

**FLASH REPORT**  
**CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]**  
**Year Ended March 31, 2016**

**Name of the Company :** SEGA SAMMY HOLDINGS INC.  
**Code number :** 6460  
 (URL <http://www.segasammy.co.jp/> )  
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Annual Meeting of Shareholders: June 17, 2016 (plan)

Filing of Financial Report : June 20, 2016 (plan)

Start of cash dividend payments : May 27, 2016 (plan)

(Amounts below one million yen are rounded down)

**1. Consolidated Operating Results for the Year Ended March 31, 2016**

(1) RESULTS OF CONSOLIDATED OPERATIONS

(Percentage represents changes from the prior year)

	Net sales		Operating income		Profit attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For Year ended March 31, 2016	347,981	(5.1)	17,617	0.7	5,369	—
For Year ended March 31, 2015	366,813	—	17,495	—	(11,375)	—

(Note) Comprehensive income:

For Year ended March 31, 2016: ¥ (6,566) million (— %)

For Year ended March 31, 2015: ¥ (4,046) million (— %)

	Net income per share	Net income per share (Diluted)	Return on equity	Operating income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
For Year ended March 31, 2016	22.90	22.90	1.8	3.3	5.1
For Year ended March 31, 2015	(46.70)	—	(3.4)	3.3	4.8

(Reference) Equity in earnings of affiliates:

For Year ended March 31, 2016: ¥ (338) million

For Year ended March 31, 2015: ¥ 26 million

(Note) Due to retroactive application associated with a change in accounting policy, year-on-year changes for the fiscal year ended March 31, 2015 are omitted.

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
March 31, 2016	532,957	299,950	55.3	1,257.43
March 31, 2015	528,659	322,452	60.0	1,336.54

(Reference) Shareholders' equity

March 31, 2016: ¥ 294,733 million

March 31, 2015: ¥ 317,330 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, 2016	16,906	(35,280)	14,285	185,613
For Year ended March 31, 2015	37,010	(37,734)	(15,058)	190,837

### 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, 2015	—	20.00	—	20.00	40.00	9,634	—	2.9
Year ended March 31, 2016	—	20.00	—	20.00	40.00	9,375	174.7	3.1
Year ending March 31, 2017 (plan)	—	20.00	—	20.00	40.00		93.8	

### 3. Forecast of Consolidated Operating Results for the Year ending March 31, 2017

(Percentage represents changes from the prior year)

	Net sales		Operating income		Profit attributable to owners of parent		Net income per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
First half ending September, 2016	180,000	16.7	6,500	13.2	3,400	252.6	14.51
Entire - year	380,000	9.2	20,000	13.5	10,000	86.2	42.66

#### **4. Other**

- (1) Significant changes in subsidiaries (scope of consolidation) during the year ended March 31, 2016: No
- (2) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the consolidated financial statements:
  1. Changes associated with revision in accounting standards: Yes
  2. Other changes: Yes
- (3) Number of shares outstanding (common stock)
  1. Number of shares outstanding at the end of the period (including treasury stock)
    - March 31, 2016: 266,229,476
    - March 31, 2015: 266,229,476
  2. Number of treasury stock at the end of the period
    - March 31, 2016: 31,834,807
    - March 31, 2015: 28,801,789
  3. Average number of shares during the period
    - For Year ended March 31, 2016: 234,473,564
    - For Year ended March 31, 2015: 243,611,466

#### **[Caution With Regard to Operating Results Outlook]**

- This report is outside the scope of audit in accordance with the Financial Instruments and Exchange Law, and the audit of financial statements in accordance with the Law has not been completed as of the disclosure of this report.
- 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 "Overview" on page 4.
- The Company plans to hold a briefing on financial results for analysts on May 16, 2016. The contents of the meeting, such as explanations about financial results (audio), will be posted on the Company's website soon after the briefing.

# **1. Operating Results and Financial Position**

Effective from the fiscal year ended March 31, 2016, accounting policies were changed and comparison with the previous fiscal year is based on figures in which the changes are retroactively reflected. For details of the changes in accounting policies, please refer to “Changes in accounting policies” on page 23.

## **(1) Overview**

During the fiscal year ended March 31, 2016, the gradual recovery of the overall Japanese economy continued despite a lackluster performance in certain respects, as evidenced by such developments as improvement of both corporate earnings and the labor market due to the effects monetary and fiscal policies. With regard to individual consumption, in general, consumption levels have not fallen owing to steady improvements in both the employment environment and personal incomes. However, attention should be paid to the risk of downward pressure on the Japanese economy, caused by factors such as a downswing in China’s economy and other overseas economies, and fluctuations in financial and capital markets. Thus, a full recovery of the economy will require more time.

