



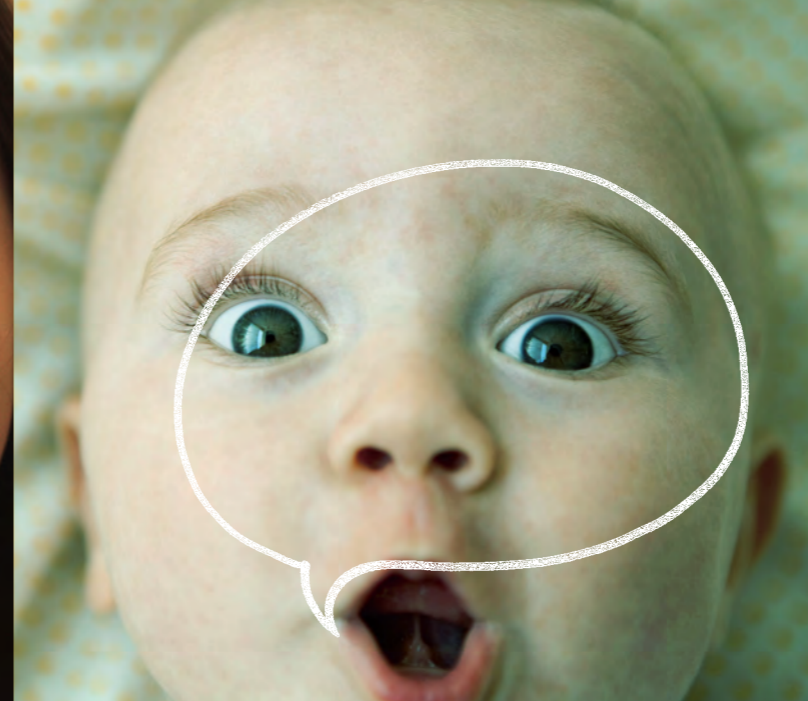
Beyond Expectations

INTEGRATED REPORT 2017

SEGA SAMMY HOLDINGS INC.

Shiodome Sumitomo Building, 1-9-2 Higashi Shimbashi,
Minato-ku, Tokyo 105-0021, Japan
www.segasammy.co.jp/english/

Printed in Japan



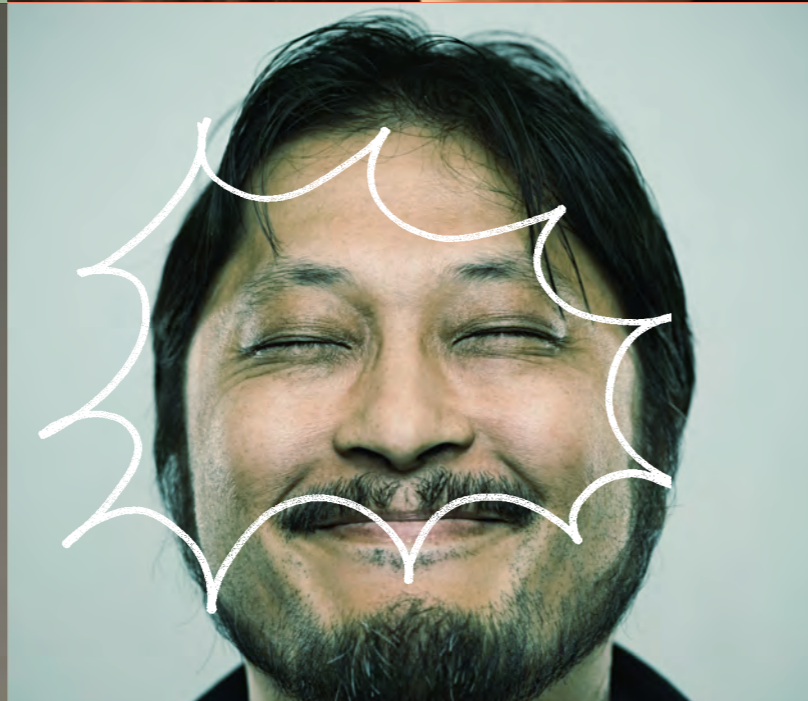
Our mission and reason for existence in a nutshell

Continuing to create moving experiences

— Making life more colorful —

We aim to surpass the expectations of customers, shareholders, and society and grow corporate value continuously.

We believe that continuing to provide customers with satisfaction—in other words, *moving experiences*—that exceed their expectations is the wellspring of our competitive strength as an entertainment company. Accordingly, each employee of the Group will tackle ambitious initiatives focused on providing *moving experiences*.



CONTENTS

▷ **A to Z**

Get a picture of the Group as a whole

This section outlines conditions in target markets and the positions and business models that the SEGA SAMMY Group has established in them.

- 04 THE ROLE OF THIS REPORT
- 06 A BIRD'S-EYE VIEW OF THE SEGA SAMMY GROUP
- 08 THE SEGA SAMMY GROUP
- 10 THE MAIN BUSINESS MODELS OF BUSINESS SEGMENTS

▷ **THE VALUE CREATION SYSTEM**

We show how our value creation process translates *moving experiences* into corporate value.

- 22 MOVING EXPERIENCES: A HISTORY
- 24 ADVANTAGE ①
- 26 ADVANTAGE ②
- 27 ADVANTAGE ③
- 28 THE VALUE CREATION PROCESS
- 30 FROM MANAGEMENT INTEGRATION TO THE PRESENT DAY

Understand the Group's value creation process

▷ **STRATEGY**

We introduce our medium-to-long-term business strategies.

- 40 ROAD TO 2020
- 44 A MESSAGE FROM THE CFO

Understand the Group's strategies going forward

▷ **ESG**

This section reports on the Group's ESG risk and corporate governance system and includes statements from outside directors.

- 64 ESG RISKS AND RESPONSES IN THE VALUE CHAIN
- 66 HUMAN CAPITAL
- 70 INTELLECTUAL PROPERTIES
- 72 SOCIAL CAPITAL
- 76 CORPORATE GOVERNANCE
- 84 DIRECTORS, AUDIT AND SUPERVISORY BOARD MEMBERS, AND EXECUTIVE OFFICERS

Gain an understanding of the Group's ESG information

▷ **THE MANAGEMENT TEAM**

The senior management team of SEGA SAMMY HOLDINGS explain how they see the future.

- 12 A MESSAGE FROM THE CEO
- 16 A MESSAGE FROM THE COO

Gain insight into the management team's thinking

▷ **THE NUMBERS**

This section summarizes trends in business results on a consolidated and business segment basis.

- 32 BUSINESS TRENDS
- 36 FINANCIAL DATA
- 38 NON-FINANCIAL DATA
- 39 SHAREHOLDER VALUE

Grasp the main points of performance trends and fiscal 2017 business results

▷ **OPERATIONAL SEGMENTS**

Here, we focus on each business segment's business strategies and major tasks.

- 48 PACHISLOT AND PACHINKO MACHINE BUSINESS
- 56 ENTERTAINMENT CONTENTS BUSINESS
- 62 RESORT BUSINESS

Learn about business strategies by business segment

▷ **THE FINANCIALS**

We analyze business results in light of long-term trends and year-on-year comparisons.

- 88 MANAGEMENT'S DISCUSSION AND ANALYSIS
- 94 CONSOLIDATED BALANCE SHEETS
- 96 CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
- 97 CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
- 99 CONSOLIDATED STATEMENTS OF CASH FLOWS
- 101 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- 136 INDEPENDENT AUDITOR'S REPORT

Access our financial information

DEFINITION OF TERMS

"Fiscal 2017" refers to the fiscal year ended March 31, 2017, and other fiscal years are referred to in a corresponding manner in this integrated report.

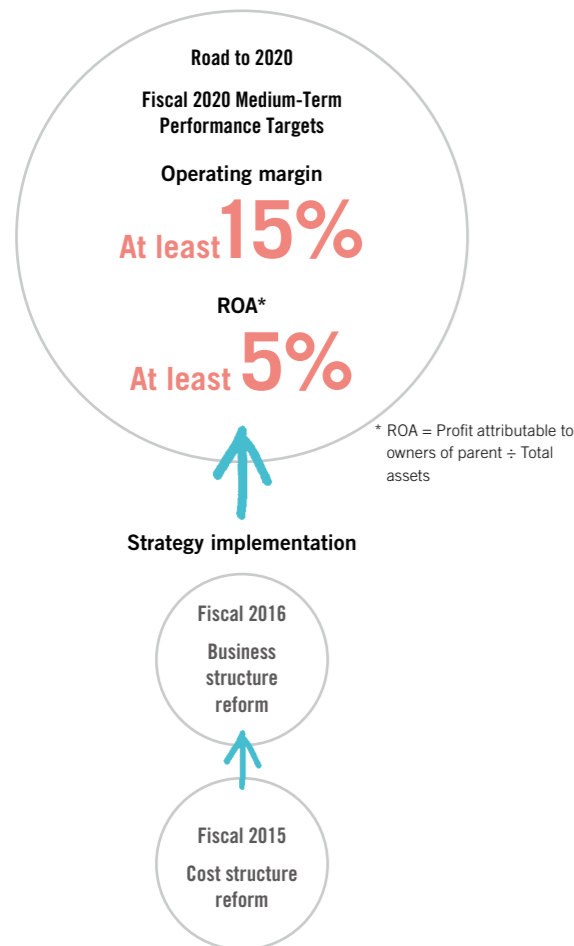
CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

THE ROLE OF THIS REPORT

Outline

In response to structural changes in the entertainment industry, in fiscal 2015 the SEGA SAMMY Group implemented cost structure reform to improve profitability. In the following fiscal year, we laid the foundations for business portfolio management. Since fiscal 2017, the Group has been transitioning toward the implementation of strategies focused on improving profit margins. These strategies are based on the Road to 2020 initiative, targeting fiscal 2020. This report explains how the Group is returning to a growth trajectory and the roadmap that it has established for increasing long-term corporate value. In addition, the report explains the priority tasks of each business.



01.

Quick Access to Points of Interest

To give readers quick access to themes about which they are particularly interested, we have prepared a quick-access contents list.

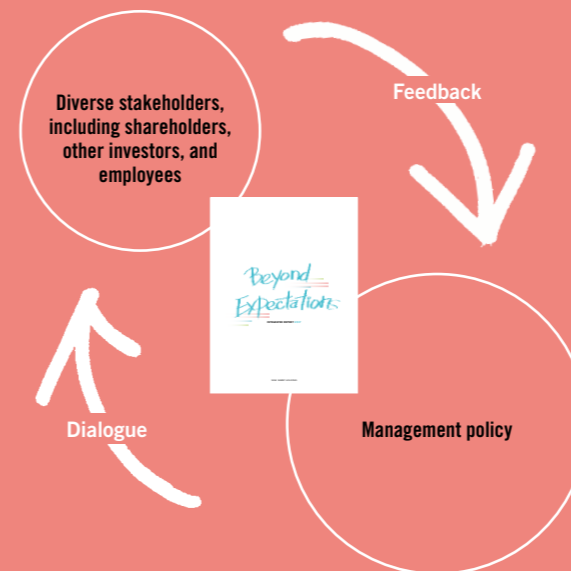
- ▶ Market position..... P.06
- ▶ Main business models..... P.10
- ▶ Top management's approach..... P.12~
- ▶ Competitive advantages..... P.24
- ▶ Value creation process P.28
- ▶ Issues and countermeasures since management integration..... P.30
- ▶ Time series data P.32
- ▶ Returns to shareholders..... P.39
- ▶ Structure reform (Road to 2020)..... P.40~
- ▶ A message from the CFO P.44
- ▶ Business strategy P.47
- ▶ ESG risks and responses P.64
- ▶ Management resources..... P.66~
- ▶ Messages from outside directors P.76
- ▶ Compensation of directors P.81

02.

Higher Corporate Value through Communication with Stakeholders

We view this report as an important communication tool for furthering understanding of our management policies among a range of stakeholders, including shareholders, other investors, and employees. Currently, the Group is building “mission pyramids” and promoting awareness of them among employees throughout its organization to change mindsets. One of the reasons for issuing this report is to ensure that employees have a clear understanding of the SEGA SAMMY Group’s management direction so that they can implement growth strategies in their respective positions and contribute to an accumulation of efforts that will heighten corporate competitiveness. With this in mind, we have also issued an introductory booklet, *Our Strategic Direction*, summarizing this report. Further, as well as reflecting feedback from constructive dialogue with shareholders and other investors in our management policy, we want to use this feedback to heighten the information value of this report. We would be happy to receive any opinions in this regard.

Through Dialogue



03.

Our Approach to ESG

Regarding non-financial information, *CSR Report 2017* comprehensively covers environmental, social, and governance (ESG) information, which is an area of particular interest for institutional investors and information vendors. Meanwhile, this report focuses on aspects of ESG that could directly impinge upon management strategy. Further, viewing the qualitative information of integrated reports as, in a broad sense, non-financial information, we have endeavored to tell a clear growth story in accordance with the “guiding principles” and “connectivity of information” stipulations of the International Integrated Reporting Council’s International Integrated Reporting Framework.

CSR Report 2017



For institutional investors and information vendors

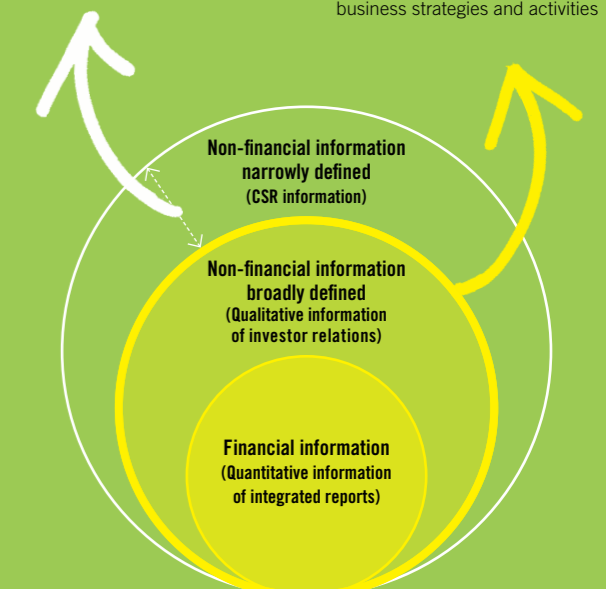
Provides comprehensive disclosure of information

INTEGRATED REPORT 2017







For shareholders and other investors

Focuses on ESG information directly related to corporate value and explains ESG in the context of business strategies and activities



A BIRD'S-EYE VIEW OF THE SEGA SAMMY GROUP

The SEGA SAMMY Group is a comprehensive entertainment corporate group that provides entertainment across an extremely wide area of Japan's leisure market, which is worth more than ¥70 trillion. In many fields, the Group has built unshakable positions. Underpinning these positions are Sammy Corporation, the leading company of the Pachislot and Pachinko Machine Business, and the SEGA Group, which has long been a driver of innovation in the game industry.

| | | | |
|---|--|--|---|
|  <p>Domestic game app market</p> <p>Market size ¥969.0 billion (2016)</p> <p><small>Source: Famitsu Game White Paper 2017</small></p> <p>Main competitors BANDAI NAMCO, SQUARE ENIX, CAPCOM, COLOPL, GungHo Online Entertainment, CyberAgent, mixi, etc.</p> <p>Operating companies SEGA Games, Sammy Networks</p> |  <p>Domestic packaged game market</p> <p>Market size ¥182.4 billion (2016)</p> <p><small>Source: Famitsu Game White Paper 2017</small></p> <p>Main competitors Nintendo, BANDAI NAMCO, CAPCOM, SQUARE ENIX, etc.</p> <p>Operating companies SEGA Games, ATLUS</p> |  <p>Amusement machine sales market</p> <p>Market size ¥156.9 billion (fiscal 2015)</p> <p><small>Source: JAIA, Amusement Industry Survey 2015</small></p> <p>Main competitors BANDAI NAMCO, KONAMI, CAPCOM, SQUARE ENIX, etc.</p> <p>Operating companies SEGA Interactive, DARTSLIVE, SEGA LOGISTICS SERVICES</p> |  <p>Amusement center operations market</p> <p>Market size ¥433.8 billion (fiscal 2015)</p> <p><small>Source: JAIA, Amusement Industry Survey 2015</small></p> <p>Main competitors ROUND ONE, BANDAI NAMCO, SQUARE ENIX, etc.</p> <p>Operating companies SEGA ENTERTAINMENT</p> |
|---|--|--|---|

Japan's leisure market

¥70.9 trillion (2016)

Source: White Paper on Leisure Industry 2017, Japan Productivity Center

Games, publicly operated sports, eating and drinking **¥26.7 trillion**

Pachinko and pachislot **¥21.6 trillion** * Total of hall ball and token rentals

Hobbies **¥7.9 trillion**

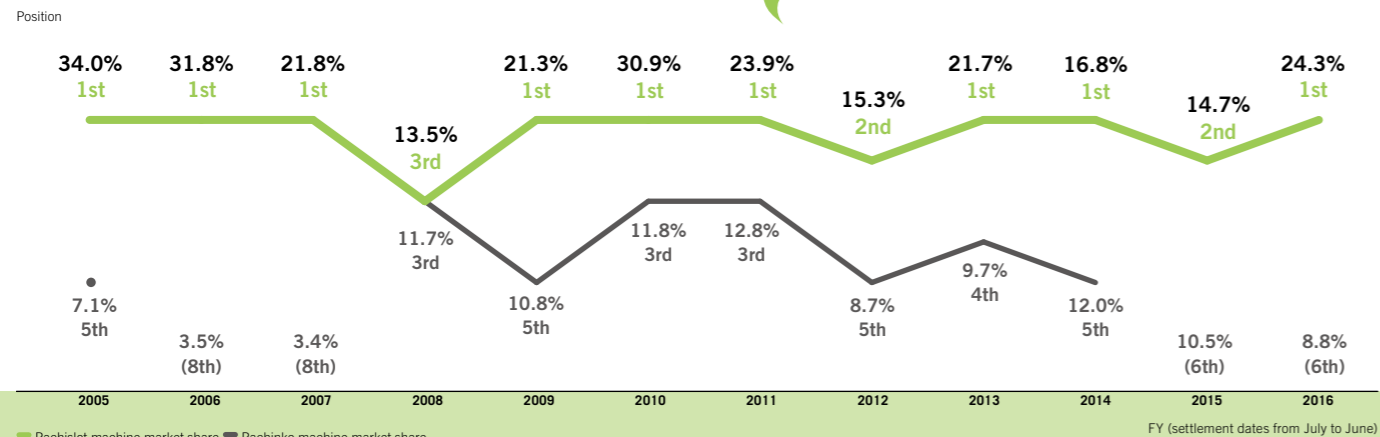
Tourism **¥10.5 trillion**

Sports **¥4.0 trillion**

Pachinko and Pachislot Machine Market

Importance of market share in the pachinko and pachislot machine market
The larger the market share of a manufacturer the greater its product development capabilities, which in turn help secure orders continuously

SEGA SAMMY Group's Positions in the Pachinko and Pachislot Machine Market



Legend: Pachislot machine market share (green line), Pachinko machine market share (black line). Source: Yano Research Institute Ltd.

Market size

¥882.1 billion (2016)

Source: Yano Research Institute Ltd.



Main competitors

SANKYO
FIELDS
Universal Entertainment
Heiwa, etc.

Operating companies

Sammy
TAIYO ELEC
RODEO
GINZA

Market share positions

Pachislot machines **First position** (24.3%)
Pachinko machines **Sixth position** (8.8%)

Pachislot Hokuto No Ken
Syura no kuni hen
©Buronson & Tetsuo Hara/NSP 1983.
©NSP 2007 Approved No.YSC-506 ©Sammy

Domestic Integrated Resorts

Operating companies

Phoenix Resort
Sega Sammy Golf Entertainment



©PHOENIX RESORT

Overseas Resort Facilities

Operating companies

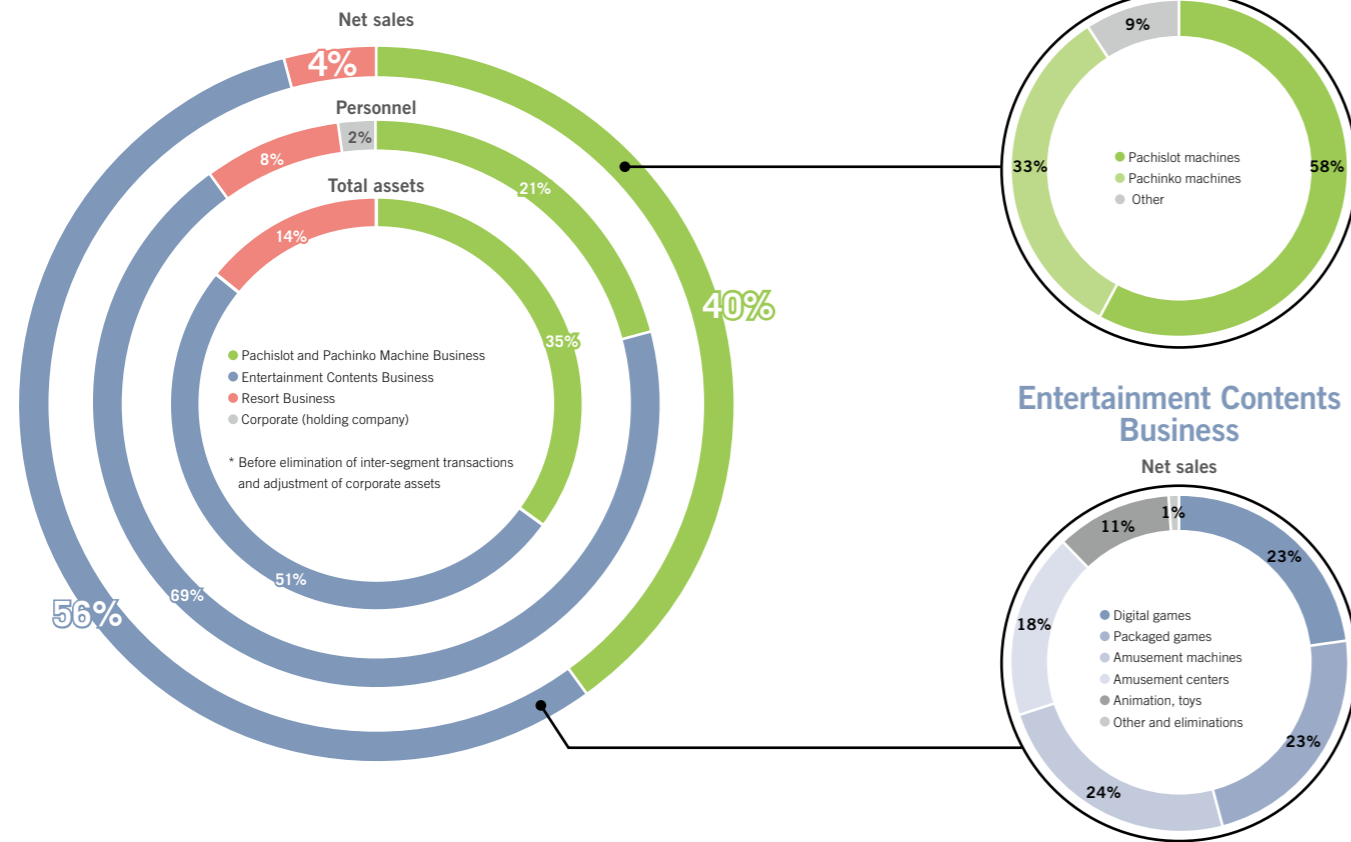
PARADISE SEGASAMMY
(Associate accounted for by the equity method)



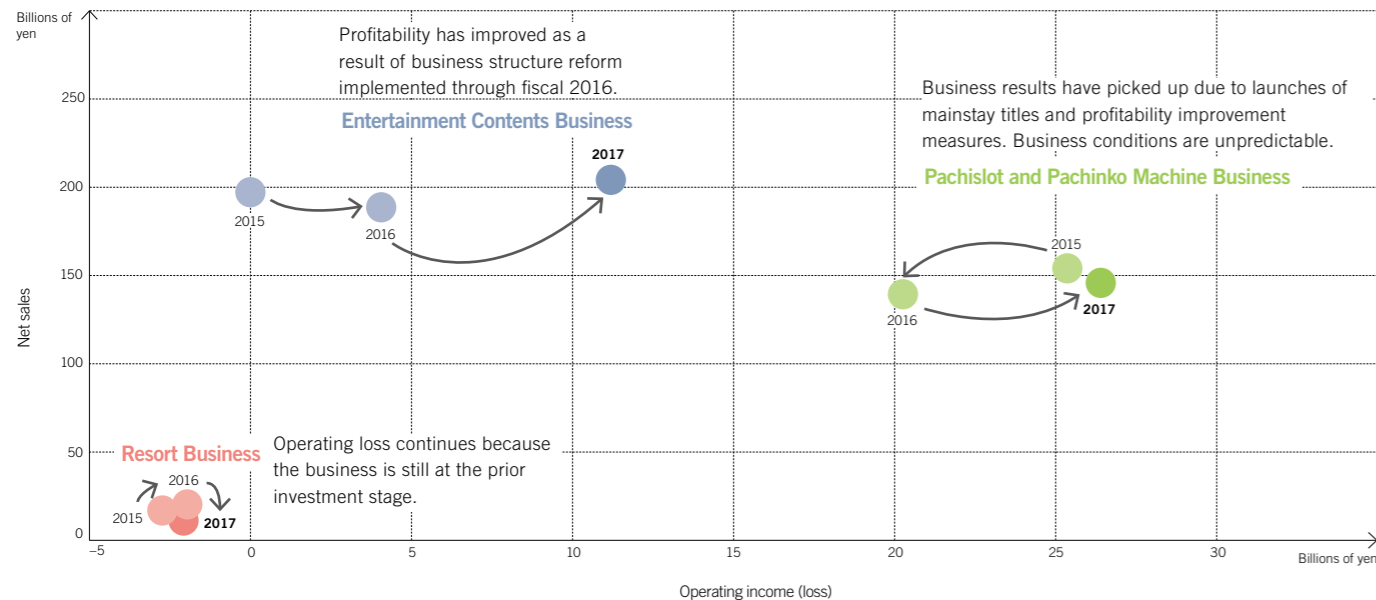
THE SEGA SAMMY GROUP

The SEGA SAMMY Group offers entertainment in a wide range of fields. As well as the Pachislot and Pachinko Machine Business, the Group operates the Entertainment Contents Business—comprising digital games, packaged games, and other game content; amusement machines; amusement centers; animation; and toys—and the Resort Business, which aims to successfully establish integrated resorts.

► Breakdown of Net Sales, Personnel, and Total Assets* in Fiscal 2017



Performance in Recent Fiscal Years



► Group Medium-Term Performance Targets (Road to 2020)

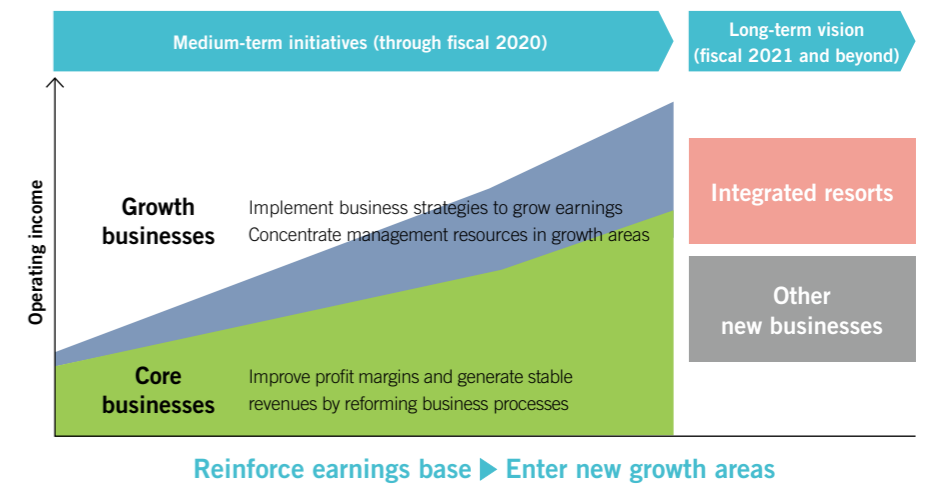
Important Management Benchmarks for Fiscal 2020

Operating margin
At least 15%

ROA*
At least 5%

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

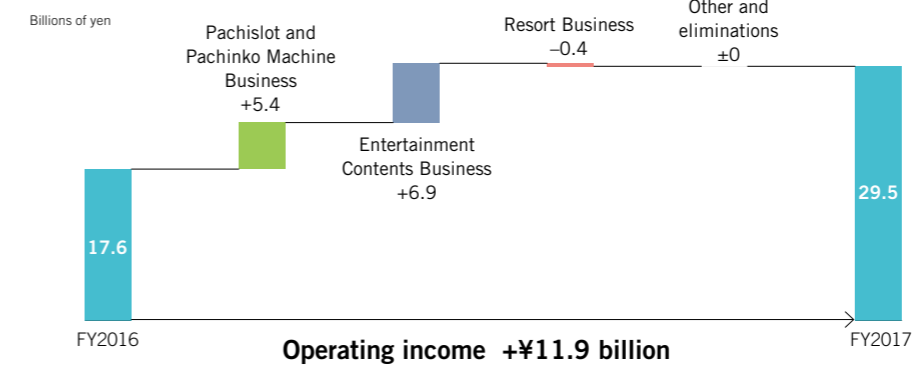
Medium-Long-Term Growth Scenario



► Fiscal 2017 Performance Summary

Operating income
¥29.5 billion (Up 68%, or ¥11.9 billion, YoY)

Change in Segment Operating Income



Operating margin
8.0%
(Up 2.9 percentage points YoY)

ROA
5.2%
(Up 4.2 percentage points YoY)

Change in Segment Performance

Pachislot and Pachinko Machine Business

Mainly due to the marketing of mainstay titles and other pachislot machine titles belonging to well-established series, revenues rose year on year, and operating income increased 26%.

Entertainment Contents Business

Favorable performances in respective business areas grew revenues, and operating income rose a significant 164% year on year.

Resort Business

Revenues and earnings declined due to the impact of the Kumamoto earthquakes on Phoenix Resort and the sale of some shares of the subsidiary that manages JOYPOLIS. The business segment will continue conducting prior investment.

THE MAIN BUSINESS MODELS OF BUSINESS SEGMENTS

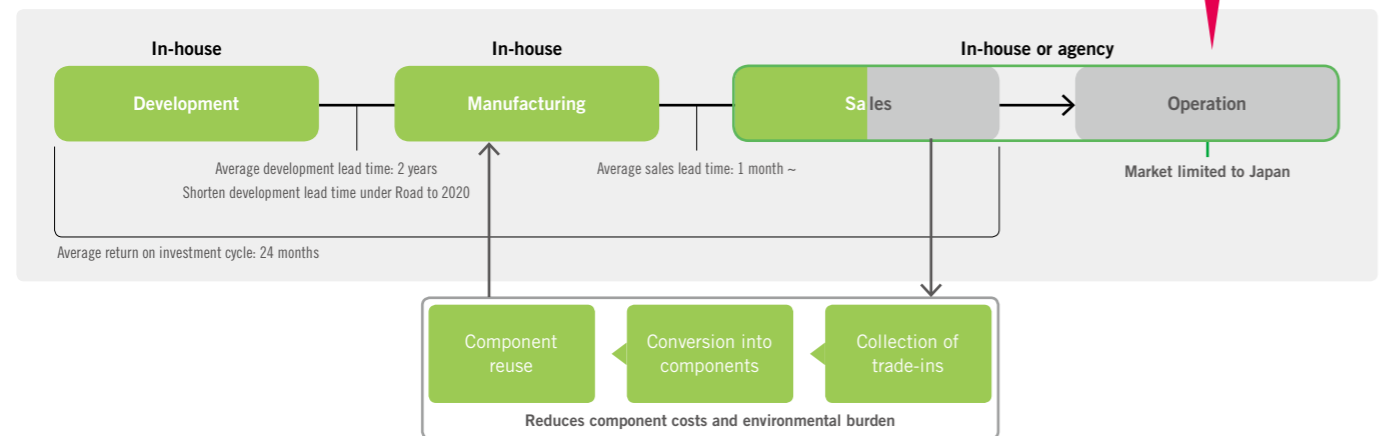
While responding flexibly to changing business conditions, the SEGA SAMMY Group's businesses constantly evolve their business models.

Pachislot and Pachinko Machine Business ● P.48

The Pachislot and Pachinko Machine Business independently conducts development and manufacturing through to sales to pachinko hall operators, who are the primary users. Development, production, and sales divisions work in unison to realize competitive products that reflect market demand. At the same time, these divisions strengthen value chains by concentrating efforts on increasing cost-competitiveness through the promotion of reuse. Further, the business is shortening the average development lead time so that it can react swiftly to changes in business conditions.

Average replacement period (Annual turnover)
 Pachislot machines: 0.52 times per year
 Pachinko machines: 0.55 times per year (2016)
 Sources: The Company's calculations based on data from the National Police Agency and Yano Research Institute Ltd.

Value chain of the Pachislot and Pachinko Machine Business ■ In-house ■ Other company



Resort Business ● P.62

The Group has positioned the Resort Business as a growth business and is continuing investment to strengthen the business segment's operational foundations. In Japan, our business portfolio includes *Phoenix Seagaia Resort*, one of Asia's premier resort complexes. Overseas, with our sights set on participating in the integrated resort business in Japan, we have established PARADISE SEGASAMMY Co., Ltd., as a joint venture with the Paradise Group of South Korea. In April 2017, the company opened South Korea's first integrated resort, *PARADISE CITY*.



Overseas resort facility
 PARADISE CITY

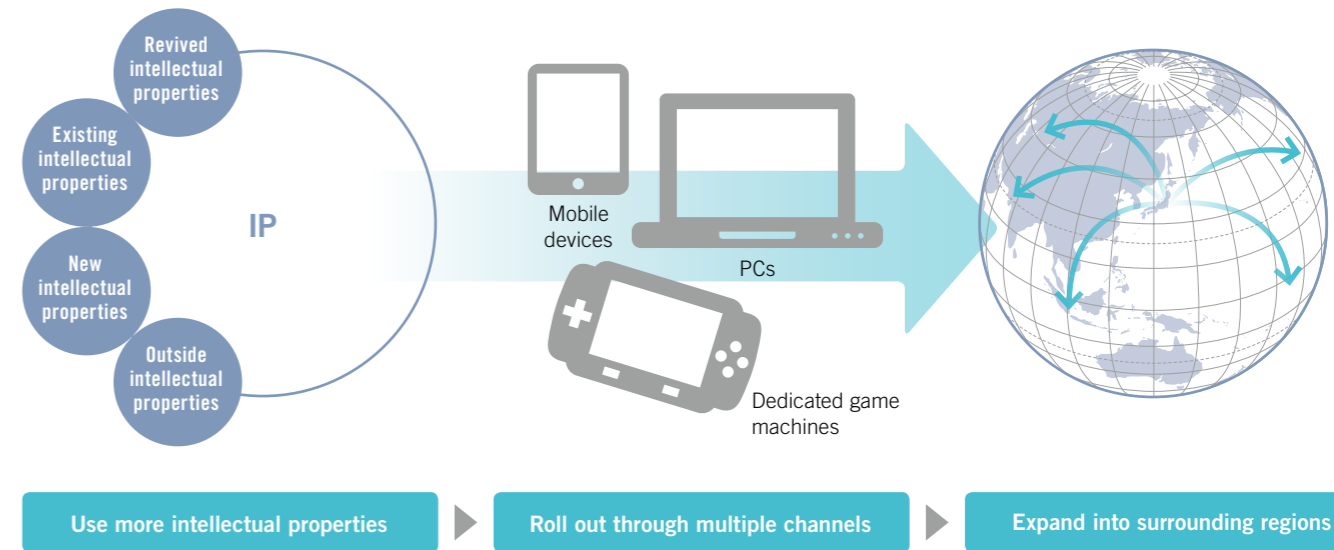


Domestic resort complex
 Phoenix Seagaia Resort
 ©Phoenix Resort

Entertainment Contents Business ● P.56

▶ Digital Game and Packaged Games Areas

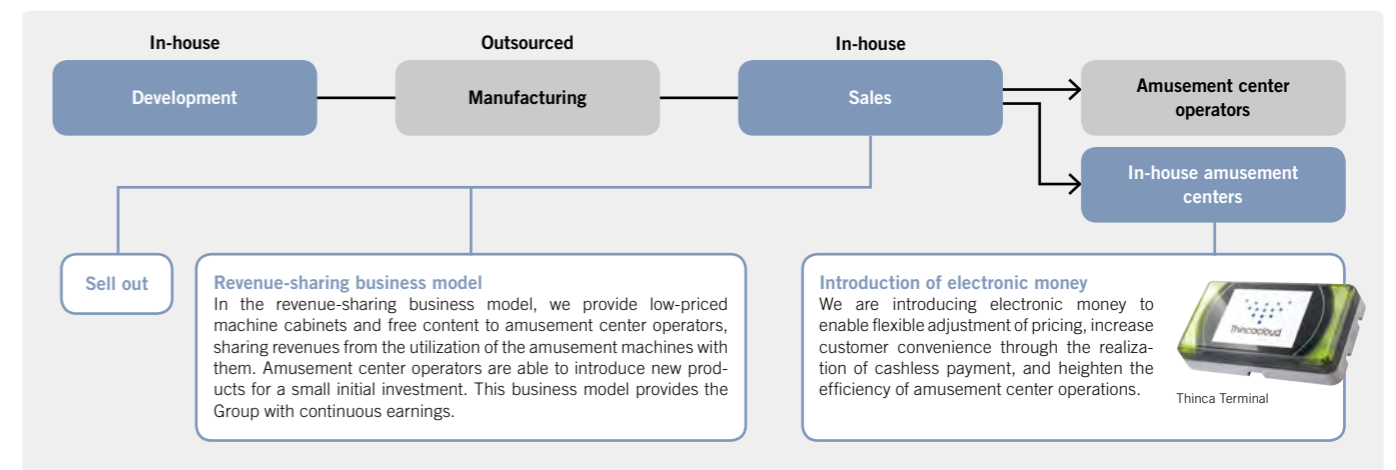
In the digital game and packaged games areas, the business segment is extending multiple-channel rollouts of intellectual properties to include such channels as mobile devices, personal computers, and home video game consoles. At the same time, we are increasing the geographic reach of rollouts. Moreover, aiming to maximize the value of intellectual properties, the business segment is reorganizing to shift from a "device-oriented" to an "intellectual property-oriented" organization.



▶ Amusement Machine Sales and Amusement Center Operations Areas

Primarily focused on revitalizing the market by easing the investment burden of amusement center operators and attracting casual players in greater numbers, the business segment is developing a variety of business models for these areas. In recent years, the industry has collaborated to promote the introduction of electronic money.

Supply Chain of the Amusement Machine Sales Area ■ In-house ■ Other company



A MESSAGE FROM THE CEO

By achieving our long-term vision and meeting social responsibilities, we will realize long-term, sustained enhancement of corporate value.

Hajime Satomi
Chairman and CEO (Representative Director)



Transition toward a New Management System

Ensuring Our Return to a Growth Trajectory

In April 2017, Haruki Satomi became the president and COO (chief operating officer) of SEGA SAMMY HOLDINGS INC., and the Group launched a new management system that transfers executive responsibility and authority to Haruki Satomi. I am confident that, taking advantage of a youthful sensibility, he will strengthen the Group's growth trajectory even further.

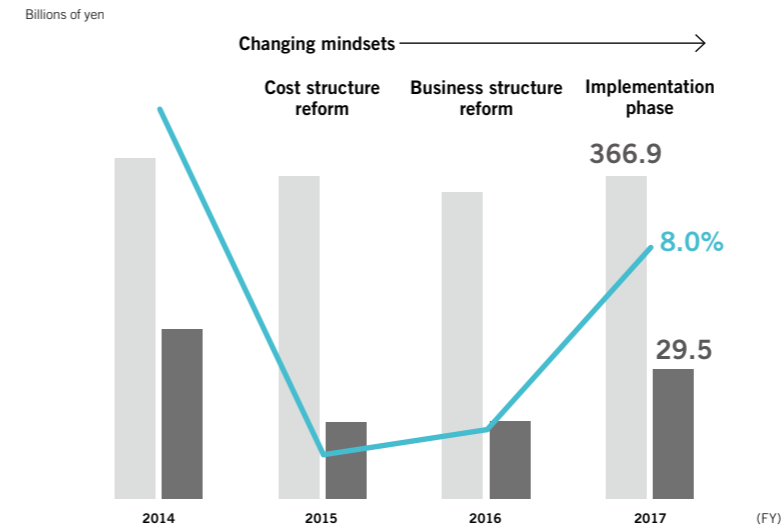
Remaining in the positions of chairman and CEO (chief executive officer), I will concentrate on formulating long-term strategies for the Group as a whole. At the same time, I will delegate responsibility for managing respective businesses to the chief operating officer and shift my focus to supervising and guiding business management.

From a Structure Reform Phase to a Strategy Implementation Phase

Increasing Revenues and Earnings Significantly through Structure Reform

In May 2014, SEGA SAMMY HOLDINGS established the Group Structure Reform Division. Through the division, I have initiated and advanced a variety of structure reforms. In fiscal 2015, we built a robust earnings structure by changing mindsets and implementing cost structure reform centered on the reduction of fixed costs. Fiscal 2016 saw decisive business structure reform as well as a clear shift in management focus from revenue scale to profit margins. To clarify our business portfolio strategy, we classified all operations into such business types as growth businesses and core businesses. At the same time, we improved business efficiency and withdrew from non-core businesses. Having cemented our foundations in this way, we embarked upon an implementation phase in fiscal 2017, the year ended March 31, 2017. The significant earnings growth that we achieved is testament to the undeniable benefits of business structure reform.

Reviewing Structure Reform since Fiscal 2014



After we implemented structure reforms, earnings trended toward recovery.

■ Net sales ■ Operating income — Operating income margin



PARADISE CITY

Long-Term Strategy

Focusing Investment on Growth Businesses and Developing Future Mainstays

The Pachislot and Pachinko Machine Business will continue generating the majority of the SEGA SAMMY Group's earnings. However, the outlook does not warrant optimism given market contraction as the player population declines and the introduction of a series of voluntary regulations. Similarly, the amusement machine sales and amusement center operations areas of the Entertainment Contents Business are unlikely to see significant market growth.

Rather than relying on marked sales growth in these businesses, we will focus on establishing highly efficient business structures, improving profit margins, and generating stable earnings. The Pachislot and Pachinko Machine Business will ensure that it prevails in the struggle for survival as the contrast between winners and losers becomes even more pronounced among manufacturers. In the packaged game, amusement machine sales, and amusement center operations areas, we are steadily strengthening earnings structures. Without slackening the pace, we will continue reform aimed at generating stable earnings.

By investing cash earned through core businesses in a prioritized manner, we intend to expand growth businesses. We will expand the digital game area as a driver of medium-term growth. Meanwhile, we will develop the Resort Business, which is at the prior investment stage, into a driver of long-term growth. We expect integrated resorts in Japan to become a mainstay of this business segment. In preparation for this, the Group is accumulating expertise in the development and administration of integrated resorts through *Phoenix Seagaia Resort* and a joint venture in South Korea with the Paradise Group.

To show how we will realize the above long-term mission, we established Road to 2020, covering the period through fiscal 2020. The chief operating officer will explain this in greater detail. At this juncture, I would like to elaborate on our ambition to enter the integrated resort business in Japan.

Commitment to the Integrated Resort Business in Japan

Making an All-Out Effort to Create the Group's Future

In December 2016, Japan moved one step closer to the realization of integrated resorts by enacting the Act on Promoting Development of Areas for Specified Integrated Resort Facilities (IR Promotion Bill). If an IR implementation bill is enacted, the government will advance to the stage of area and operator selection, who will then be able to prepare concrete plans. The Group has announced its intention to participate in the integrated resort business, which would include participation in the operation of casinos. Opened in April 2017, *PARADISE CITY* will play an important role in enabling the Group to participate in the integrated resort business.



PARADISE CITY is South Korea's first integrated resort, and the Group has a 45% stake in the integrated resort's operator, *PARADISE SEGASAMMY Co., Ltd.* Situated on a lot of 330,000 square meters, the integrated resort will include a high-end hotel, a boutique hotel, a casino, commercial facilities, and a convention hall upon completion and realize quality on a par with that of integrated resorts in Singapore and Macau. We will focus on capturing tourists who have until now visited other regions in Asia by leveraging our integrated resort's prime location next to Incheon International Airport—Asia's largest hub airport. In particular, we aim to attract customers from Japan because they can visit South Korea with comparative ease thanks to its proximity. To this end, we will step up marketing efforts and add Japanese hospitality to the best integrated resort.

The addition of entertainment and commercial facilities after the second stage of phase 1 development will be completed in 2018, making *PARADISE CITY* a truly integrated resort. We will ensure the success of *PARADISE CITY* and then capitalize on our track record and accumulated expertise to realize participation in the integrated resort business in Japan. I view advancement of the integrated resort business as an important personal mission and will work tirelessly to achieve it.

Toward Sustained Growth

Enriching People's Lives through Entertainment

With the adoption of sustainable development goals by the United Nations and the adoption of the Paris Agreement by COP21, companies are expected to contribute more to the realization of a sustainable society through their businesses. I believe that meeting such societal expectations will also be indispensable for realizing our long-term vision. In keeping with the spirit of our Group Management Philosophy, we will enrich people's lives through our businesses. Also, from a worldwide perspective we will identify global issues that we should give priority to tackling.

Further, we are strengthening corporate governance steadily. Given that we have a shareholding structure for which oversight reflecting the interests of minority shareholders is expected as well as a business format in which strict compliance is required, we have bolstered oversight of business management over the past decade. We appointed highly independent external directors in 2007 and established a management system comprising external directors in 2008. Our efforts to strengthen this system are ongoing. For example, we appointed an additional external director in 2016.

I believe that personnel are paramount for continuous enhancement of corporate value. Without a large pool of talented personnel, we could not produce outstanding intellectual properties and competitive products continuously. Therefore, I view fostering the next generation of personnel and establishing shared values that are consistent with corporate goals as critical tasks, and I am committed to accomplishing them.

In the 13 years since management integration in October 2004, the Group has overcome many challenges by its tireless efforts to reform business structures. Finally, we are poised to enter a phase that will be strongly focused on earnings growth. We will meet the expectations of all of our stakeholders by implementing strategies decisively and taking far-sighted measures to realize long-term, sustained enhancement of corporate value. As we advance into a new phase, we would like to ask our stakeholders for their continued support.

August 2017

Hajime Satomi
Chairman and CEO (Representative Director)
SEGA SAMMY HOLDINGS INC.

A MESSAGE FROM THE COO

**With continuing to
create moving experiences as
our mission, we will work in
concert to advance strategies.**

Haruki Satomi
President and COO
(Representative Director)



Greetings

I am Haruki Satomi and recently became president and COO (representative director). I will forge ahead to ensure the continuous enhancement of the SEGA SAMMY Group's corporate value and meet the expectations of the wide range of stakeholders that support the Group.

Fiscal 2017 Performance Report

Steadily Implementing Growth Strategies

In fiscal 2017, the year ended March 31, 2017, we achieved year-on-year increases of 5% in net sales and 68% in operating income. The operating margin rose 2.9 percentage points year on year, to 8.0%, and ROA was up 4.2 percentage points year on year, to 5.2%. Profit attributable to owners of parent increased from the previous fiscal year's ¥5.3 billion to ¥27.6 billion. In the fiscal year under review, we paid interim cash dividends of ¥20.00 per share and year-end cash dividends of ¥20.00 per share, giving full-year cash dividends of ¥40.00 per share.

By marketing mainstay title *Pachislot Hokuto No Ken Syura no kuni hen* and other pachislot machine titles belonging to well-established series, the Pachislot and Pachinko Machine Business grew net sales 5% and operating income 26% year on year. Similarly, the Entertainment Contents Business posted an 8% rise in net sales year on year, and the business segment's operating income rose significantly from the previous fiscal year's ¥4.2 billion to ¥11.1 billion. The business segment achieved good results in all areas, with existing mainstay titles performing steadily in the digital game area and new titles becoming major hits in the packaged games and the amusement machine sales areas.

Viewing fiscal 2017 as the implementation phase of structure reform, we steadily implemented a range of different initiatives. In one such initiative, the Group acquired all of the shares of France-based game developer Amplitude Studios SAS to further strengthen the Group's development capabilities in the United States and Europe and intellectual property and title portfolio. In the Pachislot and Pachinko Machine Business, we established ZEEG Co. Ltd., as a joint venture with Universal Entertainment Corporation, thereby taking a significant step toward simultaneously enhancing product appeal and cost performance.

While embarking upon such proactive initiatives on the one hand, we steadily took conservative measures on the other. For example, in the Resort Business we sold 85.1% of the shares of SEGA LIVE CREATION Inc. Then, we changed the business model of JOYPOLIS indoor theme park operations from direct management to licensing. Other measures included discontinuing the development of a resort complex in Busan, South Korea. Further, we disposed of fixed assets in the amusement center operations area. We took each of the above measures with a view to improving our financial position, enhancing the capital turnover ratio, and concentrating management resources in growth businesses.

In fiscal 2018, the year ending March 31, 2018, the Group will finally move into a growth phase while continuing to steadily reinforce its standing.

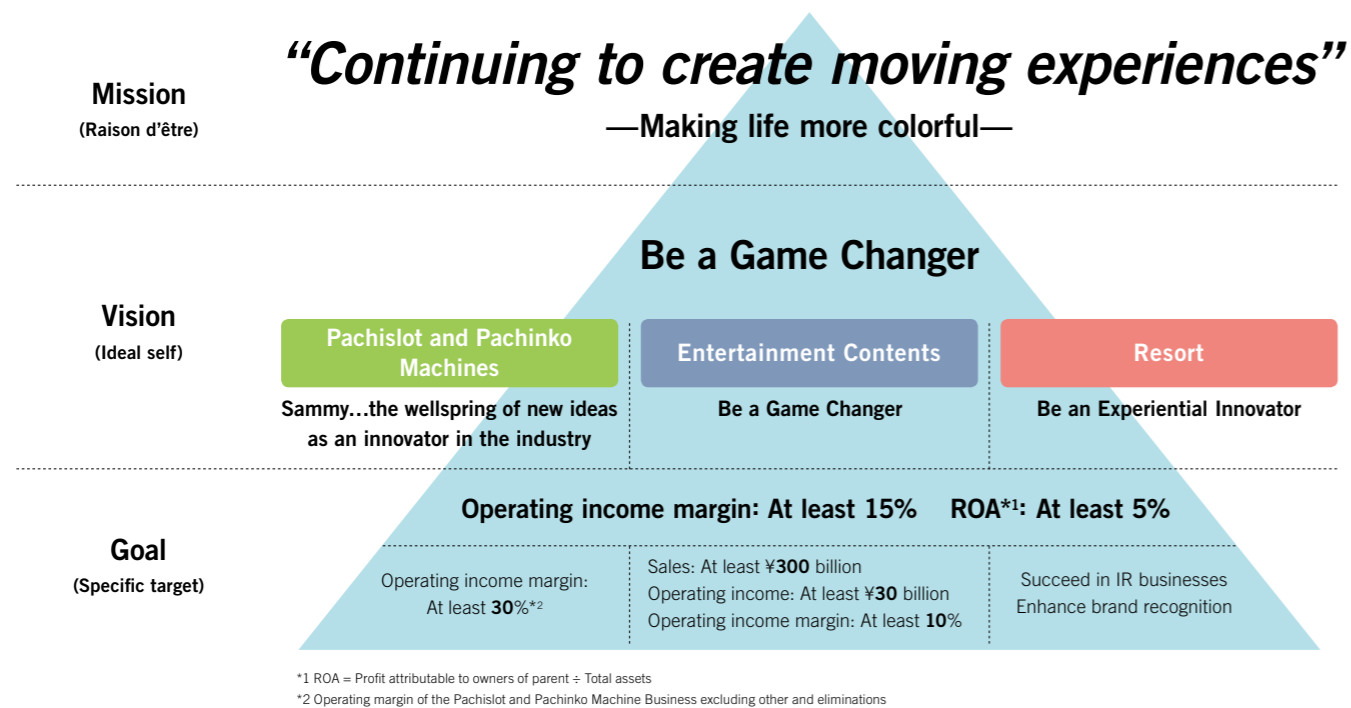
Mindset Reform Aimed at Returning to a Growth Trajectory

Aligning Each Employee with Groupwide Strategy

The Group has important issues that it must tackle. Since management integration in October 2004, SEGA SAMMY HOLDINGS INC. has overcome difficult business conditions, and each operating company has established a solid presence in its business field. Meanwhile, the employees of Sammy Corporation, the SEGA Group, and other operating companies have a strong attachment to their operating companies. Unfortunately, however, there is not a sufficiently robust sense of shared values in the SEGA SAMMY Group as a whole. To ensure the Group returns to a growth trajectory, all of its employees must share a common commitment. Based on a strong awareness of this issue, I decided that, in tandem with the implementation of strategies, we should encourage a change of mindset. Accordingly, we embedded Road to 2020,

Value (Mindset / DNA)

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



which covers fiscal 2018 through fiscal 2020, into a mission pyramid that comprises the unchanging components of our DNA: a value, a mission (raison d'être), a vision (ideal self), and a goal (specific target).

The mission is of particular importance to me. In my view, we are not in the business of simply providing “products.” Rather, I believe that our raison d'être is to continue creating moving experiences, which arise from the disparity between expectations and actual experiences. In other words, the essence of entertainment lies in surpassing customers' expectations. The mission's subtitle, “Making life more colorful,” encapsulates value that the Group provides society by creating *moving experiences*. Moreover, the subtitle expresses the hope that each employee will have the courage to create *moving experiences*, if we accept the diverse approaches of, and even the failures of, our employees, as they work hard in a broad spectrum of business fields. The vision, “Be a Game Changer,” represents our commitment to being a leader that changes the industry and society for the better.

