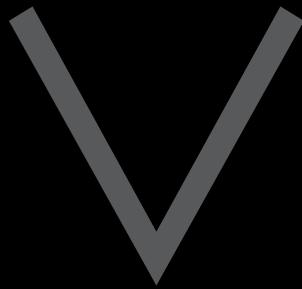


1 + 1



2

The dignity of movement of the iceberg is due to only one-eighth of it being above water.

Ernest Hemingway

# Intellectual Capital

Imagination is more important than knowledge,  
for knowledge is limited while imagination embraces the entire world.

Albert Einstein



# Human Capital

People are our greatest assets.

Peter F. Drucker



# Financial Capital

If a wallet is light, the heart is heavy.

Johann Wolfgang von Goethe



The SEGA SAMMY Group has created and accumulated an extensive lineup of intellectual properties in diverse entertainment areas. Furthermore, the Group boasts one of the industry's largest developmental teams. We have more than 3,000 developmental personnel, who create and foster intellectual properties and hone them into premium-quality entertainment. Also, cash generation capabilities—centered on the Pachislot and Pachinko Machine Business segment—and financial stability are competitive advantages that enable us to grow steadily. In other words, we have at our disposal the full array of management resources we need to win out against competitors.



# + Will

We have decided to begin restructuring the Group. By overcoming the problems of existing businesses and optimizing the deployment of such management resources as intellectual properties, human capital, and financial capital, we aim to get back on a growth track. Having achieved this task, we will prepare for the establishment of the integrated resort business as a future earnings driver. As well as plentiful management resources, we have the vision and commitment to use them effectively to maximize value.

In a concerted effort, the Group will use management resources effectively to create synergies and increase corporate value continuously.

1 + 1

The whole is greater than the sum of its parts.

Aristotle

2

## Editorial Policy

We edited *Annual Report 2014* with the following aims.

- Organize information by separating the holding company, which deploys management resources, from business segments, which conduct business activities
- Organize information based on past, present, and future
- Visualize intangibles and business models
- Show how risks, opportunities, and strategies interlink

We have not included information related to corporate social responsibility (CSR) as we are unable to show the relevance of CSR-related information to financial information in a form useful to investors at the present juncture. Please see the "Social Responsibility" page of our web site, which includes extensive CSR-related information.

## New to the Group?

### the FACTS

### the FACTS

We advise those reading our annual report for the first time to begin by reading the basic information in the "the FACTS" section at the beginning of this report.

## Go Straight to the Information You Need

- Time series data ➔ P.8
- Business model ➔ P.29
- Changes since management integration ➔ P.30
- Management resources ➔ P.32
- Returns to shareholders ➔ P.38
- Market position ➔ P.40
- Opportunities and risks ➔ P.42
- Digital game area ➔ P.46
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- Business strategies (SWOT, etc.) ➔ P.51~
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- Compensation of directors ➔ P.76

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## the GROUP

### from the PAST to the PRESENT

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### from the PRESENT to the FUTURE

#### Understand the Group's strategies going forward

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# Business Results Highlights

Years ended March 31

## Consolidated Business Highlights

	2005	2006	2007	2008	2009	2010	2011
Net sales	¥515,668	¥553,240	¥528,238	¥458,977	¥429,194	¥384,679	¥396,732
Gross profit	211,559	229,011	203,079	120,403	119,092	138,867	166,055
Selling, general and administrative (SG&A) expenses	106,469	109,867	126,548	126,232	110,728	102,154	97,304
Operating income (loss)	105,090	119,144	76,530	(5,829)	8,363	36,712	68,750
EBITDA* <sup>2</sup>	122,764	140,999	104,578	39,782	35,007	53,887	84,699
Net income (loss)	50,574	66,221	43,456	(52,470)	(22,882)	20,269	41,510
Capital expenditures* <sup>3</sup>	32,468	37,650	59,271	50,422	26,610	16,164	19,686
Depreciation and amortization	17,674	21,854	28,048	45,611	26,644	17,175	15,949
R&D expenses, content production expenses* <sup>3</sup>	41,590	36,337	52,106	65,384	59,676	41,502	41,104
Net cash provided by (used in) operating activities	77,762	83,228	60,623	(25,878)	32,199	54,998	87,696
Net cash provided by (used in) investing activities	(39,618)	(54,706)	(75,395)	(10,399)	936	(7,640)	(29,585)
Net cash provided by (used in) financing activities	(25,703)	(21,152)	(1,712)	(7,579)	(7,653)	(3,401)	(57,168)
Free cash flows* <sup>4</sup>	38,144	28,522	(14,772)	(36,277)	33,135	47,358	58,111
Total assets	438,991	522,914	549,940	469,642	423,938	423,161	458,624
Total net assets / shareholders' equity* <sup>5</sup>	258,954	316,679	358,858	281,627	242,532	256,770	285,461
Number of shares outstanding (shares)	140,551,522	283,229,476	283,229,476	283,229,476	283,229,476	283,229,476	266,229,476
Number of employees (employees)	5,407	6,416	7,734	7,665	6,856	6,236	6,000
Net sales per employee	95.4	86.2	68.3	59.9	62.6	61.7	66.1
<b>Per Share Data</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Net income (loss)	¥ 205.27	¥ 261.06	¥ 172.47	¥ (208.26)	¥ (90.83)	¥ 80.46	¥ 163.19
Diluted net income	200.48	260.35	172.35	—	—	—	163.01
Total net assets / shareholders' equity* <sup>5</sup>	1,033.96	1,254.14	1,341.80	1,030.09	882.47	937.80	1,093.23
Cash dividends	60.00	80.00	60.00	45.00	30.00	30.00	40.00
<b>Key Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Gross profit margin	41.0	41.4	38.4	26.2	27.7	36.1	41.9
SG&A ratio	20.6	19.9	24.0	27.5	25.8	26.6	24.5
Operating margin	20.4	21.5	14.5	—	1.9	9.5	17.3
R&D expenses to net sales	8.1	6.6	9.9	14.2	13.9	10.8	10.4
ROE	19.5	23.0	13.3	—	—	8.8	16.2
ROA* <sup>6</sup>	11.5	24.8	15.2	—	1.5	8.5	15.5
Equity ratio	59.0	60.6	61.5	55.3	52.4	55.8	60.0

\*1 Yen amounts have been translated into U.S. dollars solely for convenience at the rate of ¥102.88 to U.S. \$1, the prevailing exchange rate at March 31, 2014.

\*2 EBITDA = Operating income (loss) + Depreciation and amortization; For fiscal 2014, calculations are based on the inclusion of amortization cost of digital game titles in depreciation and amortization.

\*3 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles.

Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

\*4 Free cash flows = Net cash provided by (used in) operating activities + Net cash provided by (used in) investing activities

\*5 Following the enactment of the new Companies Act of Japan in 2006, the Company presents total net assets for the fiscal year ended March 31, 2007, and subsequent fiscal years,

which represent the shareholders' equity figure used in previous years plus minority interests and share subscription rights.

\*6 ROA = Ordinary income ÷ Total assets

Millions of yen, unless stated otherwise			Thousands of U.S. dollars*1	
2012	2013	2014	2014	
¥395,502	¥321,407	<b>¥378,011</b>	<b>\$3,674,294</b>	
161,663	116,938	<b>147,970</b>	<b>1,438,283</b>	
103,279	97,865	<b>109,437</b>	<b>1,063,740</b>	
58,384	19,073	<b>38,533</b>	<b>374,543</b>	
74,542	37,254	<b>58,276</b>	<b>566,448</b>	
21,820	33,460	<b>30,721</b>	<b>298,612</b>	
36,141	32,871	<b>38,182</b>	<b>371,131</b>	
16,158	18,181	<b>16,182</b>	<b>157,291</b>	
53,348	45,294	<b>59,219</b>	<b>575,616</b>	
38,023	18,603	<b>75,201</b>	<b>730,960</b>	
(59,012)	6,396	<b>(38,547)</b>	<b>(374,681)</b>	
914	(1,116)	<b>(11,512)</b>	<b>(111,900)</b>	
(20,989)	24,999	<b>36,654</b>	<b>356,279</b>	
497,451	528,504	<b>542,936</b>	<b>5,277,379</b>	
296,376	320,034	<b>348,270</b>	<b>3,385,213</b>	
266,229,476	266,229,476	<b>266,229,476</b>		
6,700	7,008	<b>7,472</b>		
59.0	45.9	<b>50.6</b>	<b>491</b>	

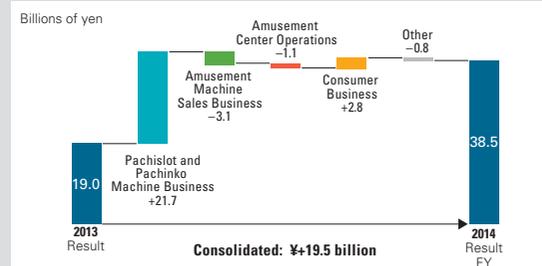
Yen		U.S. dollars*1	
2012	2013	2014	2014
¥ 86.73	¥ 137.14	<b>¥ 126.42</b>	<b>\$ 1.22</b>
86.54	136.85	<b>125.39</b>	<b>1.21</b>
1,167.59	1,304.44	<b>1,409.27</b>	<b>13.69</b>
40.00	40.00	<b>40.00</b>	<b>0.38</b>

%		
2012	2013	2014
40.9	36.4	<b>39.1</b>
26.1	30.4	<b>29.0</b>
14.8	5.9	<b>10.2</b>
13.5	14.1	<b>15.7</b>
7.7	11.0	<b>9.3</b>
12.2	4.1	<b>7.6</b>
58.9	59.7	<b>63.2</b>

## Operating Income

**¥38.5 billion** (up 103%, or ¥19.5 billion, year on year)

### Change in Segment Operating Income



## Main Other Income and Expenses

### Other Income

Gain on sales of investment securities	<b>¥11.9 billion</b>
Gain on sales of noncurrent assets	<b>¥3.5 billion</b>

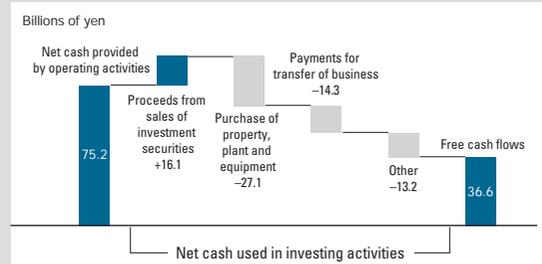
### Other Expenses

Loss on liquidation of subsidiaries and affiliates	<b>¥6.6 billion</b>
Impairment loss	<b>¥1.7 billion</b>

## Free Cash Flows

**¥36.6 billion**

### Main Causes of Changes in Free Cash Flows



## Business Results Highlights

Years ended March 31

## Business Results by Business Segment

<b>Pachislot and Pachinko Machine Business</b>	2005	2006	2007	2008	2009	2010	2011
Net sales	¥280,109	¥265,631	¥211,539	¥145,582	¥161,691	¥160,376	¥212,060
Operating income	103,931	99,847	71,102	8,443	14,528	29,502	64,284
Operating margin (%)	37.1	37.6	33.6	5.8	9.0	18.4	30.3
R&D expenses*2	6,952	6,940	9,325	12,632	14,289	13,019	13,485
Capital expenditures	2,842	6,670	8,790	23,829	4,516	3,297	5,725
Pachislot machine unit sales (units)	676,933	607,106	523,422	380,688	123,286	162,932	302,270
Pachinko machine unit sales (units)	233,049	288,895	132,981	108,184	391,831	360,171	343,188

