

BEYOND THE STATUS QUO



INTEGRATED REPORT 2021

SEGASammy



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BEYOND THE STATUS QUO

Breaking the Current Situation and Becoming a Sustainable Company

SEGA SAMMY Group announced a new medium-term plan in May 2021.

Amid dramatic changes to the business environment under the global impact of COVID-19, the Group has embarked on a new mission to break out of the current situation and become a truly sustainable corporate group.

INTEGRATED REPORT 2021 explains the Group's future growth strategies centered on the new medium-term plan, and presents the vision for the Group in 2030, our long-term vision.

Index

- 02 Realizing the Mission (*Raison d'être*)
- 04 New Medium-Term Plan (From FY2022/3 to FY2024/3)
- 12 To Our Stakeholders
- 14 A Message from the CEO
- 20 A Message from the CFO
- 24 Financial Performance
- 28 Special Feature:
Growth Strategies for the Consumer Area
- 34 Business Overview
 - 36 Entertainment Contents Business
 - 40 Pachislot and Pachinko Machines Business
 - 44 Resort Business
- 46 The SEGA SAMMY Group's Value Creation and Materiality
- 52 ESG Risks and Countermeasures in the Value Chain
- 54 A History of Experiences That Move the Heart
- 56 Non-Financial Data
- 58 Corporate Governance
- 68 Directors, Audit & Supervisory Board Members, and Executive Officers
- 71 Financial Information
- 79 Company Profile / Stock Information
- 80 Consolidated Financial Statements



SUSTAINABILITY ACTION REPORT 2021

Provides detailed information and data on activities related to the Group's five key issues (materiality). Please read alongside the INTEGRATED REPORT.



<https://www.segasammy.co.jp/english/pr/commu/>

Cautionary Statement with Respect to Forward-Looking Statements

Statements in this integrated report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management. The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation. Actual results may vary significantly from the Company's forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate fluctuations, changes in laws and government systems, pressure from competitors' pricing and product strategies, declines in the marketability of the Group's existing and new products, disruptions to production, violations of the Group's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation. [This INTEGRATED REPORT includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]

Cautionary Statement for Investors and Shareholders with Respect to Nevada Gaming Statutes and Regulations

SEGA SAMMY HOLDINGS INC. ("the Company") is registered with the Nevada Commission as a publicly traded corporation and has been found suitable to directly or indirectly own the stock of SEGA SAMMY CREATION INC., and Sega Sammy Creation USA, Inc., both of which are subsidiaries that have been licensed as manufacturers and distributors of gaming devices in Nevada. Pursuant to Nevada law, the Company's shareholders are subject to the rules and regulations of the Nevada Gaming Authorities. A detailed explanation of Nevada gaming statutes and regulations can be found on the Company's corporate website: <https://www.segasammy.co.jp/english/ir/stock/regulation/>



Haruki Satomi

President and Group CEO, Representative Director
SEGA SAMMY HOLDINGS INC.

Making Life More Colorful through the Creation of Experiences that Move the Heart

The SEGA SAMMY Group has formulated a long-term vision aiming for 2030. The Group's Mission of "Constantly Creating, Forever Captivating—Making life more colorful—" and our Vision, "Be a Game Changer" which are the reason we exist, remain unchanged.

Guided by these overarching concepts, we seek to become a Global Leading Contents Provider in the Entertainment Contents Business centered on SEGA. We will deliver even more games and other content to global markets. In the Pachislot and Pachinko Machines Business, we are aiming to be No. 1 in sales and utilization share by creating machines from a user-centric perspective and optimizing the product lineup. Finally, in the Resort Business, we will identify opportunities for entry and focus on opening an integrated resort (IR).

We have also begun to explore ways of enhancing sustainability, and will work toward the sustainable improvement of corporate value.

MISSION (Raison d'être)

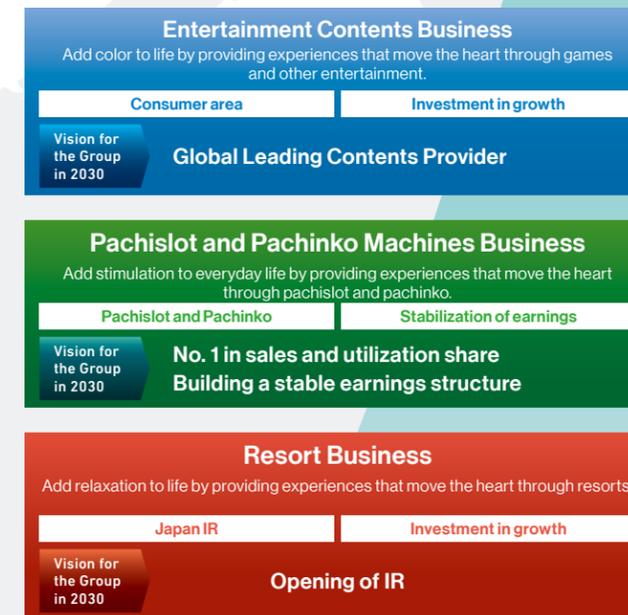
Constantly Creating, Forever Captivating
— Making life more colorful —

VISION (Ideal self)

Be a Game Changer

Value created by our business

(Value Creation in Core Business)



Materiality to be addressed and key categories



VALUE (Mindset and DNA)

“Creation is Life” × “Always Proactive, Always Pioneering”

Managing the Businesses Based on the Group's Mindset and DNA

Merging business and materiality

The goal of the new medium-term plan is to go *Beyond the Status Quo*. We are aiming to break out of the current situation and become a truly sustainable corporate group. As quantitative goals for the plan, we have set a target of ordinary income of ¥45.0 billion and ROE of over 10% in the fiscal year ending March 2024.

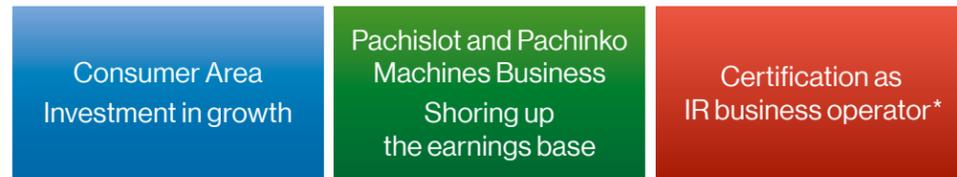
GOAL

Beyond the Status Quo

Breaking the Current Situation and Becoming a Sustainable Company

FY2024/3: Ordinary income **¥45.0 billion**, ROE over **10%**

STRATEGY



* For more information on the future direction of the IR business, see page 44.

Strategic Framework

In terms of growth investment, we will focus management resources mainly on the Consumer area and expand the scale of earnings by strengthening the global branding of existing IPs.

Our initiatives will include expanding touch points with users such as by the multiplatform deployment of content and simultaneous worldwide release, prolonging product life cycles by remastering and remaking IPs and other measures, and strengthening user engagement through a mix of media. Over the long run, we aim to

create "Super Games" that can bring in sales of ¥100.0 billion over their lifetimes.

In the Pachislot and Pachinko Machines Business, we are aiming to boost market share by creating machines from a user-centric perspective and optimizing the product lineup, while also working to improve business efficiency and ensure stable earnings.

In the integrated resort (IR) business, we will continue to pursue the possibility of acquiring certification as an IR business operator.

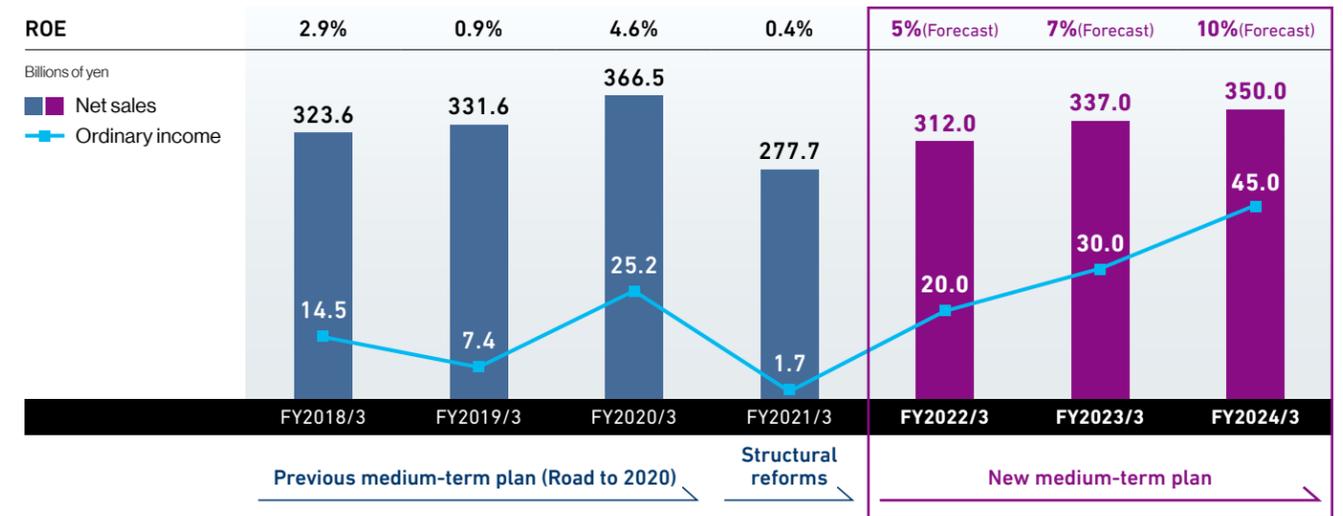


Quantitative Goals

We will improve ROE by shifting management toward a focus on capital efficiency. We had been maintaining a substantial equity capital buffer preparing for entry into the domestic IR business,

which meant holding down financial leverage. Going forward, we will optimize the capital structure, shift to a policy of proactive investment, and target an ROE of over 10%.

Improving ROE by Shifting Management toward a Capital Efficiency Focus



Breakdown by Segment

We aim to achieve further growth in the Entertainment Contents Business, targeting ¥40.0 billion in ordinary income in the fiscal year ending March 2024. In the Pachislot and Pachinko Machines Business, we will build a business structure that can steadily generate

ordinary income at a level of around ¥10.0 billion over three years. The Resort Business will target the fastest possible return to profitability once the COVID-19 pandemic subsides.

		FY2021/3 (Results)	FY2022/3 (Forecast)	FY2023/3 (Forecast)	FY2024/3 (Forecast)
Entertainment Contents	Net sales	217.8	213.0	238.0	242.0
	Operating income	27.9	23.0	28.5	39.0
	Ordinary income	27.9	25.0	30.0	40.0
Pachislot and Pachinko Machines	Net sales	53.1	89.0	88.0	96.0
	Operating income	-10.6	9.0	9.0	13.0
	Ordinary income	-11.3	9.0	9.0	13.0
Resort	Net sales	6.3	9.5	10.5	10.5
	Operating income	-4.1	-3.0	-1.5	-1.3
	Ordinary income	-8.9	-5.0	0	1.0
Other and eliminations	Net sales	0.5	0.5	0.5	1.5
	Operating income	-6.7	-9.0	-9.0	-8.7
	Ordinary income	-6.0	-9.0	-9.0	-9.0
Consolidated	Net sales	277.7	312.0	337.0	350.0
	Operating income	6.5	20.0	27.0	42.0
	Ordinary income	1.7	20.0	30.0	45.0
	ROE	0.4%	5%	7%	10%

Goals and Strategies for the Entertainment Contents Business

In the Entertainment Contents Business, we have positioned the Consumer area as a growth area for the Group. Over the period of the new medium-term plan, we will expand the scale of earnings by digging deeper into existing IPs and developing them globally. We are also striving to create “Super Games,” major titles that scale globally, by the fiscal year ending March 2026.

Moreover, we will augment development resources in Japan and overseas and actively seek out acquisition opportunities. We will also continue to invest in startups and other ventures. In the Consumer area, we plan additional investments of ¥100.0 billion over the next five years.

Long-Term Goals

Becoming a Global Leading Contents Provider



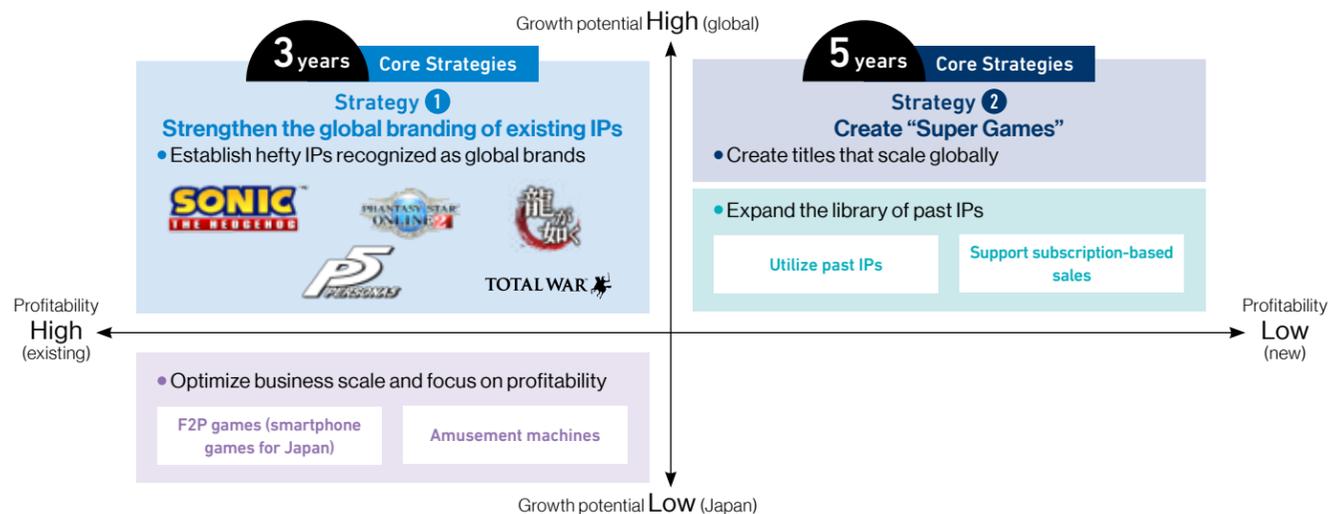
* For more information, see pages 28-33.

Proactive growth investment
(additional investments of up to ¥100.0 billion over five years)

Strategic Portfolio

The core strategies of the new medium-term plan center around digging deeper into key existing IPs like *Sonic*, *PHANTASY STAR*, *YAKUZA (Ryu ga Gotoku)*, *Persona*, and *Total War* and offering these to global markets. We are also taking up the challenge of “Super Games” within five years. Also, given our large pool of IPs that enjoy strong global recognition, we will actively leverage past IPs and further develop them, that is, by means of remasters, remakes, reboots, etc.

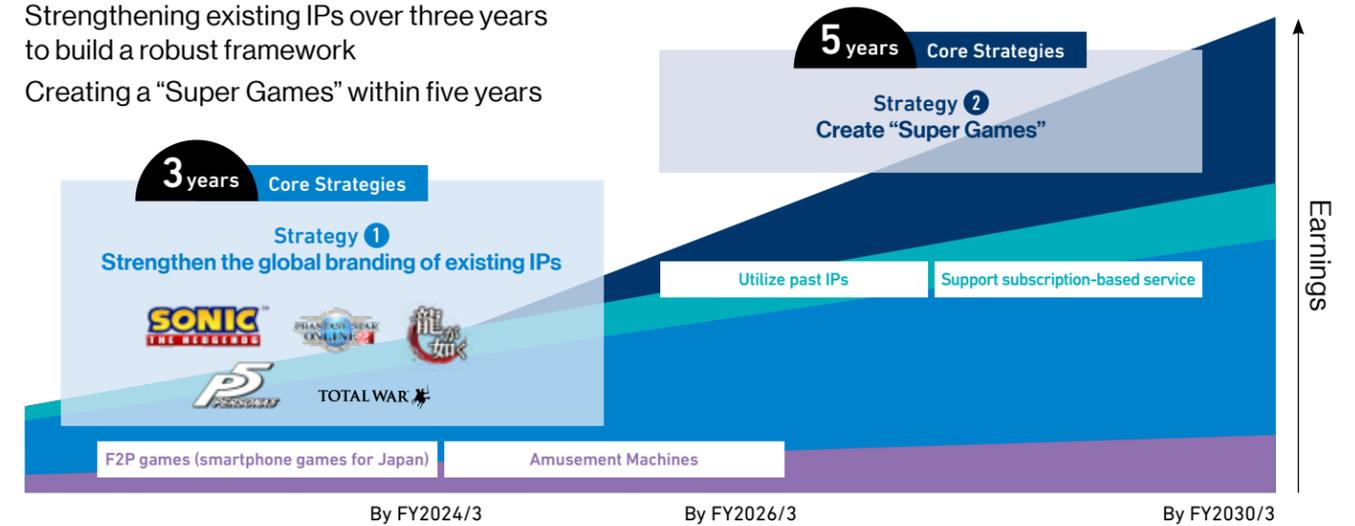
Meanwhile, in Japan, we will cultivate the F2P games (smartphone games) in domestic market and amusement machines into businesses that can secure stable earnings. We will select titles that have done well domestically and use these to target overseas markets as well.



Visualized Earnings Growth

Strengthening existing IPs over three years to build a robust framework

Creating a “Super Games” within five years



Strategy 1 Strengthen the global branding of existing IPs 3 years Core Strategies

Growing mainstay IPs into global brands



Strategy 2 Create “Super Games” 5 years Core Strategies

Taking on the challenge of creating major global titles



Target lifetime sales of ¥100.0 billion

Goals and Strategies for the Pachislot and Pachinko Machines Business

In the Pachislot and Pachinko Machines Business, our aim is to build a stable earnings structure, becoming number one in total utilization of pachislot and pachinko machines by the fiscal year ending March 2024.

Although the pachislot and pachinko machine market as a whole is facing a shrinking number of pachinko halls, the overall number of installed machines has remained at a certain level owing to growth in the number of large halls. We believe there is ample room to ensure profits in this business by increasing machine turnover rates. We will heighten our focus on gaining market share, aiming to become the market leader in terms of sales and utilization as well as installation.

We will also focus both on boosting development efficiency and on achieving greater business efficiency through cost improvements to build a stable earnings structure.

Long-Term Goals

No. 1 in sales and utilization share

Build a stable earnings structure



Create Hits

We will revise the product lineup, which in recent years was weighted toward new IPs, and create machines from a thoroughly user-centric perspective. We will organize the lineup around series machines that offer greater hit potential. We will also actively explore reviving past hits while being highly selective about new IPs. Furthermore, we will

enhance media functions to reach out to users with various announcements. We will also take advantage of the relaxing of industry self-regulation banning TV advertising, carrying out a wide range of marketing including TV ads and digital media.

1 Revising the product lineup

- Optimizing the product lineup (centered on series machines)
- Revivals of past IPs
- Rigorous screening and selection of new IPs

2 Increasing hit potential

- Creating machines from a user-centric perspective
- Deeper user analysis by attribute

3 Enhancing media functions

- Expanding communication with users through digital media

Improving Business Efficiency

To achieve greater efficiency in development, we will work to incorporate common visual images and other production elements for both pachislot and pachinko machines. We will also develop derivative titles, such as spec changes. Apart from further standardizing components, we will continue to pursue cost improvements, such as holding

down excess inventory by optimizing first-lot production. We will step up digital transformation initiatives, focusing on expanding online sales support launched for pachislot machines to pachinko machines as well.

1 Boost development efficiency

- Use common visual images for pachislot and pachinko machines
- Expand derivative titles, such as spec changes
- Rationalize visual production

2 Cost improvements

- Promote introduction of standardized components between pachislot and pachinko machines
- Hold down excess inventory by optimizing first-lot production (medium to long-term target: zero excess inventory)

3 Promote online commerce

- Expand online sales support to pachinko machines

Goals and Strategies for the Resort Business

Due to the decision by the city of Yokohama to call off the process for selecting business operators for its planned integrated resort (IR) project, the Group has been compelled to reconsider its domestic IR strategy, but will continue to identify opportunities for entry into this business. In other operations, both *PARADISE CITY* and *Phoenix Seagaia Resort* expect recovery in demand going forward and will work to steadily secure earnings.

Long-Term Goals

Aim for participation in IR

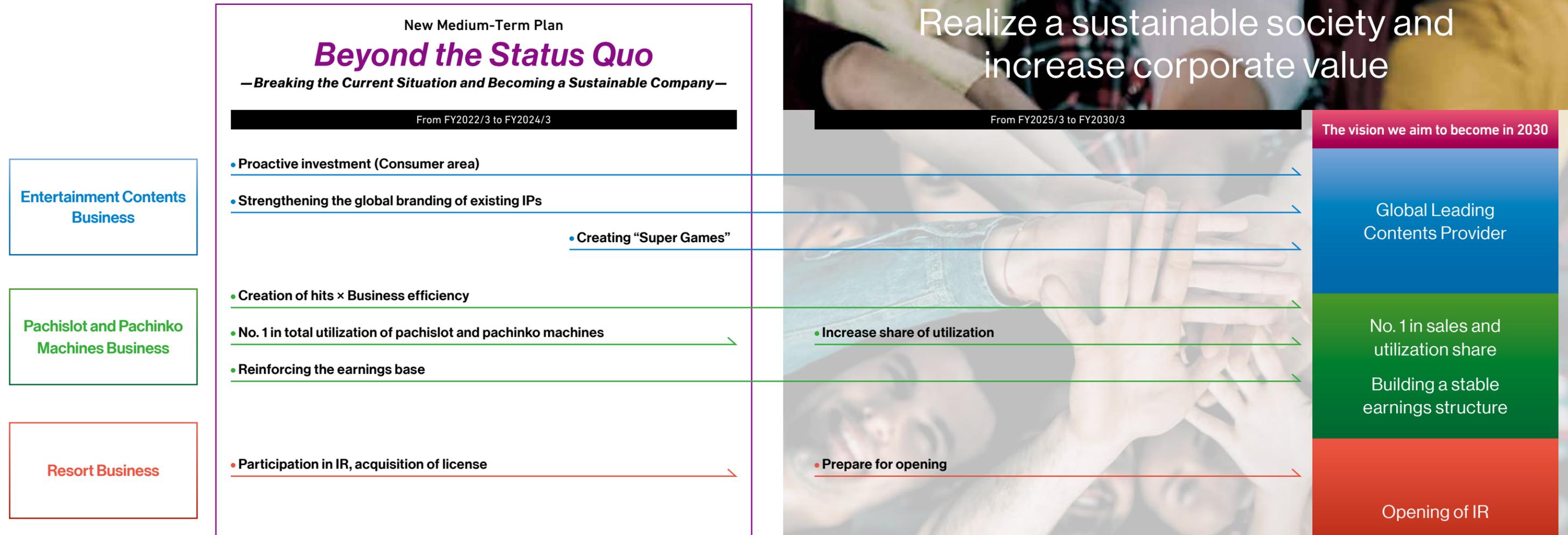
Achieve highly transparent and sustainable IR

Process Leading up to IR Launch



Medium to Long-Term Map

To achieve our vision for the Group in 2030, we are steadily implementing various measures under the slogan of the new medium-term plan: *Beyond the Status Quo—Breaking the Current Situation and Becoming a Sustainable Company—*.



- From FY2022/3 to FY2026/3
- Financial strategies for maximizing corporate value For more information, see page 20.
 - Efforts to address material issues (materiality) that make up the foundation of sustainability For more information, see page 46.





Hajime Satomi
Chairman, Representative Director



The value we bring to society is the creation of experiences that move the heart

The world now stands at a major turning point. The COVID-19 pandemic has had a profound global impact, bringing about significant shifts in people's values and lifestyles. In this time of uncertainty, companies in every field are struggling to define their future path, wrestling with issues of how they can contribute to society going forward and whether they will be able to provide value.

In the midst of these circumstances, our Group pressed forward with structural reforms. While performance in the Entertainment Contents Business grew on the back of stay-at-home demand, the brick-and-mortar Pachislot and Pachinko Machines and Resort businesses faced serious adversities. Given this business environment and carefully considering the direction the Group ought to take in a post-pandemic context, we felt compelled to make several very painful decisions. We withdrew from the amusement facilities operation business, which could be considered the business in which we first started out. We also called for numerous volunteers for early retirement, including employees who have supported the Group since its inception.

Even in this unprecedented situation, though, I was struck by the fact that, no matter how turbulent society becomes or how much the environment changes, basic human nature will never change—people will always long for experiences that move the heart. People continue to turn to entertainment seeking such experiences. In fact, I don't think there has ever been a year when people felt, as strongly as they did this past year, how wonderful everyday life that has entertainment is. We have the power to create such experiences. And I am convinced that extending that power throughout the world is the true value our Group brings to society. The situation remains uncertain, but keeping this conviction in mind, our Group will continue to create experiences that move the heart through entertainment.

Passing on Leadership to a New Generation

Since the founding of Sammy Industry, the predecessor of Sammy Corporation, and following the birth of SEGA SAMMY HOLDINGS in 2004, I continued to stand at the forefront of Group leadership. In April 2021, however, I passed on the CEO baton to my son, Haruki Satomi, while I remain in the position of Chairman and Representative Director. As CEO, he will now play the central role in steering the management of the Group. Of course, as Chairman, I will also draw on my personal connections and experiences to support the new CEO to the best of my abilities.

The entertainment market we are facing is marked by fast-changing trends. Technology is moving ahead by leaps and bounds. Content that no one has ever experienced before is being generated every day. That's why it is vital to have managers with youthful sensibility who can stay abreast of such trends, and also why I have high expectations for the new CEO, who is still in his forties. Aside from his youth, one of Haruki's greatest assets is his ability to grasp the big picture. Taking the broad view of movements in the world engenders the ability to stay a step ahead of the times, which is crucial for someone in management. From a young age, I always stayed a step ahead of the times, too, which enabled me to grow the company. Going forward, I expect Haruki to place even greater weight on engagement with customers, employees, and other stakeholders as he matures into a CEO who earns the trust of all those around him.

Continuing to Take On Challenges to Achieve Dramatic Growth

The evolution of digital technology in recent years has been monumental, and is bound to accelerate even further. No one knows exactly what the technological landscape will look like 10 or 20 years down the road. But I have no doubt that entertainment will not simply be confined to the digital realm. There will continue to be entertainment in physical spaces. The integrated resort (IR) business in Japan, a business in which our Group continues to pursue opportunities, is truly a form of entertainment where people interact directly, generating excitement. Decisions about the direction of this business still lie ahead, but I believe an integrated resort will be a venue that brings delight to many visitors from around the world.

COVID-19 brought about major changes in the Group. My sense, though, is that this is a runup to a great leap forward for us. Our structural reforms have further bolstered the organization, and we have formulated a long-term vision for the Group in addition to a new medium-term plan. The only thing that remains is for all of our employees to continue to be bold in their pursuit of new challenges. We would like our stakeholders to keep having high expectations for the SEGA SAMMY Group, and ask for their even greater support and cooperation.



Haruki Satomi
President and Group CEO,
Representative Director



We will continue to be a company that can create experiences that move the heart

The SEGA SAMMY Group has declared its mission to be *Constantly Creating, Forever Captivating — Making Life More Colorful*—. This mission has grown even more important amid the rampant, ongoing spread of the COVID-19 pandemic. It was this common mission which enabled our Group, even in the midst of the pandemic, to avoid any missteps.

The declaration of a state of emergency in Japan in the spring of 2020 caused me to reflect on the purpose and meaning of the Group's existence. At the end of the day, entertainment is essentially a peacetime industry, which is generally not enjoyed unless society is at peace. Initially, there was a public outcry against pachinko halls in Japan, with some voices even questioning the significance of entertainment and wondering whether it might be a "non-essential, non-urgent" business. Nevertheless, for their own mental well-being, some customers

continued to visit pachinko halls and spend their leisure time in that way. Of course, it is possible for human beings to live without entertainment. But can life without entertainment truly be considered fulfilling? After their needs for food, clothing, shelter, security and safety are met, people still long for happiness, excitement, and relaxation. Our greatest value lies in having the management resources to provide these things at a high level. I am more convinced than ever that our *raison d'être* is without question to continue to be a company that can create experiences that move the heart.

In terms of management, we anticipated the impact of the pandemic on the Group at every turn, and took swift action in response. At the time of the state of emergency in spring 2020, we assumed the worst-case scenario—that, if the situation dragged on, our net assets might be reduced by as much as half.

Fortunately, the pandemic did not put that level of downward pressure on business performance. In fact, the Consumer area saw a significant upturn in earnings, driven largely by stay-at-home demand. Because the Pachislot and Pachinko Machines and Resort businesses involve physical contact, these sectors faltered. Nevertheless, we were able to stay in the black for the fiscal year ended March 2021, with net sales of ¥277.7 billion, operating income of ¥6.5 billion, ordinary income of ¥1.7 billion, and profit attributable to owners of parent of ¥1.2 billion.

To better position the Group to achieve sustainable growth going forward, during the previous fiscal year we moved ahead with reforms to the business portfolio as well as structural reforms to secure the funds needed for growth.

We have long recognized low profitability in the amusement facility operation business and market contraction in the pachis-

lot and pachinko machines sector as issues for the Group. We have sought to improve business efficiency and asset efficiency to resolve these issues, but the onset of an unprecedented crisis like this pandemic prompted us to take even more drastic reform measures with a sense of urgency.

Some reforms, such as calling for voluntary early retirement, were painful. But we are confident that this will allow us to transform into a sturdier corporate structure than ever before. I believe we have a duty to build the kind of corporate entity that makes those who agreed to take early retirement proud of having been a part of the SEGA SAMMY Group. Going forward, based on a more solid foundation, we will further boost employee motivation and steadily implement the new medium-term plan to achieve substantial future growth, and make our vision a reality.

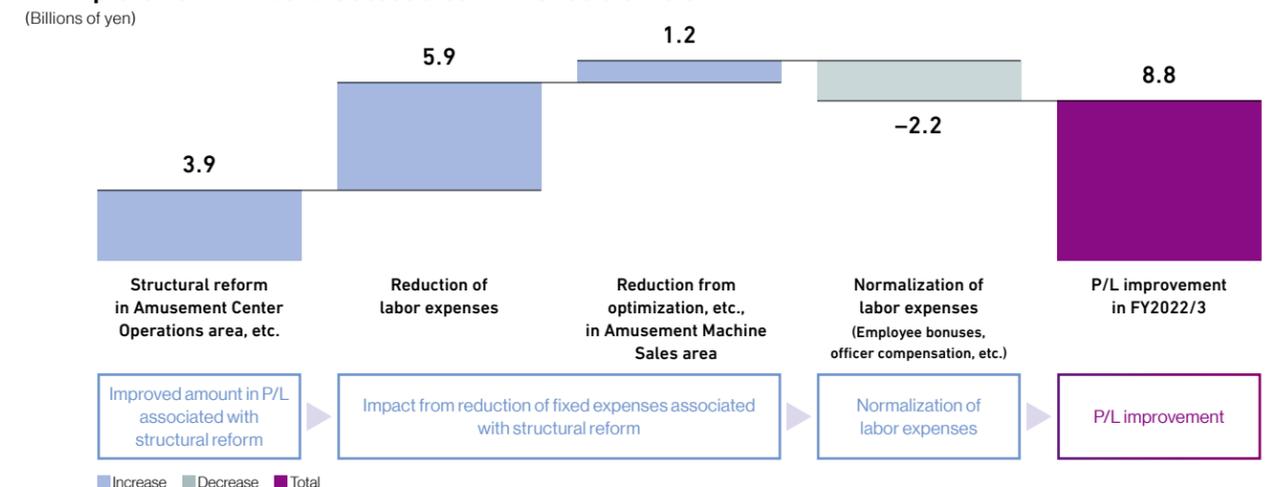
FY2021/3 Results

Net sales	Operating income	Ordinary income	Profit attributable to owners of parent
Down 24.2% year on year	Down 76.4% year on year	Down 93.3% year on year	Down 91.2% year on year
¥ 277.7 billion	¥ 6.5 billion	¥ 1.7 billion	¥ 1.2 billion

Impact of Implementation of "Structural Reform"

	P/L impact in FY2021/3
1. Review of Business Structure	<ul style="list-style-type: none"> Structural reform expenses in Amusement Center Operations area ¥ -19.1 billion (extraordinary losses) Closure of Orbi Yokohama ¥ -0.5 billion (extraordinary losses) Structural reform expenses in Amusement Machine Sales area ¥ -3.2 billion (extraordinary losses)
2. Reduction of Fixed Expenses	<ul style="list-style-type: none"> Call for voluntary retirement, etc. ¥ -9.2 billion (extraordinary losses)
3. Review of B/S	<ul style="list-style-type: none"> Gain on sales of investment securities (Sales of shares of Sanrio, etc.) ¥ +11.2 billion (extraordinary income) Gain on sales of non-business real estate (Sales of real estate in Osaka) ¥ +15.2 billion (extraordinary income)

P/L improvement in FY2022/3 associated with "Structural Reform"



Appointed as the New CEO

I was appointed President and Group CEO on April 1, 2021. As new CEO, in May I announced our new medium-term plan, which carries the slogan *Beyond the Status Quo—Breaking the Current Situation and Becoming a Sustainable Company—*. The thinking behind *Beyond the Status Quo* is that sales of the SEGA SAMMY Group fell to ¥277.7 billion in the fiscal year ended March 2021—half the peak level at the 2004 management integration of SEGA and Sammy. I see my management responsibility as CEO is to overcome this situation. That means achieving net sales of ¥400.0 billion in the medium term and more than ¥500.0 billion in the long term, while pursuing management with a focus on capital efficiency and maximizing Group value.

New Medium-Term Plan

As I mentioned earlier, the slogan of the new medium-term plan is *Beyond the Status Quo—Breaking the Current Situation and Becoming a Sustainable Company—*. In terms of metrics for the plan, we are targeting ordinary income of ¥45.0 billion and ROE of over 10% for the fiscal year ending March 2024. I have strong feelings about “break the current situation” that is included in the slogan. Until now, we had to be mindful of the investment capability required to move ahead with the integrated resort (IR) business in Japan, which meant that we needed to enhance equity capital. This was one factor behind our declining capital efficiency. Unfortunately, while we will have to keep looking for other opportunities to enter the IR business here, at the same time we will proactively invest in other growth areas. In particular, we plan to make aggressive additional investments in the Consumer area, which promises sustainable market growth going

To do this, I will carry on the values and the DNA my father inculcated as the former CEO—expressed in the catchphrases “Creation is Life”×“Always Proactive, Always Pioneering”—while working to reform and evolve our management and businesses to stay abreast of the changing times. The environment in which we operate is marked by the growing speed of change, with new technologies and business models being created daily, and we have to embrace these changes and respond to them flexibly. If we keep resting on the laurels of our past successes, we will be quickly left behind by the competition. So, with a sure sense of the crisis we face, all of our employees will continue to work together as we take on new challenges.

forward. I want to achieve substantial growth over the medium to longer term by combining the boost in financial investment with the intellectual property (IP) assets and development capabilities we possess.

On the other hand, it is impossible to achieve sustainable growth simply by pursuing a bigger bottom line. It requires taking a long-term view in management, self-confident of our *raison d'être* in society and with a clear awareness of the ways we make a positive impact on society as a whole. We will steadily address the material issues we have identified—the environment, addiction, people, products and services, and governance—as we strive to become a sustainable company. As all of our employees come together to make the slogan of the new medium-term plan a reality, this will surely tie in to our mission of “Making Life More Colorful.”

Entertainment Contents Business Strategy

For this business, we set a long-term goal, “to be a global leading contents provider.” With the current favorable market environment, now is the time for us to push forward to be a company that can demonstrate its competitive edge on a global scale by fully capitalizing on our IP assets, development capabilities, and financial strengths.

The most critical issue in the new medium-term plan, which covers the first three years, is to expand the scope of our existing IP development and promote the global branding of our IPs. We will get there in three ways: expanding touch points with users, prolonging product life cycles, and strengthening user engagement.

With regard to expanding touch points with users, we will further accelerate the global and multiplatform deployment of content. Until now, the Group has tended to roll out an IP on a single platform and in a single region, or to migrate an IP that succeeds in one region to another region or platform. The disadvantage of this model was that it resulted in poor investment and marketing efficiency. In recent years, digital sales have been expanding in the gaming industry, with distribution methods changing dramatically. Previously, in order to sell products globally it was necessary to have offices and sales staff all over the world. But now we are in an era where digital sales mean that products can be immediately distributed globally. The base of users is also rapidly expanding. In the past, competition in the gaming business mainly centered on developed countries, which had numerous users who could afford costly hardware. Now, with platforms moving into PCs and smartphones, games can be delivered to many people around the world. We will seize opportunities to greatly expand such touch points to generate growth.

In terms of prolonging product life cycles, the mainstream business model until now was to focus for a while on selling a newly released game and then sell its sequel a few years later. Now, however, it is common to keep users playing a single game over a long span by distributing additional content and

frequently updating content. The Group will continue to hone its game development and operation capabilities so that we can create numerous games that continue to attract users for a decade or more.

Finally, in terms of strengthening user engagement, while increasing opportunities for people to come in contact with our content from multiple angles, it is also necessary to grasp the potential needs of users in a timely manner and provide products and services that meet these needs. In developing last year’s movie, *Sonic the Hedgehog*, we received a lot of feedback from Sonic fans all over the world regarding the initial character designs. Based on their opinions, we made improvements and were able to achieve great success. Understanding fan expectations is a key theme for maximizing IP value going forward. If we can gauge fan expectations accurately and provide products and services that far exceed their expectations, the fan base for each IP will further grow, and this in turn will feed into maximum profitability.

The Group will implement these measures over the three years of the new medium-term plan as a run up to creating a “super game”—a major global title. To achieve this, we will consider up to ¥100.0 billion in additional investments over the next five years. To invest proactively in growth, we will be looking not only at development resources and the product pipeline but also more broadly, with acquisitions as an option.

The scale of the gaming market has grown significantly over the last few years and is projected to exceed ¥20 trillion by 2023, with the number of gamers—which includes players, online streamers, and viewers—reaching more than 3.0 billion. If we can create experiences that move the heart that win the support of these gamers worldwide, we can expect huge returns. I am confident that by harnessing the IPs, game quality, and strong brand recognition we have built up over the years, we will be possible to bring accomplish this in this promising market.

Goal

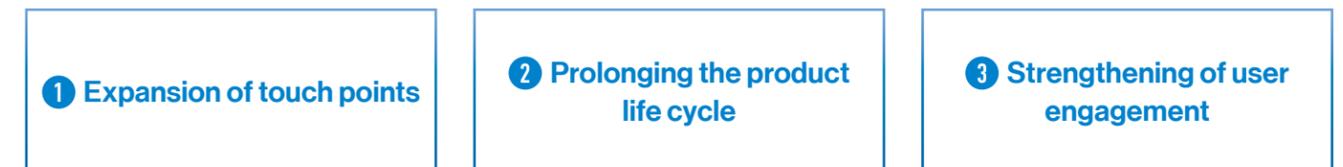
Beyond the Status Quo

—Breaking the Current Situation and Becoming a Sustainable Company—

Materiality



Making Existing IPs into Global Brand



Pachislot and Pachinko Machines Business Strategy

In the fiscal year ended March 2021, the pachislot and pachinko machine industry was hit hard across the board by COVID-19. Pachinko halls were forced to suspend operations and the deadline for removing previous regulation machines was extended, leading to stagnant sales of new regulation machines for manufacturers. But the pachislot and pachinko machine market is by no means extinct—many pachinko halls, with the support of loyal users, have opened their doors again after taking rigorous measures to prevent infection. In the long run, because the scope of this business area is limited to Japan, achieving significant growth in this area may prove difficult. Nonetheless, we continue to position the Pachislot and Pachinko Machine Business as a key business for the Group, one which can maintain high profitability and a strong competitive edge. Our long-term goals in this business are “to be No. 1 in Sales & Utilization Share” and to “build a stable earnings structure.” By achieving these goals, we will work to further augment cash creation.

Currently, in terms of utilization share, Sammy ranks fourth in pachislot machines, second in pachinko machines, and third overall. Our aim is to be number one in total utilization of pachislot and pachinko machines by the third year of the new medium-term plan. The fact that the machines are being utilized means that the proper number of machines are reaching the market. It is also proof that we are able to contribute to the management of pachinko halls, which are our business partners, and that we are gaining the support of users. This is the reason we have focused on “utilization share” and positioned this as the key performance indicator for the business. The key to increasing this indicator is creating hit machines. To this end, we thoroughly revised the lineup, building a new lineup centered on proven IP series, striking a balance between improving the probability of success and achieving stable profitability. In addition, we are

actively exploring the revival of past IPs, using them to create machines with the higher level of gameplay allowed by current regulations. To improve our chances of launching hit products, it is essential that we create machines from a thoroughly user-centric perspective, upgrading to machines that satisfy user demands. By blending a user-centric perspective with our core strengths in machine development, we will create groundbreaking machines that are in tune with the times. Furthermore, we will take advantage of the relaxing of industry self-regulation to pursue TV advertising and digital media and other platforms to reach young people directly with the appeal of our machines.

As we move forward with these measures, it is also critical that we enhance business efficiency to secure a stable profit margin. One move we are planning, to boost development efficiency, is to gradually phase in common visual images for both pachislot and pachinko machines—at present they use different images of the same IP. We will also focus on standardizing components, and continue seeking to optimize lots and control excess inventory. We will also expand the online sales support we launched for pachislot machines to pachinko machines as well, taking the lead in the digital transformation of the industry.

We are moving further ahead with the adoption of ZEEG machine cabinets, aiming to fully migrate all pachislot machines to these cabinets by the fiscal year ending March 2024. We continue to reach out to other companies in the industry as well, seeking to get as many manufacturers on board as possible.

In addition to pachislot and pachinko machines, we plan to secure a new earnings base by entering into new fields. Drawing on the expertise in the gaming field we have cultivated over many years, we started up a new business line, called “m,” centered on the poker game Texas hold'em. We will continue to seek to expand our business domains.

Creation of Hits

1 Review of product lineup

2 Increase the profitability of a hit

3 Strengthening media functions

Improvement of Business Efficiency

1 Improvement of development efficiency

2 Cost reduction

3 Promotion of e-commerce

Pursuing Sustainable Management

In 2020, the Group redefined the material issues we need to tackle in order to continuously enhance corporate value.

One of these issues is the environment. Climate change is seen as the risk with the greatest potential impact on the world in the future. As a corporate citizen, the Group is expected to do all we can to address this issue. Until now, we have looked at controlling greenhouse gas emissions only within the Group, that is, from a Scope 1 perspective. Now, we are working to expand our focus to Scope 2 and 3 emissions as well. We will work to accurately gauge the power used when operating the amusement machines as well as pachislot and pachinko machines we develop, and quickly identify and act to reduce the environmental impact of the Group's business activities. Regarding other material issues we have identified—addiction, people, products and services, and governance—we are in active discussions with the various business companies in the process of formulat-

ing a concrete action plan and establishing KPIs, so we can make an announcement in the fiscal year ending March 2022. Going forward, I will make sure top management has sufficient time to discuss matters related to ESG and the SDGs. My view is that it is appropriate to separate management supervision and execution, leaving business decisions to the business companies while the Board of Directors meeting deliberates on matters related to long-term topics affecting our business environment. This approach is leading to the sophisticated corporate governance needed to support the Group. As of June 2021, our Board had a 50-50 ratio of internal and external directors, three of whom were female directors. The addition of diverse skills and knowledge of people from outside the Group better empowers us to consider from multiple angles the kind of organization the Group should aim to be in the midst of major changes in the world.



In Conclusion

In the fiscal year ended March 2021, we pressed forward with structural reforms in the midst of massive, unforeseen changes in the environment. Our biggest achievement was to become a stronger organization through these reforms. Going forward, our sustained growth will depend on further shoring up the strength of the organization. The key to achieving this will be fostering an environment in which diverse human resources can harness their unique abilities and carry out innovative action. We also recognize that strengthening international human resources is a critical issue as we aim for substantial growth overseas. We will develop systems and cultivate an attractive corporate culture that allows people with the ability to create a range of value, regardless of nationality, race, or gender, to come together and each take an active role. Our long-term goal is to foster a workplace atmosphere where diverse human resources can work as a matter of course.

In addition, we revised the personnel evaluation system, adopting a structure where promotions and compensation are decided on the basis of ability and performance rather than seniority.

Going forward, together with a team of people with diverse abilities and together with our stakeholders, the SEGA SAMMY Group will work to build even greater corporate value. I would like to ask for your continued support as we do so.



Koichi Fukazawa
Senior Executive Vice President and
Group CFO, Director of the Board



Targeting the further growth of the Group through an optimal capital structure and proactive investment

Implementation of Structural Reforms

As we started out the fiscal year ended March 31, 2021, my biggest challenge as CFO was to secure business funds in the midst of the pandemic, with no way of making profit forecasts or predicting what lay ahead. We completed a series of financing arrangements, including expanding our commitment lines, and, while ensuring our immediate financial safety, pressed forward with full-fledged structural reforms to adapt to changes in the environment.

In the amusement facilities operation business, we had already been aware of a number of issues from the standpoint of returns on investment, and made the decision to divest this business to signal a clear shift of resources to the Consumer area, which is a growth field. We also took steps to streamline fixed

costs, mainly by calling for volunteers for early retirement, and to dispose of non-business assets. In particular, headcount in the Pachislot and Pachinko Machines Business, which the market is shrinking was excessive compared to our competitors. These were difficult management decisions—as this business has long been a pillar of the Group—but our measures have created a framework that will allow us to weather the current harsh environment.

COVID-19 had an enormous impact on the Group, but seizing upon this crisis as an opportunity, we were able to swiftly resolve outstanding management issues and lay the groundwork for the next stage of business growth.

