# Management's Discussion and Analysis

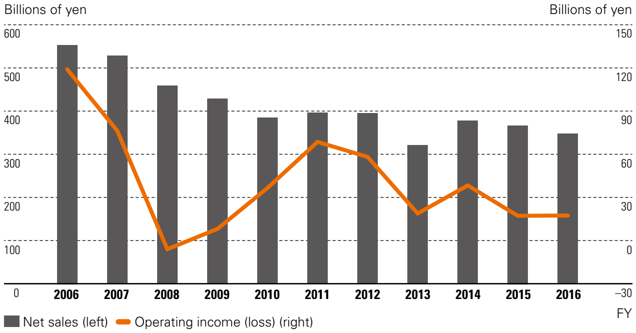
## Revenue and Expenses Analysis

### Long-Term Trends

Net sales have declined for two main reasons. First, market conditions for the Pachislot and Pachinko Machine Business segment, which accounts for a significant share of net sales, changed dramatically due to the revision of regulations pertaining to the Entertainment Establishments Control Law implemented in July 2004, and regulations continued to be strengthened after this revision. Second, net sales of existing businesses declined due to changes in conditions of the target market of SEGA CORPORATION (currently SEGA Games Co., Ltd.) and restructuring, which entailed closing and selling amusement centers in the amusement center operations area and streamlining the number of packaged game software titles to be developed.

Regarding earnings, the Group recorded an operating loss in fiscal 2008, reflecting a decrease in unit sales of pachislot and pachinko machines, which have comparatively high profit margins; lower revenues in the amusement center operations area; and flagging sales of packaged game software. Profits recovered through fiscal 2011. In recent years, however, overall profit levels have decreased due to deterioration in the profitability of the amusement machine sales area, the optimization of the scale of operations in the amusement center operations area and the packaged game software area, and changes in the operating environment of the Pachislot and Pachinko Machine Business segment. However, the restructuring of costs implemented in fiscal 2015 has improved the profitability of existing businesses, including the packaged game software area, the amusement machine sales area, and the amusement center operations area.

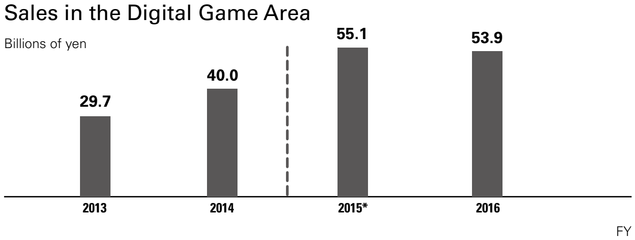
Long-Term Trends in Net Sales and Operating Income (Loss)




#### Principal Positive Factors

**Earnings growth in the digital game area**

Sales in the Digital Game Area

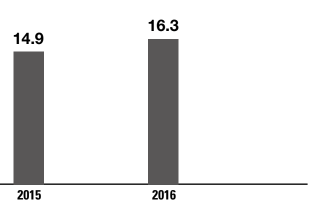



**Establishment of the Resort Business**

Net Sales of the Resort Business

Billions of yen

2012 Acquired Phoenix Resort
2013 Opened *Orbi Yokohama*

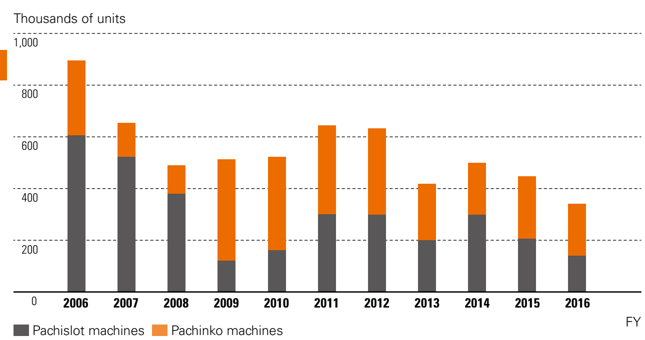



* As the recognition of net sales was changed from a net basis to a gross basis in fiscal 2016, figures for fiscal 2015 reflect this change retrospectively.

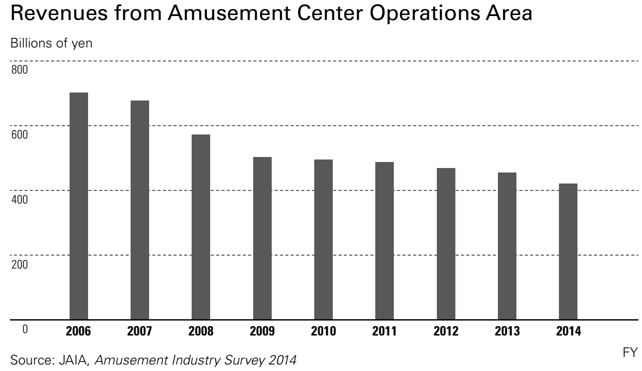
#### Principal Negative Factors

**1. Sluggish earnings growth in existing businesses, stemming from a shrinking market**

Pachislot and Pachinko Machine Unit Sales



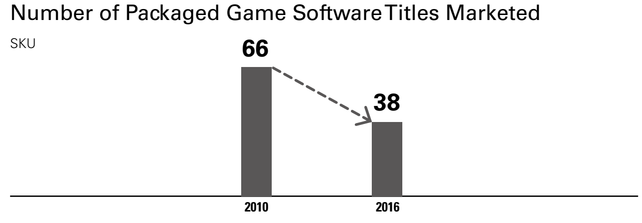

Revenues from Amusement Center Operations Area




Source: JAIA, *Amusement Industry Survey 2014*

**2. Reduction in the number of home video game software titles**

Number of Packaged Game Software Titles Marketed



**Note: Change in the recognition of sales of merchandise and finished goods**
Previously, certain consolidated subsidiaries of the Group recognized revenues primarily on a shipment basis. In fiscal 2016, however, the Group changed to recognition of revenues on a delivery basis. As a result, the Group has revised the business results of the previous fiscal year retrospectively, as stated below. Please refer to Note 3 (2) on page 93.
Effect on fiscal 2015 results
- A decrease of ¥0.4 billion in net sales
- A decrease of ¥0.1 billion in gross profit and decreases of ¥0.1 billion in operating income and income before income taxes, respectively
- A decrease of ¥0.1 billion in the retained earnings balance at the beginning of the previous fiscal period due to retrospective reflection in the total net assets balance at the beginning of the previous fiscal period

**Note: Change in the presentation of net sales of the digital game area**
For sales in the digital game area and platform fees and other associated expenses, the Group has changed from presenting net sales net of the cost of sales and selling, general and administrative expenses to presenting the gross amount of net sales; of cost of sales; and of selling, general and administrative expenses. As a result, the Group has revised the business results of the previous fiscal year retrospectively, as stated below. Please refer to Note 3 (3) on page 93.
Effect on fiscal 2015 results
- A ¥12.3 billion increase in net sales
- A ¥0.6 billion increase in gross profit

This change has not affected operating income and income before income taxes.

## Comparing Fiscal 2016 and Fiscal 2015

In fiscal 2016, ended March 31, 2016, net sales declined ¥18.8 billion, or 5.1%, year on year, to ¥347.9 billion. While the Entertainment Contents Business segment's net sales were largely unchanged year on year due to higher revenues from existing businesses, the Pachislot and Pachinko Machine Business segment recorded a 12.7% decline in revenues due to lower unit sales.

Cost of sales decreased ¥10.8 billion, or 4.7%, to ¥220.6 billion, due to lower pachislot and pachinko machine unit sales. The cost of sales ratio remained approximately unchanged year on year at 63.4%, as the reuse of components and other cost improvement measures absorbed higher component costs in the Pachislot and Pachinko Machine Business segment. Selling, general and administrative expenses amounted to ¥109.7 billion, down ¥8.1 billion, or 6.9%, year on year. This decrease reflected lower fixed costs resulting from the restructuring of costs implemented in the previous fiscal year and reductions in R&D expenses, content production expenses, and advertising expenses in the fiscal year under review.

As a result of these factors, operating income edged up ¥0.1 billion, or 0.7%, year on year, to ¥17.6 billion. The operating margin increased 0.3 percentage points, to 5.1%.

In the fiscal year under review, extraordinary loss was ¥5.6 billion, compared with extraordinary loss of ¥15.9 billion in the previous fiscal year, when the Group recorded restructuring-related expenses.

Total income taxes were ¥6.3 billion, compared with ¥12.3 billion in the previous fiscal year, when the Group reversed a portion of deferred tax assets and recorded them as deferred income taxes.

As a result, profit attributable to owners of parent was ¥5.3 billion, compared with a loss of ¥11.3 billion in the previous fiscal year.

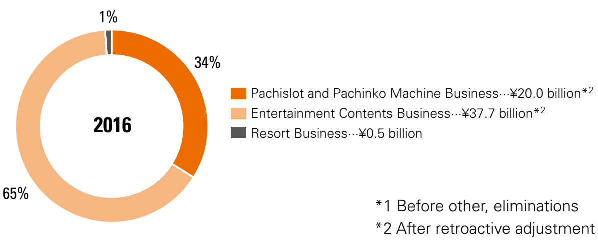
## Capital Expenditures and Depreciation and Amortization

Total capital expenditures decreased ¥0.7 billion, or 2.6%, year on year, to ¥28.0 billion. Principal capital expenditures were ¥5.0 billion in the Pachislot and Pachinko Machine Business segment, mainly to acquire molds; capital expenditures of ¥17.8 billion on amusement centers in the Entertainment Contents Business segment; and capital expenditures of ¥5.0 billion in the Resort Business segment. Depreciation and amortization decreased ¥1.0 billion, to ¥16.6 billion.

## R&D Expenses and Content Production Expenses

R&D expenses and content production expenses, which are included in cost of sales and general and administrative expenses, decreased 14.2% year on year, to ¥58.0 billion. The Pachislot and Pachinko Machine Business segment invested to enhance quality with a view to growing market share, while the Entertainment Contents Business segment invested to strengthen digital content.

Breakdown of R&D Expenses and Content Production Expenses*1

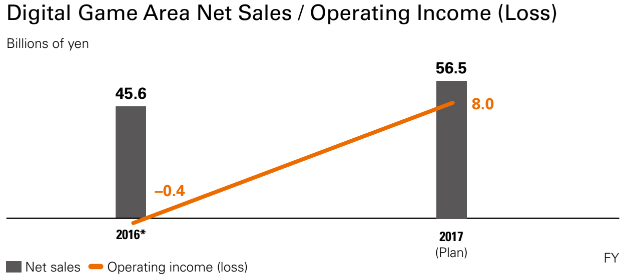



*1 Before other, eliminations
*2 After retroactive adjustment

## Fiscal 2017 Outlook

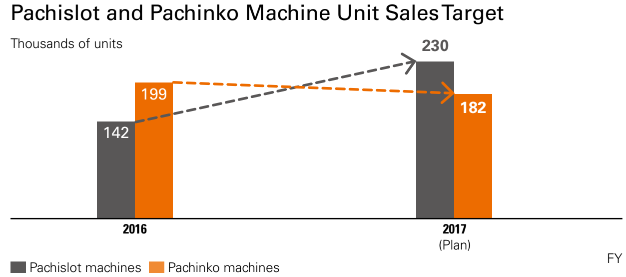
In fiscal 2017, ending March 31, 2017, the Group is targeting a 9.2% year-on-year increase in net sales, to ¥380.0 billion. The Group expects that improved profitability mainly in the Entertainment Contents Business segment will grow operating income 13.5% year on year, to ¥20.0 billion. Profit attributable to owners of parent is expected to increase 86.2% year on year, ¥10.0 billion.

Digital Game Area Net Sales / Operating Income (Loss)




* In fiscal 2017, the Group transferred certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment.

Pachislot and Pachinko Machine Unit Sales Target



## Summary of Consolidated Statements of Income and Comprehensive Income

Billions of yen

| | 2015 | 2016 | YoY change | 2017 (Plan) |
|---|---|---|---|---|
| **Net sales** | 366.8 | 347.9 | –18.8 | 380.0 |
| Cost of sales | 231.4 | 220.6 | –10.8 | — |
| Gross profit | 135.3 | 127.3 | –7.9 | — |
| Selling, general and administrative expenses | 117.8 | 109.7 | –8.1 | — |
| **Operating income** | 17.4 | 17.6 | 0.1 | 20.0 |
| Non-operating income | 2.8 | 3.1 | 0.3 | — |
| Non-operating expenses | 3.4 | 4.3 | 0.9 | — |
| **Ordinary income** | 16.8 | 16.4 | –0.4 | 20.0 |
| Extraordinary income | 1.0 | 1.2 | 0.2 | — |
| Extraordinary loss | 15.9 | 5.6 | –10.2 | — |
| Income before income taxes and minority interests | 1.9 | 12.0 | 10.0 | 20.0 |
| Total income taxes | 12.3 | 6.3 | –5.9 | — |
| **Profit (loss) attributable to owners of parent** | (11.3) | 5.3 | 16.7 | 10.0 |

## Major Expenses

Billions of yen

| | 2015 | 2016 | YoY change | 2017 (Plan) |
|---|---|---|---|---|
| R&D expenses, content production expenses | 67.6 | 58.0 | –9.6 | 67.1 |
| Capital expenditures | 28.7 | 28.0 | –0.7 | 27.7 |
| Depreciation and amortization | 17.6 | 16.6 | –1.0 | 15.6 |
| Advertising expenses | 19.1 | 17.9 | –1.2 | 19.8 |

Note: Certain line items that are classified as other income (expenses) in the consolidated statements of income (loss) and comprehensive income (loss) have been presented as extraordinary income or extraordinary loss.

## Extraordinary Income and Extraordinary Loss

Billions of yen

| 2015 | | 2016 | |
|---|---|---|---|
| Extraordinary income | | Extraordinary income | |
| Gain on sales of noncurrent assets | 0.1 | Gain on sales of noncurrent assets | 0.0 |
| Gain on sales of shares of subsidiaries and associates | 0.1 | Gain on sales of shares of subsidiaries and associates | 0.0 |
| Gain on sales of investment securities | 0.1 | Gain on sales of investment securities | 0.1 |
| Gain on reversal of subscription rights to shares | 0.1 | Gain on liquidation of subsidiaries and affiliates | 0.3 |
| Compensation income for expropriation | 0.2 | Gain on reversal of subscription rights to shares | 0.0 |
| Others | 0.0 | Gain on reversal of provision for dismantling of fixed assets | 0.5 |
| Total | 1.0 | Others | 0.2 |
| | | Total | 1.2 |
| Extraordinary loss | | Extraordinary loss | |
| Loss on sales of noncurrent assets | 0.0 | Loss on sales of noncurrent assets | 0.0 |
| Impairment loss | 7.8 | Impairment loss | 1.3 |
| Loss on valuation of investment securities | 0.1 | Loss on valuation of investment securities | 0.0 |
| Loss on valuation of shares of subsidiaries and associates | 0.1 | Loss on valuation of shares of subsidiaries and associates | 0.5 |
| Provision for dismantling of fixed assets | 2.7 | Early extra retirement payments | 1.9 |
| Loss on the discontinuance of independent film production | 1.8 | Restructuring loss | 1.2 |
| Early extra retirement payments | 1.8 | Others | 0.5 |
| Restructuring loss | 0.8 | | |
| Others | 0.3 | | |
| Total | 15.9 | Total | 5.6 |

(Reference)

## Comprehensive Income

Billions of yen

| | 2015 | 2016 |
|---|---|---|
| Profit (Loss) | (10.4) | 5.6 |
| (Breakdown) | | |
| Profit (loss) attributable to owners of parent | (11.3) | 5.3 |
| Profit attributable to non-controlling interests | 0.9 | 0.2 |
| Other comprehensive income (loss) | | |
| Valuation difference on available-for-sale securities | 0.9 | (6.3) |
| Deferred gains or losses on hedges | 0.0 | (0.0) |
| Revaluation reserve for land | 0.0 | 0.0 |
| Foreign currency translation adjustment | 4.3 | (3.3) |
| Remeasurements of defined benefit plans | (0.2) | (1.5) |
| Share of other comprehensive income of associates accounted for using equity method | 1.2 | (1.0) |
| Total other comprehensive income | 6.3 | (12.1) |
| Comprehensive income | (4.0) | (6.5) |

## Analysis by Business Segment

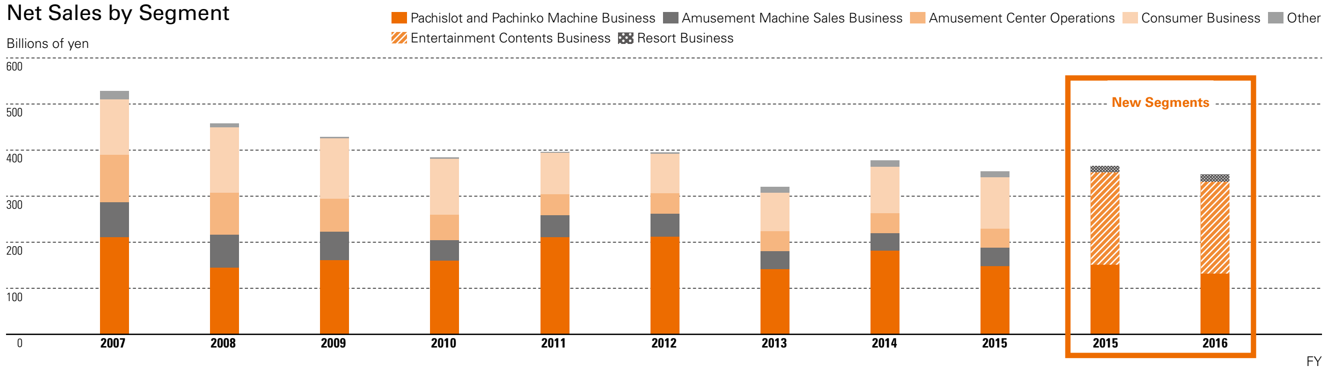
### Long-Term Trends

The Pachislot and Pachinko Machine Business segment, which had a product mix overly weighted toward pachislot machines, saw net sales decrease significantly in fiscal 2007 and fiscal 2008 due to a slump in the pachislot machine market originating from regulatory revision in July 2004. In response, the Group strengthened the product appeal of pachinko machines to correct the imbalance between pachislot and pachinko machines in its product portfolio. As a result, the segment's net sales recovered from fiscal 2009 onward. In recent years, however, net sales have tended to flag as the pachinko and pachislot machine market shrinks. In addition, earnings have remained sluggish due to ongoing increases in component procurement costs.

