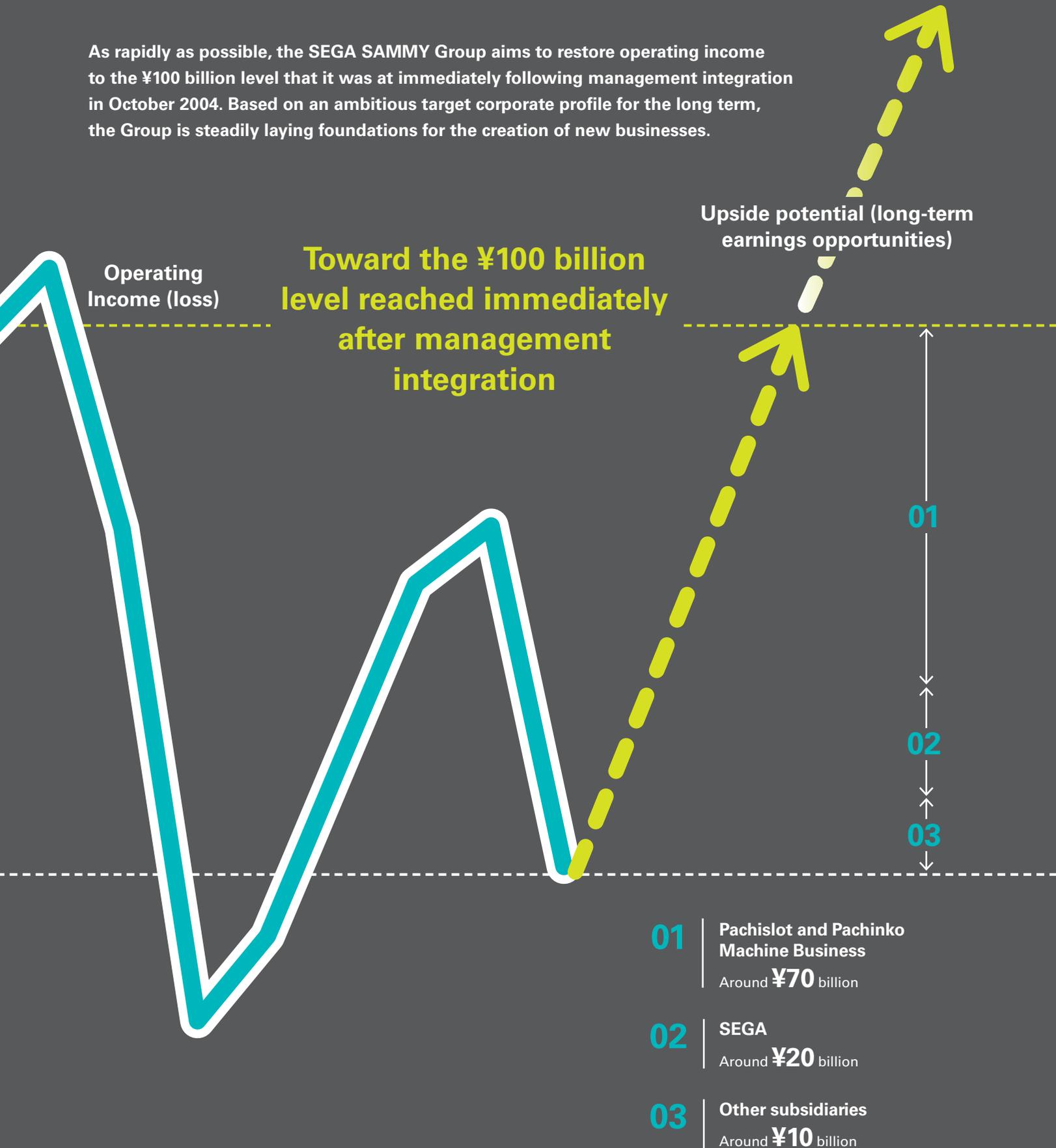


FUTURE

Medium-Term Growth Scenario

As rapidly as possible, the SEGA SAMMY Group aims to restore operating income to the ¥100 billion level that it was at immediately following management integration in October 2004. Based on an ambitious target corporate profile for the long term, the Group is steadily laying foundations for the creation of new businesses.



Key Growth Opportunities, Risks, and Strategies

Aiming to regain former earnings levels in the medium term and sustain earnings growth over the long term, the Group views the following as its key opportunities, risks, and strategies.

Pachislot and Pachinko Machine Business

Growth Opportunities

Clearer Trend toward Survival of the Fittest in the Pachinko and Pachislot Machine Market

Increasingly the pachinko and pachislot machine market is becoming an oligopoly favoring companies with abundant development capabilities, major titles with strong brand appeal, and financial muscle. These conditions present the SEGA SAMMY Group, which enjoys a particularly robust position in the pachislot machine market, with an opportunity to strengthen its standing even further.

Scope for Growing Share of the Pachinko Market

Compared with our share of the pachislot machine market, our share of the pachinko machine market is small. In other words, the scope for the Pachislot and Pachinko Machine Business segment to grow in the pachinko machine market is considerable.

Risks

Declining Player Population

In recent years, the player population in the pachinko and pachislot market has been trending downward. This has contributed to the deterioration of the financial position of pachinko hall operators and encouraged their conservative capital investment stance.

Emerging Oligopoly in the Pachinko Machine Market

In terms of brand power, the Group lags behind the top pachinko machine manufacturers. Given the emerging demand bias toward popular titles, the Group faces the risk of sluggish sales centered on its second-tier titles.

Risk Related to Regulatory Revision and Licenses

Revision of statutory laws and regulations affect the pachinko and pachislot machine market significantly. (Please see "Regulatory Process in the Pachinko and Pachislot Machine Market" in "Analysis through Charts" on page 42.) The July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law triggered major changes in the market with respect to the above-mentioned opportunities and risks. Furthermore, the Group faces approval risk for new product launches, meaning that it may not be able to realize sales as planned.

STRATEGIES

In the Pachislot and Pachinko Machine Business segment, our basic strategy is to establish a position among the industry's winning companies. Accordingly, in the pachislot machine business, we have continuously sought and realized a leading market share, and we aim to stake out the No. 1 share of the pachinko machine market over the medium term. To realize this strategy we will take the following steps.

(1) We will further strengthen our development capabilities by investing more in R&D and bolstering our development system. In particular, we intend to focus efforts on differentiating our lineup by marketing products suited to each generation's needs. At the same time, the Group will lead the industry's sound development by expanding the player base to put a brake on the decline in the player population.

