



BEYOND the Status Quo

Integrated Report 2023

SEGASammy

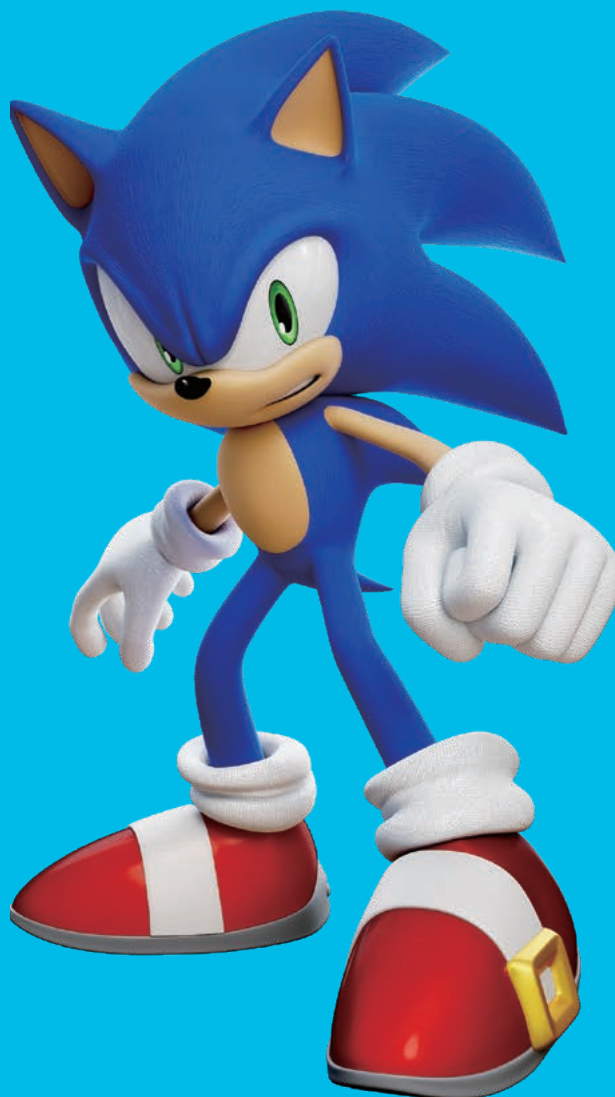
Strengths of the Sega Sammy Group

Surprising the world with CREATIVITY

Sonic Frontiers became a major hit worldwide

The Sonic series, which is particularly popular overseas and whose base spans all ages from parents to children, is a flagship IP for SEGA with cumulative sales of 1.66 billion units/downloads (including F2P title downloads). In November 2022, we launched *Sonic Frontiers*, our first all-new Sonic title in nearly five years, simultaneously worldwide and across multiple platforms. Featuring Sonic's unique supersonic action and action adventure across a vast expanse of islands, *Sonic Frontiers* has captivated users around the world, surpassing 3.2 million copies worldwide (as of the end of March 2023). Games born out of SEGA's creativity and passion will continue to surprise and inspire the world.

SONICTM
FRONTIERS
 ソニック フロントニア



Introduction of Sonic IP topics
 and information on games
 such as *Sonic Frontiers*

SONIC
CHANNEL

[https://sonic.sega.jp/
 SonicChannel/index.html](https://sonic.sega.jp/SonicChannel/index.html)





Smart Pachislot Hokuto No Ken maintaining industry-leading utilization

Launched in 2003, the first *Pachislot Hokuto No Ken* won great acclaim for its cutting-edge gameplay and LCD visual effects. This legendary title achieved sales above 620,000 units, a record that has yet to be beaten by any other single title. With *Smart Pachislot Hokuto No Ken*, we have fully reproduced the gameplay and LCD visual effects of *Pachislot Hokuto No Ken*, giving them a new lease of life as a smart pachislot title. The fun of this title has appealed not only to users familiar with the first generation, but also to new users. The new version has maintained record utilization rates, with sales exceeding 60,000 units (as of the end of July 2023). From one era to another, Sammy's innovation continues to inspire and move people.



Smart Pachislot Hokuto No Ken
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Strengths of the Sega Sammy Group

Changing the world with INNOVATION

Strengths of the Sega Sammy Group

Carving out the future with TALENT

Holding the largest scale global studio structure among Japanese game companies

► Creative Assembly
► Sports Interactive
► Two Point Studios

► Amplitude Studios

► Creative Assembly Sofia

EU
Approx. **1,300**
employees

► SEGA
► ATLUS

Japan/Asia
Approx. **2,100**
employees

- Console
- PC (Online)
- Mobile
- Arcade

► Relic Entertainment

NA
Approx. **400**
employees

► Sega of America

* Number of development employees (full-time and permanent contract employees) as of the end of March 2023

* Japan/Asia include development employees of amusement machines

Diverse human resources working globally

The SEGA SAMMY Group brings together talented and expert people from around the world who work day in, day out to create new value. To continue evolving while maintaining our role as a pioneer in a rapidly changing business environment, we have established SEGA SAMMY Group's HR Transformation Vision. This vision represents a departure from traditional human resource administration styles based on seniority and on rigid structure. Going forward, the Group will continue to enhance various training programs and strengthen human capital with the aim of maximizing the diversity and value of its human resources and demonstrate their strengths in a wide range of business areas.



A training session



For more information on our human capital strategy, see **P. 58-59**



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BEYOND THE

Breaking Out of the and Becoming a Super

Amid dramatic changes in the business environment, we announced a medium-term plan and a clear vision. Guided by this vision, we are pressing ahead to break through profit growth as we strive to become a super company.

In May 2022, we announced our Sustainability Vision. One team to address five material issues: human resources, product, environment, society, and governance.

As always, we will continue to create value. The INTEGRATED REPORT 2023 gives an overview of the measures we are taking to achieve our vision.



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.]



STATUS QUO

The Current Situation of a Sustainable Company

Environment in which the SEGA SAMMY Group operates,
Vision in 2021 to point the way forward for the Group.
Look out of the current situation. We are achieving steady
growth as a truly sustainable corporate group.

Business. Throughout the Group, we are working together as
one to create products and services, environment, addition, and governance.

Life experiences that move the heart.
Review of our thinking and the specific actions
to achieve our vision.

Sustainability website

Provides detailed information and data on activities related
to the Group's five key issues (materiality). Please read
alongside the INTEGRATED REPORT.



[web https://www.segasammy.co.jp/en/sustainability/](https://www.segasammy.co.jp/en/sustainability/)



Cautionary Statement for Investors and Shareholders with Respect to 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., ("the operating companies") both of which are operating companies 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/en/ir/stock/regulation/>

In addition, the operating companies are licensed to manufacture and sell gaming equipment in several countries, states, and regions other than Nevada (hereinafter referred to as "other regions"). Our shareholders may be subject to the same or similar regulations as Nevada under laws and regulations in other regions and rules and regulations stipulated by each gaming authority.

Living Out Our *Raison d'Être*

In every era, entertainment has given vibrancy to society. While entertainment is an it has in itself the power to bring peace to society and inspire people. We will continue our Group's Mission of "Constantly Creating, Forever Captivating—Making life more focusing on the four "Es" of Environment, Empathy, Edge, and Economics.

SEGA SAMMY Group Mission Pyramid



industry that depends on peace for its existence, we believe that
we working as one team made up of all the Group's employees toward
e colorful." We will also carry out sustainable management by

VALUE (Mindset and DNA)

“Creation is Life”

×

“Always Proactive, Always Pioneering”

Material Issues to Be Addressed

The Vision We Aim to Become in 2030

To achieve our vision for the Group in 2030, we are steadily implementing various measures —Breaking the Current Situation and Becoming a Sustainable Company—.

Entertainment Contents Business

Pachislot and Pachinko Machines Business

Resort Business

Financial strategies for maximizing corporate value

Efforts to address material issues (materiality) that make up the foundation of sustainability

Medium-Term Plan

BEYOND THE STATUS QUO

—Breaking the Current Situation and Becoming a Sustainable Company—

From FY2022/3 to FY2024/3

- Proactive investment (Consumer area)
- Strengthening the global branding of existing IPs
- Creation of a "Super Game"
- Creation of hits × Business efficiency
- No. 1 in total utilization of pachislot and pachinko machines
- Reinforcing the earnings base
- Bolstering the profitability of existing resort facilities.
- Careful assessment of investment opportunities in the Gaming area

From FY2022/3 to FY2026/3

Quantitative Goals (FY2026/3)

ROE: Over 10%

Ordinary Income: Over ¥50.0 billion

Consolidated ROIC: Over WACC

D/E ratio: x 0.5 to 0.6

Total return ratio: 50% or more

DOE: 3% or more



Human Resources

Developing people who can create experiences that move the heart



Products and Services

Providing safe, dependable, and innovative products and services



Environment

Strategic commitment to action on climate change



Addiction

Prevention of addictions and disorders



Governance

Strengthening sustainability governance

Measures under the slogan of the medium-term plan: Beyond the Status Quo

Realize a sustainable society and increase corporate value

From FY2025/3 to FY2030/3

✓ Increasing our presence in the global mobile domain

✓ Scaling up our IP lineup

✓ Strengthening the development of smart Pachislot and Pachinko machines

✓ Increasing our market share

✓ Careful assessment of investment opportunities in online casino and sports betting overseas

✓ Careful assessment of investment opportunities in land-based casinos overseas

✓ Promoting combined effort by all Group employees based on a concrete action plan

The vision we aim to become in 2030

Global Leading Contents Provider

Triple crown: Top share in utilization, installation, and sales

Building a stable earnings structure

Realize the investment in Gaming area

2030 targets

Human Resources

- Culturally diverse human resources: Approx. 900 people— (approx. 21%)
- Percentage of women in managerial positions: Approx. 80 people— (approx. 8%)
- Amount invested in education: ¥4.0 billion or more cumulatively
- Engagement score: 58*¹ or above/Rating A*² or above

*1 Source: Link and Motivation Inc, engagement score based on motivation cloud
*2 Engagement Rating

Products and Services

- Global leading contents provider (Entertainment Contents Business)
- Win a "triple crown"—top share in utilization, installation, and sales (Pachislot and Pachinko Machines Business)

Environment

- Achieve carbon neutrality in the Entertainment Contents Business and Pachislot and Pachinko Machines Business. (Reduce group-wide carbon emissions by around 50%)

Addiction

- Compliance with laws and regulations, voluntary rules related to addiction, etc.
- Contributing to the sound development of the industry
- Implementation of industry-academia collaborative research on addiction

Value Creation Process

The Group will use the management resources we have cultivated so far and implement

Group Values/DNA

“Creation is Life” ×

MISSION/PURPOSE (*Raison d'être*)

Constantly Creating,

INPUT

Financial capital

Capital strength and strong financial position

Total assets: ¥**501.5** billion

Total net assets: ¥**313.3** billion

Equity ratio: **66.0%**

Manufacturing capital

Creative DNA that creates experiences that move the heart across a wide range of business domains globally

Intellectual capital

The Group's rich IP lineup  **P. 28**

R&D capabilities

Number of development personnel: **4,695**

R&D expenses: ¥**80.4** billion

Human capital

Consolidated employee numbers: 8,219

(Number of full-time and permanent contract employees *excluding temporary employees)

Employees in Japan: **5,864**

Employees overseas: **2,355**

Amount invested in education: Approx. ¥**0.47** billion*

* Companies in scope: SEGA SAMMY HOLDINGS, SEGA (Japan), Sammy

Social capital

Alliances with other companies

▲ The above figures are the actual results for the fiscal year ended March 2023.

BUSINESS

Business portfolio that carries out our MISSION/PURPOSE

Entertainment Contents Business

- Consumer/Amusement Machine/Animation and Toys

Pachislot and Pachinko Machines Business

- Pachislot machines/ Pachinko machines
- Planning pachislot/pachinko game content for PCs and smartphones
- Gaming machine

Resort Business

- Developing and operating resorts in Japan and overseas

Medium-Term Plan

(FY2022/3-FY2024/3)

Beyond the Status Quo

Breaking out of the Current Situation and Becoming a Sustainable Company

Medium-term plan final year targets

(figures announced in May 2021)

Ordinary income: ¥**45.0** billion ROE: Over**10%**

Entertainment Contents Business

- Reinforcing the earnings base by strengthening the global branding of existing IPs
- Investment stage toward becoming a global player

Pachislot and Pachinko Machines Business

- Becoming No. 1 in total utilization of pachislot and pachinko through creation of hits
- Improving business efficiency and maintain stable earnings

Resort Business

- Careful assessment of investment opportunities in the Gaming area

Material Issues to Be Addressed

Sustainability helps keep life colorful



Human Resources



Products and Services



Environment



Addiction



Governance

Foundation for value creation

Risk management Compliance Strong financial position

ent effective strategies so that we can continue to provide value to all stakeholders

“Always Proactive, Always Pioneering” Forever Captivating — Making life more colorful —

OUTPUT

Net sales: ¥389.6 billion
Ordinary income: ¥49.4 billion
ROE: 14.7%

Entertainment Contents Business

Net sales: ¥282.8 billion
Ordinary income: ¥41.1 billion

Full Game: Unit sales

Total new titles: **10.09** million units
(Japan: **1.09** million units / Overseas: **8.99** million units)

Total repeat sales: **17.79** million units
(Japan: **1.38** million units/Overseas: **16.4** million units)

Global simultaneous launch x multi-platform support

Number of Titles

Total new titles: **10** titles (about **8.8** million units)

Overseas net sales

¥116.7 billion (overseas sales ratio: **62.1%**)

Pachislot and Pachinko Machines Business

Net sales: ¥94.2 billion
Ordinary income: ¥20.7 billion

Cumulative unit sales

Pachislot: **94,966** units Pachinko: **103,556** units

Share of total utilization

Share of total utilization of
pachislot and pachinko machines: **4th**
Pachislot: **3rd** Pachinko: **3rd**

* In-house estimation based on DK-SIS data (Data for 4 yen Pachinko and 20 yen Pachislot) of Daikoku Denki Co., Ltd.

* Utilization Share = Ratio of Sammy machine's utilization out of total number of installed machines for each title x utilization of each title (Pachislot: Numbers of inserted medals, Pachinko: Numbers of shot balls)

Resort Business

Net sales: ¥11.5 billion
Ordinary income: ¥-3.2 billion

Phoenix Seagaia Resort No. of facility users (Thousands)

3 accommodation facilities: **394**
2 golf courses: **103** Other facilities: **449**

▲ Above figures are actual results for the fiscal year ended March 2023.

OUTCOME

VISION (Ideal self)

Be a Game Changer

Creation of social value

Human Resources

Cultural diversity

- Promoting “game change” by increasing culturally diverse human resources

Active career opportunities for women

- Creating a foundation where people can thrive regardless of gender

Development of core human resources

- Strategic development of human resources who can lead the next generation

Maintenance of work environments

- Maintaining and improving the engagement of human resources

Products and Services

Quality improvement

- Making content and services that serve, inspire, and awaken over 3 billion gamers worldwide
- Triple crown: Top share in utilization, installation, and sales

Safety and security

- Creating rules that allow everyone in the world to enjoy games without discrimination
- Continue creating content that users and operators can rely on

Environment

Scope 1, 2

- Achieving carbon neutrality

Scope 3

- Reducing GHG emissions by 22.5% or more

Addiction

- Prevention of addictions and disorders

A Message from the CEO



Haruki Satomi

President and Group CEO,
Representative Director
SEGA SAMMY HOLDINGS INC.

Steady growth in both sales and profit as we moved toward achieving our slogan: Beyond the Status Quo

What does it mean for SEGA SAMMY to continue creating experiences that move the heart?

The SEGA SAMMY Group Mission / Purpose (Raison d'être) is *Constantly Creating, Forever Captivating — Making Life More Colorful—*. For our Group, whose business is grounded in entertainment, creating experiences that move the heart is the very purpose of our existence.

Moreover, creating experiences that captivate and move the heart only once is pointless. To pursue sustainability, it is equally vital that we continue creating such experiences. Two notions go into the word "colorful" in the second half of the Mission. One is to respect diversity, putting value on empathy with people of different values, cultures, genders, and races. The other notion involves facing up squarely to negative aspects including addiction that emerge in the course of the Group's business that we cannot simply pretend not to look at. Rather, by facing up to and minimizing these aspects, we add bright hues to society by means of the experiences that move the heart that we offer. This is the kind of Group we are striving to be.

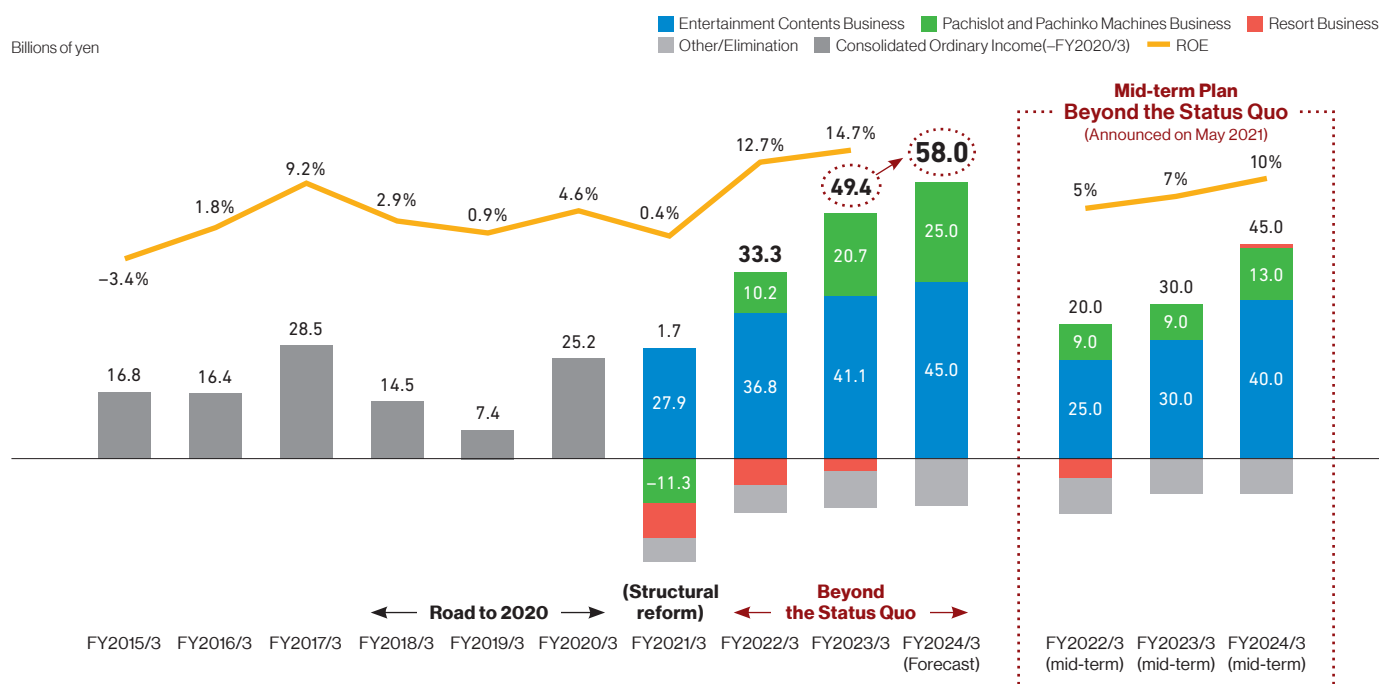
The second year of the medium-term plan saw significant strides in business performance

In the Consumer area of the Entertainment Contents Business, *Sonic Frontiers* and *Persona 5 Royal (Remaster)* were hits and performance in F2P titles was also brisk. In the Pachislot and Pachinko Machines Business, sales of pachislot machines were robust, especially *Pachislot Kabaneri of the Iron Fortress*, driving a significant year-on-year increase in both sales and profits. The Resort Business also experienced recovery, with *Phoenix Seagaia Resort* achieving profitability for the first time since it joined the Group. Segment sales were up significantly year on year as a result, and the loss margin narrowed.

In this way, sales and profits were up significantly year on year across all of our businesses, while losses narrowed. The result was net sales of ¥389.6 billion, ordinary income of ¥49.4 billion, and ROE of 14.7%—in other words, we were able to reach our targets for the final year of the medium-term plan a year ahead of schedule. Thus, for the fiscal year ending March 2024, the final year of the plan, we have significantly revised our performance targets upward.

Medium-Term Plan: Changes in Ordinary Income (FY2015/3–FY2024/3)

Growth in Entertainment Contents and Pachislot and Pachinko Machines businesses drove achievement of targets a year ahead of schedule



Review of Entertainment Contents Business

Creating worldwide hits

In the mainstay Consumer area, new Japan-based titles such as *Sonic Frontiers* and *Persona 5 Royal (Remaster)* are enjoying significant sales growth overseas. On the other hand, the sales of new Europe-based titles that we had looked for failed to materialize, shedding a light on some issues. In today's game market, users increasingly tend to read numerous reviews and media information before they buy a game. Talked-about titles with high ratings can record phenomenal sales worldwide, but we see a growing number of cases where sales are sluggish for games that fail to catch the attention of users. The key to making hit games that generate huge sales is to create games that offer new, never-before-seen experiences, increase engagement with users, and get widely talked about.

In addition, as playing games via downloading has become mainstream, digital distribution platforms are now available that allow games to be delivered instantly around the world. This has surely increased the odds of creating a worldwide hit. Even in Southeast Asia and the Middle East, where we expect to see major expansion of the games market going forward, user access to our games has become much easier than ever before. We will take full advantage of this opportunity.

Given this context, we believe it is important to continue to maximize the value of our powerful IP lineup, delivering high-quality products and services to game users around the world.

Further acceleration of the IP strategy

The Sonic IP, which arose out of our games, has seen steady expansion into movies, anime, and other media. Sonic has now grown into a huge IP, the most successful example of our IP strategy. More than anything else, the secret behind this success lies in our continued pursuit of the sheer fun of the game where it got its start.

For the hugely popular *Sonic Frontiers* title, the development team tested the game over and over again, even postponing the release date, insisting on raising the quality of the game to the utmost limit. As a result, *Sonic Frontiers* has become one of the best games in the entire Sonic IP game series, winning over many new Sonic fans.

Success with Sonic IP has equipped the Group with a wealth of knowledge regarding IP development, which we plan to harness in actively pursuing measures to expand other excellent IPs on a global scale as well. SEGA has created many compelling IPs over its long history. To maximize their potential, we will further advance and pursue our IP strategy.

Acquisition of Rovio Entertainment Corporation

We completed our acquisition of Rovio Entertainment Corporation in August 2023, bringing the company into the SEGA SAMMY Group.

Established in Finland in 2003, Rovio develops and operates mobile games—it is most known for Angry Birds. It also engages in a licensing business to expand its IP into areas other than games.

Rovio has particular strengths in the mobile games field, where it is positioned to compete in the growing global market. We believe Rovio is the ideal partner to fill in the missing pieces in our quest to achieve further growth for the Group.

SEGA has the ability to develop and operate major titles for video game consoles and PCs, a lineup of globally recognized IPs like Sonic, and a track record and expertise in the mobile games market in Japan. Rovio, meanwhile, possesses the Angry Birds IP, which boasts a global fan base centered in Europe and North America. It also has the ability to develop and operate global mobile games and has the game operation support tool *Beacon*, the platform supporting its games. Our two companies clearly have a mutually beneficial relationship.

SEGA has now built up a track record in acquisitions, mainly in Europe. Going forward, we will aim to generate new synergies by capitalizing on complementary capabilities based on the shared values of both companies.

Review of Pachislot and Pachinko Machines Business

Birth of hit titles and full recovery to a growth trajectory

In the Pachislot and Pachinko Machines Business, revised regulations have made it possible to develop machines that meet user demands better than ever before, paving the way for the creation of hit titles.

The medal-based No. 6.5 model *Pachislot Kabaneri of the Iron Fortress* became a huge hit in the fiscal year ended March 2023, maintaining high utilization rates and generating multiple additional sales after debuting in halls. Furthermore, following its April 2023 launch, *Smart Pachislot Hokuto No Ken* continues to have the kind of high utilization rate that has been unprecedented in recent years. The new *Smart Pachislot Hokuto No Ken* machine is a remake of the historic hit of around two decades ago, *Pachislot Hokuto No Ken*, with new elements added. Many dormant users who had moved away from pachislot and pachinko machines for quite some time are returning to the pachinko halls. The smart pachislot game has also gained support across generations, offering compelling gameplay and interesting production elements that have caught on even among young new users. It is no exaggeration to say with pride that *Smart Pachislot Hokuto No Ken* is driving current growth in the smart pachislot market.

Smart pachislot offers significant benefits for both users and pachinko halls. It allows users to play in comfort, with less obtrusive sounds and no need to insert medals. Halls, meanwhile, are freed from tasks such as carrying medals back to machines, and can lower power consumption. For this reason, we see growing moves at various halls to expand their floorspace dedicated to smart pachislot. The popularity of smart pachislot and smart pachinko are outstripping initial expectations.

To fully capture these market tailwinds and changes in the industry and sustainably grow the Pachislot and Pachinko Machines Business, developing new hit machines is essential. The crucial point here is for the development department to adequately gauge the various demands of a diverse range of players. To support this, we launched a project, called Parlor Sammy, setting up a mock hall on company premises. Here, employees can freely try out machines and provide feedback about their impressions and suggestions for improvement to the development department. By gathering and analyzing the various opinions coming out of Parlor Sammy and establishing a flow for refining machines under development, we are steadily enhancing the quality of our machines.

Another key issue is responding quickly and flexibly to the increase in the number of hit machines. In the fiscal year ended March 2023, we were unable to fully meet robust demand for machines due to shortages of semiconductors and other parts—this is an ongoing issue. Going forward, we plan to further refine our demand forecasts, ensure the sufficient supply of parts, and strengthen the framework for the stable supply of products by introducing standardized parts.

Our structural reforms have succeeded in improving profitability in the Pachislot and Pachinko Machines Business, and the segment is returning to a growth trajectory. To take this business forward even further, we will continue to carry through with the various measures that have borne fruit so far.

Actively pursuing human capital management

The essential element in achieving the Group Mission / Purpose (Raison d'être) is personnel who can "light a fire (passion)" in their hearts. We believe that the ideal employee is someone who can gradually transfer that fire to others and spread it throughout the Group. Valuing such personnel and empowering them to play an active role in the business is the linchpin of the Group's human resources strategy. To this end, we are working on various reforms to our personnel systems, including revising our compensation system and doing away with seniority-based job assignments. Furthermore, we are working to enhance various training programs offering language education and other opportunities for staff to acquire new skills to enable them to make contributions even in times of rapid change.

Thanks in part to these efforts, we are seeing gradual improvement in our engagement score, which we set as a non-financial indicator for the material issue of human

resources. In addition, in employment rankings sponsored by Mynavi and newspaper publisher Nikkei, SEGA ranked 6th among university students in the sciences, 11th among students in the humanities, and 8th overall. Our rise to the top 10 in these rankings is a welcome change.

On the other hand, it is also true that the public in some respects still has a negative impression of the Group's business. This is why we must face up to social issues even more rigorously than other companies, and create new value that has a positive impact on society. By continuing to act with this conviction, we can gain empathy from people, and as we do, our employees will be even more proud of the Group. I want all of our employees to do their jobs with pride. This has been my unchanging desire since I took over leadership of the Group. We will continue to actively promote human capital management so that we can go on building a team of people who can "light a fire" in their heart and enable them to play an active role in the business.



While minimizing the negative impact we have on society, we strive to maximize the positive impact our businesses generate to a far greater extent

Making governance stronger is a never-ending goal

At present, half of our board of directors is made up of outside officers. Of the outside directors, more than half are women and the group also includes foreign nationals. We have ensured adequate diversity. We have also established a Group Management Committee for the sole purpose of carrying out discussions before Board of Directors meetings. In the fiscal year ended March 2023, the committee held a total of around 32 hours of discussions on management issues. The quality of our discussions has improved dramatically compared to before, with lively and sometimes unexpected opinions being expressed from a variety of perspectives. Outside directors sometimes offer extremely critical opinions, which generates a healthy sense of tension at meetings.

In September 2022, internal and external directors, executive officers, and executives from major Group companies all gathered at *Phoenix Seagaia Resort* in Miyazaki Prefecture for a two-day management retreat. The aim was to foster extended discussions around management from a long-term perspective. In an atmosphere of speaking to one another in a thoroughly candid way, the discussions were often heated, even on topics that are difficult to address at regular Board meetings. It was a very meaningful event.

We are also actively developing a framework for sustainability governance. One part of this involved setting up a Group Sustainability Subcommittee in April 2022 under the Group Management Committee, which is a voluntary committee in the Group. The subcommittee has allowed directors to more accurately grasp the significance of our material issues and gauge the progress of initiatives. It also enabled us to visualize issues requiring attention going forward.

At all of these meetings, we will continue to take on board the opinions of outside directors and other experts, considering them as invaluable feedback from our stakeholders, and will actively reflect them in our management plans.

Moreover, as uncertainties mount throughout the world and the Group's businesses become more global, the critical importance of global governance increases year by year. With businesses operating around the world, SEGA held a Global Legal Meeting at its Osaka head office in May 2023, the first time in four years. SEGA staff from Japan, America, and Europe came together to share information on legal matters and intellectual property. We were able to share issues faced by each site and reinforce the collaboration needed to address them. We will expand these events to provide more opportunities for communication and proactively strengthen global governance.

In Closing

The Group has steadily expanded its sales and profits over the period of the medium-term plan. Our slogan, Beyond the Status Quo, is quickly becoming a reality.

The fiscal year ending March 2024, the final year of the plan, will be a pivotal year in which we will continue this favorable trend while further accelerating growth as we work to realize our long-term vision. To make this happen, it will be vital to further boost the motivation of our employees, who are the driving force behind all our actions. As Group CEO, I have many roles and responsibilities, but the most important thing for me is to get our employees to fully understand and empathize with our Mission and Vision, and to help bring out their passion and energy. I believe an ideal organization is one in which every individual takes on tasks and issues with a sense of purpose, which causes both employees and the Company to grow.

We will continue working to minimize the negative impact we have on society, including the issue of addiction. At the same time, we will strive to maximize the positive impact our businesses generate to a far greater extent. As the Group's representative, I will personally work to guide management with integrity and humility, and would like to ask all of our stakeholders for their empathy with the Group's business activities and for their continued support as I do so.

Message from the CFO

Proceeding with a financial strategy that balances proactive growth investments with shareholder returns to enhance corporate value

Koichi Fukazawa

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



Solid performance across businesses boosted total shareholder return

In the medium-term plan that began in the fiscal year ended March 2022, we have been aggressively expanding our equity spread and shareholder returns with the aim of maximizing the Group's corporate value.

In the fiscal year ended March 2023, we achieved steady profit growth in the Entertainment Contents Business, particularly in the Consumer area. In the Pachislot and Pachinko Machines Business, earnings rebounded sharply, fueled by growth in sales of new No. 6.5 model pachislot machines that take advantage of revised regulations. Given the current robust performance of smart pachislot machines, we expect further growth in the fiscal year ending March 2024, when the roll-out of new titles will be fully underway.

In addition to this growth in profitability, the return on invested capital (ROIC) for each business segment is on an upward trend, and a lower tax burden has led to a large increase in ROE and, as a result, equity spreads are trending positive. Total shareholder return has also continued to rise as the share price maintained its upward trajectory on the back of significant improvement in business performance.

We were also able to achieve ordinary income of ¥45.0 billion—the target for the final year of our medium-term plan—

ahead of schedule. This strong performance is the fruit of the growth strategies we have carried out so far in each business, which were well timed for these favorable market conditions.

For the fiscal year ending March 2024, the final year of the plan, we expect continued profit growth with net sales of ¥433.0 billion and ordinary income of ¥58.0 billion.

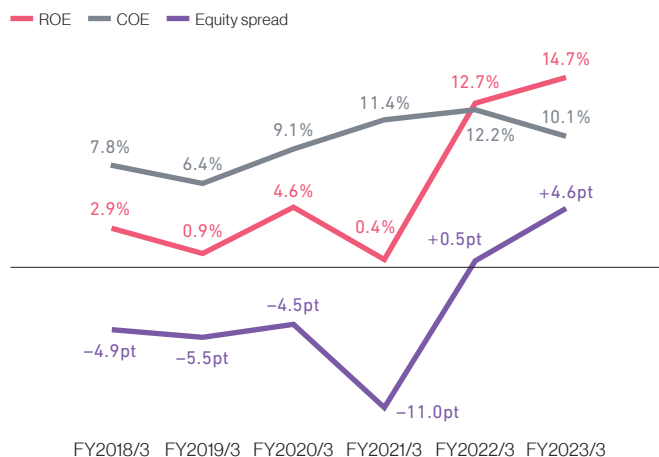
Balancing profit growth and efficiency

We are pursuing profit growth, including through aggressive growth investments. At the same time, we aim to maintain a certain level of capital efficiency using ROIC as an indicator.

In the Pachislot and Pachinko Machines Business, the structural reforms we undertook in the fiscal year ended March 2021 have led to substantially lower fixed costs. On top of that, by efficiently developing machines and increasing the volume of machines sold, we have been able to achieve a sizable return on invested capital. I am confident that the Pachislot and Pachinko Machines Business going forward will be able to maintain consistently high ROIC.

The Entertainment Contents Business has also steadily increased ROIC, although we expect somewhat lower ROIC in the near term due to goodwill amortization associated with our recent acquisition of Rovio. Still, we have put in place

Trend of ROE, COE and Equity Spread

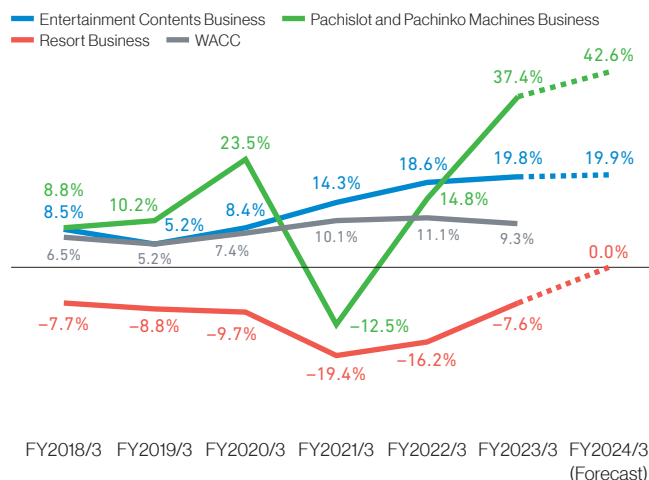


* ROE: Return on equity
COE: Cost of equity (Source: Bloomberg)
Equity spread: ROE-COE

appropriate hurdle rates for such acquisitions, and expect ROIC to improve over the longer term.

With the acquisition of Rovio, we have filled in a crucial missing piece in this business, which we expect to contribute significantly to future business growth. The global games market has been growing rapidly in recent years, with mobile games expanding to account for half of the market. In contrast, the mobile games business accounted for only about 30% of sales in the Consumer area before the acquisition, most of which was generated in the Japanese market. With Rovio joining the Group, we will be able to greatly expand sales in the overseas mobile games business, a huge market,

Per business ROIC trend

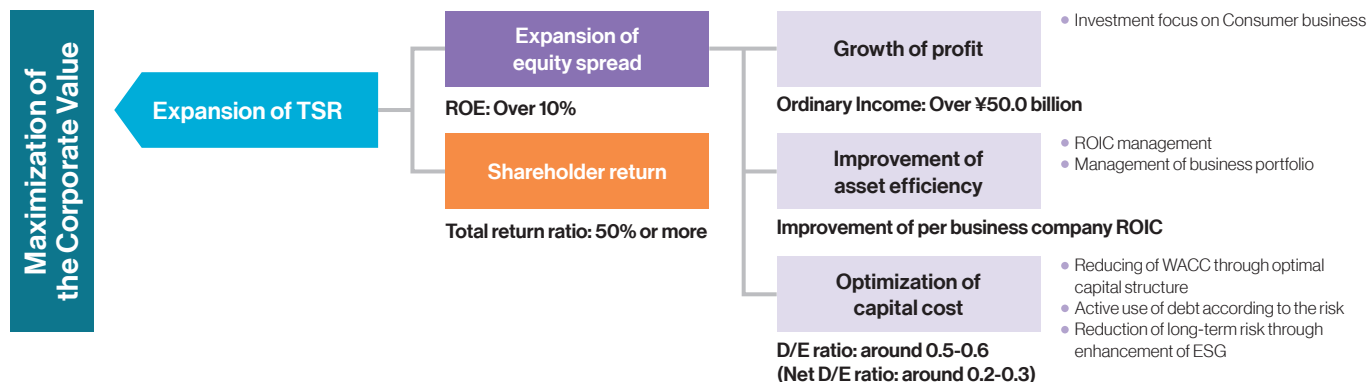


* Per business ROIC: Adjusted profits per business/Investment capital per business

thereby rectifying the strong domestic weighting of the business model to date. We expect to be able to secure profits going forward by realizing synergies with our existing business at an early stage.

Our basic policy regarding shareholder returns is to adopt a total return ratio of 50% or more or a dividend on equity ratio (DOE) of 3% or more, whichever is higher. Based on this policy, we decided to pay a dividend of ¥59 per share (including an interim dividend of ¥20) for the fiscal year ended March 2023. Also, in 2023, we resolved to buy back ¥10.0 billion in treasury stock (up to 8 million shares).

Shift to the management focusing on capital efficiency



Concept of Investment in Growth (–FY2026/3)

| Areas of consideration for investment | | | Progress |
|---|---|--|---|
| Consumer Area Approx. ¥100.0 billion | Strengthen development resources | <ul style="list-style-type: none">Expansion of organic development pipelineStrengthen global mobile and online games | <ul style="list-style-type: none">Establishment of SEGA Sapporo StudioTOB of Rovio Entertainment Corporation |
| | Investment in new ecosystem | <ul style="list-style-type: none">Strengthen CRM functions to revitalize user communitiesInvestment in newly emerging business areas | |
| Gaming Area Approx. ¥100.0 billion | Careful assessment of investment opportunities in the Gaming area | <ul style="list-style-type: none">Online casino and sports betting overseasLand-based casinos overseasBoth domestic and overseas IR | <ul style="list-style-type: none">Step back from domestic and overseas IRConsidering online gaming area |
| Other Approx. ¥50.0 billion | Expand CVC investment limit (Total limit: ¥15.0 billion) | <ul style="list-style-type: none">Strengthen open innovation activities, including investment in start-up companies | <ul style="list-style-type: none">Implement 18 new investments, approx. ¥3.0 billion Exit from existing investment portfolio x 4Establishment of joint venture with PAPYLESS CO., LTD.“GAPOLI” service released |
| | Creation of new business, acquisition of IPs, etc. | | |
| Total ¥250.0 billion | | | |

Continuing to invest in future earnings drivers

The Rovio acquisition used around ¥100.0 billion out of the ¥250.0 billion we had earmarked for growth investments in the medium-term plan. The allocation of the investment amount indicated in the plan is not strictly determined, and we are still around the halfway mark.

Going forward, depending on the level of accumulated cash and the growth potential of an investment target, we will consider increasing the investment budget.

Apart from the Rovio acquisition, we are considering other aggressive growth investments that will significantly change the balance sheet. We will thus need to consider reviewing our financial strategy framework. Now more than ever, we must also work together with Group companies to improve capital efficiency, including ROIC management and business portfolio management.

Regarding leverage, even after the Rovio acquisition, we have room to make use of borrowing to raise funds. To achieve sustainable growth for the Group in the next five to ten years, we will continue to maintain an aggressive investment stance that includes the use of debt, so that we can reinforce existing businesses and develop new businesses.

Moreover, we are continuing our strategic investments in the Gaming area, which we expect to become a third driver of earnings for the Group. A specific target is iGaming (online

casinos) in North America. So far, only a limited number of states have lifted their bans on such casinos, but discussions are unfolding in many areas. To be able to adapt to such developments at an early stage, we are exploring entry into the B2B business, including both consumer side and platform strategies. Whichever approach we take, making further inroads into global markets has to start with building a foundation in North America, so we will actively move forward with investments with an eye toward possible acquisitions.

Linking financial indicators and business strategies

We are always looking for ways of measuring the impact of non-financial factors on our finances.

For this reason, the Group's first priority is to clarify scenarios showing how the strengthening of non-financial capital will contribute to and support our business strategies. We are currently developing such scenarios with a view to incorporating them into our next medium-term plan.

Quantitatively analyzing the financial impact of climate change, particularly in terms of carbon credits related to carbon neutrality, is relatively straightforward. However, in deliberations going forward, it will be vital to consider how the improvement of our human capital indicators exerts a positive

impact on finances. We must ensure that our human resources strategies and business strategies are aligned. We have set up SEGA SAMMY College, a program for developing the Group's core human resources. The College offers a full range of seminars on personnel development for all levels, starting with Satomi Cram School, a program for staff in management positions.

We will continue to verify whether these various human resource development measures have a positive impact on the Group over the longer term, and adjust them accordingly.

As our network of overseas subsidiaries grows in line with our accelerating overseas expansion, the SEGA SAMMY Group Mission Pyramid, the shared model expressing the Group's significance to society, will take on an even more critical role. By sharing this set of values across our international operations, while also preserving the outstanding corporate culture unique to each business company, I am confident that we can greatly contribute to enhancing corporate value.

The role of the CFO is to help enhance corporate value

We have a longstanding emphasis on engaging with the capital markets. Through dialogue with investors and shareholders, we seek to gain understanding of our management and business strategies. Such dialogue also allows us to reflect the thinking of investors and shareholders in our management strategy. We see this as an essential process for enhancing corporate value. I see the role of the CFO as one of steering this process so that it functions smoothly. Going forward, I will fulfill my duties as a CFO in terms of finance as well as in a wide range of areas that affect corporate value, including formulating management strategies, ESG, and engaging with capital markets. I appreciate your interest in the ongoing growth of the Group.



We will clarify scenarios showing how the strengthening of non-financial capital will contribute to and support our business strategies

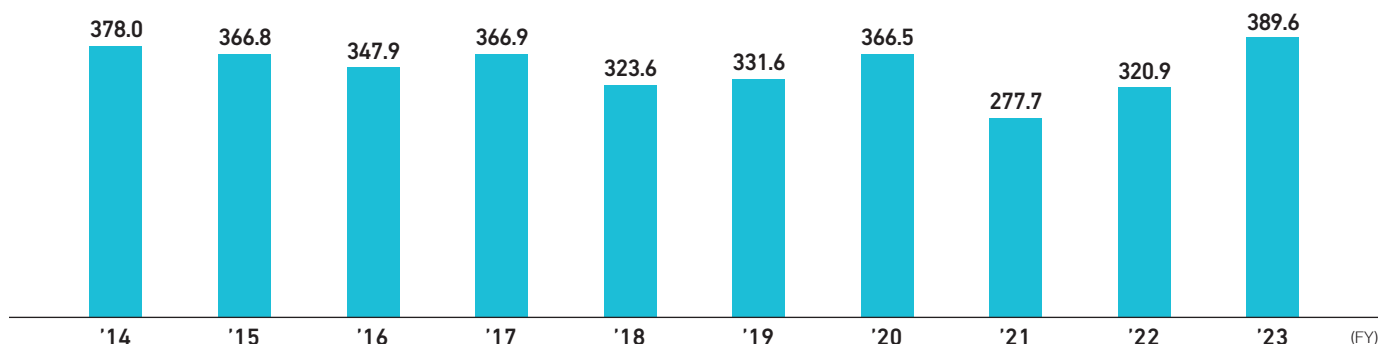
Financial Performance

Net Sales*1

Sales increased across all businesses, consolidated sales grew significantly, up 21.4% year on year to ¥389.6 billion.

Billions of yen

¥389.6 billion



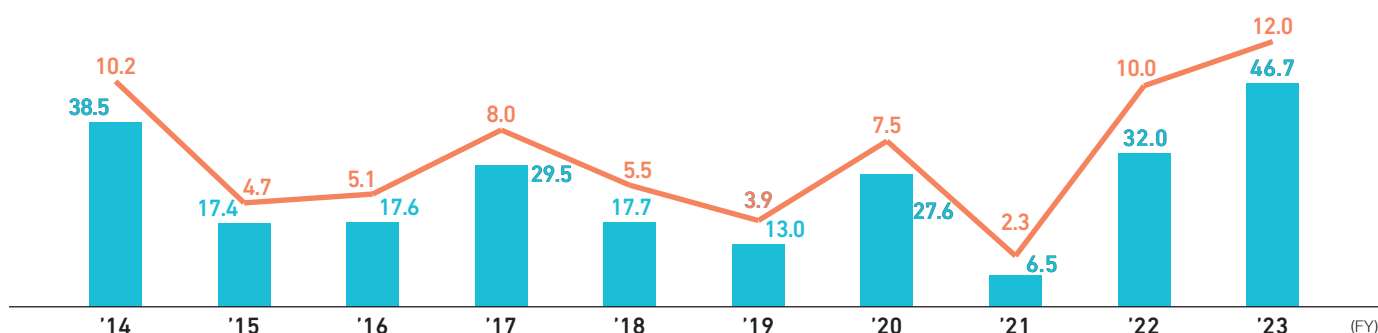
Operating Income / Operating Income Margin

Operating income rose 46.0% year on year to ¥46.7 billion on higher sales in the Entertainment Contents Business and Pachislot and Pachinko Machines Business and reduced losses in the Resort Business.

Billions of yen / %

¥46.7 billion / 12.0%

■ Operating income ■ Operating income margin



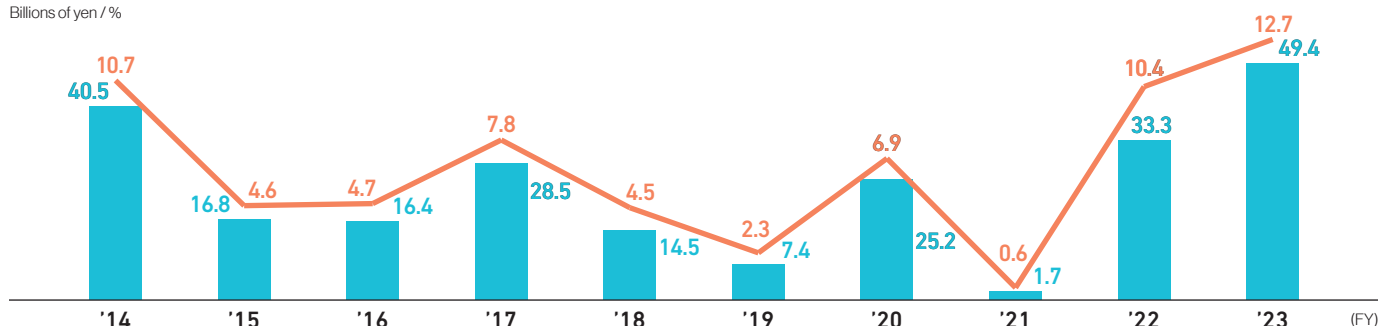
Ordinary Income / Ordinary Income Margin

Ordinary income increased 48.4% from the previous year to ¥49.4 billion. This was mainly due to non-operating income such as profits from investment partnerships and foreign exchange gains associated with the revaluation of assets denominated in foreign currencies despite non-operating expenses recorded from losses from investment partnerships and equity in losses of affiliates.

Billions of yen / %

¥49.4 billion / 12.7%

■ Ordinary income ■ Ordinary income margin



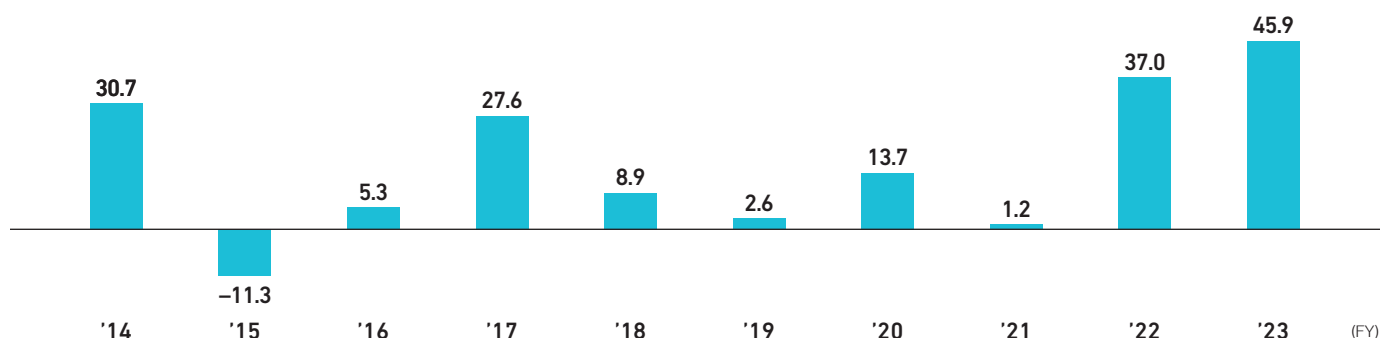
*1 As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in FY2016/3, figures for FY2015/3 reflect these changes retrospectively

Profit (Loss) Attributable to Owners of Parent^{*2}

Profit attributable to owners of parent increased 24.1% year on year to ¥45.9 billion due to a decrease in taxable income due to the recording of deferred tax assets in U.S. subsidiaries, a decrease in taxable income from net loss carried forward, and a decrease in corporate tax credits related to research and development in U.K. subsidiaries.

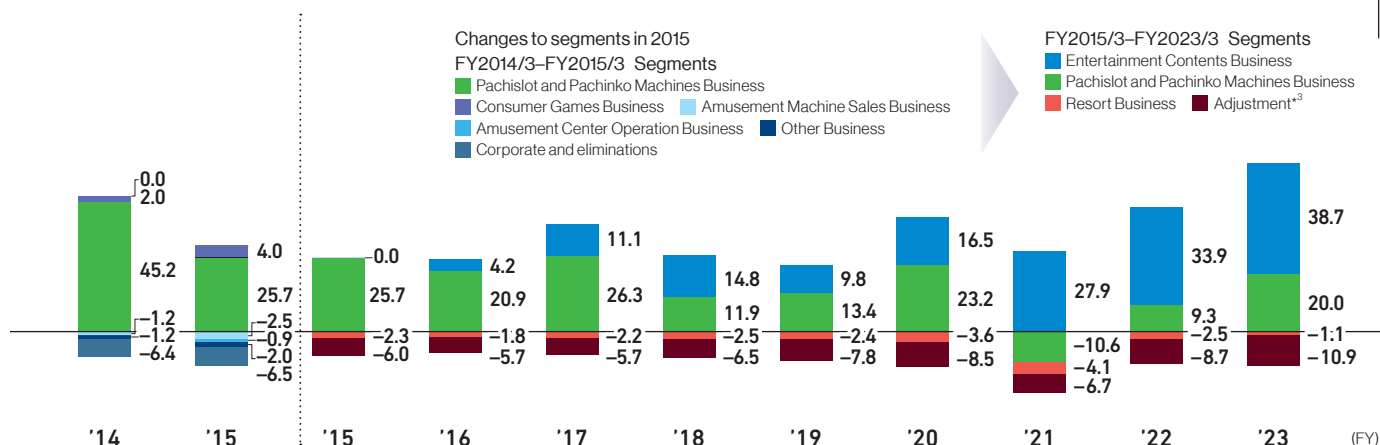
¥45.9 billion

Billions of yen



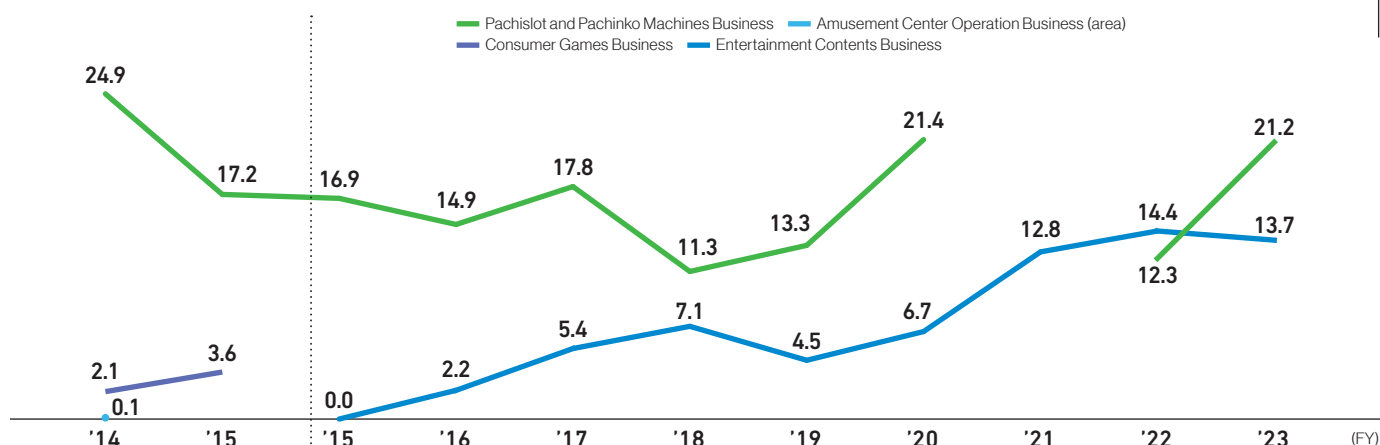
Operating Income (Loss) by Segment^{*3}

Billions of yen



Operating Income Margin by Segment

%



^{*2} 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 FY2016/3.

