

# Pachislot and Pachinko Machine Business

## Fiscal 2016 Summary

Although series with established track records posted steady sales of pachislot machine titles, such as *Pachislot Hokuto No Ken Tomo*, *Pachislot Nisemonogatari*, and *Pachislot Onimusha3 Jikuu Tenshou*, other title sales flagged. As a result, sales decreased 32% year on year, to 142,000 units. In addition, sales of pachinko machines declined 18% year on year, to 199,000 units, as solid sales of *Pachinko CR Shin-Juoh 2* and *Pachinko CR Shin Hokuto Muso*, which incorporates a new frame as well as new LCD images and gimmicks, did not completely compensate for the temporary effect of structure reform and the absence of the previous fiscal year's major title launches. As a result of the above, the business segment recorded year-on-year decreases of 12.8% in net sales, to ¥132.7 billion, and 16.4% in operating income, to ¥21.5 billion.



*Pachinko CR Hokuto No Ken 6 Tenshou Hyakuretsu*  
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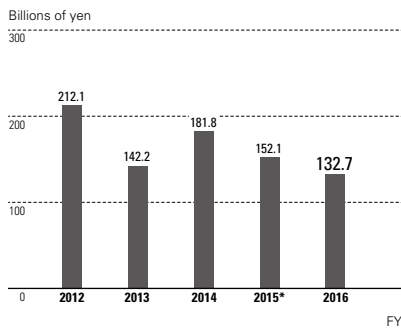


*Pachislot Hokuto No Ken Tomo*  
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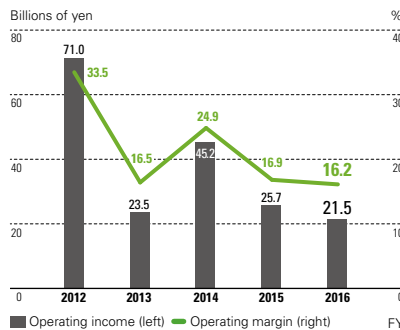
*Pachinko CR Shin Hokuto Muso*  
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### Net Sales

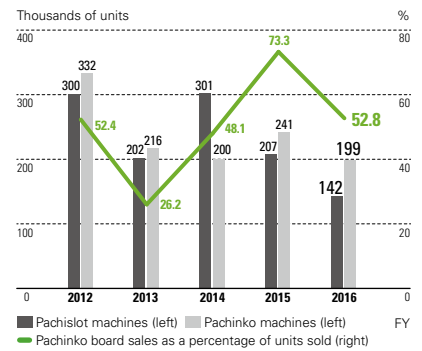


\* As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal 2016, figures for fiscal 2015 reflect these changes retrospectively.

### Operating Income / Operating Margin



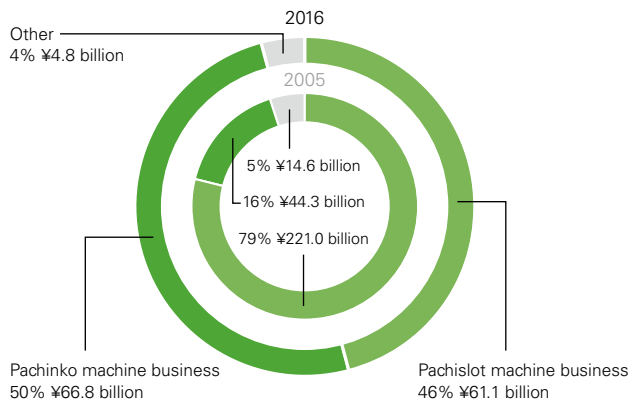
### Pachislot and Pachinko Machine Unit Sales



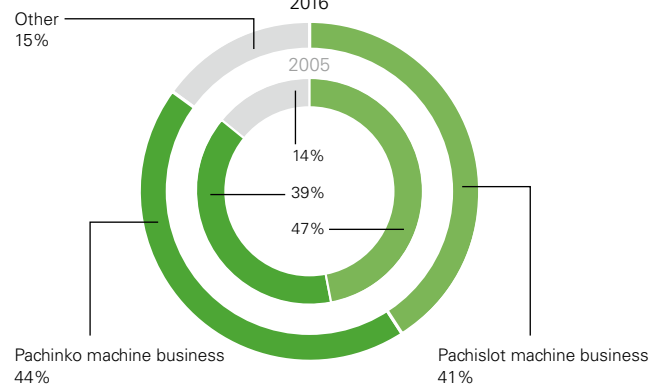
## Business Portfolio

By strengthening development capabilities and brand power for pachinko machines, we are building a business portfolio that has a well-balanced mix of pachislot and pachinko machines and is able to withstand changes in conditions.

### Net Sales Breakdown



### Development Personnel by Segment

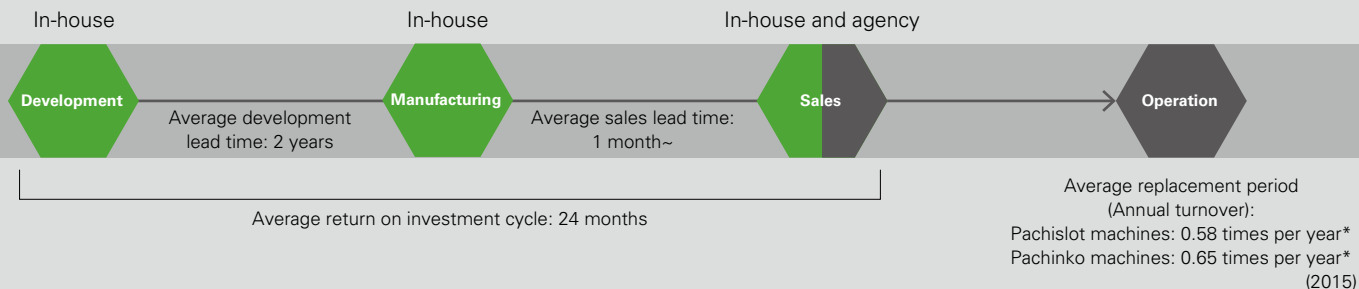


## Business Cycle of the Pachislot and Pachinko Machine Business

For most new pachinko and pachislot machines, the key to sales strategies is analyzing market trends and timing launches to gain a strategic advantage over competitors. On average, however, the development of pachinko and pachislot machines takes about two years. To reduce the risk of mismatches between development and marketing schedules, we are diversifying our product lineup through the establishment of multiple development lines, the creation of low-cost pachislot and pachinko machines, and the shortening of development lead times.

