

the FACTS

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.

DEFINITION OF TERMS

"Fiscal 2014" refers to the fiscal year ended March 31, 2014, 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.]

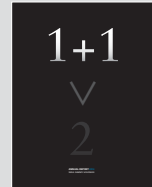
Communication Tools

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 2014

Annual Report 2014 enables 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 past, present, and future timeframes. Furthermore, while explaining the Group's growth scenarios, the report clarifies the interconnectedness of information. Also, we use the unique freedom of voluntary disclosures to provide more information on such areas as intangible assets.



Online Annual Report 2014

An HTML version of Annual Report 2014 is available on the investor relations (IR) page of the SEGA SAMMY HOLDINGS web site.

Online Annual Report 2014 → <http://www.segasammy.co.jp/english/ir/ar2014/>



Web Site IR 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 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 2014

SEGA SAMMY Group CSR Report 2014 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



1950	1951	Founded
	1960	Incorporated (Company name: Nihon Goraku Bussan Co., Ltd.)
	1964	Started production of amusement arcade machines.
1960	1965	Started operation of amusement centers. Changed company name to SEGA ENTERPRISES LTD.
	1970	
	1980	
1980	1983	Launched <i>SG-1000</i> 8-bit home video game platform.
	1985	Launched <i>Hang On</i> , the world's first force feedback game. Launched <i>UFO Catcher</i> .
	1986	Registered stock on over-the-counter (OTC) market.
	1988	Listed stock on the second section of the Tokyo Stock Exchange (TSE). Launched <i>Mega Drive</i> 16-bit home video game platform.
1990	1990	Listed stock on the first section of the TSE. Launched <i>R-360</i> , the world's first amusement arcade machine that could rotate 360 degrees in all directions.
	1991	Launched first title in the <i>Sonic the Hedgehog</i> series.
	1993	Launched <i>Virtua Fighter</i> , the world's first amusement arcade 3D computer graphics fighting game.
	1994	Launched <i>SEGA Saturn</i> 32-bit home video game platform.
	1995	Launched <i>Print Club</i> with ATLUS Co., Ltd.
	1996	Opened <i>TOKYO JOYPOLIS</i> rooftop theme park in Tokyo's Odaiba area.
	1998	Launched <i>Dreamcast</i> home video game platform.
	2000	Changed company name to SEGA CORPORATION.
2000	2003	Launched <i>The King of Beetles "MUSHIKING"</i> kids' card game.



2000	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). Retired 17 million shares of treasury stock (SEGA SAMMY HOLDINGS).
		2011	Made TAIYO ELEC Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS).
2012		Made Phoenix Resort Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS). Established joint venture PARADISE SEGASAMMY Co., Ltd., with the Paradise Group of South Korea (SEGA SAMMY HOLDINGS). Established SEGA Networks, Ltd., through divestiture from SEGA (SEGA).	
2013		Participated in project to develop <i>Centum City</i> , 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). Acquired casino facility, <i>Paradise Casino Incheon</i> , through PARADISE SEGA SAMMY (SEGA SAMMY HOLDINGS). Assumed Index Corporation's game business and contents and solutions business (SEGA). Established SEGA SAMMY CREATION INC., which develops, manufactures, and sells casino machines (SEGA SAMMY HOLDINGS).	
2014		Executed company split to establish Index Corporation's game business as ATLUS CO., LTD. (SEGA).	



1970	1975	Established Sammy Industry Co., Ltd.
	1978	Began game machine development.
	1982	Began marketing of pachislot machines.
1980	1989	Began sales of <i>Aladdin</i> single-bonus hitter pachislot machine.
	1991	Moved head office to Toshima-ku, Tokyo.
	1995	Began sales of pachinko machines.
1990	1997	Changed company name to Sammy Corporation.
	1999	Registered stock on OTC market. Launched <i>GeGeGe No Kitaro</i> , the first pachislot machine equipped with an LCD.
	2000	Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary.
2000	2001	Listed stock on the first section of the TSE. Completed Kawagoe Factory.
	2003	Launched <i>Hokuto No Ken</i> pachislot machine, which set a new record for unit sales.



UFO Catcher
©SEGA



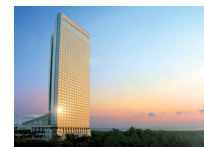
Aladdin
pachislot machine
©Sammy



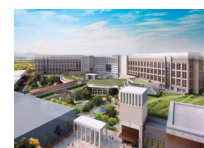
Sonic the Hedgehog
©SEGA



Hokuto No Ken
pachislot machine
©Buronson & Tetsuo Hara
©Sammy



Phoenix Seagaia Resort



A rendering of the Incheon project

* Currently MARZA ANIMATION PLANET INC.

