

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
6 Months Ended September 30, 2017

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
(URL <http://www.segasammy.co.jp/>)
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Filing of Quarterly Report : November 10, 2017 (plan)
Start of cash dividend payments : December 1, 2017 (plan)

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 6 Months Ended September 30, 2017**(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 6 months ended September 30, 2017	194,706	14.9	26,812	74.5	25,245	63.1	17,762	(26.8)
For 6 months ended September 30, 2016	169,501	9.9	15,364	167.5	15,475	163.8	24,251	—

(Note) Comprehensive income

For 6 months ended September 30, 2017 : ¥20,747 million (63.6%)
For 6 months ended September 30, 2016 : ¥12,685 million (—%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 6 months ended September 30, 2017	75.78	75.62
For 6 months ended September 30, 2016	103.47	103.15

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
September 30, 2017	500,846	325,587	64.6
March 31, 2017	521,599	311,497	59.0

(Reference) Shareholders' equity

September 30, 2017 : ¥323,548 million
March 31, 2017 : ¥307,764 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, 2017	—	20.00	—	20.00	40.00
Year ending March 31, 2018	—	20.00			
Year ending March 31, 2018 (plan)			—	20.00	40.00

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

3. Forecast of Consolidated Operating Results for the Year ending March 31, 2018

(Percentage represents changes from the prior year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Entire – year	380,000	3.6	20,000	(32.3)	16,000	(43.9)	11,000	(60.2)	46.93

(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)
 - September 30, 2017 : 266,229,476
 - March 31, 2017 : 266,229,476
 2. Number of treasury stock at the end of the period
 - September 30, 2017 : 31,845,527
 - March 31, 2017 : 31,841,869
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 - For 6 months ended September 30, 2017 : 234,385,877
 - For 6 months ended September 30, 2016 : 234,393,482

(Note)

- This report is not required to be audited.
- The forward-looking statements, such as results forecasts, included in this document are based on information available to the SEGA SAMMY HOLDINGS INC. (the “Company”) at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors. For the assumptions prerequisite to the results forecasts and the points to be noted in the use of the forecasts, please see “Forecast of Consolidated Operating Results” on page 4.
- The Company plans to hold a briefing on financial results for analysts on November 6, 2017. The contents of the meeting, such as explanations about financial results (video and audio), will be posted on the Company’s website on the same day.

Operating Results and Financial Position

(1) Overview

With regard to the pachislot and pachinko industry, in the pachislot machine market, sales of new machines have continued to be sluggish. Meanwhile, in the pachinko machine market, titles receiving high appraisal are arising mainly in some series with successful track records. In order to revitalize the market going ahead, it is essential to develop and supply machines that are capable of appealing to a wide range of players.

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

In the resort industry, although the growth rate is slowing down, the number of foreign visitors to Japan is increasing constantly, and an upward trend in the hotel occupancy rate is still evident. With a view to establishing Japan as a popular tourist destination, a bill concerning the promotion of the establishment of specified integrated resort areas (Integrated Resort Promotion Bill) was established, issued and enforced.

In this business environment, net sales for the first half of the fiscal year ending March 31, 2018 amounted to ¥194,706 million, an increase of 14.9% for the same period in the previous fiscal year. The Group posted an operating income of ¥26,812 million (an increase of 74.5% for the same period in the previous fiscal year), ordinary income of ¥25,245 million (an increase of 63.1% for the same period in the previous fiscal year) and profit attributable to owners of parent of ¥17,762 million (a decrease of 26.8% for the same period in the previous fiscal year).

Result of each segment is as follows

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

« Pachislot and Pachinko Machines »

In the pachislot machine business, the Group has launched titles including “Pachislot Hokuto No Ken Shindensetsu souzou,” a new title of the mainstay “Hokuto No Ken” series, leading to overall sales of pachislot machines of 75 thousand units (Overall sales of pachislot machines were 81 thousand units for the same period in the previous fiscal year). In the pachinko machine business, the Group has launched titles including “Pachinko CR GHOST IN THE SHELL -STAND ALONE COMPLEX-,” which based on the popular animation “GHOST IN THE SHELL -STAND ALONE COMPLEX-,” leading to overall sales of pachinko machines of 119 thousand units (Overall sales of pachinko machines were 75 thousand units for the same period in the previous fiscal year).

As a result, net sales in this segment were ¥88,385 million (an increase of 36.1% for the same period in the previous fiscal year) and operating income was ¥21,449 million (an increase of 101.6% for the same period in the previous fiscal year).

« Entertainment Contents »

In the field of digital game software, the Group launched EPISODE 5, a major update of “PHANTASY STAR ONLINE 2.” With regard to titles for smart devices, the Group conducted various events, updates and other measures mainly for existing major titles including “Hortensia SAGA” and “Puyopuyo!! Quest.” With regard to new titles, sales were strong for “Magia Record : Puella Magi Madoka Magica Side Story,” whose development and operation were outsourced to f4samurai, Inc., a consolidated subsidiary of the Company, achieving high ranks in sales rankings and others.

