

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
3 Months Ended June 30, 2016

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <http://www.segasammy.co.jp/>)
Representative: Hajime Satomi
 Chairman of the Board and CEO and COO
Any inquiry to : Yoichi Owaki
 Executive Officer
 Manager of the Finance and Accounting Division
 Shiodome Sumitomo Building 21F,
 1-9-2 Higashi Shimbashi, Minato-ward, Tokyo
 Tel (03) 6215-9955

Filing of Quarterly Report: August 10, 2016 (plan)

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 3 Months Ended June 30, 2016**(1) RESULTS OF CONSOLIDATED OPERATIONS**

(Percentage represents changes from the prior period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For 3 months ended June 30, 2016	70,634	33.4	3,055	—	2,985	—	4,111	—
For 3 months ended June 30, 2015	52,935	(41.2)	(9,455)	—	(8,706)	—	(7,930)	—

(Note) Comprehensive income

For 3 months ended June 30, 2016 : ¥(5,459) million (—%)

For 3 months ended June 30, 2015 : ¥(5,427) million (—%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 3 months ended June 30, 2016	17.54	—
For 3 months ended June 30, 2015	(33.79)	—

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2016	504,346	288,737	56.5
March 31, 2016	532,957	299,950	55.3

(Reference) Shareholders' equity

June 30, 2016 : ¥284,795 million

March 31, 2016: ¥294,733 million

2. Cash Dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	—	20.00	—	20.00	40.00
Year ending March 31, 2017	—				
Year ending March 31, 2017 (plan)		20.00	—	20.00	40.00

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

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

(Percentage represents changes from the prior period/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
First half ending September 2016	180,000	16.7	6,500	13.2	6,500	10.8	3,400	252.6	14.51
Entire – year	380,000	9.2	20,000	13.5	20,000	21.9	10,000	86.2	42.66

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

4. Other

- (1) Significant changes in subsidiaries (scope of consolidation) during period: No
- (2) Adoption of the simplified method of accounting as well as specific accounting for preparing the quarterly consolidated financial statements: Yes
- (3) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the quarterly consolidated financial statements:
 1. Changes associated with revision in accounting standards: No
 2. Other changes: No
- (4) Number of shares outstanding (common stock)
 1. Number of shares outstanding at the end of the period (including treasury stock)
 - June 30, 2016: 266,229,476
 - March 31, 2016: 266,229,476
 2. Number of treasury stock at the end of the period
 - June 30, 2016: 31,835,886
 - March 31, 2016: 31,834,807
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 - For 3 months ended June 30, 2016: 234,393,962
 - For 3 months ended June 30, 2015: 234,705,140

(Note)

- At the time of this report's release, the quarterly review procedures under the Financial Instruments and Exchange Law have not been completed.
- The forward-looking statements, such as results forecasts, included in this document are based on information available to the SEGA SAMMY HOLDINGS INC. (the "Company") at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors. For the assumptions prerequisite to the results forecasts and the points to be noted in the use of the forecasts, please see "Forecast of Consolidated Operating Results" on page 5.
- The Company plans to hold a telephone conference (conference call) on financial results for analysts on August 3, 2016. The contents of the meeting will be posted on the Company's website soon after the briefing.

Operating Results and Financial Position

(1) Overview

With regard to the pachislot and pachinko industry, in the pachislot machine market, pachinko parlor operators have adopted a cautious approach to replacement of machines to those compliant with the change in the application of the model test procedure by the Security Communications Association, which conducts model tests for pachislot and pachinko machines. On the other hand, titles receiving high appraisal are arising mainly in some series with successful track records. Meanwhile, pachinko machine market remains uncertain, in line with the application of the voluntary agreement on measures to prevent players from becoming too immersed in playing, which were decided by Nikkoso, an association of pachinko machine manufacturers. Under these circumstances, sales of titles in the first quarter of the fiscal year ending March 31, 2017 decreased due to voluntary restraint in replacement demand for new machines in line with Japan hosting the 42nd Annual G7 Summit Meeting in Ise-Shima (G7 Ise-Shima Summit), and replacement demand for new pachinko and pachislot machines temporarily remained at low levels. 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 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 next generation hardware of home video game console. In Europe, the U.S., and Asia, large markets have been developed for PC games. 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 new video game titles.

