

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
Year Ended March 31, 2018

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <http://www.segasammy.co.jp/>)
Representative : Haruki Satomi
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Annual Meeting of Shareholders : June 22, 2018 (plan)
 Filing of Financial Report : June 25, 2018 (plan)
 Start of cash dividend payments : June 1, 2018 (plan)

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the Year Ended March 31, 2018**(1) RESULTS OF CONSOLIDATED OPERATIONS**

(Percentage represents changes from the prior year)

	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 Year ended March 31, 2018	323,664	(11.8)	17,720	(40.0)	14,578	(48.9)	8,930	(67.7)
For Year ended March 31, 2017	366,939	5.4	29,527	67.6	28,542	73.9	27,607	414.2

(Note) Comprehensive income:

For Year ended March 31, 2018 : ¥10,209 million ((56.8)%)
 For Year ended March 31, 2017 : ¥23,653 million (—%)

	Net income per share	Net income per share (Diluted)	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
For Year ended March 31, 2018	38.10	38.04	2.9	1.8	5.5
For Year ended March 31, 2017	117.79	117.40	9.2	5.2	8.0

(Reference) Equity in earnings of affiliates:

For Year ended March 31, 2018 : ¥(4,368) million
 For Year ended March 31, 2017 : ¥(1,457) million

(Note) The Group considers return on assets and the ratio of operating income to net sales as key performance indicators.

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2018	473,505	310,456	65.0	1,313.90
March 31, 2017	521,599	311,497	59.0	1,313.06

(Reference) Shareholders' equity

March 31, 2018 : ¥307,951 million

March 31, 2017 : ¥307,764 million

(3) CONSOLIDATED CASH FLOWS

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the year-end
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
For Year ended March 31, 2018	26,487	(20,422)	(28,780)	176,566
For Year ended March 31, 2017	59,126	(4,767)	(38,334)	199,208

2. Cash Dividends

	Cash dividends per share					Total dividends paid (annual)	Payout ratio (Consolidated)	Dividends paid to net assets (Consolidated)
	First quarter	Second quarter	Third quarter	Year-end	For the year			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2017	—	20.00	—	20.00	40.00	9,375	34.0	3.1
Year ended March 31, 2018	—	20.00	—	20.00	40.00	9,375	105.0	3.0
Year ending March 31, 2019 (plan)	—	20.00	—	20.00	40.00		78.1	

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	390,000	20.5	21,000	18.5	16,000	9.7	12,000	34.4	51.20

4. Other

- (1) Significant changes in subsidiaries (scope of consolidation) during the year ended March 31, 2018: No
- (2) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the consolidated financial statements:
 1. Changes associated with revision in accounting standards: No
 2. Other changes: No
- (3) Number of shares outstanding (common stock)
 1. Number of shares outstanding at the end of the period (including treasury stock)

March 31, 2018	:	266,229,476
March 31, 2017	:	266,229,476
 2. Number of treasury stock at the end of the period

March 31, 2018	:	31,850,504
March 31, 2017	:	31,841,869
 3. Average number of shares during the period

For Year ended March 31, 2018	:	234,383,551
For Year ended March 31, 2017	:	234,391,586

(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 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 “Outlook for the fiscal year ending March 31, 2019” on page 6.
- The Company plans to hold a briefing on financial results for analysts on May 14, 2018. The contents of the meeting, such as explanations about financial results (video and audio), will be posted on the Company’s website.

1. Operating Results and Financial Position

(1) Operating results for the fiscal year ended March 31, 2018

With regard to the pachislot and pachinko industry, in the pachislot machine market, sales of new machines have continued to be sluggish. Meanwhile, in the pachinko machine market, titles receiving high appraisal are arising mainly in some series with successful track records. On the other hand, “Rules for Partial Revision of Ordinance for Act on Control and Improvement of Amusement Business, etc., and Regulations for the Verification of Licenses, Formats, and Other Aspects of Pachislot and Pachinko Machines” was enforced on February 1, 2018. In addition, Nihon Dendo-shiki Yugiki Kogyo Kyodo Kumiai (Nichidenkyo), a union of pachislot machine manufacturers, and Nihon Yugiki Kogyo Kumiai (Nikkoso), a union for pachinko machine manufacturers, revised voluntary regulations based on the regulatory revision. In order to revitalize the market going ahead, it is essential to develop and supply machines that are capable of appealing to a wide range of players and conforming to the regulatory revision and new voluntary regulations.

Regarding the environment of the Entertainment Contents Business, a slowdown in the spread of smartphones in Japan and the predominance of leading publishers are accelerating in the market for digital games for smart devices. Therefore, provision of higher-quality content is expected, resulting in a trend of longer development lead times and higher operating costs. Meanwhile, in overseas business, future growth is expected mainly in Asia. With regard to the packaged game software market, expectations are rising for future expansion of the market due to the penetration of hardware of home video game console. In the PC games market, game distribution platforms such as Steam are expanding. As for the market for amusement centers and amusement machines, signs of improvement in facilities utilization and expansion of the player base are showing mainly in prizes.

In the resort industry, although the growth rate is slowing down, the number of foreign visitors to Japan 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, a bill concerning the promotion of the establishment of specified integrated resort areas (Integrated Resort Promotion Bill) was established, issued and enforced.