<b>Amusement Machine Sales Business</b>	2005	2006	2007	2008	2009	2010	2011
Net sales	¥63,305	¥71,512	¥75,454	¥71,061	¥61,926	¥45,117	¥47,237
Operating income (loss)	7,424	12,176	11,682	7,152	6,890	7,094	7,317
Operating margin (%)	11.7	17.0	15.5	10.1	11.1	15.7	15.5
R&D expenses, content production expenses*2	12,029	10,002	12,527	13,695	11,450	7,841	9,195

<b>Amusement Center Operations</b>	2005	2006	2007	2008	2009	2010	2011
Net sales	¥83,194	¥106,245	¥103,850	¥91,226	¥71,310	¥54,788	¥45,695
Operating income (loss)	5,472	9,244	132	(9,807)	(7,520)	(1,338)	342
Operating margin (%)	6.6	8.7	0.1	—	—	—	0.7
Capital expenditures	24,886	24,577	40,754	15,910	14,893	7,796	7,701
Depreciation and amortization*2	11,937	17,148	18,052	17,161	15,908	8,212	6,126
Number of domestic amusement centers*3 (centers)	477	462	449	363	322	260	249
Existing domestic amusement center sales*4 year on year (%)	98.5	103.3	95.8	89.0	92.4	91.7	99.3

<b>Consumer Business</b>	2005	2006	2007	2008	2009	2010	2011
Net sales	¥65,341	¥90,352	¥119,593	¥141,790	¥131,361	¥121,575	¥88,896
Operating income (loss)	(8,810)	1,977	1,749	(5,989)	(941)	6,332	1,969
Operating margin (%)	—	2.2	1.5	—	—	5.2	2.2
R&D expenses, content production expenses*2	21,736	17,823	26,583	37,129	32,875	19,644	18,150
Home video game software unit sales (thousands)	11,790	16,400	21,270	26,990	29,470	26,750	18,710

\*1 Yen amounts have been translated into U.S. dollars solely for the convenience of readers at the rate of ¥102.88 to U.S. \$1, the prevailing exchange rate at March 31, 2014.

\*2 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles.

Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

\*3 The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the aggregate calculation method for the number of amusement centers has changed as of fiscal 2014.

\*4 As a result of the above-mentioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal 2014.

	Millions of yen, unless stated otherwise			Thousands of U.S. dollars*1
	2012	2013	2014	2014
	¥212,189	¥142,281	<b>¥181,834</b>	<b>\$1,767,445</b>
	71,040	23,534	<b>45,292</b>	<b>440,247</b>
	33.5	16.5	<b>24.9</b>	
	14,393	18,056	<b>19,510</b>	<b>189,639</b>
	12,726	11,914	<b>7,905</b>	<b>76,841</b>
	300,866	202,221	<b>301,575</b>	
	332,288	216,860	<b>200,225</b>	

### Pachislot and Pachinko Machine Business — Causes of business results changes

- In the pachislot machine business, generally solid sales of such mainstay titles as *Pachislot Hokuto No Ken Chapter of Resurrection* led to a 49% year-on-year rise in unit sales.
- In the pachinko machine business, other than such mainstay titles as *Pachinko CR Hokuto No Ken 5 Hyakuretsu*, sales struggled in a tough market.

	Millions of yen, unless stated otherwise			Thousands of U.S. dollars*1
	2012	2013	2014	2014
	¥49,929	¥39,134	<b>¥38,604</b>	<b>\$375,238</b>
	7,415	1,902	<b>(1,264)</b>	<b>(12,288)</b>
	14.9	4.9	<b>—</b>	
	9,374	7,819	<b>8,950</b>	<b>87,002</b>

### Amusement Machine Sales Business — Causes of business results changes

- The segment incurred an operating loss due to lackluster sales of new titles that reflected market sluggishness.
- Revenues from revenue-sharing titles were steady.

	Millions of yen, unless stated otherwise			Thousands of U.S. dollars*1
	2012	2013	2014	2014
	¥44,608	¥42,707	<b>¥43,216</b>	<b>\$420,070</b>
	355	1,194	<b>60</b>	<b>586</b>
	0.8	2.8	<b>0.1</b>	
	8,328	7,923	<b>7,729</b>	<b>75,128</b>
	6,184	4,671	<b>4,725</b>	<b>45,934</b>
	241	236	<b>198</b>	
	100.5	93.8	<b>96.1</b>	

### Amusement Center Operations — Causes of business results changes

- The absence of market-driving titles led to a 3.9% year-on-year decline in the net sales of existing domestic amusement centers.

	Millions of yen, unless stated otherwise			Thousands of U.S. dollars*1
	2012	2013	2014	2014
	¥ 85,688	¥83,874	<b>¥99,841</b>	<b>\$970,470</b>
	(15,182)	(732)	<b>2,089</b>	<b>20,306</b>
	—	—	<b>2.1</b>	
	29,316	19,538	<b>30,166</b>	<b>293,219</b>
	17,240	10,780	<b>8,730</b>	

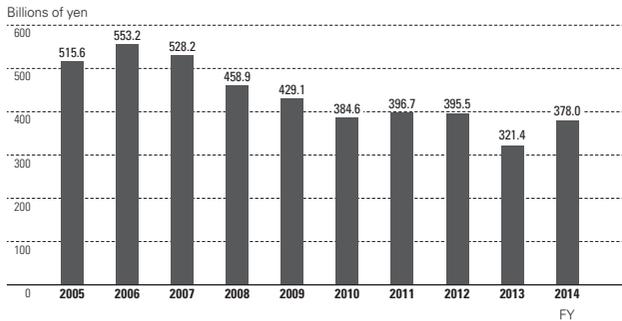
### Consumer Business — Causes of business results changes

- The segment moved into the black on earnings growth in the digital game area.
- Home video game software (packaged game software) unit sales decreased year on year.

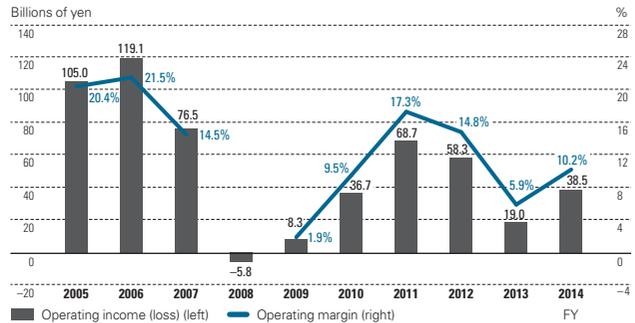
# Business Results Highlights

## Business Trend

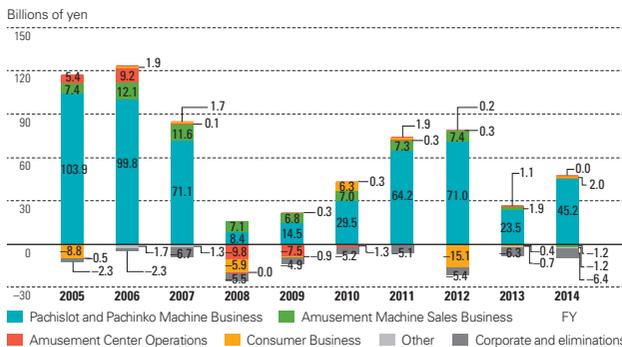
### Net Sales



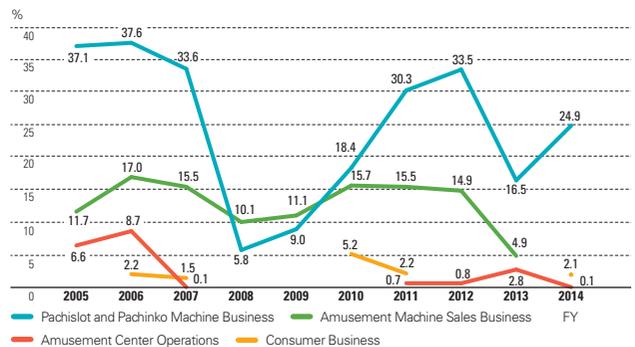
### Operating Income (Loss) / Operating Margin



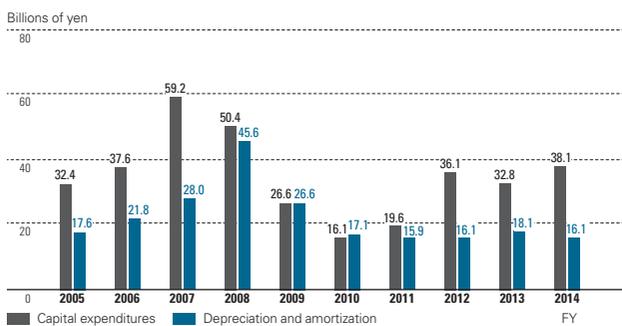
### Operating Income (Loss) by Segment



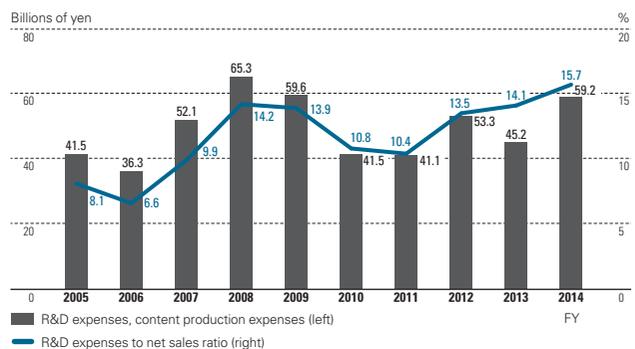
### Operating Margin by Segment



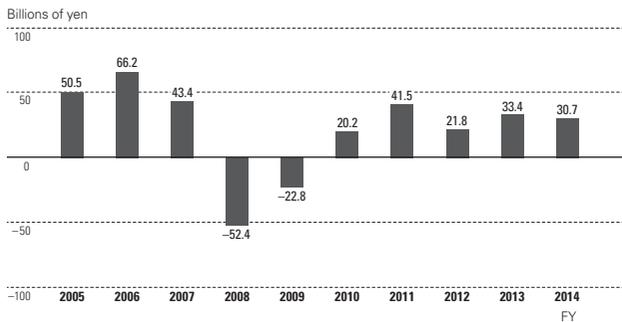
### Capital Expenditures / Depreciation and Amortization\*1



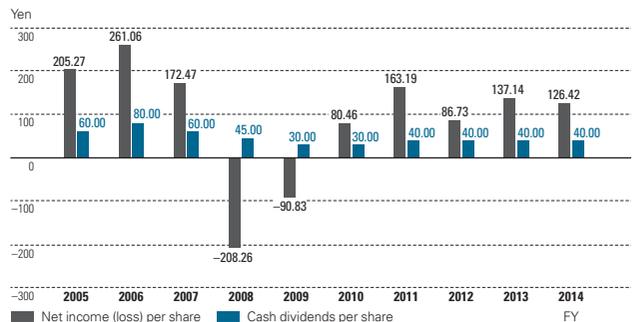
### R&D Expenses, Content Production Expenses\*1 / R&D Expenses to Net Sales Ratio



### Net Income (Loss)

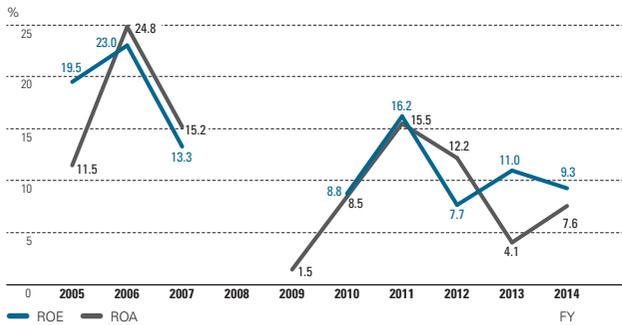


### Net Income (Loss) per Share / Cash Dividends per Share

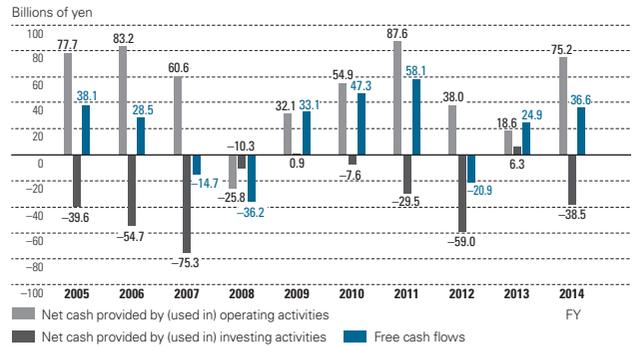


\*1 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.  
 \*2 The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the aggregate calculation method for the number of amusement centers has changed as of fiscal 2014.  
 \*3 As a result of the above-mentioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal 2014.