In the packaged game software field, sales amounted to 8,650 thousand copies (4,650 thousand copies for the same period in the previous fiscal year) thanks to the strength of the new title “SONIC MANIA,” which earned the highest Metascore in the new titles of the “SONIC” series released in the past 15 years. In addition, the Group launched “Total War: WARHAMMER 2,” a new title of the “Total War” series, following its popular predecessor in PC games.

In the amusement machine field, in addition to sales of CVT KIT “StarHorse3 SeasonVI FULL THROTTLE,” sales were strong for prize game machines.

In the amusement center operations field, like-for-like sales were 101.5% compared with the same period in the previous fiscal year. The Group worked to enhance amusement center operations with focus on prize, which had favorable operations.

In the animated film and toy field, the Group recorded income from distributing a theater film “Detective Conan Crimson Love Letter.” In addition, the Group implemented the sale of classic and mainstay toy products including “ANPANMAN” series.

As a result, net sales in this segment were ¥101,552 million (an increase of 3.8% for the same period in the previous fiscal year) and operating income was ¥10,137 million (an increase of 10.9% for the same period in the previous fiscal year).

« Resort »

In the Resort Business, at “Phoenix Seagaia Resort,” one of the leading resorts in Japan, the Group conducted promotions for the summer vacation, and the number of individual customers staying the night increased, resulting in a 14% increase in the number of visitors from the same period in the previous fiscal year. However, the Resort Business reported a decrease in income due to sales of a portion of shares of a company engaged in the development and operations of an indoor theme park in the previous fiscal year.

As a result, net sales in this segment were ¥4,767 million (a decrease of 29.3% for the same period in the previous fiscal year) and operating loss was ¥1,297 million (operating loss of ¥1,312 million for the same period in the previous fiscal year).

Overseas, PARADISE SEGASAMMY Co., Ltd. (associate accounted for using the equity method,) a joint venture between Paradise Co., Ltd. and the Group opened South Korea’s first integrated resort “PARADISE CITY” in April, 2017, and it has served many visitors from Japan, Korea and other countries.

(2) Forecast of Consolidated Operating Results

During the first half of the fiscal year ending March 31, 2018, operating income, ordinary income and profit attributable to owners of parent surpassed the forecast of consolidated operating results for the full year of the fiscal year ending March 31, 2018 announced on May 12, 2017, mainly as a result of robust performances in every business field of the Entertainment Contents Business. However, no change has been made to the forecast announced on May 12, 2017.

With regard to the future plans, in the Entertainment Contents Business, following the favorable results in the first half, the Group plans to launch multiple new titles. On the other hands, in the Pachislot and Pachinko Machines Business, “Rules for Partial Revision of Ordinance for Act on Control and Improvement of Amusement Business, etc., and Regulations for the Verification of Licenses, Formats, and Other Aspects of Pachislot and Pachinko Machines (Entertainment Establishments Control Law of Japan No. 9, 2017)” is scheduled to be enforced on February 1, 2018. In response to this, the Group plans to revise the sales schedule of the pachislot and pachinko machines significantly.

Taking into account recent state of the application for the prototype testing etc., we expect the number of titles and unit sales will likely be less than originally planned for the full year. A modified forecast of the consolidated operating results will be released promptly if any adjustment is necessary after examining sales schedule in the Pachislot and Pachinko Machines Business etc. carefully.

(3) Other

(Additional information)

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

Comparing results with the previous method, operating income, ordinary income and income before income taxes were decreased by ¥887 million, respectively, for the first half of the fiscal year ending March 31, 2018. The impact on segment information is described in the related section.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2017 AND MARCH 31, 2017

(Unit: Millions of yen)

	Prior year (As of March 31, 2017)	Current period (As of September 30, 2017)
Assets		
Current assets		
Cash and deposits	137,494	118,128
Notes and accounts receivable – trade	44,500	50,107
Short-term investment securities	65,203	67,507
Merchandise and finished goods	18,669	7,469
Work in process	14,838	16,216
Raw materials and supplies	13,933	11,170
Other	29,805	28,360
Allowance for doubtful accounts	(329)	(247)
Total current assets	324,115	298,711
Noncurrent assets		
Property, plant and equipment		
Land	23,740	23,757
Other, net	57,869	55,672
Total property, plant and equipment	81,609	79,429
Intangible assets		
Goodwill	10,807	10,057
Other	11,352	13,564
Total intangible assets	22,160	23,622
Investments and other assets		
Investment securities	69,845	75,061
Other	24,607	24,790
Allowance for doubtful accounts	(739)	(769)
Total investments and other assets	93,713	99,082
Total noncurrent assets	197,483	202,134
Total assets	521,599	500,846

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2017 AND MARCH 31, 2017

(Unit: Millions of yen)

