Business Strategy by Segment

Pachislot and Pachinko Machines Business	Entertainment Contents Business	Resort Business
» P.40 »	» P.48 »	» P.56 »











Pachislot and Pachinko

In the Pachislot and Pachinko Machines Business, we are putting forth new efforts as a game changer of industry and improving profitability with the goal of generating stable profit.

Business Portfolio

The Pachislot and Pachinko Machines Business is notable that the approval status of prototype testing affects its product cycles when developing new titles in both pachislot and pachinko and the percentage of costs accounted for by electronic components is high. We are making efforts to realize efficient and high-quality development while increasing cost effectiveness by reusing components.

Net Sales Breakdown (Fiscal Year 2019)



Pachislot machines
¥24.7 billion



Pachislot DISC UP
©Sammy

Pachinko machines
¥59.9 billion



Pachinko CR Shin Hokuto Muso Chapter 2
©Buronson & Tetsuo Hara/NSP 1983
Approved No. KOK-115
©2010-2013 Koei Tecmo Games Co., Ltd.
©Sammy

Others
(Smartphone and PC-based pachinko and pachislot contents, etc.)
¥16.8 billion

Industry Structure

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

Companies newly entering market

Pachinko and pachislot machine industry Sammy share

Unit sales in the market (2018)

Pachislot
450,000 units
Market share of pachislot machine **14.8%**

Pachinko
1,370,000 units
Market share of pachinko machine **11.6%**

Source: Yano Research Institute Ltd.
"Trend and Market Share of Pachinko Manufacturers for Fiscal 2019"

Potential barriers to market entry
Development of manufacturing bases, development of sales channels, and accumulation of development capabilities centered on capabilities of creating visual effects

Demand side ①

Pachinko halls
As declining player numbers reduce their investment capacity, pachinko hall operators are carefully selecting only those machines that generate return on investment consistently (machines with high utilization rates).

Number of pachinko halls
2005
15,165
▼
2018
10,060
Source: National Police Agency

Demand side ②

Players
Player numbers are declining due to restriction of gambling elements or changes in gameplay. As a result, pachinko halls' investment capacity is weakening.

Player population
2005
17.1 million
▼
2018
9.5 million
Source: *White Paper on Leisure Industry 2019, Japan Productivity Center*

Substitute products

Diversification of entertainment
The young generation is leaving the pachinko and pachislot market as entertainment diversifies, with smartphone apps being a representative example.



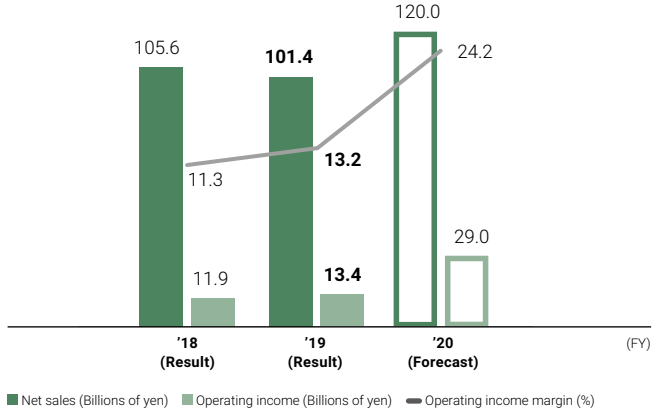
External factors

Prototype testing rules and internal regulations of industry
For details please see *DISCUSSION POINTS* P.3.
Changes in regulations for the development and sales of new pachinko and pachislot machines can affect the gameplay of products as well as the development schedules of pachinko and pachislot machine manufacturers.

Machines Business

Fiscal Year 2019 Summary

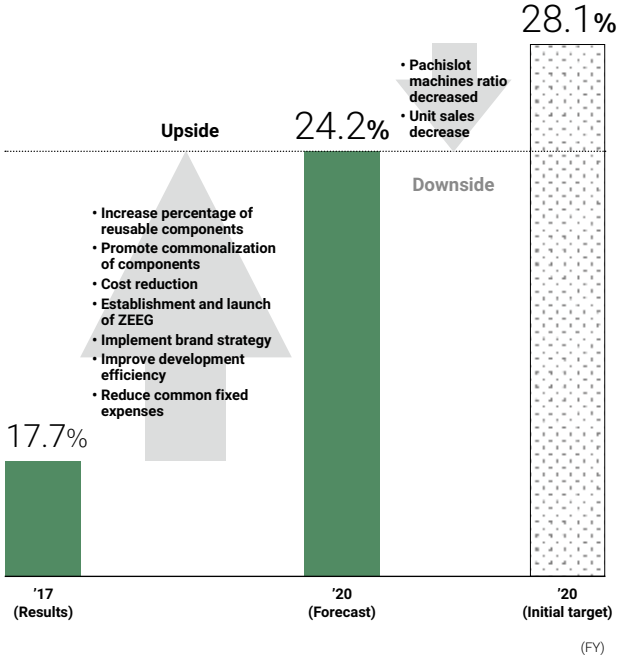
As a result of the continuous low approval rate of pachislot machines with regulatory revisions, the number of titles released went below expectations and unit sales dropped 21% compared with the previous fiscal year. On the other hand, continuous efforts to implement measures to improve profitability resulted in a 12.6% increase in operating income and an operating income margin of 13.2%, a year-on-year increase of 1.9 percentage points.



Road to 2020 in Review

The approval rate of pachislot machines was lower than expectations, causing unit sales to fall, which in turn led to a lower operating income margin from the initial target. However, operating income margins improved steadily as a result of various measures implemented to increase profit.

Measures Implemented during Road to 2020 and Results



Key Measures	Results
Increase percentage of reusable components	▸ Designed products with reusability in mind ▸ Increased number of reusable components
Promote commonalization of components	▸ Increased percentage of common components to 88% for pachislot machines and 52% for pachinko machines ▸ Proceeded with commonalization of components between pachislot and pachinko machines
Cost reduction	▸ Enhanced cost management utilizing cost indicators ▸ Reduced costs by transferring outsourced debugging work to insourced work and careful selection of exclusive items
Establishment and launch of ZEEG	▸ Toward the unification of platform, launched machines using ZEEG-made cabinets from the previous fiscal year
Implement brand strategy	▸ Integrated into Sammy brands
Improve development efficiency	▸ Shortened development period (initial targets not reached due to regulation revisions) ▸ Enhanced review process, narrowed down number of titles to develop
Reduce common fixed expenses	▸ Made significant reductions to fixed expenses

Steady progress in improvement of profit margin

Measures for Fiscal Year 2020

Market Perception

The pachislot machine market is expected to expand as the deadline for the removal of machines made in accordance with the previous regulation is concentrated on October to December of fiscal year 2020. Moreover, No. 6 model machines will allow for shorter play time, which is expected to unearth new demand. Pachinko machines also benefit under the new regulation, which makes it possible to develop machines with high jackpot continuous rate and expands range of gameplay.

Market Environment: Changes of Voluntary Regulation

Pachislot machines

Remove upper limit of number of obtained medals per game

↓

Shorter play time

Pachinko machines

Remove 65% upper limit in continuous rate of probability change

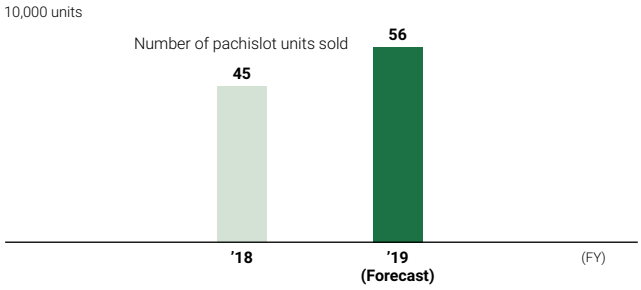
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Development of machine with high jackpot continuous rate

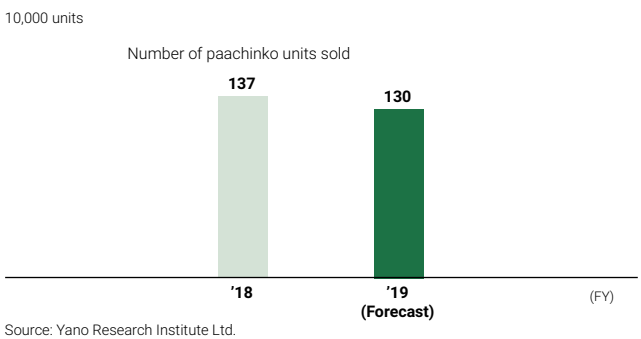
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While gambling elements decline, the range of gameplay will expand.

Pachislot Market Forecast



Pachinko Market Forecast



Source: Yano Research Institute Ltd.
(2019 figures are SEGA SAMMY forecast)

Strengths

Sammy maintains a set of IP bearing brand strength, headed by the *Hokuto no Ken* series, which boasts cumulative sales of approximately 2.88 million units. In addition, with Sammy's top in class numbers of development personnel among the industry, making it possible to run multiple development pipeline in parallel.

Sammy's Strengths (IP)

Owns multiple well-performing series

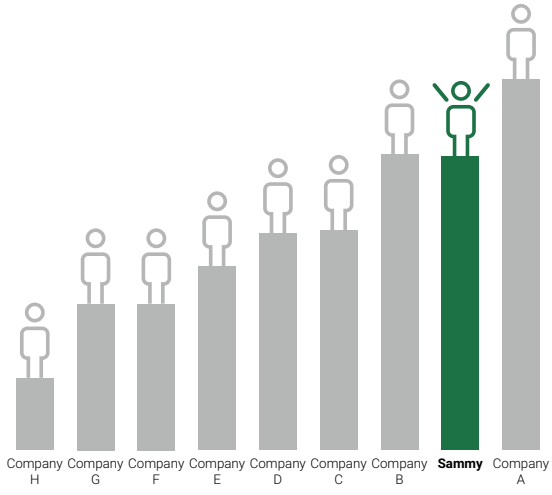
Series	Number of titles in series	Cumulative unit sales*
Hokuto no Ken	32	Approx. 2.88 million units
ALADDIN	14	Approx. 560,000 units
Beast King	15	Approx. 500,000 units
SOUTEN-NO-KEN	12	Approx. 470,000 units
Hokuto Muso	4	Approx. 160,000 units
Eureka Seven	3	Approx. 130,000 units
Bakemonogatari / Nisemonogatari	9	Approx. 120,000 units
Code Geass	3	Approx. 60,000 units

* Including spec changes version

Sammy's Strengths (Development Capabilities)

Industry-leading scale 433 development personnel

(As of March 31, 2019)



Full-Year Forecast for Fiscal Year 2020

Pachislot machines	**Sales centered on machines confirming to the new regulation** **Expect increase in unit sales due to increased demand from the removal of machines conforming to the previous regulation**
Pachinko machines	**Sales centered on machines conforming to the new regulation** **Expect unit sales to be on par with the previous fiscal year**

Future Policy and Forecast for Fiscal Year 2020

In pachislot machines, we will continue to submit machines with multiple specifications in order to increase approval ratio, to ensure that we can capture the opportunity associated with the demand to replace machines. We will also continue to introduce titles that utilize common cabinets made by ZEEG Co. Ltd., a joint venture with Universal Entertainment Corporation. Furthermore, we will continue to put forth new titles that reflect market trends, including machines with the number of obtainable medals per game set at a higher range, and machines with payouts that reflect players' skill. In pachinko machines, as the regulatory revisions will allow Sammy to focus on its specialty—the development of machines with high jackpot continuous rate—we will work actively to introduce new machines that comply with the new regulation.

In fiscal year 2020, we forecast unit sales of pachislot machines to increase by 53,000 units compared with the previous fiscal year, to 120,000, as a result of growing demand due to removal expiration of machines conforming to the previous regulation. Similarly, in pachinko machines we are projecting sales to increase by 4,000 units year on year, to 164,000, due to sales centered on machines conforming to the new regulation. Moreover, we expect a significant increase in profits margin from implementing measures to improve profitability centered on promotion of reuse.

Future Objectives

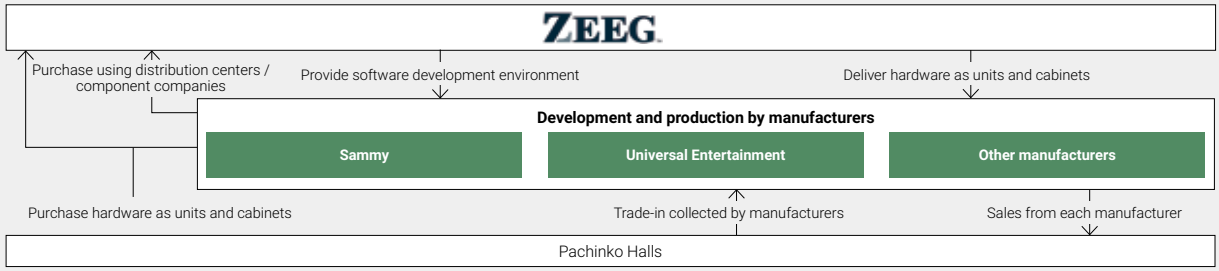
Improve approval ratio

Submit multiple specifications for both pachislot and pachinko machines

Develop pachislot machines reflecting market trends

- Machines with the number of obtainable medals per game set at a higher range
- Machines with payouts that reflect players' skill
- Effective use of major existing IP

ZEEG's Business Model



Integrated support for hardware and software

- Hardware supply
- Software development package (provide ZSDK)

Improved cost management through reuse

- Reuse that utilizes economies of scale
- Increase reuse ratio of components and ratio of cabinet use
- Optimize purchasing costs on an individual component basis

Number of Unit Sales (Units)

(FY)

	2018 (Results)	2019 (Results)	2020 (Forecast)
Pachislot machines	85,401	67,140	**120,000**
Pachinko machines	140,013	159,848	**164,000**
Board + Frame	97,655	91,858	**78,600**
Board	42,358	67,990	**85,400**

DIALOGUE

Make pachislot and pachinko machines “a familiar pastime”

As the number of pachislot and pachinko users continues to decline due to the revision of regulations and diversification of entertainment, the pachislot and pachinko industry is required to make concerted efforts to return to “a familiar pastime.” Takuro Nishimura, President and CEO of Nittaku Holdings CO., Ltd., and Haruki Satomi, Group COO, President of our company, discussed the future of the industry.

PACHISLOT & PACHINKO MACHINES

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

Takuro Nishimura
President and Chief Executive Officer
Nittaku Holdings Co., Ltd.



! Overview of the Nittaku Group

Established in 1965 as a real estate developer. As a result of diversification, the company is now operating real estate development, rental buildings, pachinko parlors, and game centers under the motto of “Urban leisure and service industries” which is based on profits from commercial real estate located in urban areas. The company’s name “Nittaku” reflects the company’s founding spirit of “Reinventing ourselves daily and opening the way for the future.”

To make pachislot and pachinko an enjoyable and familiar entertainment regardless of past

Nishimura Pachinko developed amid the chaos of the postwar era, and during the period of rapid economic growth, it became a familiar form of entertainment.

In fact, the feature of gambling element came later, and it has been established for a long time. In order to control excessive gambling elements, regulations have been revised many times.

This is an industry with a very special history. On every new regulations revision, the pachislot and pachinko manufacturers created new game characteristics within the scope of the rules and contributed to maintaining the vitality of the pachislot and pachinko industry.

Satomi I first met with President Nishimura about 15 years ago, and over those 15 years, the market environment has changed drastically due to the revision of regulations. The current situation is that the industry has yet to reach a consensus on whether to restrict "gambling elements" and aim for familiar entertainment, or to pursue high levels of gambling elements within the bounds of regulations.

At its peak in the early 1990s, more than 20 years ago, pachislot and pachinko machines were said to have about 30 million users. However, the number has now fallen to less than about 10 million. In the past, entertainment had limited options, such as movies, travel, and pachinko parlors, but now there is a wide variety of entertainment and the current situation is to compete for disposable time among them. If we want to be a mass entertainer, it's not easy given the shrinking market and the number of competitors. There are such dilemmas, but as the phrase "gameplay" indicates, we believe that the true essence of pachinko and pachislot is to provide "Play," and so we should not go beyond that.

Nishimura That's right. Humans have a natural desire to seek "more," so it seems that their gambling element has gradually increased, and it has naturally become excessive, not intentionally. To be honest with you, there was a time when the industry as a whole wanted a gaming machine with a high level of gambling element, but I think it was undoubtedly the bubble economy. Instead of dreaming about a return to the past, I think we should move to a "familiar pastime," where we can enjoy ourselves casually while facing reality squarely and gaining the understanding of our customers.



Development of easy-to-play pachislot and pachinko machines and changes in the market environment

Satomi Over the past 15 years, there have been constant headwinds in the pachislot and pachinko industry. However, we believe that the revision of regulations in February 2018 and changes in the internal regulations of industry groups since then will provide an opportunity to revitalize the market. With the revision of the internal rules, we can make a machine that can be played in a short time while the gambling element is suppressed.

I am hoping that we will be able to create demand again, for example, to stop by on the way home from work to play.

Nishimura That's right. In fact, we have seen the emergence of new pachislot machines based on the new regulation (No. 6 model machines) that utilization is extremely well, and we feel the expectations of our customers. As a matter of fact, the overall ratio of utilization in pachinko halls has been improving over the past year. In addition to this trend, pachinko halls will continue to introduce machines conforming to the new regulation that are currently being developed by pachislot and pachinko machine manufacturers. We expect that the outlook for the next one to two years will be bright.

The future of the pachislot and pachinko industry

Satomi While there are expectations for the future of new regulation machines, I also hope that "three major reasons why you don't want to go to pachinko" may be resolved from a long-term perspective.

One is "tobacco." Smoking rates in pachinko halls are extremely high, and this is one of the reasons why people avoid playing pachinko. In April 2020, the revised Health Promotion Law went into full effect and as a general rule, smoking is prohibited inside restaurants and other facilities. If all pachinko halls had separate smoking rooms and smoking was prohibited at the seats, there would be a possibility that non-smokers would visit the pachinko halls.

The second is the sound. The noise of pachinko balls which are from pachinko balls and medals paid out and sound effects of machines themselves are major causes of annoyance. Some users even play with earplugs. To address this issue, the industry is currently developing pachinko machines with digital payouts and medal-less pachislot machines as well as directional speakers that can be heard only by players. If they are put into practical use in the future and become



widespread, we will be able to resolve the problem of sound.

The third is that "it has become difficult to have draw a jackpot experience." In the current gameplay environment, even if the amount of money you spend is large, you may not be able to draw a jackpot even once. If that happens, it will be difficult for people to think "Let's come again tomorrow." As a manufacturer, we want to develop machines that are easy to draw a jackpot and that are supported by users, while restraining the overall gambling element, which could be machines with payout ratios at a high range in some cases so that users can experience more "drawing a jackpot."

On the other hand, if we can create a structure in which pachinko halls can secure profits by handling fees such as exchange rates, it will be a better environment for not only pachinko halls and users but for manufacturers as well.

Other entertainment such as movies, bowling, and karaoke cost around ¥1,000 per hour. If you look at the average expenses of pachislot and pachinko users, it's pretty close, but there's a big difference between winners and losers.

We believe that if everyone can approach that price, it will become a more casual game, bringing back dormant users, and increasing the frequency of visits by existing users.



Nishimura I think it's really good if things go that way.

On the pachinko hall side, we are also working on the installation of smoking areas and other measures to address the tobacco problem, which is one of the points President Satomi mentioned. I think we will soon be able to resolve this issue. As for the noise, with the cooperation of pachislot and pachinko machine manufacturers, we can expect to see the resolution of this in the future as well. We believe the third, "providing drawing a jackpot experience" can be realized by expanding the use of new regulation machines, enhancement of the regulations, and strengthening operations at pachinko halls.

We would like to support the pachislot and pachinko machine manufacturers who are making efforts to invigorate the market by developing new game machines with our "service." I think pachinko halls are more difficult to serve customers than any other industries. If you serve delicious food at a restaurant, customers will come again. However, not all customers can have a good experience at a pachinko hall. We can't continue our business for a long time unless the customers who lost while playing come to our hall again. From that point of view, we are especially trying to improve our service and customer service skills, which will invariably help in making our customers feel like visiting again.

Although the number of pachinko and pachislot players and the number of pachinko halls still remains on a declining trend, we believe that the industry environment will gradually stabilize as the number of pachinko halls reaches an appropriate level for the number of players and the spread of new regulation machines with reduced gambling element."

Regarding the addiction problem

Satomi In order to develop the industry in a sustainable manner, it is necessary to face the issue of seeking "countermeasures for addiction." First of all, I think the important thing is not to put it vaguely in the word "addiction" but to grasp how many people are really having trouble in their daily lives. Without that process, you don't know how much money or people to invest. The next step is how to support these people, but the important thing is how to prevent addiction before it happens.

Nishimura It is a very important theme that supports the sustainability of the industry, so we will actively participate in the industry's efforts.

We have introduced "Self-Declaration and Family Declaration Programs" *1,2 to reduce the number of times customers are allowed to enter the store beyond the limit set by the customers. In addition, we put up posters to remind customers that "Pachislot and pachinko is a game we should enjoy moderately." Hall employees are required to attend "Secure Pachinko and Pachislot Advisor" *3 seminars. But whether we can say these efforts will help prevent addiction, the reality is not that easy. I think pachinko halls and pachislot and pachinko machine manufacturers should work together to solve essential problems. I hope that President Satomi and the SEGA SAMMY Group will continue to take the lead in these efforts and in reviving the industry as familiar entertainment.

*1 Self-Declaration Programs: A program that can be used when a player wishes to restrict his/her play by his/her own declaration.
(Select three items: Amount of money used, number of games played, and game time. When the specified standard is reached, store staff prompts the player to stop playing.)
*2 Family Declaration Program: A program under which the entry of a player may be restricted by the declaration of the family of the pachislot and pachinko player.
*3 Secure Pachinko and Pachislot Advisors: Personnel in charge of providing appropriate guidance and advice on issues related to gambling addiction at pachinko halls

Satomi The SEGA SAMMY Group's raison d'etre is to "Continue to create moving experiences" We believe that the pachislot and pachinko industry is capable of providing numerous *moving experiences*. Failure to make efforts to be recognized as a "Necessary presence in society" will jeopardize the future of the industry as a whole.

I will take the various problems facing the pachislot and pachinko industry seriously, and at the same time, I will work with all the players in this industry to advance our efforts as "a familiar pastime."

Entertainment Conte

The Entertainment Contents Business takes full advantage of its wide-ranging business portfolio, abundant intellectual property (IP) assets, and global business base in order to maximize its IP value, which serves its efforts to expand business value.

Business Portfolio

Net Sales Breakdown (Fiscal Year 2019)



Animation and Toys

Detective Conan: Zero the Enforcer
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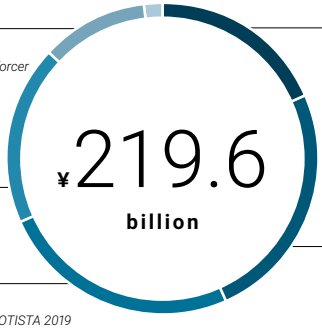
Amusement Center Operations

Amusement Machine Sales



WCCF FOOTISTA 2019
©SEGA
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The game is made by SEGA in association with Panini.



Digital Games



PHANTASY STAR ONLINE 2
©SEGA

Packaged Games



Judgment
©SEGA

Digital Games	Packaged Games	Amusement Machine Sales
¥40.8 billion	¥54.6 billion	¥54.7 billion

Amusement Center Operations	Animation and Toys
¥40.9 billion	¥24.5 billion

Other and eliminations ¥4.1 billion

Industry Structure

The Entertainment Contents Business operates in diverse entertainment areas and is affected by different growth potential and competitive conditions of each market. Furthermore, the business environment is changing with the evolution of digital devices as background, such as global IT companies announcing their entry into subscription-based gaming services.

Amusement Machine Sales Area (Market size)

2005 ¥199.2 billion ▶ 2014 ¥161.1 billion (Contracting) ▶ 2017 ¥152.9 billion (Contracting) (FY)

Source: *JAIA, Amusement Industry Survey 2017*

Amusement Center Operations Area (Market size)

2005 ¥682.4 billion ▶ 2014 ¥422.2 billion (Contracting) ▶ 2017 ¥485.9 billion (Expanding) (FY)

Source: *JAIA, Amusement Industry Survey 2017*

Players (Amusement Machine Sales and Amusement Center Operations area)

2005 22.7 million ▶ 2018 15.3 million (FY)

Against the backdrop of diversification of entertainment due to moving penetration of smartphones, the number of young players who used to be the core player group is declining.
Source: *White Paper on Leisure Industry 2019*, Japan Productivity Center

Contracting

Animation and Toys Area (Market size)

Animation market size: 2005 ¥233.9 billion ▶ 2016 ¥276.3 billion (Expanding)

Source: Media Development Research Institute Inc.

Toys market size: 2005 ¥705.3 billion ▶ 2018 ¥839.8 billion (Expanding)

Source: Japan Toy Association

(FY)

Packaged Games Area (Market size in Japan)

2016 ¥1,217.7 billion ▶ 2018 ¥1,374.2 billion (Expanding) (FY)

Source: *CESA Game White Paper 2019*

Players (Packaged Games Area)

The adoption of new game consoles and successive launches of popular software are driving expansion in the Packaged Games area.

Expanding

Players (Digital Games Area)

Player base is expanding in a wide range of age groups, not just young male players, who used to be the core player group for video games.

Expanding

Digital Games Area (Market size in Japan)

Expanding
2005 ¥128.2 billion ▶ 2014 ¥823.9 billion (Expanding) ▶ 2018 ¥1,324.3 billion (Expanding) (FY)

Source: f-ism

ents Business

Fiscal Year 2019 Summary

The Packaged Games area saw strong sales of repeat titles, centered on the European and North American markets. We also experienced steady performance in the Amusement Center Operations area and Animation and Toys areas. the Amusement Center Operations area achieved its fifth consecutive year of net sales growth for existing stores. The Animation and Toys area benefited from its *Detective Conan* movies, which broke box office records of the past series, as well as steady sales of its mainstay products. On the other hand, the Digital Games area recorded losses as a result of the write-down of multiple titles, caused by new titles falling short of expected sales after launch, and the continued stagnation of existing titles. Based on these factors, net sales increased 5% year on year while operating income decreased 33%.



Fate/Grand Order Arcade
©TYPE-MOON/
FGO ARCADE PROJECT



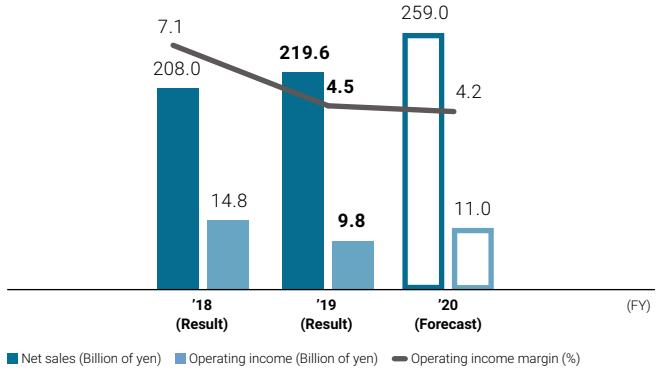
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Ryu ga Gotoku ONLINE
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Road to 2020 in Review

Issues — **Company Earnings Went Below Expectations from Insufficient Hits in the Digital Games Area**

Overall performance of the Entertainment Contents Business fell below initial expectations, primarily due to the lack of hit titles in the Digital Games area. In addition to the write-down of multiple titles, a major factor in the drop in operating income within the Digital Games area, the Entertainment Contents Business recorded an impairment loss of approximately ¥7.6 billion as an extraordinary loss. As a countermeasure, the Company is taking steps to narrow down the number of new titles and adjust the number of titles under direct operation.

