

SEGASammy



Integrated Report 2022





BEYOND THE STATUS QUO

Breaking out of the Current Situation and Becoming a Sustainable Company

As the worldwide spread of COVID-19 wrought dramatic changes on the business environment in which the SEGA SAMMY Group operates, we announced a new medium-term plan and a clear vision in 2021 to point the way forward for the Group. Guided by this vision, we are pressing ahead to break out of the current situation and become a truly sustainable corporate group.

We subsequently announced a Sustainability Vision in May 2022, and are working together across the Group to address the material issues facing us. As always, we will continue to create experiences that move the heart.

INTEGRATED REPORT 2022 gives an overview of our thinking and the specific actions we are taking to achieve our vision.

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SUSTAINABILITY STATEMENT

https://www.segasammy.co.jp/english/media/file/pr/commu/sustainability_statement/SUSTAINABILITY_STATEMENT_all.pdf

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/sustainability/>

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/>

Living Out Our *Raison d'Être*

The Group Mission we formulated comprises a set of values that are shared across the entire SEGA SAMMY Group. The pandemic caused us to reflect deeply on the Group's significance to society. We came away with both a fresh awareness that entertainment enriches people's lives and the renewed conviction that the Group's Mission of *Constantly Creating, Forever Captivating* —*Making life more colorful*— is not misguided. While pursuing the long-term goals of each business, we will continue to work together across the entire Group to aim for sustainable management by focusing on the four “Es” of Environment, Empathy, Edge, and Economics.

VALUE (Mindset and DNA)

“Creation is Life”

×

“Always Proactive, Always Pioneering”

SEGA SAMMY Group Mission Pyramid

MISSION (*Raison d'être*)

Constantly Creating, Forever Captivating

—*Making life more colorful*—

VISION (Ideal self)

Be a Game Changer

Long-Term Goals to 2030



Entertainment Contents Business
Global Leading Contents Provider



Pachislot and Pachinko Machines Business
Winning a “Triple Crown”
—Top Share in Utilization, Installation, and Sales



Investment in Gaming Area
Realize the investment in Gaming area

Sustainability



Environment



Empathy



Edge



Economics

Material Issues
to be addressed

Human
resource

Products and
Services

Environment

Addiction

Governance

Long-Term Targets

ENTERTAINMENT CONTENTS BUSINESS

Becoming a Global Leading Contents Provider

In the period from the fiscal year ended March 2022 to the fiscal year ending March 2024, we will focus on expanding the scale of earnings by strengthening the global branding of existing IPs. We are also striving to create a “Super Game,” a major title that scales globally, by the fiscal year ending March 2026.

FY2024/3

By FY2026/3

Reinforcing the earnings base by strengthening the global branding of existing IPs
Investment stage toward becoming a global player

Creation of a “Super Game”

Proactive growth investment
(additional investments of ¥100.0 billion by FY2026/3)



PACHISLOT AND PACHINKO MACHINES BUSINESS

Winning a “Triple Crown” — Top Share in Utilization, Installation, and Sales — and Building a Stable Earnings Structure

By creating hit products that take advantage of revised regulations, we aim to capture the top share in utilization, installation, and sales while improving business efficiency and building a stable earnings structure.



Pachislot Persona5
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©Sammy



Pachislot Kabaneri of the Iron Fortress
©Kabaneri Committee ©Sammy



P Initial D
©Shuichi Shigeno / Kodansha · 2014 New Movie “Initial D” Production Committee
©Shuichi Shigeno / Kodansha · 2015 New Movie “Initial D” L2 Production Committee
©Shuichi Shigeno / Kodansha · 2016 New Movie “Initial D” L3 Production Committee
©Sammy

RESORT BUSINESS

Realize the Investment in Gaming Area

We will pursue possibilities in the gaming area as a whole, including opportunities for entry into the integrated resort business in Japan and overseas as well as overseas online casinos and sports betting.

Medium-Term Plan (FY2022/3-FY2024/3) and Progress

Overview of the medium-term plan



Beyond the Status Quo

Breaking out of the Current Situation and Becoming a Sustainable Company

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



ENTERTAINMENT CONTENTS BUSINESS

Global Branding of Existing IPs

We will expand touchpoints with users and maximize earnings opportunities by reinforcing simultaneous worldwide releases and the multiplatform deployment of content. We will also focus on remaking and remastering existing IPs and support subscription-based services to prolong product life cycles. Furthermore, we aim to strengthen user engagement and increase the value of our IPs through a mix of media and other approaches to connect these IPs with more people.

1 Expansion of touchpoints

2 Prolonging the product life cycle

3 Strengthening of user engagement



PACHISLOT AND PACHINKO MACHINES BUSINESS

Creating Hits and Improving Business Efficiency

We aim to create hits by optimizing the product lineup, manufacturing machines from a user-centric perspective, and expanding communication with users through digital media. We will also improve business efficiency by promoting standardized imagery and components between pachislot and pachinko machines and promoting e-commerce.

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



RESORT BUSINESS

Exploring Investments in the Gaming Area

At each facility, we will work to boost profitability by stepping up measures to attract customers, while striving to build an earnings structure that can adapt to environmental changes. We will also draw on the knowledge we have accumulated to explore investments in the gaming area.

Progress of Medium-Term Plan

In terms of the plan's metrics, the Entertainment Contents Business drove profit growth, outperforming expectations.

	FY2022/3			FY2023/3			Billions of yen Final Year FY2024/3
	Medium-term targets	Results	Difference	Medium-term targets	Plan	Difference	Medium-term targets
Ordinary income	20.0	33.3	+13.3	30.0	40.0	+10.0	45.0
ROE	5%	12.7%	+7.7p	7%	—	—	10%
Entertainment Contents Business	25.0	36.8	+11.8	30.0	40.0	+10.0	40.0
Pachislot & Pachinko Business	9.0	10.2	+1.2	9.0	12.0	+3.0	13.0
Resort Business	-5.0	-6.7	-1.7	0.0	-3.0	-3.0	1.0
Others/Eliminations	-9.0	-7.0	+2.0	-9.0	-9.0	—	-9.0

Major Outcomes in Each Business

Entertainment Contents Business

1 Expanding touchpoints with users: Multiple simultaneous worldwide releases and multiplatform deployment of content

FY2022/3: 7 titles (about 6 million units) → FY2023/3 (Forecast): 13 titles (about 13 million units)

2 Prolonging product life cycles: Released many titles with remake/remaster, spin-off/changes of theme

FY2022/3: About 4 million units → FY2023/3 (Forecast): About 5 million units

3 Strengthening user engagement:

Reinforcing the media mix, expanding Sonic brand recognition

In the three months following its release, *Sonic the Hedgehog 2* recorded worldwide box office revenues of US\$400 million (¥54.4 billion*), and broke the previous *Sonic* movie's record for the highest grossing video game-based film ever in the U.S.

* US\$1=¥136



Sonic the Hedgehog 2
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Pachislot and Pachinko Machines Business

Share of total utilization of pachislot and pachinko machines

Pachislot titles released in the fiscal year ended March 2022 performed well in terms of both sales and utilization. The share utilization of pachinko machines was down, however, due to the removal of popular previous regulation machines such as *Pachinko CR Shin Hokuto Muso*.

Stable earnings

Due to the benefits of structural reforms implemented in the fiscal year ended March 2021, fixed costs were significantly lower compared to levels before the reforms.

Level of fixed costs: Approx. 15% decrease
(compared to levels before structural reforms)

FY2021/3: 3rd (13%) → FY2022/3: 3rd (11%)

Source: In-house estimation based on DK-SIS data (Data for 4 yen Pachinko and 20 yen Pachislot) of Daikoku Denki Co., Ltd.
Calculated by average of the fiscal year (Exclude the week striding over fiscal years)

A Message from the CEO

Overview of the Fiscal Year Ended March 2022

In the fiscal year ended March 2022, on top of ongoing robust performance in the Entertainment Contents Business, we achieved a strong turnaround in the Pachislot and Pachinko Machines Business, which had been flagging under the impact of the COVID-19 pandemic.

Taking a closer look at each business, we brought a series of new titles to market in the Consumer area of the Entertainment Contents Business, which we have positioned as a growth business. We also actively pursued the global branding of existing intellectual properties (IPs), including simultaneous worldwide releases and the multiplatform deployment of content, the launch of remastered titles, and supporting subscription-based services, and these strategies met with success during the year. In addition, stay-at-home demand during the pandemic expanded digital sales of games, which enabled steady growth in sales in the Consumer area. In the Amusement Machine area, which had struggled under a harsh business environment in the fiscal year ended March 2021, we recorded solid results in the prize game category, resulting in a significant improvement in earnings.

In the Pachislot and Pachinko Machines Business, sales of *P Hokuto no Ken 9 Toushin* and other mainstay pachinko titles were brisk. Earnings also recovered significantly, thanks to cost reductions stemming from the structural reforms we implemented in the previous fiscal year. Although the Resort Business showed some signs of a turnaround, this segment remains vul-

nerable to the lingering impact of the pandemic, and continued to face an adverse business environment. The above factors resulted in a significant recovery in overall performance for the year, with net sales up 15.6% year on year to ¥320.9 billion and operating income climbing 389.0% to ¥32.0 billion.

Positive developments in the market environment were indeed a factor behind our return to a growth trajectory. I feel the biggest driving force, though, was a shift in employee awareness. Some of the structural reforms we implemented in the previous fiscal year were painful. However, it was precisely because our employees were convinced that the reforms were necessary for the longer-term sustainable growth of the SEGA SAMMY Group and were on board with them that they were motivated to produce such a strong outcome. Thanks to this shift in awareness, results in all of our businesses exceeded initial forecasts for the fiscal year. This further reinforced the trust and conviction of our employees that the Group is not moving in the wrong direction. We have also revised personnel evaluations, transitioning to a system that properly recognizes people who get results. I hope this will stimulate a further shift in awareness for all of our employees going forward. We intend to drive even stronger growth by encouraging a further change in employee awareness and continue to work across the Group to put in place the measures set out in our medium-term plan.

Entertainment Contents Business Strategy

Creating hits that cause social phenomena

My goal is to make SEGA SAMMY Japan's number one entertainment company. I want us to turn out hits that truly represent Japan and give rise to social phenomena. In the past, we have created products like *Pachislot Hokuto No Ken* and *MUSHIKING: The King of Beetles* that reached beyond the Group's existing fan base, gaining recognition even among people who are not typical game players and garnering widespread public attention. Going forward, I want us to turn out hits that go above and beyond these crazes.

The latest *Sonic* movie is one such hit. Released worldwide in the spring of 2022, *Sonic the Hedgehog 2* broke the record for the highest grossing video game-based film ever in the U.S., and met with high acclaim worldwide. I saw a local shopping mall in the States that was overflowing with Sonic merchandise. Those

are the kind of hits we want to create, titles that represent Japan, and we want to see similar scenes all around the world demonstrating their huge popularity.

One strategy for generating such hit titles is the creation of a "Super Game"—a large-scale global title. We're currently developing such a game, targeting release by the fiscal year ending March 2026. The ultimate goal in the "Super Game" strategy is to create a game so revolutionary that it attracts far more active users than any of the Group's games to date. One key to achieving this goal is whether we can draw together a large community, involving not only players but also streamers who stream the game and viewers who watch their videos. That kind of community expands and further develops game content, adding value to the game that is unimagined by developers, and sparking a

broader movement—which can then draw in even more users and grow the game's presence dramatically. If we can set off this kind of virtuous cycle, I believe reaching target lifetime sales for the "Super Game" of ¥100.0 billion is entirely feasible.

More than anything else, the starting point for building that kind of community is creating an interesting game that gains user support. Truly interesting games attract a lot of people, and

a variety of communities naturally spring up around them. For this reason, we've started collecting user data, such as what kind of games users play, how long they play, and how often. By reflecting this data as well as our experience and knowledge in game development, while drawing on our capabilities in digital technology, we hope to create an appealing game that meets the demands of future users.



We will always pursue new forms of entertainment with an eye to the future, continuing to embrace challenges, not wedded to the past.

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

Promoting the Global Branding of Existing IPs

In the fiscal year ended March 2022, we focused strongly on carrying out our three strategies for the global branding of existing IPs. All of the strategies bore fruit, supporting continued solid growth in the Entertainment Contents Business.

Medium-Term Strategy: Global Branding of Existing IPs



The major initiatives in our first strategy, “**expanding touchpoints with users,**” were simultaneous worldwide releases and the multiplatform deployment of content. Before formulating this strategy, there was skepticism within the Group about selling Japan-based titles to a broad worldwide market at the same time. But we had to ask ourselves: How can we survive in the global games market? When thinking about this from a wider perspective, I keenly felt the danger that, if we simply carried on with our sales strategies as usual, the massive global game companies we face off against would get out ahead of us in the market. Just as we were coming to terms with this situation, the climate within the Group changed completely in the wake of the success of hit titles *Persona* and *Ryu ga Gotoku*, which both turned in global sales growth. The conviction has now spread throughout the Group that our domestically oriented IP can connect well with global audiences, too. Then, when we formulated the strategy of expanding touchpoints with users as one pillar of the medium-term plan, this set the stage for more extensive cooperation among various departments within the Group. We were able to step up the pace of simultaneous worldwide releases and the multiplatform deployment of content as a result.

In the fiscal year ended March 2022, we released seven new game titles in line with this strategy, selling about 6 million units. In the fiscal year ending March 2023, we plan to release 13 game titles, forecasting sales of roughly 13 million units.

Total Worldwide Sales of the *Persona 5* Series*

7.22 million units
Proportion from overseas sales: 77%
(as of March 2022)

* *Persona 5*, *PERSONA 5: DANCING IN STARLIGHT*, *PERSONA 5 Royal*, *Persona 5 Scramble: The Phantom Strikers*

Next, under the strategy of “**prolonging product life cycles,**” our efforts focus on remaking and remastering the IPs we hold as well as developing spin-offs and changing themes. In the

fiscal year ended March 2022, we released multiple new titles, yielding sales of approximately 4 million units. We are also diversifying our forms of monetization, such as supporting subscription-based services.

The final strategy is “**strengthening user engagement.**” The blockbuster movie hit drove major growth in our Sonic IP during the year. In the fiscal year ending March 2023, we will launch *Sonic Prime*, an exclusive Netflix animation series. We also plan to release *Sonic Frontiers*, the first new Sonic game in five years. The success of the Sonic IP once again made us aware of the strength of SEGA’s IP portfolio. There are many IPs other than Sonic whose value still waits to be maximized. If we use a mix of media and other approaches to connect these IPs with more people, they have enough power to grow into massive IP assets. Going forward, we will continue taking measures to expand opportunities to harness the IPs we hold, trusting in their potential.



Pachislot and Pachinko Machines Business Strategy

We will maintain earnings stability, building on a sturdy business structure and embracing changes in the environment as opportunities

Our long-term goal in the Pachislot and Pachinko Machines Business is to win a “triple crown”—top share in utilization, installation, and sales—and to build a stable earnings structure. To achieve this goal, it is vital that we make steady headway in our strategies and reach our medium-term goals for the fiscal year ending March 2024. One major development in the industry was the entry into the market of pachislot machines complying with new No. 6.5 model specifications. For the new models, the regulations revised the upper limit on the number of games during the advantageous section and the method of managing the upper limit on medal pay-out, which were sources of user dissatisfaction with previous models. This is expected to dramatically change player psychology by enabling machines to be designed so that players always have a chance to win.

If it can encourage the return of dormant users, these revisions could bring renewed vitality to the pachislot industry. To help bring this about, we see the greatest mission of the Pachislot and Pachinko Machines Business to be creating hit titles. Whatever it takes, by thoroughly analyzing the gameplay and production elements that users prefer and creating machines that incorporate appealing new ideas, we want to introduce a broad range of machines to the market and create hit machines. The Group holds numerous well-known IPs that have been major hits in the past, such as *Beast King* and *ALADDIN*. If we can remake such IPs to conform to No. 6.5 model standards and deliver the former thrill and excitement to users today, I believe we can build a more stable product portfolio. Furthermore, “smart” pachislot and pachinko machines are due to hit the market starting in 2022, something the whole industry is looking forward to. The revised

regulations completely removed the upper limit of games during advantageous sections for smart pachislot machines, further expanding the range of gameplay. The most distinctive feature of smart pachislot and pachinko machines is that there is no physical payout of medals or balls. This means a lower operational burden for pachinko halls in terms of replenishing and cleaning medals and balls. It also makes it possible to gather game data, bolstering measures to prevent improper play. Furthermore, compared to conventional machines, smart pachislot and pachinko machines do away with the need for a lot of peripheral equipment, which leads to lower costs for opening new halls and allows greater flexibility in hall layout. I believe we will have a robust line-up of smart pachislot and pachinko machines in the latter half of 2023 and leading into 2024. If dedicated smart pachislot and pachinko machine halls begin to emerge, as happened before with dedicated pachislot halls, I have high hopes that this could dramatically transform and revitalize the industry.

Reforms we have put into place so far have evolved the Pachislot and Pachinko Machines Business into a much leaner business structure. We are better positioned to capitalize on positive changes in the business environment looming on the horizon. Moreover, the Group has amassed a rich IP library and we boast many outstanding game developers. If we can fully leverage these strengths, we’ll be able to demonstrate our competitive superiority as we deliver products and services that enjoy broad user support, without the need for additional large-scale investment. While maintaining a lean business structure, we will continue to put out hit titles that gain a solid following and position this business as a stable earnings driver.



Sustainability Helps Keep Life Colorful

We announced a Sustainability Vision for the Group in May 2022. More than ever before, companies are being called on to address an increasingly diverse range of issues to achieve sustainable growth, such as SDGs. The ability to continue providing experiences that move the heart through entertainment depends on management that is in touch with people, society, and the natural environment, both now and down the road. In creating the Sustainability Vision, I imbued it with my own thinking, to inculcate a sustainable management approach across the entire Group and enable every employee to incorporate this approach into their own work.

Based on the vision, we plan for each Group company to set specific milestones in relation to the Group's five material issues to be addressed — human resources, products and services, the environment, addiction, and governance—to guide their efforts.

In particular, the video games and pachislot and pachinko machines we offer have certain aspects that are viewed negatively in society. That is exactly why we have to face up squarely to issues in our Group and in the world and address them. The business activities of any company inevitably give rise to some degree of negative impact. What is crucial is how well a company can minimize the negative impact and generate a positive impact that far outweighs it. Our Mission (Raison d'être) is *Constantly Creating, Forever Captivating — Making Life More Colorful—*.



Our businesses truly have the power to make the world a brighter place. We can continue to exist as a company because our customers need us, since we provide products and services offering the kind of experiences that move the heart. The pandemic caused me to reflect even more deeply on the significance of the Group to society, and spurred me to seek to carry out management that is attuned to the need for sustainability. I'm convinced that this will lead to long-term, sustainable enhancement of the SEGA SAMMY Group's corporate value.

Materiality

P42

Sustainability Helps Keep Life Colorful



Products and Services

Quality improvement

Making content and services that serve, inspire, and awaken over 3 billion gamers worldwide [Entertainment Contents](#)

Triple crown: Top share in utilization, installation, and sales [Pachislot and Pachinko Machines](#)

Safety and security

Creating rules that allow everyone in the world to enjoy games without discrimination [Entertainment Contents](#)

Continue creating content that users and operators can rely on [Pachislot and Pachinko Machines](#)



Human Resources

Multicultural

Promoting "game change" by increasing human resources with a multicultural background

Active career opportunities for women

Creating a foundation where people can thrive regardless of gender

Development of core human resources

Strategic development of human resources who can lead the next generation

Maintenance of work environments

Maintaining and improving the engagement of human resources



Environment

Scope 1, 2

Achieving carbon neutrality

Scope 3

Reducing GHG emissions by 22.5% or more

Disclosure of information based on TCFD recommendations

Including the response to climate change into strategies



Addiction

Prevention of addictions and disorders

Initiatives by industry organizations
SEGA SAMMY's unique initiatives



Governance

Strengthening corporate governance

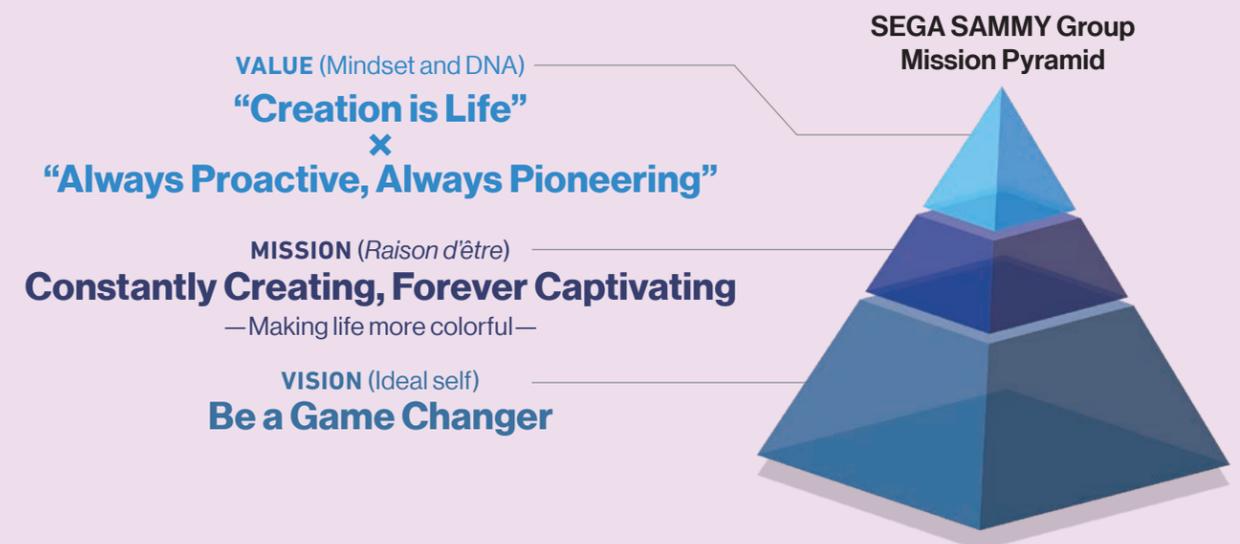
Establishing a sustainability governance framework

Corporate Management in a VUCA Era

With the COVID-19 pandemic having wrought significant changes in the values of individuals and organizations, and with mounting geopolitical risks triggered by the crisis in Ukraine, we face even greater fluctuation and growing uncertainty in the business environment. This context, which makes it difficult to predict the future, has been described as having the characteristics of volatility, uncertainty, complexity, and ambiguity (VUCA). I feel that what is being asked of us is what kind of management we want to pursue in the VUCA era. Among the four elements, I think ambiguity is particularly critical. I understand ambiguity to be analogous to the Japanese concept of "dual interpretations" (*ryogisei*). In other words, interpretations about "what the right thing is" are often context dependent. If one interpretation is clearly wrong, that's a different story, but there are cases where two interpretations can both be right when viewed from a differ-

ent standpoint or context. This happens a lot in running a business. The ability to make decisions in the midst of such contradictions is one quality required of an organizational leader. Our Mission Pyramid, which guides the Group's businesses, is a huge aid in our decision-making process. The common understanding of the Pyramid shared by all Group employees empowers leaders to give direction without hesitation and spares our people on the front lines from having to wonder what they ought to be focusing on.

Moreover, if there are short-term risks but long-term benefits, the Mission Pyramid directs us to prioritize the long term. If there is uncertainty over taking a short- or long-term approach, by referring to the Mission Pyramid we can decide in a way that brings benefits over the long term. This is the kind of thinking I want to stress as a manager in the VUCA era.



Generating a Chain-Reaction of Experiences That Move the Heart

I have a theory that a company that does not gain empathy can't survive in the market. In the Japanese term "empathy" (*kyokan*) I'm using here, in addition to its original meaning, I also include the idea of "being moved together." Our mission is to be *Constantly Creating, Forever Captivating*—continuing to create experiences that move the heart. By seeing our customers be moved, our employees are also moved. This feeds into greater pride and motivation in what we do. In turn, the power of proud, motivated employees enables the Group to grow further, giving rise to a chain-reaction of experiences that move the hearts of all our stakeholders, including business partners, shareholders and other investors, and people in society. To me, this is the true meaning of empathy.

So, what can we do to move people's hearts in this way? The answer lies in offering entertainment that surpasses people's expectations. People are satisfied with products and services that meet their expectations, but their hearts aren't moved—that only happens they glimpse a future that they've never felt or experienced before. This is why we should always pursue new forms of entertainment with an eye to the future, continuing to embrace challenges, not wedded to the past.

Going forward, we are committed to further evolving the SEGA SAMMY Group into an organization that all of our stakeholders can empathize with. I would like to ask for your continued support as we do so.

A Message from the CFO

Committed to an optimal capital structure, we will pursue proactive investment and expand the equity spread

Management That Focuses on Capital Efficiency

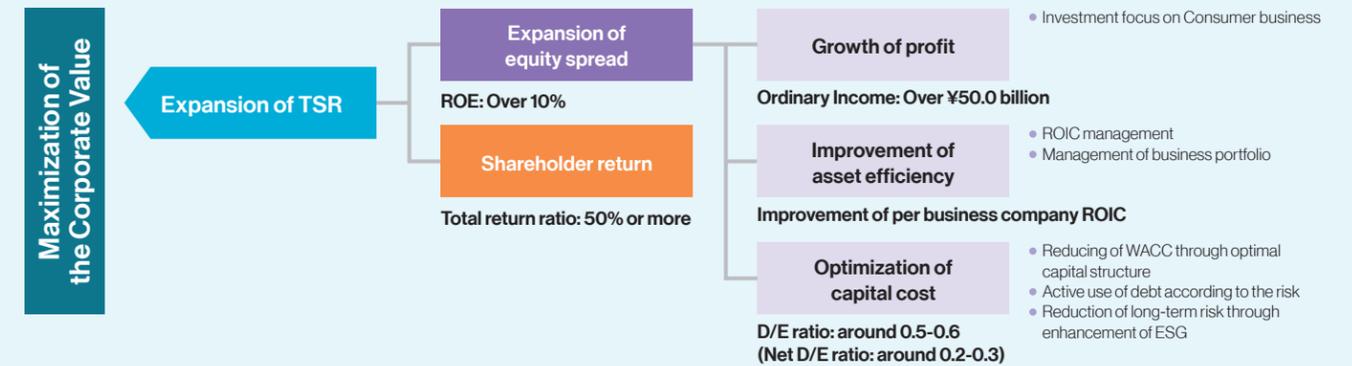
In the fiscal year ended March 2022, in line with the newly launched medium-term plan, we fully implemented a management framework focusing on capital efficiency with the objective of maximizing corporate value. Our goal was to increase total shareholder return by expanding the equity spread and proactively returning to shareholders. There are three elements involved in widening the equity spread: growth of profit, improvement of asset efficiency, and the optimization of capital cost. My role as CFO is to allocate management resources and profits and take effective steps to effect improvements in each of these elements.

The first year of the medium-term plan resulted in ROE of 12.7%. Although this was above our target of 10% for the final year of the plan, it was the result of higher profit attributable to owners of parent stemming from a significant decrease in tax expenses, among other factors. Since the results are somewhat higher than the actual underlying performance for the year, I think it is crucial to stay focused on constant growth in ordinary income and take powerful measures to increase earnings per share.



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

Shift to the management focusing on capital efficiency



Results and Targets

		Indicators	FY2021/3 Results	FY2022/3 Results	FY2026/3 Targets
Maximization of the Corporate Value	Expansion of equity spread	ROE	0.4%	12.7%	Over 10% (FY2024/3 Target)
	Growth of profit	Ordinary Income	1.7 billion yen	33.3 billion yen	Over 50.0 billion yen
	Improvement of asset efficiency	Consolidated ROIC	0.5%	10.6%	Over WACC
	Optimization of Capital cost	D/E ratio	x 0.2	x 0.2	x 0.5 to 0.6
Shareholder returns	Total return ratio		384%	105.8%	Basic Policy 50% or more
	DOE		2.4%	3.1%	Basic Policy 3% or more

Moving to Expand the Equity Spread

We expect to make steady headway in growing profits by maintaining the expansion of profit in the Group's main businesses.

In the Entertainment Contents Business, the Consumer area continues to perform well thanks to the outcome of our success in capturing market trends, and our ability to leverage IP assets through the multiplatform deployment of content as well as our support for new monetization models centered on subscription-based sales. While creating a "Super Game" is one of our key long-term business strategies, our first step is to achieve the current medium-term plan, which involves establishing a framework for stable profit growth through the global branding of existing IPs, along with continuing to expand earnings by investing aggressively to prepare for future changes in the business environment.

Meanwhile, in the Pachislot and Pachinko Machines Business, we were able to revise the management scale in this segment and pare down fixed costs significantly through structural reforms we undertook in the fiscal year ended March 2021. Going forward, we see profits increasing, driven by steady progress in bringing to market competitively superior machines that take advantage of revised regulations, such as No. 6.5 model machines and "smart" pachislot and pachinko machines. We still face risks in terms of

procuring parts. However, given the rallying market environment, I believe the Pachislot and Pachinko Machines Business can again serve as a platform for generating stable cash going forward. What's more, I think we have the chance to grow the business dramatically if we beat out the competition currently being sparked by the revision of regulations.

We are seeking to improve asset efficiency on the ground in all of our business companies, using ROIC as a management index. Specifically, each company is creating an ROIC tree incorporating action plans and indicators that tie in directly with improvements to ROIC, and monitoring progress of these actions. Every half, we have opportunities for dialogue with the management of each company based on this progress. The primary purpose of using ROIC as a management index is to engender a strong management focus on asset efficiency and cash earnings in each business division. At times in the past, we continued to hold on to inefficient assets. As a perspective that prioritizes asset efficiency sets in, I believe we will realize portfolio management at the business company level.

That said, although ROIC is one key indicator, we are seeking a management approach that not only has a short-term financial

perspective but also considers the longer-term growth potential of the business itself, deciding from that strategic point of view whether to expand or scale down the business. This is how we can establish the ideal, balanced business portfolio. I see my responsibility as CFO is to create a mechanism for allocating finite resources appropriately based on this approach.

The debt-to-equity ratio at the end of March 2022 was 0.2 times, on a par with the end of March 2021. Although this is still far removed from our target debt-to-equity ratio by the fiscal

Clarifying Our Policy on Shareholder Return

In the fiscal year ended March 2022, we bought back and retired ¥30.0 billion in treasury stock*. We did this judging that it would be appropriate to draw down equity at this time in consideration of the optimal capital structure the Group is targeting. Going forward, we will determine the amount of shareholder return

year ending March 2026 of between 0.5 to 0.6 times, I do not anticipate turning to debt financing solely for the purpose of asset restructuring. Our policy is to realize an optimal capital structure using debt financing only to fund investment in business growth. We expect to channel a total of ¥250.0 billion into growth investments by the fiscal year ending March 2026. I believe we will achieve the optimal debt-to-equity ratio when there is sizable demand for funding both for such investments and for acquisitions.

based on a total return ratio of 50% or more or a dividend on equity (DOE) ratio of 3% or more, whichever is higher, in line with a shareholder return policy based on our thinking about the optimal capital structure.

* Period of buyback: November 2021-April 2022. Retirement of treasury stocks: May 2022.

Growth Investment Plan of ¥250.0 Billion

By the fiscal year ending March 2026, we plan to invest a total of ¥250.0 billion in the Consumer area, Gaming area, and other growth areas.

First off, in the Consumer area, we will augment the development pipeline, including securing headcount, and invest aggressively to achieve organic growth. In addition, we will consider acquiring any promising projects in overseas studios or in the mobile and online games area. When it comes to overseas studio acquisitions in particular, we have gained the ability to discern studios with growth potential through our experience in acquisitions and leveraging the network of our team in Europe. We will therefore select acquisitions that are a good fit with our strategies. Beyond just the development pipeline, I also want us to invest in new ecosystems based on our business strategies, such as projects that can help expand user communities to capture increasingly diverse interactions with games. Consumer games are a growing market that promises further growth down the road, so our ¥100.0 billion goal is just a guideline—we will consider investing more than that as the situation warrants.

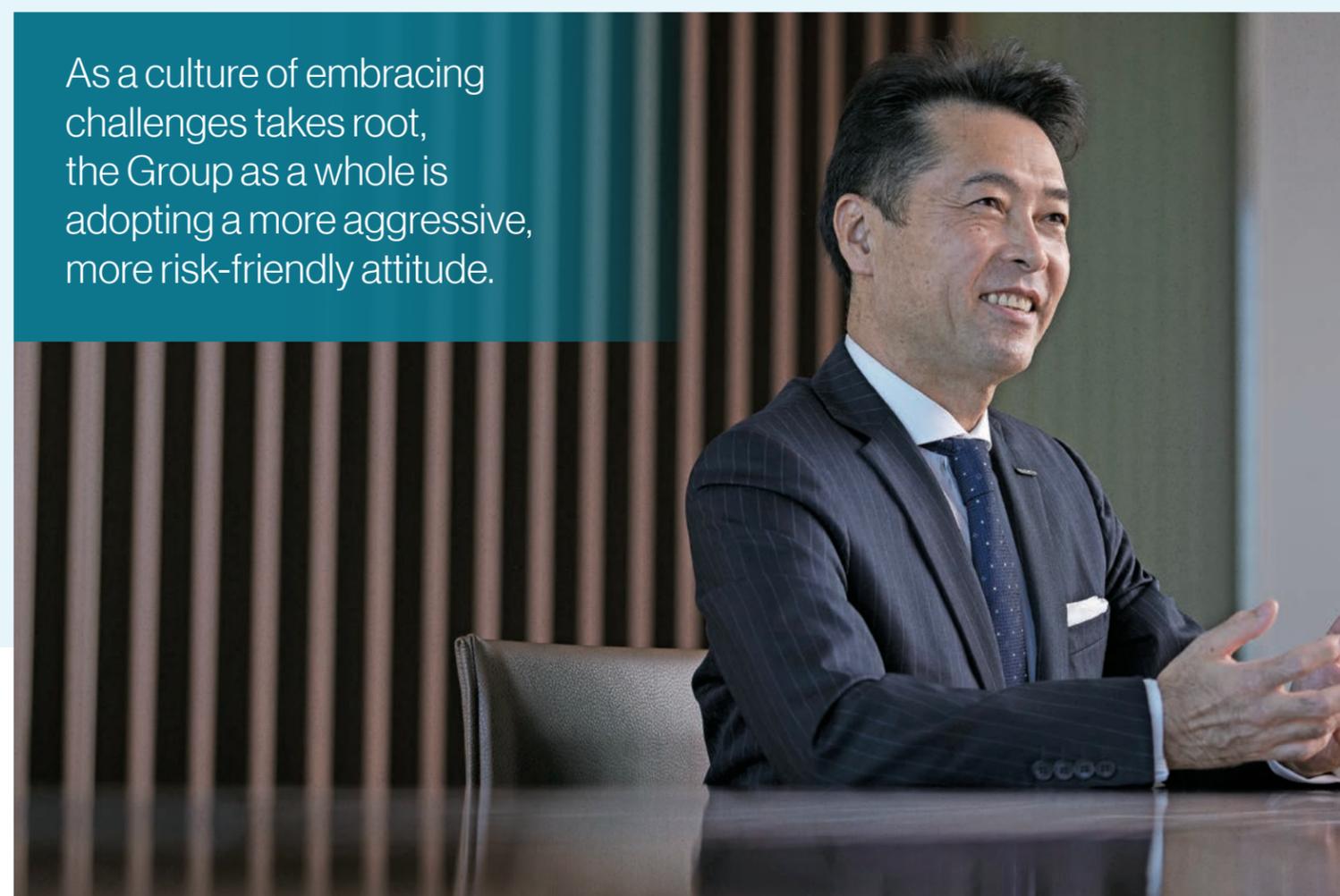
We also plan to invest ¥100.0 billion in the Gaming area, which we continue to position as the third driver of earnings for the Group. We will keep exploring entry into integrated resort projects in Japan and overseas as well as overseas land-based casinos. We will also explore investments that eye overseas online casinos, sports betting, and other gaming ventures.

Our thinking, in positioning the Gaming area as the third driver of earnings, goes along these lines: Because the Gaming

Continue to consider investing in the growth areas

Consumer area Approx. 100.0 billion yen	Strengthen development resources	Area of consideration for investment <ul style="list-style-type: none"> Expansion of organic development pipeline Strengthen global mobile and online games
	Investment in new ecosystem	Area of consideration for investment <ul style="list-style-type: none"> Strengthen CRM functions to revitalize user communities Investment in newly emerging business areas
Gaming area Approx. 100.0 billion yen	Careful assessment of investment opportunities in the gaming area	Area of consideration for investment <ul style="list-style-type: none"> Both domestic and overseas IR Online casino and sports betting overseas Land-based casinos overseas
Other Approx. 50.0 billion yen	Expand CVC investment limit (Total limit: 15.0 billion yen)	Strengthen open innovation activities, including investment in start-up companies
	Creation of new business, acquisition of IPs, etc.	

Total 250.0 billion yen



As a culture of embracing challenges takes root, the Group as a whole is adopting a more aggressive, more risk-friendly attitude.

area has high barriers to entry and the potential for hefty profit margins, substantial growth in this area will put the Group on a solid standing for the future.

Continuing to Take On Challenges in Our Financial Strategies

I am sensing mounting expectations for the Group among our investors. They are looking especially to growth in the Consumer area, as well as to factors affecting the Pachislot and Pachinko Machines Business, including revisions of regulations and the possible spread of "smart" pachislot and pachinko machines.

Under Haruki Satomi's firm leadership as CEO, we swiftly completed a round of structural reforms and have rapidly emerged from a very challenging business environment. This significantly boosted our confidence as a Group, and I feel there has since been a change in mentality within the organization. As a culture of embracing challenges takes root, the Group as a whole is adopting a more aggressive, more risk-friendly attitude.