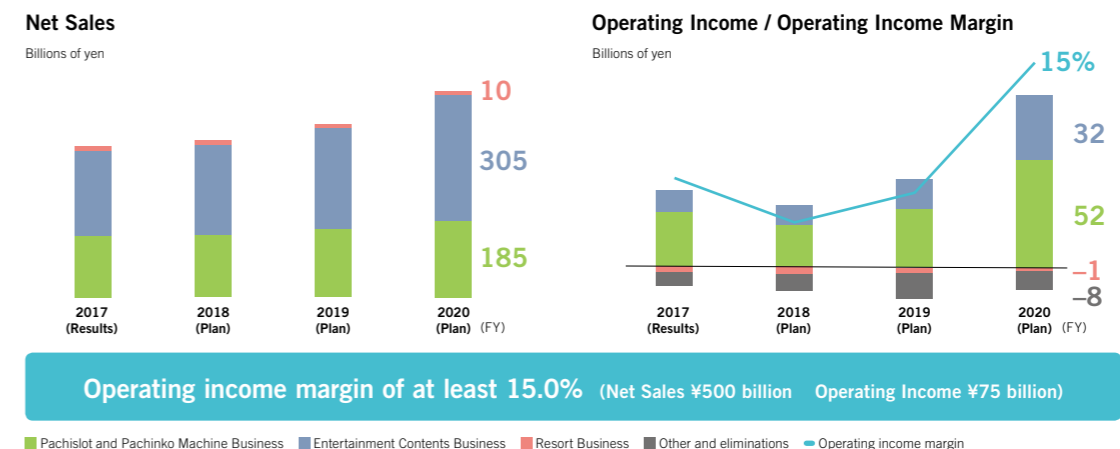
In accordance with the direction that the mission pyramid establishes for the Group as a whole, each business segment has prepared a mission pyramid. Based on these mission pyramids, the business segments are clarifying the organizations that are tasked with advancing strategies and formulating specific tactics. Further, we are setting out the measures that each division as well as the organizations and individuals under their management should implement. In this way, rather than simply setting out strategies in a top-down manner, we will advance Groupwide growth strategies through the accumulation of implementation by individuals. This accumulation will be based on systems designed so that, in their respective positions, individuals can act autonomously and with a sense of approval.

Road to 2020

Aiming to Advance Significantly in Fiscal 2020

For fiscal 2020, its final fiscal year, Road to 2020 sets targets of 15% for the operating margin and 5% for ROA.

Based on its long-term vision (▶P.14 A Message from the CEO), the Group will generate stable earnings through core businesses while strengthening the digital game area and increasing the area's contribution to net sales and operating income. We have established a roadmap showing how the Pachislot and Pachinko Machine Business will grow earnings significantly in the third year of Road to 2020. This may seem an ambitious goal. However, having made progress in strengthening our earnings structure, we are already taking a range of different measures based on a long-term viewpoint. These measures include developing the product lineup. Therefore, I believe we can achieve a “jump” in performance in fiscal 2020. The key to success will be our ability to create major hit products in the digital game area.



Major Tasks of the Pachislot and Pachinko Machine Business

Leveraging ZEEG Co. Ltd.

For the Pachislot and Pachinko Machine Business, we have set realizing an operating margin of 30%* by fiscal 2020 as a target. To reach this target, we intend to tackle three major tasks.

The first major task is to promote component reuse. Including such components as liquid crystal displays (LCDs), we plan to increase the number of reused components from the current level of between 10 and 15 to at least 50. We also plan to significantly increase reused components so that they account for more than 50% of cost of sales, compared to the present level of 30%. To align operations with these targets, we will change product designs and reorganize product lineups over the medium term. Introducing common components has the potential to significantly increase component reuse and reduce disposal risk. By reforming business processes from the product design stage onward, we intend to raise the common components ratio to at least 90% for pachislot machines and to at least 50% for pachinko machines. In addition, we will strengthen cost control even further.

Our second major task is to develop an industry platform by extending the scope of reuse to encompass machine cabinets, component units, and the entire industry. ZEEG Co. Ltd., the joint venture with Universal Entertainment Corporation will play a central role in accomplishing this task. By using the high-quality machine cabinets and versatile common components that ZEEG develops, the Group will enhance product appeal and promote collaborative cabinet reuse and component purchasing to improve costs going forward. With our sights set on increasing the efficiency of the industry as a whole,

* Excluding other and eliminations

we will include other companies in the initiative and develop an industry platform. Looking ahead, we believe that the focus of competition is likely to shift from hardware to applications. Such a shift is desirable for the Group because it will be able to use creativity to achieve significant differentiation.

The Group's third major task is to improve development efficiency. The industry's structure means that further regulatory revision affecting the specifications of pachislot and pachinko machines is a possibility. If we take this into consideration, the length of existing development lead times becomes a management risk. Normally, completing the processes from planning through to application for prototype testing and then bringing a product to market requires between one and a half and two and a half years. We will shorten development lead times by between 20% and 30% by narrowing down the number of titles while increasing the number of personnel per title and by reforming a wide range of processes. As a result of these measures, we will launch products in a timely manner that ensures we do not miss opportunities to tap into peak demand. At the same time, we will strengthen the quality assessment process to further enhance product quality, which is one of our advantages.

I am increasing our commitment to efforts focused on helping to put a brake on the decline in the player population and revitalize the market. In addition to marketing focused on pachinko hall operators—who are our traditional clients—we are conducting business-to-consumer marketing, thereby extending the reach of our marketing to general players. Specifically, we aim to increase the player population by creating opportunities for people to come into contact with pachislot and pachinko through offline events and by managing an information website for smartphones.

Major Tasks of the Entertainment Contents Business

Shifting from Device-Oriented to Intellectual Property-Oriented Operations

The targets for the Entertainment Contents Business are net sales of at least ¥300 billion, operating income of at least ¥30 billion, and an operating margin of at least 10%. The key to reaching these targets will be the creation of titles that become global hits.

Therefore, the concentration of investment in carefully selected titles will be one of the business segment's major measures. Moreover, to create a system that promotes sales in the global market, we will change the basic orientation of the business segment. In the digital game area, we created a "device-oriented" organization through such measures as establishing a separate company for operations that specialized in smartphones and used to be under the management of the former SEGA CORPORATION. The aim of these measures was to accelerate the implementation of strategies in the digital game area, a growth market. Partly because this area has reached a certain size, we will shift to "intellectual property-oriented" operations and investment criteria and roll out the same intellectual properties through multiple channels, such as mobile devices, personal computers, and home video game consoles. The potential for intellectual property rollouts will become even greater if the Group widens the scope of these activities to leverage its diverse interfaces with customers, which include amusement machines, animation, and toys. As for regional rollouts of intellectual properties, we will increase sales globally by creating high-quality titles that garner solid endorsement in their local markets and then localizing the titles to reflect the characteristics of other regional markets. A good example of how effective this approach can be is the rollout of the packaged games *Persona 5* by Group company ATLUS. CO., LTD. The company launched the title in Japan in September 2016, in Europe and the United States in April 2017, and then, after changing over to a direct sales system, in Asia. As a result, the title shipped more than 1.8 million units worldwide. Further, we intend to utilize more intellectual properties. In addition to existing intellectual properties, we will revive dormant intellectual properties and introduce external intellectual properties. In this way, we will create hit titles while maximizing the value of intellectual properties. The Group will capitalize on the significant advantages of the *Noah Pass* digital marketing platform. For example, we will use the platform to realize reciprocal customer sending between amusement machines and digital games and boost titles that have been published and localized as part of global rollouts.

For strategies by area, please see P.50.



Haruki Satomi speaking at the Japan Gaming Congress

To enable the above strategies, we will reform business structures. In each region, the Group will organize studios around intellectual properties to promote multi-device rollouts of respective intellectual properties. Also, through the integration of publishing in each region, we will achieve efficient global rollouts.

Major Tasks of the Resort Business

Competing on an Equal Footing with Major International Operators

The Group's array of businesses face differing business conditions. A feature of these businesses is that many of them operate in highly regulated industries. An advantage of the Group's diversified portfolio is that even if one business struggles the Group can generate stable earnings through other businesses and invest in the creation of new businesses. By harnessing this advantage, we are developing the Resort Business.

Numerous companies have announced their intention to participate in Japan's integrated resort business. At the Japan Gaming Congress in May 2017, I expressed our strong desire as Japan's only company on an equal footing with world-famous operators to participate in all aspects of the integrated resort business, including casino operations. Of course, ahead of other companies in Japan, we have been preparing steadily to realize this ambition.

The goals of the Resort Business are to achieve success in the integrated resort business and to enhance brand recognition. To ensure the success of the integrated resort business, we will make an all-out effort to acquire expertise. Through PHOENIX RESORT CO., LTD., which became a wholly owned subsidiary in 2012, we are accumulating know-how in the management of resort facilities. Although Phoenix Resort does not have a casino, we are investing to heighten the appeal of the resort, which is one of Japan's foremost resort complexes and boasts one of the country's largest convention centers. Thus, the resort is giving us the opportunity to develop and manage convention-related operations and hotels. We are accumulating casino management know-how primarily through PARADISE SEGASAMMY Co., Ltd. In April 2017, the company opened South Korea's first integrated resort, *PARADISE CITY*. We have sent close to 40 personnel to the resort, and we will swell their ranks to accelerate our accumulation of know-how. In conjunction with these efforts, we intend to focus on marketing aimed at attracting more customers from Japan.

Conclusion

Creating *Moving Experiences*

In the fall of 2018, we plan to consolidate the Group's offices with a view to reforming work styles. The goals of this reorganization are to promote efficient management of the Group, create collaborations and synergies between businesses, and encourage interaction among personnel. A further important goal is to heighten employees' sense of belonging to the Group.

I believe the SEGA SAMMY Group has a bright future. Our employees will pursue *moving experiences* and unite as we move forward decisively to reach the goals of Road to 2020.

August 2017

Haruki Satomi
President and COO (Representative Director)
SEGA SAMMY HOLDINGS INC.

MOVING EXPERIENCES: A HISTORY

1960 Incorporated

SEGA

The former SEGA CORPORATION began as a creator of amusement machines in 1960. The company subsequently expanded into the amusement center operations and home video game areas and continued to bring leading-edge products to market. Creating innovative products is in the SEGA Group's DNA.

1960 Japan 1st

Developed first domestically produced jukebox, **SEGA 1000**

First used as an abbreviation of Service Games, the name of the company's predecessor, "SEGA" later became the official company name.



1985 World 1st

Launched **UFO CATCHER**

A crane game in which players operate a crane to capture prizes. The product's name derives from the crane's resemblance to a UFO.



1993 World 1st

Launched world's first 3D computer graphics (CG) fighting game for an amusement machine, **Virtua Fighter**

The first *Virtua Fighter* was an amusement machine. A version of the game for SEGA's home video game console, *SEGA Saturn*, became a major hit.



1995 World 1st

Launched **Print Club** with ATLUS. CO., LTD.

This was the first amusement machine that allowed users to take photographs and print stickers based on them. Many similar machines appeared on the market. Mainly gaining popularity among young women, the machines became a social phenomenon.



1998 World 1st

Launched home video game console, **Dreamcast**

As the world's first home video game console with Internet connectivity, this was a mold-breaker. However, it was our last such product because fiercer competition led us to withdraw from the home video game console area.



2000 Industry 1st

Launched first networked role-playing game (RPG) for a home video game console, **PHANTASY STAR ONLINE**

Although online games for home video game consoles are common today, SEGA created Japan's first such game. We have released versions of the game for many different platforms and established the title as a long seller.

2003 Industry 1st

Launched industry's first kids' card game, **MUSHIKING: The King of Beetles**

A mega-hit among boys in the lower grades of elementary school, this game established kids' card games as a new market.



1979 Industry 1st

Launched "jankyu" machine incorporating a television monitor, **TV JANQ**

Sammy was the first company to incorporate monitors in "jankyu" machines, which combine mah-jong and pachinko gameplay.



1989 Industry 1st

Launched single-bonus hitter pachislot machine, **ALADDIN**

As the industry's first pachislot machine to include hitters with a high probability of paying out "single-bonus" jackpots, this product ignited a pachislot boom.



1997 Industry 1st

Launched pachislot machine utilizing characters, **Ultra Seven**

This model pioneered the incorporation of much-loved characters. Spreading throughout the industry, this strategy diversified gameplay and broadened the player base.

1999 Industry 1st

Launched pachislot machine incorporating an LCD, **GeGeGe No Kitaro**

Sammy was the first to incorporate LCDs into pachislot machines. LCDs are now indispensable for the images pachislot machines display.

2003 New record

Launched pachislot machine, **Pachislot Hokuto No Ken**

Exemplifying Sammy's "Always Proactive, Always Pioneering" founding principle, this model featured a groundbreaking combination of gameplay, animation, and LCD images. The product's 620,000 unit sales remains an unbroken record for a pachislot machine.



2008 New record

Launched pachinko machine, **Pachinko CR Hokuto No Ken**

The first product marketed after transferring to a new development system, this title shipped more than 260,000 units, breaking our in-house record for pachinko machine unit sales. This success played a significant role in raising our presence in the pachinko machine market.



ADVANTAGE 1

Innovation that conjures up
"something" from nothing



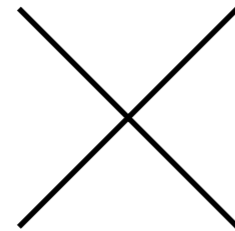
SEGA
Holdings

CREATION IS LIFE

DNA that creates entirely
new entertainment

Innovative DNA

While SEGA has brought the world exciting novelty, Sammy Corporation has actively incorporated leading-edge technology to realize mold-breaking gameplay. Integrating these companies and their distinctive types of innovative DNA gave birth to the SEGA SAMMY Group. We will further combine and leverage these traits to create value in the form of *moving experiences* that surpass customers' expectations.



Innovation that maximizes
"something"



Sammy

**Always Proactive,
Always Pioneering**

DNA that generates leading-edge
gameplay and maximizes the value
of intellectual properties



Innovative DNA

Continuing to create *moving experiences*



SEGA SAMMY
H O L D I N G S

Innovating to conjure up "something" from nothing and maximize value

Combining the innovative DNA of SEGA and Sammy

ADVANTAGE ②

Financial Foundations

The SEGA SAMMY Group is engaged in hit-product businesses in which hit products, or their absence, affect earnings significantly. The Group is able to prosper in this environment because its financial stability and the Pachislot and Pachinko Machine Business segment's cash generation capabilities enable continuous investment to develop captivating new products and create businesses.

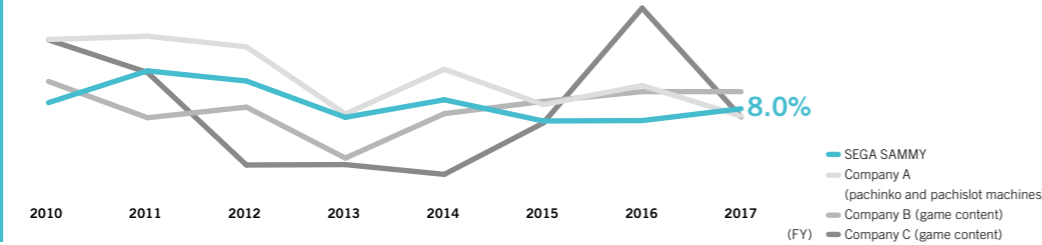
Financial Foundations Enabling Continuous Innovation

In a pachinko and pachislot machine market with a player population that continues to decline, whether or not manufacturers have the development capabilities to continuously provide machines that incorporate leading-edge components as well as the financial strength to invest in such development is determining winners and losers. Similarly, amid the online game content market's fierce competition, the winners are those companies with the intellectual properties, development personnel, and funds to release content in a wide range of genres continuously and rapidly. Furthermore, business conditions in the amusement machine sales and amusement center operations areas have entered a phase in which only companies with the strength to market hit products continuously will enjoy the benefit of being industry survivors.

The SEGA SAMMY Group's business portfolio is advantageous for stable and forward-looking investment because it includes the Pachislot and Pachinko Machine Business segment, which enjoys a strong market presence, as well as the amusement machine sales and amusement center operations areas, which have improved their profitability through cost structure reform. In particular, our ability to invest underpins efforts to create high-value-added titles and differentiate ourselves in the digital game area, where many competitors operate exclusively.

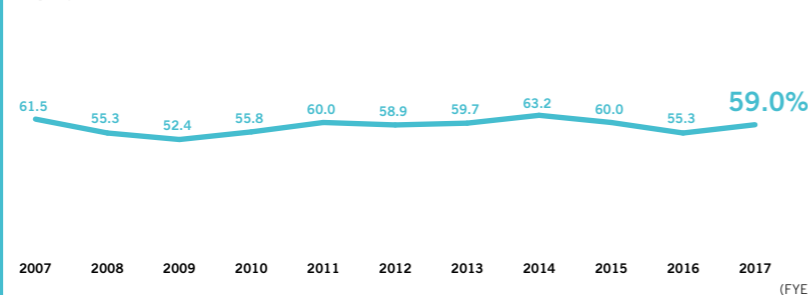
In the entertainment industry, where the absence or presence of hit products affects earnings significantly...

Operating Margins of Major Amusement Companies

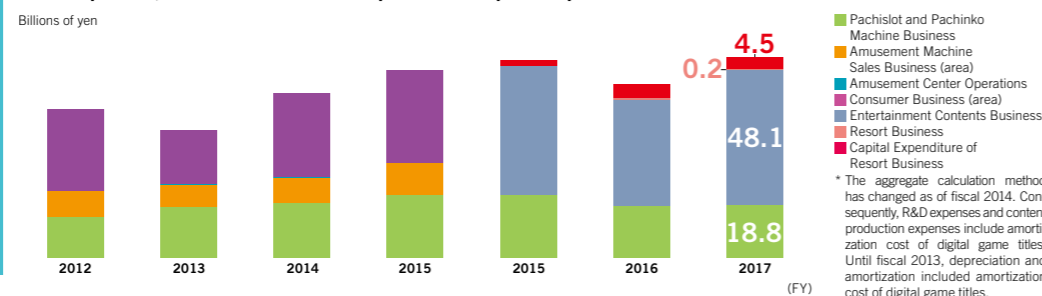


The Group's robust financial foundations are a competitive advantage because they enable stable investment in development.

Equity Ratio



R&D Expenses, Content Production Expenses* / Capital Expenditure of Resort Business



ADVANTAGE ③

Points of Contact with Customers

Operating in an array of business fields gives the SEGA SAMMY Group extensive points of contact with customers. Consequently, the potential for creating new *moving experiences* through mutual use of the Group's resources is significant.

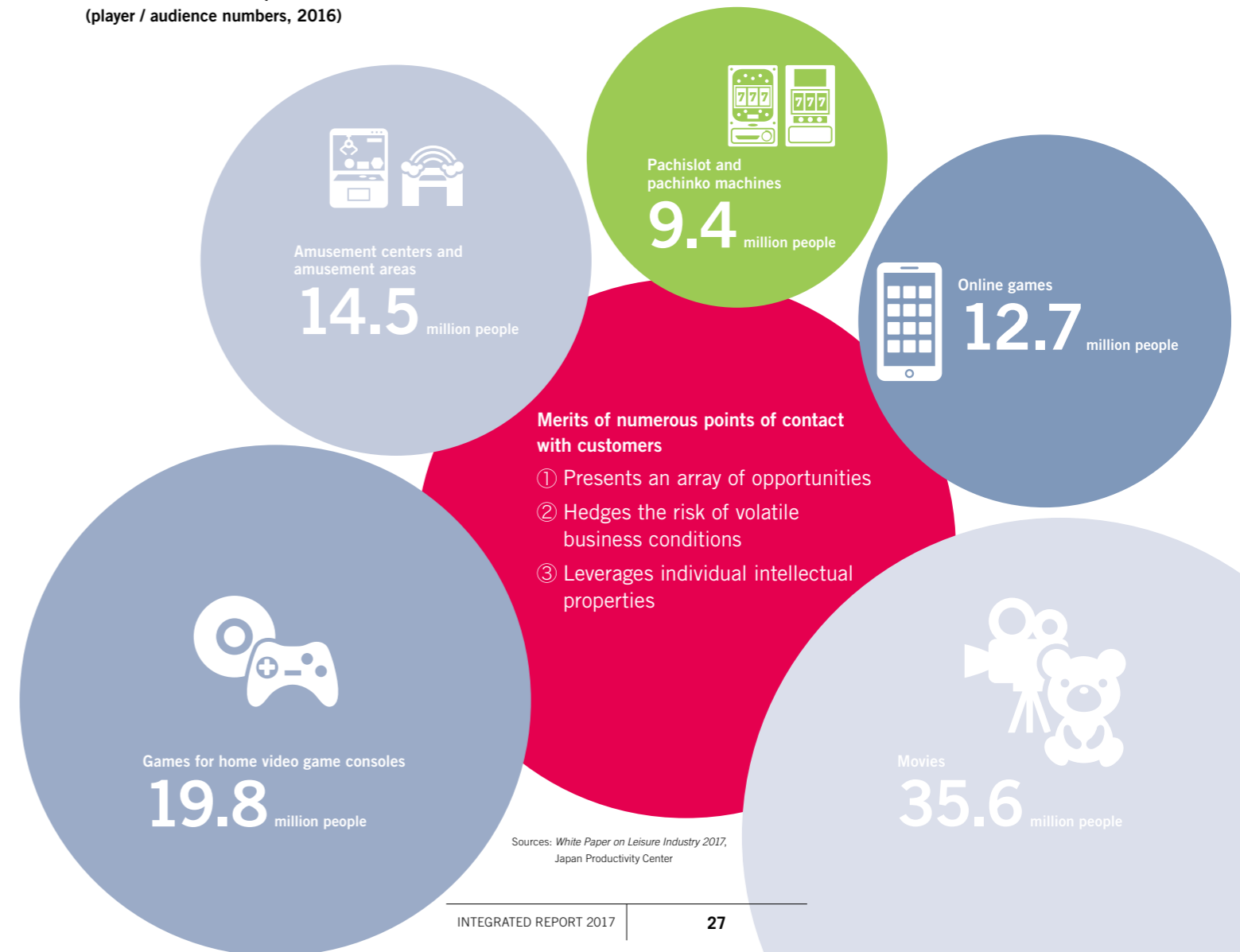
Points of Contact with Customers—Supporting Continuous Innovation

The SEGA SAMMY Group conducts business activities in a wide range of entertainment fields, including pachislot and pachinko machines; digital games, packaged games, and other game content; amusement machines; amusement centers; animation and toys; and the integrated resort and resort complex industry. This expansive business portfolio ① presents an array of opportunities as pastimes diversify. Furthermore, a multifaceted business portfolio ② hedges the risk of volatile business conditions in a particular business field, thereby stabilizing earnings and enabling steady

investment. Also, the Group ③ leverages individual intellectual properties through the multiple businesses of its portfolio, facilitating efforts to increase asset efficiency.

Regarding ③, we are stepping up multi-channel intellectual property rollouts that encompass mobile games, games for home video game consoles, and PC games (▶ P.71). Also, we are promoting collaborations that include the amusement machine sales area.

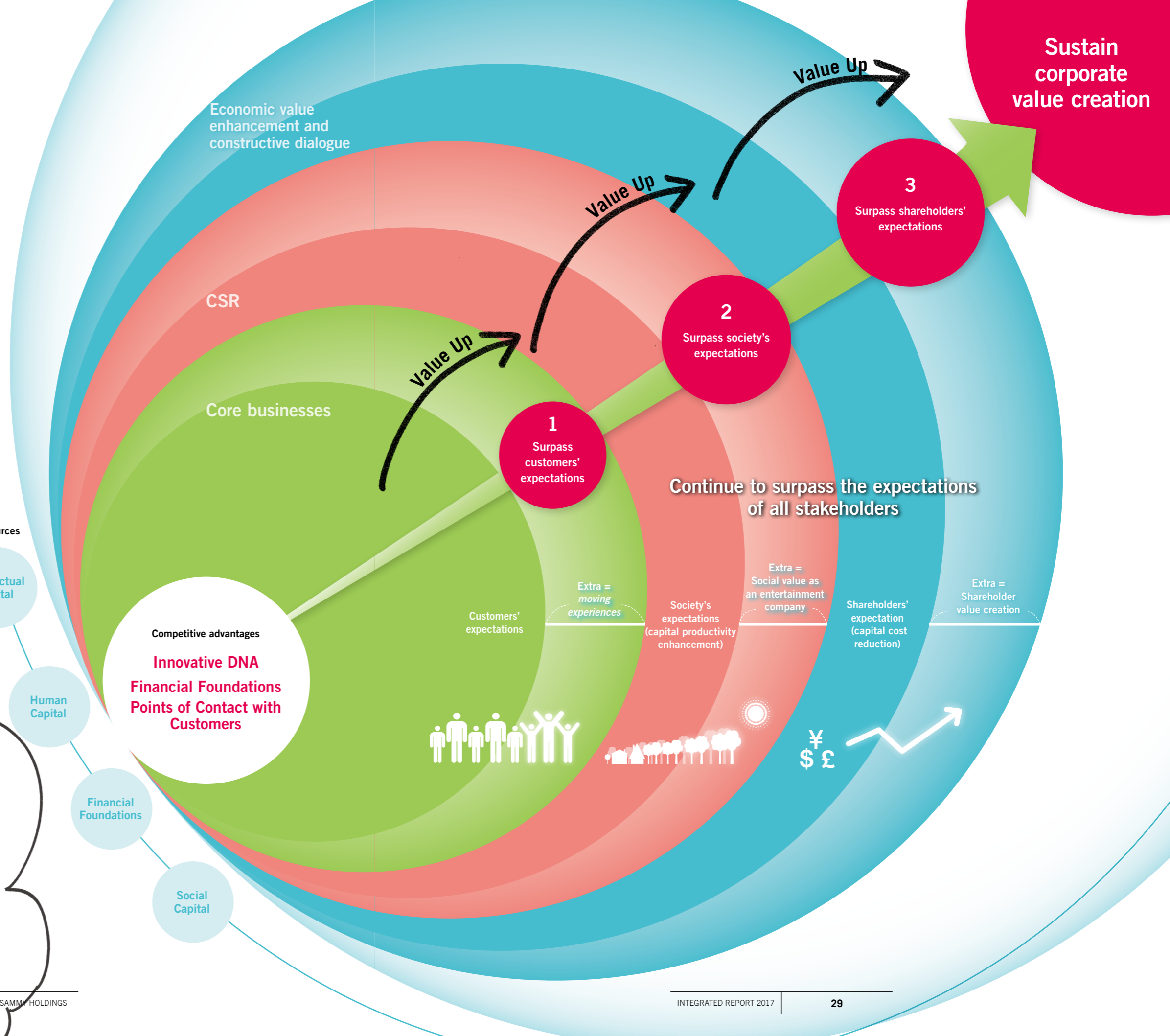
The SEGA SAMMY Group's Numerous Points of Contact with Customers (player / audience numbers, 2016)



THE VALUE CREATION PROCESS

The value creation process that translates *moving experiences* into corporate value

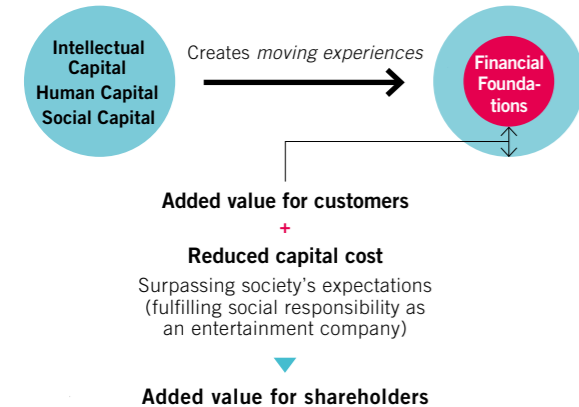
Based on its mission and reason for existence, namely *continuing to create moving experiences* and making life more colorful, the SEGA SAMMY Group will leverage three major advantages: innovative DNA, financial foundations, and points of contact with customers to provide customers of all businesses with *moving experiences*.



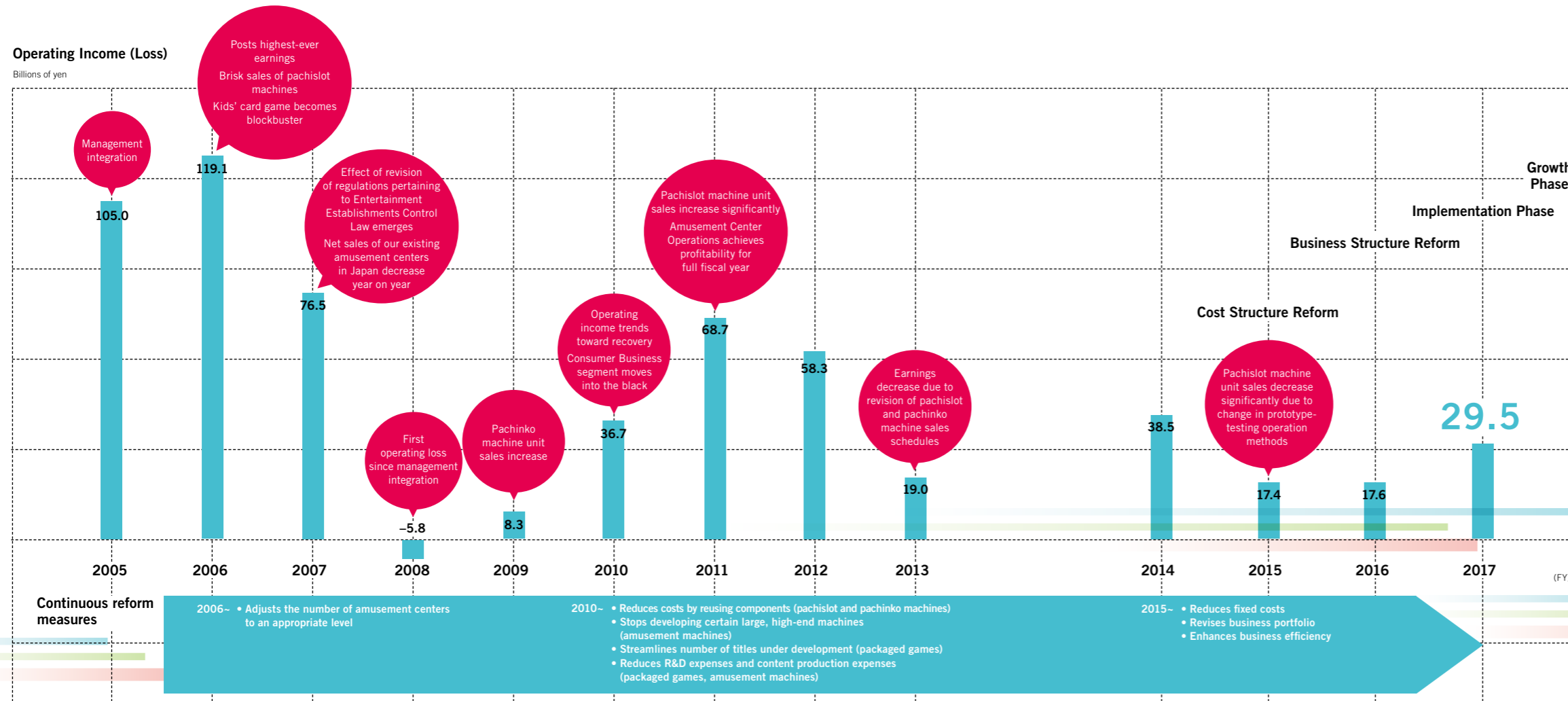
Value Creation from the Viewpoint of Shareholder Value

By raising profitability through the provision of added value that goes beyond customers' expectations and by fulfilling our social responsibility as an entertainment company, we will increase capital productivity and reduce capital cost. In this way—by providing value to all stakeholders—the Group will sustain corporate value enhancement over the long term.

Non-financial capital



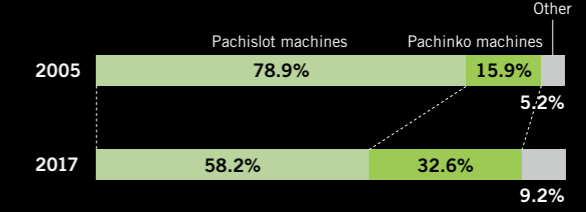
FROM MANAGEMENT INTEGRATION TO THE PRESENT DAY



REFORM

Strengthening

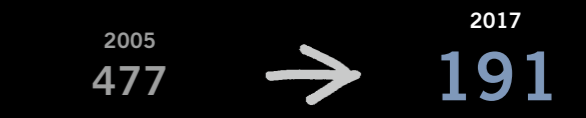
Shift from Reliance on Pachislot Machines to Balanced Portfolio (Net sales breakdown)



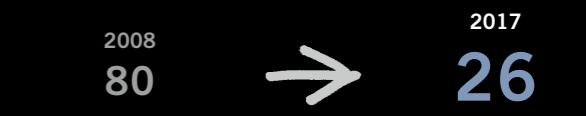
Our pachislot and pachinko machines have achieved a strong presence in their markets, and we have made progress in bolstering our business structure.

Rationalizing

Optimizing Amusement Center Portfolio (domestic)



Streamlining the Number of Titles (packaged games)



We have been rightsizing businesses in shrinking markets, such as those in the amusement center operations and the packaged games areas.

Refocusing Management Resources

Sales Growth in the Digital Game Area



We have advanced business structure changes by concentrating management resources in the digital game area and the Resort Business, which we view as growth businesses.

▶ Long-Term Trends in Business Conditions

Regulatory Changes in the Pachinko and Pachislot Machine Market

Pachinko and Pachislot Machine Player Population

2007: 14.5 million ➔ 2016: 9.4 million

The pachinko and pachislot machine player population has remained on a long-term downward trend due to changes in the market environment resulting from regulatory changes.

Source: White Paper on Leisure Industry 2017

Contraction of the Amusement-Related Market

Size of the Amusement-Related Market
(Total of amusement machine and amusement center operations markets)

2007: ¥897.2 billion ➔ 2015: ¥590.7 billion

The amusement-related market has continued to trend toward contraction due to the diversification of the leisure market as smartphones become more popular.

Source: JAIA, Amusement Industry Survey 2015

Structural Change in the Online Game Content Market

Online Platform Game Content Market

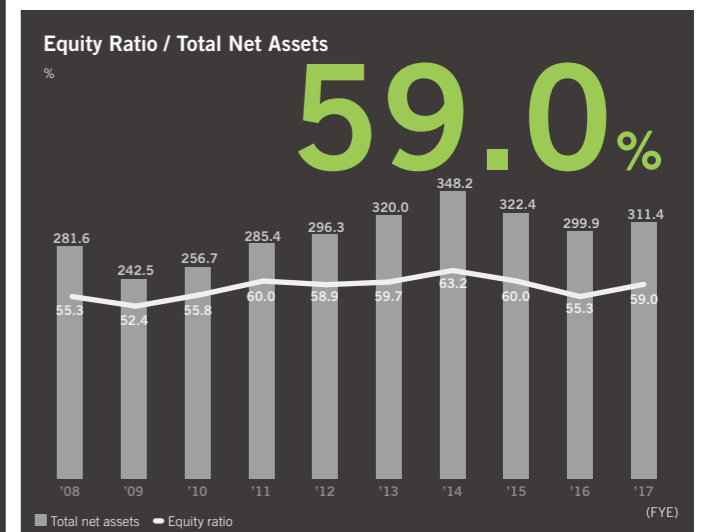
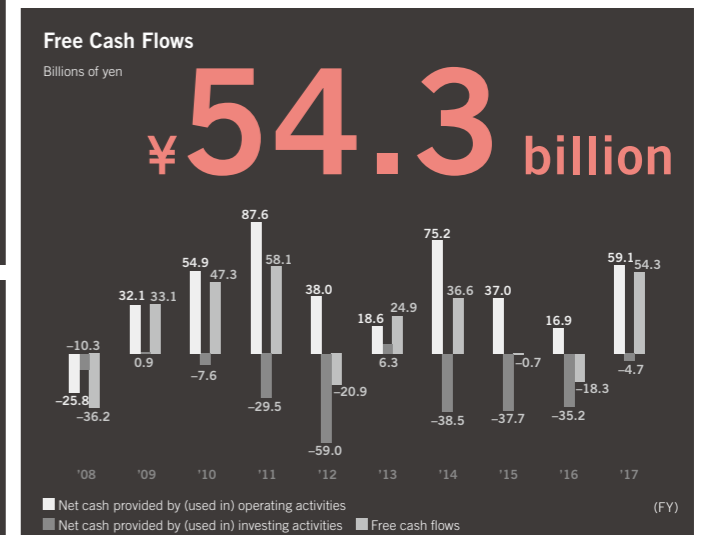
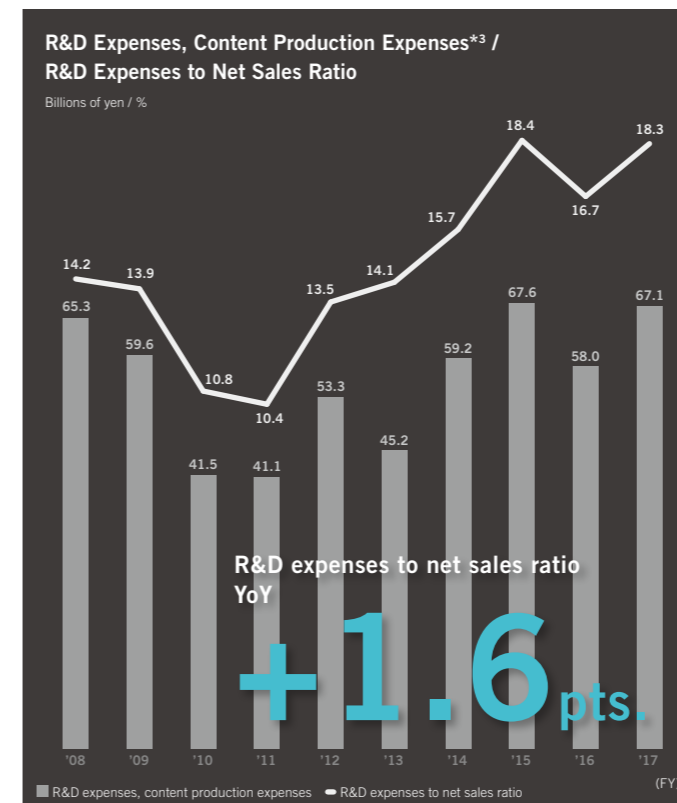
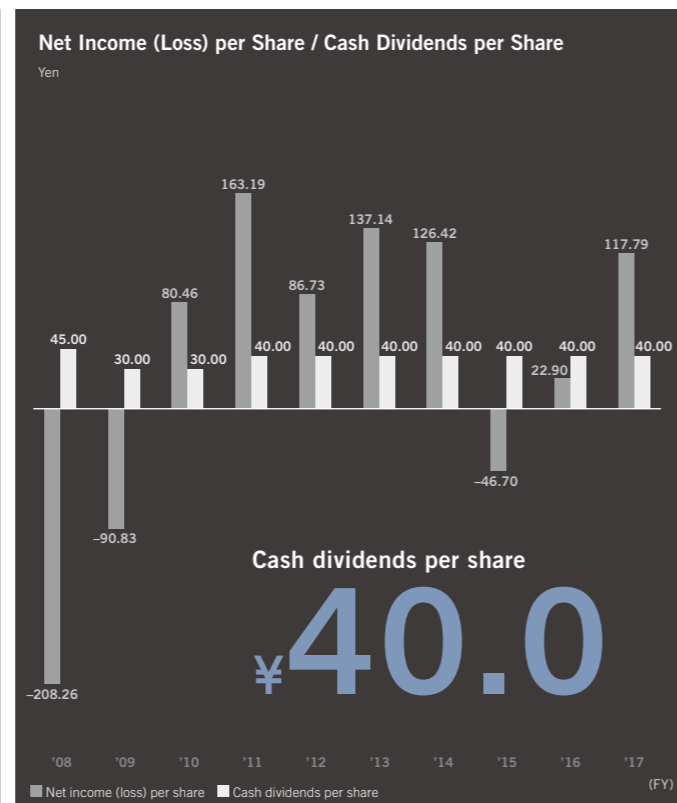
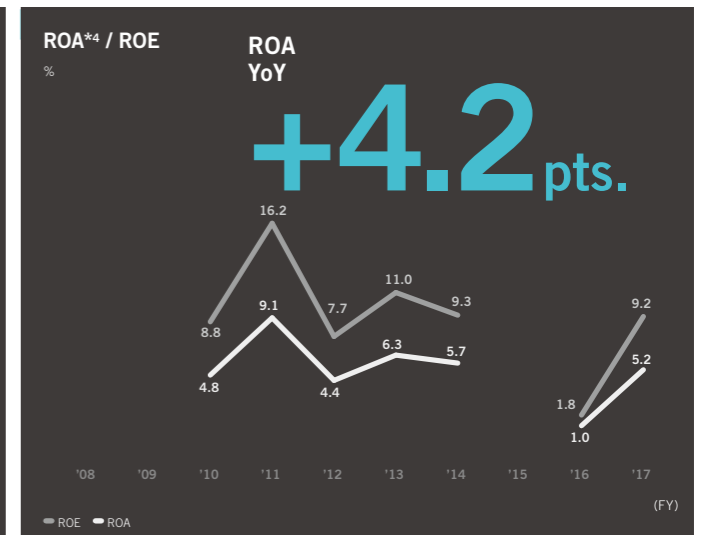
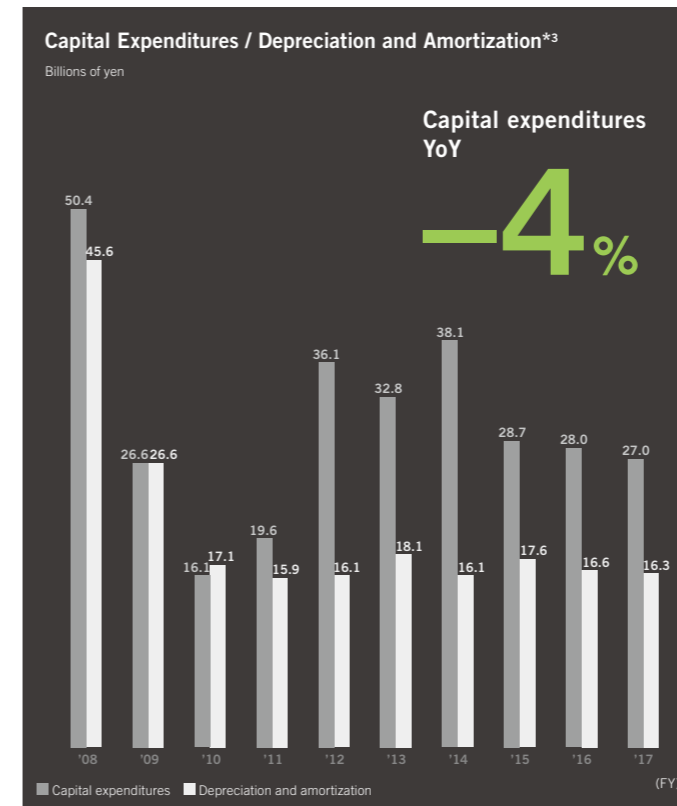
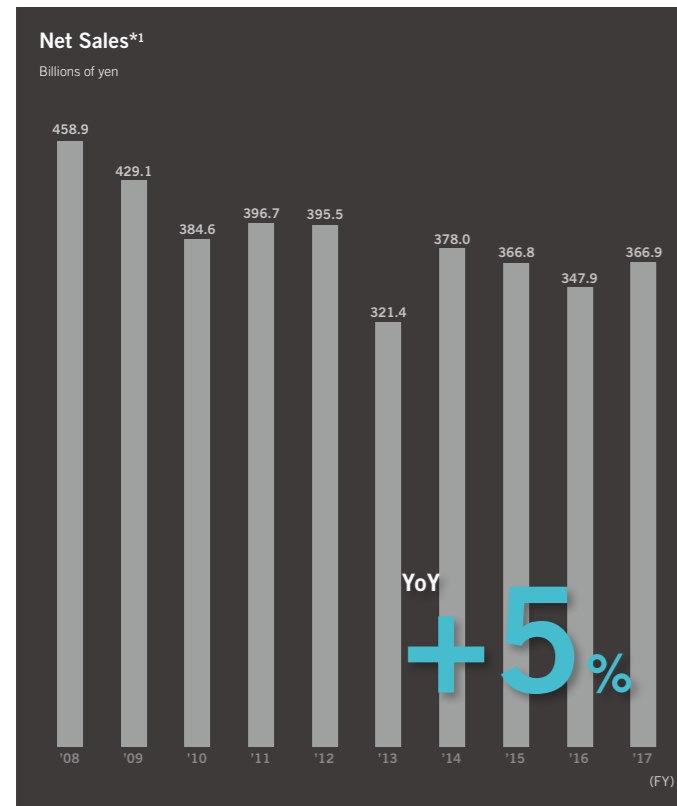
2009: ¥233.2 billion ➔ 2016: ¥1,080.6 billion

The market's structure is transforming, with the focus increasingly shifting away from sell-out packaged games toward online game content, mainly games for smartphones and PCs.

Source: Famitsu Game White Paper 2017

BUSINESS TRENDS

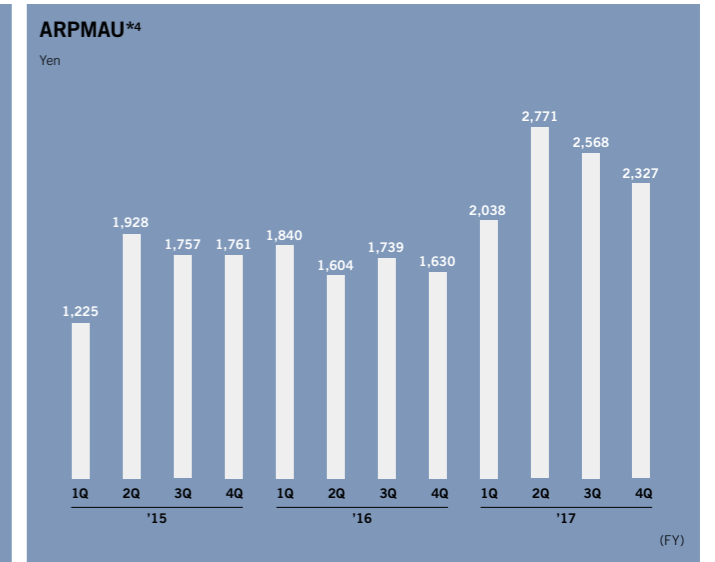
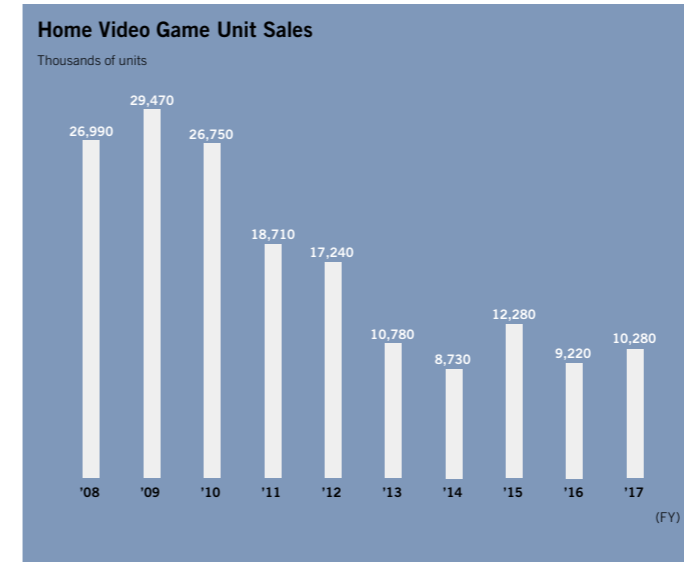
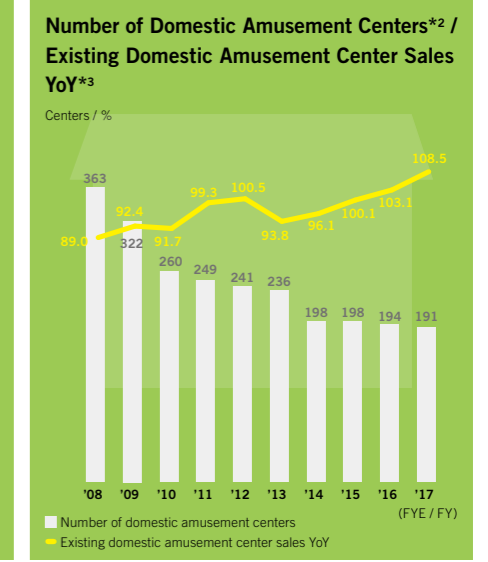
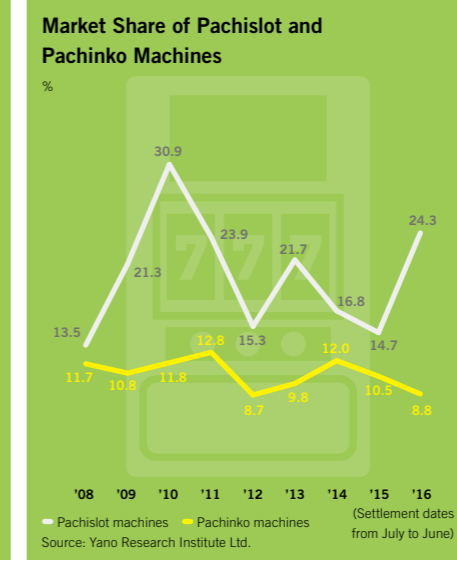
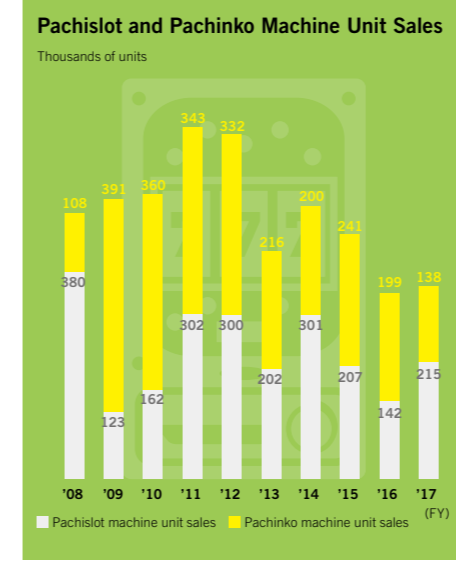
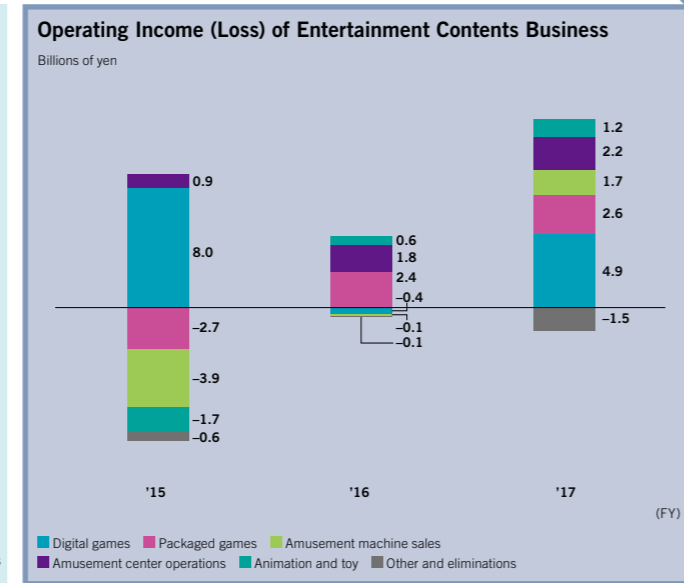
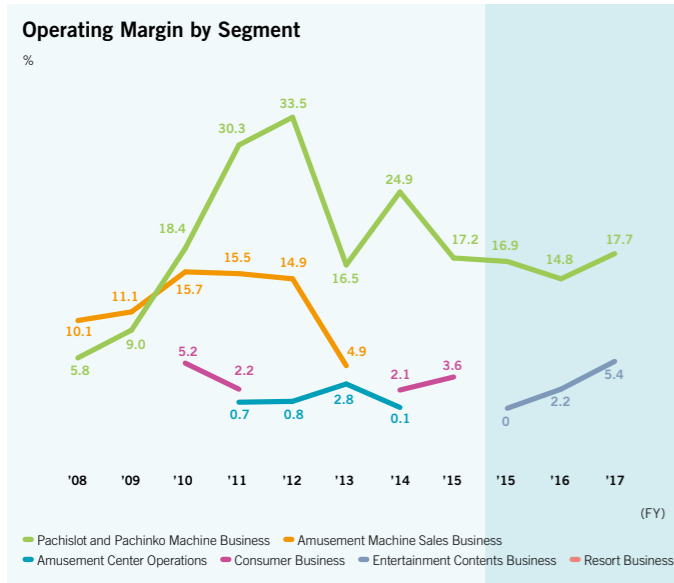
▼ Main Management Index



*1 As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal 2016, figures for fiscal 2015 reflect these changes retrospectively.
 *2 The Company has adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and has presented "net income (loss)" as "profit (loss) attributable to owners of parent" from fiscal 2016.

*3 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.
 *4 ROA = Profit attributable to owners of parent ÷ Total assets

BUSINESS TRENDS



*1 As of the fiscal 2016 change in segmentation, elimination of inter-segment transactions and general corporate expenses that are not allocated to the reporting segment are included in the adjustment to segment income (loss).
 *2 The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the aggregate calculation method for the number of amusement centers has changed as of fiscal 2014.
 *3 As a result of the abovementioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal 2014.
 *4 Calculated from dividing sales by monthly active users (MAU)

► Business Segmentation Change

Changed from Five to Three Business Segments
 We have reorganized our businesses into three business segments to establish a system that expedites decision making, increases efficiency where functions overlap, and enables appropriate deployment of management resources. Furthermore, we sought to adapt to changes in business conditions and heighten management efficiency.