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) has been submitted to the Diet.

In this business environment, net sales for the first quarter of the fiscal year ending March 31, 2017 amounted to ¥70,634 million, an increase of 33.4% for the same period in the previous fiscal year. The Group posted an operating income of ¥3,055 million (operating loss of ¥9,455 million for the same period in the previous fiscal year), ordinary income of ¥2,985 million (ordinary loss of ¥8,706 million for the same period in the previous fiscal year) and profit attributable to owners of parent of ¥4,111 million (loss attributable to owners of parent of ¥7,930 million for the same period in the previous fiscal year).

Result of each segment is as follows

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

Some businesses formerly included in the "Entertainment Contents Business" were reclassified as the "Pachislot and Pachinko Machines Business" effective from the first quarter of the fiscal year ending March 31, 2017, and comparison and analysis of results for the first quarter of the fiscal year ending March 31, 2017 are based on the segment classification after the change. For details of segment information, please refer to "SEGMENT INFORMATION, (2) Change of reporting segments, etc., (Change in classification of reporting segments)" on page 12.

《Pachislot and Pachinko Machines》

In the pachislot machine business, sales were strong for titles such as "Pachislot CODE GEASS Lelouch of the Rebellion R2", where the attractive feature of the previous title was left untouched and the worldview of the original story was recreated to perfection with additional gameplay, leading to an overall sales of pachislot machines of 29 thousand units, above the results of the same period in the previous fiscal year (an increase of 29 thousand units from the same period in the previous fiscal year). In the pachinko machines business, sales were strong for titles such as "CR BIG DREAM ~SHINGEKI 99Ver.", which realized a simple and stress-free playability even without a liquid crystal display (LCD), leading to an overall sales of pachinko machines of 20 thousand units, around the same level as the previous year (a decrease of 1 thousand units from the same period in the previous fiscal year).

As a result, net sales in this segment were ¥21,239 million (an increase of 114.8% for the same period in the previous fiscal year) and operating income was ¥343 million (operating loss of ¥6,759 million for the same period in the previous fiscal year).

《Entertainment Contents》

With regard to the Entertainment Contents Business, “PHANTASY STAR ONLINE 2” distribution on PlayStation®4 has started in the field of digital game software, and the number of simultaneous access reached the largest ever 130,000, breaking the record. It celebrated the fourth anniversary from its release on July 4, 2016, and it continues to maintain its popularity. With regard to titles for smart devices, we launched a new title, “Liberation of azure”, and sales remained robust for major titles mainly including “CHAIN CHRONICLE – Kizuna no Shintairiku”, for which we hosted various events, “Puyopuyo!! Quest”, for which we hosted third anniversary events, and “Hortensia SAGA”, for which we ran first anniversary campaigns.

In the packaged game software field, sales amounted to 2,410 thousand copies, which was higher than the level for the same period in the previous fiscal year, as sales were strong for the titles for overseas market, such as “Total War: WARHAMMER”, the latest title of “Total War” series, which is highly popular mainly in Europe and has sold more than 20 million copies in 16 years.

In the amusement machine field, we launched a new title “KanColle Arcade”, getting off to a flying start as waiting lines were formed to play the game in game centers across Japan. Whereas in the casino machine field, where we are launching new machines and expanding the line-ups, anticipatory expenses including research and development expenses have occurred. In the amusement center operations field, like-for-like sales were robust at 111.2% compared with the same period of the previous fiscal year owing to reinforced management of prizes etc. at the existing game center operations and favorable operations of mainly video games, including the new title “KanColle Arcade”.

In the animated film and toy field, the highest-ever box-office revenue for the series were recorded for the theater film “Detective Conan The Darkest Nightmare”, continued from the previous film. In addition, the Group implemented the sale of toy products of regular and major products and services particularly the “Anpanman” series.

