ANNUAL REPORT 2013
SEGA SAMMY HOLDINGS

The Facts

Reviewing the Past, Performing in the Present, and Building the Future

Just the Facts

OUR RESULTS IN FISCAL 2013

OPERATING INCOME

Down 67.3%

Compared with the previous fiscal year, pachislot machine unit sales decreased because the Group postponed the launch of major new titles, while pachinko machine unit sales were down as a result of demand bias toward certain major titles. Consequently, the Pachislot and Pachinko Machine Business segment's operating income was 66.9% lower than in the previous fiscal year, causing a 67.3% year-on-year decline in the Group's operating income in fiscal 2013.

So, what did you do?

Have you lost your focus?

NO! THE FACT is we took steps for future growth.

Despite facing tough business conditions, we have by no means lost our focus on the key elements of our strategies. Developing and pursuing an ambitious target corporate profile, we are

steadily laying the groundwork for participation in integrated resorts including casinos

through a wide range of initiatives, such as a joint venture with the Paradise Group.

Have you just let things happen?

NO! THE FACT is we picked up the pace.

When presented with multiplying business opportunities, we have never stood on the sidelines. We have established SEGA Networks, Ltd., which is marshaling extensive capabilities to mount

a full-scale offensive in the growing digital game content area

based on our signature rich-content titles.

NO! THE FACT is we are working hard for recovery.

In the pachislot machine business, we intend to market several blockbuster titles that will turn business results around and

reclaim the No. 1 market share.

Meanwhile, focused on claiming the No. 1 share of the pachinko machine market in the medium term, we will spare no effort to enhance development capabilities and brand power.

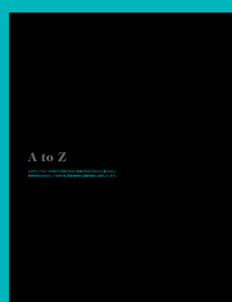
To achieve our medium-term target of ¥100.0 billion in operating income, we will strive to transform entertainment value into corporate value.

Readers' Guide

Editorial Policy

In *Annual Report 2013*, as well as categorizing information based on the past, present, and future, we have clarified the connections among information as much as possible. Furthermore, we have expanded and enhanced information that furthers understanding of the SEGA SAMMY Group, including information that sheds light on intangibles. Meanwhile, we have summarized CSR-related information as we are unable to show clearly the relevance of CSR-related information to financial information in a form useful to investors at the present juncture. Please see the "Social Responsibility" page of our web site, which includes extensive CSR-related information.

For Newcomers



A to Z

We advise those reading our annual report for the first time to begin by reading the basic information in the "A to Z" section at the beginning of this report.

Go to Topics Directly

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THE MANAGEMENT TEAM

Understanding the management team's approach

Senior executives provide insights into the management of SEGA SAMMY, SEGA, and Sammy.

PAST, PRESENT, AND THE FUTURE

Learning about the Group's past, present, and future

This section explains past business result trends; current market position and value creation models; tasks; and our vision going forward, strategies to realize it, and related opportunities and risks. The special feature sections focus on the casino and digital game content businesses.

PAST

PRESENT

FUTURE

OPERATIONS

Finding out about the progress of initiatives in each business segment

Here, we summarize each of the business segments' SWOT, initiatives, and strategies.

GOVERNANCE

Checking corporate governance

This section provides an overview of corporate governance and reports on initiatives and compensation during the fiscal year.

FINANCIALS

Accessing financial information

This section includes management's discussion and analysis of long-term trends and year-on-year performance.

THE MANAGEMENT TEAM

A Message from the CEO

HAJIME SATOMI
Chairman of the Board and Chief Executive Officer
SEGA SAMMY HOLDINGS INC.

By picking up the pace of reform and pursuing ambitious initiatives, we will shape the future of the SEGA SAMMY Group and entertainment.

Fiscal 2013 Business Results Report

In fiscal 2013, ended March 31, 2013, SEGA SAMMY HOLDINGS INC. recorded year-on-year declines of 18.7% in net sales, to ¥321.4 billion, and 67.3% in operating income, to ¥19.0 billion. Net income was up 53.3% year on year, to ¥33.4 billion.

Net Sales

The main causes of the decrease in net sales were lower revenues from the Pachislot and Pachinko Machine Business segment and the Amusement Machine Sales Business segment. In the Pachislot and Pachinko Machine Business segment, the pachislot machine business posted less revenues because it postponed the launches of several titles, while changes in market conditions led to a downturn in the revenues of the pachinko machine business. As a result, the Pachislot and Pachinko Machine Business segment's net sales were down 32.9% from the previous fiscal year. As for the Amusement Machine Sales Business segment, despite solid revenues from revenue-sharing titles, the absence of major titles caused a 21.6% year-on-year decrease in revenues. In addition, the Amusement Center Operations segment's revenues were down 4.3% year on year because sales struggled at existing amusement centers. Also, narrowing down the number of titles lowered unit sales of packaged game software, resulting in a 2.1% decline in revenues from the Consumer Business segment.

Operating Income

The Pachislot and Pachinko Machine Business segment's earnings decreased 66.9% year on year, and the Amusement Machine Sales Business segment's earnings were down 74.3% year on year. Meanwhile, the Amusement Center Operations segment posted higher earnings due to mitigation of its depreciation burden accompanying a change in accounting policy. Furthermore, the Consumer Business segment saw a significant improvement in operating loss from the previous fiscal year's ¥15.1 billion to ¥0.7 billion, which was attributable to a decrease in cost of sales and operating expenses due to the previous fiscal year's restructuring in North America and Europe. As a result of the above, the operating margin deteriorated 8.9 percentage points, to 5.9%.

Net Income

The Group recorded extraordinary gain of ¥10.1 billion, including gain on sales of investment securities and gain on transfer of benefit obligation relating to employees' pension fund. Extraordinary loss of ¥5.4 billion included certain U.S. subsidiaries' recognition of impairment loss on goodwill and loss on liquidation of subsidiaries and affiliates. Furthermore, the Group recorded deferred tax assets for the amount expected to be deductible from future taxable income in relation to a tax loss, which arose from the completion of liquidation of certain U.S. subsidiaries. As a result of the above, net income rose 53.3% year on year, to ¥33.4 billion.

R&D Expenses, Content Production Expenses, and Capital Expenditures

R&D expenses and content production expenses decreased 15.1% year on year, mainly because of a decline in packaged game software accompanying restructuring of the Consumer Business segment. Capital expenditures was down 9.0% from the previous fiscal year, reflecting the absence of the previous fiscal year's investment to construct a new pachislot and pachinko machine plant and distribution center. Depreciation rose 12.5% year on year due to an increase in titles in the digital game content business and the start-up of operations at the pachislot and pachinko machine plant and distribution center.

Cash Dividends

For fiscal 2013, we paid interim cash dividends of ¥20.00 per share and year-end cash dividends of ¥20.00 per share, thereby amounting to full-year cash dividends of ¥40.00 per share. As a result, the consolidated dividend payout ratio was 29.2%. The Group acquired 10 million shares of treasury stock between June 7, 2012, and July 31, 2012, for ¥16.1 billion.

General Evaluation

Launching Countermeasures to Problems

In fiscal 2013, our business results were disappointing. We recorded lower revenues for the second consecutive year, and earnings were down significantly. Therefore, we would like to apologize to shareholders and other investors.

We see the postponement of the launches of mainstay pachislot machine titles—the cause of these unfavorable business results—as a serious problem. Accordingly, we have begun measures to address the concentration of new machine launches in the second half of fiscal years because it exposes us to the risk of business result fluctuations. Going forward, as we develop pachislot and pachinko machines, we will bear in mind the importance of balancing marketing periods. However, given that the commercialization of pachislot and pachinko machines takes about two years, the benefits of these measures will emerge from fiscal 2015 onward. In addition, while taking development costs into consideration, we intend to increase our preparedness for contingencies by exploring the development of supplementary machines to augment our development pipeline. A lack of major new titles led to lower revenues in the Amusement Machine Sales Business segment. With this kind of problem in mind, we will rigorously control the development of our product lineup over the medium term to standardize the timings of title launches and thereby stabilize earnings.

Strengthening the Foundations of the Digital Game Business

Progressing with Preparations for Full-Fledged Development

Aimed at improving profitability, the Consumer Business segment's decisive restructuring—which included rationalizing businesses in North America and Europe—has shrunk loss significantly. In conjunction with these efforts to strengthen profitability, the segment boldly redirected management resources toward such growth areas as PC online games and digital game content for SNS and smartphones. To win out in a market where fierce competition among innumerable companies is transcending industry boundaries, rapid decision-making is critical. For this reason, SEGA CORPORATION divested the main capabilities of its network business to establish SEGA Networks, Ltd., a wholly owned subsidiary, in July 2012. This has streamlined business processes by enabling the new subsidiary, responsible for the digital game content business, to make decisions autonomously. Furthermore, as a result of delegating more authority to SEGA's directors, decision-making throughout SEGA has become markedly faster. We believe significantly faster decisions to withdraw lackluster content and flexibly switch management resources to more promising content is a major achievement.

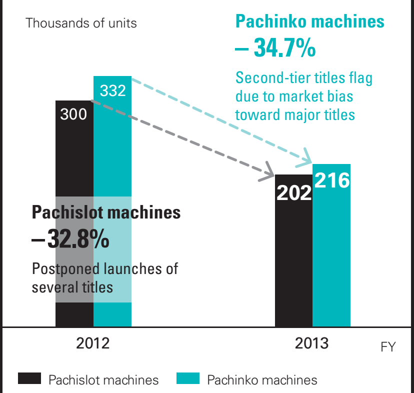
In another initiative, we acquired all of the shares of THQ Canada Inc., currently Relic Entertainment Inc., as well as some intellectual properties owned by its parent company, THQ Inc., in January 2013. Relic Entertainment has intellectual properties related to some million-selling games it has released mainly in North America and Europe. By

Fiscal 2013 Business Results

Billions of yen	2012	2013	YOY change
Net sales	395.5	321.4	–18.7%
Pachislot and Pachinko Machine Business	212.1	142.2	–32.9%
Amusement Machine Sales Business	49.9	39.1	–21.6%
Amusement Center Operations	44.6	42.7	–4.3%
Consumer Business	85.6	83.8	–2.1%
Other	3.0	13.4	+334.4%
Operating income (loss)	58.3	19.0	–67.3%
Pachislot and Pachinko Machine Business	71.0	23.5	–66.9%
Amusement Machine Sales Business	7.4	1.9	–74.3%
Amusement Center Operations	0.3	1.1	+236.3%
Consumer Business	(15.1)	(0.7)	—
Other	0.2	(0.4)	—
Corporate and eliminations	(5.4)	(6.3)	—
Operating margin	14.8%	5.9%	–8.9pt.
Net income	21.8	33.4	+53.3%

Pachislot and Pachinko Machine Unit Sales

Thousands of units



working in tandem with Group company The Creative Assembly Ltd., this new company will enable the SEGA SAMMY Group to heighten its presence in the PC online game market significantly.

Fiscal 2014 Plan

Getting Back on Track for Growth

In fiscal 2014, ending March 31, 2014, we will tackle initiatives with a firm resolve to get back on a growth track.

Plans call for year-on-year increases of 50.9% in net sales, to ¥485.0 billion, and ¥54.0 billion in operating income, to ¥73.0 billion. This means we are targeting our highest net sales in the past five years and our fourth highest operating income since management integration. Nevertheless, we believe these targets are within reach. The keys will be reinvigorating the Pachislot and Pachinko Machine Business segment and growing earnings in the digital game content business.

For the Pachislot and Pachinko Machine Business segment, we are aiming for improvements compared with fiscal 2013 of 89.9% in net sales and ¥50.5 billion in operating income, to ¥74.0 billion. The pachislot machine business aims to sell 270,000 more units by bringing several major titles to market. We will meet this unit sales target and reclaim the No. 1 market share.

In fiscal 2013, due to the market bias toward major titles, the pachinko machine business struggled, particularly in relation to its second-tier titles. In the current fiscal year, this business aims to market major titles to regain lost ground and boost unit sales by 100,000 units.

The Amusement Machine Sales Business segment has set its sights on growing revenues and earnings by releasing multiple major titles while increasing revenues through the introduction of new revenue-sharing titles. In addition, although the Amusement Center Operations segment anticipates lower earnings due to higher deprecation accompanying a change in accounting policy in the fiscal year under review, it will heighten profitability by strengthening the marketing capabilities of existing amusement centers and scrapping and building amusement centers while proactively opening amusement centers in shopping centers and new areas.

In the digital game content business, the success of the *Kingdom Conquest* series testifies to the fan base that free-to-play (F2P)* content with high-quality graphics and complex gameplay is establishing. This is an area that SEGA pioneered, giving it an advantage. Therefore, SEGA will go on the offensive by mobilizing its team of more than 1,000 developers and wealth of intellectual properties. Furthermore, we will advance our cross-platform strategy for *Phantasy Star Online 2* and other appealing intellectual properties. At the same time, while implementing lateral title rollouts regionally, we will make an all-out effort to increase sales channels and earnings opportunities. Meanwhile, we intend to expand our player base by offering content families can play with peace of mind. Working with partners that have expertise as well as presences in Japan and overseas markets, the Group will advance operations efficiently and effectively. In fiscal 2014, with the digital game business as its main driver, the digital game content business aims to grow revenues 30.7% and move into the black for the first time in three years.

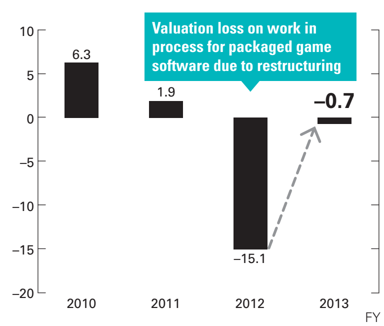
* These are games based on a business model where basic play is free, but fees are charged for additional items within the games.

Strengthening the Consumer Business Segment's Growth Foundations

Consumer Business Segment's Operating Income (Loss)

Billions of yen

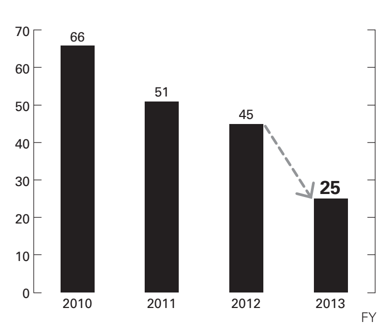
Deficit shrinking, profitability in sight



Packaged Game Software Titles on Sale

Titles

Narrowing down titles on sale



Strengthening the Digital Game Business

SEGA NETWORKS

SEGA spins off the main capabilities of its network business to establish SEGA Networks in July 2012.

relic ENTERTAINMENT

In January 2013, SEGA acquires North American game developer Relic Entertainment, which has some global titles in the real-time strategy (RTS)* area of PC games, and intellectual properties related to titles under development.

* Simulation games involving real-time strategies

Medium-Term Growth Scenario

Paving the Way toward Operating Income of ¥100 Billion

Looking ahead to the period after we are back on a growth track, our targets are the same as before. We aim to raise operating income above the ¥100 billion mark, the level it was at immediately after management integration. Moreover, our roadmap for reaching this target is unchanged. In other words, we envision the Pachislot and Pachinko Machine Business segment stably generating earnings of around ¥70 billion, while SEGA earns about ¥20 billion by strengthening the profitability of existing businesses and growing earnings in the digital game content business, and other subsidiaries contribute earnings of approximately ¥10 billion.

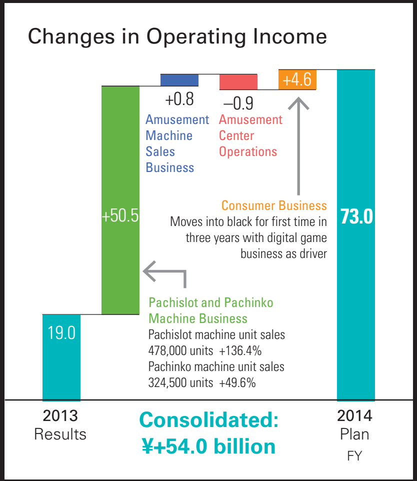
Rather than solely pursuing short-term results, we will always keep our medium-term growth scenario in mind and take appropriate steps accordingly.

Focused on adding the No. 1 share of the pachinko machine market to its No.1 share of the pachislot machine market, the Pachislot and Pachinko Machine Business segment will continue strengthening its development system and further refining marketing. However, our goal is not simply to increase earnings in the pachinko machine market, which offers considerable scope for market share expansion. We also aim to build a business structure that can generate earnings stably even amid cyclical peaks and troughs in pachinko and pachislot machine sales, which stem from player preferences and pachinko halls' financial positions. The balanced portfolio that our initiatives have established has been steadily realizing its true value in recent years.

In Japan, amusement centers continue to face tough market conditions because consumer spending is slumping. Stimulating the market is SEGA's responsibility as a market leader as well as a task the company must tackle to grow earnings continuously. Accordingly, we are proposing business models that mitigate amusement center operators' initial investment burden and widen our player base. In fiscal 2014, we are considering introducing the industry's first free-to-play business model. Also, with a view to broadening its player base, the Amusement Center Operations segment plans to open next-generation amusement centers and amusement centers based on new business formats over the medium term. For example, in partnership with BBC Worldwide Limited, SEGA unveiled the world's first nature-themed museum, *Orbi Yokohama*, in August 2013. By providing entertainment that grandparents, parents, and children can enjoy, we will capture family-related demand. Looking further ahead, we plan to package the museum as a successful model and license it out worldwide. Providing entertainment that three generations can enjoy is a goal not only of the Amusement Center Operations segment but one that SEGA as a whole is pursuing. In light of declining birth rates, we will provide entertainment that, in addition to young adults, appeals to grandparents and their grandchildren. Through this approach, we aim to unearth new customer groups and grow.

Fiscal 2014 Plans

Billions of yen	2013 (Results)	2014 (Plan)	YOY change
Net sales	321.4	**485.0**	+50.9%
Pachislot and Pachinko Machine Business	142.2	**270.0**	+89.9%
Amusement Machine Sales Business	39.1	**45.5**	+16.4%
Amusement Center Operations	42.7	**45.5**	+6.6%
Consumer Business	83.8	**109.5**	+30.7%
Other	13.4	**14.5**	+8.1%
Operating income (loss)	19.0	**73.0**	+282.7%
Pachislot and Pachinko Machine Business	23.5	**74.0**	+214.9%
Amusement Machine Sales Business	1.9	**2.7**	+42.1%
Amusement Center Operations	1.1	**0.2**	–83.2%
Consumer Business	(0.7)	**3.9**	—
Other	(0.4)	**(0.3)**	—
Corporate and eliminations	(6.3)	**(7.5)**	—
Operating margin	5.9%	**15.1%**	+9.2pt.
Net income	33.4	**47.0**	+40.7%



SEGA SAMMY Group Going Forward

Setting Our Sights on Major Business Opportunities in the Future

Taking a long-term view brings into focus a slightly different target profile for the Group. If the casino business becomes established in Japan, it promises to have a major beneficial effect on the overall economy; creating employment and enhancing Japan's competitiveness as a tourism destination. This prospect is fueling lively debate in Japan about casinos in the context of growth strategy. If creating a casino business becomes feasible, we intend to exploit our expertise as a comprehensive entertainment company to enter this business area proactively. Furthermore, we will curb risk by collaborating and sharing expertise with overseas partners that have strong track records in casino management. Looking ahead to Japan's legalization of integrated resorts including casinos in the near future, the Group is steadily laying foundations.

One example of these preparations is our resort complex operations based on the *Phoenix Seagaia Resort*, which is under the management of subsidiary Phoenix Resort Co., Ltd. We are building the company's corporate value by bringing our expertise in entertainment to bear. We are conducting low-cost maintenance to heighten the resort complex's drawing power for families. Then, if we deem it necessary in light of rigorous analysis, we will make additional investments in the facilities. A further aim of managing this resort complex is to acquire expertise that we can use to realize our goal of developing and managing integrated resorts including casinos.

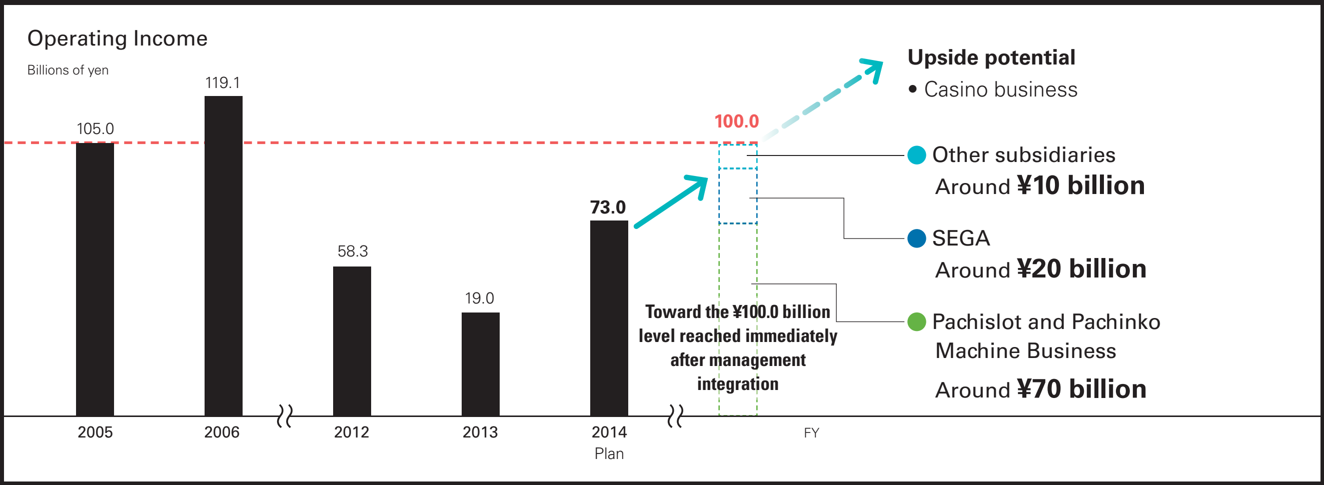
Moreover, we have decided to participate in another project that will enable us to acquire expertise in casino-related management while curbing risk, in this case by working with a partner with a proven track record in the casino business. In July 2012, with the Paradise Group we established a joint venture tasked with planning, developing, and operating an integrated resort that includes casinos near Incheon International Airport in South Korea. The location's excellent access provided an additional reason for participating in this joint venture, in which we hold a 45% stake.

Furthermore, we participated in a development project in Centum City, a multi-project urban development area in Busan, South Korea, in January 2013. SEGA SAMMY HOLDINGS has a 75% interest and Phoenix Resort has a 25% interest in the project. In Busan's most prestigious location, we will develop a resort complex that will comprise a hotel, entertainment facilities, and commercial facilities.

As we develop these resort projects in Japan and overseas, we will decide on initial and additional investments based on thorough analysis of return, keep risk within certain limits by working with partners, and avoid creating a bloated balance sheet.

In the future, once we have bedded down these projects, and if we can establish a casino business, our business portfolio and earnings structure will change dramatically.

Medium-Term Growth Scenario



Intellectual Property Strategy

Creating, Fostering

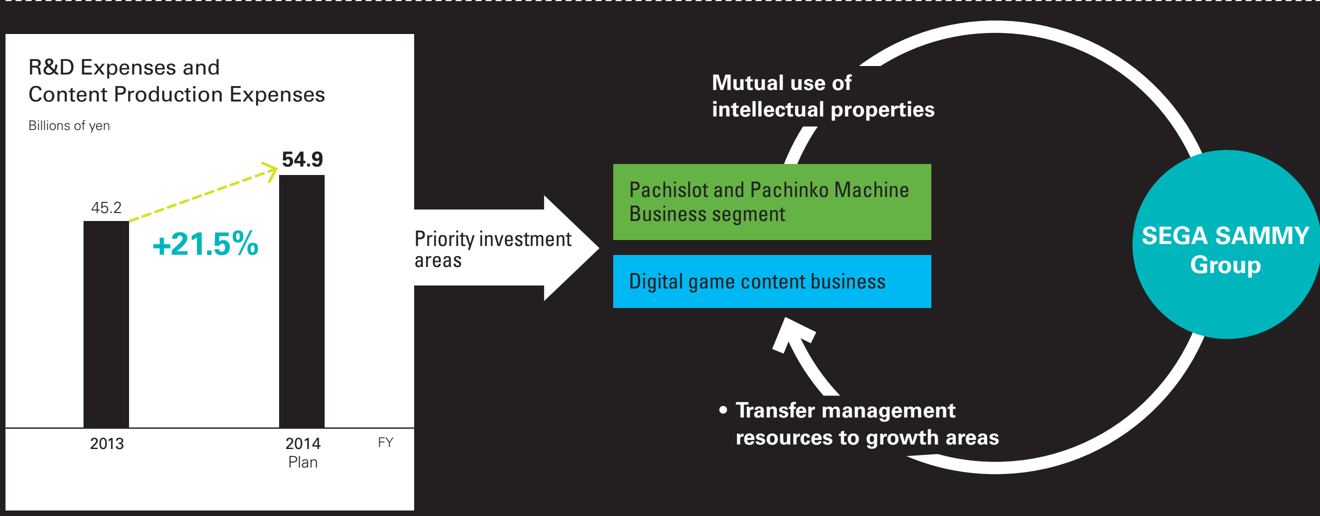
Creating competitive intellectual properties continuously is important if we are to win out in the immediate competitive conditions and develop over the long term. In particular, we intend to step up our creation of competitive intellectual properties in the digital game content area, where intensified competition has been separating the wheat from the chaff in the past several years. Through these efforts, we aim to ensure that the Pachislot and Pachinko Machine Business segment remains among the winners. To this end, in fiscal 2014 we plan to increase spending on R&D and content production by 20% year on year. Furthermore, from a Groupwide perspective, we plan to strengthen development capabilities efficiently by deploying human resources to growth areas and highly profitable areas.

For intellectual properties, creation is only the first stage. They do not generate value unless used effectively and reared into major assets. In terms of ability to create unrivaled intellectual properties ahead of the times, SEGA is the industry's leader. Looking back, the company has created a long list of intellectual properties that have instigated new market trends, such as *Sonic the Hedgehog* and *Phantasy Star*. Continuously fostering intellectual properties is our task. However, as several examples of successes in the digital game content business show, we are overcoming this task steadily. SEGA has many world-class intellectual properties. We intend to make maximum use of them and heighten their value. Furthermore, we plan to call for vigorously promoting the use of intellectual properties laterally within the Group.

By enabling the continuous creation of competitive intellectual properties, the SEGA SAMMY Group's cash flow generation capabilities and stable financial foundations centered on the Pachislot and Pachinko Machine Business segment will continue to be major advantages. Developing rich content, for which demand is growing in the digital game content area, is causing development cost to trend upward. In addition, such content calls for graphics-related technology and experience and expertise in refining narratives. Thus, at this point, conditions are ideal for us to leverage the management resources we have accumulated. In addition, as the specifications for pachinko and pachislot machines advance year by year, corresponding amounts of capital are needed to develop machines that earn market endorsement. In a market where only strong companies survive, the SEGA SAMMY Group will move forward decisively to ensure it remains in the winners' circle.

It is people who create intellectual properties, and moreover, people who exploit them. Accordingly, we will work hard to establish an environment in which we can make maximum use of the capabilities of personnel, our most important management resource.

Strengthening Development Capabilities in Growth Areas



Capital Policy

Realizing Returns through Earnings Growth and Cash Dividends

The SEGA SAMMY Group's basic policy on returning earnings is to heighten corporate value by implementing growth strategies that increase earnings and by directly returning profit to shareholders through stable cash dividends. In addition, as explained above, the Group aims to continuously enhance corporate value by fostering existing businesses while making far-sighted investments to sustain development over a longer timeframe. Furthermore, if the Group is able to enter the casino business, it is likely to require large-scale investment. To enable dynamic decisions on investments for promising, carefully selected projects, we plan to build up retained earnings by generating net income each fiscal year, targeting a net cash position of ¥150 billion to ¥200 billion.

Regarding returning profit to shareholders, we aim to pay out approximately 20% to 30% of post-tax income as cash dividends. Each fiscal year, we determine returns to shareholders flexibly in light of maintaining a balance with investment in growth fields.

Conclusion

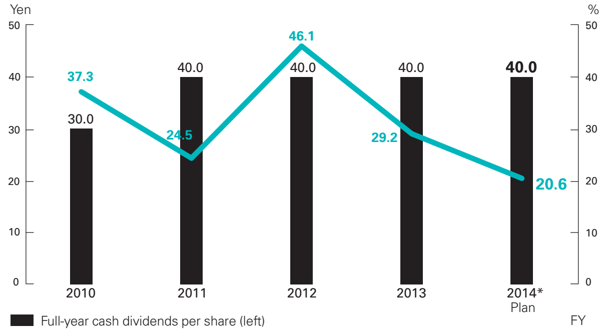
Contributing to the Future of Society and the SEGA SAMMY Group

For society and the SEGA SAMMY Group, entertainment will remain indispensable. In addition to the necessities of life, it will always be an indispensable part of truly affluent lifestyles. Taking pride in the fact that we contribute to society by enriching people's lives, we want to go forward and create new entertainment.

Fiscal 2014 will be an important year for getting the Group back on track for strong growth. By further accelerating decision-making, the SEGA SAMMY Group will prevail against competitors while progressing steadily toward the creation of its future profile. As we redouble efforts, we would like to ask for the continued support from our shareholders, investors, and other stakeholders.

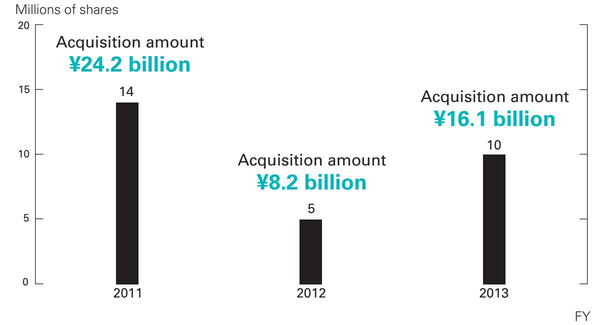
Returns to Shareholders

Full-Year Cash Dividends per Share and Consolidated Dividend Payout Ratio



Full-year cash dividends per share (left)
Consolidated dividend payout ratio (right)
* Announced on May 10, 2013

Acquisition of Treasury Stock



Interview with the COO

Preparing for SEGA's Revitalization

NAOYA TSURUMI
President, Representative Director, and Chief Operating Officer
SEGA CORPORATION

Q. Could you outline your first year as President?

Tsurumi » Having set out as goals changing mindsets and restructuring the organization to get SEGA back on a growth track, I made an all-out effort to reach these goals during the year. In these efforts, we focused on stepping up the pace of decision-making. As well as delegating significant authority to directors, we spun off the main capabilities of our network business to establish SEGA Networks, Ltd., in July 2012. We also spun off the amusement center business to establish SEGA ENTERTAINMENT Co., Ltd., in October of the same year. Through this restructuring, we have significantly speeded up directors' implementation of strategies in each business area. In addition, rapid decision-making has become firmly established. In particular, we are able to make decisions to abandon products with low potential quickly and shift development resources to more promising products. And, for example, we can reach decisions promptly on postponing releases to heighten their chance of success from a medium-term viewpoint. Formerly, SEGA did not have this kind of mindset that emphasized steady medium-term returns over short-term results.

Q. How does SEGA plan to grow over the medium term?

Tsurumi » Since *The King of Beetles "MUSHIKING"* kids' card game, which we began installing in 2003, became a blockbuster, SEGA has not had any major hit products. For five or six years, the company has been focusing on reforming its cost structure. At the moment, I have a sense of crisis because I think the company is nearing a tipping point that will determine whether it survives. Therefore, I am determined to do whatever it takes to revitalize SEGA and realize operating income of ¥20 billion in the medium term. I do not think the road to achieving this target will be smooth. Nevertheless, while overcoming problems one at a time, based on a medium-term outlook, I intend to rigorously strengthen the businesses in our portfolio that we should grow. Clearly, one of the businesses we should strengthen is the digital game content business.

Q. What are your strategies for digital game content and packaged game software?

Tsurumi » At present, the digital game content market is becoming increasingly homogeneous, making differentiation more difficult. On the other hand, the preferences of jaded players and the advances in devices' functions are fueling demand for rich content. Consequently, I think the market is probably on the brink of its next development phase.

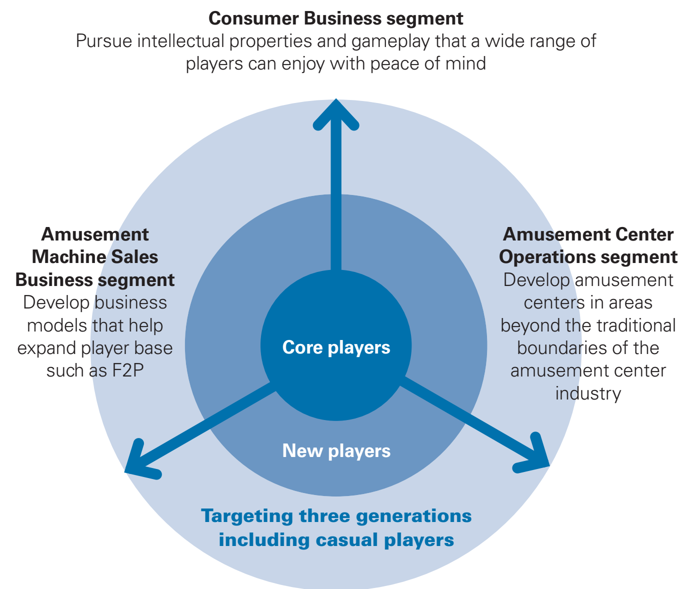
The PC online game *Phantasy Star Online 2*, a title for which SEGA pulled out all the stops, took five years to develop. Normally, companies would launch a title they have spent this much time and money developing as packaged game software. However, our decision to break with convention and release it as a free-to-play (F2P)[1] game reflected demand in a market undergoing transformation and led to the game's success. We plan to leverage this kind of content as the basis upon which to mount further business strategies. *Phantasy Star Online 2* features SEGA's signature rich content; a rivetingly complex and multilayered story; and a range of innovations that allow players to use it with peace of mind. In addition, we will advance a cross-platform strategy whereby the sharing of cloud data enables players to enjoy games through a variety of platforms. As the first step in this strategy, we rolled out *Phantasy Star Online 2* for PCs with the Windows operating system and handheld game terminals. Moreover, this year we plan to launch a version for smart devices. We will optimize the video game's content for smartphones and enable players to develop characters.

1 These are games based on a business model where basic play is free, but fees are charged for additional items within the games.

Cross-Platform Strategy

Sharing Data Among Devices

Toward Entertainment Appealing to Diverse Players



Furthermore, we want to use the expertise garnered from this successful example to roll out other intellectual properties and multiply earnings. Also, we will roll out content that has succeeded in Japan in overseas markets. In particular, we intend to further develop the whole of Asia as a single market. As for packaged game software in North America and Europe, plans call for shifting our lineup of mainstay intellectual properties online to add further value to them. In the PC online game area, we acquired North American game developer Relic Entertainment Inc., and intellectual properties related to titles under development in January 2013. This company owns *Company of Heroes*, a global real-time strategy (RTS)[2] title that is particularly popular in the North American and European markets. Added to the market share of the Group company The Creative Assembly Ltd., this new company has given SEGA more than half of the RTS market. By realizing synergies between the two companies, we intend to develop stable earnings foundations.

The key to achieving operating income of ¥20 billion is SEGA Networks. In fiscal 2014, we plan to launch a series of differentiated titles that we are confident in. Released in April 2013, *Puyo Puyo!! Quest* has given us a glimpse of what is to come by outperforming all expectations to reach 1 million downloads during the first 10 days following its launch. However, we have just hit our stride.

Regarding packaged game software, although market conditions are tough, we have no intention of shrinking business. That said, we will not use a traditional business model that only sells products with predetermined features. Instead, we will add value by catering to current requirements through the inclusion of online functions, downloadable content, and social features. In this way, I want to continue taking on the challenge of sowing the seeds for future growth.

2 Simulation games involving real-time strategies

Q. Could you please explain SEGA's strategies for the Amusement Machine Sales Business segment and the Amusement Center Operations segment?

Tsurumi » Unless the amusement center market expands, sales of amusement arcade machines will not grow and vice versa. With this in mind, we will take on the challenge of building business models that generate earnings for amusement center operators.

Inevitably, support is waning among players for the business model based on a few minutes of play for ¥100. In response, SEGA has undertaken the trial introduction of *Puyopuyo!! Quest Arcade*. This title features a new business model designed to lower the entry level by adopting a free-to-play format, widen our player base by incorporating broadly popular intellectual properties, and stabilize earnings through continuous fees.

I want to create innovative schemes that heighten linkage to attract players from smart devices to amusement centers as well as from amusement centers to applications and thereby expand our player base.