Summary of the SEGA SAMMY Group

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 to 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	89,771
Number of Employees	7,472 (consolidated)

As of March 31, 2014



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.

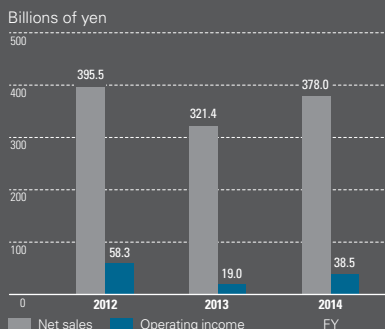


Pachislot SOUTEN-NO-KEN 2
©Tetsuo Hara & Buronson / NSP2001,
Approved No. YKU-127
©Sammy

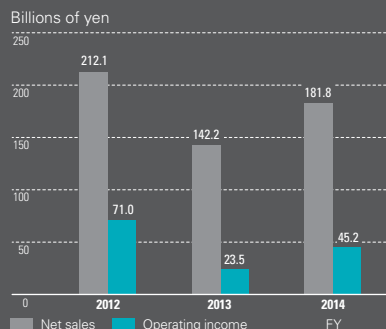
Pachislot and Pachinko Machine Business

This business segment comprises the pachislot machine business, which boasts outstanding brand power, and the pachinko machine business, which is building brand power by strengthening developmental capabilities. The business segment pursues a multibrand strategy based on Sammy Corporation, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION. The pachislot machine business aims to maintain its leading market share, while the pachinko machine business aims to claim a leading market share in the medium term. To these ends, the business segment will hone the competitiveness of the products that its market-driven developmental system creates and hone its product supply system for capturing sales opportunities reliably and its balanced product portfolio.

Net Sales / Operating Income



Net Sales / Operating Income





Orbi Yokohama
©SEGA



CHAIN CHRONICLE—Kizuna no Shintairiku
©SEGA / ©SEGA Networks



PHANTASY STAR ONLINE 2
©SEGA

WORLD CLUB Champion Football series
©SEGA
©Panini S.p.A. All Rights Reserved
The game is made by SEGA in association with Panini.

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 a joint venture with the Paradise Group.

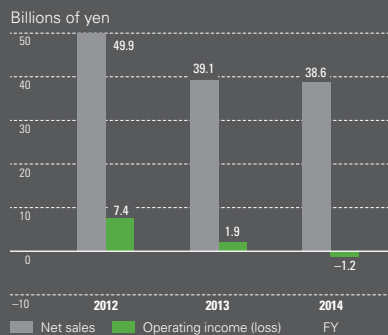


A rendering of the Incheon project

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 investment burden or expand the player base to include such groups as families and thereby help stabilize the Group's earnings. Also, the business segment is optimizing management resources by allocating them to the digital game area.

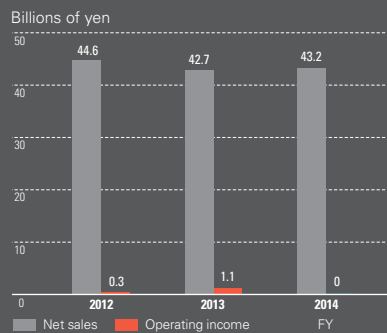
Net Sales / Operating Income (Loss)



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, we are developing new amusement facilities that go beyond the boundaries of traditional amusement centers by opening more amusement centers for families in shopping centers and by opening amusement centers integrated with restaurants and other business formats. Also, we plan to develop theme park-type amusement centers, such as Orbi Yokohama, overseas through licensing out.

Net Sales / Operating Income

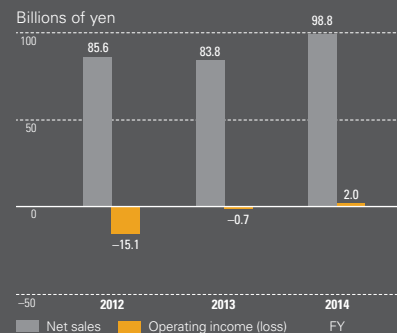


Consumer Business

This business segment comprises the game content business, the toy sales business, and the animation business.

The game content business is focusing management resource deployment to rapidly strengthen the digital game area, which centers on SEGA Networks, Ltd. Meanwhile, in the toy sales business, SEGATOYS 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. The price of a pachinko board is less than that of an entire machine (a frame and a board), which enables pachinko hall operators to lighten their investment burden. For manufacturers, sales of pachinko boards provide higher margins than sales of entire machines and help maintain market share. Therefore, board sales benefit manufacturers as well as pachinko hall operators.

