

A to Z

For those less familiar with the SEGA SAMMY Group, beginning by reading this section is advisable. It includes basic information on the business lines of the Group and the business conditions it faces.

Communication Tools

To further understanding of the SEGA SAMMY Group among shareholders, investors, and a wide range of other stakeholders, the Group upgrades its communication tools continuously.

INVESTORS

Annual Report 2013

In *Annual Report 2013*, we enable shareholders and other investors to assess the SEGA SAMMY Group's potential for sustained corporate growth over the medium-to-long term by presenting information disclosed pursuant to laws and listing regulations based on short-, medium-, and long-term timeframes. Furthermore, in relation to our growth scenarios, we clarify the significance and interconnectedness of the varied information we provide. Also, we use the unique freedom of voluntary disclosures to provide more information on such areas as intangible assets.



Online Annual Report 2013

An HTML version of *Annual Report 2013* is available on the investor relations (IR) page of the SEGA SAMMY HOLDINGS web site.

Online *Annual Report 2013* ➔ <http://www.segasammy.co.jp/english/ir/ar2013/>



IR Web Site Page

On the IR page of the SEGA SAMMY HOLDINGS web site, we post comprehensive, reliable information for shareholders and investors promptly. This includes timely disclosures as well as financial and business results figures in Excel format.

IR page of the SEGA SAMMY HOLDINGS web site ➔ <http://www.segasammy.co.jp/english/ir/>



INDIVIDUAL INVESTORS

Web Site Page for Individual Investors

A dedicated web site page, "For Individual Investors," and other pages provide an easy-to-follow introduction to the Group's business lines. Meanwhile, *SEGA SAMMY Monthly Report* features the latest information on the Group's products and services (Japanese only).

"For Individual Investors" web site page ➔ <http://www.segasammy.co.jp/english/ir/individual/>



Business Reports

Every six months, *SEGA SAMMY REPORT* updates our shareholders on business results and topics.



GENERAL STAKEHOLDERS

SEGA SAMMY Group CSR Report 2013

SEGA SAMMY Group CSR Report 2013 details the Group's wide-ranging corporate social responsibility (CSR) activities. Also, our CSR-related web site page, "Social Responsibility," carries the latest reports on our CSR activities.

"Social Responsibility" web site page ➔ <http://www.segasammy.co.jp/english/pr/commu/>



History



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



2004	2004	Established SEGA SAMMY HOLDINGS INC.
	2005	Acquired all outstanding shares of The Creative Assembly Ltd. (SEGA).
	2006	Made SPORTS INTERACTIVE Ltd. a wholly owned subsidiary (SEGA). Entered strategic business alliance with Sanrio Company, Ltd. (SEGA SAMMY HOLDINGS).
	2007	Made TAIYO ELEC Co., Ltd., a subsidiary (Sammy).
2008	2008	Reached agreement with Sanrio Company, Ltd., to jointly develop new characters (SEGA SAMMY HOLDINGS).
	2009	Made GINZA CORPORATION a subsidiary (Sammy). Established SEGA SAMMY VISUAL ENTERTAINMENT INC.* (SEGA SAMMY HOLDINGS).
	2010	Made Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD., wholly owned subsidiaries (SEGA SAMMY HOLDINGS).
2011	2011	Made TAIYO ELEC Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS). Retired 17 million shares of treasury stock (SEGA SAMMY HOLDINGS).
	2012	Made Phoenix Resort Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS). Concluded agreement on establishment of joint venture with Paradise Group of South Korea (SEGA SAMMY HOLDINGS). Established SEGA Networks, Ltd., through divestiture from SEGA (SEGA).
	2013	Made successful bid in public offering in Busan, South Korea, for project to develop <i>Centum City</i> , a multi-project urban development area (SEGA SAMMY HOLDINGS). Acquired North American developer Relic Entertainment Inc. and intellectual properties related to titles under development (SEGA).

* Currently MARZA ANIMATION PLANET INC.



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



UFO Catcher
© SEGA



Aladdin pachislot machine
© Sammy



Sonic the Hedgehog
© SEGA



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



Phoenix Seagaia Resort

Summary of the SEGA SAMMY Group

The SEGA SAMMY Group is a comprehensive entertainment company that provides new types of gameplay in a broad array of areas from pachislot and pachinko machines through amusement arcade machines, amusement center operations, game content, toys, and animation.

SEGA SAMMY HOLDINGS INC.

Date of Establishment	October 1, 2004
Capital	¥29.9 billion
Total Shares Issued and Outstanding	266,229,476 shares
Number of Shareholders	82,682
Number of Employees	7,008 (consolidated)

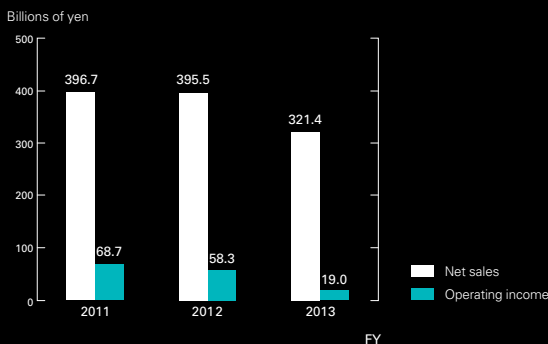
As of March 31, 2013



The Group Logo

The logo symbolizes the creation of synergies by intertwining two renderings of the initial letter of both company names, the letter S, in the blue and green corporate colors of SEGA and Sammy. The curving lines linking SEGA and Sammy represent the Earth, simultaneously expressing the companies' solidarity and the Group's determination to develop globally.