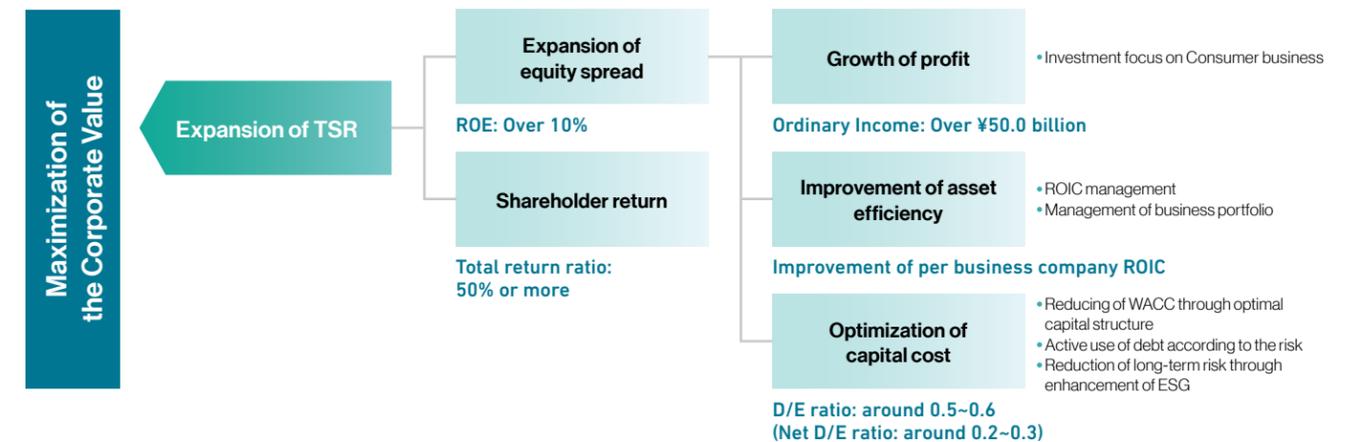
A Management Focus on Capital Efficiency

In tandem with structural reforms on the business side, we decided to fully implement a management framework that focuses on capital efficiency. Guided by the new medium-term plan, the measures we have put in place, including a review of the business portfolio, can be said to represent a dramatic transformation of the management framework across the Group.

A key financial strategy going forward will be to optimize capital cost, which is one of the three components of ROE. In other words, we will lower the weighted average cost of capital (WACC) through an optimal capital structure. In the past, our view was that the Group's business performance was subject to greater fluctuations than in other industries, and so we followed a financial strategy of setting aside a generous risk buffer. However, excessive cash accumulation has been a hindrance to raising

capital efficiency and has also put downward pressure on stock prices. In the new medium-term plan, drafted after the structural reforms undertaken in the fiscal year ended March 31, 2021, we set out a clear future direction for the Group and carried out a detailed analysis of risk and the capital structure. In procurement, we intend to raise the debt-to-equity ratio by between 0.5 to 0.6 times, on the condition that we maintain an appropriate cash position and rating level. At one point this ratio dropped to about 0.2 times, at the end of March 2021. By making use of interest-bearing debt more aggressively than in the past, we will firmly invest in the businesses planned in the new medium-term plan, while maximizing corporate value under optimal WACC.

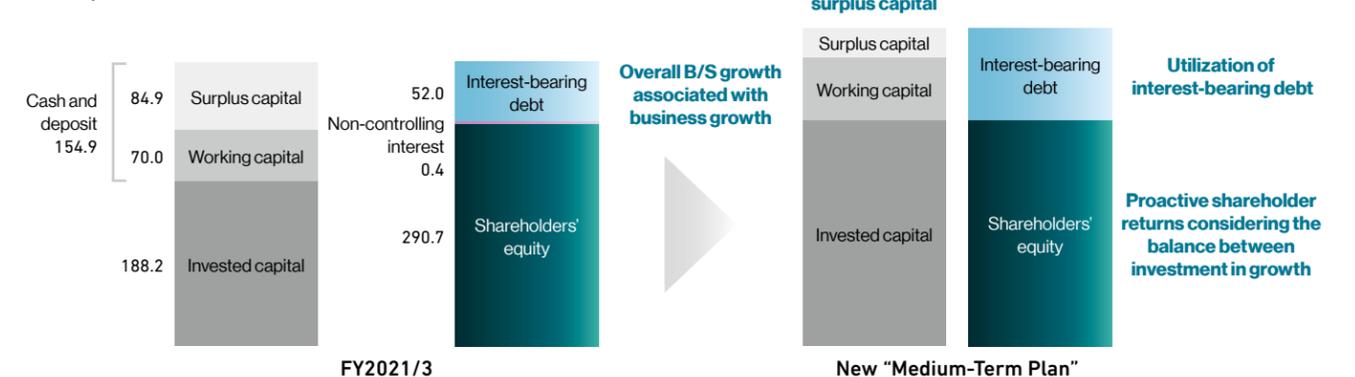
Shift to the management focusing on capital efficiency



Improvement of ROE and reduction of capital cost by utilizing interest-bearing debt

Conceptual Diagram

Billions of yen



* Invested capital = Total assets excluding cash and deposit - liabilities excluding interest-bearing debt
* Shareholders' equity includes accumulated other comprehensive income

With regard to fundraising, as of the end of March 2021 the combined total of our commitment lines and the unused portion of overdraft lines was ¥213.0 billion. Depending on market interest rates, however, we will also consider issuing corporate bonds and other financing measures.

As we deliberated on the optimal capital structure for the Group, we also decided on a clear policy for shareholder returns. Up till now, we maintained steady annual dividends at ¥40. While being conscious of keeping this as the lower limit, we set targets of a dividend on equity ratio (DOE) of 3% or more and a total return ratio of 50% or more. In this way, we clarified our policy of linking returns with profits and paying out shareholder returns in line with business growth.

We are also introducing ROIC to all of our business companies as an index to measure business investment efficiency.

Growth Investment Plan

The key objective of the new medium-term plan is to clearly position the Consumer area of the Entertainment Contents Business as a driver of growth for the Group going forward, and to focus investment in that area. Our approach to achieve the

The minimum ROIC level for each business is set on the holding company side, based on capital costs. Regarding various measures to raise ROIC, we will work to enhance the ROIC of each business while being in discussions with each business company to confirm progress in achieving the measures and to monitor operational aspects.

These various indicators aren't simply management targets that ought to be achieved—all of them are organically interrelated and form the mechanism by which we can ultimately improve ROE.

The medium-term plan's ROE target of over 10% is the metric we established to achieve an ideal equity spread, using the average WACC for the Group over the past five years as a benchmark.

optimal capital structure I mentioned earlier is premised on this investment strategy. To achieve substantial growth in the Consumer area, the medium-term plan projects additional investments of up to ¥100.0 billion over five years.

We expect to book these additional investments in a variety of ways. So, to say that the investments are going toward consumer games doesn't necessarily mean only R&D.

Success in the Consumer area going forward will depend on factors such as building a media platform to enhance user engagement and fostering vibrant user communities. In fact, it will require strategies that broadly incorporate members of communities other than direct game users. Of course, the amount we invest is less important than the content of our investments, but these kinds of marketing-related investments are also on our radar.

The Group boasts numerous intellectual properties (IPs) capable of growing into global brands through proactive invest-

ment. Increasing the value of each IP will enable us to maximize business profits and ensure more stable profits.

Meanwhile, the Pachislot and Pachinko Machines Business is in a very unique position. The structural reforms we undertook yielded an optimal management scale and put in place a framework that will enable more stable bottom-line contributions than before. We aim to boost our share in the shrinking market by building on our competitive strengths, paying particular attention to ways of eliciting greater support from pachinko halls and users. If we sustain investment on an appropriate scale, I believe this business will continue to generate stable profits, securing annual ordinary income of between ¥10.0 and ¥15.0 billion.

Reducing Long-Term Risks and Building Corporate Value through Stronger ESG Management

The environment in which the Group operates is undergoing rapid changes. We have to seriously address ESG and other sustainability issues, recognizing that these are at the very heart of corporate management. We are also taking proactive measures to address issues that are sure to have an enormous impact on the Group's businesses, in terms of shifts in consumer tastes and values, such as environmental issues that have recently become the subject of intense concern, as well as addiction issues that are closely related to the Group's business.

In particular, even though the transition to carbon neutrality could potentially have a major long-term financial impact, we believe that efforts at present are still inadequate. As we work to implement TCFD-based financial disclosure, we are in the pro-

cess of formulating environmental targets for Scope 1 to Scope 3 CO₂ emissions.

We also face a pressing need to promote the diversity of human resources. The Group emphasizes diversity of thinking as well as of race, gender, sexuality, and in other areas. I think the strongest organizations are those where employees with a variety of values can arrive at the best possible solutions by freely engaging in discussions on topics that do not offer a single, clear-cut answer.

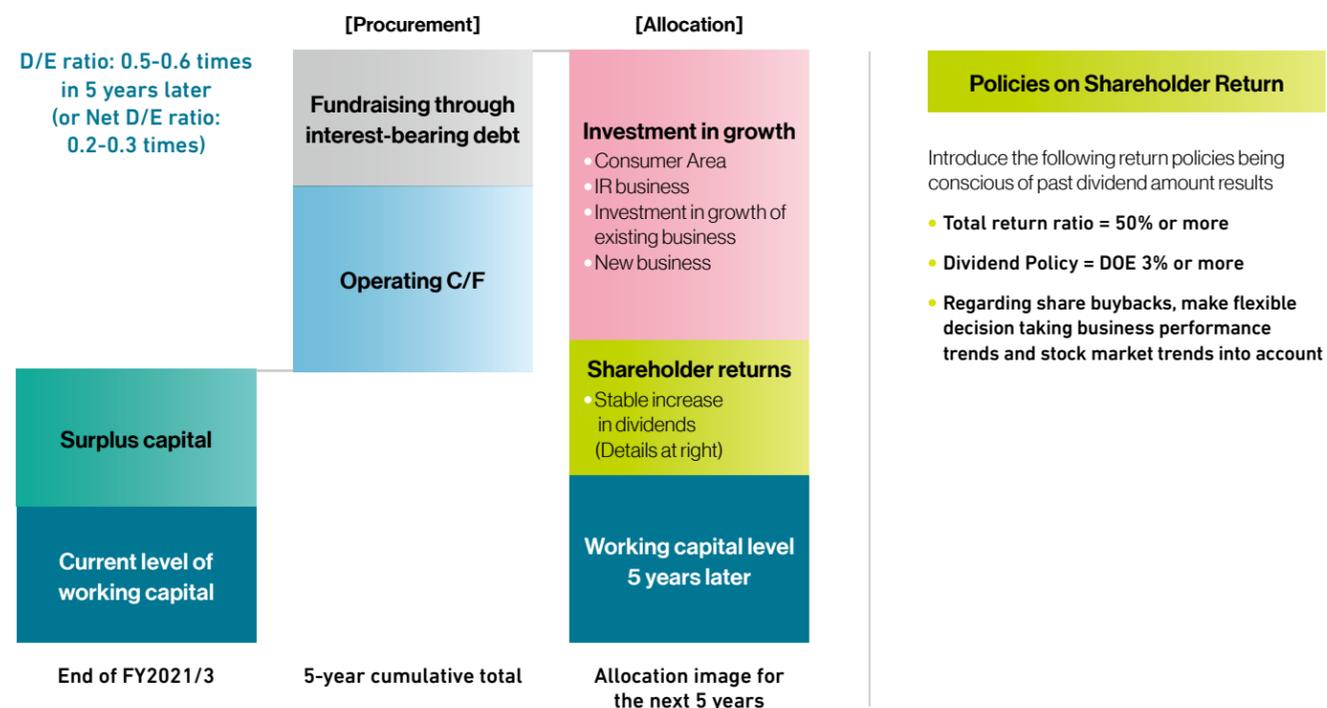
We are currently exploring specific actions to deal with the above material issues, taking into account perspectives from outside the Group as well. We plan to announce more about these actions in 2022.

Pursuing a Growth Strategy and Realizing an Optimal Capital Structure

Due to the decision by the city of Yokohama to call off the process for selecting business operators for its planned IR project, the Group has been compelled to reconsider its IR business strategy. However, going through the request for proposal (RFP) process in Yokohama gave us great confidence that our Group undoubtedly has one of the top IR teams in Japan. So, we will continue to identify opportunities for entry into the IR business, while also reconsidering our current investment strategies, including resource allocation.

Investors often ask me what the Group will do with surplus capital that can't be used for investment. I believe my duty as CFO is, in line with the corporate strategy, to proactively invest in business growth, boost capital efficiency by achieving an optimal capital structure, and expand the equity spread. I will continue striving to earn the trust of shareholders and investors regarding the future of the Group through ongoing dialogue while making full disclosure of our processes in carrying out financial strategy.

Concept of Investment in Growth and Shareholder Return (FY2022/3-FY2026/3)

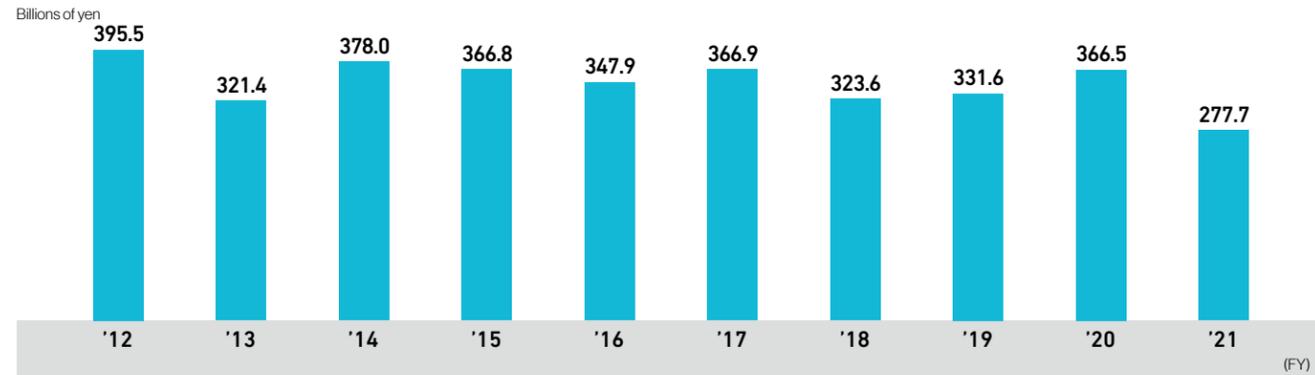


Financial Performance

Net Sales*1

The COVID-19 pandemic impacted the Group's businesses in different ways, leading to a clear divergence in sales performance. The Consumer area reported a steep rise in sales, but consolidated net sales declined 24.2% year on year to ¥277.7 billion.

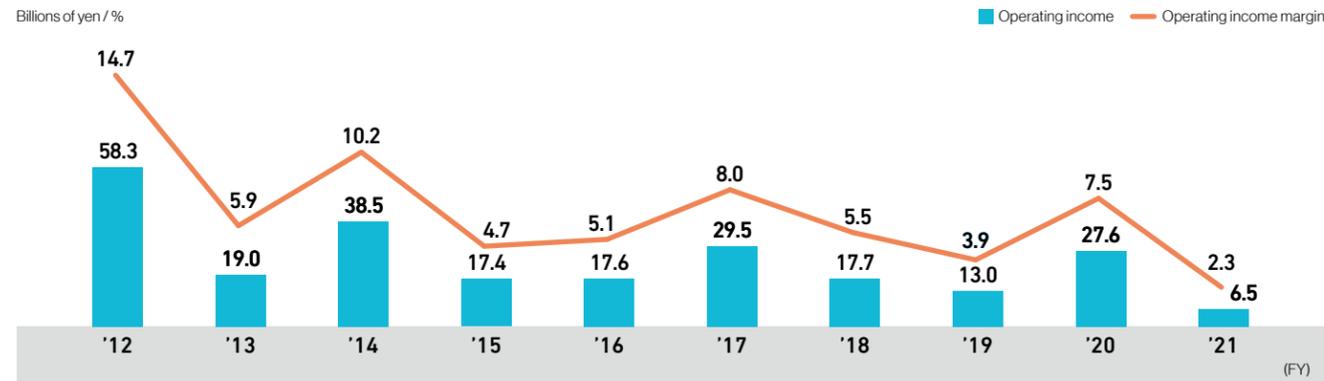
¥277.7 billion



Operating Income / Operating Income Margin

Operating income fell 76.4% year on year to ¥6.5 billion.

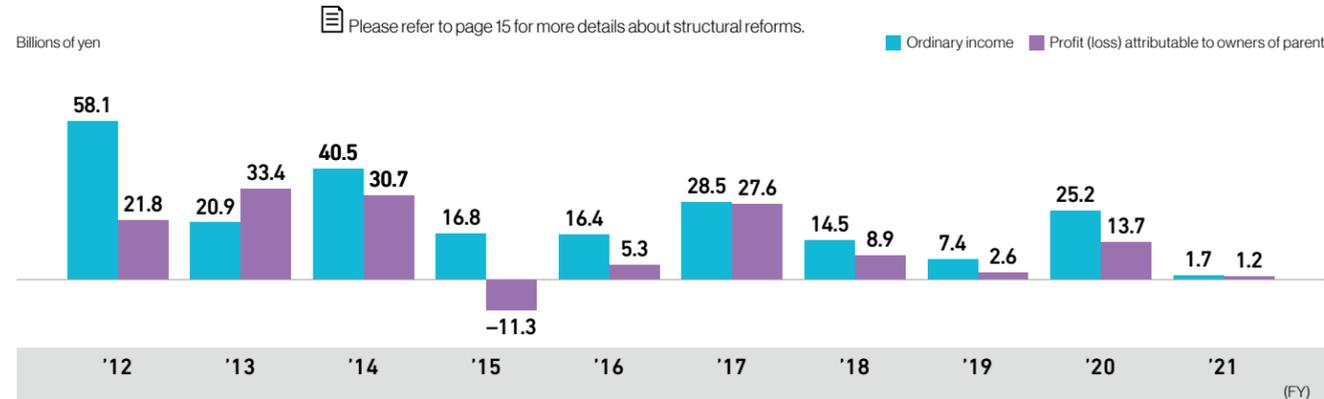
¥6.5 billion / 2.3%



Ordinary Income / Profit (Loss) Attributable to Owners of Parent*2

Structural reforms resulted in the booking of substantial extraordinary income and losses. Profit attributable to owners of parent declined 91.2% year on year to ¥1.2 billion.

¥1.7 billion / ¥1.2 billion

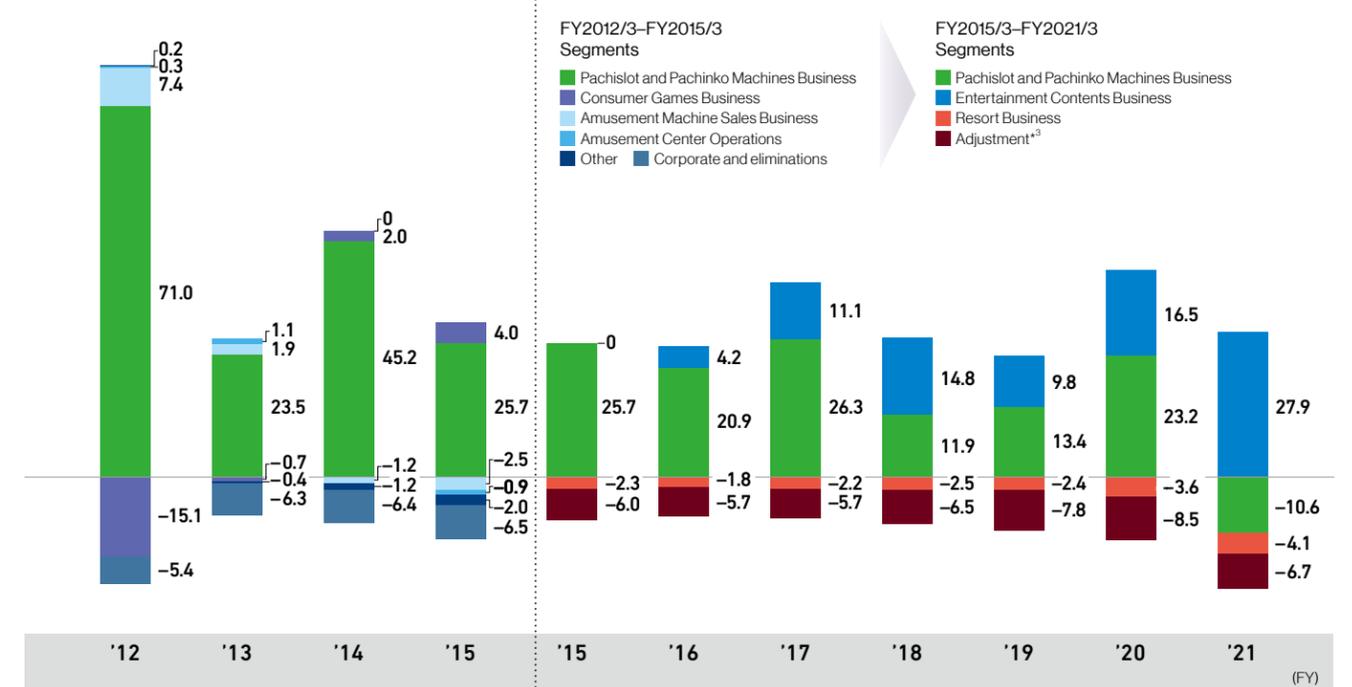


*1 As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in FY2016/3, figures for FY2015/3 reflect these changes retrospectively.

*2 The Company has adopted the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and has presented "net income (loss)" as "profit (loss) attributable to owners of parent" from FY2016/3.

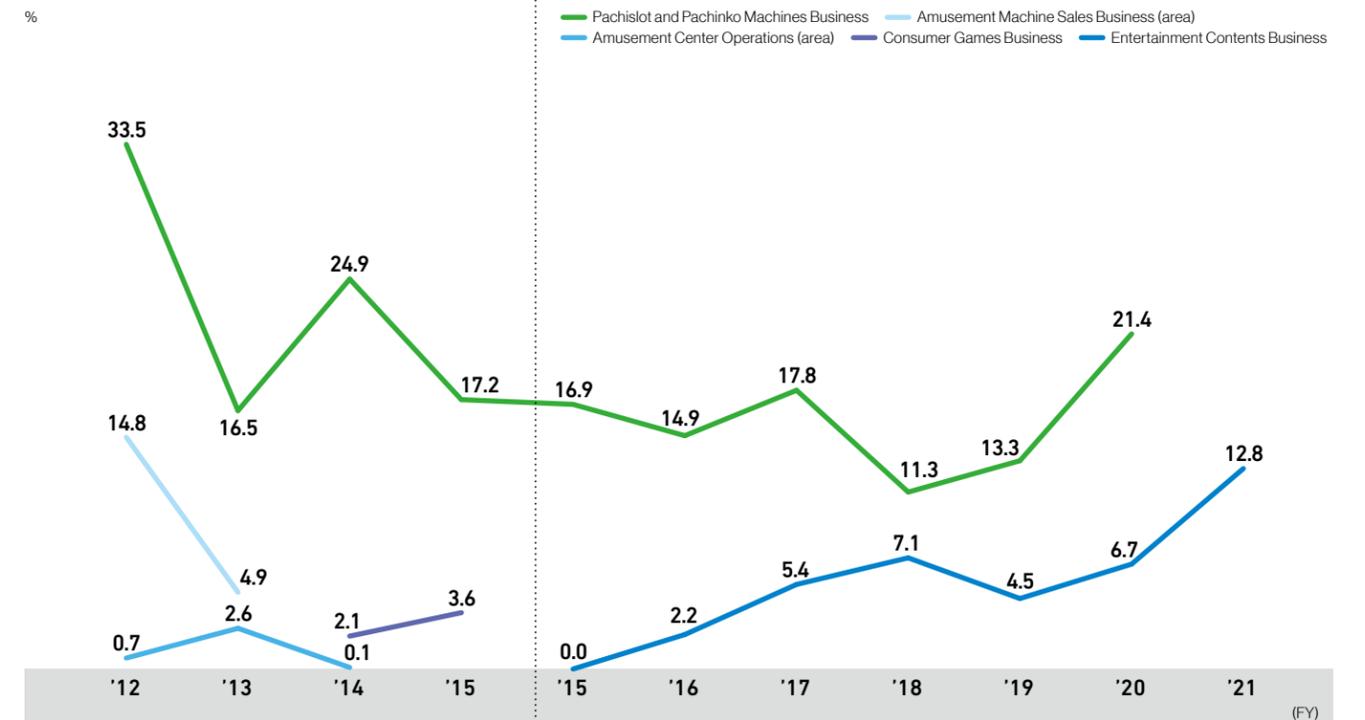
Operating Income (Loss) by Segment*3

Billions of yen



Operating Income Margin by Segment

%

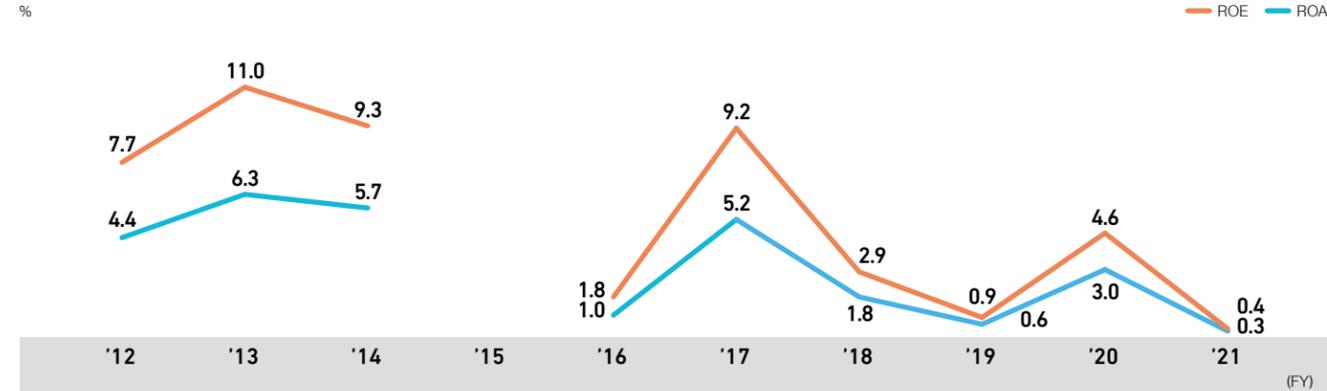


*3 As of the FY2015/3 change in segments, elimination of inter-segment transactions and general corporate expenses that are not allocated to the reporting segment are included in the adjustment to segment income (loss).

ROE / ROA^{*4}

ROE decreased 4.2 points from the previous fiscal year to 0.4%.
ROA decreased by 2.7 points to 0.3%.

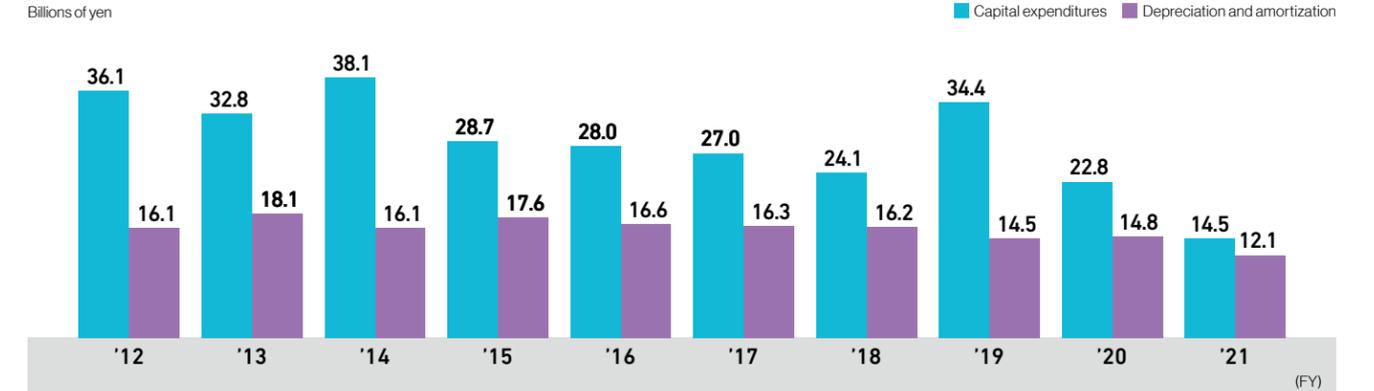
*4 ROA = Profit attributable to owners of parent ÷ Total assets



Capital Expenditures / Depreciation and Amortization^{*5}

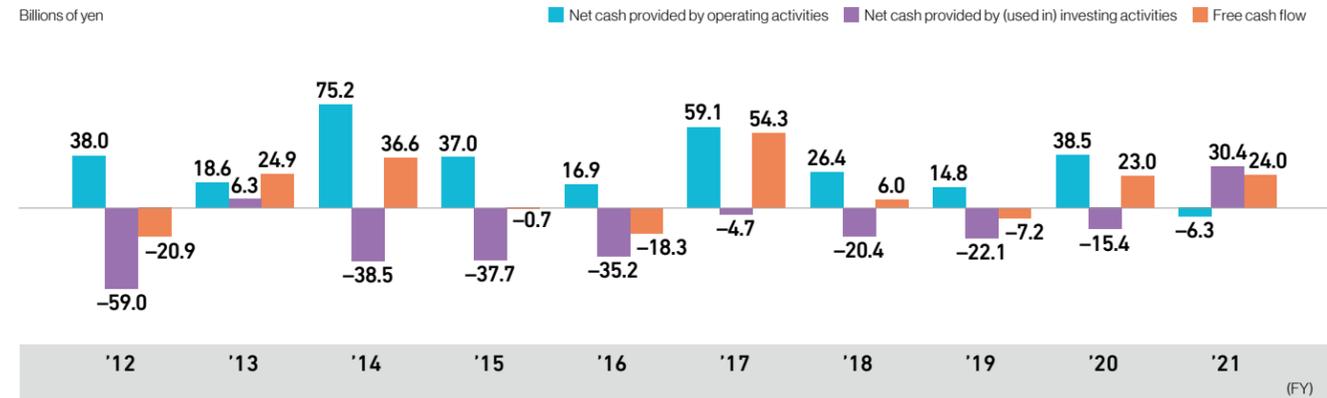
Capital expenditures decreased 36.4% year on year to ¥14.5 billion.
Depreciation and amortization decreased 18.2% to ¥12.1 billion.

¥14.5 billion / ¥12.1 billion



Cash Flows

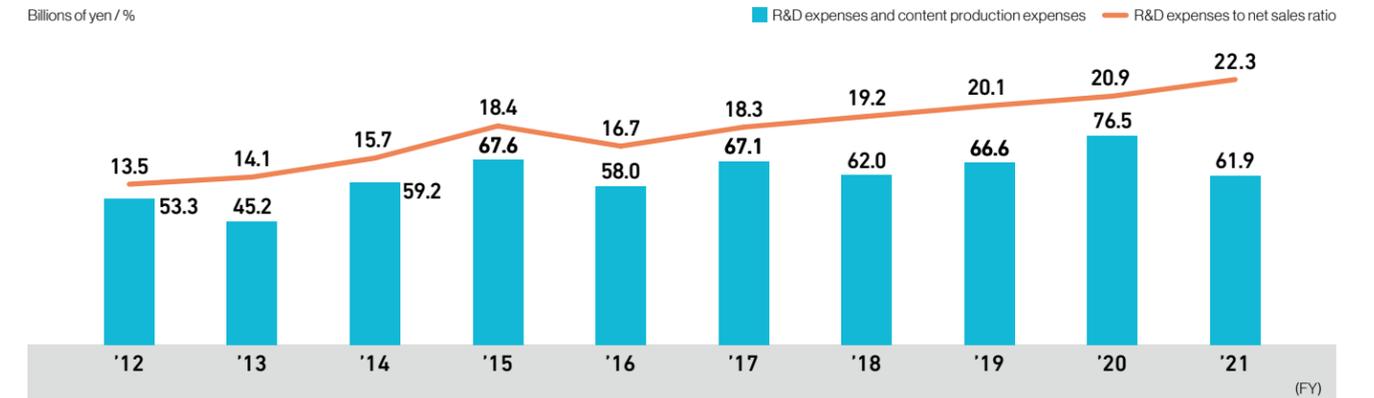
Cash flow used in operating activities in FY2021/3 was ¥6.3 billion, compared with cash provided of ¥38.5 billion in the previous fiscal year.
Cash flow provided by investing activities was ¥30.4 billion, compared with cash used of ¥15.4 billion in the previous fiscal year.



R&D Expenses and Content Production Expenses^{*5} / R&D Expenses to Net Sales Ratio

R&D expenses and content production expenses declined 19.1% year on year to ¥61.9 billion.

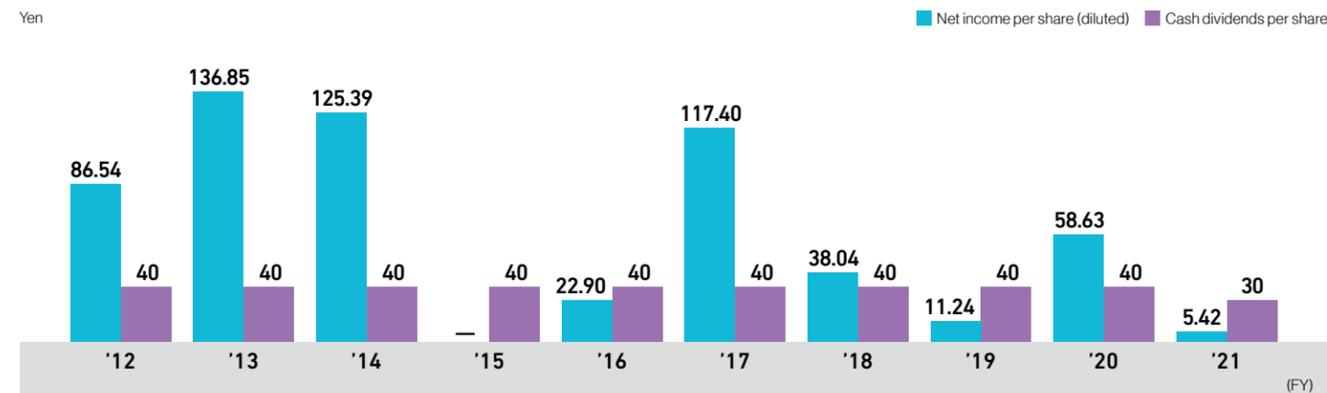
¥61.9 billion / 22.3%



Net Income per Share / Cash Dividends per Share

Net income per share (diluted) decreased by ¥53.21 from the previous fiscal year to ¥5.42.
The Company paid an annual dividend of ¥30 yen per share.

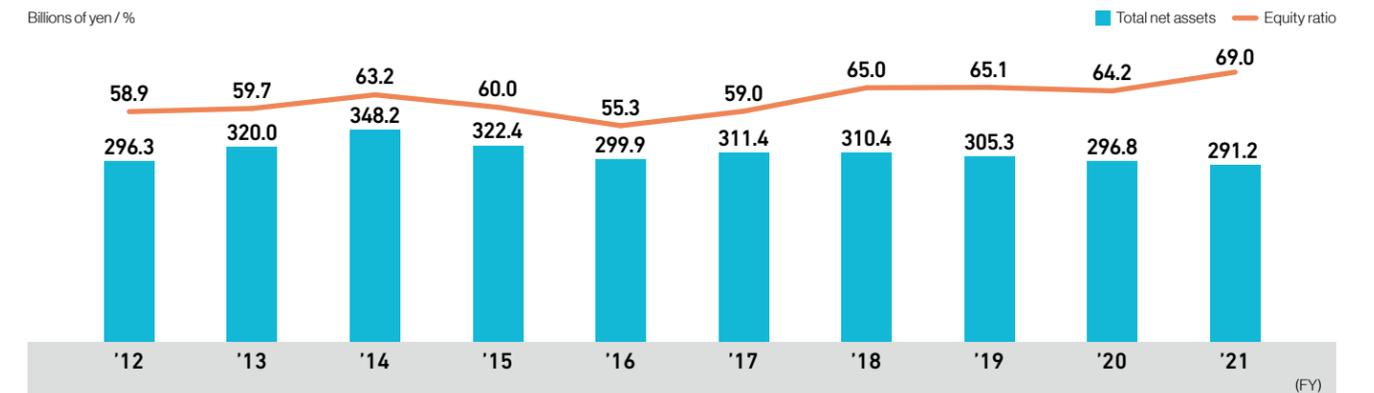
¥5.42 / ¥30



Total Net Assets / Equity Ratio

Total net assets declined ¥5.6 billion from the end of previous fiscal year to ¥291.2 billion.
The equity ratio was rose 4.8 points to 69.0%.

¥291.2 billion / 69.0%



*5 The aggregate calculation method has changed as of FY2014/3. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until FY2013/3, depreciation and amortization included amortization cost of digital game titles.



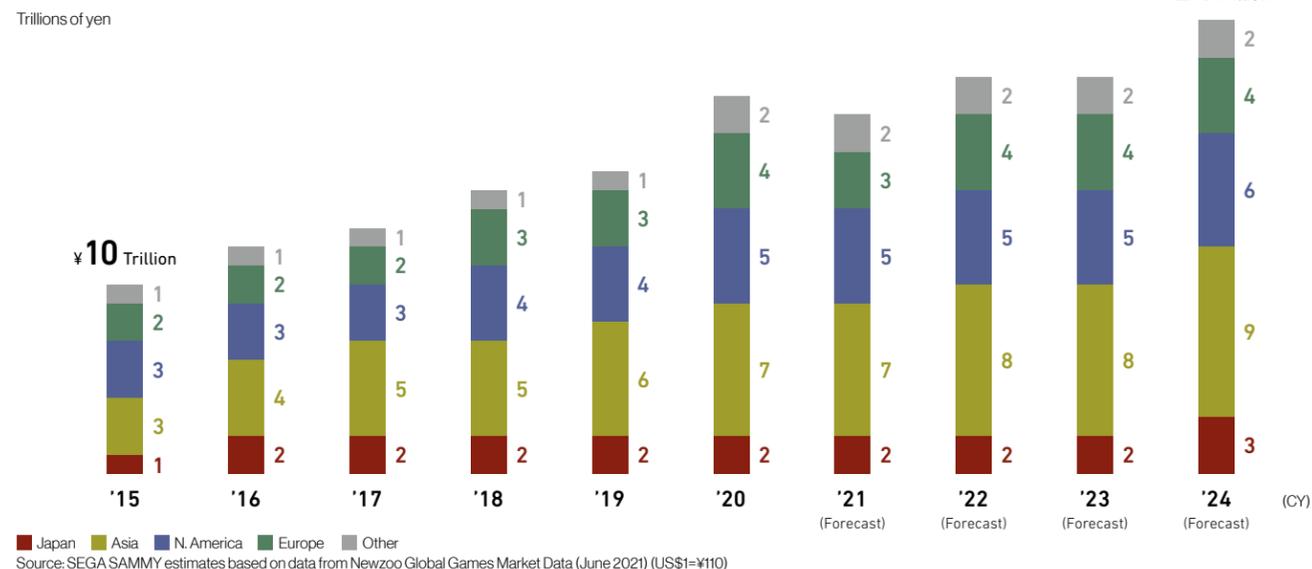
Growth Strategies for the Consumer Area

Market Environment

Ongoing growth in the game content market on a global level

The global market for game content has continued to expand steadily, supported in part by stay-at-home demand during the COVID-19 pandemic. This has been particularly notable in the Asian region, which includes numerous emerging economies. The market there was ¥3 trillion in 2015, but more than doubled in five years to reach ¥7 trillion in 2020. The global market on the whole continues to grow into a massive industry, projected to exceed ¥24 trillion in 2024.

Scale of Game Content Market

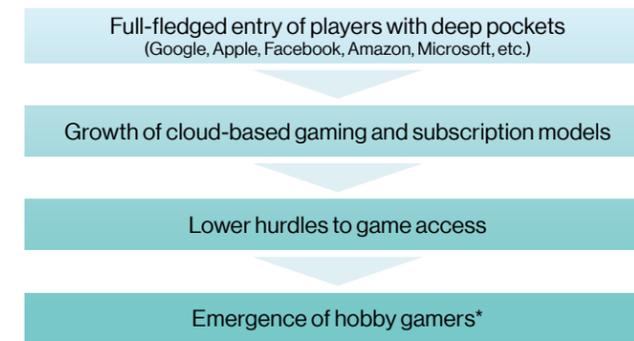


An ecosystem of 3.0 billion users

It is estimated that the number of users who play games on a regular basis currently stands at around 3.0 billion. The world's largest tech firms are investing heavily in the gaming field, in both cloud-based gaming and subscription models as well as existing gaming areas. Hurdles to game access will eventually fall, as an environment takes shape in which anyone in the world can enjoy services at low cost without the need for a costly device. One result has been the emergence of "hobby gamers*," a layer of users who habitually enjoy games at intervals during their daily lives using smartphones or PCs, rather than playing for long periods of time using costly dedicated game consoles connected to televisions. The number of such users is growing every year. The pandemic has also greatly accelerated digital transformation on a global level. Such major changes in the environment are helping to drive a significant increase in the game-playing population.

The way people interact with games is also becoming far more diverse than in the past. Game players are naturally at the center of the ecosystem. The broader ecosystem is also expanding, though, as games draw together many people on a global scale, to encompass not only game players but also, for example, streamers who broadcast their games and their viewers. These factors are also expected to fuel growth in the game population going forward.

Games Grow into Global Industry with 3.0 Billion Users



More Diverse Interactions with Games, Expanding Ecosystem



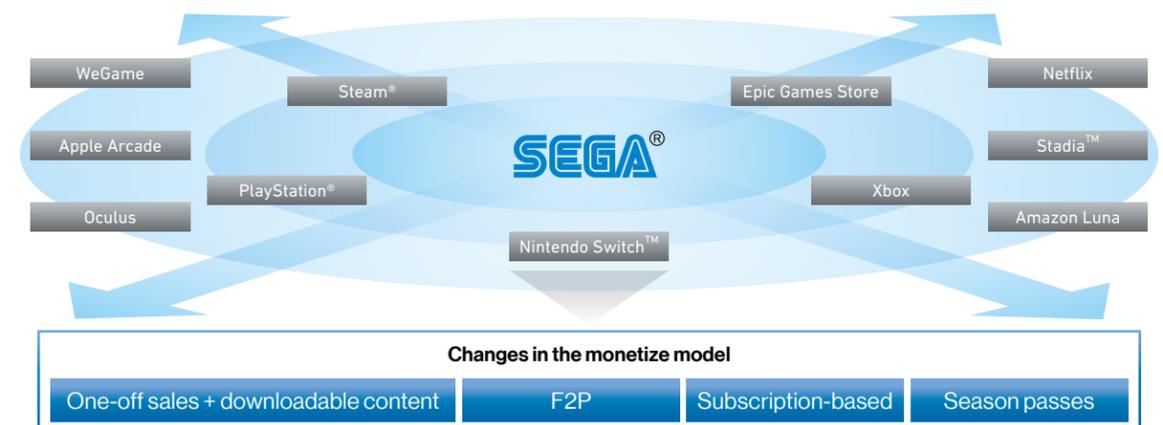
* A term coined by SEGA SAMMY, indicating the layer of users who habitually enjoy games at intervals during their daily lives using smartphones or PCs.

Barriers between devices and regions disappear, points of contact with users increase

Advances in digital transformation are helping barriers in the games market to come down with increasing speed, both between devices and between regions. An environment is taking shape in which a range of game content can be released quickly in every direction, including PlayStation, Switch, Xbox, PCs, and other platforms, as well as emerging cloud-based platforms.

The Group is working to build a multilayered profit model as well, ranging from conventional one-off package sales to free-to-play (F2P), subscription-based, and season pass models. We aim to raise profit levels by continuing to deliver services in ways that are best suited to the market context.

Barriers between devices and regions disappear, points of contact with users increase

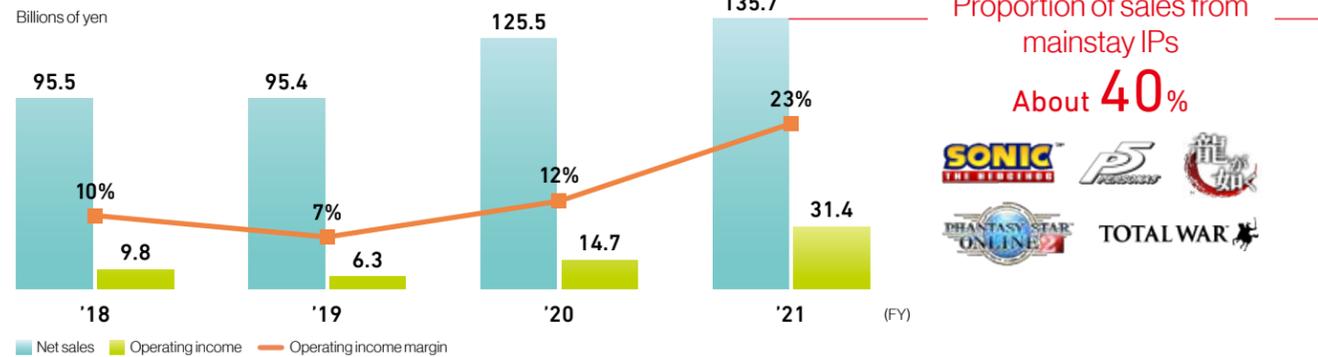


Strategies for the Consumer Area

Mainstay IPs drive medium-term growth in the Consumer area

In the fiscal year ended March 31, 2021, net sales, operating income, and the operating income margin in the Consumer area all increased significantly, owing in part to stay-at-home demand amid the pandemic. Titles positioned as SEGA's mainstay IPs made particularly strong contributions to performance: *Sonic*, *Persona*, *YAKUZA (Ryu ga Gotoku)*, *PHANTASY STAR*, and *Total War* together accounted for about 40% of sales. These mainstay IPs also enjoy robust repeat demand, and are continuing to generate profits for many years.

