

Major Questions Concerning Actual Results for Second Quarter
and Full Year Forecast of Year Ending March 2012

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SEGA SAMMY HOLDINGS INC.

Actual Results for the Second Quarter of the Year Ending March 2012

■ **General Matters**

Q: What factors led to the decreases in sales and income compared to the same quarter of the previous fiscal year (second quarter of year ended March 2011)?

A: Sales and income decreased compared to the same quarter of the previous year because mainstay titles for Pachislot, Pachinko Machines Business and the Amusement Machine Sales Business are scheduled for release mainly in the second half of this fiscal year.

Q: What factors led to an increase in operating income despite a decrease in net sales compared to the initial forecast?

A: Net sales were below our expectations because release of some pachinko titles was postponed to the third quarter and after, in addition to stagnant overseas sales of new titles in Consumer Business. On the other hand, operating income exceeded our expectations due to cost improvements through reuse of parts and a reduction of sales and general and administrative expenses centered on advertising and other such factors.

Q: What impact did the conversion of TAIYO ELEC into a wholly owned subsidiary in August 2011 have on operating results?

A: Negative goodwill of around 800 million yen arose and was posted as extraordinary gain in 2Q.

■ **Pachislot and Pachinko Machines Business**

Q: What factors led to the decreases in sales and income compared to the same quarter of the previous fiscal year (second quarter of the year ended March 2011)?

A: Sales and income decreased since the release of mainstay pachislot titles for this fiscal year are scheduled mainly for the second half.

Q: What factors led to the marked improvement in income margin compared to the initial forecast?

A: Income margin improved due to cost improvements through reuse of parts and a reduction of sales and general and administrative expenses such as advertising. Also, in our initial forecast, we anticipated the risk of an increased price of parts due to the impact of the earthquake. However, the actual results up to the second quarter show that we are at the same level as the previous fiscal year.

■ Amusement Machine Sales Business

Q: What factors led to the decrease in income despite net sales maintaining a flat rate compared to the same quarter of the previous fiscal year (second quarter of the year ended March 2011)?

A: Income decreased since the number of CVT kit titles, which have a high income margin, introduced in this fiscal year decreased due to our product development cycle, as well as temporary increase in material cost due to a change of circuit boards for some titles.

Q: What factors led to the increases in sales and income (return to profitability) compared to the initial forecast?

A: Sales and income increased due to the solid sales of “Sega Network Taisen Mahjong MJ5” and steady distribution of earnings due to utilization of the revenue sharing model. In addition, sales of consumer products such as trading cards were strong as a result of the recovery of the amusement center market.

■ Amusement Center Operations Business

Q: What factors led to the increase in income despite sales decreasing compared to the same quarter of the previous fiscal year (second quarter of the year ended March 2011)?

A: Sales decreased in accordance with the reduction of the number of centers, among other factors. However, the increase in income was due to improved management capabilities of existing domestic amusement centers.

Q: How many centers were temporarily closed due to the Great East Japan Earthquake?

A: As of the end of the second quarter, one center.

■ Consumer Business

Q: What factors led to the decrease in sales and increased losses compared to the same quarter of the previous fiscal year (second quarter of the year ended March 2011)?

A: Decrease in sales and increase in losses were due mainly to slow sales of new game titles overseas owing to the severe market environment.

Q: What were the actual results in fields of social games such as for smart phones?

A: “Kingdom Conquest” for iOS, which we began to supply last period, continues to sell strong, and recorded more than 1.6 million downloads total as of the end of the second quarter.

■ **General Matters**

Q: What factors led to the expectations of an overall increase in sales and income compared to the previous fiscal year (the year ended March 2011)?

A: We expect to increase both sales and income, compared to the previous fiscal year, mainly due to growth in pachislot and pachinko machine sales volume in the Pachislot and Pachinko Machines Business.

Q: What factors led to the revision of full-year operating results forecast (decrease in sales and increase in income compared to the initial forecast)?

A: We expect that net sales will be below initial expectations due to the slow sales of new game software titles overseas in Consumer Business. On the other hand, we expect that operating income will exceed the initial forecast due to an increase in sales of high margin pachislot units, in addition to material cost improvements through reuse of parts and a reduction of sales and general and administrative expenses in the Pachislot and Pachinko Machines Business. Also, both Amusement Machine Sales Business and Amusement Center Operations Business are performing stronger compared to the initial forecast.

Q: Will there be any impact from the flooding in Thailand?

A: We are currently investigating this from a parts procurement point of view amongst others. Also, as for the orders we have received as of now, all parts have been procured and we face no significant problem.

■ **Pachislot and Pachinko Machines Business**

Q: What are the major titles to be sold in the third quarter?

A: For Pachislot Machines Business, we plan to sell Sammy's "Pachislot Hokuto no Ken" for which we have received orders of over 160,000 units as of end of October which significantly exceeded our initial expectations. For Pachinko Machines Business, we will sell Sammy's "Pachinko SOUTEN-NO-KEN" and TAIYO ELEC's "Ryu ga Gotoku Kenzan!"

Q: What were the effects of the conversion of TAIYO ELEC into a wholly owned subsidiary, and what initiatives will there be in the future?

A: Since converting TAIYO ELEC into a wholly owned subsidiary, we have aimed to further strengthen business collaboration between Sammy Corporation and TAIYO ELEC by dispatching from Sammy Corporation management personnel and supplying human resources to the development department. In addition, we are continuing efforts such as standardization of materials and joint procurement of materials among the group in order to reduce production costs and improve quality.

■ Amusement Machine Sales Business

Q: What are the major titles to be sold in the third quarter?

A: We plan to release “StarHorse3 Season I A NEW LEGEND BEGINS.” (medal game) as a mainstay title for the fiscal year, and are showing a strong performance in orders received.

Q: What factors led to the forecast of decreased income margin compared to the previous fiscal year?

A: Income decreased since the number of CVT kit titles, which have a high income margin, introduced in this fiscal year decreased due to our product development cycle, as well as temporary increase in material cost due to a change of circuit boards for some titles.

■ Amusement Center Operations Business

Q: What factors led to the forecast of posting operating losses?

A: Although we are aiming to accomplish 100% of the full year results from the previous fiscal year through strong actual sales results from Sega’s domestic amusement centers up to the second quarter. Among other factors, we expect that there will be operating losses due to an increase in capital expenditure and projected depreciation expenses compared to last year in accordance with the introduction of major titles this fiscal year.

■ Consumer Business

Q: What factors led to the forecast of decreased income despite the increase in sales compared to the previous fiscal year (the year ended March 2011)?

A: An increase in sales is expected mainly due to an increase in game software sales volume with the release of the major title “Mario & Sonic at the London 2012 Olympic Games™.” On the other hand, concerning operating income, we expect there to be slow sales of new game software titles overseas and an increase in operating expenses due to factors such as amortization on goodwill. Therefore, we expect a decrease in income.

Q: What are the future initiatives for smart phones and SNS?

A: We are proactively carrying out activities tailored to each platform by efficiently utilizing Sega’s assets centered on proven IPs such as the franchising of “Kingdom Conquest.”

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*The contents in this material are the judgment and forecast of the Company’s management based on currently available information. These contents involve risks and uncertainties, and the actual results may differ materially from these contents/comments.