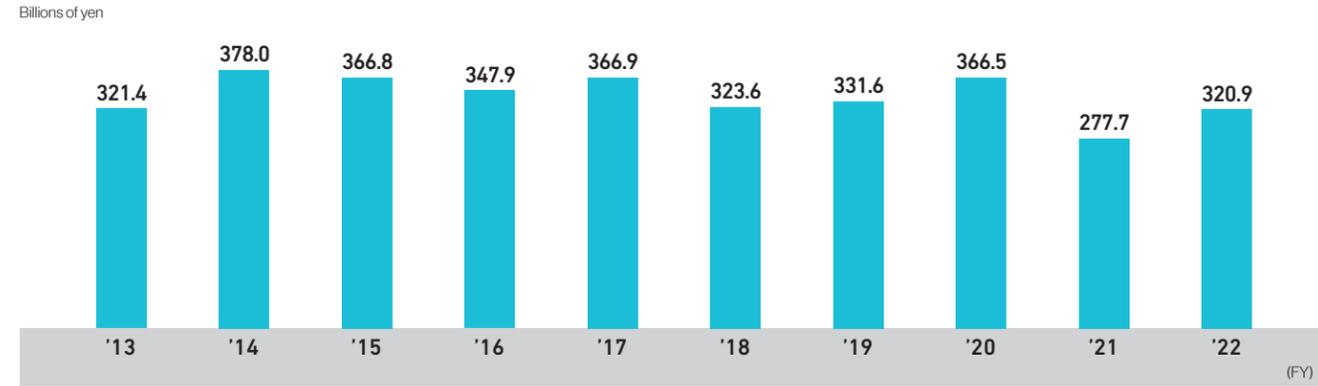
This mindset of embracing challenges ties in with our Vision (Ideal self), to *Be a Game Changer*, and will ultimately give shape to our Mission (Raison d'être) of *Constantly Creating, Forever Captivating—Making life more colorful—*. As CFO, while emphasizing capital efficiency and fiscal discipline, I also want to aggressively implement an audacious, forward-thinking financial strategy to capitalize on promising changes now unfolding in the internal and external environment. The Group, which has stepped out boldly into an era of change, will meet the expectations of investors by continuing to embrace challenges.

Financial Performance

Net Sales*1

On top of ongoing brisk performance in the Consumer area, earnings in the Pachislot and Pachinko Machines Business and the the Amusement Machine Sales area, which were hard hit by COVID-19, saw a turnaround in the fiscal year ended March 2022. Consolidated net sales were up 15.6% year on year to ¥320.9 billion.

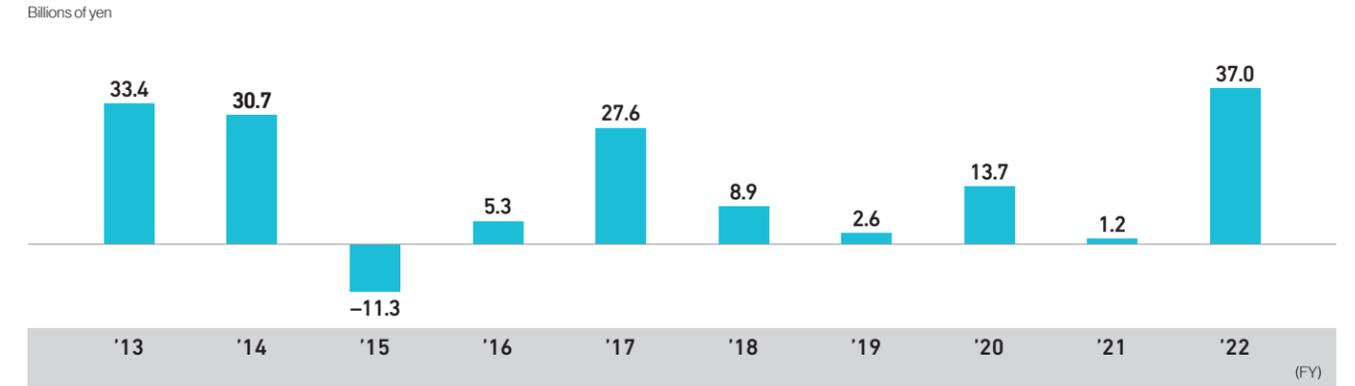
¥320.9 billion



Profit (Loss) Attributable to Owners of Parent*2

Profit attributable to owners of parent improved significantly year on year to ¥37.0 billion, reflecting the booking of proceeds from sales of investment securities as extraordinary gains, coupled with a decrease in taxable income due to a tax loss carried forward and lower income taxes due to an R&D tax deduction at a subsidiary in the U.K.

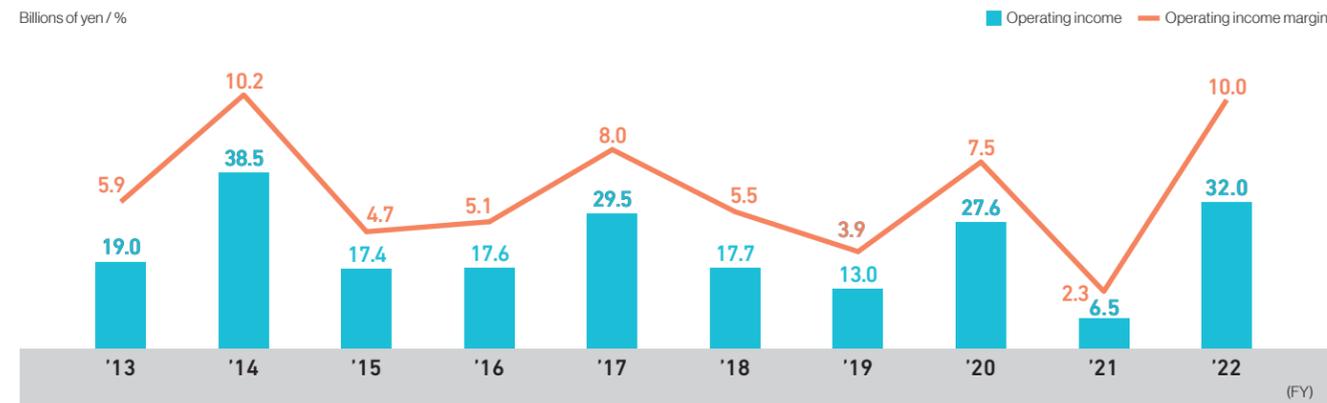
¥37.0 billion



Operating Income / Operating Income Margin

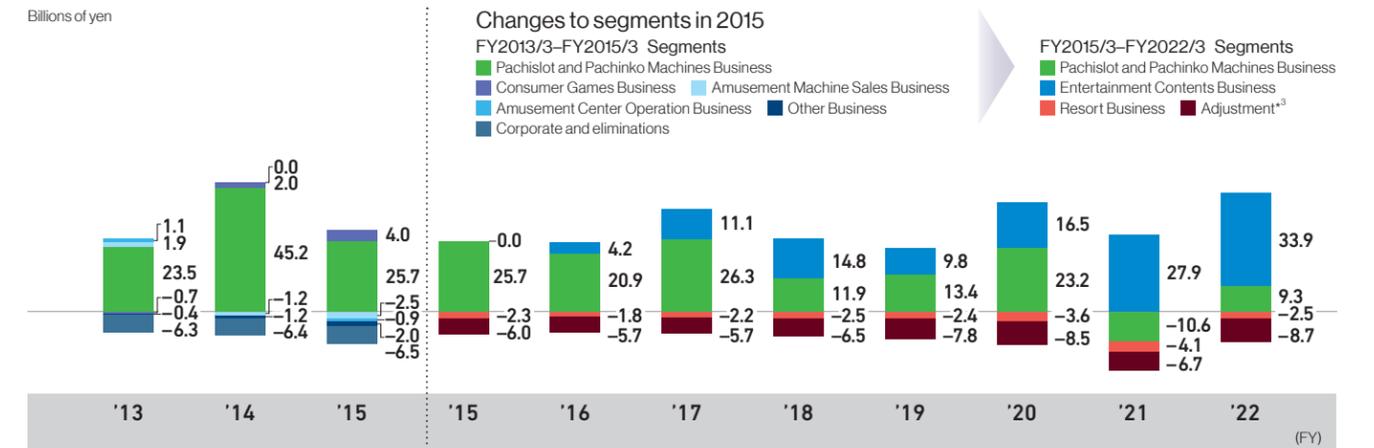
Operating income rose 389.0% year on year to ¥32.0 billion as the Pachislot and Pachinko Machines Business and the Amusement Machine Sales area returned to profitability.

¥32.0 billion / 10.0%



Operating Income (Loss) by Segment*3

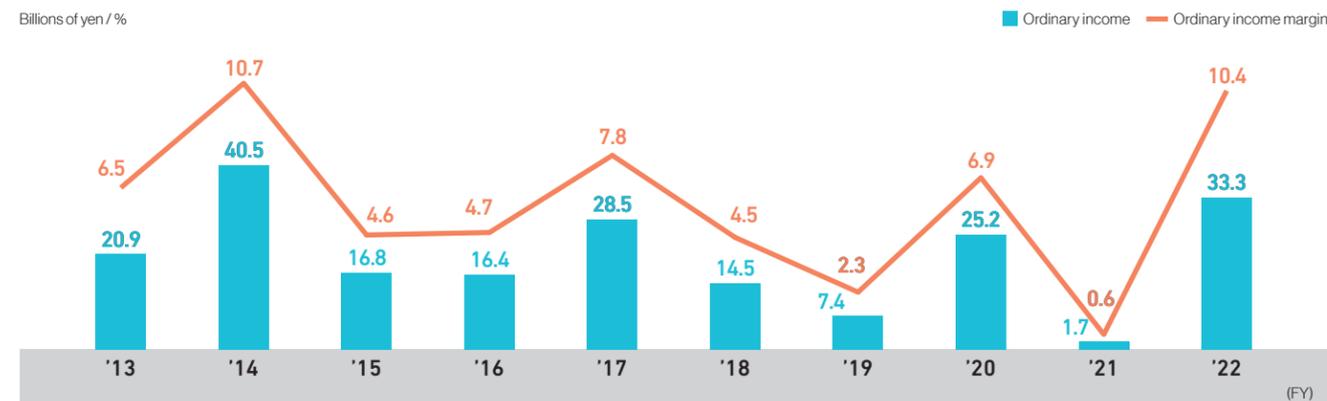
Billions of yen



Ordinary Income / Ordinary Income Margin

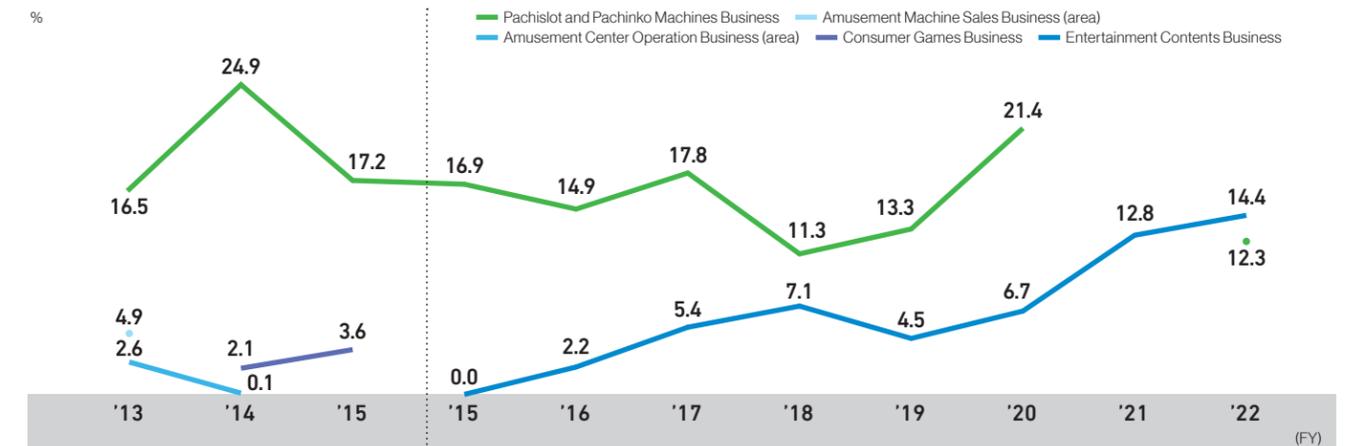
Ordinary income was up ¥31.6 billion year on year to ¥33.3 billion.

¥33.3 billion / 10.4%



Operating Income Margin by Segment

%



*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.

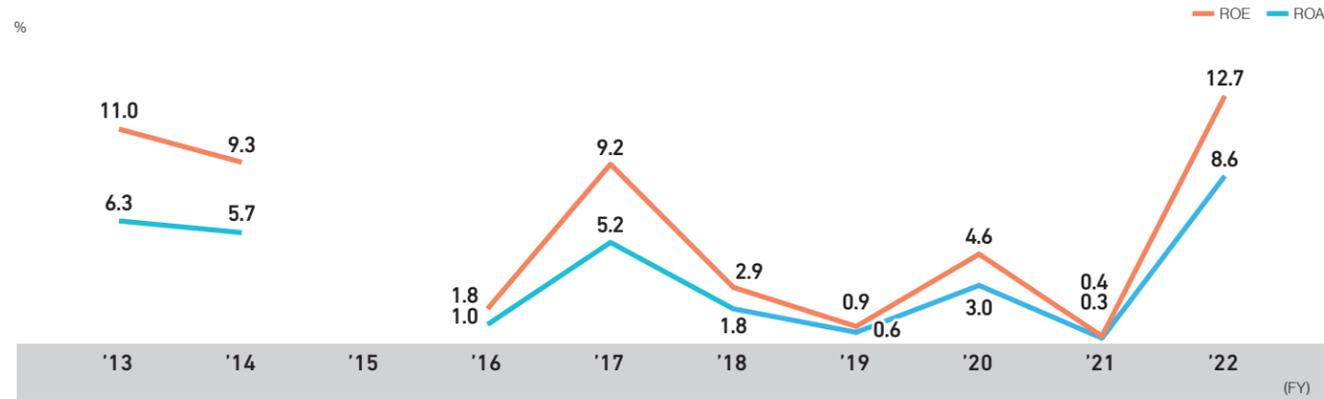
*3 As of the FY2015/3 change in segments, elimination of inter-segment transactions and general corporate expenses that are not allocated to the reporting segment are included in the adjustment to segment income (loss).

ROE / ROA^{*4}

ROE was up 12.3 points year on year to 12.7%.
ROA was up 8.3 points year on year to 8.6%.

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

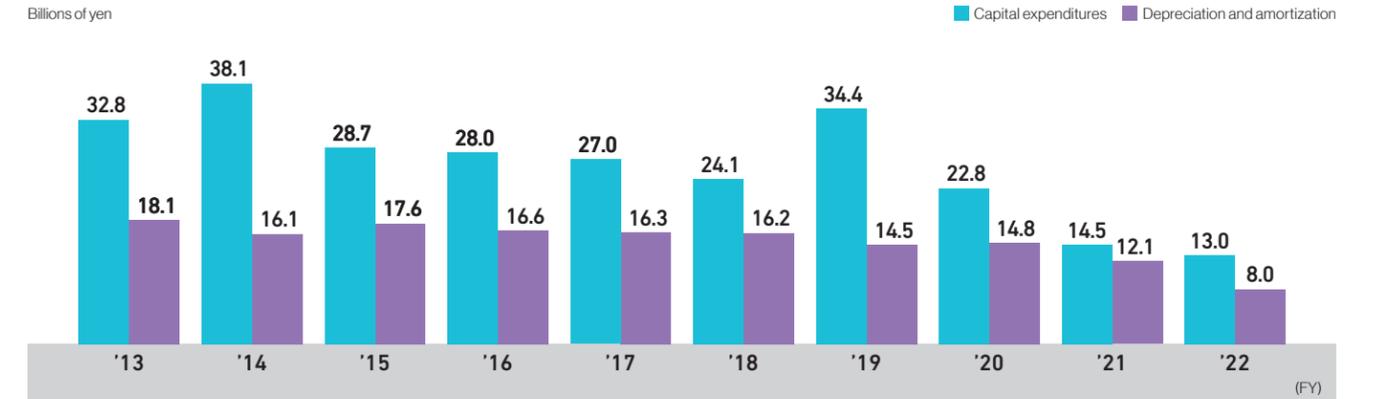
12.7% / 8.6%



Capital Expenditures / Depreciation and Amortization^{*5}

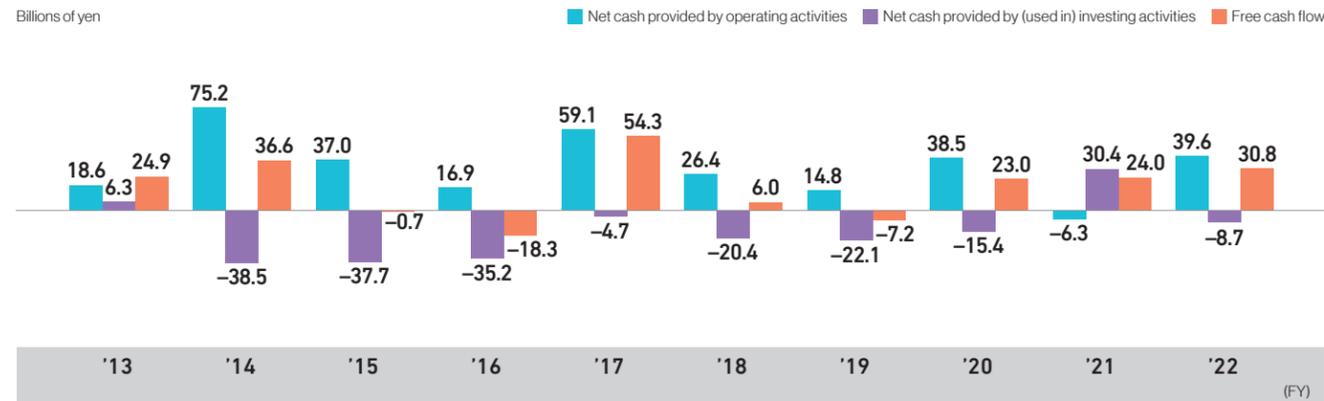
Capital expenditures were down 10.3% year on year to ¥13.0 billion.
Depreciation and amortization decreased 33.9% year on year to ¥8.0 billion.

¥13.0 billion / ¥8.0 billion



Cash Flows

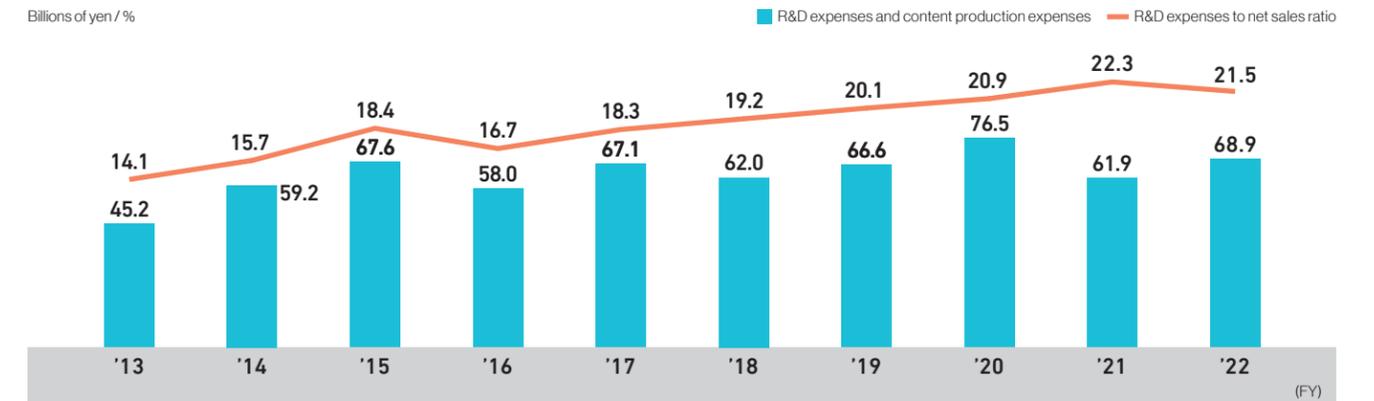
Operating activities provided net cash of ¥39.6 billion for the fiscal year ended March 2022 (compared with an outflow of ¥6.3 billion in the previous fiscal year).
Investing activities used net cash of ¥8.7 billion (compared with an inflow of ¥30.4 billion in the previous fiscal year).



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

R&D expenses and content production expenses increased 11.3% year on year to ¥68.9 billion.

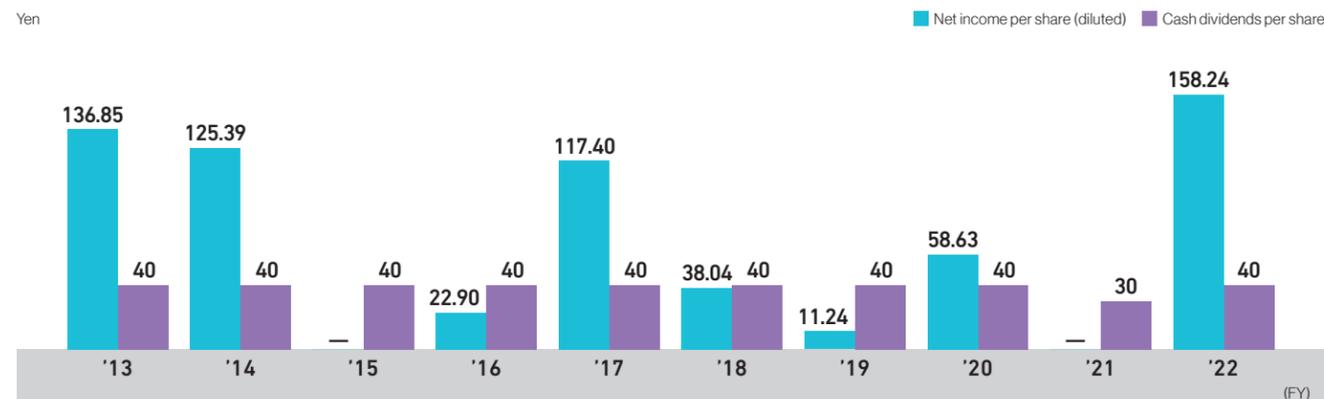
¥68.9 billion / 21.5%



Net Income per Share / Cash Dividends per Share

Net income per share (diluted) was ¥158.24.
The Company paid an annual dividend of ¥40 per share.

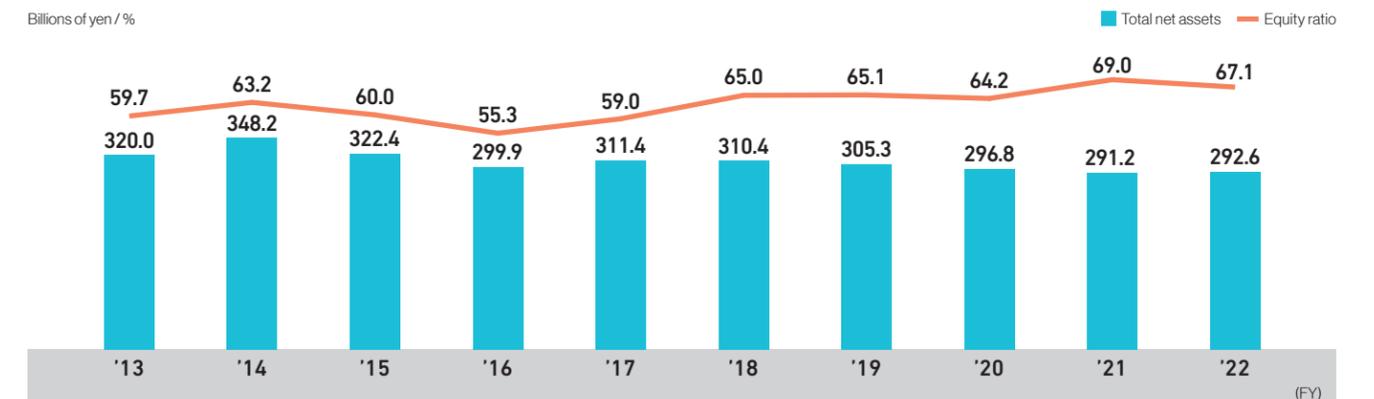
¥158.24 / ¥40



Total Net Assets / Equity Ratio

Total net assets increased ¥1.4 billion from the end of previous fiscal year to ¥292.6 billion.
The equity ratio decreased 1.9 points to 67.1%.

¥292.6 billion / 67.1%



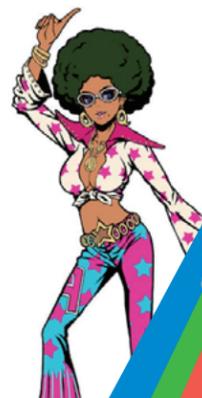
*5 The aggregate calculation method has changed as of FY2014/3. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until FY2013/3, depreciation and amortization included amortization cost of digital game titles.

BUSINESS OVERVIEW

ENTERTAINMENT CONTENTS BUSINESS

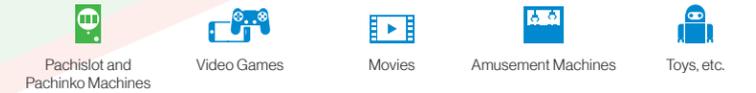
PACHISLOT AND PACHINKO MACHINES BUSINESS

RESORT BUSINESS



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
<i>Shin Megami Tensei</i> series	1992		32	Approx. 19.0 million (Units and downloads* ²) (Full games and F2P total)
<i>Persona</i> series	1996		18	Approx. 15.5 million (Units and downloads) (Full games and F2P total)
<i>Total War</i> series	2000		—	More than 40.4 million (Units and downloads)
<i>Football Manager</i> series	2004		—	More than 25.0 million (Units and downloads)

Examples of IP developed in-house

IP title	First appearance year	Multifaceted rollout	Total editions	Cumulative unit sales / downloads
<i>Sonic the Hedgehog</i> series	1991		—	More than 1.51 billion (Units and downloads* ²) (Full games and F2P total)
<i>Puyo Puyo</i> series	1991* ¹		—	Approx. 37.7 million (Units and downloads* ² /IDs/users) (Full games and F2P, Amusement Machines-registered IDs total (Total for registrations after IP acquisition))
<i>Sakura Wars</i> series	1996		—	Approx. 5.8 million (Units and downloads) (Full games and F2P total)
<i>Ryu ga Gotoku</i> series	2005		167	Approx. 19.8 million units (Full games total)
<i>Virtua Fighter</i> series	1993		—	More than 18.8 million (Units and downloads/IDs) (Full games and F2P total. Total number of IDs in Amusement Machines.)
<i>ALADDIN</i> series	1989		15* ³	Approx. 580 thousand units (pachislot and pachinko machines total)
<i>Beast King</i> series	2001		16* ³	Approx. 510 thousand units (pachislot and pachinko machines total)
<i>PHANTASY STAR</i> series	1987		—	Approx. 9.0 million users* ⁴
<i>CHAIN CHRONICLE</i> 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 pachislot and pachinko machines total. *4 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
<i>SEGA feat. HATSUNE MIKU Project Series</i>	2009		67	Approx. 18.5 million (Units and downloads* ²) (Full games and F2P total)
<i>Hokuto No Ken Series</i>	2002		38* ³	More than 7.84 million units (pachislot and pachinko machines, full games, F2P and amusement machines total)
<i>SOUTEN-NO-KEN Series</i>	2009		16* ³	Approx. 490 thousand units (pachislot and pachinko machines total)

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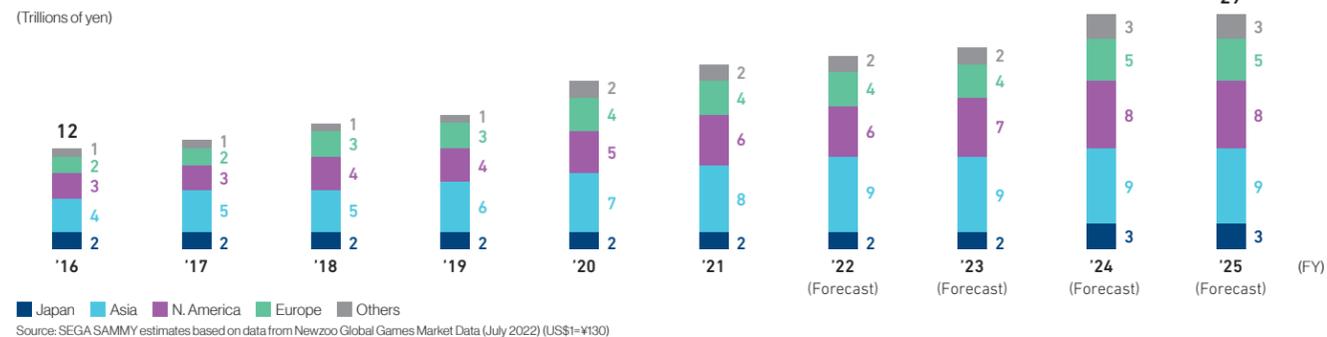
Entertainment Contents Business

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. Although the Amusement Machine Sales and Amusement Center Operations markets were hard hit by COVID-19, the prizes began to rally in 2021 and the market is recovering gradually.

Video Game Content Market Size



Domestic Amusement Machine 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 focus on expanding the scale of earnings by strengthening the global branding of existing IPs.

To capitalize effectively on our abundant IP assets, including dormant IPs, we will further develop these IPs by means of remakes, remastering, and reboots, etc., as well as offering them to subscription-based services and other forms of monetization across multiple channels.



Sonic Colors: Ultimate
©SEGA



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



PHANTASY STAR ONLINE 2
NEW GENESIS
© SEGA



UFO CATCHER 9 third
©SEGA

Amusement Machine Area

We will aim to improve profitability by focusing on strong-performing prize categories.

Anticipated Opportunities and Risks

Opportunities

Ongoing growth in the game content market

The global video games market is seeing the proliferation and diversification of platforms in line with the digitization of game content and services. The market environment is changing dramatically—new business models that can support continuous sales over the long term are emerging as earnings opportunities are becoming increasingly diverse, encompassing not only one-off package sales but also download and free-to-play (F2P) sales and subscription-based services.

Risks

Rising development costs

The costs of game content development are increasing due to rising prices, the greater mobility of developers, and longer development periods. There is a risk of not being able to realize expected returns on investment.

Responses

Expanding touchpoints with users

- Strengthening global roll-out
- Multiplatform support
- Multilingual support

Prolonging product life cycles

- Utilizing IP assets
- Strengthening the digital sales
- Multichannel monetization

Strengthening user engagement

- Community management
- Strengthening the mix of media

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.



Detective Conan: The Scarlet Bullet
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Special Feature: Aiming to Be a Global Leading Contents Provider



Strong ongoing growth expected in the global video games market

Steady growth in the global video games market is ongoing. With the advance of digital distribution platforms enabling delivery of game content to more people around the world, the global market is tagged to reach ¥29 trillion by 2025.

Global Video Game Content Market



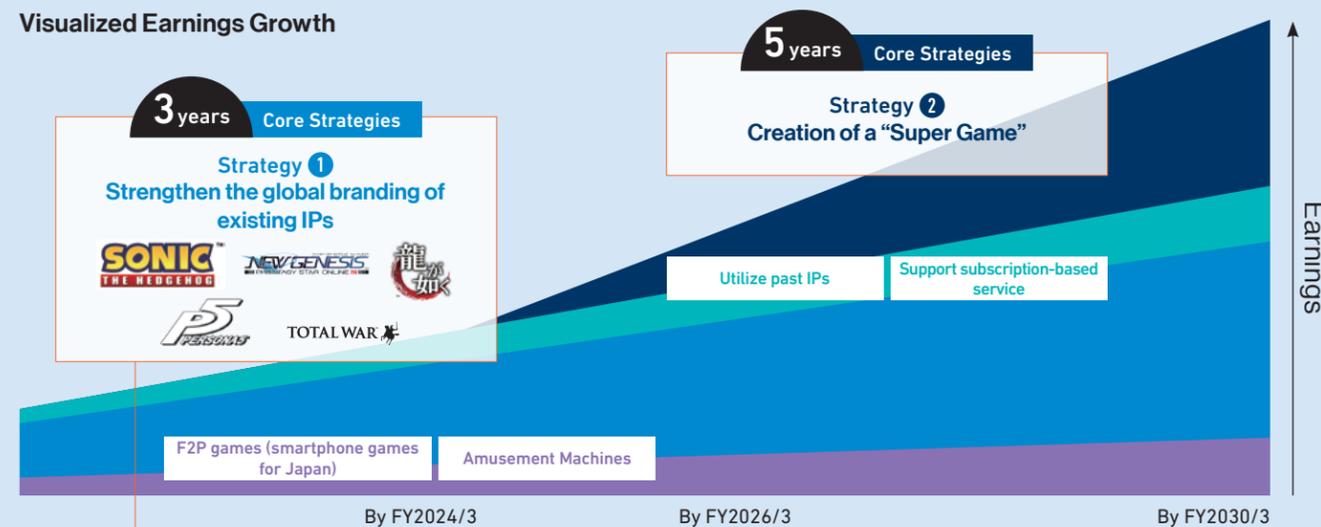
Source: SEGA SAMMY estimates based on data from Newzoo Global Games Market Data (July 2022) (US\$1=¥130)



Key strategies in the medium-term plan

We are moving ahead with two major strategies in the Consumer area of the Entertainment Contents Business. The first is to reinforce existing IPs and build a robust earnings base by the fiscal year ending March 2024. The second is to create a "Super Game" by the fiscal year ending March 2026. Through these two key strategies we will work to further grow earnings.

Visualized Earnings Growth



Growing mainstay IPs into global brands

Image of Brand Expansion		
1 Expanding touchpoints with users <ul style="list-style-type: none"> Strengthening global roll-out Multiplatform support Multilingual support 	2 Prolonging product life cycles <ul style="list-style-type: none"> Utilizing IP assets Strengthening digital sales Multichannel monetization 	3 Strengthening user engagement <ul style="list-style-type: none"> Community management Strengthening the mix of media

IP strategy in action

Sonic IP

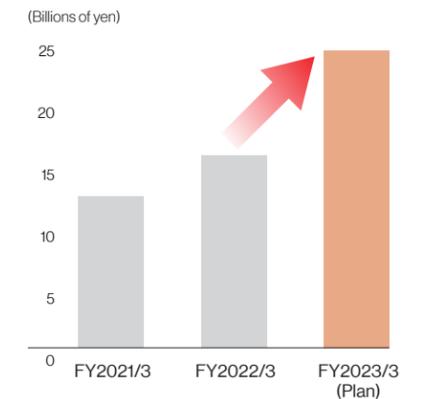


Expanding touchpoints with global audience and continuing to build user engagement

For Sonic IP that stands at the center of SEGA's IP strategy, which continues to grow its popularity in overseas markets, we are strategically developing a global mix of media to expand earnings opportunities. Carrying on the momentum of the *Sonic the Hedgehog 2* global blockbuster movies, we will continue to build a global fan base as we strategically expand our touchpoints actively by creating high-end animation content for a global distribution platform, collaboration with games that enjoy worldwide popularity, and pursuing licensing in various areas, including toys and apparel.

One objective is to deliver a new game to the fast-growing fan base for the Sonic IP, thereby increasing profitability. Following the release of *Sonic Colors: Ultimate* in the fiscal year ended March 2022, we released *Sonic Origins* in the fiscal year ending March 2023 along with the upcoming blockbuster, *Sonic Frontiers*. We are also working on a number of Sonic IP projects for the fiscal year ending March 2024 and beyond. Going forward, we will continue to offer an even more vibrant lineup and increase the value of this IP.

Sales trend of Sonic IP



Where the IP Strategy Is Heading

Strategic development of the mix of media

Expanding the fan base on a global level

Earnings Growth

Launching new games for a fast-growing user base

Global launch of the all-new Netflix animated series, *Sonic Prime*, in 2022



Partnerships with mega-popular games and their massive audiences



Minecraft (June 2021)



ROBLOX (Started June 2022)



Fall Guys (Started August 2022)

Expanding touchpoints with users, expanding territories



Movies

Games

Licensing

Sonic the Hedgehog 2 followed in the steps of the first *Sonic* movie in becoming a global box-office hit



Remastered title *Sonic Origins*



New title *Sonic Frontiers*



Earnings growth

Toys, games, food, apparel, etc. Deploying IPs in various areas



Danone Mobile Partnership

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IP strategy in action

Atlus IPs

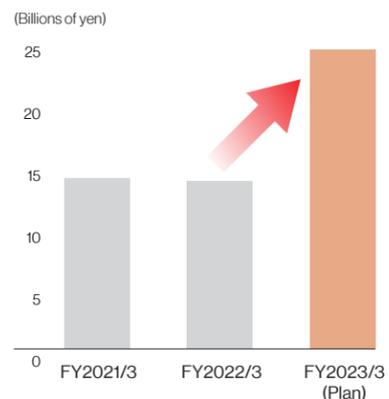
Pursuing global growth of IPs through the full-scale multiplatform deployment of content

ATLUS

Consolidated subsidiary Atlus holds numerous key IPs that have attracted a base of die-hard fans around the world, including the *Persona* and *Shin Megami Tensei* series, and has established its presence in recent years as a developer of highly-rated role-playing games.

The company continues to release new titles: *Shin Megami Tensei V* came out in the fiscal year ending March 2022 to high acclaim, followed in the fiscal year ending March 2023 by *Soul Hackers 2*—the first new title in 25 years for this IP, which first gained popularity as a game for the Sega Saturn console. In the mainstay *Persona* IP, Atlus is starting to strategically remaster past hit titles from the fiscal year ending March 2023, working to further expand the global fan base by actively developing titles for heretofore unsupported platforms.

Sales trend of titles in the *Persona*, *Soul Hackers*, and *Shin Megami Tensei* series



Where the IP Strategy Is Heading

Utilization of a lineup of titles that are highly acclaimed by users

- Remastering, utilization of existing IPs
- Multiplatform deployment

Building a global fan base

• Remastered titles

We will begin the full-fledged release of remastered numbered past titles from the *Persona* series from the fiscal year ending March 2023.



• Utilization of existing IPs

We released *Soul Hackers 2*, the first new title in 25 years for this IP that first gained popularity for the Sega Saturn console.



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• Multiplatform deployment

Measure 1 Expanding touchpoints with users

Measure 2 Prolonging product life cycles

★ In and after FY2023/3 ☆ FY2021/3 ☆ FY2020/3

Title	Original release date	Multiple platforms (selected examples)							Global roll-out, multiple languages		
		Console						PC	Japan	Asia	Europe and America
		PS4	PS5	Xbox One	Xbox S/X	Xbox GamePass	Switch	Steam			
<i>Persona 3 Portable</i>	FY2010/3	★		★	★	★	★	★	★	★	★
<i>Persona 4 Golden</i>	FY2013/3	★		★	★	★	★	★	★	★	★
<i>PERSONA 5 Royal</i>	FY2020/3	★	★	★	★	★	★	★	★	★	★
<i>Soul Hackers 2</i>		★	★	★	★			★	★	★	★

TOP INTERVIEW



Yukio Sugino
President and COO, Representative Director
SEGA CORPORATION



Be a Game Changer

—Serving, inspiring, awakening over 3 billion gamers worldwide—



Shuji Utsumi
Co COO, Director of the Board
SEGA CORPORATION



Tell us what's behind the rapid growth of the Consumer area.