Frame



Boards



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

*Pachinko CR
Bakemonogatari
©Nisioisin / Kodansha,
Aniplex Inc., SHAFT INC.
©Sammy*

*Pachinko CR
Hokuto No Ken 5
Hyakuretsu
©Buronson & Tetsuo Hara /
NSP1983, Approved
No. YHB-107
©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 Bakemonogatari
©Nisioisin / Kodansha, Aniplex Inc., SHAFT INC.
©Sammy

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 SOUTEN-NO-KEN 2
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©Sammy

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 28.9% of the leisure market, revenues of ¥18.8 trillion*1, and 9.7 million players*1. In the pachinko and pachislot machine manufacturing industry, machine sales are worth approximately ¥1.0 trillion*2. Of this amount, the pachinko machine market represents 56.3%, or ¥609.9 billion*2, and the pachislot machine market 43.7%, or ¥473.3 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 2013

Source: *White Paper on Leisure Industry 2014*, Japan Productivity Center

*2 Fiscal 2013. Source: Yano Research Institute Ltd.

Shares of Pachinko and Pachislot in Japan's Leisure Market



Japan's Leisure Market*3
¥65.2 trillion

	%	Trillions of yen
Games / Publicly operated sports / Eating and drinking	37.2	24.2
Pachinko and pachislot *4	28.9	18.8
Hobbies	12.5	8.1
Tourism	15.4	10.0
Sports	6.0	3.9

Source: *White Paper on Leisure Industry 2014*, Japan Productivity Center

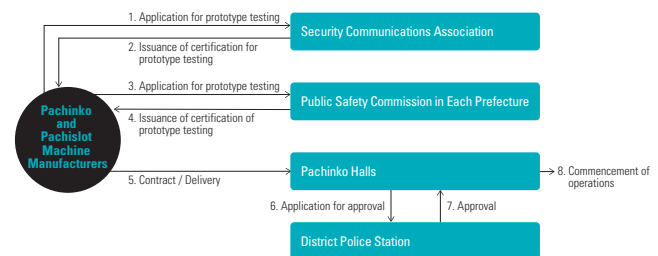
*3 2013

*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 such as 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

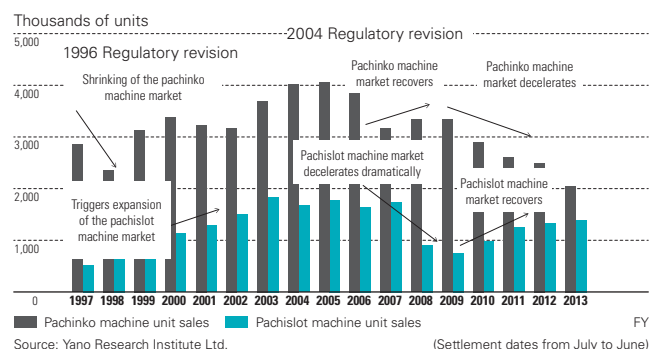


Changes in Market Conditions Due to Regulatory Reform

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



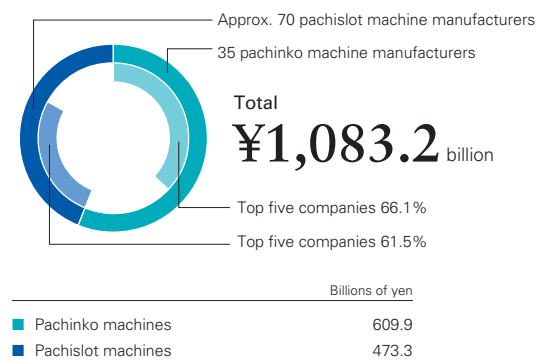
Strengthening Oligopoly among Leading Titles and Companies

In the pachinko machine market, pachinko machines are sold by 35*⁵ pachinko machine manufacturers affiliated with Nikkoso, which is the pachinko machine manufacturers' industry association. In the pachislot machine market, pachislot machines are sold by approximately 70 companies, comprising 26*⁶ pachislot machine manufacturers affiliated with Nichidenkyo, which is the pachislot machine manufacturers' industry association; Nikkoso-affiliated manufacturers that handle pachislot machines; and non-affiliated 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 challenging business conditions. 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 time track records and companies with robust development capabilities and abundant funds for investment.

*⁵ Source: Yano Research Institute Ltd.

*⁶ Due to the large number of organizations and companies, the number of pachislot machine manufacturers is the Group's estimate.

Pachinko and Pachislot Machine Market Scale*⁷



Source: Yano Research Institute Ltd.