In this business environment, net sales for the fiscal year ended March 31, 2018 amounted to ¥323,664 million, a decrease of 11.8% from the previous fiscal year. The Group posted an operating income of ¥17,720 million (a decrease of 40.0% from the previous fiscal year), ordinary income of ¥14,578 million (a decrease of 48.9% from the previous fiscal year) and profit attributable to owners of parent of ¥8,930 million (a decrease of 67.7% from 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 »

The sales schedule for the second half of the fiscal year was significantly revised due to the regulatory revision, leading to overall sales of pachislot machines of 85 thousand units (Overall sales of pachislot machines were 215 thousand units for the previous fiscal year), and overall sales of pachinko machines of 140 thousand units (Overall sales of pachinko machines were 138 thousand units for previous fiscal year).

As a result, net sales in this segment were ¥105,649 million (a decrease of 28.7% from the previous fiscal year) and operating income was ¥11,923 million (a decrease of 54.7% from the previous fiscal year).

« Entertainment Contents »

In the field of digital game software, in addition to existing titles, the Group launched new titles such as “Magia Record : Puella Magi Madoka Magica Side Story,” that f4samurai, Inc. (a consolidated subsidiary of the Company) develops and operates and “D×2 Shin Megami Tensei Liberation,” the first title for smartphones in the packaged game software series “Shin Megami Tensei.” However, the number of new titles launched was lower than the initial estimate.

In the packaged game software field, in addition to launching new titles including “SONIC MANIA” and “SONIC FORCES” from the “SONIC” series, cumulative worldwide sales of “Persona5” which began overseas development in the current fiscal year exceeded 2,000 thousand copies. Also, through sales from previously launched titles (catalog titles), sales amounted to 17,330 thousand copies (10,280 thousand copies for the previous fiscal year).

In the amusement machine field, sales were robust for CVT KIT and prize game machines including “UFO CATCHER” series.

In the amusement center operations field, like-for-like sales were 101.9% compared with the previous fiscal year. The Group worked to enhance amusement center operations with focus on prize.

In the animated film and toy field, the Group recorded income from distributing the theater film “Detective Conan Crimson Love Letter,” which obtained the top spot in the box office ranking for Japanese movies in 2017, and income from the online distribution of animation. In addition, the Group implemented the sale of new toy products including “Disney&Disney/Pixar Characters Dream Switch” and mainstay toy products including “ANPANMAN” series.

As a result, net sales in this segment were ¥208,081 million (an increase of 1.2% from the previous fiscal year) and operating income was ¥14,841 million (an increase of 32.8% from the previous fiscal year).

« Resort »

In the Resort Business, owing to factors including the opening of “THE LIVING GARDEN,” and an increase in the number of SEAGAIA PREMIUM MEMBERS CLUB members, the increase in the number of guests resulted in 8% compared with the previous fiscal year at “Phoenix Seagaia Resort,” one of the leading resorts in Japan.

However, the Resort Business reported a decrease in income due to sales of a portion of shares of a company engaged in the development and operations of an indoor theme park in the previous fiscal year. In addition, by the outbreak of the prior investment costs for the full-hedged integrated resort business, margin of loss increased from the previous fiscal year.

As a result, net sales in this segment were ¥9,932 million (a decrease of 23.7% for the previous fiscal year) and operating loss was ¥2,502 million (operating loss of ¥2,244 million for 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 opened South Korea’s first integrated resort “PARADISE CITY” in April, 2017. It has served many visitors and signs of gradual improvement in profitability were seen.

(2) Financial positions as of March 31, 2018

(Assets and liabilities)

Total assets as of the end of the current fiscal year decreased ¥48,093 million from the end of the previous fiscal year, to ¥473,505 million.

Current assets decreased ¥46,764 million from the end of the previous fiscal year. This was attributable to decreases in notes and accounts receivable-trade, merchandise and finished goods and short-term investment securities, etc.

Noncurrent assets decreased ¥1,328 million from the end of the previous fiscal year. This was attributable to a decrease in property, plant and equipment, etc.

Total liabilities as of the end of the current fiscal year decreased ¥47,052 million from the end of the previous fiscal year, to ¥163,049 million. This was attributable to decreases in notes and accounts payable-trade and bonds payable, etc.

(Net assets)

Net assets as of the end of the current fiscal year decreased ¥1,040 million from the end of the previous fiscal year, to ¥310,456 million.

This was attributable to a decrease in shareholders’ equity due to cash dividends paid, etc., despite the recording of profit attributable to owners of parent.

(Financial ratio)

The current ratio at the end of the current fiscal year increased 40.4 points from the end of the previous fiscal year to 328.3%, remained at a high level.

The equity ratio at the end of the current fiscal year increased 6.0 points from the end of the previous fiscal year, to 65.0%.

(3) Cash flows for the fiscal year ended March 31, 2018

Cash and cash equivalents at the end of the current fiscal year decreased ¥22,642 million from the end of the previous fiscal year, to ¥176,566 million.

Cash flows in respect of each area of activities in the current fiscal year are as follows.