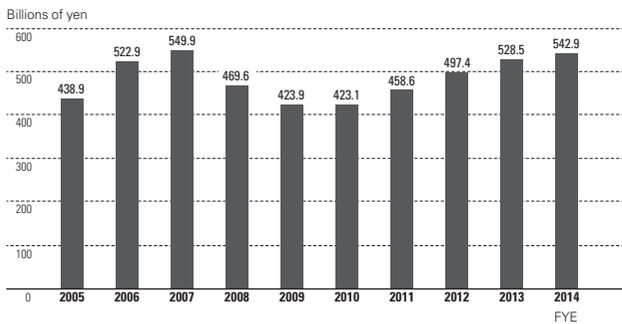
### ROE / ROA



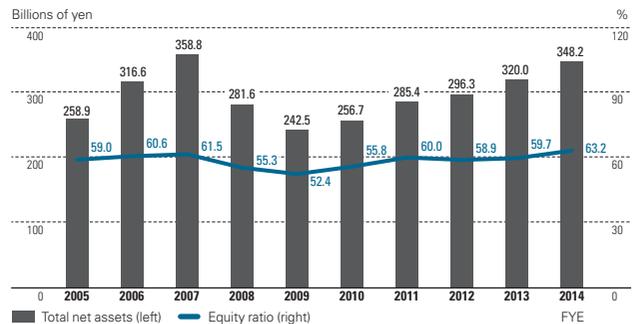
### Free Cash Flows



### Total Assets



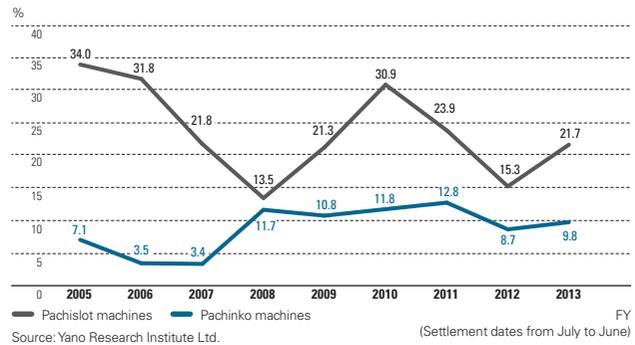
### Total Net Assets / Equity Ratio



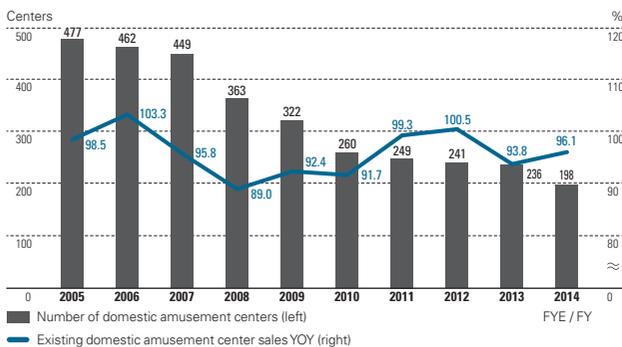
### Pachislot and Pachinko Machine Unit Sales



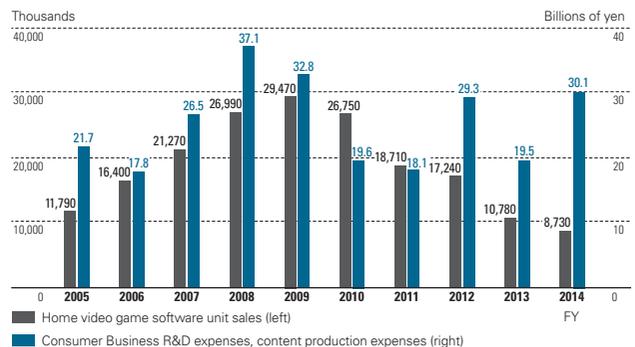
### Market Share of Pachislot and Pachinko Machines



### Number of Domestic Amusement Centers\*2 / Existing Domestic Amusement Center Sales YOY\*3



### Home Video Game Software Unit Sales / Consumer Business R&D Expenses, Content Production Expenses\*1



## A Message from the President and CEO



**HAJIME SATOMI**

President and Chief Executive Officer  
SEGA SAMMY HOLDINGS INC.

# We are determined to make decisive changes and get back on a robust growth track.

## Fiscal 2014 Business Results

In fiscal 2014, ended March 31, 2014, SEGA SAMMY HOLDINGS INC. grew revenues and earnings, posting year-on-year increases of 18% in net sales, to ¥378.0 billion, and 103% in operating income, to ¥38.5 billion. Net income declined 8% year on year, to ¥30.7 billion.

### Net Sales

Net sales rose mainly because of an increase in revenues from the Pachislot and Pachinko Machine Business and the Consumer Business segments. In the Pachislot and Pachinko Machine Business segment, solid performances by multiple mainstay titles resulted in higher revenues from the pachislot machine business. However, the pachinko machine business saw revenues decline due to lackluster performances by non-mainstay titles that reflected tough market conditions. Consequently, the segment's revenues rose 28% year on year. The Amusement Machine Sales Business segment recorded a 1% year-on-year decline in revenues as amusement center operators curbed investment. Regarding the Amusement Center Operations segment, although existing amusement centers' sales were sluggish, the opening of new theme park-type amusement centers contributed to a 1% rise in revenues compared with those of the previous fiscal year. Furthermore, the Consumer Business segment posted a 19% year-on-year increase in revenues thanks to higher earnings in the digital game area.

### Operating Income

The Pachislot and Pachinko Machine Business segment's earnings were up 92% year on year, while the Amusement Machine Sales Business segment recognized an operating loss of ¥1.2 billion, compared with the previous fiscal year's operating income of ¥1.9 billion. The Amusement Center Operations segment saw earnings decline. The Consumer Business segment moved into the black, achieving operating income of ¥2.0 billion, compared with the previous fiscal year's operating loss of ¥0.7 billion, thanks to higher earnings from the digital game area. As a result, the operating margin improved 4.3 percentage points, to 10.2%.

### Net Income

The Group recorded a ¥11.9 billion gain on sales of investment securities and a ¥6.6 billion loss on liquidation of subsidiaries and affiliates accompanying a reversal of foreign currency translation adjustment due to the liquidation of certain U.S. subsidiaries. Furthermore, reflecting the absence of fiscal 2013's deferred tax assets for the amount expected to be deductible from taxable income in relation to a tax loss—which arose from the completion of liquidation of the U.S. subsidiaries—net income decreased 8% year on year, to ¥30.7 billion.

### R&D Expenses, Content Production Expenses, and Capital Expenditures

R&D expenses and content production expenses were up year on year due to a strengthening of developmental capabilities aimed at increasing the Pachislot and Pachinko Machine Business segment's market share and initiatives to bolster the digital game area of the Consumer Business segment. Furthermore, as of fiscal 2014 the Group included the amortization cost of digital game titles in R&D expenses and content production expenses. Capital expenditures grew 16% compared with those of the previous fiscal year due to the acquisition of land in Busan, South Korea. Depreciation decreased year on year because it did not include the amortization cost of digital game titles of the Consumer Business segment as of fiscal 2014.

### Cash Dividends

For fiscal 2014, we paid interim cash dividends of ¥20.00 per share and year-end cash dividends of ¥20.00 per share, giving full-year cash dividends of ¥40.00 per share, the same amount as we paid for the previous fiscal year. As a result, the consolidated dividend payout ratio was 31.6%.

## A Message from the President and CEO

## General Evaluation

## Feeling a Keen Sense of Crisis about Not Reaching Our Targets Again

In fiscal 2014, net sales and operating income rose. However, our business results were disappointing because for the second consecutive fiscal year we did not meet initial targets. This was mainly due to pachislot and pachinko machine unit sales that were significantly

below initial targets and deterioration in the profitability of the Amusement Machine Sales Business and the Amusement Center Operations segments. Therefore, we would like to take this opportunity to apologize sincerely to shareholders and other investors. Given my responsibility for steering the Group, I feel a keen sense of crisis about the current situation.

## Review of Progress since Management Integration

## Facing Problems Directly, Beginning Structural Reform with Firm Resolve

October 2014 will mark 10 years since the management integration of SEGA CORPORATION and Sammy Corporation, which established the SEGA SAMMY Group. Assessing our overall progress in the ensuing years, I feel, frankly, that the past decade has left us with an extremely large number of tasks. Immediately after management integration, our operating income was more than ¥100 billion. However, market conditions began changing dramatically from fall 2007—due to the effect of the July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law. Accordingly, we took a range of countermeasures. For example, in the Pachislot and Pachinko Machine Business segment, we strengthened our pachinko machine developmental capabilities. Although these efforts have met with a certain degree of success, we have not reached the corporate profile that I envisioned. Over the past two or three years, in particular, conditions have been more sluggish than expected. We have been facing conditions in which many different types of entertainment are vying for users as game apps for smart devices and other innovations diversify entertainment options and young adults' interest in pachinko and pachislot dwindles. Therefore, developing pachislot and

pachinko machines that do not continue along the same lines as before and appeal to young customers is a task for the entire industry.

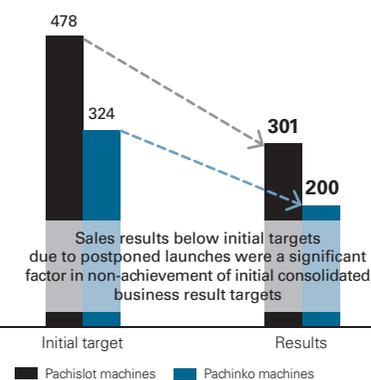
As for SEGA, in the Amusement Center Operations segment we have advanced a scrap-and-build strategy to optimize the scale of operations in response to a shrinking market. Furthermore, the Amusement Machine Sales Business segment has helped invigorate the market by developing and spreading the revenue-sharing business model and other new business models. Nevertheless, as SEGA's lackluster business results show, we have not exploited to the fullest the SEGA brand's potential. This is primarily because we have been unable to change SEGA's corporate culture rapidly enough to keep up with changing needs. To continue growing, we have to solve such structural problems in existing businesses urgently. At the same time, we must expand such growing businesses as the digital game area significantly and put the Group back on track for vigorous growth. In addition, preparing for large-scale investments of management resources in the integrated resort business and other areas is essential. With these tasks in mind, I have decided to embark upon decisive structural reform. Since the Pachislot and Pachinko Machine Business segment is still generating cash stably, I believe this is the best time to launch such an initiative.