*⁷ Fiscal 2013 (settlement dates from July to June)

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

1. Annual Turnover

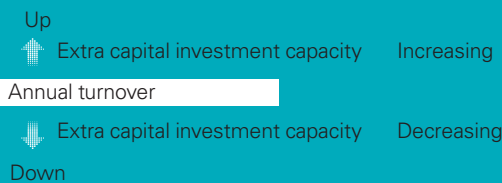
Annual turnover is a benchmark of pachinko hall operators' financial position, which affects pachinko and pachislot machine sales directly. Annual turnover shows how many times pachinko hall operators replace machines during one year. When pachinko hall operators have extra capital investment capacity, they actively replace existing machines with new ones to attract customers and annual turnover rises. If they have less extra capital, annual turnover declines.

2. Utilization Time

Utilization time is the number of hours per business day that pachinko or pachislot machines are utilized. Normally, it declines gradually after a machine is installed. A slower-than-average decline shows the degree to which a machine has earned players' long-term support. Because the utilization time has a direct bearing on pachinko hall operators' sales, the extent to which pachinko and pachislot machine manufacturers have titles with favorable utilization times affects their brand appeal and earnings.

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

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



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

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.

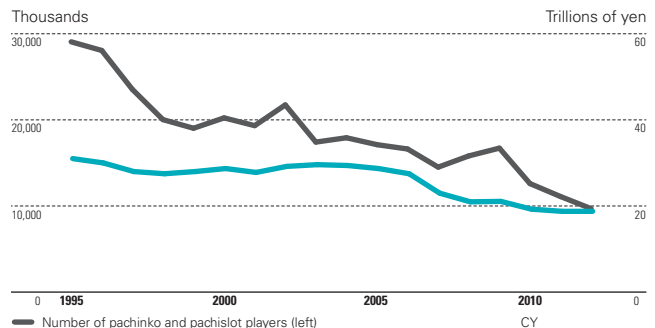
Following the July 2004 Regulatory Revision

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 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 times*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 favorable utilization times. This caused the market to polarize further into two groups: leading manufacturers and other manufacturers.

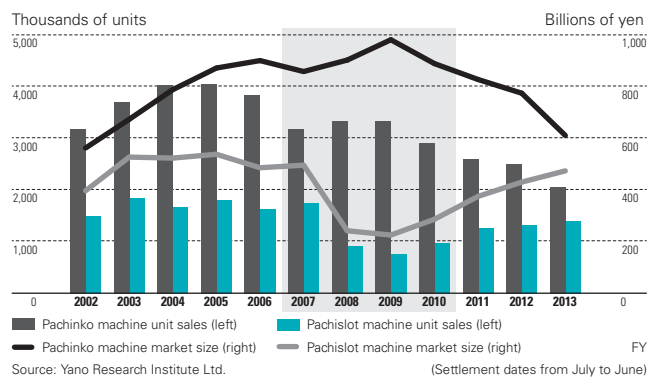
*1 The total of pachinko hall operators' ball rental fees and token rental fees
 *2 Aiming to mitigate a sudden change of conditions and investment burden of pachinko hall operators, the regulatory revision of July 2004 included a three-year interim measures period for replacing old machines with new-format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

Pachinko and Pachislot—Player Numbers and Market Size



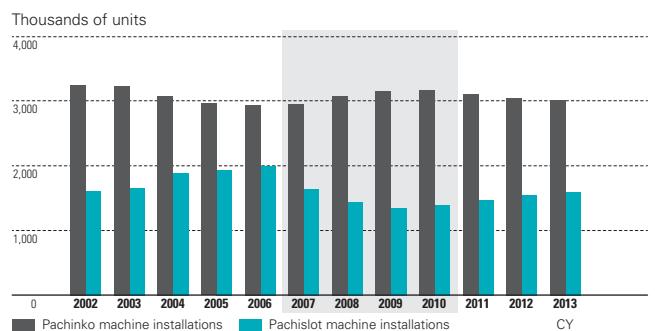
Source: White Paper on Leisure Industry 2014, Japan Productivity Center

Pachinko and Pachislot Machines—Unit Sales and Market Size



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

Pachinko and Pachislot 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. 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 times, it led to a decline in sales per machine for pachinko hall operators. As a result, the business results of pachinko hall operators worsened, further reducing their investment appetite. Consequently, the shift in demand toward pachislot machines promising comparatively high utilization, the bias in demand toward brand-name titles highly likely to provide reliable returns on investments, and the decrease in the number of times pachinko hall operators replace machines during one year (annual turnover*4) became more pronounced. These trends have continued.