External Factors

- Top-ranking titles remain unchanged
- Increase of existing IP-based titles
- Intensified competition in the domestic market

Internal Factors

- Existing titles stagnating
- Lack of hit titles
- New titles delayed or canceled during development

- **Released 8 new titles compare to 12 new titles initially planned**
- **Existing titles stagnated at a speed exceeding expectations**

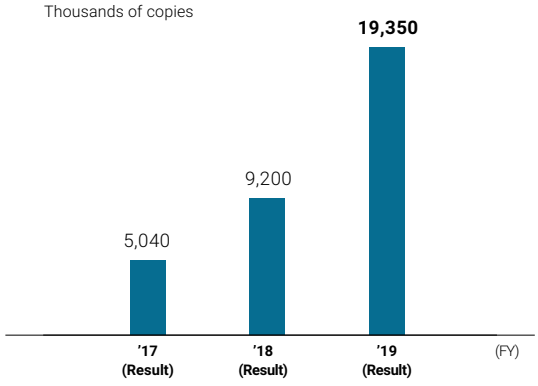
Road to 2020 in Review

Growth

Overseas and Repeat Sales in the Packaged Games Area Exceeded Expectations

Although the Entertainment Contents Business did not perform as expected, our efforts in the Packaged Games area to improve quality to date have been successful. This success can be seen in the steady stream of high ratings from external parties in Europe and North America for our packaged games. We have been able to secure long-term sales for titles through continuous distribution via PC-gaming platforms such as STEAM and those contributed to the profit.

Steady Sales of Repeat Titles



External Factors

- Markets expanding in Europe, North America, and Asia
- Platform growth

Internal Factors

- Overseas sales expansion for domestic studio IP
- Stable income generated by overseas studio IP
- Improved product quality

Reconsidering Focus Areas

Focus resources in areas where we can leverage our strengths within strong overseas markets

Road to 2020 at Time of Announcement

		Japan	Asia	Europe and North America
Domestic studios	Package			
	CS and PC digital			
	Mobile digital	●	●	●
European and North American studios	Package			
	CS and PC digital			
	Mobile digital			

From Fiscal Year 2020 Onward

		Japan	Asia	Europe and North America
Domestic studios	Package		●	●
	CS and PC digital			
	Mobile digital	●	●	●
European and North American studios	Package		●	●
	CS and PC digital			●
	Mobile digital			

Measures for Fiscal Year 2020

Full-Year Forecast for Fiscal Year 2020

- **Expect to improve profitability in the Digital Games area by optimizing the number of titles under development and operation**
- **Expect significant sales increase in the Packaged Games area from introducing new titles using existing IP, but the development and other costs from launch of new titles will also incur**

Digital Games Area

Focusing on new titles, we plan to optimize the number of titles under development and operation, and thereby improve profitability. Moreover, we plan to focus on new title launches that take advantage of existing IP as well as external IP. We are also taking steps to reallocate management resources to key areas such as online and packaged games.

Measures to Improve the Digital Games Area

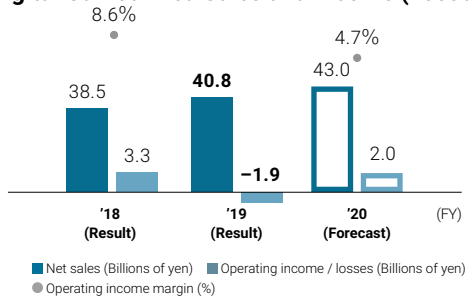
Optimize the scale of titles under development and operation

- Narrow down the number of new titles under development
- Adjust the number of titles under direct operation
- Lineup centered on existing IP titles

Reallocate resources

- Invest resources in focusing areas, such as online and overseas packaged games
- Proceed with shift of outsourced work on existing titles to insourcing

Digital Games Area Sales and Income (Losses)



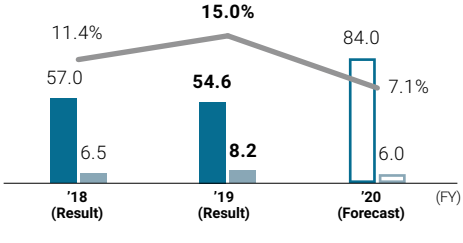
Packaged Games Area

We plan to introduce major new titles including *Total War*™: *THREE KINGDOMS* and the Official Video Games of the Olympic Games Tokyo 2020, and we anticipate a sales increase driven by a significant upswing in new title sales, from 4.09 million units in fiscal year 2019 to 10.69 million units in fiscal year 2020. However, we are planning for a decrease in operating income because of the development and marketing costs associated with new title launches coupled with an anticipated drop in repeat sales compared to the previous fiscal year.



Mario & Sonic at the Olympic Games Tokyo 2020™
TM IOC/TOKYO2020/USOC 36USC220506.
© 2019 IOC. All Rights Reserved.
© NINTENDO. ©SEGA.

Packaged Games Area Sales and Income





Total War: THREE KINGDOMS
© SEGA.
Developed by The Creative Assembly, Ltd.

Amusement Machine Sales Area

In addition to the launch of *StarHorse4*, the latest game in the *StarHorse* series, we are also planning the launch of titles using external IP as well. On the other hand, we also expect running costs associated with the relocation of the head office and other expenses to increase as well.



Kemono Friends 3 Planet Tours
©Kemono Friends Project2G
©SEGA

Amusement Center Operations Area

While expecting the effects of the consumption tax hike, we will continue strengthening operations through measures focused on prize game machines in addition to opening new stores and other efforts.

Animation and Toys Area

In addition to selling mainstay animation and toys, we plan to bring multiple new products to market.

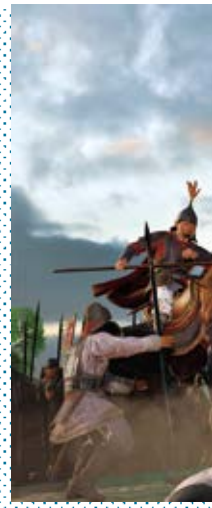


***Detective Conan: The Fist of Blue Sapphire* box-office revenues have surpassed ¥9.1 billion (as of July 21, 2019).**

Detective Conan: The Fist of Blue Sapphire
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CREATED AROUND THE WORLD, DELIVERED TO THE WORLD

The Entertainment Contents Business' Global Production and Sales Structure



In the Entertainment Contents Business, we have established development studios and publishing bases in countries around the world with which we maintain flexible relationships, allowing us to build a system that is capable of IP development from a global perspective. Looking closer, we have made efforts to utilize our IPs with a long history while generating new IP. Additionally, we have also made strides toward increasing our lineup by taking advantage of the diverse development capabilities of game studios around the world and through M&A. We are leveraging both the special traits of each studio and the characteristics of each IP to the maximum degree to develop contents for the growing global market and thereby increase earnings.

Investing toward Bearing Fruit in the Long Term

Since 2005, the Entertainment Contents Business has continued to expand its IP pipeline, which we have accomplished though the M&A of excellent IP and highly capable development studios around the world. These ongoing investments, made from a long-term perspective, are showing steady results, with each IP beginning to bolster profits. Our product lineup of high-quality titles created in development studios around the world contributed to earnings, and fiscal year 2019 marked the fourth consecutive year of operating income growth in the Packaged Games area.

IP Expansion Timeline

2005	2006	2013	2015
The Creative Assembly (U.K.)	Sports Interactive (U.K.)	Relic Entertainment (Canada) Atlus (Japan)	Demiurge Studios (U.S.A.)

Major Acquired Development Studios

The Creative Assembly, Ltd.

The Creative Assembly is a development studio based in Horsham, U.K., operating with over 500 staff. Since its acquisition in 2005, the studio primarily specializes in games featuring accurate portrayals of history and stellar quality, as shown in its popular real-time strategy series, *Total War*™ which has sold over 27.6 million copies in total.



Total War: ROME II
©SEGA.
Developed by The Creative Assembly, Ltd.

Sports Interactive Ltd.

Sports Interactive is a London-based development studio with roughly 130 employees that develops the *Football Manager* series of soccer club management simulator games. The series, which boasts an extensive and accurate database of player information, enjoys the devoted support of fans around the world, selling over 20 million total copies.



Football Manager 2019
©Sports Interactive Limited 2018.
Published by SEGA.

Other Studios and Their Characteristics

Studio	Major IP
Relic Entertainment	***Company of Heroes*, *Dawn of War* series**
Amplitude Studios	***Endless Space* series and other**
Demiurge Studios	***Marvel Puzzle Quest* and *SEGA Heroes***
Creative Assembly Sofia	***Total War Saga: Troy***



Total War™: THREE KINGDOMS
© SEGA. Developed by The Creative Assembly, Ltd.



Company of Heroes 2
© SEGA. Developed by Relic Entertainment.

Amplitude Studios SAS (France)	Creative Assembly Sofia (Bulgaria)	Two Point Studios (U.K.)
AMPLITUDE	CREATIVE ASSEMBLY SOFIA	TWO POINT
2016	2017	2019

Atlus Co., Ltd.

With approximately 300 development staff, Atlus continues to provide series' with a unique worldview—such as the *Persona*, *Megami Tensei*, and *Etrian Odyssey* series of games—from Japan to the rest of the world. *Persona5* has proven to be a major hit both in Japan and abroad, and the *Persona* series boasts total sales of approximately 10.2 million copies.



SHIN MEGAMI TENSEI IV: Apocalypse
©ATLUS ©SEGA All rights reserved.

Two Point Studios Ltd.

Two Point Studios is based in Farnham, U.K., operating on a small scale with 20 employees, all experienced developers involved in multiple award-winning and highly rated titles. This studio's strength lies in its ability to develop easy-to-play simulation games with unique world views.



Two Point Hospital
© Two Point Studios. Published by SEGA.

Characteristics
This studio, based in Vancouver, Canada has produced several high-quality games with movie-like graphics and highly strategic gameplay.
Based in Paris, France, this studio is notable for developing turn-based strategy games, particularly in the 4X genre*, where it has received rave reviews.
This studio, which operates out of Cambridge, Massachusetts, U.S.A., primarily develops and operates mobile games.
Creative Assembly Sofia is a satellite studio of U.K.-based the Creative Assembly, Ltd. based in Bulgaria and mainly works on development of the *Total War™* series.

* Games with play focused around four "X's": Explore, expand, exploit, and exterminate

Basic Policy Related to M&A

To expand its business, SEGA Games Co., Ltd., which primarily handles packaged and digital games, needs to expand its lineup, which requires it to develop IP for a variety of regions across multiple platforms. M&A is an effective method we have utilized to this end.

Since 2005, we have pursued acquisitions of overseas studios primarily that develop strategy games of various themes that exude a unique quality distinctive presence in the market. In recent years SEGA Games has established teams dedicated to gathering information and maintaining a growing number of dialogues on outside development studios at all times, and all over the world. M&A candidates are selected based on three major criteria, with a system in place to execute a decision in prompt fashion.

1. The candidate possesses IP with potential for future growth and franchising
2. The candidate demonstrates high competitiveness in a particular area
3. The candidate has a compatible corporate culture that can generate strong synergies

Post M&A, we provide publishing support in cooperation with our publishing bases around the world including support for marketing, sales, licensing, and other business development. In addition, we utilize the specific characteristics of each IP for development into a wide range of areas and platforms. These actions serve to increase the value of the IP itself and support each IP so that it may grow into a pillar of profit. In addition, we also support development studios according to their own individual characteristics to help them establish a better development environment.

ENTERTAINMENT CONTENTS

> Our global sales strategy is aimed at reliably providing contents to the growing global market

In the Entertainment Contents Business, we have leveraged M&A of development studios to create a system that enables us to develop contents in locations around the world.

To ensure that we can reliably deliver these titles worldwide, we are also establishing publishing bases in each region and are working to expand our scope of operation by strengthening internationally the ties between the publishing bases and the development studios. With downloading becoming a more popular method to get contents, it is now possible to deliver games to areas where sales were once difficult for our distribution network; therefore, we are also working to strengthen our download delivery capabilities.

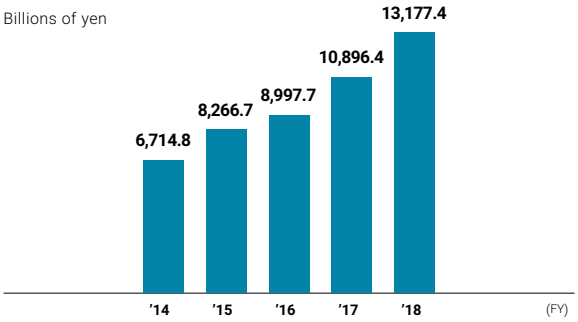
By adopting these strategies and expanding our operating areas, recent years have brought strong results in the packaged segment and sales of older games has also increased.

Emerging markets still have room for expansion, and we will further promote our global sales strategy.

Global Market Conditions

The global game market has grown in size by 13.1 trillion in keeping with the expansion of the Chinese market. With the emergence of new platforms and the advancing communication environment, the user base has expanded, and we expect to maintain a high growth rate and expand further in the future.

Global Game Contents Market Size



Source: *Famitsu Game White Paper 2019*

From Europe to the World

In May 2019, we launched *Total War™: THREE KINGDOMS*, the latest game in the *Total War™* series. This game, which is not set in Europe, but in the Three Kingdoms period of China, has received much support from users in China and other areas in Asia, and sold one million copies faster than any other title in the series' history, doing so in its first week after launch.

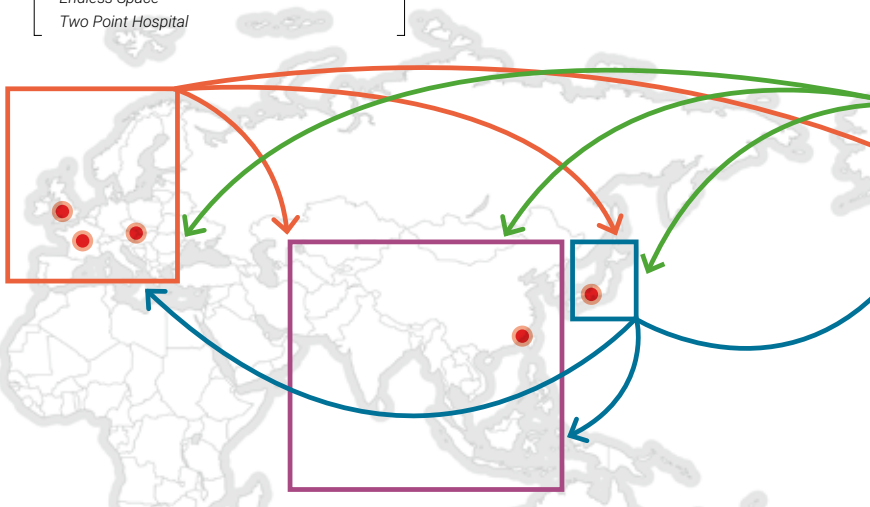


Total War™: THREE KINGDOMS
©SEGA
Developed by The Creative Assembly, Ltd.

Europe

Major IP

Total War™
Football Manager
Endless Space
Two Point Hospital



Asia

Japan

Major IP

Ryu ga Gotoku
PHANTASY STAR
Puyo Puyo
Persona

Development studio
Sales area

We will concentrate resources in areas where we can leverage the strengths of our global manufacturing and sales systems to provide *moving experiences* to the world



Kenji Matsubara, President & COO, SEGA Games Co., Ltd.

In fiscal 2019, we faced a hard struggle in the mobile-focused Digital Games area. The fact that several titles were late to enter the market and were unable to produce hits amid stagnating market conditions and fierce competition is a major cause for concern. At the same time, the Packaged Games area showed strong results and improved performance for PC games produced by European and North American development studios.

Looking at our showing for the fiscal year 2019, we can see that Japan's mobile market is hitting a standstill. As a result, we are reviewing titles that are under development and in operation and adjusting our scale of involvement. We are also planning to improve profitability by establishing a development management system. On the other hand, we can also expect continued market growth in overseas packaged games and PC digital games. We are planning to devote more resources to the already thriving market in Europe and North America, as well as the expanding market in Asia and are working toward global development.

SEGA Games' manufacturing and sales system, which comprises both overseas development studios producing unique titles as well as publishing bases, is highly distinct, even compared to other Japanese game companies. The system functions effectively because instead of simply establishing multiple bases overseas, the management teams at each base receive a certain degree of authority which they can demonstrate with the head office in Japan through the latter's connections with development studios and publishers in each region.

Original members of a development studio prior to M&A are allowed to demonstrate leadership and develop contents that utilize the studio's specific qualities. Our publishers employ management teams with extensive industry experience who construct sales plans tailored to the characteristics of a title and based on market trends in their territory. In order to make the best use of this unique manufacturing and sales system and maintain flexible ties between bases, overall courses of action are shared between the head office in Japan and regional teams while management policies are communicated to the management teams at each base at regular intervals.

In fiscal 2020, we are planning on putting this manufacturing and sales system to work. In May 2019, U.K.-based studio the Creative Assembly Limited released *Total War™: THREE KINGDOMS*, the latest in the *Total War™* series, a bona fide hit that has amassed large numbers of supporters in Asia. In September 2019, we conducted a simultaneous release in Japan, North America, and Asia of the *SEGA Mega Drive* Mini (SEGA Genesis Mini in North America), a palm-sized revival of the home video console *SEGA Mega Drive*, originally launched in 1988. U.K.-based Two Point Studios is developing a console version of *Two Point Hospital*, originally launched for PC, set for release. Going forward, we will continue to deepen ties between bases, increase the value of individual IP, and develop IP titles for a wide range of devices, regions, and platforms, and make them a valuable part of our future results.

From North America to the World

Sonic the Hedgehog is one of our massively popular series, beloved by users around the world since its launch in 1991, with total sales exceeding 920 million copies. We currently have a brand management team set up at our North American publishing base as part of a multi-lateral development system that goes beyond IP and games.



Team Sonic Racing
©SEGA

North America

Major IP

Company of Heroes
Dawn of War
Sonic the Hedgehog



From Japan to the World

Launched in 2016, *Persona5* received the "Best Role-Playing Game" award at The Game Awards 2017, held in Los Angeles U.S.A. Total sales for the game exceed 2.7 million copies worldwide.



Persona5
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Resort Business

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

Business Portfolio

1 Japan's leading complex facilities, *Phoenix Seagaia Resort*

We provide the best resort stay utilizing the blessed environment, such as 3 accommodation facilities like *Sheraton Grande Ocean Resort*, international class convention facilities that can accommodate up to 5,000 people, the Japan's leading golf course *Phoenix Country Club* and tennis club which are spread over within the broad grove of Japanese black pine trees that is around 11 km from north to south and around 700 ha that faces the Pacific Ocean in Miyazaki Prefecture. By continuously improving the value of our facilities, we are working to strengthen our ability to attract customers while accumulating know-how in the operation of resort facilities.



©Phoenix Resort

2 *The North Country Golf Club* (Chitose, Hokkaido)

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

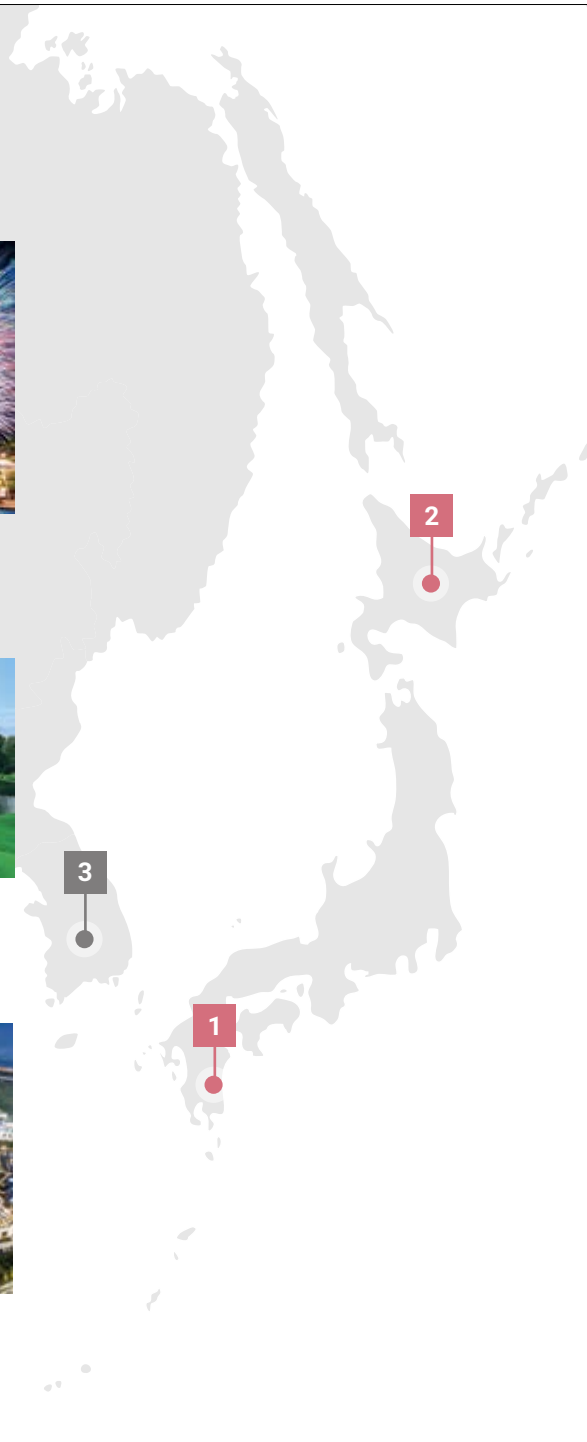


3 South Korea's first IR facility, *PARADISE CITY*

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

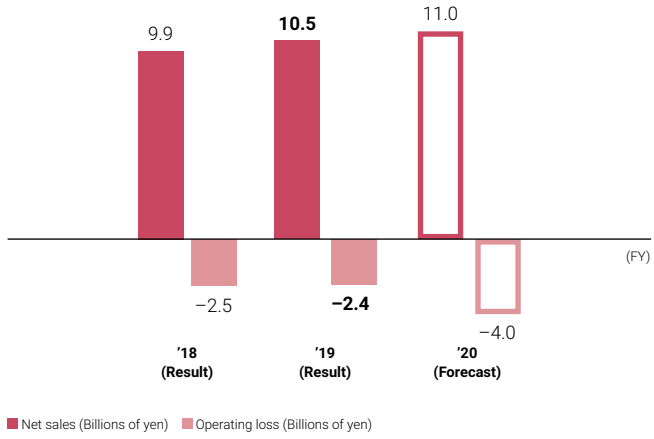


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Overview of Fiscal Year Ended March 2019/ Measures Taken in Fiscal Year Ending March 2020

In the Resort Business, although there was an increase in expenses for the preparation of entering the domestic IR business, there was also a steady increase in the number of guests staying at hotels as a result of continued efforts to increase the number of guests in the Phoenix Seagaia Resort business and this led to improvement of profit. As a result, net sales increased by ¥10.5 billion (6.6% from the previous fiscal year) and an operating loss of ¥2.4 billion (Operating losses of ¥2.5 billion in the previous fiscal year). Overseas, we continued to acquire IR development and management know-how through *PARADISE CITY*. We also plan to increase expenses in fiscal year 2020 due to active moves toward the domestic IR business.



PARADISE CITY Phase 1 Development Finished, Full-Scale "Art-tainment Resort" Completed

PARADISE CITY, which opened in April 2017 as the first integrated resort in South Korea, is based on the concept of "Art-tainment," which is a fusion of art and entertainment, and offers high-quality services at top-class 5-star hotels, convention halls, and casinos.

The service, which incorporates space and Japanese-style hospitality, has been highly praised by many customers both in Korea and abroad.

As a development facility in Phase 1-2 in September 2018, we opened a boutique hotel, a premium spa, an event-type shopping mall, and a number of other facilities with an emphasis on entertainment. With the opening of indoor family entertainment park *Wonderbox*, the 1st phase of construction has finished and a true "Art-tainment" resort is completed.

By opening the Phase 1-2 development facility of the project, our group aims to ensure the growth of *PARADISE CITY* which has attracted more visitors. At the same time, through participation in the operation of the facility, the company is steadily accumulating know-how toward entering the domestic IR business.





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RESORT

WITH RESPONSIBILITY AS A JAPANESE COMPANY

The SEGA SAMMY Group's Readiness to Participate in the Domestic IR business

Looking toward participation in the IR business in Japan, we are advancing preparations steadily with our sights set on certainly being selected as an operator.



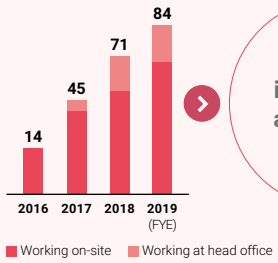
1 CAPABILITY

Accumulating IR Know-How Overseas

We have been sending personnel to casino facilities in South Korea since forming an alliance with South Korean casino operator the PARADISE GROUP in 2012. After opening South Korea's largest IR, *PARADISE CITY*, we began assigning even more personnel. In areas ranging from dealer duties through to business management, these personnel are accumulating expertise in the operation of IR, which include casinos.

For this reason, we are confident that we have built a decisive lead over other Japanese companies with respect to fostering the Japanese personnel who will be needed when IR are allowed to open in Japan.

Personnel Sent to *PARADISE CITY*



Aiming to increase to around 100 personnel

2012

May 2012
Established PARADISE SEGASAMMY Co., Ltd., as a joint venture with the PARADISE GROUP

March 2012
Acquired all shares of PHOENIX RESORT CO., LTD.

April 2014
Began sending employees to PARADISE SEGASAMMY Co., Ltd.

2 CAPABILITY

Acquiring Expertise of Operating Resort Facilities at One of Japan's Premier Resort Complexes

In 2012, the Group was joined by PHOENIX RESORT CO., LTD., the operator of a large resort complex in Miyazaki named *Phoenix Seagaia Resort*. The resort boasts several accommodation facilities—including a high-end resort hotel that is part of the prestigious international Sheraton hotel chain—and a world-class convention center with a maximum capacity of 5,000 people. At the resort complex, we are developing professional skills that will be useful for operating IR. For example, we are formulating measures to tap into MICE* demand.



* MICE is a business tourism format. The acronym stands for Meetings, including training and seminars tour; Incentives, referring to employee-reward tourism; Conferences or Conventions, such as academic conferences and international meetings; and Exhibitions or Events.

3 CAPABILITY

Conducting Value Chain Analysis Covering More than 118 Elements

Beginning IR operations requires not only preparations for the operation of facilities and casinos but also for a host of ancillary operations, such as cash management and rigorous security. With this in mind, we have conducted an analysis and identified more than 118 elements that comprise our IR business. More specifically, we have identified elements for which we utilize our resources to provide differentiated services, elements that are required as standard in IRs, and elements that are the external resources of partners or associates are necessary. In light of this analysis, we are proceeding with multifaceted preparations.

Verified More Than 118 Elements	
Before opening	**After opening**
☑ Business plan ☑ Floor plan design ☑ Task planning ☑ Personnel planning ☑ Systems design Etc.	☑ Attracting customers ☑ Settlement ☑ Entry ☑ General administration ☑ Provision of games Etc.



Participation in the IR Business in Japan

November 2014
Began building *PARADISE CITY*, South Korea's first IR

December 2017
Acquired Nevada state gaming machine manufacture and distribution license

April 2017
Opened *PARADISE CITY*

December 2017
Launched research on addiction countermeasures with Kyoto University

2014 2017 2019

5 CAPABILITY

Conducting Joint Research on Gambling Addiction

When operating IR in Japan, gambling addiction countermeasures will be essential. With a view to identifying the precursors of dangerous levels of gambling, we are conducting joint research on gambling addiction and prevention with Kyoto University.

We hope that this research helps clarify the onset mechanism of gambling addiction, and we will use the findings to take preventive measures in Japan for the onset, progression, and recurrence of gambling addiction.

4 CAPABILITY

Aquisition of Licence for Casino Machines from Nevada State and Distribution of Them

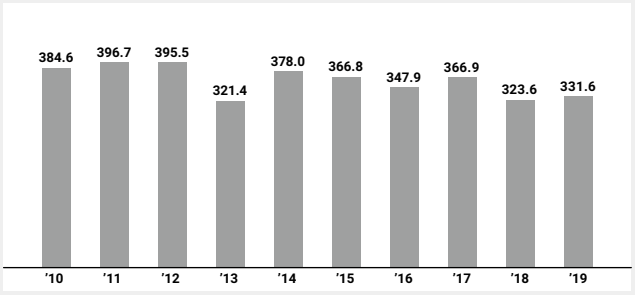
In December 2017, the Group's wholly owned subsidiary SEGA SAMMY CREATION INC., and its wholly owned subsidiary, Sega Sammy Creation USA, INC., acquired Nevada state gaming machine manufacture and distribution licenses. Normally, the acquisition of this license takes about two years. However, we were awarded the licenses in the unusually short period of just one year. Meeting the world's most rigorous licensing standards and eligibility criteria clearly demonstrates the Group's eligibility to engage in the IR business in Japan.

