



SEGA SAMMY HOLDINGS INC.

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Our Strategic Direction

An abridged edition of *INTEGRATED REPORT 2017*

Having established a solid platform by building a robust earnings structure during a structure reform phase and by strengthening its business portfolio management framework, the SEGA SAMMY Group set out a long-term vision. Aiming to realize this vision, we established Road to 2020, an initiative targeting fiscal 2020. In a concerted effort, the Group will implement concrete measures and overcome uncertain business conditions to realize medium-term performance targets and achieve continuous increases in corporate value over the long term.

Value (Mindset / DNA)

“Creation is Life” × “Always Proactive, Always Pioneering”

Mission
(Raison d'être)

“Continuing to create moving experiences”

—Making life more colorful—

Be a Game Changer

Vision
(Ideal self)

Pachislot and Pachinko Machines

Sammy...the wellspring of new ideas as an innovator in the industry

Entertainment Contents

Be a Game Changer

Resort

Be an Experiential Innovator

**Operating income margin:
At least 15%**

ROA^{*1}: At least 5%

Goal
(Specific target)

Operating income margin:
At least 30%^{*2}

Sales: At least ¥300 billion
Operating income: At least ¥30 billion
Operating income margin: At least 10%

Succeed in IR businesses
Enhance brand recognition

^{*1} ROA = Profit attributable to owners of parent ÷ Total assets

^{*2} Operating margin of the Pachislot and Pachinko Machine Business excluding other and eliminations

A Comprehensive Entertainment Corporate Group Continuing to Innovate

The SEGA SAMMY Group is a comprehensive entertainment corporate group created through the management integration of the SEGA Group and Sammy Corporation, which have produced many industry-first and world-first products. As the industry's innovator, we remain committed to taking on ambitious initiatives and continuing to create *moving experiences*.

Pachislot and Pachinko Machine Business

This business segment offers pachislot machines that boast outstanding brand power as well as pachinko machines that are building brand power steadily. Further, we realize timely launches of products reflecting market demand. We achieve this through a system that integrates three capabilities: development capabilities that live up to our “*Always Proactive, Always Pioneering*” founding principle, manufacturing capabilities based on industry-leading production capacity, and dynamic sales capabilities. Aiming to overcome changes in business conditions and be “the wellspring of new ideas as an innovator in the industry,” the business segment is strengthening its earnings structure and the competitiveness of its products.

Entertainment Contents Business

This business segment operates businesses in a broad range of fields, including digital games, packaged games, amusement machines, amusement centers, and animation and toys. While securing stable earnings from core businesses, we have identified the digital game area—mainly comprising smartphone games and PC online games—as a growth area, and as such we are focusing investment on it.