FINANCIAL DATA

Years ended March 31

| | 2011 | 2012 | 2013 | 2014 | 2015*6 | 2016 | Millions of yen, unless stated otherwise 2017 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|---|
| Net sales | ¥396,732 | ¥395,502 | ¥321,407 | ¥378,011 | ¥366,813 | ¥347,981 | ¥366,939 |
| Gross profit | 166,055 | 161,663 | 116,938 | 147,970 | 135,371 | 127,372 | 135,678 |
| Selling, general and administrative (SG&A) expenses | 97,304 | 103,279 | 97,865 | 109,437 | 117,876 | 109,754 | 106,150 |
| Operating income (loss) | 68,750 | 58,384 | 19,073 | 38,533 | 17,495 | 17,617 | 29,527 |
| EBITDA*1 | 84,699 | 74,542 | 37,254 | 58,276 | 39,242 | 38,632 | 50,088 |
| Profit (loss) attributable to owners of parent*2 | 41,510 | 21,820 | 33,460 | 30,721 | (11,375) | 5,369 | 27,607 |
| R&D expenses, content production expenses*3 | 41,104 | 53,348 | 45,294 | 59,219 | 67,622 | 58,042 | 67,102 |
| Capital expenditures | 19,686 | 36,141 | 32,871 | 38,182 | 28,780 | 28,046 | 27,063 |
| Depreciation and amortization*3 | 15,949 | 16,158 | 18,181 | 16,182 | 17,615 | 16,625 | 16,346 |
| Net cash provided by (used in) operating activities | 87,696 | 38,023 | 18,603 | 75,201 | 37,010 | 16,906 | 59,126 |
| Net cash provided by (used in) investing activities | (29,585) | (59,012) | 6,396 | (38,547) | (37,734) | (35,280) | (4,767) |
| Net cash provided by (used in) financing activities | (57,168) | 914 | (1,116) | (11,512) | (15,058) | 14,285 | (38,334) |
| Free cash flows*4 | 58,111 | (20,989) | 24,999 | 36,654 | (724) | (18,373) | 54,359 |
| Total assets | 458,624 | 497,451 | 528,504 | 542,936 | 528,659 | 532,957 | 521,599 |
| Total net assets | 285,461 | 296,376 | 320,034 | 348,270 | 322,452 | 299,950 | 311,497 |
| Number of shares outstanding (shares) | 266,229,476 | 266,229,476 | 266,229,476 | 266,229,476 | 266,229,476 | 266,229,476 | 266,229,476 |
| Number of employees (employees) | 6,000 | 6,700 | 7,008 | 7,472 | 7,888 | 7,606 | 7,639 |
| Net sales per employee | 66.1 | 59.0 | 45.9 | 50.6 | 46.5 | 45.8 | 48.0 |
| Yen | | | | | | | |
| Per Share Data | 2011 | 2012 | 2013 | 2014 | 2015*6 | 2016 | 2017 |
| Net income (loss) | ¥ 163.19 | ¥ 86.73 | ¥ 137.14 | ¥ 126.42 | ¥ (46.70) | ¥ 22.90 | ¥ 117.79 |
| Diluted net income | 163.01 | 86.54 | 136.85 | 125.39 | — | 22.90 | 117.40 |
| Total net assets | 1,093.23 | 1,167.59 | 1,304.44 | 1,409.27 | 1,336.54 | 1,257.43 | 1,313.06 |
| Cash dividends | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 |
| % | | | | | | | |
| Key Ratios | 2011 | 2012 | 2013 | 2014 | 2015*6 | 2016 | 2017 |
| Gross profit margin | 41.9 | 40.9 | 36.4 | 39.1 | 36.9 | 36.6 | 37.0 |
| SG&A ratio | 24.5 | 26.1 | 30.4 | 29.0 | 32.1 | 31.5 | 28.9 |
| Operating margin | 17.3 | 14.8 | 5.9 | 10.2 | 4.8 | 5.1 | 8.0 |
| R&D expenses to net sales | 10.4 | 13.5 | 14.1 | 15.7 | 18.4 | 16.7 | 18.3 |
| ROE | 16.2 | 7.7 | 11.0 | 9.3 | — | 1.8 | 9.2 |
| ROA*5 | 9.1 | 4.4 | 6.3 | 5.7 | — | 1.0 | 5.2 |
| Equity ratio | 60.0 | 58.9 | 59.7 | 63.2 | 60.0 | 55.3 | 59.0 |

*1 EBITDA = Operating income (loss) + Depreciation and amortization; since fiscal 2014, calculations have been based on the inclusion of amortization cost of digital game titles in depreciation and amortization.

*2 The Company has adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and has presented "net income (loss)" as "profit (loss) attributable to owners of parent" from fiscal 2016.

*3 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

*4 Free cash flows = Net cash provided by (used in) operating activities + Net cash provided by (used in) investing activities

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

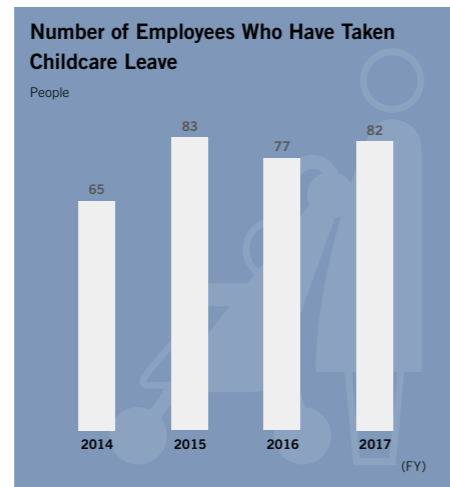
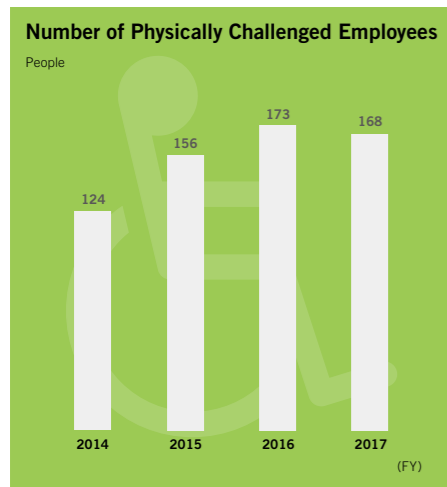
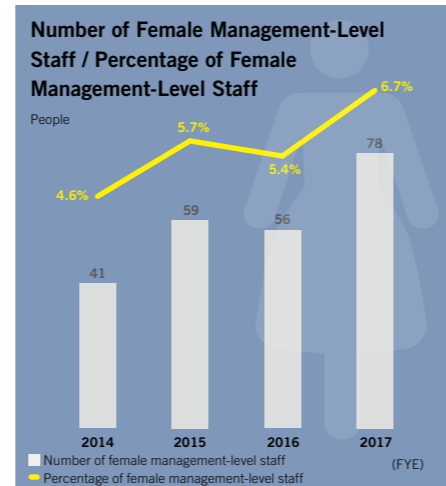
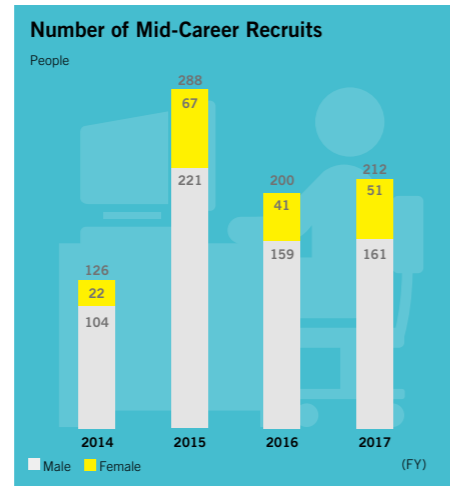
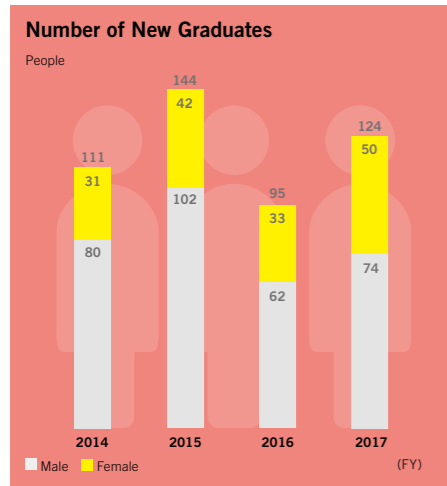
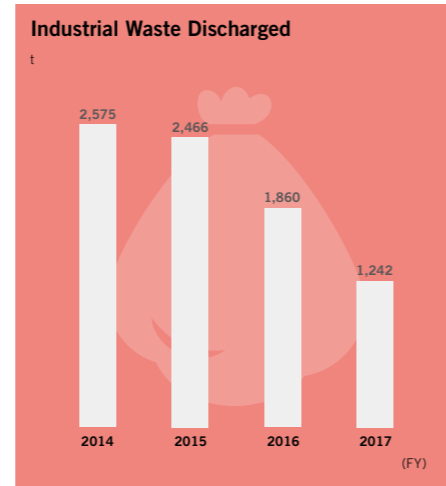
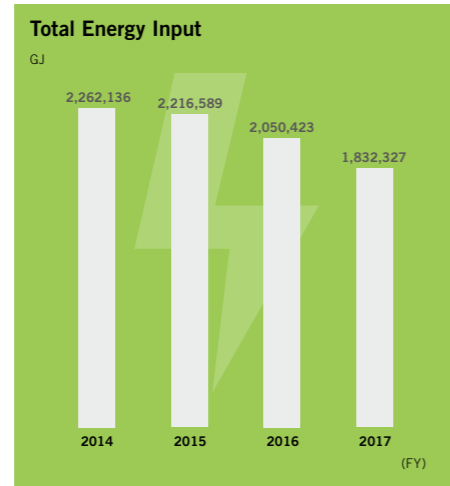
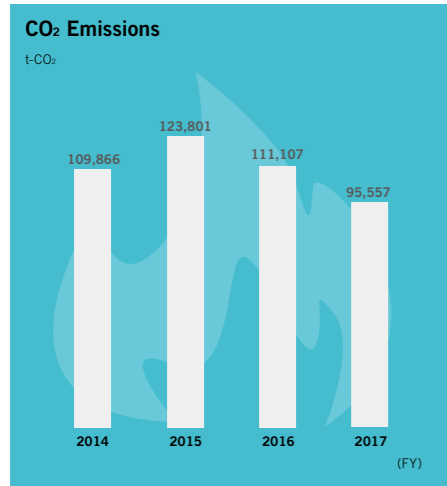
*6 As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal 2016, figures for fiscal 2015 reflect these changes retrospectively.

*7 These figures are annual sales of domestic titles (gross revenues) in the digital game area divided by monthly active users (MAU).

| | 2015*6 | 2016 | Millions of yen, unless stated otherwise 2017 |
|---|----------|----------|---|
| Pachislot and Pachinko Machine Business | | | |
| Net sales | ¥152,174 | ¥141,037 | ¥148,222 |
| Operating income | 25,780 | 20,955 | 26,331 |
| Operating margin (%) | 16.9 | 14.9 | 17.8 |
| R&D expenses, content production expenses | 22,336 | 18,583 | 18,883 |
| Capital expenditures | 6,949 | 5,014 | 5,871 |
| Depreciation and amortization | 6,484 | 7,913 | 5,844 |
| Pachislot machine unit sales (units) | 207,830 | 142,337 | 215,736 |
| Pachinko machine unit sales (units) | 241,425 | 199,014 | 138,321 |
| | | | |
| Entertainment Contents Business | 2015*6 | 2016 | 2017 |
| Net sales | ¥199,663 | ¥190,551 | ¥205,704 |
| Operating income | 63 | 4,216 | 11,176 |
| Operating margin (%) | 0.0 | 2.2 | 5.4 |
| R&D expenses, content production expenses | 45,705 | 39,222 | 48,129 |
| Capital expenditures | 19,522 | 17,867 | 16,668 |
| Depreciation and amortization | 9,569 | 11,437 | 8,719 |
| ARPMU*7 (yen) | 1,761 | 1,630 | 2,327 |
| Number of domestic amusement centers (centers) | 198 | 194 | 191 |
| Existing domestic amusement center sales year on year (%) | 100.1 | 103.1 | 108.5 |
| Home video games unit sales (thousands) | 12,280 | 9,220 | 10,280 |
| | | | |
| Resort Business | 2015*6 | 2016 | 2017 |
| Net sales | ¥14,974 | ¥16,392 | ¥13,012 |
| Operating loss | (2,336) | (1,825) | (2,244) |
| Operating margin (%) | — | — | — |
| R&D expenses, content production expenses | 235 | 591 | 237 |
| Capital expenditures | 2,152 | 5,045 | 4,506 |
| Depreciation and amortization | 995 | 1,047 | 1,162 |

NON-FINANCIAL DATA

Years ended March 31



SHAREHOLDER VALUE

We will meet shareholders' expectations by heightening shareholder value through the provision of stable returns to shareholders and the steady implementation of growth strategies.

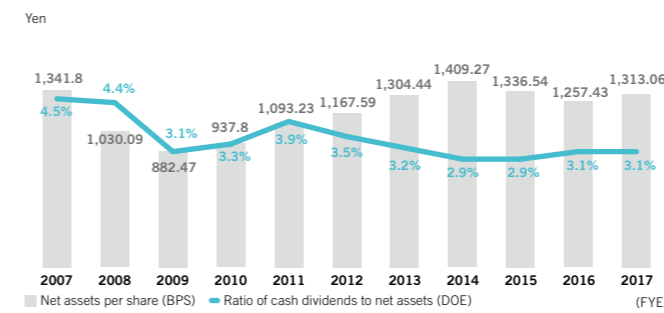
Returning Profits to Shareholders—Policy, Results, and Outlook

While directly returning profits to shareholders through stable cash dividends, we will retain the option of acquiring treasury stock in response to share price levels. Meanwhile, we will increase shareholder value continuously while taking care to balance strategic investment to win out against competitors in growth areas and to secure internal reserves needed for a future integrated resort business.

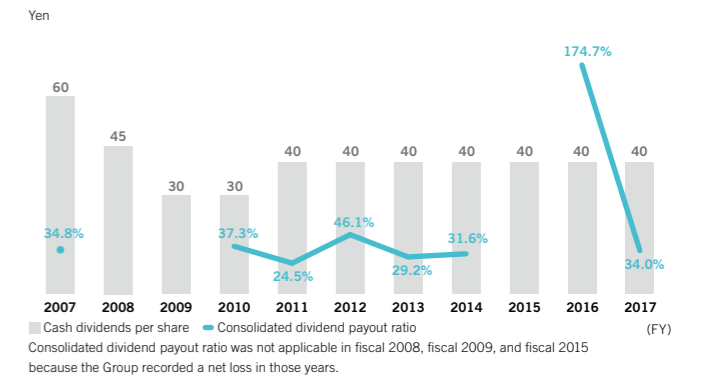
For fiscal 2017, we paid cash dividends of ¥40.00 per share. As a result, the ratio of cash dividends to net assets was 3.1%.

For fiscal 2018, the year ending March 31, 2018, we plan to pay interim cash dividends of ¥20.00 per share and year-end cash dividends of ¥20.00 per share, giving full-year cash dividends of ¥40.00 per share.

Net Assets per Share (BPS) / Ratio of Cash Dividends to Net Assets (DOE)



Cash Dividends per Share / Consolidated Dividend Payout Ratio

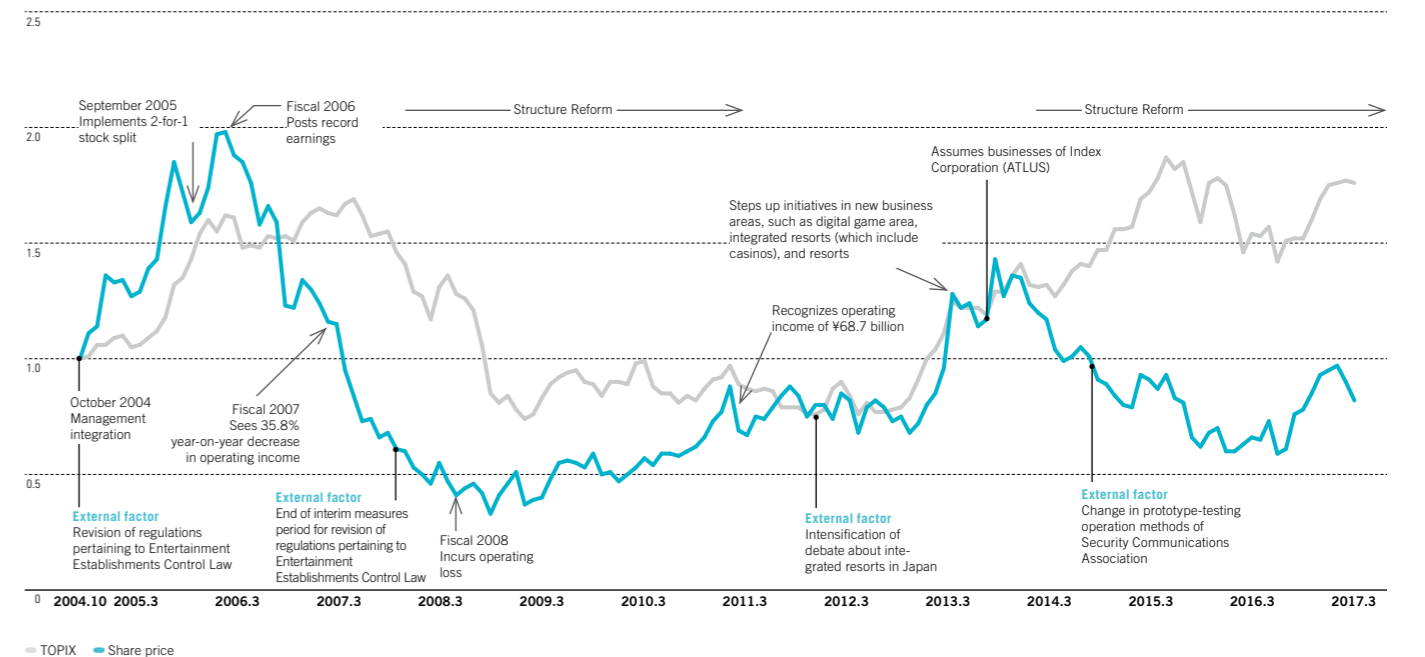


Acquisition of Shares of Treasury Stock

| (FY) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------|------|------|------|------|------|------|-------------------|------------------|-------------------|------|-------------------|------|------|
| Shares | — | — | — | — | — | — | 14 million shares | 5 million shares | 10 million shares | — | 10 million shares | — | — |

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)

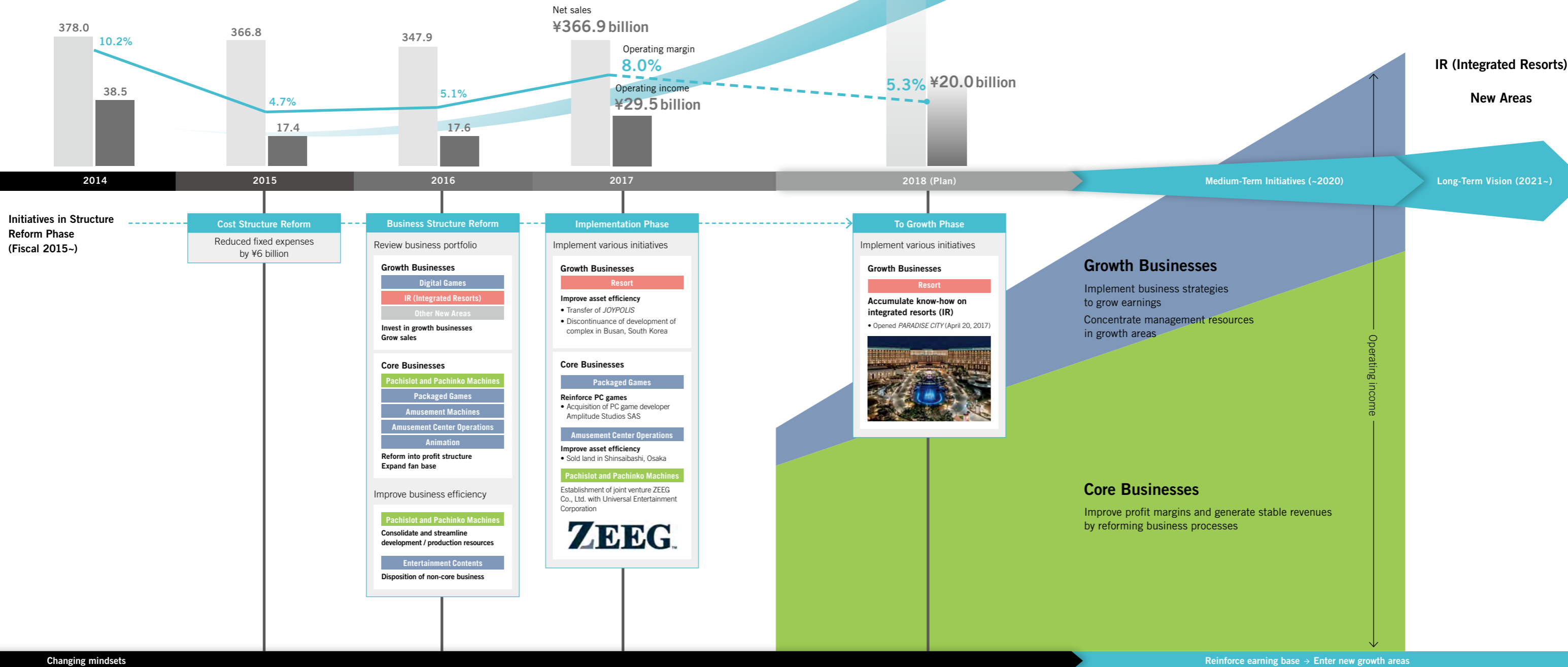


ROAD TO 2020



Having established a solid platform by building a robust earnings structure during a structure reform phase and by strengthening its business portfolio management framework, the SEGA SAMMY Group set out a long-term vision. Aiming to realize this vision, we established Road to 2020, an initiative targeting fiscal 2020. In a concerted effort, the Group will implement concrete measures and overcome uncertain business conditions to realize medium-term performance targets and achieve continuous increases in corporate value over the long term.

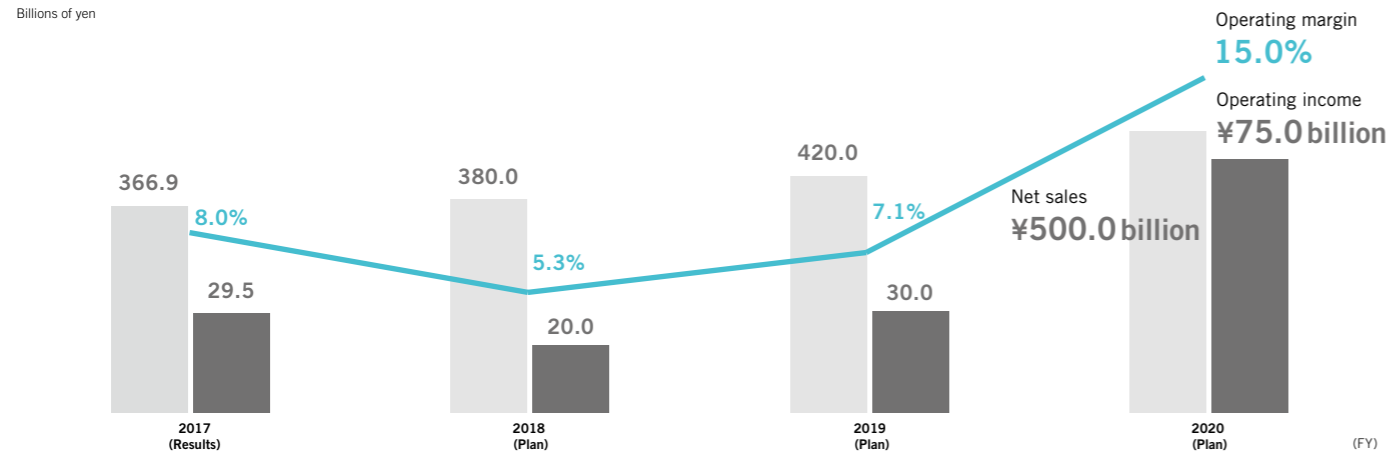
Long-Term Roadmap



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

Trends in Medium-Term Business Results

We are transitioning into a phase of implementing measures aimed at making dramatic progress in the closing stages of Road to 2020. We intend to take measures that strengthen business portfolio management, enhance efficiency and growth simultaneously, and increase our profit margin.

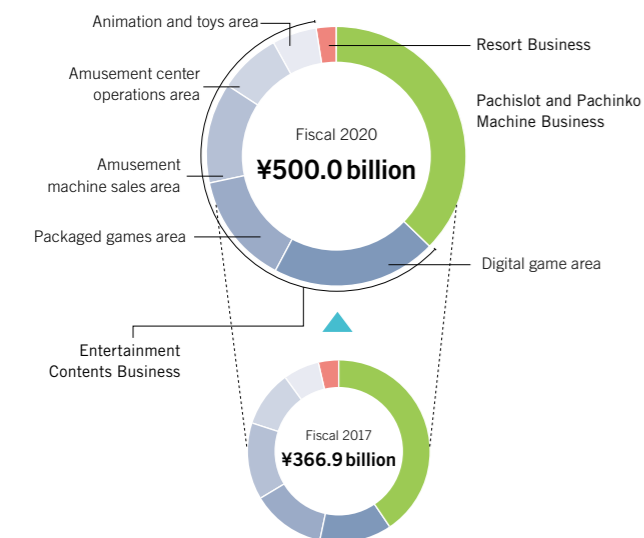


Operating income margin of at least 15%
Expect ROA of at least 5% based on the assumption that total asset size will be the same as current level

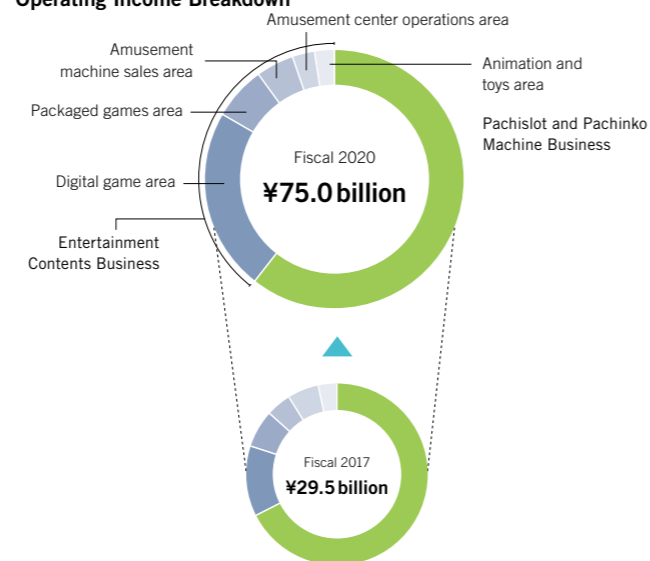
Portfolio Shift

Digital games area will drive net sales and operating income. Meanwhile, we anticipate an increase in the profitability of the Pachislot and Pachinko Machine Business.

Net Sales Breakdown



Operating Income Breakdown*



* Excluding the Resort Business, which is expected to record an operating loss of ¥1.0 billion

Medium-Term Goals by Business Segment

Plans call for higher earnings in the Pachislot and Pachinko Machine and the Entertainment Contents businesses in fiscal 2020. Meanwhile, the Resort Business will continue strengthening its earning power. However, this business segment is likely to record an operating loss due to investment designed to ensure the success of the integrated resort business.

| | | Fiscal 2017 (Results) | Fiscal 2018 (Plan) | Fiscal 2019 (Plan) | Fiscal 2020 Management Goals |
|---|------------------------------------|-----------------------|--------------------|--------------------|------------------------------|
| Consolidated | Net sales (Billions of yen) | 366.9 | 380.0 | 420.0 | 500.0 |
| | Operating income (Billions of yen) | 29.5 | 20.0 | 30.0 | 75.0 |
| | Operating margin | 8.0% | 5.3% | 7.1% | 15.0% |
| Pachislot and Pachinko Machine Business | Net sales (Billions of yen) | 148.2 | 150.0 | 165.0 | 185.0 |
| | Operating income (Billions of yen) | 26.3 | 20.0 | 28.0 | 52.0 |
| | Operating margin | 17.7% | 13.3% | 17.0% | 28.1% |
| Entertainment Contents Business | Net sales (Billions of yen) | 205.7 | 220.0 | 245.0 | 305.0 |
| | Operating income (Billions of yen) | 11.1 | 10.0 | 15.0 | 32.0 |
| | Operating margin | 5.4% | 4.5% | 6.1% | 10.5% |
| Resort Business | Net sales (Billions of yen) | 13.0 | 10.0 | 10.0 | 10.0 |
| | Operating loss (Billions of yen) | -2.2 | -3.0 | -2.0 | -1.0 |
| | Operating margin | — | — | — | — |
| Other / Eliminations | Net sales (Billions of yen) | — | — | — | — |
| | Operating loss (Billions of yen) | -5.7 | -7.0 | -11.0 | -8.0 |

* PARADISE SEGASAMMY is not included because of application of the equity method.

Major Tasks by Business Segment

To realize its goals, each business segment is faced with important management tasks, which include enhancing the profitability of pachislot and pachinko machines and *creating titles that become global hits* in the digital game and packaged games areas.



A MESSAGE FROM THE CFO



Our financial strategies will provide powerful support for Road to 2020 measures.

Koichi Fukazawa
Executive Vice President and
CFO (Director of the Board)

My Mission as CFO

I will enhance corporate value by maintaining financial discipline while supporting business strategies.

SEGA SAMMY HOLDINGS INC. has redefined its role as a holding company. Previously, it coordinated the strategies of operating companies. Now, however, the Company is unifying Groupwide values and playing a central role in planning. Accordingly, the Company has announced its first medium-to-long-term business strategy: Road to 2020.

As CFO, I want to enhance corporate value by preparing financial strategies that add impetus to business strategies while acting as a “goalkeeper” who maintains financial discipline. SEGA SAMMY HOLDINGS is the only listed company in the Group and as such will be responsible for communicating with capital markets and financial institutions.

I intend to carefully explain the Group’s short-term performance in the context of the Group’s long-term vision and the medium-term strategies designed to realize it.

Road to 2020—Key Financial and Capital Strategies

Preparing to participate in the integrated resort business in Japan, we will advance financial strategies from a medium-term viewpoint.

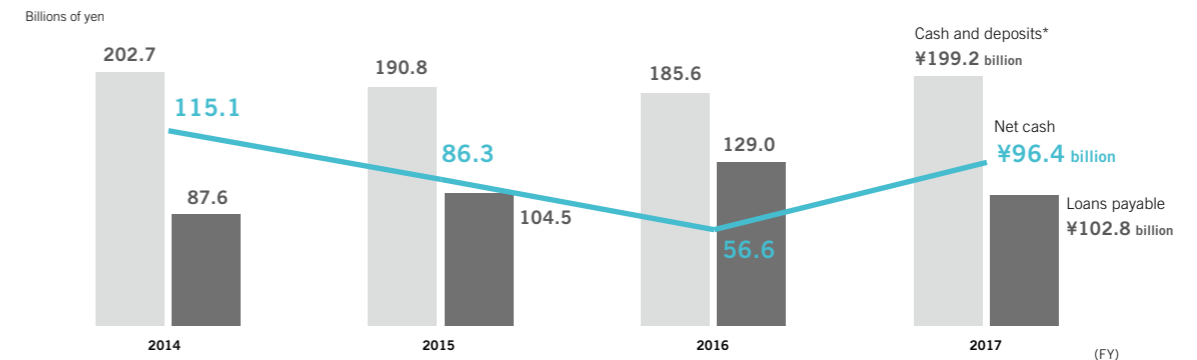
In May 2014, the SEGA SAMMY Group established the Group Structure Reform Division, which achieved clear benefits by implementation of cost structure reform in existing businesses. This reform established foundations upon which we can prepare forward-looking strategies. Following on from these efforts, in fiscal 2016 we implemented business structure reform, which entailed strengthening business portfolio management and then reorganizing and reclassifying businesses. In fiscal 2017, we shifted to a phase of steady implementation, selling “withdraw/downsize” businesses and investing in growth businesses. While strengthening foundations in this way, the Group launched Road to 2020 under new leadership. This initiative sets an operating margin of 15% and ROA of 5% as management targets and—by establishing specific

strategies and measures for each business—clearly explains to internal and external stakeholders how the Group will reach these targets. Meanwhile, on the opposite side of the same coin from business strategies, our financial strategies will complement business strategies by establishing the financial discipline needed to secure adequate capital provision.

In growth areas, we will enable proactive investment in research and development, content production, and advertising. These efforts will focus on the digital game area and the realization of our major task in this area: creating titles that become global hits. Also, rather than viewing mainstay businesses as operations that are to remain unchanged, we have positioned them as core businesses that will play a pivotal role in the success of the Group’s growth strategies. Therefore, we intend to invest actively in the Pachislot and Pachinko Machine Business and other mainstay businesses. In fiscal 2018, of the ¥71.0 billion we plan to invest in research, development, and content production, we have earmarked ¥19.3 billion for investment in the Pachislot and Pachinko Machine Business. We expect that these investments will produce medium-term benefits by building the product lineup for fiscal 2019 and fiscal 2020.

The pillar of the Group’s long-term business strategy is participation in the integrated resort business in Japan. We cannot predict the type of structure this business will assume because an IR implementation bill has yet to be enacted. When the Group enters the integrated resort business in Japan, establishing a robust financial position that allows the Group to match competitors and increasing the flexibility of fund-raising so that the Group can source a variety of financing formats will be extremely important tasks. Maintaining an awareness of credit ratings and taking into consideration the volatility of our businesses, at this stage we are giving priority to maintaining a net cash position. In fiscal 2017, net cash of ¥96.4 billion reflected the high level of net cash provided by operating activities, which reached ¥59.1 billion. While reducing interest-bearing debt and curbing costs, we increased the flexibility of fund-raising by establishing commitment lines to add to our options.

In addition, the Group has begun integrated control of fund-raising and management based on a framework that it has been developing for the past several years. Going forward, I want to use this framework effectively to increase the precision of cash flow forecasts and to enhance capital efficiency, thereby heightening the profitability of businesses.



Net cash rebounding from downward trend

* Cash and cash equivalents at end of period in consolidated statements of cash flows

Strengthening of Business Portfolio Management

While increasing the profitability of businesses, we will improve asset quality to heighten asset efficiency.

We have chosen ROA rather than ROE as a key performance indicator for the same reason that we are focusing on net cash. In preparation for participation in the integrated resort business in Japan, we are securing a high level of shareholders’ equity on the one hand while curbing leverage on the other. In addition, we decided that using ROA as a key performance indicator is more in keeping with the strategic direction of operating companies than using ROE would be, which can encourage reductions in shareholders’ equity. Moreover, using ROA will be an effective way of making the Group more cohesive. In conjunction with efforts to increase the profitability of businesses, we will rebalance assets to improve asset efficiency. In fiscal 2017, we acquired the game developer Amplitude Studios SAS to strengthen the PC game businesses

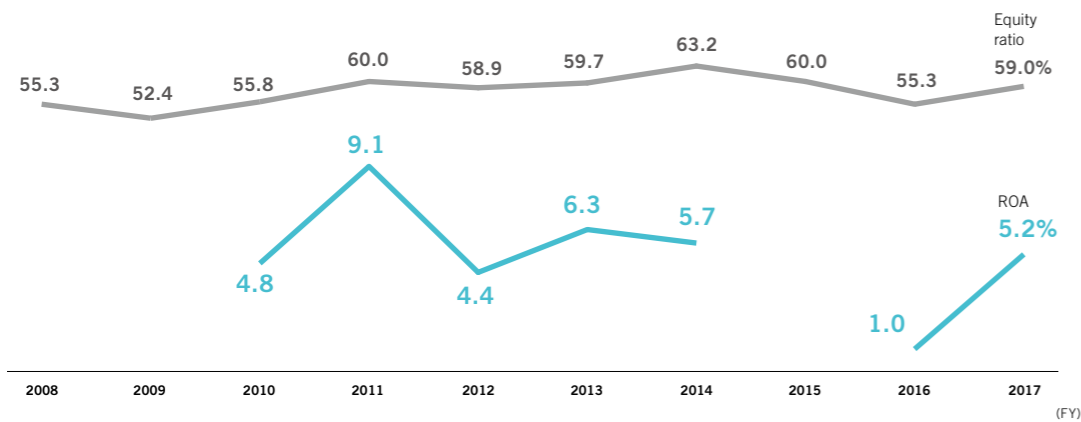
A MESSAGE FROM THE CFO

in the United States and Europe. Meanwhile, we discontinued the development of a resort complex in Busan, South Korea; sold an amusement center in Shinsaibashi, Osaka; and sold most of our stake in the subsidiary that manages JOYPOLIS indoor theme parks.

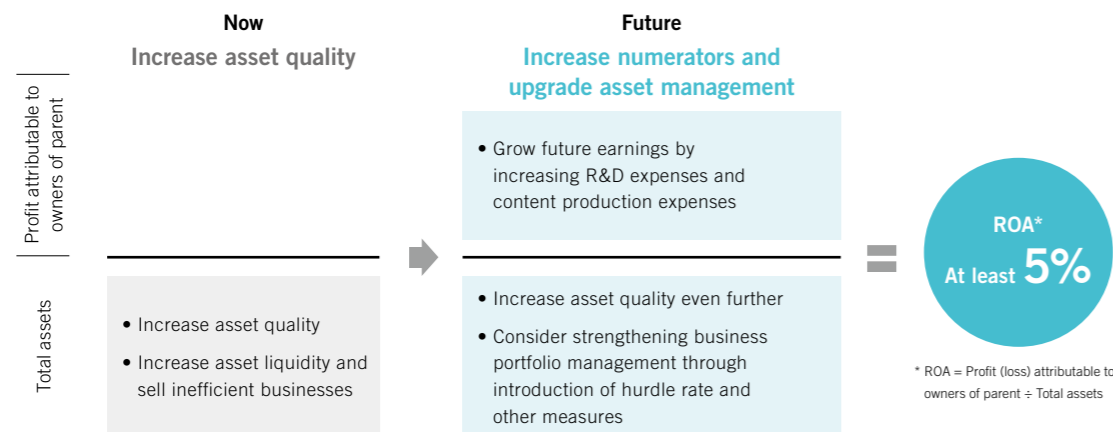
Since SEGA SAMMY HOLDINGS assumed a central role in planning, the steady increase in the sophistication of the Group's portfolio management has been palpable. However, I always have a sense of crisis because complacency leads to regression. Rather than simply pursuing an absolute earnings amount, I want to focus strongly on the cost of capital on both a holding company and an operating company basis. I intend to strengthen business portfolio management even further so that we can increase the equity spread and thereby enhance corporate value. As part of these efforts, we will consider the option of setting a hurdle rate.

Reasons for Making ROA an Important KPI

- (1) Need for high level of shareholders' equity and reduced leverage
 - To secure funds in hand in preparation for participation in the integrated resort business in Japan
 - To enable steady investment for growth amid the volatile business results that characterize our business formats
- (2) Strong possibility that investment will shift toward fixed assets
 - Amusement center operations area and the Resort Business
- (3) Establishment of measures acceptable to operating companies
 - Easy to promote understanding of measures introduced to operating companies



Aiming to increase ROA



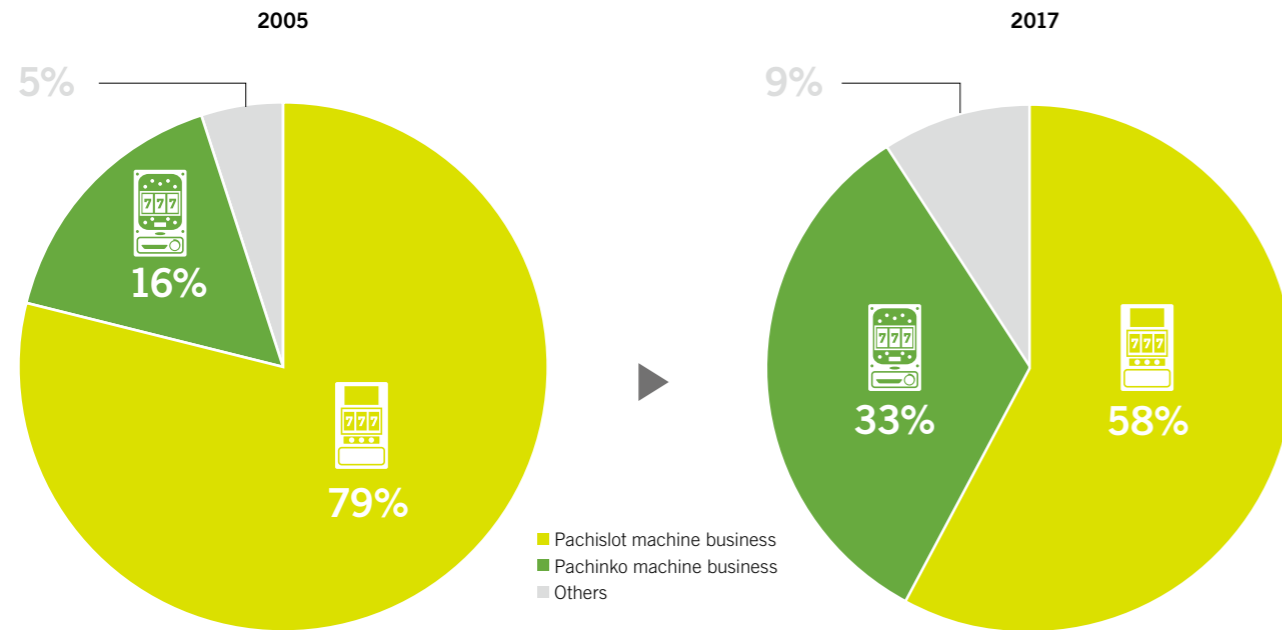
OPERATIONAL SEGMENTS

Pachislot and Pachinko Machine Business

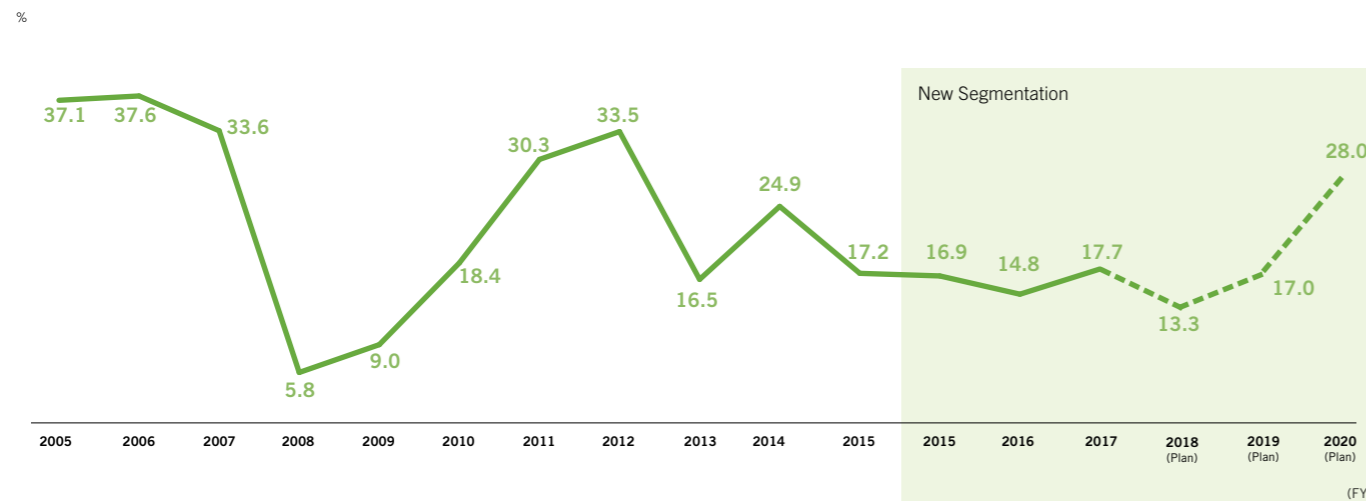
As an innovator in the industry, the Pachislot and Pachinko Machine Business will advance fresh initiatives. In conjunction with these efforts, the business segment will tirelessly strengthen its earnings structure to generate stable earnings.

▶ Business Portfolio

Net Sales Breakdown



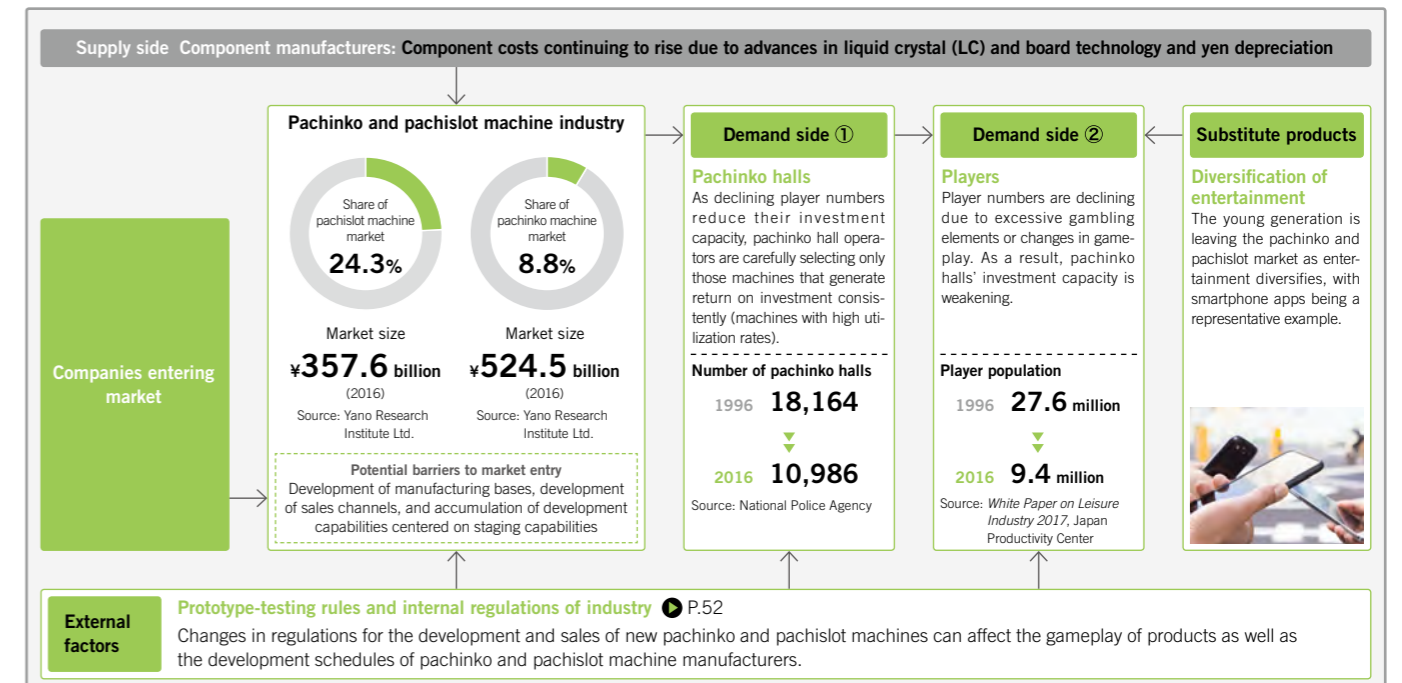
Operating Margin



▶ Industry Structure and SWOT

With the player population declining as a result of regulatory changes and entertainment diversification, pachinko hall operators' financial positions have worsened. Consequently, the pachinko and pachislot machine market continues to contract.

Industry Structure



Analyzing SWOT



Pachislot and Pachinko Machine Business

▶ Road to 2020 Business Strategy

Vision

Sammy...
the wellspring of new ideas as
an innovator in the industry

Segment
target

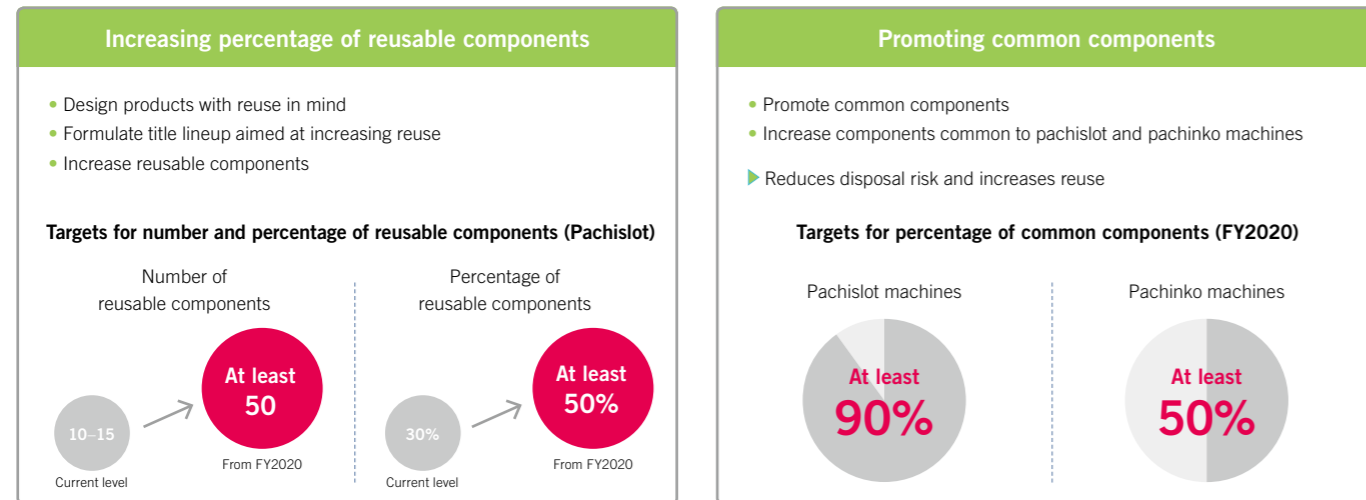
Operating margin*
At least 30%

* Excluding "other and eliminations" of the Pachislot and Pachinko Machine Business

▶ Major Tasks

Promote Component Reuse

For pachislot machines, we aim to increase reusable components to at least 50 so that they account for more than 50% of costs, versus the present level of 30%. Further, we will raise the common components ratio to at least 90% for pachislot machines and to at least 50% for pachinko machines. The above measures will strengthen the earnings structure.



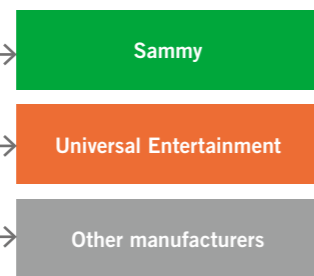
Build Industry Platform

Established as a joint venture with Universal Entertainment Corporation, ZEEG Co. Ltd. will lead efforts to introduce common component units to the industry as a whole, thereby enhancing product appeal and cost performance. Also, the company will help revitalize and raise the efficiency of the entire industry. In fiscal 2018, we plan to market a new title that uses a ZEEG-made machine cabinet.

Develop and sell common machine cabinets and component units

Develop and sell products that use ZEEG machine cabinets and component units

ZEEG



Enhancing product appeal by using high-quality machine cabinets
Improving costs by reusing machine cabinets in the future

Improve Development Efficiency

We will shorten development lead times by between 20% and 30% by narrowing down the number of titles while increasing the number of personnel per title. As well as enabling us to capture market demand more readily by improving the timing of product launches, shorter lead times will maximize returns on investments and mitigate risk. In tandem with these efforts, we will strengthen the quality assessment process to secure even higher quality.

Reforming development process and enhancing product quality

- Shorten development lead times to ensure product marketing coincides with peak market demand
 - Narrow down titles and increase personnel per title
 - Reform development process comprehensively (in-house approval system, quality control process, promotion of in-house production)
- Strengthen quality assessment process (test playing)



Shortening development lead times and strengthening the quality assessment process to realize timely product launches that tap into market demand

Implement Business-to-Consumer Measures

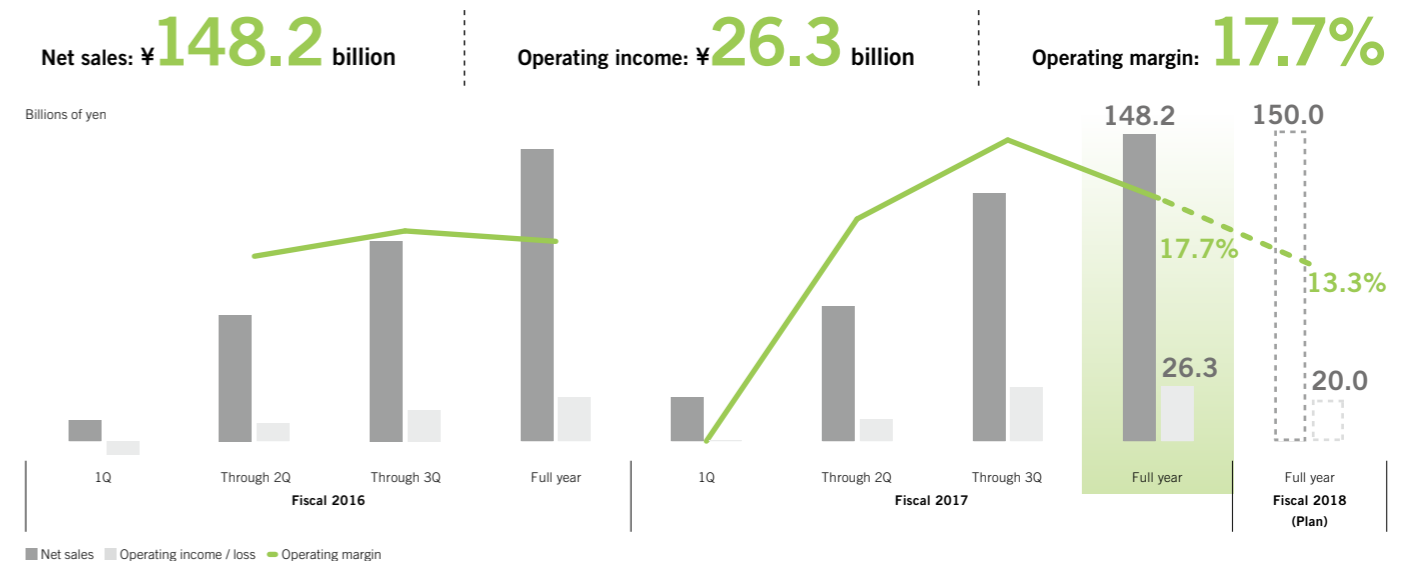
By holding offline events and operating information websites for smartphones, we are increasing direct communication with consumers and energizing the industry. As part of these efforts, we jointly hosted the *Universal Carnival x Sammy Festival 2017* with Universal Entertainment Corporation on July 30, 2017. The event attracted more than 17,000 visitors, including pachinko and pachislot fans, pachinko hall operators, and members of the media.

▶ Fiscal 2017 Summary and Fiscal 2018 Outlook

In fiscal 2017, pachislot machine unit sales increased approximately 50%, and net sales of pachislot machines grew roughly 40%, reflecting the marketing of mainstay title *Pachislot Hokuto No Ken Syura no kuni hen* and other pachislot machine titles belonging to well-established series. Meanwhile, a strategic decision to postpone the marketing of major pachinko machine titles until the current fiscal year led to decreases of 30% in pachinko machine unit sales and 28% in net sales of pachinko machines. Also, the Group improved costs through component reuse and curbed development expenses and other costs. As a result of the

above, the Pachislot and Pachinko Machine Business posted year-on-year increases of 5.1% in net sales, to ¥148.2 billion, and 25.7% in operating income, to ¥26.3 billion.

In fiscal 2018, the pachislot machine business is likely to see lower pachislot machine unit sales due to the application of new self-regulatory measures to pachislot machines installed from October 1, 2017. On the other hand, we expect that bringing to market major titles and other new titles will grow pachinko machine unit sales. Further, given the sales mix and market conditions, the business segment has set a conservative target for earnings.



Pachislot and Pachinko Machine Business

▶ Basic Information about the Pachinko and Pachislot Machine Market

Size of Pachinko and Pachislot Markets

Pachinko machines trace their origins to bagatelle boards, imported to Japan in the 1920s. Pachinko is a game in which players manipulate a handle in order to mechanically shoot steel pachinko balls with diameters of about 11mm onto a vertically positioned board studded with numerous pins. When the balls fall into certain devices or the jackpot mouth, additional pachinko balls are won. The main difference between pinball and pachinko is that in a pachinko machine the board is vertical.

