October 31, 2019

(Translation)

FLASH REPORT

CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]

6 Months Ended September 30, 2019

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
(URL https://www.segasammy.co.jp/)
Representative : Haruki Satomi
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Filing of Quarterly Report : November 13, 2019 (plan)
Start of cash dividend payments : December 2, 2019 (plan)

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 6 Months Ended September 30, 2019

(1) RESULTS OF CONSOLIDATED OPERATIONS

(Percentage represents changes from the prior period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For 6 months ended September 30, 2019	165,535	(3.2)	14,601	43.0	12,658	38.5	9,870	47.2
For 6 months ended September 30, 2018	171,047	(12.2)	10,213	(61.9)	9,139	(63.8)	6,703	(62.3)

(Note) Comprehensive income
For 6 months ended September 30, 2019 : ¥1,164 million ((85.6)%)
For 6 months ended September 30, 2018 : ¥8,111 million ((60.9)%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 6 months ended September 30, 2019	42.05	-
For 6 months ended September 30, 2018	28.60	28.49

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
September 30, 2019	439,744	302,519	68.1
March 31, 2019	464,654	305,337	65.1

(Reference) Shareholders' equity
September 30, 2019 : ¥299,680 million
March 31, 2019 : ¥302,648 million

2. Cash Dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	-	20.00	-	20.00	40.00
Year ending March 31, 2020	-	20.00			
Year ending March 31, 2020 (plan)			-	20.00	40.00

(Note) Revision of the forecast from latest announcement: No

3. Forecast of Consolidated Operating Results for the Year ending March 31, 2020

(Percentage represents changes from the prior year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	390,000	17.6	27,000	106.4	23,000	206.8	15,000	467.6	63.90

(Note) Revision of the forecast from latest announcement: No

4. Other

(1) Significant changes in subsidiaries (scope of consolidation) during period: No

(2) Adoption of the simplified method of accounting as well as specific accounting for preparing the quarterly consolidated financial statements: Yes

(3) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the quarterly consolidated financial statements:

1. Changes associated with revision in accounting standards: Yes
2. Other changes: No

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding at the end of the period (including treasury stock)

September 30, 2019 : 266,229,476
March 31, 2019 : 266,229,476

2. Number of treasury stock at the end of the period

September 30, 2019 : 31,436,063
March 31, 2019 : 31,493,927

3. Average number of shares during the period (cumulative from the beginning of the fiscal year)

For 6 months ended September 30, 2019 : 234,748,283
For 6 months ended September 30, 2018 : 234,387,452

(Note)

- This report is not required the auditing procedures by certified public accountants or accounting auditors.
- The forward-looking statements, such as results forecasts, included in this document are based on information available to the SEGA SAMMY HOLDINGS INC. (the "Company") at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors. For the assumptions prerequisite to the results forecasts and the points to be noted in the use of the forecasts, please see "Forecast of Consolidated Operating Results" on page 4.
- The Company plans to hold a telephone conference on financial results for analysts on October 31, 2019. The contents will be posted on the Company's website on the same day.

Operating Results and Financial Position

(1) Overview

With regard to the pachislot and pachinko industry, in the pachislot machine market, the introduction of pachislot machines (No. 6-type) that conform to the regulatory revision and new voluntary regulations has begun, and expectations are rising for market revitalization. On the other hand, the rate of pachislot machines that have been verified to be compatible through prototype testing, which was conducted by the Security Communications Association (Hotsukyo), remained low. Meanwhile, in the pachinko machine market, the launch of pachinko machines that conform to the regulatory revision is progressing.

Regarding the environment of the entertainment contents business, in the digital game software field, the strong competitive environment for mobile game continues, especially in Japan. With regard to the packaged game software market, in the market for hardware of home video game consoles, are expanding, mainly in overseas, for the expansion of the game software sales market due to the growing penetration of current-generation video game console hardware. In addition, there is growing expectation that the overseas download sales market will expand with the launch of new platforms and services. As for the market for amusement centers and amusement machines, the rate of facilities utilization is stable mainly in prizes.