Net Sales / Operating Income



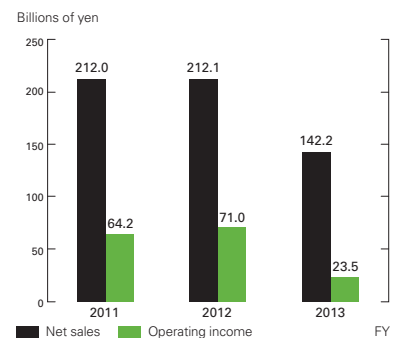
Pachislot Hokuto No Ken
Chapter of Resurrection
© Buronson & Tetsuo Hara /
NSP1983
© NSP2007, Approved
No. YGL-126
© Sammy



Pachislot and Pachinko Machine Business

This business segment comprises the pachislot machine business, which has realized outstanding brand power by providing innovative products constantly, and the pachinko machine business, which has been building brand power by strengthening development capabilities. A feature of the business segment is an operational structure that is based on a robust earnings and a balanced product portfolio, and is therefore highly resistant to market volatility. Going forward, we aim to maintain and extend our leading share of the pachislot machine market and claim the No. 1 share of the pachinko machine market in the medium term. To this end, we are further bolstering our development system while ramping up manufacturing and supply capabilities.

Net Sales / Operating Income





TOKYO JOYPOLIS
© SEGA

Other Businesses

With our sights set on establishing integrated resorts including casinos in Japan, we are developing a resort complex in Japan and integrated resorts including casinos and a resort complex overseas. In South Korea, to garner casino management know-how we are participating in projects to develop integrated resorts including casinos through joint venture with the Paradise Group.



A rendering of the integrated resort including casinos that PARADISE SEGASAMMY Co., Ltd., is developing.



SENGOKU-TAISEN
© SEGA

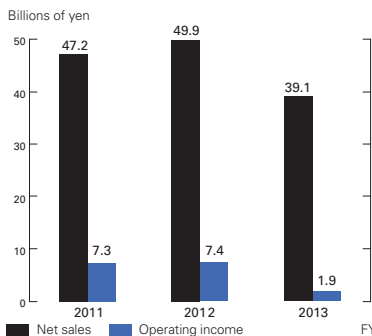
Kingdom Conquest II
© SEGA/
© SEGA Networks



Amusement Machine Sales Business

As a pioneer in amusement arcade machines, this business segment has created numerous world-first and industry-first products and thereby contributed to the industry's development. Furthermore, it is promoting the introduction of a revenue-sharing business model and other business models that reduce amusement center operators' initial capital investment burden or develop new player groups and thereby help stabilize the Group's earnings.

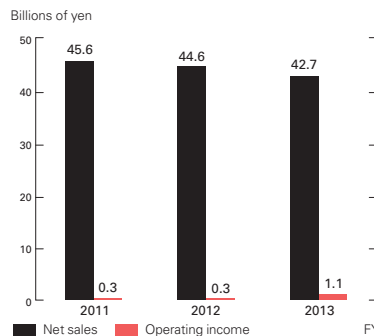
Net Sales / Operating Income



Amusement Center Operations

In this business segment, we are revamping our portfolio of amusement centers continuously while strengthening their operational capabilities. At the same time, aiming to provide entertainment that grandparents, parents, and children can enjoy, we are developing new amusement facilities, such as *Orbi Yokohama*, that go beyond the boundaries of traditional amusement centers.

Net Sales / Operating Income

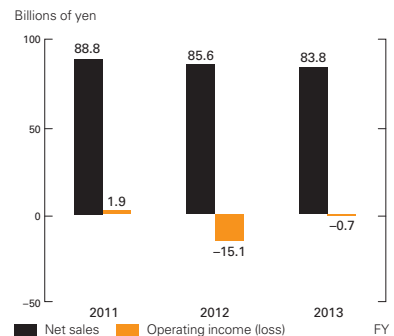


Consumer Business

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

The game content business is urgently shifting the allocation of management resources toward digital game content for social networking services (SNS) and smartphones. In conjunction with these efforts, the business is advancing a cross-platform strategy designed to enable sharing of game content among multiple devices. Meanwhile, in the toy sales business, SEGATOYS CO., LTD., is building a unique position through the development of edutainment toys and products for adults. In the animation business, TMS ENTERTAINMENT, LTD., is generating steady earnings by taking advantage of rich animation assets. Furthermore, MARZA ANIMATION PLANET INC. is producing computer graphics (CG) animation.

Net Sales / Operating Income (Loss)



Pachinko and Pachislot—The Basics

What Are Pachinko and Pachislot?

Pachinko machines trace their origins to bagatelle boards, imported to Japan almost a century ago, in the 1920s. In the 1930s, the first pachinko hall opened for business. The prototype of modern pachinko machines, the “Masamura Gauge” machine, appeared in 1949. Subsequently, pachinko machines evolved to reflect the preferences of Japanese players. Pachinko is a game in which players manipulate a handle in order to mechanically shoot steel pachinko balls with diameters of about 11 mm onto a vertically positioned board studded with numerous pins. When the balls fall into certain devices or the jackpot mouth, additional pachinko balls are won. The gameplay is similar to pinball. The main difference is that in a pachinko machine the board is nearly vertical.

Meanwhile, the roots of pachislot are said to be slot machines brought from the United States after the end of the Second World War. The 1960s saw the emergence of slot machines requiring a certain level of playing skill because they incorporated buttons that allowed players to stop the reels spinning. Subsequently, these machines were upgraded to the current box-cabinets and spread to pachinko halls throughout Japan.

The functions and gameplay of pachinko and pachislot machines have continued to evolve, creating a uniquely Japanese form of entertainment. Today, machines continue to entertain fans through varied, dynamic staging based on LCDs and a range of other electronic components.