As it continues to pursue a scrap and build policy, the Amusement Center Operations segment will expand beyond the traditional boundaries of the amusement center industry into new areas. In these efforts, our goal is to provide entertainment that grandparents, parents, and children can enjoy. To give one example, in August 2013 we cut the tape on *Orbi Yokohama*, a joint project with BBC Worldwide Limited. Three generations can enjoy this simulation museum, which takes advantage of the BBC's abundant intellectual properties. If it proves successful, we plan to license it out overseas. Also, our development of amusement centers will go beyond the traditional business format by proactively incorporating amusement centers into shopping centers, restaurants, and other facilities.

Realizing a V-Shaped Recovery, Staying among the Winners

SHIGERU AOKI
President, Representative Director, and Chief Operating Officer
Sammy Corporation

Q. Could you sum up your first year as President?

Aoki » This past year has served as a reconfirmation of my belief that Sammy is a company with outstanding personnel. Sammy's strength lies in its explosive potential. By this I mean that when faced with a pivotal situation, personnel rapidly decide the course of action to take and make a concerted effort to accomplish their goal. The management policy of viewing personnel as its greatest asset, which Sammy has pursued since its foundation, has become firmly rooted into its corporate tradition. To further heighten Sammy's strength—which drives the SEGA SAMMY Group's growth—we concentrated on preparing foundations conducive to realizing this explosive potential. As part of these efforts, we created frameworks aimed at enhancing the capabilities of each employee, which we set out as a priority policy. As well as reforming a range of personnel systems, we developed foundations designed to realize "high-quality" cooperation. Our reforms of operational processes have realized benefits throughout the company, and I intend to continue dialogues with employees in this regard. Meanwhile, several problems related to business results came to light during the fiscal year that we have to address. These include the postponement of the launches of pachislot machines and pachinko machine sales that were below target.

Q. How do you view business conditions?

Aoki » Conditions in the pachinko and pachislot machine market remain tough. In particular, we need long-term initiatives to tackle the structural problem of a declining player population, resulting from a young generation that tends not to visit pachinko halls. This decline in player population is affecting the business results of pachinko hall operators materially. Deteriorating business results have led pachinko hall operators to curb capital investment and the replacement of old machines and to seek reliable returns on the limited funds they have to invest. As a result, demand tends to focus on the most popular titles. For the same reason, sales of pachinko and pachislot machines are subject to cyclical peaks and troughs. In fiscal 2013, in the market as a whole, pachinko machine unit sales decreased slightly from the previous fiscal year, to roughly 2.5 million units. However, due to the pronounced market bias toward popular titles, our pachinko machine unit sales were down 30%, falling short of our target.

Meanwhile, on the manufacturing side, we are working to broaden the player base by developing machines with weaker gambling elements and heightened gameplay, but this is pushing up development and production costs. In other words, we have reached a paradoxical situation in which by seeking further quality we place greater burden on pachinko hall operators. I believe that resolving this problem is critical for further development of the industry.

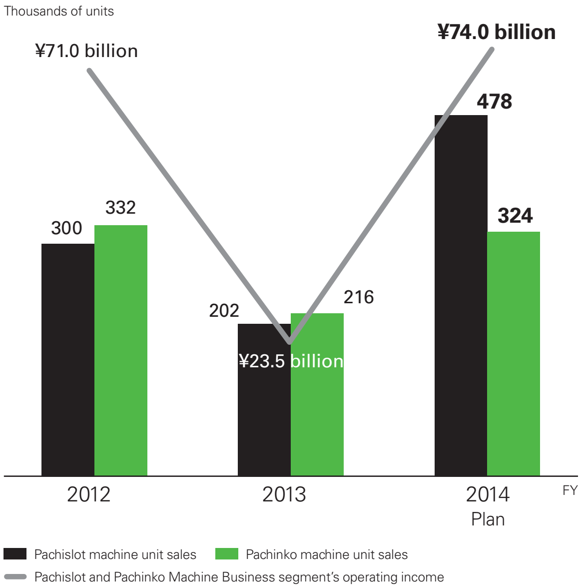
Q. What strategy have you adopted in response to these business conditions?

Aoki » The polarization between manufacturers that have popular titles and those that do not is becoming even more marked. As such, in fiscal 2014 we want to ensure our position among the group of winners by launching several competitive products.

In the current fiscal year, the Group's first priority is to recapture the leading share of the pachislot machine market. Accordingly, we aim to increase sales versus fiscal 2013 about 2.4 times, to 478,000 units. As for pachinko machines, we plan to restore our market presence by

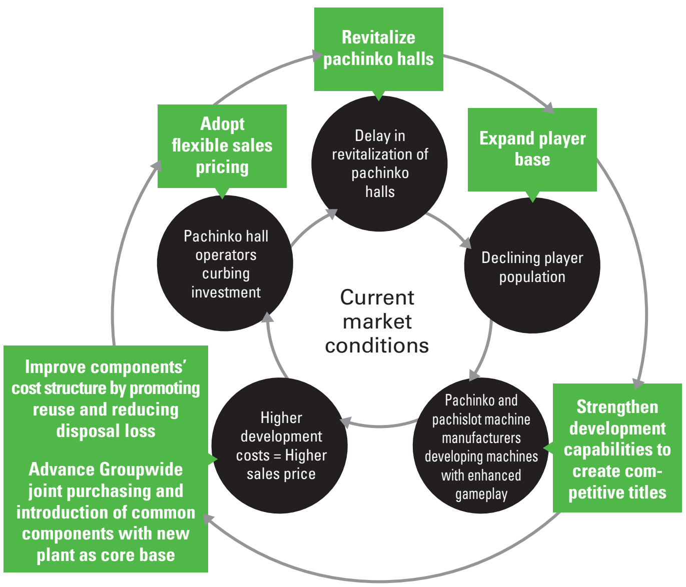
Aiming for V-Shaped Recovery

Business results of the Pachislot and Pachinko Machine Business segment



Targeting Market Revitalization over the Medium Term

Medium-term Strategy of the Pachislot and Pachinko Machine Business Segment Centered on Sammy



growing sales 50% year on year, to 324,000 units. After achieving this, we will set our sights on claiming the No. 1 share of the pachinko machine market. These are by no means low targets. However, we plan to bring to market several titles in which we have confidence. Above all else, we want to reach these targets and realize a v-shaped recovery.

In the medium term, we will expand the player base by developing even better products tailored to the preferences of each generation. Already, we have begun developing products based on in-depth market analysis of respective generations. Also, with regard to the problem of the postponement of the launches of pachislot machines, we intend to develop low-cost supplementary machines in readiness for contingencies.

Continuing the trend of fiscal 2013, R&D expenses are likely to rise more than 20% year on year in fiscal 2014. Please understand that this reflects our determination to create an unceasing series of competitive products and thereby remain among the winning companies. It goes without saying that we have no intention of recklessly increasing the number of titles. Instead, we will narrow down our lineup to titles that accurately reflect demand and pursue development efficiency.

Q. Is the multibrand strategy making progress?

Aoki » Our multibrand strategy has already realized certain benefits by providing us with more business opportunities. Going forward, however, we want to establish this strategy as an even clearer advantage. Among these efforts, an important task will be raising the base level of TAIYO ELEC Co., Ltd., which became a wholly owned subsidiary in fiscal 2012. If we can rejuvenate this company and grow its sales and earnings to a size comparable with Sammy's, I believe our target of carving out the largest share of the pachinko machine market will come within reach naturally. We have already incorporated systems that facilitate collaboration by sending development teams to the company and by enabling joint development. While their effect will take some time to emerge, we are moving forward with these measures steadily.

Q. What cost improvement measures will Sammy take going forward?

Aoki » Heightening the reuse rate is one measure that addresses the challenge of creating appealing products while curbing costs. To realize this measure, introducing joint purchasing and common components among the Group companies that comprise our multibrand strategy is key. Playing a central role in these efforts is our leading-edge plant, which started up operations in September 2012. Already, we have begun joint purchasing of components. And, while promoting design collaboration, we intend to introduce common components. Once these two measures become entrenched, we will be able to realize unified management of components centered on Sammy and advance wide-ranging component reuse. Achieving improvements in manufacturing costs and exploiting the resources acquired from reducing disposal loss will enable us to secure adequate earnings while implementing flexible sales strategies. This will help resolve the problems I mentioned earlier. Therefore, we will forge ahead with these measures to establish indisputable standing as a member of the winning companies' group.

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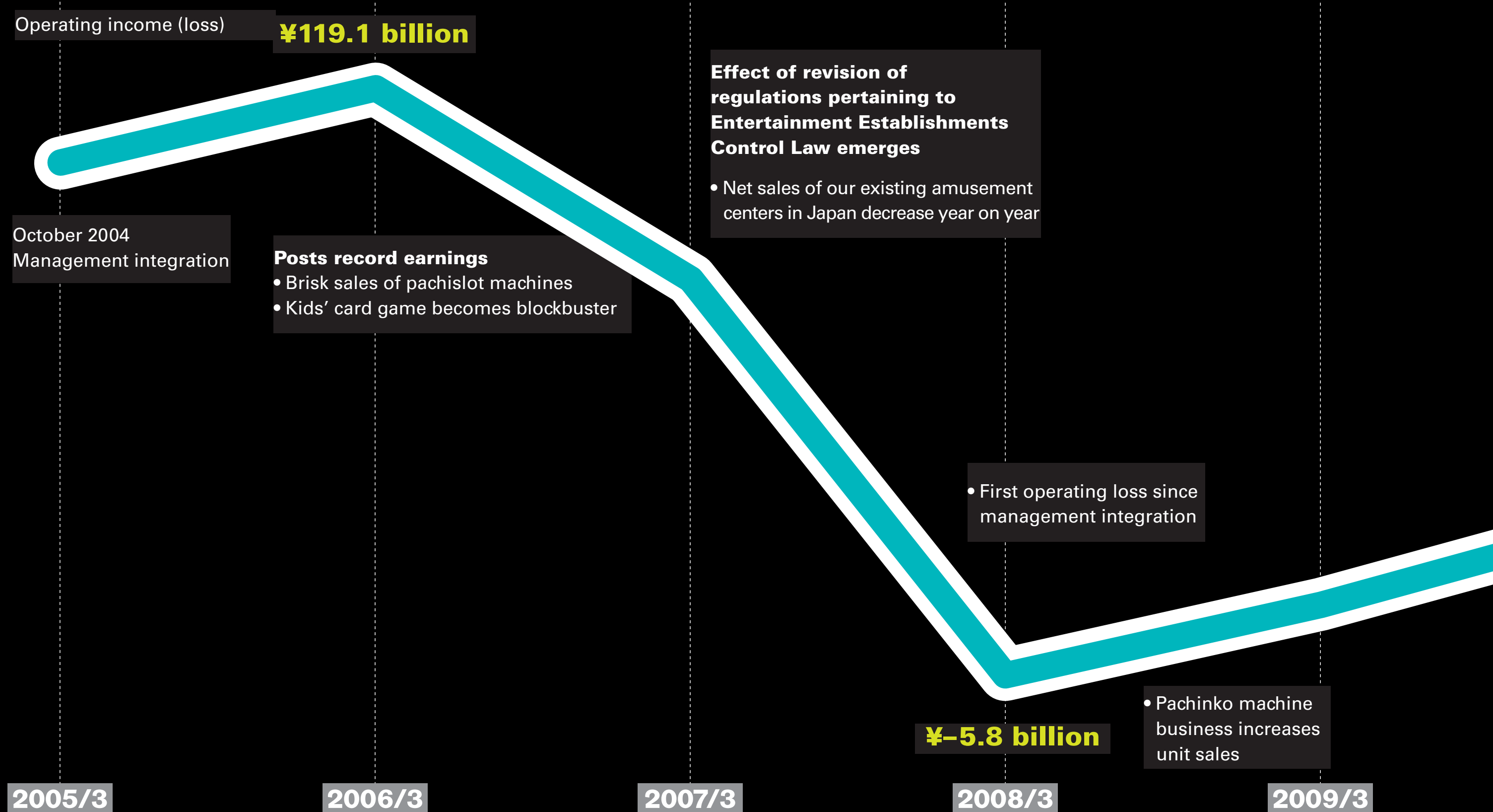
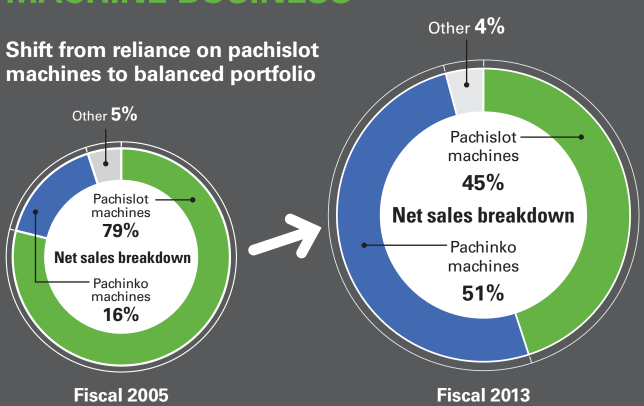
Since Management Integration



Major Changes

PACHISLOT AND PACHINKO MACHINE BUSINESS

Shift from reliance on pachislot machines to balanced portfolio



Main initiatives

- Strengthened pachinko machine business (transferred to new development system and increased pachinko boards' share of net sales)
- Withdrew from pachislot and pachinko machine peripheral business
- Reduced cost by reusing components
- Built new plant and distribution center

P.57 "Insight: Cyclical Demand Fluctuations in the Pachinko and Pachislot Machine Market and the Portfolio of the Pachislot and Pachinko Machine Business Segment"

AMUSEMENT MACHINE SALES BUSINESS

AMUSEMENT CENTER OPERATIONS

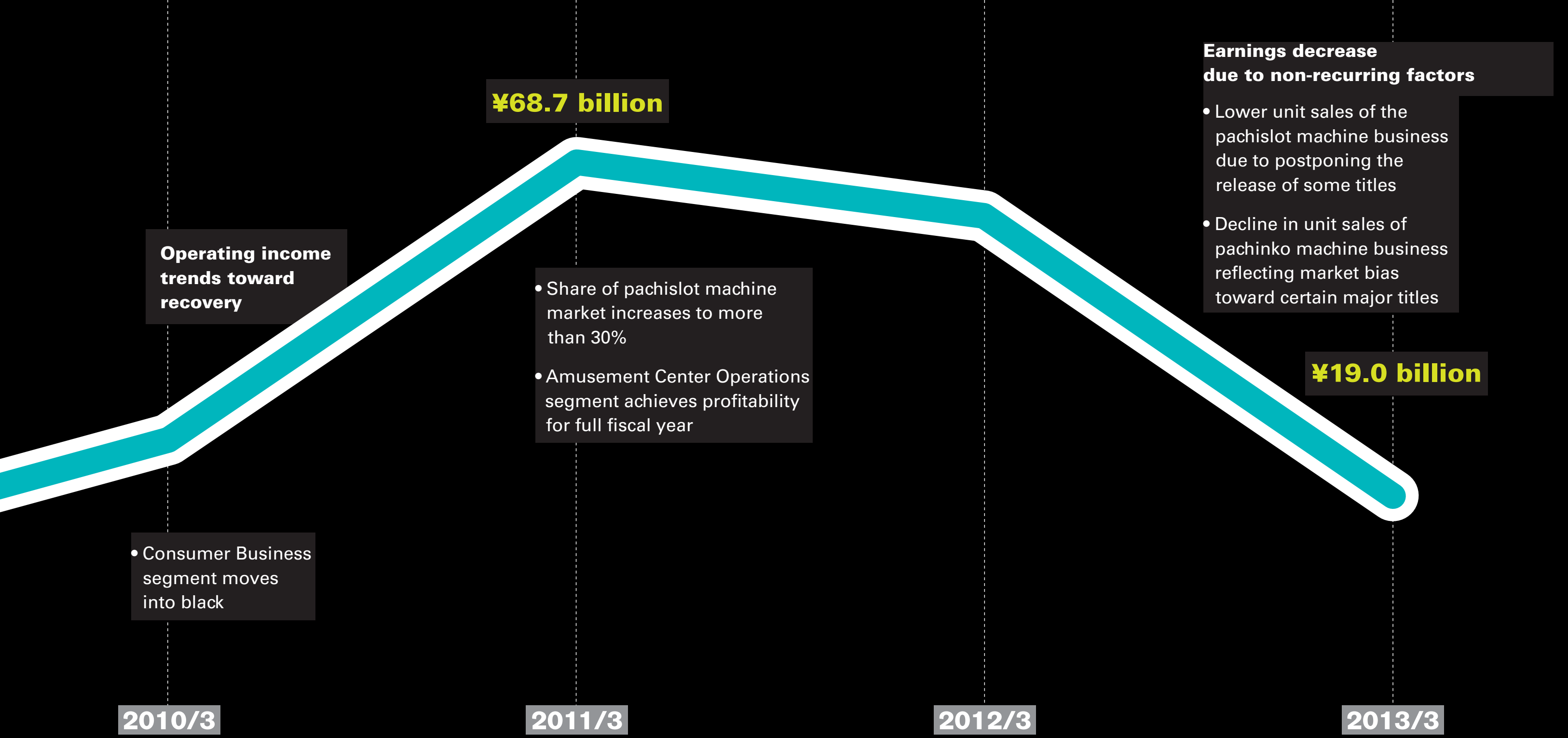
Amusement centers in Japan

Fiscal 2005
477
→
Fiscal 2013
236

Main initiatives

- Stopped developing certain large, high-end machines
- Reduced R&D expenses, content production expenses
- Introduced new business model (revenue-sharing business model)
- Closed or sold amusement centers with inadequate profitability or potential
- Strengthened management capabilities of amusement centers

The SEGA SAMMY Group has been steadily restructuring its businesses in response to a variety of management issues. These have included declining earnings from the Pachislot and Pachinko Machine Business segment amid dramatic changes in the pachinko and pachislot machine market as well as lower profitability in the Amusement Center Operations and the Consumer Business segments. In conjunction with these efforts, we have been laying strategic foundations for increasing earnings in the future.



CONSUMER BUSINESS

Number of packaged game software titles (SKU)

Fiscal 2007

140

Fiscal 2013

49

Main initiatives

- Streamlined organizations in home video game software area in North America and Europe
- Narrowed down number of titles under development
- Reduced R&D expenses, content production expenses
- Established SEGA Networks, Ltd.

OTHER CORPORATE ACTIONS

Main initiatives

- Rightsized workforce by introducing voluntary early retirement plan (SEGA CORPORATION and SEGA TOYS CO., LTD.)
- Established subsidiary boasting some of Japan's most advanced animation development technology (MARZA ANIMATION PLANET INC.)
- Made Sammy NetWorks Co., Ltd., SEGA TOYS, TMS ENTERTAINMENT, LTD., and TAIYO ELEC Co., Ltd., wholly owned subsidiaries
- Established PARADISE SEGASAMMY Co., Ltd., as joint venture with the Paradise Group
- Made resort complex developer and operator Phoenix Resort Co., Ltd., wholly owned subsidiary
- Participated in resort complex development project in Busan, South Korea
- Acquired THQ Canada Inc., now Relic Entertainment Inc., and intellectual properties related to titles under development

Business Results Highlights

Years ended March 31

Consolidated Business Highlights

	2005	2006	2007	2008	2009	2010	2011
Net sales	¥515,668	¥553,240	¥528,238	¥458,977	¥429,194	¥384,679	¥396,732
Gross profit	211,559	229,011	203,079	120,403	119,092	138,867	166,055
Selling, general and administrative (SG&A) expenses	106,469	109,867	126,548	126,232	110,728	102,154	97,304
Operating income (loss)	105,090	119,144	76,530	(5,829)	8,363	36,712	68,750
EBITDA[2]	122,764	140,999	104,578	39,782	35,007	53,887	84,699
Net income (loss)	50,574	66,221	43,456	(52,470)	(22,882)	20,269	41,510
Capital expenditures	32,468	37,650	59,271	50,422	26,610	16,164	19,686
Depreciation and amortization	17,674	21,854	28,048	45,611	26,644	17,175	15,949
R&D expenses, content production expenses	41,590	36,337	52,106	65,384	59,676	41,502	41,104
Net cash provided by (used in) operating activities	77,762	83,228	60,623	(25,878)	32,199	54,998	87,696
Net cash provided by (used in) investing activities	(39,618)	(54,706)	(75,395)	(10,399)	936	(7,640)	(29,585)
Net cash provided by (used in) financing activities	(25,703)	(21,152)	(1,712)	(7,579)	(7,653)	(3,401)	(57,168)
Free cash flows[3]	38,144	28,522	(14,772)	(36,277)	33,135	47,358	58,111
Total assets	438,991	522,914	549,940	469,642	423,938	423,161	458,624
Total net assets / shareholders' equity[4]	258,954	316,679	358,858	281,627	242,532	256,770	285,461
Number of shares outstanding (shares)	140,551,522	283,229,476	283,229,476	283,229,476	283,229,476	283,229,476	266,229,476

Per Share Data	2005	2006	2007	2008	2009	2010	2011
Net income (loss)	¥ 205.27	¥ 261.06	¥ 172.47	¥ (208.26)	¥ (90.83)	¥ 80.46	¥ 163.19
Diluted net income	200.48	260.35	172.35	—	—	—	163.01
Total net assets / shareholders' equity[4]	1,033.96	1,254.14	1,341.80	1,030.09	882.47	937.80	1,093.23
Cash dividends	60.00	80.00	60.00	45.00	30.00	30.00	40.00

Key Ratios	2005	2006	2007	2008	2009	2010	2011
Gross profit margin	41.0	41.4	38.4	26.2	27.7	36.1	41.9
SG&A ratio	20.6	19.9	24.0	27.5	25.8	26.6	24.5
Operating margin	20.4	21.5	14.5	—	1.9	9.5	17.3
R&D expenses to net sales	8.1	6.6	9.9	14.2	13.9	10.8	10.4
ROE	19.5	23.0	13.3	—	—	8.8	16.2
ROA[5]	11.5	24.8	15.2	—	1.5	8.5	15.5
Total net assets ratio	59.0	60.6	61.5	55.3	52.4	55.8	60.0

1 Yen amounts have been translated into U.S. dollars solely for convenience at the rate of ¥94.01 to U.S. $1, the prevailing exchange rate at March 29, 2013.
2 EBITDA = Operating income (loss) + Depreciation and amortization
3 Free cash flows = Net cash provided by (used in) operating activities + Net cash provided by (used in) investing activities
4 Following the enactment of the new Companies Act of Japan in 2006, the Company presents total net assets for the fiscal year ended March 31, 2007, and subsequent fiscal years, which represent the shareholders' equity figure used in previous years plus minority interests and share subscription rights.
5 ROA = Ordinary income ÷ Total assets

	Millions of yen, unless stated otherwise		Thousands of U.S. dollars[1]
	2012	2013	2013
	¥395,502	¥321,407	$3,418,860
	161,663	116,938	1,243,898
	103,279	97,865	1,041,014
	58,384	19,073	202,883
	74,542	37,254	396,280
	21,820	33,460	355,926
	36,141	32,871	349,664
	16,158	18,181	193,396
	53,348	45,294	481,805
	38,023	18,603	197,885
	(59,012)	6,396	68,041
	914	(1,116)	(11,877)
	(20,989)	24,999	265,918
	497,451	528,504	5,621,790
	296,376	320,034	3,404,263
	266,229,476	266,229,476	

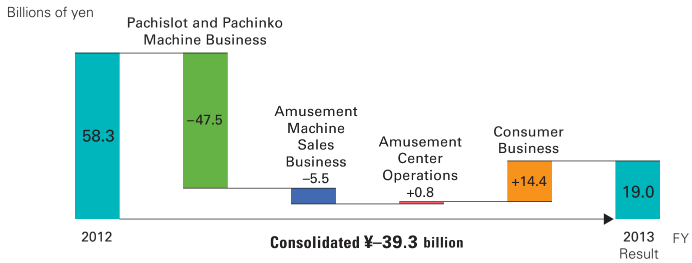
	Yen		U.S.dollars[1]
	2012	2013	2013
	¥ 86.73	¥ 137.14	$ 1.45
	86.54	136.85	1.45
	1,167.59	1,304.44	13.87
	40.00	40.00	0.42

	%	
	2012	2013
	40.9	36.4
	26.1	30.4
	14.8	5.9
	13.5	14.1
	7.7	11.0
	12.2	4.1
	58.9	59.7

Operating Income

¥19.0 billion (down ¥39.3 billion, or 67.3% year on year)

Change in Segment Operating Income



Main Other Income and Expenses

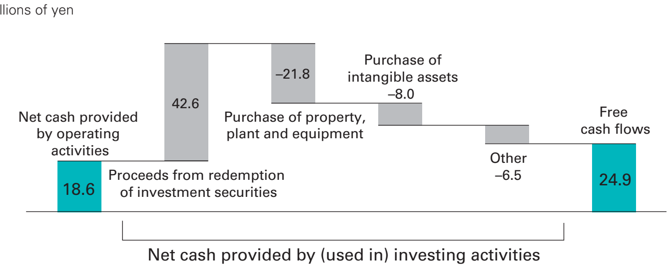
Other income	
Gain on sales of investment securities	¥1.9 billion
Gain on transfer of benefit obligation relating to employees' pension fund	¥6.3 billion

Other expenses	
Impairment loss	¥2.9 billion
Loss on liquidation of subsidiaries and affiliates	¥1.7 billion

Free Cash Flows

¥24.9 billion

Main Causes of Changes in Free Cash Flows



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Business Results Highlights

Years ended March 31

Business Results by Business Segment

Pachislot and Pachinko Machine Business	2005	2006	2007	2008	2009	2010	2011
Net sales	¥280,109	¥265,631	¥211,539	¥145,582	¥161,691	¥160,376	¥212,060
Operating income	103,931	99,847	71,102	8,443	14,528	29,502	64,284
Operating margin (%)	37.1	37.6	33.6	5.8	9.0	18.4	30.3
R&D expenses	6,952	6,940	9,325	12,632	14,289	13,019	13,485
Capital expenditures	2,842	6,670	8,790	23,829	4,516	3,297	5,725
Pachislot machine unit sales (units)	676,933	607,106	523,422	380,688	123,286	162,932	302,270
Pachinko machine unit sales (units)	233,049	288,895	132,981	108,184	391,831	360,171	343,188

Amusement Machine Sales Business	2005	2006	2007	2008	2009	2010	2011
Net sales	¥63,305	¥71,512	¥75,454	¥71,061	¥61,926	¥45,117	¥47,237
Operating income	7,424	12,176	11,682	7,152	6,890	7,094	7,317
Operating margin (%)	11.7	17.0	15.5	10.1	11.1	15.7	15.5
R&D expenses, content production expenses	12,029	10,002	12,527	13,695	11,450	7,841	9,195

Amusement Center Operations	2005	2006	2007	2008	2009	2010	2011
Net sales	¥83,194	¥106,245	¥103,850	¥91,226	¥71,310	¥54,788	¥45,695
Operating income (loss)	5,472	9,244	132	(9,807)	(7,520)	(1,338)	342
Operating margin (%)	6.6	8.7	0.1	—	—	—	0.7
Capital expenditures	24,886	24,577	40,754	15,910	14,893	7,796	7,701
Depreciation and amortization	11,937	17,148	18,052	17,161	15,908	8,212	6,126
Number of domestic amusement centers (centers)	477	462	449	363	322	260	249
Existing domestic amusement center sales year on year (%)	98.5	103.3	95.8	89.0	92.4	91.7	99.3

Consumer Business	2005	2006	2007	2008	2009	2010	2011
Net sales	¥65,341	¥90,352	¥119,593	¥141,790	¥131,361	¥121,575	¥88,896
Operating income (loss)	(8,810)	1,977	1,749	(5,989)	(941)	6,332	1,969
Operating margin (%)	—	2.2	1.5	—	—	5.2	2.2
R&D expenses, content production expenses	21,736	17,823	26,583	37,129	32,875	19,644	18,150
Home video game software unit sales (thousands)	11,790	16,400	21,270	26,990	29,470	26,750	18,710

1 Yen amounts have been translated into U.S. dollars solely for the convenience of readers at the rate of ¥94.01 to U.S. $1, the prevailing exchange rate at March 29, 2013.

	Millions of yen, unless stated otherwise		Thousands of U.S. dollars[1]
	2012	2013	2013
	¥212,189	¥142,281	$1,513,470
	71,040	23,534	250,343
	33.5	16.5	
	14,393	18,056	192,068
	12,726	11,914	126,732
	300,866	202,221	
	332,288	216,860	

Pachislot and Pachinko Machine Business
—Causes of business results changes

- In the pachislot machine business, unit sales were down 32.8% year on year due to postponing the release of several titles, including mainstay title *Hokuto No Ken Chapter of Resurrection*.
- In the pachinko machine business, sales decreased 34.7% year on year because favorable sales of mainstay titles, such as *Pachinko CR Hokuto No Ken 5 Hasha*, were unable to compensate fully for flagging sales of second-tier titles, which resulted from a market bias toward major titles.

	Millions of yen, unless stated otherwise		Thousands of U.S. dollars[1]
	2012	2013	2013
	¥49,929	¥39,134	$416,277
	7,415	1,902	20,233
	14.9	4.9	
	9,374	7,819	83,181

Amusement Machine Sales Business
—Causes of business results changes

- Revenues and earnings decreased due to the absence of major titles.
- Revenues from revenue-sharing titles were steady.

	Millions of yen, unless stated otherwise		Thousands of U.S. dollars[1]
	2012	2013	2013
	¥44,608	¥42,707	$454,289
	355	1,194	12,710
	0.8	2.8	
	8,328	7,923	84,279
	6,184	4,671	49,696
	241	236	
	100.5	93.8	

Amusement Center Operations
—Causes of business results changes

- Sales at existing amusement centers struggled, declining 6.2% from the previous fiscal year, which saw comparatively solid results thanks to favorable revenues from prize game machines.
- Earnings rose due to lower depreciation and amortization resulting from an accounting policy change.

	Millions of yen, unless stated otherwise		Thousands of U.S. dollars[1]
	2012	2013	2013
	¥ 85,688	¥ 83,874	$892,186
	(15,182)	(732)	(7,788)
	—	—	
	29,316	19,538	207,835
	17,240	10,780	

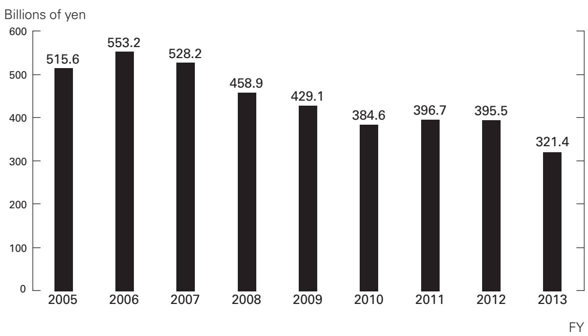
Consumer Business
—Causes of business results changes

- Despite the lower revenues that resulted from narrowing down the number of packaged game software titles in North America and Europe, loss contracted as rationalized businesses led to reduced operating expenses.
- Cumulative ID registrations of the online role-playing game *Phantasy Star Online 2* surpassed 2.5 million, and revenues from in-game paid items were favorable.

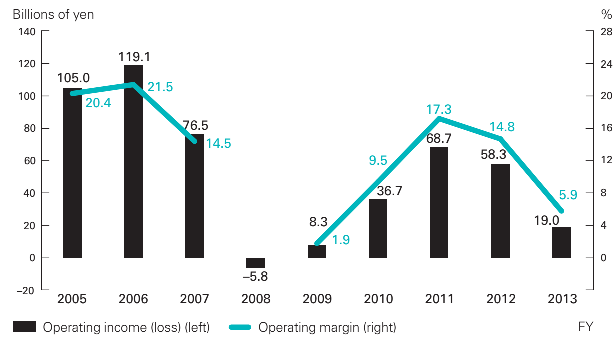
Business Results Highlights

Business Trend

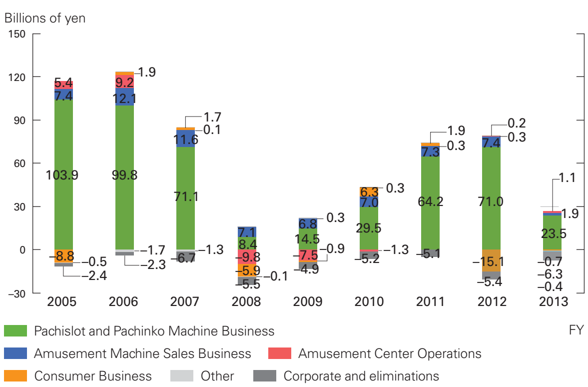
Net Sales



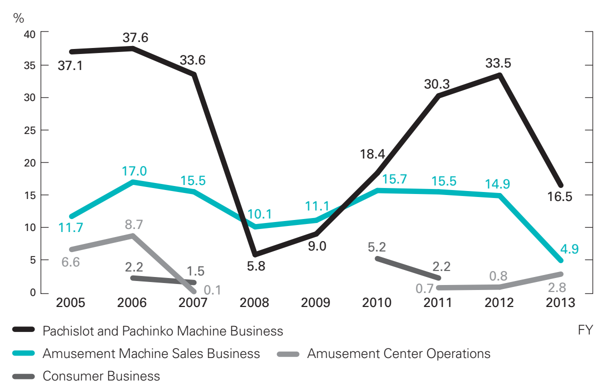
Operating Income (Loss) / Operating Margin



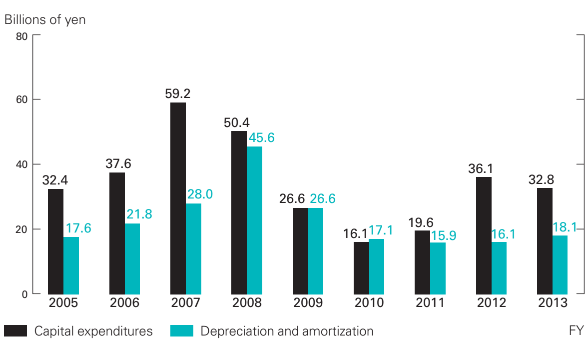
Operating Income (Loss) by Segment



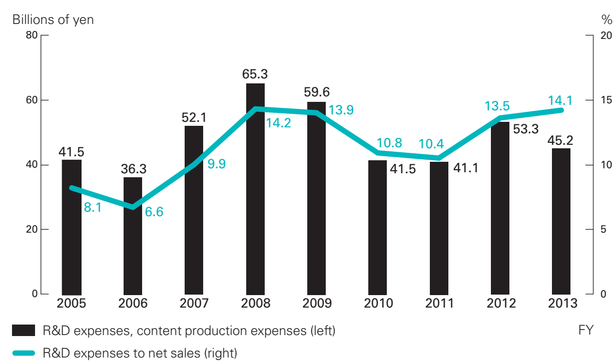
Operating Margin by Segment



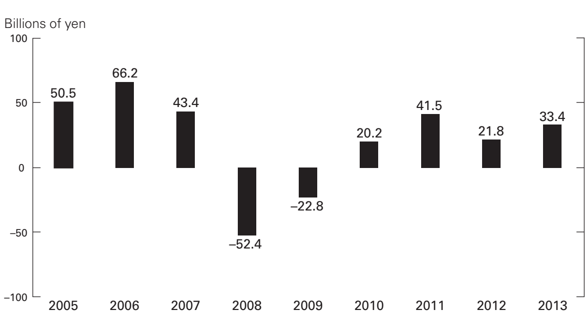
Capital Expenditures / Depreciation and Amortization



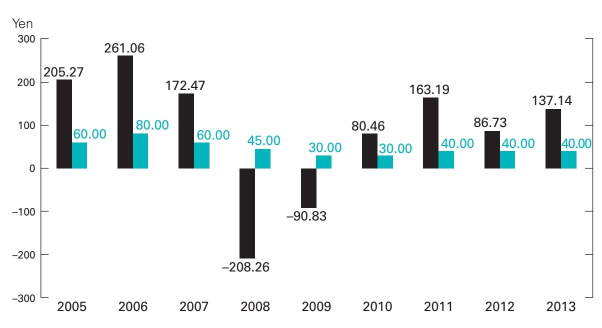
R&D Expenses, Content Production Expenses / R&D Expenses to Net Sales



Net Income (Loss)

