


The SEGA SAMMY Group's Value Creation and Materiality

In accordance with our mission of *Constantly Creating, Forever Captivating*, we will work to realize a sustainable society and increase corporate value by responding to society's needs.

To achieve those objectives, we are focusing on creating value through the Group's core businesses and identifying key issues in their operations (materiality). Referencing the Sustainability Accounting Standards Board (SASB) model, an external framework, we have defined materiality for the SEGA SAMMY Group and are working to communicate it across the Group.

Value Created by Our Businesses

Value Creation in Core Business

 **Pachislot and Pachinko Machines Business**

Add stimulation to everyday life by providing experiences that move the heart through pachinko and pachislot machines.

 **Entertainment Contents Business**

Add color to life by providing experiences that move the heart through games and other entertainment.

 **Resort Business**

Add relaxation to life by providing experiences that move the heart through resorts.

“Constantly Creating, Forever Captivating”

—Making Life More Colorful—


Realize a Sustainable Society and Increased Corporate Value by Responding to Society's Needs

Materiality to Be Addressed and Key Categories

Materiality to Be Addressed

 **Environment**

We design products with a view to lowering the environmental burden of manufacturing processes and enhancing efficiency through recycling and reuse. Further, we are advancing efforts to preserve the environment and reduce power consumption.

 **Addiction**

We are taking steps to tackle and prevent different types of addiction, such as addiction to playing pachinko and pachislot machines; "gaming disorder," which is an addiction to video games that seriously affects health; and gambling addiction, which is strongly related to the integrated resort business.

 **People**

We will strive to create motivating work environments for diverse human resources and build a corporate culture with a high level of creativity. We also aim to make diversity an inherent part of our business, while also ensuring fairness by respecting human rights, prohibiting discrimination of any kind and protecting disadvantaged people.

 **Products and Services**

In order to create experiences that move the heart through entertainment to make life more colorful, we will build development processes that allow us to provide innovative products, continually improve the quality of products and services, and supply products and services that can be enjoyed with safety and confidence.

 **Governance**

We will emphasize corporate governance, including compliance and risk management, strengthen legal compliance frameworks and internal control systems, ensure sound business management, enhance transparency and improve efficiency through rigorous governance management.

Key Categories

- Reduce Environmental Burden

- Mitigate Addiction

- Enhance Job Satisfaction
- Increase Diversity
- Eliminate Inequality

- Develop Innovative Products
- Improve the Quality of Products and Services
- Supply Safe and Trusted Products

- Reinforce Governance

Related SDGs





Environment

Pachislot and Pachinko Machines Business

Increasing Reuse to Reduce Environmental Impact and Improve Profitability

The SEGA SAMMY Group is working to reduce environmental impact while also improving profitability in its mainstay Pachislot and Pachinko Machines Business.

To increase the reusability of components in pachislot and pachinko machines, we are working to standardize parts, boards and units, starting at the design and development stage. In 2016, we set a target for the number of reusable components, which was achieved in fiscal year 2019. In fiscal year 2020, we increased the efficiency and quality of reuse activities by switching from smaller components to single units for some parts used in pachinko boards and pachislot LCD screens and reels.

Also, from an environmental standpoint, we increased the recovery rate for used pachislot and pachinko machines to 93% in fiscal year 2020 by adjusting trade-in criteria and buying back used machines.

Meanwhile, we continue to work on reducing the environmental impact of the amusement machine industry in general by cooperating with other manufacturers to create shared component and unit platforms.

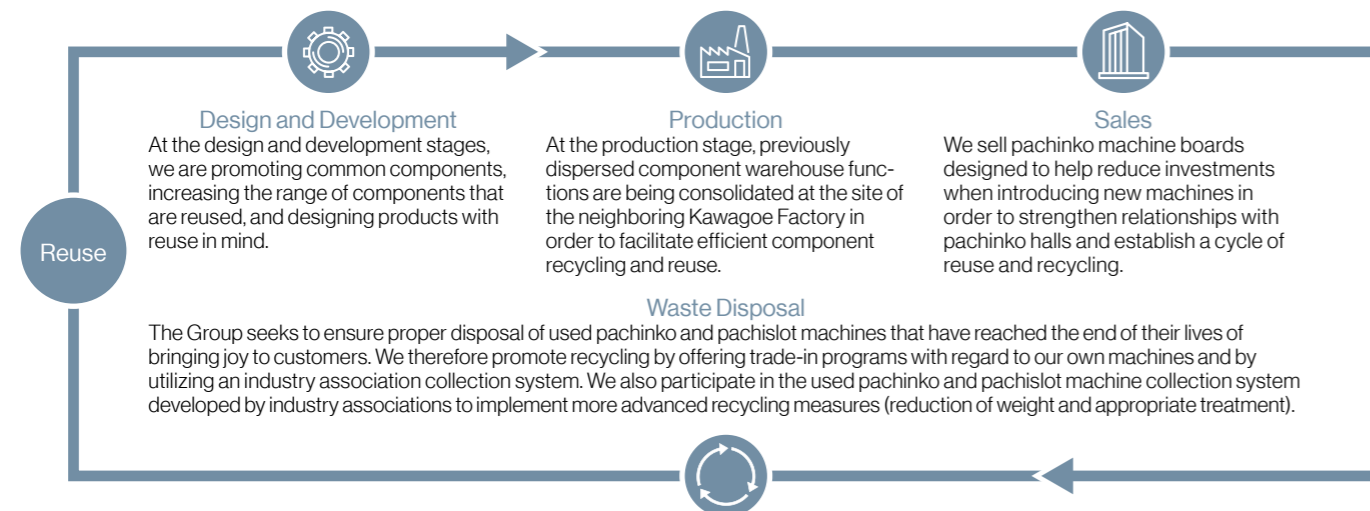
Promoting Reuse across the Value Chain

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 promoting the reuse of components, which is supporting an improvement in business profitability.

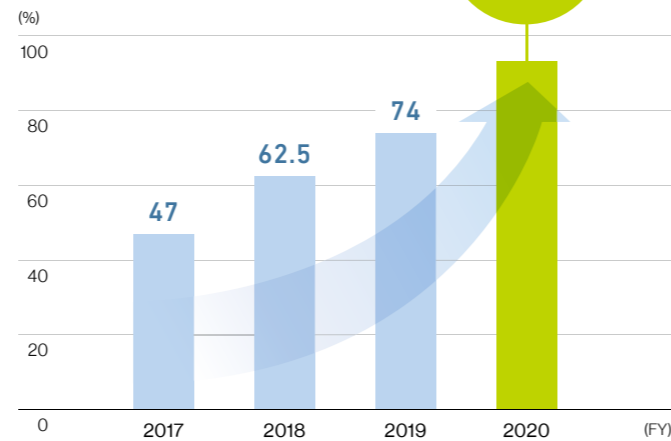
We are improving the efficiency of reuse activities by expanding the range of reused components and increasing the ratio of standardized parts and materials.

Environmental Indicators at Sammy's Kawagoe Factory
See page 61 for more details

Promotion of Reuse across the Value Chain



Recovery rate for used pachislot and pachinko machines



Number of reusable parts in pachislot and pachinko machines

	(No. of parts)		
	FY2019	FY2020	Target*
Pachinko	Roughly 30	Roughly 40	15 or more
Pachislot	Roughly 80	Roughly 80	50 or more

* Target set in fiscal year 2017



Addiction

Pachislot and Pachinko Machines Business

Countermeasures to Pachinko and Pachislot Addiction

Discussions regarding addiction countermeasures 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.

In December 2018, the Advisory Council on Addiction Countermeasures in the Pachinko and Pachislot Industry was established as a third-party body to evaluate and provide advice on addiction countermeasures, giving the industry access to objective opinions on the issue. Efforts to tackle addiction accelerated in December 2019 with the release of the Basic Guidelines for Addressing Pachinko Addiction and the Basic Guidelines for the Pachinko and Pachislot Industry for Addressing Addiction, which set out policies and specific measures to address addiction. By taking a leading role in these efforts, the SEGA SAMMY Group is contributing to the sound development of the industry.

Entertainment Contents Business

Responding to Gaming Addiction

In May 2019, the World Health Assembly of the World Health Organization (WHO) recognized excessive playing of online games and home video games as a new mental disease, referred to as "gaming disorder."

In Japan, four game-related bodies (CESA, JOGA, MCF, and JeSU) have established a joint investigative commission, which has tasked impartial outside experts to conduct research into effective countermeasures based on scientific studies. In September 2020, the team of experts began investigative research into gaming disorder, starting with a benchmarking study to look at appropriate measurement criteria and the characteristics of the disorder to support further research, such as understanding the scale of excessive gaming, its causes and protective factors.

Taking into consideration the issue of excessive game playing and micro-transactions by minors through the Gacha system, which can result in a strong gambling-like experience and high payments, the Entertainment Contents Business is taking measures to prevent excessive payments, such as setting upper limits on monthly micro-transaction payments for certain titles based on age certification, establishing internal guidelines that conform with guidelines stipulated by the Computer Entertainment Supplier's Association,

an industry body, and avoiding the use of ambiguous phrasing that can lead to excessive expectations.

Schedule for Addiction Research

- September 2020: Implement adult benchmarking study (new research theme)
- Autumn 2020 (planned): Implement child benchmarking study
- September 2020: Conduct interviews with experts on dangerous gaming behaviors
- February 2021: Conduct online survey about dangerous gaming behaviors
- September 2021: Conduct nationwide survey

Resort Business

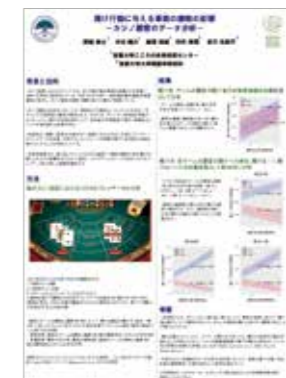
Launch of Joint Industry-Academia Research to Support Development and Operation of Safe and Trusted Integrated Resort (IR) Facilities

SEGA SAMMY Group has teamed up with Kyoto University, a national university, to conduct joint research into the processes of gambling addiction* by collating and analyzing data on the progression of gambling behaviors.

This research aims to identify the precursors of dangerous levels of gambling by gathering and analyzing data from players at overseas casinos, including Japanese players. Drawing on the results of this research, we aim to establish a system that rapidly detects players that are exhibiting signs of addiction and that prevents their behavior from escalating.

In research published so far, data analysis has demonstrated the effect of win-lose perceptions on gambling behavior. We continue to work with Kyoto University on research into identifying the signs of addiction.

* Research is conducted at the Kokoro Research Center Kyoto University and is scheduled to continue until March 2023.



Effect of Win-Lose Perceptions on Gambling Behavior: Analysis of Casino Customer Data



People

Groupwide Topic

Innovation in the SEGA SAMMY Group is derived from the diverse values and capabilities of its human resources. We are implementing systems and creating environments where diverse people can fulfill their potential, and promoting diversity to establish a corporate culture steeped in creativity.

Promoting Diversity and Fostering the Source of Innovation

We are promoting better work-life balance to improve employee motivation. In addition to a flextime system that recognizes different workstyles, we have introduced the Job Plus (JOB+) system that allows certain employees to take side jobs. We also offer a telework system that gives employees the option to work outside the office, and we run an onsite SEGA SAMMY Soramori Nursery School for employees with young children. With these systems and options, we have created an environment where our people can work with peace of mind. We are also stepping up activities that promote

diversity to ensure the Group's diverse human resources can fulfill their potential. Specifically, we run seminars and training courses to raise diversity awareness, provide job opportunities to people with disabilities via special subsidiaries, support activities that increase awareness of the LGBT community, and implement measures to promote career opportunities for women.

In human resources development, we are working to raise the skill levels of our employees through the SEGA SAMMY College, a Groupwide training organization that cultivates business leaders imbued with the Group's corporate culture and that instills basic principles in our employees.

JOB+

Increasing Motivation

- Flextime system
- Job Plus (JOB+) side job system
- Work from home
- Opened the SEGA SAMMY Nursery School

Improving Diversity

- Support for LGBT activities
- Promoting career opportunities for women
- Providing job opportunities for people with disabilities

Developing Human Resources

- Operating the SEGA SAMMY College



Promoting Diversity

Harnessing diverse human resources to build a corporate culture steeped in creativity

Networking Workshops for Group Company Developers

Since relocating the head office, we have been actively encouraging networking between SEGA CORPORATION and other Group companies.

SEGA runs the technology-focused SEGA Developer Conference, the Arcade Department holds GITEN, an internal research conference on fundamental technologies, and we run various other workshops to share knowledge on AI and automation, as well as the SEGA GAME JAM. Our goal is to harness the combined capabilities of the whole SEGA SAMMY Group by actively encouraging interaction between personnel in Group companies.



Products and Services

Pachislot and Pachinko Machines Business

Safety and Quality Assurance of Products and Services

In the Pachislot and Pachinko Machines Business, we offer safe, high-quality products and services by actively implementing inventive and effective quality improvement measures. We also take the following actions to eliminate major failures that could compromise safety.

1. Develop quality manuals and manage quality records
2. Verify that the 4M* system is being properly implemented by suppliers and conduct audits and provide guidance
3. Conduct process audits for production and gaming testing for machines in a high-temperature environment
4. Optimize inspection specifications for movable accessories and evaluate performance with life testing
5. Reinforce collaboration between development, sales, and production departments to improve product quality

* Man, machine, material, method

Quality Assurance Activities (Pachislot and Pachinko Machines Business)



Measures Against Illegal Customer Behavior

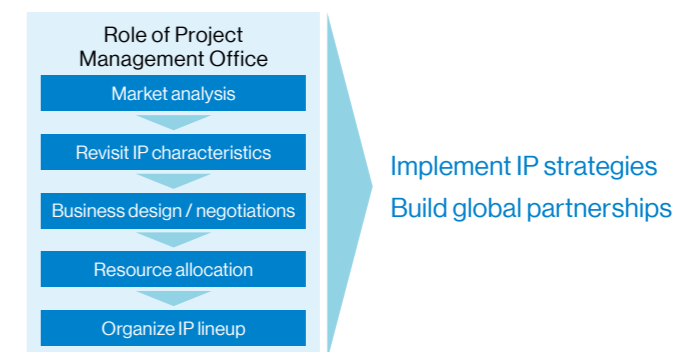
The Revised Amusement Businesses Law Enforcement Ordinance, in effect since July 2004, is primarily intended to control excessive gambling on amusement machines and prevent improper modifications. Adhering to this ordinance, the Pachislot and Pachinko Machines Business has established a special group to collect market information and build amusement machines that are resistant to abuse in order to prevent users from illegally manipulating the machines for illicit benefit. To combat improper modifications, which are becoming increasingly complex, we monitor and manage the distribution of our amusement machines to completely eradicate from the market any machines that have been illegally modified.

Suspicious solicitations for "sakura/uchiko" by people posing as SEGA Sammy Group recruiters, as well as groundless walkthroughs and strategy guides have been circulating in some areas of the market. In response, we are implementing various countermeasures and encouraging caution via the Sammy website and pamphlets.

Entertainment Contents Business

Measures to Develop Global Game Titles

In the Consumer Games area of the Entertainment Contents Business, we established the Project Management Office in April 2020 to lead the development of high-quality content for overseas users to support the Group's growth in the global market. The office is tasked with evaluating the potential of the Group's intellectual property (IP) and analyzing markets. It will also manage the title lineup for the business as a whole, allocate resources and conduct corporate planning such as business design to support the development of SEGA SAMMY content worldwide.



Product and Service Labeling

In the Entertainment Contents Business, we label product packaging, user manuals and other tools for home video game software in accordance with the relevant laws and regulations, industry group guidelines and internal rules. By applying clear and appropriate labels, we ensure that customers can use our products and services with confidence.

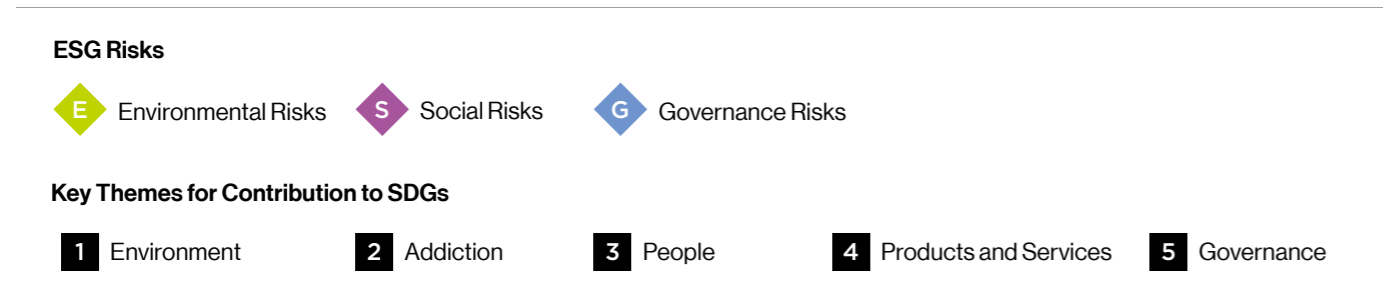
We also clearly specify the range of users for each product and actively address any ethical concerns. We label all our products in line with assessments conducted in countries around the world. In Japan, we indicate the target age group for each game based on the CERO* ratings system and label products in accordance with our own voluntary standards. Drawing on expertise accumulated through the CERO rating system and previous cases, we have formulated guidelines that cover 9 categories and 26 items.

*Computer Entertainment Rating Organization

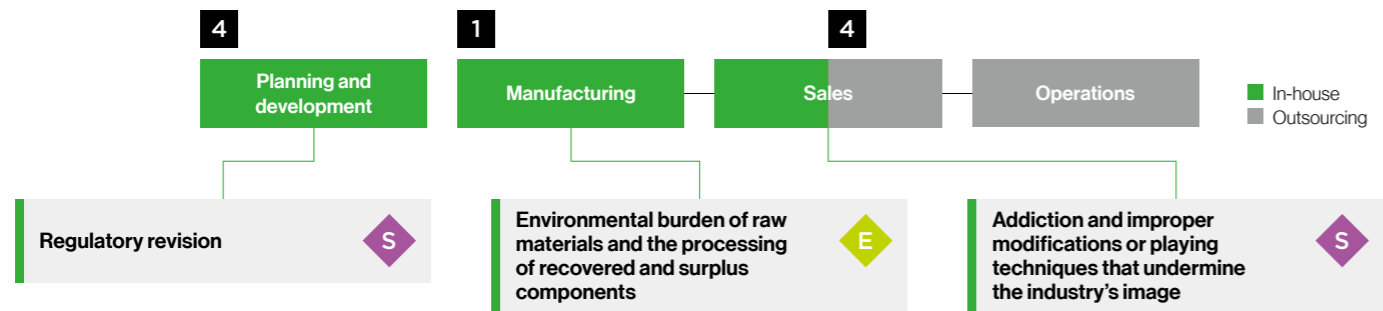


ESG Risks and Countermeasures in the Value Chain

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



Pachislot and Pachinko Machines Business



Before they can be sold, pachislot and pachinko machines must receive approval through prototype testing, which determines whether machines are compliant with the Entertainment Establishments Control Law and other statutory laws and regulations. Therefore, regulatory revision can significantly affect the marketability and unit sales of pachislot and pachinko machines.

Response We are taking steps to increase efficiency with the aim of accelerating development so that we can swiftly respond to regulatory revision. In addition, we have to address the risk of a potential drop in the ratio of products receiving approval through prototype testing while also developing models with diverse gameplay that a wide range of customers can enjoy casually. Our goal is to improve the quality of our products, in parallel with efforts to rapidly address changes to regulations.

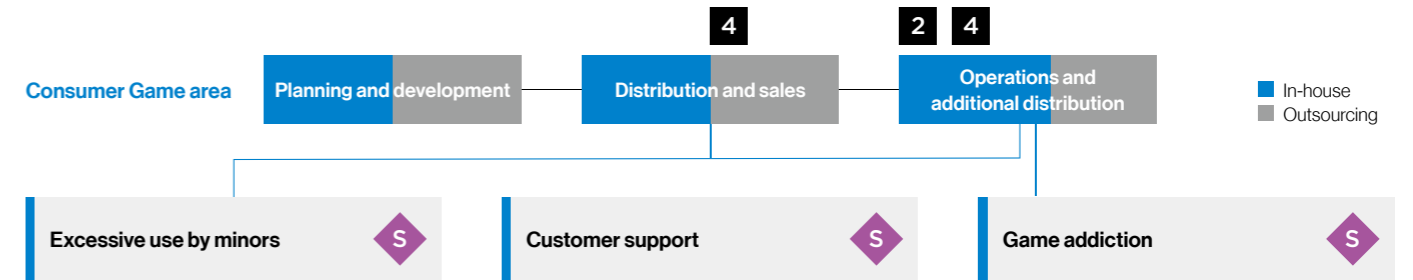
Sammy's manufacturing processes could give rise to surplus electrical components and other components. We use natural resources, such as wood, and materials that could place a burden on the environment, such as adhesives. Also, processing pachinko and pachislot machines at the end of their service lives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

Response We are committed to the "3Rs" (reduce, reuse and recycle) throughout all our business processes. At the design and development stages, we are working to standardize parts and share parts between pachislot and pachinko machines, and we reuse machines removed from pachinko halls. We are promoting the use of water-based adhesives with less environmental impact. Our reuse initiatives are aimed at mitigating environmental impact, but a parallel objective is to improve the profitability of our businesses by increasing efficiency through the use of common parts to reduce procurement costs.