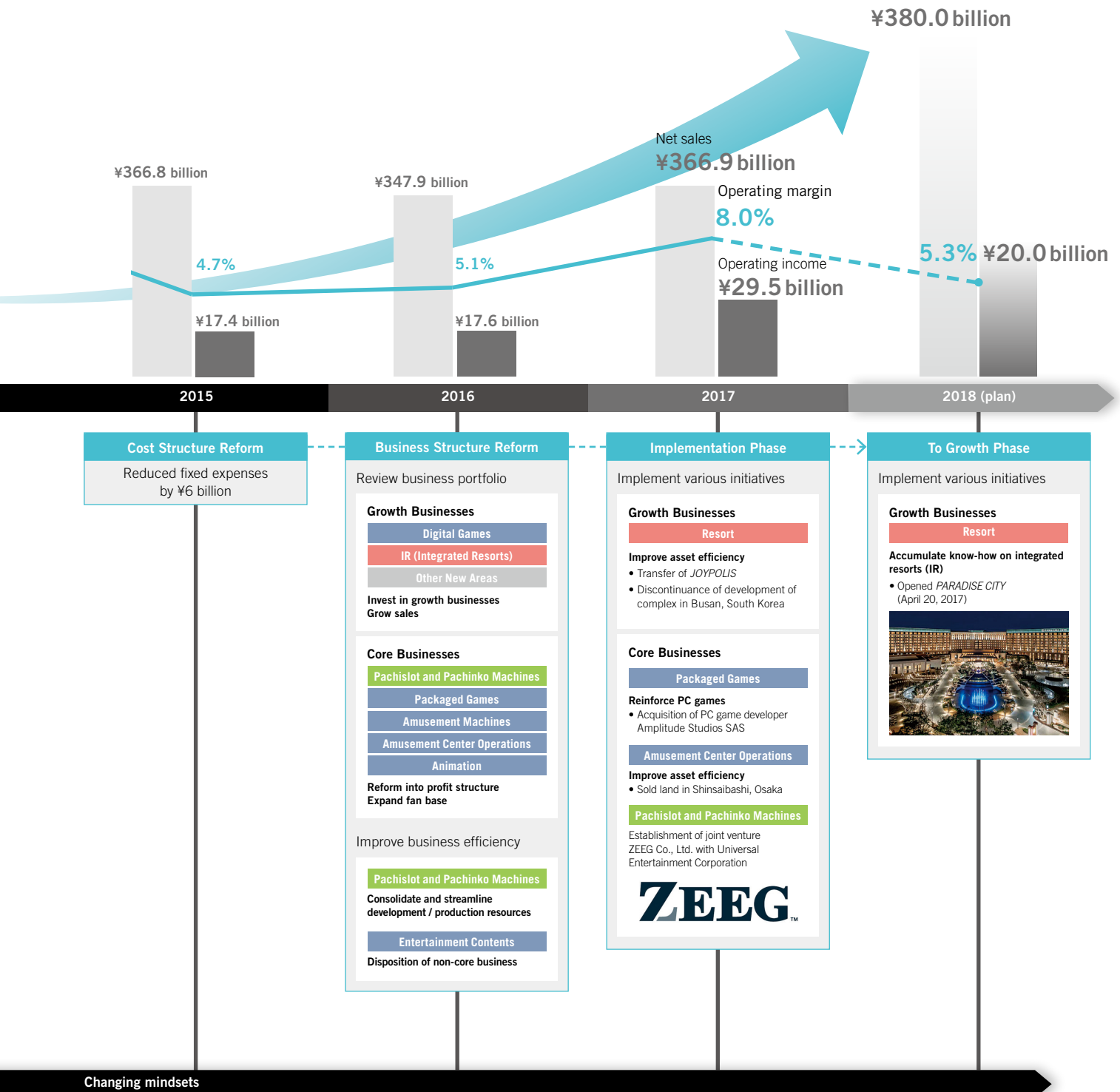
Resort Business

This business segment is engaged in the management and operation of an integrated resort and a resort complex. In April 2017, we opened South Korea's first integrated resort, *PARADISE CITY*. Our aim is to accumulate know-how in the development and operation of casinos and other components of integrated resorts that will enable us to participate in the integrated resort business in Japan. At *Phoenix Seagaia Resort*, one of Japan's premier resort complexes, we are bringing to bear our entertainment expertise to create a unique resort space.

Retracing the Steps of Structure Reform

Structure Reform Completed—Ready for Return to Growth Trajectory

The SEGA SAMMY Group proceeded with structure reform after establishing the Group Structure Reform Division in May 2014. In fiscal 2015, we strengthened our earnings structure by implementing cost structure reform focused on changing mindsets and reducing fixed costs. As a result, we reduced annual fixed costs by ¥6 billion. In fiscal 2016, we made a clear shift in our business management stance from revenue scale to profit margin and implemented business structure reform decisively. To clarify our business portfolio strategy, we classified all operations into such business types as growth businesses and core businesses. At the same time, we took measures aimed at improving business efficiency and rationalized non-core businesses. Having cemented our foundations in this way, we embarked upon an implementation phase in fiscal 2017.



Business Strategies of Road to 2020

Based on the roadmap for growth set out in Road to 2020, each business and business area has clarified its major tasks and is implementing measures steadily.

Growth Businesses

Resort Business



Vision

Be an Experiential Innovator

Segment Targets

Succeed in the integrated resort business

Enhance brand recognition

Major Tasks

Acquire Expertise to Ensure Success of the Integrated Resort Business

With our sights set on participating in the integrated resort business in Japan, we will acquire know-how in the operation of resort complexes while accumulating expertise in the development and operation of integrated resorts.