	Prior year (As of March 31, 2017)	Current period (As of September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	45,631	24,459
Short - term loans payable	6,354	11,763
Income taxes payable	2,950	6,694
Provision	7,324	4,705
Asset retirement obligations	303	76
Other	50,001	47,251
Total current liabilities	112,567	94,952
Noncurrent liabilities		
Bonds payable	32,500	25,000
Long - term loans payable	44,500	34,823
Net defined benefit liability	3,303	3,064
Asset retirement obligations	3,735	3,804
Provision for dismantling of fixed assets	420	420
Other	13,076	13,193
Total noncurrent liabilities	97,534	80,306
Total liabilities	210,102	175,258
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,521	117,500
Retained earnings	207,639	220,693
Treasury stock	(54,769)	(54,774)
Total shareholders' equity	300,345	313,373
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,041	12,312
Deferred gains or losses on hedges	(71)	(34)
Revaluation reserve for land	340	340
Foreign currency translation adjustment	(4,479)	(2,880)
Remeasurements of defined benefit plans	588	437
Total accumulated other comprehensive income	7,419	10,174
Subscription rights to shares	303	562
Non-controlling interests	3,428	1,477
Total net assets	311,497	325,587
Total liabilities and net assets	521,599	500,846

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED SEPTEMBER 30, 2016 AND 2017

(Unit: Millions of yen)

	Prior period From April 1, 2016 To September 30, 2016	Current period From April 1, 2017 To September 30, 2017
Net sales	169,501	194,706
Cost of sales	102,163	115,223
Gross profit	67,338	79,482
Selling, general and administrative expenses	51,974	52,670
Operating income (loss)	15,364	26,812
Non-operating income		
Interest income	137	182
Dividends income	507	523
Foreign exchange gains	597	—
Gain on investments in partnership	159	377
Other	783	723
Total non-operating income	2,185	1,808
Non-operating expenses		
Interest expenses	504	372
Equity in losses of affiliates	539	2,269
Foreign exchange loss	—	132
Commission fee	23	32
Loss on valuation of compound financial instruments	77	—
Other	929	567
Total non-operating expenses	2,073	3,375
Ordinary income (loss)	15,475	25,245
Extraordinary income		
Gain on sales of noncurrent assets	9,514	59
Gain on sales of investment securities	254	441
Gain on liquidation of subsidiaries and affiliates	290	—
Gain on liquidation of silent partnership	1,087	—
Gain on reversal of subscription rights to shares	801	—
Gain on reversal of provision for dismantling of fixed assets	5	233
Other	41	124
Total extraordinary income	11,994	859
Extraordinary losses		
Loss on sales of noncurrent assets	1	0
Impairment loss	168	374
Restructuring loss	68	—
Other	117	96
Total extraordinary losses	355	471
Income (loss) before income taxes	27,114	25,634
Income taxes-current	2,696	7,643
Total income taxes	2,696	7,643
Profit (loss)	24,418	17,990
(Breakdown)		
Profit (loss) attributable to owners of parent	24,251	17,762
Profit (loss) attributable to non-controlling interests	167	227

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED SEPTEMBER 30, 2016 AND 2017

(Unit: Millions of yen)

	Prior period From April 1, 2016 To September 30, 2016	Current period From April 1, 2017 To September 30, 2017
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,502)	1,266
Deferred gains or losses on hedges	(328)	2
Foreign currency translation adjustment	(5,731)	1,371
Remeasurements of defined benefit plans, net of tax	85	(150)
Share of other comprehensive income of associates accounted for using equity method	(3,256)	267
Total other comprehensive income	(11,733)	2,757
Comprehensive income	12,685	20,747
Comprehensive income attributable to owners of parent	12,786	20,518
Comprehensive income attributable to non-controlling interests	(101)	229

SEGMENT INFORMATION

1. Prior period (From April 1, 2016 to September 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	64,926	97,829	6,745	169,501	0	169,501
(2) Inter-segment sales and transfers	262	463	27	753	(753)	—
Total	65,189	98,292	6,773	170,255	(753)	169,501
Segment income (loss)	10,639	9,143	(1,312)	18,471	(3,107)	15,364

(Notes) 1. Elimination of inter-segment transactions of ¥7 million and general corporate expenses of ¥(3,114) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(3,107) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

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

2. Current period (From April 1, 2017 to September 30, 2017)

(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	88,385	101,552	4,767	194,705	0	194,706
(2) Inter-segment sales and transfers	365	699	5	1,071	(1,071)	—
Total	88,751	102,252	4,773	195,776	(1,070)	194,706
Segment income (loss)	21,449	10,137	(1,297)	30,289	(3,477)	26,812

(Notes) 1. Elimination of inter-segment transactions of ¥9 million and general corporate expenses of ¥(3,486) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(3,477) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

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

(2) Change of reporting segments, etc.

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

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

Comparing the result with the previous method, segment income for “Pachislot and Pachinko Machines Business” decreased by ¥272 million, “Entertainment Contents Business” decreased by ¥542 million, respectively, for the first half of the fiscal year ending March 31, 2018. In addition, general corporate expenses included in “Adjustment” increased by ¥72 million.