There are concerns that growing public criticism about pachinko and pachislot addiction and the use of improperly modified pachinko and pachislot machines in commercial operations or improper playing techniques could harm the image of the pachinko and pachislot industry, ultimately leading to a contraction in the pachinko and pachislot machine market.

Response To support the sustainable development of our industry, we are actively working with industry bodies to control addictive behavior. We also provide backing for recovery support networks and are developing machines with more casual gameplay. In terms of efforts to prevent improper modifications, we coordinate with industry associations in a voluntary drive to collect pachinko and pachislot machines that have been improperly modified. In addition, we have established an office tasked with preventing illegal acts, which gathers market information and contributes to the manufacture of pachinko and pachislot machines that are highly resistant to improper modification. We also take measures to urge caution in relation to strategy guides that are unfounded.

Entertainment Contents Business



Social problems associated with minors who incur excessive fees when playing games based on the Gacha system, which encourages gambling aspects, are not infrequent. Content vendors are required to take countermeasures for this issue.

Response We provide safe and trusted products and services. For certain titles, we have applied age authentication to set upper limits on monthly fees, and we have established and implemented in-house guidelines to avoid the use of vague terms that can give players overly high expectations and to prevent the charging of excessive fees. We also create experiences that move the heart for people worldwide by providing various types of gameplay for diverse users.

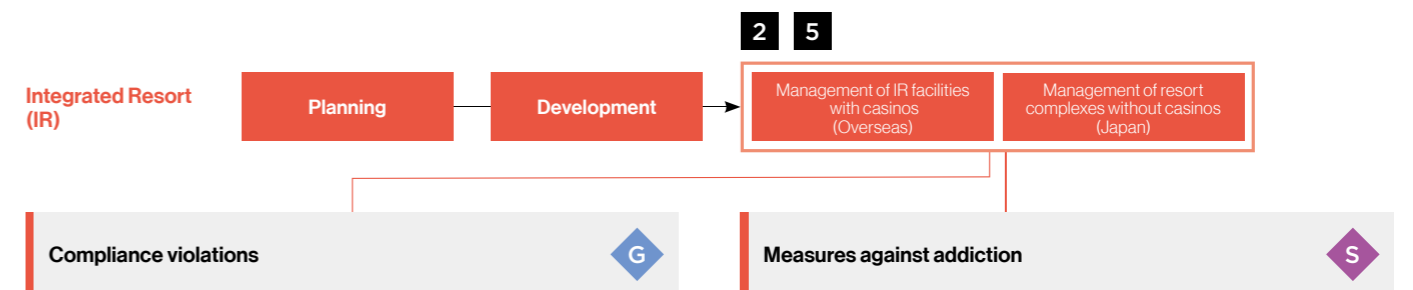
Games create continued contact points between the provider and consumers. Therefore, the provision of ongoing support is necessary. Any shortcomings in such support could harm brands.

Response Normally, we respond to customer inquiries through a player support helpdesk. If needed, however, we establish dedicated helpdesks.

The World Health Organization (WHO) has recognized gaming disorder as a mental disease.

Response Research has begun by external experts with a fair, neutral, professional background, led by game organizations such as CESA, JOGA, MCF, and JeSU. With the support of the four groups, we have launched a benchmarking study to look at appropriate measurement criteria and the characteristics of game addiction to support further research, such as understanding the scale of problem gaming, its causes and protective factors.

Resort Business



Any litigation filed against us or any penalties incurred from regulatory authorities for violations of laws or ordinances may undermine our brand image and possibly affect our participation in domestic integrated resort operations.

Response Under the Group Compliance Liaison Committee, we are working to build a corporate structure that fosters the development of sound corporate management in observance of laws, ordinances, and societal norms.

Lack of responsiveness to social demands for measures against gambling addiction could invite public backlash and jeopardize business continuity.

Response Through industry-academia joint research with Kyoto University we are working to develop systematic measures against gambling addiction. By analyzing behavioral data from players showing signs of gambling addiction, we aim to establish a system that rapidly detects addiction and prevents behavior from escalating.

A History of Experiences That Move the Heart

The SEGA SAMMY Group was formed in October 2004 through the management integration of SEGA, a creator of well-known innovative products, and Sammy, a developer of various industry-first products. Since the management integration, SEGA SAMMY Group companies have continued to offer experiences that move the heart for consumers and create new experiences through the full-scale entry into the Resort Business in 2012 and other initiatives.



ALADDIN
©Sammy

1989
Launched ALADDIN, the industry's first single-bonus hitter pachislot machine



Beast King
©Sammy

2001
Launched Beast King, a pachislot machine with assist time (AT)



Pachislot Hokuto No Ken
©Buronson & Tetsuo Hara
©Sammy

2003
Launched Pachislot Hokuto No Ken, which set an unprecedented sales record unbeaten to this day



Pachinko CR Hokuto No Ken
©1983 Buronson & Tetsuo Hara
©NSP2007, Approved No. SAE-307
©Sammy

2008
Launched Pachinko CR Hokuto No Ken, the Company's best-selling pachinko machine by number of units



Pachislot Psalms of Planets Eureka Seven
©2005 BONES/Project EUREKA-MBS
©SAMMY ©2009 NBGI

2009
Launched Pachislot Psalms of Planets Eureka Seven, which introduced new gameplay characteristics into No. 5 models



Mega Drive
©SEGA

1988
Launched the Mega Drive home video game console powered by a high-performance 16-bit CPU



Virtua Fighter
©SEGA

1993
Started rolling out Virtua Fighter, a 3D computer graphics (CG) fighting game



Dreamcast
©SEGA

1998
Launched Dreamcast, the industry's first home video console with internet connectivity

Management Integration
2004



Ryu ga Gotoku
©SEGA

2005
Launched Ryu ga Gotoku, the first title in a blockbuster series of home video games
Launched the first title in the Sangokushi Taisen series of network-enabled trading card games



Sangokushi Taisen
©SEGA

2013

- Launched Pachislot Hokuto No Ken Chapter of Resurrection
- Launched Pachislot Bakemonogatari



Pachislot Bakemonogatari
©Nisioisin/ Kodansha, Aniplex Inc., SHAFT INC.
©Sammy



Pachislot Hokuto No Ken Chapter of Resurrection
©Buronson & Tetsuo Hara/NSP1983, Approved No.KOU-111
©2010-2013 Koei Tecmo Games Co., Ltd.
©Sammy

2012

- Made PHOENIX RESORT CO., LTD., a wholly owned subsidiary
- Established a joint venture with the PARADISE GROUP of South Korea



Phoenix Seagaia Resort
©Phoenix Resort

2015

- Launched new series Pachinko CR Shin Hokuto Muso, drawing on the Group's game IP



Pachinko CR Shin Hokuto Muso
©Buronson & Tetsuo Hara/NSP 1983, Approved No.KOU-111
©2010-2013 Koei Tecmo Games Co., Ltd.
©Sammy

2017

- Acquired gaming machine manufacture and sales license in the U.S. State of Nevada
- Opened PARADISE CITY, South Korea's first integrated resort



PARADISE CITY
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2019

- Launched Pachislot Hokuto No Ken Tenshou, the first title in the Hokuto No Ken series for No. 6 models



Pachislot Hokuto No Ken Tenshou
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©Sammy

2020

- Announced a partnership with Foster + Partners, Katana Inc., Kyoto Kitcho to enter the domestic integrated resort business

Foster + Partners



The SEGA SAMMY Group will continue to pursue the creation of experiences that move the heart well into the future

2012

- Started distribution of PC online RPG PHANTASY STAR ONLINE 2



PHANTASY STAR ONLINE 2
©SEGA

2013

- Started distribution of smart-phone game Puyo puyo!! Quest and CHAIN CHRONICLE 3



Puyo puyo!! Quest
©SEGA



CHAIN CHRONICLE 3
©SEGA

2016

- Launched home video console game Persona 5
- Launched PC game Total War: WARHAMMER 2



Persona 5
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Total War: WARHAMMER 2

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2020

- Released the Sonic the Hedgehog movie

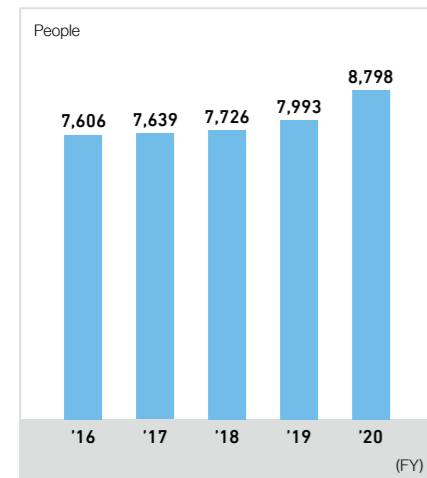


Sonic The Hedgehog
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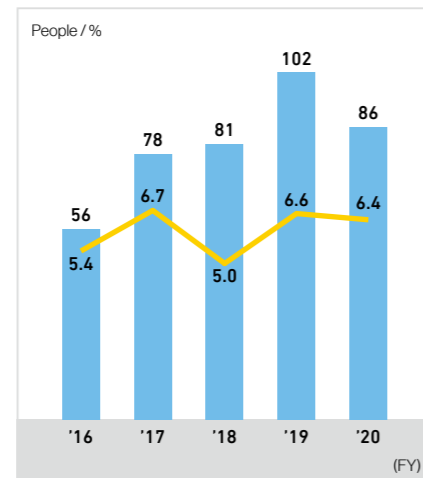
Human Resources Data

Number of Employees



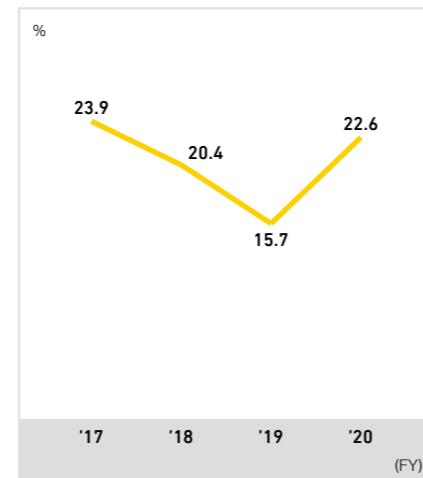
Note: The number of employees increased in fiscal year 2020, mainly due to the transfer of temporary workers in the Entertainment Contents Business to permanent employment contracts.

Number and Percentage of Female Managers

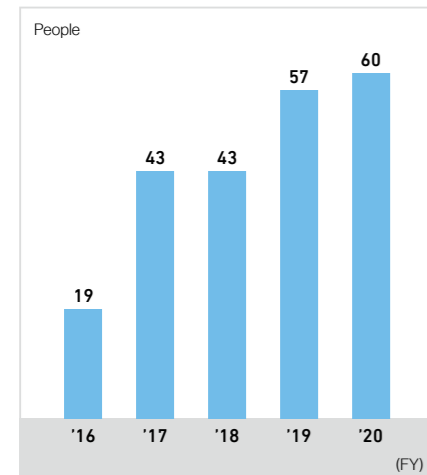


■ Number of female managers
— Percentage of female managers

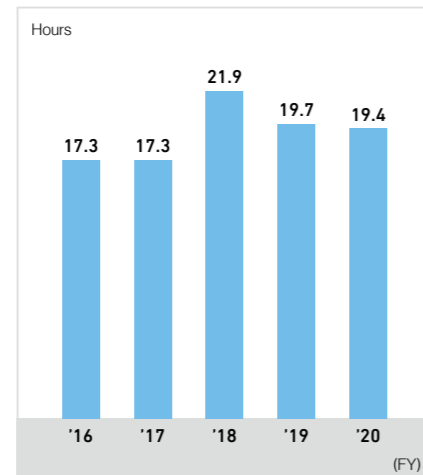
New Employee Turnover Rate



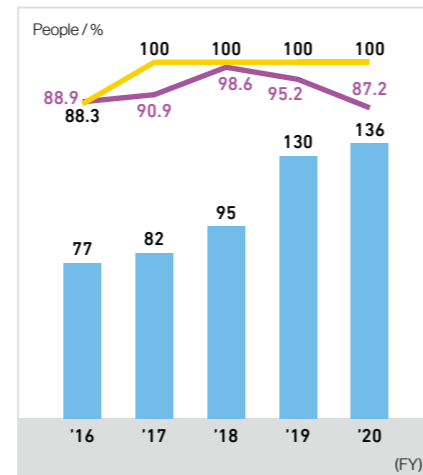
Employees Rehired after Retirement



Average Overtime Hours per Month



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



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

Other Indicators

	2016	2017	2018	2019	2020
Mid-Career Hires (People)	200	212	226	224	193
Hiring of Persons with Disabilities (People)	173	168	205	212	211
Employees Taking Maternity Leave (People)	59	45	55	66	70
Days of Paid Leave Taken (Days)	8.2	8.2	11.5	12.5	14.0
Percentage of Paid Leave Taken* (%)	45.6	46.2	63.7	69.5	75.6
Days of Volunteer Leave Taken (Days)	74	92	70	101	18
Employees Taking Volunteer Leave (People)	35	57	46	42	16

* Calculated by dividing the number of paid leave days taken by the number of statutory annual paid leave days. Includes statutory annual paid leave days at some Group companies.

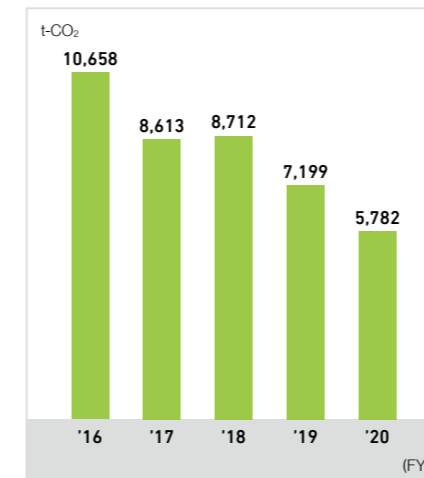
Scope of Data and Aggregation Methods

- Fiscal years 2018 and 2019: 15 domestic companies, 2 overseas companies (employee breakdown only), fiscal year 2020: 13 domestic companies, 2 overseas companies (employee breakdown only)
- Number of Employees, Hiring of Persons with Disabilities, Number of Female Managers/Percentage of Female Managers all as of March 31, 2020

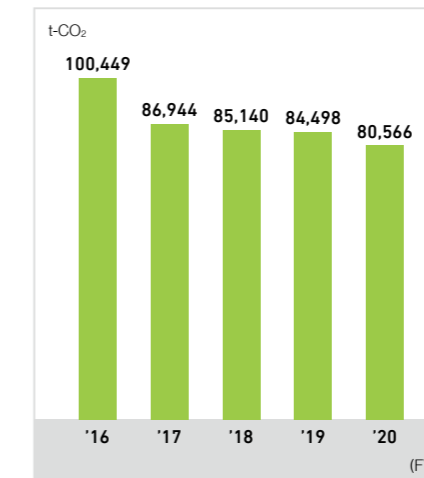


Environmental Data

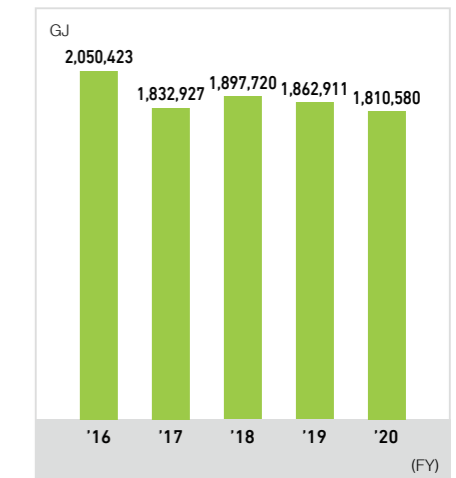
CO₂ Emissions (Scope 1)



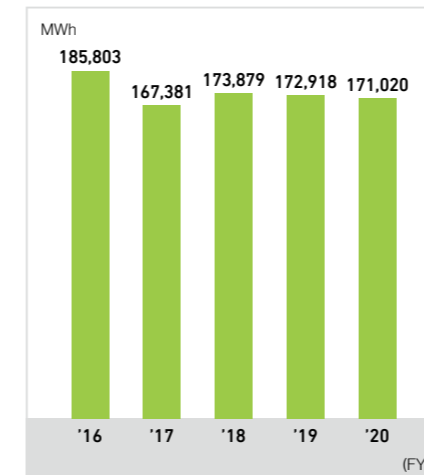
CO₂ Emissions (Scope 2)



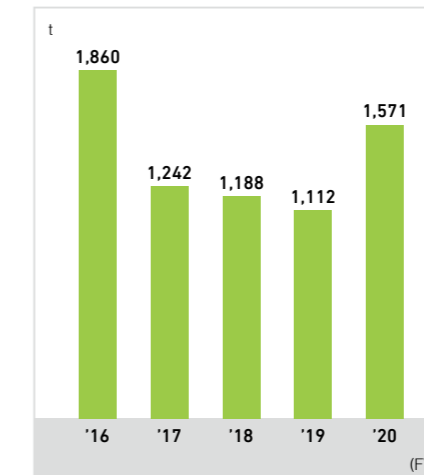
Total Energy Input



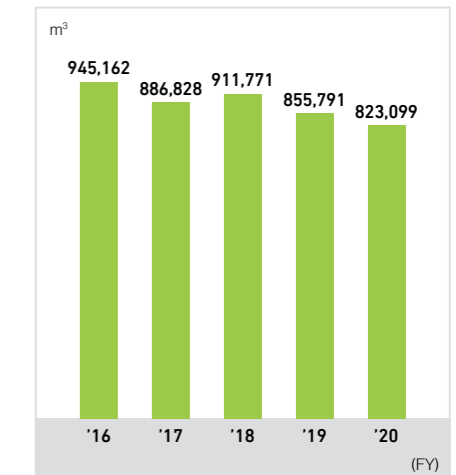
Electricity Usage



Industrial Waste Discharge



Water Usage



Notes 1: Some data estimated based on total floor area
2: Decline in CO₂ emissions mainly reflects reductions in the use of fuel and electricity
3: Coefficient for CO₂ emissions from purchased electricity: Adjusted emission coefficients for each electricity provider for the fiscal year prior to each reporting fiscal year

Number of violations of environmental laws and regulations

	2018	2019	2020
Number of violations	0	0	0

Environmental Indicators at Sammy's Kawagoe Factory

	2018	2019	2020
Pachinko and pachislot machine recycle rate (total for pachinko and pachislot machines)	95.99	95.00	95.40
Use of environment-friendly raw materials	Amount of wood used (t)		215
	38t (6.8%)	51t (13.8%)	7t (3.3%)

* 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. The use of PEFC-certified wood has declined due to a drop in the volume of products that include wood components.
Note: Adhesives, including water-based adhesives, are not used at the Kawagoe Factory.

Scope of Data 14 companies

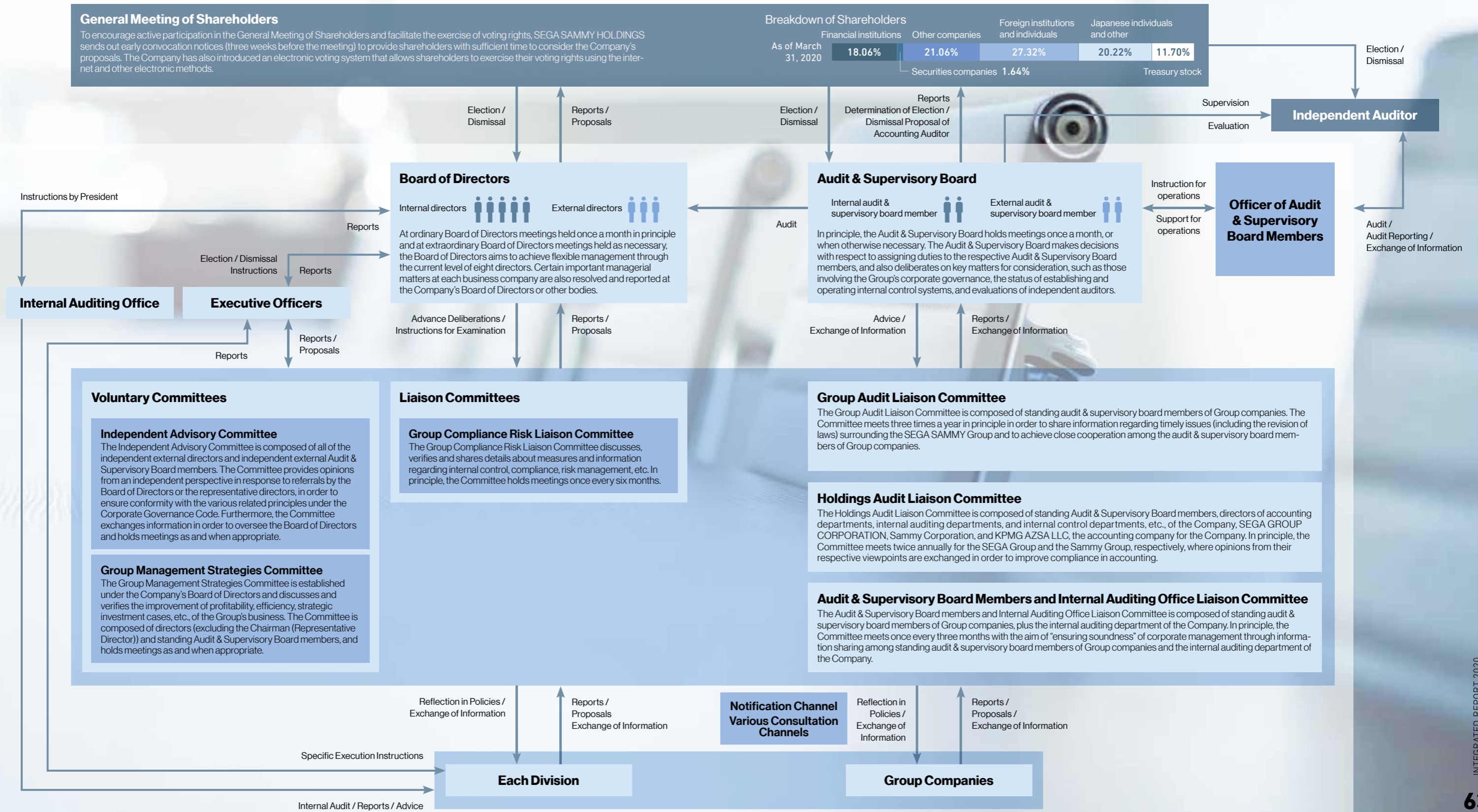
- SEGA SAMMY HOLDINGS INC., SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION), Sammy Corporation, Butterfly Corporation, DARTSLIVE Co., Ltd., TAIYO ELEC Co., Ltd., PHOENIX RESORT CO., LTD., SEGA ENTERTAINMENT CO., LTD., SEGA Games Co., Ltd./SEGA Interactive Co., Ltd. (now SEGA CORPORATION), SEGA Logistics Service Co., Ltd., Sammy Networks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT Co., LTD.