KOKORO RESEARCH CENTER | KYOTO UNIVERSITY FOUNDED 1897 × SEGASammy

Financial Performance

Net Sales*1

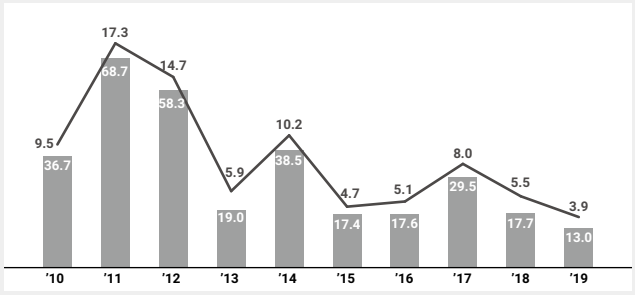
Billions of yen



(FY)

Operating Income / Operating Income Margin

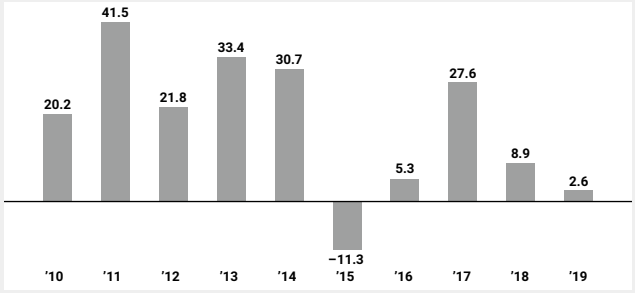
Billions of yen / %



(FY)

Profit (Loss) Attributable to Owners of Parent*2

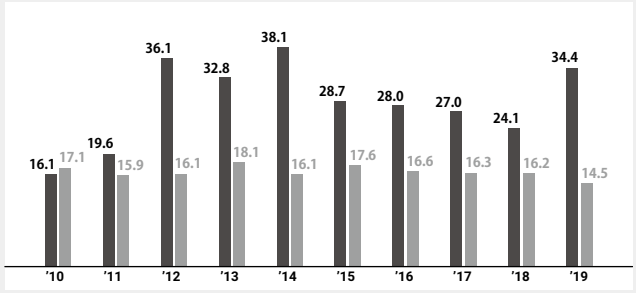
Billions of yen



(FY)

Capital Expenditures / Depreciation and Amortization*3

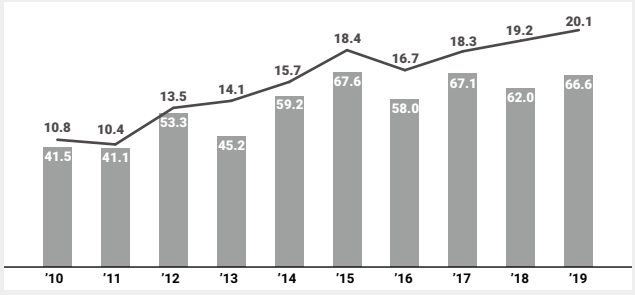
Billions of yen



(FY)

R&D Expenses and Content Production Expenses*3 / R&D Expenses to Net Sales Ratio

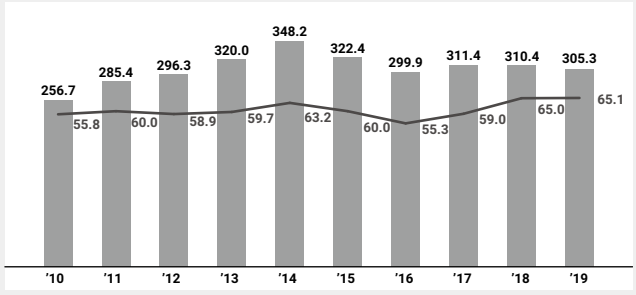
Billions of yen / %



(FY)

Total Net Assets / Equity Ratio

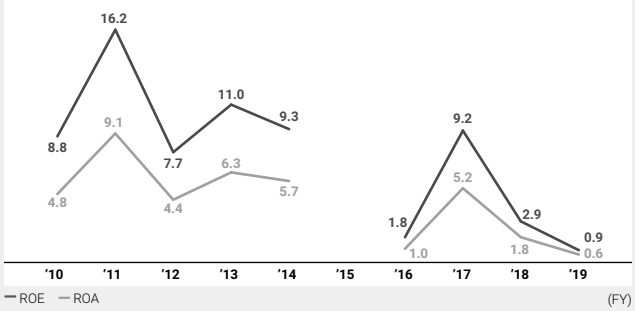
Billions of yen / %



(FY)

ROE / ROA*4

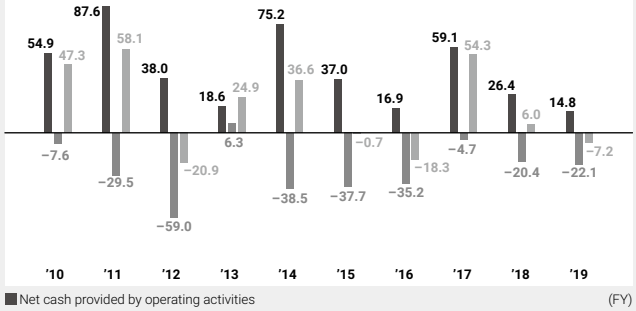
%



(FY)

Cash Flows

Billions of yen

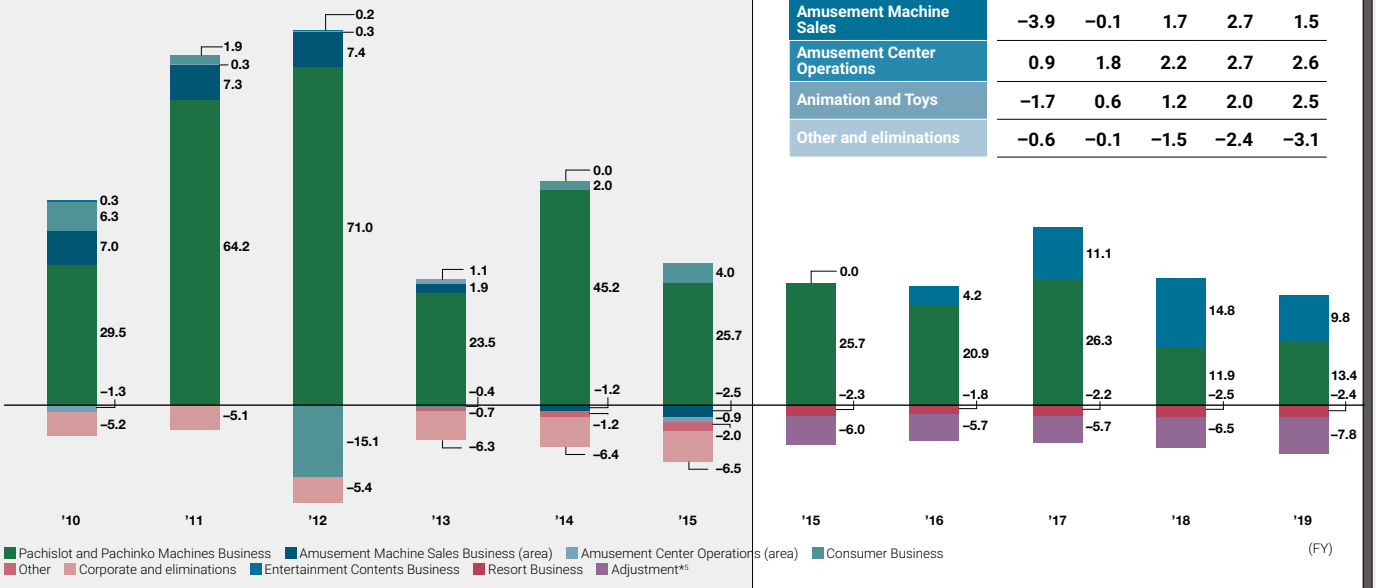


(FY)

*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 year 2016, figures for fiscal year 2015 reflect these changes retrospectively.
*2 The Company has adopted the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and has presented "net income (loss)" as "profit (loss) attributable to owners of parent" from fiscal year 2016.
*3 The aggregate calculation method has changed as of fiscal year 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal year 2013, depreciation and amortization included amortization cost of digital game titles.
*4 ROA = Profit attributable to owners of parent ÷ Total assets
*5 As of the fiscal year 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).

Operating Income (Loss) by Segment

Billions of yen



New Segmentation

Breakdown of Operating Income (Loss) of the Entertainment Contents Business

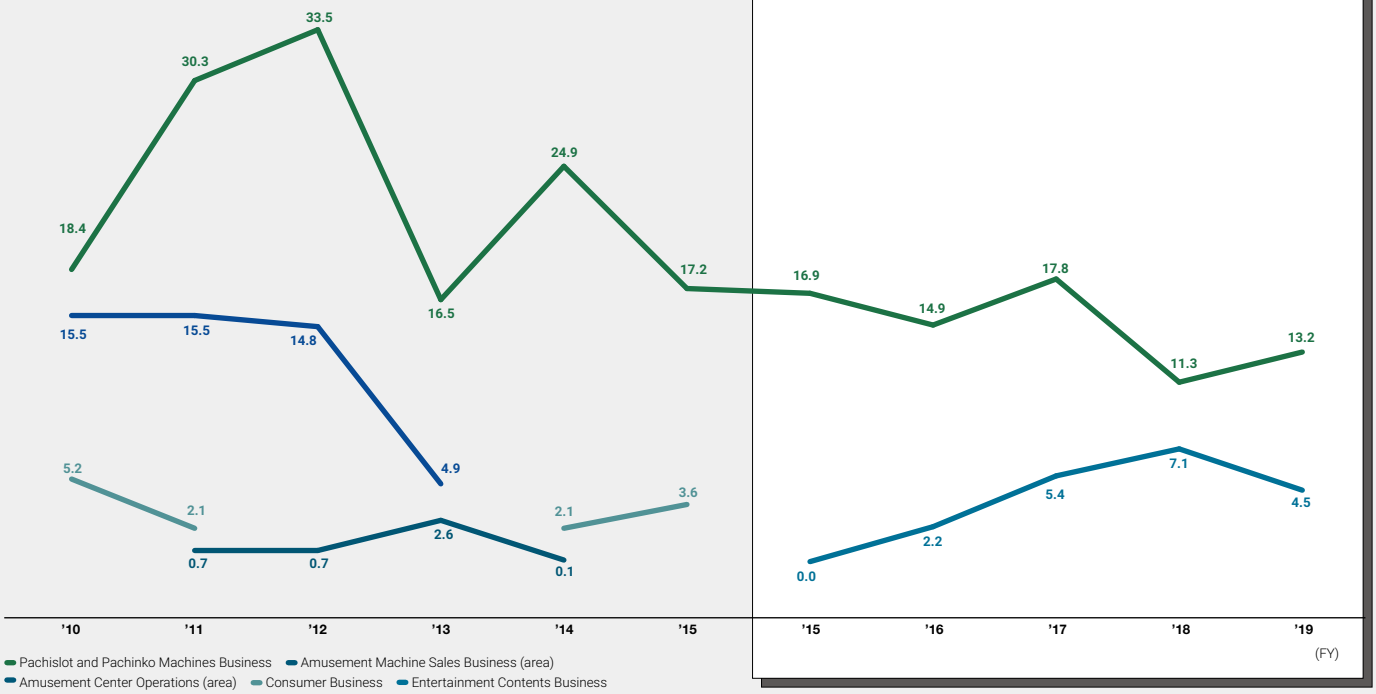
Billions of yen

(FY)

	'15	'16	'17	'18	'19
Digital Games	8.0	–0.4	4.9	3.3	–1.9
Packaged Games	–2.7	2.4	2.6	6.5	8.2
Amusement Machine Sales	–3.9	–0.1	1.7	2.7	1.5
Amusement Center Operations	0.9	1.8	2.2	2.7	2.6
Animation and Toys	–1.7	0.6	1.2	2.0	2.5
Other and eliminations	–0.6	–0.1	–1.5	–2.4	–3.1

Operating Income Margin by Segment

%

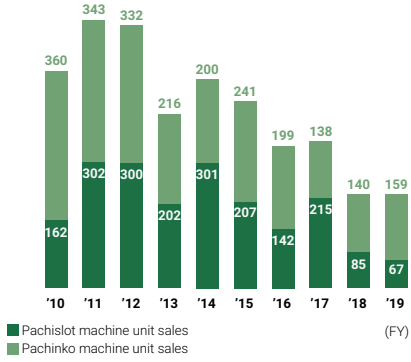


Operating Data

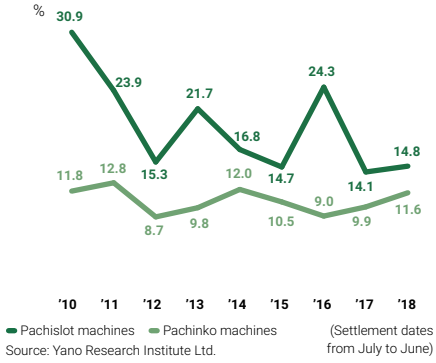
Pachislot and Pachinko Machines Business

Pachislot and Pachinko Machine Unit Sales

Thousands of units



Market Share of Pachislot and Pachinko Machines

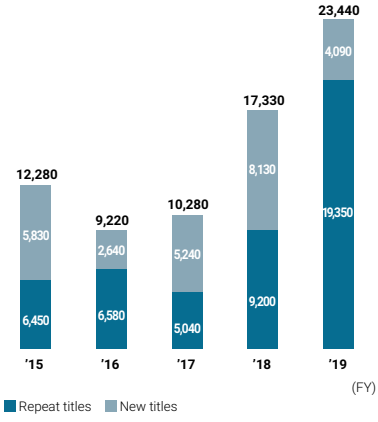


Source: Yano Research Institute Ltd.

Entertainment Contents Business

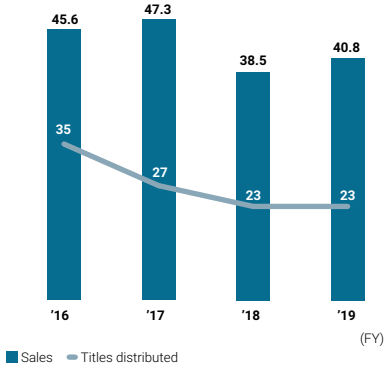
Home Video Game Unit Sales (Cumulative)

Thousands of units



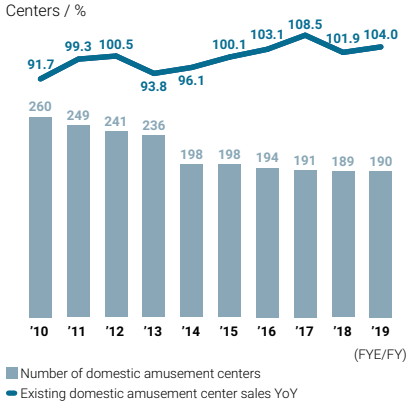
Digital Games Area Sales / Titles Distributed

Billions of yen / Titles



Number of Domestic Amusement Centers*1 / Existing Domestic Amusement Center Sales YoY*2

Centers / %



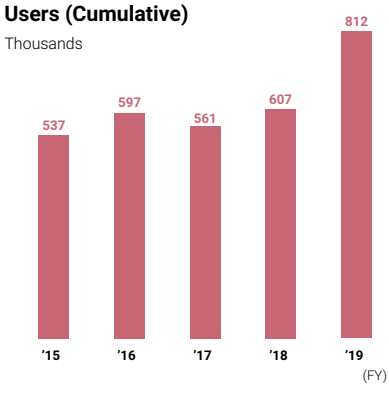
*1 The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations.
As a result, the aggregate calculation method for the number of amusement centers has changed as of fiscal year 2014.

*2 As a result of the abovementioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal year 2014.

Resort Business

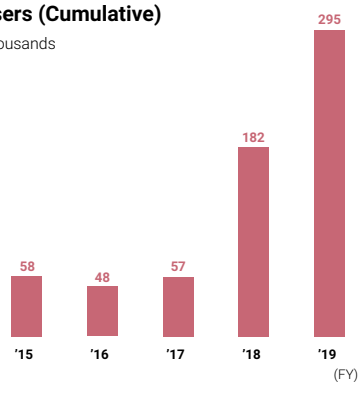
PHOENIX RESORT: Number of Facility Users (Cumulative)

Thousands



PARADISE CITY: Number of Casino Users (Cumulative)

Thousands



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

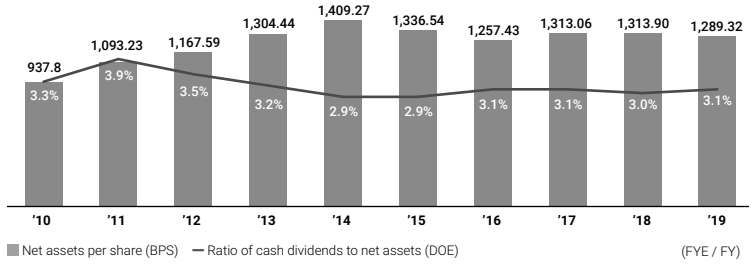
While directly returning profits to shareholders through stable cash dividends, we will retain the option of acquiring treasury stock in response to share price levels. Meanwhile, we will increase shareholder value continuously while taking care to balance strategic investments to win out against competitors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

In fiscal year 2019, we paid cash dividends of ¥40.00 per share. As a result, the ratio of cash dividends to net assets (DOE) was 3.1%.

In fiscal year 2020, 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. This is the same level as in fiscal 2019. We have been conducting a shareholder incentive program since fiscal year 2018.

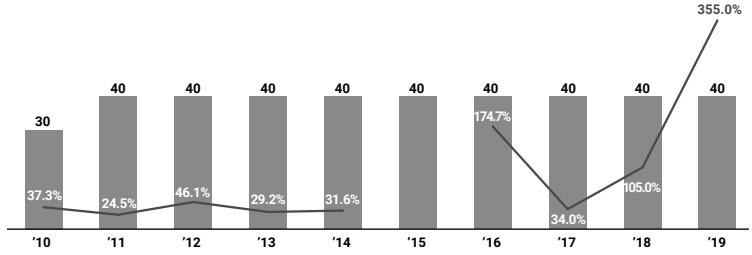
Net Assets per Share (BPS) / Ratio of Cash Dividends to Net Assets (DOE)

Yen



Cash Dividends per Share / Consolidated Dividend Payout Ratio

Yen



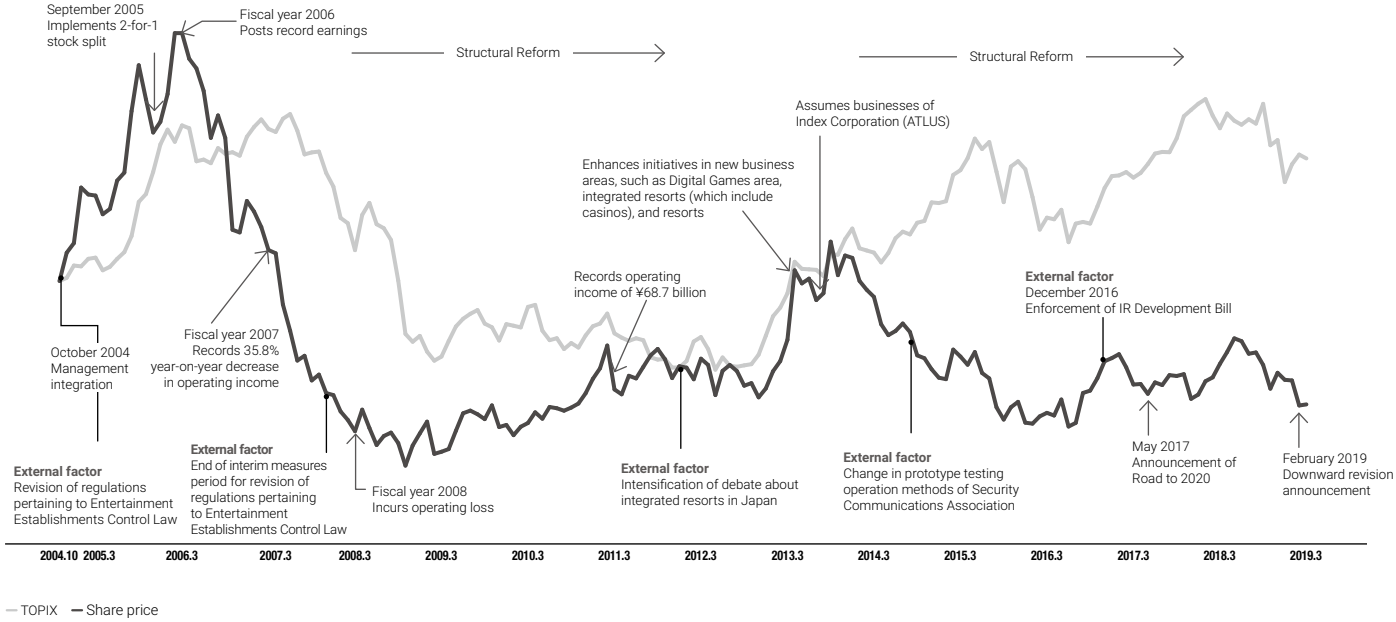
Consolidated dividend payout ratio is not applicable in fiscal year 2015 because the Group recorded a net loss that year.

Acquisition of Shares of Treasury Stock

(FY)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	–	–	–	–	14 million shares	5 million shares	10 million shares	–	10 million shares	–	–	–	–

Comparison of Stock Price and Tokyo Stock Price Index (TOPIX)

(Comparison based on monthly closing prices and value of 1 for October 2004 management integration)



Themes of ESG and SDGs Initiatives



With reference to environmental, social, and governance (ESG) factors and the Sustainable Development Goals (SDGs), the SEGA SAMMY Group has identified important issues and endeavors to highten awareness of whole Group companies and takes measures to address them.

In accordance with our mission of *continuing to create moving experiences*, we will generate economic and social value simultaneously, thereby enhancing our corporate value.

Human Resources and Organizational Capital

Enhancement of Job Satisfaction and Diversity and Elimination of Inequality

Viewing human capital as one of our advantages, we are focusing on job satisfaction and diversity enhancement. For example, we have consolidated head office functions to reform work styles and create employee-friendly workplaces.

Related SDGs



Products and Services › Customers › Society

Countermeasures to Addication

We understand that we have a responsibility to take measures to tackle and prevent addiction. The types of addiction associated with our businesses include "gaming disorder," which is an addiction to video games that seriously affects health; addiction to playing pachinko and pachislot machines; and gambling addiction, which is strongly related to the IR business.

Related SDG



Products and Services › Customers › Society

Environmental Preservation and Reduction of Environmental Burden

The SEGA SAMMY Group designs products, recycles materials, and reuses components with a view to lowering the environmental burden of manufacturing processes and enhancing efficiency. Further, we are advancing efforts to preserve the environment and reduce power consumption.

Related SDGs



Products and Services › Customers › Society

Response to Japan's Super Low Birth Rate and Aging Society

We are moving forward with measures that heighten corporate value by using entertainment in catering to the needs of Japan's super low birth rate and aging society. These efforts focus on two areas: improving children's education by making learning fun and enhancing the well-being of senior citizens by enabling them to develop their interests and enhance social lives as well as to maintain and improve their capabilities.

Related SDGs



Corporate Governance

For details on governance, please see P.76.

Corporate governance and compliance are important to us. Therefore, we design systems and conduct flexible business management with a view to bolstering the supervision of various types of operational implementation and strengthening operational implementation

Related SDGs



Toward Contributing the Achievement of the SDGs

We are fully aware of our responsibility not only to grow our businesses but also to help invigorate Japan's economy as a whole, realize sustainable growth worldwide, and sustain human society. Accordingly, we have begun using our unique capabilities to contribute to the achievement of the SDGs.

Our initiatives focused on the SDGs have only just begun. However, we will continue examining our options with the aim of remaining a corporate group that society trusts, needs, and respects. For example, the SEGA SAMMY Group will consider incorporating SDG-related initiatives into its next medium-term management plan.

February 2019

Identification of Priority SDGs

The Group's Board of Directors approved a resolution on preparing and revising SDG-related policies as well as on Group companies' establishment and operation of plan–do–check–act (PDCA) cycles for the advancement of SDG-related initiatives. Based on this resolution, we revised and renamed our policy on the advancement of CSR and efforts to help achieve SDGs. The new policy sets out priority themes for our SDG-related initiatives: Enhancement of Job Satisfaction and Diversity and Elimination of Inequality (Related SDGs 5, 8, and 10), Countermeasures to Addiction (Related SDG 12), and Response to Japan's Super Low Birth Rate and Aging Society (Related SDGs 3, 4, 8, and 12). In addition, we are proceeding processing with discussions on measures for reducing environmental burden.

April 2019

Establishment of the CSR & SDGs Office

The Group changed the name of the Group CSR Office to the CSR & SDGs Office, which is responsible for the overall control, management, and support of the Group's initiatives related to CSR and the SDGs. Further, with the aim of stepping up SDG-related initiatives, the Group has given the CSR & SDGs Office enhanced capabilities for strengthening collaboration within the Group and supporting the measures of respective divisions and departments.

May 2019

SDGs Training for Officers

To increase awareness and knowledge of the SDGs, approximately 70 directors and executive officers of SEGA SAMMY HOLDINGS and Group companies received SDGs training.



July 2019

Establishment of New Action Plans

Each operating company has begun preparing plans for the advancement of SDG-related initiatives. After carefully considering many different types of projects, such as those conducted within the framework of existing businesses, those that start up new businesses, and those focused on improving the environment, operating companies will advance SDG-related initiatives through PDCA cycles.

Enhancement of Job Satisfaction and Diversity and Elimination of Inequality

Related SDGs



Aim of Setting Out "Enhancement of Job Satisfaction and Diversity and Elimination of Inequality" as a Theme

The diverse values and talents of our personnel are the source of the innovations that we create as an entertainment company. Also, as a super low birth rate and aging society approaches, we believe that it is important to prevent the loss of human capital caused by employees resigning to provide family members with nursing care, for example. With this in mind, we are creating workplace environments that are amenable to diverse work styles.

Reduction of Long Overtime Hours

The SEGA SAMMY Group has been taking measures to reduce long overtime hours since 2013. Measures such as consultations with superiors for employees working long overtime hours and the issuance of individual alerts for employees in relation to overtime hours per month have lowered those working more than 80 hours of overtime per month to approximately 1.0% of all employees. Further, for the Group as a whole the percentage of paid leave taken is improving steadily, reaching 69.5%. P.75

Primary Measures

- Labor training, compliance training (establishing and improving awareness)
- Management of attendance status, enforcement of punching-in (check for excessive or unpaid overtime)
- Individual alerts for employees on a monthly basis
- Monthly reports on number of employees working overtime and amounts of overtime (Releasing report through executive committee or the council of managing directors and sharing information regarding actual conditions)
- Consultations with superiors for employees working long overtime hours
- Establishment and fixation of no-overtime and no-meeting days
- Adjustment of work volumes, streamlining of meetings, revision of operational flow, etc.

Results

- Reduced number of employees working long overtime hours (more than 80 hours per month) by 80%–90%
- Currently reviewing initiatives for further improvement

Promotion of Work–Life Balance

With our sights set on full-fledged introduction of flextime and telework systems, we introduced these systems on a trial basis at major operating companies between June and November 2018. At the same time, we conducted questionnaire surveys of employees and established a range of systems. We have introduced a work-at-home system, which recognizes work performed by employees outside of the office, and the Job Plus (JOB+) side job system, allowing certain employees to obtain side job employment. Also, initiatives to encourage respect for diversity included the establishment of workplace environments in which LGBT employees feel comfortable working in February 2019.

Relocation and Consolidation of Head Office Functions

In 2018, the Group consolidated its head office functions at a new office. By eliminating physical distances between Group companies' offices and having shared functions between divisions, we have established an environment that removes barriers among divisions, encourages interaction between personnel, and is conducive to business collaboration and synergy creation. With a view to enhancing productivity, we have introduced leading-edge information and communications technology (ICT) to all companies that have relocated to the office. Further, the new office includes a co-working space of 1,322 square meters, which supports the businesses of startups and individual entrepreneurs. In addition, we are eliminating overlapping functions by using the relocation as an opportunity to consolidate management functions in such areas as accounting, human resources, finance, general affairs, legal affairs, and IT solutions integrate licensing functions and streamline decision-making processes.

Opening of SEGA SAMMY Soramori Nursery School —New Work Styles for Employees with Children

Aiming to help employees meet their work and child-rearing responsibilities, we opened SEGA SAMMY Soramori Nursery School in April 2019. Employees can commute with their children because the new facility is an in-house nursery school located in a building next to the head office. We will continue developing environments that enable employees engaged in child-rearing to fully realize their talents.







