# OPERATIONS

# POSITION

Bird's Eye View ➔ P.36

# ENVIRONMENT

Market Conditions ➔ P.38

# SWOT ANALYSIS

Analysis of the Group and Its Strategies ➔ P.40

# REVIEW AND STRATEGY

Operational Review ➔ P.42

OPERATIONS

# Bird's Eye View

## SEGA SAMMY Group in the Entertainment Industry

| Net Sales[1] | Billions of yen |
|---|---|
| Nintendo[3] | 647.6 |
| NAMCO BANDAI | 454.2 |
| SEGA SAMMY | 395.5 |
| KONAMI[4] | 265.7 |
| SANKYO | 173.6 |
| SQUARE ENIX | 127.8 |
| Heiwa | 95.1 |
| CAPCOM | 82.0 |

| Operating Income (Loss)[1] | Billions of yen |
|---|---|
| SEGA SAMMY | 58.3 |
| SANKYO | 40.3 |
| KONAMI[4] | 40.9 |
| NAMCO BANDAI | 34.6 |
| Heiwa | 20.7 |
| CAPCOM | 12.3 |
| SQUARE ENIX | 10.7 |
| Nintendo[3] | (37.3) |

| Operating Margin[1] | % |
|---|---|
| SANKYO | 23.2 |
| Heiwa | 21.8 |
| KONAMI[4] | 15.4 |
| CAPCOM | 15.0 |
| SEGA SAMMY | 14.8 |
| SQUARE ENIX | 8.4 |
| NAMCO BANDAI | 7.6 |

| ROE[1] | % |
|---|---|
| Heiwa | 19.6 |
| CAPCOM | 11.5 |
| KONAMI[4] | 11.2 |
| NAMCO BANDAI | 9.1 |
| SEGA SAMMY | 7.7 |
| SANKYO | 4.8 |
| SQUARE ENIX | 4.5 |

| ROA[1, 2] | % |
|---|---|
| CAPCOM | 12.5 |
| KONAMI[4] | 12.5 |
| SEGA SAMMY | 12.2 |
| NAMCO BANDAI | 10.7 |
| Heiwa | 10.2 |
| SANKYO | 9.0 |
| SQUARE ENIX | 4.9 |

| Market Capitalization[5] | Billions of yen |
|---|---|
| Nintendo | 1,763.7 |
| SEGA SAMMY | 461.6 |
| SANKYO | 396.2 |
| KONAMI[4] | 336.6 |
| NAMCO BANDAI | 265.0 |
| SQUARE ENIX | 200.5 |
| Heiwa | 165.8 |
| CAPCOM | 128.0 |

### Share of Annual Pachislot Machine Sales[6]

| FY | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Rank | Manufacturer | Share | Manufacturer | Share | Manufacturer | Share | Manufacturer | Share | Manufacturer | Share |
| 1 | Sammy | 21.8% | Company Y | 18.8% | Sammy | 21.3% | Sammy | 30.9% | Sammy | 23.9% |
| 2 | Company U | 11.0% | Company S | 14.6% | Company S | 13.6% | Company D | 11.9% | Company D | 15.9% |
| 3 | Company S | 9.7% | Sammy | 13.5% | Company U | 13.1% | Company S | 11.9% | Company Y | 15.6% |
| 4 | Company D | 8.7% | Company H | 7.4% | Company Y | 9.5% | Company H | 11.3% | Company U | 13.7% |
| 5 | Company Y | 8.7% | Company K | 6.5% | Company K | 7.8% | Company U | 10.5% | Company S | 7.6% |
| Market Scale (Millions of yen) | | 502,501 | | 247,800 | | 225,860 | | 286,700 | | 375,054 |

### Share of Annual Pachinko Machine Sales[6]

| FY | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Rank | Manufacturer | Share | Manufacturer | Share | Manufacturer | Share | Manufacturer | Share | Manufacturer | Share |
| 1 | Company S | 25.8% | Company S | 24.3% | Company S | 18.0% | Company S | 22.5% | Company K | 18.6% |
| 2 | Company S | 22.9% | Company S | 13.5% | Company S | 17.2% | Company S | 14.6% | Company S | 13.9% |
| 3 | Company K | 16.1% | Sammy | 11.7% | Company K | 12.8% | Sammy | 11.8% | Sammy | 12.8% |
| 4 | Company N | 6.4% | Company N | 10.5% | Company N | 11.9% | Company K | 11.1% | Company S | 12.8% |
| 5 | Company D | 5.3% | Company K | 10.2% | Sammy | 10.8% | Company N | 10.2% | Company N | 9.8% |
| | Sammy | 3.4% | | | | | | | | |
| Market Scale (Millions of yen) | | 868,623 | | 921,338 | | 985,227 | | 886,914 | | 825,714 |

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, ROE, and ROA have not been included because an operating loss was recognized for fiscal 2012.
4 U.S. GAAP
5 Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 30, 2012
6 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.
7 "Amusement" including amusement centers and amusement arcade machines
8 Amusement Center Operations
9 "e-Amusement" in Digital Entertainment segment

| Amusement Center Operation Sales[1] | Billions of yen |
|---|---|
| ROUND ONE | 89.5 |
| NAMCO BANDAI | 61.0 |
| SEGA SAMMY | 44.6 |
| AEON Fantasy | 42.4 |
| SQUARE ENIX[7] | 41.9 |
| ADORES[8] | 18.0 |
| CAPCOM | 11.7 |
| TECMO KOEI | 1.8 |

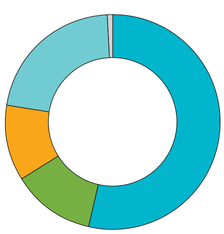
| Unit Sales of Home Video Game Software (Global)[1] | Millions of units |
|---|---|
| NAMCO BANDAI | 23.33 |
| KONAMI | 18.30 |
| SQUARE ENIX | 17.66 |
| SEGA SAMMY | 17.24 |
| CAPCOM | 15.70 |
| TECMO KOEI | 6.13 |

| Net Sales of Amusement Machines[1] | Billions of yen |
|---|---|
| NAMCO BANDAI | 73.4 |
| SEGA SAMMY | 49.9 |
| KONAMI[9] | 25.5 |
| CAPCOM | 7.6 |

## SEGA SAMMY Group Snapshot

### Net Sales*

| | % | Millions of yen |
|---|---|---|
| Pachislot and Pachinko Machine Business | 53.7 | 212,189 |
| Amusement Machine Sales Business | 12.6 | 49,929 |
| Amusement Center Operations | 11.3 | 44,608 |
| Consumer Business | 21.7 | 85,688 |
| Other | 0.8 | 3,087 |

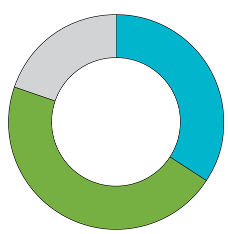


Total
**¥395.5** billion

* Excludes inter-segment transactions

### Overseas Net Sales

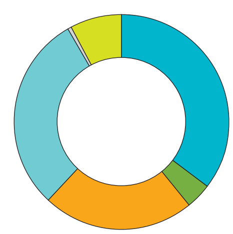
| | % | Millions of yen |
|---|---|---|
| North America | 34.4 | 13,802 |
| Europe | 45.9 | 18,392 |
| Other | 19.7 | 7,892 |