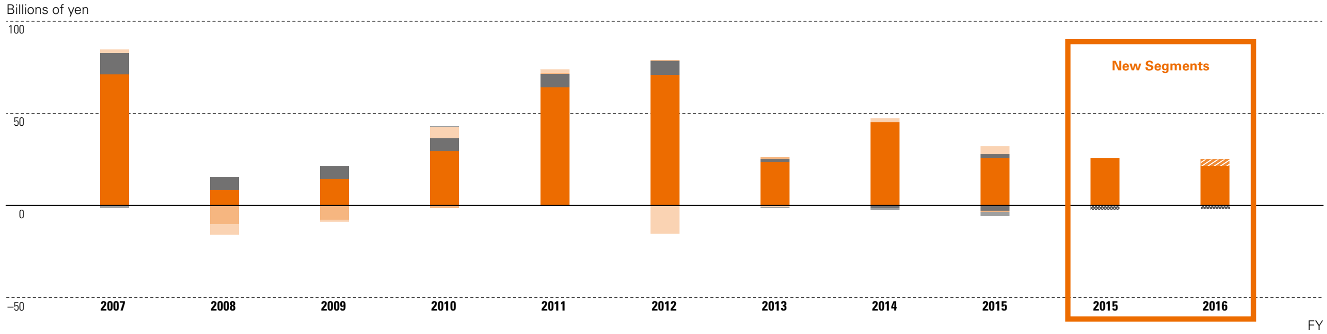
In the Group, sales growth in the Entertainment Contents Business segment's digital game area is partially offsetting declining sales in existing businesses. In the amusement machine sales area, sales have been trending downward due to continued sluggishness in the amusement center operations market, the introduction of a revenue-sharing business model in which amusement center operators and the Group share revenues based on players' use of amusement machines, and the absence of major hit titles. As a result of these factors, the amusement machine sales area has recorded operating losses in the three years since fiscal 2014. However, thanks to cost reduction measures, profitability is recovering. The amusement center operations area has been accelerating the closure and sale of amusement centers with low profitability or limited potential since recognizing an operating loss in fiscal 2008. As a result, net sales in the amusement center operations area have decreased to less than half of their peak level. However, earnings levels are recovering due to strengthened management of prizes and other measures. The packaged game software area has been improving profitability through profit structure reform by streamlining the number of titles it sells and rationalizing its organization. As for the animation and toy sales area, cost reduction measures have been stabilizing earnings.

Because the SEGA SAMMY Group is engaged in hit-product businesses, hit products, or their absence, tend to cause significant fluctuations in earnings. In particular, an issue for the Group is the significant effect on its operating income of the sales trends of the Pachislot and Pachinko Machine Business segment, which consistently accounts for the majority of the Group's earnings.

Net Sales by Segment




Operating Income (Loss) by Segment



## Analysis by Business Segment

### Comparing Fiscal 2016 and Fiscal 2015

#### Pachislot and Pachinko Machine Business

In the pachislot machine business, sales of pachislot machines that belong to series with proven track records were steady, but sales of other titles were lackluster. As for the pachinko machine business, unit sales declined due to the temporary effect of restructuring and the absence of the previous fiscal year’s introduction of major titles. As a result, the segment recorded a year-on-year decline in net sales of ¥19.4 billion, or 12.8%, to ¥132.7 billion. Operating income declined ¥4.2 billion, or 16.4%, to ¥21.5 billion, and the operating margin decreased 0.7 percentage points, to 16.2%.

#### Entertainment Contents Business

Due to a decline in revenues from the digital game area, the segment posted a year-on-year decrease in net sales of ¥0.8 billion, or 0.4%, to ¥198.8 billion. Operating income rose significantly to ¥3.6 billion, compared with the previous fiscal year’s ¥63 million, thanks to restructuring implemented in fiscal 2015.

Digital Game Area

The digital game area recorded an operating loss of ¥0.9 billion, which was attributable to the revaluation of assets for titles that did not become as popular as initially hoped, such as new online games rolled out in South Korea and certain titles for smart devices.

Packaged Game Software Area

Streamlining the number of titles and focusing efforts on the marketing of mainstay titles improved profitability. Although revenues were lower, the packaged game software area achieved operating income of ¥2.4 billion, compared with the previous fiscal year’s operating loss.

Amusement Machine Sales Area

As a result of brisk sales of CVT kits and new amusement machines, revenues rose and operating loss contracted.

Amusement Center Operations Area

Reflecting strengthened operational capabilities, sales at existing amusement centers were favorable and increased 3.1% year on year. Consequently, revenues and earnings rose.

Animation and Toy Sales Area

In the animation area, sales of new programs and distribution revenues were favorable. In the toy sales area, profitability improved due to a streamlining of the product lineup. As a result, the animation and toy sales area posted higher revenues and achieved operating income, thereby moving into the black.

#### Resort Business

Net sales increased 9.5% year on year, or ¥1.4 billion, due to an increase in customer numbers at *TOKYO JOYPOLIS* and the opening of *QINGDAO JOYPOLIS*. Also, the average spending per customer of *Phoenix Seagaia Resort* rose. As a result of these factors, operating loss improved to ¥1.8 billion, compared with ¥2.3 billion in the previous fiscal year.

### Fiscal 2017 Outlook

**Note: Retrospective revision due to transfer of businesses**

In fiscal 2017, the Group transferred certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment. The target figures of the Pachislot and Pachinko Machine Business segment and the digital game area for fiscal 2016 below are retrospectively revised figures reflecting the abovementioned transfer of businesses.

#### Pachislot and Pachinko Machine Business

This segment aims to increase net sales to ¥157.0 billion, compared with net sales of ¥141.0 billion in the fiscal year under review, by introducing multiple titles, including mainstay titles. As fiscal 2017 will coincide with a period of widespread adoption of new frames and components, the segment expects a temporary lowering of the operating margin. Therefore, the segment is targeting operating income of ¥19.0 billion and an operating margin of 12.1%, compared with operating income of ¥20.9 billion and an operating margin of 14.8% in the fiscal year under review.

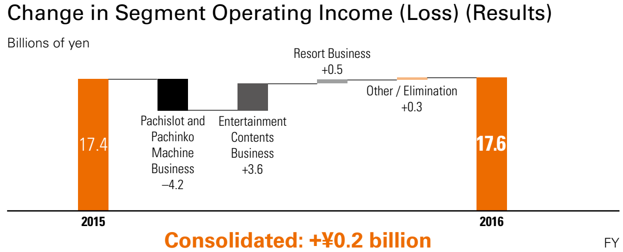
#### Entertainment Contents Business

The segment expects the concentration of efforts on existing mainstay titles in the digital game area to increase revenues and is targeting net sales of ¥207.0 billion, compared with net sales of ¥190.5 billion in the fiscal year under review. The segment aims to realize operating income of ¥9.0 billion, compared with operating income of ¥4.2 billion in the fiscal year under review, by improving profitability in the digital game area and stepping up restructuring of earnings in existing businesses.

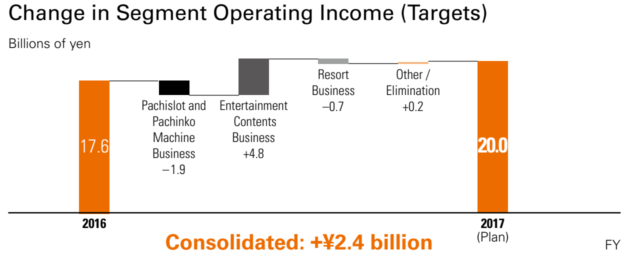
#### Resort Business

Net sales are expected to be approximately unchanged year on year at ¥16.0 billion. A ¥2.5 billion operating loss is expected, compared with a ¥1.8 billion operating loss in the fiscal year under review, due to higher depreciation and amortization accompanying investment to increase the utilization rates and profit margins of existing facilities as well as prior investment in integrated resorts.

Change in Segment Operating Income (Loss) (Results)




Change in Segment Operating Income (Targets)



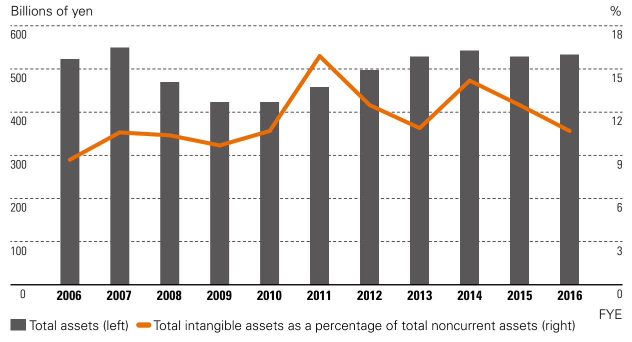
# Financial Position Analysis

## Long-Term Trends

Total assets rose in fiscal 2006 and fiscal 2007 due to an increase in property, plant and equipment and increases in respective assets that resulted from the new inclusion of companies in consolidation. However, from fiscal 2008 total assets declined as a consequence of valuation loss on securities and sales of securities accompanying restructuring. In recent years, although it has been selling amusement centers, the Group has seen total assets trend upward. This steady increase in assets is attributable to the Pachislot and Pachinko Machine Business segment's construction of a new plant, the Group's initiatives in the Resort Business segment, an increase in goodwill accompanying acquisitions in the digital game area, and an increase in investment securities accompanying new investment in growth areas. However, regarding to investments in growth areas, the Group is exercising due diligence to avoid creating a bloated balance sheet.

The equity ratio has remained consistently around 60% due to a policy of securing a certain level of internal reserves that enable investment in growth areas and the payment of stable cash dividends, even amid the earnings volatility stemming from the consequent presence or absence of hit products, which is the nature of the Group's businesses.

### Total Assets




### Comparing Fiscal 2016 and Fiscal 2015

#### Assets

Total assets at March 31, 2016, the fiscal year-end, stood at ¥532.9 billion, up ¥4.2 billion from the previous fiscal year-end.

Total current assets at the fiscal year-end amounted to ¥302.2 billion, up ¥4.2 billion. This rise was mainly due to increases in cash and deposits as well as in notes and accounts receivable–trade associated with pachislot and pachinko machines sold at the end of the fiscal year, which counteracted a decrease in short-term investment securities.

Total noncurrent assets at the fiscal year-end stood at ¥230.6 billion, up ¥26.0 million. This rise primarily reflected an increase in investment securities accompanying an additional acquisition of shares of PARADISE SEGASAMMY Co., Ltd., which offset a decrease in total intangible assets.

#### Liabilities

Total current liabilities at the fiscal year-end stood at ¥105.9 billion, up ¥19.2 billion from the previous fiscal year-end. This increase was attributable to higher notes and accounts payable–trade and the transfer of bonds payable from noncurrent liabilities to the current portion of bonds. The current ratio was 285.2%, reflecting the Group's continued high level of liquidity.

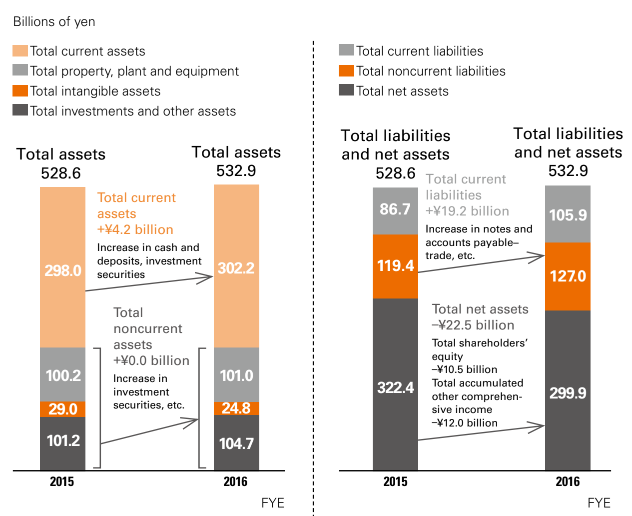
Total noncurrent liabilities at the fiscal year-end were ¥127.0 billion, up ¥7.5 billion from the previous fiscal year-end, due to such factors as fund-raising through long-term loans.

Interest-bearing debt at the fiscal year-end was ¥135.0 billion, an increase of ¥23.3 billion. Liquidity in hand of ¥189.7 billion remained higher than interest-bearing debt, testifying to a sound financial position.

#### Net Assets

Total net assets at the fiscal year-end stood at ¥299.9 billion, down ¥22.5 billion. This decline resulted from lower total shareholders' equity, due to the payment of cash dividends and the acquisition of treasury stock, and decreases in valuation difference on available-for-sale securities and foreign currency translation adjustment, which counteracted the recognition of profit attributable to owners of parent. As a result, shareholders' equity stood at ¥294.7 billion at March 31, 2016, down ¥22.8 billion from a year earlier, and the equity ratio declined 4.7 percentage points, to 55.3%. The ratio of fixed assets to fixed liabilities (ratio of total noncurrent assets to total noncurrent liabilities) was 54.7%.

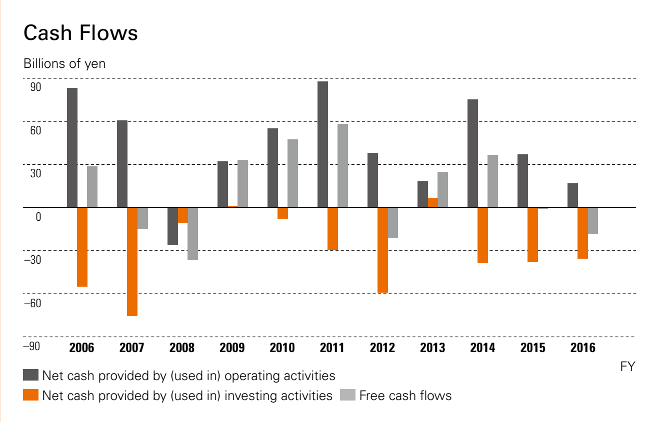
### Fiscal 2015 versus Fiscal 2016



# Cash Flow Analysis

## Long-Term Trends

With the exception of certain fiscal periods, the Group has continued to record net cash outflows in investing activities due to M&As in growth areas and strategic investments to raise production capacity. Since fiscal 2011, the Group has been investing in organizational restructuring. These efforts included investments to make three listed subsidiaries into wholly owned subsidiaries. In conjunction with these efforts, the Group has been investing actively in such growth areas as the integrated resort business and the digital game 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 its investment needs flexibly, including borrowings and bond issuance.




### Comparing Fiscal 2016 and Fiscal 2015

**Net Cash Provided by Operating Activities**

Net cash provided by operating activities was ¥16.9 billion, compared with ¥37.0 billion in the previous fiscal year. This was primarily attributable to income before income taxes of ¥12.0 billion, depreciation and amortization of ¥21.0 billion, and a ¥6.9 billion increase in notes and accounts payable–trade, which counteracted an increase in notes and accounts receivable–trade of ¥17.6 billion and an increase in inventories of ¥5.1 billion.

**Net Cash Used in Investing Activities / Free Cash Flows**

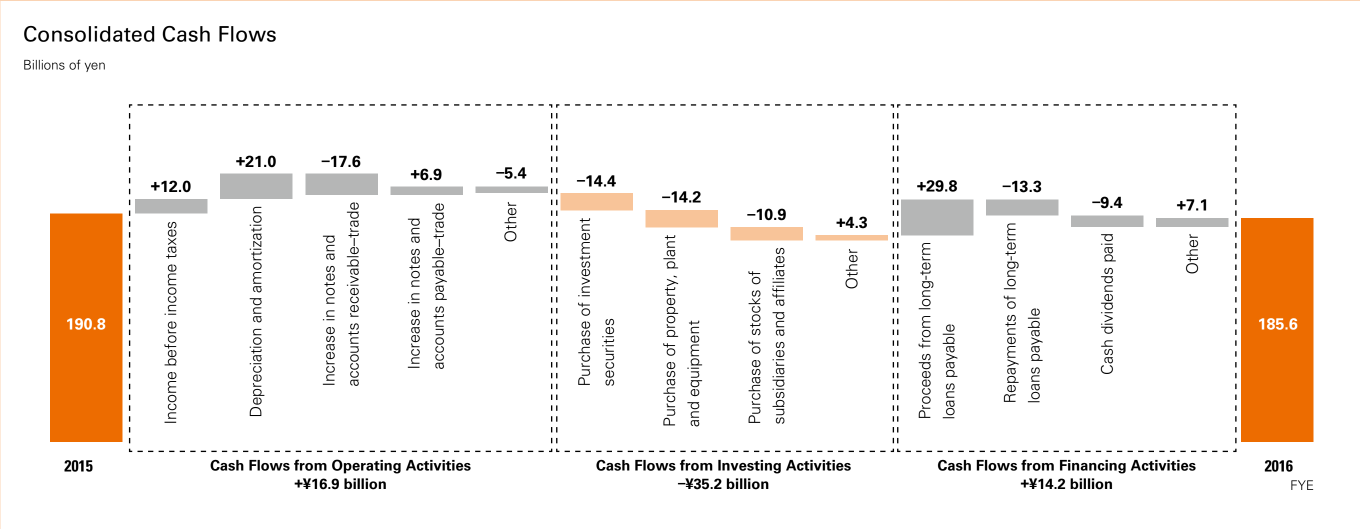
Net cash used in investing activities was ¥35.2 billion, compared with ¥37.7 billion in the previous fiscal year. This was mainly due to expenditures of ¥15.4 billion for the acquisition of short-term investment securities and investment securities, ¥14.2 billion for the purchase of property, plant and equipment, and ¥10.9 billion for the purchase of stocks of subsidiaries and affiliates.

As a result, free cash flows amounted to a negative ¥18.3 billion, compared with a negative ¥0.7 billion in the preceding fiscal year.