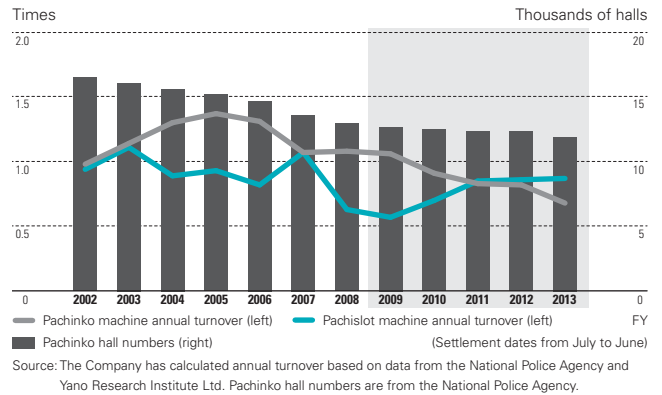
A market is forming in which only several leading companies will be able to survive and reap the benefits. These companies will survive because they have the developmental capabilities and financial foundations to continuously provide titles promising high utilization and cost-competitive, profitable organizations.

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

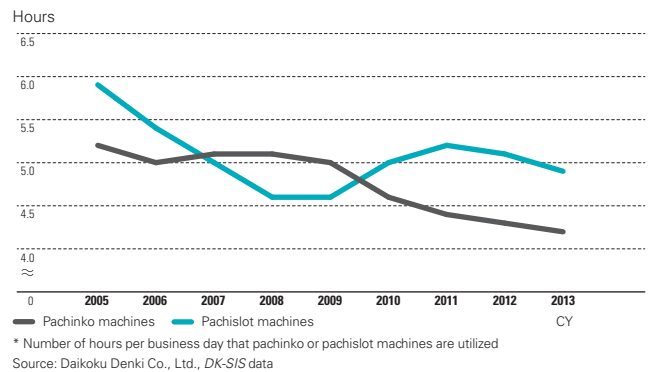
Young Adults’ Interest in Pachinko and Pachislot Declining as Entertainment Options Diversify

Since 2009, the decrease in the pachinko and pachislot player population has been accelerating. In particular, the decline in interest in pachinko and pachislot among young adults has been marked. In the period from 2009 to 2013, this group shrank significantly, with the percentage of men under 20 playing pachinko and pachislot falling from 11.4% to 0.3% and the percentage of men in their twenties playing pachinko and pachislot falling from 24.5% to 9.0%. The main cause of this trend was the rapid popularization of smart devices and the expansion of the game app market, which coincided with this period. The pachinko and pachislot machine industry is competing for players with many different types of entertainment. Therefore, initiatives are required to develop a wide range of player groups including young adults. Pachinko and pachislot machine manufacturers’ common task is to invigorate the market by developing and rolling out machines that are as innovative as possible.

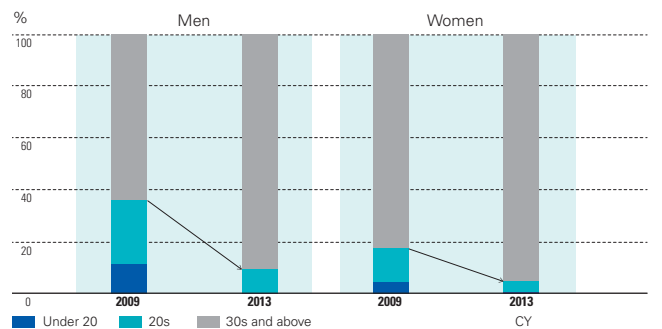
Annual Turnover and Pachinko Hall Numbers



Utilization Time



Pachinko and Pachislot Players: Breakdown by Gender and Age Group



Amusement Market (Amusement arcade machines / Amusement center operations)

Challenging Conditions Continue in the Amusement Center Operations Market Due to Change in Leisure Activities

The amusement center operations market has been contracting since fiscal 2007. During the six years between fiscal 2007 and fiscal 2012, it shrank approximately 30%. Since fiscal 2007, existing amusement centers' sales have been declining year on year. Furthermore, there are almost 30% fewer amusement centers than there were in fiscal 2007. On the other hand, the market is approaching an optimal size. As a result of amusement center operators closing unprofitable amusement centers and increasing operational efficiency, sales per amusement center and sales per machine have risen slightly. Breaking down performance, while the sales of amusement centers in shopping centers and bowling alleys are steady, traditional amusement centers' sales are decreasing significantly.

Challenging conditions are likely to continue in the amusement center operations market as the popularization of smartphones and other factors change leisure activities. The industry faces the common task of introducing new products efficiently to invigorate amusement centers and extend the player base to include families and other player groups. Another important task is responding to the increase in consumption tax.

