Financials

Management's Discussion and Analysis

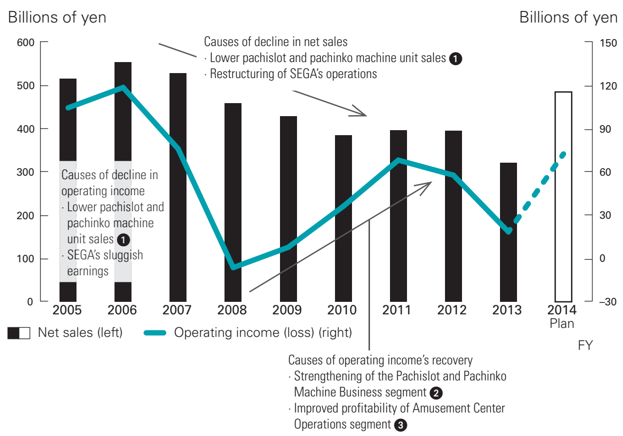
Revenue and Expenses Analysis

LONG-TERM TRENDS

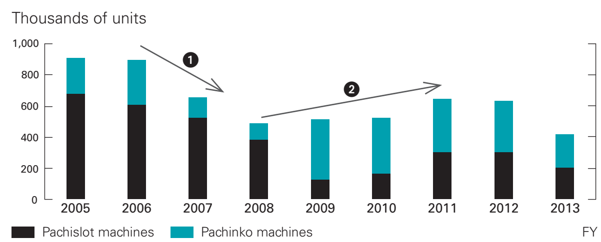
Net sales have declined from their level directly after management integration to the level of recent years for two main reasons. (1) Market conditions for the Pachislot and Pachinko Machine Business segment, which accounts for a significant share of net sales, changed dramatically after the ending in fall 2007 of the interim measures period for the revision of regulations pertaining to the Entertainment Establishments Control Law. (2) A decline in net sales resulting from restructuring aimed at strengthening the profitability of SEGA CORPORATION. (Restructuring entailed closing and selling amusement centers with low profitability or potential in the Amusement Center Operations segment and narrowing down the number of packaged game software titles to be developed.)

Regarding earnings, the SEGA SAMMY Group recorded an operating loss in fiscal 2008, reflecting a decrease in unit sales of pachislot machines, which have comparatively high profit margins; lackluster revenues in the Amusement Center Operations segment; and flagging sales of packaged game software. Since then, operating income has been on a recovery track mainly as a result of (1) strengthening the Pachislot and Pachinko Machine Business segment and (2) restructuring SEGA's operations.

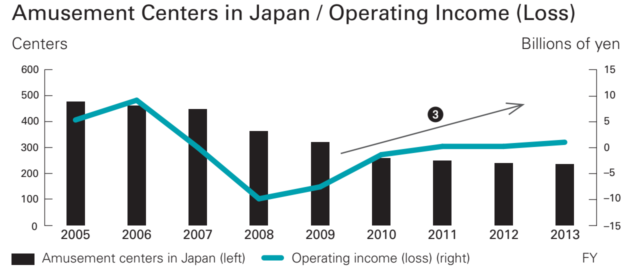
Net Sales and Operating Income (Loss): Long-Term Trends



Pachislot and Pachinko Machine Unit Sales



Amusement Centers in Japan / Operating Income (Loss)



Comparing Fiscal 2013 and Fiscal 2012

In fiscal 2013, ended March 31, 2013, net sales declined 18.7%, or ¥74.0 billion, year on year, to ¥321.4 billion. This was primarily attributable to a 32.9% decrease in the Pachislot and Pachinko Machine Business segment's revenues due to a significant downturn in pachislot and pachinko machine unit sales and a 21.6% decrease in revenues from the Amusement Machine Sales Business segment.

Cost of sales were down 12.6%, or ¥29.3 billion, year on year because of component reuse and lower sales volume. The cost of sales ratio rose 4.5 percentage points, to 63.6%, as a result of lower sales from the Pachislot and Pachinko Machine Business segment, which has a comparatively high gross profit margin, and an increase in depreciation and amortization that accompanied the start-up of operations at a new plant.

SG&A expenses were down 5.2%, or ¥5.4 billion, year on year, to ¥97.8 billion, which reflected lower sales commissions accompanying the decrease in pachislot and pachinko machine unit sales and a 23.7% year-on-year decline in advertising expenses due to the lower number of titles marketed in the Pachislot and Pachinko Machine Business segment and the Consumer Business segment.

Operating income was down 67.3%, or ¥39.3 billion, year on year, to ¥19.0 billion, as a result of the significant decrease in net sales. The operating margin declined 8.9 percentage points year on year, to 5.9%.

Extraordinary income was ¥10.1 billion, which mostly comprised gain on sales of investment securities of ¥1.9 billion and gain on transfer of benefit obligation relating to employees' pension fund of ¥6.3 billion. Meanwhile, the recognition of amortization of goodwill and loss on liquidation of subsidiaries and affiliates for certain U.S. subsidiaries resulted in extraordinary loss of ¥5.4 billion. This compared favorably with the previous fiscal year's extraordinary loss of ¥18.5 billion, arising from restructuring of the Consumer Business segment and other factors.

Net income increased 53.3%, or ¥11.6 billion, year on year, to ¥33.4 billion. This was primarily the result of the recognition of deferred tax assets for the amount expected to be deductible from future taxable income in relation to a tax loss, incurred due to the completion of liquidation of certain U.S. subsidiaries.

Management's Discussion and Analysis

Summary of Consolidated Statements of Income and Comprehensive Income

Billions of yen

	2012	2013	YOY change	2014 (Plan)
Net sales	395.5	**321.4**	–74.1	485.0
Cost of sales	233.8	**204.4**	–29.4	—
Gross profit	161.6	**116.9**	–44.7	—
Selling, general and administrative expenses	103.2	**97.8**	–5.4	—
Operating income	58.3	**19.0**	–39.3	73.0
Non-operating income	2.0	**4.5**	+2.5	—
Non-operating expenses	2.2	**2.6**	+0.4	—
Ordinary income	58.1	**20.9**	–37.2	72.0
Extraordinary income	3.3	**10.1**	+6.8	3.3
Extraordinary loss	18.5	**5.4**	–13.1	4.8
Income before income taxes and minority interests	42.9	**25.6**	–17.3	70.5
Total income taxes	20.5	**–8.1**	–28.6	—
Net income	21.8	**33.4**	+11.6	47.0

Decrease due to recognition of deferred tax assets

Major Expenses

Billions of yen

	2012	2013	YOY change	2014 (Plan)	YOY change
R&D expenses, content production expenses	53.3	**45.2**	–8.1	54.9	+9.7
Capital expenditures	36.1	**32.8**	–3.3	32.5	–0.3
Depreciation and amortization	16.1	**18.1**	+2.0	25.5	+7.4
Advertising expenses	17.2	**13.1**	–4.1	19.5	+6.4

Extraordinary Income and Extraordinary Loss

Billions of yen

2012		2013		2014 (Plan)	
Extraordinary income		**Extraordinary income**		Extraordinary income	
Gain on negative goodwill	2.1	**Gain on transfer of benefit obligation relating to employees' pension fund**	**6.3**	Gain on sales of noncurrent assets	3.0
Other	1.2	**Gain on sales of investment securities**	**1.9**	Other	0.3
Total	3.3	**Other**	**1.9**	Total	3.3
		Total	**10.1**		
Extraordinary loss		**Extraordinary loss**		Extraordinary loss	
Restructuring loss	6.3	**Impairment loss**	**2.9**	Loss on liquidation of subsidiaries and affiliates	4.8
The settlement payment for patent licensing	3.5	**Loss on liquidation of subsidiaries and affiliates**	**1.7**	Total	4.8
Amortization of goodwill	3.3	**Other**	**0.8**		
Impairment loss	3.3	**Total**	**5.4**		
Other	2.1				
Total	18.5				

(Reference)

Comprehensive Income

Billions of yen

	2012	2013
Net income	21.8	**33.4**
Minority interests in income	0.6	**0.3**
Income before minority interests	22.4	**33.7**
Other comprehensive income		
Valuation difference on available-for-sale securities	7.5	**8.5**
Deferred gains or losses on hedges	0.0	**—**
Revaluation reserve for land	0.1	**—**
Foreign currency translation adjustment	(0.4)	**4.3**
Share of other comprehensive income of associates accounted for using equity method	0.005	**0.8**
Total other comprehensive income	7.2	**13.6**
Comprehensive income	29.6	**47.4**

Capital Expenditures and Depreciation and Amortization

In fiscal 2013, the Pachislot and Pachinko Machine Business segment implemented capital expenditures of ¥11.9 billion, mainly to acquire molds and construct a new plant. Also, capital expenditures for amusement centers that SEGA ENTERTAINMENT Co., Ltd., operates were ¥7.9 billion. Total capital expenditures decreased 9.1% year on year, to ¥32.8 billion. This decrease was due to capital expenditures for the construction of the new plant for the Pachislot and Pachinko Machine Business segment being lower than those of the previous fiscal year.

Depreciation and amortization rose 12.5%, or ¥2.0 billion, year on year, to ¥18.1 billion, which principally resulted from an increase in digital game content titles in the Consumer Business segment and the start-up of operations at the Pachislot and Pachinko Machine Business segment's new plant.

➔ **P.79** Please see "Change in Accounting Policy for Method of Depreciation and Amortization of Assets"

R&D Expenses, Content Production Expenses

R&D expenses and content production expenses, which are included in SG&A expenses and cost of sales, decreased 15.1%, or ¥8.0 billion, year on year, to ¥45.2 billion. This mainly reflected a narrowing down of the number of packaged game software titles as part of measures to restructure the Consumer Business segment.

Fiscal 2014 Outlook

For fiscal 2014, ending March 31, 2014, the Group expects revenues to grow 89.9% year on year in the Pachislot and Pachinko Machine Business segment and 30.7% in the Consumer Business segment due to increases in sales of packaged game software and digital game content. With all other business segments expected to increase revenues, the Group is targeting a 50.9% year-on-year rise in net sales, to ¥485.0 billion.

Plans call for boosting operating income 284.2% year on year, to ¥73.0 billion, by realizing significantly higher earnings from the Pachislot and Pachinko Machine Business segment and higher earnings from the digital game content area.

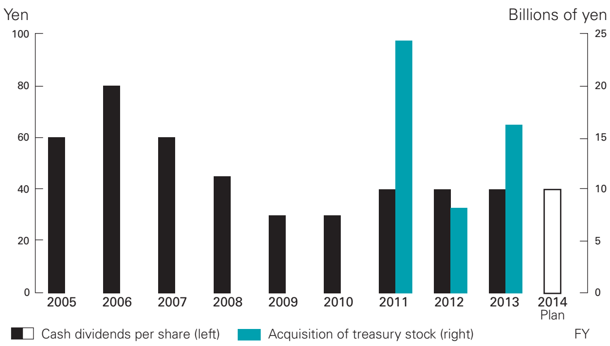
In light of these factors and the absence of the deferred tax assets recognized in fiscal 2013, the Group aims to grow net income 40.7% year on year, to ¥47.0 billion, in fiscal 2014.

Shareholder Value

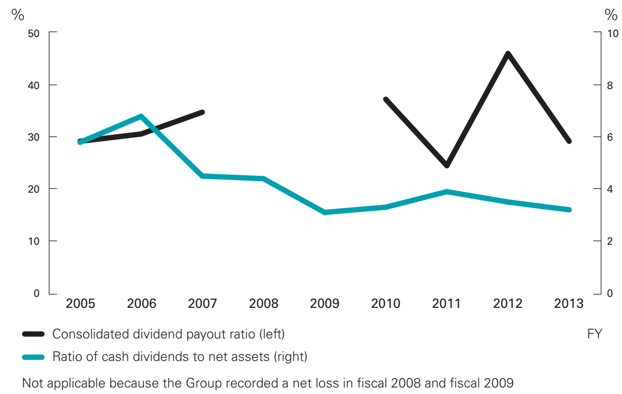
LONG-TERM TRENDS

The basic policy of the SEGA SAMMY Group is to heighten shareholder value through growth strategies that generate higher earnings and thereby increase market capitalization and through the realization of stable dividends consistent with the aim of paying out approximately 20% to 30% of post-tax income as dividends. Furthermore, the Group will retain the option of acquiring treasury stock in response to share price levels. In light of this basic policy, the Group has stably paid cash dividends of ¥40.00 per share for the past three fiscal years while purchasing treasury stock flexibly.

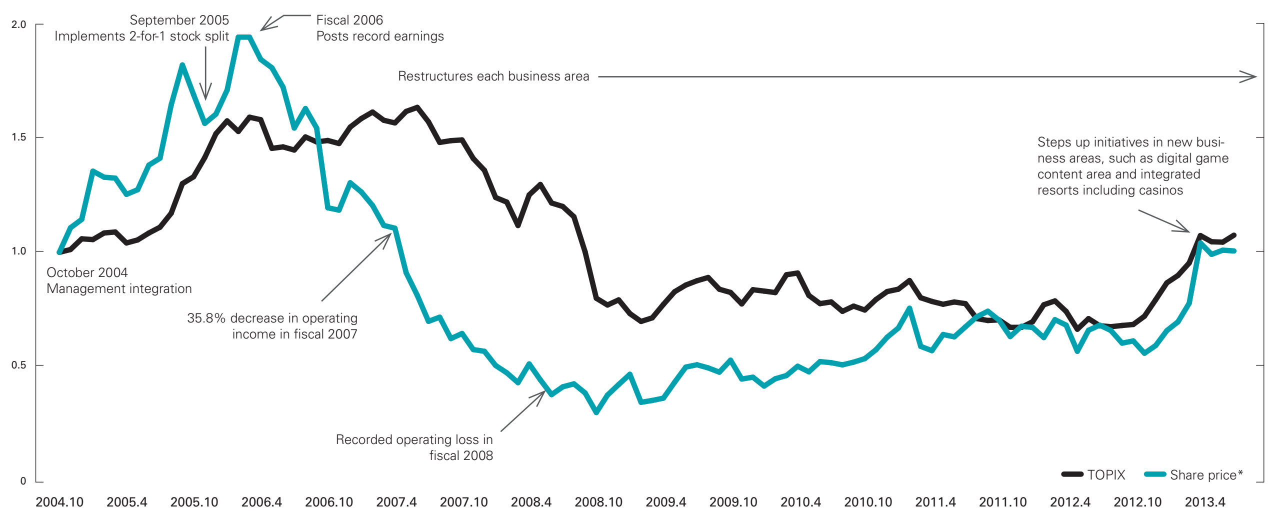
Cash Dividends per Share and Acquisition of Treasury Stock



Consolidated Dividend Payout Ratio and Ratio of Cash Dividends to Net Assets



Comparison of Share Price and Tokyo Stock Price Index (TOPIX) * Comparison based on monthly closing prices and value of 1 for October 2004 management integration



Fiscal 2013 Returns to Shareholders

Although respective earnings classifications through ordinary income decreased, net income rose due to the special factors previously mentioned. Consequently, net income per share was ¥137.14, compared with the previous fiscal year's ¥86.73. For fiscal 2013, the Group paid cash dividends of ¥40.00 per share, the same as for the previous fiscal year. As a result, the consolidated payout ratio was 29.2%, and the ratio of cash dividends to net assets was 3.2%, compared with 3.5% for the previous fiscal year.