Meanwhile, the roots of pachislot are said to be slot machines brought from the United States after the end of the Second World War. The 1960s saw the emergence of slot machines requiring a certain level of playing skill because they incorporated buttons that allowed players to stop the reels spinning. These machines spread to pachinko halls throughout Japan.

As one of Japan's flagship leisure industries, pachinko and pachislot claims a major share of the country's leisure market. Comprising the ball and token rental fees that the pachinko halls charge, this market accounts for roughly 30.5% of the leisure market, revenues of ¥21.6 trillion,*1 and 9.4 million players.*1 In the pachinko and pachislot machine manufacturing industry, machine sales are worth approximately ¥882.1 billion.*2

*1 2016. Source: *White Paper on Leisure Industry 2017*, Japan Productivity Center
 *2 Fiscal 2016 (settlement dates from July to June)
 Source: Yano Research Institute Ltd.

Regulatory Environment

Before launching a machine, manufacturers are required to navigate an approval process in accordance with the Enforcement Regulation of Entertainment Establishments Control Law. First, they must file an application for prototype testing with the Security Communications Association and acquire certification that elements such as materials, functions, and gameplay are in conformance with the regulation. Next, the machines are verified by the Public Safety Commission in each prefecture. Only then can they be supplied to pachinko halls. Before commencing operations, the pachinko hall operators must acquire approval from district police stations.

The Enforcement Regulation of Entertainment Establishments Control Law and the internal regulations of industry bodies have been revised frequently with a view to the sound development of the industry. Each revision has affected the pachinko and pachislot machine market.

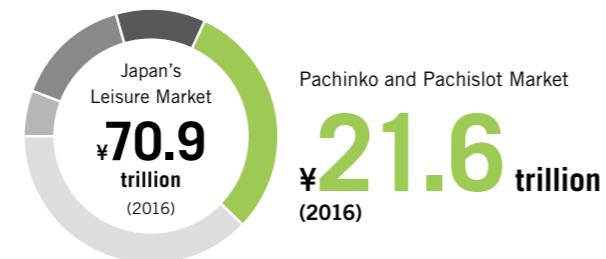


Pachislot Hokuto No Ken Syura no kuni hen
 ©Buronson & Tetsuo Hara/NSP 1983, ©NSP 2007
 Approved No.YSC-506 ©Sammy



Pachinko CR SOUTEN-NO-KEN Tenki
 ©Tetsuo Hara & Buronson/NSP 2001, Approved No.YDM-406 ©Sammy

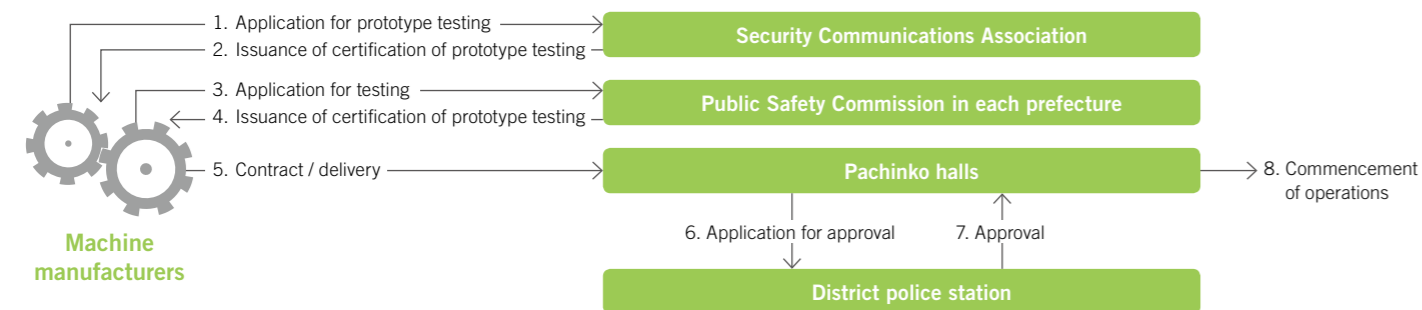
Shares of Pachinko and Pachislot in Japan's Leisure Market



| | % | Trillions of yen |
|--|------|------------------|
| Games / Publicly operated sports / Eating and drinking | 37.7 | 26.7 |
| Pachinko and pachislot*3 | 30.5 | 21.6 |
| Hobbies | 11.2 | 7.9 |
| Tourism | 14.9 | 10.5 |
| Sports | 5.7 | 4.0 |

Source: *White Paper on Leisure Industry 2017*, Japan Productivity Center
 *3 Total amounts of hall ball and token rentals

Approval Process for Pachinko and Pachislot Machines



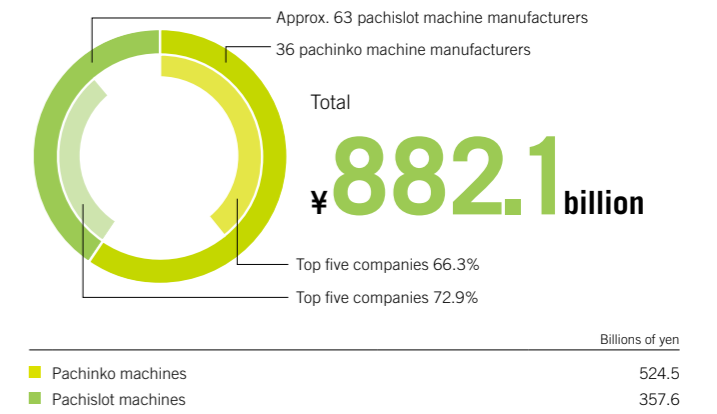
Strengthening Oligopoly among Leading Titles and Companies

In the pachinko machine market, pachinko machines are sold by 36*4 companies. In the pachislot machine market, pachislot machines are sold by approximately 63*5 companies. Pachinko hall operators have been facing challenging business conditions due to the decline in the player population since the enforcement of a revision of regulations pertaining to the Entertainment Establishments Control Law (the "regulatory revision") in 2004. As a result, a pronounced bias has emerged in market demand toward titles and manufacturers that promise reliable returns on investment. Partly reflecting the heightened difficulty of development as regulations continue to become stricter, recent years have seen the emergence of an increasingly well-defined oligopoly comprising titles and brands with solid utilization rate track records and companies with robust development capabilities and abundant funds for investment.

*4 Source: Yano Research Institute Ltd.

*5 Due to the number of organizations and companies, the current number of pachislot machine manufacturers is the Group's estimate.

Emergence of Oligopoly of Leading Manufacturers / Pachinko and Pachislot Machine Market Scale

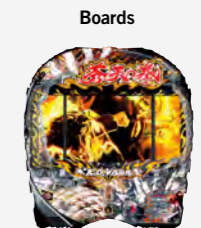
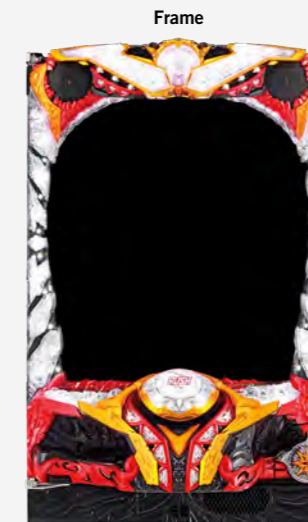


Source: The number of pachislot machine manufacturers is the Group's estimate. Market shares are from Yano Research Institute Ltd. (Unit sales basis, fiscal 2016 (settlement dates from July to June))

! Keywords in the Pachinko and Pachislot Machine Market

Pachinko Machine Boards and Frames

The frame is the cabinet part of a pachinko machine. It physically controls the shooting and paying out of pachinko balls. Meanwhile, the board comprises LCDs, "Yakumono," and numerous pins. The board incorporates electronic components, such as boards and sensors that control gameplay, including images and win chances presented by LCDs, and payouts. Because frames can be used continuously for certain periods, pachinko hall operators can introduce new pachinko machines by purchasing boards and simply attaching them to frames already installed at pachinko halls. The price of a pachinko board is less than that of an entire machine (a frame and board), which enables pachinko hall operators to lighten their investment burden. For manufacturers, sales of pachinko boards provide higher margins than sales of entire machines. Furthermore, under this sales model, the installation of a frame promises to generate continuous demand.



New pachinko machines can be introduced by simply attaching boards to frames



Pachinko CR Monster Hunter 4
 ©CAPCOM CO., LTD.
 ALL RIGHTS RESERVED.
 ©Sammy

Key Indicators for Analysis of Conditions in the Pachinko and Pachislot Machine Markets

Annual turnover = $\frac{\text{Annual pachinko and pachislot machine unit sales}}{\text{Pachinko and pachislot machine installations}}$

Shows the number of times pachinko hall operators replace machines during one year and their capital investment appetite

Extra capital investment capacity increasing **Up**

Annual turnover

Extra capital investment capacity decreasing **Down**

Utilization rate = $\frac{\text{The number of hours per business day that pachinko or pachislot machines are utilized}}{\text{Total available hours}}$

Shows players' interest in pachinko and pachislot machines

Pachislot and Pachinko Machine Business

Long-Term Downward Trend in the Player Population

The number of players peaked in 1995 and began trending downward due to casual players leaving the market because an increasing number of machines featured more complicated gameplay or strong gambling elements. As a result, the pachinko and pachislot machine market*1 entered a period of long-term decline.

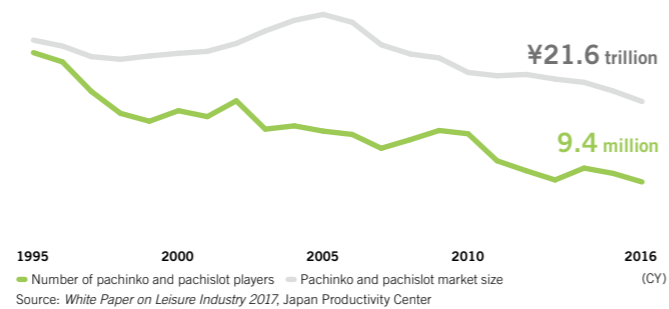
Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. After the interim measures period*2 ended in fall 2007, pachinko hall operators proceeded to replace pachislot machines with those compliant with the new regulations. As a result, the departure of players, particularly pachislot core players, from the market accelerated due to the major change in gameplay.

Subsequently, there was a marked decline in interest in pachinko and pachislot among young adults, traditionally the core player group. This decline was attributable to the diversification of pastimes that accompanied the expansion of the market for game apps for smart devices and the further departure of casual players from the pachinko market due to the increasing installation of pachinko machines with a strong gambling element.

As the player population decreased, the deterioration in pachinko hall operators' financial positions became more pronounced, affecting the pachinko and pachislot machine market significantly.

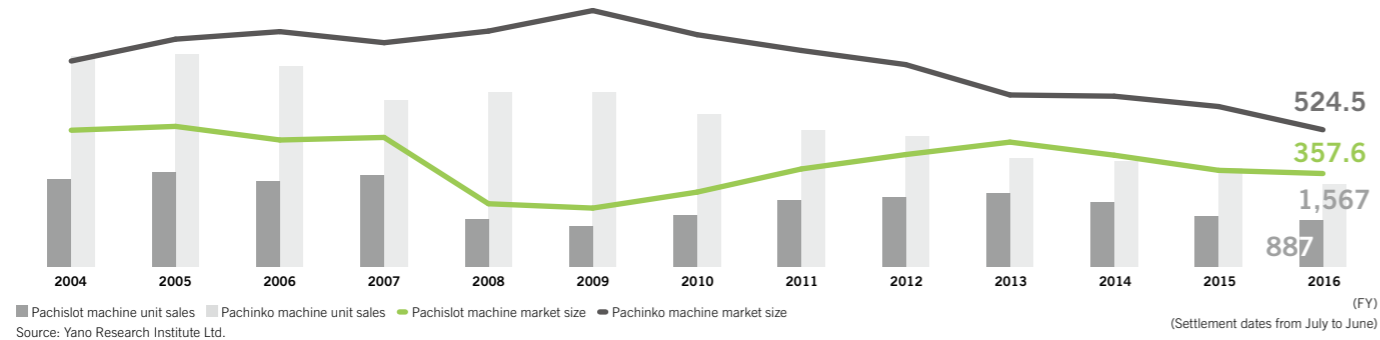
*1 The total of pachinko hall operators' ball rental fees and token rental fees
*2 Aiming to mitigate a sudden change of conditions and investment burden of pachinko hall operators, the regulatory revision of July 2004 included a three-year interim measures period for replacing old machines with new-format machines.

Pachinko and Pachislot—Player Numbers and Market Size



Pachinko and Pachislot Machines—Unit Sales and Market Size

Thousands of units / Billions of yen



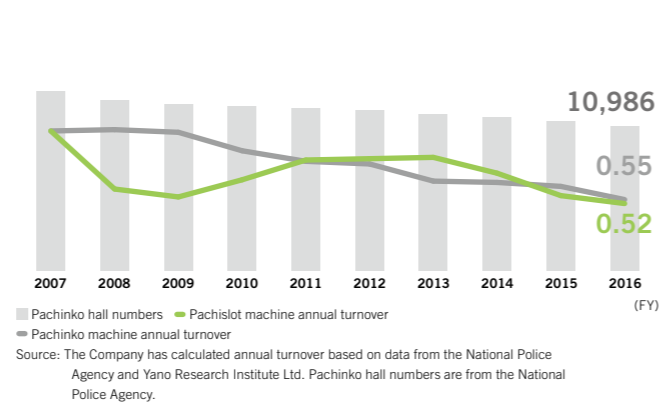
Pachinko Hall Operators' Declining Investment Capacity and Contraction of the Pachinko and Pachislot Machine Market

Facing lower investment capacity as the player population dwindles, stricter regulations, and rising machine prices, pachinko hall operators are replacing machines less often and increasingly selecting only titles and manufacturers that promise consistent returns on investments. This tendency is contributing directly to the shrinkage of the pachinko and pachislot machine market. Further evidence of pachinko hall operators' cautiousness is that annual turnover*3 is trending downward, even though the development of larger pachinko halls is increasing the number of installed pachinko and pachislot machines per pachinko hall.

*3 Annual turnover = Annual pachinko and pachislot machine unit sales ÷ Pachinko and pachislot machine installations

Annual Turnover and Pachinko Hall Numbers

Times / Halls



Need for Initiatives to Break the Negative Cycle

In an effort to broaden the player base, manufacturers developed and pachinko hall operators introduced pachinko machines with weaker gambling elements. Although lowering ball rental fees increased utilization rates*4, it led to a decline in sales per machine for pachinko hall operators, exacerbating the deterioration in their business results. The resulting reduction in pachinko hall operators' capital investment appetite delayed the revitalization of pachinko halls and encouraged pachinko hall operators to seek short-term returns on investments by introducing machine models with stronger gambling elements. However, this change accelerated casual players' departure from the market.

Further, the emergence of addiction as a problem among frequent players and the discovery of improperly modified pachinko and pachislot machines in circulation led to changes in the prototype-testing operation methods of the Security Communications Association in 2014. These changes forced pachinko and pachislot machine manufacturers to change development schedules and voluntarily recall pachinko and pachislot machines that potentially differed from tested pachinko and pachislot machines. To prevent the improper modification of pachinko and pachislot machines, the scope of manufacturers' responsibility has been extended to include post-sales maintenance.

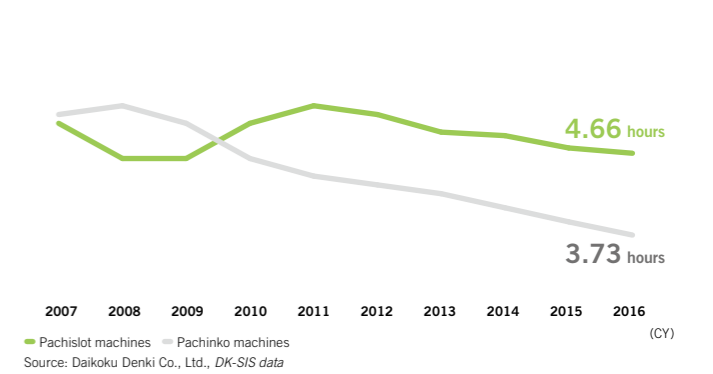
In response to the increasingly tough business conditions described above, pachinko hall operators are seeking reliable returns on the limited investments they can make. Therefore, they have been introducing machines that promise favorable utilization rates. In the pachinko and pachislot machine market, the contrast between winners and losers is becoming even more pronounced due to the difference between leading manufacturers—who have competitive intellectual properties as well as robust financial bases to support development capabilities—and other manufacturers.

Meanwhile, pachinko and pachislot machine manufacturers and pachinko hall operators have been stepping up efforts to increase the industry's soundness and vitality. Manufacturers have been making industry-wide efforts to introduce a series of voluntary regulations aimed at curbing functions that encourage excessive gambling. In addition, although some new-format machines compliant with the new regulations are achieving high utilization rates, pachinko hall operators are being cautious about replacing existing machines with these new machines. Consequently, the pachinko and pachislot machine market is likely to flag over the short-to-medium term.

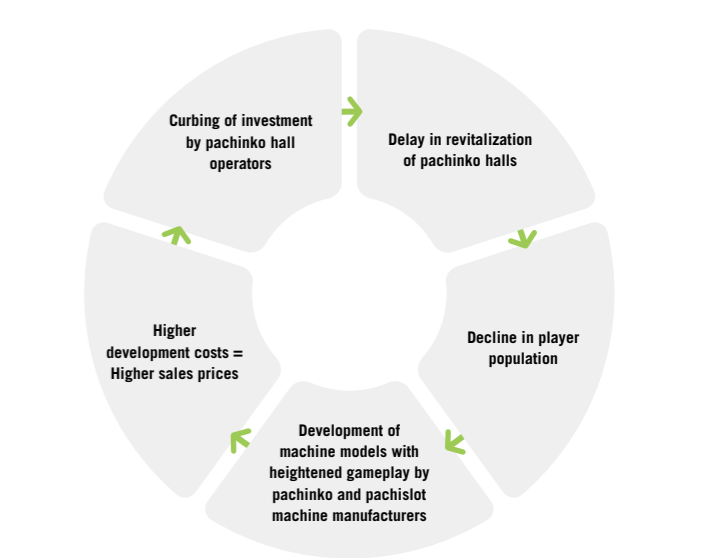
With a view to overcoming such impacts and extending the player base to revitalize the industry over the long term, pachinko and pachislot machine manufacturers are advancing initiatives that are a clear departure from traditional practices in the industry. For example, manufacturers have begun marketing directly to consumers. Other initiatives include the forming of partnerships between an industry competitor that would have been unthinkable previously. These partnerships are focused on establishing industry-wide platforms that will increase joint purchasing of components and the use of common components. Also, development-related collaboration among competitors promises to create new gameplay.

*4 The number of hours per business day that pachinko or pachislot machines are utilized

Utilization Rates*



Negative Cycle of the Pachinko and Pachislot Machine Market



Pachislot Machine Market Trends

| | FY2015 | FY2016 | FY2017 | FY2018 (Forecast) |
|---|--------|--------|--------|-------------------|
| Market unit sales (thousands of units) | 1,230 | 960 | 880 | 720 |
| Market units installed (thousands of units) | 1,640 | 1,660 | 1,690 | 1,690 |

Pachinko Machine Market Trends

| | FY2015 | FY2016 | FY2017 | FY2018 (Forecast) |
|---|--------|--------|--------|-------------------|
| Market unit sales (thousands of units) | 2,010 | 1,880 | 1,560 | 1,510 |
| Market units installed (thousands of units) | 2,950 | 2,910 | 2,830 | 2,720 |

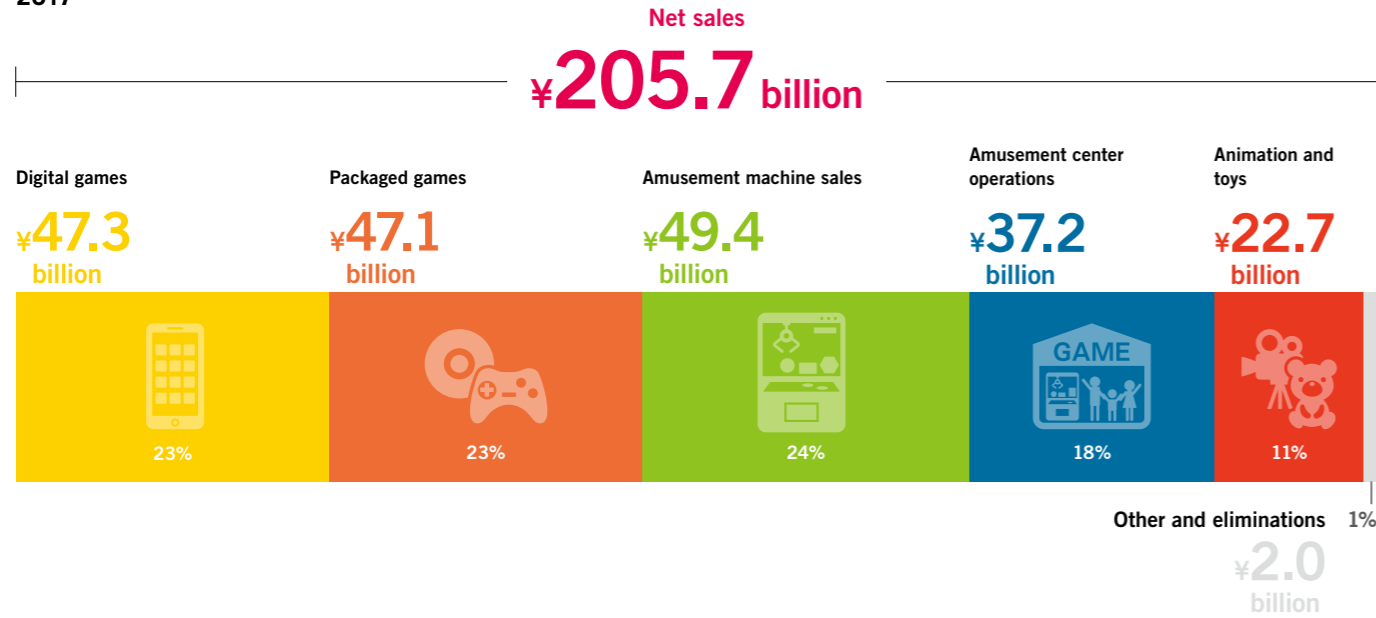
Sources: National Police Agency and Yano Research Institute Ltd. (Data for which definitive values have not been formally issued and figures for fiscal 2018 are estimates and forecasts of the Group.)

Entertainment Contents Business

The Entertainment Contents Business will exploit an extensive business portfolio, abundant intellectual properties, and global business foundations to maximize the value of intellectual properties, thereby increasing corporate value.

▶ Business Portfolio

Net Sales Breakdown 2017



Operating Income (Loss) 2017



▶ Industry Structure and SWOT

The business segment is able to take advantage of its broad business portfolio in current business conditions, which are characterized by sluggish markets in existing business areas and continuing growth in the digital game area.

Industry Trends Snapshot

| Amusement machine sales area | Packaged games area | Animation and toys area |
|--|--|---|
| <p>Market size</p> <p>2005: ¥199.2 billion 2015: ¥156.9 billion</p> <p>Factors affecting earnings: Amusement center operators' investment capacity affects market conditions directly.</p> <p>Source: JAJA, Amusement Industry Survey 2015</p> | <p>Market size</p> <p>2005: ¥290.7 billion 2016: ¥182.4 billion</p> <p>Platform trends, the emergence of oligopolies comprising vendors with abundant funds, and changes in player preferences affect competitive conditions. In recent years, technological advances, such as the spread of broadband and smartphones, have affected the area.</p> <p>Source: Famitsu Game White Paper 2017</p> | <p>Animation market size</p> <p>2005: ¥233.9 billion 2015: ¥252.0 billion</p> <p>The downloading of content—mainly to PCs and smart devices—and Japanese animation hits at movie theaters have driven expansion of the animation market in recent years.</p> <p>Source: Media Development Research Institute Inc.</p> |
| Amusement center operations area | Digital game area | Toy sales market size |
| <p>Market size</p> <p>2005: ¥682.4 billion 2015: ¥433.8 billion</p> <p>Factors affecting earnings: In addition to changes in consumption trends and player preferences, the appeal of amusement centers affects market conditions.</p> <p>Source: JAJA, Amusement Industry Survey 2015</p> | <p>Market size</p> <p>2005: ¥128.2 billion 2016: ¥1,080.6 billion</p> <p>Competition is becoming fierce because an extremely wide group of companies is entering the market, including conventional major vendors of video games, new vendors, and Internet-related companies. Whether or not a company has hit titles changes its presence in the industry significantly. Also, the introduction of devices with advanced performance is driving the production of high-end content.</p> <p>Source: Famitsu Game White Paper 2017</p> | <p>2005: ¥705.3 billion 2016: ¥803.1 billion</p> <p>Despite Japan's declining birthrate, conditions in the toy sales market remain favorable as major hit characters and mainstay products drive growth.</p> <p>Source: Japan Toy Association</p> |

Analyzing SWOT

| STRENGTHS | WEAKNESSES | OPPORTUNITIES | THREATS |
|--|--|---|--|
| <ul style="list-style-type: none"> One of the industry's largest development teams, comprising approximately 2,000 personnel (the SEGA Group) Industry-leading portfolio depth (digital games) Accumulation of numerous major intellectual properties (digital games, packaged games, amusement machines, animation, and toys) Recovery trend in earning power (packaged games, amusement machines, amusement centers, animation, and toys) Marketing support tool <i>Noah Pass</i> (digital games) Product lineup catering to a broad range of player groups (amusement machines) One of the industry's highest levels of operational efficiency (amusement centers) | <ul style="list-style-type: none"> Absence of major hit titles (digital games) Low profit margins and capital turnover ratio (amusement centers) | <ul style="list-style-type: none"> Trend toward high-end game apps as smartphones become more advanced (digital games) Rapid spread of smartphones in Southeast Asia (digital games) Spread of new-generation home video game consoles (packaged games) Broadening market for families' three generations and new facilities including restaurants (amusement machines and amusement centers) Increase in interest in Japanese culture overseas due to government's "Cool Japan" policy (digital games, packaged games, animation, toys) Revision of Act on Control and Improvement of Amusement Business, etc. (amusement centers) | <ul style="list-style-type: none"> Intensification of competition in Japan's digital game market (digital games) Challenging financial positions of amusement center operators (amusement machines) Diversification of entertainment (packaged games, amusement machines, amusement centers) Decline in player numbers due to lower birthrate (packaged games, amusement machines, amusement centers) Increase in consumption tax (amusement machines, amusement centers) |

Entertainment Contents Business

▶ Road to 2020 Business Strategy

Vision *Be a Game Changer*

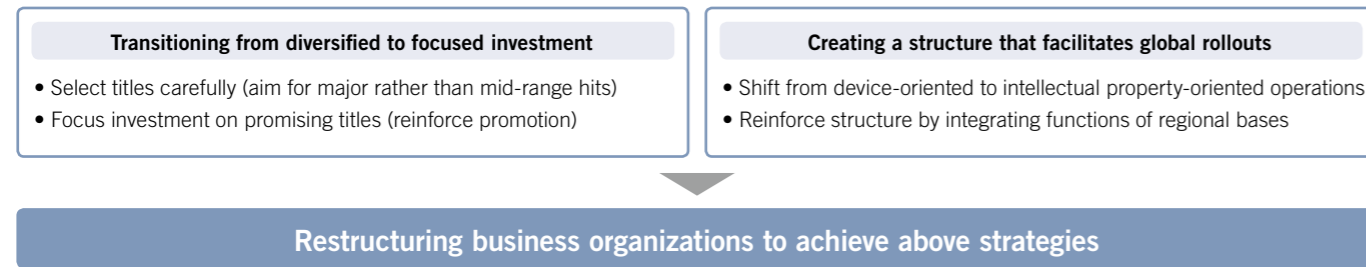
Segment targets

| | | |
|-------------------------------|------------------------------|-------------------------|
| Net sales | Operating income | Operating margin |
| At least ¥ 300 billion | At least ¥ 30 billion | At least 10% |

▶ Major Tasks

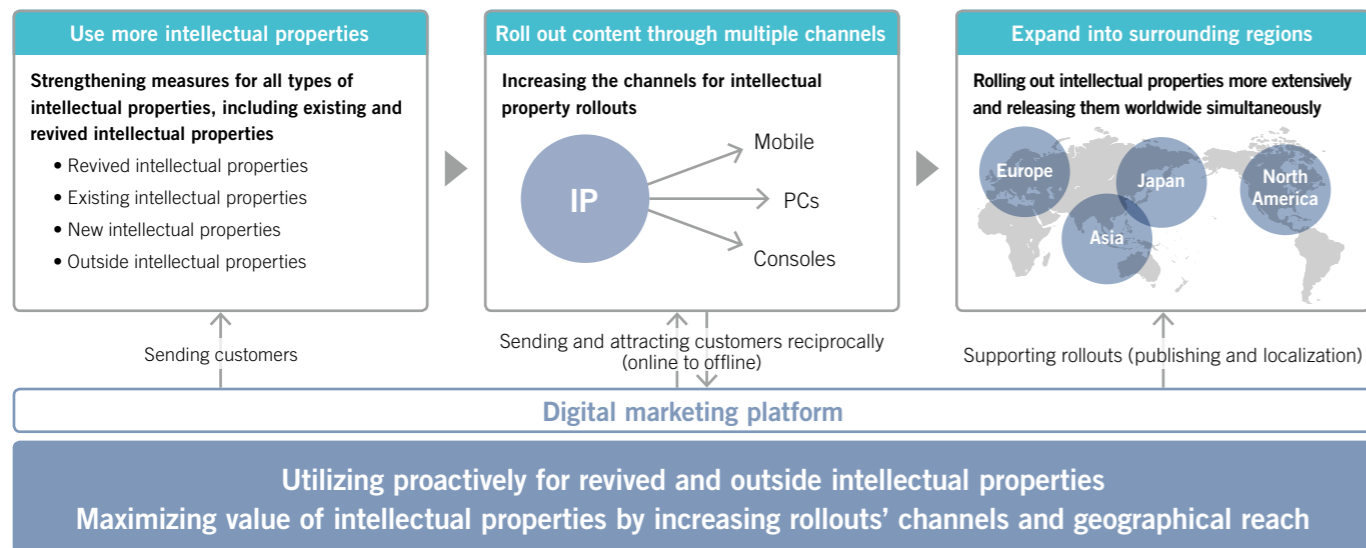
Create Titles That Become Global Hits

Focusing on digital games and packaged games, we will create major hit products in the global market by taking advantage of management resources, focusing investment on carefully selected titles, and building a business structure that facilitates global rollouts.



Shifting Orientation from Devices to Intellectual Properties While Rolling Out Content through Multiple Channels

The Group has a huge amount of intellectual properties, including active intellectual properties and dormant intellectual properties. We will make full use of these intellectual properties in addition to new and outside intellectual properties as we roll out individual intellectual properties globally through multiple channels. This approach will maximize the value of intellectual properties. We will utilize the Noah Pass digital marketing platform to increase reciprocal customer sending between different platforms and to support publishing and localization when rolling out content globally.



Examples of Successful Global Rollouts of Hit Titles from Japan

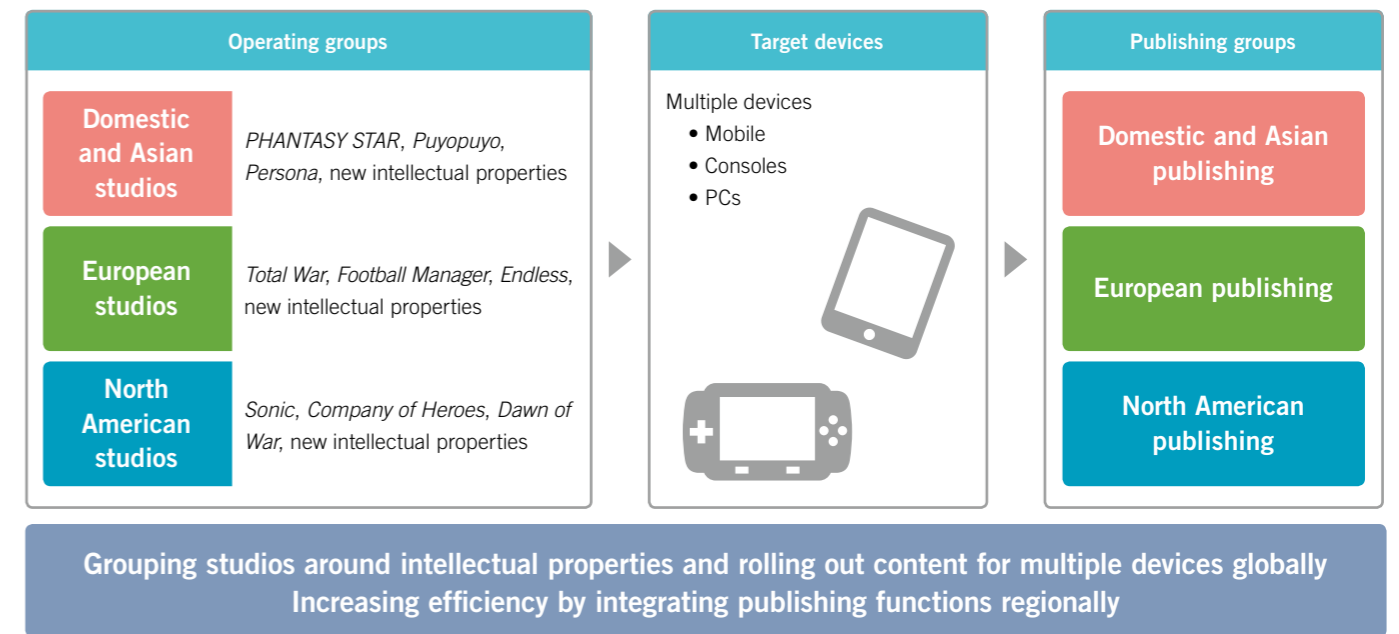
Global hit title that has sold 1.8 million units in Japan, Asia, North America, and Europe
Persona5 packaged games for PS4™ and PS3™



©ATLUS ©SEGA
All rights reserved.

Restructuring Organizations around Intellectual Properties

We will reorganize regional studios based on intellectual properties and roll out studios' intellectual properties for multiple devices. To realize efficient publishing, we will integrate the previously discrete publishing functions of individual companies to establish regional publishing functions.



Entertainment Contents Business

▶ Main Points by Area

Digital games area

In addition to creating global hit titles, we will establish a digital marketing business based on the Noah Pass digital marketing platform. Also, the Group will secure stable earnings through the long-term operation of existing titles.

- Create global hit titles
- Establish digital marketing business
- Expand overseas publishing business
- Maintain earnings through long-term operation of existing titles
- Develop next-generation titles

Packaged games area

Targeting favorable PC content in North America and Europe, we will increase sales of existing intellectual properties in the regions. Also, the Group will use development engines to heighten development efficiency.

- Increase sales of existing intellectual properties and obtain new intellectual properties for PC content market in North America and Europe
- Build earnings base by undertaking contract development
- Take on challenge of developing new intellectual properties
- Revive major intellectual properties
- Utilize development engines effectively

Amusement machine sales area

We will increase investment efficiency through a “No. 1 in category” strategy and cost reduction.

- Launch “No. 1 in category” titles
- Step up cost reduction efforts

Amusement center operations area

We will continue implementing a scrap-and-build strategy for existing amusement centers. At the same time, we will promote the introduction of electronic money to enable flexible pricing strategies in the future and to enhance player convenience.

- Improve operational efficiency by introducing electronic money
- Gain revenue from new businesses
- Implement a scrap-and-build strategy for existing amusement centers

Animation and toys area

We will increase the earning power of our three mainstay animation intellectual properties: *Detective Conan*, *ANPANMAN*, and *Lupin the 3rd*. As for toy sales, we will grow earnings from existing intellectual properties while setting our sights on entering new fields through partnerships.

Animation

- Increase earnings from three mainstay intellectual properties
Detective Conan, *ANPANMAN*, and *Lupin the 3rd*
- Strengthen distribution business targeting Japan and overseas
- Reinforce 3D computer graphics production

Toys

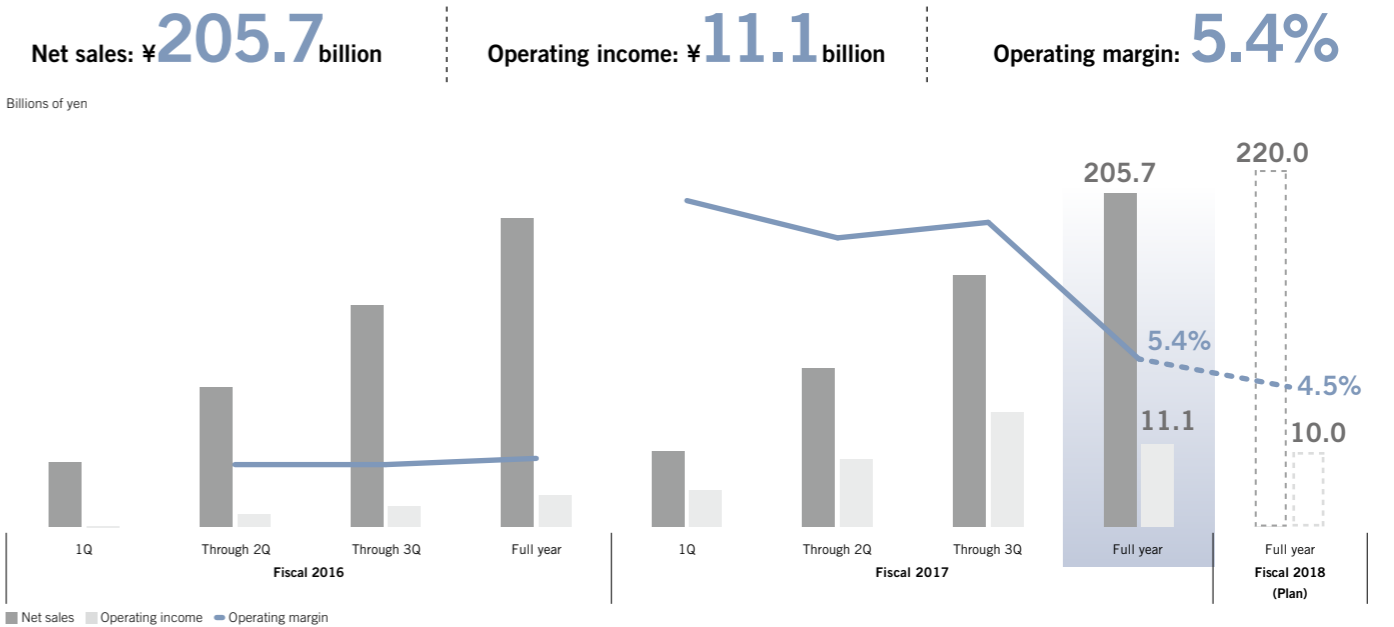
- Grow earnings from existing intellectual properties
Create stable earnings centered on *ANPANMAN* series
- Take on new fields through partnerships

▶ Fiscal 2017 Summary and Fiscal 2018 Outlook

In fiscal 2017, the Entertainment Contents Business grew revenues thanks to the concentration of major title launches in the packaged games and amusement machine sales areas. Partly reflecting an improved earnings structure resulting from business structure reform implemented through fiscal 2016, operating income was up 164% year on year. In the digital game area, existing mainstay titles *PHANTASY STAR ONLINE 2*, *Hortensia Saga*, and *Puyopuyo!! Quest* performed steadily. Regarding the packaged games area, we launched mainstay titles, including the latest installment of the *Total War* series, *Total War: WARHAMMER*, and a new addition to the *Persona* series, *Persona5*. As for the amusement machine sales area, *KanColle Arcade* and other new

titles under the revenue-sharing business model contributed to earnings, while sales of *SANGOKUSHI TAISEN* were brisk. The amusement center operations area performed solidly, with existing amusement centers in Japan growing net sales 8.5% year on year. In the animation and toys area, we focused on selling mainstay toys and recorded distribution revenues from mainstay titles and production revenues from animation series for television.

In fiscal 2018, we expect earnings to grow as we bring more new titles to market in the digital game area and sell a higher number of PC game titles in the overseas packaged games area. However, we anticipate lower earnings.



Resort Business

Aiming to become a future pillar of the Group, this business segment will increase the profitability of its resort complex operations while accumulating expertise in the integrated resort business.

► Business Strategy

Vision

Experiential Innovator

Be an Experiential Innovator

Segment targets

Succeed in the

integrated resort business

Enhance

brand recognition

► Major Tasks

Acquire Expertise to Ensure Success of the Integrated Resort Business

With our sights set on participating in the integrated resort business in Japan, we will acquire know-how in the operation of resort complexes through Phoenix Resort while accumulating expertise in the development and operation of integrated resorts through our business partnership with the PARADISE GROUP of South Korea.



A New Rival for Macau and Singapore

PARADISE CITY

In April 2017, PARADISE SEGASAMMY Co., Ltd., a joint venture with the PARADISE GROUP of South Korea, opened South Korea's first integrated resort, PARADISE CITY.

Completion of the next development phase will add a high-end hotel, boutique hotel, casino, shopping mall, convention hall, and club to the integrated resort, which is on a lot of 330,000 square meters. To woo guests away from the integrated resorts of Macau and Singapore, PARADISE CITY will leverage a refined setting that is on a par with any integrated resort worldwide, superior hospitality, and a prime location three minutes by car from Incheon International Airport, Asia's largest hub airport. Moreover, the SEGA SAMMY Group is accumulating development and administration know-how that will serve it well in a future foray into Japan's integrated resort business.



One of Japan's Foremost Resort Complexes

Phoenix Seagaia Resort

Situated on 700 hectares of land extending 11 kilometers north to south along the Pacific coast of Miyazaki Prefecture, Phoenix Seagaia Resort invites guests to experience a superb resort that makes the most of stunning surroundings. The resort complex comprises Sheraton Grande Ocean Resort and two other accommodation facilities; a world-class convention center with a maximum capacity of 5,000 people; and sports facilities, which include one of Japan's renowned golf courses, the Phoenix Country Club, and a tennis club.

To increase the resort complex's ability to attract guests, we constantly add value to the resort facility. For example, in August 2016 we undertook the largest renovation of the resort complex's main hotel since its opening. At the same time, we are working to acquire know-how in the operation of resort complexes.



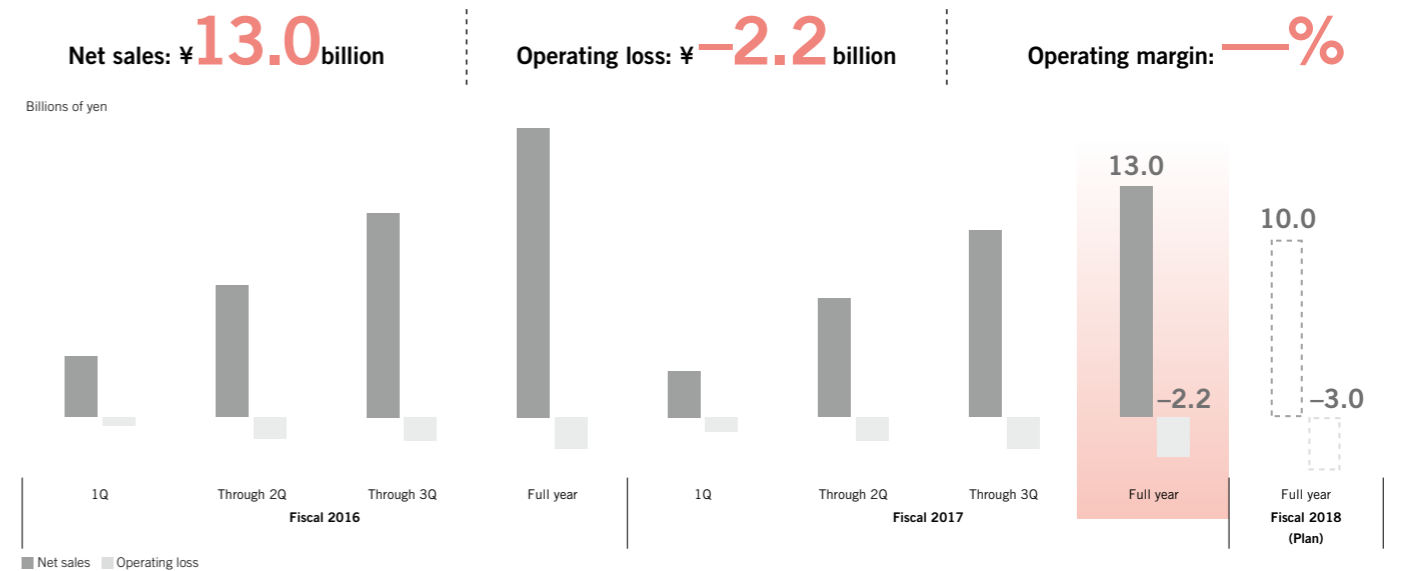
©PHOENIX RESORT

► Fiscal 2017 Summary and Fiscal 2018 Outlook

In fiscal 2017, Phoenix Seagaia Resort completed the largest renovation of Sheraton Grande Ocean Resort since its opening. In addition, we took steps focused on the Kyushu area to attract guests. However, these efforts were unable to completely compensate for the effect of the 2016 Kumamoto Earthquakes in the first half of fiscal 2017. Overseas, in Incheon, South Korea, we operated an existing casino while preparing to open the country's first full-fledged integrated resort, PARADISE CITY. Also, the Group sold some shares of the subsidiary that manages

JOYPOLIS indoor theme parks. As a result of the above, the business segment's net sales declined 20% year on year, to ¥13.0 billion, while the operating loss deteriorated from the previous fiscal year's ¥1.8 billion to ¥2.2 billion.

In fiscal 2018, we expect a 23% year-on-year decrease in net sales due to the sale of shares of the subsidiary that manages JOYPOLIS. In addition, prior investment in the integrated resort business and other factors are likely to result in an operating loss of ¥3.0 billion.



ESG RISKS AND RESPONSES IN THE VALUE CHAIN

Steps are taken in Group businesses to address the specific environmental, social, and governance (ESG) risks faced based on the characteristics of each business' market, business model, and value chain.



Pachislot and Pachinko Machine Business

Development (In-house) **Regulatory revision** (G)
 Authorities sometimes strengthen the regulations pertaining to the Entertainment Establishments Control Law (the "regulations"), which stipulates prototype-testing operation methods for pachinko and pachislot machines, in response to the clarification of operation rules or pachinko and pachislot machine manufacturers' development of machines with strong gambling elements. Furthermore, manufacturers must comply with industry bodies' internal regulations. For example, the pachinko machine manufacturers' industry association, Nikkoso, and the pachislot machine manufacturers' industry association, Nichidenkyo, have concluded a new agreement in relation to addiction countermeasures.

Manufacturing (In-house) **Environmental burden of raw materials and the processing of recovered and surplus components** (E)
 Sammy's manufacturing processes could give rise to surplus electrical components and other components. We use natural resources, such as wood, and materials that could place a burden on the environment, such as adhesives. Also, processing pachinko and pachislot machines at the end of their service lives is an important responsibility.

Sales (Other company) **Deterioration of image due to improper modifications or playing techniques** (S)
 There is concern that the use of improperly modified pachinko and pachislot machines in commercial operations or improper playing techniques could harm the image of pachinko and pachislot, ultimately leading to the contraction of the pachinko and pachislot machine market.

Operation (Other company) **Response**
 We are focusing on developing machines that a wide range of players can enjoy casually. At the same time, we are supporting and cooperating with industry bodies as part of a concerted effort by the entire industry to prevent addiction and ensure the industry develops soundly.

Response
 In all business processes, we implement reduce, reuse, and recycle (3R) measures rigorously. At the design and development stages, we establish common components to enable the sharing of surplus components. At the disposal stage, as well as reusing pachislot and pachinko machines that have been removed from pachinko halls and traded in, we use an industry association collection system for the final disposal of machines. Also, in collaboration with suppliers, we promote the use of environment-friendly raw materials through measures such as refraining from using adhesives, including water-based adhesives.

Response
 We coordinate with industry associations in a voluntary drive to collect pachinko and pachislot machines that have been improperly modified. In addition, we have established an office tasked with preventing illegal acts, which gathers market information and contributes to the manufacture of pachinko and pachislot machines that are highly resistant to tampering. We coordinate with industry associations in a voluntary drive to collect pachinko and pachislot machines that have been improperly modified. In addition, we have established an office tasked with preventing illegal acts, which gathers market information and contributes to the manufacture of pachinko and pachislot machines that are highly resistant to tampering. We also take measures to urge caution in relation to strategy guides that are unfounded.

Entertainment Contents Business

Planning and Development (In-house) **Digital game area**
Excessive use by minors (S)
 In the digital game market, social problems associated with minors who incur excessive fees when playing games based on the Gacha system, which encourages gambling, are not infrequent. This issue has led to calls for content vendors to take measures.

Manufacturing (Other company) **Response**
 For certain titles, we have enabled the use of age authentication to set upper limits on monthly fees. Also, we have established and implemented in-house guidelines to avoid the use of vague terms that can give players overly high expectations and to prevent the charging of excessive fees.

Sales (In-house) **Customer support** (S)
 Unlike packaged games, digital games maintain contact between the provider and consumers. Therefore, the provision of ongoing support is necessary. Any shortcomings in such support could harm brands.

Operation (In-house) **Response**
 Normally, we respond to customer inquiries through a player support helpdesk. If needed, however, we establish dedicated helpdesks. In September 2013, when a defect in an online game for PCs became apparent, we immediately disclosed the relevant information, corrected the defect, and established a dedicated helpdesk.

Planning and Development (In-house) **Amusement machine sales area**
Compliance in relation to procurement (E, S, G)
 The amusement machine sales area has a fables business model. If we used our advantageous position to conduct unfair business transactions or failed to comply with the applicable laws in relation to labor practices, we could become subject to legal sanctions. Furthermore, failure to conform to the worldwide strengthening of environmental regulations could lead to the rejection of our products.

Manufacturing (Other company) **Response**
 The SEGA SAMMY Group strives to establish fair relationships with suppliers based on its Supply Chain Procurement Guidebook and the Group Code of Conduct. For the amusement machine sales area, which has numerous suppliers, we have established a separate AM Material Procurement Policy to ensure rigorously fair business transactions. In addition, we require all suppliers to establish and implement systems for chemicals management based on the SEGA Standards for Device and Product Chemicals. Moreover, we check suppliers' establishment and implementation of these systems as part of our efforts to realize appropriate chemicals management.

Sales (In-house) **Amusement center operations area**
Guidance and development of young people (S)
 As an operator of amusement centers, we have a social responsibility to take measures in relation to minors that comply with laws prohibiting smoking, restricting access to venues, restricting entry to amusement centers including restaurants that serve alcohol, and prohibiting alcohol consumption.

Operation (In-house) **Response**
 We educate employees based on an operational manual that clarifies how to respond appropriately with regard to restricting minors' access to venues and prohibiting smoking. In principle, we prohibit unaccompanied minors from entering amusement centers including restaurants that serve alcohol. If minors enter facilities accompanied by guardians, we strictly prohibit the consumption of alcohol by minors.

HUMAN CAPITAL

Relationship between Human Capital and Business Sustainability

The SEGA SAMMY Group is engaged in the entertainment business, and its human capital is an important source of innovation in this business. We are currently witnessing a trend toward rising costs for securing experienced human resources, particularly in growth fields characterized by rapid technological progress. At the same time, limiting excessive work hours in line with the work-style reforms promoted by the national government is also crucial to improving labor productivity and securing human resources. Meanwhile, a diverse employee base is crucial to creating innovation.

Employment

The Group seeks personnel who share its mission and vision and have a strong desire to create new entertainment. Based on the Group's personnel portfolio strategy and in light of their respective employment standards, operating companies employ and assign personnel based on consideration of diversity and appropriately matching the duties of personnel with their abilities and suitability regardless of gender or nationality. In fiscal 2017, the Group as a whole employed 124 new graduates, of whom 50 were women, and 212 mid-career personnel, of whom 51 were women.

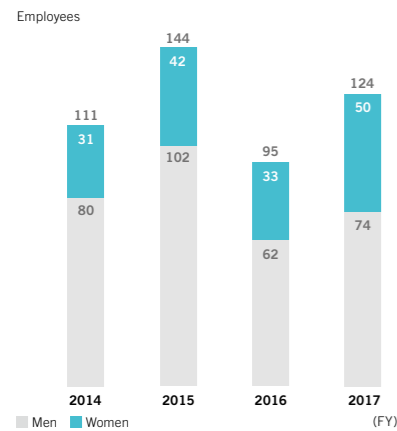
Personnel Development

Through a range of systems, we are promoting a culture that respects the individuality and ambitions of each individual and enables them to realize their talent and creativity and achieve self-fulfillment. These systems include a systemic training program that reflects the exact needs related to specific positions and employee ranks, systems that ensure all employees are able to receive training, and various systems that help employees perform in a manner befitting their qualifications or roles.

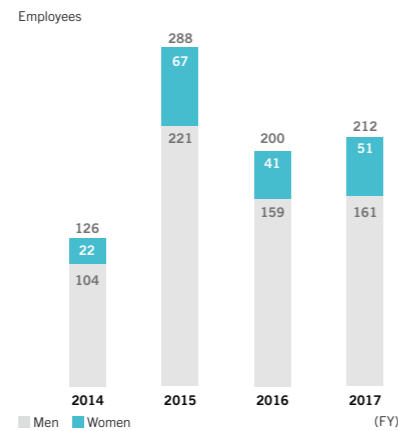
Human Rights

The SEGA SAMMY Group practices human capital management (employment, assignment, and support of personnel) in accordance with the principles related to human rights set out in the United Nations Global Compact, to which the Group became a signatory in 2014. Moreover, clear provisions urging respect for human rights are contained in the Group Code of Conduct and in the Group's personnel policy, which is stated in the Group Management Policy. These principles guide us in raising human rights awareness among all employees and ensuring they exercise this respect for human rights in their actions.