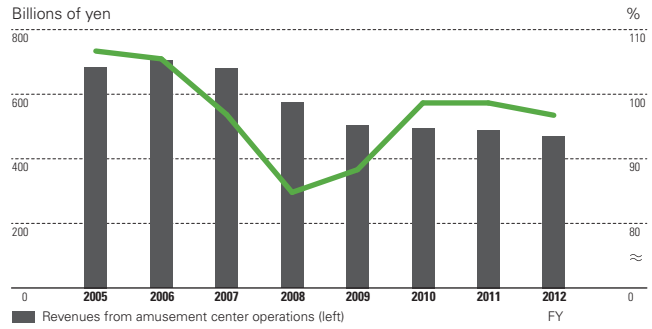
Invigorating Amusement Center Operations Market is a Task for Amusement Arcade Machine Sales Market

From fiscal 2007, the amusement arcade machine sales market began trending downward in step with the contraction of the amusement center operations market, which affects it directly. Amusement center operators' capital investment bottomed out in fiscal 2009. In fiscal 2012, however, it decreased 3.1% year on year.

In recent years, amusement arcade machine manufacturers have been 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. Revenue-sharing business models are one such initiative. Under these models, manufacturers sell amusement arcade machines at low prices and share revenues from machine utilization with amusement center operators. The spread of revenue-sharing business models in fiscal 2012 contributed to contraction of the amusement arcade machine sales market. Furthermore, the sale of CVT kits that enable amusement center operators to upgrade content by simply replacing boards or downloading new content has become widespread. In addition, a trend is emerging toward business models based on free-to-play (F2P) games. 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.

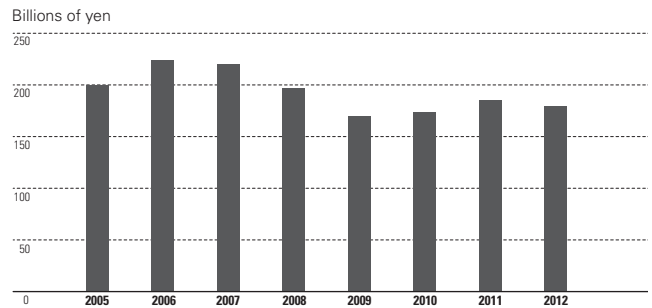
All market data in the text is from JAIA, Amusement Industry Survey 2012.

Revenues from Amusement Center Operations / YOY Comparison of Sales at Existing Amusement Centers



Source: JAIA, Amusement Industry Survey 2012

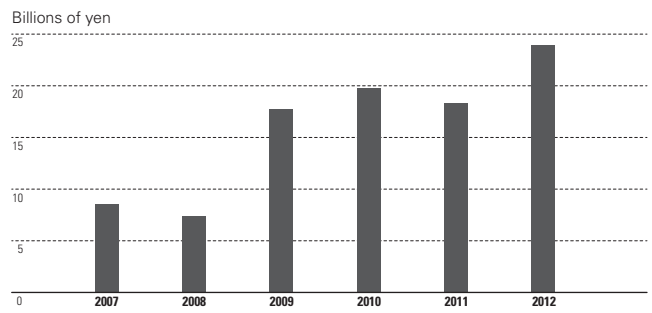
Amusement Arcade Machine Sales*



Source: JAIA, Amusement Industry Survey 2012

* Total domestic sales and exports

Revenues from Content Fees / Revenue-Sharing Business Models



Source: JAIA, Amusement Industry Survey 2012

Game Content Market

Shift to Digital Downloads Accelerates Worldwide

In 2013, sales in the global game content market*¹, comprising packaged game software and online game content rose 9.1% year on year, to approximately ¥6.3 trillion*². By region, the market recorded growth of 4.0% in Asia (Japan, China, and South Korea) and decreases of 0.4% in the United States and 13.0% in Europe year on year. In China, PC online games spurred growth, while in Japan and South Korea mobile game apps were growth drivers. Consequently, Asia is developing into the world's largest market. Packaged game software continued on a downward trend. Meanwhile, online game content expanded to ¥4.6 trillion, accounting for approximately 70% of the game content market. Due to the spread of such digital devices as smartphones and tablets, game software's shift towards digital downloads is becoming a worldwide trend.

As for packaged game software, with popularity concentrating on certain well-known titles, major publishers' oligopoly continued to strengthen. However, the market for packaged game software for home video game consoles is showing signs of recovery. These include favorable sales in Europe and North America of new-generation home video game consoles equipped with capabilities for digital downloads, content micropayments, social game features such as live video of gameplay action, and cloud gaming services.

*¹ Total for mobile game apps, PC online games, and home video game software downloads.