### Supply Chain of the Pachislot and Pachinko Machine Business

● In-house ● Other company



\* Sources: The Company's calculations based on data from the National Police Agency and Yano Research Institute Ltd.

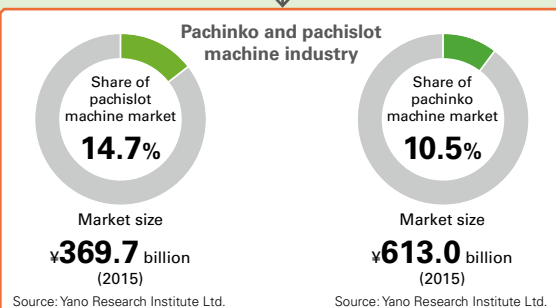
## Industry Trends Snapshot

Factors affecting the pachinko and pachislot machine industry include regulatory changes, the financial position of pachinko hall operators, players' preferences, and other entertainment trends.



### Supply side: Component manufacturers

Component costs continuing to rise due to advances in liquid crystal (LC) and board technology and yen depreciation



### External factors

#### Model-testing rules and internal regulations of industry

Changes in regulations for the development and sales of new pachinko and pachislot machines can affect the gameplay of products as well as the development schedules of pachinko and pachislot machine manufacturers.

▶ P.55

### Companies entering market

### Substitute products

#### Diversification of entertainment

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



### Potential barriers to market entry

Development of manufacturing bases, development of sales channels, and accumulation of development capabilities centered on staging capabilities

### Demand side (1) Pachinko halls

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

### Number of pachinko halls

1996: 18,164  
 2015: 11,310

Source: National Police Agency

### Demand side (2) Players

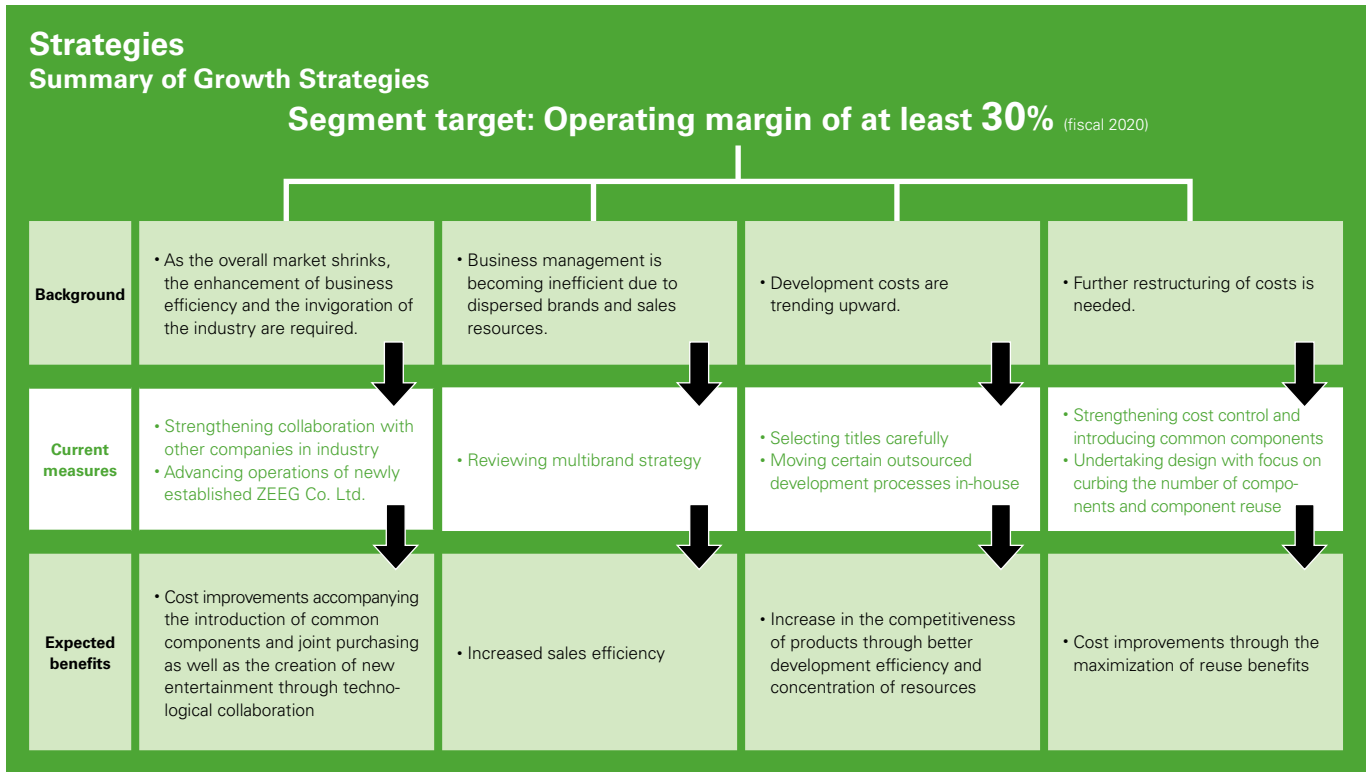
Player numbers are declining due to excessive gambling elements or changes in gameplay. As a result, pachinko halls' investment capacity is weakening.

### Player population

1996: 27.6 million  
 2015: 10.7 million

Source: White Paper on Leisure Industry 2016, Japan Productivity Center

Pachislot and Pachinko Machine Business



**Fiscal 2017 Outlook**

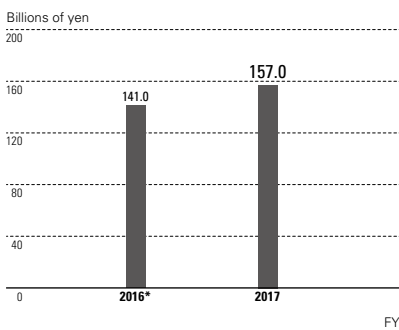
We plan to market multiple pachislot machine titles, including a new title in the mainstay *Hokuto No Ken* series, and grow sales by 88,000 units year on year, to 230,000 units. As for pachinko machines, we expect a 17,000 unit year-on-year decrease in sales, to 182,000 units, due to temporary market instability resulting from the adoption of a new agreement in relation to addiction countermeasures, which the pachinko machine manufacturers' industry association Nikkoso has concluded.

