</li> <li>Sales of existing facilities YoY: 50.1% (through Sep.)</li> </ul>								
<b>Animation / Toys</b>	<ul style="list-style-type: none"> <li>Significant decrease in production and distribution revenues due to postponement of theatrical release, etc.</li> </ul>						<ul style="list-style-type: none"> <li>Gradual recovery from the resumption of operation at theatres, etc. is expected</li> </ul>					
<b>Phoenix Seagaia Resort</b>	<ul style="list-style-type: none"> <li>Temporary closure of all facilities</li> </ul>		<ul style="list-style-type: none"> <li>Utilization recovering gradually</li> <li>User numbers continue to decline.</li> </ul>			<ul style="list-style-type: none"> <li>Individual demand expected to turn upward due to Go to Travel campaign, but recovery in group tour and corporate travel demand is expected to be sluggish</li> </ul>						
<b>PARADISE SEGASAMMY</b>	<ul style="list-style-type: none"> <li>Suspension of operations at some facilities and casino area</li> </ul>			<ul style="list-style-type: none"> <li>Travel restrictions for foreign visitors are expected to continue</li> <li>Temporary closure of some facilities from July 1.</li> </ul>								

# Pachislot and Pachinko Machines Business

As an “innovator in the industry,” SEGA SAMMY will launch new initiatives and strive to generate stable profits by enhancing profitability.

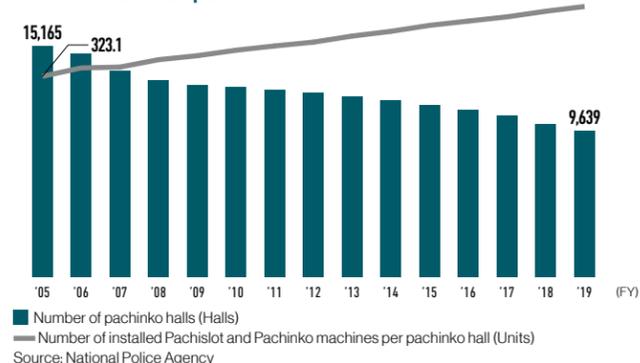
## External Environment

Along with the slow decline of the player population since 1995, there has been a long-term downtrend in the overall number of pachinko halls, as well as in the number of machines installed and in annual machine turnover. On the other hand, the opening of more large-scale halls and an increase in locations of major hall operators has caused a rise in the number of machines installed per store.

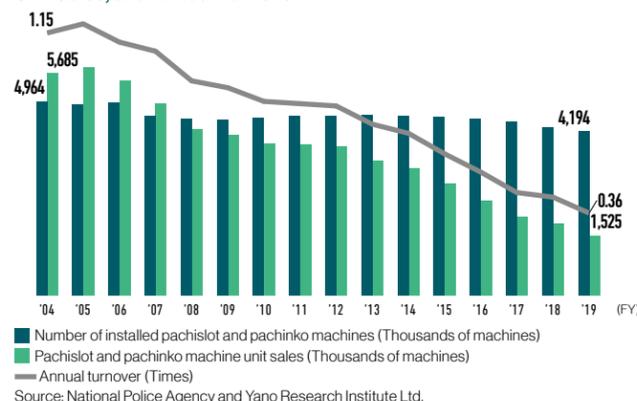
Market Size and Number of Pachislot and Pachinko Players



Numbers of Pachinko Halls and Installed Pachislot and Pachinko Machines per Pachinko Hall

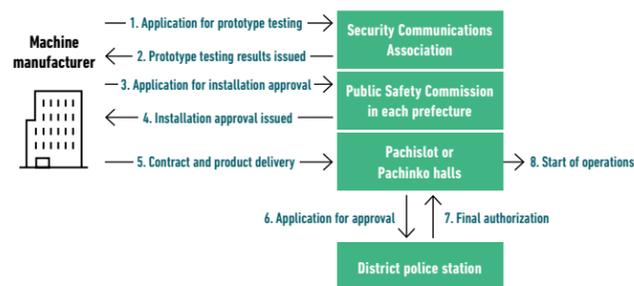


Pachislot and Pachinko Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



Pachislot and Pachinko Machine Approval Process

When marketing a new Pachislot or Pachinko machine, manufacturers are required to go through a multiple step licensing processes in accordance with the Entertainment Establishments Control Law.



For more information on market data, see pages 81-82

## Anticipated Opportunities and Risks

### Opportunities

**Possibility of expanding user base**  
As the scope of development has expanded due to changes in regulations, machines conforming to the new regulation may expand the user base.

**Phasing out of machines conforming to the previous regulation**  
Along with transition to machines conforming to the new regulation, the phasing out of machines conforming to the previous regulation is planned based on the removal deadline.

### Risks

**Decline in the player population**  
The decline in the player population may undermine the purchasing power of hall operators and affect unit sales volume.

**Risk of approval status**  
The approval rate\*, which has remained at a low level due to the recent revision of regulations, may have a significant impact on sales.  
\* The rate of obtaining successful prototype testing results in the Pachislot or Pachinko machines licensing process

## Responses

### Cost reduction

- Promotion of reuse
- Building an industry platform

### Gaining approval

- Application for multiple specifications
- Application via multiple brands

### Expanding the user base

- Development of pachislot and pachinko machines that reflect market trends
- BtoC strategy

# Maximizing Our Strengths



## Business Overview

### A powerful IP lineup and strong development capabilities

SAMMY has an IP lineup that boasts strong brand awareness, led by titles in the popular *Hokuto No Ken* series.



### Owns multiple well-performing series

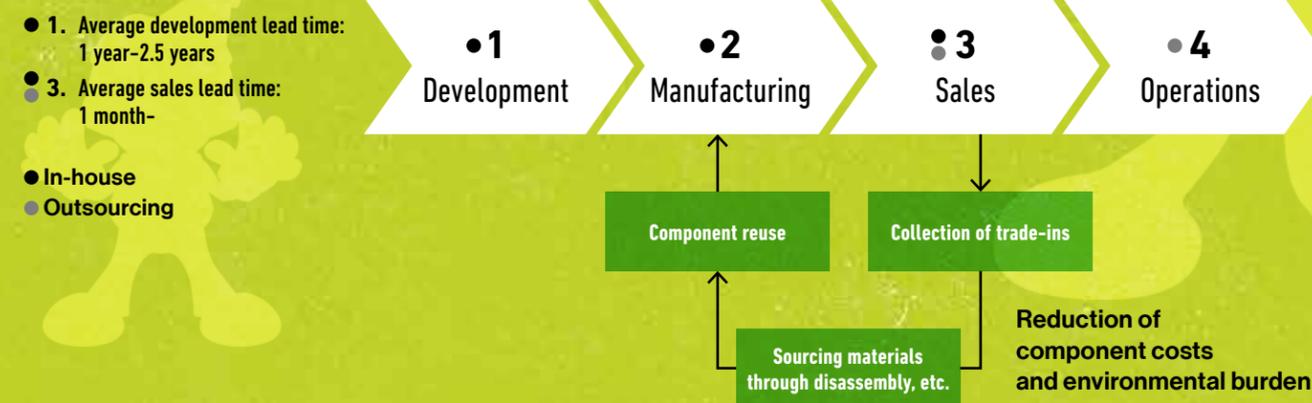
Series	Number of titles in series	Cumulative unit sales	Series	Number of titles in series	Cumulative unit sales
<i>Hokuto no Ken</i>	34	2.97 million units	<i>Shin Hokuto Muso</i>	5	160,000 units
<i>ALADDIN</i>	14	560,000 units	<i>Eureka Seven</i>	4	150,000 units
<i>Beast King</i>	15	510,000 units	<i>Bakemonogatari / Nisemonogatari</i>	10	140,000 units
<i>SOUTEN-NO-KEN</i>	13	480,000 units	<i>Code Geass</i>	3	60,000 units

Note: As of March 31, 2020

### Lowering costs and raising profitability

Pachislot and pachinko businesses are characterized by a reliance on electronic components that carry a high cost ratio. The Group is working to boost development efficiency and lower costs, such as through the reuse of materials.

### Value Chain of the Pachislot and Pachinko Machines Business



# Operating Profit Margin Improved

## Outcomes and Achievements

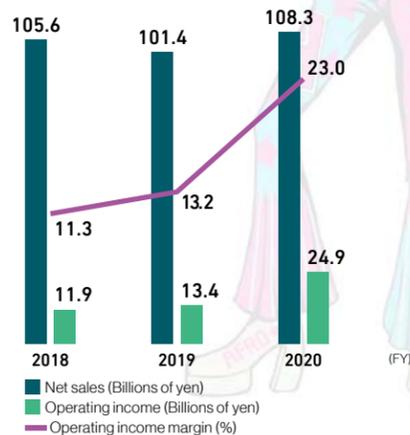
### Achievements in Fiscal Year 2020

The Group sold 123,000 pachislot units, compared with 67,000 units in the previous fiscal year, driven by sales of major titles such as *Pachislot Hokuto No Ken Tenshou*. The Group also sold 104,000 pachinko units, such as *P Hokuto No Ken 8 Haou*, compared with 159,000 units in the previous fiscal year.

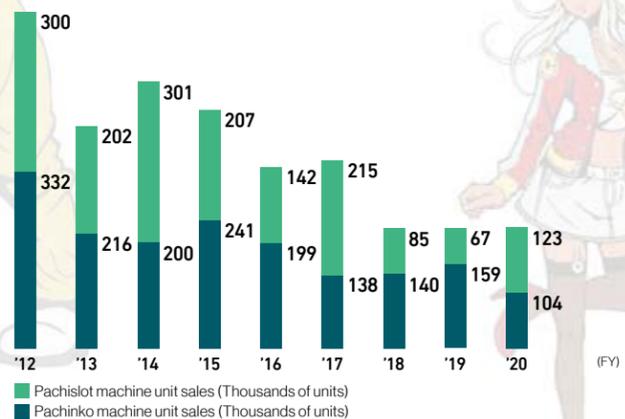
As a result of the above factors, sales were up 7% from the previous fiscal year. The success of measures to enhance profitability under Road to 2020 yielded a significant improvement in the operating income margin over the previous fiscal year, while operating income rose by 85%.



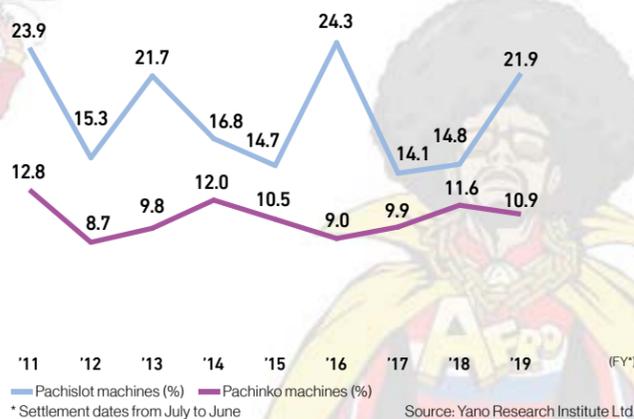
*Pachislot Hokuto No Ken Tenshou*  
©Buronson & Tetsuo Hara/NSP 1983, ©NSP 2007 Approved No.YAF-420 ©Sammy



### Pachislot and Pachinko Machine Unit Sales



### Market Share of Pachislot and Pachinko Machines



### Review of Road to 2020

Reuse and other cost reduction measures led to an improvement in profitability, lifting the operating income margin to 23% for fiscal year 2020. On the other hand, unit sales were lower than expected, reflecting a market-wide downturn in machine sales owing to the 2018 regulatory revisions, well as a significant drop in prototype approvals, which impacted sales schedules. Although the Group was able to enhance profitability in several areas, low prototype approval rates remain an issue to be resolved.

### Targets and Results

FY2020 Plan (announced May 2017) | FY2020 Results

Operating income margin

30%

23%

Achieved

Improved profitability by reducing procurement costs mainly through reuse

Not achieved

Increase in unit sales



©Fukumoto nobuyuki/Koudansha·VAP·MADHOUSE·NTV·D.N.Dream Partners  
©Fukumoto nobuyuki/Koudansha·VAP·NTV  
©Sammy

## Outlook Going Forward

### Fiscal Year 2021 Revised Forecast

COVID-19 caused the temporary closure of pachinko halls throughout Japan. Although the hall operations have been on a recovery trend since the lifting of the country's state of emergency, with the extension of the deadline for removing previous regulation machines, recovery of hall operators' purchasing motivation is likely to take time. As a result, it is likely to be a rough year for manufacturers, with unit sales declining. Based on these assumptions, we anticipate a significant decrease in overall sales paired with an ordinary loss in fiscal year 2021.

### Planned unit sales

- ◆ Year-on-year declines in sales of both pachislot and pachinko machines
- ◆ Marketing of mainstay titles to meet 2020 year-end replacement demand.

	FY2020	FY2021 (Revised forecast)
<b>Pachislot</b>		
Number of titles	5 titles	6 titles
Machine unit sales	123,336	38,300
<b>Pachinko</b>		
Number of titles	7 titles	5 titles
Machine unit sales	104,581	89,200
Sales of boards + frames	33,056	63,500
Sales of frames	71,525	25,700

### Soon-to-be released titles

#### Pachislot

- *Pachislot Shin Hokuto Muso* (July 2020)
- *Pachislot Kaidoumokushiroku kajji numa* (October 2020)
- *Pachislot Seven deadly Sins* (November 2020)
- *Pachislot Initial D* (January 2021)
- and others

#### Pachinko

- *P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO* (August 2020)
- *P ROAD TO EDEN* (September 2020)
- *P BIG DREAM2 GEKISHIN* (November 2020)
- *P Shin Hokuto Muso Chapter 3* (December 2020)
- and others

### Pachislot and Pachinko Machines



©2017 BONES/Project EUREKA MOVIE  
©BANDAI NAMCO Entertainment Inc.  
©Sammy

### FY2020 (Results)

Net sales: ¥108.5 billion (After retroactive adjustments)

Ordinary income: ¥22.7 billion

### FY2021 (Revised forecast)

Net sales: ¥60.0 billion  
Ordinary loss: -¥10.5 billion

Note 1: From fiscal year ended 2021, the Group's gaming equipment segment, which develops and sells casino gaming equipment, was spun off from the Amusement Machine Sales segment of the Entertainment Contents Business to become the Gaming Machine Business area.

Note 2: Operating results for fiscal year 2020 have been retroactively adjusted to reflect the segment reclassification.



*Pachislot Shin Hokuto Muso*  
©Buronson & Tetsuo Hara/NSP 1983, Approved No.KOM-620 ©2010-2013 Koei Tecmo Games Co., Ltd. ©Sammy



*Pachislot Kaidoumokushiroku kajji numa*  
©Fukumoto nobuyuki/Koudansha·VAP·MADHOUSE·NTV·D.N.Dream Partners  
©Fukumoto nobuyuki/Koudansha·VAP·NTV ©Sammy



*P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO*  
©2017 BONES/Project EUREKA MOVIE ©BANDAI NAMCO Entertainment Inc. ©Sammy



*P Shin Hokuto Muso Chapter 3*  
©Buronson & Tetsuo Hara/NSP 1983, Approved No.KOO-411 ©2010-2013 Koei Tecmo Games Co., Ltd. ©Sammy

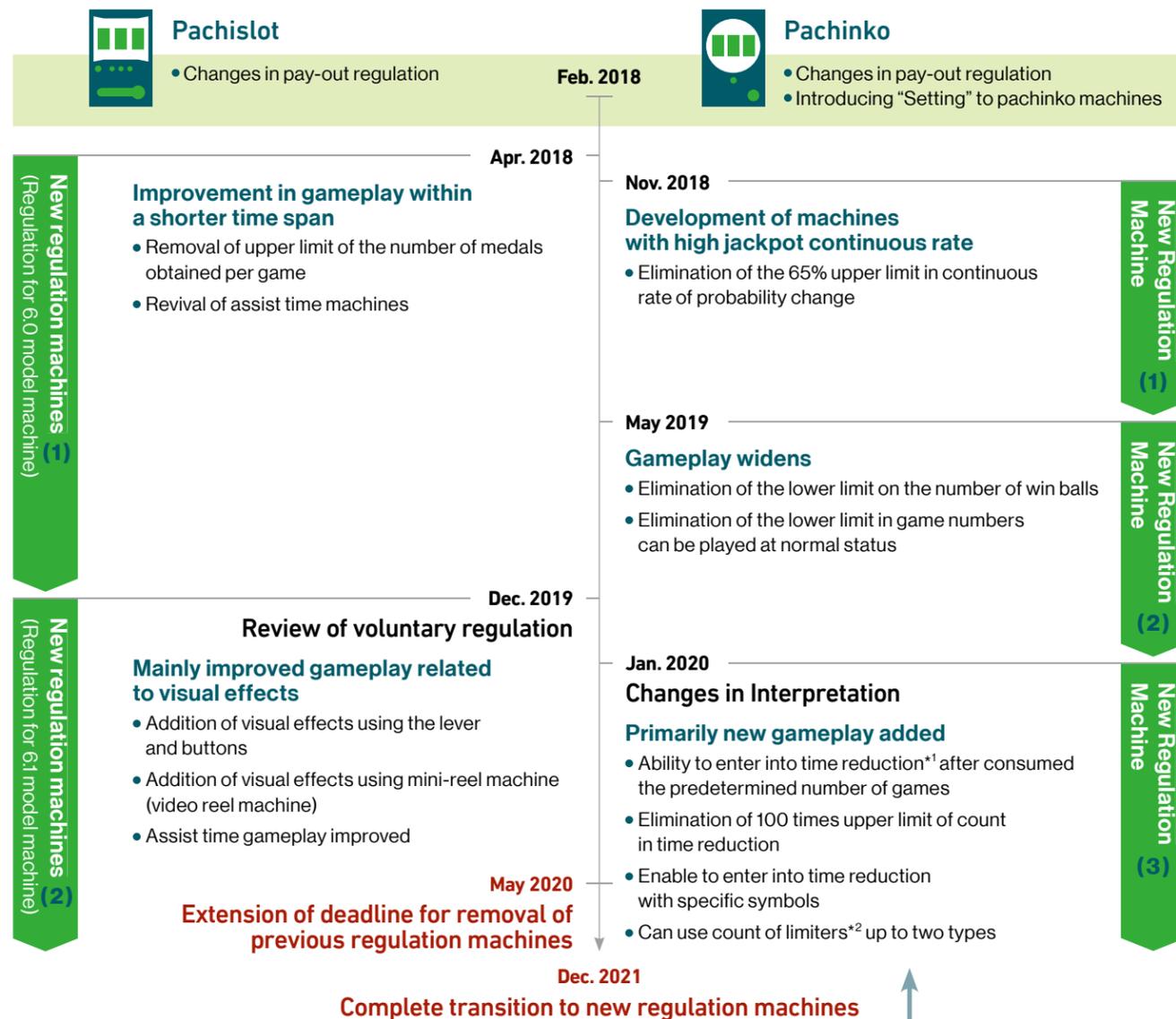
# Regulatory revisions and schedule for removal of machines conforming to the previous regulation

## Overview of machines conforming to the new regulation

Although the February 2018 regulatory revision restricts the gambling aspects of Pachislot and Pachinko machines, it also enables the development of more casual, easy-to-play machines.

Since the changes, the gradual relaxation of voluntary regulations has enabled improvements in gameplay and encouraged the development of machines that can be enjoyed for a shorter time span. The Group will continue striving to create machines that incorporate innovative concepts to build up the population of future users.

## Regulatory revision (February 2018) and relaxation of voluntary regulations



**Introduction of "Yu Time" innovative gameplay**

"Yu Time" is the name of the time reduction\*1 mode a machine enters when a player does not hit the jackpot up to the specified number of times during normal (low probability) play. "Yu Time" activates under certain conditions, and only once, when the number of spins reaches between 2.5x and 3.0x the jackpot probability denominator in normal (low probability) play. The addition of innovative gameplay features not found in previous pachinko machines has made it possible to provide users with a wide range of playing options.

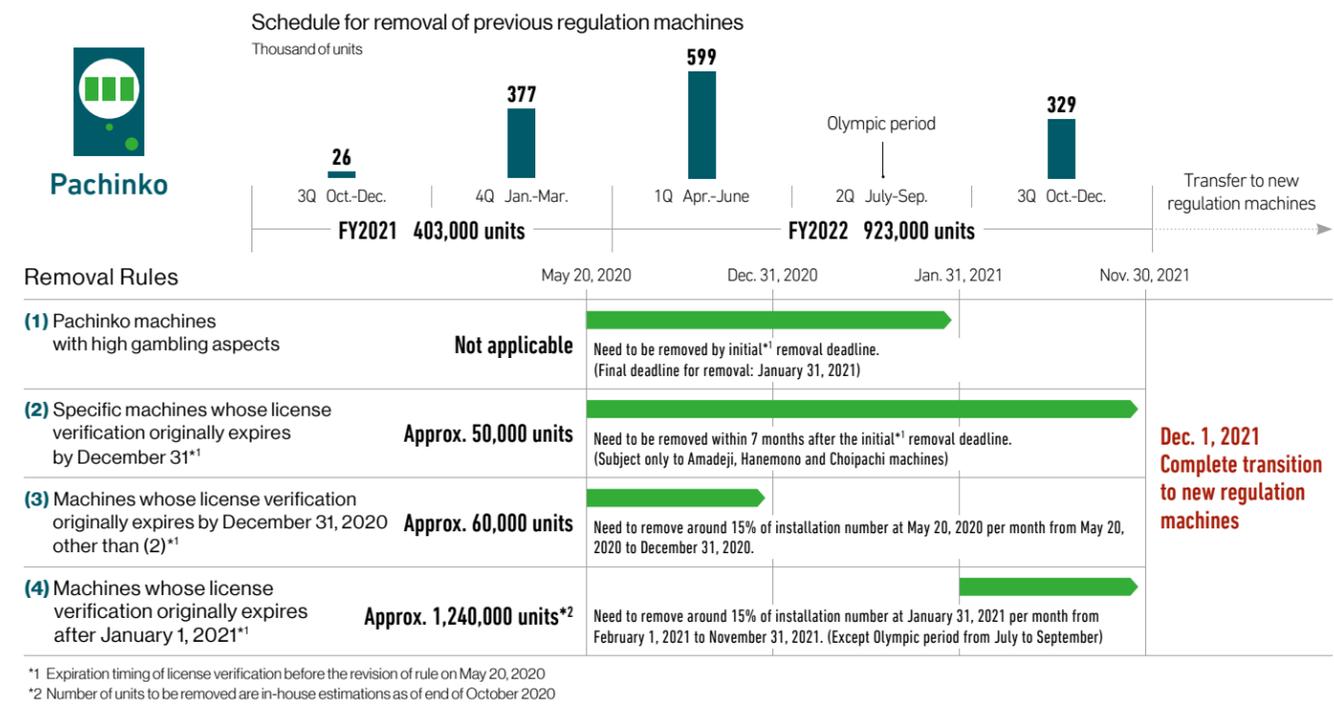
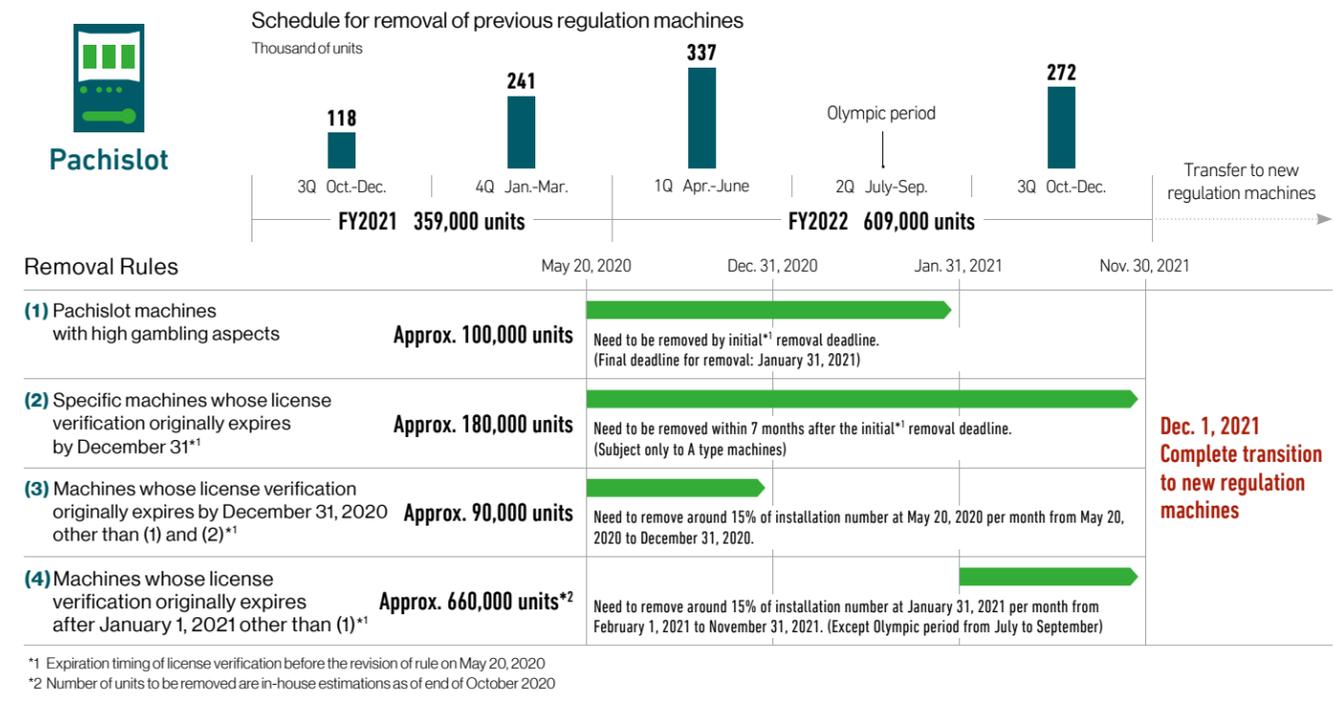
\*1 Time reduction: Function enabling games to be played efficiently without greatly reducing the number of balls.  
 \*2 Limiter: One of the functions in probability change, where the probability change is ended when the predetermined number of jackpot times is used up.

## Change in removal schedule of previous regulation machines due to revision in the Entertainment Establishments Control Law and other regulations

On May 20, 2020, the National Public Safety Commission announced the transition period would be extended by a year due to revisions of enforcement regulations in the Law on Control and Improvement of Amusement and Entertainment Businesses.

In addition, following a resolution by the 21st Century Pachinko and Pachislot Industry Association, previous regulation machines will be phased out, and it is expected that the transition to the new regulations machines will be completed by December 2021.

## Schedule and rules for removal of previous regulation machines



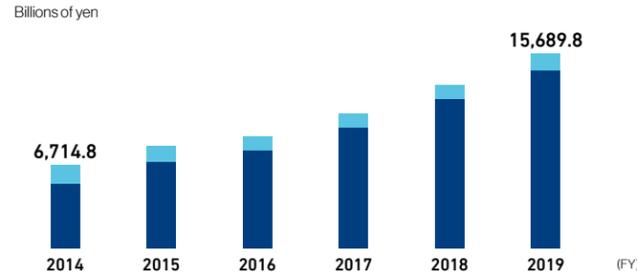
# Entertainment Contents Business

The Group will pursue the expansion of business value by rolling out content globally, leveraging its broad business portfolio and abundant IP assets.

## External Environment

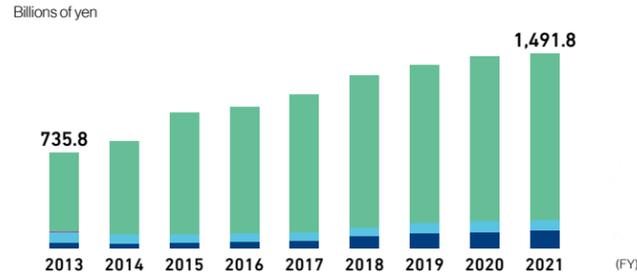
The market for digital distribution games is trending toward expansion owing to the broader dissemination of online distribution and game distribution platforms. Further, Japan's mobile games market is seeing fiercer competition and increased domination by certain titles. The Amusement Machine Sales and Amusement Center Operations areas are facing harsh business conditions under COVID-19.

### Market Size of Packaged Games and Digital Distribution Games



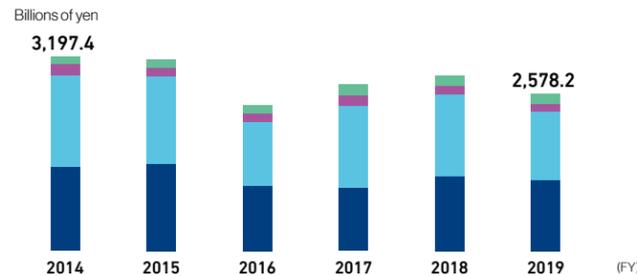
Billions of yen  
 \*1 Total of income from digital distribution of mobile games, PC online games, and home video games  
 \*2 Including income from packaged home video games and packaged PC games  
 Source: Famitsu Game White Paper (2015-2020)

### Domestic Market for Online Game Content



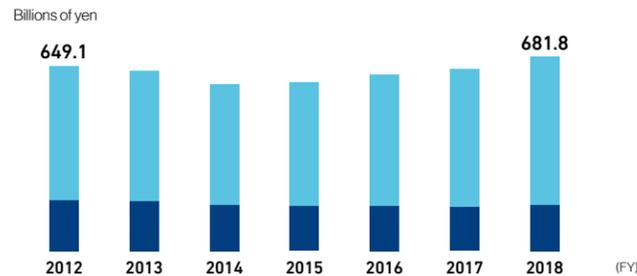
Billions of yen  
 Source: I-sm  
 Forecast

### Total Shipments of Home Video Games



Billions of yen  
 Source: CESA Game White Paper 2020

### Domestic Amusement Machine Sales and Revenues from Amusement Center Operations



Billions of yen  
 Source: Japan Amusement Industry Association

For more information on market data, please see page 81.

## Anticipated Opportunities and Risks

### Opportunities

#### Expansion of the packaged games market

The packaged game market is expanding, supported by growth in the European, North American, and Asian markets.

#### Growth potential of the overseas online games market

The online games market has great potential, particular in overseas, due to the expansion of diverse distribution platforms.

### Risks

#### Intensifying competition in the domestic digital games market

The risk of not being able to realize the expected return on investment is increasing as a result of intensified competition due to a slowdown in market growth and the entrenched market position of top titles. (Digital Games area)

## Responses

### Full games\*1

- Expansion of development studios
- Expansion of overseas publishing business
- Development of titles compatible with multiple platforms, etc.
- Maximize IP asset value

### F2P\*2

- Sustained earnings through long-term operation of existing titles
- Optimization of the number of titles under development and operation
- Reconsidering focus areas

\*1 Mainly disc-based and download sales of full games for home video game consoles and PCs. (Sales of add-on download content are not included.)

\*2 F2P indicates free-to-play basic game contents along with item-based sales, etc. mostly for smartphones and PCs

# Wide-ranging Business Portfolio

## Business Overview

### Ensuring steady earnings through expansion across a range of areas

SEGA SAMMY's Entertainment Contents Business has expanded into various entertainment domains, each of which presents different market growth potential and levels of competition. Leveraging its well-balanced portfolio, the Group is generating stable income without relying excessively on any given IP, title, or business activity.

### Consumer Games

In the full games area, we will promote the global expansion of Group-owned IPs, including existing IPs for PCs in the fast-growing European and North American markets, and increase development efficiency through the effective use of development engines.

In the F2P area, the Group will strive to boost profitability by ensuring stable income through the long-term operation of existing titles and launching new titles based on its IP strategy.



Yakuza: Like a Dragon  
 ©SEGA



PHANTASY STAR ONLINE 2  
 ©SEGA



### Amusement Machine Sales

In addition to shifting development resources to the growing Consumer Games area, the Group is taking steps to improve its return on investment by reducing costs.