Participation in Tokyo Rainbow Pride 2019

The SEGA SAMMY Group promotes diversity to help realize a society in which many different individuals can play important roles. As part of these efforts, we participated in Tokyo Rainbow Pride 2019, which heightened society's awareness of LGBT individuals and other sexual minorities and celebrated gender and identity diversity. Approximately 40 of our employees and their families took part in the Tokyo Rainbow Pride 2019 parade held on April 28. We endorse the realization of a society that makes it easier for everyone to be themselves and live with positivity, enjoyment, and pride.

Countermeasures to Addiction

Related SDG

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Aim of Setting Out “Addiction” as a Theme

Society is becoming increasingly concerned about various addictions. The World Health Organization has classified “gaming disorder” as a mental disease whereby severe addiction to online games or other video games seriously affects the daily life and health of an individual. Further, the pachislot and pachinko industry needs to address addiction to playing pachinko and pachislot. Similarly, conducting an IR business in Japan will require gambling addiction countermeasures. Given this situation, negligence in taking measures risks incurring such as regulatory strengthening or brand damage that could threaten continuity of our business.

Countermeasures to Pachinko and Pachislot Addiction

Pachinko and pachislot have been a popular source of public entertainment in Japan for many years. However, these machines involve gambling elements and excessive addiction is seen as an important issue. Discussions regarding addiction began when the Society for Research on Pachinko Addiction was formed in 2003. The Recovery Support Network (RSN) was established with support from industry groups in 2006 and conducts wide-ranging problem-solving initiatives such as public outreach and telephone counseling while collaborating with public institutions. The industry is also developing Self-Declaration Program that allow customers to set limits on the amounts of money they use in machines. It is also in the process of stationing Secure Pachinko and Pachislot Advisors who provide consultation regarding addiction issues at pachinko halls across Japan. In January 2017, 14 groups from the pachislot and pachinko industry (collectively referred to as the 21st Century Pachinko and Pachislot Industry Association) released their Statement Regarding Issues Involving Pachinko and Pachislot Addiction and announced their commitment to participating in industry-wide addiction countermeasures. The association resolved to strengthen its countermeasures to addiction issue in November 2017 with an emphasis on enhancing its support for the RSN. The SEGA SAMMY Group will play a leading role in such initiatives and contribute to sound development in the industry.







Countermeasures to Gaming Disorder

In May 2019, the World Health Assembly of the WHO recognized excessive playing of online games and home video games that impedes a person's everyday life as a new mental disease, referred to as "gaming disorder." In response, preventive measures and treatment methods for gaming disorder are likely to be developed worldwide. In Japan, four game-related bodies (CESA, JOGA, MCF, and JeSU) has established a joint investigative commission, which has tasked impartial outside experts to begin research.

Taking into consideration the issue of excessive game playing and excessive microtransaction payments by minors which mainly lead by Gacha system, the Entertainment Contents Business is taking measures to prevent excessive micro-transaction payments. These measures include setting upper limits on monthly micro-transaction payments for certain titles based on the use of age authentication; the establishment of in-house guidelines in conformity with the guidelines stipulated by the Computer Entertainment Supplier's Association, which is an industry body; and prior disclosure of the probability of winning.

Launch of Joint Industry—Academia Research on Gambling Addiction

Japan is proceeding in earnest with preparations for the introduction of integrated resorts to the country. While integrated resorts promise to invigorate the tourism industry, boost local economies, and provide other economic benefits, attendant social issues, such as the potential for an increase in gambling addicts, are a concern.

Mindful of such concerns, we have begun joint research with Kyoto University on gambling addiction. This research aims to find ways of preventing gambling addiction by identifying the precursors of dangerous levels of gambling. To this end, the project is gathering and analyzing the play data of players. We hope that the results of this research will shed light on the onset mechanism of gambling addiction, and we plan to use the results in formulating and implementing measures in Japan for the prevention of the onset, progression, and recurrence of gambling addiction. Capitalizing on our strengths in development, we are focusing efforts on the development of a system that collects all play data from casinos, which is something that is not possible in existing casino operations. By using this system in combination with the results of the aforementioned research, we aim to establish a system that detects players exhibiting early signs of addiction and prevents escalation. Further, we will conduct the operations of casino facilities in a manner that encourages players to exercise self-control and gamble responsibly. Through these measures, we aim to build a range of integrated, systematic gambling addiction countermeasures that encompasses heightening awareness and prevention through to treatment based on partnerships with medical institutions.

Environmental Preservation and Reduction of Environmental Burden

Related SDGs



! Aim of Setting Out "Environmental Preservation and Reduction of Environmental Burden" as a Theme

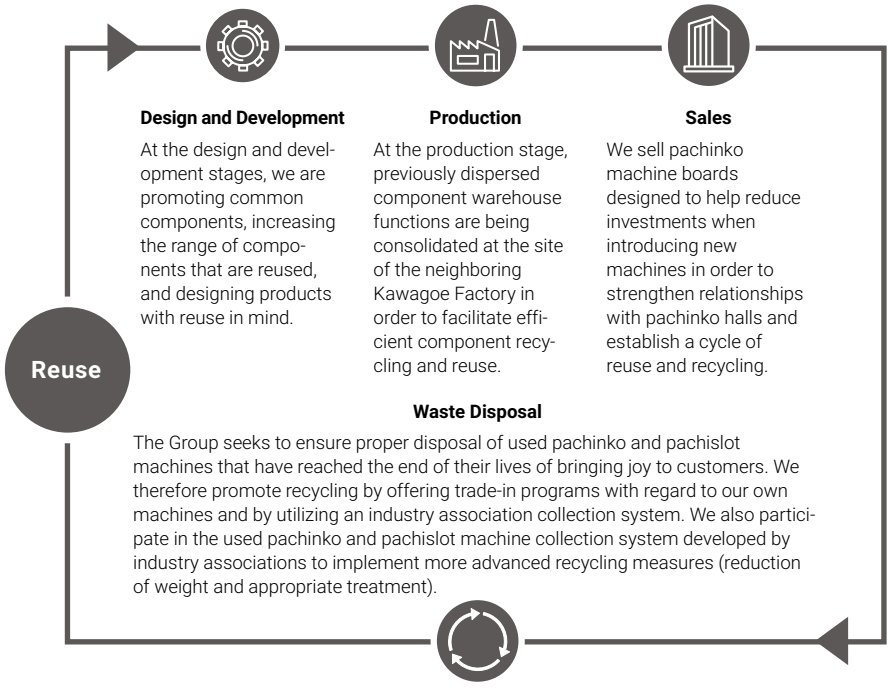
The SEGA SAMMY Group manufactures products in the Pachislot and Pachinko Machines Business and in the amusement machine sales area of the Entertainment Contents Business. At the production stage, various natural resources are used in the manufacture of components and in production processes. Also, we are required to reduce the environmental burden of production processes. Moreover, given the relatively short lifecycles of our products, we must stringently manage waste. Failing to take appropriate environmental measures would result in social sanctions and issues as well as regulatory enforcement, which could affect the continuity of our businesses.

In-House Production Businesses

Reduction of Environmental Impact and Improvement of Profitability in the Pachislot and Pachinko Machines 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 impact 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 increasing the rate of using common components. In addition, through such measures as cooperation with other companies, we are promoting these initiatives in the industry as a whole. We thereby aim to lead the industry in improving efficiency.

Promotion of Reuse across the Value Chain



Environmental Indicators at Sammy's Kawagoe Factory

	(FY)	2017	2018	2019
Pachinko and pachislot machine recycle rate	**Recycle rate**	97.21%	95.99%	**95.00%**
Use of environment-friendly raw materials	**Amount of wood used**	1,494t	566t	**370t**
	Of which, PEFC-certified wood*	84t (5.6%)	38t (6.8%)	**51t (13.8%)**

* 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. All of the components we procure use water-based adhesives, which place less burden on the environment. Components glued together using environment-friendly water-based adhesives have been purchased from suppliers since fiscal year 2014.

Fabless Businesses

Environment-Conscious Product Design

We are conducting ongoing energy conservation initiatives in the Entertainment Contents Business. We are curbing waste by designing amusement machines so that the components of current products can be reused in new products. Also, aiming to extend product service lives, we have prepared an inspection and maintenance manual and shared it with amusement centers. Sega Logistics Service Co., Ltd., manually disassembles and completely recycles the parts of discarded machines from amusement centers. Sega Logistics Service is achieving its goals of zero landfill waste and zero unnecessary waste incineration by inviting intermediary industrial waste disposal contractors to its business locations to reduce disposal costs and by rolling out a nationwide recycling system that prevents illegal waste dumping.

Operations-Type Businesses

The Plastic Waste Issue and Measures to Reduce Power Consumption

Worldwide, initiatives that aim to preserve the oceans' ecosystems by reducing plastic use are gathering momentum. In response, SEGA ENTERTAINMENT Co., Ltd., is reducing the amount plastic bags by having amusement centers appropriately sort plastic waste in conformity with the requirements of their respective regions or facilities and by having amusement centers dispose of plastic waste based on contracts concluded with industrial waste disposers. Further, reflecting our belief that manufacturers have a responsibility to reduce trash through the use of simpler product packaging, we minimize packaging through such measures as reusing product shipment bags. Also, we are introducing light-emitting diode (LED) lighting to our facilities, and are replacing air-conditioning equipment, mainly when we remodel amusement centers. In addition, we have unified our power providers and conduct monitoring to optimize the energy use of each amusement center.



Ikebukuro GiGO
©SEGA ENTERTAINMENT Co., Ltd.

Response to Society's Environmental Expectations (Commencement of measures in compliance with TCFD*)

In response to the recent rise in calls for companies to take environmental measures, we have begun countermeasures for climate change risks, begun disclosing our CO_2 emissions, and reorganized governance systems.

Although climate change risks do not directly affect the entertainment industry, we view an increase in cost of energy consumption as a risk. We identify our energy emissions and analyze the effect our operations have on the environment from the procurement stage onward. Further, for each initiative we have established dedicated projects tasked with examining policies going forward.

* TCFD: Task Force on Climate-related Financial Disclosures

Response to Japan's Super Low Birth Rate and Aging Society

Related SDGs

Aim of Setting Out "Response to Japan's Super Low Birth Rate and Aging Society" as a Theme

As a super low birth rate and aging society emerges in Japan, our businesses will almost certainly see customer numbers decline from the current level. Consequently, attracting customers from a wider range of age groups is a key task for ensuring our continuity. Further, by leveraging entertainment to help children develop soundly and to help senior citizens to lengthen their healthy life spans, we will address social issues while creating new businesses.

Darts Classes and Programming Classes for Elementary School Students

As part of its support for the development of the next generation, the SEGA SAMMY Group conducts experience programs for elementary school students. We implement initiatives that promote interest in darts as a sport among a wide range of generations and foster future customers and employees.

Anticipating the introduction of compulsory programming education for elementary school students by Japan's Ministry of Education, Culture, Sports, Science and Technology, since 2016 SEGA ENTERTAINMENT Co., Ltd., has been conducting programming workshops in which students have fun while learning. In fiscal year 2019, we held SEGA Labo events mainly at shopping centers and other public facilities nationwide in which more than 1,500 children and their guardians participated.





Development of a Senior Citizen-Friendly Driving Simulator

In 2013, we established a new business and began developing and selling driving simulators. As of March 2019, we have delivered 260 driving simulators for use at driving schools, facilities of the Japan Ground Self-Defense Force (JGSDF), and logistics companies. Driving schools and the JGSDF facilities use the simulators for training people hoping to acquire driving licenses, while logistics companies use the simulators for in-house training that enhances driving safety by increasing drivers' ability to anticipate danger.

Going forward, we will use the software developed for driving simulators to hold corporate training and develop and roll out compact driving simulators for senior citizens as well as automobile driving simulators for licensing centers.



Social Contributions

! Why Social Contributions Are Important

As well as energizing society, the SEGA SAMMY Group's businesses can have negative effects on society. We believe that providing *moving experiences* that outweigh these negative effects and continuing to return benefits to society is important for both business continuity and the strengthening of brand power.

Establishment of the SEGA SAMMY Culture and Arts Foundation

In contributing to society as a company that continuously *creates moving experiences*, the development and advancement of culture and the arts is indispensable. For this reason, we believe in the paramount importance of cultivating and sharing with society at large an array of works of art and novel ideas. Through the SEGA SAMMY Culture and Arts Foundation, we aim to enrich society by actively helping culture and the arts to flourish.



Photo: Aichi Prefectural Art Theater
Photo by Naoshi Hatori

Launch of the Shichigahama-machi × SEGA SAMMY Group Regional Revitalization Project

The Group has executed a comprehensive partnership agreement on regional revitalization with Shichigahama-machi in Miyagi Prefecture. Since July 2019, our personnel have been visiting Shichigahama-machi to help plan and advance a range of projects aimed at revitalizing the region. Since directly after the Great East Japan Earthquake, we have been sending employee volunteers to the town. We have used our products and services to hold local events and conducted a variety of other support activities aimed at bringing smiles to the faces of residents of the disaster area so that they can set about reconstructing the region with a positive attitude. Through public–private sector partnerships, we will tackle regional revitalization—one of Japan's social issues. Accordingly, we will use our unique capabilities as a comprehensive entertainment corporate group to conduct in-depth initiatives with Shichigahama-machi.



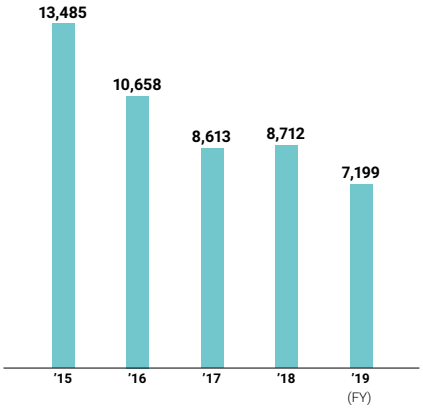
Main Initiative Themes

- Support aimed at independent management of the town's tourism association
- Creation of an experience-type tourism industry
- Development of new brand products
- Publicizing the appeal of the fisheries industry and agriculture
- Surveys and research on the feasibility of introducing private-sector vitality to relocation sites
- Planning and development of projects for IT-enabled healthy longevity
- City promotion activities and supporting activities aimed at independent management of the town

Non-Financial Data

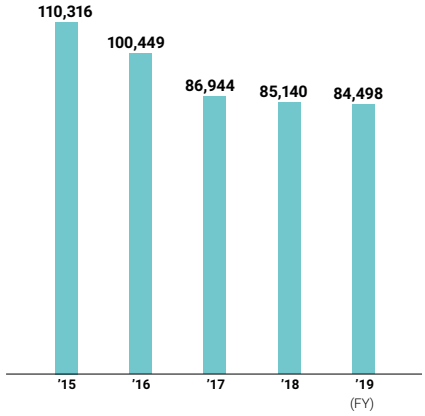
CO_2 (Scope 1)

t-CO_2



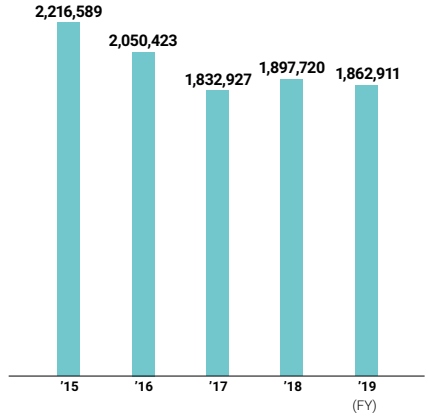
CO_2 (Scope 2)

t-CO_2



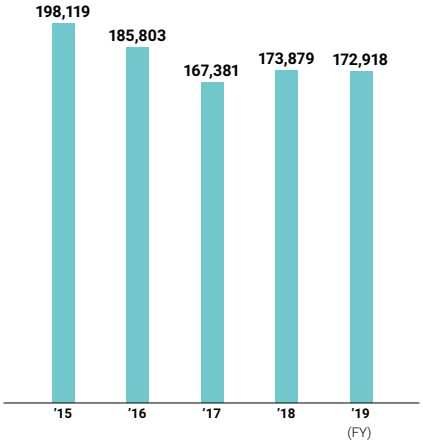
Total Energy Input

GJ



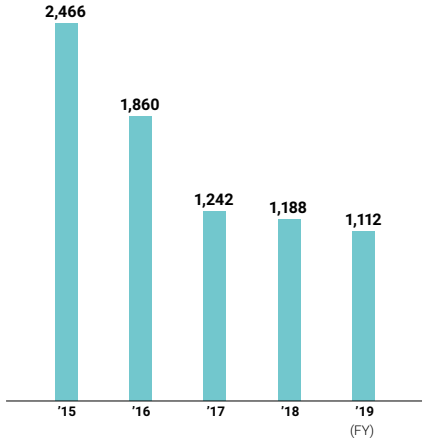
Electricity Usage

MWh



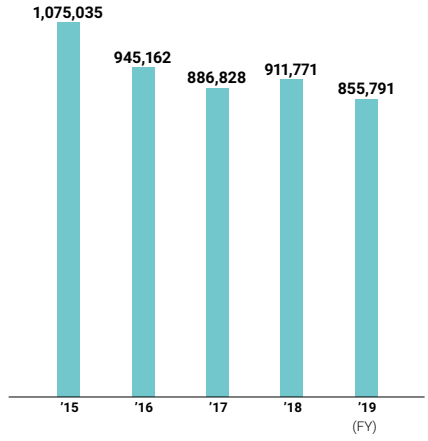
Industrial Waste Discharge

t



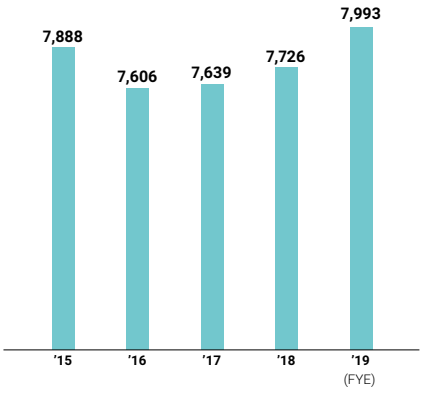
Water Usage

m^3



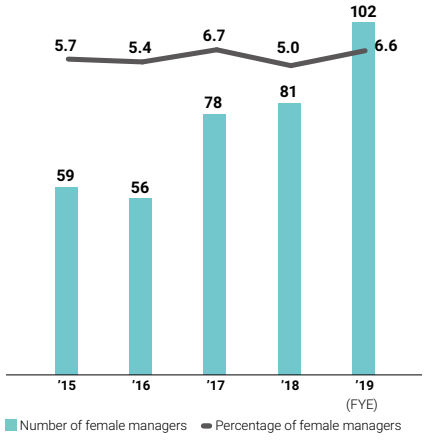
Number of Employees

People



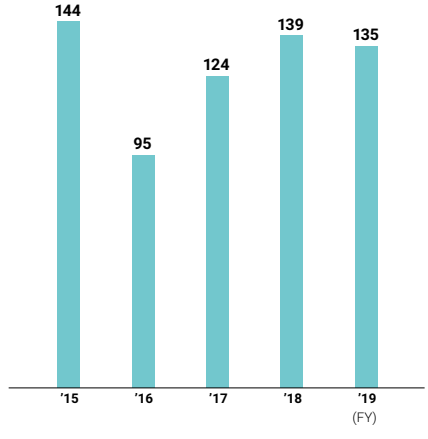
Number and Percentage of Female Managers

People / %



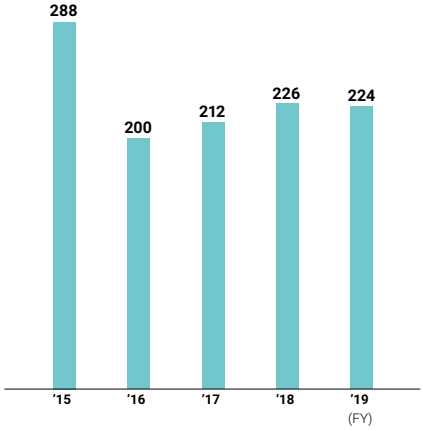
New Graduate Hires

People



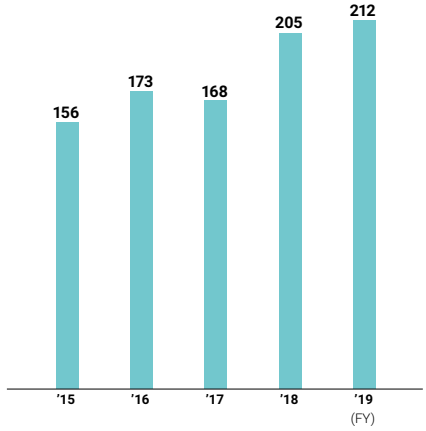
Mid-Career Hires

People



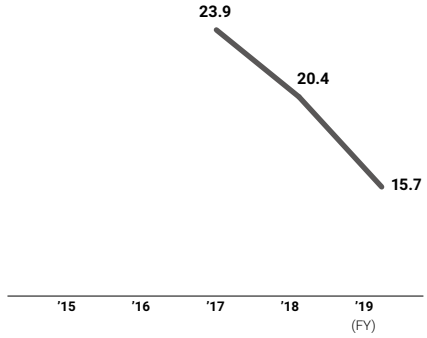
Hiring of Persons with Disabilities

People



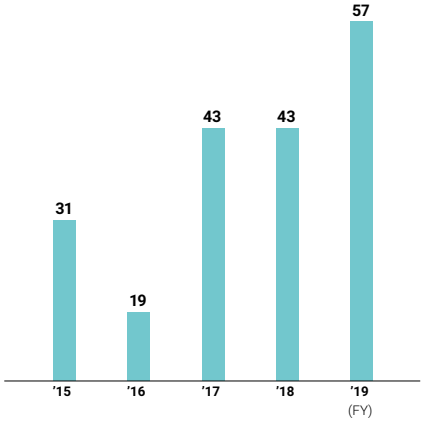
New Employee Turnover Rate

%



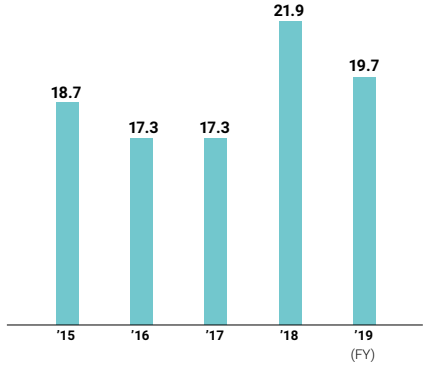
Employees Rehired after Retirement

People



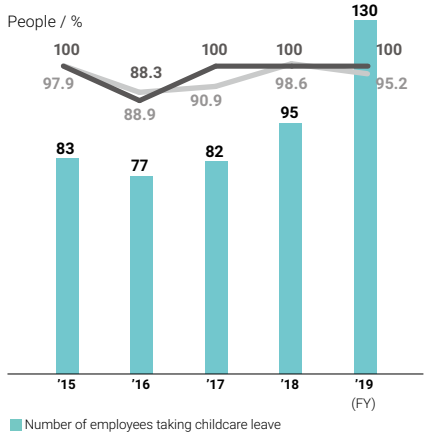
Average Overtime Hours per Month

Hours



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

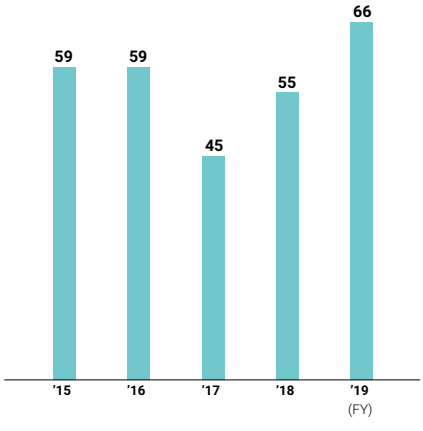
People / %



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

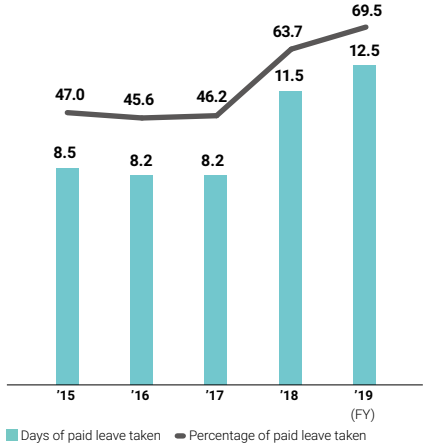
Employees Taking Maternity Leave

People



Days and Percentage of Paid Leave Taken

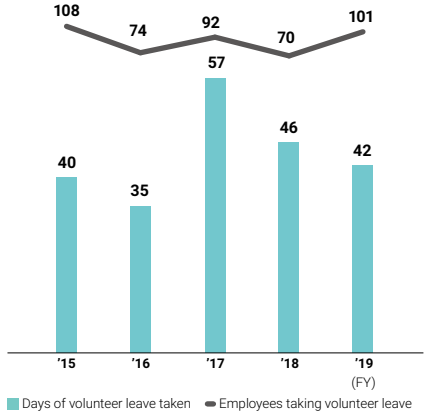
People / %



Days of paid leave taken
Percentage of paid leave taken

Days of Volunteer Leave Taken and Employees Taking Volunteer Leave

Day / People



Days of volunteer leave taken
Employees taking volunteer leave

Corporate Governance

Related SDGs

Corporate Governance System

Fiscal Year 2006

Initiated internal control project

Aim: Strengthen internal control from a Groupwide perspective

Fiscal Year 2008

Appointed external director

Aim: Strengthen monitoring and oversight of business management and reflect wealth of insight in business management

Fiscal Year 2009

Increased external directors to two

Aim: Strengthen monitoring and oversight of business management and reflect wealth of insight in business management

Fiscal Year 2010

Established Group Compliance Liaison Committee

Aim: Establish J-SOX compliant internal control system

Fiscal Year 2016

Established Independent Advisory Committee, assessed effectiveness of the Board of Directors, and disclosed medium-term management strategy and targeted management indicators

Aim: Exchange information to receive opinions on significant management issues, and ensure oversight of the Board of Directors, bolster functions of directors, promote accountability to capital markets, and strengthen Group management

Fiscal Year 2017

Established position of CFO, increased external directors to three, and disclosed action plan for achieving medium-term performance targets

Aim: Provide financial support for growth strategies and strengthen communication with capital markets

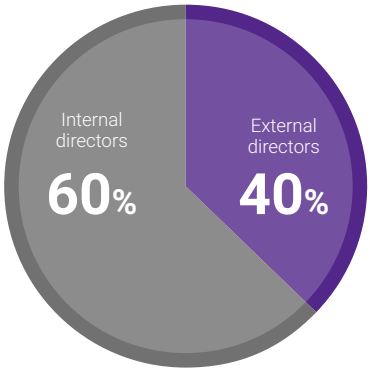
Fiscal Year 2019

Increased external directors to four, revised the system for the compensation of directors, and introduced a stock compensation plan with restriction of transfer

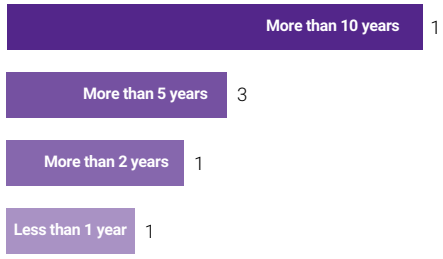
Aim: Strengthen governance and provide incentives in relation to corporate value enhancement over the medium-to-long term

Strengthen continuously

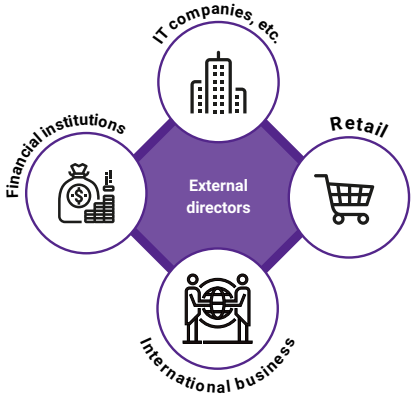
Composition of External Directors



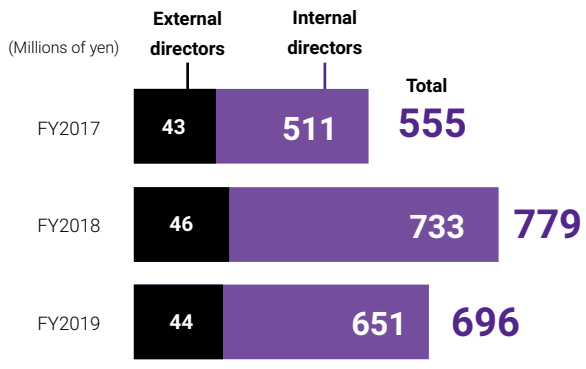
Internal Directors' Periods of Service (As of August 2019)



