

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
3 Months Ended June 30, 2018

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <https://www.segasammy.co.jp/>)
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Filing of Quarterly Report : August 10, 2018 (plan)

Start of cash dividend payments : —

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 3 Months Ended June 30, 2018
(1) RESULTS OF CONSOLIDATED OPERATIONS

(Percentage represents changes from the prior period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For 3 months ended June 30, 2018	68,838	(35.8)	935	(94.4)	688	(95.8)	337	(97.1)
For 3 months ended June 30, 2017	107,277	51.9	16,618	443.9	16,250	444.3	11,536	180.6

(Note) Comprehensive income

For 3 months ended June 30, 2018 : ¥706 million ((95.0)%)

For 3 months ended June 30, 2017 : ¥14,184 million (—%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 3 months ended June 30, 2018	1.44	1.44
For 3 months ended June 30, 2017	49.22	49.10

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2018	472,446	306,614	64.3
March 31, 2018	473,467	310,456	65.0

(Reference) Shareholders' equity

June 30, 2018 : ¥303,881 million

March 31, 2018 : ¥307,951 million

2. Cash Dividends

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

(Percentage represents changes from the prior year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Entire – year	390,000	20.5	21,000	18.5	16,000	9.7	12,000	34.4	51.20

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

June 30, 2018	: 31,852,127
March 31, 2018	: 31,850,504
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)

For 3 months ended June 30, 2018	: 234,378,410
For 3 months ended June 30, 2017	: 234,386,923

(Note)

- This report is not required the auditing procedures by certified public accountants or accounting auditors.
- The forward-looking statements, such as results forecasts, included in this document are based on information available to the SEGA SAMMY HOLDINGS INC. (the “Company”) at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors. For the assumptions prerequisite to the results forecasts and the points to be noted in the use of the forecasts, please see “Forecast of Consolidated Operating Results” on page 4.
- The Company plans to hold a telephone conference on financial results for analysts on August 3, 2018. The contents of the meeting will be posted on the Company’s website on the same day.

Operating Results and Financial Position

(1) Overview

With regard to the pachislot and pachinko industry, in the pachislot machine market, there is increasing anticipation for the introduction of pachislot machines that conform to the regulatory revision and new voluntary regulations. Meanwhile, in the pachinko machine market, progress was made in introducing machines which have already been licensed under regulations before the revision, and the launch of pachinko machines that conform to the regulatory revision is expected to occur in the second quarter or later. In order to revitalize the market going ahead, it is essential to expand the range of players by developing and supplying machines that conform to the regulatory revision and such, are easier to play and provide innovative gameplay.

Regarding the environment of the Entertainment Contents Business, in the field of digital game software, as the predominance of leading publishers in Japan is accelerating, the competitive environment is further intensifying, with titles that capitalize on powerful IPs (Intellectual Properties), on top of being high-quality products, becoming hits. Meanwhile, in overseas business, future growth is expected mainly in Asia. With regard to the packaged game software market, expectations are rising for future expansion of the market due to the penetration of hardware of home video game console, while game distribution platforms such as Steam are expanding in the PC games market. As for the market for amusement centers and amusement machines, the rate of facilities utilization is stable mainly in 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, the “Act on the Establishment of Specified Integrated Resort Areas” was passed by the National Diet.

In this business environment, net sales for the first quarter of the fiscal year ending March 31, 2019 amounted to ¥68,838 million, a decrease of 35.8% for the same period in the previous fiscal year. The Group posted an operating income of ¥935 million (a decrease of 94.4% for the same period in the previous fiscal year), ordinary income of ¥688 million (a decrease of 95.8% for the same period in the previous fiscal year) and profit attributable to owners of parent of ¥337 million (a decrease of 97.1% for the same period in the previous fiscal year). During the first quarter of the fiscal year ending March 31, 2019, operating expenses of around ¥1,500 million were incurred as transitory operating expenses in line with the consolidation of headquarter functions.