## Fiscal 2014 Business Results

Billions of yen	2013	2014	YOY change
Net sales	321.4	378.0	+18%
Pachislot and Pachinko Machine Business	142.2	181.8	+28%
Amusement Machine Sales Business	39.1	38.6	-1%
Amusement Center Operations	42.7	43.2	+1%
Consumer Business	83.8	99.8	+19%
Other	13.4	14.5	+8%
Operating income (loss)	19.0	38.5	+103%
Pachislot and Pachinko Machine Business	23.5	45.2	+92%
Amusement Machine Sales Business	1.9	(1.2)	—
Amusement Center Operations	1.1	0	—
Consumer Business	(0.7)	2.0	—
Other	(0.4)	(1.2)	—
Corporate and eliminations	(6.3)	(6.4)	—
Operating margin	5.9%	10.2%	+4.3 pt.
Net income	33.4	30.7	-8%

Pachislot and Pachinko Machine Unit Sales  
(Fiscal 2014)

Thousands of units



## Improvement of Asset Efficiency through Optimal Management Resource Deployment

### Redeploying Management Resources Groupwide without Exceptions

Our latest structural reform initiative will target the entire SEGA SAMMY Group without any exceptions. Accordingly, in May 2014 we established the Group Structure Reform Division. As my position gives me a view across the Group, I serve as the division's general manager, and I have communicated my commitment to structural reform to all Group companies. We will rapidly implement measures that we can take quickly, such as strengthening fixed cost control. However, until the end of March 2015 we will carefully analyze measures for large-scale Groupwide structural reform and report on concrete measures in a timely manner. Here, I would like to explain the reform's thrust as I see it at this juncture.

As a comprehensive entertainment corporate group, the SEGA SAMMY Group has abundant management resources at its disposal. We have more than 3,000 developmental personnel. Also, intellectual

properties are an important management resource. Not only SEGA and Sammy but also such Group companies as TMS ENTERTAINMENT, LTD., have intellectual properties with huge potential. In addition, as a group engaged in creating hit products, the cash generation capabilities of the Pachislot and Pachinko Machine Business segment and financial stability are valuable assets. Particularly in the online game content market, these management resources are a competitive advantage because they enable us to implement strategies on a grander scale.

However, such management resources are not necessarily always arrayed appropriately to match market trends. To give an example, further management resource redeployment is needed in the digital game area. Therefore, I have set out analyzing the growth potential of each business area of the Group, optimizing the deployment of management resources, and thereby heightening asset efficiency as important structural reform tasks.

## Reform of Developmental System and Businesses with Sluggish Performance

### Staying among the Winners

Despite previously having very stable profitability and being an earnings mainstay second only to the Pachislot and Pachinko Machine Business segment, the Amusement Machine Sales Business segment recorded an operating loss in fiscal 2014, its first since the SEGA SAMMY Group's establishment. Basically, the process of optimizing management resource deployment will give priority to allocating resources to the digital game area while optimizing the scale of the Amusement Machine Sales Business and the Amusement Center Operations segments. Compared with the digital game area, the

Amusement Machine Sales Business segment incurs significant developmental expenses. On the other hand, even if products are not major hits, they can generate a certain level of stable earnings. Furthermore, having a large market share puts the SEGA SAMMY Group in a favorable position to benefit as an industry survivor. As for the Amusement Center Operations segment, while the market is continuing to contract gradually, it still accounts for sales of between ¥400 billion and ¥500 billion. Similarly, our basic strategy in this segment is to benefit as an industry survivor. However, I do not think we can survive by continuing along the same lines as before.

## Structural Reform of the Group

### Established Group Structure Reform Division in SEGA SAMMY HOLDINGS

(Chairman: Hajime Satomi, President and Chief Executive Officer;  
Vice Chairman: Akira Sugano, CFO & Executive Vice President)

#### Aims:

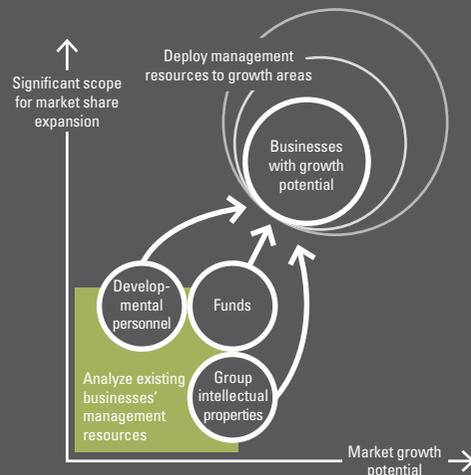
To invest management resources in integrated resorts as medium-to-long-term strategic business

- (1) Take rapid, drastic improvement measures to tackle tasks in existing businesses
- (2) Adapt to market conditions and return to earnings growth track

#### Tasks:

<b>1.</b>	<b>2.</b>	<b>3.</b>	<b>4.</b>
Reform businesses performing sluggishly	Optimize deployment of management resources	Reform developmental system	Strengthen fixed cost control

### Optimizing Management Resource Deployment



## A Message from the President and CEO

The main reason that the Amusement Machine Sales Business segment recorded an operating loss was sluggish shipments of major new titles. These weak sales were attributable to the segment's high cost structure and a development-led, production-oriented approach that did not fully appreciate market needs. We must get rid of the idea that if we market advanced specification amusement arcade machines, they will sell automatically. Primarily with a view toward tackling this problem, I intend to radically reform developmental structures and strategies.

When examining measures for the roughly 200 amusement centers of the Amusement Center Operations segment, we will break them down into two categories: measures for traditional amusement centers and those for theme park-type amusement centers, such as the flagships *TOKYO JOYPOLIS* and *Orbi Yokohama*. For traditional amusement centers, we have been optimizing the network through a scrap-and-build strategy. While continuing to strengthen our amusement center portfolio without loosening the reins, we will focus on developing new users centered on families by strengthening amusement centers

within shopping centers and taking on the challenge of new business formats. As for theme park-type amusement centers, we will increase their value and profitability through developmental and management initiatives. At the same time, we intend to step up overseas licensing out.

Also, we will reform the Pachislot and Pachinko Machine Business segment's developmental organization. The main reasons for our failure to reach initial targets for two consecutive fiscal years are changes in businesses conditions and the concentration of new machine launches in the second half of the fiscal years—a cycle that has become entrenched. Due to efforts to improve the quality of pachislot and pachinko machines and reflect market demand, some developmental lead times overran schedules. As a result, product releases straddled fiscal years and did not meet the expectations of shareholders and other investors. However, we have already begun reforms to better balance the developmental schedule between fiscal years' first and second half, which we intend to continue steadily. However, because developing pachislot and pachinko machines takes about two years, the benefits of these reforms will take time to emerge.

### Competitive Advantages of the Digital Game Area

#### Combining Major Developmental Resources with Marketing Savvy

Established in July 2012, SEGA Networks, Ltd., has achieved remarkable growth in the digital game area. This was most notable in the third and fourth quarters of fiscal 2014, which elevated the company to the ranks of the industry's leaders. The SEGA SAMMY Group's sales in the digital game area, including those of SEGA Networks, jumped 35% year on year. The company made such dramatic progress by capitalizing fully on the Group's competitive advantages. SEGA has about 2,000 developmental personnel within the Group. Our primary

strength is being able to mobilize flexibly some of the industry's largest developmental resources without transferring personnel or making organizational changes. Moreover, the company has formed win-win business tie-ups with diverse companies. Thus, effectively accessing rich developmental resources regardless of operating company boundaries allows us to redeploy resources to the digital game area without physically transferring personnel.

For example, the amusement arcade machine developmental team created the title *CHAIN CHRONICLE—Kizuna no Shintairiku* for Apple's mobile operating system (iOS) and Android™. The success of this title

### Reform of Developmental System and Businesses with Sluggish Performance

#### Amusement Machine Sales Business

##### Task:

Reduce developmental costs and rectify mismatch with market needs



Reform developmental resource deployment and developmental strategy

#### Amusement Center Operations

##### Tasks:

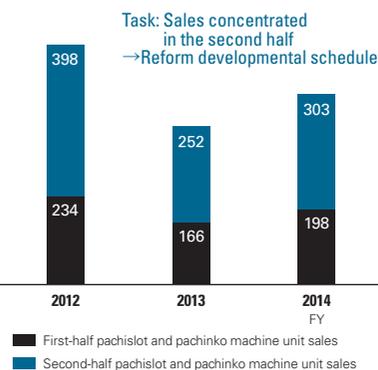
- Optimize number of traditional amusement centers
- Improve profitability of theme park-type amusement centers



- Strengthen amusement center portfolio by continuing scrap-and-build strategy
- Heighten value of amusement centers through development and management and step up overseas licensing out

#### Total Pachislot and Pachinko Machine Unit Sales

Thousands of units



clearly shows that SEGA's developmental resources will be a significant asset as market demand becomes increasingly high-end. We are "selling" diverse content genres created in this way and sustaining growth by consolidating title lineup composition, management, and marketing capabilities in SEGA Networks. In other words, industry-leading developmental resources and a powerful, market-savvy organization are operating in tandem to drive our continued growth in the digital game area.

Our intellectual property portfolio is expanding and improving steadily. Index Corporation transferred its businesses to us in November 2013. Furthermore, in April 2014 we executed a company split to establish its

home video game software business as ATLUS. CO., LTD., and its contents and solutions business as Index Corporation. ATLUS. has intellectual properties with proven brand power. Also, because its intellectual properties depict different worlds from those of SEGA, acquiring the business will expand and improve our intellectual property portfolio significantly. Meanwhile, the Group can greatly heighten the value of the intellectual properties of ATLUS. by exploiting SEGA's network technology and expertise in free-to-play (F2P)\* games and developing the intellectual properties across the Group's various businesses.

\* These are games based on a business model where basic play is free, but fees are charged for additional items within the games.

## Growth Roadmap for the Short, Medium, and Long Term

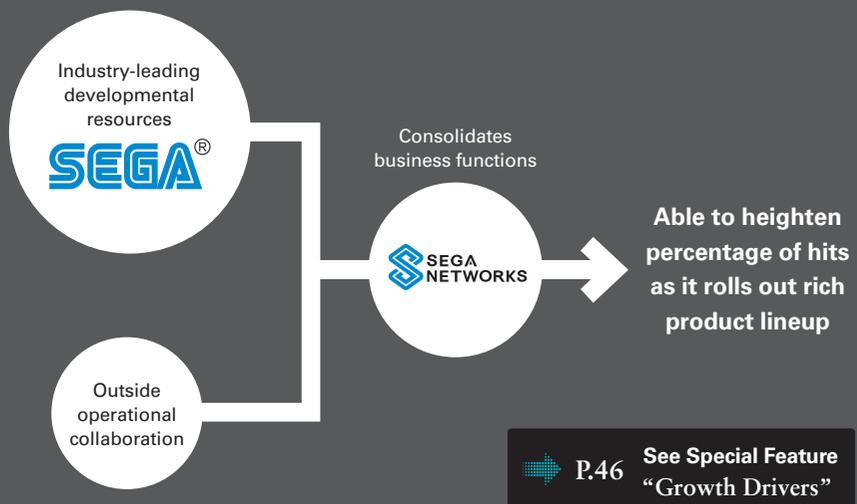
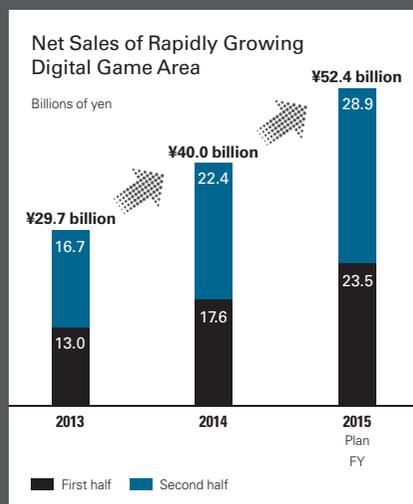
### Targeting Realistic Scenarios

We expect higher revenues and lower earnings in fiscal 2015, ending March 31, 2015, which is to be a year of rebuilding earnings structures. The Pachislot and Pachinko Machine Business segment's profit margin is likely to decline temporarily as the ROM (read-only memory) capacities of LCD panels increase and movable gadgets increase. Due to prior investment, the Amusement Machine Sales Business segment is expected to record a larger loss. Furthermore, we anticipate that the nationwide consumption tax increase will result in the Amusement Center Operations segment also incurring a loss. Meanwhile, we project a 230% year-on-year rise in earnings from the Consumer Business segment. To ensure that we do not disappoint the expectation of shareholders and other investors, we will make an all-out effort to realize targets while enforcing strict cost control.