Careers of External Directors



Compensation of Directors (SEGA SAMMY HOLDINGS non-consolidated)



Overview of Governance Structure

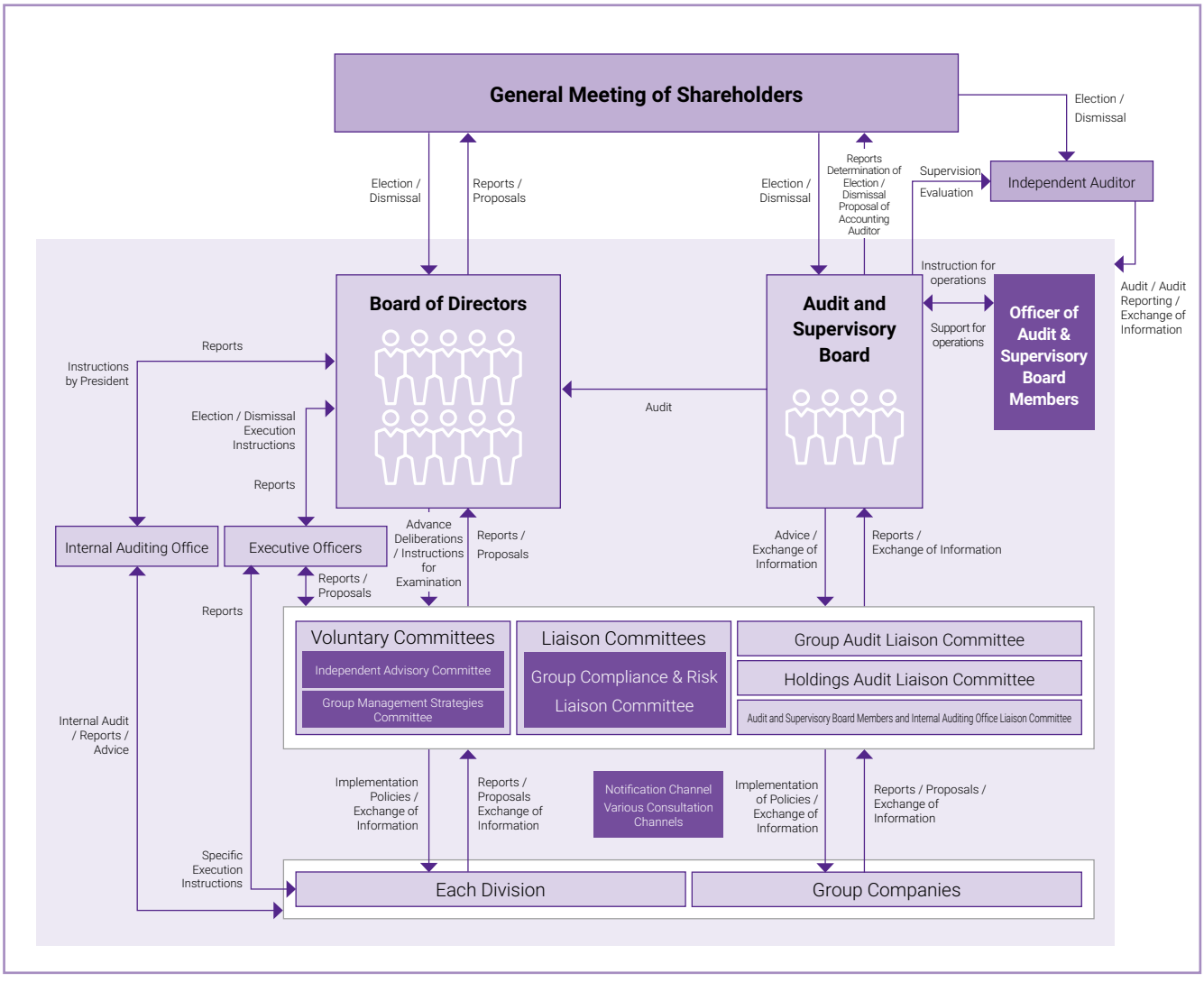
The SEGA SAMMY Group has adopted an Audit and Supervisory Board member system to enable directors to make prompt, optimal decisions amid volatile business conditions based on their wealth of expertise and experience regarding the industry, market trends, products, merchandise, and services. At the same 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 10 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 Strategies Committee and the Independent Advisory Committee—as well as the Group Compliance & Risk 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.

Corporate Governance System (As of June 30, 2019)



Corporate Governance

External Directors and Audit and Supervisory Board Members

The Company has 10 directors, four of whom are external directors and three of whom are 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 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 based on "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 all independent directors as external directors and outside Audit and Supervisory Board members that meet the independence criteria stipulated by the TSE.

Reason for Appointment of External Directors

Kohei Katsukawa	Melanie Brock
Corporate manager (Financial institutions) To reflect Mr. Katsukawa's wealth of experience and extensive expertise in the financial field in the Company's business management	**Corporate manager (International business)** Ms. Brock is the Company's first female director and also the first non-Japanese director. Her appointment reflects her wealth of experience and extensive expertise as an international business leader. It also underpins the Company's commitment to business management built on diverse philosophy and values.

Takeshi Natsuno	Hiroshi Onishi
Corporate manager (IT companies, etc.) To reflect Mr. Natsuno's wealth of experience as a business executive and extensive expertise in the information communication field in the Company's business management	**Corporate manager (Retail)** To reflect Mr. Onishi's wealth of experience and extensive expertise in the retail and department store industry in the Company's business management

Reason for Appointment of Outside Audit and Supervisory Board Members

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

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.

Status, Composition, and Chairs of Voluntary Committees

	Committee name	Total committee members	Full-time committee members	Internal directors	External directors	External experts	Others	Committee chair
Voluntary committee equivalent to a nomination committee	Independent Advisory Committee	5	0	0	3	0	2	None
Voluntary committee equivalent to a compensation committee	Independent Advisory Committee	5	0	0	3	0	2	None

Assessment of the Effectiveness of the Board of Directors

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 year 2019, each director responded to a questionnaire. In light of these responses, the Independent Advisory Committee conducted an assessment and reported that the effectiveness of the Company's Board of Directors was being maintained at an ordinary Board of Directors' meeting. The Independent Advisory Committee favorably evaluated measures to encourage in-depth discussions of matters, which included creating opportunities to discuss important matters in advance of Board of Directors' meetings. At the same time, the Committee recommended that (a) thorough feedback be provided with regard to remarks and opinions provided during advance discussions and that (b) explanations of matters already explained beforehand at Board of Directors' meetings be streamlined to ensure adequate time for deliberation in order to ensure effective management. In light of this effectiveness assessment, the Board of Directors will improve its functions and effectiveness.

Activity in Fiscal Year 2019

Board of Directors	Meeting Attendance	Main Activities
Board of Directors convened	13 times	
External directors		
Takeshi Natsuno	Attended 13 of 13 meetings (including 12 of 12 ordinary Board of Directors' meetings)	He attended 13 of the 13 Board of Directors' meetings (12 of 12 ordinary meetings) convened in the fiscal year under review. He principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
Kohei Katsukawa	Attended 13 of 13 meetings (including 12 of 12 ordinary Board of Directors' meetings)	He attended 13 of the 13 Board of Directors' meetings (12 of 12 ordinary meetings) convened in the fiscal year under review. He principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
Hiroshi Onishi	Attended 9 of 10 meetings (including 9 of 10 ordinary Board of Directors' meetings)	He attended 9 of the 10 Board of Directors' meetings (9 of the 10 ordinary meetings) convened in the fiscal year under review following his appointment. He principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
External directors' attendance	97%	
Outside Audit & Supervisory Board members		
Tomio Kazashi	Attended 13 of 13 meetings (including 12 of 12 ordinary Board of Directors' meetings)	He attended 13 of the 13 Board of Directors' meetings (12 of 12 ordinary meetings) convened in the fiscal year under review. He principally provided expert opinions on business management and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making. Further, he attended 15 of the 15 the Audit & Supervisory Board meetings convened in the fiscal year under review, where he exchanged opinions on audit results and deliberated significant matters related to audits.
Mineo Enomoto	Attended 13 of 13 meetings (including 12 of 12 ordinary Board of Directors' meetings)	He attended 13 of the 13 Board of Directors' meetings (12 of 12 ordinary meetings) convened in the fiscal year under review. He principally provided opinions based on his professional insight as an attorney, provided expert opinions on business management, and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making. Further, he attended 14 of the 15 Audit & Supervisory Board meetings convened in the fiscal year under review, where he exchanged opinions on audit results and deliberated significant matters related to audits.
Outside Audit & Supervisory Board members' attendance	100%	

Melanie Brock, Director of the Board (External)

A Global Perspective

My name is Melanie Brock, and I am SEGA SAMMY HOLDINGS' newly appointed Director of the Board (External). As a director, I hope to support and to enhance the Company business and corporate values by providing a global perspective.

I first came to Japan in 1982. I have lived here in Japan for close to 30 years and during that time I have worked hard to promote goodwill between Japan and Australia. I have consulted widely on corporate governance, focusing on Australian and Japanese companies in Asia, as well as in both Australia and Japan. Japanese society is rapidly globalizing and a diversity of approach and thought is needed more and more. As such, business is undergoing significant change.

The SEGA SAMMY Group has a clear sense of and commitment to current and future business and entertainment trends. As a global entertainment group, it is well placed to take advantage of this shift in a constructive and all-encompassing way, and to build on this foundation. To achieve this, overall respect for the importance of diversity of thought and values is needed. Diversity will create innovation. As such, a Companywide commitment to SDGs is necessary.

Going forward, as Japan's commitment to the implementation of integrated resorts takes shape, there will be a heightened requirement for the SEGA SAMMY Group vis a vis enhanced compliance, including that of corporate governance. I hope that my experience in business, my strong commitment to a global perspective, and my IR background, will help me contribute to enhanced corporate value for the SEGA SAMMY Group.



Melanie Brock

Corporate Governance

Compensation of Directors

Compensation of directors and Audit and Supervisory Board members for fiscal year 2019 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	5	651	483	155	13
	External	4	44	44	—	—
Audit and Supervisory Board members	Internal	1	18	18	—	—
	External	2	20	20	—	—

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal year 2019 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	380	The Company	276	100	4
Haruki Satomi	Director	160	The Company	105	36	4
			Sammy	9	—	—
			SEGA Holdings	3	—	—
			SEGA Games	1	—	—
			Sammy Networks	1	—	—

Revision of Directors' Compensation Amounts

The Company implemented an overall revision of the system for the compensation of directors with the aim of ensuring transparency and increasing incentives to focus business management on corporate value enhancement.

At the same time, the Company introduced a stock compensation plan with restriction of transfer to facilitate convergence between the long-term interests of directors and shareholders. Further, the plan will motivate directors to pursue corporate value enhancement based on longer-term viewpoints and to take maximum advantage of their talents in such efforts.

As a result of the revision of the system for compensation of directors, compensation of directors now comprises fixed compensation and single-fiscal-year, performance-based compensation.

With regard to fixed compensation, a compensation table designates amounts for base compensation, responsibility-related compensation, and role-related compensation. In accordance with this table, the total of these three types of compensation is paid as monthly fixed compensation.

Meanwhile, single-fiscal-year, performance-based compensation is paid in the form of bonuses for directors. Specifically, the level of ordinary income, the degree of business plan achievement, and the degree of year-on-year growth are converted into scores, and the total scores for these three factors determine evaluations. Bonuses are then paid based on a bonus table, which designates directors' bonuses in numbers of months.

Further, directors' bonuses are not to be paid if loss attributable to owners of parent is recorded.

Outline of the New System for the Compensation of Directors

Fixed Compensation

Base Compensation		Responsibility-Related Compensation		Role-Related Compensation
Fixed monthly compensation	+	Paid to those with the responsibilities of a representative director	+	Paid to those with the role of CEO, COO, or CFO

Bonuses for Directors

Fixed Compensation	×	Total score for the level of ordinary income, the degree of business plan achievement, and the degree of year-on-year growth

Fixed Compensation (Monthly compensation, millions of yen)

Base Compensation	
Chairman	15.0
President	8.0
Deputy COO	4.5
Senior Executive Vice President	4.0
Executive Vice President	3.5
Director	3.0
Those Serving Concurrently as Representative Director and President of Sammy Inc. or SEGA Holdings Co., Ltd.	4.0

Responsibility-Related Compensation	
Representative Director	3.0

Role-Related Compensation	
CEO	5.0
COO	3.0
CFO	1.0

* The above is not applicable to external directors.
* For those serving in positions concurrently, the base compensation of the Board.
* Directors assigned to overseas posts receive overseas assignment benefits in addition to the above.

Bonuses for Directors

Bonuses are determined by multiplying fixed compensation by a coefficient, which is calculated based on the criteria stated in the bonus table below.

Ordinary income

Evaluation	Ordinary income
SS	¥70 billion or higher
S	¥50 billion or higher but less than ¥70 billion
A+	¥35 billion or higher but less than ¥50 billion
A	¥20 billion or higher but less than ¥35 billion
B	¥10 billion or higher but less than ¥20 billion
C	Less than ¥10 billion
D	Ordinary loss

Degree of business plan achievement and degree of year-on-year growth

Degree of business plan achievement

Sales	Ordinary income	Score
Achieved	Achieved	7
Not achieved	Achieved	5
Achieved	Not achieved	1
Not achieved	Not achieved	0

Degree of year-on-year growth

Sales	Ordinary income	Score
Achieved	Achieved	3
Not achieved	Achieved	2
Achieved	Not achieved	1
Not achieved	Not achieved	0

Evaluation determined based on the total of the scores for degree of business plan achievement and degree of year-on-year growth

Score	Evaluation
9 points or more	5
7 or 8 points	4
5 or 6 points	3
2 to 4 points	2
1 point or less	1

Introduction of a Stock Compensation Plan with Restriction of Transfer

The purpose of the stock compensation plan with restriction of transfer is to provide directors with incentives to sustain enhancement of the Company's corporate value and to further increase the sharing of value between eligible directors and shareholders. Moreover, to coincide with the scheduled announcement of its new medium-term management plan, the Company also plans to expand stock with restriction of transfer that is similar to the aforementioned stock with restriction of transfer to Group companies.

Corporate Governance

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.

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 year 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 year 2019. 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 on our corporate website.)

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.

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.

Compliance Promotion Structure

Established in fiscal year 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 year 2010, and informing employees about a comprehensive revision of the whistleblower system to ensure operational duties are performed appropriately.

Informing Employees about the Group Code of Conduct and Other Commitments

The SEGA SAMMY 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.

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 year 2017, the Group introduced a whistleblower system to overseas operations.

In Japan, the whistleblower system responded to 9 cases in fiscal year 2016, 16 in fiscal year 2017, 19 in fiscal year 2018, and 24 in fiscal year 2019. Breaking down whistleblower reports between fiscal 2015 and fiscal 2019, suspected power harassment cases accounted for 38% of reports, suspected rule or law violation cases 26%, suspected sexual harassment cases 11%, employment-related cases 8%, and other cases 17%. As for the whistleblowers, 53% were employees; 16% were part-time or temporary personnel; 5% were retirees, family members, or business partners; and 26% were unknown due to anonymous reporting.

Communication with Shareholders and Other Investors

The Company has defined its basic stance toward information disclosure described in its Investor Relations 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 investor relations-related materials available on our corporate website. Moreover, our website 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.



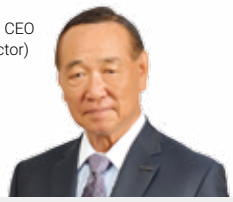
Corporate Governance

Directors, Audit & Supervisory Board Members, and Executive Officers
(As of June 21, 2019)

Directors

Hajime Satomi

Chairman and Group 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.
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
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)
2018 Chairman and Group CEO (Representative Director) of the Company (current position)
Senior Advisor (Director of the Board) of PHOENIX RESORT CO., LTD. (current position)

Haruki Satomi

President and Group 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
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)
2018 President and Group COO (Representative Director) of the Company (current position)
Chairman of the Board of PHOENIX RESORT 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.
2015 Vice Chairman of the Board of SEGA Holdings Co., Ltd.
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)
Senior Executive Vice President of PARADISE SEGASAMMY Co., Ltd. (current position)

External Directors

Takeshi Natsuno*1

Director of the Board
(External)



1997 Joined NTT Mobile Communications Network, Inc. (now NTT DOCOMO, Inc.)
2005 Executive Officer and General Manager of Multimedia Services Department of the above
2008 Guest Professor, Graduate School of Media and Governance of Keio University (current position)
Director of the Board (External) of the Company (current position)
Outside Director of transcosmos inc. (current position)
Director of NTT Resonant Inc. (current position)
2009 Outside Director of DLE, Ltd. (current position)
Outside Director of GREE, Inc. (current position)
2010 Outside Director of U-NEXT Co., Ltd. (now USEN-NEXT HOLDINGS Co., Ltd.) (current position)
2016 Outside Director of Oracle Corporation Japan (current position)
2017 Outside Director of AWS Holdings (now Ubicom Holdings) (current position)
Director of GENETEC CORPORATION (current position)
Advisor of ecohai Co., Ltd. (current position)
Outside Director of Cool Japan Fund Inc. (current position)
2018 Chairman and Representative Director of MOVIE WALKER Co., Ltd. (current position)
Director of BOOK WALKER Co., Ltd. (current position)
Director, Member of the Board of KADOKAWA CORPORATION (current position)
2019 President and Representative Director of DWANGO Co., Ltd. (current position)

Kohei Katsukawa*1

Director of the Board
(External)



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

Koichi Fukazawa

Executive
Vice President and
Group 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 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

2018 Executive Vice President and Group 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 of SEGA Interactive Co., Ltd. (current position)
Chairman of the Board (Representative Director) of TMS ENTERTAINMENT CO., LTD. (current position)
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)

Hideo Yoshizawa

Director of the Board



2001 Joined Sammy Corporation

2002 Vice President, Executive Officer and Deputy Managing Director of President's Office of the above

2004 Senior Vice President (Director of the Board) and Managing Director of Administration Division of the above
Senior Vice President (Director of the Board) and Managing Director of Corporate Division and President's Office of the above

2007 Vice President, Senior Executive Officer of the Company

2012 Senior Vice President (Director of the Board) of PHOENIX RESORT CO., LTD.

2015 President (Representative Director) of TAIYO ELEC Co., Ltd.

2016 Senior Vice President (Director of the Board) of SEGA Holdings Co., Ltd.
Senior Vice President (Director of the Board) and Managing Director of Corporate Division of the above
Senior Vice President (Director of the Board) of SEGA ENTERTAINMENT CO., LTD. (current position)
Auditor of Sega Amusements Taiwan Ltd. (current position)

2017 Executive Vice President (Director of the Board) and Managing Director of Corporate Division of SEGA Holdings Co., Ltd. (current position)
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (current position)

2018 Vice President, Senior Executive Officer and Managing Director of Legal Division of the Company

2019 Director of the Board of the Company (current position)

Hiroshi Onishi*1

Director of the Board
(External)



1979 Joined Isetan Co., Ltd. (now Isetan Mitsukoshi Ltd.)

2005 Executive Officer, Manager, General Planning Section, Management Planning Department of the above

2009 President, Representative Director and Executive Officer of Isetan Co., Ltd. (now Isetan Mitsukoshi Ltd.)

2010 Director of Isetan Mitsukoshi Holdings Ltd.

2011 President, Representative Director, Executive Officer and Division Manager / Department Store Business Planning & Operation Headquarters of Isetan Mitsukoshi Ltd.

2012 President, Representative Director and Executive Officer of Isetan Mitsukoshi Holdings. Ltd.
President, Representative Director and Executive Officer of Isetan Mitsukoshi Ltd.

2016 Chairman of Japan Department Stores Association

2017 Director of Isetan Mitsukoshi Holdings. Ltd.

2018 Director of the Board (External) of the Company (current position)
Director and Executive Vice President of Japan Airport Terminal Co., Ltd.
President and Representative Director of Haneda Future Research Institute Incorporated (current position)
Outside Director of STRIPE INTERNATIONAL INC. (current position)

Melanie Brock*1

Director of the Board
(External)



2003 CEO of AGENDA (now Melanie Brock Advisory Ltd.) (current position)

2010 Board Member of Australia-Japan Foundation
Board Member of Australia Japan Business Co-operation Committee (current position)
Chair of Australian and New Zealand Chamber of Commerce in Japan
Regional Manager - Japan of Meat & Livestock Australia

2012 Chair of Australian Business Asia

2016 Chair Emeritus of Australian and New Zealand Chamber of Commerce in Japan (current position)

2019 Director of the Board (External) of the Company (current position)

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

Corporate Governance

Directors, Audit & Supervisory Board Members, and Executive Officers
(As of June 21, 2019)

Audit and Supervisory Board Members

Shigeru Aoki
Standing Audit & Supervisory Board Member



2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.) as Head Councilor
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)
2018 Audit & Supervisory Board Member of Sammy Corporation (current position)
2019 Audit & Supervisory Board Member of PHOENIX RESORT CO., LTD. (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 Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (current position)
Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (current position)
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (current position)
Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD.
Audit & Supervisory Board Member of SEGA ENTERTAINMENT Co., Ltd. (current position)
Audit & Supervisory Board Member of MARZA ANIMATION PLANET INC. (current position)

Mineo Enomoto*2
Audit & Supervisory Board Member (External)



1978 Registered with the Japan Federation of Bar Associations
2000 Established Enomoto Law Office (now Enomoto and Matsui 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.
2007 Audit & Supervisory Board Member (External) of the Company (current position)
2014 Outside Audit & Supervisory Board Member of SHIMOJIMA Co., Ltd. (current position)
2015 External 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.

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



1995 Joined Century Audit Corporation (now Ernst & Young ShinNihon LLC)
1999 Certified Public Accountant registered
2003 Director of Shinnihon Integrity Assurance, Inc. (now Ernst & Young Shinnihon Sustainability Co., Ltd.)
2005 Managing Director of the above
2006 Partner of Ernst & Young ShinNihon (now Ernst & Young ShinNihon LLC)
2012 Senior Partner of Ernst & Young ShinNihon LLC
2016 Senior Executive Board Member of Ernst & Young ShinNihon LLC
2019 Audit & Supervisory Board Member (External) of the Company (current position)

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

Executive Officers

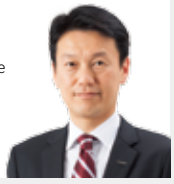
Makoto Takahashi
Vice President, Senior Executive Officer



Toru Nakahara
Vice President, Senior Executive Officer



Yoichi Owaki
Vice President, Senior Executive Officer



Shuji Utsumi
Vice President, Senior Executive Officer



Hiroshi Ishikura
Vice President, Executive Officer



Koichi Takahashi
Vice President, Executive Officer



Takaharu Kato
Vice President, Executive Officer



Rei Kudo
Vice President, Executive Officer

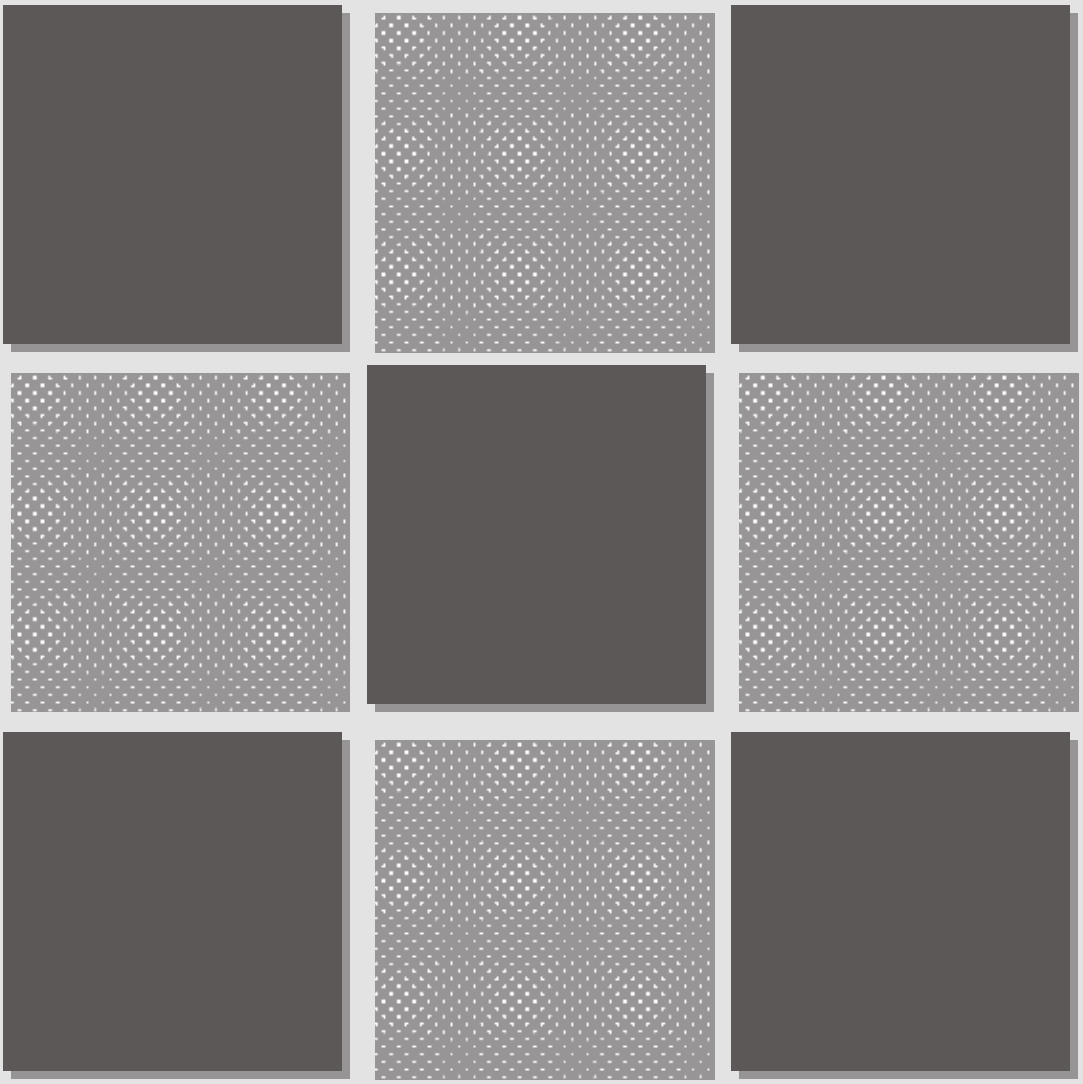


Hironobu Otsuka
Vice President, Executive Officer



Financials

Management's Discussion and Analysis P.88
Company Profile / Stock Information P.95
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Consolidated Statements of Income and Comprehensive Income P.98
Consolidated Statements of Changes in Net Assets P.99
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Independent Auditor's Report P.136



Management's Discussion and Analysis

Consolidated Statements of Income and Comprehensive Income

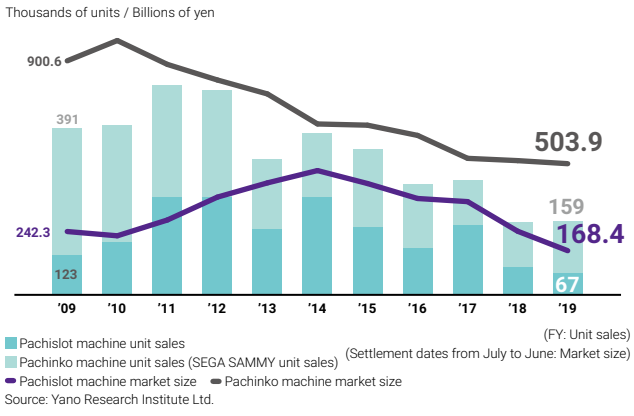
Long-Term Trends

The principal factors causing the decline in net sales are a decrease in the revenues of the Pachislot and Pachinko Machines Business due to the strengthening of regulations and a decrease in sales accompanying a reduction in business scale, which resulted from the structural reform of the existing businesses of SEGA Games (including the closure and disposal of amusement centers in the amusement center operations area). Regarding earnings, structural reforms in fiscal year 2015 improved the profitability of the Entertainment Contents Business, which contributed to earnings and enabled the Company to depart from a downward earnings trend. In the previous two fiscal years, however, earnings have declined due to lower earnings from the Pachislot and Pachinko Machines Business, which has been affected by market environment changes associated with regulatory reform, and from the Digital Games area, where competition is intensifying.