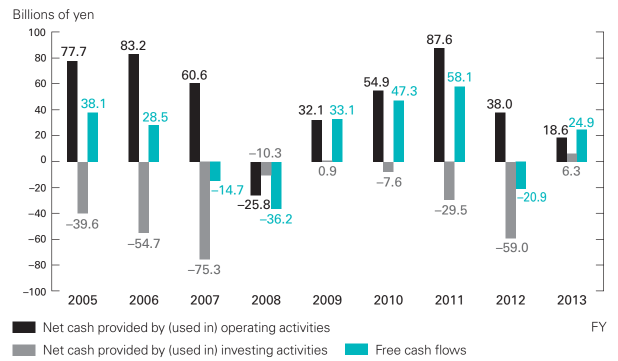


Net Income (Loss) per Share / Cash Dividends per Share

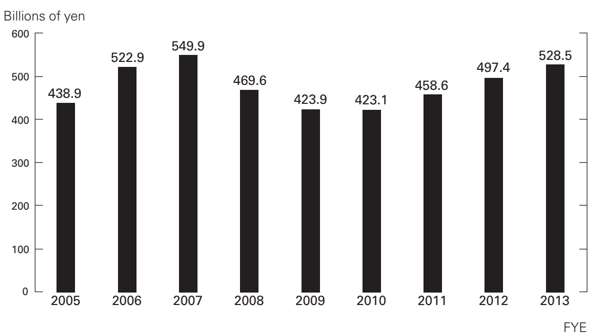


ROE / ROA

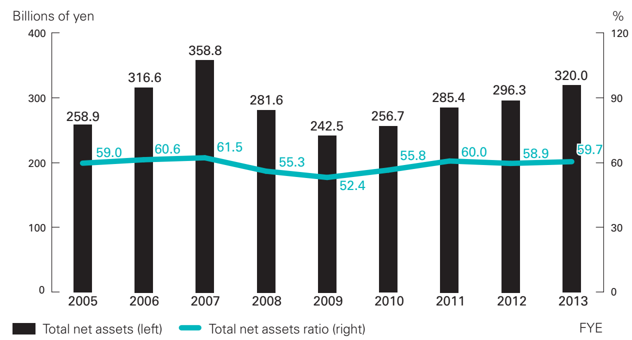
Free Cash Flows



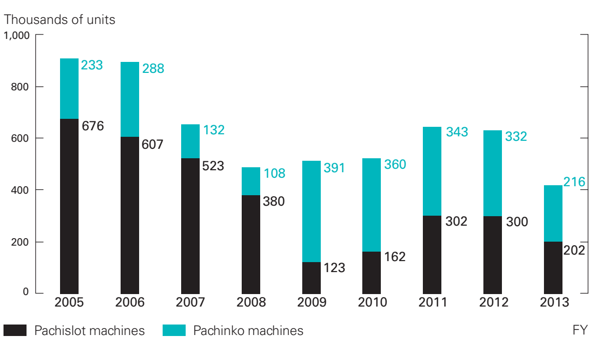
Total Assets



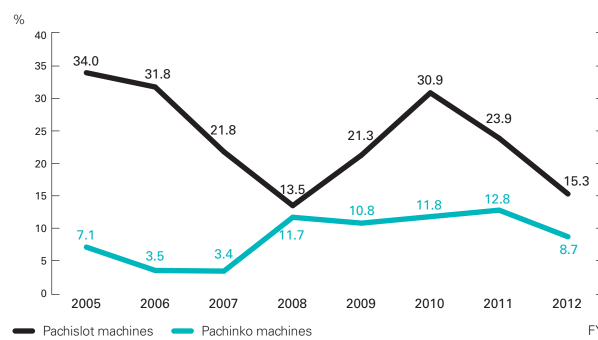
Total Net Assets / Total Net Assets Ratio



Pachislot and Pachinko Machine Unit Sales

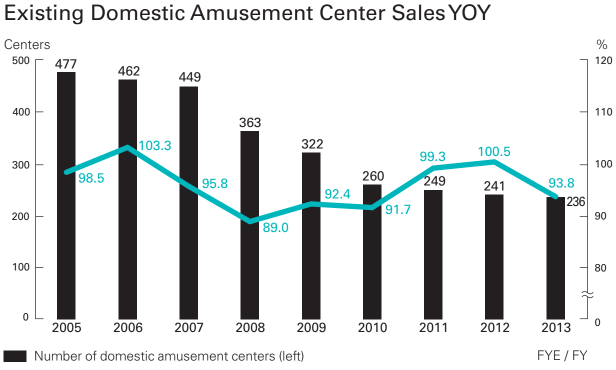


Market Share of Pachislot and Pachinko Machines

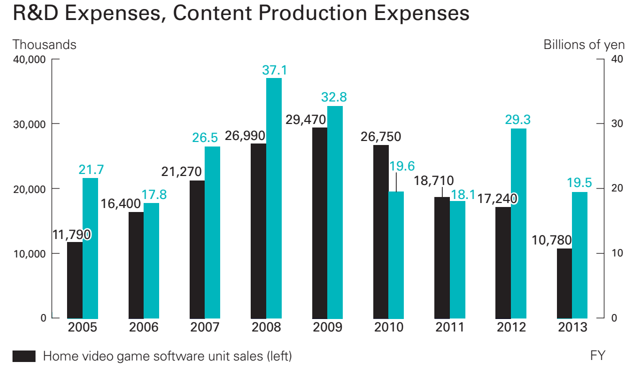


Source: Yano Research Institute Ltd. (Settlement dates from July to June)

Number of Domestic Amusement Centers / Existing Domestic Amusement Center Sales YOY



Home Video Game Software Unit Sales / Consumer Business R&D Expenses, Content Production Expenses



PRESENT

Bird's Eye View

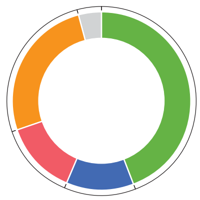
SEGA SAMMY GROUP SNAPSHOT

Net Sales*

Total

¥321.4 billion

* Excludes inter-segment transactions

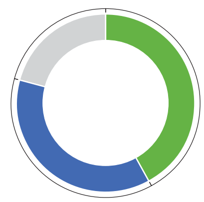


	%	Millions of yen
Pachislot and Pachinko Machine Business	44.3	142,281
Amusement Machine Sales Business	12.2	39,134
Amusement Center Operations	13.3	42,707
Consumer Business	26.1	83,874
Other	4.2	13,409

Overseas Net Sales

Total

¥28.3 billion

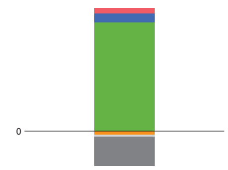


	%	Millions of yen
North America	42.2	11,954
Europe	37.3	10,570
Other	20.6	5,834

Operating Income (Loss)

Total

¥19.0 billion



	Millions of yen
Pachislot and Pachinko Machine Business	23,534
Amusement Machine Sales Business	1,902
Amusement Center Operations	1,194
Consumer Business	(732)
Other	(484)
Corporate and eliminations	(6,341)

SEGA SAMMY GROUP IN THE ENTERTAINMENT INDUSTRY

Net Sales[1]	Billions of yen
Nintendo[3]	635.4
NAMCO BANDAI	487.2
SEGA SAMMY	321.4
KONAMI[5]	225.9
Heiwa	177.1
SQUARE ENIX	147.9
SANKYO	104.1
CAPCOM	94.0

Operating Income (Loss)[1]	Billions of yen
NAMCO BANDAI	48.6
Heiwa	34.4
KONAMI[5]	21.8
SEGA SAMMY	19.0
CAPCOM	10.1
SANKYO	7.0
SQUARE ENIX[3, 4]	(6.0)
Nintendo[3]	(36.4)

Operating Margin[1]	%
Heiwa	19.4
CAPCOM	10.8
NAMCO BANDAI	10.0
KONAMI[5]	9.7
SANKYO	6.7
SEGA SAMMY	5.9

ROE[1]	%
Heiwa	16.7
NAMCO BANDAI	14.1
SEGA SAMMY	11.0
KONAMI[5]	6.0
CAPCOM	4.9
SANKYO	1.4
Nintendo	0.6

ROA[1, 2]	%
NAMCO BANDAI	14.0
CAPCOM	10.8
Heiwa	8.6
KONAMI[5]	6.7
SEGA SAMMY	4.1
SANKYO	2.0
Nintendo	0.7

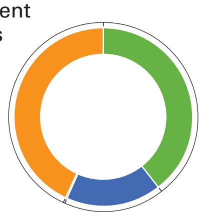
Market Capitalization[6]	Billions of yen
Nintendo	1,419.5
SEGA SAMMY	508.7
SANKYO	434.7
NAMCO BANDAI	369.6
KONAMI[5]	271.9
Heiwa	188.1
SQUARE ENIX	115.6
CAPCOM	99.9

Note: The above is intended to give an idea of the Group's position in the industry and only covers companies for which information can be obtained from published documents, such as listed companies. Because there are unlisted companies that do not disclose information, this is not a completely accurate industry ranking.

1 Respective companies' most recent settlement data. Source: Respective companies' published documents
2 ROA = Ordinary income ÷ Total assets
3 Operating margin has not been included because an operating loss was recognized for fiscal 2013.
4 ROE, ROA has not been included because an ordinary loss was recognized for fiscal 2013.
5 U.S. GAAP. ROE = Net income ÷ Shareholders equity, ROA = Income before income taxes and equity in net income of affiliated company ÷ Total assets
6 Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 29, 2013
7 Source: Yano Research Institute Ltd. (settlement dates from July to June)
In accordance with a request from the research organization, company names other than those of Group companies have been indicated using initials.
8 "Amusement" including amusement centers and amusement arcade machines
9 Amusement Center Operations

R&D Expenses, Content Production Expenses

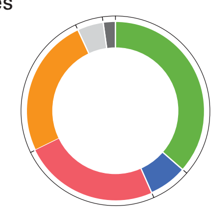
Total
¥45.2 billion



	%	Millions of yen
Pachislot and Pachinko Machine Business	39.9	18,056
Amusement Machine Sales Business	17.3	7,819
Amusement Center Operations	0.4	243
Consumer Business	43.1	19,538

Capital Expenditures

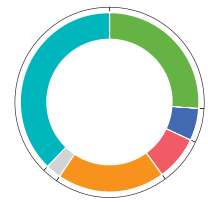
Total
¥32.8 billion



	%	Millions of yen
Pachislot and Pachinko Machine Business	36.3	11,914
Amusement Machine Sales Business	7.0	2,308
Amusement Center Operations	24.1	7,923
Consumer Business	25.3	8,393
Other	4.6	1,559
Corporate and eliminations	2.1	772

Total Assets

Total
¥528.5 billion



	%	Millions of yen
Pachislot and Pachinko Machine Business	26.1	138,014
Amusement Machine Sales Business	6.0	31,843
Amusement Center Operations	7.9	41,915
Consumer Business	19.6	103,703
Other	2.7	14,338
Corporate	37.6	198,689

Share of Annual Pachislot Machine Sales[7]

FY	2008		2009		2010		2011		2012	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Company Y	18.8%	Sammy	21.3%	Sammy	30.9%	Sammy	23.9%	Company U	17.8%
2	Company S	14.6%	Company S	13.6%	Company D	11.9%	Company D	15.9%	Sammy	15.3%
3	Sammy	13.5%	Company U	13.1%	Company S	11.9%	Company Y	15.6%	Company Y	14.6%
4	Company H	7.4%	Company Y	9.5%	Company H	11.3%	Company U	13.7%	Company D	14.0%
5	Company K	6.5%	Company K	7.8%	Company U	10.5%	Company S	7.6%	Company K	8.3%
Market Scale (Millions of yen)		247,860		225,869		286,700		375,054		429,974

Share of Annual Pachinko Machine Sales[7]

FY	2008		2009		2010		2011		2012	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Company S	24.3%	Company S	18.0%	Company S	22.5%	Company K	18.6%	Company S	21.8%
2	Company S	13.5%	Company S	17.2%	Company S	14.6%	Company S	13.9%	Company K	20.3%
3	Sammy	11.7%	Company K	12.8%	Sammy	11.8%	Sammy	12.8%	Company H	10.1%
4	Company N	10.5%	Company N	11.9%	Company K	11.1%	Company S	12.8%	Company N	10.0%
5	Company K	10.2%	Sammy	10.8%	Company N	10.2%	Company N	9.8%	Sammy	8.7%
Market Scale (Millions of yen)		921,338		985,227		886,914		826,714		772,951

Amusement Center Operation Sales[1]

	Billions of yen
ROUND ONE	85.9
NAMCO BANDAI	60.1
AEON Fantasy	44.8
SQUARE ENIX[8]	44.2
SEGA SAMMY	42.7
ADORES[9]	16.4
CAPCOM	10.9
TECMO KOEI	1.9

Unit Sales of Home Video Game Software (Global)[1]

	Millions of units
NAMCO BANDAI	24.58
CAPCOM	14.00
KONAMI	13.61
SEGA SAMMY	10.78
TECMO KOEI	6.58

Net Sales of Amusement Machines[1]

	Billions of yen
NAMCO BANDAI	71.8
SEGA SAMMY	39.1
CAPCOM	16.7

Wellspring of Ideas: **Personnel**

Creative personnel are the source of the SEGA SAMMY Group's competitiveness as a comprehensive entertainment company. We believe personnel who have numerous original ideas for tomorrow's entertainment and a strong appetite for challenges are the most important management resource for sustaining growth. With this in mind, we have developed a wide range of systems to keep the motivation of such personnel high and give full play to their abilities.

HIROTAKA TANAKA

Creative Officer, PC (Pachinko) Research and Development Division, Sammy Corporation

Representative work: *Pachinko Hokuto No Ken* series, *Pachinko SOUTEN-NO-KEN* series, etc.

In pursuing exciting games, Sammy's development never cuts corners. This goes for video, sound, design, and specifications. We are particularly fastidious about novelty. We seek gameplay and designs that will differentiate our machines from all competing products. Never forgetting Sammy's reputation for novelty, I want to create products that appeal to pachinko hall operators and players and build the industry's No. 1 product lineup and brand.

SATOSHI SAWADA

Chief Producer, PS (Pachislot) No. 2 Section PS Research and Development Division, Sammy Corporation

Representative work: *Pachislot Hokuto No Ken* series, etc.

Sammy has an open culture that allows personnel to develop games that they really think are exciting. In creating entertainment, there is no correct answer. Rather, I always focus on making my particular style the correct answer and having the confidence to develop products that I think are exciting. I intend to continue working hard so that I become indispensable to the industry's development. One day, I want to create another machine on a par with *Pachislot Hokuto No Ken*.

!dea

More Than 2,500 Development Personnel × Creativity

HIROSHI KATAOKA

Senior Creative Officer, SEGA CORPORATION

Representative work: *Virtua Fighter* series, etc.

To fulfill its mission as a leading manufacturer of amusement arcade machines, SEGA focuses on product development that makes maximum use of its comprehensive development capabilities. These include not only game software but also online services and mechatronics. Anyone can enjoy our games. However, different formats, such as amusement arcade machines or handheld game terminals, call for different types of gameplay. With this in mind, I want to tailor products that fit the needs of each format exactly and thereby create hits.

TAKASHI IIZUKA

Division Manager, CS (Consumer) No. 2 Research and Development Division, SEGA CORPORATION

Representative work: *Sonic* series, etc.

Creating completely new games and original intellectual properties and evolving them diversely to meet current needs has always been SEGA's forte. Our division's area of responsibility includes *Sonic the Hedgehog* and *Puyopuyo!!*, both of which are 22 years old. Nevertheless, by continuing to roll out games for smartphones and new titles, we ensure many players are still enjoying these intellectual properties to this day. Furthermore, the evolution of games is never ending. As society's needs and players' preferences change, I want to continue catering to them through games that surprise and captivate.

PRESENT

Turning Ideas into **Entertainment Value**

We use creators' ideas to make the products we bring to the world. It is only at this point that ideas generate value. The SEGA SAMMY Group's operating companies have businesses in a wide range of entertainment areas. We continuously improve business models throughout the operations of these companies—from development and production through sales—so that we can keep on delivering competitive entertainment.

INTELLECTUAL PROPERTIES

Sammy has competitive intellectual properties that it has developed in-house, including the *Aladdin* series and the *Juoh* series. Also, the company actively incorporates major intellectual properties from outside, such as the *Hokuto No Ken series and the SOUTEN-NO-KEN* series. Sammy creates competitive products by optimally combining intellectual properties and its original mechanical engineering capabilities. Furthermore, we protect our intellectual properties to secure the advantages of these operations while rigorously avoiding infringing upon third parties' intellectual properties.

Intellectual properties developed in-house

***Aladdin* series**

Cumulative unit sales	Pachinko machines	Pachislot machines
	70,000	420,000

***Juoh* series**

Cumulative unit sales	Pachinko machines	Pachislot machines
	150,000	260,000

Intellectual properties introduced from outside

***Hokuto No Ken* series**

Cumulative unit sales	Pachinko machines	Pachislot machines
	860,000	1.4million

***SOUTEN-NO-KEN* series**

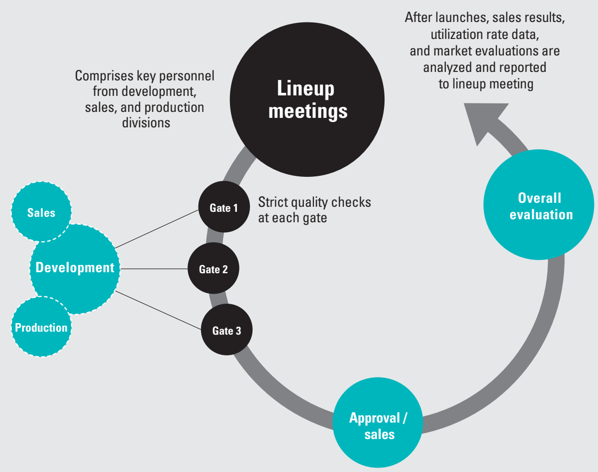
Cumulative unit sales	Pachinko machines	Pachislot machines
	190,000	90,000

DEVELOPMENT

Market-Driven Development System Based on Close Coordination among Three Divisions

Our market research division collects utilization rate data to determine which types of machines are earning market support. Based on this information, development, sales, and production divisions work together closely to advance an integrated series of processes that includes preparing development schedules and managing progress, analyzing and deciding development costs, checking quality, checking mass production compatibility and durability, forecasting unit sales, and deciding sales prices. Furthermore, we use a "gate management" system that entails strict checks at three stages, or gates, during the development process. At each of these gates, we also check for any changes in the market environment, which can occur during products' development periods, and flexibly adjust plans if needed. This system is steadily enhancing the product appeal of our pachislot and pachinko machines.

New development system based on close coordination among three divisions



SALES

Pachislot and Pachinko Machine Business (Sammy)

As the core operating company of the Pachislot and Pachinko Machine Business segment, Sammy is reengineering its business models to realize rigorously market-driven operations. These efforts cover all aspects of operations, from a product development system that unites development, sales, and production through to an industry-leading production system that reduces lead times dramatically and enables Sammy to meet intensive demand concentrated in short periods.

Pachinko CR Hokuto No Ken 5 Hasha
© Buronson & Tetsuo Hara / NSP1983, Approved No. YKA-105
© Sammy

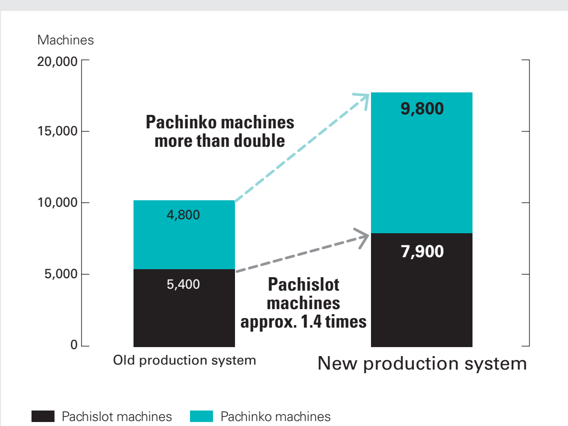
Pachinko CR Shin-Juoh
© Sammy

PRODUCTION

DISTRIBUTION

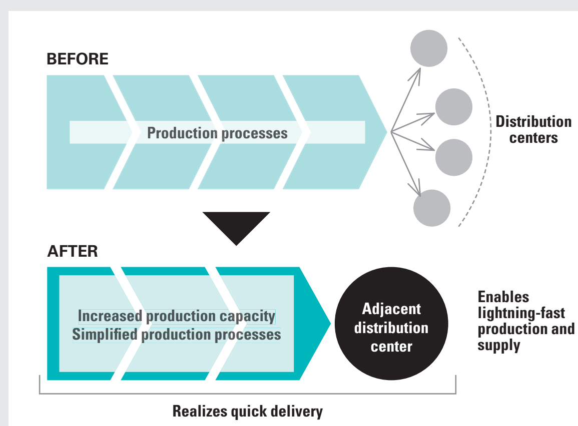
Industry-Leading Production Capacity

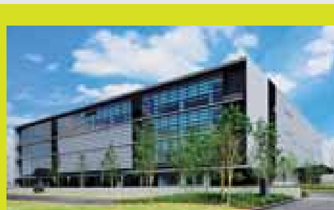
We boast one of the industry's largest production capacities. The new plant, which started up operations in September 2012; the older plant; and Group companies' plants give us a combined daily production capacity of 7,900 pachislot machines and 9,800 pachinko machines. Moreover, we are shortening production lead times by simplifying production processes through the outsourcing of certain processes.



Consolidation of Dispersed Distribution Bases

Next to the new plant, we have built a new distribution center that consolidates the capabilities of what was our largest distribution center and component warehouses that were at six different locations. The new distribution center incorporates an upgraded system for controlling warehousing, shipping, and delivery operations that reduces man-hours and realizes real-time inventory recording.





Realization of Lightning-Fast Production and Supply

By coordinating our new distribution center with our new plant, which has industry-leading production capacity and shorter production lead times, we can cater to the intense demand for pachislot and pachinko machines that tends to occur in the initial period after sales launches. In other words, we have established a system that minimizes sales opportunity loss.

Page 56 "Insight: Lightning-Fast Production and Supply that Captures Sales Opportunities Reliably"

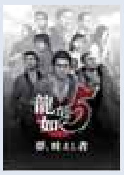
Consumer Business (SEGA)

SEGA's Strategy for Creating, Fostering, and Maximizing the Value of Intellectual Properties

Owning competitive intellectual properties at home and abroad, SEGA fosters intellectual properties and maintains and enhances their value by increasing points of contact with players. At the same time, it creates new intellectual properties tirelessly.

Intellectual Property Portfolio

Major intellectual properties in the Japanese market



Ryu ga Gotoku
© SEGA
An action adventure game that has shipped more than six million units to date

Puyopuyo
© SEGA
An action puzzle game that is an established favorite among Japanese people regardless of age or gender

Phantasy Star Online
© SEGA
A role-playing game in which basic play is free. ID registrations surpassed three million in August 2013.

HATSUNE MIKU-Project DIVA-
© SEGA © Crypton Future Media, Inc. Product names and company names are trademarks of respective companies.
A rhythm action game featuring digital diva *Hatsune Miku*

Herobank
© SEGA
Due for inclusion as a series in the *CoroCoro Comic* manga from this fall. An innovative online role-playing game themed on competition for money

project 575
© SEGA
A new word-play project that involves creating poems based on the 5-7-5 syllable haiku pattern

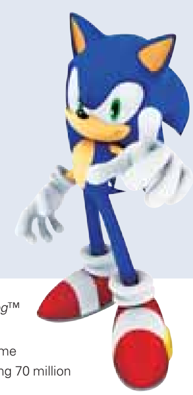
Major intellectual properties in the U.S. and European market

FOOTBALL MANAGER
The world's most famous game simulating soccer club management

TOTAL WAR
A player-turn-type strategy and real-time fighting game staged in an extensive ancient world

Company of Heroes
A real-time strategy game with the history of modern warfare after the Second World War as its motif

ALIENS
An action shooting game that painstakingly recreates the movie's atmosphere

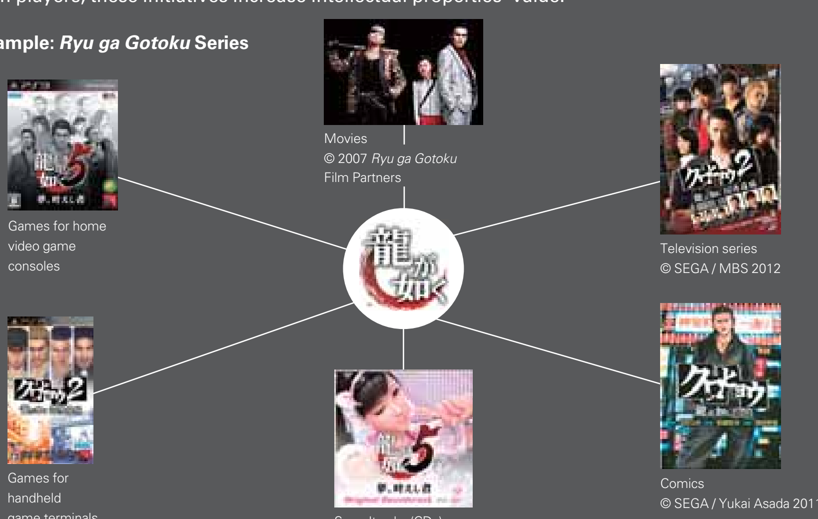


Sonic The Hedgehog™
© SEGA
A popular action game with sales surpassing 70 million units worldwide

Maintaining and Enhancing Intellectual Properties' Value through Multifaceted Rollouts

Our marketing of intellectual properties is multifaceted. As well as marketing different versions of an intellectual property for various platforms, we develop intellectual properties through related merchandise, videos, comics, video-sharing websites, and music. By increasing points of contact with players, these initiatives increase intellectual properties' value.

Example: *Ryu ga Gotoku* Series



Amusement Machine Sales Business (SEGA)

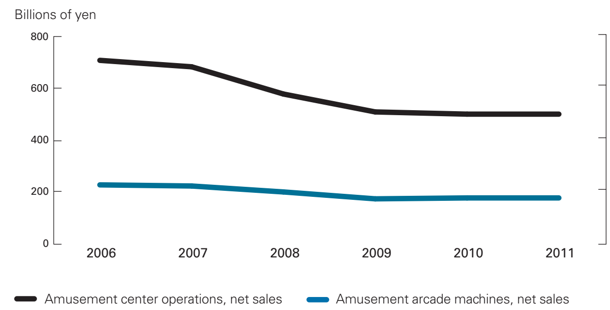
Evolving Business Models to Invigorate the Market

In the 1970s, SEGA launched the first video game made in Japan. Since then, it has remained at the forefront of the industry's development by offering an array of mold-breaking games as an amusement arcade machine pioneer. Today, it is showing further leadership in the industry by introducing new business models that are helping invigorate the amusement industry.

Interdependent Relationship with the Amusement Center Operations Market

The amusement arcade machine market has continued to to see challenging conditions due to the shrinking of the amusement center operations market. To stimulate the amusement center operations market and sustain growth of amusement arcade machine sales over the long term, SEGA is actively introducing business models based on two main approaches.

Sales Trends in the Amusement Industry



Source: JAIA, *Amusement Industry Survey 2011*

1. Reduce Amusement Center Operators' Capital Investment Burden

We are proactively advancing products and business models that help invigorate the industry by lessening amusement center operators' capital investment burden and thereby encouraging the introduction of new products.

CVT Kits

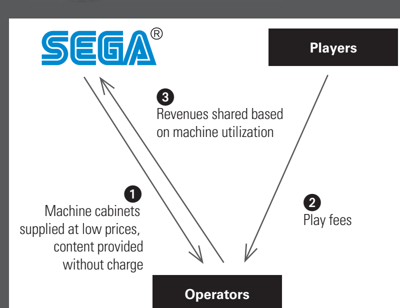
We are introducing CVT kits, which enable amusement center operators to upgrade games without purchasing new machine cabinets. Operators use the kits to replace the boards, software, and exteriors of their existing machines.

StarHorse3 Season II BLAZE OF GLORY
© SEGA

Revenue-Sharing Business Model

SEGA is promoting the introduction of a revenue-sharing business model. In this model, SEGA provides amusement center operators with low-priced machine cabinets and free content. Through the infrastructure of SEGA's *ALL.NET* network service, the company and amusement center operators share revenues from the utilization of the amusement arcade machines. Under this model, amusement center operators are able to curb their initial investment while introducing new products. Meanwhile, the business model extends SEGA's involvement beyond the sales of amusement arcade machines. It allows us to sustain earnings by upgrading content periodically and thereby maintain the market value of our amusement arcade machines.

CODE OF JOKER
© SEGA



2. Extend Player Base

We are developing products and business models designed to extend our player base beyond core players to encompass families.

Free-to-Play

Through *Puyopuyo!! Quest Arcade*, SEGA is advancing the amusement arcade machine industry's first business model based on free-to-play (F2P) games. These games can be played for free, but players pay fees to purchase items within the games or to continue stages. By using the broadly popular *Puyo Puyo!!* intellectual property for this new game format, we hope to attract women and families, who tend visit amusement centers less frequently. In the future, we hope to further exploit amusement centers and digital content so that they grow each other's customer bases.

Puyopuyo!! Quest Arcade
© SEGA

Acquire stable earnings by invigorating the market and deepening relationships with amusement center operators

Opinion from an Outside Director

Outside director Takeshi Natsuno speaks frankly about tasks the SEGA SAMMY Group faces.

Q. What are the SEGA SAMMY Group's three most important tasks?

The Group must advance rapidly and boldly through mold-breaking innovation.

The most important task for the Group is to become "non-linear." In other words, the Group must create new value rather than simply continuing past practices. I believe that the management team's earnest efforts to develop integrated resorts including casinos are a good example of non-linear initiatives. The management team has also shown an appetite for trying new businesses in other areas. However, most of these initiatives have yet to bear fruit. This is because, to some extent, the Group is still trying to create new products based on past practices. Existing businesses' influence on these initiatives could result in the Group creating products that are merely somewhat unusual rather than new. Therefore, to realize mold-breaking innovation, the Group must let go of the past. Furthermore, it needs to pursue such initiatives more rapidly and boldly. I think this is the approach the Group must commit to unequivocally.

Related to how the Group should tackle the first task, the Group's second task is to incorporate as much diversity as possible. Diversity is the main source of innovation. Accordingly, I believe the Group should embrace diversity as an organization. When a corporate group becomes as big as the SEGA SAMMY Group, the tendency is to overemphasize harmony. Of course, this is important, but if overemphasized, the danger is that the company will gradually lose its internal diversity. Although embracing diversity can be a cause of friction, converting this friction into positive energy, rather than disagreement, can produce major benefits. For this reason, taking a clearer stance on incorporating diversity, without fearing friction, and developing the Group as an organization accordingly is important for the management team.

The third task is SEGA's game content business. Conditions in the game content industry are turbulent. The market has been extremely volatile as the focus of competition has transferred from home video game consoles to feature phones to smartphones. As a result, it is the market that most severely tests companies' ability to create new value. The SEGA SAMMY Group has set out a strategy of shifting toward the digital game content business and is steadily accelerating efforts to this end. However, I think it should change its course toward the digital game content business even more decisively.

Q. As an outside director, how do you view the Group's initiatives in the casino-related business area?

If there are possibilities for the Group in this business area, it should take on the challenge. And, I would like to support this endeavor.

Generally, casinos have been given a negative image. If we consider Las Vegas, however, I have not heard about casinos being detrimental to society there.

The idea that casinos are dangerous is just an image. Meanwhile, as Singapore and Macau have shown, casinos can bring immeasurable economic benefits. Although the debate about casinos is still under way in Japan at present, without a doubt casinos are a wonderful business opportunity. If the chances of the Group succeeding seemed non-existent, as an outside director I would of course warn against entering this area. However, the possibilities for the SEGA SAMMY Group in this area are limitless. With this in mind, I want to support the Group's efforts.

TAKESHI NATSUNO

Outside Director
SEGA SAMMY HOLDINGS INC.

Looking ahead, the Group will have to gain selection as a casino operator. Anticipating the legalization of casinos in Japan, the Group is increasing its chances of being selected by laying strategic foundations that will enable it to accumulate experience related to the management of integrated resorts including casinos. These efforts include acquiring Phoenix Resort Co., Ltd., establishing joint ventures with the Paradise Group, and developing a resort complex in Busan. The Group is preparing major strategies, analyzing the strategic moves it should make, and managing risk as it advances forward steadily and without trepidation. Therefore, I see this as a strategic initiative to develop the Group in a non-linear manner that is based on appropriate processes and goals. Naturally, as an outside director I monitor the Group carefully to ensure its strategic moves really are increasing its chances of success.

Q. How do you evaluate the Group's risk management in relation to integrated resorts including casinos and resort complexes?

The Group is undertaking rigorous risk management to heighten its chances of success.

At a glance, the Group's investments in integrated resorts including casinos and resort complexes seem extravagant. However, they actually do not incur significant risk. For example, the Group has acquired Phoenix Resort, which had an asset value of several hundred billion yen in the 1990s, at a very reasonable price. Similarly, viewed in the context of the Group's overall asset portfolio, the projects in South Korea are not on a scale that could shake the foundations of the Group's business management. Furthermore, to manage risk for each project, the Group conducts detailed analysis of risk and profitability. Documents prepared for the Board of Directors are astonishingly detailed. This enables the management team including outside directors to make decisions based on a good understanding of projects' revenue and expenditure forecasts and the Group's cash position. Absolutely nothing is left to guesswork. For this reason, I think the Group's risk management aimed at heightening initiatives' chances of success is rigorous.

Q. In the digital game content business, in which specific direction do you think the Group should expand its business?

I want to see a willingness to create businesses from scratch.

The Group has enjoyed some successes, but it must not feel that continuing in the same vein is enough. In this area, dynamic companies are developing businesses rapidly. And in many cases young companies are tackling large-scale businesses. I think the SEGA SAMMY Group should use what these companies are doing as a model. Recently, other companies have achieved great successes without relying on intellectual properties. I do not deny the importance of intellectual properties for entertainment companies. Ultimately, however, intellectual properties belong to the past. Relying on intellectual properties is nothing more than continuing along the same lines as before and cannot lead to rapid large-scale initiatives. I think the Group should be prepared to rethink the Consumer Business segment fundamentally and create games that players will really enjoy from scratch.

Q. In such efforts, what strengths do you think the Group should bring to bear?

The Group's scale will be a major advantage going forward.

Currently, excessive volatility is increasing pressure on players as they struggle to keep up with changes sweeping through the industry. Meanwhile, being a very big corporate group sets the SEGA SAMMY Group apart from companies that specialize in the digital game content area. The Group's market capitalization and financial position testifies to this scale and durability. No other video game company has a cash cow like the Pachislot and Pachinko Machine Business segment in its business portfolio. This will give the Group some leeway to prepare and implement strategies for the increasingly volatile digital game content area. In addition, the SEGA SAMMY Group can draw on a wealth of development personnel throughout its organization. By taking full advantage of the synergies that its size enables, the Group will be able to realize the value it creates from scratch, which I mentioned earlier, on a scale others cannot match and convert the current volatility into a major opportunity.

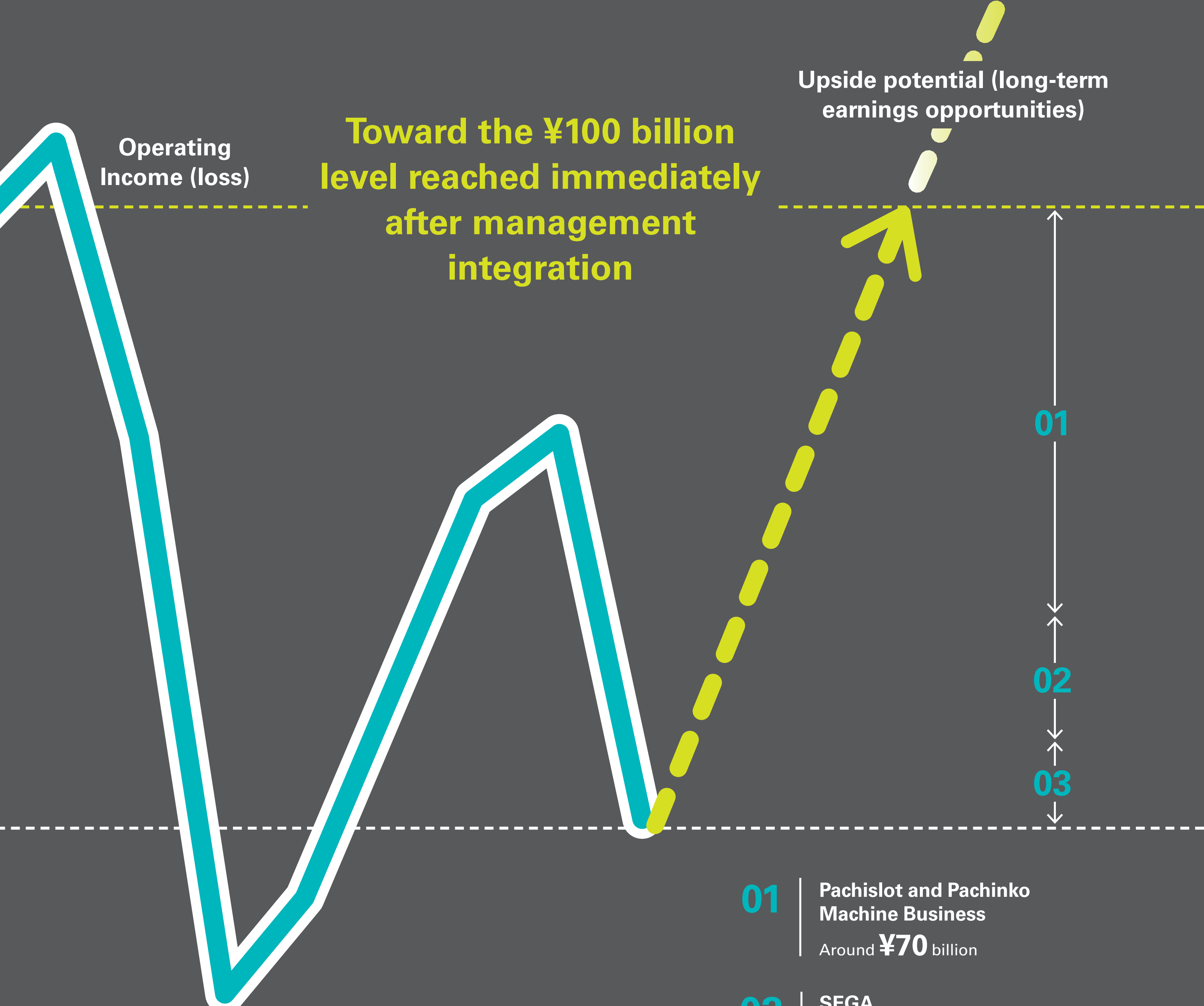
Q. What is the atmosphere like at meetings of the Board of Directors?