(2) We will enhance extensive capabilities by effectively exploiting our leading-edge plant, strengthening collaboration through the sharing of development resources and joint purchasing of components among Group companies, and forging ahead with a multibrand strategy.

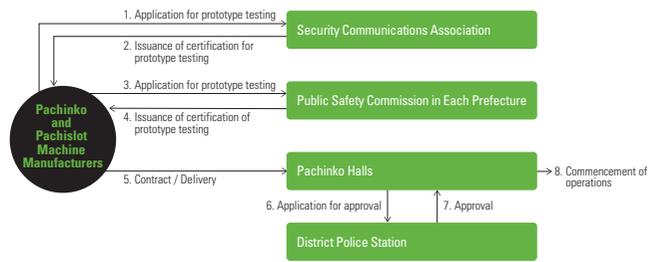
(3) We will build a balanced business portfolio by strengthening the pachinko machine business while creating a business structure able to adapt flexibly to regulatory revisions and generate stable earnings.

ANALYSIS THROUGH CHARTS

Regulatory Process in the Pachinko and Pachislot Machine Market

Before launching new products, pachinko and pachislot machine manufacturers have to proceed through various approval processes based on the Entertainment Establishments Control Law. These approval processes inspect products to determine whether their materials, functions, and gameplay conform to the specifications that current regulations set. Not receiving certification can severely affect sales plans. Also, regulatory revision can affect gameplay.

Approval Process for Pachinko and Pachislot Machines

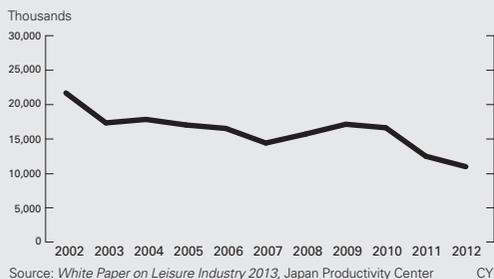


ANALYSIS THROUGH CHARTS

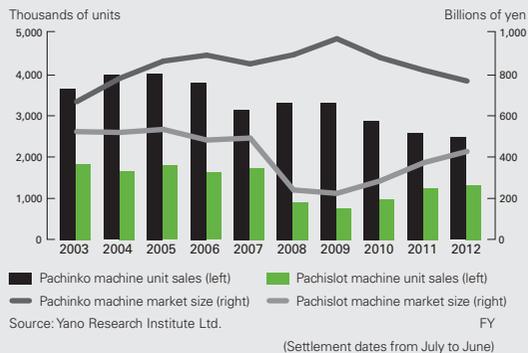
Current Market Conditions

In the pachinko and pachislot market, the player population continues to decrease. Focused on controlling excessive gambling elements, the regulatory revision of July 2004 rapidly changed pachislot machines' gameplay and led players to leave the market. Meanwhile, although sales of pachinko machines remained favorable, the increasing installation of pachinko machines with strong gambling elements accelerated the decrease in casual players. Also, the price of pachinko machines rose. The resulting downturn in sales and higher investment burden worsened pachinko hall operators' business results. This led to a slump in machine replacement demand, the emergence of a bias in demand towards manufacturers and titles able to provide reliable returns on investment, and a cycle of peaks and troughs in pachinko and pachislot machine sales.

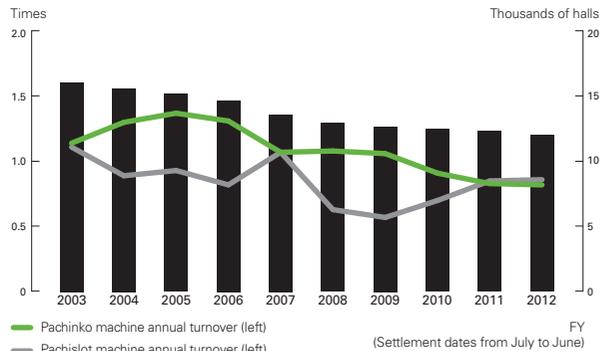
Pachinko and Pachislot Player Numbers



Pachinko and Pachislot Machines— Unit Sales and Market Size



Annual Turnover* and Pachinko Hall Numbers



Amusement Machine Sales Business

Growth Opportunities

Stronger Relationships with Amusement Center Operators

Reducing their investment burden and providing products and business models that help broaden the player base could deepen our relationships with amusement center operators. Deeper relationships would enable the Group to generate stable earnings and help revitalize the market.

Risks

Contraction of the Amusement Center Operations Market

Directly affecting the earnings of the Amusement Machine Sales Business segment, amusement center operators' scope for capital investment is decreasing. Consequently, there is a need for products and business models that lessen the burden on amusement center operators.

Reliance on Major Titles

SEGA's major high-value-added products, such as trading card games and medal games, boast significant brand appeal. However, in years when it does not launch major new titles, because of the development cycle stage, earnings can fluctuate significantly.

STRATEGIES

Viewing invigoration of the amusement center industry as a priority strategy, we are introducing systems that lower amusement center operators' capital investment burden, such as revenue-sharing business models, and business models that extend the player base, including our trial introduction of free-to-play (F2P) business models. Moreover, we will rigorously control our product lineup over the medium term to curb earnings fluctuations resulting from the presence or absence of major new titles.

Amusement Center Operations

Growth Opportunities

Overseas Demand for Expertise in Amusement Center Development and Operation

Overseas, primarily in emerging countries, there is latent demand for amusement centers. In particular, business opportunities promise to increase for SEGA, which has earned a strong reputation overseas for brand power and expertise in creating entertainment spaces.

Risks

Slumping Earnings from Existing Amusement Centers Due to Decrease in Players

Amid lackluster consumer spending and an aging society, the number of players, particularly core players, is declining, which is causing sales of existing amusement centers to slump.

STRATEGIES

For existing amusement centers, the Group will strengthen profitability by continuing to implement a scrap-and-build strategy while boosting amusement centers' operational capabilities. Meanwhile, we will earn endorsement from a broader spectrum of generations by opening facilities that overturn the conventional amusement center concept, such as nature simulation museums, amusement centers in shopping centers, and amusement centers integrated with other business formats.

Consumer Business

Growth Opportunities

Expansion of the Digital Game Content Market and Changes in Demand

In the expanding market for game content for smartphones and mobile phones, advancing terminal capabilities are steadily paving the way for rich-content games to spread.