Main Causes of the Decline in Earnings

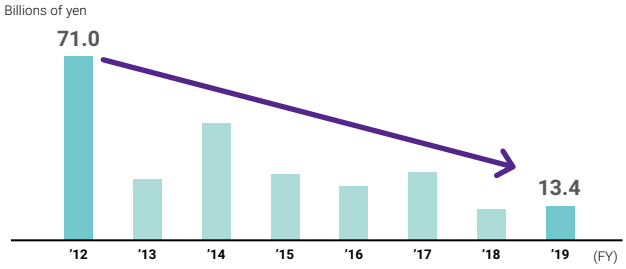
Declining Earnings within Existing Businesses amid Market Contraction

SAMMY Unit Sales / Pachislot and Pachinko Market Size



Source: Yano Research Institute Ltd.

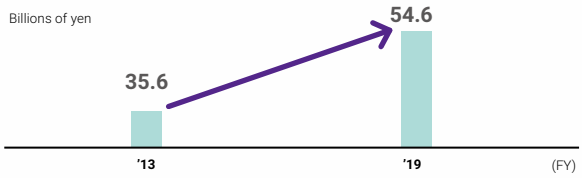
Pachislot and Pachinko Machines Business Operating Income



Improvement in Profitability

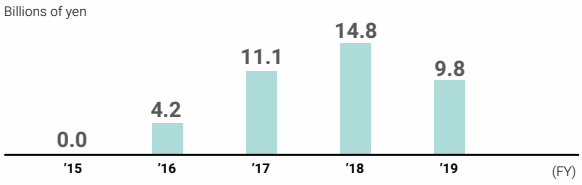
Packaged Games Area Earnings Growth

Packaged Games Area Net Sales



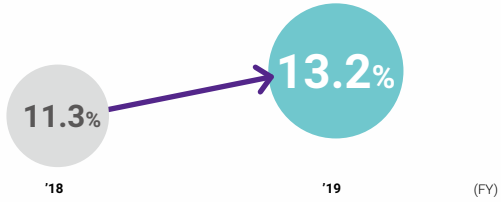
Entertainment Contents Business Profitability Improvement

Entertainment Contents Business Operating Income

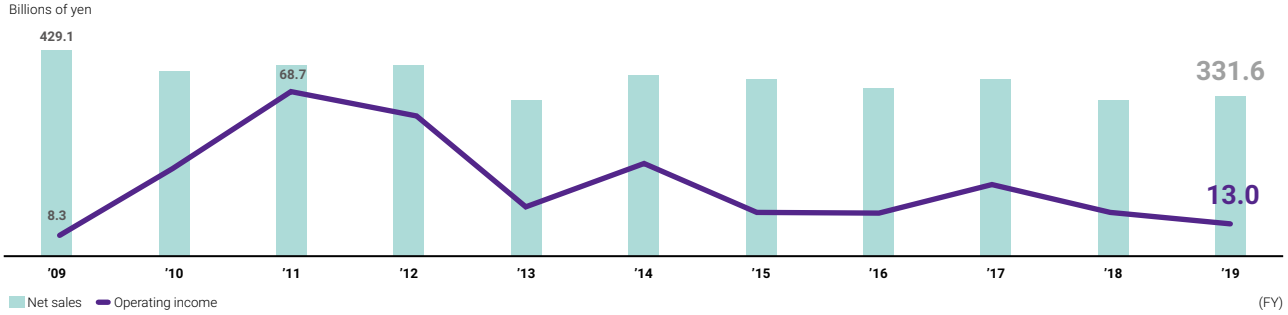


Improvement in Profitability in Pachislot and Pachinko Machines Business

Although net sales declined year on year, profitability improvement measures led to an increase in the operating income margin.



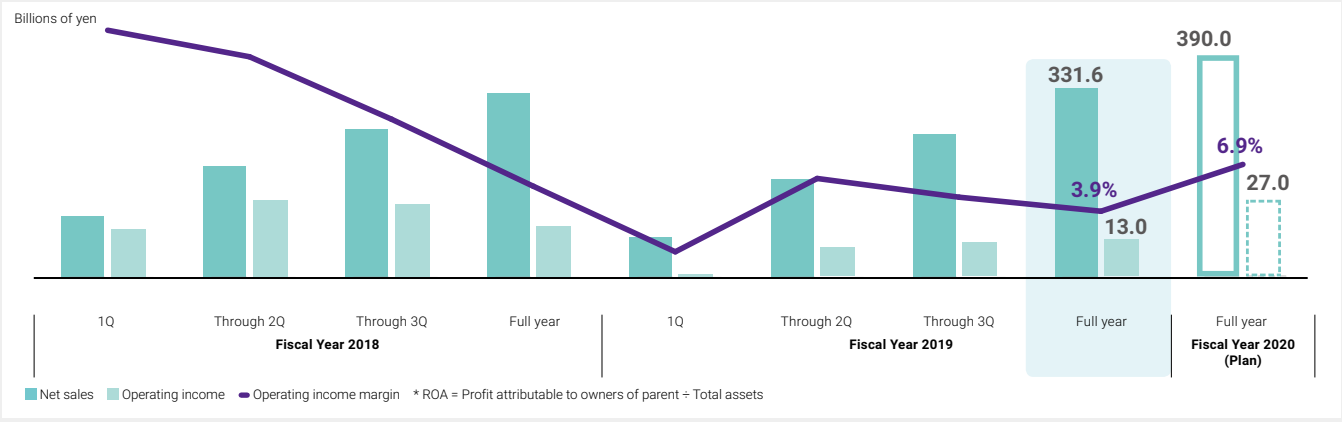
Long-Term Trends in Net Sales and Operating Income



Comparing Fiscal Year 2018 and Fiscal Year 2019

(Fiscal Year 2019)

Net sales: ¥331.6 billion | Operating income: ¥13.0 billion | Operating income margin: 3.9% | ROA*: 0.6%



Summary of Consolidated Financial Statements

Billions of yen

	2018	2019	YoY Change
Net sales	323.6	**331.6**	+2%
Pachislot and Pachinko Machines Business	105.6	**101.4**	−4%
Entertainment Contents Business	208.0	**219.6**	+6%
Resort Business	9.9	**10.5**	+6%
Cost of sales	202.9	**211.1**	+4%
Gross profit	120.7	**120.4**	+0%
Selling, general and administrative (SG&A) expenses	103.0	**107.3**	+4%
Operating income (losses)	17.7	**13.0**	−27%
Pachislot and Pachinko Machines Business	11.9	**13.4**	+13%
Entertainment Contents Business	14.8	**9.8**	−34%
Resort Business	−2.5	**−2.4**	—
Other and eliminations	−6.5	**−7.8**	—
Operating income margin	5.5%	**3.9%**	−1.6 pts.
Other income (expenses)	3.2	**2.1**	−34%
Non-operating income	6.4	**7.7**	+20%
Ordinary income	14.5	**7.4**	−49%
Extraordinary income	0.9	**8.2**	—
Extraordinary loss	3.1	**8.7**	—
Income before income taxes	12.4	**6.9**	−44%
Total income taxes	3.0	**4.2**	—
Profit attributable to owners of parent	8.9	**2.6**	−71%
Cash dividends per share (Yen)	40	**40**	—
Net income per share (Yen)	38.10	**11.27**	—
Net assets per share (Yen)	1,313.90	**1,289.32**	—

Net Sales (Pachislot and Pachinko Machines Business)

Revenues from the Pachislot and Pachinko Machines Business decreased year on year mainly due to lower unit sales, which reflected the low approval rates in prototype testing of No. 6 machine models that accompanied regulatory revision.

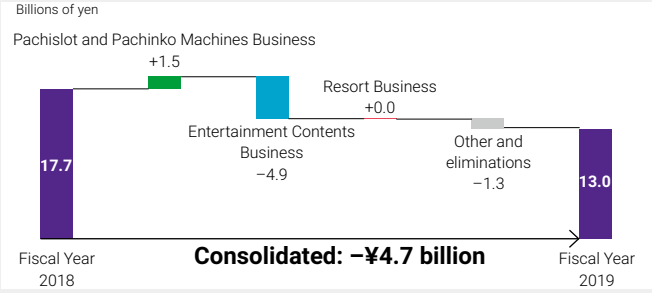
Selling, General and Administrative (SG&A) Expenses

R&D expenses and content production expenses increased 7% due to the introduction of new digital game titles. Capital expenditures rose 42% as a result of expenses incurred due to relocation of the head office.

Operating Income (Losses)

Earnings decreased due to the recognition of an operating loss in the Digital Games area as a result of recording a valuation loss on multiple titles. This operating loss outweighed the higher earnings of the Pachislot and Pachinko Machines Business, which reflected the success of profit-ability improvement measures, as well as the higher earnings of the Packaged Games area, which enjoyed brisk repeat sales.

Change in Segment Operating Income (Losses)



Management's Discussion and Analysis

Consolidated Financial Position

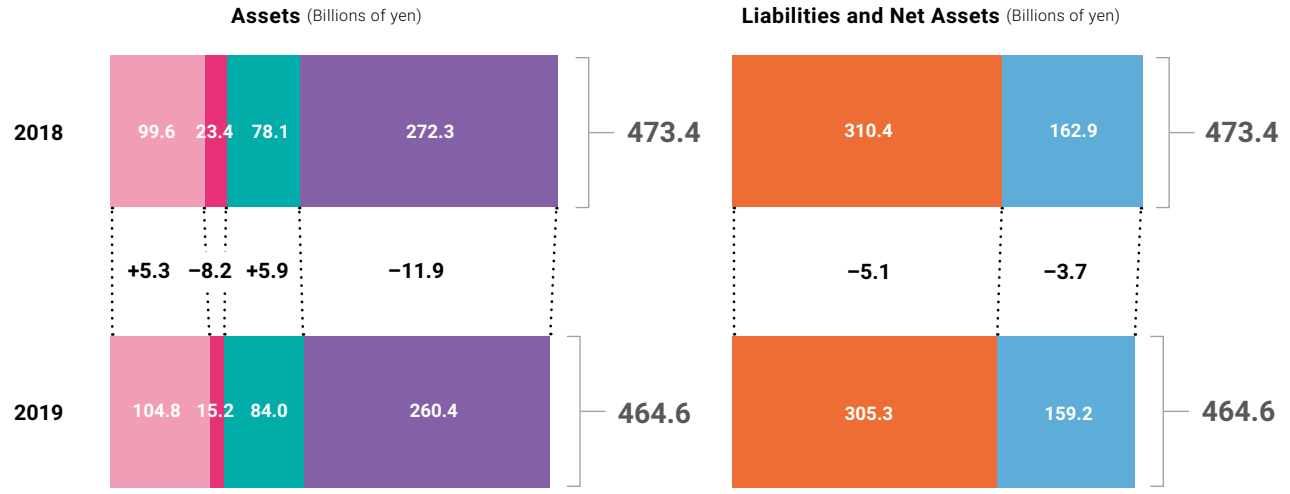
Long-Term Trends

In fiscal year 2011, total assets—which had been decreasing as a consequence of a reduction in the business scale of the amusement center operations area and a valuation loss on securities and sales of securities—began trending upward due to an increase in goodwill accompanying acquisitions in the Entertainment Contents Business, the Group's initiatives in preparation for participation in the IR business, and an increase in investment securities accompanying new investment in growth areas. In recent years, however, total assets have again been trending downward, reflecting a decrease in cash and deposits accompanying relocation of the head office, a decrease in securities, and the redemption of bonds. 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, the payment of stable cash dividends and ensuring financial soundness in consideration of future participation in the domestic IR business, even amid the earnings volatility stemming from the presence or absence of hit products, which is the nature of the Group's businesses.

Total Assets and Equity Ratio



Comparing Fiscal Year 2018 and Fiscal Year 2019



Total investments and other assets

+¥5.3 billion

- Rose due to an increase in the mark-to-market valuation of investment securities held and investment in capital

Total intangible assets

−¥8.2 billion

Total property, plant and equipment

+¥5.9 billion

Total current assets

−¥11.9 billion

- Declined due to a decrease in notes and accounts receivable−trade and short-term investment securities
- Decreased because lower cash and deposits and short-term investment securities offset an increase in notes and accounts receivable−trade and inventories

Total net assets

−¥5.1 billion

- Decrease in total shareholders' equity due to cash dividends paid; however, recognition of profit attributable to owners of parent
- Equity ratio approximately unchanged at 65.1%

Total liabilities

−¥3.7 billion

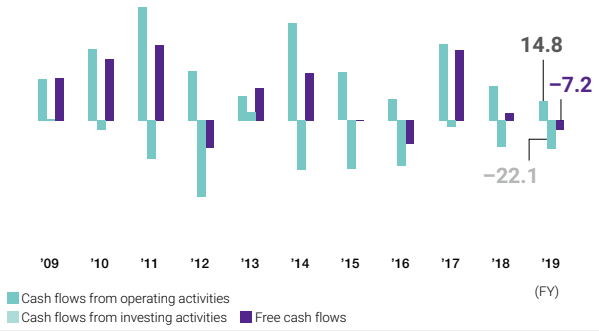
- Decreased due to lower bonds payable and short-term loans payable. Long-term loans payable of ¥40.3 billion, up ¥1.7 billion from the previous fiscal year-end

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 year 2011, the Group has been investing in organizational restructuring. These efforts included investments to make three listed subsidiaries into wholly owned subsidiaries. In addition, the Group is investing actively in such growth areas as the IR business and the Digital Games area. Through a cash management system, the Group uses internal capital efficiently. Also, the Group uses a range of methods to support liquidity and meet investment needs flexibly, including borrowings and bond issuance.

Cash Flows

Billions of yen

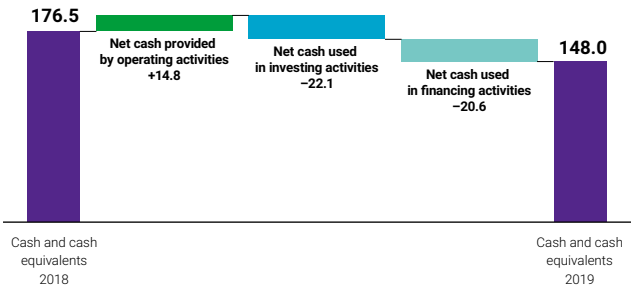


Fiscal Year 2019 Cash Flows

Cash and cash equivalents at the end of fiscal year 2019 amounted to ¥148,064 million, down ¥28,501 million from the previous fiscal year-end.

Consolidated Cash Flows

Billions of yen



Breakdown of Cash Flows Billions of yen

Cash Flows from Operating Activities	
Income before income taxes	+6.9
Depreciation and amortization	+18.8
Increase / decrease in notes and accounts receivable−trade (− = increase)	−10.2
Decrease in notes and accounts payable−trade (− = decrease)	+3.0
Cash Flows from Investing Activities	
Purchase of property, plant and equipment	−18.2
Purchase of intangible assets	−10.2
Proceeds from sales of property, plant and equipment	+10.3
Cash Flows from Financing Activities	
Redemption of bonds	−10.0
Cash dividends paid	−9.3
Proceeds from long-term loans payable	+14.9

Net cash provided by operating activities

+¥14.8 billion

Factors including income before income taxes of ¥6,981 million, depreciation and amortization of ¥18,819 million, and impairment loss of ¥8,334 million, despite increase in notes and accounts receivable−trade of ¥10,203 million and increase in inventories of ¥10,004 million, resulted in net cash provided by operating activities of ¥14,876 million in the fiscal year under review (net cash provided by operating activities of ¥26,487 million in the previous fiscal year).

Net cash used in investing activities

−¥22.1 billion

Factors including purchase of property, plant and equipment of ¥18,235 million, which reflected relocation of the head office, and purchase of intangible assets of ¥10,274 million, despite proceeds from sales of property, plant and equipment of ¥10,342 million, resulted in net cash used in investing activities of ¥22,113 million in the fiscal year under review (net cash used in investing activities of ¥20,422 million in the previous fiscal year).

Net cash used in financing activities

−¥20.6 billion

Factors including repayment of long-term loans payable of ¥15,844 million, redemption of bonds of ¥10,000 million, and cash dividends paid of ¥9,379 million, despite proceeds from long-term loans payable of ¥14,971 million, resulted in net cash used in financing activities of ¥20,668 million in the fiscal year under review (net cash used in financing activities of ¥28,780 million in the previous fiscal year).

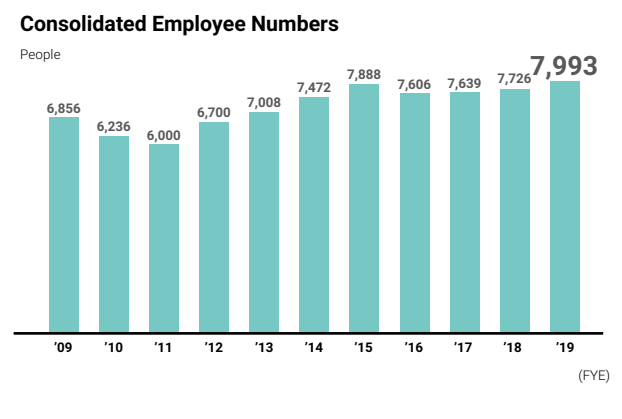
Management's Discussion and Analysis

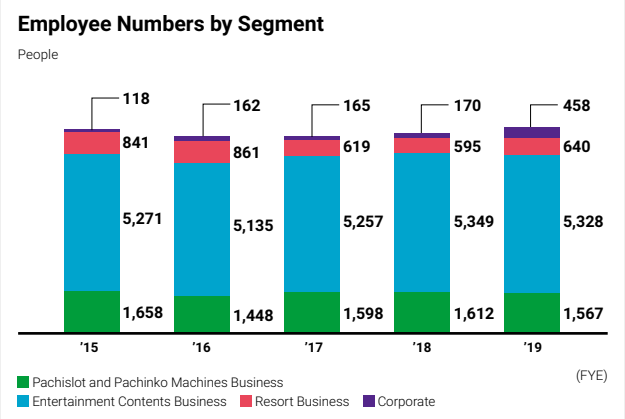
Non-Financial Assets

Human Capital

Consolidated Employee Numbers

At the end of fiscal year 2019, the consolidated number of employees was 7,993, up 267 from the previous fiscal year-end. This rise was mainly due to an increase in development personnel in the domestic and overseas businesses of the Entertainment Contents Business. Corporate employees increased by 288 mainly due to a rise in seconded employees accompanying a lateral reorganization of the Group that focused on management functions.





IP

R&D Expenses and Content Production Expenses

For the three-year period between fiscal year 2017 and fiscal year 2019, R&D and content production expenses were equivalent to more than 18% of net sales on average. In recent years in particular, we have proactively invested in expanding our lineup in the Digital Games area over the medium term. In fiscal year 2019, expenditures were ¥66.6 billion, a 7.4% increase compared to the previous fiscal year due to expenses arising from investment in new titles and valuation loss on work in process accompanying content production in the Digital Games area.

Reference

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

The Group undertakes stable, long-term investment in R&D and content production with the aim of creating and strengthening IP—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 Machines Business and casino machines of the Amusement Machine Sales area

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

Digital Games area

Expenses are recognized in intangible assets during development period, and the basic straight-line amortization period is 24 months from month of service commencement. (The amortization period differs depending on the title. Titles with long lifecycles can have amortization periods of more than 36 months.)

Amusement Machine Sales area (excluding casino machines)

Expenses are recognized as work in process during development and as expenses linked to unit sales after launch.

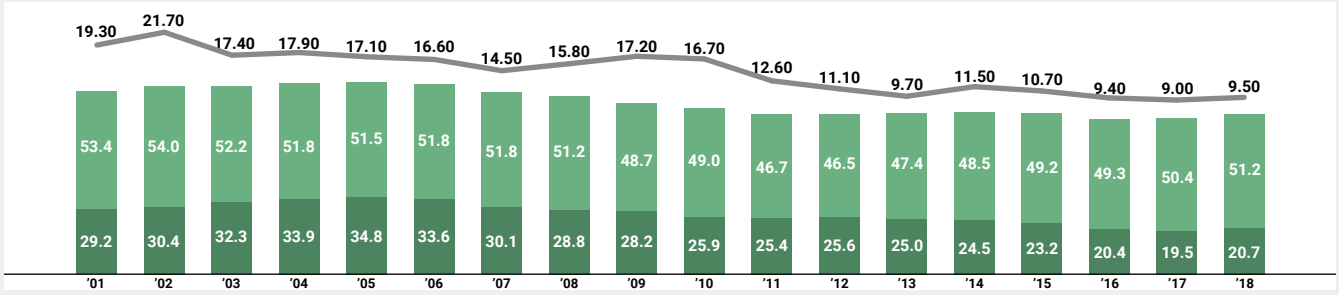
Packaged Games area

Expenses are recognized as work in process during development and as expenses after launch. However, there are different methods of treating expenses after launch.

- Expenses are recognized as expenses linked to unit sales.
- For some titles, certain expenses are recognized as expenses linked to unit sales, and the remaining expenses are amortized over a period of 21 months.

Basic Data

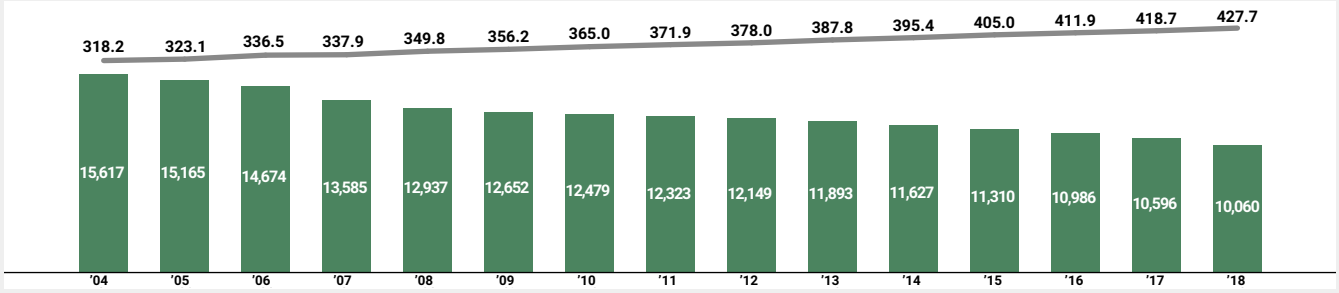
Market Sizes and Number of Pachinko and Pachislot Players



Pachinko and pachislot machine market (Trillions of yen) Other leisure market (Trillions of yen) Pachinko and pachislot players (Millions of people) (CY)

Source: *White Paper on Leisure Industry 2019,* Japan Productivity Center

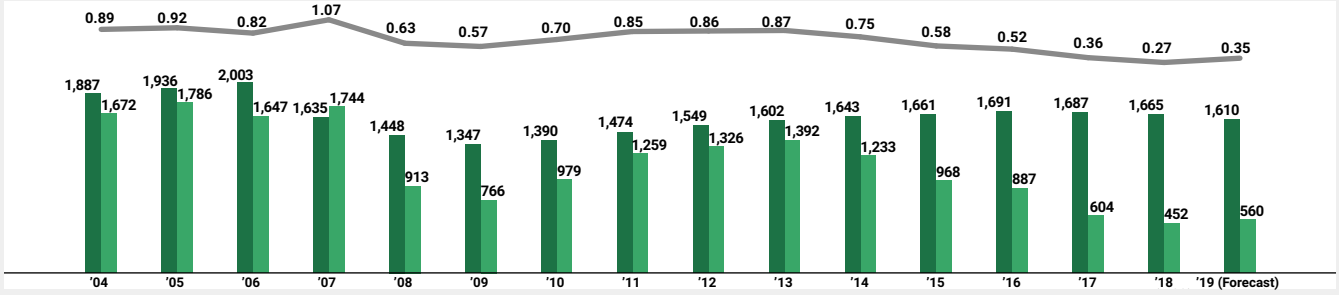
Numbers of Pachinko Halls and Installed Pachinko and Pachislot Machines per Pachinko Hall



Number of pachinko halls (Halls) Number of installed pachinko and pachislot machines per pachinko hall (Machines) (FY)

Source: National Police Agency

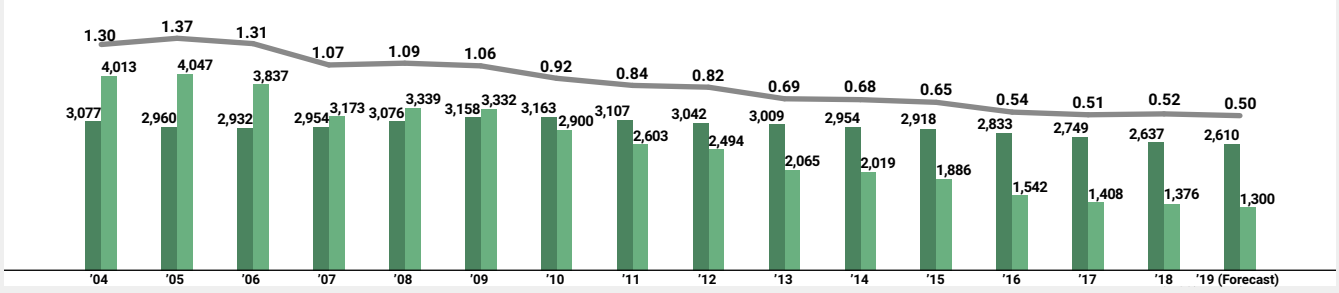
Pachislot Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



Number of installed pachislot machines (Thousands of machines) Pachislot machine unit sales (Thousands of machines) Pachislot machine annual turnover (Times) (FY)

Sources: National Police Agency and Yano Research Institute Ltd. (Figures for fiscal year 2019 are company's forecast)

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

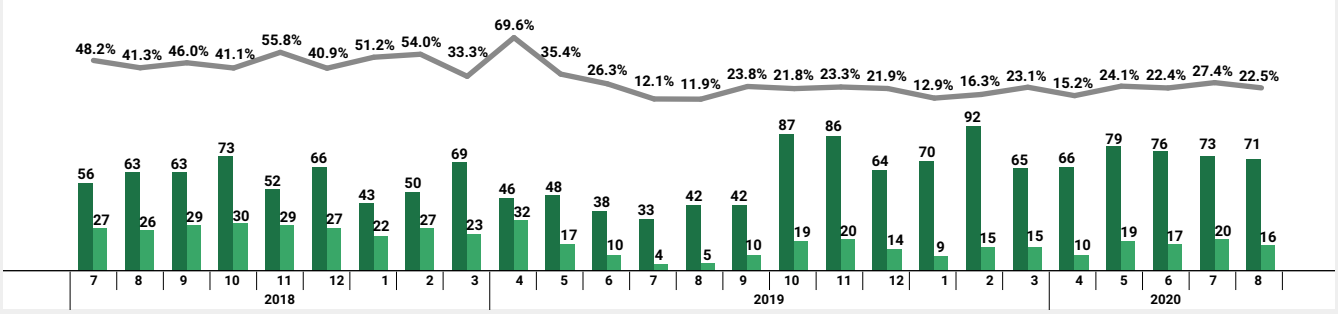


Number of installed pachinko machines (Thousands of machines) Pachinko machine unit sales (Thousands of machines) Pachinko machine annual turnover (Times) (FY)

Sources: National Police Agency and Yano Research Institute Ltd. (Figures for fiscal year 2019 are company's forecast)

Management's Discussion and Analysis

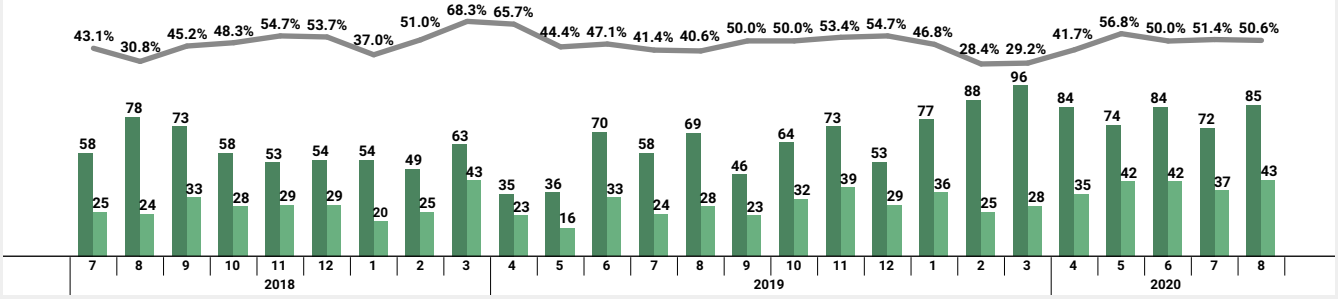
Results of Pachislot Machine Prototype Testing