As a result of the above, the business segment is targeting net sales of ¥157.0 billion, compared with net sales of ¥141.0 billion\* in fiscal 2016. The business segment is targeting operating income of ¥19.0 billion, compared with operating income of ¥20.9 billion\* in

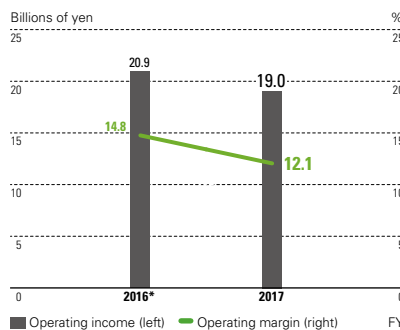
fiscal 2016, as the current fiscal year coincides with a period of widespread adoption of new frames and components.

Also, the Pachislot and Pachinko Machine Business segment will support industry associations' initiatives to enhance the soundness of the pachinko and pachislot machine industry. We will recall and remove "pachinko and pachislot machines classified as having strong gambling elements" and "pachinko machines that may perform differently from tested pachinko machines" and replace them with appropriate pachislot and pachinko machines, thereby enhancing the soundness of the pachinko and pachislot machine industry.

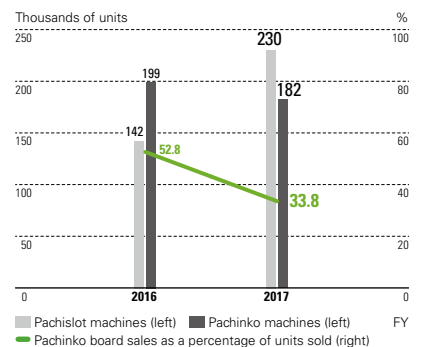
**Net Sales**



**Operating Income / Operating Margin**



**Pachislot and Pachinko Machine Unit Sales**

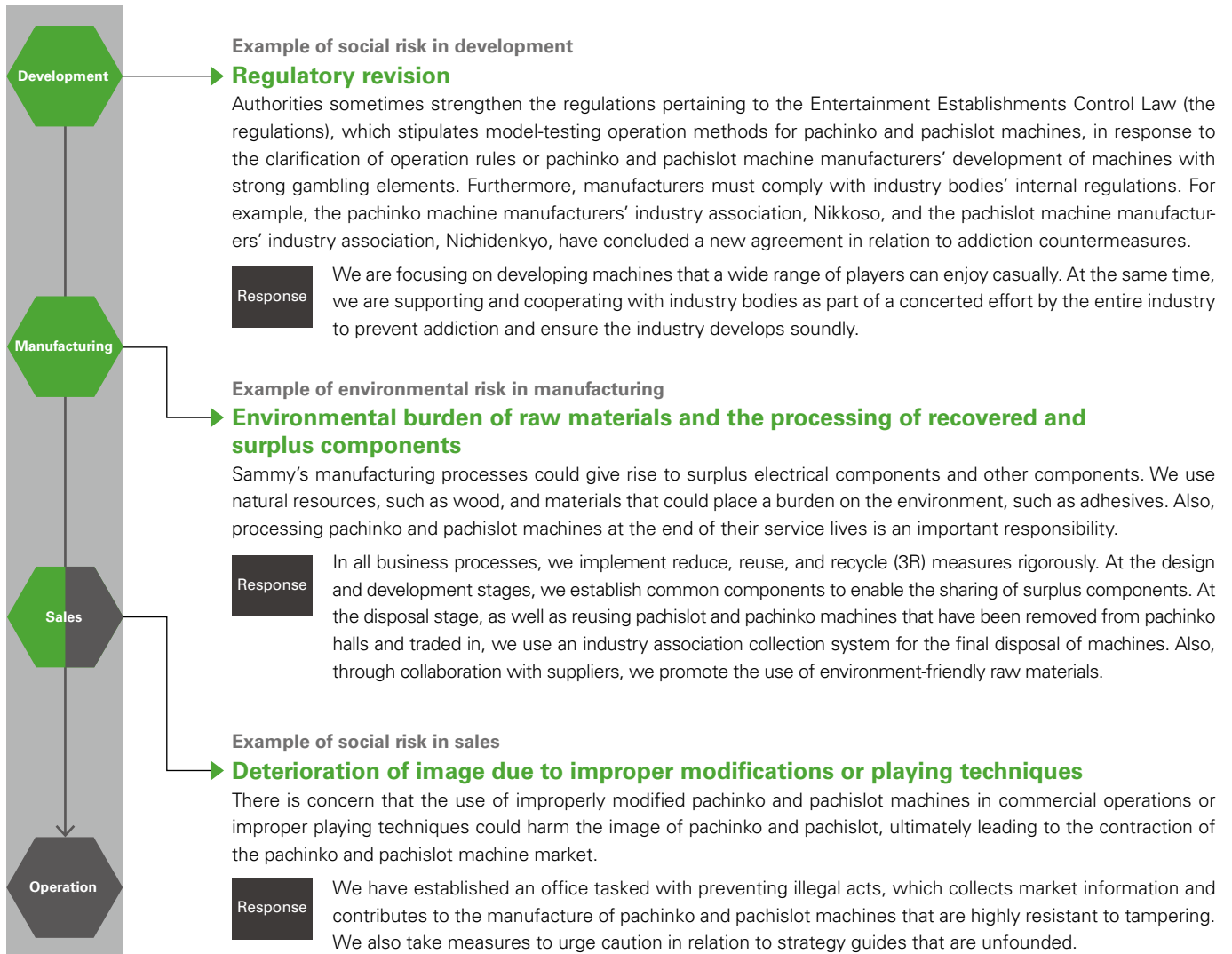


\* Figures for fiscal 2016 have been retrospectively revised to reflect the Group's transfer of certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment in fiscal 2017.

## ESG Risks and Responses in the Value Chain

In the Pachislot and Pachinko Machine Business segment, we prevent the impairment of corporate value by carefully analyzing the environmental, social, and governance (ESG) risks with the potential to halt respective business processes from development through to sales, incur additional costs, or damage brand value.

● In-house ● Other company



Pachislot Nisemonogatari  
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Pachislot Onimusha3  
 Jikuu Tenshou  
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# Entertainment Contents Business

## ▶ Fiscal 2016 Summary

In the digital game area, we revalued assets for titles that did not become as popular as initially hoped, such as new online games designed for Asia's markets that we rolled out in South Korea and certain titles for smart devices. Also, advertising expenses and other costs rose. The packaged game software area recorded lower revenues due to its reduction of the number of titles on the market. However, the amusement machine sales, the amusement center operations, and animation and toy sales areas grew revenues by strengthening product appeal and operational capabilities.