Emergence of New Home Video Game Consoles

A range of new home video game consoles scheduled for release from this winter is likely to boost the packaged game software market.

Risks

Shrinking of the Packaged Game Software Market

In the traditional packaged game software market, development costs remain high, while the market continues to contract as the digital game content market expands. At the same time, demand bias toward certain major titles has become marked.

STRATEGIES

The shift toward demand for rich content in the digital game content market could become a tailwind for SEGA, which has accumulated competitive intellectual properties and development resources over many years. SEGA Networks will lead the Group's efforts to achieve differentiation and establish a strong market position by marketing game content with high-resolution graphics and engrossingly multilayered gameplay. As for packaged game software, we will analyze return on investment and narrow down the number of titles. In conjunction with these measures, we intend to increase earnings opportunities by providing value-added environments that give games a social aspect or enable a game to be played across multiple platforms.

Long-Term Upside Potential and Downside Risk

Upside Potential

Casino Business

In Japan, the debate about legalization of integrated resorts including casinos has become lively. In the near future, we hope to see the establishment of a basic framework for the casino business, which could become an opportunity for long-term growth for us.

STRATEGIES

Viewing the possible legalization of integrated resorts including casinos in Japan as a long-term business opportunity, the Group will develop integrated resorts and resort complexes as new businesses and thereby generate steady earnings and accumulate operational know-how. Please see "Casinos and the SEGA SAMMY Group" in Special Feature 1 on page 46.

Downside Risk

Earnings Structure Reliant on the Pachislot and Pachinko Machine Business

The Group has an earnings structure that relies on the Pachislot and Pachinko Machine Business segment for the majority of operating income. Because the Pachislot and Pachinko Machine Business segment's market is limited to Japan, the scope for long-term earnings growth could be limited and business results could remain highly volatile if the Group's earnings structure does not change.

STRATEGIES

While increasing the Pachislot and Pachinko Machine Business segment's market share and earnings, we aim to build an earnings structure that is not overly reliant on this business segment. To this end, medium-term plans call for expanding the earnings foundations of other businesses, including the digital game content business and integrated resorts.

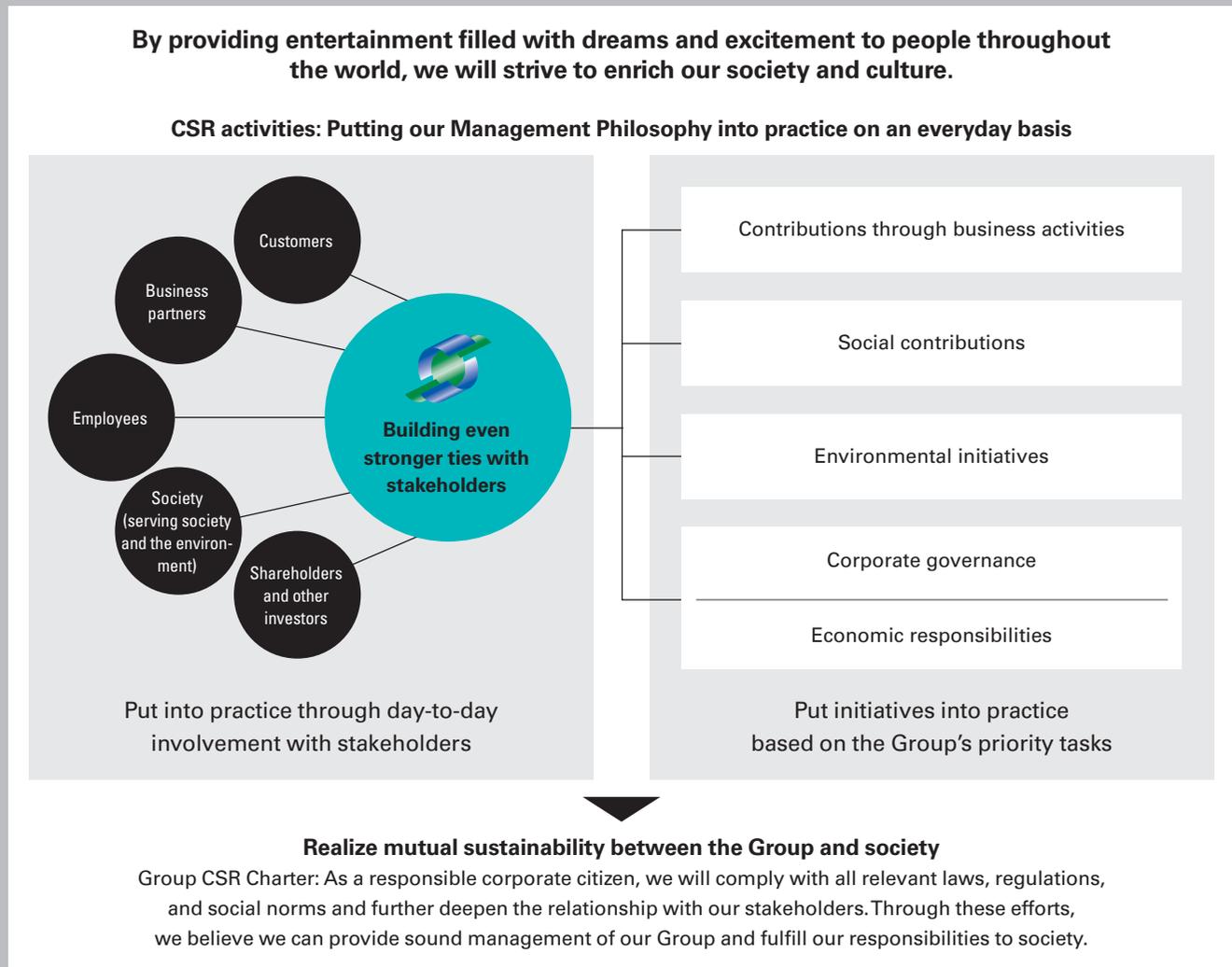
Transforming Entertainment Value into Social Value

The SEGA SAMMY Group's Basic Approach to CSR

"By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture." Adhering to this Group Management Philosophy, the SEGA SAMMY Group pursues corporate social responsibility (CSR) initiatives that it is uniquely qualified to realize. These initiatives meet our responsibilities, thereby responding sincerely to society's various requirements and expectations and building even stronger ties with stakeholders. We categorize initiatives under four priority tasks: contributions through business activities, social contributions, environmental initiatives, and corporate governance and economic responsibilities.

We will advance business activities with the aim of remaining a company society views as trustworthy and promising growth.