Consumer Area Performance



Reinforcing a powerful studio network extending across the globe

The development studio network SEGA has built up is among the largest of any Japanese game company. Starting with the acquisition of a studio in the U.K. in 2005, we have steadily expanded the scale of the network and attracted talented personnel. The key IPs of each studio have enjoyed success in various regions and are currently playing a pivotal role in our worldwide expansion. To further strengthen the studio network on a global scale, we will continue to explore acquisitions of studios that show potential, both in Japan and abroad.

Studio Network

	2005	2006	2013	2014	2016	2019
Development studio						
Location	U.K.	U.K.	Canada	Japan	France	U.K.
Developers	About 620	About 160	About 270	About 180	About 110	About 30
Main IPs	TOTAL WAR	FOOTBALL MANAGER	COMPANY OF HEROES	Persona	Legend	TWO POINT HOSPITAL
FY2022/3 New titles (planned)	WARHAMMER	FOOTBALL MANAGER 2022	Age of Empires IV * Published by Microsoft	YAKUZA	HUMANKIND	TWO POINT CAMPUS

Interview with Top Management



Yukio Sugino
President and COO
(Representative Director)
SEGA CORPORATION

Q1: Can you give us some specifics about how SEGA plans to grow existing mainstay IPs as global brands over the medium term?

Last year, SEGA ranked No. 1 among global game publishers on the review site Metacritic. To be recognized as a global brand first and foremost means providing high-quality products and services. At the same time, in the expanding global games market, leading publishers with deep pockets, mainly in Europe and North America, are trying to capture users by pouring massive investments into developing and launching AAA titles. To hold our own in this highly competitive environment and to get users to choose SEGA titles, I believe it is critical to manage the portfolio so that we can strategically focus our resources. We merged two companies last year, one focused on the Consumer

area and the other on the amusement machines area, giving SEGA a new framework. Our main objective was to make it easier to reallocate resources in a more agile and more optimal manner by consolidating development resources, better positioning SEGA to compete in global markets.

Within this overarching framework, we are working to implement the following specific measures over the medium term. Our three measures are expanding touch points with users, prolonging product life cycles, and strengthening user engagement. I'd like to elaborate using concrete examples.

Grow mainstay IPs as global brands

Pursuing quality and focusing investments

1 Expanding touch points with users

2 Prolonging product life cycles

3 Strengthening user engagement

Regarding expanding touch points with users, one example is *Ryu ga Gotoku (YAKUZA in Western countries)*, a series that has remained popular for more than 15 years. In the past, it has been released on specific platforms and in terms of regions, the Japanese market was the series' main focus. As the game console market softened in Japan, however, we gradually expanded elsewhere into Asia, Europe, and North America. Since then, as we have pushed forward with multiplatform development, including PCs, which offer a large market in Europe and North America, and have been expanding touch points with users, sales of *YAKUZA* have increased with each series released. As a result of expansion in the market, about

70% of sales of *YAKUZA: LIKE A DRAGON*, released in January 2020, are generated overseas. With *LOST JUDGMENT*, the latest title released in September 2021, we took on the challenges of multiplatform development across nine different languages and simultaneous worldwide release. Sales are off to a good start. The global games market is currently very active, with the emergence of new game consoles and the entry of new platformers. We see these as major opportunities for SEGA, and want to greatly expand touch points with users through a dual strategy of multiplatform development and simultaneous worldwide release.

With regard to prolonging product life cycles, let me use the

Persona series as an example. In 2020, we launched *Persona 4 Golden* on Steam, a PC platform. This is a remastered version of a title released for PlayStation Vita in 2012. Sales were much stronger than expected, proving that quality titles from the past can do well in today's market. SEGA boasts a rich lineup of IPs, cultivated over a long history. Our strategy is to capture additional market opportunities by remastering and remaking these IPs and releasing them at the level of quality demanded in the

current market. Moreover, we expect further advances in digital sales to free the environment from physical constraints, enabling the sale of titles with a long tail. Fed by SEGA's rich lineup of titles, repeat sales are growing and are currently a major pillar of performance. Going forward, as the platformer-led subscription service market grows, we can expect to see an environment in which users can, over a longer time span, continue to choose and enjoy SEGA content.

Utilization of IP assets



Finally, regarding user engagement, *Sonic* offers a good illustration. In 2020, the live-action movie *Sonic the Hedgehog* was a huge worldwide hit, reaching sixth place in global box office revenues for that year. The secret of the movie's huge success was precisely the strength of the global *Sonic* fan community. We made the movie's character designs public as a pre-release promotion. In response, many fans posted harshly critical comments about the designs on various social media. We listened carefully to these voices and took the criticism seriously, and made major design changes. The result was a marked improvement in fan satisfaction. The fan community became positive influencers for the movie, which spread to the wider public, drawing a big response and driving the huge success of the movie.

This success dramatically increased exposure for the IP, contributing significantly to game sales and giving great impetus to the whole *Sonic* franchise. We have already decided to distribute a new animation series through Netflix, and have been approached with numerous other offers for business opportunities. Our approach—taking feedback from fans to heart and reflecting their concerns in development and in actions to grow the IP—these kinds of actions to build fan engagement have become critical.

So, through the efforts I have outlined, we are aiming to grow our existing mainstay IPs as global brands and achieve the growth targets of the current medium-term plan.

Q2: Tell us about SEGA's long-term growth narrative.

Over the medium term, growth will largely be driven by globalization of our existing mainstay IPs. In tandem with that, we will pursue initiatives for long-term growth. As I said earlier, the way people interact with games is becoming more diverse and the ecosystem is growing exponentially. In this context, SEGA wants to go beyond the boundaries of conventional games and take on the challenge of creating super games that excite the gaming community, which is a web of diverse relationships. Keeping our finger firmly on the pulse of gaming trends, which are changing daily, we will anticipate the emerging landscape of the gaming community and move forward with the development of games that strike a chord.

Naturally, we project that the scale of investment in the development of such super games will be sizable. We will need to incorporate new technologies and trends. To this end, we will have to invest from the perspective of developing the pipeline and shoring up our value chains. I think back to when we acquired and consolidated Atlus. This brought us two major benefits. One was the highly appealing, world-class IPs Atlus had developed in the role-playing game genre. The other was the solid localization capabilities of the U.S.-based site. Drawing on these localization capabilities, very Japanese IPs like *YAKUZA* and *HATSUNE MIKU* have been translated using expressions that really resonate with local users, which has

enhanced game quality. The outcome of this is clearly evident in the rising Metacritic scores, which in turn is leading to growing sales in overseas markets. These kinds of acquisitions that enhance our functionality will definitely be a major strength in the long run, and we will continue to proactively explore investments from this point of view.

Also, SEGA over many years has brought game development studios from all over the world into the Group, and maintains the largest global studio network among Japanese game companies. Strengthening this network will lead to further substantial growth in global performance.

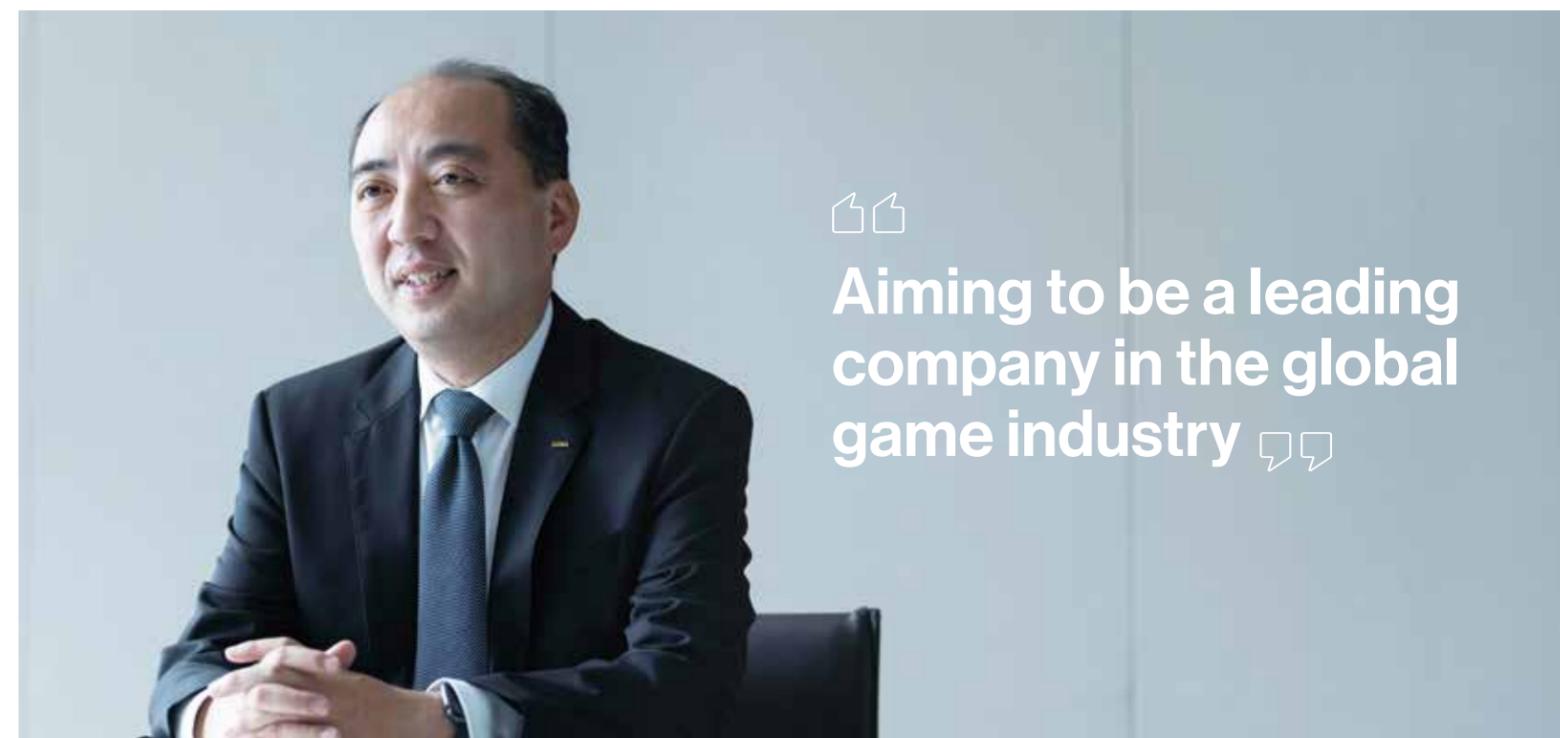
For details on the studio network see page 30.

Q3: What do you see as the challenges for growing the Consumer area going forward?

I recognize that SEGA hasn't done as well as we should have in staying in dialogue with the markets. We have to seriously reflect on the fact that, despite drastic changes in the global markets, such as the way users interact with games and the rise of new platformers, we have tended to stick with our own internal reasoning and approaches. There is a mounting sense of crisis that if we do not clearly ascertain the direction the market is moving, we will soon get left behind. Changes in the market have also brought us new awareness—such as how highly past titles have been reevaluated amid the wave of stay-at-home demand. As I said before, even though we boasted a lot of amazing IPs that other companies didn't have, and despite the major opportunities open to us, we weren't able to fully take advantage of them.

This is exactly what the market, dramatically reshaped by COVID-19, brought back home to us.

I also have the sense that our collaboration with other companies has been lacking. Now, in part to better respond to rapid changes in the market, we are increasing opportunities to be in communication with our various business partners. More robust collaboration has enabled us to enhance game quality and gain footholds in the development of new services and games. Of course, collaboration brings challenges. But backed by our strong brand recognition and a rich lineup of IPs, SEGA stands firmly in position of strength. This gives me great confidence going forward that we will be able to hold our own even in competition with top global groups.



Entertainment Contents

Entertainment Contents Business

Pachislot and Pachinko Machines

Pachislot and Pachinko Machines Business

Resort

Resort Business



PHANTASY STAR ONLINE 2 NEW GENESIS
©SEGA

An IP Portfolio That Is a Well-Spring of Value Creation

The Group boasts multiple, highly competitive IPs. We can achieve stable profitability through these IPs and, by more fully capitalizing on them, we are expanding the IP value across numerous areas.



Examples of acquired IP

IP title	First appearance year	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
Shin Megami Tensei series	1992		31	Approx. 17.7 million (Units and downloads* ²) (Full games and F2P total)
Persona series	1996		18	Approx. 15.0 million (Units and downloads)
Total War series	1996		—	More than 37.8 million (Units and downloads)
Football Manager series	2004		—	More than 24.0 million (Units and downloads)

Examples of IP developed in-house

IP title	First appearance year	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
Sonic the Hedgehog series	1991		—	More than 1.38 billion (Units and downloads* ²) (Full games and F2P total)
Puyo Puyo series	1991* ¹		—	Approx. 35.0 million (Units and downloads* ² /IDs/users) (Full games and F2P, Amusement Machines-registered IDs total (Total for registrations after IP acquisition))
Sakura Wars series	1996		—	Approx. 5.7 million (Units and downloads) (Full games and F2P total)
Ryu ga Gotoku series	2005		164	Approx. 17.0 million units (Full games total)
Virtua Fighter series	1993		—	More than 18.0 million (Units and downloads/IDs) (Full games and F2P total. Total number of IDs in Amusement Machines.)
ALADDIN series	1989		14	Approx. 560 thousand units (pachislot and pachinko machines and amusement machines total)
Beast King series	2001		15	Approx. 510 thousand units (pachislot and pachinko machines and amusement machines total)
PHANTASY STAR series	1987		—	Approx. 9.00 million users * ³
CHAIN CHRONICLE series	2013		3	Approx. 25.0 million (Units and downloads* ²) (Full games and F2P total)

*1 SEGA CORPORATION acquired the rights in 1998. Figures for cumulative unit sales are the totals for titles that SEGA sold after acquiring the rights.
*2 Including downloads of free-to-play titles *3 Total for domestic and overseas versions of PHANTASY STAR ONLINE 2 and PHANTASY STAR ONLINE 2 NEW GENESIS

Examples of IP licensed from third parties

IP title	First appearance year	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
SEGA feat. HATSUNE MIKU Project Series	2009		65	Approx. 11.5 million (Units and downloads* ²) (Full games and F2P total)
Hokuto No Ken Series	2002		35	Approx. 2.99 million units (pachislot and pachinko machines total)
SOUTEN-NO-KEN Series	2009		13	Approx. 480 thousand units (pachislot and pachinko machines total)

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Entertainment Contents

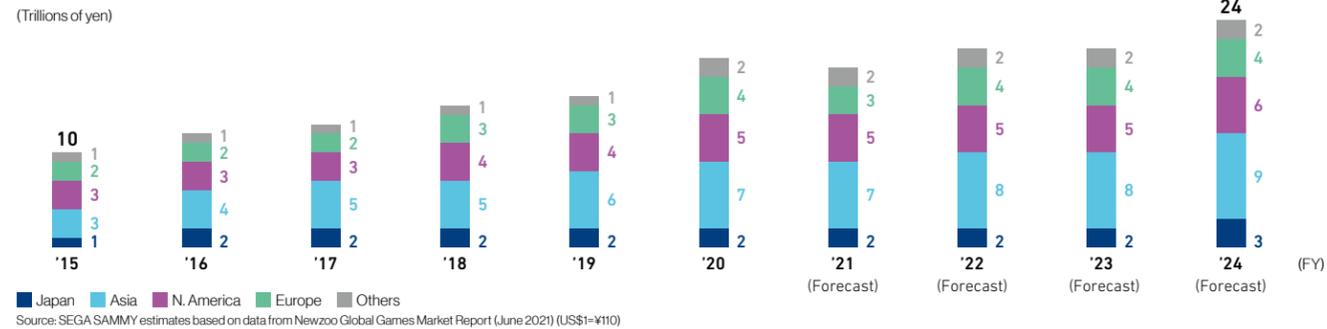
Entertainment Contents Business

In addition to drawing on our abundant IP assets to roll out content globally, the Group will work to expand business value by taking advantage of our broad business portfolio.

External Environment

The global game content market continues to grow against the backdrop of rising download sales and the proliferation of game distribution platforms. Amusement Machine Sales and Amusement Center Operations market have been in a recovery trend due to steady performance of prizes and other factors, but these sectors were subsequently hard hit by the outbreak of COVID-19.

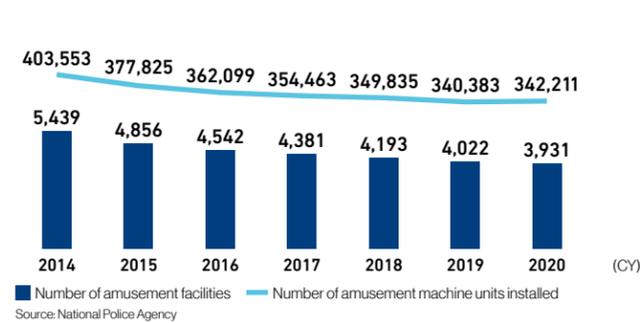
Game Content Market Size



Domestic Amusement Machine Sales and Revenues from Amusement Facilities Operations



Number of Amusement Facilities and Amusement Machine Units Installed



Business Overview

Ensuring steady earnings through expansion across a range of areas

SEGA SAMMY's Entertainment Contents Business has expanded into various entertainment domains, each of which presents different market growth potential and levels of competition. Leveraging its well-balanced portfolio, the Group is generating stable income without relying excessively on any specific IP, title, or business activity.

Consumer Area

We will expand the scale of profits by digging deeper into key existing IPs and developing them globally.

To capitalize effectively on our abundant IP assets, including dormant titles, we will further develop these IPs by means of remasters, remakes, and reboots, etc., as well as offers them to subscription-based services.



Amusement Machine Sales Area

By streamlining the product lineup, we will optimize business scale and shift development resources to the Consumer area, a growth area, and aim to improve return on investment by focusing on strong-performing prize categories.

Animation and Toys Area

In the Animation area, in addition to producing animations of our major IPs, such as *Detective Conan*, *Anpanman*, and *LUPIN THE 3rd*, the Group is focusing on the animation licensing and merchandising businesses.

The Toys area is expanding to encompass a broad target audience, including mainstay educational toys, character goods, and products for adults.



Anticipated Opportunities and Risks	Responses
<p>Opportunities</p> <p>Ongoing growth in the game content market</p> <p>The market for game content is expanding on the back of growth in Western and Asian markets. In addition, with the advent of various game distribution platforms and the increase in download sales, the potential for further growth is expanding.</p>	<p>Expanding touch points with users</p> <ul style="list-style-type: none"> Strengthening global roll-out Multiplatform support Multilingual support <p>Prolonging product life cycles</p> <ul style="list-style-type: none"> Utilizing IP assets Strengthening the digital sales Multichannel monetization <p>Strengthening user engagement</p> <ul style="list-style-type: none"> Community management Strengthening the mix of media
<p>Risks</p> <p>Rising development costs</p> <p>The development costs of game content are on the rise due to the response to the new technologies and the longer development periods required. There is a risk of not being able to realize expected returns on investment.</p>	

Achievements in FY2021/3

Consumer Area

New full game* titles were released, including Western versions of *Persona 5 Strikers* and *YAKUZA: LIKE A DRAGON*, as well as *Football Manager 2021*. Coupled with brisk sales of repeat titles, this resulted in a total of 41,770 thousand units sold (compared with 28,570 thousand units sold year on year). Newly released F2P* titles, including *Re:ZERO –Starting Life in Another World– Lost in Memories* and *HATSUNE MIKU: COLORFUL STAGE!*, also performed well alongside existing titles.

*The Consumer area is divided into the following three business models.

Full games	Mainly disc-based and download sales of full games for home video game consoles and PCs. (Sales of additional download content are not included.)
F2P	Mainly free-to-play based game content along with item-based sales, etc., mostly for smartphones and PCs.
Other	Sales of additional download content, consignment sales of other companies' titles, contract development, title transfer, bundled titles for platformers, sales of products other than game software.

FY2021/3 (Results)

Net sales: **¥135.7 billion** Operating income: **¥31.4 billion**



Persona 5 Strikers
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HATSUNE MIKU: COLORFUL STAGE!
©SEGA/©CP/©CFM

Amusement Machine Sales Area, Amusement Center Operations Area

In the Amusement Machine Sales area, we chiefly sold mainstay products such as the *UFO Catcher*® crane game series and prizes for these games. In the Amusement Center Operations area, in line with the transfer of shares of a subsidiary engaged in amusement facilities operations at the end of December 2020, results from the subsidiary were excluded from consolidated reporting from the third quarter of fiscal year 2021.

FY2021/3 (Results) *Amusement Machine Sales Area Performance

Net sales: **¥35.7 billion** Operating loss: **¥1.6 billion**

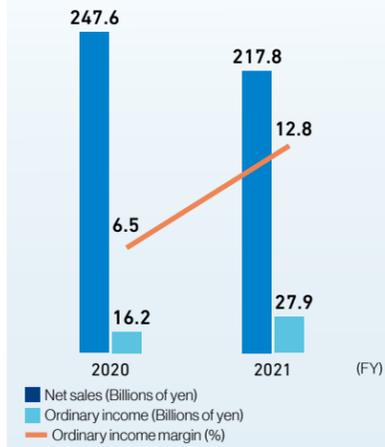
Animation and Toys Area

Performance in the Animation and Toys area remained solid. In Animation, although COVID-19 caused a delay in the release of the film *Detective Conan the Movie The Scarlet Bullet*, a special omnibus film taken from the *Detective Conan* TV animation series, *Detective Conan: The Scarlet Alibi*, was released. We also recorded revenues from other animation production and distribution. In Toys, alongside mainstay products, we sold new products such as *Fun to change mouse covers! Sumikkogurashi Personal Computer Plus*.

FY2021/3 (Results)

Net sales: **¥23.2 billion** Operating income: **¥2.1 billion**

Entertainment Contents Business Performance



Initial D THE ARCADE
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All manufacturers, cars, names, brands and associated imagery featured in this game are trademarks and/or copyrighted materials of their respective owners. All rights reserved.
The trademarks Porsche, Porsche Crest, Porsche Logotype, Carrera and 911 are used under license of Porsche AG.



Detective Conan: The Scarlet Alibi
© Goshō Aoyama / Shogakukan/YTV/TMS 1996

To Be a Global Leading Contents Provider

Outlook Going Forward

We are positioning the Consumer area as a growth business for the Group, with a strategic focus on the global development of key existing IPs. To this end, we are pursuing initiatives such as expanding touch points with users, prolonging product life cycles, and strengthening user engagement. We will also cultivate the F2P games for smartphones in domestic market, amusement machines, etc., into businesses that can secure stable earnings.

In the fiscal year ending March 2022, we expect to see a drop off in repeat sales in the Consumer area following an upswing in the previous fiscal year. In the Amusement Machine Sales area, we expect to improve profitability through fixed cost reductions.



PHANTASY STAR ONLINE 2 NEW GENESIS
©SEGA

FY2021/3 (Results)

Net sales: ¥217.8 billion
Operating income: ¥27.9 billion
Ordinary income: ¥27.9 billion

FY2022/3 (Forecast)

Net sales: **¥213.0 billion**
Operating income: **¥23.0 billion**
Ordinary income: **¥25.0 billion**

Consumer Area

For full games, we anticipate a drop off in repeat sales following an upswing in the previous fiscal year, as well as higher costs due to an increase of new titles. Meanwhile, in F2P, we have started the global roll-out of *PHANTASY STAR ONLINE 2 NEW GENESIS*.



FY2022/3 (Forecast)

Net sales: **¥140.0 billion**
Operating income: **¥21.0 billion**

Amusement Machine Sales Area

We plan to improve profitability due to the effect of fixed cost reduction through structural reform. We also plan to release mainstay products such as the *UFO Catcher*® crane game series and prizes for these games as well as new products.



FY2022/3 (Forecast)
Net sales: **¥43.0 billion**
Operating income: **¥1.7 billion**

Animation and Toys Area

In Animation, *Detective Conan the Movie The Scarlet Bullet* has been a hit and we expect to record revenue from other animation production and distribution as well. In Toys, we will continue to sell new and mainstay products.



FY2022/3 (Forecast)
Net sales: **¥26.5 billion**
Operating income: **¥1.8 billion**

Pachislot and Pachinko Machines

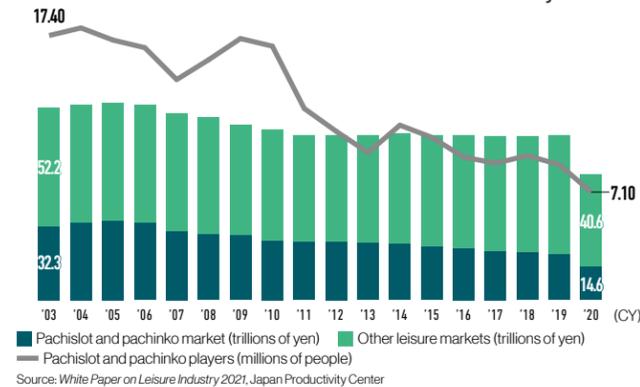
Pachislot and Pachinko Machines Business

As an “innovator in the industry,” SEGA SAMMY will launch new initiatives and strive to generate stable profits by enhancing profitability.

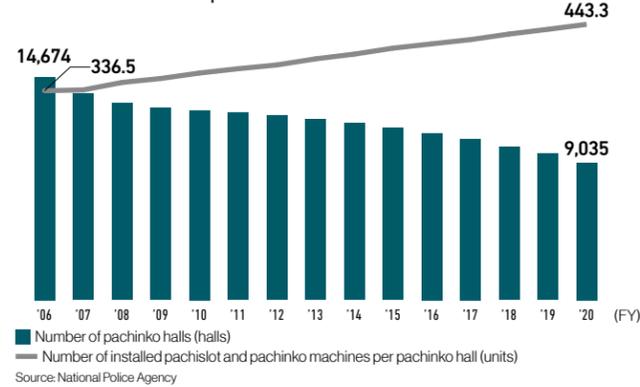
External Environment

Along with the slow decline of the player population since 1995, there has been a long-term downtrend in the overall number of pachinko halls, as well as in the number of machines installed and in annual machine turnover. On the other hand, the opening of large halls and an increase in locations of major hall operators has caused a rise in the number of machines installed per store.

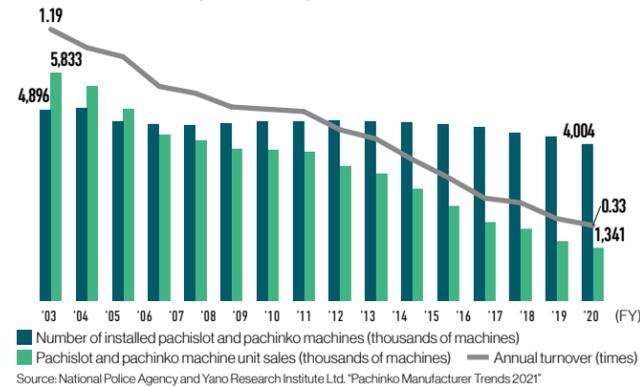
Market Size and Number of Pachislot and Pachinko Players



Numbers of Pachinko Halls and Installed Pachislot and Pachinko Machines per Pachinko Hall

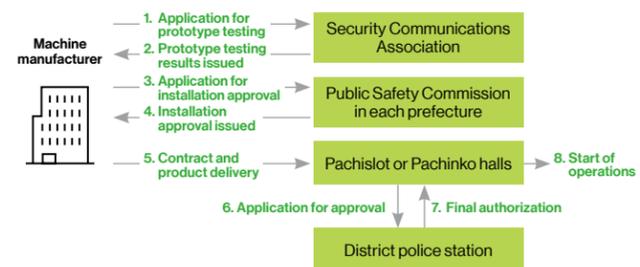


Pachislot and Pachinko Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



Pachislot and Pachinko Machine Approval Process

When marketing a new pachislot or pachinko machine, manufacturers are required to go through multiple step licensing processes in accordance with the Entertainment Establishments Control Law.



For more information on market data, see pages 77-78.

Business Overview

The Pachislot and Pachinko Machines Business draws on a powerful IP lineup and industry-leading development capabilities to supply products that meet the demands of a diverse fan base. We are working to develop and market machines with innovative gameplay that will help bring vitality to the market for both pachislot and pachinko machines. We are also seeking to lower costs and environmental impact through measures centered on component reuse.

A powerful IP lineup and strong development capabilities

SAMMY has an IP lineup that boasts strong brand awareness, led by titles in the popular *Hokuto No Ken* series.

Sammy's Strengths
Multiple well-performing series



P Shin Hokuto Muso Chapter 3
©Buronson & Tetsuo Hara / NSP 1983
Approved No.KOU-111
©2010-2013 Koei Tecmo Games Co., Ltd.
©Sammy



Pachislot ANEMONE Psalms of Planets
Eureka Seven HI-EVOLUTION
©2018 BONES/Project EUREKA MOVIE
©BANDAI NAMCO Sevens Inc.
©Sammy

Series	Number of titles in series	Cumulative unit sales	Series	Number of titles in series	Cumulative unit sales
<i>Hokuto no Ken</i>	35	Approx. 2,990,000 units	<i>Hokuto Muso</i>	7	Approx. 210,000 units
<i>ALADDIN</i>	14	Approx. 560,000 units	<i>Eureka Seven</i>	6	Approx. 160,000 units
<i>Beast King</i>	15	Approx. 510,000 units	<i>Monogatari Series</i>	11	Approx. 140,000 units
<i>SOUTEN-NO-KEN</i>	13	Approx. 480,000 units	<i>Code Geass</i>	3	Approx. 60,000 units

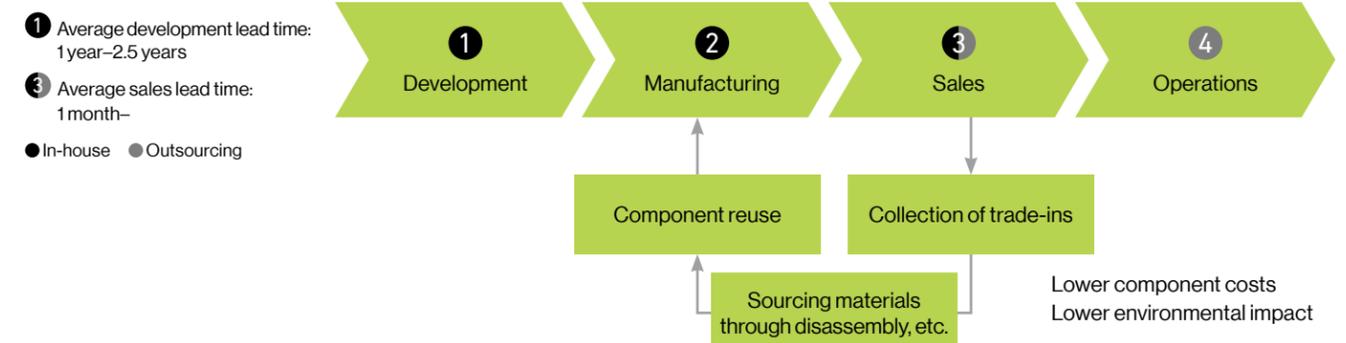
Note: As of March 31, 2021

Lowering costs and raising profitability

Pachislot and pachinko businesses are characterized by a reliance on electronic components that carry a high cost ratio. The Group is working to raise development efficiency and lower costs, such as through the reuse of materials.



Value Chain of the Pachislot and Pachinko Machines Business



Anticipated Opportunities and Risks	Responses
Opportunities Possibility of expanding user base As the scope of development has expanded due to changes in regulations, machines conforming to the new regulation may expand the user base. Growing demand for new regulation machines If new regulation machines win the support of users, we can expect greater demand and an increase in the player population.	Create hit machines <ul style="list-style-type: none"> Revise the product lineup Increase hit potential Enhance media functions Improve business efficiency <ul style="list-style-type: none"> Raise development efficiency Lower costs Promote online commerce
Risks Decline in the player population The decline in the player population may undermine the purchasing power of hall operators and affect unit sales volume. Loss of users due to new regulation machines New regulation machines may fail to win broad acceptance among users, accelerating the decline in the player population.	Risk of approval status The approval rate*, which has remained at a low level due to the recent revision of regulations, may have a significant impact on sales. <small>* The rate of obtaining successful prototype testing results in the pachislot or pachinko machines licensing process.</small> Component risk There is a risk of losing sales opportunities due to the inability to procure components.

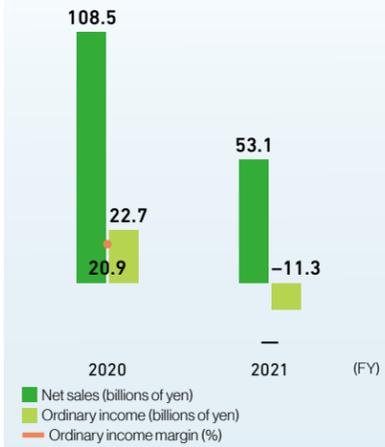
Achievements in FY2021/3



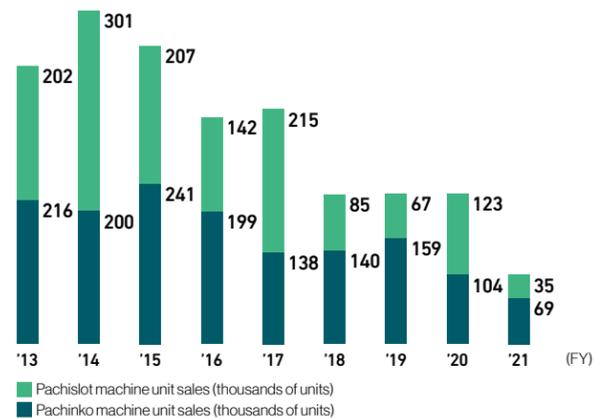
New machines launched during the year included *Pachislot Hokuto no Ken Shukumei* and *P Shin Hokuto Muso Chapter 3*. Performance was impacted by factors including the shuttering of pachinko halls amid the COVID-19 pandemic, however, with full-fledged sales activities only resuming in the second half and the deadline for removing previous regulation machines getting pushed back, weakening demand for new regulation machines. As a result, we sold 35,000 pachislot units (down from 123,000 units a year earlier) and 69,000 pachinko units (down from 104,000 units). As a result of booking a valuation loss, largely on components, the Pachislot and Pachinko Machines Business recorded an operating loss for the first time.

Pachislot Hokuto No Ken Shukumei
©Buronson & Tetsuo Hara/COAMIX 1983, ©COAMIX 2007 Approved No.YRG-121 ©Sammy

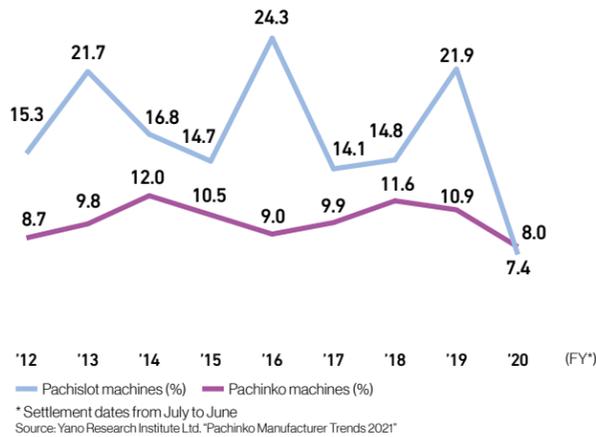
Pachislot and Pachinko Machines Business Performance



Pachislot and Pachinko Machine Unit Sales



Market Share of Pachislot and Pachinko Machines



Major Titles Sold in FY2021/3

		Month Delivered	Unit sales
Pachislot	<i>Pachislot Hokuto No Ken Shukumei</i>	March 2021	17,456
	<i>Pachislot The Seven deadly Sins</i>	November 2021	6,207
	<i>Pachislot Initial D</i>	January 2021	5,369
Pachinko	<i>P Shin Hokuto Muso Chapter 3</i>	December 2020	43,901
	<i>P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO</i>	August 2020	10,223
	<i>P (Monogatari) Series Secondseason</i>	February 2021	6,560



P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO
©2017 BONES/Project EUREKA MOVIE ©BANDAI NAMCO Entertainment Inc. ©Sammy



Pachislot The Seven deadly Sins
©Nakaba Suzuki/Kodansha/The Seven Deadly Sins Project, MBS ©Nakaba Suzuki/Kodansha/The Seven Deadly Sins TVSP Project, MBS ©Nakaba Suzuki/Kodansha ©Sammy

Build a Stable Earnings Structure

Outlook Going Forward

We have started to roll out pachislot and pachinko machines that comply with new regulations. We are revising the product lineup and creating machines from a thoroughly user-centric perspective, centering on series machines that offer greater hit potential. We are also working to improve business efficiency, including raising development efficiency and lowering costs.

The deadline for removing previous regulation machines falls in the fiscal year ending March 2022. We will work to meet replacement demand by launching new titles, including mainstay titles, and recover profitability. Although we project lower fixed costs in line with recent structural reforms, we also anticipate higher advertising expenses and other operating costs due to factors including an influx of newly launched titles and the lifting of restrictions on TV advertising.



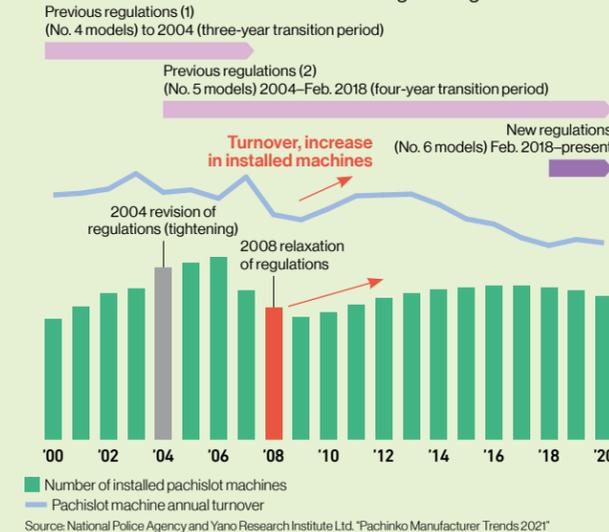
Pachislot CODE GEASS Lelouch of the Rebellion 3
©SUNRISE / PROJECT GEASS Character Design ©2006 CLAMP•ST ©SUNRISE / PROJECT GEASS Character Design ©2006-2008 CLAMP•ST ©SUNRISE / PROJECT G-AKITO Character Design ©2006-2011 CLAMP•ST ©BANDAI NAMCO SEVENS INC. ©Sammy



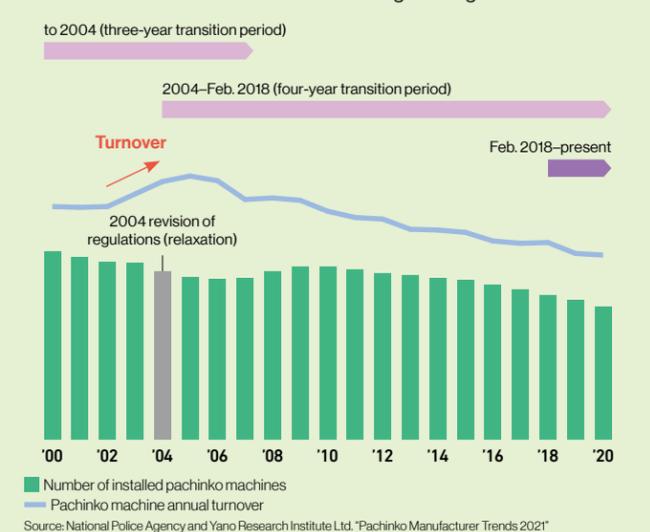
Market Environment under Revised Regulations

The need to replace pachislot and pachinko machines under revised regulations will cause a temporary downswing in the number of installed machines and in turnover. In such cases, however, the launch of hit machines typically tends to drive recovery. When pachislot regulations were last revised, the subsequent appearance of hit machines boosted the purchasing motivation of hall operators and fueled improvement in turnover.

Pachislot Market environment and changes in regulations



Pachinko Market environment and changes in regulations



Major Titles Sold to Date in FY2022/3

		Month Delivered
Pachislot	<i>Pachislot Angel Beats!</i>	April 2021
	<i>Pachislot GAMERA</i>	June 2021
Pachinko	<i>P Kabaneri of the Iron Fortress</i>	April 2021
	<i>P Hokuto No Ken 8 Kyuseishu</i>	May 2021
	<i>P Cho Hane Beast King</i>	June 2021
	<i>P SOUTEN-NO-KEN Tengoku</i>	July 2021



Pachislot GAMERA
©KADOKAWA ©Sammy



P Hokuto No Ken 8 Kyuseishu
©Buronson & Tetsuo Hara/COAMIX 1983, ©COAMIX 2007 Approved No.YTA-212 ©Sammy

Resort Business

To make the Resort Business a pillar of the Group over the medium to long term, we are building up our know-how in the integrated resort business in parallel with strengthening the profitability of existing resort facilities.

External Environment

Concrete moves toward the opening of an integrated resort in Japan.

The Integrated Resort Development Bill, which includes casinos, was enacted in July 2018, and moves toward the establishment of an integrated resort, which the government regards as essential for Japan to become “a tourism-oriented country,” are gaining momentum.

Candidate locations and operators will be selected in the future.

Anticipated Opportunities and Risks		Responses
<p>Opportunities</p> <p>Commercialization of a domestic IR business</p> <p>If integrated resorts are realized in Japan in the future and our group's entry into the market is realized, there is a strong possibility that this business will become a major revenue source.</p>	<p>Risks</p> <p>Risks of entering into domestic IR business</p> <p>Delays in legislation related to integrated resorts will have a major impact on our group's long-term scenario. There is also a risk that investment may not be recovered unless the Company is selected as a business entity.</p> <p>Risks associated with response to addiction issues</p> <p>Neglecting to respond adequately to addiction issues and other social issues could expose the Group to social criticism or render sustained development of the industry impossible.</p>	<p>Acquisition of know-how for the success of IR business</p> <ul style="list-style-type: none"> • Deployment of personnel to <i>PARADISE CITY</i> • Development and operation of resort facilities • Addiction countermeasures <p>For details see page 49.</p> <ul style="list-style-type: none"> • Acquired gaming machine manufacturer and distribution licenses in Nevada.

Achievements for FY2021/3

The number of facility users at *Phoenix Seagaia Resort* continued to fall sharply due to the impact of COVID-19, declining 34.3% year on year. However, there were signs of recovery in individual demand, such as an increase in facility users of 10% year on year in October and November 2020, buoyed by the Go to Travel campaign. In addition, the business incurred expenses related to its move into the domestic Integrated Resort (IR) market. Overseas, *PARADISE CITY*, operated by PARADISE SEGASAMMY Co., Ltd. (affiliate accounted for using the equity method) saw substantial declines in the drop amount (amount of chips purchased by customers at the table) and

the number of guests in January to December 2020, with year-on-year declines of 66.2% and 54.5%, respectively, due to the impact of COVID-19 and other factors.

* Results for PARADISE SEGASAMMY Co., Ltd. are posted with a three-month delay due to a December fiscal year-end

FY2021/3 (Achievements)

Net Sales: **¥6.3 billion** Ordinary loss: **¥8.9 billion**

Outlook Going Forward

We forecast a moderate recovery at the *Phoenix Seagaia Resort* on the back of stepped-up measures aimed at individuals, while losses at *PARADISE CITY* are likely to narrow as travel restrictions ease.

Future IR Business Strategy

The Company needs to review its IR business strategy following the City of Yokohama's decision to call off its selection process for IR operators. However, we are confident that the Company is now one of Japan's top companies in the IR field after accumulating various expertise and know-how through sustained investment in the IR business over many years. We plan to continue seeking opportunities to participate in IR projects in order to capitalize on this expertise.

Business Overview

Through the operation of resort facilities, the Group is working to acquire development and operational expertise to enter the integrated resort field in Japan.

Phoenix Seagaia Resort

Japan's leading resort complex

Phoenix Seagaia Resort offers Japan's finest resort stays, taking advantage of an ideal environment—such as three accommodation facilities including the *Sheraton Grande Ocean Resort*, a world-class convention center that can hold up to 5,000 people, as well as *Phoenix Country Club*, one of Japan's preeminent golf courses, and a tennis club—all surrounded by a vast, nearly 700-hectare grove of Japanese black pines spreading roughly 11 kilometers north-south along the coast of the Pacific Ocean in Miyazaki Prefecture. By continuously improving the value of the facilities, the Group is working to strengthen its ability to attract customers while accumulating know-how in the operation of resort facilities.



©Phoenix Resort



The North Country Golf Club

(Chitose, Hokkaido)

As part of its activities to promote sports and contribute to the community of Chitose City, the Company runs *Sega Sammy Cup Golf Tournament* and operates it as a facility for snow activities, *North Snowland in Chitose*, in winter.

PARADISE CITY

South Korea's first IR facility

PARADISE CITY, operated by PARADISE SEGASAMMY Co., Ltd., a joint venture with the PARADISE GROUP of South Korea, is the first IR facility in South Korea with hotels, casinos, commercial facilities, convention halls, and clubs. We aim to be the top IR facility in North-east Asia by providing high-quality space and services, and are accumulating development and management know-how with a view to entering the IR business in Japan.



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In accordance with our mission of *Constantly Creating, Forever Captivating*, we will work to realize a sustainable society and increase corporate value by responding to society's needs.

To achieve those objectives, we are focusing on creating value through the Group's core businesses and identifying key issues in their operations (materiality). Referencing the Sustainability Accounting Standards Board (SASB) model, an external framework, we have defined materiality for the SEGA SAMMY Group and are working to communicate it across the Group.

Realize a Sustainable Society and Increased Corporate Value

Value Created by Our Businesses

Value Creation in Core Business



Entertainment Contents Business

Add color to life by providing experiences that move the heart through games and other entertainment.



Pachislot and Pachinko Machines Business

Add stimulation to everyday life by providing experiences that move the heart through pachislot and pachinko machines.



Resort Business

Add relaxation to life by providing experiences that move the heart through resorts.