Furthermore, the Group acquired 10 million shares of treasury stock for a purchase price of ¥16.1 billion.

Forecast of Fiscal 2014 Returns to Shareholders

Based on the business results outlook, for fiscal 2014 the Group expects to pay cash dividends of ¥40.00 per share, the same as for the fiscal year under review. As a result, the Group anticipates a consolidated dividend payout ratio of 20.6%.

Analysis by Business Segment

LONG-TERM TRENDS

The Pachislot and Pachinko Machine Business segment, which had a product mix overly weighted toward pachislot machines directly after management integration, saw net sales decrease significantly in fiscal 2007 and fiscal 2008 due to a slump in the pachislot machine market originating from regulatory revision in July 2004. In response, the Group strengthened the product appeal of pachinko machines to correct the imbalance between pachislot and pachinko machines in its product portfolio. As a result, net sales have been recovering steadily since bottoming in fiscal 2008. However, pachinko machines, which now account for a larger share of net sales, have lower gross profit margins than pachislot machines. To improve profit margins, the Group is reusing components.

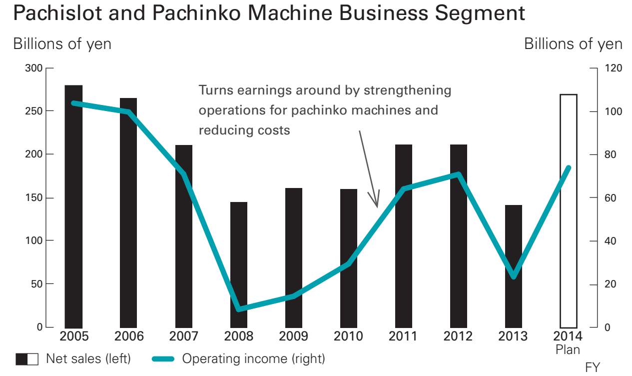
Since fiscal 2010, when the downturn in the amusement center operations market intensified, the Amusement Machine Sales Business segment has adopted a conservative approach to developing and marketing large, high-end machines. In addition, the business segment has introduced a revenue-sharing business model in which amusement center operators and SEGA share revenues based on players' use of amusement arcade machines. Although net sales have declined as a consequence, increased revenues from the revenue-sharing business model have stabilized earnings.

Because the Amusement Center Operations segment has been accelerating the closure and sale of amusement centers with low profitability or potential since recognizing an operating loss in fiscal 2008, its net sales have decreased to less than half of their peak level. On the other hand, the business segment has been posting operating income in recent years thanks to completing a round of closures of amusement centers with low profitability and strengthening marketing capabilities.

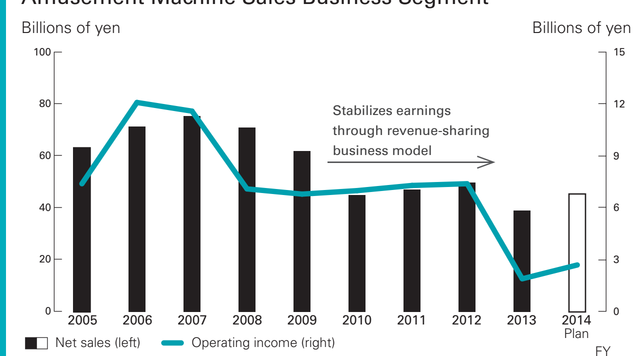
Since the packaged game software business recorded an operating loss in fiscal 2008, the Consumer Business segment has been reforming its profit structure by narrowing down the number of titles it sells. In fiscal 2012, the business segment recognized expenses and losses arising from business restructuring focused on operations in North America and Europe. In addition, the business segment has been strengthening the digital game content area continuously. In fiscal 2013, sales in the digital game content area accounted for approximately 45% of game content sales.

The SEGA SAMMY Group is highly reliant on the Pachislot and Pachinko Machine Business segment's revenues, which have represented between 30% and 50% of net sales. Similarly, the business segment's earnings consistently account for the majority of the Group's operating income.

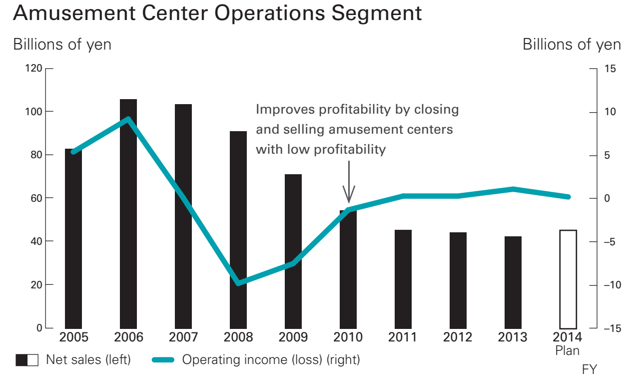
Pachislot and Pachinko Machine Business Segment



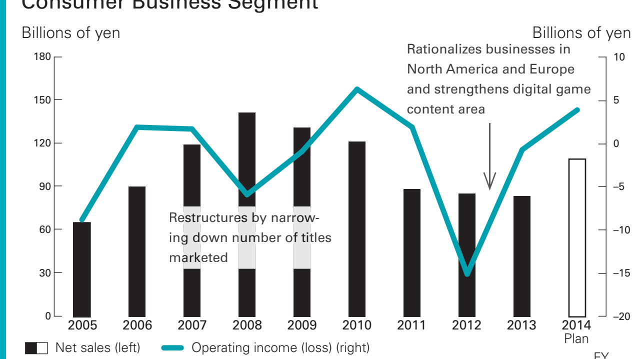
Amusement Machine Sales Business Segment



Amusement Center Operations Segment



Consumer Business Segment



Comparing Fiscal 2013 and Fiscal 2012

In the Pachislot and Pachinko Machine Business segment, both core businesses saw unit sales decrease significantly. In the pachislot machine business, the decrease resulted from postponing the launch of certain mainstay titles, while in the pachinko machine business the decrease reflected a bias in market demand toward certain major titles. As a result, the business segment's net sales declined 32.9%, or ¥69.9 billion, year on year, to ¥142.2 billion. Operating income was down 66.9%, or ¥47.5 billion, year on year, to ¥23.5 billion. The operating margin declined 17.0 percentage points year on year, to 16.5%.

As for the Amusement Machine Sales Business segment, the absence of major new title launches, due to the development cycle phase, led to a 21.6%, or ¥10.7 billion, year-on-year decrease in net sales, to ¥39.1 billion.

The Amusement Center Operations segment saw sluggish sales at existing amusement centers in Japan, which declined 6.2% year on year, because it was unable to sustain the comparatively solid results of the previous fiscal year, when sales at existing amusement centers in Japan edged up 0.5% year on year, mainly thanks to prize game machines. Consequently, the business segment's net sales were down 4.3%, or ¥1.9 billion, year on year, to ¥42.7 billion. However, because of lower depreciation and amortization, which resulted from a change from the declining-balance method to the straight-line method for depreciation and amortization of property, plant and equipment, operating income grew from the previous fiscal year's ¥0.3 billion to ¥1.1 billion.

In the Consumer Business segment, the game content business recorded significantly lower unit sales as a result of narrowing down the number of titles marketed as part of restructuring measures. As a result, net sales decreased 2.1%, or ¥1.8 billion, year on year, to ¥83.8 billion. Nevertheless, thanks to lower operating expenses achieved through restructuring implemented in fiscal 2012, operating loss shrank substantially from the previous fiscal year's ¥15.1 billion to ¥0.7 billion.

Fiscal 2014 Outlook

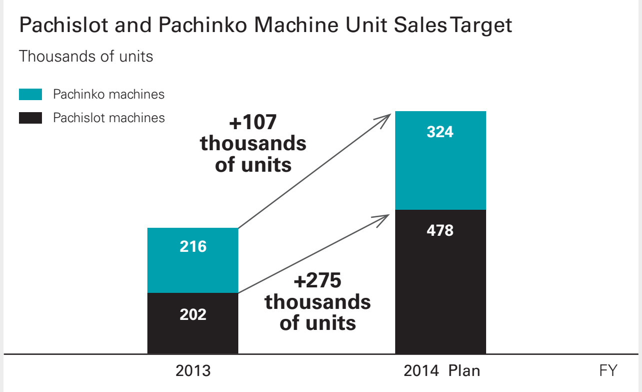
In fiscal 2014, the Group is targeting higher revenues and earnings for business segments other than the Amusement Center Operations segment, which is likely to post lower earnings due to the absence of the boost that lower depreciation and amortization burden gave earnings in fiscal 2013.

The Pachislot and Pachinko Machine Business segment is targeting year-on-year increases of 89.9% in net sales, to ¥270.0 billion, and 214.9% in operating income, to ¥74.0 billion. The pachislot machine business and the pachinko machine business plan to increase unit sales significantly by marketing several major titles.

With a view to year-on-year growth of 16.4% in net sales, to ¥45.5 billion, and 42.1% in operating income, to ¥2.7 billion, the Amusement Machine Sales Business segment will bring several major titles to market and acquire stable revenues through its revenue-sharing business model.

In the Amusement Center Operations segment, plans call for increasing sales at existing amusement centers in Japan 1.8% year on year and growing net sales 6.6% year on year, to ¥45.5 billion. A rise in such operating expenses as depreciation and amortization is likely to result in lower operating income.

The Consumer Business segment is aiming to increase net sales 30.7% year on year by accelerating the marketing of new titles featuring major intellectual properties for smart devices in the digital game content area. Higher earnings from the digital game content area are expected to enable the business segment to move into the black and post operating income of ¥3.9 billion, compared with an operating loss of ¥0.7 billion in the fiscal year under review.



Change in Accounting Policy for Method of Depreciation and Amortization of Assets

Plans for major capital expenditures led the Group to reassess actual conditions. As a result, from fiscal 2013 the Company and its consolidated subsidiaries in Japan changed the useful lives of assets and changed from using the declining-balance method to principally using the straight-line method for depreciation and amortization of property, plant and equipment.

Consequently, compared with the previous method, in fiscal 2013 gross profit rose ¥5.3 billion, and operating income, ordinary income, and income before income taxes and minority interests each increased ¥6.6 billion.

The effect on the earnings of business segments in fiscal 2013 was as follows.

Millions of yen

	Pachislot and Pachinko Machine Business segment	Amusement Machine Sales Business segment	Amusement Center Operations segment	Consumer Business segment	Other
Change in depreciation and amortization	+2,110	+203	+3,644	+212	+23
Change in useful lives of assets	–1,138	–6	–101	–61	—

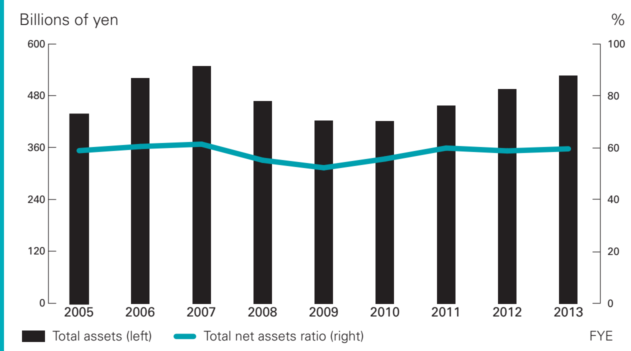
Financial Position Analysis

LONG-TERM TRENDS

Total assets rose in fiscal 2006 and fiscal 2007 due to an increase in property, plant and equipment and increases in respective assets that resulted from the new inclusion of companies in consolidation. However, from fiscal 2008 total assets declined as a consequence of a decrease in cash and deposits and valuation loss on securities and sales of securities accompanying restructuring. Recent years have seen total assets trend upward, which is attributable to the Group's proactive development of resort complexes and integrated resorts including casinos, the Pachislot and Pachinko Machine Business segment's construction of a new plant, and an increase in investment securities as the market value of shares held has grown. Although total assets are trending upward, for initiatives to develop resort complexes and integrated resorts including casinos the Group is exercising due diligence to avoid creating a bloated balance sheet.

The total net assets ratio has remained around 60% due to a policy of securing a certain level of internal reserves that enable investment to develop businesses in growth areas and the payment of stable cash dividends, even amid earnings volatility due to the presence or absence of hit products.

Total Assets and Total Net Assets Ratio



Comparing Fiscal 2013 and Fiscal 2012

Assets

Total assets at March 31, 2013, the fiscal year-end, stood at ¥528.5 billion, up ¥31.0 billion from the previous fiscal year-end.

Total current assets at fiscal year-end amounted to ¥318.5 billion, down ¥9.0 billion from the previous fiscal year-end. This mainly resulted from decreases from the previous fiscal year-end of ¥62.2 billion in short-term investment securities, due to redemption, and ¥9.6 billion in notes and accounts receivable–trade.

Total noncurrent assets at fiscal year-end stood at ¥209.9 billion, up ¥40.1 billion from the previous fiscal year-end. This mainly stemmed from a rise in property, plant and equipment accompanying the Pachislot and Pachinko Machine Business segment's construction of a new plant and a ¥29.6 billion increase from the previous fiscal year-end in total investments and other assets due to a rise in investment securities supported by higher market values.

Liabilities

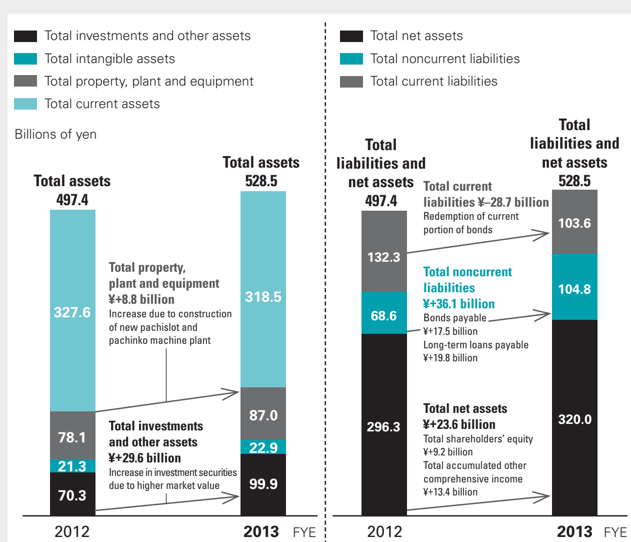
Total current liabilities at fiscal year-end stood at ¥103.6 billion, down ¥28.7 billion from the previous fiscal year-end. This was principally related to lower notes and accounts payable–trade and the redemption of the current portion of bonds. A current ratio of 307.4% reflected the Company's continued high level of liquidity.

Total noncurrent liabilities at fiscal year-end amounted to ¥104.8 billion, a rise of ¥36.1 billion from the previous fiscal year-end. This primarily reflected fund raising through new borrowings and bond issuance. The ratio of fixed assets to shareholders' equity (ratio of total noncurrent assets to total shareholders' equity) was 66.5%, and the ratio of fixed assets to fixed liabilities (ratio of total noncurrent assets to total noncurrent liabilities) was 49.9%.