The SEGA SAMMY Group's CSR Initiatives and Stakeholder Engagement



For a comprehensive report on the Group's initiatives based on *Sustainability Reporting Guidelines 2006* of the Global Reporting Initiative (GRI) and *Guidance on Social Responsibility* of ISO 26000, please see *SEGA SAMMY Group CSR Report 2013*.

SEGA SAMMY Group CSR Report 2013

➔ http://www.segasammy.co.jp/english/pr/commu/csr_report.html



Special Feature 1

Casinos and the SEGA SAMMY Group

Incheon is South Korea's gateway to the skies. In the International Business Center area next to Incheon International Airport, the SEGA SAMMY Group is advancing a joint venture with the Paradise Group. This is a strategic initiative aimed at seizing the major business opportunity that casinos promise to become in Japan.

A rendering of the completed facilities, which PARADISE SEGASAMMY Co., Ltd., is currently developing

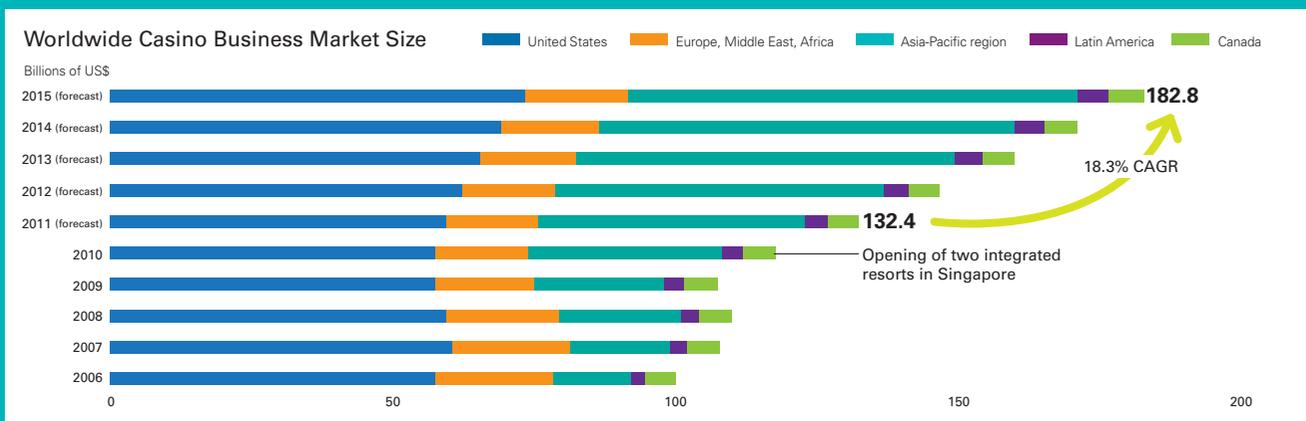
Casinos Attract Attention Worldwide as a Growth Business

Currently, there are casinos in more than 120 countries. In all G8 countries except Japan casinos are legal. As of 2010, the casino business worldwide was estimated to be worth approximately US\$117.6 billion. By 2015, this is projected to grow to US\$182.8 billion. The largest market is Las Vegas, with the United States accounting for roughly half of the world's market, or US\$57.5 billion. Meanwhile, the Asia-Pacific region has been increasing its presence rapidly in recent years. Fueled by the conspicuous economic growth in China and other parts of Asia, the value of this market has jumped from US\$13.7 billion in 2006 to US\$34.3 billion in 2010. In particular, 2010 saw the Asia-Pacific region's market grow a steep 49.7% from the previous year. Leading this growth was the world-class casino hub Macau, which posted a phenomenal year-on-year increase of 57.8% in 2010. Furthermore, after granting licenses in 2006, Singapore unveiled two integrated resorts including casinos in 2010. With these markets as drivers, the Asia-Pacific region is expected to overtake the United States to become the world's largest market in 2013. Also, between 2011 and 2015 the region's market size is expected to increase to 2.3 times its size in 2010, realizing a CAGR* of 18.3%.

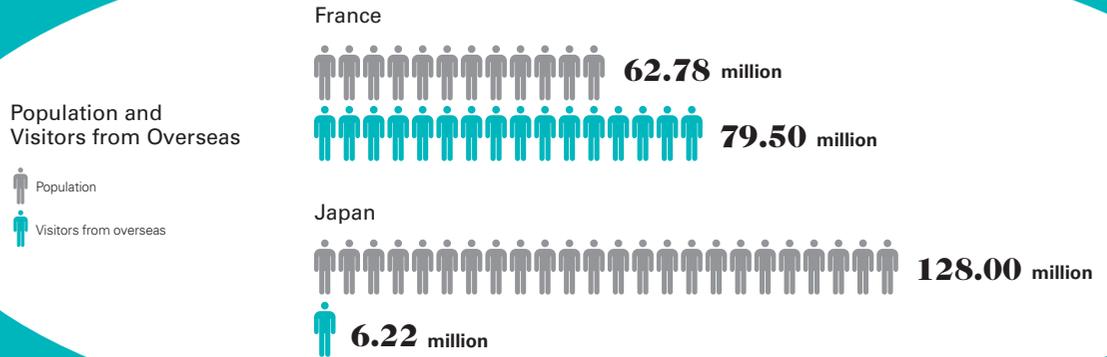
Interest in the casino business is rising worldwide due to the major economic benefits it brings. Good examples of such positive effects are Macau and Singapore, where the casino business is generating wide-ranging economic benefits. For Macau and Singapore, the largest positive effect has been an increase in tourism revenues. Visitors to Singapore from overseas surged from approximately 9.68 million in 2009, before its integrated resorts opened, to roughly 11.60 million in 2010, after they opened. As a result, international tourism revenues were up 49.2%, and nominal GDP rose 1.7% year on year. Other positives for Singapore included the economic benefits of construction investment before the integrated resorts opened; the creation of approximately 60,000 new jobs once they opened, including jobs created indirectly; and higher tax revenues.

Regions that pioneered the legalization of casinos, such as Las Vegas, have used abundant expertise in casinos to curb their potentially negative social effects while maximizing their economic benefits. Such successful examples are spurring more countries worldwide to consider the casino business as a possibility. One country weighing its options is Japan.