As a result, net sales in this segment were ¥46,700 million (an increase of 17.9% for the same period in the previous fiscal year) and operating income was ¥4,941 million (operating loss of ¥699 million for the same period in the previous fiscal year).

《Resort》

In the Resort Business, partial cancellation of lodging, golfing, and banquets occurred in one of the leading resorts in Japan, “Phoenix Seagaia Resort,” due to the effect of the 2016 Kumamoto Earthquake. At the supercharged nature experience “Orbi Yokohama,” facilities utilization was low despite implementation of “Shaun the Sheep” as a Golden Week event. Meanwhile, facilities utilization at the indoor theme-park “TOKYO JOYPOLIS”, was robust backed by the implementation of 20th anniversary events and collaboration events such as “Detective Conan”.

Overseas, 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 ¥2,694 million (a decrease of 21.7% for the same period in the previous fiscal year) and operating loss was ¥898 million (operating loss of ¥591 million for the same period in the previous fiscal year).

(2) Forecast of Consolidated Operating Results

During the second quarter of the fiscal year ending March 31, 2017, due to the transfer of a noncurrent assets in order to further improve the financial structure and turnover rate of capital, approximately ¥9,400 million of gain on sales of noncurrent assets is scheduled to be recorded as extraordinary gain in the consolidated operating results for the second quarter of the fiscal year ending March 31, 2017, as stated in the “Notice of Transfer of Noncurrent Assets and Recording of Extraordinary Gain by Our Consolidated Subsidiary” announced on July 13, 2016.

No change has been made to the forecast of consolidated operating results for the first half of the fiscal year ending March 31, 2017 and for the full year announced on May 13, 2016, as we need to determine its effect and the future trend in each business. A modified forecast for consolidated operating results will be released promptly if adjustments to the forecast are necessary.

The future plans for business segments are as follows.

《Pachislot and Pachinko Machines》

In the pachislot machine business, in July 2016, the Group launched the sales of “A—SLOT Hokuto No Ken Shou” and “A—SLOT Nisemonogatari” with modified easier gameplay based on the popular titles, “Pachislot Hokuto No Ken Tomo” and “Pachislot Nisemonogatari”, launched in the fiscal year ended March 31, 2016. Further, the Group will launch the sales of “Pachislot BLOOD+ futari no joou” added with many new features on its previous title, whose original gameplay was well supported, and “Pachislot Hokuto No Ken Syura no kuni hen”, the latest title of the major “Hokuto No Ken” series.

In the pachinko machines business, the Group will launch the sales of “Pachinko CR SOUTEN-NO-KEN Tenki”, where newly loaded gimmick is integrated with LCD effect renewed from the previous title in the series, and “Pachinko CR GAOGAOKING 2” series, the latest title of “GAOGAOKING” series with the attractive reel action, where easy-to-understand gameplay is added with a new way to play.

Among the above machines, order status for those already placed in the market is mostly robust.

Based on the “Statement of Promoting Restoration of the Pachinko and Pachislot Industry” declaring collection or removal of “pachinko machines possibly different from the tested version” by Pachinko and Pachislot Industry 21st Century Club, comprised of 14 organizations in the industry, by the end of December 2016, with the purpose of further restoration of the pachislot and pachinko machine industry, 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》

In the field of digital game software, the Group updated “PHANTASY STAR ONLINE 2” in line with its fourth anniversary events. For the smart device titles, the Group will host third anniversary events for “CHAIN CHRONICLE – Kizuna no Shintairiku” and add new stories. Further, the Group plans to carry out major updates of the existing major titles and host various events, including carrying out major updates and hosting various events for “Puyopuyo!! Quest” and the collaboration between “Hortensia SAGA” and “Fate/stay night[Unlimited Blade Works]”.

In the packaged game software field, the Group plans to launch titles focusing on mainstay IP titles such as “Persona5”. In the amusement machines and amusement center operations field, the Group will strive to continuously improve profitability through continued contribution to income by revenue share titles such as “KanColle Arcade” and launching of new titles.