Discussions are lively to a point that it is almost worrying for me as an outside director.

Meetings of the Board of Directors of SEGA SAMMY HOLDINGS INC. are not the often criticized empty formalities where decisions are a foregone conclusion because participants' agreement has been obtained in advance. Members of the management teams of SEGA, Sammy, and other Group companies attend the meetings and discuss agenda items thoroughly. Often discussions become lively and involved to the point where even I as an outside director become concerned and think "we should just quietly move on to the next item." Of course, during such discussions I never hold back: I am able to speak my mind.

FUTURE
Medium-Term Growth Scenario

As rapidly as possible, the SEGA SAMMY Group aims to restore operating income to the ¥100 billion level that it was at immediately following management integration in October 2004. Based on an ambitious target corporate profile for the long term, the Group is steadily laying foundations for the creation of new businesses.



01 | **Pachislot and Pachinko Machine Business**
Around **¥70** billion

02 | **SEGA**
Around **¥20** billion

03 | **Other subsidiaries**
Around **¥10** billion

Key Growth Opportunities, Risks, and Strategies

Aiming to regain former earnings levels in the medium term and sustain earnings growth over the long term, the Group views the following as its key opportunities, risks, and strategies.

Pachislot and Pachinko Machine Business

Growth Opportunities

Clearer Trend toward Survival of the Fittest in the Pachinko and Pachislot Machine Market

Increasingly the pachinko and pachislot machine market is becoming an oligopoly favoring companies with abundant development capabilities, major titles with strong brand appeal, and financial muscle. These conditions present the SEGA SAMMY Group, which enjoys a particularly robust position in the pachislot machine market, with an opportunity to strengthen its standing even further.

Scope for Growing Share of the Pachinko Market

Compared with our share of the pachislot machine market, our share of the pachinko machine market is small. In other words, the scope for the Pachislot and Pachinko Machine Business segment to grow in the pachinko machine market is considerable.

Risks

Declining Player Population

In recent years, the player population in the pachinko and pachislot market has been trending downward. This has contributed to the deterioration of the financial position of pachinko hall operators and encouraged their conservative capital investment stance.

Emerging Oligopoly in the Pachinko Machine Market

In terms of brand power, the Group lags behind the top pachinko machine manufacturers. Given the emerging demand bias toward popular titles, the Group faces the risk of sluggish sales centered on its second-tier titles.

Risk Related to Regulatory Revision and Licenses

Revision of statutory laws and regulations affect the pachinko and pachislot machine market significantly. (Please see "Regulatory Process in the Pachinko and Pachislot Machine Market" in "Analysis through Charts" on page 42.) The July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law triggered major changes in the market with respect to the above-mentioned opportunities and risks. Furthermore, the Group faces approval risk for new product launches, meaning that it may not be able to realize sales as planned.

STRATEGIES

In the Pachislot and Pachinko Machine Business segment, our basic strategy is to establish a position among the industry's winning companies. Accordingly, in the pachislot machine business, we have continuously sought and realized a leading market share, and we aim to stake out the No. 1 share of the pachinko machine market over the medium term. To realize this strategy we will take the following steps.

(1) We will further strengthen our development capabilities by investing more in R&D and bolstering our development system. In particular, we intend to focus efforts on differentiating our lineup by marketing products suited to each generation's needs. At the same time, the Group will lead the industry's sound development by expanding the player base to put a brake on the decline in the player population.

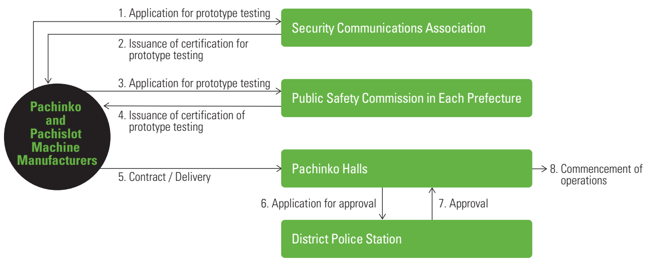
(2) We will enhance extensive capabilities by effectively exploiting our leading-edge plant, strengthening collaboration through the sharing of development resources and joint purchasing of components among Group companies, and forging ahead with a multibrand strategy.

(3) We will build a balanced business portfolio by strengthening the pachinko machine business while creating a business structure able to adapt flexibly to regulatory revisions and generate stable earnings.

ANALYSIS THROUGH CHARTS Regulatory Process in the Pachinko and Pachislot Machine Market

Before launching new products, pachinko and pachislot machine manufacturers have to proceed through various approval processes based on the Entertainment Establishments Control Law. These approval processes inspect products to determine whether their materials, functions, and gameplay conform to the specifications that current regulations set. Not receiving certification can severely affect sales plans. Also, regulatory revision can affect gameplay.

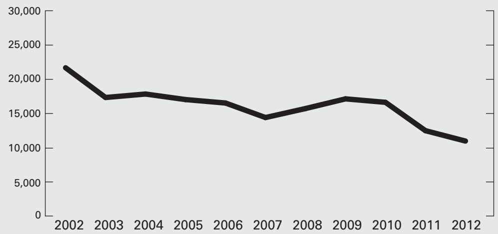
Approval Process for Pachinko and Pachislot Machines



ANALYSIS THROUGH CHARTS Current Market Conditions

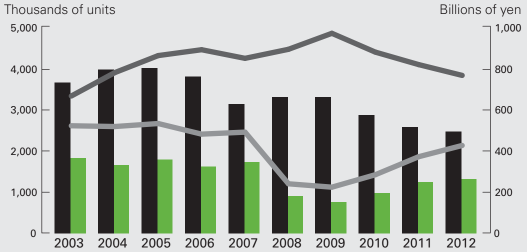
In the pachinko and pachislot market, the player population continues to decrease. Focused on controlling excessive gambling elements, the regulatory revision of July 2004 rapidly changed pachislot machines' gameplay and led players to leave the market. Meanwhile, although sales of pachinko machines remained favorable, the increasing installation of pachinko machines with strong gambling elements accelerated the decrease in casual players. Also, the price of pachinko machines rose. The resulting downturn in sales and higher investment burden worsened pachinko hall operators' business results. This led to a slump in machine replacement demand, the emergence of a bias in demand towards manufacturers and titles able to provide reliable returns on investment, and a cycle of peaks and troughs in pachinko and pachislot machine sales.

Pachinko and Pachislot Player Numbers



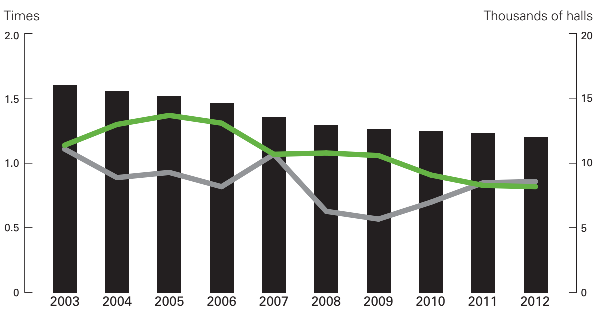
Source: *White Paper on Leisure Industry 2013*, Japan Productivity Center

Pachinko and Pachislot Machines—Unit Sales and Market Size



Source: Yano Research Institute Ltd.

Annual Turnover* and Pachinko Hall Numbers



* Annual turnover = Annual unit sales ÷ Machine installations

Sources: The Company has calculated annual turnover based on data from the National Police Agency and Yano Research Institute Ltd. Pachinko hall numbers are from the National Police Agency.

Amusement Machine Sales Business

Growth Opportunities

Stronger Relationships with Amusement Center Operators

Reducing their investment burden and providing products and business models that help broaden the player base could deepen our relationships with amusement center operators. Deeper relationships would enable the Group to generate stable earnings and help revitalize the market.

Risks

Contraction of the Amusement Center Operations Market

Directly affecting the earnings of the Amusement Machine Sales Business segment, amusement center operators' scope for capital investment is decreasing. Consequently, there is a need for products and business models that lessen the burden on amusement center operators.

Reliance on Major Titles

SEGA's major high-value-added products, such as trading card games and medal games, boast significant brand appeal. However, in years when it does not launch major new titles, because of the development cycle stage, earnings can fluctuate significantly.

STRATEGIES

Viewing invigoration of the amusement center industry as a priority strategy, we are introducing systems that lower amusement center operators' capital investment burden, such as revenue-sharing business models, and business models that extend the player base, including our trial introduction of free-to-play (F2P) business models. Moreover, we will rigorously control our product lineup over the medium term to curb earnings fluctuations resulting from the presence or absence of major new titles.

Amusement Center Operations

Growth Opportunities

Overseas Demand for Expertise in Amusement Center Development and Operation

Overseas, primarily in emerging countries, there is latent demand for amusement centers. In particular, business opportunities promise to increase for SEGA, which has earned a strong reputation overseas for brand power and expertise in creating entertainment spaces.

Risks

Slumping Earnings from Existing Amusement Centers Due to Decrease in Players

Amid lackluster consumer spending and an aging society, the number of players, particularly core players, is declining, which is causing sales of existing amusement centers to slump.

STRATEGIES

For existing amusement centers, the Group will strengthen profitability by continuing to implement a scrap-and-build strategy while boosting amusement centers' operational capabilities. Meanwhile, we will earn endorsement from a broader spectrum of generations by opening facilities that overturn the conventional amusement center concept, such as nature simulation museums, amusement centers in shopping centers, and amusement centers integrated with other business formats.

Consumer Business

Growth Opportunities

Expansion of the Digital Game Content Market and Changes in Demand

In the expanding market for game content for smartphones and mobile phones, advancing terminal capabilities are steadily paving the way for rich-content games to spread.

Emergence of New Home Video Game Consoles

A range of new home video game consoles scheduled for release from this winter is likely to boost the packaged game software market.

Risks

Shrinking of the Packaged Game Software Market

In the traditional packaged game software market, development costs remain high, while the market continues to contract as the digital game content market expands. At the same time, demand bias toward certain major titles has become marked.

STRATEGIES

The shift toward demand for rich content in the digital game content market could become a tailwind for SEGA, which has accumulated competitive intellectual properties and development resources over many years. SEGA Networks will lead the Group's efforts to achieve differentiation and establish a strong market position by marketing game content with high-resolution graphics and engrossingly multilayered gameplay. As for packaged game software, we will analyze return on investment and narrow down the number of titles. In conjunction with these measures, we intend to increase earnings opportunities by providing value-added environments that give games a social aspect or enable a game to be played across multiple platforms.

Long-Term Upside Potential and Downside Risk

Upside Potential

Casino Business

In Japan, the debate about legalization of integrated resorts including casinos has become lively. In the near future, we hope to see the establishment of a basic framework for the casino business, which could become an opportunity for long-term growth for us.

STRATEGIES

Viewing the possible legalization of integrated resorts including casinos in Japan as a long-term business opportunity, the Group will develop integrated resorts and resort complexes as new businesses and thereby generate steady earnings and accumulate operational know-how. Please see "Casinos and the SEGA SAMMY Group" in Special Feature 1 on page 46.

Downside Risk

Earnings Structure Reliant on the Pachislot and Pachinko Machine Business

The Group has an earnings structure that relies on the Pachislot and Pachinko Machine Business segment for the majority of operating income. Because the Pachislot and Pachinko Machine Business segment's market is limited to Japan, the scope for long-term earnings growth could be limited and business results could remain highly volatile if the Group's earnings structure does not change.

STRATEGIES

While increasing the Pachislot and Pachinko Machine Business segment's market share and earnings, we aim to build an earnings structure that is not overly reliant on this business segment. To this end, medium-term plans call for expanding the earnings foundations of other businesses, including the digital game content business and integrated resorts.

Transforming Entertainment Value into Social Value

The SEGA SAMMY Group's Basic Approach to CSR

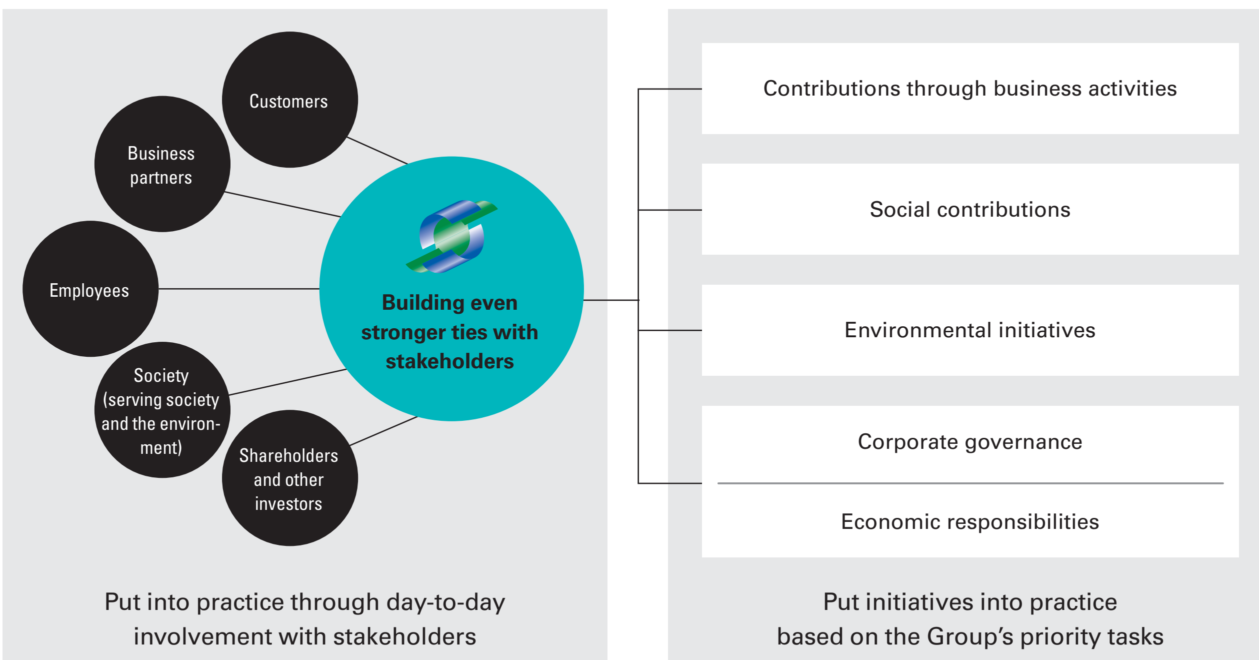
"By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture." Adhering to this Group Management Philosophy, the SEGA SAMMY Group pursues corporate social responsibility (CSR) initiatives that it is uniquely qualified to realize. These initiatives meet our responsibilities, thereby responding sincerely to society's various requirements and expectations and building even stronger ties with stakeholders. We categorize initiatives under four priority tasks: contributions through business activities, social contributions, environmental initiatives, and corporate governance and economic responsibilities.

We will advance business activities with the aim of remaining a company society views as trustworthy and promising growth.

The SEGA SAMMY Group's CSR Initiatives and Stakeholder Engagement

By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture.

CSR activities: Putting our Management Philosophy into practice on an everyday basis



Realize mutual sustainability between the Group and society

Group CSR Charter: As a responsible corporate citizen, we will comply with all relevant laws, regulations, and social norms and further deepen the relationship with our stakeholders. Through these efforts, we believe we can provide sound management of our Group and fulfill our responsibilities to society.

For a comprehensive report on the Group's initiatives based on *Sustainability Reporting Guidelines 2006* of the Global Reporting Initiative (GRI) and *Guidance on Social Responsibility* of ISO 26000, please see *SEGA SAMMY Group CSR Report 2013*.

SEGA SAMMY Group CSR Report 2013

➔ http://www.segasammy.co.jp/english/pr/commu/csr_report.html

FUTURE

Special Feature 1

Casinos and the SEGA SAMMY Group

Incheon is South Korea's gateway to the skies. In the International Business Center area next to Incheon International Airport, the SEGA SAMMY Group is advancing a joint venture with the Paradise Group. This is a strategic initiative aimed at seizing the major business opportunity that casinos promise to become in Japan.

A rendering of the completed facilities, which PARADISE SEGASAMMY Co., Ltd., is currently developing

Casinos Attract Attention Worldwide as a Growth Business

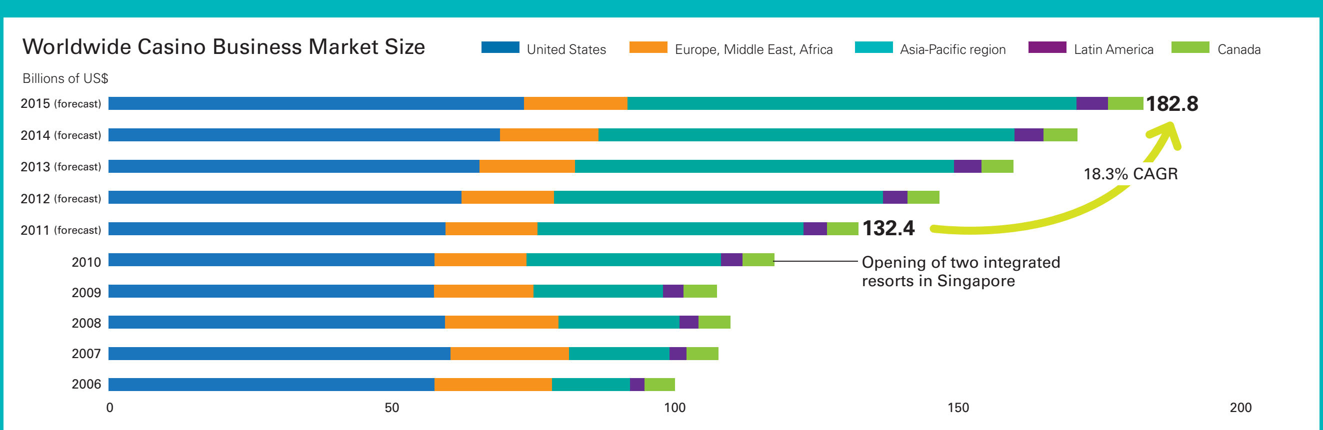
Currently, there are casinos in more than 120 countries. In all G8 countries except Japan casinos are legal. As of 2010, the casino business worldwide was estimated to be worth approximately US$117.6 billion. By 2015, this is projected to grow to US$182.8 billion. The largest market is Las Vegas, with the United States accounting for roughly half of the world's market, or US$57.5 billion. Meanwhile, the Asia-Pacific region has been increasing its presence rapidly in recent years. Fueled by the conspicuous economic growth in China and other parts of Asia, the value of this market has jumped from US$13.7 billion in 2006 to US$34.3 billion in 2010. In particular, 2010 saw the Asia-Pacific region's market grow a steep 49.7% from the previous year. Leading this growth was the world-class casino hub Macau, which posted a phenomenal year-on-year increase of 57.8% in 2010. Furthermore, after granting licenses in 2006, Singapore unveiled two integrated resorts including casinos in 2010. With these markets as drivers, the Asia-Pacific region is expected to overtake the United States to become the world's largest market in 2013. Also, between 2011 and 2015 the region's market size is expected to increase to 2.3 times its size in 2010, realizing a CAGR* of 18.3%.

Interest in the casino business in rising worldwide due to the major economic benefits it brings. Good examples of such positive effects are Macau and Singapore, where the casino business is generating wide-ranging economic benefits. For Macau and Singapore, the largest positive effect has been an increase in tourism revenues. Visitors to Singapore from overseas surged from approximately 9.68 million in 2009, before its integrated resorts opened, to roughly 11.60 million in 2010, after they opened. As a result, international tourism revenues were up 49.2%, and nominal GDP rose 1.7% year on year. Other positives for Singapore included the economic benefits of construction investment before the integrated resorts opened; the creation of approximately 60,000 new jobs once they opened, including jobs created indirectly; and higher tax revenues.

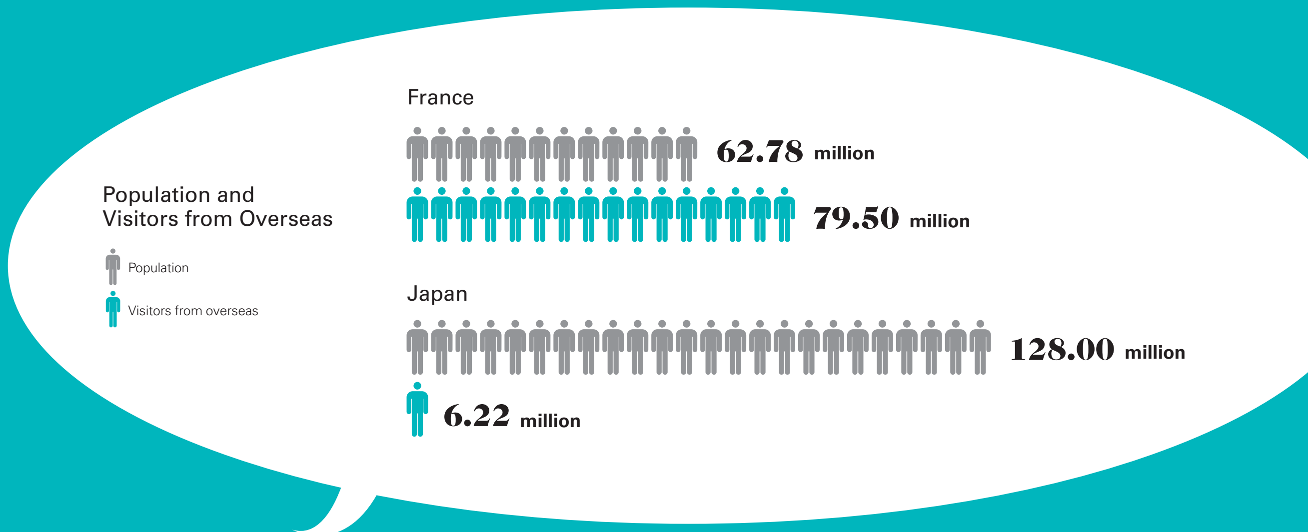
Regions that pioneered the legalization of casinos, such as Las Vegas, have used abundant expertise in casinos to curb their potentially negative social effects while maximizing their economic benefits. Such successful examples are spurring more countries worldwide to consider the casino business as a possibility. One country weighing its options is Japan.

Sources: Casino market size figures are from PricewaterhouseCoopers LLP and Wilkofsky Gruen Associates.
Singapore's overseas visitor numbers and tourism revenues are from the Singapore Tourism Board.

* Compound Annual Growth Rate



Note: Forward-looking statements in this section about the procedure or schedule of legal deliberations in relation to integrated resorts including casinos and other forward-looking statements are based on information currently available to the Group. The Group does not guarantee that such statements are accurate or that events will transpire in accordance with such statements. Therefore, placing undue reliance on this information is not advised.



Japan Aims to Become a Tourist Destination

Given the growing concern about the effects of Japan's aging population, the significant potential of the tourism industry as an economic driver is attracting attention in the country. Launched in 2003, a promotional campaign to encourage visitors from overseas, the Visit Japan Campaign, has proven successful. Visitors from South Korea, China, and other parts of Asia have increased substantially, with annual visitors from overseas rising around 60%, from approximately 5.20 million in 2003 to 8.36 million in 2012. On the other hand, looking at the numbers of tourists from overseas as a percentage of population, France is the leading tourist destination, with visitor numbers that are 1.2 times its population. In Japan, tourist numbers represent a mere 5% of its population. This is only one-ninth of the level in China, which is Asia's leading tourist destination by this measure. As an effective way of unlocking the burgeoning potential of Japan's tourism industry that these figures highlight, casinos are becoming a focus of attention.

Without recourse to public funds, private-sector investment can establish casinos as a new tourism resource. Over the past decade, this has encouraged discussion on the possibility of lifting Japan's ban on casinos, which has focused on such related topics as higher international tourism revenues, the invigoration of regional industries, employment creation, stronger international competitiveness, and improved public finances as a result of increased tax revenues.

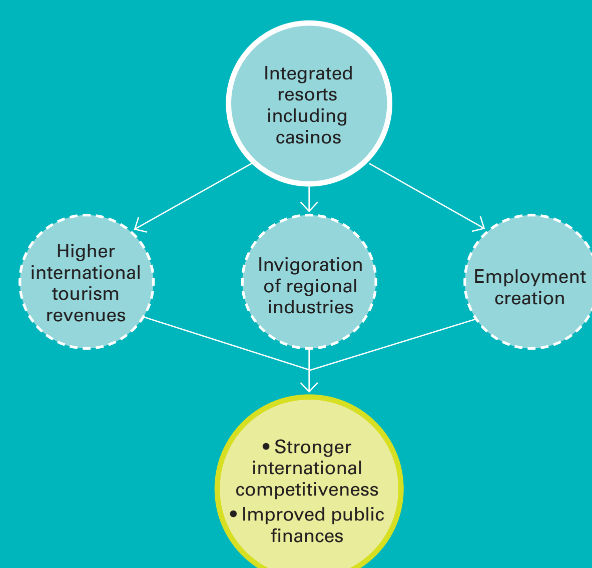
Sources: Figures for visitors to Japan from overseas are from the Japan National Tourism Organization and other figures for visitors from overseas are from the United Nations World Tourism Organization (2011).

Developments in Japan to Date

In Japan, the debate about casinos began in 2001, with the basic concepts taking shape in 2004. Furthermore, the 2006 announcement of a basic policy for the introduction of casino entertainment to Japan established an overall organizational framework for casinos. Subsequently, 2010 saw the establishment of a nonpartisan Diet federation for the invigoration of the international tourism industry (the Diet federation for integrated resorts, also known as the Diet federation for casinos), which began deliberations in relation to the framework in earnest. In July 2011, the federation prepared an outline bill and reached a basic agreement on the principles forming the bill's framework. This bill envisions the establishment not only of casinos but also of integrated resorts that include convention facilities, accommodation facilities, and a range of leisure facilities. Furthermore, the federation agreed to define such facilities as designated integrated tourist resorts and the areas including them as designated integrated tourism resort areas.

In August 2011, the federation reached a consensus on proceeding with deliberations in two stages. The first stage will seek enactment of a bill for the promotion of designated integrated tourism resort areas (the integrated resort promotion act), while the second stage will seek the enactment of a bill for the enforcement of designated integrated tourism resort areas (the integrated resort enforcement act). The former will define basic concepts, while the enactment of the latter will enable the operation of casinos.

Anticipated Economic Ripple Effects



FUTURE

Special Feature 1 **Casinos and the SEGA SAMMY Group**


Phoenix Resort

- **2001** — **Debate on legalization of casinos begins**
- **2004** — **Basic concepts take shape**
- **2006** — **Basic framework is established**
- **2010** — **Nonpartisan Diet federation for integrated resorts is launched**
- **2011** — **Consensus on act's framework is reached**
- **2012** — **February 2012** Phoenix Resort becomes subsidiary
- **May 2012** Group establishes PARADISE SEGASAMMY as joint venture with the Paradise Group

Deliberations in Japan to date and schedule going forward

SEGA SAMMY Group's initiatives

SEGA SAMMY Group Announces Intention to Become a Market Player

Viewing the management of integrated resorts including casinos as a new earnings opportunity, the SEGA SAMMY Group announced its intention to participate in this business area. If integrated resorts become a reality in Japan, a range of industries are likely to benefit. At the development phase, integrated resorts will provide real estate developers and casino machine manufacturers with business opportunities. Furthermore, the commencement of casino operations will enable casino operators to acquire earnings over the long term.

An industry pioneer, the SEGA SAMMY Group began amusement center operations in 1965. During the intervening half a century, we have driven the industry's development and accumulated expertise. Also, we have honed our development capabilities for pachislot and pachinko machines and amusement arcade machines. This makes us one of the few corporate groups qualified to participate in the casino business in the areas of machine development and supply and casino operations. However, the casino business calls for a variety of know-how that our existing businesses do not have, such as expertise in attracting good customers on a regular basis. In addition, the scale of investments required is expected to be considerable. With this in mind, our basic approach is to form partnerships with casino operators who have track records overseas and thereby mitigate investment risk, acquire know-how, and enable the mutual use of management resources.

Anticipated Business Opportunities for Private-Sector Companies

Development phase	**Operational phase**
Real estate developers, casino machine manufacturers, peripheral equipment manufacturers	Operators of casinos, hotels, and commercial facilities, system maintenance companies, security companies

SEGA SAMMY Group Has Capabilities to Engage in Both Phases

• Know-how accumulated through experience operating amusement centers • Development capabilities fostered through pachislot and pachinko machine and amusement arcade machines • Experience accumulated in relation to integrated resorts including casinos, mainly based on know-how acquired from Phoenix Resort and casino operations in South Korea

Foundations Laid So Far

The SEGA SAMMY Group has been steadily preparing for a foray into the casino business. One such preparatory initiative was our acquisition of all shares of Phoenix Resort Co., Ltd., in February 2012. Managing one of Japan's foremost resort facilities, *Phoenix Seagaia Resort*, which comprises hotels, spas, golf courses, restaurants, and international conference facilities, is giving us valuable expertise in the management of large-scale integrated resorts.

Also, we have begun garnering casino management expertise in South Korea through a partnership with a major local company. In May 2012, with the Paradise Group we established a joint venture, PARADISE SEGASAMMY Co., Ltd., tasked with planning, developing, and managing an integrated resort including a casino in the International Business Center area next to Incheon International Airport.

The Paradise Group is a tourism services conglomerate that operates casinos and manages hotels and spas in South Korea, primarily through Paradise Co., Ltd. The group has a major presence in the country as a pioneer in the casino industry and has accumulated extensive related know-how. Holding a 45% stake in PARADISE SEGASAMMY, we will actively participate in management and dispatch directors and employees to the company. Furthermore, PARADISE SEGASAMMY acquired

Centum City

January 2013
Group participates in Centum City development project

July 2013
PARADISE SEGASAMMY acquires Paradise Casino Incheon

Integrated resort including casino in the International Business Center area and resort complex in *Centum City* scheduled to begin operations

2013 | 2014 | 2015 | 2016 | 2020

If integrated resort promotion act is enacted

Designated integrated tourism resort areas development advancement headquarters is established

Hearing of stakeholders' opinions is conducted and bill and statutes are drafted

Integrated resort enforcement act is submitted to the Diet

Within two years
Integrated resort enforcement act is passed

Designated integrated tourism resort areas are established

Companies are selected

a casino, Paradise Casino Incheon, that the Paradise Group already operates in the International Business Center area next to Incheon International Airport in July 2013. Through this acquisition, we plan to gain expertise and experience in casino management. At the same time, we intend to use the license of Paradise Casino Incheon in the International Business Center area to expand the facility.

In another South Korean project, we are getting ready to participate in the development of *Centum City*, which is a multi-project urban development area in Busan that will incorporate leading-edge functions in relation to information, communications, video, entertainment, and international business. Plans call for newly established SEGA SAMMY BUSAN INC. to invest approximately ¥35 billion to develop a resort complex comprising a hotel, entertainment facilities, and commercial facilities, which the company will operate.

Directly connected to Centum City subway station, the land we have acquired boasts outstanding access. Furthermore, as an extremely prestigious location with a concentration of commercial facilities—including the world's largest department store—the area has strong customer drawing power. To curb risk, we intend to commission partners who are experts in hotel management. At the same time, we will exploit SEGA's know-how in amusement center operations to generate stable earnings while acquiring expertise in the development and management of resort complexes.

Schedule Going Forward

In 2013, deliberations on legislation for integrated resorts have become more concrete. The basic act, the integrated resort promotion act, may be submitted to an extraordinary Diet session as early as fall 2013. Assuming the bill is enacted at this time, the subsequent schedule will be as follows.

Within three months of the promulgation of the integrated resort promotion act, detailed deliberations will begin on the integrated resort enforcement act. The integrated resort promotion act stipulates that the integrated resort enforcement act must be prepared within two years. Therefore, it is expected that, after obtaining the opinions of experts and the understanding of the public and drafting the act and its statutes, the enactment of the integrated resort enforcement act will take two years at the most. Once enacted, this act will stipulate the administrative framework for the casino industry, and procedures will begin in earnest to realize the framework. Accordingly, the next stage will entail the establishment of regulatory bodies that will prepare for the selection of private-sector companies and supervise the actual operations of casinos. After this, applications from local public bodies wishing to attract integrated resorts will be examined, and designated integrated tourism resort areas will be stipulated. Based on public offerings, local public bodies receiving designation will select private-sector companies to plan, fund, develop, and operate designated integrated tourist resorts and conclude development agreements with them. Selected private-sector companies will then apply to the national regulatory body for licenses while proceeding with development in earnest. If these processes advance smoothly, actual casino operations could begin around 2020. This careful, scrupulous procedure reflects a desire to develop casinos as an industry based on strict supervision that ensures soundness and safety.

Because waiting for the enactment of the integrated resort enforcement act would not leave sufficient time for local communities to build consensus or for companies to prepare commercial operations, local public bodies wishing to attract casinos and private-sector companies from Japan and overseas aiming to participate in the casino business are likely to have already begun concrete preparations by the time the integrated resort enforcement act is enacted. Around 2016, practical discussions on integrated resorts will probably have advanced. By this time—coinciding with legislative progress—PARADISE SEGASAMMY's integrated resort in the International Business Center area and SEGA SAMMY BUSAN's resort complex in *Centum City*, mentioned earlier, are likely to have opened for business. Thus, through far-sighted initiatives, the SEGA SAMMY Group intends to continue steadily and proactively preparing for the future.

Special Feature 2

Delivering Quality Games to Even More Customers

SEGA Networks: Aiming to Set the Pace

In the digital game content market, where fierce competition transcends industry boundaries, SEGA Networks is rapidly heightening its presence and steadily establishing itself as a trailblazer. Here, Minoru Iwaki, VP & Corporate Officer Business Division, explains the drivers of this rapid progress and strategies going forward.

MINORU IWAKI
VP & Corporate Officer
Business Division
SEGA Networks Co., Ltd.

Reaping the Fruit of a Consistent Strategy

Track Record between May and August 2013

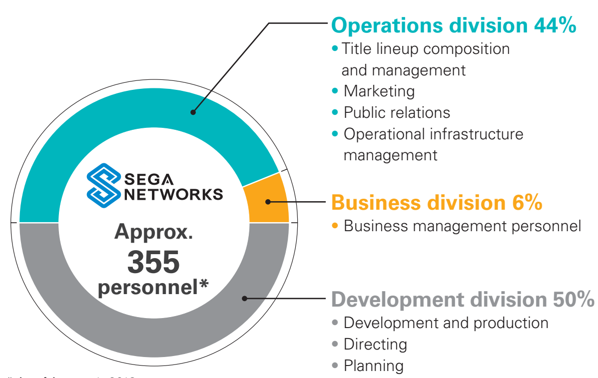
iOS versions of 12 titles ranked in top 50

Android™ versions of 9 titles ranked in top 50

Approximately 65% of games ranked in top 50

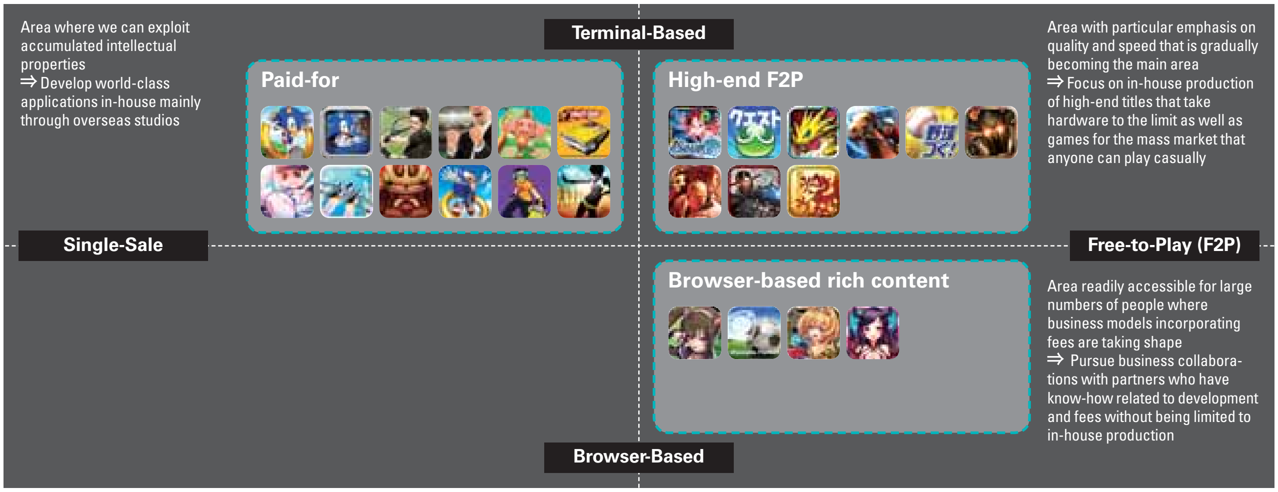
After we began distributing a version of *Puyopuyo!! Quest* for Apple's mobile operating system (iOS) in April 2013, player numbers increased at an amazing speed. In just 10 days, the video game reached one million downloads and claimed the No. 1 ranking among all free applications. Subsequently, the pace did not slacken. The combined total for iOS and Android™ versions broke the three-million-downloads barrier in July. And this is only one example. Since May, we have continually had at least 10 titles in the iOS market's top 50, making us one of the industry's best-performing companies. Moreover, our portfolio of high-ranking titles is expanding. In the Android™ market, which we entered in earnest in April, we had nine titles in the top 50 as of the end of August. We have heightened our presence so rapidly—it has been just a year since our establishment—because we have unswervingly adhered to a basic management strategy of delivering quality games to even more customers.