Despite the above efforts, the business segment's revenues edged down 0.4% year on year, to ¥198.8 billion. Nonetheless, thanks to the improved profitability of existing businesses resulting from restructuring implemented in fiscal 2015, the business segment achieved operating income of ¥3.6 billion, compared with ¥63 million in the previous fiscal year.

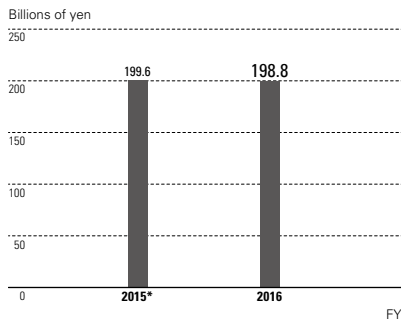


CHUNITHM PLUS  
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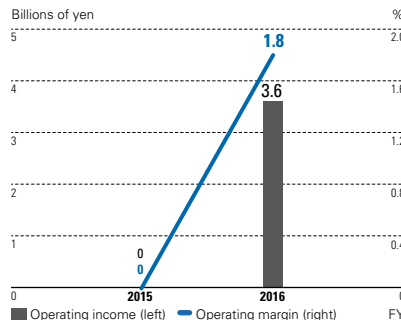
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### Net Sales



\* As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal 2016, figures for fiscal 2015 reflect these changes retrospectively.

### Operating Income / Operating Margin



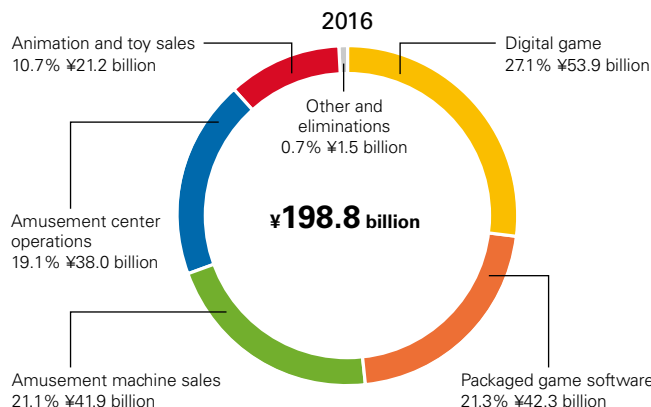
Puyopuyo!! Quest  
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## ▶ Business Portfolio

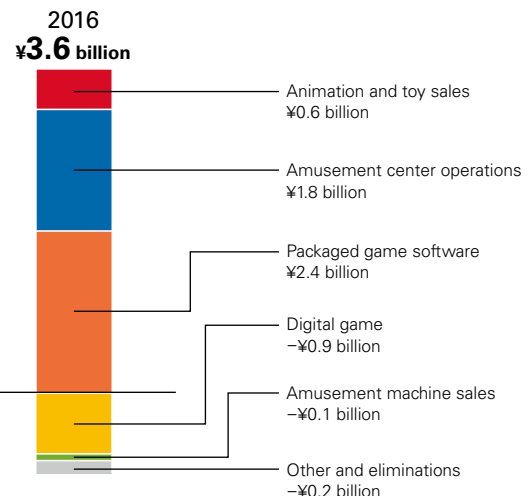
While the concentration of management resources in the digital game area is boosting its sales, other businesses' sales are flattening or declining as we optimize business sizes to match market sizes. With its

business results in fiscal 2016 being an exception, the digital game area usually accounts for the majority of the business segment's earnings. Also, the earnings of other existing businesses are improving steadily.

### Net Sales Breakdown



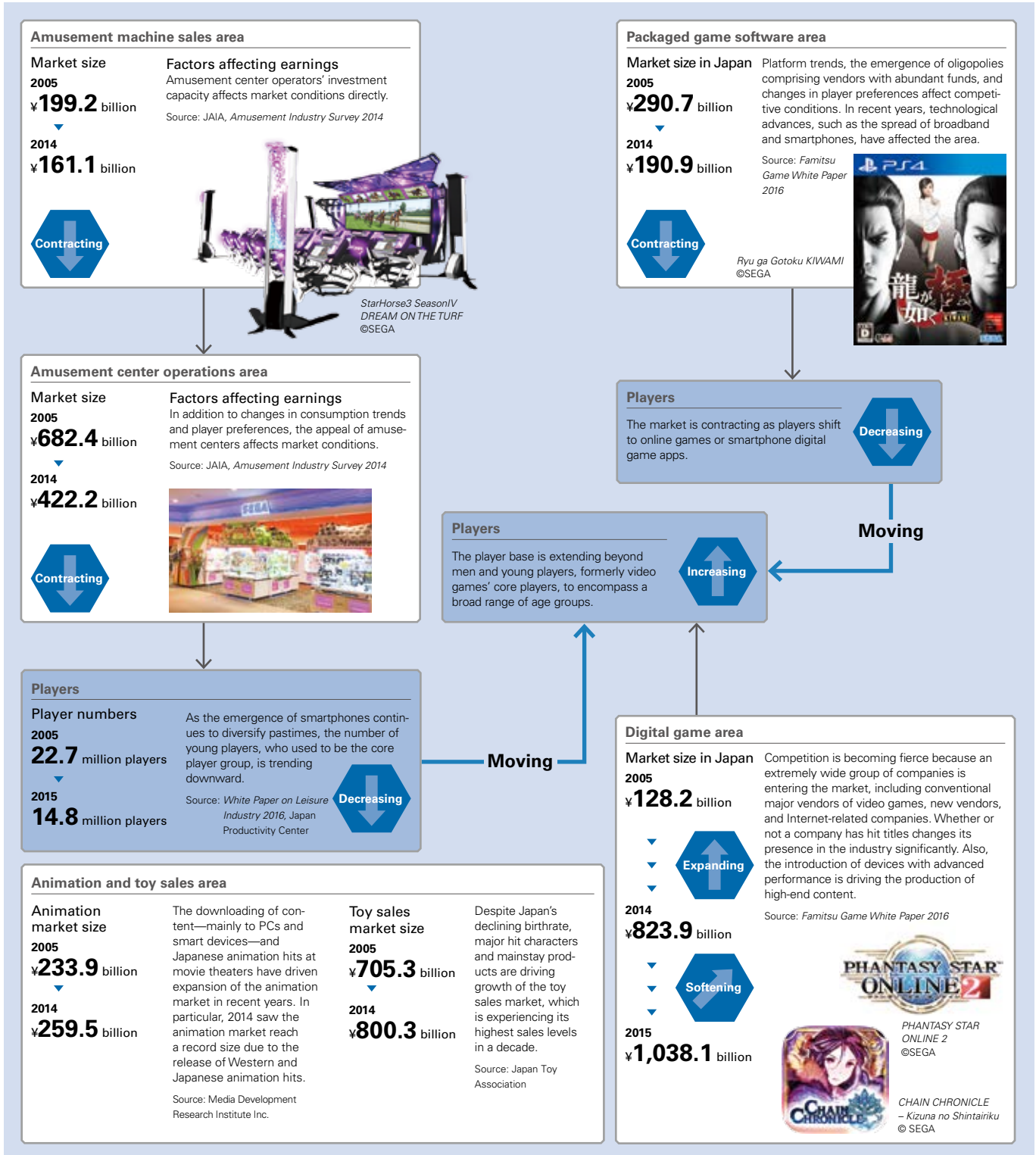
### Operating Income (Loss)