Sources: Casino market size figures are from PricewaterhouseCoopers LLP and Wilkofsky Gruen Associates. Singapore's overseas visitor numbers and tourism revenues are from the Singapore Tourism Board. * Compound Annual Growth Rate



Note: Forward-looking statements in this section about the procedure or schedule of legal deliberations in relation to integrated resorts including casinos and other forward-looking statements are based on information currently available to the Group. The Group does not guarantee that such statements are accurate or that events will transpire in accordance with such statements. Therefore, placing undue reliance on this information is not advised.



Japan Aims to Become a Tourist Destination

Given the growing concern about the effects of Japan's aging population, the significant potential of the tourism industry as an economic driver is attracting attention in the country. Launched in 2003, a promotional campaign to encourage visitors from overseas, the Visit Japan Campaign, has proven successful. Visitors from South Korea, China, and other parts of Asia have increased substantially, with annual visitors from overseas rising around 60%, from approximately 5.20 million in 2003 to 8.36 million in 2012. On the other hand, looking at the numbers of tourists from overseas as a percentage of population, France is the leading tourist destination, with visitor numbers that are 1.2 times its population. In Japan, tourist numbers represent a mere 5% of its population. This is only one-ninth of the level in China, which is

Asia's leading tourist destination by this measure. As an effective way of unlocking the burgeoning potential of Japan's tourism industry that these figures highlight, casinos are becoming a focus of attention.

Without recourse to public funds, private-sector investment can establish casinos as a new tourism resource. Over the past decade, this has encouraged discussion on the possibility of lifting Japan's ban on casinos, which has focused on such related topics as higher international tourism revenues, the invigoration of regional industries, employment creation, stronger international competitiveness, and improved public finances as a result of increased tax revenues.

Sources: Figures for visitors to Japan from overseas are from the Japan National Tourism Organization and other figures for visitors from overseas are from the United Nations World Tourism Organization (2011).

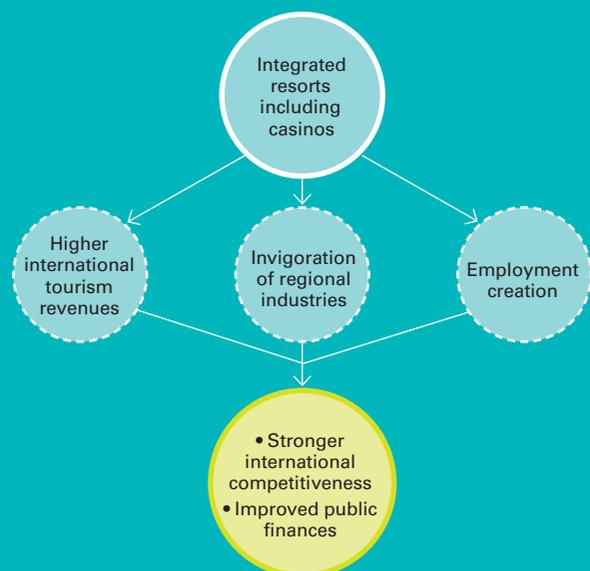
Developments in Japan to Date

In Japan, the debate about casinos began in 2001, with the basic concepts taking shape in 2004. Furthermore, the 2006 announcement of a basic policy for the introduction of casino entertainment to Japan established an overall organizational framework for casinos. Subsequently, 2010 saw the establishment of a nonpartisan Diet federation for the invigoration of the international tourism industry (the Diet federation for integrated resorts, also known as the Diet federation for casinos), which began deliberations in relation to the framework in earnest. In July 2011, the federation prepared an outline bill and reached a basic agreement on the principles forming the bill's framework. This bill envisions the establishment not only of casinos but also of integrated resorts that include convention facilities, accommodation facilities, and a range of leisure facilities. Furthermore, the federation agreed to define such facilities as designated integrated tourist resorts and the areas including them as designated integrated tourism resort areas.

In August 2011, the federation reached a consensus on proceeding with deliberations in two stages. The first stage will seek enactment of a bill for the promotion of designated integrated tourism resort areas (the integrated resort promotion act), while the second stage will seek the enactment of a bill for the enforcement of designated integrated tourism resort areas (the integrated resort enforcement act).

The former will define basic concepts, while the enactment of the latter will enable the operation of casinos.

Anticipated Economic Ripple Effects



Special Feature 1 Casinos and the SEGA SAMMY Group



Phoenix Resort



● Deliberations in Japan to date and schedule going forward

○ SEGA SAMMY Group's initiatives

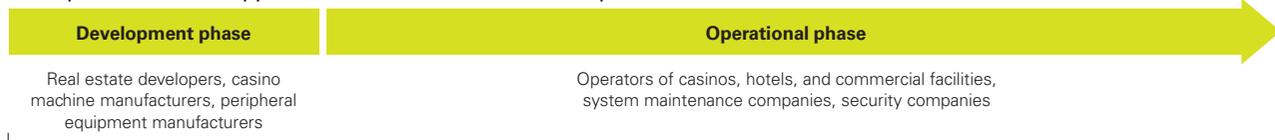
SEGA SAMMY Group Announces Intention to Become a Market Player

Viewing the management of integrated resorts including casinos as a new earnings opportunity, the SEGA SAMMY Group announced its intention to participate in this business area. If integrated resorts become a reality in Japan, a range of industries are likely to benefit. At the development phase, integrated resorts will provide real estate developers and casino machine manufacturers with business opportunities. Furthermore, the commencement of casino operations will enable casino operators to acquire earnings over the long term.

An industry pioneer, the SEGA SAMMY Group began amusement center operations in 1965. During the intervening half a century, we have driven the industry's development and accumulated expertise.

Also, we have honed our development capabilities for pachislot and pachinko machines and amusement arcade machines. This makes us one of the few corporate groups qualified to participate in the casino business in the areas of machine development and supply and casino operations. However, the casino business calls for a variety of know-how that our existing businesses do not have, such as expertise in attracting good customers on a regular basis. In addition, the scale of investments required is expected to be considerable. With this in mind, our basic approach is to form partnerships with casino operators who have track records overseas and thereby mitigate investment risk, acquire know-how, and enable the mutual use of management resources.

Anticipated Business Opportunities for Private-Sector Companies



SEGA SAMMY Group Has Capabilities to Engage in Both Phases

- Know-how accumulated through experience operating amusement centers
- Development capabilities fostered through pachislot and pachinko machine and amusement arcade machines
- Experience accumulated in relation to integrated resorts including casinos, mainly based on know-how acquired from Phoenix Resort and casino operations in South Korea

Foundations Laid So Far

The SEGA SAMMY Group has been steadily preparing for a foray into the casino business. One such preparatory initiative was our acquisition of all shares of Phoenix Resort Co., Ltd., in February 2012. Managing one of Japan's foremost resort facilities, *Phoenix Seagaia Resort*, which comprises hotels, spas, golf courses, restaurants, and international conference facilities, is giving us valuable expertise in the management of large-scale integrated resorts.