Interest-bearing debt at fiscal year-end amounted to ¥93.1 billion, up ¥22.4 billion from the previous fiscal year-end. At ¥180.8 billion, liquidity in hand remained higher than interest-bearing debt, testifying to a sound financial position.

Net assets

Total net assets stood at ¥320.0 billion at fiscal year-end, up ¥23.6 billion from the previous fiscal year-end. This was primarily due to higher total shareholders' equity resulting from the recognition of net income and increases in valuation difference on available-for-sale securities and foreign currency translation adjustment, which more than offset the purchase of treasury stock and payments of cash dividends. The total net assets ratio edged up 0.8 percentage point from the previous fiscal year-end, to 59.7%.



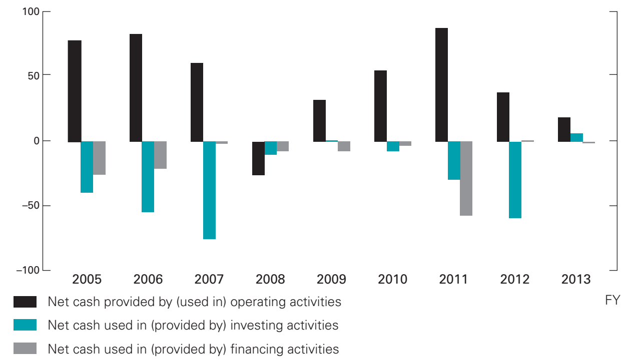
Cash Flows Analysis

LONG-TERM TRENDS

With the exception of one period, the Group has continued to record net cash outflows in investing activities due to M&A in growth areas and strategic investments to raise production capacity. Through a cash management system, the Group uses internal capital efficiently. Also, the Group uses a range of methods to support liquidity and meet its investment needs flexibly, including borrowings and bond issuance.

Cash Flows

Billions of yen



Comparing Fiscal 2013 and Fiscal 2012

Net cash provided by operating activities

Net cash provided by operating activities was ¥18.6 billion, compared with net cash provided by operating activities of ¥38.0 billion in the previous fiscal year. This was mainly attributable to income before income taxes and minority interests of ¥25.6 billion, depreciation and amortization of ¥18.1 billion, and a ¥10.8 billion decrease in notes and accounts receivable–trade, which counteracted a ¥10.1 billion decrease in notes and accounts payable–trade, a ¥7.5 billion increase in inventories, and income taxes paid of ¥16.3 billion.

Net cash provided by (used in) investing activities

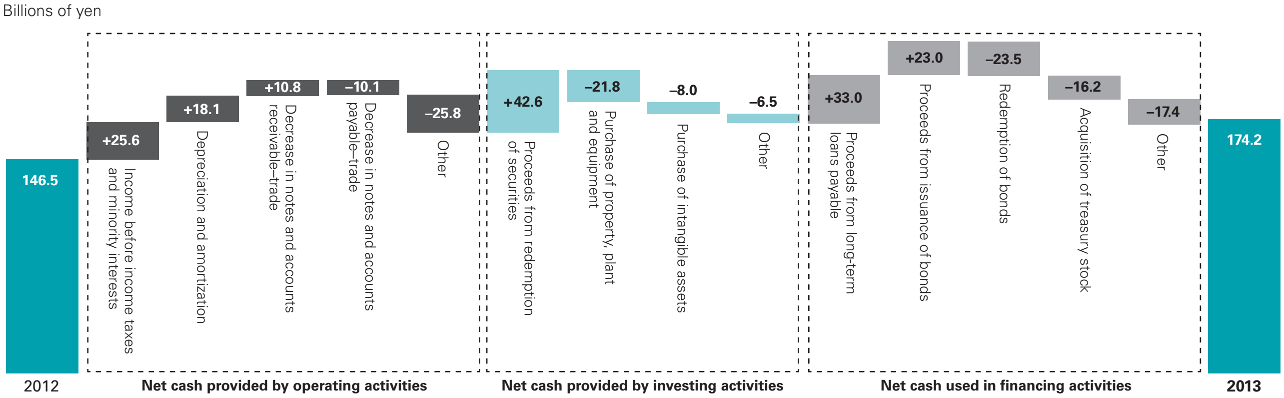
Net cash provided by investing activities was ¥6.3 billion, compared with net cash used in investing activities of ¥59.0 billion in the previous fiscal year. This primarily reflected proceeds from redemption of securities of ¥42.6 billion, which more than offset purchase of property, plant and equipment of ¥21.8 billion; purchase of intangible assets of ¥8.0 billion; and purchase of stocks of subsidiaries and affiliates of ¥5.1 billion.

Net cash used in (provided by) financing activities

Net cash used in financing activities was ¥1.1 billion, compared with net cash provided by financing activities of ¥0.9 billion in the previous fiscal year. This mainly stemmed from cash dividends paid, including cash dividends paid to minority shareholders, of ¥9.8 billion; acquisition of treasury stock of ¥16.2 billion; and repayment of long-term loans payable of ¥10.4 billion, which more than offset proceeds from long-term loans payable of ¥33.0 billion.

Main Cause of Changes in Cash and Cash Equivalents

Billions of yen



Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2013	2012	2013
ASSETS			
Current assets			
Cash and deposits	¥176,540	¥127,721	$1,877,886
Notes and accounts receivable-trade	63,886	73,554	679,574
Allowance for doubtful accounts	(386)	(593)	(4,108)
Short-term investment securities	4,260	66,509	45,315
Merchandise and finished goods	5,931	6,677	63,095
Work in process	12,773	6,992	135,874
Raw materials and supplies	23,850	20,890	253,703
Income taxes receivable	8,428	6,740	89,656
Deferred tax assets	10,965	6,347	116,643
Other	12,319	12,805	131,045
Total current assets	318,570	327,645	3,388,688
Noncurrent assets			
Property, plant and equipment			
Buildings and structures (Note 5 (1))	102,332	91,568	1,088,532
Accumulated depreciation	(70,270)	(69,197)	(747,479)
Buildings and structures, net	32,062	22,370	341,052
Machinery, equipment and vehicles	20,326	11,260	216,214
Accumulated depreciation	(10,944)	(9,422)	(116,421)
Machinery, equipment and vehicles, net	9,381	1,838	99,793
Amusement machines and facilities	50,282	49,024	534,865
Accumulated depreciation	(41,939)	(43,322)	(446,114)
Amusement machines and facilities,net	8,343	5,701	88,751
Land (Note 5 (1))	27,229	29,457	289,646
Construction in progress	2,555	12,608	27,182
Other	48,273	44,674	513,496
Accumulated depreciation	(40,786)	(38,477)	(433,848)
Other, net	7,487	6,197	79,647
Total property, plant and equipment	87,060	78,173	926,074
Intangible assets			
Goodwill	10,206	10,790	108,572
Other	12,706	10,517	135,158
Total intangible assets	22,913	21,308	243,731
Investments and other assets			
Investment securities (Note 5 (2))	72,797	52,725	774,363
Long-term loans receivable	663	291	7,053
Lease and guarantee deposits	12,492	13,057	132,883
Deferred tax assets	5,172	357	55,023
Other	9,831	5,131	104,582
Allowance for doubtful accounts	(997)	(1,239)	(10,609)
Total investments and other assets	99,960	70,324	1,063,296
Total noncurrent assets	209,933	169,805	2,233,102
Total assets	¥528,504	¥497,451	$5,621,790

See accompanying notes.

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2013	2012	**2013**
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	**¥ 50,142**	¥ 59,917	**$ 533,376**
Short-term loans payable (Note 5 (1) and (5))	**12,867**	10,194	**136,871**
Current portion of bonds	**5,843**	23,515	**62,160**
Income taxes payable	**1,494**	5,550	**15,895**
Accrued expenses	**10,825**	10,914	**115,155**
Provision for bonuses	**3,893**	4,405	**41,417**
Provision for directors' bonuses	**654**	917	**6,964**
Provision for business restructuring	**907**	4,737	**9,649**
Asset retirement obligations	**229**	199	**2,441**
Deferred tax liabilities	**0**	0	**8**
Other	**16,778**	12,046	**178,470**
Total current liabilities	**103,637**	132,398	**1,102,413**
Noncurrent liabilities			
Bonds payable	**29,500**	11,943	**313,796**
Long-term loans payable (Note 5 (5))	**44,926**	25,052	**477,894**
Provision for retirement benefits	**9,277**	14,527	**98,689**
Provision for directors' retirement benefits	**138**	293	**1,470**
Deferred tax liabilities	**5,124**	3,498	**54,508**
Deferred tax liabilities for land revaluation	**745**	846	**7,932**
Asset retirement obligations	**2,165**	1,943	**23,034**
Other	**12,953**	10,572	**137,787**
Total noncurrent liabilities	**104,831**	68,676	**1,115,114**
Total liabilities	**208,469**	201,075	**2,217,527**
NET ASSETS			
Shareholders' equity			
Capital stock	**29,953**	29,953	**318,616**
Capital surplus	**119,335**	119,397	**1,269,395**
Retained earnings	**198,924**	175,173	**2,115,995**
Treasury stock	**(40,540)**	(26,067)	**(431,232)**
Total shareholders' equity	**307,673**	298,456	**3,272,774**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	**27,385**	18,872	**291,305**
Revaluation reserve for land (Note 5 (4))	**(4,705)**	(4,541)	**(50,053)**
Foreign currency translation adjustment	**(14,601)**	(19,681)	**(155,315)**
Total accumulated other comprehensive income	**8,078**	(5,350)	**85,936**
Subscription rights to shares	**1,146**	991	**12,192**
Minority interests	**3,136**	2,279	**33,358**
Total net assets	**320,034**	296,376	**3,404,263**
Total liabilities and net assets	**¥528,504**	¥497,451	**$5,621,790**

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2013	2012	2013
Net sales	¥321,407	¥395,502	$3,418,860
Cost of sales (Note 6 (1) and (2))	204,468	233,839	2,174,962
Gross profit	116,938	161,663	1,243,898
Selling, general and administrative expenses (Note 6 (2))	97,865	103,279	1,041,014
Operating income	19,073	58,384	202,883
Other income (expenses)			
Interest income	507	386	5,395
Dividends income	752	495	7,999
Equity in earnings of affiliates	15	—	163
Gain on investments in partnership	193	507	2,056
Income from operation of lease asset	67	88	716
Gain on valuation of derivatives	318	18	3,386
Foreign exchange gains	1,925	—	20,478
Interest expenses	(836)	(676)	(8,900)
Equity in losses of affiliates	—	(8)	—
Sales discounts	(139)	(33)	(1,481)
Commission fee	(204)	(481)	(2,177)
Provision of allowance for doubtful accounts	—	(2)	—
Loss on investments in partnership	(229)	(140)	(2,441)
Foreign exchange losses	—	(210)	—
Penalty payment for cancellation of game center lease agreement	(45)	(2)	(488)
Bond issuance cost	(373)	(125)	(3,968)
Gain on sales of noncurrent assets	667	163	7,099
Gain on sales of subsidiaries and affiliates' stocks	—	173	—
Gain on sales of investment securities	1,917	56	20,401
Reversal of recovery costs of video game arcades	—	1	—
Gain on negative goodwill	—	2,152	—
Gain on liquidation of subsidiaries and affiliates	20	489	220
Gain on transfer of benefit obligation relating to employees' pension fund	6,345	—	67,496
Loss on sales of noncurrent assets	(11)	(2)	(125)
Impairment loss (Note 6 (5))	(2,986)	(3,341)	(31,763)
Loss on valuation of investment securities	(6)	(189)	(71)
Loss on liquidation of subsidiaries	—	(5)	—
Amortization of goodwill	—	(3,363)	—
The settlement payment for patent licensing	—	(3,500)	—
Restructuring loss (Note 6 (3))	(489)	(6,308)	(5,206)
Loss on liquidation of subsidiaries and affiliates (Note 6 (4))	(1,795)	—	(19,095)
Other, net	946	(1,554)	10,069
Subtotal	6,558	(15,414)	69,762
Income before income taxes and minority interests	25,631	42,969	272,646
Income taxes-current	4,038	13,056	42,955
Income taxes-deferred	(12,201)	7,465	(129,793)
Total income taxes	(8,163)	20,522	(86,837)
Income before minority interests	33,795	22,446	359,484
Minority interests in income	334	626	3,558
Net income	33,460	21,820	355,926
Minority interests in income	334	626	3,558
Income before minority interests	33,795	22,446	359,484
Other comprehensive income (Note 6 (6))			
Valuation difference on available-for-sale securities	8,512	7,526	90,554
Deferred gains or losses on hedges	—	0	—
Revaluation reserve for land	—	112	—
Foreign currency translation adjustment	4,325	(434)	46,014
Share of other comprehensive income of associates accounted for using equity method	847	5	9,012
Total other comprehensive income	13,686	7,210	145,581
Comprehensive income	47,481	29,656	505,065
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	47,053	29,038	500,518
Comprehensive income attributable to minority interests	¥ 427	¥ 618	$ 4,547

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2013	2012	2013
Shareholders' equity			
Capital stock			
Balance at the beginning of the period	¥29,953	¥ 29,953	$ 318,616
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of the period	29,953	29,953	318,616
Capital surplus			
Balance at the beginning of the period	119,397	119,784	1,270,048
Changes of items during the period			
Increase by share exchanges	—	(394)	—
Disposal of treasury stock	(61)	(0)	(652)
Change of scope of consolidation	—	8	—
Total changes of items during the period	(61)	(386)	(652)
Balance at the end of the period	119,335	119,397	1,269,395
Retained earnings			
Balance at the beginning of the period	175,173	164,669	1,863,349
Changes of items during the period			
Dividends from surplus	(9,851)	(10,057)	(104,794)
Net income	33,460	21,820	355,926
Change of scope of consolidation	(21)	55	(225)
Reversal of revaluation reserve for land	163	(1,314)	1,739
Total changes of items during the period	23,751	10,503	252,646
Balance at the end of the period	198,924	175,173	2,115,995
Treasury stock			
Balance at the beginning of the period	(26,067)	(25,329)	(277,287)
Changes of items during the period			
Increase by share exchanges	—	7,724	—
Purchase of treasury stock	(16,220)	(8,469)	(172,538)
Disposal of treasury stock	1,747	6	18,593
Total changes of items during the period	(14,472)	(737)	(153,945)
Balance at the end of the period	(40,540)	(26,067)	(431,232)
Total shareholders' equity			
Balance at the beginning of the period	298,456	289,077	3,174,726
Changes of items during the period			
Dividends from surplus	(9,851)	(10,057)	(104,794)
Net income	33,460	21,820	355,926
Increase by share exchanges	—	7,329	—
Purchase of treasury stock	(16,220)	(8,469)	(172,538)
Disposal of treasury stock	1,686	6	17,940
Change of scope of consolidation	(21)	63	(225)
Reversal of revaluation reserve for land	163	(1,314)	1,739
Total changes of items during the period	9,217	9,378	98,048
Balance at the end of the period	¥307,673	¥298,456	$3,272,774

See accompanying notes.

Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2013	2012	2013
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of the period	¥ 18,872	¥ 11,350	$ 200,749
Changes of items during the period			
Net changes of items other than shareholders' equity	8,513	7,522	90,555
Total changes of items during the period	8,513	7,522	90,555
Balance at the end of the period	27,385	18,872	291,305
Deferred gains or losses on hedges			
Balance at the beginning of the period	—	(0)	—
Changes of items during the period			
Net changes of items other than shareholders' equity	—	0	—
Total changes of items during the period	—	0	—
Balance at the end of the period	—	—	—
Revaluation reserve for land			
Balance at the beginning of the period	(4,541)	(5,969)	(48,313)
Changes of items during the period			
Reversal of revaluation reserve for land	(163)	1,314	(1,739)
Net changes of items other than shareholders' equity	—	112	—
Total changes of items during the period	(163)	1,427	(1,739)
Balance at the end of the period	(4,705)	(4,541)	(50,053)
Foreign currency translation adjustment			
Balance at the beginning of the period	(19,681)	(19,264)	(209,351)
Changes of items during the period			
Net changes of items other than shareholders' equity	5,079	(416)	54,036
Total changes of items during the period	5,079	(416)	54,036
Balance at the end of the period	(14,601)	(19,681)	(155,315)
Total accumulated other comprehensive income			
Balance at the beginning of the period	(5,350)	(13,883)	(56,915)
Changes of items during the period			
Reversal of revaluation reserve for land	(163)	1,314	(1,739)
Net changes of items other than shareholders' equity	13,593	7,218	144,591
Total changes of items during the period	13,429	8,532	142,852
Balance at the end of the period	8,078	(5,350)	85,936
Subscription rights to shares			
Balance at the beginning of the period	991	406	10,543
Changes of items during the period			
Net changes of items other than shareholders' equity	155	585	1,649
Total changes of items during the period	155	585	1,649
Balance at the end of the period	1,146	991	12,192
Minority interests			
Balance at the beginning of the period	2,279	9,861	24,246
Changes of items during the period			
Net changes of items other than shareholders' equity	856	(7,581)	9,111
Total changes of items during the period	856	(7,581)	9,111
Balance at the end of the period	3,136	2,279	33,358
Total net assets			
Balance at the beginning of the period	296,376	285,461	3,152,601
Changes of items during the period			
Dividends from surplus	(9,851)	(10,057)	(104,794)
Net income	33,460	21,820	355,926
Increase by share exchanges	—	7,329	—
Purchase of treasury stock	(16,220)	(8,469)	(172,538)
Disposal of treasury stock	1,686	6	17,940
Change of scope of consolidation	(21)	63	(225)
Reversal of revaluation reserve for land	—	—	—
Net changes of items other than shareholders' equity	14,604	221	155,352
Total changes of items during the period	23,658	10,914	251,661
Balance at the end of the period	¥320,034	¥296,376	$3,404,263

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2013	2012	**2013**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 25,631**	¥ 42,969	**$ 272,646**
Depreciation and amortization	**18,181**	16,158	**193,396**
Impairment loss	**2,986**	3,341	**31,763**
Amount of transfer of equipment by amusement center operation business	**(3,054)**	(3,796)	**(32,492)**
Loss (gain) on sales of noncurrent assets	**(655)**	(161)	**(6,973)**
Loss on retirement of noncurrent assets	**232**	217	**2,476**
Loss (gain) on sales of stocks of subsidiaries and affiliates	**2**	(173)	**26**
Loss on liquidation of subsidiaries	**—**	5	**—**
Loss (gain) on liquidation of subsidiaries and affiliates	**1,774**	(489)	**18,874**
Loss (gain) on sales of investment securities	**(1,917)**	(49)	**(20,401)**
Loss (gain) on valuation of investment securities	**6**	189	**71**
Loss (gain) on investments in partnership	**36**	(366)	**384**
Amortization of goodwill	**2,225**	6,363	**23,673**
Gain on negative goodwill	**—**	(2,152)	**—**
Increase (decrease) in allowance for doubtful accounts	**(420)**	(57)	**(4,469)**
Increase (decrease) in provision for directors' bonuses	**(267)**	(39)	**(2,845)**
Increase (decrease) in provision for point card certificates	**—**	(5)	**—**
Increase (decrease) in provision for retirement benefits	**(5,263)**	877	**(55,983)**
Increase (decrease) in provision for directors' retirement benefits	**(169)**	(910)	**(1,804)**
Increase (decrease) in provision for bonuses	**(540)**	573	**(5,744)**
Interest and dividends income	**(1,259)**	(882)	**(13,394)**
Interest expenses	**836**	676	**8,900**
Foreign exchange losses (gains)	**(2,230)**	(126)	**(23,724)**
Equity in (earnings) losses of affiliates	**(15)**	8	**(163)**
Decrease (increase) in notes and accounts receivable-trade	**10,819**	(16,632)	**115,085**
Decrease (increase) in inventories	**(7,590)**	2,186	**(80,738)**
Increase (decrease) in notes and accounts payable-trade	**(10,197)**	22,519	**(108,473)**
Increase (decrease) in guarantee deposits received	**86**	176	**915**
Other, net	**(1,513)**	2,001	**(16,100)**
Subtotal	**27,723**	72,423	**294,904**
Interest and dividends income received	**1,274**	855	**13,561**
Interest expenses paid	**(813)**	(654)	**(8,651)**
Income taxes paid	**(16,336)**	(40,396)	**(173,779)**
Income taxes refund	**6,754**	5,796	**71,849**
Net cash provided by operating activities	**¥ 18,603**	¥ 38,023	**$ 197,885**

See accompanying notes.

Consolidated Statements of Cash Flows

	Millions of yen 2013	Millions of yen 2012	Thousands of U.S.dollars (Note 1) 2013
Cash flows from investing activities:			
Payments into time deposits	¥ (1,127)	¥ (380)	$ (11,995)
Proceeds from withdrawal of time deposits	2,058	1,097	21,898
Purchase of short-term investment securities	(100)	(44,102)	(1,063)
Proceeds from redemption of securities	42,650	22,066	453,675
Purchase of trust beneficiary right	(5,494)	(6,097)	(58,447)
Proceeds from sales of trust beneficiary right	5,879	5,114	62,541
Purchase of property, plant and equipment	(21,896)	(24,005)	(232,920)
Proceeds from sales of property, plant and equipment	3,830	988	40,742
Purchase of intangible assets	(8,068)	(6,469)	(85,828)
Purchase of investment securities	(5,025)	(1,961)	(53,452)
Proceeds from sales of investment securities	7,274	105	77,375
Proceeds from redemption of investment securities	150	1,000	1,595
Payments for investment in partnerships	(162)	(176)	(1,730)
Proceeds from distribution of investment in partnerships	264	631	2,817
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(3,226)	(7,551)	(34,324)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	—	(165)	—
Proceeds from liquidation of subsidiaries	16	2,100	174
Purchase of stocks of subsidiaries and affiliates	(5,139)	(306)	(54,664)
Payments of loans receivable	(510)	(118)	(5,426)
Collection of loans receivable	164	135	1,747
Purchase of money held in trust	(5,800)	—	(61,695)
Payments for lease deposits	(377)	(1,022)	(4,018)
Collection of lease deposits	1,034	680	11,001
Proceeds from transfer of business	184	0	1,958
Other, net	(180)	(577)	(1,918)
Net cash provided by (used in) investing activities	6,396	(59,012)	68,041
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	—	(1,500)	—
Proceeds from long-term loans payable	33,000	34,430	351,026
Repayment of long-term loans payable	(10,472)	(6,157)	(111,394)
Proceeds from issuance of bonds	23,026	7,474	244,940
Redemption of bonds	(23,515)	(13,642)	(250,132)
Proceeds from exercise of stock option	1,365	—	14,528
Proceeds from stock issuance to minority shareholders	299	—	3,185
Cash dividends paid	(9,839)	(10,043)	(104,661)
Cash dividends paid to minority shareholders	(19)	(199)	(208)
Purchase of treasury stock	(16,220)	(8,430)	(172,538)
Other, net	1,257	(1,017)	13,377
Net cash provided by (used in) financing activities	(1,116)	914	(11,877)
Effect of exchange rate change on cash and cash equivalents	3,599	22	38,287
Net increase (decrease) in cash and cash equivalents	27,482	(20,052)	292,336
Cash and cash equivalents at beginning of period	146,599	165,983	1,559,400
Increase in cash and cash equivalents from newly consolidated subsidiary	128	667	1,371
Cash and cash equivalents at end of period (Note 8)	¥174,210	¥146,599	$1,853,108

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2013 and 2012

NOTE 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 Japanese Financial Instruments and Exchange Law 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 2013 and 2012. 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.

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 2012 consolidated financial statements to conform to the classifications used in 2013. These changes had no impact on previously reported results of operations or shareholders' equity.

The translation of the Japanese yen amounts into U.S. dollars is rounded down to the nearest unit amount, and is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94.01 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

NOTE 2

Summary of Significant Accounting Policies

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant inter-company balances, transactions and unrealized profits have been eliminated. The number of consolidated subsidiaries in 2013 totaled 69.

From the year ended March 31, 2013, the following companies became the Company's consolidated subsidiaries: Relic Entertainment, Inc. and four other companies, because of the Company's acquisition of the shareholdings; DARTSLIVE INTERNATIONAL Ltd. and three other companies, because of the increase of importance; SEGA NETWORKS CORPORATION, because of its establishment through an incorporation-type split.

From the year ended March 31, 2013, the following companies have been excluded from the scope of consolidation: Sega Holdings U.S.A., Inc. and one other company, because of their liquidation; STUDIO SAKIMAKURA, LTD. because of its merger with TMS ENTERTAINMENT CO., LTD.; AG SQUARE, LTD., because of its merger with SEGA Bee LINK CO., LTD. (accordingly changing its trade name to SEGA ENTERTAINMENT Co., Ltd.).

The number of non-consolidated subsidiaries in 2013 totaled 6.

Main non-consolidated subsidiaries: SEGA (Shanghai) Software Co., Ltd., etc.

All non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amounts in assets, net sales, net income and retained earnings applicable to the equity interest of the Company are immaterial.

(2) Equity method

Investments in affiliated companies over which the Company has the ability to exercise significant influence over their operation and financial policies are accounted for by the equity method.

There is no non-consolidated subsidiary accounted for under the equity method in 2013.

From the year ended March 31, 2013, the following companies have been excluded from the scope of application of the equity method; DARTSLIVE INTERNATIONAL Ltd. and two other companies, because these companies have been included in the scope of consolidation due to increase of importance.

The number of affiliated companies accounted for under the equity method in 2013 totaled 9.

Main equity-method affiliated companies: INTERLIFE HOLDINGS CO., LTD., CRI Middleware Co., Ltd., PARADISE SEGASAMMY Co., Ltd. and six other companies.

From the year ended March 31, 2013, PARADISE SEGASAMMY Co., Ltd. and one other company have been included in the scope of application of the equity method because of their establishment as joint venture companies.

From the year ended March 31, 2013, Sega GameWorks Holding, Inc. and one other company have been excluded from the scope of application of the equity method because of their liquidation.

The number of non-consolidated subsidiaries and affiliated companies which are not accounted for by the equity method in 2013 totaled 9 .

Main non-consolidated subsidiaries and affiliated companies not accounted for by the equity method: Liverpool Co., Ltd., etc.

The equity method was not applied to non-consolidated subsidiaries and affiliated companies because the combined amounts of these companies in net income and retained earnings applicable to the equity interest of the Company are immaterial.

(3) Valuation and accounting treatment for important assets

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

b. Available-for-sale securities

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

c. Available-for-sale 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 Instruments 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.

d. Derivatives

Derivatives are stated at fair market value.

e. Inventories

Inventories are stated at cost, cost being determined mainly by the gross-average method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

Also, work in process is stated at cost, cost being determined mainly by the specific identification method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

(4) Depreciation and amortization for important assets

a. 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	2–16 years
Amusement game machines	2–5 years

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Previously, the method of depreciation for property, plant and equipment mainly employed by the Company and its domestic consolidated subsidiaries was the declining-balance method. However, as a result of a review of the economic reality prompted by planned major capital investment, we have changed to the straight-line method from the fiscal year ended March 31, 2013.

Specifically, construction of the new pachislot and pachinko plant and distribution center aims to ensure the stable manufacture and supply of products, and the closing of unprofitable amusement centers has been completed, so amusement center machines can be expected to operate stably for the most part during their useful lives. Therefore, the operating rate of property, plant and equipment of the SEGA SAMMY Group (the "Group") will not change significantly, and the Group's repair costs and other equipment maintenance expenses are mostly level; thus, the depreciation method has been determined through comprehensive consideration of these and other factors.

Comparing results with the previous method, gross profit increased ¥5,317 million ($56,561 thousand), and operating income and income before income taxes and minority interests each increased ¥6,624 million ($70,469 thousand) for the fiscal year ended March 31, 2013.

The effect to the segment information is stated in "Note 18 – Segment Information."

(Changes in accounting estimates)

Previously, the Company and its domestic consolidated subsidiaries determined the useful life of property, plant and equipment mainly according to standards identical to the methods stipulated under the Corporation Tax Act in Japan. However, as a result of a review of the economic reality prompted by planned major capital investment, the determination of useful life of property, plant and equipment has been changed from the fiscal year ended March 31, 2013.

Specifically, we have completed construction of the new pachislot and pachinko plant and distribution center, and closed unprofitable amusement centers. As a result, we can consider the period of physical use for property, plant and equipment such as manufacturing facilities and amusement center machines, as well as the period of earning contributions arising from the use of that property, plant and equipment, to be more stable. Therefore, useful life has been determined through comprehensive consideration of economic life.

Comparing results with the previous method, gross profit decreased ¥889 million ($9,461 thousand), and operating income and income before income taxes and minority interests each decreased ¥1,308 million ($13,916 thousand) for the fiscal year ended March 31, 2013.

b. Intangible assets (excluding lease assets)

Depreciation is calculated using the straight-line method. The straight-line method is adopted over the useful life of within five years for software for internal use.

c. Lease assets

Lease assets involving finance lease transactions of which the ownership is transferred to lessees:

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

Lease assets involving finance lease transactions of which the ownership is not transferred to lessees:

Depreciation method is the straight-line method with their residual values being zero over their leased periods used as the number of years for useful life.

(5) Allowances and provisions

a. Allowance for doubtful accounts

The reserve for doubtful accounts is provided in the amount sufficient to cover possible losses based on a historical write-off of general receivables. Allowance for doubtful accounts and bankrupt receivables are calculated based on an individual assessment of the possibility of collection.

b. Provision for bonuses

Accrued employees' bonuses are provided based on the estimated amount to be paid.

c. Provision for directors' bonuses

The estimated amount of bonuses was recorded to meet the bonus payments to directors and corporate auditors.

d. Provision for business restructuring

Of the expenses expected to incur in connection with business restructuring, those recognized to have incurred in the fiscal year are recorded.

e. Provision for retirement benefits

The Company and its consolidated subsidiaries provide provision for retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. Prior service cost is charged to income when incurred except for SEGA CORPORATION and four other subsidiaries that recognize prior service cost as expenses using the straight-line method mainly over 10 years. Actuarial gains and losses are charged to income in the succeeding period except for SEGA CORPORATION and four other subsidiaries that recognize actuarial gains and losses as expenses using the straight-line method mainly over 10 years commencing from the succeeding period.