The History of Pachinko and Pachislot

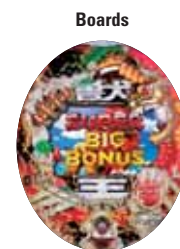
	Pachinko	Pachislot
1920s	Bagatelle boards arrive in Japan from overseas.	
1930s	First pachinko hall opens for business in Nagoya.	
1940s	Prototype of modern machines, “Masamura Gauge” appears. Entertainment Establishments Control Law enforced, pachinko halls begin operating under license.	
1950s	Pachinko machine manufacturers’ industry association, Nikkoso, established. First pachinko machines with “Yakumono” appear.	
1960s	Machines with tulip-shaped devices appear.	Large slot machines imported to Japan.
1970s	Electric pachinko machines appear.	
1980s	Pachinko machines with digital displays, “digipachi,” appear.	Pachislot machine manufacturers’ industry association, Nichidenkyo, established. Box-cabinets appear and spread rapidly.
1990s	1991 Pachinko machines with LCDs appear. 1992 “CR machines” compatible with prepaid cards appear. First tie-up pachinko machine appears.	No. 2 through No. 4 pachislot machines appear.
2000s	2004 Revised Entertainment Establishments Control Law enforced. New-format machines appear.	Games diversify with appearance of slot machines requiring a certain level of playing skill, CT machines, multi-line, and large-jackpot machines. 2004 Revised Entertainment Establishments Control Law enforced. No. 5 pachislot machines appear.

Pachinko Machine Boards and Frames

The frame is the cabinet part of a pachinko machine and has attached to it a handle, a glass frame unit, and speakers. Also, the frame physically controls the shooting and paying out of pachinko balls. Meanwhile, the board comprises LCDs, “Yakumono,” and numerous pins. The board incorporates electronic components, such as boards and sensors that control gameplay, including images and win chances presented by LCDs, and payouts. Because frames can be used continuously for certain periods, pachinko hall operators can introduce new pachinko machines by purchasing boards and simply attaching them to frames already installed at pachinko halls. Also, because the price of a pachinko board is less than that of an entire machine (a frame and a board), this arrangement enables pachinko hall operators to lighten their capital investment burden. For manufacturers, sales of pachinko boards provide higher margins than sales of entire machines and help maintain market share. Therefore, board sales benefit manufacturers and pachinko hall operators.



Frame



Boards

Pachinko CR Shin-Juoh
© Sammy

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



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

How to Play Pachinko

Step 1: Rent balls

After deciding which machine to play, the player rents special balls and puts them into the machine's upper tray.

Step 2: Shoot balls

Turning the handle on the bottom right shoots the balls. For most machines, when a ball enters the start hole underneath the LCD, the machine gives the player a chance to win a jackpot. Therefore, player uses the handle to adjust the impetus of the balls so that as many as possible enter the start hole.

Step 3: If the player hits the jackpot...

If the LCD screen shows the same three figures (numbers) in a line, the player wins the jackpot. When the player wins the jackpot, the jackpot mouth in the lower part of the machine opens, and the player continues shooting balls. If a large number of balls fill the lower tray, the player can use the ball remover to transfer the balls to a box.

- 1 Handle
- 2 Start hole
- 3 Jackpot mouth
- 4 LCD
- 5 Upper tray
- 6 Lower tray
- 7 Ball remover



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

How to Play Pachislot

Step 1: Rent medals

After deciding which machine to play, the player rents special medals.

Step 2: Enter medals, spin the reels

The player puts three or more medals into the machine's medal slot and pushes the lever to spin the reels.

Step 3: Halt the reels

The player halts the reels by using the stop buttons on the front of the machine cabinet.

Step 4: Depending on the figures, the halted reels show...

If the reels show the same three figures in a line, depending on the figures, the player can either spin the reels again, receive a small payout of a set number of medals, or begin a jackpot bonus game.

- 1 Medal slot
- 2 Credit display
- 3 Bet button
- 4 Lever
- 5 Main reels
- 6 Stop buttons
- 7 Payout display
- 8 Medal discharge
- 9 Tray for receiving medals
- 10 Panel
- 11 LCD



Pachislot Hokuto No Ken Chapter of Resurrection
© Buronson & Tetsuo Hara/NSP1983
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© Sammy

Size and Competitive Conditions of Pachinko and Pachislot Machine Markets

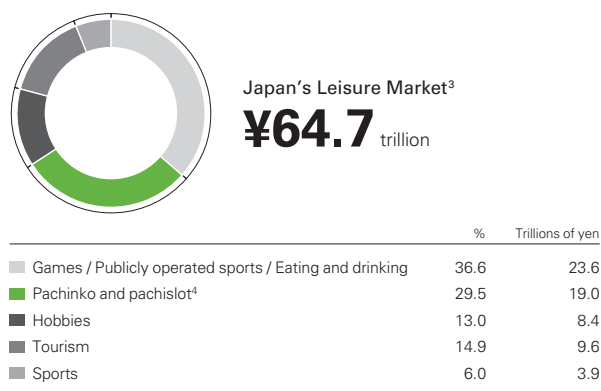
This section focuses on the structures of the highly distinctive markets for pachinko and pachislot machines and the regulatory environments of these markets.

Market Scale

As one of Japan's flagship leisure industries, pachinko and pachislot claims a major share of the country's leisure market. Comprising the ball and token rental fees that the pachinko halls charge, this market accounts for roughly 29.5% of the leisure market, revenues of ¥19.0 trillion¹, and 11.1 million players¹. In the pachinko and pachislot machine manufacturing industry, machine sales are worth approximately ¥1.2 trillion². Of this amount, the pachinko machine market represents 64.3%, or ¥772.9 billion², and the pachislot machine market 35.7%, or ¥429.9 billion². The increasingly advanced technology used for machines is broadening the range of industries involved in the pachinko and pachislot industry. These include manufacturers of components, such as LCDs, light-emitting diodes (LEDs), and sensors, and manufacturers of peripheral equipment for the machines, who have developed in step with pachinko halls' growing automation.