Sugino We set aggressive expansion into global markets as a key thrust of the current medium-term plan. I see our having been able to tap into demand in those markets as a big factor behind this growth. As the weight of global sales in our overall business performance has become more evident in recent years, this is feeding into a burgeoning confidence and general mood within the company that we are capable of competing in markets outside Japan as well. SEGA has put out numerous games over its long history, and I believe this sizable library of titles gave us a leg up in terms of capturing stay-at-home demand during the pandemic.

Utsumi Worldwide, as people curtailed activities outside the home because of COVID-19, this fueled robust demand for games and drove a significant advance in digitalization, which gave incredible momentum to growth in the Consumer business. Meanwhile, major platformers like Google, Amazon, Facebook, Apple, and Microsoft have entered the games industry in earnest, and I think our strategy of building strong relationships with such platformers really paid off. We've been able to build very strong relationships, receiving a range of support including in the area of marketing.



SEGA has gained a reputation for its game development capabilities and the IPs it holds, but this has not always translated directly into earnings. Tell us about the reforms you've made in recent years to address this issue.

Utsumi Throughout its long history, SEGA has created and brought numerous ground-breaking games to the market. We boast a wealth of IP assets. After working at SEGA previously, my career took me into various parts of the entertainment industry. When I eventually came back to SEGA, my first thought was that it was just like Treasure Island.

Unfortunately, we were not able to effectively utilize the many IP assets SEGA holds. So, we took a good, long look at the library, and have begun the strategic remastering and remaking of the promising IPs we identified. In the games industry, the advance of digitalization has driven massive expansion of the market and is

bringing changes to the business model. Now it is possible to connect more people around the world with SEGA's IP. Our strategy for doing this centers on the multiplatform deployment of content and simultaneous worldwide releases. Our previous approach was mainly to release a title on specific platforms in Japan and then go on to deploy the content overseas. Now, advances in the digitalization of distribution have freed us up from time and space constraints, and we're in an era where content can be delivered instantly around the world—giving us a golden opportunity to score big. But that's easier said than done. To get there as fast as possible, we completely revamped our operating



As our track-record overseas becomes more evident, this is giving rise to an atmosphere on the ground that we are capable of competing in global markets as well.

methods, starting on the front lines. For example, to get ready for a simultaneous worldwide release, the development and marketing departments hold online meetings every morning with the studios of our overseas sites, sharing details of plans and progress and making sure everyone is on the same page. We also tweak game content and marketing to address the unique needs of each region. Meanwhile, to ensure a unified look and feel of the world of the game, we've had to make sure our message is shared consistently across all the departments involved. We also had to review the value chain from a global perspective, from planning and development to subsequent commercialization, making drastic changes to the way we work. As we made headway with these efforts, I've sensed a shift toward thinking about how we can gain a following for a game not just by users in Japan but overseas as

well. This is a major contrast to the attitude and atmosphere we saw within the company just a few years ago.

Sugino To add a word about distribution, the global pandemic gave further impetus to the trend of users buying games by means of digital downloads. Digital distribution not only offers freedom from time and space constraints but also has a major advantage in terms of being able to adopt a flexible pricing strategy. Also, in terms of broadening the user base, what is critical is the extent to which we can make inroads into new territories. In particular, we expect progress in digital distribution to play a key role in opening up emerging markets where the conventional distribution network based on brick-and-mortar stores is underdeveloped.

Q What is your thinking about profit margins in the Entertainment Contents Business? How do you plan to manage investments, including in development of a “Super Game”.

Sugino We are keenly aware that maintaining and improving profit margins is a key management issue. Considering that the global video games market is on a sustained growth trend, we are also focusing on growth in net sales. We believe that if we boost our competitiveness on a global level, this will tie in to both higher profit margins and higher net sales. To boost competitiveness, we will press forward with measures including internal organizational reforms, more robust staffing, and steps to foster a culture of embracing challenge.

Utsumi The operating profit margin in the Consumer area has improved significantly—reaching 18.5% for the fiscal year ended March 2022. One distinctive of the Entertainment Contents Business is that profit margins shoot up when we create a hit title. The

key, then, is how to create quality titles and continue to turn out hits. The market shift toward digital distribution will also be a boon for profit margins.

SEGA's profit margins are still relatively low vis-à-vis the competition—but this is another way of saying that we still have ample room to grow. To that end, our first task is strengthening existing IPs. We will capitalize fully on SEGA's strengths: the development capabilities represented by our global studio network, strong brand recognition, and a rich lineup of IPs. Moreover, we will strategically invest in development of a “Super Game” targeting further medium- to long-term growth. The challenges involved are daunting, but we plan to build up a title portfolio while keeping the balance between investment and profitability under careful control.

Holding a rich lineup of globally rolled-out IPs

IPs from studios under European supervision	IPs from studios under Japanese supervision
Major past IPs	

Q With the Sonic IP increasing dramatically in value, efforts to monetize this IP are going well. Expanding touchpoints with users and strengthening user engagement will be key to enhancing the value of Sonic and other IPs going forward. What are you doing in this regard?

Utsumi My sense is that the worldwide blockbuster success of the *Sonic* movies was a real breakthrough for the IP. Aside from just the ripple effect on games and other peripheral areas, because we could point to the increased value of the Sonic IP as a result of its box-office performance, we were able to build channels of communication in Hollywood and with other leading media companies overseas. That's quite an achievement. We are currently in discussions with people in Hollywood about IPs other than Sonic, and we're excited about what comes next. As movies, animations, and other media add value to an IP, we are confident this will contribute significantly to earnings from games as well.

around the world, I'm not sure you could find many other IPs that have shown such robust growth. Apart from the Sonic IP, we will also strategically expand touchpoints with users and strengthen user engagement by leveraging SEGA's powerful IP lineup. We are also branching out in new ways to strengthen user engagement: In addition to making use of social media and other channels, we have set up a dedicated video distribution studio, creating an environment that allows direct communication with users. We also manned a SEGA Atlus booth at the Anime Expo 2022 held in Los Angeles in July 2022. We will continue to expand new touchpoints with users, including direct contact with fans, while enhancing the value of our IPs on a global level.

Sugino The Sonic IP has set off a virtuous cycle of expanding touchpoints with users while monetizing the asset. Looking



To me, SEGA feels just like Treasure Island.

Achievements in FY2022/3

Consumer Area

Our focus was on the global branding of existing IPs by means of reinforcing simultaneous worldwide releases and the multiplatform deployment of content, releasing remastered titles, and supporting subscription-based services. We released several new full game titles which turned in strong results, including *HUMANKIND™*, *Sonic Colors: Ultimate*, *Lost Judgment*, *Shin Megami Tensei V*, and *Total War: WARHAMMER III*. Coupled with brisk sales of repeat titles, this resulted in a total of 27,200 thousand units sold (compared with 41,770 thousand units sold in the previous fiscal year). In terms of F2P titles, the existing title *HATSUNE MIKU: COLORFUL STAGE!* performed well. We also released two new titles: *PHANTASY STAR ONLINE 2 NEW GENESIS* and *Sin Chronicle*.

FY2022/3 (Results)

Net sales: **¥158.3 billion** Operating income: **¥29.3 billion**



HUMANKIND™
©Amplitude Studios 2021.
©SEGA.



Lost Judgment
©SEGA



Shin Megami Tensei V
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Amusement Machine Area

In addition to the release of new titles such as *Eiketsu Taisen*, sales were brisk for the *UFO Catcher®* crane game series and prizes for these games.

FY2022/3 (Results)

Net sales: **¥49.7 billion**
Operating income: **¥2.5 billion**



EIKETSU TAISEN
©SEGA

Animation and Toys Area

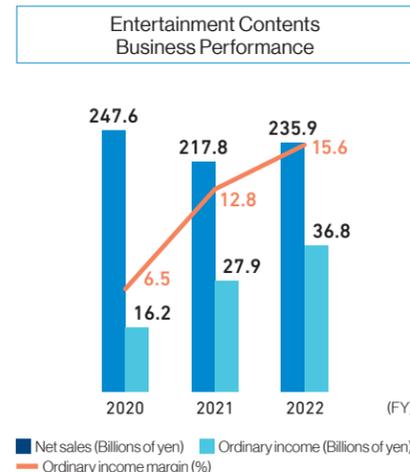
In the Animation area, we released *Detective Conan: The Scarlet Bullet* and recorded other animation production and distribution revenues. In Toys, we sold new and mainstay products such as *Fun to change mouse covers*, *With a front camera! Fun to change mouse covers!*, *Sumikkogurashi Personal Computer Premium* and *Demon Slayer POD*.

FY2022/3 (Results)

Net sales: **¥25.6 billion** Operating income: **¥3.0 billion**



With a front camera! Fun to change mouse covers!
Sumikkogurashi Personal Computer Premium
©2021 San-X Co., Ltd. All Rights Reserved.



Outlook Going Forward

FY2022/3 (Results)

Net sales: **¥235.9 billion**
Operating income: **¥33.9 billion**
Ordinary income: **¥36.8 billion**

Consumer Area

We will step up the introduction of new full game titles. We plan to release a major new title, *Sonic Frontiers*, in the fiscal year ending March 2023. Numerous other titles are due for release during that year, including *PERSONA 5 Royal*, a remastered version from the *Persona* series, as well as *Soul Hackers 2*, *Two Point Campus*, and *Endless Dungeon*. In F2P titles, while continuing to work on strengthening the operation of existing titles, we plan to release one new title.

Looking ahead at the business environment, although we have to pay attention to increasing development costs due to the effects of rising prices and the greater mobility of developers, as well as longer development periods, these factors are not currently having a major impact on results.

Amusement Machine Area

Although demand for prizes continues, the effects of supply chain disruptions, exchange rate fluctuations, and soaring raw materials costs are making themselves felt. We will continue to pay close attention to these developments while reinforcing sales of the *UFO Catcher®* crane game series and prizes for these games.

Animation and Toys Area

In the Animation area, in addition to generating revenues from the distribution of new movies such as the *Detective Conan: The Bride of Halloween*, we plan to sell new and mainstay products in the Toys area.

FY2023/3 (Forecast)

Net sales: **¥277.0 billion**
Operating income: **¥39.0 billion**
Ordinary income: **¥40.0 billion**

FY2023/3 (Forecast)

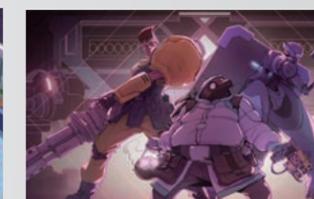
Net sales: **¥192.0 billion**
Operating income: **¥34.5 billion**



Sonic Frontiers
©SEGA



Two Point Campus
©Two Point Studios 2022. Published by SEGA.



Endless Dungeon
©Amplitude Studios SAS. ©SEGA.

FY2023/3 (Forecast)

Net sales: **¥55.8 billion**
Operating income: **¥3.3 billion**



Detective Conan: The Bride of Halloween
©2022 GOSHO AOYAMA/DETECTIVE CONAN COMMITTEE
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FY2023/3 (Forecast)

Net sales: **¥28.7 billion**
Operating income: **¥3.0 billion**

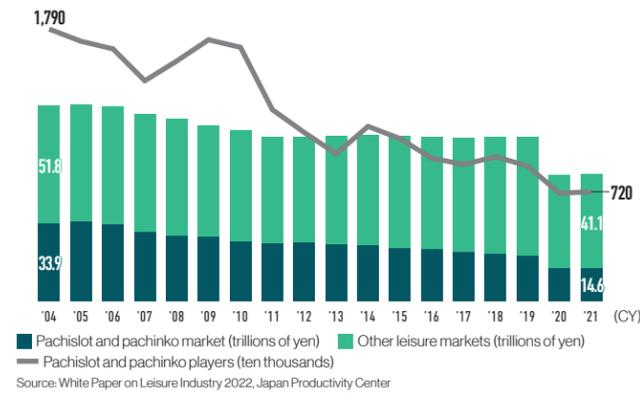
Pachislot and Pachinko Machines Business

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

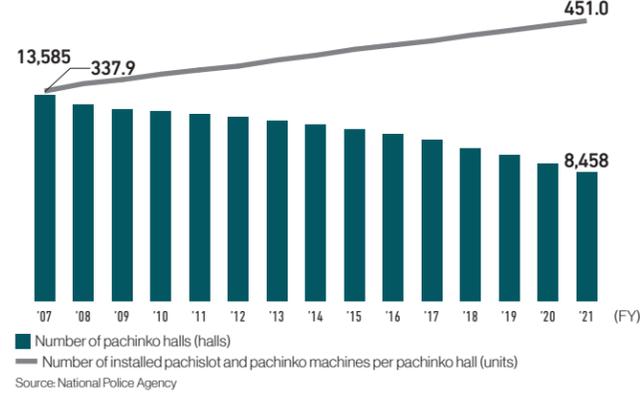
External Environment

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 pachinko halls and an increase in locations of major hall operators has caused a rise in the number of machines installed per pachinko hall.

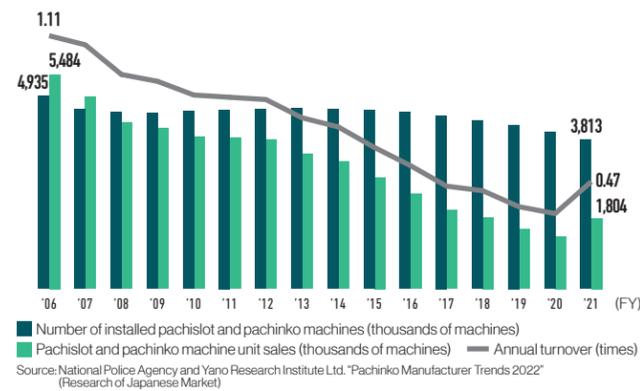
Market Size and Number of Pachislot and Pachinko Players



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 approval processes in accordance with the Entertainment Establishments Control Law.



For more information on market data, see pages 81-82.

Business Overview

Leveraging development capabilities to offer products that meet demand

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 through measures centered on the standardization and reuse of parts.

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.



Pachislot Aladdin A Classic ©Sammy

P Hokuto No Ken 9 Toushin ©Burtonson & Tetsuo Hara./ COAMIX 1983. ©COAMIX 2007 Approved No.YHE-812 ©Sammy



Sammy's Strengths

Multiple well-performing series

Series	Number of titles in series	Cumulative unit sales	Series	Number of titles in series	Cumulative unit sales
<i>Hokuto no Ken</i>	38	Approx. 3,040 thousand units	<i>Hokuto Muso</i>	10	Approx. 240 thousand units
<i>ALADDIN</i>	15	Approx. 580 thousand units	<i>Eureka Seven</i>	7	Approx. 170 thousand units
<i>Beast King</i>	16	Approx. 510 thousand units	<i>Monogatari Series</i>	12	Approx. 150 thousand units
<i>SOUTEN-NO-KEN</i>	16	Approx. 490 thousand units	<i>Code Geass</i>	4	Approx. 70 thousand units

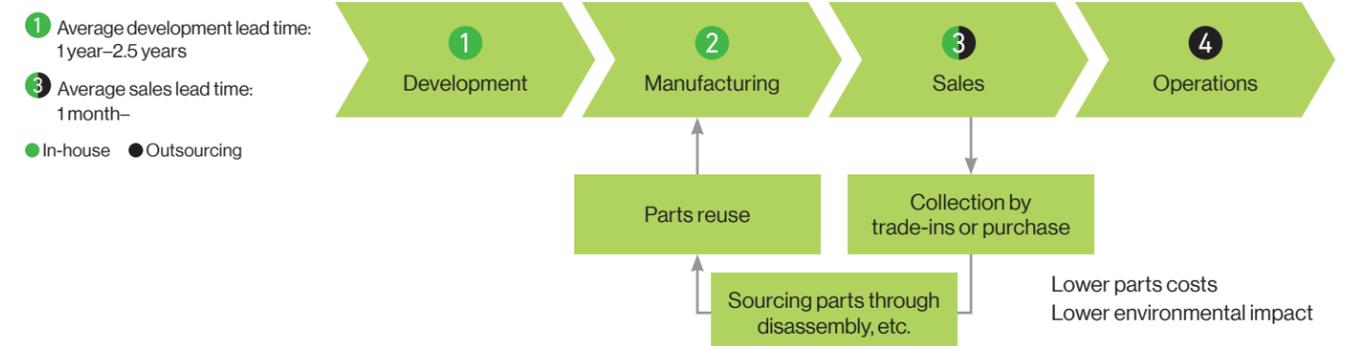
Note: As of March 31, 2022

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 parts.



Value Chain of the Pachislot and Pachinko Machines Business



Anticipated Opportunities and Risks

Opportunities

- Possibility of expanding user base**
By setting standards that allow new machines with a broader range of gameplay, recent revisions to regulations may expand the user base.
- Growing demand for machines that take advantage of revised regulations**
If models that take advantage of revised regulations gain the support of users, we can expect this to trigger greater demand among pachinko hall operators and feed into sales growth.

Risks

- Decline in the player population**
The decline in the player population may undermine the purchasing power of pachinko hall operators and affect unit sales volume.
- Risk of approval status**
If we are unable to obtain approval* as expected, this could have a significant impact on sales.
* Obtaining successful prototype testing results in the pachislot or pachinko machines licensing process.
- Parts risk**
There is a risk of losing sales opportunities due to the inability to procure parts.

Responses

- Creation of Hits**
 - Review of product lineup
 - Increase the profitability of a Hit
 - Strengthening media functions
- Improvement of Business Efficiency**
 - Improvement of development efficiency
 - Cost reduction through standardization of components, etc.
 - Promotion of e-commerce

Special Feature: Changes in the Environment Open up New Possibilities



Pachislot: No. 6.5 Model Machines Complying with Revised Regulations Hit the Market



Pachislot Persona5
©ATLUS. ©SEGA. All rights reserved.
©Sammy

Pachislot models in compliance with the No. 6.5 model, which comply with revised regulations, began reaching pachinko halls in June 2022. Some are already performing well, contributing to the revitalization of the pachislot market. Regulations for the new No. 6.5 models revised the upper limit on the number of games during the advantageous section and the method of managing the upper limit on medal pay-out. Data shows that, prior to the introduction of the new models, 70%–80% of pachislot players were dissatisfied with previous upper limits. The revisions sought to resolve this issue, and are thus expected to give further impetus to the market going forward. Taking advantage of the expanded scope of gameplay made possible by the revised regulations, the SEGA SAMMY Group will continue to pursue manufacturing based on user preferences, bringing to market a wide array of models offering compelling gameplay while complying with laws and regulations. We will help revitalize the pachislot and pachinko market by aiming to generate hit titles across a range of No. 6.5 models in pachislot, encouraging the return of dormant users and drawing in new users.

For No. 6.5 models, the maximum number of games during the advantageous section has been extended to 4,000. For soon-to-be-introduced “smart” pachislot machines, the upper limit will be abolished.

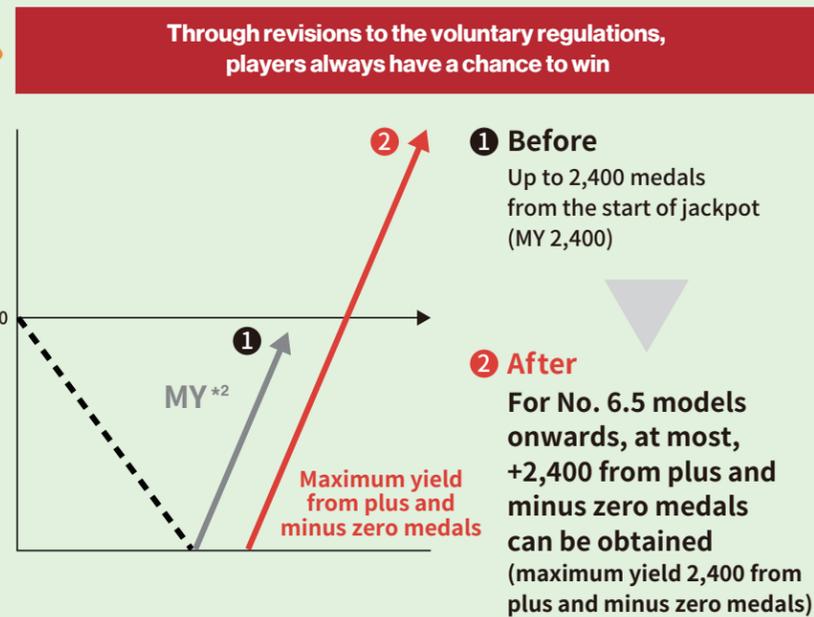
The revisions changed the way of managing the upper limit on medal pay-out, switching from maximum medal yield from the start of jackpot to maximum medal yield from when the player reaches plus and minus zero with medals inserted and paid out. While the limit of 2,400 medals is unchanged, the revised regulations are expected to dramatically change player psychology by enabling machines to be designed so that there is always the chance for players to win.

Advantageous Section*1

Upper Limit on Number of Games
(G = games)



Upper Limit on Medal Pay-out



*1 Advantageous section refers to a period that is advantageous to users, when pushing order, etc., can be indicated and a lottery regarding pushing order, etc., can take place.

*2 MY refers to the number of medals obtained from the lowest medal level during a single advantageous section.



“Smart” Pachislot and Pachinko Machines to Hit the Market in November



Smart pachislot
Cabinet image

“Smart” pachislot and pachinko machines will start hitting the market in Japan in November 2022. The most distinctive feature of these machines is that there is no physical payout of medals or balls. This offers significant benefits for pachinko hall operators, users, and manufacturers.

Advantages of Smart Pachislot and Pachinko Machines

Manufacturers	Users
Improved gameplay ▶ Revised regulations make possible more diverse game designs Reduction in the number of parts ▶ No need for parts related to insert and payout etc., of medals or balls	Alleviation of user dissatisfaction ▶ Revised regulations resolve user disadvantages Measures against infection ▶ Lack of direct contact with medals and balls enables more sanitary conditions
Pachinko Halls	Other advantages
Lower operational burden ▶ Simplified operations Crime control ▶ Prevention of crimes such as bringing in medals or balls	Improvement of hall environments ▶ Lack of medals and balls colliding reduces noise Lower barriers to new store opening ▶ Lower initial costs Measures against addiction ▶ Industry associations can collect game data, etc.

The advent of smart pachislot and pachinko machines opens the way for all sorts of possibilities unconstrained by existing concepts

Since there is no physical payout of medals or balls, there is no need to arrange equipment in an island formation for servicing. This allows greater flexibility in store layouts. It will be physically possible to create small stores with only about 10 units, stores on the upper floors of buildings, or halls in one corner of a commercial facility.

Moreover, although further consultation with government officials is needed, there are growing expectations that the industry will continue exploring a range of long-term possibilities, such as cashless pachinko halls and pachislot and pachinko machines that can download software. If machines are all connected online, it will be possible to upgrade versions at any time, and thus change machine visual production and specifications without replacing the cabinet.

In this way, smart pachislot and pachinko machines offer a range of advantages that have the potential to bring about a brighter future for the industry. Currently, the pachislot and pachinko industry is exploring a variety of arrangements and frameworks amid a growing sense of expectation that dramatic changes are in store for the market environment.

Potential Shape of the Future Pachislot and Pachinko

Expectations for all sorts of possibilities unconstrained by existing concepts	
Short to medium term	Long-term potential
<ul style="list-style-type: none"> Improved gameplay Reduction in the number of parts Enhancement of hall environments Crime control 	<ul style="list-style-type: none"> Lower operational burden for pachinko halls Measures against infection Measures against addiction Lower barriers to new store opening
<ul style="list-style-type: none"> More diverse pachinko hall layouts Cashless operation Machines can download software Digitization of operations Communication between pachislot and pachinko machines 	

Achievements in FY2022/3

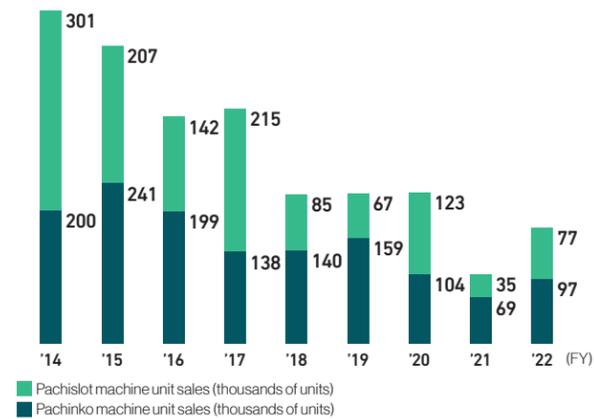
Growing sales volume fueled a strong recovery from the fiscal year ended March 2021, which was hard hit by COVID-19. We released revivals of past pachislot titles, including *Pachislot Aladdin A Classic* and *Pachislot DISC UP 2*, selling 77,000 units (up from 35,000 units sold previous fiscal year). We also released the latest title in our mainstay pachinko series, *P Hokuto no Ken 9 Toushin*, selling 97,000 units (up from 69,000 units sold previous fiscal year). Fixed costs also remained at low levels due to the benefits of structural reforms implemented in the previous fiscal year.



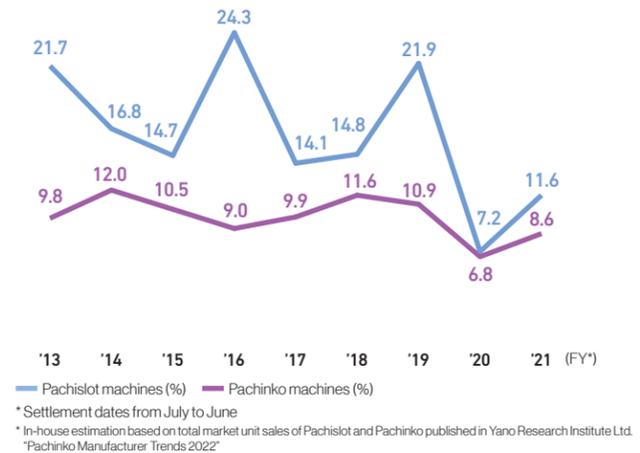
Pachislot DISC UP 2 ©Sammy



Pachislot and Pachinko Machine Unit Sales



Market Sales Share of Pachislot and Pachinko Machines



Major Titles Sold in FY2022/3

	Delivery	Unit Sales
Pachislot	<i>Pachislot CODE GEASS Lelouch of the Rebellion 3</i>	Aug. 13,434 units
	<i>Pachislot Aladdin A Classic</i>	Jan. 13,073 units
	<i>Pachislot ANEMONE Psalms of Planets Eureka Seven HI-EVOLUTION</i>	Nov. 11,708 units
	<i>Pachislot DISC UP 2</i>	Jan. 11,657 units
Pachinko	<i>P Hokuto No Ken 9 Toushin</i>	Dec. 31,865 units
	<i>P Shin Hokuto Muso Re:319ver.</i>	Jan. 17,328 units
	<i>P Hokuto No Ken 8 Kyuseishu</i>	May 10,226 units
	<i>P Shin Hokuto Muso Chapter 3 Jagi no Gyakushuu</i>	Mar 10,094 units



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



P Shin Hokuto Muso Chapter 3 Jagi no Gyakushuu
©Buronson & Tetsuo Hara / COAMIX 1983, Approved No.KOR-313 ©2010-2013 Koei Tecmo Games Co., Ltd. ©Sammy

Outlook Going Forward

FY2022/3 (Results)

Net sales: **¥75.8 billion**

Operating income: **¥9.3 billion**

Ordinary income: **¥10.2 billion**

FY2023/3 (Forecast)

Net sales: **¥86.0 billion**

Operating income: **¥11.5 billion**

Ordinary income: **¥12.0 billion**

We started to launch No. 6.5 model pachislot machines in July 2022 with the release of *Pachislot Kabaneri of the Iron Fortress*. We followed this with two other No. 6.5 model machines, *Pachislot Persona5* and *Pachislot Hard Boiled*, which got off to a good start in terms of both sales and utilization. "Smart" pachislot machines, which will start reaching the market in November 2022, will further expand the range of gameplay. Smart pachinko machines are due to hit the market starting in the spring of 2023. Our Group will also actively introduce models that take advantage of revised regulations as we seek to increase our share of utilization, installation, and sales.



Pachislot Kabaneri of the Iron Fortress
©Kabaneri Committee ©Sammy

Pachislot Persona5
©ATLUS ©SEGA. All rights reserved. ©Sammy

Future Revisions to Regulations

Revisions to regulations going forward will further expand the range of gameplay

No. 6.5 models (from June 2022)	Smart pachislot machines (from November 2022)	Smart pachinko machines (from spring 2023)
---------------------------------	---	--

- No. 6.5 models:**
 - Extended upper limit of number of games in the advantageous section (from 3,000 to 4,000)
 - Revised upper limit on medal pay-out (max. medal yield from the start of jackpot=2,400 to max. medal yield from plus and minus zero=2,400)
- Smart pachislot machines:**
 - Abolishment of upper limit of number of games in the advantageous section
- Smart pachinko machines:**
 - Relaxation of the jackpot probability (from 1/320 limit to 1/350 limit)
 - Further improvements to gameplay under consideration (new time reduction c specifications)

Major Titles for Release in FY2023/3 (Plan*)

	Delivery
Pachislot	<i>Pachislot Konosuba: God's Blessing on This Wonderful World!</i> Apr.
	<i>Pachislot KEMONO FRIENDS</i> May
	<i>Pachislot Kabaneri of the Iron Fortress</i> Jul.
	<i>Pachislot Persona5</i> Sep.
	<i>Pachislot RYUKYU BEAT-30</i> Oct.
	<i>Pachislot Hard Boiled</i> Oct.
Pachinko	<i>P Initial D</i> May
	<i>P Monster Hunter Double Cross Renzoku Shuryou ver.</i> Aug.
	<i>P The Seven deadly Sins 2</i> Nov.



P Initial D
©Shuichi Shigeno / Kodansha · 2014 New Movie "Initial D" Production Committee ©Shuichi Shigeno / Kodansha · 2015 New Movie "Initial D" L2 Production Committee ©Shuichi Shigeno / Kodansha · 2016 New Movie "Initial D" L3 Production Committee ©Sammy

* Only titles announced as of September 2022 are listed above.

Resort Business

We are aiming to invest in the gaming area as the third driver of earnings in tandem with bolstering the profitability of existing resort facilities.

External Environment

Pandemic-related restrictions on movement are easing

Restrictions on movement in Japan are easing. Overseas as well, which was hard hit by travel restrictions, restrictions are gradually being lifted.

Anticipated Opportunities and Risks	Responses
<p>Opportunities</p> <p>Entry into the gaming area Entry into the gaming area has the potential for becoming a major source of earnings for the Group.</p> <p>Risks</p> <p>Resurgence in COVID-19 cases There is a risk that a resurgence of COVID-19 cases may reduce visitor traffic at facilities operated by the Group.</p> <p>Risks associated with response to addiction issues 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>Building an earnings structure that can handle changes in the business environment at existing resort facilities</p> <p>Leveraging expertise gained during exploration of entry into the Japanese integrated resort (IR) business in the gaming area</p>

Achievements in FY2022/3

Phoenix Seagaia Resort saw strong individual demand outside periods when a state of emergency was in effect—the number of facility users in the third quarter surpassed the same period of the previous fiscal year, which benefited significantly from the effects of Japan's Go To Travel campaign. However, not only in Tokyo but in Miyazaki Prefecture and other locations as well, a state of emergency was in effect for about 60% of days in the fiscal year ended March 2022. Visitor traffic was down by 9.4% compared to the fiscal year ended March 2020, before the full-scale impact of

COVID-19 materialized.

Overseas, at *PARADISE CITY*—an integrated resort facility in South Korea operated by Group equity-method affiliate PARADISE SEGASAMMY Co., Ltd.—pandemic-related travel restrictions in various countries put downward pressure on results, with the drop amount (amount of chips purchased by customers at the table) from January to December 2021 reaching only 48.5% of the level from January to December 2020. The number of casino visitors also fell significantly, to 56.9% of prior-year levels.

Outlook Going Forward

Assuming the easing of restrictions on movement associated with COVID-19, we expect a recovery in earnings. At *Phoenix Seagaia Resort* in Japan, we expect contributions from ongoing government measures to stimulate tourism demand. We will also pursue measures such as strengthening our customer relationship management capabilities. At *PARADISE CITY* in South Korea, we began to

see a resumption of visits by Japanese VIP customers from June 2022, in line with the partial lifting of travel restrictions. Meanwhile, to capture strong hotel-centered vacation demand in South Korea, we will continue efforts to attract higher customer volume, including reinforcement of marketing.

Business Overview

Through the operation of resort facilities, the Group is working to build up development and operational expertise while exploring investment opportunities in the gaming area.

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. The Group is working to strengthen its ability to attract customers by continuously improving the value of the 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 preeminent IR facility in northeast Asia by providing high-quality spaces and services.



Constantly Creating, Forever Captivating
 — Making Life More Colorful —

SEGA SAMMY GROUP

SUSTAINABILITY VISION

Sustainability helps keep life colorful

We at SEGA SAMMY believe our determination to enhance life with a rich and colorful stream of captivating experiences should be reflected in our approach to sustainability.

It is our responsibility to put sustainability at the heart of everything we do, in tandem with our people, society, and the environment.

SEGA SAMMY will continue to pursue this synergy as a company dedicated to the shared experiences of a colorful world.





Human Resources

Developing people who can create experiences that move the heart

Main activities and milestones



* SEGA SAMMY HOLDINGS INC.

Cultural diversity

SS Aiming to be a Group that gathers people from diverse cultural backgrounds from all over the world

The company aims to achieve a global sales ratio of more than 50% by 2030. To support this, we have set the goal of increasing our culturally diverse human resources*1 to 21% or more. We also plan to invest more than ¥4.0 billion in core human resource development over nine years starting from 2022. Over the past three years, more than 20,000 people have taken some form of educational program at SEGA SAMMY College (SS-College), which is a learning place for SEGA SAMMY Group employees. The College offers an educational environment that is among the best in Japan. Through a variety of courses and learning programs, it enhances the skills and motivation of employees with different specialties and nurtures further innovation. As well as enriching our in-house education, we also engage with the industry. For example, The Creative Assembly (U.K), a subsidiary of SEGA, which develops consumer software, carries out educational outreach activities. This helps to secure human resources for the gaming industry in the medium to long term. This policy is reflected in the studio's talent acquisition strategy and the Company's strategic commitment to talent.

*1 Culturally diverse human resources: Certified based on numerous criteria, such as being a foreign national, having overseas residence experience and multicultural experience, and having a certain level of proficiency in languages such as English or Chinese. Human resources who can deal with diverse cultures and use their experience in their work.

2030 targets

Culturally diverse human resources*1

Approx. 900 people–
(approx. 21%–)

Percentage of women in managerial positions

Approx. 80 people–
(approx. 8%–)

Amount invested in education

¥4.0 billion or more cumulatively

Engagement score

58 or above/Rank A or above

Source: Link and Motivation Co., Ltd.

Global (cultural diversity)

Increase percentage of culturally diverse human resources*1 to 21% or more



Scope: SEGA SAMMY HOLDINGS, SEGA (Japan), Sammy

Development of core human resources

¥4 billion or more cumulatively by 2030



Scope: SEGA SAMMY HOLDINGS, SEGA (Japan), Sammy

SS Aiming to be a group where each employee can be successful through diversity, equity and inclusion.

The SEGA SAMMY Group is working to strengthen diversity, equity and inclusion around the world. We believe that creating an environment and opportunities for each individual to thrive is vital for using our human resources to the full. As part of this effort, Sega of America began recruiting diversity equity and inclusion specialists. In Sega Europe, we have set up a dedicated group.

As of March 2022, the Sammy Group has earned Platinum Kurumin*2 certification and the three companies SEGA SAMMY HOLDINGS, SEGA and Sammy have earned PRIDE Index Gold*3. We aim to continue to earn these certifications. Such third-party recognition will help us further improve engagement. Our first goal is to increase the percentage of women in management positions to 8% or more by 2030.

*2 Platinum Kurumin Certification: A type of Kurumin Certification granted by the Ministry of Health, Labour and Welfare to companies that have made certain efforts based on the Act on Advancement of Measures to Support Raising Next-Generation Children. This certification is granted only to companies that are recognized as implementing a higher level of initiatives.

*3 The PRIDE Index is an evaluation index of initiatives to support sexual minorities in the workplace by the voluntary organization "work with Pride." A Gold certification is granted to a company that meets the required standards for all five rating indicators.

Active career opportunities for women

Increase the percentage of women in managerial positions to 8% or more by 2030.



Scope: SEGA SAMMY HOLDINGS, SEGA (Japan), Sammy

Maintenance of work environment

Engagement score of 58 or above by 2030



Target: All Group companies (excluding overseas)

TOPICS

Understanding and Controlling Unconscious Bias

To further promote diversity, equity, and inclusion, which form the foundation of management, the Group conducts surveys, analyses, and seminars on unconscious bias (unconscious assumptions and prejudice). Through these activities, we aim to make employees aware of the existence of unconscious bias in their own minds and by controlling them, we aim to foster a common understanding that will lead to the Company's growth.

SEGA SAMMY Sustainable Weeks in October 2021, a new initiative for the Group, featured a series of lectures by external experts and executives. The lectures deepened employees' understanding of how to deal with unconscious bias and the tendencies of unconscious bias at the Group's managerial level that seen from preliminary research. Starting in 2022, the program will be implemented gradually, including for positions below the rank of general manager. In the future, we will further promote reforms in awareness and culture by spreading these ideas and initiatives widely throughout the Group.



A seminar in progress



Products and Services

Providing safe, dependable, and innovative products and services

Main activities and milestones

2030 targets

- Whole company** Updating existing initiatives, adding new initiatives (annual)
- SEGA** Global branding of existing IP → Creation of a "Super Game"
- Sammy** User-oriented manufacturing promotion, brushing up with a test-shoot evaluation system

Global leading contents provider
(Entertainment Contents Business)

Win a "triple crown"—top share in utilization, installation, and sales
(Pachislot and Pachinko Machines Business)

Quality improvement

E Evaluation team that supports the fun of each title

At SEGA, we have an in-house evaluation team that assesses the titles we develop for smartphones and video game consoles by verifying the level of fun that they offer.

The evaluation team objectively assesses the titles, comparing them against the concept set by the development department at the time of game planning. The team checks whether a unique appeal has been achieved for the title, and whether customers can enjoy the game as originally intended. This evaluation content is also used by management and the development department to review and discuss the development status, and helps improve the quality of the SEGA's games.