Also, we have begun garnering casino management expertise in South Korea through a partnership with a major local company. In May 2012, with the Paradise Group we established a joint venture,

PARADISE SEGASAMMY Co., Ltd., tasked with planning, developing, and managing an integrated resort including a casino in the International Business Center area next to Incheon International Airport.

The Paradise Group is a tourism services conglomerate that operates casinos and manages hotels and spas in South Korea, primarily through Paradise Co., Ltd. The group has a major presence in the country as a pioneer in the casino industry and has accumulated extensive related know-how. Holding a 45% stake in PARADISE SEGASAMMY, we will actively participate in management and dispatch directors and employees to the company. Furthermore, PARADISE SEGASAMMY acquired



Centum City



● **If integrated resort promotion act is enacted**

▶ Designated integrated tourism resort areas development advancement headquarters is established

▶ Hearing of stakeholders' opinions is conducted and bill and statutes are drafted
Integrated resort enforcement act is submitted to the Diet

▶ **Within two years**
Integrated resort enforcement act is passed
Designated integrated tourism resort areas are established

▶ ● Companies are selected

a casino, Paradise Casino Incheon, that the Paradise Group already operates in the International Business Center area next to Incheon International Airport in July 2013. Through this acquisition, we plan to gain expertise and experience in casino management. At the same time, we intend to use the license of Paradise Casino Incheon in the International Business Center area to expand the facility.

In another South Korean project, we are getting ready to participate in the development of *Centum City*, which is a multi-project urban development area in Busan that will incorporate leading-edge functions in relation to information, communications, video, entertainment, and international business. Plans call for newly established SEGA SAMMY BUSAN INC. to invest approximately ¥35 billion to develop a resort

complex comprising a hotel, entertainment facilities, and commercial facilities, which the company will operate.

Directly connected to Centum City subway station, the land we have acquired boasts outstanding access. Furthermore, as an extremely prestigious location with a concentration of commercial facilities—including the world's largest department store—the area has strong customer drawing power. To curb risk, we intend to commission partners who are experts in hotel management. At the same time, we will exploit SEGA's know-how in amusement center operations to generate stable earnings while acquiring expertise in the development and management of resort complexes.

🔗 Schedule Going Forward

In 2013, deliberations on legislation for integrated resorts have become more concrete. The basic act, the integrated resort promotion act, may be submitted to an extraordinary Diet session as early as fall 2013. Assuming the bill is enacted at this time, the subsequent schedule will be as follows.

Within three months of the promulgation of the integrated resort promotion act, detailed deliberations will begin on the integrated resort enforcement act. The integrated resort promotion act stipulates that the integrated resort enforcement act must be prepared within two years. Therefore, it is expected that, after obtaining the opinions of experts and the understanding of the public and drafting the act and its statutes, the enactment of the integrated resort enforcement act will take two years at the most. Once enacted, this act will stipulate the administrative framework for the casino industry, and procedures will begin in earnest to realize the framework. Accordingly, the next stage will entail the establishment of regulatory bodies that will prepare for the selection of private-sector companies and supervise the actual operations of casinos. After this, applications from local public bodies wishing to attract integrated resorts will be examined, and designated integrated tourism resort areas will be stipulated. Based on public offerings, local public bodies receiving designation will select private-sector companies to plan, fund, develop, and operate designated

integrated tourist resorts and conclude development agreements with them. Selected private-sector companies will then apply to the national regulatory body for licenses while proceeding with development in earnest. If these processes advance smoothly, actual casino operations could begin around 2020. This careful, scrupulous procedure reflects a desire to develop casinos as an industry based on strict supervision that ensures soundness and safety.

Because waiting for the enactment of the integrated resort enforcement act would not leave sufficient time for local communities to build consensus or for companies to prepare commercial operations, local public bodies wishing to attract casinos and private-sector companies from Japan and overseas aiming to participate in the casino business are likely to have already begun concrete preparations by the time the integrated resort enforcement act is enacted. Around 2016, practical discussions on integrated resorts will probably have advanced. By this time—coinciding with legislative progress—PARADISE SEGASAMMY's integrated resort in the International Business Center area and SEGA SAMMY BUSAN's resort complex in *Centum City*, mentioned earlier, are likely to have opened for business. Thus, through far-sighted initiatives, the SEGA SAMMY Group intends to continue steadily and proactively preparing for the future.