## Industry Trends Snapshot

The Entertainment Contents Business segment operates in diverse entertainment areas that have markets with different growth potential and competitive conditions. Furthermore, as well as intensifying competition within the entertainment industry, the evolution of digital devices is leading to direct competition between the entertainment industry and other industries as they try to attract users.

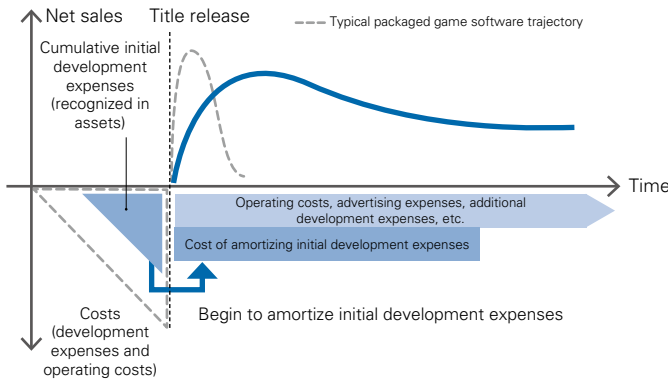


Entertainment Contents Business

**Business Model ▶ Digital Game Area (1)**

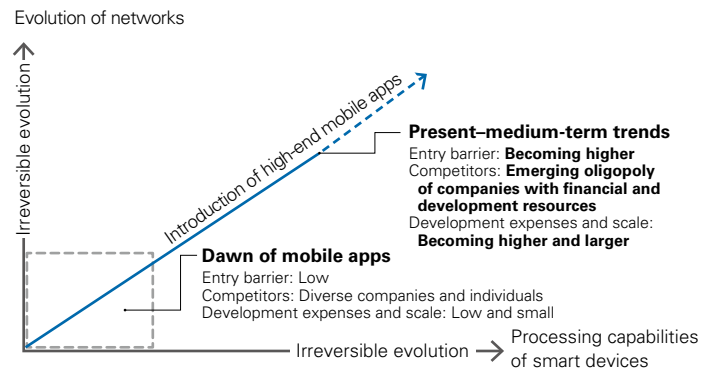
In the digital game market, apps are likely to become increasingly high-end as devices with more advanced performance emerge. In this type of market, the SEGA SAMMY Group will have the upper hand because it has the resources to support longer development lead times and their attendant development expenses.

Earnings in a Free-to-Play (F2P) Business Model



Note: Initial development expenses for packaged game software are amortized over certain periods in accordance with sales results.

Changes in Competitive Conditions as High-End Devices Emerge



**Business Model ▶ Digital Game Area (2)**

The *Noah Pass* system is a marketing support tool that primarily enables apps to attract customers for each other and send customers to each other. Partly because it is free and unrestricted, the system is expanding steadily, accounting for a total of 145.3 million connected devices on a cumulative basis, 12.3 million players per month, 135 participating companies, and a cumulative total of 784 titles. By using the system as a platform, we are expanding advertising services for non-digital-game businesses by collaborating with a variety of IT

companies and companies with traditional businesses outside the digital game area. In Japan, we offer charged advertising, mainly through advertising network and marketing data solutions. Overseas, we are advancing the *goPlay* global publishing support service, which reduces business development costs for companies aiming to roll out products in the emerging markets of such countries and regions as Russia, Southeast Asia, and South Asia.

**NOAH** Total cumulative connected devices: **145.34 million**  
 P A S S Players per month: **12.36 million**

Participating companies: **135**  
 Titles: **784**

As of June 30, 2016

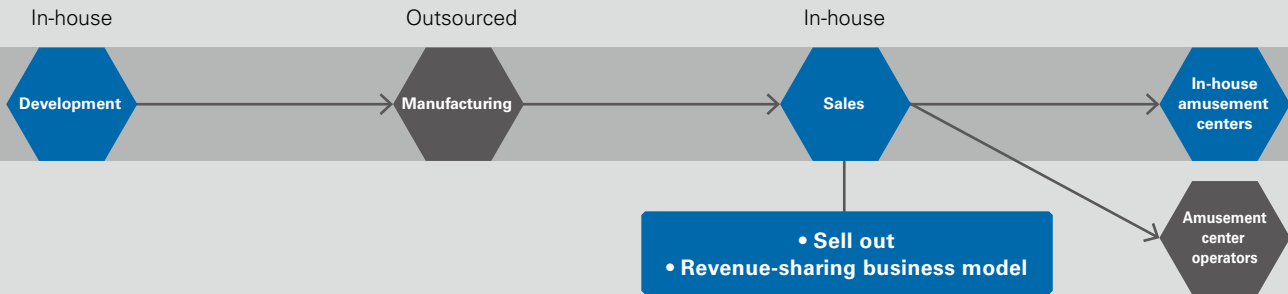


UFO CATCHERS  
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## Business Model ▶ Amusement Machine Sales Area

In the amusement machine sales area, we plan and develop products in-house but outsource manufacturing. In recent years, we have been introducing a range of business models aimed at lessening amusement center operators' investment burden and extending the player base.