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 and Pachinko Machines Business, compared to the same period in the previous fiscal year, when there were sales of mainstay titles, unit sales decreased. In the pachislot machine business, the Group has launched titles including “Pachislot Hokuto No Ken Syura no kuni hen Rasetsu ver.,” change of specification title of its predecessor, leading to overall sales of pachislot machines of 9 thousand units (Overall sales of pachislot machines were 25 thousand units for the same period in the previous fiscal year). In the pachinko machine business, sales were robust for the titles such as “Pachinko CR Nisemonogatari,” which recreates the worldview of the original animation stories, and “Pachinko CR Hokuto No Ken 7 Hyakuretsuranbu,” the first machine in the “Hokuto No Ken” series with Small Win Rush installed, leading to overall sales of pachinko machines of 40 thousand units (Overall sales of pachinko machines were 97 thousand units for the same period in the previous fiscal year).

As a result, net sales in this segment were ¥21,503 million (a decrease of 60.9% for the same period in the previous fiscal year) and operating income was ¥1,720 million (a decrease of 88.6% for the same period in the previous fiscal year).

« Entertainment Contents »

In the field of digital game software, the Group launched the new titles including “kotodaman,” which has exceeded 7 million downloads in the first two months of its release, and the soccer club management simulation game “SEGA Pocket Club Manager”. However, existing titles are declining in popularity and development expenses associated with the launch of new titles occurred.

In the packaged game software field, sales of titles that capitalized on existing IPs were made, including “PERSONA 5: DANCING IN STARLIGHT” and “PERSONA 3: DANCING IN MOON NIGHT” rhythm video games from the “PERSONA” series, and “Yakuza 6: The Song of Life”. Also, the Group continued to conduct sales from previously launched titles (catalog titles), which contributed to profit expansion. As a result, sales amounted to 5,700 thousand copies (4,560 thousand copies for the same period in the previous fiscal year).

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

In the amusement center operations field, like-for-like sales were 104.2% compared with the same period of the previous fiscal year. The Group advanced the introduction of electronic money to the existing game center operations and worked to enhance amusement center operations with a focus on prizes.

In the animated film and toy field, the Group recorded income from the online distribution of films, including the theater film “Detective Conan” series and various animation series. In addition, the Group implemented the sale of mainstay toy products including “ANPANMAN” series.

As a result, net sales in this segment were ¥45,012 million (a decrease of 10.5% for the same period in the previous fiscal year) while operating income was ¥1,678 million (a decrease of 54.9% for the same period in the previous fiscal year).

« Resort »

In the Resort Business, owing to factors including the implementation of various measures that capitalize on major renovations and an increase in the number of SEAGAIA PREMIUM MEMBERS CLUB members, the increase in the number of guests resulted in 33.3% compared with the same period in the previous fiscal year at “Phoenix Seagaia Resort,” one of the leading resorts in Japan. Margin of loss of this segment decreased from the same period in the previous fiscal year in spite of the outbreak of the prior investment costs for the full-hedged integrated resort business.

As a result, net sales in this segment were ¥2,321 million (an increase of 12.5% for the same period in the previous fiscal year) and operating loss was ¥674 million (operating loss of ¥735 million for the same period in the previous fiscal year).

Overseas, PARADISE SEGASAMMY Co., Ltd. (affiliate accounted for using the equity method), a joint venture between Paradise Co., Ltd. and the Group is operating South Korea’s first integrated resort “PARADISE CITY”. It has served many visitors, mainly from Japan, and signs of gradual improvement in profitability were seen.

(2) Forecast of Consolidated Operating Results

No change has been made to the forecast of consolidated operating results for the fiscal year ending March 31, 2019, announced on May 11, 2018.

The future plans for business segments are as follows.