(Cash flows from operating activities)

Factors including ¥12,413 million income before income taxes, ¥19,180 million of depreciation and amortization, and ¥15,179 million decrease in notes and accounts receivable-trade, despite ¥23,760 million decrease in notes and accounts payable-trade, resulted in ¥26,487 million net cash provided by operating activities in the current fiscal year (¥59,126

million inflow in the previous fiscal year).

(Cash flows from investing activities)

Factors including investing of ¥10,942 million for purchase of property, plant and equipment, ¥10,529 million for purchase of intangible assets, ¥6,206 million for purchase of stocks of subsidiaries and affiliates, and ¥5,192 million for payments of lease deposits, despite ¥9,564 million proceeds from sales of property, plant and equipment, resulted in ¥20,422 million net cash used in investing activities in the current fiscal year (¥4,767 million outflow in the previous fiscal year).

(Cash flows from financing activities)

Expenditures of ¥6,354 million for repayment of long-term loans payable, ¥19,500 million for redemption of bonds, and ¥9,380 million for cash dividends paid, despite ¥10,000 million proceeds from long-term loans payable, resulted in ¥28,780 million net cash used by financing activities in the current fiscal year (¥38,334 million outflow in the previous fiscal year).

(4) Outlook for the fiscal year ending March 31, 2019

The future plans for business segments are as follows.

« Pachislot and Pachinko Machines »

In the Pachislot and Pachinko Machines Business, due to the regulatory revision and adoption of new voluntary regulations, the range of game properties have expanded particularly in pachislot machines, and the Group believes it is possible to provide pachislot and pachinko machines that would appeal to players. In preparation for the full-scale introduction of machines conforming to the regulatory revision, the Group began working on the development of new machines before others, and going forward, the Group aims to continue expanding its market share while utilizing its leading developmental abilities in the industry and powerful IP (Intellectual Property) with outstanding performance. At the same time, the Group will advance sales of machines which have already been licensed under regulations before revision. In addition, the Group plans to launch new titles using housings manufactured by ZEEG Co. Ltd., a joint venture established with Universal Entertainment Corporation. The Group will launch multiple titles in the fiscal year ending March 31, 2019, including following titles; “Pachislot Hokuto No Ken Syura no kuni hen Rasetsu ver.,” change of specification title of mainstay “Hokuto No Ken” series; “Pachinko CR Shin Hokuto Muso Chapter 2,” the official successor model to the popular machine “Pachinko CR Shin Hokuto Muso,” in operation; “Pachinko CR Nisemonogatari,” which recreates the worldview of the original animation series.

As a result of these developments, in the fiscal year ending March 31, 2019, the Group expects sales of 103 thousand units of pachislot machines, up 17 thousand from the current fiscal year and 201 thousand units of pachinko machines, up 60 thousand from the current fiscal year.

« Entertainment Contents »

With regard to the Entertainment Contents Business, centering on the field of digital game software, multiple new titles including mainstay titles will be launched, with the aim of further growth in profitability.

In the field of digital game software, the Group plans to launch 12 new titles including the new series for smartphone devices “kotodaman,” and the soccer club management simulation game “Pro Soccer Club wo Tsukurou! Road to World.”

In the packaged game software field, on top of further strengthening the global development of domestic titles, the Group will continue aiming for growth in profitability through creating new IPs and sales of catalog titles.

In the amusement machine field, the Group plans to launch new titles such as “Fate/Grand Order Arcade” and “O・N・G・E・K・I,” and also continues to promote the sales of prize game machines including “UFO CATCHER” series.

In the amusement center operations field, the Group will advance the introduction of electronic money to the existing game center operations and will work to enhance amusement center operations with a focus on prizes.

In the animated film and toy field, in the animated film field, the Group will premiere new theater films including “Detective Conan Zero the Enforcer” and implement initiatives such as the online distribution of various animation series. In addition, the Group will implement the sale of mainstay toy products including “ANPANMAN” series, mainly.

« Resort »

In the Resort Business, at “Phoenix Seagaia Resort,” the Group will continue to attract more guests by continuously creating new experience value through offering to entertain customers to our facilities. Overseas, the Group will continue to strive to improve the value of facilities in “PARADISE CITY,” where Phase 1 Stage 2 development facilities, including the Club and Spa, are scheduled to open in the fiscal year ending March 31, 2019. The Group will continue to endeavor to accumulate further integrated resorts development and operational know-how through dispatching personnel to “PARADISE CITY.”

From August 2018, the Group shall progressively consolidate headquarter functions of each Group company currently dispersed in the Tokyo metropolitan area, with the aims of making Group management more efficient, promoting workstyle reform, creating collaboration and synergy between businesses, and promoting active interaction between personnel. In the fiscal year ending March 31, 2019, transitory operating expenses and other expenses related to the above of around ¥7,500 million are expected to be incurred.

In light of the above, the Group is forecasting consolidated net sales of ¥390,000 million (an increase of 20.5% from the previous fiscal year), operating income of ¥21,000 million (an increase of 18.5% from the previous fiscal year), ordinary income of ¥16,000 million (an increase of 9.7% from the previous fiscal year), and profit attributable to owners of parent of ¥12,000 million (an increase of 34.4% from the previous fiscal year) for the fiscal year ending March 31, 2019.