(Additional information)

Pursuant to the Defined-Benefit Corporate Pension Act, some of the subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to future employee services under the substitutional portion of the pension fund on May 1, 2012 and the portion related to past services on March 1, 2013. Following the approval, the Group recorded ¥6,345 million ($67,496 thousand) in gains under other income.

f. Provision for directors' retirement benefits

The Company and certain domestic consolidated subsidiaries provide provision for directors' retirement benefits to adequately cover payment of such benefits at the end of the applicable period in accordance with internal regulations.

(6) Accounting for significant hedge

a. Hedge accounting

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

b. Hedging instruments and hedged items

Hedging instrument: Interest rate swaps, forward exchange contracts

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

c. 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.

d. 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. For interest rate swaps applied to special treatment, hedge effectiveness is not evaluated.

(7) Amortization method and period of goodwill

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

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

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

(9) 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.

(10) Application of the Consolidated Taxation System

The Company applied the Consolidated Taxation System.

NOTE 3

Unapplied New Accounting Standards

"Accounting Standard for Retirement Benefits" (the Accounting Standards Board of Japan (hereinafter "ASBJ") Statement No. 26, issued on May 17, 2012)

"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012)

(1) Summary

Accounting standard for retirement benefits has been revised from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how unrecognized actuarial differences and unrecognized prior service cost should be accounted for, (b) how retirement benefit obligations and service costs should be determined and (c) enhancement of disclosures.

(2) Effective dates

The Company and its domestic consolidated subsidiaries will adopt the revised accounting standards effective from the end of the fiscal year ending March 31, 2014. However, the Company will adopt the amendments to the method for calculating retirement benefit obligations and service costs from the beginning of the fiscal year ending March 31, 2015.

(3) Effect of application of the standard

The Company and its domestic consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

NOTE 4

Changes in Presentation

(Consolidated Balance Sheets)

(1) "Machinery, equipment and vehicles," "Accumulated depreciation" and "Machinery, equipment and vehicles, net" included in "Other, net" under property, plant and equipment for the previous fiscal year has now exceeded 1% of the amount of total assets, and is therefore separately itemized beginning from the fiscal year ended March 31, 2013.

As a result, ¥11,260 million in "Other," ¥9,422 million in "Accumulated depreciation" and ¥1,838 million in "Other, net" included in the previous fiscal year has now been included in "Machinery, equipment and vehicles," "Accumulated depreciation" and "Machinery, equipment and vehicles, net," respectively.

(2) Estimated bonus amounts to be paid for some consolidated subsidiaries included in "accrued expenses" under current liabilities for the previous fiscal year is separately itemized into "provision for bonuses" under current liabilities, due to growing difficulty in determining the amount by the time of preparing the consolidated financial statements. As a result, ¥1,659 million included in "accrued expenses" under current liabilities for the previous fiscal year has been reclassified into "provision for bonuses."

(Consolidated Statements of Income and Comprehensive Income)

(1) "Bond issuance cost" that was included in "Other, net" under "Other expense" for the previous fiscal year (¥125 million for the previous fiscal year) has increased in importance, and is therefore separately itemized beginning from the fiscal year ended March 31, 2013.

(Consolidated Statements of Cash Flows)

(1) "Loss (gain) on liquidation of subsidiaries and affiliates" included in "Other, net" under cash flows from operating activities has increased in importance, and is therefore separately itemized beginning from the fiscal year ended March 31, 2013.

As a result, (¥489) million in "Other, net" under cash flows from operating activities in the previous fiscal year has now been included in "Loss (gain) on liquidation of subsidiaries and affiliates."

(2) Estimated bonus amounts to be paid for some of consolidated subsidiaries included in "Other, net" under cash flows from operating activities for the previous fiscal year is included in "Increase (decrease) in provision for bonuses" under cash flows from operating activities, due to the growing difficulty in determining the amount by the time of preparing the consolidated financial statements.

As a result, ¥197 million in "Other, net" under cash flows from operating activities in the previous fiscal year has now been included in "Increase (decrease) in provision for bonuses."

NOTE 5

Notes to Consolidated Balance Sheets

(1) Assets pledged

Millions of yen

Assets pledged	2013	Liabilities to be covered	2013
Buildings and structures	¥179	Short-term loans payable	¥350
Land	210	—	—
Total	390	Total	350

Thousands of U.S. dollars (Note 1)

Assets pledged	2013	Liabilities to be covered	2013
Buildings and structures	$1,912	Short-term loans payable	$3,723
Land	2,242	—	—
Total	4,155	Total	3,723

Millions of yen

Assets pledged	2012	Liabilities to be covered	2012
Buildings and structures	¥243	Short-term loans payable	¥300
Land	210	—	—
Total	453	Total	300

(2) Loan securities

Loan securities of ¥358 million ($3,811 thousand) and ¥295 million are included in investment securities as of March 31, 2013 and 2012, respectively.

(3) Guarantee

Guarantee to companies as of March 31, 2013 and 2012 are as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
Guarantee	Description	2013	2012	2013
Orix Premium Ltd.	Lease obligation	¥ —	¥1	$ —

(4) Revaluation reserve for land

Consolidated subsidiary SEGA CORPORATION has revalued land for commercial use, pursuant to Japan's Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and Amendments to the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001). SEGA CORPORATION has recorded an item for the revaluation difference of land under net assets.

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

(5) Overdraft agreements and commitment line agreements

The Company and its consolidated subsidiaries have overdraft agreements and commitment line agreements with 14 banks for effective procurement of working capital.

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Total amount of overdraft limit and commitment line agreement	¥61,425	¥62,825	$653,387
Balance of executed loans	500	500	5,318
Unexecuted balance	60,925	62,325	648,069

NOTE 6
Notes to Consolidated Statements of Income and Comprehensive Income

(1) Devaluation of inventories

The book value devaluation of inventories held for normal sales purpose based on decline in profitability included in cost of sales amounted to ¥3,320 million ($35,324 thousand) and ¥14,893 million for the years ended March 31, 2013 and 2012, respectively.

(2) Research and development expenses

Expenses relating to research and development activities have been charged to income as incurred, and amounted to ¥37,046 million ($394,069 thousand) and ¥32,118 million for the years ended March 31, 2013 and 2012, respectively.

(3) Restructuring loss

Restructuring loss is an estimated amount of expenses primarily recorded in association with inventory disposal and personnel reductions in response to the restructuring of the consumer business in the United States and Europe.

(4) Loss on liquidation of subsidiaries and affiliates

Loss on liquidation of subsidiaries and affiliates was recognized by the reversal of foreign currency translation adjustment following the liquidation of certain subsidiaries in the United States.

(5) Impairment loss

Year ended March 31, 2013

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values for assets for business and amusement facilities are calculated as memorandum amounts as they are mainly due to be disposed, while recoverable values for idle assets are calculated by real estate appraisal amounts.

Furthermore, for goodwill, the book value of goodwill owned by a consolidated subsidiary in the United States is written down to a recoverable amount based on the evaluation of a third party.

Recoverable amount is measured by its useful value with a discount rate of 16.0%.

Details of impairment loss

			Impairment loss	
Use	Location	Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Assets for business	Nakano-ku, Tokyo and 6 other locations	Buildings and structures	¥ 22	$ 237
		Amusement game machines	0	0
		Other property, plant and equipment	5	55
		Other intangible assets	145	1,550
		Land	174	1,856
Amusement facilities	Chuo-ku, Chiba-shi, Chiba and 16 other locations	Buildings and structures	225	2,400
		Amusement game machines	413	4,396
		Other property, plant and equipment	4	48
		Other intangible assets	4	45
Unutilized assets	Kitahiroshima-shi, Hokkaido and 2 other locations	Buildings and structures	5	62
		Land	281	2,997
Other	United States	Goodwill	1,480	15,748
		Other intangible assets	222	2,364
		Total	2,986	31,763

Year ended March 31, 2012

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

The recoverable value is calculated using the fair value less cost to sell based on the current market price.

Details of impairment loss

Use	Location	Type	Impairment loss Millions of yen
Assets for business, etc.	Ota-ku, Tokyo and 17 other locations	Buildings and structures	¥1,814
		Other property, plant and equipment	176
		Other intangible assets	422
		Land	125
Assets for rent	Chuo-ku, Osaka-shi, Osaka	Land	760
Amusement facilities	Chuo-ku Osaka-shi, Osaka and 7 other locations	Buildings and structures	33
		Amusement game machines	0
		Other intangible assets	9
		Total	3,341

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Valuation difference on available-for-sale securities			
The amount arising during the period	**¥14,830**	¥10,058	**$157,756**
Reclassification adjustments	**(1,912)**	11	**(20,347)**
Before adjustments to tax effects	**12,917**	10,070	**137,409**
The amount of tax effects	**(4,404)**	(2,544)	**(46,855)**
Valuation difference on available-for-sale securities	**8,512**	7,526	**90,554**
Deferred gains or losses on hedges			
The amount arising during the period	**—**	—	**—**
Reclassification adjustments	**—**	0	**—**
Before adjustments to tax effects	**—**	0	**—**
The amount of tax effects	**—**	—	**—**
Deferred gains or losses on hedges	**—**	0	**—**
Revaluation reserve for land			
The amount of tax effects	**—**	112	**—**
Revaluation reserve for land	**—**	112	**—**
Foreign currency translation adjustment			
The amount arising during the period	**2,597**	(430)	**27,632**
Reclassification adjustments	**1,728**	(4)	**18,381**
Before adjustments to tax effects	**4,325**	(434)	**46,014**
The amount of tax effects	**—**	—	**—**
Foreign currency translation adjustment	**4,325**	(434)	**46,014**
Share of other comprehensive income of associates accounted for using equity method			
The amount arising during the period	**847**	5	**9,012**
Reclassification adjustments	**—**	—	**—**
Share of other comprehensive income of associates accounted for using equity method	**847**	5	**9,012**
Total other comprehensive income	**13,686**	7,210	**145,581**

NOTE 7
Notes to Consolidated Statements of Changes in Net Assets

(1) Number of outstanding common stock:

	2013	2012
	Shares	
Balance at beginning of the year	266,229,476	266,229,476
Increase	—	—
Decrease	—	—
Balance at end of the year	266,229,476	266,229,476

(2) Number of outstanding treasury stock:

	2013	2012
	Shares	
Balance at beginning of the year	15,194,836	14,504,662
Increase due to purchase in the market by the resolution at the Board of Directors' meeting	10,000,000	5,000,000
Increase due to purchase demand pursuant to Article 197, Paragraph 3 and Paragraph 4 of the Companies Act	—	24,435
Increase due to purchase of odd stock	16,931	93,147
Decrease due to share exchange	—	4,423,546
Decrease due to exercise of stock options	1,040,700	—
Decrease due to sale of odd stock	1,392	3,862
Balance at end of the year	24,169,675	15,194,836

(3) Dividends

Year ended March 31, 2013

1 Dividend

Resolution	Type of stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 11, 2012	Common stock	¥5,020	¥20	March 31, 2012	May 29, 2012
Board of Directors' meeting held on November 2, 2012	Common stock	4,831	20	September 30, 2012	December 3, 2012

Resolution	Type of stock	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' meeting held on May 11, 2012	Common stock	$53,405	$0.21	March 31, 2012	May 29, 2012
Board of Directors' meeting held on November 2, 2012	Common stock	51,388	0.21	September 30, 2012	December 3, 2012

2 Of the dividends of which the record date is in the fiscal year ended March 31, 2013, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 10, 2013	Common stock	Retained earnings	¥4,841	¥20	March 31, 2013	May 28, 2013

Resolution	Type of stock	Resource of dividend	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' meeting held on May 10, 2013	Common stock	Retained earnings	$51,496	$0.21	March 31, 2013	May 28, 2013

Year ended March 31, 2012

1 Dividend

Resolution	Type of Stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 16, 2011	Common stock	¥5,034	¥20	March 31, 2011	June 2, 2011
Board of Directors' meeting held on October 31, 2011	Common stock	5,022	20	September 30, 2011	December 2, 2011

2 Of the dividends of which the record date is in the fiscal year ended March 31, 2012, but the effective date is in the following fiscal year

Resolution	Type of Stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 11, 2012	Common stock	Retained earnings	¥5,020	¥20	March 31, 2012	May 29, 2012

NOTE 8

Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Cash and deposits	**¥176,540**	¥127,721	**$1,877,886**
Short-term investment securities	**4,260**	66,509	**45,315**
Total	**180,800**	194,231	**1,923,201**
Time deposits with maturities of more than three months	**(5,834)**	(5,229)	**(62,062)**
Short-term investment securities excluding commercial papers maturing within three months from the acquisition date	**(755)**	(42,402)	**(8,031)**
Cash and cash equivalents	**174,210**	146,599	**1,853,108**

NOTE 9

Information for Certain Leases

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value for the years ended March 31, 2013 and 2012, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Year ended March 31, 2013

Not applicable

Year ended March 31, 2012

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Structures	¥255	¥255	¥ 0
Tools, furniture and fixtures	8	8	0
Machinery and equipment	155	155	—
Total	419	418	0

Future lease payments under the finance leases that are accounted for in the same manner as operating leases as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within one year	¥ —	¥ 0	$ —
Due after one year	—	—	—
Total	—	0	—

A summary of assumed amounts of lease payments, reversal of liability of impairment loss for lease assets, assumed depreciation and interest expenses for the years ended March 31, 2013 and 2012, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Lease payments	¥ 0	¥77	$ 8
Reversal of liability of impairment loss for lease assets	—	—	—
Depreciation	0	73	8
Interest expenses	0	0	0

Finance lease transactions:
Lease assets mainly consist of the following: Property, plant and equipment that are mainly facilities for amusement center operations, such as buildings and structures, and amusement game machines.

The methods of depreciation for lease assets are as follows: Lease assets involving finance lease transactions under which the ownership of the lease assets is transferred to lessees are the same methods that are applied to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions under which the ownership of the lease assets is not transferred to lessees are the straight-line method, with their residual values being zero over their leased periods used as the number of years for useful life.

Operating lease transactions:
Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within one year	¥ 760	¥1,922	$ 8,088
Due after one year	2,227	2,173	23,693
Total	2,987	4,095	31,781

NOTE 10

Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group signed an agreement concerning commitment lines by the syndicated method, such as securing medium- to long-term fund liquidity with the Company as the holding company, as a safety net for the entire Group. In addition, capital for each business is financed based on the financial plan as needed, through bank borrowing or bond issue applying Cash Management System for purpose of the efficient utilization of the Group's funds. Funds are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

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

Receivables such as notes and accounts receivable–trade are exposed to customer credit risks. In addition, foreign currency-denominated trade receivables are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Short-term investment securities and investment securities are mainly held-to-maturity debt securities and the stocks acquired for business collaborations with business partners, and are exposed to the risk of market price fluctuations.