Pachislot machine prototypes issued Number of pachislot machines approved Pachislot machine approval rate (FY)

Source: Security Communications Association

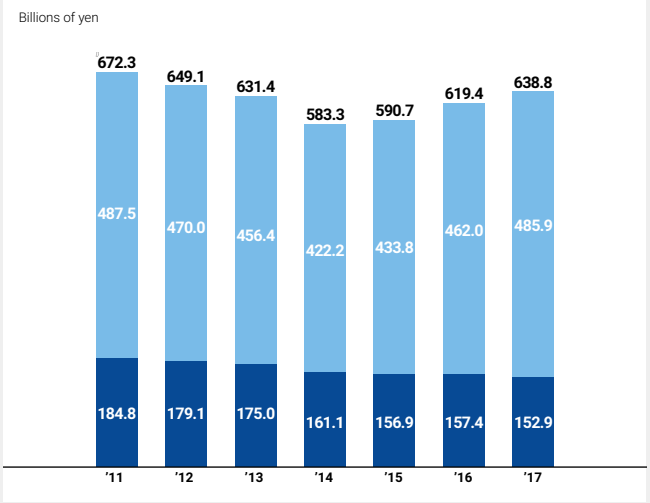
Results of Pachinko Machine Prototype Testing



Pachinko machine prototypes issued Number of pachinko machines approved Pachinko machine approval rate (FY)

Source: Security Communications Association

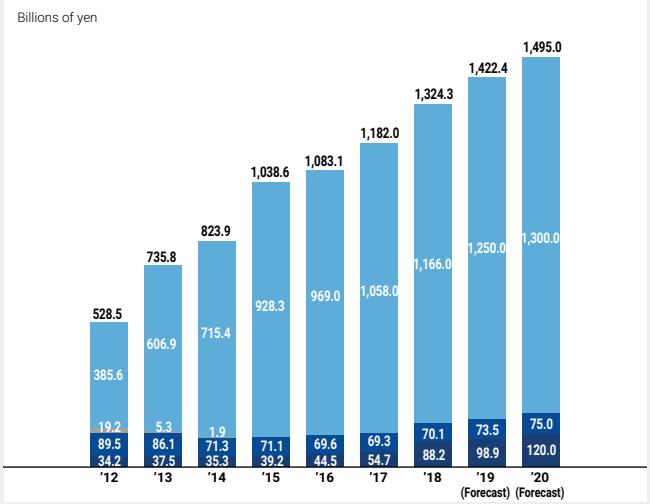
Domestic Amusement Machine Sales and Revenues from Amusement Center Operations



Amusement machine sales Revenues from amusement center operations (FY)

Source: Japan Amusement Industry Association

Domestic Market for Online Game Content



Home video game consoles PCs Feature phones Game apps (Smart devices + SNS) (FY)

Source: f-ism

Company Profile / Stock Information

Company Profile

Company name	SEGA SAMMY HOLDINGS INC.
Address	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-Shinagawa, Shinagawa-ku, Tokyo 141-0033, Japan
URL	https://www.segasammy.co.jp/english/
Established	October 1, 2004
Capital	¥29,953 million (As of March 31, 2019)
Principal business	Management of SEGA SAMMY Group as the holding company

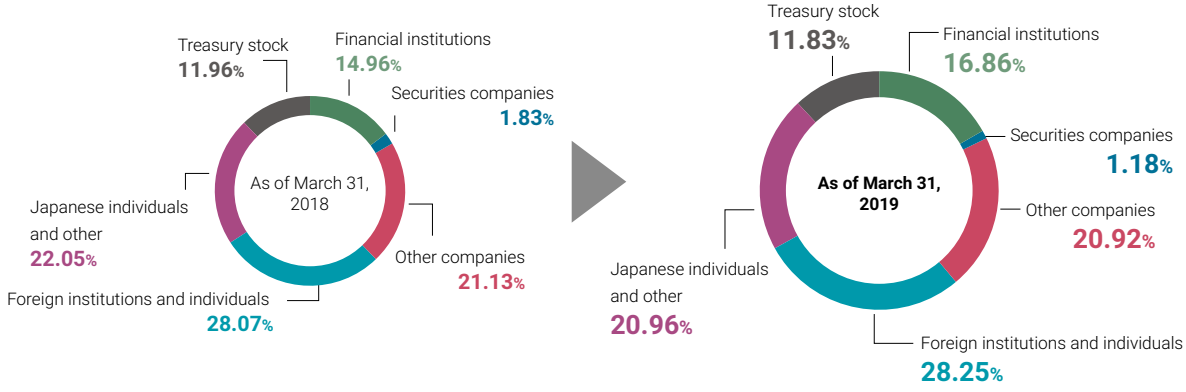
Stock Information (As of March 31, 2019)

Number of shares authorized for issue	800,000,000
Total shares issued and outstanding	266,229,476
Number of shareholders	77,599

Major Shareholders (As of March 31, 2019)

Name of shareholder	Shares held (Thousands)	Shares ratio excluding Company's treasury stock (%)
HS Company	35,308	15.04
FSC Co., Ltd.	13,562	5.77
The Master Trust Bank of Japan, Ltd. (Trust account)	11,474	4.88
Japan Trustee Services Bank, Ltd. (Trust account)	10,244	4.36
Hajime Satomi	7,796	3.32
JP MORGAN CHASE BANK 385632	6,987	2.97
STATE STREET BANK AND TRUST COMPANY 505001	6,097	2.59
Japan Trustee Services Bank, Ltd. (Trust account 5)	3,891	1.65
ORBIS SICAV	3,744	1.59
Haruki Satomi	3,229	1.37
Total	102,337	43.59

Breakdown of Shareholders



Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2019

Millions of yen

	2018	2019
Net cash provided by (used in) operating activities:		
Income (loss) before income taxes	¥ 12,413	**¥ 6,981**
Depreciation and amortization	19,180	**18,819**
Impairment loss	2,474	**8,334**
Amount of transfer of equipment by amusement center operations business	(2,757)	**(4,585)**
Loss (gain) on sales of noncurrent assets	156	**(5,177)**
Loss on retirement of noncurrent assets	619	**132**
Loss (gain) on liquidation of subsidiaries and affiliates	0	**(1,219)**
Loss (gain) on sales of investment securities	(531)	**(1,562)**
Loss (gain) on valuation of investment securities	142	**—**
Loss (gain) on investments in partnership	(810)	**204**
Amortization of goodwill	2,169	**2,064**
Increase (decrease) in allowance for doubtful accounts	(57)	**(16)**
Increase (decrease) in provision for directors' bonuses	9	**(130)**
Increase (decrease) in net defined benefit liability	(857)	**791**
Increase (decrease) in provision for bonuses	(27)	**(352)**
Increase (decrease) in provision for dismantling of fixed assets	(233)	**—**
Interest and dividends income	(1,313)	**(734)**
Interest expenses	712	**532**
Foreign exchange losses (gains)	69	**212**
Equity in (earnings) losses of affiliates	4,368	**3,859**
Decrease (increase) in notes and accounts receivable–trade	15,179	**(10,203)**
Decrease (increase) in inventories	6,953	**(10,004)**
Increase (decrease) in notes and accounts payable–trade	(23,760)	**3,021**
Increase (decrease) in guarantee deposits received	407	**(674)**
Other, net	(1,841)	**6,975**
Subtotal	32,665	**17,268**
Interest and dividends income received	1,308	**757**
Interest expenses paid	(726)	**(544)**
Income taxes paid	(7,901)	**(5,250)**
Income taxes refund	1,140	**2,646**
Net cash provided by (used in) operating activities	¥ 26,487	**¥ 14,876**

See accompanying notes.

Consolidated Statements of Cash Flows

Millions of yen

	2018	2019
Net cash provided by (used in) investing activities:		
Payments into time deposits	¥ (36)	**¥ (36)**
Proceeds from withdrawal of time deposits	2,711	**11**
Purchase of short-term investment securities	(3,000)	**(3,000)**
Proceeds from redemption of securities	3,000	**3,000**
Purchase of trust beneficiary right	(1,360)	**(2,697)**
Proceeds from sales of trust beneficiary right	1,058	**2,453**
Purchase of property, plant and equipment	(10,942)	**(18,235)**
Proceeds from sales of property, plant and equipment	9,564	**10,342**
Purchase of intangible assets	(10,529)	**(10,274)**
Proceeds from sales of intangible assets	—	**36**
Purchase of investment securities	(744)	**(849)**
Proceeds from sales of investment securities	2,166	**6,017**
Proceeds from redemption of investment securities	1,500	**700**
Payments for investment in partnerships	(2,161)	**(2,082)**
Proceeds from distribution of investment in partnerships	1,105	**909**
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 8 (2))	—	**(32)**
Purchase of stocks of subsidiaries and affiliates	(6,206)	**(5,282)**
Payments of loans receivable	(1,587)	**(559)**
Collection of loans receivable	528	**409**
Reduction of investments in trusts	200	**400**
Payments for lease deposits	(5,192)	**(2,554)**
Collection of lease deposits	763	**3,494**
Other, net	(1,259)	**(4,284)**
Net cash provided by (used in) investing activities	(20,422)	**(22,113)**
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	(0)	**—**
Proceeds from long-term loans payable	10,000	**14,971**
Repayment of long-term loans payable	(6,354)	**(15,844)**
Redemption of bonds	(19,500)	**(10,000)**
Purchase of treasury stock	(13)	**(11)**
Purchase of treasury stock of subsidiaries	(2,201)	**—**
Proceeds from exercise of stock options	—	**512**
Cash dividends paid	(9,380)	**(9,379)**
Dividends paid to non-controlling interests	—	**(7)**
Other, net	(1,329)	**(909)**
Net cash provided by (used in) financing activities	(28,780)	**(20,668)**
Effect of exchange rate change on cash and cash equivalents	72	**(595)**
Net increase (decrease) in cash and cash equivalents	(22,642)	**(28,501)**
Cash and cash equivalents at beginning of period	199,208	**176,566**
Increase in cash and cash equivalents from newly consolidated subsidiaries	25	**—**
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries	(25)	**—**
Cash and cash equivalents at end of period (Note 8 (1))	¥176,566	**¥148,064**

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2019

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 2018 and 2019. 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 2018 consolidated financial statements to conform to the classifications used in 2019. 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: 74

From the fiscal year ended March 31, 2019, the followings have been excluded from the scope of consolidation; SEGA SAMMY BUSAN INC,and one other company, because of their completion of liquidation.

(2) Number of non-consolidated subsidiaries: 17

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: 6

(2) Number of affiliated companies accounted for under the equity method: 12

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

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

3. Accounting policies

(1) Valuation and accounting treatment for important assets

1) Held-to-maturity debt securities

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

2) Available-for-sale securities

Securities with fair market value:

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

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and unrealized gains or losses are reported as income or expenses for the fiscal year ended March 31, 2019.

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.

Notes to Consolidated Financial Statements

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:
Depreciation method for such assets is the same as that which applies to property, plant and equipment owned by the Company.
Finance leases which do not transfer ownership:
Depreciated by using the straight-line method assuming the useful life equals to the lease period with a residual value of zero.

(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, 2019 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, 2019.
2) Treatment of actuarial gains and losses and prior service costs:
Prior service costs are amortized equally over a certain number of years (10 years in principle) within the average remaining years of service for the employees at the time of accrual, or are charged to income collectively at the time of accrual. Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 years in principle) within average remaining years of service for the employees at the time of accrual in each fiscal year, commencing from the following fiscal year after the accrual for each employee, or are charged to income collectively in the following fiscal year after the accrual.

(6) Accounting for significant hedge
1) Hedge accounting
The Group adopts deferred hedge accounting. However, special treatment is used for qualifying interest rate swap transactions.
Moreover, allocation hedge accounting is applied to qualifying currency swap transactions and forward exchange contracts.
2) Hedging instruments and hedged items
Hedging instrument: Currency swaps, interest rate swaps, and forward exchange contracts
Hedged item: Interest on loans payable, receivables and payables denominated in foreign currencies
3) Hedge policy
Derivative instruments are used to mitigate risks associated with foreign exchange and interest rate fluctuations.
As a rule, hedging is only used for items in which actual demand exists, and not for speculative purposes.
4) Evaluation of hedge effectiveness
Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market between the hedged item and the hedging instrument. Evaluation of hedge effectiveness at fiscal year-end is omitted for currency swap transactions, as material conditions for the notional principal of hedging instruments and those for hedged items are the same and these transactions are deemed to offset the market fluctuations.
Evaluation of hedge effectiveness at fiscal year-end is omitted also for interest rate swap transactions applied to special treatment.

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

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

(9) Accounting method for consumption taxes

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

(10) Application of the Consolidated Taxation System

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

3 Unapplied New Accounting Standards

The Company and its domestic consolidated subsidiaries
- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 30, 2018)

(1) Overview

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

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

(2) Scheduled date of application

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

(3) Effects of application of the accounting standards

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

Foreign consolidated subsidiaries
- "Leases" (IFRS 16)
- "Leases" (U.S. GAAP ASU 2016-02)

(1) Overview

These accounting standards were revised with a focus on the recognition of assets and liabilities of all of the lessee's leases in principle.

(2) Scheduled date of application

IFRS 16 will be applied from the beginning of the fiscal year ending March 31, 2020 and U.S. GAAP ASU 2016-02 will be applied from the beginning of the fiscal year ending March 31, 2021.

(3) Effects of application of the accounting standards

Applying IFRS16 for the fiscal year ending March 31, 2020, the beginning balance for assets and liabilities are increased ¥2,552 million, ¥2,550 million respectively. Also the beginning balance for retained earnings are ¥147 million decreased. In regard to ASU 2016-02 (Topic 842), the effects of the applying are under evaluation.

4 Changes in Presentation

(Changes in line with the application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting")

The Company has applied the "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018. Hereinafter referred to as the "Partial Amendments to the Tax Effect Accounting Standard.") effective from the beginning of the current fiscal year. Accordingly, notes related to tax effect accounting were changed, and the Company changed the presentation to the method where deferred tax assets were presented under "Investments and other assets" and deferred tax liabilities were presented under "Noncurrent liabilities."

As a result, in the consolidated balance sheets of the previous fiscal year, "deferred tax assets" of "current assets" decreased by ¥5,018 million and "deferred tax assets" of "investments and other assets" increased by ¥4,980 million. In addition, "deferred tax liabilities" of "current liabilities" decreased by ¥32 million and "deferred tax liabilities" of "noncurrent liabilities" decreased by ¥6 million.

Deferred tax assets of the same taxable entity are offset against deferred tax liabilities, and total assets decreased by ¥38 million compared to before the change.

Furthermore, in the notes to "Tax effect accounting", contents described in the "Accounting Standard for Tax Effect Accounting" explanatory note (Note 8) (excluding the total amount of valuation allowance) and explanatory note (Note 9) set out in paragraphs 3 through 5 of the Partial Amendments to Tax Effect Accounting Standard have been added; provided, however, details related to the previous fiscal year among said contents are not described in accordance with the transitional treatment as presented in paragraph 7 of the Partial Amendments to Tax Effect Accounting Standard.

Notes to Consolidated Financial Statements

5 Notes to Consolidated Balance Sheets

(1) Assets pledged

Millions of yen

	2018	2019
Shares of subsidiaries and affiliates	¥25,973	**¥25,604**
Total	25,973	**25,604**

Note: For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. as of March 31, 2019 and 2018, ¥69,020 million (KRW700,000 million) and ¥73,920 million (KRW700,000 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

	2018	2019
Investment securities (shares)	¥27,946	**¥27,669**
Investment securities (capital contributions)	1,601	**1,073**

(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.

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

(4) Overdraft agreements and commitment line agreements

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

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2019 and 2018 are as follows:

Millions of yen

	2018	2019
Total amount of overdraft limit and commitment line agreements	¥130,400	**¥140,900**
Executed loans balance	—	**—**
Unexecuted balance	130,400	**140,900**

(5) Accounting treatment of notes expiring on the end of fiscal year

Notes matured at the end of the current fiscal year were settled as of the note exchange date.

Because the end of the current fiscal year was a holiday, the following notes that matured on March 31, 2019 were included in the balance as of March 31, 2019:

Millions of yen

	2018	2019
Notes receivable–trade	¥749	**¥1,693**
Notes payable–trade	341	**429**

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

	2018	2019
Cost of sales	¥5,860	**¥5,131**

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

Millions of yen

	2018	2019
	¥43,525	**¥46,782**

(3) Gain on sales of noncurrent assets

Millions of yen

	2018	2019
Buildings and structures	¥31	**¥(2,597)**
Machinery, equipment and vehicles	0	**52**
Land	27	**7,769**
Other property, plant and equipment	4	**0**
Total	64	**5,225**

Note: Loss on sale of buildings and structures and Gain on sale of land arising from sale of the same property in the current fiscal year were offset and presented as a gain on sales of noncurrent assets in the consolidated statement of income.

(4) Loss on sales of noncurrent assets

Millions of yen

	2018	2019
Buildings and structures	¥ —	**¥ 7**
Machinery, equipment and vehicles	0	**0**
Amusement machines and facilities	220	**—**
Land	—	**3**
Other property, plant and equipment	—	**36**
Total	220	**47**

Notes to Consolidated Financial Statements

(5) Impairment loss

Previous fiscal year (From April 1, 2017 to March 31, 2018)

Millions of yen

Use	Location	Type	Amount
Amusement facilities	Nagoya-shi, Aichi and 2 other locations	Buildings and structures	¥ 155
		Other property, plant and equipment, etc.	19
Assets for business	Shinagawa-ward, Tokyo and 15 other locations	Buildings and structures	448
		Machinery, equipment and vehicles	155
		Amusement machines and facilities	98
		Other property, plant and equipment	556
		Other intangible assets	335
		Construction in progress	69
Unutilized assets	Nanyo-shi, Yamagata	Land	11
Other	The United States of America and 1 other location	Goodwill	620
		Total	2,474

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 unutilized assets are calculated as memorandum values mainly because future cash flows are not expected. Recoverable values of assets for business and goodwill are primarily measured based on values in use with a principal discount rate of 8.9%. However, assets groups which are expected to generate no future cash flow are calculated as memorandum values.

Current fiscal year (From April 1, 2018 to March 31, 2019)

Millions of yen

Use	Location	Type	Amount
Amusement facilities	Zama-shi, Kanagawa and 2 other locations	Buildings and structures	¥ 46
		Amusement machines and facilities	45
		Other property, plant and equipment, etc.	26
Assets for business	Shinagawa -ward, Tokyo and 9 other locations	Buildings and structures	603
		Amusement machines and facilities	145
		Other property, plant and equipment	655
		Other intangible assets	6,810
		Total	8,334

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

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

Millions of yen

	2018	2019
Valuation difference on available-for-sale securities:		
The amount arising during the period	¥ (624)	**¥ 7,123**
Reclassification adjustments	(183)	**(1,561)**
Before adjustments to tax effects	(807)	**5,561**
The amount of tax effects	307	**(1,745)**
Valuation difference on available-for-sale securities	(500)	**3,816**
Deferred gains or losses on hedges:		
The amount arising during the period	2	**12**
Reclassification adjustments	(3)	**(12)**
Before adjustments to tax effects	(0)	**0**
The amount of tax effects	—	**—**
Deferred gains or losses on hedges	(0)	**0**
Foreign currency translation adjustment:		
The amount arising during the period	491	**(129)**
Reclassification adjustments	—	**(1,224)**
Before adjustments to tax effects	491	**(1,353)**
The amount of tax effects	(301)	**301**
Foreign currency translation adjustment	189	**(1,052)**
Remeasurements of defined benefit plans, net of tax:		
The amount arising during the period	(797)	**(762)**
Reclassification adjustments	(379)	**532**
Before adjustments to tax effects	(1,176)	**(229)**
The amount of tax effects	137	**182**
Remeasurements of defined benefit plans, net of tax	(1,039)	**(46)**
Share of other comprehensive income of entities accounted for using equity method:		
The amount arising during the period	2,191	**(1,695)**
Reclassification adjustments	—	**—**
Share of other comprehensive income of entities accounted for using equity method:	2,191	**(1,695)**
Total other comprehensive income	¥ 841	**¥ 1,022**

Notes to Consolidated Financial Statements

7 Notes to Consolidated Statements of Changes in Net Assets

Previous fiscal year (From April 1, 2017 to March 31, 2018)

1. Number of outstanding common stock

Shares

Type of stock	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Common stock	266,229,476	—	—	266,229,476

2. Number of outstanding treasury stock

Shares

Type of stock	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Common stock	31,841,869	9,029	394	31,850,504

(Summary of the change)

Increase

Increase due to purchase of odd-lot stock 9,029 shares

Decrease

Decrease due to sales of odd-lot stock 394 shares

3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares) As of April 1, 2017	Increase	Decrease	As of March 31, 2018	Balance at March 31, 2018 (Millions of yen)
The Company	Subscription rights to shares as stock options	—	—	—	—	—	¥819
Total			—	—	—	—	819

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 12, 2017	Common stock	¥4,687	¥20	March 31, 2017	June 2, 2017
Board of Directors' meeting held on November 2, 2017	Common stock	4,687	20	September 30, 2017	December 1, 2017

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2018, 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 11, 2018	Common stock	Retained earnings	¥4,687	¥20	March 31, 2018	June 1, 2018

Current fiscal year (From April 1, 2018 to March 31, 2019)

1. Number of outstanding common stock

Shares

Type of stock	As of April 1, 2018	Increase	Decrease	As of March 31, 2019
Common stock	**266,229,476**	**—**	**—**	**266,229,476**

2. Number of outstanding treasury stock

Shares

Type of stock	As of April 1, 2018	Increase	Decrease	As of March 31, 2019
Common stock	**31,850,504**	**6,509**	**363,086**	**31,493,927**

(Summary of the change)

Increase

Increase due to purchase of odd-lot stock 6,509 shares

Decrease

Decrease due to sales of odd-lot stock 286 shares

Decrease due to exercise of stock options: 362,800 shares

3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)				Balance at March 31, 2019 (Millions of yen)
			As of April 1, 2018	Increase	Decrease	As of March 31, 2019	
The Company	Subscription rights to shares as stock options	—	—	—	—	—	¥912
Total			—	—	—	—	912

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, 2018	Common stock	**¥4,687**	**¥20**	March 31, 2018	June 1, 2018
Board of Directors' meeting held on November 1, 2018	Common stock	**4,689**	**20**	September 30, 2018	December 3, 2018

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2019, 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 10, 2019	Common stock	Retained earnings	**¥4,694**	**¥20**	March 31, 2019	June 3, 2019

8 Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2019 and 2018 consisted of the following:

Millions of yen

	2018	2019
Cash and deposits	¥157,896	**¥137,425**
Short-term investment securities	24,694	**14,500**
Total	182,591	**151,925**
Time deposits with maturities of more than three months	(334)	**(360)**
Short-term investment securities with period from the acquisition date to the redemption date exceeding three months	(5,690)	**(3,500)**
Cash and cash equivalents	176,566	**148,064**

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

Previous fiscal year (From April 1, 2017 to March 31, 2018)

Not applicable.

Current fiscal year (From April 1, 2018 to March 31, 2019)

The information is omitted due to insignificance.

Notes to Consolidated Financial Statements

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, 2019 and 2018, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous fiscal year (From April 1, 2017 to March 31, 2018)

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, 2018 to March 31, 2019)

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, 2019 and 2018

Millions of yen

	2018	2019
Due within one year	¥151	**¥151**
Due after one year	769	**618**
Total	921	**769**

Accumulated impairment loss on leased assets as of March 31, 2019 and 2018

Millions of yen

	2018	2019
Accumulated impairment loss on leased assets	¥706	**¥585**

(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, 2019 and 2018, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Millions of yen

	2018	2019
Lease payments	¥151	**¥151**
Reversal of allowance for impairment loss on leased assets	123	**121**
Depreciation	124	**124**
Interest expenses	21	**18**

1. Finance lease transactions

(1) Details of lease assets

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

(2) The methods of depreciation for lease assets

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

2. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2019 and 2018 are as follows:

Millions of yen

	2018	2019
Due within one year	¥ 1,665	**¥ 5,289**
Due after one year	17,707	**18,544**
Total	19,372	**23,834**

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 "(5) Accounting for significant hedge" in "Note 2 - Summary of Significant Accounting Policies, 3. Accounting Policies."

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

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

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

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

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

Forward exchange contracts are used to hedge foreign currency exchange fluctuation risks identified by currency and by month, in parts of trade receivables and payables and loan receivables denominated in

Notes to Consolidated Financial Statements

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 below.)

Previous fiscal year (As of March 31, 2018)

Millions of yen

	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥157,896	¥157,896	¥ —
(2) Notes and accounts receivable–trade	29,339	29,339	(0)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	2,114	2,124	9
2) Available-for-sale securities (*1)	51,987	51,987	—
3) Equity securities issued by affiliated companies	839	1,112	273
Total assets	242,177	242,460	283
(1) Notes and accounts payable–trade	21,716	21,716	—
(2) Short-term loans payable	15,838	15,838	—
(3) Long-term loans payable	38,661	38,885	(224)
(4) Current portion of corporate bonds	10,000	10,000	—
(5) Corporate bonds payable	22,500	22,591	(91)
Total liabilities	108,716	109,032	(315)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	17	17	—
Total derivative transactions	17	17	—

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

Current fiscal year (As of March 31, 2019)

Millions of yen

	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	**¥137,425**	**¥137,425**	**¥ —**
(2) Notes and accounts receivable–trade	**39,209**	**39,200**	**(8)**
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	**1,411**	**1,418**	**7**
2) Available-for-sale securities	**45,962**	**45,962**	**—**
3) Equity securities issued by affiliated companies	**818**	**831**	**12**
Total assets	**224,827**	**224,838**	**10**
(1) Notes and accounts payable–trade	**24,758**	**24,758**	**—**
(2) Short-term loans payable	**13,352**	**13,352**	**—**
(3) Long-term loans payable	**40,334**	**40,293**	**40**
(4) Current portion of corporate bonds	**12,500**	**12,500**	**—**
(5) Corporate bonds payable	**10,000**	**10,020**	**(20)**
Total liabilities	**100,946**	**100,925**	**20**
Derivative transactions			
1) Derivative transactions to which hedge accounting is not applied	**—**	**—**	**—**
2) Derivative transactions to which hedge accounting is applied	**—**	**—**	**—**
Total derivative transactions	**—**	**—**	**—**

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

Millions of yen

Item	2018	**2019**
Investments in unlisted stocks, etc.	¥ 2,599	**¥ 3,430**
Investments in investment limited partnerships, etc.	8,661	**8,432**
Stocks of non-consolidated subsidiaries	339	**350**
Stocks of affiliates	26,767	**26,499**
Investments in capital of subsidiaries and affiliates	1,601	**1,073**

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.

Notes to Consolidated Financial Statements

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

Previous fiscal year (As of March 31, 2018)

Millions of yen

	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥157,896	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	29,328	11	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	700	700	500	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	5,000	—	—	—
Available-for-sale securities with maturities (Other)*	19,400	950	—	—
Total	212,325	1,661	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.