The Group's medium-term management targets are "improving the operating margin" and "enhancing capital efficiency." The Group aims to achieve a ratio of operating income to net sales of 15% and return on assets (ROA) of 5% in the fiscal year ending March 31, 2020.

Towards meeting its targets for the fiscal year ending March 31, 2020, the Group is advancing measures to increase the profitability of its core businesses, with a focus on the Pachislot and Pachinko Machines Business, and to invest management resources in growth businesses, including the digital game and integrated resort businesses.

[Caution With Regard to Operating Results Outlook]

Statements in this report pertaining to market projections and the outlook for operating results reflect the assumptions and judgment of the Company's management based on the most accurate information available at the time of release. Such statements carry inherent risks and uncertainties. Factors that may affect operating results include, but are not limited to, those discussed in the projections and outlook. Readers are cautioned that changes in a variety of factors could cause actual results to differ substantially from the aforementioned projections and outlook.

(5) Basic policy concerning distribution of earnings for the fiscal year ended March 31, 2018 and the fiscal year ending March 31, 2019

SEGA SAMMY HOLDINGS gives priority to returning profits to shareholders. The Company's basic policy is to pay an appropriate dividend that is commensurate with earnings.

For the distribution of surplus, the Company paid second quarter and plans to pay year-end dividends of ¥20 per share, respectively. This reflects the Group's policy of paying dividends to shareholders stably.

For the fiscal year ending March 31, 2019, the Company plans to pay second quarter and year-end dividends of ¥20 per share, respectively.

Furthermore, the Company's policy is to use retained earnings effectively to bolster its financial position and operating base as well as for investments in line with business expansion.

In addition, the Company introduced the shareholder benefit program for the main purpose of letting numerous shareholders experience the Group's services and hold shares over the medium to long term.

The overview of the program is as follows.

Number of owned shares	Details of benefits			
	End of March		End of September	
1 unit (100 shares) or more		—		—
10 units (1,000 shares) or more	1,000-yen worth voucher for UFO Catcher, redeemable at SEGA game centers in Japan	Facility use ticket worth 10,000 yen, redeemable at Phoenix Seagaia Resort (Miyazaki Prefecture)	1,000-yen worth voucher for UFO Catcher, redeemable at SEGA game centers in Japan	Facility use ticket worth 10,000 yen, redeemable at Phoenix Seagaia Resort (Miyazaki Prefecture)

2. Basic Approach Concerning Selection of Accounting Standards

To prepare for the future adoption of IFRS, the Group is working towards the establishment of internal manuals, guidelines among others. However, for the time being, Japanese GAAP is adopted.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2017 AND 2018

(Unit: Millions of yen)

	Prior year (As of March 31, 2017)	Current year (As of March 31, 2018)
Assets		
Current assets		
Cash and deposits	137,494	157,896
Notes and accounts receivable – trade	44,500	29,339
Short-term investment securities	65,203	24,694
Merchandise and finished goods	18,669	8,036
Work in process	14,838	18,347
Raw materials and supplies	13,933	14,190
Income taxes receivable	1,559	4,454
Deferred tax assets	6,929	5,018
Other	21,317	15,630
Allowance for doubtful accounts	(329)	(259)
Total current assets	324,115	277,350
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	101,210	93,528
Accumulated depreciation	(65,645)	(59,701)
Buildings and structures, net	35,564	33,826
Machinery, equipment and vehicles	15,724	13,469
Accumulated depreciation	(10,802)	(9,855)
Machinery, equipment and vehicles, net	4,921	3,613
Amusement machines and facilities	46,783	43,635
Accumulated depreciation	(37,204)	(34,354)
Amusement machines and facilities, net	9,579	9,280
Land	23,740	23,741
Construction in progress	577	1,603
Other	50,767	48,887
Accumulated depreciation	(43,540)	(42,807)
Other, net	7,226	6,079
Total property, plant and equipment	81,609	78,145
Intangible assets		
Goodwill	10,807	8,541
Other	11,352	14,942
Total intangible assets	22,160	23,483
Investments and other assets		
Investment securities	69,845	70,216
Long-term loans receivable	1,757	1,549
Lease and guarantee deposits	11,123	12,180
Net defined benefit assets	828	1,908
Deferred tax assets	535	1,412
Other	10,363	7,707
Allowance for doubtful accounts	(739)	(449)
Total investments and other assets	93,713	94,526
Total noncurrent assets	197,483	196,155
Total assets	521,599	473,505

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2017 AND 2018

(Unit: Millions of yen)