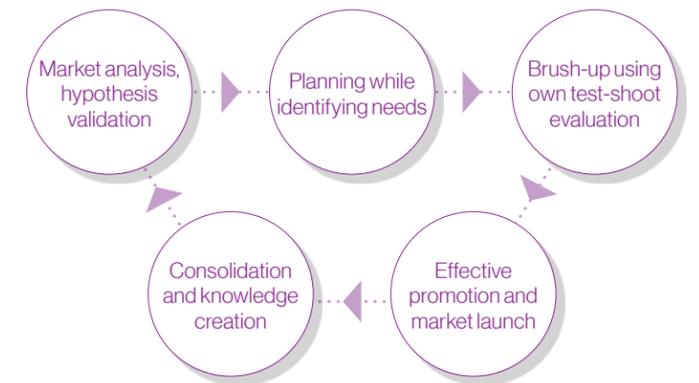
Role of evaluation team



Scheduled to be launched on November 8, 2022, *Sonic Frontiers* is the latest title in the Sonic series. The game has evolved into the next generation of stage-clearing action games with high-speed gameplay in all directions, unconstrained by the concept of a course. The evaluation team is also supporting new challenges in this new title in the Sonic series.



Sonic Frontiers ©SEGA



P User-oriented production process

While planning, Sammy uses data-based market analysis and hypothesis validation to identify target needs. We have also put in place a system for enhancing the level of perfection with a unique test-shoot evaluation system that provides more user-oriented evaluations.

P Highly original brush up mechanism using test-shoot evaluation

Sammy is leveraging industry-leading human resources for development to deploy a massive 100-people test-shoot evaluation into the development process. In addition, to achieve reliable product evaluation, we have installed a mock hall (Parlor Sammy) that closely resembles the actual play environment.



- Large-scale test-shoot evaluation system with 100 people
- Preparation of mock hall environment
- Combination of detailed attribute data and product evaluation

Reliable and useful test-shoot evaluation

Safety and security

E Newly established the Global Product Operations Division

In response to the expected growth of the global video game content market, SEGA is pursuing the global branding of existing IP as a key strategy of our medium-term plan. We are expanding touchpoints with customers through the multi-platform global expansion of our game titles.

Releasing a game title in a simultaneous global launch across several platforms calls for a number of processes to be brought together thoroughly and seamlessly. We must ensure that game quality meets the standards of each platform and of SEGA. At the same time, we must observe the laws and regulations of each country and region where the game is released, while also localizing the game into many languages and ensuring that the creative expression of the game is appropriate.

Launched in April 2022, the Global Product Operations Division serves as a hub for the development and publishing of SEGA in Japan, Asia, North America and Europe. It consolidates and streamlines these processes for each region. This helps us provide game titles that customers around the world can enjoy with peace of mind.

P Thorough quality assurance system

Sammy has put in place a thorough safety management system. It has established a Quality Assurance Department as a dedicated organization in its commitment to ensuring zero major defects that would affect personal physical safety.

In addition, we conduct not only in-house quality audits, but also audits of domestic and overseas cooperating factories utilizing online as well.



SEGASAMMY Colorful Carbon Zero

E Entertainment Contents Business P Pachislot and Pachinko Machines Business R Resort Business SS Group



Environment SEGASAMMY Colorful Carbon Zero*1

Achieving carbon neutrality by 2050

SS By 2030, the Group aims to achieve carbon neutrality in Scope 1 and Scope 2 in its main businesses (Entertainment Contents Business and Pachislot and Pachinko Machines Business). We also expect to reduce GHG*2 emissions by approximately 50% for the entire Group. In addition, we will work towards achieving carbon neutrality for the entire Group in 2050. For Scope 3, SEGA and Sammy aims to achieve a reduction of approximately 22.5% or more in

GHG emissions to meet the SBT*3 level by 2030. As part of this effort, we began carrying out a supplier survey in 2022. We increase our engagement with our customers and use the results to reduce GHG emissions in our supply chain.

*2 Greenhouse Gases
*3 SBT: Greenhouse gas emission reduction targets set by companies based on the requirements of the Paris Agreement and based on scientific evidence, targeting five to fifteen years into the future.

2021 ▶

2030 ▶

2050

Entertainment Contents Business

Pachislot and Pachinko Machines Business

Resort Business

- Switch to non-gasoline vehicles
- Adoption of "raw green" electricity
- Purchase of green energy certificates
- Introduction of photovoltaic equipment and services

- Switch to renewable energy sequentially by 2030
- Adoption of new renewable energy technologies and decarbonization innovations by 2050
- Introduction of energy-saving equipment (switching to LED lighting, replacement with high-efficiency heat source equipment, etc.)

Achieve carbon neutrality in the Entertainment Contents Business and Pachislot and Pachinko Machines Business. Reduce group-wide carbon emissions by around 50%

Group-wide carbon neutrality

*1 SEGASAMMY Colorful Carbon Zero is the name of the action plan to promote the Group's efforts to reduce greenhouse gas emissions. "Colorful" conveys the idea of using a variety of measures to achieve zero carbon emissions.

Examples of specific initiatives

SS Decarbonization with raw green electricity

The Group has achieved significant energy savings through energy conservation efforts and the consolidation of its locations into high environmental performance buildings.

As part of our efforts to preserve the environment and further reduce CO₂ emissions, we have partnered with Sumitomo Realty & Development Co., Ltd. and TEPCO Energy Partner, Inc. to build a scheme to adopt raw green electricity*4 for the tenant spaces of office buildings. Under the scheme, electricity generated at a new photovoltaic power plant is used for the office space of the Group headquarters. This directly helps increase the total amount of renewable energy sources in Japan.

In addition, by using non-fossil certificates at nighttime and other times when solar power generation is not available, the Group's head office will be able to use virtually 100% green power.

*4 Green electricity that is considered to have been transmitted directly from the power plant through the general power transmission network by matching the time of power generation and the time of consumption in units of 30 minutes.



Head Office Building (Osaki)

SS Utilizing 100% renewable energy data center

SEGA SAMMY Group, which uses the most of IT technology, has been consolidating the data centers that were distributed among the Group's companies into Equinix*5 since 2018. By aggregating into Equinix's data center, which is actively working on environmental measures and has achieved 100% renewable energy utilization in Japan, we are achieving cost reductions while reducing greenhouse gas emissions. As of April 2022, we are working on integrating the core systems, workflows, and various development environments of the Group's 24 companies, including our regional locations *Phoenix Seagaia Resort* and SEGA SAMMY GOLF ENTERTAINMENT. We will continue to consider expanding our coverage or promoting the use of cloud services that actively use renewable energy.

*5 Equinix is a global digital infrastructure company. It connects industry-leading organizations in finance, manufacturing, mobility, transportation, government, healthcare, and education across a digital-first world. To combat global warming, we are reducing our dependence on fossil fuels. We have avoided roughly 430,000 metric tons of carbon dioxide equivalent emissions (mCO₂e) since 2011 through over \$129 million in energy efficiency investments. In addition, in 2019, more than 90% of the energy consumed by the company's global data centers was used for clean and renewable energy.





The disclosure of non-financial information has become increasingly important as the basis for two-way dialogue between companies and stakeholders, including investors. We see climate change as an important management issue for the Group, and we have made it one of the core themes for our management strategies. We have been disclosing climate change-related data in accordance with the TCFD recommendations since the fiscal year ended March 2022. In addition, in June 2022, the Company implemented a statement of support for TCFD recommendations and participated in the TCFD Consortium, which consists of TCFD-endorsed companies and financial institutions

Governance

In April 2022, we established the Group Sustainability Subcommittee* within the Group Management Strategies Committee, a corporate body established voluntarily by the Company. The Subcommittee, which is a forum for deliberations on basic policies and material matters relating to climate change, is chaired by the CEO as the person with ultimate responsibility for climate-related initiatives. It debates general aspects of sustainability, as well as formulating

Strategy

We carried out scenario analyses based on recommendations from outside experts in order to identify climate change-related risks and opportunities and estimate the impact of those risks and opportunities on SEGA SAMMY HOLDINGS, SEGA and Sammy.

Risk Management

In April 2022, we established the Group Risk and Compliance Subcommittee as part of the Group Management Strategies Committee to discuss, verify, and share measures and data relating to risk management, etc. Its work includes risk assessment through verification of the impact and likelihood of risk factors that exist within the Group, and the discussion and verification of countermeasures. The results of these activities are reported to the Board of Directors. Risks relating to environmental issues are studied by the Group Sustainability Subcommittee, which shares

Metrics and Targets

Our target in relation to climate change mitigation is to achieve carbon neutrality for Scope 1 and 2 greenhouse gas emissions for our mainstay Entertainment Contents Business and Pachislot and Pachinko Machines Business by 2030, and for all group activities by 2050. Our target for Scope 3 emissions by both SEGA and

plans and policies designed to achieve sustainability goals. It also monitors progress on the Group's initiatives. Plans and policies discussed and formulated by the Group Sustainability Subcommittee* are implemented after approval by the Board of Directors.

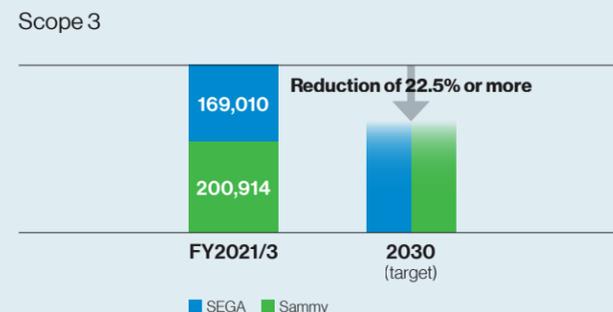
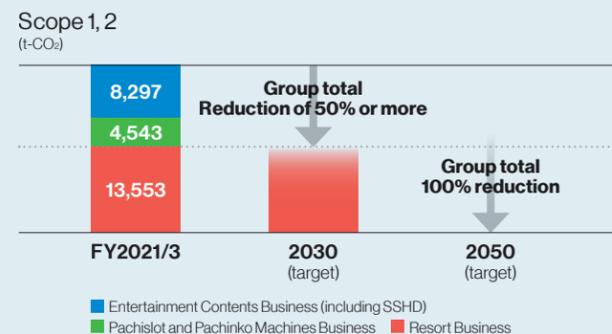
* The Group Sustainability Subcommittee consists of President, Group CEO, and Representative Director, Senior Executive Vice President and Group CFO, and directors and Audit and Supervisory Committee members with sustainability-related expertise in their skill matrices, and directors in charge of sustainability at key Group companies.

On that basis we formulated countermeasures designed to ensure strategic resilience based on the projected state of the world in 2030.

(▶ See the diagram to the right "Scenario Analysis Results—Impacts of Risks and Opportunities, Countermeasures")

its findings with group companies. In group companies, Executive officers in charge of sustainability are responsible for monitoring progress on action plans. The Group Sustainability Subcommittee monitors progress on these activities, shares the information with the Group Risk and Compliance Subcommittee, and submits reports to the Board of Directors. Sustainability perspectives, including climate change, are among the criteria used in decision-making about business portfolios. Sustainability factors are also reflected in major investment and loan decisions.

Sammy calls for a reduction of at least 22.5%, which is well below the 2°C science-based target. In the current fiscal year we started to conduct surveys of our suppliers with the aim of encouraging the reduction of greenhouse gas emissions



Scenario Analysis Results —Impacts of Risks and Opportunities, Countermeasures—

Category	Risks/opportunities Item	Timing	Impact on the SEGA SAMMY Group [● Risk ○ Opportunity]	Impact level	Countermeasures
Changes to policies and regulatory requirements	Introduction of GHG emission regulations and carbon taxes	Medium/long term	● The carbon tax burden will increase if governments adopt tougher climate change-related regulations and apply carbon taxes to greenhouse gas emissions.	Minor	—
		Medium/long term	● If governments adopt tougher climate change-related regulations and apply carbon taxes to greenhouse gas emissions, manufacturers will pass on the resulting increase in the carbon tax burden, leading to higher procurement costs.	Major	We will continue to enhance our systems, including studies on supplier selection criteria, and the improvement of supplier engagement.
		Medium/long term	●○ Electric power charges could increase or decrease due to the use of electric power produced using renewable energy.	Minor	—
Efforts to improve resource efficiency	Introduction of new regulations	Short to long term	● Manufacturing costs could rise due to a transition to alternative materials (recycled/biomass plastics) with smaller environmental footprints in response to tougher regulations.	Major	We will also take the reduction of manufacturing costs into account when considering changes to product materials.
	Relocation of highly efficient buildings	Medium/long term	○ By centralizing head office functions in Sumitomo Realty & Development's Osaki Garden Tower, which has advanced environmental systems and features, we will reduce greenhouse gas emissions and curb cost increases resulting from the future introduction of carbon taxes.	Minor	—
	Recycling/reuse	Short to long term	○ We will reduce costs by recycling used amusement machines and reusing parts.	Minor	—
	Reduction of parts, materials, and packaging through environment-focused changes to marketing formats	Medium/long term	○ We will reduce the cost of parts, materials, and packaging, etc., by shifting to environment-friendly marketing formats for online game sales and sales of amusement machines.	Major	We will work to reduce environmental loads by building partnerships with platformers that are implementing environmental countermeasures. We will reduce environmental loads by switching to interchangeable parts for amusement machines and minimizing the use of replacement parts.
Physical changes in the environment	Increasing seriousness of abnormal weather events	Medium/long term	● Sales could decline due to damage and shutdowns affecting manufacturing facilities and offices.	Minor	—

—Analysis Methods and Assumptions—

When conducting scenario analyses, we referred to existing scenarios published by the International Energy Agency (IEA), and the Intergovernmental Panel on Climate Change (IPCC). We projected two world situations based on one scenario in which the increase in the average world temperature since the industrial revolution is held to less than 2°C (the 2°C scenario), which is the target under the Paris Agreement, and another in which no policies or systems are introduced and the average temperature rises above the present level (the 4 °C scenario).



Addiction

Prevention of addictions and disorders

Main activities and milestones

2030 targets

SEGA Survey and research on gaming disorders conducted by four gaming-related organization in Japan

Sammy Promotion of measures to combat addiction such as gambling, mainly with Industry Organizations

SSHD* Monitoring of industry-academia collaborative research results with Kyoto University (semi-annual)

Compliance with laws and regulations, voluntary rules related to addiction, etc.

Contributing to the sound development of the industry

Implementation of industry-academia collaborative research on addiction

*SEGA SAMMY HOLDINGS INC.

Seriously address the increasing negative aspects in impact as the business expands

Compliance with laws, regulations, voluntary rules, etc.

Participating in the efforts of industry organizations

Implementing SEGA SAMMY's own initiatives

Collaboration with industry groups

E 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.

Addiction Countermeasures in the Pachislot and Pachinko Machines Business

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.

P 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. The Group will continuously agree with these activities and make a contribution to foster the sound development of the industry.

Countermeasures for Addiction 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

Industry-academia joint research project on gambling addiction

SS 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.

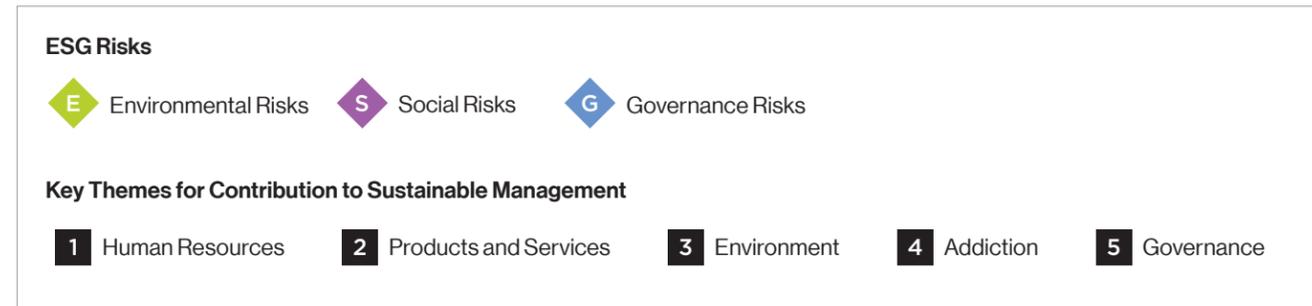
The Group plans to use the results of this research to establish systems for the early identification of players showing signs of addiction, aiming to prevent escalation. We will also establish facility operations that encourage users to exercise self-control and restraint. In this way, we aim to develop 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*.

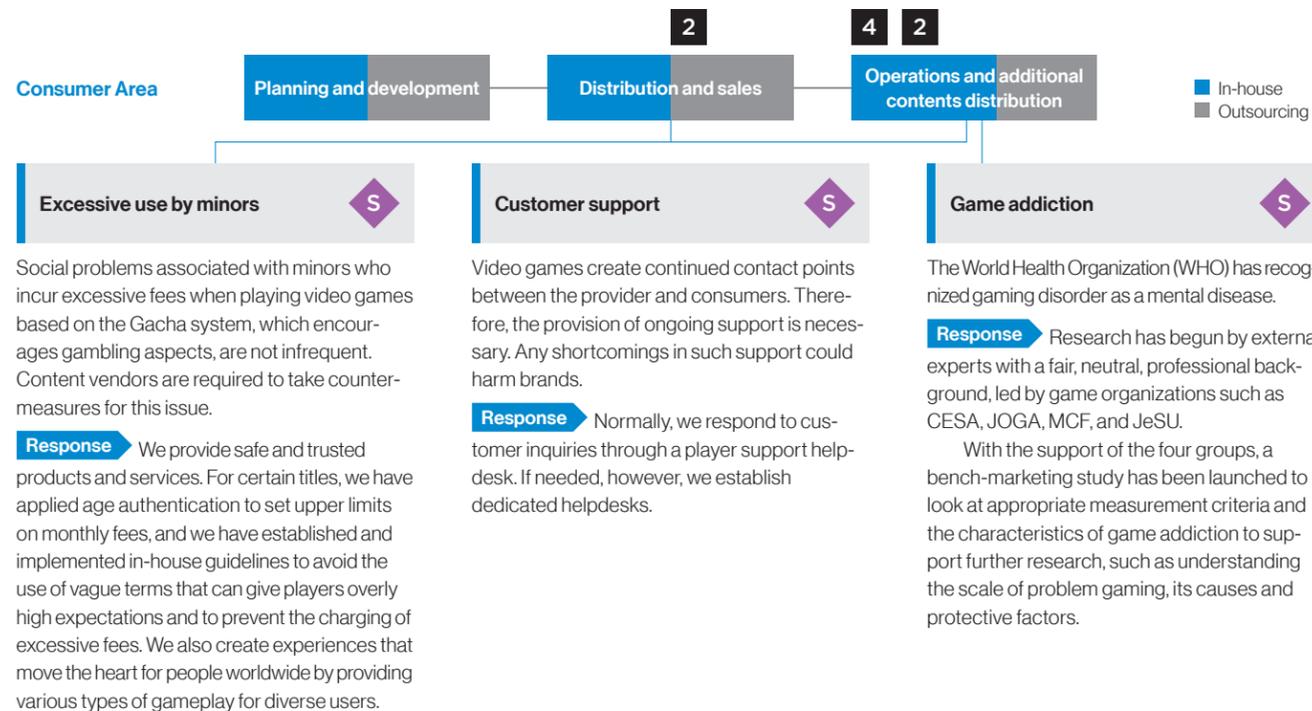
* This research project is being carried out from December 2017 to March 2023 at the Kokoro Research Center Kyoto University

ESG Risks and Countermeasures in the Value Chain

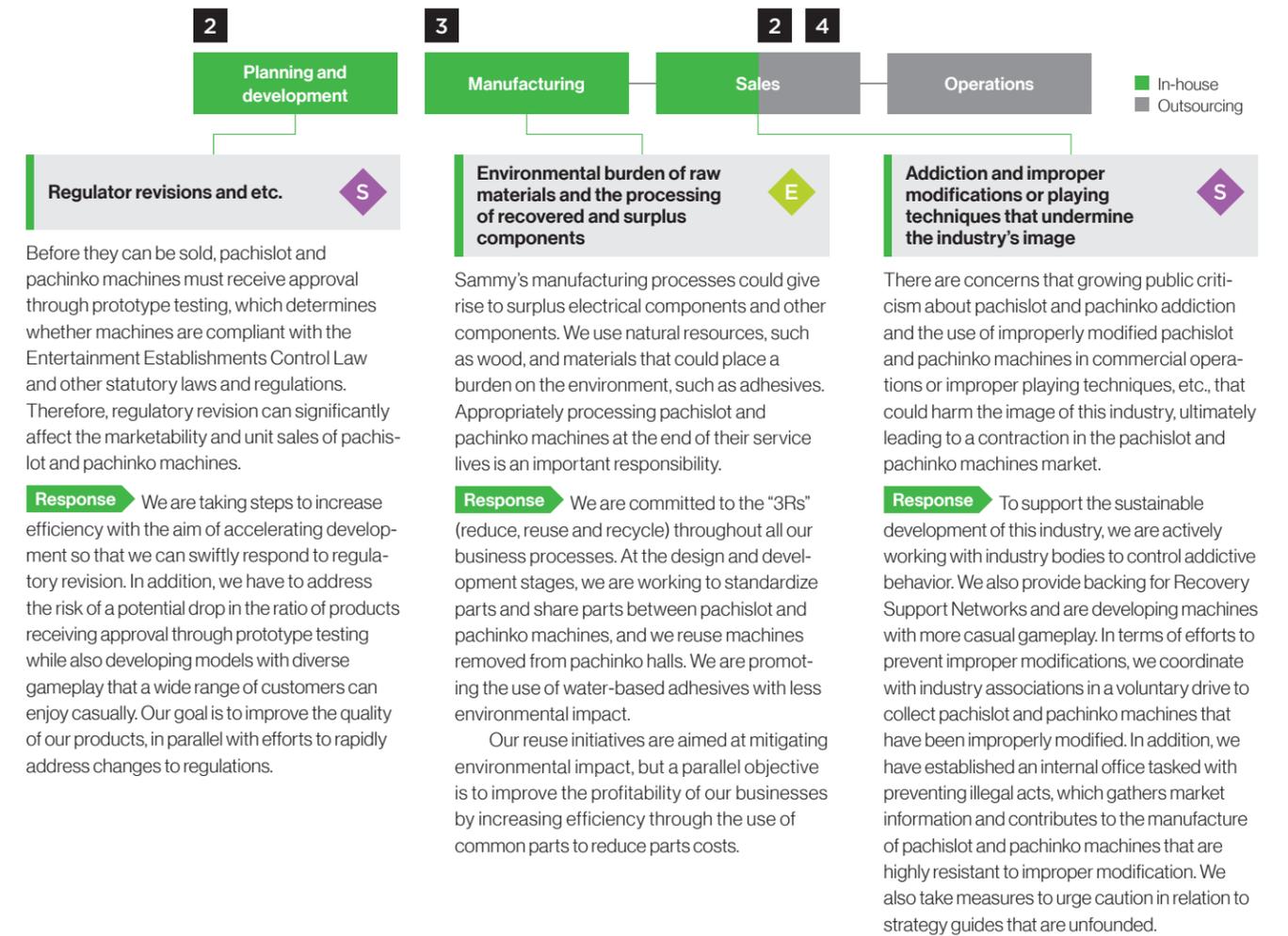
Recognizing that the various ESG risks faced by different face-to-face markets and business models confront different types of risk, our group has taken steps to address these risks and has identified key themes for contributing to sustainable management.



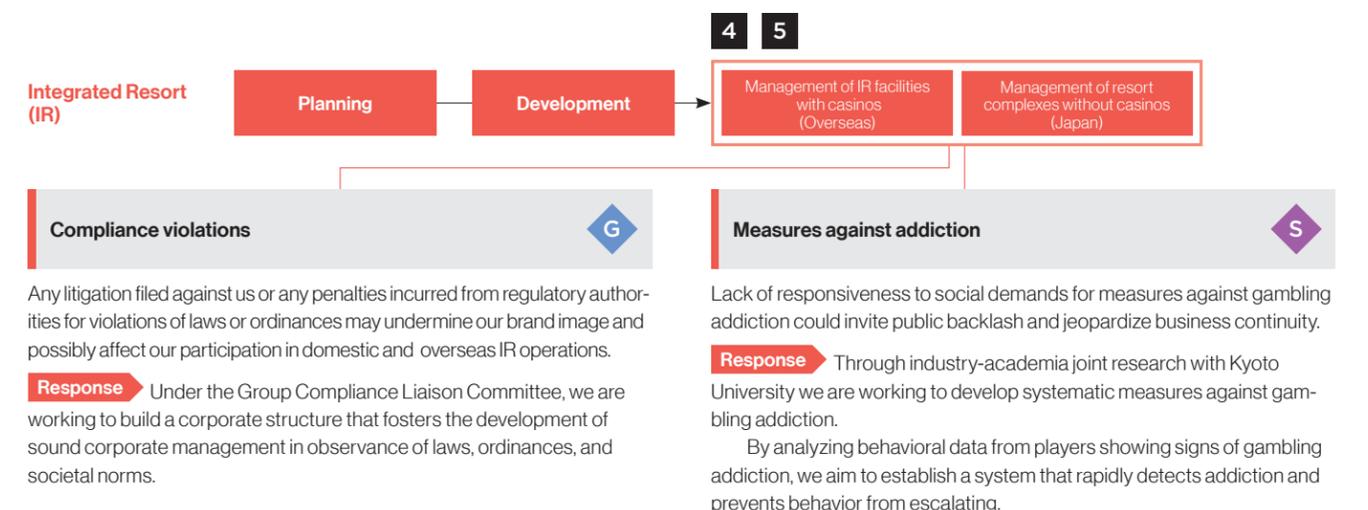
Entertainment Contents Business



Pachislot and Pachinko Machines Business



Resort Business



A History of Experiences That Move the Heart

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 pursue 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



Ryu ga Gotoku
©SEGA

Launched the first title in the *Sangokushi Taisen* series of network-enabled trading card games



Sangokushi Taisen
©SEGA

2012 Started distribution of online RPG *PHANTASY STAR ONLINE 2*



PHANTASY STAR ONLINE 2
©SEGA

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 Koel 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

2022 Launched *Pachislot Kabaneri of the Iron Fortress* for No. 6.5 models



Pachislot Kabaneri of the Iron Fortress
©Kabaneri Committee ©Sammy

2012 Made PHOENIX RESORT CO., LTD., a wholly owned subsidiary

Established a joint venture "PARADISE SEGASAMMY Co., Ltd." 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

2021 Launched *PHANTASY STAR ONLINE 2 NEW GENESIS*



PHANTASY STAR ONLINE 2 NEW GENESIS
©SEGA

2022 *Sonic the Hedgehog 2* became a world-wide hit.



©2022 PARAMOUNT PICTURES CORPORATION AND SEGA OF AMERICA, INC.

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*



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

Launched PC game *Total War: WARHAMMER 2*



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

2020 Released the *Sonic the Hedgehog* movie



Sonic The Hedgehog
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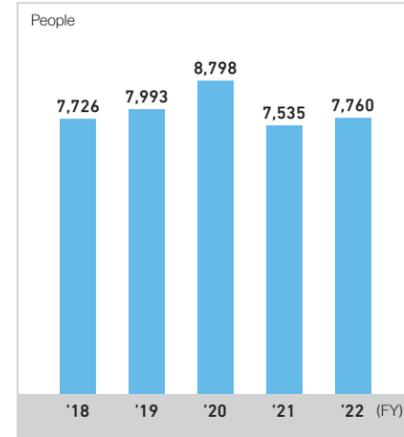
Launched *HATSUNE MIKU: COLORFUL STAGE!*



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

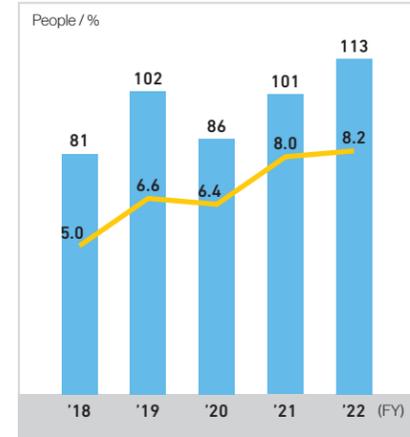


Number of Employees



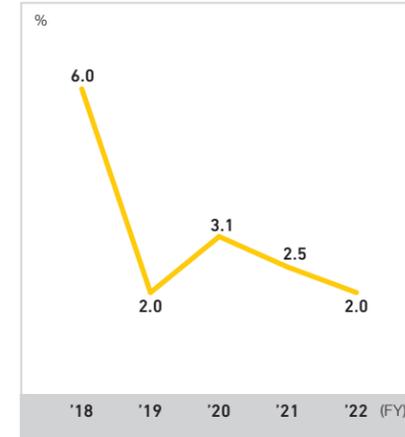
Note: The number of employees increased in fiscal year 2020, mainly due to the transfer of temporary workers in the Entertainment Contents Business to permanent employment contracts.

Number and Percentage of Female Managers



■ Number of female managers
— Percentage of female managers

New Employee Turnover Rate



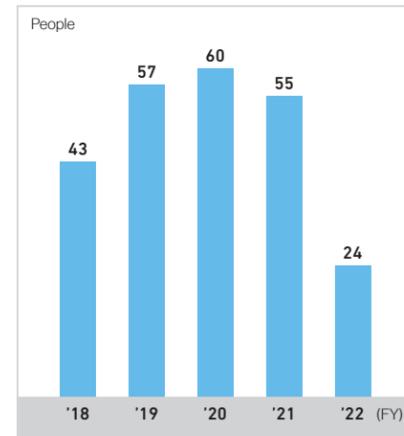
* The new employee turnover rate indicates figures for SEGA SAMMY HOLDINGS, SEGA, and Sammy only.

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

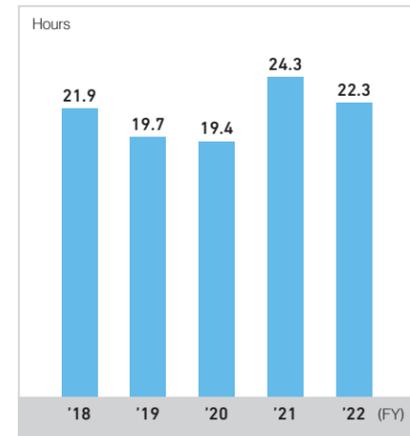


■ Number of employees taking childcare leave
— Percentage of male employees returning to work after childcare leave
— Percentage of female employees returning to work after childcare leave

Employees Rehired after Retirement



Average Overtime Hours per Month



Other Indicators

	2018	2019	2020	2021	2022 (FY)
Mid-Career Hires (People)	226	224	196	97	131
Hiring of Persons with Disabilities*1 (People)	94	105	95	127	135
Employees Taking Maternity Leave (People)	55	66	70	46	39
Days of Paid Leave Taken (Full-time employee) (Days)	11.5	13.1	14.6	11.0	12.0
Percentage of Paid Leave Taken*2 (%)	63.7	75.1	80.9	50.7	56.6
Days of Volunteer Leave Taken (Days)	70	101	18	0	26
Employees Taking Volunteer Leave (People)	46	42	16	0	17

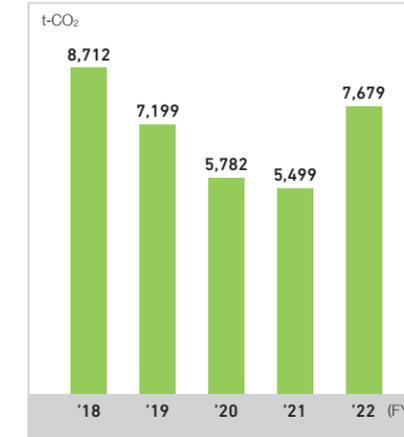
*1 Hiring rate of Group companies to which statutory requirements were applicable as of June 1.
*2 Calculated by dividing the number of paid leave days taken by the number of statutory annual paid leave days. Includes statutory annual paid leave days at some Group companies.

Scope of Data and Aggregation Methods

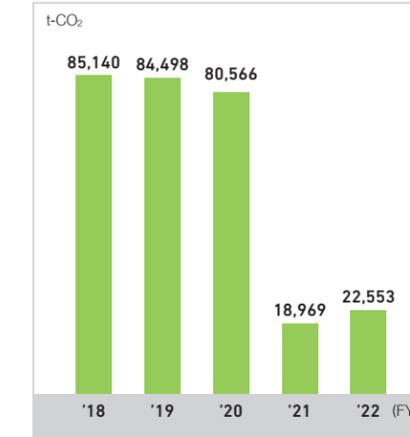
- Fiscal years 2018 and 2019: 15 domestic companies, fiscal year 2020: 13 domestic companies, fiscal year 2021: 12 domestic companies, fiscal year 2022: 10 domestic companies (SEGA SAMMY HOLDINGS, SEGA, Sammy, SEGA TOYS, TMS ENTERTAINMENT, SEGA SAMMY CREATION, SEGA Logistics Service, Sammy Networks, PHOENIX RESORT, DARTSLIVE)
- 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.



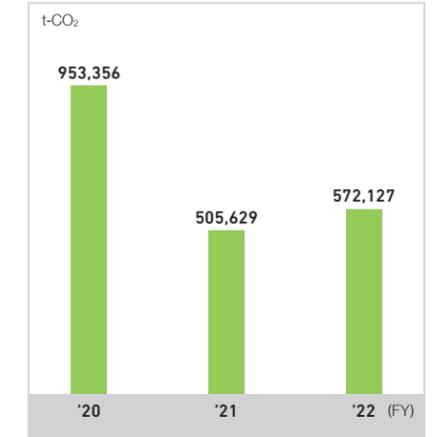
CO₂ Emissions (Scope 1)



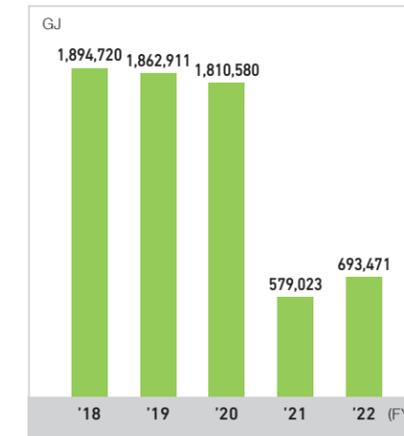
CO₂ Emissions (Scope 2)



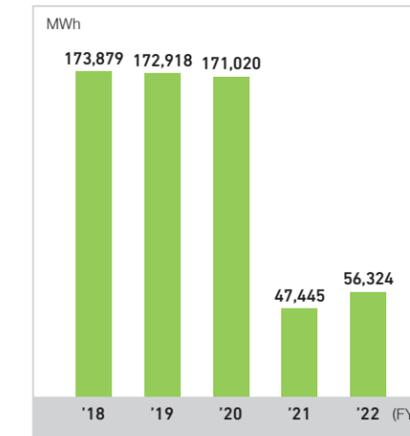
CO₂ Emissions (Scope 3)



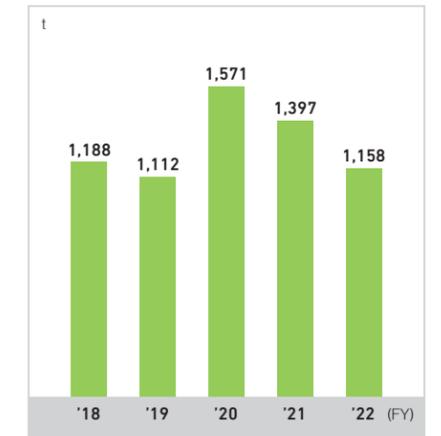
Total Energy Input



Electricity Usage



Industrial Waste Discharge



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

Water Usage



Number of violations of environmental laws and regulations

	2020	2021	2022 (FY)
Number of violations	0	0	0

Environmental Indicators at Sammy's Kawagoe Factory

	2020	2021	2022 (FY)
Pachinko and pachislot machine recycle rate (total for pachinko and pachislot machines)	95.4	98.6	96.4
Use of environment-friendly raw materials in pachinko and pachislot machines	Amount of wood used (t)	215	29
	Of which, PEFC-certified wood	3.3%	100%

Scope of Data

- Fiscal year 2018: 13 domestic companies, fiscal year 2019: 15 domestic companies, fiscal year 2020: 14 domestic companies, fiscal year 2021: 11 domestic companies, fiscal year 2022: 19 domestic companies (SEGA SAMMY HOLDINGS, SEGA, Sammy, TMS ENTERTAINMENT, SEGA TOYS, DARTSLIVE, Sammy Networks, PHOENIX RESORT, SEGA Logistics Service, ATLUS, Sega of America, Inc., Sega Europe Ltd., Relic Entertainment, Inc., Sega Publishing Europe Ltd., Sega Black Sea EOOD, Amplitude Studios SAS, The Creative Assembly Ltd., Sports Interactive Ltd., Two Point Studios Limited)

Please check the Company website for the latest ESG data.
<https://www.segasammy.co.jp/english/sustainability/esgdata/>

Governance

A Message from an External Director

As the highest body that makes decisions about business execution, the Board of Directors has a duty to enhance corporate value under a sound governance framework.

Kazutaka Okubo

Director, Audit and Supervisory Committee Member (External)



The ideal Board of Directors and the role of external directors

I've been taking part in management of the Company as an external Audit & Supervisory Board member and external director since 2019. Drawing on my experience as a certified public accountant, I offer advice on management overall, particularly in my areas of expertise in compliance and crisis management. In addition to the Company, I also serve as an outside director and Audit & Supervisory Board member of several other listed companies. This puts me in a position to use my knowledge of various industries to offer advice from multiple perspectives. My conviction is that, as the highest body that makes decisions about business execution, the Board of Directors of a company has a duty to enhance corporate value under a sound governance framework. The mission of external directors is to support this by overseeing whether or not the company is carrying out decision-making processes appropriately. A company might simply follow processes decided upon arbitrarily by certain executives without taking outside opinions into account, discussing issues to be addressed without ever being clear about their order of priority. There is little chance that companies where this is standard practice can make decisions appropriately. The role expected of external directors, with their outside perspectives and abilities, is to help keep the management of companies in check and facilitate course corrections.

External directors ought to play another crucial role: By picking up sooner on major shifts in social currents that tend to go unnoticed by people within the company alone, they should point the company in a direction that will enhance corporate value. Recent trends in digital transformation are an example. At heart, digital transformation does not mean simply incorporating information technologies into internal systems. Rather, it involves transforming business structures through digital technology. Companies sometimes hesitate to make bold reforms, held back by their own internal logic or circumstances. To become a company that can keep abreast of changing demands, though, means pushing through reforms even though this sometimes requires overcoming barriers. At such times, the advice of external directors is the force needed to encourage companies to move ahead.