In this climate, with regard to the pachislot and pachinko industry, machine utilization of titles compliant with the standards before the change in the application of the model test procedure by the Security Communications Association, which conducts model tests for pachislot and pachinko machines, remains firm in the pachislot machine market. On the other hand, titles with outstanding performance are arising mainly in some series with successful track records even for the pachislot machines corresponding to the change in the application. With the exception of some major titles, replacement demand for new pachinko machines was also weak in line with the application of the voluntary agreement on measures to prevent players from becoming too immersed in playing (hereinafter the “agreement”), which were decided by Nikkoso, an association of pachinko machine manufacturers. In order to revitalize the market going ahead, it is essential to develop and supply machines that are compliant with various voluntary regulations and capable of appealing to a wide range of players.

Regarding the environment of the Entertainment Contents Business, a slowdown in the spread of smartphones in Japan and the predominance of top titles are increasing in the market for digital games for smart devices market, and fall of medium to lower titles can be expected in the future. Therefore, provision of higher-quality content is expected, resulting in a trend of longer development lead times and higher operating costs. With regard to the packaged game software market, expectations are rising for future expansion of the market in line with the penetration of next generation hardware of home video game console. As for the market for amusement centers and amusement machines, which is shrinking, initiatives to expand the player base are being carried out.

In the resort industry, thanks to a continuous increase in the number of foreign visitors to Japan, an upward trend in the hotel occupancy rate is still evident and revenues of amusement parks and theme parks continue to exceed the previous year’s level. 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 submitted to the Diet.

In this business environment, net sales for the fiscal year ended March 31, 2016 amounted to ¥347,981 million (a decrease of 5.1% from the previous fiscal year). The Group posted an operating income of ¥17,617 million (an increase of 0.7% from the previous fiscal year) and profit attributable to owners of parent of ¥5,369 million (loss attributable to owners of parent of ¥11,375 million for the previous fiscal year).

In order to review the Group’s earnings structure from a medium- to long-term perspective, as well as to address the issues of each business, the Company implemented an organizational restructuring within the Group (\*) on April 1, 2015. Effective from the fiscal year ended March 31, 2016, the Group’s businesses were reorganized into three businesses: (i) the Pachislot and Pachinko Machines Business, (ii) the Entertainment Contents Business, and (iii) the Resort Business. In line with this reorganization, the former Amusement Machine Sales Business, Amusement Center Operations Business and Consumer Business have been integrated into the Entertainment Contents Business. Operations of theme parks, previously included in the Amusement Center Operations Business, and operations of resort facilities, previously included in Other Businesses, have been integrated into the Resort Business.

(\*) As of April 1, 2015, SEGA CORPORATION was divided and SEGA Holdings Co., Ltd., SEGA Interactive Co., Ltd., and SEGA LIVE CREATION Inc. were established through an incorporation-type demerger. In addition, SEGA CORPORATION merged with SEGA Networks Co., Ltd. and changed its trade name to SEGA Games Co., Ltd.

Result of each segment is as follows

In line with the reorganization within the Group as of April 1, 2015, effective from the fiscal year ended March 31, 2016, the classification of the reporting segments has been changed. Comparison and analysis of results for the fiscal year ended March 31, 2016 are based on the segment classification after the change. For details of segment information, please refer to “SEGMENT INFORMATION, 1. Outline of reporting segments” on page 25.

#### 《Pachislot and Pachinko Machines》

In the pachislot machine business, although sales were strong for series with proven titles, such as “Pachislot Hokuto No Ken Tomo,” the latest title in the “Hokuto No Ken” series which has produced the greatest hit machine in history, or “Pachislot Onimusha3 Jikuu Tenshou,” the legitimate successor of the big hit “Onimusha” series, performance of other titles was sluggish, leading to an overall sales of pachislot machines of 142 thousand units. (Overall sales of pachislot machines were 207 thousand units for the previous fiscal year).

In the pachinko machines business, while sales of some titles were strong, such as the latest title “Pachinko CR Shin-Juoh 2” in our original IP “Juoh” series, and “Pachinko CR Shin Hokuto Muso,” which comes installed with new productions, gimmicks and new frame “Toshin”, pioneering unseen territory in the existing “Hokuto No Ken” series, due to the temporary impact of structural reforms in the Pachislot and Pachinko Machines Business, as well as the reactionary decline of “CR Hokuto No Ken 6 series” launched in the fiscal year ended March 31, 2015, overall sales of pachinko machines were 199 thousand units. (Overall sales of pachinko machines were 241 thousand units for the previous fiscal year).

Furthermore, we carried out measures to improve costs such as through reuse of components from pachislot and pachinko machines launched in the previous fiscal year or earlier.

As a result, net sales in this segment were ¥133,407 million (a decrease of 12.7% from the previous fiscal year) and operating income was ¥21,548 million (a decrease of 16.4% from the previous fiscal year).