Materiality to Be Addressed and Key Categories

Materiality to Be Addressed



Environment

We design products with a view to lowering the environmental burden of manufacturing processes and enhancing efficiency through recycling and reuse. Further, we are advancing efforts to preserve the environment and reduce power consumption.



Addiction

We are taking steps to tackle and prevent different types of addiction, such as addiction to playing pachinko and pachislot machines; "gaming disorder," which is an addiction to video games that seriously affects health; and gambling addiction, which is strongly related to the integrated resort business.



People

We will strive to create motivating work environments for diverse human resources and build a corporate culture with a high level of creativity. We also aim to make diversity an inherent part of our business, while also ensuring fairness by respecting human rights, prohibiting discrimination of any kind and protecting disadvantaged people.



Products and Services

In order to create experiences that move the heart through entertainment to make life more colorful, we will build development processes that allow us to provide innovative products, continually improve the quality of products and services, and supply products and services that can be enjoyed with safety and confidence.



Governance

We will emphasize corporate governance, including compliance and risk management, strengthen legal compliance frameworks and internal control systems, ensure sound business management, enhance transparency and improve efficiency through rigorous governance management.

Key Categories

- Reduce Environmental Burden

- Mitigate Addiction

- Enhance Job Satisfaction
- Increase Diversity
- Eliminate Inequality

- Develop Innovative Products
- Improve the Quality of Products and Services
- Supply Safe and Trusted Products

- Reinforce Governance

Related SDGs



**Constantly Creating,
Forever Captivating**
— Making Life More Colorful —



Environment



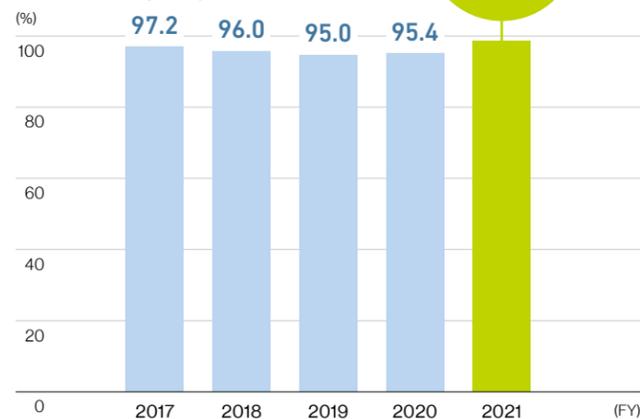
Reducing Environmental Burden Caused by Business Activities

P Reuse and Recovery of Components from Pachislot and Pachinko Machines

Sammy has been working to improve the reusability of pachislot and pachinko machine components by working from the design and development stages to standardize components, circuit boards, and units, and set targets for the number of reusable components in 2016. In the fiscal year ended March 2021, the recovery rate for reused components reached 89.7% and the recycling rate for pachislot and pachinko machines was 98.6%. Sammy will continue its efforts to maximize the benefits of reuse.

Sammy is also working with other manufacturers to develop platforms for components and units as part of industry-wide efforts to reduce environmental impact.

Sammy Pachislot and Pachinko Machine Recycling Ratio



Caring for the Global Environment and Resources

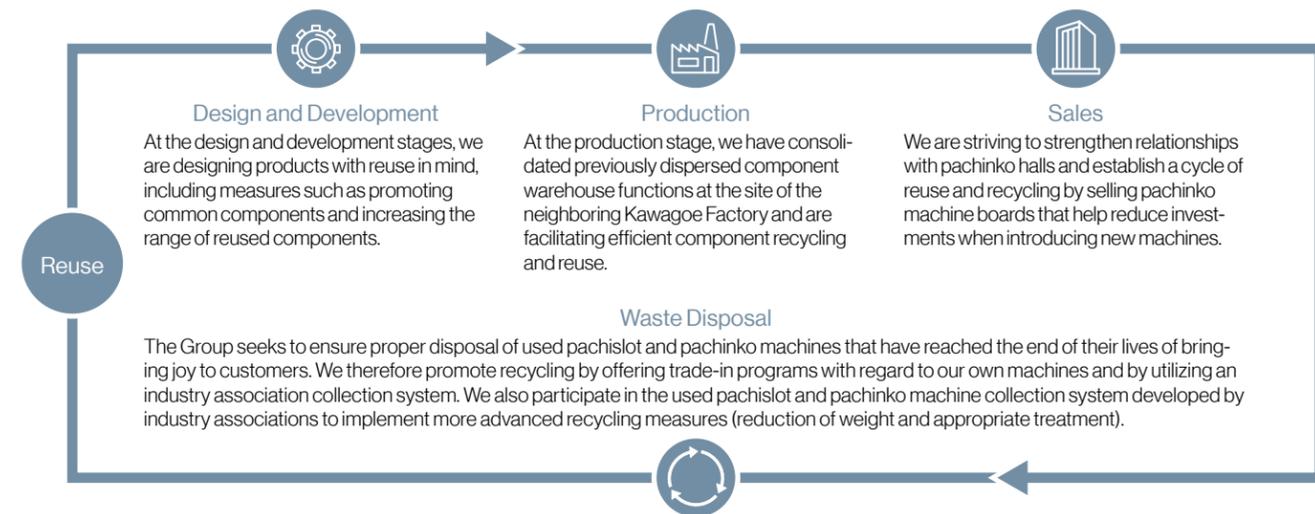
P Promoting Reuse across the Value Chain

The Group is pursuing optimization in all areas of the pachislot and pachinko machine value chain, including development, manufacturing, and sales. Through these efforts, we aim to reduce environmental impact by cutting back on component use while also promoting the reuse of components, which is supporting an improvement in business profitability.

We are improving the efficiency of reuse activities by expanding the range of reused components and increasing the ratio of standardized components and materials.

Environmental Indicators at Sammy's Kawagoe Factory
See page 57 for more details

Promoting Reuse across the Value Chain



Addiction



Addiction Countermeasures in the Pachislot and Pachinko Machine Industry

P Support for the Helpline Services of the Recovery Support Network

The Group began to implement initiatives against addiction following the establishment of the Society for Research on Pachinko Addiction in 2003. The Recovery Support Network (RSN), which was created in 2006 with the support of various groups within the industry, has also introduced a wide range of initiatives, including awareness-raising activities and telephone helpline services.

Activities During Pachislot and Pachinko Addiction Awareness Week

Pachislot and Pachinko Addiction Awareness Week is held in Japan every year from May 14 to May 20 with the aim of raising awareness about pachislot and pachinko addiction. Centered around Awareness Week, in addition to holding forums to broaden understanding of these issues, industry organizations are also engaged in Awareness Week poster campaigns and other activities.

Addiction Countermeasures in the Pachislot and Pachinko Machine Industry

- 2003** Establishment of the Society for Research on Pachinko Addiction
- 2006** Establishment of the Recovery Support Network (RSN)
- 2017** Release of a statement on pachinko/pachislot addiction
- 2018** Replacement of pachislot and pachinko machines with new models that comply with amended regulations
Establishment of the Advisory Council on Addiction Countermeasures in the Pachinko and Pachislot Industry (a committee of independent experts)
- 2019** Formulation of Basic Guidelines for Addressing Pachinko Addiction
Formulation of Basic Guidelines for the Pachinko and Pachislot Industry for Addressing Addiction
- 2020** National Police Agency expresses expectations and urges cooperation at a meeting of the Board of Directors of the Japan Federation of Gaming Business Associations

Addressing Gaming Addiction in the Entertainment Contents Business

E Collaboration with Industry Groups

At the World Health Assembly in May 2019, the World Health Organization (WHO) recognized "gaming disorder" as a disease, defining it as a pattern of excessive online and video gaming.

In Japan, the Computer Entertainment Supplier's Association (CESA), the Japan Online Game Association (JOGA), the Mobile Content Forum (MCF), and the Japan eSports Union (JeSU) jointly established a study group to conduct surveys and research relating

to phenomena triggered by gaming, and to educate the public about appropriate ways to enjoy gaming.

The four organizations are currently carrying out collaborative surveys and research about gaming disorder and exploring countermeasures for the future. The Group will continue to address these issues appropriately in cooperation with the study group.

Developing and Operating Safe, Trusted Integrated Resorts

R Industry-academia joint research project on gambling addiction

SEGA SAMMY HOLDINGS and Kyoto University are jointly conducting a process research project* on gambling addiction, which involves the collection and analysis of data on progression in gambling behavior. The purpose of this research is to discover advance warning signs of dangerous gambling behavior by collecting and analyzing playing data from casinos.

The Group plans to use the results of this research to establish systems for the early identification of players showing signs of addiction, so that steps can be taken to prevent escalation. We will also establish facility operations that encourage users to exercise self-control and restraint. In this way, we aim to develop an integrated structure for gambling addiction countermeasures, from education and prevention through to treatment in collaboration with

medical institutions and other organizations.

Studies to date have analyzed playing data. In particular, research focused on examining the effects of prior wins or losses on subsequent betting behavior in the process of repeated gambling. Playing data for the card game baccarat were analyzed. Results from the joint research showed that repeated gambling behavior results in a tendency to increase the size of wagers, regardless of whether the gambler wins or loses, and that this pattern is especially conspicuous after a win. It was also found that the percentage of people who will engage in risky gambling tends to increase after repeated wins. These results were also published in the research journal *International Gambling Studies*.

* This research project is being carried out from December 2017 to March 2023 at the Kokoro Research Center Kyoto University.



People

Enhance Job Satisfaction

SS New Personnel System Implemented (from April 2021)

To realize our Mission of *Constantly Creating, Forever Captivating*, the Group is striving to *Be a Game Changer*. This is the shared commitment of the Group. We formulated The SEGA SAMMY Group Vision for HR Reform s as our guiding principles in the area of human resource development, with the aim of maintaining our role as an innovator in a rapidly changing business environment. The vision represents a departure from traditional human resource administration styles based on seniority and on rigid structures. Its goal is to provide a strategic direction for change that will allow us to maximize the core qualities leveraging diversity of each Group company and each individual while also realizing our strengths as a Group. We have also identified three elements and five priorities with the aim of creating fields in which personnel who demonstrate aspirations and high abilities can play an active role.

In addition, each Group company will approach human resource development with the aim of instilling S.S. FIVE — *Our Core Qualities — Drive, Empathy, Initiative, Control, Resolve* as the basis for behaviors that leverage diversity. We will also maximize the value of our human assets across Group divisions by basing job appointment and dismissal decisions on aspirations and abilities, and by reflecting results and contributions in remuneration.

SS Developing Remote Working Environments

To ensure the safety of its employees during the COVID-19 pandemic, the Group has adopted workstyles that combine remote and onsite work according to work and operational requirements. We will continue our efforts to prevent the spread of the disease while maintaining and improving productivity.

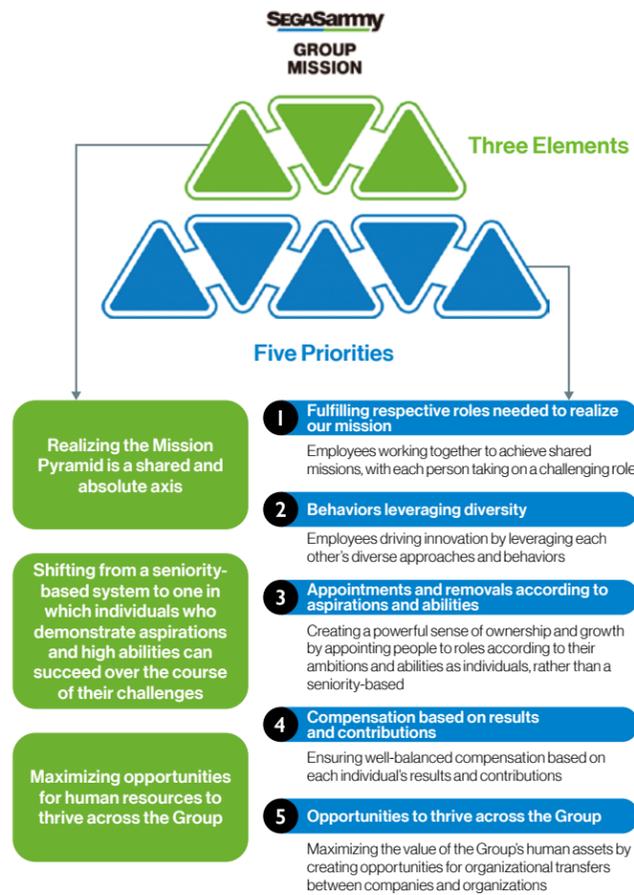
Increase Diversity and Eliminate Inequality

SS Partnership Certificates for Same-Sex Couples

One of the social issues faced by same-sex couples is the fact that they are not legally recognized as being married, with the result that they are unable to enjoy the rights and the services that are available to families as a matter of course. SEGA SAMMY HOLDINGS treats same-sex partners on an equal footing with spouses under its various internal systems.

Currently, notarized declarations are required when making applications relating to a same-sex partner, but we also plan to accept partnership certificates issued by the Famiee Project.

The SEGA SAMMY Group Vision for HR Reform



SS Declarations Condemning Racial Discrimination

In June 2020, Sega of America, Inc. responded to growing support for the "Black Lives Matter" anti-racism movement by issuing a statement condemning discrimination against people of color. In addition, in March 2021, both Sega of America, Inc. and SEGA SAMMY HOLDINGS expressed their support for efforts to eradicate all forms of racial discrimination and violence following a rapid increase in the number of hate crimes being committed against people of Asian descent.



Products and Services

Improve Product and Service Quality; Supply Safe, Trusted Products

P Safety and Quality Assurance of Products and Services

In the Pachislot and Pachinko Machine Business, we provide safe, high-quality products and services through proactive ingenuity and effective quality improvement. We have also set a zero target for significant defects with the potential to affect safety.

- 1 Develop quality manuals and manage quality records
- 2 Verify that the 4M* system is being properly implemented by suppliers, conduct audits and provide guidance
- 3 Conduct process audits for production and testing for products in a high-temperature environment
- 4 Optimize inspection specifications for movable accessories and evaluate performance with life testing
- 5 Reinforce collaboration between development, sales, and production departments to improve product quality

* Man, machine, material, method

Quality Assurance Activities (Pachislot and Pachinko Machines Business)



P Measures Against Illegal Customer Behavior

The Revised Amusement Businesses Law Enforcement Ordinance, in effect since July 2004, is primarily intended to control excessive gambling elements on pachislot and pachinko machines and prevent improper modifications. Adhering to this ordinance, the Pachislot and Pachinko Machines Business has established a special group to collect market information and build pachislot and pachinko machines that are resistant to abuse in order to prevent users from illegally manipulating the machines for illicit benefit. To combat improper modifications, which are becoming increasingly complex, we monitor and manage the distribution of pachislot and pachinko machines to completely eradicate any machines that have been illegally modified from the market.

In response to suspicious solicitations for "sakura/uchiko" by people posing as representatives of the Company or SEGA SAMMY Group, as well as groundless walkthroughs and strategy guides that have been circulating in some areas of the market, we are implementing various countermeasures and encouraging caution via the Sammy website, leaflets, and other means.

E Product and Service Labeling

In the Consumer area of the Entertainment Contents Business, we label product packaging, user manuals and other tools for home video game software in accordance with the relevant laws and regulations, industry group guidelines, and internal rules. By applying clear and appropriate labels, we ensure that customers can use our products and services with confidence. We also clearly specify the range of users for each product and actively address any ethical concerns. Our products are labeled according to assessments conducted in countries around the world. In Japan, we indicate the target age group for each game based on the CERO* ratings system and also label products in accordance with our own voluntary standards. By drawing on expertise accumulated through the CERO rating system and case studies, we have formulated guidelines that cover nine categories and 26 items. We are also working to improve employee awareness by circulating information about recent ethical issues relating to expressions used in products in Japan and overseas through our email newsletter.

* The Computer Entertainment Rating Organization (NPO)

CERO A Includes no expressions or content subject to age classification; appropriate for all ages.

CERO B Includes expressions or content appropriate for those aged 12 and older.

CERO C Includes expressions or content appropriate for those aged 15 and older.

CERO D Includes expressions or content appropriate for those aged 17 and older.

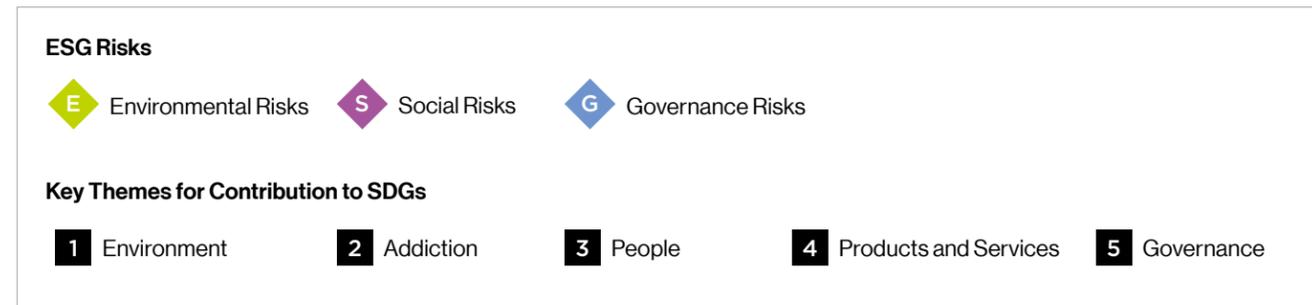
CERO Z Includes expressions or content only appropriate for those aged 18 and older. (Category assuming the game will not be sold or distributed to persons under age 18)

CERO Age Rating System Age Classification Marks
The inclusion of age classification marks and other information based on the content and expressions in computer and video games allows consumers to purchase and enjoy products with confidence. These marks are displayed on game software and other products sold in Japan for home use, with the exception of game software for commercial use.

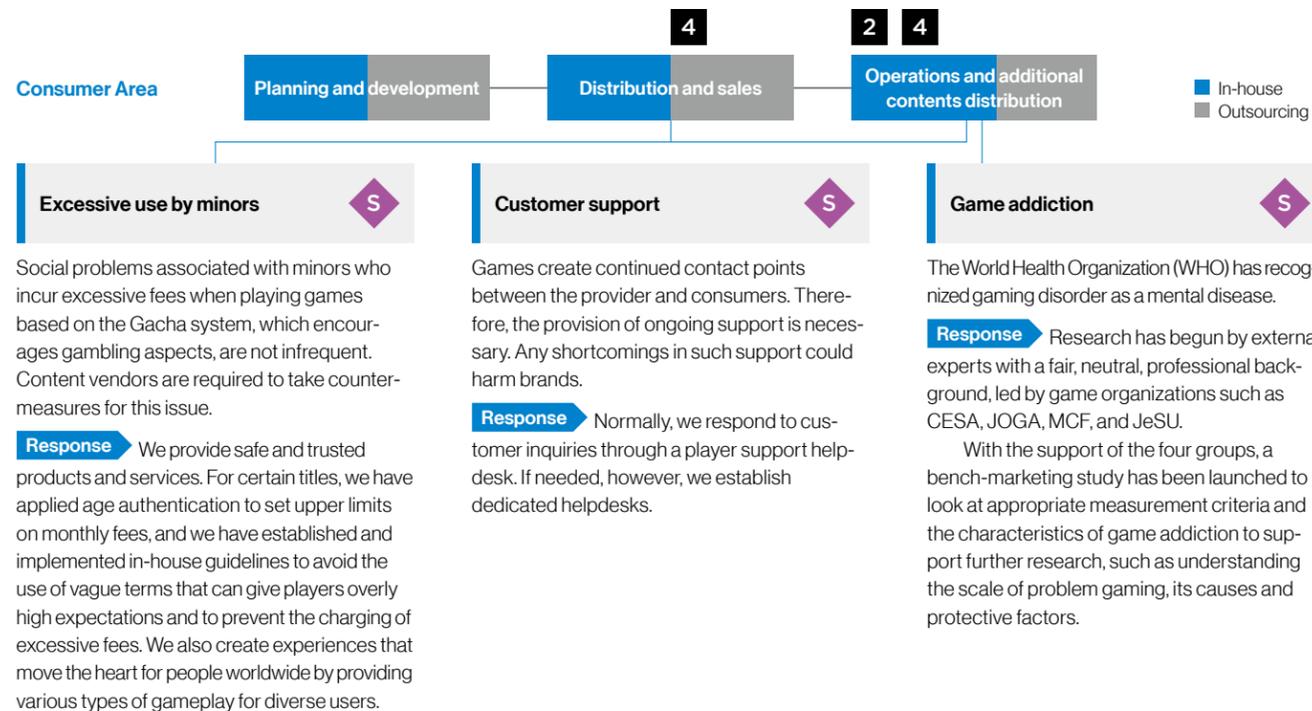
For more information on initiatives to expand IP value, see the Special Feature (pages 28-33)

ESG Risks and Countermeasures in the Value Chain

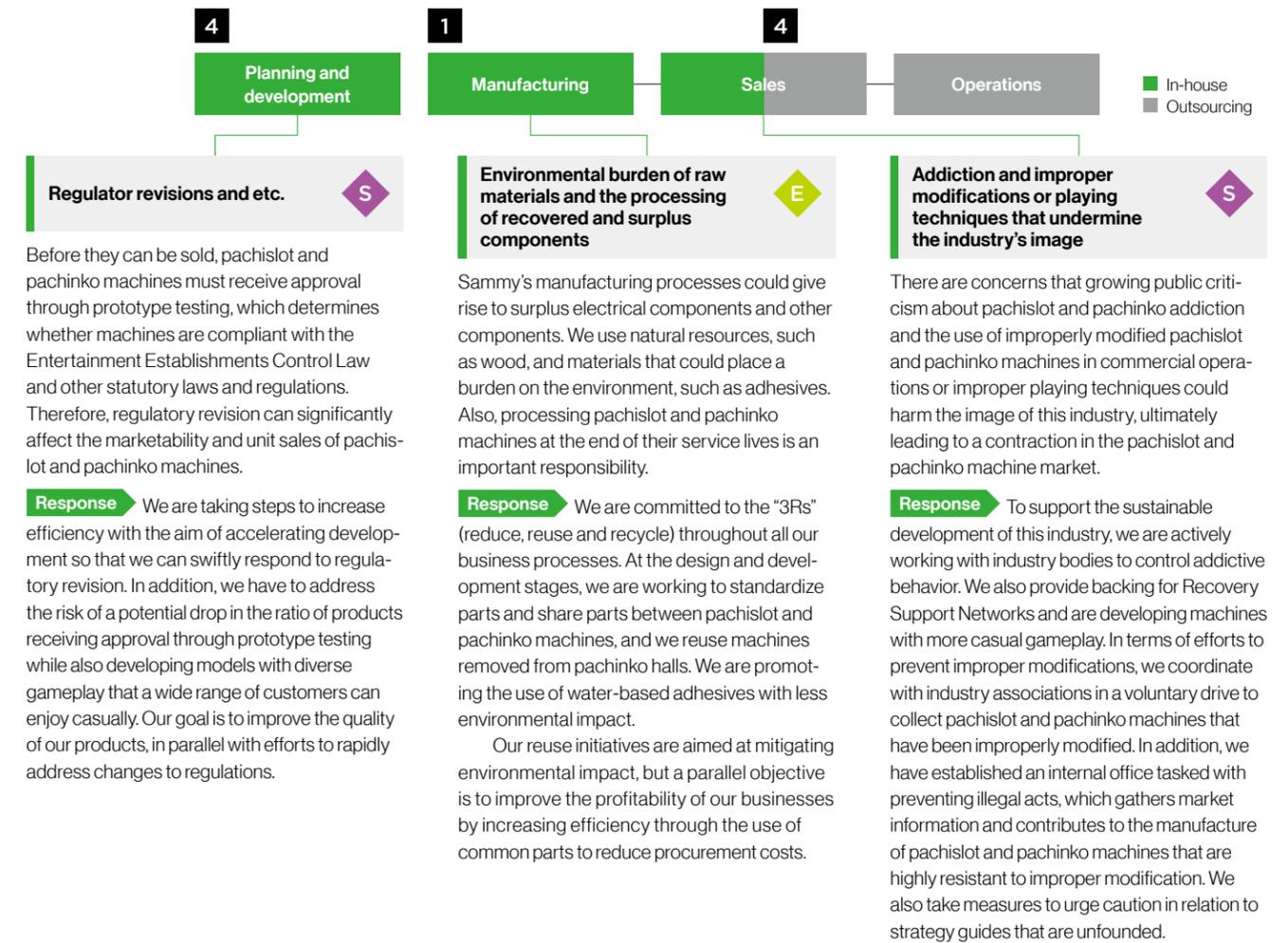
Recognizing that the various ESG risks faced by different face-to-face markets and business models confront different types of risk, our group has taken steps to address these risks and has identified key themes for contributing to the SDGs.



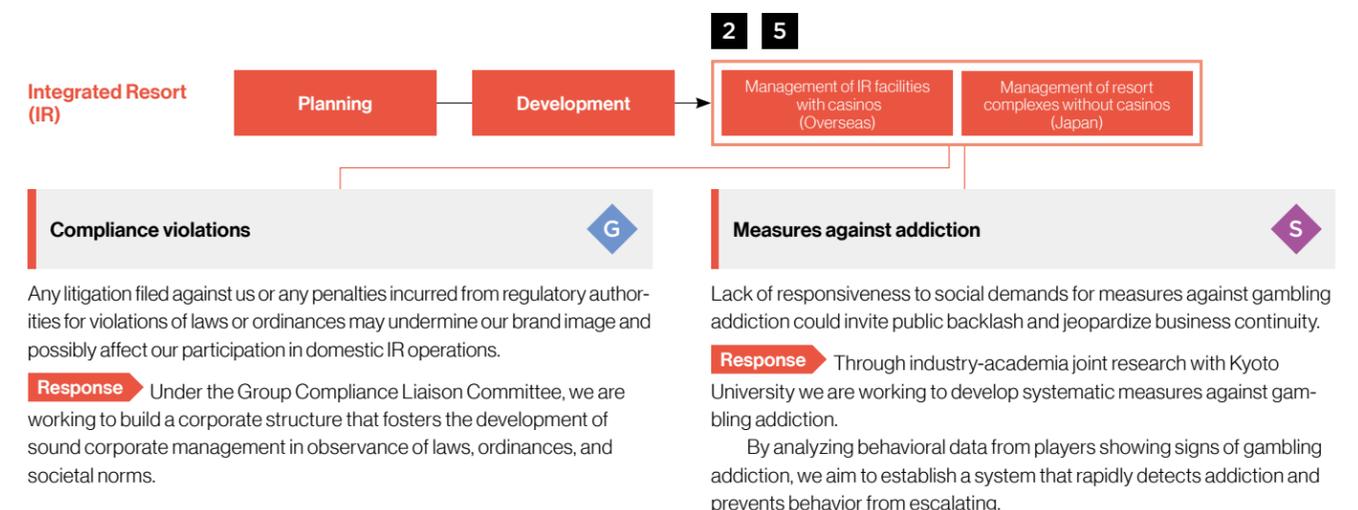
Entertainment Contents Business



Pachislot and Pachinko Machines Business



Resort Business



The SEGA SAMMY Group will continue to pursue the creation of experiences that move the heart well into the future.

The SEGA SAMMY Group was formed in October 2004 through the management integration of SEGA, a creator of well-known innovative products, and Sammy, a developer of various industry-first products. Since the management integration, SEGA SAMMY Group companies have continued to offer experiences that move the heart for consumers and create new experiences through the full-scale entry into the Resort Business in 2012 and other initiatives.



Established 1975 **Sammy**

1989

- Launched *ALADDIN*, the industry's first single-bonus hitter pachislot machine



ALADDIN
©Sammy

2001

- Launched *Beast King*, a pachislot machine with assist time (AT)



Beast King
©Sammy

2003

- Launched *Pachislot Hokuto No Ken*, which set an unprecedented sales record unbeaten to this day



Pachislot Hokuto No Ken
©Buronson & Tetsuo Hara./NSP 1983
©Sammy

2008

- Launched *Pachinko CR Hokuto No Ken*, the Company's best-selling pachinko machine by number of units



Pachinko CR Hokuto No Ken
©Buronson & Tetsuo Hara./NSP 1983.
©NSP2007 Approved No.SAE-307
©Sammy

2009

- Launched *Pachislot Psalms of Planets Eureka Seven*, which introduced new gameplay characteristics into No.5 models



Pachislot Psalms of Planets Eureka Seven
©2005 BONES/Project EUREKA
©SAMMY
©BNEI

Established 1960 **SEGA**

1988

- Launched the *Mega Drive* home video game console powered by a high-performance 16-bit CPU



Mega Drive
©SEGA

1993

- Started rolling out *Virtua Fighter*, a 3D computer graphics (CG) fighting game



Virtua Fighter
©SEGA

1998

- Launched *Dreamcast*, the industry's first home video console with internet connectivity



Dreamcast
©SEGA

2005

- Launched *Ryu ga Gotoku*, the first title in a blockbuster series of home video console games
- Launched the first title in the *Sangokushi Taisen* series of network-enabled trading card games



Ryu ga Gotoku
©SEGA



Sangokushi Taisen
©SEGA

2012

- Started distribution of online RPG *PHANTASY STAR ONLINE 2*



PHANTASY STAR ONLINE 2
©SEGA

2013

- Launched *Pachislot Hokuto No Ken Chapter of Resurrection*
- Launched *Pachislot Bakemonogatari*



Pachislot Hokuto No Ken Chapter of Resurrection
©Nisiisin/Kodansha, Aniplex Inc., SHAFT INC.
©Sammy



Pachislot Hokuto No Ken Chapter of Resurrection
©Buronson & Tetsuo Hara./NSP1983,
©NSP2007 Approved No.YGL-126
©Sammy

2015

- Launched new series *Pachinko CR Shin Hokuto Muso*, drawing on a game IP



Pachinko CR Shin Hokuto Muso
©Buronson & Tetsuo Hara./NSP 1983 Approved No.KOJ-111
©2010-2013 Koei Tecmo Games Co., Ltd.
©Sammy

2019

- Launched *Pachislot Hokuto No Ken Tenshou*, the first title in the *Hokuto No Ken* series for No. 6 models



Pachislot Hokuto No Ken Tenshou
©Buronson & Tetsuo Hara./NSP 1983,
©NSP 2007 Approved No.YAF-420
©Sammy

2021

- Launched *Pachislot Hokuto No Ken Shukumei* for No. 6.1 models



Pachislot Hokuto No Ken Shukumei
©Buronson & Tetsuo Hara/COAMIX 1983,
©COAMIX 2007 Approved No.YRG-121
©Sammy

2012

- Made PHOENIX RESORT CO., LTD., a wholly owned subsidiary
- Established a joint venture with the PARADISE GROUP of South Korea



Phoenix Seagaia Resort
©Phoenix Resort

2017

- Acquired gaming machine manufacture and sales license in the U.S. State of Nevada
- Opened *PARADISE CITY*, South Korea's first integrated resort



PARADISE CITY
©PARADISE SEGASAMMY Co., Ltd. All rights reserved.

2013

- Started distribution of smartphone game *Puyo Puyo!! Quest* and *CHAIN CHRONICLE*



Puyo Puyo!! Quest
©SEGA



CHAIN CHRONICLE
©SEGA

2016

- Launched home video console game *Persona 5*
- Launched PC game *Total War: WARHAMMER 2*



Persona 5
©ATLUS. ©SEGA. All rights reserved.



Total War: WARHAMMER 2
© Games Workshop Limited 2020. Published by SEGA.

2020

- Released the *Sonic the Hedgehog* movie
- Launched *HATSUNE MIKU: COLORFUL STAGE!*



Sonic The Hedgehog
©2020 PARAMOUNT PICTURES AND SEGA OF AMERICA, INC. ALL RIGHTS RESERVED.



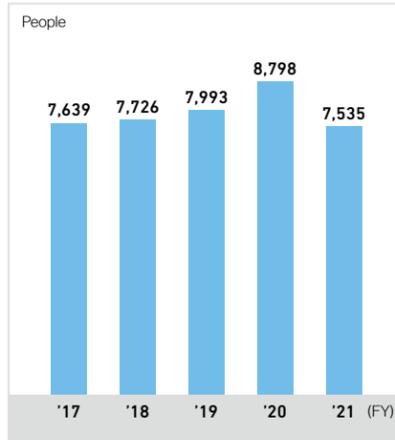
HATSUNE MIKU: COLORFUL STAGE!
© SEGA/© CP/© CFM

Non-Financial Data



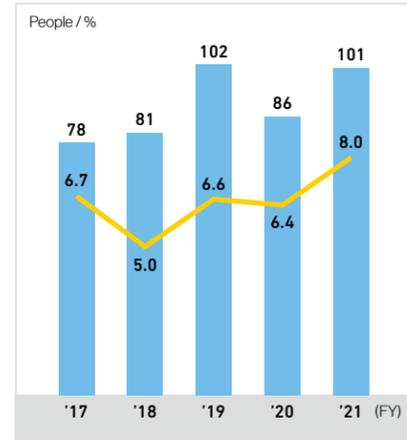
Human Resources Data

Number of Employees



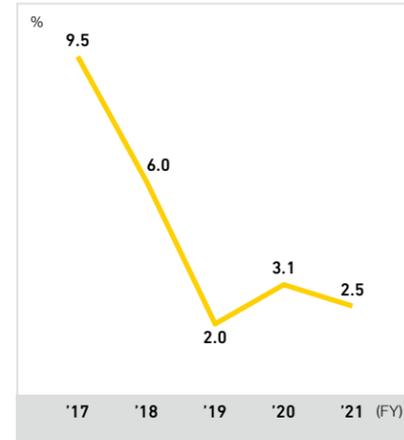
Note: The number of employees increased in fiscal year 2020, mainly due to the transfer of temporary workers in the Entertainment Contents Business to permanent employment contracts.

Number and Percentage of Female Managers



■ Number of female managers
— Percentage of female managers

New Employee Turnover Rate



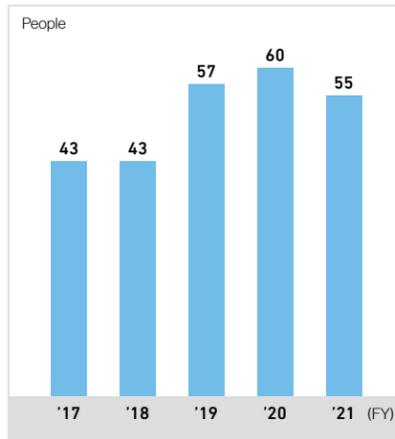
* The new employee turnover rate indicates figures for SEGA SAMMY HOLDINGS, SEGA, and SAMMY only.

Employees Taking Childcare Leave and Percentage of Employees Returning to Work after Childcare Leave



■ Number of employees taking childcare leave
— Percentage of male employees returning to work after childcare leave
— Percentage of female employees returning to work after childcare leave

Employees Rehired after Retirement



Average Overtime Hours per Month



Other Indicators

	2017	2018	2019	2020	2021 (FY)
Mid-Career Hires (People)	212	226	224	193	97
Hiring of Persons with Disabilities (People)	97	94	104	98	129
Employees Taking Maternity Leave (People)	45	55	66	70	46
Days of Paid Leave Taken (Days)	8.2	11.5	12.5	14.0	11.0
Percentage of Paid Leave Taken* (%)	46.2	63.7	69.5	75.6	48.1
Days of Volunteer Leave Taken (Days)	92	70	101	18	0
Employees Taking Volunteer Leave (People)	57	46	42	16	0

* Calculated by dividing the number of paid leave days taken by the number of statutory annual paid leave days. Includes statutory annual paid leave days at some Group companies.

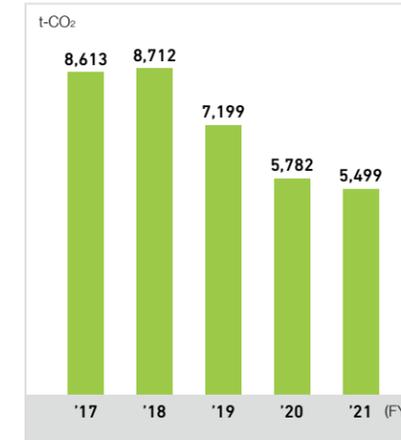
Scope of Data and Aggregation Methods

- Fiscal years 2018 and 2019: 15 domestic companies, fiscal year 2020: 13 domestic companies, fiscal year 2021: 12 domestic companies (SEGA SAMMY HOLDINGS, SEGA GROUP, SEGA, Sammy, SEGA TOYS, TMS ENTERTAINMENT, SEGA SAMMY CREATION, SEGA Logistics Service, Sammy Networks, PHOENIX RESORT, DARTSLIVE, Butterfly)
- Number of employees indicates consolidated Group figures
- Hiring of Persons with Disabilities indicates the number of persons with disabilities hired by Group companies to which the Employment Rate System for Persons with Disabilities is applicable.

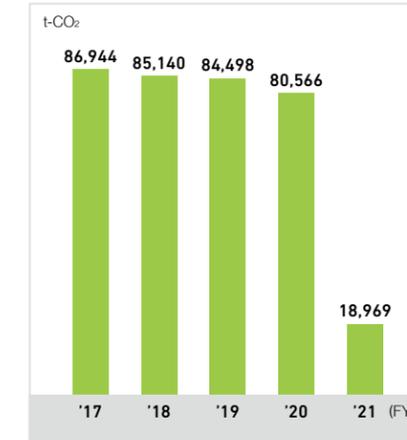


Environmental Data

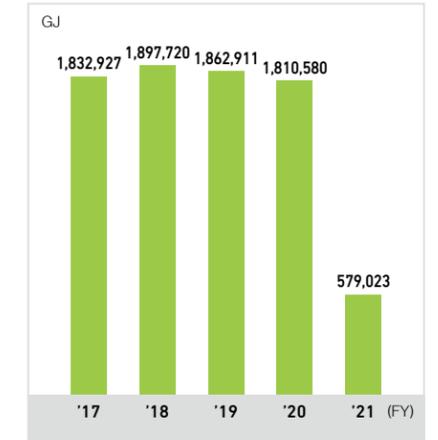
CO₂ Emissions (Scope 1)



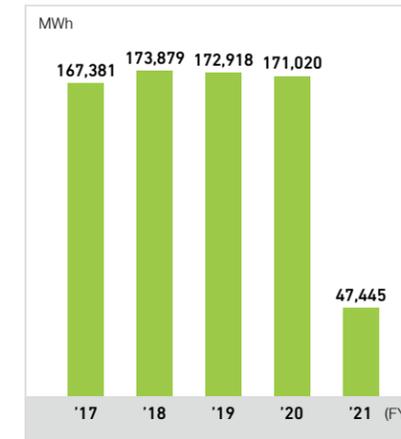
CO₂ Emissions (Scope 2)



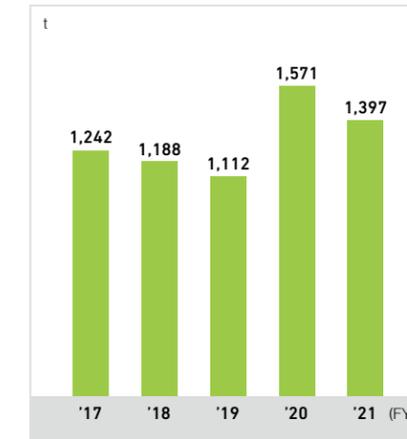
Total Energy Input



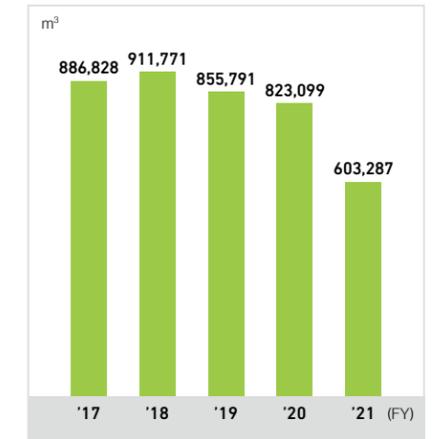
Electricity Usage



Industrial Waste Discharge



Water Usage



Notes 1: Some data estimated based on total floor area
2: Decline in CO₂ emissions mainly reflects reductions in the use of fuel and electricity
3: Coefficient for CO₂ emissions from purchased electricity: Adjusted emission coefficients for each electricity provider for the fiscal year prior to each reporting fiscal year

Number of violations of environmental laws and regulations

	2019	2020	2021 (FY)
Number of violations	0	0	0

Environmental Indicators at Sammy's Kawagoe Factory

	2019	2020	2021 (FY)
Pachinko and pachislot machine recycle rate (total for pachinko and pachislot machines)	95.0	95.4	98.6
Use of environment-friendly raw materials in pachinko and pachislot machines	370	215	29
Of which, PEFC-certified wood	13.8%	3.3%	100%

Scope of Data 11 companies

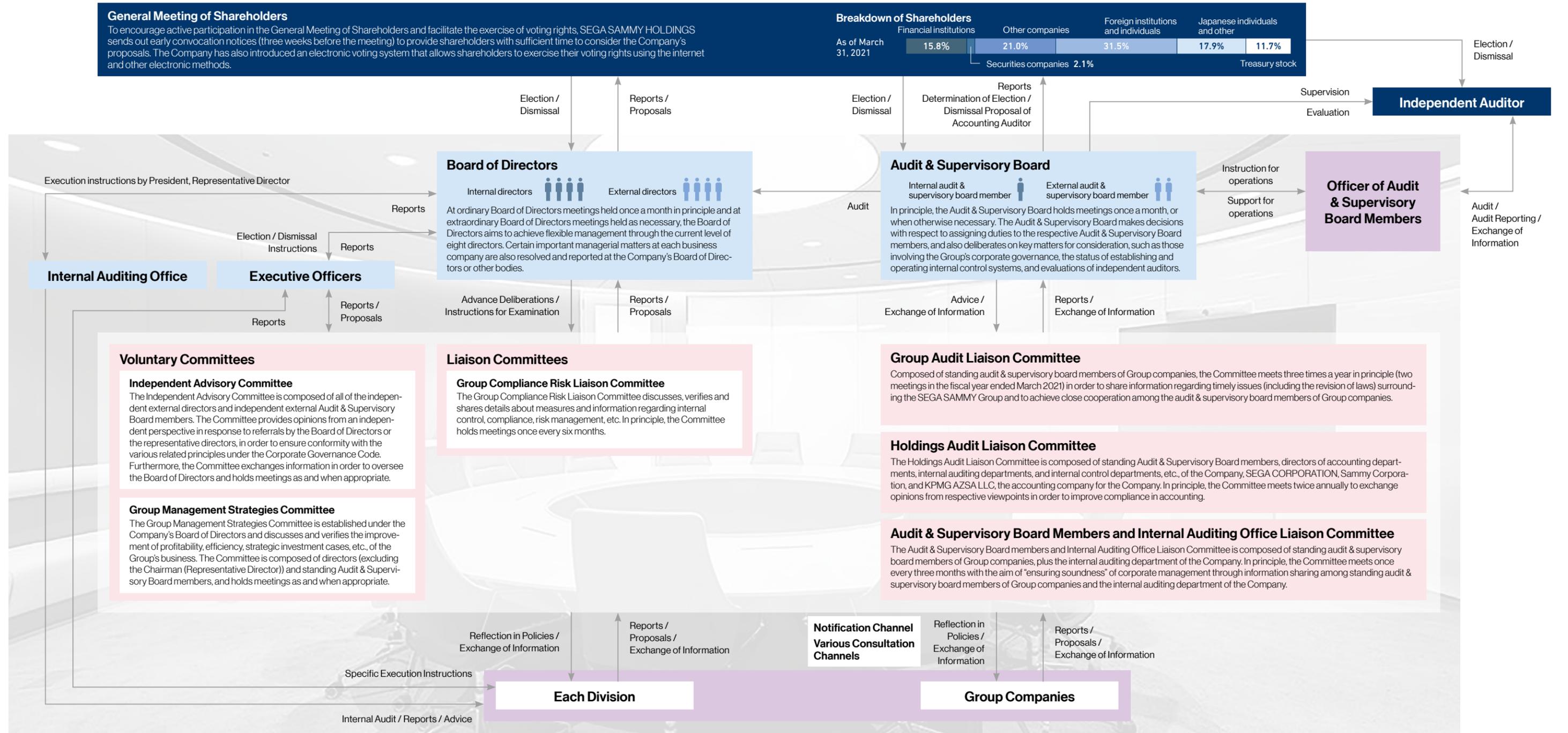
- SEGA SAMMY HOLDINGS INC., SEGA CORPORATION (formerly SEGA GROUP CORPORATION, SEGA Games Co., Ltd., SEGA Interactive Co., Ltd.), Sammy Corporation, DARTSLIVE Co., Ltd., PHOENIX RESORT CO., LTD., Sammy Networks Co., Ltd., SEGA TOYS CO., LTD., TMS ENTERTAINMENT Co., LTD., SEGA Logistics Service Co., Ltd., Sega of America, Inc., Sega Europe Ltd.

Basic Principles Regarding Corporate Governance

The SEGA SAMMY Group positions corporate governance as the most important foundation for facilitating good corporate behavior. The Group has the aim of “improving efficiency,” “securing soundness” and “enhancing transparency” of corporate management as its “basic policy for corporate governance”; based on which the Group has made determinations on important management issues, including appointment of director candidates, determination of directors’ compensation, oversight of management, and determination of auditors’ compensation.

Corporate Governance System

The SEGA SAMMY Group has adopted an Audit and Supervisory Board member system to enable directors to make prompt, optimal decisions amid volatile business conditions, based on their wealth of expertise and experience regarding the industry, market trends, products, merchandise, and services. At the same time, we have appointed external directors and strengthened our executive officer system and internal auditing system, thereby reinforcing corporate governance with respect to operational management and oversight. In addition, starting from January 2010, the Company has selected two external Audit & Supervisory Board members as independent directors from the perspective of protecting the interests of ordinary shareholders, in order to further enhance management transparency.