Team of Specialists Responsible for Preparing Strategies and Monetization



* As of August 1, 2013

Portfolio of Titles



Combining SEGA's Development Prowess and a Team of Specialists

SEGA has more than 1,000 development personnel who have garnered experience by working in the amusement machine sales business or the home video game software business. Furthermore, during its long history the company has honed an extensive lineup of intellectual properties spanning a diverse range of genres. Adding to these assets, decision-making speed and practical abilities that venture companies cannot match will fully equip us to build competitive superiority. With this in mind, SEGA established SEGA Networks in July 2012. The new company features a greatly streamlined decision-making process whereby its Board of Directors reaches conclusions without consulting with the parent company. Moreover, SEGA has delegated a significant amount of authority to the CEO of SEGA Networks. Also, the new company has a distinctive organizational structure. Of its 355 employees, approximately half belong to the development division. The remainder are engaged in non-development operations and business divisions, which are responsible for title lineup composition and management, marketing, public relations, and operational infrastructure management. Moreover, the operations and business division are comprised entirely of specialists with extensive experience in a variety of industries, who efficiently market content that the development division has created. This organizational collaboration is driving SEGA Networks forward rapidly.

Realizing a Competitive Edge through a Balanced, Quality Portfolio

The digital game content market has grown more than tenfold in the past three years. Promising to sustain vigorous growth in the current fiscal year, this market continues to develop in two directions: Internet applications, which browsers process, and native applications, which terminals process. The outcome of these two trends is difficult to predict, even in the near term. Furthermore, player preferences are diversifying across a broad range of content that includes not only puzzle games and card battle games but also upmarket game content with high-resolution graphics comparable to those of dedicated game machines. In such market conditions, relying on limited contents increases risk.

Our operations division's specialists in title lineup composition, promotion, and research work in unison to hammer out the flexible development strategies that will bring SEGA's abundant development capabilities and intellectual properties to market most efficiently. Then, adhering to its basic management strategy, SEGA Networks provides quality content for a broad range of genres in a well-balanced manner. We believe this collaborative process gives us a competitive advantage in a volatile market.

For example, we mainly produce single-sale applications and F2P native applications, such as card games and puzzle games, in-house because this enables us to make effective use of development resources by optimizing SEGA's existing major intellectual properties for smart devices. Furthermore, we are advancing organic collaboration with SEGA. SEGA's home video game software development division played a central role in our development of *Puyopuyo!! Quest*, and we could not have developed *CHAIN CHRONICLE* without the collaboration of our parent company's amusement arcade machine development division.

Based on business collaborations with partners who have extensive know-how and with venture companies able to expedite development, we are realizing timely marketing of Internet applications that reflect the latest trends and include social game elements, such as ease of play and ready accessibility for large numbers of people. As well as jointly developing *The Clan Battle of Fate* with Pokelabo, Inc., we exploited one of SEGA's intellectual properties, through subsidiary f4samurai, Inc., to launch *BORDER BREAK Mobile: Gun Front Hurricane*. We are also advancing collaborations with a broad variety of other companies, such as Aiming Inc. and CrossGames Inc.

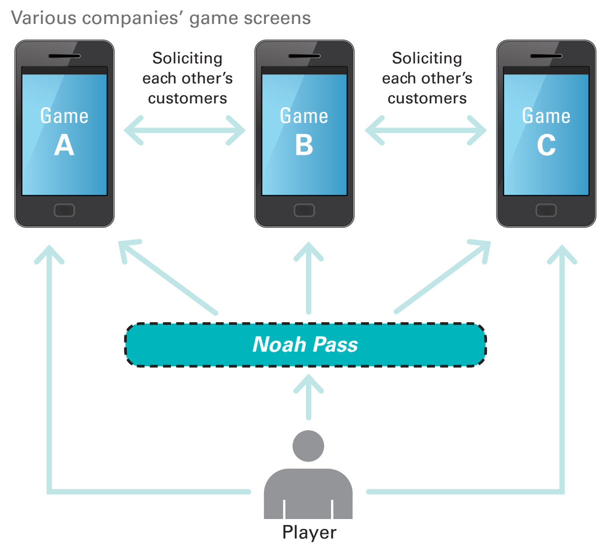
As the *Kingdom Conquest* series proves, we can leverage SEGA's development resources to achieve differentiation among titles that feature high-resolution graphics and complex, multilayered worlds. Because development requires significant investment and a certain amount of time, we are looking several steps ahead of the current market as we create quality video games in-house. Beginning distribution in February 2013, *Demon Tribe* capitalizes on the advantages of native applications to push the envelope of game content for smart devices. It epitomizes the ceaseless pioneering of innovative products that characterizes SEGA's corporate culture.

Establishing a New Mutual Introduction System

Since its establishment, SEGA Networks has been exploring the creation of a system that will give even more players access to its quality content. The idea took concrete shape when we began offering the *Noah Pass* system to partner and nonpartner companies in August 2013. This completely new system for the mutual introduction of players is entirely in keeping with our basic management strategy. We expect it will win acceptance among game content development companies because corporate participation is free, there are no strategic restrictions, and it enables companies to advertise and promote products efficiently at a time when development expenses are rising. Already, the system has 25 corporate participants and more than 20 million registered users. By the end of the year, we expect to have around 30 corporate participants and 40 million registered users.

Moreover, this system could provide the opportunity to increase user numbers at a stroke not only to game content development companies but also companies in peripheral business areas, such as media web sites, online communities, game-strategy web sites, video web sites, and Internet portals. By providing a value-added service that benefits all participating companies, we want to increase the economic scale of the system. And, plans call for monetizing the system in the near future.

Noah Pass System

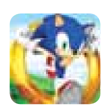


Stepping Up Overseas Forays

Because it enables us to create synergies between the amusement machine sales business and home video game software business, Japan will remain our most important market. Nevertheless, we intend to increase our presence in South Korea, North America, Europe, and other overseas markets proactively. In North America and Europe, our player base is already expanding steadily. For example, iOS versions of the *Sonic* series—including *Sonic Dash, Sonic Jump*, and *Sonic & Sega All-Stars Racing*—have surpassed 48 million downloads on a cumulative basis. Going forward, our team of specialists will continue adopting optimal strategies in light of thoroughgoing research on each market with regard to playing, communication, and fee environments. A strategic title for the iOS slated for release in the fall is our inaugural motion control title, *GO DANCE*, which will mainly target overseas markets. Furthermore, we plan to roll out the *Noah Pass* system overseas during the current fiscal year.

Establishing Track Record in North America and Europe

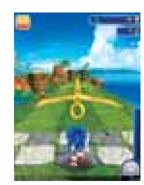
Track record to date (main titles)

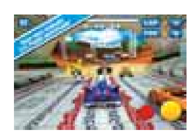


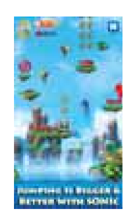
Sonic Dash
Genre: 3D infinite run
-Outstanding quality
-More than 22.6 million downloads

Sonic & Sega All-Stars Racing
Genre: Racing
-More than 16.7 million downloads
-Ranked in top 10 of 87 stores worldwide

Sonic Jump
Genre: Jump Action
-Surpassed 8.8 million downloads five months after launch







Breaking Away from the Pack

The digital game content market is on the cusp of a new evolutionary stage as terminals become ever more sophisticated and communications infrastructure become even faster. However, no matter how competitive conditions change, our commitment to delivering quality games to even more customers will remain unshakeable. By combining SEGA's development capabilities and our team of specialists, we will respond swiftly to changes in market conditions and win out against competition.

Operations

Operational Review

Pachislot and Pachinko Machine Business

Basic Information

Accounting for approximately 44% of net sales, the Pachislot and Pachinko Machine Business segment is the Group's growth driver. As well as having led the pachislot machine market for many years, Sammy Corporation has been steadily strengthening its brand in the pachinko machine market by increasing product appeal. The business segment is further heightening competitiveness by advancing a multibrand strategy founded on Sammy, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION; bolstering development capabilities; and restructuring costs continuously.

MAIN OPERATING COMPANIES

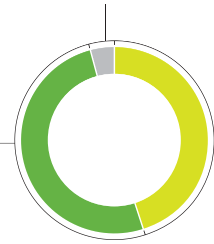
- Sammy Corporation
- TAIYO ELEC Co., Ltd.
- RODEO Co., Ltd.
- GINZA CORPORATION

NET SALES BREAKDOWN

¥142.2 billion

44.3%

Other
4.0% ¥5.7 billion



Pachinko Machine Business
50.8% ¥72.3 billion

Pachislot Machine Business
45.2% ¥64.2 billion

FISCAL 2013 BUSINESS RESULTS SUMMARY

Net sales
¥142.2 billion | **32.9%**

Operating income
¥23.5 billion | **66.9%**

Pachislot machine unit sales
202 thousand units | **32.8%**

Pachinko machine unit sales
216 thousand units | **34.7%**

STRENGTHS

- Robust development system underpins product appeal
- Large share of the pachislot machine market
- Multibrand strategy based on four Group companies
- High production capacity realized through operation of new plant

WEAKNESSES

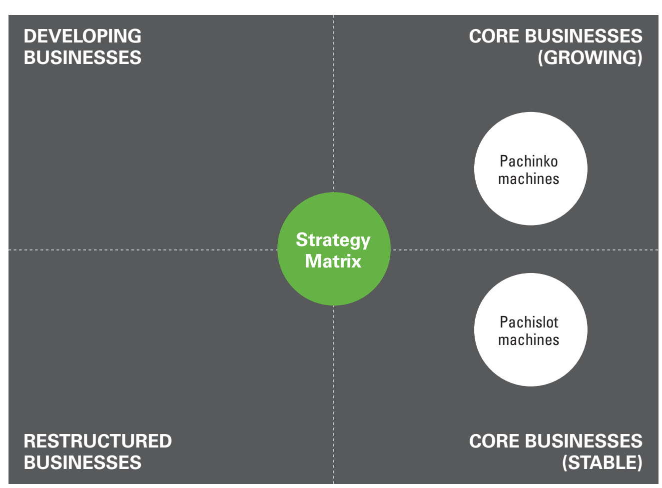
- Variability of earnings due to regulatory changes
- Business development restricted to Japan

OPPORTUNITIES

- Scope for growth in pachinko machine market
- Scope for expanding player base by diversifying gameplay

THREATS

- Decline in player numbers
- Challenging financial positions of pachinko hall operators



Executive Summary

- Pachislot machine unit sales decreased 32.8% year on year due to the postponement of several title launches.
- Pachinko machine unit sales declined 34.7% year on year, reflecting the market's bias toward major titles.
- Operating income was down 66.9% year on year as a result of lower unit sales.
- A new plant and distribution center started up operations.
- In 2014, the business segment is targeting unit sales increases of 136.4% for pachislot machines and 49.6% for pachinko machines.

For trends in related markets, please see "Market Conditions for Each Business" in the **A to Z** section.

Fiscal 2013 Overview

In fiscal 2013, ended March 31, 2013, the business segment recorded a 32.9% year-on-year decrease in net sales, to ¥142.2 billion. In the pachislot machine business, net sales were down 38.4% year on year, to ¥64.2 billion, while in the pachinko machine business net sales declined 29.0% year on year, to ¥72.3 billion. The business segment's operating income decreased 66.9% year on year, to ¥23.5 billion. Due to lower unit sales, higher R&D expenses accompanying efforts to strengthen product appeal, and the absence of the previous fiscal year's benefits from component reuse, the operating margin was down 17.0 percentage points year on year, to 16.5%.

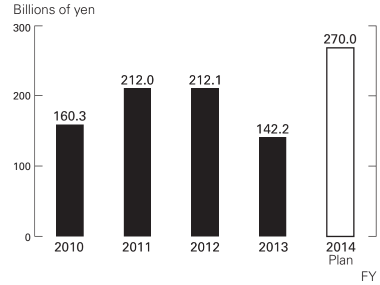
The pachislot machine business postponed the launches of several titles, including mainstay title *Pachislot Hokuto No Ken Chapter of Resurrection*. As a result, the business only launched 8 titles, compared with 11 titles in the previous fiscal year, and unit sales decreased 98,000 units from the previous fiscal year to 202,000 units. Meanwhile, the titles launched sold steadily overall. These included *Pachislot CODE GEASS Lelouch of the Rebellion* under the Sammy brand and *Pachislot Shin-Onimusha Sairin* and *Pachislot Monster Hunter* under the RODEO brand.

As in the previous fiscal year, the pachinko machine business marketed 14 titles. Under the Sammy brand, mainstay title *Pachinko CR Hokuto No Ken 5 Hasha* sold briskly, shipping 120,000 units. On the other hand, second-tier titles struggled amid bias in demand from pachinko hall operators, which favored certain major titles. Consequently, pachinko machine sales declined 115,000 units, to 216,000 units. Reflecting the rollout of new-model pachinko frames, the business saw pachinko board sales as a percentage of net sales decline from the previous fiscal year's 52.4% to 26.2%.

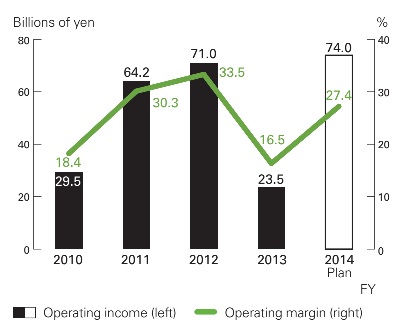
Pachislot Shin-Onimusha Sairin

Pachislot CODE GEASS Lelouch of the Rebellion

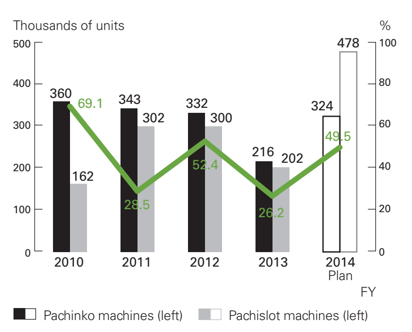
Net Sales



Operating Income / Operating Margin



Pachislot and Pachinko Machine Unit Sales



Growth Strategies

The business segment's basic strategies are to maintain and extend the leading market share in the pachislot machine market and to aim for the No. 1 share of the pachinko machine market over the medium term. To these ends, we will invest in R&D proactively to strengthen the competitiveness of products even further. From a medium-to-long-term perspective, we intend to address the market's dwindling player population by focusing efforts on fostering new player groups through the development of a more varied product lineup that caters to the preferences of a broader range of age groups.

Furthermore, this business segment meets diverse market demand through its multibrand strategy. The Group intends to strengthen the brand power of all subsidiaries in the business segment by bolstering development capabilities through exchanges among development personnel and the exploitation and combination of the Group's major intellectual properties. In addition, using Sammy's new plant, which started up operations in September 2012, as a core base, we will increase common components, joint purchasing, and core components reuse to intensify collaboration and thereby strengthen the Group's overall cost competitiveness.

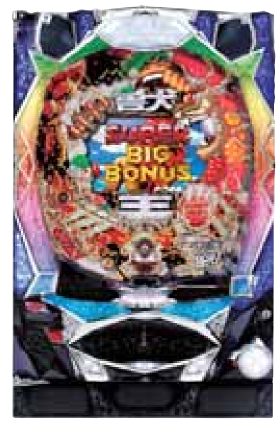
Fiscal 2014 Outlook

In fiscal 2014, ending March 31, 2014, against a backdrop of restrained investment among pachinko hall operators, steady conditions in the pachislot machine market, sluggish demand for pachinko machines, and a demand bias toward popular machines are likely to continue.

In these conditions, the Pachislot and Pachinko Machine Business segment aims to grow net sales 89.9% year on year, to ¥270.0 billion. The pachislot machine business and the pachinko machine business both plan to reach their targets by marketing major titles to boost unit sales significantly.

The pachislot machine business is targeting a 136.4% year-on-year increase in sales, to 478,000 units. By bringing 11 titles to market during the current fiscal year, including *Hokuto No Ken* and several other major titles, the pachislot machine business aims to regain and extend its No. 1 market share. Assuming annual sales in the pachislot machine market as a whole of roughly 1,300,000 units—the same level as in the fiscal year under review—meeting this target will give the business a market share of approximately 37%.

Pachinko CR Hokuto No Ken 5 Hasha



Pachinko CR Shin-Juoh

INSIGHT Lightning-Fast Production and Supply that Captures Sales Opportunities Reliably

Shipments peak in the initial period after launching pachislot and pachinko machines. For example, we receive more than 90% of orders for pachinko machines in our flagship *Pachinko CR Hokuto No Ken* series in the first week after launch. To avoid sales opportunity loss, having a production and distribution system able to cater to such intensive short-term demand is indispensable. Therefore, the Group has built a production system with one of the industry's largest production capacities. Its new plant, which began operations in September 2012, and the old plant, which remains operational, have a combined daily production capacity of 7,900 pachislot machines and 9,800 pachinko machines. Moreover, on the lot adjacent to the new plant we have built a distribution center, which consolidates distribution centers previously in various locations. By simplifying production processes to shorten lead times, we have established a lightning-fast production and distribution system that is able to meet intensive short-term demand rapidly.

During fiscal 2014, the pachinko machine business plans to release 12 titles, 2 fewer than in the fiscal year under review but including several major titles, and ship 324,000 units, up 107,000 units from the fiscal year under review. If the market as a whole remains at the fiscal year under review's level of 2,500,000 units, achieving this target will result in the business accounting for approximately 13% of the market.

As for earnings, we anticipate year-on-year increases of 214.9% in operating income, to ¥74.0 billion, and 10.9 percentage points in the operating margin, to 27.4%, because unit sales growth and an increase in sales of high-margin pachinko boards as a percentage of net sales in the pachinko machine business from the fiscal year under review's 26.2% to 49.5% are likely to counteract a rise in R&D expenses.

Pachislot Hokuto No Ken Chapter of Resurrection
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CR Kayou Suspense Gekijou
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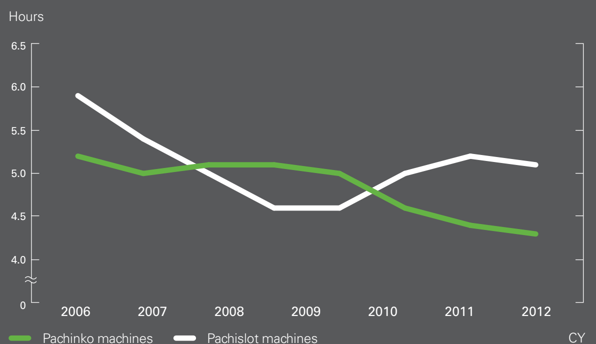
INSIGHT

Cyclical Demand Fluctuations in the Pachinko and Pachislot Machine Market and the Portfolio of the Pachislot and Pachinko Machine Business Segment

As a result of revision of regulations pertaining to the Entertainment Establishments Control Law, the revision of industry bodies' internal regulations, and the evolution of players' preferences, the pachinko and pachislot machine market has seen sales of pachinko and pachislot machines alternate between peaks and troughs. Moreover, this cycle has accelerated since the 2004 regulatory revision. As utilization times* show, since regulatory revision players' preferences have tended to shift significantly over short periods. Facing challenging financial positions, pachinko hall operators have shown an increasing tendency to focus investment on pachinko and pachislot machines that promise reliable returns on the limited capital they have available for investment. Investing in step with demand fluctuation has accelerated the above-mentioned cycle and increased the difference between peaks and troughs.

In fiscal 2009, Sammy transferred to a new development system and heightened the product appeal of its pachinko machines, a market offering significant scope for the company to increase its market share. As a result, Sammy's reputation has risen steadily in the pachinko machine market, and the Pachislot and Pachinko Machine Business segment has built a well-balanced portfolio. This has given the business segment an earnings.

Utilization Time



* Number of hours per business day that pachinko or pachislot machines are utilized
Source: Daikoku Denki Co., Ltd., *DK-SIS* data

Pachinko Machine Unit Sales as a Percentage of the Group's Pachislot and Pachinko Machine Unit Sales

SENGOKU-TAISEN
© SEGA

Amusement Machine Sales Business

Basic Information

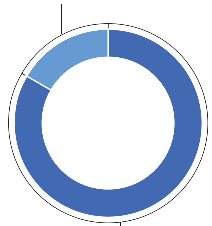
The Amusement Machine Sales Business segment is SEGA's founding business. As an unflagging pioneer, this business segment has leveraged technological prowess and creativity to market a wide range of innovative world-first and industry-first products that have initiated new trends and driven the industry's development. Aiming to invigorate the amusement center industry by extending the player base to include families, the business segment is introducing new business models proactively.

MAIN OPERATING COMPANIES

SEGA CORPORATION

DARTSLIVE Co., Ltd.

NET SALES BREAKDOWN



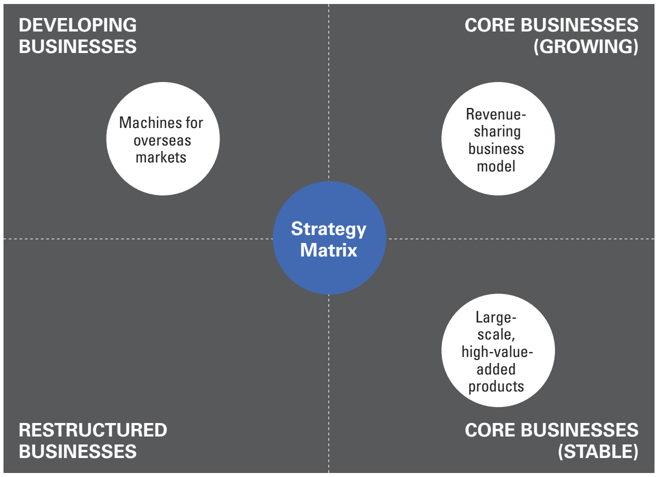
FISCAL 2013 BUSINESS RESULTS SUMMARY

Net sales
¥39.1 billion | 21.6%

Operating income
¥1.9 billion | 74.3%

R&D expenses, content production expenses
¥7.8 billion | 16.1%

STRENGTHS	WEAKNESS
• Very competitive products in the high-end market • Precise identification of market needs through collaboration with Amusement Center Operations segment	• Low profitability of overseas businesses
OPPORTUNITIES	**THREATS**
• Growth potential of overseas markets centered on Asia • Tie-ins with consumer generated media (CGM)	• Challenging financial position of amusement center operators • Risk of lower revenues from revenue-sharing business model due to slumping consumer spending



Executive Summary

- Revenues and earnings were lower due to the absence of major new titles.
- Revenues from revenue-sharing titles were solid.
- In the current fiscal year, plans call for launching several major titles, including *Hokuto No Ken BATTLE MEDAL*.
- We are considering the introduction of a new free-to-play (F2P) business model.

For trends in related markets, please see "Market Conditions for Each Business" in the **A to Z** section.

Fiscal 2013 Overview

In fiscal 2013, due to the stage of the product development cycle, the business segment did not the launch any major new titles. Consequently, net sales declined 21.6% year on year, to ¥39.1 billion. Meanwhile, the business segment recorded steady revenues from titles incorporating the revenue-sharing business model, such as the *BORDER BREAK* series. R&D expenses and content production expenses were down 16.1% year on year, to ¥7.8 billion.

As a result, the business segment saw year-on-year decreases of 74.3% in operating income, to ¥1.9 billion, and 10.0 percentage points in the operating margin, to 4.9%.

Growth Strategies

In this business segment, invigorating the amusement center industry is a priority task because it affects the segment's business results significantly. Accordingly, we are introducing business models based on revenue sharing and CVT kits* that reduce amusement center operators' initial investment burden while helping broaden the player base. At the same time, such business models promise to stabilize the Group's earnings.

Going forward, we intend to explore the introduction of F2P business models with a view to attracting new players.

* Kits for upgrading boards, software, and exteriors

Fiscal 2014 Outlook

In fiscal 2014, the business segment aims to grow net sales 16.4% year on year, to ¥45.5 billion, by marketing several major new titles. R&D expenses and content production expenses are expected to rise 12.8% year on year, to ¥8.8 billion. Operating income is likely to increase 42.1% year on year, to ¥2.7 billion, while the operating margin is projected to improve 1.0 percentage point, to 5.9%.

In the current fiscal year, as well as the major title *Hokuto no Ken BATTLE MEDAL*, we plan to unveil a new revenue-sharing title, *CODE OF JOKER*. Furthermore, with our sights set on extending the player base, under a new F2P business model we will roll out *Puyopuyo!! Quest Arcade*, an amusement arcade machine version of an application for Apple's iOS mobile operating system and Andriod™ that has proven popular.

Hokuto No Ken BATTLE MEDAL
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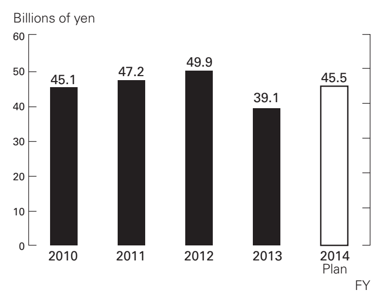
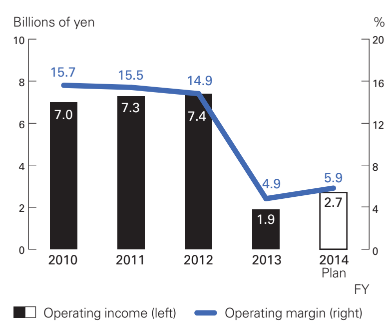
CODE OF JOKER
© SEGA

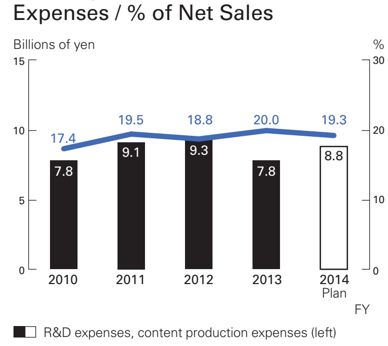
Net Sales



Operating Income / Operating Margin



R&D Expenses, Content Production Expenses / % of Net Sales



TOKYO JOYPOLIS

Amusement Center Operations

Basic Information

Core operating company SEGA CORPORATION is improving its earnings structure by reforming its portfolio of amusement centers and bolstering their operational capabilities. At the same time, in collaboration with the Amusement Machine Sales Business segment, this business segment aims to create entertainment spaces that a wide range of customers can enjoy. To this end, the business segment is developing new-concept, theme park-type amusement centers based such themes as "integrating the real with the digital" and "nature" and taking on challenges in areas beyond the "games" category.

MAIN OPERATING COMPANIES

SEGA CORPORATION

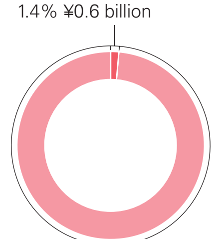
SEGA ENTERTAINMENT Co., Ltd.

OASIS PARK Co., Ltd.

NET SALES BREAKDOWN

¥42.7 billion

13.3%



FISCAL 2013 BUSINESS RESULTS SUMMARY

Net sales

¥42.7 billion | 4.3%

Operating income

¥1.1 billion | 236.3%

Existing domestic amusement center sales year on year

93.8%

STRENGTHS

- Rightsized amusement center portfolio
- Product lineup catering to a broad range of player groups

WEAKNESS

- Low profit margins and capital turnover ratio

OPPORTUNITIES

- Growth potential of overseas markets centered on Asia
- Formation of seniors market
- Expansion into new facilities such as restaurants and sports facilities

THREATS

- Market contraction due to a slump in consumer spending
- Decline in player numbers due to an aging society

Strategy Matrix

DEVELOPING BUSINESSES
New-concept, theme park-type amusement centers

CORE BUSINESSES (GROWING)

RESTRUCTURED BUSINESSES
Amusement centers overseas

CORE BUSINESSES (STABLE)
Amusement centers in Japan

Executive Summary

- Despite lower revenues year on year, earnings rose due to lower depreciation and amortization resulting from a change in accounting policy.
- Existing amusement centers in Japan saw sales decline 6.2% year on year.
- Japan's largest indoor theme park, *TOKYO JOYPOLIS*, opened following renewal.
- We unveiled the world's first nature simulation museum, *Orbi Yokohama*, in August 2013.

For trends in related markets, please see "Market Conditions for Each Business" in the **A to Z** section.

Fiscal 2013 Overview

In fiscal 2013, the Amusement Center Operations segment recorded a 4.3% decrease in net sales year on year, to ¥42.7 billion. Reflecting the absence of the previous fiscal year's comparatively solid sales mainly thanks to prize game machines, existing amusement centers in Japan flagged and recorded a 6.2% year-on-year decline in sales. As of March 31, 2013, the business segment had 236 amusement centers, 5 fewer than at the previous fiscal year-end. Capital expenditures were down 4.8% year on year, to ¥7.9 billion, and depreciation and amortization decreased 24.6% year on year, to ¥4.6 billion.

As a result of factors including lower than normal depreciation and amortization due to a change in accounting policy, operating income rose from the previous fiscal year's ¥0.3 billion to ¥1.1 billion, and the operating margin was up 2.0 percentage points, to 2.8%.

Growth Strategies

For traditional amusement centers in Japan, which are likely to continue facing challenging conditions as the country's birthrate declines, we will strengthen earnings capabilities by proactively remodeling amusement centers and bolstering their operational capabilities. Meanwhile, we intend to advance an amusement center opening strategy aimed at developing new customer groups. We plan to attract a broad range of new customers by stepping up amusement center openings in shopping centers and by actively opening theme park-type amusement centers, such as *TOKYO JOYPOLIS*, and new-concept amusement centers that transcend the amusement center category. As part of these efforts, in partnership with BBC Worldwide Limited, SEGA unveiled the world's first nature simulation museum, *Orbi Yokohama*, in August 2013. Furthermore, we are considering licensing out this format overseas in the future.

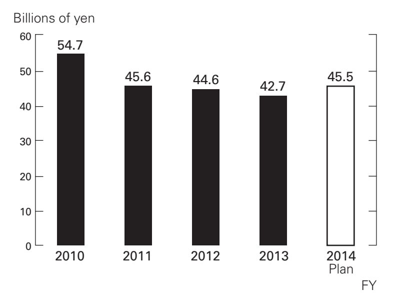
Fiscal 2014 Outlook

In fiscal 2014, plans call for a 6.6% year-on-year rise in net sales, to ¥45.5 billion. Sales of existing domestic amusement centers are expected to grow 1.8% year on year. We anticipate that investment in *Orbi Yokohama* will give rise to year-on-year increases of 27.8% in capital expenditures, to ¥10.1 billion, and 19.6% in depreciation and amortization, to ¥5.5 billion. As a result of higher depreciation and amortization, operating income is likely to decline from the fiscal year under review's ¥1.1 billion to ¥0.2 billion. In Japan, we plan to open 4 amusement centers and close 9, giving a total of 197 amusement centers* at the end of the current fiscal year.

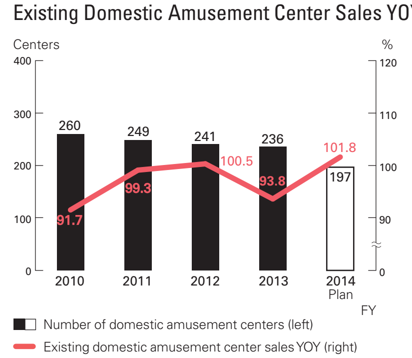
* From fiscal 2014, only directly managed amusement centers will be included in the number of amusement centers in Japan.

Orbi Yokohama

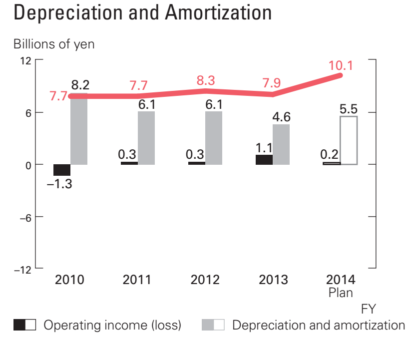
Net Sales



Number of Domestic Amusement Centers / Existing Domestic Amusement Center Sales YOY



Operating Income (Loss) / Capital Expenditures / Depreciation and Amortization

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Consumer Business

Basic Information

SEGA is reinforcing its earnings structure in the packaged game software area while focusing management resources on accelerating efforts to strengthen competitiveness in the digital game content area, which is growing conspicuously. We intend to maximize earnings by pursuing a multiplatform strategy of rolling out video games for a wide variety of platforms. By stepping up collaborations across the whole Group, including the toy sales business and the animation business, we aim to leverage our extensive capabilities.

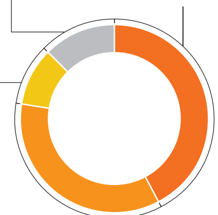
MAIN OPERATING COMPANIES

- SEGA CORPORATION
- SEGA Networks, Ltd.
- TMS ENTERTAINMENT, LTD.
- Sammy NetWorks Co., Ltd.
- SEGA TOYS CO., LTD.
- MARZA ANIMATION PLANET INC.

NET SALES BREAKDOWN*

¥83.8 billion

26.1%



* Excluding ¥0.6 billion of corporate and eliminations

FISCAL 2013 BUSINESS RESULTS SUMMARY

Net sales
¥83.8 billion | **2.1%**

Operating loss
¥–0.7 billion | —

Home video game software unit sales
10.78 million units | **37.5%**

R&D expenses, content production expenses
¥19.5 billion | **33.4%**

STRENGTHS

- Brand power in the game content business, accumulation of a powerful range of intellectual properties, and development personnel and other management resources
- Some of the best animation assets in Japan's animation industry

WEAKNESSES

- Lackluster packaged game software sales and decline in earning power
- Low profit margin of the toy sales business

OPPORTUNITIES

- Rapid growth of content market for SNS and smartphones
- Expansion of the PC online game market in Japan and Asia

THREATS

- Contraction of packaged game software market
- Continuous high development costs for packaged game software
- Intensification of competition in the SNS and smartphone content market

Strategy Matrix

DEVELOPING BUSINESSES	CORE BUSINESSES (GROWING)
CG animation; SNS and smartphone content	
RESTRUCTURED BUSINESSES	**CORE BUSINESSES (STABLE)**
Packaged game software for Japan and overseas; Toys	Animation

Executive Summary

- Despite lower revenues due to narrowing down the number of titles, successful organizational rationalization reduced operating loss significantly.
- Cumulative ID registrations of the online role-playing game *Phantasy Star Online 2* surpassed 2.5 million.
- With a view to maximizing earnings in the expanding digital game content business, we established SEGA Networks, Ltd.
- The business segment will launch a full-fledged, cross-platform strategy in fiscal 2014.

For trends in related markets, please see "Market Conditions for Each Business" in the **A to Z** section.

Fiscal 2013 Overview

In fiscal 2013, net sales decreased 2.1% year on year, to ¥83.8 billion, due to lower unit sales of packaged game software accompanying the narrowing down of the number of titles. Meanwhile, the operating loss shrank substantially from the previous fiscal year's ¥15.1 billion to ¥0.7 billion, thanks to a reduction in operating expenses that accompanied the restructuring and rationalization of organizations responsible for packaged game software in North America and Europe. Reflecting the decrease in marketed titles, R&D expenses and content production expenses were down 33.4% year on year, to ¥19.5 billion.