Total
**¥40.0** billion

### Capital Expenditures

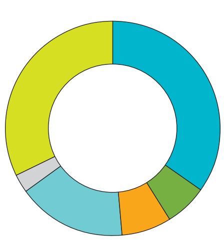
| | % | Millions of yen |
|---|---|---|
| Pachislot and Pachinko Machine Business | 35.2 | 12,726 |
| Amusement Machine Sales Business | 3.8 | 1,388 |
| Amusement Center Operations | 23.0 | 8,328 |
| Consumer Business | 29.7 | 10,763 |
| Other | 0.5 | 181 |
| Corporate and eliminations | 7.6 | 2,752 |



Total
**¥36.1** billion

### Total Assets

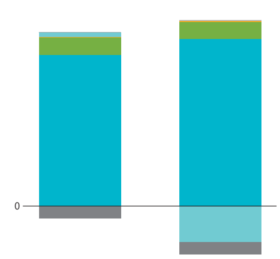
| | % | Millions of yen |
|---|---|---|
| Pachislot and Pachinko Machine Business | 34.6 | 172,244 |
| Amusement Machine Sales Business | 6.4 | 31,902 |
| Amusement Center Operations | 7.4 | 37,256 |
| Consumer Business | 16.4 | 81,689 |
| Other | 2.7 | 13,878 |
| Corporate and eliminations | 32.2 | 160,479 |



Total
**¥497.4** billion

### Operating Income (Loss)

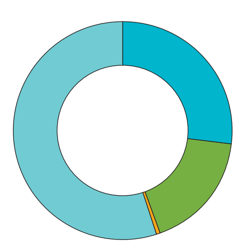
| | Millions of yen |
|---|---|
| Pachislot and Pachinko Machine Business | 71,040 |
| Amusement Machine Sales Business | 7,415 |
| Amusement Center Operations | 355 |
| Consumer Business | (15,182) |
| Other | 234 |
| Corporate and eliminations | (5,478) |




Total
**¥58.3** billion

### R&D Expenses, Content Production Expenses

| | % | Millions of yen |
|---|---|---|
| Pachislot and Pachinko Machine Business | 27.0 | 14,393 |
| Amusement Machine Sales Business | 17.6 | 9,374 |
| Amusement Center Operations | 0.5 | 295 |
| Consumer Business | 55.0 | 29,316 |



Total
**¥53.3** billion

# Market Conditions

## Pachislot and Pachinko Machine Business

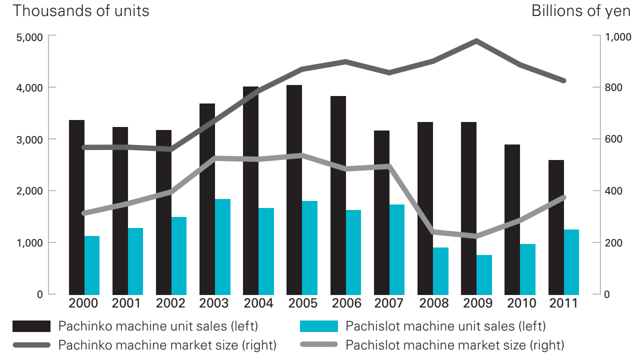
KEY POINTS

### Pachislot Machine Market Trending toward Recovery

Pachinko machine sales were buoyant from July 2004, when the regulations pertaining to the Entertainment Establishments Control Law were revised, through to the first half of 2009. From around the second half of 2009, however, demand for pachislot machines began picking up, while pachinko machine demand began to soften. This trend reflected a shift in the focus of pachinko hall operators' capital investment from pachinko machines to pachislot machines, which have comparatively high utilization rates.

The pachinko and pachislot machine market is seeing the gradual emergence of an oligopoly, comprising manufacturers able to generate stable earnings even amid volatile market conditions. Such manufacturers have strong financial positions and powerful development capabilities, enabling them to develop competitive machines continuously.

Pachinko and Pachislot Machine Unit Sales and Market Size




Source: Yano Research Institute Ltd.

(Settlement dates from July to June)

For details, see "THE FACTS" on P.08.

## Amusement Machine Sales Business

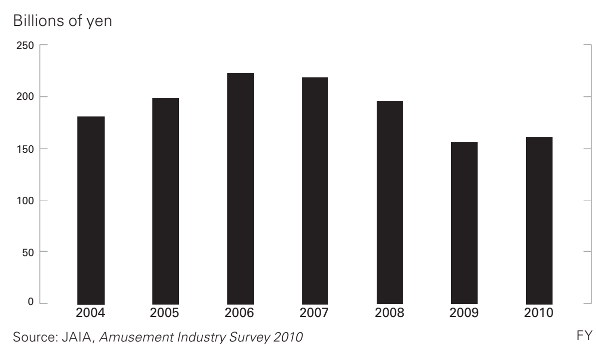
KEY POINTS

### Growth for the First Time in Three Years

In the fiscal year ended March 2011*, the amusement arcade machine market grew for the first time in three years thanks to a recovery in business conditions for amusement center operators, which affect the market significantly. To lessen amusement center operators' capital investment burden, amusement arcade machine manufacturers are taking a variety of steps. As well as introducing standardized machine cabinets that lower the cost of upgrading content, manufacturers are promoting the spread of revenue-sharing business models in which they sell machines at modest prices and receive a share of revenues. Furthermore, to appeal to a broader spectrum of players, manufacturers are developing machines targeting casual players and advancing other initiatives that are introducing new types of gameplay.

* JAIA, *Amusement Industry Survey 2010*
Figures for the fiscal year ended March 31, 2012 are not available.

Amusement Arcade Machine Sales*




Source: JAIA, *Amusement Industry Survey 2010*
* Total domestic sales and exports

For details, see "THE FACTS" on P.10.

## Amusement Center Operations

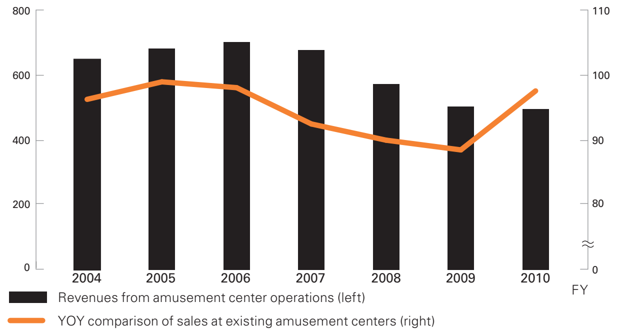
**KEY POINTS**

### Strong Signs of Bottoming Out

For the fiscal year ended March 31, 2011*, the decline in sales from amusement center operations—resulting from amusement center operators' closure of unprofitable amusement centers in response to market contraction and efforts to increase operational efficiency—showed signs of bottoming out, with year-on-year decreases of only 1.7% in net sales and 2.7% in the net sales of existing amusement centers. As their financial positions recover, amusement center operators are developing a stronger appetite for capital investment, which promises to revitalize the market. Furthermore, amusement center operators are adopting operations aimed at capturing new groups of players, such as senior players, and introducing new types of fee charging methods based on tie-ups with manufacturers of amusement arcade machines.