Corporate Governance Q&A

Basic Principles Regarding Corporate Governance

Improving Efficiency

By establishing a rapid and appropriate decision-making process and improving the efficiency of corporate management, the Company aims to maximize its corporate value, thereby striving to provide appropriate returns to various stakeholders, including shareholders.

Securing Soundness

Amid drastic changes in the business environment, in order to maximize corporate value, the SEGA SAMMY Group will accurately identify and manage the various risks facing the Group, and will ensure sound management through the establishment of a system (compliance system) to ensure compliance not only with laws and regulations but also with ethical and social norms.

Enhancing Transparency

Given the increasing importance of information disclosure for companies, the SEGA SAMMY Group will fulfill its accountability to stakeholders, including shareholders, and will further improve disclosure by proactively engaging in IR activities, thereby aiming to develop highly transparent management of the Group.

Q What policies and reasons support the selection of external directors and external Audit & Supervisory Board members?

A The Company selects external directors from among managers, etc., who are expected to (i) provide advice on how to enhance the corporate value of the SEGA SAMMY Group from external perspectives, and (ii) provide oversight functions over the execution of duties by directors, based on their deep insight and extensive experience.

The Company has eight directors, four of whom are external and independent directors, as well as three Audit & Supervisory Board members, two of whom are external Audit & Supervisory Board members and independent directors. At the various meetings that they attend, external directors and external Audit & Supervisory Board members provide guidance and advice based on their abundant experience and highly specialized knowledge.

Selection Policy

The Company selects external directors from among managers, etc., who are expected to (i) provide advice on how to enhance the corporate value of the SEGA SAMMY Group from external perspectives, and (ii) provide oversight functions over the execution of duties by directors, based on their deep insight and extensive experience. The Company understands that external Audit & Supervisory Board members play an important role in realizing a corporate governance system which improves the neutrality and independence of the auditing system, and thus, selects external Audit & Supervisory Board members who have significant expertise and experience in a wide range of fields, and from whom it is expected that the soundness of the management can be secured by conducting auditing from a neutral and objective standpoint.

Principles Regarding Independence

The Company determines the independence of external directors and external Audit and Supervisory Board members based on criteria such as "significant business partners" and "large monetary amounts," which are cited in the independence criteria stipulated by the Tokyo Stock Exchange (TSE), with reference to the publicly announced standard model for appointing independent directors and based on said criteria. We deem that persons satisfying the requirements of said criteria do not have conflicts of interest with ordinary shareholders.

Reasons for Appointment of External Directors

Kohei Katsukawa

Corporate manager (Financial institutions)

To reflect Mr. Katsukawa's wealth of experience and extensive expertise in the financial field in the Company's business management.

Melanie Brock

Corporate manager (International business)

To reflect Ms. Brock's wealth of experience and extensive expertise as an international business leader, backed by her diverse views and values as a woman and non-Japanese director, in the Company's business management.

Naoko Murasaki

Corporate manager (Risk consulting)

To reflect Ms. Murasaki's wealth of expertise in the field of global risk and governance, which she gained over many years in the National Police Agency, the Ministry of Foreign Affairs and risk consulting firms, in the Company's business management.

Fujiyo Ishiguro

Corporate manager (Digital field)

To reflect Ms. Ishiguro's wealth of knowledge in corporate management and the digital field as a founder of Netyear Group Corporation in the Company's business management.

Reasons for Appointment of External Audit & Supervisory Board Members

Kazutaka Okubo

To reflect Mr. Okubo's wealth of expertise and extensive experience in auditing work as a certified public accountant in the Company's auditing.

Shione Kinoshita

To reflect Ms. Kinoshita's wealth of experience and extensive expertise as an attorney in the Company's auditing.

Q What kind of training and support do you provide to directors and Audit & Supervisory Board members?

A We run training sessions and provide opportunities to participate in external seminars.

At the time they assume office, directors and Audit & Supervisory Board members are provided with opportunities to participate in internal orientation sessions and training sessions with the purpose of acquiring knowledge on the roles and responsibilities expected of directors and Audit & Supervisory Board members of a listed company, as well as knowledge regarding related laws and regulations and compliance. Then,

after assuming office, directors and Audit & Supervisory Board members are continuously provided with further opportunities to acquire and enhance necessary or new knowledge, including participating in training sessions provided by external lecturers such as attorneys and experts in each area, for example, after the conclusion of a Board of Directors meeting.

In addition, the Company encourages each director and Audit & Supervisory Board member to voluntarily improve their skills by participating in external seminars and lectures sponsored by organizations to which the Company belongs, and provides support in paying the necessary expenses.

Q What is your policy on strategic shareholdings?

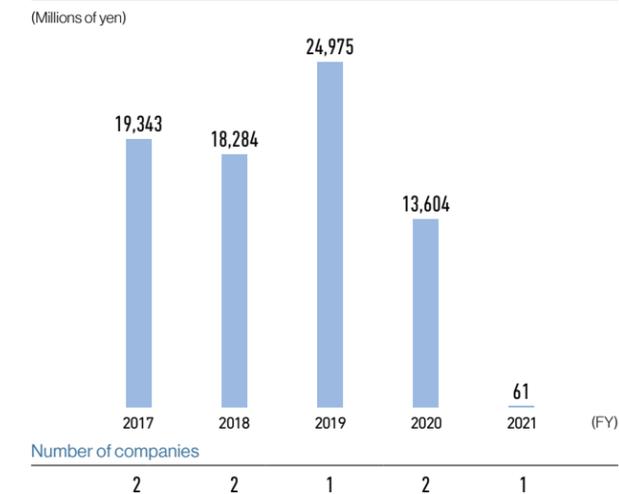
A Strategic shareholdings are limited to cases that are deemed to provide benefits to all shareholders by increasing corporate value.

The Company holds shares for purposes other than pure investment only in cases where the Company considers that holding the shares will enable a business alliance, the expansion of transactions, etc., and will lead to an improvement in corporate value, thereby benefitting shareholders.

In terms of methods for assessing the rationale for shareholdings, the Company examines economic rationale, future outlook, etc., on a periodic basis at Board of Directors meetings to determine whether it is beneficial to continue holding shares.

In addition, the Company comprehensively assesses the suitability of shareholdings based on quantitative evaluation to confirm current and future profitability and qualitative evaluation to ascertain progress against shareholding objectives.

Value of strategic shareholdings (excluding non-listed stocks)



Q What internal control systems related to financial reporting are you creating and maintaining?

A We have put in place evaluation and reporting mechanisms that ensure reliable financial reporting.

The Group started the Group Internal Control project during the fiscal year ended March 2006, established a scheme for evaluating and reporting of the internal control system required for corporate groups under the system of "Evaluation and Auditing of Internal Control Relating to Financial Reporting" (the Japanese Version of the "SOX Act") as stipulated in the Financial Instru-

ments and Exchange Act, and remedied inadequacies discovered in the course of conducting the evaluation. As a result, efforts for ensuring trust/reliability in financial reporting have been conducted, thereby resulting in the Company's judgment of having achieved effective internal control relating to the financial reporting of the Group for the fiscal year ended March 2021. For the future as well, the Company will strive to ensure continuing trust/reliability in financial reporting, as well as maintaining and developing the internal control system, taking into consideration issues such as improving efficiency and ensuring soundness.

For more details, please see the Corporate Governance Report on our corporate website. <https://www.segasammy.co.jp/english/media/file/pr/corp/governance/governance.pdf>

Q What steps are you taking to assess the effectiveness of the Board of Directors?
A The Company aims to further improve the effectiveness of the Board of Directors by enhancing the Board's capabilities.

At the Company, the Independent Advisory Committee, composed of independent external directors and independent external Audit & Supervisory Board members, shall perform analysis and evaluation each year, regarding the matters considered as important in the effective fulfillment of the Company's Board of Directors' roles and responsibilities (such as the size, composition, operating manner, status of deliberations, and support system of the Board of Directors).

For the fiscal year ended March 2021, the Company provided questionnaires to all directors and Audit & Supervisory Board members and, based on the results thereof, the Independent Advisory Committee performed an analysis and evaluation and reported at the regular Board of Directors meeting held in May 2021, that, while the Company's Board of Directors tends to place more importance on decision-making for individual proposals, it has reinforced the management oversight and supervisory functions by allocating three External Directors with diverse backgrounds, and that

it was therefore confirmed that the effectiveness of the Company's Board of Directors had been secured.

Regarding the composition of the Board of Directors, the Independent Advisory Committee recognized that members are appointed in a diverse and well-balanced manner, and that the ratio of External Directors is generally at an appropriate level.

Regarding the operation of the Board of Directors, while the Independent Advisory Committee recognized that the Group Management Strategies Committee, which includes external directors, effectively functions as a body to provide sufficient information and discuss in advance of institutional decisions, and that a mechanism for each director to make appropriate decisions in place, there were suggestions for efficient operation, such as those calling to increase opportunities for progress reports and post-reporting of important projects, as well as to devote more time to questions and discussions through rigorous time management and to review the standards for submission of agenda matters including the delegation of authority to the CEO.

Based on the foregoing evaluation of effectiveness, the Board of Directors shall strive to further improve the functions of, and enhance the effectiveness of, the Board of Directors.

(Representative Director) of the Company and the Chief Financial Officer or others, attend briefing sessions on the settlement of accounts and actively engages in direct interactions.

- For shareholders and investors, IR & SR personnel and the executive officer in charge of IR & SR hold an individual meeting after the quarterly disclosure of operating results. In addition, in line with the direction of the Company, small conferences, etc., may also be held as appropriate.
- For overseas shareholders and investors, the Representative Director of the Company, the Chief Financial Officer or others individually provides opportunities to have dialogues multiple times per year.
- Regarding the status of dialogue with shareholders and investors, the Company promptly provides feedback on a regular basis or as needed to the

Representative Director, Chief Financial Officer and other directors and executive officers, and strives to utilize that information for the sustainable growth and medium-to-long-term corporate value enhancement of the Company.

- In accordance with the basic view that shareholders should be equally treated, when engaging in dialogue with shareholders with respect to the handling of unpublished important matters, regardless of whether it is a briefing session on the settlement of accounts or any other type of meeting, the Company endeavors to manage information in accordance with related laws, including the Financial Instruments and Exchange Act and the "Insider Trading Prevention Regulations" which are internal regulations aimed at preventing insider trading.

Q What are the material risks across its business the Company identifies and the steps it is taking to address those?
A The Group Compliance Risk Liaison Committee leads the Company's efforts to address risks.

The Group has established the Group Compliance Risk Liaison Committee to discuss, verify and share details about measures and information regarding internal control, compliance, risk management, etc.

The Committee carries out cross-mapping by investigating the level of impact and the possibility of occurrence for latent risks in the Group. The Committee then performs risk evaluation and reports its results, which includes examining appropriate countermeasures for those risks, to the Board of Directors, where those risks are discussed. The risks that have been determined by the Group Compliance Risk Liaison Committee as being particularly significant are described below.

Board of Directors	Meeting Attendance	Main Activities
Board of Directors convened	13 times	
External directors		
Takeshi Natsuno	Attended 13 of 13 meetings	Mr. Natsuno principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
Kohei Katsukawa	Attended 12 of 13 meetings	Mr. Katsukawa principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
Melanie Brock	Attended 13 of 13 meetings	Ms. Brock principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
(External directors' attendance)	97%	
External Audit & Supervisory Board members		
Mineo Enomoto	Attended 12 of 13 meetings	Mr. Enomoto principally provided opinions based on his professional insight as an attorney, provided expert opinions on business management, and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
Kazutaka Okubo	Attended 12 of 13 meetings	Mr. Okubo principally provided specialist opinions about financial accounting and internal control systems and opinions on business management based on his professional insight as a certified public accountant, and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
(External Audit & Supervisory Board members' attendance)	92%	

* Above information accurate as of March 31, 2021

Q Please tell us about the Company's dialogue with shareholders and other investors.
A The Company actively discloses information to help all investors make informed investment decisions.

In order to facilitate constructive dialogue with shareholders and investors, the Company has a basic position of appointing an executive officer in charge of Investor Relations (IR) & Shareholder Relations (SR), establishing a department in charge of IR & SR, and

addressing the following issues.

- In facilitating constructive dialogue with shareholders and investors, the Company implements measures to ensure close and positive cooperation between and among internal departments, such as the corporate planning, finance and accounting, legal affairs, and general affairs departments.
- In line with the quarterly disclosure of operating results, the Company holds online briefing sessions mainly targeting institutional investors. The President

Risk item	Summary	Main measures
Compliance and legal violations	<ul style="list-style-type: none"> • Risks related to obstructions in acquiring integrated resort operating licenses due to compliance and legal violations, and license cancellation by the Nevada State Gaming Commission • Violation of rights of third parties by way of the products or services provided by the Group • Malfunctions of products manufactured by the Group • Risk of damage to brand image due to litigation arising from unexpected complaints from users, etc. 	<ul style="list-style-type: none"> • Implement Group compliance measures through the establishment of a dedicated office • Spread knowledge of the "Corporate Ethics Hotline" • Signed up to "Whistleblowing System Certification (System for self-declaration of conformity)" • Activities to prevent involvement with anti-social forces (1) As Groupwide measures against anti-social forces, each Group company has implemented rules and conducts background checks when entering into transactions (2) Implement background checks when necessary for other existing transactions
Disasters	<ul style="list-style-type: none"> • Risks of greater-than-anticipated physical damage or casualties among personnel at the headquarters, operating bases, or manufacturing bases of Group companies or those of the Group's business partners due to large-scale natural disasters – such as earthquakes, fires, or floods – or terrorist attacks. 	<ul style="list-style-type: none"> • Establish crisis management rules, identify inherent risks in business activities, take steps to mitigate risks and prevent crises as a matter of normal practice, as well as establish and maintain systems to respond immediately to major crises
Information security	<ul style="list-style-type: none"> • External attacks such as hacking • Malfunction and other failure of information system due to computer virus, etc. 	<ul style="list-style-type: none"> • Implement strengthening activities, educational activities and monitoring activities for security governance at each Group company • Implement precautionary measures (surveillance and monitoring) and follow-up measures (incident reporting), and implement vulnerability diagnosis, etc. • Strengthen security surveillance tools
Outbreaks of infectious diseases	<ul style="list-style-type: none"> • Suspension of business functions due to outbreaks within the Company 	<ul style="list-style-type: none"> • In response to the COVID-19 pandemic, the Company has formulated and implemented Group policies in accordance with national and local government policies and rigorously implemented measures to prevent the spread of infection. • Promote teleworking

Q What amounts of compensation does the Company pay directors and Audit & Supervisory Board members and how is compensation calculated?

A The Company's compensation system for directors and Audit & Supervisory Board members is designed to ensure transparency and provide greater incentive to increase corporate value.

The compensation system for directors (excluding external directors) is determined based on the following basic policy.

- 1 The system must increase management's focus on shareholder interests and sharing value with shareholders.

- 2 The system must clarify the responsibilities of management in improving the corporate value of the Group.
- 3 The system must function as an incentive to support the sustained growth of the Group.
- 4 The system must have compensation levels for ensuring and maintaining excellent human resources appropriate for executing the roles and responsibilities of directors of the Company.

In addition, based on the basic policy, the compensation system for directors of the Company (excluding external directors) includes director's bonuses as fixed compensation and stock compensation with restriction of transfer as performance-based compensation.

Fixed compensation

A compensation table shall be formulated specifying the compensation amounts for each component, namely, basic compensation and role-based compensation, and the Company shall provide the sum of these components as monthly fixed compensation.

Directors' bonuses

Directors' bonuses are paid at the amount determined by multiplying the above fixed compensation by coefficients calculated based on a bonus table that defines the number of months for directors' bonuses in accordance with the three elements of the level of the amount of ordinary income, the business plan achievement level, and the year-on-year growth level.

Stock compensation with restriction of transfer

The Company has introduced a stock compensation plan with restriction of transfer (continuous service-based and performance-based stock compensation) for directors (excluding external directors) to incentivize efforts to continuously increase corporate value and to further enhance the sharing of value with all shareholders. Specific payments and allocations are determined using a ratio of approximately 1:1:1 for fixed compensation for a single fiscal year, performance-based bonuses for a single fiscal year, and stock compensation with restriction on transfer at the time the medium-term management plan is achieved.

In the current medium-term management plan, the ratio of continuous service based shares with restriction on transfer and performance-based shares with restriction on transfer is expected to be approximately 1:3.

 For more details about the Company's compensation system for directors and Audit & Supervisory Board members, please refer to the Annual Securities Report (Japanese only). https://www.segasammy.co.jp/japanese/ir/library/pdf/printing_yuhou/2021/202103_4q_yuho.pdf

Compensation for directors and Audit & Supervisory Board members for the fiscal year ended March 2021 is as follows.

Position	Number of Directors / Audit & Supervisory Board members	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)		
			Basic compensation	Bonus	Stock with restriction of transfer
Directors	Internal	6	544	—	—
	External	4	46	—	—
Audit & Supervisory Board members	Internal	1	18	—	—
	External	2	20	—	—

Notes: 1. With regard to the above basic compensation, the Company has decided to reduce the compensation of directors and executive officers in line with management performance in the current fiscal year and in order to clarify management responsibility as pertains to voluntary retirement in line with structural reforms. The reduction is reflected in the above basic remuneration. (Relevant persons and details of reduction) Representative Director: 30% of basic monthly compensation
 Director, Senior Executive Vice President: 20% of basic monthly compensation
 Director, Senior Vice President: 10% of basic monthly compensation
 (Applicable period) November 2020 to March 2021 (5 months)
 2. As of March 31, 2021, the Company had eight directors (including three external directors), and four Audit & Supervisory Board members (including two external Audit & Supervisory Board members). These figures differ from the number of individuals mentioned above due to the inclusion of two retired directors (including one external director) at the conclusion of the ordinary general meeting of shareholders held on June 24, 2020. The Company also has one Audit & Supervisory Board member who serves without compensation.

Directors who received ¥100 million or more in total compensation for the fiscal year ended March 2021 is as follows.

Name	Position	Total compensation, etc. (Millions of yen)	Company	Total compensation by type (Millions of yen)		
				Basic compensation	Bonus	Stock with restriction of transfer
Hajime Satomi	Director	241	The Company	241	—	—
Haruki Satomi	Director	147	The Company	147	—	—



INTERVIEW

External Director Interview

Kohei Katsukawa

I've gained a range of knowledge through many years in the financial sector, working on the ground in finance. The SEGA SAMMY Group is moving into a pivotal period, like a second founding. Drawing on my experience and perspective, I will do all that I can in terms of offering oversight and advice to help accelerate this vital process.

Q1. Tell us about your role as an external director. Where are you placing your focus?

As an external director, I seek to give advice from a medium- to long-term and big-picture vantage point on the ways in which the social and economic environment will change. I think I have ample opportunities to draw on the experience I've gained to offer advice to Board of Directors meetings and the Management Strategy Committee meeting regarding the direction of the Group's strategies and the optimal form of management. I've spent many years in the financial sector, and was exposed to an array of businesses with corporate clients during my tenure at a bank. I've gained a range of knowledge in the area of loans in particular, learning for instance that credit decisions are made by paying attention not only to the financial situation of a company but also to intangible assets, such as the determination of top management, the corporate culture, employee awareness, and sources of business. As stakeholder-oriented management has moved into the mainstream, I think my experience and perspective will be useful to discussions in Board of Directors meetings and the Management Strategy Committee and other venues.

Q2. How do you rate SEGA SAMMY's governance framework and operation?

One characteristic of the governance system is the setting up of the Group Management Strategy Committee, made up of internal and external directors and members of the Audit & Supervisory Board, to provide a forum for discussion leading up to Board of Directors meetings. This committee spends adequate time talking over business conditions and management plans, confirming and sharing agendas, before agenda items are deliberated on at Board of Directors meetings. In particular, we pay attention to and oversee the various indicators presented in the committee. Indicators include financial accounting, HR issues, compliance, and others. I and the other external officers analyze these indicators, and if there are any outliers that clearly diverge from the figures of other companies, we continue to ask questions until we are satisfied with the explanation. Such outliers always indicate that a company is struggling with some kind of issue, and sometimes even reflect serious damage to corporate value. So that such issues don't get overlooked, I believe it is crucial to have outside views from many different angles based on diverse skills and experiences in management, finance, legal affairs, and other areas. In June 2021, the Board's diversity was further enhanced with the addition of new external directors from different career backgrounds. From the point of view of the Group's risk governance, I believe such diversity in the Board of Directors meeting will become increasingly important.

Q3. The SEGA SAMMY Group has identified the environment, addiction, people, products and services, and governance as material issues. What points are you looking at in particular?

I'm paying particular attention to people. No company moves forward simply by systematizing its organization. A business grows by the autonomous action of employees. A company whose employees take a passive attitude and feel they are being "forced" to do things can only go so far. On the other hand, an organization in which every employee has a sense of purpose and wants to contribute to society through their work can bring out its strengths in any environment. It is up to management, therefore, to foster an atmosphere that encourages employees to take on challenges willingly without fear of failure.

At the same time, creating a diverse organization will become more and more critical for future growth and is an area that should be further reinforced. This has come up in Management Strategy Committee meetings as a high-priority issue that requires an urgent response. Also, two women began taking part in these meetings as new directors in 2021. This, plus the fact that three out of eight directors are women, gives me the sense that management of the Group is serious about increasing diversity. The same can be said for Group employees. Businesses in the Consumer area require the development of products for a broad range of users, so I am certain this area will benefit from the viewpoints and ideas of a diverse range of personnel.

Regarding personnel outside Japan, since the SEGA brand is so widely recognized abroad, my sense is that we have a solid foundation from which to recruit talented people compared to competitors. At present, there are numerous cases where overseas subsidiaries are under the leadership of foreign managers. But if the Group is aiming for 50% or more of sales to come from overseas over the medium to longer term, it will be essential to assign people to key posts not based on Japanese nationality but on criteria about who is the right person for the right position, and to give opportunities to foreign employees.

Along with such diversity, if a spirit of trial and error can take root and people feel free to take on new and greater challenges, I am confident that this will feed into substantial growth for the Group.



I am convinced that the SEGA SAMMY Group will become a stronger, more trusted company going forward.



Q4. Tell us your expectations for the SEGA SAMMY Group going forward, and what challenges you see.

As COVID-19 continued on through the spring of 2020, many businesses were forced to curtail operations, and the situation not only for SEGA SAMMY but all companies remained unpredictable. Amid these circumstances, the Group was able to avoid the worst-case scenario through swift financing measures and structural reforms.

The next phase for the Group is growth further down the road. It is critical to anticipate the post-pandemic business environment and work to fully meet emerging demand. The new medium-term plan announced in May 2021 made clear the path the Group should take and delineated the tasks needed to get there. I believe the driving force behind the success of the plan is the value included in the Mission Pyramid: "Creation is Life" x "Always Proactive, Always Pioneering." The point is to foster a corporate culture that allows employees to pursue a process of trial and error. On the other hand, I feel the Group needs to create a corporate climate that discourages people from being content with past successes or shying away from challenges or taking actions that don't bear fruit. To do this calls for the establishment of robust HR and evaluation systems.

Also, while SEGA SAMMY boasts a large number of amazing IPs and a globally recognized brand, it is unfortunate that the Group has not effectively capitalized on these management resources. This is probably a factor of a lack of awareness and initiative about leveraging resources held by the Group across different business areas. If the Group can deal proactively with these issues, this will eventually lead to enhanced corporate value and win the trust of investors and other stakeholders.

Haruki Satomi was appointed as the new CEO in April 2021. He is young and full of vitality and has a global outlook. Haruki is someone who played a central role in the structural reforms in 2020 and who is determined to achieve the goals of the new medium-term plan. That's why I feel that the Group under his leadership as CEO is moving into a pivotal period, like a second founding. I am convinced that the SEGA SAMMY Group, which now stands at a new starting line, will become a stronger, more trusted company going forward. I recognize it is an important responsibility to do all that I can in terms of offering oversight and advice to help accelerate this vital process.

Directors



Hajime Satomi
Chairman
(Representative Director)

- 1980 President (Representative Director) of Sammy Industry Co., Ltd. (now Sammy Corporation)
- 2004 Chairman of the Board (Representative Director) of SEGA CORPORATION
Chairman of JAMMA (JAPAN AMUSEMENT MACHINERY MANUFACTURERS ASSOCIATION) (now Japan Amusement Industry Association) (current position)
Chairman and CEO (Representative Director) of Sammy Corporation
Chairman and CEO (Representative Director) of SEGA CORPORATION
Chairman, President and CEO (Representative Director) of the Company
- 2007 President, CEO and COO (Representative Director) of SEGA CORPORATION
- 2008 Chairman and CEO (Representative Director) of the above
- 2012 Chairman of the Board of Sammy Corporation
- 2013 Chairman and CEO (Representative Director) of the above
- 2015 Advisor to NDK (current position)
- 2016 Chairman, President, CEO and COO (Representative Director) of the Company
- 2017 Chairman and CEO (Representative Director) of the Company
Chairman of the Board (Representative Director) of Sammy Corporation (current position)
Honorary Chairman of the Board of SEGA Holdings Co., Ltd. (now SEGA CORPORATION) (current position)
- 2018 Chairman and Group CEO, Representative Director of the Company
Senior Advisor (Director of the Board) of PHOENIX RESORT CO., LTD. (current position)
- 2021 Chairman, Representative Director of the Company (current position)



Haruki Satomi
President and Group CEO
(Representative Director)

- 2004 Joined Sammy Corporation
- 2005 Joined SEGA CORPORATION
- 2012 Senior Vice President (Director of the Board) of the Company
Senior Vice President (Director of the Board) of SEGA CORPORATION
- 2014 Director of Sammy Corporation
Deputy COO (Representative Director) of SEGA CORPORATION
- 2015 Deputy COO (Representative Director) of Sammy Corporation
- 2016 President and COO (Representative Director) of the above
Executive Vice President (Director of the Board) of the Company
- 2017 President and COO (Representative Director) of the Company
President and CEO (Representative Director) of Sammy Corporation (current position)
Chairman and CEO (Representative Director) of SEGA Games Co., Ltd. (now SEGA CORPORATION) (current position)
- 2018 President and Group COO, Representative Director of the Company
Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
- 2021 President and Group CEO, Representative Director of the Company (current position)
Chairman of the Board of Sammy Networks Co., Ltd. (current position)
Officer of NDK (current position)
Officer of Keizai Doyukai (Japan Association of Corporate Executives) (current position)
Director of Nichiden Patent Co., Ltd. (current position)

Directors (External)



Kohei Katsukawa*1
Director of the Board
(External)

- 1974 Joined Sumitomo Bank (now Sumitomo Mitsui Banking Corporation)
- 2001 Executive Officer, Head of Osaka Corporate Banking Division II of Sumitomo Mitsui Banking Corporation
- 2005 Managing Executive Officer, Deputy Head of Wholesale Banking Unit (in charge of East Japan) of the above
- 2007 Executive Vice President and Representative Director of NIF-SMBC Ventures Co., Ltd. (now SMBC Venture Capital Co., Ltd.)
- 2010 President and Representative Director of SMBC Venture Capital Co., Ltd.
- 2014 President and Representative Director of GINSEN Co., Ltd.
Outside Director of Kyoto University Innovation Capital Co., Ltd. (current position)
- 2016 Director of the Board (External) of the Company (current position)
Special Advisor of GINSEN Co., Ltd.
Outside Director of ELECOM CO., LTD. (current position)
- 2017 Director of DX ANTENNA CO., LTD. (current position)
- 2021 Advisor of GINSEN Co., Ltd. (current position)



Melanie Brock*1
Director of the Board
(External)

- 1987 Earned Bachelor of School of Humanities at The University of Western Australia
- 1990 Earned Master of Arts in Japanese, Conference Interpreting and Translation at The University of Queensland
- 2003 CEO of AGENDA (now Melanie Brock Advisory Ltd.) (current position)
- 2010 Board Member of Australia-Japan Foundation
Board Member of Australia-Japan Business Co-operation Committee (current position)
Chair of Australian and New Zealand Chamber of Commerce in Japan
Regional Manager - Japan of Meat & Livestock Australia
- 2012 Chair of Australian Business Asia
- 2016 Chair Emeritus of Australian and New Zealand Chamber of Commerce in Japan (current position)
- 2019 Director of the Board (External) of the Company (current position)
Board Member of Australia-Japan Research Center (AJRC) (current position)
Global Ambassador of Advance, an initiative supported by Australian Government funding (current position)



Koichi Fukazawa
Senior Executive Vice
President and Group CFO,
Director of the Board

- 1990 Joined The Sanwa Bank, Limited (now MUFG Bank, Ltd.)
- 2003 Joined Sammy Corporation
Vice President, Executive Officer and Managing Director of President's Office of the above
- 2004 Vice President, Executive Officer and Managing Director of President's Office of the Company
Vice President, Executive Officer and Managing Director of Chairman's Office and President's Office of SEGA CORPORATION
- 2005 Senior Vice President (Director of the Board) and Managing Director of Chairman's Office and President's Office of the above
- 2007 President (Representative Director) of SEGA SAMMY ASSET MANAGEMENT INC. (now MARZA ANIMATION PLANET INC.)
Vice President, Senior Executive Officer in charge of the Corporate Strategy and External Affairs of the Company
- 2008 Senior Vice President (Director of the Board) and Managing Director of New Business Division of SEGA CORPORATION
- 2009 Officer of Keizai Doyukai (Japan Association of Corporate Executives) (current position)
President (Representative Director) of SEGASAMMY VISUAL ENTERTAINMENT INC. (now MARZA ANIMATION PLANET INC.)
- 2014 Senior Executive Vice President (Representative Director) of SEGA TOYS CO., LTD.
- 2015 Senior Vice President (Director of the Board) of the Company
- 2016 Executive Vice President and CFO (Director of the Board) of the Company
- 2018 Executive Vice President and Group CFO (Director of the Board) of the Company
- 2020 Senior Executive Vice President and Group CFO, Director of the Board of the Company (current position)
- 2021 Senior Vice President (Director of the Board) of Sammy Corporation (current position)



Hideo Yoshizawa
Senior Vice President,
Director of the Board

- 1987 Joined Japan Leasing Corporation (now Sumitomo Mitsui Finance and Leasing Co., Ltd.)
- 1999 Manager of Financial Planning Department of the above
- 2001 Joined Sammy Corporation
- 2002 Vice President, Executive Officer and Deputy Managing Director of President's Office of the above
- 2004 Senior Vice President (Director of the Board) and Managing Director of Administration Division of the above
Senior Vice President (Director of the Board) and Managing Director of Corporate Division and President's Office of the above
- 2007 Vice President, Senior Executive Officer of the Company
- 2012 Senior Vice President (Director of the Board) of PHOENIX RESORT CO., LTD.
- 2015 President (Representative Director) of TAIYO ELEC Co., Ltd.
- 2016 Senior Vice President (Director of the Board) of SEGA Holdings Co., Ltd. (now SEGA CORPORATION)
Senior Vice President (Director of the Board) and Managing Director of Corporate Division of the above
Senior Vice President (Director of the Board) of SEGA ENTERTAINMENT CO., LTD. (now GENDA SEGA Entertainment Inc.) (current position)
Auditor of Sega Amusements Taiwan Ltd.
- 2017 Executive Vice President (Director of the Board) and Managing Director of Corporate Division of SEGA Holdings Co., Ltd. (now SEGA CORPORATION)
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION)
- 2018 Vice President, Senior Executive Officer and Managing Director of Legal Division of the Company
- 2019 Director of the Board of the Company
- 2020 Senior Vice President, Director of the Board of the Company (current position)
Senior Vice President (Director of the Board) of SEGA CORPORATION (current position)



Naoko Murasaki*1
Director of the Board
(External)

- 1995 Joined the National Police Agency
- 2001 Northeast Asia Division, Asian and Oceanian Affairs Bureau of Ministry of Foreign Affairs
- 2003 Chief of 2nd Criminal Investigation Division, Criminal Investigation Department of Shizuoka Prefectural Police Headquarters
- 2005 Chief of Foreign Affairs Division, Security Department of Hyogo Prefectural Police Headquarters
- 2006 Foreign Affairs Division, Foreign Affairs and Intelligence Department, Security Bureau of National Police Agency
- 2007 Security Planning Division, Security Bureau of National Police Agency
- 2008 Joined Bain & Company Japan Incorporated
- 2010 Senior Director of Kroll International Inc. (Japan Office)
- 2013 Associate Managing Director of the above
- 2015 Head of Japan of the above
- 2016 Managing Director and Head of Japan of the above
- 2018 President and Representative Director of Noblijer Co., Ltd. (current position)
Senior Advisor of Kroll International Inc. (Japan Office) (current position)
- 2021 Outside Director of Sansai Landic Co., Ltd. (current position)
Director of the Board (External) of the Company (current position)



Fujiyo Ishiguro*1
Director of the Board
(External)

- 1981 Joined BROTHER INDUSTRIES, LTD.
- 1988 Joined Swarovski Japan Ltd.
- 1994 President of Alphametrics, Inc.
- 1999 Director of Netyear Group, Inc.
Director of Netyear Group Corporation
- 2000 President & CEO of the above
- 2013 Outside Audit & Supervisory Board Member of Sompō Japan Insurance Inc.
- 2014 Outside Director of Hottolink, Inc.
Outside Director of Monex Group, Inc. (current position)
- 2015 Outside Director of Sompō Japan Nipponkoa Insurance Inc. (now Sompō Japan Insurance Inc.) (current position)
- 2019 Officer of Keizai Doyukai (Japan Association of Corporate Executives) (current position)
- 2021 Outside Director of WingArc1st Inc. (current position)
Director of Netyear Group Corporation (current position)
Director of the Board (External) of the Company (current position)

*1 Qualified external director as provided in Paragraph 2, Clause 15 of the Companies Act of Japan

Audit & Supervisory Board Members



Yukito Sakaue
Standing Audit & Supervisory Board Member

2003 Joined Sammy Corporation as Director of Audit Office
2004 Director of Legal Department of Administration Division of the above
2006 Director of Audit & Supervisory Board Members' Office of the Company
2014 Audit & Supervisory Board Member of the Company Standing Audit & Supervisory Board Member of SEGA CORPORATION
2015 Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (now SEGA CORPORATION)
2016 Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (now SEGA CORPORATION)
2017 Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION)
2018 Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD.
2019 Audit & Supervisory Board Member of SEGA ENTERTAINMENT Co., Ltd. (now GENDA SEGA Entertainment Inc.)
2020 Audit & Supervisory Board Member of MARZA ANIMATION PLANET INC.
2017 Audit & Supervisory Board Member of ATLUS CO., LTD.
2019 Audit & Supervisory Board Member of SEGA Logistics Service Co., Ltd.
2020 Audit & Supervisory Board Member of DARTSLIVE Co., Ltd. (current position)
2021 Standing Audit & Supervisory Board Member of the Company (current position)



Kazutaka Okubo*2
Audit & Supervisory Board Member (External)

1995 Joined Century Audit Corporation (now Ernst & Young ShinNihon LLC)
2003 Director of ShinNihon Integrity Assurance, Inc. (now Ernst & Young ShinNihon Sustainability Co., Ltd.)
2005 Managing Director of the above
2006 Partner of Ernst & Young ShinNihon (now Ernst & Young ShinNihon LLC)
2012 Senior Partner of Ernst & Young ShinNihon LLC
2016 Senior Executive Board Member of the above
2019 Audit & Supervisory Board Member (External) of the Company (current position)
2020 President and Representative Director of Okubo Associates Inc. (current position)
2021 Outside Director of Sun Frontier Fudusan Co., Ltd. (current position)
2022 Outside Audit & Supervisory Board Member of BrainPad Inc. (current position)
2023 Outside Director of LIFULL Co., Ltd. (current position)
2024 Outside Director of SALA Corporation (current position)
2025 Outside Director of The Shoko Chukin Bank, Ltd. (current position)
2026 Outside Director of Musashi Seimitsu Industry Co., Ltd. (current position)
2027 President and Representative Director of K.K. SS Dnaform (current position)



Shione Kinoshita*2
Audit & Supervisory Board Member (External)

1985 Registered as an attorney at law
2000 Joined Hashimoto Joint Law Office
1986 Joined Daichituyo Law Office (current position)
2004 Vice-President of Dai-ichi Tokyo Bar Association
2010 Visiting Professor of The University of Tokyo Graduate Schools for Law and Politics
2011 Outside Audit & Supervisory Board Member of SURUGA bank Ltd.
2013 Vice President of Tokyo Institute of Technology (current position)
2014 Director of Japan Labor Law Association (current position)
2018 Outside Director of SURUGA bank Ltd.
2021 Audit & Supervisory Board Member (External) of the Company (current position)

*2 Qualified external auditor as provided in Paragraph 2, Clause 16 of the Companies Act of Japan

Executive Officers



Yukio Sugino
Executive Vice President,
Executive Officer



Makoto Takahashi
Senior Vice President,
Executive Officer



Toru Nakahara
Senior Vice President,
Executive Officer



Yoichi Owaki
Senior Vice President,
Executive Officer



Takaharu Kato
Vice President,
Executive Officer



Rei Kudo
Vice President,
Executive Officer



Hironobu Otsuka
Vice President,
Executive Officer

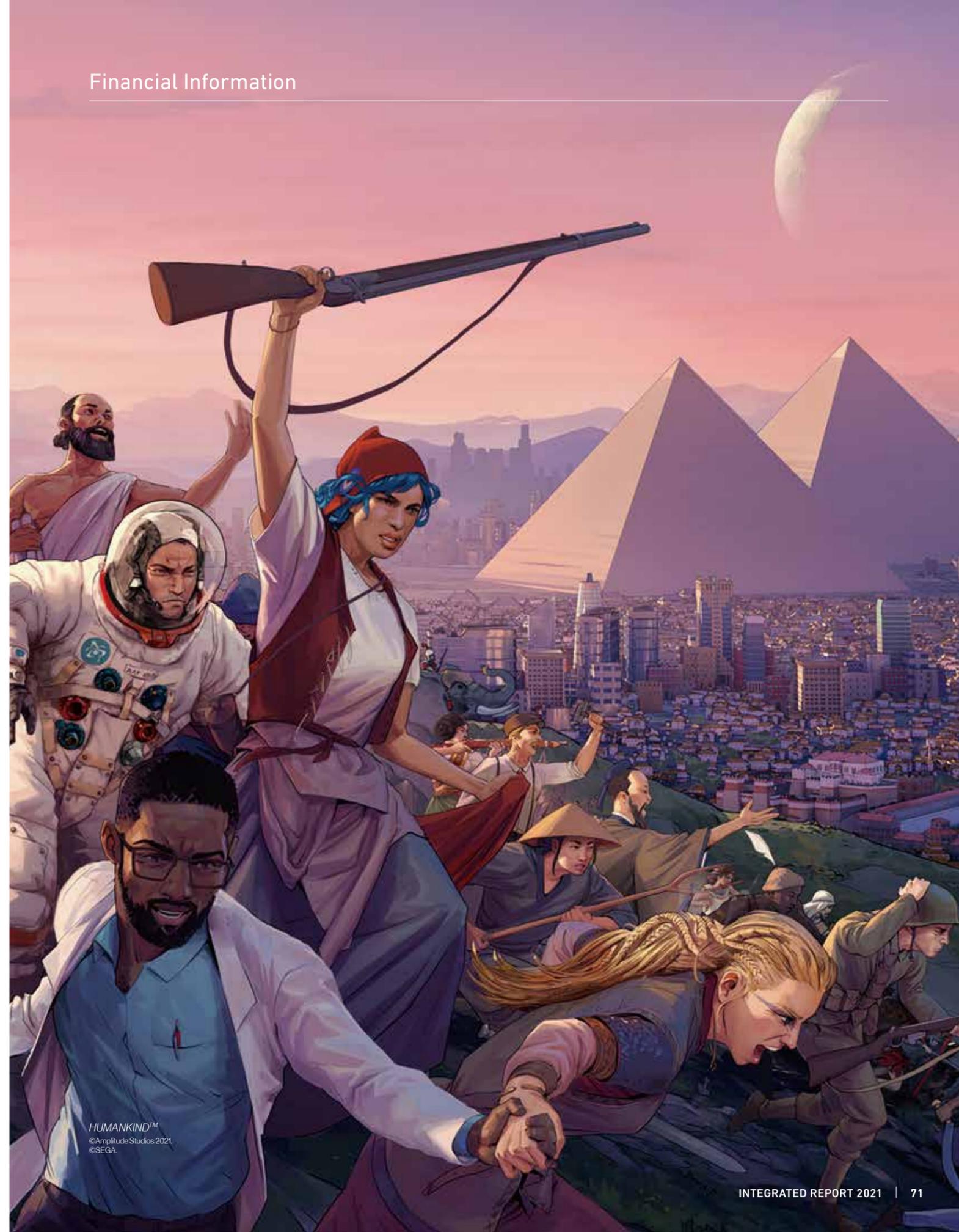


Koji Takeyama
Vice President,
Executive Officer



Yuka Ichiki
Vice President,
Executive Officer

Financial Information



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Consolidated Statements of Income and Comprehensive Income

Long-Term Trends

Sales and profits are rising in the Entertainment Contents Business, supported by an increase in the number of platformer. We forecast sustained growth in the business going forward.

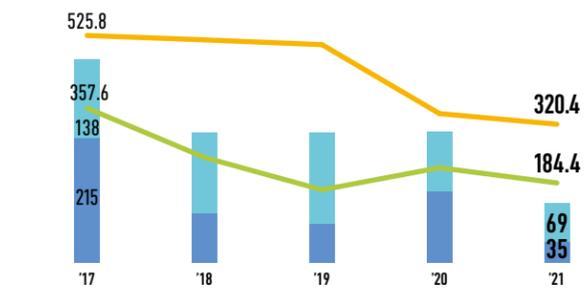
However, sales and profits in the Pachislot and Pachinko Machines Business continue to decline amid major changes in the market environment due to tighter regulations. Despite those challenges, we are moving ahead with an increase in business efficiency, driven mainly by cost improvements.

Main Causes of the Decline in Earnings

Declining Earnings within Existing Businesses amid Market Contraction

SAMMY Unit Sales / Pachislot and Pachinko Market Size

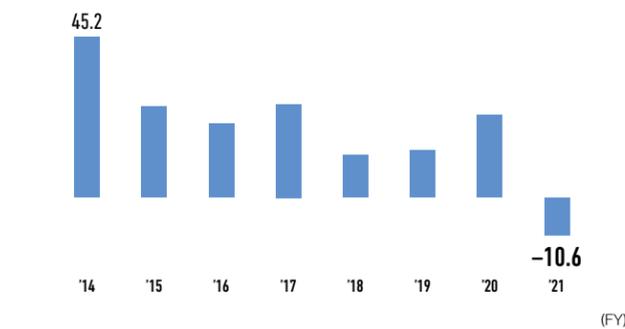
Thousands of units / Billions of yen



■ Pachislot machine unit sales ■ Pachinko machine unit sales (SEGA SAMMY unit sales)
 — Pachislot machine market size — Pachinko machine market size
 (Settlement dates from July to June: Market size)
 Source: Yano Research Institute Ltd. "Pachinko Manufacturer Trends 2021"

Pachislot and Pachinko Machines Business Operating Income

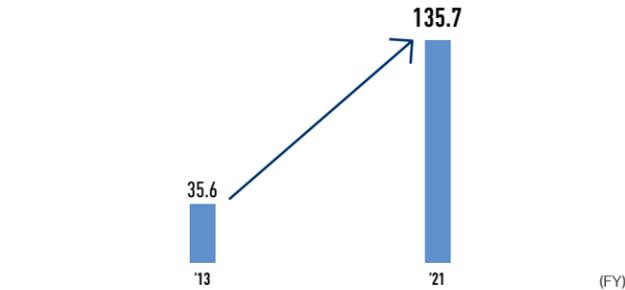
Billions of yen



Improvement in Profitability

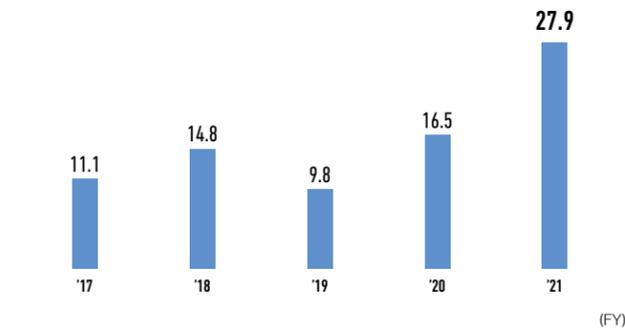
Earning Growth in Consumer Area
Consumer Area Net Sales

Billions of yen



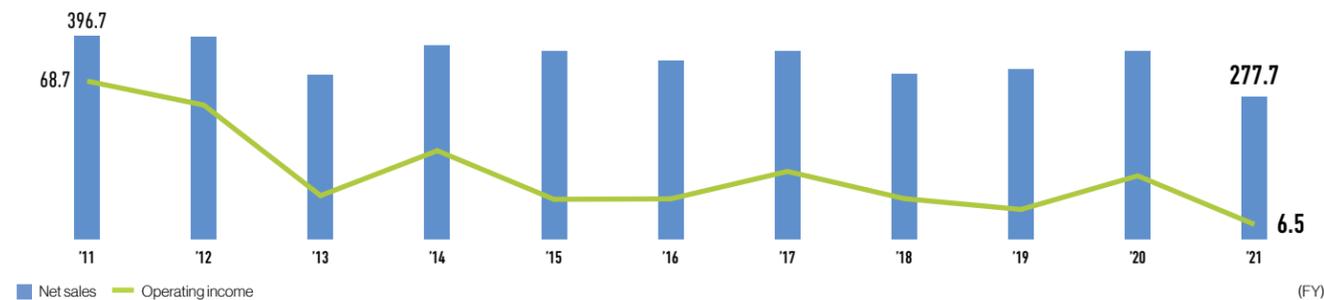
Entertainment Contents Business Profitability Improvement
Entertainment Contents Business Operating Income

Billions of yen



Long-Term Trends in Net Sales and Operating Income

Billions of yen

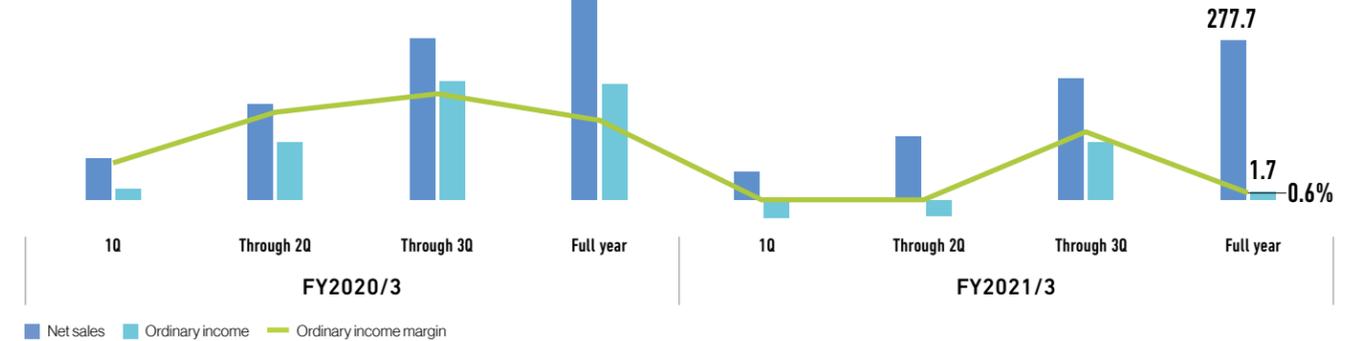


Comparing FY2020/3 and FY2021/3

(FY2021/3)

Net sales: ¥277.7 billion Ordinary income: ¥1.7 billion Ordinary income margin: 0.6%

Billions of yen



Summary of Consolidated Financial Statements

	2020	2021	YoY Change
Net sales	366.5	277.7	-24%
Entertainment Contents Business	247.6	217.8	-12%
Pachislot and Pachinko Machines Business	108.5	53.1	-51%
Resort Business	10.4	6.3	-39%
Other and eliminations	0	0.5	-
Cost of sales	230.0	176.9	-23%
Gross profit	136.5	100.7	-26%
Selling, general and administrative (SG&A) expenses	108.8	94.2	-13%
Operating income (losses)	27.6	6.5	-76%
Entertainment Contents Business	16.5	27.9	69%
Pachislot and Pachinko Machines Business	23.2	-10.6	-
Resort Business	-3.6	-4.1	-
Other and eliminations	-8.5	-6.7	-
Operating income margin	7.5%	2.3%	-5.2pt
Non-operating income	3.2	2.8	-13%
Non-operating expenses	5.5	7.6	38%
Ordinary income	25.2	1.7	-93%
Extraordinary income	3.1	28.8	829%
Extraordinary losses	1.2	40.3	3,258%
Income before income taxes	27.1	-9.8	-
Total income taxes	13.1	-11.7	-
Profit attributable to owners of parent	13.7	1.2	-91%
Cash dividends per share (Yen)	40	30	-
Net income per share (Yen)	58.65	5.42	-
Net assets per share (Yen)	1,251.02	1,236.82	-

Net Sales (Pachislot and Pachinko Machines Business)

Net sales dropped sharply year on year, reflecting a slump in demand for new regulation machines due to an extension of the deadline for the removal of previous regulation machines.