Basic Principles Regarding Corporate Governance

The SEGA SAMMY Group positions corporate governance as the most important foundation for facilitating good corporate behavior. The Group has the aim of "improving efficiency," "securing soundness" and "enhancing transparency" of corporate management as its "basic policy for corporate governance"; based on which the Group has made determinations on important management issues, including appointment of director candidates, determination of directors' compensation, oversight of management, and determination of auditors' compensation.

Corporate Governance System

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. In addition, starting from January 2010, the Company has selected two external Audit & Supervisory Board members as independent directors from the perspective of protecting the interests of ordinary shareholders, in order to further enhance management transparency.



Basic Principle Regarding Corporate Governance

Improving Efficiency

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

Securing Soundness

Amid drastic changes in the business environment, in order to maximize corporate value, the SEGA SAMMY Group will accurately identify and manage the various risks facing the Group, and will ensure sound management through the establishment of a system (compliance system) to ensure compliance not only with laws and regulations but also with ethical and social norms.

Enhancing Transparency

Given the increasing importance of information disclosure for companies, the SEGA SAMMY Group will fulfill its obligations to stakeholders, including shareholders, and will further improve disclosure by proactively engaging in IR activities, thereby aiming to develop highly transparent management of the Group.

Q What policies and reasons support the selection of external directors and external Audit & Supervisory Board members?

A The Company selects external directors from among managers, etc., who are expected to (i) provide advice on how to enhance the corporate value of the SEGA SAMMY Group from external perspectives, and (ii) provide oversight functions over the execution of duties by external directors, based on their deep insight and extensive experience.

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

Selection Policy

The Company selects external directors from among managers, etc., who are expected to (i) provide advice on how to enhance the corporate value of the SEGA SAMMY Group from external perspectives, and (ii) provide oversight functions over the execution of duties by external directors, based on their deep insight and extensive experience. The Company understands that external Audit & Supervisory Board members play an important role in realizing a corporate governance system which improves the neutrality and independence of the auditing system, and thus, selects external Audit & Supervisory Board members who have significant expertise and experience in a wide range of fields, and from whom it is expected that the soundness of the management can be secured by conducting auditing from a neutral and objective standpoint.

Principles Regarding Independence

The Company determines the independence of external directors and external Audit and Supervisory Board members based on criteria such as "significant business partners" and "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 said criteria do not have conflicts of interest with general shareholders.

Reasons for Appointment of External Directors

Takeshi Natsuno 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

Kohei Katsukawa 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

Melanie Brock Corporate manager (International business)

To reflect Ms. Brock's wealth of experience and extensive expertise as an international business leader, backed by her diverse views and values as a woman and non-Japanese director.

Reasons for Appointment of External Audit & Supervisory Board Members

Mineo Enomoto

To reflect Mr. Enomoto's wealth of experience and extensive expertise as an attorney in the Company's auditing

Kazutaka Okubo

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

*1 Melanie Brock is deemed to meet the standards for an independent director as she does not infringe the independence criteria determined by the TSE. However, the Company has not submitted Ms. Brock's name as an independent director based on the TSE criteria because she does not meet the Company's internal independence criteria.

Q What kind of training and support do you provide to directors and Audit & Supervisory Board members?

A We run training sessions and external seminars.

At the time they assume office, directors and Audit & Supervisory Board members are provided with opportunities to participate in internal orientation sessions and training sessions with the purpose of acquiring knowledge on the roles and responsibilities expected of directors and Audit & Supervisory Board members of a listed company, as well as knowledge regarding related laws and regulations and compliance. Then, after assuming

office, directors and Audit & Supervisory Board members are continuously provided with further opportunities to acquire and enhance necessary or new knowledge, including participating in training sessions provided by external lecturers such as attorneys and experts in each area, for example, after the conclusion of a Board of Directors meeting.

In addition, the Company encourages each director and Audit & Supervisory Board member to voluntarily improve their skills by participating in external seminars and lectures sponsored by organizations to which the Company belongs, and provides support in paying the necessary expenses.

Q What is your policy on strategic shareholdings?

A Strategic shareholdings are limited to cases that are deemed to provide benefits to all shareholders by increasing corporate value.

The Company holds shares for purposes other than pure investment only in cases where the Company considers that holding the shares will enable a business alliance, the expansion of transactions, etc., and will lead to an improvement in corporate value, thereby benefitting shareholders.

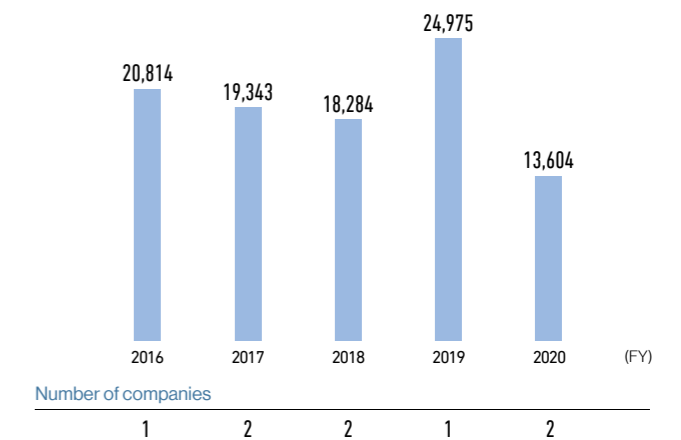
The Company examines the economic rationale, future outlook, etc., for holding the shares on a periodic basis at its Board of Directors meetings, and discusses whether or not it is beneficial to retain the shares.

In general, the Company exercises voting rights of such shares on all proposals based on whether or not

adopting such proposals will contribute to the sustainable growth and medium- to long-term corporate value enhancement of both the Company and the investee.

Value of strategic shareholdings (excluding non-listed stocks)

(Millions of yen)



Q What internal control systems related to financial reporting are you creating and maintaining?

A We have put in place evaluation and reporting mechanisms that ensure reliable financial reporting.

The Group started the Group Internal Control project during fiscal year 2006, established a scheme for evaluating and reporting of the internal control system required for corporate groups under the system of "Evaluation and Auditing of Internal Control Relating to Financial Reporting" (the Japanese Version of the "SOX Act") as stipulated in the Financial Instruments and Exchange Act, and remedied inadequacies discovered in the course of conducting the evaluation. As a result, efforts for ensuring trust/reliability in financial

reporting have been conducted, thereby resulting in the Company's judgment of having achieved effective internal control relating to the financial reporting of the Group for fiscal year 2020. For the future as well, the Company will strive to ensure continuing trust/reliability in financial reporting, as well as maintaining and developing the internal control system, taking into consideration issues such as improving efficiency and ensuring soundness.

For more details, please see the Corporate Governance Report on our corporate website.
https://www.segasammy.co.jp/english/media/file/pr/corp/governance/2020_Corporate_Governance_Report_E.pdf

Q What steps you are taking to assess the effectiveness of the Board of Directors?

A The Company aims to further improve the effectiveness of the Board of Directors by enhancing the Board's capabilities.

The Independent Advisory Committee analyzes and assesses the Board of Directors as a whole with respect to its size, composition, management methods, 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 2020, each director responded to a questionnaire. Based on the responses, the Independent Advisory Committee conducted an assessment

Board of Directors	Meeting Attendance	Main Activities
Board of Directors convened	12 times	
External directors		
Takeshi Natsuno	Attended 12 of 12 meetings	Mr. Natsuno 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 11 of 12 meetings	Mr. Katsukawa 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.
Melanie Brock	Attended 10 of 10 meetings	Ms. Brock 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)	98%	
External Audit & Supervisory Board members		
Mineo Enomoto	Attended 12 of 12 meetings	Mr. Enomoto 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.
Kazutaka Okubo	Attended 10 of 10 meetings	Mr. Okubo principally provided specialist opinions about financial accounting and internal control systems and opinions on business management based on his professional insight as a certified public accountant, and stated recommendations with a view to ensuring the appropriateness and fairness of the Board of Directors' decision-making.
(External Audit & Supervisory Board members' attendance)	100%	

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 prior to 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.

Q What amounts of compensation does the Company pay directors and Audit & Supervisory Board members and how is compensation calculated?

A The Company's compensation system for directors and Audit & Supervisory Board members is designed to ensure transparency and provide greater incentive to increase corporate value.

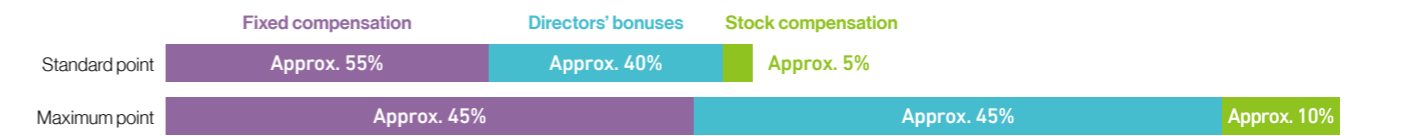
The compensation system for directors (excluding external directors) is determined based on the following basic policy.

- (1) The system must increase management's focus on shareholder interests and sharing value with shareholders.

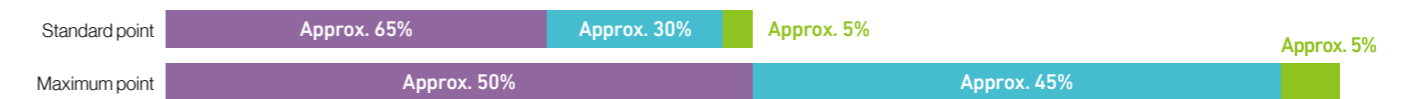
- (2) The system must clarify the responsibilities of management in improving the corporate value of the Group.
- (3) The system must function as an incentive to support the sustained growth of the Group.
- (4) The system must have remuneration levels for ensuring and maintaining excellent human resources appropriate for executing the roles and responsibilities of directors of the Company.

In addition, based on the basic policy, the compensation system for directors of the Company (excluding external directors) includes fixed compensation and both directors' bonuses and stock compensation with restriction of transfer as performance-based compensation.

Chairman (Representative Director) and President (Representative Director)



Other Directors



Fixed compensation

A compensation table shall be formulated specifying the compensation amounts for each component, namely, basic compensation and role-based compensation, and the Company shall provide the sum of these three components as monthly fixed compensation.

amount of ordinary income, the business plan achievement level, and the year-on-year growth level.

Stock compensation with restriction of transfer

The Company has introduced a Stock compensation plan with restriction of transfer for directors (excluding external directors) to incentivize efforts to continuously increase corporate value and to further enhance the sharing of value with all shareholders. Specific payments and allocations are determined by the Board of Directors after taking into account a range of factors, including the individual's contribution to the Group's financial performance in the previous fiscal year.

Directors' bonuses

Directors' bonuses are paid at the amount determined by multiplying the above fixed compensation by coefficients calculated based on a bonus table that defines the number of months for directors' bonuses in accordance with the three elements of the level of the

For more details about the Company's compensation system for directors and Audit & Supervisory Board members, please refer to the Annual Securities Report (Japanese only).

https://www.segasammy.co.jp/japanese/ir/library/pdf/printing_yuhou/2020/202003_yuho_all.pdf

Compensation of directors and Audit & Supervisory Board members for fiscal year 2020 is as follows.

Position	Number of Directors / Audit & Supervisory Board members	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)			
			Basic compensation	Bonus	Stock with restriction of transfer	
Directors	Internal	6	1,111	606	450	54
	External	4	55	55	—	—
Audit & Supervisory Board members	Internal	1	18	18	—	—
	External	3	20	20	—	—

(Notes) 1. The total amounts of compensation, etc., for directors (excluding external directors) include planned payments of ¥450 million in director bonuses, as well as up to ¥54 million expensed for the current fiscal year in relation to the grant of stock with restriction of transfer.
2. As of the end of fiscal year 2020, there were 10 directors (including four external directors) and four Audit & Supervisory Board members (including two external Audit & Supervisory Board members). These figures differ from the number of individuals mentioned above, since they include one external Audit & Supervisory Board member who resigned at the conclusion of the Ordinary General Meeting of Shareholders held on June 21, 2019. There is also one Audit & Supervisory Board member who serves without compensation.

The directors who received ¥100 million or more in total compensation for fiscal year 2020 is as follows.

Name	Position	Total compensation, etc. (Millions of yen)	Company	Total compensation by type (Millions of yen)		
				Basic compensation	Bonus	Stock with restriction of transfer
Hajime Satomi	Director	536	The Company	276	224	36
Haruki Satomi	Director	292	The Company	156	122	14

Q Please tell us about the Company's dialogue with shareholders and other investors.

A The Company actively discloses information to help all investors make informed investment decisions.

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.

For institutional investors and analysts, the Company continues to hold results briefings and meetings using telephone and web conferencing systems, despite the COVID-19 pandemic, in order to maintain ongoing levels of dialogue.



Briefing session for individual investors

Q What steps is the Company taking to address material risks across its business?

A The Group Compliance Risk Liaison Committee leads the Company's efforts to address risks.

The Group has established the Group Compliance Risk Liaison Committee to discuss, verify and share details about measures and information regarding internal control, compliance, risk management, etc. In

principle, the Committee meets once every six months. The Committee carries out cross-mapping by investigating the level of impact and the possibility of occurrence for latent risks in the Group. The Committee then performs risk evaluation and reports its results, which includes examining appropriate countermeasures for those risks, to the Board of Directors, where those risks are discussed. The risks that have been determined by the Group Compliance Risk Liaison Committee as being particularly significant are described below.

Risk item	Summary	Main measures
Compliance and legal violations	<ul style="list-style-type: none"> • Risks related to obstructions in acquiring integrated resort operating licenses due to compliance and legal violations, and license cancellation by the Nevada State Gaming Commission • Violation of rights of third parties by way of the products or services provided by the Group • Malfunctions of products manufactured by the Group • Risk of damage to brand image due to litigation arising from unexpected complaints from users, etc. 	<ul style="list-style-type: none"> • Implement Group compliance measures through the establishment of a dedicated office • Spread knowledge of the "Corporate Ethics Hotline" • Signed up as registered operator of "Whistleblowing System Certification (System for self-declaration of conformity)" (WCMS Certification) • Activities to prevent involvement with anti-social forces <ol style="list-style-type: none"> (1) As Groupwide measures against anti-social forces, each Group company has implemented rules and conducts background checks when entering into transactions (2) Implement background checks when necessary for other existing transactions
Disasters	<ul style="list-style-type: none"> • Risks of greater-than-anticipated physical damage or casualties among personnel at the headquarters, operating bases, or manufacturing bases of Group companies or those of the Group's business partners due to large-scale natural disasters – such as earthquakes, fires, or floods – or terrorist attacks. 	<ul style="list-style-type: none"> • Establish crisis management rules, identify inherent risks in business activities, take steps to mitigate risks and prevent crises as a matter of normal practice, as well as establish and maintain systems to respond immediately to major crises
Management of personal information, etc.	<ul style="list-style-type: none"> • Risk of financial liability or damage to brand image due to external leaks of personal information 	<ul style="list-style-type: none"> • Respond to GDPR (General Data Protection Rules) of the EU • Implement audits of Group companies that have acquired the P mark (privacy certification)
Information security	<ul style="list-style-type: none"> • External attacks such as hacking • Malfunction and other failure of information system due to computer virus, etc. 	<ul style="list-style-type: none"> • Implement strengthening activities, educational activities and monitoring activities for security governance at each Group company • Implement precautionary measures (surveillance and monitoring) and follow-up measures (incident reporting), and implement vulnerability diagnosis, etc. • Strengthen security surveillance tools



External Director Interview

Takeshi Natsuno

01 COVID-19 has greatly expanded the scope of working from home. Do you sense any changes in terms of the way management thinks about this new way of working?

Managers at many companies, including ours, have dramatically changed how they think about work, and my sense is that this crisis will undoubtedly speed up efforts to reform working styles in Japan. The challenge down the road is to revise how we do employee performance evaluations in line with the new working styles. In other words, we have to build systems that can evaluate work by output. But this can't be done overnight. Middle managers in particular are often under pressure to develop and carry out new evaluation processes, which can be a cause of great distress. To alleviate such distress, it is the role of top management to take initiative in supporting new processes and following up as needed. Just as the productivity of Japanese companies hasn't improved significantly in 20 years, performance evaluation systems have also changed very little. With the impact of COVID-19, companies that are able to reform their performance evaluation processes and those that aren't are sure to show a big difference in growth potential after 5 or 10 years.

02 As an external director, you help manage several companies at the same time. How do you get enough time to manage the SEGA SAMMY Group?

First of all, let me say I only agreed to take on the external director role because I had sufficient time resources. I attend not only Board meetings but also Group Management Strategies Committee meetings, where the executives are gathered and take part in extended discussions. Also, while of course it is necessary to spend sufficient time for managing, I think substance is even more important than length of time. In that sense, I'm very proud that my experience can be put to good use in the Group's business areas. While holding a position at NTT docomo, I was also on the board of joint ventures with other companies, including Dentsu, Sony, and McDonald's. At one point, I was serving on nearly 10 boards at the same time. Even then, in terms of my criteria for whether or not to accept an offer, I decided I wouldn't agree to join the board of a company that had no connection to my previous work or experience, and where I couldn't make a contribution or provide appropriate advice. In that respect, I'm confident that the Group's business areas can benefit from my prior knowledge as well as my ability as an active CEO to be in touch with the times.

Q Please tell us about the Company's role as an asset owner of corporate pension funds.

A The Company continuously strengthens related teams and organizations to ensure appropriate asset management.

In order to ensure that pensions and other benefits are provided in the future, the Company and some of its consolidated subsidiaries have established a foundation and set forth rules and regulations, and have managed the pension funds in accordance with the rules and regulations.

Since there is a possibility that the management of the corporate pension funds affects the stable asset buildups of employees and the corporate finances of the SEGA SAMMY Group, the corporate pension division has experts with the necessary experience and qualities for asset management.

In addition, the corporate pension funds are managed under an appropriate system, such as monitoring the state of asset management through regular investment reports made by the fund management agencies.

Generally, I think it's better to some extent for outside directors to hold positions on multiple boards, so that they don't depend on one company alone. I currently serve on the boards of several companies, so I'm not financially dependent on any of them. I'm always prepared to step down, and from time to time I share tough opinions with the executives. Outside directors who don't serve on multiple boards inevitably want to keep their position. I think it's more healthy, in fact, to serve on up to about five boards at the same time.

03 Please tell us from an outsider's perspective about the challenges you see the SEGA SAMMY Group facing.

The most critical issue in the medium to long term is getting the Integrated Resort (IR) business up and running. In terms of becoming an IR operator in Japan, it is my view that SEGA SAMMY has already gained the necessary expertise in various areas and is prepared well enough internally for what needs to be done. Down the road, however, the situation can totally change due to the influence of government policy and other external factors. We have to be vigilant and ready to take measures when needed.

Another thing is the earnings structure, where the bulk of Group profits still come from the Pachislot and Pachinko Machines Business segment, which is subject to factors in the operating environment such as public image and regulation. How the Group can reduce its overdependence on that segment and build profit drivers in other areas will be an important management issue going forward.

Finally, there's the issue of further growing the Consumer Games area. Currently, despite the fact that the SEGA brand has a high level of global recognition, the Group hasn't been able to fully translate this into better performance compared to industry competitors. COVID-19 has actually been a boon for the overall game sector. I think the Group can use this as an opportunity to set its sights even higher. I also have high expectations for the development capabilities of the overseas studios the Group has acquired.