#### 《Entertainment Contents》

With regard to the Entertainment Contents Business, in the field of digital game software, sales remained robust for major titles including “PHANTASY STAR ONLINE 2,” launched over three years ago, as well as titles for smart devices such as the updated “CHAIN CHRONICLE – Kizuna no Shintairiku,” “Puyopuyo!! Quest,” and “Hortensia SAGA.” However, with regard to certain titles for smart devices and the South Korea expansion of “Football Manager Online,” a new online game for the Asian market, costs including advertising expenses increased due to a review of the value of assets relating to the titles that were less well-received than expected in the initial plan, as well as an increased number of new titles. The number of titles distributed domestically in the field of digital game software (free-to-play types) was 49 as of the end of March 2016.

In the packaged game software field, sales amounted to 9,220 thousand copies, which was lower than the level in the previous fiscal year, despite the launch of “Football Manager 2016,” the latest addition to the “Football Manager” series, which has continued to attract diehard fans for over 10 years, mainly in Europe. On the other hand, profitability was improved as a result of focusing on the sales of major titles by narrowing down the number of titles.

In the amusement machine field, sales were strong for the new medal pusher machine “THE MEDAL TOWER OF BABEL,” as well as “CHUNITHM,” a new music game in which users can enjoy a new sense of play, which was developed by the development team of “maimai,” a popular music game operating in game centers across Japan.

In the amusement center operations field, like-for-like sales were robust at 103.1% compared with the previous fiscal year owing to reinforced management of prizes etc. at the existing game center operations. In the animated film and toy field, program sales were strong for “LUPIN THE 3rd,” the first new title for the TV series in 30 years, and the highest-ever box-office revenue for the series were recorded for the theater film “Detective Conan Sunflowers of inferno.” In addition, the Group implemented the sale of toy products particularly “Anpanman” series and “Disney Character Magical Pod.”

As a result, while net sales in this segment were ¥199,720 million (a decrease of 0.5% from the previous fiscal year), operating income was ¥3,653 million (operating income of ¥63 million for the previous fiscal year) because of an improved profitability for the packaged games field, amusement machines field and animated film and toy field due to the effects of structural reform measures implemented in the fiscal year ended March 31, 2015.

## 《Resort》

In the Resort Business, sales were strong in the leading resorts in Japan, “Phoenix Seagaia Resort,” whose amenities include hotels, golf courses and international conference venues, due to the effects of large-scale renovation of “Sheraton Grande Ocean Resort” guest rooms. In addition, “Orbi Osaka” was opened as the first domestic licensing out facility in January 2016, and “Shanghai JOYPOLIS” was opened as the first licensing out facility in China in February 2016. The Group operates existing casino facilities in Incheon, South Korea, through PARADISE SEGASAMMY Co., Ltd. (associate accounted for using the equity method), a joint venture between Paradise Co., Ltd., a major tourism enterprise in South Korea, and the Company.

As a result, net sales in this segment were ¥16,450 million (an increase of 9.3% from the previous fiscal year) and operating loss was ¥1,825 million (operating loss of ¥2,336 million for the previous fiscal year).

## Outlook for the Fiscal Year ending March 31, 2017

### <Pachislot and Pachinko Machines>

With regard to pachislot and pachinko machines, even in pachislot machines corresponding to the change in the application, an emergence of titles with strong support are being expected. In pachinko machines, due to an “agreement” being reached, the market is expected to temporarily trend in an unstable condition.

The Group possesses leading developmental abilities in the industry as well as a great number of powerful IP (Intellectual Property) with outstanding performance, and will continue to display high competitiveness in its attempt to improve market share. In addition, by promoting standardization of units and parts, and technological cooperation in the joint venture established with Universal Entertainment Corporation, the Group aims to invigorate the market. In the first quarter of the year ending March 31, 2017, the Group will implement sales of multiple titles, including “Pachislot CODE GEASS Lelouch of the Rebellion R2” and “CR BIG DREAM ~SHINGEKI 99Ver.”

As a result of these developments, in the fiscal year ending March 31, 2017, the Group expects sales of 230 thousand units of pachislot machines, up 88 thousand from the current fiscal year and 182 thousand units of pachinko machines, down 17 thousand from the current fiscal year.

On the other hand, a temporary decrease in profitability is expected, as the fiscal year ending March 31, 2017 corresponds to the penetration period of new frames and new materials which started to be introduced in the fiscal year ended March 31, 2016. However, the Group will improve profitability over mid-term through further strengthening of efforts toward cost improvements including continuing to reuse materials.