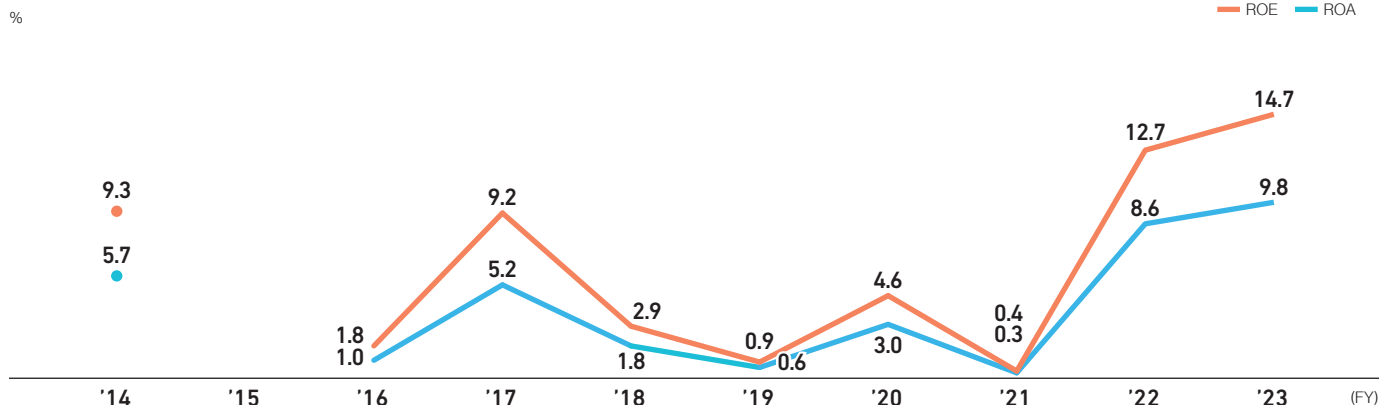
^{*3} As of the FY2015/3 change in segments, elimination of inter-segment transactions and general corporate expenses that are not allocated to the reporting segment are included in the adjustment to segment income (loss).

ROE / ROA*4

ROE was up 2.0 points year on year to 14.7%.
ROA was up 1.2 points year on year to 9.8%.

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

14.7% / 9.8%



Cash Flows

Operating activities provided net cash of ¥44.7 billion for the fiscal year ended March 2023 (compared with an inflow of ¥39.6 billion in the previous fiscal year).

Investing activities used net cash of ¥2.3 billion (compared with an outflow of ¥8.7 billion in the previous fiscal year).

Billions of yen

■ Net cash provided by (used in) operating activities ■ Net cash provided by (used in) investing activities ■ Free cash flow



Net Income per Share / Cash Dividends per Share

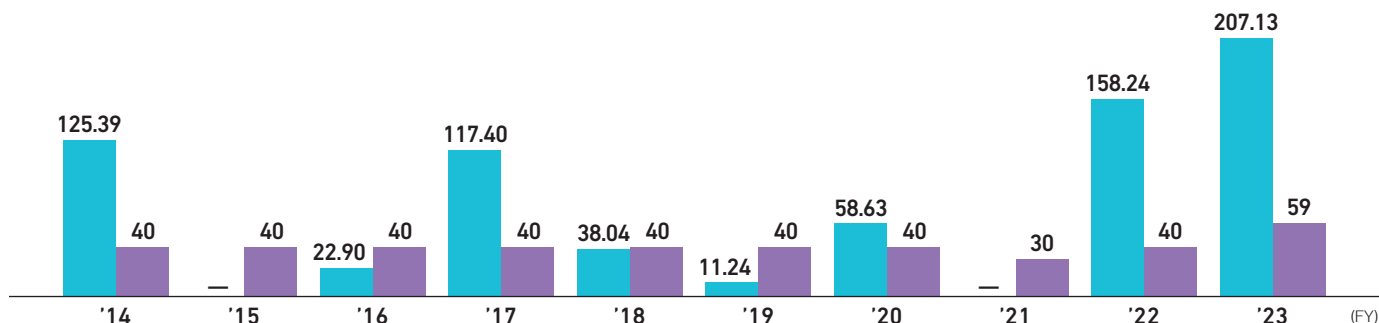
Net income per share (diluted) was ¥207.13.

The Company paid an annual dividend of ¥59 per share.

¥207.13 / ¥59

Yen

■ Net income per share (diluted) ■ Cash dividends per share



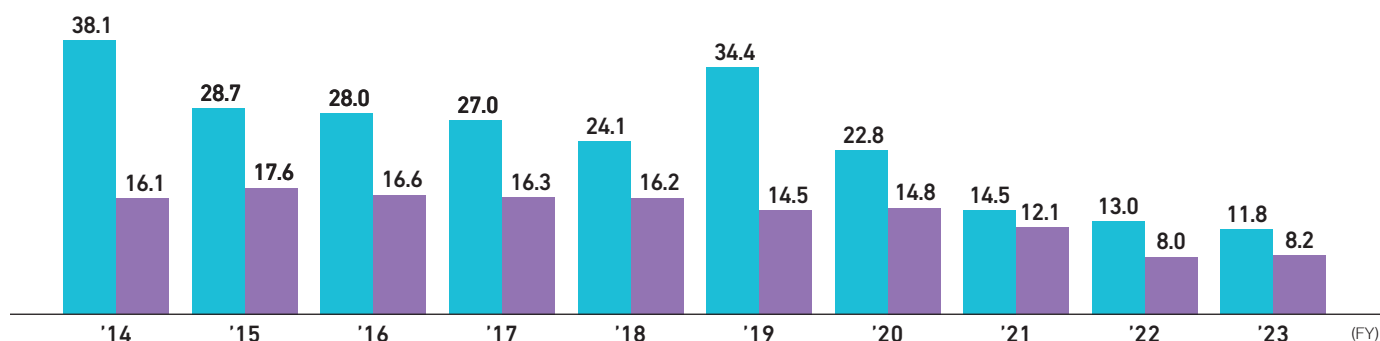
Capital Expenditures / Depreciation and Amortization^{*5}

Capital expenditures were down 9.2% year on year to ¥11.8 billion.
Depreciation and amortization increased 2.5% year on year to ¥8.2 billion.

Billions of yen

¥11.8 billion / ¥8.2 billion

■ Capital expenditures ■ Depreciation and amortization



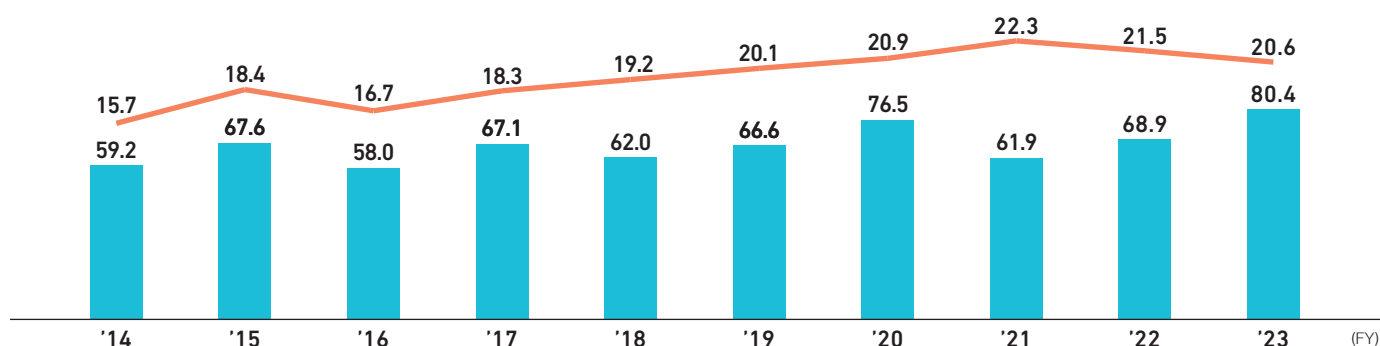
R&D Expenses and Content Production Expenses^{*5} / R&D Expenses to Net Sales Ratio

R&D expenses and content production expenses increased 16.7% year on year to ¥80.4 billion.

Billions of yen / %

¥80.4 billion / 20.6%

■ R&D expenses and content production expenses ■ R&D expenses to net sales ratio



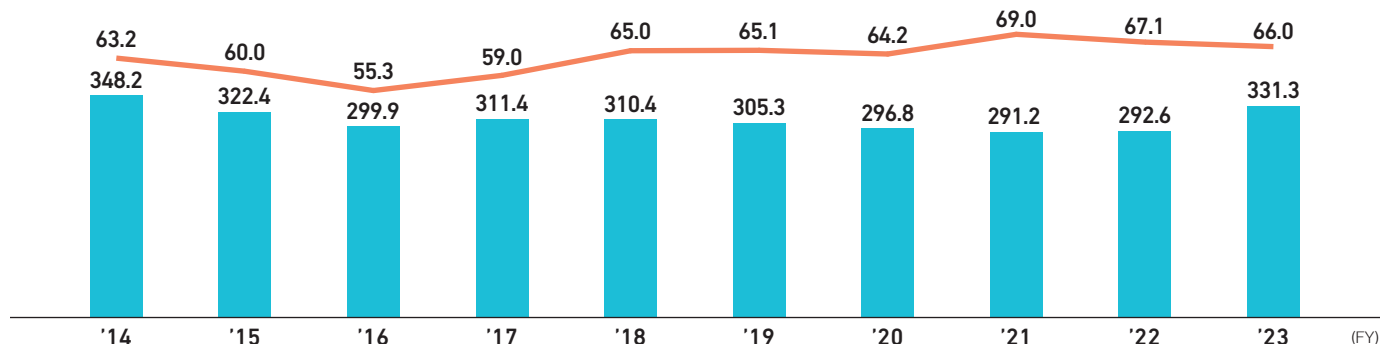
Total Net Assets / Equity Ratio

Total net assets increased ¥38.7 billion from the end of previous fiscal year to ¥331.3 billion.
The equity ratio decreased 1.1 points to 66.0%.

Billions of yen / %

¥331.3 billion / 66.0%

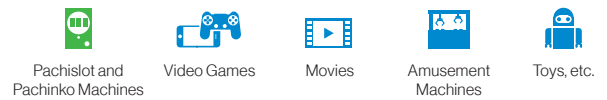
■ Total net assets ■ Equity ratio



^{*5} The aggregate calculation method has changed as of FY2014/3. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until FY2013/3, depreciation and amortization included amortization cost of digital game titles.

An IP Portfolio that Powers Our Growth

List of major IP



Examples of IP developed in-house

| IP title | First appearance year | Multifaceted rollout | Cumulative unit sales / downloads |
|----------------------------------|-----------------------|----------------------|---|
| Sonic the Hedgehog Series | 1991 | | More than 1.66 billion (Units and downloads*²) (Full games and F2P total) |
| Puyo Puyo Series | 1991* ¹ | | Approx. 39.0 million (Units and downloads*²/IDs/users) (Full games and F2P, Amusement Machines-registered IDs total (Total for registrations after IP acquisition)) |
| Virtua Fighter Series | 1993 | | More than 18.8 million (Units and downloads/IDs) (Full games and F2P total. Total number of IDs in Amusement Machines.) |
| Sakura Wars Series | 1996 | | Approx. 5.8 million (Units and downloads) (Full games and F2P total) |
| Like a Dragon Series | 2005 | | Approx. 21.3 million units (Full games total) |
| ALADDIN Series | 1989 | | Approx. 580 thousand units (pachislot and pachinko machines total) |
| Beast King Series | 2001 | | Approx. 510 thousand units (pachislot and pachinko machines total) |
| PHANTASY STAR Series | 1987 | | Approx. 10.0 million users*³ |
| CHAIN CHRONICLE Series | 2013 | | Approx. 26.0 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 Total for domestic and overseas versions of PHANTASY STAR ONLINE 2 and PHANTASY STAR ONLINE 2 NEW GENESIS.

Examples of acquired IP

| IP title | First appearance year | Multifaceted rollout | Cumulative unit sales / downloads |
|----------------------------------|-----------------------|----------------------|--|
| Shin Megami Tensei Series | 1992 | | Approx. 19.2 million (Units and downloads*²) (Full games and F2P total) |
| Persona Series | 1996 | | Approx. 17.7 million (Units and downloads) (Full games and F2P total) |
| Total War Series | 2000 | | More than 43.4 million (Units and downloads) |
| Football Manager Series | 2004 | | More than 30.2 million (Units and downloads) |

Examples of IP licensed from third parties

| IP title | First appearance year | Multifaceted rollout | Cumulative unit sales / downloads |
|---|-----------------------|----------------------|--|
| SEGA feat. HATSUNE MIKU Project Series | 2009 | | Approx. 24.0 million (Units and downloads*²) (Full games and F2P total) |
| Hokuto No Ken Series | 2002 | | More than 8.54 million (Units and downloads) (pachislot and pachinko machines, full games, F2P and amusement machines total) |
| SOUTEN-NO-KEN Series | 2009 | | Approx. 490 thousand units (pachislot and pachinko machines total) |

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The Group boasts multiple, highly competitive IPs. While developing and expanding these IPs to ensure stable profitability, we are strategically remastering and remaking IPs that have strong potential.

Sonic the Hedgehog series

More than 1.66 billion (Units and downloads)

(Full games and F2P total)

Sonic, SEGA's flagship IP, was introduced in 1991 as a high-speed action game in which players must run frenetically pace through stages of various ups, downs, and loops. Several hit games followed, continuing to attract fans around the world. The *Sonic the Hedgehog* movie, released in 2020, and its sequel, *Sonic the Hedgehog 2*, released in 2022, were each global blockbusters. This has helped to accelerate the growth of the Sonic IP.



Like a Dragon series

Approx. 21.3 million units

(Full games total)

The *Like a Dragon* series was launched in 2005 under the concept of entertainment for a mature audience. It depicts the way of life of a cast of fierce men in a vast entertainment district. Using an actual entertainment district as its backdrop, the game realistically captures the look and feel of that world. Featuring famous actors, the game has been promoted through many tie-ups with other companies. This has garnered it widespread attention, bringing the cumulative unit sales of the series to around 21.3 million units.



Persona series

Approx. 17.7 million (Units and downloads)

(Full games and F2P total)

The *Persona* series is a coming-of-age themed RPG about teenage boys and girls who, having awakened to their special Persona powers, encounter various incidents and hardships as they grow. With its unique characters and settings, stylish songs, and compelling stories, the *Persona* series has gained many fans around the world. This popular series, with its cumulative total of 22 titles, has been adapted for a variety of media, including live music, animation, and manga, which has attracted new users.



Hokuto No Ken series

More than 8.54 million (Units and downloads)

(pachislot and pachinko machines, full games, F2P and amusement machines total)

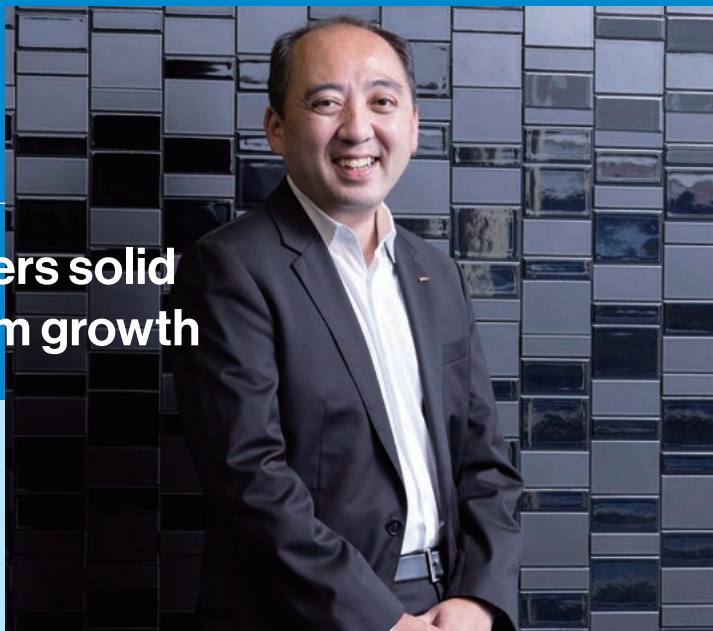
The original *Pachislot Hokuto No Ken* boasts the largest sales volume in the history of the pachislot and pachinko machines market, with a cumulative sales volume of about 620,000 units. The total number of pachislot and pachinko machines, full games, F2P titles and amusement equipment is more than 8.54 million (units/DL), making it a huge IP. *Smart Pachislot Hokuto No Ken* was introduced in 2023, and it has become a major hit.



Entertainment Contents Business

Top Message

Global branding of our IPs engenders solid confidence in medium- to long-term growth



Yukio Sugino

President and COO,
Representative Director
SEGA CORPORATION

Progress on the Medium-Term Plan

The Entertainment Contents Business has set a long-term goal of becoming a leading global content provider. To achieve this goal and elevate the business to the next level, we are conducting R&D activities to create a "Super Game," a major title that scales globally, by the fiscal year ending March 2026. Under the current medium-term plan, we are actively investing in reinforcing our earnings base through the global branding of existing IPs.

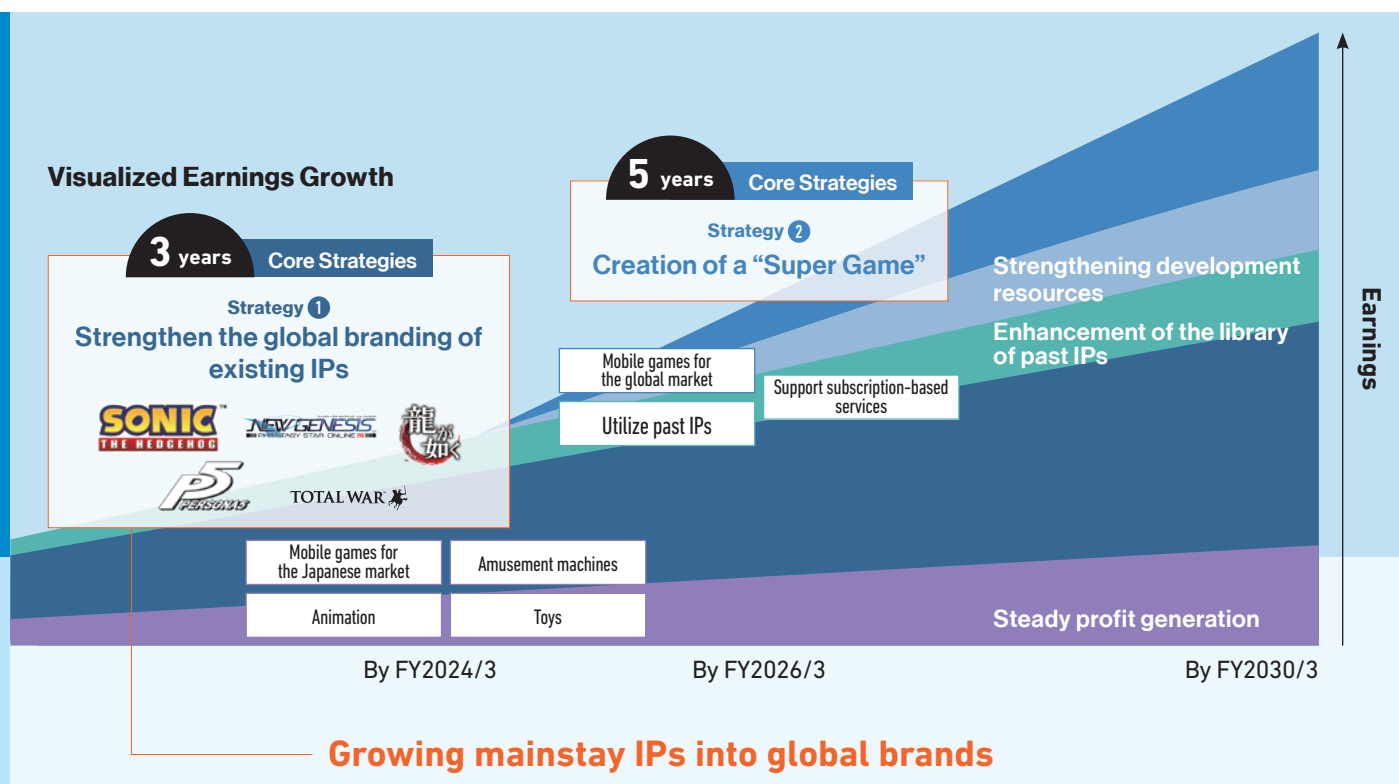
In the fiscal year ended March 2023, the second year of the medium-term plan, we were able to achieve ordinary income of ¥41.1 billion from the Entertainment Contents Business, meeting the target for the final year of the medium-term plan one year ahead of schedule. In the Consumer area, we steadily advanced simultaneous worldwide releases of new game titles and multi-platform development of content, releasing various remakes and remasters such as *PERSONA 5 ROYAL (Remaster)* and spin-off titles. In our Sonic IP, in an effort to expand the value of the IP and strengthen user

engagement, we strategically promoted the development of games, movies, animations, merchandising, and other channels. Through these efforts, we have achieved a certain degree of success with *Sonic Frontiers*, which has generated sales far above our initial plan.

Furthermore, in August 2023, we welcomed into the Group the Finland-based company Rovio Entertainment Corporation (Rovio), which owns the world-famous Angry Birds IP and brings advanced capabilities in mobile game development and operation. By gaining these capabilities, we will ramp up full-fledged global expansion in live operated mobile games, an area that has so far posed a challenge for us.

Details about Rovio's entry into the Group are provided on  **P. 38-39**

In the Amusement Machine area, although there were headwinds such as higher input costs caused by the weakening of the yen and rising raw materials costs, the market has rebounded quickly as the economy picked up



after the COVID-19 pandemic. Business has been firm, particularly around sales of the UFO Catcher® crane game series and prizes for these games. Going forward, while steadily earning profits in the strong domestic market, we will continue to advance global expansion for markets such as Asia, North America, and Europe, where the growing popularity of Japanese animation content has created the potential for growth in the prize machine market.

In the Animation area, as well as video production and allocated revenue led by the blockbuster movie *Detective Conan*, the rise of Japanese animation in the global market has fed into the distribution revenue we generate by providing works to distribution platforms that carry that genre. Business performance has also been steady in the Toys area. As well as standard products for the domestic market, we continue to earn royalty income from product proposals based on our strong planning capabilities for overseas markets. In addition to the Consumer area, which

is a growth area, the diversified portfolio that we have built has given us a firm earnings base.

The Entertainment Contents Business has slowed slightly in the post-pandemic business environment, after becoming overheated by factors including stay at home demand, especially in the Consumer area. However, from a medium- to long-term perspective, we expect the global game market to continue to expand. Helped in part by this market tailwind, up to the fiscal year ended March 2023 we have been able to achieve results far faster than expected in our original plan. From a strategic standpoint also, we have been taking firm steps toward medium- to long-term growth. In the fiscal year ending March 2024, the final year of the current medium-term plan, we will work to achieve steady results and to make further progress in the next medium-term plan.

The history of Sonic IP value growth

Born in 1991, Sonic is extremely popular in Japan and around the world, and has been at the core of SEGA's IP strategy. In recent years, our transmedia strategy including movies and animation has further raised awareness of Sonic, which has expanded earnings opportunities.

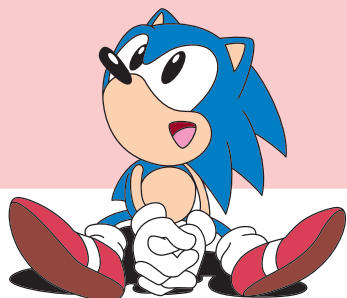
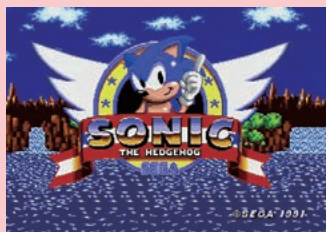
1991-2010 Birth and expansion of Sonic IP

In 1991, *Sonic the Hedgehog* was released in North America. The game struck a chord with its frenetic pace and cool main character, Sonic. It became a huge hit, selling more than 4 million copies worldwide.

A series of sequels including *Sonic the Hedgehog 2* and *Sonic the Hedgehog CD* were released, becoming further hits. Later, we ventured into 3D action gameplay and rolled out games on a range of hardware platforms. These developments were well received, and the popularity of Sonic grew further. The Sonic IP came to be recognized as the “face of SEGA,” and it has continued to grow as an IP with many fans around the world.



Sonic the Hedgehog



2010s TURNING POINT!

Sonic IP challenges and comeback

Sonic's overwhelming popularity, especially in North America, gradually began to wane. The 2010s were a difficult time for the Sonic IP. Even in North America, where Sonic had been so popular, interest had faded among fans, retailers, and media, and the younger generation of fans was dwindling. To tackle this challenge, the Sega of America (SOA) team led a complete review of the game build, thoroughly examining how fans really want to play and enjoy Sonic.



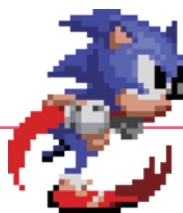
Our social media strategy involved posting not only game information, but also content for sparking conversations among Sonic fans and encouraging them to share. This attracted the younger generation of fans, helping build a new community of fans. Out of this community was born *Sonic Mania*, which made use of a ground-breaking method of building a game while communicating with fans. Released in 2017, *Sonic Mania* has created a buzz among fans, becoming a hit worldwide, which has driven a revival and growth of the Sonic IP.

2010

2017



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2020 – Successful transmedia strategy

Expanding Sonic IP

Carrying on the momentum of the global blockbuster movies, we sped up our expansion of the Sonic IP on several fronts. These included creating animation content for global distribution platforms, collaborating with games that enjoy worldwide popularity, and pursuing licensing in various areas, including toys and apparel. These efforts have increased user touchpoints, which has increased the fanbase globally.

Movies

Sonic the Hedgehog and its sequel *Sonic the Hedgehog 2* were global box-office hits.

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Animation

SONIC PRIME was released globally on Netflix from December 2022.



Collaborations

Secured partnerships with mega-popular games and their massive audiences



Minecraft

Licensing

Toys, games, food, apparel, etc.
Expanding IPs in various areas



Danone Mobile Partnership



Games at the core of our IP strategy became hits.

2022-2023

The action adventure game *Sonic Frontiers*, which was released globally in 2022, became a huge hit, and has achieved cumulative worldwide sales of over 3.2 million copies (as of March 31, 2023).



2023

Sonic Superstars is a new game that preserves the nostalgic feel of classic 2D Sonic side-scrolling action while reimagining it with beautiful 3D graphics. For the first time ever in the Sonic series, the game can be played offline as a cooperative multiplayer by up to four players.



(Scheduled for release on October 17, 2023)

IP value

2020

Top Message

Expanding our rich lineup of IPs to markets worldwide will lead to growth

Shuji Utsumi

Co COO, Director of the Board
SEGA CORPORATION



Targeting global markets has become par for the course

In the fiscal year ended March 2023, the Entertainment Contents Business made significant strides toward achieving the goals of the current medium-term plan and realizing the long-term vision beyond that.

The major topic for the year was the success of *Sonic Frontiers*. In addition to incorporating elements of the existing Sonic series, this title also broke new ground in offering new ways to play. But because of this, right after releasing the initial teaser movie, we realized we had failed to fully convey the game's marketing message, and fan reaction was mixed. After doing careful testing, we found that long-standing Sonic fans in particular were extremely positive about the new gaming experience. Sonic is an IP supported by a worldwide fan base. Once we were convinced that this title would catch on with fans, our confidence grew, and I internally announced a marketing plan, the Go Big Plan. This entailed increasing the

marketing budget from the initial plan and significantly raising sales goals to fully capture opportunities. We implemented the marketing plan on a scale that the Group had not experienced in quite some time. Needless to say, the plan helped to whet fan expectations before the game's release, but internally as well, it caused all the team members involved in the title, from development to marketing and publishing, to set their sights higher and helped foster a firm commitment to make *Sonic Frontiers* a global hit. The upshot was that we had recorded over 3.2 million units sold of this hit game as of the end of the fiscal year ended March 2023. In the culture of the Group today, taking on the challenge of succeeding in global markets has become par for the course, and I think *Sonic Frontiers* became an iconic title showing just how much our efforts can pay off.

Transmedia strategy



Transmedia strategy for maximizing IP value

As we roll out Sonic IP not only to games but also to movies, animation, and other media, promoting tie-ups with companies in various industries, our presence in various markets continues to expand. This model of success with the Sonic IP is called a transmedia approach, and we are positioning it as a key strategy for expanding IP, exploring the application of the strategy to IP other than Sonic going forward. The transmedia approach itself is not an entirely new concept, but with the development of digital platforms in recent years, touchpoints with users are expanding at an unparalleled scale and speed.

Taking the Sonic IP as an example, the first stage was tens of millions of people around the world watching the *Sonic* movies in theaters. Then, through further development on video distribution platforms, we were ultimately able to expose hundreds of millions of users to Sonic IP. From blockbuster movies to spin-out video productions and the distribution of original animation content on Netflix, the range of touchpoints

with consumers expanded further. Through these efforts, we were also able to build strong trust relationships with numerous global companies like Paramount Pictures and Netflix. My sense is that our presence in global markets today is at an unprecedented level. By building even stronger win-win relationships with partner companies in other industries, we look for even more opportunities to further enhance the value of our IP going forward.

We will also strategically apply the expertise gained through the Sonic IP to other IPs, including our own popular IP series such as our mainstay *Persona* and *Like a Dragon* titles as well as *Angry Birds*, the IP of Rovio Entertainment, which recently joined the Group. Because SEGA is a video game company, our premise is first to develop interesting games that captivate fans, but I also believe that by launching the best games at just the right time in tandem with the development of video productions and merchandise, we can not only grow game sales but also maximize the value of our IP.

Launching revivals from our rich IP library and aiming for success with a “Super Game”

When the Group was working on its hardware business, we had much more success in overseas markets than in Japan. As a result, fans' respect and deep affection for the titles and brands we sold at the time still run deep, especially overseas. With its strong brand awareness and numerous IP gems, SEGA SAMMY is truly like a kind of Treasure Island. I see this as a huge competitive advantage. We are currently moving forward with plans to revive a succession of IPs. While retaining the nostalgic elements so beloved by fans from the past, we will introduce innovative ideas and technologies that appeal to the current market, aiming to surpass user expectations by providing new experiences that merge nostalgia with a sense of freshness.

We are also making steady headway in development of the “Super Game” that we are seeking to create in the medium to long term. As the name implies, a “Super Game” involves the concept of a game that stands head and shoulders above normal games. I encourage stakeholders to look forward to the fruit of our efforts, which include R&D to create a game that builds a whole worldview involving the entire gaming ecosystem, including not only players but also streamers who stream the game and their viewers.

Aiming to be a global leading contents provider

I have no doubt that the video game market has a very bright future. The penetration rate of smartphones and PCs grows every year, even in highly populated developing countries with sizable young populations. Environments continue to emerge that allow people around the world to easily download and enjoy games. It is clear that the gaming population in these regions will naturally continue to increase and that the video game market will thus continue to grow globally. I also believe that games are better positioned to benefit from technological innovation than movies, music, or other media. Looking back, the introduction of 3D graphics yielded dramatic improvements in the expressiveness and immersive nature of games. The development of online technologies also ushered in greater diversity in the ways people interact with games and vastly expanded the industry ecosystem. As technology progresses, it will become possible to provide unprecedented forms of entertainment and create new business models. With our sights fixed on this future world, we are actively examining and rolling out new technologies, including investing in venture startups that possess unique technologies.

The Group will come together as we continue to move ahead, aiming to be a global leading contents provider and creating innovative content that astonishes users around the world.



PICKUP

Key Persons in Expanding IP Value

Like a Dragon IP



Masayoshi Yokoyama

Executive Officer
Head of 1st Development Division
Game Content & Service Business HQ
SEGA CORPORATION

Since the first title was released in 2005, the *Like a Dragon* (originally *Ryu ga Gotoku*) series has been adapted into numerous films and other media. However, the high popularity of the series in Japan for many years did not really translate into overseas markets. It was in this context that the release of *Yakuza: Like a Dragon* (*Ryu ga Gotoku 7*) in 2020 ushered in a major turning-point for the series.

Ichiban Kasuga is the new protagonist of *Yakuza: Like a Dragon*. While he is definitely old school, the lack of gender or age bias in his words and actions resonated with many users overseas and led to the title becoming a global hit. I don't think this was a coincidence by any means, but rather a sign that we as creators have come closer to meeting international standards.

The *Like a Dragon* IP is a work that taps into the current state of society. Now that we have broken out of the vague notion that the game is somehow limited to Japan, we are taking a big step out into the world. We have plans underway to astonish users around the world not only with a new release that is just around the corner, but also with other developments in the works. I believe our stakeholders can expect big things as the *Like a Dragon* IP continues to grow through our transmedia strategy.



Like a Dragon: Infinite Wealth
©SEGA



Persona 3 Reload
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Atlus IPs

With a commitment to being both "Unique & Universal," Atlus is creating unique game-playing experiences that touch the soul.

Our mainstay IPs, the *Persona* and *Shin Megami Tensei* series, have found audiences with users around the world as Japanese role-playing games that allow players to experience the feel of Japanese cities and culture. The *Persona* series in particular has

become a huge hit, with the bright, pop image of *Persona 4 Golden* getting even higher marks from users in Europe and America than in Japan. In addition, the value of our IPs has grown rapidly in recent years owing to our multiplatform deployment and aggressive strategy of remaking and remastering past titles.

To expand the value of our IPs even further, we will continue to pursue measures to gain the even stronger loyalty of our fans, including strengthening horizontal promotions of the series and holding events, mainly live music shows, around the world. We also plan to release a new IP in 2024, called *Metaphor: ReFantazio*—we took on a bold challenge with this ambitious new title, capitalizing on Atlus's strengths as an expert in role-playing games. I'm confident the new title will delight users.



Naoto Hiraoka

Senior Managing Director
General Manager of Consumer Software Division
ATLUS CO., LTD.

Acquisition of Rovio Entertainment Corporation (Rovio)

SEGA made a public tender offer for Rovio, a mobile game company headquartered in Finland, through our subsidiary SEGA Europe Limited. In August 2023, Rovio became a Group company.

Increasing our presence in the rapidly growing global video game market, including mobile games, will help us leverage our development system and operational capabilities. That is why we decided to make this acquisition.

By acquiring Rovio, which operates mobile games globally, we have brought onboard Rovio's managed IP and operational expertise. This will enable us to accelerate our development of mobile game versions of SEGA's IP on various platforms. In this way, we will strengthen the SEGA gaming portfolio and accelerate our global expansion.

Key Strength of Rovio

Development and Operational Capabilities regarding Mobile Gaming

A key strength of Rovio is its outstanding capabilities in developing and operating mobile games. It has eight game studios focused on casual games not only in Finland but also in Sweden and Canada. Combined, they have achieved a 2022 average of 6.7 million daily active users and a cumulative total of 5 billion downloads. Rovio currently has a total of five titles that boast cumulative sales of over

EUR 100 million each, including *Angry Birds 2* and *Angry Birds Dream Blast*. Since the first *Angry Birds* game was launched in 2009, it has been animated and made into a movie. Merchandising has been developed, as have theme parks through location-based entertainment businesses.

Game Studio Portfolio



“Beacon”, the Tool for Live Service Game Operation

Beacon, a game operation support tool owned by Rovio, is a tool that centrally provides the functions necessary for the operation of live service games. It can help boost the efficiency of game operations as well as the accuracy of operational measures. By utilizing this platform, which brings together the know-how that Rovio has

cultivated in the global mobile market, particularly in Europe and America, and by leveraging also the power of the talent that supports it, we will accelerate the globalization of SEGA's mobile game business, which is currently Japan-oriented.

Data Lake*²



Player Recognition **Analytics** **Advertising Effectiveness**
AB testing **Live Operation** **Payment** **Personalization**
Client Segmentation **Ad mediation** **Cross-Promotion**
Push Notification **Research** **Privacy Framework**
Game Server Infrastructure **Machine Learning / AI**

Red: Categories where synergies can be most expected

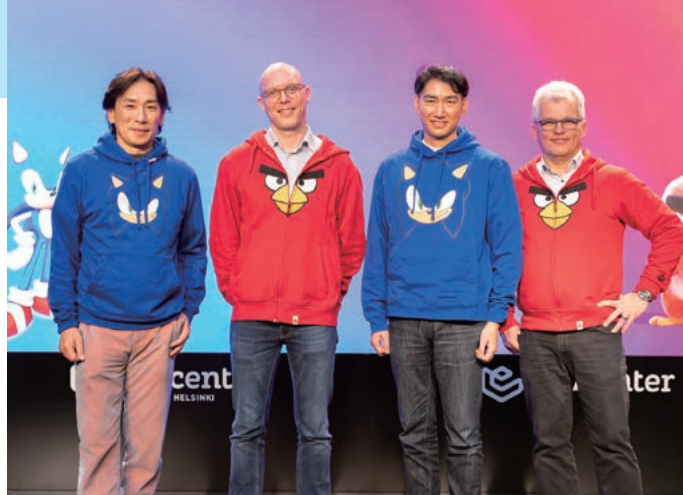
*¹ 5 billion cumulative downloads include titles outside of Angry Birds

*² Method of storing large data as raw data
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inge upon strengthening our ongoing game

mobile gaming development capabilities and
s existing IP as well as our coverage of multiple
more than ever.



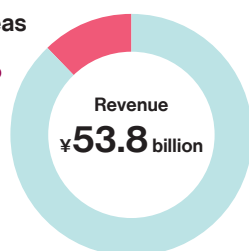
SEGA's overseas mobile revenue up to around 45% of total mobile revenue

Overseas sales currently account for a 12% share of SEGA's mobile game business. In contrast, Rovio generates 97% of its sales outside of Japan. With Rovio joining the Group, we expect

that overseas sales will grow to account for 45% of SEGA's mobile business (on a simple consolidated basis for the two companies).

SEGA Mobile Japan/Overseas Ratio

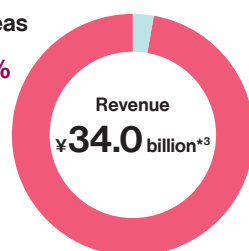
Overseas
12%



Japan
88%

Rovio Mobile Japan/Overseas Ratio

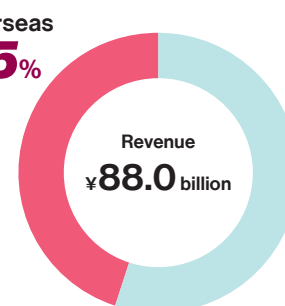
Overseas
97%



Japan
3%

Simple consolidated basis Japan/Overseas Ratio

Overseas
45%



Japan
55%

*3 €232 million (Assumption of €1=¥146.9)

Note: Calculated based on SEGA and Rovio's cumulative figures as of Q3. Rovio's revenue breakdown taken from data.ai

Pursuing synergies based on shared values and complementary capabilities

With our clear complementary relationship and shared values, there could not be more well-suited partners than Rovio and SEGA. SEGA has the ability to develop and operate large-scale titles for consoles and PCs, a lineup of globally recognized IP including Sonic, and results and expertise in the Japanese mobile game market. In contrast, as well as its Angry Birds IP, which has a global fan base centered on Europe and America, Rovio also has

capabilities in developing and operating global mobile games and, backing these capabilities, its game operation support platform Beacon. In addition, Rovio and SEGA share a common set of values that emphasize improving IP value from a long-term perspective. Going forward, we will pursue new synergies based on these complementary capabilities and shared values.



- ✓ **Global development and operation capabilities for large-scale PC/Console games**
- ✓ **Wealth of popular IPs such as the Sonic series**
- ✓ **Capability and expertise in expansion of IP to various media**
- ✓ **Development and operational capabilities for mobile games in Japan**
- ✓ **Rich M&A experience centered around Europe**

- ✓ **Development and operational capabilities of global F2P games**
- ✓ **Globally recognized "Angry Birds" IP**
- ✓ **Track record regarding IP licensing to movies and merchandising**
- ✓ **Strong fanbase in the US and Europe**
- ✓ **Proprietary game operation platform, "Beacon"**

Shared values that nurture IP over the long term

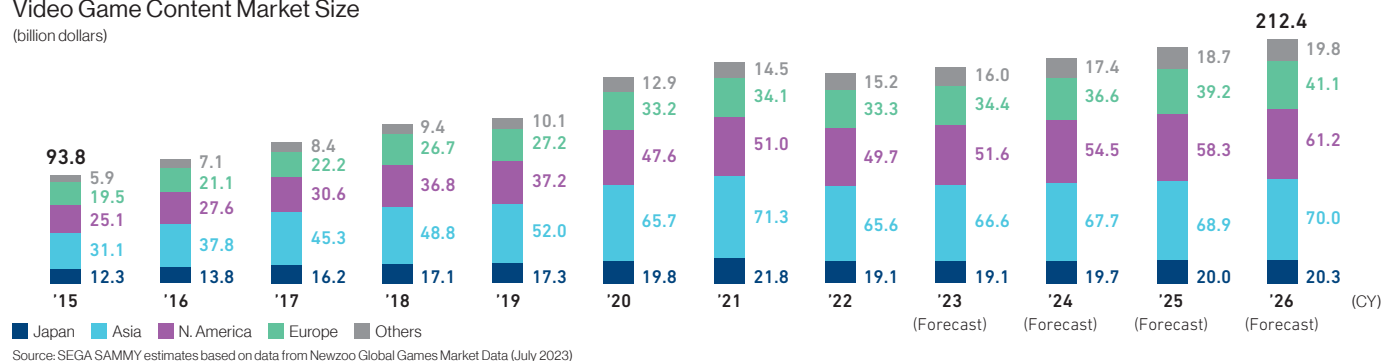
In addition to drawing on our abundant IP assets to roll out content globally, we focus on our broad business portfolio.

► External Environment

The global video game content market continues to grow against the backdrop of rising download sales and the proliferation of game distribution platforms. Although the Amusement Machine and Amusement Facilities Operations markets were hard hit by COVID-19, the prizes began to rally in 2021 and the market is recovering gradually.

Video Game Content Market Size

(billion dollars)

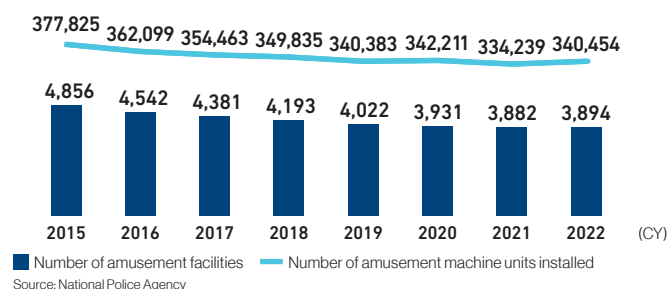


Domestic Amusement Machine Sales and Revenues from Amusement Facilities Operations

(Billions of yen)



Number of Amusement Facilities and Amusement Machine Units Installed



Anticipated Opportunities and Risks

Opportunities

- Ongoing growth in the video game content market
In the global video game content market, the market environment has been changing drastically. Sales methods for consumer games have diversified, as instanced by the growth in download sales. At the same time, a broader variety of monetization methods, such as the expansion of F2P and subscription services, has led to an environment where profits can be secured continuously over a long period of time.

Risks

- Intensification of the competitive environment due to the emergence of titles using high-quality, leading IP in the consumer area
- Possible reduced willingness of facility operators to invest capital due to changes in personal consumption trends and user needs in the field of Amusement Machine Sales
- Generation of surplus inventory in consumer game software, toys, etc., when new products cannot be launched during the sales season

Responses

Targeting opportunities

- Expanding touchpoints with users
- Prolonging product life cycles
- Strengthening user engagement

Addressing risks

- Optimizing the number of titles under operation and the scale of new title launches
- Providing a profit model that improves the investment efficiency of facility operators and secures long-term stable earnings for the Group
- Strengthening product development management

We will work to expand business value by taking advantage of

► 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 specific IP, title, or business activity.

Consumer Area

We will focus on expanding the scale of earnings by strengthening the global branding of existing IPs.

To capitalize effectively on our abundant IP assets, including dormant IPs, we will further develop these IPs by means of remakes, remastering, and reboots, etc., as well as offering them to subscription-based services and other forms of monetization across multiple channels.

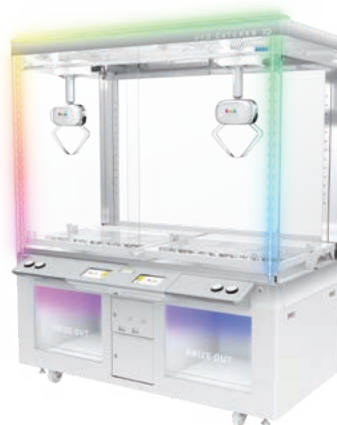
Sonic Frontiers
©SEGA



Amusement Machine Area

We will aim to improve profitability by focusing on strong-performing prize categories.

UFO CATCHER 10
©SEGA



Animation and Toy Area

In the Animation area, in addition to producing animations of our major IPs, such as Detective Conan, Anpanman, and LUPIN THE 3rd, the Group is focusing on the animation licensing and merchandising businesses.

The Toy area is expanding to encompass a broad target audience, including mainstay educational toys, character goods, and products for adults.

DETECTIVE CONAN: Black Iron Submarine
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► Progress of Medium-Term Plan

Goals

Global Branding of Existing IPs

We will expand touchpoints with users and maximize earnings opportunities by reinforcing simultaneous worldwide releases and the multiplatform deployment of content. We will also focus on remaking and remastering existing IPs and support subscription-based services to prolong product life cycles. Furthermore, we aim to strengthen user engagement and increase the value of our IPs through a mix of media and other approaches to connect these IPs with more people.

1

Expansion of touchpoints

2

Prolonging the product life cycle

3

Strengthening of user engagement

Progress

1 Expansion of touchpoints

Made steady progress with global launches and multi-platform development. Achieved sales of about 6 million units with 7 titles in FY2022/3, and about 8.8 million units with 10 titles in FY2023/3. In FY2024/3, we plan to release 12 titles, targeting sales of about 12 million units.

Multiple simultaneous worldwide releases and multiplatform deployment of content (new titles)

FY2022/3

FY2023/3

FY2024/3 (Forecast)

7 titles (about 6 million units)

10 titles (about 8.8 million units)

12 titles (about 12 million units)

2 Prolonging the product life cycle

By promoting remakes/remasters and spin-offs/changes of theme, we achieved sales of approximately 4 million units in FY2022/3 and approximately 3.5 million units in FY2023/3. In FY2024/3, we are targeting about 5 million units. We will also continue to actively promote subscriptions.

Released many titles with remake/remaster, spin-off/changes of theme (new titles)

FY2022/3

FY2023/3

FY2024/3 (Forecast)

About **4** million units

- Sonic Colors: Ultimate
- Super Monkey Ball Banana Mania
- Lost Judgment, etc.

About **3.5** million units

- Persona 5 Royal (Remaster)
- Like a Dragon: Ishin!
- Sonic Origins, etc.

About **5** million units

- Sonic Origins Plus
- Samba de Amigo: Party Central
- Etrian Odyssey Origins Collection, etc.

3 Strengthening of user engagement

We strengthened our media mix, and worked to further raise awareness of the Sonic IP and expand our brand. Going forward, Paramount Pictures will develop a third Sonic movie and an original TV series for Paramount +, its paid streaming service.

CY2020

CY2022

CY2023 -

Released the Sonic the Hedgehog movie
Global Box Office Revenue

\$320 million

Released the Sonic the Hedgehog 2 movie
Global Box Office Revenue

\$400 million

Sonic Prime launches worldwide on Netflix
Released Sonic Frontiers

Sold over **3.2** million units worldwide

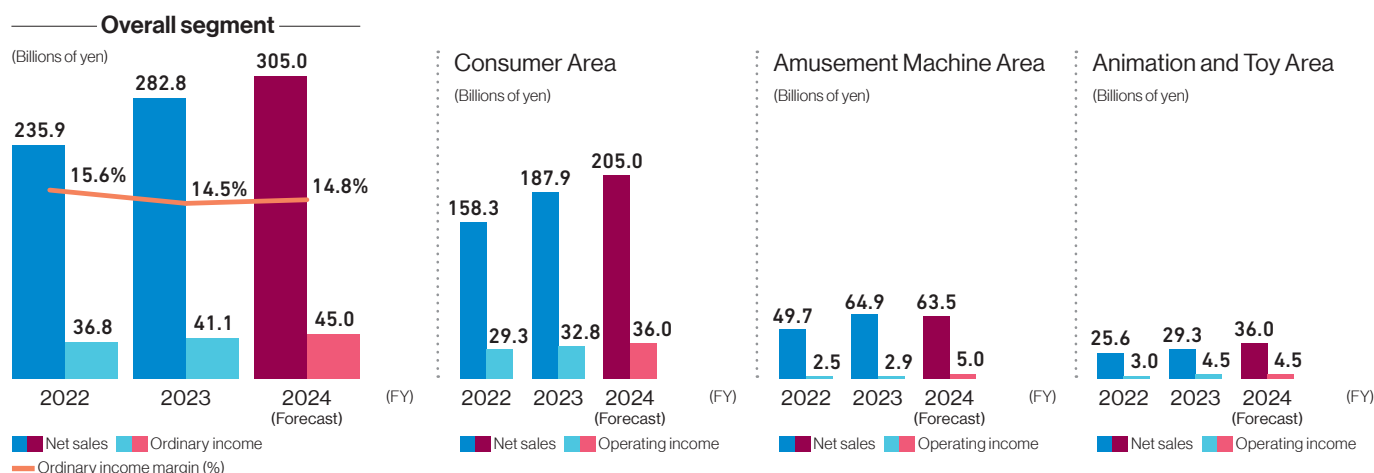
Future initiatives with PARAMOUNT PICTURES

- Development of a third feature film
- Development of original TV series to be distributed in Paramount+

Released new title Sonic Superstars

Achievements in FY2023/3 and future initiatives

Entertainment Contents Business Performance



Consumer Area

In terms of full games, we released new titles include *Sonic Frontiers*, *Persona 5 Royal* (Remaster), and *Like a Dragon: Ishin!*, and sales volume remained strong at 10.09 million units (compared with 8.77 million units sold in the previous fiscal year). Sales of repeat titles, however, remained soft due to weakness in the market, with 17.79 million copies sold (compared to 18.43 million in the previous fiscal year). As a result, overall full game sales totaled 27.89 million units (compared with 27.20 million units sold in the previous year). In F2P, *Project SEKAI COLORFUL STAGE! feat. Hatsune Miku* and *ONE PIECE Bounty Rush** drove performance, resulting in year-on-year sales and profit growth.

Going forward, we will work to advance our business development on a global scale. We will concentrate our management resources toward this aim, and enhance our development system by hiring and training talented human resources. We will also develop high-quality content, and expand our library by creating and utilizing IP.

*Developed by SEGA CORPORATION and published by Bandai Namco Entertainment Inc.



Persona 5 Royal (Remaster)
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Amusement Machine Area

Sales and profits rose year on year due to strong performance in the prize machine category. We will continue to strengthen the prize machine category, where demand remains strong, while responding to the effects of supply chain turmoil, exchange rate fluctuations, and soaring prices in raw materials.



EIKETSU TAISEN
©SEGA

Animation and Toy Area

In the Animation and Toy area, in Animation we recorded revenues from animation production and distribution, including the newly released movie *Detective Conan: The Halloween Bride*. In Toy, sales were firm, both for new products such as *With a front camera! Fun to change mouse covers! Sumikkogurashi Personal Computer Premium Design by yourself* and for mainstay products, resulting in year-on-year growth in sales and profits.

As well as strengthening various video distributions, we will continue to promote sales of new and mainstay products in the Toy area.