Although we will continue working to return operating income to the ¥100 billion high-water mark reached directly after management

integration, we will create realistic scenarios that acknowledge current conditions. In the past, the Pachislot and Pachinko Machine Business segment had titles that shipped 300,000 machines. Given current market conditions, however, we intend to base our targets on the view that even mainstay title sales are unlikely to surpass 100,000 machines. In a market where it is becoming clearer than ever that only the fittest will survive, we will claim leading shares of the pachislot and pachinko machine markets and generate operating income of around ¥50 billion stably in the segment. Meanwhile, SEGA will advance structural reform to improve its profitability and secure operating income of ¥20 billion. Adding these two targets gives a short-to-medium-term target of ¥70 billion for operating income. After reaching this target, we will regain the ¥100 billion level by strengthening SEGA even further and fostering other operating companies. Furthermore, looking to the future, we will invest cash flows generated during this period in the integrated resort business.

### System that Consistently Creates Hit Products from Abundant Content



[P.46](#) See Special Feature "Growth Drivers"

## A Message from the President and CEO

### Integrated Resort Business as a Future Mainstay

#### Accumulating Expertise in Integrated Resort Development and Management

Japan is in the midst of a lively debate about integrated resorts that include casinos. If the integrated resort industry takes root in Japan, it promises to have an extremely beneficial effect on the overall economy; growing revenues from international tourism, creating employment, and increasing tax revenues to improve the national fiscal position.

Viewing integrated resorts as a future mainstay business, we are advancing a range of preparations. After the legalization of integrated resorts, we believe expertise in integrated resort development and operations backed by a solid track record will be the most important factor determining the companies selected as integrated resort operators. Accordingly, we intend to accumulate expertise in all aspects of integrated resorts including casino operations and the development and management of hotels, entertainment facilities, retail stores, and restaurants. Many different companies are interested in participating in the industry, but we are confident of being several steps ahead of the pack in terms of accumulated expertise. Through PARADISE SEGASAMMY Co., Ltd.—a joint venture established with the Paradise

Group of South Korea in which we have a 45% equity interest—we acquired the *Paradise Casino Incheon*, which the Paradise Group had operated independently. We have sent personnel to the casino to acquire expertise. Plans call for establishing South Korea's first integrated resort in the International Business Center area next to Incheon International Airport in 2017. Other strategic initiatives aimed at acquiring expertise include the *Phoenix Seagaia Resort*, which subsidiary Phoenix Resort Co., Ltd., operates in Japan, and participation in a development project in Centum City, a multi-project urban development area in Busan, South Korea. Moreover, we are developing casino machines through SEGA SAMMY CREATION INC. At the same time, we will pay careful attention to other factors essential for selection as an integrated resort operator, such as financial soundness, fund-raising capabilities, and compliance.

Because casinos have yet to become legalized in Japan, we cannot prepare concrete plans for establishing casinos at this stage. Nevertheless, we need to prepare in advance to ensure our selection as a casino operator. On the other hand, we will proceed cautiously with prior investments and continue to keep risk within appropriate limits.

#### Fiscal 2015 Plans

Billions of yen	2014 (Results)	2015 (Plan)	YOY change
Net sales	378.0	450.0	+19%
Pachislot and Pachinko Machine Business	181.8	217.5	+20%
Amusement Machine Sales Business	38.6	46.0	+19%
Amusement Center Operations	43.2	42.0	-3%
Consumer Business	99.8	128.5	+29%
Other	14.5	16.0	+10%
Operating income (loss)	38.5	35.0	-9%
Pachislot and Pachinko Machine Business	45.2	40.5	-10%
Amusement Machine Sales Business	(1.2)	(1.7)	—
Amusement Center Operations	0	(0.6)	—
Consumer Business	2.0	6.6	+230%
Other	(1.2)	(2.8)	—
Corporate and eliminations	(6.4)	(7.0)	—
Operating margin	10.2%	7.8%	-2.4 pt.
Net income	30.7	21.0	-32%

#### Change in Operating Income



## Capital Policy

### Realizing Returns through Earnings Growth and Cash Dividends

The SEGA SAMMY Group's basic policy on returning earnings is to heighten corporate value by implementing growth strategies that increase earnings and by directly returning profit to shareholders through stable cash dividends. In addition, as explained above, the Group aims to continuously enhance corporate value by fostering existing businesses while making far-sighted investments to sustain development over a longer timeframe. Furthermore, if the Group is able to enter the casino business, it is likely to require large-scale

investment. To enable dynamic decisions on investments for promising, carefully selected projects, we plan to build up retained earnings by generating net income each fiscal year, targeting a net cash position of ¥150 billion to ¥200 billion.

Regarding returning profits to shareholders, we aim to pay out approximately 20% to 30% of post-tax income as cash dividends. Each fiscal year, we determine returns to shareholders flexibly in light of maintaining a balance with investment in growth fields. (For fiscal 2014 cash dividends and the outlook for current fiscal year, please see "Shareholder Value" on page 38.)

## Conclusion

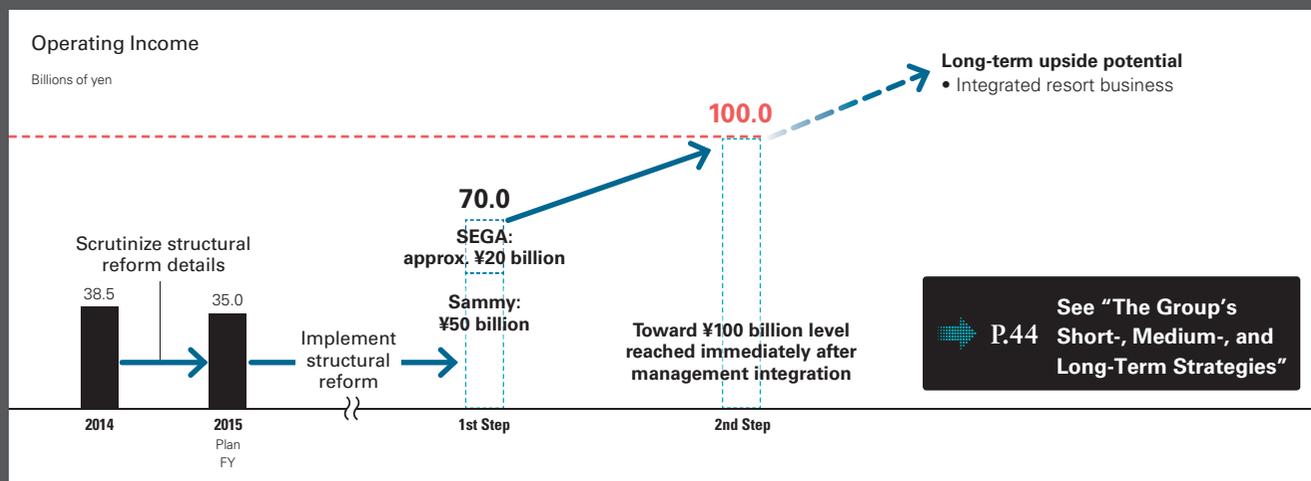
### Mastering Powerful Trends

It is difficult to see the pachinko and pachislot machine market achieving the significant growth of the past. Furthermore, the Amusement Machine Sales Business and the Amusement Center Operations segments cannot win out through ideas that continue along the same lines as before. On the other hand, some markets are growing rapidly, such as the digital game area. And, the first

precursors of integrated resorts' emergence as Japan's newest industry are appearing. Fiscal 2015 is the inaugural year of reforms that the SEGA SAMMY Group will advance resolutely to master the powerful trends swirling around and throughout the entertainment industry.

As we move forward, we would like to ask for the continued support of our shareholders and other investors.

## Medium-to-Long-Term Growth Scenario



## A Message from the COO and Senior Executive Vice President



**NAOYA TSURUMI**

Chief Operating Officer and Senior Executive Vice President  
SEGA SAMMY HOLDINGS INC.



# Laying Foundations for a Growth Driver

## **Build the Group's Future**

Integrated resorts that include casinos could become a new industry in Japan. However, the birth of new industries is never easy. Given that casinos' legalization and other hurdles must first be cleared, we are fully aware of the risk associated with taking advance measures. Nevertheless, after thorough consideration we will take the risk and the challenge because we believe that fusing our entertainment with casinos can create a major driver of growth going forward. Becoming the first leader of the Group's integrated resort business has given me an important mission and responsibility: building a business portfolio for the future.

## **Accumulate as Much Expertise as Possible**

The SEGA SAMMY Group has management resources that are adaptable to the integrated resort business, such as expertise in the operation of amusement centers. However, accumulated expertise in casino operations will likely be the decisive factor when selecting casino operators in Japan. Accordingly, we have assigned personnel from our integrated resort business division in Japan to positions in marketing, control, and operational management at the *Paradise Casino Incheon*, which is operated by PARADISE SEGASAMMY Co., Ltd., a joint venture in South Korea with the Paradise Group. Furthermore, we plan to send more personnel to the integrated resort including casinos that we are developing in Incheon, South Korea, when operations start up in 2017. Sharing the expertise we acquire throughout the Group will enable us to make a bold first step into Japan's casino market.

## **Explore Tie-Ups with Diverse Companies**

Aiming to create comprehensive entertainment spaces that offer hospitality to customers, hold events, and incorporate shopping malls, entertainment facilities, and hotels, the SEGA SAMMY Group intends to accumulate skills that will allow it to design whole integrated resorts. Other preparations will include developing and manufacturing casino machines through SEGA SAMMY CREATION INC. Casino machines exhibited in May at the Global Gaming Expo Asia (G2E Asia) 2014 in Macau to showcase our technology and creativity in the entertainment area attracted a great deal of interest.

Integrated resorts in Japan will compete with casinos in Singapore, Macau, and Las Vegas. To differentiate our integrated resorts, they must surpass such competitors. With this in mind, we are highly likely to form partnerships with major companies across a range of areas. Currently, we are putting out feelers to many different companies.

Generally seen as a target, 2020 is only the potential starting point for casino operations in Japan. As seen in both Macau and Singapore, once operations begin growth will be rapid. Therefore, we are pinning high hopes on the period beyond 2020.

## Messages from the COOs of Operating Companies

# Making SEGA Market Savvy

**HIDEKI OKAMURA** President, Representative Director, and Chief Operating Officer, SEGA CORPORATION

### Epitomize SEGA's Founding Principle: "CREATION IS OUR LIFE"

Returning to SEGA CORPORATION for the first time in six years, I found the company's business conditions had transformed. This is particularly noticeable in the Consumer Business segment, which is facing completely new competitors in a market barely imaginable 10 years ago.

SEGA's founding principle is "CREATION IS OUR LIFE." Reflecting this attitude, we have been in the vanguard of innovative technology and business models throughout our history. In the past, this creative approach has earned market support and driven growth. Recently, however, our status as a trendsetter has weakened. A symbolic example of this has been our slowness to introduce products catering to the shift in entertainment toward smartphones and other platforms. As SEGA's new president, I want us to be ahead of the times once again and to epitomize the statement "CREATION IS OUR LIFE."

To achieve this, I will reform the structure of business models, as well as the organizations enabling them, and optimize the deployment of management resources. Furthermore, I want to change where we provide entertainment and seize the initiative in sectors of the industry new to us.