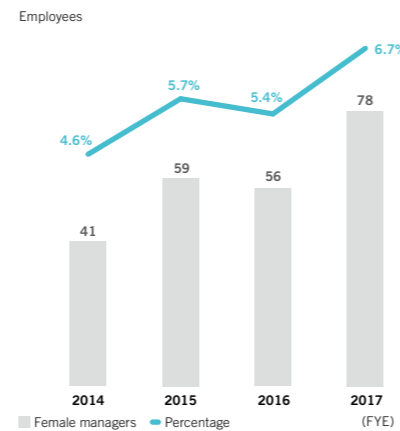
New Graduate Hires



Mid-Career Hires



Female Managers: Number and Percentage

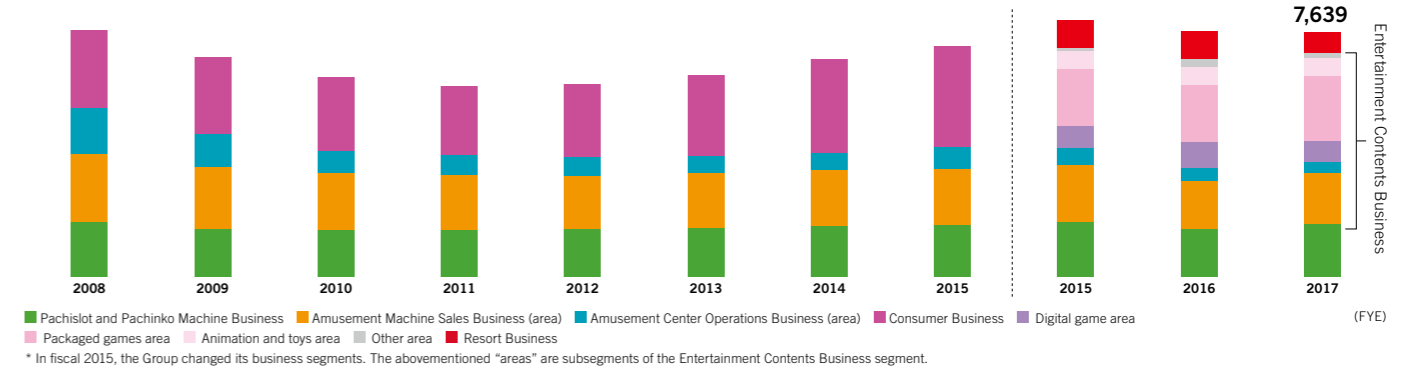


Optimization of Personnel Portfolio in Accordance with Growth Strategies

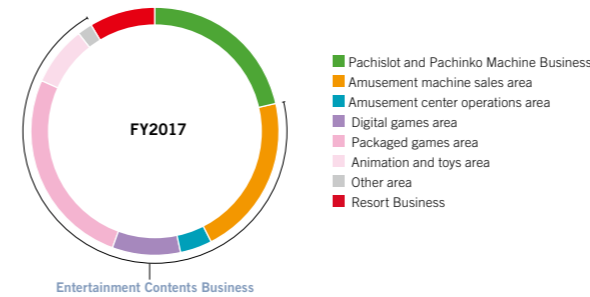
Consolidated employee numbers trended downward after fiscal 2008, when we recorded an operating loss. An upward trend began in fiscal 2012 as a result of the acquisition of PHOENIX RESORT CO., LTD., in the resort business and increased business lines in the digital game area in Japan and overseas.

In managing our personnel portfolio, we aim to utilize employees boasting exceptional expertise in existing businesses for developing businesses promising high growth potential and profitability in accordance with growth strategies. At the same time, we will flexibly relocate personnel to other fields, such as the integrated resort business in South Korea, in order to accumulate insight pertaining to new businesses.

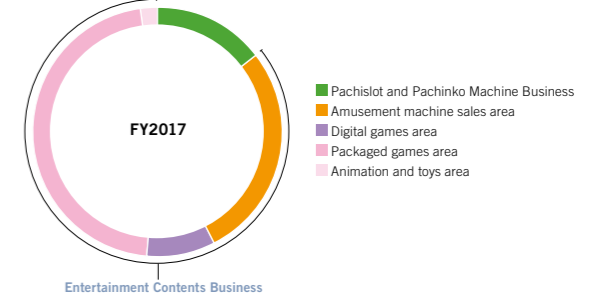
Employee Numbers by Segment



Employee Numbers by Segment (FY2017)



Development Personnel by Segment (FY2017)



Personnel Dispatches for Accumulating Integrated Resort Insight



PARADISE SEGASAMMY Co., Ltd., is a joint venture with the Paradise Group of South Korea in which the Company holds a 45% stake. Since May 2014, we had proceeded to accumulate insight into the operation and management of casinos by dispatching personnel to *Paradise Casino Incheon*, which is operated by PARADISE SEGASAMMY. We are also seeking to acquire integrated resort development and operation insight for use in the domestic market through our involvement in PARADISE CITY, South Korea's first integrated resort, which was opened in April 2017. Initially, only six employees were dispatched to PARADISE SEGASAMMY, but this number has steadily grown since, coming to approximately 50 in September 2017.

Dispatched Employees



Advancing Road to 2020 Action Plans

Key Personnel

Aiming to achieve the goals of Road to 2020, individual Group employees are implementing action plans based on the mission pyramids each organization has established. This section focuses on three organizations' key personnel, how they see their missions, and the action plans they are executing.

As the Group advances toward the realization of its goals, I want to share the experience with my team.

I love Sammy Corporation, and being an employee of the company motivates me. Working in the Pachislot and Pachinko Machine Business, the SEGA SAMMY Group's cash cow, gives me a sense of pride and responsibility as I tackle day-to-day duties.

Road to 2020 calls on the Pachislot and Pachinko Machine Business to achieve an operating margin of 30% or higher. To this end, Sammy's Corporate Sales Department has identified target clients and prepared an action plan. Under this plan, we are taking measures based on two main strategies: establishing a sales system for a major corporation and increasing Sammy's overall market share.

Specifically, as the point of contact for corporate clients with significant purchasing power, our department conducts a wide variety of business negotiations and coordinates with branch offices to advance regular sales activities focused on target corporations. Also, we work with Sammy Networks Co., Ltd., to encourage major corporate clients to use the *Pachi Gabu!* information website for smartphones in their operations. In addition, the department advances collaborative efforts within the Group. For example, we prepare and implement measures designed to enhance the loyalty of major corporate clients, such as our hosting of the *SEGA SAMMY Cup* golf tournament. Given that the Corporate Sales Department was established in fiscal 2017, we want to launch unprecedented initiatives and develop a reputation as an innovator in the industry. At the same time, the department will make an all-out effort to ensure that the Group realizes favorable results.

There is definitely a greater sense of unity in the Group since it began pursuing the Road to 2020 goals. As the Group advances toward the realization of its goals, I want to move forward with it and share the experience with my team.



Toshiaki Ishibashi
General Manager
Corporate Sales Department
Sales Division
Sammy Corporation

Through *PARADISE CITY*, we will continue to create *moving experiences*.

To acquire know-how in casino management, I was transferred along with five other employees to *PARADISE SEGASAMMY Co., Ltd.*, in 2014. The company is a joint venture that the SEGA SAMMY Group and the Paradise Group of South Korea established. Initially, we learned about casinos as "apprentices." In March 2016, the Japan Market Planning Management Section was established for the purpose of marketing the *PARADISE CITY* integrated resort and overseeing the remaining phases of its development. As of August 2017, the section has 36 personnel and is proceeding with the integrated resort project in Incheon.

In April 2017, *PARADISE CITY* opened, becoming South Korea's first and northeast Asia's largest integrated resort. Personnel from Japan are acquiring know-how about integrated resorts by working at *PARADISE CITY* in a wide variety of positions, including casino dealers, marketers, cashiers, surveillance personnel, and concierges.

Japanese guests have been visiting *PARADISE CITY* in very large numbers since it opened. To encourage first-time visitors to come again, members of the section are paying particular attention to realizing high-quality services. For example, we are directly involved in conducting sales and promotional activities, welcoming guests when they arrive and familiarizing them with the facilities. These efforts have produced tangible benefits, with many customers visiting on multiple occasions.

We will steadily implement an action plan, which calls on us to attract a wide range of Japanese guests by providing Japanese hospitality. We want to achieve our mission, which is to continue to create moving experiences through *PARADISE CITY*.

My goal is to make absolutely sure that the integrated resort business is successful and becomes a new earnings mainstay of the SEGA SAMMY Group. With this in mind, I intend to spare no effort in ensuring the success of *PARADISE CITY* as the first step toward that larger goal.



Atsunori Kondo
Sales Part Manager
Japan Market Planning
Management Section
PARADISE SEGASAMMY Co., Ltd.

My overriding ambition is to create synergies in the Group and develop new entertainment.

The Online Content Divisional HQ's operations center on the PC online game area but also encompass networked entertainment for smartphones and consumer platforms. Our integrated operations span market analysis through to development, operational management, and the delivery of services that provide customers with surprises and *moving experiences*. The section's mission is to build a system that will generate earnings continuously by 2020. To realize this mission, we are tackling three main action plans for the role-playing game (RPG) *PHANTASY STAR ONLINE 2*. Specifically, we are maximizing the earnings of the series, establishing a second earnings base through the creation of new intellectual properties and the expansion of existing intellectual properties, and taking on growth markets overseas.

PHANTASY STAR ONLINE 2 is performing well. July 2017 marked the fifth anniversary of the RPG's service launch, and a recent major update of the series, *Episode 5*, has garnered extremely strong endorsement. Already, we have begun planning measures for 2020. We will establish a stable system to ensure that the RPG performs steadily through to its 10th anniversary. In these efforts, customer satisfaction levels will be critical. Of course, we are trying to increase satisfaction with respect to the content of the PS02. However, we are also working to increase satisfaction by, as far as possible, reducing the occurrence of situations where customers cannot play when they want to. We are rigorously introducing automation to reduce defects resulting from human error. In addition, we are building an analytical system that can measure customer trends in detail in relation to maintenance periods or server problems.

The SEGA SAMMY Group's businesses cover a diverse spectrum of entertainment. My overriding ambition is to leverage synergies in the Group to roll out new entertainment that involves and links a range of different businesses.



Takaya Segawa
Executive Officer and Creative Officer
SEGA Games Co., Ltd.

INTELLECTUAL PROPERTIES



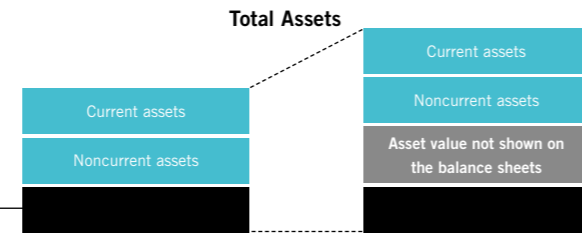
Relationship between Intellectual Properties and Business Sustainability

Intellectual properties are a wellspring of value creation. Entertainment companies possessing competitive intellectual properties are able to secure stable earnings, which in turn can be utilized to further increase the value of these properties. Accordingly, the competitiveness of entertainment companies hinges on their ability to generate new intellectual properties, discern the value of properties licensed from outside, and develop systems for protecting their intellectual properties.

Invisible Assets

Entertainment companies recognize intellectual properties obtained through the acquisition of companies in investment securities and goodwill. However, they do not recognize intellectual properties they have created in-house or licensed from third parties as assets. This means such intellectual properties are invisible assets that are not recognized in financial statements.

Total investments and other assets
Intellectual properties obtained through acquisitions recognized. Intellectual properties created in-house and licensed intellectual properties not recognized



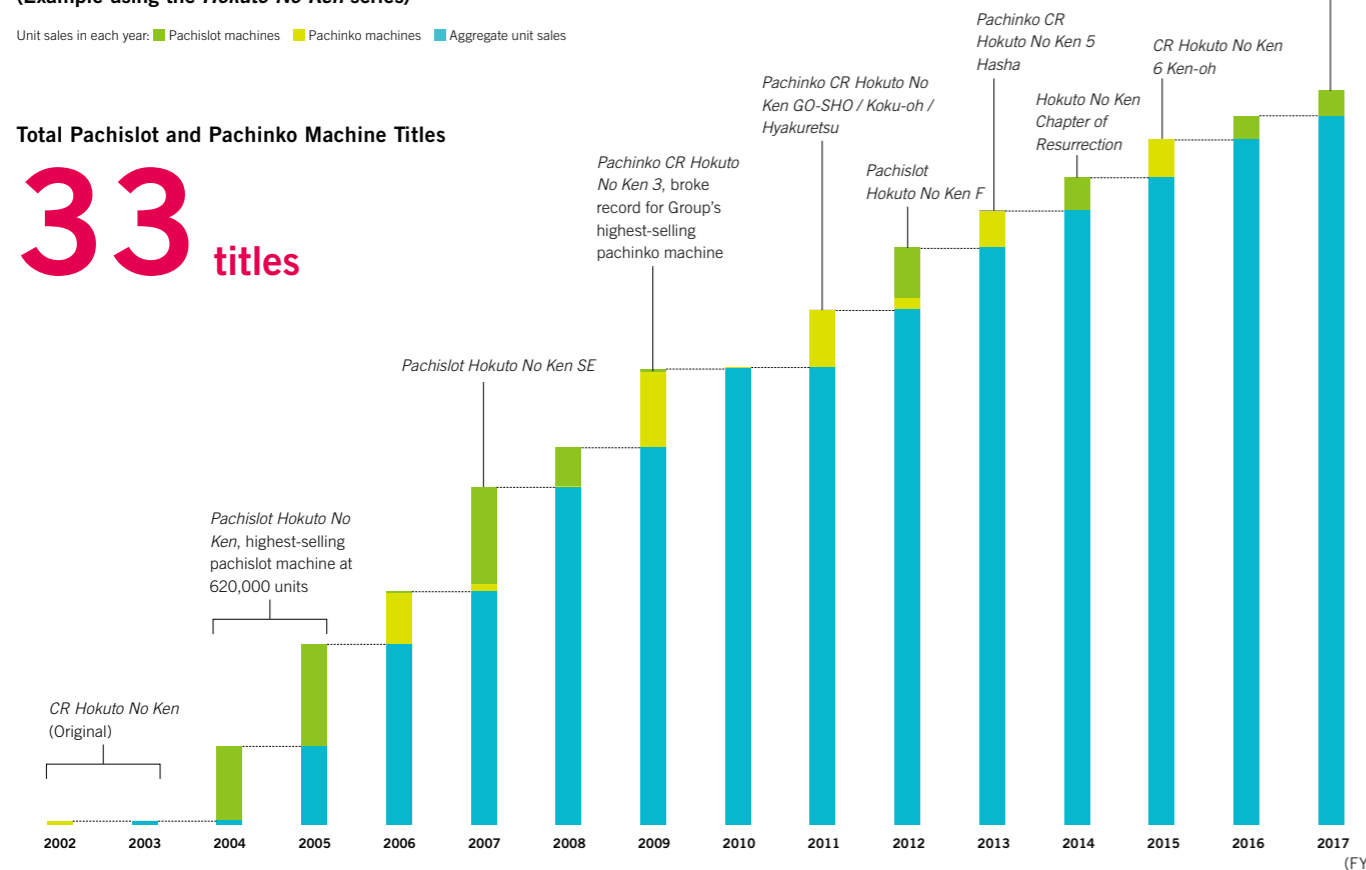
Aggregate Unit Sales
Approximately 2.71 million

Long-Term Cultivation and Monetization of Intellectual Properties (Example using the Hokuto No Ken series)

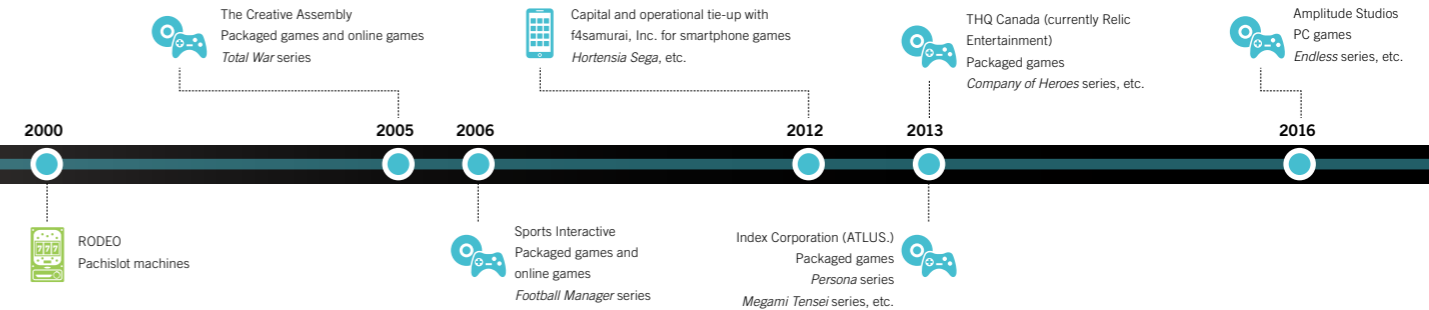
Unit sales in each year: Pachislot machines, Pachinko machines, Aggregate unit sales

Total Pachislot and Pachinko Machine Titles

33 titles



Examples of Intellectual Properties Acquired through M&As



| Intellectual property title | First appearance | Multifaceted rollout | Total editions | Cumulative unit sales / downloads |
|-----------------------------|------------------|----------------------|----------------|---|
| Megami Tensei series | 1987 | [Icons] | 28 | Approx. 7.2 million units (packaged and digital total) |
| Persona series | 1996 | [Icons] | 13 | Approx. 8.5 million units (packaged and digital total) |
| Etrian Odyssey series | 2007 | [Icons] | 9 | Approx. 1.8 million units (packaged and digital total) |

| Intellectual property title | First appearance | Multifaceted rollout | Total editions | Cumulative unit sales / downloads |
|-----------------------------|------------------|----------------------|----------------|---|
| Sonic the Hedgehog series | 1991 | [Icons] | — | Approx. 360 million (units / downloads) (packaged and digital total) |
| Puyopuyo series | 1991*1 | [Icons] | — | Approx. 25.0 million (units / downloads / IDs) (packaged and digital, AM-registered ID total (total for registrations after IP acquisition)) |
| Ryu ga Gotoku series | 2005 | [Icons] | 75 | Approx. 10.5 million (units / downloads) (packaged and digital total) |
| ALADDIN series | 1989 | [Icons] | 14 | Approx. 570,000 units (pachislot and pachinko machine and amusement machine total) |
| Beast King series | 2001 | [Icons] | 15 | Approx. 490,000 units (pachislot and pachinko machines and amusement machines total) |
| PHANTASY STAR series | 1987 | [Icons] | — | Approx. 4.5 million IDs*2 (cumulative total for registered IDs) |
| CHAIN CHRONICLE series | 2013 | [Icons] | 2 | Approx. 10.0 million downloads (packaged and digital total) |

*1 SEGA CORPORATION acquired the rights in 1998. Figures for cumulative unit sales are the totals for titles that SEGA sold after acquiring the rights.
 *2 Total for PHANTASY STAR ONLINE 2

| | | | | |
|--|------|---------|----|--|
| SEGA feat. HATSUNE MIKU Project series | 2009 | [Icons] | 52 | Approx. 5.5 million (units / downloads) (packaged and digital total) |
| Hokuto No Ken series | 2002 | [Icons] | 33 | Approx. 2.74 million units (pachislot and pachinko machine and amusement machine total) |
| SOUTEN-NO-KEN series | 2009 | [Icons] | 9 | Approx. 440,000 units (pachislot and pachinko machine total) |

SOCIAL CAPITAL

Regulations

Relationship between Social Capital (Regulations) and Business Sustainability

Pachislot and pachinko machine businesses as well as amusement facility businesses are required to adhere to the Entertainment Establishments Control Law as well as to industry regulations. Accordingly, revisions to such regulations can have a significant impact on product development or sales.

Shortening of Development Lead Times to Mitigate Development Risks

The development risks faced by the SEGA SAMMY Group include the potential for changes in development policies, discontinuation of machines under development, or the fracturing of intended user bases if regulations are revised while a machine is in development. To mitigate these risks, the Group limits the number of titles in the development process, prioritizes development resource allocation, and otherwise strives to shorten development lead times.

▷ P.51 **Pachislot and Pachinko Machine Business**



Addition Countermeasures

Regulations on pachislot and pachinko machines are being made stricter to combat addiction. The Group is coordinating with industry associations to raise awareness in a drive to curb excessive play and prevent children from being left unattended in cars in pachinko hall parking lots, a symptom of addiction. We also provide support to pachinko addiction consultation institutions. Furthermore, our advertisements contain awareness-raising messages.

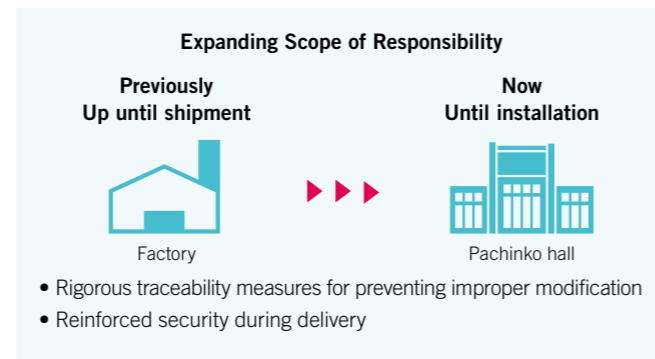


Addiction prevention awareness-raising poster

Prevention of Improper Modification and Playing Techniques

In response to the 2004 revision to the enforcement regulations of the Entertainment Establishments Control Law, an office tasked with preventing illegal acts was established in the Pachislot and Pachinko Machine Business segment to guard against individuals seeking to acquire ill-gotten gains through cheating or other improper playing techniques. This office continues to gather market information and contribute to the manufacture of pachinko and pachislot machines that are highly resistant to tampering. In addition, steps are taken to combat the circulation of unfounded play technique information in certain markets. Such steps include awareness-raising information provided through Sammy Corporation's website and pamphlets.

In April 2016, the scope of responsibility for pachislot and pachinko machine manufacturers was expanded. Manufacturers must now take responsibility for their machines after they leave factories, all the way up to installation in pachinko halls. In light of this development, the Group is practicing more rigorous product traceability measures through industry associations in order to prevent improper modification. We are also working together with distribution industry associations to reinforce security during delivery. Furthermore, the Group is proactively taking part in industry collaboration aimed at preventing improper modification and playing techniques as well as illegal gambling.



Prevention of Excessive Micro-Transaction Payments in Digital Games

In the digital game market, social problems are arising with regard to the Gacha system, which has a strong gambling element and can lead to excessive micro-transaction payments. Regulations are therefore being tightened with regard to games that use vague terms with the potential to give players overly high expectations as well as to so-called "Completion Gacha" systems. These regulations are based on concern for youths being entranced by these gambling elements. Failure to properly comply with these regulations can draw social backlash and severely impact the ability for a company to continue its business. The Group is, of course, concerned with issues relating to excessive game playing and micro-transaction payments by minors. For certain titles, we have enabled the use of age authentication to set upper limits on monthly payments. Also, we have established in-house guidelines stipulating the need to clearly define the rarity or the chance of receiving each item offered through the Gacha system. We thereby aim to avoid the use of vague terms that can give players overly high expectations and to prevent excessive micro-transaction payments.

Partners and Suppliers

Relationship between Social Capital (Partners and Suppliers) and Business Sustainability

In the Pachislot and Pachinko Machine Business segment, we are dependent on numerous suppliers. Accordingly, our relationships with suppliers and production subcontractors can impact the sustainability of our business in areas where we conduct fables manufacturing, such as packaged games titles, amusement machines, and toys. Moreover, our relationships with partners in invigorating the industry have also been becoming more important in recent years.

Fair and Impartial Business Transactions

Since fiscal 2016, basic transaction contracts have stipulated our expectations of understanding and adherence with the SEGA SAMMY Group's Supply Chain Procurement Guidebook.

In the amusement machine sales area, we request that all suppliers conduct annual self-inspections of their environmental and quality initiatives using check sheets. In addition, procurement representatives visit the sites of major suppliers once a year to perform audits.

For purchases in the Pachislot and Pachinko Machine Business segment, we engage in supply chain-spanning purchasing activities based on the Group CSR Charter and the Group Code of Conduct. In fiscal 2017, we conducted 108 audits of all 108 suppliers we work with in this segment. Among other factors, audits sought to identify any suppliers using conflict minerals. No such suppliers were found.

Furthermore, a committee was established to promote compliance with the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, and thorough education is provided on this subject in-house.

Improvement of Quality at Production Partners

SEGA Interactive Co., Ltd., emphasizes the importance of collaboration with production partners. In addition to coordination as a supplier, this company also periodically performs factory audits and provides assembly guidance based on its quality targets. Factory audits are required before commencing transactions with new partners, while partners with which transactions are ongoing are audited once a year. The results of audits are shared with partners, and improvement measures are requested for those partners that fail to meet quality targets via written instructions or at quality meetings.



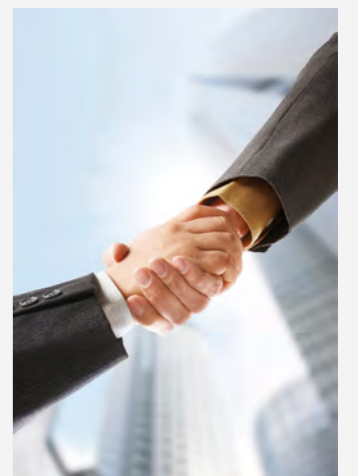
! Recent Collaboration with Partners and Competitors

The markets are shrinking for the Pachislot and Pachinko Machine Business segment as well as for the amusement machine sales area. It is therefore necessary that we collaborate with competitors in order to invigorate the industry and streamline its structure.

In the Pachislot and Pachinko Machine Business segment, Sammy and Universal Entertainment Corporation established ZEEG Co. Ltd. as a joint venture to engage in cabinet development and joint parts purchasing.

▷ P.50 **Pachislot and Pachinko Machine Business**

Efforts in the amusement machine sales area include sales of PFU Limited's multi-e-money system for amusement machines, which allows for transportation and other e-money cards to be charged with a single device. Targeting amusement facilities nationwide, these sales are being conducted through collaboration with Konami Digital Entertainment Co., Ltd. With the *Thincacloud* cloud-type payment platform as its base, this system uses a compatible multi-e-money terminal offered by TOPPAN FORMS CO., LTD. This system promises to minimize costs when introducing small numbers of units. Also, the system enables the addition of e-money brands via its network.



Customers

Relationship between Social Capital (Customers) and Business Sustainability

The Group's existing operations are suffering from an ongoing decline in end users, necessitating the development of new users to invigorate the industry. In the digital game area, a growth field, and in other game content businesses, protecting young players from harmful influences is also an important task to be addressed in ensuring business sustainability.

Direct Business-to-Consumer Marketing

As the pachinko and pachislot machine market shrinks together with the player population, we are branching out from our conventional marketing practices, which target primary users, namely pachinko halls, to proactively conduct direct marketing targeting end users. As one facet of these initiatives, we will utilize the Group's strengths to invigorate the market through events in physical spaces, information websites, and other initiatives.

Quality Assurance

The Company is reinforcing its quality assurance system in the amusement machine sales area. To this end, the Quality Assurance Department, which is independent from sales, development, and other lines of business, will comprehensively manage product and service safety and quality based on quality assurance rules. In addition, rigorous product safety management measures are implemented in compliance with voluntary standards as well as the guidelines of the industry association Japan Amusement Machine and Marketing Association, Inc. (JAMMA).

Steps are also being taken to reinforce the quality assurance system in the Pachislot and Pachinko Machine Business segment. Alongside efforts to shorten development lead times, specialized running inspections were added to the list of sampling inspection items for both pachinko and pachislot machines in January 2016. We hope that these new inspections will help us further build upon the strength that is our product quality. Further initiatives for improving quality are being carried out through increased coordination between development, sales, and production functions. The Group is also targeting zero serious defects, those defects with the potential to impact people's safety, in order to ensure that it is capable of supplying products that are both safe and high quality. The Procurement Department and the Quality Assurance Department audit business partners and provide instruction as necessary.

Support for the Healthy Development of Youths

In some of the SEGA SAMMY Group's businesses, it is very likely that the end users of our products will be youths. If we were to neglect measures to protect youths in these businesses, the social backlash that would result could endanger business sustainability.

We take steps ensure that product packages and instruction manuals in the packaged game area are easy to understand based on labeling requirements, industry guidelines, and its own standards. In Japan, we indicate the intended audience of each game based on a rating system established by the Computer Entertainment Rating Organization (CERO) while also labeling products in accordance with our own voluntary standards.

Furthermore, we are concerned with issues relating to excessive game playing and micro-transaction payments by minors in the digital game area. Accordingly, we have enabled the use of age authentication to set upper limits on monthly payments for certain titles and take other steps to prevent youths from becoming entranced by gambling elements in games.

Quality Assurance Activities (Pachislot and Pachinko Machine Business)



Natural Capital

Relationship between Natural Capital and Business Sustainability

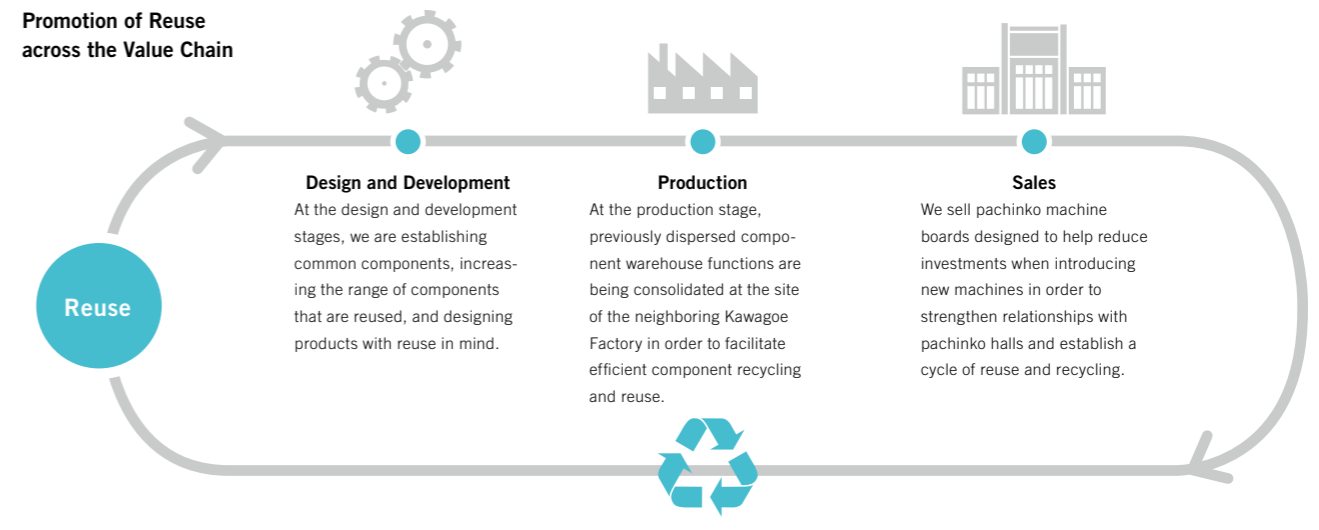
The Pachislot and Pachinko Machine Business segment operates the Group's only business in which hardware is produced in-house. Accordingly, this business consumes various natural resources in its use of components and in its manufacturing processes. It is therefore necessary to take steps to reduce the environmental impact of our manufacturing processes, and, given the relatively short lifecycles of our products, we must also stringently manage waste.

Reduction of Environmental Impact and Improvement of Profitability in the Pachislot and Pachinko Machine Business

The SEGA SAMMY Group is pursuing optimization in all areas of the pachinko and pachislot machine value chain, including development, manufacturing, and sales. Through these efforts, we aim to reduce environmental impacts by cutting back on component use while also improving profitability by reusing components. The range of components to which these initiatives apply is being expanded and we are also increasingly using common components. In addition, we are promoting these initiatives in the industry as a whole. We thereby aim to lead the industry in improving efficiency.

(▶P.50 Pachislot and Pachinko Machine Business)

Promotion of Reuse across the Value Chain



The Group seeks to ensure proper disposal of used pachinko and pachislot machines that have reached the end of their lives of bringing joy to customers. We therefore promote recycling by offering trade-in programs with regard to our own machines and by utilizing an industry association collection system. We also participate in the used pachinko and pachislot machine collection system developed by industry associations to implement more advanced recycling measures (reduction of weight and appropriate treatment).

Environmental Indicators at Sammy's Kawagoe Factory

| | | (FY) | 2015 | 2016 | 2017 |
|---|--------------------------------|------|-------------|-------------|-------------|
| Pachinko and pachislot machine recycle rate | Recycle rate | | 97.24% | 97.28% | 97.21% |
| Use of environment-friendly raw materials | Wood use | | 1,344 t | 1,077 t | 1,494 t |
| | Of which, PEFC-certified wood* | | 66 t (4.9%) | 45 t (4.2%) | 84 t (5.6%) |

* PEFC-certified wood: This refers to wood certified by the Programme for the Endorsement of Forest Certification. This wood is appropriately procured from forests that have received third-party certification as sustainably managed forests. Our use of PEFC-certified wood has declined due to a decrease in the volume of products that we manufacture for which PEFC-certified wood is usable. In fiscal 2014, we changed over to procuring bonded components. All of the components we procure use water-based adhesives, which place less burden on the environment.

* Components glued together using environmentally friendly water-based adhesives have been purchased from suppliers since fiscal 2014.

CORPORATE GOVERNANCE

▶ Messages from External Directors

The SEGA SAMMY Group has been strengthening monitoring and oversight based on the external perspectives of external directors while reflecting their extensive management experience and expertise in the Group's business management. The Group appointed an external director in 2007 and another in 2008. With a view to strengthening corporate governance even further, the Group appointed a third external director in 2016.



Yuji Iwanaga
Director of the Board (External)

Appointment as Director of the Board (External): June 2007

I intend to seek explanations about facets of the Group's governance related to environmental and social factors, which tend to be less visible areas.

In light of my experience as an attorney, I state opinions that principally concern the many facets of corporate governance, including risk management; compliance; and ESG (environmental, social, and governance) factors. Before meetings of the Board of Directors, personnel who are thoroughly familiar with agenda items provide us with detailed explanations of the issues to be discussed. Also, for important matters we receive briefings directly from members of relevant departments. These explanations facilitate the proceedings of the Board of Directors. In addition, internal directors participate in lively exchanges of opinion. Further, the Independent Advisory Committee, established in 2015 to promote communication between the senior management team and external directors, is steadily emerging from an initial "trial phase" and is functioning well. Overall, I believe the Group's corporate governance is highly effective. On occasion, however, we do not receive adequate prior explanations, and I raise questions about such cases directly at meetings of the Board of Directors. Regarding compliance, I think the Company's in-house auditing team are doing very good work. On the other hand, such efforts are not adequately permeating through to subsidiaries and sub-subsidiaries. Interest in ESG has increased in recent years. As I mentioned, the Group is taking effective, visible measures in relation to governance. As for ES (environmental and social) factors, there are no reports of problems at this juncture. If a problem emerges, I expect the Group to report it and take appropriate measures promptly.

I look forward to seeing newly appointed president Haruki Satomi making bold decisions with youthful vigor while the senior management team provides him with support.



Takeshi Natsuno
Director of the Board (External)

Appointment as Director of the Board (External): June 2008

I intend to continue saying what I think and stating opinions without reservation.

With its sights set on fiscal 2020, SEGA SAMMY HOLDINGS INC. has announced the Road to 2020 initiative. This announcement marks the first time that the Group has set numerical targets within a timeframe and announced them publicly. Given that the outlook for the entertainment industry is extremely uncertain, I think that showing a clear commitment to corporate development in this way is highly commendable and gives a sense of the management team's firm determination.

In response to changing market conditions, the Group reformed its earnings structure, which relied heavily on the Pachislot and Pachinko Machine Business, by improving the profitability of the Entertainment Contents Business to establish it as a second pillar. From a longer-term perspective, the senior management team decided to assume risk and take on the challenges of the integrated resort business. The Group's management decisions have exemplified the proactive business management promoted by Japan's Corporate Governance Code, and as such I strongly endorse the senior management team's approach.

As it advances business strategies in earnest based on Road to 2020, the Group is likely to face a range of difficulties. Due to the introduction of stricter regulations, the operating environment of the Pachislot and Pachinko Machine Business is expected to remain challenging. Moreover, major hit apps for mobile devices, which are key to the Group's strategies, are not something that can be planned and created without fail. I would like the senior management team to stay resolute and overcome any difficulties that emerge.

I want the Group to make full use of the rejuvenated management team's momentum to forge ahead in a concerted effort to create new value. To counter insiders' logic and encourage appropriate debate at meetings of the Board of Directors, I intend to continue saying what I think and stating opinions without reservation.



Kohei Katsukawa
Director of the Board (External)

Appointment as Director of the Board (External): June 2016

I will state opinions with a view to contributing to the enhancement of corporate value.

"Effective brakes let you put your foot on the gas resolutely." This is why brakes are said to be the most important component of a race car. Similarly, the establishment of robust governance enables corporate management to ambitiously pursue strong growth.

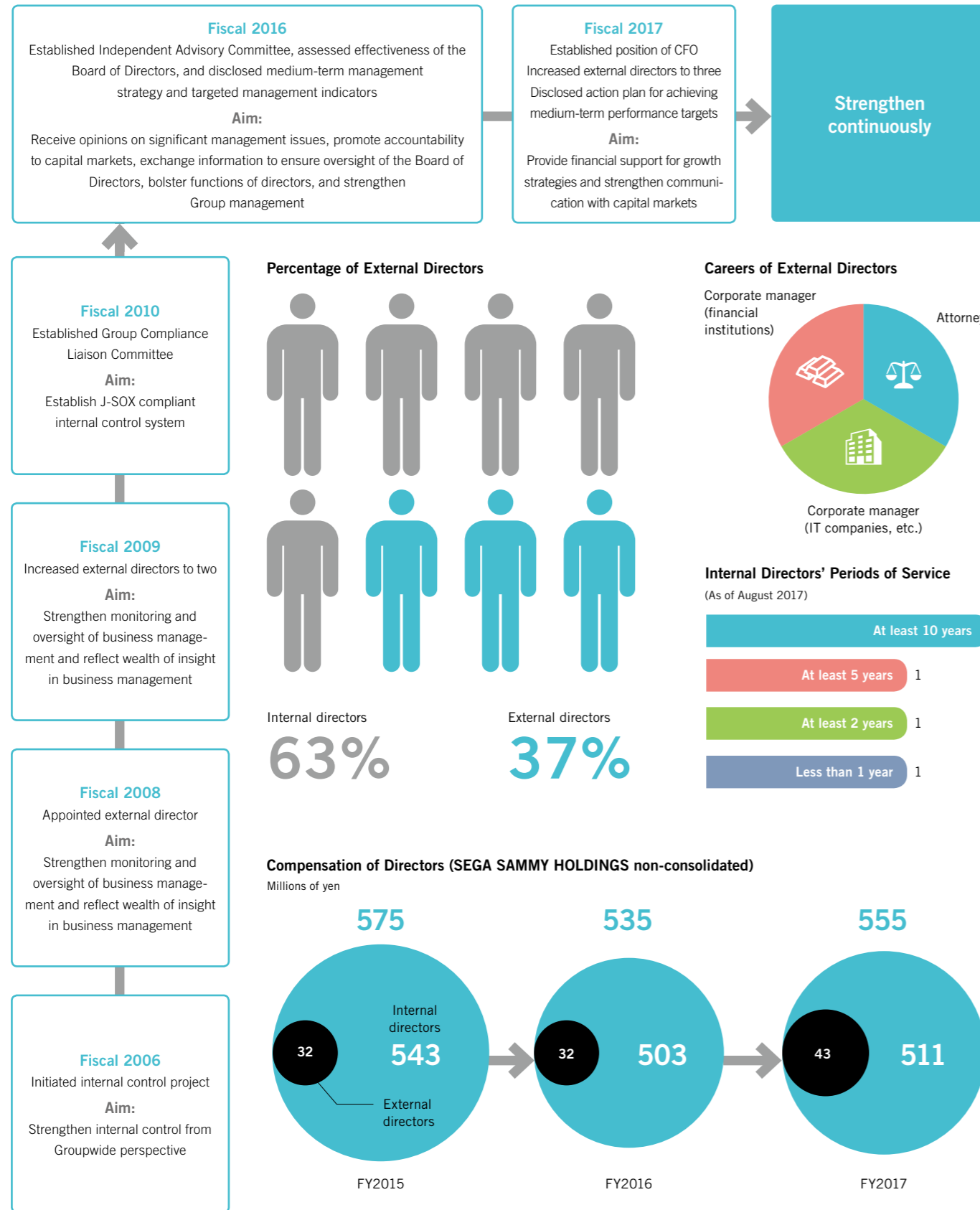
To fulfill the "third-party check" function of an external director, I draw on many years of experience at financial institutions, where I worked with companies and submitted and implemented proposals. At the same time, I focus on supporting forward-looking management that advances businesses. I offer frank opinions on a range of matters, including whether the Company has selected the optimal direction in which to proceed; whether investments are rational and will enhance corporate value; and the need to reform businesses now, before falling behind in dealing with past investments that leads to significant losses.

In my view, SEGA SAMMY HOLDINGS appropriately governs the more than 70 companies under its management. Given the liveliness of discussions at meetings of the Board of Directors and the willingness of internal directors and executive officers to attend seriously to external directors' critical statements, I think governance is functioning soundly.

In the Group, employees have a strong sense of loyalty toward the senior management team. Also, since its establishment the Group has accumulated management resources that compare favorably with those of its industry peers. To realize this collective strength even further, I think the Group must undertake painstaking reform of the operating companies under its management while increasing exchanges among personnel within the Group. I think the transfer to a new head office in 2018, which will consolidate the Group's head office functions, will provide a good opportunity to take such steps.

I am confident that if, as a result of exchanges among employees, each employee pursues measures based on all-encompassing judgment criteria that take into consideration what is good "for the Group," this attitude will cultivate an even stronger sense of solidarity, enable the achievement of Road to 2020, and lead to an opportunity to become Japan's first operator of an integrated resort business, which is the Group's most important task.

► Our Corporate Governance System



► Overview of the Governance Structure

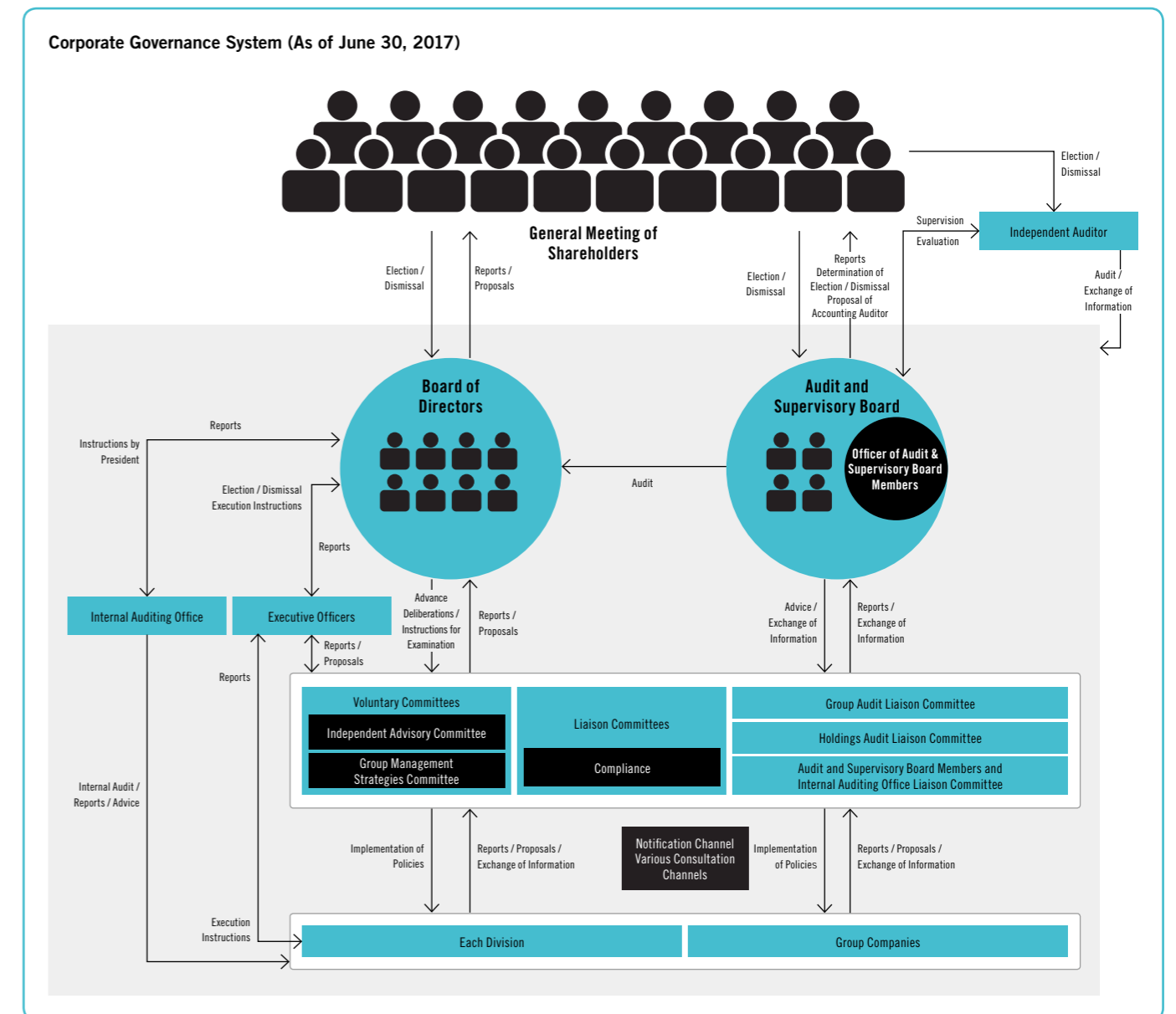
The SEGA SAMMY Group has adopted an Audit and Supervisory Board member system to enable directors to make prompt, optimal decisions amid volatile business conditions based on their wealth of expertise and experience regarding the industry, market trends, products, merchandise, and services. At the same time, we have appointed external directors and strengthened our executive officer system and internal auditing system, thereby reinforcing corporate governance with respect to operational management and oversight.

Comprising eight directors, the Board of Directors strives for agile business management. It convenes once a month in principle, holding extraordinary sessions as required.

Comprising four members, the Audit and Supervisory Board thoroughly examines and analyzes specific issues. It meets once a month

and holds extraordinary sessions as required.

The SEGA SAMMY Group has established voluntary committees—the Group Management Strategy Committee and the Independent Advisory Committee—as well as the Group Compliance Liaison Committee, the Group Audit Liaison Committee, the Holdings Audit Liaison Committee, and the Audit and Supervisory Board Members and Internal Auditing Office Liaison Committee. These committees were established to facilitate intra-Group information sharing, discussion, verification, and coordination, and they are also tasked with issuing reports and making proposals to the Board of Directors. Furthermore, the Company has adopted an executive officer system with the aim of expediting management decision making and enhancing operational implementation and related oversight functions.



External Directors and Audit and Supervisory Board Members

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

Selection Policy

External directors provide advice on raising the corporate value of the Company and the Group from an external perspective, based on their extensive expertise and experience. Aiming to enable the oversight of directors' implementation of operations, we appoint external directors from among attorneys and business executives. We appoint outside Audit and Supervisory Board members with extensive expertise and experience in a wide range of areas because we appreciate the important role outside Audit and Supervisory Board members perform in realizing corporate governance by heightening the impartiality and independence of the auditing system. Also, we aim to ensure the soundness of business management through auditing from an objective standpoint.

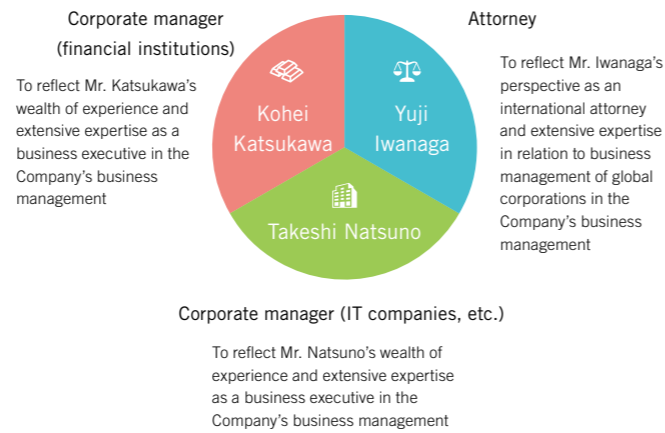
Policy regarding Independence

Regarding the independence of external directors and external Audit and Supervisory Board members, the Company determines "significant business partners" or "large monetary amounts," which are cited in the independence criteria stipulated by the Tokyo Stock Exchange (TSE), with reference to the publicly announced standard model for appointing independent directors and based on said criteria. We deem that persons satisfying the requirements of the said criteria do not have conflicts of interest with general shareholders. The Company has adopted a policy of appointing as independent directors all external directors and outside Audit and Supervisory Board members that meet the independence criteria stipulated by the TSE. Accordingly, we have designated all currently serving external directors and outside Audit and Supervisory Board members as independent directors.

Independent Advisory Committee

The Independent Advisory Committee comprises all of the Company's independent external directors and independent outside Audit and Supervisory Board members. In response to consultation by the Board of Directors or the chief executive officer, the Independent Advisory Committee provides opinions from an independent standpoint that primarily relate to analyses and assessments of the effectiveness of the Board of Directors as a whole; involvement in the decision-making process for compensation; and assessments of candidates for the positions of director or Audit and Supervisory Board member.

Reason for Appointment of External Directors



Reason for Appointment of Outside Audit and Supervisory Board Members

| Outside Audit and Supervisory Board Members | Reason for Appointment |
|---|--|
| Tomio Kazashi | To reflect Mr. Kazashi's wealth of expertise and practical experience in business and as an Audit and Supervisory Board member in the Company's auditing |
| Mineo Enomoto | To reflect Mr. Enomoto's expert perspective as an attorney and extensive expertise in relation to business management in the Company's auditing |

Activity in Fiscal 2017

| Board of Directors | Meeting Attendance |
|---|---|
| Board of Directors convened | 14 times |
| External directors | |
| Yuji Iwanaga | Attended 14 of 14 meetings (including 12 of 12 ordinary Board of Directors' meetings) |
| Takeshi Natsuno | Attended 14 of 14 meetings (including 12 of 12 ordinary Board of Directors' meetings) |
| Kohei Katsukawa | Attended 11 of 11 meetings (including 10 of 10 ordinary Board of Directors' meetings) |
| External directors' attendance | 100% |
| Outside Audit & Supervisory Board members | |
| Tomio Kazashi | Attended 14 of 14 meetings (including 12 of 12 ordinary Board of Directors' meetings) |
| Mineo Enomoto | Attended 14 of 14 meetings (including 12 of 12 ordinary Board of Directors' meetings) |
| Outside Audit & Supervisory Board members' attendance | 100% |

Assessment of the Effectiveness of the Board of Directors

With reference to the self-evaluations of each director, the Independent Advisory Committee analyzes and assesses the Board of Directors as a whole with respect to its size, composition, management method, deliberations, and support systems as well as other matters that are important for the effective performance of roles and duties by the Board of Directors. In fiscal 2017, each director responded to a questionnaire. In light of these responses, the Independent Advisory Committee conducted an assessment, reported the results to an ordinary Board of Directors' meeting convened at the end of May 2017, and discussed the issues raised. As a result, the committee confirmed the effectiveness of the Board of Directors. Independent Advisory Committee favorably evaluated measures to encourage in-depth discussions of matters, which included reducing the members of the Board of Directors and using the Group Management Strategy Committee as a separate venue for discussions. However, the committee's improvement recommendations indicated the need for (a) directors to express opinions more proactively and to have livelier debate about business matters not related to their businesses and (b) rigorous follow-up reporting, including reporting on results and progress. In light of this effectiveness assessment, the Board of Directors will improve its functions and effectiveness.

Compensation of directors and Audit and Supervisory Board members for fiscal 2017 is as follows.

| Position | Directors / Audit and Supervisory Board members | Total compensation (millions of yen) | Total compensation by type (millions of yen) | | | |
|-------------------------------------|---|--------------------------------------|--|-------|---------------|----|
| | | | Basic compensation | Bonus | Stock options | |
| Directors | Internal | 7 | 511 | 385 | 108 | 18 |
| | Outside | 3 | 43 | 43 | — | — |
| Audit and Supervisory Board members | Internal | 1 | 13 | 13 | — | — |
| | Outside | 2 | 27 | 27 | — | — |

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2017 is as follows.

| Name | Position | Total consolidated compensation, etc. (millions of yen) | Company | Total consolidated compensation by type (millions of yen) | | |
|---------------|----------|---|----------------|---|-------|---------------|
| | | | | Basic compensation | Bonus | Stock options |
| Hajime Satomi | Director | 524 | The Company | 269 | 50 | 5 |
| | | | Sammy | — | 200 | — |
| Haruki Satomi | Director | 129 | The Company | 18 | 10 | 6 |
| | | | Sammy | 36 | 35 | — |
| | | | SEGA Holdings | 12 | — | — |
| | | | SEGA Games | 6 | — | — |
| | | | Sammy Networks | 6 | — | — |

The Nomination of Directors and Audit and Supervisory Board Members

In determining candidates for the positions of director and Audit and Supervisory Board member, the Company's basic policy is to conduct a comprehensive assessment of their personal qualities, expertise, knowledge, capabilities, and experience. The Independent Advisory Committee considers the candidates that the president has nominated, interviews the candidates, and submits an opinion based on assessment results to the president. With reference to these assessment results and in accordance with the abovementioned policy, the president determines candidates for the position of director or Audit and Supervisory Board member, and the Board of Directors examines and approves the candidates. The same procedure is followed if the Independent Advisory Committee recommends a candidate to the president for the positions of director or Audit and Supervisory Board member.

Compensation of Directors

The Company pays basic compensation to directors (excluding external directors) commensurate with the significance of their positions and the scope of their duties and responsibilities. Also, the Company pays variable compensation, comprising bonuses and stock options, in light of its business results in the relevant fiscal year.

The president indicates the basic policy on the determination of compensation to the Board of Directors. Based on delegation through a resolution of the Board of Directors, the president consults with the Independent Advisory Committee regarding the assessment of each director. The committee assesses directors and the Board of Directors based on the achievements of each director. The committee submits an opinion to the president based on the results. With reference to the committee's opinion, the president determines an amount of compensation that is within the limit that the Ordinary General Meeting of Shareholders has approved for compensation* and reports the decision to the Board of Directors.

* A resolution of the Ordinary General Meeting of Shareholders in June 2012 set the limit for directors' compensation at ¥1 billion. A resolution of the Ordinary General Meeting of Shareholders of Sammy Corporation and a resolution of the Ordinary General Meeting of Shareholders of SEGA CORPORATION in June 2004 set the limit for Audit and Supervisory Board members' compensation at ¥50 million.

Training of Directors and Audit and Supervisory Board Members

When appointing a director or Audit and Supervisory Board member, the Company conducts an orientation about its systems and provides opportunities to participate in training aimed at the acquisition of knowledge about the roles and duties that a director or Audit and Supervisory Board member of a listed company is expected to fulfill as well as about related laws and regulations and compliance. After appointing a director or Audit and Supervisory Board member, the Company continuously provides opportunities for them to acquire required knowledge. For example, after meetings of the Board of Directors the Company holds workshops, which are conducted by outside lecturers who are lawyers or specialists in particular fields. Also, the Company encourages self-improvement by supporting participation in outside seminars or workshops.