Operating income (Entertainment Contents Business)

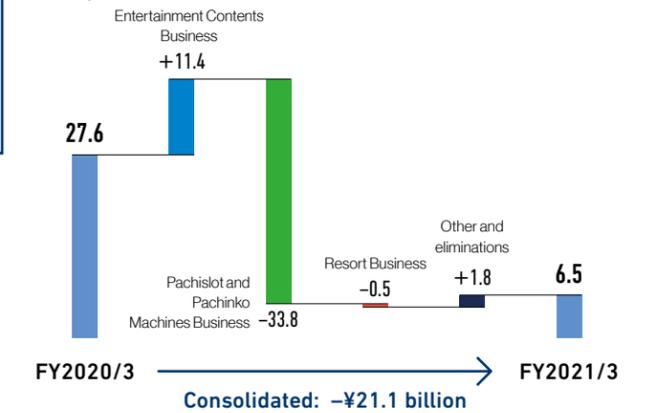
The Consumer area contributed to a large increase in operating income year on year.

Extraordinary income/ losses

Structural reforms resulted in the booking of substantial extraordinary income and losses.

Change in Segment Operating Income (Losses)

Billions of yen



Consolidated Financial Position

Long-Term Trends

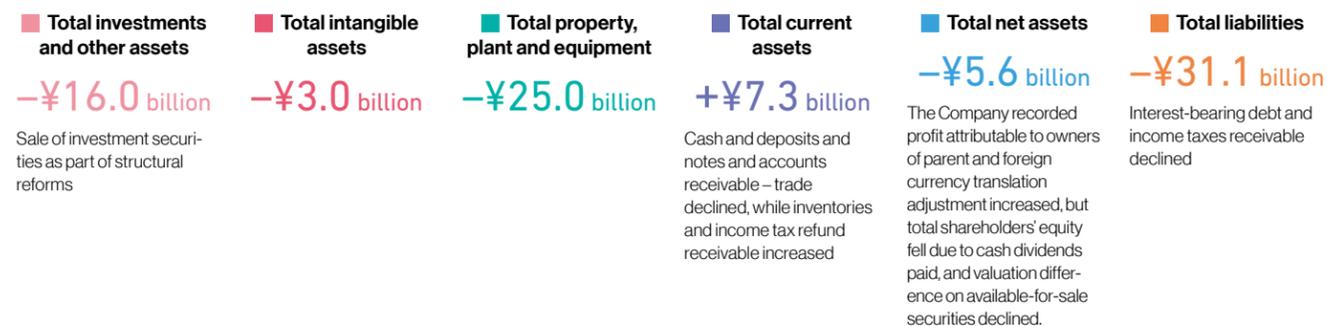
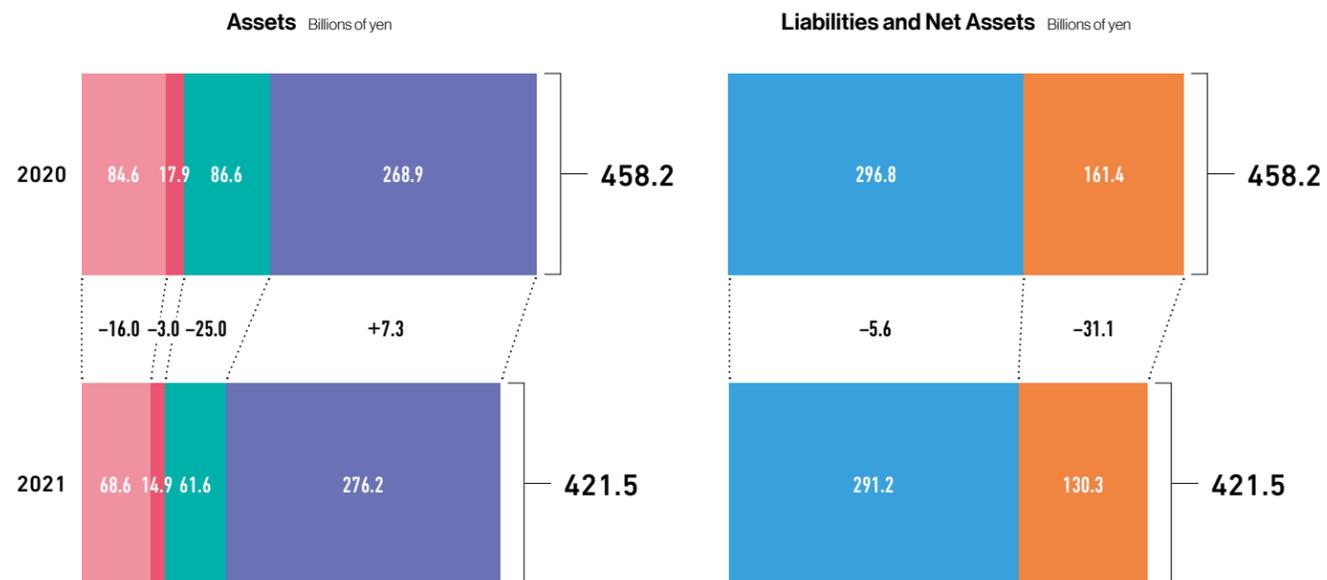
In the fiscal year ended March 2011, total assets started trending upwards due to an increase in goodwill accompanying acquisitions in the Entertainment Contents Business, the Group's initiatives in preparation for participation in the Integrated Resort (IR) business, and an increase in investment securities accompanying new investment in growth areas. In recent years, however, total assets have again been trending downward, reflecting a decrease in cash and deposits accompanying relocation of the head office, a decrease in securities, and the redemption of bonds.

Despite earnings volatility stemming from the presence or absence of hit products, which is the nature of the Group's businesses, the equity ratio remained steady and the Group continued to invest in growth fields and pay stable dividends.

Total Assets and Equity Ratio



Comparing FY2020/3 and FY2021/3

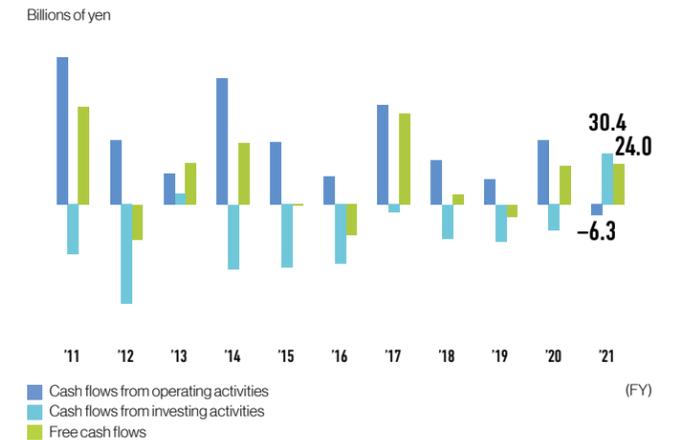


Consolidated Cash Flows

Long-Term Trends

With the exception of certain fiscal periods, the Group has continued to record net cash outflows in investing activities due to M&As in growth areas and strategic investments to raise production capacity. Since the fiscal year 2011, the Group has been investing in organizational restructuring. These efforts included investments to make three listed subsidiaries into wholly owned subsidiaries. In addition, the Group is investing actively in such growth areas as the Integrated Resort (IR) business and the Consumer area. Through a cash management system, the Group uses internal capital efficiently. Also, the Group uses a range of methods to support liquidity and meet investment needs flexibly, including borrowings and bond issuance.

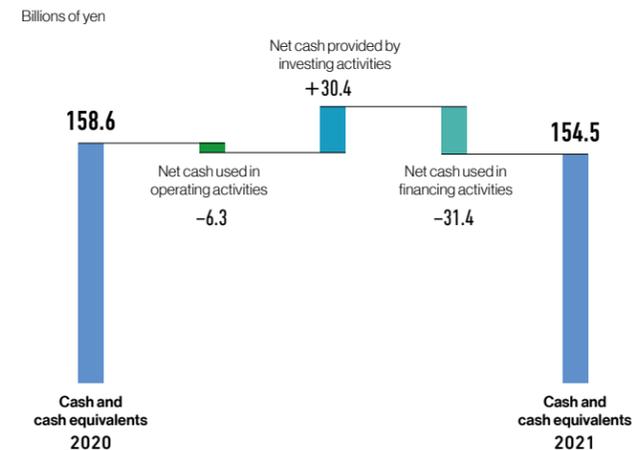
Cash Flows



FY2021/3 Cash Flows

Cash and cash equivalents at the end of the fiscal year ended March 2021 amounted to ¥154,540 million, down ¥4,077 million from the previous fiscal year-end.

Consolidated Cash Flows



Breakdown of Cash Flows

Billions of yen

Cash Flows from Operating Activities	
Loss before income taxes	-9.8
Income taxes paid	-7.5
Extra retirement payments	-7.2
Depreciation and amortization	14.8
Gain on sales of noncurrent assets	15.2
Cash Flows from Investing Activities	
Purchase of property, plant and equipment	-7.3
Proceeds from sales of property, plant and equipment	18.1
Proceeds from sales of investment securities	21.2
Cash Flows from Financing Activities	
Repayment of long-term loans payable	-13.3
Redemption of bonds	-10.0
Cash dividends paid	-7.0

Non-Financial Assets

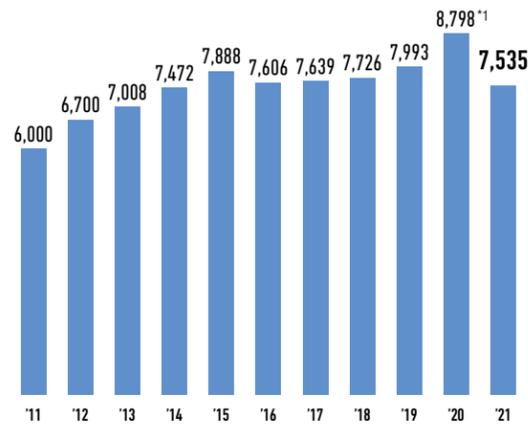
Human Capital

Consolidated Employee Numbers

At the end of the fiscal year ended March 2021, the consolidated number of employees was 7,535, down 1,263 from the previous fiscal year-end due to a voluntary early retirement program as part of structural reforms and the exclusion of a Group company from the scope of consolidation.

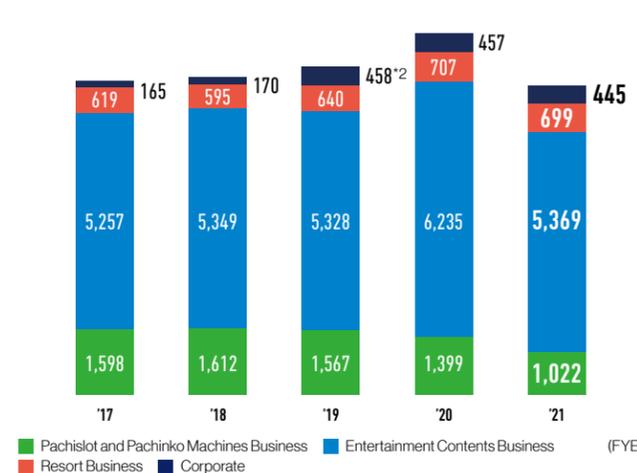
Consolidated Employee Numbers

People



Employee Numbers by Segment

People



*1 Total employees in the Entertainment Contents Business will increase due to the conversion of fixed-term to permanent labor contracts (about 440 people).

*2 Increase in seconded employees due to cross-group organizational restructuring centered on management functions.

IP

R&D Expenses and Content Production Expenses

The Group is actively investing in R&D and content production in order to reinforce its intellectual property – the source of the Group's competitiveness. In recent years, the Group has stepped up its focus on investing in the Consumer area in order to expand its product and service lineup over the medium term. In the fiscal year ended March 2021, R&D and content production expenses were ¥61.9 billion, down ¥14.6 billion year on year, reflecting a decline in the number of new titles.

Reference

Recognition of R&D Expenses and Content Production Expenses by Product and Service

The Group undertakes stable, long-term investment in R&D and content production with the aim of creating and strengthening IPs—which are a source of the Group's competitiveness—and continuously generating earnings. The method and timing of expense recognition differs based on development lead times and product lifecycles.

- A large proportion of expenses associated with full games are incurred in the first three months after launch, so the Group spreads the booking of expenses over a period of 24 months. Free-to-play titles are mainly amortized over a period of 24 months using the straight-line method.

Pachislot and Pachinko Machines Business

Expenses are recognized as they arise (process outsourcing expenses recognized when work is inspected).

Amusement Machine Sales area

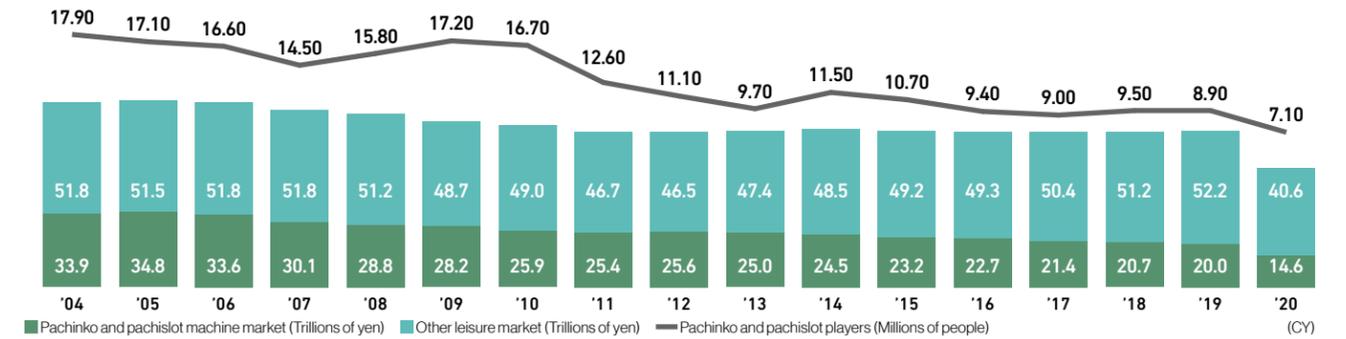
- Expenses are recognized as inventory assets during development period and booked as expenses after launch.
- Expenses are mainly amortized over a period of 12 months. A large proportion of expenses associated with amusement machines are incurred in the first two months after launch, so the Group spreads the booking of expenses over a period of 12 months.

Consumer area

- Expenses are recognized as inventory assets or intangible assets during development and booked as expenses after launch.

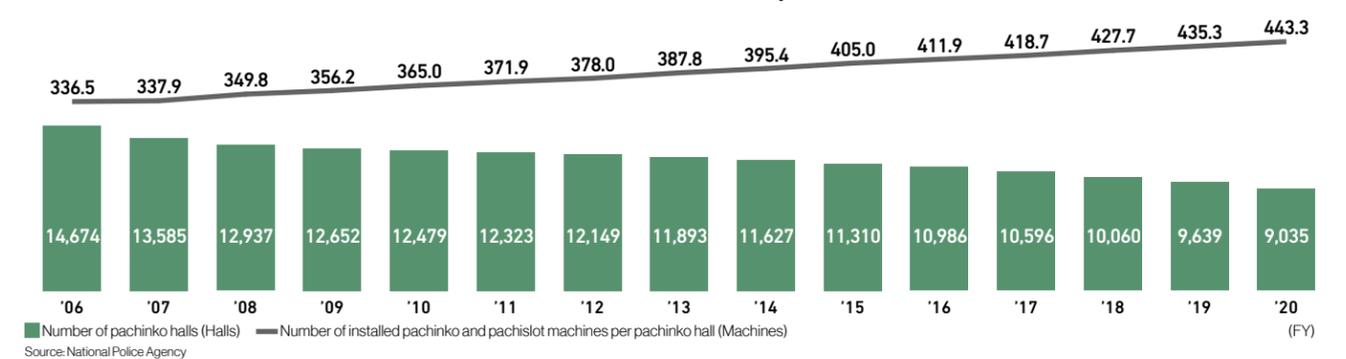
Basic Data

Market Sizes and Number of Pachinko and Pachislot Players



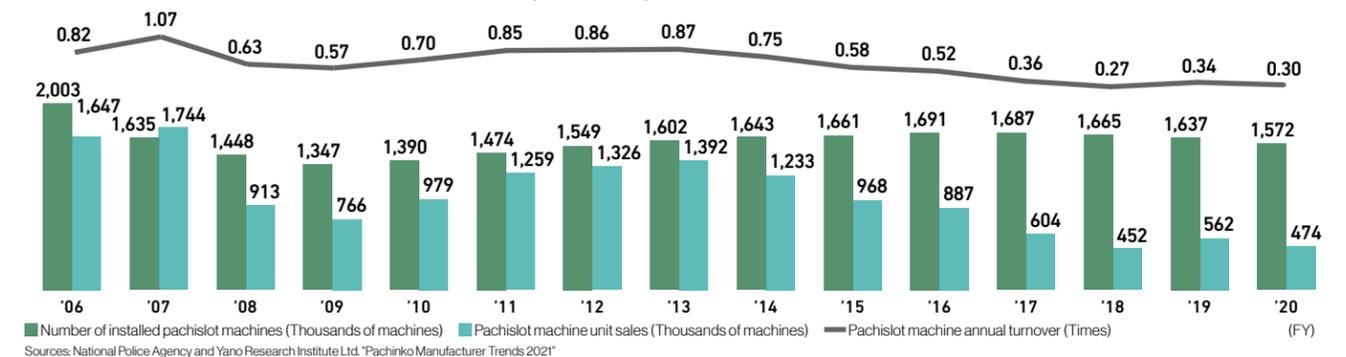
Source: White Paper on Leisure Industry 2021, Japan Productivity Center

Numbers of Pachinko Halls and Installed Pachinko and Pachislot Machines per Pachinko Hall



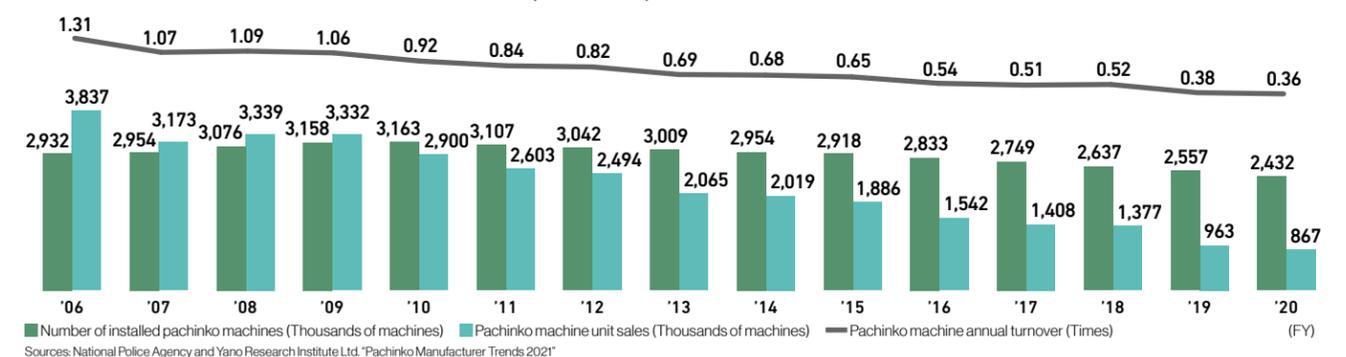
Source: National Police Agency

Pachislot Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



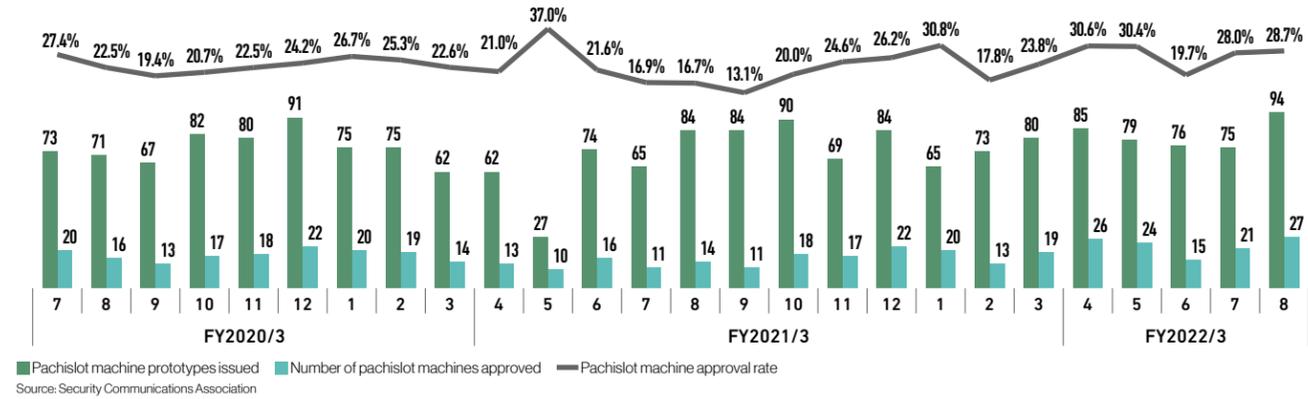
Sources: National Police Agency and Yano Research Institute Ltd. "Pachinko Manufacturer Trends 2021"

Pachinko Machines: Number of Installed Machines, Unit Sales, and Annual Turnover

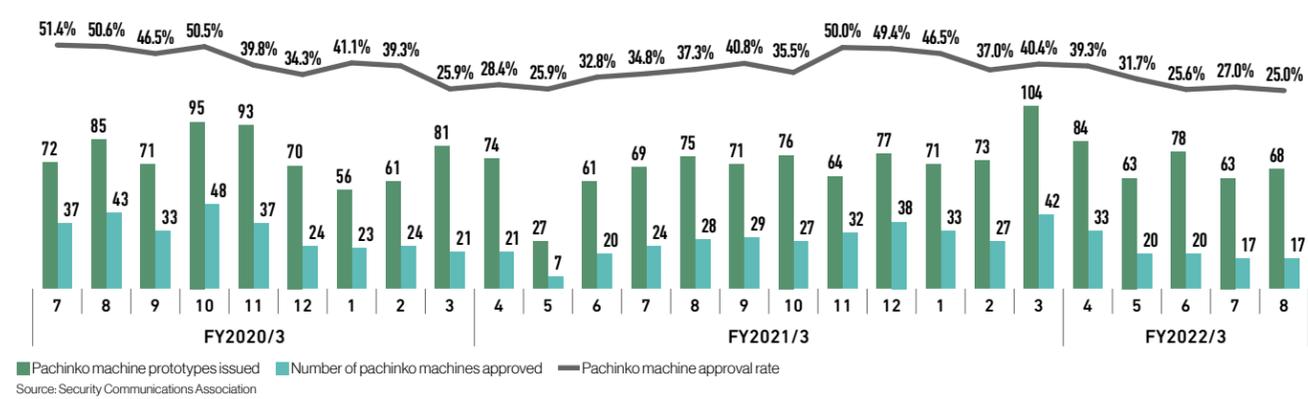


Sources: National Police Agency and Yano Research Institute Ltd. "Pachinko Manufacturer Trends 2021"

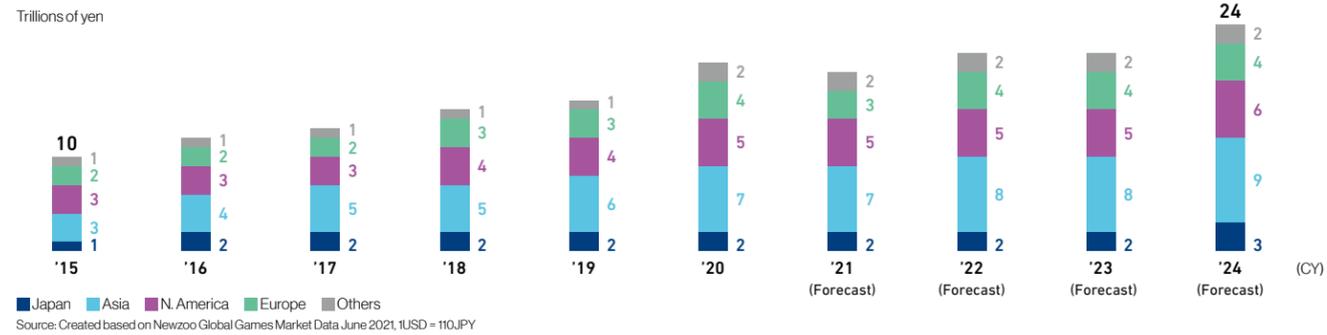
Results of Pachislot Machine Prototype Testing



Results of Pachinko Machine Prototype Testing



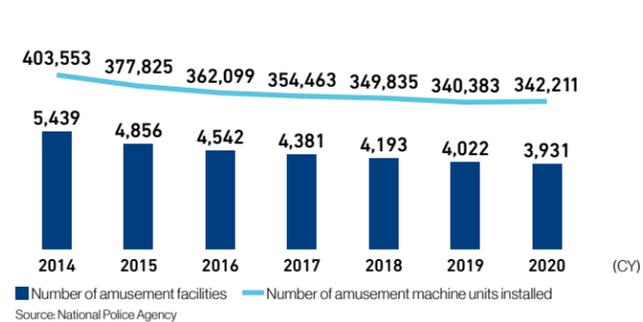
Game Contents Market Size



Domestic Amusement Machine Sales and Revenues from Amusement Center Operations



Number of Amusement Facilities and Amusement Machine Units Installed



Company Profile / Stock Information

Company Profile

Company name	SEGA SAMMY HOLDINGS INC.
Address	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo 141-0033, Japan
URL	https://www.segasammy.co.jp/english/
Established	October 1, 2004
Capital	¥29,953 million (As of March 31, 2021)
Principal business	Management of SEGA SAMMY Group as the holding company

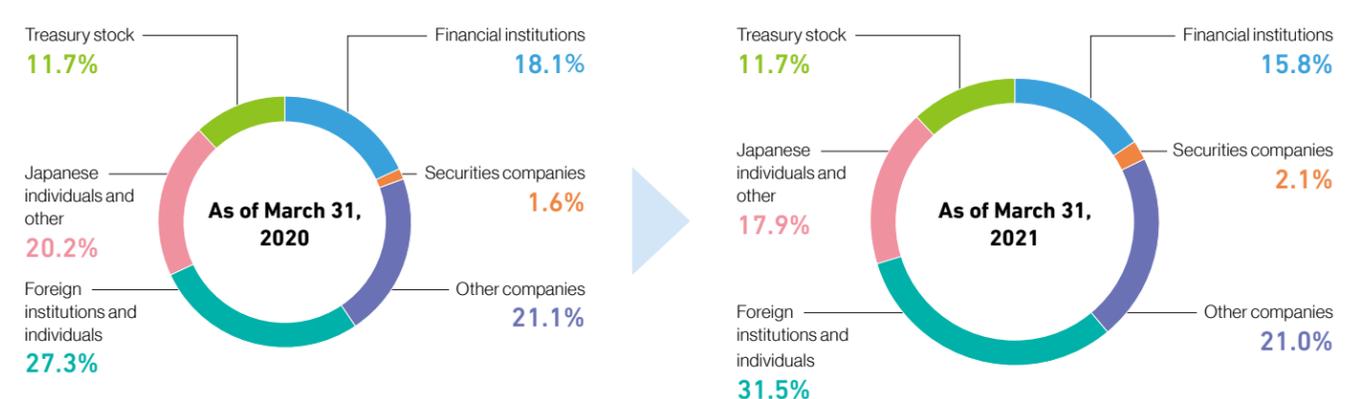
Stock Information (As of March 31, 2021)

Number of shares authorized for issue	800,000,000
Total shares issued and outstanding	266,229,476
Number of shareholders	63,903

Major Shareholders (As of March 31, 2021)

Name of shareholder	Shares held	Shares ratio
HS Company	35,308,000	13.26%
SEGA SAMMY HOLDINGS INC.	31,142,581	11.69%
The Master Trust Bank of Japan, Ltd. (Trust account)	15,314,700	5.75%
FSC Co., Ltd.	13,682,840	5.13%
Custody Bank of Japan, Ltd. (Trust account)	8,380,000	3.14%
Hajime Satomi	7,833,638	2.94%
STATE STREET BANK AND TRUST COMPANY 505001	6,271,472	2.35%
KOREA SECURITIES DEPOSITORY-SAMSUNG	5,648,300	2.12%
THE BANK OF NEW YORK MELLON 140044	3,831,676	1.43%
Haruki Satomi	3,723,161	1.39%

Breakdown of Shareholders



Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2020 and 2021

	Millions of yen	
	2020	2021
Assets		
Current assets		
Cash and deposits	¥159,013	¥154,972
Notes and accounts receivable—trade	40,408	38,176
Short-term investment securities	5,398	721
Merchandise and finished goods	8,218	7,514
Work in process	20,235	31,941
Raw materials and supplies	18,554	13,456
Income taxes receivable	4,836	10,365
Other	12,613	19,447
Allowance for doubtful accounts	(302)	(298)
Total current assets	268,976	276,295
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	88,143	74,670
Accumulated depreciation	(50,703)	(46,451)
Buildings and structures, net	37,439	28,219
Machinery, equipment and vehicles	12,530	12,687
Accumulated depreciation	(10,739)	(11,220)
Machinery, equipment and vehicles, net	1,790	1,467
Amusement machines and facilities	46,066	7,285
Accumulated depreciation	(32,927)	(6,320)
Amusement machines and facilities, net	13,139	964
Land	21,177	18,396
Construction in progress	1,418	1,239
Other	53,997	50,118
Accumulated depreciation	(42,314)	(38,788)
Other, net	11,683	11,330
Total property, plant and equipment	86,649	61,617
Intangible assets		
Goodwill	5,878	4,711
Other	12,090	10,288
Total intangible assets	17,969	14,999
Investments and other assets		
Investment securities	55,046	38,323
Long-term loans receivable	1,117	383
Lease and guarantee deposits	13,888	8,075
Net defined benefit assets	3,076	4,376
Deferred tax assets	1,215	13,272
Other	10,779	4,667
Allowance for doubtful accounts	(450)	(413)
Total investments and other assets	84,673	68,686
Total noncurrent assets	189,292	145,304
Total assets	¥458,268	¥421,599

See accompanying notes.

	Millions of yen	
	2020	2021
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 17,834	¥ 16,994
Short-term loans payable	13,331	—
Current portion of bonds	10,000	—
Income taxes payable	3,383	839
Accrued expenses	15,347	15,713
Provision for bonuses	7,891	8,372
Provision for directors' bonuses	808	732
Provision for point card certificates	29	311
Asset retirement obligations	101	105
Other	17,419	16,708
Total current liabilities	86,147	59,777
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,003	42,000
Lease obligations	3,434	4,808
Net defined benefit liability	4,176	4,542
Deferred tax liabilities	2,165	778
Asset retirement obligations	4,847	2,933
Provision for dismantling of fixed assets	420	420
Other	8,215	5,083
Total noncurrent liabilities	75,263	70,566
Total liabilities	161,410	130,343
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	118,564	118,048
Retained earnings	206,334	200,551
Treasury stock	(53,555)	(53,561)
Total shareholders' equity	301,296	294,991
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,470	1,930
Deferred gains or losses on hedges	(596)	(725)
Revaluation reserve for land	(1,109)	(1,109)
Foreign currency translation adjustment	(8,480)	(3,867)
Remeasurements of defined benefit plans	(1,478)	(459)
Total accumulated other comprehensive income	(7,193)	(4,231)
Subscription rights to shares	813	—
Non-controlling interests	1,941	496
Total net assets	296,858	291,256
Total liabilities and net assets	¥458,268	¥421,599

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	Millions of yen	
	2020	2021
Net sales	¥366,594	¥277,748
Cost of sales (Notes 7 (1) and (2))	230,092	176,973
Gross profit	136,502	100,775
Selling, general and administrative expenses	108,859	94,221
Operating income	27,643	6,553
Other income (expenses)		
Interest income	247	136
Dividends income	435	356
Gain on investments in partnership	616	1,404
Foreign exchange gains	329	—
Interest expenses	(475)	(470)
Equity in losses of affiliates	(2,805)	(5,662)
Commission fee	(137)	(97)
Loss on investments in partnership	(421)	(208)
Foreign exchange losses	—	(487)
Loss on retirement of noncurrent assets	(193)	(294)
Rent expenses	(84)	—
Gain on sales of noncurrent assets (Note 7 (3))	2,917	15,258
Gain on sales of investment securities	104	11,266
Gain on reversal of restructuring loss	30	—
Loss on sales of noncurrent assets (Note 7 (4))	(0)	(0)
Impairment loss (Note 7 (5))	(371)	(3,347)
Loss on valuation of investment securities	(573)	(0)
Loss on sales of shares of subsidiaries and affiliates	(172)	—
Early extra retirement payments	(32)	—
Loss on COVID-19	—	(2,822)
Structural reform expenses	—	(34,191)
Other, net	48	2,761
Subtotal	(538)	(16,397)
Income (loss) before income taxes	27,104	(9,844)
Income taxes—current	5,314	478
Income taxes—deferred	7,817	(12,200)
Total income taxes	13,131	(11,722)
Profit	13,972	1,877
(Breakdown)		
Profit attributable to owners of parent	13,775	1,274
Profit attributable to non-controlling interests	197	602
Other comprehensive income		
Valuation difference on available-for-sale securities	(9,583)	(2,534)
Deferred gains or losses on hedges	6	8
Foreign currency translation adjustment	(2,427)	4,651
Remeasurements of defined benefit plans, net of tax	(1,018)	968
Share of other comprehensive income of entities accounted for using equity method	(1,724)	(127)
Total other comprehensive income (Note 7 (6))	(14,747)	2,966
Comprehensive income	(774)	4,843
(Breakdown)		
Comprehensive income attributable to owners of parent	(967)	4,236
Comprehensive income attributable to non-controlling interests	¥ 192	¥ 606

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
Previous fiscal year (From April 1, 2019 to March 31, 2020)						Millions of yen
Balances as of April 1, 2019	¥29,953	¥117,142	¥201,889	¥(54,168)		¥294,816
Cumulative effects of changes in accounting policies			135			135
Restated balance	29,953	117,142	202,024	(54,168)		294,952
Changes of items during the period						
Dividends from surplus			(9,390)			(9,390)
Profit attributable to owners of parent			13,775			13,775
Effect of changes in accounting period of consolidated subsidiaries			10			10
Purchase of treasury stock				(8)		(8)
Disposal of treasury stock		(39)		622		582
Change of scope of consolidation			(85)			(85)
Purchase of shares of consolidated subsidiaries		(33)				(33)
Change in ownership interest of parent due to transactions with non-controlling interests			880			880
Tax effect adjustments relating to changes in past years' equity		614				614
Net changes of items other than shareholders' equity						
Total changes of items during the period	—	1,421	4,309	613		6,344
Balances as of March 31, 2020	¥29,953	¥118,564	¥206,334	¥(53,555)		¥301,296
						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, 2019	¥14,354	¥ —	¥(1,109)	¥(4,888)	¥ (524)	¥ 7,832
Cumulative effects of changes in accounting policies	(283)					(283)
Restated balance	14,071	—	(1,109)	(4,888)	(524)	7,548
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Effect of changes in accounting period of consolidated subsidiaries						
Purchase of treasury stock						
Disposal of treasury stock						
Change of scope of consolidation						
Purchase of shares of consolidated subsidiaries						
Change in ownership interest of parent due to transactions with non-controlling interests						
Tax effect adjustments relating to changes in past years' equity						
Net changes of items other than shareholders' equity	(9,600)	(596)	—	(3,591)	(954)	(14,742)
Total changes of items during the period	(9,600)	(596)	—	(3,591)	(954)	(14,742)
Balances as of March 31, 2020	¥ 4,470	¥(596)	¥(1,109)	¥(8,480)	¥(1,478)	¥ (7,193)
						Millions of yen
						Subscription rights to shares
	Subscription rights to shares	Non-controlling interests	Total net assets			
Balances as of April 1, 2019	¥912	¥1,776	¥305,337			
Cumulative effects of changes in accounting policies			(147)			
Restated balance	912	1,776	305,189			
Changes of items during the period						
Dividends from surplus			(9,390)			
Profit attributable to owners of parent			13,775			
Effect of changes in accounting period of consolidated subsidiaries			10			
Purchase of treasury stock			(8)			
Disposal of treasury stock			582			
Change of scope of consolidation			(85)			
Purchase of shares of consolidated subsidiaries			(33)			
Change in ownership interest of parent due to transactions with non-controlling interests			880			
Tax effect adjustments relating to changes in past years' equity			614			
Net changes of items other than shareholders' equity	(98)	165	(14,676)			
Total changes of items during the period	(98)	165	(8,331)			
Balances as of March 31, 2020	¥813	¥1,941	¥296,858			

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Current fiscal year (From April 1, 2020 to March 31, 2021) Millions of yen

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balances as of April 1, 2020	¥29,953	¥118,564	¥206,334	¥(53,555)	¥301,296
Cumulative effects of changes in accounting policies					—
Restated balance	29,953	118,564	206,334	(53,555)	301,296
Changes of items during the period					
Dividends from surplus			(7,052)		(7,052)
Profit attributable to owners of parent			1,274		1,274
Effect of changes in accounting period of consolidated subsidiaries			(4)		(4)
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock		(0)		5	5
Change of scope of consolidation					
Purchase of shares of consolidated subsidiaries					
Change in ownership interest of parent due to transactions with non-controlling interests		(88)			(88)
Tax effect adjustments relating to changes in past years' equity		(427)			(427)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(516)	(5,782)	(5)	(6,304)
Balances as of March 31, 2021	¥29,953	¥118,048	¥200,551	¥(53,561)	¥294,991

Millions of yen

	Accumulated other comprehensive income					Total 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	
Balances as of April 1, 2020	¥ 4,470	¥(596)	¥(1,109)	¥(8,480)	¥(1,478)	¥(7,193)
Cumulative effects of changes in accounting policies						—
Restated balance	4,470	(596)	(1,109)	(8,480)	(1,478)	(7,193)
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Effect of changes in accounting period of consolidated subsidiaries						
Purchase of treasury stock						
Disposal of treasury stock						
Change of scope of consolidation						
Purchase of shares of consolidated subsidiaries						
Change in ownership interest of parent due to transactions with non-controlling interests						
Tax effect adjustments relating to changes in past years' equity						
Net changes of items other than shareholders' equity	(2,540)	(129)	—	4,612	1,019	2,961
Total changes of items during the period	(2,540)	(129)	—	4,612	1,019	2,961
Balances as of March 31, 2021	¥ 1,930	¥(725)	¥(1,109)	¥(3,867)	¥ (459)	¥(4,231)

Millions of yen

	Subscription rights to shares	Non-controlling interests	Total net assets
	Balances as of April 1, 2020	¥ 813	¥ 1,941
Cumulative effects of changes in accounting policies			—
Restated balance	813	1,941	296,858
Changes of items during the period			
Dividends from surplus			(7,052)
Profit attributable to owners of parent			1,274
Effect of changes in accounting period of consolidated subsidiaries			(4)
Purchase of treasury stock			(11)
Disposal of treasury stock			5
Change of scope of consolidation			—
Purchase of shares of consolidated subsidiaries			—
Change in ownership interest of parent due to transactions with non-controlling interests			(88)
Tax effect adjustments relating to changes in past years' equity			(427)
Net changes of items other than shareholders' equity	(813)	(1,444)	703
Total changes of items during the period	(813)	(1,444)	(5,601)
Balances as of March 31, 2021	¥ —	¥ 496	¥291,256

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	2020	2021
Net cash provided by (used in) operating activities		
Income (loss) before income taxes	¥ 27,104	¥ (9,844)
Depreciation and amortization	17,193	14,826
Impairment loss	371	3,347
Structural reform expenses	—	34,191
Amount of transfer of equipment by amusement center operation business	(4,317)	(1,528)
Loss (gain) on sales of noncurrent assets	(2,916)	(15,258)
Loss on retirement of noncurrent assets	193	294
Loss (gain) on sales of investment securities	(2)	(11,248)
Loss (gain) on valuation of investment securities	281	0
Loss (gain) on investments in partnership	(195)	(1,195)
Amortization of goodwill	2,043	1,908
Increase (decrease) in allowance for doubtful accounts	70	(47)
Increase (decrease) in provision for directors' bonuses	339	(87)
Increase (decrease) in net defined benefit liability	81	100
Increase (decrease) in provision for bonuses	2,450	362
Interest and dividends income	(682)	(493)
Interest expenses	475	470
Foreign exchange losses (gains)	69	(559)
Equity in (earnings) losses of affiliates	2,805	5,662
Decrease (increase) in notes and accounts receivable—trade	(2,811)	632
Decrease (increase) in inventories	2,862	(8,080)
Increase (decrease) in notes and accounts payable—trade	(6,582)	(593)
Increase (decrease) in guarantee deposits received	(770)	(2,267)
Other, net	4,955	(3,601)
Subtotal	43,019	6,989
Interest and dividends income received	728	477
Interest expenses paid	(460)	(497)
Extra retirement payments	—	(7,260)
Income taxes paid	(6,955)	(7,558)
Income taxes refund	2,205	1,464
Net cash provided by (used in) operating activities	¥ 38,537	¥ (6,384)

See accompanying notes.

	Millions of yen	
	2020	2021
Net cash provided by (used in) investing activities		
Payments into time deposits	¥ (36)	¥ (8,036)
Proceeds from withdrawal of time deposits	—	8,000
Purchase of short-term investment securities	(5,000)	—
Proceeds from redemption of securities	3,000	5,200
Purchase of trust beneficiary right	(1,894)	(809)
Proceeds from sales of trust beneficiary right	2,514	808
Purchase of property, plant and equipment	(10,036)	(7,350)
Proceeds from sales of property, plant and equipment	4,315	18,125
Purchase of intangible assets	(7,103)	(6,849)
Purchase of investment securities	(566)	(61)
Proceeds from sales of investment securities	410	21,203
Proceeds from redemption of investment securities	821	415
Payments for investment in partnerships	(1,257)	(763)
Proceeds from distribution of investment in partnerships	1,279	789
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(1,383)	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(85)	(6,953)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	640	—
Purchase of stocks of subsidiaries and affiliates	(157)	(98)
Payments of loans receivable	(2,704)	(5,677)
Collection of loans receivable	2,689	7,411
Reduction of investments in trusts	1,000	2,400
Payments for lease deposits	(659)	(553)
Collection of lease deposits	875	497
Other, net	(2,129)	2,776
Net cash provided by (used in) investing activities	(15,464)	30,473
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	14,956	—
Repayment of long-term loans payable	(13,352)	(13,331)
Proceeds from issuance of bonds	9,933	—
Redemption of bonds	(12,500)	(10,000)
Purchase of treasury stock	(8)	(11)
Purchase of treasury stock of subsidiaries	—	(91)
Proceeds from exercise of stock options	430	4
Cash dividends paid	(9,395)	(7,063)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(47)	(7)
Other, net	(971)	(991)
Net cash provided by (used in) financing activities	(10,956)	(31,492)
Effect of exchange rate change on cash and cash equivalents	(1,574)	3,311
Net increase (decrease) in cash and cash equivalents	10,541	(4,091)
Cash and cash equivalents at beginning of period	148,064	158,617
Increase in cash and cash equivalents from newly consolidated subsidiaries	16	—
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries	(5)	13
Cash and cash equivalents at end of period	¥158,617	¥154,540

See accompanying notes.