**Net Cash Provided by (Used in) Financing Activities**

Net cash provided by financing activities was ¥14.2 billion, compared with net cash used in financing activities of ¥15.0 billion in the previous fiscal year. This mainly stemmed from proceeds from long-term loans payable of ¥29.8 billion and proceeds from issuance of bonds of ¥9.9 billion, which more than compensated for repayments of long-term loans payable of ¥13.3 billion and cash dividends paid of ¥9.4 billion.

As a result of the above, cash and cash equivalents at the end of the period amounted to ¥185.6 billion, down ¥5.2 billion from the previous fiscal year-end.

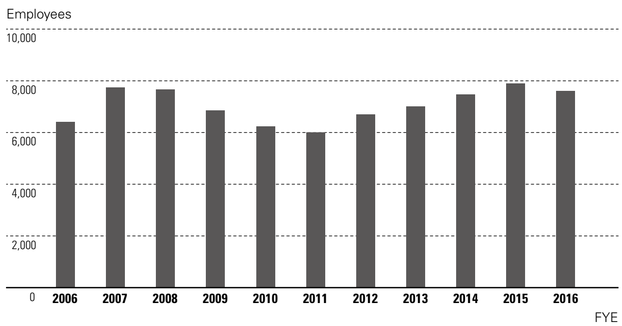


# Human and Intellectual Capital

### Consolidated Employee Numbers

At the end of fiscal 2016, the consolidated number of employees was 7,606, down 282 from the previous fiscal year-end. The average age of employees was 38.4, compared with 37.4 at the previous fiscal year-end. The Group is advancing the deployment of personnel to growth areas as a priority measure. Recently, the number of employees has been rising centered on the digital game area, while the number of employees in the existing businesses of the Entertainment Contents Business segment has been decreasing due to reductions in employee numbers through restructuring.

Consolidated Employee Numbers




Employee Numbers by Segment

Employees FYE

| Segment | 2015 | 2016 | YoY change |
|---|---|---|---|
| Pachislot and Pachinko Machine Business | 1,658 | 1,448 | –210 |
| Entertainment Contents Business | 5,271 | 5,135 | –136 |
| Resort Business | 841 | 861 | +20 |
| Corporate (holding company) | 118 | 162 | +44 |
| Total | 7,888 | 7,606 | –282 |

* In fiscal 2015, business segments were changed. For a breakdown of employee numbers in the Entertainment Contents Business segment, please see page 29.

### Intellectual Property Creation Capabilities

At the end of fiscal 2016, total intangible assets amounted to ¥24.8 billion, down ¥4.2 billion from the previous fiscal year-end.

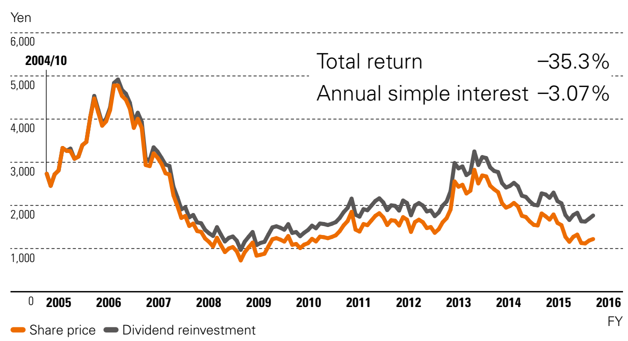
Between fiscal 2014 and fiscal 2016, R&D expenses and content production expenses on average accounted for the equivalent of 16.9% of net sales.

# Shareholder Value

### Long-Term Trends

The basic policy of the Group is to heighten shareholder value through growth strategies that generate higher earnings and thereby increase market capitalization and through the realization of stable dividends consistent with the aim of paying out approximately 20% to 30% of post-tax income as dividends. Furthermore, the Group will retain the option of acquiring treasury stock in response to share price levels. In light of this basic policy, the Group has stably paid cash dividends of ¥40.00 per share for the past five fiscal years while purchasing treasury stock flexibly. Between the management integration on October 1, 2004, and March 31, 2016, total return based on aggregated capital gain and cash dividends was minus 35.3%, equivalent to an annual simple interest of minus 3.07%. (During the same period, the total return of TOPIX was 20.6%. As of October 1, 2004, the 10-year government bond interest rate was 1.48%.)

Total Return since Management Integration (October 1, 2004)




### Fiscal 2016 Returns to Shareholders

In fiscal 2016, net income per share was ¥22.90, compared with net loss per share of ¥46.70 in the previous fiscal year. For fiscal 2016, the Group paid cash dividends of ¥40.00 per share, the same as for the previous fiscal year. As a result, the ratio of cash dividends to net assets was 3.1%.

# Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2015 and 2016

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and deposits | ¥102,260 | ¥141,316 |
| Notes and accounts receivable-trade | 38,526 | 55,612 |
| Allowance for doubtful accounts | (389) | (681) |
| Short-term investment securities | 97,210 | 48,401 |
| Merchandise and finished goods | 6,988 | 6,971 |
| Work in process | 12,281 | 17,382 |
| Raw materials and supplies | 9,967 | 10,123 |
| Income taxes receivable | 6,235 | 3,735 |
| Deferred tax assets | 6,054 | 6,286 |
| Other | 18,887 | 13,143 |
| Total current assets | 298,021 | 302,292 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 104,191 | 105,839 |
| Accumulated depreciation | (71,111) | (70,622) |
| Buildings and structures, net | 33,079 | 35,216 |
| Machinery, equipment and vehicles | 20,229 | 17,121 |
| Accumulated depreciation | (13,033) | (10,892) |
| Machinery, equipment and vehicles, net | 7,196 | 6,229 |
| Amusement machines and facilities | 54,154 | 51,574 |
| Accumulated depreciation | (44,287) | (40,189) |
| Amusement machines and facilities, net | 9,866 | 11,385 |
| Land (Note 6 (3)) | 39,822 | 38,742 |
| Construction in progress | 1,782 | 1,977 |
| Other | 52,624 | 51,259 |
| Accumulated depreciation | (44,099) | (43,729) |
| Other, net | 8,525 | 7,529 |
| Total property, plant and equipment | 100,272 | 101,080 |
| Intangible assets | | |
| Goodwill | 14,668 | 12,201 |
| Other | 14,402 | 12,616 |
| Total intangible assets | 29,071 | 24,817 |
| Investments and other assets | | |
| Investment securities (Notes 6 (1) and (2)) | 70,051 | 76,504 |
| Long-term loans receivable | 865 | 703 |
| Lease and guarantee deposits | 14,081 | 12,727 |
| Deferred tax assets | 656 | 674 |
| Other | 16,429 | 14,705 |
| Allowance for doubtful accounts | (790) | (549) |
| Total investments and other assets | 101,293 | 104,765 |
| Total noncurrent assets | 230,637 | 230,664 |
| Total assets | ¥528,659 | ¥532,957 |

See accompanying notes.

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| LIABILITIES | | |
| Current liabilities | | |
| Notes and accounts payable-trade | ¥ 26,964 | ¥ 33,011 |
| Short-term loans payable (Note 6 (4)) | 13,842 | 14,002 |
| Current portion of bonds | 1,600 | 14,200 |
| Income taxes payable | 3,240 | 2,536 |
| Accrued expenses | 13,356 | 15,467 |
| Provision for bonuses | 4,339 | 4,608 |
| Provision for directors' bonuses | 488 | 606 |
| Provision for business restructuring | 217 | 136 |
| Provision for point card certificates | 36 | — |
| Provision for dismantling of fixed assets | — | 391 |
| Asset retirement obligations | 133 | 30 |
| Deferred tax liabilities | 11 | 34 |
| Other | 22,474 | 20,964 |
| Total current liabilities | 86,707 | 105,990 |
| Noncurrent liabilities | | |
| Bonds payable | 56,200 | 52,000 |
| Long-term loans payable | 32,918 | 48,895 |
| Net defined benefit liability | 3,716 | 3,906 |
| Provision for directors' retirement benefits | 121 | — |
| Deferred tax liabilities | 4,274 | 3,258 |
| Deferred tax liabilities for land revaluation | 739 | 640 |
| Asset retirement obligations | 2,435 | 3,952 |
| Provision for dismantling of fixed assets | 3,395 | 2,368 |
| Other | 15,696 | 11,993 |
| Total noncurrent liabilities | 119,498 | 127,015 |
| Total liabilities | 206,206 | 233,006 |
| | | |
| NET ASSETS | | |
| Shareholders' equity | | |
| Capital stock | 29,953 | 29,953 |
| Capital surplus | 119,282 | 118,404 |
| Retained earnings | 198,704 | 194,505 |
| Treasury stock | (49,335) | (54,758) |
| Total shareholders' equity | 298,604 | 288,105 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 17,794 | 11,494 |
| Deferred gains or losses on hedges | 10 | (40) |
| Revaluation reserve for land (Note 6 (3)) | (4,699) | (4,600) |
| Foreign currency translation adjustment | 3,414 | (876) |
| Remeasurements of defined benefit plans | 2,206 | 651 |
| Total accumulated other comprehensive income | 18,726 | 6,628 |
| Subscription rights to shares | 832 | 801 |
| Non-controlling interests | 4,289 | 4,415 |
| Total net assets | 322,452 | 299,950 |
| Total liabilities and net assets | ¥528,659 | ¥532,957 |

See accompanying notes.

# Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

| | | Millions of yen |
|---|---|---|
| | 2015 | 2016 |
| Net sales | ¥366,813 | ¥347,981 |
| Cost of sales (Notes 7 (1) and (2)) | 231,441 | 220,609 |
| Gross profit | 135,371 | 127,372 |
| Selling, general and administrative expenses (Note 7 (2)) | 117,876 | 109,754 |
| Operating income | 17,495 | 17,617 |
| Other income (expenses) | | |
| Interest income | 307 | 463 |
| Dividends income | 982 | 923 |
| Equity in earnings of affiliates | 26 | — |
| Gain on investments in partnership | 311 | 223 |
| Foreign exchange gains | — | 58 |
| Gain on bad debts recovered | 300 | 159 |
| Interest expenses | (910) | (921) |
| Equity in losses of affiliates | — | (338) |
| Sales discounts | (58) | (2) |
| Commission fee | (159) | (204) |
| Loss on investments in partnership | (66) | (236) |
| Penalty payment for cancellation of game center lease agreement | (2) | (2) |
| Bond issuance cost | (155) | (41) |
| Loss on retirement of noncurrent assets | (585) | (481) |
| Settlement package | (418) | (3) |
| Foreign exchange losses | (390) | — |
| Loss on valuation of compound financial instruments | — | (1,127) |
| Gain on sales of noncurrent assets (Note 7 (3)) | 113 | 68 |
| Gain on sales of shares of subsidiaries and associates | 175 | 16 |
| Gain on sales of investment securities | 187 | 123 |
| Gain on liquidation of subsidiaries and affiliates | — | 306 |
| Gain on reversal of subscription rights to shares | 196 | 14 |
| Compensation income for expropriation | 277 | — |
| Gain on reversal of provision for dismantling of fixed assets | — | 523 |
| Loss on sales of noncurrent assets (Note 7 (4)) | (80) | (72) |
| Impairment loss (Note 7 (6)) | (7,881) | (1,329) |
| Loss on valuation of investment securities | (100) | (19) |
| Loss on valuation of shares of subsidiaries and associates | (188) | (568) |
| Provision for dismantling of fixed assets | (2,778) | — |
| Loss on the discontinuance of independent film production | (1,826) | — |
| Early extra retirement payments | (1,868) | (1,956) |
| Restructuring loss (Note 7 (5)) | (862) | (1,220) |
| Other, net | (72) | 45 |
| Subtotal | (15,527) | (5,601) |
| Income before income taxes | 1,968 | 12,015 |
| Income taxes-current | 5,483 | 4,040 |
| Income taxes-deferred | 6,904 | 2,354 |
| Total income taxes | 12,388 | 6,395 |
| Profit (loss) | (10,419) | 5,620 |
| (Breakdown) | | |
| Profit (loss) attributable to owners of parent | (11,375) | 5,369 |
| Profit attributable to non-controlling interests | 955 | 251 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 983 | (6,300) |
| Deferred gains or losses on hedges | 9 | (51) |
| Revaluation reserve for land | 5 | 99 |
| Foreign currency translation adjustment | 4,337 | (3,309) |
| Remeasurements of defined benefit plans, net of tax | (238) | (1,547) |
| Share of other comprehensive income of associates accounted for using equity method | 1,275 | (1,077) |
| Total other comprehensive income (Note 7 (7)) | 6,373 | (12,186) |
| Comprehensive income | (4,046) | (6,566) |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | (4,972) | (6,728) |
| Comprehensive income attributable to non-controlling interests | ¥ 925 | ¥ 161 |

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| **Shareholders' equity** | | |
| Capital stock | | |
| Balance at the beginning of the period | ¥ 29,953 | **¥ 29,953** |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | 29,953 | **29,953** |
| Changes of items during the period | | |
| Total changes of items during the period | — | **—** |
| Balance at the end of the period | 29,953 | **29,953** |
| Capital surplus | | |
| Balance at the beginning of the period | 119,312 | **119,282** |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | 119,312 | **119,282** |
| Changes of items during the period | | |
| Disposal of treasury stock | (30) | **14** |
| Purchase of shares of consolidated subsidiaries | — | **(892)** |
| Total changes of items during the period | (30) | **(877)** |
| Balance at the end of the period | 119,282 | **118,404** |
| Retained earnings | | |
| Balance at the beginning of the period | 219,684 | **198,704** |
| Cumulative effects of changes in accounting policies | 607 | **—** |
| Balance at the beginning of the period which reflects changes in accounting policies | 220,291 | **198,704** |
| Changes of items during the period | | |
| Dividends from surplus | (9,758) | **(9,436)** |
| Profit (loss) attributable to owners of parent | (11,375) | **5,369** |
| Effect of changes in accounting period of consolidated subsidiaries | — | **(129)** |
| Change of scope of consolidation | (231) | **(1)** |
| Change of scope of equity method | (222) | **(0)** |
| Total changes of items during the period | (21,587) | **(4,198)** |
| Balance at the end of the period | 198,704 | **194,505** |
| Treasury stock | | |
| Balance at the beginning of the period | (37,971) | **(49,335)** |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | (37,971) | **(49,335)** |
| Changes of items during the period | | |
| Purchase of treasury stock | (12,601) | **(5,549)** |
| Disposal of treasury stock | 1,237 | **127** |
| Total changes of items during the period | (11,363) | **(5,422)** |
| Balance at the end of the period | (49,335) | **(54,758)** |
| Total shareholders' equity | | |
| Balance at the beginning of the period | 330,977 | **298,604** |
| Cumulative effects of changes in accounting policies | 607 | **—** |
| Balance at the beginning of the period which reflects changes in accounting policies | 331,585 | **298,604** |
| Changes of items during the period | | |
| Dividends from surplus | (9,758) | **(9,436)** |
| Profit (loss) attributable to owners of parent | (11,375) | **5,369** |
| Effect of changes in accounting period of consolidated subsidiaries | — | **(129)** |
| Purchase of treasury stock | (12,601) | **(5,549)** |
| Disposal of treasury stock | 1,207 | **141** |
| Change of scope of consolidation | (231) | **(1)** |
| Change of scope of equity method | (222) | **(0)** |
| Purchase of shares of consolidated subsidiaries | — | **(892)** |
| Total changes of items during the period | (32,981) | **(10,499)** |
| Balance at the end of the period | ¥298,604 | **¥288,105** |

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| **Accumulated other comprehensive income** | | |
| Valuation difference on available-for-sale securities | | |
| Balance at the beginning of the period | ¥ 16,804 | ¥ 17,794 |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | 16,804 | 17,794 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 990 | (6,300) |
| Total changes of items during the period | 990 | (6,300) |
| Balance at the end of the period | 17,794 | 11,494 |
| Deferred gains or losses on hedges | | |
| Balance at the beginning of the period | 0 | 10 |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | 0 | 10 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 9 | (50) |
| Total changes of items during the period | 9 | (50) |
| Balance at the end of the period | 10 | (40) |
| Revaluation reserve for land | | |
| Balance at the beginning of the period | (4,705) | (4,699) |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | (4,705) | (4,699) |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 5 | 99 |
| Total changes of items during the period | 5 | 99 |
| Balance at the end of the period | (4,699) | (4,600) |
| Foreign currency translation adjustment | | |
| Balance at the beginning of the period | (2,281) | 3,414 |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | (2,281) | 3,414 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 5,695 | (4,290) |
| Total changes of items during the period | 5,695 | (4,290) |
| Balance at the end of the period | 3,414 | (876) |
| Remeasurements of defined benefit plans | | |
| Balance at the beginning of the period | 2,504 | 2,206 |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | 2,504 | 2,206 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (297) | (1,554) |
| Total changes of items during the period | (297) | (1,554) |
| Balance at the end of the period | 2,206 | 651 |
| Total accumulated other comprehensive income | | |
| Balance at the beginning of the period | 12,322 | 18,726 |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | 12,322 | 18,726 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 6,403 | (12,097) |
| Total changes of items during the period | 6,403 | (12,097) |
| Balance at the end of the period | 18,726 | 6,628 |
| **Subscription rights to shares** | | |
| Balance at the beginning of the period | 1,078 | 832 |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | 1,078 | 832 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (245) | (31) |
| Total changes of items during the period | (245) | (31) |
| Balance at the end of the period | 832 | 801 |
| **Non-controlling interests** | | |
| Balance at the beginning of the period | 3,892 | 4,289 |
| Cumulative effects of changes in accounting policies | | |
| Balance at the beginning of the period which reflects changes in accounting policies | 3,892 | 4,289 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 397 | 126 |
| Total changes of items during the period | 397 | 126 |
| Balance at the end of the period | 4,289 | 4,415 |
| **Total net assets** | | |
| Balance at the beginning of the period | 348,270 | 322,452 |
| Cumulative effects of changes in accounting policies | 607 | — |
| Balance at the beginning of the period which reflects changes in accounting policies | 348,878 | 322,452 |
| Changes of items during the period | | |
| Dividends from surplus | (9,758) | (9,436) |
| Profit (loss) attributable to owners of parent | (11,375) | 5,369 |
| Effect of changes in accounting period of consolidated subsidiaries | — | (129) |
| Purchase of treasury stock | (12,601) | (5,549) |
| Disposal of treasury stock | 1,207 | 141 |
| Change of scope of consolidation | (231) | (1) |
| Change of scope of equity method | (222) | (0) |
| Purchase of shares of consolidated subsidiaries | — | (892) |
| Net changes of items other than shareholders' equity | 6,555 | (12,003) |
| Total changes of items during the period | (26,425) | (22,502) |
| Balance at the end of the period | ¥322,452 | ¥299,950 |

See accompanying notes.

# Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

| | Millions of yen | |
|---|---|---|
| | 2015 | 2016 |
| **Cash flows from operating activities:** | | |
| Income before income taxes | ¥ 1,968 | ¥ 12,015 |
| Depreciation and amortization | 21,747 | 21,015 |
| Impairment loss | 7,881 | 1,329 |
| Amount of transfer of equipment by amusement center operations business | (4,270) | (3,486) |
| Loss (gain) on sales of noncurrent assets | (33) | 3 |
| Loss on retirement of noncurrent assets | 585 | 562 |
| Loss (gain) on sales of shares of subsidiaries and associates | 79 | (8) |
| Loss (gain) on liquidation of subsidiaries and affiliates | — | (306) |
| Loss (gain) on sales of investment securities | (187) | (123) |
| Loss (gain) on valuation of investment securities | 100 | 19 |
| Loss (gain) on investments in partnership | (245) | 12 |
| Amortization of goodwill | 3,625 | 2,364 |
| Increase (decrease) in allowance for doubtful accounts | (24) | 640 |
| Increase (decrease) in provision for directors' bonuses | (126) | 122 |
| Increase (decrease) in net defined benefit liability | (1,179) | (1,561) |
| Increase (decrease) in provision for directors' retirement benefits | (25) | (41) |
| Increase (decrease) in provision for bonuses | 277 | 390 |
| Increase (decrease) in provision for dismantling of fixed assets | 3,395 | (588) |
| Increase (decrease) in provision for business restructuring | 217 | (70) |
| Interest and dividends income | (1,289) | (1,386) |
| Interest expenses | 910 | 921 |
| Foreign exchange losses (gains) | 791 | (85) |
| Equity in (earnings) losses of affiliates | (26) | 338 |
| Decrease (increase) in notes and accounts receivable-trade | 9,606 | (17,603) |
| Decrease (increase) in inventories | 6,375 | (5,141) |
| Increase (decrease) in notes and accounts payable-trade | (10,075) | 6,922 |
| Increase (decrease) in guarantee deposits received | (131) | (165) |
| Other, net | 8,459 | 2,920 |
| Subtotal | 48,404 | 19,012 |
| Interest and dividends income received | 1,343 | 1,369 |
| Interest expenses paid | (818) | (885) |
| Income taxes paid | (13,946) | (8,163) |
| Income taxes refund | 2,026 | 5,574 |
| Net cash provided by (used in) operating activities | ¥ 37,010 | ¥ 16,906 |

See accompanying notes.

# Consolidated Statements of Cash Flows

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| **Cash flows from investing activities:** | | |
| Payments into time deposits | ¥ (2,704) | ¥ (2,661) |
| Proceeds from withdrawal of time deposits | 2,558 | 4,687 |
| Purchase of short-term investment securities | (5,000) | (1,000) |
| Proceeds from redemption of securities | — | 5,100 |
| Purchase of trust beneficiary right | (3,924) | (1,241) |
| Proceeds from sales of trust beneficiary right | 4,888 | 1,591 |
| Purchase of property, plant and equipment | (16,115) | (14,277) |
| Proceeds from sales of property, plant and equipment | 489 | 861 |
| Purchase of intangible assets | (8,494) | (9,151) |
| Proceeds from sales of intangible assets | — | 16 |
| Purchase of investment securities | (7,068) | (14,405) |
| Proceeds from sales of investment securities | 289 | 5,980 |
| Proceeds from redemption of investment securities | 400 | 2,446 |
| Payments for investment in partnerships | (1,518) | (1,023) |
| Proceeds from distribution of investment in partnerships | 128 | 449 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 9 (2)) | (637) | (390) |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation (Note 9 (3)) | (96) | — |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation (Note 9 (3)) | — | 425 |
| Purchase of stocks of subsidiaries and affiliates | (1,039) | (10,949) |
| Payments of loans receivable | (459) | (308) |
| Collection of loans receivable | 284 | 287 |
| Payments for lease deposits | (1,245) | (858) |
| Collection of lease deposits | 920 | 753 |
| Other, net | 609 | (1,612) |
| Net cash provided by (used in) investing activities | (37,734) | (35,280) |
| **Cash flows from financing activities:** | | |
| Net increase (decrease) in short-term loans payable | — | (500) |
| Proceeds from long-term loans payable | 10,900 | 29,880 |
| Repayments of long-term loans payable | (12,423) | (13,361) |
| Proceeds from issuance of bonds | 19,844 | 9,958 |
| Redemption of bonds | (1,700) | (1,600) |
| Proceeds from exercise of stock options | 1,078 | 3 |
| Cash dividends paid | (9,690) | (9,422) |
| Purchase of treasury stock | (12,601) | (12) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | — | (996) |
| Other, net (Note 9 (4)) | (10,465) | 336 |
| Net cash provided by (used in) financing activities | (15,058) | 14,285 |
| **Effect of exchange rate change on cash and cash equivalents** | 2,100 | (1,128) |
| **Net increase (decrease) in cash and cash equivalents** | (13,681) | (5,217) |
| **Cash and cash equivalents at beginning of period** | 202,741 | 190,837 |
| **Increase in cash and cash equivalents from newly consolidated subsidiary** | 1,778 | 73 |
| **Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation** | — | (1) |
| **Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries** | — | (79) |
| **Cash and cash equivalents at end of period** (Note 9 (1)) | ¥190,837 | ¥185,613 |

See accompanying notes.

# Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

## NOTE 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 2016 and 2015. 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.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the classifications used in 2016. These changes had no impact on previously reported results of operations or shareholders' equity.

## NOTE 2
## Summary of Significant Accounting Policies

### 1. Scope of consolidation

(1) Number of consolidated subsidiaries: 81

From the fiscal year ended March 31, 2016, the following were included in the Company's consolidated subsidiaries: Sammy Digital Security Co., Ltd. and two other companies, as they were newly established; Career Staff Co., Ltd., because of the Company's acquisition; SEGA Holdings Co., Ltd. and three other companies, establishment through an incorporation-type split; and Sammy Facility Service Co., Ltd. and one other company, because of the increase of importance. Play Heart, Inc., which was an equity-method affiliate in the previous fiscal year, has become a consolidated subsidiary from the current fiscal year due to additional acquisition of equity. With the deemed date of acquisition set at the end of the current fiscal year, only balance sheets of this company are consolidated and its financial results are recognized as equity in earnings/losses of affiliates for the current fiscal year.

From the fiscal year ended March 31, 2016, the following have been excluded from the scope of consolidation: Index Corporation, because of sale of the share of stocks; D×L CREATION Co., Ltd. and three other companies, because of liquidation; SEGA Networks Co., Ltd., because of merger with SEGA Games Co., Ltd.; and SAMMY HANBAI CORPORATION and one other company, because of merger with Sammy Corporation.

(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 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: 12

The following have been included in the scope of application of the equity method: ZEEG Co. Ltd., as it was newly established; Cloudzilla, Inc., because of the Company's acquisition; and ZenTiger S.à r.l., because of increase of importance.

The following have been excluded from the scope of application of the equity method: ELTEX, Inc., because of sale of the share of stocks; and Play Heart, Inc., because it has become a consolidated subsidiary due to additional acquisition of equity.

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

### 3. Accounting policies

(1) Valuation and accounting treatment for important assets

1) Held-to-maturity debt securities

Amortized cost method (the straight-line method)

2) Available-for-sale securities

Securities with fair market value:

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

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and unrealized gains or losses are reported as income or expenses for the fiscal year ended March 31, 2016.

Securities without quoted market prices:

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

The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Financial Instruments 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.
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: | 2–16 years |
| Amusement game machines: | 2–5 years |

2) Intangible assets (excluding lease assets)
Amortization is calculated using the straight-line method. The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (less than 5 years).
3) Lease assets
Lease assets involving finance lease transactions of which the ownership is transferred to lessees:
Depreciation method for such assets is the same as that which applies to property, plant and equipment owned by the Company
Lease assets involving finance lease transactions of which the ownership is not transferred to lessees:
Depreciated using the straight-line method over a useful life equal to the lease period with a residual value of zero

### (3) 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 bonus payments to employees.
3) Provision for directors' bonuses
The estimated amount of bonuses was recorded to meet the bonus payments to Directors and Audit & Supervisory Board Members.
4) Provision for business restructuring
Of the expenses expected to be incurred in connection with business restructuring, those recognized to have incurred in the fiscal year are recorded.
5) Provision for directors' retirement benefits
Certain domestic consolidated subsidiaries provide provision for directors' retirement benefits to adequately cover payment of such benefits at the end of the applicable period in accordance with internal rules.
6) Provision for dismantling of fixed assets
To provide for expenses for dismantling unused decrepit buildings, estimated future expenses are recorded.

### (4) Accounting method for retirement benefits

Attribution method for projected retirement benefits:
In calculating retirement benefit 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, 2016.
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.

### (5) Accounting for significant hedge

1) Hedge accounting
The Company adopts deferred hedge accounting. However, special treatment is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying currency swap transactions and forward exchange contracts.
2) Hedging instruments and hedged items
Hedging instrument: Currency swaps, interest rate swaps, and forward exchange contracts
Hedged item: Interest on loans payable, and 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.

### (6) 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.

### (7) 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.

(8) Consumption taxes

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

(9) Application of the Consolidated Taxation System

The Company applied the Consolidated Taxation System.

## NOTE 3
## Changes in Accounting Policies

(1) Application of Accounting Standard for Business Combinations, etc.

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards"), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the prior year's comparative information were reclassified to conform to such changes in the current year's presentation.

In the consolidated statements of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities."

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

As a result, capital surplus as of the end of the current fiscal year decreased by ¥892 million. The impact of the change on profit and loss for the current fiscal year is immaterial.

(2) Change in revenue recognition for sales of merchandise and finished goods

Some of the Company's subsidiaries previously recognized revenue primarily on a shipping basis. Effective from the fiscal year ended March 31, 2016, the revenue recognition method was changed to an "on delivery" basis. From the fiscal year ended March 31, 2016, the Company's systems for identifying delivery dates were improved in line with the reinforcement of product delivery management mainly in the Pachislot and Pachinko Machine Business. Taking this improvement as an opportunity, the Company reconsidered the revenue recognition standard and judged that recognition of revenues upon delivery more accurately reflects actual transactions.

This change in the accounting policy is retroactively applied and consolidated financial statements for the previous fiscal year are presented after retroactive application of the change.

As a result, compared with the figures prior to retroactive application of the revised revenue recognition method, the following changes are made. On the consolidated statements of income and comprehensive income for the previous fiscal year, net sales decreased by ¥430 million, gross profit decreased by ¥127 million, and both operating income and income before income taxes decreased by ¥113 million. The beginning balance of retained earnings for the previous fiscal year decreased by ¥103 million, as cumulative effects of the change in the accounting policy are to be reflected in net assets at the beginning of the previous fiscal year.

The impacts on segment information and per share data are described in the related section.

(3) Change in revenue presentation in the field of digital game software

Regarding sales in the field of digital game software and platform fees and other associated expenses, some of the Company's subsidiaries previously recorded a net amount by offsetting net sales, the cost of sales and selling, general and administrative expenses. Effective from the fiscal year ended March 31, 2016, those subsidiaries changed the method to the recording of a gross amount of net sales, the cost of sales and selling, general and administrative expenses. Owing to the Company's decision to promote business development in the field of digital game software, which is positioned as a growth field in the Entertainment Contents Business, through reallocation of resources and new investment including overseas, quantitative materiality of the field of digital game software will increase from now on. Thus, the Company considered accounting treatment that more clearly presents the situation of the Company's business activities and concluded that presenting a gross amount of net sales and recording platform fees and other associated expenses as part of the cost of sales and selling, general and administrative expenses will more clearly represent the results of operations.

The change in the accounting policy is retroactively applied and the consolidated financial statements for the previous fiscal year are presented after retroactive application of the change.

As a result of this change, compared with the figures prior to retroactive application of the revised accounting treatment, net sales and gross profit for the previous fiscal year increased by ¥12,322 million and ¥621 million, respectively, but there is no impact on operating income and income before income taxes.

The impact on segment information is described in the related section.

## NOTE 4
## Unapplied New Accounting Standards

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No. 26")

(1) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1) Treatment for an entity that does not meet any of the criteria in types 1 to 5;

2) Criteria for types 2 and 3;

3) Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;

4) Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and

5) Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance

The Company and its consolidated subsidiaries are currently in the process of determining the effects of application of the Implementation Guidance on the consolidated financial statements.

## NOTE 5
## Notes to Consolidated Balance Sheets

(1) Assets pledged

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Shares of subsidiaries and associates | ¥— | (Note) ¥23,119 |
| Total | — | 23,119 |

Note: For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. at the end of the current fiscal year, ¥40,074 million (KRW392,500 million), the shares of this company were provided as a pledge.

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

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Investment securities (shares) | ¥17,795 | ¥26,298 |
| Investment securities (capital contributions) | 288 | 938 |

(3) Revaluation reserve for land

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

Revaluation method

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

Date of revaluation: March 31, 2002

(4) Overdraft agreements and commitment line agreements

The Company and its consolidated subsidiaries have overdraft agreements and commitment line agreements with 15 banks for the effective procurement of working capital.

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2016 and 2015 are as follows:

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Total amount of overdraft limit and commitment line agreements | ¥70,925 | ¥119,625 |
| Balance of executed loans | 500 | — |
| Unexecuted balance | 70,425 | 119,625 |

## NOTE 6

## Notes to Consolidated Statements of Income and Comprehensive Income

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

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Cost of sales | ¥6,195 | ¥4,588 |

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

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| | ¥44,539 | ¥41,752 |

(3) Gain on sales of noncurrent assets

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Buildings and structures | ¥ — | ¥ 2 |
| Machinery, equipment and vehicles | — | 4 |
| Land | 109 | 6 |
| Other property, plant and equipment | 3 | 55 |
| Other intangible assets | — | 0 |
| Total | 113 | 68 |

(4) Loss on sales of noncurrent assets

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Machinery, equipment and vehicles | ¥ — | ¥ 8 |
| Land | 78 | — |
| Other property, plant and equipment | 1 | 64 |
| Total | 80 | 72 |

(5) Restructuring loss

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Restructuring loss mainly resulted from business restructuring in the United States.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Restructuring loss mainly resulted from business restructuring in the United States and South Korea.

### (6) Impairment loss

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| Use | Location | Type | Amount |
|---|---|---|---|
| Production facilities of pachislot and pachinko machines, etc. | Seto City, Aichi and 4 other locations | Buildings and structures | ¥ 228 |
| | | Other property, plant and equipment | 1,328 |
| | | Other intangible assets | 32 |
| | | Land | 33 |
| Amusement facilities | Yokohama City, Kanagawa and 6 other locations | Buildings and structures | 2,859 |
| | | Amusement machines and facilities | 691 |
| | | Other property, plant and equipment | 92 |
| | | Other intangible assets | 68 |
| Assets for business | Shibuya Ward, Tokyo and 10 other locations | Buildings and structures | 338 |
| | | Amusement machines and facilities | 563 |
| | | Other property, plant and equipment | 417 |
| | | Other intangible assets | 74 |
| Other | Minato Ward, Tokyo | Goodwill | 1,151 |
| | | Total | 7,881 |

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values for production facilities of pachislot and pachinko machines are calculated mainly as real estate appraisal amounts, while amusement facilities and assets for business are calculated as memorandum amounts mainly because future cash flows are not expected. Furthermore, recoverable value of goodwill is calculated by its useful value mainly with a discount rate of 17.5%.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| Use | Location | Type | Amount |
|---|---|---|---|
| Amusement facilities | Yokohama City, Kanagawa and 3 other locations | Buildings and structures | ¥ 256 |
| | | Other property, plant and equipment | 189 |
| | | Other intangible assets | 1 |
| Assets for business | Shinagawa Ward, Tokyo and 5 other locations | Buildings and structures | 124 |
| | | Amusement machines and facilities | 137 |
| | | Other property, plant and equipment | 392 |
| | | Other intangible assets | 204 |
| Other | South Korea | Goodwill | 22 |
| | | Total | 1,329 |

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values for amusement facilities and assets for business are calculated as memorandum amounts mainly because future cash flows are not expected.