Of the payables such as notes and accounts payable–trade, trade payables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Loans and bonds payable are for the purpose of procurement of funds necessary for operating funds and capital investment, and parts of them have floating interest rates. For this reason, they are exposed to interest rate fluctuation risks.

Derivative transactions consist of forward exchange contracts intended to hedge foreign currency exchange fluctuation risks for trade receivables and payables denominated in foreign currencies, as well as loan receivables denominated in foreign currencies, and interest swap transactions intended to hedge fluctuation risks of interests on loans. For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned "(6) Accounting for significant hedge" in "Note 2–Summary of Significant Accounting Policies."

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

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

The credit risk for held-to-maturity debt securities is minimal because the investments of these financial assets are limited to high credit rating issuers in accordance with the fund operation management rules.

Customers of derivative transactions are in principle limited to correspondent financial institutions.

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

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

Certain consolidated subsidiaries use forward exchange contracts to hedge foreign currency exchange fluctuation risks identified by currency and by month, in parts of trade receivables and payables and loan receivables denominated in foreign currencies, and trade receivables and payables which are expected to certainly occur due to exports and imports (forecasted transactions). In addition, certain consolidated subsidiaries use interest rate swap transactions intended to hedge fluctuation risks of interests on variable interest loans. With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. In addition, holding of short-term investment securities and investment securities other than held-to-maturity debt securities are continuously reviewed in consideration of relationships with the counterparties.

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

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

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

(4) Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 12–Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

2. Matters concerning the fair value of financial instruments

The consolidated balance sheet amount and fair value of financial instruments as of March 31, 2013 and 2012, as well as the differences between these values, are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2 below.)

Year ended March 31, 2013

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥176,540	¥176,540	¥ —
(2) Notes and accounts receivable–trade	63,886	63,868	(18)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,326	2,321	(5)
2) Available-for-sale securities (*1)	64,352	64,352	—
3) Equity securities issued by affiliated companies	612	765	153
Total assets	307,718	307,847	129
(1) Notes and accounts payable–trade	50,142	50,142	—
(2) Short-term loans payable	12,867	12,867	—
(3) Long-term loans payable	44,926	44,819	107
(4) Current portion of corporate bonds	5,843	5,843	—
(5) Corporate bonds payable	29,500	29,655	(155)
Total liabilities	143,280	143,328	(48)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(19)	(19)	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	(19)	(19)	—

	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	$1,877,886	$1,877,886	$ —
(2) Notes and accounts receivable–trade	679,574	679,376	(198)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	24,748	24,693	(54)
2) Available-for-sale securities (*1)	684,529	684,529	—
3) Equity securities issued by affiliated companies	6,513	8,144	1,631
Total assets	3,273,252	3,274,630	1,378
(1) Notes and accounts payable–trade	533,376	533,376	—
(2) Short-term loans payable	136,871	136,871	—
(3) Long-term loans payable	477,894	476,752	1,142
(4) Current portion of corporate bonds	62,160	62,160	—
(5) Corporate bonds payable	313,796	315,452	(1,655)
Total liabilities	1,524,100	1,524,613	(513)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(211)	(211)	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	(211)	(211)	—

(*1) Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.
(*2) Receivables and payables incurred by derivative transactions are presented in net amount.

Year ended March 31, 2012

	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
			Millions of yen
(1) Cash and deposits	¥127,721	¥127,721	¥ —
(2) Notes and accounts receivable–trade	73,554	73,531	(22)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	1,620	1,615	(4)
2) Available-for-sale securities (*1)	112,619	112,619	—
3) Equity securities issued by affiliated companies	516	385	(130)
Total assets	316,032	315,873	(158)
(1) Notes and accounts payable–trade	59,917	59,917	—
(2) Short-term loans payable	10,194	10,194	—
(3) Long-term loans payable	25,052	25,093	(41)
(4) Current portion of corporate bonds	23,515	23,515	—
(5) Corporate bonds payable	11,943	12,085	(141)
Total liabilities	130,622	130,805	(183)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(1)	(1)	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	(1)	(1)	—

(*1) Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.
(*2) Receivables and payables incurred by derivative transactions are presented in net amount.

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions
Assets
(1) Cash and deposits and (2) Notes and accounts receivable–trade
Of these, items that are settled in the short term (within one year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable–trade, those which have more than one year to the payment date from March 31, 2013 are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.
(3) Short-term investment securities and investment securities
The fair values of stocks are determined using the quoted price on the stock exchange, and those of bonds are determined using the quoted price on the exchange or the quoted price obtained from the financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within one year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 11–Investment Securities."
Liabilities
(1) Notes and accounts payable–trade, (2) Short-term loans payable and (4) Current portion of corporate bonds
Of these, items that are settled in the short term (within one year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.
(3) Long-term loans payable and (5) Corporate bonds payable
These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

Derivative transactions
For notes concerning derivatives, please see "Note 12–Derivative Transactions."

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Item	Consolidated balance sheet amount		
Unlisted equity securities, etc.	**¥1,535**	¥2,007	**$16,331**
Investment in limited liability investment partnerships, etc.	**1,255**	1,208	**13,351**
Equity securities issued by non-consolidated subsidiaries	**318**	299	**3,387**
Equity securities issued by affiliated companies	**6,520**	842	**69,357**
Investments in capital of affiliated companies	**137**	120	**1,460**

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

Notes to Consolidated Financial Statements

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

Year ended March 31, 2013

				Millions of yen
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥176,540	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	63,639	247	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	655	900	750	—
Available-for-sale securities with maturities (Corporate bonds)*	—	3,000	—	1,000
Available-for-sale securities with maturities (Negotiable certificates of deposit)	100	—	—	—
Available-for-sale securities with maturities (Other)*	3,505	—	200	1,800
Total	244,439	4,147	950	2,800

				Thousands of U.S. dollars (Note 1)
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$1,877,886	$ —	$ —	$ —
Notes and accounts receivable–trade	676,938	2,635	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	6,967	9,573	7,977	—
Available-for-sale securities with maturities (Corporate bonds)*	—	31,911	—	10,637
Available-for-sale securities with maturities (Negotiable certificates of deposit)	1,063	—	—	—
Available-for-sale securities with maturities (Other)*	37,284	—	2,127	19,146
Total	2,600,140	44,120	10,105	29,784

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

Year ended March 31, 2012

				Millions of yen
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥127,721	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	73,064	487	1	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	400	705	500	—
Available-for-sale securities with maturities (Corporate bonds)*	—	2,000	—	1,000
Available-for-sale securities with maturities (Negotiable certificates of deposit)	50,800	—	—	—
Available-for-sale securities with maturities (Other)*	15,306	—	200	1,800
Total	267,293	3,192	701	2,800

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

Note 4: For redemption supplemental schedule of corporate bonds payable, long-term loans payable, lease obligations and other interest-bearing liabilities, refer to “Supplemental schedule of corporate bonds” and “Supplemental schedule of borrowings” in “Note 23–Supplemental Information.”

NOTE 11

Investment Securities

1. Held-to-maturity debt securities

Year ended March 31, 2013

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,010	1,012	2
c. Other	—	—	—
Total	1,010	1,012	2

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	$ —	$ —	$ —
b. Corporate bonds	10,749	10,773	23
c. Other	—	—	—
Total	10,749	10,773	23

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,316	1,308	(7)
c. Other	—	—	—
Total	1,316	1,308	(7)

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	$ —	$ —	$ —
b. Corporate bonds	13,998	13,920	(78)
c. Other	—	—	—
Total	13,998	13,920	(78)

Year ended March 31, 2012

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	607	611	4
c. Other	—	—	—
Total	607	611	4

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,013	1,003	(9)
c. Other	—	—	—
Total	1,013	1,003	(9)

2. Available-for-sale securities

Year ended March 31, 2013

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

			Millions of yen
Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥55,779	¥13,142	¥42,637
b. Bonds	—	—	—
c. Other	—	—	—
Total	55,779	13,142	42,637

			Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	$593,338	$139,794	$453,543
b. Bonds	—	—	—
c. Other	—	—	—
Total	593,338	139,794	453,543

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

			Millions of yen
Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥ 291	¥ 367	¥ (76)
b. Bonds	4,676	5,000	(323)
c. Other	3,605	3,605	—
Total	8,572	8,972	(400)

			Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	$ 3,097	$ 3,912	$ (815)
b. Bonds	49,745	53,185	(3,440)
c. Other	38,347	38,347	—
Total	91,191	95,446	(4,255)

Year ended March 31, 2012

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

			Millions of yen
Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥41,985	¥11,581	¥30,403
b. Bonds	—	—	—
c. Other	—	—	—
Total	41,985	11,581	30,403

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

			Millions of yen
Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥ 1,267	¥ 1,628	¥(361)
b. Bonds	5,259	5,773	(514)
c. Other	64,106	64,106	—
Total	70,633	71,509	(875)

Note: "Bonds" in "Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost" include composite financial instruments, and the valuation losses of ¥122 million are posted in "Other expenses."

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

Year ended March 31, 2013

Category	Amount of proceeds	Total gains on sales	Total losses on sales
			Millions of yen
a. Shares	¥3,708	¥1,917	¥(0)
b. Bonds	4,000	—	—
c. Other	—	—	—
Total	7,708	1,917	(0)

Category	Amount of proceeds	Total gains on sales	Total losses on sales
			Thousands of U.S. dollars (Note 1)
a. Shares	$39,452	$20,401	$(0)
b. Bonds	42,548	—	—
c. Other	—	—	—
Total	82,000	20,401	(0)

Year ended March 31, 2012

Category	Amount of proceeds	Total gains on sales	Total losses on sales
			Millions of yen
a. Shares	¥105	¥56	¥(2)
b. Bonds	0	—	(3)
c. Other	—	—	—
Total	105	56	(6)

4. Impairment loss on securities

Year ended March 31, 2013

During the year ended March 31, 2013, the Company recognized impairment loss on available-for-sale securities in an amount of ¥6 million ($71 thousand).

Year ended March 31, 2012

During the year ended March 31, 2012, the Company recognized impairment loss on available-for-sale securities in an amount of ¥189 million.

NOTE 12

Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Year ended March 31, 2013

Category		Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
					Millions of yen
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	**¥106**	**¥—**	**¥(10)**	**¥(10)**
	Euro	**59**	**—**	**(2)**	**(2)**
	Korean won	**328**	**—**	**(7)**	**(7)**
Total		**494**	**—**	**(19)**	**(19)**

Category		Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
					Thousands of U.S. dollars (Note 1)
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	**$1,133**	**$—**	**$(110)**	**$(110)**
	Euro	**631**	**—**	**(25)**	**(25)**
	Korean won	**3,496**	**—**	**(74)**	**(74)**
Total		**5,260**	**—**	**(211)**	**(211)**

Note: Fair values are calculated using prices quoted by financial institutions.

Year ended March 31, 2012

Category		Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
					Millions of yen
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.K. pound	¥ 320	¥ —	¥(5)	¥(5)
	U.S. dollar	117	—	(6)	(6)
	Euro	953	—	6	6
	Buying				
	U.S. dollar	40	—	2	2
Total		1,431	—	(1)	(1)

Note: Fair values are calculated using prices quoted by financial institutions.

(2) Composite financial instruments

With respect to composite financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire composite financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in "Note 11–Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Year ended March 31, 2013

Not applicable

Year ended March 31, 2012

Not applicable

(2) Interest rates

Year ended March 31, 2013

Hedge accounting method	Classification	Major hedged items	Contract value (Millions of yen)	Contract value due after one year (Millions of yen)	Fair value (Millions of yen)
Interest rate swaps meeting certain conditions	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	¥ 9,730	¥ 7,707	Note
Interest rate and currency swaps meeting certain conditions	Interest rate and currency swaps:				
	Floating rate into fixed rate	Long-term loans payable	5,000	5,000	Note
Total			14,730	12,707	—

Hedge accounting method	Classification	Major hedged items	Contract value (Thousands of U.S. dollars (Note 1))	Contract value due after one year (Thousands of U.S. dollars (Note 1))	Fair value (Thousands of U.S. dollars (Note 1))
Interest rate swaps meeting certain conditions	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	$103,499	$ 81,980	Note
Interest rate and currency swaps meeting certain conditions	Interest rate and currency swaps:				
	Floating rate into fixed rate	Long-term loans payable	53,185	53,185	Note
Total			156,685	135,166	—

Note: With respect to "interest rate swaps" and "interest rate and currency swaps" which meet certain conditions, fair values of the interest rate swaps are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

Year ended March 31, 2012

Hedge accounting method	Classification	Major hedged items	Contract value (Millions of yen)	Contract value due after one year (Millions of yen)	Fair value (Millions of yen)
Interest rate swaps meeting certain conditions	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	¥5,900	¥2,619	Note
Total			5,900	2,619	—

Note: With respect to "interest rate swaps" which meet certain conditions, fair values of the interest rate swaps are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

NOTE 13
Retirement Benefits

Overview of retirement benefit plans

The Company and domestic consolidated subsidiaries offer, based on the retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer defined contribution pension plans.

Pursuant to the Defined-Benefit Corporate Pension Act, some of the subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to future employee services under the substitutional portion of the pension fund on May 1, 2013 and the portion related to past services on March 1, 2013.

Additionally, some of the domestic consolidated subsidiaries withdrew from the employees' pension fund on February 27, 2013.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2013 and 2012 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
1) Projected benefit obligation	**¥(19,096)**	¥(33,448)	**$(203,131)**
2) Pension assets	**10,848**	15,237	**115,399**
3) Unrecognized projected benefit obligation	**(8,247)**	(18,210)	**(87,732)**
4) Unrecognized actuarial differences	**(1,086)**	3,778	**(11,558)**
5) Unrecognized prior service cost	**135**	—	**1,438**
6) Prepaid pension cost	**78**	95	**837**
7) Provision for retirement benefits	**(9,277)**	(14,527)	**(98,689)**

Note: Some consolidated subsidiaries use the simplified method for calculating projected benefit obligations.

Included in the consolidated statements of income and comprehensive income for the years ended March 31, 2013 and 2012, severance and retirement benefit expenses comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Service costs – benefits earned during the year	**¥ 1,810**	¥2,205	**$ 19,256**
Interest cost on projected benefit obligation	**506**	524	**5,392**
Expected return on plan assets	**(351)**	(307)	**(3,739)**
Amortization of actuarial difference	**565**	284	**6,013**
Non-recurring additional retirement allowance paid, etc.	**0**	—	**2**
Other	**414**	257	**4,406**
Severance and retirement benefit expenses	**2,945**	2,963	**31,331**
Gain or loss related to exemption from the substitutional portion of the pension fund	**(6,345)**	—	**(67,496)**
Total	**(3,399)**	2,963	**(36,165)**

Notes: 1. Retirement benefit expenses of consolidated subsidiaries using the simplified method are included in "Service costs."
2. "Other" includes premium paid to the defined contribution pension plan as well as contribution for withdrawal from the employees' pension fund which is recorded under "Other expense."