Going forward, the key will be how well the Group can win over users in the online area and how much new intellectual property it can put out. I've spoken with the COO, Haruki Satomi, about this as well, but I think it's time for an overhaul of



— In the midst of a drastically changing world, building a forceful corporate presence, surmounting adversities, and further honing our unique strengths. —

Takeshi Natsuno
External Director

05 It has been over five years since SEGA SAMMY announced its entry into the Japanese integrated resort field. What is your assessment of where the Group stands now?

I personally think the Group is in a very good place. CEO Satomi was quite optimistic from the start, but looking at things from the outside, to me there seemed to be an obvious gap in track records compared with the overseas mega-operators, and I was worried whether things would work out. At the moment, however, I think the Group has steadily gained experience to close that gap, and has even reached the point where the Japanese government has signaled its willingness to consider domestic companies as candidates. That's a really solid achievement.

I think a major factor behind this was the decision to take on the challenge of operating *PARADISE CITY*, South Korea's first IR facility. Even after it opened, amid souring Japan-Korea relations and other less-than-favorable business conditions, the Group continues to manage the resort very effectively, and operations on the casino side are doing particularly well. In addition, I think the bold decision from the beginning to send over nearly 50 employees to acquire expertise is the reason SEGA SAMMY has become a front-runner among Japanese IR candidates. There have been various hurdles over the past few years, and at times I've been concerned, but the Group's efforts have steadily begun to bear fruit. The proposed Japanese IR is a national project, which is affected by many external factors including the impact of the COVID-19, but if the project goes ahead as planned, I am positive that SEGA SAMMY will be able to demonstrate its full potential.

the whole way of doing game development. SEGA is a company with a long history and has many excellent, veteran developers. However, precisely because for that reason, it can be hard to raise up young star developers with new ideas. If you look at other companies, rookie developers are creating global hits. I think there's an urgent need to give greater opportunities to new developers, and foster a climate in which they can flourish. Now is the time to do this, while the Group's finances are sound and there's room to take on various new challenges.

04 Please tell us how you assess Haruki Satomi's performance as COO.

COO Satomi is not only familiar with the predecessor company Sammy Corporation, he also served as a manager on the Sega side when SEGA SAMMY was formed, and has overseas management experience. During that time, he helped carefully resolve various issues that arose from a dispute between the head office and certain overseas

subsidiaries. He has constantly been aware of the need to strengthen global alliances with an eye toward overseas growth. He has also been deeply involved as an executive in the planning and execution of SEGA's online strategies, an area where the company has tended to lag behind. Now, in top management, I think Satomi should use that same resolve to drive change in areas where he senses things are "not right," and pursue his vision of what the company ought to be.

The CEO, Hajime Satomi, excels at the technique of drawing people in and gaining their support for projects he wants to carry forward. That kind of management style and human networking capability really stand out among Japanese companies. On the other hand, the management approach of COO Satomi draws on both logic and a sense of how things work on the ground. This management style is much needed in online business areas and overseas activities. I have high hopes that COO Satomi's abilities and his personality will equip him to pursue global growth and address the challenges facing the entire Group.

Directors, Audit & Supervisory Board Members, and Executive Officers

(As of June 24, 2020)

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
Chairman of JAMMA (JAPAN AMUSEMENT MACHINERY MANUFACTURERS ASSOCIATION) (now Japan Amusement Industry Association) (current position)
Chairman and CEO (Representative Director) of Sammy Corporation
Chairman and CEO (Representative Director) of SEGA CORPORATION
Chairman, President and CEO (Representative Director) of the Company
- 2007 President, CEO and COO (Representative Director) of SEGA CORPORATION
- 2008 Chairman and CEO (Representative Director) of the above
- 2012 Chairman of the Board of Sammy Corporation
- 2013 Chairman and CEO (Representative Director) of the above
- 2015 Chairman and CEO (Representative Director) of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)
Advisor to NDK (current position)
- 2016 Chairman, President, CEO and COO (Representative Director) of the Company
- 2017 Chairman and CEO (Representative Director) of the Company
Chairman of the Board (Representative Director) of Sammy Corporation (current position)
Honorary Chairman of the Board of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION) (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
- 2012 Senior Vice President (Director of the Board) of the Company
Senior Vice President (Director of the Board) of SEGA CORPORATION
- 2014 Director of Sammy Corporation
Deputy COO (Representative Director) of SEGA CORPORATION
- 2015 Deputy COO (Representative Director) of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)
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. (now SEGA GROUP CORPORATION)
Chairman and CEO (Representative Director) of SEGA Games Co., Ltd. (now SEGA CORPORATION) (current position)
- 2018 President and Group COO (Representative Director) of the Company (current position)
Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
- 2020 President and CEO (Representative Director) of SEGA GROUP CORPORATION (current position)



Hideo Yoshizawa

Senior Vice President, Director of the Board

- 1987 Joined Japan Leasing Corporation (now Sumitomo Mitsui Finance and Leasing Co., Ltd.)
- 1999 Manager of Financial Planning Department of the above
- 2001 Joined Sammy Corporation
- 2002 Vice President, Executive Officer and Deputy Managing Director of President's Office of the above
- 2004 Senior Vice President (Director of the Board) and Managing Director of Administration Division of the above
Senior Vice President (Director of the Board) and Managing Director of Corporate Division and President'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. (now SEGA GROUP CORPORATION)
Senior Vice President (Director of the Board) and Managing Director of Corporate Division of the above
Senior Vice President (Director of the Board) of SEGA ENTERTAINMENT CO., LTD. (current position)
Auditor of Sega Amusements Taiwan Ltd.
- 2017 Executive Vice President (Director of the Board) and Managing Director of Corporate Division of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION) (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
- 2020 Senior Vice President, Director of the Board of the Company (current position)

External Directors



Takeshi Natsuno*1

Director of the Board (External)

- 1988 Joined TOKYO GAS Co., Ltd.
- 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)
- 2009 Outside Director of DLE, Ltd.
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)
- 2018 Chairman and Representative Director of MOVIE WALKER Co., Ltd. (current position)
Director of BOOK WALKER Co., Ltd. (current position)
- 2019 President and Representative Director of DWANGO Co., Ltd. (current position)
Director, Member of the Board of KADOKAWA CORPORATION (current position)



Naoya Tsurumi

Senior Executive Vice President, Director of the Board

- 1992 Joined SEGA Enterprises, Ltd. (now SEGA CORPORATION)
- 2006 Chairman of SEGA of America, Inc.
- 2008 Senior Vice President (Director of the Board) of SEGA CORPORATION
- 2009 Executive Vice President (Director of the Board) of the above
- 2012 President and COO (Representative Director) of the above
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
Vice Chairman of the Board of PHOENIX RESORT CO., LTD. (current position)
- 2015 Vice Chairman of the Board of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION)
Chairman of the Board of Sega Sammy Golf Entertainment Inc. (current position)
- 2016 Senior Executive Vice President (Director of the Board) of the Company
- 2017 Chairman and Director of CA Sega Joypolis Ltd. (current position)
Senior Executive Vice President of PARADISE SEGASAMMY Co., Ltd. (current position)
- 2020 Senior Executive Vice President, Director of the Board of the Company (current position)



Koichi Fukazawa

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

- 1990 Joined The Sanwa Bank, Limited (now MUFG Bank, Ltd.)
- 2003 Joined Sammy Corporation
Vice President, Executive Officer and Managing Director of President's Office of the above
- 2004 Vice President, Executive Officer and Managing Director of President's Office of the Company
Vice President, Executive Officer and Managing Director of Chairman's Office and President's Office of SEGA CORPORATION
- 2005 Senior Vice President (Director of the Board) and Managing Director of Chairman's Office and President's Office of the above
- 2007 President (Representative Director) of SEGA SAMMY ASSET MANAGEMENT INC. (now MARZA ANIMATION PLANET INC.)
Vice President, Senior Executive Officer in charge of the Corporate Strategy and External Affairs of the Company
- 2008 Senior Vice President (Director of the Board) and Managing Director of New Business Division of SEGA CORPORATION
- 2009 Officer of Keizai Doyukai (Japan Association of Corporate Executives) (current position)
President (Representative Director) of SEGASAMMY VISUAL ENTERTAINMENT INC. (now MARZA ANIMATION PLANET INC.)
- 2014 Senior Executive Vice President (Representative Director) of SEGA TOYS CO., LTD.
- 2015 Senior Vice President (Director of the Board) of the Company
- 2016 Executive Vice President and CFO (Director of the Board) of the Company
- 2018 Executive Vice President and Group CFO (Director of the Board) of the Company
- 2020 Senior Executive Vice President and Group CFO, Director of the Board of the Company (current position)



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)



Melanie Brock*1

Director of the Board (External)

- 1987 Earned Bachelor of School of Humanities at The University of Western Australia
- 1990 Earned Master of Arts in Japanese, Conference Interpreting and Translation at The University of Queensland
- 2003 CEO of AGENDA (now Melanie Brock Advisory Ltd.) (current position)
- 2010 Board Member of Australia-Japan Foundation
Board Member of Australia Japan Business Co-operation Committee (current position)
Chair of Australian and New Zealand Chamber of Commerce in Japan
Regional Manager - Japan of Meat & Livestock Australia
- 2012 Chair of Australian Business Asia
- 2016 Chair Emeritus of Australian and New Zealand Chamber of Commerce in Japan (current position)
- 2019 Director of the Board (External) of the Company (current position)
Board Member of Australia-Japan Research Center (AJRC) (current position)
Global Ambassador of Advance, an initiative supported by Australian Government funding (current position)

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

Audit and Supervisory Board Members



Shigeru Aoki
Standing Audit & Supervisory Board Member

2005 Joined SEGA CORPORATION as Head Counselor Vice President, Executive Officer and Managing Director of Office of China and Asia Business Management of the above
2006 President of Sega Networks (China) Co., Ltd.
2008 Vice President, Executive Officer and Managing Director of Business Administration Department of Sammy Corporation
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
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)
2015 Audit & Supervisory Board Member of SEGA CORPORATION
2015 Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (now SEGA CORPORATION)
2015 Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION) (current position)
2015 Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION) (current position)
2015 Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD.
2015 Audit & Supervisory Board Member of SEGA ENTERTAINMENT Co., Ltd. (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 of Sammy Networks 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 of the Company (current position)
2014 Outside Audit & Supervisory Board Member of SHIMOUJIMA Co., Ltd. (current position)
2015 External Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (now SEGA GROUP CORPORATION) (current position)
2015 Audit & Supervisory Board Member of SEGA Games Co., Ltd. (now SEGA CORPORATION) (current position)
2015 Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (now SEGA CORPORATION)



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 of the Company (current position)
2019 Outside Director of Sun Frontier Fudousan Co., Ltd. (current position)
2019 Outside Audit & Supervisory Board Member of BrainPad Inc. (current position)
2019 Outside Director of LIFULL Co., Ltd. (current position)
2020 Outside Director of SALA Corporation (current position)
2020 Outside Director of The Shoko Chukin Bank, Ltd. (current position)

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

Executive Officers



Yukio Sugino
Executive Vice President, Executive Officer



Makoto Takahashi
Senior Vice President, Executive Officer



Toru Nakahara
Senior Vice President, Executive Officer



Yoichi Owaki
Senior Vice President, Executive Officer



Shuji Utsumi
Senior Vice President, 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

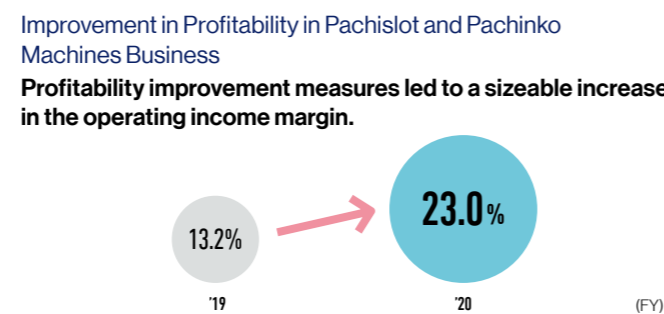
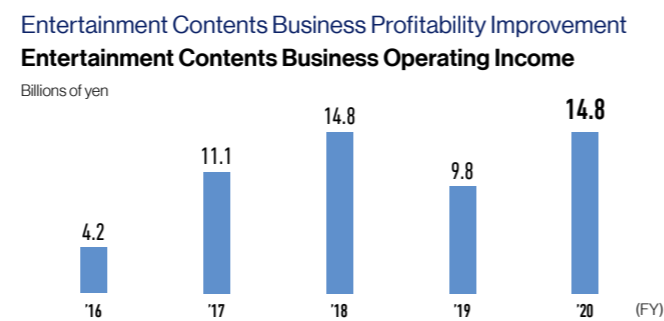
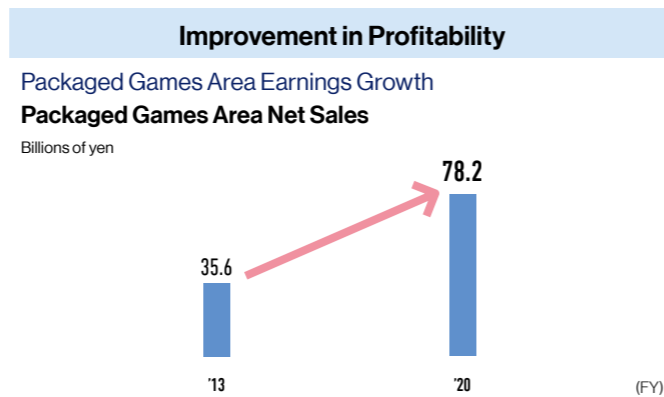
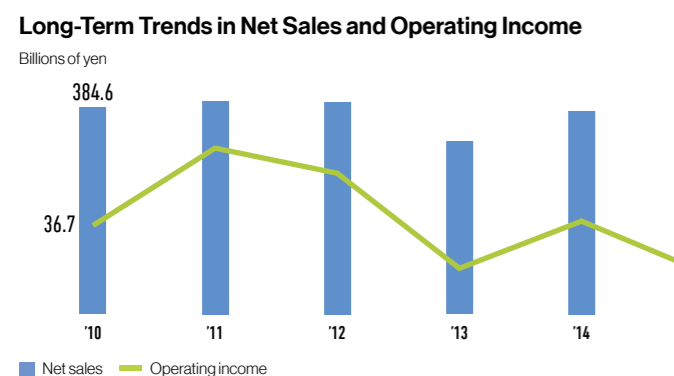
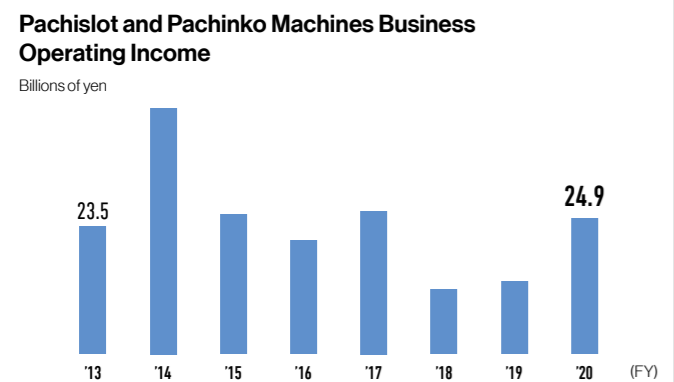
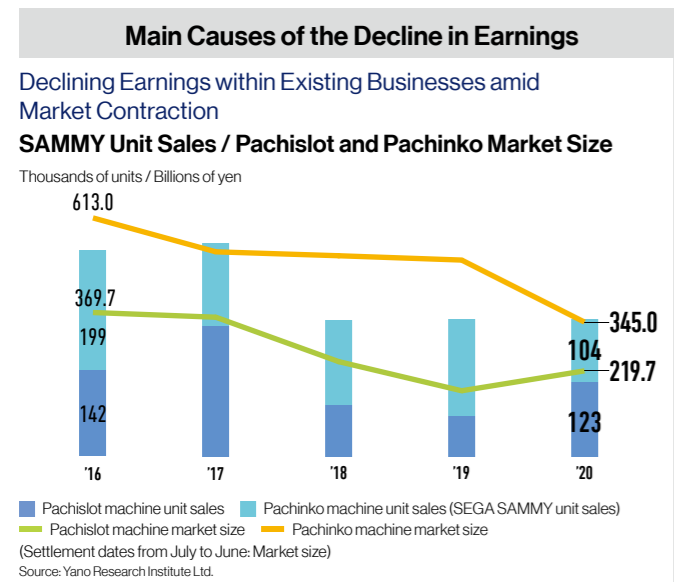
FINANCIALS



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Long-Term Trends

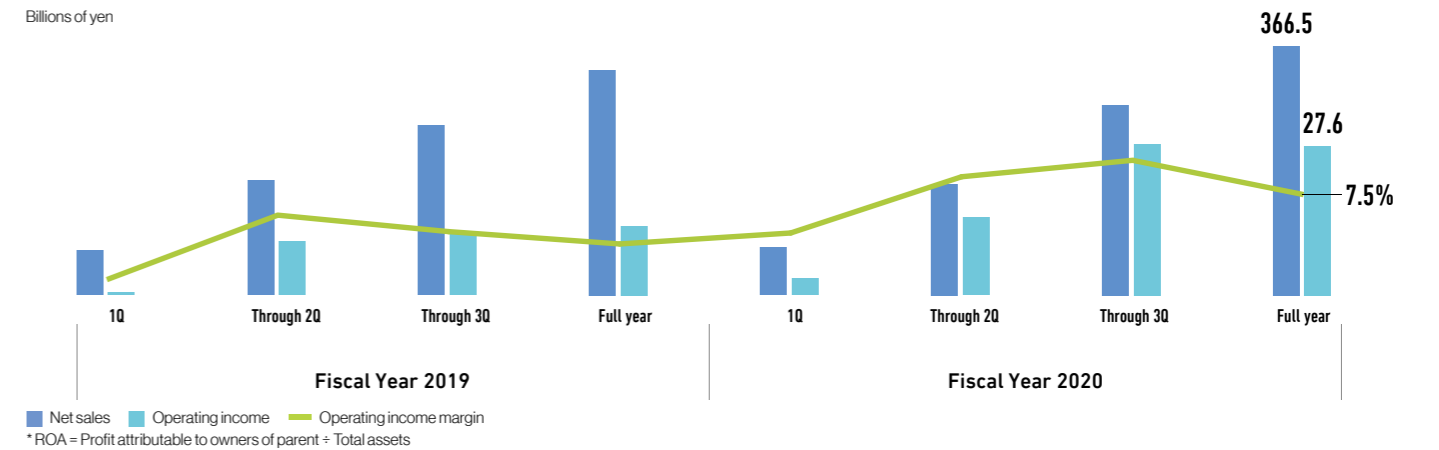
The principal factors causing the decline in net sales are a decrease in the revenues of the Pachislot and Pachinko Machines Business due to the tightening of regulations and a decrease in sales accompanying a reduction in business scale, which resulted from the structural reform of the existing businesses 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. Although the Digital Games area continues to see intensifying competition, the operating income margin of the Pachislot and Pachinko Machines Business has improved significantly.



Comparing Fiscal Year 2019 and Fiscal Year 2020

(Fiscal Year 2020)

Net sales: **¥366.5 billion** Operating income: **¥27.6 billion** Operating income margin: **7.5%** ROA*: **3.0%**



Summary of Consolidated Financial Statements

Billions of yen

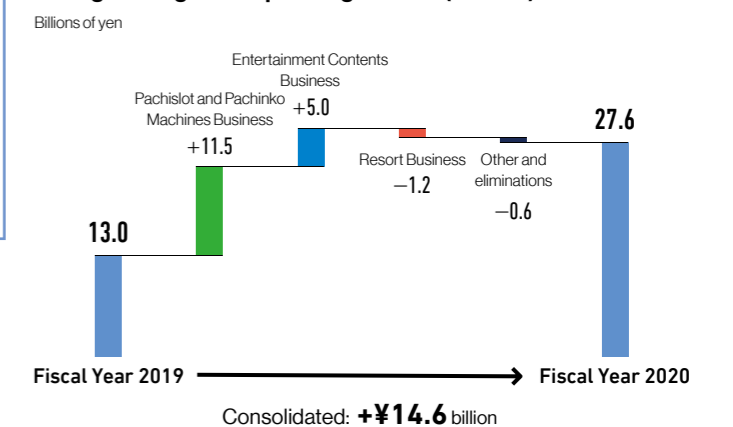
	2019	2020	YoY Change
Net sales	331.6	366.5	+11%
Pachislot and Pachinko Machines Business	101.4	108.3	+7%
Entertainment Contents Business	219.6	247.7	+13%
Resort Business	10.5	10.4	-1%
Cost of sales	211.1	230.0	+9%
Gross profit	120.4	136.5	+13%
Selling, general and administrative (SG&A) expenses	107.3	108.8	+1%
Operating income (losses)	13.0	27.6	+111%
Pachislot and Pachinko Machines Business	13.4	24.9	+85%
Entertainment Contents Business	9.8	14.8	+51%
Resort Business	-2.4	-3.6	-
Other and eliminations	-7.8	-8.4	-
Operating income margin	3.9%	7.5%	+3.6pt
Non-operating income	2.1	3.2	+53%
Non-operating expenses	7.7	5.5	-28%
Ordinary income	7.4	25.2	+238%
Extraordinary income	8.2	3.1	-
Extraordinary losses	8.7	1.2	-
Income before income taxes	6.9	27.1	+288%
Total income taxes	4.2	13.1	-
Profit attributable to owners of parent	2.6	13.7	+421%
Cash dividends per share (Yen)	40	40	-
Net income per share (Yen)	11.27	58.65	-
Net assets per share (Yen)	1,289.32	1,251.02	-

■ **Net Sales (Pachislot and Pachinko Machines Business)**
Pachislot unit sales increased in the Pachislot and Pachinko Machines Business.