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

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Valuation difference on available-for-sale securities: | | |
| The amount arising during the period | ¥ 650 | **¥ (9,390)** |
| Reclassification adjustments | (187) | **(123)** |
| Before adjustments to tax effects | 463 | **(9,513)** |
| The amount of tax effects | 519 | **3,213** |
| Valuation difference on available-for-sale securities | 983 | **(6,300)** |
| Deferred gains or losses on hedges: | | |
| The amount arising during the period | 14 | **(57)** |
| Reclassification adjustments | — | **—** |
| Before adjustments to tax effects | 14 | **(57)** |
| The amount of tax effects | (5) | **6** |
| Deferred gains or losses on hedges | 9 | **(51)** |
| Revaluation reserve for land: | | |
| The amount of tax effects | 5 | **99** |
| Revaluation reserve for land | 5 | **99** |
| Foreign currency translation adjustment: | | |
| The amount arising during the period | 4,337 | **(3,236)** |
| Reclassification adjustments | — | **(73)** |
| Before adjustments to tax effects | 4,337 | **(3,309)** |
| The amount of tax effects | — | **—** |
| Foreign currency translation adjustment | 4,337 | **(3,309)** |
| Remeasurements of defined benefit plans, net of tax: | | |
| The amount arising during the period | 507 | **(1,972)** |
| Reclassification adjustments | (220) | **(32)** |
| Before adjustments to tax effects | 287 | **(2,004)** |
| The amount of tax effects | (525) | **457** |
| Remeasurements of defined benefit plans, net of tax | (238) | **(1,547)** |
| Share of other comprehensive income of associates accounted for using equity method: | | |
| The amount arising during the period | 1,275 | **(1,077)** |
| Reclassification adjustments | — | **—** |
| Share of other comprehensive income of associates accounted for using equity method | 1,275 | **(1,077)** |
| Total other comprehensive income | 6,373 | **(12,186)** |

## NOTE 7
## Notes to Consolidated Statements of Changes in Net Assets

Previous fiscal year (From April 1, 2014 to March 31, 2015)

### 1. Number of outstanding common stock

Shares

| Type of stock | As of April 1, 2014 | Increase | Decrease | As of March 31, 2015 |
|---|---|---|---|---|
| Common stock | 266,229,476 | — | — | 266,229,476 |

### 2. Number of outstanding treasury stock

Shares

| Type of stock | As of April 1, 2014 | Increase | Decrease | As of March 31, 2015 |
|---|---|---|---|---|
| Common stock | 22,627,725 | 6,911,505 | 737,441 | 28,801,789 |

(Summary of the change)

Increase

Increase due to purchase in the market by resolution at the Board of Directors' meeting 6,901,600 shares

Increase due to purchase of odd-lot stock 9,905 shares

Decrease

Decrease due to exercise of stock options 736,300 shares

Decrease due to sales of odd-lot stock 1,141 shares

### 3. Subscription rights to shares

| Company name | Breakdown | Type of stock | Number of stocks (Shares) As of April 1, 2014 | Increase | Decrease | As of March 31, 2015 | Balance at March 31, 2015 (Millions of yen) |
|---|---|---|---|---|---|---|---|
| The Company | Subscription rights to shares as stock options | — | — | — | — | — | ¥832 |
| Total | | | — | — | — | — | 832 |

### 4. Dividends

(1) Dividends

| Resolution | Type of stock | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of Directors' meeting held on May 9, 2014 | Common stock | ¥4,872 | ¥20 | March 31, 2014 | May 28, 2014 |
| Board of Directors' meeting held on October 31, 2014 | Common stock | 4,886 | 20 | September 30, 2014 | December 1, 2014 |

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2015, but the effective date is in the following fiscal year

| Resolution | Type of stock | Resource of dividends | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Board of Directors' meeting held on May 11, 2015 | Common stock | Retained earnings | ¥4,748 | ¥20 | March 31, 2015 | May 27, 2015 |

Current fiscal year (From April 1, 2015 to March 31, 2016)

### 1. Number of outstanding common stock

Shares

| Type of stock | As of April 1, 2015 | Increase | Decrease | As of March 31, 2016 |
|---|---|---|---|---|
| Common stock | 266,229,476 | — | — | 266,229,476 |

### 2. Number of outstanding treasury stock

Shares

| Type of stock | As of April 1, 2015 | Increase | Decrease | As of March 31, 2016 |
|---|---|---|---|---|
| Common stock | 28,801,789 | 3,107,179 | 74,161 | 31,834,807 |

(Summary of the change)

Increase

Increase due to purchase in the market by resolution at the Board of Directors' meeting 3,098,400 shares

Increase due to purchase of odd-lot stock 8,779 shares

Decrease

Decrease due to exercise of stock options 73,500 shares

Decrease due to sales of odd-lot stock 661 shares

### 3. Subscription rights to shares

| Company name | Breakdown | Type of stock | Number of stocks (Shares) As of April 1, 2015 | Increase | Decrease | As of March 31, 2016 | Balance at March 31, 2016 (Millions of yen) |
|---|---|---|---|---|---|---|---|
| The Company | Subscription rights to shares as stock options | — | — | — | — | — | ¥801 |
| Total | | | — | — | — | — | 801 |

### 4. Dividends

(1) Dividends

| Resolution | Type of stock | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of Directors' meeting held on May 11, 2015 | Common stock | ¥4,748 | ¥20 | March 31, 2015 | May 27, 2015 |
| Board of Directors' meeting held on October 30, 2015 | Common stock | 4,687 | 20 | September 30, 2015 | December 1, 2015 |

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2016, but the effective date is in the following fiscal year

| Resolution | Type of stock | Resource of dividends | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Board of Directors' meeting held on May 13, 2016 | Common stock | Retained earnings | ¥4,687 | ¥20 | March 31, 2016 | May 27, 2016 |

## NOTE 8
## Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2016 and 2015 consisted of the following:

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Cash and deposits | ¥102,260 | ¥141,316 |
| Short-term investment securities | 97,210 | 48,401 |
| Total | 199,470 | 189,718 |
| Time deposits with maturities of more than three months | (3,432) | (2,704) |
| Short-term investment securities with period from the acquisition date to the redemption date exceeding three months | (5,200) | (1,400) |
| Cash and cash equivalents | 190,837 | 185,613 |

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

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Demiurge Studios, Inc.

| | Millions of yen |
|---|---|
| Current assets | ¥ 168 |
| Noncurrent assets | 70 |
| Goodwill | 883 |
| Current liabilities | (30) |
| Foreign currency translation adjustment | (2) |
| Acquisition cost of shares | 1,090 |
| Cash and cash equivalents | (106) |
| Accounts payable–other, etc. | (498) |
| Payments for acquisition of shares, net | (485) |

Current fiscal year (From April 1, 2015 to March 31, 2016)

Play Heart, Inc.

| | Millions of yen |
|---|---|
| Current assets | ¥ 87 |
| Noncurrent assets | 68 |
| Goodwill | 441 |
| Current liabilities | (51) |
| Non-controlling interests | (5) |
| Total | 541 |
| Acquisition cost before gaining of control | (95) |
| Acquisition cost of additional shares | 446 |
| Cash and cash equivalents | (85) |
| Payments for acquisition of shares, net | (360) |

(3) Assets and liabilities of the company which has been excluded from consolidated subsidiaries due to sales of shares
Previous fiscal year (From April 1, 2014 to March 31, 2015)

Sammy Design Co., Ltd.

| | Millions of yen |
|---|---|
| Current assets | ¥ 1,892 |
| Noncurrent assets | 529 |
| Current liabilities | (1,572) |
| Noncurrent liabilities | (50) |
| Loss on sales of shares, etc. | (319) |
| Sales price of shares | 480 |
| Cash and cash equivalents | (576) |
| Payments for sales of shares, net | (96) |

Current fiscal year (From April 1, 2015 to March 31, 2016)

Index Corporation

| | Millions of yen |
|---|---|
| Current assets | ¥ 813 |
| Noncurrent assets | 316 |
| Current liabilities | (304) |
| Noncurrent liabilities | (1) |
| Gain on sales of shares, etc. | 16 |
| Sales price of shares | 839 |
| Cash and cash equivalents | (414) |
| Proceeds from sales of shares, net | 425 |

(4) Other
Previous fiscal year (From April 1, 2014 to March 31, 2015)
Out of the ¥20,000 million of contribution for purchase of treasury stock, ¥7,413 million of money held in trust was included in "Other, net" as of March 31, 2015.

Current fiscal year (From April 1, 2015 to March 31, 2016)
Out of the ¥20,000 million of contribution for purchase of treasury stock, ¥1,876 million of refunded money held in trust was included in "Other, net" as of March 31, 2016.

## NOTE 9
## Information for Certain Leases

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment loss and net book value for the years ended March 31, 2016 and 2015, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Net book value |
|---|---|---|---|---|
| Buildings | ¥2,103 | ¥968 | ¥1,135 | ¥— |
| Total | 2,103 | 968 | 1,135 | — |

Current fiscal year (From April 1, 2015 to March 31, 2016)

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, 2016 and 2015

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Due within one year | ¥ 151 | **¥ 151** |
| Due after one year | 1,224 | **1,072** |
| Total | 1,375 | **1,224** |

Accumulated impairment loss on leased assets as of March 31, 2016 and 2015

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Accumulated impairment loss on leased assets | ¥1,084 | **¥956** |

(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, 2016 and 2015, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Lease payments | ¥ 151 | **¥151** |
| Reversal of allowance for impairment loss on leased assets | — | **128** |
| Depreciation | 124 | **124** |
| Interest expenses | 30 | **27** |
| Impairment loss | 1,084 | **—** |

### 1. Finance lease transactions

(1) Details of lease assets

Lease assets mainly consist of the following: Buildings and structures, land for office-related facilities and facilities for amusement center operations, such as buildings and structures, and amusement game machines.

(2) The methods of depreciation for lease assets

The methods of depreciation for lease assets are as follows: Lease assets involving finance lease transactions under which the ownership of the lease assets is transferred to lessees are the same methods that are applied to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions under which the ownership of the lease assets is not transferred to lessees are the straight-line method, with their residual values being zero over their leased periods used as the number of years for useful life.

### 2. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2016 and 2015 are as follows:

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Due within one year | ¥2,422 | **¥1,057** |
| Due after one year | 2,768 | **1,322** |
| Total | 5,191 | **2,380** |

## NOTE 10
## Financial Instruments

### 1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

Derivative transactions consist of forward exchange contracts and currency swap transactions as hedges against currency fluctuation risks on their foreign currency-denominated operating receivables and debt as well as foreign currency-denominated loans payable, and interest rate swap transactions as hedges against interest rate risks on loans payable. For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to "(5) Accounting for significant hedge" in "Note 2 - Summary of Significant Accounting Policies, 3. Accounting Policies."

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

With respect to trade receivables, departments in charge regularly monitor the situations of major customers in compliance with each company's management regulations for receivables, to control payment terms and balances of customers, in order to detect collection concerns such as worsening of financial conditions early and to lessen the possibilities for collection problems.

The credit risk for negotiable certificates of deposit and major bonds, etc., is minimal because the investments of these financial assets are limited to high credit rating issuers.

Customers of derivative transactions are in principle limited to correspondent financial institutions.

The amount of maximum risk as of the consolidated settlement date is expressed by the amounts of financial assets exposed to credit risks in the balance sheet.

2) Market risk management (foreign currency exchange and interest rate fluctuation risks)

Forward exchange contracts are used to hedge foreign currency exchange fluctuation risks identified by currency and by month, in parts of trade receivables and payables and loan receivables denominated in foreign currencies, and trade receivables and payables which are expected to certainly occur due to exports and imports (forecasted transactions). In addition, interest rate swap transactions, etc., are used to hedge fluctuation risks of interests on variable interest loans and currency swap transactions are used to hedge currency fluctuation risks on foreign currency-denominated loans payables, etc.

With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. Major holdings of shares are continuously reviewed in consideration of relationships with the counterparties.

In addition, some compound financial instruments are also continuously reviewed by regularly checking their fair values.

With regard to derivative transactions, the financial department or the accounting department executes and manages transactions upon obtaining internal approvals in compliance with the derivative transactions management rules of each Group company. In addition, reports on the situations of derivative transactions are made to each company's Board of Directors' meeting when and where appropriate.

3) Liquidity risk management on fund-raising (risk for delinquency)

Trade payables and loans are exposed to liquidity risk. In the Group, liquidity risk is managed by setting an appropriate fund balance for each company, and by each company updating fund plans monthly to maintain the balance that exceeds the set fund balance, and by the Company confirming each company's cash position.

### (4) Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 12 - Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

## 2. Matters concerning the fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments as well as the differences between these values are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2 below.)

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
|---|---|---|---|
| (1) Cash and deposits | ¥102,260 | ¥102,260 | ¥ — |
| (2) Notes and accounts receivable–trade | 39,239 | 39,239 | (0) |
| (3) Short-term investment securities and investment securities: | | | |
| 1) Held-to-maturity debt securities | 2,373 | 2,376 | 2 |
| 2) Available-for-sale securities (*1) | 138,879 | 138,879 | — |
| 3) Equity securities issued by affiliated companies | 886 | 1,016 | 130 |
| **Total assets** | 283,639 | 283,772 | 132 |
| (1) Notes and accounts payable–trade | 26,964 | 26,964 | — |
| (2) Short-term loans payable | 13,842 | 13,842 | — |
| (3) Long-term loans payable | 32,918 | 32,837 | 81 |
| (4) Current portion of corporate bonds | 1,600 | 1,600 | — |
| (5) Corporate bonds payable | 56,200 | 55,854 | 345 |
| **Total liabilities** | 131,525 | 131,098 | 426 |
| Derivative transactions (*2) | | | |
| 1) Derivative transactions to which hedge accounting is not applied | (1) | (1) | — |
| 2) Derivative transactions to which hedge accounting is applied | 17 | 17 | — |
| **Total derivative transactions** | 16 | 16 | — |

*1 Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire compound financial instruments are evaluated, and included in investment securities.

*2 Receivables and payables incurred by derivative transactions are presented in net amount.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
|---|---|---|---|
| (1) Cash and deposits | ¥141,316 | ¥141,316 | ¥ — |
| (2) Notes and accounts receivable–trade | 55,612 | 55,612 | (0) |
| (3) Short-term investment securities and investment securities: | | | |
| 1) Held-to-maturity debt securities | 3,374 | 3,378 | 4 |
| 2) Available-for-sale securities (*1) | 84,629 | 84,629 | — |
| 3) Equity securities issued by affiliated companies | 892 | 791 | (100) |
| Total assets | 285,825 | 285,728 | (97) |
| (1) Notes and accounts payable–trade | 33,011 | 33,011 | — |
| (2) Short-term loans payable | 14,002 | 14,002 | — |
| (3) Long-term loans payable | 48,895 | 48,870 | 25 |
| (4) Current portion of corporate bonds | 14,200 | 14,200 | — |
| (5) Corporate bonds payable | 52,000 | 51,713 | 286 |
| Total liabilities | 162,110 | 161,798 | 311 |
| Derivative transactions (*2) | | | |
| 1) Derivative transactions to which hedge accounting is not applied | 4 | 4 | — |
| 2) Derivative transactions to which hedge accounting is applied | (39) | (39) | — |
| Total derivative transactions | (35) | (35) | — |

*1 Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire compound financial instruments are evaluated, and included in investment securities.
*2 Receivables and payables incurred by derivative transactions are presented in net amount.

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions
Assets
(1) Cash and deposits and (2) Notes and accounts receivable-trade
Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable-trade, those which have more than a year to the payment date from the end of the current fiscal year are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.
(3) Short-term investment securities and investment securities
The fair values of stocks are determined using the quoted price on the stock exchange, and those of bonds are determined using the quoted price on the exchange or the quoted price obtained from financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see “Note 11 - Investment Securities.”

Liabilities
(1) Notes and accounts payable-trade, (2) Short-term loans payable and (4) Current portion of corporate bonds
Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.
(3) Long-term loans payable and (5) Corporate bonds payable
These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts with special treatment applied and by interest rate and currency swap contracts with combined treatment applied (subject to special treatment and allocation hedge accounting) are calculated by combining them with the relevant interest rate swap or interest rate and currency swap.

Derivative transactions
For notes concerning derivatives, please see “Note 12 - Derivative Transactions.”

Note 2: Financial instruments whose fair values are not readily determinable

Millions of yen

| Item | 2015 | 2016 |
|---|---|---|
| Unlisted equity securities, etc. | ¥ 3,542 | ¥ 3,011 |
| Investments in limited liability investment partnerships, etc. | 4,382 | 6,653 |
| Equity securities issued by non-consolidated subsidiaries | 436 | 1,195 |
| Equity securities issued by affiliated companies | 16,472 | 24,211 |
| Investments in capital of affiliated companies | 288 | 938 |

These items are not included in “(3) Short-term investment securities and investment securities,” because there is no market price, future cash flows cannot be estimated, and it is extremely difficult to identify fair values.

