

## Major Questions Concerning Actual Results for Second Quarter of Year Ending March 2015

December 26, 2014

SEGA SAMMY HOLDINGS INC.

### **Actual Results for the Second Quarter of the Year Ending March 2015**

#### **■ General Matters**

Q: What factors led to a significant decrease in income while decrease in sales was slight compared to the same quarter of the previous fiscal year (second quarter of year ended March 2014)?

A: Sales decreased slightly compared to the same quarter of the previous fiscal year due to increase in pachinko unit sales and in sales in the digital games area while pachislot unit sales decreased (compared to the same quarter of the previous fiscal year). Income decreased significantly (compared to the same quarter of the previous fiscal year), however, due to rising costs in the Pachislot and Pachinko Machines Business and decreasing of the sales ratio of pachislot machines which generate relatively high margins.

Q: What factors led to the posting of income tax although net income before income taxes and minority interests is minimal?

A: Income tax was posted due to inclusion of many postings which are currently not regarded as expenses for tax purpose, such as provision for demolition of fixed assets in extraordinary loss.

Q: What factors led to the significant decrease in cap-ex compared to the same quarter of the previous fiscal year?

A: Cap-ex decreased (compared to the same quarter of the previous fiscal year) due to the backlash from the previous fiscal year in which acquisition of land in Busan, South Korea was conducted for complex development. By segment, cap-ex increased, (compared to the same quarter of the previous fiscal year,) in the Amusement Machine Sales Business which plans to release diversified products for a broad range of users.

Q: What factors led to the increase in advertising expense compared to the same quarter of the previous fiscal year?

A: Advertising expense increased mainly due to growing earnings from digital titles and ATLUS titles, etc. in the Consumer Business.

#### **■ Pachislot and Pachinko Machines Business**

Q: What factors led to the decrease in sales and income compared to the same quarter of the previous fiscal year (second quarter of year ended March 2014)?

A: The pachislot unit sales decreased (compared to the same quarter of the previous fiscal year) due to the revising of the sales schedule for some products, etc. Although the pachinko unit sales increased

compared to the same quarter of the previous fiscal year due to strong sales of several titles, sales in this segment decreased. Income decreased due to a decrease in net sales and a decrease in the sales ratio of pachislot machines which generate relatively high margins.

#### ■ **Consumer Business**

Q: What factors led to the increase in sales and the decrease in income compared to the same quarter of the previous fiscal year (second quarter of year ended March 2014)?

A: Sales increased and income decreased (compared to the same quarter of the previous fiscal year) due to sluggish performance in the packaged game software field and the toy sales business while the digital game area remained strong.

#### ■ **Other Business**

Q: What is the progress of the resort complex development in Incheon?

A: Construction of the development of a resort complex facility on the land adjacent to Incheon International Airport has been underway since November 2014 and its opening is scheduled in 2017.

### Forecast for the Full-Year Ending March 2015

#### ■ **General Matters**

Q: What factors led to the downward revision to the full-year forecast?

A: Annual unit sales was revised from 374 thousand units to 222 thousand units as a result of the revising of the sales schedule in line with the changes made to the prototype testing operational method for pachislot machines. Furthermore, among the Amusement Machine Sales Business, the Amusement Center Operations Business and the packaged game software area and toy sales business in Consumer Business, both sales and income were revised downward affected by the severe business environment.

#### ■ **Pachislot and Pachinko Machines Business**

Q: What are the contents of the new voluntary regulations, etc.?

A: The manufacturing association is currently discussing various factors concerning guidelines for AT/ART functions. (1) Limiting sales period for titles approved under the former testing method, (2) reviewing of penalty functions and (3) transition to main substrate regarding AT/ART functions have been decided at this moment.

Q: What is the forecast for the pachislot market?