* JAIA, *Amusement Industry Survey 2010*
Figures for the fiscal year ended March 31, 2012 are not available.

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




Source: JAIA, *Amusement Industry Survey 2010*

For details, see "THE FACTS" on P.10.

## Consumer Business (Game Content Business)

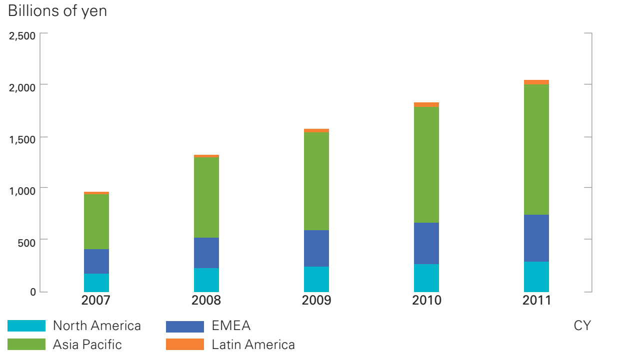
**KEY POINTS**

### Social Games Becoming the Market Driver

Worldwide, the packaged game software area is shrinking as a result of the transition to a new generation of platforms and dramatic expansion of the game content market for social networking services (SNS) and smartphones. Furthermore, the advances of certain titles and publishers are making the market increasingly oligopolistic. In Japan, social games are driving rapid growth of the online game market, which doubled* in size year on year in 2011. Major publishers are capitalizing on their accumulated intellectual property assets and graphics technologies to roll out content in markets for new platforms extremely rapidly. In the casual game area, where a low entry barrier ensures competition remains fierce, manufacturers are revising games with excessively strong gambling elements.

* *Famitsu Game Whitepaper 2012*

Global Online Game Market




Source: *PwC's annual Global Entertainment and Media Outlook: 2012–2016*

For details, see "THE FACTS" on P.11.

# Analysis of the Group and Its Strategies

## Pachislot and Pachinko Machine Business

**KEY POINTS**

By continuing to strengthen our development system, we aim to maintain and grow the leading market share of the pachislot machine business while acquiring a leading market share for our pachinko machine business in the medium-to-long term, which still has considerable scope for expanding its market share. To broaden our player base, we intend to develop machines that cater to a wide range of age groups and thereby revitalize the market as a whole.

For details, see **P.42.**

### 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

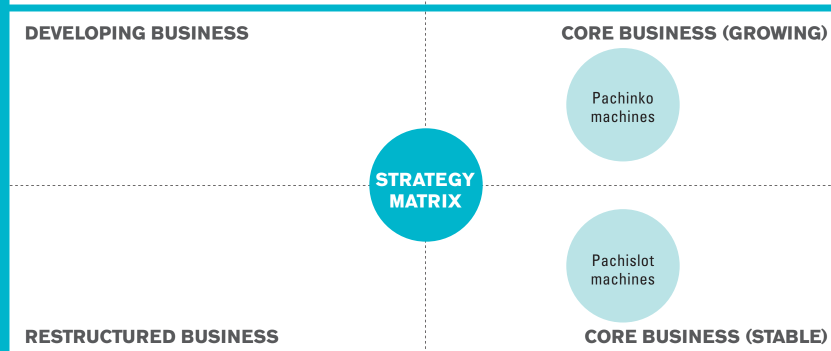
- Variability of earnings due to regulatory changes
- Business development restricted to Japan

### 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




## Amusement Machine Sales Business

**KEY POINTS**

Regarding revitalization of the amusement center industry as a priority strategy, we are popularizing a revenue-sharing business model that helps reduce amusement center operators' capital investment burden while stabilizing our earnings. Also, focusing on Asia, we will take strategic preparatory measures in overseas markets with burgeoning growth potential.

For details, see **P.46.**

### STRENGTHS

- Very competitive products in the high-end market
- Precise identification of market needs through collaboration with Amusement Center Operations

### WEAKNESS

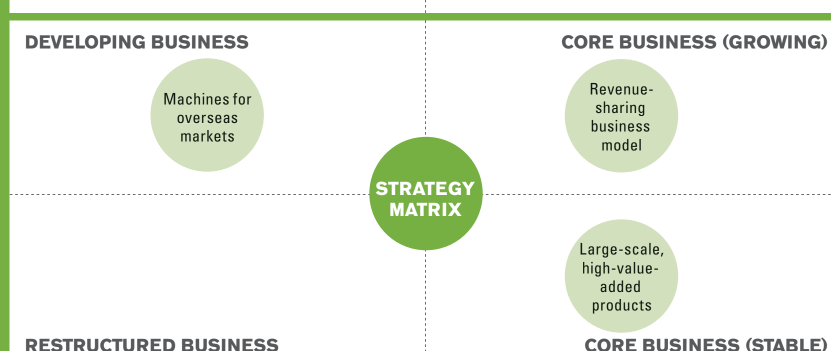
- Low profitability of overseas businesses

### OPPORTUNITIES

- Growth potential of overseas markets, centered on Asia
- Tie-ins with consumer generated media (CGM)

### THREATS

- Financial positions of amusement center operators
- Reduction in revenues from the revenue-sharing business model due to a slump in consumer spending



## Amusement Center Operations

**KEY POINTS**

For traditional amusement centers in Japan, we will continue strengthening our earnings structure by reforming our portfolio of amusement centers and bolstering management capabilities. Also, we intend to pioneer new markets through the development of theme park-type amusement centers based on new concepts and the creation of entertainment spaces that transcend the games category.

For details, see **P.48.**

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

### WEAKNESS
- Low profit margins and capital turnover ratio

### OPPORTUNITIES
- Product lineup catering to a broad range of player groups
- 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 BUSINESS**
- New-concept theme park-type amusement centers

**CORE BUSINESS (GROWING)**

**RESTRUCTURED BUSINESS**
- Overseas amusement centers

**CORE BUSINESS (STABLE)**
- Amusement centers in Japan

## Consumer Business

**KEY POINTS**

In the packaged game software business, with an emphasis on profitability, we will narrow down the number of titles. Meanwhile, plans call for concentrating management resources on content businesses targeting SNS and smartphones, which we have positioned as a growth area. In the toy sales business and the animation business, we intend to stabilize earnings based on mainstay products and titles.

For details, see **P.50.**

### STRENGTHS
- Brand power in the game content business, accumulation of a powerful range of intellectual properties
- An animation business with some of the best animation assets in Japan

### WEAKNESSES
- Lackluster packaged game software sales and decline in earning power
- Lateness in building operational foundations for SNS and smartphone game markets
- Low profit margin of the toy sales business

### OPPORTUNITIES
- Rapid growth of content market for SNS and smartphones
- Expansion of the PC network 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**
- CG animation
- SNS and smartphone content

**CORE BUSINESS (GROWING)**
- Overseas licensing business

**RESTRUCTURED BUSINESSES**
- Packaged game software for Japan and overseas
- Toys

**CORE BUSINESS (STABLE)**
- Animation

# Operational Review

## Pachislot and Pachinko Machine Business

### Basic Information

The Pachislot and Pachinko Machine Business segment is the Group's growth driver. It accounts for approximately 54% of net sales and realizes a high operating margin of 33.5%, which testifies to impressive profitability. As the business segment's core operating company, Sammy Corporation has more often than not held the largest share of the pachislot machine market. Moreover, each year it is building its presence in the pachinko machine market based on enhanced product appeal. The segment is expanding its business by advancing a multibrand strategy founded on Sammy, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION.