Packaged Game Software Business

In Japan and overseas, the business segment sought to heighten profitability by narrowing down the number of titles to focus on major intellectual properties that promise unit sales commensurate with development investment. In Japan, we marketed 10 titles, compared with 16 titles in the previous fiscal year, and sold 2,140,000 units, down 660,000 units year on year. In North America and Europe, as a result of narrowing down the number of marketed titles from the previous fiscal year's 29 titles to 15 titles, sales declined 5,810,000 units year on year, to 8,620,000 units. Consequently, total sales decreased 6,460,000 units from the previous fiscal year, to 10,780,000 units, and net sales were ¥35.6 billion.

In Japan, *Ryu ga Gotoku 5: Yume, Kanaeshimono*, and *Hatsune Miku-Project DIVA-F* achieved solid sales. Overseas, we brought to market such mainstay titles as *Sonic & All-Stars Racing Transformed and Aliens™: Colonial Marines*.

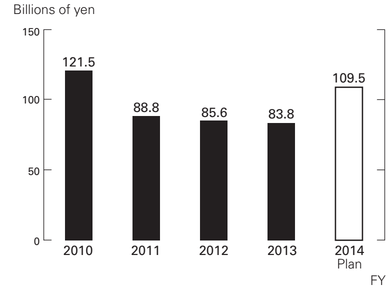
Digital Game Content Business

In the digital game content business, net sales were ¥29.7 billion.

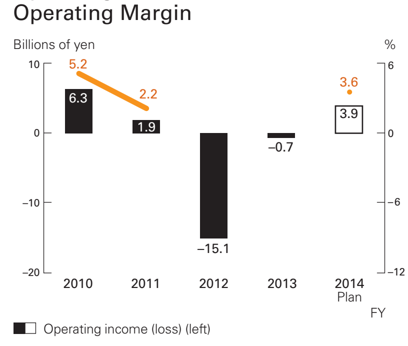
SEGA launched full-fledged efforts in the digital game content business by establishing SEGA Networks, Ltd. SEGA embarked on a cross-platform strategy in earnest by beginning services for the online role-playing game for PCs *Phantasy Star Online 2* in July 2012 and services for PlayStation® Vita in February 2013. Cumulative ID registrations for the role-playing game exceeded 2.5 million as of March 10, and revenues from individual item fees have been higher than expected. In titles for smartphones, we began distributing the latest installment in the *Kingdom Conquest* series, *Kingdom Conquest II*, in December 2012, with the series surpassing five million downloads cumulatively in May 2013. Furthermore, we actively collaborated

Ryu ga Gotoku 5: Yume, Kanaeshimono

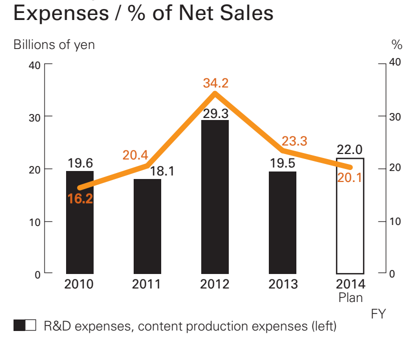
Net Sales



Operating Income (Loss) / Operating Margin



R&D Expenses, Content Production Expenses / % of Net Sales



with major partners and rolled out products overseas. Such initiatives included developing *The Clan Battle of Fate* and creating a version of it for South Korea.

In addition, we acquired all of the shares of THQ Canada Inc., currently Relic Entertainment Inc., as well as some intellectual properties owned by its parent company, THQ Inc., in January 2013.

Toys and Animation Area

The toy sales business saw net sales decrease 5.6% year on year, to ¥8.4 billion, while the animation business posted a 1.0% year-on-year increase in net sales, to ¥10.5 billion.

In the toy sales business, sales of *Jewel Pod Diamond* and other mainstay products were brisk. As for the animation business, distribution revenues and video distribution for the movie-theater version of *ANPANMAN: Revive Banana Island!* were favorable.

Growth Strategies

In the packaged game software business, we will build a system that generates earnings stably by rigorously analyzing the balance between development investment and unit sales forecasts and focusing development and marketing on major intellectual properties. Furthermore, in the packaged game software area the business segment will maximize earnings opportunities by advancing its cross-platform strategy, which enables the sharing of video game data among devices.

Regarding the digital game content business, we plan to heighten our presence by developing businesses rapidly primarily through SEGA Networks. We intend to take maximum advantage of SEGA's abundant intellectual properties and development resources and the SEGA SAMMY Group's other major intellectual properties to create differentiated titles featuring rich graphics and captivatingly multilayered worlds. Furthermore, plans call for rolling out titles that have been hits in Japan in other regions, particularly in Asia.

In the toy sales business, we will strengthen initiatives for mainstay products while revamping value chains to improve profitability.

In the animation business, TMS ENTERTAINMENT, LTD., which owns an extensive array of valuable animation assets, including *Detective Conan*, *Go! ANPANMAN*, and *Lupin the 3rd*, will concentrate on creating new movies and television series. Moreover, this business will create synergies by creating animation for pachislot and pachinko machines.

Fiscal 2014 Outlook

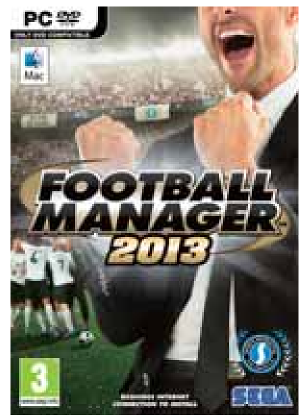
In fiscal 2014, the Consumer Business segment is targeting a 30.7% year-on-year increase in net sales, to ¥109.5 billion, based on earnings growth in the digital game content business. Also, the business segment aims to move into the black by achieving operating income of ¥3.9 billion, compared with the previous fiscal year's operating loss of ¥0.7 billion. R&D expenses and content production expenses are projected to increase 12.8% year on year, to ¥22.0 billion, mainly as a result of stepped-up development.

By business, we are targeting year-on-year increases in net sales of 28.9% in the packaged game software business, 35.7% in the digital game content business, 17.9% in the toy sales business, and 30.5% in the animation business.

The packaged game software business aims to grow sales 8.2%, to 11.66 million units.

In the digital game content business, we plan to roll out new titles for smart devices featuring major intellectual properties, including a version of *Phantasy Star Online 2* for smartphones and *Puyopuyo!! Quest*. In the PC game area, we intend to launch Relic Entertainment's title *Company of Heroes 2* in the North American and European markets and develop overseas markets further.

Phantasy Star Online 2



FOOTBALL MANAGER

Kingdom Conquest II

Governance

Corporate Governance System

Corporate Governance System at a Glance

Format	Audit and Supervisory Board system
Reason for adoption of format	Based on the view that this system enables directors to make prompt, optimal management decisions amid volatile business conditions based on their wealth of expertise and experience in relation to the industry, market trends, products, merchandise, and services
Directors	9
Of whom outside directors	2
Term of directors	1 year
Incentives granted to directors	Introduction of stock option system
Individual disclosure of directors' compensation	Disclosure only for directors with total compensation of ¥100 million or more
Audit and Supervisory Board members	4
Of whom outside Audit and Supervisory Board members	3
Independent directors	5 (2 outside directors, 3 outside Audit and Supervisory Board members)
Independent auditors	KPMG AZSA LLC
Term of auditing contracts	Renewed annually
Adoption of executive officer system	Yes

Basic Stance

SEGA SAMMY HOLDINGS and the SEGA SAMMY Group regard corporate governance as the most important foundation of corporate activities. Therefore, we have set forth Basic Policies on Corporate Governance consisting of three major corporate management tenets: enhance efficiency, secure a sound corporate organization, and increase transparency. These policies form the basis for addressing such important management issues as selecting Board candidates, deciding compensation for directors, implementing management oversight, and deciding compensation for Audit and Supervisory Board members.

Enhancing Efficiency

The Group will maximize corporate value by establishing prompt and appropriate decision-making processes and by raising management efficiency, returning the resulting profit to shareholders and other stakeholders.

Securing a Sound Corporate Organization

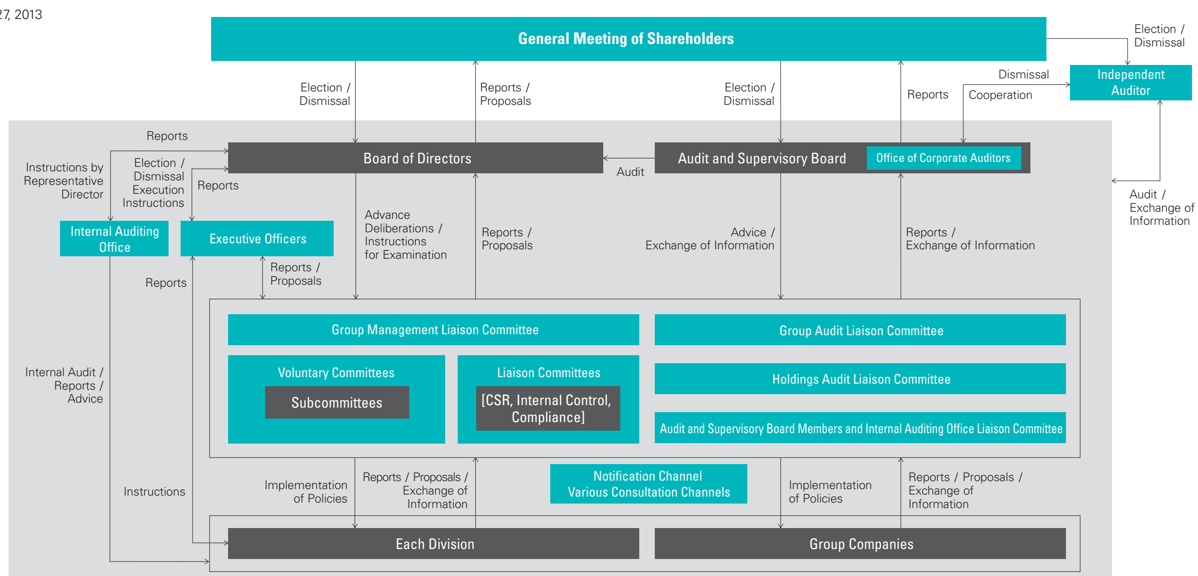
We will maximize corporate value amid volatile business conditions by identifying and managing diverse risks. Also, we will ensure a sound organization by establishing compliance systems that enable us to respond appropriately in light of ethical and social norms, including statutory laws and regulations; their underlying social values; and changes to these values.

Increasing Transparency

Given the increasing importance of corporate disclosure, we are committed to being accountable to shareholders and other stakeholders. Accordingly, we will heighten the transparency of business management by increasing and improving disclosure through stepped-up investor relations (IR) initiatives.

Corporate Governance System

As of June 27, 2013



The Company and the Group regard corporate social responsibility (CSR) activities as enabling the Group's sustained value creation and the ongoing advancement of stakeholders. To respond appropriately as a good corporate citizen to a wide range of social needs and expectations, the Group has established the Group CSR Coordination Meeting to organize and mobilize its CSR activities as well as the Group CSR Promotion Office, which is dedicated to such activities. Furthermore, we have established the Group Management Philosophy, the Group CSR Charter, and the Group Code of Conduct, which are the foundations for our CSR activities. In addition, we establish or revise various in-house rules and manuals, which directly regulate and guide specific types of operational duties. Based on these structures, the whole Group develops CSR activities voluntarily and actively to build favorable relationships with its stakeholders.

Operational and Management Structure

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

Coordination among Corporate Bodies to Enhance Operational Implementation, Auditing, and Oversight

The Group enhances operational implementation, auditing, and oversight primarily through the following meetings.

Board of Directors

Comprising nine directors, the Board of Directors strives for agile business management. It convenes once a month in principle, holding extraordinary sessions as required. Furthermore, the Board of Directors makes decisions and receives reports on certain significant management matters of Group companies.

Audit and Supervisory Board

Meeting once a month and holding extraordinary sessions as required and comprising four members, the Audit and Supervisory Board thoroughly examines and analyzes specific issues.

Group Management Liaison Committee

Meeting as required, the Group Management Liaison Committee builds consensus in the Group through information sharing and rigorous discussion. The committee comprises the Company's directors, Audit and Supervisory Board members, and executive officers, and the directors of SEGA CORPORATION and Sammy Corporation.

Voluntary Committees

The Board of Directors establishes voluntary committees as required to examine and discuss specific issues related to the Group's business management, the results of which are reported back to the Board of Directors. Moreover, these committees establish subcommittees to examine and discuss more specialized issues.

Liaison Committees

Liaison committees are bodies that examine, discuss, and coordinate the Group's corporate governance policies. Currently, there are three committees: the Group Internal Control Liaison Committee, the Group CSR Liaison Committee, and the Group Compliance Liaison Committee. The Group Internal Control Liaison Committee and Group CSR Liaison Committee, which meet quarterly in principle, comprise managers responsible for internal control and CSR at the Company, SEGA, and Sammy. The Group Compliance Liaison Committee, which convenes every six months in principle, comprises the compliance officers of the Company, SEGA, Sammy, TAIYO ELEC Co., Ltd., Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., TMS ENTERTAINMENT, LTD., and Phoenix Resort Co., Ltd.

Group Audit Liaison Committee

The Group Audit Liaison Committee comprises standing Audit and Supervisory Board members from Group companies. They convene as required to share information on timely issues for the Company and the Group, such as revisions in statutory laws and regulations, and to establish close collaboration among the standing Audit and Supervisory Board members of Group companies.

Holdings Audit Liaison Committee

The Holdings Audit Liaison Committee comprises standing Audit and Supervisory Board members from the Company, SEGA, and Sammy; executives responsible for the accounting divisions of the three companies; and representatives of the Company's independent auditor, KPMG AZSA LLC. Meeting monthly in principle, committee members exchange opinions from their respective standpoints and enhance accounting compliance.

Audit and Supervisory Board Members and Internal Auditing Office Liaison Committee

The Auditors and Internal Auditing Office Liaison Committee comprises standing Audit and Supervisory Board members from the Company, SEGA, and Sammy as well as members of the Company's Internal Auditing Office. The committee meets every month in principle with the purpose of ensuring the soundness of business management by sharing information between the said standing Audit and Supervisory Board members and the Company's Internal Auditing Office.

Systems for Assuring Objective Business Management

The Company has nine directors, of whom two are outside directors, as well as four Audit and Supervisory Board members, of whom three are outside Audit and Supervisory Board members. The outside directors provide advice on raising the corporate value of the Company and the Group from an external perspective, based on their extensive expertise and experience. Aiming to enable oversight of directors' implementation of operations, we appoint outside directors from among attorneys and business executives.

We appoint outside Audit and Supervisory Board members with extensive expertise and experience in a wide range of areas because we appreciate the important role outside Audit and Supervisory Board members perform in realizing corporate governance by heightening the impartiality and independence of the auditing system. Also, we aim to ensure the soundness of business management through auditing from an objective standpoint.

At the various meetings that they attend, outside directors and outside Audit and Supervisory Board members provide guidance and advice based on their abundant experience and highly specialized knowledge. Regarding the independence of outside directors and outside Audit and Supervisory Board members, we deem that persons satisfying the requirements of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange (the "Listing Regulations") do not have conflicts of interest with general shareholders. Therefore, we appoint persons that are not subject to additional disclosure requirements pursuant to rule 211, paragraph 4, item 5, and rule 226, paragraph 4, item 5 of the Listing Regulations. Moreover, we determine items that are "significant" or "significant amounts" with reference to the publicly announced standard model for appointing independent directors. The Company has adopted a policy of appointing all outside directors and outside Audit and Supervisory Board members that are not subject to the above-mentioned additional disclosure requirements as independent directors. Accordingly, we have designated all currently serving outside directors and outside Audit and Supervisory Board members as independent directors.

To support the activities of outside directors, we have established secretariats for executive meetings to facilitate appropriate information distribution and ensure that outside directors have sufficient time to examine the details of proposals and other information related to the meetings they attend. To support the work of outside Audit and Supervisory Board members, we have established the Office of the Audit and Supervisory Board, which is under the direct control of the Audit and Supervisory Board. In accordance with Audit and Supervisory Board members' orders, the office's personnel assist Audit and Supervisory Board members in their duties. Furthermore, to ensure the independence of the office from the Board of Directors, the Audit and Supervisory Board must approve the appointment, transfer, and evaluation of the office's personnel. Furthermore, we have secretariats for executive meetings, the Office of Audit and Supervisory Board Members, the Internal Auditing Office, and the Internal Control Department to facilitate appropriate information distribution and to ensure that outside Audit and Supervisory Board members have sufficient time to examine the details of proposals and other information related to the meetings they attend.

Outside directors	Reason for appointment
Yuji Iwanaga	To reflect Mr. Iwanaga's perspective as an international attorney and extensive expertise in relation to business management of global corporations in the Company's business management
Takeshi Natsuno	To reflect Mr. Natsuno's wealth of experience and extensive expertise as a business executive in the Company's business management

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

Compensation of Directors

Consultations among representative directors whom a resolution of the Board of Directors has commissioned and other directors with responsibility determine the compensation of each director based on consideration of their responsibilities and performance and the limit the Ordinary General Meeting of Shareholders has approved for compensation*1. In addition, aiming to raise morale as well as heighten motivation to increase corporate value further, advance business management in light of an awareness of shareholders and share prices, and improve the Group's business results, the Group grants directors stock options in the form of subscription rights to shares as compensation for the execution of duties.

Consultations among Audit and Supervisory Board members determine the compensation of each Audit and Supervisory Board member based on consideration of their responsibilities and the limit the Ordinary General Meeting of Shareholders has approved for compensation*2.

*1 A resolution of the Ordinary General Meeting of Shareholders in June 2012 set the limit for directors' compensation at ¥1 billion.

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

Internal Control

In addition, an internal control project launched in fiscal 2006 established an assessment and reporting framework for internal control in accordance with the stipulations of Japan's Financial Instruments and Exchange Act, which requires "Management Assessment and Audit concerning Internal Control Over Financial Reporting" (J-SOX). Also, the Company has rectified deficiencies that the project identified. As a result, systems to ensure the reliability of financial reports have become firmly established in the Group. We believe that internal controls operated effectively in relation to the financial reports the Group issued for fiscal 2013. As we continue to ensure the reliability of financial reports, we will maintain and build internal control systems to increase efficiency and ensure soundness. Furthermore, based on Japan's Companies Act, SEGA SAMMY HOLDINGS has determined a basic policy on the establishment of internal control systems and is developing systems accordingly.

http://www.segasammy.co.jp/english/ir/management/governance.html

Auditing of Accounts

Based on Japan's Companies Act and Financial Instruments and Exchange Act, independent auditor KPMG AZSA LLC audits the accounts of the Company. There are no special interests between the Company and this independent auditor or personnel of the independent auditor who execute duties. Furthermore, none of the independent auditor's personnel who execute duties have been auditing the Company for more than seven years. In addition, the Company receives advice from the independent auditor on accounting treatment from an accounts auditing perspective not only in relation to audits at fiscal year-ends but also as required during fiscal years.

Compliance

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

Compliance Promotion Structure

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

Also, the Company is developing and implementing Groupwide initiatives. These include continuation of Compliance Advancement Initiatives, which it began in fiscal 2010, and informing employees about the whistleblower system to ensure operational duties are performed appropriately.

Informing Employees about the Group Code of Conduct

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

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

Nurturing and Spreading Compliance Awareness

To nurture and spread compliance awareness, the Group holds compliance seminars for Group companies as needed and all employees can view a compliance handbook on the intranet, which provides specific, readily understandable concrete examples of situations employees may encounter in everyday duties. In addition, the Group encourages compliance awareness by including articles incorporating comic strips and other reader-friendly formats.

We will share instructive examples from Group companies with other Group companies to generate synergistic benefits and thereby maintain and enhance compliance.

Strengthening Compliance with Subcontractor Payment Act

The Group is strengthening compliance with the Subcontractor Payment Act by conducting periodic compliance audits. Moreover, legal affairs divisions educate and provide guidance on subcontractor-related issues to all divisions. Furthermore, to strengthen compliance, internal audit divisions instruct divisions to conduct self-monitoring continuously and share monitoring results with the internal audit, legal affairs, and internal control divisions.

Whistleblower System

Consistent with the spirit of the Group CSR Charter, the Group has established a whistleblower system to enable self-correction within the Group and the Company and prevent scandals due to illegal or unfair practices. Each Group company has established a whistleblower system and a contact point at an external law office. The Group investigates reported matters, rectifies them, and takes measures to prevent recurrence. Also, the Group has established a system that protects whistleblowers.

The importance of the whistleblower system as the primary means of discovering compliance violations is increasing. Accordingly, the Group is completely revising this system to enhance its effectiveness, make it easier for employees to use, and ensure its trustworthiness.

Basic Policy on Intellectual Properties

Regarding intellectual properties as important for enhancing the Group's competitiveness and a significant resource supporting business management, the Group has set out polices for each Group company.

At SEGA, in addition to establishing an intellectual properties promotion committee in each division, the company conducts wide-ranging initiatives for each project's on-site managers and other managers aimed at heightening awareness of and providing education about intellectual properties. These activities aim to prevent the infringement of third-party intellectual property rights while ensuring appropriate management of the company's intellectual property rights to protect and expand businesses. Furthermore, the SEGA SAMMY Group is implementing anti-counterfeit initiatives to protect and enhance the SEGA brand.

Sammy conducts thorough risk assessments through technological investigations at each stage of R&D. Also, the company raises employee awareness through regular training related to intellectual property and a dedicated intranet site with a wealth of information about intellectual property.

IR Activities

The Company strives to ensure fair and timely disclosures to shareholders and investors. Accordingly, it holds briefings for institutional investors and analysts on full-year and interim financial results and makes the briefing information available on its web site. For overseas investors, we hold roadshows in Asia, Europe, and the United States as required. Furthermore, the Company's representative directors and IR managers participate in conferences that securities companies organize.

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

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

Main Activities and Compensation in Fiscal 2013

Board of Directors	Meeting attendance
Board of Directors convened	20 times
Outside directors	
Yuji Iwanaga	Attended 18 of 20 meetings (including 9 of 11 ordinary Board of Directors' meetings)
Takeshi Natsuno	Attended 20 of 20 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Outside directors' attendance	95.0%
Outside Audit and Supervisory Board members	
Tomio Kazashi	Attended 20 of 20 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Toshio Hirakawa	Attended 20 of 20 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Mineo Enomoto	Attended 19 of 20 meetings (including 10 of 11 ordinary Board of Directors' meetings)
Outside Audit and Supervisory Board members' attendance	98.3%

Principle decisions	Details
Establishment of SEGA Networks, Ltd.	Company split involving main functions of SEGA CORPORATION's network business
Establishment of SEGA ENTERTAINMENT Co., Ltd.	Company split involving SEGA CORPORATION's amusement center operations
Establishment of joint venture with the Paradise Group	Development of integrated resorts including casinos
Participation in development of resort complex in Busan, South Korea	Development and management of resort complex comprising a hotel, entertainment facilities, and commercial facilities
Acquisition of THQ Canada Inc., now Relic Entertainment, Inc., and intellectual properties related to titles under development	PC online game business
Acquisition of treasury stock	Total treasury stock acquired: 10,000,000 shares Total acquisition amount: ¥16,192,991,300

Compensation of Directors

Compensation of directors and Audit and Supervisory Board members for fiscal 2013 is as follows.

Position		Directors / Audit and Supervisory Board members	Total compensation (¥ million)	Total compensation by type (¥ million)		
				Basic compensation	Bonus	Stock options
Directors	Internal	5	598	446	130	21
	Outside	2	31	31	—	—
Audit and Supervisory Board members	Internal	—	—	—	—	—
	Outside	2	23	21	1	—

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2013 is as follows.

Name	Position	Total consolidated compensation, etc. (¥ million)	Company	Total consolidated compensation by type (¥ million)		
				Basic compensation	Bonus	Stock options
Hajime Satomi	Director	583	The Company	276	100	7
			Sammy	—	200	—
Keishi Nakayama	Director	154	The Company	90	10	4
			Sammy	—	50	—

Compensation for Auditing of Accounts and Auditing

In the fiscal year under review, the names of the certified public accountants who executed duties and the classification of those assisting auditing duties were as follows.

Names of the certified public accountants that executed duties

Partners who executed duties

Satoshi Nakaizumi, Naoya Miyaki, Hiroyuki Nakamura

	Fiscal 2012		Fiscal 2013	
Millions of yen	Compensation for audit and attestation duties	Compensation other than for audit and attestation duties	Compensation for audit and attestation duties	Compensation other than for audit and attestation duties
The Company	109	0	122	0
Consolidated subsidiaries	182	8	147	14
Total	291	9	269	14

Main IR Activities in Fiscal 2013

Financial results briefings	2
Quarterly financial results briefings (telephone conferences)	2
Small-scale roundtable meetings	1
One-on-one meetings (domestic investors)	327
One-on-one meetings (overseas investors)	110
Overseas roadshows	3 (North America 1, Asia 1, Europe 1)
Conferences	4

Directors, Audit and Supervisory Board Members, and Executive Officers

As of June 27, 2013

Directors

HAJIME SATOMI

Chairman of the Board and Chief Executive Officer

1980 President and Representative Director of Sammy Industry Co., Ltd. (currently Sammy Corporation)

2003 Chairman and Director of Sammy NetWorks Co., Ltd. (current position)

2004 Chairman and Representative Director of SEGA CORPORATION
Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation
Chairman, Representative Director, and Chief Executive Officer of SEGA CORPORATION
Chairman of the Board and Chief Executive Officer of the Company (current position)

2005 Chairman and Director of SEGA TOYS CO., LTD. (current position)
Chairman and Director of TMS ENTERTAINMENT, LTD. (current position)

2007 President, Representative Director, Chief Executive Officer, and Chief Operating Officer of SEGA CORPORATION

2008 Chairman, Representative Director, and CEO of SEGA CORPORATION (current position)

2012 Outside Director of Phoenix Resort Co., Ltd.
Chairman of Sammy Corporation
Director of Phoenix Resort Co., Ltd.
Chairman and Director of Phoenix Resort Co., Ltd. (current position)
Director of SEGA Networks, Ltd. (current position)

2013 Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation (current position)

KEISHI NAKAYAMA

Director

1989 Entered into Sammy Industry Co., Ltd. (currently Sammy Corporation), as General Manager of the General Affairs Division

2004 Senior Managing Director of the Company

2005 Director of Sammy Corporation
Director of Sammy NetWorks Co., Ltd.
Director of SEGA TOYS CO., LTD.
Executive Vice President and Director of the Company

2007 Executive Vice President and Representative Director of the Company

2008 President, Representative Director, and Chief Operating Officer of Sammy Corporation

2011 Director of Sammy NetWorks Co., Ltd.

2012 Vice Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation
Director of Phoenix Resort Co., Ltd.

2013 Director of the Company (current position)

AKIRA SUGANO

Director

1998 Manager of Business Planning Office of Sega Enterprises, Ltd. (currently SEGA CORPORATION)

2004 Executive Officer of the Company

2008 Director and General Manager of Corporate Division of SEGA CORPORATION

2009 Senior Managing Director, General Manager of Corporate Department of SEGA TOYS CO., LTD.
Executive Vice President and Director, General Manager of Corporate Department, General Manager of Business Planning Office of SEGA TOYS CO., LTD.

2010 Executive Vice President and Representative Director, General Manager of Business Control Department of SEGA TOYS CO., LTD.

2013 Senior Executive Officer of the Company
Director of SEGA TOYS CO., LTD. (current position)
Director of Sammy Corporation (current position)
Director of SEGA CORPORATION (current position)
Director of the Company, Administrations Division, Group Corporate Social Responsibility Promotion Office, Group-Related Business Office (current position)

HARUKI SATOMI

Director

2004 Joined Sammy Corporation

2005 Joined SEGA CORPORATION

2009 Vice President of Digital Business of Sega of America, Inc.

2011 Senior Vice President of Digital Business of Sega of America, Inc.
Director of Sammy NetWorks Co., Ltd.

2012 President, Representative Director, and Chief Executive Officer of Sammy NetWorks Co., Ltd. (current position)
Director of Sega of America, Inc. (current position)
Director of Sega Europe Ltd. (current position)
Director of SEGA CORPORATION (current position)
Director of the Company (current position)
President, Representative Director, and Chief Executive Officer of SEGA Networks, Ltd. (current position)

NAOYA TSURUMI

Director

1992 Joined Sega Enterprises, Ltd. (currently SEGA CORPORATION)

2005 CEO of Sega Publishing Europe Ltd.

2006 CEO and President of Sega Holdings U.S.A., Inc.
Chairman of Sega of America, Inc.
Chairman of Sega Publishing America, Inc.

2008 Director of SEGA CORPORATION

2009 Managing Director of SEGA CORPORATION
Chairman of Sega Europe Ltd.

2010 CEO of Sega Amusements Europe Ltd.

2012 President, Representative Director, and Chief Operating Officer of SEGA CORPORATION (current position)
CEO and President of Sega Holdings Europe Ltd. (current position)
Director of the Company (current position)
Director of SEGA Networks, Ltd. (current position)

Directors

HISAO OGUCHI
Director and Chief Creative Officer (CCO)

1984 Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2003 President and Representative Director of SEGA CORPORATION
2004 President, Representative Director, and Chief Operating Officer of SEGA CORPORATION
Vice Chairman and Director of the Company
2005 Chief Executive Officer of Sega Holdings Europe Ltd.
2006 Chairman of Sega Holdings U.S.A., Inc.
2007 Executive Vice President and Representative Director of SEGA CORPORATION
2008 Representative Director of SEGA CORPORATION
Director of SEGA CORPORATION, Director of Sammy Corporation,
Director and Chief Creative Officer of SEGA CORPORATION
Director and Chief Creative Officer of the Company (current position)
Director and Chief Creative Officer of Sammy Corporation
2009 Senior Managing Director of Sammy Corporation
2011 Representative Director and Senior Managing Director of Sammy Corporation
2012 Executive Vice President and Representative Director of Sammy Corporation

SHIGERU AOKI
Director

2005 Joined SEGA CORPORATION as Head Councilor
Corporate Officer and General Manager of Office of China and Asia Business Management of SEGA CORPORATION
2006 President of Sega Networks (China) Co., Ltd.
2008 Executive Officer and General Manager of Business Administration Department of Sammy Corporation
Executive Officer and General Manager of Corporate Division of Sammy Corporation
2009 Director and General Manager of Corporate Division of Sammy Corporation
2011 Managing Director and General Manager of Corporate Division of Sammy Corporation
2012 President, Representative Director, and Chief Operating Officer of Sammy Corporation (current position)
2013 Director of the Company (current position)

Outside Directors

YUJI IWANAGA[1]
Outside Director

1981 Registered with The Japan Federation of Bar Associations (current position)
1984 Partner of Lillick McHose and Charles Law Office (currently Pilsbury Winthrop Shaw Pittman LLP) (current position)
Registered with the State Bar of California
2003 Outside Director of Manufacturers Bank
2005 Outside Director of JMS North America Corporation (current position)
2006 Outside Director of TAIYO YUDEN Co., Ltd. (current position)
2007 Outside Director of the Company (current position)

TAKESHI NATSUNO[1]
Outside Director

2005 Senior Vice President, Managing Director, Multimedia Services Department of NTT DoCoMo, Inc.
2008 Guest Professor, Media and Governance of Keio University
Outside Director of the Company (current position)
Director of PIA CORPORATION (current position)
Outside Director of transcosmos inc. (current position)
Director of NTT Resonant Inc. (current position)
Director of SBI Holdings, Inc.
Director of DWANGO Co., Ltd. (current position)
2009 Outside Director of DLE Inc. (current position)
Outside Director of GREE, Inc. (current position)
2010 Outside Director of bitWallet, Inc. (currently Rakuten Edy, Inc.) (current position)
Director of U-NEXT, Inc. (current position)
2011 Outside Director of CUUSOO SYSTEM CO., LTD. (current position)
2012 Director of SEGA Networks, Ltd. (current position)
2013 Guest Professor, Faculty of Environment and Information Studies of Keio University (current position)

Audit and Supervisory Board Members

TOMIO KAZASHI[2]

Standing Audit and Supervisory Board Member

1990 Director of Cosmo Securities Co., Ltd.
1996 Managing Director of Cosmo Securities Co., Ltd.
1999 Managing Director of Cosmo Investment Management Co., Ltd.
2005 Standing Audit and Supervisory Board member of Sammy NetWorks Co., Ltd.
2008 Substitute Audit and Supervisory Board member of the Company
2009 Audit and Supervisory Board member of Sammy NetWorks Co., Ltd. (current position)
Audit and Supervisory Board member of SEGA TOYS CO., LTD. (current position)
Standing Audit and Supervisory Board member of the Company (current position)
2012 Audit and Supervisory Board member of SEGA Networks, Ltd. (current position)

TOSHIO HIRAKAWA[2]

Audit and Supervisory Board Member

1994 Director of Marusan Securities Co., Ltd.
1996 Managing Director of Marusan Securities Co., Ltd.
2001 President and Representative Director of Marusan Finance Co., Ltd.
2004 Standing Audit and Supervisory Board member of Sammy Corporation (current position)
Audit and Supervisory Board member of the Company (current position)
2005 Audit and Supervisory Board member of TMS ENTERTAINMENT, LTD. (current position)

HISASHI MIYAZAKI

Audit and Supervisory Board Member

1984 Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2001 General Manager of Accounting Dept. of SEGA CORPORATION
2006 General Manager of Finance Dept. of SEGA CORPORATION
2007 Standing Audit and Supervisory Board member of SEGA CORPORATION (current position)
Audit and Supervisory Board member of the Company (current position)
2009 Audit and Supervisory Board member of SEGA Bee LINK Co., LTD. (currently SEGA Entertainment CO., Ltd.) (current position)
2012 Audit and Supervisory Board member of SEGA Networks, Ltd.

MINEO ENOMOTO[2]

Audit and Supervisory Board Member

1978 Registered with The Japan Federation of Bar Associations
2000 Established Enomoto Law Office (current position)
2004 Audit and Supervisory Board member of Sammy NetWorks Co., Ltd.
Audit and Supervisory Board member of SEGA CORPORATION (current position)
2005 Substitute Audit and Supervisory Board member of the Company
2006 Audit and Supervisory Board member of Nippon Koei Co., Ltd. (current position)
2007 Audit and Supervisory Board member of the Company (current position)

1 Qualified external directors as provided in Paragraph 2, Clause 15 of the Companies Act of Japan.
2 Qualified external auditors as provided in Paragraph 2, Clause 16 of the Companies Act of Japan.

Executive Officers

KOICHI FUKAZAWA
Senior Executive Officer

SHUNICHI SHIMIZU
Senior Executive Officer

KOICHIRO UEDA
Executive Officer

SEIICHIRO KIKUCHI
Executive Officer

HIROSHI ISHIKURA
Executive Officer

TAKATOSHI AKIBA
Executive Officer

Financials

Management's Discussion and Analysis

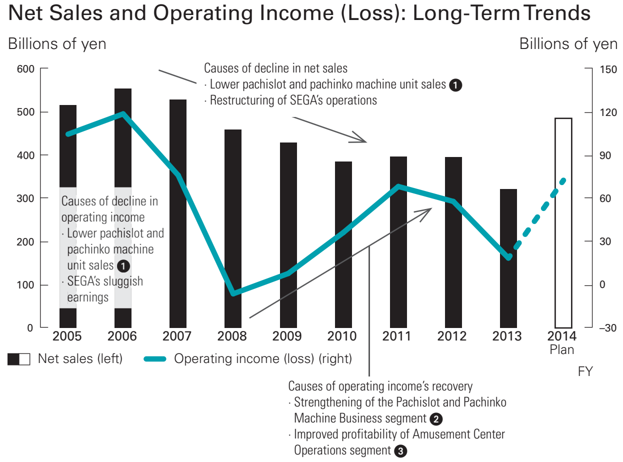
Revenue and Expenses Analysis

LONG-TERM TRENDS

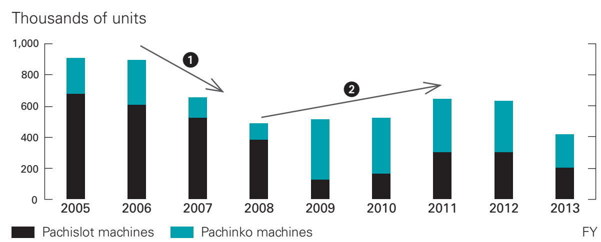
Net sales have declined from their level directly after management integration to the level of recent years for two main reasons. (1) Market conditions for the Pachislot and Pachinko Machine Business segment, which accounts for a significant share of net sales, changed dramatically after the ending in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

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

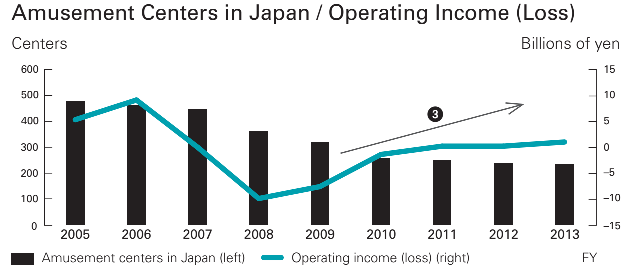
Net Sales and Operating Income (Loss): Long-Term Trends



Pachislot and Pachinko Machine Unit Sales



Amusement Centers in Japan / Operating Income (Loss)



Comparing Fiscal 2013 and Fiscal 2012

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

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

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

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

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

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

Management's Discussion and Analysis

Summary of Consolidated Statements of Income and Comprehensive Income

Billions of yen

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

Decrease due to recognition of deferred tax assets

Major Expenses

Billions of yen

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

Extraordinary Income and Extraordinary Loss

Billions of yen

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

(Reference)

Comprehensive Income

Billions of yen

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

Capital Expenditures and Depreciation and Amortization

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

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

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

R&D Expenses, Content Production Expenses

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

Fiscal 2014 Outlook

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

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

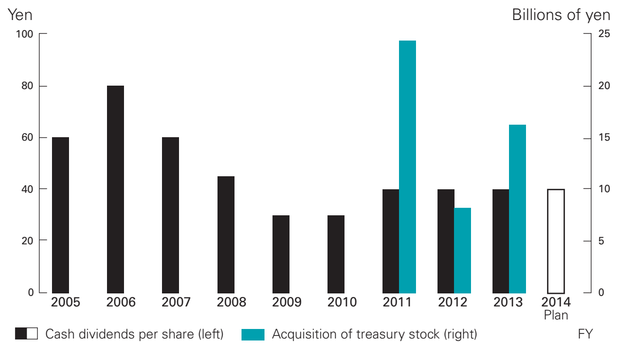
In light of these factors and the absence of the deferred tax assets recognized in fiscal 2013, the Group aims to grow net income 40.7% year on year, to ¥47.0 billion, in fiscal 2014.