In the animation film and toy fields, the Group expects to record income from distributing a theater film “Detective Conan The Darkest Nightmare”, and for toys, plans to market products focusing on the major product “Disney Character Magical Pod” and others.

《Resort》

The Group will implement sales and marketing measures to improve facilities utilization through introduction of new attractions such as the opening of “ZERO LATENCY VR” in July 2016 at the indoor theme park “TOKYO JOYPOLIS.”

Furthermore, at “Phoenix Seagaia Resort,” one of the leading resort facilities in Japan holding facilities such as hotels, golf courses and international conference venues, the largest renovations since the start of operations mainly made to “Sheraton Grande Ocean Resort” guest rooms and the public space, which started in fiscal year ended March 31, 2015, completed this summer and it has been newly opened in August 2016. As to hotel reservations, which were partially cancelled due to the effect of the 2016 Kumamoto Earthquake, the current reservation condition has showed a sign of recovery, partially thanks to the issuance of the premium travel ticket “Kyushu Fukko-Wari” as a tourism support measure led by the administration.

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.

(3) Other

(Additional information)

Effective from the first quarter of the fiscal year ending March 31, 2017, the Company adopted “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, issued on March 28, 2016)

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2016 AND MARCH 31, 2016

(Unit : Millions of yen)

	Prior year (As of March 31, 2016)	Current period (As of June 30, 2016)
Assets		
Current assets		
Cash and deposits	141,316	128,494
Notes and accounts receivable – trade	55,612	34,878
Short-term investment securities	48,401	54,052
Merchandise and finished goods	6,971	10,777
Work in process	17,382	17,074
Raw materials and supplies	10,123	12,656
Other	23,165	26,105
Allowance for doubtful accounts	(681)	(610)
Total current assets	302,292	283,428
Noncurrent assets		
Property, plant and equipment		
Land	38,742	37,156
Other, net	62,338	60,932
Total property, plant and equipment	101,080	98,088
Intangible assets		
Goodwill	12,201	11,470
Other	12,616	12,578
Total intangible assets	24,817	24,049
Investments and other assets		
Investment securities	76,504	70,223
Other	28,810	29,078
Allowance for doubtful accounts	(549)	(521)
Total investments and other assets	104,765	98,779
Total noncurrent assets	230,664	220,917
Total assets	532,957	504,346

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2016 AND MARCH 31, 2016

(Unit : Millions of yen)

	Prior year (As of March 31, 2016)	Current period (As of June 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	33,011	32,855
Short - term loans payable	14,002	14,942
Income taxes payable	2,536	2,071
Provision	5,742	2,914
Asset retirement obligations	30	12
Other	50,666	44,906
Total current liabilities	105,990	97,702
Noncurrent liabilities		
Bonds payable	52,000	47,000
Long - term loans payable	48,895	46,908
Net defined benefit liability	3,906	3,526
Asset retirement obligations	3,952	3,840
Provision for dismantling of fixed assets	2,368	2,348
Other	15,892	14,283
Total noncurrent liabilities	127,015	117,906
Total liabilities	233,006	215,609
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	118,404	118,404
Retained earnings	194,505	193,949
Treasury stock	(54,758)	(54,759)
Total shareholders' equity	288,105	287,547
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,494	8,185
Deferred gains or losses on hedges	(40)	(509)
Revaluation reserve for land	(4,600)	(4,600)
Foreign currency translation adjustment	(876)	(6,523)
Remeasurements of defined benefit plans	651	696
Total accumulated other comprehensive income	6,628	(2,751)
Subscription rights to shares	801	799
Non-controlling interests	4,415	3,142
Total net assets	299,950	288,737
Total liabilities and net assets	532,957	504,346

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 3 MONTHS ENDED JUNE 30, 2015 AND 2016

(Unit : Millions of yen)