StarHorse4  
 ©SEGA

### Animation and Toys

In the Animation area, the Group is working to enhance the profitability of its major IPs—Detective Conan, Anpanman, and Lupin III—while growing the Toys business in terms of mainstay products such as Anpanman.



Detective Conan The Fist of Blue Sapphire  
 ©2019 GOSHIO AOYAMA/DETECTIVE CONAN COMMITTEE. All Rights Reserved.

### Amusement Center Operations

Following a review of its business portfolio, the Group announced the transfer of shares of a subsidiary in the Amusement Center Operations area. (October 2020)



SEGA Ikebukuro GiGO  
 ©SEGA ENTERTAINMENT Co., Ltd.

# Maximizing Our IP Value

## Outcomes and Achievements

### Achievements in Fiscal Year 2020

#### Packaged Games and Digital Games Area (now Consumer Games Area)

In the Packaged Games\* area, the release of several large-scale new titles such as *Total War: THREE KINGDOMS* and *MARIO & SONIC AT THE OLYMPIC GAMES™* led to a significant increase in sales, although costs were also up, reflecting in part the amortization of R&D expenses. Meanwhile, repeat sales of existing titles remained firm.

In the Digital Games\* area, following the recording of impairment losses in the previous fiscal year, costs were down significantly, while profitability saw substantial improvement with the recording of one-time gains associated with the transfer of titles and offering of titles, as well as solid performance of titles in operation.



Total War: THREE KINGDOMS ©SEGA.



©SEGA



#### Amusement Machine Sales Area / Amusement Center Operations Area

In the Amusement Machine Sales area, sales efforts centered on prize game machines and other products, but the effect of poor performance of video games and others led to overall sluggishness. Amusement Center Operations saw a downtrend in customer traffic due to Japan's consumption tax hike and a series of typhoons as well as the impact of COVID-19.

#### Animation and Toys Area

Animation and Toys recorded revenues from movie distribution and video distribution, as well as from sales of new and mainstay toy products.

### Review of Road to 2020

In the Packaged Games\* area, higher sales were driven by the serialization of mainstay IPs and the establishment of sales frameworks in Asia, Europe, and the United States. On the other hand, the lack of hit titles in the Digital Games\* area was an issue. In response, the Group is reconsidering its focus areas, reallocating resources from investments in the mobile games area to games for home video game consoles in growing Asian, European, and North American markets and the PC download area, and focused needed resources on global expansion. We will continue to reassess production quality and expand our multi-platform development to generate global hit titles.

### Targets and Results

FY2020 Targets (announced May 2017) | FY2020 Results

#### Operating income margin

10% **Achieved** → 6% **Not achieved**

**Achieved** Serialize mainstay intellectual property  
Expand sales in Asia, Europe, and North America

**Not achieved** Creation of hit titles in Digital Games area\*

#### Operating income

¥30.0 billion → ¥14.8 billion

### About the Segment Realignment

From the fiscal year ending March 2021, the Packaged Games and Digital Games areas were newly integrated into the Consumer Games area.

## Outlook Going Forward

### Fiscal Year 2021 Revised Forecast

Following a review of the business portfolio, the Group forecasts a reduction in the loss margin due to structural reforms in the Amusement Center Operations area, as well as a significant boost in income in the Consumer Games area attributable to expanding stay-at-home consumption.

#### FY2020 (Results)

Net sales: **¥247.6 billion**  
(After retroactive adjustments)

Ordinary income: **¥16.2 billion**

#### FY2021 (Revised forecast)

Net sales: **¥216.0 billion**

Ordinary income: **¥24.0 billion**

\*1 From the fiscal ending March 2021, the Consumer Games sub-segment was formed through the integration of the Digital Games and Packaged Games areas.  
\*2 From the fiscal year ending March 2021, the Group's gaming equipment segment, which develops and sells casino gaming equipment, was spun off from the Amusement Machine Sales segment of the Entertainment Contents Business area to become the Gaming Machine Business area.  
\*3 Operating results for the fiscal year 2020 have been retroactively adjusted to reflect the segment reclassification.

### Consumer Games

The Group forecasts a significant increase in earnings due to growth in repeat sales, mainly overseas, driven largely by expansion in stay-at-home consumption. Further growth is expected in multiplatform and global gaming markets. In the full games area, the title *Total War Saga: TROY* went on sale in Epic Games stores in August, while in the F2P area, the North American version of *PHANTASY STAR ONLINE 2* continues to perform well.

#### Major Titles Scheduled for Release in fiscal year 2021



Total War Saga: TROY ©SEGA. Developed by The Creative Assembly Limited.



Persona 4 Golden (PC version) ©ATLUS. ©SEGA. All rights reserved.



PHANTASY STAR ONLINE 2 (North American version) ©SEGA

#### FY2020 (Results)

Net sales: **¥125.5 billion**

Ordinary income: **¥14.7 billion**

#### FY2021 (Revised forecast)

Net sales: **¥132.5 billion**

Ordinary income: **¥30.0 billion**



Re:ZERO - Starting Life in Another World - Lost in Memories ©Tappei Nagatsuki/KADOKAWA/Re:ZERO2 PARTNERS ©SEGA

### Amusement Machine Sales / Amusement Center Operations

In the Amusement Machine Sales area, although sales of prize machines and other mainstay products will continue, the Group forecasts a decrease in sales and a greater loss over the previous year.

In line with structural reforms in the Amusement Center Operations area, the Group is planning to record results up to the third quarter.

#### Amusement Machine Sales

##### FY2020 (Results)

Net sales: **¥51.0 billion**

Ordinary income: **-¥0.6 billion**

##### FY2021 (Revised forecast)

Net sales: **¥37.5 billion**

Ordinary income: **-¥2.5 billion**

#### Amusement Center Operations

##### FY2020 (Results)

Net sales: **¥41.9 billion**

Ordinary income: **¥1.4 billion**

##### FY2021 (Revised forecast)

Net sales: **¥20.0 billion**

Ordinary income: **-¥4.5 billion**

### Animation and Toys

In the Animation area, the Group forecasts a fall in distribution income due to the postponement of the theatrical release of *Detective Conan*. Meanwhile, in the Toys area, although sales of mainstay products are planned, decreases in both sales and profit are expected.

#### FY2020 (Results)

Net sales: **¥26.2 billion**

Ordinary income: **¥2.7 billion**

#### FY2021 (Revised forecast)

Net sales: **¥24.0 billion**

Ordinary income: **¥0.9 billion**

\* From the fiscal year ending March 2021, the Packaged Games and Digital Games areas were newly integrated into the Consumer Games area.

# Top management talks about the new Consumer Games area today and in the future



**With a new framework, SEGA will pursue opportunities in growing global markets and deliver experiences that move the heart to people.**

**Yukio Sugino**  
President and COO  
(Representative Director)  
SEGA CORPORATION

## A new framework for creating global titles

In April 2020, SEGA Games Co., Ltd. and SEGA Interactive Co., Ltd. were merged and renamed SEGA CORPORATION, giving us a new framework. First of all, I would like to explain the background to this development.

Under the former framework, in the games area, the two companies mainly specialized in business operations in their respective business areas — SEGA Games in games for home video game consoles, PCs, and smartphones, and SEGA Interactive in gaming machines for amusement facilities. I think one advantage of such specialization is that we could strengthen the earnings structure of the Entertainment Contents Business as a whole by allowing rapid decision-making through the decisive delegation of authority, as well as reinforce our commitment to profitability.

But one downside to seeking maximum specialization was a tendency to pursue short-term results, and after a while it became difficult to take on bold new challenges. Although we were able to consistently generate a certain level of profits, I think our domestic organizations in particular became too focused on the Japanese market, as it offered fairly predictable earnings.

From a longer-term market perspective, the business environment of the games industry is undergoing dynamic

change around the world. In particular, currently, in light of expectations of rapid growth in the market on the back of advances in 5G, cloud, and other technologies, global tech companies with deep pockets are successively getting into the market. Both the business model and the very scale of the games industry is poised to undergo a radical transformation. This year, with several new home-use hardware platforms being introduced for the first time in years, the market going forward is expected to grow significantly. Over the longer term, I think the evolution of technology can't help but reinforce this trend.

In the midst of such drastic changes in the environment, we cannot hope to flourish in this industry if our strategy continues to focus only on the Japanese market, which sooner or later will become increasingly tough—we'll get left behind by the global competition. So, looking ahead to how we can grow the business over the next five, ten, twenty years, we decided to pursue opportunities in the global market by once again combining our dispersed strengths in SEGA CORPORATION. This is what led to the change in framework.

### Bolstering our global framework



## Dramatic growth and structural change in the global games market

Let me say a bit more about the environment for the games industry.

Over the years, the games industry has followed a path laid out by the mainstream hardware of each era, starting from game arcades and moving to home video game consoles, to PCs, and then smartphones, and the market has continued to expand. [\[Please refer to page 38\]](#)

In recent years, as I mentioned earlier, a series of global tech companies with deep pockets have entered the market, and it is expected that the battle for market dominance will intensify down the road. Barriers to gameplay experiences are going to come down even further as cloud-based gaming and subscription-based businesses, which are possible precisely because the tech companies operate large data centers around the world, take root. In the long run, as it becomes possible to target customers in emerging countries who have previously had difficulty accessing games, there will be an explosion in new users, and the gaming population is expected to keep growing.

I also sense that the trends and structure of the global games market are changing in several significant ways.

One trend is that Made in Japan content has come to be broadly accepted and is expanding globally. For example, worldwide sales of titles in the *Persona* and *Ryu ga Gotoku* (*Yakuza* in Western countries) series have grown to reach 1 to 3 million units over the past few years, and are highly acclaimed among overseas users. Of course, in terms of mainstream global genres, the target audience for Japanese games is still somewhat of a niche market—but even a niche market, when extended across a global scale, translates into millions of users. I feel we have a competitive advantage in reaching diverse markets. Also, unlike in the past, with the release of titles across multiple platforms, the

platforms themselves grow and the titles can be rolled out to various regions worldwide. In addition, as digital distribution becomes increasingly common, it is possible to build a long tail type of business model.

Another trend is the change in the ecosystem. Up till now, the major players in the games industry have been the platform providers, content publishers, and end users who play the games. However, the market is experiencing new vitality with the emergence of viewers who enjoy watching other people's gameplay, and communicators who mainly enjoy connecting with others through gaming world venues. The other day, a well-known singer-songwriter in Japan held a virtual concert within an online game, and it was a huge hit. It was an event where you could truly sense the potential for games to become communication tools. E-sports have also become a hot topic in recent years. I see e-sports as a form of promotion that builds excitement for both users and viewers for games. I believe maximizing excitement for all members of the gaming ecosystem in this way will become a key requirement for future hits.

### Global Market Expansion

- Changes in the business environment**
  - 1 | Entry of global tech companies  
Market growth in emerging countries
- Diversification of game genres**
  - 2 | Increasing popularity of Made in Japan content
- Diversification of games industry players**
  - 3 | Changes in the ecosystem  
Development of e-sports, new promotion methods

### Three strategies for future growth: IP growth, user communication, global expansion

From a strategic point of view, we believe there are three key factors that will enable us to pursue even more opportunities in global markets.

#### The first is to increase the value of our intellectual properties (IP).

To effectively pursue opportunities in global markets, we have to develop robust IPs that appeal to global audiences. We are currently reassessing the way titles are managed, and in April 2020, established a Project Management Office to head up these efforts.

The Project Management Office is in charge of the planning and management of potential analysis and market analysis for all our IP holdings, as well as planning of title lineups across the business, resource allocation, and business design.

Until now, each of our studios has focused on delivering the best possible results with the resources at its disposal. As a result, the value of existing flagship IPs such as *Sonic*, *Persona*, *Yakuza*, and *Total War*, which already enjoy worldwide recognition, is increasing daily. Going forward, however, to make even greater inroads into increasingly competitive global markets, we need to enhance our IP value further. The Project Management Office will take on the role of reevaluating the potential of

our IP holdings and coming up with business designs that match each IP, with a view to developing and growing the most robust IP possible.

In expanding our IP, we will pursue the development of major titles in new IP areas, as well as explore ways of increasing the value of our IP through more open collaboration with outside partners, not necessarily drawing only on our own resources.

For example, we expanded the *Sonic* IP in making *Sonic the Hedgehog*, which was co-produced and released with Hollywood's long-standing cinema giant Paramount Studios—it became a huge international hit. This was a prime example of innovation brought about through the fusion of SEGA's *Sonic* IP with Paramount's production and promotion expertise. Moreover, the movie's huge success generated renewed appreciation for SEGA's legacy IP both within the company and without. As global markets expand, and as the entry of overseas tech companies expand the business model, numerous profit opportunities have been born out of a single IP, a single source.

#### The second important factor for future growth is user communication.

As I mentioned earlier, in order to grow robust, popular IPs, it will be even more important in the future to build long-term

relationships through continuous, close communication with the users who are the biggest fans of SEGA's IP.

On the flip side, if we disappoint user expectations, we risk harming the value of the IP itself. We will work to improve user satisfaction by allowing developers to engage more fully with users, and by incorporating feedback gained from interactions with users in development of titles and operation of services.

SEGA has spent years cultivating experience and expertise in sharing excitement with such users, not only through our home video games, PC games, and games for smartphones, but also in the Amusement businesses. We want to incorporate this expertise and leveraging of human resources into the development of new game titles and operation of services.

We believe that accurately grasping user expectations, continuing to surpass them, and continuing to provide high-quality content will lead to success in a global context.

#### The third factor for growth is global expansion.

Our bases in the United States, Canada, the United Kingdom, France, Bulgaria, China, South Korea, Taiwan, and other parts of the world are indispensable for expanding SEGA's IP globally.

The games market is expanding worldwide, and people of various nationalities, generations, and genders are encountering games. As creators, we cannot meet the needs of such diverse users unless we ourselves are also a diverse organization.

SEGA has traditionally had a deep-seated culture of being open and accepting of different ideas and new values without discriminating. One of the advantages SEGA has in reaching into global markets is that our various studios in different parts of the world can each contribute to building a diverse title portfolio by drawing on their unique strengths in developing titles.

In addition, Sega's localization capabilities are one of the reasons why the *Persona* and *Yakuza* series, which I mentioned earlier, have been so well received internationally. SEGA's base in North America has the strongest connection to English-speaking users, is familiar with the market, and has a large number of staff with a solid understanding of Japanese culture. While respecting the unique worldview of Japanese games, they have improved the quality of the games by localizing the titles to best fit user preferences in the various regions. I am personally proud that they are the best team capable of expanding titles created in Japan to global markets.

#### Deploying the right IP on the right platforms



### Leveraging diverse human resources to pursue more global opportunities

Last but not least, we have cultivated a corporate culture of boldly taking on the challenge of innovation without fear of failure. We are now entering the stage of establishing SEGA's strong presence in hotly contested global markets.

Working styles are changing on a global level due to social shifts and the recent pandemic, and we are establishing new styles of communication with overseas bases and business partners. We believe it will be possible to carry forward business design, build partnerships, and expand business development online at speeds that were unheard of in the past, without having to be physically on site.

In the process of taking on new challenges, there may be times when we run into walls or experience setbacks that

we didn't have to face in the past. Even so, we will continue to have confidence in our well-honed sense of what is interesting and engaging, and then strive to make what we create provide a sense of affinity to people.

The SEGA Group celebrated its 60th anniversary in June 2020. From the beginning of the company, we have overcome many challenges to get to where we are now. Our path going forward is sure not to be easy, but at the same time, the possibilities are endless. And ten years down the road, on our 70th anniversary, I hope to show all of our stakeholders a world where SEGA games and services are loved even more widely than they are now.

# Resort Business

To make the Resort Business a pillar of the Group over the medium to long term, we are building up our know-how in the integrated resort business in parallel with strengthening the profitability of existing resort facilities.

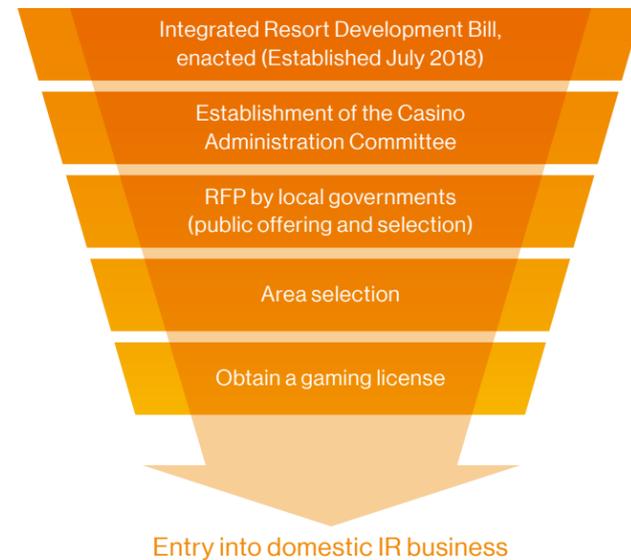
## External Environment

### Concrete moves toward the opening of an integrated resort in Japan.

The Integrated Resort Development Bill, which includes casinos, was enacted in July 2018, and moves toward the establishment of an integrated resort, which the government regards as essential for Japan to become “a tourism-oriented country,” are gaining momentum.

Candidate locations and operators will be selected in the future.

### Process Leading up to Opening of an Integrated Resort (IR) Facility



### Image of the Yokohama Integrated Resort SEGA SAMMY exhibited at the 1st JAPAN IR EXPO in Yokohama held January 29-30, 2020 at PACIFICO Yokohama



# Making the Resort Business a Pillar of the Group

## Business Overview

Through the operation of resort facilities, the Group is working to acquire development and operation expertise for entering the integrated resort field in Japan.

### Japan's leading resort complex, Phoenix Seagaia Resort

Phoenix Seagaia Resort offers Japan's finest resort stays, taking advantage of an ideal environment—three facilities including the *Sheraton Grande Ocean Resort*, a world-class convention center that can hold up to 5,000 people, as well as *Phoenix Country Club*, one of Japan's preeminent golf courses, and a tennis club—all surrounded by a vast, nearly 700-hectare grove of Japanese black pines spreading roughly 11 kilometers north-south along the coast of the Pacific Ocean in Miyazaki Prefecture. By continuously improving the value of the facilities, the Group is working to strengthen its ability to attract customers while accumulating know-how in the operation of resort facilities.



©Phoenix Resort



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### The North Country Golf Club (Chitose, Hokkaido)

As part of its activities to promote sports and contribute to the community of Chitose City, the Company runs *Sega Sammy Cup Golf Tournament* and operates it as a facility for snow activities, *North Snowland in Chitose*, in winter.

### South Korea's first IR facility, PARADISE CITY

PARADISE CITY, operated by PARADISE SEGASAMMY Co., Ltd., a joint venture with the PARADISE GROUP of South Korea, is the first Integrated Resort (IR) facility in South Korea with hotels, casinos, commercial facilities, convention halls, and clubs. We aim to be the top IR facility in Northeast Asia by providing high-quality space and services, and are accumulating development and management know-how with a view to entering the IR business in Japan.

## Anticipated Opportunities and Risks

## Responses

### Opportunities

#### Commercialization of a domestic IR business

If integrated resorts are realized in Japan in the future and our group's entry into the market is realized, there is a strong possibility that this business will become a major revenue source.

### Risks

#### Risks of entering into domestic IR business

Delays in legislation related to integrated resorts will have a major impact on our group's long-term scenario. There is also a risk that investment may not be recovered unless the Company is selected as a business entity.

#### Risks associated with response to addiction issues

Neglecting to respond adequately to addiction issues and other social issues could expose the Group to social criticism or render sustained development of the industry impossible.

### Acquisition of know-how for the success of IR business

- Deployment of personnel to PARADISE CITY
- Development and operation of resort facilities
- Addiction countermeasures
- ➦ For details see page 53.
- Acquired gaming machine manufacturer and distribution licenses in Nevada.
- Formed strategic business alliances with three companies

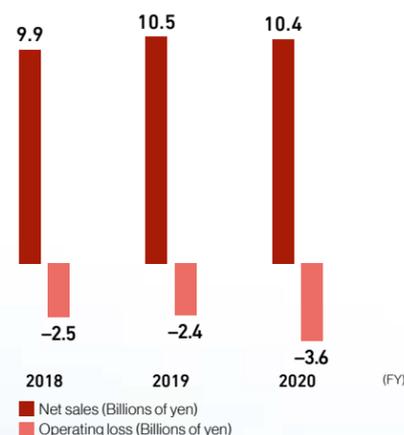
# Building up Our Expertise

## Outcomes and Achievements

### Achievements for Fiscal Year 2020

Phoenix Seagaia Resort took various measures, such as offering special accommodation packages and hosting other 25th anniversary events, to attract customers, mainly from the Kyushu region. Nevertheless, the number of customers dropped off sharply in March due largely to the COVID-19 outbreak, resulting in a full-year visitor increase of only 3.3%. Meanwhile, investments towards the Group's entry into the domestic integrated resort business increased.

Overseas, promotional campaigns primarily targeting Japanese VIP customers yielded higher visitor traffic to *PARADISE CITY*, South Korea's first IR. Through this facility SEGA SAMMY is also gaining valuable developmental and operational know-how towards its entry into the integrated resort business in Japan.



### Review of Road to 2020

Through the operation of resort facilities in Japan and overseas, the Group has been working to accumulate development and operation expertise in preparation for entering the Integrated Resort (IR) business in Japan. The accumulation of expertise is proceeding further with the recent steps include the acquisition of a gaming equipment sales license in Nevada, collaborative research with Kyoto University on gambling addiction, and announcement of several business alliances at the *JAPAN IR EXPO* held in Yokohama.

## Targets and Results

FY2020 Targets (announced May 2017)

FY2020 Results

Acquire expertise for entry into the domestic integrated resort business

Built up expertise in integrated resort development and operation

Achieved

Acquired gaming machine manufacturer and distribution licenses in Nevada

*PARADISE CITY* achieved full-year operating profitability (2019)

Formed strategic business alliances with three companies to enter the IR business.

## Outlook Going Forward

### Revised Forecast for Fiscal Year 2021

Aside from the impact of COVID-19 on the performance of each resort facility, a reduction in sales and a greater loss are expected, attributable to expenses incurred in preparing to enter the domestic IR business.

### Concerning Entry into the Domestic IR business

COVID-19 has caused delays in the process of selecting an operator to enter the Integrated Resort (IR) business in Japan. The Japanese government published its draft IR basic policy in October 2020, at the same time revising the submission period of requests for proposal (RFPs) for IR development.

The Group will continue to carefully monitor the conditions of entry and other factors with the aim of entering the IR business going forward.

FY2020 (Results)

Net sales: ¥10.4 billion  
Ordinary loss: -¥5.3 billion

FY2021 (Revised forecast)

Net sales: ¥6.5 billion  
Ordinary loss: -¥11.0 billion

## Touchstones for Growth

### Participating in the 1st JAPAN IR EXPO in Yokohama

SEGA SAMMY participated in the 1st JAPAN IR EXPO in Yokohama held January 29-30, 2020 at PACIFICO Yokohama.

Roughly 45 companies, including major overseas gaming operators, hoping to win operating rights at the Yamashita Wharf integrated resort, engaged in the trade exhibition. The goal of the exhibition was to advance Japan's burgeoning Integrated Resort (IR) industry. As a prospective IR operator, SEGA SAMMY's active involvement in the exhibition included producing a dynamic booth, as well as Group COO Haruki Satomi giving an operator keynote address. In the address, he conveyed SEGA SAMMY as the viable candidate, guided by the concept of "an IR that can sustainably succeed." SEGA SAMMY's success will prosper alongside local communities, citizens, and businesses, while generating interest in the entire region and launching Yokohama as a "stay destination" for international tourists. From facility development to operations, drawing on the know-how gained from *PARADISE CITY* and its various business units, SEGA SAMMY, as a Japanese firm, is positioned to actualize a uniquely Japanese IR that can offer groundbreaking, experiences that move the heart to visitors from around the world.



## Alliances to ensure Yokohama IR success

Comprehensive Design

### Foster + Partners

Foster + Partners

Partnering for urban development master planning, architectural design, and supervision

- Realizing an environmentally aware, sustainable city
- Developing an urban brand drawing on the essence of a port city

Marketing



Katana Inc.

Partnering for business plan design and construction & business strategy and marketing

- Actualizing a sustainably successful integrated resort
- Customizing a business plan with a systematic "assure-to-win" strategy, consumer-chosen "concept", and conclusive "demand forecast" to ensure feasibility —A "Business plan" that transforms demand forecast into a winning reality

Japanese Culture

京都

吉兆

KYOTO KITCHO

KYOTO KITCHO

Partnering for planning and development of authentic traditional Japanese inn-style dining

- Creating an integrated Japanese cultural experience facility centered on Japanese cuisine
- "Carrying on", "creating" and "disseminating" Japanese culture

# The SEGA SAMMY Group's Value Creation and Materiality

In accordance with our mission of *Constantly Creating, Forever Captivating*, we will work to realize a sustainable society and increase corporate value by responding to society's needs.

To achieve those objectives, we are focusing on creating value through the Group's core businesses and identifying key issues in their operations (materiality). Referencing the Sustainability Accounting Standards Board (SASB) model, an external framework, we have defined materiality for the SEGA SAMMY Group and are working to communicate it across the Group.

## Value Created by Our Businesses

### Value Creation in Core Business

 **Pachislot and Pachinko Machines Business**

Add stimulation to everyday life by providing experiences that move the heart through pachinko and pachislot machines.

 **Entertainment Contents Business**

Add color to life by providing experiences that move the heart through games and other entertainment.

 **Resort Business**

Add relaxation to life by providing experiences that move the heart through resorts.

**“Constantly Creating, Forever Captivating”**

—Making Life More Colorful—

# Realize a Sustainable Society and Increased Corporate Value by Responding to Society's Needs

## Materiality to Be Addressed and Key Categories

### Materiality to Be Addressed

 **Environment**

We design products with a view to lowering the environmental burden of manufacturing processes and enhancing efficiency through recycling and reuse. Further, we are advancing efforts to preserve the environment and reduce power consumption.

 **Addiction**

We are taking steps to tackle and prevent different types of addiction, such as addiction to playing pachinko and pachislot machines; "gaming disorder," which is an addiction to video games that seriously affects health; and gambling addiction, which is strongly related to the integrated resort business.

 **People**

We will strive to create motivating work environments for diverse human resources and build a corporate culture with a high level of creativity. We also aim to make diversity an inherent part of our business, while also ensuring fairness by respecting human rights, prohibiting discrimination of any kind and protecting disadvantaged people.

 **Products and Services**

In order to create experiences that move the heart through entertainment to make life more colorful, we will build development processes that allow us to provide innovative products, continually improve the quality of products and services, and supply products and services that can be enjoyed with safety and confidence.

 **Governance**

We will emphasize corporate governance, including compliance and risk management, strengthen legal compliance frameworks and internal control systems, ensure sound business management, enhance transparency and improve efficiency through rigorous governance management.

### Key Categories

- Reduce Environmental Burden

- Mitigate Addiction

- Enhance Job Satisfaction
- Increase Diversity
- Eliminate Inequality

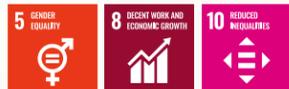
- Develop Innovative Products
- Improve the Quality of Products and Services
- Supply Safe and Trusted Products

- Reinforce Governance

### Related SDGs











## Environment

### Pachislot and Pachinko Machines Business

#### Increasing Reuse to Reduce Environmental Impact and Improve Profitability

The SEGA SAMMY Group is working to reduce environmental impact while also improving profitability in its mainstay Pachislot and Pachinko Machines Business.

To increase the reusability of components in pachislot and pachinko machines, we are working to standardize parts, boards and units, starting at the design and development stage. In 2016, we set a target for the number of reusable components, which was achieved in fiscal year 2019. In fiscal year 2020, we increased the efficiency and quality of reuse activities by switching from smaller components to single units for some parts used in pachinko boards and pachislot LCD screens and reels.

Also, from an environmental standpoint, we increased the recovery rate for used pachislot and pachinko machines to 93% in fiscal year 2020 by adjusting trade-in criteria and buying back used machines.

Meanwhile, we continue to work on reducing the environmental impact of the amusement machine industry in general by cooperating with other manufacturers to create shared component and unit platforms.

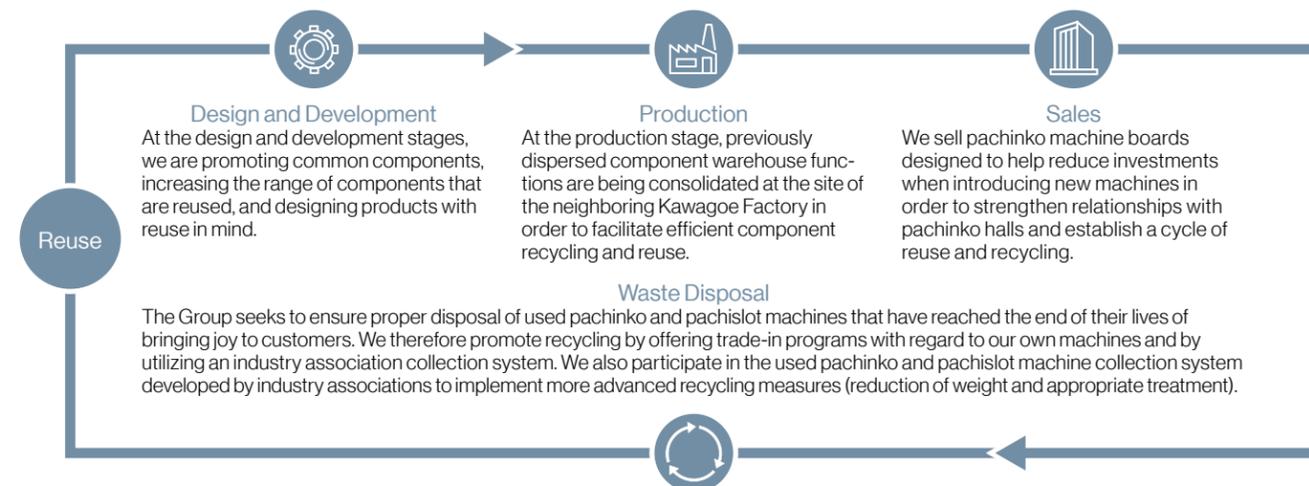
#### Promoting Reuse across the Value Chain

The SEGA SAMMY Group is pursuing optimization in all areas of the pachinko and pachislot machine value chain, including development, manufacturing, and sales. Through these efforts, we aim to reduce environmental impact by cutting back on component use while also promoting the reuse of components, which is supporting an improvement in business profitability.

We are improving the efficiency of reuse activities by expanding the range of reused components and increasing the ratio of standardized parts and materials.

Environmental Indicators at Sammy's Kawagoe Factory  
See page 61 for more details

#### Promotion of Reuse across the Value Chain



## Addiction

### Pachislot and Pachinko Machines Business

#### Countermeasures to Pachinko and Pachislot Addiction

Discussions regarding addiction countermeasures began when the Society for Research on Pachinko Addiction was formed in 2003. The Recovery Support Network (RSN) was established with support from industry groups in 2006 and conducts wide-ranging problem-solving initiatives such as public outreach and telephone counseling.

In December 2018, the Advisory Council on Addiction Countermeasures in the Pachinko and Pachislot Industry was established as a third-party body to evaluate and provide advice on addiction countermeasures, giving the industry access to objective opinions on the issue. Efforts to tackle addiction accelerated in December 2019 with the release of the Basic Guidelines for Addressing Pachinko Addiction and the Basic Guidelines for the Pachinko and Pachislot Industry for Addressing Addiction, which set out policies and specific measures to address addiction. By taking a leading role in these efforts, the SEGA SAMMY Group is contributing to the sound development of the industry.