Note 3: Redemption schedule of monetary assets and securities with contractual maturities

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| | Within one year | One to five years | Five to ten years | Over ten years |
|---|---|---|---|---|
| Cash and deposits | ¥102,260 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable–trade | 39,229 | 9 | — | — |
| Short-term investment securities and investment securities: | | | | |
| Held-to-maturity debt securities (Corporate bonds) | 100 | 1,500 | 650 | 100 |
| Available-for-sale securities with maturities (Negotiable certificates of deposit) | 63,600 | — | — | — |
| Available-for-sale securities with maturities (Other)* | 20,099 | — | 200 | 1,800 |
| Total | 225,290 | 1,509 | 850 | 1,900 |

* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| | Within one year | One to five years | Five to ten years | Over ten years |
|---|---|---|---|---|
| Cash and deposits | ¥141,316 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable–trade | 55,571 | 41 | — | — |
| Short-term investment securities and investment securities: | | | | |
| Held-to-maturity debt securities (Corporate bonds) | 400 | 1,800 | 950 | 200 |
| Available-for-sale securities with maturities (Negotiable certificates of deposit) | 32,000 | — | — | — |
| Available-for-sale securities with maturities (Other)* | 16,500 | 5,000 | — | 400 |
| Total | 245,788 | 6,841 | 950 | 600 |

* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Note 4: Redemption schedules of loans payable, corporate bonds payable, lease obligations and other interest-bearing liabilities

Previous fiscal year (As of March 31, 2015)

Millions of yen

| Category | Within one year | One to two years | Two to three years | Three to four years | Four to five years | Over five years |
|---|---|---|---|---|---|---|
| Short-term loans payable | ¥13,842 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term loans payable | — | 14,010 | 6,372 | 7,515 | 5,010 | 9 |
| Corporate bonds payable | 1,600 | 14,200 | 19,500 | 10,000 | 12,500 | — |
| Lease obligations | 536 | 1,846 | 230 | 120 | 75 | 183 |
| Other interest-bearing debt: | | | | | | |
| Accounts payable–facilities | 1,318 | 1,329 | 1,079 | 451 | — | — |

Current fiscal year (As of March 31, 2016)

Millions of yen

| Category | Within one year | One to two years | Two to three years | Three to four years | Four to five years | Over five years |
|---|---|---|---|---|---|---|
| Short-term loans payable | ¥14,002 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term loans payable | — | 6,365 | 15,849 | 13,350 | 13,325 | 4 |
| Corporate bonds payable | 14,200 | 19,500 | 10,000 | 12,500 | 10,000 | — |
| Lease obligations | 1,920 | 339 | 213 | 106 | 65 | 136 |
| Other interest-bearing debt: | | | | | | |
| Accounts payable–facilities | 1,403 | 1,154 | 528 | 77 | 7 | — |

## NOTE 11
## Investment Securities

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

Previous fiscal year (As of March 31, 2015)

(1) Securities whose market value exceeds the consolidated balance sheet amount

Millions of yen

| Category | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
|---|---|---|---|
| 1) Government / municipal bonds | ¥ — | ¥ — | ¥ — |
| 2) Corporate bonds | 1,554 | 1,566 | 11 |
| 3) Other | — | — | — |
| Total | 1,554 | 1,566 | 11 |

(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

Millions of yen

| Category | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
|---|---|---|---|
| 1) Government / municipal bonds | ¥ — | ¥ — | ¥— |
| 2) Corporate bonds | 818 | 809 | (8) |
| 3) Other | — | — | — |
| Total | 818 | 809 | (8) |

Current fiscal year (As of March 31, 2016)

(1) Securities whose market value exceeds the consolidated balance sheet amount

Millions of yen

| Category | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
|---|---|---|---|
| 1) Government / municipal bonds | **¥ —** | **¥ —** | **¥ —** |
| 2) Corporate bonds | **2,471** | **2,486** | **15** |
| 3) Other | **—** | **—** | **—** |
| Total | **2,471** | **2,486** | **15** |

(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

Millions of yen

| Category | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
|---|---|---|---|
| 1) Government / municipal bonds | **¥ —** | **¥ —** | **¥ —** |
| 2) Corporate bonds | **903** | **892** | **(11)** |
| 3) Other | **—** | **—** | **—** |
| Total | **903** | **892** | **(11)** |

### 2. Available-for-sale securities

Previous fiscal year (As of March 31, 2015)

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Millions of yen

| Category | Consolidated balance sheet amount | Acquisition cost | Valuation gains (losses) |
|---|---|---|---|
| 1) Shares | ¥36,328 | ¥10,605 | ¥25,722 |
| 2) Bonds | 1,417 | 1,400 | 17 |
| 3) Other | 3,417 | 3,400 | 17 |
| Total | 41,163 | 15,405 | 25,758 |

(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost

Millions of yen

| Category | Consolidated balance sheet amount | Acquisition cost | Valuation gains (losses) |
|---|---|---|---|
| 1) Shares | ¥ 7 | ¥ 8 | ¥(0) |
| 2) Bonds | 5,598 | 5,600 | (1) |
| 3) Other | 92,110 | 92,110 | — |
| Total | 97,715 | 97,718 | (2) |

Current fiscal year (As of March 31, 2016)

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Millions of yen

| Category | Consolidated balance sheet amount | Acquisition cost | Valuation gains (losses) |
|---|---|---|---|
| 1) Shares | **¥26,823** | **¥ 9,870** | **¥16,952** |
| 2) Bonds | **606** | **600** | **6** |
| 3) Other | **1,412** | **1,373** | **39** |
| Total | **28,842** | **11,843** | **16,998** |

(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost

Millions of yen

| Category | Consolidated balance sheet amount | Acquisition cost | Valuation gains (losses) |
|---|---|---|---|
| 1) Shares | **¥ 1,972** | **¥ 2,646** | **¥ (673)** |
| 2) Bonds | **5,133** | **5,256** | **(123)** |
| 3) Other | **48,681** | **48,924** | **(243)** |
| Total | **55,787** | **56,827** | **(1,040)** |

Note: Compound financial instruments are included in "Bonds" and valuation difference of ¥1,127 million is recorded under "Other expenses."

### 3. Available-for-sale securities sold during the fiscal year

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| Category | Amount of proceeds | Total gains on sales | Total losses on sales |
|---|---|---|---|
| 1) Shares | ¥289 | ¥187 | ¥— |
| 2) Bonds | — | — | — |
| 3) Other | — | — | — |
| Total | 289 | 187 | — |

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| Category | Amount of proceeds | Total gains on sales | Total losses on sales |
|---|---|---|---|
| 1) Shares | **¥ 964** | **¥106** | **¥—** |
| 2) Bonds | **—** | **—** | **—** |
| 3) Other | **5,015** | **16** | **—** |
| Total | **5,980** | **123** | **—** |

### 4. Impairment loss on securities

Previous fiscal year (From April 1, 2014 to March 31, 2015)

During the fiscal year ended March 31, 2015, the Group recognized impairment loss on available-for-sale securities in an amount of ¥100 million.

Current fiscal year (From April 1, 2015 to March 31, 2016)

During the fiscal year ended March 31, 2016, the Group recognized impairment loss on available-for-sale securities in an amount of ¥19 million.

## NOTE 12
## Derivative Transactions

### 1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2015)

Millions of yen

| | Category | Contract value | Contract value due after one year | Fair value | Unrealized gains (losses) |
|---|---|---|---|---|---|
| Transactions other than market transactions | Forward exchange contracts: | | | | |
| | Selling | | | | |
| | U.S. dollar | ¥26 | ¥— | ¥(1) | ¥(1) |
| | Euro | 16 | — | 0 | 0 |
| Total | | 43 | — | (1) | (1) |

Note: Fair values are calculated using prices quoted by financial institutions.

Current fiscal year (As of March 31, 2016)

Millions of yen

| | Category | Contract value | Contract value due after one year | Fair value | Unrealized gains (losses) |
|---|---|---|---|---|---|
| Transactions other than market transactions | Forward exchange contracts: | | | | |
| | Selling | | | | |
| | U.S. dollar | ¥129 | ¥— | ¥3 | ¥3 |
| | Euro | 35 | — | 0 | 0 |
| Total | | 165 | — | 4 | 4 |

Note: Fair values are calculated using prices quoted by financial institutions.

(2) Compound financial instruments

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in "Note 11 - Investment Securities."

### 2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2015)

Millions of yen

| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
|---|---|---|---|---|---|
| Primary method | Forward exchange contracts: | | | | |
| | Buying | | | | |
| | U.S. dollar | Accounts payable-trade | ¥585 | ¥— | ¥17 |
| Payables translated using forward exchange contract rates | Forward exchange contracts: | | | | |
| | Buying | | | | |
| | U.S. dollar | Accounts payable-trade | 82 | — | Note 2 |

Note: 1. Fair values are calculated using prices quoted by financial institutions.
2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable-trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable-trade, since they are used for recording accounts payable-trade as hedged items.

Current fiscal year (As of March 31, 2016)

Millions of yen

| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
|---|---|---|---|---|---|
| Primary method | Forward exchange contracts: | | | | |
| | Buying | | | | |
| | U.S. dollar | Accounts payable-trade | ¥956 | ¥— | ¥(39) |
| Payables translated using forward exchange contract rates | Forward exchange contracts: | | | | |
| | Buying | | | | |
| | U.S. dollar | Accounts payable-trade | 150 | — | Note 2 |

Note: 1. Fair values are calculated using prices quoted by financial institutions.
2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable-trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable-trade, since they are used for recording accounts payable-trade as hedged items.

(2) Interest rate-related derivatives

Previous fiscal year (As of March 31, 2015)

Millions of yen

| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
|---|---|---|---|---|---|
| Special treatment for interest rate swaps | Interest rate swaps: Floating rate into fixed rate | Long-term loans payable | ¥ 5,730 | ¥2,778 | Note |
| Special treatment for interest rate and currency swaps | Interest rate and currency swaps: Floating rate into fixed rate | Long-term loans payable | 5,988 | 5,988 | Note |
| Total | | | 11,718 | 8,766 | — |

Note: With respect to "interest rate swaps" and "interest rate and currency swaps" which meet certain conditions, fair values of the interest rate swaps and currency swaps are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

Current fiscal year (As of March 31, 2016)

Millions of yen

| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
|---|---|---|---|---|---|
| Special treatment for interest rate swaps | Interest rate swaps: Floating rate into fixed rate | Long-term loans payable | **¥35,730** | **¥31,725** | **Note** |
| Special treatment for interest rate and currency swaps | Interest rate and currency swaps: Floating rate into fixed rate | Long-term loans payable | **5,988** | **988** | **Note** |
| Total | | | **41,718** | **32,713** | **—** |

Note: With respect to "interest rate swaps" and "interest rate and currency swaps" which meet certain conditions, fair values of the interest rate swaps and currency swaps are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

## NOTE 13
## Retirement Benefits

### 1. Overview of retirement benefit plans

Domestic consolidated subsidiaries offer, based on retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer defined contribution pension plans.

Under the lump-sum retirement benefit plans that the Company and certain domestic consolidated subsidiaries have, net defined benefit liability and severance and retirement benefit expenses are calculated by the simplified method.

### 2. Defined benefit pension plan

(1) Reconciliation of the difference between the amounts of projected benefit obligations (excluding pension plan using the simplified method)

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Projected benefit obligations at the beginning of the period | ¥19,777 | **¥19,724** |
| Cumulative effects of changes in accounting policies | (812) | **—** |
| Balances of projected benefit obligations at the beginning of the period which reflect changes in accounting policies | 18,965 | **19,724** |
| Service costs–benefits earned during the year | 1,618 | **1,683** |
| Interest cost on projected benefit obligations | 229 | **173** |
| Actuarial differences accrued | (317) | **1,754** |
| Retirement benefit paid | (802) | **(889)** |
| Other | 30 | **60** |
| Projected benefit obligations at the end of the period | 19,724 | **22,506** |

(2) Reconciliation of the difference between the amounts of plan assets

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Plan assets at the beginning of the period | ¥14,328 | ¥16,635 |
| Expected return on plan assets | 263 | 321 |
| Actuarial differences accrued | 185 | (117) |
| Contribution of employer | 2,326 | 3,207 |
| Retirement benefit paid | (467) | (834) |
| Plan assets at the end of the period | 16,635 | 19,211 |

(3) Reconciliation of the difference between the amounts of net defined benefit liability under pension plans using the simplified method

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Net defined benefit liability at the beginning of the period | ¥603 | ¥ 628 |
| Retirement benefit expenses | 123 | 124 |
| Retirement benefit paid | (76) | (139) |
| Other | (22) | (1) |
| Net defined benefit liability at the end of the period | 628 | 612 |

(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

| | 2015 | 2016 |
|---|---|---|
| Funded projected benefit obligations | ¥ 19,724 | ¥ 22,506 |
| Plan assets | (16,635) | (19,211) |
| | 3,088 | 3,294 |
| Unfunded projected benefit obligations | 628 | 612 |
| Net amount of liabilities and assets recorded in the consolidated balance sheet | 3,716 | 3,906 |
| | | |
| Net defined benefit liability | 3,716 | 3,906 |
| Net amount of liabilities and assets recorded in the consolidated balance sheet | 3,716 | 3,906 |

Note: Retirement benefit scheme applying the simplified method is included.

(5) Breakdown of retirement benefit expenses

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Service costs–benefits earned during the year | ¥1,618 | ¥1,683 |
| Interest cost on projected benefit obligations | 229 | 173 |
| Expected return on plan assets | (263) | (321) |
| Amortization of actuarial difference | (227) | (122) |
| Amortization of prior service cost | 45 | 44 |
| Retirement benefit expenses using the simplified method | 123 | 124 |
| Other | 41 | 71 |
| Retirement benefit expenses of defined benefit pension plan | 1,567 | 1,653 |

Note: Other than the retirement benefit expenses stated above, early extra retirement payments of ¥1,868 million and ¥1,956 million were recorded under other expenses for the years ended March 31, 2015 and 2016, respectively.

### (6) Remeasurements of defined benefit plans, net of tax

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction).

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Actuarial difference | ¥287 | **¥(2,004)** |
| Total | 287 | **(2,004)** |

### (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

| | 2015 | 2016 |
|---|---|---|
| Unrecognized actuarial differences | ¥3,107 | **¥1,102** |
| Total | 3,107 | **1,102** |

### (8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

| | 2015 | 2016 |
|---|---|---|
| Debt securities | 62% | **62%** |
| Share of stock | 21 | **17** |
| Cash and deposits | 1 | **11** |
| General account | 15 | **9** |
| Other | 0 | **1** |
| 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.

### (9) Matters concerning basis for the actuarial calculation

Basis for the actuarial calculation

| | 2015 | 2016 |
|---|---|---|
| Discount rate | 0.7–1.4% | **0.0–1.1%** |
| Long-term expected rate of return on plan assets | 1.0–2.0% | **1.6–2.5%** |

## 3. Defined contribution pension plans

The amount to be paid by consolidated subsidiaries to the defined contribution pension plans were ¥300 million and ¥268 million for the years ended March 31, 2015 and 2016, respectively.

## NOTE 14
## Stock Option Plan

### 1. Contents, scale and movement of stock options

Previous fiscal year (From April 1, 2014 to March 31, 2015)

(1) The following table summarizes the contents of stock options as of March 31, 2015.

| Company name | The Company | The Company | The Company |
|---|---|---|---|
| Date of the resolution | June 30, 2010 | June 30, 2010 | December 24, 2010 |
| Position and number of grantees | The Company's directors: 4 | The Company's executive officers: 3<br>The Company's employees: 11<br>The Company's subsidiaries' directors: 8<br>The Company's subsidiaries' executive officers: 22<br>The Company's subsidiaries' employees: 1,831 | The Company's subsidiaries' directors: 12<br>The Company's subsidiaries' executive officers: 6<br>The Company's subsidiaries' employees: 151 |
| Class and number of stock | Common stock 172,000 | Common stock 3,417,800 | Common stock 464,000 |
| Date of issue | July 31, 2010 | July 31, 2010 | February 1, 2011 |
| Condition of settlement of rights | Continue to work from July 31, 2010 to July 31, 2012 | Continue to work from July 31, 2010 to July 31, 2012 | Continue to work from February 1, 2011 to February 1, 2013 |
| Period grantees provide service in return for stock options | July 31, 2010 to July 31, 2012 | July 31, 2010 to July 31, 2012 | February 1, 2011 to February 1, 2013 |
| Period subscription rights are to be exercised | August 1, 2012 to July 31, 2014 | August 1, 2012 to July 31, 2014 | February 2, 2013 to February 1, 2015 |

| Company name | The Company | The Company | Butterfly Corporation |
|---|---|---|---|
| Date of the resolution | July 31, 2012 | July 31, 2012 | October 29, 2010 |
| Position and number of grantees | The Company's directors: 5 | The Company's executive officers: 6<br>The Company's employees: 11<br>The Company's subsidiaries' directors: 27<br>The Company's subsidiaries' executive officers: 17<br>The Company's subsidiaries' employees: 1,206 | Butterfly Corporation's directors: 3<br>Butterfly Corporation's corporate auditors: 1<br>Butterfly Corporation's employees: 56 |
| Class and number of stock | Common stock 250,000 | Common stock 3,483,000 | Common stock 49,000 |
| Date of issue | September 1, 2012 | September 1, 2012 | November 1, 2010 |
| Condition of settlement of rights | Continue to work from September 1, 2012 to September 1, 2014 | Continue to work from September 1, 2012 to September 1, 2014 | Continue to work from November 1, 2010 to October 29, 2012 |
| Period grantees provide service in return for stock options | September 1, 2012 to September 1, 2014 | September 1, 2012 to September 1, 2014 | November 1, 2010 to October 29, 2012 |
| Period subscription rights are to be exercised | September 2, 2014 to September 1, 2016 | September 2, 2014 to September 1, 2016 | October 30, 2012 to October 28, 2020 |

| Company name | Butterfly Corporation |
|---|---|
| Date of the resolution | January 19, 2011 |
| Position and number of grantees | Butterfly Corporation's employees: 10 |
| Class and number of stock | Common stock 1,000 |
| Date of issue | February 1, 2011 |
| Condition of settlement of rights | Continue to work from February 1, 2011 to October 29, 2012 |
| Period grantees provide service in return for stock options | February 1, 2011 to October 29, 2012 |
| Period subscription rights are to be exercised | October 30, 2012 to October 28, 2020 |

(2) The following table summarizes the scale and movement of stock as of March 31, 2015.

Shares

| Company name | The Company | The Company | The Company | The Company | The Company |
|---|---|---|---|---|---|
| Date of the resolution | June 30, 2010 | June 30, 2010 | December 24, 2010 | July 31, 2012 | July 31, 2012 |
| Not exercisable stock options | | | | | |
| Stock options outstanding at April 1, 2014 | — | — | — | 250,000 | 3,432,200 |
| Stock options granted | — | — | — | — | — |
| Forfeitures | — | — | — | — | 9,800 |
| Conversion to exercisable stock options | — | — | — | 250,000 | 3,422,400 |
| Stock options outstanding at March 31, 2015 | — | — | — | — | — |
| Exercisable stock options | | | | | |
| Stock options outstanding at April 1, 2014 | 47,900 | 979,400 | 233,900 | — | — |
| Conversion from not exercisable stock options | — | — | — | 250,000 | 3,422,400 |
| Stock options exercised | 44,100 | 649,600 | 7,500 | — | 35,100 |
| Forfeitures | 3,800 | 329,800 | 226,400 | — | 32,500 |
| Stock options outstanding at March 31, 2015 | — | — | — | 250,000 | 3,354,800 |

Shares

| Company name | Butterfly Corporation | Butterfly Corporation |
|---|---|---|
| Date of the resolution | October 29, 2010 | January 19, 2011 |
| Not exercisable stock options | | |
| Stock options outstanding at April 1, 2014 | — | — |
| Stock options granted | — | — |
| Forfeitures | — | — |
| Conversion to exercisable stock options | — | — |
| Stock options outstanding at March 31, 2015 | — | — |
| Exercisable stock options | | |
| Stock options outstanding at April 1, 2014 | 34,100 | 300 |
| Conversion from not exercisable stock options | — | — |
| Stock options exercised | — | — |
| Forfeitures | 2,400 | 100 |
| Stock options outstanding at March 31, 2015 | 31,700 | 200 |

The following table summarizes the price information of stock options as of March 31, 2015.

