

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
9 Months Ended December 31, 2018

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <https://www.segasammy.co.jp/>)
Representative : Haruki Satomi
 President and COO (Representative Director)
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Filing of Quarterly Report : February 14, 2019 (plan)
 Start of cash dividend payments : —

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 9 Months Ended December 31, 2018

(1) RESULTS OF CONSOLIDATED OPERATIONS

(Percentage represents changes from the prior period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For 9 months ended December 31, 2018	250,321	(4.0)	11,921	(53.5)	9,021	(62.9)	681	(95.0)
For 9 months ended December 31, 2017	260,804	(8.7)	25,623	(26.9)	24,315	(31.3)	13,754	(62.3)

(Note) Comprehensive income

For 9 months ended December 31, 2018 : ¥175 million ((98.9)%)
 For 9 months ended December 31, 2017 : ¥16,118 million ((51.9)%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 9 months ended December 31, 2018	2.90	2.90
For 9 months ended December 31, 2017	58.68	58.58

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2018	455,523	301,891	65.7
March 31, 2018	473,467	310,456	65.0

(Reference) Shareholders' equity

December 31, 2018 : ¥299,165 million
 March 31, 2018 : ¥307,951 million

2. Cash Dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	20.00	—	20.00	40.00
Year ending March 31, 2019	—	20.00	—		
Year ending March 31, 2019 (plan)				20.00	40.00

(Note) Revision of the forecast from latest announcement: No

3. Forecast of Consolidated Operating Results for the Year ending March 31, 2019

(Percentage represents changes from the prior year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Entire – year	337,000	4.1	13,000	(26.6)	7,500	(48.6)	(1,500)	—	(6.40)

(Note) Revision of the forecast from latest announcement: Yes

4. Other

(1) Significant changes in subsidiaries (scope of consolidation) during period: Yes

(Excluded) Company name: SEGA SAMMY BUSAN INC.

(2) Adoption of the simplified method of accounting as well as specific accounting for preparing the quarterly consolidated financial statements: Yes

(3) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the quarterly consolidated financial statements:

1. Changes associated with revision in accounting standards: No
2. Other changes: No

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding at the end of the period (including treasury stock)

December 31, 2018 : 266,229,476

March 31, 2018 : 266,229,476

2. Number of treasury stock at the end of the period

December 31, 2018 : 31,498,528

March 31, 2018 : 31,850,504

3. Average number of shares during the period (cumulative from the beginning of the fiscal year)

For 9 months ended December 31, 2018 : 234,478,804

For 9 months ended December 31, 2017 : 234,384,732

(Note)

- This report is not required the auditing procedures by certified public accountants or accounting auditors.

- The forward-looking statements, such as results forecasts, included in this document are based on information available to the SEGA SAMMY HOLDINGS INC. (the “Company”) at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors. For the assumptions prerequisite to the results forecasts and the points to be noted in the use of the forecasts, please see “Forecast of Consolidated Operating Results” on page 4.

- The Company plans to hold a telephone conference on financial results for analysts on February 6, 2019. The contents of the meeting will be posted on the Company’s website on the same day.

Operating Results and Financial Position

(1) Overview

With regard to the pachislot and pachinko industry, in the pachislot machine market, the introduction of pachislot machines (No. 6-type) that conform to the regulatory revision and new voluntary regulations has begun, while there is increasing anticipation for future lineup additions as well as operational contributions. Meanwhile, in the pachinko machine market, in addition to machines which have already been licensed under regulations before the revision, the launch of pachinko machines that conform to the regulatory revision has also begun. In order to revitalize the market going ahead, it is essential to expand the range of players by developing and supplying machines that conform to the regulatory revision and such, are easier to play and provide innovative gameplay.

Regarding the environment of the Entertainment Contents Business, in the field of digital game software, the competitive environment is further intensifying, with titles that capitalize on powerful IPs (Intellectual Properties), in addition to being high-quality products, take up the top spots in sales rankings. Meanwhile, in overseas business, future growth is expected mainly in Asia. With regard to the packaged game software market, in the market for hardware of home video game consoles, expectations are rising for the expansion of the game software sales market due to the growing penetration of current-generation video game console hardware. In addition, game distribution platforms such as Steam are expanding in the PC games market. As for the market for amusement centers and amusement machines, the rate of facilities utilization is stable mainly in new video games and prizes.

In the resort industry, in 2018, the annual estimate for the number of foreign visitors to Japan exceeded 30 million for the first time and the number is increasing constantly, and an upward trend in the hotel occupancy rate is still evident. With a view to establishing Japan as a popular tourist destination, the “Act on the Establishment of Specified Integrated Resort Areas” was passed by the National Diet.