### Entertainment Contents Business

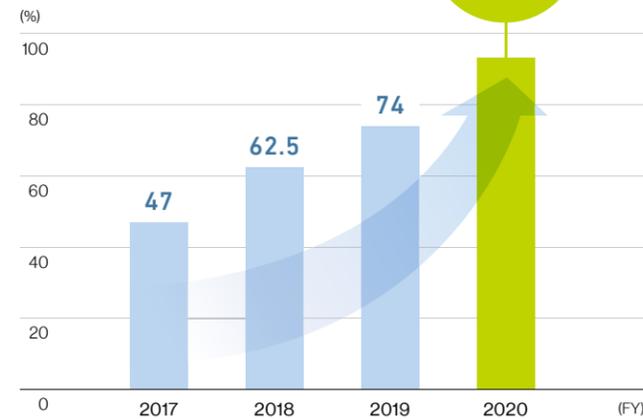
#### Responding to Gaming Addiction

In May 2019, the World Health Assembly of the World Health Organization (WHO) recognized excessive playing of online games and home video games as a new mental disease, referred to as "gaming disorder."

In Japan, four game-related bodies (CESA, JOGA, MCF, and JeSU) have established a joint investigative commission, which has tasked impartial outside experts to conduct research into effective countermeasures based on scientific studies. In September 2020, the team of experts began investigative research into gaming disorder, starting with a benchmarking study to look at appropriate measurement criteria and the characteristics of the disorder to support further research, such as understanding the scale of excessive gaming, its causes and protective factors.

Taking into consideration the issue of excessive game playing and micro-transactions by minors through the Gacha system, which can result in a strong gambling-like experience and high payments, the Entertainment Contents Business is taking measures to prevent excessive payments, such as setting upper limits on monthly micro-transaction payments for certain titles based on age certification, establishing internal guidelines that conform with guidelines stipulated by the Computer Entertainment Supplier's Association,

#### Recovery rate for used pachislot and pachinko machines



#### Number of reusable parts in pachislot and pachinko machines

	FY2019		FY2020	Target*
	(No. of parts)			
Pachinko	Roughly 30	Roughly 40	15 or more	
Pachislot	Roughly 80	Roughly 80	50 or more	

\* Target set in fiscal year 2017

an industry body, and avoiding the use of ambiguous phrasing that can lead to excessive expectations.

#### Schedule for Addiction Research

- September 2020: Implement adult benchmarking study (new research theme)
- Autumn 2020 (planned): Implement child benchmarking study
- September 2020: Conduct interviews with experts on dangerous gaming behaviors
- February 2021: Conduct online survey about dangerous gaming behaviors
- September 2021: Conduct nationwide survey

### Resort Business

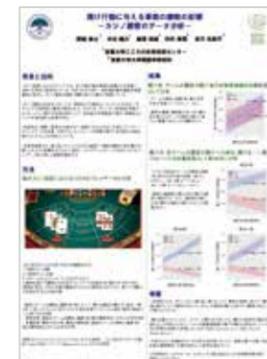
#### Launch of Joint Industry-Academia Research to Support Development and Operation of Safe and Trusted Integrated Resort (IR) Facilities

SEGA SAMMY Group has teamed up with Kyoto University, a national university, to conduct joint research into the processes of gambling addiction\* by collating and analyzing data on the progression of gambling behaviors.

This research aims to identify the precursors of dangerous levels of gambling by gathering and analyzing data from players at overseas casinos, including Japanese players. Drawing on the results of this research, we aim to establish a system that rapidly detects players that are exhibiting signs of addiction and that prevents their behavior from escalating.

In research published so far, data analysis has demonstrated the effect of win-lose perceptions on gambling behavior. We continue to work with Kyoto University on research into identifying the signs of addiction.

\* Research is conducted at the Kokoro Research Center Kyoto University and is scheduled to continue until March 2023.



Effect of Win-Lose Perceptions on Gambling Behavior: Analysis of Casino Customer Data



## People

### Groupwide Topic

Innovation in the SEGA SAMMY Group is derived from the diverse values and capabilities of its human resources. We are implementing systems and creating environments where diverse people can fulfill their potential, and promoting diversity to establish a corporate culture steeped in creativity.

#### Promoting Diversity and Fostering the Source of Innovation

We are promoting better work-life balance to improve employee motivation. In addition to a flextime system that recognizes different workstyles, we have introduced the Job Plus (JOB+) system that allows certain employees to take side jobs. We also offer a telework system that gives employees the option to work outside the office, and we run an onsite SEGA SAMMY Soramori Nursery School for employees with young children. With these systems and options, we have created an environment where our people can work with peace of mind. We are also stepping up activities that promote

diversity to ensure the Group's diverse human resources can fulfill their potential. Specifically, we run seminars and training courses to raise diversity awareness, provide job opportunities to people with disabilities via special subsidiaries, support activities that increase awareness of the LGBT community, and implement measures to promote career opportunities for women.

In human resources development, we are working to raise the skill levels of our employees through the SEGA SAMMY College, a Groupwide training organization that cultivates business leaders imbued with the Group's corporate culture and that instills basic principles in our employees.

#### JOB+

##### Increasing Motivation

- Flextime system
- Job Plus (JOB+) side job system
- Work from home
- Opened the SEGA SAMMY Nursery School

##### Improving Diversity

- Support for LGBT activities
- Promoting career opportunities for women
- Providing job opportunities for people with disabilities

##### Developing Human Resources

- Operating the SEGA SAMMY College



### Promoting Diversity

Harnessing diverse human resources to build a corporate culture steeped in creativity

#### Networking Workshops for Group Company Developers

Since relocating the head office, we have been actively encouraging networking between SEGA CORPORATION and other Group companies.

SEGA runs the technology-focused SEGA Developer Conference, the Arcade Department holds GITEN, an internal research conference on fundamental technologies, and we run various other workshops to share knowledge on AI and automation, as well as the SEGA GAME JAM. Our goal is to harness the combined capabilities of the whole SEGA SAMMY Group by actively encouraging interaction between personnel in Group companies.



## Products and Services

### Pachislot and Pachinko Machines Business

#### Safety and Quality Assurance of Products and Services

In the Pachislot and Pachinko Machines Business, we offer safe, high-quality products and services by actively implementing inventive and effective quality improvement measures. We also take the following actions to eliminate major failures that could compromise safety.

1. Develop quality manuals and manage quality records
2. Verify that the 4M\* system is being properly implemented by suppliers and conduct audits and provide guidance
3. Conduct process audits for production and gaming testing for machines in a high-temperature environment
4. Optimize inspection specifications for movable accessories and evaluate performance with life testing
5. Reinforce collaboration between development, sales, and production departments to improve product quality

\* Man, machine, material, method

#### Quality Assurance Activities (Pachislot and Pachinko Machines Business)



#### Measures Against Illegal Customer Behavior

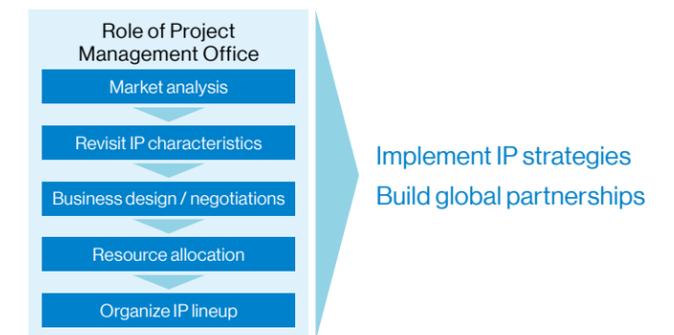
The Revised Amusement Businesses Law Enforcement Ordinance, in effect since July 2004, is primarily intended to control excessive gambling on amusement machines and prevent improper modifications. Adhering to this ordinance, the Pachislot and Pachinko Machines Business has established a special group to collect market information and build amusement machines that are resistant to abuse in order to prevent users from illegally manipulating the machines for illicit benefit. To combat improper modifications, which are becoming increasingly complex, we monitor and manage the distribution of our amusement machines to completely eradicate from the market any machines that have been illegally modified.

Suspicious solicitations for "sakura/uchiko" by people posing as SEGA Sammy Group recruiters, as well as groundless walkthroughs and strategy guides have been circulating in some areas of the market. In response, we are implementing various countermeasures and encouraging caution via the Sammy website and pamphlets.

### Entertainment Contents Business

#### Measures to Develop Global Game Titles

In the Consumer Games area of the Entertainment Contents Business, we established the Project Management Office in April 2020 to lead the development of high-quality content for overseas users to support the Group's growth in the global market. The office is tasked with evaluating the potential of the Group's intellectual property (IP) and analyzing markets. It will also manage the title lineup for the business as a whole, allocate resources and conduct corporate planning such as business design to support the development of SEGA SAMMY content worldwide.



#### Product and Service Labeling

In the Entertainment Contents Business, we label product packaging, user manuals and other tools for home video game software in accordance with the relevant laws and regulations, industry group guidelines and internal rules. By applying clear and appropriate labels, we ensure that customers can use our products and services with confidence.

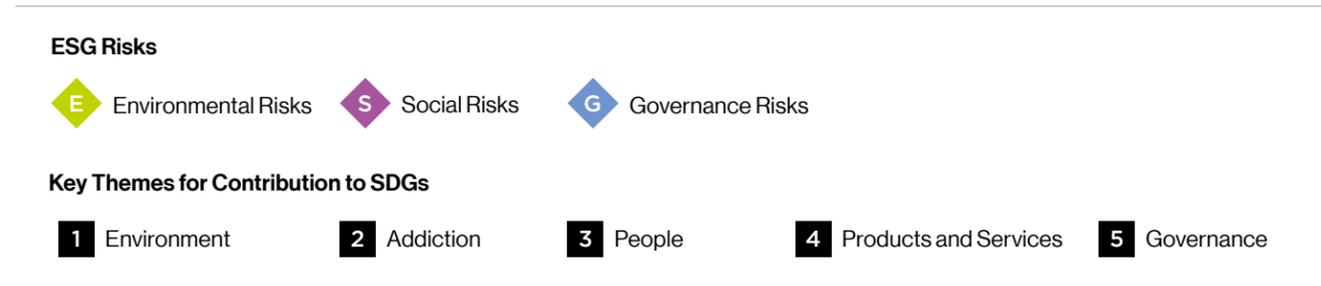
We also clearly specify the range of users for each product and actively address any ethical concerns. We label all our products in line with assessments conducted in countries around the world. In Japan, we indicate the target age group for each game based on the CERO\* ratings system and label products in accordance with our own voluntary standards. Drawing on expertise accumulated through the CERO rating system and previous cases, we have formulated guidelines that cover 9 categories and 26 items.

\*Computer Entertainment Rating Organization

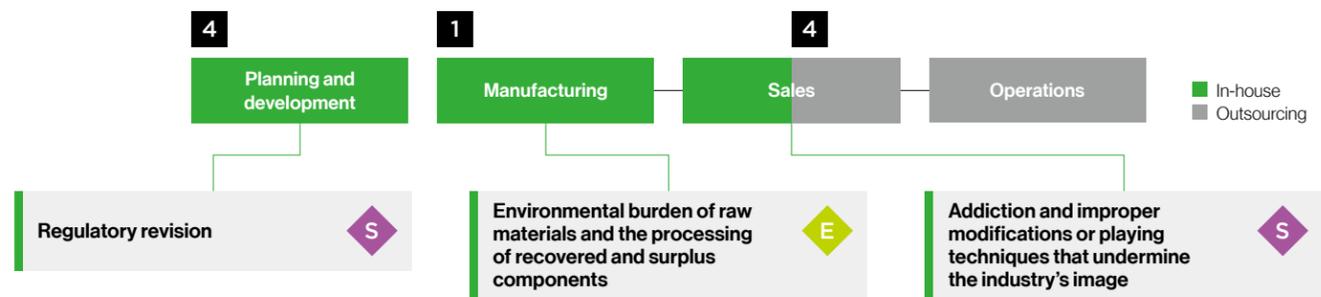


# ESG Risks and Countermeasures in the Value Chain

Recognizing that the various ESG risks faced by different face-to-face markets and business models confront different types of risk, our group has taken steps to address these risks and has identified key themes for contributing to the SDGs.



## Pachislot and Pachinko Machines Business



Before they can be sold, pachislot and pachinko machines must receive approval through prototype testing, which determines whether machines are compliant with the Entertainment Establishments Control Law and other statutory laws and regulations. Therefore, regulatory revision can significantly affect the marketability and unit sales of pachislot and pachinko machines.

**Response** We are taking steps to increase efficiency with the aim of accelerating development so that we can swiftly respond to regulatory revision. In addition, we have to address the risk of a potential drop in the ratio of products receiving approval through prototype testing while also developing models with diverse gameplay that a wide range of customers can enjoy casually. Our goal is to improve the quality of our products, in parallel with efforts to rapidly address changes to regulations.

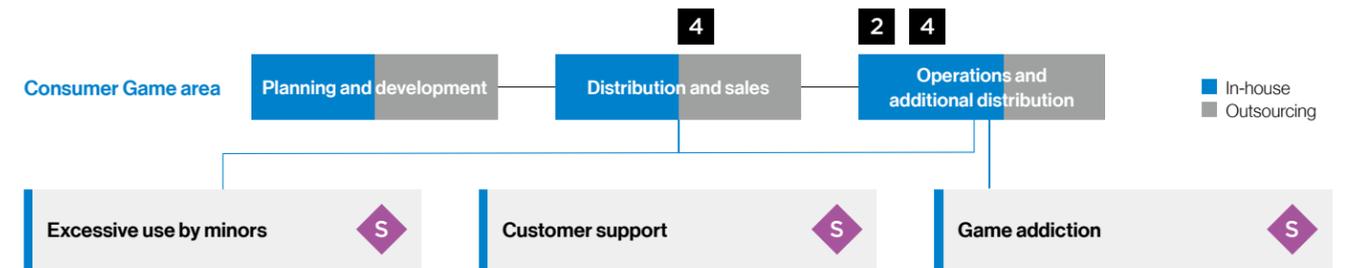
Sammy's manufacturing processes could give rise to surplus electrical components and other components. We use natural resources, such as wood, and materials that could place a burden on the environment, such as adhesives. Also, processing pachinko and pachislot machines at the end of their service lives is an important responsibility.

**Response** We are committed to the "3Rs" (reduce, reuse and recycle) throughout all our business processes. At the design and development stages, we are working to standardize parts and share parts between pachislot and pachinko machines, and we reuse machines removed from pachinko halls. We are promoting the use of water-based adhesives with less environmental impact. Our reuse initiatives are aimed at mitigating environmental impact, but a parallel objective is to improve the profitability of our businesses by increasing efficiency through the use of common parts to reduce procurement costs.

There are concerns that growing public criticism about pachinko and pachislot addiction and the use of improperly modified pachinko and pachislot machines in commercial operations or improper playing techniques could harm the image of the pachinko and pachislot industry, ultimately leading to a contraction in the pachinko and pachislot machine market.

**Response** To support the sustainable development of our industry, we are actively working with industry bodies to control addictive behavior. We also provide backing for recovery support networks and are developing machines with more casual gameplay. In terms of efforts to prevent improper modifications, we coordinate with industry associations in a voluntary drive to collect pachinko and pachislot machines that have been improperly modified. In addition, we have established an office tasked with preventing illegal acts, which gathers market information and contributes to the manufacture of pachinko and pachislot machines that are highly resistant to improper modification. We also take measures to urge caution in relation to strategy guides that are unfounded.

## Entertainment Contents Business



Social problems associated with minors who incur excessive fees when playing games based on the Gacha system, which encourages gambling aspects, are not infrequent. Content vendors are required to take countermeasures for this issue.

**Response** We provide safe and trusted products and services. For certain titles, we have applied age authentication to set upper limits on monthly fees, and we have established and implemented in-house guidelines to avoid the use of vague terms that can give players overly high expectations and to prevent the charging of excessive fees. We also create experiences that move the heart for people worldwide by providing various types of gameplay for diverse users.

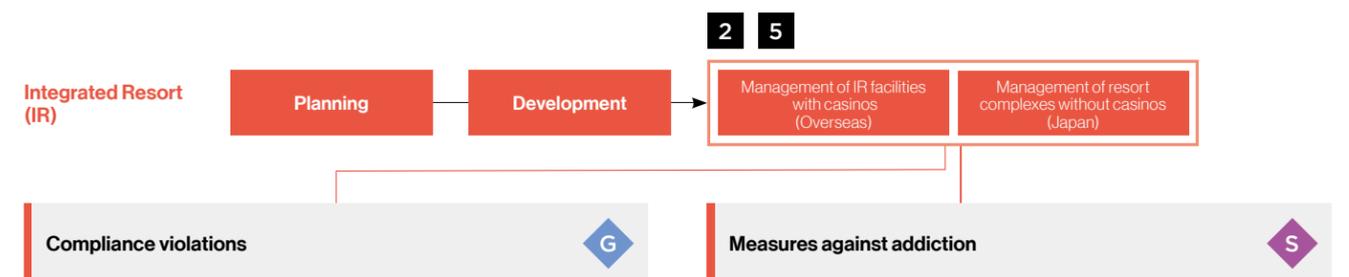
Games create continued contact points between the provider and consumers. Therefore, the provision of ongoing support is necessary. Any shortcomings in such support could harm brands.

**Response** Normally, we respond to customer inquiries through a player support helpdesk. If needed, however, we establish dedicated helpdesks.

The World Health Organization (WHO) has recognized gaming disorder as a mental disease.

**Response** Research has begun by external experts with a fair, neutral, professional background, led by game organizations such as CESA, JOGA, MCF, and JeSU. With the support of the four groups, we have launched a benchmarking study to look at appropriate measurement criteria and the characteristics of game addiction to support further research, such as understanding the scale of problem gaming, its causes and protective factors.

## Resort Business



Any litigation filed against us or any penalties incurred from regulatory authorities for violations of laws or ordinances may undermine our brand image and possibly affect our participation in domestic integrated resort operations.

**Response** Under the Group Compliance Liaison Committee, we are working to build a corporate structure that fosters the development of sound corporate management in observance of laws, ordinances, and societal norms.

Lack of responsiveness to social demands for measures against gambling addiction could invite public backlash and jeopardize business continuity.

**Response** Through industry-academia joint research with Kyoto University we are working to develop systematic measures against gambling addiction. By analyzing behavioral data from players showing signs of gambling addiction, we aim to establish a system that rapidly detects addiction and prevents behavior from escalating.

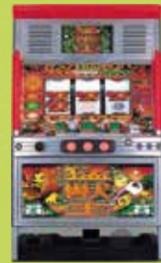
# A History of Experiences That Move the Heart

The SEGA SAMMY Group was formed in October 2004 through the management integration of SEGA, a creator of well-known innovative products, and Sammy, a developer of various industry-first products. Since the management integration, SEGA SAMMY Group companies have continued to offer experiences that move the heart for consumers and create new experiences through the full-scale entry into the Resort Business in 2012 and other initiatives.



ALADDIN  
©Sammy

**1989**  
Launched ALADDIN, the industry's first single-bonus hitter pachislot machine



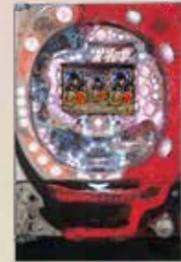
Beast King  
©Sammy

**2001**  
Launched Beast King, a pachislot machine with assist time (AT)



Pachislot Hokuto No Ken  
©Buronson & Tetsuo Hara  
©Sammy

**2003**  
Launched Pachislot Hokuto No Ken, which set an unprecedented sales record unbeaten to this day



Pachinko CR Hokuto No Ken  
©1983 Buronson & Tetsuo Hara  
©NSP2007, Approved No. SAE-307  
©Sammy

**2008**  
Launched Pachinko CR Hokuto No Ken, the Company's best-selling pachinko machine by number of units



Pachislot Psalms of Planets Eureka Seven  
©2005 BONES/Project EUREKA-MBS  
©SAMMY ©2009 NBGI

**2009**  
Launched Pachislot Psalms of Planets Eureka Seven, which introduced new gameplay characteristics into No. 5 models

## 2013

- Launched Pachislot Hokuto No Ken Chapter of Resurrection
- Launched Pachislot Bakemonogatari



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



Pachislot Hokuto No Ken Chapter of Resurrection  
©Buronson & Tetsuo Hara/NSP1983, Approved No.KOU-111  
©2010-2013 Koei Tecmo Games Co., Ltd.  
©Sammy

## 2015

- Launched new series Pachinko CR Shin Hokuto Muso, drawing on the Group's game IP



Pachinko CR Shin Hokuto Muso  
©Buronson & Tetsuo Hara/NSP 1983, Approved No.KOU-111  
©2010-2013 Koei Tecmo Games Co., Ltd.  
©Sammy

## 2019

- Launched Pachislot Hokuto No Ken Tenshou, the first title in the Hokuto No Ken series for No. 6 models



Pachislot Hokuto No Ken Tenshou  
©Buronson & Tetsuo Hara/NSP 1983, ©NSP 2007 Approved No.YAF-420  
©Sammy

## 2012

- Made PHOENIX RESORT CO., LTD., a wholly owned subsidiary
- Established a joint venture with the PARADISE GROUP of South Korea



Phoenix Seagaia Resort  
©Phoenix Resort

## 2017

- Acquired gaming machine manufacture and sales license in the U.S. State of Nevada
- Opened PARADISE CITY, South Korea's first integrated resort



PARADISE CITY  
©PARADISE SEGASAMMY Co., Ltd. All rights reserved.

## 2020

- Announced a partnership with Foster + Partners, Katana Inc., Kyoto Kitcho to enter the domestic integrated resort business

### Foster + Partners



## 1988

Launched the Mega Drive home video game console powered by a high-performance 16-bit CPU



Mega Drive  
©SEGA

## 1993

Started rolling out Virtua Fighter, a 3D computer graphics (CG) fighting game



Virtua Fighter  
©SEGA

## 1998

Launched Dreamcast, the industry's first home video console with internet connectivity



Dreamcast  
©SEGA

### Management Integration 2004

## 2005

- Launched Ryu ga Gotoku, the first title in a blockbuster series of home video games
- Launched the first title in the Sangokushi Taisen series of network-enabled trading card games



Ryu ga Gotoku  
©SEGA



Sangokushi Taisen  
©SEGA

## 2012

- Started distribution of PC online RPG PHANTASY STAR ONLINE 2



PHANTASY STAR ONLINE 2  
©SEGA

## 2013

- Started distribution of smart-phone game Puyo puyo!! Quest and CHAIN CHRONICLE 3



Puyo puyo!! Quest  
©SEGA



CHAIN CHRONICLE 3  
©SEGA

## 2016

- Launched home video console game Persona 5
- Launched PC game Total War: WARHAMMER 2



Persona 5  
©ATLUS, ©SEGA. All rights reserved.



Total War: WARHAMMER 2

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## 2020

- Released the Sonic the Hedgehog movie



Sonic The Hedgehog  
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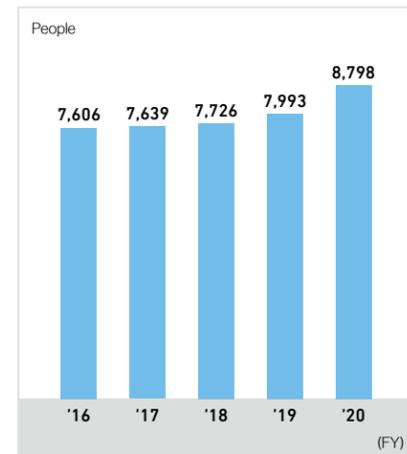


The SEGA SAMMY Group will continue to pursue the creation of experiences that move the heart well into the future



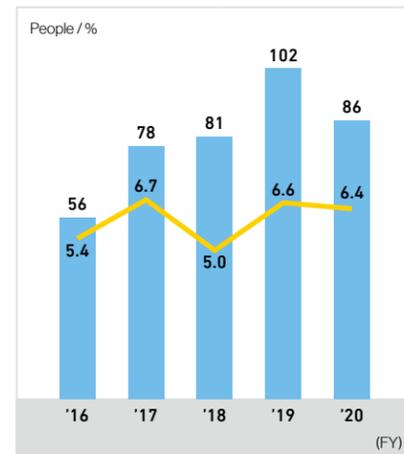
Human Resources Data

Number of Employees



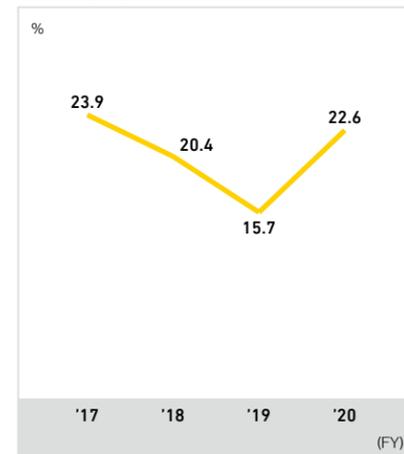
Note: The number of employees increased in fiscal year 2020, mainly due to the transfer of temporary workers in the Entertainment Contents Business to permanent employment contracts.

Number and Percentage of Female Managers

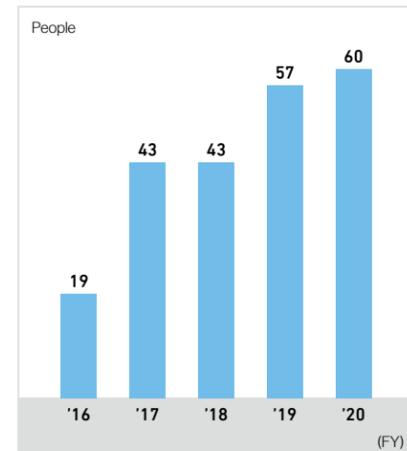


■ Number of female managers  
— Percentage of female managers

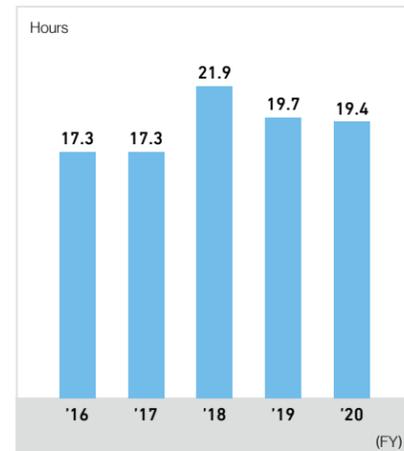
New Employee Turnover Rate



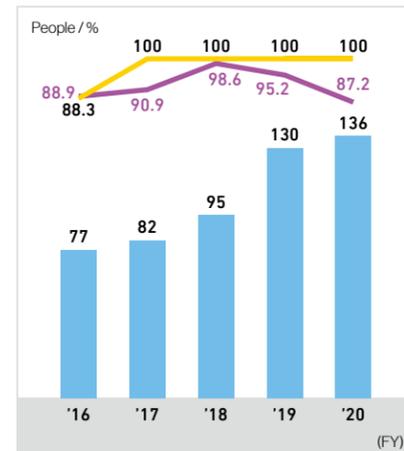
Employees Rehired after Retirement



Average Overtime Hours per Month



Employees Taking Childcare Leave and Percentage of Employees Returning to Work after Childcare Leave



■ Number of employees taking childcare leave  
— Percentage of male employees returning to work after childcare leave  
— Percentage of female employees returning to work after childcare leave

Other Indicators

	2016	2017	2018	2019	2020
Mid-Career Hires (People)	200	212	226	224	193
Hiring of Persons with Disabilities (People)	173	168	205	212	211
Employees Taking Maternity Leave (People)	59	45	55	66	70
Days of Paid Leave Taken (Days)	8.2	8.2	11.5	12.5	14.0
Percentage of Paid Leave Taken* (%)	45.6	46.2	63.7	69.5	75.6
Days of Volunteer Leave Taken (Days)	74	92	70	101	18
Employees Taking Volunteer Leave (People)	35	57	46	42	16

\* Calculated by dividing the number of paid leave days taken by the number of statutory annual paid leave days. Includes statutory annual paid leave days at some Group companies.

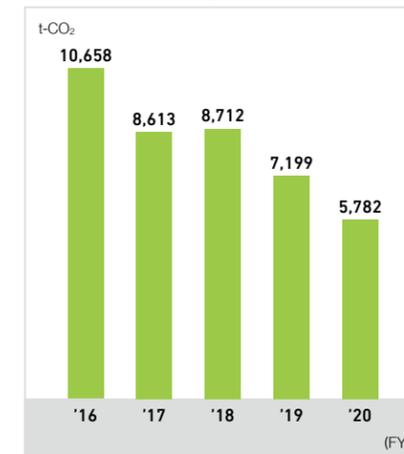
Scope of Data and Aggregation Methods

- Fiscal years 2018 and 2019: 15 domestic companies, 2 overseas companies (employee breakdown only), fiscal year 2020: 13 domestic companies, 2 overseas companies (employee breakdown only)
- Number of Employees, Hiring of Persons with Disabilities, Number of Female Managers/Percentage of Female Managers all as of March 31, 2020



Environmental Data

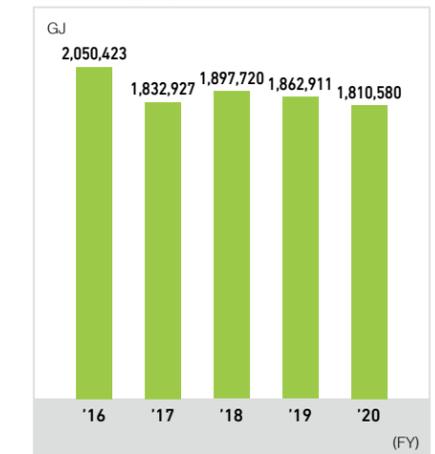
CO<sub>2</sub> Emissions (Scope 1)



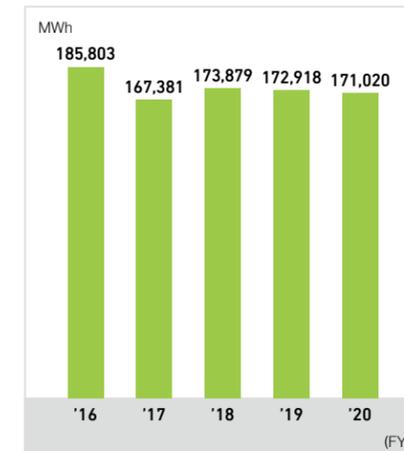
CO<sub>2</sub> Emissions (Scope 2)



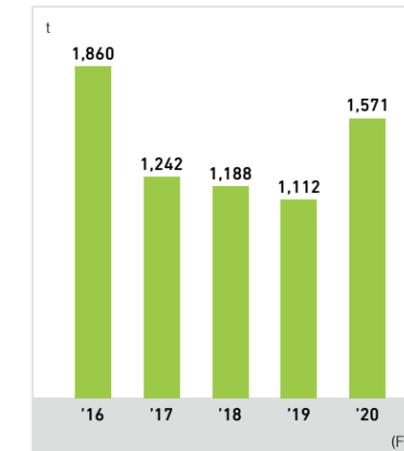
Total Energy Input



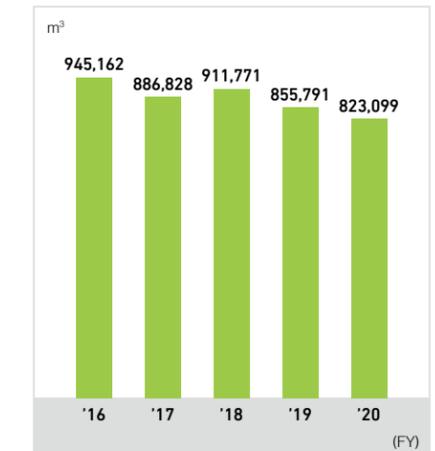
Electricity Usage



Industrial Waste Discharge



Water Usage



Notes 1: Some data estimated based on total floor area  
2: Decline in CO<sub>2</sub> emissions mainly reflects reductions in the use of fuel and electricity  
3: Coefficient for CO<sub>2</sub> emissions from purchased electricity: Adjusted emission coefficients for each electricity provider for the fiscal year prior to each reporting fiscal year

Number of violations of environmental laws and regulations

	2018	2019	2020
Number of violations	0	0	0

Environmental Indicators at Sammy's Kawagoe Factory

	2018	2019	2020
Pachinko and pachislot machine recycle rate (total for pachinko and pachislot machines)	95.99	95.00	95.40
Use of environment-friendly raw materials	566	370	215
Of which, PEFC-certified wood*	38t (6.8%)	51t (13.8%)	7t (3.3%)

\* PEFC-certified wood: This refers to wood certified by the Programme for the Endorsement of Forest Certification. This wood is appropriately procured from forests that have received third-party certification as sustainably managed forests. The use of PEFC-certified wood has declined due to a drop in the volume of products that include wood components.  
Note: Adhesives, including water-based adhesives, are not used at the Kawagoe Factory.