### Main Operating Companies

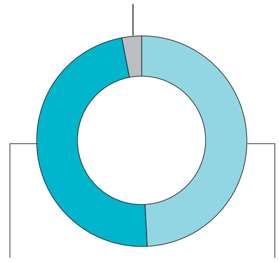
- Sammy Corporation
- TAIYO ELEC Co., Ltd.
- RODEO Co., Ltd.
- GINZA CORPORATION

### Net Sales Breakdown

¥212.1 billion

53.7%

Other
2.8% ¥6.0 billion



Pachinko Machine Business
48.0% ¥101.8 billion

Pachislot Machine Business
49.2% ¥104.3 billion

### Fiscal 2012 Business Results Summary

Net sales
¥212.1 billion | 0.05% ↑

Operating income
¥71.0 billion | 10.5% ↑

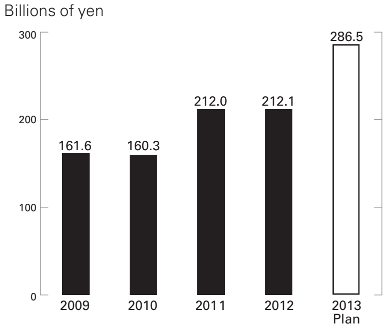
Pachislot machine unit sales
300 thousand units | 0.5% ↓

Pachinko machine unit sales
332 thousand units | 3.2% ↓

### Business Results Trends

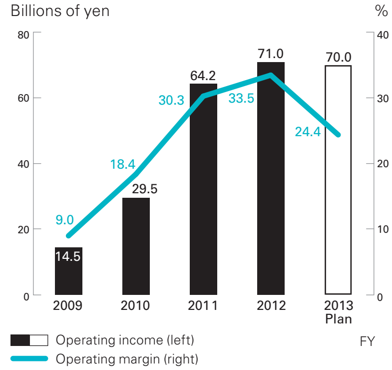
Net Sales

Billions of yen



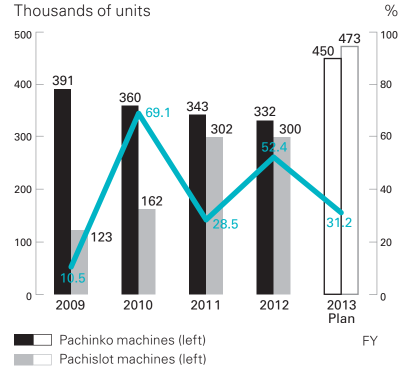

Operating Income / Operating Margin

Billions of yen %




Pachislot and Pachinko Machine Unit Sales

Thousands of units %



### Executive Summary

- Mainstay title *Pachislot Hokuto No Ken* shipped 177,000 units.
- Operating income rose 10.5% on brisk sales of mainstay titles, higher pachinko board sales as a percentage of net sales, and cost improvements.
- The segment began building a new plant and distribution center in Kawagoe, Saitama Prefecture.
- For fiscal 2013, we are targeting unit sales increases of 57.2% for pachislot machines and 35.4% for pachinko machines.

For information on trends in related markets, please see "Market Conditions for Respective Businesses" in the supplementary "THE **FACTS**" document.

### Fiscal 2012 Overview

In fiscal 2012, ended March 31, 2012, the marketing of mainstay titles concentrated on the second half of the year in accordance with sales plans, which anticipated unstable supplies of certain core components due to the Great East Japan Earthquake.

Unit sales of the pachislot machine business remain at the same level as that of the previous fiscal year—approximately 300,000 units—because we postponed launching certain titles until the current fiscal year as a result of the flooding in Thailand. Net sales were up 9.9% year on year, to ¥104.3 billion, reflecting favorable sales of mainstay titles with compelling brand power, such as *Pachislot Hokuto No Ken* and, under the RODEO brand, and *Pachislot Monster Hunter*. In December 2012, we launched *Pachislot Hokuto No Ken*, which shipped an impressive 177,000 units in only four months to become a hit product and lead the pachislot machine market's recovery.

Meanwhile, the pachinko machine business posted solid sales of *Pachinko SOUTEN-NO-KEN* and *Pachinko CR ALADDIN NEO*. However, as demand shifted further toward pachislot machines—a trend evident from the increased impetus of recovery in sales of these machines—overall pachinko machine unit sales declined 3.2% year on year, to roughly 330,000 units.

In 2011, although our share of the pachislot machine market decreased from the previous fiscal year's 30.9% to 23.9%, we maintained the largest share of the pachislot machine market. As for pachinko machines, despite a lackluster market we are steadily building our presence, growing market share from the previous fiscal year's 11.8% to 12.8%.

*Pachislot Hokuto No Ken*

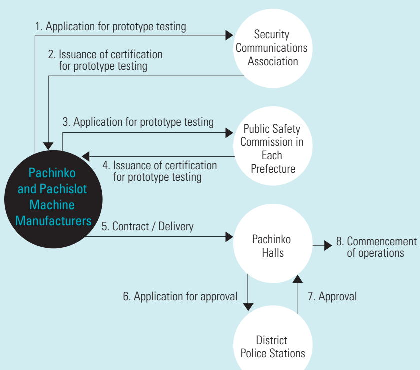

*Pachislot Monster Hunter*


**CHECK IT OUT!** **The Regulatory Environment and the Pachislot and Pachinko Machine Markets**

The Entertainment Establishments Control Law affects the pachislot and pachinko machine markets. As new machines have to go through multiple approval processes pursuant to these regulations before companies can launch them, revisions to the regulations changes the gameplay of pachislot and pachinko machines and triggers dramatic changes in the pachislot and pachinko machine markets. Recently, revision of regulations pertaining to the Entertainment Establishments Control Law, in July 2004, led to a variety of structural changes in the markets.

(For details, please see the supplementary "THE **FACTS**" document.)

Approval Process for Pachinko and Pachislot Machines



As a result, for fiscal 2012 the business segment's net sales were approximately unchanged year on year, at ¥212.1 billion.

Operating income rose 10.5% year on year, to ¥71.0 billion. The operating margin was up 3.2 percentage points from the previous fiscal year, to 33.5%. Pachinko board sales as a percentage of net sales, which we are trying to increase in order to lessen pachinko hall operators' capital investment burden and enhance the profit margin of the Pachislot and Pachinko Machine Business segment, jumped from the previous fiscal year's 28.5% to 52.4%. In addition, adopting a flexible pricing strategy for the mainstay titles of the pachislot machine business and improving cost by reusing components, mainly LCD panels, enabled us to grow earnings and improve the profit margin.

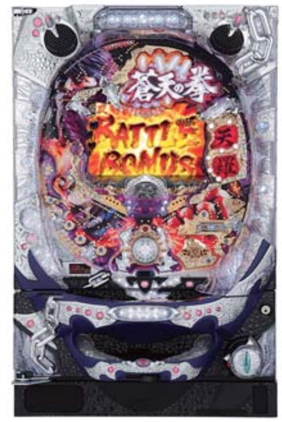
Sammy further cemented the foundations upon which to further its multibrand strategy by making TAIYO ELEC a wholly owned subsidiary in August 2011. In October of the same year, Sammy began building a new plant and distribution center in Kawagoe, Saitama Prefecture, with operations slated to start up in September 2012.