With a front camera! Fun to change mouse covers! Sumikkogurashi Personal Computer Premium Design by yourself
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Pachislot and Pachinko Machines Business

Top Message

Changes in the external environment are steadily opening up new opportunities

Ayumu Hoshino

Senior Executive Vice President and
COO, Representative Director
Sammy Corporation



Progress of the Medium-Term Plan

The medium-term plan calls for creating hits and improving business efficiency in the Pachislot and Pachinko Machines Business, aiming to generate steady earnings even amid changes in the business environment.

Creating Hits

The current medium-term plan lays out three measures aimed at creating hits. First is a review of the product lineup. We focused our development on the products that could be expected to become solid drivers of earnings and reorganized our sales lineup. Specifically, we launched the Sammy Classic series, which consists of revivals of IPs that were popular in the era of No. 4 model machines. Including titles such as *Pachislot DISC UP*, *Pachislot GAMERA*, and *Pachislot Aladdin A Classic*, this series has recorded robust sales. On the other hand, for No. 6.5 model pachislot machines that offer new gameplay, *Pachislot Kabaneri of the Iron Fortress* became a major hit, far beyond our expectations. This well-aligned approach of capitalizing on past IP while looking ahead and taking on the challenge of new gameplay based on new IP is steadily producing results.

The second measure is increasing the probability of a hit. The main principle at work here is to create many machines that offer a truly entertaining experience to the end-users who actually play the games. Developing machines with gameplay that end-users enjoy leads to higher utilization rates. Creating popular machines with high utilization rates will in turn benefit pachinko halls, our direct customers.

Parlor Sammy is a mock pachinko hall we set up on company premises. It is playing a major role in the development of such interesting machines, allowing employees to freely enjoy machines under development and give their frank, direct evaluations. Their evaluations and comments are collected and fed back to the development department, where they are used to refine the machines. In the past, we left it to the development department to decide when a machine was ready for production and launch, but with the broader perspective provided by Parlor Sammy, we are steadily enhancing the quality of our machines, which improves our chances of creating a hit. Another key factor in creating a hit is strong communication among the developers. To encourage this, we are working to share information more extensively within the development department, giving visibility to the kinds of projects and issues that fellow developers are working on. These efforts are helping us grasp industry trends and fostering a culture that is conducive to new ideas and approaches.

The final measure is strengthening media functions. Even if we create an interesting machine, that will not easily feed into sales growth unless it becomes widely known. This is where coming up with promotions that leverage media functions is so

Medium-term targets

Creation of hits

① Revising the product lineup

- Optimizing the product lineup (centered on series machines)
- Rigorous screening and selection of new IPs
- Revivals of past IPs

② Increasing hit potential

- Creating machines from a user-centric perspective
- Deeper user analysis by attribute

③ Enhancing media functions

- Expanding communication with users through digital media

Improving business efficiency

① Improvement of development efficiency

- Use common visual images for pachislot and pachinko machines
- Rationalize visual production
- Expand derivative titles, such as spec changes

② Cost reduction

- Promote introduction of standardized parts between pachislot and pachinko machines
- Hold down excess inventory by optimizing first-lot production (medium to long-term target: zero excess inventory)

③ Promote online commerce

- Expand online sales support to pachinko machines

essential. We use media strategically according to the target audience. So, for example, for men in their 40s and 50s, we mainly use TV commercials, while for people in their 20s it is mainly social media. With *Smart Pachislot Hokuto No Ken*, one of our current big hits, the aim was to appeal to dormant users in their 40s and 50s. As well as broadcasting TV commercials featuring popular entertainers who are big fans of the original *Pachislot Hokuto No Ken*, we carried out large-scale promotions across a range of channels, including displaying posters at Japanese pubs. These efforts paid off, contributing to high utilization immediately after the machine's launch.

Improving Business Efficiency

To improve business efficiency, our efforts focused on optimizing development operations, an area that involves substantial expenses, and in particular reviewing the number of images used for visual effects. To be sure, an array of visual effects using numerous images makes pachislot and pachinko machines interesting, but in our discussions we questioned the necessity of creating multiple new images for rare visual effects that pop up only once in tens of thousands of times. From this vantage point, we took a careful look at what kind of visual effects really influence gameplay. Then, we were able to curb costs substantially by paring down the number of images created. We are also working to standardize images in cases where the same IP is used in both pachislot and pachinko titles. For series machines, we have also been repurposing images by tweaking visual effects from past machines.

As well as these kinds of optimizations in terms of software

content, we are also working to streamline the costs of hardware, such as reusing machine gimmicks and other internal equipment. This also helps shorten the development timeframe, enabling us to test games on actual machines at an earlier stage than in the past. This allows more time for the process of refining games, which feeds into higher quality.

We also rigorously controlled surplus inventory, a factor that hampers business efficiency. However, currently an even more pressing concern is over issues with the global procurement of semiconductors and other parts, where supply is not keeping up with demand. Procurement conditions are improving somewhat, but our priority for the time being is to ensure a stable supply in preparation for growth in demand.

Recognizing the likelihood of a resurgence in such procurement risks down the road, we will work on fundamental, long-term solutions. While continually updating the supply chain, including diversifying our suppliers, we will pursue product development that enables stable production, including standardizing parts and promoting the reuse of parts.

In fact, going a bit further, if we standardize all of the hardware parts used in our machines, in future it could be possible to create a downloadable pachislot or pachinko machine in which only the software is switched out via a network connection. This would enable us to radically mitigate procurement risks. This is technically possible already, and this approach would also enhance security. Of course, we would need to address any regulatory issues, and will discuss the idea thoroughly with relevant authorities as we make steady progress towards implementation.

Outlook

Some people predict that the number of pachinko halls and pachislot and pachinko players will continue to decrease as Japan's population declines, but I am not so pessimistic. Just as we saw a major expansion of the market in the No. 4 model era, the pachislot and pachinko machines market still has plenty of potential for growth once it gains momentum.

In 2023, the launch of *Smart Pachislot Hokuto No Ken* caused dormant users in their 40s and 50s who had played the original *Pachislot Hokuto No Ken* to return to pachinko halls and energized the market. Rather than letting this be simply a one-off boom, it is important to keep those users in the market. With this in mind, we will continue pursuing aggressive product development centered on the *Classic Series* targeting the dormant user base, while working at the industry association level to give impetus to revitalization of the industry as a whole. Currently, there is a trend for both pachislot and pachinko to undergo regulatory review. So, my hope is that, if the industry

as a whole can draw in users by creating machines that offer new gameplay while complying with the rules and regulations, this will recharge the entire market in the near future.

Smart pachislot and pachinko machines offer an array of advantages and carry huge hidden potential. Not only does eliminating the physical pay-out of medals and pachinko balls lead to lower running costs and energy savings at pachinko halls, but since game data can be collected and managed, it also helps in monitoring the excessive gaming behaviors that can lead to addiction. Meanwhile, adopting cashless payment also makes it possible to monitor individual spending patterns and issue alerts on payments above a certain amount. We recognize addiction as a serious issue that we and all businesses involved in the pachislot and pachinko machines industry have to tackle. We believe that fulfilling our responsibilities to society and promoting a healthy industry image is vital for ensuring the sustainable growth of this market.

Potential Shape of the Future Pachislot and Pachinko

Expectations for all sorts of possibilities unconstrained by existing concepts

Short to medium term

- Improvement of gameplay
- Reduction in the number of parts
- Enhancement of hall environments
- Fraud prevention
- Lower operational burden for pachinko halls
- Measures against infection
- Measures against addiction
- Lower barriers to new store opening

Long-term potential

More diverse pachinko hall layouts

Cashless operation

Machines that can download and replace software

Digitization of operations

Communication between pachislot and pachinko machines

Continuing to Take on Challenges

The various measures we have carried out based on the medium-term plan have borne fruit in the Pachislot and Pachinko Machines Business, giving us a framework for generating solid earnings. Going forward, by developing compelling machines that serve, inspire, and awaken users and by creating hit titles, we will drive substantial top line growth. To this end, we will foster an environment of taking on even greater challenges in line with Sammy's corporate value of being "Always proactive,

always pioneering." Continuing to take on challenges naturally sometimes involves failing, but the crucial thing is to draw on such experiences in embracing the next challenge. As I see it, a major role for myself and the rest of the management team is to cultivate the seeds of such challenges and support our human resources. I invite our stakeholders to follow our progress as we continue to drive the upward trend in the Pachislot and Pachinko Machines Business.

PICKUP

Key Person in Creating a Hit

Developing innovative pachislot and pachinko machines that move users

The Hit Pachislot *Kabaneri of the Iron Fortress*

I think the so-called “Tsuranuki specifications” of *Pachislot Kabaneri of the Iron Fortress*, which took full advantage of revised regulations for No. 6.5 model machines—including revisions to the upper limit on medal pay-out—were a major factor in making this machine a hit. We were moving ahead with different specifications when we first started out but switched course in the final stages of development, deciding to change the specifications to capitalize on the features of No. 6.5 models. It was really tough to incorporate the changes in such a short period of time to avoid delaying the launch. But thanks to the agility of the whole team, we were able to launch the machine without a hitch.

We got a very warm reception from users for the kind of gameplay that can only be experienced with *Pachislot Kabaneri of the Iron Fortress*, such as its unparalleled reel play and exhilarating bonus wins. The machine design strikes a delicate balance between being mild and easy to play while still making users look forward to medal pay-out. My sense is that the overall gameplay, combined with high-quality visual effects using movie and sound elements, has earned high marks from users and is leading them to play the machine for long periods of time.



Pachislot Kabaneri of the Iron Fortress
©Kabaneri Committee ©Sammy



Hidekazu Kouchi

Vice President, Executive Officer
Managing Director of PS Research &
Development Division
Sammy Corporation

The Hit Smart Pachislot *Hokuto No Ken*

Smart Pachislot Hokuto No Ken is based on the concept of a full-fledged remake of the original *Pachislot Hokuto No Ken*, which recorded roughly 620,000 unit sales. We believed the key to success was to find the right way to balance the features the machine should inherit from past models while having the courage not to change and to evolve by adding elements we thought would be desirable. Our greatest focus was on the most appealing aspect of the original machine—a battle bonus that the user doesn't know how long will last. At the start of development, we were considering reproducing the original in a different form, but were able to reflect revised regulations for smart pachislot machines and come up with the ideal combination of inheritance and evolution. We also started running in-house trials from an early stage, and the whole team worked together through trial and error to decide which new features we wanted to incorporate or not until we came up with a product we were satisfied with.

The result was a huge hit, which original fans liked for its nostalgic elements and high degree of faithfulness to the original, while new fans who never knew the original liked the machine's fun and easy-to-understand nature.

The *Hokuto no Ken* series is an IP that has been well-loved by fans for a long time. We will continue to aim for further growth in this series by fusing elements inherited from the original with evolved new elements.



Smart Pachislot Hokuto No Ken
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COAMIX 1983.
©COAMIX 2007 Approved No.
YRA-114
©Sammy

Continuing to Take on Challenges

The success of these machines, both of which under the new regulations fall into the “mild” category in terms of the moderate pay-in typically needed to hit a jackpot, gives me the sense that we have an environment in which it is easier to offer a wide variety of specifications and gameplay without relying solely on the gambling aspects of the machines.

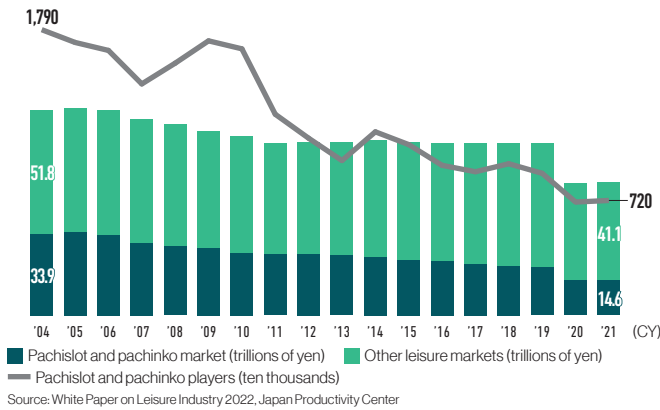
Also, as various types of entertainment emerge, I feel strongly that pachislot and pachinko need more variety as well. We will continue to take on the challenge of being a company that generates excitement among users by making them wonder what kind of machine we will put out next without relying too heavily on any single aspect, like specifications, gameplay, or the IP.

As an “innovator in the industry,” we will launch new initiatives and strive to ge

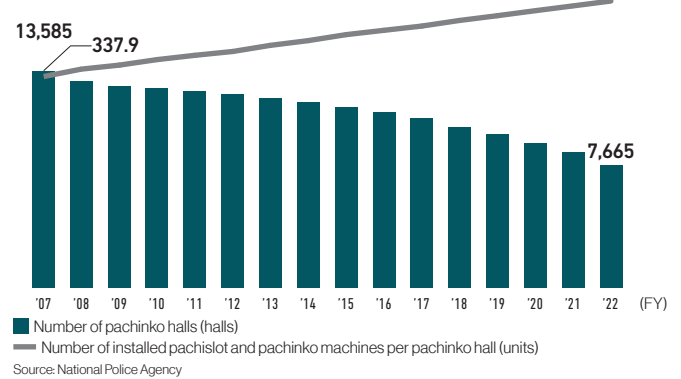
► External Environment

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 large pachinko halls and an increase in locations of major hall operators has been causing a rise in the number of machines installed per pachinko hall.

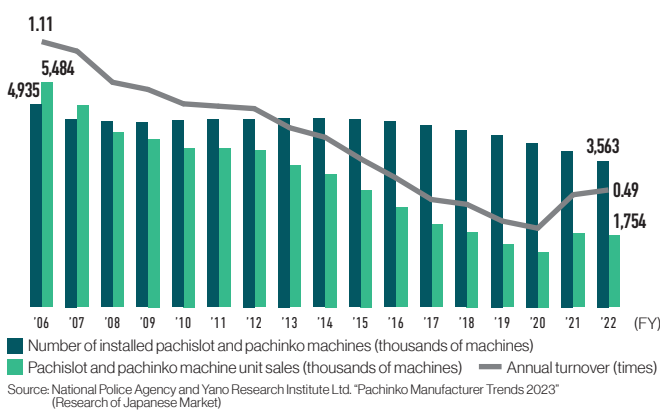
Market Size and Number of Pachislot and Pachinko Players



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

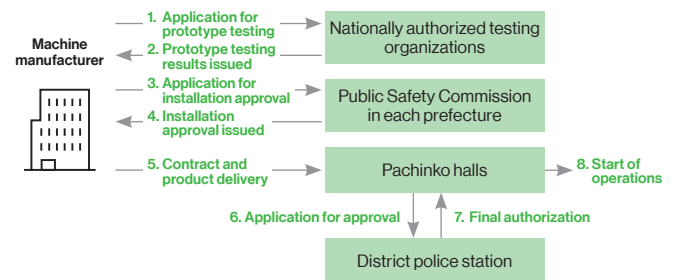


Pachislot and Pachinko Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



Pachislot and Pachinko Machine Approval Process

When marketing a new pachislot or pachinko machine, manufacturers are required to go through multiple step approval processes in accordance with the Act on Control and Improvement of Amusement Business, etc.



For more information on market data, see **P. 97-98.**

Anticipated Opportunities and Risks

Opportunities

- Possibility of expanding user base
By setting standards that allow new machines with a broader range of gameplay, recent revisions to regulations may expand the user base.

- Growing demand for machines that take advantage of revised regulations

If models that take advantage of revised regulations gain the support of users, we can expect this to trigger greater demand among pachinko hall operators and feed into sales growth.

Risks

- Issue of gambling addiction
- Changing user preferences
- Risk of inability to procure sufficient materials
- Surplus parts

Responses

Targeting opportunities

- Creation of Hits
- Improvement of Business Efficiency

Addressing risks

- Launch initiatives to tackle addiction across the industry
- Establish a system for developing a product lineup that features new types of gameplay and meets market needs
- Standardization of parts
- Cut procurement lead times
- Strengthen inventory controls
- Allow effective use of parts for other products

Generate stable profits by enhancing profitability.

► Business Overview

Leveraging development capabilities to offer products that meet demand
The Pachislot and Pachinko Machines Business draws on a powerful IP lineup and industry-leading development capabilities to supply products that meet the demands of a diverse fan base. We are working to develop and market machines with innovative gameplay that will help bring vitality to the market for both pachislot and pachinko machines. We are also seeking to lower costs through measures centered on the standardization and reuse of parts.



Sammy's Strengths

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> | 39 | Approx. 3,040 thousand units | <i>Hokuto Muso</i> | 12 | Approx. 280 thousand units |
| <i>ALADDIN</i> | 15 | Approx. 580 thousand units | <i>Eureka Seven</i> | 7 | Approx. 170 thousand units |
| <i>Beast King</i> | 16 | Approx. 510 thousand units | <i>〈Monogatari〉 Series</i> | 12 | Approx. 150 thousand units |
| <i>SOUTEN-NO-KEN</i> | 16 | Approx. 490 thousand units | <i>Code Geass</i> | 4 | Approx. 70 thousand units |

Note: As of March 31, 2023

Lowering costs and raising profitability

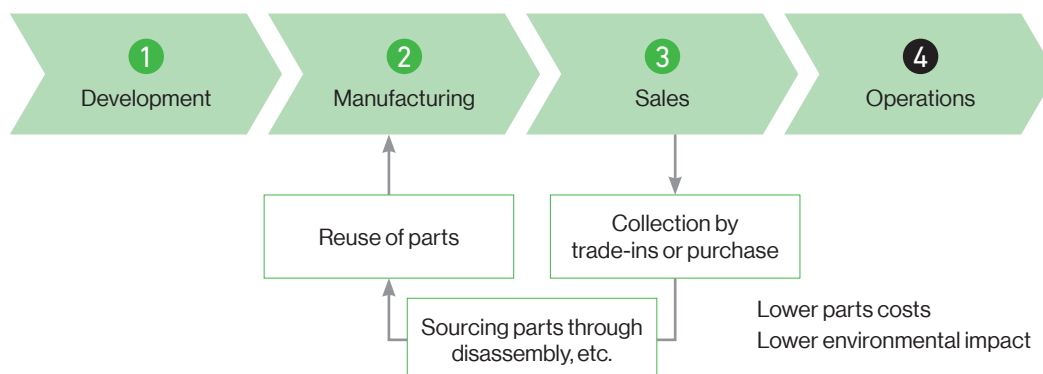
Pachislot and pachinko businesses are characterized by a reliance on electronic parts that carry a high cost ratio.

The Group is working to raise development efficiency and lower costs, such as through the reuse of parts.



Value Chain of the Pachislot and Pachinko Machines Business

- ① Average development lead time: 1 year–2.5 years
- ③ Average sales lead time: 1 month–
- In-house ● External



► Progress of Medium-Term Plan

Goals

Achieve top share of total utilization of pachislot and pachinko machines and maintain steady earnings

We aim to create hits and expand share of utilization by optimizing the product lineup, manufacturing machines from a user-centric perspective, and expanding communication with users through digital media. We will also improve business efficiency and maintain steady earnings by promoting standardized imagery and parts between pachislot and pachinko machines and promoting e-commerce.

Creation of Hits

① Revising the product lineup

② Increasing hit potential

③ Enhancing media functions

Improvement of Business Efficiency

① Improvement of development efficiency

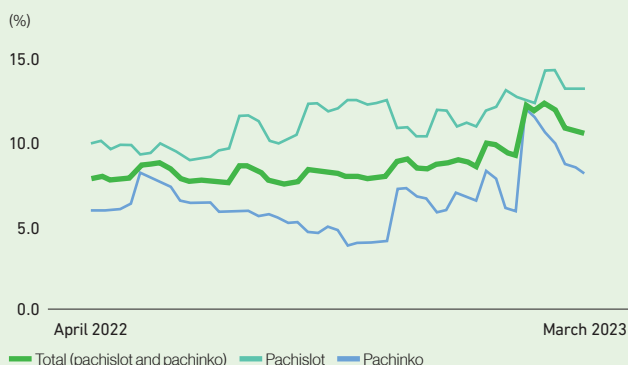
② Cost reduction

③ Promote online commerce

Progress

Although Pachislot was strong, total utilization share decreased YoY due to struggle in Pachinko

Trend of our utilization share



FY2022/3

| | | |
|-----|--------------|------------|
| 1st | K Company | 18% |
| 2nd | S Company | 18% |
| 3rd | Sammy | 11% |
| 4th | S Company | 9% |

FY2023/3

| | | |
|-----|--------------|-----------|
| 1st | S Company | 18% |
| 2nd | K Company | 16% |
| 3rd | S Company | 14% |
| 4th | Sammy | 9% |

● **Pachislot:** Increased due to strong sales of No. 6.5 Model (+2p)

● **Pachinko:** Decreased due to low utilization, while sales were strong (-7p)

Future initiatives

● **Pachislot:** Actively launch smart pachislot while continuously launch No. 6.5 Model, which utilization remains strong

● **Pachinko:** Work on developing machines that will be supported by users

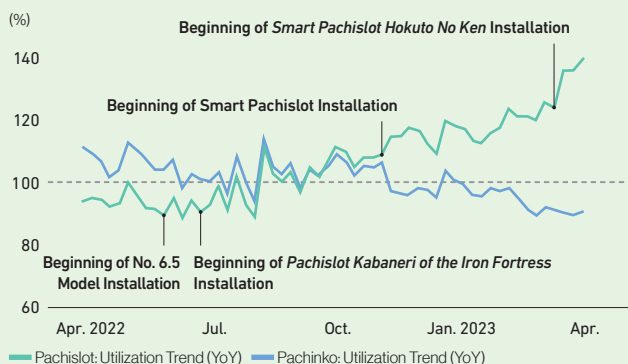
* In-house estimation based on DK-SIS data (Data for 4 yen Pachinko and 20 yen Pachislot) of Daikoku Denki Co., Ltd.

* Utilization Share = Ratio of Sammy machine's utilization out of total number of installed machine for each title × utilization of each title (Pachislot: Numbers of inserted medals, Pachinko: Numbers of shot balls)

* Calculated by average of the fiscal year (Exclude weeks falling in two fiscal years)

Utilization level of Pachislot is significantly increasing

Utilization Trend (Pachislot & Pachinko)



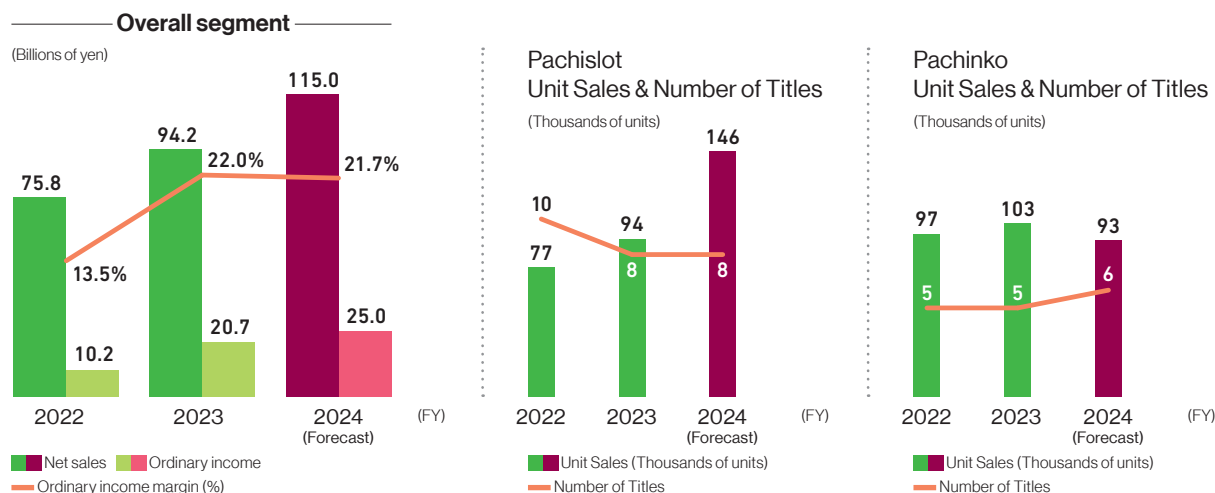
* In-house estimation based on DK-SIS data (Data for 4 yen Pachinko and 20 yen Pachislot) of Daikoku Denki Co., Ltd.

● **Pachislot:** Utilization level has increased due to installation of No. 6.5 Model and smart pachislot, which responds to revision of regulation
Due to installation of *Smart Pachislot Hokuto No Ken*, etc., recent utilization is significantly increasing

● **Pachinko:** Due to lack of new hit machines, utilization continues centered on regular machines

► Achievements in FY2023/3 and future initiatives

Pachislot and Pachinko Machines Business Performance



In the fiscal year ended March 2023, sales of pachislot machines were roughly 94 thousand units (compared with 77 thousand units sold in the previous fiscal year). This was due to strong sales of No. 6.5 model machines such as *Pachislot Kabaneri of the Iron Fortress* and *Pachislot Saga of Tanya the Evil*. In particular, *Pachislot Kabaneri of the Iron Fortress* has maintained a high level of utilization since its release in July 2022, and following a series of additional sales, unit sales have been significantly above initial plan. Sales of pachinko machines totaled 103 thousand units (compared with 97 thousand units sold in the previous fiscal year), reflecting sales of flagship machine series such as *P Shin Hokuto Muso Chapter 4*. As a result of these factors, the Pachislot and Pachinko Machines Business achieved year-on-year increases in sales and profits.

In the fiscal year ending March 2024, as well as No. 6.5 model machines, which show good utilization, we will also actively launch smart pachislot titles such as *Smart Pachislot BIOHAZARD: VENDETTA* starting with *Smart Pachislot Hokuto No Ken*. Based on the above, we expect that, following on from the fiscal year ended March 2023, pachislot machines will continue to drive sales and profit growth. Although parts procurement conditions are improving, we will continue to monitor the situation closely. We will build a flexible and stable supply system to ensure our readiness to meet strong demand.



Smart Pachislot BIOHAZARD: VENDETTA
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©Sammy



P Shin Hokuto Muso Chapter 4
©Buronson & Tetsuo Hara./COAMIX 1983,
Approved No.KOU-423
© 2010-2013 Koel Tecmo Games Co., Ltd. ©Sammy

Major titles released in FY2024/3 (As of October 2023)

| | | Delivery month |
|-----------|---|----------------|
| Pachislot | <i>Smart Pachislot Hokuto No Ken</i> | Apr. 2023 |
| | <i>Smart Pachislot BIOHAZARD: VENDETTA</i> | Jul. 2023 |
| | <i>Pachislot Kizumonogatari -Hajimari No Toki-</i> | Sep. 2023 |
| | <i>Pachislot Kabaneri of the Iron Fortress (Additional Sales)</i> | Oct. 2023 |
| Pachinko | <i>P Aura Battler Dunbine 2 -ZEROLIMIT HYPER-</i> | Apr. 2023 |
| | <i>P Hokuto No Ken Bokyosei</i> | May 2023 |
| | <i>P Kabaneri of the Iron Fortress ~4,000Rengeki ver.~</i> | Jun. 2023 |
| | <i>P BLACK LAGOON4</i> | Jul. 2023 |

Resort Business

We are aiming to invest in the Gaming area as the third driver of earnings in tandem with bolstering the profitability of existing resort facilities.

► External Environment

Pandemic-related behavioral restrictions continue easing

Behavioral restrictions in Japan continue to ease. Travel restrictions overseas, which had caused a severe impact, have also been eased.

| Anticipated Opportunities and Risks | | Responses |
|---|--|--|
| Opportunities <ul style="list-style-type: none"> • Entry into the Gaming area <p>Entry into the Gaming area has the potential to become a major source of earnings for the Group.</p> | Risks <ul style="list-style-type: none"> • Risk of lower customer numbers in the event of a resurgence of infections | Targeting opportunities <ul style="list-style-type: none"> • Apply know-how accumulated during the Japan IR entry study toward investing in the Gaming area Addressing risks <ul style="list-style-type: none"> • As a measure against the COVID-19 pandemic, thoroughly implemented preventive measures in accordance with national and local government policies |

Achievements in FY2023/3 and future initiatives

Phoenix Seagaia Resort achieved the highest sales and first profitability since it joined the Group due to the contribution of the government and facility's own measures to stimulate tourism demand, as well as the implementation of various measures and the enhancement of CRM focusing on individual customers.

Overseas, at *PARADISE CITY*, which is operated by *PARADISE SEGASAMMY Co., Ltd.* (an equity method affiliate), the easing of travel restrictions from June 2022 brought a gradual recovery of casino sales. From October 2022, drop amounts (the amount of chips purchased by customers) of Japanese VIPs rebounded sharply, reaching pre-pandemic levels.

As a result, net sales in this segment were ¥11,540 million (an increase of 33.2% from the previous fiscal year) and ordinary loss was ¥3,217 million (ordinary loss of ¥6,738 million for the previous fiscal year).

We will continue to work on tactical measures to attract customers in Japan at the *Phoenix Seagaia Resort* and overseas at *PARADISE CITY*. We will also apply the knowledge we have accumulated so far with the aim of investing in the Gaming area, a market that is expected to grow.



► Business Overview

Through the operation of resort facilities in Japan and overseas, the Group is working to build up development and operational expertise in areas such as hotels, golf, entertainment facilities, commercial facilities and casino operations, while examining investment opportunities in the Gaming area.

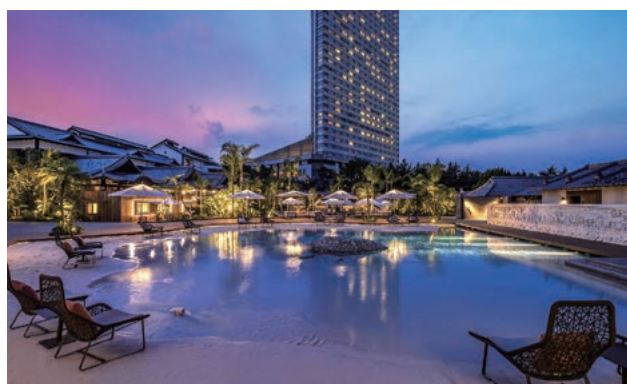
Phoenix Seagaia Resort

(Miyazaki City, Miyazaki Prefecture)

Japan's leading resort complex

Phoenix Seagaia Resort offers a richly varied resort experience that takes advantage of a beautiful natural setting. Surrounding it is 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. The resort has three accommodation facilities, including the Sheraton Grande Ocean Resort. It also boasts a world-class convention center and Phoenix Country Club, one of Japan's preeminent golf courses.

In 2017, the largest renewal since the resort's opening was completed, transforming it into New Seagaia, which pursues the quintessential resort experience. Aiming to offer the most delicious food in Japan, we continue to create new culinary experiences at the resort by making use of its location in Miyazaki, which is well known in Japan as a treasure trove of food.



©Phoenix Resort

PARADISE CITY

(Incheon Metropolitan City, South Korea)

South Korea's first IR facility

PARADISE CITY, operated by PARADISE SEGASAMMY Co., Ltd., a joint venture with the PARADISE GROUP of South Korea, is the first IR facility in South Korea with hotels, casinos, convention halls, commercial facilities, and entertainment facilities. We aim to be the pre-eminent IR facility in northeast Asia by providing high-quality spaces and services.



The North Country Golf Club

(Chitose City, 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.



A History of Experiences That Move the Heart

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

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 pursue new experiences through the full-scale entry into the Resort Business in 2012 and other initiatives.

SEGA Sammy

Management Integration 2004

Established 1975



1989

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



ALADDIN
©Sammy

2001

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



Beast King
©Sammy

2003

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



Pachislot Hokuto No Ken
©Burtonson & Tetsuo Hara./ NSP 1983
©Sammy

2008

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



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

2009

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



Pachislot Psalms of Planets Eureka Seven
©2005 BONES/Project EUREKA
©Sammy
©BNEI

Established 1960



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

2005

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



Ryu ga Gotoku
©SEGA

2012

- Started distribution of online RPG *PHANTASY STAR ONLINE 2*



PHANTASY STAR ONLINE 2
©SEGA



Sangokushi Taisen
©SEGA

2015

- Launched new series Pachinko CR Shin Hokuto Muso, drawing on a game IP



Pachinko CR Shin Hokuto Muso
©Buronson & Tetsuo Hara./NSP 1983,
Approved No.KOJ-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
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©NSP 2007 Approved No.YAF-420
©Sammy

2022

- Launched Pachislot Kabaneri of the Iron Fortress for No. 6.5 models



Pachislot Kabaneri of the Iron Fortress
©Kabaneri Committee ©Sammy

2023

- Launched Smart Pachislot Hokuto No Ken



Smart Pachislot Hokuto No Ken
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©COAMIX 2007 Approved No.YRA-114
©Sammy

2012

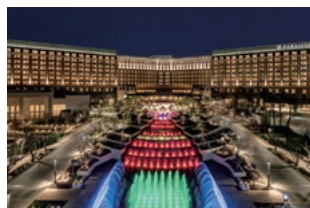
- Made PHOENIX RESORT CO., LTD. a wholly owned subsidiary
- Established a joint venture "PARADISE SEGASAMMY Co., Ltd." with the PARADISE GROUP of South Korea



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

2022

- Sonic the Hedgehog 2 became a worldwide hit.



©2022 PARAMOUNT PICTURES CORPORATION AND SEGA OF AMERICA, INC.

- Sonic Frontiers became a big hit.



©SEGA

2013

- Started distribution of smartphone game Puyo puyo!! Quest and CHAIN CHRONICLE



Puyo Puyo!! Quest
©SEGA



CHAIN CHRONICLE
©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
© Games Workshop Limited 2020.
Published by SEGA.

2020

- Released the Sonic the Hedgehog movie



Sonic The Hedgehog
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ALL RIGHTS RESERVED.

- Launched HATSUNE MIKU: COLORFUL STAGE!



HATSUNE MIKU: COLORFUL STAGE!
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Materiality Initiatives

SEGA SAMMY GROUP

SUSTAINABILITY VISION

Sustainability helps keep life colorful

We at SEGA SAMMY believe our determination to enhance life with a rich and colorful stream of captivating experiences should be reflected in our approach to sustainability.

It is our responsibility to put sustainability at the heart of everything we do, in tandem with our people, society, and the environment.

SEGA SAMMY will continue to pursue this synergy as a company dedicated to the shared experiences of a colorful world.

GROUP MISSION

Constantly Creating, Forever Captivating
— Making Life More Colorful —



Materiality Identification Process

Issues Capturing and Materiality Evaluation

STEP 1

Between 2016 and 2020, SEGA SAMMY Holdings received the “Sustainable Management Diagnosis” conducted by the Committee for the Promotion of Management Diagnosis to visualize strengths and issues related to sustainability.

In 2019, our group’s corporate board meeting formulated management policies for CSR and SDGs and set three important themes to be addressed. They are “Improvement of job satisfaction and diversity, and elimination of inequity”, “taking action on addiction”, and “addressing the social issue of super-declining birthrate and aging society.”

In April 2019, the assessment committee organized by professional members of management, human rights, environment, and more, along with our CSR, SDGs Promotion Department manager (current Sustainability Department) organized a stakeholder dialog. We engaged in many discussions to identify our group’s unique materiality on the comprehensive perspective by giving feedback from meetings with investors, stockholders, and employees, where opinions and requests were raised, to the Board of Directors meeting.

Issues Identification

STEP 2

In 2019, we set four issues, including the three important themes to be addressed written above, and added “Environmental responses” as our group’s materiality.

In 2020, we evaluated the set materiality themes to ensure their relevance to our businesses. We then redefined the materiality framework by referencing the “SASB Standards.”

The current five materiality themes were identified by focusing on the value created by our core businesses to meet social needs, achieve a sustainable society, and continuously enhance corporate value, all aligned with our group mission of “Constantly Creating, Forever Captivating.”

Setting and Approval of Materiality

STEP 3

In April 2022, our Group Sustainability Session approved the current materiality content and disclosure of the materiality, and the Group Management Strategies Committee (now the Group Management Committee) subsequently held discussions. Following these discussions, the Board of Directors granted its approval.

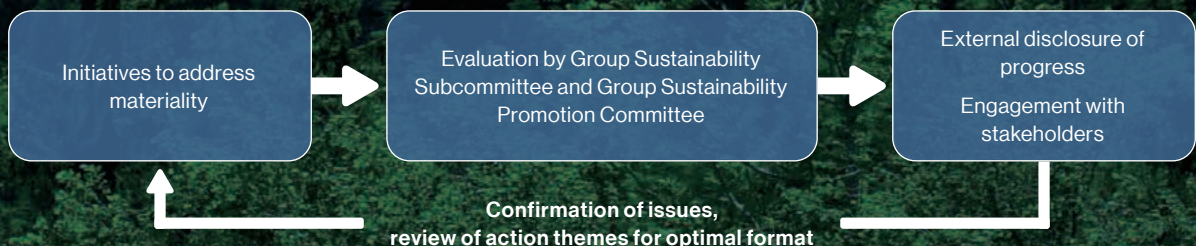
Progress Monitoring and Reviewing Materiality

STEP 4

Group companies establish their actual action themes, numerical targets, and deadlines for each materiality. They created a flow for periodically monitoring progress by setting medium-term goals based on the materiality themes and holding yearly Group Sustainability Session and Group Sustainability Promoting Meeting to report and assess their progress.

We periodically report the entire group’s progress in the financial results briefings and integrated reports to our stakeholders, and also share this information on our internal and external websites.

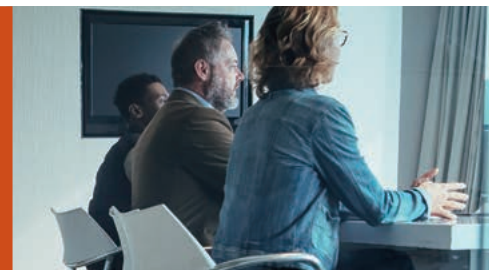
Opinions and requests from our stakeholders are scrutinized in the Group Sustainability Session and then reviewed and updated to the optimized form after identifying issues by taking into account the importance of social problems and management issues in the context of the social condition, international trends, and external environment, all through ongoing communication with our stakeholders.





Human Resources

Developing People Who Can Create Experiences That Move the Heart



Main Activities and Milestones

2030 Targets

SSHD*, SEGA, Sammy Monitoring of quantitative targets (annual)

Expanding scope for disclosure of companies

Whole company Updating existing initiatives, adding new initiatives (annual)

SSHD*, SEGA, Sammy Reexamining target figures and reconsidering action plan

SEGA
Building a global system

Exploring of culturally diverse human resource measures

Implementing culturally diverse human resource measures

Group companies Reviewing disclosure policy and examination of action plan

Implementing the action plan

Culturally diverse human resources*

Approx. 900 people–
(approx. 21%–)

Percentage of women in managerial positions

Approx. 8%–
(Approx. 80 people–)

Amount invested in education

¥4.0 billion or more cumulatively

Engagement score

58*⁴ or above/Rating A*⁵ or above

* SEGA SAMMY HOLDINGS INC.

Four Key Indicators in Human Capital

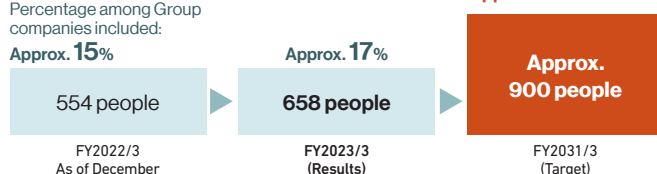
Companies included ① ② ③: SEGA SAMMY HOLDINGS, SEGA (Japan), Sammy,
④: Major Group Companies in Japan

① Developing culturally diverse*¹ human resources

Number of people (ratio)

Percentage among Group companies included:
Approx. 15%

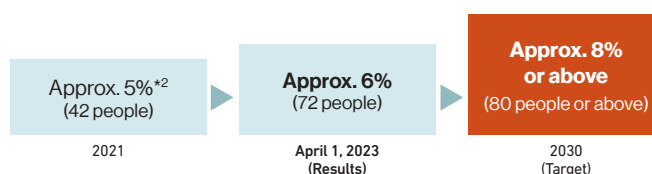
approx. 21% or above



*¹ Certified based on numerous criteria, such as being a foreign national, having overseas residence experience and multicultural experience, and having a certain level of proficiency in languages such as English or Chinese. Human resources who can deal with diverse cultures and use their experience in their work.

② Active career opportunities for women

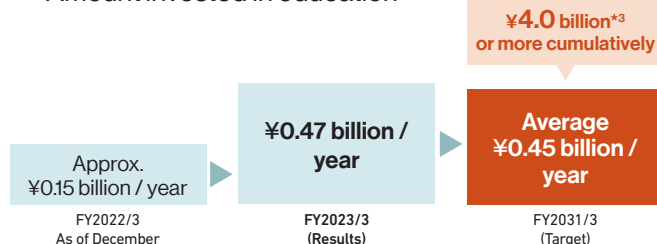
Percentage of women in managerial positions



*² Percentage of management positions held by women (including specialists)

③ Development of core human resources

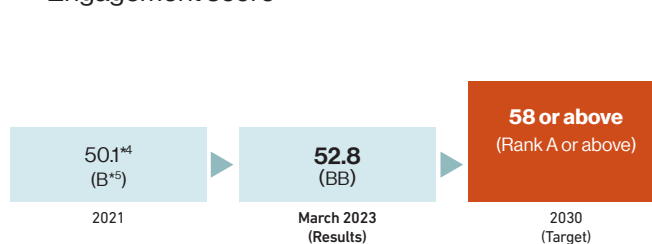
Amount invested in education



*³ Cumulative investment from FY2023/3 to FY2031/3

④ Maintenance of work environment

Engagement score



*⁴ Source: Link and Motivation Inc, engagement score based on motivation cloud

*⁵ Engagement rating



MESSAGE

A Message from the Head of Human Resources

Promoting human resources strategies for business transformation

Makoto Takahashi

Executive Vice President,
Executive Officer



Formulating the HR Transformation Vision

Through structural reforms, the Group has been able to evolve into a structure capable of generating stable earnings. We have achieved the original final year targets of our current medium-term plan ahead of schedule.

Looking at the rapidly changing market environment and user trends from a long-term standpoint, however, it is clear that constant evolution of our business model will be needed. Without it, we cannot expect sustainable growth in the future, and instead can expect that the risks we face will only increase.

Spurred by this sense of urgency, we have positioned “transformation” as the core theme of the Group’s human resources strategy. To advance this transformation, in November 2020 we formulated the HR Transformation Vision, which articulates our ideal image for our organization and our human resources.

Fortunately, our Group is full of human resources who genuinely love our products and services. They have a mindset of wanting to deliver those products and services to more users and embracing change to make that happen. That is why the HR Transformation Vision has gained such good traction within the Company, with clear signs of change.

Linking management strategy and human resources strategy

SEGA SAMMY has listed “Human Resources” as one of its material issues to be addressed.

As user needs diversify and businesses become more global, creating new products and services to attract new users will become increasingly important. To adapt to this situation, we are focusing on hiring and training multicultural human resources who understand diverse cultures and values. We are building an environment where women can play a more active role and investing in education for each and every employee to hone their skills. We are also building a workplace where these diverse human resources can work with vigor and enthusiasm.

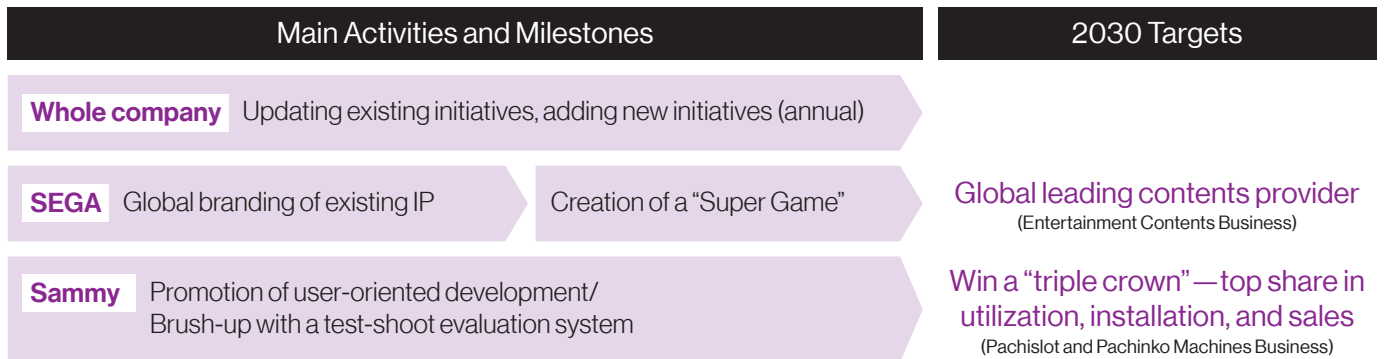
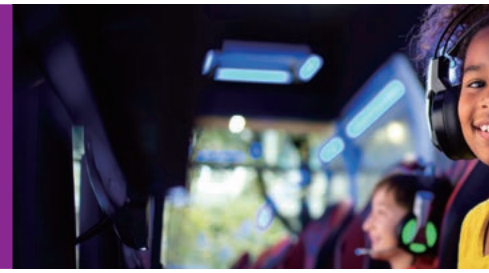
In the next medium-term plan, which is currently under discussion, we will further strengthen the links between our management strategy and human resource strategy. We must be able to flexibly allocate appropriate human resources so that we are not hindered by a lack of human resources when implementing our new strategy. To achieve this, we will need to visualize what kind of skill set each employee has and build a database based on these insights. By doing so, we can specify the skills that are important for the future of the Company, using those parameters as we design various human resource development programs.

I believe that if we can create such an environment, we will further increase our internal momentum toward new challenges, which will in turn accelerate our transformation and growth.



Products and Services

Providing Safe, Dependable, and Innovative Products and Services



Quality Improvement

E Evaluation Team that Supports the Fun of Each Title

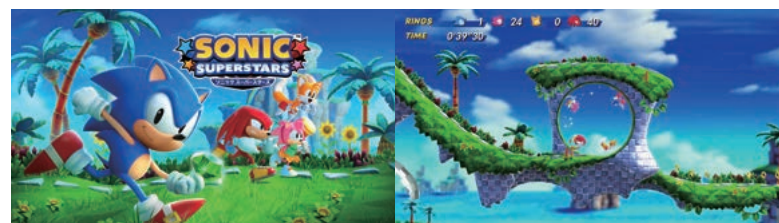
At SEGA, we have an in-house evaluation team that assesses the titles we develop for smartphones and video game consoles by measuring the level of fun that they offer.

The evaluation team objectively assesses the titles, comparing the final version against the concept set by the development department at the time of game planning. The team checks whether a unique appeal has been achieved for the title, and whether customers can enjoy the game as originally intended. The evaluation result is also used by management and the development department to review and discuss the development status, and helps improve the quality of SEGA's games.

Our global evaluation teams collaborate closely to gather feedback from the main target markets so that it can be used in the development process. This helps to ensure that the game is enjoyable in a way that meets our customers' expectations.



Launched on October 17, 2023, *Sonic Superstars* is an all-new title in the Sonic series. In this game, players can also enjoy the series' first offline multiplayer mode, which can be played with up to four players, as well as battle mode, which can be played both offline and online. While preserving the 2D side-scrolling feel of the original Sonic, this completely new high-speed action game also reimagines and evolves the gameplay with 3D graphics. The evaluation team is also supporting the tackling of new challenges in this latest entry in the Sonic series.



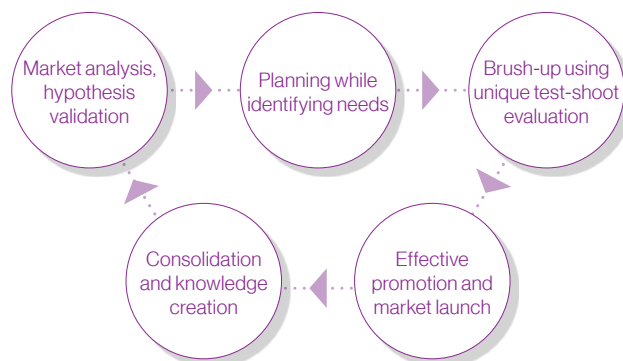
Sonic Superstars
©SEGA



- E** Entertainment Contents Business
- P** Pachislot and Pachinko Machines Business
- R** Resort Business
- SS** Group

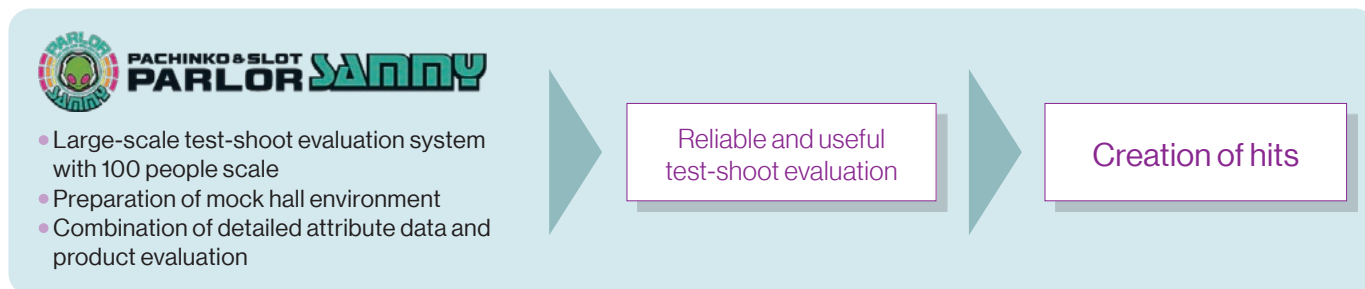
P User-oriented Development Process

While planning, Sammy uses data-based market analysis and hypothesis validation to identify targets and needs. We have also put in place a system for enhancing the level of perfection with a unique test-shoot evaluation system that provides more user-oriented evaluations.



P Brush-up Using Highly Unique Test-shoot Evaluation

Sammy is leveraging industry-leading human resources for development to deploy a massive 100-people scale test-shoot evaluation into the development process. In addition, we have installed a mock hall (Parlor Sammy) that closely resembles the actual play environment, and are working to refine our products. These efforts have led to the creation of hit titles such as *Pachislot Kabaneri of the Iron Fortress* and *Smart Pachislot Hokuto No Ken*.



Safety and Security

E Initiatives of the Global Product Operations Division

SEGA is increasing its connections with customers through the multi-platform global expansion of our game titles. Simultaneously releasing a game globally across several platforms calls for a number of processes to be brought together thoroughly and seamlessly. We must ensure that game quality meets the standards of each platform and of SEGA. At the same time, we must observe the laws and regulations of each country and region where the game is released, while also localizing the game into many languages and ensuring that the creative expression of the game is preserved and appropriate.

In response to this situation, the Global Product Operations Division is working to develop guidelines for various workflow at SEGA's development and publishing sites in Japan, Asia, North America, and Europe with the aim of improving execution accuracy and optimizing its processes. In addition, the Global Product Operations Division shares information such as laws, regulations and guidelines that should be complied with in the target region on the company's intranet. When any of these are revised, the division offers support to ensure that each global business site appropriately implements the required response, including providing materials and holding study sessions as necessary.

With SEGA entities all around the world working together, the Global Product Operations Division serves as a hub for the development of game titles that customers of all ages and backgrounds can enjoy safely and with peace of mind.

P Thorough Quality Assurance System

Sammy has put in place a thorough safety management system. It has established a Quality Assurance Department as a dedicated organization in its commitment to ensuring zero major defects that would affect personal physical safety.

In addition, we conduct not only in-house quality audits, but also audits of domestic and overseas cooperating factories utilizing online as well.





Environment

SEGASAMMY Colorful Carbon Zero*¹



Our Efforts for ‘Environment’

The SEGA SAMMY Group has been working on effectively using energy, reducing the environmental load from offices and production bases, and environmentally conscious design of products/services to combat global warming. In May 2022, we set a quantitative target for reducing greenhouse gas (GHG) emissions. In Scope 1 and 2, we aim to reduce group-wide emissions by around 50% by 2030 based on the fiscal year ended March 2021 and achieve carbon neutrality by 2050. In Scope 3, SEGA CORPORATION and Sammy Corporation, the Group's major operating companies, aim to achieve a more than 22.5% reduction that meets the SBT*² standard by 2030. This endeavor will be realized through engagement with suppliers, including supplier surveys and collaboration to address climate change issues.