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Entertainment Contents Business



Vision

Be a Game Changer

Segment Targets

Net sales At least ¥300 billion

Operating income At least ¥30 billion

Operating margin At least 10%

Major Tasks

Create Titles that Become Global Hits (Digital games / packaged games area)

Focusing on digital games and packaged games, we will create major hit products in the global market by focusing investment on carefully selected titles and building a business structure that facilitates global rollouts.

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Core Businesses

Pachislot and Pachinko Machine Business



Vision

Sammy...the wellspring of new ideas as an innovator in the industry

Segment Target

Operating margin* At least 30%

* Operating margin excluding "other and eliminations" of the Pachislot and Pachinko Machine Business

Major Tasks

Promote Component Reuse

We will strengthen the earnings structure by increasing reusable components and raising the common components ratio.

Build an Industry Platform

Through ZEEG Co. Ltd., we will lead efforts to introduce common component units and machine cabinets, enhance product appeal and cost performance, and revitalize and raise the efficiency of the entire industry.

Improve Development Efficiency

We will improve development efficiency significantly by narrowing down the number of titles while increasing the number of personnel per title. In tandem with these efforts, we will strengthen the quality assessment process to secure even higher quality.

Implement Business-to-Consumer Measures

We will increase direct communication with consumers to energize the industry.

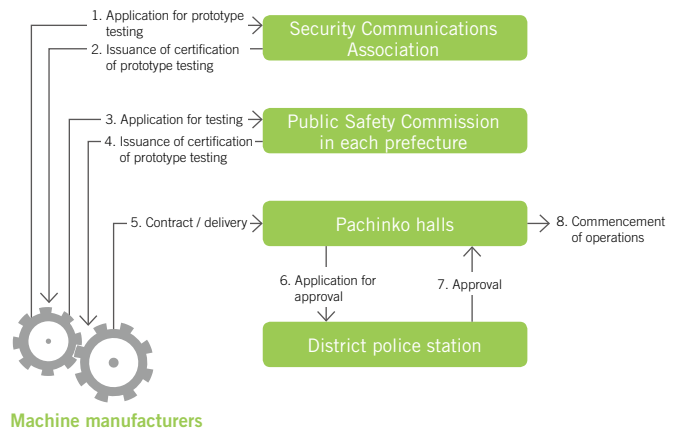
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The Pachinko and Pachislot Machine Market and the SEGA SAMMY Group

► Pachinko and Pachislot Machine Market's Regulatory Process

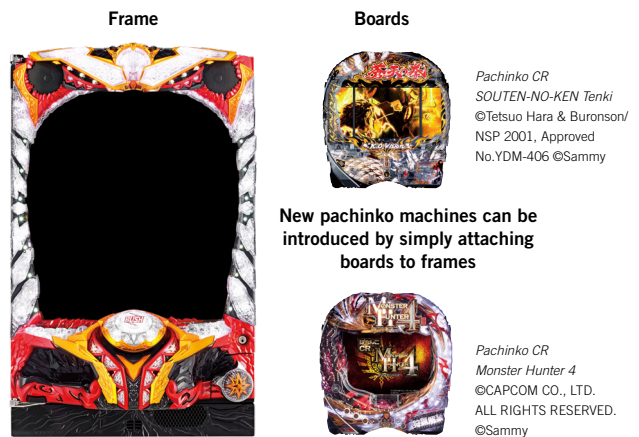
Before launching a machine, manufacturers are required to navigate an approval process in accordance with the Enforcement Regulation of Entertainment Establishments Control Law. First, they must file an application for prototype testing with the Security Communications Association and acquire certification that elements such as materials, functions, and gameplay are in conformance with the regulation. 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.

The Enforcement Regulation of 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.