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021**1 Basis of Presenting Consolidated Financial Statements**

The accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2020 and 2021. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated

financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements. Each amount of the accompanying consolidated financial statements is rounded down to the nearest one million yen.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2020 consolidated financial statements to conform to the classifications used in 2021. These changes had no impact on previously reported results of operations or shareholders' equity.

2 Summary of Significant Accounting Policies**1. Scope of consolidation****(1) Number of consolidated subsidiaries: 63**

Companies excluded from the scope of consolidation from the current fiscal year were SEGA Interactive Co., Ltd. and one other company, due to them being merged into SEGA CORPORATION in an absorption-type merger, and SEGA ENTERTAINMENT CO., LTD. and one other company, due to transfer of their shares.

In addition, f4samurai, Inc. was excluded from the scope of consolidation and included in the scope of application of equity method due to transfer of a portion of its shares.

(2) Number of non-consolidated subsidiaries: 10

Non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amount of each of assets, net sales and net income corresponding to the percentage of equity interest held by the Company, and the combined amount of retained earnings corresponding to the percentage of equity interest held by the Company, do not have a significant effect on the consolidated financial statements.

2. Application of the equity method**(1) Number of non-consolidated subsidiaries accounted for under the equity method: —**

GO GAME PTE. LTD. and other five non-consolidated subsidiaries were excluded from the scope of application of equity method due to transfer of their shares.

(2) Number of affiliated companies accounted for under the equity method: 11

f4samurai, Inc. was excluded from the scope of consolidation and included in the scope of application of equity method due to transfer of a portion of its shares.

1App, Inc. was excluded from the scope of application of equity method due to transfer of its shares.

(3) Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method: 11

Some of the Company's non-consolidated subsidiaries and affiliates are not accounted for under the equity method because the combined amount of net income corresponding to the percentage of equity interest held by the Company, and the combined amount of retained earnings corresponding to the percentage of equity interest held by the Company do not have a significant effect on the consolidated financial statements even if they are excluded from the scope of equity method, and have no significance as a whole.

3. Accounting policies**(1) Valuation and accounting treatment for important assets****1) Held-to-maturity debt securities**

Held-to-maturity debt securities are stated at amortized cost method (the straight-line method)

2) Available-for-sale securities

Securities with fair market value:

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as valuation difference on available-for-sale securities in net assets, with cost of sales determined by the moving-average method.

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and unrealized gains or losses are reported as income or expenses for the fiscal year ended March 31, 2021.

Securities without quoted market prices:

Securities without quoted market prices are carried at cost, which is determined by the moving-average method.

The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Financial Investment and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

3) Derivatives

Derivatives are stated at fair market value.

4) Inventories

Inventories are stated at cost, cost being determined mainly by the gross-average method (or at the net realizable value (NRV) calculated by writing down the book value to reflect a decrease in the NRV).

Work in process is also stated at cost, cost being determined by the specific identification method (or at the NRV calculated by writing down the book value to reflect a decrease in the NRV).

(2) Depreciation and amortization for important assets

1) Property, plant and equipment (excluding lease assets)

Depreciation is calculated primarily using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and structures: 2–50 years

Machinery, equipment and vehicles: 2–12 years

Amusement machines and facilities: 2–5 years

2) Intangible assets (excluding lease assets)

Amortization is calculated using the straight-line method. The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (less than 5 years).

3) Lease assets

Finance leases which transfer ownership:

Depreciation method for such assets is the same as that which applies to property, plant and equipment owned by the Company.

Finance leases which do not transfer ownership:

Depreciated by using the straight-line method assuming the useful life equals to the lease period with a residual value of zero.

4) Right-of-use assets

The lease period or the useful life of the asset, whichever is shorter, is used as the useful life, and the residual value is calculated as zero.

(3) Accounting for deferred assets

Bond issue cost: All expenses are expensed when incurred.

(4) Accounting for allowances and provisions

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in the amount sufficient to cover possible losses based on a historical write-off of general receivables.

Receivables with default possibility and bankrupt receivables are calculated based on an individual assessment of the possibility of collection.

2) Provision for bonuses

The estimated amount of bonuses was recorded to meet the payment of employee bonuses, an amount corresponding to the current fiscal year.

3) Provision for directors' bonuses

The estimated amount of bonuses was recorded to meet the payment of Directors and Audit & Supervisory Board Members' bonuses, an amount corresponding to the current fiscal year.

4) Provision for point card certificates

In order to provide for the usage of points granted to customers under the point system, the estimated future usage amount for the end of the fiscal year ended March 31, 2021 has been recorded.

5) Provision for dismantling of fixed assets

To provide for expenses for dismantling unused decrepit buildings, estimated future expenses are recorded.

(5) Accounting method for retirement benefits

1) Attribution method for projected retirement benefits:

In calculating retirement benefits obligations, benefit-formula attribution is adopted for the purpose of attributing projected retirement benefits to the period up to the end of the fiscal year ended March 31, 2021.

2) Treatment of actuarial gains and losses and prior service costs:

Prior service costs are amortized equally over a certain number of years (10 years in principle) within the average remaining years of service for the employees at the time of accrual, or are charged to income collectively at the time of accrual. Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 years in principle) within average remaining years of service for the employees at the time of accrual in each fiscal year, commencing from the following fiscal year after the accrual for each employee, or are charged to income collectively in the following fiscal year after the accrual.

(6) Accounting for significant hedge

1) Hedge accounting

The Group adopts deferred hedge accounting. However, special treatment is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying currency swap transactions and forward exchange contracts.

2) Hedging instruments and hedged items

Hedging instrument: Currency swaps, interest rate swaps, and forward exchange contracts

Hedged item: Interest on loans payable, receivables and payables denominated in foreign currencies

3) Hedge policy

Derivative instruments are used to mitigate risks associated with foreign exchange and interest rate fluctuations.

As a rule, hedging is only used for items in which actual demand exists, and not for speculative purposes.

4) Evaluation of hedge effectiveness

Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market between the hedged item and the hedging instrument. Evaluation of hedge effectiveness at fiscal year-end is omitted for currency swap transactions, as material conditions for the notional principal of hedging instruments and those for hedged items are the same and these transactions are deemed to offset the market fluctuations.

Evaluation of hedge effectiveness at fiscal year-end is omitted also for interest rate swap transactions applied to special treatment.

(7) Amortization method and period of goodwill

If the duration of the effect of goodwill can be rationally estimated, amortization is made over the estimated number of years by the straight-line method. In other cases, amortization is made over a five-year-period by the straight-line method.

(8) Cash and cash equivalents in the consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(9) Accounting method for consumption taxes

Consumption taxes and local consumption taxes are accounted using the net-of-tax method, and non-deductible consumption taxes and local consumption taxes on assets are posted mainly as expenses when incurred.

3 Significant Accounting Estimates

(1) Valuation for inventories, etc., in the Entertainment Contents Business

(i) Carrying amounts in the consolidated financial statements in the current fiscal year

Work in process	¥29,518 million
"Other" under intangible assets	¥6,729 million

(ii) Calculation method of the carrying amount in the consolidated financial statements in the current fiscal year

Work in process and software, etc., amounts posted on account of production of game contents, etc., in the Entertainment Contents Business are stated at acquisition cost, and are expensed or amortized systematically considering the forecasted sales volume and expected service period. However, if the future recoverable amount is less than the carrying amount of work in process and software, etc., the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recorded in cost of sales for the current fiscal year.

(iii) Key assumptions used in the calculation of carrying amount in the consolidated financial statements in the current fiscal year

The future recoverable amount is estimated based on the forecasted sales for the following fiscal years.

(iv) Impact on the consolidated financial statements in the following fiscal year

In case of possible discrepancy between the forecasts and actual results due to the timing of release of new products from rival companies in the same market and the nature of hit businesses, there may be an impact to profit and loss.

(10) Application of the Consolidated Taxation System

The Company and certain domestic consolidated subsidiaries applied the Consolidated Taxation System.

(11) Application of tax effect accounting for the transition from the consolidated tax payment system to the group taxation system

Having regard to paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), the Company and its domestic consolidated subsidiaries did not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

(2) Valuation of raw materials in the Pachislot and Pachinko Machines Business

(i) Carrying amount in the consolidated financial statements in the current fiscal year

Raw materials	¥11,793 million
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(ii) Calculation method of the carrying amount in the consolidated financial statements in the current fiscal year

Raw materials are posted using the acquisition cost, but in the event that anticipated future raw material usage falls below stock, the surplus is posted to cost of sales.

(iii) Key assumptions used in the calculation of carrying amount in the consolidated financial statements in the current fiscal year

Raw material usage forecasts are estimated based on the projected volume of Pachinko and Pachislot machines sales for the following fiscal years, and replacement demand is projected based on the arrival of the withdrawal deadline for machines conforming to previous regulations.

(iv) Impact on the consolidated financial statements in the following fiscal year

In case of possible discrepancy between the forecasts and actual results due to the timing of release of new products from rival companies in the same market and the nature of hit businesses, there may be an impact to profit and loss.

(3) Valuation of noncurrent assets held by PHOENIX RESORT CO., LTD.

(i) Carrying amount in the consolidated financial statements in the current fiscal year

Property, plant and equipment	¥10,229 million
Intangible assets	¥272 million

(ii) Key assumptions used in the calculation of carrying amount in the consolidated financial statements in the current fiscal year

Operating income and loss generated by operating activities continued to be negative, and there was any indication of impairment in the asset group. Therefore, the Company has calculated undiscounted future cash flows, and made a determination on whether or not to recognize an impairment loss.

Business plans and the medium-term management plan, which are fundamental to future cash flows used for this determination, have been formulated based on the hotel occupancy rate, average daily rate, number of golf rounds, and golf round rates, with demand premised on a gradual recovery despite the impacts of COVID-19 through the following fiscal year.

As a result, the Company has determined that an impairment loss should be recognized, and therefore considered the net selling price based on the real estate appraisal value (mainly under the income approach) as the recoverable amount, and posted the difference with the book value to impairment loss.

(iii) Impact on the consolidated financial statements in the following fiscal year

Estimates of future cash flows are made based on best estimates from management. However, in the event that COVID-19 impacts demand trends which cause estimates to differ from actual results, there may be an impact on profit and loss.

(4) Valuation of shares of affiliates with regard to PARADISE SEGASAMMY Co., Ltd.

(i) Carrying amount in the consolidated financial statements in the current fiscal year

Shares of subsidiaries and affiliates	¥17,146 million
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(ii) Calculation method of the carrying amount in the consolidated financial statements in the current fiscal year

PARADISE SEGASAMMY Co., Ltd. (PSS) is an affiliate of the Company accounted for using the equity method. Investments into PSS are treated under equity method accounting.

PSS applies International Financial Reporting Standards (IFRS), and if there is any indication of impairment in its cash generating units, it perform an impairment test. For the cash generating units including goodwill, PSS perform an impairment test on an annual basis, in addition to when there is any indication of impairment. As a result of its impairment tests, in the event that the recoverable amount is less than its carrying amount the book value in the PSS financial statements is reduced to the recoverable amount is less than its carrying amount, this exerts an impact on the amount of shares of affiliates of the Company through equity method accounting.

PSS has posted ¥129,014 million in noncurrent assets, including goodwill of ¥8,681 million.

(iii) Key assumptions used in the calculation of carrying amount in the consolidated financial statements in the current fiscal year

PSS perform an impairment test on its cash generating units including goodwill, and its cash generating units that show any indication of impairment, and makes calculations for recoverable amount based on value in use or on fair value less cost of disposal.

Key assumptions that utilize measurements of value in use are made based on the business plans, etc., which are fundamental to calculations of future cash flows, as well as growth rates and discount rates. Although business plans, etc., have been impacted by COVID-19, their formulations have been made based on the number of casino visitors and the drop amount (the amount of chips purchased at tables), premised on demand recovering gradually through the following fiscal year. When establishing growth rates for after the target period of the business plans, etc., figures that reflect consideration of business growth are used. In addition, the discount rate is calculated using weighted average cost of capital as a basis and by reflecting the risk associated with businesses, which is determined based on external and internal information.

Fair value less cost of disposal mainly uses the real estate appraisal value (under depreciated replacement cost approach) of external experts who take into consideration the repurchase cost of the relevant asset and related depreciation factors.

(iv) Impact on the consolidated financial statements in the following fiscal year

Estimates of future cash flows are made based on best estimates from management. However, in the event that COVID-19 impacts trends in the number of users which cause estimates to vary from actual results, there may be an impact on profit and loss.

(5) Accounting estimates associated with the spread of COVID-19

Buffeted by the expanding rate of COVID-19 infections, in the current fiscal year the Group experienced delays to parts' procurement, postponements to development schedules, and the suspension of operations at various facilities.

Although there will be disparities in the impact of COVID-19 according to business or region in the following fiscal year, it is the Group's assumption that demand will recover gradually through the following fiscal year, and its accounting estimates are based on the determination of the recoverability of deferred tax assets and the determination on impairment losses, among other factors.

There is a high degree of uncertainty in these assumptions, and with any change in the impact that COVID-19 has on the economic environment, there may be an impact on profit and loss.

4 Unapplied New Accounting Standards

The Company and its domestic consolidated subsidiaries

– “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 31, 2020)

– “Implementation Guidance on Accounting Standard for Revenue Recognition” (Revised ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 26, 2021)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued “Revenue from Contracts with Customers” in May 2014 (IASB's IFRS 15 and FASB's Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

(2) Scheduled date of application

These ASBJ statement and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of application of the accounting standards

The effects of the application of the accounting standards are immaterial.

– “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, issued by the Accounting Standards Board of Japan on July 4, 2019)

– “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, issued by the Accounting Standards Board of Japan on July 4, 2019)

– “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, issued by the Accounting Standards Board of Japan on July 4, 2019)

5 Changes in Presentation

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company applied “Accounting Standard for Disclosure of

– “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Overview

The Accounting Standard for Fair Value Measurement and the Implementation Guidance on Accounting Standard for Fair Value Measurement (hereinafter “Accounting Standard for Fair Value Measurement, etc.”) were developed to improve comparability with international accounting standards, and matters of guidance, etc., for fair value measurement methods were established. Accounting Standard for Fair Value Measurement, etc., is used for the fair value of the following items.

– Financial instruments in the “Accounting Standards for Financial Instruments”

Furthermore, the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised with notes added for breakdowns of fair value of financial instruments by level, among others.

(2) Scheduled date of application

These ASBJ statement and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of application of the accounting standards

The effects of the application of the accounting standards are immaterial.

Foreign consolidated subsidiaries

– “Leases” (U.S. GAAP Topic 842)

(1) Overview

The accounting standard was revised with a focus on the recognition of assets and liabilities of all of the lessee's leases in principle.

(2) Scheduled date of application

The accounting standard will be applied from the beginning of the fiscal year ending March 31, 2023.

(3) Effects of application of the accounting standards

The effects of the application are under assessment at the time of preparing these consolidated financial statements.

with regard to the consolidated financial statements. However, the data of the previous fiscal year corresponding to this content is not presented due to transitional measures stipulated in the proviso of paragraph 11 of the Accounting Standard for Disclosure of Accounting Estimates.

(Consolidated balance sheets)

"Lease obligations," which was included in "Other" under Noncurrent liabilities in the previous fiscal year, is presented as a separate line

item in the current fiscal year because it has exceeded 1/100 of total liabilities and net assets. In order to reflect this change in presentation, the consolidated balance sheets for the previous fiscal year have been reclassified.

As a result, the ¥11,649 million presented as "Other" under noncurrent liabilities in the consolidated balance sheet for the previous fiscal year has been reclassified as ¥3,434 million in "Lease obligations" and ¥8,215 million in "Other."

6 Notes to Consolidated Balance Sheets

(1) Assets pledged

	Millions of yen	
	2020	2021
Shares of subsidiaries and affiliates	¥22,130	¥17,146
Total	22,130	17,146

Notes 1. For loan of ¥68,222 million (KRW725,000 million) from financial institutions to the equity method affiliate PARADISE SEGASAMMY Co., Ltd. at the end of the previous fiscal year, the shares of this company were pledged as collateral.

2. For loan of ¥68,512 million (KRW725,000 million) from financial institutions to the equity method affiliate PARADISE SEGASAMMY Co., Ltd. at the end of the current fiscal year, the shares of this company were pledged as collateral.

(2) Investment securities to non-consolidated subsidiaries and affiliated companies

	Millions of yen	
	2020	2021
Investment securities (Shares)	¥24,506	¥20,175
Investment securities (Capital Contributions)	685	1,525

(3) Revaluation reserve for land

Consolidated subsidiary SEGA GROUP CORPORATION has revalued land for business, pursuant to the Act on Revaluation of Land (Law No. 34, March 31, 1998) and Amendments to the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001). Accordingly, SEGA GROUP CORPORATION has recorded an item for the revaluation reserve for land under net assets.

Revaluation method
SEGA GROUP CORPORATION computed the value of land based on the methodology regarding rational adjustments to valuation of fixed assets stipulated in Article 2-3, and appraisals by licensed real estate appraisers prescribed in Article 2-5 of the Enforcement Ordinance No. 119 (March 31, 1998) pertaining to the Law Concerning Revaluation of Land.

Date of revaluation: March 31, 2002.

Difference between the fair value at the end of the fiscal year and the book value after revaluation of revalued land: ¥(425) million

(4) Overdraft account and commitment line contract

The Company and its consolidated subsidiaries concluded overdraft account contracts and commitment line contracts with banks for the purpose of efficient procurement of operating capital.

The balance of unrealized borrowings based on these contracts is as follows.

	Millions of yen	
	2020	2021
Total amount of limit of overdraft account and commitment line contract	¥150,397	¥218,525
Balance of borrowings	—	—
Balance of unrealized borrowings	150,397	218,525

7 Notes to Consolidated Statements of Income and Comprehensive Income

(1) The book value devaluation of inventories held for normal sales purpose based on decline in profitability

	Millions of yen	
	2020	2021
Cost of sales	¥5,268	¥10,622

(2) Research and development expenses included in selling, general and administrative expenses and manufacturing cost

	Millions of yen	
	2020	2021
	¥49,746	¥48,285

(3) Gain on sales of noncurrent assets

	Millions of yen	
	2020	2021
Buildings and structures	¥ 105	¥ —
Machinery, equipment and vehicles	0	0
Land	2,802	15,249
Other property, plant and equipment	8	8
Total	2,917	15,258

(4) Loss on sales of noncurrent assets

	Millions of yen	
	2020	2021
Machinery, equipment and vehicles	¥ 0	¥—
Other property, plant and equipment	0	0
Other intangible assets	—	0
Total	0	0

(5) Impairment loss

Previous fiscal year (From April 1, 2019 to March 31, 2020)

Use	Location	Type	Millions of yen
			Amount
Amusement facilities	Yokohama-shi, Kanagawa and 1 other location	Buildings and structures	¥ 85
		Other property, plant and equipment, etc.	20
Assets for business	Ota-ward ku, Tokyo and 4 other locations	Buildings and structures	8
		Amusement machines and facilities	157
		Other property, plant and equipment	60
		Other intangible assets	38
		Total	371

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable

amount. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable amounts are calculated based on memorandum values, as no future cash flows are expected.

Current fiscal year (From April 1, 2020 to March 31, 2021)

Use	Location	Type	Millions of yen	
			2020	2021
Amusement facilities	Machida-shi, Tokyo and 192 other locations	Buildings and structures	¥ 4,708	
		Other property, plant and equipment, etc.	1,213	
		Other intangible assets	32	
Assets for business	Ota-ku, Tokyo and 8 other locations	Buildings and structures	3,405	
		Machinery, equipment and vehicles	2	
		Amusement machines and facilities	10,411	
		Land	12	
		Other property, plant and equipment	142	
		Other intangible assets	1,161	
		Total	21,091	

Based on business segment, assets or asset groups whose cash flows can be estimated separately are grouped independently. Among these, the book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows arising from operating activities are reduced to their recoverable amount. The amount of this reduction is recorded as impairment loss under other expenses.

The recoverable amount is calculated based on the net selling price mainly due to the transfer of shares. ¥17,743 million is included in "Structural reform expenses" under other expenses.

(6) Structural reform expenses

In the current fiscal year, the Group has been working on structural reform to transform its business structure to adapt to the external environment and that has involved the implementation of measures to build an even more efficient structure. The Group has recorded the expenses incurred through such measures under structural reform expenses. A breakdown of structural reform expenses is provided below.

	Millions of yen	
	2020	2021
Impairment loss	¥—	¥17,743
Early extra retirement payments	—	9,559
Loss on sales of shares of subsidiaries and affiliates	—	3,308
Other	—	3,580
Total	—	34,191

(7) Reclassification adjustments and the related tax effects concerning other comprehensive income

	Millions of yen	
	2020	2021
Valuation difference on available-for-sale securities		
The amount arising during the period	¥(13,897)	¥ 4,630
Reclassification adjustments	56	(8,479)
Before adjustments to tax effects	(13,840)	(3,848)
The amount of tax effects	4,257	1,314
Valuation difference on available-for-sale securities	(9,583)	(2,534)
Deferred gains or losses on hedges		
The amount arising during the period	10	2
Reclassification adjustments	(0)	10
Before adjustments to tax effects	9	12
The amount of tax effects	(3)	(4)
Deferred gains or losses on hedges	6	8
Foreign currency translation adjustment		
The amount arising during the period	(2,426)	4,280
Reclassification adjustments	(0)	370
Before adjustments to tax effects	(2,427)	4,651
The amount of tax effects	—	—
Foreign currency translation adjustment	(2,427)	4,651
Remeasurements of defined benefit plans, net of tax		
The amount arising during the period	(882)	886
Reclassification adjustments	(83)	(35)
Before adjustments to tax effects	(966)	850
The amount of tax effects	(51)	117
Remeasurements of defined benefit plans, net of tax	(1,018)	968
Share of other comprehensive income of entities accounted for using equity method		
The amount arising during the period	(1,724)	(127)
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for using equity method	(1,724)	(127)
Total other comprehensive income	¥(14,747)	¥ 2,966

8 Notes to Consolidated Statements of Changes in Net Assets

Previous fiscal year (From April 1, 2019 to March 31, 2020)

1. Number of outstanding common stock

Type of stock	Shares			
	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Common stock	266,229,476	—	—	266,229,476

2. Number of outstanding treasury stock

Type of stock	Shares			
	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Common stock	31,493,927	6,000	361,689	31,138,238

Notes to Consolidated Financial Statements

(Summary of the change)

Increase		Decrease	
Increase due to purchase of odd-lot stock	6,000 shares	Decrease due to sales of odd-lot stock	589 shares
		Decrease due to exercise of stock options:	304,800 shares
		Decrease due to stock compensation with restriction on transfer:	56,300 shares

3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)			Balance at March 31, 2020 Millions of yen
			As of April 1, 2019	Increase	Decrease	
The Company	Subscription rights to shares as stock options	—	—	—	—	¥813
Total			—	—	—	813

4. Dividends

(1) Dividends

Resolution	Class of shares	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' Meeting held on May 10, 2019	Common stock	¥4,694	¥20	March 31, 2019	June 3, 2019
Board of Directors' Meeting held on October 31, 2019	Common stock	4,695	20	September 30, 2019	December 2, 2019

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2020, but the effective date is in the following fiscal year

Resolution	Class of shares	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' Meeting held on May 13, 2020	Common stock	Retained earnings	¥4,701	¥20	March 31, 2020	June 4, 2020

Current fiscal year (From April 1, 2020 to March 31, 2021)

1. Number of outstanding common stock

Type of stock	Shares			
	As of April 1, 2020	Increase	Decrease	As of March 31, 2021
Common stock	266,229,476	—	—	266,229,476

2. Number of outstanding treasury stock

Class of shares	Shares			
	As of April 1, 2020	Increase	Decrease	As of March 31, 2021
Common stock	31,138,238	7,687	3,344	31,142,581

(Outline of causes of change)

Increase		Decrease	
Increase due to purchase of odd-lot stock:	7,687 shares	Decrease due to sales of odd-lot stock:	144 shares
		Decrease due to exercise of stock options:	3,200 shares

3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)			Balance at March 31, 2021 Millions of yen
			As of April 1, 2020	Increase	Decrease	
The Company	Subscription rights to shares as stock options	—	—	—	—	¥—
Total			—	—	—	—

(Note) The exercise period for the subscription rights to shares issued pursuant to the Board of Directors meeting held on August 2, 2016, expired on September 1, 2020, and those rights have been forfeited.

4. Dividends

(1) Dividends

Resolution	Class of shares	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' Meeting held on May 13, 2020	Common stock	¥4,701	¥20	March 31, 2020	June 4, 2020
Board of Directors' Meeting held on November 6, 2020	Common stock	2,350	10	September 30, 2020	December 1, 2020

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2021 but the effective date is in the following fiscal year

Resolution	Class of shares	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' Meeting held on May 13, 2021	Common stock	Retained earnings	¥4,701	¥20	March 31, 2021	June 4, 2021

9 Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2021 and 2020 consisted of the following:

	Millions of yen	
	2020	2021
Cash and deposits	¥159,013	¥154,972
Short-term investment securities	5,398	721
Total	164,411	155,693
Time deposits with maturity over 3 months, etc.	(396)	(432)
Securities with periods from acquisition to redemption over 3 months	(5,398)	(721)
Cash and cash equivalents	158,617	154,540

(2) Assets and liabilities of the company which has become a consolidated subsidiary due to acquisition of shares

Previous fiscal year (From April 1, 2019 to March 31, 2020)

Breakdown of assets and liabilities at the time of consolidation of Two Point Studios Ltd. resulting from the acquisition of its shares as well as the relationship between the acquisition price of Two Point Studios Ltd. and expenditures (net) for its acquisition are presented below.

Two Point Studios Ltd.

	Millions of yen
Current assets	¥ 249
Noncurrent assets	6
Goodwill	1,315
Current liabilities	(129)
Noncurrent liabilities	—
Acquisition price of stocks	1,442
Cash and cash equivalents	(141)
Net: Expenditures for acquisition	(1,300)

Current fiscal year (From April 1, 2020 to March 31, 2021)

Not applicable.

(3) Assets and liabilities of the company which has been excluded from consolidated subsidiaries due to sales of shares

Previous fiscal year (From April 1, 2019 to March 31, 2020)

Disclosure is omitted due to insignificance.

Current fiscal year (From April 1, 2020 to March 31, 2021)

Breakdown of assets and liabilities of SEGA ENTERTAINMENT CO., LTD. (now GENDA SEGA Entertainment Inc.) when it was removed from the scope of consolidation due to the sale of its shares, and the relationship between its sale value of stock and expenditures are presented below.

SEGA ENTERTAINMENT CO., LTD. (now GENDA SEGA Entertainment Inc.)

	Millions of yen
Current assets	¥ 6,881
Noncurrent assets	5,638
Current liabilities	(4,920)
Noncurrent liabilities	(7,626)
Structural reform expenses	(187)
Others	215
Sale value of stock	0
Cash and cash equivalents	(4,767)
Net: Expenditures for sale	(4,767)

A major breakdown of assets and liabilities of Sega Amusements International Ltd. when it was removed from the scope of consolidation due to it

no longer being a consolidated subsidiary due to the sale of its shares, and the relationship between its sale value of stock and expenditures due to its sale are provided below.

Sega Amusements International Ltd.

	Millions of yen
Current assets	¥ 2,157
Noncurrent assets	1,342
Current liabilities	(522)
Noncurrent liabilities	(192)
Structural reform expenses	(3,120)
Others	336
Sale value of stock	0
Cash and cash equivalents	(715)
Net: Expenditures for sale	(715)

10 Information for Certain Leases

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment loss and net book value for the years ended March 31, 2021 and 2020, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous fiscal year (From April 1, 2019 to March 31, 2020)

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings	¥2,103	¥968	¥1,135	¥—
Total	2,103	968	1,135	—

Current fiscal year (From April 1, 2020 to March 31, 2021)

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings	¥2,103	¥968	¥1,135	¥—
Total	2,103	968	1,135	—

(2) Future lease payments and accumulated impairment loss on leased assets

Future lease payments as of March 31, 2021 and 2020

	Millions of yen	
	2020	2021
Due within one year	¥151	¥151
Due after one year	466	315
Total	618	466

Accumulated impairment loss on leased assets as of March 31, 2021 and 2020

	Millions of yen	
	2020	2021
Accumulated impairment loss on leased assets	¥466	¥349

(3) A summary of assumed amounts of lease payments, reversal of allowance for impairment loss on leased assets, depreciation, interest expenses and impairment loss for the years ended March 31, 2021 and 2020, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen	
	2020	2021
Lease payments	¥151	¥151
Reversal of allowance for impairment loss on leased assets	119	117
Depreciation	124	124
Interest expenses	15	12

(4) Method of calculating depreciation equivalent

The straight-line method is applied on the assumptions that the useful life equals the lease period and the residual value is zero.

(5) Method of calculating interest expenses equivalent

Interest expenses equivalent are calculated as the difference between total lease charges and acquisition cost equivalent of leased items, and are allocated to each fiscal year using the interest method.

1. Finance lease transactions

(1) Details of lease assets

Lease assets mainly consist of the following: "Machinery, equipment and vehicles," "Other property, plant and equipment" and "Other intangible assets" for office-related facilities.

(2) The methods of depreciation for lease assets

The methods of depreciation for lease assets are as follows: Lease assets involving finance lease transactions under which the ownership of the lease assets is transferred to lessees are the same methods that are applied to property, plant and equipment owned by the Company. Lease assets involving finance lease transactions under which the ownership of the lease assets is not transferred to lessees are the straight-line method, with their residual values being zero over their leased periods used as the number of years for useful life.

2. Lease transactions under IFRS

(1) Details of leased assets (right-of-use assets)

Leased assets (right-of-use assets) primarily consist of items related to leased offices of certain overseas consolidated subsidiaries.

(2) Depreciation method of right-of-use assets

The lease period or the useful life of the assets, whichever is shorter, is used as the useful life, and the residual value is calculated as zero.

3. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2020	2021
Due within one year	¥ 5,429	¥ 4,339
Due after one year	12,561	7,664
Total	17,991	12,003

Note: The primary cause for the decrease in operating lease transactions was the payment of lease payables related to the leased offices of the Group's headquarters, and the exclusion of SEGA ENTERTAINMENT CO., LTD. from the scope of consolidation in the current fiscal year.

11 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group signed an agreement concerning commitment lines with financial institutions, such as securing medium to long-term fund liquidity with the Company as a holding company, as a safety net for the entire Group. In addition, capital for each business is financed based on the financial plan as needed, through bank borrowings or

bond issues applying the Cash Management System for the purpose of efficient utilization of the Group's funds. Most funds are invested primarily in low-risk and high-liquidity financial assets, while some are invested in compound financial instruments such as bonds, etc., for the purpose of efficiently managing funds. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

(2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable-trade are exposed to customer credit risks. In addition, foreign currency-denominated trade receivables are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Short-term investment securities and investment securities are mainly negotiable certificates of deposit and the stocks acquired for business collaborations with business partners, and the latter are exposed to the risk of market price fluctuations. Some compound financial instruments, etc., are also exposed to the risk of market price fluctuations in the stock markets, etc.

Of the payables such as notes and accounts payable-trade, trade payables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Loans and bonds payable are for the purpose of procurement of funds necessary for operating funds and capital investment, and parts of them have floating interest rates. For this reason, they are exposed to interest rate fluctuation risks. Derivative transactions consist of forward exchange contracts and currency swap transactions as hedges against currency fluctuation risks on their foreign currency-denominated operating receivables and debt as well as foreign currency-denominated loans payable, and interest rate swap transactions as hedges against interest rate risks on loans payable.

For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to "(5) Accounting for significant hedge" in "Note 2 - Summary of Significant Accounting Policies, 3. Accounting Policies."

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

With respect to trade receivables, departments in charge regularly monitor the situations of major customers in compliance with each company's management regulations for receivables, to control payment terms and balances of customers, in order to detect collection concerns such as worsening of financial conditions early and to lessen the possibilities for collection problems.

The credit risk for negotiable certificates of deposit and major bonds, etc., is minimal because the investments of these financial assets are limited to high credit rating issuers. Customers of derivative transactions are in principle limited to correspondent financial institutions.

The amount of maximum risk as of the consolidated settlement date is expressed by the amounts of financial assets exposed to credit risks in the balance sheet.

2) Market risk management (foreign currency exchange and interest rate fluctuation risks)

Forward exchange contracts are used to hedge foreign currency exchange fluctuation risks identified by currency and by month, in parts of trade receivables and payables and loan receivables denominated in foreign currencies, and trade receivables and payables which are expected to certainly occur due to exports and imports (forecasted transactions).

In addition, interest rate swap transactions, etc., are used to hedge fluctuation risks of interests on variable interest loans and currency swap transactions are used to hedge currency fluctuation risks on foreign currency-denominated loans payables, etc.

With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. Major holdings of shares are continuously reviewed in consideration of relationships with the counterparties.

In addition, some compound financial instruments are also continuously reviewed by regularly checking their fair values.

With regard to derivative transactions, the financial department and the accounting department executes and manages transactions upon obtaining internal approvals in compliance with the derivative transactions management rules of each Group company. In addition, reports on the situations of derivative transactions are made to each company's Board of Directors' meeting when and where appropriate.

3) Liquidity risk management on fund-raising (risk for delinquency)

Trade payables and loans are exposed to liquidity risk. In the Group, liquidity risk is managed by setting an appropriate fund balance for each company, and by each company updating fund plans monthly to maintain the balance that exceeds the set fund balance, and by the Company confirming each company's cash position.

(4) Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 13 - Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

2. Matters concerning the fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments as well as the differences between these values are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2 below.)

Notes to Consolidated Financial Statements

Previous fiscal year (As of March 31, 2020)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥159,013	¥159,013	¥ —
(2) Notes and accounts receivable-trade	40,408	40,381	(26)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	809	802	(7)
2) Available-for-sale securities ^(*)	23,106	23,106	—
3) Equity securities issued by affiliated companies	803	646	(156)
Total assets	224,141	223,951	(190)
(1) Notes and accounts payable-trade	17,834	17,834	—
(2) Short-term loans payable	13,331	13,331	—
(3) Long-term loans payable	42,003	41,896	107
(4) Current portion of corporate bonds	10,000	10,000	—
(5) Corporate bonds payable	10,000	9,888	111
Total liabilities	93,168	92,950	218
Derivative transactions ^(**)			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	(596)	(596)	—
Total derivative transactions	(596)	(596)	—

*1 Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire compound financial instruments are evaluated, and included in investment securities.

*2 Receivables and payables incurred by derivative transactions are presented in net amount.

Current fiscal year (As of March 31, 2021)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥154,972	¥154,972	¥ —
(2) Notes and accounts receivable-trade	38,176	38,150	(26)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	608	610	2
2) Available-for-sale securities	4,254	4,254	—
3) Equity securities issued by affiliated companies	805	972	166
Total assets	198,816	198,959	142
(1) Notes and accounts payable-trade	16,994	16,994	—
(2) Short-term loans payable	—	—	—
(3) Long-term loans payable	42,000	41,939	60
(4) Current portion of corporate bonds	—	—	—
(5) Corporate bonds payable	10,000	9,918	81
Total liabilities	68,994	68,852	142
Derivative transactions			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	(725)	(725)	—
Total derivative transactions	(725)	(725)	—

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable-trade
Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable-trade, those which have more than a year to the payment date from the end of the current fiscal year are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.

(3) Short-term investment securities and investment securities

The fair values of stocks are determined using the quoted price on the stock exchange, and those of bonds are determined using the quoted price on the exchange or the quoted price obtained from financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 11 - Investment Securities."

Liabilities

(1) Notes and accounts payable-trade, (2) Short-term loans payable and (4) Current portion of corporate bonds

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

(3) Long-term loans payable and (5) Corporate bonds payable

These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts with special treatment applied and by interest rate and currency swap contracts with combined treatment applied (subject to special treatment and allocation hedge accounting) are calculated by combining them with the relevant interest rate swap or interest rate and currency swap.

Derivative transactions

For notes concerning derivatives, please see "Note 13-Derivative Transactions."

Note 2: Financial instruments whose fair values are not readily determinable

Item	Millions of yen	
	2020	2021
Investments in unlisted stocks, etc.	¥ 2,704	¥ 2,696
Investments in investment limited partnerships, etc.	8,631	9,784
Stocks of non-consolidated subsidiaries	345	345
Stocks of affiliates	23,357	19,024
Investments in capital of subsidiaries and affiliates	685	1,525

These items are not included in "(3) Short-term investment securities and investment securities", because there is no market price, future cash flows cannot be estimated, and it is extremely difficult to identify fair values.

Note 3: Redemption schedule of monetary assets and securities with contractual maturities

Previous fiscal year (As of March 31, 2020)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥159,013	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	39,698	709	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	200	—	400	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	—	—	—	—
Available-for-sale securities with maturities (Other)*	5,000	200	—	—
Total	203,912	909	400	200

* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Current fiscal year (As of March 31, 2021)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥154,972	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	37,440	735	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)*	—	—	400	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	—	—	—	—
Available-for-sale securities with maturities (Other)	—	—	—	—
Total	192,413	735	400	200

* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Notes to Consolidated Financial Statements

Note 4: Redemption schedules of loans payable, corporate bonds payable, lease obligations and other interest-bearing liabilities

Previous fiscal year (As of March 31, 2020)

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥13,331	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	3	10,000	17,000	15,000	—
Corporate bonds payable	10,000	—	—	—	—	10,000
Lease obligations	888	786	661	553	327	1,104
Other interest-bearing debt:						
Accounts payable-facilities	34	25	25	19	13	61

Current fiscal year (As of March 31, 2021)

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	10,000	17,000	15,000	—	—
Corporate bonds payable	—	—	—	—	—	10,000
Lease obligations	1,136	1,038	881	648	536	1,703
Other interest-bearing debt:						
Accounts payable-facilities	26	26	20	13	12	45

12 Investment Securities

1. Held-to-maturity debt securities

Previous fiscal year (As of March 31, 2020)

(1) Securities whose market value exceeds the consolidated balance sheet amount

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	309	310	0
3) Other	—	—	—
Total	309	310	0

(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	500	491	(8)
3) Other	—	—	—
Total	500	491	(8)

Current fiscal year (As of March 31, 2021)

(1) Securities whose market value exceeds the consolidated balance sheet amount

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	308	310	2
3) Other	—	—	—
Total	308	310	2

(2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	300	299	(0)
3) Other	—	—	—
Total	300	299	(0)

2. Available-for-sale securities

Previous fiscal year (As of March 31, 2020)

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥14,606	¥8,270	¥6,335
2) Bonds	—	—	—
3) Other	1,389	1,364	24
Total	15,995	9,635	6,360

(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥1,480	¥1,535	¥ (55)
2) Bonds	5,630	5,784	(154)
3) Other	—	—	—
Total	7,110	7,320	(209)

Current fiscal year (As of March 31, 2021)

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥2,469	¥ 965	¥1,504
2) Bonds	—	—	—
3) Other	460	400	60
Total	2,930	1,366	1,564

(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥ 891	¥ 896	¥ (4)
2) Bonds	431	478	(46)
3) Other	—	—	—
Total	1,323	1,375	(51)

3. Available-for-sale securities sold during the fiscal year

Previous fiscal year (As of March 31, 2020)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥410	¥104	¥ 97
2) Bonds	242	—	3
3) Other	—	—	—
Total	652	104	101

Current fiscal year (As of March 31, 2021)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥20,211	¥11,238	¥18
2) Bonds	—	—	—
3) Other	991	27	—
Total	21,203	11,266	18

4. Impairment loss on securities

Previous fiscal year (From April 1, 2019 to March 31, 2020)

The Group recognized impairment loss on available-for-sale securities in the amount of ¥573 million.

Current fiscal year (From April 1, 2020 to March 31, 2021)

The Group recognized impairment loss on available-for-sale securities in the amount of ¥0 million.

13 Derivative Transactions**1. Derivative transactions to which hedge accounting is not applied****(1) Currency-related derivatives**

Previous fiscal year (As of March 31, 2020)

Not applicable.

Current fiscal year (As of March 31, 2021)

Not applicable.

(2) Compound financial instruments

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in "Note 12 Investment Securities."

2. Derivative transactions to which hedge accounting is applied**(1) Currency-related derivatives**

Previous fiscal year (As of March 31, 2020)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts: Buying				
	U.S. dollar	Accounts payable-trade	¥653	¥—	¥9

Note: Calculation method of fair value: Fair values are calculated based on the prices presented by the financial institutions with which derivatives are transacted.

Current fiscal year (As of March 31, 2021)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts: Buying				
	U.S. dollar	Accounts payable-trade	¥329	¥—	¥22

Note: Calculation method of fair value: Fair values are calculated based on the prices presented by the financial institutions with which derivatives are transacted.

(2) Interest rate-related derivatives

Previous fiscal year (As of March 31, 2020)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method (Note 2)	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥29,767	¥29,767	¥(602)
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Short-term loans payable	30,000	—	Note 3
Total			59,767	29,767	(602)

Notes: 1. Calculation method of fair value: Fair values are calculated based on the prices presented by the financial institutions with which derivatives are transacted.

2. Primary method represents interest rate swaps transactions to long-term loans payable that are used by entities accounted for using equity method. Contract amount and fair value are multiplied by the equity interest held by the Company.

3. Fair value of special treatment for interest rate swaps is included in the fair value of hedged short-term loans payable since these derivatives and the hedged short-term loans payable are accounted for as one financial instrument.

Current fiscal year (As of March 31, 2021)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method (Note 2)	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥29,767	¥29,767	¥(740)
Total			29,767	29,767	(740)

Notes: 1. Calculation method of fair value: Fair values are calculated based on the prices presented by the financial institutions with which derivatives are transacted.

2. Primary method represents interest rate swaps transactions to long-term loans payable that are used by entities accounted for using equity method. Contract amount and fair value are multiplied by the equity interest held by the Company.

14 Retirement Benefits

1. Overview of retirement benefit plans

The Company and some of its consolidated subsidiaries have adopted a defined benefit corporate pension plan, a lump-sum retirement benefit plan, or a defined contribution pension plan to provide retirement benefits to the employees. In addition, the Company and certain consolidated subsidiaries have introduced selective defined contribution pension plans.

Under the lump-sum retirement benefit plan held by certain consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are determined using a simplified method.

2. Defined benefit pension plan

(1) Reconciliation of the difference between the amounts of projected benefit obligations (excluding pension plan using the simplified method)

	Millions of yen	
	2020	2021
Projected benefit obligations at the beginning of the period	¥29,499	¥31,016
Service costs—benefits earned during the year	2,217	2,246
Interest cost on projected benefit obligations	66	100
Actuarial differences accrued	(248)	(1,200)
Retirement benefit paid	(526)	(3,825)
Other	8	1,333
Projected benefit obligations at the end of the period	31,016	29,699

(2) Reconciliation of the difference between the amounts of plan assets

	Millions of yen	
	2020	2021
Plan assets at the beginning of the period	¥28,707	¥30,644
Expected return on plan assets	545	582
Actuarial differences accrued	(1,130)	(314)
Contribution of employer	2,963	3,026
Retirement benefit paid	(443)	(3,771)
Other	—	72
Plan assets at the end of the period	30,644	30,238

(3) Reconciliation of the difference between the amounts of net defined benefit liability under pension plans using the simplified method

	Millions of yen	
	2020	2021
Net defined benefit liability at the beginning of the period	¥656	¥728
Retirement benefit expenses	123	97
Retirement benefit paid	(50)	(85)
Other	(0)	(5)
Net defined benefit liability at the end of the period	728	734

(4) Reconciliation of the difference between the amount of projected benefit obligations and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet

	Millions of yen	
	2020	2021
Funded projected benefit obligations	¥ 29,032	¥ 27,623
Plan assets	(30,644)	(30,238)
	(1,611)	(2,615)
Unfunded projected benefit obligations	2,711	2,781
Net amount of liabilities and assets recorded in the consolidated balance sheet	1,100	166
Net defined benefit liability	4,176	4,542
Net defined benefit asset	(3,076)	(4,376)
Net amount of liabilities and assets recorded in the consolidated balance sheet	1,100	166

Note: Retirement benefit scheme applying the simplified method is included.

(5) Breakdown of retirement benefit expenses

	Millions of yen	
	2020	2021
Service costs—benefits earned during the year	¥2,217	¥2,246
Interest cost on projected benefit obligations	66	100
Expected return on plan assets	(545)	(582)
Amortization of actuarial difference	(83)	(44)
Amortization of prior service cost	—	—
Retirement benefit expenses using the simplified method	123	97
Other	5	15
Retirement benefit expenses of defined benefit pension plan	1,783	1,833

Note: In addition to the retirement benefit expenses shown above, early extra retirement payments have been recorded as other expenses. The amounts recorded are ¥32 million and ¥9,559 million for the prior year and the current year, respectively.

(6) Remeasurements of defined benefit plans, net of tax

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction).

	Millions of yen	
	2020	2021
Actuarial difference	¥(966)	¥(850)
Total	(966)	(850)

(7) Remeasurements of defined benefit plans

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction).

	Millions of yen	
	2020	2021
Unrecognized actuarial difference	¥(1,407)	¥(556)
Total	(1,407)	(556)

(8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

	2020	2021
Debt securities	47%	51%
Share of stock	8	31
Cash and deposits	31	14
General account	10	0
Other	2	2
Total	100	100

2) Long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, as well as current and future long-term rate of returns for the various assets which make up the plan assets.