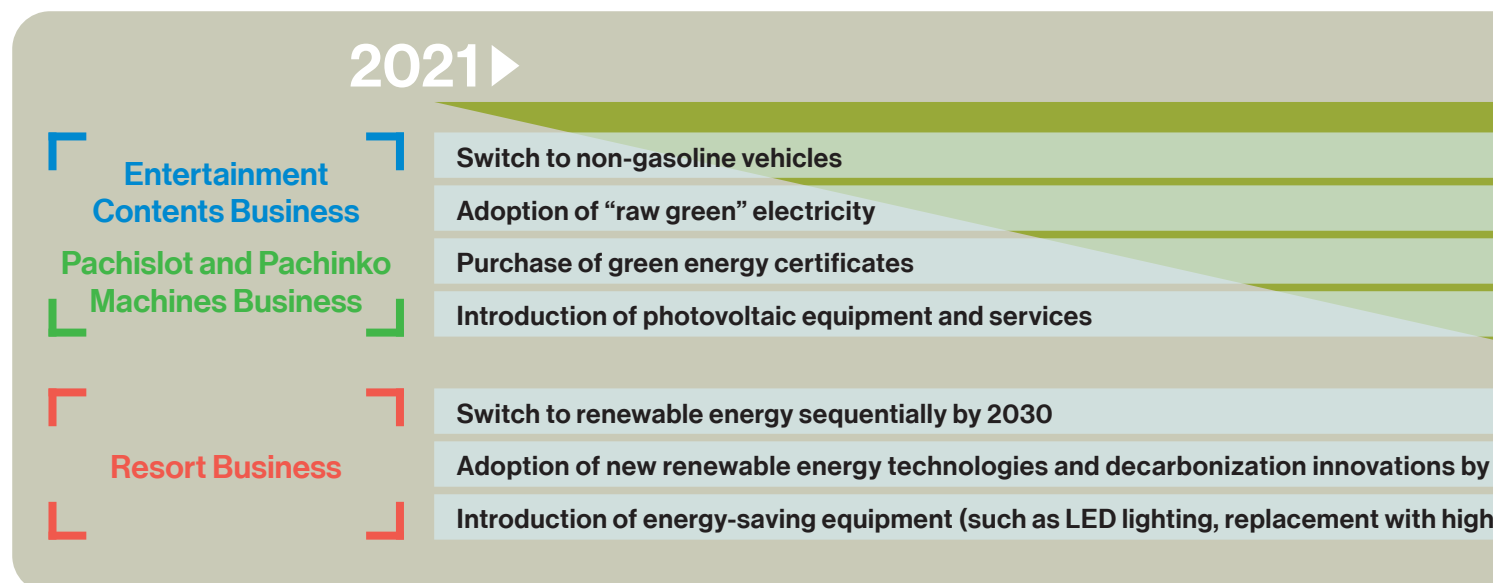
*² Companies set greenhouse gas emission reduction targets in alignment with the Paris Agreement's requirements and scientific evidence, with a focus on the next five to fifteen years.

SS Transition to Alternative Fuel Vehicles and Implementation of Photovoltaic Systems

To reduce our group-wide Scope 1 (direct) emissions in Japan, we plan to replace company vehicles used by sales departments, production and development departments, and executives with environmentally friendly vehicles. We also plan to gradually transition to non-gasoline vehicles by comprehensively assessing the price, load capacity, and selection options for leased company vehicles.

To reduce our Scope 2 (indirect) emissions, we plan to gradually transition to green power (or renewable energy), using green power certificates to offset any shortfalls.

Roadmap to Carbon Neutrality

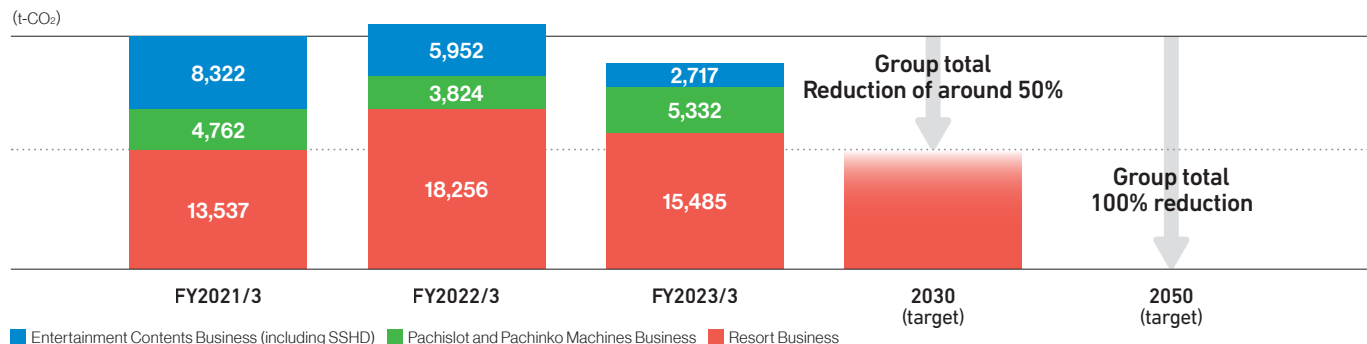




- E** Entertainment Contents Business
- P** Pachislot and Pachinko Machines Business
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*1 SEGASAMMY Colorful Carbon Zero is the name of the action plan to promote the Group's efforts to reduce greenhouse gas emissions. "Colorful" conveys the idea of using a variety of measures to achieve zero carbon emissions.

SEGA SAMMY Group Scope 1 and 2 Greenhouse Gas Emissions



P Enhancing Reuse, Expanding Standardization of Parts, and Introducing Smart Pachislot Title

At Sammy, we are actively working to reduce Scope 3 emissions by promoting reuse and minimizing excess inventory. As part of these efforts, we have established a dedicated project team to reduce our environmental burden. Comprising members from the production, development, and sales departments, the new team evaluates various strategies to achieve this goal, including the adoption of materials with lower environmental burden.

Furthermore, in our efforts to reduce energy consumption by pachislot and pachinko machines, we have initiated the introduction of pachislot machines equipped with adjustable brightness functions. We have also begun offering smart pachislot machines, known for their lower power consumption. In the future, with a view to realizing machines that can download and replace software, which would eliminate the need for replacing hardware itself, our commitment to minimizing our environmental burden will continue.

2030 ▶

Achieve carbon neutrality in the Entertainment Contents Business and Pachislot and Pachinko Machines Business. Reduce group-wide carbon emissions by around 50%

2050

Group-wide carbon neutrality

2050

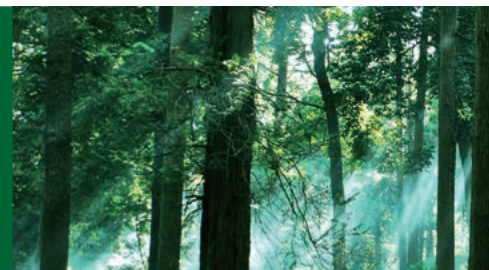
-efficiency heating equipment)





Environment

Disclosure Based on TCFD Recommendations



The Purpose of Expressing Support for TCFD and Participating in the TCFD Consortium

The Group has implemented climate-related financial disclosure in line with the TCFD framework since 2022.

In June of the same year, the Group announced its endorsement of the key recommendations of the final report (TCFD Recommendations) of the Task Force on Climate-related Financial Disclosure (TCFD), which provides a framework for climate-related information disclosure and serve as guidelines to verify the adequacy of the Group's measures related to climate change.

In addition, as member of the TCFD Consortium, which comprises companies and financial institutions supporting the TCFD, we are actively exchanging information with other supporting companies and financial institutions to ensure more effective information disclosure.



Governance

As an organization to discuss and deliberate on the fundamental policies and critical matters related to the Group's climate change, we established the Group Sustainability Subcommittee within the Group Management Committee, an optional committee, in April 2022. The Group Sustainability Subcommittee comprises the President and Group CEO of the Company, as well as directors and members of the Board Audit Committee who are consistent

with sustainability in the skills matrix of the Board of Directors. Additionally, it includes the CFO of the Group, ensuring compliance with TCFD disclosure requirements. The Sustainability Division of the Company manages the secretariat.

The Board of Directors receives reports on the policies and plans developed in the Group Sustainability Subcommittee and approves them as appropriate.

Strategy

To assess the potential risks and opportunities arising from future climate change and their financial implications for our business activities, we have conducted scenario analysis methods using the TCFD framework.

We disclose the results of our scenario analysis based on

three axes: short-term (within 2 years), medium-term (over 2 years to within 10 years), and long-term (over 10 years) for the timing of the emergence of climate change-related risks and opportunities that are expected to have a significant impact on the Group.

Scenario Analysis Results (Risks/Opportunities, Financial Impact)

| Category | Risks/opportunities item | Timing | Impact on the SEGA SAMMY Group [● Risk ● Opportunity] | Impact level |
|---|---|--------------------|---|--------------|
| Changes to policies and regulatory requirements | Introduction of greenhouse gas emission regulations and carbon taxes | Medium/long term | ● The carbon tax burden will increase if governments adopt more brutal climate change-related regulations and apply carbon taxes to greenhouse gas emissions. | Medium |
| | | Medium/long term | ● If governments adopt more brutal climate change-related regulations and apply carbon taxes to greenhouse gas emissions, manufacturers will pass on the resulting increase in the carbon tax burden, leading to higher procurement costs. | Large |
| | | Medium/long term | ●● Electric power charges could increase or decrease due to the use of electric power produced using renewable energy. | Small |
| Efforts to improve resource efficiency | Introduction of new regulations | Short to long term | ● Manufacturing costs could rise due to transitioning to alternative materials (recycled/biomass plastics) with smaller environmental footprints in response to tougher regulations. | Large |
| | Relocation of highly efficient buildings | Medium/long term | ● By centralizing head office functions in Sumitomo Realty & Development's Osaki Garden Tower, which has advanced environmental systems and features, we will reduce greenhouse gas emissions and curb cost increases resulting from the future introduction of carbon taxes. | Small |
| | Recycling/reuse | Short to long term | ● We will reduce costs by recycling used amusement machines and reusing parts. | Small |
| | Reduction of parts, materials, and packaging through environment focused changes to marketing formats | Medium/long term | ● We will reduce the cost of parts, materials, and packaging, etc., by shifting to environment-friendly marketing formats for online game sales and sales of amusement machines. | Large |
| Physical changes in the environment | Increasing seriousness of abnormal weather events | Medium/long term | ● Sales could decline due to damage and shutdowns affecting manufacturing facilities and offices. | Small |

Short term: within 2 years, Medium term: over 2 years to within 10 years, Long term: over 10 years



Carbon Pricing

For carbon pricing, which can be quantitatively evaluated based on the third-party assurance of greenhouse gas emissions, we have calculated based on the following method.

In the future, we will continue to explore the possibility of disclosing quantitative evaluations for items beyond carbon pricing.

Greenhouse gas emissions (Scope 1 and 2) were calculated by multiplying the emission unit by the activity volume and multiplying it by the assumed carbon tax price for

each 1.5°C scenario and 4°C scenario to assess the impact of carbon pricing.

In 2030, the projected carbon tax burden was ¥530 million in the 1.5°C scenario and ¥160 million in the 4°C scenario, and in 2050 it would be ¥950 million in the 1.5°C scenario and ¥340 million in the 4°C scenario. Our ongoing commitment is to reduce greenhouse gas emissions by around 50% by 2030 and achieving carbon neutrality by 2050 as a group-wide objective.

| Scenario | 2030 | 2050 |
|----------------|---------------|---------------|
| 1.5°C scenario | −¥530 million | −¥950 million |
| 4°C scenario | −¥160 million | −¥340 million |

*1 Assumed carbon tax price: (1.5°C scenario) US\$140/t-CO₂ in 2030, US\$250/t-CO₂ in 2050, (4°C scenario) US\$42/t-CO₂ in 2030, US\$89/t-CO₂ in 2050 (quoted from IEA (World Energy Outlook 2022)), assuming an exchange rate of US \$1=¥135 (adopting the AR at the time of our third quarter results for the fiscal year ended March 2023)

*2 Assuming that Scope 1 and 2 are targeted, greenhouse gas emissions are the same as in the fiscal year ended March 2022.

Risk Management

The Company has identified climate change-related risks expected to significantly affect the group as follows:

- Risks related to the “transition” to a low-carbon economy

Climate change policies, regulations, technological development, market trends, and evaluations.

- Risks related to “physical” changes caused by climate change

Acute or chronic damage caused by disasters brought about by climate change

In addition, for climate change-related risks anticipated to have a significant impact, we evaluate their importance based on the impact assessment criteria using internal indicators.

Indicators and Targets

Metrics Used by the Organization to Assess Climate Change-Related Risks and Opportunities in Line with its Strategy and Risk Management Process

The Group has established greenhouse gas emissions (Scope 1, 2, 3) as a metric for managing climate change-related risks and opportunities.

Scope 1, Scope 2, and, if Applicable, Scope 3 Greenhouse Gas Emissions and Related Risks

The Group has been working on calculating the greenhouse gas emissions of the entire group since FY2015/3.

For FY2022/3, the Group has obtained third-party assurance from SOCOTEC Certification Japan for Scope 1, 2, and 3 greenhouse gas emissions.

SEGA SAMMY Group Scope 1, 2, and 3 Greenhouse Gas Emissions Performance for FY2023/3

| Category | Emissions (t-CO ₂) | Share (%) |
|---------------------------|--------------------------------|-----------|
| Scope 1 | 9,075 | 1.1 |
| Scope 2 | 14,459 | 1.8 |
| Scope 3 | 768,058 | 97.0 |
| Total of Scope 1, 2 and 3 | 791,592 ^{*3} | 100.0 |

*3 Figures predate third-party guarantees and may be subject to change.



Addiction

Prevention of Addictions and Disorders



| Main Activities and Milestones | 2030 Targets |
|--|--|
| SEGA Survey and research on gaming disorders conducted by four gaming-related organization in Japan | Compliance with laws and regulations, voluntary rules related to addiction, etc. |
| Sammy Promotion of measures to combat addiction such as gambling, primarily with Industry Organizations | Contributing to the sound development of the industry |
| SSH D* Monitoring of industry-academia collaborative research results with Kyoto University | Implementation of industry-academia collaborative research on addiction |

* SEGA SAMMY HOLDINGS INC.

Proactively Addressing the Increasing Impact of Negative Aspects as the Business Expands

| | | |
|--|---|---|
| Compliance with laws, regulations, voluntary rules, etc. | Engagement in industry organization initiatives | Implementing SEGA SAMMY's own initiatives |
|--|---|---|

Collaboration with Industry Groups

E At the World Health Assembly in May 2019, the World Health Organization (WHO) recognized "gaming disorder" as a disease, defining it as a pattern of excessive online and video gaming. In Japan, the Computer Entertainment Supplier's Association (CESA), the Japan Online Game Association (JOGA), the Mobile Content Forum (MCF), and the Japan eSports Union (JeSU) jointly established a study group to conduct surveys and research relating to phenomena triggered by game play, and to educate the public about appropriate ways to enjoy video games. In April 2023, a report entitled "Survey and Research Results on Gaming Disorders" which this study group has outsourced to external experts and conducted by them was published.

The Group will continue to address these issues appropriately in cooperation with the study group aiming to foster the healthy development of the video game industry.



- E** Entertainment Contents Business
- P** Pachislot and Pachinko Machines Business
- R** Resort Business
- SS** Group

Addiction Countermeasures in the Pachislot and Pachinko Machines Business

P Support for the Recovery Support Network, the Telephone Helpline Services

The Group began to implement initiatives against addiction following the establishment of the Society for Research on Pachinko Addiction in 2003. The Recovery Support Network (RSN), founded in 2006 with the support of various groups within the industry, has also introduced a wide range of initiatives, including awareness-raising activities and telephone helpline services.

P Activities during Pachislot and Pachinko Addiction Awareness Week

Pachislot and Pachinko Addiction Awareness Week is held in Japan every year from May 14 to May 20 with the aim of raising awareness about pachislot and pachinko addiction. Centered around Awareness Week, in addition to holding forums to broaden understanding of these issues, industry organizations are also engaged in Awareness Week poster campaigns and other activities. The Group will continue to support and contribute to the sound development of the industry through these activities.

Addiction Countermeasures in the Pachislot and Pachinko Industry

- | | |
|--|--|
| <p>2003 Establishment of the Society for Research on Pachinko Addiction</p> <p>2006 Establishment of the Recovery Support Network (RSN)</p> <p>2017 Release of a statement on pachinko/pachislot addiction</p> <p>2018 Replacement of pachislot and pachinko machines with new models that comply with revised regulations</p> <p>Establishment of the Advisory Council on Addiction Countermeasures in the Pachinko and Pachislot Industry (a committee of independent experts)</p> | <p>2019 Formulation of Basic Guidelines for Addressing Pachinko Addiction</p> <p>Formulation of Basic Guidelines for the Pachinko and Pachislot Industry for Addressing Addiction</p> <p>2020 National Police Agency expresses expectations for promoting measures to address addiction and urges at a meeting of the Board of Directors of the Japan Federation of Gaming Business Associations</p> |
|--|--|

Industry-Academia Joint Research Project on Gambling Addiction

SS SEGA SAMMY HOLDINGS and Kyoto University are jointly conducting a process research project* on gambling addiction, involving the collection and analysis of data related to the progression of gambling behaviors. The goal of this research is to identify early warning signs of dangerous gambling behavior by collecting and analyzing playing data from casinos.

The Group intends to utilize the findings from this research to establish systems for the early identification of players displaying signs of addiction, aiming to prevent further escalation. Additionally, we plan to create facility operations that promote self-control and restraint among users. This approach will help us build an integrated framework for addressing gambling addiction, covering education and prevention and treatment in cooperation with medical institutions and other organizations.

To date, our studies have analyzed playing data, particularly concerning the influence of prior wins or losses on subsequent betting behavior in the process of repeated gambling sessions. We have concentrated on analyzing playing data from the card game baccarat. Results from the joint research showed that repeated gambling behavior results in a tendency to increase the size of bets, regardless of whether the gambler wins or loses, and that this pattern is especially pronounced after a win. It was also found that the percentage of individuals engaging in risky gambling tends to rise after repeated wins. These findings were also published in the research journal *International Gambling Studies*.

* This research project is being conducted from December 2017 to March 2026 at the Kokoro Research Center Kyoto University

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 sustainable management.

ESG Risks



Environmental Risks



Social Risks



Governance Risks

Key Themes for Contribution to Sustainable Management

1

Human Resources

2

Products and Services

3

Environment

4

Addiction

5

Governance

Entertainment Contents Business

Consumer Area

Planning and development

Distribution and sales

Operations and additional contents distribution

■ In-house
■ Outsourcing

Excessive use by minors



Social problems associated with minors who incur excessive fees when playing video 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.

Customer support



Video 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.

Game addiction



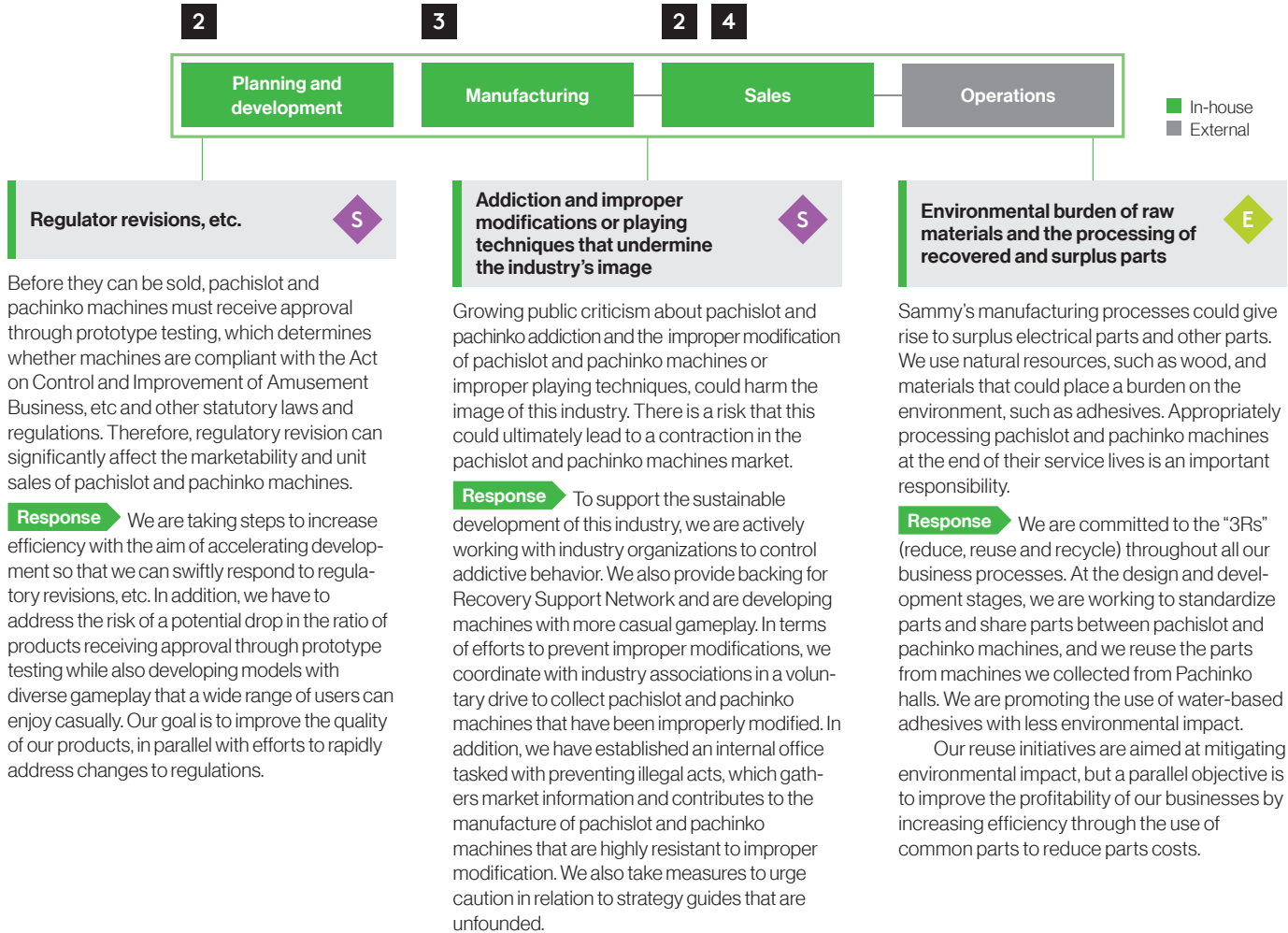
The World Health Organization (WHO) has recognized gaming disorder as a mental disease.

Response

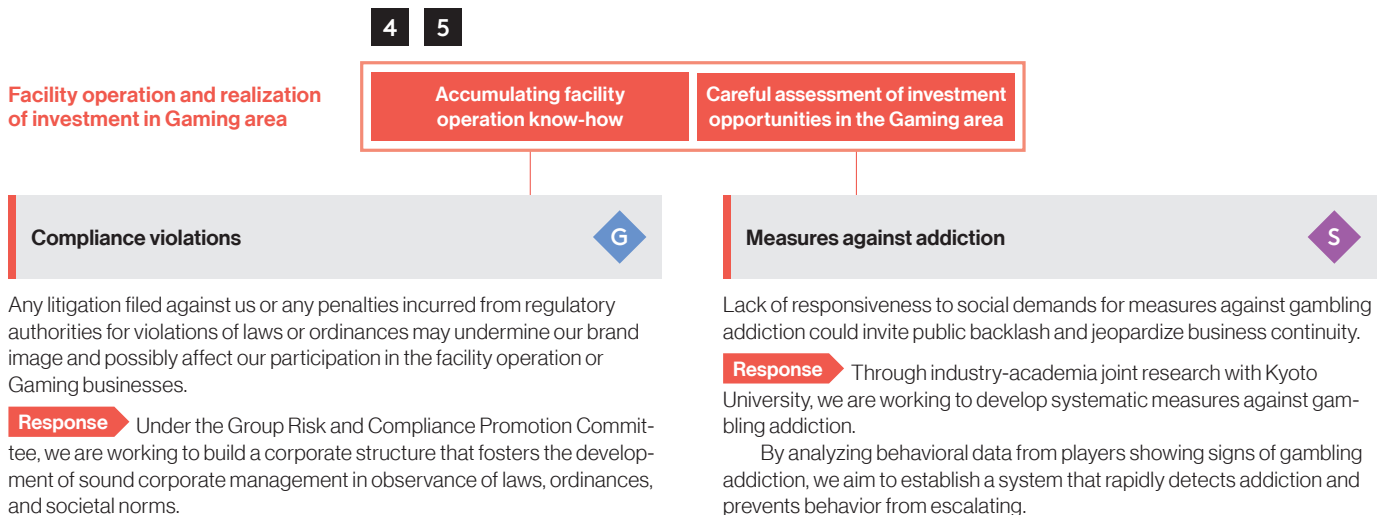
Research has begun by external experts with a fair, neutral, professional background, led by game organizations such as CESA, JOGA, MCF, and JeSU.

With the support of the four groups, a bench-marketing study has been launched 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.

Pachislot and Pachinko Machines Business



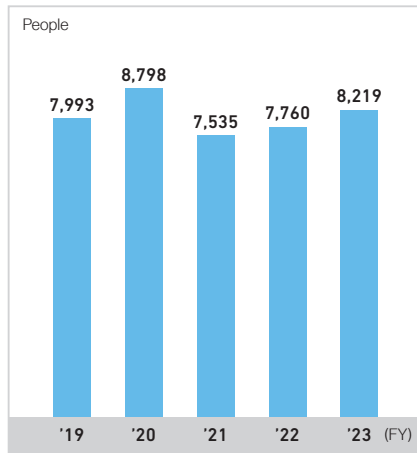
Resort Business



Non-Financial Data

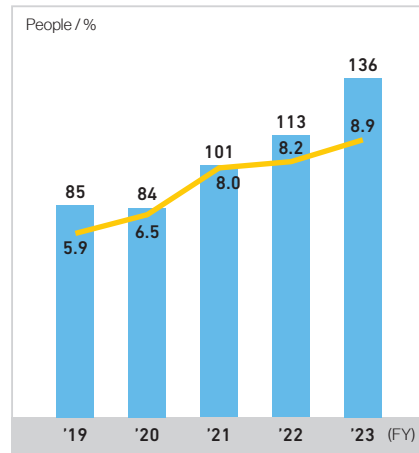
Human Resources Data

Number of Employees



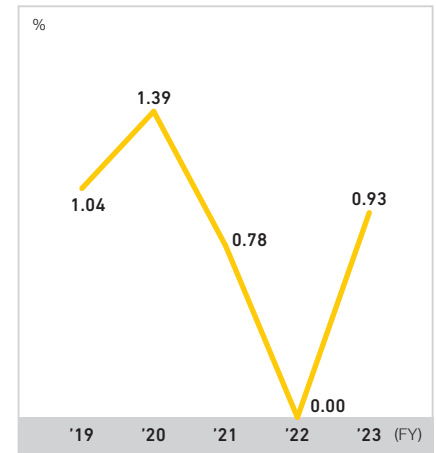
Note: The number of employees increased in fiscal year 2020, mainly due to the transfer of temporary workers in the Entertainment Contents Business to permanent employment contracts.

Number and Percentage of Female Managers



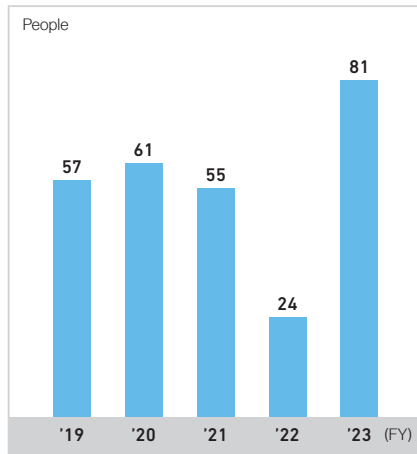
■ Number of female managers
— Percentage of female managers

New Employee Turnover Rate

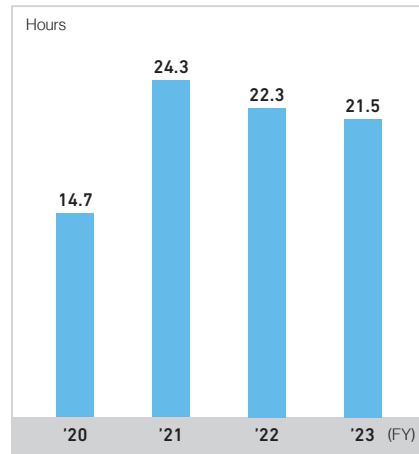


Note: The new employee turnover rate indicates figures for SEGA SAMMY HOLDINGS, SEGA, and Sammy only.

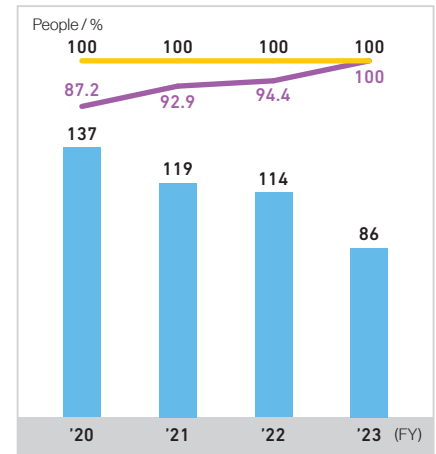
Employees Rehired after Retirement



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

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|------|------|------|------|------|
| Mid-Career Hires (People) | 224 | 196 | 97 | 131 | 310 |
| Hiring of Persons with Disabilities* ¹ (People) | 94 | 103 | 98 | 129 | 135 |
| Employees Taking Maternity Leave (People) | 66 | 70 | 48 | 39 | 38 |
| Days of Paid Leave Taken (Full-time employee) (Days)* ² | — | — | 11.0 | 12.0 | 14.5 |
| Percentage of Paid Leave Taken* ² * ³ (%) | — | — | 50.7 | 56.6 | 65.6 |
| Days of Volunteer Leave Taken (Days) | 101 | 18 | 0 | 26 | 8 |
| Employees Taking Volunteer Leave (People) | 42 | 16 | 0 | 19 | 31 |
| Difference in wages between male and female workers (all workers) | — | — | — | — | 76.5 |

*¹ Number of people with disabilities employed by Group companies subject to the Employment Rate System for Persons with Disabilities

*² Figures are shown from FY2021/3 due to a revised calculation method.

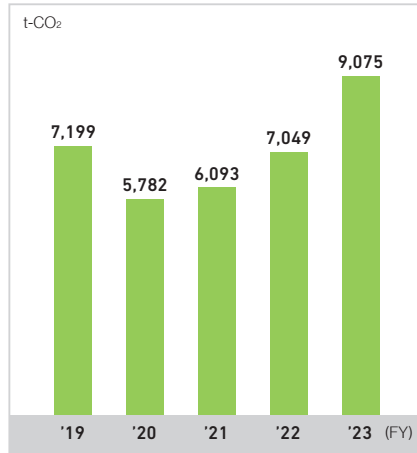
*³ Calculated by dividing the number of paid leave days taken by the number of statutory annual paid leave days. Includes statutory annual paid leave days at some Group companies.

Scope of Data and Aggregation Methods

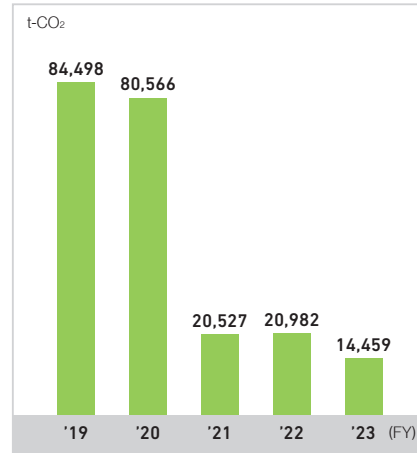
- Fiscal year 2019: 15 domestic companies, fiscal year 2020: 14 domestic companies, fiscal year 2021: 12 domestic companies, fiscal year 2022: 10 domestic companies, fiscal year 2023: 11 domestic companies (SEGA SAMMY HOLDINGS, SEGA, Sammy, ATLUS, Sammy Networks, SEGA TOYS, SEGA Logistics Service, DARTSLIVE, TMS ENTERTAINMENT, PHOENIX RESORT, SEGA SAMMY CREATION)
- Number of employees indicates consolidated Group figures
- The wage difference between male and female workers is calculated for SEGA SAMMY HOLDINGS Inc. The calculation method used is average annual income of female employees divided by average annual income of male employees.

Environmental Data

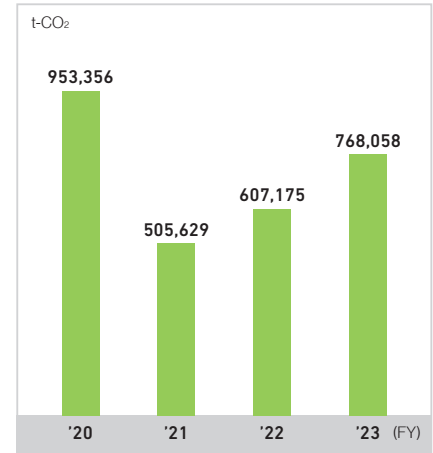
CO₂ Emissions (Scope 1)



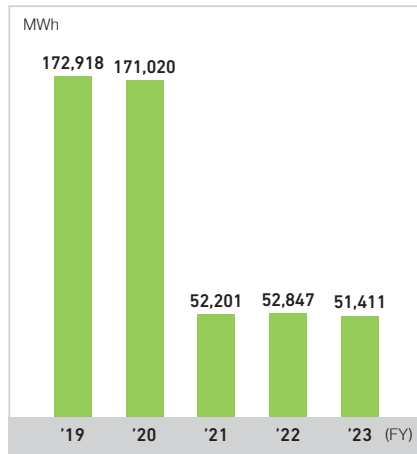
CO₂ Emissions (Scope 2)



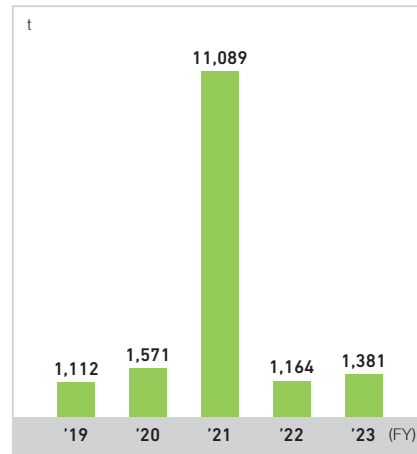
CO₂ Emissions (Scope 3)



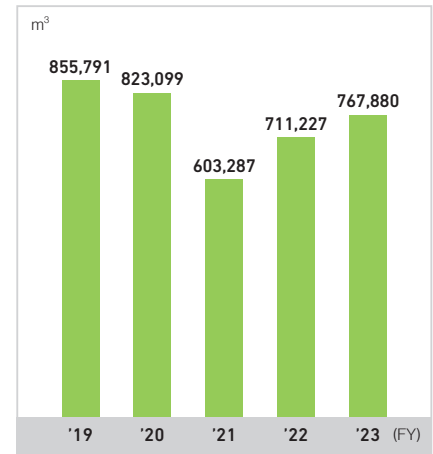
Electricity Usage



Industrial Waste Discharge



Water Usage



Notes 1: Some data estimated based on total floor area

2: Decline in CO₂ emissions mainly reflects reductions in the use of fuel and electricity

3: Coefficient for CO₂ emissions from purchased electricity: Adjusted emission coefficients for each electricity provider for the fiscal year prior to each reporting fiscal year

4: There are changes from the previous year's figures due to a review of the calculation method used when obtaining a third-party guarantee.

Number of Violations of Environmental Laws and Regulations

| | (FY) | | | |
|--|------|------|------|------|
| | 2020 | 2021 | 2022 | 2023 |
| | 0 | 0 | 0 | 0 |

Environmental Indicators at Sammy's Kawagoe Factory

| | (FY) | | | |
|---|------|------|------|------|
| | 2020 | 2021 | 2022 | 2023 |
| Pachislot and pachinko machine recycle rate (total for pachislot and pachinko machines) | 95.4 | 98.6 | 96.4 | 98.3 |

* Data on the use of environmentally friendly materials (amount of wood used) has not been disclosed from the fiscal year ended March 2023 onward, as we have switched to alternative materials.

Scope of Data

- Fiscal year 2019: 15 domestic companies, fiscal year 2020: 13 domestic companies, fiscal year 2021: 19 domestic companies, fiscal year 2022: 19 domestic companies, fiscal year 2023: 19 domestic companies (SEGA SAMMY HOLDINGS, SEGA, Sammy, ATLUS, Sammy Networks, SEGA TOYS, SEGA Logistics Service, DARTSLIVE, TMS ENTERTAINMENT, PHOENIX RESORT, Sega of America, Inc., Sega Europe Ltd., Amplitude Studios SAS, Relic Entertainment, Inc., Sega Black Sea EOOD, Sega Publishing Europe Ltd., Sports Interactive Ltd., The Creative Assembly Ltd., Two Point Studios Limited)

Please check the Company website for the latest ESG data.
<https://www.segasammy.co.jp/en/sustainability/data/dataesg/>

The SEGA SAMMY Group saw a dramatic turnaround in performance in the fiscal year ended March 2023 in the wake of the COVID-19 pandemic, recording financial results that far exceeded our expectations. The past ten years or so have been marked by a great deal of turbulence for the Group, as it sought to navigate technological innovations and mounting competition in the consumer games sector, as well as regulatory changes and contraction in the pachislot and pachinko machines market. In the midst of this turmoil, the Group proceeded with the succession of a new President and Group CEO.

We sat down with Chairman Hajime Satomi and his son, the current President and Group CEO Haruki Satomi, to get their thoughts about how the transition in management came about and what led up to it.



Haruki Satomi

President and Group CEO, Representative Director
SEGA SAMMY HOLDINGS INC.

Hajime Satomi

Chairman, Representative Director
SEGA SAMMY HOLDINGS INC.

Lead-up to 2017, when Haruki Satomi became President and COO

First, Chairman Satomi, I would like to ask: What kind of training opportunities did you provide for CEO Satomi to foster him as someone fit to be a top manager?

Hajime: When Haruki joined Sammy Corporation in 2004, I felt he should experience a range of challenging work environments. As a company, Sammy was familiar to him from childhood, so, the following year, I purposefully transferred him to SEGA CORPORATION. I felt it would be effective to have him take charge of a new business there and gain business experience. Because he was stationed on the West Coast of the United States, he began building his career in an environment where there were no familiar faces around to help him out in a pinch. At his own

request, he also completed an MBA at UC Berkeley School of Business while working. It was during this time that he learned the basics of management. A typical MBA course takes two years of intensive study, but Haruki took three years, attending school on weekends and in the evenings while working at the office during the day. I imagine it was a really tough time for him.

Haruki: Out on the West Coast, I was working on a new business distributing SEGA games over the Internet. I had originally been interested in starting up a business, and after graduating from university, I worked for a while at a financial institution to gain expertise. So, being allowed to start this new business was exactly

at SEGA SAMMY

what I had hoped for. By the way, video game console software at that time was still mainly sold as a package, and the Group still had a conventional sales network. Getting involved in this business in a digitally advanced country like the United States was an invaluable experience, which prepared me for the various technological innovations that were to come.

Balancing the MBA studies and work was demanding and tough to be sure, but looking back now, those three years have informed my whole life.

In 2012, I started up SEGA Networks, a business company specializing in smartphone games. As you know, SEGA's focus had been on developing games for home video game consoles and amusement facilities. In those days of the flip phone, mobile games still felt like a completely different industry, and not many employees were interested in their development. But I went around to SEGA employees pitching the advanced performance of smartphones, which were already becoming more widespread overseas before they reached Japan, and emphasized the future potential of smartphone games. Then, eventually, I was able to make SEGA Networks a separate company. In its first year, the company was unable to achieve its forecasts and ended up in posting a significant loss. However, confident that this business would pan out, I asked my whole team to transfer over from SEGA. At the time, my sense was that we couldn't beat up-and-coming players in the mobile game business without that degree of commitment. After that, we put out a hit title and the business quickly started turning a profit. I'm truly grateful to that team at SEGA Networks who were supportive of my thinking.

Chairman Satomi, how did you view the transfer of staff to the new company?

Hajime: As I observed a series of developments related to smartphone games, I myself felt keenly that ICT was evolving, so I was fully on board with addressing the emerging era of the smartphone. Also, to accomplish anything it is extremely important to have a manager who is really driven and willing to push himself to the limit, so I also appreciated Haruki's stance of taking initiative in setting up his own operation.

To be honest, though, for someone of my generation, I felt it was difficult to properly gauge what was going on in the fast-changing digital world. So I think it was very fortunate for our Group to have young managers appear on the digital stage with the determination to take on new challenges.

CEO Satomi, you were also responsible for undertaking structural reforms at SEGA.

Haruki: That's right. I started at SEGA in 2005 and became Senior Vice President in 2014. At that time, SEGA's business performance was in fairly bad shape, so I set out to build the

Company back up. We separated the various businesses into separate companies to clarify earnings responsibilities, established the Mission Pyramid, and aimed to bring the Company together under a shared set of values.

Hajime: Sammy's executives approached me around this time and asked me to appoint Haruki as President of Sammy. I was aware that he was helping SEGA bounce back from a very trying situation, but I recall being surprised at how much attention he was attracting within the Group as a whole, much sooner than I expected.

Haruki became President of Sammy in April 2016. Around that same time, we announced the establishment of ZEEG, a joint venture with competitor Universal Entertainment. The announcement that the two companies vying for the top spot in the industry had come together in a tie-up must have been a big surprise, even within the industry.

Haruki: In tandem with the structural reforms at SEGA, I began laying the groundwork for ZEEG several years before assuming the role of President at Sammy. I knew we could expect this partnership to bring cost benefits through the use of common cabinets and parts and enhance the quality of entertainment through technical collaboration. After a long period of repeated discussions both in and outside the Group, we finally reached this goal.

Hajime: When I called Haruki in to speak with me around that time, I got the impression that he knew much more about the businesses of both Sammy and SEGA than I did, including the details of what was going on. If that were the case, I thought, he should take charge of managing the entire Group as COO under my leadership. I brought his appointment as Representative Director, President, and COO of SEGA SAMMY HOLDINGS to a discussion of the Board of Directors meeting in 2017. Under the framework at that point, Haruki was at the forefront of the business, but as CEO I still had full responsibility for management.

During your time as COO, I heard you felt that you were under the most pressure ever in your career. How did you overcome that?

Haruki: Being entrusted with all the businesses of the Group was a lot of pressure. But I also had the habit for many years of playing out in my mind what it would be like in the future to become the President and writing down bullet points in my notebook about the kind of mission I ought to carry out. So, when I became COO, I looked back at my notes and went about putting them into practice one by one.



Haruki Satomi spearheading structural reforms in 2020

People attribute strong performance in the fiscal year ended March 2023 to the structural reforms carried out in 2020 in response to the pandemic, which yielded great results.

Haruki: In our previous medium-term plan Road to 2020, which covered the fiscal years ended March 2018 to March 2020, we did not achieve our targets. However, by running a PDCA cycle on the plan, I think we were able to grasp the weak points and issues of the Group as a whole, which was a good outcome. As you know, the impact of COVID-19 was enormous and our businesses were hugely affected. I thought we should start out by imagining the worst-case scenario and think about what we should do from there.

In our worst-case scenario, we estimated a possible loss of ¥45.0 billion. Even if that were to happen, the Company would not be immediately insolvent, but I felt we should use this crisis as an opportunity to confront long-standing issues and undertake structural reforms at a level that would have been impossible in normal times.

Overview of Structural Reforms

- Review of business portfolio (transfer of Amusement Center Operations area, resource reallocation from Amusement Machine area to Consumer area)
- Reduction of fixed expenses (call for voluntary retirement)
- Review of non-business assets (disposal of owned assets)

Hajime: At the time, when I saw the proposed reforms, as CEO I honestly wondered if we needed to go that far. The Amusement Center Operations area was still profitable, so I thought it would be a waste to sell it off at a low price. But Haruki and our CFO, Koichi Fukazawa, told me that they didn't want to shirk responsibility by having me choose from among several scenarios. Instead, they wanted to make their best choice and take responsibility for seeing it through. When I realized how committed they were, it came across how seriously they were thinking about the Group and its management, so I approved their proposed structural reforms for the sake of the Group's future.

Among the people who took voluntary retirement there were nearly 400 Sammy employees who had supported me since the Company's founding. I set up the opportunity to talk directly with the retiring employees, and did everything in my power to support their career transitions.

Haruki: We carried out these reforms because we had Japan's Stewardship Code and Corporate Governance Code in mind. To be honest, if the Group were not a listed company, we likely could have maintained minimal earnings and gradually deteriorated while carrying out business as usual. But that's no way to be accountable to shareholders and other stakeholders. Since we are a listed company, the management team has a duty to elevate the Group further toward a growth trajectory while achieving a certain rate of return on capital. Otherwise, the management team would quickly lose the trust of investors and we would no longer have a reason to exist as a company.

Hajime: Along with the reforms, I also decided to step down as CEO. In 2021, I discussed Haruki's appointment with an independent advisory board consisting of all of our outside directors. No one objected.

Haruki: From a sustainability perspective, my personal opinion is that the survival of a company is the most important thing. The next important question is how we can increase earnings. It's possible to generate strong earnings in the short term without considering any negative impact on society or the environment. In fact, from time to time companies with such strategies appear, both in the pachislot and pachinko machines sector and in the consumer games sector.

But that kind of approach can't guarantee a company's future prospects. All of the employees and business partners involved with our Group can take pride in the fact that they contribute to society every day. In other words, a company's value increases only if its management takes the straight and narrow path. I'm convinced that the structural reforms we carried out in 2020 were absolutely necessary measures for creating such a framework.

About management succession and leadership

In the INTEGRATED REPORT 2021, Kohei Katsukawa, one of the outside directors of SEGA SAMMY, said, “Haruki is someone who played a central role in the structural reforms in 2020 and who is determined to achieve the goals of the new medium-term plan. That’s why I feel that the Group under his leadership as CEO is moving into a pivotal period, like a second founding.” Chairman Satomi, what are your thoughts now that you have stepped down as CEO?

Hajime: For me, the title of CEO, even more than Chairman or President, encouraged me to work hard to manage the Company with a deep sense of responsibility. From that perspective, passing on the CEO position was a big decision. Now that I have passed on this responsibility, I do not interfere more than necessary in management decision-making.

Although I stepped down as CEO, it is a well-known fact that I founded the Company. If I give directions to the CEO, everyone will feel like I’m still in charge. I’ve let Haruki assume full responsibility for Group management. In Japan, you often see cases where a company’s founder or a charismatic CEO continues to cling to the reins of management even after appointing a successor, and sometimes even dismisses their successor. But if someone doesn’t want to cede authority, I think they should continue to shoulder responsibility as CEO.

Haruki: Clarifying the authority of the CEO is the essence of corporate governance. Within the scope of their authority, CEOs enhance corporate value and reward shareholders and other stakeholders. The higher level body that oversees this is the Board of Directors. I believe the Board ought to be a place where a diverse range of outside directors evaluate the CEO’s management from a variety of perspectives. I am also a Director, but at Board meetings, my position is always to take responsibility for proposing management strategies as the head of the executive officers.

Hajime: Going forward, I will take part in management as one of the Directors. Of course, as the Company’s founder, I have a strong

desire to return the Group’s market capitalization to ¥1 trillion and make SEGA SAMMY a world-leading entertainment company. So, I want to put proactive governance in place that will encourage people to take on this challenge. However, I mustn’t forget that I have entrusted the realization of that vision to my successor. In that sense, the Group truly is in a kind of second founding period.

Also, having integrity as a company is something I have insisted on since our founding. More than anyone, I know what the Group has prioritized and how it has acted at various turning points in our history. So, I will be taking a hard look at whether or not the current management team keeps to the right path in this regard.

Chairman Satomi, tell us about the qualities you think are necessary for a leader.

Hajime: I think the most important quality is being able to obtain buy-in from others. Doing this calls for three things: setting an over-arching direction and not wavering from it; translating this direction into realistic measures and sharing them with employees; and never giving up until you achieve greater success.

I also want leaders to have a bold vision. In 1965, I started selling game machines because I thought I could have a bold vision for that business, considering the huge market potential and the competitive situation at the time. I want Haruki to become a leader who shares that kind of vision with employees and stakeholders.

CEO Satomi, what did you learn from Chairman Satomi as a leader?

Haruki: I’ve been observing my father for a long time, and I feel that his courage to believe in people is truly remarkable. People never do exactly what you expect, but if you can believe in them to do their job, trusting your subordinates and business partners, you can obtain greater buy-in. That’s something I’m learning every day.

Hajime: My creed was never to mislead others, never to take out my anger on others unnecessarily, and never to speak ill of others. In other words, I’ve lived my life to this point with a clear sense of how my behavior affects my family and my employees. Integrity may also be an important quality for a leader. In business as well, I’ve never sought to make a profit in a way that would cause people to talk behind my back.

Haruki: We are passing on what I learned from my father’s management style to employees in the form of five personal skills: drive, initiative, resolve, control, and empathy. I also put a high value on integrity. In business, even if you have to make hard demands on employees or business partners, there should always be integrity at the core. History clearly shows that if you lose your humility and don’t act with integrity, you will stop being able to obtain as much buy-in from others and will only go downhill as a leader.



A Message from an External Director

Naoko Murasaki

Director, Audit and
Supervisory Committee Member
(External)



Evaluation of governance framework

I have spent many years working in risk and crisis management and compliance-related consultancy, and before that I was with the National Police Agency. This background makes the general field of risk management my specialist area, and my radar is constantly tuned to risk, whether from regulatory, geopolitical, or other sources. My role at SEGA SAMMY involves giving advice and making suggestions mainly in the area of risk management, but also from the perspective of diversity as a woman.

One thing that I value highly about SEGA SAMMY's management system is that it allows discussion to continue until the external directors are satisfied. It is noteworthy in particular that there is a body set up especially to promote this approach, the Group Management Committee, which is a subcommittee under the Board of Directors. The committee meetings focus on agenda items before their presentation to the Board of Directors, allowing time to discuss and examine them in thorough detail. Being able to discuss matters adequately at the committee meetings means that the Board of Directors is left with the clear role of taking the final decision, which smooths the decision-making process.

In fall 2022, a management camp was organized for directors and executive officers. Eating and sleeping under the same roof and having the time to discuss a wide range of subjects at length gave us the chance to share our individual ideas and personalities in a way that is not possible at the regular meetings of the Board of Directors. I think this very significant experience has helped improve teamwork among the directors and has also further enhanced the opportunities for external directors to contribute with their wide-ranging experience and knowledge.

Looking ahead, one issue I see is the need for more in-depth discussion of risk management.

In 2022, alongside the launch of the Group Governance Division, the Group Risk and Compliance Subcommittee was established, which reports to the Group Management Committee. This has enabled detailed information and data on risk to be gathered from the frontline for analysis by senior management. However,

although this does mean that a risk management framework is taking shape, discussion somehow ends up centering on risk that is already apparent, with discussion of potential risk an afterthought. This makes me feel that further improvement is needed. Going forward, the SEGA SAMMY Group may find itself encountering all kinds of unaccustomed risk in the course of its business expansion. I consider it essential to analyze and quantify this future potential risk. If the impact of a potential risk on business is identified, a considered response can be implemented if the risk does emerge, and if the extent of the risk is known, an appropriate level of risk can be accepted as a potential path to growth.

I also would like to see Group governance strengthened. The SEGA SAMMY Group has made rapid progress with globalization in recent years and now has a large number of overseas subsidiaries. To achieve further major advances in overseas markets from this position, the Group needs to strengthen the connection with headquarters and ensure that its values are shared across all Group companies. To do so, I believe that SEGA SAMMY should further increase opportunities for communication with its overseas organizations so that they acquire a firm understanding of the strategy and policies of Japan headquarters. From a defensive standpoint, the auditing systems of overseas subsidiaries are also critical. Given the differences in language, business practices, and legal systems, reliable audit of overseas subsidiaries is never easy, but the first step must be to train up human resources able to carry out global audit. As audit experience is a useful skill for corporate management, and not only in the overseas context, I think it would be a good idea to promote it actively as a key accomplishment in the study program for executive management candidates.

In the two years since I became involved in the management of SEGA SAMMY, I have seen progress each year with strengthening of governance. Being able to evolve rather than fearing change is one of SEGA SAMMY's most distinctive features. Going forward, I would like to see it continuing to take rapid action in this area to put in place a more advanced governance framework.



It is my strong impression that the SEGA SAMMY Group is an organization with a strong sense of honor and responsibility and the ability to work together towards its goals.

Looking to sustainability activity to boost corporate value

With the establishment of the Group Sustainability Subcommittee in 2022, directors are kept informed of the status of initiatives to address material issues and of their progress as measured by key performance indicators. With adequate opportunity now for related discussion, the result is that sustainability governance has improved with remarkable speed. One task going forward is to visualize the connection between current sustainability activities and management strategy and to feed that in to long-term and sustainable corporate value increase. If this connection is made clear, it will boost the confidence of shareholders and investors in the Group's sustainability activity and also allow employees to devote themselves to these activities wholeheartedly.