In the Pachislot and Pachinko Machines Business, based on the “Agreement for the Handling of Pachislot and Pachinko Machines with High Payout Volatility” which was released by industry groups for the purpose of further restoration of the pachislot and pachinko machine industry, the Group is advancing the examination of early replacement with appropriate pachislot and pachinko machines, showing support of “Handling of Pachislot and Pachinko Machines That Do Not Correspond to the New Standards (Basic Policy)” as resolved by the Zennichiyuren and cooperation on the trade-in of pachislot and pachinko machines that have been designated as machines with particularly high payout volatility. In this respect, the Group is also taking initiatives towards the restoration of the pachislot and pachinko machine industry through collection or removal of such machines and replacement with appropriate pachinko and pachislot machines.

### <Entertainment Contents Business>

With regard to the Entertainment Contents Business, in the field of digital game software such as for smart devices and online PC games, the Group is working to improve profitability by launching service for the PlayStation 4 edition of “PHANTASY STAR ONLINE 2,” which is receiving high acclaim from many users over the long term, and sequentially carrying out major updates of existing major titles mainly “CHAIN CHRONICLE – Kizuna no Shintairiku,” “Puyopuyo!! Quest,” and “Hortensia SAGA,” in addition to optimizing advertising expenses and operating costs. Furthermore, the Group will promote the expansion of the advertising business in “Noah Pass” of the marketing platform for smartphone game software, and launching of the overseas-oriented platform “goPlay” business focused on Southeast Asia. In the fiscal year ending March 31, 2017, the number of newly launched titles distributed domestically in the field of digital game software is planned to be 7 (including 7 Free-to-play types).

In the packaged game software field, the Group is building a structure in which revenue can be created with stability, and will introduce new titles focusing on mainstay IP titles held by the Group. In the fiscal year ending March 31, 2017, the Group plans to introduce “Persona5,” the latest title in the “Persona” series and “Ryu ga Gotoku6,” the latest title in the “Ryu ga Gotoku” series in Japan, and for overseas, “Total War: WARHAMMER,” the latest title in the “Total War” series.

In the amusement machines field, in addition to the new title “Kancolle Arcade,” the Group will introduce new titles for a wide variety of users and markets including a new title in the trading card game “SANGOKUSHI WAR,” which has operated for over ten years since its appearance in March 2005.

With regard to the amusement center operations field, as part of strengthening operations of existing game centers, the Group will advance the introduction of electronic money to game centers, and will continue past efforts such as enhancement of prizes.

In the animation film and toy fields, the Group aims to improve profitability by primarily developing classic and mainstay products and services, premiering the theater film “Detective Conan The Darkest Nightmare,” and developing toys for the character “Rilu Rilu Fairilu” series, the second joint development with Sanrio Company, Ltd.

#### **<Resort Business>**

In the Resort Business, the Group will endeavor to accumulate expertise by developing and operating theme parks and resort facilities as well as operating casino facilities overseas and make progress in prior investment for realizing integrated resorts business. In Japan, the indoor theme park “TOKYO JOYPOLIS” will celebrate the 20th anniversary of its opening and will introduce new attractions and collaborate with artists and products that will also be celebrating their 20th anniversaries, and the Group will work to improve contents of the supercharged nature experience “Orbi Yokohama.” Furthermore, at “Phoenix Seagaia Resort,” one of the leading resort facilities in Japan holding facilities such as hotels, golf courses and international meeting rooms, the largest renovations since the start of operations mainly made to guest rooms and front area of “Sheraton Grande Ocean Resort,” which started in fiscal year ended March 31, 2015 with the purpose of providing a higher quality resort stay, will complete this summer and is scheduled for grand opening. Overseas, the Group endeavors to operate existing casino facilities in Incheon, South Korea, through PARADISE SEGASAMMY Co., Ltd. (associate accounted for using equity method) which is a joint venture between the Company and Paradise Co., Ltd., a major tourism company in South Korea. In addition to these efforts, the Group will proceed with the development of South Korea’s first full-fledged integrated resort “PARADISE CITY” which is scheduled for opening in the first half of 2017.

In light of the above, the Group is forecasting consolidated net sales of ¥380,000 million (an increase of 9.2% from the previous fiscal year), operating income of ¥20,000 million (an increase of 13.5% from the previous fiscal year), and profit attributable to owners of parent of ¥10,000 million (an increase of 86.2% from the previous fiscal year) for the fiscal year ending March 31, 2017.

#### **[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.

## **(2) Consolidated Financial Position**

### 1) Assets, liabilities and net assets

(Assets and liabilities)

Total assets as of the end of the current fiscal year increased ¥4,297 million from the end of the previous fiscal year, to ¥532,957 million.

Current assets increased ¥4,271 million from the end of the previous fiscal year. This was attributable to increases in cash and deposits, notes and accounts receivable – trade, etc., despite a decrease in short-term investment securities.