*² Source: Famitsu Game White Paper 2014

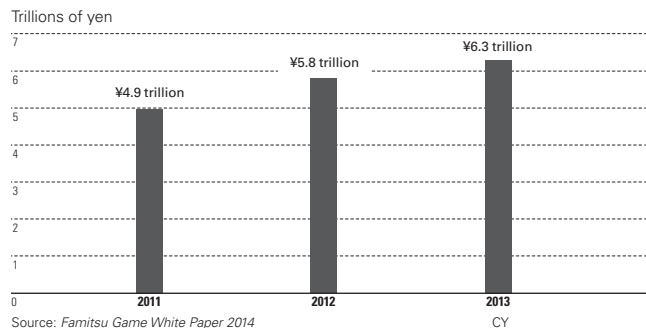
Major Hit Titles Drive Rapid Expansion of Online Game Content Market in Japan

In 2013, Japan's market for online game content with network connectivity, which includes content for home video game consoles, handheld game terminals, and PCs and game apps for smart devices, grew rapidly, increasing 39.2% year on year, to ¥735.8 billion*³. In this market, major hit titles drove sales of digital game content for smart devices and SNS, which rose 57.4%, to ¥606.9 billion*³, and claimed 80% of the market. For home video game consoles in 2013, although packaged game software continued to shrink, digital downloads were up 9.6%*³ year on year.

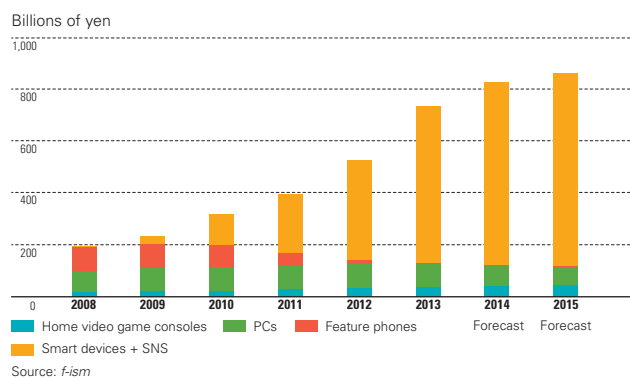
In 2013, the transfer of packaged game software intellectual properties to online game content gained momentum. Other trends included the offering of new play styles by linking such PCs, handheld game terminals, and other devices and the full-fledged entry into Japan's market of major hit game apps from overseas. In 2014, the online game content market is expected to expand and surpass ¥800 billion as the player base widens with the continuing spread of smart devices, the penetration of F2P business models that provide basic play for free and generate return on investment through charges for additional items within games, and an increase in digital downloads for home video game consoles.

*³ Source: f-ism

Estimated Value of Global Game Content Market



Japan's Market for Game Content with Network Connectivity



Market Conditions for Each Business

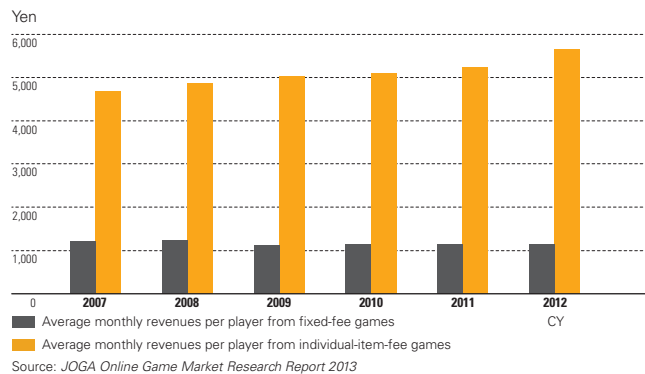
Requirements for Winning amid Fiercer Competition

Digital game content for smart devices and SNS has grown dramatically. Currently, competition in this area is moving into a new phase. In recent years, the increase in companies in the area has created a market with a large amount of homogeneous content. As a result, player demand is shifting toward absorbing, graphic-rich video games that exploit the processing capabilities of smartphones and high-speed mobile broadband. Against this backdrop, native apps have replaced browser apps as the market's mainstay category. The main type of app until recently, browser apps are operated through browsers and processed by external servers, while native apps are processed by terminals after installation and are suited to rich content.

In the native app area, several companies that entered the area early have established advantageous positions. However, competition is intensifying due to the large number of companies in the market, such as companies with strong track records in browser apps and major game publishers. The number of apps is rising significantly, and apps are becoming increasingly high-end. At the same time, a shortage of developmental personnel and burgeoning development expenses have become a problem for the entire industry. Consequently, competitive conditions in the digital game content market

are gradually beginning to favor companies with accumulated developmental assets, such as intellectual properties and developmental personnel; robust financial foundations able to absorb developmental risk; and systems and fee-charging know-how that attract players to newly developed titles reliably.