■ **Net Sales (Entertainment Contents Business)**
Performance in the Digital Games area remains solid.

■ **Total income taxes**
Due to concerns about COVID-19, the Group reversed approximately ¥7 billion in deferred tax assets and recorded this amount as income taxes-deferred for fiscal year 2020.

Change in Segment Operating Income (Losses)

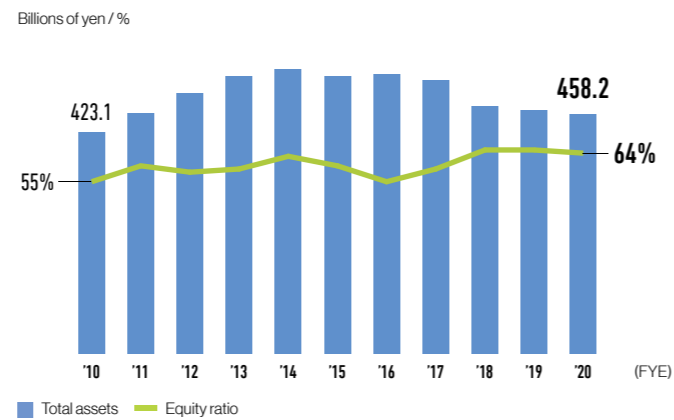


Consolidated Financial Position

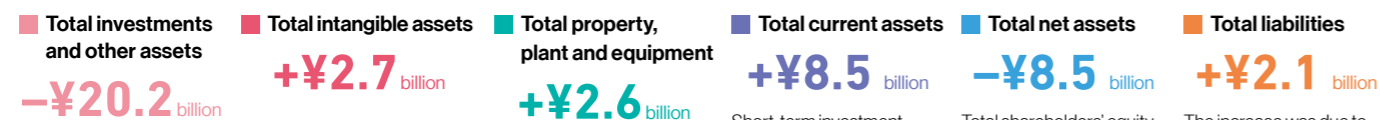
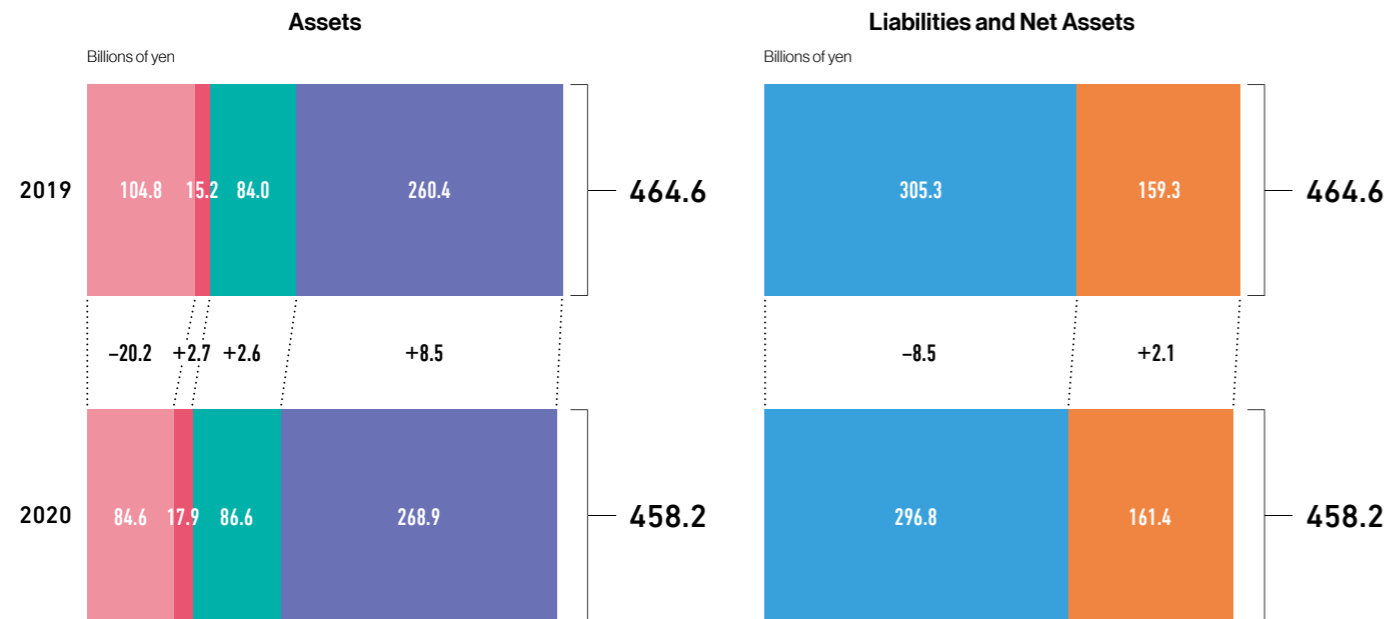
Long-Term Trends

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 Integrated Resort (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 2019 and Fiscal Year 2020



Fell due to a decrease in the mark-to-market valuation of investment securities held

Short-term investment securities and inventories decreased, while cash and deposits increased.

Total shareholders' equity decreased in line with dividends paid, while the valuation difference on available-for-sale securities and foreign currency translation adjustment also decreased.

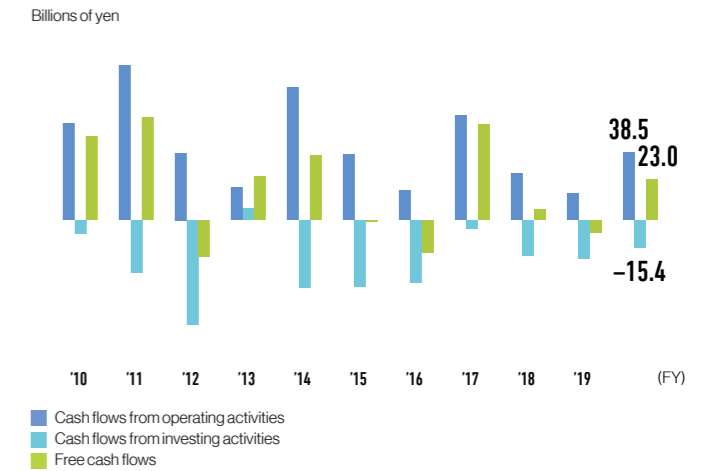
The increase was due to the application of IFRS 16 "Leases" standards by certain overseas subsidiaries.

Consolidated Cash Flows

Long-Term Trends

With the exception of certain fiscal periods, the Group has continued to record net cash outflows in investing activities due to M&As in growth areas and strategic investments to raise production capacity. Since fiscal 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 Integrated Resort (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.

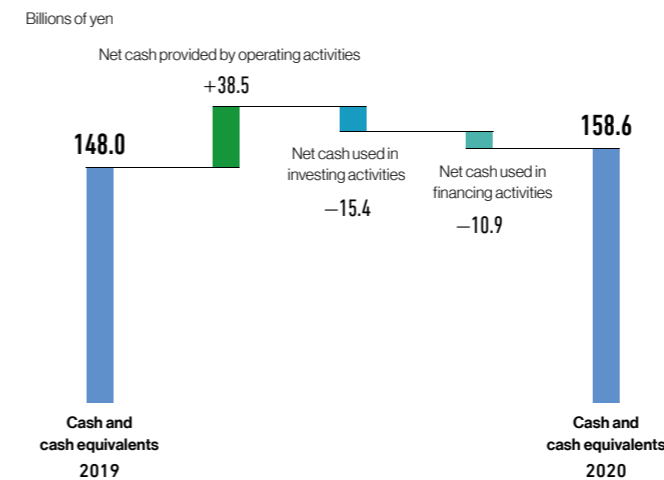
Cash Flows



Fiscal Year 2020 Cash Flows

Cash and cash equivalents at the end of fiscal year 2020 amounted to ¥158,617 million, up ¥10,552 million from the previous fiscal year-end.

Consolidated Cash Flows



■ Net cash provided by operating activities
+¥38.5 billion

Factors including the recording of ¥27,104 million in income before income taxes and ¥17,193 million in depreciation and amortization, which offset a ¥2,811 million increase in notes and accounts receivable-trade and a ¥6,582 million decrease in notes and accounts payable-trade, resulted in ¥38,537 million net cash provided by operating activities in the current fiscal year (compared with a ¥14,876 million inflow in the previous fiscal year).

■ Net cash used in investing activities
-¥15.4 billion

Factors including investing of ¥10,036 million for purchase of property, plant and equipment and ¥7,103 million for purchase of intangible assets, which offset ¥4,315 million in proceeds from sales of property, plant and equipment, resulted in ¥15,464 million net cash used in investing activities in the current fiscal year (compared with a ¥22,113 million outflow in the previous fiscal year).

■ Net cash used in financing activities
-¥10.9 billion

Factors including ¥13,352 million for repayment of long-term loans payable, ¥12,500 million for redemption of bonds, and ¥9,395 million in cash used to pay dividends, which offset financing of ¥14,956 million through long-term loans payable and ¥9,933 million through proceeds from issuance of bonds, resulted in ¥10,956 million net cash used by financing activities in the current fiscal year (compared with a ¥20,668 million outflow in the previous fiscal year).

Breakdown of Cash Flows

Billions of yen

Cash Flows from Operating Activities	
Income before income taxes	27.1
Depreciation and amortization	17.1
Increase in notes and accounts receivable-trade	-2.8
Decrease in notes and accounts payable-trade	-6.5
Cash Flows from Investing Activities	
Purchase of property, plant and equipment	-10.0
Proceeds from sales of property, plant and equipment	4.3
Purchase of intangible assets	-7.1
Cash Flows from Financing Activities	
Proceeds from long-term loans payable	14.9
Repayment of long-term loans payable	-13.3
Proceeds from issuance of bonds	9.9
Redemption of bonds	-12.5
Cash dividends paid	-9.3

Non-Financial Assets

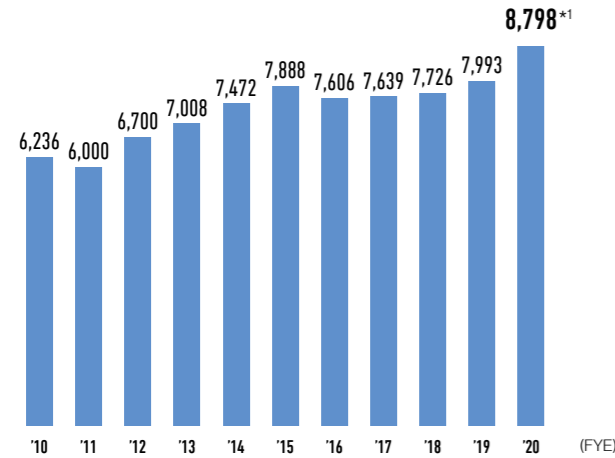
Human Capital

Consolidated Employee Numbers

At the end of fiscal year 2020, the consolidated number of employees was 8,798, up 805 from the previous fiscal year-end. This rise was mainly due to an increase in overseas development personnel in line with the strengthening of global human resources in the Entertainment Contents Business area (approximately 210 employees) and the conversion of fixed-term to permanent labor contracts (approximately 440 employees).

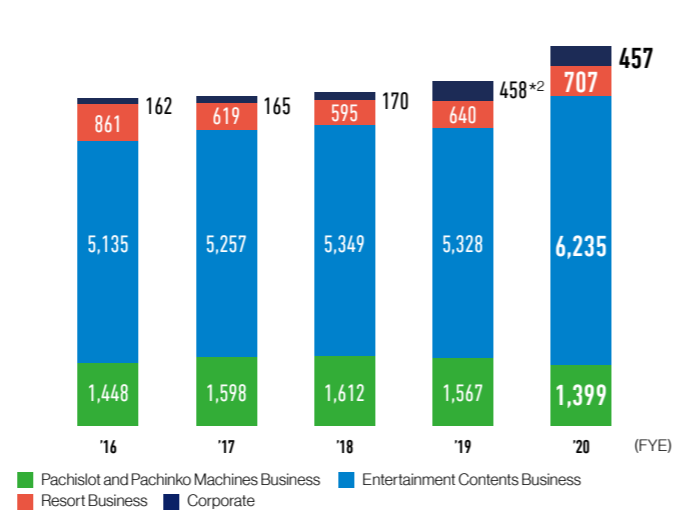
Consolidated Employee Numbers

People



Employee Numbers by Segment

People



*1 Total employees in the Entertainment Contents Business will increase due to the conversion of fixed-term to permanent labor contracts (about 440 people).

*2 Increase in seconded employees due to cross-group organizational restructuring centered on management functions.

IP

R&D Expenses and Content Production Expenses

For the three-year period between fiscal year 2018 and fiscal year 2020, R&D and content production expenses were equivalent to more than 20% of net sales on average. In recent years in particular, the Group has proactively invested in expanding its Digital Games lineup over the medium term. In fiscal year 2020, expenditures were ¥76.5 billion, a 14.9% increase compared to the previous fiscal year due to the launch of multiple new packaged game titles.

Reference

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

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

Pachislot and Pachinko Machines Business 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 the development period, and the basic straight-line amortization period is 24 months from the 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.

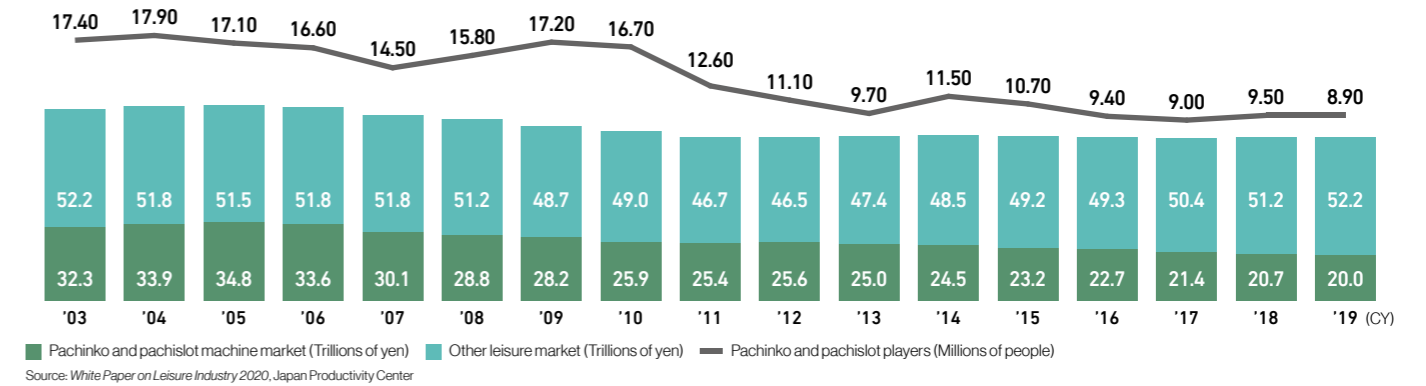
Packaged Games area

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

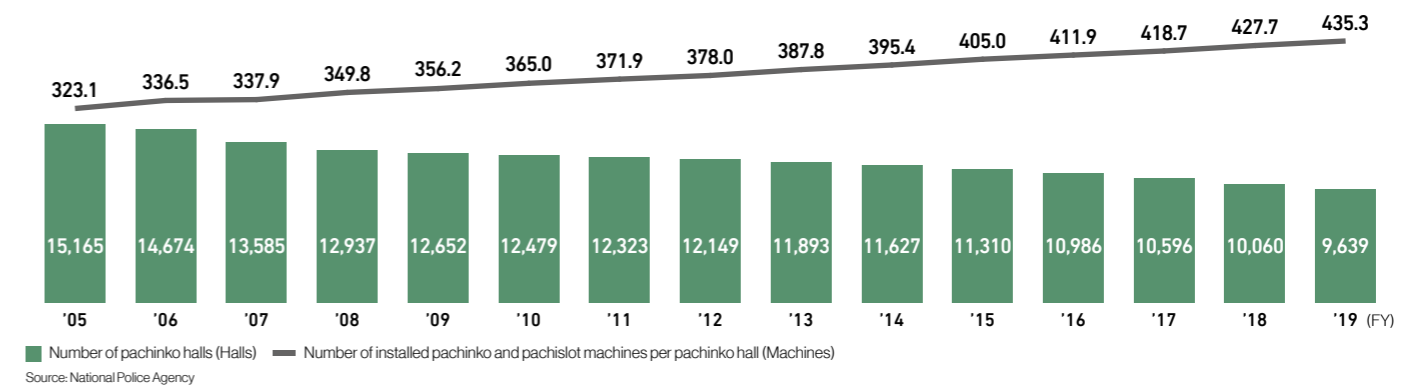
- Expenses are recognized three months after release as expenses linked to unit sales.
- For some titles, certain expenses are recognized three months after release as expenses linked to unit sales, and the remaining expenses are amortized over a period of 21 months.

Basic Data

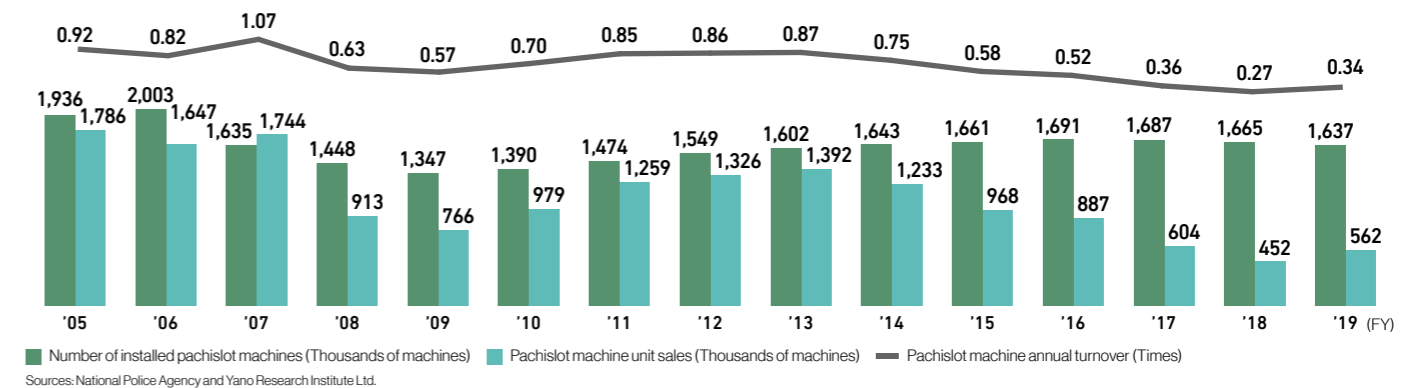
Market Sizes and Number of Pachinko and Pachislot Players



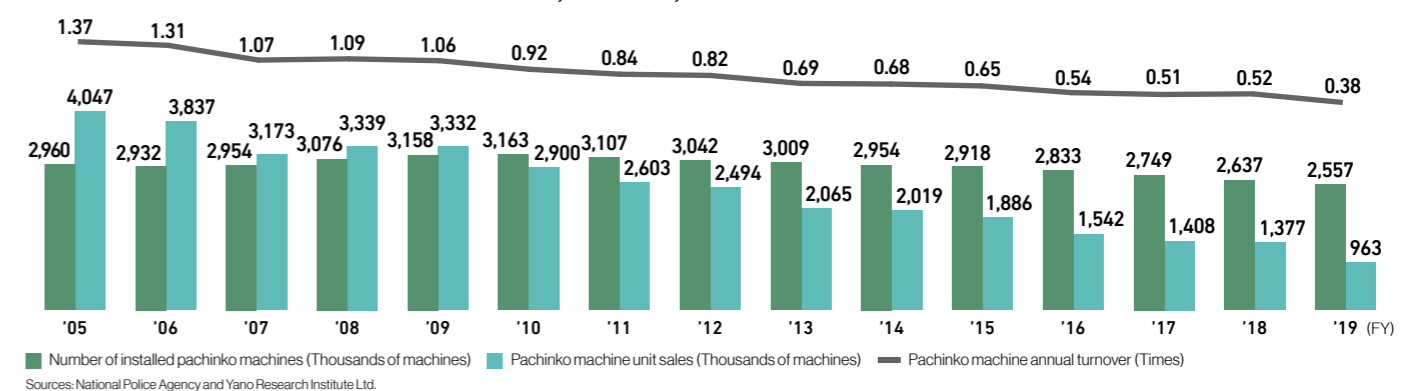
Numbers of Pachinko Halls and Installed Pachinko and Pachislot Machines per Pachinko Hall



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



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



Company Profile / Stock Information

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, 2020)
Principal business	Management of SEGA SAMMY Group as the holding company