In addition to this forward-looking role, external directors should be deeply involved in defensive actions, such as preventing issues before they arise. Risk management in particular is an essential element in ensuring a company's sustainability. The difficulty is that people read the impact of any given risk differently depending on their individual experience and knowledge. What some executives see as a critical risk requiring an immediate response, other executives may not recognize as a major issue. In other words, the approach of gauging risks by means of implicit knowledge is problematic. That's precisely why it is vital to verbalize and visualize risks in a way that everyone can understand—this is the point I focus on the most. By verbalizing and visualizing a risk map that is readily apprehensible, anyone inside or outside the company can engage in constructive dialogue about risk and the company can implement appropriate response measures. External directors take part in management on behalf of shareholders. Risks that don't make sense to me make even less sense to shareholders. In other words, verbalizing and visualizing risks also helps fulfill our duty to be accountable to shareholders.

Evaluating the Group from an outside vantage point

Looking at the Company today in light of what I've been saying about the ideal Board of Directors, the Group seems to be moving in a very positive direction, particularly in terms of the progress of the Board's decision-making processes. Past Board of Directors meetings consisted of matters to be resolved and matters to be reported. Now, on top of that, the meetings flag items to be discussed and set aside sufficient time for deliberation, and discussions have become livelier. In addition, the Group Management Strategies Committee was reconstituted to include the participation of all external directors. This voluntary body functions as a forum simply for discussion, meeting to consider issues before they go to the Board of Directors for resolution. I feel this shift to "talking things through" has led to a greater understanding of the context of key resolutions, which is facilitating faster, more appropriate decision-making.

The Group has also set aside time for external directors to receive explanations prior to meetings of the Board of Directors, minimizing the information gap between company insiders and outsiders and freeing up more time for discussion at Board meetings. This has helped people from outside the company better understand proposals at hand and fostered a climate in which it is easier for them to more actively give their input. I feel that, as a result, discussions in the Board of Directors have become freer and more open than before. It is also noteworthy that relationships between external officers have become stronger, thanks to opportunities we've had to meet on our own. As external officers with a wide range of skills and backgrounds, we work hand-in-hand to take a direct approach with the executive departments. This creates tension in a positive sense, which has the effect of making governance more robust.

To further enhance the governance framework going forward, meetings of the Board of Directors will have to be held more flexibly. Recent years have seen an accelerating pace of change in the operating environment, including economic security and the overall international situation. Given this context, it's safe to assume that cases will come up in the future that call for an emergency response. We ought not be bound by conventional meeting styles, where directors all gather in the same place to meet. We've started building a framework to allow us to hold online meetings flexibly, without delay, in the event that an incident occurs.

In addition, as the Group increasingly makes headway in overseas markets, it is imperative to further reinforce its global governance. In particular, the scope of the Group's business risks is expanding from a Japan-centered to an international frame of reference. To discuss response measures to such emerging risks, the risks must be thoroughly verbalized and visualized. The Group is developing a framework for doing this, having set up a Group Governance Division in April 2022. I look forward to further progress going forward.

I want the Group to aim for substantial growth with an organizational culture that enables people to take on challenges



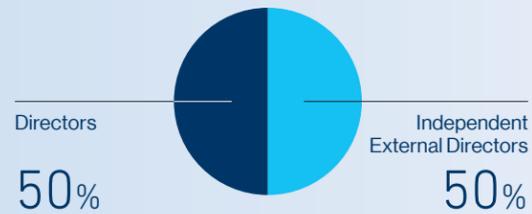
COVID-19 brought about changes in people's values and gave impetus to digitalization efforts. This is opening up major opportunities on a global scale for the Group, which holds high-quality intellectual properties and continues to harness advanced technologies to create experiences that move the heart. To fully capitalize on these opportunities, it will be critical to share the Mission Pyramid across Group companies around the world, while also fostering human resources with high cognitive and creative capabilities who are also aware of the need for compliance. If the Group can bring together this kind of talent and create an organizational culture that enables people to take on challenges, it will be able to create a growing number of innovative products and services. As an external director, I will continue to make full use of my knowledge and skills to help the Group achieve further substantial growth, encouraging right judgments from an objective point of view to help the the Group grow in a way that even more fully meets the expectations of its stakeholders.

Governance Highlights

Transition to a Stronger System

<p>FY2006/3</p> <ul style="list-style-type: none"> Launched the Group Internal Control Project <p>Purpose - To strengthen internal controls from a group-wide perspective</p> <p>FY2008/3</p> <ul style="list-style-type: none"> Appointed an External Director <p>Purpose - To strengthen management monitoring and supervision functions and reflect rich insights into management</p> <p>FY2009/3</p> <ul style="list-style-type: none"> Increased External Directors to Two <p>Purpose - To strengthen management monitoring and supervision functions and reflect rich insights into management</p> <p>FY2010/3</p> <ul style="list-style-type: none"> Established Group Compliance Liaison Committee <p>Purpose - To establish an internal control system required under the Japanese Version of the SOX Act</p>	<p>FY2016/3</p> <ul style="list-style-type: none"> Established Independent Advisory Committee Assessed the Effectiveness of the Board of Directors Disclosed Medium-Term Management Policies and Target Management Indicators <p>Purpose - To provide opinions on major management issues and exchange information for supervising the Board of Directors</p> <ul style="list-style-type: none"> To strengthen the functions of the Board of Directors To promote accountability to capital markets and strengthen group management <p>FY2017/3</p> <ul style="list-style-type: none"> Established the Position of CFO Increased External Directors to Three Disclosed Action Plan for Achieving Medium-Term Performance Targets <p>Purpose - To drive growth strategies from a financial perspective and strengthen dialogue with capital markets</p>	<p>FY2019/3</p> <ul style="list-style-type: none"> Increased External Directors to Four Reviewed Compensation System for Directors Adopted Stock Compensation Program with Restriction on Transfer <p>Purpose - To strengthen governance</p> <ul style="list-style-type: none"> To introduce incentives to improve corporate value in the medium to long term <p>FY2022/3</p> <ul style="list-style-type: none"> Transitioned to a Company with an Audit & Supervisory Committee Established Group Sustainability Subcommittee Established Group Risk and Compliance Subcommittee <p>Purpose - To strengthen governance</p> <ul style="list-style-type: none"> To strengthen sustainability management
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Ratio of Independent External Directors



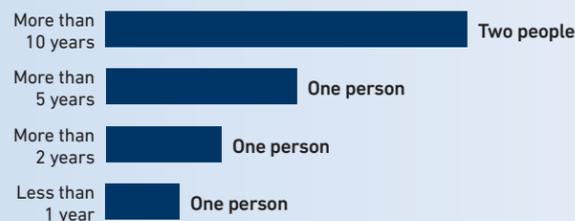
Ratio of Female Directors



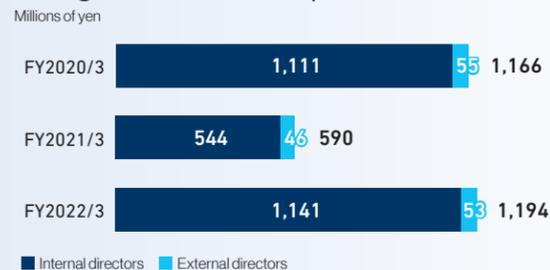
Directors with Diverse Experience

Corporate management	Entertainment business creation	Finance and accounting	Risk management and compliance
ICT/DX	Global	Sustainability	

No. of Years Served as Internal Director (as of August 2022)



Changes in directors' compensation (SEGA SAMMY HOLDINGS INC.)



Basic Stance 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 this, the Group has made decisions on important management issues, including the appointment of director candidates, determination of directors' compensation, oversight of management, and determination of auditors' compensation.

Improving Efficiency

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

Securing Soundness

Amid significant changes in the business environment, to maximize the Company's corporate value, the Company and the Group will appropriately recognize and manage the various risks surrounding the Company and the Group. The Company and the Group will strive to secure sound management by establishing a system (compliance system) to ensure compliance not just with laws and regulations, but with ethical standards and societal norms.

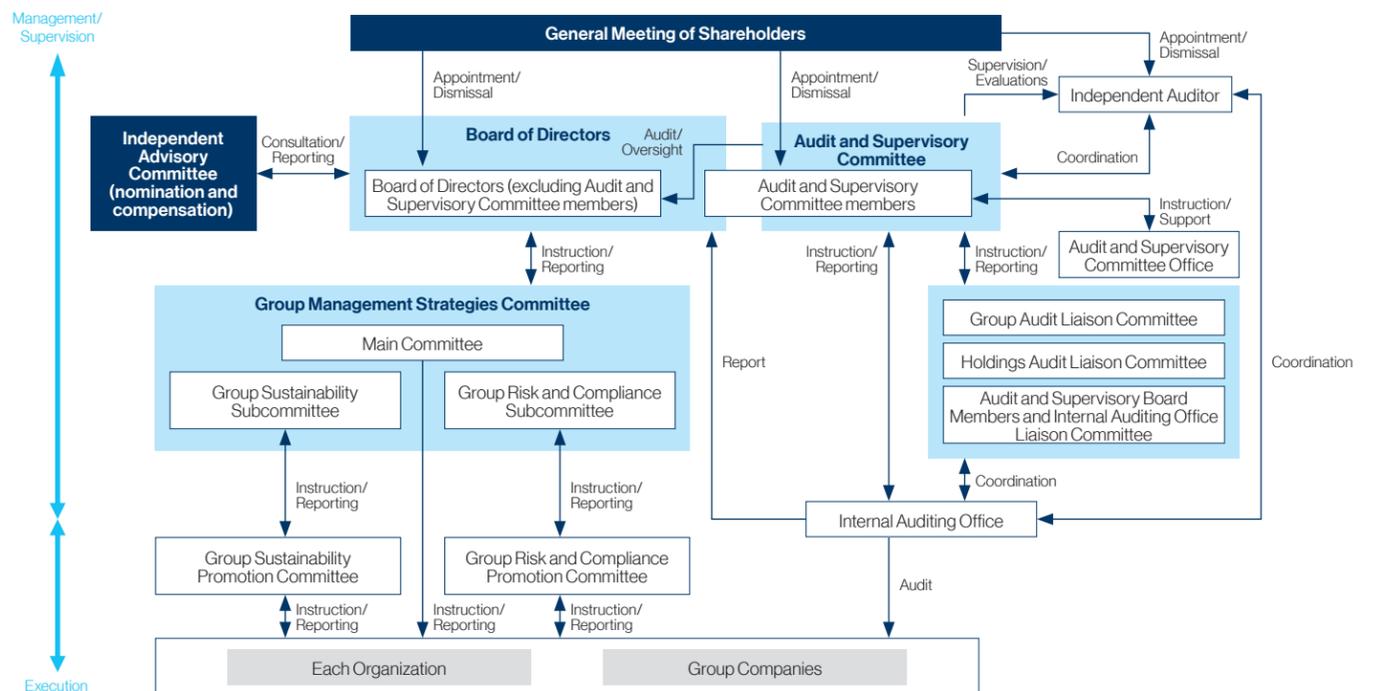
Enhancing Transparency

With the growing importance of information disclosure for companies, the Group will fulfill its accountability to all stakeholders, including shareholders, and further improve disclosure through proactive engagement in IR activities, thereby cultivating highly transparent management. In addition, the Group proactively and voluntarily develops its CSR activities, seeing them as helping both the Group's sustainable value creation and the sustainable development of stakeholders.

Corporate Governance System

To further promote productive discussions by the Board of Directors and to strengthen its oversight functions, the Company has chosen the structure of a company with an Audit and Supervisory Committee. This will allow it to delegate a considerable portion of important decisions on business execution to executive directors. In addition, by considering that directors with a wealth of knowledge and experience regarding the industry, market trends, products, merchandise,

services, etc., can generate prompt and optimal management decisions, the Group companies have chosen the structure of a company with company auditors. The Company and the Group also appoint external directors and strengthen the executive officer and internal auditing systems, thereby improving corporate governance from the aspects of both oversight and execution.



Role of Each Meeting Body

Board of Directors

At ordinary Board of Directors meetings held once a month in principle and extraordinary Board of Directors meetings held as appropriate, the Board of Directors aims to achieve flexible management through the current level of 12 directors. Certain important managerial matters at each business company are also resolved or reported at various bodies, including the Company's Board of Directors.

FY2022/3: Number of times meetings held
12 times

Audit and Supervisory Committee

The Audit and Supervisory Committee consists of four Audit and Supervisory Committee members and holds its meetings generally once a month, or when otherwise necessary. The Audit and Supervisory Committee assigns duties to respective Audit and Supervisory Committee members, and deliberates on key matters for consideration such as those involving the status of establishing and

operating the Group's corporate governance and internal control systems, and evaluations of the independent auditor.

Voluntary Committees

Voluntary Committees are the bodies that discuss and inspect the specified matters regarding the management of the Group which are specifically referred by the Board of Directors, and report and submit the results of such discussions and inspections to the Board of Directors. The following two Voluntary Committees have also been established: an Independent Advisory Committee and a Group Management Strategy Committee. In addition, the Group Sustainability Subcommittee and the Group Risk and Compliance Subcommittee are established as bodies that discuss and inspect further specialized matters.

Number of the Group's Management Strategy Committee meetings held in FY2022/3
14 times

Director Skill Matrix

Skill Matrix Definition

The Company selected experience and knowledge required as a publicly traded company, along with those that are required to achieve the long-term vision of the Company.

Item	Definition
Corporate management	Manager of a listed company or equivalent organization
Entertainment business creation	Experience as a business development manager or in starting a new business in the Group's business segments
Finance and accounting	Professional experience at financial institutions, auditing firms, etc., or experience as an officer in charge of a financial department at a major company
Risk management and compliance	Attorney, or other professional experience, or experience as an officer in charge of legal affairs, compliance or audit at a major company
ICT/DX	Experience at IT companies, vendors, consulting firms, and other professional services, or experience as an officer in charge of IT at a major company
Global	Experience of living abroad, experience at an overseas operating company, or equivalent experience
Sustainability	Individuals who have insight into Environment and People (Diversity), which are part of the Company's five material issues to be addressed (materiality)*, and are expected to play an active role in the promotion of sustainability by the Group * Human Resources, Products and Services, Environment, Addiction, and Governance

Skill Matrix

	Name	Gender	Expertise and experience						
			Corporate management	Entertainment business creation	Finance and accounting	Risk management and compliance	ICT/DX	Global	Sustainability
Directors	Hajime Satomi	Male	●	●					
	Haruki Satomi	Male	●	●				●	●
	Koichi Fukazawa	Male	●	●	●		●		
	Yukio Sugino	Male	●	●				●	
	Hideo Yoshizawa	Male	●		●	●			
	Kohei Katsukawa	External Male	●		●	●			
	Melanie Brock	External Female	●					●	●
Audit & Supervisory Committee Members	Fujiyo Ishiguro	External Female	●				●	●	●
	Yukito Sakaue	Male			●	●		●	
	Kazutaka Okubo	External Male	●		●	●			●
	Shione Kinoshita	External Female				●			●
	Naoko Murasaki	External Female	●			●		●	●

Note: The above table indicates up to four fields in which expertise and experience are particularly expected for each individual. The table is not an exhaustive list of all the insight and experience that each individual possesses.

Policy for Appointment of Directors

The Company has formulated a skills matrix based on the experience and knowledge required to manage a listed company and the experience and knowledge required to achieve the Company's

long-term vision. In connection with the appointment of directors, the Independent Advisory Committee evaluates each director candidate based on the skills matrix to determine whether he/she is

capable of appropriately discharging his/her duty of care to serve as a responsible and prudent manager and to contribute to the Group's sustainable growth and enhancement of corporate value,

as entrusted by shareholders to the management, thereby seeking to secure and improve the functions of the Board of Directors.

Reasons for Appointment of Independent Directors

Name	Reasons for Appointment
Kohei Katsukawa	We chose to appoint Mr. Kohei Katsukawa as External Director as we expect that he will continue to provide valuable opinions and suggestions on the management of the Company based on his wealth of experience and broad-ranging insight gained over many years as a corporate manager.
Melanie Brock	We chose to appoint Ms. Melanie Brock as External Director as we expect that she will continue to strengthen the Company's corporate governance system and improve the quality of management decision making based on her diverse range of ideas and values, making use of her extensive experience and career record as an international business leader.
Fujiyo Ishiguro	We chose to appoint Ms. Fujiyo Ishiguro as External Director as we expect that she will continue to provide valuable opinions and suggestions on the management of the Company based on her wealth of knowledge in corporate management and digital fields as a founder of Netyear Group Corporation and experience as an Outside Director of other listed companies.
Kazutaka Okubo	Mr. Kazutaka Okubo has many years of experience in audit services as a certified public accountant and deep insight about finance and accounting. We chose to appoint Mr. Kazutaka Okubo as External Director serving as Audit and Supervisory Committee Member as we expect that he will appropriately guide and oversee the Company's management from an objective standpoint based on a wealth of knowledge in governance which he gained through experience as an Outside Director.
Shione Kinoshita	Ms. Shione Kinoshita has a high degree of expertise in labor laws which she gained through her experience as an attorney-at-law as well as a Vice Chairperson of the Labor Legislation Committee, Dai-ichi Tokyo Bar Association. We chose to appoint Ms. Shione Kinoshita as External Director serving as Audit and Supervisory Committee Member as we expect that she will appropriately guide and oversee the Company's management from an objective standpoint based on her wealth of knowledge in governance gained through her experience as an Outside Director. Although she does not have experience in corporate management other than as an Outside Director, we judge that she will be able to appropriately perform her duties as an External Director serving as Audit and Supervisory Committee Member for the reasons mentioned above.
Naoko Murasaki	Ms. Naoko Murasaki has a high degree of expertise in the field of the global risk and governance which she gained over many years in the National Police Agency, the Ministry of Foreign Affairs and risk consulting firms. We chose to appoint Ms. Naoko Murasaki as External Director serving as Audit and Supervisory Committee Member as we expect that she will appropriately guide and oversee the Company's management from an objective standpoint based on her wealth of knowledge in governance gained through her experience as an Outside Director.

Policy for Appointing Independent Directors

- All external officers satisfying the qualifications for independent officers are designated as independent officers.
- Independence is judged based on the requirements for qualification stipulated in the Companies Act and the criteria for independence established by Tokyo Stock Exchange, Inc. The terms major client, large sums of money, and so forth are judged based on the criteria determined in accordance with the published appointment standards model for independent officers.

FOCUS

Strengthening Sustainability Governance

The Group Management Strategies Committee is established under the Company's Board of Directors and discusses and reviews the improvement of profitability, efficiency, strategic investments, and other aspects of the Group's businesses. This Committee is composed of directors (excluding the Chairperson, Representative Director), and meets as appropriate. As one of the subcommittees of the organization, a Group Sustainability Subcommittee was established in 2022 to formulate and

revise the Group sustainability plan and to assess initiatives by Group companies, make recommendations and provide advice. The Group Sustainability Promotion Committee was established in 2022 to discuss the sharing of Group-wide sustainability policies, monitoring of Group initiatives and the sharing of successful models across the organization. It is run by sustainability officers at each Group company.



Effectiveness of the Board of Directors

1 Purpose of evaluation

The Company performs analyses and evaluations of the effectiveness of the Board of Directors each year to ensure that the Board of Directors effectively fulfills its roles and responsibilities to "improve efficiency," "secure soundness," and "enhance transparency" of the Company's corporate management.

2 Method of evaluation

For the fiscal year ended March 31, 2022, the Company provided questionnaires to all directors and Audit and Supervisory Board members to evaluate the effectiveness of the Board of Directors. In the fiscal year ended March 31, 2022, in addition to confirming matters considered important in the effective fulfillment of the Company's Board of Directors' roles and responsibilities (including composition, operation, status of deliberations concerning strategy, and other matters put before the Board of Directors), in light of the move to the Tokyo Stock Exchange's Prime Market, the Company confirmed

such matters as the governance structure expected by the market and the involvement of the Board of Directors in issues related to sustainability. To ensure objective evaluations, an external organization was contracted to design the questionnaire and analyze and evaluate the responses. At meetings of the Independent Advisory Committee and the Board of Directors, deliberations took place based on the results of the analysis of questionnaire responses. These concerned such matters as the effectiveness of the Board of Directors during the fiscal year and where issues might lie.

3 Summary of evaluation results

Based on these deliberations, the Board of Directors was judged to be functioning effectively, with especially high marks in recognition that an appropriate proportion of the directors are independent external directors and that they contribute to constructive discussions. It was also noted that the allocation of time for questions and discussions, pointed out as an issue in the previous year, was now satisfactory.

4 Issues and approaches for enhancing effectiveness

Issue	Deliberate and follow-up on important projects; conduct management that focuses on management indicators
Approach	<ul style="list-style-type: none"> Increase discussion among board members about what topics they should focus on. Seek agreement among board members on how to set the agenda. It is useful to formulate an annual schedule for the agenda of the Board of Directors meetings that have been decided upon, enabling a series of thorough discussions to be held.
Issue	Presentation by the person explaining the agenda; free discussion
Approach	<ul style="list-style-type: none"> Execution must involve an understanding of the objective facts and perspectives for each agenda item, based on the skills and expertise of external directors. External directors must accurately understand the background difficulty of execution in the context of management issues.
Issue	Directors' training
Approach	<ul style="list-style-type: none"> Enable execution of the environmental and management policies and issues of each business company and provide opportunities for discussion with external directors.
Issue	Establish and oversee the Code of Conduct; ensure effectiveness of the whistleblowing system; report and respond to material risks
Approach	<ul style="list-style-type: none"> To effectively and efficiently operate the Group, clarify our assessment of the severity of risks and share this between the head office and the Group companies. Establish and operate a system of control that takes into account the characteristics of each business company. The Board of Directors oversees the entire process in a holistic manner.

5 Directors' remarks on improving effectiveness (excerpt)

- At the Board of Directors, giving internal directors more opportunities to speak will lead to more active discussions. We would like for more detailed information to be reported to external directors regarding what discussions took place at the meeting of the executive officers before an item was put on the agenda. An atmosphere should be fostered where executive officers can express their opinions, responding without hesitation to what has been pointed out by external directors.
- Authority for individual projects should be delegated to some extent to each company. The Board of Directors should be a forum for discussing the big picture and the medium- to long-term vision.
- The Group Management Strategies Committee has an important role in enhancing the effectiveness of the Board of Directors. The Board of Directors can make quick decisions as a statutory procedure if proposals can be drilled down with frank comments and opinions by committee members.
- Determining what is to be discussed at the Board of Directors is important. The Group Management Strategies Committee should be used as a forum for prior explanation of important issues.
- There is a high level of interest in governance from investors. Discussions at the Board of Directors meetings should be disclosed to the fullest

extent possible. The aim should be to evolve into a Board of Directors that reflects the opinions of stakeholders.

- It has been pointed out that, compared with companies in Europe and North America, Japanese companies discuss ESG less at Board of Directors meetings. But we appreciate that the Group has been able to discuss this topic from numerous angles.



A meeting of the Board of Directors

FOCUS

Group Management Strategies Committee Held to Deepen Discussion

The Group Management Strategies Committee is established under the Company's Board of Directors and discusses and reviews the improvement of profitability, efficiency, strategic investments, and other aspects of the Group's businesses. This Committee is composed of directors and Audit and Supervisory Committee members, and meets as appropriate. Through the Group Management Strategies Committee, officers engage in more in-depth discussions to strengthen governance.

Group Management Strategies Committee Activities

Contents of the discussion (FY2022/3)

- Yokohama IR Project
- Medium-term management plan
- Examination of issues in management discussions
- Group management issues
- Group growth investment policy
- Group sustainability policy
- Response to Corporate Governance Code Revision
- Audit and Supervisory Committee transition policy
- Risk literacy
- Data security
- New project
- Functions of organizations that report directly to the Audit and Supervisory Committee
- Group Governance

Number of discussions and hours (FY2022/3)

14 meetings during the year/discussion time: 21 hours 55 minutes

External and internal directors actively discuss various topics (excerpt from the statement)

On the crisis management system

- Okubo:** We should develop risk management systems that align with changes in society. To do that, we need not only to keep to what we have decided. We also need to see changes. To strengthen the system, it is essential to improve the risk literacy of the executives of each Group company. In particular, we need to conduct training on what to do when we encounter cyber terrorism, based on the assumption that this is bound to happen.
- Murasaki:** Establishing the Internal Auditing Office and the Group Governance Headquarters will without a doubt strengthen the risk management system. However, the bigger an organization becomes, the slower its response to the crisis will be. It is therefore necessary to ensure a system that can quickly collect and analyze information.
- Satomi:** We should strengthen our countermeasures against cyberattacks, which are becoming increasingly sophisticated. Crisis management depends upon building a system that prevents incidents in advance. However, the response to the initial situation when it occurs is important. In cases of emergency, we should consider having discussions online in a way that relevant people can convene quickly and discussions can be carried out flexibly.
- Ishiguro:** There are precedents from other companies where meetings are held online flexibly in the event of a severe incident that requires speed. We should incorporate flexible methods using digital tools.

Human resources

- Kinoshita:** We also need to respond to business risks such as harassment, industrial accidents, and a shortage of personnel. We urgently need to secure resources. There has also been increasing attention with regard to the qualifications of certified fraud inspectors who inspect corporate irregularities. We should raise awareness among young people within the Company that audit work plays a very important role for the company. We should strengthen our development of professional human resources for audit work, including supporting personnel in obtaining qualifications that are recognized in society.
- Brock:** In terms of the personnel shortage, the Company should further strengthen its diversity efforts. The proportion of women in management positions in the Group is still low. We need to develop an environment in which women can play an active role, and to establish a training system for this.
- Katsukawa:** If all our positions are filled by people who have achieved results but without any personal skills, that could lead to a major risk. With regard to personnel evaluation, it is better to promote people who have personal skills such as character and virtues, rather than thinking basing promotion only on results and achievements.

Compensation Amount for Officers and the Method for Calculating Such Compensation

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 directors who are Audit and Supervisory Committee members and 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 directors who are Audit and Supervisory Committee members and 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.

Compensation for directors and Audit & Supervisory Board members for the fiscal year ended March 2022 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	Bonuses	Performance-based shares with restriction on transfer	Continuous service-based shares with restriction on transfer	Of the items on the left, non-monetary compensation, etc.	
Directors	Internal	5	1,141	586	507	48	—	48
	External	5	53	53	—	—	—	—
Audit & Supervisory Board Members	Internal	2	18	18	—	—	—	—
	External	3	23	23	—	—	—	—

Notes:

1. The amounts of both bonuses and compensation of performance-based shares with restriction on transfer in the table above are the amounts that were posted as expenses in the current fiscal year.
2. As of the end of the fiscal year ended March 31, 2022, the number of Directors was eight (including four External Directors), and the number of Audit & Supervisory Board Members was three (including two External Audit & Supervisory Board Members). These figures differ from the number of individuals mentioned above because of including two retired Directors (including one External Director) and two retired Audit & Supervisory Board Members (including one External Audit & Supervisory Board Member) at the conclusion of the ordinary general meeting of shareholders held on June 24, 2021.

Directors who received ¥100 million or more in total compensation for the fiscal year ended March 2022 is as follows.

Name	Position	Total compensation, etc. (Millions of yen)	Company	Total compensation, etc. by type (Millions of yen)				
				Basic compensation	Bonuses	Performance-based shares with restriction on transfer	Continuous service-based shares with restriction on transfer	Of the items on the left, non-monetary compensation, etc.
Hajime Satomi	Director	455	The Company	216	220	19	—	19
Haruki Satomi	Director	453	The Company	219	213	20	—	20
Koichi Fukazawa	Director	111	The Company	60	46	5	—	5

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.

 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/2022/202203_4q_yuho.pdf

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 directors who are Audit and Supervisory Committee members and 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, performance-based bonuses, and stock compensation with restriction on transfer for a single fiscal year 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

Strategic Shareholdings Policy

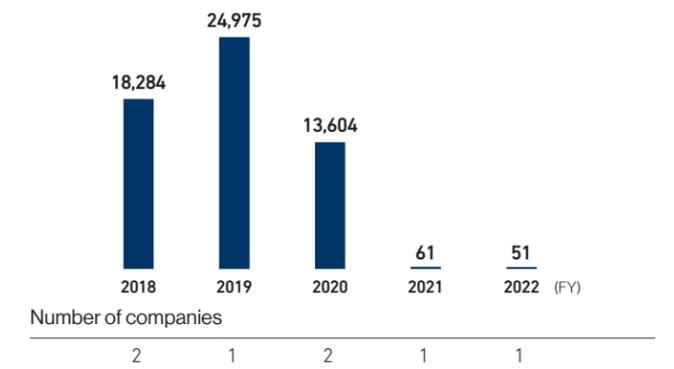
The Company possesses shares for purposes other than investment only in cases in which the Company believes the possession thereof will enable business alliances, expand transactions, and will lead to an improvement in corporate value, thereby benefitting shareholders.

The Company periodically examines the economic rationale, future outlook, and other aspects regarding the possession of such shares at its Board of Directors meetings and discusses whether the future possession thereof is justifiable.

In general, the Company exercises the voting rights corresponding to such shares on all proposals based on whether adopting such proposals will contribute to the sustainable growth and mid-to-long-term corporate value enhancement of both the Company and the investee.

Value of Strategic Shareholdings (excluding non-listed stocks)

(Millions of yen)



Method for Training and Supporting Directors and Audit and Supervisory Committee members

At the time they assume office, Company directors are provided with opportunities to participate in internally conducted orientation and training sessions to acquire knowledge on the roles and responsibilities expected of directors of a listed company, as well as knowledge of applicable laws and regulations and compliance. After assuming office, the directors are continuously provided with further opportunities to acquire necessary or new knowledge and to improve the

same, 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 to voluntarily improve him/herself by participating in external seminars and lectures sponsored by organizations to which the Company belongs and provides support for the expenses necessary therefor.

Policy on Constructive Dialogue with Shareholders

To facilitate constructive dialogue with shareholders and investors, the Company works from the 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 implementing the following efforts:

In facilitating constructive dialogue with shareholders and investors, the Company acts to ensure close and positive cooperation between and among internal departments, including 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 that primarily target institutional investors. The President and Representative Director of the Company and the Chief Financial Officer or others attend briefing sessions on the settlement of accounts and actively engage in direct interactions. For shareholders and investors, the executive officer in charge of IR & SR and IR & SR personnel hold individual meetings after the quarterly disclosure of operating results. In addition, in line with the direction of the Company, small conferences or other gatherings may also be held as appropriate.

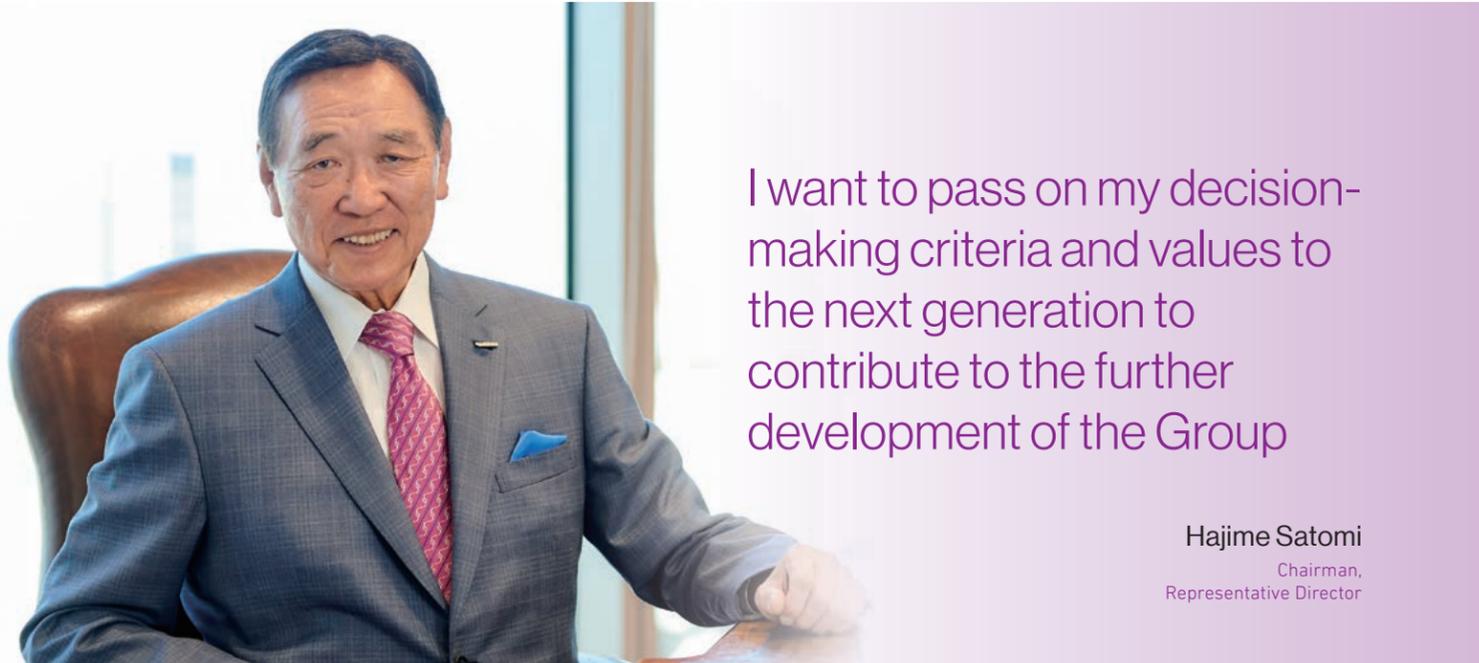
For overseas shareholders and investors, the President and

Representative Director of the Company, the Chief Financial Officer or others, or the executive officer in charge of IR & SR and IR & SR personnel provide opportunities to engage in dialogue individually multiple times per year, mainly online.

Regarding the status of dialogue with shareholders and investors, the Company provides prompt feedback on a regular basis or as needed to the President and Representative Director, Chief Financial Officer, and other directors or executive officers. The Company strives to utilize that information for further sustainable growth and enhance corporate value of the Company in the medium to long term.

In accordance with the basic view that shareholders should be treated equally, when engaging in dialogue with shareholders with respect to the handling of unpublished important matters, whether for briefing sessions on settlement of accounts or any other meetings, the Company endeavors to manage information in accordance with applicable laws, including the Financial Instruments and Exchange Act and the Insider Trading Prevention Regulations, which are internal regulations set for the purpose of eliminating insider trading.

Raising up the Next Generation of Leaders



I want to pass on my decision-making criteria and values to the next generation to contribute to the further development of the Group

Hajime Satomi
Chairman,
Representative Director

In my nearly half a century in top management of the Group, I've been blessed with the support of countless stakeholders, including shareholders, customers, employees, and business partners. I've had the privilege of witnessing the tremendous growth over that period. I've also made serious mistakes that threatened the foundations of the organization. In the process of experiencing so many things, both good and bad, I've learned a great deal about management and honed my decision-making criteria and values as a top manager.

Needless to say, what will drive the growth of the SEGA SAMMY Group going forward is the vitality and sensibility of the younger generation. Still, I believe the decision-making criteria and values I have gained down the years can be a great source of strength for the Group.

Driven by the desire to make sure that these criteria and values are passed on to the next generation, I've been holding a monthly "Satomi Cram School" since 2016 to engage in discussions with up-and-coming managers. In these discussions, we explore a range of themes, including the Group philosophy and organization building. Sometimes I pick examples of past failures and try to explain from a management perspective the lessons I learned and the mentality such experiences fostered, as well as the ways in which the Group has changed since then. Through repeated engagement in the cram school sessions, younger staff

are being equipped with the qualities of capable managers, and the sessions are giving me more opportunities to hear eye-opening remarks from them. I'm pleased this has turned out to be a very meaningful learning experience.

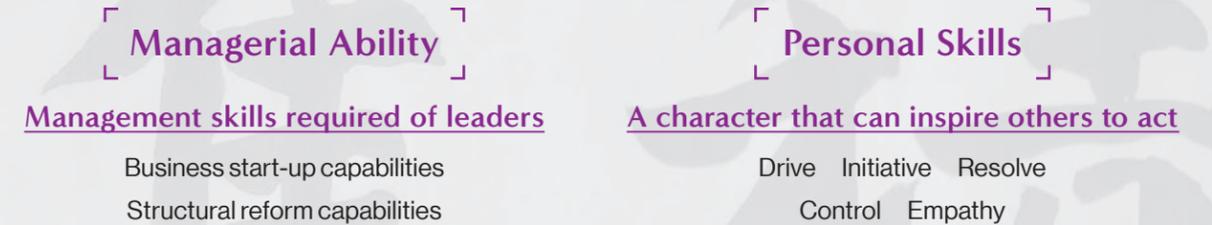
I am hopeful that those who graduate from this learning program will be eager to embrace game-changing challenges in the fields where they have been placed and strive to become leaders in those fields. They represent the backbone of our Group as a comprehensive entertainment company. I am convinced that if they continue to press forward, they will lead the Group to becoming a world-leading entertainment company. During my tenure, my sense is that we were able to set the foundation for such growth. My hope is that everyone who has participated in the cram school sessions will take pride in being a member of the SEGA SAMMY Group as they push ahead to accomplish even greater things. Guided by the Group's unchanging DNA, I look to them to continue to bring the essence of our management to bear on Group operations going forward. If they do so, I am confident that in the next decade or two, billions of people all over the world will have experiences that move the heart as they encounter the entertainment our Group creates.

I would like our stakeholders to keep holding high expectations for the talented people leading the SEGA SAMMY Group, and ask for their ongoing support.

FOCUS

Satomi Cram School: Developing Leaders for an Era of Change

The Group has established SEGA SAMMY College as a place for employees to learn. Its goals are to create growth opportunities to develop the right leaders for SEGA SAMMY and to provide a place where anyone can learn whenever they want to learn. The Satomi Cram School is designed to impart the decision-making principles and values of Chairman Hajime Satomi to mid-ranking managers and above. Our aim is to help these managers enhance their managerial and human skills so that they can further develop as leaders in this era of change.