Scope of Data 14 companies

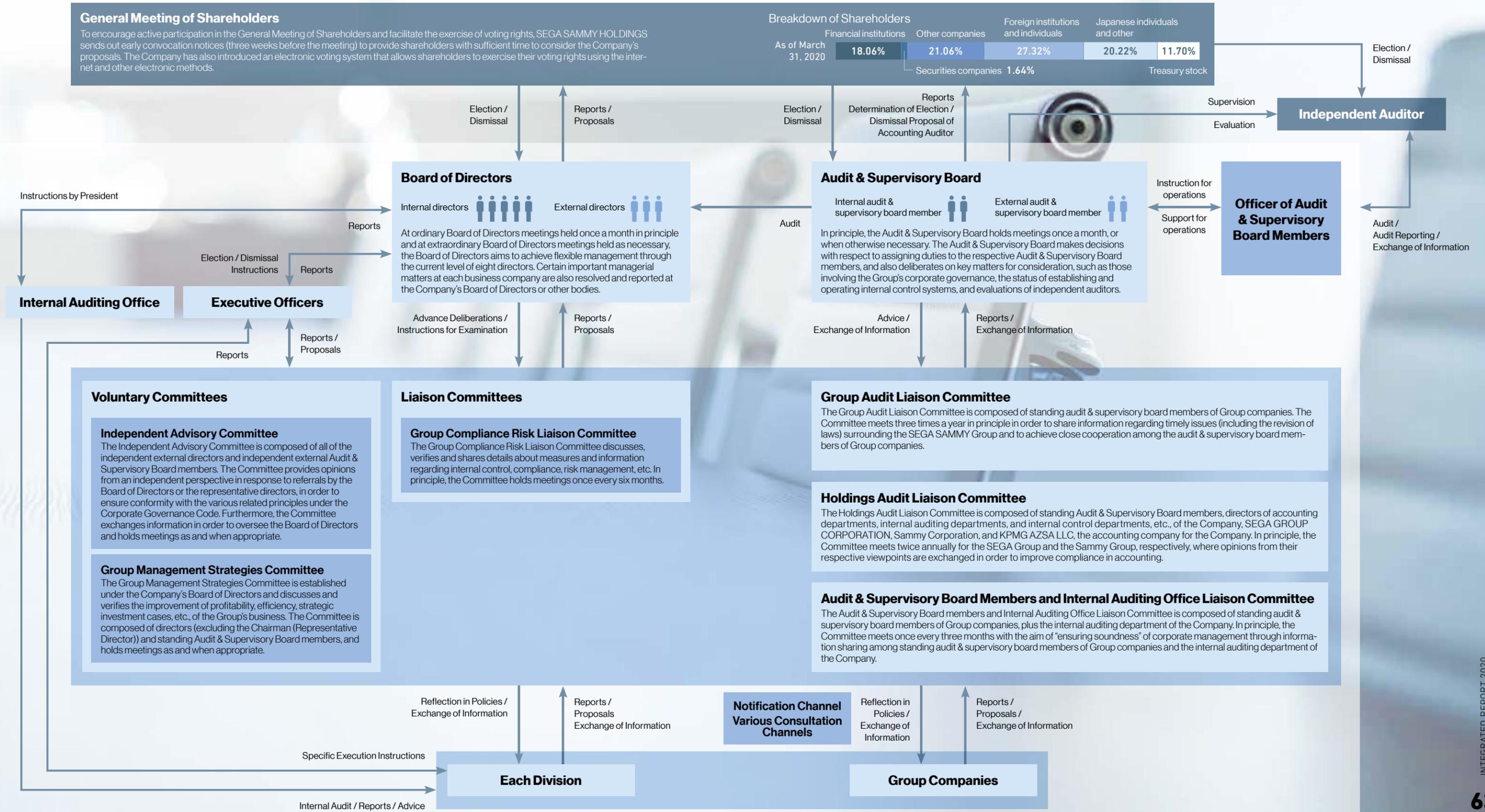
- SEGA SAMMY HOLDINGS INC., SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION), Sammy Corporation, Butterfly Corporation, DARTSLIVE Co., Ltd., TAIYO ELEC Co., Ltd., PHOENIX RESORT CO., LTD., SEGA ENTERTAINMENT CO., LTD., SEGA Games Co., Ltd./SEGA Interactive Co., Ltd. (now SEGA CORPORATION), SEGA Logistics Service Co., Ltd., Sammy Networks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT Co., LTD.

## Basic Principles Regarding Corporate Governance

The SEGA SAMMY Group positions corporate governance as the most important foundation for facilitating good corporate behavior. The Group has the aim of "improving efficiency," "securing soundness" and "enhancing transparency" of corporate management as its "basic policy for corporate governance"; based on which the Group has made determinations on important management issues, including appointment of director candidates, determination of directors' compensation, oversight of management, and determination of auditors' compensation.

## Corporate Governance System

The SEGA SAMMY Group has adopted an Audit and Supervisory Board member system to enable directors to make prompt, optimal decisions amid volatile business conditions, based on their wealth of expertise and experience regarding the industry, market trends, products, merchandise, and services. At the same time, we have appointed external directors and strengthened our executive officer system and internal auditing system, thereby reinforcing corporate governance with respect to operational management and oversight. In addition, starting from January 2010, the Company has selected two external Audit & Supervisory Board members as independent directors from the perspective of protecting the interests of ordinary shareholders, in order to further enhance management transparency.



## Basic Principle Regarding Corporate Governance

### Improving Efficiency

By establishing a rapid and appropriate decision-making process and improving the efficiency of corporate management, the Company aims to maximize its corporate value, thereby striving to provide appropriate returns to various stakeholders, including shareholders.

### Securing Soundness

Amid drastic changes in the business environment, in order to maximize corporate value, the SEGA SAMMY Group will accurately identify and manage the various risks facing the Group, and will ensure sound management through the establishment of a system (compliance system) to ensure compliance not only with laws and regulations but also with ethical and social norms.

### Enhancing Transparency

Given the increasing importance of information disclosure for companies, the SEGA SAMMY Group will fulfill its obligations to stakeholders, including shareholders, and will further improve disclosure by proactively engaging in IR activities, thereby aiming to develop highly transparent management of the Group.

## Q What policies and reasons support the selection of external directors and external Audit & Supervisory Board members?

**A** The Company selects external directors from among managers, etc., who are expected to (i) provide advice on how to enhance the corporate value of the SEGA SAMMY Group from external perspectives, and (ii) provide oversight functions over the execution of duties by external directors, based on their deep insight and extensive experience.

The Company has eight directors, three of whom are external directors and two of whom are independent directors\*, as well as four Audit & Supervisory Board members, two of whom are external Audit & Supervisory Board members and independent directors. At the various meetings that they attend, external directors and external Audit & Supervisory Board members provide guidance and advice based on their abundant experience and highly specialized knowledge.

### Selection Policy

The Company selects external directors from among managers, etc., who are expected to (i) provide advice on how to enhance the corporate value of the SEGA SAMMY Group from external perspectives, and (ii) provide oversight functions over the execution of duties by external directors, based on their deep insight and extensive experience. The Company understands that external Audit & Supervisory Board members play an important role in realizing a corporate governance system which improves the neutrality and independence of the auditing system, and thus, selects external Audit & Supervisory Board members who have significant expertise and experience in a wide range of fields, and from whom it is expected that the soundness of the management can be secured by conducting auditing from a neutral and objective standpoint.

## Principles Regarding Independence

The Company determines the independence of external directors and external Audit and Supervisory Board members based on criteria such as "significant business partners" and "large monetary amounts," which are cited in the independence criteria stipulated by the Tokyo Stock Exchange (TSE), with reference to the publicly announced standard model for appointing independent directors and based on said criteria. We deem that persons satisfying the requirements of said criteria do not have conflicts of interest with general shareholders.

### Reasons for Appointment of External Directors

#### Takeshi Natsuno Corporate manager (IT companies, etc.)

To reflect Mr. Natsuno's wealth of experience as a business executive and extensive expertise in the information communication field in the Company's business management

#### Kohei Katsukawa Corporate manager (Financial institutions)

To reflect Mr. Katsukawa's wealth of experience and extensive expertise in the financial field in the Company's business management

#### Melanie Brock Corporate manager (International business)

To reflect Ms. Brock's wealth of experience and extensive expertise as an international business leader, backed by her diverse views and values as a woman and non-Japanese director.

### Reasons for Appointment of External Audit & Supervisory Board Members

#### Mineo Enomoto

To reflect Mr. Enomoto's wealth of experience and extensive expertise as an attorney in the Company's auditing

#### Kazutaka Okubo

To reflect Mr. Okubo's wealth of expertise and extensive experience in auditing work as a certified public accountant in the Company's auditing

\*1 Melanie Brock is deemed to meet the standards for an independent director as she does not infringe the independence criteria determined by the TSE. However, the Company has not submitted Ms. Brock's name as an independent director based on the TSE criteria because she does not meet the Company's internal independence criteria.

## Q What kind of training and support do you provide to directors and Audit & Supervisory Board members?

**A** We run training sessions and external seminars.

At the time they assume office, directors and Audit & Supervisory Board members are provided with opportunities to participate in internal orientation sessions and training sessions with the purpose of acquiring knowledge on the roles and responsibilities expected of directors and Audit & Supervisory Board members of a listed company, as well as knowledge regarding related laws and regulations and compliance. Then, after assuming

office, directors and Audit & Supervisory Board members are continuously provided with further opportunities to acquire and enhance necessary or new knowledge, including participating in training sessions provided by external lecturers such as attorneys and experts in each area, for example, after the conclusion of a Board of Directors meeting.

In addition, the Company encourages each director and Audit & Supervisory Board member to voluntarily improve their skills by participating in external seminars and lectures sponsored by organizations to which the Company belongs, and provides support in paying the necessary expenses.

## Q What is your policy on strategic shareholdings?

**A** Strategic shareholdings are limited to cases that are deemed to provide benefits to all shareholders by increasing corporate value.

The Company holds shares for purposes other than pure investment only in cases where the Company considers that holding the shares will enable a business alliance, the expansion of transactions, etc., and will lead to an improvement in corporate value, thereby benefitting shareholders.

The Company examines the economic rationale, future outlook, etc., for holding the shares on a periodic basis at its Board of Directors meetings, and discusses whether or not it is beneficial to retain the shares.

In general, the Company exercises voting rights of such shares on all proposals based on whether or not

adopting such proposals will contribute to the sustainable growth and medium- to long-term corporate value enhancement of both the Company and the investee.

### Value of strategic shareholdings (excluding non-listed stocks)

(Millions of yen)



## Q What internal control systems related to financial reporting are you creating and maintaining?

**A** We have put in place evaluation and reporting mechanisms that ensure reliable financial reporting.

The Group started the Group Internal Control project during fiscal year 2006, established a scheme for evaluating and reporting of the internal control system required for corporate groups under the system of "Evaluation and Auditing of Internal Control Relating to Financial Reporting" (the Japanese Version of the "SOX Act") as stipulated in the Financial Instruments and Exchange Act, and remedied inadequacies discovered in the course of conducting the evaluation. As a result, efforts for ensuring trust/reliability in financial

reporting have been conducted, thereby resulting in the Company's judgment of having achieved effective internal control relating to the financial reporting of the Group for fiscal year 2020. For the future as well, the Company will strive to ensure continuing trust/reliability in financial reporting, as well as maintaining and developing the internal control system, taking into consideration issues such as improving efficiency and ensuring soundness.

For more details, please see the Corporate Governance Report on our corporate website.  
[https://www.segasammy.co.jp/english/media/file/pr/corp/governance/2020\\_Corporate\\_Governance\\_Report\\_E.pdf](https://www.segasammy.co.jp/english/media/file/pr/corp/governance/2020_Corporate_Governance_Report_E.pdf)

**Q What steps you are taking to assess the effectiveness of the Board of Directors?**

**A** The Company aims to further improve the effectiveness of the Board of Directors by enhancing the Board's capabilities.

The Independent Advisory Committee analyzes and assesses the Board of Directors as a whole with respect to its size, composition, management methods, deliberations, and support systems, as well as other matters that are important for the effective performance of roles and duties by the Board of Directors.

In fiscal year 2020, each director responded to a questionnaire. Based on the responses, the Independent Advisory Committee conducted an assessment

Board of Directors	Meeting Attendance	Main Activities
Board of Directors convened	12 times	
<b>External directors</b>		
Takeshi Natsuno	Attended 12 of 12 meetings	Mr. Natsuno principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
Kohei Katsukawa	Attended 11 of 12 meetings	Mr. Katsukawa principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
Melanie Brock	Attended 10 of 10 meetings	Ms. Brock principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
(External directors' attendance)	98%	
<b>External Audit &amp; Supervisory Board members</b>		
Mineo Enomoto	Attended 12 of 12 meetings	Mr. Enomoto principally provided opinions based on his professional insight as an attorney, provided expert opinions on business management, and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
Kazutaka Okubo	Attended 10 of 10 meetings	Mr. Okubo principally provided specialist opinions about financial accounting and internal control systems and opinions on business management based on his professional insight as a certified public accountant, and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
(External Audit & Supervisory Board members' attendance)	100%	

and reported that the effectiveness of the Company's Board of Directors was being maintained at an ordinary Board of Directors' meeting. The Independent Advisory Committee favorably evaluated measures to encourage in-depth discussions of matters, which included creating opportunities to discuss important matters in advance of Board of Directors' meetings. At the same time, the Committee recommended that (a) thorough feedback be provided with regard to remarks and opinions provided during advance discussions and that (b) explanations of matters already explained prior to Board of Directors' meetings be streamlined to ensure adequate time for deliberation in order to ensure effective management. In light of this effectiveness assessment, the Board of Directors will improve its functions and effectiveness.

**Q Please tell us about the Company's dialogue with shareholders and other investors.**

**A** The Company actively discloses information to help all investors make informed investment decisions.

The Company has defined its basic stance toward information disclosure described in its Investor Relations Policy. Based on this stance, the director in charge of the Finance & Accounting Division, who is also responsible for information management, guides the Investor Relations Department within the Finance & Accounting Division in conducting information disclosure. The disclosure activities of this specialized organization are advanced in accordance with the Financial Instruments and Exchange Act and other laws and ordinances, as well as the Regulations Governing the Timely Disclosure of Corporate Information by Issuer of Listed Securities set forth by the TSE. In addition to information disclosure mandated by laws or the abovementioned timely

disclosure regulations, the Company also conducts proactive voluntary disclosure of information with the potential to significantly influence the decisions of investors.

For institutional investors and analysts, the Company continues to hold results briefings and meetings using telephone and web conferencing systems, despite the COVID-19 pandemic, in order to maintain ongoing levels of dialogue.



Briefing session for individual investors

**Q What amounts of compensation does the Company pay directors and Audit & Supervisory Board members and how is compensation calculated?**

**A** The Company's compensation system for directors and Audit & Supervisory Board members is designed to ensure transparency and provide greater incentive to increase corporate value.

The compensation system for directors (excluding external directors) is determined based on the following basic policy.

- (1) The system must increase management's focus on shareholder interests and sharing value with shareholders.

- (2) The system must clarify the responsibilities of management in improving the corporate value of the Group.
- (3) The system must function as an incentive to support the sustained growth of the Group.
- (4) The system must have remuneration levels for ensuring and maintaining excellent human resources appropriate for executing the roles and responsibilities of directors of the Company.

In addition, based on the basic policy, the compensation system for directors of the Company (excluding external directors) includes fixed compensation and both directors' bonuses and stock compensation with restriction of transfer as performance-based compensation.

**Chairman (Representative Director) and President (Representative Director)**



**Other Directors**



**Fixed compensation**

A compensation table shall be formulated specifying the compensation amounts for each component, namely, basic compensation and role-based compensation, and the Company shall provide the sum of these three components as monthly fixed compensation.

amount of ordinary income, the business plan achievement level, and the year-on-year growth level.

**Stock compensation with restriction of transfer**

The Company has introduced a Stock compensation plan with restriction of transfer for directors (excluding external directors) to incentivize efforts to continuously increase corporate value and to further enhance the sharing of value with all shareholders. Specific payments and allocations are determined by the Board of Directors after taking into account a range of factors, including the individual's contribution to the Group's financial performance in the previous fiscal year.

**Directors' bonuses**

Directors' bonuses are paid at the amount determined by multiplying the above fixed compensation by coefficients calculated based on a bonus table that defines the number of months for directors' bonuses in accordance with the three elements of the level of the

For more details about the Company's compensation system for directors and Audit & Supervisory Board members, please refer to the Annual Securities Report (Japanese only).

[https://www.segasammy.co.jp/japanese/ir/library/pdf/printing\\_yuhou/2020/202003\\_yuho\\_all.pdf](https://www.segasammy.co.jp/japanese/ir/library/pdf/printing_yuhou/2020/202003_yuho_all.pdf)

Compensation of directors and Audit & Supervisory Board members for fiscal year 2020 is as follows.

Position	Number of Directors / Audit & Supervisory Board members	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)			
			Basic compensation	Bonus	Stock with restriction of transfer	
Directors	Internal	6	1,111	606	450	54
	External	4	55	55	—	—
Audit & Supervisory Board members	Internal	1	18	18	—	—
	External	3	20	20	—	—

- (Notes) 1. The total amounts of compensation, etc., for directors (excluding external directors) include planned payments of ¥450 million in director bonuses, as well as up to ¥54 million expensed for the current fiscal year in relation to the grant of stock with restriction of transfer.  
 2. As of the end of fiscal year 2020, there were 10 directors (including four external directors) and four Audit & Supervisory Board members (including two external Audit & Supervisory Board members). These figures differ from the number of individuals mentioned above, since they include one external Audit & Supervisory Board member who resigned at the conclusion of the Ordinary General Meeting of Shareholders held on June 21, 2019. There is also one Audit & Supervisory Board member who serves without compensation.

The directors who received ¥100 million or more in total compensation for fiscal year 2020 is as follows.

Name	Position	Total compensation, etc. (Millions of yen)	Company	Total compensation by type (Millions of yen)		
				Basic compensation	Bonus	Stock with restriction of transfer
Hajime Satomi	Director	536	The Company	276	224	36
Haruki Satomi	Director	292	The Company	156	122	14

**Q** What steps is the Company taking to address material risks across its business?

**A** The Group Compliance Risk Liaison Committee leads the Company's efforts to address risks.

The Group has established the Group Compliance Risk Liaison Committee to discuss, verify and share details about measures and information regarding internal control, compliance, risk management, etc. In

principle, the Committee meets once every six months. The Committee carries out cross-mapping by investigating the level of impact and the possibility of occurrence for latent risks in the Group. The Committee then performs risk evaluation and reports its results, which includes examining appropriate countermeasures for those risks, to the Board of Directors, where those risks are discussed. The risks that have been determined by the Group Compliance Risk Liaison Committee as being particularly significant are described below.

Risk item	Summary	Main measures
Compliance and legal violations	<ul style="list-style-type: none"> <li>• Risks related to obstructions in acquiring integrated resort operating licenses due to compliance and legal violations, and license cancellation by the Nevada State Gaming Commission</li> <li>• Violation of rights of third parties by way of the products or services provided by the Group</li> <li>• Malfunctions of products manufactured by the Group</li> <li>• Risk of damage to brand image due to litigation arising from unexpected complaints from users, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement Group compliance measures through the establishment of a dedicated office</li> <li>• Spread knowledge of the "Corporate Ethics Hotline"</li> <li>• Signed up as registered operator of "Whistleblowing System Certification (System for self-declaration of conformity)" (WCMS Certification)</li> <li>• Activities to prevent involvement with anti-social forces                             <ol style="list-style-type: none"> <li>(1) As Groupwide measures against anti-social forces, each Group company has implemented rules and conducts background checks when entering into transactions</li> <li>(2) Implement background checks when necessary for other existing transactions</li> </ol> </li> </ul>
Disasters	<ul style="list-style-type: none"> <li>• Risks of greater-than-anticipated physical damage or casualties among personnel at the headquarters, operating bases, or manufacturing bases of Group companies or those of the Group's business partners due to large-scale natural disasters – such as earthquakes, fires, or floods – or terrorist attacks.</li> </ul>	<ul style="list-style-type: none"> <li>• Establish crisis management rules, identify inherent risks in business activities, take steps to mitigate risks and prevent crises as a matter of normal practice, as well as establish and maintain systems to respond immediately to major crises</li> </ul>
Management of personal information, etc.	<ul style="list-style-type: none"> <li>• Risk of financial liability or damage to brand image due to external leaks of personal information</li> </ul>	<ul style="list-style-type: none"> <li>• Respond to GDPR (General Data Protection Rules) of the EU</li> <li>• Implement audits of Group companies that have acquired the P mark (privacy certification)</li> </ul>
Information security	<ul style="list-style-type: none"> <li>• External attacks such as hacking</li> <li>• Malfunction and other failure of information system due to computer virus, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement strengthening activities, educational activities and monitoring activities for security governance at each Group company</li> <li>• Implement precautionary measures (surveillance and monitoring) and follow-up measures (incident reporting), and implement vulnerability diagnosis, etc.</li> <li>• Strengthen security surveillance tools</li> </ul>



## External Director Interview

Takeshi Natsuno

**01** COVID-19 has greatly expanded the scope of working from home. Do you sense any changes in terms of the way management thinks about this new way of working?

Managers at many companies, including ours, have dramatically changed how they think about work, and my sense is that this crisis will undoubtedly speed up efforts to reform working styles in Japan. The challenge down the road is to revise how we do employee performance evaluations in line with the new working styles. In other words, we have to build systems that can evaluate work by output. But this can't be done overnight. Middle managers in particular are often under pressure to develop and carry out new evaluation processes, which can be a cause of great distress. To alleviate such distress, it is the role of top management to take initiative in supporting new processes and following up as needed. Just as the productivity of Japanese companies hasn't improved significantly in 20 years, performance evaluation systems have also changed very little. With the impact of COVID-19, companies that are able to reform their performance evaluation processes and those that aren't are sure to show a big difference in growth potential after 5 or 10 years.

**02** As an external director, you help manage several companies at the same time. How do you get enough time to manage the SEGA SAMMY Group?

First of all, let me say I only agreed to take on the external director role because I had sufficient time resources. I attend not only Board meetings but also Group Management Strategies Committee meetings, where the executives are gathered and take part in extended discussions. Also, while of course it is necessary to spend sufficient time for managing, I think substance is even more important than length of time. In that sense, I'm very proud that my experience can be put to good use in the Group's business areas. While holding a position at NTT docomo, I was also on the board of joint ventures with other companies, including Dentsu, Sony, and McDonald's. At one point, I was serving on nearly 10 boards at the same time. Even then, in terms of my criteria for whether or not to accept an offer, I decided I wouldn't agree to join the board of a company that had no connection to my previous work or experience, and where I couldn't make a contribution or provide appropriate advice. In that respect, I'm confident that the Group's business areas can benefit from my prior knowledge as well as my ability as an active CEO to be in touch with the times.

**Q** Please tell us about the Company's role as an asset owner of corporate pension funds.

**A** The Company continuously strengthens related teams and organizations to ensure appropriate asset management.

In order to ensure that pensions and other benefits are provided in the future, the Company and some of its consolidated subsidiaries have established a foundation and set forth rules and regulations, and have managed the pension funds in accordance with the rules and regulations.

Since there is a possibility that the management of the corporate pension funds affects the stable asset buildups of employees and the corporate finances of the SEGA SAMMY Group, the corporate pension division has experts with the necessary experience and qualities for asset management.

In addition, the corporate pension funds are managed under an appropriate system, such as monitoring the state of asset management through regular investment reports made by the fund management agencies.

Generally, I think it's better to some extent for outside directors to hold positions on multiple boards, so that they don't depend on one company alone. I currently serve on the boards of several companies, so I'm not financially dependent on any of them. I'm always prepared to step down, and from time to time I share tough opinions with the executives. Outside directors who don't serve on multiple boards inevitably want to keep their position. I think it's more healthy, in fact, to serve on up to about five boards at the same time.

**03** Please tell us from an outsider's perspective about the challenges you see the SEGA SAMMY Group facing.

The most critical issue in the medium to long term is getting the Integrated Resort (IR) business up and running. In terms of becoming an IR operator in Japan, it is my view that SEGA SAMMY has already gained the necessary expertise in various areas and is prepared well enough internally for what needs to be done. Down the road, however, the situation can totally change due to the influence of government policy and other external factors. We have to be vigilant and ready to take measures when needed.

Another thing is the earnings structure, where the bulk of Group profits still come from the Pachislot and Pachinko Machines Business segment, which is subject to factors in the operating environment such as public image and regulation. How the Group can reduce its overdependence on that segment and build profit drivers in other areas will be an important management issue going forward.

Finally, there's the issue of further growing the Consumer Games area. Currently, despite the fact that the SEGA brand has a high level of global recognition, the Group hasn't been able to fully translate this into better performance compared to industry competitors. COVID-19 has actually been a boon for the overall game sector. I think the Group can use this as an opportunity to set its sights even higher. I also have high expectations for the development capabilities of the overseas studios the Group has acquired.

Going forward, the key will be how well the Group can win over users in the online area and how much new intellectual property it can put out. I've spoken with the COO, Haruki Satomi, about this as well, but I think it's time for an overhaul of



— In the midst of a drastically changing world, building a forceful corporate presence, surmounting adversities, and further honing our unique strengths. —

**Takeshi Natsuno**  
External Director

**05** It has been over five years since SEGA SAMMY announced its entry into the Japanese integrated resort field. What is your assessment of where the Group stands now?

I personally think the Group is in a very good place. CEO Satomi was quite optimistic from the start, but looking at things from the outside, to me there seemed to be an obvious gap in track records compared with the overseas mega-operators, and I was worried whether things would work out. At the moment, however, I think the Group has steadily gained experience to close that gap, and has even reached the point where the Japanese government has signaled its willingness to consider domestic companies as candidates. That's a really solid achievement.

I think a major factor behind this was the decision to take on the challenge of operating *PARADISE CITY*, South Korea's first IR facility. Even after it opened, amid souring Japan-Korea relations and other less-than-favorable business conditions, the Group continues to manage the resort very effectively, and operations on the casino side are doing particularly well. In addition, I think the bold decision from the beginning to send over nearly 50 employees to acquire expertise is the reason SEGA SAMMY has become a front-runner among Japanese IR candidates. There have been various hurdles over the past few years, and at times I've been concerned, but the Group's efforts have steadily begun to bear fruit. The proposed Japanese IR is a national project, which is affected by many external factors including the impact of the COVID-19, but if the project goes ahead as planned, I am positive that SEGA SAMMY will be able to demonstrate its full potential.

the whole way of doing game development. SEGA is a company with a long history and has many excellent, veteran developers. However, precisely because for that reason, it can be hard to raise up young star developers with new ideas. If you look at other companies, rookie developers are creating global hits. I think there's an urgent need to give greater opportunities to new developers, and foster a climate in which they can flourish. Now is the time to do this, while the Group's finances are sound and there's room to take on various new challenges.

**04** Please tell us how you assess Haruki Satomi's performance as COO.

COO Satomi is not only familiar with the predecessor company Sammy Corporation, he also served as a manager on the Sega side when SEGA SAMMY was formed, and has overseas management experience. During that time, he helped carefully resolve various issues that arose from a dispute between the head office and certain overseas

subsidiaries. He has constantly been aware of the need to strengthen global alliances with an eye toward overseas growth. He has also been deeply involved as an executive in the planning and execution of SEGA's online strategies, an area where the company has tended to lag behind. Now, in top management, I think Satomi should use that same resolve to drive change in areas where he senses things are "not right," and pursue his vision of what the company ought to be.

The CEO, Hajime Satomi, excels at the technique of drawing people in and gaining their support for projects he wants to carry forward. That kind of management style and human networking capability really stand out among Japanese companies. On the other hand, the management approach of COO Satomi draws on both logic and a sense of how things work on the ground. This management style is much needed in online business areas and overseas activities. I have high hopes that COO Satomi's abilities and his personality will equip him to pursue global growth and address the challenges facing the entire Group.