Yen

| Company name | The Company | The Company | The Company | The Company | The Company |
|---|---|---|---|---|---|
| Date of the resolution | June 30, 2010 | June 30, 2010 | December 24, 2010 | July 31, 2012 | July 31, 2012 |
| Exercise price | ¥1,312 | ¥1,312 | ¥1,753 | ¥1,686 | ¥1,686 |
| Average market price of the stock at the time of exercise | 1,978 | 2,010 | 2,145 | — | 1,763 |
| Fair value of the stock option at the date of grant | 306 | 306 | 386 | 231 | 231 |

Yen

| Company name | Butterfly Corporation | Butterfly Corporation |
|---|---|---|
| Date of the resolution | October 29, 2010 | January 19, 2011 |
| Exercise price | ¥2,000 | ¥2,000 |
| Average market price of the stock at the time of exercise | — | — |
| Fair value of the stock option at the date of grant | — | — |

Current fiscal year (From April 1, 2015 to March 31, 2016)

(1) The following table summarizes the contents of stock options as of March 31, 2016.

| Company name | The Company | The Company | Butterfly Corporation |
|---|---|---|---|
| Date of the resolution | July 31, 2012 | July 31, 2012 | October 29, 2010 |
| Position and number of grantees | The Company's directors: 5 | The Company's executive officers: 6<br>The Company's employees: 11<br>The Company's subsidiaries' directors: 27<br>The Company's subsidiaries' executive officers: 17<br>The Company's subsidiaries' employees: 1,206 | Butterfly Corporation's directors: 3<br>Butterfly Corporation's corporate auditors: 1<br>Butterfly Corporation's employees: 56 |
| Class and number of stock | Common stock 250,000 | Common stock 3,483,000 | Common stock 49,000 |
| Date of issue | September 1, 2012 | September 1, 2012 | November 1, 2010 |
| Condition of settlement of rights | Continue to work from September 1, 2012 to September 1, 2014 | Continue to work from September 1, 2012 to September 1, 2014 | Continue to work from November 1, 2010 to October 29, 2012 |
| Period grantees provide service in return for stock options | September 1, 2012 to September 1, 2014 | September 1, 2012 to September 1, 2014 | November 1, 2010 to October 29, 2012 |
| Period subscription rights are to be exercised | September 2, 2014 to September 1, 2016 | September 2, 2014 to September 1, 2016 | October 30, 2012 to October 28, 2020 |

| Company name | Butterfly Corporation |
|---|---|
| Date of the resolution | January 19, 2011 |
| Position and number of grantees | Butterfly Corporation's employees: 10 |
| Class and number of stock | Common stock 1,000 |
| Date of issue | February 1, 2011 |
| Condition of settlement of rights | Continue to work from February 1, 2011 to October 29, 2012 |
| Period grantees provide service in return for stock options | February 1, 2011 to October 29, 2012 |
| Period subscription rights are to be exercised | October 30, 2012 to October 28, 2020 |

(2) The following table summarizes the scale and movement of stock as of March 31, 2016.

Shares

| Company name | The Company | The Company | Butterfly Corporation | Butterfly Corporation |
|---|---|---|---|---|
| Date of the resolution | July 31, 2012 | July 31, 2012 | October 29, 2010 | January 19, 2011 |
| Not exercisable stock options | | | | |
| Stock options outstanding at April 1, 2015 | — | — | — | — |
| Stock options granted | — | — | — | — |
| Forfeitures | — | — | — | — |
| Conversion to exercisable stock options | — | — | — | — |
| Stock options outstanding at March 31, 2016 | — | — | — | — |
| Exercisable stock options | | | | |
| Stock options outstanding at April 1, 2015 | 250,000 | 3,354,800 | 31,700 | 200 |
| Conversion from not exercisable stock options | — | — | — | — |
| Stock options exercised | 70,000 | 3,500 | — | — |
| Forfeitures | — | 62,800 | 24,000 | 100 |
| Stock options outstanding at March 31, 2016 | 180,000 | 3,288,500 | 7,700 | 100 |

The following table summarizes the price information of stock options as of March 31, 2016.

Yen

| Company name | The Company | The Company | Butterfly Corporation | Butterfly Corporation |
|---|---|---|---|---|
| Date of the resolution | July 31, 2012 | July 31, 2012 | October 29, 2010 | January 19, 2011 |
| Exercise price | ¥1,686 | ¥1,686 | ¥2,000 | ¥2,000 |
| Average market price of the stock at the time of exercise | 1,750 | 1,680 | — | — |
| Fair value of the stock option at the date of grant | 231 | 231 | — | — |

**2. Estimation of fair value of the stock options**

Previous fiscal year (From April 1, 2014 to March 31, 2015)
Not applicable

Current fiscal year (From April 1, 2015 to March 31, 2016)
Not applicable

**3. Estimation of number of exercisable stock options**

Only the actual forfeitures are reflected because it is difficult to estimate future forfeitures reasonably.

## NOTE 15
## Income Taxes

### 1. Significant components of deferred tax assets and liabilities

Millions of yen

| | 2015 | 2016 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for doubtful accounts | ¥ 831 | ¥ 1,305 |
| Loss on valuation of inventories | 2,294 | 1,780 |
| Provision for bonuses | 1,586 | 1,570 |
| Net defined benefit liability | 1,718 | 1,143 |
| Depreciation expense | 12,300 | 11,749 |
| Loss on valuation of investment securities | 485 | 410 |
| Impairment loss | 3,185 | 2,782 |
| Other | 21,818 | 20,170 |
| Tax loss carryforward | 74,405 | 72,205 |
| Total | 118,625 | 113,117 |
| Valuation allowance | (106,232) | (101,403) |
| Offset against deferred tax liabilities | (5,681) | (4,753) |
| Net deferred tax assets | 6,711 | 6,961 |
| | | |
| Deferred tax liabilities: | | |
| Valuation difference on available-for-sale securities | (8,860) | (5,610) |
| Other | (1,846) | (3,077) |
| Subtotal of deferred tax liabilities | (10,706) | (8,688) |
| Offset against deferred tax assets | 5,681 | 4,753 |
| Total | (5,025) | (3,934) |
| Recorded deferred tax assets | 1,685 | 3,026 |

Note: As stated in "Note 3 – Changes in Accounting Policies," some of the consolidated subsidiaries of the Company have changed revenue recognition methods for sales of merchandise and finished goods, etc. Accordingly, the amounts for the fiscal year ended March 31, 2015 are restated after reflecting retroactive treatments.

### 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, 2015 and 2016

| | 2015 | 2016 |
|---|---|---|
| Statutory tax rate | 35.6% | 33.1% |
| (Reconciliation) | | |
| Changes in valuation allowance | (229.8) | 40.7 |
| Permanently non-deductible expenses including entertainment expenses | 69.3 | 8.2 |
| Amortization of goodwill | 52.2 | 3.2 |
| Difference of tax rates for consolidated subsidiaries | (0.1) | 0.6 |
| Tax credit for experiment and research expenses | (33.0) | (5.5) |
| Tax loss carryforward | 558.7 | (3.9) |
| Effect of adjustment for consolidation | 143.4 | (28.1) |
| Adjustments of deferred tax assets for enacted changes in tax laws and rates | 32.9 | 1.7 |
| Other | 0.1 | 3.4 |
| Effective tax rate for financial statement purposes | 629.4 | 53.2 |

Note: As stated in "Note 3 – Changes in Accounting Policies," some of the consolidated subsidiaries of the Company have changed revenue recognition methods for sales of merchandise and finished goods, etc. Accordingly, the amounts for the fiscal year ended March 31, 2015 are restated after reflecting retroactive treatments.

### 3. Amendments to deferred tax assets and deferred tax liabilities due to changes in income tax rate

With the enactment of the "Act on Partial Revision to the Income Tax Act" (Act No. 15 of 2016) and the "Act on Partial Revision to the Local Tax Act" (Act. No. 13 of 2016) in the National Diet on March 29, 2016, the income tax rate will be reduced from consolidated fiscal years beginning on or after April 1, 2016.

As a result of the changes, net deferred tax assets at the end of the fiscal year ended March 31, 2016, income taxes–deferred, valuation difference on available-for-sale securities, revaluation reserve for land and remeasurements of defined benefit plans have increased by ¥243 million, ¥200 million, ¥340 million, ¥99 million and ¥4 million, respectively.

## NOTE 16
## Business Combination

### 1. Transactions under common control

The Company established the Group Structure Reform Division, and has held discussions to review the earnings structure of the entire Group from a medium- to long-term perspective, and implemented the organizational restructuring within the Group as well as the change of trade names of some subsidiaries on April 1, 2015 based on the resolutions of the Board of Directors' meetings held on January 30, 2015 and February 12, 2015.

#### (1) Purpose of the corporate divestiture and merger

As part of the measures for restructuring into three business groups, the Company implemented the organizational restructuring within the Group on April 1, 2015 as a policy to clarify the responsible business field of each Group company and thereby continuously review businesses owned by the Group to promote further business reorganization.

#### (2) Overview of the corporate divestiture

1) Legal form of the business combination

An incorporation-type demerger, designating SEGA CORPORATION as a transferor company and establishing new companies (SEGA Holdings Co., Ltd., SEGA Interactive Co., Ltd. and SEGA LIVE CREATION Inc.)

2) Overview of newly established companies

| Name | SEGA Holdings Co., Ltd.<br>(As of April 1, 2015) | SEGA Interactive Co., Ltd.<br>(As of April 1, 2015) | SEGA LIVE<br>CREATION Inc.<br>(As of April 1, 2015) |
|---|---|---|---|
| Business description | Management of its Group as the holding company of the SEGA Group and all related businesses | Development, manufacture and sales of amusement machines | Planning, development and operation of entertainment theme parks in the Resort Business |
| Head office | 1-39-9, Higashi-Shinagawa, Shinagawa Ward, Tokyo | 1-2-12, Haneda, Ota Ward, Tokyo | 1-39-9, Higashi-Shinagawa, Shinagawa Ward, Tokyo |
| Capital stock | ¥100 million | ¥100 million | ¥100 million |
| Principal shareholder and shareholding ratios | SEGA SAMMY HOLDINGS INC.:100% | SEGA Holdings Co., Ltd.: 100% | SEGA SAMMY HOLDINGS INC.: 100% |

#### (3) Overview of the merger

1) Legal form of the business combination

An absorption-type merger, designating SEGA CORPORATION as the surviving company and dissolving SEGA Networks Co., Ltd. as the absorbed company

2) Overview of merging companies

| Name | SEGA CORPORATION<br>(Surviving company)<br>(As of April 1, 2015) | SEGA Networks Co., Ltd.<br>(Absorbed company)<br>(As of April 1, 2015) |
|---|---|---|
| Business description | Development, production and sales of amusement machines, development and sales of game software | Business involved in the planning, development, design, sales, delivery, and management and operation of products and services that utilize the Internet and other means of communication |
| Head office | 1-2-12, Haneda, Ota Ward, Tokyo | 1-6-1, Roppongi, Minato Ward, Tokyo |
| Capital stock | ¥100 million | ¥10 million |

* SEGA CORPORATION changed its trade name to SEGA Games Co., Ltd. on April 1, 2015.

#### (4) Overview of the accounting procedures applied

Based on the "Business Combinations Accounting Standard" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013), the Company applied an accounting procedure as a transaction under common control.

### 2. Business combination through acquisition

(1) Details and amounts of adjustments in case of significant adjustments to the initial allocation of acquisition cost

In the previous fiscal year, allocation of acquisition cost for the acquisition of Demiurge Studios, Inc. was not finalized, as it was calculated with a provisional accounting treatment, based on available and reasonable information as of the time of the preparation of the consolidated financial statements.

The adjusted amounts of goodwill following the revision of the allocation of acquisition cost for the fiscal year ended March 31, 2016 are as described below.

| | Millions of yen |
|---|---|
| Adjusted items | Amount of adjustment to goodwill |
| Goodwill (before adjustment) | ¥ 883 |
| Intangible assets | (203) |
| Amount of adjustment to goodwill | (203) |
| Goodwill (after adjustment) | 680 |

(2) Goodwill recognized, reason for recognition, and amortization method and period

1) Goodwill recognized: ¥680 million

2) Reason for recognition

Goodwill was recognized as a result of reasonable estimate of the expected future excess earning power from future business development.

3) Amortization method and period

10 years using the straight-line method

(3) Amount allocated to intangible assets other than goodwill, breakdown by category, and amortization method and period

1) Amount allocated to intangible assets: ¥203 million

2) Breakdown by category

Intangible assets related to contracts: ¥203 million

3) Amortization method and period

10 years using the straight-line method

## NOTE 17
## Segment Information

### 1. Outline of reporting segments

Reporting segments of the Group are the organizational units for which separated financial information is available, and on the basis of which the Board of Directors makes decision on the allocation of management resources and examines financial performance on a regular basis.

Planning of business development and strategies as well as execution of business activities in respect of each product and service is carried out by each Group company that provides such product and service.

As such, the Group comprises segments classified by product and service provided through the business run by each company, in which the "Pachislot and Pachinko Machine Business," the "Entertainment Contents Business" and the "Resort Business" are the reporting segments.

Line of business at each reporting segment is as follows:

| Segment | Main product and business |
|---|---|
| Pachislot and Pachinko Machine Business | Development, manufacture and sales of pachislot and pachinko machines |
| Entertainment Contents Business | Development and sales of digital game software serving as the main axis of segments; development and sales of packaged game software and amusement machines; development and operation of amusement centers; planning, production and sales of animated films; development, manufacture and sales of toys |
| Resort Business | Development and operation of hotels and theme parks in the integrated resorts business and other facilities businesses |

(Change in classification of reporting segments)
Effective from the fiscal year ended March 31, 2016, in line with the reorganization, the classification of the reporting segments has been revised. The reporting segments, which previously consisted of the "Pachislot and Pachinko Machine Business," the "Amusement Machines Sales Business," the "Amusement Center Operations Business" and the "Consumer Business," now consist of the "Pachislot and Pachinko Machine Business," the "Entertainment Contents Business" and the "Resort Business," in line with the reorganization within the Group as of April 1, 2015.

Segment information of the previous fiscal year is based on the segment classification after the change.

## 2. Basis of measurement for net sales, income (loss), assets and other items by each reporting segment

The accounting treatment for the Group's reporting segments is generally the same as described in "Note 2 – Summary of Significant Accounting Policies."

(Change in revenue recognition for sales of merchandise and finished goods)
As described in "Note 3 – Changes in Accounting Policies," some of the Company's subsidiaries changed revenue recognition for sales of merchandise and finished goods. The change in the accounting policy is retroactively applied and the segment information of the previous fiscal year is presented after retroactive application of the change.

As a result of this change, compared with figures prior to retroactive application, net sales and segment income (loss) of the previous fiscal year changed as follows: in the Pachislot and Pachinko Machine Business, net sales decreased by ¥482 million and segment income decreased by ¥151 million; in the Entertainment Contents Business, net sales increased by ¥51 million and segment income increased by ¥37 million.

(Change in revenue presentation in the field of digital game software)
As described in "Note 3 – Changes in Accounting Policies," some of the Company's subsidiaries changed revenue presentation in the field of digital game software. The change in the accounting policy is retroactively applied and the segment information of the previous fiscal year is presented after retroactive application of the change.

As a result of this change, compared with figures prior to retroactive application, net sales of the previous fiscal year increased by ¥12,322 million in the Entertainment Contents Business but there is no impact on segment income (loss).

## 3. Information on the amounts of net sales, income (loss), assets and other items by each reporting segment

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| | Reporting segment | | | | | |
|---|---|---|---|---|---|---|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | Adjustment (Note) | Amount in consolidated financial statements |
| Net sales: | | | | | | |
| Sales to third parties | ¥152,174 | ¥199,663 | ¥14,974 | ¥366,813 | ¥ — | ¥366,813 |
| Inter-segment sales and transfers | 589 | 1,047 | 80 | 1,716 | (1,716) | — |
| Total | 152,763 | 200,711 | 15,054 | 368,530 | (1,716) | 366,813 |
| Segment income (loss) | 25,780 | 63 | (2,336) | 23,507 | (6,012) | 17,495 |
| Segment assets | 91,851 | 194,282 | 43,569 | 329,703 | 198,955 | 528,659 |
| Other items: | | | | | | |
| Depreciation | 6,484 | 13,666 | 995 | 21,147 | 600 | 21,747 |
| Investments in associates accounted for by the equity method | 325 | 387 | 15,234 | 15,947 | 886 | 16,833 |
| Increases in property, plant and equipment and intangible assets | 6,949 | 19,511 | 2,162 | 28,623 | 157 | 28,780 |

Notes: 1. Elimination of inter-segment transactions of ¥41 million and general corporate expenses of ¥(6,053) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(6,012) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
2. Adjustments for segment assets of ¥198,955 million includes elimination of inter-segment transactions of ¥(25,455) million and general corporate assets of ¥224,411 million which are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.
3. The adjustment to depreciation is mainly depreciation associated with the Company.
4. Adjustments for investments in associates accounted for using the equity method are investments in associates accounted for using the equity method that are not attached to each reporting segment.
5. The adjustment to property, plant and equipment and intangible assets is mainly the purchase of noncurrent assets associated with the Company.
6. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| | Reporting segment | | | | | |
|---|---|---|---|---|---|---|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | Adjustment (Note) | Amount in consolidated financial statements |
| Net sales: | | | | | | |
| Sales to third parties | ¥132,732 | ¥198,856 | ¥16,392 | ¥347,981 | ¥ — | ¥347,981 |
| Inter-segment sales and transfers | 675 | 863 | 57 | 1,596 | (1,596) | — |
| Total | 133,407 | 199,720 | 16,450 | 349,577 | (1,596) | 347,981 |
| Segment income (loss) | 21,548 | 3,653 | (1,825) | 23,376 | (5,759) | 17,617 |
| Segment assets | 109,997 | 181,328 | 56,208 | 347,534 | 185,422 | 532,957 |
| Other items: | | | | | | |
| Depreciation | 6,325 | 13,049 | 1,047 | 20,422 | 592 | 21,015 |
| Investments in associates accounted for by the equity method | 545 | 825 | 23,127 | 24,498 | 892 | 25,390 |
| Increases in property, plant and equipment and intangible assets | 5,014 | 17,867 | 5,045 | 27,927 | 119 | 28,046 |

Notes: 1. Elimination of inter-segment transactions of ¥98 million and general corporate expenses of ¥(5,858) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(5,759) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
2. Adjustments for segment assets of ¥185,422 million includes elimination of inter-segment transactions of ¥(33,979) million and general corporate assets of ¥219,401 million which are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.
3. The adjustment to depreciation is mainly depreciation associated with the Company.
4. Adjustments for investments in associates accounted for using the equity method are investments in associates accounted for using the equity method that are not attached to each reporting segment.
5. The adjustment to property, plant and equipment and intangible assets is mainly the purchase of noncurrent assets associated with the Company.
6. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

[Related information]
Previous fiscal year (From April 1, 2014 to March 31, 2015)

### 1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

### 2. Geographical segment information

(1) Net sales

Millions of yen

| Japan | North America | Europe | Other | Total |
|---|---|---|---|---|
| ¥325,414 | ¥19,668 | ¥13,487 | ¥8,245 | ¥366,813 |

Note: Net sales are geographically classified by country or region in which customers are located.