Meanwhile, I believe that creating a supportive work environment that promotes active career opportunities for women will become an increasingly important issue for the SEGA SAMMY Group. In the Group's business areas, half of its potential customers

are women, so the ability to offer products and services that appeal to women is a major factor in achieving growth. I think that women are naturally more likely to be attuned to other women's values and sensibilities, which means that incorporating the unique perspective of female employees in business activities is a crucial point. The SEGA SAMMY Group Mission is Constantly Creating, Forever Captivating. To realize this mission, I believe that it is important to create an environment where employees can work with motivation. Realizing a workplace that is supportive to female employees will also have advantages for male employees, such as making it easier for them to take childcare leave. Seen in this light, I think it has major benefits for both men and women, and SEGA SAMMY is in fact moving rapidly ahead with human resources initiatives that include enhancing the workplace environment in this way. The executive team is strongly committed to this and I hope to see focused initiatives continue in this area.

An exciting future for the SEGA SAMMY Group

Thanks to the concerted efforts of all its employees, the Sega Sammy Group is making excellent progress with the medium-term plan. However, so far this only reflects a small part of the Group's growth potential. I look forward to seeing the Company continue to forge ahead, overcoming issues one by one while keeping a firm grip on the reins.

The Entertainment Contents Business, where overseas development is just taking off, is expected to produce the long-awaited new global IP that will be the growth engine of the Group. I think this advantage should be followed through with more active growth investment in mergers and acquisitions and in acquiring new technology.

The Pachislot and Pachinko Machines Business has achieved a marked improvement in profitability by steadily driving structural reform and implementing the initiatives of the medium-term plan. I am very impressed by this achievement. I hope to see this sector support the growth of the Group as a whole by continuing to generate stable profit. At the same time, I hope the Group will actively

embrace the challenge of developing new business fields.

One point that occurs to me in this connection is that, in the exploration of new businesses, I would definitely like to see more active sharing of expertise and knowledge between SEGA SAMMY's business companies as members of the same corporate group. I think that would result in further acceleration of growth for the Group as a whole.

It is my strong impression that the SEGA SAMMY Group is an organization with a strong sense of honor and responsibility and the ability to work together towards its goals. Moreover, instead of adopting a purely defensive approach, its corporate culture welcomes new challenges and takes them comprehensively on board. To reinforce that culture, I am committed to working hard to fulfill my role as external director, focusing on areas such as risk management where my experience and knowledge can be of benefit. I am confident that all SEGA SAMMY stakeholders can look forward to seeing the Group make great advances from now on.

Governance Highlights

Transition to a Stronger System

FY2006/3

- ▶ Launched the Group Internal Control Project

Purpose - To strengthen internal controls from a group-wide perspective

FY2008/3

- ▶ Appointed an External Director

Purpose - To strengthen management monitoring and supervision functions and reflect rich insights into management

FY2009/3

- ▶ Increased External Directors to Two

Purpose - To strengthen management monitoring and supervision functions and reflect rich insights into management

FY2010/3

- ▶ Established Group Compliance Liaison Committee

Purpose - To establish an internal control system required under the Japanese Version of the SOX Act

FY2016/3

- ▶ Established Independent Advisory Committee
- ▶ Assessed the Effectiveness of the Board of Directors
- ▶ Disclosed Medium-Term Management Policies and Target Management Indicators

Purpose - To provide opinions on major management issues and exchange information for supervising the Board of Directors
- To strengthen the functions of the Board of Directors
- To promote accountability to capital markets and strengthen group management

FY2017/3

- ▶ Established the Position of CFO
- ▶ Increased External Directors to Three
- ▶ Disclosed Action Plan for Achieving Medium-Term Performance Targets

Purpose - To drive growth strategies from a financial perspective and strengthen dialogue with capital markets

FY2019/3

- ▶ Increased External Directors to Four
- ▶ Reviewed Compensation System for Directors
- ▶ Adopted Stock Compensation Program with Restriction on Transfer

Purpose - To strengthen governance
- To introduce incentives to improve corporate value in the medium to long term

FY2023/3

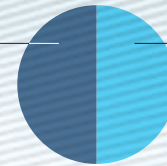
- ▶ Transitioned to a Company with an Audit & Supervisory Committee
- ▶ Established Group Sustainability Subcommittee
- ▶ Established Group Risk and Compliance Subcommittee

Purpose - To strengthen governance
- To strengthen sustainability management

Ratio of Independent External Directors

Directors

50%



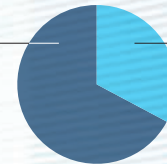
Independent External Directors

50%

Ratio of Female Directors

Male

67%



Female

33%

Directors with Diverse Experience



Corporate management



Entertainment business creation



Finance and accounting



Risk management and compliance



ICT・DX

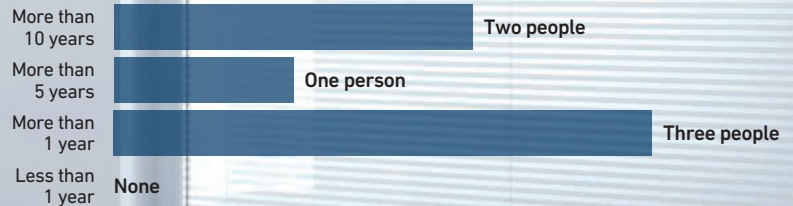


Global



Sustainability

No. of Years Served as Internal Director*1 (as of August 2023)



*1 Includes directors who are Audit and Supervisory Committee members

Changes in Directors' Compensation (SEGA SAMMY HOLDINGS INC.)



■ Internal directors ■ External directors

*2 All Audit and Supervisory Committee members are included for FY2023/3

Basic Stance 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 this, the Group has made decisions on important management issues, including the appointment of director candidates, determination of directors’ compensation, oversight of management, and determination of auditors’ compensation.

Improving Efficiency

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

Securing Soundness

Amid significant changes in the business environment, to maximize the Company’s corporate value, the Company and the Group will appropriately recognize and manage the various risks surrounding the Company and the Group. The Company and the Group will strive to secure sound management by establishing a system to ensure compliance not just with laws and regulations, but with ethical standards and societal norms (compliance system).

Enhancing Transparency

With the growing importance of information disclosure for companies, the Group will fulfill its accountability to all stakeholders, including shareholders, and further improve disclosure through proactive engagement in IR activities, thereby cultivating highly transparent management. In addition, the Group proactively and voluntarily develops its CSR activities, seeing them as helping both the Group’s sustainable value creation and the sustainable development of stakeholders.

A corporate governance system for realizing our purpose

Accelerating growth strategies and business reforms with a transparent and sound governance system

To further promote productive discussions by the Board of Directors and to strengthen its oversight functions, the Company has chosen the structure of a company with an Audit and Supervisory Committee. This will allow it to delegate a considerable portion of important decisions on business execution to executive directors.

▶ Board of Directors

The Board of Directors aims to achieve flexible management through the current level of 12 directors. Certain important managerial matters at each business company are also resolved or reported at various bodies, including the Company’s Board of Directors.

▶ Audit and Supervisory Committee

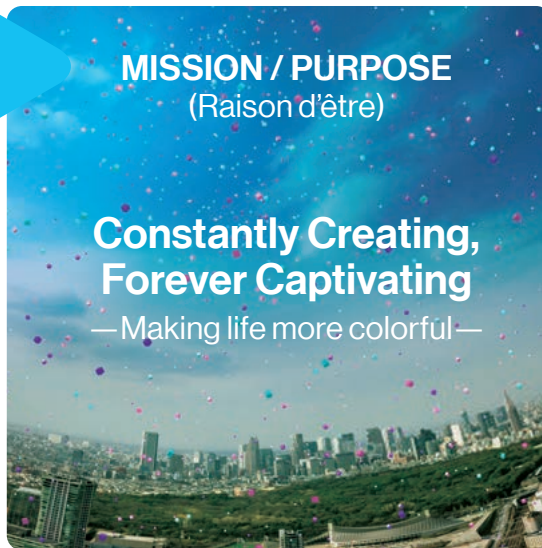
The Audit and Supervisory Committee consists of four Audit and Supervisory Committee members. The committee assigns duties to respective Audit and Supervisory Committee members, and deliberates on key matters for consideration such as those involving the status of establishing and operating the Group’s corporate governance and internal control systems, and evaluations of the independent auditor.

▶ Voluntary Committees

Voluntary Committees are the bodies that discuss and inspect the specified matters regarding the management of the Group which are specifically referred by the Board of Directors, and report and submit the results of such discussions and inspections to the Board of Directors. The following two Voluntary Committees have also been established: an Independent Advisory Committee and a Group Management Strategy Committee (now the Group Management Strategies Committee). In addition, the Group Sustainability Subcommittee and the Group Risk and Compliance Subcommittee are established as bodies that discuss and inspect further specialized matters.

MISSION / PURPOSE
(Raison d’être)

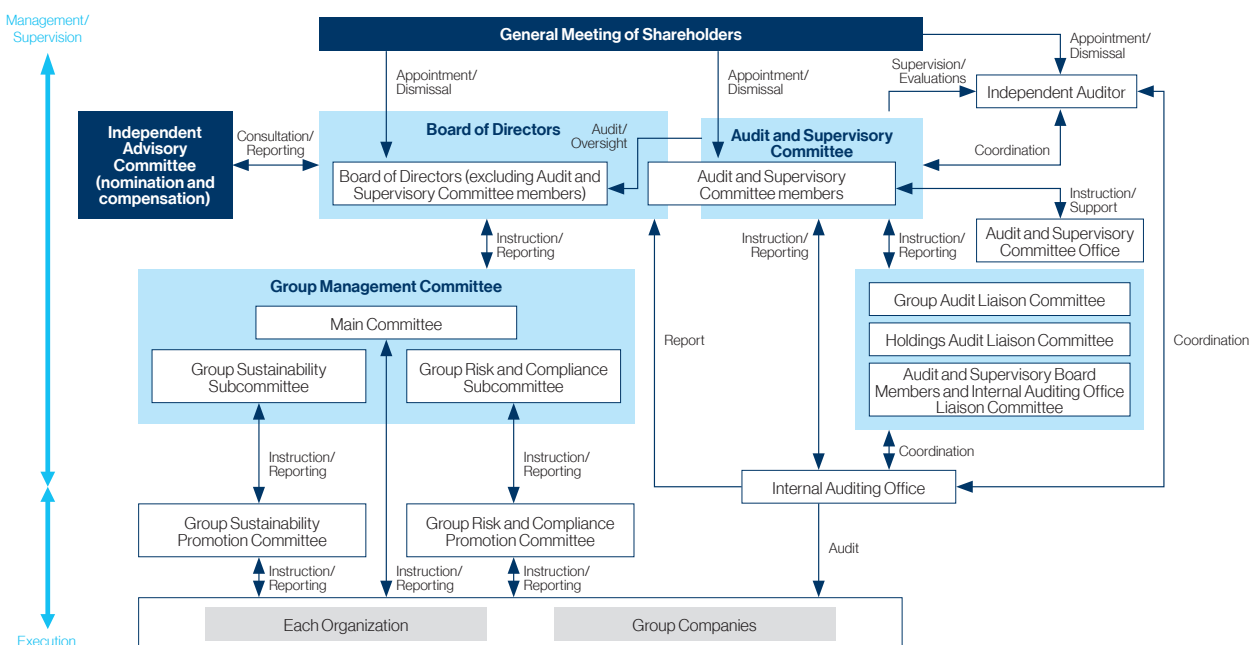
**Constantly Creating,
Forever Captivating**
— Making life more colorful —



Corporate Governance System

To further promote productive discussions by the Board of Directors and to strengthen its oversight functions, the Company has chosen the structure of a company with an Audit and Supervisory Committee. This will allow it to delegate a considerable portion of important decisions on business execution to executive directors. In addition, by considering that directors with a wealth of knowledge and experience regarding the industry, market trends, prod-

ucts, merchandise, services, etc., can generate prompt and optimal management decisions, the Group companies have chosen the structure of a company with company auditors. The Company and the Group also appoint external directors and strengthen the executive officer and internal auditing systems, thereby improving corporate governance from the aspects of both oversight and execution.



Director Skill Matrix

Skill Matrix Definition

The Company selected experience and knowledge required as a publicly traded company, along with those that are required to achieve the long-term vision of the Company.

| Item | Definition |
|---------------------------------|--|
| Corporate management | Manager of a listed company or equivalent organization |
| Entertainment business creation | Experience as a business development manager or in starting a new business in the Group's business segments |
| Finance and accounting | Professional experience at financial institutions, auditing firms, etc., or experience as an officer in charge of a financial department at a major company |
| Risk management and compliance | Attorney, or other professional experience, or experience as an officer in charge of legal affairs, compliance or audit at a major company |
| ICT/DX | Experience at IT companies, vendors, consulting firms, and other professional services, or experience as an officer in charge of IT at a major company |
| Global | Experience of living abroad, experience at an overseas operating company, or equivalent experience |
| Sustainability | Individuals who have insight into Environment and People (Diversity), which are part of the Company's five material issues to be addressed (materiality)*, and are expected to play an active role in the promotion of sustainability by the Group |

* Human Resources, Products and Services, Environment, Addiction, and Governance

Skill Matrix

| | Name | Gender | Expertise and experience | | | | | | |
|---------------------------------------|------------------|----------|--------------------------|---------------------------------|------------------------|--------------------------------|--------|--------|----------------|
| | | | Corporate management | Entertainment business creation | Finance and accounting | Risk management and compliance | ICT/DX | Global | Sustainability |
| Directors | Hajime Satomi | Male | ● | ● | | | | | |
| | Haruki Satomi | Male | ● | ● | | | | ● | ● |
| | Koichi Fukazawa | Male | ● | ● | ● | | ● | | |
| | Yukio Sugino | Male | ● | ● | | | | ● | |
| | Hideo Yoshizawa | Male | ● | | ● | ● | | | |
| | Kohei Katsukawa | External | ● | | ● | ● | | | |
| | Melanie Brock | External | ● | | | | | ● | ● |
| | Fujiyo Ishiguro | External | ● | | | | ● | ● | ● |
| Audit & Supervisory Committee Members | Yukito Sakaue | Male | | | ● | ● | | ● | |
| | Kazutaka Okubo | External | ● | | ● | ● | | | ● |
| | Shione Kinoshita | External | | | | ● | | | ● |
| | Naoko Murasaki | External | ● | | | ● | | ● | ● |

Note: The above table indicates up to four fields in which expertise and experience are particularly expected for each individual. The table is not an exhaustive list of all the insight and experience that each individual possesses.

Policy for Appointment of Directors

The Company has formulated a skills matrix based on the experience and knowledge required to manage a listed company and the experience and knowledge required to achieve the Company's long-term vision. In connection with the appointment of directors, the Independent Advisory Committee evaluates each director candidate based on the skills matrix to determine

whether he/she is capable of appropriately discharging his/her duty of care to serve as a responsible and prudent manager and to contribute to the Group's sustainable growth and enhancement of corporate value, as entrusted by shareholders to the management, thereby seeking to secure and improve the functions of the Board of Directors.

Reasons for Appointment of Independent Directors

| Name | Reasons for Appointment |
|------------------|--|
| Kohei Katsukawa | We chose to appoint Mr. Kohei Katsukawa as External Director as we expect that he will continue to provide valuable opinions and suggestions on the management of the Company based on his wealth of experience and broad-ranging insight gained over many years as a corporate manager. |
| Melanie Brock | We chose to appoint Ms. Melanie Brock as External Director as we expect that she will continue to strengthen the Company's corporate governance system and improve the quality of management decision making based on her diverse range of ideas and values, making use of her extensive experience and career record as an international business leader. |
| Fujiyo Ishiguro | We chose to appoint Ms. Fujiyo Ishiguro as External Director as we expect she will continue to provide valuable opinions and suggestions on the management of the Company based on her wealth of knowledge in corporate management and digital fields as a founder of Netyear Group Corporation and experience as an Outside Director of other listed companies. |
| Kazutaka Okubo | Mr. Kazutaka Okubo has many years of experience in audit services as a certified public accountant and deep insight about finance and accounting. We chose to appoint Mr. Kazutaka Okubo as External Director serving as Audit and Supervisory Committee Member as we expect that he will appropriately guide and oversee the Company's management from an objective standpoint based on a wealth of knowledge in governance which he gained through experience as an Outside Director. |
| Shione Kinoshita | Ms. Shione Kinoshita has a high degree of expertise in labor laws which she gained through her experience as an attorney-at-law as well as a Vice Chairperson of the Labor Legislation Committee, Dai-ichi Tokyo Bar Association. We chose to appoint Ms. Shione Kinoshita as External Director serving as Audit and Supervisory Committee Member as we expect that she will appropriately guide and oversee the Company's management from an objective standpoint based on her wealth of knowledge in governance gained through her experience as an Outside Director. Although she does not have experience in corporate management other than as an Outside Director, we judge that she will be able to appropriately perform her duties as an External Director serving as Audit and Supervisory Committee Member for the reasons mentioned above. |
| Naoko Murasaki | Ms. Naoko Murasaki has a high degree of expertise in the field of the global risk and governance which she gained over many years in the National Police Agency, the Ministry of Foreign Affairs and risk consulting firms. We chose to appoint Ms. Naoko Murasaki as External Director serving as Audit and Supervisory Committee Member as we expect that she will appropriately guide and oversee the Company's management from an objective standpoint based on her wealth of knowledge in governance gained through her experience as an Outside Director. |

Policy for Appointing Independent Directors

- (1) All external officers satisfying the qualifications for independent officers are designated as independent officers.
- (2) Independence is judged based on the requirements for qualification stipulated in the Companies Act and the criteria for independence established by Tokyo Stock Exchange, Inc. The terms major client, large sums of money, and so forth are judged based on the criteria determined in accordance with the published appointment standards model for independent officers.

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Holding meetings of the Group Sustainability Subcommittee

The Group Sustainability Subcommittee has been set up within the Group Management Committee to conduct management discussions on matters such as formulating group policies and goals, reviewing the status of each company's efforts and revising goals. Decisions on Group policies and goals are made by the Company's Board of Directors.

The policies and goals that have been decided upon are shared with each Group company through the Group Sustainability Promotion Committee. In the course of their business,

Group companies that have touchpoints with society take in various requests and feedback from customers and users. These are shared with other Group companies at the Group Sustainability Promotion Committee. Initiatives that should be incorporated into Group policies and goals are reported to the Group Sustainability Subcommittee, providing a framework for discussion.

The key organizations and their main functions are as follows.

| | |
|--|---|
| Group Sustainability Subcommittee (Group Management Strategies Committee) | <ul style="list-style-type: none"> Recommendations on formulation and revisions of the Group sustainability plan Formulation of Group targets and monitoring of progress Evaluation and provision of recommendations and advice on initiatives by Group companies. |
| Group Sustainability Promotion Committee | <ul style="list-style-type: none"> Sharing of Group-wide policies Monitoring of initiatives by Group companies, cross-organizational roll-out of successful initiatives |
| Group companies | <ul style="list-style-type: none"> Establishment of a project promotion system within each company Planning and implementation of sustainability plans at each company Integration into business strategy |



A meeting of the Group Sustainability Promotion Committee

Evaluation of the Effectiveness of the Board of Directors

① Purpose of evaluation

The Company performs analyses and evaluations of the effectiveness of the Board of Directors each year to ensure that the Board of Directors effectively fulfills its roles and responsibilities to "improve efficiency," "secure soundness," and "enhance transparency" of the Company's corporate management.

② Method of evaluation

For the fiscal year ended March 2023, the Company provided questionnaires to all directors and Audit and Supervisory Committee members.

In addition to confirming matters considered important in the effective fulfillment of the Company's Board of Directors' roles and responsibilities (including composition, operation, status of deliberations concerning strategy, and other matters put before the Board of Directors), the Company confirmed such matters as the governance structure expected by the market and the roles of the Board of Directors in issues related to sustainability, including the Board's involvement in initiatives related to human capital. To ensure objective evaluations, an external organization was contracted to design the questionnaire and analyze and evaluate the responses.

At meetings of the Independent Advisory Committee and the

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Management Training Camp Held for Frank Discussions

In September 2022, the SEGA SAMMY HOLDINGS management camp was held at *Phoenix Seagaia Resort* (Miyazaki Prefecture). It was attended by internal and external directors and exclusive officers of the Company, and executives of major Group companies. This management camp was held to facilitate frank discussions of management issues such as the Group's growth strategy and the top risks facing the Group to foster a common awareness among management. Holding the talks in a setting away from the Company enabled participating members of the management team to focus on the discussion in a way that is not generally possible in regular meetings.

Internal directors actively discuss various topics (highlights of comments)

Day1 — Action Plan Based on the Results of the Effectiveness Evaluation —

Content of discussion

- Deliberate and follow-up on important projects such as growth investments; conduct management that focuses on management indicators
- Presentation by the person explaining the agenda; towards free and open discussions
- Directors' training
- Group Governance

Towards free and open discussions among members of the Board of Directors

Brock: I would like for us to be able to receive clear summaries of meeting materials so that we could see at a glance the key points. That would help develop the discussion. In addition, more training should be held for external directors, including on-site inspections.

Murasaki: Sometimes the opinions of external directors may have already been discussed internally, so it would be efficient if the minutes of internal discussions were shared before the Group Management Committee was held.

Deliberation on important matters such as growth investments

Sugino: Setting themes including mega-trends that cannot be avoided in the future and systematically discussing them would spark active discussions.

Kinoshita: The roles of management and execution should be made clearer than they have been. Large investment policies should be discussed at the Board of Directors, with follow-up responses then delegated to the executive side.

Okubo: Listed companies have a responsibility to explain their investments to shareholders. Consideration should be given to the extent to which investment strategies should be discussed at Board meetings.

Haruki Satomi: There is a need to consider what size of investment should be discussed or reported to the Board of Directors. While the amount of investment is of course an important point of discussion, there is also a need for management to discuss the areas in which the Company should invest in the future.

Katsukawa: Investment in startups should be continued as these could lead to future growth for the Group. However, CVC investments often fail in the long run. They should be carried out only after fully considering the advantages to the Company, such as areas that offer synergies with existing businesses.

Board of Directors, deliberations took place based on the results of the analysis of questionnaire responses. These concerned such matters as the effectiveness of the Board of Directors during the fiscal year and where issues might lie.

③ Summary of evaluation results

As the result of these deliberations, the Board of Directors was judged to be functioning effectively based on the diversity of independent external directors and their contributions to constructive discussions. It was also favorably evaluated that deepening discussions on matters such as overall Group policies by the Board of

Directors, pointed out as an issue in the previous fiscal year, saw an improvement in more productive and fulfilling discussions from a medium- to long-term business perspective.

To enhance effectiveness still further, the Board of Directors recognizes the need to deepen discussions on matters such as strengthening monitoring for the sophistication of the risk management structure for the entire Group and optimal allocation of resources among the entire Group. Having acknowledged these issues, the Company will strive to allow the Board of Directors to function even more effectively.

Day2 Risk Governance Discussions

Content of discussions

- Top risk items deemed to be of high priority
- ① Clarification of the definition of management and execution
- ② Risk management ③ Supply chain
- ④ Regarding human resources ⑤ Information security

Risk management

Murasaki: We need to divide the conceivable situations into several patterns, and decide on a minimum initial response.

Yoshizawa: Only a few of our officers have experience in dealing with major crises. We need to put in place a system for the Company as a whole.

Fukazawa: While urgent situations require immediate action, the right response is not uniform because it depends on the case. So without proper knowledge or experience it is hard to respond.

Chairman: The SEGA SAMMY Group has a culture of speaking frankly. That is why we believe that we have an organization where we can support each other rather than a system that relies on someone when a risk incident occurs.

Supply chain

Kinoshita: Supply chain risks include human rights issues, so we should carry out extensive due diligence.

Ishiguro: Large companies are diversifying their supply chains in light of geopolitical risks. We also need to discuss and consider geopolitical risks.

Haruki Satomi: Based on the geopolitical risks, we must consider reducing our degree of dependence on certain regions of production.



A discussion in progress

Regarding human resources

Sakaue: There needs to be a consistent concept within the Group of the differences between the roles and obligations of directors and executive officers. Training for executives in the Group should also be enhanced.

Okubo: In terms of literacy education, we need to decide what kind of literacy to seek at what level and how much time should be devoted to that. If we do not allocate enough time to it, there is no point in doing it. When it comes to harassment in particular, I feel that awareness is still low.

Ishiguro: To improve competitiveness, the concept of diversity is key. The task for SEGA, as it aims to take its overseas business to the next level, will be to hire excellent human resources overseas.

Risk Management

With regard to risks posed by our business operations, in cooperation with the Group Governance Division, the Group Risk and Compliance Subcommittee established within the Group Management Strategies Committee seeks to identify important management risks; discuss the formulation of policies related to Group risk and compliance; and assess and advise on risk analysis by individual related sections. These measures are intended to clarify the risk management structure. Additionally, an internal audit section under the direct jurisdiction of the Audit and Supervisory Committee audits the state of risk management by each section and periodically

reports its findings to management decision-making bodies and management organizations involved in execution and oversight.

To grasp and appropriately manage both internal and external important risks including cases requiring emergency measures, we have established Group Management Policies, policies for risk management, and guidelines for crisis management. Should any conditions emerge that might materially affect the Group, crisis management organizations of the Company and the Group companies work jointly to discuss the measures to be taken, and then proceed to take prompt and appropriate action.

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Strengthening Our Risk Governance System

To strengthen our risk governance system, in April 2022 we established a new Group Governance Division, as well as a Group Risk Compliance Subcommittee and Group Risk Compliance Promotion Committee.

Led by executives in charge of risk and compliance at Group companies, the Group Risk Compliance Promotion Committee discusses, verifies, and shares measures and information related to risk and compliance within the Group.

Risk Governance System Chart



Activities of the Group Management Committee

Strengthening governance through the Group Management Committee

The Group Management Committee has been established under the Company's Board of Directors and discusses and reviews the improvement of profitability, efficiency, strategic investments, and other aspects of Group businesses. This Committee is composed of directors (excluding the Chairperson [Representative

Director]) and Audit and Supervisory Committee members, and meets as appropriate.

Through the Group Management Committee, officers engage in more in-depth discussions to strengthen governance.

Contents of the discussion (FY2023/3)

- New projects
- Sustainability goals
- Group business plan
- Compliance awareness survey report
- Investment areas for formulating the next medium-term plan
- Group Risk and Compliance Promotion Committee
- Growth investment areas
- Retirement plan restructuring project
- Action plan based on the evaluation of the effectiveness of the Board of Directors
- Risk governance
- Group Sustainability Subcommittee
- Management discussions for formulating the next medium-term plan
- Feedback from investors

Number of discussions and hours (FY2023/3)

16 meetings during the year Number of cases: 36 Discussion time: 32 hours 5 minutes

External and internal directors actively discuss various topics (excerpt from the statement)

Compliance Awareness Survey

(held on May 31, 2022)

Murasaki: We also have an increasing variety of examples of harassment, including harassment against men. These will require careful attention. If women also do not clearly recognize what sexual harassment is, that could become a hindrance to their success in the future.

Brock: The results of an investigation into harassment must be taken seriously and response measures must be thoroughly addressed.

Haruki Satomi: To address harassment, there should also be careful investigation of the content of whistleblower reports. Expertise should be gathered to enable responses on a case-by-case basis.

Okubo: It is important to distinguish between instructions that are excessive and instructions that are just strict. If supervisors become overly sensitive and afraid to give instructions, our organization will become weaker. We are going to need leaders who can build relationships of trust between supervisors and subordinates.

Group Risk and Compliance Promotion Committee

(held on July 29, 2022)

Haruki Satomi: There are also risks that insider trading could occur unintentionally due to a lack of awareness. It is vital that all employees have a firm understanding of laws and regulations.

Katsukawa: Risk management at other companies is thorough, such as conducting training to introduce changes and briefing employees on the transition of numbers of near-misses and on case studies.

Kinoshita: We should enhance training by facilitating discussion between employees with reference to case studies from other companies, such as near-misses regarding personal information leaks and incidents of harassment.

Fukazawa: The IT Division has already begun discussions about how to aggregate near-misses that have occurred, and how to address these with improvements.

Okubo: Training using practical examples is important. It is also important though to do training that sharpens powers of imagination, which are key to handling the unexpected.

Group Sustainability Subcommittee

(held on May 31, 2023)

Ishiguro: We should further promote support, including for the qualitative aspects, for departments where it has been hard for women to play an active role in the past.

Okubo: Increasing the percentage of women in management positions should not be the goal. We should discuss how to increase corporate value as a result of that.

Kinoshita: We should focus even more on tackling the social issues facing our main business. As we expand our products and services there can be repercussions and it is very important not to turn a blind eye to that.

Compensation Amount for Officers and the Method for Calculating Such Compensation

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 directors who are Audit and Supervisory Committee members and 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 sustainable growth of the Group.
- (4) The system must have compensation 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 directors who are Audit and Supervisory Committee members and external directors) includes fixed compensation, and directors' bonuses and stock compensation with restriction of transfer as performance based compensation.

Fixed Compensation

The Company formulated compensation table which specifies the compensation amounts for each component, namely, basic compensation and role-based compensation, and it shall provide the sum of these components as monthly fixed compensation.

Directors' Bonuses

Directors' bonuses are paid at the amount determined by multiplying 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 amount of ordinary income, the business plan achievement level, and the year-on-year growth level.

 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/cms/wp-content/uploads/pdf/ja/ir/Annual_security_report_FY2303_ir.pdf

Stock Compensation with Restriction of Transfer

The Company has introduced a stock compensation plan with restriction of transfer (continuous service-based and performance-based stock compensation) for directors (excluding directors who are Audit and Supervisory Committee members and 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 at Board of Directors's meeting using a ratio of approximately 1:1:1 for fixed compensation, performance-based bonuses, and stock compensation with restriction on transfer for a single fiscal year at the time the medium-term management plan is achieved.

In the current medium-term management plan, the ratio of continuous service-based shares with restriction on transfer and performance-based shares with restriction on transfer is expected to be approximately 1:3

Compensation for directors and Audit & Supervisory Board members for the fiscal year ended March 2023 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 | Bonuses | Performance-based shares with restriction on transfer | Continuous service- based shares with restriction on transfer | Of the items on the left, non-monetary compensation, etc. |
| Directors (excluding Audit and Supervisory Committee members and external directors) | 5 | 1,408 | 594 | 641 | 72 | 100 | 172 |
| Directors (Audit and Supervisory Committee members) (excluding external directors) | 1 | 18 | 18 | — | — | — | — |
| Audit & Supervisory Board Members (excluding external Audit and Supervisory Committee members) | 1 | 4 | 4 | — | — | — | — |
| External directors | 6 | 85 | 85 | — | — | — | — |

Notes:

1. The amounts of both bonuses and compensation of performance-based shares with restriction on transfer and continuous service-based shares with restriction on transfer in the table above are the amounts that were recorded as expenses in the current fiscal year.
2. By a resolution of the ordinary general meeting of shareholders held on June 22, 2022, the Company transitioned from a Company with an Audit & Supervisory Board to a Company with an Audit and Supervisory Committee. Amounts paid to Audit & Supervisory Board members (excluding external auditors) are for the period before the transition. Amounts paid to directors who are Audit and Supervisory Committee members (excluding external directors) are for the period after the transition.
3. As of the end of the fiscal year ended March 2023, the number of directors (excluding Audit & Supervisory Committee members and external directors) was five. The number of directors who are Audit & Supervisory Committee members (excluding external directors) was one and the number of external directors was six.

Directors who received ¥100 million or more in total compensation for the fiscal year ended March 2023 are as follows.

| Name | Position | Total compensation, etc. (Millions of yen) | Company | Total compensation, etc. by type (Millions of yen) | | | | |
|-----------------|----------|---|-------------|---|---------|---|---|---|
| | | | | Basic compensation | Bonuses | Performance-based shares with restriction on transfer | Continuous service- based shares with restriction on transfer | Of the items on the left, non-monetary compensation, etc. |
| Hajime Satomi | Director | 532 | The Company | 216 | 247 | 28 | 39 | 68 |
| Haruki Satomi | Director | 562 | The Company | 237 | 255 | 30 | 40 | 70 |
| Koichi Fukazawa | Director | 135 | The Company | 60 | 53 | 7 | 13 | 21 |
| Yukio Sugino | Director | 105 | The Company | 45 | 53 | — | 6 | 6 |

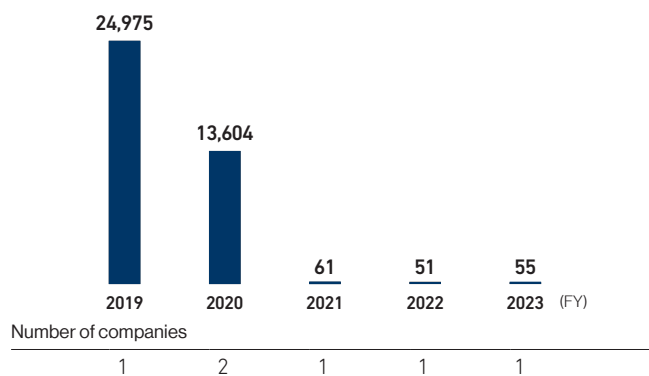
Strategic Shareholdings Policy

The Company possesses shares for purposes other than investment only in cases in which the Company believes the possession thereof will enable business alliances, expand transactions, and will lead to an improvement in corporate value, thereby benefitting shareholders.

The Company periodically examines the economic rationale, future outlook, and other aspects regarding the possession of such shares at its Board of Directors meetings and discusses whether the future possession thereof is justifiable.

In general, the Company exercises the voting rights corresponding to such shares on all proposals based on whether 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)



System for Supporting External Directors

We have established a communication system through which the secretariat shares information to external directors as appropriate. This allows for the contents of the agenda and other items for meetings of the Board of Directors to be fully considered in advance.

For newly appointed external directors, the secretariat provides individual orientations on details of the Group's businesses. By enabling them to form a better understanding, this helps to ensure the effectiveness of discussions at meetings of the Board of Directors. Regarding the support system for external directors who are members of the Audit and Supervisory Committee, in addition to the above, assistance is also provided by the staff of the Management Audit Office and the Audit and Supervisory

Committee Office which report directly to the Audit and Supervisory Committee. Matters related to the appointment, transfer, evaluation, etc. of the above staff require the prior consent of the Audit and Supervisory Committee. This ensures independence from directors who are not Audit and Supervisory Committee members. In addition, we have established a communication system through which the secretariat of each meeting body shares as appropriate information relating to meetings to be attended by external directors who are Audit and Supervisory Committee members, so that they can fully examine the contents of the proposal, etc. in advance.

Policy on Constructive Dialogue with Shareholders

To facilitate constructive dialogue with shareholders and investors, the Company works from the basic position of appointing an executive officer in charge of Investor Relations (IR) & Shareholder Relations (SR), establishing a department in charge of IR & SR, and implementing the following efforts:

In facilitating constructive dialogue with shareholders and investors, the Company acts to ensure close and positive cooperation between and among internal departments, including the corporate planning, finance and accounting, legal affairs, general affairs, and sustainability departments.

In line with the quarterly disclosure of operating results, the Company holds online briefing sessions that primarily target institutional investors.

The President and Representative Director of the Company and the Chief Financial Officer or others attend briefing sessions on the settlement of accounts and actively engage in direct interactions. For shareholders and investors, the executive officer in charge of IR & SR and IR & SR personnel hold individual meetings after the quarterly disclosure of operating results. In addition, in line with the direction of the Company, small conferences or other gatherings may also be held as appropriate.

For overseas shareholders and investors, the President and Representative Director of the Company, the Chief Financial Officer or others, or the executive officer in charge of IR & SR and IR & SR personnel provide opportunities to engage in dialogue individually multiple times per year, both online and in person.

Regarding the status of dialogue with shareholders and investors, the Company provides prompt feedback on a regular basis or as needed to the President and Representative Director, Chief Financial Officer, and other directors or executive officers, and also to external directors, executive officers, and business heads. The Company strives to utilize that information for further sustainable growth and enhance corporate value of the Company in the medium to long term.

In accordance with the basic view that shareholders should be treated equally, when engaging in dialogue with shareholders with respect to the handling of unpublished important matters, whether for briefing sessions on settlement of accounts or any other meetings, the Company endeavors to manage information in accordance with applicable laws, including the Financial Instruments and Exchange Act and the SEGA SAMMY Insider Trading Prevention Regulations, which are internal regulations set for the purpose of eliminating insider trading.

Directors, Audit & Supervisory Committee Members, and Executive Officers

(As of October 1, 2023)

Hajime Satomi

Chairman
(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 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 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 CORPORATION) (current position)
2018 Chairman and Group CEO, Representative Director of the Company
2021 Chairman, Representative Director of the Company (current position)
2022 Chief Advisor of PHOENIX RESORT CO., LTD. (current position)
Honorary Advisor of Japan Amusement Industry Association (current position)

Haruki Satomi

President and Group CEO
(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 Senior Vice President, Director of the Board of Sammy Corporation
Deputy COO, Representative Director of SEGA CORPORATION
2015 Deputy COO, Representative Director of Sammy Corporation
2016 President and COO, Representative Director of the above
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 Games Co., Ltd. (now SEGA CORPORATION) (current position)
2018 President and Group COO, Representative Director of the Company
Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
2021 President and Group CEO, Representative Director of the Company (current position)
Chairman of the Board of Sammy Networks Co., Ltd. (current position)
Officer of NDK (current position)
Officer of KEIZAI DOYUKAI (Japan Association of Corporate Executives) (current position)
2022 Chairman of the Board of TMS ENTERTAINMENT CO., LTD. (current position)
Chairman of the Board of Sunrockers, Ltd. (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.)
Senior Vice President, Executive Officer and 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)
2021 Senior Vice President, Director of the Board of Sammy Corporation (current position)

Yukio Sugino

Senior Executive Vice
President,
Director of the Board



1993 Joined SEGA Enterprises, Ltd. (now SEGA CORPORATION)
2003 Vice President, Executive Officer and General Manager of Project Management Division of SEGA CORPORATION
2009 Senior Vice President, Director of the Board and General Manager of President's Office of the above
2010 Senior Vice President, Director of the Board and General Manager of Sega R&D/Production of the above
2012 Executive Vice President, Director of the Board and General Managing Director of Consumer Online Business Headquarters of the above
Director & Chairman of Sega of America, Inc.
Director & Chairman of Sega Europe Ltd.
2014 President, Representative Director of ATLUS CO., LTD.
2015 Senior Vice President, Director of the Board of SEGA Holdings Co., Ltd. (now SEGA CORPORATION)
President and CEO, Representative Director of SEGA Interactive Co., Ltd. (now SEGA CORPORATION)
2017 Senior Executive Vice President, Director of the Board of SEGA Holdings Co., Ltd. (now SEGA CORPORATION)
2020 President and COO, Representative Director of SEGA CORPORATION (current position)
Deputy COO, Representative Director of SEGA GROUP CORPORATION (now SEGA CORPORATION)
Executive Vice President, Executive Officer of the Company
Chairman, Representative Director of ATLUS CO., LTD. (current position)
2021 Senior Vice President, Director of the Board of SEGA TOYS CO., LTD. (current position)
2022 Senior Executive Vice President, Director of the Board of the Company (current position)
2023 Senior Vice President, Director of the Board of DARTSLIVE Co., Ltd. (current position)
Chairman of the Board of MARZA ANIMATION PLANET INC. (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 Office of the above
2007 Senior Vice President, 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 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. (now GENDA GiGO Entertainment Inc.)
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 CORPORATION)
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION)
2018 Senior Vice President, 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)
Senior Vice President, Director of the Board of SEGA CORPORATION (current position)

Kohei Katsukawa

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)
Outside Director of ELECOM CO., LTD.
2021 Advisor of GINSEN Co., Ltd. (current position)
2022 Outside Director of DX Antenna Co., Ltd. (current position)
Outside Director of HAGIWARA Solutions Co., Ltd. (current position)
Outside Director of Logitech INA Solutions Co., Ltd. (current position)
2023 Outside Director of TESCOM CO., LTD. (current position)

Melanie Brock

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)
2022 Outside Director of Mitsubishi Estate Co., Ltd. (current position)
2023 Outside Director, Member of the Board of Kawasaki Heavy Industries, Ltd. (current position)

Fujiyo Ishiguro

Director of the Board
(External)



1981 Joined BROTHER INDUSTRIES, LTD.
1988 Joined Swarovski Japan Ltd.
1994 President of Alphametrics, Inc.
1999 Director of Neteer Group, Inc.
Director of Neteer Group Corporation
2000 President & CEO of the above
2013 Outside Audit & Supervisory Board Member of Sompo Japan Insurance Inc.
2014 Outside Director of Hottolink, Inc.
Outside Director of Monex Group, Inc. (current position)
2015 Outside Director of Sompo Japan Nipponkoa Insurance Inc. (now Sompo Japan Insurance Inc.)
2021 Outside Director of WingArc 1st Inc.
Director of Neteer Group Corporation (current position)
Director of the Board (External) of the Company (current position)
2022 External Director of The Shoko Chukin Bank, Ltd. (current position)
2023 External Director of MITSUI & CO., LTD. (current position)

Yukito Sakaue

Director, Audit and
Supervisory Committee
Member



1975 Joined The Sanwa Bank, Limited (now MUFG Bank, Ltd.)
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
Standing Audit & Supervisory Board Member of SEGA CORPORATION
2015 Audit & Supervisory Board Member of SEGA Interactive Co., Ltd.
(now SEGA CORPORATION)
Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd.
(now SEGA CORPORATION)
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION)
Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD.
Audit & Supervisory Board Member of SEGA ENTERTAINMENT Co., LTD.
(now GENDA GIGO Entertainment Inc.)
Audit & Supervisory Board Member of MARZA ANIMATION PLANET INC.
2017 Audit & Supervisory Board Member of ATLUS CO., LTD.
2019 Audit & Supervisory Board Member of SEGA Logistics Service Co., Ltd.
Audit & Supervisory Board Member of DARTSLIVE Co., Ltd.
2020 Audit & Supervisory Board Member of SEGA CORPORATION (current position)
2021 Audit & Supervisory Board Member of SEGASAMMY BUSINESS SUPPORT CO., LTD.
(current position)
Audit & Supervisory Board Member of PHOENIX RESORT CO., LTD. (current position)
Standing Audit & Supervisory Board Member of the Company
2022 Audit & Supervisory Board Member of SEGA SAMMY CREATION INC. (current position)
Audit & Supervisory Board Member of Sammy Corporation (current position)
Director, Standing Audit and Supervisory Committee Member of the Company
(current position)

Kazutaka Okubo

Director, Audit and
Supervisory Committee
Member (External)



1995 Joined Century Audit Corporation (now Ernst & Young ShinNihon LLC)
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 the above
2019 Audit & Supervisory Board Member (External) of the Company
President and Representative Director of Okubo Associates Inc. (current position)
Outside Director of Sun Frontier Fudousan Co., Ltd. (current position)
Outside Audit & Supervisory Board Member of BrainPad Inc.
Outside Director of LIFULL Co., Ltd. (current position)
2020 Outside Director of SALA Corporation (current position)
Outside Director of The Shoko Chukin Bank, Ltd. (current position)
Outside Director (Audit and Supervisory Committee Member) of
Musashi Seimitsu Industry Co., Ltd. (current position)
President and Representative Director of K.K. SS Dnaform (current position)
2021 Outside Director (Audit and Supervisory Committee Member) of BrainPad Inc.
(current position)
2022 Director, Audit and Supervisory Committee Member (External) of the Company
(current position)

Shione Kinoshita

Director, Audit and
Supervisory Committee
Member (External)



1985 Registered as an attorney-at-law
Joined Hashimoto Joint Law Office
1986 Joined Daiichifuyo Law Office (current position)
2004 Vice-President of Dai-ichi Tokyo Bar Association
2010 Visiting Professor of The University of Tokyo Graduate Schools for Law and Politics
2011 Outside Audit & Supervisory Board Member of SURUGA bank Ltd.
2013 Vice President of Tokyo Institute of Technology (current position)
2014 Director of Japan Labor Law Association (current position)
2018 Director of Japan Securities Research Institute (JSRI) (current position)
Outside Director of SURUGA bank Ltd.
2021 Audit & Supervisory Board Member (External) of the Company
2022 Director, Audit and Supervisory Committee Member (External) of the Company
(current position)

Naoko Murasaki

Director, Audit and
Supervisory Committee
Member (External)



1995 Joined the National Police Agency
2001 Northeast Asia Division, Asian and Oceanian Affairs Bureau of Ministry of Foreign Affairs
2003 Chief of 2nd Criminal Investigation Division,
Criminal Investigation Department of Shizuoka Prefectural Police Headquarters
2005 Chief of Foreign Affairs Division, Security Department of
Hyogo Prefectural Police Headquarters
2006 Foreign Affairs Division, Foreign Affairs and Intelligence Department,
Security Bureau of National Police Agency
2007 Security Planning Division, Security Bureau of National Police Agency
2008 Bain & Company Japan Incorporated
2010 Senior Director of Kroll International Inc. (Japan Office)
2013 Associate Managing Director of the above
2015 Head of Japan of the above
2016 Managing Director and Head of Japan of the above
2018 President and Representative Director of Nobligier Co., Ltd. (current position)
Senior Advisor of Kroll International Inc. (Japan Office) (current position)
2021 Outside Director of Sansei Landic Co., Ltd. (current position)
Director of the Board (External) of the Company
2022 Outside Director (Audit and Supervisory Committee Member) of Riraku Co., Ltd.
(current position)
Director, Audit and Supervisory Committee Member (External) of the Company
(current position)
2023 Director (Audit and Supervisory Committee Member) of VISIONARYHOLDINGS CO., LTD.
(current position)

Executive Officers

Executive Vice President, Executive Officer

Makoto Takahashi

Yoichi Owaki

Vice President, Executive Officer

Takaharu Kato

Hironobu Otsuka

Koji Takeyama

Yuka Ichiki

Yukio Kawasaki

Natsue Ishida

Financial Information



SONIC
FRONTIERS

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Management's Discussion and Analysis

Consolidated Statements of Income and Comprehensive Income

Long-Term Trends

Both sales and profits are trending upward in the Entertainment Contents Business, supported by growth in the number of platformers and increasingly diverse business models. We forecast continued growth going forward.

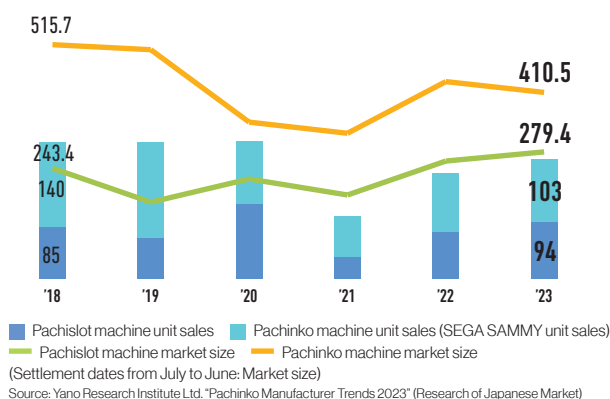
The Pachislot and Pachinko Machines Business is recovering in both sales and profits due to the market environment, which has improved with a softening of regulations, and also due to increased business efficiency driven mainly by cost improvements.

Main Causes of the Decline in Earnings

Declining Earnings within Existing Businesses amid Market Contraction

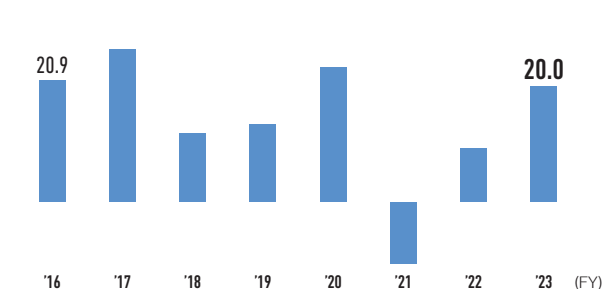
Sammy Unit Sales / Pachislot and Pachinko Market Size

Thousands of units / Billions of yen



Pachislot and Pachinko Machines Business Operating Income

Billions of yen

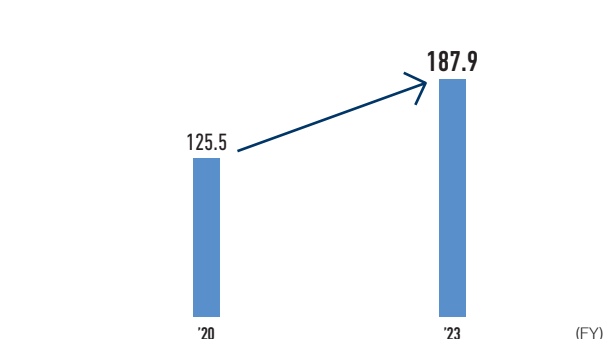


Improvement in Profitability

Earning Growth in Consumer Area

Consumer Area Net Sales

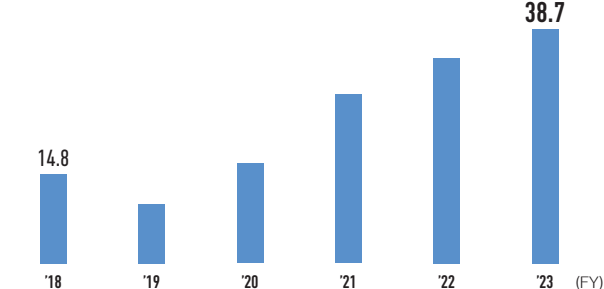
Billions of yen



Entertainment Contents Business Profitability Improvement

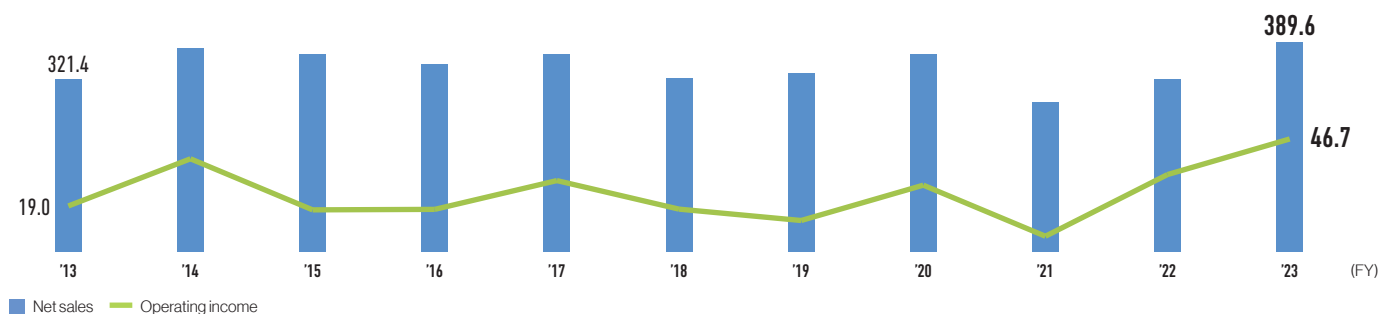
Entertainment Contents Business Operating Income

Billions of yen



Long-Term Trends in Net Sales and Operating Income

Billions of yen

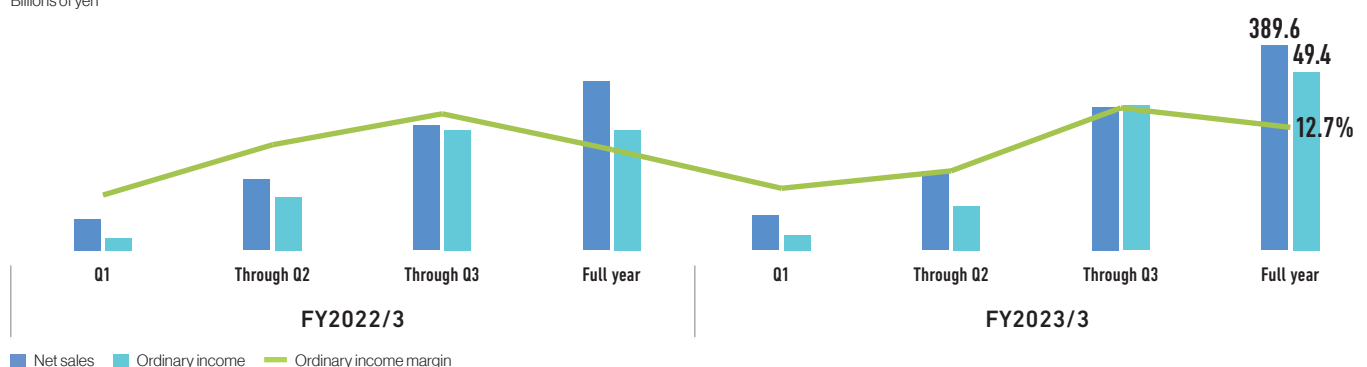


Comparing FY2022/3 and FY2023/3

(FY2023/3)

Net sales: **¥389.6 billion**Ordinary income: **¥49.4 billion**Ordinary income margin: **12.7%**

Billions of yen



Summary of Consolidated Financial Statements

Billions of yen

| | 2022 | 2023 | YoY Change |
|---|----------|-----------------|------------|
| Net sales | 320.9 | 389.6 | 21.4% |
| Entertainment Contents Business | 235.9 | 282.8 | 19.9% |
| Pachislot and Pachinko Machines Business | 75.8 | 94.2 | 24.3% |
| Resort Business | 8.6 | 11.5 | 33.7% |
| Other and eliminations | 0.6 | 1.1 | 83.3% |
| Cost of sales | 193.0 | 231.5 | 19.9% |
| Gross profit | 127.8 | 158.0 | 23.6% |
| Selling, general and administrative (SG&A) expenses | 95.8 | 111.2 | 16.1% |
| Operating income | 32.0 | 46.7 | 45.9% |
| Entertainment Contents Business | 33.9 | 38.7 | 14.2% |
| Pachislot and Pachinko Machines Business | 9.3 | 20.0 | 115.1% |
| Resort Business | -2.5 | -1.1 | - |
| Other and eliminations | -8.7 | -10.9 | - |
| Operating income margin | 10.0% | 12.0% | 2.0pt |
| Non-operating income | 5.9 | 4.9 | -16.9% |
| Non-operating expenses | 4.6 | 2.2 | -52.2% |
| Ordinary income | 33.3 | 49.4 | 48.3% |
| Extraordinary income | 5.2 | 0 | -100.0% |
| Extraordinary losses | 0.6 | 2.4 | 300.0% |
| Income before income taxes | 37.9 | 47.0 | 24.0% |
| Total income taxes | 0.9 | 1.1 | 22.2% |
| Profit attributable to owners of parent | 37.0 | 45.9 | 24.1% |
| Cash dividends per share (Yen) | 40 | 59 | - |
| Net income per share (Yen) | 158.85 | 208.07 | - |
| Net assets per share (Yen) | 1,311.72 | 1,498.75 | - |

Operating income (Entertainment Contents Business)

The Consumer area contributed to a year-on-year increase in operating income.