## Growth Strategies

The basics strategies of the Pachislot and Pachinko Machine Business segment are to maintain and expand its leading share of the pachislot machine market while increasing unit sales with a view to securing a leading share of the pachinko machine market in the medium-to-long term. Going forward, the segment will concentrate efforts on fostering new player groups by strengthening development of a product lineup that caters to the preferences of a wide range of age groups.

To cater to diverse market needs, the business segment pursues a multibrand strategy. We will strengthen the brand appeal of all subsidiaries' offerings by encouraging exchanges among developers and bolstering development capabilities through exploitation of the SEGA SAMMY Group's powerful intellectual properties and the combination of technologies. At the same time, we will enhance the cost competitiveness of the Group as a whole by deepening collaborations for component sharing, joint purchasing, and the reuse of core components.

The September 2012 start-up of operations at the new plant and distribution center will ramp up Sammy's production capacity significantly. By establishing a supply system able to cope when demand becomes intense for short periods, we aim to reach unit sales targets for fiscal 2013 while enlarging our share of sales even further over the medium-to-long term.



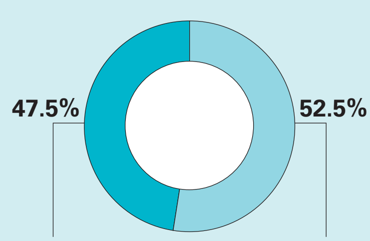
*Pachinko SOUTEN-NO-KEN*
© Tetsuo Hara & Buronson / NSP 2001, Approved No.YDG-102
© Sammy

*Pachinko CR ALADDIN NEO*
© Sammy

**CHECK IT OUT!** **A Balanced Product Portfolio**

Since Sammy transferred to a new development system in fiscal 2009, its development, production, and sales divisions have collaborated to heighten the rigor of quality control and develop products that better reflect market needs. These efforts have succeeded in greatly enhancing the product appeal and brand power of our pachislot and pachinko machines. Amid markets in which changes in regulations or player needs drive a cycle of booms and slumps in pachislot and pachinko machine sales, the balanced product portfolio of the Pachislot and Pachinko Machine Business segment is a major asset.

### Breakdown of Unit Sales by Pachislot and Pachinko Machines

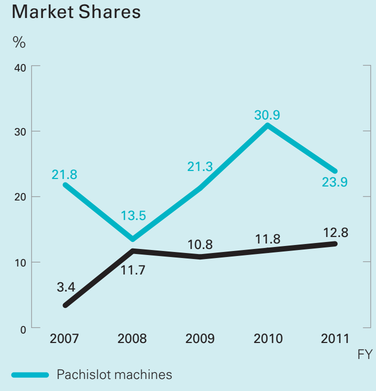



Pachislot machine unit sales
**300,000**

Pachinko machine unit sales
**332,000**

(Fiscal 2012 results)

### Pachislot and Pachinko Machine Market Shares



## Fiscal 2013 Outlook

In fiscal 2013, ending March 31, 2013, the sluggishness of the pachinko machine market and the growth of demand for pachislot machines are likely the continue.

Amid such conditions, the Pachislot and Pachinko Machine Business segment aims to increase net sales 35.1% year on year, to ¥286.5 billion. For pachislot and pachinko machines, we plan to grow unit sales significantly by increasing product variations and strengthening product lineups.

In the pachislot machine business, plans call for elevating unit sales 57.2% year on year, to 473,000 units. Assuming unit sales in the market as a whole remain stable year on year at 1.25 million units, this will give the business a 37.8% share of the market. During the current fiscal year, we intend to market a total of 13 titles, including some mainstay titles, to ensure we capture growing demand.

Although facing very tough market conditions, the pachinko machine business will bring to market a total of 15 titles during the current fiscal year, including major titles, and set its sights on growing unit sales 35.4% year on year, to 450,000 units, and to claim a 20% share of the market.

As for earnings, we expect the business segment's operating income to decline 1.4% year on year, to ¥70.0 billion, and the operating margin to decrease 9.1 percentage points, to 24.4%. This lower profit margin is likely to stem from higher R&D expenses, associated with initiatives focused on the current fiscal year and beyond; the absence of the benefits realized in fiscal 2012 through the reuse of components; and a decrease in pachinko board sales as a percentage of net sales from fiscal 2012's 52.4% to 31.2% in the pachinko machine business due to plans to roll out new-model pachinko frames. (For details, please see the "Management Message" on page 20.)

*Dejiten CR Hokuto No Ken Toki*

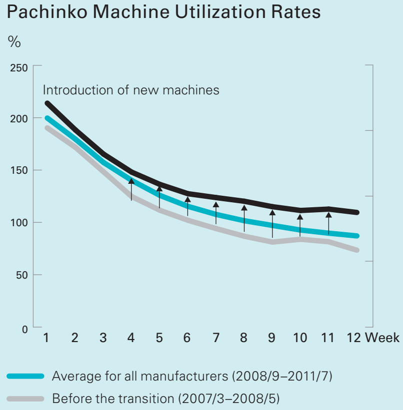

**CHECK IT OUT!** **Utilization Rates—A Key Indicator of Endorsement and Brand Appeal**

After the installation of a new machine at a pachinko hall, utilization rates show the degree to which players use it during business hours. Normally, utilization rates decline gradually. The more gradual the decline, the more the machine is earning long-term player endorsement. This makes utilization rates an extremely valuable benchmark for analyzing pachislot and pachinko machines' brand appeal in the market as well as market trends. For example, the two graphs below (Pachinko Machine Utilization Rates and Pachislot Machine Utilization Rates) show that the utilization rates of Sammy's products have risen markedly. This reflects the considerable enhancement of Sammy's product appeal, realized through the new development system we transferred to in fiscal 2009.

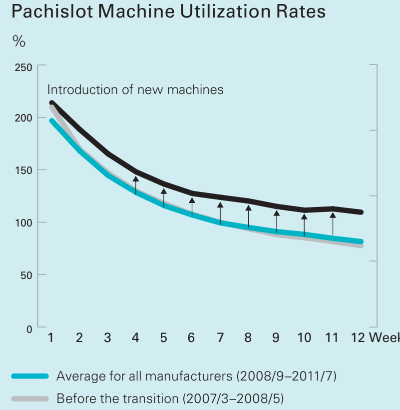
As well as utilization rates, the SEGA SAMMY Group draws on a variety of other data to analyze market trends precisely and develop products that match market needs perfectly.

* Utilization rate = Utilization of the Group's pachislot and pachinko machines ÷ Average utilization of all manufacturers

Pachinko Machine Utilization Rates




Pachislot Machine Utilization Rates



# Amusement Machine Sales Business


*StarHorse3 Season I A NEW LEGEND BEGINS.*


## Basic Information

The Amusement Machine Sales Business segment is SEGA's founding business. As an unflagging pioneer, this business segment has led the development of the industry by marketing a wide range of innovative world-first and industry-first products. The corporate culture that develops such products by combining advanced technology and creativity remains vibrant to this day. With large-scale, high-value-added products as its forte, this business segment is ushering in a new era in the industry. Through a product lineup catering to a broad range of players and a revenue-sharing business model, we are concentrating efforts on reinvigorating the amusement center industry.