### Become Market Savvy

SEGA has had many successes based on a production-oriented approach. In addition, its amusement-related businesses have consistently driven market development. However, such efforts were within the framework of related laws, which restricted entry to the entertainment industry. Today, competition to attract users extends beyond the entertainment industry's traditional boundaries. An idea or technology alone is not enough to create value—no matter how outstanding it may be. We can only create hit products when we have our finger on the pulse of market trends and offer products that match market demand. With this in mind, I am urging personnel to become market savvy. I want them to be alert to emerging trends, create content through a market-oriented approach, and leverage such content fully. Established by spinning off SEGA's operations for smart devices, SEGA Networks, Ltd., is a good example of a market-savvy organization. In the digital game area, new content appears almost daily. At SEGA Networks, personnel are constantly thinking about how to make content stand out as much as possible and whether it will hold users' interest. This type of market savviness is gradually spreading throughout SEGA.

SEGA is a comprehensive entertainment company, and some of its business areas have declining profitability. However, I do not believe that the company should abandon its valuable points of contact with users and intellectual property distribution channels. Instead, I want to reinforce businesses with low profitability rigorously and create new points of contact with users. Through these efforts, we will preserve and extend SEGA's presence in the entertainment industry.



# Realizing Underlying Strengths, Creating Innovative Products Tirelessly

**SHIGERU AOKI** President, Representative Director, and Chief Operating Officer, Sammy Corporation

## Remain the Earnings Mainstay

Fiscal 2014 calls for a serious rethink because, for the second consecutive fiscal year, we missed our initial targets. Sammy Corporation is the core operating company of the Pachislot and Pachinko Machine Business segment and must remain the SEGA SAMMY Group's earnings mainstay. To meet the expectations of shareholders and other investors, we will spare no effort to overcome problems and grow earnings.

Our paramount task is to continue supplying competitive products. A declining pachinko and pachislot machine player population is affecting the business management of pachinko hall operators and encouraging them to curb capital investment. Because they are focusing investment selectively on machines that generate reliable returns, the contrast between winners and losers among pachinko and pachislot machine manufacturers is becoming increasingly stark. To ensure our place among the winners, we need to continue marketing titles that promise high utilization rates. Our developmental vision is "Sammy...the wellspring of new ideas." By continuing to bring products to market that embody this vision, we will achieve differentiation. Also, aiming to develop such new user groups as young adults, we will roll out mold-breaking pachislot and pachinko machines.

Another important task is implementing reforms to avoid new machine launches concentrating in the second half of fiscal years—the main reason we did not reach targets. In conjunction with efforts to diversify our product portfolio, we have already begun reworking product launch schedules to better balance them between fiscal years' first and second half.

## Grow Earnings and Improve Cost Structure

We will pursue the perennial task of cost reduction based on three strategies. First, we will diversify products by developing and manufacturing low-cost casual-play machines while developing progressive machines. This will not only lower the product lineup's overall development and manufacturing costs but also develop new user groups. Our second strategy will promote component reuse. We plan to extend reuse efforts from LCD panels and ROMs to encompass a wider range of components. Moreover, to increase our ability to incorporate reuse into plans, we intend to design product cycles from development and manufacturing through to sales. We expect lateral projects spanning divisions will enable these initiatives to bear fruit comparatively quickly. The third strategy entails sharing components across multiple brands. In addition to such immediate benefits as reducing procurement costs through joint purchasing, in the medium term this strategy promises to allow larger cost improvements through component reuse among different brands.

Amid continuing tough market conditions, personnel will be the source of competitiveness and the driver of stable earnings growth. Accordingly, we will advance reforms so that personnel from developmental, manufacturing, and sale divisions can cross organizational barriers and make concerted efforts to prevail in challenging competitive conditions. Sammy will continue marshaling organizational strengths to offer well-honed products that energize not only the Pachislot and Pachinko Machine Business segment but the pachinko and pachislot machine market as a whole.



The farther backward you can look, the farther forward you are likely to see.

Winston Churchill

# the GROUP

from the PAST to the PRESENT

## SEGA SAMMY Group Past and Present

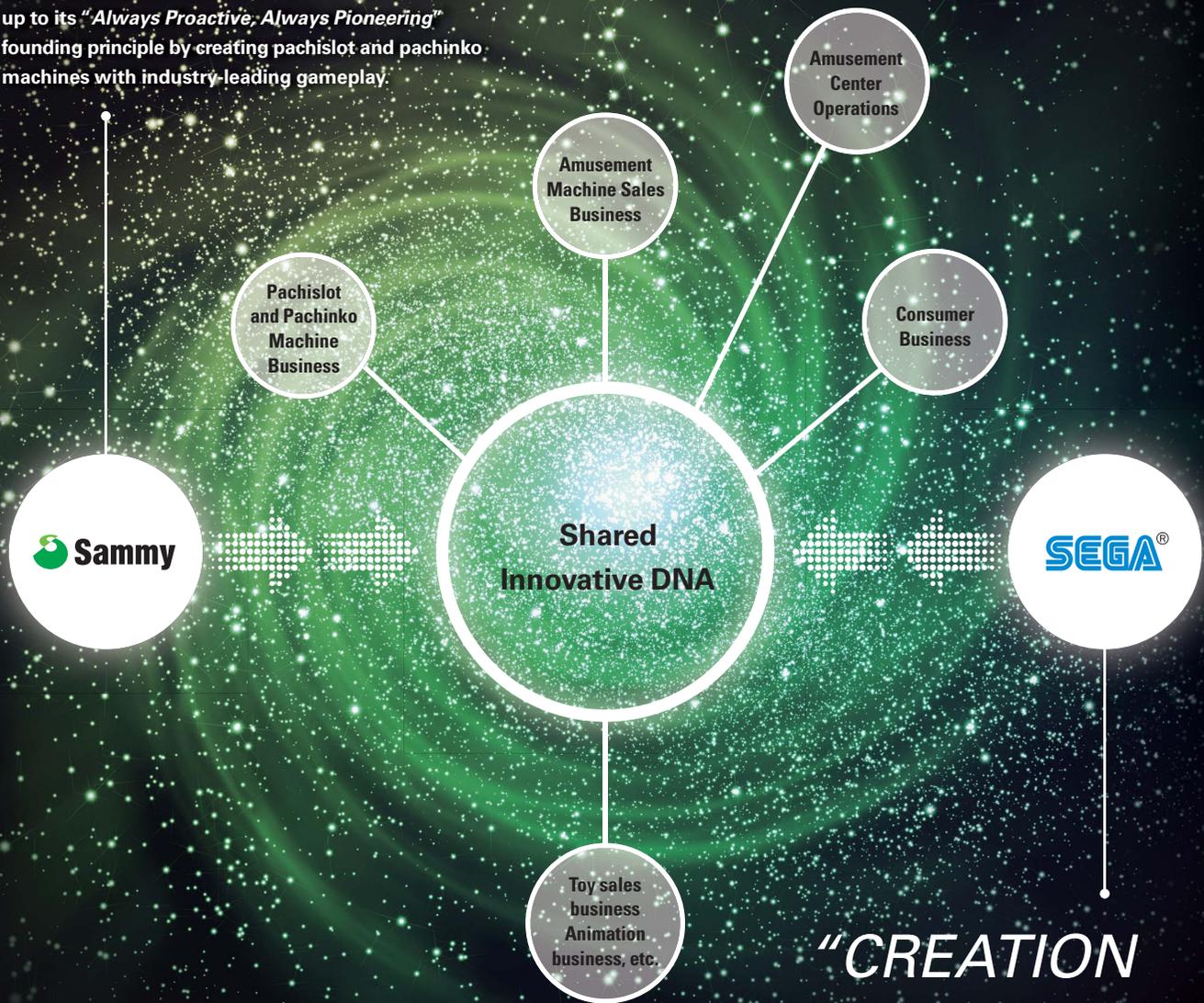
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# What Makes the SEGA SAMMY Group Tick?

Having launched many industry-first and world-first products, SEGA CORPORATION and Sammy Corporation integrated their management to form a comprehensive entertainment corporate group—the SEGA SAMMY Group. Using this innovative DNA as its core competence, the Group creates new entertainment tirelessly in a wide spectrum of areas.

## “Always Proactive, Always Pioneering”

Since its establishment in 1975, Sammy has lived up to its “Always Proactive, Always Pioneering” founding principle by creating pachislot and pachinko machines with industry-leading gameplay.



## “CREATION IS OUR LIFE”

SEGA has a track record second to none for devising fresh types of gameplay ahead of the times. Its founding principle is “CREATION IS OUR LIFE,” a mindset that the company passes on to each new generation of employees.

## Business Model

As a holding company, SEGA SAMMY HOLDINGS INC. prepares Group management strategies encompassing the whole entertainment area, supports individual businesses' implementation of strategies, controls business management mainly through cash management, and ensures that financial capital, intellectual properties, human capital, and other management resources are allocated optimally.

### Important Management Resources of the SEGA SAMMY Group

#### Intellectual Capital (Intellectual Properties)

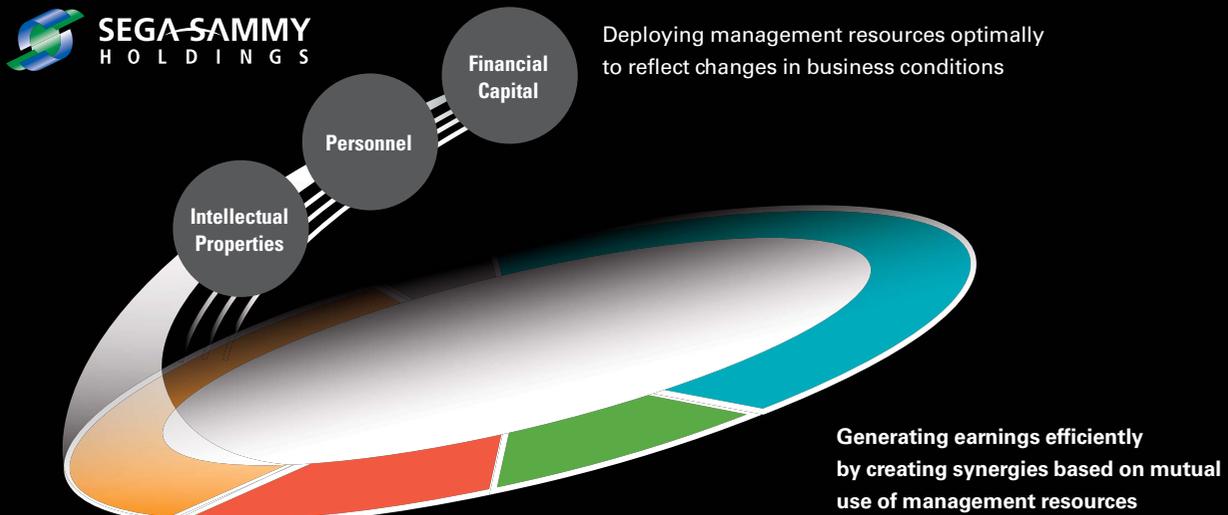
Management resources underpinning sustained growth are intellectual properties that SEGA and Sammy have accumulated during their long histories, major intellectual properties licensed from third parties, and the expertise to exploit intellectual properties.

#### Human Capital (Personnel)

Personnel create new intellectual properties and maximize their value. The 3,000-plus developmental personnel working in the Group are the source of its competitiveness.

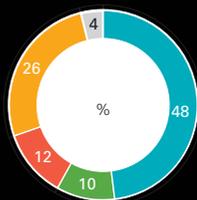
#### Financial Capital

Because creating hit products is important in the entertainment industry, financial soundness and the cash generation capabilities of the Pachislot and Pachinko Machine Business segment are major advantages enabling the Group to win out against competitors.