	Prior year (As of March 31, 2017)	Current year (As of March 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	45,631	21,716
Short - term loans payable	6,354	15,838
Current portion of bonds	19,500	10,000
Income taxes payable	2,950	1,482
Accrued expenses	13,961	13,011
Provision for bonuses	5,907	5,872
Provision for directors' bonuses	595	608
Provision for point card certificates	5	18
Provision for dismantling of fixed assets	815	—
Asset retirement obligations	303	1,734
Deferred tax liabilities	15	32
Other	16,524	14,169
Total current liabilities	112,567	84,484
Noncurrent liabilities		
Bonds payable	32,500	22,500
Long - term loans payable	44,500	38,661
Net defined benefit liability	3,303	3,572
Deferred tax liabilities	2,574	1,852
Deferred tax liabilities for land revaluation	640	640
Asset retirement obligations	3,735	2,234
Provision for dismantling of fixed assets	420	420
Other	9,860	8,682
Total noncurrent liabilities	97,534	78,564
Total liabilities	210,102	163,049
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,521	117,345
Retained earnings	207,639	207,174
Treasury stock	(54,769)	(54,781)
Total shareholders' equity	300,345	299,691
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,041	10,528
Deferred gains or losses on hedges	(71)	17
Revaluation reserve for land	340	340
Foreign currency translation adjustment	(4,479)	(2,147)
Remeasurements of defined benefit plans	588	(479)
Total accumulated other comprehensive income	7,419	8,259
Subscription rights to shares	303	819
Non-controlling interests	3,428	1,685
Total net assets	311,497	310,456
Total liabilities and net assets	521,599	473,505

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED MARCH 31, 2017 AND 2018

(Unit: Millions of yen)

	Prior year From April 1, 2016 To March 31, 2017	Current year From April 1, 2017 To March 31, 2018
Net sales	366,939	323,664
Cost of sales	231,261	202,930
Gross profit	135,678	120,734
Selling, general and administrative expenses		
Advertising expenses	14,328	15,052
Sales commission	4,084	2,607
Salaries and allowances	15,775	15,274
Provision for bonuses	3,066	3,049
Provision for directors' bonuses	592	594
Retirement benefit expenses	1,098	798
Research and development expenses	25,223	23,136
Provision of allowance for doubtful accounts	(36)	70
Other	42,018	42,429
Total selling, general and administrative expenses	106,150	103,013
Operating income (loss)	29,527	17,720
Non-operating income		
Interest income	337	361
Dividends income	929	952
Gain on investments in partnership	460	888
Foreign exchange gains	294	—
Gain on valuation of compound financial instruments	520	52
Other	1,345	1,008
Total non-operating income	3,886	3,262
Non-operating expenses		
Interest expenses	940	712
Equity in losses of affiliates	1,457	4,368
Commission fee	58	86
Loss on investments in partnership	243	77
Foreign exchange losses	—	49
Loss on retirement of noncurrent assets	685	619
Settlement package	505	7
Other	980	482
Total non-operating expenses	4,870	6,404
Ordinary income (loss)	28,542	14,578

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED MARCH 31, 2017 AND 2018

(Unit: Millions of yen)

	Prior year From April 1, 2016 To March 31, 2017	Current year From April 1, 2017 To March 31, 2018
Extraordinary income		
Gain on sales of noncurrent assets	9,518	64
Gain on sales of investment securities	1,382	532
Gain on liquidation of subsidiaries and affiliates	290	—
Gain on reversal of subscription rights to shares	801	—
Gain on reversal of provision for dismantling of fixed assets	177	233
Gain on reversal of restructuring loss	—	124
Other	1,148	22
Total extraordinary income	13,319	977
Extraordinary losses		
Loss on sales of noncurrent assets	81	220
Impairment loss	6,034	2,474
Loss on valuation of investment securities	1,105	142
Early extra retirement payments	149	22
Restructuring loss	419	—
Other	332	283
Total extraordinary losses	8,123	3,142
Income (loss) before income taxes	33,738	12,413
Income taxes-current	6,354	2,541
Income taxes-deferred	(686)	503
Total income taxes	5,667	3,045
Profit (loss)	28,070	9,368
(Breakdown)		
Profit (loss) attributable to owners of parent	27,607	8,930
Profit (loss) attributable to non-controlling interests	462	437
Other comprehensive income		
Valuation difference on available-for-sale securities	(456)	(500)
Deferred gains or losses on hedges	39	(0)
Foreign currency translation adjustment	(2,561)	189
Remeasurements of defined benefit plans, net of tax	(57)	(1,039)
Share of other comprehensive income of entities accounted for using equity method	(1,381)	2,191
Total other comprehensive income	(4,416)	841
Comprehensive income	23,653	10,209
(Breakdown)		
Comprehensive income attributable to owners of parent	23,457	9,771
Comprehensive income attributable to non-controlling interests	196	438

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2017 AND 2018

Prior year (From April 1, 2016 to March 31, 2017)

(Unit: Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balances as of April 1, 2016	29,953	118,404	194,505	(54,758)	288,105
Changes of items during the period					
Dividends from surplus			(9,375)		(9,375)
Profit attributable to owners of parent			27,607		27,607
Effect of changes in accounting period of consolidated subsidiaries					—
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock		(0)		0	0
Change of scope of consolidation			155		155
Change of scope of equity method			(312)		(312)
Purchase of shares of consolidated subsidiaries		(883)			(883)
Reversal of revaluation reserve for land			(4,941)		(4,941)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(883)	13,133	(10)	12,239
Balances as of March 31, 2017	29,953	117,521	207,639	(54,769)	300,345

(Unit: Millions of yen)