« Pachislot and Pachinko Machines »

In the pachislot machine business, although results of compatibility have been received in prototype testing according to the new regulations, the full-scale introduction of machine models conforming to the regulations is expected to be in the second half of the fiscal year or later. In addition, the Group plans to launch new titles using housings manufactured by ZEEG Co. Ltd., a joint venture established with Universal Entertainment Corporation. In the pachinko machine business, in the current fiscal year, sales are expected to center on machine models which have already been licensed under regulations before the revision. Accordingly, the Group will promote sales of machines including “Pachinko CR Shin Hokuto Muso Chapter 2,” the official successor model to the popular machine “Pachinko CR Shin Hokuto Muso” in operation.

« Entertainment Contents »

With regard to the Entertainment Contents Business, the Group will continue to advance the launch of new titles in the field of digital game software. In addition, the Group will advance efforts to capitalize on existing, revival, external and new IPs in each business field. The titles scheduled to be released in the field of digital game software, the packaged game software field, and the amusement machine field in and after the second quarter of the fiscal year ending March 31, 2019 are as follows.

Digital Games	WONDER GRAVITY ~BEST BUDDY: PINO & GRAVITOR~ BORDER BREAK	New IP Existing IP
Packaged Games	Sonic Mania Plus Ryu ga Gotoku 3 Shenmue I&II	Existing IP Existing IP Revival IP
Amusement Machine Sales	Fate/Grand Order Arcade O・N・G・E・K・I StarHorse3 SeasonVII GREAT JOURNEY	External IP New IP Existing IP

In the amusement center operations field, the Group will advance the introduction of new titles of video game and will work to enhance amusement center operations with a focus on prizes.

In the animated film and toy field, the Group plans to record income from distributing the theater film “Detective Conan: Zero the Enforcer,” which was a hit that broke records for the series, earning more than ¥8,000 million in box office income. In addition, the Group will implement the sale of mainstay toy products and new toy products including “Shuwa Bomb Cupcakes Basic set”.

« **Resort** »

In the Resort Business, at “Phoenix Seagaia Resort,” the Group will continue to implement accommodation plans for customers in the Kyushu region, as well as numerous measures of various types related to the 25th anniversary of the resort’s opening, with the purpose of attracting more guests. Overseas, the Group will continue to strive to improve the value of facilities in “PARADISE CITY,” where Phase 1 Stage 2 development facilities, including the Club and Spa, are scheduled to open in September 2018 or later. The Group will continue to endeavor to accumulate further integrated resorts development and operational know-how through dispatching personnel to “PARADISE CITY.”

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

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2018 AND MARCH 31, 2018

(Unit: Millions of yen)

	Prior year (As of March 31, 2018)	Current period (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	157,896	97,309
Notes and accounts receivable – trade	29,339	34,049
Short-term investment securities	24,694	62,119
Merchandise and finished goods	8,036	13,007
Work in process	18,347	21,705
Raw materials and supplies	14,190	16,910
Other	20,084	20,525
Allowance for doubtful accounts	(259)	(293)
Total current assets	272,331	265,334
Noncurrent assets		
Property, plant and equipment		
Land	23,741	23,737
Other, net	54,403	55,065
Total property, plant and equipment	78,145	78,802
Intangible assets		
Goodwill	8,541	7,989
Other	14,942	15,434
Total intangible assets	23,483	23,423
Investments and other assets		
Investment securities	70,216	75,817
Other	29,739	29,515
Allowance for doubtful accounts	(449)	(447)
Total investments and other assets	99,506	104,885
Total noncurrent assets	201,136	207,112
Total assets	473,467	472,446

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2018 AND MARCH 31, 2018

(Unit: Millions of yen)