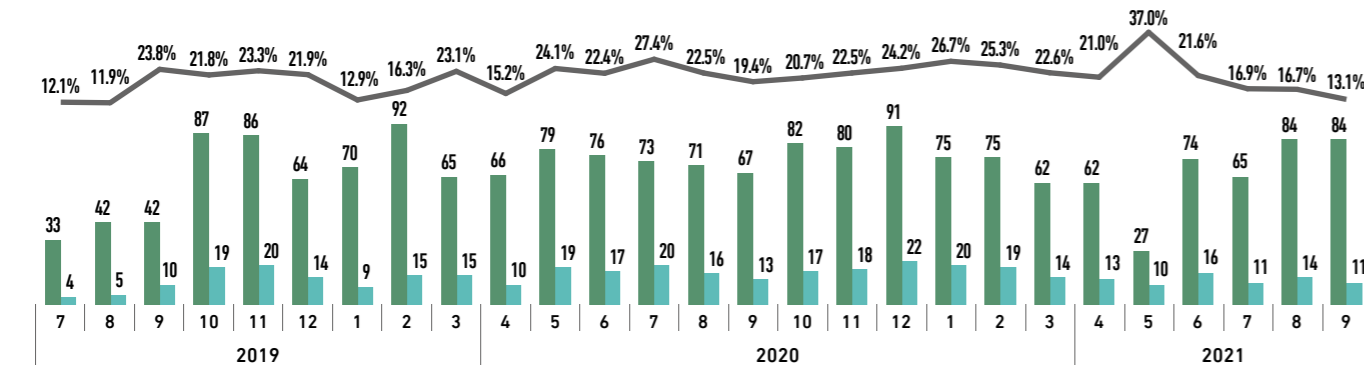
Stock Information (As of March 31, 2020)

Number of shares authorized for issue	800,000,000
Total shares issued and outstanding	266,229,476
Number of shareholders	72,584

Major Shareholders (As of March 31, 2020)

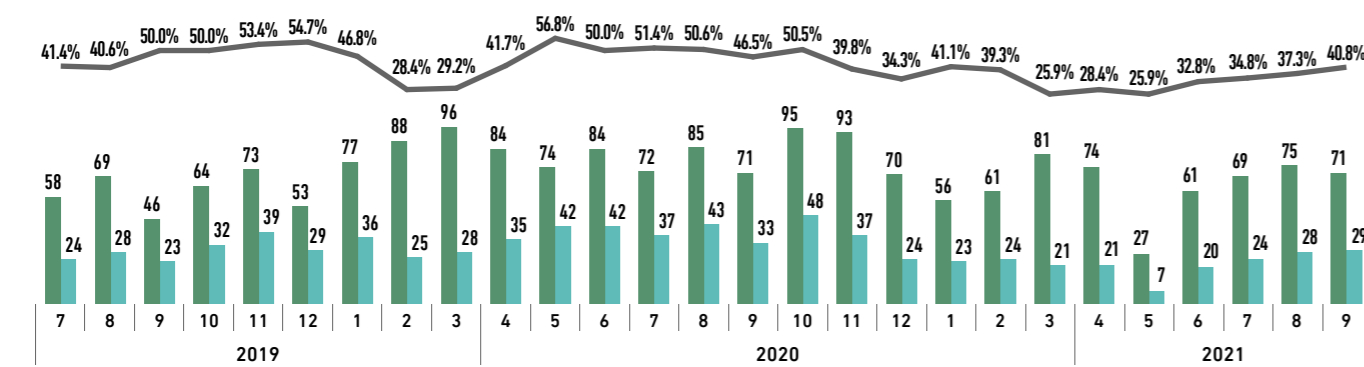
Name of shareholder	Shares held	Shares ratio
HS Company	35,308,000	13.26%
SEGA SAMMY HOLDINGS INC.	31,138,238	11.69%
The Master Trust Bank of Japan, Ltd. (Trust account)	16,252,100	6.10%
FSC Co., Ltd.	13,622,840	5.11%
Japan Trustee Services Bank, Ltd. (Trust account)	10,185,700	3.82%
Hajime Satomi	7,833,638	2.94%
STATE STREET BANK AND TRUST COMPANY 505001	7,431,961	2.79%
Japan Trustee Services Bank, Ltd. (Trust account 5)	4,038,800	1.51%
Haruki Satomi	3,723,161	1.39%
JP MORGAN CHASE BANK 385151	3,538,811	1.32%

Results of Pachislot Machine Prototype Testing



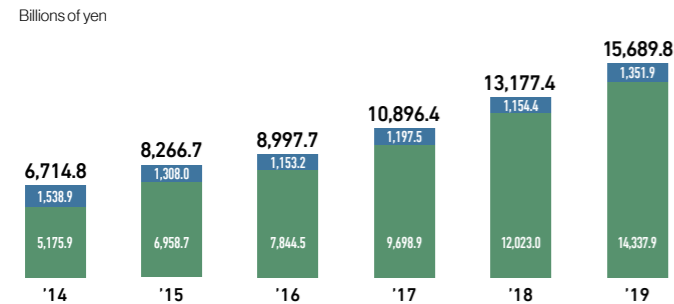
■ Pachislot machine prototypes issued ■ Number of pachislot machines approved ■ Pachislot machine approval rate
Source: Security Communications Association

Results of Pachinko Machine Prototype Testing



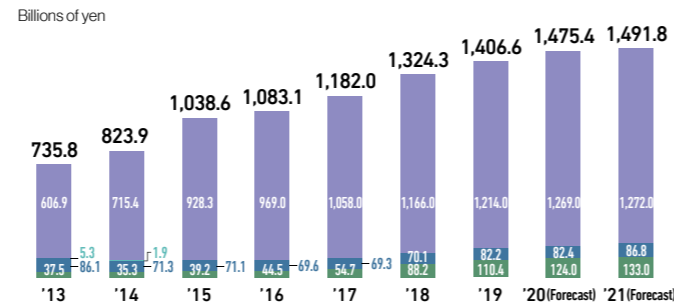
■ Pachinko machine prototypes issued ■ Number of pachinko machines approved ■ Pachinko machine approval rate
Source: Security Communications Association

Market Size of Packaged Games and Digital Distribution Games



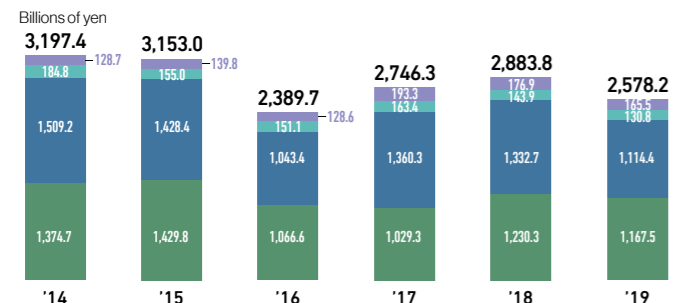
*1 Total of income from digital distribution of mobile games, PC online games, and home video games
*2 Including income from packaged home video games and packaged PC games
Source: Famitsu Game White Paper (2015-2020)

Domestic Market for Online Game Content



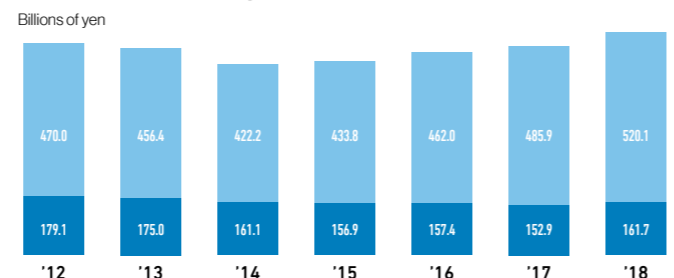
Source: f-ism

Total Shipments of Home Video Games



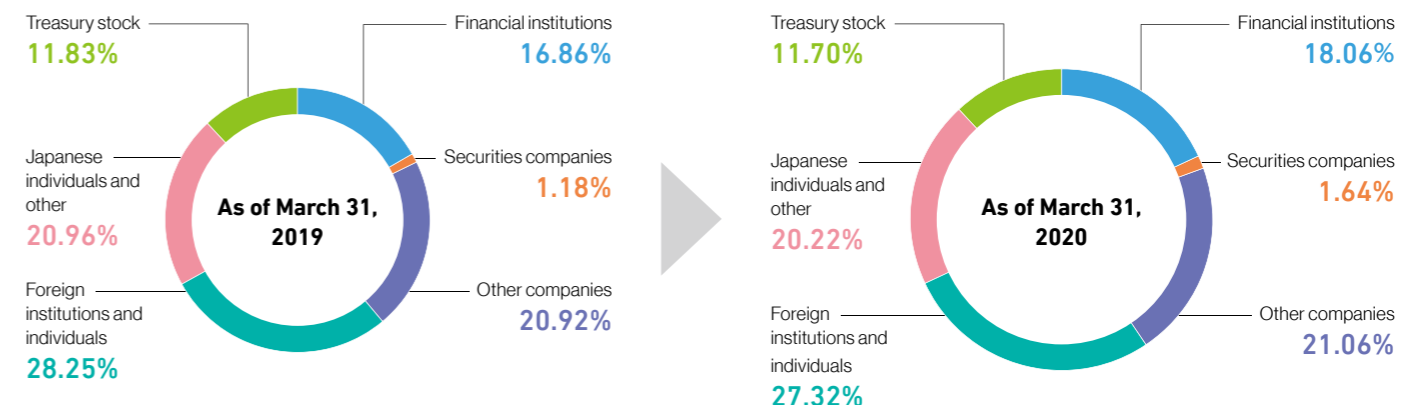
Source: CESA Game White Paper 2020

Domestic Amusement Machine Sales and Revenues from Amusement Center Operations



Source: Japan Amusement Industry Association

Breakdown of Shareholders



Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2019 and 2020

	Millions of yen	
	2019	2020
Assets		
Current assets		
Cash and deposits	¥137,425	¥159,013
Notes and accounts receivable—trade	39,209	40,408
Short-term investment securities	14,500	5,398
Merchandise and finished goods	9,800	8,218
Work in process	25,028	20,235
Raw materials and supplies	15,192	18,554
Income taxes receivable	4,539	4,836
Other	15,026	12,613
Allowance for doubtful accounts	(259)	(302)
Total current assets	260,462	268,976
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	89,166	88,143
Accumulated depreciation	(50,775)	(50,703)
Buildings and structures, net	38,391	37,439
Machinery, equipment and vehicles	12,845	12,530
Accumulated depreciation	(10,384)	(10,739)
Machinery, equipment and vehicles, net	2,460	1,790
Amusement machines and facilities	43,826	46,066
Accumulated depreciation	(32,111)	(32,927)
Amusement machines and facilities, net	11,715	13,139
Land	21,352	21,177
Construction in progress	1,483	1,418
Other	49,641	53,997
Accumulated depreciation	(41,027)	(42,314)
Other, net	8,614	11,683
Total property, plant and equipment	84,017	86,649
Intangible assets		
Goodwill	6,448	5,878
Other	8,848	12,090
Total intangible assets	15,297	17,969
Investments and other assets		
Investment securities	73,478	55,046
Long-term loans receivable	1,014	1,117
Lease and guarantee deposits	13,843	13,888
Net defined benefit assets	2,570	3,076
Deferred tax assets	4,098	1,215
Other	10,308	10,779
Allowance for doubtful accounts	(438)	(450)
Total investments and other assets	104,876	84,673
Total noncurrent assets	204,191	189,292
Total assets	¥464,654	¥458,268

See accompanying notes.

	Millions of yen	
	2019	2020
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 24,758	¥ 17,834
Short-term loans payable	13,352	13,331
Current portion of bonds	12,500	10,000
Income taxes payable	2,631	3,383
Accrued expenses	15,551	15,347
Provision for bonuses	5,537	7,891
Provision for directors' bonuses	476	808
Provision for point card certificates	31	29
Asset retirement obligations	562	101
Other	12,140	17,419
Total current liabilities	87,542	86,147
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	40,334	42,003
Net defined benefit liability	4,019	4,176
Deferred tax liabilities	2,110	2,165
Asset retirement obligations	4,334	4,847
Provision for dismantling of fixed assets	420	420
Other	10,556	11,649
Total noncurrent liabilities	71,774	75,263
Total liabilities	159,316	161,410
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	117,142	118,564
Retained earnings	201,889	206,334
Treasury stock	(54,168)	(53,555)
Total shareholders' equity	294,816	301,296
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,354	4,470
Deferred gains or losses on hedges	—	(596)
Revaluation reserve for land	(1,109)	(1,109)
Foreign currency translation adjustment	(4,888)	(8,480)
Remeasurements of defined benefit plans	(524)	(1,478)
Total accumulated other comprehensive income	7,832	(7,193)
Subscription rights to shares	912	813
Non-controlling interests	1,776	1,941
Total net assets	305,337	296,858
Total liabilities and net assets	¥464,654	¥458,268

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen	
	2019	2020
Net sales	¥331,648	¥366,594
Cost of sales (Notes 7 (1) and (2))	211,199	230,092
Gross profit	120,449	136,502
Selling, general and administrative expenses	107,369	108,859
Operating income	13,079	27,643
Other income (expenses)		
Interest income	265	247
Dividends income	468	435
Foreign exchange gains	—	329
Gain on investments in partnership	495	616
Gain on valuation of compound financial instruments	15	—
Interest expenses	(532)	(475)
Equity in losses of affiliates	(3,859)	(2,805)
Commission fee	(179)	(137)
Loss on investments in partnership	(700)	(421)
Foreign exchange losses	(2)	—
Loss on retirement of noncurrent assets	(132)	(193)
Settlement package	(631)	—
Rent expenses	(996)	(84)
Gain on sales of noncurrent assets (Note 7 (3))	5,225	2,917
Gain on sales of investment securities	1,701	104
Gain on liquidation of subsidiaries and affiliates	1,220	—
Gain on reversal of restructuring loss	64	30
Loss on sales of noncurrent assets (Note 7 (4))	(47)	(0)
Impairment loss (Note 7 (5))	(8,334)	(371)
Loss on valuation of investment securities	—	(573)
Early extra retirement payments	(175)	(32)
Loss on sales of shares of subsidiaries and affiliates	—	(172)
Other, net	35	48
Subtotal	(6,098)	(538)
Income before income taxes	6,981	27,104
Income taxes—current	3,599	5,314
Income taxes—deferred	658	7,817
Total income taxes	4,257	13,131
Profit	2,724	13,972
(Breakdown)		
Profit attributable to owners of parent	2,642	13,775
Profit attributable to non-controlling interests	81	197
Other comprehensive income		
Valuation difference on available-for-sale securities	3,816	(9,583)
Deferred gains or losses on hedges	0	6
Foreign currency translation adjustment	(1,052)	(2,427)
Remeasurements of defined benefit plans, net of tax	(46)	(1,018)
Share of other comprehensive income of entities accounted for using equity method	(1,695)	(1,724)
Total other comprehensive income (Note 7 (6))	1,022	(14,747)
Comprehensive income	3,746	(774)
(Breakdown)		
Comprehensive income attributable to owners of parent	3,664	(967)
Comprehensive income attributable to non-controlling interests	¥ 81	¥ 192

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Previous fiscal year (From April 1, 2018 to March 31, 2019)					
Balances as of April 1, 2018	¥29,953	¥117,345	¥207,174	¥(54,781)	¥299,691
Changes of items during the period					
Dividends from surplus			(9,377)		(9,377)
Profit attributable to owners of parent			2,642		2,642
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock		(18)		624	605
Purchase of shares of consolidated subsidiaries		(184)			(184)
Reversal of revaluation reserve for land			1,450		1,450
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(203)	(5,284)	613	(4,874)
Balances as of March 31, 2019	¥29,953	¥117,142	¥201,889	¥(54,168)	¥294,816

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balances as of April 1, 2018	¥10,528	¥ 17	¥ 340	¥(2,147)	¥(479)	¥8,259
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Purchase of treasury stock						
Disposal of treasury stock						
Purchase of shares of consolidated subsidiaries						
Reversal of revaluation reserve for land						
Net changes of items other than shareholders' equity	3,826	(17)	(1,450)	(2,741)	(45)	(427)
Total changes of items during the period	3,826	(17)	(1,450)	(2,741)	(45)	(427)
Balances as of March 31, 2019	¥14,354	¥ —	¥(1,109)	¥(4,888)	¥(524)	¥7,832

	Millions of yen		
	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2018	¥819	¥1,685	¥310,456
Changes of items during the period			
Dividends from surplus			(9,377)
Profit attributable to owners of parent			2,642
Purchase of treasury stock			(11)
Disposal of treasury stock			605
Purchase of shares of consolidated subsidiaries			(184)
Reversal of revaluation reserve for land			1,450
Net changes of items other than shareholders' equity	93	90	(244)
Total changes of items during the period	93	90	(5,119)
Balances as of March 31, 2019	¥912	¥1,776	¥305,337

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Current fiscal year (From April 1, 2019 to March 31, 2020)	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balances as of April 1, 2019	¥29,953	¥117,142	¥201,889	¥(54,168)	¥294,816
Cumulative effects of changes in accounting policies			135		135
Restated balance	29,953	117,142	202,024	(54,168)	294,952
Changes of items during the period					
Dividends from surplus			(9,390)		(9,390)
Profit attributable to owners of parent			13,775		13,775
Effect of changes in accounting period of consolidated subsidiaries			10		10
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		(39)		622	582
Change of scope of consolidation			(85)		(85)
Purchase of shares of consolidated subsidiaries		(33)			(33)
Change in ownership interest of parent due to transactions with non-controlling interests		880			880
Tax effect adjustments relating to changes in past years' equity		614			614
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	1,421	4,309	613	6,344
Balances as of March 31, 2020	¥29,953	¥118,564	¥206,334	¥(53,555)	¥301,296

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balances as of April 1, 2019	¥14,354	¥ —	¥(1,109)	¥(4,888)	¥ (524)	¥ 7,832
Cumulative effects of changes in accounting policies	(283)					(283)
Restated balance	14,071	—	(1,109)	(4,888)	(524)	7,548
Changes of items during the period						
Dividends from surplus						
Profit attributable to owners of parent						
Effect of changes in accounting period of consolidated subsidiaries						
Purchase of treasury stock						
Disposal of treasury stock						
Change of scope of consolidation						
Purchase of shares of consolidated subsidiaries						
Change in ownership interest of parent due to transactions with non-controlling interests						
Tax effect adjustments relating to changes in past years' equity						
Net changes of items other than shareholders' equity	(9,600)	(596)	—	(3,591)	(954)	(14,742)
Total changes of items during the period	(9,600)	(596)	—	(3,591)	(954)	(14,742)
Balances as of March 31, 2020	¥ 4,470	¥(596)	¥(1,109)	¥(8,480)	¥(1,478)	¥ (7,193)

	Total net assets		
	Subscription rights to shares	Non-controlling interests	Total net assets
Balances as of April 1, 2019	¥912	¥1,776	¥305,337
Cumulative effects of changes in accounting policies			(147)
Restated balance	912	1,776	305,189
Changes of items during the period			
Dividends from surplus			(9,390)
Profit attributable to owners of parent			13,775
Effect of changes in accounting period of consolidated subsidiaries			10
Purchase of treasury stock			(8)
Disposal of treasury stock			582
Change of scope of consolidation			(85)
Purchase of shares of consolidated subsidiaries			(33)
Change in ownership interest of parent due to transactions with non-controlling interests			880
Tax effect adjustments relating to changes in past years' equity			614
Net changes of items other than shareholders' equity	(98)	165	(14,676)
Total changes of items during the period	(98)	165	(8,331)
Balances as of March 31, 2020	¥813	¥1,941	¥296,858

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen	
	2019	2020
Net cash provided by (used in) operating activities		
Income before income taxes	¥ 6,981	¥ 27,104
Depreciation and amortization	18,819	17,193
Impairment loss	8,334	371
Amount of transfer of equipment by amusement center operation business	(4,585)	(4,317)
Loss (gain) on sales of noncurrent assets	(5,177)	(2,916)
Loss on retirement of noncurrent assets	132	193
Loss (gain) on liquidation of subsidiaries and affiliates	(1,219)	—
Loss (gain) on sales of investment securities	(1,562)	(2)
Loss (gain) on valuation of investment securities	—	281
Loss (gain) on investments in partnership	204	(195)
Amortization of goodwill	2,064	2,043
Increase (decrease) in allowance for doubtful accounts	(16)	70
Increase (decrease) in provision for directors' bonuses	(130)	339
Increase (decrease) in net defined benefit liability	791	81
Increase (decrease) in provision for bonuses	(352)	2,450
Interest and dividends income	(734)	(682)
Interest expenses	532	475
Foreign exchange losses (gains)	212	69
Equity in (earnings) losses of affiliates	3,859	2,805
Decrease (increase) in notes and accounts receivable—trade	(10,203)	(2,811)
Decrease (increase) in inventories	(10,004)	2,862
Increase (decrease) in notes and accounts payable—trade	3,021	(6,582)
Increase (decrease) in guarantee deposits received	(674)	(770)
Other, net	6,975	4,955
Subtotal	17,268	43,019
Interest and dividends income received	757	728
Interest expenses paid	(544)	(460)
Income taxes paid	(5,250)	(6,955)
Income taxes refund	2,646	2,205
Net cash provided by (used in) operating activities	¥ 14,876	¥ 38,537

See accompanying notes.