	2013	2012
Discount rate	**0.5–2.0%**	1.5–2.0%
Rate of expected return on plan assets	**1.0–2.5%**	1.0–2.5%

NOTE 14

Stock Option Plan

The following table summarizes the contents of stock options as of March 31, 2013.

Company name	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010
Position and number of grantees	The Company's directors: 4	The Company's executive officers: 3 The Company's employees: 11 The Company's subsidiaries' directors: 8 The Company's subsidiaries' executive officers: 22 The Company's subsidiaries' employees: 1,831	The Company's subsidiaries' directors: 12 The Company's subsidiaries' executive officers: 6 The Company's subsidiaries' employees: 151
Class and number of stock	Common stock: 172,000	Common stock: 3,417,800	Common stock: 464,000
Date of issue	July 31, 2010	July 31, 2010	February 1, 2011
Condition of settlement of rights	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from February 1, 2011 to February 1, 2013
Period grantees provide service in return for stock options	July 31, 2010 to July 31, 2012	July 31, 2010 to July 31, 2012	February 1, 2011 to February 1, 2013
Period subscription rights are to be exercised	August 1, 2012 to July 31, 2014	August 1, 2012 to July 31, 2014	February 2, 2013 to February 1, 2015

Company name	The Company	The Company	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	October 29, 2010
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 6 The Company's employees: 11 The Company's subsidiaries' directors: 27 The Company's subsidiaries' executive officers: 17 The Company's subsidiaries' employees: 1,206	Butterfly Corporation's directors: 3 Butterfly Corporation's corporate auditors: 1 Butterfly Corporation's employees: 56
Class and number of stock	Common stock: 250,000	Common stock: 3,483,000	Common stock: 49,000
Date of issue	September 1, 2012	September 1, 2012	November 1, 2010
Condition of settlement of rights	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from November 1, 2010 to October 29, 2012
Period grantees provide service in return for stock options	September 1, 2012 to September 1, 2014	September 1, 2012 to September 1, 2014	November 1, 2010 to October 29, 2012
Period subscription rights are to be exercised	September 2, 2014 to September 1, 2016	September 2, 2014 to September 1, 2016	October 30, 2012 to October 28, 2020

Company name	Butterfly Corporation
Date of the resolution	January 19, 2011
Position and number of grantees	Butterfly Corporation's employees: 10
Class and number of stock	Common stock: 1,000
Date of issue	February 1, 2011
Condition of settlement of rights	Continue to work from February 1, 2011 to October 29, 2012
Period grantees provide service in return for stock options	February 1, 2011 to October 29, 2012
Period subscription rights are to be exercised	October 30, 2012 to October 28, 2020

The following table summarizes the scale and movement of stock as of March 31, 2013

Shares

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Non-exercisable stock options					
Stock options outstanding at April 1, 2012	172,000	3,339,900	393,100	—	—
Stock options granted	—	—	—	250,000	3,483,000
Forfeitures	—	24,100	6,700	—	7,200
Conversion to exercisable stock options	172,000	3,315,800	386,400	—	—
Stock options outstanding at March 31, 2013	—	—	—	250,000	3,475,800
Exercisable stock options					
Stock options outstanding at April 1, 2012	—	—	—	—	—
Conversion from non-exercisable stock options	172,000	3,315,800	386,400	—	—
Stock options exercised	39,100	1,000,600	1,000	—	—
Forfeitures	—	6,400	1,800	—	—
Stock options outstanding at March 31, 2013	132,900	2,308,800	383,600	—	—

shares

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Non-exercisable stock options		
Stock options outstanding at April 1, 2012	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2013	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2012	40,100	1,000
Conversion from non-exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	300	200
Stock options outstanding at March 31, 2013	39,800	800

Note: Numbers in "Stock options outstanding at April 1, 2012" of Butterfly Corporation are due to the consolidation of Butterfly Corporation by the Company during the fiscal year ended March 31, 2013.

The following tables summarize the price information of stock options as of March 31, 2013

Yen

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	¥1,312	¥1,312	¥1,753	¥1,686	¥1,686
Average market price of the stock at the time of exercise	1,526	1,660	1,794	—	—
Fair value of the stock option at the date of grant	306	306	386	231	231

Yen

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	¥2,000	¥2,000
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

U.S. dollars (Note 1)

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	$13	$13	$18	$17	$17
Average market price of the stock at the time of exercise	16	17	19	—	—
Fair value of the stock option at the date of grant	3	3	4	2	2

U.S. dollars (Note 1)

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	$21	$21
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

NOTE 15
Income Taxes

(1) Significant components of deferred tax assets and liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deferred tax assets:			
Allowance for doubtful accounts	¥ 1,544	¥ 879	$ 16,426
Loss on valuation of inventories	2,615	2,475	27,816
Provision for bonuses	1,613	1,833	17,162
Provision for retirement benefits	3,320	5,165	35,319
Depreciation expense	13,197	14,343	140,382
Loss on valuation of investment securities	675	951	7,181
Impairment loss	3,155	3,039	33,569
Others	19,399	12,010	206,353
Tax loss carry forward	61,095	46,781	649,879
Total	106,616	87,480	1,134,092
Valuation allowance	(79,155)	(72,428)	(841,992)
Offset against deferred tax liabilities	(11,321)	(8,347)	(120,433)
Net deferred tax assets	16,138	6,704	171,666
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(15,373)	(10,966)	(163,528)
Others	(1,819)	(1,725)	(19,354)
Subtotal of deferred tax liabilities	(17,192)	(12,692)	(182,882)
Offset against deferred tax assets	11,321	8,347	120,433
Total	(5,870)	(4,344)	(62,449)
Recorded deferred tax assets	10,267	2,359	109,217

(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 years ended March 31, 2013 and 2012

	2013	2012
Statutory tax rate	38.0%	40.7%
(Adjustment)		
Tax deduction for experiment and research expenses	—	(3.2)
Changes in valuation allowance	(65.1)	1.0
Permanently non-deductible expenses including entertainment expenses	3.4	2.4
Amortization of goodwill	2.5	3.5
Adjustments of deferred tax assets for enacted changes in tax laws and rates	—	2.0
Difference of tax rates for consolidated subsidiaries	(3.9)	—
Tax loss carry forward	(1.1)	—
Effect of adjustment for consolidation	(3.2)	—
Other	(2.5)	1.3
Effective tax rate for financial statement purposes	(31.9)	47.8

NOTE 16
Asset Retirement Obligations

This disclosure is omitted due to the immateriality of the total amount of asset retirement obligations for the years ended March 31, 2013 and 2012.

NOTE 17

Investment and Rental Property

This disclosure is omitted due to the immateriality of the total amount of investment and rental property for the years ended March 31, 2013 and 2012.

NOTE 18

Segment Information

1. Outline of reporting segments

Reporting segments of the Company are the organizational units for which separated financial information is available, and on the basis of which the Board of Directors makes decisions on the allocation of management resources and examines financial performance on a regular basis.

Planning of business development and strategies as well as execution of business activities in respect of each product and service are 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 business run by each company, in which "Pachislot and Pachinko Machines," "Amusement Machine Sales," "Amusement Center Operations" and "Consumer Business" are the reporting segments.

Line of business at each reporting segment is as follows:

Segment	Business
(1) Pachislot and Pachinko Machines	Development, manufacture and sales of pachislot and pachinko machines and design for parlors
(2) Amusement Machine Sales	Development, manufacture and sales of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sales of home video game software; development, manufacture and sales of toys; planning and production of entertainment content for mobile phones, etc.; planning, production and sales of animated movies

2. Basis of measurement for net sales, income (loss), assets and other items by each reporting segment

The accounting treatment for the Group's reporting segments is generally the same as described in "Note 2–Summary of Significant Accounting Policies."

Previously, the method of depreciation for property, plant and equipment mainly employed by the Company and its domestic consolidated subsidiaries was the declining-balance method. However, we have changed to the straight-line method from the fiscal year ended March 31, 2013 as stated in "Changes in accounting policies which are difficult to distinguish from changes in accounting estimates."

Previously, the Company and its domestic consolidated subsidiaries determined the useful life of property, plant and equipment mainly according to standards identical to the methods stipulated under the Corporation Tax Act in Japan. However, the determination of useful life of property, plant and equipment has been changed from the fiscal year ended March 31, 2013 as stated in "Changes in accounting estimates."

The effects on segment income is as follows:

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other
Changes of depreciation method	¥ 2,110	¥203	¥3,644	¥212	¥23
Changes of useful life	(1,138)	(6)	(101)	(61)	—

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other
Changes of depreciation method	$ 22,448	$2,160	$38,765	$2,256	$248
Changes of useful life	(12,105)	(71)	(1,083)	(656)	—

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

Year ended March 31, 2013

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥142,281	¥39,134	¥42,707	¥83,874	¥307,997	¥13,409	¥321,407
Inter-segment sales and transfers	515	3,485	20	865	4,887	879	5,766
Total	142,796	42,620	42,728	84,740	312,885	14,288	327,173
Segment income (loss)	23,534	1,902	1,194	(732)	25,899	(484)	25,415
Segment assets	138,014	31,843	41,915	103,703	315,476	14,338	329,814
Other items							
Depreciation	5,416	1,570	4,671	6,040	17,699	478	18,177
Increase in property, plant and equipment and intangible assets	11,914	2,308	7,923	8,393	30,539	1,559	32,098

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	$1,513,470	$416,277	$454,289	$892,186	$3,276,224	$142,636	$3,418,860
Inter-segment sales and transfers	5,483	37,080	217	9,208	51,989	9,350	61,340
Total	1,518,954	453,357	454,506	901,394	3,328,213	151,986	3,480,200
Segment income (loss)	250,343	20,233	12,710	(7,788)	275,499	(5,151)	270,348
Segment assets	1,468,081	338,722	445,863	1,103,109	3,355,777	152,516	3,508,294
Other items							
Depreciation	57,614	16,707	49,696	64,256	188,274	5,085	193,360
Increase in property, plant and equipment and intangible assets	126,732	24,556	84,279	89,281	324,850	16,591	341,442

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2012

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥212,189	¥49,929	¥44,608	¥85,688	¥392,415	¥3,087	¥395,502
Inter-segment sales and transfers	144	3,071	0	745	3,960	918	4,879
Total	212,334	53,000	44,608	86,433	396,376	4,006	400,382
Segment income (loss)	71,040	7,415	355	(15,182)	63,628	234	63,862
Segment assets	172,244	31,902	37,256	81,689	323,093	13,878	336,972
Other items							
Depreciation	4,249	1,620	6,184	4,079	16,134	115	16,250
Increase in property, plant and equipment and intangible assets	12,726	1,388	8,328	10,763	33,207	181	33,389

(Note) "Other" is the business segment not included in the reporting segments, but includes information provider services, etc. Additionally, "Other" in segment assets includes the assets of the resort business.

4. Major differences between the total amount of all reporting segments and the amounts on the consolidated financial statements (reconciliation of the difference)

Net sales	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
Total net sales in the reporting segments	¥312,885	¥396,376	$3,328,213
Segment net sales in Other	14,288	4,006	151,986
Elimination of inter-segment transactions	(5,766)	(4,879)	(61,340)
Net sales in the consolidated financial statements	321,407	395,502	3,418,860

Income (loss)	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
Total income in the reporting segments	¥25,899	¥63,628	$275,499
Segment income (loss) in Other	(484)	234	(5,151)
Elimination of inter-segment transactions	(61)	(215)	(658)
General corporate expenses (Note)	(6,280)	(5,263)	(66,805)
Operating income in the consolidated financial statements	19,073	58,384	202,883

(Note) "General corporate expenses" mainly consists of expenses of the Group management incurred by the holding company.

Assets	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
Total assets in the reporting segments	¥315,476	¥323,093	$3,355,777
Segment assets in Other	14,338	13,878	152,516
General corporate assets (Note)	201,720	166,372	2,145,739
Other adjustments	(3,031)	(5,893)	(32,242)
Total assets in the consolidated financial statements	528,504	497,451	5,621,790

(Note) "General corporate assets" mainly consists of excess funds in the Company, etc., and other assets, etc., of the Company.

	Millions of yen			
Other	Subtotal	Other	Adjustment	Amount in consolidated financial statements
				2013
Depreciation	¥17,699	¥ 478	¥ 3	¥18,181
Increase in property, plant and equipment and intangible assets	30,539	1,559	772	32,871

	Thousands of U.S. dollars (Note 1)			
Other	Subtotal	Other	Adjustment	Amount in consolidated financial statements
				2013
Depreciation	$188,274	$ 5,085	$ 36	$193,396
Increase in property, plant and equipment and intangible assets	324,850	16,591	8,222	349,664

(Note) "Adjustment" includes corporate and elimination of inter-segment transactions.

	Millions of yen			
Other	Subtotal	Other	Adjustment	Amount in consolidated financial statements
				2012
Depreciation	¥16,134	¥115	¥ (91)	¥16,158
Increase in property, plant and equipment and intangible assets	33,207	181	2,752	36,141

(Note) "Adjustment" includes corporate and elimination of inter-segment transactions.

[Related information]

Year ended March 31, 2013

1. Information by each product and service

Nothing is stated herein as similar information is disclosed in "Note 18—Segment Information."

2. Geographical segment information

(1) Net sales

Millions of yen

Japan	North America	Europe	Other	Total
¥293,047	¥11,954	¥10,570	¥5,834	¥321,407

Thousands of U.S. dollars (Note 1)

Japan	North America	Europe	Other	Total
$3,117,196	$127,162	$112,436	$62,065	$3,418,860

(Note) Net sales are geographically classified by country or region in which customers are located.

(2) Property, plant and equipment

Nothing is stated herein as the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheets.

3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

Year ended March 31, 2012

1. Information by each product and service

Nothing is stated herein as similar information is disclosed in "Note 18—Segment Information."

2. Geographical segment information

(1) Net sales

Millions of yen

Japan	North America	Europe	Other	Total
¥355,414	¥13,802	¥18,392	¥7,892	¥395,502

(2) Property, plant and equipment

Nothing is stated herein as the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheets.

3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

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

Year ended March 31, 2013

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	**¥18**	**¥3**	**¥651**	**¥2,312**	**¥ —**	**¥2,986**

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	**$201**	**$34**	**$6,932**	**$24,594**	**$ —**	**$31,763**

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2012

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	¥919	¥319	¥496	¥1,605	¥ —	¥3,341

(Note) "Other" is the business segment not included in the reporting segments, but includes information provider services, etc.

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

Year ended March 31, 2013

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	**¥283**	**¥ —**	**¥ —**	**¥1,935**	**¥ 7**	**¥ 2,225**
Balance as of March 31, 2013	**495**	**—**	**—**	**9,591**	**119**	**10,206**

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	**$3,012**	**$ —**	**$ —**	**$20,584**	**$ 76**	**$ 23,673**
Balance as of March 31, 2013	**5,272**	**—**	**—**	**102,022**	**1,269**	**108,564**

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2012

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	¥283	¥31	¥ —	¥ 6,038	¥ 9	¥ 6,363
Balance as of March 31, 2012	778	—	—	10,011	—	10,790

(Notes) 1. "Other" is the business segment not included in the reporting segments, but includes information provider services, etc.
2. Amortization in the year ended March 31, 2012 includes amortization of goodwill in "Other expenses."