Satomi Cram School Learning Concepts

- 1 Learning about decision-making principles and values**
Learn about Hajime Satomi's decision-making principles and values. Consider what makes a leader of the SEGA SAMMY Group
- 2 Experiences that move the heart for the next generation and the leadership to realize them**
Consider how to achieve the Mission Pyramid in the new era and how this relates to leadership
- 3 SEGA SAMMY Characteristics x New Era Leadership**
Declare the profile of future leaders based on what does not change (SEGA SAMMY character) and what should be changed (recognition of the times)
- 4 Make friends**
Form a community of like-minded management leaders



A class at Satomi Cram School



Directors, Audit & Supervisory Committee Members, and Executive Officers

(As of October 1, 2022)



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 JAPAN AMUSEMENT MACHINERY MANUFACTURERS ASSOCIATION (now Japan Amusement Industry Association) (current position)
Chairman and CEO, Representative Director of SEGA 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
- 2021 Chairman, Representative Director of the Company (current position)
- 2022 Chief Advisor of PHOENIX RESORT CO., LTD. (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 Senior Vice President, Director
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)
- 2022 Chairman of the Board of TMS ENTERTAINMENT CO., LTD. (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 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 GiGO Entertainment Inc.)
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 Senior Vice President, 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)



Kohei Katsukawa
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.
- 2017 Outside Director of DX ANTENNA CO., LTD. (current position)
- 2021 Advisor of GINSEN Co., Ltd. (current position)
- 2022 Outside Director of Hagiwara Solutions Co., Ltd. (current position)
Outside Director of Logitec INA Solutions Co., Ltd. (current position)



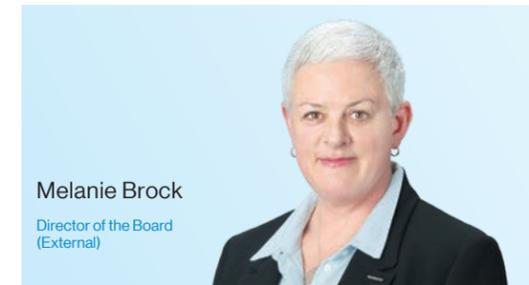
Koichi Fukazawa
Senior Executive Vice
President and Group CFO,
Director of the Board

- 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.)
Senior Vice President, Executive Officer and 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)



Yukio Sugino
Senior Executive Vice
President,
Director of the Board

- 1993 Joined SEGA Enterprises, Ltd. (now SEGA CORPORATION)
- 2003 Vice President, Executive Officer and General Manager of Project Management Division of SEGA CORPORATION
- 2009 Senior Vice President, Director of the Board and General Manager of President's Office of the above
- 2010 Senior Vice President, Director of the Board and General Manager of Sega R&D/ Production of the above
- 2012 Executive Vice President, Director of the Board and General Managing Director of Consumer Online Business Headquarters of the above
Sega of America, Inc. Director & Chairman
Sega Europe Ltd. Director & Chairman
- 2014 President, Representative Director of ATLLUS CO., LTD.
- 2015 Senior Vice President, Director of the Board of SEGA Holdings Co., Ltd. (now SEGA CORPORATION)
President and CEO, Representative Director of SEGA Interactive Co., Ltd. (now SEGA CORPORATION)
- 2017 Senior Executive Vice President, Director of the Board of SEGA Holdings Co., Ltd. (now SEGA CORPORATION)
- 2020 President and COO, Representative Director of SEGA CORPORATION (current position)
Deputy COO, Representative Director of SEGA GROUP CORPORATION (now SEGA CORPORATION)
Chairman of the Board of DARTSLIVE Co., Ltd. (current position)
Chairman of the Board of SEGA ENTERTAINMENT Co., Ltd. (now GENDA GiGO Entertainment Inc.)
Executive Vice President, Executive Officer of the Company
Chairman, Representative Director of ATLLUS CO., LTD. (current position)
- 2021 Senior Vice President, Director of the Board of SEGA TOYS CO., LTD. (current position)
- 2022 Senior Executive Vice President, Director of the Board of the Company (current position)



Melanie Brock
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)
- 2022 Outside Director of Mitsubishi Estate Co., Ltd. (current position)



Fujiyo Ishiguro
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)
- 2021 Outside Director of WingArcist Inc. (current position)
Director of Netyear Group Corporation (current position)
Director of the Board (External) of the Company (current position)



Yukito Sakaue
Director, Audit and Supervisory Committee Member

- 1975 Joined The Sanwa Bank, Limited (now MUFG Bank, Ltd.)
- 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)
Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (now SEGA CORPORATION)
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION)
Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD.
Audit & Supervisory Board Member of SEGA ENTERTAINMENT Co., LTD. (now GENDA GIGO Entertainment Inc.)
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.
Audit & Supervisory Board Member of DARTSLIVE Co., Ltd.
- 2020 Audit & Supervisory Board Member of SEGA CORPORATION (current position)
- 2021 Audit & Supervisory Board Member of PHOENIX RESORT CO., LTD. (current position)
Standing Audit & Supervisory Board Member of the Company
- 2022 Audit & Supervisory Board Member of SEGA SAMMY CREATION INC. (current position)
Director, Standing Audit and Supervisory Committee Member of the Company (current position)
Director (Audit and Supervisory Committee Member) (External) (current position)



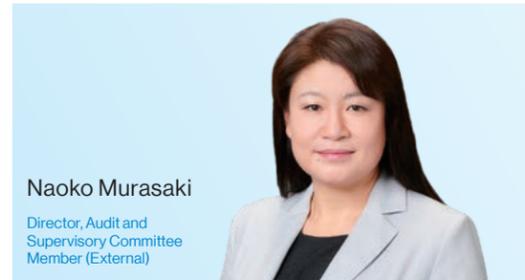
Kazutaka Okubo
Director, Audit and Supervisory Committee Member (External)

- 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
President and Representative Director of Okubo Associates Inc. (current position)
Outside Director of Sun Frontier Fudousan Co., Ltd. (current position)
Outside Audit & Supervisory Board Member of BrainPad Inc.
Outside Director of LIFULL Co., Ltd. (current position)
- 2020 Outside Director of SALA Corporation (current position)
Outside Director of The Shoko Chukin Bank, Ltd. (current position)
Outside Director (Audit and Supervisory Committee Member) of Musashi Seimitsu Industry Co., Ltd. (current position)
President and Representative Director of K.K. SS Dnaform (current position)
- 2021 Outside Director (Audit and Supervisory Committee Member) of BrainPad Inc. (current position)
- 2022 Director, Audit and Supervisory Committee Member (External) of the Company (current position)



Shione Kinoshita
Director, Audit and Supervisory Committee Member (External)

- 1985 Registered as an attorney at law
Joined Hashimoto Joint Law Office
- 1986 Joined Daiichituyo 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
- 2022 Director, Audit and Supervisory Committee Member (External) of the Company (current position)



Naoko Murasaki
Director, Audit and Supervisory Committee Member (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 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 Nobligier Co., Ltd. (current position)
Senior Advisor of Kroll International Inc. (Japan Office) (current position)
- 2021 Outside Director of Sansei Landic Co., Ltd. (current position)
Director of the Board (External) of the Company
- 2022 Outside Director (Audit and Supervisory Committee Member) of Riraku Co., Ltd. (current position)
Director, Audit and Supervisory Committee Member (External) of the Company (current position)

Executive Officers

Executive Vice President, Executive Officer

Makoto Takahashi

Yoichi Owaki

Senior Vice President, Executive Officer

Toru Nakahara

Vice President, Executive Officer

Takaharu Kato

Hironobu Otsuka

Koji Takeyama

Yuka Ichiki

Yukio Kawasaki

Natsue Ishida



Sonic Frontiers
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Management's Discussion and Analysis

Consolidated Statements of Income and Comprehensive Income

Long-Term Trends

Both sales and profits are trending upward in the Entertainment Contents Business, supported by growth in the number of platformers and increasingly diverse business models. We forecast continued growth going forward.

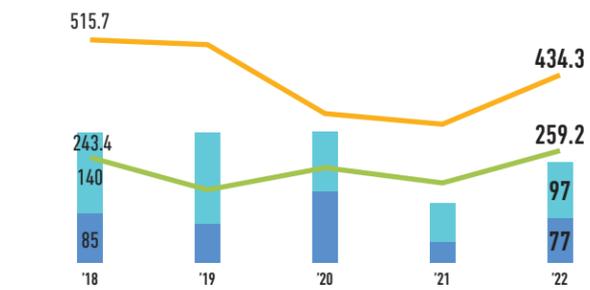
In the Pachislot and Pachinko Machines Business, however, sales and profits remain under long-term pressure amid major changes in the market environment brought about by stricter regulations. We are targeting increased business efficiency, driven mainly by cost improvements.

Main Causes of the Decline in Earnings

Declining Earnings within Existing Businesses amid Market Contraction

Sammy Unit Sales / Pachislot and Pachinko Market Size

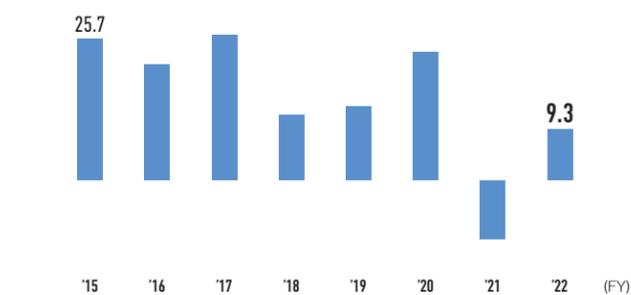
Thousands of units / Billions of yen



■ 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 2022" (Research of Japanese Market)

Pachislot and Pachinko Machines Business Operating Income

Billions of yen

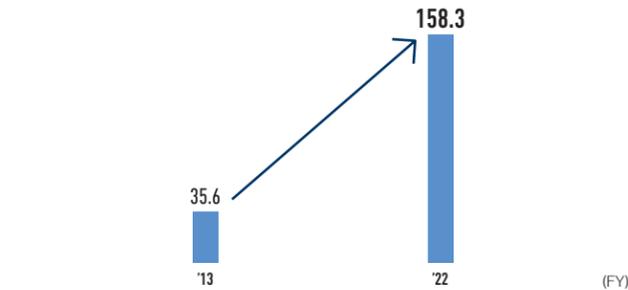


Improvement in Profitability

Earning Growth in Consumer Area

Consumer Area Net Sales

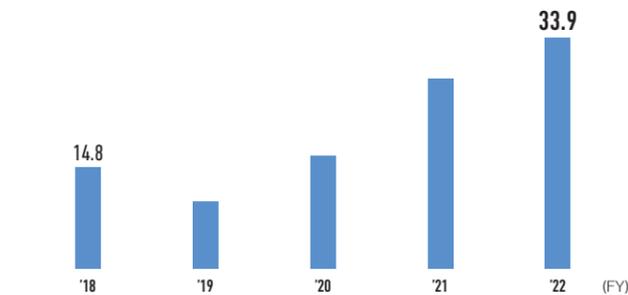
Billions of yen



Entertainment Contents Business Profitability Improvement

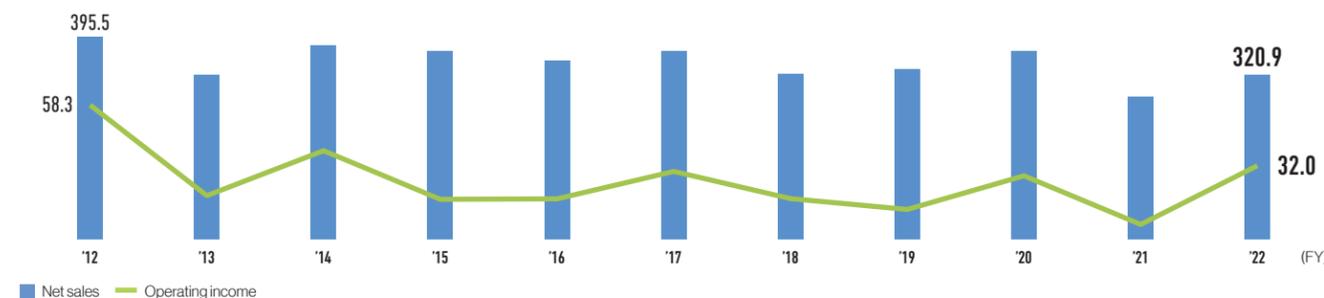
Entertainment Contents Business Operating Income

Billions of yen



Long-Term Trends in Net Sales and Operating Income

Billions of yen

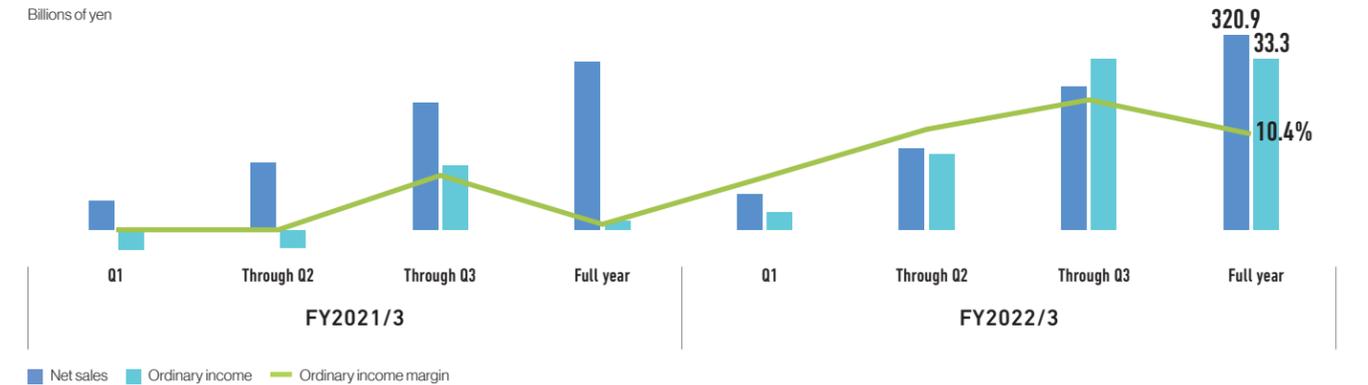


Comparing FY2021/3 and FY2022/3

(FY2022/3)

Net sales: **¥320.9 billion** Ordinary income: **¥33.3 billion** Ordinary income margin: **10.4%**

Billions of yen



Summary of Consolidated Financial Statements

	2021	2022	YoY Change
Net sales	277.7	320.9	15.6%
Entertainment Contents Business	217.8	235.9	8.3%
Pachislot and Pachinko Machines Business	53.1	75.8	42.7%
Resort Business	6.3	8.6	36.5%
Other and eliminations	0.5	0.6	20.0%
Cost of sales	176.9	193.0	9.1%
Gross profit	100.7	127.8	26.9%
Selling, general and administrative (SG&A) expenses	94.2	95.8	1.7%
Operating income (losses)	6.5	32.0	392.3%
Entertainment Contents Business	27.9	33.9	21.5%
Pachislot and Pachinko Machines Business	-10.6	9.3	-
Resort Business	-4.1	-2.5	-
Other and eliminations	-6.7	-8.7	-
Operating income margin	2.3%	10.0%	7.7pt
Non-operating income	2.8	5.9	110.7%
Non-operating expenses	7.6	4.6	-39.5%
Ordinary income	1.7	33.3	1,858.8%
Extraordinary income	28.8	5.2	-81.9%
Extraordinary losses	40.3	0.6	-98.5%
Income before income taxes	-9.8	37.9	-
Total income taxes	-11.7	0.9	-
Profit attributable to owners of parent	1.2	37.0	2,983.3%
Cash dividends per share (Yen)	30	40	-
Net income per share (Yen)	5.42	158.85	-
Net assets per share (Yen)	1,236.82	1,311.72	-

Operating income (Entertainment Contents Business)

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

Operating income (Pachislot and Pachinko Machines Business)

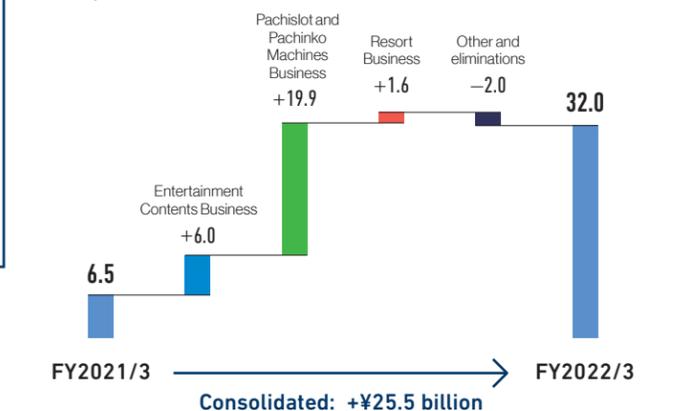
Earnings saw a significant recovery from the previous fiscal year, which was hard hit by the COVID-19 pandemic. Fixed costs remained at a low level.

Total income taxes

Taxable income decreased due to a tax loss carried forward and income taxes decreased due to an R&D tax deduction at a U.K. subsidiary.

Change in Segment Operating Income (Losses)

Billions of yen



Consolidated Financial Position

Long-Term Trends

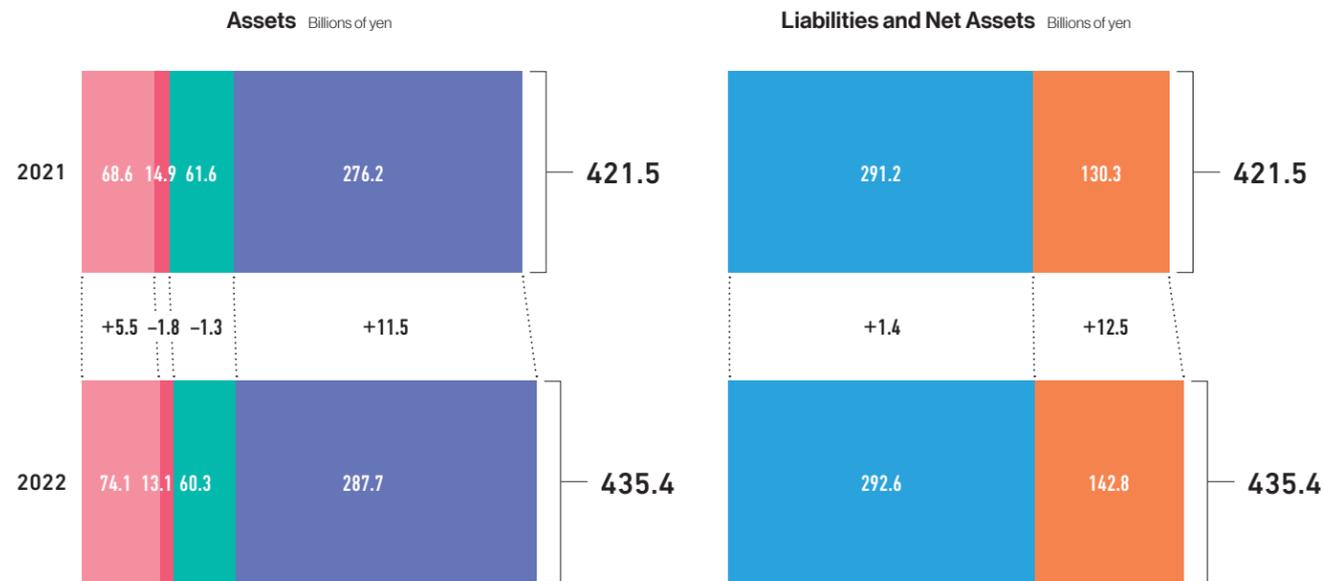
From the fiscal year ended March 2012, total assets started trending upwards due to an increase in goodwill accompanying acquisitions in the Entertainment Contents Business, the Group's initiatives in preparation for participation in the Integrated Resort (IR) business, and an increase in investment securities accompanying new investment in growth areas, etc. 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 areas and pay stable dividends.

Total Assets and Equity Ratio



Comparing FY2021/3 and FY2022/3



Cash and deposits decreased, while inventories increased.

Although total shareholders' equity fell due to cash dividends paid and the purchase of treasury stock, the Company recorded profit attributable to owners of parent, causing an increase in total net assets.

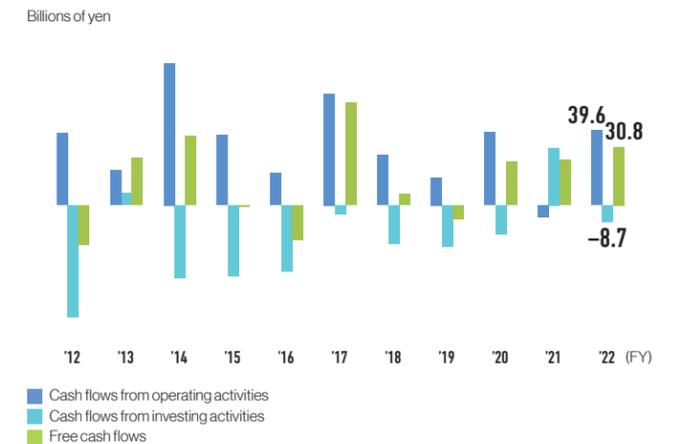
Accounts payable and accrued expenses increased.

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 ended March 2012, the Group has been investing in organizational restructuring, including making three listed subsidiaries into wholly owned subsidiaries, as well as investing actively in growth areas such as 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.

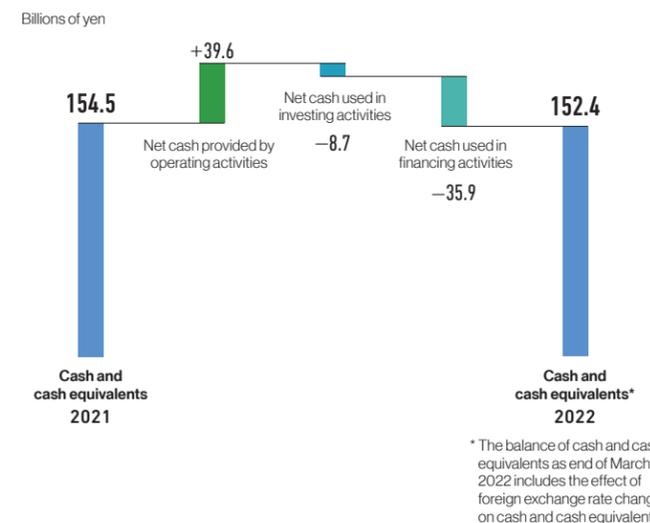
Cash Flows



FY2022/3 Cash Flows

Cash and cash equivalents at the end of the fiscal year ended March 2022 were ¥152,459 million, down ¥2,080 million from the previous fiscal year-end.

Consolidated Cash Flows



Operating activities provided net cash of ¥39,607 million (compared with an outflow of ¥6,384 million in the previous fiscal year). The Company recorded income before income taxes of ¥37,921 million and depreciation and amortization of ¥11,406 million, which outweighed a ¥15,354 million increase in inventories and income taxes paid of ¥5,078 million.

Investing activities used net cash of ¥8,794 million (compared with an inflow of ¥30,473 million in the previous fiscal year), mainly reflecting ¥20,000 million for the purchase of investment securities, an inflow of ¥20,717 million from the redemption of investment securities, and outflows of ¥5,983 million for the purchase of property, plant and equipment and ¥4,569 million for the purchase of intangible assets.

Financing activities used net cash of ¥35,970 million (compared with an outflow of ¥31,492 million in the previous fiscal year), mainly reflecting ¥25,036 million for the purchase of treasury stock and ¥9,410 million for cash dividends paid.

Breakdown of Cash Flows

Billions of yen

Cash Flows from Operating Activities	
Income before income taxes	37.9
Depreciation and amortization	11.4
Increase in inventories	-15.3
Increase in notes and accounts payable-trade	6.4
Others	-0.8
Cash Flows from Investing Activities	
Purchase of securities	-20.0
Redemption of securities	20.7
Purchase of property, plant and equipment	-5.9
Purchase of intangible assets	-4.5
Others	1.0
Cash Flows from Financing Activities	
Acquisition of treasury stocks	-25.0
Payment of dividends	-9.4
Others	-1.5

Non-Financial Assets

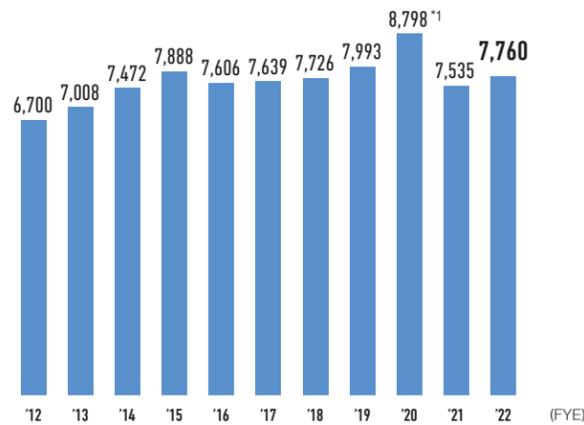
Human Capital

Consolidated Employee Numbers

At the end of the fiscal year ended March 2022, the consolidated number of employees was 7,760, up 225 from the previous fiscal year-end, as the Company actively augmented development resources, mainly in the Consumer area of the Entertainment Contents Business.

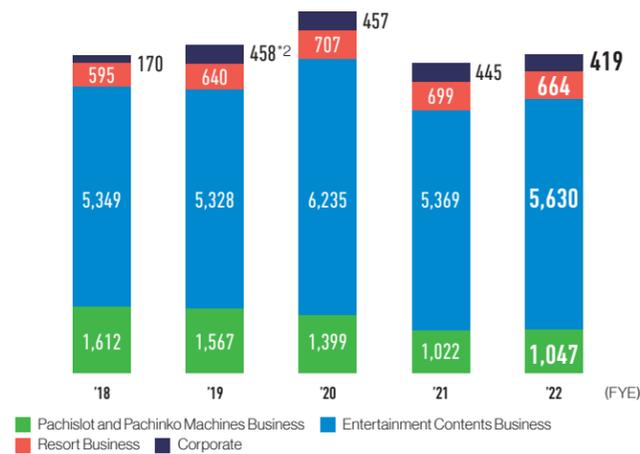
Consolidated Employee Numbers

People



Employee Numbers by Segment

People



^{*1}Total employees in the Entertainment Contents Business increased 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.

Intellectual Property

R&D Expenses and Content Production Expenses

We are actively investing in R&D and content production to reinforce and enhance its intellectual property—the source of the Group's competitiveness. In recent years, we have stepped up our focus on investing in the Consumer area to expand the product and service lineup over the medium term. In the fiscal year ended March 2022, R&D and content production expenses were ¥68.9 billion, up ¥7.0 billion year on year.

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.

Pachislot and Pachinko Machines Business

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

Consumer area

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

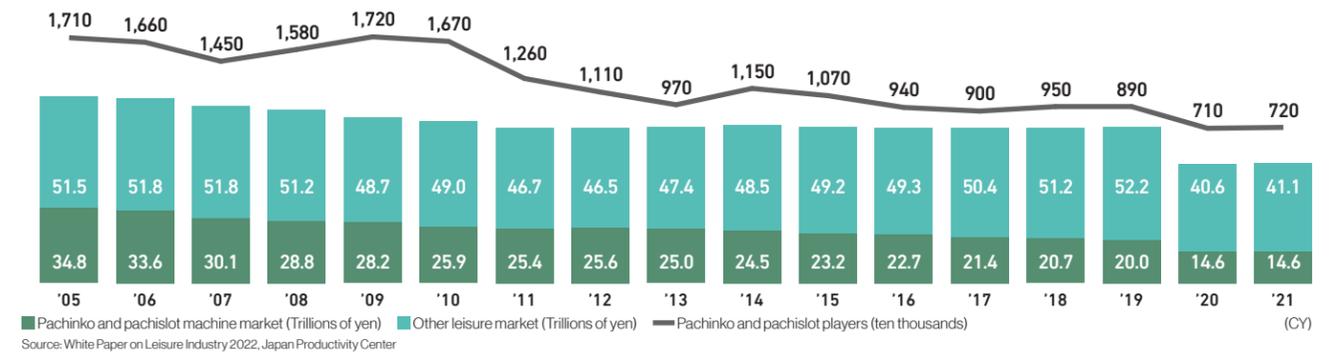
- A large proportion of expenses associated with full games are incurred in the first three months after launch, and the Group spreads the booking of expenses over a period of 24 months. Free-to-play titles are mainly amortized over a period of 24 months using the straight-line method.

Amusement Machine area

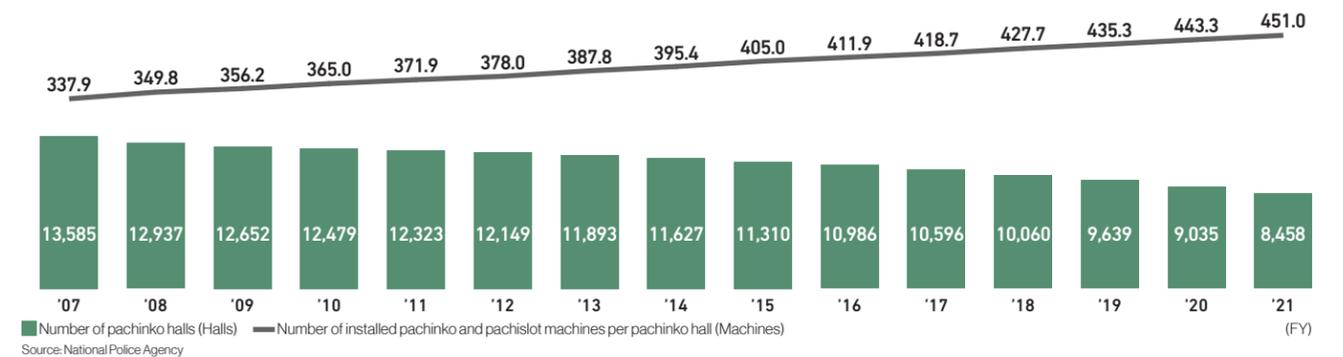
- Expenses are recognized as inventory assets during development period and booked as expenses after launch.
- Expenses are mainly amortized over a period of 12 months. A large proportion of expenses associated with amusement machines are incurred in the first two months after launch, and the Group spreads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

Basic Data

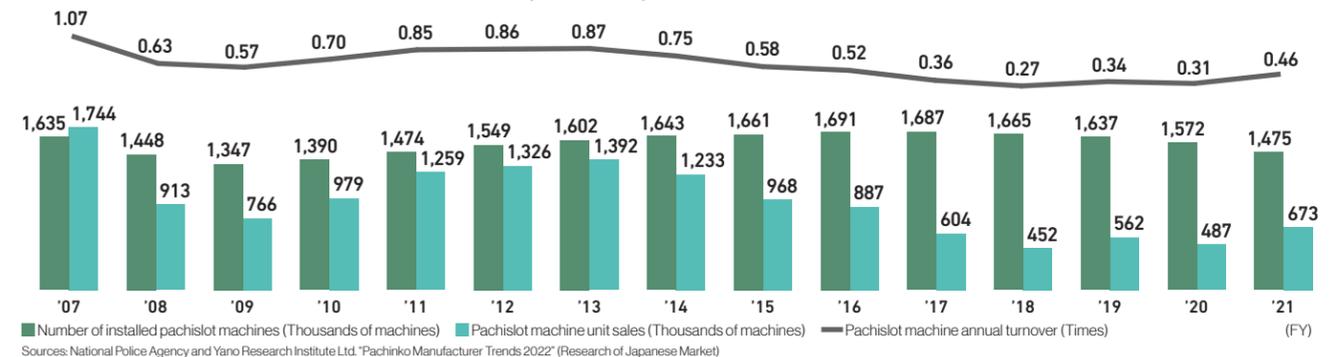
Market Sizes and Number of Pachinko and Pachislot Players



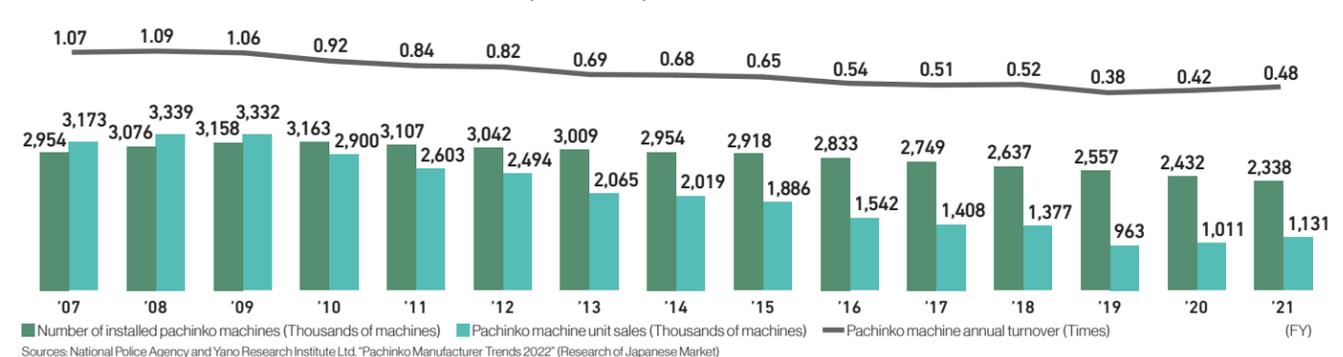
Numbers of Pachinko Halls and Installed Pachislot and Pachinko Machines per Pachinko Hall



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

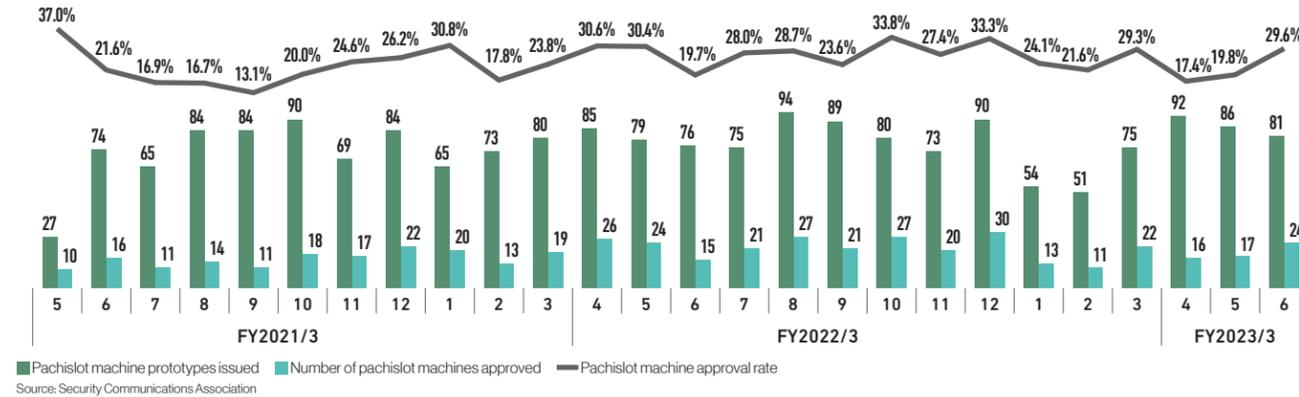


Pachinko Machines: Number of Installed Machines, Unit Sales, and Annual Turnover

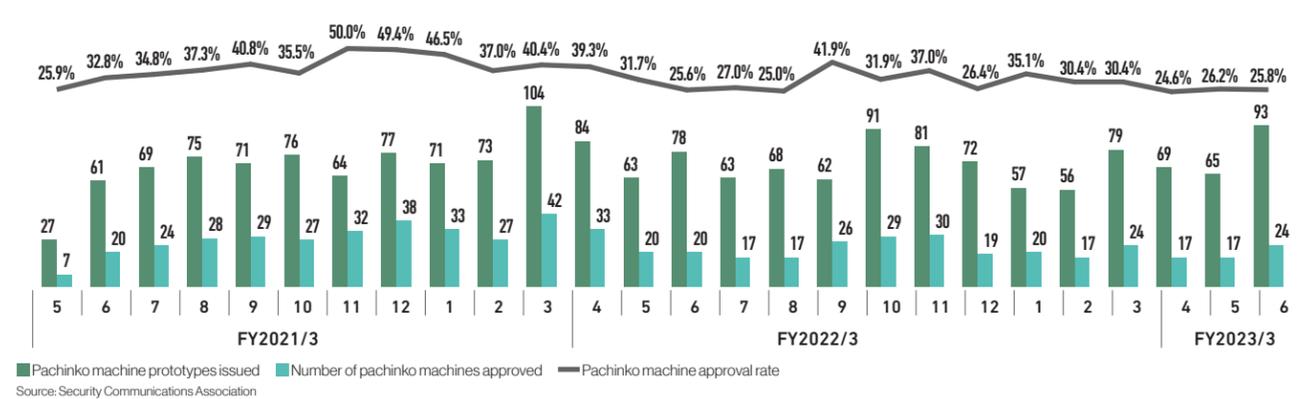


Company Profile / Stock Information

Results of Pachislot Machine Prototype Testing



Results of Pachinko Machine Prototype Testing



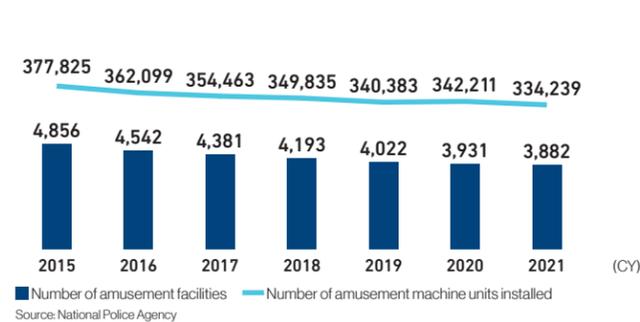
Video Game Contents Market Size



Domestic Amusement Machine and Revenues from Amusement Center Operations



Number of Amusement Facilities and Amusement Machine Units Installed



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, 2022)
Principal business	Management of SEGA SAMMY Group as the holding company

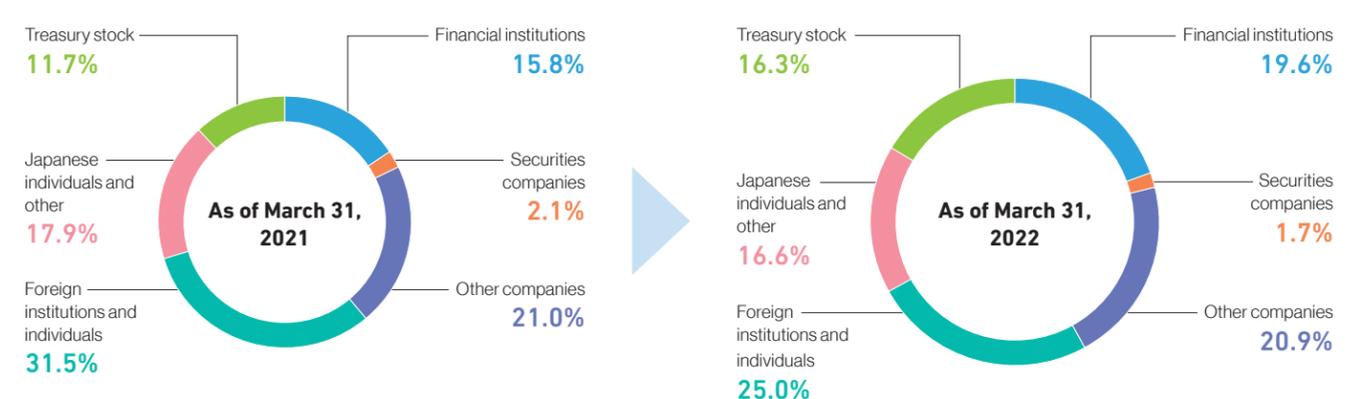
Stock Information (As of March 31, 2022)

Number of shares authorized for issue	800,000,000
Total shares issued and outstanding	266,229,476
Number of shareholders	59,244

Major Shareholders (As of March 31, 2022)

Name of shareholder	Shares held	Shares ratio
SEGA SAMMY HOLDINGS INC.	43,307,930	16.26%
HS Company	35,308,000	13.26%
The Master Trust Bank of Japan, Ltd. (Trust account)	33,251,900	12.48%
Custody Bank of Japan, Ltd. (Trust account)	14,826,200	5.56%
FSC Co., Ltd.	13,682,840	5.13%
Hajime Satomi	7,885,038	2.96%
STATE STREET BANK AND TRUST COMPANY 505001	6,589,825	2.47%
KOREA SECURITIES DEPOSITORY-SAMSUNG	5,648,900	2.12%
Haruki Satomi	3,887,361	1.46%
THE BANK OF NEW YORK MELLON 140044	3,413,032	1.28%

Breakdown of Shareholders



Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2021 and 2022

	Millions of yen	
	2021	2022
Assets		
Current assets		
Cash and deposits	¥154,972	¥152,459
Notes and accounts receivable—trade	38,176	—
Notes, accounts receivable—trade, and contract assets (Note 6 (1))	—	38,952
Short-term investment securities	721	—
Merchandise and finished goods	7,514	9,336
Work in process	31,941	42,145
Raw materials and supplies	13,456	16,044
Income taxes receivable	10,365	11,814
Other	19,447	17,360
Allowance for doubtful accounts	(298)	(323)
Total current assets	276,295	287,789
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures	74,670	76,578
Accumulated depreciation	(46,451)	(47,823)
Buildings and structures, net	28,219	28,755
Machinery, equipment, and vehicles	12,687	8,836
Accumulated depreciation	(11,220)	(7,518)
Machinery, equipment, and vehicles, net	1,467	1,318
Amusement machines and facilities	7,285	7,049
Accumulated depreciation	(6,320)	(6,347)
Amusement machines and facilities, net	964	701
Land (Note 6 (5))	18,396	18,522
Construction in progress	1,239	657
Other	50,118	46,755
Accumulated depreciation	(38,788)	(36,352)
Other, net	11,330	10,403
Total property, plant, and equipment	61,617	60,358
Intangible assets		
Goodwill	4,711	3,460
Other	10,288	9,722
Total intangible assets	14,999	13,183
Investments and other assets		
Investment securities (Notes 6 (3) and (4))	38,323	40,699
Long-term loans receivable	383	428
Lease and guarantee deposits	8,075	7,164
Net defined benefit assets	4,376	2,984
Deferred tax assets	13,272	13,446
Other	4,667	9,826
Allowance for doubtful accounts	(413)	(387)
Total investments and other assets	68,686	74,161
Total noncurrent assets	145,304	147,703
Total assets	¥421,599	¥435,492

See accompanying notes.