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

(As of June 24, 2020)

## Directors



**Hajime Satomi**

Chairman and Group CEO (Representative Director)

- 1980 President (Representative Director) of Sammy Industry Co., Ltd. (now Sammy Corporation)
- 2004 Chairman of the Board (Representative Director) of SEGA CORPORATION  
Chairman of JAMMA (JAPAN AMUSEMENT MACHINERY MANUFACTURERS ASSOCIATION) (now Japan Amusement Industry Association) (current position)  
Chairman and CEO (Representative Director) of Sammy Corporation  
Chairman and CEO (Representative Director) of SEGA CORPORATION  
Chairman, President and CEO (Representative Director) of the Company
- 2007 President, CEO and COO (Representative Director) of SEGA CORPORATION
- 2008 Chairman and CEO (Representative Director) of the above
- 2012 Chairman of the Board of Sammy Corporation
- 2013 Chairman and CEO (Representative Director) of the above
- 2015 Chairman and CEO (Representative Director) of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)  
Advisor to NDK (current position)
- 2016 Chairman, President, CEO and COO (Representative Director) of the Company
- 2017 Chairman and CEO (Representative Director) of the Company  
Chairman of the Board (Representative Director) of Sammy Corporation (current position)  
Honorary Chairman of the Board of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION) (current position)
- 2018 Chairman and Group CEO (Representative Director) of the Company (current position)  
Senior Advisor (Director of the Board) of PHOENIX RESORT CO., LTD. (current position)



**Haruki Satomi**

President and Group COO (Representative Director)

- 2004 Joined Sammy Corporation
- 2005 Joined SEGA CORPORATION
- 2012 Senior Vice President (Director of the Board) of the Company  
Senior Vice President (Director of the Board) of SEGA CORPORATION
- 2014 Director of Sammy Corporation  
Deputy COO (Representative Director) of SEGA CORPORATION
- 2015 Deputy COO (Representative Director) of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)  
Deputy COO (Representative Director) of Sammy Corporation
- 2016 President and COO (Representative Director) of the above  
Chairman of the Board (Representative Director) of Sammy Networks Co., Ltd. (current position)  
Executive Vice President (Director of the Board) of the Company
- 2017 President and COO (Representative Director) of the Company  
President and CEO (Representative Director) of Sammy Corporation (current position)  
Chairman and CEO (Representative Director) of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)  
Chairman and CEO (Representative Director) of SEGA Games Co., Ltd. (now SEGA CORPORATION) (current position)
- 2018 President and Group COO (Representative Director) of the Company (current position)  
Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
- 2020 President and CEO (Representative Director) of SEGA GROUP CORPORATION (current position)



**Hideo Yoshizawa**

Senior Vice President, Director of the Board

- 1987 Joined Japan Leasing Corporation (now Sumitomo Mitsui Finance and Leasing Co., Ltd.)
- 1999 Manager of Financial Planning Department of the above
- 2001 Joined Sammy Corporation
- 2002 Vice President, Executive Officer and Deputy Managing Director of President's Office of the above
- 2004 Senior Vice President (Director of the Board) and Managing Director of Administration Division of the above  
Senior Vice President (Director of the Board) and Managing Director of Corporate Division and President's Office of the above
- 2007 Vice President, Senior Executive Officer of the Company
- 2012 Senior Vice President (Director of the Board) of PHOENIX RESORT CO., LTD.
- 2015 President (Representative Director) of TAIYO ELEC Co., Ltd.
- 2016 Senior Vice President (Director of the Board) of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)  
Senior Vice President (Director of the Board) and Managing Director of Corporate Division of the above  
Senior Vice President (Director of the Board) of SEGA ENTERTAINMENT CO., LTD. (current position)  
Auditor of Sega Amusements Taiwan Ltd.
- 2017 Executive Vice President (Director of the Board) and Managing Director of Corporate Division of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)  
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION) (current position)
- 2018 Vice President, Senior Executive Officer and Managing Director of Legal Division of the Company
- 2019 Director of the Board of the Company
- 2020 Senior Vice President, Director of the Board of the Company (current position)

## External Directors



**Takeshi Natsuno\*1**

Director of the Board (External)

- 1988 Joined TOKYO GAS Co., Ltd.
- 1997 Joined NTT Mobile Communications Network, Inc. (now NTT DOCOMO, Inc.)
- 2005 Executive Officer and General Manager of Multimedia Services Department of the above
- 2008 Guest Professor, Graduate School of Media and Governance of Keio University (current position)  
Director of the Board (External) of the Company (current position)  
Outside Director of transcosmos inc. (current position)
- 2009 Outside Director of DLE, Ltd.  
Outside Director of GREE, Inc. (current position)
- 2010 Outside Director of U-NEXT Co., Ltd. (now USEN-NEXT HOLDINGS Co., Ltd.) (current position)
- 2016 Outside Director of Oracle Corporation Japan (current position)
- 2018 Chairman and Representative Director of MOVIE WALKER Co., Ltd. (current position)  
Director of BOOK WALKER Co., Ltd. (current position)
- 2019 President and Representative Director of DWANGO Co., Ltd. (current position)  
Director, Member of the Board of KADOKAWA CORPORATION (current position)



**Naoya Tsurumi**

Senior Executive Vice President, Director of the Board

- 1992 Joined SEGA Enterprises, Ltd. (now SEGA CORPORATION)
- 2006 Chairman of SEGA of America, Inc.
- 2008 Senior Vice President (Director of the Board) of SEGA CORPORATION
- 2009 Executive Vice President (Director of the Board) of the above
- 2012 President and COO (Representative Director) of the above  
Senior Vice President (Director of the Board) of the Company  
CEO and President of SEGA Holdings Europe Ltd.
- 2014 Senior Executive Vice President (Representative Director) of the Company  
Vice Chairman of the Board of SEGA CORPORATION  
Vice Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
- 2015 Vice Chairman of the Board of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)  
Chairman of the Board of Sega Sammy Golf Entertainment Inc. (current position)
- 2016 Senior Executive Vice President (Director of the Board) of the Company
- 2017 Chairman and Director of CA Sega Joypolis Ltd. (current position)  
Senior Executive Vice President of PARADISE SEGASAMMY Co., Ltd. (current position)
- 2020 Senior Executive Vice President, Director of the Board of the Company (current position)



**Koichi Fukazawa**

Senior Executive Vice President and Group CFO, Director of the Board

- 1990 Joined The Sanwa Bank, Limited (now MUFG Bank, Ltd.)
- 2003 Joined Sammy Corporation  
Vice President, Executive Officer and Managing Director of President's Office of the above
- 2004 Vice President, Executive Officer and Managing Director of President's Office of the Company  
Vice President, Executive Officer and Managing Director of Chairman's Office and President's Office of SEGA CORPORATION
- 2005 Senior Vice President (Director of the Board) and Managing Director of Chairman's Office and President's Office of the above
- 2007 President (Representative Director) of SEGA SAMMY ASSET MANAGEMENT INC. (now MARZA ANIMATION PLANET INC.)  
Vice President, Senior Executive Officer in charge of the Corporate Strategy and External Affairs of the Company
- 2008 Senior Vice President (Director of the Board) and Managing Director of New Business Division of SEGA CORPORATION
- 2009 Officer of Keizai Doyukai (Japan Association of Corporate Executives) (current position)  
President (Representative Director) of SEGASAMMY VISUAL ENTERTAINMENT INC. (now MARZA ANIMATION PLANET INC.)
- 2014 Senior Executive Vice President (Representative Director) of SEGA TOYS CO., LTD.
- 2015 Senior Vice President (Director of the Board) of the Company
- 2016 Executive Vice President and CFO (Director of the Board) of the Company
- 2018 Executive Vice President and Group CFO (Director of the Board) of the Company
- 2020 Senior Executive Vice President and Group CFO, Director of the Board of the Company (current position)



**Kohei Katsukawa\*1**

Director of the Board (External)

- 1974 Joined Sumitomo Bank (now Sumitomo Mitsui Banking Corporation)
- 2001 Executive Officer, Head of Osaka Corporate Banking Division II of Sumitomo Mitsui Banking Corporation
- 2005 Managing Executive Officer, Deputy Head of Wholesale Banking Unit (in charge of East Japan) of the above
- 2007 Executive Vice President and Representative Director of NIF SMBC Ventures Co., Ltd. (now SMBC Venture Capital Co., Ltd.)
- 2010 President and Representative Director of SMBC Venture Capital Co., Ltd.
- 2014 President and Representative Director of GINSEN Co., Ltd.  
Outside Director of Kyoto University Innovation Capital Co., Ltd. (current position)
- 2016 Director of the Board (External) of the Company (current position)  
Special Advisor of GINSEN Co., Ltd. (current position)  
Outside Director of ELECOM CO., LTD. (current position)
- 2017 Director of DX ANTENNA CO., LTD. (current position)



**Melanie Brock\*1**

Director of the Board (External)

- 1987 Earned Bachelor of School of Humanities at The University of Western Australia
- 1990 Earned Master of Arts in Japanese, Conference Interpreting and Translation at The University of Queensland
- 2003 CEO of AGENDA (now Melanie Brock Advisory Ltd.) (current position)
- 2010 Board Member of Australia-Japan Foundation  
Board Member of Australia Japan Business Co-operation Committee (current position)  
Chair of Australian and New Zealand Chamber of Commerce in Japan  
Regional Manager - Japan of Meat & Livestock Australia
- 2012 Chair of Australian Business Asia
- 2016 Chair Emeritus of Australian and New Zealand Chamber of Commerce in Japan (current position)
- 2019 Director of the Board (External) of the Company (current position)  
Board Member of Australia-Japan Research Center (AJRC) (current position)  
Global Ambassador of Advance, an initiative supported by Australian Government funding (current position)

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

# FINANCIALS

## Audit and Supervisory Board Members



**Shigeru Aoki**  
Standing Audit & Supervisory Board Member

2005 Joined SEGA CORPORATION as Head Counselor Vice President, Executive Officer and Managing Director of Office of China and Asia Business Management of the above  
2006 President of Sega Networks (China) Co., Ltd.  
2008 Vice President, Executive Officer and Managing Director of Business Administration Department of Sammy Corporation  
2009 Senior Vice President (Director of the Board) and Managing Director of Corporate Division of the above  
2011 Executive Vice President (Director of the Board) and Managing Director of Corporate Division of the above  
2012 President and COO (Representative Director) of the above  
2013 Senior Vice President (Director of the Board) of the Company  
2016 Vice Chairman of the Board (Representative Director) of Sammy Corporation  
2018 Audit & Supervisory Board Member of Sammy Corporation (current position)  
2019 Audit & Supervisory Board Member of PHOENIX RESORT CO., LTD. (current position)



**Yukito Sakaue**  
Audit & Supervisory Board Member

2003 Joined Sammy Corporation as Director of Audit Office  
2004 Director of Legal Department of Administration Division of the above  
2006 Director of Audit & Supervisory Board Members' Office of the Company  
2014 Audit & Supervisory Board Member of the Company (current position)  
2015 Audit & Supervisory Board Member of SEGA CORPORATION  
2015 Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (now SEGA CORPORATION)  
2015 Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION) (current position)  
2015 Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION) (current position)  
2015 Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD.  
2015 Audit & Supervisory Board Member of SEGA ENTERTAINMENT Co., Ltd. (current position)



**Mineo Enomoto\*2**  
Audit & Supervisory Board Member (External)

1978 Registered with the Japan Federation of Bar Associations  
2000 Established Enomoto Law Office (now Enomoto and Matsui Law Office)  
2004 Audit & Supervisory Board Member of Sammy Networks Co., Ltd.  
2005 Substitute Audit & Supervisory Board Member (External) of the Company  
2006 Outside Audit & Supervisory Board Member of Nippon Koei Co., Ltd.  
2007 Audit & Supervisory Board Member of the Company (current position)  
2014 Outside Audit & Supervisory Board Member of SHIMOUJIMA Co., Ltd. (current position)  
2015 External Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION) (current position)  
2015 Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION) (current position)  
2015 Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (now SEGA CORPORATION)



**Kazutaka Okubo\*2**  
Audit & Supervisory Board Member (External)

1995 Joined Century Audit Corporation (now Ernst & Young ShinNihon LLC)  
1999 Certified Public Accountant registered  
2003 Director of Shinnihon Integrity Assurance, Inc. (now Ernst & Young Shinnihon Sustainability Co., Ltd.)  
2005 Managing Director of the above  
2006 Partner of Ernst & Young ShinNihon (now Ernst & Young ShinNihon LLC)  
2012 Senior Partner of Ernst & Young ShinNihon LLC  
2016 Senior Executive Board Member of Ernst & Young ShinNihon LLC  
2019 Audit & Supervisory Board Member of the Company (current position)  
2019 Outside Director of Sun Frontier Fudousan Co., Ltd. (current position)  
2019 Outside Audit & Supervisory Board Member of BrainPad Inc. (current position)  
2019 Outside Director of LIFULL Co., Ltd. (current position)  
2020 Outside Director of SALA Corporation (current position)  
2020 Outside Director of The Shoko Chukin Bank, Ltd. (current position)

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

## Executive Officers



**Yukio Sugino**  
Executive Vice President, Executive Officer



**Makoto Takahashi**  
Senior Vice President, Executive Officer



**Toru Nakahara**  
Senior Vice President, Executive Officer



**Yoichi Owaki**  
Senior Vice President, Executive Officer



**Shuji Utsumi**  
Senior Vice President, Executive Officer



**Hiroshi Ishikura**  
Vice President, Executive Officer



**Koichi Takahashi**  
Vice President, Executive Officer



**Takaharu Kato**  
Vice President, Executive Officer



**Rei Kudo**  
Vice President, Executive Officer



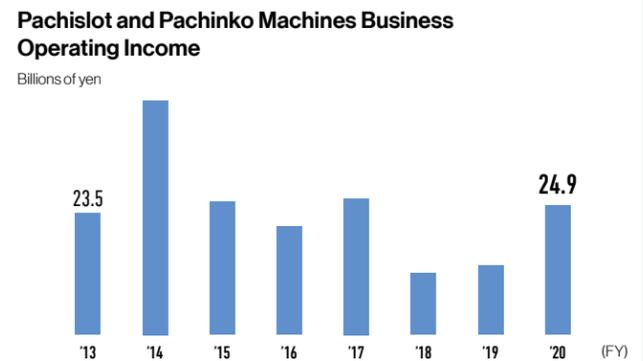
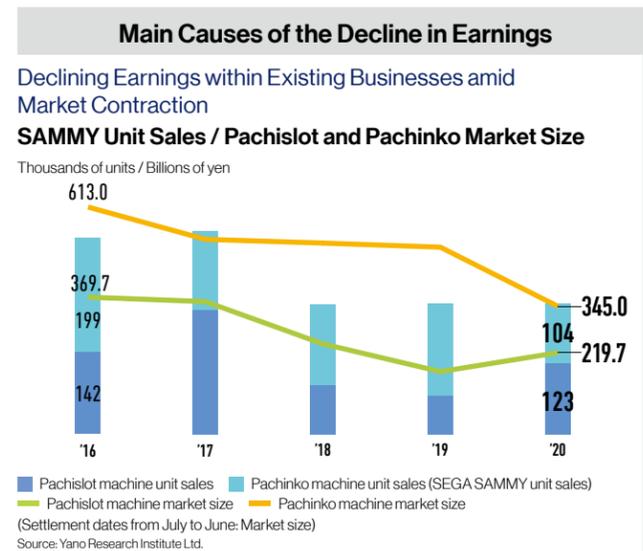
**Hironobu Otsuka**  
Vice President, Executive Officer



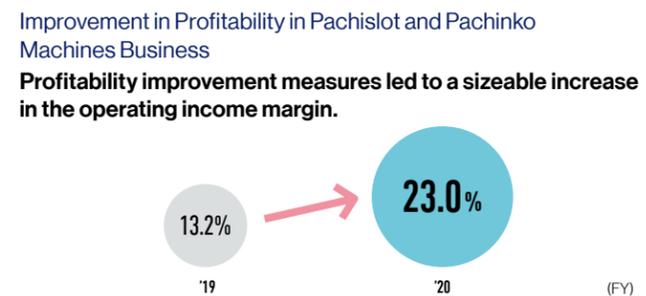
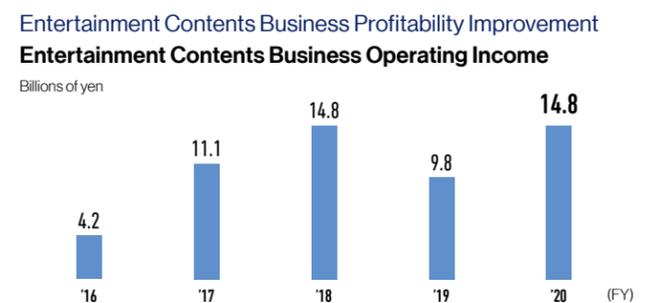
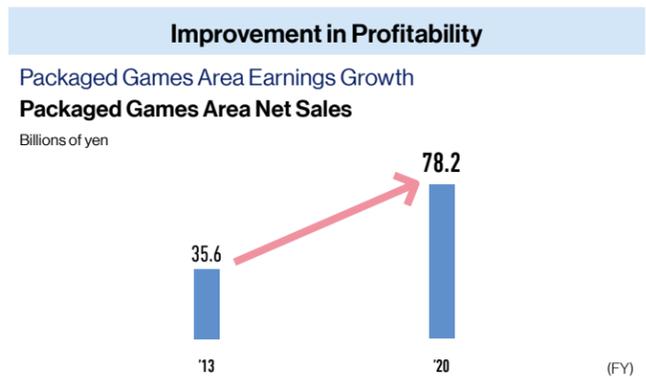
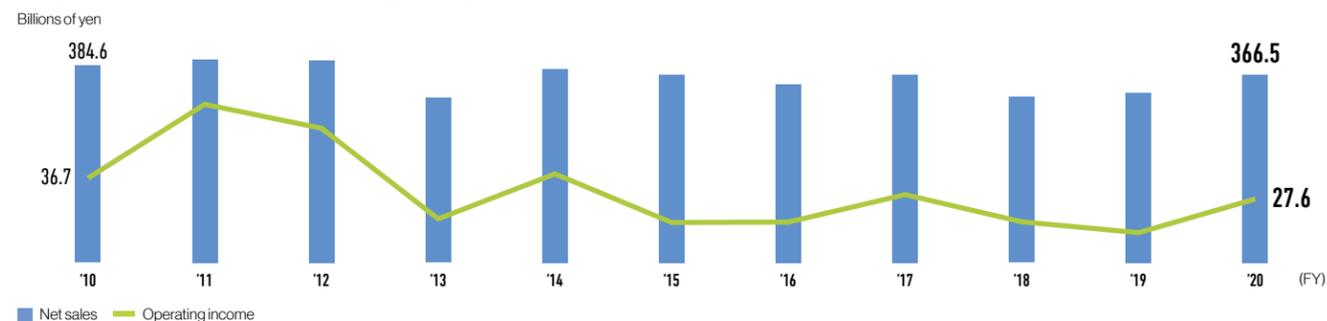
Persona 5 Royal  
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### Long-Term Trends

The principal factors causing the decline in net sales are a decrease in the revenues of the Pachislot and Pachinko Machines Business due to the tightening of regulations and a decrease in sales accompanying a reduction in business scale, which resulted from the structural reform of the existing businesses of SEGA Games (including the closure and disposal of amusement centers in the Amusement Center Operations area). Regarding earnings, structural reforms in fiscal year 2015 improved the profitability of the Entertainment Contents Business, which contributed to earnings and enabled the Company to depart from a downward earnings trend. Although the Digital Games area continues to see intensifying competition, the operating income margin of the Pachislot and Pachinko Machines Business has improved significantly.



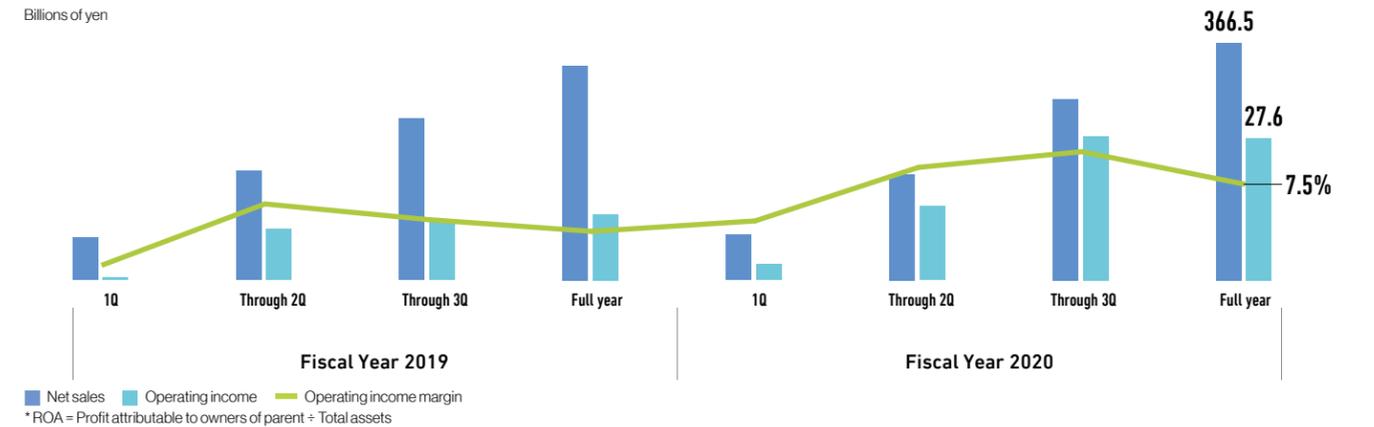
### Long-Term Trends in Net Sales and Operating Income



### Comparing Fiscal Year 2019 and Fiscal Year 2020

(Fiscal Year 2020)

Net sales: **¥366.5 billion**      Operating income: **¥27.6 billion**      Operating income margin: **7.5%**      ROA\*: **3.0%**



### Summary of Consolidated Financial Statements

Billions of yen

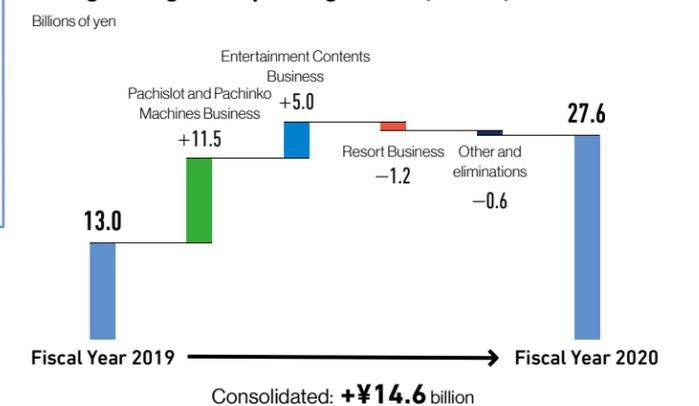
	2019	2020	YoY Change
<b>Net sales</b>	331.6	<b>366.5</b>	+11%
Pachislot and Pachinko Machines Business	101.4	<b>108.3</b>	+7%
Entertainment Contents Business	219.6	<b>247.7</b>	+13%
Resort Business	10.5	<b>10.4</b>	-1%
Cost of sales	211.1	<b>230.0</b>	+9%
Gross profit	120.4	<b>136.5</b>	+13%
Selling, general and administrative (SG&A) expenses	107.3	<b>108.8</b>	+1%
<b>Operating income (losses)</b>	13.0	<b>27.6</b>	+111%
Pachislot and Pachinko Machines Business	13.4	<b>24.9</b>	+85%
Entertainment Contents Business	9.8	<b>14.8</b>	+51%
Resort Business	-2.4	<b>-3.6</b>	-
Other and eliminations	-7.8	<b>-8.4</b>	-
Operating income margin	3.9%	<b>7.5%</b>	+3.6pt
Non-operating income	2.1	<b>3.2</b>	+53%
Non-operating expenses	7.7	<b>5.5</b>	-28%
Ordinary income	7.4	<b>25.2</b>	+238%
Extraordinary income	8.2	<b>3.1</b>	-
Extraordinary losses	8.7	<b>1.2</b>	-
Income before income taxes	6.9	<b>27.1</b>	+288%
Total income taxes	4.2	<b>13.1</b>	-
<b>Profit attributable to owners of parent</b>	2.6	<b>13.7</b>	+421%
Cash dividends per share (Yen)	40	<b>40</b>	-
Net income per share (Yen)	11.27	<b>58.65</b>	-
Net assets per share (Yen)	1,289.32	<b>1,251.02</b>	-

**Net Sales (Pachislot and Pachinko Machines Business)**  
Pachislot unit sales increased in the Pachislot and Pachinko Machines Business.

**Net Sales (Entertainment Contents Business)**  
Performance in the Digital Games area remains solid.

**Total income taxes**  
Due to concerns about COVID-19, the Group reversed approximately ¥7 billion in deferred tax assets and recorded this amount as income taxes-deferred for fiscal year 2020.

### Change in Segment Operating Income (Losses)



## Consolidated Financial Position

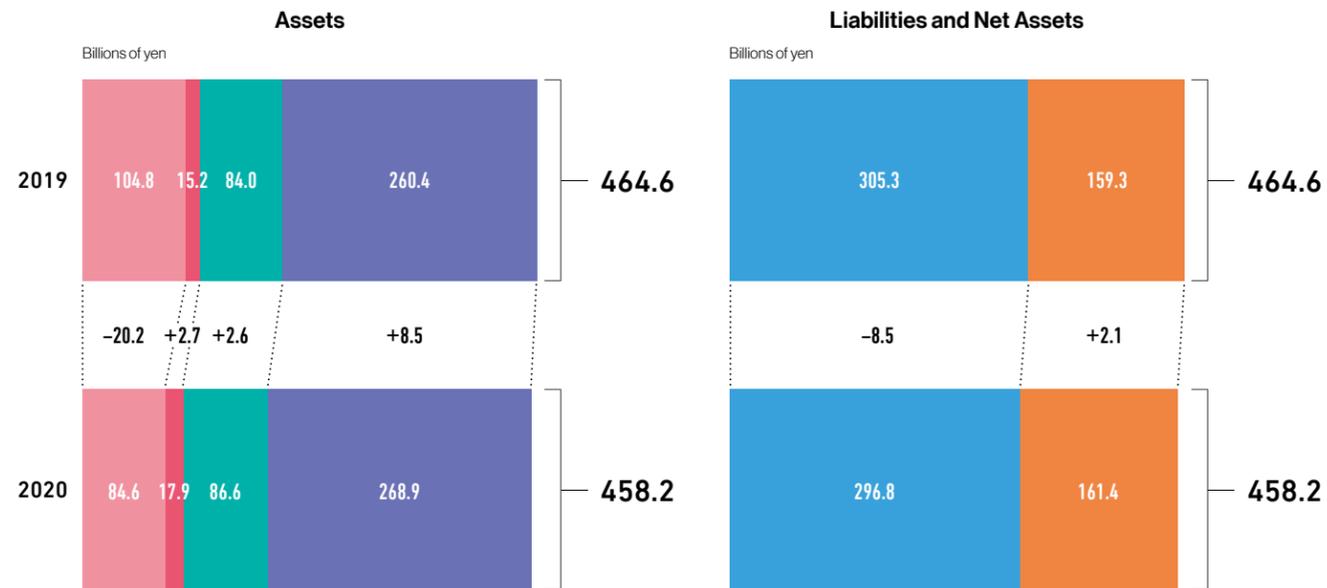
### Long-Term Trends

In fiscal year 2011, total assets—which had been decreasing as a consequence of a reduction in the business scale of the Amusement Center Operations area and a valuation loss on securities and sales of securities—began trending upward due to an increase in goodwill accompanying acquisitions in the Entertainment Contents Business, the Group's initiatives in preparation for participation in the Integrated Resort (IR) business, and an increase in investment securities accompanying new investment in growth areas. In recent years, however, total assets have again been trending downward, reflecting a decrease in cash and deposits accompanying relocation of the head office, a decrease in securities, and the redemption of bonds. The equity ratio has remained consistently around 60% due to a policy of securing a certain level of internal reserves that enable investment in growth areas, the payment of stable cash dividends and ensuring financial soundness in consideration of future participation in the domestic IR business, even amid the earnings volatility stemming from the presence or absence of hit products, which is the nature of the Group's businesses.

### Total Assets and Equity Ratio



### Comparing Fiscal Year 2019 and Fiscal Year 2020



Fell due to a decrease in the mark-to-market valuation of investment securities held

Short-term investment securities and inventories decreased, while cash and deposits increased.

Total shareholders' equity decreased in line with dividends paid, while the valuation difference on available-for-sale securities and foreign currency translation adjustment also decreased.

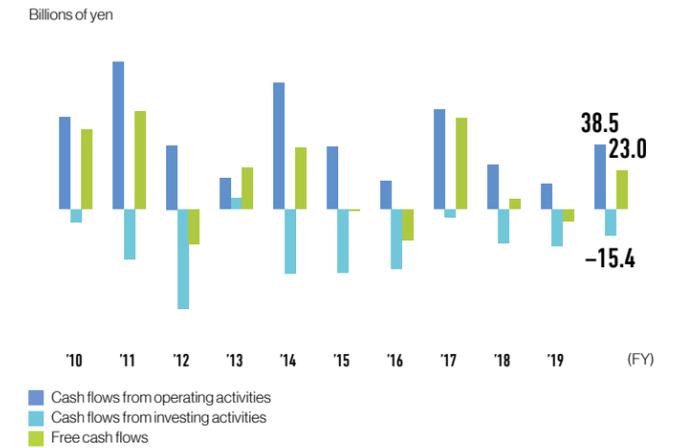
The increase was due to the application of IFRS 16 "Leases" standards by certain overseas subsidiaries.

## Consolidated Cash Flows

### Long-Term Trends

With the exception of certain fiscal periods, the Group has continued to record net cash outflows in investing activities due to M&As in growth areas and strategic investments to raise production capacity. Since fiscal year 2011, the Group has been investing in organizational restructuring. These efforts included investments to make three listed subsidiaries into wholly owned subsidiaries. In addition, the Group is investing actively in such growth areas as the Integrated Resort (IR) business and the Digital Games area. Through a cash management system, the Group uses internal capital efficiently. Also, the Group uses a range of methods to support liquidity and meet investment needs flexibly, including borrowings and bond issuance.

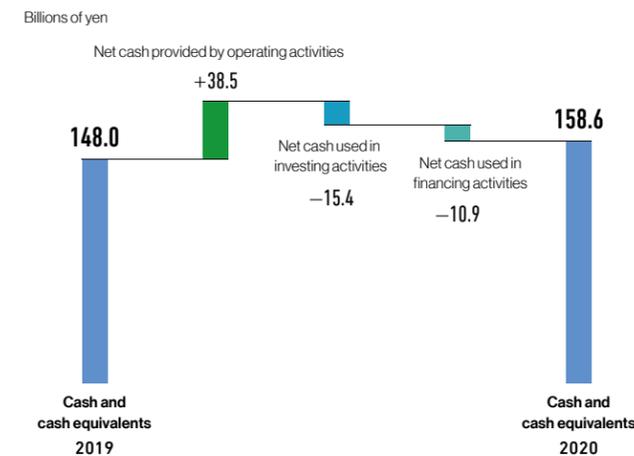
### Cash Flows



### Fiscal Year 2020 Cash Flows

Cash and cash equivalents at the end of fiscal year 2020 amounted to ¥158,617 million, up ¥10,552 million from the previous fiscal year-end.

### Consolidated Cash Flows



■ Net cash provided by operating activities  
**+¥38.5 billion**

Factors including the recording of ¥27,104 million in income before income taxes and ¥17,193 million in depreciation and amortization, which offset a ¥2,811 million increase in notes and accounts receivable-trade and a ¥6,582 million decrease in notes and accounts payable-trade, resulted in ¥38,537 million net cash provided by operating activities in the current fiscal year (compared with a ¥14,876 million inflow in the previous fiscal year).

■ Net cash used in investing activities  
**-¥15.4 billion**

Factors including investing of ¥10,036 million for purchase of property, plant and equipment and ¥7,103 million for purchase of intangible assets, which offset ¥4,315 million in proceeds from sales of property, plant and equipment, resulted in ¥15,464 million net cash used in investing activities in the current fiscal year (compared with a ¥22,113 million outflow in the previous fiscal year).

■ Net cash used in financing activities  
**-¥10.9 billion**

Factors including ¥13,352 million for repayment of long-term loans payable, ¥12,500 million for redemption of bonds, and ¥9,395 million in cash used to pay dividends, which offset financing of ¥14,956 million through long-term loans payable and ¥9,933 million through proceeds from issuance of bonds, resulted in ¥10,956 million net cash used by financing activities in the current fiscal year (compared with a ¥20,668 million outflow in the previous fiscal year).

### Breakdown of Cash Flows

Billions of yen

Cash Flows from Operating Activities	
Income before income taxes	27.1
Depreciation and amortization	17.1
Increase in notes and accounts receivable-trade	-2.8
Decrease in notes and accounts payable-trade	-6.5
Cash Flows from Investing Activities	
Purchase of property, plant and equipment	-10.0
Proceeds from sales of property, plant and equipment	4.3
Purchase of intangible assets	-7.1
Cash Flows from Financing Activities	
Proceeds from long-term loans payable	14.9
Repayment of long-term loans payable	-13.3
Proceeds from issuance of bonds	9.9
Redemption of bonds	-12.5
Cash dividends paid	-9.3

## Non-Financial Assets

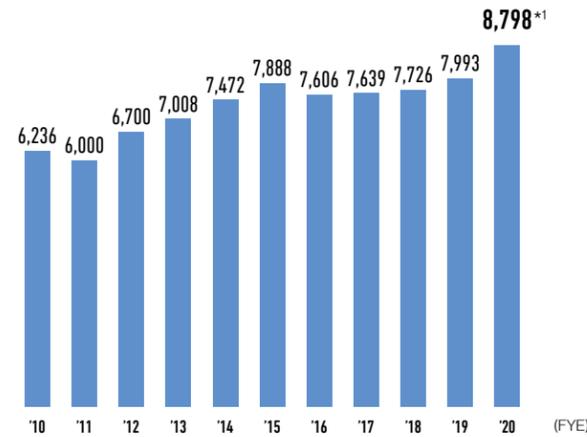
### Human Capital

#### Consolidated Employee Numbers

At the end of fiscal year 2020, the consolidated number of employees was 8,798, up 805 from the previous fiscal year-end. This rise was mainly due to an increase in overseas development personnel in line with the strengthening of global human resources in the Entertainment Contents Business area (approximately 210 employees) and the conversion of fixed-term to permanent labor contracts (approximately 440 employees).