(2) Property, plant and equipment

Millions of yen

| Japan | Korea | Other | Total |
|---|---|---|---|
| ¥83,968 | ¥13,532 | ¥2,771 | ¥100,272 |

Note: Property, plant and equipment are geographically classified by country or region in which customers are located.

### 3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statements of income and comprehensive income.

Current fiscal year (From April 1, 2015 to March 31, 2016)

### 1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

### 2. Geographical segment information

(1) Net sales

Millions of yen

| Japan | North America | Europe | Other | Total |
|---|---|---|---|---|
| ¥312,726 | ¥20,377 | ¥5,883 | ¥8,993 | ¥347,981 |

(Note) Net sales are geographically classified by country or region in which customers are located.

(2) Property, plant and equipment

Millions of yen

| Japan | Korea | Other | Total |
|---|---|---|---|
| ¥84,004 | ¥12,908 | ¥4,167 | ¥101,080 |

Note: Property, plant and equipment are geographically classified by country or region in which customers are located.

### 3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statements of income and comprehensive income.

[Information on the amount of impairment loss on noncurrent assets by each reporting segment]
Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| | Reporting segment | | | | | |
|---|---|---|---|---|---|---|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | Adjustment (Note) | Amount in consolidated financial statements |
| Impairment loss | ¥1,623 | ¥5,963 | ¥294 | ¥7,881 | ¥— | ¥7,881 |

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| | Reporting segment | | | | | |
|---|---|---|---|---|---|---|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | Adjustment (Note) | Amount in consolidated financial statements |
| Impairment loss | ¥— | ¥1,232 | ¥97 | ¥1,329 | ¥— | ¥1,329 |

[Information on amortization of goodwill and unamortized balance by each reporting segment]
Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| | Reporting segment | | | | | |
|---|---|---|---|---|---|---|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | Adjustment (Note) | Amount in consolidated financial statements |
| Amortization | ¥241 | ¥ 3,383 | ¥ — | ¥ 3,625 | ¥— | ¥ 3,625 |
| Balance as of March 31, 2015 | 65 | 14,404 | 198 | 14,668 | — | 14,668 |

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| | Reporting segment | | | | | |
|---|---|---|---|---|---|---|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | Adjustment (Note) | Amount in consolidated financial statements |
| Amortization | ¥44 | ¥ 2,253 | ¥ 66 | ¥ 2,364 | ¥— | ¥ 2,364 |
| Balance as of March 31, 2016 | 38 | 12,030 | 132 | 12,201 | — | 12,201 |

[Information on gain on negative goodwill by each reporting segment]

Previous fiscal year (From April 1, 2014 to March 31, 2015)
Not applicable

Current fiscal year (From April 1, 2015 to March 31, 2016)
Not applicable

## NOTE 18
## Related-Party Transactions

### 1. Related-party transactions

(1) Transactions between the Company and related parties

1) Non-consolidated subsidiaries and affiliated companies of the Company

Previous fiscal year (From April 1, 2014 to March 31, 2015)
Not applicable

Current fiscal year (From April 1, 2015 to March 31, 2016)

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 |
|---|---|---|---|---|---|
| PARADISE SEGASAMMY Co., Ltd. | Resort business | Underwriting of capital increase (Note 1) | ¥ 9,252 | — | ¥— |
| | | Provision of security (Note 2) | 23,119 | — | — |

Note: 1. The Company underwrote a capital increase through allotment to shareholders.
2. For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

2) Directors, key individual shareholders, etc., of the Company

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Accounts | End of period account balance |
|---|---|---|---|---|---|
| FSC Co., Ltd. (Note 1) | Non-life insurance agent | Payment of insurance (Note 2) | ¥8 | Prepaid expenses | ¥ 2 |
| | | Payment of outsourcing fee (Note 2) | 9 | — | — |
| | | Rental income from real estate and equipment (Note 2) | 3 | Current liabilities–other | 0 |

Note: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2015 to March 31, 2016)

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 | Director of the Company | Exercise of stock options (Note 1) | ¥118 | — | ¥— |
| FSC Co., Ltd. (Note 2) | Non-life insurance agent | Payment of insurance (Note 3) | 11 | Prepaid expenses | 6 |
| | | Payment of outsourcing fee (Note 3) | 0 | — | — |
| | | Rental income from real estate and equipment (Note 3) | 3 | — | — |

Notes: 1. Stock options which were granted based on the resolution at the ordinary Board of Directors' meeting held on July 31, 2012 and exercised during the current fiscal year are listed. The transaction amount listed herein is calculated by multiplying the number of shares granted upon exercise of stock options during the current fiscal year by the amount of payment upon exercise.
2. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
3. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
4. Consumption taxes are not included in transaction amount.

### (2) Transactions between subsidiaries of the Company and related parties

Directors, key individual shareholders, etc., of the Company

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Millions of yen

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Accounts | End of period account balance |
|---|---|---|---|---|---|
| FSC Co., Ltd. (Note 1) | Non-life insurance agent | Payment of insurance (Note 2) | ¥42 | Prepaid expenses | ¥24 |
| | | | | Accrued expenses | 0 |
| | | Receipt and remittance of insurance | 1 | — | — |
| | | Payment of welfare expenses (Note 2) | 2 | — | — |

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Accounts | End of period account balance |
|---|---|---|---|---|---|
| FSC Co., Ltd. (Note 1) | Non-life insurance agent | Payment of insurance (Note 2) | ¥39 | Prepaid expenses | ¥24 |
| | | | | Accrued expenses | 0 |
| | | Payment of welfare expenses (Note 2) | 1 | — | — |

Notes: 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

## NOTE 19
## Per Share Data

Yen

| Item | 2015 | 2016 |
|---|---|---|
| Net assets per share | ¥1,336.54 | **¥1,257.43** |
| Net income (loss) per share | (46.70) | **22.90** |
| Net income per share (diluted) | — | **22.90** |

Notes: 1. Dilutive shares existed but the amount for diluted net income per share has been omitted because the Company recorded a net loss per share for the fiscal year ended March 31, 2015.
2. As stated in "Note 3 – Changes in Accounting Policies," some of the consolidated subsidiaries of the Company have changed revenue recognition methods for sales of merchandise and finished goods, etc. Accordingly, per share data for the fiscal year ended March 31, 2015 is restated after reflecting retroactive treatments.
As a result of the change, net assets per share decreased by ¥0.93 and net loss per share increased by ¥0.48 for the fiscal year ended March 31, 2015.
3. The actuarial assumptions of net income (loss) per share and diluted net income per share are as follows.

| Item | 2015 | 2016 |
|---|---|---|
| Net income (loss) per share: | | |
| Profit (loss) attributable to owners of parent | ¥(11,375) million | ¥5,369 million |
| Amount not attributable to common stockholders | ¥—million | ¥—million |
| Profit (loss) attributable to owners of parent for common stock | ¥(11,375) million | ¥5,369 million |
| Average number of common stocks | 243,611 thousand shares | 234,473 thousand shares |
| Diluted net income per share: | | |
| Profit (loss) attributable to owners of parent adjustment | ¥— million | ¥— million |
| Increase of common stock | — thousand shares | 0 thousand shares |
| (Stock options) | — thousand shares | 0 thousand shares |

## NOTE 20
## Significant Subsequent Events

### 1. Change in classification of reporting segments

For the purpose of driving improvements in business performance through further display of Group synergy in the Pachislot and Pachinko Machine Business, the Pachislot and Pachinko Machines Related Business of Sammy Networks Co., Ltd., which was previously included in the Entertainment Contents Business as the Group's classification of reporting segments, will be changed to be included in the Pachislot and Pachinko Machine Business from the fiscal year ending March 31, 2017.

Information on the amounts of net sales and income (loss) by each reporting segment after the change is as follows.

Current fiscal year (From April 1, 2015 to March 31, 2016)

Millions of yen

| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | Adjustment (Note 1) | Amount in consolidated financial statements (Note 2) |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Sales to third parties | ¥141,037 | ¥190,551 | ¥16,392 | ¥347,981 | ¥ — | ¥347,981 |
| Inter-segment sales and transfers | 640 | 1,018 | 57 | 1,715 | (1,715) | — |
| Total | 141,677 | 191,570 | 16,450 | 349,697 | (1,715) | 347,981 |
| Segment income (loss) | 20,955 | 4,216 | (1,825) | 23,346 | (5,728) | 17,617 |

Notes: 1. Elimination of inter-segment transactions of ¥129 million and general corporate expenses of ¥(5,858) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(5,728) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
2. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

### 2. Business combination by acquisition

The Company resolved at a Board of Directors' meeting on June 27, 2016, to acquire all shares of Amplitude Studios SAS (Headquarters: Paris, France) through SEGA Games Co., Ltd., a consolidated subsidiary of the Company. The Company acquired shares of said company as of July 1, 2016 and made it a consolidated subsidiary.

#### (1) Outline of business combination

1) Name and business of acquired company

| | |
|---|---|
| Name of acquired company | Amplitude Studios SAS |
| Description of business | Development and sales of content for the PC market in the U.S. and European regions |
| Capital stock | €0.2 million |

2) Reason for business combination
Content for the PC market in the U.S. and European regions owned by Amplitude Studios SAS will further enhance the presence of SEGA Games Co., Ltd. in the U.S. and European game market, and the profitability is expected to be strengthened as a result of enabling the Group to provide entertainment content of further superior quality by leveraging excellent content development capabilities as well as accumulated developmental know-how held by Amplitude Studios SAS.
3) Date of business combination
July 1, 2016
4) Legal structure
Purchase of shares with cash
5) Name of companies after the business combination
Unchanged
6) Share of voting rights acquired
100%

### (2) Acquisition cost of the acquired company

Consideration for acquisition (Note)

Cash ¥2,462 million (€21.5 million)

Note: Contingent consideration for acquisition is not included in the consideration for acquisition. Contingent consideration for acquisition has yet to be determined at this time because it is specified in the agreement that the contingent consideration for acquisition shall be paid based on the future performance of the acquired company over a certain period of time. In the event where the payment of additional consideration for acquisition is required, the Company shall adjust the acquisition cost by deeming such additional amount has been paid at the time of the acquisition, and the amount of goodwill and amortization thereof shall be revised accordingly.

### (3) Goodwill recognized, reason for recognition, and amortization method and period

Yet to be determined as the allocation of the acquisition cost has not been completed.

### (4) Amount of assets acquired and liabilities assumed on the date of the business combination

Yet to be determined.

## 3. Transfer of noncurrent assets

The Company resolved at a Board of Directors' meeting on July 13, 2016, to transfer noncurrent assets held by SEGA Holdings Co., Ltd., a consolidated subsidiary of the Company.

### (1) Reasons for the transfer

The Group set "improve profitability" and "improve capital efficiency" as the mid-term management goal, and aims to realize the ratio of consolidated operating income of 15% and consolidated ROA of 5% by the fiscal year ending March 2020. Transfer of the concerned noncurrent assets was decided in order to further improve financial structure toward realizing the medium-term management goal.

### (2) Details of the transferred assets

| Name and location of the assets | Transfer price (plan) | Book value | Gain from transfer (approximation) | Current status |
|---|---|---|---|---|
| 2-11-3 Shinsaibashisuji, Chuo Ward, Osaka City, Osaka, and 6 other lots<br>Land: 941.95m$^2$<br>Buildings (total floor space): 2,909.29m$^2$ | ¥12,000 million | ¥2,518 million | ¥9,400 million | Shinsaibashi GIGO (amusement facility) |

Notes: Gain from transfer (approximation) shown above is the approximated amount after deducting the estimated amount of costs, etc., associated with the transfer.

### (3) Overview of the transferee

The transferee is a limited liability company established by the investment company in Tokyo. However, due to the agreement with the transferee, no details are disclosed. Also, there are no capital relationships, personal relationships, or business relationships between the transferee and the Company, and the transferee is not a related party of the Company.

### (4) Schedule

| | |
|---|---|
| 1) Resolution at the Board of Directors' meeting | July 13, 2016 |
| 2) Conclusion of transfer agreement | July 13, 2016 |
| 3) Date of the transfer | September 27, 2016 (plan) |

### (5) Effects on consolidated profit or loss

Due to the transfer of the noncurrent assets, approximately ¥9.4 billion of gain on sales of noncurrent assets is scheduled to be recorded as other income in the consolidated operating results for the second quarter of the fiscal year ending March 31, 2017.

## NOTE 21
## Supplemental Information

Supplemental schedule of corporate bonds

| Company name | Name of bond | Issuance date | Balance as of April 1, 2015 (Millions of yen) | Balance as of March 31, 2016 (Millions of yen) | Interest rate (%) | Type | Date of maturity |
|---|---|---|---|---|---|---|---|
| The Company | 1st unsecured bonds (Private placement bond) | March 29, 2013 | ¥ 8,000 | ¥ 8,000 | 0.44 | Unsecured | March 29, 2018 |
| | 2nd unsecured bonds (Private placement bond) | March 29, 2013 | 4,800 | 3,200 (1,600) | 0.42 | Unsecured | March 29, 2018 |
| | 1st unsecured bonds (Publicly offered bonds) | July 25, 2013 | 5,000 | 5,000 | 0.73 | Unsecured | July 25, 2018 |
| | 2nd unsecured bonds (Publicly offered bonds) | July 25, 2013 | 5,000 | 5,000 (5,000) | 0.49 | Unsecured | July 25, 2016 |
| | 3rd unsecured bonds (Publicly offered bonds) | June 17, 2014 | 10,000 | 10,000 | 0.52 | Unsecured | June 17, 2019 |
| | 3rd unsecured bonds (Private offered bonds) | September 26, 2014 | 10,000 | 10,000 | 0.44 | Unsecured | September 26, 2019 |
| | 4th unsecured bonds (Publicly offered bonds) | June 15, 2015 | — | 10,000 | 0.57 | Unsecured | June 15, 2020 |
| SEGA Holdings Co., Ltd. (Note 2) | 13th unsecured bonds | June 30, 2011 | 5,000 | 5,000 (5,000) | 0.72 | Unsecured | June 30, 2016 |
| | 14th unsecured bonds | December 20, 2011 | 2,600 | 2,600 (2,600) | 0.66 | Unsecured | December 20, 2016 |
| | 15th unsecured bonds | June 29, 2012 | 5,000 | 5,000 | 0.58 | Unsecured | June 30, 2017 |
| | 16th unsecured bonds | September 28, 2012 | 2,400 | 2,400 | 0.51 | Unsecured | September 29, 2017 |
| Total | — | — | 57,800 | 66,200 (14,200) | — | — | — |

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2016" represent the current portion of corporate bonds.
2. From April 2015, SEGA Holdings Co., Ltd. (established in April 2015 through an incorporation-type demerger, designating SEGA CORPORATION as a transferor company) has acted as an intermediate holding company. Consequently, the name of the issuer has been changed from SEGA CORPORATION to SEGA Holdings Co., Ltd.
3. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2016 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 |
|---|---|---|---|---|
| ¥14,200 | ¥19,500 | ¥10,000 | ¥12,500 | ¥10,000 |

Supplemental schedule of borrowings

| Category | Balance as of April 1, 2015 (Millions of yen) | Balance as of March 31, 2016 (Millions of yen) | Average interest rate (%) | Repayment terms |
|---|---|---|---|---|
| Short-term loans payable | ¥ 500 | ¥ — | — | — |
| Current portion of long-term loans payable due within one year | 13,342 | 14,002 | 1.0 | — |
| Current portion of lease obligations | 536 | 1,920 | Note 2 | — |
| Long-term loans payable (Excluding current portion) | 32,918 | 48,895 | 0.8 | 2017–2023 |
| Lease obligations (Excluding current portion) | 2,455 | 860 | Note 2 | 2017–2024 |
| Other interest-bearing debt: | | | | |
| Accounts payable–facilities | 1,318 | 1,403 | — | — |
| Accounts payable–facilities (Excluding current portion) | 2,860 | 1,768 | — | 2017–2021 |
| Total | 53,933 | 68,850 | — | — |

Notes: 1. "Average interest rate" represents the weighted-average interest rate over the year-end balance of loans.
2. The average interest rate on lease obligations is not listed because lease obligations is posted in the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.
3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2016 is summarized as follows:

Millions of yen

| Category | One to two years | Two to three years | Three to four years | Four to five years | Over five years |
|---|---|---|---|---|---|
| Long-term loans payable | ¥6,365 | ¥15,849 | ¥13,350 | ¥13,325 | ¥ 4 |
| Lease obligations | 339 | 213 | 106 | 65 | 136 |
| Other interest-bearing debt: | | | | | |
| Accounts payable–facilities | 1,154 | 528 | 77 | 7 | — |

# Independent Auditor's Report

KPMG

## Independent Auditor's Report

To the Board of Directors of SEGA SAMMY HOLDINGS INC.:

We have audited the accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Emphasis of Matter

As described in Note 21, SEGA SAMMY HOLDINGS INC. resolved at a Board of Directors' meeting on July 13, 2016, to transfer noncurrent assets held by SEGA Holdings Co., Ltd., a consolidated subsidiary of SEGA SAMMY HOLDINGS INC.
Our opinion is not qualified in respect of this matter.

KPMG AZSA LLC

August 10, 2016
Tokyo, Japan