¹ 2012
Source: White Paper on Leisure Industry 2013, Japan Productivity Center
² Fiscal 2012. Source: Yano Research Institute Ltd.

Shares of Pachinko and Pachislot in Japan's Leisure Market

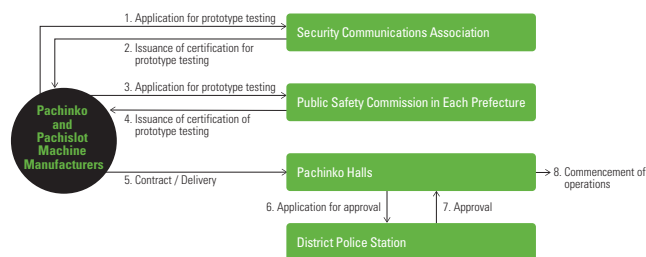


Source: White Paper on Leisure Industry 2013, Japan Productivity Center
³ 2012
⁴ Total amounts of hall ball and token rentals

Regulatory Environment

Before launching a machine, manufacturers are required to navigate an approval process in accordance with the Entertainment Establishments Control Law. First, they must file an application for prototype testing with the Security Communications Association and acquire certification that elements like materials, functions, and gameplay are in conformance with the law. Next, the machines are verified by the Public Safety Commission in each prefecture. Only then can they be supplied to pachinko halls. Before commencing operations, the pachinko hall operators must acquire approval from district police stations.

Approval Process for Pachinko and Pachislot Machines

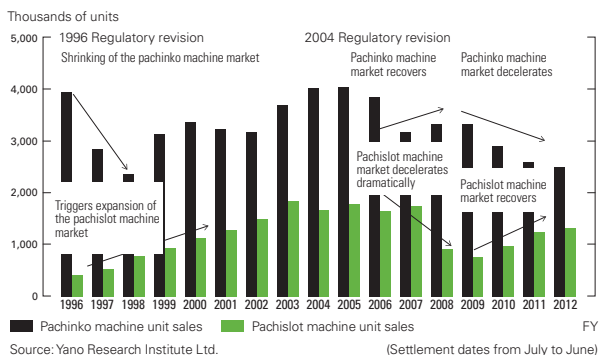


Changes in Market Conditions Due to Regulatory Reform

The Entertainment Establishments Control Law and the internal regulations of industry bodies have been revised frequently with a view to the sound development of the industry. Each revision has affected the pachinko and pachislot machine market. Changes in demand due to changes in gameplay as well as pachinko and pachislot machine manufacturers' innovations in response to changes have created a market in which sales of pachinko and pachislot machines go through cyclical peaks and troughs.

To secure stable earnings in a market in which demand fluctuates repeatedly over short periods, pachinko and pachislot machine manufacturers need to heighten their pachinko and pachislot machines' brand power.

Cyclically Changing Market Conditions

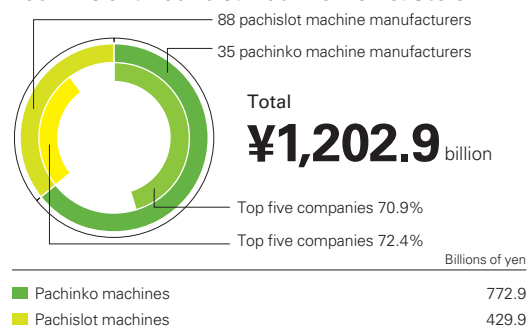


Strengthening Oligopoly among Leading Titles and Companies

The pachinko and pachislot machine markets comprise 35⁵ pachinko machine manufacturers and 88⁶ pachislot machine manufacturers. Due to the decline in the number of players since the July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law, pachinko hall operators have been facing difficult cash flow situations. As a result, a pronounced bias has emerged in market demand toward titles and manufacturers that promise reliable returns on investment. Consequently, recent years have seen the development of an increasingly well-defined oligopoly comprising titles and brands with solid utilization rate track records and companies with robust development capabilities and abundant funds for investment.

⁵ As of July 31, 2013. Member companies of Nikkoso, the pachinko machine manufacturers' industry association
⁶ As of July 31, 2013. Member companies of Pachislot Manufacturing Network

Pachinko and Pachislot Machine Market Scale⁷



Source: Yano Research Institute Ltd.
⁷ Fiscal 2012 (settlement dates from July to June)

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

1. Annual Turnover

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

2. Utilization Rate

The utilization rate reflects the utilization time of pachinko and pachislot machines as a percentage of business hours. Normally, the utilization rate declines gradually after a machine is installed. A shallower-than-average decline shows the degree to which a machine has earned players' long-term support. Because the utilization rate has a direct bearing on pachinko hall operators' sales, the extent to which pachinko and pachislot machine manufacturers have titles with high utilization rates affects their brand appeal and earnings.

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

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

$$\text{Utilization rate} = \frac{\text{Utilization time of pachinko or pachislot machines}}{\text{Pachinko hall operators' business hours}}$$

Shows players' support of pachinko and pachislot machines

Market Conditions for Each Business

Pachinko and Pachislot Machine Market

Long-Term Trends—From the 1990s to 2005

After peaking in 1995, the number of players began trending downward due to casual players leaving the market because an increasing number of machines featured more complicated gameplay or strong gambling elements. As a result, the pachinko and pachislot machine market¹ entered a period of long-term decline. Fiercer competition among pachinko hall operators to attract players led to a shakeout of small pachinko hall operators with less financial muscle. Consequently, the number of pachinko halls continued to decrease.