Noncurrent assets increased ¥26 million from the end of the previous fiscal year. This was attributable to increases in purchase of investment securities etc., despite a decrease in intangible assets.

Total liabilities as of the end of the current fiscal year increased ¥26,799 million from the end of the previous fiscal year, to ¥233,006 million. This was attributable to increases in bonds payable, long-term loans payable, etc.

(Net assets)

Net assets as of the end of the current fiscal year decreased ¥22,502 million from the end of the previous fiscal year, to ¥299,950 million.

This was attributable to a decrease in shareholders' equity due to purchase of treasury stock and cash dividends paid as well as decreases in valuation difference on available-for-sale securities, foreign currency translation adjustment, etc., despite the recording of profit attributable to owners of parent.

(Financial ratio)

The current ratio at the end of the current fiscal year decreased 58.5 points from the end of the previous fiscal year to 285.2%, but nevertheless remained at a high level.

The equity ratio at the end of the current fiscal year decreased 4.7 points from the end of the previous fiscal year, to 55.3%.

### 2) Cash flows

Cash and cash equivalents at the end of the current fiscal year decreased ¥5,224 million from the end of the previous fiscal year, to ¥185,613 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 ¥17,603 million increase in notes and accounts receivable-trade and ¥5,141 million increase in inventories, despite ¥12,015 million income before income taxes, ¥21,015 million of depreciation and amortization, and ¥6,922 million increase in notes and accounts payable-trade, resulted in ¥16,906 million net cash provided by operating activities in the current fiscal year (¥37,010 million inflow in the previous fiscal year).

(Cash flows from investing activities)

Expenditures of ¥15,405 million for purchase of short-term investment securities including investment securities, ¥14,277 million for purchase of property, plant and equipment, and ¥9,151 million for purchase of intangible assets resulted in ¥35,280 million net cash used in investing activities in the current fiscal year (¥37,734 million outflow in the previous fiscal year).

(Cash flows from financing activities)

Factors including financing of ¥29,880 million through long-term loans payable and ¥9,958 million through issuance of bonds, despite expenditures of ¥13,361 million for repayment of long-term loans payable and ¥9,422 million for cash dividends paid, resulted in ¥14,285 million net cash provided by financing activities in the current fiscal year (¥15,058 million outflow in the previous fiscal year).

<Cash Flow Indices>

	March 2012	March 2013	March 2014	March 2015	March 2016
Equity ratio	58.9%	59.7%	63.2%	60.0%	55.3%
Equity ratio (fair market value)	87.5%	87.5%	103.7%	78.8%	54.0%
Redemption of debt	192.4%	524.9%	127.7%	301.9%	798.8%
Interest coverage ratio	58.1 times	22.9 times	90.0 times	45.2 times	19.1 times

Notes: Equity ratio: (Net assets — Subscription rights to shares — Non-controlling interests) / total assets

Equity ratio (fair market value): Market capitalization / total assets

Redemption of debt: Interest-bearing debt / operating cash flow

Interest coverage ratio: Operating cash flow / interest payments

1. All indicators are calculated using the consolidated financial results.
2. Market capitalization is calculated by multiplying the year-end share price with the number of shares issued and outstanding at year-end (excluding treasury stock).
3. Operating cash flow refers to Cash Flows from Operating Activities in the Consolidated Statements of Cash Flows.
4. Interest-bearing debt is the portion of debt recorded in the Consolidated Balance Sheets on which interest is being paid.
5. Interest payments refer to interest paid as shown in the Consolidated Statements of Cash Flows.
6. Cash flow indicators of fiscal year ended March 31, 2015 reflects retroactive application of changes in the revenue recognition method by some of the subsidiaries in the fiscal year ended March 31, 2016.

**(3) Basic Policy Concerning Distribution of Earnings for the Fiscal Year ended March 31, 2016 and the Fiscal Year ending March 31, 2017**

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, 2017, 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.

## 2. Overview of the SEGA SAMMY Group

The Group consists of the Company, as well as 92 subsidiaries and 14 affiliated companies, with the three areas of Pachislot and Pachinko Machines Business, Entertainment Contents Business and Resort Business as its primary business areas. The line of primary businesses that the Group is engaged in, and the position of various affiliated companies in relation to these businesses is as follows. The positioning are the same as business segments in Segment Information.