Consolidated Statements of Cash Flows

	Millions of yen	
	2019	2020
Net cash provided by (used in) investing activities		
Payments into time deposits	¥ (36)	¥ (36)
Proceeds from withdrawal of time deposits	11	—
Purchase of short-term investment securities	(3,000)	(5,000)
Proceeds from redemption of securities	3,000	3,000
Purchase of trust beneficiary right	(2,697)	(1,894)
Proceeds from sales of trust beneficiary right	2,453	2,514
Purchase of property, plant and equipment	(18,235)	(10,036)
Proceeds from sales of property, plant and equipment	10,342	4,315
Purchase of intangible assets	(10,274)	(7,103)
Proceeds from sales of intangible assets	36	—
Purchase of investment securities	(849)	(566)
Proceeds from sales of investment securities	6,017	410
Proceeds from redemption of investment securities	700	821
Payments for investment in partnerships	(2,082)	(1,257)
Proceeds from distribution of investment in partnerships	909	1,279
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 9 (2))	(32)	(1,383)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(85)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	640
Purchase of stocks of subsidiaries and affiliates	(5,282)	(157)
Payments of loans receivable	(559)	(2,704)
Collection of loans receivable	409	2,689
Reduction of investments in trusts	400	1,000
Payments for lease deposits	(2,554)	(659)
Collection of lease deposits	3,494	875
Other, net	(4,284)	(2,129)
Net cash provided by (used in) investing activities	(22,113)	(15,464)
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	14,971	14,956
Repayment of long-term loans payable	(15,844)	(13,352)
Proceeds from issuance of bonds	—	9,933
Redemption of bonds	(10,000)	(12,500)
Purchase of treasury stock	(11)	(8)
Proceeds from exercise of stock options	512	430
Cash dividends paid	(9,379)	(9,395)
Dividends paid to non-controlling interest	(7)	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(47)
Other, net	(909)	(971)
Net cash provided by (used in) financing activities	(20,668)	(10,956)
Effect of exchange rate change on cash and cash equivalents	(595)	(1,574)
Net increase (decrease) in cash and cash equivalents	(28,501)	10,541
Cash and cash equivalents at beginning of period	176,566	148,064
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	16
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries	—	(5)
Cash and cash equivalents at end of period (Note 9 (1))	¥148,064	¥158,617

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

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 2019 and 2020. 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 2019 consolidated financial statements to conform to the classifications used in 2020. 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: 68

From the fiscal year ended March 31, 2020, the following companies were included in the Company's consolidated subsidiaries: Two Point Studios Ltd. and one other company, because of their acquisition of shares; DARTSLIVE MALAYSIA SDN. BHD., because of an increase in its materiality.

From the fiscal year ended March 31, 2020, the following companies have been excluded from the scope of consolidation: JMS-United Co., Ltd. and four other companies, because of the transfer of their shares.

(2) Number of non-consolidated subsidiaries: 16

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

2. Application of the equity method

(1) Number of non-consolidated subsidiaries accounted for under the equity method: 6

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

(3) Number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method: 11

Some of the Company's non-consolidated subsidiaries and affiliates are not accounted for under the equity method because the combined amount of net income corresponding to the percentage of

equity interest held by the Company, and the combined amount of retained earnings corresponding to the percentage of equity interest held by the Company do not have a significant effect on the consolidated financial statements even if they are excluded from the scope of equity method, and have no significance as a whole.

3. Accounting policies

(1) Valuation and accounting treatment for important assets

1) Held-to-maturity debt securities

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

2) Available-for-sale securities

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, 2020.

Securities without quoted market prices:

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

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

3) Derivatives

Derivatives are stated at fair market value.

4) Inventories

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

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

(2) Depreciation and amortization for important assets

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

Depreciation is calculated primarily using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and structures: 2–50 years

Machinery, equipment and vehicles: 2–15 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.

4) Right-of-use assets

The lease period or the useful life of the asset, whichever is shorter, is used as the useful life, and the residual value is calculated as zero.

(3) Accounting for deferred assets

Bond issue cost: All expenses are expensed when incurred.

(4) Accounting for allowances and provisions

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in the amount sufficient to cover possible losses based on a historical write-off of general receivables.

Receivables with default possibility and bankrupt receivables are calculated based on an individual assessment of the possibility of collection.

2) Provision for bonuses

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

3) Provision for directors' bonuses

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

4) Provision for point card certificates

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, 2020 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, 2020.

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.

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

Having regard to paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No.39, March 31, 2020), the Company and its domestic consolidated subsidiaries did not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

3 Changes in Accounting Policies**(1) Application of IFRS 16 "Leases"**

Subsidiaries using International Financial Reporting Standards started to apply IFRS No.16 Lease (hereinafter referred to as "IFRS 16") from the current fiscal year. In accordance with IFRS 16, lessees are required to recognize almost all leases as assets or liabilities in the balance sheet. Having followed the transitional treatment regarding the application of IFRS 16, the cumulative effects of the changes in the accounting policies were added to (subtracted from) the opening balance of retained earnings for the current consolidated fiscal year. As a result, "Other, net" in noncurrent assets was ¥3,569 million increased, and "Other" in current liabilities and in noncurrent liabilities were ¥581 million, ¥2,979 million increased, respectively, as of the end of the current fiscal year. Also the beginning balance for retained earnings was ¥147 million decreased. The impact of these changes on the profit or loss for the current fiscal year was immaterial.

(2) Application of ASU No.2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities"

Subsidiaries that apply the U.S. Accounting Standards adopted the U.S. FASB (Financial Accounting Standards Board) Accounting Standards Update (ASU) No. 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" (hereinafter, "ASU No. 2016-01") from the current fiscal year. Herewith, investments in equity securities, with the exception of equity-method investments and consolidated investments, are measured at fair value and their fluctuations are recognized in net profit. In initially applying ASU No. 2016-01, retained earnings have been adjusted for the cumulative effects of the application at the beginning of the fiscal year with the transitional treatment of the standard. As a result, retained earnings increased by ¥283 million, and the valuation difference on available-for-sale securities decreased by ¥283 million at the beginning of the fiscal year. The impact of these changes on the profit or loss for the current fiscal year was immaterial.

4 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 31, 2020)

– "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 31, 2020)

(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.

Notes to Consolidated Financial Statements

(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.

– “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)

– “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

– “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)

– “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)

(1) Overview

In order to enhance comparability with internationally recognized accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as “Fair Value Accounting Standards”) were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in “Accounting Standard for Financial Instruments”; and
- Inventories held for trading purposes in “Accounting Standard for Measurement of Inventories.”

(2) Effective date

Fair Value Accounting Standards and guidance will be effective from the beginning of the consolidated 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.

– “Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24,

issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Overview

This aims to present general rules and an overview of procedures for the adopted accounting treatment for cases where the provisions of the related accounting standards are unclear.

(2) Scheduled date of application

These ASBJ statement will be applied from the end of the fiscal year ending March 31, 2021.

– “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Overview

This aims to present information that will help the understanding of financial statement users regarding accounting estimates in items at risk of being significantly affected in the following fiscal year’s financial statements by the amounts recognized in the financial statements in the current fiscal year.

(2) Scheduled date of application

These ASBJ statement will be applied from the end of the fiscal year ending March 31, 2021.

Foreign consolidated subsidiaries
– “Leases” (U.S. GAAP ASU 2016-02)

(1) Overview

The accounting standard was revised with a focus on the recognition of assets and liabilities of all of the lessee’s leases in principle.

(2) Scheduled date of application

The accounting standard will be applied from the beginning of the fiscal year ending March 31, 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.

reflected in accounting treatment based on certain assumptions, including those used to determine the recoverability of deferred tax assets and those used to determine impairment losses. However, there are many uncertainties over the impact from the spread of COVID-19, which could affect the Group’s financial position and operating results for the fiscal year ending March 31, 2021.

6 Notes to Consolidated Balance Sheets

(1) Assets pledged

	Millions of yen	
	2019	2020
Shares of subsidiaries and affiliates	¥25,604	¥22,130
Total	25,604	22,130

Note: For loans from financial institutions to the equity-method affiliate PARADISE SEGASAMMY Co., Ltd. as of March 31, 2020 and 2019, ¥68,222 million (KRW725,000 million) and ¥69,020 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	
	2019	2020
Investment securities (shares)	¥27,669	¥24,506
Investment securities (capital contributions)	1,073	685

(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, 2020 and 2019 are as follows:

	Millions of yen	
	2019	2020
Total amount of overdraft limit and commitment line agreements	¥140,900	¥150,397
Executed loans balance	—	—
Unexecuted balance	140,900	150,397

(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 previous 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	
	2019	2020
Notes receivable—trade	¥1,693	¥—
Notes payable—trade	429	—

5 Additional Information

(Accounting estimates associated with the spread of COVID-19)
Due to the impact from the spread of COVID-19, a state of emergency was declared in Japan on April 7, 2020. As a result, the Group is experiencing delays in parts’ procurement, changes to development schedules, and the suspension of operations at various facilities. For this reason, in light of the Group’s assumption that COVID-19 will continue to spread until at least June 2020, accounting estimates are

7 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	
	2019	2020
Cost of sales	¥5,131	¥5,268

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

	Millions of yen	
	2019	2020
	¥46,782	¥49,746

(3) Gain on sales of noncurrent assets

	Millions of yen	
	2019	2020
Buildings and structures	¥(2,597)	¥ 105
Machinery, equipment and vehicles	52	0
Land	7,769	2,802
Other property, plant and equipment	0	8
Total	5,225	2,917

Note: Loss on sale of buildings and structures and loss on sale of land arising from sale of the same property in the previous 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	
	2019	2020
Buildings and structures	¥ 7	¥—
Machinery, equipment and vehicles	0	0
Land	3	—
Other property, plant and equipment	36	0
Total	47	0

(5) Impairment loss

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

Use	Location	Type	Millions of yen
			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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

Use	Location	Type	Millions of yen
			Amount
Amusement facilities	Yokohama-shi, Kanagawa and 1 other location	Buildings and structures	¥ 85
		Other property, plant and equipment, etc.	20
Assets for business	Ota-ward, Tokyo and 4 other locations	Buildings and structures	8
		Amusement machines and facilities	157
		Other property, plant and equipment	60
		Other intangible assets	38
		Total	371

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	
	2019	2020
Valuation difference on available-for-sale securities:		
The amount arising during the period	¥ 7,123	¥(13,897)
Reclassification adjustments	(1,561)	56
Before adjustments to tax effects	5,561	(13,840)
The amount of tax effects	(1,745)	4,257
Valuation difference on available-for-sale securities	3,816	(9,583)
Deferred gains or losses on hedges:		
The amount arising during the period	12	10
Reclassification adjustments	(12)	(0)
Before adjustments to tax effects	0	9
The amount of tax effects	—	(3)
Deferred gains or losses on hedges	0	6
Foreign currency translation adjustment:		
The amount arising during the period	(129)	(2,426)
Reclassification adjustments	(1,224)	(0)
Before adjustments to tax effects	(1,353)	(2,427)
The amount of tax effects	301	—
Foreign currency translation adjustment	(1,052)	(2,427)
Remeasurements of defined benefit plans, net of tax:		
The amount arising during the period	(762)	(882)
Reclassification adjustments	532	(83)
Before adjustments to tax effects	(229)	(966)
The amount of tax effects	182	(51)
Remeasurements of defined benefit plans, net of tax	(46)	(1,018)
Share of other comprehensive income of entities accounted for using equity method:		
The amount arising during the period	(1,695)	(1,724)
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for using equity method:	(1,695)	(1,724)
Total other comprehensive income	¥ 1,022	¥(14,747)

8 Notes to Consolidated Statements of Changes in Net Assets

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

1. Number of outstanding common stock

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

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

Current fiscal year (From April 1, 2019 to March 31, 2020)

1. Number of outstanding common stock

Type of stock	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Common stock	266,229,476	—	—	266,229,476

2. Number of outstanding treasury stock

Type of stock	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Common stock	31,493,927	6,000	361,689	31,138,238

(Summary of the change)

Increase	Decrease
Increase due to purchase of odd-lot stock	Decrease due to sales of odd-lot stock
6,000 shares	589 shares
	Decrease due to exercise of stock options:
	304,800 shares
	Decrease due to Restricted Stock compensation
	56,300 shares

3. Subscription rights to shares

Company name	Breakdown	Type of stock	Number of stocks (Shares)			Balance at March 31, 2020 Millions of yen
			As of April 1, 2019	Increase	Decrease	
The Company	Subscription rights to shares as stock options	—	—	—	—	¥813
Total			—	—	—	813

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 10, 2019	Common stock	¥4,694	¥20	March 31, 2019	June 3, 2019
Board of Directors' meeting held on October 31, 2019	Common stock	4,695	20	September 30, 2019	December 2, 2019

(2) Of the dividends of which the record date is in the fiscal year ended March 31, 2020, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 13, 2020	Common stock	Retained earnings	¥4,701	¥20	March 31, 2020	June 4, 2020

9 Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2020 and 2019 consisted of the following:

	Millions of yen	
	2019	2020
Cash and deposits	¥137,425	¥159,013
Short-term investment securities	14,500	5,398
Total	151,925	164,411
Time deposits with maturities of more than three months, etc.	(360)	(396)
Short-term investment securities with period from the acquisition date to the redemption date exceeding three months	(3,500)	(5,398)
Cash and cash equivalents	148,064	158,617

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

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

Disclosure is omitted due to insignificance.

Current fiscal year (From April 1, 2019 to March 31, 2020)

Breakdown of assets and liabilities at the time of consolidation of Two Point Studios Ltd. resulting from the acquisition of its shares as well as the relationship between the acquisition price of Two Point Studios Ltd. and expenditures (net) for its acquisition are presented below.

Two Point Studios Ltd.

	Millions of yen
Current assets	¥249
Noncurrent assets	6
Goodwill	1,315
Current liabilities	(129)
Noncurrent liabilities	—
Acquisition price of stocks	1,442
Cash and cash equivalents	(141)
Net: Expenditures for acquisition	(1,300)

10 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, 2020 and 2019, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Previous 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	—

Current fiscal year (From April 1, 2019 to March 31, 2020)

	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, 2020 and 2019

	Millions of yen	
	2019	2020
Due within one year	¥151	¥151
Due after one year	618	466
Total	769	618

Accumulated impairment loss on leased assets as of March 31, 2020 and 2019

	Millions of yen	
	2019	2020
Accumulated impairment loss on leased assets	¥585	¥466

(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, 2020 and 2019, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen	
	2019	2020
Lease payments	¥151	¥151
Reversal of allowance for impairment loss on leased assets	121	119
Depreciation	124	124
Interest expenses	18	15

(4) Method of calculating depreciation equivalent

Depreciated by using the straight-line method assuming the useful life equals to the lease period with a residual value of zero.

(5) Method of calculating interest expenses equivalent

Interest expenses equivalent are calculated as the difference between total lease charges and acquisition cost equivalent of leased items, and are allocated to each fiscal year using the interest method.

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. Lease transactions under IFRS

(1) Details of leased assets (right-of-use assets)

Leased assets (right-of-use assets) primarily consist of items related to leased offices of certain overseas consolidated subsidiaries.

(2) Depreciation method of right-of-use assets

The lease period or the useful life of the assets, whichever is shorter, is used as the useful life, and the residual value is calculated as zero.

3. Operating lease transactions

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2019	2020
Due within one year	¥ 5,289	¥ 5,429
Due after one year	18,544	12,561
Total	23,834	17,991

Note: The primary cause for the decrease in operating lease transactions was the payment of lease payables related to the leased offices of the Group's headquarters, and the recording of right-of-use assets at certain overseas consolidated subsidiaries from the current fiscal year.

11 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. 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 are interest rate swap transactions to hedge interest rate fluctuation risk associated with loans payables.

For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to "(6) Accounting for significant hedge" in "Note 2—Summary of Significant Accounting Policies, 3. Accounting policies."

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

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

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

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

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

Interest rate swap transactions, etc., are used to hedge fluctuation risks of interests on variable interest loans.

With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. 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 13—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, 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 ⁽¹⁾	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 ⁽²⁾			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	—	—	—

Current fiscal year (As of March 31, 2020)

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥159,013	¥159,013	¥ —
(2) Notes and accounts receivable-trade	40,408	40,381	(26)
(3) Short-term investment securities and investment securities:			
1) Held-to-maturity debt securities	809	802	(7)
2) Available-for-sale securities	23,106	23,106	—
3) Equity securities issued by affiliated companies	803	646	(156)
Total assets	224,141	223,951	(190)
(1) Notes and accounts payable-trade	17,834	17,834	—
(2) Short-term loans payable	13,331	13,331	—
(3) Long-term loans payable	42,003	41,896	107
(4) Current portion of corporate bonds	10,000	10,000	—
(5) Corporate bonds payable	10,000	9,888	111
Total liabilities	93,168	92,950	218
Derivative transactions			
1) Derivative transactions to which hedge accounting is not applied	—	—	—
2) Derivative transactions to which hedge accounting is applied	(596)	(596)	—
Total derivative transactions	(596)	(596)	—

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 12-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 13-Derivative Transactions."

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

Item	Millions of yen	
	2019	2020
Investments in unlisted stocks, etc.	¥ 3,430	¥ 2,704
Investments in investment limited partnerships, etc.	8,432	8,631
Stocks of non-consolidated subsidiaries	350	345
Stocks of affiliates	26,499	23,357
Investments in capital of subsidiaries and affiliates	1,073	685

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

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

Previous fiscal year (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.

Current fiscal year (As of March 31, 2020)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥159,013	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	39,698	709	—	—
Short-term investment securities and investment securities:				
Held-to-maturity debt securities (Corporate bonds)	200	—	400	200
Available-for-sale securities with maturities (Negotiable certificates of deposit)	—	—	—	—
Available-for-sale securities with maturities (Other)*	5,000	200	—	—
Total	203,912	909	400	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, 2019)

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥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

Current fiscal year (As of March 31, 2020)

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥13,331	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	3	10,000	17,000	15,000	—
Corporate bonds payable	10,000	—	—	—	—	10,000
Lease obligations	888	786	661	553	327	1,104
Other interest-bearing debt:						
Accounts payable-facilities	34	25	25	19	13	61

12 Investment Securities**1. Held-to-maturity debt securities**

Previous fiscal year (As of March 31, 2019)

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

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	1,011	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

Category	Millions of yen		
	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)

Current fiscal year (As of March 31, 2020)

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

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	309	310	0
3) Other	—	—	—
Total	309	310	0

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

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
1) Government / municipal bonds	¥ —	¥ —	¥—
2) Corporate bonds	500	491	(8)
3) Other	—	—	—
Total	500	491	(8)

2. Available-for-sale securities

Previous fiscal year (As of March 31, 2019)

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

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥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

Category	Millions of yen		
	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)

Current fiscal year (As of March 31, 2020)

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

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥14,606	¥8,270	¥6,335
2) Bonds	—	—	—
3) Other	1,389	1,364	24
Total	15,995	9,635	6,360

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

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
1) Shares	¥1,480	¥1,535	¥ (55)
2) Bonds	5,630	5,784	(154)
3) Other	—	—	—
Total	7,110	7,320	(209)

Note: "Shares" include the shares for which the ASU No. 2016-01 is applied, and valuation difference of ¥291 million is recorded under non-operating income.

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

Previous fiscal year (As of March 31, 2019)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥5,835	¥1,334	¥139
2) Bonds	—	—	—
3) Other	181	366	—
Total	6,017	1,701	139

Notes to Consolidated Financial Statements

Current fiscal year (As of March 31, 2020)

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
1) Shares	¥410	¥104	¥97
2) Bonds	242	—	3
3) Other	—	—	—
Total	652	104	101

4. Impairment loss on securities

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

Not applicable

Current fiscal year (From April 1, 2019 to March 31, 2020)

The Group recognized impairment loss on available-for-sale securities in the amount of ¥573 million.

13 Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2019)

Not applicable.

Current fiscal year (As of March 31, 2020)

Not applicable.

(2) Compound financial instruments

With respect to compound financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire compound financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in "Note 12, Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Previous fiscal year (As of March 31, 2019)

Not applicable.

Current fiscal year (As of March 31, 2020)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts: Buying U.S. dollar	Accounts payable-trade	¥653	¥—	¥9

Note: Calculation method of fair value: Fair values are calculated based on the prices presented by the financial institutions with which derivatives are transacted.

(2) Interest rate-related derivatives

Previous fiscal year (As of March 31, 2019)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			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: Fair value of special treatment for interest rate swaps is included in the fair value of hedged long-term loans payable since these derivatives and the hedged long-term loans payable are accounted for as one financial instrument.

Current fiscal year (As of March 31, 2020)

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Contract value	Contract value due after one year	Fair value
Primary method (Note 2)	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥29,767	¥29,767	¥(602)
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Short-term loans payable	30,000	—	Note 3
Total			59,767	29,767	(602)

Notes: 1. Calculation method of fair value: Fair values are calculated based on the prices presented by the financial institutions with which derivatives are transacted.

2. Primary method represents interest rate swaps transactions to long-term loans payable that are used by entities accounted for using equity method. The contract amount and fair value are multiplied by the equity interest held by the Company.

3. The fair value of special treatment for interest rate swaps is included in the fair value of hedged short-term loans payable since these derivatives and the hedged short-term loans payable are accounted for as one financial instrument.