Supply Chain of the Amusement Machine Sales Business ● In-house ● Other company

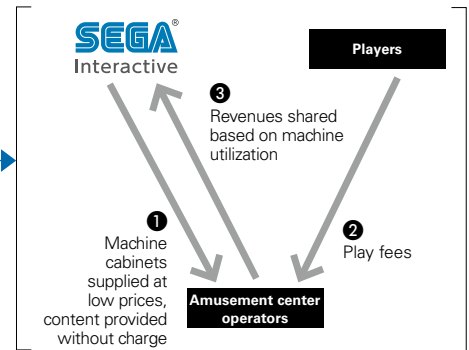


### CVT Kits

Amusement center operators use CVT kits to introduce the latest game content or replace the boards and exteriors of existing machines. CVT kits help lessen the investment burden of amusement center operators by enabling them to upgrade games without purchasing new machine cabinets.

### Revenue-Sharing Business Model

In the revenue-sharing business model, we provide low-priced machine cabinets and free content to amusement center operators, sharing revenues from the utilization of the amusement machines with them. Amusement center operators are able to introduce new products for a small initial investment. Although it lengthens the SEGA SAMMY Group's return-on-investment periods, this business model extends the Group's involvement beyond the sales of amusement machines and sustains earnings.



### Introduction of Electronic Money

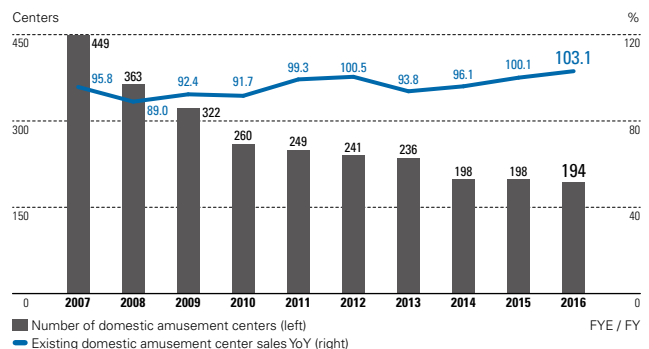
We are introducing electronic money to enable flexible adjustment of pricing, increase customer convenience through the realization of cashless payment, and heighten the efficiency of amusement center operations. Aiming to increase convenience for players and amusement center operators, we are partnering with competitors to build infrastructure that enables the use of a wide range of electronic money and which allows device manufacturers to provide a broad range of unique services.

## Business Model ▶ Amusement Center Operations Area

In Japan, we develop and operate amusement centers. By optimizing business size through continuous scrap and build and strengthening operational capabilities, we have realized one of the industry's highest levels of efficiency.



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



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

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

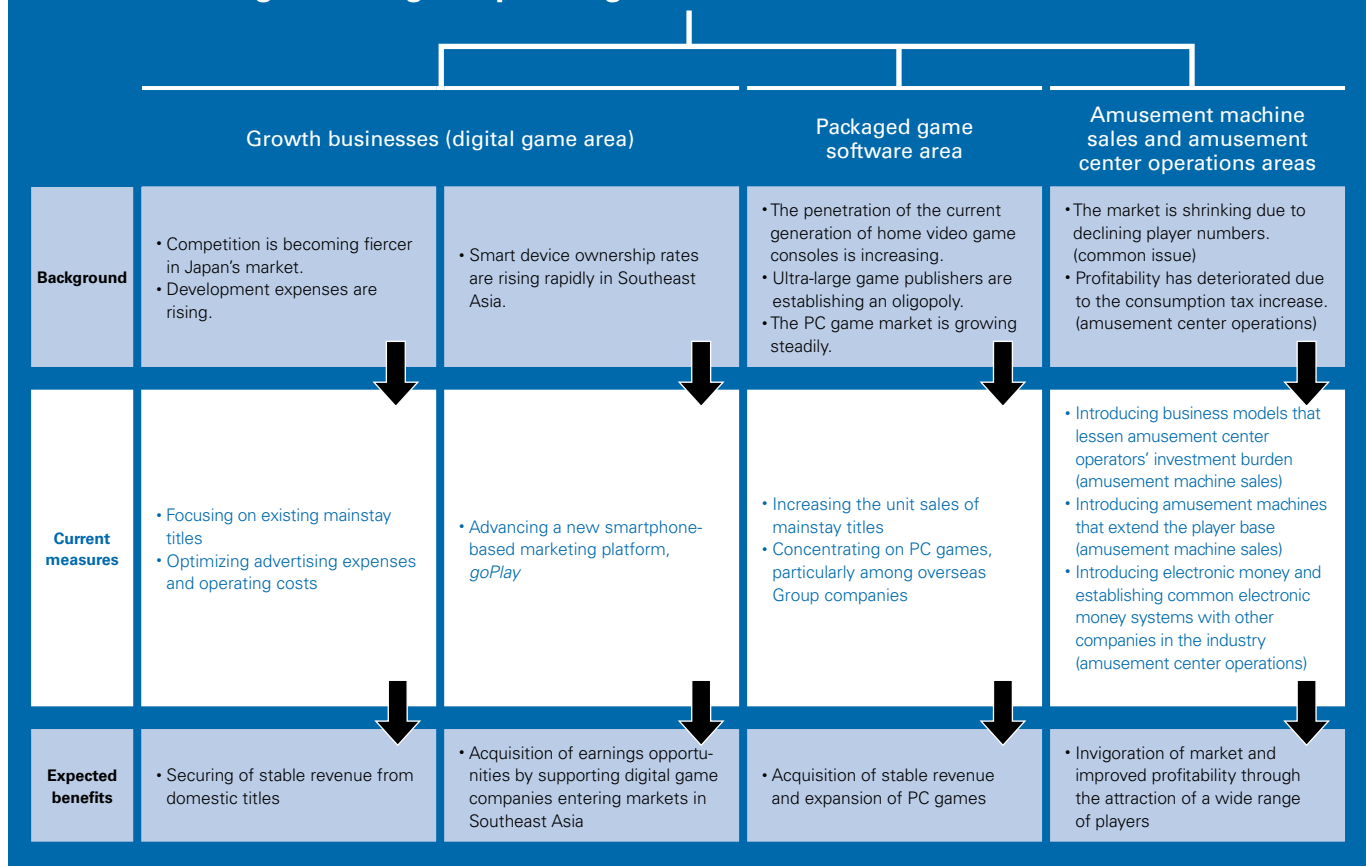


Entertainment Contents Business

Strategies

Summary of Growth Strategies

Segment target: Operating income of at least ¥20 billion (fiscal 2020)