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balances as of April 1, 2016	11,494	(40)	(4,600)	(876)	651	6,628
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Effect of changes in accounting period of consolidated subsidiaries						
Purchase of treasury stock						
Disposal of treasury stock						
Change of scope of consolidation						
Change of scope of equity method						
Purchase of shares of consolidated subsidiaries						
Reversal of revaluation reserve for land						
Net changes of items other than shareholders' equity	(452)	(31)	4,941	(3,602)	(63)	790
Total changes of items during the period	(452)	(31)	4,941	(3,602)	(63)	790
Balances as of March 31, 2017	11,041	(71)	340	(4,479)	588	7,419

(Unit: Millions of yen)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2016	801	4,415	299,950
Changes of items during the period			
Dividends from surplus			(9,375)
Profit attributable to owners of parent			27,607
Effect of changes in accounting period of consolidated subsidiaries			—
Purchase of treasury stock			(11)
Disposal of treasury stock			0
Change of scope of consolidation			155
Change of scope of equity method			(312)
Purchase of shares of consolidated subsidiaries			(883)
Reversal of revaluation reserve for land			(4,941)
Net changes of items other than shareholders' equity	(497)	(987)	(693)
Total changes of items during the period	(497)	(987)	11,546
Balances as of March 31, 2017	303	3,428	311,497

Current year (From April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balances as of April 1, 2017	29,953	117,521	207,639	(54,769)	300,345
Changes of items during the period					
Dividends from surplus			(9,375)		(9,375)
Profit attributable to owners of parent			8,930		8,930
Effect of changes in accounting period of consolidated subsidiaries			(20)		(20)
Purchase of treasury stock				(13)	(13)
Disposal of treasury stock		(0)		0	0
Change of scope of consolidation					—
Change of scope of equity method					—
Purchase of shares of consolidated subsidiaries		(175)			(175)
Reversal of revaluation reserve for land					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(175)	(465)	(12)	(654)
Balances as of March 31, 2018	29,953	117,345	207,174	(54,781)	299,691

(Unit: Millions of yen)

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balances as of April 1, 2017	11,041	(71)	340	(4,479)	588	7,419
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Effect of changes in accounting period of consolidated subsidiaries						
Purchase of treasury stock						
Disposal of treasury stock						
Change of scope of consolidation						
Change of scope of equity method						
Purchase of shares of consolidated subsidiaries						
Reversal of revaluation reserve for land						
Net changes of items other than shareholders' equity	(512)	89	—	2,331	(1,067)	840
Total changes of items during the period	(512)	89	—	2,331	(1,067)	840
Balances as of March 31, 2018	10,528	17	340	(2,147)	(479)	8,259

(Unit: Millions of yen)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2017	303	3,428	311,497
Changes of items during the period			
Dividends from surplus			(9,375)
Profit attributable to owners of parent			8,930
Effect of changes in accounting period of consolidated subsidiaries			(20)
Purchase of treasury stock			(13)
Disposal of treasury stock			0
Change of scope of consolidation			—
Change of scope of equity method			—
Purchase of shares of consolidated subsidiaries			(175)
Reversal of revaluation reserve for land			—
Net changes of items other than shareholders' equity	515	(1,742)	(386)
Total changes of items during the period	515	(1,742)	(1,040)
Balances as of March 31, 2018	819	1,685	310,456

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2017 AND 2018

(Unit: Millions of yen)

	Prior year From April 1, 2016 To March 31, 2017	Current year From April 1, 2017 To March 31, 2018
Net cash provided by (used in) operating activities		
Income (loss) before income taxes	33,738	12,413
Depreciation and amortization	20,561	19,180
Impairment loss	6,034	2,474
Amount of transfer of equipment by amusement center operation business	(3,554)	(2,757)
Loss (gain) on sales of noncurrent assets	(9,437)	156
Loss on retirement of noncurrent assets	685	619
Loss (gain) on liquidation of subsidiaries and affiliates	(290)	0
Loss (gain) on sales of investment securities	(1,323)	(531)
Loss (gain) on valuation of investment securities	1,105	142
Loss (gain) on investments in partnership	(216)	(810)
Amortization of goodwill	2,456	2,169
Increase (decrease) in allowance for doubtful accounts	(107)	(57)
Increase (decrease) in provision for directors' bonuses	(4)	9
Increase (decrease) in net defined benefit liability	(871)	(857)
Increase (decrease) in provision for bonuses	1,383	(27)
Increase (decrease) in provision for dismantling of fixed assets	(1,105)	(233)
Increase (decrease) in provision for business restructuring	(129)	—
Interest and dividends income	(1,266)	(1,313)
Interest expenses	940	712
Foreign exchange losses (gains)	(240)	69
Equity in (earnings) losses of affiliates	1,457	4,368
Decrease (increase) in notes and accounts receivable-trade	10,664	15,179
Decrease (increase) in inventories	(12,778)	6,953
Increase (decrease) in notes and accounts payable-trade	12,496	(23,760)
Increase (decrease) in guarantee deposits received	(478)	407
Other, net	3,003	(1,841)
Subtotal	62,723	32,665
Interest and dividends income received	1,291	1,308
Interest expenses paid	(962)	(726)
Income taxes paid	(6,859)	(7,901)
Income taxes refund	2,933	1,140
Net cash provided by (used in) operating activities	59,126	26,487

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2017 AND 2018

(Unit: Millions of yen)