### Main Operating Companies

SEGA® — SEGA CORPORATION

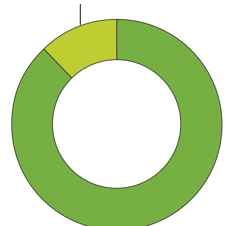
DARTSLIVE — DARTSLIVE Co., Ltd.

### Net Sales Breakdown

¥49.9 billion

**12.6%**

Overseas Amusement Machine Sales Business
12.0% ¥6.0 billion



Domestic Amusement Machine Sales Business
88.0% ¥43.9 billion

### Fiscal 2012 Business Results Summary

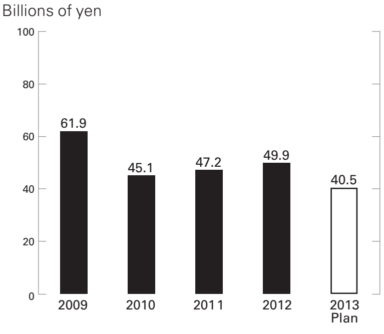
Net sales
**¥49.9** billion — **5.7%** ↑

Operating income
**¥7.4** billion — **1.3%** ↑

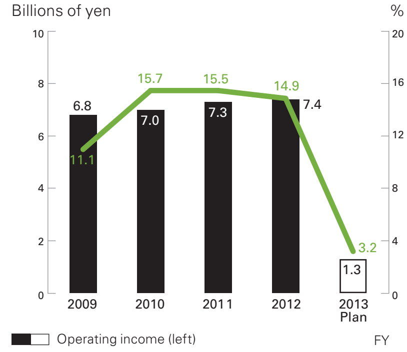
R&D expenses, content production expenses
**¥9.3** billion — **1.9%** ↑

### Business Results Trends

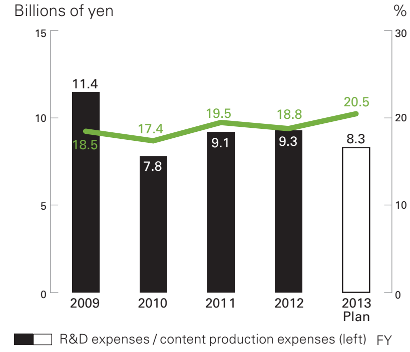
**Net Sales**




**Operating Income / Operating Margin**




**R&D Expenses, Content Production Expenses**



**Executive Summary**

- Mainstay title *StarHorse3 Season I A NEW LEGEND BEGINS*. posted steady sales.
- The segment saw solid revenues from revenue-sharing titles thanks to favorable utilization rates.
- The segment is likely to record lower sales and earnings for fiscal 2013 because it will not release any new major titles.

For information on trends in related markets, please see "Market Conditions for Respective Businesses" in the supplementary "THE **FACTS**" document.

## Fiscal 2012 Overview

For fiscal 2012, net sales were up 5.7% year on year, to ¥49.9 billion. In fiscal 2012, for *Star Horse*, a horse racing medal game that boasts strong brand appeal at amusement centers, the business segment released the latest installment in the series, *StarHorse3 Season I A NEW LEGEND BEGINS.*, which sold steadily. CVT* kits for such titles as *SEGA NETWORK MAHJONG MJ5* and *WORLD CLUB Champion Football* as well as cards and other consumables related to these titles also saw solid sales. Furthermore, titles introduced through the revenue-sharing business model enjoyed high utilization rates and generated stable revenues.

As a result, the business segment's operating income rose 1.3% year on year, to ¥7.4 billion, with the operating margin remaining approximately unchanged at 14.9%. Also, in fiscal 2012 R&D expenses and content production expenses were up 1.9% year on year, to ¥9.3 billion.

* Kits for upgrading boards, software, and exteriors

## Growth Strategies

Strategically, our first priority is to revitalize the amusement center industry, which affects this business segment's earnings environment directly. With this in mind, the business segment is advancing measures focused on mitigating amusement center operators' capital investment burden and stabilizing the Company's revenues.

Overseas, we are taking forward-looking measures, mainly targeting Asia's considerable growth potential. Our aim is to increase localization through operational tie-ups with local partners that enable us to provide competitively priced products matching the preferences of players in each region.

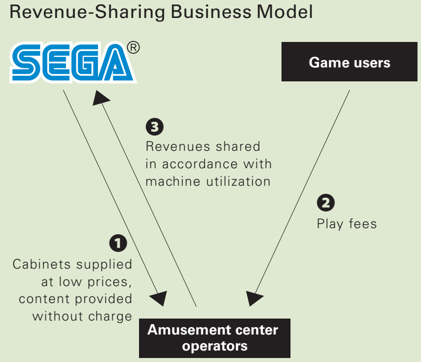
## Fiscal 2013 Outlook

Given the phase of the product development cycle we are currently in, we do not plan to launch any new major titles in fiscal 2013. Consequently, the business segment is likely the see year-on-year decreases of 18.9% in net sales, to ¥40.5 billion, and 82.5% in operating income, to ¥1.3 billion. We will focus efforts on growing sales of *StarHorse3 Season I A NEW LEGEND BEGINS.* and selling small and medium-scale amusement arcade machines and mainstay titles. We expect to reduce R&D expenses and content production expenses 11.5% year on year, to ¥8.3 billion.

**CHECK IT OUT!** **A Revenue-Sharing Business Model Aimed at Energizing the Industry**

In the revenue-sharing business model that SEGA is promoting, SEGA provides low-priced machine cabinets and free content, and the company and amusement center operators share revenues from the operation of the machines, in other words the play fees from players. We are rolling out this business model through the infrastructure of SEGA's *ALL.Net* network service. Under this model, amusement center operators are able to curb their capital investment while introducing new products that help revitalize their amusement centers. Meanwhile, the model extends SEGA's involvement beyond the sale of amusement arcade machines. It allows the company to sustain earnings by upgrading content periodically and thereby maintain the market value of its amusement arcade machines.

Revenue-Sharing Business Model




Marketed under a revenue-sharing business model, *BORDER BREAK* has become an enduring favorite among players.
© SEGA

# Amusement Center Operations

### Basic Information

As this business segment's core operating company, SEGA operates diverse amusement center formats, such as *JOYPOLIS*, *SEGA WORLD*, and *CLUB SEGA*, to suit different locations. Through close collaboration with the Amusement Machine Sales Business segment, this business segment is catering to customers in a wide range of age groups. While improving the business segment's earnings structure by reforming our amusement center portfolio and strengthening the management capabilities of amusement centers, we are taking on the challenge of developing new-concept theme park-type amusement centers and creating entertainment spaces that break the mold of traditional amusement centers.

*TOKYO JOYPOLIS*

### Main Operating Companies

SEGA CORPORATION

SEGA Bee LINK Co., LTD.

AG SQUARE, LTD.

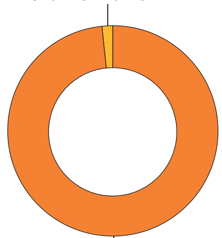
OASIS PARK Co., Ltd.