	Millions of yen	
	2021	2022
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 16,994	¥ 24,455
Short-term loans payable	—	10,000
Accrued expenses	15,713	20,360
Income taxes payable	839	2,069
Provision for bonuses	8,372	8,383
Provision for directors' bonuses	732	1,189
Provision for point card certificates	311	115
Asset retirement obligations	105	199
Other (Note 6 (2))	16,708	20,211
Total current liabilities	59,777	86,986
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,000	32,000
Lease obligations	4,808	4,013
Net defined benefit liability	4,542	4,395
Deferred tax liabilities	778	469
Asset retirement obligations	2,933	2,560
Provision for dismantling of fixed assets	420	420
Other	5,083	2,009
Total noncurrent liabilities	70,566	55,869
Total liabilities	130,343	142,855
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	118,048	117,689
Retained earnings	200,551	224,684
Treasury stock	(53,561)	(77,886)
Total shareholders' equity	294,991	294,440
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,930	2,270
Deferred gains or losses on hedges	(725)	(33)
Revaluation reserve for land (Note 6 (5))	(1,109)	(1,109)
Foreign currency translation adjustment	(3,867)	41
Remeasurements of defined benefit plans	(459)	(3,199)
Total accumulated other comprehensive income	(4,231)	(2,028)
Subscription rights to shares	—	176
Non-controlling interests	496	49
Total net assets	291,256	292,637
Total liabilities and net assets	¥421,599	¥435,492

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Millions of yen	
	2021	2022
Net sales (Note 7 (1))	¥277,748	¥320,949
Cost of sales (Notes 7 (2) and (3))	176,973	193,081
Gross profit	100,775	127,868
Selling, general and administrative expenses	94,221	95,825
Operating income	6,553	32,042
Other income (expenses)		
Interest income	136	112
Dividends income	356	498
Gain on investments in partnership	1,404	3,052
Foreign exchange gains	—	1,337
Interest expenses	(470)	(301)
Equity in losses of affiliates	(5,662)	(2,778)
Commission fee	(97)	(102)
Loss on investments in partnership	(208)	(479)
Foreign exchange losses	(487)	—
Loss on retirement of noncurrent assets	(294)	(469)
Gain on sales of noncurrent assets (Note 7 (4))	15,258	1,988
Gain on sales of investment securities	11,266	2,516
Gain on sales of stocks of subsidiaries and affiliates	783	698
Loss on sales of noncurrent assets (Note 7 (5))	(0)	(50)
Impairment loss (Note 7 (6))	(3,347)	(430)
Loss on valuation of investment securities	(0)	(0)
Loss on COVID-19	(2,822)	(113)
Structural reform expenses (Note 7 (7))	(34,191)	—
Other, net	1,978	401
Subtotal	(16,397)	5,878
Income (loss) before income taxes	(9,844)	37,921
Income taxes—current	478	1,989
Income taxes—deferred	(12,200)	(1,086)
Total income taxes	(11,722)	903
Profit	1,877	37,018
(Breakdown)		
Profit attributable to owners of parent	1,274	37,027
Profit attributable to non-controlling interests	602	(8)
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,534)	334
Deferred gains or losses on hedges	8	(14)
Foreign currency translation adjustment	4,651	3,526
Remeasurements of defined benefit plans, net of tax	968	(2,844)
Share of other comprehensive income of entities accounted for using equity method	(127)	1,203
Total other comprehensive income (Note 7 (8))	2,966	2,206
Comprehensive income	4,843	39,224
(Breakdown)		
Comprehensive income attributable to owners of parent	4,236	39,230
Comprehensive income attributable to non-controlling interests	¥ 606	¥ (5)

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
Previous fiscal year (From April 1, 2020 to March 31, 2021)						
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 in 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 in scope of consolidation						—
Change in scope of equity method						—
Change in ownership interest of parent due to transactions with non-controlling interests		(88)				(88)
Tax effect adjustments related to changes in past years' equity		(427)				(427)
Net changes in items other than shareholders' equity						
Total changes in 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					
	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, 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 in 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 in scope of consolidation						
Change in scope of equity method						
Change in ownership interest of parent due to transactions with non-controlling interests						
Tax effect adjustments related to changes in past years' equity						
Net changes in items other than shareholders' equity	(2,540)	(129)		4,612	1,019	2,961
Total changes in 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	¥296,858			
Cumulative effects of changes in accounting policies						
Restated balance	813	1,941	296,858			
Changes in 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 in scope of consolidation			—			
Change in scope of equity method			—			
Change in ownership interest of parent due to transactions with non-controlling interests			(88)			
Tax effect adjustments related to changes in past years' equity			(427)			
Net changes in items other than shareholders' equity	(813)	(1,444)	703			
Total changes in items during the period	(813)	(1,444)	(5,601)			
Balances as of March 31, 2021	¥ —	¥ 496	¥291,256			

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Current fiscal year (From April 1, 2021 to March 31, 2022) Millions of yen

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balances as of April 1, 2021	¥29,953	¥118,048	¥200,551	¥(53,561)	¥294,991
Cumulative effects of changes in accounting policies			(2,067)		(2,067)
Restated balance	29,953	118,048	198,484	(53,561)	292,924
Changes in items during the period					
Dividends from surplus			(9,411)		(9,411)
Profit attributable to owners of parent			37,027		37,027
Effect of changes in accounting period of consolidated subsidiaries					—
Purchase of treasury stock				(25,036)	(25,036)
Disposal of treasury stock		(90)		711	621
Change in scope of consolidation			(1,317)		(1,317)
Change in scope of equity method		(186)	(97)		(284)
Change in ownership interest of parent due to transactions with non-controlling interests		(82)			(82)
Tax effect adjustments related to changes in past years' equity					—
Net changes in items other than shareholders' equity					—
Total changes in items during the period	—	(358)	26,200	(24,325)	1,515
Balances as of March 31, 2022	¥29,953	¥117,689	¥224,684	¥(77,886)	¥294,440

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, 2021	¥1,930	¥(725)	¥(1,109)	¥(3,867)	¥ (459)	¥(4,231)
Cumulative effects of changes in accounting policies						—
Restated balance	1,930	(725)	(1,109)	(3,867)	(459)	(4,231)
Changes in 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 in scope of consolidation						
Change in scope of equity method						
Change in ownership interest of parent due to transactions with non-controlling interests						
Tax effect adjustments related to changes in past years' equity						
Net changes in items other than shareholders' equity	340	692	—	3,909	(2,739)	2,203
Total changes in items during the period	340	692	—	3,909	(2,739)	2,203
Balances as of March 31, 2022	¥2,270	¥ (33)	¥(1,109)	¥ 41	¥(3,199)	¥(2,028)

Millions of yen

	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2021	¥ —	¥ 496	¥291,256
Cumulative effects of changes in accounting policies			(2,067)
Restated balance	—	496	289,189
Changes in items during the period			
Dividends from surplus			(9,411)
Profit attributable to owners of parent			37,027
Effect of changes in accounting period of consolidated subsidiaries			—
Purchase of treasury stock			(25,036)
Disposal of treasury stock			621
Change in scope of consolidation			(1,317)
Change in scope of equity method			(284)
Change in ownership interest of parent due to transactions with non-controlling interests			(82)
Tax effect adjustments related to changes in past years' equity			—
Net changes in items other than shareholders' equity	176	(447)	1,932
Total changes in items during the period	176	(447)	3,448
Balances as of March 31, 2022	¥176	¥ 49	¥292,637

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

Millions of yen

	2021	2022
Net cash provided by (used in) operating activities		
Income (loss) before income taxes	¥ (9,844)	¥ 37,921
Depreciation and amortization	14,826	11,406
Impairment loss	3,347	430
Structural reform expenses	34,191	—
Amount of transfer of equipment by amusement center operation business	(1,528)	—
Loss (gain) on sales of noncurrent assets	(15,258)	(1,937)
Loss on retirement of noncurrent assets	294	469
Loss (gain) on sales of investment securities	(11,248)	(2,489)
Loss (gain) on valuation of investment securities	0	0
Loss (gain) on investments in partnership	(1,195)	(2,573)
Amortization of goodwill	1,908	2,311
Increase (decrease) in allowance for doubtful accounts	(47)	(25)
Increase (decrease) in provision for directors' bonuses	(87)	437
Increase (decrease) in net defined benefit liability	100	96
Increase (decrease) in provision for bonuses	362	(116)
Interest and dividends income	(493)	(610)
Interest expenses	470	301
Foreign exchange losses (gains)	(559)	(1,112)
Equity in affiliate losses (earnings)	5,662	2,778
Decrease (increase) in notes and accounts receivable—trade	632	338
Decrease (increase) in inventories	(8,080)	(15,354)
Increase (decrease) in notes and accounts payable—trade	(593)	6,495
Increase (decrease) in guarantee deposits received	(2,267)	(1,589)
Other, net	(3,601)	5,960
Subtotal	6,989	43,138
Interest and dividends income received	477	664
Interest expenses paid	(497)	(300)
Extra retirement payments	(7,260)	(2,236)
Income taxes paid	(7,558)	(5,078)
Income taxes refund	1,464	3,419
Net cash provided by (used in) operating activities	¥ (6,384)	¥ 39,607

See accompanying notes.

Consolidated Statements of Cash Flows

	Millions of yen	
	2021	2022
Net cash provided by (used in) investing activities		
Payments into time deposits	¥ (8,036)	¥ (5,000)
Proceeds from withdrawal of time deposits	8,000	5,000
Purchase of short-term investment securities	—	(20,000)
Proceeds from redemption of securities	5,200	20,717
Purchase of trust beneficiary rights	(809)	(1,309)
Proceeds from sales of trust beneficiary rights	808	1,167
Purchase of property, plant, and equipment	(7,350)	(5,983)
Proceeds from sales of property, plant, and equipment	18,125	2,141
Purchase of intangible assets	(6,849)	(4,569)
Proceeds from sales of intangible assets	—	0
Purchase of investment securities	(61)	(196)
Proceeds from sales of investment securities	21,203	2,565
Proceeds from redemption of investment securities	415	—
Payments for investment in partnerships	(763)	(821)
Proceeds from distribution of investment in partnerships	789	2,596
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation (Note 9 (2))	(6,953)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	212
Purchase of shares of subsidiaries and affiliates	(98)	(4,903)
Payments of loans receivable	(5,677)	(769)
Collection of loans receivable	7,411	2,381
Reduction of investments in trusts	2,400	—
Payments for lease deposits	(553)	(238)
Collection of lease deposits	497	514
Other, net	2,776	(2,300)
Net cash provided by (used in) investing activities	30,473	(8,794)
Net cash provided by (used in) financing activities		
Repayment of long-term loans payable	(13,331)	—
Redemption of bonds	(10,000)	—
Purchase of treasury stock	(11)	(25,036)
Purchase of treasury stock of subsidiaries	(91)	(98)
Proceeds from exercise of stock options	4	—
Cash dividends paid	(7,063)	(9,410)
Cash dividends paid to non-controlling interests	—	(93)
Purchase of shares of subsidiaries that do not result in change in scope of consolidation	(7)	—
Other, net	(991)	(1,331)
Net cash provided by (used in) financing activities	(31,492)	(35,970)
Effect of exchange rate change on cash and cash equivalents	3,311	3,029
Net increase (decrease) in cash and cash equivalents	(4,091)	(2,128)
Cash and cash equivalents at beginning of period	158,617	154,540
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	47
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries	13	—
Cash and cash equivalents at end of period (Note 9 (1))	¥154,540	¥152,459

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

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 2021 and 2022. 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 2021 consolidated financial statements to conform to the classifications used in 2022. 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: 58

SEGA GROUP CORPORATION was excluded from the scope of consolidation from the current fiscal year because it was merged into SEGA CORPORATION in an absorption-type merger.

(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: —

(2) Number of affiliated companies accounted for under the equity method: 9

Due to share transfer, f4samurai, Inc. was excluded from the scope of application of the equity method.

(3) Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method: 12

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

Those other than securities without available fair market value: Fair value method (The difference between acquisition cost and fair value is accounted for as the 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 value cannot be categorized and measured for each embedded derivative, the entire compound financial instrument is appraised by fair value. Unrealized gains or losses are reported as profit or loss for the current fiscal year.

Securities without available fair market value:

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 five 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

To provide for use of points granted to customers, the estimated future usage amount as of the end of the current fiscal year is 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, 2022.

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) Accounting policy for recognition of significant revenues and expenses

Accounting policy for recognition of significant revenues is as follows. Compensation for individual performance obligations was received

within roughly two months after their fulfillment and did not include significant financial elements.

(i) Digital content

With regard to revenue from the granting of game distribution rights in the Entertainment Contents Business, the Group provides game content primarily to platform operators along with distribution rights, and the Group's performance obligation is to provide game content. The Group determines that the performance obligation is satisfied by the provision of game content to the platform operators, and if the contract is one in which usage fees are collected based upon the sales of the platform operator, the revenue is recognized when the sales of the platform operators are recorded, and in other cases, it is recognized when the game content is provided.

With regard to revenue from sales from game downloads in the Entertainment Contents Business, the Group's performance obligation is to provide game content to customers. The Group determines that the performance obligation is satisfied by the provision of the game content to the customer, and recognizes the revenue when the game content is provided.

With regard to revenue from sales of F2P items in the Entertainment Contents Business, and Pachislot and Pachinko Machines Business, the Group's performance obligation is to provide the services specified for each item to the customer. Depending on the nature of the item, the Group determines that the performance obligation is satisfied when the item is used by the customer or over the course of the estimated usage period as calculated based on past usage data for similar items, whereupon the revenue is recognized.

With regard to the annual update service for amusement machines in the Entertainment Contents Business, the Group's performance obligation is to consistently provide updates to content throughout the contract period. Therefore, the Group determines that the performance obligation is satisfied over the course of the contract period, with the revenue recognized over the period of the contract.

(ii) Sales of products and merchandise

Revenue from sales of products and merchandise in the Entertainment Contents Business and Pachislot and Pachinko Machines Business is primarily from sales through manufacture or wholesale. The Group's performance obligation is to deliver finished products or merchandise in accordance with a sales contract or the like with the customer. The Group determines that the performance obligation is satisfied when it delivers the finished products or merchandise and the customer assumes control over said finished products or merchandise, with the revenue recognized at the point of delivery. With regard to revenue from sales from consignment type sales of certain merchandise, if, after the role (as the principal or agent) in the provision of goods or services is determined, the Group is involved in the sale of the merchandise as an agent, the revenue is recognized using the net amount after deducting the amount paid to the supplier from the amount received from the customer.

(iii) Resort facility sales

Revenue of resort facilities in the Resort Business is from the operation of hotels and golf courses, with the Group's performance obligation

to provide accommodation, eating and drinking, and space to play on the golf course at each facility. The Group determines that the performance obligation is satisfied and the revenue is recognized upon the completion of the provision of the various services to the customers.

(8) 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.

(9) 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.

(10) 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.

(11) Application of the Consolidated Taxation System

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

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

The Company and some of its domestic consolidated subsidiaries will transition from the consolidated taxation system to the group tax sharing system since the year ending March 31, 2023. 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), however, the Company and its domestic consolidated subsidiaries do not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but apply 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. "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021), which sets out accounting and disclosure of corporation and local taxes and tax effect accounting under the group tax sharing system, will be applied from the beginning of the year ending March 31, 2023.

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

	Millions of yen	
	2021	2022
Work in process	¥29,518	¥39,098
"Other" under intangible assets	6,729	5,801

(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.

(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

	Millions of yen	
	2021	2022
Raw materials	¥11,793	¥10,594

(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.

(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

	Millions of yen	
	2021	2022
Property, plant, and equipment	¥10,229	¥9,902
Intangible assets	272	259

(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 an 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 flow under this determination, are formulated based on room occupancy rates, average room prices, numbers of golf rounds, and golf round unit prices, all of which assume the easing of restrictions implemented to prevent the spread of COVID-19. Accordingly, the Company has determined that it is not necessary to recognize an impairment loss as the undiscounted future cash flow exceeds the book value of noncurrent assets.

(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

	Millions of yen	
	2021	2022
Shares of subsidiaries and affiliates	¥17,146	¥18,542

(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 performs an impairment test. For the cash generating units including goodwill, PSS performs 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 ¥126,415 million in noncurrent assets, including goodwill of ¥8,173 million.

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

PSS performs 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

4 Changes in Accounting Policies

(1) Application of accounting standards for revenue recognition

Effective from the beginning of the current fiscal year, the Group applies the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 31, 2020), etc. Under the accounting standard, revenue is recognized when control over promised goods or services is transferred to customers, at an amount that the Group is expected to receive in exchange for the said goods or services.

The Group previously recognized revenue from the sale of content update rights for some products at a point in time when the sale took place, but as a result of the adoption of the accounting standard, revenue is now recognized over a certain period of time when control over goods or services is transferred to customers over a certain period of time. Additionally, revenue pertaining to the consignment type sales of certain merchandise was previously recognized at a total amount, but revenue is now recognized at a net amount as a result of the Group's judgment on the role (as the principal or agent) in providing goods or services to customers.

In adopting the Accounting Standard for Revenue Recognition, etc., the Group followed the transitional treatment stipulated in the provision of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retrospectively applying the new accounting

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.

policy to periods prior to the beginning of the current fiscal year has been added to or subtracted from retained earnings at the beginning of the current fiscal year, and the new accounting policy has been applied effective from said beginning balance of retained earnings. The impact on the beginning balance of profit and loss and retained earnings for the current fiscal year is immaterial.

Due to the application of the Accounting Standard for Revenue Recognition, etc., "Notes and accounts receivable—trade" under "Current assets" in the consolidated balance sheet of the previous fiscal year, are now included in "Notes, accounts receivable—trade, and contract assets" from the current fiscal year. However, pursuant to the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been performed for the previous fiscal year due to the adoption of the new presentation method.

Pursuant to the transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, notes related to revenue recognition are not stated for the previous fiscal year.

(2) Accounting standards for fair value measurement

Effective from the beginning of the current fiscal year, the Group applies the Accounting Standard for Fair Value Measurement (ASBJ

Notes to Consolidated Financial Statements

Statement No. 30, issued by the Accounting Standards Board of Japan on July 4, 2019), etc. In accordance with the transitional treatment stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Group has decided to prospectively apply the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement, etc. The impact on profit and loss for the current fiscal year is immaterial.

5 Unapplied New Accounting Standards

The Company and its domestic consolidated subsidiaries — "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued by the Accounting Standards Board of Japan on June 17, 2021)

(1) Overview

This guidance provides for the fair value measurement of investment trusts and the treatment of notes thereon, as well as the treatment of notes on the fair value of investments in associations, etc. to be included in the balance sheet on a net equity basis.

(2) Scheduled date of application

The guidance will apply from the beginning of the fiscal year ending March 31, 2023.

In addition, the Company has decided to include notes on breakdown and other information by level within the fair value hierarchy in the notes on financial instruments. However, in accordance with the transitional treatment provided in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019), notes pertaining to the previous fiscal year are not included.

(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.
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.

6 Notes to Consolidated Balance Sheets

(1) Receivables from contracts with customers and contract assets

The amount of receivables from contracts with customers and the amount of contract assets, included in "Notes, accounts receivable—trade, and contract assets" on the consolidated balance sheets, are provided in "Note 20 Revenue recognition 3. (1) Receivables from contracts with customers; the balances of contract assets and contract liabilities" of the notes to consolidated financial statements.

(2) Contract liabilities

The amount of contract liabilities, included in "Other" on the consolidated balance sheets, is as follows:

	Millions of yen	
	2021	2022
Contract liabilities		¥10,257

(2) Contract liabilities

	Millions of yen	
	2021	2022
Shares of subsidiaries and affiliates	¥17,146	¥18,542
Total	17,146	18,542

Notes: 1. For a 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 previous fiscal year, the shares of this company are pledged as collateral.
2. For a loan of ¥70,107 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 are pledged as collateral.

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

	Millions of yen	
	2021	2022
Investment securities (Shares)	¥20,175	¥20,866
Investment securities (Capital Contributions)	1,525	978

(5) Revaluation reserve for land

Consolidated subsidiary SEGA 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 CORPORATION has recorded an item for the revaluation reserve for land under net assets.

Revaluation method
SEGA 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

(6) Overdraft account and commitment line contract

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

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

	Millions of yen	
	2021	2022
Total amount of limit of overdraft account and commitment line contract	¥218,525	¥239,068
Balance of borrowings	—	—
Balance of unrealized borrowings	218,525	239,068

7 Notes to Consolidated Statements of Income and Comprehensive Income

(1) Revenue from contracts with customers

Net sales combine revenue from contracts with customers and revenue from other sources. The amount of revenue from contracts with customers is provided in "Note 20 Revenue recognition 1. Disaggregation of revenue from contracts with customers" of the consolidated financial statements.

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

	Millions of yen	
	2021	2022
Cost of sales	¥10,622	¥6,636

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

	Millions of yen	
	2021	2022
	¥48,285	¥47,127

(4) Gain on sales of noncurrent assets

	Millions of yen	
	2021	2022
Machinery, equipment and vehicles	¥ 0	¥ 2
Land	15,249	—
Other property, plant and equipment	8	1,985
Total	15,258	1,988

(5) Loss on sales of noncurrent assets

	Millions of yen	
	2021	2022
Buildings and structures	¥—	¥14
Machinery, equipment and vehicles	—	0
Amusement machines and facilities	—	33
Other property, plant and equipment	0	2
Other intangible assets	0	—
Total	0	50

(6) Impairment loss

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

Use	Location	Type	Millions of yen
			Amount
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. Of 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.

Current fiscal year (From April 1, 2021 to March 31, 2022)

Use	Location	Type	Millions of yen
			Amount
Assets for business	Shinagawa-ku, Tokyo and 2 other locations	Buildings and structures	¥ 11
		Amusement machines and facilities	11
		Other property, plant and equipment	320
		Other intangible assets	86
		Total	430

Based on business segments, assets or asset groups whose cash flows can be estimated separately are grouped independently. Of 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 values. The amount of this reduction is recorded as an impairment loss under other expenses.

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

(7) Structural reform expenses

In the previous fiscal year, the Group has been working on structural reforms to transform its business structure in response to the external environment. This involves 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	
	2021	2022
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	—

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

	Millions of yen	
	2021	2022
Valuation difference on available-for-sale securities		
The amount arising during the period	¥ 4,630	¥ 620
Reclassification adjustments	(8,479)	26
Before adjustments to tax effects	(3,848)	647
The amount of tax effects	1,314	(312)
Valuation difference on available-for-sale securities	(2,534)	334
Deferred gains or losses on hedges		
The amount arising during the period	2	6
Reclassification adjustments	10	(28)
Before adjustments to tax effects	12	(22)
The amount of tax effects	(4)	7
Deferred gains or losses on hedges	8	(14)
Foreign currency translation adjustment		
The amount arising during the period	4,280	3,524
Reclassification adjustments	370	2
Before adjustments to tax effects	4,651	3,526
The amount of tax effects	—	—
Foreign currency translation adjustment	4,651	3,526
Remeasurements of defined benefit plans, net of tax		
The amount arising during the period	886	(2,920)
Reclassification adjustments	(35)	165
Before adjustments to tax effects	850	(2,754)
The amount of tax effects	117	(89)
Remeasurements of defined benefit plans, net of tax	968	(2,844)
Share of other comprehensive income of entities accounted for using equity method		
The amount arising during the period	(127)	1,203
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for using equity method	(127)	1,203
Total other comprehensive income	¥ 2,966	¥ 2,206

8 Notes to Consolidated Statements of Changes in Net Assets

Previous 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

Current fiscal year (From April 1, 2021 to March 31, 2022)

1. Number of outstanding common stock

Type of stock	Shares			
	As of April 1, 2021	Increase	Decrease	As of March 31, 2022
Common stock	266,229,476	—	—	266,229,476

2. Number of outstanding treasury stock

Class of shares	Shares			
	As of April 1, 2021	Increase	Decrease	As of March 31, 2022
Common stock	31,142,581	12,578,815	413,466	43,307,930

(Outline of causes of change)

Increase	Decrease
Increase due to market purchases pursuant to Board of Directors resolutions: 12,560,300 shares	Decrease due to sales of odd-lot stock: 166 shares
Increase due to purchase of odd-lot stock: 7,215 shares	Decrease due to stock compensation with restriction on transfer: 413,300 shares
Increase due to free acquisition upon retirement of individuals subject to stock compensation with restriction on transfer: 11,300 shares	

3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)			Balance at March 31, 2022 Millions of yen
			As of April 1, 2021	Increase	Decrease	
The Company	Subscription rights to shares as stock options	—	—	—	—	¥176
Total			—	—	—	176

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, 2021	Common stock	¥4,701	¥20	March 31, 2021	June 4, 2021
Board of Directors' Meeting held on November 8, 2021	Common stock	4,709	20	September 30, 2021	December 1, 2021

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2022 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, 2022	Common stock	Retained earnings	¥4,458	¥20	March 31, 2022	June 2, 2022

9 Notes to Consolidated Statements of Cash Flows

(1) Reconciliation of cash and cash equivalents at end of year and the amount recorded in the consolidated balance sheets

	Millions of yen	
	2021	2022
Cash and deposits	¥154,972	¥152,459
Short-term investment securities	721	—
Total	155,693	152,459
Time deposits with maturity over three months, etc.	(432)	—
Securities with periods from acquisition to redemption over three months	(721)	—
Cash and cash equivalents	154,540	152,459

Notes to Consolidated Financial Statements

(2) Major breakdown of assets and liabilities of a company that ceased to be a consolidated subsidiary following the sale of its shares

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

Provided below is a major breakdown of assets and liabilities of SEGA ENTERTAINMENT CO., LTD. (now GENDA GiGO Entertainment Inc.) when it was removed from the scope of consolidation because it was no longer a consolidated subsidiary following the sale of its shares and the relationship between its sale value of stock and expenditures due to its sale.

SEGA ENTERTAINMENT CO., LTD. (now GENDA GiGO 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)

Provided below is a major breakdown of assets and liabilities of Sega Amusements International Ltd. when it was removed from the scope of consolidation because it was no longer a consolidated subsidiary following the sale of its shares and the relationship between its sale value of stock and expenditures due to its sale.

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)

Current fiscal year (From April 1, 2021 to March 31, 2022)

Not applicable

10 Information for Certain Leases

1. Finance leases that do not transfer ownership prior to the initial year of application of the Accounting Standard for Lease Transactions

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment loss and net book value for the years ended March 31, 2022 and 2021, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous fiscal year (As of 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	—

Current fiscal year (As of March 31, 2022)

	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 2022

	Millions of yen	
	2021	2022
Due within one year	¥151	¥151
Due after one year	315	164
Total	466	315

Accumulated impairment loss on leased assets as of March 31, 2021 and 2022

	Millions of yen	
	2021	2022
Accumulated impairment loss on leased assets	¥349	¥233

(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 2022, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen	
	2021	2022
Lease payments	¥151	¥151
Reversal of allowance for impairment loss on leased assets	117	115
Depreciation	124	124
Interest expenses	12	9

(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.

2. Finance lease transactions

(1) Details of lease assets

Leased assets primarily consist of offices and other related facilities ("machinery, equipment, and vehicles"; "other property, plant, and equipment"; and "other intangible assets").

(2) The methods of depreciation for lease assets

- Leased assets in finance leases that transfer ownership: Depreciated using the same method applied to property, plant, and equipment owned by the Company.
- Leased assets in finance leases that do not transfer ownership: Depreciated using the straight-line method based on the assumption that useful life equals the lease period, with a residual value of zero.

3. 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.

4. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2021 and 2022 are as follows:

	Millions of yen	
	2021	2022
Due within one year	¥ 4,339	¥ 4,316
Due after one year	7,664	11,670
Total	12,003	15,987

Note: Major factors for increase or decrease in operating lease transactions included the payment of lease payables for offices leased for the Group's headquarters and the extension of lease periods upon contract renewal for certain leased headquarter offices.

(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.

11 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group has signed an agreement concerning commitment lines with financial institutions to secure medium- to long-term funds liquidity with the Company as a holding company. This is intended to serve as a safety net for the entire Group. In addition, the Group raises necessary funds for each business based on the financial plan through bank borrowings or bond issues, while operating a Cash Management System for the purpose of making efficient use of Group funds. Most funds are invested primarily in low-risk and high-liquidity financial assets; some are invested in compound financial instruments, such as bonds, to further efficient funds management. Derivatives are not used for speculative purposes, but mainly used to manage exposure to financial risks, as described below.

(2) Details of financial instruments and their risks

Notes and accounts receivable—trade, which are operating receivables, are exposed to customer credit risks. Additionally, operating receivables denominated in foreign currencies are exposed to exchange rate fluctuation risks. Securities and investment securities are composed mainly of bonds and stocks related to business alliances with business partners. The latter are exposed to market price fluctuation risk.

Of notes and accounts payable—trade, which are operating payables, operating payables denominated in foreign currencies are exposed to exchange rate fluctuation risks. With respect to a portion thereof, the Group hedges risks using forward exchange contracts. Loans payable and bonds are primarily sought to procure funds necessary for operating capital and capital expenditures. All of these are procured at fixed interest rates.

Derivative transactions are forward exchange contracts to hedge exchange rate fluctuation risk associated with operating payables denominated in foreign currencies, and interest rate swap transactions to hedge interest rate fluctuation risk associated with loans

payable of consolidated subsidiaries and affiliates accounted for by the equity method.

Additionally, further information on hedge accounting, including hedging instruments and hedged items, hedge policy, and evaluation of hedge effectiveness, is provided in the aforementioned "(Significant matters forming the basis for preparing consolidated financial statements) 4. Accounting Policies (6) Accounting method for significant hedge".

(3) Risk management system for financial instruments

1) Management of credit risk (risk related to contractual nonperformance by business partners)

For operating receivables, in accordance with the credit management and other rules of each company, a responsible department regularly monitors the status of major business partners and manages due dates and balances for each business partner while working to detect early or to mitigate any concerns about collection due to deteriorating financial positions and other factors.

As major debentures generally have high ratings, the credit risk is minimal.

In principle, the Group enters into derivative transactions only with its financial institutions.

The maximum amount of credit risk as of the end of the current fiscal year is represented as the amounts recorded in the consolidated balance sheets for financial assets exposed to credit risks.

2) Management of market risk (risk of fluctuations in foreign exchange or interest rates)

For certain loans payable with variable interest rates for consolidated subsidiaries and affiliates accounted for by the equity method, the Group uses interest rate swap transactions, etc. to control the risk of fluctuating interest rates on loans.

Fair value and the financial condition of issuers (business partners) of securities and investment securities are periodically ascertained and reported to the Board of Directors meetings of each company. The

holding status of principal stocks held are reviewed on an ongoing basis, in consideration of the relationship with business partners. In regard to certain compound financial instruments, etc., the Group periodically ascertains their fair value and reviews the holding status on an ongoing basis.

Derivatives transactions are executed and managed mainly by the financial department or the accounting department upon obtaining internal approval in compliance with the derivative transactions management and other rules of each company. Furthermore, reports on the status of the derivative transactions are presented to the Board of Directors at each company as appropriate.

3) Management of liquidity risk related to fund procurement (risk of inability to make payments on due date)

Operating payables and loans payables are exposed to liquidity risk.

At the Group, liquidity risk is managed by having each company set an adequate fund balance and update its financial plan monthly to maintain a fund balance exceeding the predetermined balance at each company and by having the Company confirm the cash management of each company.

(4) Supplementary remarks on fair value, etc. of financial instruments

Since calculations of the fair value of financial instruments incorporate factors that vary, the fair value may vary depending on the assumptions made. Additionally, contract amounts concerning derivative transactions presented in the "(Derivatives)" section do not represent the market risk of the derivative transactions.

2. Matters related to market values, etc. of financial instruments

Consolidated balance sheet amounts, fair values, and their differences are as follows:

Previous fiscal year (As of March 31, 2021)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Notes and accounts receivable—trade	¥38,176	¥38,150	¥ (26)
(2) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	608	610	2
2) Available-for-sale securities ⁽¹⁾	4,254	4,254	—
3) Equity securities issued by affiliated companies	805	972	166
Total assets	43,844	43,987	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) Corporate bonds payable	10,000	9,918	81
Total liabilities	68,994	68,852	142
Derivative transactions ⁽²⁾			
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)	—

Notes: 1. Notes are omitted for cash and deposits because they are settled over short timespans and their fair values approximate their book values.

2. Matters related to methods to calculate market values of financial instruments and securities and derivative transactions.

Notes to Consolidated Financial Statements

Assets

(1) Notes and accounts receivable—trade

Of these, items settled in the short term (within a year) are recorded based on book values. This is because their market values approximate book values. Those notes and accounts receivable—trade whose period from the end of the current fiscal year to the payment date exceeds one year are stated at the present values by discounting the amount of claims for each receivable by the rate calculated based on the period and credit risk.

(2) Short-term investment securities and investment securities

The market values of stocks are determined based on the price quoted at the stock exchange. Those of debt securities are determined based on the price quoted at the stock exchange or the price quotes obtained from financial institutions.

Notes concerning securities by purpose of holding are as described in the "(Securities)" section.

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable

Of these, items settled in the short term (within a year) are recorded based on book values, since their market values approximate book values. The market values of short-term loans payable hedged by interest rate swap contracts to which special treatment is applied are calculated in combination with the interest rate swap.

(3) Long-term loans payable and (4) Bonds payable

These are stated with the present values calculated by discounting the aggregated

values of the principal and interest using an interest rate assumed for a new loan.

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 in combination with the interest rate swap and interest rate and currency swap.

Derivative transactions

Notes concerning derivatives are as described in the "(Derivatives)" section.

3. Consolidated balance sheet amounts of financial instruments whose fair values are deemed extremely difficult to determine

Category	Millions of yen
	2021
Investments in unlisted stocks, etc.	¥2,696
Investments in investment limited partnerships, etc.	9,784
Stocks of non-consolidated subsidiaries	345
Stocks of affiliates	19,024
Investments in capital of subsidiaries and affiliates	1,525

The above items are not included in "(2) Short-term investment securities and investment securities," since no market price exists, future cash flows cannot be estimated, and determining their fair values is deemed extremely difficult.

Current fiscal year (As of March 31, 2022)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Notes and accounts receivable—trade	¥34,958	¥34,958	¥ —
(2) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	106	106	0
2) Available-for-sale securities	2,936	2,936	—
3) Equity securities issued by affiliated companies	813	690	(122)
Total assets	38,815	38,692	(122)
(1) Notes and accounts payable—trade	24,455	24,455	—
(2) Short-term loans payable	10,000	10,000	—
(3) Long-term loans payable	32,000	31,955	44
(4) Corporate bonds payable	10,000	9,929	70
Total liabilities	76,455	76,341	114
Derivative transactions			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	(33)	(33)	—
Total derivative transactions	(33)	(33)	—

Notes: 1. Notes are omitted for cash and deposits because they are settled over short timespans and their fair values approximate their book values.

2. Notes concerning securities are as described in the "(Securities)" section. Notes concerning derivatives are as described in the "(Derivatives)" section.

3. Securities without available fair market value

Category	Millions of yen
	2022
Investments in unlisted stocks, etc.	¥ 3,849
Investments in investment limited partnerships, etc.	11,962
Stocks of non-consolidated subsidiaries	809
Stocks of affiliates	19,243
Investments in capital of subsidiaries and affiliates	978

The above items are not included in "(2) Short-term investment securities and investment securities."

Note 1: Redemption schedule of monetary receivables and securities with maturity after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2021)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
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	37,440	735	400	200

* Receivables with early settlement provisions, etc. are presented in the scheduled redemption amount based on the assumption that they are held to maturity with early settlement provisions, etc. not applied.