	Prior year From April 1, 2016 To March 31, 2017	Current year From April 1, 2017 To March 31, 2018
Net cash provided by (used in) investing activities		
Payments into time deposits	(992)	(36)
Proceeds from withdrawal of time deposits	6,437	2,711
Purchase of short-term investment securities	(3,000)	(3,000)
Proceeds from redemption of securities	1,000	3,000
Purchase of trust beneficiary right	(1,026)	(1,360)
Proceeds from sales of trust beneficiary right	1,001	1,058
Purchase of property, plant and equipment	(15,295)	(10,942)
Proceeds from sales of property, plant and equipment	13,406	9,564
Purchase of intangible assets	(9,250)	(10,529)
Proceeds from sales of intangible assets	0	—
Purchase of investment securities	(1,194)	(744)
Proceeds from sales of investment securities	3,688	2,166
Proceeds from redemption of investment securities	1,990	1,500
Payments for investment in partnerships	(1,148)	(2,161)
Proceeds from distribution of investment in partnerships	717	1,105
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(2,250)	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(11)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	972	—
Purchase of stocks of subsidiaries and affiliates	(839)	(6,206)
Payments of loans receivable	(1,757)	(1,587)
Collection of loans receivable	703	528
Reduction of investments in trusts	600	200
Payments for lease deposits	(988)	(5,192)
Collection of lease deposits	1,089	763
Other, net	1,379	(1,259)
Net cash provided by (used in) investing activities	(4,767)	(20,422)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1)	(0)
Proceeds from long-term loans payable	2,000	10,000
Repayment of long-term loans payable	(14,043)	(6,354)
Redemption of bonds	(14,200)	(19,500)
Purchase of treasury stock	(11)	(13)
Purchase of treasury stock of subsidiaries	—	(2,201)
Cash dividends paid	(9,376)	(9,380)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(984)	—
Other, net	(1,718)	(1,329)
Net cash provided by (used in) financing activities	(38,334)	(28,780)
Effect of exchange rate change on cash and cash equivalents	(1,124)	72
Net increase (decrease) in cash and cash equivalents	14,900	(22,642)
Cash and cash equivalents at beginning of period	185,613	199,208
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	25
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(1,305)	—
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries	—	(25)
Cash and cash equivalents at end of period	199,208	176,566

(Changes in presentation)

(Consolidated statements of income and comprehensive income)

"Gain on bad debts recovered" which was presented separately under "Non-operating income" in the previous fiscal year, is included in "Other" for the fiscal year, because the amount became immaterial. To reflect the changes to presentation, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, ¥0 million presented in "Gain on bad debts recovered" in the consolidated statements of income and comprehensive income of the previous fiscal year have been reclassified as "Other" under "Non-operating income" for the fiscal year.

"Sales discounts" and "Penalty payment for cancellation of game center lease agreement" which were presented separately under "Non-operating expenses" in the previous fiscal year, are included in "Other" for the fiscal year, because the amount became immaterial. To reflect the changes to presentation, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, ¥9 million presented in "Sales discounts" and ¥48 million presented in "Penalty payment for cancellation of game center lease agreement" in the consolidated statements of income and comprehensive income of the previous fiscal year have been reclassified as "Other" under "Non-operating expenses" for the fiscal year.

"Loss on valuation of shares of subsidiaries and affiliates" which was presented separately under "Extraordinary losses" in the previous fiscal year, is included in "Other" for the fiscal year, because the amount became immaterial. To reflect the changes to presentation, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, ¥56 million presented in "Loss on valuation of shares of subsidiaries and affiliates" in the consolidated statements of income and comprehensive income of the previous fiscal year have been reclassified as "Other" under "Extraordinary losses" for the fiscal year.

(Consolidated statements of cash flows)

"Loss (gain) on sales of shares of subsidiaries and affiliates" which was presented separately under "Net cash provided by (used in) operating activities" in the previous fiscal year, is included in "Other, net" for the fiscal year, because the amount became immaterial. To reflect the changes to presentation, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, ¥67 million presented in "Loss (gain) on sales of shares of subsidiaries and affiliates" in the consolidated statements of cash flows of the previous fiscal year have been reclassified as "Other, net" under "Net cash provided by (used in) operating activities" for the fiscal year.

(Additional information)

At a meeting of the Board of Directors held on March 31, 2017, the Company resolved to relocate the headquarters of the Company and some of the companies of the SEGA SAMMY Group located in the Tokyo metropolitan area. As a result, at the end of the previous fiscal year, the Company and certain subsidiaries had shortened the useful lives of the noncurrent assets that will become unable to use as a result of the relocation, and the effects of this change are accounted for prospectively.

Comparing results with the previous method, operating income, ordinary income and income before income taxes were decreased by ¥1,816 million, respectively, for the fiscal year ended March 31, 2018. The impact on segment information is described in the related section.

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 is comprised of segments classified by product and service provided through the business run by each company, in which “Pachislot and Pachinko Machines Business”, “Entertainment Contents Business” and “Resort Business” are the reporting segments.

Line of business at each reporting segment is as follows:

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

(Impact of the change of the useful lives of the noncurrent assets)

As described in “Additional information,” at the end of the previous fiscal year, the Company and some of the companies of the SEGA SAMMY Group located in the Tokyo metropolitan area had shortened the useful lives of the noncurrent assets that will become unable to use as a result of the relocation, and the effects of this change are accounted for prospectively.