In this business environment, net sales for the first three quarters of the fiscal year ending March 31, 2019 amounted to ¥250,321 million, a decrease of 4.0% for the same period in the previous fiscal year. The Group posted an operating income of ¥11,921 million (a decrease of 53.5% for the same period in the previous fiscal year), ordinary income of ¥9,021 million (a decrease of 62.9% for the same period in the previous fiscal year). Also, the Company decided to record 6,108 million yen of impairment loss for the part of fixed assets in the digital game software field owned by SEGA Games Co., Ltd., consolidated subsidiary of the Company and its consolidated subsidiaries as extraordinary losses in the settlement for the third quarter of the fiscal year ending March 31, 2019. As a result, the Group posted a profit attributable to owners of parent of ¥681 million (a decrease of 95.0% for the same period in the previous fiscal year).

Result of each segment is as follows

Net sales in each segment here do not include Inter-segment sales between segments.

« Pachislot and Pachinko Machines »

In the pachislot machine business, the Group has launched titles including “Pachislot CHAIN CHRONICLE,” the Group's first title for the No. 6-type machine, leading to overall sales of pachislot machines of 31 thousand units (Overall sales of pachislot machines were 75 thousand units for the same period in the previous fiscal year). In the pachinko machine business, the Group has launched titles including “Pachinko CR BLACK LAGOON 3,” leading to overall sales of pachinko machines of 136 thousand units (Overall sales of pachinko machines were 129 thousand units for the same period in the previous fiscal year).

As a result, net sales in this segment were ¥76,160 million (a decrease of 20.3% for the same period in the previous fiscal year) and operating income was ¥9,601 million (a decrease of 36.7% for the same period in the previous fiscal year).

« Entertainment Contents »

In the field of digital game software, while the distribution of the new titles such as “Ryu ga Gotoku ONLINE” began, a loss was incurred in association with the termination of services for existing titles in operation.

In the packaged game software field, sales amounted to 18,510 thousand copies (14,280 thousand copies for the same period in the previous fiscal year), thanks to the sales of the new titles including “Football Manager 2019” and “Judgment” and continuous contribution of repeat sales from previously launched titles (catalog titles).

In the amusement machine field, the Group implemented the sale with a focus continuously on prize game machines.

In the amusement center operations field, amusement center operations were conducted with a focus on prizes, like-for-like sales at the existing game center operations were 104.2% compared with the same period of the previous fiscal year.

In the animated film and toy field, the Group recorded earnings from video distribution and implemented the sale of new

and mainstay toy products.

As a result, net sales in this segment were ¥166,210 million (an increase of 5.2% for the same period in the previous fiscal year) and operating income was ¥10,602 million (a decrease of 38.6% for the same period in the previous fiscal year).

« **Resort** »

In the Resort Business, at “Phoenix Seagaia Resort,” one of the leading resorts in Japan, owing to the effects of major renovations, implementation of various measures to attract customers such as illumination event, and accompanying promotional activities mainly conducted in the Kyushu region, the increase in the number of guests resulted in 35.4% compared with the same period in the previous fiscal year.

As a result, net sales in this segment were ¥7,949 million (an increase of 8.0% for the same period in the previous fiscal year) and operating loss was ¥1,918 million (operating loss of ¥1,843 million for the same period in the previous fiscal year).

Overseas, PARADISE SEGASAMMY Co., Ltd. (affiliate accounted for using the equity method), a joint venture between Paradise Co., Ltd. and the Group is operating South Korea’s first integrated resort “PARADISE CITY” and it has continued to attract many guests, primarily Japanese VIPs, owing to the effects of the opening of Funcity (Phase 1 Stage 2 development facilities, including the Club, the Spa and the shopping mall, etc.) in September 2018 and domestic promotional activities that began in October 2018. In addition, “WONDERBOX,” an indoor family entertainment facility, is scheduled to open in the first half of 2019.

(2) Forecast of Consolidated Operating Results

Adjustments have been made to the forecast of consolidated operating results for the full year announced on May 11, 2018. For details, please refer to “Notice of Adjustment of Full-Year Consolidated Operating Results Forecast and Recording of Impairment Loss,” announced on February 5, 2019.

(3) Other

(Significant changes in subsidiaries during period)

SEGA SAMMY BUSAN INC. was excluded from the scope of consolidation in the second quarter because of its completion of liquidation.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND MARCH 31, 2018

(Unit: Millions of yen)

	Prior year (As of March 31, 2018)	Current period (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	157,896	84,492
Notes and accounts receivable – trade	29,339	42,594
Short-term investment securities	24,694	45,501
Merchandise and finished goods	8,036	12,840
Work in process	18,347	23,214
Raw materials and supplies	14,190	16,312
Other	20,084	22,081
Allowance for doubtful accounts	(259)	(278)
Total current assets	272,331	246,759
Noncurrent assets		
Property, plant and equipment		
Land	23,741	23,726
Other, net	54,403	61,475
Total property, plant and equipment	78,145	85,202
Intangible assets		
Goodwill	8,541	6,922
Other	14,942	9,921
Total intangible assets	23,483	16,843
Investments and other assets		
Investment securities	70,216	72,489
Other	29,739	34,667
Allowance for doubtful accounts	(449)	(440)
Total investments and other assets	99,506	106,717
Total noncurrent assets	201,136	208,763
Total assets	473,467	455,523

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND MARCH 31, 2018

(Unit: Millions of yen)