Operating income (Pachislot and Pachinko Machines Business)

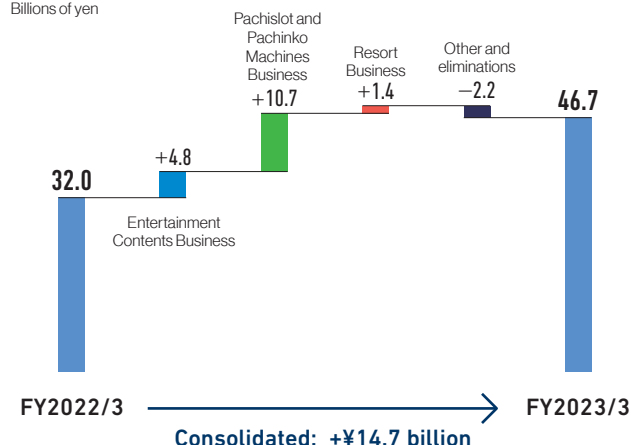
In particular, sales of pachislot machines (No. 6.5 model) were firm, resulting in significant year-on-year growth in profits.

Total income taxes

Income taxes decreased due to the recognition of deferred tax assets at a U.S. subsidiary, a decrease in taxable income from net loss carried forward, and a tax credit related to research and development at a U.K. subsidiary.

Change in Segment Operating Income

Billions of yen



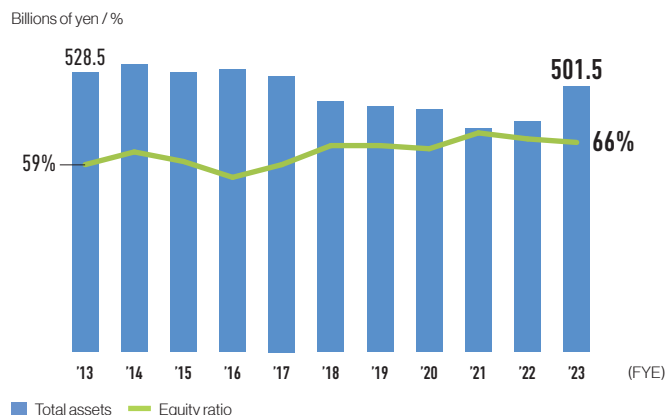
Consolidated Financial Position

Long-Term Trends

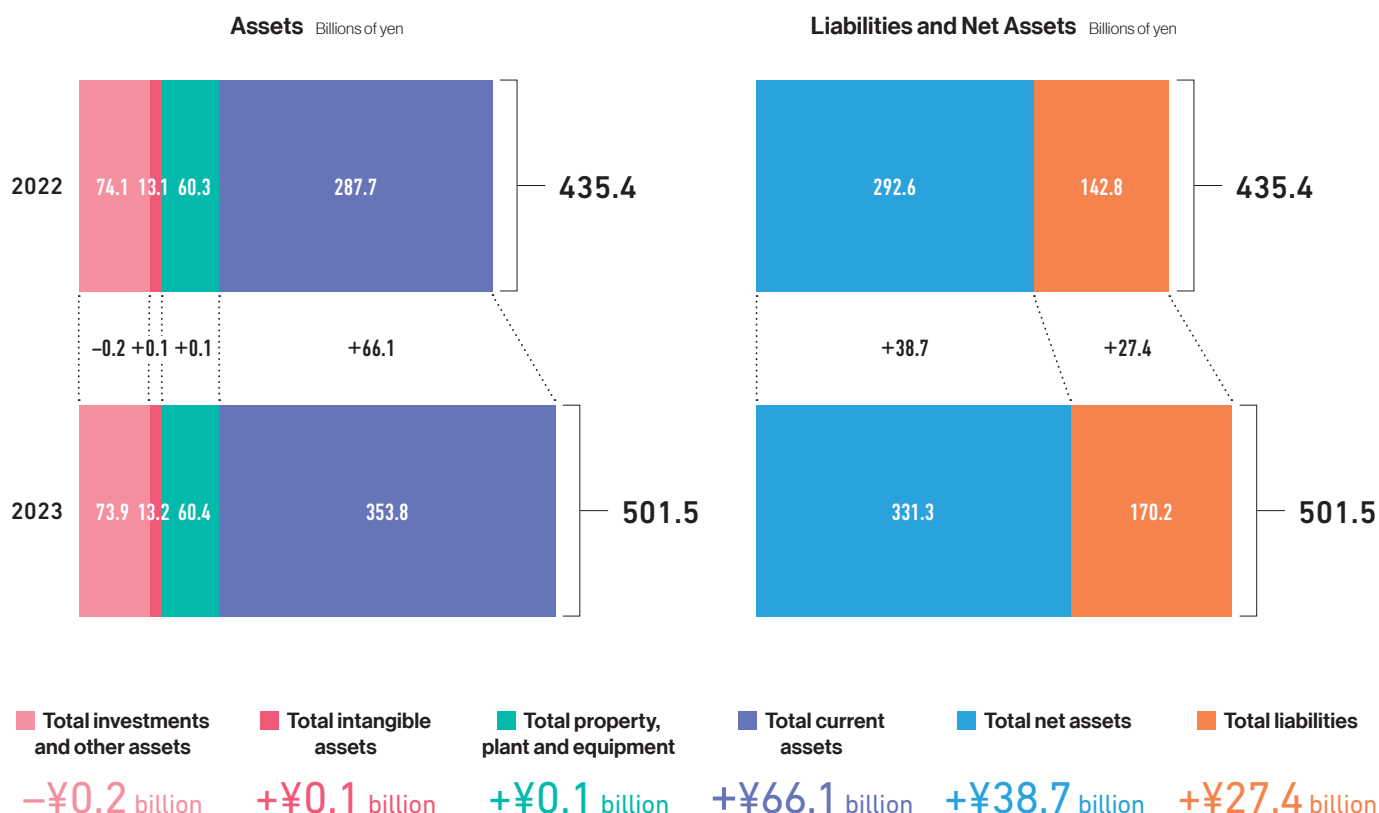
From the fiscal year ended March 2013, total assets started trending upwards due to an increase in goodwill accompanying acquisitions in the Entertainment Contents Business, the Group's initiatives in preparation for participation in the Integrated Resort (IR) business, and an increase in investment securities accompanying new investment in growth areas, etc. 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.

Despite earnings volatility stemming from the presence or absence of hit products, which is the nature of the Group's businesses, the equity ratio remained steady and the Group continued to invest in growth areas and pay stable dividends.

Total Assets and Equity Ratio



Comparing FY2022/3 and FY2023/3



Cash and deposits, trade notes and accounts receivable, and inventory assets each increased

Although total shareholders' equity fell due to cash dividends paid and the purchase of treasury stock, the Company recorded profit attributable to owners of parent. This, among other factors, caused an increase in total net assets.

Accounts payable and contract liabilities increased.

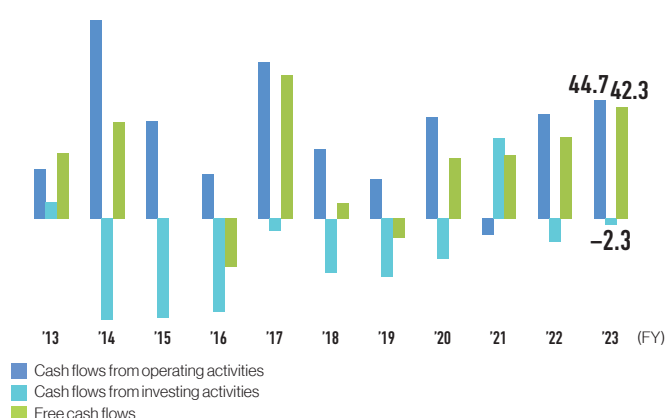
Consolidated Cash Flows

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 the fiscal year ended March 2013, the Group has been investing in organizational restructuring, including making three listed subsidiaries into wholly owned subsidiaries, as well as investing actively in growth areas such as the Consumer 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

Billions of yen

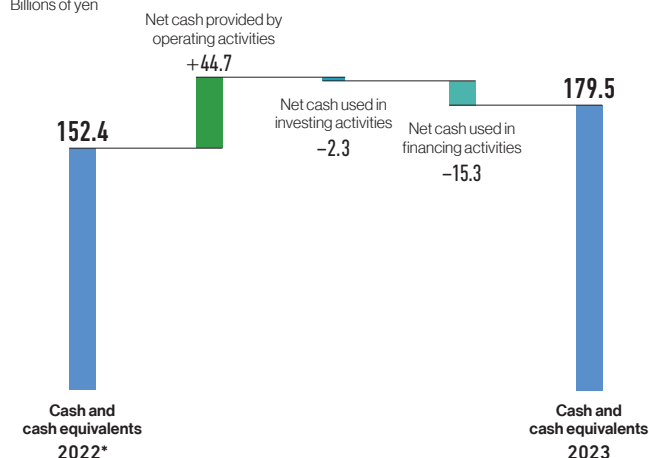


FY2023/3 Cash Flows

Cash and cash equivalents at the end of the fiscal year ended March 2023 were ¥179,509 million, up ¥27,049 million from the previous fiscal year-end.

Consolidated Cash Flows

Billions of yen



* The balance of cash and cash equivalents as of end of March 2022 includes the effect of foreign exchange rate changes on cash and cash equivalents.

Breakdown of Cash Flows

Billions of yen

| | |
|---|-------|
| Cash Flows from Operating Activities | |
| Income before income taxes | 47.0 |
| Depreciation and amortization | 10.6 |
| Increase in trade notes and accounts receivable | -13.4 |
| Increase in inventories | -22.4 |
| Increase in contract liabilities | 15.5 |
| Others | 7.4 |
| Cash Flows from Investing Activities | |
| Purchase of property, plant and equipment | -4.9 |
| Purchase of intangible assets | -5.8 |
| Others | 8.4 |
| Cash Flows from Financing Activities | |
| Proceeds from long-term debt | 10.0 |
| Repayment of long-term loans | -10.1 |
| Acquisition of treasury stocks | -4.9 |
| Payment of dividends | -8.8 |
| Others | -1.5 |

Net cash provided by operating activities

+¥44.7 billion

Net cash provided by operating activities for the fiscal year ended March 2023 was ¥44,704 million yen (¥39,607 million for the fiscal year ended March 2022). This was mainly due to the recording of income before income taxes of ¥47,069 million and depreciation of ¥10,669 million, and an increase in contract liabilities of ¥15,545 million, which outweighed an increase in inventories of ¥22,481 million and an increase in trade receivables of ¥13,493 million.

Net cash used in investing activities

-¥2.3 billion

Net cash used for investing activities was ¥2,351 million (compared with an outflow of ¥8,794 million in the previous fiscal year). This was mainly due to outflows of ¥4,944 million for the purchase of property, plant and equipment and ¥5,875 million for the purchase of intangible assets, despite an inflow of ¥3,510 million from distributions from investment partnerships.

Net cash used in financing activities

-¥15.3 billion

Net cash used for financing activities was ¥15,358 million (compared with an outflow of ¥35,970 million in the previous fiscal year). This was mainly due to outflows of ¥10,191 million for the repayment of long-term debt, ¥8,865 million for cash dividends paid, and ¥4,987 million for the purchase of treasury stock despite an inflow of ¥10,000 million from long-term debt.

Non-Financial Assets

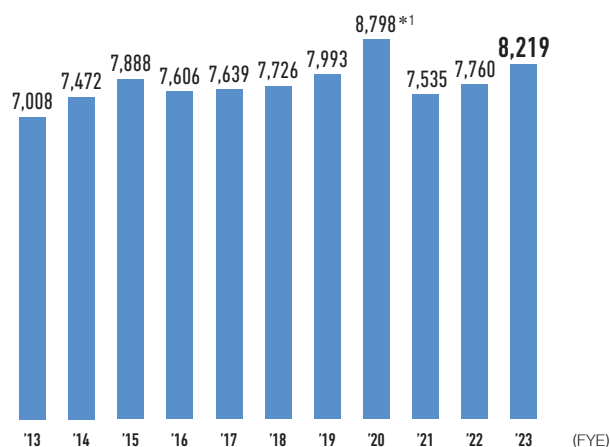
Human Capital

Consolidated Employee Numbers

At the end of the fiscal year ended March 2023, the consolidated number of employees was 8,219, up 459 from the previous fiscal year-end, as the Company actively augmented development resources, mainly in the Consumer area of the Entertainment Contents Business.

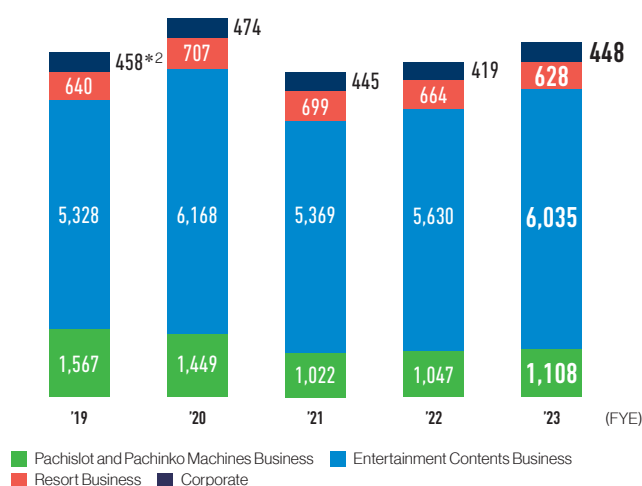
Consolidated Employee Numbers

People



Employee Numbers by Segment

People



*1 Total employees in the Entertainment Contents Business increased 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.

Intellectual Property

R&D Expenses and Content Production Expenses

We are actively investing in R&D and content production to reinforce and enhance its intellectual property—the source of the Group's competitiveness. In recent years, we have stepped up our focus on investing in the Consumer area to expand the product and service lineup over the medium term. In the fiscal year ended March 2023, R&D and content production expenses were ¥80.4 billion, up ¥11.5 billion year on year.

Reference

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

• Entertainment Contents Business (CS/full games)

Recorded as inventory assets or intangible fixed assets during development and as costs after launch. Amortized at 25% in the first month, following which the remaining amount is amortized on a straight-line basis over 23 months (total amortization period is 24 months).

• Entertainment Contents Business (CS/F2P)

Amortized at a fixed rate for 24 months or 36 months from the launch month.

• Entertainment Contents Business (AM)

Recorded as inventory assets during development and as costs after launch. Amortized on straight-line basis at 15% for each of the first two months of the launch and at 7% for each of the following 10 months (total amortization period is 12 months).

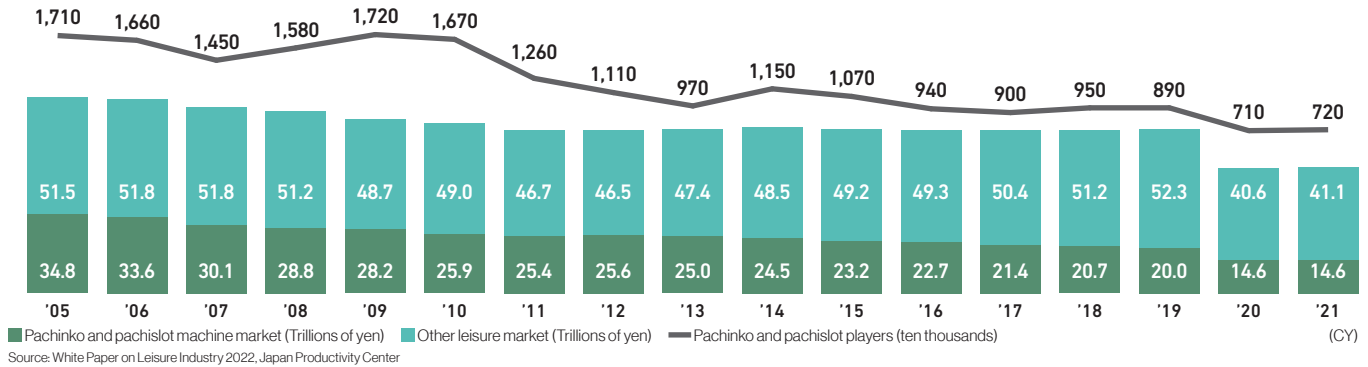
• Consumer area

Not recorded as assets but as costs on an accrual basis (out-sourced processing costs are recorded at the time of receipt and inspection)

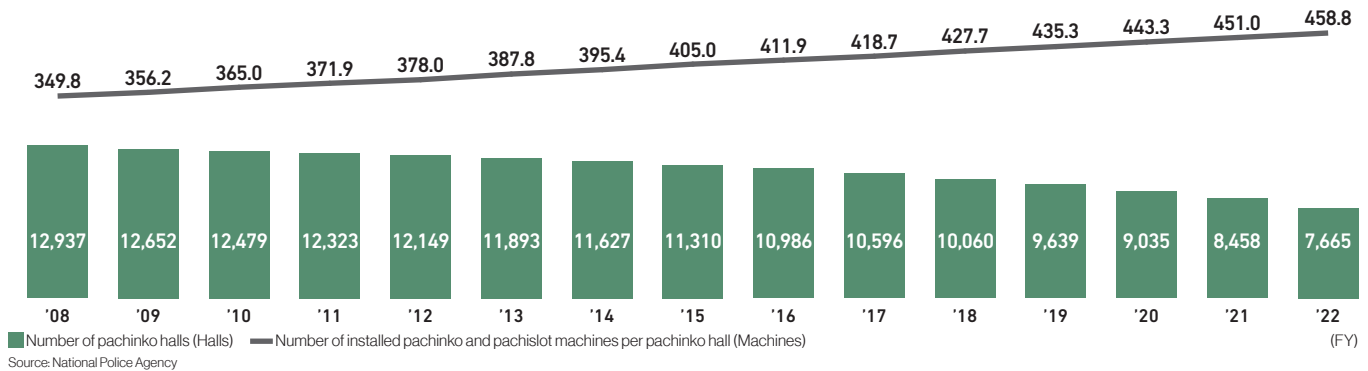
* Since CS/full games can be expected to be sold over a longer period of time compared to the past due to prolonged product lifecycles, the amortization rules have been revised to the above starting with new games released in the fiscal year ending March 2024.

Basic Data

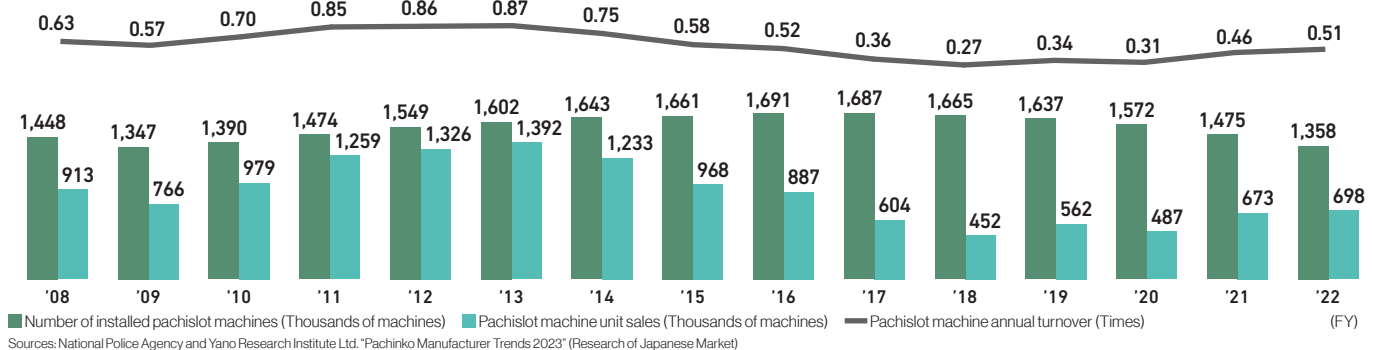
Market Sizes and Number of Pachinko and Pachislot Players



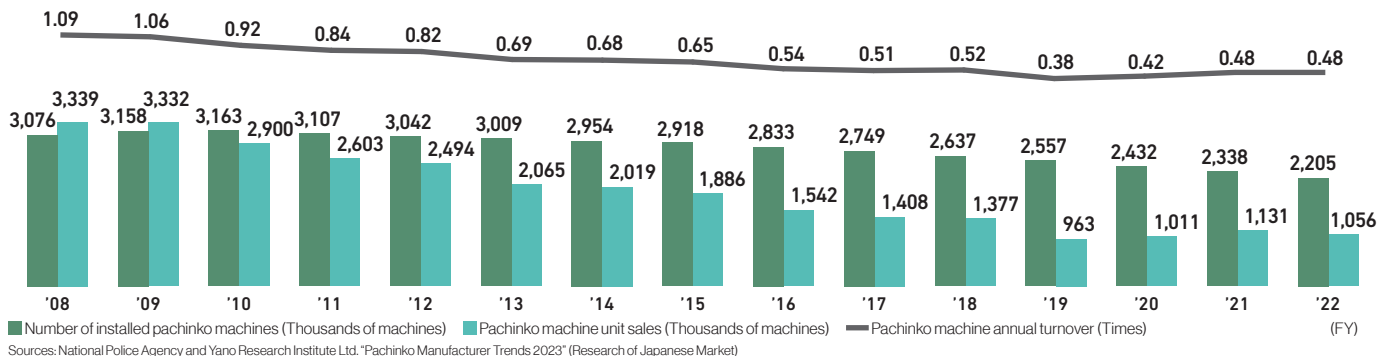
Numbers of Pachinko Halls and Installed Pachislot and Pachinko Machines per Pachinko Hall



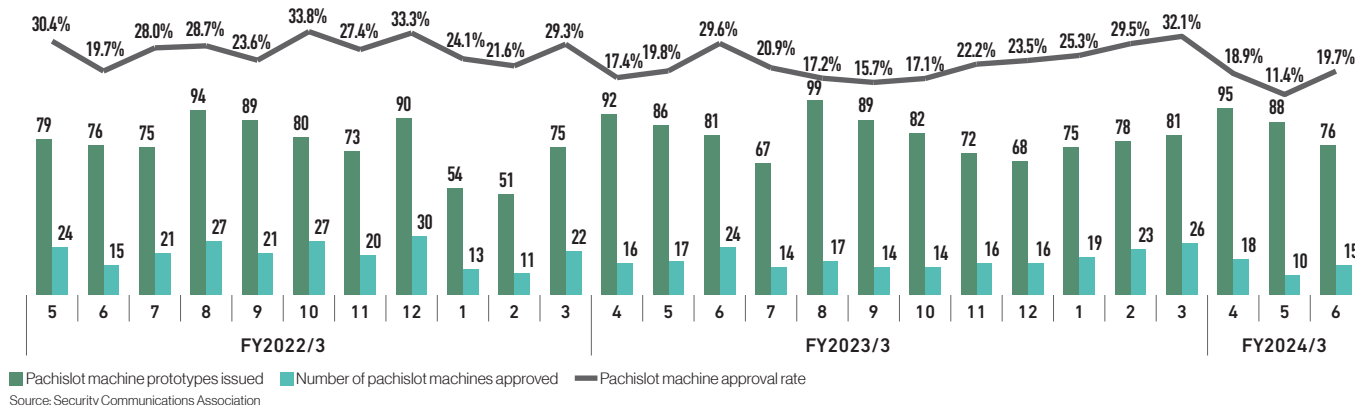
Pachislot Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



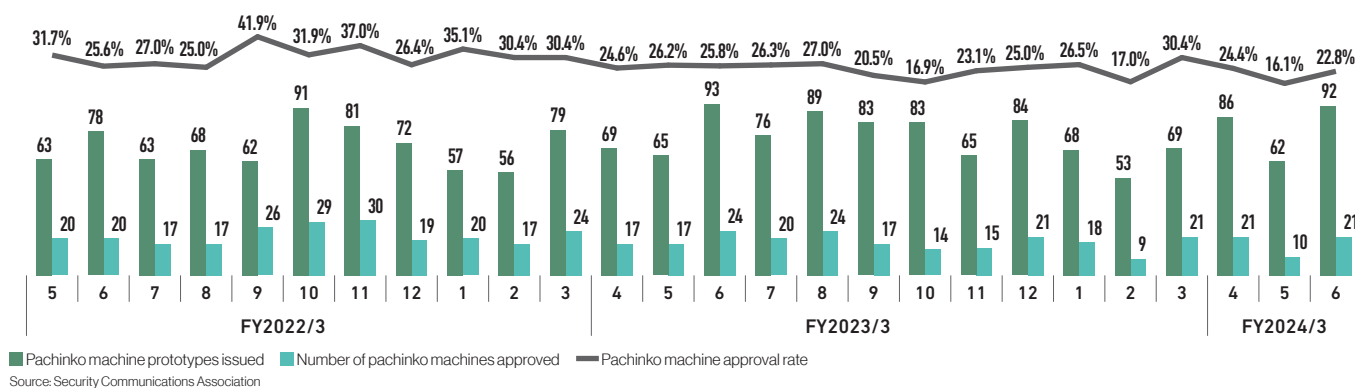
Pachinko Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



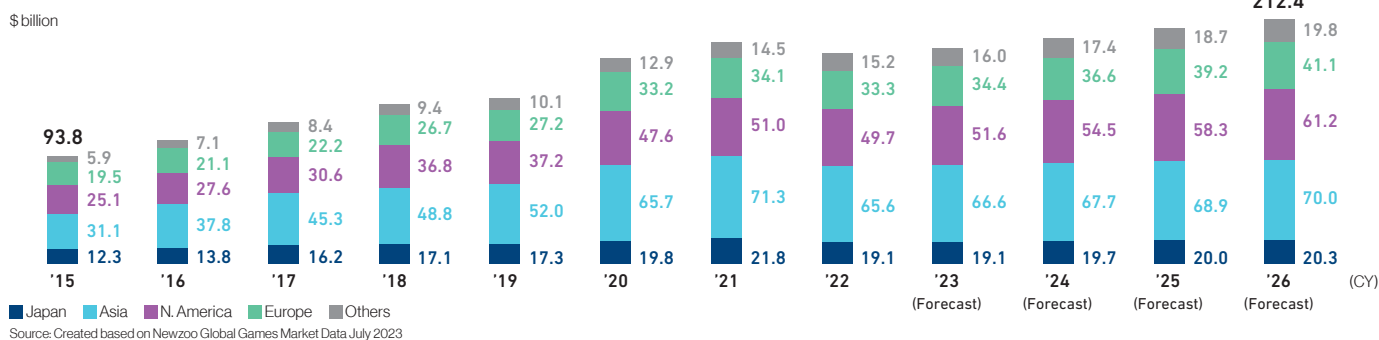
Results of Pachislot Machine Prototype Testing



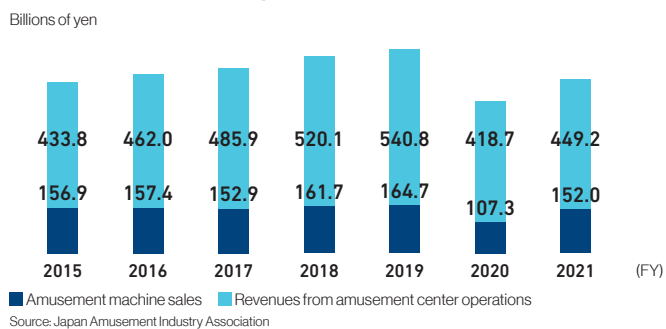
Results of Pachinko Machine Prototype Testing



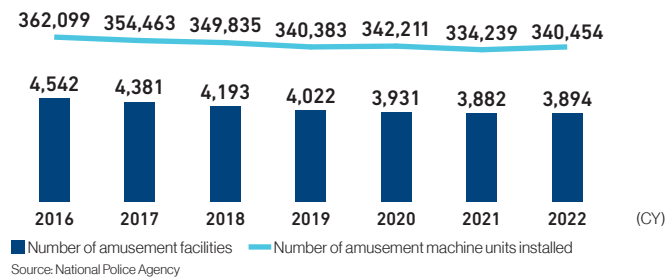
Video Game Contents Market Size



Domestic Amusement Machine Sales and Revenues from Amusement Facilities Operations



Number of Amusement Facilities and Amusement Machine Units Installed



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/en/ |
| Established | October 1, 2004 |
| Capital | ¥29,953 million (As of March 31, 2023) |
| Principal business | Management of SEGA SAMMY Group as the holding company |

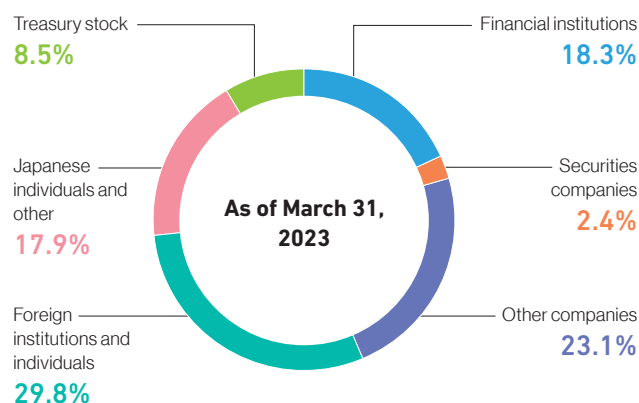
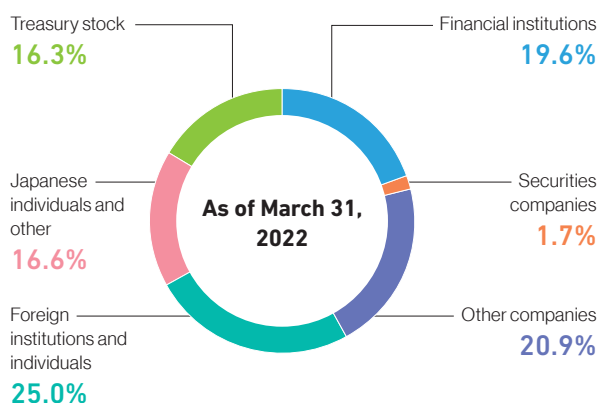
Stock Information (As of March 31, 2023)

| | |
|---------------------------------------|-------------|
| Number of shares authorized for issue | 800,000,000 |
| Total shares issued and outstanding | 241,229,476 |
| Number of shareholders | 60,659 |

Major Shareholders (As of March 31, 2023)

| Name of shareholder | Shares held | Shares ratio |
|--|-------------|--------------|
| HS Company | 36,008,000 | 14.92% |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 27,345,000 | 11.33% |
| SEGA SAMMY HOLDINGS INC. | 20,476,041 | 8.48% |
| FSC Co., Ltd. | 13,682,840 | 5.67% |
| Custody Bank of Japan, Ltd. (Trust account) | 13,173,200 | 5.46% |
| Hajime Satomi | 7,202,938 | 2.98% |
| STATE STREET BANK AND TRUST COMPANY 505001 | 5,684,392 | 2.35% |
| KOREA SECURITIES DEPOSITORY- SAMSUNG | 5,649,300 | 2.34% |
| Haruki Satomi | 3,905,461 | 1.61% |
| THE BANK OF NEW YORK MELLON 140044 | 2,888,091 | 1.19% |

Breakdown of Shareholders



Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2022 and 2023

| | Millions of yen | |
|--|-----------------|-----------------|
| | 2022 | 2023 |
| Assets | | |
| Current assets | | |
| Cash and deposits | ¥152,459 | ¥179,509 |
| Notes, accounts receivable—trade, and contract assets (Note 7 (1)) | 38,952 | 53,370 |
| Merchandise and finished goods | 9,336 | 18,503 |
| Work in process | 42,145 | 50,689 |
| Raw materials and supplies | 16,044 | 20,269 |
| Income taxes receivable | 11,814 | 15,620 |
| Other | 17,360 | 16,205 |
| Allowance for doubtful accounts | (323) | (304) |
| Total current assets | 287,789 | 353,862 |
| Noncurrent assets | | |
| Property, plant, and equipment | | |
| Buildings and structures | 76,578 | 77,630 |
| Accumulated depreciation | (47,823) | (49,664) |
| Buildings and structures, net | 28,755 | 27,966 |
| Machinery, equipment, and vehicles | 8,836 | 8,505 |
| Accumulated depreciation | (7,518) | (7,190) |
| Machinery, equipment, and vehicles, net | 1,318 | 1,314 |
| Amusement machines and facilities | 7,049 | 7,232 |
| Accumulated depreciation | (6,347) | (6,632) |
| Amusement machines and facilities, net | 701 | 599 |
| Land (Note 7 (4)) | 18,522 | 18,581 |
| Construction in progress | 657 | 534 |
| Other | 46,755 | 49,343 |
| Accumulated depreciation | (36,352) | (37,857) |
| Other, net | 10,403 | 11,485 |
| Total property, plant, and equipment | 60,358 | 60,482 |
| Intangible assets | | |
| Goodwill | 3,460 | 2,592 |
| Other | 9,722 | 10,654 |
| Total intangible assets | 13,183 | 13,247 |
| Investments and other assets | | |
| Investment securities (Note 7 (3)) | 40,699 | 39,538 |
| Long-term loans receivable | 428 | 247 |
| Lease and guarantee deposits | 7,164 | 6,924 |
| Net defined benefit assets | 2,984 | 5,362 |
| Deferred tax assets | 13,446 | 16,499 |
| Other | 9,826 | 5,785 |
| Allowance for doubtful accounts | (387) | (383) |
| Total investments and other assets | 74,161 | 73,973 |
| Total noncurrent assets | 147,703 | 147,703 |
| Total assets | ¥435,492 | ¥501,566 |

See accompanying notes.

| | Millions of yen | |
|---|-----------------|----------|
| | 2022 | 2023 |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable—trade | ¥ 24,455 | ¥ 30,556 |
| Short-term borrowings | 10,000 | 17,000 |
| Accrued expenses | 20,360 | 19,865 |
| Income taxes payable | 2,069 | 4,776 |
| Contract liabilities | 10,257 | 25,852 |
| Provision for bonuses | 8,383 | 9,689 |
| Provision for directors' bonuses | 1,189 | 1,187 |
| Provision for point card certificates | 115 | 187 |
| Asset retirement obligations | 199 | — |
| Other | 9,954 | 11,216 |
| Total current liabilities | 86,986 | 120,332 |
| Noncurrent liabilities | | |
| Bonds payable | 10,000 | 10,000 |
| Long-term borrowings | 32,000 | 25,000 |
| Lease obligations | 4,013 | 5,352 |
| Net defined benefit liability | 4,395 | 3,877 |
| Deferred tax liabilities | 469 | 754 |
| Asset retirement obligations | 2,560 | 2,607 |
| Provision for dismantling of fixed assets | 420 | 420 |
| Other | 2,009 | 1,874 |
| Total noncurrent liabilities | 55,869 | 49,886 |
| Total liabilities | 142,855 | 170,218 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 29,953 | 29,953 |
| Capital surplus | 117,689 | 72,213 |
| Retained earnings | 224,684 | 261,840 |
| Treasury stock | (77,886) | (37,251) |
| Total shareholders' equity | 294,440 | 326,755 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 2,270 | 2,626 |
| Deferred gains or losses on hedges | (33) | 382 |
| Revaluation reserve for land (Note 7 (4)) | (1,109) | (1,109) |
| Foreign currency translation adjustment | 41 | 3,730 |
| Remeasurements of defined benefit plans | (3,199) | (1,531) |
| Total accumulated other comprehensive income | (2,028) | 4,099 |
| Share acquisition rights | 176 | 468 |
| Non-controlling interests | 49 | 24 |
| Total net assets | 292,637 | 331,347 |
| Total liabilities and net assets | ¥435,492 | ¥501,566 |

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

| | Millions of yen | |
|---|-----------------|----------|
| | 2022 | 2023 |
| Net sales (Note 8 (1)) | ¥320,949 | ¥389,635 |
| Cost of sales (Notes 8 (2) and (3)) | 193,081 | 231,568 |
| Gross profit | 127,868 | 158,067 |
| Selling, general and administrative expenses | 95,825 | 111,278 |
| Operating income | 32,042 | 46,789 |
| Other income (expenses) | | |
| Interest income | 112 | 433 |
| Dividends income | 498 | 516 |
| Gain on investments in partnership | 3,052 | 1,929 |
| Foreign exchange gains | 1,337 | 1,354 |
| Interest expenses | (301) | (321) |
| Equity in losses of affiliates | (2,778) | (520) |
| Commission fee | (102) | (146) |
| Loss on investments in partnership | (479) | (563) |
| Loss on retirement of noncurrent assets | (469) | (285) |
| Gain on sales of noncurrent assets (Note 8 (4)) | 1,988 | 3 |
| Gain on sales of investment securities | 2,516 | — |
| Gain on sales of stocks of subsidiaries and affiliates | 698 | — |
| Loss on sales of noncurrent assets (Note 8 (5)) | (50) | (0) |
| Impairment loss (Note 8 (6)) | (430) | (446) |
| Loss on valuation of investment securities | 0 | (81) |
| Loss on COVID-19 | (113) | — |
| Loss on business restructuring (Note 8 (7)) | — | (1,783) |
| Other, net | 401 | 191 |
| Subtotal | 5,878 | 279 |
| Income (loss) before income taxes | 37,921 | 47,069 |
| Income taxes—current | 1,989 | 4,137 |
| Income taxes—deferred | (1,086) | (3,000) |
| Total income taxes | 903 | 1,136 |
| Profit | 37,018 | 45,932 |
| (Breakdown) | | |
| Profit attributable to owners of parent | 37,027 | 45,938 |
| Profit attributable to non-controlling interests | (8) | (6) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 334 | 345 |
| Deferred gains or losses on hedges | (14) | — |
| Foreign currency translation adjustment | 3,526 | 2,873 |
| Remeasurements of defined benefit plans, net of tax | (2,844) | 1,677 |
| Share of other comprehensive income of entities accounted for using equity method | 1,203 | 1,227 |
| Total other comprehensive income (Note 8 (8)) | 2,206 | 6,124 |
| Comprehensive income | 39,224 | 52,057 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 39,230 | 52,066 |
| Comprehensive income attributable to non-controlling interests | ¥ (5) | ¥ (9) |

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

Prior fiscal year (from April 1, 2021 to March 31, 2022)

Millions of yen

| | Shareholders' equity | | | | Total shareholders' equity |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | |
| Balances as of April 1, 2021 | ¥29,953 | ¥118,048 | ¥200,551 | ¥(53,561) | ¥294,991 |
| Cumulative effects of changes in accounting policies | | | (2,067) | | (2,067) |
| Restated balance | 29,953 | 118,048 | 198,484 | (53,561) | 292,924 |
| Changes in items during the period | | | | | |
| Dividends from surplus | | | (9,411) | | (9,411) |
| Profit attributable to owners of parent | | | 37,027 | | 37,027 |
| Effect of changes in accounting period of consolidated subsidiaries | | | | | — |
| Purchase of treasury stock | | | | (25,036) | (25,036) |
| Disposal of treasury stock | | (90) | | 711 | 621 |
| Cancellation of treasury stock | | | | | — |
| Change in scope of consolidation | | | (1,317) | | (1,317) |
| Change in scope of equity method | | (186) | (97) | | (284) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (82) | | | (82) |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | — | (358) | 26,200 | (24,325) | 1,515 |
| Balances as of March 31, 2022 | ¥29,953 | ¥117,689 | ¥224,684 | ¥(77,886) | ¥294,440 |

Millions of yen

| | Accumulated other comprehensive income | | | | | Total 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 | |
| Balances as of April 1, 2021 | ¥1,930 | ¥(725) | ¥(1,109) | ¥(3,867) | ¥ (459) | ¥(4,231) |
| Cumulative effects of changes in accounting policies | | | | | | — |
| Restated balance | 1,930 | (725) | (1,109) | (3,867) | (459) | (4,231) |
| Changes in 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 | | | | | | |
| Cancellation of treasury stock | | | | | | |
| Change in scope of consolidation | | | | | | |
| Change in scope of equity method | | | | | | |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | |
| Net changes in items other than shareholders' equity | 340 | 692 | | 3,909 | (2,739) | 2,203 |
| Total changes in items during the period | 340 | 692 | — | 3,909 | (2,739) | 2,203 |
| Balances as of March 31, 2022 | ¥2,270 | ¥ (33) | ¥(1,109) | ¥ 41 | ¥(3,199) | ¥(2,028) |

Millions of yen

| | Share acquisition rights | Non-controlling interests | Total net assets |
|---|--------------------------|---------------------------|------------------|
| | ¥ | ¥ | ¥ |
| Balances as of April 1, 2021 | — | 496 | ¥291,256 |
| Cumulative effects of changes in accounting policies | | | (2,067) |
| Restated balance | — | 496 | 289,189 |
| Changes in items during the period | | | |
| Dividends from surplus | | | (9,411) |
| Profit attributable to owners of parent | | | 37,027 |
| Effect of changes in accounting period of consolidated subsidiaries | | | — |
| Purchase of treasury stock | | | (25,036) |
| Disposal of treasury stock | | | 621 |
| Cancellation of treasury stock | | | — |
| Change in scope of consolidation | | | (1,317) |
| Change in scope of equity method | | | (284) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | (82) |
| Net changes in items other than shareholders' equity | 176 | (447) | 1,932 |
| Total changes in items during the period | 176 | (447) | 3,448 |
| Balances as of March 31, 2022 | ¥176 | ¥ 49 | ¥292,637 |

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Current fiscal year (from April 1, 2022 to March 31, 2023)

Millions of yen

| | Shareholders' equity | | | | Total shareholders' equity |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | |
| Balances as of April 1, 2022 | ¥29,953 | ¥117,689 | ¥224,684 | ¥(77,886) | ¥294,440 |
| Cumulative effects of changes in accounting policies | | | | | — |
| Restated balance | 29,953 | 117,689 | 224,684 | (77,886) | 294,440 |
| Changes in items during the period | | | | | |
| Dividends from surplus | | | (8,873) | | (8,873) |
| Profit attributable to owners of parent | | | 45,938 | | 45,938 |
| Effect of changes in accounting period of consolidated subsidiaries | | | 90 | | 90 |
| Purchase of treasury stock | | | | (4,987) | (4,987) |
| Disposal of treasury stock | | 31 | | 142 | 174 |
| Cancellation of treasury stock | | (45,480) | | 45,480 | — |
| Change in scope of consolidation | | | | | — |
| Change in scope of equity method | | | | | — |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (27) | | | (27) |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | — | (45,475) | 37,155 | 40,635 | 32,315 |
| Balances as of March 31, 2023 | ¥29,953 | ¥ 72,213 | ¥261,840 | ¥(37,251) | ¥326,755 |

Millions of yen

| | Accumulated other comprehensive income | | | | | Total 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 | |
| Balances as of April 1, 2022 | ¥2,270 | ¥ (33) | ¥(1,109) | ¥ 41 | ¥(3,199) | ¥(2,028) |
| Cumulative effects of changes in accounting policies | | | | | | — |
| Restated balance | 2,270 | (33) | (1,109) | 41 | (3,199) | (2,028) |
| Changes in 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 | | | | | | |
| Cancellation of treasury stock | | | | | | |
| Change in scope of consolidation | | | | | | |
| Change in scope of equity method | | | | | | |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | |
| Net changes in items other than shareholders' equity | 356 | 415 | | 3,688 | 1,667 | 6,128 |
| Total changes in items during the period | 356 | 415 | — | 3,688 | 1,667 | 6,128 |
| Balances as of March 31, 2023 | ¥2,626 | ¥382 | ¥(1,109) | ¥3,730 | ¥(1,531) | ¥ 4,099 |

Millions of yen

| | Share acquisition rights | Non-controlling interests | Total net assets |
|---|--------------------------|---------------------------|------------------|
| | | | |
| Balances as of April 1, 2022 | ¥176 | ¥ 49 | ¥292,637 |
| Cumulative effects of changes in accounting policies | | | — |
| Restated balance | 176 | 49 | 292,637 |
| Changes in items during the period | | | |
| Dividends from surplus | | | (8,873) |
| Profit attributable to owners of parent | | | 45,938 |
| Effect of changes in accounting period of consolidated subsidiaries | | | 90 |
| Purchase of treasury stock | | | (4,987) |
| Disposal of treasury stock | | | 174 |
| Cancellation of treasury stock | | | — |
| Change in scope of consolidation | | | — |
| Change in scope of equity method | | | — |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | (27) |
| Net changes in items other than shareholders' equity | 292 | (25) | 6,395 |
| Total changes in items during the period | 292 | (25) | 38,710 |
| Balances as of March 31, 2023 | ¥468 | ¥ 24 | ¥331,347 |

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

| | Millions of yen | |
|--|-----------------|----------|
| | 2022 | 2023 |
| Net cash provided by (used in) operating activities | | |
| Income (loss) before income taxes | ¥ 37,921 | ¥ 47,069 |
| Depreciation and amortization | 11,406 | 10,669 |
| Impairment loss | 430 | 446 |
| Loss (gain) on sales of noncurrent assets | (1,937) | (4) |
| Loss on retirement of noncurrent assets | 469 | 285 |
| Loss (gain) on sales of investment securities | (2,489) | — |
| Loss (gain) on valuation of investment securities | 0 | 81 |
| Loss (gain) on investments in partnership | (2,573) | (1,365) |
| Amortization of goodwill | 2,311 | 2,178 |
| Increase (decrease) in allowance for doubtful accounts | (25) | (41) |
| Increase (decrease) in provision for directors' bonuses | 437 | (15) |
| Increase (decrease) in net defined benefit liability | 96 | (170) |
| Increase (decrease) in provision for bonuses | (116) | 1,223 |
| Interest and dividends income | (610) | (950) |
| Interest expenses | 301 | 321 |
| Foreign exchange losses (gains) | (1,112) | 1,152 |
| Equity in (earnings) losses of affiliates | 2,778 | 520 |
| Decrease (increase) in notes and accounts receivable—trade | 338 | (13,493) |
| Decrease (increase) in inventories | (15,354) | (22,481) |
| Increase (decrease) in notes and accounts payable—trade | 6,495 | 5,908 |
| Increase (decrease) in contract liabilities | 10,201 | 15,545 |
| Increase (decrease) in guarantee deposits received | (1,589) | (76) |
| Other, net | (4,240) | 1,806 |
| Subtotal | 43,138 | 48,611 |
| Interest and dividends income received | 664 | 987 |
| Interest expenses paid | (300) | (291) |
| Extra retirement payments | (2,236) | — |
| Income taxes paid | (5,078) | (6,743) |
| Income taxes refund | 3,419 | 2,140 |
| Net cash provided by (used in) operating activities | ¥ 39,607 | ¥ 44,704 |

See accompanying notes.

Consolidated Statements of Cash Flows

| | Millions of yen | |
|---|-----------------|----------|
| | 2022 | 2023 |
| Net cash provided by (used in) investing activities | | |
| Payments into time deposits | ¥ (5,000) | ¥ — |
| Proceeds from withdrawal of time deposits | 5,000 | — |
| Purchase of short-term investment securities | (20,000) | — |
| Proceeds from redemption of securities | 20,717 | — |
| Purchase of trust beneficiary rights | (1,309) | — |
| Proceeds from sales of trust beneficiary rights | 1,167 | 382 |
| Purchase of property, plant, and equipment | (5,983) | (4,944) |
| Proceeds from sales of property, plant, and equipment | 2,141 | 7 |
| Purchase of intangible assets | (4,569) | (5,875) |
| Proceeds from sales of intangible assets | 0 | — |
| Purchase of investment securities | (196) | (669) |
| Proceeds from sales of investment securities | 2,565 | 1 |
| Payments for investment in partnerships | (821) | (1,226) |
| Proceeds from distribution of investment in partnerships | 2,596 | 3,510 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | — | (448) |
| Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation | — | 31 |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation | 212 | — |
| Purchase of shares of subsidiaries and affiliates | (4,903) | (155) |
| Payments of loans receivable | (769) | (1,907) |
| Collection of loans receivable | 2,381 | 2,586 |
| Reduction of investments in trusts | — | 1,200 |
| Payments for lease deposits | (238) | (26) |
| Collection of lease deposits | 514 | 767 |
| Other, net | (2,300) | 4,413 |
| Net cash provided by (used in) investing activities | (8,794) | (2,351) |
| Net cash provided by (used in) financing activities | | |
| Proceeds from long-term borrowings | — | 10,000 |
| Repayment of long-term borrowings | — | (10,191) |
| Purchase of treasury stock | (25,036) | (4,987) |
| Purchase of treasury stock of subsidiaries | (98) | — |
| Purchase of shares of subsidiaries not resulting in change in scope of consolidation | — | (50) |
| Cash dividends paid | (9,410) | (8,865) |
| Cash dividends paid to non-controlling interests | (93) | — |
| Other, net | (1,331) | (1,263) |
| Net cash provided by (used in) financing activities | (35,970) | (15,358) |
| Effect of exchange rate change on cash and cash equivalents | 3,029 | 162 |
| Net increase (decrease) in cash and cash equivalents | (2,128) | 27,156 |
| Cash and cash equivalents at start of period | 154,540 | 152,459 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | 47 | — |
| Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries | — | (107) |
| Cash and cash equivalents at end of period (Note 10 (1)) | ¥152,459 | ¥179,509 |

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

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 2022 and 2023. 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 of Japan. Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the classifications used in 2023. 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: 61

(2) Number of non-consolidated subsidiaries: 11

Non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amount of each of assets, net sales and net income corresponding to the percentage of equity interest held by the Company, and the combined amount of retained earnings corresponding to the percentage of equity interest held by the Company, do not have 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: —

(2) Number of affiliated companies accounted for under the equity method: 8

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

Some of the Company's non-consolidated subsidiaries and affiliates are not accounted for under the equity method because the combined amount of net income corresponding to the percentage of equity interest held by the Company, and the combined amount of retained earnings corresponding to the percentage of equity interest held by the Company do not have a significant effect on the consolidated financial statements even if they are excluded from the scope of the 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 the amortized cost method (the straight-line method)

2) Available-for-sale securities

Those other than securities without available fair market value:

Fair value method (The difference between acquisition cost and fair value is accounted for as the 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 value cannot be categorized and measured for each embedded derivative, the entire compound financial instrument is appraised by fair value. Unrealized gains or losses are reported as profit or loss for the current fiscal year.

Securities without available fair market value:

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: 2–12 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 (within five 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

To provide for use of points granted to customers, the estimated future usage amount as of the end of the current fiscal year is 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, 2023.