► **Shares Held for Strategic Reasons**

In addition to shares it holds purely as investments, the Company holds shares to enable the expansion of operational alliances and business transactions and thereby enhance corporate and shareholder value. Meetings of the Board of Directors regularly verify economic rationality and outlooks in relation to such shares and consider the pros and cons of holding the shares going forward. In exercising voting rights associated with the shares, the Company's criterion is whether proposals will contribute to the sustained growth of the Company and the investee and thereby enhance corporate value over the medium-to-long term.

► **Transactions with Related Parties**

Transactions between the Company and directors or between the Company and companies under the effective control of directors that would constitute a conflict of interest or competition with the Company require approval through a resolution of the Board of Directors pursuant to laws and regulations. Further, in securities reports the Company discloses transaction conditions and policies on the determination of transaction conditions. The Company has established systems to ensure that transactions with directors or companies under the effective control of directors and transactions with customers that are major shareholders do not disadvantage the Company.

► **Internal Control**

In addition, an internal control project launched in fiscal 2006 established an assessment and reporting framework for internal control in accordance with the stipulations of Japan's Financial Instruments and Exchange Act, which requires "Management Assessment and Audit concerning Internal Control Over Financial Reporting" (J-SOX). Also, the Company has rectified deficiencies that the project identified. As a result, systems to ensure the reliability of financial reports have become firmly established in the Group. We believe that internal controls operated effectively in relation to the financial reports the Group issued for fiscal 2017. As we continue to ensure the reliability of financial reports, we will maintain and build internal control systems to increase efficiency and ensure soundness.

For details, please see "Our Stance and Status on the Corporate Governance Code."

<https://www.segasammy.co.jp/english/pr/corp/pdf/governance/governance.pdf>

► **Compliance**

Based on the Group Code of Conduct and the Group Management Policy, the SEGA SAMMY Group is undertaking a variety of initiatives to ensure that all employees are aware of compliance and to enable them to act appropriately. Furthermore, having identified loss risks within and outside the scope of its business management and clarified the tasks it should address, the Group implements operations, minimizes the loss of management resources, and prevents recurrence.

Compliance Promotion Structure

Established in fiscal 2010 to strengthen initiatives throughout the Group, the Group Compliance Liaison Committee spearheads efforts to build internal structures that enable sound management in accordance with statutory laws and regulations and social norms. Also, the Company is developing and implementing Groupwide initiatives.

These include continuation of Compliance Advancement Initiatives, which it began in fiscal 2010, and informing employees about a comprehensive revision of whistleblower system to ensure operational duties are performed appropriately.

Informing Employees about the Group Code of Conduct and Other Commitments

The Group complies rigorously with corporate ethics and statutory laws and regulations by ensuring all employees of the Group understand the Group CSR Charter and by providing guidance on conduct and performance of duties consistent with the spirit of this charter in the Group Code of Conduct and the Group Management Policy.

Because inculcating the Group Code of Conduct among employees is important to our compliance program, we distribute a CSR guidebook to employees that includes the Group Mission, the Group Management Philosophy, and the Group CSR Charter. Employees can also view these and the Group Management Policy on the Company's intranet.

Whistleblower System

The Group has established a whistleblower system to enable self-correction within the Group and to prevent scandals due to illegal or unfair practices. Each Group company has established a whistleblower system and a contact point at an external law office. The Group investigates reported matters, rectifies them, and takes measures to prevent recurrence of such issues. Also, the Group has established a system that protects whistleblowers and uses its intranet and posters to inform all employees about the system. In fiscal 2017, the Group introduced a whistleblower system to overseas operations.

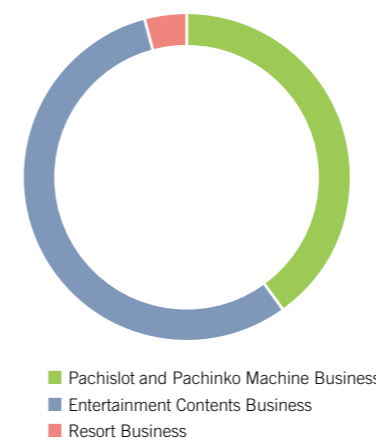
In Japan, the whistleblower system responded to 21 cases in fiscal 2015, 9 in fiscal 2016, and 16 in fiscal 2017. Breaking down whistleblower reports between fiscal 2014 and fiscal 2017, suspected power harassment cases accounted for 28% of reports, suspected rule or law violation cases 24%, suspected sexual harassment cases 13%, employment-related cases 9%, and other cases 26%. As for the whistleblowers, 52% were employees; 13% were part-time or temporary personnel; 9% were retirees, family members, or business partners; and 26% were unknown due to anonymous reporting.

► **Executive Officers**

SEGA SAMMY HOLDINGS has adopted an Audit and Supervisory Board member system to enable directors to make prompt, optimal decisions amid volatile business conditions based on their wealth of expertise and experience regarding the industry, market trends, products, merchandise, and services. Internal directors concurrently manage the Company and operating companies.

Concurrent management by the Company's directors is as stated below.

Fiscal 2017 Net Sales Breakdown



Hajime Satomi

Chairman and CEO (Representative Director)

Concurrently manages operating companies

- Honorary Chairman of the Board of SEGA Holdings Co., Ltd.
- Chairman and CEO of Sammy Corporation
- Chairman of the Board of MARZA ANIMATION PLANET INC.

Haruki Satomi

President and COO (Representative Director)

Concurrently manages operating companies

- Chairman of the Board (Representative Director) of Sammy Networks Co., Ltd.
- Chairman and CEO (Representative Director) of SEGA Holdings Co., Ltd.
- President and CEO (Representative Director) of Sammy Corporation
- Chairman and CEO (Representative Director) of SEGA Games Co., Ltd.

Naoya Tsurumi

Senior Executive Vice President (Director of the Board)

Concurrently manages operating companies

- Vice Chairman of the Board of PHOENIX RESORT CO., LTD.
- Member of the Board of Directors of PARADISE SEGASAMMY Co., Ltd.
- Vice Chairman of the Board of SEGA Holdings Co., Ltd.
- Chairman of the Board of Sega Sammy Golf Entertainment Inc.

Koichi Fukazawa

Executive Vice President and CFO (Director of the Board)

Hideki Okamura

Executive Vice President (Director of the Board)

Concurrently manages operating companies

- President and COO (Representative Director) of SEGA Holdings Co., Ltd.
- Chairman of the Board of SEGA Interactive Co., Ltd.
- Chairman of the Board (Representative Director) of TMS ENTERTAINMENT CO., LTD.
- Chairman of the Board (Representative Director) of SEGA TOYS CO., LTD.
- Chairman of the Board (Representative Director) of DARTSLIVE Co., Ltd.
- Senior Vice President (Director of the Board) of SEGA Games Co., Ltd.
- President (Representative Director) of MARZA ANIMATION PLANET INC.
- Chairman of the Board of SEGA ENTERTAINMENT Co., Ltd.

► **Communication with Shareholders and Other Investors**

The Company has defined its basic stance toward information disclosure described in its IR Policy. Based on this stance, the director in charge of the Finance & Accounting Division, who is also responsible for information management, guides the Investor Relations Department within the Finance & Accounting Division in conducting information disclosure. The disclosure activities of this specialized organization are advanced in accordance with the Financial Instruments and Exchange Act and other laws and ordinances as well as the Regulations Governing the Timely Disclosure of Corporate Information by Issuer of Listed Securities set forth by the TSE. In addition to information disclosure mandated by laws or the abovementioned timely disclosure regulations, the Company also conducts proactive voluntary disclosure of information with the potential to significantly influence the decisions of investors. Further, we participate in conferences that securities companies organize.

In addition, the Company continually takes measures to further investors' understanding of its business activities. For example, we are increasing and improving the IR-related materials available on our web site. Moreover, our web site has a section for individual investors that includes readily understandable explanations of the Group.

Furthermore, the Company endeavors to heighten the objectivity of its business management by reflecting valuable opinions and requests received from shareholders and investors in its business management.

Principal IR Awards Received

FY2016 Nikkei Annual Report Award, Excellence Award



Internet IR Excellence Award 2016 Daiwa Investor Relations Co., Ltd.



DIRECTORS, AUDIT AND SUPERVISORY BOARD MEMBERS, AND EXECUTIVE OFFICERS

As of June 17, 2017

▶ Directors



Hajime Satomi
Chairman and CEO (Representative Director)

1980 President (Representative Director) of Sammy Industry Co., Ltd. (now Sammy Corporation)
2004 Chairman of the Board (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Chairman and CEO (Representative Director) of Sammy Corporation
Chairman and CEO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Chairman, President and CEO (Representative Director) of the Company
2007 President, CEO and COO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
2008 Chairman and CEO (Representative Director) of the above
2012 Chairman of the Board of Sammy Corporation
Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
2013 Chairman and CEO (Representative Director) of Sammy Corporation
2015 Chairman and CEO (Representative Director) of SEGA Holdings Co., Ltd.
2016 Chairman, President, CEO and COO (Representative Director) of the Company
2017 Chairman and CEO (Representative Director) of the Company (current position)
Chairman of the Board (Representative Director) of Sammy Corporation (current position)
Honorary Chairman of the Board of SEGA Holdings Co., Ltd. (current position)
Chairman of the Board of MARZA ANIMATION PLANET INC. (current position)



Haruki Satomi
President and COO (Representative Director)

2004 Joined Sammy Corporation
2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.)
Director of SEGA of America, Inc.
2011 Senior Vice President (Director of the Board) of Sammy Networks Co., Ltd.
2012 President and CEO (Representative Director) of the above
Senior Vice President (Director of the Board) of the Company
Senior Vice President (Director of the Board) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
President and CEO (Representative Director) of SEGA Networks Co., Ltd. (now SEGA Games Co., Ltd.)
2014 Senior Vice President (Director of the Board) of Sammy Corporation
Deputy COO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
2015 Deputy COO (Representative Director) of SEGA Holdings Co., Ltd.
President and CEO (Representative Director) of SEGA Games Co., Ltd.
Deputy COO (Representative Director) of Sammy Corporation
2016 President and COO (Representative Director) of the above
Chairman of the Board (Representative Director) of Sammy Networks Co., Ltd. (current position)
Executive Vice President (Director of the Board) of the Company
2017 President and COO (Representative Director) of the Company (current position)
President and CEO (Representative Director) of Sammy Corporation (current position)
Chairman and CEO (Representative Director) of SEGA Holdings Co., Ltd. (current position)
Chairman and CEO (Representative Director) of SEGA Games Co., Ltd. (current position)



Naoya Tsurumi
Senior Executive Vice President (Director of the Board)

1992 Joined SEGA Enterprises, Ltd. (now SEGA Games Co., Ltd.)
2004 Vice President, Executive Officer of SEGA CORPORATION (now SEGA Games Co., Ltd.)
2005 CEO of SEGA Publishing Europe Ltd.
2006 Vice President, Senior Executive Officer of SEGA CORPORATION (now SEGA Games Co., Ltd.)
CEO and President of SEGA Holdings U.S.A., Inc.
Chairman of SEGA of America, Inc.
2008 Senior Vice President (Director of the Board) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
2009 Executive Vice President (Director of the Board) of the above
Chairman of SEGA Europe Ltd.
2012 President and COO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Vice Chairman and CEO of Sega Jinwin (Shanghai) Amusements Co., Ltd.
Senior Vice President (Director of the Board) of the Company
CEO and President of SEGA Holdings Europe Ltd.
2014 Senior Executive Vice President (Representative Director) of the Company
Vice Chairman of the Board of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Vice Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
Member of the Board of Directors of PARADISE SEGASAMMY Co., Ltd. (current position)
2015 Vice Chairman of the Board of SEGA Holdings Co., Ltd. (current position)
Chairman, Representative Director and President of SEGA LIVE CREATION Inc. (now CA Sega Joypolis Ltd.)
Chairman of the Board of Sega Sammy Golf Entertainment Inc. (current position)
2016 Senior Executive Vice President (Director of the Board) of the Company (current position)
2017 Chairman and Director of CA Sega Joypolis Ltd. (current position)



Koichi Fukazawa
Executive Vice President and CFO (Director of the Board)

2003 Joined Sammy Corporation
Vice President, Executive Officer and Managing Director of President's Office of the above
2004 Vice President, Executive Officer and Managing Director of President's Office of the Company
Vice President, Executive Officer and Managing Director of Chairman's Office and President's Office of SEGA CORPORATION (now SEGA Games Co., Ltd.)
2005 Senior Vice President (Director of the Board) and Managing Director of Chairman's Office and President's Office of the above
2007 President (Representative Director) of SEGA SAMMY ASSET MANAGEMENT INC. (now MARZA ANIMATION PLANET INC.)
Senior Executive Officer and in charge of the Corporate Strategy and External Affairs of the Company
2008 Senior Vice President (Director of the Board) and Managing Director of New Business Division of SEGA CORPORATION (now SEGA Games Co., Ltd.)
2009 President (Representative Director) of SEGASAMMY VISUAL ENTERTAINMENT INC. (now MARZA ANIMATION PLANET INC.)
2014 Senior Executive Vice President (Representative Director) of SEGA TOYS CO., LTD.
2015 Senior Vice President (Director of the Board) of the above
Senior Vice President (Director of the Board) of the Company
2016 Executive Vice President and CFO (Director of the Board) of the Company (current position)



Hideki Okamura
Executive Vice President (Director of the Board)

1987 Joined SEGA Enterprises, Ltd. (now SEGA Games Co., Ltd.)
1997 Senior Vice President (Director of the Board) of the above
2003 Vice President, Senior Executive Officer of SEGA CORPORATION (now SEGA Games Co., Ltd.)
2004 Director of the Board of TMS ENTERTAINMENT CO., LTD.
Executive Vice President (Director of the Board) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Senior Vice President (Director of the Board) of the Company
2007 Senior Vice President (Director of the Board) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
2008 President (Representative Director) of TMS ENTERTAINMENT CO., LTD.
2014 Vice Chairman of the Board of the above
President and COO (Representative Director) of SEGA CORPORATION (now SEGA Games Co., Ltd.)
Senior Vice President (Director of the Board) of the Company
2015 President and COO (Representative Director) of SEGA Holdings Co., Ltd. (current position)
Chairman of the Board (Representative Director) of SEGA Games Co., Ltd.
Chairman of the Board of SEGA Interactive Co., Ltd. (current position)
Chairman of the Board (Representative Director) of TMS ENTERTAINMENT CO., LTD. (current position)

2015 Chairman of the Board (Representative Director) of SEGA TOYS CO., LTD. (current position)
Chairman of the Board (Representative Director) of MARZA ANIMATION PLANET INC.
Chairman of the Board (Representative Director) of DARTSLIVE Co., Ltd. (current position)
President (Director of the Board) of SEGA ENTERTAINMENT Co., Ltd.
2017 Executive Vice President (Director of the Board) of the Company (current position)
Senior Vice President (Director of the Board) of SEGA Games Co., Ltd. (current position)
President (Representative Director) of MARZA ANIMATION PLANET INC. (current position)
Chairman of the Board of SEGA ENTERTAINMENT Co., Ltd. (current position)

▶ External Directors



Yuji Iwanaga*
Director of the Board (External)

1981 Registered with the Japan Federation of Bar Associations
1984 Partner of Lillick McHose and Charles Law Office (now Pillsbury Winthrop Shaw Pittman LLP) (current position)
Registered with the State Bar of California
2003 Outside Director of Manufacturers Bank
2005 Outside Director of JMS North America Corporation (current position)
2006 Outside Director of TAIYO YUDEN CO., LTD.
2007 Director of the Board (External) of the Company (current position)
2016 Advisor of TAIYO YUDEN CO., LTD. (current position)



Takeshi Natsuno*
Director of the Board (External)

2005 Executive Officer and General Manager of Multimedia Services Department of NTT Mobile Communications Network, Inc. (now NTT DOCOMO, Inc.)
2008 Director of the Board (External) of the Company (current position)
Outside Director of transcosmos inc. (current position)
Director of DWANGO Co., Ltd. (current position)
Director of NTT Resonant Inc. (current position)
Guest Professor, Graduate School of Media and Governance of Keio University

2009 Outside Director of DLE, Ltd. (current position)
Outside Director of GREE, Inc. (current position)
2010 Outside Director of U-NEXT Co., Ltd. (current position)
2013 Guest Professor, Graduate School of Media and Governance of Keio University (current position)
2016 Outside Director of Oracle Corporation Japan (current position)
2017 Outside Director of AWS Holdings (now Ubicom Holdings) (current position)
Outside Director of ZENETEC CORPORATION (current position)



Kohei Katsukawa*
Director of the Board (External)

1974 Joined Sumitomo Bank (now Sumitomo Mitsui Banking Corporation)
2001 Executive Officer, Head of Osaka Corporate Banking Division II of Sumitomo Mitsui Banking Corporation
2005 Managing Executive Officer, Deputy Head of Wholesale Banking Unit (in charge of East Japan) of the above
2007 Executive Vice President and Representative Director of NIF SMBC Ventures Co., Ltd. (now SMBC Venture Capital Co., Ltd.)
2010 President and Representative Director of SMBC Venture Capital Co., Ltd.
2014 President and Representative Director of GINSEN Co., Ltd.
Outside Director of Kyoto University Innovation Capital Co., Ltd. (current position)

2016 Director of the Board (External) of the Company (current position)
Special Advisor of GINSEN Co., Ltd. (current position)
Outside Director of ELECOM CO., LTD. (current position)

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

DIRECTORS, AUDIT AND SUPERVISORY BOARD MEMBERS, AND EXECUTIVE OFFICERS

▶ Audit and Supervisory Board Members



Shigeru Aoki
Standing Audit & Supervisory Board Member

2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.) as Head Counselor Vice President, Executive Officer and Managing Director of Office of China and Asia Business Management of the above

2006 President of Sega Networks (China) Co., Ltd.

2008 Vice President, Executive Officer and Managing Director of Business Administration Department of Sammy Corporation Vice President, Executive Officer and Managing Director of Corporate Division of the above

2009 Senior Vice President (Director of the Board) and Managing Director of Corporate Division of the above

2011 Executive Vice President (Director of the Board) and Managing Director of Corporate Division of the above

2012 President and COO (Representative Director) of the above

2013 Senior Vice President (Director of the Board) of the Company

2016 Vice Chairman of the Board (Representative Director) of Sammy Corporation Standing Audit & Supervisory Board Member of the Company (current position) Audit & Supervisory Board Member of Japan Multimedia Services Corporation (now JMS-United Co. Ltd.) (current position)

2017 Audit & Supervisory Board Member of SEGA SAMMY BUSINESS SUPPORT INC. (current position)



Yukito Sakaue
Audit & Supervisory Board Member

2003 Joined Sammy Corporation as Director of Audit Office

2004 Director of Legal Department of Administration Division of the above

2006 Director of Audit & Supervisory Board Members' Office of the Company

2014 Audit & Supervisory Board Member of the Company (current position) Standing Audit & Supervisory Board Member of SEGA CORPORATION (now SEGA Games Co., Ltd.)

2015 Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (current position) Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (current position) Audit & Supervisory Board Member of SEGA Games Co., Ltd. (current position) Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD. (current position) Audit & Supervisory Board Member of SEGA ENTERTAINMENT Co., Ltd. (current position) Audit & Supervisory Board Member of MARZA ANIMATION PLANET INC. (current position)



Tomio Kazashi*
Audit & Supervisory Board Member (External)

1990 Director of Cosmo Securities Co., Ltd. (now IwaiCosmo Securities Co.,Ltd.)

1996 Managing Director of the above

1999 Managing Director of Cosmo Investment Management Co., Ltd. (now Meiji Yasuda Asset Management Company Ltd.)

2005 Standing Audit & Supervisory Board Member of Sammy Networks, Co., Ltd.

2008 Substitute Audit & Supervisory Board Member (External) of the Company

2009 Standing Audit & Supervisory Board Member (External) of the Company Audit & Supervisory Board Member of Sammy Networks Co., Ltd. Audit & Supervisory Board Member of SEGA TOYS CO., LTD.

2012 Audit & Supervisory Board Member of SEGA Networks Co., Ltd. (now SEGA Games Co., Ltd.)

2015 Audit & Supervisory Board Member of SEGA LIVE CREATION Inc. (now CA Sega Joypolis Ltd.) Audit & Supervisory Board Member of SEGA SAMMY BUSINESS SUPPORT INC.

2017 Audit & Supervisory Board Member (External) of the Company (current position)



Mineo Enomoto*
Audit & Supervisory Board Member

1978 Registered with the Japan Federation of Bar Associations

2000 Established Enomoto Law Office

2004 Audit & Supervisory Board Member (External) of Sammy Networks Co., Ltd. Audit & Supervisory Board Member (External) of SEGA CORPORATION (now SEGA Games Co., Ltd.)

2005 Substitute Audit & Supervisory Board Member (External) of the Company

2006 Outside Audit & Supervisory Board Member of Nippon Koei Co., Ltd. (current position)

2007 Audit & Supervisory Board Member (External) of the Company (current position)

2014 Outside Audit & Supervisory Board Member of SHIMOJIMA Co., Ltd. (current position)

2015 Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (current position) Audit & Supervisory Board Member of SEGA Games Co., Ltd. Audit & Supervisory Board Member of SEGA Interactive Co., Ltd.

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

▶ Executive Officers



Yuichi Amari
Vice President, Senior Executive Officer



Makoto Takahashi
Vice President, Senior Executive Officer



Toru Nakahara
Vice President, Senior Executive Officer



Yoichi Owaki
Vice President, Senior Executive Officer



Hiroshi Ishikura
Vice President, Executive Officer



Takaharu Kato
Vice President, Executive Officer



Seiichiro Kikuchi
Vice President, Executive Officer

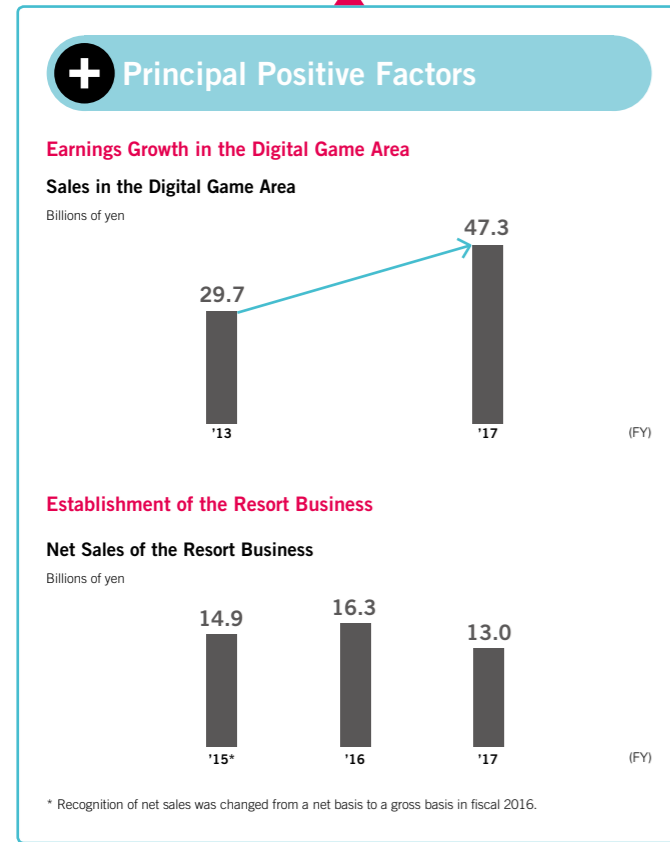
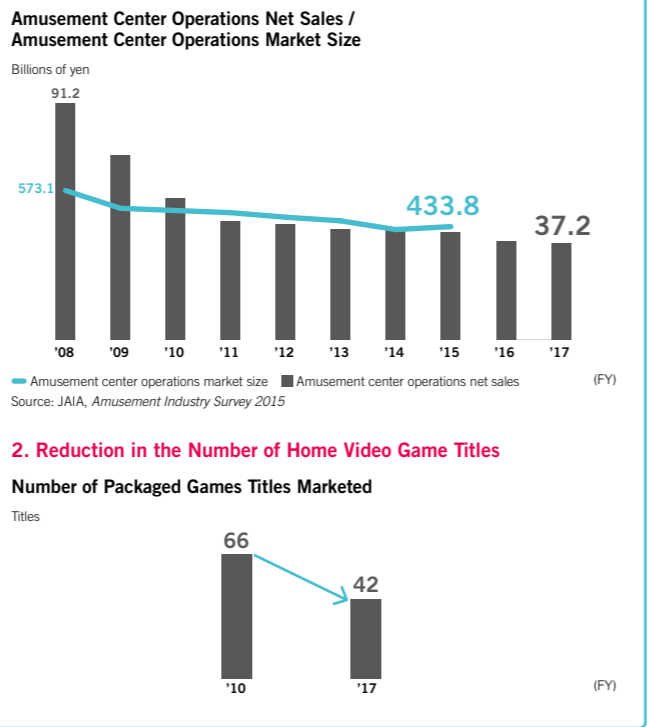
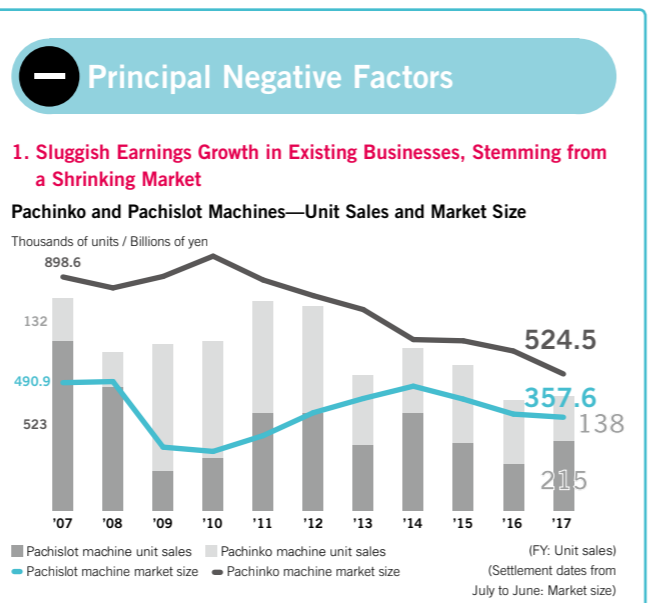
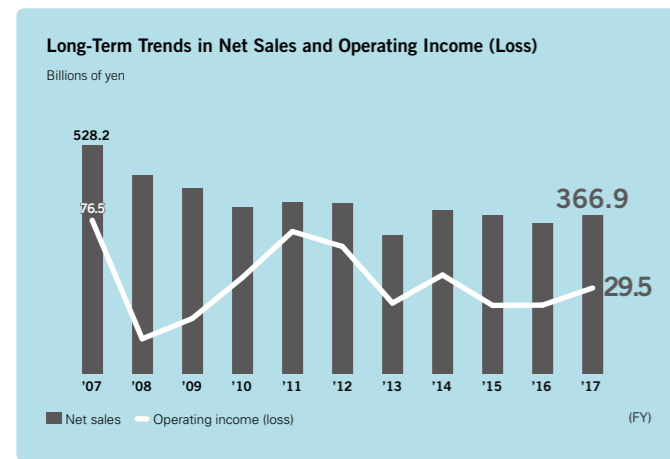
THE FINANCIALS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Consolidated Statements of Income and Comprehensive Income

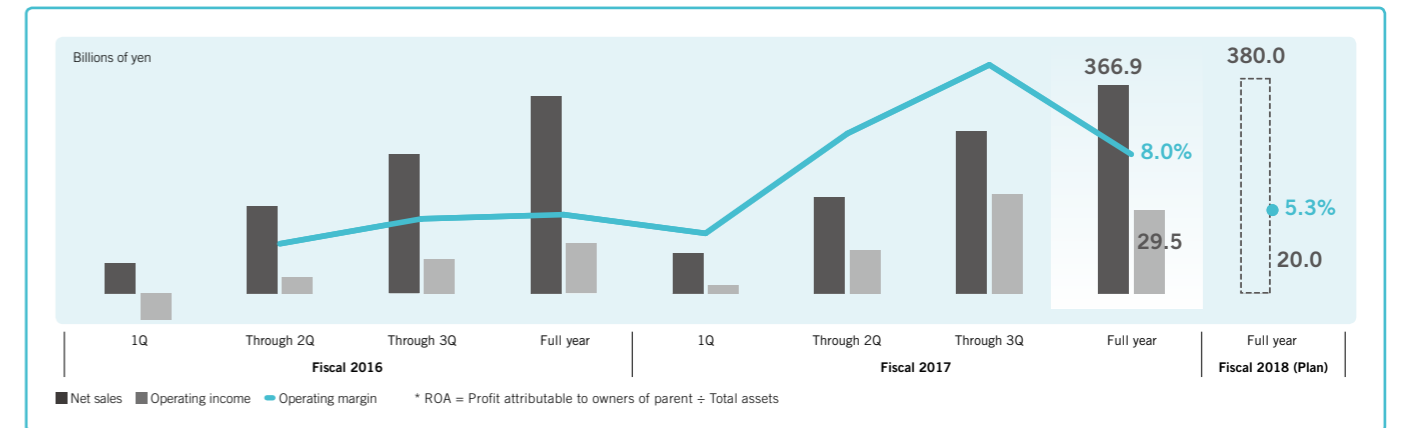
▶ Long-Term Trends

The principal factors that have caused net sales to decline are (1) the dramatic change in the market conditions faced by the Pachislot and Pachinko Machine Business, which accounts for a large percentage of net sales, due to the continuous strengthening of regulations since July 2004 and (2) a decrease in the sales and structure reform of the existing businesses of SEGA CORPORATION (currently SEGA Games Co., Ltd.) (including the closure and sales of amusement centers in the amusement center operations area and the narrowing down of packaged game titles to be developed). Regarding earnings, after recognizing an operating loss in fiscal 2008, earnings trended toward recovery through fiscal 2011, due mainly to improved profitability in the Pachislot and Pachinko Machine Business. Subsequently, however, the business conditions of the Pachislot and Pachinko Machine Business and other existing businesses continued to deteriorate, and earnings trended downward once again. However, profitability has been improving since the implementation of cost structure reform in fiscal 2015.



▶ Comparing Fiscal 2017 and Fiscal 2016

Net sales: **¥366.9 billion** | Operating income: **¥29.5 billion** | Operating margin: **8.0%** | ROA*: **5.2%**



Summary of Consolidated Financial Statements

| | 2016 | 2017 | YoY Change |
|---|----------|----------|------------|
| Net sales | 347.9 | 366.9 | +5% |
| Pachislot and Pachinko Machine Business | 141.0 | 148.2 | +5% |
| Entertainment Contents Business | 190.5 | 205.7 | +8% |
| Resort Business | 16.3 | 13.0 | -20% |
| Cost of sales | 220.6 | 231.2 | +5% |
| Gross profit | 127.3 | 135.6 | +7% |
| Selling, general and administrative expenses | 109.7 | 106.1 | -3% |
| Operating income | 17.6 | 29.5 | +68% |
| Pachislot and Pachinko Machine Business | 20.9 | 26.3 | +26% |
| Entertainment Contents Business | 4.2 | 11.1 | +164% |
| Resort Business | -1.8 | -2.2 | — |
| Other and eliminations | -5.7 | -5.7 | — |
| Operating margin | 5.1% | 8.0% | +2.9pts. |
| Non-operating income | 3.1 | 3.8 | +23% |
| Non-operating expenses | 4.3 | 4.8 | +12% |
| Ordinary income | 16.4 | 28.5 | +74% |
| Extraordinary income | 1.2 | 13.3 | — |
| Extraordinary loss | 5.6 | 8.1 | — |
| Income before income taxes and minority interests | 12.0 | 33.7 | +181% |
| Total income taxes | 6.3 | 5.6 | — |
| Profit (loss) attributable to owners of parent | 5.3 | 27.6 | +421% |
| Cash dividends per share (Yen) | 40 | 40 | — |
| Net income (loss) per share (Yen) | 22.90 | 117.79 | — |
| Total net assets per share (Yen) | 1,257.43 | 1,313.06 | — |

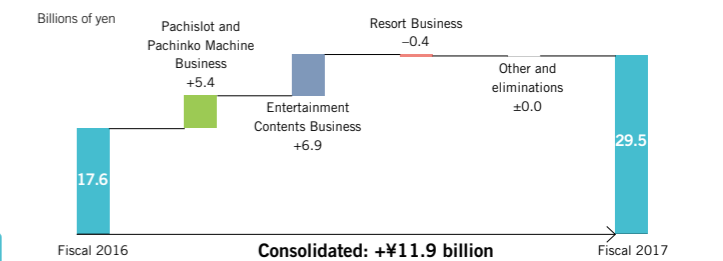
Net Sales

Net sales increased mainly due to the Pachislot and Pachinko Machine Business segment's marketing of multiple titles centered on pachislot machine titles belonging to well-established series and a generally favorable performance by the Entertainment Contents Business due to the benefits of business structure reform throughout the segment.

Operating Income

Operating income rose significantly year on year owing to an increase in pachislot machine unit sales and earnings improvement in the Entertainment Contents Business segment's businesses, all of which posted earnings growth or realized profitability. The operating margin improved 2.9 percentage points, to 8.0%. Meanwhile, R&D expenses and content production expenses were up, primarily as a result of concentrated sales of major titles in the packaged game area.

Change in Segment Operating Income



Extraordinary Income (Loss)

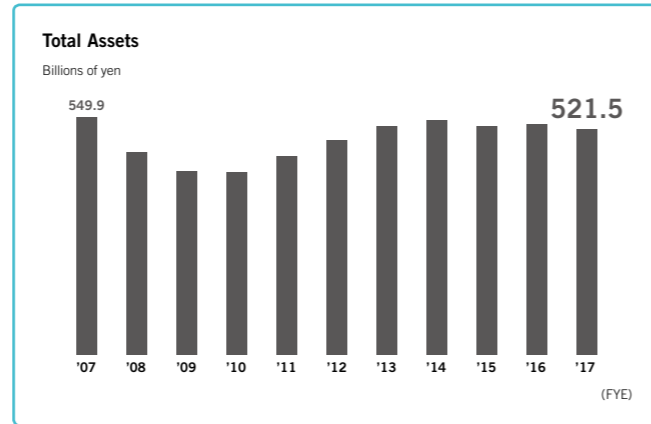
Extraordinary income primarily stemmed from gain on sale of land in the amusement center operations area. Extraordinary loss mainly resulted from such factors as the discontinuation of the development of a resort complex in Busan, South Korea and the sale of some shares of the operating company that manages JOYPOLIS.

Note: Certain line items that are classified as other income (expenses) in the consolidated statements of income (loss) and comprehensive income (loss) have been presented as extraordinary income or extraordinary loss.

Consolidated Financial Position

▶ Long-Term Trends

In fiscal 2008, total assets began decreasing as a consequence of valuation loss on securities and sales of securities. In recent years, although it has been selling amusement centers, the Group has seen total assets trend upward. This steady increase in assets is attributable to the Pachislot and Pachinko Machine Business segment's construction of a new plant, the Group's initiatives in the Resort Business segment, an increase in goodwill accompanying acquisitions in the digital game area, and an increase in investment securities accompanying new investment in growth areas. Regarding investments in growth areas, the Group is exercising due diligence to avoid creating a bloated balance sheet. The equity ratio has remained consistently around 60% due to a policy of securing a certain level of internal reserves that enable investment in growth areas and the payment of stable cash dividends, even amid the earnings volatility stemming from the consequent presence or absence of hit products, which is the nature of the Group's businesses.



▶ Changes in the Breakdown of Total Assets

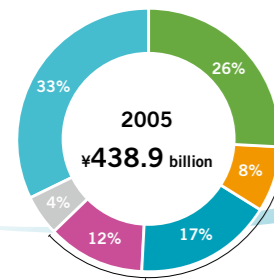
Acquisition Investment

- Sammy Networks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT CO., LTD. become wholly owned subsidiaries (2010).
- TAIYO ELEC Co., Ltd. becomes wholly owned subsidiary (2011).
- PHOENIX RESORT CO., LTD. becomes subsidiary and PARADISE SEGASAMMY Co., Ltd., is established (2012).
- North American developer Relic Entertainment, Inc. and intellectual properties related to titles under development are acquired (2013).
- Casino facility Paradise Casino Incheon is acquired through PARADISE SEGASAMMY Co., Ltd. (2013).
- Index Corporation's game business (ATLUS. CO., LTD.) and content and solutions business are assumed (2013).
- SEGA SAMMY CREATION INC., which develops, manufactures, and sells casino machines, is established (2013).

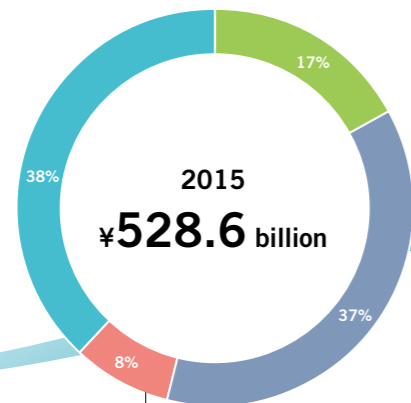
Sale and Withdrawal

Withdrawal from pachislot and pachinko machine peripheral business (2007)

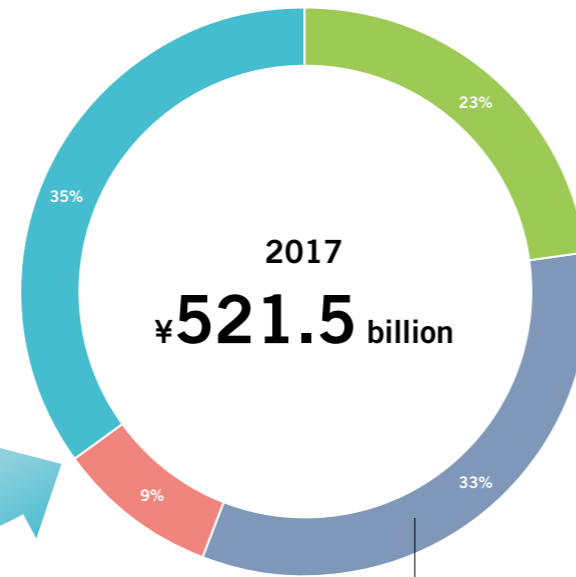
- Pachislot and Pachinko Machine Business
- Amusement Machine Sales Business
- Amusement Center Operations
- Consumer Business
- Other
- Corporate



This is equivalent to the present Entertainment Contents Business.

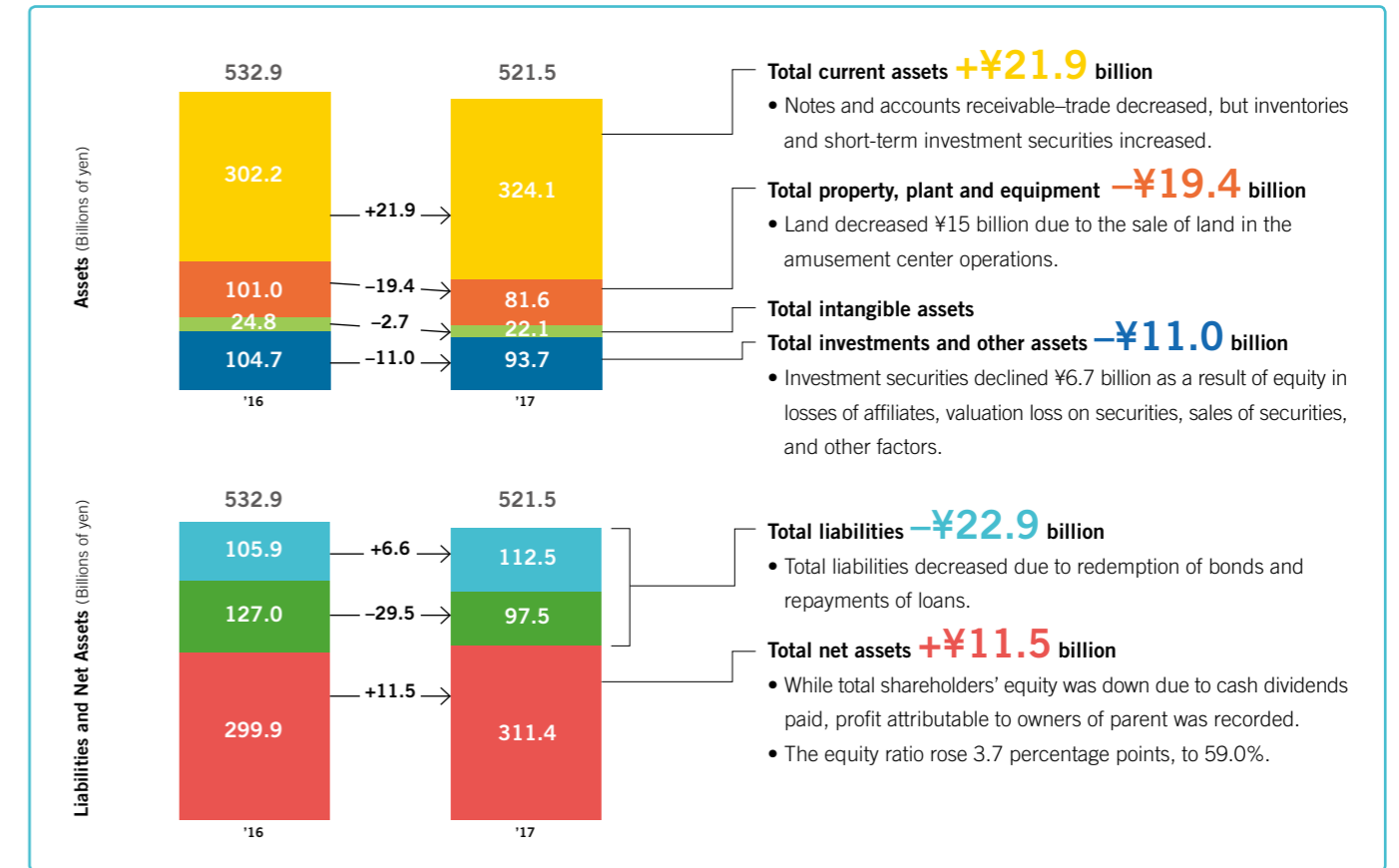


The Resort Business invested with an awareness of the need to avoid bloating assets.



The assets of the Entertainment Contents Business have decreased as a result of the sale of land in the amusement center operations area.

▶ Comparing Fiscal 2017 and Fiscal 2016



- Total current assets +¥21.9 billion**
 - Notes and accounts receivable-trade decreased, but inventories and short-term investment securities increased.
- Total property, plant and equipment -¥19.4 billion**
 - Land decreased ¥15 billion due to the sale of land in the amusement center operations.
- Total intangible assets**
- Total investments and other assets -¥11.0 billion**
 - Investment securities declined ¥6.7 billion as a result of equity in losses of affiliates, valuation loss on securities, sales of securities, and other factors.

- Total liabilities -¥22.9 billion**
 - Total liabilities decreased due to redemption of bonds and repayments of loans.
- Total net assets +¥11.5 billion**
 - While total shareholders' equity was down due to cash dividends paid, profit attributable to owners of parent was recorded.
 - The equity ratio rose 3.7 percentage points, to 59.0%.

Aiming to Enhance Asset Quality

Having classified all of its businesses as growth businesses or core businesses, the Group aims to improve profit margins and enhance capital efficiency. In fiscal 2017, the Group increased asset efficiency mainly through the measures below.

Sale and Discontinuation

- The Group discontinued the development of a resort complex in Busan, South Korea, and recognized an extraordinary loss of ¥3.4 billion as a result.
- The Group sold 85.1% of the shares of SEGA LIVE CREATION Inc., which manages JOYPOLIS indoor theme parks in Japan.
- The Group sold amusement centers and land in Osaka, realizing extraordinary income of ¥9.4 billion as a consequence.

New Investment

- Amplitude Studios SAS Business lines
- Development and sale of content in the PC markets of Europe and the United States

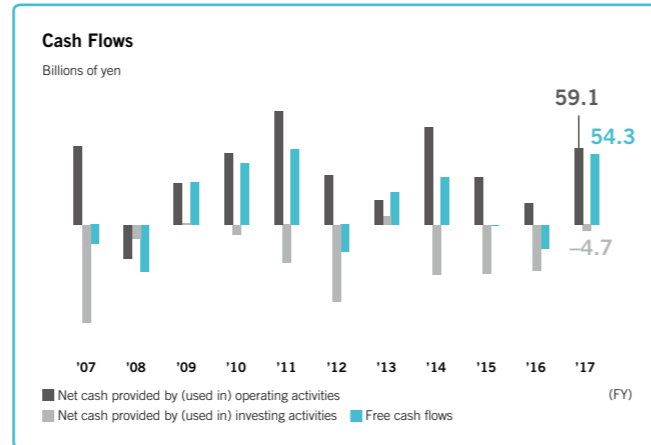
Impairment Loss

| Use | Location | Type | Amount |
|---|-----------------------------|-------------------------------------|--------|
| Amusement centers | China and 5 other locations | Buildings and structures | 261 |
| | | Amusement machines and facilities | 886 |
| | | Other property, plant and equipment | 346 |
| | | Other intangible assets | 117 |
| Assets for business | Tokyo and 8 other locations | Buildings and structures | 93 |
| | | Amusement machines and facilities | 116 |
| | | Other property, plant and equipment | 207 |
| | | Other intangible assets | 91 |
| A resort complex consisting of a hotel, entertainment facilities, and commercial facilities | South Korea | Other property, plant and equipment | 914 |
| | | Other intangible assets | 0 |
| | | Land | 2,568 |
| Other | Tokyo and 2 other locations | Goodwill | 430 |
| Total | | | 6,034 |

Consolidated Cash Flows

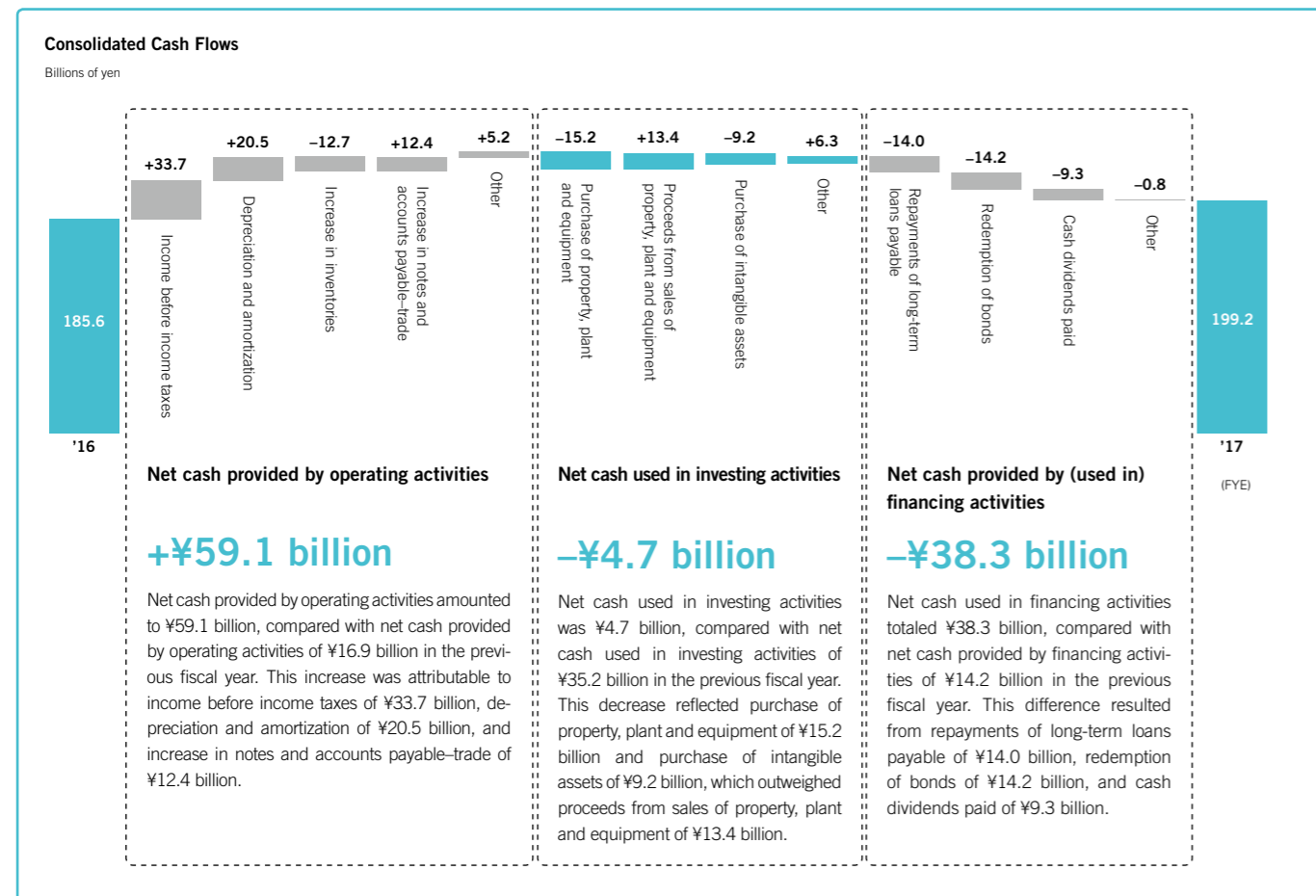
▶ Long-Term Trends

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



Fiscal 2017 Cash Flows

Cash and cash equivalents at end of period amounted to ¥199.2 billion, up ¥13.5 billion from the previous fiscal year-end.

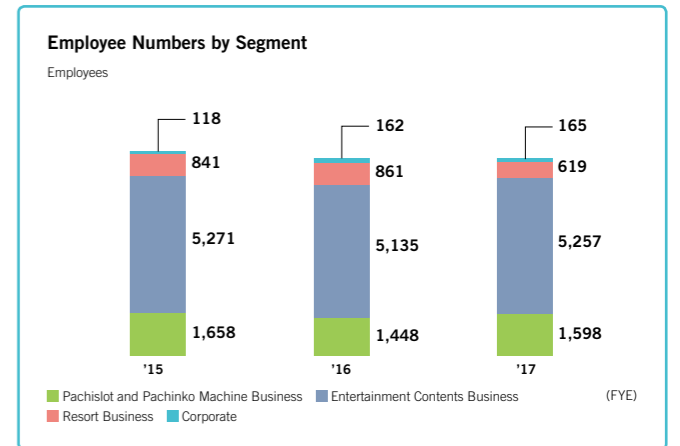
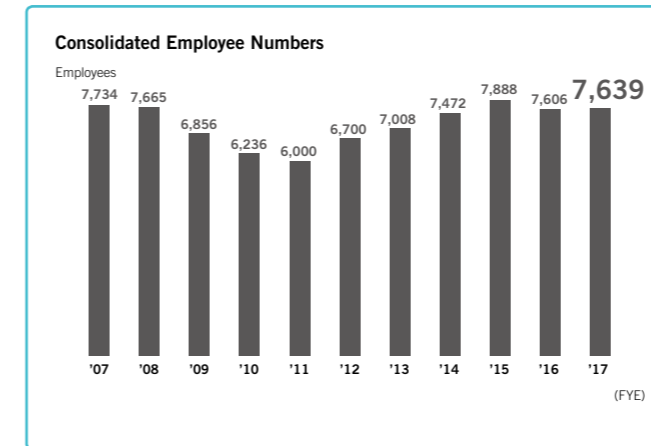


Non-Financial Assets

Human Capital

Consolidated Employee Numbers

At the end of fiscal 2017, the consolidated number of employees was 7,639, up 33 from the previous fiscal year-end. The Group is advancing the deployment of personnel to growth areas as a priority measure.



Intellectual Properties

R&D Expenses and Content Production Expenses

In the three years from fiscal 2015 through fiscal 2017, R&D expenses and content production expenses on average accounted for more than 17% of net sales. In particular, recent years have seen stepped-up investment in the digital game area with a view to product lineup expansion over the medium term. In fiscal 2017, the Group's investment in the packaged game area increased 16% year on year, to ¥67.1 billion.