Current fiscal year (As of March 31, 2019)

Millions of yen

	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	**¥137,425**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable–trade	**38,972**	**236**	**—**	**—**
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	**500**	**200**	**500**	**200**
Available-for-sale securities with maturities (Negotiable certificates of deposit)	**—**	**—**	**—**	**—**
Available-for-sale securities with maturities (Other)*	**14,000**	**200**	**—**	**—**
Total	**190,897**	**636**	**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, 2018)

Millions of yen

Category	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥15,838	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	13,341	13,320	—	10,000	2,000
Corporate bonds payable	10,000	12,500	10,000	—	—	—
Lease obligations	333	228	175	104	55	50
Other interest-bearing debt: Accounts payable–facilities	542	92	22	14	14	10

Current fiscal year (As of March 31, 2019)

Millions of yen

Category	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	**¥13,352**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥—**
Long-term loans payable	**—**	**13,331**	**3**	**10,000**	**17,000**	**—**
Corporate bonds payable	**12,500**	**10,000**	**—**	**—**	**—**	**—**
Lease obligations	**365**	**312**	**215**	**133**	**117**	**7**
Other interest-bearing debt: Accounts payable–facilities	**92**	**22**	**14**	**14**	**8**	**1**

11 Investment Securities

1. Held-to-maturity debt securities

Previous fiscal year (As of March 31, 2018)

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥ —
2) Corporate bonds	1,614	1,626	11
3) Other	—	—	—
Total	1,614	1,626	11

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	500	497	(2)
3) Other	—	—	—
Total	500	497	(2)

Current fiscal year (As of March 31, 2019)

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	**¥ —**	**¥ —**	**¥—**
2) Corporate bonds	**1,011**	**1,018**	**7**
3) Other	**—**	**—**	**—**
Total	**1,011**	**1,018**	**7**

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	**¥ —**	**¥ —**	**¥ —**
2) Corporate bonds	**400**	**400**	**(0)**
3) Other	**—**	**—**	**—**
Total	**400**	**400**	**(0)**

2. Available-for-sale securities

Previous fiscal year (As of March 31, 2018)

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

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥23,009	¥ 9,596	¥13,413
2) Bonds	3,201	3,200	1
3) Other	2,945	2,543	402
Total	29,157	15,339	13,817

Notes to Consolidated Financial Statements

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

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥ 365	¥ 420	¥ (55)
2) Bonds	2,965	3,073	(107)
3) Other	19,499	19,499	—
Total	22,830	22,993	(163)

Note: Compound financial instruments are included in "Bonds" and valuation difference of ¥52 million is recorded under "Other income."

Current fiscal year (As of March 31, 2019)

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

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	**¥29,027**	**¥ 9,007**	**¥20,019**
2) Bonds	**3,200**	**3,200**	**0**
3) Other	**1,517**	**1,364**	**152**
Total	**33,745**	**13,572**	**20,173**

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

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	**¥ 238**	**¥ 321**	**¥ (82)**
2) Bonds	**978**	**1,083**	**(105)**
3) Other	**11,000**	**11,000**	**—**
Total	**12,217**	**12,405**	**(188)**

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

Previous fiscal year (As of March 31, 2018)

Millions of yen

Category	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥1,647	¥508	¥ 1
2) Bonds	—	—	—
3) Other	518	23	—
Total	2,166	532	1

Current fiscal year (As of March 31, 2019)

Millions of yen

Category	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	**¥5,835**	**¥1,344**	**¥139**
2) Bonds	**—**	**—**	**—**
3) Other	**181**	**366**	**—**
Total	**6,017**	**1,701**	**139**

4. Impairment loss on securities

Previous fiscal year (From April 1, 2017 to March 31, 2018)

During the fiscal year ended March 31, 2018, the Group recognized impairment loss on available-for-sale securities in an amount of ¥142 million.

Current fiscal year (From April 1, 2018 to March 31, 2019)

Not applicable.

12 Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2018)
Not applicable.

Current fiscal year (As of March 31, 2019)
Not applicable.

(2) Compound financial instruments

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

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2018)

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	¥202	¥–	¥(0)

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

Current fiscal year (As of March 31, 2019)
Not applicable.

(2) Interest rate-related derivatives

Previous fiscal year (As of March 31, 2018)

Millions of yen

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Primary method (Note 2)	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	¥20,196	¥20,196	¥18
Special treatment for interest rate swaps	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	30,000	21,660	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	–	Note 3
Total			51,184	41,856	–

Notes: 1. Fair values are calculated using prices quoted by financial institutions.
2. Derivatives for which 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.

Notes to Consolidated Financial Statements

Current fiscal year (As of March 31, 2019)

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	**¥30,000**	**¥13,320**	**Note**
Total			**30,000**	**13,320**	**—**

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

13 Retirement Benefits

1. Overview of retirement benefit plans

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

In addition to the above plan, the Company and certain domestic consolidated subsidiaries introduced new selective defined contribution pension plans from the current fiscal year. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries already have 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.

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

	2018	**2019**
Projected benefit obligations at the beginning of the period	¥23,845	**¥27,066**
Service costs–benefits earned during the year	1,910	**2,124**
Interest cost on projected benefit obligations	112	**90**
Actuarial differences accrued	949	**551**
Retirement benefit paid	(401)	**(489)**
Prior service costs incurred	(67)	**—**
Increased liability following transition of retirement benefit plan	564	**—**
Impact of the change from the simplified method to the principle method	91	**—**
Other	60	**157**
Projected benefit obligations at the end of the period	27,066	**29,499**

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

Millions of yen

	2018	**2019**
Plan assets at the beginning of the period	¥22,030	**¥26,002**
Expected return on plan assets	423	**489**
Actuarial differences accrued	84	**(211)**
Contribution of employer	3,396	**2,885**
Retirement benefit paid	(346)	**(458)**
Estimated amount of distribution from fund following transition of retirement benefit plan	408	**—**
Impact of the change from the simplified method to the principle method	6	**—**
Other	—	**(1)**
Plan assets at the end of the period	26,002	**28,707**

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

Millions of yen

	2018	2019
Net defined benefit liability at the beginning of the period	¥659	**¥600**
Retirement benefit expenses	105	**77**
Retirement benefit paid	(70)	**(25)**
Impact of the change from the simplified method to the principle method	(85)	**—**
Other	(8)	**3**
Net defined benefit liability at the end of the period	600	**656**

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

Millions of yen

	2018	2019
Funded projected benefit obligations	¥ 25,340	**¥ 27,620**
Plan assets	(26,002)	**(28,707)**
	(662)	**(1,087)**
Unfunded projected benefit obligations	2,326	**2,535**
Net amount of liabilities and assets recorded on the consolidated balance sheets	1,663	**1,448**
Net defined benefit liability	3,572	**4,019**
Net defined benefit asset	(1,908)	**(2,570)**
Net amount of liabilities and assets recorded on the consolidated balance sheets	1,663	**1,448**

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

(5) Breakdown of retirement benefit expenses

Millions of yen

	2018	2019
Service costs–benefits earned during the year	¥1,910	**¥2,124**
Interest cost on projected benefit obligations	112	**90**
Expected return on plan assets	(423)	**(489)**
Amortization of actuarial difference	(311)	**532**
Amortization of prior service cost	(67)	**—**
Retirement benefit expenses using the simplified method	105	**77**
Other	6	**54**
Retirement benefit expenses of defined benefit pension plan	1,332	**2,390**

Note: Other than the retirement benefit expenses stated above, early extra retirement payments of ¥22 million and ¥175 million were recorded under other expenses for the years ended March 31, 2018 and 2019, respectively.
Additionally, losses arising from the dissolution of employees' pension fund and a transfer of retirement benefit plan have been recorded as other expenses. The recorded amount was ¥156 million for the previous fiscal year.

Notes to Consolidated Financial Statements

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

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

Millions of yen

	2018	2019
Actuarial difference	¥(1,176)	**¥(229)**
Total	(1,176)	**(229)**

(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

	2018	2019
Unrecognized actuarial differences	¥(211)	**¥(441)**
Total	(211)	**(441)**

(8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

	2018	2019
Debt securities	56%	**57%**
Share of stock	21	**10**
Cash and deposits	6	**19**
General account	11	**10**
Other	6	**2**
Total	100	**100**

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

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

(9) Matters concerning basis for the actuarial calculation

Basis for the actuarial calculation

	2018	2019
Discount rate	0.0–1.3%	**0.0–1.0%**
Long-term expected rate of return on plan assets	1.6–2.0%	**1.6–2.0%**
Salary increase ratio (Note)	Principally, salary increase index by ages as of March 31, 2016 is used.	Principally, salary increase index by ages as of March 31, 2016 is used.

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

3. Defined contribution pension plans

The amount to be paid by the Company and its consolidated subsidiaries to the defined contribution pension plans were ¥332 million and ¥697 million for the years ended March 31, 2018 and 2019, respectively.

14 Stock Option Plan

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

Millions of yen

	2018	2019
Selling, general and administrative expenses	¥515	**¥199**

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

Millions of yen

	2018	2019
Other income	¥—	**¥13**

3. Contents, scale and movement of stock options

Previous fiscal year (From April 1, 2017 to March 31, 2018)

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

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

Notes to Consolidated Financial Statements

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

Shares

Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Not exercisable stock options		
Stock options outstanding at April 1, 2017	250,000	3,820,000
Stock options granted	—	—
Forfeitures	—	28,500
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2018	250,000	3,791,500
Exercisable stock options		
Stock options outstanding at April 1, 2017	—	—
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	—	—
Stock options outstanding at March 31, 2018	—	—

The following table summarizes the price information of stock options

Yen

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

Current fiscal year (From April 1, 2018 to March 31, 2019)

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

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

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

Shares

Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Not exercisable stock options		
Stock options outstanding at April 1, 2018	250,000	3,791,500
Stock options granted	—	—
Forfeitures	—	62,000
Conversion to exercisable stock options	250,000	3,729,500
Stock options outstanding at March 31, 2019	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2018	—	—
Conversion from not exercisable stock options	250,000	3,729,500
Stock options exercised	165,000	197,800
Forfeitures	—	52,500
Stock options outstanding at March 31, 2019	85,000	3,479,200

The following table summarizes the price information of stock options

Yen

Company name	The Company	The Company
Date of the resolution	August 2, 2016	August 2, 2016
Exercise price	¥1,413	¥1,413
Average market price of the stock at the time of exercise	1,447	1,696
Fair value of the stock option at the date of grant	256	256

4. Estimation of fair value of the stock options

Previous fiscal year (From April 1, 2017 to March 31, 2018)
Not applicable.

Current fiscal year (From April 1, 2018 to March 31, 2019)
Not applicable.

5. Estimation of number of exercisable stock options

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

Notes to Consolidated Financial Statements

15 Income Taxes

1. Significant components of deffered tax assets and liability

Millions of yen

	2018	2019
Deferred tax assets:		
Allowance for doubtful accounts	¥ 225	**¥ 192**
Loss on valuation of inventories	1,436	**1,623**
Provision for bonuses	1,845	**1,810**
Net defined benefit liability	1,431	**1,438**
Depreciation expense	15,627	**17,769**
Loss on valuation of investment securities	621	**515**
Impairment loss	2,768	**2,579**
Other	10,112	**11,772**
Tax loss carried forward	49,987	**42,613**
Total	84,055	**80,314**
Valuation allowance for tax loss carried forward (Note 2)	—	**(41,782)**
Valuation allowance for deductible temporary differences	—	**(27,631)**
Subtotal of valuation allowance (Note 1)	(71,427)	**(69,413)**
Offset against deferred tax liabilities	(6,235)	**(6,802)**
Net deferred tax assets	6,392	**4,098**
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(4,799)	**(6,483)**
Other	(3,923)	**(2,429)**
Subtotal of deferred tax liabilities	(8,722)	**(8,912)**
Offset against deferred tax assets	6,235	**6,802**
Total	(2,487)	**(2,110)**
Recorded deferred tax assets	3,905	**1,988**

Notes: 1. Valuation allowance decreased by ¥2,014 million. The major contributing factor for this decrease was the end of the carryforward period of tax loss of consolidated subsidiaries at the end of the current fiscal year.
2. Amount of tax loss carried forward and their deferred tax assets by carryforward period are as follows.

Current year (As of March 31, 2019)

Millions of yen

	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years	Total
Tax loss carried forward (a)	4,145	3,141	5,847	5,418	2,794	21,265	42,613
Valuation allowance	(4,145)	(3,141)	(5,303)	(5,418)	(2,531)	(21,242)	(41,782)
Deferred tax assets	—	—	544	0	262	22	(b) 830

(a) The amount of tax loss carried forward is the amount under the normal effective statutory tax rate.
(b) Regarding the amount of tax loss carried forward of ¥42,613 million (amount under the normal effective statutory tax rate), deferred tax assets of ¥830 million were recorded. The Company deemed that a partial amount of tax loss carried forward can be recovered mainly in the following fiscal year due to the estimated amount of taxable income.

2. Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the fiscal years ended March 31, 2018 and 2019

	2018	**2019**
Statutory tax rate	30.9%	**30.6%**
(Reconciliation)		
Changes in valuation allowance	(129.6)	**(55.1)**
Permanently non-deductible expenses including entertainment expenses	5.6	**7.4**
Amortization of goodwill	5.6	**7.7**
Difference of tax rates for consolidated subsidiaries	1.6	**(3.1)**
Tax credit for experiment and research expenses	(14.5)	**(22.0)**
Tax loss carried forward	67.1	**81.4**
Effect of adjustment for consolidation	4.1	**16.4**
Adjustments of deferred tax assets for enacted changes in tax laws and rates	56.7	**—**
Other	(3.0)	**(2.4)**
Effective tax rate for financial statement purposes	24.5	**61.0**

16 Business Combination

The information is omitted due to its insignificance.

17 Asset Retirement Obligations

Previous fiscal year (As of March 31, 2018)
The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

Current fiscal year (As of March 31, 2019)
The information is omitted due to the immateriality of the total amount of the asset retirement obligations.

18 Rental Property and Other Real Estate

Previous fiscal year (As of March 31, 2018)
The information is omitted due to the immateriality of the total amount of the rental property and other real estate.

Current fiscal year (As of March 31, 2019)
The information is omitted due to the immateriality of the total amount of the rental property and other real estate.

Notes to Consolidated Financial Statements

19 Segment Information

1. Outline of reporting segments

Reporting segments of the Group are the organizational units for which separated financial information is available, and on the basis of which the Board of Directors makes decision on the allocation of management resources and examines financial performance on a regular basis.
Planning of business development and strategies as well as execution of business activities in respect of each product and service is carried out by each Group company that provides such product and service.
As such, the Group comprises segments classified by product and service provided through the business run by each company, in which the "Pachislot and Pachinko Machines Business," the "Entertainment Contents Business" and the "Resort Business" are the reporting segments.

Line of business at each reporting segment is as follows:

Segment	Main product and business
Pachislot and Pachinko Machines Business	Development, manufacture and sales of pachislot and pachinko machines
Entertainment Contents Business	Development and sales of digital game software serving as the main axis of segments; development and sales of packaged game software 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 golf courses, etc. in the integrated resorts business and other facilities businesses

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."

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

Previous fiscal year (From April 1, 2017 to March 31, 2018)

Millions of yen

	Reporting segment					
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal	Adjustment (Note)	Amount in consolidated financial statements
Net sales:						
Sales to third parties	¥105,649	¥208,081	¥ 9,932	¥323,663	¥ 1	¥323,664
Inter-segment sales and transfers	759	1,482	22	2,263	(2,263)	—
Total	106,409	209,563	9,954	325,927	(2,262)	323,664
Segment income (loss)	11,923	14,841	(2,502)	24,262	(6,541)	17,720
Segment assets	84,129	167,097	53,373	304,600	168,866	473,467
Other items:						
Depreciation	6,233	11,168	1,026	18,427	752	19,180
Investments in affiliates accounted for by the equity method	463	572	25,973	27,009	839	27,848
Increases in property, plant and equipment and intangible assets	3,656	17,254	1,961	22,873	1,323	24,196

Notes: 1. Elimination of inter-segment transactions of ¥18 million and general corporate expenses of ¥(6,560) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(6,541) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
2. Adjustments for segment assets of ¥168,866 million includes elimination of inter-segment transactions of ¥(16,815) million and general corporate assets of ¥185,682 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 affiliates accounted for using the equity method are investments in affiliates 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, 2018 to March 31, 2019)

Millions of yen

	Reporting segment					
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal	Adjustment (Note)	Amount in consolidated financial statements
Net sales:						
Sales to third parties	**¥101,425**	**¥219,631**	**¥10,589**	**¥331,647**	**¥ 1**	**¥331,648**
Inter-segment sales and transfers	**928**	**1,149**	**49**	**2,127**	**(2,127)**	**—**
Total	**102,354**	**220,781**	**10,639**	**333,774**	**(2,126)**	**331,648**
Segment income (loss)	**13,490**	**9,857**	**(2,412)**	**20,935**	**(7,855)**	**13,079**
Segment assets	**80,035**	**176,384**	**44,836**	**301,256**	**163,398**	**464,654**
Other items:						
Depreciation	**4,962**	**12,011**	**876**	**17,849**	**969**	**18,819**
Investments in affiliates accounted for by the equity method	**446**	**693**	**25,604**	**26,745**	**818**	**27,564**
Increases in property, plant and equipment and intangible assets	**5,060**	**25,030**	**192**	**30,283**	**4,141**	**34,424**

Notes: 1. Elimination of inter-segment transactions of ¥(7) million and general corporate expenses of ¥(7,848) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(7,855) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
2. Adjustments for segment assets of ¥163,398 million includes elimination of inter-segment transactions of ¥(16,326) million and general corporate assets of ¥179,724 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 affiliates accounted for using the equity method are investments in affiliates 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, 2017 to March 31, 2018)

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
¥267,992	¥34,608	¥10,236	¥10,826	¥323,664

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

(2) Property, plant and equipment
Description is omitted, since property, plant and equipment in Japan exceeded 90% of those stated in the consolidated balance sheets.

3. Information by each major customer
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.

Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2018 to March 31, 2019)

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
¥277,903	**¥33,373**	**¥10,937**	**¥9,433**	**¥331,648**

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

(2) Property, plant and equipment

Description is omitted, since property, plant and equipment in Japan exceeded 90% of those stated in the consolidated balance sheets.

3. Information by each major customer

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, 2017 to March 31, 2018)

Millions of yen

	Reporting segment					
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal	Adjustment	Amount in consolidated financial statements
Impairment loss	¥270	¥2,203	¥—	¥2,474	¥—	¥2,474

Current fiscal year (From April 1, 2018 to March 31, 2019)

Millions of yen

	Reporting segment					
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal	Adjustment	Amount in consolidated financial statements
Impairment loss	**¥—**	**¥8,334**	**¥—**	**¥8,334**	**¥—**	**¥8,334**

[Information on amortization of goodwill and unamortized balance by each reporting segment]
Previous fiscal year (From April 1, 2017 to March 31, 2018)

Millions of yen

	Reporting segment					
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal	Adjustment	Amount in consolidated financial statements
Amortization	¥43	¥2,126	¥—	¥2,169	¥—	¥2,169
Balance as of March 31, 2018	—	8,541	—	8,541	—	8,541

Current fiscal year (From April 1, 2018 to March 31, 2019)

Millions of yen

	Reporting segment					
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal	Adjustment	Amount in consolidated financial statements
Amortization	**¥70**	**¥1,993**	**¥—**	**¥2,064**	**¥—**	**¥2,064**
Balance as of March 31, 2019	**—**	**6,448**	**—**	**6,448**	**—**	**6,448**

[Information on gain on negative goodwill by each reporting segment]
Previous fiscal year (From April 1, 2017 to March 31, 2018)
Not applicable.

Current fiscal year (From April 1, 2018 to March 31, 2019)
Not applicable.

20 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, 2017 to March 31, 2018)

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
PARADISE SEGASAMMY Co., Ltd.	Resort business	Underwriting of capital increase (Note 1)	¥ 5,383	—	¥—
		Provision of security (Note 2)	25,973	—	¥—

Note: 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, 2018 to March 31, 2019)

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
PARADISE SEGASAMMY Co., Ltd.	Resort business	Underwriting of capital increase (Note 1)	¥ 4,436	—	¥—
		Provision of security (Note 2)	25,604	—	—

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.

2) Directors, key individual shareholders, etc., of the Company

Previous fiscal year (From April 1, 2017 to March 31, 2018)

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
FSC Co., Ltd. (Note 1)	Non-life insurance agent	Payment of insurance	¥7	Prepaid expenses	¥3
		Receipt of insurance monies (Note 2)	1	Long-term prepaid expenses	2
		Rental income from real estate and equipment (Note 2)	3	—	—

Notes 1. Hajime Satomi, Chairman and CEO (Representative Director), and Haruki Satomi, President and COO (Representative Director), directly hold a majority of the shares of FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2018 to March 31, 2019)

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
Hajime Satomi	Director of the Company	Exercise of stock options (Note 1)	¥105	—	—
Haruki Satomi	Director of the Company	Exercise of stock options (Note 1)	127	—	—
Yuichi Amari	Director of Sammy Corporation	Exercise of stock options (Note 1)	11	—	—
FSC Co., Ltd. (Note 2)	Non-life insurance agent	Payment of insurance (Note 3)	8	Prepaid expenses	¥4
				Long-term prepaid expenses	1
		Rental income from real estate and equipment (Note 3)	1	—	—

Notes: 1. Stock options which were granted based on the resolution at the interim Board of Directors Meeting on August 2, 2016 and exercised for the fiscal year ended March 31, 2019 are listed. The transaction amount listed herein is calculated by multiplying the number of shares granted upon exercise of stock options for the fiscal year ended March 31, 2019 by the amount of payment upon exercise.
2. Hajime Satomi, Chairman and Group CEO (Representative Director), and Haruki Satomi, President and Group COO (Representative Director), directly hold a majority of the shares of FSC Co., Ltd.
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.

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, 2017 to March 31, 2018)

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
FSC Co., Ltd. (Note 1)	Non-life insurance agent	Payment of insurance (Note 2)	¥28	Prepaid expenses	¥19

Notes: 1. Hajime Satomi, Chairman and CEO (Representative Director), and Haruki Satomi, President and COO (Representative Director), directly hold a majority of the shares of FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

Current fiscal year (From April 1, 2018 to March 31, 2019)

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	Accounts	End of period account balance
FSC Co., Ltd. (Note 1)	Non-life insurance agent	Payment of insurance (Note 2)	¥27	Prepaid expenses	¥2
				Accrued expenses	0

Notes: 1. Hajime Satomi, Chairman and Group CEO (Representative Director), and Haruki Satomi, President and Group COO (Representative Director), directly hold a majority of the shares of FSC Co., Ltd.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. Consumption taxes are not included in transaction amount.

2. Notes on the parent company or significant affiliates

(1) Information on the parent company

Not applicable.

(2) Summarized financial information of significant affiliates

PARADISE SEGASAMMY Co., Ltd., is a significant affiliates in the current fiscal year, and its summarized financial statements are as follows.

Millions of yen

	2018	2019
Total current assets	¥ 21,327	**¥ 14,574**
Total noncurrent assets	114,547	**136,679**
Total current liabilities	6,533	**15,779**
Total noncurrent liabilities	73,947	**79,849**
Total net assets	55,393	**55,624**
Net sales	19,948	**30,341**
Income (loss) before income taxes	(5,469)	**(6,077)**
Income (loss)	(5,349)	**(6,028)**

21 Per Share Data

Yen

Item	2018	2019
Net assets per share	¥1,313.90	**¥1,289.32**
Net income per share	38.10	**11.27**
Net income per share (diluted)	38.04	**11.24**

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

Item	2018	2019
Total of net assets in the consolidated balance sheets (Millions of yen)	¥310,456	**¥305,337**
Amounts deducted from net assets in the consolidated balance sheets (Millions of yen)	2,505	**2,688**
(Subscription rights to shares (Millions of yen))	819	**912**
(Non-controlling interests (Millions of yen))	1,685	**1,776**
Net assets available for common stock (Millions of yen)	307,951	**302,648**
Number of common stock used to calculate net assets per share (Thousands of shares)	234,378	**234,735**

2. The assumptions of net income (loss) per share and diluted net income per share are as follows.

Item	2018	2019
Net income per share:		
Profit attributable to owners of parent (Millions of yen)	¥8,930	**¥2,642**
Amount not attributable to common stockholders (Millions of yen)	—	**—**
Profit attributable to owners of parent for common stock (Millions of yen)	8,930	**2,642**
Average number of common stocks (Thousand of shares)	234,383	**234,541**
Diluted net income per share:		
Profit attributable to owners of parent adjustment (Millions of yen)	—	**—**
Increase of common stock (Thousand of shares)	363	**575**
(Stock options) (Thousand of shares)	363	**575**
Outline of potential shares not included in calculation of net income per share (diluted) because of no dilutive effect	—	**—**

22 Significant Subsequent Events

Business combination through acquisition

The Company resolved at a Board of Directors' meeting on March 29, 2019, to acquire all shares of Two Point Studios Ltd. (Headquarters: Farnham, United Kingdom) through SEGA Games Co., Ltd., a consolidated subsidiary of the Company. The Company acquired shares of said company as of May 8, 2019 and made it a consolidated subsidiary.

(1) Outline of business combination

1) Name and business of acquired company
   Name of acquired company: Two Point Studios Ltd.
   Description of business: Development and sales of content for the PC market in the U.S. and European regions
2) Reason for business combination
   We believe that the outstanding content development capability and accumulated development expertise of Two Point Studios Ltd. will contribute to the creation of new IPs in the SEGA Group and further increase the presence of the Group in the global game market.
3) Date of business combination
   May 8, 2019
4) Legal structure of the business combination
   Purchase of shares with cash
5) Name of company after the business combination
   Unchanged
6) Share of voting rights acquired
   100%
7) Main grounds for determining the acquiring company
   This was a share acquisition for cash consideration by SEGA Games Co., Ltd., a consolidated subsidiary of the Company.

Notes to Consolidated Financial Statements

(2) Acquisition costs of the acquired company and consideration by class

Consideration for acquisition (Note)	Cash	£10 million (approximately ¥1,450 million)
Acquisition costs		£10 million (approximately ¥1,450 million)

Note: Contingent consideration for acquisition is not included in the consideration for acquisition. Contingent consideration for acquisition has yet to be determined at this time because it is specified in the agreement that the contingent consideration for acquisition shall be paid based on the future performance of the acquired company over a certain period of time. In the event where the payment of additional consideration for acquisition is required, the Company shall adjust the acquisition costs 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.

(3) Description and amounts of major relevant costs for the acquisition

Due diligence costs ¥22 million

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

Yet to be determined as the allocation of the acquisition cost has not been completed.

(5) Amount of assets acquired and liabilities assumed on the date of the business combination

Yet to be determined.

23 Supplemental Information

Supplemental information of corporate bonds

Company name	Name of bond	Issuance date	Balance as of April 1, 2018 (Millions of yen)	Balance as of March 31, 2019 (Millions of yen)	Interest rate (%)	Type	Date of maturity
The Company	1st unsecured bonds (Publicly offered bonds)	July 25, 2013	¥ 5,000	¥ —	0.73	Unsecured	July 25, 2018
	3rd unsecured bonds (Publicly offered bonds)	June 17, 2014	10,000	10,000 (10,000)	0.52	Unsecured	June 17, 2019
	3rd unsecured bonds (Private offered bonds)	September 26, 2014	7,500	2,500 (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
Total	—	—	32,500	22,500 (12,500)	—	—	—

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2019" represent the current portion of corporate bonds.
2. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2019 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
¥12,500	¥10,000	¥—	¥—	¥—

Supplemental information of borrowings

Category	Balance as of April 1, 2018 (Millions of yen)	Balance as of March 31, 2019 (Millions of yen)	Average interest rate (%)	Repayment terms
Short-term loans payable	¥ —	¥ —	—	—
Current portion of long-term loans payable due within one year	15,838	13,352	0.8	—
Current portion of lease obligations	333	365	(Note) 2	—
Long-term loans payable (Excluding current portion)	38,661	40,334	0.5	2020–2024
Lease obligations (Excluding current portion)	613	786	(Note) 2	2020–2024
Other interest-bearing debt:				
Accounts payable–facilities	542	92	1.4	—
Accounts payable–facilities (Excluding current portion)	152	60	0.9	2020–2024
Total	56,143	54,991	—	—

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, 2019 is summarized as follows:

Millions of yen

Category	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Long-term loans payable	¥13,331	¥3	¥10,000	¥17,000	¥—
Lease obligations	312	215	133	117	7
Other interest-bearing debt: Accounts payable–facilities	22	14	14	8	1

Information of asset retirement obligations

Category	Balance as of April 1, 2018 (Millions of yen)	Increase during the current period (Millions of yen)	Decrease during the current period (Millions of yen)	Balance as of March 31, 2019 (Millions of yen)
Asset retirement obligations	¥3,968	¥2,237	¥1,308	¥4,897

24 Other

Quarterly information for the current fiscal year

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Millions of yen)	68,838	171,047	250,321	331,648
Income (loss) before income taxes (Millions of yen)	749	10,665	4,021	6,981
Profit attributable to owners of parent (Millions of yen)	337	6,703	681	2,642
Net income per share (Yen)	1.44	28.60	2.90	11.27

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income (loss) per share (Yen)	1.44	27.16	(25.67)	8.36

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, 2019 and 2018, 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 misstatement, 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 judgment, 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, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

KPMG AZSA LLC
August 28, 2019
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.



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