Segment	Main business	Major company	
Pachislot and Pachinko Machines Business	Development, manufacture and sales of pachislot and pachinko machines	Sammy Corporation RODEO Co., Ltd. TAIYO ELEC Co., Ltd. Japan Multimedia Services Corporation	
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	Domestic	SEGA Holdings Co., Ltd. SEGA Games Co., Ltd. SEGA Interactive Co., Ltd. Sega Logistics Service Co., Ltd. SEGA ENTERTAINMENT Co., Ltd. DARTSLIVE Co., Ltd. ATLUS CO., LTD. Sammy Networks Co., Ltd. SEGA TOYS CO., LTD. TMS ENTERTAINMENT CO., LTD. MARZA ANIMATION PLANET INC. SEGA SAMMY CREATION INC.
		Overseas	Sega Amusements International Ltd. Sega of America, Inc. Sega Europe Ltd. Sega Publishing Europe Ltd.
Resort Business	Development and operation of hotels and theme parks in the integrated resorts business and other facilities businesses.	Domestic	SEGA LIVE CREATION Inc. PHOENIX RESORT CO., LTD.
		Overseas	SEGASAMMY BUSAN INC. PARADISE SEGASAMMY Co., Ltd.

## **3. Management Policies**

### **(1) Basic Management Policies**

On October 1, 2004, SEGA CORPORATION (now SEGA Games Co., Ltd.) and SAMMY CORPORATION integrated their management resources. By combining the resources of the two companies, a holding company SEGA SAMMY HOLDINGS Inc. was established with the aim of maximizing corporate value. Since then, the Group has been taking various measures to build a business framework that responds quickly and flexibly to changes in the operating environment and to accelerate growth. As part of such measures, the Group restructured affiliated companies into the following three business groups on April 1, 2015.

- (i) Pachislot and Pachinko Machines centered on SAMMY CORPORATION
- (ii) Entertainment Contents Business with Network Games Business of SEGA Games Co., Ltd. as core business
- (iii) Resort Business making developments such as hotels, golf courses and resort facilities

In each business group, the Group will promote improvement in efficiency on overlapping functions while speeding up decision-making, and develop a system in which management resources can be properly injected in order to increase the management efficiency while responding to changes in the business environment.

The Group will maximize the effective and mutual use of management resources within the Group with the entire world as the targeted market and carry out businesses targeting all generations. The Group believes it can respond to the expectations of those who have placed trust in us by “establishing a presence in all business fields and becoming the No. 1 comprehensive global entertainment company.”

### **(2) Medium- to Long-term Strategies and Other Issues**

In addition to Pachislot and Pachinko Machines which consist of pachislot and pachinko machines, the Group is engaged in a diverse array of entertainment businesses such as the Entertainment Contents Business which consists of the field of digital game software for smartphones and online PC games, the packaged game software field including home video game software, amusement machines, amusement center operations as well as the toy and animation fields. Our goal is to have strong competitiveness in these fields as our core businesses. Additionally, we are aiming to make a full-fledged entry into the integrated resort facility business and will make active efforts to make the Resort Business, which involves development and management of theme parks and resort facilities, a new core business.

The Group aims to enhance profitability and capital efficiency. Emphasis is placed on two managerial indexes: the ratio of operating income to net sales and return on assets.

### **(3) Issues to be Addressed**

Pachinko parlor operators continue to face increasingly harsh business conditions due to widespread practice of lowering ball rental fees and a decline in the number of players amidst the significant reforms in the market environment and regulation environment. In the Pachislot and Pachinko Machines Business, under these circumstances, developing and supplying products with innovative gameplay that meet market needs to maintain and expand market share are considered as management issues.

With regard to Entertainment Contents Business, the predominance of top titles in the Japanese digital game software market is increasing, and as fall of medium and lower titles can be expected in the future, the Group is expected to maximize product quality focused on existing mainstay titles and to develop and supply new titles that will enter top sales rankings. Moreover, achieving entry into the overseas digital game software market focused on the rapidly growing Asian region is considered as a management issue.

In the packaged game software field, amusement machine field, amusement center operations field and animated film and toy fields, in addition to maintaining the effect of revenue recovery by structural reform initiatives, further improvements in profitability is considered as a management issue.

With regard to Resort Business, through the development and operation of resort facilities in Japan as well as integrated resorts overseas, while preparing for a full-fledged integrated resort business in the future by distributing management resources at an optimal level and conducting prior investments, it is an important management issue of the Group to accumulate expertise.

In the Group structural reform, which began since the fiscal year ended March 31, 2015, the Group is advancing improvement of profitability by revising business portfolios, and it is an important management issue of the Group to return to a growth track by aggressively investing in growth areas.

**(4) Other Important Items for the Company's Business Management**

Not applicable.