In the resort industry, in 2018, the annual estimate for the number of foreign visitors to Japan exceeded 30 million for the first time and the number is increasing constantly, and an upward trend in the hotel occupancy rate is still evident. With a view to establishing Japan as a popular tourist destination, enforcement orders, etc. pertaining to the “Act on the Establishment of Specified Integrated Resort Areas” have been coming into force one after another from April 2019.

In this business environment, net sales for the second quarter of the fiscal year ending March 31, 2020 amounted to ¥165,535 million (a decrease of 3.2% for the same period in the previous fiscal year). The Group posted an operating income of ¥14,601 million (an increase of 43.0% for the same period in the previous fiscal year), ordinary income of ¥12,658 million (an increase of 38.5% for the same period in the previous fiscal year) and profit attributable to owners of parent of ¥9,870 million (an increase of 47.2% for the same period in the previous fiscal year).

Result of each segment is as follows

Net sales in each segment here do not include Inter-segment sales between segments.

« Pachislot and Pachinko Machines »

In the pachislot machine business, the Group has launched titles including "Pachislot Anohana: The Flower We Saw That Day", leading to overall sales of 28 thousand units (Overall sales of pachislot machines were 12 thousand units for the same period in the previous fiscal year). In the pachinko machine business, the Group has launched new titles including mainstay title "P Hokuto No Ken 8 Haou", leading to sales of 66 thousand units, (Overall sales of pachinko machines were 117 thousand units for the same period in the previous fiscal year).

As a result, net sales in this segment were ¥44,149 million (a decrease of 24.7% from the same period in the previous fiscal year) and operating income was ¥7,878 million (a decrease of 18.5% from the same period in the previous fiscal year).

« Entertainment Contents »

In the digital game software field, the profitability is substantially improved due to revenues from offering titles, declined costs by impairment loss on fixed assets in the previous fiscal year, and so on.

In the packaged game software field, the Group sold "Mega Drive Mini" in addition to selling new titles launched in the first quarter and repeat titles.

As a result, sales amounted to 11,370 thousand copies (11,180 thousand copies for the same period in the previous fiscal year).

In the amusement machine field, while the Group implemented the sale with the focus on prize game machines, fixed costs increased as a result of the relocation of the subsidiary headquarters.

In the amusement center operations field, the Group operated with a focus on prizes, like-for-like growth in sales were 103.6% compared with the same period of the previous fiscal year.

In the animated film and toy field, the Group recorded allocated revenue of movies and sales of new toy products.

As a result, net sales in this segment were ¥115,879 million (an increase of 8.0% for the same period in the previous fiscal year) and operating income was ¥12,790 million (an increase of 106.5% for the same period in the previous fiscal year).

« Resort »

In the resort business, at “Phoenix Seagaia Resort,” owing to a steady growth in the use of accommodation as result of various measures to acquire guests for summer vacation, the number of guests steadily increased, achieving a 8.6% growth from the same period in the previous fiscal year. However, there was an increase in expenses for entering the domestic integrated resort business.

As a result, net sales in this segment were ¥5,505 million (an increase of 6.7% for the same period in the previous fiscal year) and operating loss was ¥1,587 million (operating loss of ¥1,177 million for the same period in the previous fiscal year).

Overseas, PARADISE SEGASAMMY Co., Ltd. (affiliate accounted for using the equity method) is operating South Korea’s first integrated resort “PARADISE CITY” has attracted many guests, primarily Japanese VIPs, owing to the effects of promotional activities targeting the Japanese market.

(2) Forecast of Consolidated Operating Results

No changes will be made to the forecast of consolidated operating results for the fiscal year ending March 31, 2020, announced on April 26, 2019.

The future plans for business segments are as follows.

« Pachislot and Pachinko Machines »

In the pachislot machines business, the Group plans to launch new titles including mainstay title "Pachislot Hokuto No Ken Tenshou" as the machines based on former standards reach their deadlines for removal mainly in the third quarter of the fiscal year. On the other hand, considering that the rate of pachislot machines that have been verified to be compatible through prototype testing, which is conducted by Hotsukyo, continue to remain low, there are concerns about the impact on the number of titles sold. In the pachinko machine business, multiple titles including "P GAOGAOKING 3" are scheduled to be released. In addition, the Group will strive to achieve a significant improvement in profitability by improving the reuse rate and implementing cost reductions, which we have been focusing on so far.