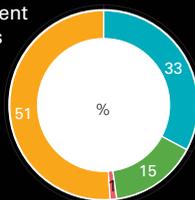
#### Net Sales\*

Total  
**¥378.0** billion  
\* Sales to third parties



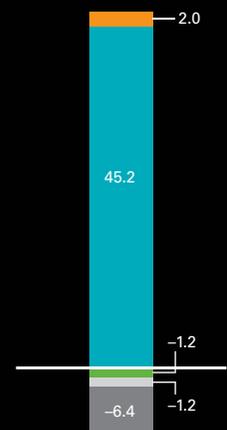
#### R&D Expenses, Content Production Expenses

Total  
**¥59.2** billion



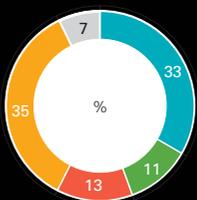
#### Operating Income (Loss)

Billions of yen  
 Total  
**¥38.5** billion



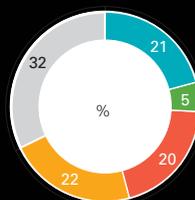
#### Assets

Total  
**¥315.3** billion



#### Capital Expenditures

Total  
**¥38.1** billion

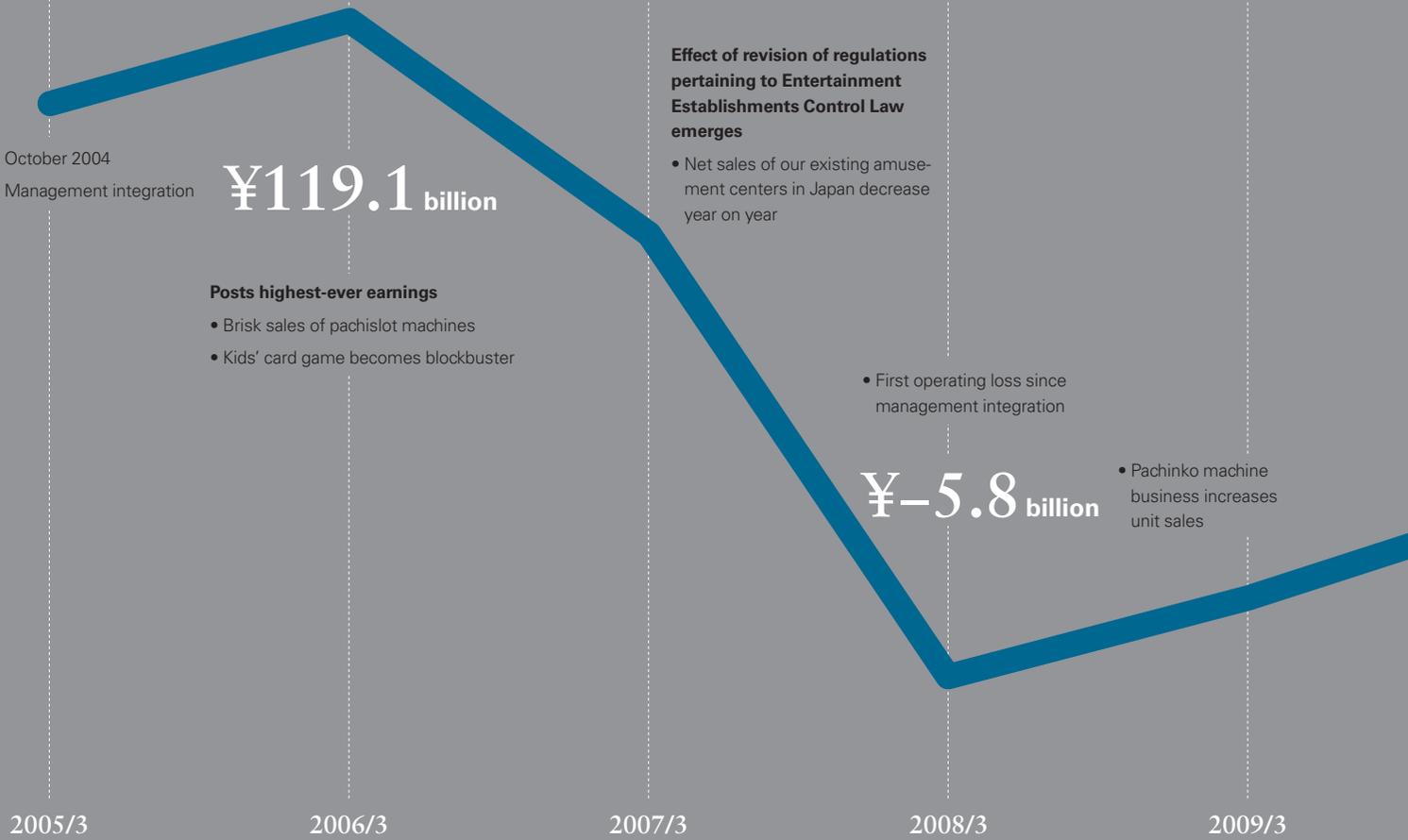


■ Pachislot and Pachinko Machine Business 
 ■ Amusement Machine Sales Business 
 ■ Amusement Center Operations 
 ■ Consumer Business 
 ■ Other 
 ■ Corporate and eliminations

# SEGA SAMMY Group—Constant Reform

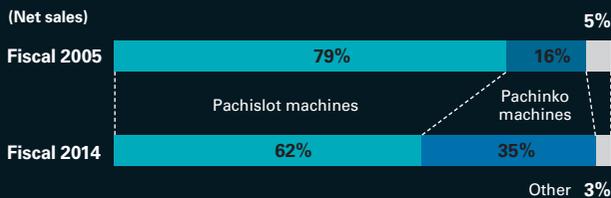
The Group continues self-reform to reflect the entertainment industry's ever evolving business conditions. These include dramatic changes in the pachinko and pachislot machine market due to regulatory revisions as well as shrinking markets for amusement arcade machines, amusement centers, and packaged game software.

## Operating Income (Loss)



## Pachislot and Pachinko Machine Business

### Shift from Reliance on Pachislot Machines to Balanced Portfolio



In response to changes in cyclical demand for pachinko and pachislot machines following regulatory revisions, we have been building a better-balanced product portfolio. By strengthening developmental capabilities for pachinko machines, we have reduced the reliance on pachislot machines that characterized the product portfolio at the time of management integration.

## Amusement Machine Sales Business

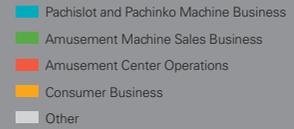
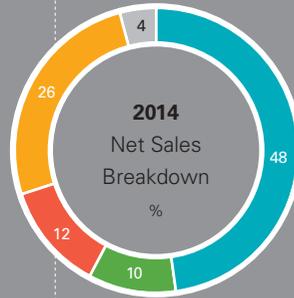
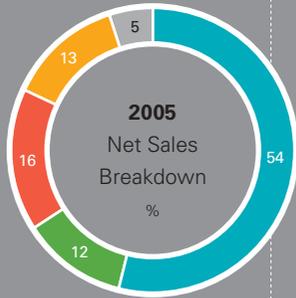
### Amusement Center Operations

### Number of Amusement Centers in Japan



In the Amusement Machine Sales Business segment, we have been trying to invigorate the market by stepping up the development of business models that lower amusement center operators' initial investment. Meanwhile, the Amusement Center Operations segment has been optimizing its amusement center portfolio by continuing to close or sell amusement centers with low profitability or potential.

## Long-Term Changes



### Operating income trends toward recovery

- Consumer Business segment moves into black

¥68.7 billion

- Market share of pachislot machine business increases to more than 30%
- Amusement Center Operations achieves profitability for full fiscal year

### Earnings decrease due to non-recurring factors

- Lower unit sales of pachislot machine business due to postponing release of some titles
- Decline in unit sales of pachinko machine business reflecting market bias toward certain major titles

Although Pachislot and Pachinko Machine Business grows earnings through mainstay title sales, earnings below initial target

¥19.0 billion

¥38.5 billion

2010/3

2011/3

2012/3

2013/3

2014/3

## Consumer Business

### Number of Packaged Game Software Titles

(SKU)

Fiscal 2005

84



Fiscal 2014

32

### Growth of the Digital Game Area

(Net sales, Billions of yen)

Fiscal 2013

29.7



Fiscal 2014

40.0

In the packaged game software area, which continues to shrink as the online game content market expands, we have been streamlining developmental organizations in North America and Europe decisively, narrowing down the number of titles under development, and improving investment efficiency.

Established in July 2012, SEGA Networks, Ltd., leads initiatives in the digital game area, which is growing rapidly thanks to a combination of abundant developmental resources and a team specializing in building business models.

# Management Resources Creating Entertainment Value

## Intellectual Properties

The SEGA SAMMY Group boasts diverse intellectual properties, which such operating companies as SEGA and Sammy have created during their long histories. These intellectual properties have transcended generations and earned strong endorsement worldwide. We have ensured our intellectual properties create long-term entertainment value through multifaceted rollouts catering to current needs.

### Intellectual Property Creation, Acquisition, and Development

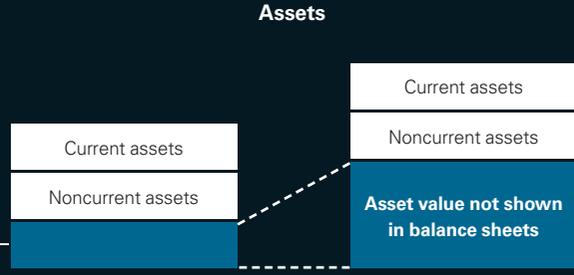
the PAST

We build our intellectual property portfolio based on a flexible approach that incorporates intellectual properties created in-house, intellectual properties obtained through mergers and acquisitions (M&As), and major intellectual properties licensed from third parties. At the same time, we advance multifaceted rollouts of intellectual properties to increase points of contact with users and the value of intellectual properties continuously.

	Intellectual property title	First appearance	Multifaceted rollout					Total editions
			Pachislot and pachinko machines	Packaged game software	Digital game	Amusement arcade machines	Toys	
Examples of intellectual properties developed in-house	Sonic the Hedgehog series 	1991	●	●	●	●	●	—
	Puyopuyo series 	1991*	●	●	●	●	●	—
	Ryu ga Gotoku series 	2005	●	●	●		●	33
	Aladdin series 	1989	●	●	●		●	13
	Juoh series 	2001	●	●	●		●	13
Examples of acquired intellectual properties	Megami Tensei series 	1987	●	●	●		●	28
	Persona series 	1996	●	●	●		●	10
	Etrian Odyssey series 	2007		●	●		●	5
Examples of intellectual properties licensed from third parties	SEGA feat. HATSUNE MIKU Project series 	2009		●	●	●	●	24
	Hokuto No Ken series 	2002	●	●	●	●	●	24
	SOUTEN-NO-KEN series 	2009	●	●	●		●	8

Entertainment companies recognize intellectual properties obtained through the acquisition of companies in investment securities and goodwill. However, they do not recognize intellectual properties they have created in-house or licensed as assets. Therefore, if such intangible assets were taken into account, asset values would be higher than financial statements show.