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

Year ended March 31, 2013

Not applicable

Year ended March 31, 2012

In the Pachislot and Pachinko Machine Business, TAIYO ELEC Co., Ltd., became a wholly owned subsidiary through a share exchange on August 1, 2011. Due to the transaction, the Company posted ¥836 million for gain on negative goodwill for the year ended March 31, 2012.

In business other than the four reporting segments stated in this section, the Company acquired all the shares of Phoenix Resort Co., Ltd., from RHJ International S.A. on March 26, 2012, and Phoenix Resort Co., Ltd., has become a wholly owned subsidiary of the Company. Due to the transaction, the Company posted ¥1,316 million for gain on negative goodwill for the year ended March 31, 2012.

NOTE 19
Related Party Transactions

Information on related party transactions for the years ended March 31, 2013 and 2012 and the related amounts as of those dates is summarized as follows.

1. Material transactions of the Company with related individuals or companies

Year ended March 31, 2013

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥ 6	Prepaid expenses	¥ 3
		Payment of outsourcing fee (*2)	10	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet (*3)	140	—	—

				Thousands of U.S. dollars (Note 1)	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	$ 71	Prepaid expenses	$35
		Payment of outsourcing fee (*2)	108	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet (*3)	1,489	—	—

(*): 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. The Company has the payment of usage fee of a business jet to Hajime Satomi, Chairman of the Board and Chief Executive Officer and the owner of the business jet. Transaction prices are based on current market price.
4. Consumption taxes are not included in transaction amounts.

Year ended March 31, 2012

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥ 6	Prepaid expenses	¥ 3
		Receipt and remittance of insurance	0	—	—
		Payment of outsourcing fee (*2)	10	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet (*3)	170	—	—

(*): 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. The Company has the payment of usage fee of a business jet to Hajime Satomi, Chairman of the Board and Chief Executive Officer and the owner of the business jet. Transaction prices are based on current market price.
4. Consumption taxes are not included in transaction amounts.

2. Material transactions of the Company's consolidated subsidiaries with related individuals or companies

Year ended March 31, 2013

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥55	Prepaid expenses	¥19
		Receipt and remittance of insurance	1	—	—
		Payment of welfare expenses (*2)	2	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Contract for reconstruction of residence, etc. (*2)	55	—	—

Thousands of U.S. dollars (Note 1)

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	$590	Prepaid expenses	$207
		Receipt and remittance of insurance	13	—	—
		Payment of welfare expenses (*2)	21	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Contract for reconstruction of residence, etc. (*2)	589	—	—

(*): 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2.Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amounts.

Year ended March 31, 2012

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥41	Prepaid expenses	¥17
				Accrued expenses	0
		Settle up insurance (*2)	6	—	—
		Payment of welfare expenses (*2)	2	—	—

(*): 1. Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2.Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amounts.

NOTE 20

Business Combination

(Consolidation of THQ CANADA INC. (currently Relic Entertainment, Inc.) through acquisition of shares)

1. Outline of business combination

(1) Name and business of acquired company

Name	Description of business
THQ CANADA INC.	Development and supply of game titles for PCs

(2) Reason for business combination

SEGA CORPORATION, a subsidiary of the Company, is progressing to support compatibility with the rapidly expanding online games field, such as smartphone games and social games. Making THQ CANADA INC. into a consolidated subsidiary, SEGA CORPORATION will further advance the provision of various appealing entertainment content by utilizing THQ CANADA INC.'s high-end content development capabilities and accumulated development know-how, and increase SEGA CORPORATION's presence in the PC online game market.

(3) Date of business combination

January 24, 2013

(4) Legal structure

Purchase of shares with cash

(5) Name of company after the combination

Relic Entertainment, Inc.

(6) Share of voting rights acquired

100%

(7) Main reason for deciding acquiring company

SEGA CORPORATION, a subsidiary of the Company, acquired all the shares of THQ CANADA INC. with cash consideration.

2. Period for which the acquired company's financial results are included in the consolidated financial statements

From January 25, 2013 to March 31, 2013

3. Acquisition costs

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration of the acquisition	Cash	¥2,001	$21,291
Direct costs for the acquisition	Advisory costs, etc.	39	417
Total acquisition costs		2,040	21,708

4. Goodwill recognized, reason for recognition and amortization method and period

(1) Goodwill recognized

¥1,556 million ($16,560 thousand)

(2) Reason for recognition

Acquisition cost exceeded net asset value at the business combination date.

(3) Amortization method and period

7 years using the straight-line method

5. Summary of assets and liabilities assumed at date of business combination

(1) Amount of assets

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥386	$4,109
Noncurrent assets	258	2,745
Total	644	6,854

(2) Amount of liabilities

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 99	$1,055
Noncurrent assets	61	651
Total	160	1,706

6. Estimated impact on the consolidated statements of income and comprehensive income for the fiscal year ended March 31, 2013 if the business combination had been completed as of the beginning of the fiscal year ended March 31, 2013

This disclosure is omitted due to the immateriality of the effect.

(Consolidation of Butterfly Corporation through acquisition of shares)

1. Outline of business combination

(1) Name and business of acquired company

Name	Description of business
Butterfly Corporation	Planning, development, operation and commissioning of online game-related content for mobile phones, PCs and smart devices.

(2) Reason for business combination

Butterfly Corporation develops many services such as comprehensive pachinko and pachislot portal services and other social games. Making Butterfly Corporation into a consolidated subsidiary, Sammy NetWorks Co., Ltd., a subsidiary of the Company, will manage and coordinate both Sammy NetWorks Co., Ltd.'s strength of "monthly-fee type services" and Butterfly Corporation's strength of "free and pay-per-use type services."

(3) Date of business combination

January 25, 2013

(4) Legal structure

Purchase of shares with cash

(5) Name of company after the combination

Unchanged

(6) Share of voting rights acquired

Share of voting rights acquired at the business combination date 75.8%

(7) Main reason for deciding acquiring company

Sammy NetWorks Co., Ltd., a subsidiary of the Company, acquired 75.8% of outstanding stock of Butterfly Corporation with cash consideration.

2. Period for which the acquired company's financial results are included in the consolidated financial statements

From January 1, 2013 to March 31, 2013

3. Acquisition costs

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration of the acquisition	Cash	¥1,427	$15,184
Total acquisition costs		1,427	15,184

4. Goodwill recognized, reason for recognition and amortization method and period

(1) Goodwill recognized

¥891 million ($9,484 thousand)

(2) Reason for recognition

Acquisition cost exceeded net asset value at the business combination date.

(3) Amortization method and period

5 years using the straight-line method

5. Summary of assets and liabilities assumed at date of business combination

(1) Amount of assets

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥790	$8,412
Noncurrent assets	58	620
Total	849	9,033

(2) Amount of liabilities

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥132	$1,409
Noncurrent assets	9	101
Total	141	1,510

6. Estimated impact on the consolidated statements of income and comprehensive income for the fiscal year ended March 31, 2013 if the business combination had been completed as of the beginning of the fiscal year ended March 31, 2013

This disclosure is omitted due to the immateriality of the effect.

NOTE 21

Per Share Data

Per share data is as follows

	Yen		U.S. dollars (Note 1)
	2013	2012	2013
Per share data			
Net assets per share	¥1,304.44	¥1,167.59	$13.87
Net income per share	137.14	86.73	1.45
Net income per share (diluted)	136.85	86.54	1.45

NOTE 22

Significant Subsequent Events

Year ended March 31, 2013

1. At its meeting of the Board of Directors held on April 16, 2013, the Company resolved to establish a subsidiary in Busan Metropolitan City, the Republic of Korea, and to conclude a city-owned property sales contract to enable land acquisition by said subsidiary.

(1) Purpose of the establishment of the subsidiary and the conclusion of the city-owned property sales contract

The Company established a subsidiary and concluded a city-owned property sales contract, as per the following, for the purpose of developing a complex in Centum-city, Haeundae-gu, Busan Metropolitan City, the Republic of Korea.

(2) Overview of the subsidiary

Trade name:	SEGA SAMMY BUSAN INC.
Representative:	Hajime Satomi
Address:	(U-dong), 48, Centum Jungang-ro, Haeundae-gu, Busan Metropolitan City, the Republic of Korea
Date of foundation:	April 18, 2013
Business description:	Development and operation of a complex comprising hotel, entertainment facilities, commercial facilities, etc.
Capital:	124 billion won (approximately ¥10,900 million ($116,468 thousand))
Shareholding ratio:	100% (of which: 25% is held indirectly)

(3) Overview of the city-owned property sales contract

Name of contracting company:	SEGA SAMMY BUSAN INC.
Name of contract counterparty:	Busan Metropolitan City
Contract date:	April 26, 2013
Details of contract:	Acquisition of property (site) owned by Busan Metropolitan City, the Republic of Korea by SEGA SAMMY BUSAN INC.
Sale price:	113.6 billion won

2. The Company issued the following straight corporate bonds

Name of bond	SEGA SAMMY HOLDINGS INC. First unsecured straight bonds (with inter-bond pari passu clause)	SEGA SAMMY HOLDINGS INC. Second unsecured straight bonds (with inter-bond pari passu clause)
Issuing amount	¥5,000 million ($53,185 thousand)	¥5,000 million ($53,185 thousand)
Date of issuance	July 25, 2013	July 25, 2013
Issue price	¥100 for ¥100 par value of each bond	¥100 for ¥100 par value of each bond
Interest rate	0.732% per annum	0.493% per annum
Date of maturity	July 25, 2018	July 25, 2016
Use of proceeds	Repayment of loans payable	Repayment of loans payable

NOTE 23

Supplemental Information

Supplemental schedule of corporate bonds

Company	Name of bond	Issuance date	Balance as of April 1, 2012 (Millions of yen)	Balance as of March 31, 2013 (Millions of yen)	Balance as of March 31, 2013 (Thousands of U.S. dollars (Note 1))	Interest rate (%)	Type	Date of maturity
The Company	1st unsecured bonds	March 29, 2013	¥ —	¥8,000	$85,097	0.44	Unsecured	March 29, 2018
	2nd unsecured bonds	March 29, 2013	—	8,000 (1,600)	85,097 (17,019)	0.42	Unsecured	March 29, 2018
Sammy Corporation	3rd unsecured bonds	August 27, 2008	5,625	1,875 (1,875)	19,944 (19,944)	Note 2	Unsecured	August 27, 2013
	4th unsecured bonds	September 25, 2008	4,990	1,650 (1,650)	17,551 (17,551)	Note 3	Unsecured	September 25, 2013
SEGA CORPORATION	8th unsecured bonds	December 28, 2007	10,000	—	—	1.22	Unsecured	December 28, 2012
	9th unsecured bonds	December 28, 2007	2,000	—	—	1.34	Unsecured	December 28, 2012
	10th unsecured bonds	March 25, 2008	3,000	—	—	1.30	Unsecured	March 25, 2013
	11th unsecured bonds	September 30, 2008	1,500	500 (500)	5,318 (5,318)	1.21	Unsecured	September 30, 2013
	13th unsecured bonds	June 30, 2011	5,000	5,000	53,185	0.72	Unsecured	June 30, 2016
	14th unsecured bonds	December 20, 2011	2,600	2,600	27,656	0.66	Unsecured	December 20, 2016
	15th unsecured bonds	June 29, 2012	—	5,000	53,185	0.58	Unsecured	June 30, 2017
	16th unsecured bonds	September 28, 2012	—	2,400	25,529	0.51	Unsecured	September 29, 2017
SEGA TOYS CO., LTD.	5th unsecured bonds	September 25, 2008	187	62 (62)	664 (664)	0.54 Note 4	Unsecured	September 25, 2013
	6th unsecured bonds	September 30, 2008	168	56 (56)	598 (598)	1.36	Unsecured	September 30, 2013
	7th unsecured bonds	June 30, 2009	87	—	—	0.83	Unsecured	June 29, 2012
	8th unsecured bonds	March 31, 2010	300	200 (100)	2,127 (1,063)	0.74	Unsecured	March 31, 2015
Total	—	—	35,458	35,343 (5,843)	375,957 (62,160)	—	—	—

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2013" represent the current portion of corporate bonds.
2. The interest on Sammy Corporation's third debenture is a variable rate that uses six-month Japanese yen TIBOR.
3. The interest on Sammy Corporation's fourth debenture is a variable rate six-month Japanese yen TIBOR added 0.10%.
4. The interest on SEGA TOYS CO., LTD.'s fifth debenture is a variable rate that is 0.95% less than the standard interest set for each interest-bearing period. The interest rate listed above is the rate as of March 31, 2013.
5. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2013 is as follows:

Millions of yen

Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
¥5,843	¥1,700	¥1,600	¥9,200	¥17,000

Thousands of U.S. dollars (Note 1)

Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
$62,160	$18,083	$17,019	$97,861	$180,831

Supplemental schedule of borrowings

Category	Balance as of April 1, 2012 (Millions of yen)	Balance as of March 31, 2013 (Millions of yen)	Balance as of March 31, 2013 (Thousands of U.S. dollars (Note 1))	Average interest rate (%)	Repayment terms
Short-term loans payable	¥ 500	¥ 500	$ 5,318	0.7	—
Current portion of long-term loans payable due within one year	9,694	12,367	131,553	0.9	—
Current portion of lease obligations	770	925	9,848	Note 2	—
Long-term loans payable (Excluding current portion)	25,052	44,926	477,894	1.0	2014~2018
Lease obligations (Excluding current portion)	1,090	989	10,529	Note 2	2014~2019
Other interest-bearing debt					
Accounts payable–facilities	592	590	6,284	—	—
Accounts payable–facilities (Excluding current portion)	—	—	—	—	—
Total	37,699	60,300	641,429	—	—

Notes: 1. The "Average interest rate" represents weighted-average interest rate over the year-end balance of loans.
2. The average interest rate on lease obligation is not listed because lease obligation is posted in the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.
3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2013 is summarized as follows:

Millions of yen

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term loans payable	¥12,367	¥13,281	¥13,953	¥5,325	¥ —
Lease obligations	636	233	80	28	10

Thousands of U.S. dollars (Note 1)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term loans payable	$131,556	$141,274	$148,420	$56,642	$ —
Lease obligations	6,768	2,482	857	305	116

Supplemental schedule of asset retirement obligations

Supplemental schedule of asset retirement obligations is omitted from this document because the amount of asset retirement obligations as of April 1, 2012 and March 31, 2013 were less than 1% of total liabilities and net assets as of April 1, 2012 and March 31, 2013.

Independent Auditor's Report

To the Board of Directors of SEGA SAMMY HOLDINGS INC.:

We have audited the accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following

As discussed in Note 2 to the consolidated financial statements, SEGA SAMMY HOLDINGS INC. and its certain domestic consolidated subsidiaries have changed the depreciation method and the useful lives of the tangible assets.
There are no influences on our opinion.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 26, 2013
Tokyo, Japan