« Entertainment Contents »

In the digital game software field, the Group will strive to improve the profitability by optimizing the scale of operating titles for mobile devices, and strengthen the operating titles focused on the utilizing IP, which are expected to be more profitable.

In the packaged game software field, the Group will further strengthen IP development for multiple devices in all regions, and the Group plans to launch multiple new mainstay titles including "Mario & Sonic at the Olympic Games Tokyo 2020" and "PERSONA 5 ROYAL" in the third quarter of the fiscal year.

In the amusement machine field, the Group plans to launch new title "StarHorse4" in the second half of the fiscal year. In the amusement center operations field, the Group will work to enhance the operations with a focus continuously on prizes, and plans to open multiple new amusement centers.

In the animated film and toy field, the Group plans to record allocated revenue of movies and sales of video distribution, in addition to selling new and regular toy products.

« Resort »

In the resort business, at “Phoenix Seagaia Resort,” the Group is working to strengthen the ability to acquire guests. Overseas, the Group will continue to endeavor to accumulate further integrated resorts development and operational know-how through “PARADISE CITY.” The Group also expects the increase of prior investment as the actions required for participating domestic integrated resort will be activated

(3) Other

(Changes in Accounting Policies)

Certain overseas subsidiaries which apply the International Financial Reporting Standards adopted IFRS 16 "Leases" from the first quarter of the fiscal year ending March 31, 2020. Herewith, lessees, in principle, record all leases as assets and liabilities on the balance sheets. In initially applying the accounting standard, retained earnings have been adjusted for the cumulative effects of the application at the beginning of the first quarter of the fiscal year with the transitional treatment of the standard.

As a result, "Other, net" in noncurrent assets was ¥3,492 million increased, and "Other" in current liabilities and in noncurrent liabilities were ¥465 million, ¥2,980 million increased, respectively, for the second quarter of the fiscal year. Also the beginning balance for retained earnings was ¥147 million decreased. The impact of these change on the profit for the second quarter of the fiscal year was immaterial.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2019 AND MARCH 31, 2019

(Unit: Millions of yen)

	Prior year (As of March 31, 2019)	Current period (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	137,425	82,479
Notes and accounts receivable - trade	39,209	44,702
Short-term investment securities	14,500	33,203
Merchandise and finished goods	9,800	13,393
Work in process	25,028	27,295
Raw materials and supplies	15,192	18,034
Other	19,565	19,780
Allowance for doubtful accounts	(259)	(289)
Total current assets	260,462	238,601
Noncurrent assets		
Property, plant and equipment		
Land	21,352	21,337
Other, net	62,665	66,158
Total property, plant and equipment	84,017	87,495
Intangible assets		
Goodwill	6,448	6,622
Other	8,848	9,972
Total intangible assets	15,297	16,594
Investments and other assets		
Investment securities	73,478	63,518
Other	31,835	34,002
Allowance for doubtful accounts	(438)	(468)
Total investments and other assets	104,876	97,053
Total noncurrent assets	204,191	201,143
Total assets	464,654	439,744

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2019 AND MARCH 31, 2019

(Unit: Millions of yen)

	Prior year (As of March 31, 2019)	Current period (As of September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,758	27,794
Short - term loans payable	13,352	8,352
Current portion of bonds	12,500	10,000
Income taxes payable	2,631	1,303
Provision	6,044	5,231
Asset retirement obligations	562	-
Other	27,692	25,306
Total current liabilities	87,542	77,987
Noncurrent liabilities		
Bonds payable	10,000	-
Long - term loans payable	40,334	36,158
Net defined benefit liability	4,019	4,074
Asset retirement obligations	4,334	4,649
Provision for dismantling of fixed assets	420	420
Other	12,666	13,935
Total noncurrent liabilities	71,774	59,237
Total liabilities	159,316	137,224
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,142	117,999
Retained earnings	201,889	206,842
Treasury stock	(54,168)	(54,068)
Total shareholders' equity	294,816	300,726
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,354	9,508
Deferred gains or losses on hedges	-	(582)
Revaluation reserve for land	(1,109)	(1,109)
Foreign currency translation adjustment	(4,888)	(8,304)
Remeasurements of defined benefit plans	(524)	(558)
Total accumulated other comprehensive income	7,832	(1,046)
Subscription rights to shares	912	904
Non-controlling interests	1,776	1,935
Total net assets	305,337	302,519
Total liabilities and net assets	464,654	439,744