Current fiscal year (As of March 31, 2022)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Notes and accounts receivable—trade	¥34,958	¥ —	¥—	¥—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)*	—	100	—	—
Available-for-sale securities with maturities (Negotiable certificates of deposit)	—	—	—	—
Available-for-sale securities with maturities (Other)	—	—	—	—
Total	34,958	100	—	—

* Receivables with early settlement provisions, etc. are presented in the scheduled redemption amount based on the assumption that they are held to maturity with early settlement provisions, etc. not applied.

Note 2: Repayment amounts of bonds payable, long-term loans payable, lease obligations, and other interest-bearing debts after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2021)

	Millions of yen					
Category	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

Current fiscal year (As of March 31, 2022)

	Millions of yen					
Category	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	¥10,000	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	17,000	15,000	—	—	—
Corporate bonds payable	—	—	—	—	—	10,000
Lease obligations	1,123	949	709	540	407	1,407
Other interest-bearing debt:						
Accounts payable—facilities	30	24	18	16	16	40

3. Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using (unadjusted) quoted prices in active markets for the same assets or liabilities

Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than Level 1 inputs

Level 3 fair value: Fair value measured using material unobservable inputs

Notes to Consolidated Financial Statements

If multiple inputs are used that are material to the fair value measurement, the fair value is categorized in the lowest priority input level in the fair value measurement.

(1) Financial assets and financial liabilities measured at fair value

Current fiscal year (As of March 31, 2022)

Category	Millions of yen				
	Consolidated balance sheet amount	Fair value			Total
		Level 1	Level 2	Level 3	
Short-term investment securities and investment securities					
Available-for-sale securities					
Stocks	¥1,958	¥1,958	¥—	¥—	¥1,958
Debt securities	537	—	537	—	537
Other	439	—	439	—	439
Total assets	2,936	1,958	977	—	2,936
Derivative transaction*					
Currency-related	—	—	—	—	—
Interest rate-related	(33)	—	(33)	—	(33)
Total derivative transaction	(33)	—	(33)	—	(33)

* Net receivables and payables resulting from derivative transactions are presented on a net basis. Items for total net obligations are indicated in parentheses.

(2) Financial assets and financial liabilities not to be measured at fair value

Current fiscal year (as of March 31, 2022)

Category	Millions of yen				
	Consolidated balance sheet amount	Fair value			Total
		Level 1	Level 2	Level 3	
Notes and accounts receivable—trade	¥34,958	¥—	¥34,958	¥—	¥34,958
Short-term investment securities and investment securities					
Held-to-maturity debt securities					
Bonds receivable	106	—	106	—	106
Stocks of affiliates	813	690	—	—	690
Total assets	35,878	690	35,065	—	35,756
Notes and accounts payable—trade	24,455	—	24,455	—	24,455
Short-term loans payable	10,000	—	10,000	—	10,000
Long-term loans payable	32,000	—	31,955	—	31,955
Bonds payable	10,000	—	9,929	—	9,929
Total liabilities	76,455	—	76,341	—	76,341

Note: A description of the valuation techniques and inputs used in fair value measurement

Short-term investment securities and investment securities:

Listed stocks, debt securities, and bonds receivable are valued based on quoted prices. Since listed stocks are traded in active markets, their fair value is assigned to Level 1. The fair value of debt securities and bonds receivable held by the Group are assigned to Level 2 because they are infrequently traded in markets and not considered to have quoted prices in active markets.

Derivative transactions:

The fair value of interest rate swaps and forward exchange contracts is measured using the present discounted value method based on observable inputs, such as interest rates and exchange rates, and is assigned to Level 2.

Notes and accounts receivable – trade:

The fair value of these items is measured using the present discounted value method based on the amount of receivables, time to maturity, and an interest rate reflecting credit risk, for each grouping of receivables in a specified period, and is assigned to Level 2.

Notes and accounts payable – trade:

The fair value of these items is measured using the present discounted value method based on future cash flows, time to maturity, and an interest rate reflecting credit risk, for each grouping of payables in a specified period, and is assigned to Level 2.

Short-term loans payable and long-term loans payable:

The fair values of short-term loans payable and long-term loans payable are measured using the present discounted value method based on the sum of principal and interest, time to maturity, and an interest rate reflecting credit risk, and are assigned to Level 2.

Bonds payable:

The fair value of bonds payable issued by the Company is measured using the present discounted value method based on the sum of principal and interest, time to maturity, and an interest rate reflecting credit risk, and is assigned to Level 2.

12 Investment Securities

1. Held-to-maturity debt securities

Previous 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)

Current fiscal year (As of March 31, 2022)

(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	106	106	0
3) Other	—	—	—
Total	106	106	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	—	—	—
3) Other	—	—	—
Total	—	—	—

Notes to Consolidated Financial Statements

2. Available-for-sale securities

Previous 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)

Current fiscal year (As of March 31, 2022)

(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	¥1,313	¥286	¥1,027
2) Bonds	—	—	—
3) Other	439	400	39
Total	1,753	686	1,066

(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	¥ 644	¥ 701	¥(56)
2) Bonds	537	549	(11)
3) Other	—	—	—
Total	1,182	1,250	(67)

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

Previous 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

Current fiscal year (As of March 31, 2022)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥2,565	¥2,516	¥26
2) Bonds	—	—	—
3) Other	—	—	—
Total	2,565	2,516	26

4. Impairment loss on securities

Previous 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.

Current fiscal year (From April 1, 2021 to March 31, 2022)

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, 2021)

Not applicable

Current fiscal year (As of March 31, 2022)

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, 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.

Current fiscal year (As of March 31, 2022)

Not applicable

Notes to Consolidated Financial Statements

(2) Interest rate-related derivatives

Previous 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.

Current fiscal year (As of March 31, 2022)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method (Note)	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥30,460	¥30,460	¥(33)
Total			30,460	30,460	(33)

Note: 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	
	2021	2022
Projected benefit obligations at the beginning of the period	¥31,016	¥29,669
Service costs—benefits earned during the year	2,246	1,920
Interest cost on projected benefit obligations	100	102
Actuarial differences accrued	(1,200)	2,277
Retirement benefit paid	(3,825)	(483)
Other	1,333	66
Projected benefit obligations at the end of the period	29,669	33,552

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

	Millions of yen	
	2021	2022
Plan assets at the beginning of the period	¥30,644	¥30,238
Expected return on plan assets	582	604
Actuarial differences accrued	(314)	(642)
Contribution of employer	3,026	3,147
Retirement benefit paid	(3,771)	(400)
Other	72	—
Plan assets at the end of the period	30,238	32,947

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

	Millions of yen	
	2021	2022
Net defined benefit liability at the beginning of the period	¥728	¥734
Retirement benefit expenses	97	110
Retirement benefit paid	(85)	(17)
Other	(5)	(22)
Net defined benefit liability at the end of the period	734	806

(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	
	2021	2022
Funded projected benefit obligations	¥ 27,623	¥ 31,483
Plan assets	(30,238)	(32,947)
	(2,615)	(1,463)
Unfunded projected benefit obligations	2,781	2,875
Net amount of liabilities and assets recorded in the consolidated balance sheet	166	1,411
Net defined benefit liability	4,542	4,395
Net defined benefit asset	(4,376)	(2,984)
Net amount of liabilities and assets recorded in the consolidated balance sheet	166	1,411

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

(5) Breakdown of retirement benefit expenses

	Millions of yen	
	2021	2022
Service costs—benefits earned during the year	¥2,246	¥1,920
Interest cost on projected benefit obligations	100	102
Expected return on plan assets	(582)	(604)
Amortization of actuarial difference	(44)	165
Amortization of prior service cost	—	—
Retirement benefit expenses using the simplified method	97	110
Other	15	14
Retirement benefit expenses of defined benefit pension plan	1,833	1,709

Note: In the previous fiscal year, in addition to the retirement benefit expenses shown above, an early extra retirement payment of ¥9,559 million was recorded as an extraordinary loss.

Notes to Consolidated Financial Statements

(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	
	2021	2022
Actuarial difference	¥850	¥(2,754)
Total	850	(2,754)

(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	
	2021	2022
Unrecognized actuarial difference	¥(556)	¥(3,311)
Total	(556)	(3,311)

(8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

	2021	2022
Debt securities	51%	46%
Share of stock	31	16
Cash and deposits	14	27
General account	0	6
Other	2	1
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

	2021	2022
Discount rate	0.0–0.8%	0.1–0.8%
Long-term expected rate of return on plan assets	1.6–2.0%	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, 2021 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 ¥934 million in the previous fiscal year and ¥1,106 million in the current fiscal year.

15 Stock Option Plan

1. Account title and amount of stock options recorded as expenses

	Millions of yen	
	2021	2022
Selling, general, and administrative expenses—other	¥—	¥176

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

	Millions of yen	
	2021	2022
Other income	¥812	¥—

3. Contents, scale and movement of stock options

Previous 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 (persons)	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 (shares)	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 August 2, 2016 expired on September 1, 2020. Those rights are forfeit.

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

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, 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	—	—

Notes to Consolidated Financial Statements

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	—	1,217
Fair value of the stock option at the date of grant	256	256

Current fiscal year (From April 1, 2021 to March 31, 2022)

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

Company name	The Company
Date of the resolution	August 2, 2021
Position and number of grantees (persons)	Company employees:168 Subsidiary directors:12 Subsidiary executive officers:25 Subsidiary employees:1,411
Class and number of stock (shares)	Common stock 2,884,500
Date of issue	September 1, 2021
Condition of settlement of rights	Continue to work from September 1, 2021 to June 30, 2024
Period grantees provide service in return for stock options	September 1, 2021 to June 30, 2024
Period subscription rights are to be exercised	July 1, 2024 to June 30, 2026

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

	Shares
Company name	The Company
Date of the resolution	August 2, 2021
Not exercisable stock options	
Stock options outstanding at April 1, 2021	—
Stock options granted	2,884,500
Forfeitures	32,500
Conversion to exercisable stock options	—
Stock options outstanding at March 31, 2022	2,852,000
Exercisable stock options	
Stock options outstanding at April 1, 2021	—
Conversion from not exercisable stock options	—
Stock options exercised	—
Forfeitures	—
Stock options outstanding at March 31, 2022	—

The following table summarizes the price information of stock options.

	Yen
Company name	The Company
Date of the resolution	August 2, 2021
Exercise price	¥1,500
Average market price of the stock at the time of exercise	—
Fair value of the stock option at the date of grant	300

4. Estimation of fair value of the stock options

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

Not applicable

Current fiscal year (From April 1, 2021 to March 31, 2022)

Method for estimating fair value per share of stock options granted by the reporting company

(1) Valuation techniques applied

Black-Scholes equation

(2) Major basic figures and estimation methods

Stock price variability (Note 1)	31.535%
Estimated remaining period (Note 2)	3.83 years
Estimated dividends (Note 3)	¥30 per share
Risk-free interest rate (Note 4)	(0.130)%

Notes: 1. Calculated based on actual stock prices from November 2017 to August 2021.

2. Due to the absence of sufficient cumulative data and the difficulty of forming reasonable estimates, this estimate assumes that the options will be exercised at the midpoint of the exercise period.

3. Based on actual dividends for the fiscal year ended March 31, 2021.

4. This is the national government bond yield corresponding to the estimated remaining period.

5. 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.

Notes to Consolidated Financial Statements

(Stock compensation with restriction on transfer)

1. Details of stock compensation with restriction on transfer

	Continuous service based shares with restriction on transfer	Performance-based shares with restriction on transfer
Categories and number of grantees (persons)	Company directors — Company executive officers — Subsidiary directors 15 Subsidiary executive officers 14	Company directors 4 Company executive officers 8 Subsidiary directors 19 Subsidiary executive officers 21
Class and number of shares granted (shares)	Common stock: 28,500	Common stock: 384,800
Grant date	August 5, 2021	August 5, 2021
Conditions for canceling restriction on transfer	(Notes) 1, 2	(Notes) 1, 3
Period of restriction on transfer	From August 5, 2021 to August 4, 2024	From August 5, 2021 until the closure of the Company's first Ordinary General Meeting of Shareholders to arrive after the end date of the medium-term plan

Notes: 1. If grantees resign as directors and executive officers of the Company or Company subsidiaries (limited to those in which the Company holds at least 50% of all shares; such subsidiaries and the Company shall hereinafter be referred to as "Group companies") on or before the day preceding the day of the Company's first Ordinary General Meeting of Shareholders arriving after the start of the period of restriction on transfer (or, if the grantees are Company executive officers or Group company officers, etc., on or before the day preceding the Company's first fiscal year-end date arriving after the start of the period of restriction on transfer), the Company shall acquire, by right, the allotted shares gratis, except in cases in which the reasons for such resignation are deemed valid by the Company Board of Directors, such as the expiration of term of office (except for "performance-based shares with restriction on transfer"), the attainment of the mandatory retirement age, and death. The Company shall also acquire, by right, the allotted shares gratis for which the restriction on transfer is not canceled under the provisions of 2 and 3 below as of the expiration of the period of restriction on transfer.

2. Subject to the condition that grantees including Group company officers continue to serve as Group company directors or executive officers until the day preceding the day of the Company's first Ordinary General Meeting of Shareholders arriving after the start of the period of restriction on transfer (or, if the grantees are Company executive officers or Group company officers, etc., until the day preceding the Company's first fiscal year-end date arriving after the start of the period of restriction on transfer), as of the expiration of the period of restriction on transfer, the restriction will be canceled for all allotted shares. However, should such directors resign as directors and executive officers of Group companies before the expiration of the period of restriction on transfer for reasons deemed valid by the Company Board of Directors (for example, expiration of term of office, attainment of mandatory retirement age, or death), the number of allotted shares for which the restriction on transfer is canceled and the timing of such cancellation are to be reasonably adjusted on an as-needed basis.

3. Subject to the condition that grantees continue to serve as Group company directors or executive officers until the day preceding the day of the Company's first Ordinary General Meeting of Shareholders arriving after the start of the period of restriction on transfer (or, if the grantees are Company executive officers or Group company officers, etc., until the day preceding the Company's first fiscal year-end date arriving after the start of the period of restriction on transfer), the number of shares for which the restriction on transfer will be canceled and the timing of such cancellation are to be reasonably adjusted on an as-needed basis in accordance with the length of their service in such roles during the medium-term plan period, at the restriction cancellation rate, which is linked to performance goal achievements in the medium-term plan. However, should such directors resign as directors and executive officers of Group companies before the expiration of the period of restriction on transfer for reasons deemed valid by the Company Board of Directors (for example, attaining mandatory retirement age and death or reassignment to other positions during the medium-term plan period), the number of shares for which the restriction on transfer is canceled shall be reasonably adjusted within the performance condition.

2. Volume and changes in stock compensation with restriction on transfer

(i) Expensed amount and account title

	Millions of yen	
	2021	2022
Selling, general, and administrative expenses—other	¥—	¥198

(ii) Number of shares

	Shares	
	Continuous service based shares with restriction on transfer	Performance-based shares with restriction on transfer
Before cancellation of restriction		
At end of previous period	—	—
Granted	28,500	384,800
Acquired for free	1,700	9,600
Restriction canceled	—	—
Restriction valid	26,800	375,200

(iii) Per share price

	Yen	
	Continuous service based shares with restriction on transfer	Performance-based shares with restriction on transfer
Fair value per share at grant date	¥1,502	¥1,502

Note: To prevent arbitrary price decisions, we use the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately before the date of the Board of Directors resolution regarding the granting of shares with restriction on transfer.

16 Income Taxes

1. Significant components of deferred tax assets and liability

	Millions of yen	
	2021	2022
Deferred tax assets:		
Allowance for doubtful accounts	¥ 366	¥ 349
Loss on valuation of inventories	4,135	3,173
Provision for bonuses	2,128	2,828
Net defined benefit liability	1,858	1,766
Depreciation expense	16,820	17,136
Loss on valuation of investment securities	394	408
Impairment loss	581	543
Other	11,255	17,769
Tax loss carried forward	40,832	36,019
Total	78,374	79,994
Valuation allowance for tax loss carried forward (Note 2)	(39,343)	(32,685)
Valuation allowance for deductible temporary difference	(17,737)	(20,685)
Valuation allowance (Note 1)	(57,081)	(53,371)
Offset against deferred tax liabilities	(8,020)	(13,175)
Net deferred tax assets	13,272	13,446
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(1,061)	(1,336)
Other	(7,737)	(12,309)
Subtotal of deferred tax liabilities	(8,798)	(13,645)
Offset against deferred tax assets	8,020	13,175
Total	(778)	(469)
Recorded deferred tax assets	12,494	12,977

Notes: 1. Valuation allowance decreased by ¥3,709 million. The main reasons for this decrease were a decrease in valuation allowance of ¥6,657 million for tax loss carried forward and an increase in valuation allowance for deductible temporary difference of ¥2,948 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, 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 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, 2022)

	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)	¥ 5,063	¥ 2,394	¥ 1,789	¥ 1,185	¥ 752	¥ 24,833	¥ 36,019
Valuation allowance	(4,230)	(2,369)	(1,768)	(1,179)	(750)	(22,387)	(32,685)
Deferred tax assets	832	25	20	5	2	2,445	(b) 3,333

(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 ¥36,019 million (amount under the normal effective statutory tax rate), deferred tax assets of ¥3,333 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, 2021 and 2022

	2021	2022
Statutory tax rate	—%	30.6%
(Reconciliation)		
Changes in valuation allowance	—	(30.0)
Permanently non-deductible expenses including entertainment expenses	—	1.9
Amortization of goodwill	—	1.0
Difference of tax rates for consolidated subsidiaries	—	(1.4)
Tax credit for experiment and research expenses	—	(12.1)
Tax loss carried forward	—	12.6
Effect of adjustment for consolidation	—	(3.2)
Other	—	2.9
Effective tax rate for financial statement purposes	—	2.4

Note: Notes are omitted for the previous fiscal year because the Company posted a loss before income taxes.

17 Business Combination

(Transactions under common control)

(1) Objectives of the merger

The Group had been working on structural reforms to transform its business structure in response to the external environment.

Furthermore, at the Board of Directors meeting held January 29, 2021, the Company resolved to restructure the organization of the Company and the Group to build an even more efficient structure, and implemented a split and absorption-type merger with an effective date of April 1, 2021.

(2) Overview of the merger

(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 subject to 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
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 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).

18 Asset Retirement Obligations

Previous fiscal year (As of March 31, 2021)

The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

Current fiscal year (As of March 31, 2022)

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, 2021)

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, 2022)

The information is omitted due to the immateriality of the total amount of the rental property and other real estate.

20 Revenue Recognition

1. Disaggregation of revenue from contracts with customers

The Group operates an Entertainment Contents Business, Pachislot and Pachinko Machines Business, and a Resort Business. Main goods or services primarily handled by these businesses are digital content, sales of products and merchandise, and resort facilities. Shown below are the sales of goods or services by each business:

Current year (from April 1, 2021 to March 31, 2022)

	Reporting segment					
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal	Other	Total
Digital content sales	¥129,773	¥ 3,799	¥ —	¥133,572	¥ —	¥133,572
Product and merchandise sales	74,673	70,156	—	144,829	—	144,829
Resort facility sales	—	—	8,663	8,663	—	8,663
Other sales	31,491	1,912	—	33,403	480	33,884
Revenue from contracts with customers	235,937	75,868	8,663	320,469	480	320,949
Sales to external customers	235,937	75,868	8,663	320,469	480	320,949

2. Basic information for understanding revenue from contracts with customers

(1) Information on contracts, performance obligations, and when performance obligations are satisfied

Information on contracts, performance obligations, and when performance obligations are satisfied is as presented in "Note 2 Summary of Significant Accounting Policies 3. Accounting Policies (7) Accounting policy for recognition of significant revenues and expenses."

(2) Information on calculating allocation amounts for performance obligations

When selling sets of multiple pieces of game content as part of granting game distribution rights or download sales in the Entertainment Contents Business, the provision of each piece of content is identified

as a separate performance obligation, and the transaction price is allocated to each performance obligation. For bundled sales within the Entertainment Contents Business of amusement machines and annual content update services, the amusement machine sales and annual content update services are identified as separate performance obligations and the transaction price is allocated to each performance obligation.

In cases such as these, stand-alone selling prices on the transaction day in the contract of the individual goods or services that serve as the basis for each performance obligation are calculated, and the transaction prices are then allocated based on the ratio of said stand-alone selling prices.

3. Information for understanding revenue amounts of the current fiscal year and the following fiscal years

(1) Receivables from contracts with customers; the balances of contract assets and contract liabilities

The breakdown of receivables from contracts with customers, contract assets, and contract liabilities is as follows:

	Millions of yen	
	Beginning balance for the current year	Ending balance for the current year
Receivables from contracts with customers		
Notes and accounts receivable—trade	¥38,176	¥34,958
Contract assets	—	3,993
Contract liabilities	9,333	10,257

Note: Contract liabilities are included under "Other" in current liabilities on the consolidated balance sheets. Of the revenue recognized in the current fiscal year, the amount included in the contract liabilities balance at the beginning of the period is ¥8,135 million.

(2) Transaction price allocated to remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the time frame in which the Company expects to recognize the amount as revenue are as follows:

	Millions of yen
Within one year	¥ 8,877
Over 1 year but within 2 years	915
Over 2 years	465
Total	10,257

21 Segment Information

1. Outline of reporting segments

The Group's reporting segments are organizational units for which separate financial information is available. On this basis, the Board of Directors makes decisions on allocating management resources and examines financial performance on a regular basis.

Planning of business development and strategies as well as execution of business activities in respect of each product and service is carried out by each Group company that provides such product and service.

As such, the Group is comprised of segments classified by product and service provided through the businesses run by each Group company, in which Entertainment Contents Business, Pachislot and Pachinko Machines Business, and Resort Business are the reporting segments.

The lines of business for each reporting segment are 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, 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	Integrated resorts business and development and operation of hotels and golf courses, etc., in other facilities businesses

2. Method for calculating net sales, income or loss, assets and other items by each reporting segment

The accounting methods applied to reporting segments are generally the same as those described in "Significant matters forming the basis for preparing consolidated financial statements."

As described in "(Changes in accounting policies)," the Accounting Standard for Revenue Recognition, etc. has been applied from the beginning of the current fiscal year. The method for calculating business segment profit or loss has changed in accordance with changes in the accounting method for revenue recognition. The impact on profit and loss for the current fiscal year was immaterial.

Notes to Consolidated Financial Statements

3. Information on the amounts of net sales, income (loss), assets and other items by each reporting segment

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

	Millions of yen					
	Reporting segment					Amount in Consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal	Adjustment (Note)	
Net sales:						
Net sales to external customers	¥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 consist mainly of Group management expenses incurred by the Company.
2. Adjustment to segment assets of ¥141,524 million includes the elimination of inter-segment transactions of ¥(21,955) million and general corporate assets of ¥163,480 million 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 consist mainly of depreciation associated with the Company.
4. Adjustment to interest income of ¥(150) million includes the 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 the 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 affiliate losses not belonging to any reporting segment.
7. Adjustments to investments in affiliates accounted for by the equity method represent investments in affiliates accounted for by the equity method that do not belong to any reporting segment.
8. Adjustments to increases in property, plant, and equipment and intangible assets consist mainly of the purchase amount of noncurrent assets related to the Company, etc.
9. Adjustments have been made to segment income (loss) and ordinary income in the consolidated statements of income and comprehensive income.

Current fiscal year (From April 1, 2021 to March 31, 2022)

	Reporting segment					Adjustment (Note)	Amount in Consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal			
	Net sales:						
Net sales to external customers	¥235,937	¥75,868	¥ 8,663	¥320,469	¥ 480	¥320,949	
Inter-segment sales and transfers	553	349	143	1,046	(1,046)	—	
Total	236,491	76,218	8,806	321,515	(565)	320,949	
Segment income (loss)	36,861	10,282	(6,738)	40,405	(7,061)	33,344	
Segment assets	191,320	56,738	31,701	279,760	155,732	435,492	
Other items:							
Depreciation	6,247	3,566	683	10,497	908	11,406	
Interest income	34	239	0	274	(162)	112	
Interest expenses	83	77	30	191	109	301	
Equity in earnings (losses) of affiliates	1,028	291	(4,116)	(2,795)	17	(2,778)	
Investments in affiliates accounted for by the equity method	30	659	18,542	19,232	813	20,046	
Increases in property, plant and equipment and intangible assets	7,365	4,114	434	11,914	1,130	13,045	

- Notes: 1. Adjustment to segment income (loss) of ¥(7,061) million includes elimination of inter-segment transactions of ¥83 million and general corporate expenses of ¥(7,145) million which are not allocated to each reporting segment. General corporate expenses consist mainly of Group management expenses incurred by the Company.
2. Adjustment to segment assets of ¥155,732 million includes the elimination of inter-segment transactions of ¥(19,256) million and general corporate assets of ¥174,988 million 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 consist mainly of depreciation associated with the Company.
4. Adjustment to interest income of ¥(162) million includes the elimination of inter-segment transactions of ¥(327) million and interest income of the Company of ¥164 million.
5. Adjustment to interest expenses of ¥109 million includes the elimination of inter-segment transactions of ¥(327) million and interest expenses of the Company of ¥436 million.
6. Adjustments to equity in earnings (losses) of affiliates represent equity in earnings or losses of affiliates not belonging to any reporting segment.
7. Adjustments to investments in affiliates accounted for by the equity method represent investments in affiliates accounted for by the equity method that do not belong to any reporting segment.
8. Adjustments to increases in property, plant, and equipment and intangible assets consist mainly of the purchase amount of noncurrent assets related to the Company.
9. Adjustments have been made to segment income (loss) and ordinary income in the consolidated statements of income and comprehensive income.

[Related information]

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

1. Information by product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Information by geographical area

(1) Net sales

Millions of yen				
Japan	US	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.

(2) Property, plant and equipment

Millions of yen				
Japan	North America	UK	Other	Total
¥52,651	¥1,598	¥5,691	¥1,676	¥61,617

Notes to Consolidated Financial Statements

3. Information by each major customer

No description is provided here, since no external customer exists 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, 2021 to March 31, 2022)

1. Information by product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Information by geographical area

(1) Net sales

					Millions of yen
Japan	US	Europe	Other	Total	
¥215,236	¥75,285	¥15,343	¥15,084	¥320,949	

Note: Net sales are classified by country or region based on the customer's location.

(2) Property, plant and equipment

					Millions of yen
Japan	North America	Europe	Other	Total	
¥50,376	¥1,635	¥6,929	¥1,416	¥60,358	

(Change in method of presentation)

Sales in the United Kingdom, included in "Europe" 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, "2. Information by geographical area (2) Property, plant, and equipment" for the previous fiscal year has been reclassified.

As a result, ¥6,879 million presented in "Europe" in the previous fiscal year has been reclassified as ¥5,691 million in "UK" and ¥1,188 million in "Other."

3. Information by each major customer

No description is provided here, since no external customer exists to whom sales are 10% or more of the net sales recorded in the consolidated statements of income or comprehensive income.

[Information on impairment loss on noncurrent assets by each reporting segment]

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

						Millions of yen
	Reporting segment					Amount in consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal	Adjustment (Note)	
Impairment loss	¥17,872	¥127	¥3,050	¥21,050	¥40	¥21,091

Note: Adjustment is related to the assets of the reporting company that are not allocated to each segment.

Current fiscal year (From April 1, 2021 to March 31, 2022)

						Millions of yen
	Reporting segment					Amount in consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal	Adjustment	
Impairment loss	¥232	¥197	¥—	¥430	¥—	¥430

[Information on amortization and unamortized balance of goodwill by reporting segment]

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

					Millions of yen	
	Reporting segment				Adjustment	Amount in consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal		
Amortization	¥1,908	¥—	¥—	¥1,908	¥—	¥1,908
Balance as of March 31, 2021	4,711	—	—	4,711	—	4,711

Current fiscal year (From April 1, 2021 to March 31, 2022)

					Millions of yen	
	Reporting segment				Adjustment	Amount in consolidated financial statements
	Entertainment Contents	Pachislot Pachinko Machines	Resort	Subtotal		
Amortization	¥2,311	¥—	¥—	¥2,311	¥—	¥2,311
Balance as of March 31, 2022	3,460	—	—	3,460	—	3,460

[Information on gain on negative goodwill by each reporting segment]

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

Not applicable

Current fiscal year (From April 1, 2021 to March 31, 2022)

Not applicable

22 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, 2020 to March 31, 2021)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
PARADISE SEGASAMMY Co., Ltd.	Resort business	Provision of collateral ^(Note)	¥17,146	—	—

Note: For a portion of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company are pledged as collateral.

Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2021 to March 31, 2022)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
PARADISE SEGASAMMY Co., Ltd.	Resort business	Subscription to additional capital shares ^(Note1)	¥ 4,315	—	—
		Provision of collateral ^(Note2)	18,542	—	—

Notes: 1. This is a subscription to additional capital shares allotted to shareholders.

2. For a portion of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company are pledged as collateral.

2) Directors and major shareholders (limited to individuals) of the Company

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

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
Haruki Satomi	Chairman of SEGA SAMMY ARTS FOUNDATION	Payment of donation ^(Note 1)	¥112	—	—
FSC Co., Ltd. ^(Note3)	Non-life insurance agent	Payment of insurance premium ^(Note 2)	21	Prepaid expenses	¥9
				Long-term prepaid expenses	0

Notes: 1. The amount donated to the Foundation is determined with approval of the Board of Directors.

2. Transaction prices are determined in the same way as for general transactions, referring 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. Transaction amounts exclude consumption tax.

Current fiscal year (From April 1, 2021 to March 31, 2022)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
Haruki Satomi	Chairman of SEGA SAMMY ARTS FOUNDATION	Payment of donation ^(Note 1)	¥107	—	—
FSC Co., Ltd. ^(Note 3)	Non-life insurance agent	Payment of insurance premium ^(Note 2)	11	Prepaid expenses	¥10
				Long-term prepaid expenses	0

Notes: 1. The amount donated to the Foundation is determined with approval of the Board of Directors.

2. Transaction prices are determined in the same way as for general transactions, referring 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. Transaction amounts exclude consumption tax.

(2) Transactions between consolidated subsidiaries of the Company and related parties

1) Non-consolidated subsidiaries and affiliates of the Company

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

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
ZEEG Co., Ltd.	Pachislot and Pachinko Machines Business	Purchase of pachislot and pachinko machine parts ^(Note 1)	¥3,147	Accounts payable-trade	¥ 150
		Loan of funds ^(Note 2)	5,348	Short-term loans receivable	5,725
		Collection of loans ^(Note 2)	700	Long-term loans receivable	1,782
		Interest income ^(Note 2)	65		

Notes: 1. Transaction prices are determined in the same way as for general transactions, referring to market prices.

2. The interest rate on loans is determined by taking market interest rates into consideration. The repayment terms are one to five years, with the principal to be repaid in a lump sum on the due date and interest to be repaid in annual installments. No collateral is accepted.

Current fiscal year (From April 1, 2021 to March 31, 2022)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
ZEEG Co., Ltd.	Pachislot and Pachinko Machines Business	Purchase of pachislot and pachinko machine parts ^(Note 1)	¥6,039	Accounts payable-trade	¥ 480
		Loan of funds ^(Note 2)	500	Short-term loans receivable	3,069
		Collection of loans ^(Note 2)	2,355	Long-term loans receivable	2,582
		Interest income ^(Note 2)	66		

Notes: 1. Transaction prices are determined in the same way as for general transactions, referring to market prices.

2. The interest rate on loans is determined by taking market interest rates into consideration. The repayment terms are one to five years, with the 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 and major shareholders (limited to individuals) of the Company

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

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Millions of yen	
				Accounts	End of period account balance
FSC Co., Ltd. ^(Note 1)	Non-life insurance agent	Payment of insurance premium ^(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, referring to market prices.

3. Transaction amounts exclude consumption tax.

Current fiscal year (From April 1, 2021 to March 31, 2022)

Not applicable

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	
	2021	2022
Total current assets	¥ 5,522	¥ 4,808
Total noncurrent assets	130,407	127,675
Total current liabilities	10,099	17,464
Total noncurrent liabilities	87,727	83,403
Total net assets	38,102	31,616
Net sales	16,100	15,505
Income (loss) before income taxes	(10,302)	(9,147)
Net Income (loss)	(10,302)	(9,147)

23 Per Share Information

Item	Yen	
	2021	2022
Net assets per share	¥1,236.82	¥1,311.72
Profit per share	5.42	158.85
Profit per share (diluted)	—	158.24

Note: Profit per share (diluted) for the previous fiscal year is not presented because there are no dilutive shares.

1. The calculation basis for net assets per share is as follows.

Items	2021	2022
Total of net assets in the consolidated balance sheets (Millions of yen)	¥291,256	¥292,637
Amounts deducted from net assets in the consolidated balance sheets (Millions of yen)	496	225
(Subscription rights to shares) (Millions of yen)	—	176
(Non-controlling interests) (Millions of yen)	496	49
Net assets pertaining to common stock (Millions of yen)	290,759	292,411
Number of common shares used to calculate net assets per share (Thousands of shares)	235,086	222,921

2. The calculation basis for profit per share and profit per share (diluted) is as follows.

Item	2021	2022
Net income (loss) per share:		
Profit attributable to owners of parent (Millions of yen)	¥ 1,274	¥ 37,027
Amount not attributable to ordinary shareholders (Millions of yen)	—	—
Profit attributable to owners of parent pertaining to common stock (Millions of yen)	1,274	37,027
Average number of common shares during the period (Thousands of shares)	235,090	233,091
Profit per share (diluted):		
Adjustment to profit attributable to owners of parent (Millions of yen)	—	—
Increase in common stock (Thousands of shares)	—	909
(Subscription rights to shares) (Thousands of shares)	—	909
Overview of dilutive shares not included in calculation of profit per share (diluted) because of no dilutive effect	—	—

24 Significant Subsequent Events

(Cancellation of treasury stock)

At the Board of Directors meeting held May 13, 2022, the Company resolved to cancel treasury stock pursuant to the provisions of Article 178 of the Companies Act. This cancellation was duly enacted.

Details of treasury stock cancellation

- Class of stock canceled: Company common stock
- Number of shares canceled: 25,000,000 shares
(percentage of total number of outstanding shares before cancellation: 9.39%)
- Date of cancellation: May 24, 2022
- Total number of outstanding shares after cancellation: 241,229,476 shares

25 Supplemental Information

Schedule of corporate bonds

Company name	Security titles	Issuance date	Balances as of April 1, 2021 (Millions of yen)	Balances as of March 31, 2022 (Millions of yen)	Interest rate (%)	Type	Date of maturity
The Company	5th Series of Unsecured Straight Bonds (Publicly offered bonds)	October 10, 2019	¥10,000	¥10,000	0.38	Unsecured	October 10, 2029
Total			10,000	10,000			(—)

Notes: 1. Figure in parentheses under "Balance as of March 31, 2022" is the current portion amount of redemption.

2. The scheduled amount of redemption after the consolidated closing date 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, 2021 (Millions of yen)	Balances as of March 31, 2022 (Millions of yen)	Average interest rate (%)	Repayment period
Short-term loans payable	¥ —	¥ —	—	—
Current portion of long-term loans payable	—	10,000	0.4	—
Current portion of lease obligations	1,136	1,123	1.7	—
Long-term loans payable (Excluding current portion)	42,000	32,000	0.4	From 2023 to 2025
Lease obligations (Excluding current portion)	4,808	4,013	1.9	From 2023 to 2031
Other interest-bearing debts:				
Accounts payable—facilities	26	30	1.2	—
Accounts payable—facilities (Excluding current portion)	118	116	1.5	From 2023 to 2030
Total	48,089	47,284	—	—

Notes: 1. "Average interest rate" represents the weighted average rate applicable to the balance of loans payable at end of period.

2. Some lease obligations stated in the consolidated balance sheets represent the amounts with interest equivalents not deducted from the total lease payments. Accordingly, said lease obligations are not included when calculating the "Average interest rate."

3. The scheduled amounts of long-term loans payable, lease obligations, and other interest-bearing debts (excluding current portion) to be repaid after the consolidated closing date are 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	¥17,000	¥15,000	¥ —	¥ —	¥ —
Lease obligations	949	709	540	407	1,407
Other interest-bearing debt:					
Accounts payable—facilities	24	18	16	16	40

Schedule of asset retirement obligations

No description is provided here, since the amount of asset retirement obligations as of the beginning and end of the current fiscal year was less than 1/100 of the total amount of liabilities and net assets, respectively, as of the beginning and end of the current fiscal year.

26 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)	¥59,447	¥134,893	¥236,752	¥320,949
Income before income taxes (Millions of yen)	3,272	15,155	35,592	37,921
Profit attributable to owners of parent (Millions of yen)	2,940	12,012	29,456	37,027
Profit per share (Yen)	12.51	51.08	125.39	158.85
(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share (Yen)	¥12.51	¥38.56	¥74.43	¥33.27



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, 2022 and 2021, 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, 2022 and 2021, 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.

We determined that a relative risk of "Appropriateness of the measurement of an impairment loss recognized on property, plant and equipment and intangible assets held by PHOENIX RESORT CO., LTD.," which was a key audit matter in our audit of the consolidated financial statements for the previous fiscal year, had decreased. We, therefore, determined that the risk did not give rise to a key audit matter in our audit of the consolidated financial statements for the current fiscal year.

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

As described in Note 3, "Significant Accounting Estimates" (4), to the consolidated financial statements, SEGA SAMMY HOLDINGS INC. (hereinafter, referred to as the "Company") and its consolidated subsidiaries reported investment securities of ¥40,699 million in the consolidated balance sheet as of March 31, 2022, which included an investment in PARADISE SEGASAMMY Co., Ltd. (hereinafter "PSS"), an equity-method affiliate in the Resort Business segment, of ¥18,542 million, representing approximately 4% of total assets in the consolidated financial statements. PSS recognized non-financial assets of ¥126,415 million in its financial statements, of which ¥8,173 million was related to goodwill.

PSS prepares its financial statements in accordance with International Financial Reporting 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 the CGU to which goodwill had been allocated as well as on other CGU for which there was an impairment indicator, using the value in use or the 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 COVID-19 involved a high degree of estimation uncertainty. Accordingly,

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.

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:

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Company's internal controls relevant to evaluating the appropriateness of PSS's financial statements including the assessment on its CGUs.

(2) Assessment of the reasonableness of the estimated recoverable amount

Evaluating the appropriateness 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 analysis reports published by external research organizations.

In addition, we involved valuation specialists within our network firms who assisted our assessment of the appropriateness 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.

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 techniques 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.

Other Information

The other information comprises the information included in the INTEGRATED Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. 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 reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

Hidetoshi Fukuda

Designated Engagement Partner

Certified Public Accountant

Danya Sekiguchi

Designated Engagement Partner

Certified Public Accountant

Yoichi Ueno

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

October 13, 2022

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.



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/