Meanwhile, unit sales of pachinko and pachislot machines remained solid, thanks to heavy demand from pachinko hall operators as they sought to secure players by replacing existing machines with new models. Also, the market generated higher revenue levels as the prices of machines continued to rise due to the incorporation of such features as large-size LCDs. From the mid-1990s onward, regulatory reform caused pachinko machine installations to trend downward. Meanwhile, installations of pachislot machines grew because features requiring more playing skill and new functions offered a wider scope of gameplay.

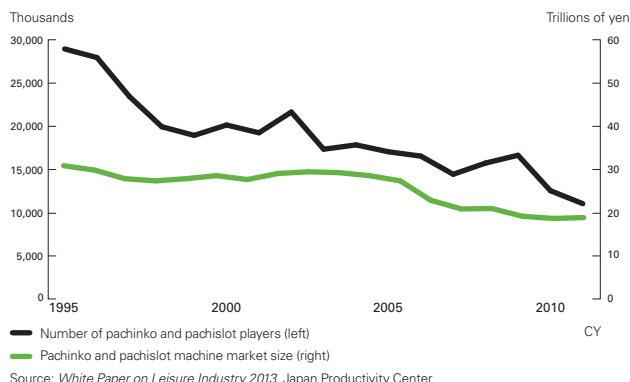
Following the July 2004 Regulatory Revision

1. Pachislot Machine Sales Slump, Pachinko Machine Sales Rise (from 2006 to mid-2009)

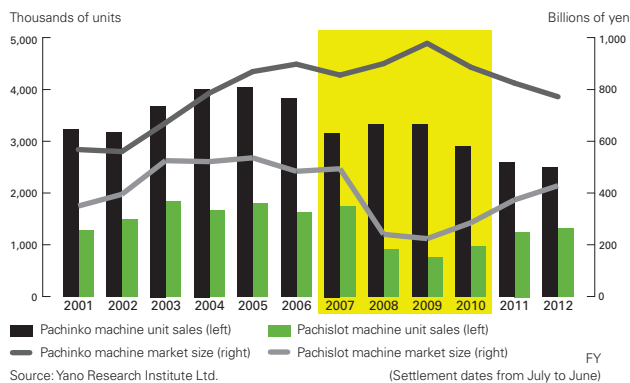
Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. After the interim measures period² ended in fall 2007, pachinko hall operators proceeded to replace old-format pachislot machines with those compliant with the new regulations. As a result, players' departure from the market accelerated due to the major change in gameplay. In response, pachinko hall operators actively replaced pachislot machines with pachinko machines, which were recording comparatively steady utilization rates³. This resulted in an upturn in installations of pachinko machines. Annual pachinko machine unit sales plateaued because of softening annual turnover, which resulted from the tough business conditions pachinko hall operators were facing. However, the pachinko machine market continued to expand on a revenue basis. This growth was attributable to a rise in prices for machines, stemming from the increased use of advanced technologies and hikes in copyright fees for major intellectual properties. Faced with deteriorating profitability due to the higher investment burden of machine replacement and declining player numbers, pachinko hall operators sought reliable returns by introducing machines that promised high utilization rates. This caused the market to polarize further into two groups: leading manufacturers and other manufacturers.

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

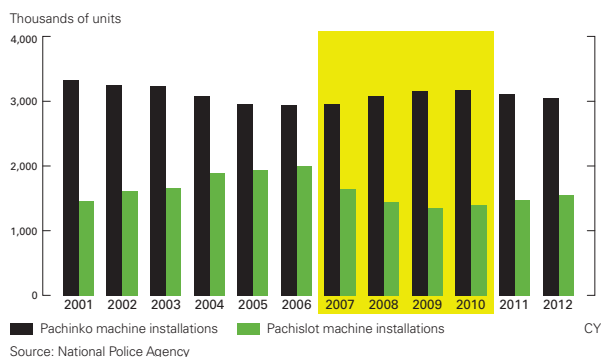
Pachinko and Pachislot—Player Numbers and Market Size



Pachinko and Pachislot Machines—Unit Sales and Market Size



Pachinko and Pachislot Installations



2. Pachinko Machine Sales Decelerate, Pachislot Machine Sales Recover (since mid-2009)

Since 2007, casual players began leaving the pachinko market due to the increasing installation of pachinko machines with a strong gambling element, known as “Max-type” machines, which promised a comparatively early return on investment. In response, pachinko hall operators adopted a strategy of lowering ball rental fees significantly, while manufacturers introduced pachinko machines with weaker gambling elements in an effort to broaden the player base.

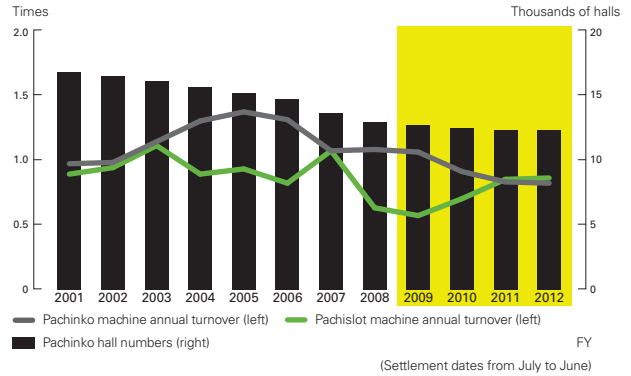
Although lowering ball rental fees increased utilization rates, it led to a decline in sales per machine for pachinko hall operators, worsening their business results. As the sudden drop in annual turnover⁴ shows, the softening of replacement demand for new pachinko machines became more conspicuous from the second half of 2009. Meanwhile, demand began to rise among pachinko hall operators for pachislot machines with gameplay that was able to earn player support while remaining within the bounds of regulatory reforms. The recovery of pachislot machines since bottoming in fall 2007 is clear from such indicators as annual turnover, utilization rates, and average gross profit per machine per day⁵.