	Prior year (As of March 31, 2018)	Current period (As of June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	21,716	29,219
Short - term loans payable	15,838	15,836
Current portion of bonds	10,000	20,000
Income taxes payable	1,482	603
Provision	6,499	2,725
Asset retirement obligations	1,734	1,715
Other	27,181	26,627
Total current liabilities	84,452	96,727
Noncurrent liabilities		
Bonds payable	22,500	12,500
Long - term loans payable	38,661	38,692
Net defined benefit liability	3,572	3,683
Asset retirement obligations	2,234	2,185
Provision for dismantling of fixed assets	420	420
Other	11,170	11,622
Total noncurrent liabilities	78,558	69,104
Total liabilities	163,010	165,831
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,345	117,345
Retained earnings	207,174	202,822
Treasury stock	(54,781)	(54,784)
Total shareholders' equity	299,691	295,336
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,528	11,870
Deferred gains or losses on hedges	17	9
Revaluation reserve for land	340	342
Foreign currency translation adjustment	(2,147)	(3,338)
Remeasurements of defined benefit plans	(479)	(339)
Total accumulated other comprehensive income	8,259	8,544
Subscription rights to shares	819	945
Non-controlling interests	1,685	1,787
Total net assets	310,456	306,614
Total liabilities and net assets	473,467	472,446

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 3 MONTHS ENDED JUNE 30, 2017 AND 2018

(Unit: Millions of yen)

	Prior period From April 1, 2017 To June 30, 2017	Current period From April 1, 2018 To June 30, 2018
Net sales	107,277	68,838
Cost of sales	65,042	42,795
Gross profit	42,235	26,043
Selling, general and administrative expenses	25,616	25,107
Operating income (loss)	16,618	935
Non-operating income		
Interest income	96	72
Dividends income	499	241
Foreign exchange gains	—	84
Gain on investments in partnership	47	194
Gain on valuation of compound financial instruments	162	—
Other	386	155
Total non-operating income	1,192	747
Non-operating expenses		
Interest expenses	189	150
Equity in losses of affiliates	970	550
Foreign exchange loss	72	—
Loss on valuation of compound financial instruments	—	36
Other	328	256
Total non-operating expenses	1,561	994
Ordinary income (loss)	16,250	688
Extraordinary income		
Gain on sales of noncurrent assets	0	53
Gain on sales of investment securities	432	25
Gain on reversal of restructuring loss	124	—
Other	—	5
Total extraordinary income	557	83
Extraordinary losses		
Loss on sales of noncurrent assets	—	0
Impairment loss	370	21
Other	0	2
Total extraordinary losses	370	23
Income (loss) before income taxes	16,437	749
Income taxes-current	4,854	326
Total income taxes	4,854	326
Profit (loss)	11,582	423
(Breakdown)		
Profit (loss) attributable to owners of parent	11,536	337
Profit (loss) attributable to non-controlling interests	45	85

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 3 MONTHS ENDED JUNE 30, 2017 AND 2018

(Unit: Millions of yen)

	Prior period From April 1, 2017 To June 30, 2017	Current period From April 1, 2018 To June 30, 2018
Other comprehensive income		
Valuation difference on available-for-sale securities	1,278	1,339
Deferred gains or losses on hedges	0	6
Foreign currency translation adjustment	810	184
Remeasurements of defined benefit plans, net of tax	(75)	134
Share of other comprehensive income of entities accounted for using equity method	588	(1,381)
Total other comprehensive income	2,601	283
Comprehensive income	14,184	706
Comprehensive income attributable to owners of parent	14,137	620
Comprehensive income attributable to non-controlling interests	46	85

SEGMENT INFORMATION

1. Prior period (From April 1, 2017 to June 30, 2017)

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

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	54,935	50,278	2,062	107,277	0	107,277
(2) Inter-segment sales and transfers	158	185	2	347	(347)	—
Total	55,094	50,464	2,065	107,625	(347)	107,277
Segment income (loss)	15,104	3,717	(735)	18,086	(1,467)	16,618

(Notes) 1. Elimination of inter-segment transactions of ¥7 million and general corporate expenses of ¥(1,475) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(1,467) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

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

2. Current period (From April 1, 2018 to June 30, 2018)

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

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	21,503	45,012	2,321	68,837	0	68,838
(2) Inter-segment sales and transfers	262	228	4	495	(495)	—
Total	21,766	45,241	2,325	69,333	(494)	68,838
Segment income (loss)	1,720	1,678	(674)	2,724	(1,788)	935

(Notes) 1. Elimination of inter-segment transactions of ¥5 million and general corporate expenses of ¥(1,794) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(1,788) 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.