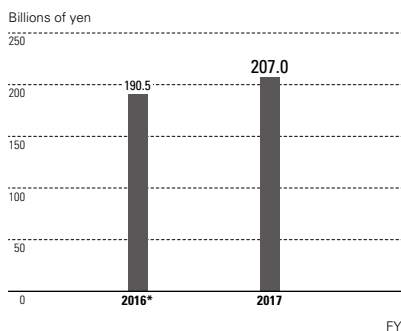


Fiscal 2017 Outlook

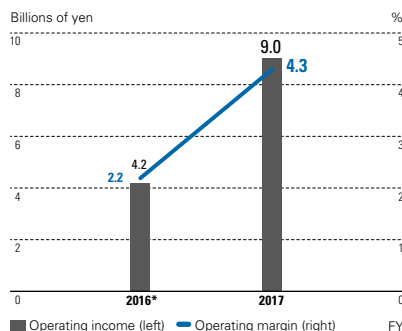
We plan to increase revenues in the digital game area by marketing new PC games.

In this area, we anticipate that improved profitability stemming from a focus on existing mainstay titles and the optimization of advertising expenses and operating costs will generate operating income of ¥8.0 billion, compared with an operating loss of ¥0.4 billion\* in fiscal 2016. As a result, the Entertainment Contents Business segment as a whole is expected to realize operating income of ¥9.0 billion.

Net Sales



Operating Income / Operating Margin



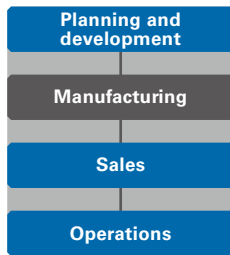
Total War: WARHAMMER  
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\* Figures for fiscal 2016 have been retrospectively revised to reflect the Group's transfer of certain businesses that were included in the Entertainment Contents Business segment to the Pachislot and Pachinko Machine Business segment in fiscal 2017.

## ESG Risks and Responses in the Value Chain

In the Entertainment Contents Business segment, which has businesses in a wide range of entertainment areas, we identify important ESG risks in light of the distinctive business models, customer groups, industry regulations, or societal expectations in each area and respond to them appropriately.

■ In-house ■ Other company



### Example of social risk in the digital game area

#### Excessive use by minors

In the digital game market, societal problems associated with minors who incur excessive fees when playing games based on the Gacha system, which encourages gambling, are not infrequent. This issue has led to calls for content vendors to take measures.

#### Response

For certain titles, we have enabled the use of age authentication to set upper limits on monthly fees. Also, we have established and implemented in-house guidelines to avoid the use of vague terms that can give players overly high expectations and to prevent the charging of excessive fees.



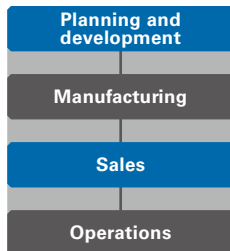
### Example of social risk in the digital game area

#### Customer support

Unlike packaged game software, digital games maintain contact between the provider and consumers. Therefore, the provision of ongoing support is necessary. Any shortcomings in such support could harm brands.

#### Response

Normally, we respond to customer inquiries through a player support helpdesk. If needed, however, we establish dedicated helpdesks. In September 2013, when a defect in an online game for PCs became apparent, we immediately disclosed the relevant information, corrected the defect, and established a dedicated helpdesk.



### Example of social and environmental risk in the amusement machine sales area

#### Compliance in relation to procurement

The amusement machine sales area has a fables business model. If we used our advantageous position to conduct unfair business transactions or failed to comply with the applicable laws in relation to labor practices, we could become subject to legal sanctions. Furthermore, failure to conform to the worldwide strengthening of environmental regulations could lead to the rejection of our products.

#### Response

The SEGA SAMMY Group strives to establish fair relationships with suppliers based on its *Supply Chain Procurement Guidebook* and the Group Code of Conduct. For the amusement machine sales area, which has numerous suppliers, we have established a separate AM Material Procurement Policy to ensure rigorously fair business transactions. In addition, we require all suppliers to establish and implement systems for chemicals management based on the SEGA Standards for Device and Product Chemicals. Moreover, we check suppliers' establishment and implementation of these systems as part of our efforts to realize appropriate chemicals management.



### Example of social risk in the amusement center operations area

#### Guidance and development of young people

As an operator of amusement centers, we have a social responsibility to take measures in relation to minors that comply with laws prohibiting smoking, restricting access to venues, restricting entry to amusement centers including restaurants that serve alcohol, and prohibiting alcohol consumption.

#### Response

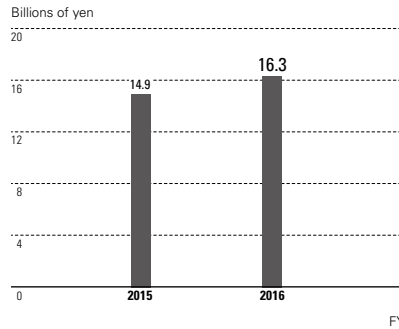
We educate employees based on an operational manual that clarifies how to respond appropriately with regard to restricting minors' access to venues and prohibiting smoking. In principle, we prohibit unaccompanied minors from entering amusement centers including restaurants that serve alcohol. If minors enter facilities accompanied by guardians, we strictly prohibit the consumption of alcohol by minors.

# Resort Business

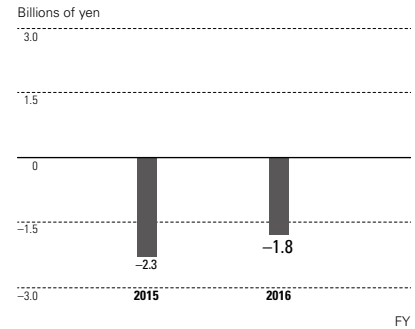
## Fiscal 2016 Summary

Net sales increased 9.5% year on year, to ¥16.3 billion, due to higher customer numbers at *TOKYO JOYPOLIS* and the opening of *QINGDAO JOYPOLIS*. Also, thanks to a rise in the average spending per customer of *Phoenix Seagaia Resort*, the operating loss improved to ¥1.8 billion, compared with an operating loss of ¥2.3 billion in the previous fiscal year.