	Prior year (As of March 31, 2018)	Current period (As of December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	21,716	28,026
Short - term loans payable	15,838	15,342
Current portion of bonds	10,000	15,000
Income taxes payable	1,482	3,214
Provision	6,499	3,415
Asset retirement obligations	1,734	601
Other	27,181	27,686
Total current liabilities	84,452	93,286
Noncurrent liabilities		
Bonds payable	22,500	10,000
Long - term loans payable	38,661	29,506
Net defined benefit liability	3,572	3,778
Asset retirement obligations	2,234	3,818
Provision for dismantling of fixed assets	420	420
Other	11,170	12,821
Total noncurrent liabilities	78,558	60,345
Total liabilities	163,010	153,631
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,345	117,269
Retained earnings	207,174	198,476
Treasury stock	(54,781)	(54,176)
Total shareholders' equity	299,691	291,521
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,528	11,731
Deferred gains or losses on hedges	17	(1)
Revaluation reserve for land	340	342
Foreign currency translation adjustment	(2,147)	(4,356)
Remeasurements of defined benefit plans	(479)	(73)
Total accumulated other comprehensive income	8,259	7,643
Subscription rights to shares	819	919
Non-controlling interests	1,685	1,807
Total net assets	310,456	301,891
Total liabilities and net assets	473,467	455,523

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 9 MONTHS ENDED DECEMBER 31, 2017 AND 2018

(Unit: Millions of yen)

	Prior period From April 1, 2017 To December 31, 2017	Current period From April 1, 2018 To December 31, 2018
Net sales	260,804	250,321
Cost of sales	158,113	158,575
Gross profit	102,691	91,746
Selling, general and administrative expenses	77,067	79,825
Operating income (loss)	25,623	11,921
Non-operating income		
Interest income	274	205
Dividends income	939	456
Foreign exchange gains	84	123
Gain on investments in partnership	814	364
Gain on valuation of compound financial instruments	275	15
Other	760	432
Total non-operating income	3,149	1,597
Non-operating expenses		
Interest expenses	540	417
Equity in losses of affiliates	3,132	1,637
Commission fee	61	77
Rent expenses	—	935
Other	721	1,429
Total non-operating expenses	4,456	4,497
Ordinary income (loss)	24,315	9,021
Extraordinary income		
Gain on sales of noncurrent assets	61	58
Gain on sales of investment securities	445	493
Gain on liquidation of subsidiaries and affiliates	—	1,220
Gain on reversal of provision for dismantling of fixed assets	233	—
Other	128	13
Total extraordinary income	868	1,784
Extraordinary losses		
Loss on sales of noncurrent assets	0	10
Impairment loss	634	6,627
Loss on sales of shares of subsidiaries and affiliates	113	—
Other	25	146
Total extraordinary losses	774	6,784
Income (loss) before income taxes	24,410	4,021
Income taxes-current	10,319	3,227
Total income taxes	10,319	3,227
Profit (loss)	14,090	794
(Breakdown)		
Profit (loss) attributable to owners of parent	13,754	681
Profit (loss) attributable to non-controlling interests	335	113

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 9 MONTHS ENDED DECEMBER 31, 2017 AND 2018

(Unit: Millions of yen)

	Prior period From April 1, 2017 To December 31, 2017	Current period From April 1, 2018 To December 31, 2018
Other comprehensive income		
Valuation difference on available-for-sale securities	(114)	1,195
Deferred gains or losses on hedges	—	1
Foreign currency translation adjustment	2,110	(1,535)
Remeasurements of defined benefit plans, net of tax	(225)	403
Share of other comprehensive income of entities accounted for using equity method	257	(682)
Total other comprehensive income	2,028	(618)
Comprehensive income	16,118	175
(Breakdown)		
Comprehensive income attributable to owners of parent	15,780	62
Comprehensive income attributable to non-controlling interests	338	112

SEGMENT INFORMATION

1. Prior period (From April 1, 2017 to December 31, 2017)

Information on the amounts of net sales, income (loss) by each reporting segment

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	95,499	157,944	7,359	260,803	0	260,804
(2) Inter-segment sales and transfers	551	898	8	1,458	(1,458)	—
Total	96,051	158,842	7,368	262,262	(1,457)	260,804
Segment income (loss)	15,179	17,279	(1,843)	30,615	(4,992)	25,623

(Notes) 1. Elimination of inter-segment transactions of ¥10 million and general corporate expenses of ¥(5,002) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(4,992) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

2. Current period (From April 1, 2018 to December 31, 2018)

Information on the amounts of net sales, income (loss) by each reporting segment

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	76,160	166,210	7,949	250,320	1	250,321
(2) Inter-segment sales and transfers	700	762	28	1,491	(1,491)	—
Total	76,861	166,972	7,978	251,811	(1,490)	250,321
Segment income (loss)	9,601	10,602	(1,918)	18,285	(6,364)	11,921

(Notes) 1. Elimination of inter-segment transactions of ¥(2) million and general corporate expenses of ¥(6,361) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(6,364) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.