	Prior period From April 1, 2015 To June 30, 2015	Current period From April 1, 2016 To June 30, 2016
Net sales	52,935	70,634
Cost of sales	36,226	42,642
Gross profit	16,709	27,992
Selling, general and administrative expenses	26,164	24,936
Operating income (loss)	(9,455)	3,055
Non-operating income		
Interest income	124	67
Dividends income	469	487
Equity in earnings of affiliates	44	—
Foreign exchange gains	—	418
Gain on investments in partnership	81	16
Other	682	255
Total non-operating income	1,402	1,244
Non-operating expenses		
Interest expenses	226	259
Bond issuance cost	40	—
Equity in losses of affiliates	—	322
Foreign exchange losses	192	—
Loss on valuation of compound financial instruments	37	430
Other	157	302
Total non-operating expenses	653	1,315
Ordinary income (loss)	(8,706)	2,985
Extraordinary income		
Gain on sales of noncurrent assets	6	104
Gain on sales of investment securities	1	45
Gain on liquidation of subsidiaries and affiliates	291	254
Gain on liquidation of silent partnership	—	1,087
Other	51	49
Total extraordinary income	351	1,542
Extraordinary losses		
Loss on sales of noncurrent assets	0	0
Impairment loss	—	27
Loss on sales of shares of subsidiaries and associates	—	40
Loss on valuation of shares of subsidiaries and associates	130	—
Restructuring loss	—	68
Other	0	24
Total extraordinary losses	131	160
Income (loss) before income taxes	(8,486)	4,366
Income taxes-current	(593)	178
Total income taxes	(593)	178
Profit (loss)	(7,893)	4,188
(Breakdown)		
Profit (loss) attributable to owners of parent	(7,930)	4,111
Profit (loss) attributable to non-controlling interests	36	77

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 3 MONTHS ENDED JUNE 30, 2015 AND 2016

(Unit : Millions of yen)

	Prior period From April 1, 2015 To June 30, 2015	Current period From April 1, 2016 To June 30, 2016
Other comprehensive income		
Valuation difference on available-for-sale securities	1,249	(3,312)
Deferred gains or losses on hedges	4	(469)
Revaluation reserve for land	48	—
Foreign currency translation adjustment	1,408	(5,164)
Remeasurements of defined benefit plans, net of tax	(67)	42
Share of other comprehensive income of associates accounted for using equity method	(176)	(743)
Total other comprehensive income	2,466	(9,648)
Comprehensive income	(5,427)	(5,459)
Comprehensive income attributable to owners of parent	(5,405)	(5,268)
Comprehensive income attributable to non-controlling interests	(21)	(190)

SEGMENT INFORMATION

1. Prior period (From April 1, 2015 to June 30, 2015)

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

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	9,890	39,603	3,441	52,935	—	52,935
(2) Inter-segment sales and transfers	112	207	8	328	(328)	—
Total	10,002	39,810	3,450	53,264	(328)	52,935
Segment income (loss)	(6,759)	(699)	(591)	(8,050)	(1,404)	(9,455)

(Notes) 1. Elimination of inter-segment transactions of ¥43 million and general corporate expenses of ¥(1,447) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(1,404) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

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

2. Current period (From April 1, 2016 to June 30, 2016)

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

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	21,239	46,700	2,694	70,634	0	70,634
(2) Inter-segment sales and transfers	121	121	6	249	(249)	—
Total	21,360	46,821	2,701	70,883	(249)	70,634
Segment income (loss)	343	4,941	(898)	4,387	(1,331)	3,055

(Notes) 1. Elimination of inter-segment transactions of ¥3 million and general corporate expenses of ¥(1,334) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(1,331) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

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

(2) Change of reporting segments, etc.

(Change in classification of reporting segments)

Effective from the first quarter of the fiscal year ending March 31, 2017, pachislot and pachinko machines related business of Sammy Networks Co., Ltd. that was formerly included in the “Entertainment Contents Business” was reclassified as the “Pachislot and Pachinko Machines Business” to enhance business performance through the leveraging of the Group synergies in the Pachislot and Pachinko Machines Business.

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