### Net Sales

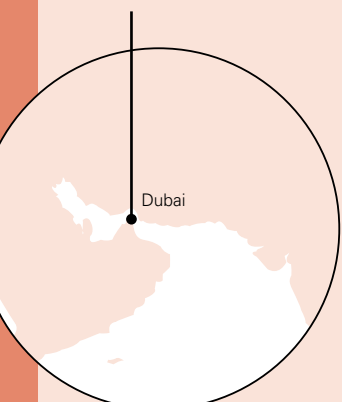


### Operating Income (Loss)



## Main Components of Business Portfolio

### Licensed facility SEGA REPUBLIC



Dubai



### Overseas integrated resorts *Paradise Casino Incheon* and *PARADISE CITY*

A joint venture operates *Paradise Casino Incheon*,\* which became South Korea's first casino exclusively for foreigners upon opening in 1967. Also, we are developing *PARADISE CITY*, which is scheduled to open in April 2017 as South Korea's first full-fledged integrated resort.

\* *Paradise Casino Incheon* is managed by *PARADISE SEGASAMMY Co., Ltd.*, which is an equity-method affiliate of *SEGA SAMMY HOLDINGS INC.*

### Large resort complex overseas Resort name: Undecided



### Resort facility *Phoenix Seagaia Resort*

The resort includes accommodation facilities, such as *Sheraton Grande Ocean Resort*; a world-class convention center with a maximum capacity of 5,000 people; and sports facilities, including one of Japan's renowned golf courses, the *Phoenix Country Club*. In August 2016, *Sheraton Grande Ocean Resort* reopened following a major renovation that renewed guest rooms and a lounge.

### Theme park *QINGDAO JOYPOLIS*



### Licensed facility *SHANGHAI JOYPOLIS*



### Theme park *TOKYO JOYPOLIS*

We have created one of the largest indoor theme parks in Japan. It offers new, progressive entertainment based on the "DigiReal" concept of integrating the digital and the real.



### Theme park *Orbi Yokohama*

This completely new type of museum recreates scenes from the natural world and gives visitors a visceral sense of the wonder of nature by combining the footage of *BBC EARTH* and SEGAs entertainment technologies.

### Theme park *UMEDA JOYPOLIS*

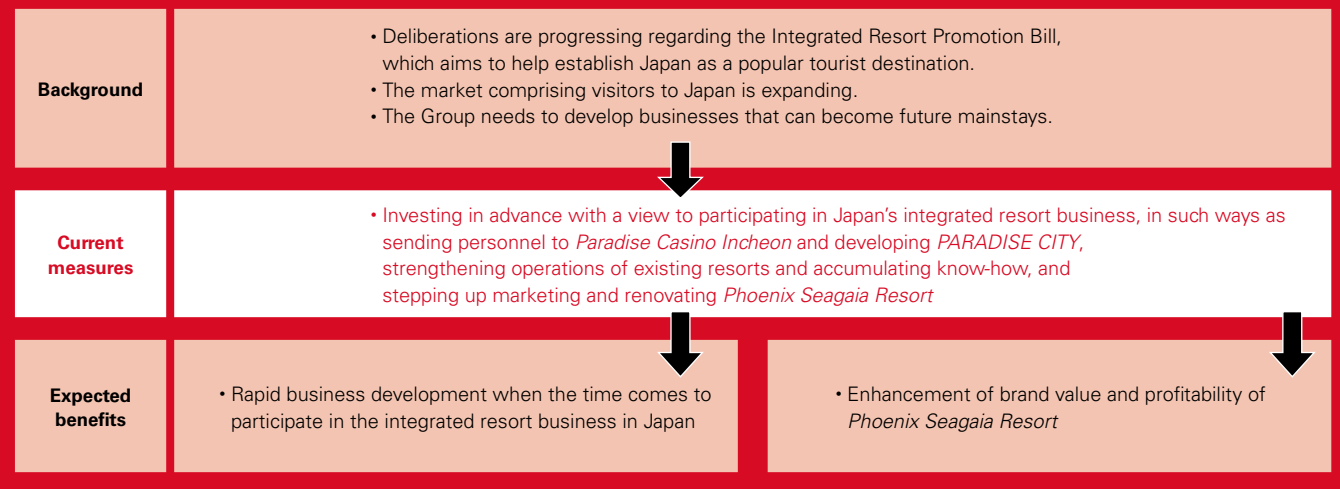


### Licensed facility *Orbi Osaka*

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## Strategies Summary of Growth Strategies

### Segment target: Participation in the integrated resort business



## Fiscal 2017 Outlook

We expect to record a ¥2.5 billion operating loss, compared with a ¥1.8 billion operating loss in fiscal 2016, due to prior expenses in the integrated resort business and increased amortization cost arising from the largest renovation of *Phoenix Seagaia Resort* since it opened.

FY		2015		2016		2017 (Plan)	
				YoY change		YoY change	
	Net sales (Billions of yen)	14.9	16.3	+9%	16.0	-2%	
	Operating income (loss) (Billions of yen)	-2.3	-1.8	—	-2.5	—	
	<i>Phoenix Seagaia Resort</i>						
	Guests (Thousands of people)	643	571	-11%	570	—	
	Average spending per customer (Yen)	14,468	15,845	+10%	16,902	+7%	
	<i>TOKYO JOYPOLIS</i>						
	Guests (Thousands of people)	614	687	+12%	650	-5%	
	Average spending per customer (Yen)	3,426	3,545	+3%	3,723	+5%	
	<i>Orbi Yokohama</i>						
	Guests (Thousands of people)	400	323	-19%	371	+15%	
	Average spending per customer (Yen)	2,283	2,282	—	2,050	-10%	
	<i>Paradise Casino Incheon*</i>						
	Casino net sales (Billions of KRW)	109	94	-14%	—	—	
	Guests (Thousands of people)	58	48	-17%	—	—	

\* The Group's equity-method affiliate PARADISE SEGASAMMY Co., Ltd., operates *Paradise Casino Incheon*. Figures for *Paradise Casino Incheon* are three months delayed.

## ESG Risks and Responses in the Value Chain

■ In-house ■ Other company



### Example of social risk in the theme park area

#### Safety of facilities

An accident that results from inadequate safety precautions at facilities that have large attractions on which customers ride could lead to the suspension of operations or brand damage.

**Response** We check the safety of large attractions through reviews and diagnostic analysis at development stages. Also, we regularly conduct voluntary inspections of the management and control of such attractions based on a 100-item, in-house checklist.