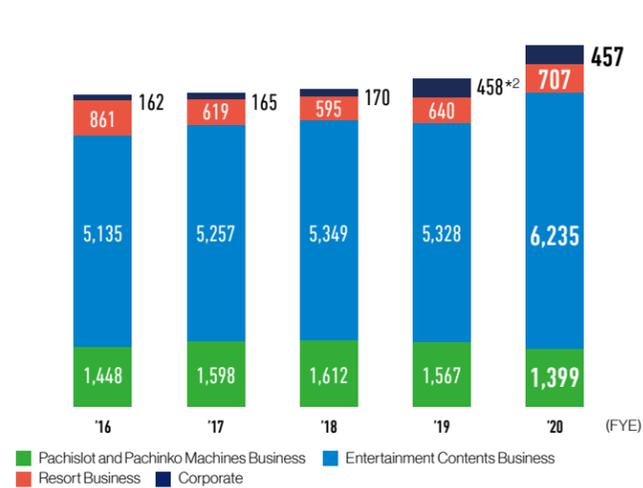
#### Consolidated Employee Numbers

People



#### Employee Numbers by Segment

People



\*1 Total employees in the Entertainment Contents Business will increase due to the conversion of fixed-term to permanent labor contracts (about 440 people).

\*2 Increase in seconded employees due to cross-group organizational restructuring centered on management functions.

### IP

#### R&D Expenses and Content Production Expenses

For the three-year period between fiscal year 2018 and fiscal year 2020, R&D and content production expenses were equivalent to more than 20% of net sales on average. In recent years in particular, the Group has proactively invested in expanding its Digital Games lineup over the medium term. In fiscal year 2020, expenditures were ¥76.5 billion, a 14.9% increase compared to the previous fiscal year due to the launch of multiple new packaged game titles.

#### Reference

##### Recognition of R&D Expenses and Content Production Expenses by Product and Service

The Group undertakes stable, long-term investment in R&D and content production with the aim of creating and strengthening IPs—which are a source of the Group's competitiveness—and continuously generating earnings. The method and timing of expense recognition differs based on development lead times and product lifecycles.

##### Pachislot and Pachinko Machines Business and casino machines of the Amusement Machine Sales area

Expenses are recognized as they arise (process outsourcing expenses recognized when work is inspected).

##### Digital Games area

Expenses are recognized in intangible assets during the development period, and the basic straight-line amortization period is 24 months from the month of service commencement. (The amortization period differs depending on the title. Titles with long lifecycles can have amortization periods of more than 36 months.)

**Amusement Machine Sales area (excluding casino machines)**  
Expenses are recognized as work in process during development and as expenses linked to unit sales after launch.

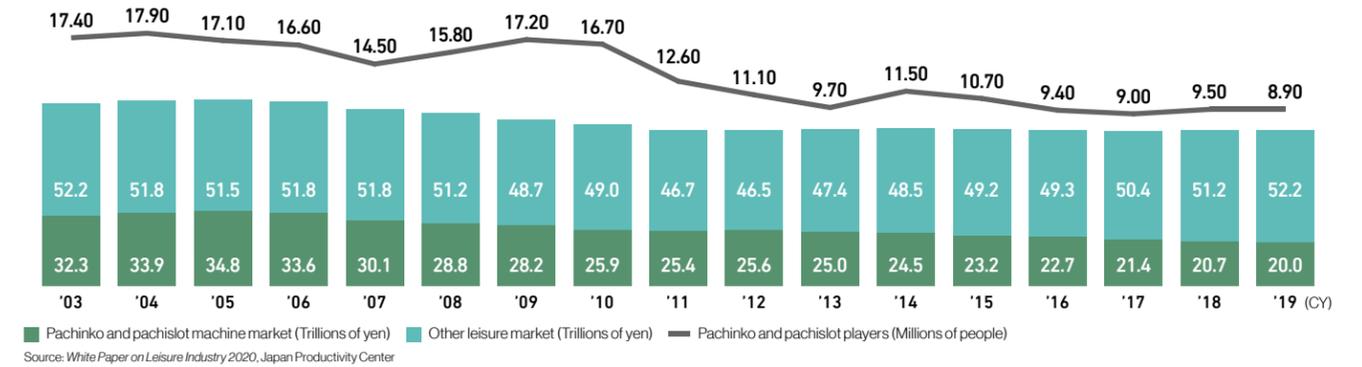
##### Packaged Games area

Expenses are recognized as work in process during development and as expenses after launch. However, there are different methods of treating expenses after launch.

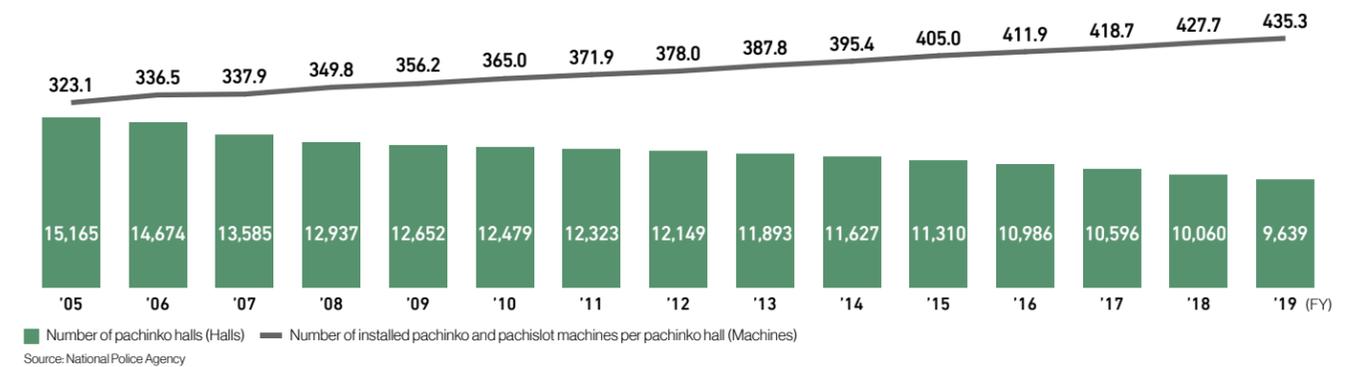
- Expenses are recognized three months after release as expenses linked to unit sales.
- For some titles, certain expenses are recognized three months after release as expenses linked to unit sales, and the remaining expenses are amortized over a period of 21 months.

## Basic Data

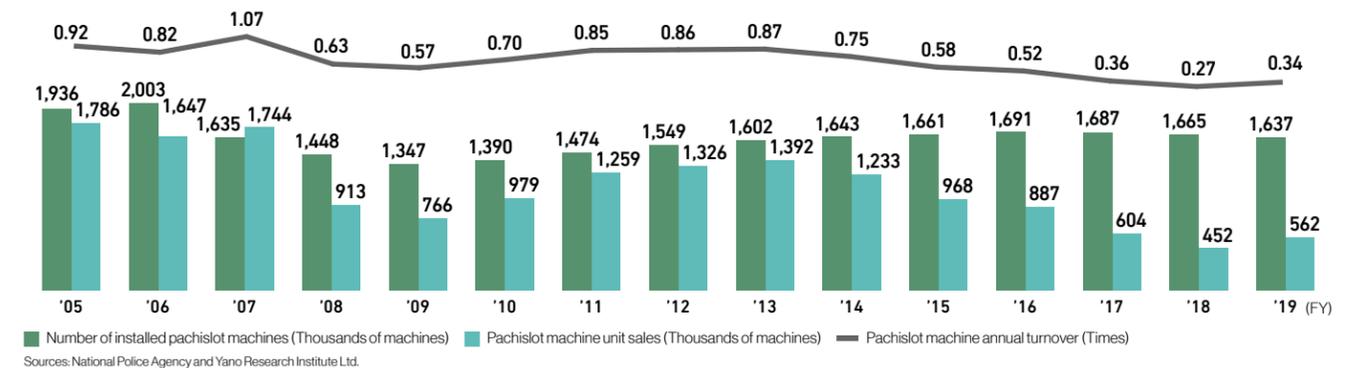
### Market Sizes and Number of Pachinko and Pachislot Players



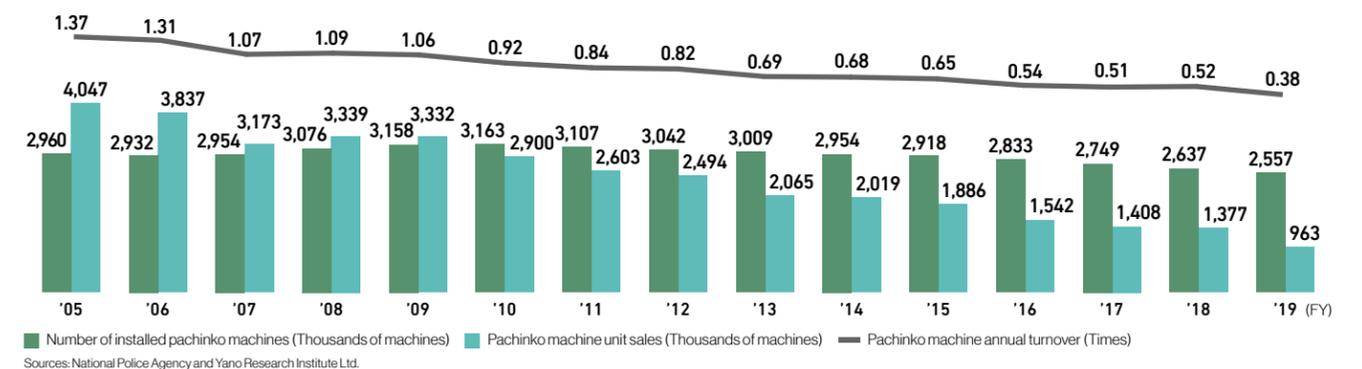
### Numbers of Pachinko Halls and Installed Pachinko and Pachislot Machines per Pachinko Hall



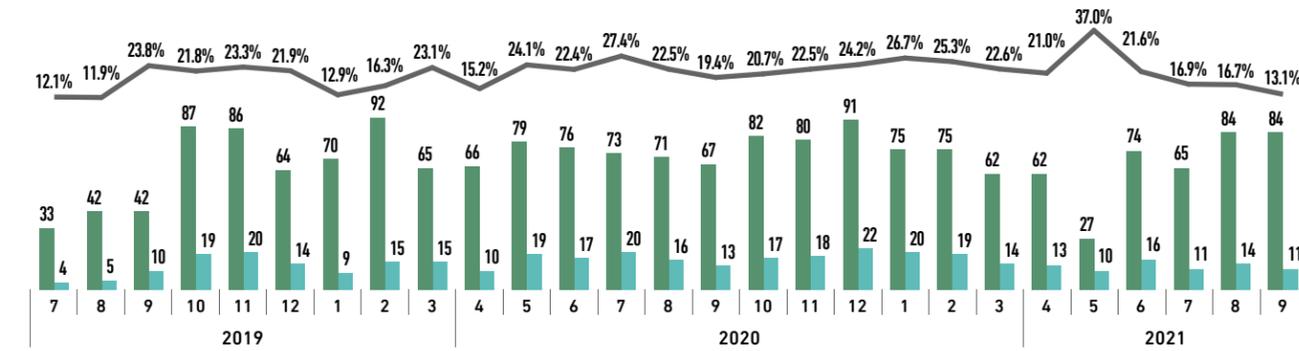
### Pachislot Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



### Pachinko Machines: Number of Installed Machines, Unit Sales, and Annual Turnover

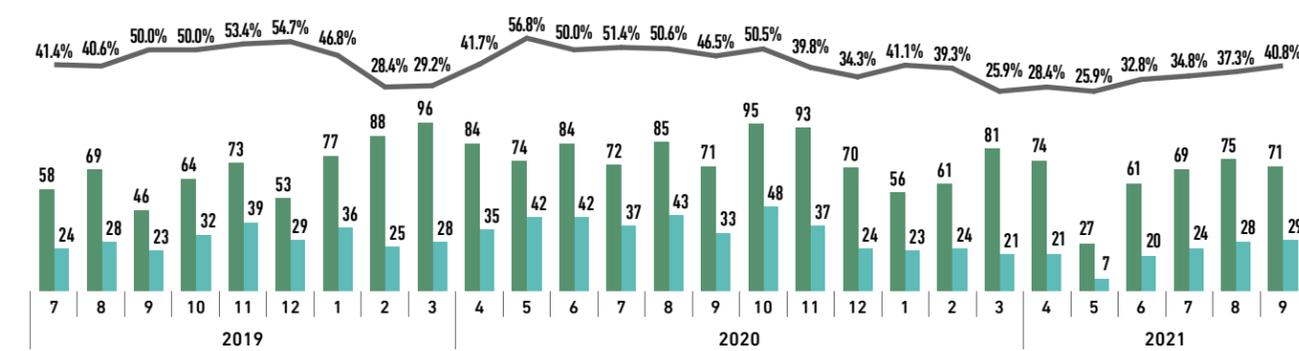


### Results of Pachislot Machine Prototype Testing



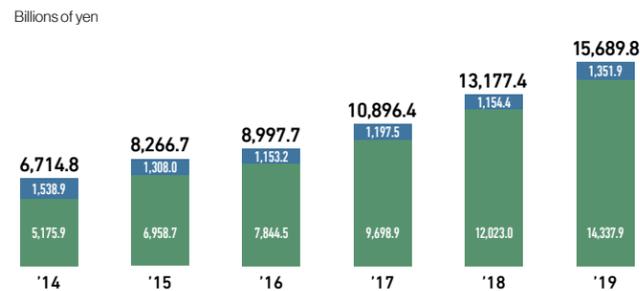
■ Pachislot machine prototypes issued ■ Number of pachislot machines approved — Pachislot machine approval rate  
Source: Security Communications Association

### Results of Pachinko Machine Prototype Testing



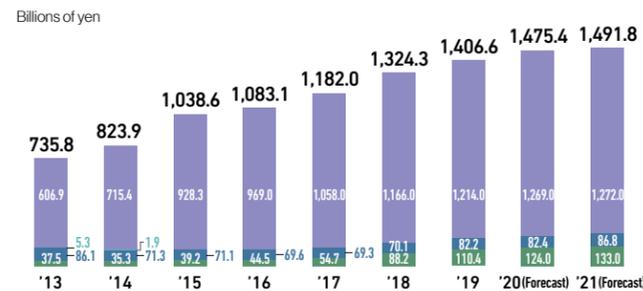
■ Pachinko machine prototypes issued ■ Number of pachinko machines approved — Pachinko machine approval rate  
Source: Security Communications Association

### Market Size of Packaged Games and Digital Distribution Games



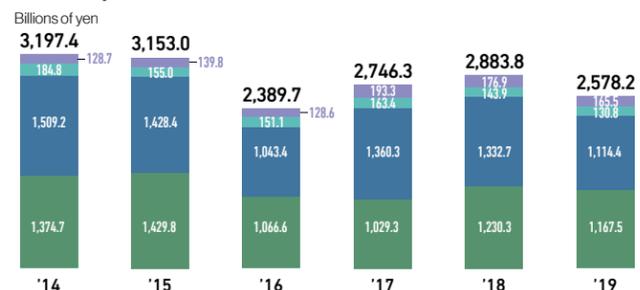
\*1 Total of income from digital distribution of mobile games, PC online games, and home video games  
\*2 Including income from packaged home video games and packaged PC games  
Source: Famitsu Game White Paper (2015-2020)

### Domestic Market for Online Game Content



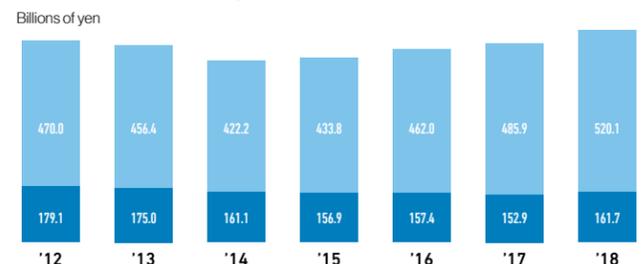
Source: f-ism

### Total Shipments of Home Video Games



Source: CESA Game White Paper 2020

### Domestic Amusement Machine Sales and Revenues from Amusement Center Operations



Source: Japan Amusement Industry Association

## Company Profile / Stock Information

### Company Profile

Company name	SEGA SAMMY HOLDINGS INC.
Address	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo 141-0033, Japan
URL	https://www.segasammy.co.jp/english/
Established	October 1, 2004
Capital	¥29,953 million (As of March 31, 2020)
Principal business	Management of SEGA SAMMY Group as the holding company

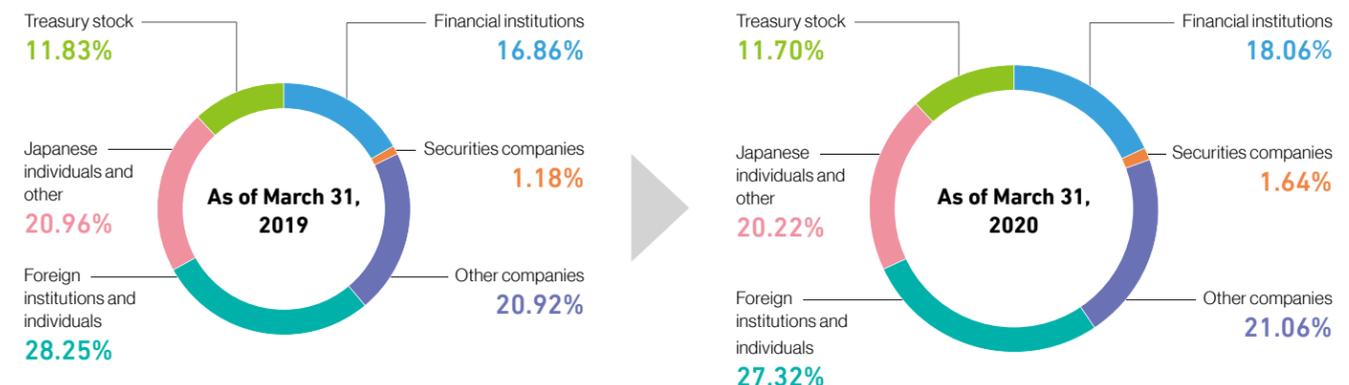
### Stock Information (As of March 31, 2020)

Number of shares authorized for issue	800,000,000
Total shares issued and outstanding	266,229,476
Number of shareholders	72,584

### Major Shareholders (As of March 31, 2020)

Name of shareholder	Shares held	Shares ratio
HS Company	35,308,000	13.26%
SEGA SAMMY HOLDINGS INC.	31,138,238	11.69%
The Master Trust Bank of Japan, Ltd. (Trust account)	16,252,100	6.10%
FSC Co., Ltd.	13,622,840	5.11%
Japan Trustee Services Bank, Ltd. (Trust account)	10,185,700	3.82%
Hajime Satomi	7,833,638	2.94%
STATE STREET BANK AND TRUST COMPANY 505001	7,431,961	2.79%
Japan Trustee Services Bank, Ltd. (Trust account 5)	4,038,800	1.51%
Haruki Satomi	3,723,161	1.39%
JP MORGAN CHASE BANK 385151	3,538,811	1.32%

### Breakdown of Shareholders



# Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
As of March 31, 2019 and 2020

	Millions of yen	
	2019	2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	¥137,425	¥159,013
Notes and accounts receivable—trade	39,209	40,408
Short-term investment securities	14,500	5,398
Merchandise and finished goods	9,800	8,218
Work in process	25,028	20,235
Raw materials and supplies	15,192	18,554
Income taxes receivable	4,539	4,836
Other	15,026	12,613
Allowance for doubtful accounts	(259)	(302)
Total current assets	260,462	268,976
<b>Noncurrent assets</b>		
Property, plant and equipment		
Buildings and structures	89,166	88,143
Accumulated depreciation	(50,775)	(50,703)
Buildings and structures, net	38,391	37,439
Machinery, equipment and vehicles	12,845	12,530
Accumulated depreciation	(10,384)	(10,739)
Machinery, equipment and vehicles, net	2,460	1,790
Amusement machines and facilities	43,826	46,066
Accumulated depreciation	(32,111)	(32,927)
Amusement machines and facilities, net	11,715	13,139
Land	21,352	21,177
Construction in progress	1,483	1,418
Other	49,641	53,997
Accumulated depreciation	(41,027)	(42,314)
Other, net	8,614	11,683
Total property, plant and equipment	84,017	86,649
Intangible assets		
Goodwill	6,448	5,878
Other	8,848	12,090
Total intangible assets	15,297	17,969
Investments and other assets		
Investment securities	73,478	55,046
Long-term loans receivable	1,014	1,117
Lease and guarantee deposits	13,843	13,888
Net defined benefit assets	2,570	3,076
Deferred tax assets	4,098	1,215
Other	10,308	10,779
Allowance for doubtful accounts	(438)	(450)
Total investments and other assets	104,876	84,673
Total noncurrent assets	204,191	189,292
<b>Total assets</b>	¥464,654	¥458,268

See accompanying notes.

	Millions of yen	
	2019	2020
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable—trade	¥ 24,758	¥ 17,834
Short-term loans payable	13,352	13,331
Current portion of bonds	12,500	10,000
Income taxes payable	2,631	3,383
Accrued expenses	15,551	15,347
Provision for bonuses	5,537	7,891
Provision for directors' bonuses	476	808
Provision for point card certificates	31	29
Asset retirement obligations	562	101
Other	12,140	17,419
Total current liabilities	87,542	86,147
<b>Noncurrent liabilities</b>		
Bonds payable	10,000	10,000
Long-term loans payable	40,334	42,003
Net defined benefit liability	4,019	4,176
Deferred tax liabilities	2,110	2,165
Asset retirement obligations	4,334	4,847
Provision for dismantling of fixed assets	420	420
Other	10,556	11,649
Total noncurrent liabilities	71,774	75,263
<b>Total liabilities</b>	159,316	161,410
<b>Net assets</b>		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,142	118,564
Retained earnings	201,889	206,334
Treasury stock	(54,168)	(53,555)
Total shareholders' equity	294,816	301,296
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,354	4,470
Deferred gains or losses on hedges	—	(596)
Revaluation reserve for land	(1,109)	(1,109)
Foreign currency translation adjustment	(4,888)	(8,480)
Remeasurements of defined benefit plans	(524)	(1,478)
Total accumulated other comprehensive income	7,832	(7,193)
Subscription rights to shares	912	813
Non-controlling interests	1,776	1,941
Total net assets	305,337	296,858
<b>Total liabilities and net assets</b>	¥464,654	¥458,268

See accompanying notes.

## Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2019 and 2020

	Millions of yen	
	2019	2020
Net sales	¥331,648	<b>¥366,594</b>
Cost of sales (Notes 7 (1) and (2))	211,199	<b>230,092</b>
Gross profit	120,449	<b>136,502</b>
Selling, general and administrative expenses	107,369	<b>108,859</b>
Operating income	13,079	<b>27,643</b>
Other income (expenses)		
Interest income	265	<b>247</b>
Dividends income	468	<b>435</b>
Foreign exchange gains	—	<b>329</b>
Gain on investments in partnership	495	<b>616</b>
Gain on valuation of compound financial instruments	15	<b>—</b>
Interest expenses	(532)	<b>(475)</b>
Equity in losses of affiliates	(3,859)	<b>(2,805)</b>
Commission fee	(179)	<b>(137)</b>
Loss on investments in partnership	(700)	<b>(421)</b>
Foreign exchange losses	(2)	<b>—</b>
Loss on retirement of noncurrent assets	(132)	<b>(193)</b>
Settlement package	(631)	<b>—</b>
Rent expenses	(996)	<b>(84)</b>
Gain on sales of noncurrent assets (Note 7 (3))	5,225	<b>2,917</b>
Gain on sales of investment securities	1,701	<b>104</b>
Gain on liquidation of subsidiaries and affiliates	1,220	<b>—</b>
Gain on reversal of restructuring loss	64	<b>30</b>
Loss on sales of noncurrent assets (Note 7 (4))	(47)	<b>(0)</b>
Impairment loss (Note 7 (5))	(8,334)	<b>(371)</b>
Loss on valuation of investment securities	—	<b>(573)</b>
Early extra retirement payments	(175)	<b>(32)</b>
Loss on sales of shares of subsidiaries and affiliates	—	<b>(172)</b>
Other, net	35	<b>48</b>
Subtotal	(6,098)	<b>(538)</b>
Income before income taxes	6,981	<b>27,104</b>
Income taxes—current	3,599	<b>5,314</b>
Income taxes—deferred	658	<b>7,817</b>
Total income taxes	4,257	<b>13,131</b>
Profit	2,724	<b>13,972</b>
(Breakdown)		
Profit attributable to owners of parent	2,642	<b>13,775</b>
Profit attributable to non-controlling interests	81	<b>197</b>
Other comprehensive income		
Valuation difference on available-for-sale securities	3,816	<b>(9,583)</b>
Deferred gains or losses on hedges	0	<b>6</b>
Foreign currency translation adjustment	(1,052)	<b>(2,427)</b>
Remeasurements of defined benefit plans, net of tax	(46)	<b>(1,018)</b>
Share of other comprehensive income of entities accounted for using equity method	(1,695)	<b>(1,724)</b>
Total other comprehensive income (Note 7 (6))	1,022	<b>(14,747)</b>
Comprehensive income	3,746	<b>(774)</b>
(Breakdown)		
Comprehensive income attributable to owners of parent	3,664	<b>(967)</b>
Comprehensive income attributable to non-controlling interests	¥ 81	<b>¥ 192</b>

See accompanying notes.

## Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2019 and 2020

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Previous fiscal year (From April 1, 2018 to March 31, 2019)					
Balances as of April 1, 2018	¥29,953	¥117,345	¥207,174	¥(54,781)	¥299,691
Changes of items during the period					
Dividends from surplus			(9,377)		(9,377)
Profit attributable to owners of parent			2,642		2,642
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock		(18)		624	605
Purchase of shares of consolidated subsidiaries		(184)			(184)
Reversal of revaluation reserve for land			1,450		1,450
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(203)	(5,284)	613	(4,874)
Balances as of March 31, 2019	¥29,953	¥117,142	¥201,889	¥(54,168)	¥294,816

	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, 2018	¥10,528	¥ 17	¥ 340	¥(2,147)	¥(479)	¥8,259
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Purchase of treasury stock						
Disposal of treasury stock						
Purchase of shares of consolidated subsidiaries						
Reversal of revaluation reserve for land						
Net changes of items other than shareholders' equity	3,826	(17)	(1,450)	(2,741)	(45)	(427)
Total changes of items during the period	3,826	(17)	(1,450)	(2,741)	(45)	(427)
Balances as of March 31, 2019	¥14,354	¥ —	¥(1,109)	¥(4,888)	¥(524)	¥7,832

	Millions of yen		
	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2018	¥819	¥1,685	¥310,456
Changes of items during the period			
Dividends from surplus			(9,377)
Profit attributable to owners of parent			2,642
Purchase of treasury stock			(11)
Disposal of treasury stock			605
Purchase of shares of consolidated subsidiaries			(184)
Reversal of revaluation reserve for land			1,450
Net changes of items other than shareholders' equity	93	90	(244)
Total changes of items during the period	93	90	(5,119)
Balances as of March 31, 2019	¥912	¥1,776	¥305,337

See accompanying notes.

## Consolidated Statements of Changes in Net Assets

Current fiscal year (From April 1, 2019 to March 31, 2020)	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 of 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 adjustments relating to changes in past years' equity		614			614
Net changes of items other than shareholders' equity					
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 of scope of consolidation						
Purchase of shares of consolidated subsidiaries						
Change in ownership interest of parent due to transactions with non-controlling interests						
Tax effect adjustments relating to changes in past years' 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)

	Total net assets		
	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 of 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 adjustments relating to changes in past years' 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

See accompanying notes.

## Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2019 and 2020

	Millions of yen	
	2019	2020
<b>Net cash provided by (used in) operating activities</b>		
Income before income taxes	¥ 6,981	¥ 27,104
Depreciation and amortization	18,819	17,193
Impairment loss	8,334	371
Amount of transfer of equipment by amusement center operation business	(4,585)	(4,317)
Loss (gain) on sales of noncurrent assets	(5,177)	(2,916)
Loss on retirement of noncurrent assets	132	193
Loss (gain) on liquidation of subsidiaries and affiliates	(1,219)	—
Loss (gain) on sales of investment securities	(1,562)	(2)
Loss (gain) on valuation of investment securities	—	281
Loss (gain) on investments in partnership	204	(195)
Amortization of goodwill	2,064	2,043
Increase (decrease) in allowance for doubtful accounts	(16)	70
Increase (decrease) in provision for directors' bonuses	(130)	339
Increase (decrease) in net defined benefit liability	791	81
Increase (decrease) in provision for bonuses	(352)	2,450
Interest and dividends income	(734)	(682)
Interest expenses	532	475
Foreign exchange losses (gains)	212	69
Equity in (earnings) losses of affiliates	3,859	2,805
Decrease (increase) in notes and accounts receivable—trade	(10,203)	(2,811)
Decrease (increase) in inventories	(10,004)	2,862
Increase (decrease) in notes and accounts payable—trade	3,021	(6,582)
Increase (decrease) in guarantee deposits received	(674)	(770)
Other, net	6,975	4,955
Subtotal	17,268	43,019
Interest and dividends income received	757	728
Interest expenses paid	(544)	(460)
Income taxes paid	(5,250)	(6,955)
Income taxes refund	2,646	2,205
Net cash provided by (used in) operating activities	¥ 14,876	¥ 38,537

See accompanying notes.

## Consolidated Statements of Cash Flows

	Millions of yen	
	2019	2020
<b>Net cash provided by (used in) investing activities</b>		
Payments into time deposits	¥ (36)	¥ (36)
Proceeds from withdrawal of time deposits	11	—
Purchase of short-term investment securities	(3,000)	(5,000)
Proceeds from redemption of securities	3,000	3,000
Purchase of trust beneficiary right	(2,697)	(1,894)
Proceeds from sales of trust beneficiary right	2,453	2,514
Purchase of property, plant and equipment	(18,235)	(10,036)
Proceeds from sales of property, plant and equipment	10,342	4,315
Purchase of intangible assets	(10,274)	(7,103)
Proceeds from sales of intangible assets	36	—
Purchase of investment securities	(849)	(566)
Proceeds from sales of investment securities	6,017	410
Proceeds from redemption of investment securities	700	821
Payments for investment in partnerships	(2,082)	(1,257)
Proceeds from distribution of investment in partnerships	909	1,279
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 9 (2))	(32)	(1,383)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(85)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	640
Purchase of stocks of subsidiaries and affiliates	(5,282)	(157)
Payments of loans receivable	(559)	(2,704)
Collection of loans receivable	409	2,689
Reduction of investments in trusts	400	1,000
Payments for lease deposits	(2,554)	(659)
Collection of lease deposits	3,494	875
Other, net	(4,284)	(2,129)
Net cash provided by (used in) investing activities	(22,113)	(15,464)
<b>Net cash provided by (used in) financing activities</b>		
Proceeds from long-term loans payable	14,971	14,956
Repayment of long-term loans payable	(15,844)	(13,352)
Proceeds from issuance of bonds	—	9,933
Redemption of bonds	(10,000)	(12,500)
Purchase of treasury stock	(11)	(8)
Proceeds from exercise of stock options	512	430
Cash dividends paid	(9,379)	(9,395)
Dividends paid to non-controlling interest	(7)	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(47)
Other, net	(909)	(971)
Net cash provided by (used in) financing activities	(20,668)	(10,956)
<b>Effect of exchange rate change on cash and cash equivalents</b>	(595)	(1,574)
<b>Net increase (decrease) in cash and cash equivalents</b>	(28,501)	10,541
<b>Cash and cash equivalents at beginning of period</b>	176,566	148,064
<b>Increase in cash and cash equivalents from newly consolidated subsidiaries</b>	—	16
<b>Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries</b>	—	(5)
<b>Cash and cash equivalents at end of period (Note 9 (1))</b>	¥148,064	¥158,617

See accompanying notes.

## Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2019 and 2020

### 1 Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2019 and 2020. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated

financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements. Each amount of the accompanying consolidated financial statements is rounded down to the nearest one million yen.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the classifications used in 2020. These changes had no impact on previously reported results of operations or shareholders' equity.