**4. 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, 2015 AND 2016

(Unit : Millions of Yen)

	Prior year (As of March 31, 2015)	Current year (As of March 31, 2016)
	Amount	Amount
( A s s e t s )		
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	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	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

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2015 AND 2016

(Unit : Millions of Yen)

	Prior year (As of March 31, 2015)	Current year (As of March 31, 2016)
	Amount	Amount
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	26,964	33,011
Short-term loans payable	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	(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

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE YEAR ENDED MARCH 31, 2015 AND 2016

(Unit : Millions of Yen)

	Prior year From April 1, 2014 To March 31, 2015	Current year From April 1, 2015 To March 31, 2016
	Amount	Amount
Net sales	366,813	347,981
Cost of sales	231,441	220,609
Gross profit	135,371	127,372
Selling, general and administrative expenses	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	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	(80)	(72)
Impairment loss	(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	(862)	(1,220)
Other	(72)	45
Subtotal	(15,527)	(5,601)

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE YEAR ENDED MARCH 31, 2015 AND 2016

(Unit : Millions of Yen)

	Prior year From April 1, 2014 To March 31, 2015	Current year From April 1, 2015 To March 31, 2016
	Amount	Amount
Income (loss) 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 (loss) 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	6,373	(12,186)
Comprehensive income	(4,046)	(6,566)
(Breakdown)		
Comprehensive income attributable to owners of the parent	(4,972)	(6,728)
Comprehensive income attributable to minority interests	925	161

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED MARCH 31, 2015 AND 2016

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

(Unit : Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balances as of April 1, 2014	29,953	119,312	219,684	(37,971)	330,977
Cumulative effects of changes in accounting policies			607		607
Balances as of April 1, 2014 which reflect changes in accounting policies	29,953	119,312	220,291	(37,971)	331,585
Changes of items during the period					
Dividends from surplus			(9,758)		(9,758)
Profit (loss) attributable to owners of parent			(11,375)		(11,375)
Effect of changes in accounting period of consolidated subsidiaries					—
Purchase of treasury stock				(12,601)	(12,601)
Disposal of treasury stock		(30)		1,237	1,207
Change of scope of consolidation			(231)		(231)
Change of scope of equity method			(222)		(222)
Purchase of shares of consolidated subsidiaries					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(30)	(21,587)	(11,363)	(32,981)
Balances as of March 31, 2015	29,953	119,282	198,704	(49,335)	298,604

(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, 2014	16,804	0	(4,705)	(2,281)	2,504	12,322
Cumulative effects of changes in accounting policies						
Balances as of April 1, 2014 which reflect changes in accounting policies	16,804	0	(4,705)	(2,281)	2,504	12,322
Changes of items during the period						
Dividends from surplus						
Profit (loss) 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						
Net changes of items other than shareholders' equity	990	9	5	5,695	(297)	6,403
Total changes of items during the period	990	9	5	5,695	(297)	6,403
Balances as of March 31, 2015	17,794	10	(4,699)	3,414	2,206	18,726

(Unit : Millions of Yen)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2014	1,078	3,892	348,270
Cumulative effects of changes in accounting policies			607
Balances as of April 1, 2014 which reflect changes in accounting policies	1,078	3,892	348,878
Changes of items during the period			
Dividends from surplus			(9,758)
Profit (loss) attributable to owners of parent			(11,375)
Effect of changes in accounting period of consolidated subsidiaries			—
Purchase of treasury stock			(12,601)
Disposal of treasury stock			1,207
Change of scope of consolidation			(231)
Change of scope of equity method			(222)
Purchase of shares of consolidated subsidiaries			—
Net changes of items other than shareholders' equity	(245)	397	6,555
Total changes of items during the period	(245)	397	(26,425)
Balances as of March 31, 2015	832	4,289	322,452

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

(Unit : Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balances as of April 1, 2015	29,953	119,282	198,704	(49,335)	298,604
Cumulative effects of changes in accounting policies					—
Balances as of April 1, 2015 which reflect changes in accounting policies	29,953	119,282	198,704	(49,335)	298,604
Changes of items during the period					
Dividends from surplus			(9,436)		(9,436)
Profit (loss) attributable to owners of parent			5,369		5,369
Effect of changes in accounting period of consolidated subsidiaries			(129)		(129)
Purchase of treasury stock				(5,549)	(5,549)
Disposal of treasury stock		14		127	141
Change of scope of consolidation			(1)		(1)
Change of scope of equity method			(0)		(0)
Purchase of shares of consolidated subsidiaries		(892)			(892)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(877)	(4,198)	(5,422)	(10,499)
Balances as of March 31, 2016	29,953	118,404	194,505	(54,758)	288,105

(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, 2015	17,794	10	(4,699)	3,414	2,206	18,726
Cumulative effects of changes in accounting policies						
Balances as of April 1, 2015 which reflect changes in accounting policies	17,794	10	(4,699)	3,414	2,206	18,726
Changes of items during the period						
Dividends from surplus						
Profit (loss) 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						
Net changes of items other than shareholders' equity	(6,300)	(50)	99	(4,290)	(1,554)	(12,097)
Total changes of items during the period	(6,300)	(50)	99	(4,290)	(1,554)	(12,097)
Balances as of March 31, 2016	11,494	(40)	(4,600)	(876)	651	6,628