4 Annual turnover = Annual unit sales ÷ Machine installations
5 Average gross profit per machine per day for pachinko hall operators

Current Conditions and the Industry’s Tasks

Currently, the number of pachinko and pachislot players remains on a downward trend, the business management of pachinko halls remains challenging, and polarization due to the bias of demand toward leading manufacturers is becoming clearer. Looking ahead, market conditions are expected more than ever to favor several leading companies, which will survive to reap the benefits. Such companies will prosper because they continue to provide machines with high utilization rates that help increase pachinko hall operators’ sales, thereby successfully maintaining and enhancing their brand power. Furthermore, the industry as a whole should collaborate to expand the player base from a medium-to-long-term viewpoint. Pachinko and pachislot machine manufacturers that can help extend the player base by developing and providing machines that cater to the needs of a wide range of age groups are likely to maintain their competitive advantage.

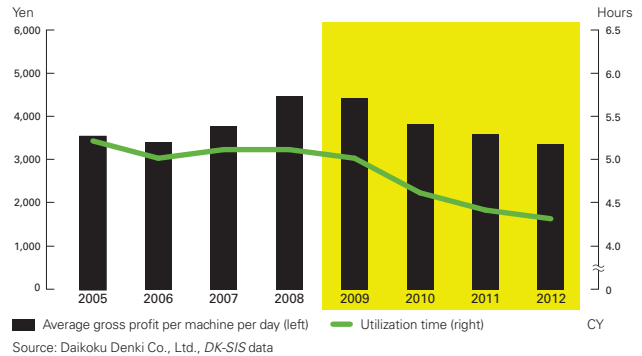
Annual Turnover and Pachinko Hall Numbers



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

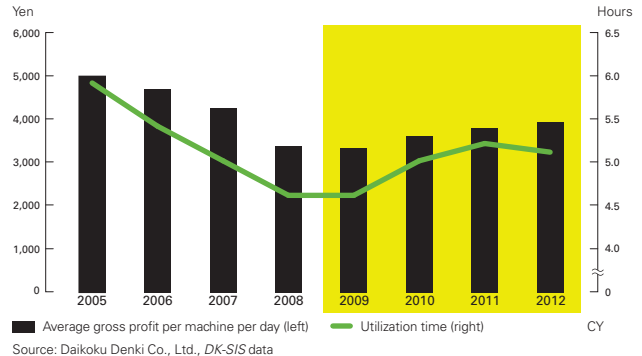
Utilization of Pachinko and Pachislot Machines

Pachinko Machines



Source: Daikoku Denki Co., Ltd., DK-SIS data

Pachislot Machines



Source: Daikoku Denki Co., Ltd., DK-SIS data

Amusement Market (Amusement arcade machines / Amusement center operations)

Progress of Measures to Invigorate the Amusement Center Operations Market

The amusement center operations market has been contracting since fiscal 2007. During the five years between fiscal 2007 and fiscal 2011, it contracted approximately 30%. During this period, amusement center operators responded by closing unprofitable amusement centers and increasing operational efficiency. As a result, the rate of decrease in sales in the market as a whole and at existing amusement centers has been showing signs of deceleration, and capital investment in such areas as the introduction of new products has been picking up steadily. Breaking down performance, while amusement centers in shopping centers and bowling alleys are performing solidly, traditional amusement centers continue to face tough business conditions.

Amid limited cash flows, the industry faces the task of sustaining growth by introducing new products effectively, invigorating amusement centers, and extending the player base to include not only core players but also families. Another important task is responding to the planned increase in consumption tax.

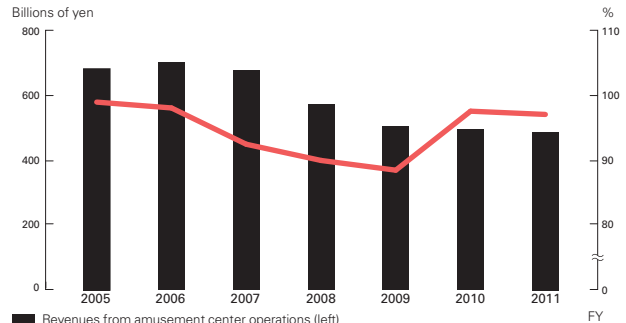
Amusement Arcade Machine Sales Market Regains Firmness

Amusement center operators' capital investment affects the market for amusement arcade machines directly. From fiscal 2007, sales declined year on year. However, thanks to a recovery in amusement center operators' capital investment, amusement arcade machine sales began increasing from fiscal 2010. In fiscal 2011, video games (machine cabinets, boards, and software), which generate significant revenues, grew sales 13.4% year on year, while medal game sales were up 18.3% year on year. Consequently, amusement arcade machines sales as a whole rose 7.5% from the previous fiscal year.

Amusement arcade machine manufacturers are marketing products and promoting business models that reduce the initial investment burden for amusement center operators with limited cash flows, encourage the introduction of new products, and invigorate amusement centers. Specifically, business models that enable amusement center operators to upgrade content by simply replacing boards or downloading new content are becoming more common. Also becoming widespread are revenue-sharing business models, in which manufacturers sell amusement arcade machines at low prices and share revenues from machine utilization with amusement center operators. In addition, a trend is emerging toward business models based on free-to-play (F2P) games that incorporate intellectual properties popular among a wide range of age groups. These business models aim to broaden the player base by attracting customer groups that do not tend to visit amusement centers, such as families and women.