### Net Sales Breakdown

¥44.6 billion

11.3%

Overseas Amusement Center Operations
1.6% ¥0.7 billion



Domestic Amusement Center Operations
98.4% ¥43.9 billion

### Fiscal 2012 Business Results Summary

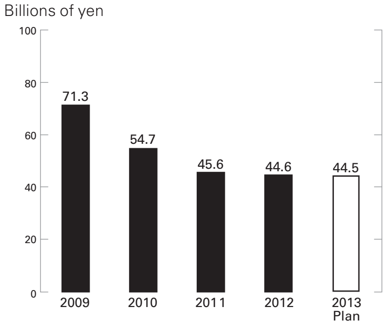
Net sales
¥44.6 billion | 2.4% ↓

Operating income
¥0.3 billion | 0.0%

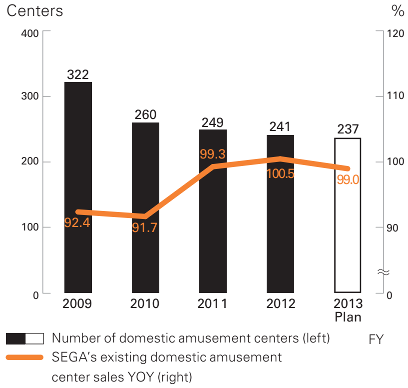
SEGA's existing domestic amusement center sales year on year
100.5% | —

### Business Results Trends

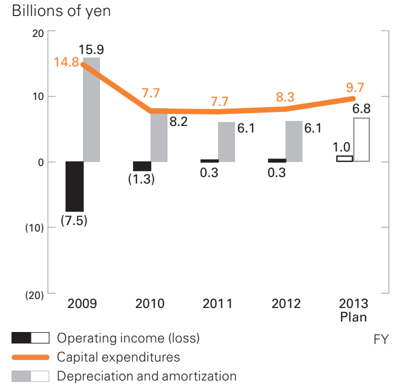
**Net Sales**




**Number of Domestic Amusement Centers / SEGA's Existing Domestic Amusement Center Sales YOY**




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



## Executive Summary

- In Japan, SEGA's existing amusement centers posted a year-on-year increase in sales.
- The business segment made substantial progress in rationalizing overseas amusement centers by selling seven amusement centers in North America.
- SEGA began developing new-concept business formats with the renewal of *TOKYO JOYPOLIS*.

For information on trends in related markets, please see "Market Conditions for Respective Businesses" in the supplementary "THE FACTS" document.

### Fiscal 2012 Overview

For fiscal 2012, the Amusement Center Operations segment recorded a 2.4% decline in net sales year on year, to ¥44.6 billion. In the first half of the year, despite the suspension of operations at certain amusement centers and the shortening of business hours due to planned power outages—mainly in the Tohoku region—after the Great East Japan Earthquake, amusement centers performed solidly as consumers increasingly favored accessible entertainment. Furthermore, the success of initiatives to reform our amusement center portfolio and bolster the management capabilities of existing amusement centers grew the sales of SEGA's existing domestic amusement centers 0.5% year on year. Also, for the second consecutive fiscal year the business segment secured profits, posting operating income of ¥0.3 billion. Capital expenditures rose 8.1% year on year, to ¥8.3 billion, while depreciation of ¥6.1 billion was comparable to that of the previous fiscal year.

As of the end of fiscal 2012, the business segment has 241 amusement centers in Japan. Overseas, the May 2011 sale of seven amusement centers in North America has left the business segment with only three overseas amusement centers in Taiwan.

### Growth Strategies

As society ages, amusement centers in Japan are likely to continue facing challenging business conditions. In response, we intend to keep building an amusement center portfolio that is able to generate stable earnings. In conjunction with these efforts, we will move forward with the development of new business formats, setting our sights on opening up new customer groups and rolling out these new-format facilities in the global market. As part of such initiatives, we revamped *TOKYO JOYPOLIS* based on a new concept and unveiled the facility in July 2012. Furthermore, we will redouble efforts to expand and improve services with a view to developing senior customers as a new market.

### Fiscal 2013 Outlook

For fiscal 2013, we expect net sales to edge down 0.2% year on year, to ¥44.5 billion. At SEGA's existing domestic amusement centers in Japan, we anticipate a 1.0% decline in sales. Meanwhile, operating income is projected to rise ¥0.7 billion year on year, to ¥1.0 billion, due to lower depreciation accompanying changes in accounting policy for the years of service life of fixed assets and the depreciation method. In Japan, we plan to open seven amusement centers and close 11, giving us at total of 237 amusement centers at the end of the current fiscal year, down four from the previous fiscal year-end. In addition, aiming to boost sales, we will remodel 26 of SEGA's amusement centers in Japan.

**CHECK IT OUT!** **Beyond Games**

Having undergone its largest renewal since its establishment, *TOKYO JOYPOLIS*, Japan's largest indoor theme park, reopened in July 2012. The revamped facility is based on a "DigitaReal" concept, which as the name suggests means integrating the digital and the real. It offers five major "DigitaReal" experiences, including attractions and dining areas that incorporate numerous digital elements. In another initiative, we plan to open a new-format amusement center that is themed on nature and features videos from the British Broadcasting Corporation (BBC) in Yokohama in 2013. Through such initiatives, we want to explore the development of businesses in entertainment areas that transcend the boundaries of games. Another flagship of such efforts is *DARTS LIVE*, which Group company DARTSLIVE Co., Ltd., operates.

*TOKYO JOYPOLIS*

© SEGA

# Consumer Business

### Basic Information

In the game content business, which accounts for roughly 78% of this segment's net sales, SEGA pursues a multiplatform strategy of providing game software for a wide variety of platforms. In the packaged game software area, the business segment is rigorously narrowing down the number of titles under development. On the other hand, it is channeling management resources toward the fast-growing digital content area. By stepping up collaborations across the whole Group, including the toy sales business and the animation business, we aim to leverage our extensive capabilities.

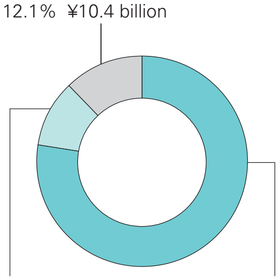
### Main Operating Companies

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

### Net Sales Breakdown*

¥85.6 billion

**21.7%**



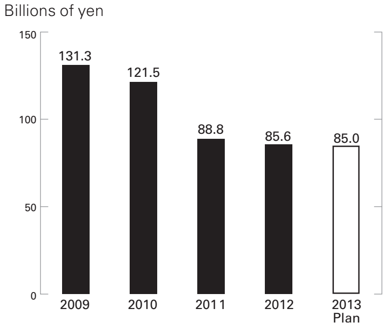

* Excluding ¥0.1 billion of corporate and eliminations

### Fiscal 2012 Business Results Summary

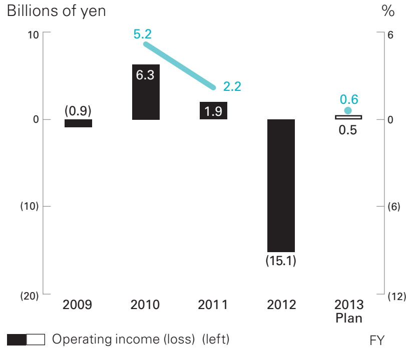
| | | |
|---|---|---|
| Net sales | ¥85.6 billion | 3.6% ↓ |
| Operating loss | ¥15.1 billion | — |
| Home video game software unit sales | 17.24 million units | 7.9% ↓ |
| R&D expenses, content production expenses | ¥29.3 billion | 61.5% ↑ |