### 2 Summary of Significant Accounting Policies

#### 1. Scope of consolidation

##### (1) Number of consolidated subsidiaries: 68

From the fiscal year ended March 31, 2020, the following companies were included in the Company's consolidated subsidiaries: Two Point Studios Ltd. and one other company, because of their acquisition of shares; DARTSLIVE MALAYSIA SDN. BHD., because of an increase in its materiality.

From the fiscal year ended March 31, 2020, the following companies have been excluded from the scope of consolidation: JMS-United Co., Ltd. and four other companies, because of the transfer of their shares.

##### (2) Number of non-consolidated subsidiaries: 16

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 a significant effect on the consolidated financial statements.

#### 2. Application of the equity method

##### (1) Number of non-consolidated subsidiaries accounted for under the equity method: 6

##### (2) Number of affiliated companies accounted for under the equity method: 11

##### (3) Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method: 11

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 a significant effect on the consolidated financial statements even if they are excluded from the scope of equity method, and have no significance as a whole.

#### 3. Accounting policies

##### (1) Valuation and accounting treatment for important assets

###### 1) Held-to-maturity debt securities

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

###### 2) Available-for-sale securities

Securities with fair market value:

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as valuation difference on available-for-sale securities in net assets, with cost of sales determined by the moving-average method.

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and unrealized gains or losses are reported as income or expenses for the fiscal year ended March 31, 2020.

Securities without quoted market prices:

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

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

###### 3) Derivatives

Derivatives are stated at fair market value.

## Notes to Consolidated Financial Statements

### 4) Inventories

Inventories are stated at cost, cost being determined mainly by the gross-average method (or at the net realizable value (NRV) calculated by writing down the book value to reflect a decrease in the NRV).

Work in process is also stated at cost, cost being determined by the specific identification method (or at the NRV calculated by writing down the book value to reflect a decrease in the NRV).

### (2) Depreciation and amortization for important assets

#### 1) Property, plant and equipment (excluding lease assets)

Depreciation is calculated primarily using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and structures: 2–50 years

Machinery, equipment and vehicles: 2–15 years

Amusement machines and facilities: 2–5 years

#### 2) Intangible assets (excluding lease assets)

Amortization is calculated using the straight-line method. The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (less than 5 years).

#### 3) Lease assets

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 by using the straight-line method assuming the useful life equals to the lease period with a residual value of zero.

#### 4) 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

#### 1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in the amount sufficient to cover possible losses based on a historical write-off of general receivables.

Receivables with default possibility and bankrupt receivables are calculated based on an individual assessment of the possibility of collection.

#### 2) Provision for bonuses

The estimated amount of bonuses was recorded to meet the 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 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.

#### 5) 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

#### 1) 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.

#### 2) 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

#### 1) 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.

#### 2) 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

#### 3) Hedge policy

Derivative instruments are used to mitigate risks associated with foreign exchange and interest rate fluctuations.

As a rule, hedging is only used for items in which actual demand exists, and not for speculative purposes.

#### 4) Evaluation of hedge effectiveness

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

Evaluation of hedge effectiveness at fiscal year-end is omitted also for interest rate swap transactions applied to special treatment.

### (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) Cash and cash equivalents in the consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### (9) 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.

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

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

### (11) Application of tax effect accounting for the transition from the consolidated tax payment system to the group taxation system

Having regard to paragraph 3 of "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 and its domestic consolidated subsidiaries did not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

## 3 Changes in Accounting Policies

### (1) Application of IFRS 16 "Leases"

Subsidiaries using International Financial Reporting Standards started to apply IFRS No.16 Lease (hereinafter referred to as "IFRS 16") from the current fiscal year. In accordance with IFRS 16, lessees are required to recognize almost all leases as assets or liabilities in the balance sheet. Having followed the transitional treatment regarding the application of IFRS 16, the cumulative effects of the changes in the accounting policies were added to (subtracted from) the opening balance of retained earnings for the current consolidated fiscal year. As a result, "Other, net" in noncurrent assets was ¥3,569 million increased, and "Other" in current liabilities and in noncurrent liabilities were ¥581 million, ¥2,979 million increased, respectively, as of the end of the current fiscal year. Also the beginning balance for retained earnings was ¥147 million decreased. The impact of these changes on the profit or loss for the current fiscal year was immaterial.

### (2) Application of ASU No.2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities"

Subsidiaries that apply the U.S. Accounting Standards adopted 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. Herewith, 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 or loss for the current fiscal year was immaterial.

## 4 Unapplied New Accounting Standards

The Company and its domestic consolidated subsidiaries

– "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 31, 2020)

– "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 31, 2020)

### (1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued "Revenue from Contracts with Customers" in May 2014 (IASB's IFRS 15 and FASB's Topic 606). Considering that IFRS 15 shall apply to fiscal

years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

## Notes to Consolidated Financial Statements

### (2) Scheduled date of application

These ASBJ statement and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

### (3) Effects of application of the accounting standards

The effects of the application are under assessment at the time of preparing these consolidated financial statements.

– “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)

– “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

– “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)

– “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)

### (1) Overview

In order to enhance comparability with internationally recognized accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as “Fair Value Accounting Standards”) were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in “Accounting Standard for Financial Instruments”; and
- Inventories held for trading purposes in “Accounting Standard for Measurement of Inventories.”

### (2) Effective date

Fair Value Accounting Standards and guidance will be effective from the beginning of the consolidated fiscal year ending March 31, 2022.

### (3) Effects of application of the accounting standards

The effects of the application are under assessment at the time of preparing these consolidated financial statements.

– “Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24,

issued by the Accounting Standards Board of Japan on March 31, 2020)

### (1) Overview

This aims to present general rules and an overview of procedures for the adopted accounting treatment for cases where the provisions of the related accounting standards are unclear.

### (2) Scheduled date of application

These ASBJ statement will be applied from the end of the fiscal year ending March 31, 2021.

– “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued by the Accounting Standards Board of Japan on March 31, 2020)

### (1) Overview

This aims to present information that will help the understanding of financial statement users regarding accounting estimates in items at risk of being significantly affected in the following fiscal year’s financial statements by the amounts recognized in the financial statements in the current fiscal year.

### (2) Scheduled date of application

These ASBJ statement will be applied from the end of the fiscal year ending March 31, 2021.

Foreign consolidated subsidiaries  
– “Leases” (U.S. GAAP ASU 2016-02)

### (1) Overview

The accounting standard was revised with a focus on the recognition of assets and liabilities of all of the lessee’s leases in principle.

### (2) Scheduled date of application

The accounting standard will be applied from the beginning of the fiscal year ending March 31, 2022.

### (3) Effects of application of the accounting standards

The effects of the application are under assessment at the time of preparing these consolidated financial statements.

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.

## 6 Notes to Consolidated Balance Sheets

### (1) Assets pledged

	Millions of yen	
	2019	2020
Shares of subsidiaries and affiliates	¥25,604	¥22,130
Total	25,604	22,130

Note: For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. as of March 31, 2020 and 2019, ¥68,222 million (KRW725,000 million) and ¥69,020 million (KRW700,000 million), respectively, the shares of this company were provided as a pledge.

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

	Millions of yen	
	2019	2020
Investment securities (shares)	¥27,669	¥24,506
Investment securities (capital contributions)	1,073	685

### (3) Revaluation reserve for land

Consolidated subsidiary SEGA Holdings Co., Ltd. has revalued land for commercial use, pursuant to Japan’s Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and Amendments to the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001). Accordingly, SEGA Holdings Co., Ltd. has recorded an item for the revaluation reserve for land under net assets.

### Revaluation method

SEGA Holdings Co., Ltd. computed the value of land based on the methodology regarding rational adjustments to valuation of fixed assets stipulated in Article 2-3, and appraisals by licensed real estate appraisers prescribed in Article 2-5 of the Enforcement Ordinance No. 119 (March 31, 1998) pertaining to the Law Concerning Revaluation of Land.

Date of revaluation: March 31, 2002.

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

### (4) Overdraft agreements and commitment line agreements

The Company and its consolidated subsidiaries have overdraft agreements and commitment line agreements with banks for the effective procurement of working capital.

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2019	2020
Total amount of overdraft limit and commitment line agreements	¥140,900	¥150,397
Executed loans balance	—	—
Unexecuted balance	140,900	150,397

### (5) Accounting treatment of notes expiring on the end of fiscal year

Notes matured at the end of the current fiscal year were settled as of the note exchange date.

Because the end of the previous fiscal year was a holiday, the following notes that matured on March 31, 2019 were included in the balance as of March 31, 2019:

	Millions of yen	
	2019	2020
Notes receivable—trade	¥1,693	¥—
Notes payable—trade	429	—

## 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

**7 Notes to Consolidated Statements of Income and Comprehensive Income****(1) The book value devaluation of inventories held for normal sales purpose based on decline in profitability**

	Millions of yen	
	2019	2020
Cost of sales	¥5,131	<b>¥5,268</b>

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

	Millions of yen	
	2019	2020
	¥46,782	<b>¥49,746</b>

**(3) Gain on sales of noncurrent assets**

	Millions of yen	
	2019	2020
Buildings and structures	¥(2,597)	<b>¥ 105</b>
Machinery, equipment and vehicles	52	<b>0</b>
Land	7,769	<b>2,802</b>
Other property, plant and equipment	0	<b>8</b>
Total	5,225	<b>2,917</b>

Note: Loss on sale of buildings and structures and loss on sale of land arising from sale of the same property in the previous fiscal year were offset and presented as a gain on sales of noncurrent assets in the consolidated statement of income.

**(4) Loss on sales of noncurrent assets**

	Millions of yen	
	2019	2020
Buildings and structures	¥ 7	<b>¥—</b>
Machinery, equipment and vehicles	0	<b>0</b>
Land	3	<b>—</b>
Other property, plant and equipment	36	<b>0</b>
Total	47	<b>0</b>

**(5) Impairment loss**

Previous fiscal year (From April 1, 2018 to March 31, 2019)

Use	Location	Type	Millions of yen
			Amount
Amusement facilities	Zama-shi, Kanagawa and 2 other locations	Buildings and structures	¥ 46
		Amusement machines and facilities	45
		Other property, plant and equipment, etc.	26
Assets for business	Shinagawa-ward, Tokyo and 9 other locations	Buildings and structures	603
		Amusement machines and facilities	145
		Other property, plant and equipment	655
		Other intangible assets	6,810
		Total	8,334

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their

recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values are calculated based on memorandum values, as no future cash flows are expected.

Current fiscal year (From April 1, 2019 to March 31, 2020)

Use	Location	Type	Millions of yen
			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 Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their

recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values are calculated based on memorandum values, as no future cash flows are expected.

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

	Millions of yen	
	2019	2020
Valuation difference on available-for-sale securities:		
The amount arising during the period	¥ 7,123	<b>¥(13,897)</b>
Reclassification adjustments	(1,561)	<b>56</b>
Before adjustments to tax effects	5,561	<b>(13,840)</b>
The amount of tax effects	(1,745)	<b>4,257</b>
Valuation difference on available-for-sale securities	3,816	<b>(9,583)</b>
Deferred gains or losses on hedges:		
The amount arising during the period	12	<b>10</b>
Reclassification adjustments	(12)	<b>(0)</b>
Before adjustments to tax effects	0	<b>9</b>
The amount of tax effects	—	<b>(3)</b>
Deferred gains or losses on hedges	0	<b>6</b>
Foreign currency translation adjustment:		
The amount arising during the period	(129)	<b>(2,426)</b>
Reclassification adjustments	(1,224)	<b>(0)</b>
Before adjustments to tax effects	(1,353)	<b>(2,427)</b>
The amount of tax effects	301	<b>—</b>
Foreign currency translation adjustment	(1,052)	<b>(2,427)</b>
Remeasurements of defined benefit plans, net of tax:		
The amount arising during the period	(762)	<b>(882)</b>
Reclassification adjustments	532	<b>(83)</b>
Before adjustments to tax effects	(229)	<b>(966)</b>
The amount of tax effects	182	<b>(51)</b>
Remeasurements of defined benefit plans, net of tax	(46)	<b>(1,018)</b>
Share of other comprehensive income of entities accounted for using equity method:		
The amount arising during the period	(1,695)	<b>(1,724)</b>
Reclassification adjustments	—	<b>—</b>
Share of other comprehensive income of entities accounted for using equity method:	(1,695)	<b>(1,724)</b>
Total other comprehensive income	¥ 1,022	<b>¥(14,747)</b>

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

Previous fiscal year (From April 1, 2018 to March 31, 2019)

**1. Number of outstanding common stock**

Type of stock	As of April 1, 2018	Increase	Decrease	As of March 31, 2019
Common stock	266,229,476	—	—	266,229,476

**2. Number of outstanding treasury stock**

Type of stock	As of April 1, 2018	Increase	Decrease	As of March 31, 2019
Common stock	31,850,504	6,509	363,086	31,493,927

(Summary of the change)

Increase	Decrease
Increase due to purchase of odd-lot stock	Decrease due to sales of odd-lot stock
6,509 shares	286 shares
	Decrease due to exercise of stock options:
	362,800 shares

**3. Subscription rights to shares**

Company name	Breakdown	Type of stock	Number of stocks (Shares)			Balance at March 31, 2019 Millions of yen
			As of April 1, 2018	Increase	Decrease	
The Company	Subscription rights to shares as stock options	—	—	—	—	¥912
Total			—	—	—	912

**4. Dividends****(1) Dividends**

Resolution	Type of stock	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 11, 2018	Common stock	¥4,687	¥20	March 31, 2018	June 1, 2018
Board of Directors' meeting held on November 1, 2018	Common stock	4,689	20	September 30, 2018	December 3, 2018

**(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2019, but the effective date is in the following fiscal year**

Resolution	Type of stock	Resource of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 10, 2019	Common stock	Retained earnings	¥4,694	¥20	March 31, 2019	June 3, 2019

Current fiscal year (From April 1, 2019 to March 31, 2020)

**1. Number of outstanding common stock**

Type of stock	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Common stock	266,229,476	—	—	266,229,476

**2. Number of outstanding treasury stock**

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

(Summary of the change)

Increase	Decrease
Increase due to purchase of odd-lot stock	Decrease due to sales of odd-lot stock
6,000 shares	589 shares
	Decrease due to exercise of stock options:
	304,800 shares
	Decrease due to Restricted Stock compensation
	56,300 shares

**3. Subscription rights to shares**

Company name	Breakdown	Type of stock	Number of stocks (Shares)			Balance at March 31, 2020 Millions of yen
			As of April 1, 2019	Increase	Decrease	
The Company	Subscription rights to shares as stock options	—	—	—	—	¥813
Total			—	—	—	813

**4. Dividends****(1) Dividends**

Resolution	Type of stock	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 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) Of the 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 dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	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

## 9 Notes to Consolidated Statements of Cash Flows

### (1) Cash and cash equivalents at March 31, 2020 and 2019 consisted of the following:

	Millions of yen	
	2019	2020
Cash and deposits	¥137,425	¥159,013
Short-term investment securities	14,500	5,398
Total	151,925	164,411
Time deposits with maturities of more than three months, etc.	(360)	(396)
Short-term investment securities with period from the acquisition date to the redemption date exceeding three months	(3,500)	(5,398)
Cash and cash equivalents	148,064	158,617

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

Previous fiscal year (From April 1, 2018 to March 31, 2019)

Disclosure is omitted due to insignificance.

Current fiscal year (From April 1, 2019 to March 31, 2020)

Breakdown of assets and liabilities at the time of consolidation of Two Point Studios Ltd. resulting from the acquisition of its shares as well as the relationship between the acquisition price of Two Point Studios Ltd. and expenditures (net) for its acquisition are presented below.

Two Point Studios Ltd.

	Millions of yen
Current assets	¥249
Noncurrent assets	6
Goodwill	1,315
Current liabilities	(129)
Noncurrent liabilities	—
Acquisition price of stocks	1,442
Cash and cash equivalents	(141)
Net: Expenditures for acquisition	(1,300)

## 10 Information for Certain Leases

### (1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment loss and net book value for the years ended March 31, 2020 and 2019, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous fiscal year (From April 1, 2018 to March 31, 2019)

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

Current fiscal year (From April 1, 2019 to March 31, 2020)

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

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

Future lease payments as of March 31, 2020 and 2019

	Millions of yen	
	2019	2020
Due within one year	¥151	¥151
Due after one year	618	466
Total	769	618

Accumulated impairment loss on leased assets as of March 31, 2020 and 2019

	Millions of yen	
	2019	2020
Accumulated impairment loss on leased assets	¥585	¥466

### (3) A summary of assumed amounts of lease payments, reversal of allowance for impairment loss on leased assets, depreciation, interest expenses and impairment loss for the years ended March 31, 2020 and 2019, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen	
	2019	2020
Lease payments	¥151	¥151
Reversal of allowance for impairment loss on leased assets	121	119
Depreciation	124	124
Interest expenses	18	15

### (4) Method of calculating depreciation equivalent

Depreciated by using the straight-line method assuming the useful life equals to the lease period with a residual value of zero.

### (5) Method of calculating interest expenses equivalent

Interest expenses equivalent are calculated as the difference between total lease charges and acquisition cost equivalent of leased items, and are allocated to each fiscal year using the interest method.

## 1. Finance lease transactions

### (1) Details of lease assets

Lease assets mainly consist of the following: "Machinery, equipment and vehicles," "Other property, plant and equipment" and "Other intangible assets" for office-related facilities.

### (2) The methods of depreciation for lease assets

The methods of depreciation for lease assets are as follows: Lease assets involving finance lease transactions under which the ownership of the lease assets is transferred to lessees are the same methods that are applied to property, plant and equipment owned by the Company. Lease assets involving finance lease transactions under which the ownership of the lease assets is not transferred to lessees are the straight-line method, with their residual values being zero over their leased periods used as the number of years for useful life.

## 2. Lease transactions under IFRS

### (1) Details of leased assets (right-of-use assets)

Leased assets (right-of-use assets) primarily consist of items related to leased offices of certain overseas consolidated subsidiaries.

### (2) Depreciation method of right-of-use assets

The lease period or the useful life of the assets, whichever is shorter, is used as the useful life, and the residual value is calculated as zero.

### 3. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2019	2020
Due within one year	¥ 5,289	¥ 5,429
Due after one year	18,544	12,561
Total	23,834	17,991

Note: The primary cause for the decrease in operating lease transactions was the payment of lease payables related to the leased offices of the Group's headquarters, and the recording of right-of-use assets at certain overseas consolidated subsidiaries from the current fiscal year.

## 11 Financial Instruments

### 1. Outline of financial instruments

#### (1) Policy for financial instruments

The Group signed an agreement concerning commitment lines with financial institutions, such as securing medium to long-term fund liquidity with the Company as a holding company, as a safety net for the entire Group. In addition, capital for each business is financed based on the financial plan as needed, through bank borrowings or bond issues applying the Cash Management System for the purpose of efficient utilization of the Group's funds. Most funds are invested primarily in low-risk and high-liquidity financial assets, while some are invested in compound financial instruments such as bonds, etc., for the purpose of efficiently managing funds. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

#### (2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable-trade are exposed to customer credit risks. In addition, foreign currency-denominated trade receivables are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Short-term investment securities and investment securities are mainly negotiable certificates of deposit and the stocks acquired for business collaborations with business partners, and the latter are exposed to the risk of market price fluctuations. Some compound financial instruments, etc., are also exposed to the risk of market price fluctuations in the stock markets, etc.

Of the payables such as notes and accounts payable-trade, trade payables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risks. Loans and bonds payable are for the purpose of procurement of funds necessary for operating funds and capital investment, and parts of them have floating interest rates. For this reason, they are exposed to interest rate fluctuation risks.

Derivative transactions are interest rate swap transactions to hedge interest rate fluctuation risk associated with loans payables.

For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to "(6) Accounting for significant hedge" in "Note 2—Summary of Significant Accounting Policies, 3. Accounting policies."

#### (3) Risk management for financial instruments

##### 1) Credit risk management (customers' default risk)

With respect to trade receivables, departments in charge regularly monitor the situations of major customers in compliance with each company's management regulations for receivables, to control payment terms and balances of customers, in order to detect collection concerns such as worsening of financial conditions early and to lessen the possibilities for collection problems.

The credit risk for negotiable certificates of deposit and major bonds, etc., is minimal because the investments of these financial assets are limited to high credit rating issuers. Customers of derivative transactions are in principle limited to correspondent financial institutions.

The amount of maximum risk as of the consolidated settlement date is expressed by the amounts of financial assets exposed to credit risks in the balance sheet.

##### 2) Market risk management (foreign currency exchange and interest rate fluctuation risks)

Interest rate swap transactions, etc., are used to hedge fluctuation risks of interests on variable interest loans.

With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. Major holdings of shares are continuously reviewed in consideration of relationships with the counterparties.

In addition, some compound financial instruments are also continuously reviewed by regularly checking their fair values.

With regard to derivative transactions, the financial department or the accounting department executes and manages transactions upon obtaining internal approvals in compliance with the derivative transactions management rules of each Group company. In addition, reports on the situations of derivative transactions are made to each company's Board of Directors' meeting when and where appropriate.

3) Liquidity risk management on fund-raising (risk for delinquency)  
Trade payables and loans are exposed to liquidity risk. In the Group, liquidity risk is managed by setting an appropriate fund balance for each company, and by each company updating fund plans monthly to maintain the balance that exceeds the set fund balance, and by the Company confirming each company's cash position.

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

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 13—Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

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

The consolidated balance sheet amount and fair value of financial instruments as well as the differences between these values are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2 below.)

Previous fiscal year (As of March 31, 2019)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥137,425	¥137,425	¥ —
(2) Notes and accounts receivable-trade	39,209	39,200	(8)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	1,411	1,418	7
2) Available-for-sale securities <sup>(1)</sup>	45,962	45,962	—
3) Equity securities issued by affiliated companies	818	831	12
Total assets	224,827	224,838	10
(1) Notes and accounts payable-trade	24,758	24,758	—
(2) Short-term loans payable	13,352	13,352	—
(3) Long-term loans payable	40,334	40,293	40
(4) Current portion of corporate bonds	12,500	12,500	—
(5) Corporate bonds payable	10,000	10,020	(20)
Total liabilities	100,946	100,925	20
Derivative transactions <sup>(2)</sup>			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	—	—	—

Current fiscal year (As of March 31, 2020)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(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) Equity securities issued by affiliated companies	803	646	(156)
Total assets	224,141	223,951	(190)
(1) Notes and accounts payable-trade	17,834	17,834	—
(2) Short-term loans payable	13,331	13,331	—
(3) Long-term loans payable	42,003	41,896	107
(4) Current portion of corporate bonds	10,000	10,000	—
(5) Corporate bonds payable	10,000	9,888	111
Total liabilities	93,168	92,950	218
Derivative transactions			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	(596)	(596)	—
Total derivative transactions	(596)	(596)	—

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions

## Assets

(1) Cash and deposits and (2) Notes and accounts receivable-trade

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable-trade, those which have more than a year to the payment date from the end of the current fiscal year are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.

(3) Short-term investment securities and investment securities

The fair values of stocks are determined using the quoted price on the stock exchange, and those of bonds are determined using the quoted price on the exchange or the quoted price obtained from financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 12-Investment Securities."

## Liabilities

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

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

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

These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts with special treatment applied and by interest rate and currency swap contracts with combined treatment applied (subject to special treatment and allocation hedge accounting) are calculated by combining them with the relevant interest rate swap or interest rate and currency swap.

## Derivative transactions

For notes concerning derivatives, please see "Note 13-Derivative Transactions."

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

Item	Millions of yen	
	2019	2020
Investments in unlisted stocks, etc.	¥ 3,430	¥ 2,704
Investments in investment limited partnerships, etc.	8,432	8,631
Stocks of non-consolidated subsidiaries	350	345
Stocks of affiliates	26,499	23,357
Investments in capital of subsidiaries and affiliates	1,073	685

These items are not included in "(3) Short-term investment securities and investment securities", because there is no market price, future cash flows cannot be estimated, and it is extremely difficult to identify fair values.

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

Previous fiscal year (As of March 31, 2019)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥137,425	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	38,972	236	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	500	200	500	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	—	—	—	—
Available-for-sale securities with maturities (Other)*	14,000	200	—	—
Total	190,897	636	500	200

\* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Current fiscal year (As of March 31, 2020)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥159,013	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	39,698	709	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	200	—	400	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	—	—	—	—
Available-for-sale securities with maturities (Other)*	5,000	200	—	—
Total	203,912	909	400	200

\* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Note 4: Redemption schedules of loans payable, corporate bonds payable, lease obligations and other interest-bearing liabilities

Previous fiscal year (As of March 31, 2019)

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥13,352	¥ —	¥ —	¥ —	¥ —	¥—
Long-term loans payable	—	13,331	3	10,000	17,000	—
Corporate bonds payable	12,500	10,000	—	—	—	—
Lease obligations	365	312	215	133	117	7
Other interest-bearing debt:						
Accounts payable-facilities	92	22	14	14	8	1

Current fiscal year (As of March 31, 2020)

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥13,331	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	3	10,000	17,000	15,000	—
Corporate bonds payable	10,000	—	—	—	—	10,000
Lease obligations	888	786	661	553	327	1,104
Other interest-bearing debt:						
Accounts payable-facilities	34	25	25	19	13	61

**12 Investment Securities****1. Held-to-maturity debt securities**

Previous fiscal year (As of March 31, 2019)

**(1) Securities whose market value exceeds the consolidated balance sheet amount**

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	1,011	1,018	7
3) Other	—	—	—
Total	1,011	1,018	7

**(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount**

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	400	400	(0)
3) Other	—	—	—
Total	400	400	(0)

Current fiscal year (As of March 31, 2020)

**(1) Securities whose market value exceeds the consolidated balance sheet amount**

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	309	310	0
3) Other	—	—	—
Total	309	310	0

**(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount**

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	500	491	(8)
3) Other	—	—	—
Total	500	491	(8)

**2. Available-for-sale securities**

Previous fiscal year (As of March 31, 2019)

**(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost**

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥29,027	¥9,007	¥20,019
2) Bonds	3,200	3,200	0
3) Other	1,517	1,364	152
Total	33,745	13,572	20,173

**(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost**

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥ 238	¥ 321	¥ (82)
2) Bonds	978	1,083	(105)
3) Other	11,000	11,000	—
Total	12,217	12,405	(188)

Current fiscal year (As of March 31, 2020)

**(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost**

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥14,606	¥8,270	¥6,335
2) Bonds	—	—	—
3) Other	1,389	1,364	24
Total	15,995	9,635	6,360

**(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost**

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥1,480	¥1,535	¥ (55)
2) Bonds	5,630	5,784	(154)
3) Other	—	—	—
Total	7,110	7,320	(209)

Note: "Shares" include the shares for which the ASU No. 2016-01 is applied, and valuation difference of ¥291 million is recorded under non-operating income.

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

Previous fiscal year (As of March 31, 2019)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥5,835	¥1,334	¥139
2) Bonds	—	—	—
3) Other	181	366	—
Total	6,017	1,701	139

## Notes to Consolidated Financial Statements

Current fiscal year (As of March 31, 2020)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥410	¥104	¥97
2) Bonds	242	—	3
3) Other	—	—	—
Total	652	104	101

### 4. Impairment loss on securities

Previous fiscal year (From April 1, 2018 to March 31, 2019)

Not applicable

Current fiscal year (From April 1, 2019 to March 31, 2020)

The Group recognized impairment loss on available-for-sale securities in the amount of ¥573 million.

## 13 Derivative Transactions

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

#### (1) Currency-related derivatives

Previous fiscal year (As of March 31, 2019)

Not applicable.

Current fiscal year (As of March 31, 2020)

Not applicable.

#### (2) Compound financial instruments

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in "Note 12, Investment Securities."

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

#### (1) Currency-related derivatives

Previous fiscal year (As of March 31, 2019)

Not applicable.

Current fiscal year (As of March 31, 2020)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts: Buying U.S. dollar	Accounts payable—trade	¥653	¥—	¥9

Note: Calculation method of fair value: Fair values are calculated based on the prices presented by the financial institutions with which derivatives are transacted.

### (2) Interest rate-related derivatives

Previous fiscal year (As of March 31, 2019)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥30,000	¥13,320	Note
Total			30,000	13,320	—

Note: Fair value of special treatment for interest rate swaps is included in the fair value of hedged long-term loans payable since these derivatives and the hedged long-term loans payable are accounted for as one financial instrument.

Current fiscal year (As of March 31, 2020)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method (Note 2)	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥29,767	¥29,767	¥(602)
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Short-term loans payable	30,000	—	Note 3
Total			59,767	29,767	(602)

Notes: 1. Calculation method of fair value: Fair values are calculated based on the prices presented by the financial institutions with which derivatives are transacted.

2. Primary method represents interest rate swaps transactions to long-term loans payable that are used by entities accounted for using equity method. The contract amount and fair value are multiplied by the equity interest held by the Company.

3. The fair value of special treatment for interest rate swaps is included in the fair value of hedged short-term loans payable since these derivatives and the hedged short-term loans payable are accounted for as one financial instrument.

## 14 Retirement Benefits

### 1. Overview of retirement benefit plans

The Company and domestic consolidated subsidiaries offer, based on retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans.

In addition to the above plan, the Company and certain domestic consolidated subsidiaries introduced new selective defined contribution pension plans from the previous fiscal year. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries already have defined contribution pension plans.

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

### 2. Defined benefit pension plan

#### (1) Reconciliation of the difference between the amounts of projected benefit obligations (excluding pension plan using the simplified method)

	Millions of yen	
	2019	2020
Projected benefit obligations at the beginning of the period	¥27,066	¥29,499
Service costs—benefits earned during the year	2,124	2,217
Interest cost on projected benefit obligations	90	66
Actuarial differences accrued	551	(248)
Retirement benefit paid	(489)	(526)
Other	157	8
Projected benefit obligations at the end of the period	29,499	31,016

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

	Millions of yen	
	2019	2020
Plan assets at the beginning of the period	¥26,002	<b>¥28,707</b>
Expected return on plan assets	489	<b>545</b>
Actuarial differences accrued	(211)	<b>(1,130)</b>
Contribution of employer	2,885	<b>2,963</b>
Retirement benefit paid	(458)	<b>(443)</b>
Other	(1)	<b>—</b>
Plan assets at the end of the period	28,707	<b>30,644</b>

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

	Millions of yen	
	2019	2020
Net defined benefit liability at the beginning of the period	¥600	<b>¥656</b>
Retirement benefit expenses	77	<b>123</b>
Retirement benefit paid	(25)	<b>(50)</b>
Other	3	<b>(0)</b>
Net defined benefit liability at the end of the period	656	<b>728</b>

**(4) Reconciliation of the difference between the amount of projected benefit obligations and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet**

	Millions of yen	
	2019	2020
Funded projected benefit obligations	¥ 27,620	<b>¥ 29,032</b>
Plan assets	(28,707)	<b>(30,644)</b>
	(1,087)	<b>(1,611)</b>
Unfunded projected benefit obligations	2,535	<b>2,711</b>
Net amount of liabilities and assets recorded in the consolidated balance sheet	1,448	<b>1,100</b>
Net defined benefit liability	4,019	<b>4,176</b>
Net defined benefit asset	(2,570)	<b>(3,076)</b>
Net amount of liabilities and assets recorded in the consolidated balance sheet	1,448	<b>1,100</b>

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

**(5) Breakdown of retirement benefit expenses**

	Millions of yen	
	2019	2020
Service costs—benefits earned during the year	¥2,124	<b>¥2,217</b>
Interest cost on projected benefit obligations	90	<b>66</b>
Expected return on plan assets	(489)	<b>(545)</b>
Amortization of actuarial difference	532	<b>(83)</b>
Amortization of prior service cost	—	<b>—</b>
Retirement benefit expenses using the simplified method	77	<b>123</b>
Other	54	<b>5</b>
Retirement benefit expenses of defined benefit pension plan	2,390	<b>1,783</b>

Note: In addition to the retirement benefit expenses shown above, early extra retirement payments have been recorded as an extraordinary loss. The amounts recorded are ¥175 million and ¥32 million for the previous fiscal year and the current fiscal year, respectively.