Special Feature 2

Delivering Quality Games to Even More Customers

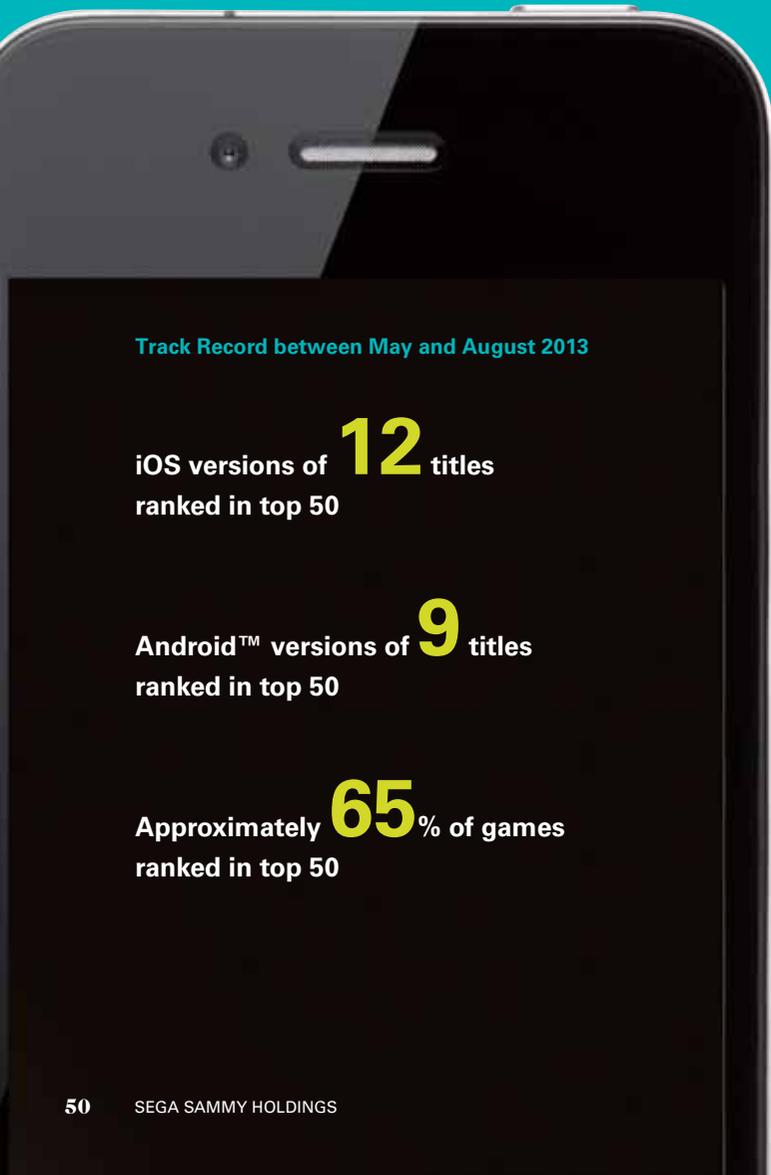
SEGA Networks: Aiming to Set the Pace

In the digital game content market, where fierce competition transcends industry boundaries, SEGA Networks is rapidly heightening its presence and steadily establishing itself as a trailblazer. Here, Minoru Iwaki, VP & Corporate Officer Business Division, explains the drivers of this rapid progress and strategies going forward.



MINORU IWAKI
VP & Corporate Officer
Business Division
SEGA Networks Co., Ltd.

Reaping the Fruit of a Consistent Strategy



Track Record between May and August 2013

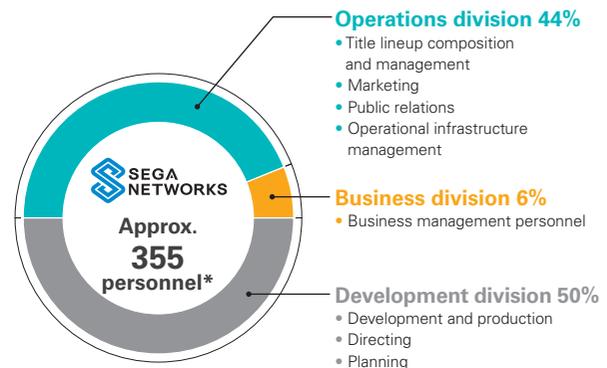
iOS versions of **12** titles ranked in top 50

Android™ versions of **9** titles ranked in top 50

Approximately **65%** of games ranked in top 50

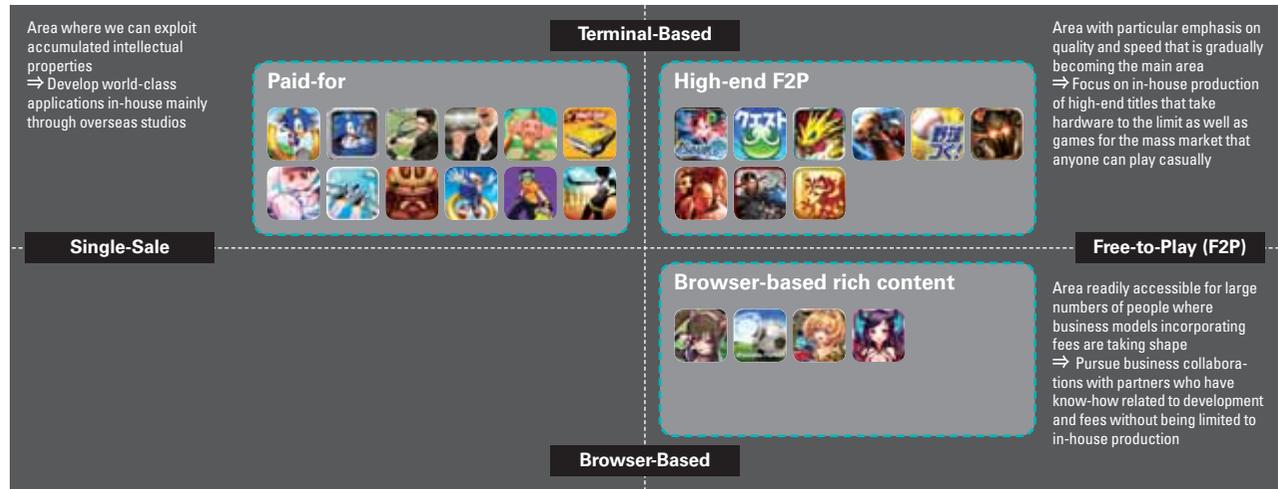
After we began distributing a version of *Puyopuyo!! Quest* for Apple's mobile operating system (iOS) in April 2013, player numbers increased at an amazing speed. In just 10 days, the video game reached one million downloads and claimed the No. 1 ranking among all free applications. Subsequently, the pace did not slacken. The combined total for iOS and Android™ versions broke the three-million-downloads barrier in July. And this is only one example. Since May, we have continually had at least 10 titles in the iOS market's top 50, making us one of the industry's best-performing companies. Moreover, our portfolio of high-ranking titles is expanding. In the Android™ market, which we entered in earnest in April, we had nine titles in the top 50 as of the end of August. We have heightened our presence so rapidly—it has been just a year since our establishment—because we have unwaveringly adhered to a basic management strategy of delivering quality games to even more customers.

Team of Specialists Responsible for Preparing Strategies and Monetization



* As of August 1, 2013

Portfolio of Titles



Combining SEGA's Development Prowess and a Team of Specialists

SEGA has more than 1,000 development personnel who have garnered experience by working in the amusement machine sales business or the home video game software business. Furthermore, during its long history the company has honed an extensive lineup of intellectual properties spanning a diverse range of genres. Adding to these assets, decision-making speed and practical abilities that venture companies cannot match will fully equip us to build competitive superiority. With this in mind, SEGA established SEGA Networks in July 2012. The new company features a greatly streamlined decision-making process whereby its Board of Directors reaches conclusions without consulting with the parent company. Moreover, SEGA has

delegated a significant amount of authority to the CEO of SEGA Networks. Also, the new company has a distinctive organizational structure. Of its 355 employees, approximately half belong to the development division. The remainder are engaged in non-development operations and business divisions, which are responsible for title lineup composition and management, marketing, public relations, and operational infrastructure management. Moreover, the operations and business division are comprised entirely of specialists with extensive experience in a variety of industries, who efficiently market content that the development division has created. This organizational collaboration is driving SEGA Networks forward rapidly.