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 borrowings, 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) Accounting policy for recognition of significant revenues and expenses

Accounting policy for recognition of significant revenues is as follows. Compensation for individual performance obligations was received

within roughly two months after their fulfillment and did not include significant financial elements.

(i) Digital content

With regard to revenue from the granting of game distribution rights in the Entertainment Contents Business, the Group provides game content primarily to platform operators along with distribution rights, and the Group's performance obligation is to provide game content. The Group determines that the performance obligation is satisfied by the provision of game content to the platform operators, and if the contract is one in which usage fees are collected based upon the sales of the platform operator, the revenue is recognized when the sales of the platform operators are recorded, and in other cases, it is recognized when the game content is provided.

With regard to revenue from sales from game downloads in the Entertainment Contents Business, the Group's performance obligation is to provide game content to customers. The Group determines that the performance obligation is satisfied by the provision of the game content to the customer and recognizes the revenue when the game content is provided.

With regard to revenue from sales of F2P items in the Entertainment Contents Business, and Pachislot and Pachinko Machines Business, the Group's performance obligation is to provide the services specified for each item to the customer. Depending on the nature of the item, the Group determines that the performance obligation is satisfied when the item is used by the customer or over the course of the estimated usage period calculated based on past usage data for similar items, whereupon the revenue is recognized.

With regard to the annual update service for amusement machines in the Entertainment Contents Business, the Group's performance obligation is to consistently provide updates to content throughout the contract period. Therefore, the Group determines that the performance obligation is satisfied over the course of the contract period, with the revenue recognized over the period of the contract.

(ii) Sales of products and merchandise

Revenue from the sales of products and merchandise in the Entertainment Contents Business and Pachislot and Pachinko Machines Business is primarily from sales through manufacture or

wholesale. The Group's performance obligation is to deliver finished products or merchandise in accordance with a sales contract or the like with the customer. The Group determines that the performance obligation is satisfied when it delivers the finished products or merchandise and the customer assumes control over said finished products or merchandise, with the revenue recognized at the point of delivery. With regard to revenue from sales from consignment type sales of certain merchandise, if after the role (as the principal or agent) in the provision of goods or services is determined, the Group is involved in the sale of the merchandise as an agent, the revenue is recognized using the net amount after deducting the amount paid to the supplier from the amount received from the customer.

(iii) Resort facility sales

Revenues of resort facilities in the Resort Business is from the operation of hotels and golf courses, with the Group's performance obligation to provide accommodation, eating and drinking, and space to play on the golf course at each facility. The Group determines that the performance obligation is satisfied and the revenue is recognized upon the completion of the provision of the various services to the customers.

(8) 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.

(9) 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.

(10) Application of the group tax-sharing system

The Company applies the group tax-sharing system.

3 Significant Accounting Estimates

(1) Valuation for inventories, etc., in the Entertainment Contents Business

(i) Carrying amounts in the consolidated financial statements in the current fiscal year

| | Millions of yen | |
|---------------------------------|-----------------|---------|
| | 2022 | 2023 |
| Work in process | ¥39,098 | ¥47,043 |
| "Other" under intangible assets | 5,801 | 6,410 |

(ii) Calculation method of the carrying amount in the consolidated financial statements in the current fiscal year

Work in process and software, etc., amounts posted on account of production of game contents, etc., in the Entertainment Contents Business are stated at acquisition cost and are expensed or amortized systematically considering the forecasted sales volume and expected service period. However, if the future recoverable amount is less than the carrying amount of work in process and software, etc., the carrying amount is reduced to the recoverable amount and the resulting decrease in the carrying amount is recorded in the cost of sales for the current fiscal year.

Notes to Consolidated Financial Statements

(iii) Key assumptions used in the calculation of carrying amount in the consolidated financial statements in the current fiscal year

The future recoverable amount is estimated based on the forecasted sales for the following fiscal years.

(iv) Impact on the consolidated financial statements in the following fiscal year

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

(2) Valuation of raw materials in the Pachislot and Pachinko Machines Business

(i) Carrying amount in the consolidated financial statements in the current fiscal year

| | Millions of yen | |
|---------------|-----------------|---------|
| | 2022 | 2023 |
| Raw materials | ¥10,594 | ¥16,136 |

(ii) Calculation method of the carrying amount in the consolidated financial statements in the current fiscal year

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

(iii) Key assumptions used in the calculation of carrying amount in the consolidated financial statements in the current fiscal year

Raw material usage forecasts are estimated based on the projected volume of Pachinko and Pachislot machines sales for the following fiscal years.

(iv) Impact on the consolidated financial statements in the following fiscal year

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

(3) Valuation of shares of affiliates with regard to PARADISE SEGASAMMY Co., Ltd.

(i) Carrying amount in the consolidated financial statements in the current fiscal year

| | Millions of yen | |
|---------------------------------------|-----------------|---------|
| | 2022 | 2023 |
| Shares of subsidiaries and affiliates | ¥18,542 | ¥17,867 |

(ii) Calculation method of the carrying amount in the consolidated financial statements in the current fiscal year

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

PSS applies International Financial Reporting Standards (IFRS), and if there is any indication of impairment in its cash generating units, it performs an impairment test. For the cash generating units including goodwill, PSS performs an impairment test on an annual basis, in addition to when there is any indication of impairment. As a result of its impairment tests, in the event that the recoverable amount is less than its carrying amount the book value in the PSS financial statements is reduced to the recoverable amount is less than its carrying amount, this exerts an impact on the amount of shares of affiliates of the Company through equity method accounting.

PSS has posted ¥125,811 million in noncurrent assets, including goodwill of ¥7,771 million.

(iii) Key assumptions used in the calculation of carrying amount in the consolidated financial statements in the current fiscal year

PSS performs an impairment test on its cash generating units including goodwill, and its cash generating units that show any indication of impairment, and makes calculations for recoverable amount based on value in use or on fair value less cost of disposal.

Key assumptions that utilize measurements of value in use are made based on the business plans, etc., which are fundamental to calculations of future cash flows, as well as growth rates and discount rates. Business plans, etc., have been made based on the number of casino visitors and the drop amount (the amount of chips purchased at tables), premised on demand recovering gradually through the following fiscal year. When establishing growth rates for after the target period of the business plans, etc., figures that reflect consideration of business growth are used. In addition, the discount rate is calculated using weighted average cost of capital as a basis and by reflecting the risk associated with businesses, which is determined based on external and internal information.

Fair value less cost of disposal mainly uses the real estate appraisal value (under depreciated replacement cost approach) of external experts who take into consideration the repurchase cost of the relevant asset and related depreciation factors.

(iv) Impact on the consolidated financial statements in the following fiscal year

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

4 Changes in Accounting Policies

(1) Application of Implementation Guidance on Accounting Standard for Fair Value Measurement

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Guidance") since the start of the current consolidated fiscal year. The new accounting policies stipulated by the Fair Value Measurement Guidance are applied to current and future accounts in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. This has had no impact on the consolidated financial statements for the current fiscal year. The notes on investment trusts in the fair value information by level within the fair value hierarchy in the notes on financial instruments are not shown for the previous

consolidated fiscal year, in accordance with Paragraph 27-3 of the Fair Value Measurement Guidance.

(2) Application of "Leases" (U.S. GAAP Topic 842)

Subsidiaries that apply U.S. GAAP have applied "Leases" (U.S. GAAP Topic 842) since the start of the current consolidated fiscal year. This standard calls for the lessee to record all leases as assets and liabilities on the balance sheet, in principle. The application of U.S. GAAP Topic 842 is in accordance with the transitional treatment, and the Company employs the method of recognizing the cumulative effect of the change in accounting policies on the starting date of its application. This has had only a minor impact on the consolidated financial statements for the current fiscal year.

5 Unapplied New Accounting Standards

The Company and its domestic consolidated subsidiaries

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, October 28, 2022)
- Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

These standards cover handling of categories for recording income taxes on other comprehensive income and tax effects related to sale of stock in subsidiaries and other instruments when applying group corporate income taxation.

(2) Scheduled date of application

The guidance will apply from the beginning of the fiscal year ending March 31, 2025.

(3) Effects of application of the accounting standard

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

- Practical Solution on the Accounting for and Disclosure of the Issuance and Holding of Electronically Recorded Transferable Rights that Must be Indicated on Securities, etc. (ASBJ Practical Solution No. 43, August 26, 2022)

(1) Overview

This standard sets out accounting and disclosure of issuance or holding by a joint stock company of electronically recorded transferable rights that must be indicated on securities, etc., as described in Article 1, paragraph 4, item 17 of the Cabinet Office Order on Financial Instruments Business, etc. (Cabinet Office Order No. 52 of 2007).

(2) Scheduled date of application

The accounting standard will apply from the beginning of the fiscal year ending March 31, 2024.

(3) Effects of application of the accounting standard

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

6 Changes in Methods of Presentation

(1) Consolidated Balance Sheet

"Contract liabilities," which had been included in "Other" under current liabilities in the previous consolidated fiscal year, are separately presented beginning with this consolidated fiscal year, since they account for more than 5% of total liabilities and net assets. The consolidated financial statements for the previous consolidated fiscal year have been restated to reflect this change in presentation methods. As a result, ¥20,211 million presented as "Other" under current liabilities on the Consolidated Balance Sheet for the previous consolidated fiscal year has been restated as ¥10,257 million of "Contract liabilities" and ¥9,954 million of "Other."

(2) Consolidated Statement of Cash Flows

"Increase (decrease) in contract liabilities," which had been included in "Other, net" under cash flows from operating activities in the previous consolidated fiscal year, is separately presented beginning with this consolidated fiscal year, since it has increased in importance. The consolidated financial statements for the previous consolidated fiscal year have been restated to reflect this change in presentation methods. As a result, ¥5,960 million presented as "Other, net" under cash flows from operating activities on the Consolidated Statement of Cash Flows for the previous consolidated fiscal year has been restated as ¥10,201 million of "Increase (decrease) in contract liabilities" and ¥(4,240 million) of "Other, net."

7 Notes to Consolidated Balance Sheets

(1) Receivables from contracts with customers and contract assets

The amount of receivables from contracts with customers and the amount of contract assets, included in "Notes, accounts receivable—trade, and contract assets" on the consolidated balance sheets, are provided in "Note 22 Revenue recognition 3. (1) Receivables from contracts with customers; the balances of contract assets and contract liabilities" of the notes to consolidated financial statements.

(2) Assets pledged as collateral

Assets pledged as collateral are as follows:

| | | Millions of yen | |
|---------------------------------------|--------|-----------------|-----------------------|
| | | 2022 | 2023 |
| Shares of subsidiaries and affiliates | Note 1 | ¥18,542 | Note 2 ¥17,867 |
| Total | | 18,542 | 17,867 |

Notes: 1. For a loan of ¥70,107 million (KRW725,000 million) from financial institutions to the equity method affiliate PARADISE SEGASAMMY Co., Ltd. at the end of the previous fiscal year, the shares of this company are pledged as collateral.

2. For a loan of ¥73,007 million (KRW725,000 million) from financial institutions to the equity method affiliate PARADISE SEGASAMMY Co., Ltd. at the end of the current fiscal year, the shares of this company are pledged as collateral.

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

| | | Millions of yen | |
|---|--|-----------------|----------------|
| | | 2022 | 2023 |
| Investment securities (Shares) | | ¥20,866 | ¥19,432 |
| Investment securities (Capital Contributions) | | 978 | 824 |

(4) Revaluation reserve for land

Consolidated subsidiary SEGA CORPORATION has revalued land for business, pursuant to the Act on 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 CORPORATION has recorded an item for the revaluation reserve for land under net assets.

Revaluation method

SEGA CORPORATION 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

(5) Overdraft account and commitment line contract

The Company and its consolidated subsidiaries entered into overdraft account contracts and commitment line contracts with banks for the purpose of efficient procurement of operating capital.

The balance of unexecuted borrowings based on these contracts are as follows.

| | Millions of yen | |
|---|-----------------|----------|
| | 2022 | 2023 |
| Total amount of limit of overdraft account and commitment line contract | ¥239,068 | ¥294,654 |
| Balance of borrowings | — | — |
| Balance of unrealized borrowings | 239,068 | 294,654 |

8 Notes to Consolidated Statements of Income and Comprehensive Income

(1) Revenue from contracts with customers

Net sales combine revenue from contracts with customers and revenue from other sources. The amount of revenue from contracts with customers is provided in "Note 22 Revenue recognition 1. Disaggregation of revenue from contracts with customers" of the consolidated financial statements.

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

| | Millions of yen | |
|---------------|-----------------|--------|
| | 2022 | 2023 |
| Cost of sales | ¥6,636 | ¥9,871 |

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

| | Millions of yen | |
|--|-----------------|---------|
| | 2022 | 2023 |
| | ¥47,127 | ¥51,410 |

(4) Gain on sales of noncurrent assets

| | Millions of yen | |
|--------------------------------------|-----------------|------|
| | 2022 | 2023 |
| Machinery, equipment, and vehicles | ¥ 2 | ¥3 |
| Other property, plant, and equipment | 1,985 | 0 |
| Total | 1,988 | 3 |

(5) Loss on sales of noncurrent assets

| | Millions of yen | |
|--------------------------------------|-----------------|------|
| | 2022 | 2023 |
| Buildings and structures | ¥14 | ¥— |
| Machinery, equipment, and vehicles | 0 | — |
| Amusement machines and facilities | 33 | 0 |
| Other property, plant, and equipment | 2 | 0 |
| Total | 50 | 0 |

Notes to Consolidated Financial Statements

(6) Impairment loss

Prior fiscal year (From April 1, 2021 to March 31, 2022)

| Use | Location | Type | Millions of yen |
|---------------------|---|--------------------------------------|-----------------|
| | | | Amount |
| Assets for business | Shinagawa-ku, Tokyo and 2 other locations | Buildings and structures | ¥ 11 |
| | | Amusement machines and facilities | 11 |
| | | Other property, plant, and equipment | 320 |
| | | Other intangible assets | 86 |
| | | Total | 430 |

Based on business segments, assets or asset groups whose cash flows can be estimated separately are grouped independently. Of these, the book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows arising from operating activities are

reduced to their recoverable values. The amount of this reduction is recorded as an impairment loss under other expenses.

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

Current fiscal year (From April 1, 2022 to March 31, 2023)

| Use | Location | Type | Millions of yen |
|---------------------|---|--------------------------------------|-----------------|
| | | | Amount |
| Assets for business | State of Nevada in the U.S. and 2 other locations | Buildings and structures | ¥141 |
| | | Amusement machines and facilities | 2 |
| | | Other property, plant, and equipment | 297 |
| | | Other intangible assets | 5 |
| | | Total | 446 |

Based on business segments, assets or asset groups whose cash flows can be estimated separately are grouped independently. Of these, the book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows arising from operating activities are

reduced to their recoverable values. The amount of this reduction is recorded as an impairment loss under other expenses.

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

(7) Loss on business restructuring

This loss is primarily related to the game contents for which development was suspended in connection to the restructuring of the European business.

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

Millions of yen

| | 2022 | 2023 |
|---|---------|--------|
| Valuation difference on available-for-sale securities | | |
| The amount arising during the period | ¥ 620 | ¥ 433 |
| Reclassification adjustments | 26 | — |
| Before adjustments to tax effects | 647 | 433 |
| The amount of tax effects | (312) | (87) |
| Valuation difference on available-for-sale securities | 334 | 345 |
| Deferred gains or losses on hedges | | |
| The amount arising during the period | 6 | — |
| Reclassification adjustments | (28) | — |
| Before adjustments to tax effects | (22) | — |
| The amount of tax effects | 7 | — |
| Deferred gains or losses on hedges | (14) | — |
| Foreign currency translation adjustment | | |
| The amount arising during the period | 3,524 | 2,873 |
| Reclassification adjustments | 2 | — |
| Before adjustments to tax effects | 3,526 | 2,873 |
| The amount of tax effects | — | — |
| Foreign currency translation adjustment | 3,526 | 2,873 |
| Remeasurements of defined benefit plans, net of tax | | |
| The amount arising during the period | (2,920) | 1,760 |
| Reclassification adjustments | 165 | (34) |
| Before adjustments to tax effects | (2,754) | 1,726 |
| The amount of tax effects | (89) | (49) |
| Remeasurements of defined benefit plans, net of tax | (2,844) | 1,677 |
| Share of other comprehensive income of entities accounted for using equity method | | |
| The amount arising during the period | 1,203 | 1,277 |
| Reclassification adjustments | — | — |
| Share of other comprehensive income of entities accounted for using equity method | 1,203 | 1,227 |
| Total other comprehensive income | ¥2,206 | ¥6,124 |

9 Notes to Consolidated Statements of Changes in Net Assets

Prior fiscal year (From April 1, 2021 to March 31, 2022)

1. Number of outstanding common stock

| Type of stock | Shares | | | |
|---------------|---------------------|----------|----------|----------------------|
| | As of April 1, 2021 | Increase | Decrease | As of March 31, 2022 |
| Common stock | 266,229,476 | — | — | 266,229,476 |

2. Number of outstanding treasury stock

| Class of shares | Shares | | | |
|-----------------|---------------------|------------|----------|----------------------|
| | As of April 1, 2021 | Increase | Decrease | As of March 31, 2022 |
| Common stock | 31,142,581 | 12,578,815 | 413,466 | 43,307,930 |

(Outline of causes of change)

| | | | |
|---|-------------------|--|----------------|
| Increase | | Decrease | |
| Increase due to market purchases pursuant to Board of Directors resolutions: | 12,560,300 shares | Decrease due to sales of odd-lot stock: | 166 shares |
| Increase due to purchase of odd-lot stock: | 7,215 shares | Decrease due to stock compensation with restriction on transfer: | 413,300 shares |
| Increase due to free acquisition upon retirement of individuals subject to stock compensation with restriction on transfer: | 11,300 shares | | |

3. Subscription rights to shares

| Company name | Breakdown | Type of stock | Number of stocks (Shares) | | | | Balance at March 31, 2022 Millions of yen |
|--------------|--|---------------|---------------------------|----------|----------|----------------------|--|
| | | | As of April 1, 2021 | Increase | Decrease | As of March 31, 2022 | |
| The Company | Subscription rights to shares as stock options | — | — | — | — | — | ¥176 |
| Total | | | — | — | — | — | 176 |

4. Dividends

(1) Dividends

| Resolution | Class of shares | Total dividend (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|--|-----------------|-------------------------------------|-----------------------------|--------------------|------------------|
| Board of Directors' Meeting held on May 13, 2021 | Common stock | ¥4,701 | ¥20 | March 31, 2021 | June 4, 2021 |
| Board of Directors' Meeting held on November 8, 2021 | Common stock | 4,709 | 20 | September 30, 2021 | December 1, 2021 |

(2) Of the dividends in which the record date is in the fiscal year ended March 31, 2022 but the effective date is in the following fiscal year

| Resolution | Class of shares | Resource of dividend | Total dividend (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|--|-----------------|----------------------|-------------------------------------|-----------------------------|----------------|----------------|
| Board of Directors' Meeting held on May 13, 2022 | Common stock | Retained earnings | ¥4,458 | ¥20 | March 31, 2022 | June 2, 2022 |

Current fiscal year (From April 1, 2022 to March 31, 2023)

1. Number of outstanding common stock

| Type of stock | Shares | | | |
|---------------|---------------------|----------|------------|----------------------|
| | As of April 1, 2022 | Increase | Decrease | As of March 31, 2023 |
| Common stock | 266,229,476 | — | 25,000,000 | 241,229,476 |

(Outline of causes of change)

The causes of the decrease are as follows:

Decrease due to cancellation of treasury stock: 25,000,000 shares

2. Number of outstanding treasury stock

| Class of shares | Shares | | | |
|-----------------|---------------------|-----------|------------|----------------------|
| | As of April 1, 2022 | Increase | Decrease | As of March 31, 2023 |
| Common stock | 43,307,930 | 2,246,395 | 25,078,284 | 20,476,041 |

(Outline of causes of change)

Increase

Increase due to market purchases pursuant to

Board of Directors resolutions: 2,240,700 shares

Increase due to purchase of odd-lot stock: 5,695 shares

Decrease

Decrease due to sales of odd-lot stock: 84 shares

Decrease due to stock compensation with restriction on transfer:

78,200 shares

Decrease due to cancellation of treasury stock 25,000,000 shares

3. Subscription rights to shares

| Company name | Breakdown | Type of stock | Number of stocks (Shares) | | | Balance at March 31, 2023 Millions of yen |
|--------------|--|---------------|---------------------------|----------|----------|---|
| | | | As of April 1, 2022 | Increase | Decrease | |
| The Company | Subscription rights to shares as stock options | — | — | — | — | ¥468 |
| Total | | | — | — | — | 468 |

4. Dividends

(1) Dividends

| Resolution | Class of shares | Total dividend (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|-----------------|-------------------------------------|-----------------------------|--------------------|------------------|
| Board of Directors' Meeting held on May 13, 2022 | Common stock | ¥4,458 | ¥20 | March 31, 2022 | June 2, 2022 |
| Board of Directors' Meeting held on October 31, 2022 | Common stock | 4,415 | 20 | September 30, 2022 | December 1, 2022 |

(2) Of the dividends in which the record date is in the fiscal year ended March 31, 2022 but the effective date is in the following fiscal year

| Resolution | Class of shares | Resource of dividend | Total dividend (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|-----------------|----------------------|-------------------------------------|-----------------------------|----------------|----------------|
| Board of Directors' Meeting held on May 12, 2023 | Common stock | Retained earnings | ¥8,609 | ¥39 | March 31, 2023 | June 2, 2023 |

10 Notes to Consolidated Statements of Cash Flows**(1) Reconciliation of cash and cash equivalents at end of year and the amount recorded on the consolidated balance sheets**

| | Millions of yen | |
|---------------------------|-----------------|-----------------|
| | 2022 | 2023 |
| Cash and deposits | ¥152,459 | ¥179,509 |
| Cash and cash equivalents | 152,459 | 179,509 |

11 Information for Certain Leases**1. Finance leases that do not transfer ownership prior to the initial year of application of the Accounting Standard for Lease Transactions**

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment loss and net book value for the years ended March 31, 2023 and 2022, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Prior fiscal year (As of March 31, 2022)

| | 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 (As of March 31, 2023)

| | 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, 2022 and 2023

| | Millions of yen | |
|---------------------|-----------------|-------------|
| | 2022 | 2023 |
| Due within one year | ¥151 | ¥151 |
| Due after one year | 164 | 12 |
| Total | 315 | 164 |

Accumulated impairment loss on leased assets as of March 31, 2021 and 2022

| | Millions of yen | |
|--|-----------------|-------------|
| | 2022 | 2023 |
| Accumulated impairment loss on leased assets | ¥233 | ¥120 |

(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, 2022 and 2023, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

| | Millions of yen | |
|--|-----------------|-------------|
| | 2022 | 2023 |
| Lease payments | ¥151 | ¥151 |
| Reversal of allowance for impairment loss on leased assets | 115 | 113 |
| Depreciation | 124 | 124 |
| Interest expenses | 9 | 5 |

(4) Method of calculating depreciation equivalent

The straight-line method is applied under the assumptions that the useful life equals the lease period and the residual value is 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.

2. Finance lease transactions

(1) Details of lease assets

Leased assets primarily consist of offices and other related facilities ("machinery, equipment, and vehicles"; "other property, plant, and equipment"; and "other intangible assets").

(2) The methods of depreciation for lease assets

- Leased assets in finance leases that transfer ownership: Depreciated using the same method applied to property, plant, and equipment owned by the Company.
- Leased assets in finance leases that do not transfer ownership: Depreciated using the straight-line method based on the assumption that useful life equals the lease period, with a residual value of zero.

3. Lease transactions under IFRS

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

Leased assets (right-of-use assets) primarily consists 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.

4. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2022 and 2023 are as follows:

| | Millions of yen | |
|---------------------|-----------------|----------------|
| | 2022 | 2023 |
| Due within one year | ¥ 4,316 | ¥ 3,992 |
| Due after one year | 11,670 | 6,468 |
| Total | 15,987 | 10,460 |

Notes: 1. Major factors for the increase or decrease in operating lease transactions includes the payment of lease payables for offices leased for the Group's headquarters and the extension of lease periods (upon contract renewal) for leased offices in certain headquarters.
2. Subsidiaries that apply U.S. GAAP have applied "Leases" (U.S. GAAP Topic 842) since the start of the current consolidated fiscal year. As a result, the subsidiary's lease obligations will be included in the consolidated balance sheet. Therefore, it is not included in future lease payments for the current consolidated fiscal year.

12 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group has signed an agreement concerning commitment lines with financial institutions to secure medium- to long-term funds liquidity with the Company as a holding company. This is intended to serve as a safety net for the entire Group. In addition, the Group raises necessary funds for each business based on the financial plan through bank borrowings or bond issues, while operating a Cash Management System for the purpose of making efficient use of Group funds. Most funds are invested primarily in low-risk and high-liquidity financial assets (some are invested in compound financial instruments) such as bonds, to further efficient funds management. Derivatives are not used for speculative purposes, but mainly used to manage exposure to financial risks as described below.

(2) Details of financial instruments and their risks

Notes and accounts receivable trade, which are operating receivables, are exposed to customer credit risks. Additionally, operating receivables denominated in foreign currencies are exposed to exchange rate fluctuation risks. Securities and investment securities are composed mainly of bonds and stocks related to business alliances with business partners. The latter are exposed to market price fluctuation risk. Of notes and accounts payable—trade (which are operating payables) are denominated in foreign currencies and are exposed to exchange rate fluctuation risks. With respect to a portion thereof, the Group hedges risks using forward exchange contracts. Borrowings and bonds are primarily sought to procure funds necessary for operating capital and capital expenditures. All of these are procured at fixed interest rates.

Derivative transactions are forward exchange contracts to hedge exchange rate fluctuation risk associated with operating payables denominated in foreign currencies, and interest rate swap transactions to hedge interest rate fluctuation risk associated with borrowings of consolidated subsidiaries and affiliates accounted for by the equity method.

Additionally, further information on hedge accounting (including hedging instruments and hedged items, hedge policy, and evaluation of hedge effectiveness) is provided in the aforementioned “(Significant matters forming the basis for preparing consolidated financial statements) 4. Accounting Policies (6) Accounting method for significant hedge”.

(3) Risk management system for financial instruments

1) Management of credit risk (risk related to contractual nonperformance by business partners)

For operating receivables, (in accordance with the credit management and other rules of each company that serve as the responsible

department) regularly monitors the status of major business partners, managing due dates, and balances for each business partner while working to detect in advance to mitigate any concerns about collection due to deteriorating financial positions and other factors.

As major debentures generally have high ratings, the credit risk is minimal. In principle, the Group enters into derivative transactions only with its financial institutions.

The maximum amount of credit risk as of the end of the current fiscal year is represented as the amounts recorded in the consolidated balance sheets for financial assets exposed to credit risks.

2) Management of market risk (risk of fluctuations in foreign exchange or interest rates)

For certain borrowings with variable interest rates for consolidated subsidiaries and affiliates accounted for by the equity method, the Group uses interest rate swap transactions, etc., to control the risk of fluctuating interest rates on loans.

Fair value and the financial condition of issuers (business partners) of securities and investment securities are periodically ascertained and reported to the Board of Directors meetings of each company. The holding status of principal stocks held are reviewed on an ongoing basis, in consideration of the relationship with business partners. In regards to certain compound financial instruments, etc., the Group periodically ascertains their fair value and reviews the holding status on an ongoing basis.

Derivatives transactions are executed and managed mainly by the financial department or the accounting department upon obtaining internal approval in compliance with the derivative transactions management and other rules of each company. Furthermore, reports on the status of the derivative transactions is presented to the Board of Directors at each company as appropriate.

3) Management of liquidity risk related to fund procurement (risk of inability to make payments on due date)

Operating payables and borrowings are exposed to liquidity risk. At the Group, liquidity risk is managed by having each company set an adequate fund balance and update its financial plan monthly to maintain a fund balance exceeding the predetermined balance at each company and by having the Company confirm the cash management of each company.

(4) Supplementary remarks on the fair value, etc., of financial instruments

Since calculations of the fair value of financial instruments incorporate factors that vary, the fair value may vary depending on the assumptions made. Additionally, contract amounts concerning derivative transactions presented in the “(Derivatives)” section do not represent the market risk of the derivative transactions.

2. Matters related to market values, etc., of financial instruments

Consolidated balance sheet amounts, fair values, and their differences are as follows:

Prior fiscal year (As of March 31, 2022)

| | Millions of yen | | |
|---|-----------------------------------|------------|--------------------------|
| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
| (1) Notes and accounts receivable—trade | ¥34,958 | ¥34,958 | ¥ — |
| (2) Short-term investment securities and investment securities: | | | |
| 1) Held-to-maturity debt securities | 106 | 106 | 0 |
| 2) Available-for-sale securities | 2,936 | 2,936 | — |
| 3) Stocks of affiliates | 813 | 690 | (122) |
| Total assets | 38,815 | 38,692 | (122) |
| (1) Notes and accounts payable—trade | 24,455 | 24,455 | — |
| (2) Short-term borrowings | 10,000 | 10,000 | — |
| (3) Long-term borrowings | 32,000 | 31,955 | 44 |
| (4) Bonds payable | 10,000 | 9,929 | 70 |
| Total liabilities | 76,455 | 76,341 | 114 |
| Derivative transactions | | | |
| 1) Derivative transactions to which hedge accounting is not applied | — | — | — |
| 2) Derivative transactions to which hedge accounting is applied | (33) | (33) | — |
| Total derivative transactions | (33) | (33) | — |

Notes: 1. Notes are omitted for cash and deposits because they are settled over short timespans and their fair values approximate their book values.

2. Notes concerning securities are as described in the "Note 13 Investment Securities." Notes concerning derivatives are as described in the "Note 14 Derivative Transactions."

3. Securities without available fair market value

| Category | Millions of yen |
|---|-----------------|
| | 2022 |
| Investments in unlisted stocks, etc. | ¥ 3,849 |
| Investments in investment limited partnerships, etc. | 11,962 |
| Stocks of non-consolidated subsidiaries | 809 |
| Stocks of affiliates | 19,243 |
| Investments in capital of subsidiaries and affiliates | 978 |

The above items are not included in "(2) Short-term investment securities and investment securities," since no market price exists, future cash flows cannot be estimated, and determining their fair values is deemed extremely difficult.

4. Statement of investments in partnerships and similar business organizations for which amounts corresponding to equity are recorded in net amounts on the Consolidated Balance Sheet is omitted. The amount of such investments recorded on the Consolidated Balance Sheet is ¥12,940 million.

Notes to Consolidated Financial Statements

Current fiscal year (As of March 31, 2023)

| | Millions of yen | | |
|---|-----------------------------------|------------|--------------------------|
| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
| (1) Notes and accounts receivable—trade | ¥52,673 | ¥52,673 | ¥ — |
| (2) Short-term investment securities and investment securities: | | | |
| 1) Held-to-maturity debt securities | 104 | 104 | (0) |
| 2) Available-for-sale securities | 4,654 | 4,654 | — |
| 3) Stocks of affiliates | — | — | — |
| Total assets | 57,432 | 57,432 | (0) |
| (1) Notes and accounts payable—trade | 30,556 | 30,556 | — |
| (2) Short-term borrowings | 17,000 | 17,000 | — |
| (3) Long-term borrowings | 25,000 | 24,915 | 84 |
| (4) Bonds payable | 10,000 | 9,814 | 185 |
| Total liabilities | 82,556 | 82,287 | 269 |
| Derivative transactions | | | |
| 1) Derivative transactions to which hedge accounting is not applied | — | — | — |
| 2) Derivative transactions to which hedge accounting is applied | 382 | 382 | — |
| Total derivative transactions | 382 | 382 | — |

Notes: 1. Notes are omitted for cash and deposits because they are settled over short timespans and their fair values approximate their book values.

2. Notes concerning securities are as described in the "Note 13 Investment Securities." Notes concerning derivatives are as described in the "Note 14 Derivative Transactions."

3. Securities without available fair market value

| Category | Millions of yen |
|---|-----------------|
| | 2023 |
| Investments in unlisted stocks, etc. | ¥ 4,538 |
| Investments in investment limited partnerships, etc. | 9,984 |
| Stocks of non-consolidated subsidiaries | 846 |
| Stocks of affiliates | 18,586 |
| Investments in capital of subsidiaries and affiliates | 824 |

The above items are not included in "(2) Short-term investment securities and investment securities."

4. Investments in partnerships and similar business organizations for which amounts corresponding to equity are recorded in net amounts on the Consolidated Balance Sheet and are not included under (2) Short-term Investment Securities and Investment Securities. The amount of such investments recorded on the Consolidated Balance Sheet is ¥10,808 million.

Note 1: Redemption schedule of monetary receivables and securities with maturity after the consolidated balance sheet date

Prior fiscal year (As of March 31, 2022)

| | Millions of yen | | | |
|--|-----------------|-------------------|-------------------|----------------|
| | Within one year | One to five years | Five to ten years | Over ten years |
| Cash and deposits | ¥152,459 | ¥ — | ¥— | ¥— |
| Notes and accounts receivable—trade | 34,958 | — | — | — |
| Short-term investment securities and investment securities: | | | | |
| Held-to-maturity debt securities (Bonds)* | — | 100 | — | — |
| Available-for-sale securities with maturities (Negotiable certificates of deposit) | — | — | — | — |
| Available-for-sale securities with maturities (Other)* | — | — | — | — |
| Total | 187,418 | 100 | — | — |

* Receivables with early settlement provisions, etc., are presented in the scheduled redemption amount based on the assumption that they are held to maturity with early settlement provisions, etc., not applied.

Current fiscal year (As of March 31, 2023)

| | Millions of yen | | | |
|--|-----------------|-------------------|-------------------|----------------|
| | Within one year | One to five years | Five to ten years | Over ten years |
| Cash and deposits | ¥179,509 | ¥ — | ¥— | ¥— |
| Notes and accounts receivable—trade | 52,673 | — | — | — |
| Short-term investment securities and investment securities: | | | | |
| Held-to-maturity debt securities (Bonds)* | — | 100 | — | — |
| Available-for-sale securities with maturities (Negotiable certificates of deposit) | — | — | — | — |
| Available-for-sale securities with maturities (Other)* | — | — | — | — |
| Total | 232,182 | 100 | — | — |

* Receivables with early settlement provisions, etc., are presented in the scheduled redemption amount based on the assumption that they are held to maturity with early settlement provisions, etc., not applied.

Note 2: Repayment amounts of bonds payable, long-term borrowings, lease obligations, and other interest-bearing debts after the consolidated balance sheet date

Prior fiscal year (As of March 31, 2022)

| 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 borrowings | ¥10,000 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term borrowings | — | 17,000 | 15,000 | — | — | — |
| Bonds payable | — | — | — | — | — | 10,000 |
| Lease obligations | 1,123 | 949 | 709 | 540 | 407 | 1,407 |
| Other interest-bearing debt: | | | | | | |
| Accounts payable—facilities | 30 | 24 | 18 | 16 | 16 | 40 |

Current fiscal year (As of March 31, 2023)

| 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 borrowings | ¥17,000 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term borrowings | — | 15,000 | — | — | 10,000 | — |
| Bonds payable | — | — | — | — | — | 10,000 |
| Lease obligations | 1,377 | 1,184 | 993 | 861 | 795 | 1,518 |
| Other interest-bearing debt: | | | | | | |
| Accounts payable—facilities | 29 | 22 | 20 | 20 | 20 | 34 |

3. Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using (unadjusted) quoted prices in active markets for the same assets or liabilities

Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than Level 1 inputs

Level 3 fair value: Fair value measured using material unobservable inputs

If multiple inputs are used (that are material to the fair value measurement), the fair value is categorized in the lowest priority input level in the fair value measurement.

Notes to Consolidated Financial Statements

(1) Financial assets and financial liabilities measured at fair value

Prior fiscal year (As of March 31, 2022)

| Category | Consolidated balance sheet amount | Fair value | | | |
|--|---|------------|---------|---------|--------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Short-term investment securities and investment securities | | | | | |
| Available-for-sale securities | | | | | |
| Stocks | ¥1,958 | ¥1,958 | ¥ — | ¥— | ¥1,958 |
| Debt securities | 537 | — | 537 | — | 537 |
| Other | 439 | — | 439 | — | 439 |
| Total assets | 2,936 | 1,958 | 977 | — | 2,936 |
| Derivative transaction* | | | | | |
| Currency-related | — | — | — | — | — |
| Interest rate-related | (33) | — | (33) | — | (33) |
| Total derivative transaction | (33) | — | (33) | — | (33) |

* Net receivables and payables resulting from derivative transactions are presented on a net basis. Items for total net obligations are indicated in parentheses.

Current fiscal year (As of March 31, 2023)

| Category | Consolidated balance sheet amount | Fair value | | | |
|--|---|---------------|------------|-----------|---------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Short-term investment securities and investment securities | | | | | |
| Available-for-sale securities | | | | | |
| Stocks | ¥4,082 | ¥4,082 | ¥ — | ¥— | ¥4,082 |
| Debt securities | 290 | — | 290 | — | 290 |
| Other | 280 | — | 280 | — | 280 |
| Total assets | 4,654 | 4,082 | 571 | — | 4,654 |
| Derivative transaction* | | | | | |
| Currency-related | — | — | — | — | — |
| Interest rate-related | 382 | — | 382 | — | 382 |
| Total derivative transaction | 382 | — | 382 | — | 382 |

* Net receivables and payables resulting from derivative transactions are presented on a net basis. Items for total net obligations are indicated in parentheses.

(2) Financial assets and financial liabilities not to be measured at fair value

Prior fiscal year (as of March 31, 2022)

| Category | Consolidated balance sheet amount | Fair value | | | |
|--|---|------------|---------|---------|---------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Notes and accounts receivable—trade | ¥34,958 | ¥ — | ¥34,958 | ¥— | ¥34,958 |
| Short-term investment securities and investment securities | | | | | |
| Held-to-maturity debt securities | | | | | |
| Bonds receivable | 106 | — | 106 | — | 106 |
| Stocks of affiliates | 813 | 690 | — | — | 690 |
| Total assets | 35,878 | 690 | 35,065 | — | 35,756 |
| Notes and accounts payable—trade | 24,455 | — | 24,455 | — | 24,455 |
| Short-term borrowings | 10,000 | — | 10,000 | — | 10,000 |
| Long-term borrowings | 32,000 | — | 31,955 | — | 31,955 |
| Bonds payable | 10,000 | — | 9,929 | — | 9,929 |
| Total liabilities | 76,455 | — | 76,341 | — | 76,341 |

Current fiscal year (as of March 31, 2023)

| Category | Consolidated balance sheet amount | Fair value | | | |
|--|---|------------|----------------|-----------|----------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Notes and accounts receivable—trade | ¥52,673 | ¥— | ¥52,673 | ¥— | ¥52,673 |
| Short-term investment securities and investment securities | | | | | |
| Held-to-maturity debt securities | | | | | |
| Bonds receivable | 104 | — | 104 | — | 104 |
| Stocks of affiliates | — | — | — | — | — |
| Total assets | 52,778 | — | 52,778 | — | 52,778 |
| Notes and accounts payable—trade | 30,556 | — | 30,556 | — | 30,556 |
| Short-term borrowings | 17,000 | — | 17,000 | — | 17,000 |
| Long-term borrowings | 25,000 | — | 24,915 | — | 24,915 |
| Bonds payable | 10,000 | — | 9,814 | — | 9,814 |
| Total liabilities | 82,556 | — | 82,287 | — | 82,287 |

Note: A description of the valuation techniques and inputs used in fair value measurement

Short-term investment securities and investment securities:

Listed stocks, debt securities, and bonds receivable are valued based on quoted prices. Since listed stocks are traded in active markets, their fair value is assigned to Level 1. The fair value of debt securities and bonds receivable held by the Group are assigned to Level 2 because they are infrequently traded in markets and are not considered to have quoted prices in active markets.

Derivative transactions:

The fair value of interest rate swaps and forward exchange contracts is measured using the present discounted value method based on observable inputs, such as interest rates and exchange rates, and is assigned to Level 2.

Notes and accounts receivable—trade:

The fair value of these items is measured using the present discounted value method based on the amount of receivables, time to maturity, and an interest rate reflecting credit risk for each grouping of receivables in a specified period and is assigned to Level 2.

Notes and accounts payable—trade:

The fair value of these items is measured using the present discounted value method based on future cash flows, time to maturity, and an interest rate reflecting credit risk, for each grouping of payables in a specified period, and is assigned to Level 2.

Short-term borrowings and long-term borrowings:

The fair values of short-term borrowings and long-term borrowings are measured using the present discounted value method based on the sum of principal and interest, time to maturity, and an interest rate reflecting credit risk, and are assigned to Level 2.

Bonds payable:

The fair value of bonds payable issued by the Company is measured using the present discounted value method based on the sum of principal and interest, time to maturity, and an interest rate reflecting credit risk, and is assigned to Level 2.

13 Investment Securities**1. Held-to-maturity debt securities**

Prior fiscal year (As of March 31, 2022)

(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 | 106 | 106 | 0 |
| 3) Other | — | — | — |
| Total | 106 | 106 | 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 | — | — | — |
| 3) Other | — | — | — |
| Total | — | — | — |

Current fiscal year (As of March 31, 2023)

(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 | — | — | — |
| 3) Other | — | — | — |
| Total | — | — | — |

(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 | 104 | 104 | (0) |
| 3) Other | — | — | — |
| Total | 104 | 104 | (0) |

2. Available-for-sale securities

Prior fiscal year (As of March 31, 2022)

(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 | ¥1,313 | ¥286 | ¥1,027 |
| 2) Debt securities | — | — | — |
| 3) Other | 439 | 400 | 39 |
| Total | 1,753 | 686 | 1,066 |

(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 | ¥ 644 | ¥ 701 | ¥(56) |
| 2) Debt securities | 537 | 549 | (11) |
| 3) Other | — | — | — |
| Total | 1,182 | 1,250 | (67) |

Current fiscal year (As of March 31, 2023)

(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 | ¥3,899 | ¥963 | ¥2,935 |
| 2) Debt securities | — | — | — |
| 3) Other | — | — | — |
| Total | 3,899 | 963 | 2,935 |

(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 | ¥183 | ¥241 | ¥ (58) |
| 2) Debt securities | 290 | 339 | (49) |
| 3) Other | 280 | 400 | (119) |
| Total | 755 | 982 | (226) |

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

Prior fiscal year (From April 1, 2021 to March 31, 2022)

| Category | Millions of yen | | |
|--------------------|--------------------|----------------------|-----------------------|
| | Amount of proceeds | Total gains on sales | Total losses on sales |
| 1) Shares | ¥2,565 | ¥2,516 | ¥26 |
| 2) Debt securities | — | — | — |
| 3) Other | — | — | — |
| Total | 2,565 | 2,516 | 26 |

Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2022 to March 31, 2023)

| Category | Millions of yen | | |
|--------------------|--------------------|----------------------|-----------------------|
| | Amount of proceeds | Total gains on sales | Total losses on sales |
| 1) Shares | ¥ 1 | ¥— | ¥— |
| 2) Debt securities | — | — | — |
| 3) Other | — | — | — |
| Total | 1 | — | — |

4. Impairment loss on securities

Prior fiscal year (From April 1, 2021 to March 31, 2022)

The Group recognized impairment loss on available-for-sale securities in the amount of ¥0 million.

Current fiscal year (From April 1, 2022 to March 31, 2023)

The Group recognized impairment loss on available-for-sale securities in the amount of ¥81 million.

14 Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Prior fiscal year (As of March 31, 2022)

Not applicable

Current fiscal year (As of March 31, 2023)

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 certain compound financial instruments are appraised by fair value and are included in "2. Available-for-sale securities" in "Note 13 Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Prior fiscal year (As of March 31, 2022)

Not applicable

Current fiscal year (As of March 31, 2023)

Not applicable

(2) Interest rate-related derivatives

Prior fiscal year (As of March 31, 2022)

| Hedge accounting method | Classification | Major hedged items | Millions of yen | | |
|-------------------------|-------------------------------|----------------------|-----------------|-----------------------------------|------------|
| | | | Contract value | Contract value due after one year | Fair value |
| Primary method (Note) | Interest rate swaps: | | | | |
| | Floating rate into fixed rate | Long-term borrowings | ¥30,460 | ¥30,460 | ¥(33) |
| Total | | | 30,460 | 30,460 | (33) |

Note: Primary method represents interest rate swaps transactions to long-term borrowings that are used by entities accounted for using the equity method. Contract amount and fair value are multiplied by the equity interest held by the Company.

Current fiscal year (As of March 31, 2023)

| | | | Millions of yen | | |
|-------------------------|-------------------------------|----------------------|-----------------|-----------------------------------|------------|
| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
| Primary method (Note) | Interest rate swaps: | | | | |
| | Floating rate into fixed rate | Long-term borrowings | ¥31,720 | ¥— | ¥382 |
| Total | | | 31,720 | — | 382 |

Note: Primary method represents interest rate swaps transactions to long-term borrowings that are used by entities accounted for using the equity method. Contract amount and fair value are multiplied by the equity interest held by the Company.

15 Retirement Benefits

1. Overview of retirement benefit plans

The Company and some of its consolidated subsidiaries have adopted a defined benefit corporate pension plan, a lump-sum retirement benefit plan, or a defined contribution pension plan to provide retirement benefits to the employees. In addition, the Company and certain consolidated subsidiaries have introduced selective defined contribution pension plans.

Under the lump-sum retirement benefit plan held by certain consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are determined using a simplified method.

Notes to Consolidated Financial Statements

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 | |
|--|-----------------|---------|
| | 2022 | 2023 |
| Projected benefit obligations at the beginning of the period | ¥29,669 | ¥33,552 |
| Service costs—benefits earned during the year | 1,920 | 2,149 |
| Interest cost on projected benefit obligations | 102 | 174 |
| Actuarial differences accrued | 2,277 | (5,479) |
| Retirement benefit paid | (483) | (460) |
| Prior service costs accrued | — | 2,359 |
| Other | 66 | 121 |
| Projected benefit obligations at the end of the period | 33,552 | 32,418 |

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

| | Millions of yen | |
|--|-----------------|---------|
| | 2022 | 2023 |
| Plan assets at the beginning of the period | ¥30,238 | ¥32,947 |
| Expected return on plan assets | 604 | 658 |
| Actuarial differences accrued | (642) | (1,358) |
| Contribution of employer | 3,147 | 2,893 |
| Retirement benefit paid | (400) | (375) |
| Other | — | — |
| Plan assets at the end of the period | 32,947 | 34,766 |

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

| | Millions of yen | |
|--|-----------------|------|
| | 2022 | 2023 |
| Net defined benefit liability at the beginning of the period | ¥734 | ¥806 |
| Retirement benefit expenses | 110 | 102 |
| Retirement benefit paid | (17) | (48) |
| Other | (22) | 2 |
| Net defined benefit liability at the end of the period | 806 | 862 |

(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 | |
|---|-----------------|----------|
| | 2022 | 2023 |
| Funded projected benefit obligations | ¥ 31,483 | ¥ 30,355 |
| Plan assets | (32,947) | (34,766) |
| | (1,463) | (4,411) |
| Unfunded projected benefit obligations | 2,875 | 2,926 |
| Net amount of liabilities and assets recorded in the consolidated balance sheet | 1,411 | (1,485) |
| Net defined benefit liability | 4,395 | 3,877 |
| Net defined benefit asset | (2,984) | (5,362) |
| Net amount of liabilities and assets recorded in the consolidated balance sheet | 1,411 | (1,485) |

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

(5) Breakdown of retirement benefit expenses

| Millions of yen | | |
|---|--------|--------|
| | 2022 | 2023 |
| Service costs—benefits earned during the year | ¥1,920 | ¥2,149 |
| Interest cost on projected benefit obligations | 102 | 174 |
| Expected return on plan assets | (604) | (658) |
| Amortization of actuarial difference | 165 | (34) |
| Amortization of prior service cost | — | — |
| Retirement benefit expenses using the simplified method | 110 | 102 |
| Other | 14 | 2 |
| Retirement benefit expenses of defined benefit pension plan | 1,709 | 1,735 |

(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 | | |
|----------------------|---------|----------|
| | 2022 | 2023 |
| Prior service costs | ¥ — | ¥(2,359) |
| Actuarial difference | (2,754) | 4,086 |
| Total | (2,754) | 1,726 |

(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 | | |
|-----------------------------------|---------|----------|
| | 2022 | 2023 |
| Unrecognized prior service costs | ¥ — | ¥(2,359) |
| Unrecognized actuarial difference | (3,311) | 775 |
| Total | (3,311) | (1,584) |

(8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

| | 2022 | 2023 |
|-------------------|------|------|
| Debt securities | 46% | 27% |
| Share of stock | 16 | 17 |
| Cash and deposits | 27 | 44 |
| General account | 6 | 7 |
| Other | 1 | 3 |
| Total | 100 | 100 |

2) Long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations as well as current and future long-term rate of returns for the various assets which make up the plan assets.

Notes to Consolidated Financial Statements

(9) Matters concerning basis for the actuarial calculation

Basis for the actuarial calculation

| | 2022 | 2023 |
|--|--|--|
| Discount rate | 0.1–0.8% | 0.2–0.9% |
| Long-term expected rate of return on plan assets | 2.0% | 2.0% |
| Salary increase ratio (Note) | Principally, salary increase index by ages as of March 31, 2021 is used. | Principally, salary increase index by ages as of March 31, 2021 is used. |

Note: Some consolidated subsidiaries do not use the 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 ¥1,106 million in the prior fiscal year and ¥1,432 million in the current fiscal year.

16 Stock Option Plan

1. Account title and the amount of stock options recorded as expenses

| | Millions of yen | |
|---|-----------------|------|
| | 2022 | 2023 |
| Selling, general, and administrative expenses—other | ¥176 | ¥292 |

2. Contents, scale and movement of stock options

Prior fiscal year (From April 1, 2021 to March 31, 2022)

(1) The following table summarizes the contents of stock options.

| | |
|--|---|
| Company name | The Company |
| Date of the resolution | August 2, 2021 |
| Position and number of grantees (persons) | The Company's employees: 168 The Company's subsidiaries' directors: 12 The Company's subsidiaries' executive officers: 25 The Company's subsidiaries' employees: 1,411 |
| Class and number of stock (shares) | Common stock 2,844,500 |
| Date of issue | September 1, 2021 |
| Condition of settlement of rights | Continue to work from September 1, 2021 to June 30, 2024 |
| Period in which grantees provide service in return for stock options | September 1, 2021 to June 30, 2024 |
| Period subscription rights are to be exercised | July 1, 2024 to June 30, 2026 |

(2) The following table summarizes the scale and movement of stock options

Shares

| | |
|---|----------------|
| Company name | The Company |
| Date of the resolution | August 2, 2021 |
| Not exercisable stock options | |
| Stock options outstanding at April 1, 2021 | — |
| Stock options granted | 2,884,500 |
| Forfeitures | 32,500 |
| Conversion to exercisable stock options | — |
| Stock options outstanding at March 31, 2022 | 2,852,000 |
| Exercisable stock options | |
| Stock options outstanding at April 1, 2021 | — |
| Conversion from not exercisable stock options | — |
| Stock options exercised | — |
| Forfeitures | — |
| Stock options outstanding at March 31, 2022 | — |

The following table summarizes the price information of stock options

Yen

| | |
|---|----------------|
| Company name | The Company |
| Date of the resolution | August 2, 2021 |
| Exercise price | ¥1,500 |
| Average market price of the stock at the time of exercise | — |
| Fair value of the stock option at the date of grant | 300 |

Current fiscal year (From April 1, 2022 to March 31, 2023)

(1) The following table summarizes the contents of stock options.

| | |
|--|--|
| Company name | The Company |
| Date of the resolution | August 2, 2021 |
| Position and number of grantees (persons) | Company employees: 168 Subsidiary directors: 12 Subsidiary executive officers: 25 Subsidiary employees: 1,411 |
| Class and number of stock (shares) | Common stock 2,884,500 |
| Date of issue | September 1, 2021 |
| Condition of settlement of rights | Continue to work from September 1, 2021 to June 30, 2024 |
| Period in which grantees provide service in return for stock options | September 1, 2021 to June 30, 2024 |
| Period subscription rights are to be exercised | July 1, 2024 to June 30, 2026 |

Notes to Consolidated Financial Statements

(2) The following table summarizes the scale and movement of stock options.

| | Shares |
|---|----------------|
| Company name | The Company |
| Date of the resolution | August 2, 2021 |
| Not exercisable stock options | |
| Stock options outstanding at April 1, 2022 | 2,852,000 |
| Stock options granted | — |
| Forfeitures | 56,500 |
| Conversion to exercisable stock options | — |
| Stock options outstanding at March 31, 2023 | 2,795,500 |
| Exercisable stock options | |
| Stock options outstanding at April 1, 2022 | — |
| Conversion from not exercisable stock options | — |
| Stock options exercised | — |
| Forfeitures | — |
| Stock options outstanding at March 31, 2023 | — |

The following table summarizes the price information of stock options.

| | Yen |
|---|----------------|
| Company name | The Company |
| Date of the resolution | August 2, 2021 |
| Exercise price | ¥1,500 |
| Average market price of the stock at the time of exercise | — |
| Fair value of the stock option at the date of grant | 300 |

3. Estimation of fair value of the stock options

Prior fiscal year (From April 1, 2021 to March 31, 2022)

Method for estimating fair value per share of stock options granted by the reporting company

(1) Valuation techniques applied

Black-Scholes equation

(2) Major basic figures and estimation methods

| | |
|-------------------------------------|---------------|
| Stock price variability (Note 1) | 31.535% |
| Estimated remaining period (Note 2) | 3.83 years |
| Estimated dividends (Note 3) | ¥30 per share |
| Risk-free interest rate (Note 4) | (0.130)% |

Notes: 1. Calculated based on actual stock prices from November 2017 to August 2021.