(Unit : Millions of Yen)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2015	832	4,289	322,452
Cumulative effects of changes in accounting policies			—
Balances as of April 1, 2015 which reflect changes in accounting policies	832	4,289	322,452
Changes of items during the period			
Dividends from surplus			(9,436)
Profit (loss) attributable to owners of parent			5,369
Effect of changes in accounting period of consolidated subsidiaries			(129)
Purchase of treasury stock			(5,549)
Disposal of treasury stock			141
Change of scope of consolidation			(1)
Change of scope of equity method			(0)
Purchase of shares of consolidated subsidiaries			(892)
Net changes of items other than shareholders' equity	(31)	126	(12,003)
Total changes of items during the period	(31)	126	(22,502)
Balances as of March 31, 2016	801	4,415	299,950

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2015 AND 2016

(Unit: Millions of Yen)

	Prior year From April 1, 2014 To March 31, 2015	Current year From April 1, 2015 To March 31, 2016
	Amount	Amount
Net cash provided by (used in) operating activities		
Income (loss) 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 operation 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

SEGA SAMMY HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2015 AND 2016

(Unit : Millions of Yen)

	Prior year From April 1, 2014 To March 31, 2015	Current year From April 1, 2015 To March 31, 2016
	Amount	Amount
Net cash provided by (used in) 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	(637)	(390)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(96)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	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)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	—	(500)
Proceeds from long-term loans payable	10,900	29,880
Repayment 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	(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	190,837	185,613

(Changes in accounting policies)

a. Adoption of accounting standard for business combinations, etc.

Effective from the fiscal year ended March 31, 2016, the Company adopted “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21 issued on September 13, 2013) (hereinafter, the “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on September 13, 2013) (hereinafter, the “Consolidation Accounting Standard”), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 issued on September 13, 2013) (hereinafter, the “Business Divestitures Accounting Standard”), and other related accounting standards. Accordingly, the accounting methods have been changed to record the difference arising from changes in equity in subsidiaries which the Company continues to control as capital surplus, and to record business acquisition costs as expenses for the fiscal year in which incurred. In addition, regarding business combinations occurring on or after the April 1, 2015 the accounting method has been changed to retroactively reflect adjustments to the amount allocated to acquisition costs arising from the finalization of the provisional accounting treatment on the consolidated financial statements of the period in which the business combination occurs. Furthermore, presentation of net income and others has been changed and presentation of minority interests has been changed to non-controlling interests. To reflect these changes in the presentations, consolidated financial statements for the previous fiscal year have been reclassified.

In the Consolidated Statements of Cash Flows for the fiscal year ended March 31, 2016, changes were made so that cash flows for purchase or sales of shares of subsidiaries that do not result in change in scope of consolidation are listed under “cash flows from financing activities,” while business acquisition costs for shares of subsidiaries resulting in change in scope of consolidation or expenses incurred in relation with purchase or sales of shares of subsidiaries that do not result in change in scope of consolidation are listed under “cash flows from operating activities.”

The Business Combinations Accounting Standard and other standards were applied from April 1, 2015 into the future in accordance with the transitional measures provided in Paragraph 58-2 (4) of the Business Combinations Accounting Standard, Paragraph 44-5 (4) of the Consolidation Accounting Standard and Paragraph 57-4 (4) of the Business Divestitures Accounting Standard.

As a result, capital surplus at the end of the fiscal year decreased by ¥892 million. The impact of the change on profit and loss for the fiscal year ended March 31, 2016 is immaterial.

b. 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 on a 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 Machines 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 statement of income and comprehensive income for the previous fiscal year, net sales decreased by ¥430 million, gross profit decreased by ¥127 million, and operating income and income before income taxes decreased by ¥113 million, respectively. The beginning balance of retained earnings for the previous 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 impact on segment information is described in the related section.

c. 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.

(Additional information)

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 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.

## 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 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 Machines Business,” the “Amusement Machines Sales Business,” the “Amusement Center Operations Business,” and the “Consumer Business,” now consist of the “Pachislot and Pachinko Machines 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.

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

As described in “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 Machines 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 “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).

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

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

(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	152,174	199,663	14,974	366,813	—	366,813
(2) 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 consisted of the 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 consisted of depreciation associated with the Company.

4. Adjustments for investments in associates accounted for using equity method are investments in associates 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, 2015 to March 31, 2016)

(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	132,732	198,856	16,392	347,981	—	347,981
(2) 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 consisted of the 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 consisted of depreciation associated with the Company.
4. Adjustments for investments in associates accounted for using equity method are investments in associates 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.