A: The foreseeable forecast as of present is that from the current fiscal year to the next fiscal year, sales of titles that had been approved under the former standards before the change in the prototype testing operational method will continue for some time, while adapting to the new testing operational method will be required. However, a temporary drop in the number of titles provided in the entire industry is expected, and unit sales in the market are likely to temporarily decrease accordingly.

Q: When will new titles under the new method be ready for release in the market?

A: Our forecast at this stage is that the release of titles adapted to the new testing method will be possible from around the first quarter of the next fiscal year (fiscal year ending March 2016) at the earliest.

Q: What specifications will the future pachislot machines have? Is the development of machines that will be favored by users possible?

A: Since we have ongoing discussions on voluntary regulations, we will not comment on the future forecast. However, we firmly believe that our product development capability will enable us to continue gaining a massive support from users amid the changing market environment and that our competitive edge in the industry will not be undermined.

Q: Do you expect any impact on the pachinko market?

A: If the appeal of pachislot goes down, some users are expected to shift to pachinko. In such process, we believe that we might be able to find more sales opportunities for pachinko along with the expansion in demand for pachinko machines. We intend to aggressively work on pachinko machines sales centering on mainstay titles in the second half of the current fiscal year as well.

#### ■ Amusement Machine Sales Business

Q: The Amusement Machine Sales Business is expected to post deficit for the second consecutive fiscal year. How do you intend to improve earnings going forward?

A: Going forward, we will strive, through the Group Structure Reform, to improve profitability through measures such as shifting the injection of our Amusement Machine Sales Business management resources to the digital games area, which is considered as the growth area, while at the same time increasing the earnings ratio of revenue sharing models and Free to Play models.

#### ■ Amusement Center Operations Business

Q: How do you intend to improve earnings in the Amusement Center Operations Business going forward?

A: We will review facility portfolio and develop/open facilities targeting families and facilities accompanying restaurants by considering earnings trend in domestic same-stores, etc. Moreover, we will aim to gain revenue from licensing by offering development/operation know-how of amusement centers which we have accumulated over these years to companies overseas. Going forward, we will put forth efforts to improve profitability through the Group Structure Reform.

#### ■ Consumer Business

Q: What factors led to the downward revision to the initial forecast?

A: The initial forecast was revised downward mainly due to the sluggish performance in the packaged game software area and the toy sales business.

The packaged game software field is expected to remain weak due to the stagnant sales of new titles which are launched in the second half of the current fiscal year. As for the toy sales business, sales of

mainstay products are expected to remain weak centering on the toys for boys.

### ■ Group Structure Reform

Q: What is the medium-term earnings picture for each group?

A: We intend to explain the earnings picture for the Pachislot and Pachinko Machines Business as soon as we have more insight on the impact from the recent change in the testing method of pachislot machines and from the contents of the voluntary regulations, but achieving operating income of 50 billion yen will be our medium-term target. As for the Entertainment Content Business, we aim for 20 billion yen while we aim to expand earnings going forward in the Resort Business by positioning it as the growth area which will be the core of the group.

Q: What points will be strengthened/streamlined through the restructuring?

A: We will firstly clarify the positions of each business, promote what can be commonalized among the business groups and clarify the core business. Then we will further redistribute management resources and dispose unprofitable businesses. Furthermore, we will speed up management through the reinforcement of governance and reviewing of the decision making process.

Q: Will you conduct restructuring by reducing fixed expenses that include labor costs? And to what scale will that be?

A: Details have not been decided as of present, but measures targeting all expenses are being considered in order to realize a 6 billion yen reduction in fixed expenses.

Q: Will the reduction of fixed expenses be conducted only in the unprofitable businesses or in the entire Group?

A: We are discussing reductions targeting all expenses without setting any preconditions or restrictions.

Q: What is the reason behind appointing an officer in charge of structure reform only at SEGA CORPORATION?

A: We judged that to swiftly implement structure reform in the SEGA Group is especially urgent and thus we appointed Haruki Satomi as Executive Vice President in charge of the structure reform. He will take initiatives in implementing reforms while supporting the President.

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