**(6) Remeasurements of defined benefit plans, net of tax**

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction).

	Millions of yen	
	2019	2020
Actuarial difference	¥(229)	<b>¥(966)</b>
Total	(229)	<b>(966)</b>

**(7) Remeasurements of defined benefit plans**

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction).

	Millions of yen	
	2019	2020
Unrecognized actuarial difference	¥(441)	<b>¥(1,407)</b>
Total	(441)	<b>(1,407)</b>

**(8) Matters concerning plan assets**

## 1) Breakdown of plan assets

Ratio of main classes of plan assets

	2019	2020
Debt securities	57%	<b>47%</b>
Share of stock	10	<b>8</b>
Cash and deposits	19	<b>31</b>
General account	10	<b>10</b>
Other	2	<b>2</b>
Total	100	<b>100</b>

## 2) Long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, as well as current and future long-term rate of returns for the various assets which make up the plan assets.

**(9) Matters concerning basis for the actuarial calculation**

Basis for the actuarial calculation

	2019	2020
Discount rate	0.0–1.0%	<b>0.0–0.8%</b>
Long-term expected rate of return on plan assets	1.6–2.0%	<b>1.6–2.0%</b>
Salary increase ratio (Note)	Principally, salary increase index by ages as of March 31, 2016 is used.	<b>Principally, salary increase index by ages as of March 31, 2016 is used.</b>

Note: Some consolidated subsidiaries do not use salary increase ratio for the calculation of retirement benefits obligations.

**3. Defined contribution pension plans**

The required contribution amounts to the defined contribution plan of the Company and its consolidated subsidiaries were ¥697 million in the previous fiscal year and ¥781 million in the current fiscal year.

## 15 Stock Option Plan

### 1. Account title and amount of stock options recorded as expenses

	Millions of yen	
	2019	2020
Other in selling, general and administrative expenses	¥199	¥—

### 2. Amounts recognized as gain due to vested stock options unexercised

	Millions of yen	
	2019	2020
Other income	¥13	¥20

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

Previous fiscal year (From April 1, 2018 to March 31, 2019)

#### (1) The following table summarizes the contents of stock options

Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 7 The Company's employees: 11 The Company's subsidiaries' directors: 43 The Company's subsidiaries' executive officers: 46 The Company's subsidiaries' employees: 822
Class and number of stock	Common stock 250,000	Common stock 3,844,500
Date of issue	September 1, 2016	September 1, 2016
Condition of settlement of rights	Continue to work from September 1, 2016 to September 1, 2018	Continue to work from September 1, 2016 to September 1, 2018
Period grantees provide service in return for stock options	September 1, 2016 to September 1, 2018	September 1, 2016 to September 1, 2018
Period subscription rights are to be exercised	September 2, 2018 to September 1, 2020	September 2, 2018 to September 1, 2020

#### (2) The following table summarizes the scale and movement of stock options

	Shares	
Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Not exercisable stock options		
Stock options outstanding at April 1, 2018	250,000	3,791,500
Stock options granted	—	—
Forfeitures	—	62,000
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2019	250,000	3,729,500
Exercisable stock options		
Stock options outstanding at April 1, 2018	—	—
Conversion from not exercisable stock options	250,000	3,729,500
Stock options exercised	165,000	197,800
Forfeitures	—	52,500
Stock options outstanding at March 31, 2019	85,000	3,479,200

The following table summarizes the price information of stock options

	Yen	
Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Exercise price	¥1,413	¥1,413
Average market price of the stock at the time of exercise	1,447	1,696
Fair value of the stock option at the date of grant	256	256

Current fiscal year (From April 1, 2019 to March 31, 2020)

#### (1) The following table summarizes the contents of stock options

Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 7 The Company's employees: 11 The Company's subsidiaries' directors: 43 The Company's subsidiaries' executive officers: 46 The Company's subsidiaries' employees: 822
Class and number of stock	Common stock 250,000	Common stock 3,844,500
Date of issue	September 1, 2016	September 1, 2016
Condition of settlement of rights	Continue to work from September 1, 2016 to September 1, 2018	Continue to work from September 1, 2016 to September 1, 2018
Period grantees provide service in return for stock options	September 1, 2016 to September 1, 2018	September 1, 2016 to September 1, 2018
Period subscription rights are to be exercised	September 2, 2018 to September 1, 2020	September 2, 2018 to September 1, 2020

#### (2) The following table summarizes the scale and movement of stock options

	Shares	
Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Not exercisable stock options		
Stock options outstanding at April 1, 2019	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2020	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2019	85,000	3,479,200
Conversion from not exercisable stock options	—	—
Stock options exercised	8,400	296,400
Forfeitures	—	80,700
Stock options outstanding at March 31, 2020	76,600	3,102,100

The following table summarizes the price information of stock options.

Company name	Yen	
	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Exercise price	¥1,413	¥1,413
Average market price of the stock at the time of exercise	1,619	1,594
Fair value of the stock option at the date of grant	256	256

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

Previous fiscal year (From April 1, 2018 to March 31, 2019)

Not applicable

Current fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable

#### 5. Estimation of number of exercisable stock options

As it is difficult to reasonably estimate the number of stock options that will be forfeited in the future, the number here reflects only stock options that have actually been forfeited.

## 16 Income Taxes

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

	Millions of yen	
	2019	2020
Deferred tax assets:		
Allowance for doubtful accounts	¥ 192	¥ 286
Loss on valuation of inventories	1,623	2,038
Provision for bonuses	1,810	2,520
Net defined benefit liability	1,438	1,699
Depreciation expense	17,769	19,256
Loss on valuation of investment securities	515	542
Impairment loss	2,579	2,499
Other	11,772	9,621
Tax loss carried forward	42,613	37,397
Total	80,314	75,861
Valuation allowance for tax loss carried forward (Note 2)	(41,782)	(37,292)
Valuation allowance for deductible temporary difference	(27,631)	(32,505)
Valuation allowance (Note 1)	(69,413)	(69,797)
Offset against deferred tax liabilities	(6,802)	(4,848)
Net deferred tax assets	4,098	1,215
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(6,483)	(2,305)
Other	(2,429)	(4,709)
Subtotal of deferred tax liabilities	(8,912)	(7,014)
Offset against deferred tax assets	6,802	4,848
Total	(2,110)	(2,165)
Recorded deferred tax assets	1,988	(950)

Notes: 1. Valuation allowance increased by ¥383 million. The main reasons for this increase were a decrease in valuation allowance of ¥4,490 million for tax loss carryforwards associated with the use of tax loss carryforwards and an increase in valuation allowance for deductible temporary difference of ¥4,873 million.

2. Amount of tax loss carried forward and their deferred tax assets by carryforward period are as follows.

Previous fiscal year (As of March 31, 2019)

	Millions of yen						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carried forward (a)	¥ 4,145	¥ 3,141	¥ 5,847	¥ 5,418	¥ 2,794	¥ 21,265	¥ 42,613
Valuation allowance	(4,145)	(3,141)	(5,303)	(5,418)	(2,531)	(21,242)	(41,782)
Deferred tax assets	—	—	544	0	262	22	(b) 830

(a) The amount of tax loss carried forward is the amount under the normal effective statutory tax rate.

(b) Regarding the amount of tax loss carried forward of ¥42,613 million (amount under the normal effective statutory tax rate), deferred tax assets of ¥830 million were recorded. The Company deemed that a partial amount of tax loss carried forward can be recovered mainly in the following fiscal year due to the estimated amount of taxable income.

Current fiscal year (As of March 31, 2020)

	Millions of yen						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carried forward (a)	¥ 3,123	¥ 5,147	¥ 5,198	¥ 2,485	¥ 1,804	¥ 19,638	¥ 37,397
Valuation allowance	(3,123)	(5,147)	(5,197)	(2,482)	(1,804)	(19,537)	(37,292)
Deferred tax assets	—	—	1	2	0	100	(b) 105

(a) The amount of tax loss carried forward is the amount under the normal effective statutory tax rate.

(b) Regarding the amount of tax loss carried forward of ¥37,397 million (amount under the normal effective statutory tax rate), deferred tax assets of ¥105 million were recorded. The Company deemed that a partial amount of tax loss carried forward relating to local tax can be recovered mainly in the following fiscal year due to the estimated amount of taxable income.

### 2. Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the fiscal years ended March 31, 2019 and 2020

	2019	2020
Statutory tax rate	30.6%	30.6%
(Reconciliation)		
Changes in valuation allowance	(55.1)	18.0
Permanently non-deductible expenses including entertainment expenses	7.4	2.2
Amortization of goodwill	7.7	2.3
Difference of tax rates for consolidated subsidiaries	(3.1)	(2.0)
Tax credit for experiment and research expenses	(22.0)	(9.0)
Tax loss carryforward	81.4	0.9
Effect of adjustment for consolidation	16.4	1.4
Other	(2.4)	4.1
Effective tax rate for financial statement purposes	61.0	48.4

## 17 Business Combination

The Company resolved at a Board of Directors' meeting on March 29, 2019, to acquire all shares of Two Point Studios Ltd. (Headquarters: Farnham, United Kingdom) through SEGA Games Co., Ltd., a consolidated subsidiary of the Company. As of May 8, 2019, the Company had acquired the shares of the said company and made it a consolidated subsidiary.

### 1. Outline of business combination

(1) Name and business of acquired company

Name of acquired company: Two Point Studios Ltd.

Description of business: Development and sales of content for the PC market in the U.S. and European regions

### (2) Reason for business combination

We believe that the outstanding content development capability and accumulated development expertise of Two Point Studios Ltd. will contribute to the creation of new IPs in the SEGA Group and further increase the presence of the Group in the global game market.

### (3) Date of business combination

May 8, 2019

### (4) Legal structure of the business combination

Purchase of shares with cash

**(5) Name of company after the business combination**

Unchanged

**(6) Share of voting rights acquired**

100%

**(7) Main grounds for determining the acquiring company**

This was a share acquisition for cash consideration by SEGA Games Co., Ltd., a consolidated subsidiary of the Company.

**2. Period during which the financial results of the acquired company are included in the consolidated financial statements**

From July 1, 2019 to March 31, 2020

**3. Acquisition costs of the acquired company and consideration by class**

Consideration for acquisition <sup>(Note)</sup> Cash	£10 million (¥1,442 million)
Acquisition costs	£10 million (¥1,442 million)

Note: Contingent consideration for acquisition is not included in the consideration for acquisition. Contingent consideration for acquisition has yet to be determined at this time because it is specified in the agreement that the contingent consideration for acquisition shall be paid based on the future performance of the acquired company over a certain period of time. In the event where the payment of additional consideration for acquisition is required, the Company shall adjust the acquisition costs by deeming such additional amount has been paid at the time of the acquisition, and the amount of goodwill and amortization thereof shall be revised accordingly.

**4. Description and amounts of major relevant costs for the acquisition**

Due diligence costs	¥39 million
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**5. Goodwill recognized, reason for recognition, and amortization method and period****(1) Goodwill recognized**

¥1,315 million

**(2) Reason for recognition**

The outstanding content development capability and accumulated development expertise of Two Point Studios Ltd. is considered to have generated goodwill because such capability and expertise is expected to provide excess earning power through the contribution to the creation of new IPs in the SEGA Group.

**(3) Amortization method and period**

Straight-line over 7 years

**6. Amount of assets acquired and liabilities assumed on the date of the business combination**

Current assets	¥249 million
Noncurrent assets	6 million
Total assets	256 million
Current liabilities	129 million
Noncurrent liabilities	—
Total liabilities	129 million

**7. Amounts allocated to intangible assets other than goodwill, breakdown of the components thereof, and method and period for amortization**

Not applicable.

**8. Approximate amount of impact of the business combination on the consolidated statements of income and comprehensive income for the current fiscal year on the assumption that the business combination was completed at the beginning of the current fiscal year and the method of calculation thereof**

The information is omitted due to the immateriality of the effects. No audit attestation has been received for the provisional calculation of the above mentioned approximate amount.

**18 Asset Retirement Obligations**

Previous fiscal year (As of March 31, 2019)

The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

Current fiscal year (As of March 31, 2020)

The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

**19 Rental Property and Other Real Estate**

Previous fiscal year (As of March 31, 2019)

The information is omitted due to the immateriality of the total amount of the rental property and other real estate.

Current fiscal year (As of March 31, 2020)

The information is omitted due to the immateriality of the total amount of the rental property and other real estate.

**20 Segment Information****1. Outline of reporting segments**

Reporting segments of the Group are the organizational units for which separated financial information is available, and on the basis of which the Board of Directors makes decision on the allocation of management resources and examines financial performance on a regular basis.

Planning of business development and strategies as well as execution of business activities in respect of each product and service is carried out by each Group company that provides such product and service.

As such, the Group comprises segments classified by product and service provided through the business run by each company, in which the "Pachislot and Pachinko Machines Business," the "Entertainment Contents Business" and the "Resort Business" are the reporting segments.

Line of business at each reporting segment is as follows:

Segment	Main product and business
Pachislot and Pachinko Machines Business	Development, manufacture and sales of pachislot and pachinko machines
Entertainment Contents Business	Development and sales of digital game software serving as the main axis of segments; development and sales of packaged game software and amusement machines; development and operation of amusement centers; planning, production and sales of animated films; development, manufacture and sales of toys
Resort Business	Development and operation of hotels and golf courses, etc., in the integrated resorts business and other facilities businesses

**2. Basis of measurement for net sales, income (loss), assets and other items by each reporting segment**

The accounting treatment for the Group's reporting segments is generally the same as described in "Note 2 – Summary of Significant Accounting Policies."

## Notes to Consolidated Financial Statements

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

Previous fiscal year (From April 1, 2018 to March 31, 2019)

	Reporting segment					Adjustment (Note)	Amount in Consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal			
Net sales:							
Sales to third parties	¥101,425	¥219,631	¥10,589	¥331,647	¥ 1	¥331,648	
Inter-segment sales and transfers	928	1,149	49	2,127	(2,127)	—	
Total	102,354	220,781	10,639	333,774	(2,126)	331,648	
Segment income (loss)	13,490	9,857	(2,412)	20,935	(7,855)	13,079	
Segment assets	80,035	176,384	44,836	301,256	163,398	464,654	
Other items:							
Depreciation	4,962	12,011	876	17,849	969	18,819	
Investments in affiliates accounted for by the equity method	446	693	25,604	26,745	818	27,564	
Increases in property, plant and equipment and intangible assets	5,060	25,030	192	30,283	4,141	34,424	

- Notes: 1. Elimination of inter-segment transactions of ¥(7) million and general corporate expenses of ¥(7,848) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(7,855) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.  
2. Adjustments for segment assets of ¥163,398 million includes elimination of inter-segment transactions of ¥(16,326) million and general corporate assets of ¥179,724 million which are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.  
3. The adjustment to depreciation is mainly depreciation associated with the Company.  
4. Adjustments for investments in affiliates accounted for using the equity method are investments in affiliates accounted for using the equity method that are not attached to each reporting segment.  
5. The adjustment to property, plant and equipment and intangible assets is mainly the purchase of noncurrent assets associated with the Company.  
6. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

Current fiscal year (From April 1, 2019 to March 31, 2020)

	Reporting segment					Adjustment (Note)	Amount in Consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal			
Net sales:							
Sales to third parties	¥108,364	¥247,749	¥10,478	¥366,592	¥ 1	¥366,594	
Inter-segment sales and transfers	675	1,039	82	1,796	(1,796)	—	
Total	109,039	248,788	10,561	368,389	(1,794)	366,594	
Segment income (loss)	24,929	14,874	(3,667)	36,135	(8,492)	27,643	
Segment assets	79,296	183,112	37,356	299,765	158,503	458,268	
Other items:							
Depreciation	4,286	10,670	1,103	16,061	1,132	17,193	
Investments in affiliates accounted for by the equity method	493	728	22,130	23,352	803	24,156	
Increases in property, plant and equipment and intangible assets	3,495	18,216	265	21,977	919	22,896	

- Notes: 1. Elimination of inter-segment transactions of ¥(7) million and general corporate expenses of ¥(8,485) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(8,492) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.  
2. Adjustments for segment assets of ¥158,503 million includes elimination of inter-segment transactions of ¥(15,394) million and general corporate assets of ¥173,897 million which are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.  
3. The adjustment to depreciation is mainly depreciation associated with the Company.  
4. Adjustments for investments in affiliates accounted for using the equity method are investments in affiliates accounted for using the equity method that are not attached to each reporting segment.  
5. The adjustment to property, plant and equipment and intangible assets is mainly the purchase of noncurrent assets associated with the Company.  
6. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

[Related information]

Previous fiscal year (From April 1, 2018 to March 31, 2019)

#### 1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

#### 2. Geographical segment information

##### (1) Net sales

					Millions of yen
Japan	North America	Europe	Other	Total	
¥277,903	¥33,373	¥10,937	¥9,433	¥331,648	

Note: Net sales are geographically classified by country or region in which customers are located.

##### (2) Property, plant and equipment

Description is omitted, since property, plant and equipment in Japan exceeded 90% of those stated in the consolidated balance sheets.

#### 3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statements of income and comprehensive income.

Current fiscal year (From April 1, 2019 to March 31, 2020)

#### 1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

#### 2. Geographical segment information

##### (1) Net sales

					Millions of yen
Japan	North America	Europe	Other	Total	
¥291,242	¥49,027	¥14,610	¥11,714	¥366,594	

Note: Net sales are geographically classified by country or region in which customers are located.

##### (2) Property, plant and equipment

Description is omitted, since property, plant and equipment in Japan exceeded 90% of those stated in the consolidated balance sheets.

#### 3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statements of income and comprehensive income.

[Information on the amount of impairment loss on noncurrent assets by each reporting segment]

Previous fiscal year (From April 1, 2018 to March 31, 2019)

	Reporting segment					Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal			
Impairment loss	¥—	¥8,334	¥—	¥8,334	¥—	¥8,334	

## Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2019 to March 31, 2020)

	Reporting segment					Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal	Adjustment (Note)	
	Impairment loss	¥—	¥371	¥—	¥371	¥—

[Information on amortization of goodwill and unamortized balance by each reporting segment]

Previous fiscal year (From April 1, 2018 to March 31, 2019)

	Reporting segment					Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal	Adjustment (Note)	
	Amortization	¥70	¥1,993	¥—	¥2,064	¥—
Balance as of March 31, 2019	—	6,448	—	6,448	—	6,448

Current fiscal year (From April 1, 2019 to March 31, 2020)

	Reporting segment					Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal	Adjustment (Note)	
	Amortization	¥—	¥2,043	¥—	¥2,043	¥—
Balance as of March 31, 2020	—	5,878	—	5,878	—	5,878

[Information on gain on negative goodwill by each reporting segment]

Previous fiscal year (From April 1, 2018 to March 31, 2019)

Not applicable

Current fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable

## 21 Related-Party Transactions

## 1. Related-party transactions

## (1) Transactions between the Company and related parties

1) Non-consolidated subsidiaries and affiliated companies of the Company

Previous fiscal year (From April 1, 2018 to March 31, 2019)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	End of period account balance	
				Accounts	
PARADISE SEGASAMMY Co., Ltd.	Resort business	Underwriting of capital increase <sup>(Note 1)</sup>	¥4,436	—	—
		Provision of security <sup>(Note 2)</sup>	25,604	—	—

Notes: 1. The Company underwrote a capital increase through allotment to shareholders.

2. For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

Current fiscal year (From April 1, 2019 to March 31, 2020)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	End of period account balance	
				Accounts	
PARADISE SEGASAMMY Co., Ltd.	Resort business	Provision of security <sup>(Note 1)</sup>	¥22,130	—	—

Note: 1. For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

2) Directors, key individual shareholders, etc., of the Company

Previous fiscal year (From April 1, 2018 to March 31, 2019)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	End of period account balance	
				Accounts	
Hajime Satomi	Director of the Company	Exercise of stock options <sup>(Note 1)</sup>	¥105	—	—
Haruki Satomi	Director of the Company	Exercise of stock options <sup>(Note 1)</sup>	127	—	—
Yuichi Amari	Director of Sammy Corporation	Exercise of stock options <sup>(Note 1)</sup>	11	—	—
FSC Co., Ltd. <sup>(Note 2)</sup>	Non-life insurance agent	Payment of insurance <sup>(Note 3)</sup>	8	Prepaid expenses	¥4
		Rental income from real estate and equipment <sup>(Note 3)</sup>	1	Long-term prepaid expenses	1

Notes: 1. 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, 2019 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, 2019 by the amount of payment upon exercise.

2. 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.

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

4. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2019 to March 31, 2020)

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
Hajime Satomi	Director of the Company	Grant of restricted Stock <sup>(Note 1)</sup>	<b>¥48</b>	—	—
		Receipt of noncurrent asset usage fees <sup>(Note 2)</sup>	<b>23</b>	—	—
Haruki Satomi	Director of the Company	Grant of restricted Stock <sup>(Note 1)</sup>	<b>18</b>	—	—
	Chairman of SEGA SAMMY ARTS FOUNDATION	Payment of donation <sup>(Note 3)</sup>	<b>103</b>	—	—
Koichi Fukazawa	Director of the Company	Exercise of stock options <sup>(Note 4)</sup>	<b>11</b>	—	—
Hideo Yoshizawa	Director of the Company	Exercise of stock options <sup>(Note 4)</sup>	<b>22</b>	—	—
Toshimi Kumagai	Director of Sammy Corporation	Exercise of stock options <sup>(Note 4)</sup>	<b>11</b>	—	—
Ayumu Hoshino	Director of Sammy Corporation	Exercise of stock options <sup>(Note 4)</sup>	<b>11</b>	—	—
Kazuhiro Sumitani	Director of Sammy Corporation	Exercise of stock options <sup>(Note 4)</sup>	<b>10</b>	—	—
Kenichi Tokumura	Director of Sammy Corporation	Exercise of stock options <sup>(Note 4)</sup>	<b>10</b>	—	—
FSC Co., Ltd. <sup>(Note 5)</sup>	Non-life insurance agent	Payment of insurance <sup>(Note 2)</sup>	<b>12</b>	Prepaid expenses	<b>¥14</b>
				Long-term prepaid expenses	<b>1</b>

Notes: 1. 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 restricted stock. 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.

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

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

4. Stock options which were granted based on the resolution at the interim Board of Directors Meeting held on August 2, 2016, 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.

5. 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.

6. Consumption taxes are not included in transaction amount.

**(2) Transactions between subsidiaries of the Company and related parties**

Directors, key individual shareholders, etc., of the Company

Previous fiscal year (From April 1, 2018 to March 31, 2019)

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
FSC Co., Ltd. <sup>(Note 1)</sup>	Non-life insurance agent	Payment of insurance <sup>(Note 2)</sup>	¥27	Prepaid expenses	¥2
				Accrued expenses	0

Notes: 1. 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.

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

3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2019 to March 31, 2020)

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
FSC Co., Ltd. <sup>(Note 1)</sup>	Non-life insurance agent	Payment of insurance <sup>(Note 2)</sup>	<b>¥20</b>	Prepaid expenses	<b>¥0</b>
				Accrued expenses	<b>0</b>

Notes: 1. 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.

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

3. Consumption taxes are not included in transaction amount.

**2. Notes on the parent company or significant affiliates****(1) Information on the parent company**

Not applicable

**(2) Summarized financial information of significant affiliates**

PARADISE SEGASAMMY Co., Ltd. is a significant affiliates in the current fiscal year, and its summarized financial statements are as follows.

	Millions of yen	
	2019	2020
Total current assets	¥ 14,574	<b>¥ 17,504</b>
Total noncurrent assets	136,679	<b>135,684</b>
Total current liabilities	15,779	<b>23,868</b>
Total noncurrent liabilities	79,849	<b>80,502</b>
Total net assets	55,624	<b>48,816</b>
Net sales	30,341	<b>43,690</b>
Income (loss) before income taxes	(6,077)	<b>(2,816)</b>
Income (loss)	(6,028)	<b>(2,750)</b>

**22 Per Share Data**

Item	Yen	
	2019	2020
Net assets per share	¥1,289.32	<b>¥1,251.02</b>
Net income per share	11.27	<b>58.65</b>
Net income per share (diluted)	11.24	<b>58.63</b>

**1. The calculation basis for net assets per share is as follows.**

Items	2019	2020
Total of net assets in the consolidated balance sheets (Millions of yen)	¥305,337	<b>¥296,858</b>
Amounts deducted from net assets in the consolidated balance sheets (Millions of yen)	2,688	<b>2,755</b>
(Subscription rights to shares (Millions of yen))	912	<b>813</b>
(Non-controlling interests (Millions of yen))	1,776	<b>1,941</b>
Net assets available for common stock (Millions of yen)	302,648	<b>294,102</b>
Number of common stock used to calculate net assets per share (Thousands of shares)	234,735	<b>235,091</b>

**2. The assumptions of net income (loss) per share and diluted net income per share are as follows.**

Item	2019	2020
Net income per share:		
Profit attributable to owners of parent (Millions of yen)	¥2,642	<b>¥13,775</b>
Amount not attributable to common stockholders (Millions of yen)	—	<b>—</b>
Profit (loss) attributable to owners of parent for common stock (Millions of yen)	2,642	<b>13,775</b>
Average number of common stocks (Thousands of shares)	234,541	<b>234,849</b>
Diluted net income per share:		
Profit attributable to owners of parent adjustment (Millions of yen)	—	<b>—</b>
Increase of common stock (Thousands of shares)	575	<b>97</b>
(Stock options (Thousands of shares))	575	<b>97</b>
Outline of potential shares not included in calculation of net income per share (diluted) because of no dilutive effect	—	<b>—</b>

**23 Significant Subsequent Events****1. Merger between consolidated subsidiaries**

The merger between the consolidated subsidiaries was 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 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 the reallocation of the domestic R&D resources of the Group more flexible 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 merged into SEGA Games Co., Ltd., which is the surviving company, through an absorption-type merger on the effective date.

## 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
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 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).

**2. Changes in segment classification, etc.**

Because of greater efforts to promote synergy effects from the "Pachislot and Pachinko Machines Business" in the development of gaming machines, commencing the following fiscal year, as part of reclassification of the Group's reporting segments, the businesses operated by SEGA SAMMY CREATION INC. included in the former "Entertainment Contents Business" will now be changed to the "Pachislot and Pachinko Machines Business."

In addition, as an evaluation index for the performance-linked remuneration of Directors' bonuses of the Company, the Company positions "ordinary income," which is the income obtained by the Group on a recurring basis from the overall business, including equity in earnings and losses of affiliates, etc., as an important target figure. Through such perspective of a management approach, the Company decided to change the measurement methods of segment income from "operating income" to "ordinary income" from the following fiscal year.

Information on the amounts of net sales, income (loss) by each reporting segment for the current fiscal year in the case of application of the new segment classification is as follows.

Current fiscal year (From April 1, 2019 to March 31, 2020)

	Millions of yen					Amount in consolidated financial statements <sup>(Note 2)</sup>
	Pachislot and Pachinko Machines Business	Entertainment Contents Business	Resort Business	Subtotal	Adjustment <sup>(Note 1)</sup>	
Net sales						
Net sales to external customers	<b>¥108,508</b>	<b>¥247,605</b>	<b>¥10,478</b>	<b>¥366,592</b>	<b>¥ 1</b>	<b>¥366,594</b>
Inter-segment sales and transfers	<b>949</b>	<b>816</b>	<b>82</b>	<b>1,848</b>	<b>(1,848)</b>	<b>—</b>
Total	<b>109,458</b>	<b>248,422</b>	<b>10,561</b>	<b>368,441</b>	<b>(1,847)</b>	<b>366,594</b>
Segment income (loss)	<b>22,781</b>	<b>16,272</b>	<b>(5,354)</b>	<b>33,698</b>	<b>(8,402)</b>	<b>25,296</b>

Notes: 1. Adjustment to segment income (loss) of ¥(8,402) million includes elimination of inter-segment transactions of ¥1,416 million and general corporate expenses of ¥(9,818) million which are not allocated to each reporting segment. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and ordinary income in the consolidated statements of income and comprehensive income.

**24 Supplemental Information**

## Supplemental schedule of corporate bonds

Company name	Security titles	Issuance date	Balances as of April 1, 2019 (Millions of yen)	Balances as of March 31, 2020 (Millions of yen)	Interest rate (%)	Type	Date of maturity
The Company	3rd unsecured bonds (Publicly offered bonds)	June 17, 2014	¥10,000	¥ —	0.52	Unsecured	June 17, 2019
	3rd unsecured bonds (Private offered bonds)	September 26, 2014	2,500	—	0.44	Unsecured	September 26, 2019
	4th unsecured bonds (Publicly offered bonds)	June 15, 2015	10,000	10,000 [10,000]	0.57	Unsecured	June 15, 2020
	5th unsecured bonds (Publicly offered bonds)	October 10, 2019	—	10,000	0.38	Unsecured	October 10, 2029
Total	—	—	22,500	20,000 [10,000]	—	—	—

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2020" represent the current portion of corporate bonds.

2. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2020 is as follows:

Millions of yen					
Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
¥10,000	¥—	¥—	¥—	¥—	¥10,000

## Supplemental schedule of borrowings

Category	Balances as of April 1, 2019 (Millions of yen)	Balances as of March 31, 2020 (Millions of yen)	Average interest rate (%)	Repayment period
Short-term loans payable	¥ —	¥ —	—	—
Current portion of long-term loans payable due within one year	13,352	13,331	0.7	—
Current portion of lease obligations	365	888	1.7	—
Long-term loans payable (Excluding current portion)	40,334	42,003	0.4	2021–2025
Lease obligations (Excluding current portion)	786	3,434	2.0	2021–2030
Other interest-bearing debt:				
Accounts payable—facilities	92	34	1.3	—
Accounts payable—facilities (Excluding current portion)	60	145	1.5	2021–2030
Total	54,991	59,837	—	—

Notes: 1. "Average interest rate" represents weighted-average interest rate over the year-end balance of loans.

2. The average interest rate on lease obligations is not listed because lease obligations are posted on the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.

3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2020 is summarized as follows:

Millions of yen					
Category	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Long-term loans payable	¥ 3	¥10,000	¥17,000	¥15,000	¥ —
Lease obligations	786	661	553	327	1,104
Other interest-bearing debt:					
Accounts payable—facilities	25	25	19	13	61

## Information of asset retirement obligations

Category	Balance as of April 1, 2019 (Millions of yen)	Increase during the current period (Millions of yen)	Decrease during the current period (Millions of yen)	Balance as of March 31, 2020 (Millions of yen)
Asset retirement obligations	¥4,897	¥661	¥608	¥4,949

**25 Other**

## Quarterly information for the current fiscal year

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Millions of yen)	¥72,734	¥165,535	¥280,808	¥366,594
Income (loss) before income taxes (Millions of yen)	2,264	12,501	28,369	27,104
Profit attributable to owners of parent (Millions of yen)	1,718	9,870	22,989	13,775
Net income per share (Yen)	7.32	42.05	97.92	58.65
(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income (loss) per share (Yen)	¥7.32	¥34.72	¥55.86	¥(39.21)



## Independent Auditor's Report

To the Board of Directors of SEGA SAMMY HOLDINGS INC.:

### Opinion

We have audited the accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Audit & Supervisory Board Member and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board Member and Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise



professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Member and Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Member and Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

### Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



福田 秀敏 

Hidetoshi Fukuda  
Designated Engagement Partner  
Certified Public Accountant

関口 男也 

Danya Sekiguchi  
Designated Engagement Partner  
Certified Public Accountant

上野 陽一 

Yoichi Ueno  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Tokyo Office, Japan  
September 28, 2020



**SEGA SAMMY HOLDINGS INC.**

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