(9) Matters concerning basis for the actuarial calculation

Basis for the actuarial calculation

	2020	2021
Discount rate	0.0–0.8%	0.0–0.8%
Long-term expected rate of return on plan assets	1.6–2.0%	1.6–2.0%
Salary increase ratio (Note)	Principally, salary increase index by ages as of March 31, 2016 is used.	Principally, salary increase index by ages as of March 31, 2016 is used.

Note: Some consolidated subsidiaries do not use salary increase ratio for the calculation of retirement benefits obligations.

3. Defined contribution pension plans

The required contribution amounts to the defined contribution plan of the Company and its consolidated subsidiaries were ¥781 million in the previous fiscal year and ¥934 million in the current fiscal year.

15 Stock Option Plan**1. Account title and amount of stock options recorded as expenses**

Not applicable.

2. Amounts recognized as gain due to vested stock options unexercised

	Millions of yen	
	2020	2021
Other income	¥20	¥812

3. Contents, scale and movement of stock options

Previous fiscal year (From April 1, 2019 to March 31, 2020)

(1) The following table summarizes the contents of stock options.

Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 7 The Company's employees: 11 The Company's subsidiaries' directors: 43 The Company's subsidiaries' executive officers: 46 The Company's subsidiaries' employees: 822
Class and number of stock	Common stock 250,000	Common stock 3,844,500
Date of issue	September 1, 2016	September 1, 2016
Condition of settlement of rights	Continue to work from September 1, 2016 to September 1, 2018	Continue to work from September 1, 2016 to September 1, 2018
Period grantees provide service in return for stock options	September 1, 2016 to September 1, 2018	September 1, 2016 to September 1, 2018
Period subscription rights are to be exercised	September 2, 2018 to September 1, 2020	September 2, 2018 to September 1, 2020

(2) The following table summarizes the scale and movement of stock options

	Shares	
Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Not exercisable stock options		
Stock options outstanding at April 1, 2019	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2020	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2019	85,000	3,479,200
Conversion from not exercisable stock options	—	—
Stock options exercised	8,400	296,400
Forfeitures	—	80,700
Stock options outstanding at March 31, 2020	76,600	3,102,100

The following table summarizes the price information of stock options

	Yen	
Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Exercise price	¥1,413	¥1,413
Average market price of the stock at the time of exercise	1,619	1,594
Fair value of the stock option at the date of grant	256	256

Current fiscal year (From April 1, 2020 to March 31, 2021)

(1) The following table summarizes the contents of stock options.

Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 7 The Company's employees: 11 The Company's subsidiaries' directors: 43 The Company's subsidiaries' executive officers: 46 The Company's subsidiaries' employees: 822
Class and number of stock	Common stock 250,000	Common stock 3,844,500
Date of issue	September 1, 2016	September 1, 2016
Condition of settlement of rights	Continue to work from September 1, 2016 to September 1, 2018	Continue to work from September 1, 2016 to September 1, 2018
Period grantees provide service in return for stock options	September 1, 2016 to September 1, 2018	September 1, 2016 to September 1, 2018
Period subscription rights are to be exercised	September 2, 2018 to September 1, 2020	September 2, 2018 to September 1, 2020

Note: The exercise period for the subscription rights to shares issued pursuant to the Board of Directors meeting held on August 2, 2016, expired on September 1, 2020, and those rights have been forfeited.

(2) The following table summarizes the scale and movement of stock options.

Company name	The Company	The Company	Shares
Date of the resolution	August 2, 2016	August 2, 2016	
Not exercisable stock options			
Stock options outstanding at April 1, 2020	—	—	
Stock options granted	—	—	
Forfeitures	—	—	
Conversion to exercisable stock options	—	—	
Stock options outstanding at March 31, 2021	—	—	
Exercisable stock options			
Stock options outstanding at April 1, 2020	76,600	3,102,100	
Conversion from not exercisable stock options	—	—	
Stock options exercised	—	3,200	
Forfeitures	76,600	3,098,900	
Stock options outstanding at March 31, 2021	—	—	

The following table summarizes the price information of stock options.

Company name	The Company	The Company	Yen
Date of the resolution	August 2, 2016	August 2, 2016	
Exercise price	¥1,413	¥1,413	
Average market price of the stock at the time of exercise	—	1,217	
Fair value of the stock option at the date of grant	256	256	

2. Estimation of fair value of the stock options

Previous fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable

Current fiscal year (From April 1, 2020 to March 31, 2021)

Not applicable

3. Estimation of number of exercisable stock options

As it is difficult to reasonably estimate the number of stock options that will be forfeited in the future, the number here reflects only stock options that have actually been forfeited.

16 Income Taxes**1. Significant components of deferred tax assets and liability**

	Millions of yen	
	2020	2021
Deferred tax assets:		
Allowance for doubtful accounts	¥ 286	¥ 366
Loss on valuation of inventories	2,038	4,135
Provision for bonuses	2,520	2,128
Net defined benefit liability	1,699	1,858
Depreciation expense	19,256	16,820
Loss on valuation of investment securities	542	394
Impairment loss	2,499	581
Other	9,621	11,255
Tax loss carried forward	37,397	40,832
Total	75,861	78,374
Valuation allowance for tax loss carried forward (Note 2)	(37,292)	(39,343)
Valuation allowance for deductible temporary difference	(32,505)	(17,737)
Valuation allowance (Note 1)	(69,797)	(57,081)
Offset against deferred tax liabilities	(4,848)	(8,020)
Net deferred tax assets	1,215	13,272
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(2,305)	(1,061)
Other	(4,709)	(7,737)
Subtotal of deferred tax liabilities	(7,014)	(8,798)
Offset against deferred tax assets	4,848	8,020
Total	(2,165)	(778)
Recorded deferred tax assets	(950)	12,494

Notes: 1. Valuation allowance decreased by ¥12,716 million. The main reasons for this decrease were an increase in valuation allowance of ¥2,051 million for tax loss carryforwards and a decrease in valuation allowance for deductible temporary difference of ¥14,768 million.

2. Amount of tax loss carried forward and their deferred tax assets by carryforward period are as follows.

Notes to Consolidated Financial Statements

Previous fiscal year (As of March 31, 2020)

	Millions of yen						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carried forward (a)	¥ 3,123	¥ 5,147	¥ 5,198	¥ 2,485	¥ 1,804	¥ 19,638	¥ 37,397
Valuation allowance	(3,123)	(5,147)	(5,197)	(2,482)	(1,804)	(19,537)	(37,292)
Deferred tax assets	—	—	1	2	0	100	(b) 105

(a) The amount of tax loss carried forward is the amount under the normal effective statutory tax rate.

(b) Regarding the amount of tax loss carried forward of ¥37,397 million (amount under the normal effective statutory tax rate), deferred tax assets of ¥105 million were recorded. The Company deemed that a partial amount of tax loss carried forward relating to local tax can be recovered mainly in the following fiscal year due to the estimated amount of taxable income.

Current fiscal year (As of March 31, 2021)

	Millions of yen						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carried forward (a)	¥ 5,147	¥ 5,159	¥ 2,476	¥ 1,802	¥ 1,197	¥ 25,048	¥ 40,832
Valuation allowance	(4,939)	(5,159)	(2,476)	(1,802)	(1,189)	(23,776)	(39,343)
Deferred tax assets	208	—	0	—	7	1,271	(b) 1,488

(a) The amount of tax loss carried forward is the amount under the normal effective statutory tax rate.

(b) Regarding the amount of tax loss carried forward of ¥40,832 million (amount under the normal effective statutory tax rate), deferred tax assets of ¥1,488 million were recorded. The Company deemed that a partial amount of tax loss carried forward can be recovered mainly in the following fiscal year due to the estimated amount of taxable income.

2. Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the fiscal years ended March 31, 2020 and 2021

	2020	2021
Statutory tax rate	30.6%	—%
(Reconciliation)		
Changes in valuation allowance	18.0	—
Permanently non-deductible expenses including entertainment expenses	2.2	—
Amortization of goodwill	2.3	—
Difference of tax rates for consolidated subsidiaries	(2.0)	—
Tax credit for experiment and research expenses	(9.0)	—
Tax loss carryforward	0.9	—
Effect of adjustment for consolidation	1.4	—
Other	4.1	—
Effective tax rate for financial statement purposes	48.4	—

Note: Notes are omitted for the current fiscal year because the Company posted a loss before income taxes.

17 Business Combination

(Transactions under common control)

The merger between consolidated subsidiaries completed as of April 1, 2020 based on the resolution of the Company's Board of Directors' meeting held on December 24, 2019.

(1) Objectives of the merger

The Company expects the global game market to continue expanding as new game platforms and business models become more widespread

with the development of technologies and infrastructures such as 5G and the Cloud. In order to increase the presence of the Group and realize further growth, the Company decided to reorganize the Group because of the necessity of integrating the two major consolidated subsidiaries of the Company, SEGA Games Co., Ltd. and SEGA Interactive Co., Ltd., in order to make reallocation of the domestic R&D resources of the Group more flexibly than ever before, thereby strengthening our competitiveness in global markets.

(2) Overview of the merger

(i) Legal form of business combination
SEGA Interactive Co., Ltd. was disappeared on the effective date

through an absorption-type merger with SEGA Games Co., Ltd. as the surviving company.

(ii) Overview of the companies involved in the merger (As of March 31, 2020)

Name	SEGA Games Co., Ltd. (The surviving company)	SEGA Interactive Co., Ltd. (The disappearing company)
Details of business	Planning, development, and sales of game-related contents for mobile phones, PCs, smart devices, and home video game consoles	Development and sales of amusement machines
Location	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-shinagawa, Shinagawa-ku, Tokyo, Japan	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-shinagawa, Shinagawa-ku, Tokyo, Japan
Capital stock	¥100 million	¥100 million

Note: SEGA Games Co., Ltd. changed the company name to SEGA CORPORATION as of April 1, 2020.

(3) Overview of the accounting treatment adoption

The merger was treated as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019), and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

(Transfer shares of SEGA ENTERTAINMENT CO., LTD.) SEGA GROUP CORPORATION (SHQ), a consolidated subsidiary of the Company, transferred a portion of its shares of SEGA ENTERTAINMENT CO., LTD. (renamed GENDA SEGA Entertainment Inc.) (SE) to GENDA Inc. on December 30, 2020. As a result of the transfer of shares, SHQ's voting rights in SE was 14.9%, and SE was excluded from the scope of consolidation.

(1) Overview of the business divestitures

(i) Name of successor company

GENDA Inc.

(ii) Details of business divestitures

Planning and operation of amusement facilities

(iii) Reason for business divestitures

In light of the situation that many of the Group's business are significantly affected by COVID-19, the Company has established a Structural Reform Committee to reform the organization structure to adapt to the external environment, and working to review the balance sheet for non-business properties, to build an organizational structure that can adapt to changes in the market environment, and to reduce costs centered on group-wide fixed expenses, etc.

As the amusement center operations field in the Entertainment Contents Business is strongly affected by COVID-19, utilization of facilities has declined remarkably, and a significant loss was recorded in the current fiscal year.

The Company had been considering various options in order to adapt to these changes in business aiming for improvement of the profitability and early recovery of sales of the amusement center operations field. In this process, the Company had discussed the transfer of SE shares to GENDA Inc., a company that has a strong desire to expand amusement center operations business and decided to conclude the share transfer agreement at Board of Directors meeting held on November 4, 2020.

(iv) Date of business divestitures

December 30, 2020

(v) Items regarding other transactions including legal form

Share transfer whereby the consideration is specific assets such as cash

(2) Overview of accounting treatment

(i) Profit and loss on transfer

Structural reform expenses ¥187 million

(ii) Book values and breakdown of the assets and liabilities of the transferred business

	Millions of yen
Current assets	¥ 6,881
Noncurrent assets	5,638
Total assets	12,520
Current liabilities	4,920
Noncurrent liabilities	7,626
Total liabilities	12,547

(iii) Accounting treatment

The difference between the transfer value and book value of the transferred shares on a consolidated basis was recorded as structural reform expenses under other expenses.

(3) Approximate amounts of profit or loss of the divested business included in the consolidated statements of income and comprehensive income for the current fiscal year

Net sales	¥19,967 million
Income (loss) before income taxes	¥1,472 million

(Transfer shares of Sega Amusements International Ltd.) SEGA CORPORATION, a consolidated subsidiary of the Company, transferred of its shares of Sega Amusements International Ltd. ("SAI") to KAIZEN ENTERTAINMENT Ltd. on March 30, 2021. As a result of the transfer of shares, SAI was excluded from the scope of consolidation.

(1) Overview of the business divestitures

(i) Name of successor company
KAIZEN ENTERTAINMENT Ltd.

(ii) Details of business divestitures

Import, sales and manufacture of amusement machines

(iii) Reason for business divestitures

In light of the situation that many of the Group's business are significantly affected by COVID-19, the Company has established a Structural Reform Committee to reform the organization structure to adapt to the external environment, and working to review the balance sheet for non-business properties, to build an organizational structure that can adapt to changes in the market environment, and to reduce costs centered on group-wide fixed expenses, etc.

In the Entertainment Contents Business, sales of amusement machines in the U.S. and Europe declined significantly as it is strongly affected by COVID-19, and a loss was recorded in the current fiscal year.

The Group had been considering various options in order to respond flexibly and efficiently to these changes in business environment and within this process, the Group had discussed the transfer of SAI shares to KAIZEN ENTERTAINMENT Ltd., the newly established company by Paul Williams, SAI's current CEO, in the MBO method and decided to conclude the share transfer agreement at the Board of Directors meeting held on March 25, 2021.

As for amusement machine sales in the U.S. and Europe territories going forward, the Group has changed the business scheme to grant the right to use Sega brand to SAI.

(iv) Date of business divestitures
March 30, 2021

(v) Items regarding other transactions including legal form

Share transfer whereby the consideration is specific assets such as cash

(2) Overview of accounting treatment

(i) Profit and loss on transfer

Structural reform expenses ¥3,120 million

(ii) Book values and breakdown of the assets and liabilities of the transferred business

	Millions of yen
Current assets	¥2,157
Noncurrent assets	1,342
Total assets	3,499
Current liabilities	522
Noncurrent liabilities	192
Total liabilities	715

(iii) Accounting treatment

The difference between the transfer value and book value of the transferred shares on a consolidated basis was recorded as structural reform expenses under other expenses.

(3) Approximate amounts of profit or loss of the divested business included in the consolidated statements of income and comprehensive income for the current fiscal year

Net sales ¥1,220 million
Income (loss) before income taxes ¥196 million

18 Asset Retirement Obligations

Previous fiscal year (As of March 31, 2020)

The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

Current fiscal year (As of March 31, 2021)

The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

19 Rental Property and Other Real Estate

Previous fiscal year (As of March 31, 2020)

The information is omitted due to the immateriality of the total amount of the rental property and other real estate.

Current fiscal year (As of March 31, 2021)

The information is omitted due to the immateriality of the total amount of the rental property and other real estate.

20 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 comprises segments classified by product and service provided through the business run by each company, in which "Entertainment Contents Business," "Pachislot and Pachinko Machines Business" and "Resort Business" are the reporting segments.

Line of business at each reporting segment is as follows: From the fiscal year ended March 31, 2021, the order of description of reporting segments has been reviewed. As a result, the order of description for the previous fiscal year has been changed as well.

Line of business at each reporting segment is as follows:

Segment	Main product and business
Entertainment Contents Business	Development and sales of consumer game software including Full Game, F2P, etc., and amusement machines, development and operation of amusement centers, planning, production and sales of animated films, development, manufacture and sales of toys
Pachislot and Pachinko Machine Business	Development, manufacture and sales of pachislot and pachinko machines
Resort Business	Development and operation of hotels and golf courses, etc., in the integrated resorts business and other facilities businesses

(Changes to the classification method for reporting segments)

The business operated by SEGA SAMMY CREATION INC., which was included in the Entertainment Contents Business, has been changed to the Pachislot and Pachinko Machines Business from the fiscal year ended March 31, 2021, in order to further promote the synergic effects of the Pachislot and Pachinko Machines Business in the development of gaming machines.

Segment information for the fiscal year ended March 31, 2020 has been prepared based on the new classification method.

2. Basis of measurement for net sales, income (loss), assets and other items by each reporting segment

The accounting treatment for the Group's reporting segments is generally the same as described in "Note 2 – Summary of Significant Accounting Policies." In addition, as an evaluation index for the performance-based remuneration component of bonuses paid to the Company's officers, the method of measuring segment income has been changed from "operating income" to "ordinary income" from the fiscal year ended March 31, 2021, from the perspective of a management approach that the company positions "ordinary income," which is the income obtained by the Group on a recurring basis from the overall business, including equity in earnings and losses of affiliates, etc., as an important target figure.

Segment information for the prior year has been prepared based on the new calculation method.

3. Information on the amounts of net sales, income (loss), assets and other items by each reporting segment

Previous fiscal year (From April 1, 2019 to March 31, 2020)

	Reporting segment					Adjustment (Note)	Amount in Consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal			
Net sales:							
Sales to third parties	¥247,605	¥108,508	¥10,478	¥366,592	¥ 1	¥366,594	
Inter-segment sales and transfers	816	949	82	1,848	(1,848)	—	
Total	248,422	109,458	10,561	368,441	(1,847)	366,594	
Segment income (loss)	16,272	22,781	(5,354)	33,698	(8,402)	25,296	
Segment assets	181,388	81,025	37,356	299,769	158,498	458,268	
Other items:							
Depreciation	10,670	4,286	1,103	16,061	1,132	17,193	
Interest income	120	236	0	357	(110)	247	
Interest expenses	139	67	33	240	234	475	
Equity in earnings (losses) of affiliates	(591)	(608)	(1,623)	(2,823)	17	(2,805)	
Investments in affiliates accounted for by the equity method	728	493	22,130	23,352	803	24,156	
Increases in property, plant and equipment and intangible assets	18,201	3,510	265	21,977	919	22,896	

Notes: 1. Adjustment to segment income (loss) of ¥(8,402) million includes elimination of inter-segment transactions of ¥1,416 million and general corporate expenses of ¥(9,818) million which are not allocated to each reporting segment. General corporate expenses mainly consist of the expenses of the Group management incurred by the Company.

2. Adjustment to segment assets of ¥158,498 million includes elimination of inter-segment transactions of ¥(15,398) million and general corporate assets of ¥173,897 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. Adjustments to depreciation mainly consist of depreciation associated with the Company.

4. Adjustment to interest income of ¥(110) million includes elimination of inter-segment transactions of ¥(356) million and interest income of the Company of ¥245 million.

5. Adjustment to interest expenses of ¥234 million includes elimination of inter-segment transactions of ¥(356) million and interest expenses of the Company of ¥591 million.

6. Adjustments to equity in earnings (losses) of affiliates represent equity in earnings or losses of affiliates that does not belong to each reporting segment.

7. Adjustments to investments in affiliates accounted for using equity method represent investments in affiliates accounted for using equity method that do not belong to each reporting segment.

8. Adjustments to property, plant and equipment and intangible assets mainly consist of purchase amount of noncurrent assets relating to the Company.

9. Segment income (loss) is calculated by adding or subtracting some other income (expenses) on or from operating income. The other income (expenses) are interest income of ¥247 million, dividends income of ¥435 million, gain on investments in partnership of ¥616 million, foreign exchange gains of ¥329 million, interest expenses of ¥(475) million, equity in losses of affiliates of ¥(2,805) million, commission fee of ¥(137) million, loss on investments in partnership of ¥(421) million, loss on retirement of noncurrent assets of ¥(193) million, rent expenses of ¥(84) million and other, net of ¥141 million in the consolidated statements of income and comprehensive income.

Current fiscal year (From April 1, 2020 to March 31, 2021)

	Reporting segment				Adjustment (Note)	Amount in Consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal		
Net sales:						
Sales to third parties	¥217,810	¥ 53,198	¥ 6,320	¥277,330	¥ 418	¥277,748
Inter-segment sales and transfers	714	429	94	1,238	(1,238)	—
Total	218,525	53,628	6,415	278,569	(820)	277,748
Segment income (loss)	27,917	(11,332)	(8,979)	7,605	(5,889)	1,715
Segment assets	180,735	68,603	30,736	280,075	141,524	421,599
Other items:						
Depreciation	8,704	4,183	957	13,846	980	14,826
Interest income	39	246	0	286	(150)	136
Interest expenses	141	65	32	239	230	470
Equity in earnings (losses) of affiliates	222	(1,117)	(4,792)	(5,687)	24	(5,662)
Investments in affiliates accounted for by the equity method	1,296	576	17,146	19,019	805	19,824
Increases in property, plant and equipment and intangible assets	10,471	3,336	194	14,002	502	14,504

Notes: 1. Adjustment to segment income (loss) of ¥(5,889) million includes elimination of inter-segment transactions of ¥605 million and general corporate expenses of ¥(6,495) million which are not allocated to each reporting segment. General corporate expenses mainly consist of the expenses of the Group management incurred by the Company.

2. Adjustment to segment assets of ¥141,524 million includes elimination of inter-segment transactions of ¥(21,955) million and general corporate assets of ¥163,480 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. Adjustments to depreciation mainly consist of depreciation associated with the Company.

4. Adjustment to interest income of ¥(150) million includes elimination of inter-segment transactions of ¥(345) million and interest income of the Company of ¥195 million.

5. Adjustment to interest expenses of ¥230 million includes elimination of inter-segment transactions of ¥(345) million and interest expenses of the Company of ¥575 million.

6. Adjustments to equity in earnings (losses) of affiliates represent equity in earnings or losses of affiliates that does not belong to each reporting segment.

7. Adjustments to investments in affiliates accounted for using equity method represent investments in affiliates accounted for using equity method that do not belong to each reporting segment.

8. Adjustments to property, plant and equipment and intangible assets mainly consist of purchase amount of noncurrent assets relating to the Company.

9. Segment income (loss) is calculated by adding or subtracting some other income (expenses) on or from operating income. The other income (expenses) are interest income of ¥136 million, dividends income of ¥356 million, gain on investments in partnership of ¥1,404 million, interest expenses of ¥(470) million, equity in losses of affiliates of ¥(5,662) million, commission fee of ¥(97) million, loss on investments in partnership of ¥(208) million, foreign exchange losses of ¥(487) million, loss on retirement of noncurrent assets of ¥(294) million and other, net of ¥485 million in the consolidated statements of income and comprehensive income.

[Related information]

Previous fiscal year (From April 1, 2019 to March 31, 2020)

1. Information by each product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Geographical segment information**(1) Net sales**

					Millions of yen
Japan	United States	Europe	Other	Total	
¥291,242	¥46,275	¥14,610	¥14,465	¥366,594	

Note: Net sales are classified by country or region based on the customer's location.

(2) Property, plant and equipment

Description is omitted, since property, plant and equipment in Japan exceeded 90% of those stated in the consolidated balance sheets.

3. Information by each major customer

Description is omitted, since there is no external customer to whom sales are 10% or more of the net sales recorded in the consolidated statements of income or comprehensive income.

Current fiscal year (From April 1, 2020 to March 31, 2021)

1. Information by each product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Geographical segment information**(1) Net sales**

					Millions of yen
Japan	United States	Europe	Other	Total	
¥190,459	¥58,248	¥14,099	¥14,941	¥277,748	

Note: Net sales are classified by country or region based on the customer's location.

(Change in method of presentation)

Sales in the United States, which were included in "North America" in the previous fiscal year, are presented as a separate line item from the current fiscal year due to its increased importance. To reflect this change in presentation, "2. Information by geographical area (1) Net sales" for the previous fiscal year has been reclassified.

As a result, ¥49,027 million presented in "North America" in the previous fiscal year has been reclassified as ¥46,275 million in "United States" and ¥2,751 million in "Other."

(2) Property, plant and equipment

					Millions of yen
Japan	North America	Europe	Other	Total	
¥52,651	¥1,598	¥6,879	¥488	¥61,617	

3. Information by each major customer

Description is omitted, since there is no external customer to whom sales are 10% or more of the net sales recorded in the consolidated statements of income or comprehensive income.

[Information on the amount of impairment loss on noncurrent assets by each reporting segment]

Previous fiscal year (From April 1, 2019 to March 31, 2020)

						Millions of yen
	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal		
Impairment loss	¥356	¥14	¥—	¥371	¥—	¥371

Current fiscal year (From April 1, 2020 to March 31, 2021)

						Millions of yen
	Reporting segment				Adjustment (Note)	Amount in consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal		
Impairment loss	¥17,872	¥127	¥3,050	¥21,050	¥40	¥21,091

[Information on amortization of goodwill and unamortized balance by each reporting segment]

Previous fiscal year (From April 1, 2019 to March 31, 2020)

					Millions of yen	
	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort			
Amortization	¥2,043	¥—	¥—	¥2,043	¥—	¥2,043
Balance as of March 31, 2020	5,878	—	—	5,878	—	5,878

Current fiscal year (From April 1, 2020 to March 31, 2021)

					Millions of yen	
	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort			
Amortization	¥1,908	¥—	¥—	¥1,908	¥—	¥1,908
Balance as of March 31, 2021	4,711	—	—	4,711	—	4,711

[Information on gain on negative goodwill by each reporting segment]

Previous fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable

Current fiscal year (From April 1, 2020 to March 31, 2021)

Not applicable

21 Related-Party Transactions**1. Transactions with related parties****(1) Transactions between the Company and related parties**

1) Non-consolidated subsidiaries and affiliated companies of the Company

Previous fiscal year (From April 1, 2019 to March 31, 2020)

					Millions of yen
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
PARADISE SEGASAMMY Co., Ltd.	Resort business	Provision of security ^(Note1)	¥22,130	—	—

Note: For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

Current fiscal year (From April 1, 2020 to March 31, 2021)

					Millions of yen
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
PARADISE SEGASAMMY Co., Ltd.	Resort business	Provision of security ^(Note1)	¥17,146	—	—

Note: For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

Notes to Consolidated Financial Statements

2) Directors, key individual shareholders, etc., of the Company
Previous fiscal year (From April 1, 2019 to March 31, 2020)

					Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance	
Hajime Satomi	Director of the Company	Grant of restricted stock ^(Note 1)	¥48	—	—	
		Receipt of noncurrent asset usage fees ^(Note 2)	23	—	—	
Haruki Satomi	Director of the Company	Grant of restricted stock ^(Note 1)	18	—	—	
	Chairman of SEGA SAMMY ARTS FOUNDATION	Payment of donation ^(Note 3)	103	—	—	
Koichi Fukazawa	Director of the Company	Exercise of stock options ^(Note 4)	11	—	—	
Hideo Yoshizawa	Director of the Company	Exercise of stock options ^(Note 4)	22	—	—	
Toshimi Kumagai	Director of Sammy Corporation	Exercise of stock options ^(Note 4)	11	—	—	
Ayumu Hoshino	Director of Sammy Corporation	Exercise of stock options ^(Note 4)	11	—	—	
Kazuhiro Sumitani	Director of Sammy Corporation	Exercise of stock options ^(Note 4)	10	—	—	
Kenichi Tokumura	Director of Sammy Corporation	Exercise of stock options ^(Note 4)	10	—	—	
FSC Co., Ltd. ^(Note 5)	Non-life insurance agent	Payment of insurance ^(Note 2)	12	Prepaid expenses	¥14	
				Long-term prepaid expenses	1	

Notes: 1. At the Ordinary General Meeting of Shareholders on June 21, 2019, approval was received with respect to the amount of remuneration as monetary compensation receivables provided in order to grant restricted stock. At the Board of Directors Meeting on July 19, 2019, the specific timing of the provision and allocation were determined based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of the Board of Directors Meeting.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. The contribution amount of donations to the Foundation has been decided based on approval by the Board of Directors.
4. Exercise of the stock options, which were granted based on the resolution at the interim Board of Directors Meeting held on August 2, 2016, for the fiscal year ended March 31, 2020 are listed. The transaction amount listed herein is calculated by multiplying the number of shares granted upon exercise of stock options for the fiscal year ended March 31, 2020 by the amount of payment upon exercise.
5. Hajime Satomi, Chairman and Group CEO, Representative Director, and Haruki Satomi, President and Group COO, Representative Director, directly hold a majority of the shares of FSC Co., Ltd.
6. Transaction amounts do not include consumption taxes.

Current fiscal year (From April 1, 2020 to March 31, 2021)

					Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance	
Haruki Satomi	Chairman of SEGA SAMMY ARTS FOUNDATION	Payment of donation ^(Note 1)	¥112	—	—	
FSC Co., Ltd. ^(Note 3)	Non-life insurance agent	Payment of insurance ^(Note 2)	21	Prepaid expenses	¥9	
				Long-term prepaid expenses	0	

Notes: 1. The contribution amount of donations to the Foundation has been decided based on approval by the Board of Directors.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Hajime Satomi, Chairman, Representative Director, and Haruki Satomi, President and Group CEO, Representative Director, directly hold a majority of the shares of FSC Co., Ltd.
4. Consumption taxes are not included in transaction amount.

(2) Transactions between subsidiaries of the Company and related parties

1) Non-consolidated subsidiaries and affiliated companies of the Company
Previous fiscal year (From April 1, 2019 to March 31, 2020)
Not Applicable.

Current fiscal year (From April 1, 2020 to March 31, 2021)

					Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance	
ZEEG Co., Ltd.	Pachislot and Pachinko Machines Business	Purchase of game machine parts	¥3,147	Accounts payable-trade	¥150	
		Loan of funds ^(Note)	5,348	Short-term loans receivable	5,725	
		Collection of loans ^(Note)	700	Long-term loans receivable	1,782	
		Interest income ^(Note)	65			

Note: The interest rate on loans is determined by taking market interest rates into consideration, and the terms of repayment are 1 to 5 years, with principal to be repaid in a lump sum on the due date and interest to be repaid in annual installments. No collateral is accepted.

2) Directors, key individual shareholders, etc., of the Company
Previous fiscal year (From April 1, 2019 to March 31, 2020)

					Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance	
FSC Co., Ltd. ^(Note 1)	Non-life insurance agent	Payment of insurance ^(Note 2)	¥20	Prepaid expenses	¥0	
				Accrued expenses	0	

Notes: 1. Hajime Satomi, Chairman and Group CEO, Representative Director, and Haruki Satomi, President and Group COO, Representative Director, directly hold a majority of the shares of FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2020 to March 31, 2021)

					Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance	
FSC Co., Ltd. ^(Note 1)	Non-life insurance agent	Payment of insurance ^(Note 2)	¥0	Accrued expenses	¥0	

Notes: 1. Hajime Satomi, Chairman, Representative Director, and Haruki Satomi, President and Group CEO, Representative Director, directly hold a majority of the shares of FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

2. Notes on the parent company or significant affiliates

(1) Information on the parent company

Not applicable

(2) Summarized financial information of significant affiliates

PARADISE SEGASAMMY Co., Ltd. is a significant affiliate in the current fiscal year, and its summarized financial statements are as follows.

	Millions of yen	
	2020	2021
Total current assets	¥ 17,504	¥ 5,522
Total noncurrent assets	135,684	130,407
Total current liabilities	23,868	10,099
Total noncurrent liabilities	80,502	87,727
Total net assets	48,816	38,102
Net sales	43,690	16,100
Income (loss) before income taxes	(2,816)	(10,302)
Income (loss)	(2,750)	(10,302)

22 Per Share Data

Item	Yen	
	2020	2021
Net assets per share	¥1,251.02	¥1,236.82
Net income per share	58.65	5.42
Net income per share (diluted)	58.63	—

1. The calculation basis for net assets per share is as follows.

Items	2020	2021
Total of net assets in the consolidated balance sheets (Millions of yen)	¥296,858	¥291,256
Amounts deducted from net assets in the consolidated balance sheets (Millions of yen)	2,755	496
(Subscription rights to shares (Millions of yen))	813	—
(Non-controlling interests (Millions of yen))	1,941	496
Net assets available for common stock (Millions of yen)	294,102	290,759
Number of common stock used to calculate net assets per share (Thousands of shares)	235,091	235,086

2. The assumptions of net income (loss) per share and diluted net income per share are as follows.

Item	2020	2021
Net income (loss) per share:		
Profit (loss) attributable to owners of parent (Millions of yen)	¥13,775	¥1,274
Amount not attributable to common stockholders (Millions of yen)	—	—
Profit (loss) attributable to owners of parent for common stock (Millions of yen)	13,775	1,274
Average number of common stock (Thousands of shares)	234,849	235,090
Diluted net income per share:		
Profit (loss) attributable to owners of parent adjustment (Millions of yen)	—	—
Increase of common stock (Thousands of shares)	97	—
(Stock options (Thousands of shares))	97	—
Outline of potential shares not included in calculation of net income per share (diluted) because of no dilutive effect	—	—

23 Significant Subsequent Events

(Transactions under common control)

(1) Purpose of company split and absorption-type merger

The Group had been working on structural reform to transform its business structure to adapt to the external environment. Furthermore, the Company resolved to restructure the organization of the Company and the Group in order to build an even more efficient structure at the Board of Directors meeting held on January 29, 2021, and implemented the split and absorption-type merger with an effective date of April 1, 2021.

(2) Overview of the company of the split

(i) Details of business to be split

SEGA GROUP CORPORATION: Corporate functions and other administrative functions

Sammy Corporation: Corporate functions and other administrative functions

(ii) Legal form of business combination

The legal form of the business combination is an absorption-type company split in which SEGA GROUP CORPORATION and Sammy Corporation are the splitting companies, and the Company is the succeeding company.

(iii) Overview of the companies of the split (As of March 31, 2021)

	Succeeding company	Splitting company	Splitting company
Name	SEGA SAMMY HOLDINGS INC.	SEGA GROUP CORPORATION	Sammy Corporation
Details of business	Business management and incidental operations of the Group as a holding company of a comprehensive entertainment corporate group	Business management and incidental operations of SEGA Group	Development, manufacturing, and sales of pachinko, pachislot, arrange-ball, and jankyu machines, etc.
Location	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo
Capital stock	¥29,953 million	¥44,092 million	¥18,221 million

(3) Overview of the absorption-type merger

(i) Legal form of business combination

The legal form of business combination is an absorption-type merger with SEGA CORPORATION as the surviving company and SEGA GROUP CORPORATION as the disappearing company.

(ii) Overview of the companies in the merger (As of March 31, 2021)

	Surviving company	Disappearing company
Name	SEGA CORPORATION	SEGA GROUP CORPORATION
Details of business	Planning, development, and sales of game-related contents for mobile phones, PCs, smart devices, and home video game consoles, and development and sales of amusement machines	Business management and incidental operations of SEGA Group
Location	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo
Capital stock	¥100 million	¥44,092 million

(4) Overview of the accounting treatment to be adopted

The merger will be treated as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019), and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

24 Supplemental Information

Schedule of corporate bonds

Company name	Security titles	Issuance date	Balances as of April 1, 2020 (Millions of yen)	Balances as of March 31, 2021 (Millions of yen)	Interest rate (%)	Type	Date of maturity
The Company	4th unsecured bonds (Publicly offered bonds)	June 15, 2015	¥10,000	¥ —	0.57	Unsecured	June 15, 2020
	5th unsecured bonds (Publicly offered bonds)	October 10, 2019	10,000	10,000	0.38	Unsecured	October 10, 2029
Total			20,000	10,000 (—)			

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2021" represent the current portion of corporate bonds.
2. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2021 is as follows:

Millions of yen					
Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
¥—	¥—	¥—	¥—	¥—	¥10,000

Schedule of borrowings

Category	Balances as of April 1, 2020 (Millions of yen)	Balances as of March 31, 2021 (Millions of yen)	Average interest rate (%)	Repayment period
Short-term loans payable	¥ —	¥ —	—	—
Current portion of long-term loans payable due within one year	13,331	—	—	—
Current portion of lease obligations	888	1,136	1.6	—
Long-term loans payable (Excluding current portion)	42,003	42,000	0.4	2022–2025
Lease obligations (Excluding current portion)	3,434	4,808	1.8	2022–2031
Other interest-bearing debt:				
Accounts payable—facilities	34	26	1.2	—
Accounts payable—facilities (Excluding current portion)	145	118	1.5	2022–2030
Total	59,837	48,089	—	—

Notes: 1. "Average interest rate" represents weighted-average interest rate over the year-end balance of loans.
2. The average interest rate on lease obligations is not listed because lease obligations are posted on the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.
3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2021 is summarized as follows:

Millions of yen					
	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Long-term loans payable	¥10,000	¥17,000	¥15,000	¥ —	¥ —
Lease obligations	1,038	881	648	536	1,703
Other interest-bearing debt:					
Accounts payable—facilities	26	20	13	12	45

Schedule of asset retirement obligations

Category	Balance as of April 1, 2020 (Millions of yen)	Increase during the current period (Millions of yen)	Decrease during the current period (Millions of yen)	Balance as of March 31, 2021 (Millions of yen)
Asset retirement obligations	¥4,949	¥930	¥2,841	¥3,038

25 Other

Quarterly information for the current fiscal year

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Millions of yen)	¥48,382	¥110,225	¥210,177	¥277,748
Income (loss) before income taxes (Millions of yen)	(6,453)	(23,175)	(8,874)	(9,844)
Profit (loss) attributable to owners of parent (Millions of yen)	(3,301)	(21,716)	(6,239)	1,274
Net income (loss) per share (Yen)	(14.04)	(92.38)	(26.54)	5.42
(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income (loss) per share (Yen)	¥(14.04)	¥(78.33)	¥65.83	¥31.97



Independent Auditor's Report

To the Board of Directors of SEGA SAMMY HOLDINGS INC.:

Opinion

We have audited the accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of management's judgment as to whether an impairment loss should be recognized on non-financial assets including goodwill at the equity-method affiliate.	
The key audit matter	How the matter was addressed in our audit
<p>As described in Note, "Significant accounting estimates" (4), to the consolidated financial statements, investment securities of ¥38,323 million reported in the consolidated balance sheet of Sega Sammy Holdings INC. (hereinafter, referred to as the "Company") and its consolidated subsidiaries as of March 31, 2021, included an investment in PARADISE SEGASAMMY Co., Ltd. (hereinafter "PSS"), an equity-method affiliate in the Resort Business segment, of ¥17,146 million, representing approximately 4% of total assets in the consolidated financial statements. PSS recognized non-financial assets of ¥129,014 million in its financial statements, of which ¥8,681 million was related to goodwill.</p> <p>PSS prepares its financial statements in accordance with International Financial Reporting</p>	<p>In order to assess the appropriateness of management's judgment with respect to whether an impairment loss should be recognized on non-financial assets including goodwill held by PSS, we requested the component auditors of PSS, an equity-method affiliate, to perform specified audit procedures including the involvement of valuation specialists within the network firms of the component auditors.</p> <p>We then evaluated the report of the component auditors to conclude on whether sufficient and appropriate audit evidence was obtained from the following procedures among others:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company's internal controls relevant to evaluating the appropriateness of</p>

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Standards (IFRS) and performs an impairment test on a cash-generating unit (CGU) whenever there is an impairment indicator, or at least annually on a CGU to which goodwill has been allocated. In the impairment testing, when the recoverable amount of a CGU is less than the carrying amount, PSS reduces the carrying amount to the recoverable amount and recognizes the resulting decrease in the carrying amount as an impairment loss, which affects the amount of investment securities recorded in the Company's consolidated financial statements through the equity method of accounting.

In the current fiscal year, PSS performed impairment tests on a CGU to which goodwill had been allocated as well as on a CGU for which there was an impairment indicator, and used the value in use or fair value less cost of disposal as the recoverable amount. The future cash flows used to measure the value in use were estimated based on the business plan of PSS approved by management. For periods beyond the period covered by the business plan, the future cash flows were estimated based on the forecasts using a projected growth rate within the long-term average growth rate of relevant markets. Key assumptions used to project future cash inflows and outflows included in the business plan, such as the number of casino visitors, amounts of Drop (chips purchased at a table) and projected market growth rate, as well as the prospect of recovery from the impact of the novel coronavirus disease (COVID-19) involved a high degree of estimation uncertainty. Accordingly, management's judgment thereon had a significant effect on the estimated future cash flows.

In addition, selecting the input data for estimating the discount rate used to calculate the value in use and selecting the appropriate valuation technique and key assumptions for measuring the fair value less cost of disposal, using mainly the depreciated replacement cost approach, required a high degree of expertise in valuation.

We, therefore, determined that our assessment of the appropriateness of management's judgment as to whether an impairment loss should be recognized on non-financial assets including goodwill held by PSS was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

PSS's financial statements including the assessment on CGUs and a CGU to which goodwill has been allocated.

(2) Assessment of the reasonableness of the estimated recoverable amount

Evaluating the reasonableness of the rationale supporting key assumptions adopted by management in preparing the business plan that formed the basis for estimating future cash flows used to calculate the value in use, by performing the procedures set forth below, as well as evaluating the competence, capabilities and objectivity of the external valuation expert engaged by management.

- Inspected the materials supporting the number of casino visitors and amounts of Drop embedded in the business plan, and compared them with past actual results;
- Compared the growth rate with external data in order to ensure that it was within the long-term average growth rate of relevant markets; and
- Compared the prospect of recovery from COVID-19 with the analysis reports published by external research organizations.

In addition, we involved valuation specialists within our network firms who assisted our assessment of the reasonableness of the selection of input data for estimating the discount rate used to calculate the value in use, and the selection of appropriate valuation techniques and key assumptions for measuring the fair value less cost of disposal.



Appropriateness of the measurement of an impairment loss recognized on property, plant and equipment and intangible assets held by PHOENIX RESORT CO., LTD.	
The key audit matter	How the matter was addressed in our audit
<p>As described in Note, "Significant accounting estimates" (3) and "Segment information", to the consolidated financial statements, noncurrent assets of ¥145,304 million recognized in the consolidated balance sheet of Sega Sammy Holdings INC. (hereinafter referred to as the "Company") and its consolidated subsidiaries as of March 31, 2021, included ¥10,501 million of property, plant and equipment and intangible assets used in a resort complex, called Phoenix Seagaia Resort, operated by PHOENIX RESORTS CO., LTD. (hereinafter "PSR") within the Resort Business segment, which accounted for approximately 2% of total assets in the consolidated financial statements. An impairment loss of ¥3,050 million was recognized on those property, plant and equipment and was included in impairment losses of ¥3,347 million reported in the consolidated statement of income and comprehensive income for the current fiscal year.</p> <p>It is determined that there is an impairment indicator for property, plant and equipment and intangible assets when an external business environment has significantly deteriorated, recurring operating losses are recognized for some consecutive years, as well as net cash outflow used in operating activities has continued for several years, among others. If there is an impairment indicator and the undiscounted future cash flows are less than the carrying amount, the recognition of an impairment loss is deemed necessary. The carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.</p> <p>PSR had reported recurring operating losses for some consecutive years indicating impairment and, as a result, the undiscounted future cash flows were estimated in the current fiscal year. In the impairment testing, the future cash flows were estimated based on the business plan and the mid-term management plan of PSR approved by management. Key assumptions underlying these plans, such as hotel occupancy rates, average daily rate, number of golf rounds and average golf round rates, as well as the prospects of recovery from the impact of the novel coronavirus disease (COVID-19), involved estimation uncertainty.</p> <p>As the undiscounted future cash flows calculated were less than the carrying amount of the assets,</p>	<p>The primary procedures we performed to assess the appropriateness of the measurement of an impairment loss recognized on property, plant and equipment and intangible assets held by PSR, included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company's and PSR's internal controls relevant to determining whether an impairment loss should be recognized and the estimate of the recoverable amount used to measure the impairment loss.</p> <p>(2) Assessment of the reasonableness of the estimated undiscounted future cash flows</p> <p>We performed the following procedures to evaluate the reasonableness of the rationale supporting key assumptions embedded in the business plan and the mid-term management plan of PSR that formed the basis for estimating future cash flows.</p> <ul style="list-style-type: none"> Inspected the supporting materials for hotel occupancy rates and the number of golf rounds, and compared them with past actual results; Inquired of management regarding the policy of establishing average daily rate and average golf round rates, and compared them with past actual results; and Compared the prospect of the recovery from COVID-19 with the market related information published by external research organizations. <p>(3) Assessment of the reasonableness of the estimated recoverable amount</p> <p>We performed the following procedures to evaluate the reasonableness of the rationale supporting the valuation technique and key assumptions used to calculate the real estate appraisal values that formed the basis for estimating the net selling price.</p> <ul style="list-style-type: none"> Evaluated the competence, capabilities and objectivity of the valuation expert PSR engaged; and <p>Involved valuation specialists within our network firms who assisted our assessment of the</p>



<p>the carrying amount was reduced to the recoverable amount, and the resulting decrease in the carrying amount was recognized as an impairment loss for the current fiscal year. PSR used the net selling price based on the real estate appraisal values calculated mainly using the income capitalization method as the recoverable amount. Selecting the appropriate valuation technique and key assumptions, used to calculate the real estate appraisal values, required a high degree of expertise in valuation.</p> <p>We, therefore, determined that our assessment of the appropriateness of the measurement of an impairment loss recognized on property, plant and equipment and intangible assets used in PSR was of most significance in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.</p>	<p>reasonableness of the selection of appropriate valuation techniques and key assumptions used to calculate the real estate appraisal values.</p>
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Responsibilities of Management and Audit & Supervisory Board Member and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board Member and Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures



that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Member and Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Member and Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board Member and Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



福田 秀敏 
 Hidetoshi Fukuda
 Designated Engagement Partner
 Certified Public Accountant

関口 男也 
 Danya Sekiguchi
 Designated Engagement Partner
 Certified Public Accountant

上野 陽一 
 Yoichi Ueno
 Designated Engagement Partner
 Certified Public Accountant

KPMG AZSA LLC
 Tokyo Office, Japan
 October 29, 2021



SEGA SAMMY HOLDINGS INC.

Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo 141-0033, Japan
www.segasammy.co.jp/english/