SEGA SAMMY HOLDINGS INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR 6 MONTHS ENDED SEPTEMBER 30, 2018 AND 2019

(Unit: Millions of yen)

	Prior period From April 1, 2018 To September 30, 2018	Current period From April 1, 2019 To September 30, 2019
Net sales	171,047	165,535
Cost of sales	107,159	98,995
Gross profit	63,888	66,540
Selling, general and administrative expenses	53,674	51,939
Operating income (loss)	10,213	14,601
Non-operating income		
Interest income	152	116
Dividends income	280	227
Foreign exchange gains	51	51
Gain on investments in partnership	499	428
Gain on valuation of compound financial instruments	71	-
Other	268	573
Total non-operating income	1,322	1,398
Non-operating expenses		
Interest expenses	297	254
Equity in losses of affiliates	1,198	2,155
Commission fee	57	36
Other	842	893
Total non-operating expenses	2,396	3,340
Ordinary income (loss)	9,139	12,658
Extraordinary income		
Gain on sales of noncurrent assets	54	0
Gain on sales of investment securities	491	0
Gain on liquidation of subsidiaries and affiliates	1,220	-
Gain on reversal of subscription rights to shares	4	7
Other	5	0
Total extraordinary income	1,775	8
Extraordinary losses		
Loss on sales of noncurrent assets	10	0
Impairment loss	137	52
Loss on sales of investment securities	98	97
Other	3	14
Total extraordinary losses	250	165
Income (loss) before income taxes	10,665	12,501
Income taxes-current	3,806	2,455
Total income taxes	3,806	2,455
Profit (loss)	6,859	10,045
(Breakdown)		
Profit (loss) attributable to owners of parent	6,703	9,870
Profit (loss) attributable to non-controlling interests	155	174

SEGA SAMMY HOLDINGS INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR 6 MONTHS ENDED SEPTEMBER 30, 2018 AND 2019

(Unit: Millions of yen)

	Prior period From April 1, 2018 To September 30, 2018	Current period From April 1, 2019 To September 30, 2019
Other comprehensive income		
Valuation difference on available-for-sale securities	2,498	(4,841)
Deferred gains or losses on hedges	10	(1)
Foreign currency translation adjustment	14	(2,051)
Remeasurements of defined benefit plans, net of tax	268	(38)
Share of other comprehensive income of entities accounted for using equity method	(1,539)	(1,947)
Total other comprehensive income	1,251	(8,881)
Comprehensive income	8,111	1,164
(Breakdown)		
Comprehensive income attributable to owners of parent	7,954	992
Comprehensive income attributable to non-controlling interests	156	172

SEGMENT INFORMATION

1. Prior period (From April 1, 2018 to September 30, 2018)

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

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	58,636	107,249	5,160	171,046	0	171,047
(2) Inter-segment sales and transfers	475	656	21	1,152	(1,152)	-
Total	59,111	107,905	5,181	172,199	(1,151)	171,047
Segment income (loss)	9,669	6,193	(1,177)	14,684	(4,470)	10,213

(Notes) 1. Elimination of inter-segment transactions of ¥(1) million and general corporate expenses of ¥(4,469) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(4,470) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

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

2. Current period (From April 1, 2019 to September 30, 2019)

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

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	44,149	115,879	5,505	165,534	0	165,535
(2) Inter-segment sales and transfers	419	399	33	852	(852)	-
Total	44,568	116,279	5,538	166,386	(851)	165,535
Segment income (loss)	7,878	12,790	(1,587)	19,081	(4,480)	14,601

(Notes) 1. Elimination of inter-segment transactions of ¥(7) million and general corporate expenses of ¥(4,472) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(4,480) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

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