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

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

| | |
|--|---|
| Pachislot and Pachinko Machine Business and casino machines of the amusement machine sales area | Expenses recognized as they arise (process outsourcing expenses recognized when work is inspected) |
| Digital game area | Recognition in intangible assets during development period, basic straight-line depreciation period of 24 months from month of service commencement (The depreciation period differs depending on the title. Titles with long lifecycles can have depreciation periods of more than 36 months.) |
| Packaged game area, amusement machine sales area (excluding casino machines) | (1) Primarily content for home video game consoles and amusement machines Recognized as work in process during development, after launch recognition of expenses linked to unit sales (2) Primarily PC games Recognized as work in process during development, after launch expenses recognized but recognition of packaged game sales and download sales are different • Packaged game sales: same as (1) above • Download sales: 12-month equal division |

CONSOLIDATED BALANCE SHEETS

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2016 and 2017

| | Millions of yen | |
|---|-----------------|----------|
| | 2016 | 2017 |
| Assets | | |
| Current assets | | |
| Cash and deposits | ¥141,316 | ¥137,494 |
| Notes and accounts receivable-trade | 55,612 | 44,500 |
| Allowance for doubtful accounts | (681) | (329) |
| Short-term investment securities | 48,401 | 65,203 |
| Merchandise and finished goods | 6,971 | 18,669 |
| Work in process | 17,382 | 14,838 |
| Raw materials and supplies | 10,123 | 13,933 |
| Income taxes receivable | 3,735 | 1,559 |
| Deferred tax assets | 6,286 | 6,929 |
| Other | 13,143 | 21,317 |
| Total current assets | 302,292 | 324,115 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 105,839 | 101,210 |
| Accumulated depreciation | (70,622) | (65,645) |
| Buildings and structures, net | 35,216 | 35,564 |
| Machinery, equipment and vehicles | 17,121 | 15,724 |
| Accumulated depreciation | (10,892) | (10,802) |
| Machinery, equipment and vehicles, net | 6,229 | 4,921 |
| Amusement machines and facilities | 51,574 | 46,783 |
| Accumulated depreciation | (40,189) | (37,204) |
| Amusement machines and facilities, net | 11,385 | 9,579 |
| Land (Note 5 (3)) | 38,742 | 23,740 |
| Construction in progress | 1,977 | 577 |
| Other | 51,259 | 50,767 |
| Accumulated depreciation | (43,729) | (43,540) |
| Other, net | 7,529 | 7,226 |
| Total property, plant and equipment | 101,080 | 81,609 |
| Intangible assets | | |
| Goodwill | 12,201 | 10,807 |
| Other | 12,616 | 11,352 |
| Total intangible assets | 24,817 | 22,160 |
| Investments and other assets | | |
| Investment securities (Notes 5 (1) and (2)) | 76,504 | 69,845 |
| Long-term loans receivable | 703 | 1,757 |
| Lease and guarantee deposits | 12,727 | 11,123 |
| Net defined benefit assets | — | 828 |
| Deferred tax assets | 674 | 535 |
| Other | 14,705 | 10,363 |
| Allowance for doubtful accounts | (549) | (739) |
| Total investments and other assets | 104,765 | 93,713 |
| Total noncurrent assets | 230,664 | 197,483 |
| Total assets | ¥532,957 | ¥521,599 |

See accompanying notes.

| | Millions of yen | |
|---|-----------------|----------|
| | 2016 | 2017 |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | ¥ 33,011 | ¥ 45,631 |
| Short-term loans payable (Note 5 (4)) | 14,002 | 6,354 |
| Current portion of bonds | 14,200 | 19,500 |
| Income taxes payable | 2,536 | 2,950 |
| Accrued expenses | 15,467 | 13,961 |
| Provision for bonuses | 4,608 | 5,907 |
| Provision for directors' bonuses | 606 | 595 |
| Provision for business restructuring | 136 | — |
| Provision for point card certificates | — | 5 |
| Provision for dismantling of fixed assets | 391 | 815 |
| Asset retirement obligations | 30 | 303 |
| Deferred tax liabilities | 34 | 15 |
| Other | 20,964 | 16,524 |
| Total current liabilities | 105,990 | 112,567 |
| Noncurrent liabilities | | |
| Bonds payable | 52,000 | 32,500 |
| Long-term loans payable | 48,895 | 44,500 |
| Net defined benefit liability | 3,906 | 3,303 |
| Deferred tax liabilities | 3,258 | 2,574 |
| Deferred tax liabilities for land revaluation | 640 | 640 |
| Asset retirement obligations | 3,952 | 3,735 |
| Provision for dismantling of fixed assets | 2,368 | 420 |
| Other | 11,993 | 9,860 |
| Total noncurrent liabilities | 127,015 | 97,534 |
| Total liabilities | 233,006 | 210,102 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 29,953 | 29,953 |
| Capital surplus | 118,404 | 117,521 |
| Retained earnings | 194,505 | 207,639 |
| Treasury stock | (54,758) | (54,769) |
| Total shareholders' equity | 288,105 | 300,345 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 11,494 | 11,041 |
| Deferred gains or losses on hedges | (40) | (71) |
| Revaluation reserve for land (Note 5 (3)) | (4,600) | 340 |
| Foreign currency translation adjustment | (876) | (4,479) |
| Remeasurements of defined benefit plans | 651 | 588 |
| Total accumulated other comprehensive income | 6,628 | 7,419 |
| Subscription rights to shares | 801 | 303 |
| Non-controlling interests | 4,415 | 3,428 |
| Total net assets | 299,950 | 311,497 |
| Total liabilities and net assets | ¥532,957 | ¥521,599 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

| | Millions of yen | |
|---|-----------------|----------|
| | 2016 | 2017 |
| Net sales | ¥347,981 | ¥366,939 |
| Cost of sales (Notes 6 (1) and (2)) | 220,609 | 231,261 |
| Gross profit | 127,372 | 135,678 |
| Selling, general and administrative expenses (Note 6 (2)) | 109,754 | 106,150 |
| Operating income | 17,617 | 29,527 |
| Other income (expenses) | | |
| Interest income | 463 | 337 |
| Dividends income | 923 | 929 |
| Gain on investments in partnership | 223 | 460 |
| Foreign exchange gains | 58 | 294 |
| Gain on bad debts recovered | 159 | 0 |
| Gain on valuation of compound financial instruments | — | 520 |
| Interest expenses | (921) | (940) |
| Equity in losses of affiliates | (338) | (1,457) |
| Sales discounts | (2) | (9) |
| Commission fee | (204) | (58) |
| Loss on investments in partnership | (236) | (243) |
| Penalty payment for cancellation of game center lease agreement | (2) | (48) |
| Bond issuance cost | (41) | — |
| Loss on retirement of noncurrent assets | (481) | (685) |
| Settlement package | (3) | (505) |
| Loss on valuation of compound financial instruments | (1,127) | — |
| Gain on sales of noncurrent assets (Note 6 (3)) | 68 | 9,518 |
| Gain on sales of shares of subsidiaries and associates | 16 | — |
| Gain on sales of investment securities | 123 | 1,382 |
| Gain on liquidation of subsidiaries and affiliates | 306 | 290 |
| Gain on reversal of subscription rights to shares | 14 | 801 |
| Gain on reversal of provision for dismantling of fixed assets | 523 | 177 |
| Loss on sales of noncurrent assets (Note 6 (4)) | (72) | (81) |
| Impairment loss (Note 6 (6)) | (1,329) | (6,034) |
| Loss on valuation of investment securities | (19) | (1,105) |
| Loss on valuation of shares of subsidiaries and associates | (568) | (56) |
| Early extra retirement payments | (1,956) | (149) |
| Restructuring loss (Note 6 (5)) | (1,220) | (419) |
| Other, net | 45 | 1,295 |
| Subtotal | (5,601) | 4,210 |
| Income before income taxes | 12,015 | 33,738 |
| Income taxes—current | 4,040 | 6,354 |
| Income taxes—deferred | 2,354 | (686) |
| Total income taxes | 6,395 | 5,667 |
| Profit | 5,620 | 28,070 |
| (Breakdown) | | |
| Profit attributable to owners of parent | 5,369 | 27,607 |
| Profit attributable to non-controlling interests | 251 | 462 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (6,300) | (456) |
| Deferred gains or losses on hedges | (51) | 39 |
| Revaluation reserve for land | 99 | — |
| Foreign currency translation adjustment | (3,309) | (2,561) |
| Remeasurements of defined benefit plans, net of tax | (1,547) | (57) |
| Share of other comprehensive income of associates accounted for using equity method | (1,077) | (1,381) |
| Total other comprehensive income (Note 6 (7)) | (12,186) | (4,416) |
| Comprehensive income | (6,566) | 23,653 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | (6,728) | 23,457 |
| Comprehensive income attributable to non-controlling interests | ¥ 161 | ¥ 196 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

| | Shareholders' equity | | | | | Total shareholders' equity |
|---|---|------------------------------------|------------------------------|---|---|--|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | | |
| Millions of yen | | | | | | |
| Prior year (From April 1, 2015 to March 31, 2016) | | | | | | |
| Balance as of April 1, 2015 | ¥29,953 | ¥119,282 | ¥198,704 | ¥(49,335) | | ¥298,604 |
| Changes of items during the period | | | | | | |
| Dividends from surplus | | | (9,436) | | | (9,436) |
| Profit attributable to owners of parent | | | 5,369 | | | 5,369 |
| Effect of changes in accounting period of consolidated subsidiaries | | | (129) | | | (129) |
| Purchase of treasury stock | | | | (5,549) | | (5,549) |
| Disposal of treasury stock | | 14 | | 127 | | 141 |
| Change in scope of consolidation | | | (1) | | | (1) |
| Change in scope of equity method | | | (0) | | | (0) |
| Purchase of shares of consolidated subsidiaries | | (892) | | | | (892) |
| Reversal of revaluation reserve for land | | | | | | — |
| Net changes of items other than shareholders' equity | | | | | | |
| Total changes of items during the period | — | (877) | (4,198) | (5,422) | | (10,499) |
| Balance as of March 31, 2016 | ¥29,953 | ¥118,404 | ¥194,505 | ¥(54,758) | | ¥288,105 |
| Millions of yen | | | | | | |
| Current year (From April 1, 2017 to March 31, 2017) | | | | | | |
| Accumulated other comprehensive income | | | | | | |
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |
| Balance as of April 1, 2015 | ¥17,794 | ¥ 10 | ¥(4,699) | ¥ 3,414 | ¥ 2,206 | ¥ 18,726 |
| Changes of items during the period | | | | | | |
| Dividends from surplus | | | | | | |
| Profit attributable to owners of parent | | | | | | |
| Effect of changes in accounting period of consolidated subsidiaries | | | | | | |
| Purchase of treasury stock | | | | | | |
| Disposal of treasury stock | | | | | | |
| Change in scope of consolidation | | | | | | |
| Change in scope of equity method | | | | | | |
| Purchase of shares of consolidated subsidiaries | | | | | | |
| Reversal of revaluation reserve for land | | | | | | |
| Net changes of items other than shareholders' equity | (6,300) | (50) | 99 | (4,290) | (1,554) | (12,097) |
| Total changes of items during the period | (6,300) | (50) | 99 | (4,290) | (1,554) | (12,097) |
| Balance as of March 31, 2016 | ¥11,494 | ¥(40) | ¥(4,600) | ¥ (876) | ¥ 651 | ¥ 6,628 |
| Millions of yen | | | | | | |
| Current year (From April 1, 2017 to March 31, 2017) | | | | | | |
| | Subscription rights to shares | Non-controlling interests | | | | Total net assets |
| Balance as of April 1, 2015 | ¥832 | ¥4,289 | | | | ¥322,452 |
| Changes of items during the period | | | | | | |
| Dividends from surplus | | | | | | (9,436) |
| Profit attributable to owners of parent | | | | | | 5,369 |
| Effect of changes in accounting period of consolidated subsidiaries | | | | | | (129) |
| Purchase of treasury stock | | | | | | (5,549) |
| Disposal of treasury stock | | | | | | 141 |
| Change in scope of consolidation | | | | | | (1) |
| Change in scope of equity method | | | | | | (0) |
| Purchase of shares of consolidated subsidiaries | | | | | | (892) |
| Reversal of revaluation reserve for land | | | | | | — |
| Net changes of items other than shareholders' equity | (31) | 126 | | | | (12,003) |
| Total changes of items during the period | (31) | 126 | | | | (22,502) |
| Balance as of March 31, 2016 | ¥801 | ¥4,415 | | | | ¥229,950 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Current year (From April 1, 2016 to March 31, 2017)

| | Shareholders' equity | | | | | Millions of yen |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|-----------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | |
| Balance as of April 1, 2016 | ¥29,953 | ¥118,404 | ¥194,505 | ¥(54,758) | ¥288,105 | |
| Changes of items during the period | | | | | | |
| Dividends from surplus | | | (9,375) | | (9,375) | |
| Profit attributable to owners of parent | | | 27,607 | | 27,607 | |
| Effect of changes in accounting period of consolidated subsidiaries | | | | | — | |
| Purchase of treasury stock | | | | (11) | (11) | |
| Disposal of treasury stock | | (0) | | 0 | 0 | |
| Change in scope of consolidation | | | 155 | | 155 | |
| Change in scope of equity method | | | (312) | | (312) | |
| Purchase of shares of consolidated subsidiaries | | (883) | | | (883) | |
| Reversal of revaluation reserve for land | | | (4,941) | | (4,941) | |
| Net changes of items other than shareholders' equity | | | | | | |
| Total changes of items during the period | — | (883) | 13,133 | (10) | 12,239 | |
| Balance as of March 31, 2017 | ¥29,953 | ¥117,521 | ¥207,639 | ¥(54,769) | ¥300,345 | |

| | Accumulated other comprehensive income | | | | | | Millions of yen |
|---|---|------------------------------------|------------------------------|---|---|--|-----------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | |
| Balance as of April 1, 2016 | ¥11,494 | ¥(40) | ¥(4,600) | ¥ (876) | ¥651 | ¥6,628 | |
| Changes of items during the period | | | | | | | |
| Dividends from surplus | | | | | | | |
| Profit attributable to owners of parent | | | | | | | |
| Effect of changes in accounting period of consolidated subsidiaries | | | | | | | |
| Purchase of treasury stock | | | | | | | |
| Disposal of treasury stock | | | | | | | |
| Change in scope of consolidation | | | | | | | |
| Change in scope of equity method | | | | | | | |
| Purchase of shares of consolidated subsidiaries | | | | | | | |
| Reversal of revaluation reserve for land | | | | | | | |
| Net changes of items other than shareholders' equity | (452) | (31) | 4,941 | (3,602) | (63) | 790 | |
| Total changes of items during the period | (452) | (31) | 4,941 | (3,602) | (63) | 790 | |
| Balance as of March 31, 2017 | ¥11,041 | ¥(71) | ¥ 340 | ¥(4,479) | ¥588 | ¥7,419 | |

| | Millions of yen | | |
|---|-------------------------------|---------------------------|------------------|
| | Subscription rights to shares | Non-controlling interests | Total net assets |
| Balance as of April 1, 2016 | ¥ 801 | ¥4,415 | ¥299,950 |
| Changes of items during the period | | | |
| Dividends from surplus | | | (9,375) |
| Profit attributable to owners of parent | | | 27,607 |
| Effect of changes in accounting period of consolidated subsidiaries | | | — |
| Purchase of treasury stock | | | (11) |
| Disposal of treasury stock | | | 0 |
| Change in scope of consolidation | | | 155 |
| Change in scope of equity method | | | (312) |
| Purchase of shares of consolidated subsidiaries | | | (883) |
| Reversal of revaluation reserve for land | | | (4,941) |
| Net changes of items other than shareholders' equity | (497) | (987) | (693) |
| Total changes of items during the period | (497) | (987) | 11,546 |
| Balance as of March 31, 2017 | ¥ 303 | ¥3,428 | ¥311,497 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

| | 2016 | 2017 |
|---|----------|----------|
| Net cash provided by (used in) operating activities: | | |
| Income before income taxes | ¥ 12,015 | ¥ 33,738 |
| Depreciation and amortization | 21,015 | 20,561 |
| Impairment loss | 1,329 | 6,034 |
| Amount of transfer of equipment by amusement center operations business | (3,486) | (3,554) |
| Loss (gain) on sales of noncurrent assets | 3 | (9,437) |
| Loss on retirement of noncurrent assets | 562 | 685 |
| Loss (gain) on sales of shares of subsidiaries and associates | (8) | 67 |
| Loss (gain) on liquidation of subsidiaries and affiliates | (306) | (290) |
| Loss (gain) on sales of investment securities | (123) | (1,323) |
| Loss (gain) on valuation of investment securities | 19 | 1,105 |
| Loss (gain) on investments in partnership | 12 | (216) |
| Amortization of goodwill | 2,364 | 2,456 |
| Increase (decrease) in allowance for doubtful accounts | 640 | (107) |
| Increase (decrease) in provision for directors' bonuses | 122 | (4) |
| Increase (decrease) in net defined benefit liability | (1,561) | (871) |
| Increase (decrease) in provision for directors' retirement benefits | (41) | — |
| Increase (decrease) in provision for bonuses | 390 | 1,383 |
| Increase (decrease) in provision for dismantling of fixed assets | (588) | (1,105) |
| Increase (decrease) in provision for business restructuring | (70) | (129) |
| Interest and dividends income | (1,386) | (1,266) |
| Interest expenses | 921 | 940 |
| Foreign exchange losses (gains) | (85) | (240) |
| Equity in (earnings) losses of affiliates | 338 | 1,457 |
| Decrease (increase) in notes and accounts receivable-trade | (17,603) | 10,664 |
| Decrease (increase) in inventories | (5,141) | (12,778) |
| Increase (decrease) in notes and accounts payable-trade | 6,922 | 12,496 |
| Increase (decrease) in guarantee deposits received | (165) | (478) |
| Other, net | 2,920 | 2,936 |
| Subtotal | 19,012 | 62,723 |
| Interest and dividends income received | 1,369 | 1,291 |
| Interest expenses paid | (885) | (962) |
| Income taxes paid | (8,163) | (6,859) |
| Income taxes refund | 5,574 | 2,933 |
| Net cash provided by (used in) operating activities | ¥ 16,906 | ¥ 59,126 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | |
|--|-----------------|----------|
| | 2016 | 2017 |
| Net cash provided by (used in) investing activities: | | |
| Payments into time deposits | ¥ (2,661) | ¥ (992) |
| Proceeds from withdrawal of time deposits | 4,687 | 6,437 |
| Purchase of short-term investment securities | (1,000) | (3,000) |
| Proceeds from redemption of securities | 5,100 | 1,000 |
| Purchase of trust beneficiary right | (1,241) | (1,026) |
| Proceeds from sales of trust beneficiary right | 1,591 | 1,001 |
| Purchase of property, plant and equipment | (14,277) | (15,295) |
| Proceeds from sales of property, plant and equipment | 861 | 13,406 |
| Purchase of intangible assets | (9,151) | (9,250) |
| Proceeds from sales of intangible assets | 16 | 0 |
| Purchase of investment securities | (14,405) | (1,194) |
| Proceeds from sales of investment securities | 5,980 | 3,688 |
| Proceeds from redemption of investment securities | 2,446 | 1,990 |
| Payments for investment in partnerships | (1,023) | (1,148) |
| Proceeds from distribution of investment in partnerships | 449 | 717 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 8 (2)) | (390) | (2,250) |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | — | (11) |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation (Note 8 (3)) | 425 | 972 |
| Purchase of stocks of subsidiaries and affiliates | (10,949) | (839) |
| Payments of loans receivable | (308) | (1,757) |
| Collection of loans receivable | 287 | 703 |
| Reduction of investments in trusts | — | 600 |
| Payments for lease deposits | (858) | (988) |
| Collection of lease deposits | 753 | 1,089 |
| Other, net | (1,612) | 1,379 |
| Net cash provided by (used in) investing activities | (35,280) | (4,767) |
| Net cash provided by (used in) financing activities: | | |
| Net increase (decrease) in short-term loans payable | (500) | (1) |
| Proceeds from long-term loans payable | 29,880 | 2,000 |
| Repayments of long-term loans payable | (13,361) | (14,043) |
| Proceeds from issuance of bonds | 9,958 | — |
| Redemption of bonds | (1,600) | (14,200) |
| Proceeds from exercise of stock options | 3 | — |
| Cash dividends paid | (9,422) | (9,376) |
| Purchase of treasury stock | (12) | (11) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | (996) | (984) |
| Other, net (Note 8 (4)) | 336 | (1,718) |
| Net cash provided by (used in) financing activities | 14,285 | (38,334) |
| Effect of exchange rate change on cash and cash equivalents | (1,128) | (1,124) |
| Net increase (decrease) in cash and cash equivalents | (5,217) | 14,900 |
| Cash and cash equivalents at beginning of period | 190,837 | 185,613 |
| Increase in cash and cash equivalents from newly consolidated subsidiary | 73 | — |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | (1) | (1,305) |
| Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries | (79) | — |
| Cash and cash equivalents at end of period (Note 8 (1)) | ¥185,613 | ¥199,208 |

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

1 Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2016 and 2017. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded

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

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the classifications used in 2017. These changes had no impact on previously reported results of operations or shareholders' equity.

2 Summary of Significant Accounting Policies

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 78

From the fiscal year ended March 31, 2017, the following were included in the Company's consolidated subsidiaries: Amplitude Studios SAS and three other companies, because of the Company's acquisition.

From the fiscal year ended March 31, 2017, the following have been excluded from the scope of consolidation: CA Sega Joypolis Ltd. (SEGA LIVE CREATION Inc. changed its name in January 2017) and two other companies, because of sale of the share of stocks; Sega Jinwin (Shanghai) Amusements Co., Ltd. and one other company, because of liquidation; patina Co., Ltd. and one other company, because of merger with J-NEXT Co., Ltd. (HONEST Co., Ltd. changed its name in April 2016).

(2) Number of non-consolidated subsidiaries: 15

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

2. Application of the equity method

(1) Number of non-consolidated subsidiaries accounted for under the equity method: 5

From the fiscal year ended March 31, 2017, the following have been included in the scope of application of the equity method: GO GAME PTE. LTD. and four other companies, because of increase of importance.

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

From the fiscal year ended March 31, 2017, the following have been excluded from the scope of application of the equity method: Zen Tiger S.à r.l., because of sale of the share of stocks.

(3) Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method: 13

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Accounting policies

(1) Valuation and accounting treatment for important assets

1) Held-to-maturity debt securities

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

2) Available-for-sale securities

Securities with fair market value:

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

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and unrealized gains or losses are reported as income or expenses for the fiscal year ended March 31, 2017.

Securities without quoted market prices:

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

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

3) Derivatives

Derivatives are stated at fair market value.

4) Inventories

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

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

(2) Depreciation and amortization for important assets

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

Depreciation is calculated primarily using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and structures: 2–50 years

Machinery, equipment and vehicles: 2–16 years

Amusement machines and facilities: 2–5 years

2) Intangible assets (excluding lease assets)

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

3) Lease assets

Finance leases which transfer ownership:

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

Finance leases which do not transfer ownership:

Depreciated, using the straight-line method over a useful life equal to the lease period with a residual value of zero.

(3) Accounting for deferred assets

Bond issue cost: All expenses are expensed when incurred.

(4) Accounting for allowances and provisions

1) Allowance for doubtful accounts

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

2) Provision for bonuses

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

3) Provision for directors' bonuses

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

4) Provision for point card certificates

In order to provide for the usage of points granted to customers under the point system, the estimated future usage amount for the end of the fiscal year ended March 31, 2017 has been recorded.

5) Provision for dismantling of fixed assets

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

(5) Accounting method for retirement benefits

1) Attribution method for projected retirement benefits:

In calculating retirement benefits obligations, benefit-formula attribution is adopted for the purpose of attributing projected retirement benefits to the period up to the end of the fiscal year ended March 31, 2017.

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

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

(6) Accounting for significant hedge

1) Hedge accounting

The SEGA SAMMY Group (the "Group") adopts deferred hedge accounting. However, special treatment is used for qualifying interest rate swap transactions.

Moreover, allocation hedge accounting is applied to qualifying currency swap transactions and forward exchange contracts.

2) Hedging instruments and hedged items

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

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

3) Hedge policy

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

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

4) Evaluation of hedge effectiveness

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

(7) Amortization method and period of goodwill

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

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

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

(9) Accounting method for consumption taxes

Consumption taxes and local consumption taxes are accounted for 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 and certain domestic consolidated subsidiaries applied the Consolidated Taxation System.

3 Additional Information

Application of Accounting Standard for implementation guidance on recoverability of deferred tax assets

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No. 26")) from the current fiscal year.

4 Changes in Accounting Estimate

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

This change has no impact on profit and loss for the consolidated fiscal year ended March 31, 2017. The Company and certain subsidiaries are currently in the process of determining the effect of this change on the consolidated financial statements.

5 Notes to Consolidated Balance Sheets

(1) Assets pledged

| | Millions of yen | |
|---------------------------------------|-----------------|---------|
| | 2016 | 2017 |
| Shares of subsidiaries and associates | ¥23,119 | ¥21,274 |
| Total | 23,119 | 21,274 |

Note: For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. as of March 31, 2017 and 2016, ¥62,258 million (KRW642,500 million) and ¥40,074 million (KRW392,500 million), respectively, the shares of this company were provided as a pledge.

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

| | Millions of yen | |
|---|-----------------|---------|
| | 2016 | 2017 |
| Investment securities (shares) | ¥26,298 | ¥24,087 |
| Investment securities (capital contributions) | 938 | 1,238 |

(3) Revaluation reserve for land

Consolidated subsidiary SEGA Holdings Co., Ltd. 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). Accordingly, SEGA Holdings Co., Ltd. has recorded an item for the revaluation reserve for land under net assets.

Revaluation method

SEGA Holdings Co., Ltd. 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

(4) Overdraft agreements and commitment line agreements

The Company and its consolidated subsidiaries have overdraft agreements and commitment line agreements with 15 banks for the effective procurement of working capital.

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2017 and 2016 is as follows:

| | Millions of yen | |
|--|-----------------|----------|
| | 2016 | 2017 |
| Total amount of overdraft limit and commitment line agreements | ¥119,625 | ¥123,400 |
| Balance of executed loans | — | — |
| Unexecuted balance | 119,625 | 123,400 |

6 Notes to Consolidated Statements of Income and Comprehensive Income

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

| | Millions of yen | |
|---------------|-----------------|--------|
| | 2016 | 2017 |
| Cost of sales | ¥4,588 | ¥7,228 |

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

| | Millions of yen | |
|--|-----------------|---------|
| | 2016 | 2017 |
| | ¥41,752 | ¥44,612 |

(3) Gain on sales of noncurrent assets

| | Millions of yen | |
|-------------------------------------|-----------------|-------|
| | 2016 | 2017 |
| Buildings and structures | ¥ 2 | ¥ 721 |
| Machinery, equipment and vehicles | 4 | 2 |
| Land | 6 | 8,790 |
| Other property, plant and equipment | 55 | 3 |
| Other intangible assets | 0 | 0 |
| Total | 68 | 9,518 |

(4) Loss on sales of noncurrent assets

| | Millions of yen | |
|-------------------------------------|-----------------|------|
| | 2016 | 2017 |
| Buildings and structures | ¥— | ¥69 |
| Machinery, equipment and vehicles | 8 | — |
| Other property, plant and equipment | 64 | 11 |
| Total | 72 | 81 |

(5) Restructuring loss

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Restructuring loss mainly resulted from business restructuring in the United States and South Korea.

Current fiscal year (From April 1, 2016 to March 31, 2017)

Restructuring loss mainly resulted from business restructuring in South Korea.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Impairment loss

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| Use | Location | Type | Millions of yen |
|----------------------|---|-------------------------------------|-----------------|
| | | | Amount |
| Amusement facilities | Yokohama City, Kanagawa and 3 other locations | Buildings and structures | ¥ 256 |
| | | Other property, plant and equipment | 189 |
| | | Other intangible assets | 1 |
| Assets for business | Shinagawa Ward, Tokyo and 5 other locations | Buildings and structures | 124 |
| | | Amusement machines and facilities | 137 |
| | | Other property, plant and equipment | 392 |
| | | Other intangible assets | 204 |
| Other | South Korea | Goodwill | 22 |
| | | Total | 1,329 |

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 amusement facilities and assets for business are calculated as memorandum amounts mainly because future cash flows are not expected.

Current fiscal year (From April 1, 2016 to March 31, 2017)

| Use | Location | Type | Millions of yen |
|--|---|-------------------------------------|-----------------|
| | | | Amount |
| Amusement facilities | China and 5 other locations | Buildings and structures | ¥ 261 |
| | | Amusement machines and facilities | 886 |
| | | Other property, plant and equipment | 346 |
| | | Other intangible assets | 117 |
| Assets for business | Toshima Ward, Tokyo and 8 other locations | Buildings and structures | 93 |
| | | Amusement machines and facilities | 116 |
| | | Other property, plant and equipment | 207 |
| | | Other intangible assets | 91 |
| A complex consisting of a hotel, entertainment facilities, and commercial facilities | South Korea | Other property, plant and equipment | 914 |
| | | Other intangible assets | 0 |
| | | Land | 2,568 |
| Other | Minato Ward, Tokyo and 2 other locations | Goodwill | 430 |
| | | Total | 6,034 |

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 amusement facilities assets for business and goodwill are calculated as memorandum amounts mainly because future cash flows are not expected. The values of complex facilities that consist of a hotel, entertainment and commercial facilities are measured at the net selling value based on the agreement on termination of sale and purchase agreement of municipal properties.

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

| | 2016 | 2017 |
|--|------------------|-----------------|
| Valuation difference on available-for-sale securities: | | |
| The amount arising during the period | ¥ (9,390) | ¥ 62 |
| Reclassification adjustments | (123) | (1,062) |
| Before adjustments to tax effects | (9,513) | (999) |
| The amount of tax effects | 3,213 | 543 |
| Valuation difference on available-for-sale securities | (6,300) | (456) |
| Deferred gains or losses on hedges: | | |
| The amount arising during the period | (57) | (8) |
| Reclassification adjustments | — | 47 |
| Before adjustments to tax effects | (57) | 39 |
| The amount of tax effects | 6 | — |
| Deferred gains or losses on hedges | (51) | 39 |
| Revaluation reserve for land: | | |
| The amount of tax effects | 99 | — |
| Revaluation reserve for land | 99 | — |
| Foreign currency translation adjustment: | | |
| The amount arising during the period | (3,236) | (2,193) |
| Reclassification adjustments | (73) | (367) |
| Before adjustments to tax effects | (3,309) | (2,561) |
| The amount of tax effects | — | — |
| Foreign currency translation adjustment | (3,309) | (2,561) |
| Remeasurements of defined benefit plans, net of tax: | | |
| The amount arising during the period | (1,972) | (322) |
| Reclassification adjustments | (32) | 185 |
| Before adjustments to tax effects | (2,004) | (137) |
| The amount of tax effects | 457 | 80 |
| Remeasurements of defined benefit plans, net of tax | (1,547) | (57) |
| Share of other comprehensive income of associates accounted for using equity method: | | |
| The amount arising during the period | (1,077) | (1,381) |
| Reclassification adjustments | — | — |
| Share of other comprehensive income of associates accounted for using equity method: | (1,077) | (1,381) |
| Total other comprehensive income | ¥(12,186) | ¥(4,416) |

7 Notes to Consolidated Statements of Changes in Net Assets

Previous fiscal year (From April 1, 2015 to March 31, 2016)

1. Number of outstanding common stock

| Type of stock | Shares | | | |
|---------------|---------------------|----------|----------|----------------------|
| | As of April 1, 2015 | Increase | Decrease | As of March 31, 2016 |
| Common stock | 266,229,476 | — | — | 266,229,476 |

2. Number of outstanding treasury stock

| Type of stock | Shares | | | |
|---------------|---------------------|-----------|----------|----------------------|
| | As of April 1, 2015 | Increase | Decrease | As of March 31, 2016 |
| Common stock | 28,801,789 | 3,107,179 | 74,161 | 31,834,807 |

(Summary of the change)

| Increase | Decrease |
|---|---|
| Increase due to purchase in the market by resolution at the Board of Directors' meeting | Decrease due to exercise of stock options |
| 3,098,400 shares | 73,500 shares |
| Increase due to purchase of odd-lot stock | Decrease due to sales of odd-lot stock |
| 8,779 shares | 661 shares |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Subscription rights to shares

| Company name | Breakdown | Type of stock | Number of stocks (Shares) | | | Balance at March 31, 2016 (Millions of yen) |
|--------------|--|---------------|---------------------------|----------|----------|---|
| | | | As of April 1, 2015 | Increase | Decrease | |
| The Company | Subscription rights to shares as stock options | — | — | — | — | ¥801 |
| Total | | | — | — | — | 801 |

4. Dividends

(1) Dividends

| Resolution | Type of stock | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|--|---------------|-----------------------------------|---------------------------|--------------------|------------------|
| Board of Directors' meeting held on May 11, 2015 | Common stock | ¥4,748 | ¥20 | March 31, 2015 | May 27, 2015 |
| Board of Directors' meeting held on October 30, 2015 | Common stock | 4,687 | 20 | September 30, 2015 | December 1, 2015 |

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2016, but the effective date is in the following fiscal year

| Resolution | Type of stock | Resource of dividends | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|--|---------------|-----------------------|-----------------------------------|---------------------------|----------------|----------------|
| Board of Directors' meeting held on May 13, 2016 | Common stock | Retained earnings | ¥4,687 | ¥20 | March 31, 2016 | May 27, 2016 |

Current fiscal year (From April 1, 2016 to March 31, 2017)

1. Number of outstanding common stock

| Type of stock | As of April 1, 2016 | Increase | Decrease | As of March 31, 2017 |
|---------------|---------------------|----------|----------|----------------------|
| Common stock | 266,229,476 | — | — | 266,229,476 |

2. Number of outstanding treasury stock

| Type of stock | As of April 1, 2016 | Increase | Decrease | As of March 31, 2017 |
|---------------|---------------------|----------|----------|----------------------|
| Common stock | 31,834,807 | 7,340 | 278 | 31,841,869 |

(Summary of the change)

| Increase | Decrease |
|--|---|
| Increase due to purchase of odd-lot stock 7,340 shares | Decrease due to sales of odd-lot stock 278 shares |

3. Subscription rights to shares

| Company name | Breakdown | Type of stock | Number of stocks (Shares) | | | Balance at March 31, 2017 (Millions of yen) |
|--------------|--|---------------|---------------------------|----------|----------|---|
| | | | As of April 1, 2016 | Increase | Decrease | |
| The Company | Subscription rights to shares as stock options | — | — | — | — | ¥303 |
| Total | | | — | — | — | 303 |

4. Dividends

(1) Dividends

| Resolution | Type of stock | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|--|---------------|-----------------------------------|---------------------------|--------------------|------------------|
| Board of Directors' meeting held on May 13, 2016 | Common stock | ¥4,687 | ¥20 | March 31, 2016 | May 27, 2016 |
| Board of Directors' meeting held on November 2, 2016 | Common stock | 4,687 | 20 | September 30, 2016 | December 1, 2016 |

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2017, but the effective date is in the following fiscal year

| Resolution | Type of stock | Resource of dividends | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|--|---------------|-----------------------|-----------------------------------|---------------------------|----------------|----------------|
| Board of Directors' meeting held on May 12, 2017 | Common stock | Retained earnings | ¥4,687 | ¥20 | March 31, 2017 | June 2, 2017 |

8 Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2017 and 2016 consisted of the following:

| | 2016 | 2017 |
|--|----------|----------|
| Cash and deposits | ¥141,316 | ¥137,494 |
| Short-term investment securities | 48,401 | 65,203 |
| Total | 189,718 | 202,697 |
| Time deposits with maturities of more than three months | (2,704) | (288) |
| Short-term investment securities with period from the acquisition date to the redemption date exceeding three months | (1,400) | (3,200) |
| Cash and cash equivalents | 185,613 | 199,208 |

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

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Play Heart, Inc.

| | Millions of yen |
|--|-----------------|
| Current assets | ¥ 87 |
| Noncurrent assets | 68 |
| Goodwill | 441 |
| Current liabilities | (51) |
| Non-controlling interests | (5) |
| Total | 541 |
| Acquisition cost before gaining of control | (95) |
| Acquisition cost of additional shares | 446 |
| Cash and cash equivalents | (85) |
| Payments for acquisition of shares, net | (360) |

Current fiscal year (From April 1, 2016 to March 31, 2017)

Amplitude Studios SAS

| | Millions of yen |
|---|-----------------|
| Current assets | ¥ 880 |
| Noncurrent assets | 544 |
| Goodwill | 1,329 |
| Current liabilities | (123) |
| Noncurrent liabilities | (168) |
| Acquisition cost of shares | 2,462 |
| Cash and cash equivalents | (450) |
| Payments for acquisition of shares, net | (2,011) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Index Corporation

| | Millions of yen |
|------------------------------------|-----------------|
| Current assets | ¥ 813 |
| Noncurrent assets | 316 |
| Current liabilities | (304) |
| Noncurrent liabilities | (1) |
| Gain on sales of shares, etc. | 16 |
| Sales price of shares | 839 |
| Cash and cash equivalents | (414) |
| Proceeds from sales of shares, net | 425 |

Current fiscal year (From April 1, 2016 to March 31, 2017)

Disclosure is omitted due to insignificance.

(4) Other

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Out of the ¥20,000 million of contribution for purchase of treasury stock, ¥1,876 million of refunded money held in trust was included in "Other, net" as of March 31, 2016.

Current fiscal year (From April 1, 2016 to March 31, 2017)

Not applicable.

9 Information for Certain Leases

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment loss and net book value for the years ended March 31, 2017 and 2016, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous fiscal year (From April 1, 2015 to March 31, 2016)

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

Current fiscal year (From April 1, 2016 to March 31, 2017)

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

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

Future lease payments as of March 31, 2017 and 2016

| | Millions of yen | |
|---------------------|-----------------|-------|
| | 2016 | 2017 |
| Due within one year | ¥ 151 | ¥ 151 |
| Due after one year | 1,072 | 921 |
| Total | 1,224 | 1,072 |

Accumulated impairment loss on leased assets as of March 31, 2017 and 2016

| | Millions of yen | |
|--|-----------------|------|
| | 2016 | 2017 |
| Accumulated impairment loss on leased assets | ¥956 | ¥830 |

(3) A summary of assumed amounts of lease payments, reversal of allowance for impairment loss on leased assets, depreciation, interest expenses and impairment loss for the years ended March 31, 2017 and 2016, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

| | Millions of yen | |
|--|-----------------|------|
| | 2016 | 2017 |
| Lease payments | ¥151 | ¥151 |
| Reversal of allowance for impairment loss on leased assets | 128 | 125 |
| Depreciation | 124 | 124 |
| Interest expenses | 27 | 24 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Finance lease transactions

(1) Details of lease assets

Lease assets mainly consist of the following: Buildings and structures, land for office-related facilities and facilities for amusement center operations, such as buildings and structures, and amusement game machines.

(2) The methods of depreciation for lease assets

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

2. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2017 and 2016 are as follows:

| | 2016 | 2017 |
|---------------------|--------|-----------------|
| | | Millions of yen |
| Due within one year | ¥1,057 | ¥1,108 |
| Due after one year | 1,322 | 871 |
| Total | 2,380 | 1,980 |

10 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

The Group signed an agreement concerning commitment lines with financial institutions, such as securing medium- to long-term fund liquidity with the Company as a holding company, as a safety net for the entire Group. In addition, capital for each business is financed based on the financial plan as needed, through bank borrowings or bond issues applying the Cash Management System for the purpose of efficient utilization of the Group's funds. Most funds are invested primarily in low-risk and high-liquidity financial assets, while some are invested in compound financial instruments such as bonds, etc., for the purpose of efficiently managing funds. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

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

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

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

Derivative transactions consist of forward exchange contracts and currency swap transactions as hedges against currency fluctuation risks on their foreign currency-denominated operating receivables and debt as well as foreign currency-denominated loans payable, and interest rate swap transactions as hedges against interest rate risks on loans payable. For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to "(6) Accounting for significant hedge" in "Note 2, Summary of Significant Accounting Policies, 3. Accounting policies."

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

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

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

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

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

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

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

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

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

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

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

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

(4) Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 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 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 on page 101.)

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
|---|-----------------------------------|----------------|--------------------------|
| (1) Cash and deposits | ¥141,316 | ¥141,316 | ¥ — |
| (2) Notes and accounts receivable-trade | 55,612 | 55,612 | (0) |
| (3) Short-term investment securities and investment securities: | | | |
| 1) Held-to-maturity debt securities | 3,374 | 3,378 | 4 |
| 2) Available-for-sale securities (*1) | 84,629 | 84,629 | — |
| 3) Equity securities issued by affiliated companies | 892 | 791 | (100) |
| Total assets | 285,825 | 285,728 | (97) |
| (1) Notes and accounts payable-trade | 33,011 | 33,011 | — |
| (2) Short-term loans payable | 14,002 | 14,002 | — |
| (3) Long-term loans payable | 48,895 | 48,870 | 25 |
| (4) Current portion of corporate bonds | 14,200 | 14,200 | — |
| (5) Corporate bonds payable | 52,000 | 51,713 | 286 |
| Total liabilities | 162,110 | 161,798 | 311 |
| Derivative transactions (*2) | | | |
| 1) Derivative transactions to which hedge accounting is not applied | 4 | 4 | — |
| 2) Derivative transactions to which hedge accounting is applied | (39) | (39) | — |
| Total derivative transactions | (35) | (35) | — |

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Current fiscal year (From April 1, 2016 to March 31, 2017)

| | Millions of yen | | |
|---|-----------------------------------|------------|--------------------------|
| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
| (1) Cash and deposits | ¥137,494 | ¥137,494 | ¥ — |
| (2) Notes and accounts receivable—trade | 44,500 | 44,499 | (0) |
| (3) Short-term investment securities and investment securities: | | | |
| 1) Held-to-maturity debt securities | 2,319 | 2,331 | 12 |
| 2) Available-for-sale securities ^(*1) | 98,744 | 98,744 | — |
| 3) Equity securities issued by affiliated companies | 895 | 1,092 | 196 |
| Total assets | 283,953 | 284,162 | 209 |
| (1) Notes and accounts payable—trade | 45,631 | 45,631 | — |
| (2) Short-term loans payable | 6,354 | 6,354 | — |
| (3) Long-term loans payable | 44,500 | 44,903 | (403) |
| (4) Current portion of corporate bonds | 19,500 | 19,500 | — |
| (5) Corporate bonds payable | 32,500 | 32,543 | (43) |
| Total liabilities | 148,486 | 148,933 | (446) |
| Derivative transactions ^(*2) | | | |
| 1) Derivative transactions to which hedge accounting is not applied | (4) | (4) | — |
| 2) Derivative transactions to which hedge accounting is applied | (71) | (71) | — |
| Total derivative transactions | (76) | (76) | — |

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

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

(1) Cash and deposits and (2) Notes and accounts receivable—trade
Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable—trade, those which have more than a year to the payment date from the end of the current fiscal year are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.
(3) Short-term investment securities and investment securities
The fair values of stocks are determined using the quoted price on the stock exchange, and those of bonds are determined using the quoted price on the exchange or the quoted price obtained from financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 11, Investment Securities."

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable and (4) Current portion of corporate bonds
Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.
(3) Long-term loans payable and (5) Corporate bonds payable
These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts with special treatment applied and by interest rate and currency swap contracts with combined treatment applied (subject to special treatment and allocation hedge accounting) are calculated by combining them with the relevant interest rate swap or interest rate and currency swap.

Derivative transactions

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

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

| Item | Millions of yen | |
|--|-----------------|---------|
| | 2016 | 2017 |
| Unlisted equity securities, etc. | ¥ 3,011 | ¥ 2,228 |
| Investments in limited liability investment partnerships, etc. | 6,653 | 6,430 |
| Equity securities issued by non-consolidated subsidiaries | 1,195 | 298 |
| Equity securities issued by affiliated companies | 24,211 | 22,893 |
| Investments in capital of subsidiaries and associates | 938 | 1,238 |

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

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

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| | Millions of yen | | | |
|--|-----------------|-------------------|-------------------|----------------|
| | Within one year | One to five years | Five to ten years | Over ten years |
| Cash and deposits | ¥141,316 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable—trade | 55,571 | 41 | — | — |
| Short-term investment securities and investment securities: | | | | |
| Held-to-maturity debt securities (Corporate bonds) | 400 | 1,800 | 950 | 200 |
| Available-for-sale securities with maturities (Negotiable certificates of deposit) | 32,000 | — | — | — |
| Available-for-sale securities with maturities (Other)* | 16,500 | 5,000 | — | 400 |
| Total | 245,788 | 6,841 | 950 | 600 |

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

Current fiscal year (From April 1, 2016 to March 31, 2017)

| | Millions of yen | | | |
|--|-----------------|-------------------|-------------------|----------------|
| | Within one year | One to five years | Five to ten years | Over ten years |
| Cash and deposits | ¥137,494 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable—trade | 44,470 | 29 | — | — |
| Short-term investment securities and investment securities: | | | | |
| Held-to-maturity debt securities (Corporate bonds) | 200 | 1,400 | 500 | 200 |
| Available-for-sale securities with maturities (Negotiable certificates of deposit) | 42,000 | — | — | — |
| Available-for-sale securities with maturities (Other)* | 23,000 | 4,650 | — | — |
| Total | 247,164 | 6,079 | 500 | 200 |

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

Previous fiscal year (As of March 31, 2016)

| Category | Millions of yen | | | | | |
|------------------------------|-----------------|------------------|--------------------|---------------------|--------------------|-----------------|
| | Within one year | One to two years | Two to three years | Three to four years | Four to five years | Over five years |
| Short-term loans payable | ¥14,002 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term loans payable | — | 6,365 | 15,849 | 13,350 | 13,325 | 4 |
| Corporate bonds payable | 14,200 | 19,500 | 10,000 | 12,500 | 10,000 | — |
| Lease obligations | 1,920 | 339 | 213 | 106 | 65 | 136 |
| Other interest-bearing debt: | | | | | | |
| Accounts payable—facilities | 1,403 | 1,154 | 528 | 77 | 7 | — |

Current fiscal year (As of March 31, 2017)

| Category | Millions of yen | | | | | |
|------------------------------|-----------------|------------------|--------------------|---------------------|--------------------|-----------------|
| | Within one year | One to two years | Two to three years | Three to four years | Four to five years | Over five years |
| Short-term loans payable | ¥6,354 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term loans payable | — | 15,838 | 13,341 | 13,320 | — | 2,000 |
| Corporate bonds payable | 19,500 | 10,000 | 12,500 | 10,000 | — | — |
| Lease obligations | 407 | 280 | 171 | 122 | 81 | 91 |
| Other interest-bearing debt: | | | | | | |
| Accounts payable—facilities | 939 | 539 | 88 | 18 | 10 | 16 |

11 Investment Securities

1. Held-to-maturity debt securities

Previous fiscal year (As of March 31, 2016)

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

| Category | Millions of yen | | |
|---------------------------------|-----------------------------------|------------|--------------------------|
| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
| 1) Government / municipal bonds | ¥ — | ¥ — | ¥ — |
| 2) Corporate bonds | 2,471 | 2,486 | 15 |
| 3) Other | — | — | — |
| Total | 2,471 | 2,486 | 15 |

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

| Category | Millions of yen | | |
|---------------------------------|-----------------------------------|------------|--------------------------|
| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
| 1) Government / municipal bonds | ¥ — | ¥ — | ¥ — |
| 2) Corporate bonds | 903 | 892 | (11) |
| 3) Other | — | — | — |
| Total | 903 | 892 | (11) |

Current fiscal year (As of March 31, 2017)

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

| Category | Millions of yen | | |
|---------------------------------|-----------------------------------|------------|--------------------------|
| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
| 1) Government / municipal bonds | ¥ — | ¥ — | ¥ — |
| 2) Corporate bonds | 1,619 | 1,636 | 16 |
| 3) Other | — | — | — |
| Total | 1,619 | 1,636 | 16 |

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

| Category | Millions of yen | | |
|---------------------------------|-----------------------------------|------------|--------------------------|
| | Consolidated balance sheet amount | Fair value | Valuation gains (losses) |
| 1) Government / municipal bonds | ¥ — | ¥ — | ¥ — |
| 2) Corporate bonds | 700 | 695 | (4) |
| 3) Other | — | — | — |
| Total | 700 | 695 | (4) |

2. Available-for-sale securities

Previous fiscal year (As of March 31, 2016)

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

| Category | Millions of yen | | |
|-----------|-----------------------------------|------------------|--------------------------|
| | Consolidated balance sheet amount | Acquisition cost | Valuation gains (losses) |
| 1) Shares | ¥26,823 | ¥ 9,870 | ¥16,952 |
| 2) Bonds | 606 | 600 | 6 |
| 3) Other | 1,412 | 1,373 | 39 |
| Total | 28,842 | 11,843 | 16,998 |

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

| Category | Millions of yen | | |
|-----------|-----------------------------------|------------------|--------------------------|
| | Consolidated balance sheet amount | Acquisition cost | Valuation gains (losses) |
| 1) Shares | ¥ 1,972 | ¥ 2,646 | ¥ (673) |
| 2) Bonds | 5,133 | 5,256 | (123) |
| 3) Other | 48,681 | 48,924 | (243) |
| Total | 55,787 | 56,827 | (1,040) |

Note: Compound financial instruments are included in "Bonds" and valuation difference of ¥1,127 million is recorded under "Other expenses."

Current fiscal year (As of March 31, 2017)

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

| Category | Millions of yen | | |
|-----------|-----------------------------------|------------------|--------------------------|
| | Consolidated balance sheet amount | Acquisition cost | Valuation gains (losses) |
| 1) Shares | ¥24,488 | ¥9,541 | ¥14,947 |
| 2) Bonds | 3,202 | 3,200 | 2 |
| 3) Other | 2,380 | 2,213 | 167 |
| Total | 30,071 | 14,954 | 15,116 |

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

| Category | Millions of yen | | |
|-----------|-----------------------------------|------------------|--------------------------|
| | Consolidated balance sheet amount | Acquisition cost | Valuation gains (losses) |
| 1) Shares | ¥1,357 | ¥1,465 | ¥(107) |
| 2) Bonds | 4,489 | 4,551 | (61) |
| 3) Other | 62,825 | 62,836 | (10) |
| Total | 68,672 | 68,852 | (180) |

Note: Compound financial instruments are included in "Bonds" and valuation difference of ¥520 million is recorded under "Other income."

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

Previous fiscal year (As of March 31, 2016)

| Category | Millions of yen | | |
|-----------|--------------------|----------------------|-----------------------|
| | Amount of proceeds | Total gains on sales | Total losses on sales |
| 1) Shares | ¥ 964 | ¥106 | ¥— |
| 2) Bonds | — | — | — |
| 3) Other | 5,015 | 16 | — |
| Total | 5,980 | 123 | — |

Current fiscal year (As of March 31, 2017)

| Category | Millions of yen | | |
|-----------|--------------------|----------------------|-----------------------|
| | Amount of proceeds | Total gains on sales | Total losses on sales |
| 1) Shares | ¥3,057 | ¥1,382 | ¥40 |
| 2) Bonds | 400 | — | — |
| 3) Other | 231 | — | 18 |
| Total | 3,688 | 1,382 | 59 |

4. Impairment loss on securities

Previous fiscal year (From April 1, 2015 to March 31, 2016)

During the fiscal year ended March 31, 2016, the Group recognized impairment loss on available-for-sale securities in the amount of ¥19 million.

Current fiscal year (From April 1, 2016 to March 31, 2017)

During the fiscal year ended March 31, 2017, the Group recognized impairment loss on available-for-sale securities in the amount of ¥1,105 million.

12 Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| | | Millions of yen | | | |
|---|-----------------------------|-----------------|-----------------------------------|------------|---------------------------|
| Category | | Contract value | Contract value due after one year | Fair value | Unrealized gains (losses) |
| Transactions other than market transactions | Forward exchange contracts: | | | | |
| | Selling | | | | |
| | U.S. dollar | ¥129 | ¥— | ¥3 | ¥3 |
| | Euro | 35 | — | 0 | 0 |
| Total | | 165 | — | 4 | 4 |

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

Current fiscal year (From April 1, 2016 to March 31, 2017)

| | | Millions of yen | | | |
|---|-----------------------------|-----------------|-----------------------------------|------------|---------------------------|
| Category | | Contract value | Contract value due after one year | Fair value | Unrealized gains (losses) |
| Transactions other than market transactions | Forward exchange contracts: | | | | |
| | Selling | | | | |
| | U.S. dollar | ¥79 | ¥— | ¥(4) | ¥(4) |
| | Euro | 14 | — | 0 | 0 |
| Total | | 93 | — | (4) | (4) |

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

(2) Compound financial instruments

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

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2016)

| | | Millions of yen | | | |
|---|-----------------------------|------------------------|----------------|-----------------------------------|------------|
| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
| Primary method | Forward exchange contracts: | | | | |
| | Buying | | | | |
| | U.S. dollar | Accounts payable-trade | ¥956 | ¥— | ¥(39) |
| Payables translated using forward exchange contract rates | Forward exchange contracts: | | | | |
| | Buying | | | | |
| | U.S. dollar | Accounts payable-trade | 150 | — | Note 2 |

Notes: 1. Fair values are calculated using prices quoted by financial institutions.

2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable-trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable-trade, since they are used for recording accounts payable-trade as hedged items.

Current fiscal year (As of March 31, 2017)

| | | Millions of yen | | | |
|---|-----------------------------|------------------------|----------------|-----------------------------------|------------|
| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
| Payables translated using forward exchange contract rates | Forward exchange contracts: | | | | |
| | Buying | | | | |
| | U.S. dollar | Accounts payable-trade | ¥133 | ¥— | Note |

Note: With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable-trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable-trade, since they are used for recording accounts payable-trade as hedged items.

(2) Interest rate-related derivatives

Previous fiscal year (As of March 31, 2016)

| | | Millions of yen | | | |
|--|-----------------------------------|-------------------------|----------------|-----------------------------------|------------|
| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
| Special treatment for interest rate swaps | Interest rate swaps: | | | | |
| | Floating rate into fixed rate | Long-term loans payable | ¥35,730 | ¥31,725 | Note |
| Special treatment for interest rate and currency swaps | Interest rate and currency swaps: | | | | |
| | Floating rate into fixed rate | Long-term loans payable | 5,988 | 988 | Note |
| Total | | | 41,718 | 32,713 | — |

Note: With respect to “interest rate swaps” and “interest rate and currency swaps” which meet certain conditions, fair values of the interest rate swaps and currency 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.

Current fiscal year (As of March 31, 2017)

| | | Millions of yen | | | |
|--|-----------------------------------|-------------------------|----------------|-----------------------------------|------------|
| Hedge accounting method | Classification | Major hedged items | Contract value | Contract value due after one year | Fair value |
| Primary method | Interest rate swaps: | | | | |
| | Floating rate into fixed rate | Long-term loans payable | ¥18,564 | ¥18,555 | ¥(71) |
| Special treatment for interest rate swaps | Interest rate swaps: | | | | |
| | Floating rate into fixed rate | Long-term loans payable | 33,000 | 30,000 | Note 3 |
| Special treatment for interest rate and currency swaps | Interest rate and currency swaps: | | | | |
| | Floating rate into fixed rate | Long-term loans payable | 988 | 988 | Note 3 |
| Total | | | 52,553 | 49,544 | — |

Notes: 1. Fair values are calculated using prices quoted by financial institutions.

2. Derivatives for which the primary method is applied are interest rate swaps to hedge interest rate risk on long-term loans payable of the companies accounted for under equity method. The contract value and fair value are calculated by multiplying the Company's holding ratio.

3. With respect to “interest rate swaps” and “interest rate and currency swaps” which meet certain conditions, fair values of the interest rate swaps and currency 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.

13 Retirement Benefits

1. Overview of retirement benefit plans

Domestic consolidated subsidiaries offer, based on retirement benefit regulations, defined benefit pension plans and lump-sum retirement benefit plans.

Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer defined contribution pension plans.

Under the lump-sum retirement benefit plans that the Company and certain domestic consolidated subsidiaries have, net defined benefit liability and severance and retirement benefit expenses are calculated by the simplified method.

One of a domestic consolidated subsidiary joins a multi-employer pension fund plan and when the plan's pension assets corresponding to the company's contribution are difficult to determine, the subsidiary applies the same accounting treatment as applied to the defined contribution plan. On the other hand, the subsidiary obtained the approval of the Minister of Health, Labour and Welfare to transfer the substitutional portion of future pension obligations on April 1, 2016.

The disclosure regarding a multi-employer plan is omitted due to insignificance.

2. Defined benefit pension plan

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

| | Millions of yen | |
|--|-----------------|---------|
| | 2016 | 2017 |
| Projected benefit obligations at the beginning of the period | ¥19,724 | ¥22,506 |
| Service costs-benefits earned during the year | 1,683 | 1,862 |
| Interest cost on projected benefit obligations | 173 | 79 |
| Actuarial differences accrued | 1,754 | 47 |
| Retirement benefit paid | (889) | (684) |
| Other | 60 | 34 |
| Projected benefit obligations at the end of the period | 22,506 | 23,845 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Millions of yen | |
|--|-----------------|---------|
| | 2016 | 2017 |
| Plan assets at the beginning of the period | ¥16,635 | ¥19,211 |
| Expected return on plan assets | 321 | 370 |
| Actuarial differences accrued | (117) | (275) |
| Contribution of employer | 3,207 | 3,277 |
| Retirement benefit paid | (834) | (528) |
| Other | — | (26) |
| Plan assets at the end of the period | 19,211 | 22,030 |

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

| | Millions of yen | |
|--|-----------------|------|
| | 2016 | 2017 |
| Net defined benefit liability at the beginning of the period | ¥ 628 | ¥612 |
| Retirement benefit expenses | 124 | 122 |
| Retirement benefit paid | (139) | (79) |
| Other | (1) | 3 |
| Net defined benefit liability at the end of the period | 612 | 659 |

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

| | Millions of yen | |
|--|-----------------|----------|
| | 2016 | 2017 |
| Funded projected benefit obligations | ¥ 22,506 | ¥ 23,845 |
| Plan assets | (19,211) | (22,030) |
| Unfunded projected benefit obligations | 3,294 | 1,815 |
| Net amount of liabilities and assets recorded on the consolidated balance sheets | 3,906 | 2,474 |
| Net defined benefit liability | 3,906 | 3,303 |
| Net defined benefit asset | — | (828) |
| Net amount of liabilities and assets recorded on the consolidated balance sheets | 3,906 | 2,474 |

Note: The retirement benefit scheme applying the simplified method is included.