14 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 previous 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	
	2019	2020
Projected benefit obligations at the beginning of the period	¥27,066	¥29,499
Service costs—benefits earned during the year	2,124	2,217
Interest cost on projected benefit obligations	90	66
Actuarial differences accrued	551	(248)
Retirement benefit paid	(489)	(526)
Other	157	8
Projected benefit obligations at the end of the period	29,499	31,016

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

	Millions of yen	
	2019	2020
Plan assets at the beginning of the period	¥26,002	¥28,707
Expected return on plan assets	489	545
Actuarial differences accrued	(211)	(1,130)
Contribution of employer	2,885	2,963
Retirement benefit paid	(458)	(443)
Other	(1)	—
Plan assets at the end of the period	28,707	30,644

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

	Millions of yen	
	2019	2020
Net defined benefit liability at the beginning of the period	¥600	¥656
Retirement benefit expenses	77	123
Retirement benefit paid	(25)	(50)
Other	3	(0)
Net defined benefit liability at the end of the period	656	728

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

	Millions of yen	
	2019	2020
Funded projected benefit obligations	¥ 27,620	¥ 29,032
Plan assets	(28,707)	(30,644)
	(1,087)	(1,611)
Unfunded projected benefit obligations	2,535	2,711
Net amount of liabilities and assets recorded in the consolidated balance sheet	1,448	1,100
Net defined benefit liability	4,019	4,176
Net defined benefit asset	(2,570)	(3,076)
Net amount of liabilities and assets recorded in the consolidated balance sheet	1,448	1,100

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

(5) Breakdown of retirement benefit expenses

	Millions of yen	
	2019	2020
Service costs—benefits earned during the year	¥2,124	¥2,217
Interest cost on projected benefit obligations	90	66
Expected return on plan assets	(489)	(545)
Amortization of actuarial difference	532	(83)
Amortization of prior service cost	—	—
Retirement benefit expenses using the simplified method	77	123
Other	54	5
Retirement benefit expenses of defined benefit pension plan	2,390	1,783

Note: In addition to the retirement benefit expenses shown above, early extra retirement payments have been recorded as an extraordinary loss. The amounts recorded are ¥175 million and ¥32 million for the previous fiscal year and the current fiscal year, respectively.

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

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

	Millions of yen	
	2019	2020
Actuarial difference	¥(229)	¥(966)
Total	(229)	(966)

(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	
	2019	2020
Unrecognized actuarial difference	¥(441)	¥(1,407)
Total	(441)	(1,407)

(8) Matters concerning plan assets

1) Breakdown of plan assets

Ratio of main classes of plan assets

	2019	2020
Debt securities	57%	47%
Share of stock	10	8
Cash and deposits	19	31
General account	10	10
Other	2	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

	2019	2020
Discount rate	0.0–1.0%	0.0–0.8%
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 required contribution amounts to the defined contribution plan of the Company and its consolidated subsidiaries were ¥697 million in the previous fiscal year and ¥781 million in the current fiscal year.

15 Stock Option Plan**1. Account title and amount of stock options recorded as expenses**

	Millions of yen	
	2019	2020
Other in selling, general and administrative expenses	¥199	¥—

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

	Millions of yen	
	2019	2020
Other income	¥13	¥20

3. Contents, scale and movement of stock options

Previous 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	—	—
Stock options outstanding at March 31, 2019	250,000	3,729,500
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

Current fiscal year (From April 1, 2019 to March 31, 2020)

(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, 2019	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2020	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2019	85,000	3,479,200
Conversion from not exercisable stock options	—	—
Stock options exercised	8,400	296,400
Forfeitures	—	80,700
Stock options outstanding at March 31, 2020	76,600	3,102,100

The following table summarizes the price information of stock options.

Company name	Yen	
	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	1,619	1,594
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, 2018 to March 31, 2019)

Not applicable

Current fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable

5. Estimation of number of exercisable stock options

As it is difficult to reasonably estimate the number of stock options that will be forfeited in the future, the number here reflects only stock options that have actually been forfeited.

16 Income Taxes

1. Significant components of deferred tax assets and liability

	Millions of yen	
	2019	2020
Deferred tax assets:		
Allowance for doubtful accounts	¥ 192	¥ 286
Loss on valuation of inventories	1,623	2,038
Provision for bonuses	1,810	2,520
Net defined benefit liability	1,438	1,699
Depreciation expense	17,769	19,256
Loss on valuation of investment securities	515	542
Impairment loss	2,579	2,499
Other	11,772	9,621
Tax loss carried forward	42,613	37,397
Total	80,314	75,861
Valuation allowance for tax loss carried forward (Note 2)	(41,782)	(37,292)
Valuation allowance for deductible temporary difference	(27,631)	(32,505)
Valuation allowance (Note 1)	(69,413)	(69,797)
Offset against deferred tax liabilities	(6,802)	(4,848)
Net deferred tax assets	4,098	1,215
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(6,483)	(2,305)
Other	(2,429)	(4,709)
Subtotal of deferred tax liabilities	(8,912)	(7,014)
Offset against deferred tax assets	6,802	4,848
Total	(2,110)	(2,165)
Recorded deferred tax assets	1,988	(950)

Notes: 1. Valuation allowance increased by ¥383 million. The main reasons for this increase were a decrease in valuation allowance of ¥4,490 million for tax loss carryforwards associated with the use of tax loss carryforwards and an increase in valuation allowance for deductible temporary difference of ¥4,873 million.

2. Amount of tax loss carried forward and their deferred tax assets by carryforward period are as follows.

Previous fiscal year (As of March 31, 2019)

	Millions of yen						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carried forward (a)	¥ 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.

Current fiscal year (As of March 31, 2020)

	Millions of yen						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Tax loss carried forward (a)	¥ 3,123	¥ 5,147	¥ 5,198	¥ 2,485	¥ 1,804	¥ 19,638	¥ 37,397
Valuation allowance	(3,123)	(5,147)	(5,197)	(2,482)	(1,804)	(19,537)	(37,292)
Deferred tax assets	—	—	1	2	0	100	(b) 105

(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 ¥37,397 million (amount under the normal effective statutory tax rate), deferred tax assets of ¥105 million were recorded. The Company deemed that a partial amount of tax loss carried forward relating to local tax can be recovered mainly in the following fiscal year due to the estimated amount of taxable income.

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, 2019 and 2020

	2019	2020
Statutory tax rate	30.6%	30.6%
(Reconciliation)		
Changes in valuation allowance	(55.1)	18.0
Permanently non-deductible expenses including entertainment expenses	7.4	2.2
Amortization of goodwill	7.7	2.3
Difference of tax rates for consolidated subsidiaries	(3.1)	(2.0)
Tax credit for experiment and research expenses	(22.0)	(9.0)
Tax loss carryforward	81.4	0.9
Effect of adjustment for consolidation	16.4	1.4
Other	(2.4)	4.1
Effective tax rate for financial statement purposes	61.0	48.4

17 Business Combination

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. As of May 8, 2019, the Company had acquired the shares of the said company 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.

2. Period during which the financial results of the acquired company are included in the consolidated financial statements

From July 1, 2019 to March 31, 2020

3. Acquisition costs of the acquired company and consideration by class

Consideration for acquisition ^(Note) Cash	£10 million (¥1,442 million)
Acquisition costs	£10 million (¥1,442 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.

4. Description and amounts of major relevant costs for the acquisition

Due diligence costs	¥39 million
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5. Goodwill recognized, reason for recognition, and amortization method and period**(1) Goodwill recognized**

¥1,315 million

(2) Reason for recognition

The outstanding content development capability and accumulated development expertise of Two Point Studios Ltd. is considered to have generated goodwill because such capability and expertise is expected to provide excess earning power through the contribution to the creation of new IPs in the SEGA Group.

(3) Amortization method and period

Straight-line over 7 years

6. Amount of assets acquired and liabilities assumed on the date of the business combination

Current assets	¥249 million
Noncurrent assets	6 million
Total assets	256 million
Current liabilities	129 million
Noncurrent liabilities	—
Total liabilities	129 million

7. Amounts allocated to intangible assets other than goodwill, breakdown of the components thereof, and method and period for amortization

Not applicable.

8. Approximate amount of impact of the business combination on the consolidated statements of income and comprehensive income for the current fiscal year on the assumption that the business combination was completed at the beginning of the current fiscal year and the method of calculation thereof

The information is omitted due to the immateriality of the effects. No audit attestation has been received for the provisional calculation of the above mentioned approximate amount.

18 Asset Retirement Obligations

Previous fiscal year (As of March 31, 2019)

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

Current fiscal year (As of March 31, 2020)

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

19 Rental Property and Other Real Estate

Previous fiscal year (As of March 31, 2019)

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, 2020)

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

20 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."

Notes to Consolidated Financial Statements

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

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

	Millions of yen						
	Reporting segment					Adjustment (Note)	Amount in Consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal			
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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

	Millions of yen						
	Reporting segment					Adjustment (Note)	Amount in Consolidated financial statements
	Pachislot Pachinko Machines	Entertainment Contents	Resort	Subtotal			
Net sales:							
Sales to third parties	¥108,364	¥247,749	¥10,478	¥366,592	¥ 1	¥366,594	
Inter-segment sales and transfers	675	1,039	82	1,796	(1,796)	—	
Total	109,039	248,788	10,561	368,389	(1,794)	366,594	
Segment income (loss)	24,929	14,874	(3,667)	36,135	(8,492)	27,643	
Segment assets	79,296	183,112	37,356	299,765	158,503	458,268	
Other items:							
Depreciation	4,286	10,670	1,103	16,061	1,132	17,193	
Investments in affiliates accounted for by the equity method	493	728	22,130	23,352	803	24,156	
Increases in property, plant and equipment and intangible assets	3,495	18,216	265	21,977	919	22,896	

- Notes: 1. Elimination of inter-segment transactions of ¥(7) million and general corporate expenses of ¥(8,485) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(8,492) million. General corporate expenses are mainly expenses of the Group management incurred by the Company.
2. Adjustments for segment assets of ¥158,503 million includes elimination of inter-segment transactions of ¥(15,394) million and general corporate assets of ¥173,897 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, 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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

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	
¥291,242	¥49,027	¥14,610	¥11,714	¥366,594	

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, 2018 to March 31, 2019)

	Millions of yen						
	Reporting segment					Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal			
Impairment loss	¥—	¥8,334	¥—	¥8,334	¥—	¥8,334	

Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2019 to March 31, 2020)

	Reporting segment					Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal	Adjustment (Note)	
	Impairment loss	¥—	¥371	¥—	¥371	¥—

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

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

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

Current fiscal year (From April 1, 2019 to March 31, 2020)

	Reporting segment					Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort	Subtotal	Adjustment (Note)	
	Amortization	¥—	¥2,043	¥—	¥2,043	¥—
Balance as of March 31, 2020	—	5,878	—	5,878	—	5,878

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

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

Not applicable

Current fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable

21 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, 2018 to March 31, 2019)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	End of period account balance	
				Accounts	
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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	End of period account balance	
				Accounts	
PARADISE SEGASAMMY Co., Ltd.	Resort business	Provision of security ^(Note 1)	¥22,130	—	—

Note: 1. 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, 2018 to March 31, 2019)

Name of related individual or company	Position and principal business	Description of the Company's transactions	Transaction amount	End of period account balance	
				Accounts	
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
		Rental income from real estate and equipment ^(Note 3)	1	Long-term prepaid expenses	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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

				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	Grant of restricted Stock ^(Note 1)	¥48	—	—
		Receipt of noncurrent asset usage fees ^(Note 2)	23	—	—
Haruki Satomi	Director of the Company Chairman of SEGA SAMMY ARTS FOUNDATION	Grant of restricted Stock ^(Note 1)	18	—	—
		Payment of donation ^(Note 3)	103	—	—
Koichi Fukazawa	Director of the Company	Exercise of stock options ^(Note 4)	11	—	—
Hideo Yoshizawa	Director of the Company	Exercise of stock options ^(Note 4)	22	—	—
Toshimi Kumagai	Director of Sammy Corporation	Exercise of stock options ^(Note 4)	11	—	—
Ayumu Hoshino	Director of Sammy Corporation	Exercise of stock options ^(Note 4)	11	—	—
Kazuhiro Sumitani	Director of Sammy Corporation	Exercise of stock options ^(Note 4)	10	—	—
Kenichi Tokumura	Director of Sammy Corporation	Exercise of stock options ^(Note 4)	10	—	—
FSC Co., Ltd. ^(Note 5)	Non-life insurance agent	Payment of insurance ^(Note 2)	12	Prepaid expenses	¥14
				Long-term prepaid expenses	1

- Notes: 1. At the Ordinary General Meeting of Shareholders on June 21, 2019, approval was received with respect to the amount of remuneration as monetary compensation receivables provided in order to grant restricted stock. At the Board of Directors Meeting on July 19, 2019, the specific timing of the provision and allocation were determined based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of the Board of Directors Meeting.
2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3. The contribution amount of donations to the Foundation has been decided based on approval by the Board of Directors.
4. Stock options which were granted based on the resolution at the interim Board of Directors Meeting held on August 2, 2016, for the fiscal year ended March 31, 2020 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, 2020 by the amount of payment upon exercise.
5. 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.
6. Consumption taxes are not included in transaction amount.

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

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

Previous 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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

				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)	¥20	Prepaid expenses	¥0
				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	
	2019	2020
Total current assets	¥ 14,574	¥ 17,504
Total noncurrent assets	136,679	135,684
Total current liabilities	15,779	23,868
Total noncurrent liabilities	79,849	80,502
Total net assets	55,624	48,816
Net sales	30,341	43,690
Income (loss) before income taxes	(6,077)	(2,816)
Income (loss)	(6,028)	(2,750)

22 Per Share Data

Item	Yen	
	2019	2020
Net assets per share	¥1,289.32	¥1,251.02
Net income per share	11.27	58.65
Net income per share (diluted)	11.24	58.63

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

Items	2019	2020
Total of net assets in the consolidated balance sheets (Millions of yen)	¥305,337	¥296,858
Amounts deducted from net assets in the consolidated balance sheets (Millions of yen)	2,688	2,755
(Subscription rights to shares (Millions of yen))	912	813
(Non-controlling interests (Millions of yen))	1,776	1,941
Net assets available for common stock (Millions of yen)	302,648	294,102
Number of common stock used to calculate net assets per share (Thousands of shares)	234,735	235,091

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

Item	2019	2020
Net income per share:		
Profit attributable to owners of parent (Millions of yen)	¥2,642	¥13,775
Amount not attributable to common stockholders (Millions of yen)	—	—
Profit (loss) attributable to owners of parent for common stock (Millions of yen)	2,642	13,775
Average number of common stocks (Thousands of shares)	234,541	234,849
Diluted net income per share:		
Profit attributable to owners of parent adjustment (Millions of yen)	—	—
Increase of common stock (Thousands of shares)	575	97
(Stock options (Thousands of shares))	575	97
Outline of potential shares not included in calculation of net income per share (diluted) because of no dilutive effect	—	—

23 Significant Subsequent Events**1. Merger between consolidated subsidiaries**

The merger between the consolidated subsidiaries was completed as of April 1, 2020 based on the resolution of the Company's Board of Directors' meeting held on December 24, 2019.

(1) Objectives of the merger

The Company expects the global game market to continue expanding as new game platforms and business models become more widespread with the development of technologies and infrastructures such as 5G and the Cloud. In order to increase the presence of the Group and realize further growth, the Company decided to reorganize the Group because of the necessity of integrating the two major consolidated subsidiaries of the Company, SEGA Games Co., Ltd. and SEGA Interactive Co., Ltd., in order to make the reallocation of the domestic R&D resources of the Group more flexible than ever before, thereby strengthening our competitiveness in global markets.

(2) Overview of the merger**i) Legal form of business combination**

SEGA Interactive Co., Ltd. was merged into SEGA Games Co., Ltd., which is the surviving company, through an absorption-type merger on the effective date.

ii) Overview of the companies involved in the merger (As of March 31, 2020)

Name	SEGA Games Co., Ltd. (The surviving company)	SEGA Interactive Co., Ltd. (The disappearing company)
Details of business	Planning, development, and sales of game-related contents for mobile phones, PCs, smart devices, and home video game consoles	Development and sales of amusement machines
Location	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-shinagawa, Shinagawa-ku, Tokyo, Japan	Sumitomo Fudosan Osaki Garden Tower, 1-1-1 Nishi-shinagawa, Shinagawa-ku, Tokyo, Japan
Capital stock	¥100 million	¥100 million

Note: SEGA Games Co., Ltd. changed the company name to SEGA CORPORATION as of April 1, 2020.

(3) Overview of the accounting treatment adoption

The merger will be treated as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019), and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

2. Changes in segment classification, etc.

Because of greater efforts to promote synergy effects from the "Pachislot and Pachinko Machines Business" in the development of gaming machines, commencing the following fiscal year, as part of reclassification of the Group's reporting segments, the businesses operated by SEGA SAMMY CREATION INC. included in the former "Entertainment Contents Business" will now be changed to the "Pachislot and Pachinko Machines Business."

In addition, as an evaluation index for the performance-linked remuneration of Directors' bonuses of the Company, the Company positions "ordinary income," which is the income obtained by the Group on a recurring basis from the overall business, including equity in earnings and losses of affiliates, etc., as an important target figure. Through such perspective of a management approach, the Company decided to change the measurement methods of segment income from "operating income" to "ordinary income" from the following fiscal year.

Information on the amounts of net sales, income (loss) by each reporting segment for the current fiscal year in the case of application of the new segment classification is as follows.

Current fiscal year (From April 1, 2019 to March 31, 2020)

	Millions of yen					Amount in consolidated financial statements ^(Note 2)
	Pachislot and Pachinko Machines Business	Entertainment Contents Business	Resort Business	Subtotal	Adjustment ^(Note 1)	
Net sales						
Net sales to external customers	¥108,508	¥247,605	¥10,478	¥366,592	¥ 1	¥366,594
Inter-segment sales and transfers	949	816	82	1,848	(1,848)	—
Total	109,458	248,422	10,561	368,441	(1,847)	366,594
Segment income (loss)	22,781	16,272	(5,354)	33,698	(8,402)	25,296

Notes: 1. Adjustment to segment income (loss) of ¥(8,402) million includes elimination of inter-segment transactions of ¥1,416 million and general corporate expenses of ¥(9,818) million which are not allocated to each reporting segment. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and ordinary income in the consolidated statements of income and comprehensive income.

24 Supplemental Information

Supplemental schedule of corporate bonds

Company name	Security titles	Issuance date	Balances as of April 1, 2019 (Millions of yen)	Balances as of March 31, 2020 (Millions of yen)	Interest rate (%)	Type	Date of maturity
The Company	3rd unsecured bonds (Publicly offered bonds)	June 17, 2014	¥10,000	¥ —	0.52	Unsecured	June 17, 2019
	3rd unsecured bonds (Private offered bonds)	September 26, 2014	2,500	—	0.44	Unsecured	September 26, 2019
	4th unsecured bonds (Publicly offered bonds)	June 15, 2015	10,000	10,000 [10,000]	0.57	Unsecured	June 15, 2020
	5th unsecured bonds (Publicly offered bonds)	October 10, 2019	—	10,000	0.38	Unsecured	October 10, 2029
Total	—	—	22,500	20,000 [10,000]	—	—	—

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2020" represent the current portion of corporate bonds.

2. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2020 is as follows:

Millions of yen					
Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
¥10,000	¥—	¥—	¥—	¥—	¥10,000

Supplemental schedule of borrowings

Category	Balances as of April 1, 2019 (Millions of yen)	Balances as of March 31, 2020 (Millions of yen)	Average interest rate (%)	Repayment period
Short-term loans payable	¥ —	¥ —	—	—
Current portion of long-term loans payable due within one year	13,352	13,331	0.7	—
Current portion of lease obligations	365	888	1.7	—
Long-term loans payable (Excluding current portion)	40,334	42,003	0.4	2021–2025
Lease obligations (Excluding current portion)	786	3,434	2.0	2021–2030
Other interest-bearing debt:				
Accounts payable—facilities	92	34	1.3	—
Accounts payable—facilities (Excluding current portion)	60	145	1.5	2021–2030
Total	54,991	59,837	—	—

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, 2020 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	¥ 3	¥10,000	¥17,000	¥15,000	¥ —
Lease obligations	786	661	553	327	1,104
Other interest-bearing debt:					
Accounts payable—facilities	25	25	19	13	61

Information of asset retirement obligations

Category	Balance as of April 1, 2019 (Millions of yen)	Increase during the current period (Millions of yen)	Decrease during the current period (Millions of yen)	Balance as of March 31, 2020 (Millions of yen)
Asset retirement obligations	¥4,897	¥661	¥608	¥4,949

25 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)	¥72,734	¥165,535	¥280,808	¥366,594
Income (loss) before income taxes (Millions of yen)	2,264	12,501	28,369	27,104
Profit attributable to owners of parent (Millions of yen)	1,718	9,870	22,989	13,775
Net income per share (Yen)	7.32	42.05	97.92	58.65
(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Net income (loss) per share (Yen)	¥7.32	¥34.72	¥55.86	¥(39.21)



Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Member and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board Member and Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise



professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.


We communicate with Audit & Supervisory Board Member and Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Member and Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



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September 28, 2020



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