### Fiscal 2012 Business Results Summary

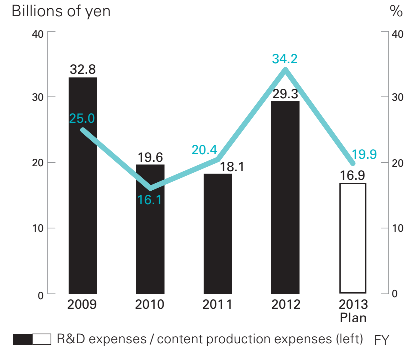
#### Net Sales




#### Operating Income (Loss) / Operating Margin




#### R&D Expenses, Content Production Expenses



## Executive Summary

- Due to lackluster sales of packaged game software in North America and Europe, the business segment recorded lower revenues and an operating loss.
- The business segment restructured the Consumer Business segment in North America and Europe.
- By restructuring to reduce cost of sales and operating expenses, the business segment aims to move into the black in fiscal 2013.
- Added impetus to the development of businesses in the digital content area by establishing SEGA Networks, Ltd., in July 2012.

For information on trends in related markets, please see "Market Conditions for Respective Businesses" in the supplementary "THE **FACTS**" document.

## Fiscal 2012 Overview

For fiscal 2012, the Consumer Business segment recorded a 3.6% year-on-year decrease in net sales, to ¥85.6 billion, which reflected a downturn in packaged game software sales in North America and Europe and lower revenues from the toy business.

As for earnings, lower packaged game software sales and valuation losses on work in process accompanying restructuring in North America and Europe led to an operating loss of ¥15.1 billion for fiscal 2012, compared with the previous fiscal year's operating income of ¥1.9 billion. R&D expenses and content production expenses were up 61.5% year on year, to ¥29.3 billion, due to valuation losses on work in process accompanying restructuring.

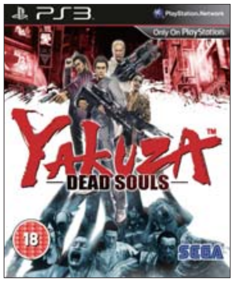
Although the game content business marketed such new titles as *Mario & Sonic at the London 2012 Olympic Games™* and the latest installment in the *Sonic* series, overall sales were down 7.9% year on year, to 17.24 million units. In Japan, the business segment shipped 2.72 million units, compared with an initial target of 3.36 million units. Particularly in North America and Europe, the business segment saw sales slump amid tough market conditions, recording sales of 14.43 million units versus an initial target of 19.92 million units. As a result, the Consumer Business segment posted an operating loss. In response, we restructured operations, focusing on rationalizing organizations in the home video game software area of the North American and European markets to improve earnings from fiscal 2013 onward and put the business segment back on track for growth. (For details of restructuring, please see page 18.) As a consequence of these efforts, we are projecting lower cost of sales and operating expenses in the Consumer Business segment for fiscal 2013.

In the digital content area (content for mobile phones and smartphones, online games for PCs, etc.), *Kingdom Conquest*, a free online role-playing game (RPG) that we have provided since 2010 for Apple's iOS mobile operating system and Android™, was ranked the No. 1 game in App Store Japan Rewind 2011.

Furthermore, we stepped up initiatives overseas. In Korea, we concluded a five-year licensing agreement with Korea's largest game publisher, NCsoft Corporation, for the provision of services for *Professional Baseball Manager*, an online game for PCs that simulates managing a baseball team. Also, we acquired a U.S. online game developer, Three Rings Design, Inc.

Regarding the toy business, while mainstay offerings such as the *ANPANMAN* series and *Jewelpod* sold well, sales of other toys were sluggish overall.

In addition, the animation business received solid license revenues from *ANPANMAN*, *Detective Conan*, and the television series *CARDFIGHT!! VANGUARD*.



*Yakuza: Dead Souls*
© SEGA

*Sonic Generations*
© SEGA


*Jewelpod Diamond*
©'08, '12 SANRIO / SEGA TOYS
S · S / W · TX · JLPC

### Growth Strategies

For the packaged game software area of the game content business, we will build a structure that generates stable earnings. In the North American and European markets, we will scrutinize earnings outlooks and focus exclusively on major intellectual properties likely to realize unit sales commensurate with development investment. In the digital content area, aiming to expedite management decision-making, SEGA divested the main capabilities of its network business to establish SEGA Networks, Ltd., in July 2012. The new company will exploit the outstanding assets and development capabilities that SEGA has accumulated to create products featuring gameplay, imaginary worlds, and graphics that clearly differentiate them from casual games.

Also, the toy business will strengthen initiatives for mainstay products while reforming its value chain 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 2013 Outlook

For fiscal 2013, we forecast the Consumer Business segment's net sales to decline 0.8% year on year, to ¥85.0 billion. Meanwhile, we expect lower cost of sales and operating expenses resulting from restructuring will enable the business segment to achieve operating income of ¥0.5 billion. By business, the game content business is likely to see a 3.0% year-on-year decline in net sales, to ¥64.4 billion. However, the toy business is aiming to grow net sales 5.6% year on year, to ¥9.4 billion, while the animation business is targeting a 3.8% rise in net sales, to ¥10.8 billion.

In the packaged game software area of the game content business, the business segment will streamline its portfolio of titles from fiscal 2012's 45 titles to 24 titles, centered on major intellectual properties such as *Sonic the Hedgehog*, *Football Manager*, *Total War*, and *Aliens*. We expect this to result in a 48.1% year-on-year drop in sales, to 8.94 million units. As for the digital content area, we aim to introduce the mainstay title *Phantasy Star Online 2* and maximize network revenues. At the same time, we plan to release 20 new titles as content for SNS and smartphones.

Thanks to the narrowing down of titles under development, we expect R&D expenses and content production expenses to fall 42.4% year on year, to ¥16.9 billion.


*ANPANMAN: Revive Banana Island!*


*Phantasy Star Online 2*


**CHECK IT OUT!** **Accelerating Initiatives for Online Games in Asia**

SEGA is actively entering Asia's online games market by working with partner companies to build development and operational systems that leverage SEGA's content. In Korea, Ntreev Soft has been operating *Professional Baseball Manager* since 2010. An online game for PCs that simulates managing a baseball team, *Professional Baseball Manager* was developed based on SEGA's *Let's make a professional baseball player*. By the end of 2011 *Professional Baseball Manager* accounted for more than one million players and had established sports simulation games as a new genre in Korea. In February 2012, we concluded a five-year licensing agreement for the game with NCsoft Corporation, Ntreev Soft's parent company and the largest game software publisher in Korea. Through this agreement with NCsoft, which has practical experience in operating online games in Asia, we hope to expand the game's player base even further.


*Professional Baseball Manager*, developed based on *Let's make a professional baseball player* after acquiring a license from Korea's professional baseball association