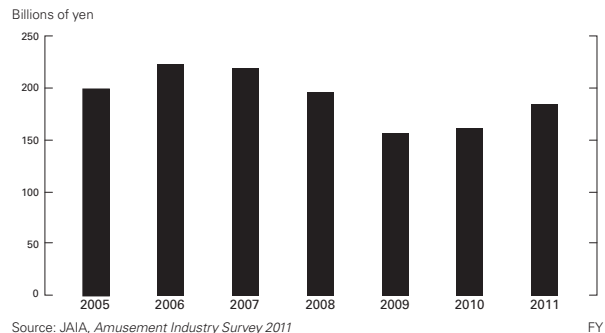
All market data in the text is from JAIA, Amusement Industry Survey 2011.

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



Source: JAIA, Amusement Industry Survey 2011

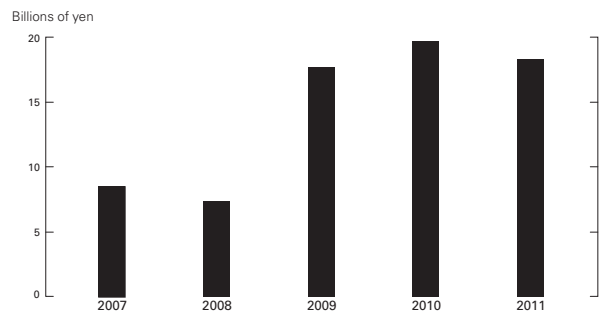
Amusement Arcade Machine Sales*



Source: JAIA, Amusement Industry Survey 2011

* Total domestic sales and exports

Revenues from Content Fees / Revenue-Sharing Business Models



Source: JAIA, Amusement Industry Survey 2011

Game Content Market

Shift to Digital Game Content Accelerates

In 2012, sales in the game content market¹, comprising packaged game software and digital game content, rose 16.4% year on year, to approximately ¥5.8 trillion². The market for packaged game software contracted significantly, reflecting a fallow period before the change-over to a new generation of home video game consoles and expansion of the digital game content market. In Japan's packaged game software market, the year-on-year decline was only 1.3%², thanks to support from several major hit products. However, the packaged game software market decreased 23%² in North America and 16.0%² in Europe. Furthermore, with popularity concentrating on certain well-known titles, major publishers' oligopoly continued to strengthen. As the packaged game software market continues to shrink, the counteracting role of the next-generation market segment has emerged clearly. As for China, the market for highly popular online games continued to grow and generated sales of ¥904.2 billion, surpassing Japan's game content market.

1 New packaged game software for home video game consoles and PCs + next-generation market segment, comprising game content for mobile phones and smart devices, downloadable PC games, and social games
2 Source: Famitsu Game White Paper 2013

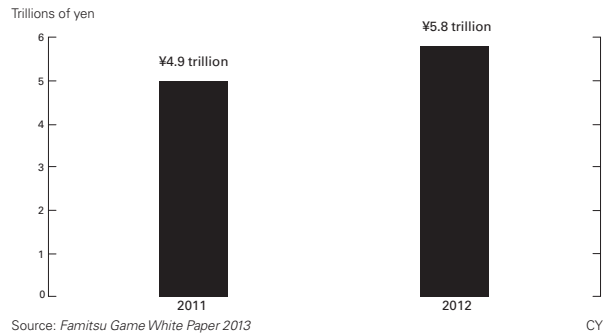
Network Compatibility of Home Video Game Consoles Set to Increase

In 2012, Japan's market for game content with network connectivity, which includes content for home video game consoles, handheld game terminals, PCs, and smart devices, grew 34.3% year on year, to ¥528.5 billion³. In this market, sales of applications for smart devices and SNS were up 71.5%, to ¥385.6 billion³, and the value of this market segment is expected to grow to ¥540.0 billion³ in 2014.

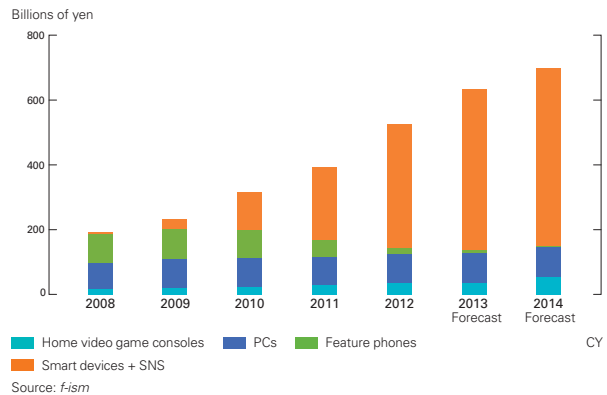
Furthermore, network compatibility is increasing steadily, with sales of online game content for home video game consoles up 20% year on year in 2012. The next-generation of home video game consoles due for release this winter are likely to feature significantly upgraded network capabilities. An increase in game content with digitally downloadable software and such new features as F2P individual-item-fee formats, and cloud synchronization promises to revive home video game consoles. In 2014, as new home video game consoles penetrate, the market for online game content for such game consoles is expected to rise 62% compared with 2012.

3 Source: Fism

Estimated Value of Global Game Content Market



Japan's Market for Game Content with Network Connectivity



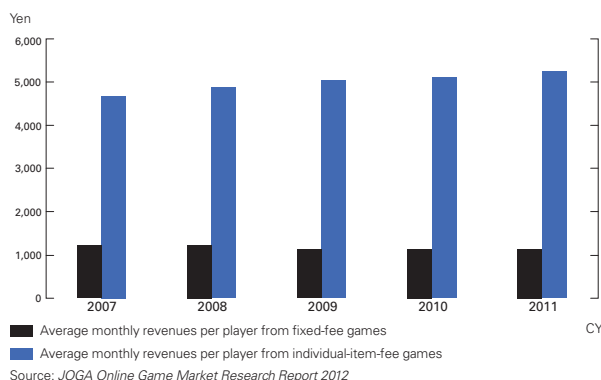
Market Conditions for Each Business

Digital Game Content Market Approaches Turning Point

An open-source development environment has significantly lowered the entry barrier to the content market for smart devices and given rise to a market where countless companies and individuals compete to create innovative products. Moreover, the spread of smart devices has increased points of contact with potential players who are less familiar with video games, and casual games are widening the player base by attracting casual players. Having grown dramatically as a result of these trends, the digital game content market is currently approaching a turning point.