Comparing the result with the previous method, segment income for “Pachislot and Pachinko Machines Business” decreased by ¥571 million, “Entertainment Contents Business” decreased by ¥1,102 million, respectively, for the fiscal year ended March 31, 2018. In addition, general corporate expenses included in “Adjustment” increased by ¥142 million.

2. Information on the amounts of net sales, income or loss, assets and other items by each reporting segment

Prior year (From April 1, 2016 to March 31, 2017)

(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	148,222	205,704	13,012	366,939	0	366,939
(2) Inter-segment sales and transfers	752	1,152	48	1,953	(1,953)	—
Total	148,974	206,857	13,060	368,892	(1,952)	366,939
Segment income (loss)	26,331	11,176	(2,244)	35,263	(5,735)	29,527
Segment assets	117,325	170,845	48,428	336,599	184,999	521,599
Depreciation	7,600	11,177	1,162	19,940	620	20,561
Investments in affiliates accounted for by the equity method	337	1,359	21,274	22,970	895	23,866
Increases in property, plant and equipment and intangible assets	5,871	16,667	4,505	27,045	18	27,063

(Notes) 1. Elimination of inter-segment transactions of ¥7 million and general corporate expenses of ¥(5,742) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(5,735) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustments for segment assets of ¥184,999 million includes elimination of inter-segment transactions of ¥(99,861) million and general corporate assets of ¥284,861 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 consisted of depreciation associated with the Company.

4. Adjustments for investments in affiliates accounted for using equity method are investments in affiliates accounted for using equity method that are not attached to each reporting segment.

5. The adjustment to property, plant and equipment and intangible assets is mainly consisted of 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 year (From April 1, 2017 to March 31, 2018)

(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	105,649	208,081	9,932	323,663	1	323,664
(2) Inter-segment sales and transfers	759	1,482	22	2,263	(2,263)	—
Total	106,409	209,563	9,954	325,927	(2,262)	323,664
Segment income (loss)	11,923	14,841	(2,502)	24,262	(6,541)	17,720
Segment assets	84,129	167,135	53,373	304,638	168,866	473,505
Depreciation	6,233	11,168	1,026	18,427	752	19,180
Investments in affiliates accounted for by the equity method	463	572	25,973	27,009	839	27,848
Increases in property, plant and equipment and intangible assets	3,656	17,254	1,961	22,873	1,323	24,196

- (Notes) 1. Elimination of inter-segment transactions of ¥18 million and general corporate expenses of ¥(6,560) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(6,541) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.
2. Adjustments for segment assets of ¥168,866 million includes elimination of inter-segment transactions of ¥(16,815) million and general corporate assets of ¥185,682 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 consisted of depreciation associated with the Company.
4. Adjustments for investments in affiliates accounted for using equity method are investments in affiliates accounted for using equity method that are not attached to each reporting segment.
5. The adjustment to property, plant and equipment and intangible assets is mainly consisted of 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.

SIGNIFICANT SUBSEQUENT EVENTS

(Dissolution of specified subsidiary)

At the Board of Directors' meeting held on April 6, 2018, the Company resolved dissolve and liquidate the consolidated subsidiary SEGA SAMMY BUSAN INC.

1. Reasons for dissolution

In the press release "Notice of Discontinuance of Development of Complex in Busan Metropolitan City, South Korea and Recording of Extraordinary Loss" dated December 22, 2016, the Company announced the discontinuance of its complex development project in Busan Metropolitan City, South Korea. Following the announcement, the Company reached an agreement with Busan Metropolitan City, South Korea on the return of acquired land as announced in the press release "(Progress in Disclosed Matter) Notice of Transfer of Noncurrent Assets" dated March 15, 2017. Since related procedures including the receipt of the land cost were completed in March 2018, the Company has determined to dissolve and liquidate the subsidiary.

2. Overview of the dissolution subsidiary

(1) Name	SEGA SAMMY BUSAN INC.
(2) Head office	233, Jungang-daero, Dong-gu, Busan, Republic of Korea
(3) Title and name of representative	Naoya Tsurumi, President(Representative Director)
(4) Business description	Development and operation of a complex comprised of hotel, entertainment facilities, commercial facilities, etc.
(5) Capital	124,000 million KRW
(6) Major shareholders and ownership percentage	SEGA SAMMY HOLDINGS INC. 100.0% (including rights of indirectly owned shares)

3. Schedule

Resolution of dissolution of the subsidiary	: April 6, 2018
Completion of liquidation	: by the end of July, 2018 (tentative)

4. Financial situation of the dissolution subsidiary, as of March 31, 2018

Total assets	94,431 million KRW	(¥9,452 million)
Total liabilities	18,913 million KRW	(¥1,893 million)

5. Estimated amount of profit (loss) by this dissolution

The impact of this dissolution and liquidation on consolidated financial results for the fiscal year ended March 31, 2018 is slight and for the fiscal year ending March 31, 2019 is currently under detailed examination.

6. Significant impact of this dissolution on operating activities, etc.

The impact of this dissolution and liquidation on operating activities, etc. is expected to be slight.