Shareholder Value

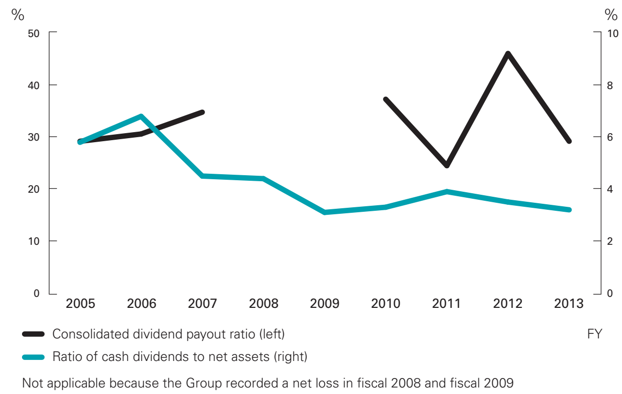
LONG-TERM TRENDS

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

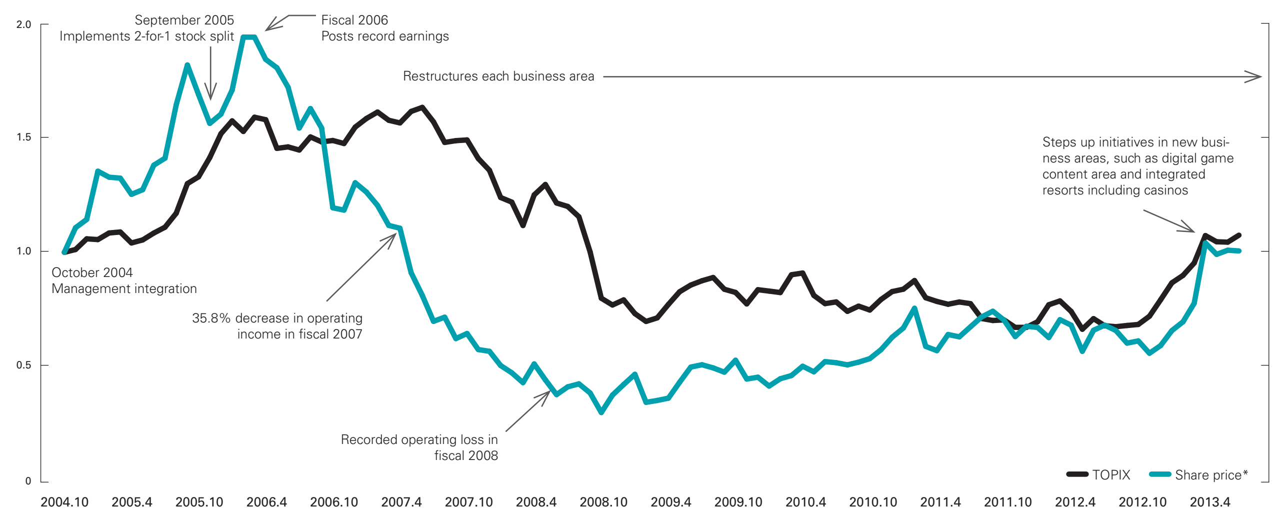
Cash Dividends per Share and Acquisition of Treasury Stock



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



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



Fiscal 2013 Returns to Shareholders

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

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

Forecast of Fiscal 2014 Returns to Shareholders

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

Analysis by Business Segment

LONG-TERM TRENDS

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

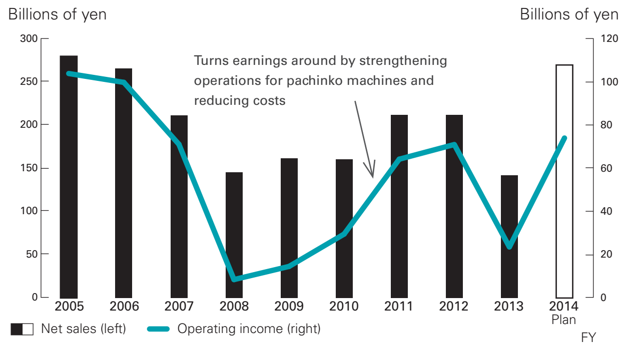
Since fiscal 2010, when the downturn in the amusement center operations market intensified, the Amusement Machine Sales Business segment has adopted a conservative approach to developing and marketing large, high-end machines. In addition, the business segment has introduced a revenue-sharing business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

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

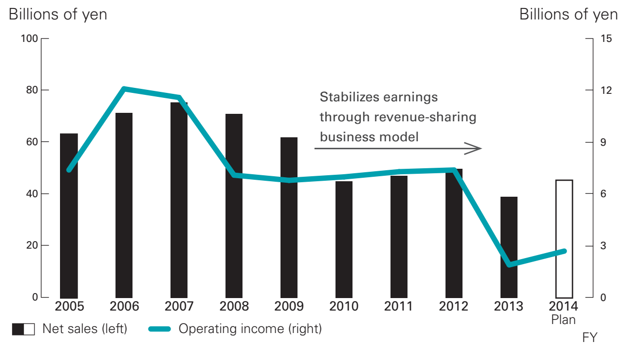
Since the packaged game software business recorded an operating loss in fiscal 2008, the Consumer Business segment has been reforming its profit structure by narrowing down the number of titles it sells. In fiscal 2012, the business segment recognized expenses and losses arising from business restructuring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

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

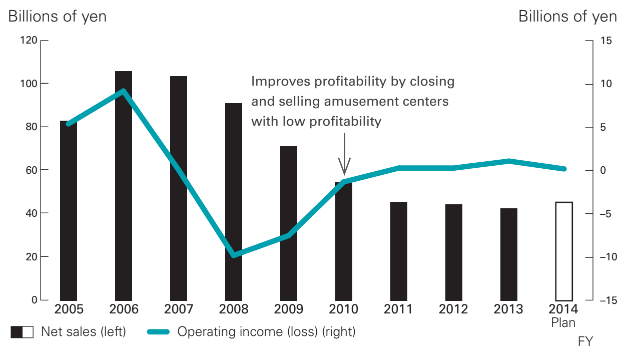
Pachislot and Pachinko Machine Business Segment



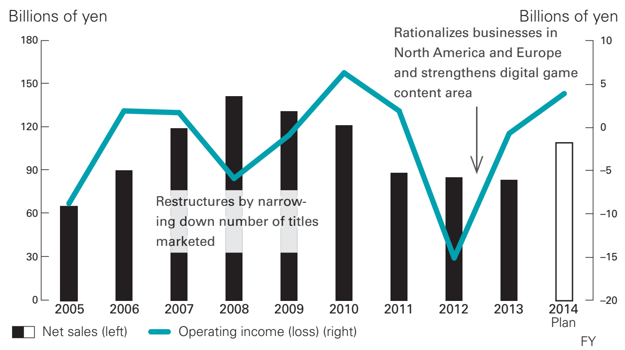
Amusement Machine Sales Business Segment



Amusement Center Operations Segment



Consumer Business Segment



Comparing Fiscal 2013 and Fiscal 2012

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

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

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

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

Fiscal 2014 Outlook

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

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

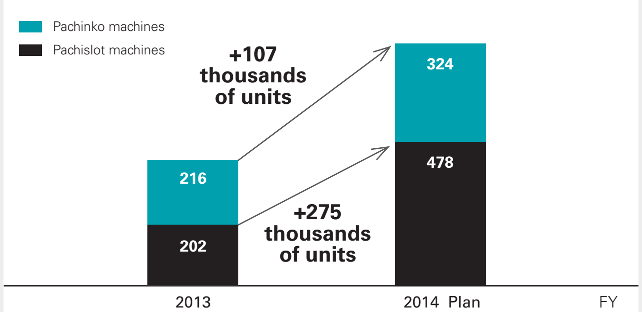
With a view to year-on-year growth of 16.4% in net sales, to ¥45.5 billion, and 42.1% in operating income, to ¥2.7 billion, the Amusement Machine Sales Business segment will bring several major titles to market and acquire stable revenues through its revenue-sharing business model.

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

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

Pachislot and Pachinko Machine Unit Sales Target

Thousands of units



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

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

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

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

Millions of yen

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

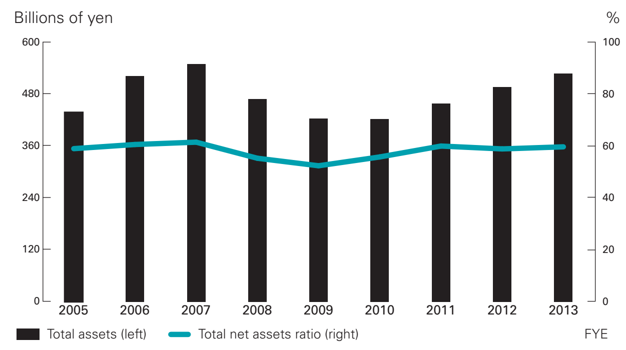
Financial Position Analysis

LONG-TERM TRENDS

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

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

Total Assets and Total Net Assets Ratio



Comparing Fiscal 2013 and Fiscal 2012

Assets

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

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

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

Liabilities

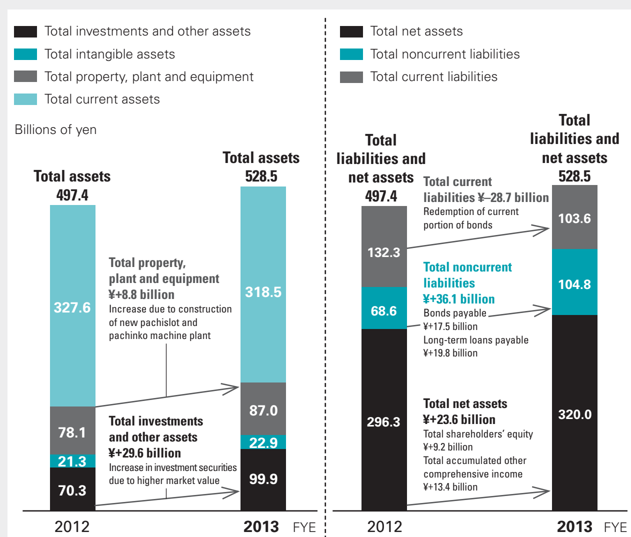
Total current liabilities at fiscal year-end stood at ¥103.6 billion, down ¥28.7 billion from the previous fiscal year-end. This was principally related to lower notes and accounts payable–trade and the redemption of the current portion of bonds. A current ratio of 307.4% reflected the Company's continued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

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

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

Net assets

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



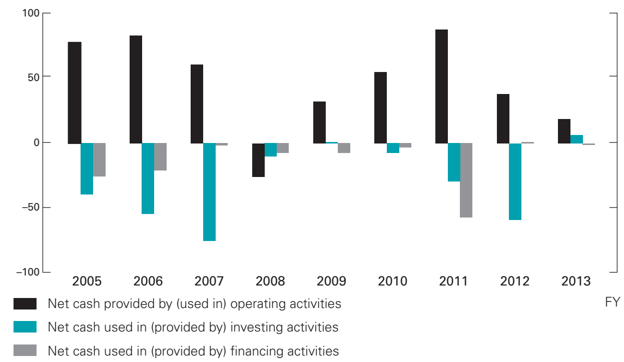
Cash Flows Analysis

LONG-TERM TRENDS

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

Cash Flows

Billions of yen



Comparing Fiscal 2013 and Fiscal 2012

Net cash provided by operating activities

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

Net cash provided by (used in) investing activities

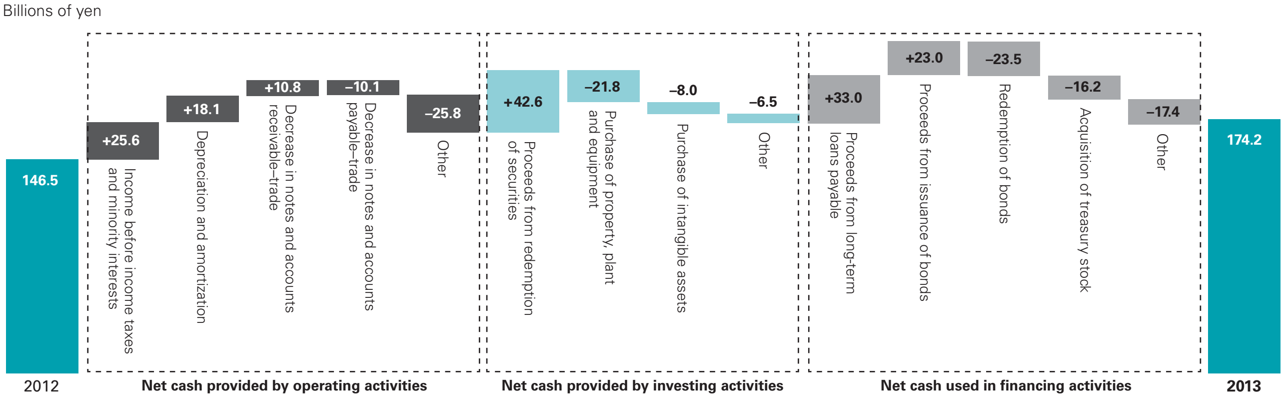
Net cash provided by investing activities was ¥6.3 billion, compared with net cash used in investing activities of ¥59.0 billion in the previous fiscal year. This primarily reflected proceeds from redemption of securities of ¥42.6 billion, which more than offset purchase of property, plant and equipment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

Net cash used in (provided by) financing activities

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

Main Cause of Changes in Cash and Cash Equivalents

Billions of yen



FINANCIALS

Consolidated Balance Sheets

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

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

See accompanying notes.

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

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

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

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

See accompanying notes.

Consolidated Statements of Changes in Net Assets

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

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

See accompanying notes.

Consolidated Statements of Changes in Net Assets

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

See accompanying notes.

Consolidated Statements of Cash Flows

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

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

See accompanying notes.

Consolidated Statements of Cash Flows

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

See accompanying notes.

Notes to Consolidated Financial Statements

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

NOTE 1

Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2013 and 2012. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the classifications used in 2013. These changes had no impact on previously reported results of operations or shareholders' equity.

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

NOTE 2

Summary of Significant Accounting Policies

(1) Principles of consolidation

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

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

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

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

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

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

(2) Equity method

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

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

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

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

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

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

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

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

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

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

(3) Valuation and accounting treatment for important assets

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

b. Available-for-sale securities

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

c. Available-for-sale securities without quoted market prices are carried at cost, which is determined by the moving-average method.

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

d. Derivatives

Derivatives are stated at fair market value.

e. Inventories

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

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

(4) Depreciation and amortization for important assets

a. Property, plant and equipment (excluding lease assets)

Depreciation is calculated primarily using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and structures	2–50 years
Machinery, equipment and vehicles	2–16 years
Amusement game machines	2–5 years

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

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

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

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

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

(Changes in accounting estimates)

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

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

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

b. Intangible assets (excluding lease assets)

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

c. Lease assets

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

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

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

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

(5) Allowances and provisions

a. Allowance for doubtful accounts

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

b. Provision for bonuses

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

c. Provision for directors' bonuses

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

d. Provision for business restructuring

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

e. Provision for retirement benefits

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

(Additional information)

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

f. Provision for directors' retirement benefits

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

(6) Accounting for significant hedge

a. Hedge accounting

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

b. Hedging instruments and hedged items

Hedging instrument: Interest rate swaps, forward exchange contracts

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

c. Hedge policy

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

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

d. Evaluation of hedge effectiveness

Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market between the hedged item and the hedging instrument. For interest rate swaps applied to special treatment, hedge effectiveness is not evaluated.

(7) Amortization method and period of goodwill

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

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

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

(9) Consumption taxes

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

(10) Application of the Consolidated Taxation System

The Company applied the Consolidated Taxation System.

NOTE 3
Unapplied New Accounting Standards

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

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

(1) Summary

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

(2) Effective dates

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

(3) Effect of application of the standard

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

NOTE 4
Changes in Presentation

(Consolidated Balance Sheets)

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

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

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

(Consolidated Statements of Income and Comprehensive Income)

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

(Consolidated Statements of Cash Flows)

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

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

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

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

NOTE 5

Notes to Consolidated Balance Sheets

(1) Assets pledged

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

Millions of yen

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

(2) Loan securities

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

(3) Guarantee

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

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

(4) Revaluation reserve for land

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

SEGA CORPORATION computed the value of land based on the methodology regarding rational adjustments to valuation of fixed assets stipulated in Article 2-3, and appraisals by licensed real estate appraisers prescribed in Article 2-5 of the Enforcement Ordinance No. 119 (March 31, 1998) pertaining to the Law Concerning Revaluation of Land.

Date of revaluation: March 31, 2002

(5) Overdraft agreements and commitment line agreements

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

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

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

NOTE 6
Notes to Consolidated Statements of Income and Comprehensive Income

(1) Devaluation of inventories

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

(2) Research and development expenses

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

(3) Restructuring loss

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

(4) Loss on liquidation of subsidiaries and affiliates

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

(5) Impairment loss

Year ended March 31, 2013

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

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

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

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

Details of impairment loss

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

Year ended March 31, 2012

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

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

Details of impairment loss

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

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

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

NOTE 7

Notes to Consolidated Statements of Changes in Net Assets

(1) Number of outstanding common stock:

Shares

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

(2) Number of outstanding treasury stock:

Shares

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

(3) Dividends

Year ended March 31, 2013

1 Dividend

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

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

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

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

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

Year ended March 31, 2012

1 Dividend

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

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

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

NOTE 8

Notes to Consolidated Statements of Cash Flows

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

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

NOTE 9

Information for Certain Leases

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

Year ended March 31, 2013

Not applicable

Year ended March 31, 2012

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

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

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

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

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

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

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

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

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

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

NOTE 10

Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

(3) Risk management for financial instruments

1) Credit risk management (customers' default risk)

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

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

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

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

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

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

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

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

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

(4) Supplementary explanations concerning fair values of financial instruments

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

2. Matters concerning the fair value of financial instruments

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

Year ended March 31, 2013

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

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

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

Year ended March 31, 2012

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

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

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

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

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

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

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

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

Year ended March 31, 2013

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

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

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

Year ended March 31, 2012

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

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

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

NOTE 11

Investment Securities

1. Held-to-maturity debt securities

Year ended March 31, 2013

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

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

			Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	$ —	$ —	$ —
b. Corporate bonds	10,749	10,773	23
c. Other	—	—	—
Total	10,749	10,773	23

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

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

			Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	$ —	$ —	$ —
b. Corporate bonds	13,998	13,920	(78)
c. Other	—	—	—
Total	13,998	13,920	(78)

Year ended March 31, 2012

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

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

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

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

2. Available-for-sale securities

Year ended March 31, 2013

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

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

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

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

Year ended March 31, 2012

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

Millions of yen

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

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

Millions of yen

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

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

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

Year ended March 31, 2013

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

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

Year ended March 31, 2012

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

4. Impairment loss on securities

Year ended March 31, 2013

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

Year ended March 31, 2012

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

NOTE 12
Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Year ended March 31, 2013

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

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

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

Year ended March 31, 2012

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

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

(2) Composite financial instruments

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

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Year ended March 31, 2013

Not applicable

Year ended March 31, 2012

Not applicable

(2) Interest rates

Year ended March 31, 2013

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

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

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

Year ended March 31, 2012

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

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

NOTE 13
Retirement Benefits

Overview of retirement benefit plans

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

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

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

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

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

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

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

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

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

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

NOTE 14

Stock Option Plan

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

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

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

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

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

Shares

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

shares

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

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

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

Yen

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

Yen

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

U.S. dollars (Note 1)

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

U.S. dollars (Note 1)

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

NOTE 15

Income Taxes

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

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

(2) Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the years ended March 31, 2013 and 2012

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

NOTE 16

Asset Retirement Obligations

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

NOTE 17

Investment and Rental Property

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

NOTE 18

Segment Information

1. Outline of reporting segments

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

Planning of business development and strategies as well as execution of business activities in respect of each product and service are carried out by each Group company that provides such product and service.

As such, the Group is comprised of segments classified by product and service provided through the business run by each company, in which "Pachislot and Pachinko Machines," "Amusement Machine Sales," "Amusement Center Operations" and "Consumer Business" are the reporting segments.

Line of business at each reporting segment is as follows:

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

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

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

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

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

The effects on segment income is as follows:

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

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

Year ended March 31, 2013

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

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

Year ended March 31, 2012

Millions of yen

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

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

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

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

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

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

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

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

Millions of yen

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

Thousands of U.S. dollars (Note 1)

Other	Subtotal	Other	Adjustment	Amount in consolidated financial statements
				2013
Depreciation	**$188,274**	**$ 5,085**	**$ 36**	**$193,396**
Increase in property, plant and equipment and intangible assets	**324,850**	**16,591**	**8,222**	**349,664**

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

Millions of yen

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

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

[Related information]

Year ended March 31, 2013

1. Information by each product and service

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

2. Geographical segment information

(1) Net sales

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

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

(2) Property, plant and equipment

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

3. Information by each major customer

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

Year ended March 31, 2012

1. Information by each product and service

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

2. Geographical segment information

(1) Net sales

Millions of yen

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

(2) Property, plant and equipment

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

3. Information by each major customer

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

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

Year ended March 31, 2013

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

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

Year ended March 31, 2012

Millions of yen

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

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

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

Year ended March 31, 2013

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

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

Year ended March 31, 2012

Millions of yen

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

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

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

Year ended March 31, 2013

Not applicable

Year ended March 31, 2012

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

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

NOTE 19

Related Party Transactions

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

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

Year ended March 31, 2013

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

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

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

Year ended March 31, 2012

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

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

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

Year ended March 31, 2013

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

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

Year ended March 31, 2012

Millions of yen

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

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

NOTE 20
Business Combination

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

1. Outline of business combination

(1) Name and business of acquired company

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

(2) Reason for business combination

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

(3) Date of business combination

January 24, 2013

(4) Legal structure

Purchase of shares with cash

(5) Name of company after the combination

Relic Entertainment, Inc.

(6) Share of voting rights acquired

100%

(7) Main reason for deciding acquiring company

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

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

From January 25, 2013 to March 31, 2013

3. Acquisition costs

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

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

(1) Goodwill recognized

¥1,556 million ($16,560 thousand)

(2) Reason for recognition

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

(3) Amortization method and period

7 years using the straight-line method

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

(1) Amount of assets

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

(2) Amount of liabilities

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

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

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

(Consolidation of Butterfly Corporation through acquisition of shares)

1. Outline of business combination

(1) Name and business of acquired company

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

(2) Reason for business combination

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

(3) Date of business combination

January 25, 2013

(4) Legal structure

Purchase of shares with cash

(5) Name of company after the combination

Unchanged

(6) Share of voting rights acquired

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

(7) Main reason for deciding acquiring company

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

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

From January 1, 2013 to March 31, 2013

3. Acquisition costs

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

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

(1) Goodwill recognized

¥891 million ($9,484 thousand)

(2) Reason for recognition

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

(3) Amortization method and period

5 years using the straight-line method

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

(1) Amount of assets

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

(2) Amount of liabilities

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

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

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

NOTE 21

Per Share Data

Per share data is as follows

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

NOTE 22

Significant Subsequent Events

Year ended March 31, 2013

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

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

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

(2) Overview of the subsidiary

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

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

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

2. The Company issued the following straight corporate bonds

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

NOTE 23

Supplemental Information

Supplemental schedule of corporate bonds

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

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

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

				Thousands of U.S. dollars (Note 1)
Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
$62,160	$18,083	$17,019	$97,861	$180,831

Supplemental schedule of borrowings

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

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

Millions of yen

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

Thousands of U.S. dollars (Note 1)

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

Supplemental schedule of asset retirement obligations

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

Independent Auditor's Report

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Without qualifying our opinion, we draw attention to the following

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

Convenience Translation

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

KPMG AZSA LLC

July 26, 2013
Tokyo, Japan

A to Z

For those less familiar with the SEGA SAMMY Group, beginning by reading this section is advisable. It includes basic information on the business lines of the Group and the business conditions it faces.

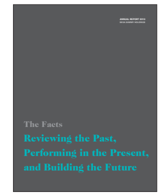
Communication Tools

To further understanding of the SEGA SAMMY Group among shareholders, investors, and a wide range of other stakeholders, the Group upgrades its communication tools continuously.

INVESTORS

Annual Report 2013

In *Annual Report 2013*, we enable shareholders and other investors to assess the SEGA SAMMY Group's potential for sustained corporate growth over the medium-to-long term by presenting information disclosed pursuant to laws and listing regulations based on short-, medium-, and long-term timeframes. Furthermore, in relation to our growth scenarios, we clarify the significance and interconnectedness of the varied information we provide. Also, we use the unique freedom of voluntary disclosures to provide more information on such areas as intangible assets.



Online *Annual Report 2013*

An HTML version of *Annual Report 2013* is available on the investor relations (IR) page of the SEGA SAMMY HOLDINGS web site.

Online *Annual Report 2013* ➔ http://www.segasammy.co.jp/english/ir/ar2013/

IR Web Site Page

On the IR page of the SEGA SAMMY HOLDINGS web site, we post comprehensive, reliable information for shareholders and investors promptly. This includes timely disclosures as well as financial and business results figures in Excel format.

IR page of the SEGA SAMMY HOLDINGS web site ➔ http://www.segasammy.co.jp/english/ir/

INDIVIDUAL INVESTORS

Web Site Page for Individual Investors

A dedicated web site page, "For Individual Investors," and other pages provide an easy-to-follow introduction to the Group's business lines. Meanwhile, *SEGA SAMMY Monthly Report* features the latest information on the Group's products and services (Japanese only).

"For Individual Investors" web site page ➔ http://www.segasammy.co.jp/english/ir/individual/

Business Reports

Every six months, *SEGA SAMMY REPORT* updates our shareholders on business results and topics.

GENERAL STAKEHOLDERS

SEGA SAMMY Group CSR Report 2013

SEGA SAMMY Group CSR Report 2013 details the Group's wide-ranging corporate social responsibility (CSR) activities. Also, our CSR-related web site page, "Social Responsibility," carries the latest reports on our CSR activities.

"Social Responsibility" web site page ➔ http://www.segasammy.co.jp/english/pr/commu/

History

	SEGA	Sammy
1950	1951 Founded	
1960	1960 Incorporated (Company name: Nihon Goraku Bussan Co., Ltd.) 1964 Started production of amusement arcade machines. 1965 Started operation of amusement centers. Changed company name to SEGA ENTERPRISES LTD.	
1970		1975 Established Sammy Industry Co., Ltd. 1978 Began game machine development.
1980	1983 Launched *SG-1000* 8-bit home video game platform. 1985 Launched *Hang On*, the world's first force feedback game. Launched *UFO Catcher*. 1986 Registered stock on over-the-counter (OTC) market. 1988 Listed stock on the second section of the Tokyo Stock Exchange (TSE). Launched *Mega Drive* 16-bit home video game platform.	1982 Began marketing of pachislot machines. 1989 Began sales of *Aladdin* single-bonus hitter pachislot machine.
1990	1990 Listed stock on the first section of the TSE. Launched *R-360*, the world's first amusement arcade machine that could rotate 360 degrees in all directions. 1991 Launched first title in the *Sonic the Hedgehog* series. 1993 Launched *Virtua Fighter*, the world's first amusement arcade 3D computer graphics fighting game. 1994 Launched *SEGA Saturn* 32-bit home video game platform. 1995 Launched *Print Club* with ATLUS Co., Ltd. 1996 Opened *TOKYO JOYPOLIS* rooftop theme park in Tokyo's Odaiba area. 1998 Launched *Dreamcast* home video game platform.	1991 Moved head office to Toshima-ku, Tokyo. 1995 Began sales of pachinko machines. 1997 Changed company name to Sammy Corporation. 1999 Registered stock on OTC market. Launched *GeGeGe No Kitaro*, the first pachislot machine equipped with an LCD.
2000	2000 Changed company name to SEGA CORPORATION. 2003 Launched *The King of Beetles "MUSHIKING"* kids' card game.	2000 Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary. 2001 Listed stock on the first section of the TSE. Completed Kawagoe Factory. 2003 Launched *Hokuto No Ken* pachislot machine, which set a new record for unit sales.

SEGA SAMMY HOLDINGS

2004 Established SEGA SAMMY HOLDINGS INC.

2005 Acquired all outstanding shares of The Creative Assembly Ltd. (SEGA).

2006 Made SPORTS INTERACTIVE Ltd. a wholly owned subsidiary (SEGA).
Entered strategic business alliance with Sanrio Company, Ltd. (SEGA SAMMY HOLDINGS).

2007 Made TAIYO ELEC Co., Ltd., a subsidiary (Sammy).

2008 Reached agreement with Sanrio Company, Ltd., to jointly develop new characters (SEGA SAMMY HOLDINGS).

2009 Made GINZA CORPORATION a subsidiary (Sammy).
Established SEGA SAMMY VISUAL ENTERTAINMENT INC.* (SEGA SAMMY HOLDINGS).

2010

2010 Made Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD., wholly owned subsidiaries (SEGA SAMMY HOLDINGS).

2011 Made TAIYO ELEC Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS).
Retired 17 million shares of treasury stock (SEGA SAMMY HOLDINGS).

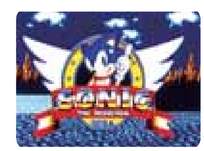
2012 Made Phoenix Resort Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS).
Concluded agreement on establishment of joint venture with Paradise Group of South Korea (SEGA SAMMY HOLDINGS).
Established SEGA Networks, Ltd., through divestiture from SEGA (SEGA).

2013 Made successful bid in public offering in Busan, South Korea, for project to develop *Centum City*, a multi-project urban development area (SEGA SAMMY HOLDINGS).
Acquired North American developer Relic Entertainment Inc. and intellectual properties related to titles under development (SEGA).

* Currently MARZA ANIMATION PLANET INC.

UFO Catcher
© SEGA

Aladdin pachislot machine
© Sammy



Sonic the Hedgehog
© SEGA

Hokuto No Ken pachislot machine
© Buronson & Tetsuo Hara
© Sammy

Phoenix Seagaia Resort

Summary of the SEGA SAMMY Group

Pachislot Hokuto No Ken Chapter of Resurrection
© Buronson & Tetsuo Hara / NSP1983
© NSP2007, Approved No. YGL-126
© Sammy

The SEGA SAMMY Group is a comprehensive entertainment company that provides new types of gameplay in a broad array of areas from pachislot and pachinko machines through amusement arcade machines, amusement center operations, game content, toys, and animation.

SEGA SAMMY HOLDINGS INC.

Date of Establishment	October 1, 2004
Capital	¥29.9 billion
Total Shares Issued and Outstanding	266,229,476 shares
Number of Shareholders	82,682
Number of Employees	7,008 (consolidated)

As of March 31, 2013

SEGA SAMMY HOLDINGS

SEGA SAMMY's dramatic progress worldwide

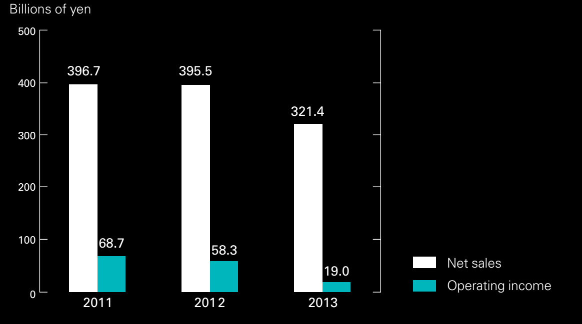
SEGA SAMMY blue
success and growth

SEGA SAMMY green
stability and permanence

The Group Logo

The logo symbolizes the creation of synergies by intertwining two renderings of the initial letter of both company names, the letter S, in the blue and green corporate colors of SEGA and Sammy. The curving lines linking SEGA and Sammy represent the Earth, simultaneously expressing the companies' solidarity and the Group's determination to develop globally.

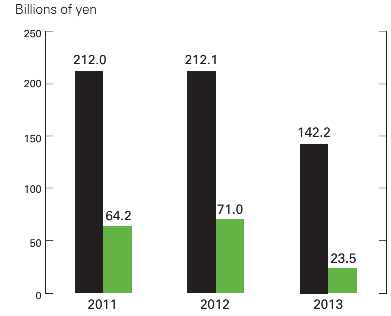
Net Sales / Operating Income



Pachislot and Pachinko Machine Business

This business segment comprises the pachislot machine business, which has realized outstanding brand power by providing innovative products constantly, and the pachinko machine business, which has been building brand power by strengthening development capabilities. A feature of the business segment is an operational structure that is based on a robust earnings and a balanced product portfolio, and is therefore highly resistant to market volatility. Going forward, we aim to maintain and extend our leading share of the pachislot machine market and claim the No. 1 share of the pachinko machine market in the medium term. To this end, we are further bolstering our development system while ramping up manufacturing and supply capabilities.

Net Sales / Operating Income



TOKYO JOYPOLIS
© SEGA

Other Businesses

With our sights set on establishing integrated resorts including casinos in Japan, we are developing a resort complex in Japan and integrated resorts including casinos and a resort complex overseas. In South Korea, to garner casino management know-how we are participating in projects to develop integrated resorts including casinos through joint venture with the Paradise Group.

A rendering of the integrated resort including casinos that PARADISE SEGASAMMY Co., Ltd., is developing.

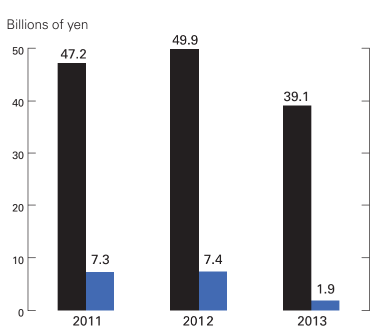
SENGOKU-TAISEN
© SEGA

Kingdom Conquest II
© SEGA/
© SEGA Networks

Amusement Machine Sales Business

As a pioneer in amusement arcade machines, this business segment has created numerous world-first and industry-first products and thereby contributed to the industry's development. Furthermore, it is promoting the introduction of a revenue-sharing business model and other business models that reduce amusement center operators' initial capital investment burden or develop new player groups and thereby help stabilize the Group's earnings.

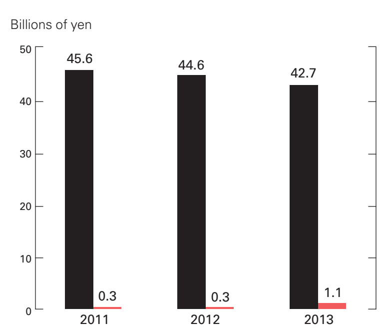
Net Sales / Operating Income



Amusement Center Operations

In this business segment, we are revamping our portfolio of amusement centers continuously while strengthening their operational capabilities. At the same time, aiming to provide entertainment that grandparents, parents, and children can enjoy, we are developing new amusement facilities, such as *Orbi Yokohama*, that go beyond the boundaries of traditional amusement centers.

Net Sales / Operating Income

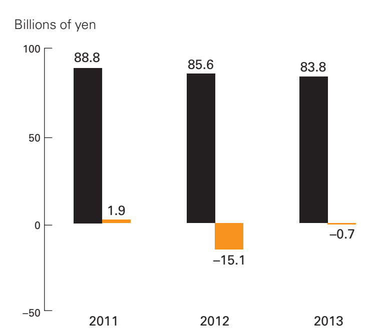


Consumer Business

This business segment comprises the game content business, the toy sales business, and the animation business.