As content, particularly for puzzle games, becomes increasingly homogeneous, player demand is shifting toward absorbing graphic-rich video games that exploit the capabilities of smartphones and high-speed mobile broadband. This has triggered a shift from browser applications to native applications. The main type of application until now, browser applications are operated through browsers and processed by external servers, while native applications are processed by terminals after installation and are suited to rich content. Also, recently there has been stepped-up adoption of F2P business models in which basic play is free and return on investment is earned through individual item fees. Consequently, competitive conditions in the digital game content market are gradually beginning to favor major companies that have plentiful intellectual properties, abundant development resources for video games for dedicated game machines, expertise in individual item fees, and adequate financial resources.

Average Monthly Revenues per Player



Also, cloud games that are not overly reliant on device performance and take advantage of cloud computing are diversifying gameplay by allowing players to play a single game on a range of different devices, such as home video game consoles, handheld game terminals, and smartphones.

Looking ahead, companies able to offer numerous games with superior content while building systems that attract players effectively are likely to survive.

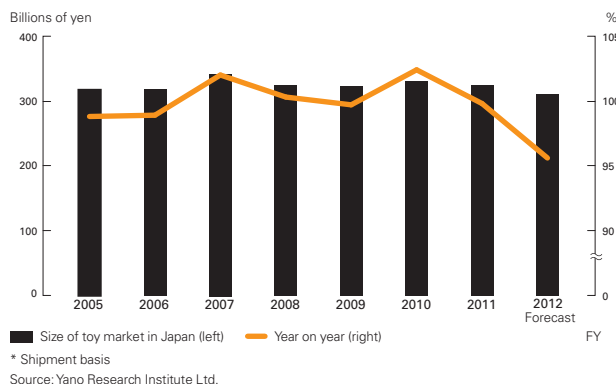
Toy and Animation Markets

In fiscal 2011, Japan's toy market, excluding home video game consoles and software, only edged down 0.3% year on year, to ¥325.1 billion, thanks to favorable sales of toys for girls and trading card games as well as solid sales of toys for boys, which have driven the market in recent years. In fiscal 2012, the toy market is projected to decline 4.5% year on year, to ¥310.5 billion, on a manufacturers' shipment basis because toys for boys and trading card games are losing momentum, while other products are sluggish overall.

In 2011, the animation market did not see any major animation hits at movie theaters, and revenues from Japanese animation and Western animation declined year on year. As a result, the market shrank 4.1% compared with the previous fiscal year, to ¥219.7 billion*. As for television animation, revenues from terrestrial broadcasting were approximately unchanged year on year, while revenues from satellite and CATV broadcasting increased marginally. The market is likely to grow steadily as more households are able to view animation channels.

* Source: Media Development Research Institute Inc.

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



Market Data

Number of Pachinko Halls

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

Source: National Police Agency. Number of pachinko halls with pachinko machines installed includes halls that combine installations of pachinko machines, pachislot machines, arrange-ball machines, and other machines.

Pachislot Machine and Pachinko Machine Sales, Installed, and Market Scale

CY / FY*		2008	2009	2010	2011	2012
Pachislot machines	Machine sales (units)	913,094	766,094	979,794	1,259,924	1,326,029
	Machines installed (units)	1,448,773	1,347,176	1,390,492	1,474,838	1,549,319
	Market scale (millions of yen)	247,860	225,869	286,700	375,054	429,974
Pachinko machines	Machine sales (units)	3,339,146	3,332,984	2,900,286	2,603,760	2,494,695
	Machines installed (units)	3,076,421	3,158,799	3,163,650	3,107,688	3,042,476
	Market scale (millions of yen)	921,338	985,227	886,914	825,714	772,951

Sources: National Police Agency (machines installed) and Yano Research Institute Ltd. (machine sales and market scale)

* Number of machines installed is on a calendar year basis. Number of machine sales and market scale information is on a fiscal year basis (settlement dates from July to June).

Amusement Machine and Amusement Center Operations Markets

FY	2007	2008	2009	2010	2011
Net sales of amusement machines (millions of yen)	219,061	196,164	169,632	173,167	184,781
Net sales from amusement center operations (millions of yen)	678,099	573,104	504,271	495,767	487,500
Number of amusement centers*	22,723	21,688	19,213	18,638	18,114
Year-on-year comparison of sales at existing amusement centers (%)	92.2	89.7	88.2	97.3	96.8

Source: JAIA, *Amusement Industry Survey 2011*

* The number of amusement centers is the total of category 8 centers and non-category 8 centers classified by the Entertainment Establishments Control Law.

Global Shipment of Home Video Game Software

	Billions of yen				
FY	2008	2009	2010	2011	2012
Software	1,024.3	758.6	670.5	530.9	424.4
Hardware	1,908.3	1,490.8	1,126.9	926.4	809.0

Source: CESA GAME White Paper 2013

Japan's Market for Game Content with Network Connectivity

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

Source: *f-ism*

DEFINITION OF TERMS

"Fiscal 2013" refers to the fiscal year ended March 31, 2013, and other fiscal years are referred to in a corresponding manner in this annual report.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Statements in this annual report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and its SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management.

The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation.

Actual results may vary significantly from the Company's forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate fluctuations, changes in laws and government systems, pressure from competitors' pricing and product strategies, declines in the marketability of the Group's existing and new products, disruptions to production, violations of the Group's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation.

[This annual report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]



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