Realizing a Competitive Edge through a Balanced, Quality Portfolio

The digital game content market has grown more than tenfold in the past three years. Promising to sustain vigorous growth in the current fiscal year, this market continues to develop in two directions: Internet applications, which browsers process, and native applications, which terminals process. The outcome of these two trends is difficult to predict, even in the near term. Furthermore, player preferences are diversifying across a broad range of content that includes not only puzzle games and card battle games but also upmarket game content with high-resolution graphics comparable to those of dedicated game machines. In such market conditions, relying on limited contents increases risk.

Our operations division's specialists in title lineup composition, promotion, and research work in unison to hammer out the flexible development strategies that will bring SEGA's abundant development capabilities and intellectual properties to market most efficiently. Then, adhering to its basic management strategy, SEGA Networks provides quality content for a broad range of genres in a well-balanced manner. We believe this collaborative process gives us a competitive advantage in a volatile market.

For example, we mainly produce single-sale applications and F2P native applications, such as card games and puzzle games, in-house because this enables us to make effective use of development resources by optimizing SEGA's existing major intellectual properties for smart devices. Furthermore, we are advancing organic collaboration with SEGA. SEGA's home video game software development division played a central

role in our development of *PuyoPuyo!! Quest*, and we could not have developed *CHAIN CHRONICLE* without the collaboration of our parent company's amusement arcade machine development division.

Based on business collaborations with partners who have extensive know-how and with venture companies able to expedite development, we are realizing timely marketing of Internet applications that reflect the latest trends and include social game elements, such as ease of play and ready accessibility for large numbers of people. As well as jointly developing *The Clan Battle of Fate* with Pokelabo, Inc., we exploited one of SEGA's intellectual properties, through subsidiary f4samurai, Inc., to launch *BORDER BREAK Mobile: Gun Front Hurricane*. We are also advancing collaborations with a broad variety of other companies, such as Aiming Inc. and CrossGames Inc.

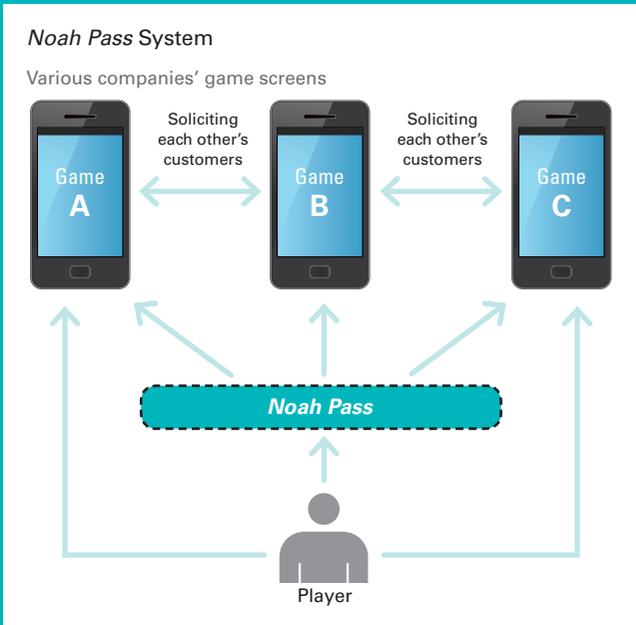
As the *Kingdom Conquest* series proves, we can leverage SEGA's development resources to achieve differentiation among titles that feature high-resolution graphics and complex, multilayered worlds. Because development requires significant investment and a certain amount of time, we are looking several steps ahead of the current market as we create quality video games in-house. Beginning distribution in February 2013, *Demon Tribe* capitalizes on the advantages of native applications to push the envelope of game content for smart devices. It epitomizes the ceaseless pioneering of innovative products that characterizes SEGA's corporate culture.

Special Feature 2 Delivering Quality Games to Even More Customers

Establishing a New Mutual Introduction System

Since its establishment, SEGA Networks has been exploring the creation of a system that will give even more players access to its quality content. The idea took concrete shape when we began offering the *Noah Pass* system to partner and nonpartner companies in August 2013. This completely new system for the mutual introduction of players is entirely in keeping with our basic management strategy. We expect it will win acceptance among game content development companies because corporate participation is free, there are no strategic restrictions, and it enables companies to advertise and promote products efficiently at a time when development expenses are rising. Already, the system has 25 corporate participants and more than 20 million registered users. By the end of the year, we expect to have around 30 corporate participants and 40 million registered users.

Moreover, this system could provide the opportunity to increase user numbers at a stroke not only to game content development companies but also companies in peripheral business areas, such as media web sites, online communities, game-strategy web sites, video web sites, and Internet portals. By providing a value-added service that benefits all participating companies, we want to increase the economic scale of the system. And, plans call for monetizing the system in the near future.



Stepping Up Overseas Forays

Because it enables us to create synergies between the amusement machine sales business and home video game software business, Japan will remain our most important market. Nevertheless, we intend to increase our presence in South Korea, North America, Europe, and other overseas markets proactively. In North America and Europe, our player base is already expanding steadily. For example, iOS versions of the *Sonic* series—including *Sonic Dash*, *Sonic Jump*, and *Sonic & Sega All-Stars Racing*—have surpassed 48 million downloads on a cumulative basis. Going forward, our team of specialists will continue adopting optimal strategies in light of thoroughgoing research on each market with regard to playing, communication, and fee environments. A strategic title for the iOS slated for release in the fall is our inaugural motion control title, *GO DANCE*, which will mainly target overseas markets. Furthermore, we plan to roll out the *Noah Pass* system overseas during the current fiscal year.

Breaking Away from the Pack

The digital game content market is on the cusp of a new evolutionary stage as terminals become ever more sophisticated and communications infrastructure become even faster. However, no matter how competitive conditions change, our commitment to delivering quality games to even more customers will remain unshakeable. By combining SEGA's development capabilities and our team of specialists, we will respond swiftly to changes in market conditions and win out against competition.

Establishing Track Record in North America and Europe

Track record to date (main titles)

	<p>Sonic Dash Genre: 3D infinite run -Outstanding quality -More than 22.6 million downloads</p>	
	<p>Sonic & Sega All-Stars Racing Genre: Racing -More than 16.7 million downloads -Ranked in top 10 of 87 stores worldwide</p>	
	<p>Sonic Jump Genre: Jump Action -Surpassed 8.8 million downloads five months after launch</p>	