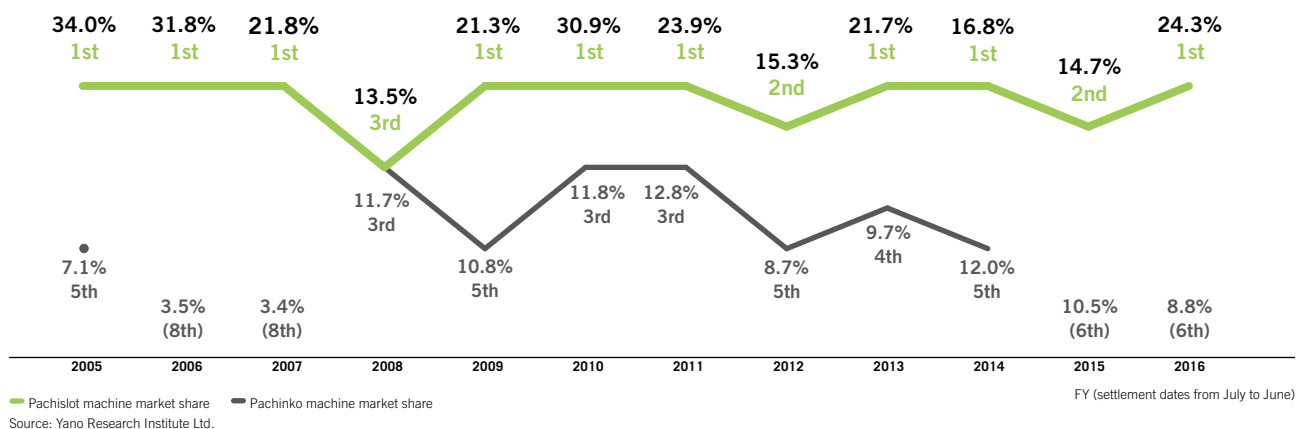


► Pachinko Machine Boards and Frames

The frame is the cabinet part of a pachinko machine. It physically controls the shooting and paying out of pachinko balls. Meanwhile, the board comprises LCDs, "Yakumono," and numerous pins. The board incorporates electronic components, such as boards and sensors that control gameplay, including images and win chances presented by LCDs, and payouts. Because frames can be used continuously for certain periods, pachinko hall operators can introduce new pachinko machines by purchasing boards and simply attaching them to frames already installed at pachinko halls. The price of a pachinko board is less than that of an entire machine (a frame and board), which enables pachinko hall operators to lighten their investment burden. For manufacturers, sales of pachinko boards provide higher margins than sales of entire machines. Furthermore, under this sales model, the installation of a frame promises to generate continuous demand.



► SEGA SAMMY Group's Position in the Pachinko and Pachislot Machine Market



Maximizing Intellectual Property Value



Pachislot and pachinko machines



Packaged games



Digital games



Amusement machines



Toys

Examples of acquired intellectual properties	Intellectual property title	First appearance	Multifaceted rollout				Total editions	Cumulative unit sales / downloads
	Megami Tensei series	1987						28 Approx. 7.2 million units (packaged and digital total)
	Persona series	1996						13 Approx. 8.5 million units (packaged and digital total)
	Etrian Odyssey series	2007						9 Approx. 1.8 million units (packaged and digital total)

Examples of intellectual properties developed in-house	Intellectual property title	First appearance	Multifaceted rollout				Total editions	Cumulative unit sales / downloads
	Sonic the Hedgehog series	1991						— Approx. 360 million (units / downloads) (packaged and digital total)
	PuyoPuyo series	1991*1						— Approx. 25.0 million (units / downloads / IDs) (packaged and digital, AM-registered ID total (total for registrations after IP acquisition))
	Ryu ga Gotoku series	2005						75 Approx. 10.5 million (units / downloads) (packaged and digital total)
	ALADDIN series	1989						14 Approx. 570,000 units (pachislot and pachinko machine and amusement machine total)
	Beast King series	2001						15 Approx. 490,000 units (pachislot and pachinko machine and amusement machine total)
	PHANTASY STAR series	1987						— Approx. 4.5 million IDs*2 (cumulative total for registered IDs)
	CHAIN CHRONICLE series	2013						2 Approx. 10.0 million downloads (packaged and digital total)

*1 SEGA CORPORATION acquired the rights in 1998. Figures for cumulative unit sales are the totals for titles that SEGA sold after acquiring the rights.

*2 Total for PHANTASY STAR ONLINE 2

Examples of intellectual properties licensed from third parties	Intellectual property title	First appearance	Multifaceted rollout				Total editions	Cumulative unit sales / downloads
	SEGA feat. HATSUNE MIKU Project series	2009						52 Approx. 5.5 million (units / downloads) (packaged and digital total)
	Hokuto No Ken series	2002						33 Approx. 2.74 million units (pachislot and pachinko machine and amusement machine total)
	SOUTEN-NO-KEN series	2009						9 Approx. 440,000 units (pachislot and pachinko machinetotal)