The game content business is urgently shifting the allocation of management resources toward digital game content for social networking services (SNS) and smartphones. In conjunction with these efforts, the business is advancing a cross-platform strategy designed to enable sharing of game content among multiple devices. Meanwhile, in the toy sales business, SEGA TOYS CO., LTD., is building a unique position through the development of edutainment toys and products for adults. In the animation business, TMS ENTERTAINMENT, LTD., is generating steady earnings by taking advantage of rich animation assets. Furthermore, MARZA ANIMATION PLANET INC. is producing computer graphics (CG) animation.

Net Sales / Operating Income (Loss)



Pachinko and Pachislot—The Basics

What Are Pachinko and Pachislot?

Pachinko machines trace their origins to bagatelle boards, imported to Japan almost a century ago, in the 1920s. In the 1930s, the first pachinko hall opened for business. The prototype of modern pachinko machines, the "Masamura Gauge" machine, appeared in 1949. Subsequently, pachinko machines evolved to reflect the preferences of Japanese players. Pachinko is a game in which players manipulate a handle in order to mechanically shoot steel pachinko balls with diameters of about 11mm onto a vertically positioned board studded with numerous pins. When the balls fall into certain devices or the jackpot mouth, additional pachinko balls are won. The gameplay is similar to pinball. The main difference is that in a pachinko machine the board is nearly vertical.

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

The functions and gameplay of pachinko and pachislot machines have continued to evolve, creating a uniquely Japanese form of entertainment. Today, machines continue to entertain fans through varied, dynamic staging based on LCDs and a range of other electronic components.

The History of Pachinko and Pachislot

	Pachinko	Pachislot
1920s	Bagatelle boards arrive in Japan from overseas.	
1930s	First pachinko hall opens for business in Nagoya.	
1940s	Prototype of modern machines, "Masamura Gauge" appears. Entertainment Establishments Control Law enforced, pachinko halls begin operating under license.	
1950s	Pachinko machine manufacturers' industry association, Nikkoso, established. First pachinko machines with "Yakumono" appear.	
1960s	Machines with tulip-shaped devices appear.	Large slot machines imported to Japan.
1970s	Electric pachinko machines appear.	
1980s	Pachinko machines with digital displays, "digipachi," appear.	Pachislot machine manufacturers' industry association, Nichidenkyo, established. Box-cabinets appear and spread rapidly.
1990s	1991 Pachinko machines with LCDs appear. 1992 "CR machines" compatible with prepaid cards appear. First tie-up pachinko machine appears.	No. 2 through No. 4 pachislot machines appear.
2000s	2004 Revised Entertainment Establishments Control Law enforced. New-format machines appear.	Games diversify with appearance of slot machines requiring a certain level of playing skill, CT machines, multi-line, and large-jackpot machines. 2004 Revised Entertainment Establishments Control Law enforced. No. 5 pachislot machines appear.

Pachinko Machine Boards and Frames

The frame is the cabinet part of a pachinko machine and has attached to it a handle, a glass frame unit, and speakers. Also, the frame physically controls the shooting and paying out of pachinko balls. Meanwhile, the board comprises LCDs, "Yakumono", and numerous pins. The board incorporates electronic components, such as boards and sensors that control gameplay, including images and win chances presented by LCDs, and payouts. Because frames can be used continuously for certain periods, pachinko hall operators can introduce new pachinko machines by purchasing boards and simply attaching them to frames already installed at pachinko halls. Also, because the price of a pachinko board is less than that of an entire machine (a frame and a board), this arrangement enables pachinko hall operators to lighten their capital investment burden. For manufacturers, sales of pachinko boards provide higher margins than sales of entire machines and help maintain market share. Therefore, board sales benefit manufacturers and pachinko hall operators.

Frame

Boards

Pachinko CR Shin-Juoh
© Sammy

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

Pachinko CR Hokuto No Ken 5 Hasha
© Buronson & Tetsuo Hara/ NSP1983, Approved No. YKA-105
© Sammy

How to Play Pachinko

Step 1: Rent balls

After deciding which machine to play, the player rents special balls and puts them into the machine's upper tray.

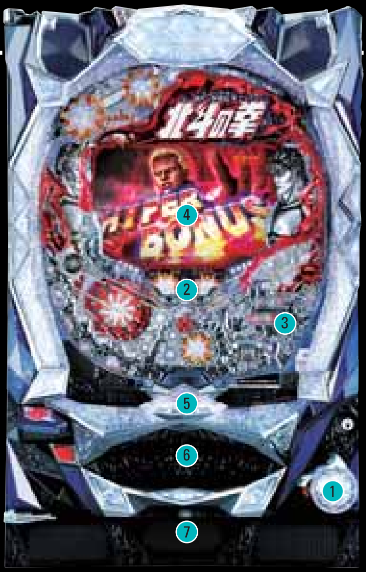
Step 2: Shoot balls

Turning the handle on the bottom right shoots the balls. For most machines, when a ball enters the start hole underneath the LCD, the machine gives the player a chance to win a jackpot. Therefore, player uses the handle to adjust the impetus of the balls so that as many as possible enter the start hole.

Step 3: If the player hits the jackpot…

If the LCD screen shows the same three figures (numbers) in a line, the player wins the jackpot. When the player wins the jackpot, the jackpot mouth in the lower part of the machine opens, and the player continues shooting balls. If a large number of balls fill the lower tray, the player can use the ball remover to transfer the balls to a box.

1. Handle
2. Start hole
3. Jackpot mouth
4. LCD
5. Upper tray
6. Lower tray
7. Ball remover



Pachinko CR Hokuto No Ken 5 Hasha

How to Play Pachislot

Step 1: Rent medals

After deciding which machine to play, the player rents special medals.

Step 2: Enter medals, spin the reels

The player puts three or more medals into the machine's medal slot and pushes the lever to spin the reels.

Step 3: Halt the reels

The player halts the reels by using the stop buttons on the front of the machine cabinet.

Step 4: Depending on the figures, the halted reels show…

If the reels show the same three figures in a line, depending on the figures, the player can either spin the reels again, receive a small payout of a set number of medals, or begin a jackpot bonus game.

1. Medal slot
2. Credit display
3. Bet button
4. Lever
5. Main reels
6. Stop buttons
7. Payout display
8. Medal discharge
9. Tray for receiving medals
10. Panel
11. LCD

Pachislot Hokuto No Ken Chapter of Resurrection

Size and Competitive Conditions of Pachinko and Pachislot Machine Markets

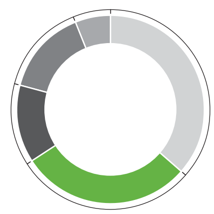
This section focuses on the structures of the highly distinctive markets for pachinko and pachislot machines and the regulatory environments of these markets.

Market Scale

As one of Japan's flagship leisure industries, pachinko and pachislot claims a major share of the country's leisure market. Comprising the ball and token rental fees that the pachinko halls charge, this market accounts for roughly 29.5% of the leisure market, revenues of ¥19.0 trillion[1], and 11.1 million players[1]. In the pachinko and pachislot machine manufacturing industry, machine sales are worth approximately ¥1.2 trillion[2]. Of this amount, the pachinko machine market represents 64.3%, or ¥772.9 billion[2], and the pachislot machine market 35.7%, or ¥429.9 billion[2]. The increasingly advanced technology used for machines is broadening the range of industries involved in the pachinko and pachislot industry. These include manufacturers of components, such as LCDs, light-emitting diodes (LEDs), and sensors, and manufacturers of peripheral equipment for the machines, who have developed in step with pachinko halls' growing automation.

1 2012
Source: *White Paper on Leisure Industry 2013*, Japan Productivity Center
2 Fiscal 2012. Source: Yano Research Institute Ltd.

Shares of Pachinko and Pachislot in Japan's Leisure Market



Japan's Leisure Market[3]
¥64.7 trillion

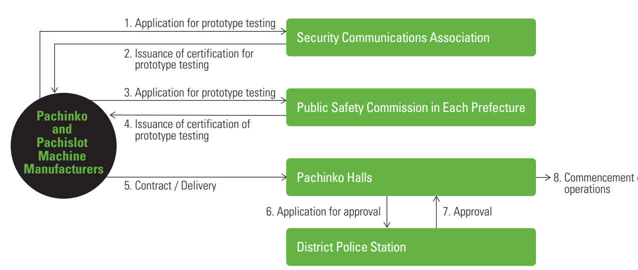
	%	Trillions of yen
Games / Publicly operated sports / Eating and drinking	36.6	23.6
Pachinko and pachislot[4]	29.5	19.0
Hobbies	13.0	8.4
Tourism	14.9	9.6
Sports	6.0	3.9

Source: *White Paper on Leisure Industry 2013*, Japan Productivity Center
3 2012
4 Total amounts of hall ball and token rentals

Regulatory Environment

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

Approval Process for Pachinko and Pachislot Machines

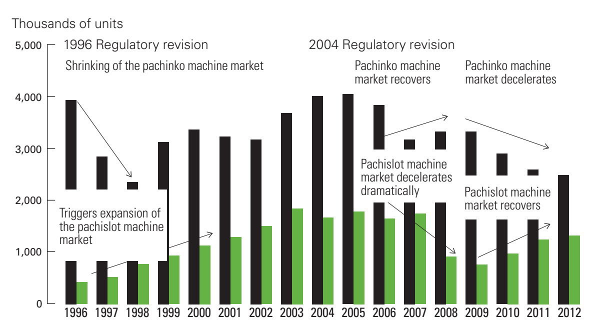


Changes in Market Conditions Due to Regulatory Reform

The Entertainment Establishments Control Law and the internal regulations of industry bodies have been revised frequently with a view to the sound development of the industry. Each revision has affected the pachinko and pachislot machine market. Changes in demand due to changes in gameplay as well as pachinko and pachislot machine manufacturers' innovations in response to changes have created a market in which sales of pachinko and pachislot machines go through cyclical peaks and troughs.

To secure stable earnings in a market in which demand fluctuates repeatedly over short periods, pachinko and pachislot machine manufacturers need to heighten their pachinko and pachislot machines' brand power.

Cyclically Changing Market Conditions



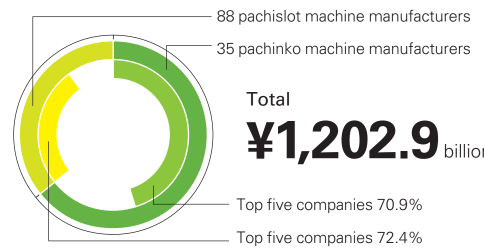
Source: Yano Research Institute Ltd.
(Settlement dates from July to June)

Strengthening Oligopoly among Leading Titles and Companies

The pachinko and pachislot machine markets comprise 35[5] pachinko machine manufacturers and 88[6] pachislot machine manufacturers. Due to the decline in the number of players since the July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law, pachinko hall operators have been facing difficult cash flow situations. As a result, a pronounced bias has emerged in market demand toward titles and manufacturers that promise reliable returns on investment. Consequently, recent years have seen the development of an increasingly well-defined oligopoly comprising titles and brands with solid utilization rate track records and companies with robust development capabilities and abundant funds for investment.

5 As of July 31, 2013. Member companies of Nikkoso, the pachinko machine manufacturers' industry association
6 As of July 31, 2013. Member companies of Pachislot Manufacturing Network

Pachinko and Pachislot Machine Market Scale[7]



	Billions of yen
Pachinko machines	772.9
Pachislot machines	429.9

Source: Yano Research Institute Ltd.
7 Fiscal 2012 (settlement dates from July to June)

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

1. Annual Turnover

Annual turnover is a benchmark of pachinko hall operators' financial position, which affects pachinko and pachislot machine sales directly. Annual turnover shows how many times pachinko hall operators replace machines during one year. When pachinko hall operators have extra capital investment capacity, they actively replace existing machines with new ones to attract customers and annual turnover rises. If they have less extra capital, annual turnover declines.

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

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

2. Utilization Rate

The utilization rate reflects the utilization time of pachinko and pachislot machines as a percentage of business hours. Normally, the utilization rate declines gradually after a machine is installed. A shallower-than-average decline shows the degree to which a machine has earned players' long-term support. Because the utilization rate has a direct bearing on pachinko hall operators' sales, the extent to which pachinko and pachislot machine manufacturers have titles with high utilization rates affects their brand appeal and earnings.

$$\text{Utilization rate} = \frac{\text{Utilization time of pachinko or pachislot machines}}{\text{Pachinko hall operators' business hours}}$$

Shows players' support of pachinko and pachislot machines

Market Conditions for Each Business

Pachinko and Pachislot Machine Market

Long-Term Trends—From the 1990s to 2005

After peaking in 1995, the number of players began trending downward due to casual players leaving the market because an increasing number of machines featured more complicated gameplay or strong gambling elements. As a result, the pachinko and pachislot machine market[1] entered a period of long-term decline. Fiercer competition among pachinko hall operators to attract players led to a shakeout of small pachinko hall operators with less financial muscle. Consequently, the number of pachinko halls continued to decrease.

Meanwhile, unit sales of pachinko and pachislot machines remained solid, thanks to heavy demand from pachinko hall operators as they sought to secure players by replacing existing machines with new models. Also, the market generated higher revenue levels as the prices of machines continued to rise due to the incorporation of such features as large-size LCDs. From the mid-1990s onward, regulatory reform caused pachinko machine installations to trend downward. Meanwhile, installations of pachislot machines grew because features requiring more playing skill and new functions offered a wider scope of gameplay.

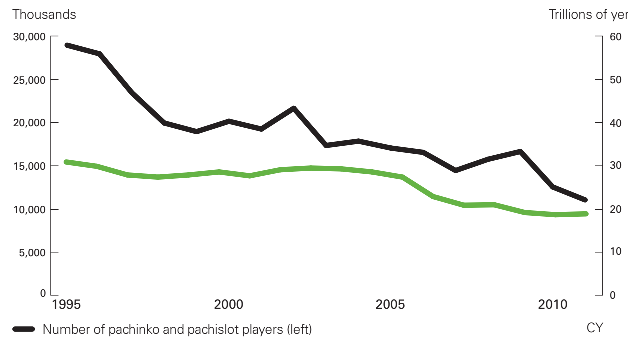
Following the July 2004 Regulatory Revision

1. Pachislot Machine Sales Slump, Pachinko Machine Sales Rise (from 2006 to mid-2009)

Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. After the interim measures period[2] ended in fall 2007, pachinko hall operators proceeded to replace old-format pachislot machines with those compliant with the new regulations. As a result, players' departure from the market accelerated due to the major change in gameplay. In response, pachinko hall operators actively replaced pachislot machines with pachinko machines, which were recording comparatively steady utilization rates[3]. This resulted in an upturn in installations of pachinko machines. Annual pachinko machine unit sales plateaued because of softening annual turnover, which resulted from the tough business conditions pachinko hall operators were facing. However, the pachinko machine market continued to expand on a revenue basis. This growth was attributable to a rise in prices for machines, stemming from the increased use of advanced technologies and hikes in copyright fees for major intellectual properties. Faced with deteriorating profitability due to the higher investment burden of machine replacement and declining player numbers, pachinko hall operators sought reliable returns by introducing machines that promised high utilization rates. This caused the market to polarize further into two groups: leading manufacturers and other manufacturers.

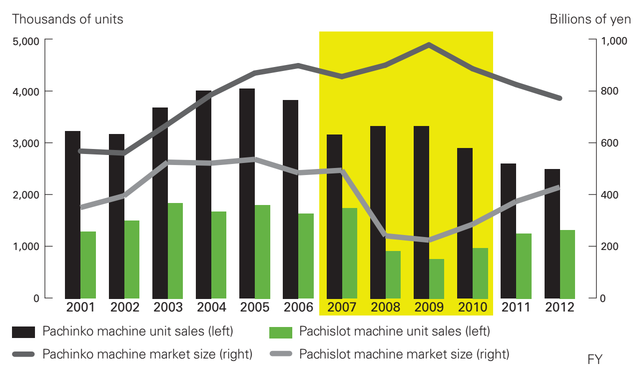
1 The total of pachinko hall operators' ball rental fees and token rental fees
2 Aiming to mitigate sudden change of conditions and investment burden of pachinko hall operators, the regulatory revision of July 2004 included a three-year interim measures period for replacing old machines with new-format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

Pachinko and Pachislot—Player Numbers and Market Size



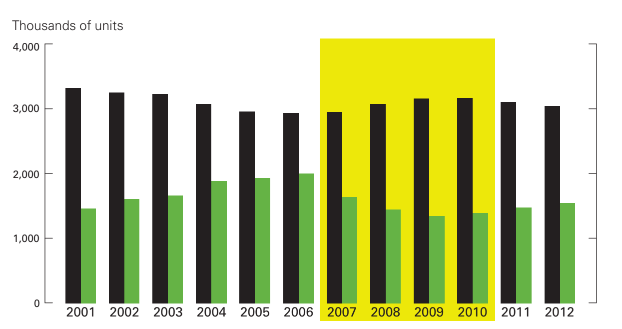
Number of pachinko and pachislot players (left)
Pachinko and pachislot machine market size (right)
Source: *White Paper on Leisure Industry 2013*, Japan Productivity Center

Pachinko and Pachislot Machines—Unit Sales and Market Size



Pachinko machine unit sales (left) Pachislot machine unit sales (left)
Pachinko machine market size (right) Pachislot machine market size (right)
Source: Yano Research Institute Ltd. (Settlement dates from July to June)

Pachinko and Pachislot Installations



Pachinko machine installations Pachislot machine installations
Source: National Police Agency

2. Pachinko Machine Sales Decelerate, Pachislot Machine Sales Recover (since mid-2009)

Since 2007, casual players began leaving the pachinko market due to the increasing installation of pachinko machines with a strong gambling element, known as "Max-type" machines, which promised a comparatively early return on investment. In response, pachinko hall operators adopted a strategy of lowering ball rental fees significantly, while manufacturers introduced pachinko machines with weaker gambling elements in an effort to broaden the player base.

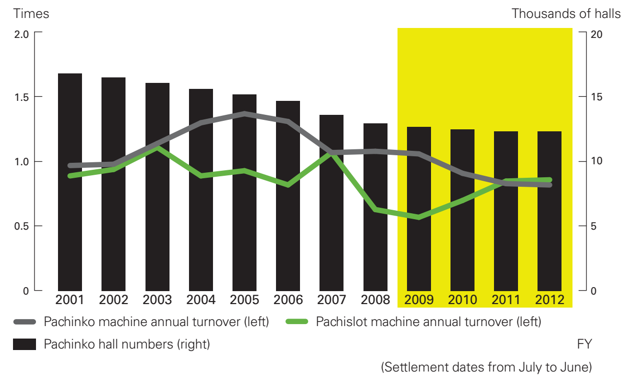
Although lowering ball rental fees increased utilization rates, it led to a decline in sales per machine for pachinko hall operators, worsening their business results. As the sudden drop in annual turnover[4] shows, the softening of replacement demand for new pachinko machines became more conspicuous from the second half of 2009. Meanwhile, demand began to rise among pachinko hall operators for pachislot machines with gameplay that was able to earn player support while remaining within the bounds of regulatory reforms. The recovery of pachislot machines since bottoming in fall 2007 is clear from such indicators as annual turnover, utilization rates, and average gross profit per machine per day[5].

4 Annual turnover = Annual unit sales ÷ Machine installations
5 Average gross profit per machine per day for pachinko hall operators

Current Conditions and the Industry's Tasks

Currently, the number of pachinko and pachislot players remains on a downward trend, the business management of pachinko halls remains challenging, and polarization due to the bias of demand toward leading manufacturers is becoming clearer. Looking ahead, market conditions are expected more than ever to favor several leading companies, which will survive to reap the benefits. Such companies will prosper because they continue to provide machines with high utilization rates that help increase pachinko hall operators' sales, thereby successfully maintaining and enhancing their brand power. Furthermore, the industry as a whole should collaborate to expand the player base from a medium-to-long-term viewpoint. Pachinko and pachislot machine manufacturers that can help extend the player base by developing and providing machines that cater to the needs of a wide range of age groups are likely to maintain their competitive advantage.

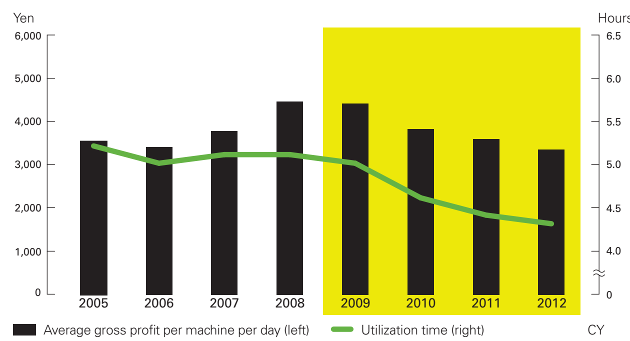
Annual Turnover and Pachinko Hall Numbers



Sources: The Company has calculated annual turnover based on data from the National Police Agency and Yano Research Institute Ltd. Pachinko hall numbers are from the National Police Agency.

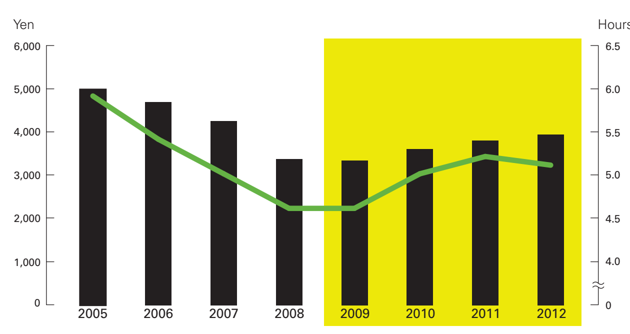
Utilization of Pachinko and Pachislot Machines

Pachinko Machines



Source: Daikoku Denki Co., Ltd., *DK-SIS* data

Pachislot Machines



Source: Daikoku Denki Co., Ltd., *DK-SIS* data

Amusement Market (Amusement arcade machines / Amusement center operations)

Progress of Measures to Invigorate the Amusement Center Operations Market

The amusement center operations market has been contracting since fiscal 2007. During the five years between fiscal 2007 and fiscal 2011, it contracted approximately 30%. During this period, amusement center operators responded by closing unprofitable amusement centers and increasing operational efficiency. As a result, the rate of decrease in sales in the market as a whole and at existing amusement centers has been showing signs of deceleration, and capital investment in such areas as the introduction of new products has been picking up steadily. Breaking down performance, while amusement centers in shopping centers and bowling alleys are performing solidly, traditional amusement centers continue to face tough business conditions.

Amid limited cash flows, the industry faces the task of sustaining growth by introducing new products effectively, invigorating amusement centers, and extending the player base to include not only core players but also families. Another important task is responding to the planned increase in consumption tax.

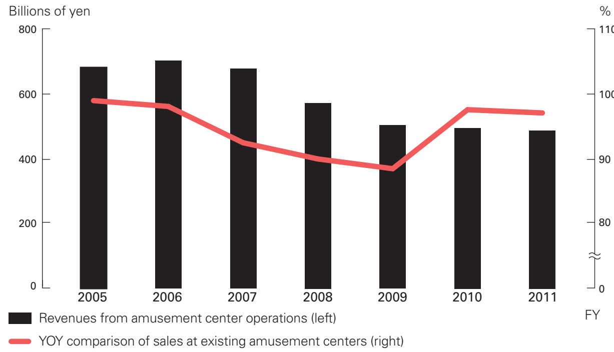
Amusement Arcade Machine Sales Market Regains Firmness

Amusement center operators' capital investment affects the market for amusement arcade machines directly. From fiscal 2007, sales declined year on year. However, thanks to a recovery in amusement center operators' capital investment, amusement arcade machine sales began increasing from fiscal 2010. In fiscal 2011, video games (machine cabinets, boards, and software), which generate significant revenues, grew sales 13.4% year on year, while medal game sales were up 18.3% year on year. Consequently, amusement arcade machines sales as a whole rose 7.5% from the previous fiscal year.

Amusement arcade machine manufacturers are marketing products and promoting business models that reduce the initial investment burden for amusement center operators with limited cash flows, encourage the introduction of new products, and invigorate amusement centers. Specifically, business models that enable amusement center operators to upgrade content by simply replacing boards or downloading new content are becoming more common. Also becoming widespread are revenue-sharing business models, in which manufacturers sell amusement arcade machines at low prices and share revenues from machine utilization with amusement center operators. In addition, a trend is emerging toward business models based on free-to-play (F2P) games that incorporate intellectual properties popular among a wide range of age groups. These business models aim to broaden the player base by attracting customer groups that do not tend to visit amusement centers, such as families and women.

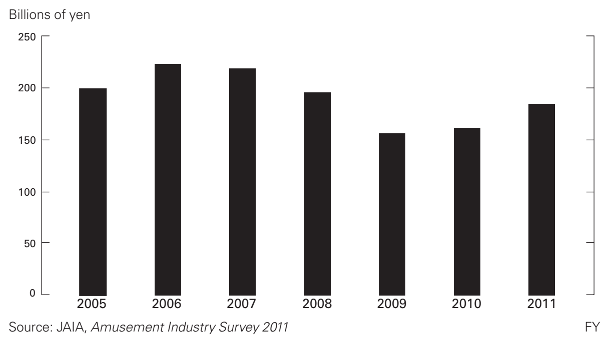
All market data in the text is from JAIA, *Amusement Industry Survey 2011*.

Revenues from Amusement Center Operations / YOY Comparison of Sales at Existing Amusement Centers



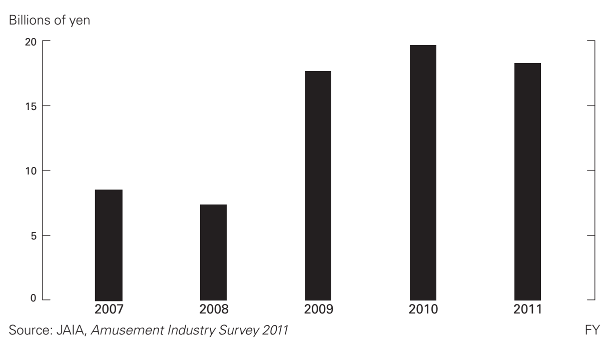
Source: JAIA, *Amusement Industry Survey 2011*

Amusement Arcade Machine Sales*



Source: JAIA, *Amusement Industry Survey 2011*
* Total domestic sales and exports

Revenues from Content Fees / Revenue-Sharing Business Models



Source: JAIA, *Amusement Industry Survey 2011*

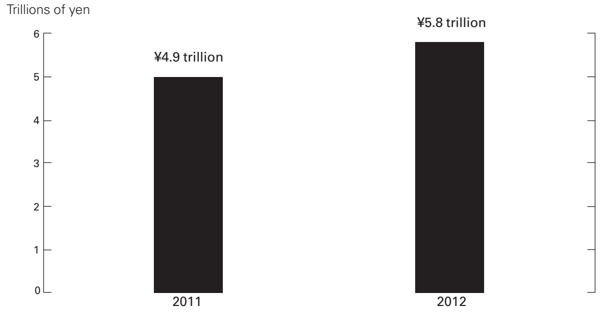
Game Content Market

Shift to Digital Game Content Accelerates

In 2012, sales in the game content market[1], comprising packaged game software and digital game content, rose 16.4% year on year, to approximately ¥5.8 trillion[2]. The market for packaged game software contracted significantly, reflecting a fallow period before the change-over to a new generation of home video game consoles and expansion of the digital game content market. In Japan's packaged game software market, the year-on-year decline was only 1.3%[2], thanks to support from several major hit products. However, the packaged game software market decreased 23%[2] in North America and 16.0%[2] in Europe. Furthermore, with popularity concentrating on certain well-known titles, major publishers' oligopoly continued to strengthen. As the packaged game software market continues to shrink, the counter-acting role of the next-generation market segment has emerged clearly. As for China, the market for highly popular online games continued to grow and generated sales of ¥904.2 billion, surpassing Japan's game content market.

1 New packaged game software for home video game consoles and PCs + next-generation market segment, comprising game content for mobile phones and smart devices, downloadable PC games, and social games
2 Source: *Famitsu Game White Paper 2013*

Estimated Value of Global Game Content Market



Source: *Famitsu Game White Paper 2013*

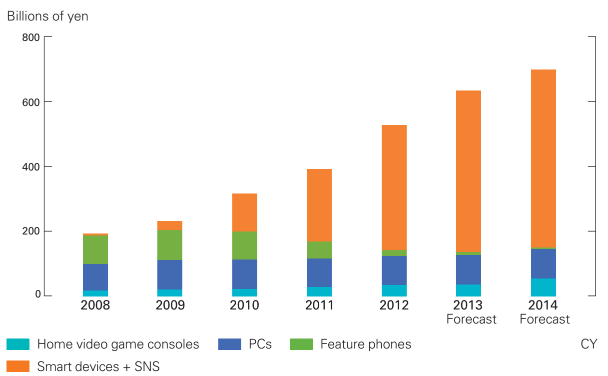
Network Compatibility of Home Video Game Consoles Set to Increase

In 2012, Japan's market for game content with network connectivity, which includes content for home video game consoles, handheld game terminals, PCs, and smart devices, grew 34.3% year on year, to ¥528.5 billion[3]. In this market, sales of applications for smart devices and SNS were up 71.5%, to ¥385.6 billion[3], and the value of this market segment is expected to grow to ¥540.0 billion[3] in 2014.

Furthermore, network compatibility is increasing steadily, with sales of online game content for home video game consoles up 20% year on year in 2012. The next-generation of home video game consoles due for release this winter are likely to feature significantly upgraded network capabilities. An increase in game content with digitally downloadable software and such new features as F2P individual-item-fee formats, and cloud synchronization promises to revive home video game consoles. In 2014, as new home video game consoles penetrate, the market for online game content for such game consoles is expected to rise 62% compared with 2012.

3 Source: *f-ism*

Japan's Market for Game Content with Network Connectivity



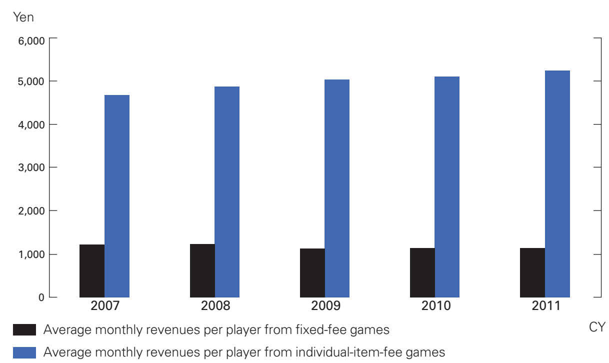
Source: *f-ism*

Digital Game Content Market Approaches Turning Point

An open-source development environment has significantly lowered the entry barrier to the content market for smart devices and given rise to a market where countless companies and individuals compete to create innovative products. Moreover, the spread of smart devices has increased points of contact with potential players who are less familiar with video games, and casual games are widening the player base by attracting casual players. Having grown dramatically as a result of these trends, the digital game content market is currently approaching a turning point.

As content, particularly for puzzle games, becomes increasingly homogeneous, player demand is shifting toward absorbing graphic-rich video games that exploit the capabilities of smartphones and high-speed mobile broadband. This has triggered a shift from browser applications to native applications. The main type of application until now, browser applications are operated through browsers and processed by external servers, while native applications are processed by terminals after installation and are suited to rich content. Also, recently there has been stepped-up adoption of F2P business models in which basic play is free and return on investment is earned through individual item fees. Consequently, competitive conditions in the digital game content market are gradually beginning to favor major companies that have plentiful intellectual properties, abundant development resources for video games for dedicated game machines, expertise in individual item fees, and adequate financial resources.

Average Monthly Revenues per Player



Source: *JOGA Online Game Market Research Report 2012*

Also, cloud games that are not overly reliant on device performance and take advantage of cloud computing are diversifying gameplay by allowing players to play a single game on a range of different devices, such as home video game consoles, handheld game terminals, and smartphones.

Looking ahead, companies able to offer numerous games with superior content while building systems that attract players effectively are likely to survive.

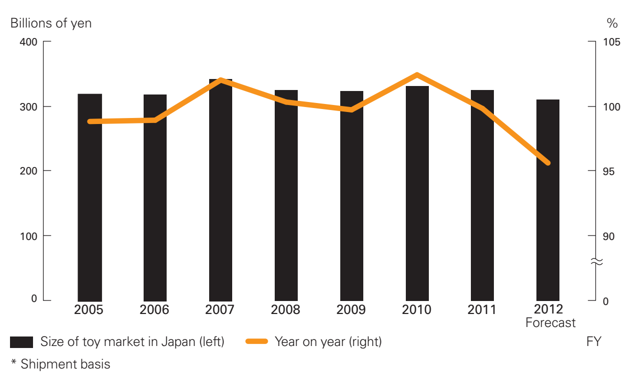
Toy and Animation Markets

In fiscal 2011, Japan's toy market, excluding home video game consoles and software, only edged down 0.3% year on year, to ¥325.1 billion, thanks to favorable sales of toys for girls and trading card games as well as solid sales of toys for boys, which have driven the market in recent years. In fiscal 2012, the toy market is projected to decline 4.5% year on year, to ¥310.5 billion, on a manufacturers' shipment basis because toys for boys and trading card games are losing momentum, while other products are sluggish overall.

In 2011, the animation market did not see any major animation hits at movie theaters, and revenues from Japanese animation and Western animation declined year on year. As a result, the market shrank 4.1% compared with the previous fiscal year, to ¥219.7 billion*. As for television animation, revenues from terrestrial broadcasting were approximately unchanged year on year, while revenues from satellite and CATV broadcasting increased marginally. The market is likely to grow steadily as more households are able to view animation channels.

* Source: Media Development Research Institute Inc.

Toy Market in Japan*
(excluding home video game consoles and software)



* Shipment basis
Source: Yano Research Institute Ltd.

Market Data

Number of Pachinko Halls

Number of halls

CY	2008	2009	2010	2011	2012
Number of pachinko halls with pachinko machines installed	11,800	11,722	11,576	11,392	11,178
Number of pachinko halls with only pachislot machines installed	1,137	930	903	931	971
Total	12,937	12,652	12,479	12,323	12,149

Source: National Police Agency. Number of pachinko halls with pachinko machines installed includes halls that combine installations of pachinko machines, pachislot machines, arrange-ball machines, and other machines.

Pachislot Machine and Pachinko Machine Sales, Installed, and Market Scale

CY / FY*		2008	2009	2010	2011	2012
Pachislot machines	Machine sales (units)	913,094	766,094	979,794	1,259,924	1,326,029
	Machines installed (units)	1,448,773	1,347,176	1,390,492	1,474,838	1,549,319
	Market scale (millions of yen)	247,860	225,869	286,700	375,054	429,974
Pachinko machines	Machine sales (units)	3,339,146	3,332,984	2,900,286	2,603,760	2,494,695
	Machines installed (units)	3,076,421	3,158,799	3,163,650	3,107,688	3,042,476
	Market scale (millions of yen)	921,338	985,227	886,914	825,714	772,951

Sources: National Police Agency (machines installed) and Yano Research Institute Ltd. (machine sales and market scale)
* Number of machines installed is on a calendar year basis. Number of machine sales and market scale information is on a fiscal year basis (settlement dates from July to June).

Amusement Machine and Amusement Center Operations Markets

FY	2007	2008	2009	2010	2011
Net sales of amusement machines (millions of yen)	219,061	196,164	169,632	173,167	184,781
Net sales from amusement center operations (millions of yen)	678,099	573,104	504,271	495,767	487,500
Number of amusement centers*	22,723	21,688	19,213	18,638	18,114
Year-on-year comparison of sales at existing amusement centers (%)	92.2	89.7	88.2	97.3	96.8

Source: JAIA, *Amusement Industry Survey 2011*
* The number of amusement centers is the total of category 8 centers and non-category 8 centers classified by the Entertainment Establishments Control Law.

Global Shipment of Home Video Game Software

Billions of yen

FY	2008	2009	2010	2011	2012
Software	1,024.3	758.6	670.5	530.9	424.4
Hardware	1,908.3	1,490.8	1,126.9	926.4	809.0

Source: *CESA GAME White Paper 2013*

Japan's Market for Game Content with Network Connectivity

Billions of yen

CY	2008	2009	2010	2011	2012
Home video game consoles	17.2	20.2	21.8	28.5	34.2
PCs	82.0	92.0	92.2	88.7	89.5
Feature phones	89.0	92.0	85.4	51.2	19.2
Smart devices + SNS	5.5	29.0	118.7	224.9	385.6
Total	193.7	233.2	318.1	393.3	528.5

Source: *f-ism*

DEFINITION OF TERMS

"Fiscal 2013" refers to the fiscal year ended March 31, 2013, and other fiscal years are referred to in a corresponding manner in this annual report.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Statements in this annual report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and its SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management.

The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation.

Actual results may vary significantly from the Company's forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate fluctuations, changes in laws and government systems, pressure from competitors' pricing and product strategies, declines in the marketability of the Group's existing and new products, disruptions to production, violations of the Group's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation.

[This annual report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]

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