Average Monthly Revenues per Player



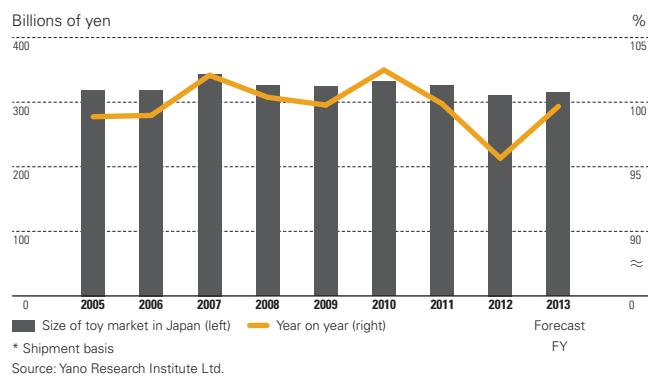
Toy and Animation Markets

Download Services Expand in Animation Market

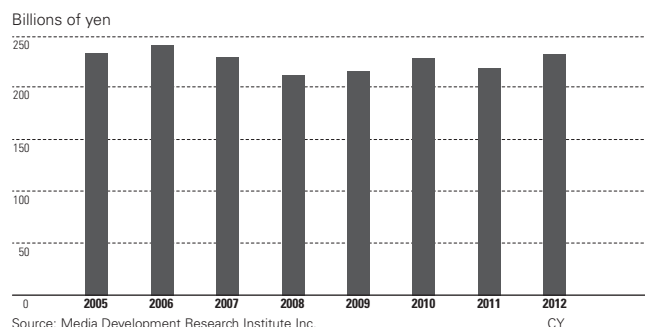
In fiscal 2012, Japan's toy market (excluding home video game consoles and software), decreased 2.8% year on year, to ¥316.1 billion, due to the weakening momentum of toys for boys and trading card games, which are market drivers, and lackluster performances in other product categories overall. In fiscal 2013, the toy market is projected to remain approximately unchanged year on year and reach ¥314.5 billion on a manufacturers' shipment basis.

In 2012, the animation market recorded stable box-office revenues from mainstay animation series. In addition, several Japanese animation titles drove the market by posting box-office revenues above the ¥4 billion barrier. As a result, the market grew 4.2% compared with the previous fiscal year, to ¥233.0 billion. Television animation revenues edged up, while video animation revenues declined. Meanwhile, the animation download market for homes and smart devices is expanding significantly. This market is expected to grow further as communication environments advance and flat rate services enabling sharing between multiple devices spread.

Toy Market in Japan* (excluding home video game consoles and software)



Animation Market in Japan



Market Data

Number of Pachinko Halls

	Number of halls					
CY	2008	2009	2010	2011	2012	2013
Number of pachinko halls with pachinko machines installed	11,800	11,722	11,576	11,392	11,178	10,873
Number of pachinko halls with only pachislot machines installed	1,137	930	903	931	971	1,020
Total	12,937	12,652	12,479	12,323	12,149	11,893

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	2013
Pachislot machines						
Machine sales (units)	913,094	766,094	979,794	1,259,924	1,326,029	1,390,566
Machines installed (units)	1,448,773	1,347,176	1,390,492	1,474,838	1,549,319	1,602,148
Market scale (millions of yen)	247,860	225,869	286,700	375,054	429,974	473,342
Pachinko machines						
Machine sales (units)	3,339,146	3,332,984	2,900,286	2,603,760	2,494,695	2,048,702
Machines installed (units)	3,076,421	3,158,799	3,163,650	3,107,688	3,042,476	3,009,314
Market scale (millions of yen)	921,338	985,227	886,914	825,714	772,951	609,950

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	2012
Net sales of amusement machines (millions of yen)	219,061	196,164	169,632	173,167	184,781	179,147
Revenues from amusement center operations (millions of yen)	678,099	573,104	504,271	495,767	487,500	469,950
Number of amusement centers*	22,723	21,688	19,213	18,638	18,114	16,991
Year-on-year comparison of sales at existing amusement centers (%)	92.2	89.7	88.2	97.3	96.8	95.3

Source: JAIA, Amusement Industry Survey 2012

* 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							
CY	2008	2009	2010	2011	2012	2013	2014 (Forecast)	2015 (Forecast)
Hardware	250.54	216.49	175.59	179.74	177.98	155.31	182.88	184.27
Software	332.43	326.41	318.17	274.64	271.21	253.66	254.67	255.19
Total	582.97	542.90	493.76	454.38	449.19	408.97	437.55	439.46

Source: FISM

Japan's Market for Game Content with Network Connectivity

	Billions of yen						
CY	2008	2009	2010	2011	2012	2013	2014
Home video game consoles	17.2	20.2	21.8	28.5	34.2	37.5	
PCs	82.0	92.0	92.2	88.7	89.5	86.1	
Feature phones	89.0	92.0	85.4	51.2	19.2	5.3	
Smart devices + SNS	5.5	29.0	118.7	224.9	385.6	606.9	
Total	193.7	233.2	318.1	393.3	528.5	735.8	

Source: FISM



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