(5) Breakdown of retirement benefit expenses

| | Millions of yen | |
|---|-----------------|--------|
| | 2016 | 2017 |
| Service costs—benefits earned during the year | ¥1,683 | ¥1,862 |
| Interest cost on projected benefit obligations | 173 | 79 |
| Expected return on plan assets | (321) | (370) |
| Amortization of actuarial difference | (122) | 185 |
| Amortization of prior service cost | 44 | — |
| Retirement benefit expenses using the simplified method | 124 | 122 |
| Other | 71 | 6 |
| Retirement benefit expenses of defined benefit pension plan | 1,653 | 1,885 |

Note: Other than the retirement benefit expenses stated above, early extra retirement payments of ¥1,956 million and ¥149 million were recorded under other expenses for the years ended March 31, 2016 and 2017, respectively.

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

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

| | Millions of yen | |
|----------------------|-----------------|--------|
| | 2016 | 2017 |
| Actuarial difference | ¥(2,004) | ¥(137) |
| Total | (2,004) | (137) |

(7) Remeasurements of defined benefit plans

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

| | Millions of yen | |
|------------------------------------|-----------------|------|
| | 2016 | 2017 |
| Unrecognized actuarial differences | ¥1,102 | ¥964 |
| Total | 1,102 | 964 |

(8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

| | 2016 | 2017 |
|-------------------|------|------|
| Debt securities | 62% | 59% |
| Share of stock | 17 | 17 |
| Cash and deposits | 11 | 7 |
| General account | 9 | 10 |
| Other | 1 | 7 |
| Total | 100 | 100 |

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

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

(9) Matters concerning basis for actuarial calculation

Basis for actuarial calculation

| | 2016 | 2017 |
|--|---|---|
| Discount rate | 0.0–1.1% | 0.1–0.9% |
| Long-term expected rate of return on plan assets | 1.6–2.5% | 1.6–2.0% |
| Salary increase ratio (Note) | Principally, salary increase index by age as of March 31, 2012 is used. | Principally, salary increase index by age as of March 31, 2012 is used. |

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

3. Defined contribution pension plans

The amounts to be paid by consolidated subsidiaries to the defined contribution pension plans were ¥268 million and ¥288 million for the years ended March 31, 2016 and 2017, respectively.

14 Stock Option Plan

1. Contents, scale and movement of stock options

Previous fiscal year (From April 1, 2015 to March 31, 2016)

(1) The following table summarizes the contents of stock options as of March 31, 2016.

| 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 |

(2) The following table summarizes the scale and movement of stock as of March 31, 2016.

| Company name | The Company | The Company | Butterfly Corporation | Butterfly Corporation |
|---|---------------|---------------|-----------------------|-----------------------|
| Date of the resolution | July 31, 2012 | July 31, 2012 | October 29, 2010 | January 19, 2011 |
| Not exercisable stock options | | | | |
| Stock options outstanding at April 1, 2015 | — | — | — | — |
| Stock options granted | — | — | — | — |
| Forfeitures | — | — | — | — |
| Conversion to exercisable stock options | — | — | — | — |
| Stock options outstanding at March 31, 2016 | — | — | — | — |
| Exercisable stock options | | | | |
| Stock options outstanding at April 1, 2015 | 250,000 | 3,354,800 | 31,700 | 200 |
| Conversion from not exercisable stock options | — | — | — | — |
| Stock options exercised | 70,000 | 3,500 | — | — |
| Forfeitures | — | 62,800 | 24,000 | 100 |
| Stock options outstanding at March 31, 2016 | 180,000 | 3,288,500 | 7,700 | 100 |

The following table summarizes the price information of stock options as of March 31, 2016.

| Company name | The Company | The Company | Butterfly Corporation | Butterfly Corporation |
|---|---------------|---------------|-----------------------|-----------------------|
| Date of the resolution | July 31, 2012 | July 31, 2012 | October 29, 2010 | January 19, 2011 |
| Exercise price | ¥1,686 | ¥1,686 | ¥2,000 | ¥2,000 |
| Average market price of the stock at the time of exercise | 1,750 | 1,680 | — | — |
| Fair value of the stock option at the date of grant | 231 | 231 | — | — |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Current fiscal year (From April 1, 2016 to March 31, 2017)

(1) The following table summarizes the contents of stock options as of March 31, 2017.

| Company name | The Company | The Company | The Company |
|---|--|---|--|
| Date of the resolution | July 31, 2012 | July 31, 2012 | August 2, 2016 |
| 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 | The Company's directors: 5 |
| Class and number of stock | Common stock 250,000 | Common stock 3,483,000 | Common stock 250,000 |
| Date of issue | September 1, 2012 | September 1, 2012 | September 1, 2016 |
| 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 September 1, 2016 to September 1, 2018 |
| Period grantees provide service in return for stock options | September 1, 2012 to September 1, 2014 | September 1, 2012 to September 1, 2014 | September 1, 2016 to September 1, 2018 |
| Period subscription rights are to be exercised | September 2, 2014 to September 1, 2016 | September 2, 2014 to September 1, 2016 | September 2, 2018 to September 1, 2020 |

| Company name | The Company | Butterfly Corporation | Butterfly Corporation |
|---|---|--|--|
| Date of the resolution | August 2, 2016 | October 29, 2010 | January 19, 2011 |
| Position and number of grantees | The Company's executive officers: 7 The Company's employees: 11 The Company's subsidiaries' directors: 43 The Company's subsidiaries' executive officers: 46 The Company's subsidiaries' employees: 822 | Butterfly Corporation's directors: 3 Butterfly Corporation's corporate auditors: 1 Butterfly Corporation's employees: 56 | Butterfly Corporation's employees: 10 |
| Class and number of stock | Common stock 3,844,500 | Common stock 49,000 | Common stock 1,000 |
| Date of issue | September 1, 2016 | November 1, 2010 | February 1, 2011 |
| Condition of settlement of rights | Continue to work from September 1, 2016 to September 1, 2018 | Continue to work from November 1, 2010 to October 29, 2012 | Continue to work from February 1, 2011 to October 29, 2012 |
| Period grantees provide service in return for stock options | September 1, 2016 to September 1, 2018 | November 1, 2010 to October 29, 2012 | February 1, 2011 to October 29, 2012 |
| Period subscription rights are to be exercised | September 2, 2018 to September 1, 2020 | October 30, 2012 to October 28, 2020 | October 30, 2012 to October 28, 2020 |

(2) The following table summarizes the scale and movement of stock as of March 31, 2017.

| Company name | The Company | The Company | The Company | The Company | Butterfly Corporation | Butterfly Corporation |
|---|---------------|---------------|----------------|----------------|-----------------------|-----------------------|
| Date of the resolution | July 31, 2012 | July 31, 2012 | August 2, 2016 | August 2, 2016 | October 29, 2010 | January 19, 2011 |
| Not exercisable stock options | | | | | | |
| Stock options outstanding at April 1, 2016 | — | — | — | — | — | — |
| Stock options granted | — | — | 250,000 | 3,844,500 | — | — |
| Forfeitures | — | — | — | 24,500 | — | — |
| Conversion to exercisable stock options | — | — | — | — | — | — |
| Stock options outstanding at March 31, 2017 | — | — | 250,000 | 3,820,000 | — | — |
| Exercisable stock options | | | | | | |
| Stock options outstanding at April 1, 2016 | 180,000 | 3,288,500 | — | — | 7,700 | 100 |
| Conversion from not exercisable stock options | — | — | — | — | — | — |
| Stock options exercised | — | — | — | — | — | — |
| Forfeitures | 180,000 | 3,288,500 | — | — | 7,700 | 100 |
| Stock options outstanding at March 31, 2017 | — | — | — | — | — | — |

The following table summarizes the price information of stock options as of March 31, 2017.

| Company name | The Company | The Company | The Company | The Company | Butterfly Corporation | Butterfly Corporation |
|---|---------------|---------------|----------------|----------------|-----------------------|-----------------------|
| Date of the resolution | July 31, 2012 | July 31, 2012 | August 2, 2016 | August 2, 2016 | October 29, 2010 | January 19, 2011 |
| Exercise price | ¥1,686 | ¥1,686 | ¥1,413 | ¥1,413 | ¥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 | 231 | 231 | 256 | 256 | — | — |

2. Estimation of fair value of the stock options

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Not applicable

Current fiscal year (From April 1, 2016 to March 31, 2017)

Method to estimate the fair value of stock option granted by the Company

(1) Measurement technique used

Black-Scholes model

(2) Major assumption used and method to estimate the assumption

(i) Stock price volatility Stock option granted on September 1, 2016 (For directors of the Company) 33.056%
Stock option granted on September 1, 2016 (For other than directors of the Company) 33.056%

(ii) Remaining period assumed ... 3 years

Since there is not enough data to make reasonable assumptions, the remaining period is estimated based on an assumption that the option would be exercised at the mid-point of exercise periods.

(iii) Dividends assumed Stock option granted on September 1, 2016 (For directors of the Company) 40 yen/share
Stock option granted on September 1, 2016 (For other than directors of the Company) 40 yen/share

(iv) Risk-free interest rate Stock option granted on September 1, 2016 (For directors of the Company) (0.194%)
Stock option granted on September 1, 2016 (For other than directors of the Company) (0.194%)
Interest rates of Japanese government bonds for the assumed remaining period are used.

3. Estimation of number of exercisable stock options

Only the actual forfeitures are reflected because it is difficult to estimate future forfeitures reasonably.

15 Income Taxes

1. Significant components of deferred tax assets and liabilities

| | Millions of yen | |
|---|-----------------|----------|
| | 2016 | 2017 |
| Deferred tax assets: | | |
| Allowance for doubtful accounts | ¥ 1,305 | ¥ 1,443 |
| Loss on valuation of inventories | 1,780 | 1,903 |
| Provision for bonuses | 1,570 | 1,996 |
| Net defined benefit liability | 1,143 | 1,666 |
| Depreciation expense | 11,749 | 14,120 |
| Loss on valuation of investment securities | 410 | 680 |
| Impairment loss | 2,782 | 2,796 |
| Other | 20,170 | 11,807 |
| Tax loss carryforward | 72,205 | 67,507 |
| Total | 113,117 | 103,920 |
| Valuation allowance | (101,403) | (90,215) |
| Offset against deferred tax liabilities | (4,753) | (6,241) |
| Net deferred tax assets | 6,961 | 7,464 |
| Deferred tax liabilities: | | |
| Valuation difference on available-for-sale securities | (5,610) | (5,105) |
| Other | (3,077) | (4,366) |
| Subtotal of deferred tax liabilities | (8,688) | (9,472) |
| Offset against deferred tax assets | 4,753 | 6,241 |
| Total | (3,934) | (3,231) |
| Recorded deferred tax assets | 3,026 | 4,232 |

2. Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the fiscal years ended March 31, 2016 and 2017

| | 2016 | 2017 |
|--|--------|-------|
| Statutory tax rate | 33.1% | 30.9% |
| (Reconciliation) | | |
| Changes in valuation allowance | 40.7 | (4.2) |
| Permanently non-deductible expenses including entertainment expenses | 8.2 | 1.7 |
| Amortization of goodwill | 3.2 | 1.6 |
| Difference of tax rates for consolidated subsidiaries | 0.6 | (1.0) |
| Tax credit for experiment and research expenses | (5.5) | (4.4) |
| Tax loss carryforward | (3.9) | (1.4) |
| Effect of adjustment for consolidation | (28.1) | (4.7) |
| Adjustments of deferred tax assets for enacted changes in tax laws and rates | 1.7 | 1.0 |
| Reversal of revaluation reserve for land | — | (4.5) |
| Other | 3.4 | 1.8 |
| Effective tax rate for financial statement purposes | 53.2 | 16.8 |

3. Revisions to the amount of deferred tax assets and liabilities due to changes in the tax rates of the Japanese Corporation Tax

Since amendments to the Japanese tax regulations were enacted into law November 18, 2016, the statutory tax rate utilized for the measurement of deferred tax assets and liabilities in the current fiscal year changed from the previous year.

As a result, the amounts of the deferred tax assets (after deducting the deferred tax liabilities) increased by ¥352 million.

16 Business Combination

1. Business combination through acquisition

(1) Outline of business combination

1) Name and business of acquired company

Name of acquired company Amplitude Studios SAS

Description of business Development and sales of content for the PC market in the U.S. and European regions

2) Reason for business combination

Content for the PC market in the U.S. and European regions owned by Amplitude Studios SAS will further enhance the presence of SEGA Games Co., Ltd. in the U.S. and European game market, and the profitability is expected to be strengthened as a result of enabling the Group to provide entertainment content of further superior quality by leveraging excellent content development capabilities as well as accumulated developmental know-how held by Amplitude Studios SAS.

3) Date of business combination

July 1, 2016

4) Legal structure

Purchase of shares with cash

5) Name of companies after the business combination

Unchanged

6) Share of voting rights acquired

100%

7) Reason to determine the acquiring company

Because the Company acquired the outstanding shares of Amplitude Studios SAS with cash as consideration.

(2) The period of operations of the acquired company included in the consolidated financial statements

From July 1, 2016 to March 31, 2017

(3) Acquisition cost of the acquired company

| | | | |
|---------------|------|----------------|-----------------|
| Consideration | Cash | ¥2,462 million | (€21.5 million) |
| Total | | ¥2,462 million | |

(4) The breakdown of major acquisition-related costs and amount

Advisory fees and other ¥100 million

(5) Details of contingent considerations for acquisition and accounting policies

As determined in the agreement, the contingent consideration for acquisition shall be paid based on the future performance of the acquired company. In the event where the payment of additional consideration for acquisition is required and the goodwill increases, the Company will adjust the acquisition cost by deeming such additional amount has been paid at the time of the acquisition, and the amount of goodwill and amortization thereof shall be revised accordingly.

(6) Goodwill recognized, reason for recognition, and amortization method and period

1) Goodwill recognized ¥1,329 million

2) Reason for recognition

The goodwill will be recognized since the future excess earning power is reasonably expected due to the business expansion going forward.

3) Method and period of amortization

Straight-line method over 7 years

(7) Assets acquired and liabilities assumed on the date of business combination and their breakdown

| | Millions of yen | |
|------------------------|-----------------|-------|
| Current assets | ¥ | 880 |
| Noncurrent assets | | 544 |
| Total assets | | 1,425 |
| Current liabilities | | 123 |
| Noncurrent liabilities | | 168 |
| Total liabilities | | 291 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Amount, detail, method and period of amortization of items recognized as intangible assets other than goodwill

| Item | Amount (Millions of yen) | Method and period of amortization |
|---------------------------|--------------------------|-----------------------------------|
| Technology-related assets | ¥494 | Straight-line method over 7 years |

(9) Approximate amount and calculation method of impact of business combination on consolidated statements of income and consolidated statements of comprehensive income for the current fiscal year assuming the business combination was completed on the first day of the current fiscal year

Disclosure is omitted due to insignificance. Calculation of the approximate amount has not been audited by the independent auditor.

2. Business divestiture

The Company resolved at a Board of Directors' meeting on October 31, 2016, to transfer part of the Company's holding shares of SEGA LIVE CREATION, Inc. ("SEGA LIVE CREATION," currently CA Sega Joypolis Ltd.) to China Theme Park Ltd., a subsidiary of China Animation Characters Company Ltd., and the transfer was conducted on January 1, 2017.

This share transfer resulted in changing the Company's holding ratio of voting rights of SEGA LIVE CREATION to 14.9%, and SEGA LIVE CREATION and SEGA (QINGDAO) ENTERTAINMENT PARK CO., LTD., a subsidiary of SEGA LIVE CREATION, were excluded from the Company's consolidated subsidiaries.

(1) Overview of the share transfer

- (i) Name of transferee
China Theme Park Ltd.
- (ii) Name and business description of the subsidiary whose shares are sold
 - (a) Name of the subsidiary – SEGA LIVE CREATION, Inc. (currently CA Sega Joypolis Ltd.)
Business description – Planning, development and operation of leisure facilities
 - (b) Name of the subsidiary – SEGA (QINGDAO) ENTERTAINMENT PARK CO., LTD.
Business description – Planning, development and operation of amusement park and attraction sales
- (iii) Reason for the sale of companies' shares
SEGA LIVE CREATION was established through an incorporation-type split of part of the entertainment park business of SEGA CORPORATION (currently SEGA Games Co., Ltd.) on April 1, 2015, and has conducted the development and operation of indoor type theme parks such as "JOYPOLIS" and "Orbi." On the other hand, the Company started implementing Group Structure Reform in May 2014, aiming to "improve profitability" and "improve capital efficiency" by drastically reviewing the positioning of all businesses, including not only existing businesses but also business fields in which the Company had been promoting prior investment, and then classifying them into "growth," "stable revenue/maintain" and "withdraw/downsize."
As a result of discussions carried out on Group Structure Reform, the Company determined this partial share transfer to further enhance its financial structure and improve the turnover ratio of capital. However, the "Orbi" business is to be split from SEGA LIVE CREATION and transferred to the SEGA Group; therefore, the business is not subject to this share transfer.
- (iv) Date of share transfer
January 1, 2017
- (v) Matters regarding other aspects of the transactions, including legal form

| | |
|------------------------------|--|
| Legal form of transfer | Share transfer with only cash as consideration |
| Number of shares transferred | 851 shares |
| Transfer price | ¥600 million |
| Ratio of voting rights owned | 14.9% |

(2) Overview of accounting treatment applied

- (i) Amount of gain or loss arising from the share transfer
Loss on sales of shares of subsidiaries and associates: ¥26 million
- (ii) Carrying values of assets and liabilities related to transferred business and its breakdown

| | |
|--------------------------|---------------|
| Current assets | ¥ 997 million |
| Noncurrent assets (Note) | 1,703 |
| Total assets | 2,701 |
| Current liabilities | 1,328 |
| Noncurrent liabilities | 702 |
| Total liabilities | 2,031 |

Note: Based on the Group Structure Reform, the Company recognized an impairment loss of ¥1,104 million for the related noncurrent assets for the fiscal year ended March 31, 2017.

- (iii) Accounting treatment

The amount of difference between the carrying value of investments in shares on the consolidated balance sheet and the transfer price is recognized as loss on sales of shares of subsidiaries and associates under other, net of Other income (expenses).

(3) Name of segment which previously included the business sold

Resort business

(4) Approximate amounts of income and loss included in the consolidated statements of income and comprehensive income

| | |
|----------------|----------------|
| Net sales | ¥3,219 million |
| Operating loss | 316 |

17 Segment Information

1. Outline of reporting segments

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

The planning of business development and strategies as well as the execution of business activities with respect to each product and service is carried out by each Group company that provides such product and service.

As such, the Group comprises segments classified by product and service provided through the business run by each company, in which the "Pachislot and Pachinko Machine Business," the "Entertainment Contents Business" and the "Resort Business" are the reporting segments.

The line of business in each reporting segment is as follows:

| Segment | Main product and business |
|---|---|
| Pachislot and Pachinko Machine Business | Development, manufacture and sales of pachislot and pachinko machines |
| Entertainment Contents Business | Development and sales of digital games serving as the main axis of segments; development and sales of packaged games and amusement machines; development and operation of amusement centers; planning, production and sales of animated films; development, manufacture and sales of toys |
| Resort Business | Development and operation of hotels and theme parks in the integrated resorts business and other facilities businesses |

(Change in classification of reporting segments)

For further displaying group synergy and promoting continuous improvement in operating performance, the Group reclassified the pachislot and pachinko machines-related business of Sammy Networks Co., Ltd., which was previously included in the "Entertainment Contents Business," to the "Pachislot and Pachinko Machine Business" effective from the year ended March 31, 2017.

Segment information for the year ended March 31, 2016 was reclassified to conform with the information for the year ended March 31, 2017.

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."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| | Reporting segment | | | | Adjustment (Note) | Amount in consolidated financial statements |
|--|-----------------------|---------------------------|---------|----------|----------------------|--|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | | |
| Net sales: | | | | | | |
| Sales to third parties | ¥141,037 | ¥190,551 | ¥16,392 | ¥347,981 | ¥ — | ¥347,981 |
| Inter-segment sales and transfers | 640 | 1,018 | 57 | 1,715 | (1,715) | — |
| Total | 141,677 | 191,570 | 16,450 | 349,697 | (1,715) | 347,981 |
| Segment income (loss) | 20,955 | 4,216 | (1,825) | 23,346 | (5,728) | 17,617 |
| Segment assets | 121,789 | 173,570 | 56,208 | 351,568 | 181,388 | 532,957 |
| Other items: | | | | | | |
| Depreciation | 7,913 | 11,437 | 1,047 | 20,398 | 616 | 21,015 |
| Investments in associates accounted for by the equity method | 545 | 825 | 23,127 | 24,498 | 892 | 25,390 |
| Increases in property, plant and equipment and intangible assets | 6,766 | 16,115 | 5,045 | 27,927 | 119 | 28,046 |

- Notes: 1. Elimination of inter-segment transactions of ¥129 million and general corporate expenses of ¥(5,858) million, which are not allocated to the reporting segment, are included in the adjustment to segment income (loss) of ¥(5,728) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
 2. Adjustments for segment assets of ¥181,388 million includes elimination of inter-segment transactions of ¥(38,013) million and general corporate assets of ¥219,401 million, which are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.
 3. The adjustment to depreciation is mainly depreciation associated with the Company.
 4. Adjustments for investments in associates accounted for using the equity method are investments in associates accounted for using the equity method that are not attached to each reporting segment.
 5. The adjustment to property, plant and equipment and intangible assets is mainly the purchase of noncurrent assets associated with the Company.
 6. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

Current fiscal year (From April 1, 2016 to March 31, 2017)

| | Reporting segment | | | | Adjustment (Note) | Amount in consolidated financial statements |
|--|-----------------------|---------------------------|---------|----------|----------------------|--|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | | |
| Net sales: | | | | | | |
| Sales to third parties | ¥148,222 | ¥205,704 | ¥13,012 | ¥366,939 | ¥ 0 | ¥366,939 |
| Inter-segment sales and transfers | 752 | 1,152 | 48 | 1,953 | (1,953) | — |
| Total | 148,974 | 206,857 | 13,060 | 368,892 | (1,952) | 366,939 |
| Segment income (loss) | 26,331 | 11,176 | (2,244) | 35,263 | (5,735) | 29,527 |
| Segment assets | 117,325 | 170,845 | 48,428 | 336,599 | 184,999 | 521,599 |
| Other items: | | | | | | |
| Depreciation | 7,600 | 11,177 | 1,162 | 19,940 | 620 | 20,561 |
| Investments in associates accounted for by the equity method | 337 | 1,359 | 21,274 | 22,970 | 895 | 23,866 |
| Increases in property, plant and equipment and intangible assets | 5,871 | 16,667 | 4,505 | 27,045 | 18 | 27,063 |

- Notes: 1. Elimination of inter-segment transactions of ¥7 million and general corporate expenses of ¥(5,742) million, which are not allocated to the reporting segment, are included in the adjustment to segment income (loss) of ¥(5,735) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
 2. Adjustments for segment assets of ¥184,999 million includes elimination of inter-segment transactions of ¥(99,861) million and general corporate assets of ¥284,861 million, which are not allocated to each reporting segment. General corporate assets are mainly assets of the Company that are not allocated to each segment.
 3. The adjustment to depreciation is mainly depreciation associated with the Company.
 4. Adjustments for investments in associates accounted for using the equity method are investments in associates accounted for using the equity method that are not attached to each reporting segment.
 5. The adjustment to property, plant and equipment and intangible assets is mainly the purchase of noncurrent assets associated with the Company.
 6. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

[Related information]

Previous fiscal year (From April 1, 2015 to March 31, 2016)

1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

2. Geographical segment information

(1) Net sales

| Millions of yen | | | | |
|-----------------|---------------|--------|--------|----------|
| Japan | North America | Europe | Other | Total |
| ¥312,726 | ¥20,377 | ¥5,883 | ¥8,993 | ¥347,981 |

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

(2) Property, plant and equipment

| Millions of yen | | | |
|-----------------|---------|--------|----------|
| Japan | Korea | Other | Total |
| ¥84,004 | ¥12,908 | ¥4,167 | ¥101,080 |

Note: Property, plant and equipment are geographically classified by country or region in which customers are located.

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 statements of income and comprehensive income.

Current fiscal year (From April 1, 2016 to March 31, 2017)

1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

2. Geographical segment information

(1) Net sales

| Millions of yen | | | | |
|-----------------|---------------|--------|---------|----------|
| Japan | North America | Europe | Other | Total |
| ¥325,393 | ¥23,894 | ¥7,136 | ¥10,516 | ¥366,939 |

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

(2) Property, plant and equipment

| Millions of yen | | | |
|-----------------|-------|--------|---------|
| Japan | Korea | Other | Total |
| ¥78,600 | ¥7 | ¥3,001 | ¥81,609 |

Note: Property, plant and equipment are geographically classified by country or region in which customers are located.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 statements of income and comprehensive income.

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

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| | Reporting segment | | | | | Adjustment (Note) | Amount in consolidated financial statements |
|--|-----------------------|---------------------------|--------|----------|--------|----------------------|--|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | | | |
| | Impairment loss | ¥— | ¥1,232 | ¥97 | ¥1,329 | | |

Current fiscal year (From April 1, 2016 to March 31, 2017)

| | Reporting segment | | | | | Adjustment (Note) | Amount in consolidated financial statements |
|--|-----------------------|---------------------------|--------|----------|--------|----------------------|--|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | | | |
| | Impairment loss | ¥134 | ¥1,106 | ¥4,794 | ¥6,034 | | |

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

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| | Reporting segment | | | | | Adjustment (Note) | Amount in consolidated financial statements |
|------------------------------|-----------------------|---------------------------|---------|----------|---------|----------------------|--|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | | | |
| | Amortization | ¥126 | ¥ 2,172 | ¥ 66 | ¥ 2,364 | | |
| Balance as of March 31, 2016 | 79 | 11,989 | 132 | 12,201 | — | 12,201 | |

Current fiscal year (From April 1, 2016 to March 31, 2017)

| | Reporting segment | | | | | Adjustment (Note) | Amount in consolidated financial statements |
|------------------------------|-----------------------|---------------------------|---------|----------|---------|----------------------|--|
| | Pachislot Pachinko | Entertainment Contents | Resort | Subtotal | | | |
| | Amortization | ¥196 | ¥ 2,227 | ¥33 | ¥ 2,456 | | |
| Balance as of March 31, 2017 | 17 | 10,789 | — | 10,807 | — | 10,807 | |

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

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Not applicable

Current fiscal year (From April 1, 2016 to March 31, 2017)

Not applicable

18 Related-Party Transactions

1. Related-party transactions

(1) Transactions between the Company and related parties

1) Non-consolidated subsidiaries and affiliated companies of the Company

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|--|--------------------|-----------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| PARADISE SEGASAMMY Co., Ltd. | Resort business | Underwriting of capital increase ^(Note 1) | ¥ 9,252 | — | ¥— |
| | | Provision of security ^(Note 2) | 23,119 | — | — |

Notes: 1. The Company underwrote a capital increase through allotment to shareholders.

2. For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

Current fiscal year (From April 1, 2016 to March 31, 2017)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|---|--------------------|-----------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| PARADISE SEGASAMMY Co., Ltd. | Resort business | Provision of security ^(Note) | ¥21,274 | — | ¥— |

Note: For part of the loans from financial institutions to PARADISE SEGASAMMY Co., Ltd., the shares of the company were provided as a pledge.

2) Directors, key individual shareholders, etc., of the Company

Previous fiscal year (From April 1, 2015 to March 31, 2016)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|--|--------------------|------------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| Haruki Satomi | Director of the Company | Exercise of stock options ^(Note 1) | ¥118 | — | ¥— |
| FSC Co., Ltd. ^(Note 2) | Non-life insurance agent | Payment of insurance ^(Note 3) | 11 | Prepaid expenses | 6 |
| | | Payment of outsourcing fee ^(Note 3) | 0 | — | — |
| | | Rental income from real estate and equipment ^(Note 3) | 3 | — | — |

Notes: 1. Stock options which were granted based on the resolution at the ordinary Board of Directors' meeting held on July 31, 2012 and exercised during the current fiscal year are listed. The transaction amount listed herein is calculated by multiplying the number of shares granted upon exercise of stock options during the current fiscal year by the amount of payment upon exercise.

2. Hajime Satomi, Chairman of the Board and CEO and COO, and Haruki Satomi, Executive Vice President (Director of the Board,) directly hold a majority of the shares of FSC Co., Ltd.

3. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

4. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2016 to March 31, 2017)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|--|--------------------|------------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| FSC Co., Ltd. ^(Note 1) | Non-life insurance agent | Payment of insurance ^(Note 2) | ¥8 | Prepaid expenses | ¥5 |
| | | Rental income from real estate and equipment ^(Note 2) | 3 | — | — |

Notes: 1. Hajime Satomi, Chairman of the Board and CEO and COO, and Haruki Satomi, Executive Vice President (Director of the Board), directly hold a majority of the shares of FSC Co., Ltd.

2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

3. Consumption taxes are not included in transaction amount.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Directors, key individual shareholders, etc., of the Company
Previous fiscal year (From April 1, 2015 to March 31, 2016)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|---|--------------------|------------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| FSC Co., Ltd. (Note 1) | Non-life insurance agent | Payment of insurance (Note 2) | ¥39 | Prepaid expenses | ¥24 |
| | | | | Accrued expenses | 0 |
| | | Payment of welfare expenses (Note 2) | 1 | — | ¥— |

Notes: 1. Hajime Satomi, Chairman of the Board and CEO and COO, and Haruki Satomi, Executive Vice President (Director of the Board), directly hold a majority of the shares of FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2016 to March 31, 2017)

| Name of related individual or company | Position and principal business | Description of the Company's transactions | Transaction amount | Millions of yen | |
|---------------------------------------|---------------------------------|---|--------------------|------------------|-------------------------------|
| | | | | Accounts | End of period account balance |
| FSC Co., Ltd. (Note 1) | Non-life insurance agent | Payment of insurance (Note 2) | ¥35 | Prepaid expenses | ¥21 |
| | | | | Accrued expenses | 1 |
| | | | | | |

Notes: 1. Hajime Satomi, Chairman of the Board and CEO and COO, and Haruki Satomi, Executive Vice President (Director of the Board), directly hold a majority of the shares of FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

19 Per Share Data

| Item | Yen | |
|--------------------------------|-----------|-----------|
| | 2016 | 2017 |
| Net assets per share | ¥1,257.43 | ¥1,313.06 |
| Net income per share | 22.90 | 117.79 |
| Net income per share (diluted) | 22.90 | 117.40 |

The assumptions of net income per share and diluted net income per share are as follows.

| Item | 2016 | 2017 |
|--|-------------------------|-------------------------|
| Net income per share: | | |
| Profit attributable to owners of parent | ¥5,369 million | ¥27,607 million |
| Amount not attributable to common stockholders | ¥—million | ¥—million |
| Profit attributable to owners of parent for common stock | ¥5,369 million | ¥27,607 million |
| Average number of common stocks | 234,473 thousand shares | 234,391 thousand shares |
| Diluted net income per share: | | |
| Profit attributable to owners of parent adjustment | ¥—million | ¥—million |
| Increase of common stock | 0 thousand shares | 770 thousand shares |
| (Stock options) | 0 thousand shares | 770 thousand shares |

20 Significant Subsequent Events

Not applicable

21 Supplemental Information

Supplemental schedule of corporate bonds

| Company name | Name of bond | Issuance date | Balance as of April 1, 2016 (Millions of yen) | Balance as of March 31, 2017 (Millions of yen) | Interest rate (%) | Type | Date of maturity |
|----------------------|--|----------------------|---|--|-------------------|-----------|--------------------|
| The Company | 1st unsecured bonds (Private placement bond) | March 29, 2013 | ¥ 8,000 | ¥8,000 (¥8,000) | 0.44 | Unsecured | March 29, 2018 |
| | 2nd unsecured bonds (Private placement bond) | March 29, 2013 | 3,200 | 1,600 (1,600) | 0.42 | Unsecured | March 29, 2018 |
| | 1st unsecured bonds (Publicly offered bonds) | July 25, 2013 | 5,000 | 5,000 | 0.73 | Unsecured | July 25, 2018 |
| | 2nd unsecured bonds (Publicly offered bonds) | July 25, 2013 | 5,000 | — | 0.49 | Unsecured | July 25, 2016 |
| | 3rd unsecured bonds (Publicly offered bonds) | June 17, 2014 | 10,000 | 10,000 | 0.52 | Unsecured | June 17, 2019 |
| | 3rd unsecured bonds (Private offered bonds) | September 26, 2014 | 10,000 | 10,000 (2,500) | 0.44 | Unsecured | September 26, 2019 |
| | 4th unsecured bonds (Publicly offered bonds) | June 15, 2015 | 10,000 | 10,000 | 0.57 | Unsecured | June 15, 2020 |
| | SEGA Holdings Co., Ltd. | 13th unsecured bonds | June 30, 2011 | 5,000 | — | 0.72 | Unsecured |
| 14th unsecured bonds | | December 20, 2011 | 2,600 | — | 0.66 | Unsecured | December 20, 2016 |
| 15th unsecured bonds | | June 29, 2012 | 5,000 | 5,000 (5,000) | 0.58 | Unsecured | June 30, 2017 |
| 16th unsecured bonds | | September 28, 2012 | 2,400 | 2,400 (2,400) | 0.51 | Unsecured | September 29, 2017 |
| Total | | | 66,200 | 52,000 (19,500) | — | — | — |

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2017" represent the current portion of corporate bonds.
2. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2017 is as follows:

| Millions of yen | | | | |
|-----------------|------------------|--------------------|---------------------|--------------------|
| Within one year | One to two years | Two to three years | Three to four years | Four to five years |
| ¥19,500 | ¥10,000 | ¥12,500 | ¥10,000 | ¥— |

Supplemental schedule of borrowings

| Category | Balance as of April 1, 2016 (Millions of yen) | Balance as of March 31, 2017 (Millions of yen) | Average interest rate (%) | Repayment terms |
|--|---|--|---------------------------|-----------------|
| Short-term loans payable | ¥ — | ¥ 0 | 10.0 | — |
| Current portion of long-term loans payable due within one year | 14,002 | 6,354 | 1.0 | — |
| Current portion of lease obligations | 1,920 | 407 | Note 2 | — |
| Long-term loans payable (Excluding current portion) | 48,895 | 44,500 | 0.7 | 2018–2024 |
| Lease obligations (Excluding current portion) | 860 | 747 | Note 2 | 2018–2024 |
| Other interest-bearing debt: | | | | |
| Accounts payable–facilities | 1,403 | 939 | — | — |
| Accounts payable–facilities (Excluding current portion) | 1,768 | 674 | — | 2018–2023 |
| Total | 68,850 | 53,623 | — | — |

Notes: 1. "Average interest rate" represents weighted-average interest rate over the year-end balance of loans.
2. The average interest rate on lease obligations is not listed because lease obligations are posted on the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.
3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2017 is summarized as follows:

| Category | Millions of yen | | | | |
|------------------------------|------------------|--------------------|---------------------|--------------------|-----------------|
| | One to two years | Two to three years | Three to four years | Four to five years | Over five years |
| Long-term loans payable | ¥15,838 | ¥13,341 | ¥13,320 | ¥— | ¥2,000 |
| Lease obligations | 280 | 171 | 122 | 81 | 91 |
| Other interest-bearing debt: | | | | | |
| Accounts payable–facilities | 539 | 88 | 18 | 10 | 16 |

INDEPENDENT AUDITOR'S REPORT



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, 2017 and 2016, 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, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

August 25, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



SEGA SAMMY HOLDINGS INC.

Shiodome Sumitomo Building, 1-9-2 Higashi Shimbashi,
Minato-ku, Tokyo 105-0021, Japan
www.segasammy.co.jp/english/

Out Strategic Direction

An abridged edition of *INTEGRATED REPORT 2017*

Having established a solid platform by building a robust earnings structure during a structure reform phase and by strengthening its business portfolio management framework, the SEGA SAMMY Group set out a long-term vision. Aiming to realize this vision, we established Road to 2020, an initiative targeting fiscal 2020. In a concerted effort, the Group will implement concrete measures and overcome uncertain business conditions to realize medium-term performance targets and achieve continuous increases in corporate value over the long term.

Value (Mindset / DNA)

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

“Continuing to create moving experiences”

—Making life more colorful—

Mission
(Raison d'être)

Be a Game Changer

Vision
(Ideal self)

Pachislot and Pachinko
Machines

Sammy...the wellspring of
new ideas as an innovator
in the industry

Entertainment
Contents

Be a Game Changer

Resort

Be an Experiential Innovator

Operating income margin:
At least 15%

ROA*1: At least 5%

Goal
(Specific target)

Operating income margin:
At least 30%*2

Sales: At least ¥300 billion
Operating income: At least ¥30 billion
Operating income margin: At least 10%

Succeed in IR businesses
Enhance brand recognition

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

*2 Operating margin of the Pachislot and Pachinko Machine Business excluding other and eliminations

A Comprehensive Entertainment Corporate Group Continuing to Innovate

The SEGA SAMMY Group is a comprehensive entertainment corporate group created through the management integration of the SEGA Group and Sammy Corporation, which have produced many industry-first and world-first products. As the industry's innovator, we remain committed to taking on ambitious initiatives and continuing to create *moving experiences*.

Pachislot and Pachinko Machine Business

This business segment offers pachislot machines that boast outstanding brand power as well as pachinko machines that are building brand power steadily. Further, we realize timely launches of products reflecting market demand. We achieve this through a system that integrates three capabilities: development capabilities that live up to our “Always Proactive, Always Pioneering” founding principle, manufacturing capabilities based on industry-leading production capacity, and dynamic sales capabilities. Aiming to overcome changes in business conditions and be “the wellspring of new ideas as an innovator in the industry,” the business segment is strengthening its earnings structure and the competitiveness of its products.

Entertainment Contents Business

This business segment operates businesses in a broad range of fields, including digital games, packaged games, amusement machines, amusement centers, and animation and toys. While securing stable earnings from core businesses, we have identified the digital game area—mainly comprising smartphone games and PC online games—as a growth area, and as such we are focusing investment on it.

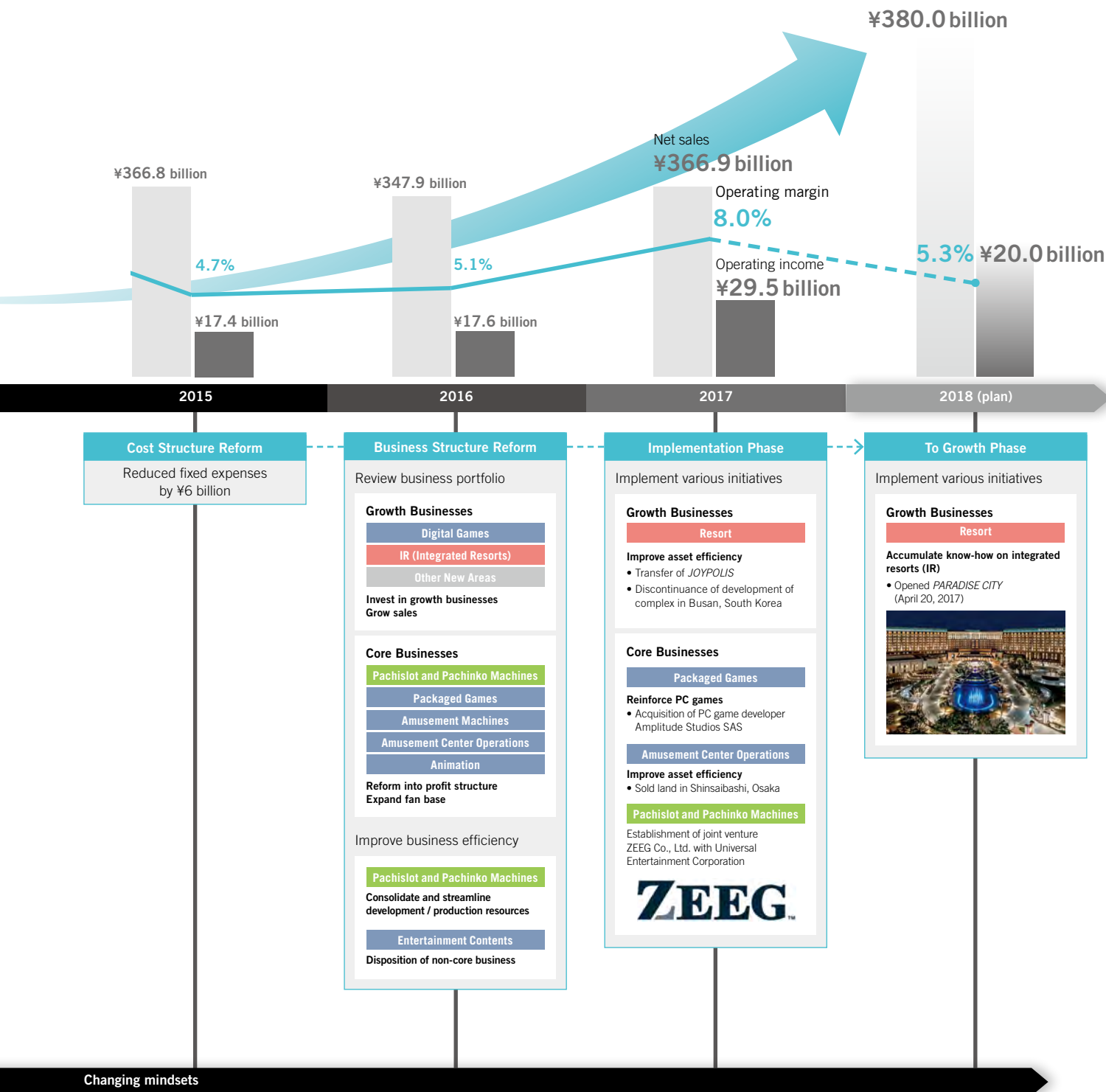
Resort Business

This business segment is engaged in the management and operation of an integrated resort and a resort complex. In April 2017, we opened South Korea's first integrated resort, *PARADISE CITY*. Our aim is to accumulate know-how in the development and operation of casinos and other components of integrated resorts that will enable us to participate in the integrated resort business in Japan. At *Phoenix Seagaia Resort*, one of Japan's premier resort complexes, we are bringing to bear our entertainment expertise to create a unique resort space.

Retracing the Steps of Structure Reform


Structure Reform Completed—Ready for Return to Growth Trajectory

The SEGA SAMMY Group proceeded with structure reform after establishing the Group Structure Reform Division in May 2014. In fiscal 2015, we strengthened our earnings structure by implementing cost structure reform focused on changing mindsets and reducing fixed costs. As a result, we reduced annual fixed costs by ¥6 billion. In fiscal 2016, we made a clear shift in our business management stance from revenue scale to profit margin and implemented business structure reform decisively. To clarify our business portfolio strategy, we classified all operations into such business types as growth businesses and core businesses. At the same time, we took measures aimed at improving business efficiency and rationalized non-core businesses. Having cemented our foundations in this way, we embarked upon an implementation phase in fiscal 2017.



Business Strategies of Road to 2020

Based on the roadmap for growth set out in Road to 2020, each business and business area has clarified its major tasks and is implementing measures steadily.

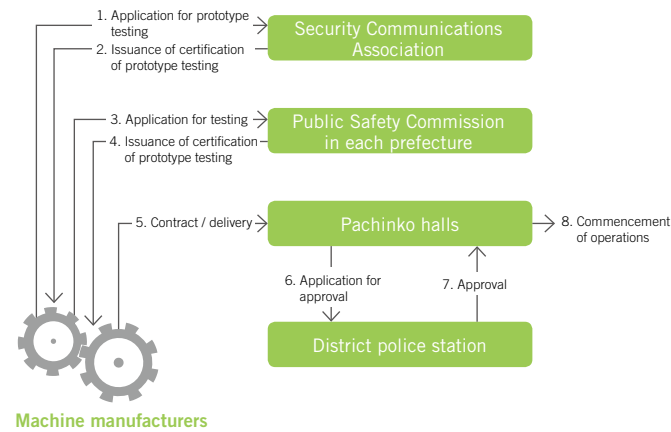
| | | |
|-------------------|---|---|
| Growth Businesses | Resort Business  | <p>Vision <i>Be an Experiential Innovator</i></p> <p>Segment Targets Succeed in the integrated resort business Enhance brand recognition</p> <p>Major Tasks Acquire Expertise to Ensure Success of the Integrated Resort Business With our sights set on participating in the integrated resort business in Japan, we will acquire know-how in the operation of resort complexes while accumulating expertise in the development and operation of integrated resorts.</p> <p style="text-align: right;">INTEGRATED REPORT 2017 P.62</p> |
| | Entertainment Contents Business  | <p>Vision <i>Be a Game Changer</i></p> <p>Segment Targets Net sales At least ¥300 billion Operating income At least ¥30 billion Operating margin At least 10%</p> <p>Major Tasks Create Titles that Become Global Hits (Digital games / packaged games area) Focusing on digital games and packaged games, we will create major hit products in the global market by focusing investment on carefully selected titles and building a business structure that facilitates global rollouts.</p> <p style="text-align: right;">INTEGRATED REPORT 2017 P.58</p> |
| Core Businesses | Pachislot and Pachinko Machine Business  | <p>Vision Sammy...the wellspring of new ideas as an innovator in the industry</p> <p>Segment Target Operating margin* At least 30% * Operating margin excluding "other and eliminations" of the Pachislot and Pachinko Machine Business</p> <p>Major Tasks Promote Component Reuse We will strengthen the earnings structure by increasing reusable components and raising the common components ratio. Build an Industry Platform Through ZEEG Co. Ltd., we will lead efforts to introduce common component units and machine cabinets, enhance product appeal and cost performance, and revitalize and raise the efficiency of the entire industry. Improve Development Efficiency We will improve development efficiency significantly by narrowing down the number of titles while increasing the number of personnel per title. In tandem with these efforts, we will strengthen the quality assessment process to secure even higher quality. Implement Business-to-Consumer Measures We will increase direct communication with consumers to energize the industry.</p> <p style="text-align: right;">INTEGRATED REPORT 2017 P.50</p> |

The Pachinko and Pachislot Machine Market and the SEGA SAMMY Group

Pachinko and Pachislot Machine Market's Regulatory Process

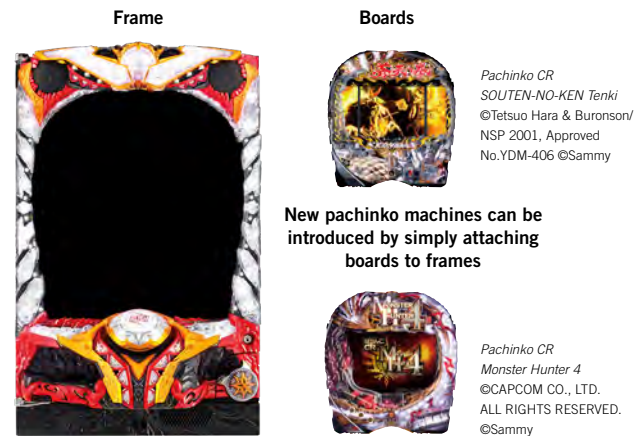
Before launching a machine, manufacturers are required to navigate an approval process in accordance with the Enforcement Regulation of Entertainment Establishments Control Law. First, they must file an application for prototype testing with the Security Communications Association and acquire certification that elements such as materials, functions, and gameplay are in conformance with the regulation. Next, the machines are verified by the Public Safety Commission in each prefecture. Only then can they be supplied to pachinko halls. Before commencing operations, the pachinko hall operators must acquire approval from district police stations.

The Enforcement Regulation of Entertainment Establishments Control Law and the internal regulations of industry bodies have been revised frequently with a view to the sound development of the industry. Each revision has affected the pachinko and pachislot machine market.

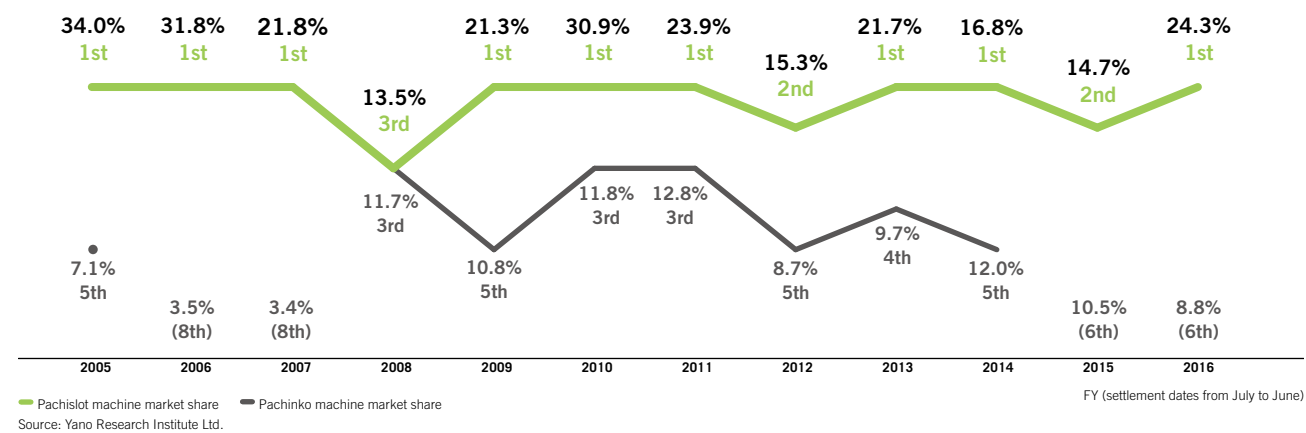


Pachinko Machine Boards and Frames

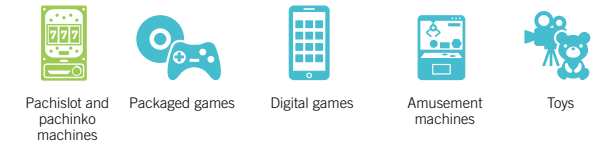
The frame is the cabinet part of a pachinko machine. It physically controls the shooting and paying out of pachinko balls. Meanwhile, the board comprises LCDs, "Yakumono," and numerous pins. The board incorporates electronic components, such as boards and sensors that control gameplay, including images and win chances presented by LCDs, and payouts. Because frames can be used continuously for certain periods, pachinko hall operators can introduce new pachinko machines by purchasing boards and simply attaching them to frames already installed at pachinko halls. The price of a pachinko board is less than that of an entire machine (a frame and board), which enables pachinko hall operators to lighten their investment burden. For manufacturers, sales of pachinko boards provide higher margins than sales of entire machines. Furthermore, under this sales model, the installation of a frame promises to generate continuous demand.



SEGA SAMMY Group's Position in the Pachinko and Pachislot Machine Market



Maximizing Intellectual Property Value



| Intellectual property title | First appearance | Multifaceted rollout | Total editions | Cumulative unit sales / downloads |
|------------------------------|------------------|--|----------------|---|
| <i>Megami Tensei</i> series | 1987 | [Icons: Pachislot, Game, Digital, Amusement, Toys] | 28 | Approx. 7.2 million units (packaged and digital total) |
| <i>Persona</i> series | 1996 | [Icons: Pachislot, Game, Digital, Amusement, Toys] | 13 | Approx. 8.5 million units (packaged and digital total) |
| <i>Etrian Odyssey</i> series | 2007 | [Icons: Game, Digital, Amusement, Toys] | 9 | Approx. 1.8 million units (packaged and digital total) |

| Intellectual property title | First appearance | Multifaceted rollout | Total editions | Cumulative unit sales / downloads |
|----------------------------------|--------------------|--|----------------|---|
| <i>Sonic the Hedgehog</i> series | 1991 | [Icons: Pachislot, Game, Digital, Amusement, Toys] | — | Approx. 360 million (units / downloads) (packaged and digital total) |
| <i>Puyo Puyo</i> series | 1991 ^{*1} | [Icons: Pachislot, Game, Digital, Amusement, Toys] | — | Approx. 25.0 million (units / downloads / IDs) (packaged and digital, AM-registered ID total (total for registrations after IP acquisition)) |
| <i>Ryu ga Gotoku</i> series | 2005 | [Icons: Pachislot, Game, Digital, Amusement, Toys] | 75 | Approx. 10.5 million (units / downloads) (packaged and digital total) |
| <i>ALADDIN</i> series | 1989 | [Icons: Pachislot, Game, Digital, Amusement, Toys] | 14 | Approx. 570,000 units (pachislot and pachinko machine and amusement machine total) |
| <i>Beast King</i> series | 2001 | [Icons: Pachislot, Game, Digital, Amusement, Toys] | 15 | Approx. 490,000 units (pachislot and pachinko machine and amusement machine total) |
| <i>PHANTASY STAR</i> series | 1987 | [Icons: Game, Digital, Amusement, Toys] | — | Approx. 4.5 million IDs ^{*2} (cumulative total for registered IDs) |
| <i>CHAIN CHRONICLE</i> series | 2013 | [Icons: Game, Digital, Amusement, Toys] | 2 | Approx. 10.0 million downloads (packaged and digital total) |

^{*1} SEGA CORPORATION acquired the rights in 1998. Figures for cumulative unit sales are the totals for titles that SEGA sold after acquiring the rights.
^{*2} Total for *PHANTASY STAR ONLINE 2*

| Intellectual property title | First appearance | Multifaceted rollout | Total editions | Cumulative unit sales / downloads |
|---|------------------|--|----------------|--|
| <i>SEGA feat. HATSUNE MIKU Project</i> series | 2009 | [Icons: Game, Digital, Amusement, Toys] | 52 | Approx. 5.5 million (units / downloads) (packaged and digital total) |
| <i>Hokuto No Ken</i> series | 2002 | [Icons: Pachislot, Game, Digital, Amusement, Toys] | 33 | Approx. 2.74 million units (pachislot and pachinko machine and amusement machine total) |
| <i>SOUTEN-NO-KEN</i> series | 2009 | [Icons: Pachislot, Game, Digital, Amusement, Toys] | 9 | Approx. 440,000 units (pachislot and pachinko machine total) |