2. Due to the absence of sufficient cumulative data and the difficulty of forming reasonable estimates, this estimate assumes that the options will be exercised at the midpoint of the exercise period.

3. Based on actual dividends for the fiscal year ended March 31, 2021.

4. This is the national government bond yield corresponding to the estimated remaining period.

Current fiscal year (From April 1, 2022 to March 31, 2023)

Not applicable

4. 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.

17 Stock Compensation with Restriction on Transfer

1. Details of stock compensation with restriction on transfer

| | Continuous service-based shares with restriction on transfer in 2021 | Continuous service-based shares with restriction on transfer in 2022 |
|--|--|--|
| Categories and number of grantees (persons) | Company directors — Company executive officers — Subsidiary directors 15 Subsidiary executive officers 14 | Company directors 4 Company executive officers 9 Subsidiary directors 18 Subsidiary executive officers 22 |
| Class and number of shares granted (shares) | Common stock: 28,500 | Common stock: 78,200 |
| Grant date | August 5, 2021 | August 19, 2022 |
| Conditions for canceling restriction on transfer | (Notes) 1, 2 | (Notes) 1, 2 |
| Period of restriction on transfer | From August 5, 2021 to August 4, 2024 | From August 19, 2022 to August 18, 2025 |

| | Performance-based shares with restriction on transfer in 2021 |
|--|---|
| Categories and number of grantees (persons) | Company directors 4 Company executive officers 8 Subsidiary directors 19 Subsidiary executive officers 21 |
| Class and number of shares granted (shares) | Common stock: 384,800 |
| Grant date | August 5, 2021 |
| Conditions for canceling restriction on transfer | (Notes) 1, 3 |
| Period of restriction on transfer | From August 5, 2021, until the closure of the Company's first Ordinary General Meeting of Shareholders to arrive after the end date of the medium-term plan |

Notes: 1. If grantees resign as directors and executive officers of the Company or Company subsidiaries (limited to those in which the Company holds at least 50% of all shares; such subsidiaries and the Company shall hereinafter be referred to as "Group companies") on or before the day preceding the day of the Company's first Ordinary General Meeting of Shareholders arriving after the start of the period of restriction on transfer (or, if the grantees are Company executive officers or Group company officers, etc., on or before the day preceding the Company's first fiscal year-end date arriving after the start of the period of restriction on transfer). The Company shall acquire, by right, the allotted shares gratis (except in cases in which the reasons for such resignation are deemed valid by the Company Board of Directors, such as the expiration of term of office - except for "performance-based shares with restriction on transfer"), the attainment of the mandatory retirement age and death. The Company shall also acquire, by right, the allotted shares gratis for which the restriction on transfer is not canceled under the provisions of 2 and 3 below as of the expiration of the period of restriction on transfer.

2. Subject to the condition that grantees including Group company officers continue to serve as Group company directors or executive officers until the day preceding the day of the Company's first Ordinary General Meeting of Shareholders arriving after the start of the period of restriction on transfer (or, if the grantees are Company executive officers or Group company officers, etc., until the day preceding the Company's first fiscal year-end date arriving after the start of the period of restriction on transfer), as of the expiration of the period of restriction on transfer, the restriction will be canceled for all allotted shares. However, should such directors resign as directors and executive officers of Group companies before the expiration of the period of restriction on transfer for reasons deemed valid by the Company Board of Directors (for example, expiration of term of office, attainment of mandatory retirement age or death), the number of allotted shares for which the restriction on transfer is canceled and the timing of such cancellation are to be reasonably adjusted on an as-needed basis.

3. Subject to the condition that grantees continue to serve as Group company directors or executive officers until the day preceding the day of the Company's first Ordinary General Meeting of Shareholders arriving after the start of the period of restriction on transfer (or, if the grantees are Company executive officers or Group company officers, etc., until the day preceding the Company's first fiscal year-end date arriving after the start of the period of restriction on transfer), the number of shares for which the restriction on transfer will be canceled and the timing of such cancellation are to be reasonably adjusted on an as-needed basis in accordance with the length of their service in such roles during the medium-term plan period (at the restriction cancellation rate) which is linked to performance goal achievements in the medium-term plan. However, should such directors resign as directors and executive officers of Group companies before the expiration of the period of restriction on transfer for reasons deemed valid by the Company Board of Directors (for example, attaining mandatory retirement age and death or reassignment to other positions during the medium-term plan period), the number of shares for which the restriction on transfer is canceled shall be reasonably adjusted within the performance condition.

Notes to Consolidated Financial Statements

2. Volume and changes in stock compensation with restriction on transfer

(i) Expensed amount and account title

Millions of yen

| | 2022 | 2023 |
|---|------|------|
| Selling, general, and administrative expenses—other | ¥198 | ¥393 |

(ii) Number of shares

Shares

| | Continuous service-based shares with restriction on transfer in 2021 | Continuous service-based shares with restriction on transfer in 2022 |
|------------------------------------|--|--|
| Before cancellation of restriction | | |
| At end of prior period | 26,800 | — |
| Granted | — | 78,200 |
| Acquired for free | — | — |
| Restriction canceled | — | — |
| Restriction valid | 26,800 | 78,200 |

| | Performance-based shares with restriction on transfer in 2021 |
|------------------------------------|---|
| Before cancellation of restriction | |
| At end of prior period | 375,200 |
| Granted | — |
| Acquired for free | 14,700 |
| Restriction canceled | — |
| Restriction valid | 360,500 |

(iii) Per share price

Yen

| | Continuous service-based shares with restriction on transfer in 2021 | Continuous service-based shares with restriction on transfer in 2022 |
|------------------------------------|--|--|
| Fair value per share at grant date | ¥1,502 | ¥2,228 |

| | Performance-based shares with restriction on transfer in 2021 |
|------------------------------------|---|
| Fair value per share at grant date | ¥1,502 |

Note: To prevent arbitrary price decisions, we use the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately before the date of the Board of Directors resolution regarding the granting of shares with restriction on transfer.

18 Income Taxes

1. Significant components of deferred tax assets and liabilities

| | Millions of yen | |
|--|-----------------|----------|
| | 2022 | 2023 |
| Deferred tax assets: | | |
| Exclusion of provision of allowance for doubtful accounts from deductible expenses | ¥ 349 | ¥ 263 |
| Exclusion of loss on valuation of inventories from deductible expenses | 3,173 | 2,564 |
| Exclusion of provision for bonuses from deductible expenses | 2,828 | 3,039 |
| Net defined benefit liability | 1,766 | 1,692 |
| Excess of maximum depreciation and amortization | 17,136 | 19,019 |
| Exclusion of loss on valuation of investment securities from deductible expenses | 408 | 329 |
| Impairment loss | 543 | 493 |
| Other | 17,769 | 20,712 |
| Loss carried forward | 36,019 | 26,866 |
| Subtotal deferred tax assets | 79,994 | 74,981 |
| Valuation allowance for tax loss carried forward (Note 2) | (32,685) | (20,307) |
| Valuation allowance for deductible temporary difference | (20,685) | (23,015) |
| Subtotal valuation allowance (Note 1) | (53,371) | (43,322) |
| Offset to deferred tax liabilities | (13,175) | (15,159) |
| Total deferred tax assets | 13,446 | 16,499 |
| Deferred tax liabilities: | | |
| Valuation difference on available-for-sale securities | (1,336) | (1,530) |
| Other | (12,309) | (14,383) |
| Subtotal deferred tax liabilities | (13,645) | (15,913) |
| Offset to deferred tax assets | 13,175 | 15,159 |
| Total deferred tax liabilities | (469) | (754) |
| Net deferred tax assets | 12,977 | 15,745 |

Notes: 1. The valuation allowance fell by ¥10,048 million. The major factors for this decrease were due to decreases in valuation allowance of ¥12,378 million for tax loss carryforwards and an increase in valuation allowance for a deductible temporary difference of ¥2,330 million.

2. Amount of tax loss carried forward and their deferred tax assets by carryforward period are as follows.

Prior fiscal year (As of March 31, 2022)

| | 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) | ¥ 5,063 | ¥ 2,394 | ¥ 1,789 | ¥ 1,185 | ¥ 752 | ¥ 24,833 | ¥ 36,019 |
| Valuation allowance | (4,230) | (2,369) | (1,768) | (1,179) | (750) | (22,387) | (32,685) |
| Deferred tax assets | 832 | 25 | 20 | 5 | 2 | 2,445 | (b) 3,333 |

(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 ¥36,019 million (amount given by the normal effective statutory tax rate), deferred tax assets of ¥3,333 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.

Notes to Consolidated Financial Statements

Current fiscal year (As of March 31, 2023)

| | 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) | ¥2,369 | ¥ 1,718 | ¥ 1,143 | ¥ 747 | — | ¥ 20,887 | ¥ 26,866 |
| Valuation allowance | (886) | (1,441) | (1,058) | (722) | — | (16,197) | (20,307) |
| Deferred tax assets | 1,483 | 276 | 85 | 24 | — | 4,689 | (b) 6,559 |

(a) The amount of tax loss carried forward is the amount given by the normal effective statutory tax rate.

(b) Regarding the amount of tax loss carried forward of ¥26,866 million (the amount under the normal effective statutory tax rate), deferred tax assets of ¥6,559 million were recorded. The Company deemed that a partial amount of tax loss carried forward can be recovered mainly in the following fiscal year based on estimates 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, 2022 and 2023

| | 2022 | 2023 |
|---|--------|--------|
| Normal effective statutory tax rate | 30.6% | 30.6% |
| (Adjustment) | | |
| Changes in valuation allowance | (30.0) | (21.3) |
| Permanently non-deductible expenses including entertainment expenses | 1.9 | 1.2 |
| Amortization of goodwill | 1.0 | 0.7 |
| Tax rate difference between the Company and consolidated subsidiaries | (1.4) | (0.4) |
| Tax credit for experimental and research expenses | (12.1) | (11.8) |
| Tax loss carried forward | 12.6 | 7.9 |
| Impact of consolidation adjustments | (3.2) | (2.6) |
| Other | 2.9 | (1.9) |
| Effective tax rate after tax effect accounting | 2.4 | 2.4 |

3. Accounting for corporation tax and local corporation tax and tax effect accounting

The Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system from the fiscal year ended March 31, 2023. In addition, corporation tax and local corporation tax, as well as their tax effects, are accounted for and disclosed under Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (PITF No.42, August 12, 2021).

19 Business Combination

This information is omitted due to immateriality

20 Asset Retirement Obligations

Prior fiscal year (As of March 31, 2022)

The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

Current fiscal year (As of March 31, 2023)

The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

21 Rental Property and Other Real Estate

Prior fiscal year (As of March 31, 2022)

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, 2023)

The information is omitted due to the immateriality of the total amount of the rental property and other real estate.

22 Revenue Recognition

1. Disaggregation of revenue from contracts with customers

The Group operates an Entertainment Contents Business, Pachislot and Pachinko Machines Business, and a Resort Business. Main goods or services primarily handled by these businesses are digital content, products and merchandise, and resort facilities. Shown below are the sales of goods or services by each business:

Prior fiscal year (from April 1, 2021 to March 31, 2022)

| | Reporting segment | | | | | Millions of yen |
|---------------------------------------|------------------------|-----------------------------|--------|----------|-------|-----------------|
| | Entertainment Contents | Pachislot Pachinko Machines | Resort | Subtotal | Other | Total |
| Digital content sales | ¥129,773 | ¥ 3,799 | ¥ — | ¥133,572 | ¥ — | ¥133,572 |
| Product and merchandise sales | 74,673 | 70,156 | — | 144,829 | — | 144,829 |
| Resort facility sales | — | — | 8,663 | 8,663 | — | 8,663 |
| Other sales | 31,491 | 1,912 | — | 33,403 | 480 | 33,884 |
| Revenue from contracts with customers | 235,937 | 75,868 | 8,663 | 320,469 | 480 | 320,949 |
| Sales to external customers | 235,937 | 75,868 | 8,663 | 320,469 | 480 | 320,949 |

Current fiscal year (from April 1, 2022 to March 31, 2023)

| | Reporting segment | | | | | Millions of yen |
|---------------------------------------|------------------------|-----------------------------|---------------|-----------------|------------|-----------------|
| | Entertainment Contents | Pachislot Pachinko Machines | Resort | Subtotal | Other | Total |
| Digital content sales | ¥145,132 | ¥ 4,153 | ¥ — | ¥149,285 | ¥ — | ¥149,285 |
| Product and merchandise sales | 95,320 | 87,254 | — | 182,575 | — | 182,575 |
| Resort facility sales | — | — | 11,540 | 11,540 | — | 11,540 |
| Other sales | 42,428 | 2,845 | — | 45,274 | 960 | 46,234 |
| Revenue from contracts with customers | 282,881 | 94,253 | 11,540 | 388,675 | 960 | 389,635 |
| Sales to external customers | 282,881 | 94,253 | 11,540 | 388,675 | 960 | 389,635 |

Notes to Consolidated Financial Statements

2. Basic information for understanding revenue from contracts with customers

(1) Information on contracts, performance obligations, and when performance obligations are satisfied

Information on contracts, performance obligations, and when performance obligations are satisfied is as presented in "Note 2 Summary of Significant Accounting Policies 3. Accounting Policies (7) Accounting policy for recognition of significant revenues and expenses."

(2) Information on calculating allocation amounts for performance obligations

When selling sets of multiple pieces of game content as part of granting game distribution rights or download sales in the Entertainment

Contents Business, the provision of each piece of content is identified as a separate performance obligation, and the transaction price is allocated to each performance obligation. For bundled sales within the Entertainment Contents Business of amusement machines and annual content update services, the amusement machine sales and annual content update services are identified as separate performance obligations and the transaction prices are allocated to each performance obligation.

In cases such as these, stand-alone selling prices on the transaction day (in the contract of the individual goods or services that serve as the basis for each performance obligation are calculated) the transaction prices are allocated based on the ratio of said stand-alone selling prices.

3. Information for understanding revenue amounts of the current fiscal year and the following fiscal years

Prior fiscal year (from April 1, 2021 to March 31, 2022)

(1) Receivables from contracts with customers; the balances of contract assets and contract liabilities

The breakdown of receivables from contracts with customers, contract assets, and contract liabilities is as follows:

| | Millions of yen | |
|---|--------------------------------------|-----------------------------------|
| | Beginning balance for the prior year | Ending balance for the prior year |
| Receivables from contracts with customers | | |
| Notes and accounts receivable—trade | ¥38,176 | ¥34,958 |
| Contract assets | — | 3,993 |
| Contract liabilities | 9,333 | 10,257 |

Note: Of the revenue recognized in the prior fiscal year, the amount included in the contract liabilities balance at the beginning of the period is ¥8,135 million.

(2) Transaction price allocated to remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the time frame in which the Company expects to recognize the amount as revenue are as follows:

| | Millions of yen |
|--------------------------------|-----------------|
| Within one year | ¥ 8,877 |
| Over 1 year but within 2 years | 915 |
| Over 2 years | 465 |
| Total | 10,257 |

Current fiscal year (from April 1, 2022 to March 31, 2023)

(1) Receivables from contracts with customers; the balances of contract assets and contract liabilities

The breakdown of receivables from contracts with customers, contract assets, and contract liabilities is as follows:

| | Millions of yen | |
|---|--|-------------------------------------|
| | Beginning balance for the current year | Ending balance for the current year |
| Receivables from contracts with customers | | |
| Notes and accounts receivable—trade | ¥34,958 | ¥52,673 |
| Contract assets | 3,993 | 696 |
| Contract liabilities | 10,257 | 25,852 |

Contract assets consist mainly of rights not yet claimed on revenues recognized as such, based on measurement of progress for development under contract. Contract assets are transferred to accounts receivable - trade when rights to payment become unconditional.

Contract liabilities consist mainly of prepayments received from customers before the delivery of products or provision of services and balances of points awarded to customers for which performance

obligations have not yet been fulfilled as of the end of the period.

Contract liabilities are derecognized upon recognition of revenues.

Of the revenue recognized in the current fiscal year, the amount included in the contract liability balance at the beginning of the period is ¥9,368 million. The primary reason for the increase in contract liabilities is an increase in prepayments received before delivery of products.

(2) Transaction price allocated to remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the time frame in which the Company expects to recognize the amount as revenue are as follows:

| | Millions of yen |
|--------------------------------|-----------------|
| Within one year | ¥24,227 |
| Over 1 year but within 2 years | 1,047 |
| Over 2 years | 577 |
| Total | 25,852 |

23 Segment Information

1. Outline of reporting segments

The Group's reporting segments are organizational units for which separate financial information is available. On this basis, the Board of Directors makes decisions on allocating 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 is comprised of segments classified by product and service provided through the businesses run by each Group company, in which Entertainment Contents Business, Pachislot and Pachinko Machines Business, and Resort Business are the reporting segments.

The lines of business for each reporting segment are as follows:

| Segment | Main product and business |
|---|--|
| Entertainment Contents Business | Development and sales of consumer game software including Full Game, F2P, etc., and amusement machines, planning, production and sales of animated films, development, manufacture and sales of toys |
| Pachislot and Pachinko Machine Business | Development, manufacture and sales of pachislot and pachinko machines |
| Resort Business | Integrated resorts business and development and operation of hotels and golf courses, etc., in other facilities businesses |

2. Method for calculating net sales, income or loss, assets and other items by each reporting segment

The accounting methods applied to reporting segments are generally the same as those described in "Significant matters forming the basis for preparing consolidated financial statements."

Notes to Consolidated Financial Statements

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

Prior fiscal year (From April 1, 2021 to March 31, 2022)

| | Reporting segment | | | | Millions of yen | |
|--|------------------------|-----------------------------|---------|----------|-------------------|---|
| | Entertainment Contents | Pachislot Pachinko Machines | Resort | Subtotal | Adjustment (Note) | Amount in Consolidated financial statements |
| Net sales: | | | | | | |
| Net sales to external customers | ¥235,937 | ¥75,868 | ¥ 8,663 | ¥320,469 | ¥ 480 | ¥320,949 |
| Inter-segment sales and transfers | 553 | 349 | 143 | 1,046 | (1,046) | — |
| Total | 236,491 | 76,218 | 8,806 | 321,515 | (565) | 320,949 |
| Segment income (loss) | 36,861 | 10,282 | (6,738) | 40,405 | (7,061) | 33,344 |
| Segment assets | 191,320 | 56,738 | 31,701 | 279,760 | 155,732 | 435,492 |
| Other items: | | | | | | |
| Depreciation | 6,247 | 3,566 | 683 | 10,497 | 908 | 11,406 |
| Interest income | 34 | 239 | 0 | 274 | (162) | 112 |
| Interest expenses | 83 | 77 | 30 | 191 | 109 | 301 |
| Equity in earnings (losses) of affiliates | 1,028 | 291 | (4,116) | (2,795) | 17 | (2,778) |
| Investments in affiliates accounted for by the equity method | 30 | 659 | 18,542 | 19,232 | 813 | 20,046 |
| Increases in property, plant and equipment and intangible assets | 7,365 | 4,114 | 434 | 11,914 | 1,130 | 13,045 |

- Notes: 1. Adjustment to segment income (loss) of ¥(7,061) million includes elimination of inter-segment transactions of ¥83 million and general corporate expenses of ¥(7,145) million which are not allocated to each reporting segment. General corporate expenses consist mainly of Group management expenses incurred by the Company.
2. Adjustment to segment assets of ¥155,732 million includes the elimination of inter-segment transactions of ¥(19,256) million and general corporate assets of ¥174,988 million that are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.
3. Adjustments to depreciation consist mainly of depreciation associated with the Company.
4. Adjustment to interest income of ¥(162) million includes the elimination of inter-segment transactions of ¥(327) million and interest income of the Company of ¥164 million.
5. Adjustment to interest expenses of ¥109 million includes the elimination of inter-segment transactions of ¥(327) million and interest expenses of the Company of ¥436 million.
6. Adjustments to equity in earnings (losses) of affiliates represent equity in earnings or losses of affiliates not belonging to any reporting segment.
7. Adjustments to investments in affiliates accounted for by the equity method represent investments in affiliates accounted for by the equity method that do not belong to any reporting segment.
8. Adjustments to increases in property, plant, and equipment and intangible assets consist mainly of the purchase amount of noncurrent assets related to the Company.
9. Adjustments have been made to segment income (loss) and ordinary income in the consolidated statements of income and comprehensive income.

Current fiscal year (From April 1, 2022 to March 31, 2023)

| | Reporting segment | | | | Millions of yen | |
|--|---------------------------|-----------------------------------|---------|----------|----------------------|--|
| | Entertainment Contents | Pachislot Pachinko Machines | Resort | Subtotal | Adjustment (Note) | Amount in Consolidated financial statements |
| | | | | | | |
| Net sales: | | | | | | |
| Net sales to external customers | ¥282,881 | ¥94,253 | ¥11,540 | ¥388,675 | ¥ 960 | ¥389,635 |
| Inter-segment sales and transfers | 311 | 575 | 79 | 965 | (965) | — |
| Total | 283,192 | 94,828 | 11,619 | 389,640 | (5) | 389,635 |
| Segment income (loss) | 41,181 | 20,713 | (3,217) | 58,676 | (9,202) | 49,473 |
| Segment assets | 221,633 | 73,372 | 31,474 | 326,479 | 175,086 | 501,566 |
| Other items: | | | | | | |
| Depreciation | 5,766 | 3,227 | 628 | 9,622 | 1,047 | 10,669 |
| Interest income | 224 | 257 | 0 | 483 | (49) | 433 |
| Interest expenses | 105 | 90 | 29 | 225 | 96 | 321 |
| Equity in earnings (losses) of affiliates | 1,069 | 303 | (1,893) | (520) | — | (520) |
| Investments in affiliates accounted for by the equity method | 39 | 668 | 17,867 | 18,575 | — | 18,575 |
| Increases in property, plant and equipment and intangible assets | 5,986 | 4,266 | 1,258 | 11,511 | 384 | 11,896 |

Notes: 1. The adjustment to net sales to external customers of ¥960 million corresponds to net sales of businesses not belonging to reporting segments.
 2. The adjustment to segment income (loss) of ¥(9,202) million includes losses of ¥(497) million on businesses not belonging to reporting segments, elimination of inter-segment transactions of ¥198 million, and general corporate expenses of ¥(8,904) million not allocated to reporting segments. General corporate expenses consist mainly of Group management expenses incurred by the Company.
 3. Adjustment to segment assets of ¥175,086 million includes the elimination of inter-segment transactions of ¥(17,551) million and general corporate assets of ¥192,637 million not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.
 4. Adjustments to depreciation consist mainly of depreciation associated with the Company.
 5. Adjustment to interest income of ¥(49) million includes the elimination of inter-segment transactions of ¥(483) million and interest income of the Company of ¥433 million.
 6. Adjustment to interest expenses of ¥96 million includes the elimination of inter-segment transactions of ¥(483) million and interest expenses of the Company of ¥579 million.
 7. Adjustments to increases in property, plant, and equipment and intangible assets consist mainly of the purchase amount of noncurrent assets related to the Company.
 8. Adjustments have been made to segment income (loss) and ordinary income in the consolidated statements of income and comprehensive income.

[Related information]

Prior fiscal year (From April 1, 2021 to March 31, 2022)

1. Information by product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Information by geographical area

(1) Net sales

| Millions of yen | | | | |
|-----------------|---------|---------|---------|----------|
| Japan | US | Europe | Other | Total |
| ¥215,236 | ¥75,285 | ¥15,343 | ¥15,084 | ¥320,949 |

Note: Net sales are classified by country or region based on the customer's location.

(2) Property, plant and equipment

| Millions of yen | | | | |
|-----------------|---------------|--------|--------|---------|
| Japan | North America | UK | Other | Total |
| ¥50,376 | ¥1,635 | ¥6,929 | ¥1,416 | ¥60,358 |

Notes to Consolidated Financial Statements

3. Information by each major customer

No description is provided here since no external customer exists to whom sales are 10% or more of the net sales recorded in the consolidated statements of income or comprehensive income.

Current fiscal year (From April 1, 2022 to March 31, 2023)

1. Information by product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Information by geographical area

(1) Net sales

| | | | | | Millions of yen |
|----------|---------|---------|---------|----------|-----------------|
| Japan | US | Europe | Other | Total | |
| ¥255,935 | ¥96,256 | ¥18,565 | ¥18,878 | ¥389,635 | |

Note: Net sales are classified by country or region based on the customer's location.

(2) Property, plant and equipment

| | | | | | Millions of yen |
|---------|---------------|--------|--------|---------|-----------------|
| Japan | North America | UK | Other | Total | |
| ¥49,264 | ¥2,822 | ¥6,685 | ¥1,711 | ¥60,482 | |

3. Information by each major customer

No description is provided here since no external customer exists to whom sales are 10% or more of the net sales recorded in the consolidated statements of income or comprehensive income.

[Information on impairment loss on noncurrent assets by each reporting segment]

Prior fiscal year (From April 1, 2021 to March 31, 2022)

| | | | | | | Millions of yen |
|---------------------------|-----------------------------------|--------|----------|------|----------------------|--|
| Reporting segment | | | | | Adjustment (Note) | Amount in consolidated financial statements |
| Entertainment Contents | Pachislot Pachinko Machines | Resort | Subtotal | | | |
| Impairment loss | ¥232 | ¥197 | ¥— | ¥430 | ¥— | ¥430 |

Current fiscal year (From April 1, 2022 to March 31, 2023)

| | | | | | | Millions of yen |
|---------------------------|-----------------------------------|--------|----------|------|------------|--|
| Reporting segment | | | | | Adjustment | Amount in consolidated financial statements |
| Entertainment Contents | Pachislot Pachinko Machines | Resort | Subtotal | | | |
| Impairment loss | ¥142 | ¥304 | ¥— | ¥446 | ¥— | ¥446 |

[Information on amortization and unamortized balance of goodwill by reporting segment]

Prior fiscal year (From April 1, 2021 to March 31, 2022)

| | Reporting segment | | | | | Millions of yen |
|------------------------------------|---------------------------------|--|-----------------|----------|------------|---|
| | Entertainment Contents Business | Pachislot and Pachinko Machines Business | Resort Business | Subtotal | Adjustment | Amount in consolidated financial statements |
| Amortization during current period | ¥2,311 | ¥— | ¥— | ¥2,311 | ¥— | ¥2,311 |
| Balance as of March 31, 2022 | 3,460 | — | — | 3,460 | — | 3,460 |

Current fiscal year (From April 1, 2022 to March 31, 2023)

| | Reporting segment | | | | | Millions of yen |
|------------------------------------|---------------------------------|--|-----------------|---------------|------------|---|
| | Entertainment Contents Business | Pachislot and Pachinko Machines Business | Resort Business | Subtotal | Adjustment | Amount in consolidated financial statements |
| Amortization during current period | ¥2,142 | ¥ 36 | ¥— | ¥2,178 | ¥— | ¥2,178 |
| Balance as of March 31, 2023 | 2,072 | 519 | — | 2,592 | — | 2,592 |

[Information on gain on negative goodwill by each reporting segment]

Prior fiscal year (From April 1, 2021 to March 31, 2022)

Not applicable

Current fiscal year (From April 1, 2022 to March 31, 2023)

Not applicable

24 Related-Party Transactions

1. Transactions with related parties

(1) Transactions between the Company and related parties

1) Non-consolidated subsidiaries and affiliated companies of the Company

Prior fiscal year (From April 1, 2021 to March 31, 2022)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|--|--------------------|-----------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| PARADISE SEGASAMMY Co., Ltd. | Resort business | Subscription to additional capital shares ^(Note1) | ¥4,315 | — | — |
| | | Provision of collateral ^(Note2) | 18,542 | — | — |

Notes: 1. This is a subscription to additional capital shares allotted to shareholders.

2. For a portion of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company are pledged as collateral

Current fiscal year (From April 1, 2022 to March 31, 2023)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|---|--------------------|-----------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| PARADISE SEGASAMMY Co., Ltd. | Resort business | Provision of collateral ^(Note) | ¥17,867 | — | — |

Note: For a portion of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company are pledged as collateral.

Notes to Consolidated Financial Statements

2) Directors and major shareholders (limited to individuals) of the Company

Prior fiscal year (From April 1, 2021 to March 31, 2022)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|--|--|--------------------|----------------------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| Haruki Satomi | Chairman of SEGA SAMMY ARTS FOUNDATION | Payment of donation ^(Note 1) | ¥107 | — | — |
| FSC Co., Ltd. ^(Note 3) | Non-life insurance agent | Payment of insurance premium ^(Note 2) | 11 | Prepaid expenses | ¥10 |
| | | | | Long-term prepaid expenses | 0 |

Notes: 1. The amount donated to the Foundation is determined with the approval of the Board of Directors.

2. Transaction prices are determined in the same way as for general transactions, referring to market prices.

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

4. Transaction amounts exclude consumption tax.

Current fiscal year (From April 1, 2022 to March 31, 2023)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|--|--------------------|----------------------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| FSC Co., Ltd. ^(Note 2) | Non-life insurance agent | Payment of insurance premium ^(Note 1) | ¥6 | Prepaid expenses | ¥1 |
| | | | | Long-term prepaid expenses | 2 |

Notes: 1. Transaction prices are determined in the same way as general transactions, referring to market prices.

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

3. Transaction amounts exclude consumption tax.

(2) Transactions between consolidated subsidiaries of the Company and related parties

1) Non-consolidated subsidiaries and affiliates of the Company

Prior fiscal year (From April 1, 2021 to March 31, 2022)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|--|--|--------------------|-----------------------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| ZEEG Co., Ltd. | Pachislot and Pachinko Machines Business | Purchase of pachislot and pachinko machine parts ^(Note 1) | ¥6,039 | Accounts payable-trade | ¥ 480 |
| | | Loan of funds ^(Note 2) | 500 | Short-term loans receivable | 3,069 |
| | | Collection of loans ^(Note 2) | 2,355 | Long-term loans receivable | 2,582 |
| | | Interest income ^(Note 2) | 66 | | |

Notes: 1. Transaction prices are determined in the same way as general transactions, referring to market prices.

2. The interest rate on loans is determined by taking market interest rates into consideration. The repayment terms are one to five years, with the principal to be repaid in lump sum on the due date and interest to be repaid in annual installments. No collateral is accepted.

Current fiscal year (From April 1, 2022 to March 31, 2023)

| | | | | | 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 |
| ZEEG Co., Ltd. | Pachislot and Pachinko Machines Business | Purchase of pachislot and pachinko machine parts ^(Note 1) | ¥12,270 | Accounts payable—trade | ¥ 439 |
| | | Loan of funds ^(Note 2) | 1,500 | Short-term loans receivable | 2,500 |
| | | Collection of loans ^(Note 2) | 2,155 | Long-term loans receivable | 2,497 |
| | | Interest income ^(Note 2) | 79 | | |

Notes: 1. Transaction prices are determined in the same way as general transactions, referring to market prices.

2. The interest rate on loans is determined by taking market interest rates into consideration. The repayment terms are one to five years with the principal to be repaid in a lump sum on the due date and interest to be repaid in annual installments. No collateral is accepted.

2) Directors and major shareholders (limited to individuals) of the Company

Prior fiscal year (From April 1, 2021 to March 31, 2022)

Not applicable

Current fiscal year (From April 1, 2022 to March 31, 2023)

| | | | | | 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 |
| Haruki Satomi | Chairman of SEGA SAMMY ARTS FOUNDATION | Payment of donation ^(Note 1) | ¥91 | — | — |
| FSC Co., Ltd. ^(Note 3) | Non-life insurance agent | Payment of insurance premium ^(Note 2) | 8 | Prepaid expenses | ¥5 |

Notes: 1. The amount donated to the Foundation is determined with the approval of the Board of Directors.

2. Transaction prices are determined in the same way as general transactions, referring to market prices.

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

4. Transaction amounts exclude consumption tax.

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 affiliate in the current fiscal year and its summarized financial statements are as follows.

| | | | Millions of yen |
|-----------------------------------|------------|--------------|-----------------|
| | Prior year | Current year | |
| Total current assets | ¥ 4,808 | ¥ 20,558 | |
| Total noncurrent assets | 127,675 | 126,893 | |
| Total current liabilities | 17,464 | 82,798 | |
| Total noncurrent liabilities | 83,403 | 24,949 | |
| Total net assets | 31,616 | 39,704 | |
| Net sales | 15,505 | 27,410 | |
| Income (loss) before income taxes | (9,147) | (4,208) | |
| Net Income (loss) | (9,147) | (4,208) | |

25 Per Share Information

| Item | Yen | |
|----------------------------|---|---|
| | Prior year (from April 1, 2021 to March 31, 2022) | Current year (from April 1, 2022 to March 31, 2023) |
| Net assets per share | ¥1,311.72 | ¥1,498.75 |
| Profit per share | 158.85 | 208.07 |
| Profit per share (diluted) | 158.24 | 207.13 |

1. The calculation basis for net assets per share is as follows.

| Items | Prior year (as of March 31, 2022) | Current year (as of March 31, 2023) |
|---|--------------------------------------|--|
| Total of net assets in the consolidated balance sheets (Millions of yen) | ¥292,637 | ¥331,347 |
| Amounts deducted from net assets in the consolidated balance sheets (Millions of yen) | 225 | 492 |
| (Subscription rights to shares) (Millions of yen) | 176 | 468 |
| (Non-controlling interests) (Millions of yen) | 49 | 24 |
| Net assets pertaining to common stock (Millions of yen) | 292,411 | 330,854 |
| Number of common shares used to calculate net assets per share (Thousands of shares) | 222,921 | 220,753 |

2. The calculation basis for profit per share and profit per share (diluted) are as follows.

| Item | Prior year (from April 1, 2021 to March 31, 2022) | Current year (from April 1, 2022 to March 31, 2023) |
|---|---|---|
| Net income (loss) per share: | | |
| Profit attributable to owners of parent (Millions of yen) | ¥ 37,027 | ¥ 45,938 |
| Amount not attributable to ordinary shareholders (Millions of yen) | — | — |
| Profit attributable to owners of parent pertaining to common stock (Millions of yen) | 37,027 | 45,938 |
| Average number of common shares during the period (Thousands of shares) | 233,091 | 220,790 |
| Profit per share (diluted): | | |
| Adjustment to profit attributable to owners of parent (Millions of yen) | — | — |
| Increase in common stock (Thousands of shares) | 909 | 999 |
| (Subscription rights to shares) (Thousands of shares) | 909 | 999 |
| Overview of dilutive shares not included in calculation of profit per share (diluted) because of no dilutive effect | — | — |

26 Significant Subsequent Events

1. Acquisition of Rovio Entertainment Corporation

At the Board of Directors meeting held on April 17, 2023, the Company and SEGA CORPORATION ("SEGA"), a subsidiary of the Company, resolved to implement a tender offer (tender offer under the Finnish Law, the "Tender Offer") to acquire Rovio Entertainment Corporation ("Rovio"), a mobile game company headquartered in Finland, through SEGA's wholly owned UK subsidiary SEGA Europe Limited. The Tender Offer period expired on August 7, 2023, at 4:00 p.m. (EET). Regarding the result of the Tender Offer, the Company's group company SEGA Europe Limited acquired approximately 96.3% of the issued and outstanding shares of Rovio, making it the Company's group company on August 17, 2023.

Furthermore, SEGA Europe Limited commenced a subsequent offer (the "Subsequent Offer") in accordance with the terms and conditions of the Tender Offer on August 11, 2023, at 9:30 a.m. (EET), which was completed on August 25, 2023 at 4:00 p.m. (EET). Based on the final result of the Subsequent Offer, 1,030,171 shares were tendered during the Subsequent Offer period, representing approximately 1.4 percent of all issued and outstanding shares of Rovio. Together with the shares validly tendered during the Tender Offer period, the shares validly tendered during the Subsequent Offer period represented approximately 97.7% of the issued and outstanding shares and voting rights in Rovio.

(i) Purpose of the acquisition

(a) Positioning of the consumer business for the Company

The Company positions the consumer area of its Entertainment Contents Business as a growth area under its medium-term plan (from FY2022 to FY2024), and has accelerated its efforts to strengthen the business through initiatives such as converting existing IPs into global brands as well as strengthening user engagement through multi-platform support and enhanced media mix, etc.

As a part of its growth strategy to invest up to ¥250 billion during the five-year period ending FY2026, the Company has been exploring investment opportunities in the consumer area to strengthen its development capabilities as well as to create new ecosystems.

(b) Background of the acquisition

The size of the global gaming market is projected to reach US\$263.3 billion by 2026, registering a CAGR of 3.5% from 2022 to 2026. The mobile gaming market, in particular, is set to expand at a CAGR of 5.0% to represent 56% of the global gaming market overall, an increase from 53% in 2022. (Source: IDG Report (dated October 2022))

The Company firmly believes that it is imperative to continue investing in its game development and operating capabilities, in order to further strengthen its position in this fast-growing mobile and global gaming market, which therefore led to the decision to acquire Rovio.

Through the Acquisition, the Company aims to take in Rovio's live-operated mobile game development capabilities and expertise in mobile game operation, to accelerate the development of mobile-compatible and multi-platform-supported version of SEGA's existing game IPs, thereby strengthening SEGA's game portfolio and further accelerating global expansion of its business.

(c) Purpose of the acquisition

Rovio is a global mobile-first, game company that creates, develops, and publishes mobile games, which have been downloaded over 5 billion times. Rovio is best known for the global Angry Birds brand, which started as a popular mobile game in 2009, and has since evolved from games to various entertainment, anime, and consumer products through brand licensing.

SEGA aims to accelerate its growth in the global gaming market and increase its corporate value by generating synergies between SEGA's existing businesses and Rovio's strengths, including its global IPs and live-operated mobile game development capabilities.

(ii) Number of shares acquired, acquisition price, and ownership of shares before and after the acquisition (Note)

| | |
|--|--|
| (1) Ownership of shares before the acquisition | 0 shares (Number of voting rights: 0) (Ratio of voting rights: 0%) |
| (2) Number of shares acquired | 74,427,345 shares, 742,300 options (Number of voting rights: 74,427,345) |
| (3) Acquisition price | Shares of Rovio: approximately EUR 689 million (¥ 107,146 million) |
| (4) Ownership of shares after the acquisition | 74,427,345 shares, 742,300 options (Number of voting rights: 74,427,345) (Ratio of voting rights: 97.7%) |

Note: Acquisition price represents the amount of payment for purchasing shares and stock options.

The Company successfully acquired more than 90% of all shares and voting rights in Rovio. It further intends to implement a squeeze-out procedure set forth in the Finnish Companies Act to acquire the remaining untendered shares in order to make Rovio its wholly owned subsidiary.

2. Acquisition of treasury stock

At the Board of Directors meetings held on April 28, 2023 and August 31, 2023, the Company resolved the matter related to the acquisition of treasury stock, pursuant to the provisions of Article 156 of the Companies Act of Japan as applied by replacing the provisions stipulated in Article 165 Paragraph 3 of the same law.

(i) Reasons for the acquisition of treasury stock

The Company aims to maximize corporate value by focusing on capital efficiency in its medium-term financial strategy until the fiscal year ending March 31, 2026. While promoting aggressive investment for growth, the Company will also provide appropriate shareholder returns.

As a result of considering shareholder returns including acquisition of treasury stock based on the return policy of adopting higher of DOE 3% or more, or total return ratio of 50% or more, the Company decided to acquire treasury stock.

(ii) Details of the acquisition of treasury stock

(a) Type of shares to be acquired

Common stock

(b) Total number of shares to be acquired

8,000,000 shares (upper limit)

Ratio of total number of shares outstanding (excluding treasury stock): 3.62%

(c) Total cost of acquisition

10.0 billion yen (upper limit)

(d) Acquisition period

From May 1, 2023 to March 29, 2024

(e) Acquisition method

Market purchase on the Tokyo Stock Exchange

Notes to Consolidated Financial Statements

3. Commitment-type term loan

SEGA's wholly owned UK subsidiary SEGA Europe Limited has implemented the Tender Offer to acquire Rovio. At the Board of Directors meeting held on August 9, 2023, the Company resolved to borrow funds required for the Tender Offer from a capital policy perspective as below. The Company signed a commitment-type term loan agreement with financial institutions on August 10, 2023.

- (i) Form of borrowing:
Commitment-type term loan
- (ii) Lender
 - (a) Arranger and agent:
Sumitomo Mitsui Banking Corporation
 - (b) Joint arranger:
MUFG Bank, Ltd., Mizuho Bank, Ltd.
 - (c) Participating financial institutions:
Aozora Bank, Ltd., SBI Shinsei Bank, Limited
- (iii) Total commitment amount:
105.0 billion yen
- (iv) Borrowing amount:
100.4 billion yen
- (v) Contract day:
August 10, 2023
- (vi) Commitment period:
From August 15, 2023 to the earlier of August 15, 2024 or a corresponding day of one month after the date on which the squeeze-out is completed
- (vii) Borrowing period:
1 year
- (viii) Borrowing rate:
Base rate and spread
- (ix) Collateral:
None

4. Implementation of Structural Reforms in the consumer area (Entertainment Contents Business)

At the Board of Directors meeting held on September 28, 2023, the Company resolved to implement structural reforms in the consumer area, mainly at its European bases. In accordance with this decision, the Company expects to record a loss for the fiscal year ending March 31, 2024.

- (i) Background of implementation of structural reforms
The Company has set the consumer area as one of its growth areas and has achieved rapid earnings growth in recent years by promoting the global branding of its existing IPs and other measures. On the other hand, the business environment surrounding the consumer area has been rapidly changing, including reactionary decline from the stay-at-home demand in COVID-19 and the economic downturn due to inflation in the European region, and profitability has been lowered mainly in European bases.
To promptly adapt to these changes in the environment and improve profitability, the Company decided to implement structural reforms aimed at increasing efficiency, mainly at the Company's European bases by reviewing their title portfolio. As a result, the Company has made the difficult decision to cancel some titles under the development as well as to reduce the fixed expenses.
- (ii) Details of implementation
The Company will implement the following measures regarding structural reform in the Company's European bases which are determined at this time.
 - (a) Cancellation of titles under development
In response to the lower profitability of the European region, the Company has reviewed the title portfolio of each development base in Europe and the resulting action will be to cancel "HYENAS" and some unannounced titles under development. Accordingly, the Company will implement a write-down of work-in-progress for titles under development.
 - (b) Reduction of fixed expenses
The Company will reduce various fixed expenses at several group companies in the region, mainly for The Creative Assembly Ltd. One-time expenses related to the reduction of fixed expenses are expected to be incurred. The Company will continue to consider measures to improve profitability in European bases apart from the above.
- (iii) Future outlook
As a result of implementation of the structural reform described above in the consumer area, the Company expects to record losses of approximately 14.3 billion yen for the fiscal year ending March 31, 2024.

27 Supplemental Information

[Annexed consolidated detailed schedule of bonds]

| Company name | Security titles | Issuance date | Balances as of April 1, 2022 (Millions of yen) | Balances as of March 31, 2023 (Millions of yen) | Interest rate (%) | Type | Date of maturity |
|--------------|--|------------------|---|--|-------------------|-----------|------------------|
| The Company | 5th Series of Unsecured Straight Bonds (Publicly offered bonds) | October 10, 2019 | ¥10,000 | ¥10,000 | 0.38 | Unsecured | October 10, 2029 |
| Total | | | 10,000 | 10,000 (—) | | | |

Notes: 1. Figure in parentheses under "Balance as of March 31, 2023" is the current portion of the amount of redemption.

2. The scheduled amount of redemption after the consolidated closing date 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 |

[Annexed consolidated detailed schedule of borrowings]

| Category | Balances as of April 1, 2022 (Millions of yen) | Balances as of March 31, 2023 (Millions of yen) | Average interest rate (%) | Repayment period |
|--|---|--|---------------------------|-------------------|
| Short-term borrowings | ¥ — | ¥ — | — | — |
| Current portion of long-term l borrowings | 10,000 | 17,000 | 0.4 | — |
| Current portion of lease obligations | 1,123 | 1,377 | 2.0 | — |
| Long-term borrowings (Excluding current portion) | 32,000 | 25,000 | 0.5 | From 2025 to 2027 |
| Lease obligations (Excluding current portion) | 4,013 | 5,352 | 2.0 | From 2024 to 2031 |
| Other interest-bearing debts: | | | | |
| Accounts payable—facilities | 30 | 29 | 1.3 | — |
| Accounts payable—facilities (Excluding current portion) | 116 | 119 | 1.5 | From 2024 to 2030 |
| Total | 47,284 | 48,879 | — | — |

Notes: 1. "Average interest rate" represents the weighted average rate applicable to the balance of borrowings at end of period.

2. Some lease obligations stated in the consolidated balance sheets represent the amounts with interest equivalents not deducted from the total lease payments.

Accordingly, said lease obligations are not included when calculating the "Average interest rate."

3. The scheduled amounts of long-term borrowings, lease obligations, and other interest-bearing debts (excluding current portion) to be repaid after the consolidated closing date are as follows:

| Millions of yen | | | | | |
|------------------------------|------------------|--------------------|---------------------|--------------------|-----------------|
| | One to two years | Two to three years | Three to four years | Four to five years | Over five years |
| Long-term borrowings | ¥15,000 | ¥ — | ¥ — | ¥10,000 | ¥ — |
| Lease obligations | 1,184 | 993 | 861 | 795 | 1,518 |
| Other interest-bearing debt: | | | | | |
| Accounts payable—facilities | 22 | 20 | 20 | 20 | 34 |

Schedule of asset retirement obligations

No description is provided here, since the amount of asset retirement obligations as of the beginning and end of the current fiscal year were less than 1/100 of the total amount of liabilities and net assets, respectively, as of the beginning and end of the current fiscal year.

28 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) | ¥66,118 | ¥150,095 | ¥271,979 | ¥389,635 |
| Income before income taxes (Millions of yen) | 4,106 | 12,019 | 39,796 | 47,069 |
| Profit attributable to owners of parent (Millions of yen) | 3,158 | 9,619 | 32,846 | 45,938 |
| Profit per share (Yen) | 14.29 | 43.56 | 148.76 | 208.07 |
| (Accounting period) | First quarter | Second quarter | Third quarter | Fourth quarter |
| Profit per share (Yen) | ¥14.29 | ¥29.28 | ¥105.22 | ¥59.31 |

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, 2023 and 2022, 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 and 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, 2023 and 2022, and its consolidated financial performance and its consolidated 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.

Emphasis of Matter

We draw attention to Note 26 "Significant Subsequent Events" to the consolidated financial statements.

At the Board of Directors meeting held on April 17, 2023, the Company and SEGA CORPORATION, a subsidiary of the Company, resolved to implement a tender offer (the "Tender Offer") to acquire Rovio Entertainment Corporation ("Rovio"), a mobile game company headquartered in Finland, through SEGA's wholly owned UK subsidiary SEGA Europe Limited. Regarding the result of the Tender Offer, SEGA Europe Limited acquired approximately 96.3% of the issued and outstanding shares of Rovio, making it the Company's group company on August 17, 2023.

Furthermore, SEGA Europe Limited commenced a subsequent offer (the "Subsequent Offer") on August 11, 2023 (EET), which was completed on August 25, 2023 (EET). Together with the shares validly tendered during the Tender Offer period, the shares validly tendered during the Subsequent Offer period represented approximately 97.7% of the issued and outstanding shares and voting rights in Rovio.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our

audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of management's judgment as to whether an impairment loss should be recognized on non-financial assets including goodwill at the equity-method affiliate.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| <p>As described in Note 3, "Significant Accounting Estimates" (3), to the consolidated financial statements, SEGA SAMMY HOLDINGS INC. (hereinafter, referred to as the "Company") and its consolidated subsidiaries reported investment securities of 39,538 million yen in the consolidated balance sheet as of March 31, 2023, which included an investment in PARADISE SEGASAMMY Co., Ltd. (hereinafter "PSS"), an equity-method affiliate in the Resort Business segment, of 17,867 million yen, representing approximately 4% of total assets in the consolidated financial statements. PSS recognized non-financial assets of 125,811 million yen in its financial statements, of which 7,771 million yen was related to goodwill.</p> <p>PSS prepares its financial statements in accordance with International Financial Reporting Standards and performs an impairment test on a cash-generating unit (CGU) whenever there is an impairment indicator, or at least annually on a CGU to which goodwill has been allocated. In the impairment testing, when the recoverable amount of a CGU is less than the carrying amount, PSS reduces the carrying amount to the recoverable amount and recognizes the resulting decrease in the carrying amount as an impairment loss, which affects the amount of investment securities recorded in the Company's consolidated financial statements through the equity method of accounting.</p> <p>In the current fiscal year, PSS performed impairment tests on the CGU to which goodwill had been allocated as well as on other CGU for which there was an impairment indicator, using the value in use or the fair value less cost of disposal as the recoverable amount. The future cash flows used to measure the value in use were estimated based on the business plan of PSS approved by management. For periods beyond the period covered by the business plan, the future cash flows</p> | <p>In order to assess the appropriateness of management's judgment with respect to whether an impairment loss should be recognized on non-financial assets including goodwill held by PSS, we requested the component auditors of PSS, an equity-method affiliate, to perform specified audit procedures including the involvement of valuation specialists within the network firms of the component auditors.</p> <p>We then evaluated the report of the component auditors to conclude on whether sufficient and appropriate audit evidence was obtained from the following procedures among others:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company's internal controls relevant to evaluating the appropriateness of PSS's financial statements including the assessment on its CGUs.</p> <p>(2) Assessment of the reasonableness of the estimated recoverable amount</p> <p>Evaluating the appropriateness of the rationale supporting key assumptions adopted by management in preparing the business plan that formed the basis for estimating future cash flows used to calculate the value in use, by performing the procedures set forth below, as well as evaluating the competence, capabilities and objectivity of the external valuation expert engaged by management.</p> <ul style="list-style-type: none"> ● Inspected the materials supporting the number of casino visitors and amounts of Drop embedded in the business plan, and compared them with past actual results; and ● Compared the growth rate with external data in order to ensure that it was within the long-term average growth rate of relevant markets. <p>In addition, we involved valuation specialists within our network firms who assisted our assessment of the appropriateness of the selection of input data for estimating the discount rate used to calculate the</p> |

were estimated based on the forecasts using a projected growth rate within the long-term average growth rate of relevant markets. Key assumptions used to project future cash inflows and outflows included in the business plan, such as the number of casino visitors, amounts of Drop (chips purchased at a table) and projected market growth rate, involved a high degree of estimation uncertainty. Accordingly, management's judgment thereon had a significant effect on the estimated future cash flows.

In addition, selecting the input data for estimating the discount rate used to calculate the value in use and selecting the appropriate valuation techniques and key assumptions for measuring the fair value less cost of disposal, using mainly the depreciated replacement cost approach, required a high degree of expertise in valuation.

We, therefore, determined that our assessment of the appropriateness of management's judgment as to whether an impairment loss should be recognized on non-financial assets including goodwill held by PSS was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

value in use, and the selection of appropriate valuation techniques and key assumptions for measuring the fair value less cost of disposal.

Other Information

The other information comprises the information included in the INTEGRATED Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit and Supervisory Committee 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.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to 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 the audit and supervisory committee 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 the audit and supervisory committee 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.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

Hidetoshi Fukuda

Designated Engagement Partner

Certified Public Accountant

Danya Sekiguchi

Designated Engagement Partner

Certified Public Accountant

Yoichi Ueno

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

Oct 27, 2023

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.



SEGA SAMMY HOLDINGS INC.

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