Total investments and other assets  
**Intellectual properties obtained through acquisitions recognized as intellectual properties created in-house; licensed intellectual properties not recognized**



## the PRESENT

### Cumulative unit sales / downloads

Approx. **150** million (units / downloads)  
 (packaged and digital total)

Approx. **13.5** million (units / downloads)  
 (packaged and digital total)

Approx. **7.8** million (units / downloads)  
 (packaged and digital total)

Approx. **490,000** units  
 (pachislot and pachinko machines and amusement arcade machines total)

Approx. **450,000** units  
 (pachislot and pachinko machines and amusement arcade machines total)

Approx. **7.0** million units  
 (packaged total)

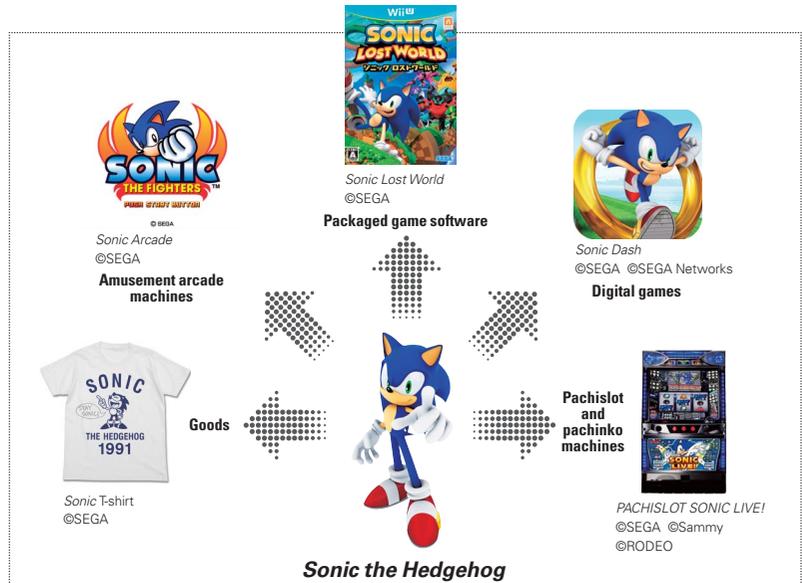
Approx. **6.2** million units  
 (packaged total)

Approx. **1.2** million units  
 (packaged total)

Approx. **4.5** million (units / downloads)  
 (packaged and digital total)

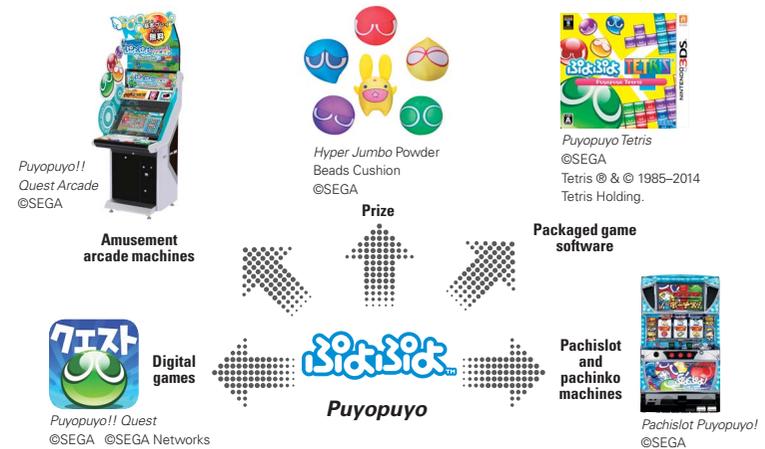
Approx. **2.35** million units  
 (pachislot and pachinko machines and amusement arcade machines total)

Approx. **390,000** units  
 (pachislot and pachinko machines and amusement arcade machines total)



### Sonic the Hedgehog

Since its launch in 1991 as home video game software for the *Mega Drive* platform, known as *GENESIS* in the United States, *Sonic the Hedgehog* has remained extremely popular thanks to thrilling gameplay speed and the main character's charisma. By rolling out this intellectual property through various game consoles, animation series for television, and a host of other media, we have made *Sonic the Hedgehog* a favorite among children worldwide.



### Puyopuyo

The first edition of *Puyopuyo* was launched in 1991. The combination of falling pieces, puzzle and battle game features, and unique characters made it a runaway success, with versions for amusement arcade machines and the *Mega Drive (GENESIS)* platform coming out in 1992. Since acquiring the intellectual property rights in 1998, SEGA has rolled out *Puyopuyo* for many different formats, from home video game consoles through to apps. Furthermore, we have embarked on the multifaceted marketing of goods and other related products.

\* SEGA acquired the rights in 1998. Total unit sales are only for titles launched after SEGA acquired the rights.

# Human Capital

The SEGA SAMMY Group's personnel are brimming with ideas for tomorrow's entertainment and have the creativity and drive to make them a reality. We view human capital as an important management resource enabling continuous growth. With this in mind, we provide workplaces conducive to heightening motivation and maximizing diverse talents.

## Consolidated Employee Numbers

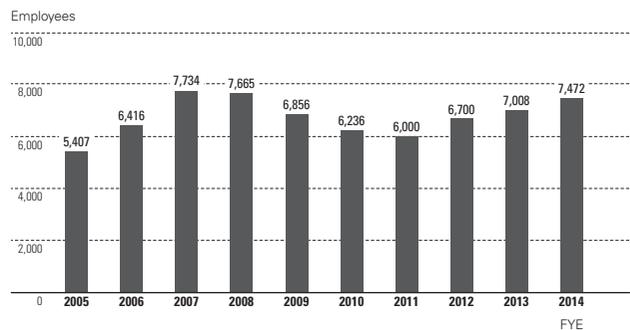
Until around 2007, consolidated employee numbers trended upward as M&As in Japan and overseas added consolidated subsidiaries to the Group. From 2008—when the Group recognized an operating loss—consolidated employee numbers began to decline. In particular, employees in the Amusement Center Operations segment decreased steeply because the segment revised its amusement center portfolio as part of business restructuring aimed at improving the segment's profitability. We have made progress toward rightsizing the Amusement Center Operations segment's workforce.

Since fiscal 2012, however, consolidated employee numbers have been rebounding. This mainly reflects the inclusion of Phoenix Resort Co., Ltd., and THQ Canada Inc. (currently Relic Entertainment Inc.) as subsidiaries and the transfer of Index Corporation's businesses to the Group.

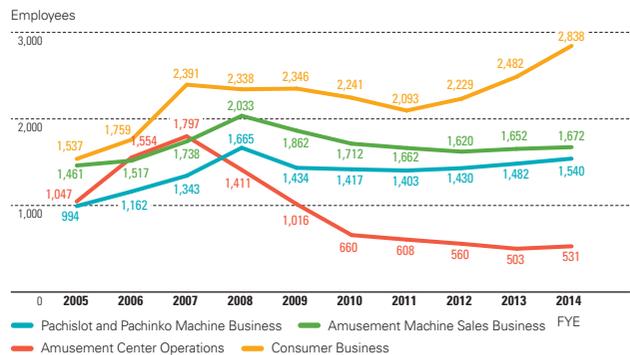
## Developmental Personnel Redeployment

Due to the Group's shift toward businesses that promise favorable growth and profitability, developmental personnel numbers have been declining in the Amusement Machine Sales Business segment but rising in the Pachislot and Pachinko Machine Business and the Consumer Business segments. Furthermore, in recent years the Consumer Business segment has been redeploying human capital from the packaged game software business to the digital game area.

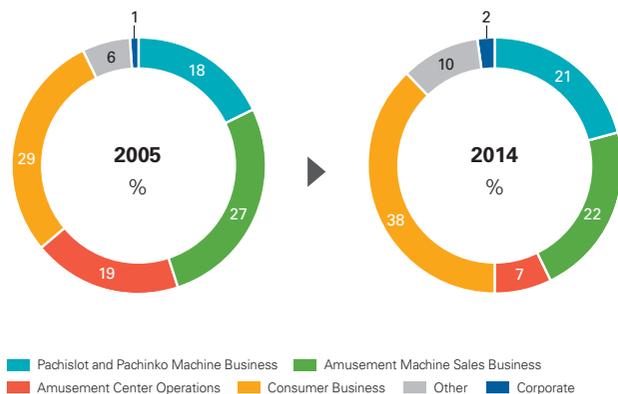
## Consolidated Employee Numbers



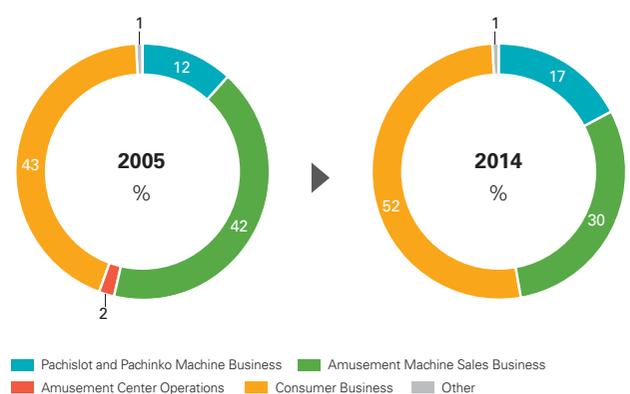
## Employee Numbers by Segment



## Employee Numbers Segment Breakdown



## Developmental Personnel Segment Breakdown



**Amusement Machine Sales Business**  
 —Developmental personnel breakdown



**Consumer Business**  
 —Developmental personnel breakdown



**HIROTAKA TANAKA**  
 Creative Officer, Executive Officer, Research and Development Division, Sammy Corporation  
 Representative work: *Pachinko Hokuto No Ken* series, *Pachinko SOUTEN-NO-KEN* series, etc.



**SATOSHI SAWADA**  
 Chief Producer, PS (Pachislot) Section No.2 Research and Development Division, Sammy Corporation  
 Representative work: *Pachislot Hokuto No Ken* series, etc.

The Source of the SEGA SAMMY Group's Growth

More than  
 3,000  
 developmental  
 personnel



**MASAYOSHI YOKOYAMA**  
 Section Manager, Planning Section II, CS (Consumer) No.1 Research and Development Division, SEGA CORPORATION  
 Representative work: *Ryu ga Gotoku* series, *Jet Set Radio*, etc.



**JUN MATSUNAGA**  
 Team Manager and Chief Director, MOBILE WORKS Team, No.1 Research and Development Division, SEGA CORPORATION  
 Representative work: *CHAIN CHRONICLE*, *SENGOKU-TAISEN*, etc.

# Financial Capital

The SEGA SAMMY Group is engaged in hit-product businesses in which hit products, or their absence, affect earnings significantly. The Group is able to prosper in this environment because its financial stability and the Pachislot and Pachinko Machine Business segment's cash generation capabilities enable continuous investment to develop captivating new products and to create businesses.

## Financial Capital Supporting Continuous Developmental Investment

Due to the aging of society and the growing popularity of mobile devices, companies not only within the entertainment industry but from outside it are aggressively competing for users.

Against the backdrop of a gradually declining player population, the pachinko and pachislot machine market is seeing demand from pachinko hall operators focus more strongly than ever on machines that provide highly reliable returns on investment. The market has entered a phase in which whether or not manufacturers have the developmental capabilities to continuously provide machines that keep up with the trend toward higher-value-added products as well as the financial strength to invest in development is determining winners and losers.

In the online game content market, competition is fierce and companies are releasing content for a wide range of genres continuously and rapidly. In these conditions, companies with intellectual properties, developmental personnel, and financial muscle are prevailing.

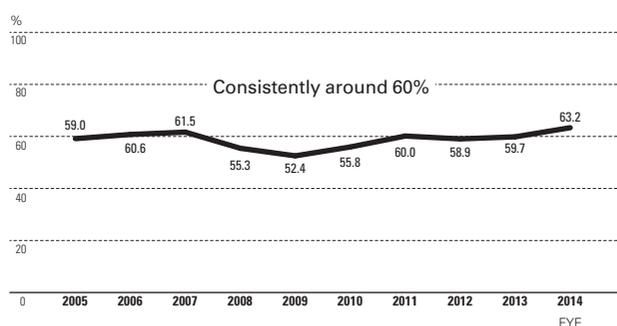
The SEGA SAMMY Group's pachislot machine business boasts a strong market presence, and the pachinko machine business is building brand power steadily. These businesses supply the cash we invest in development. Furthermore, because its equity ratio consistently remains around 60%, the Group is able to absorb a certain amount of developmental risk. Having the highly profitable Pachislot and Pachinko Machine Business segment in its business portfolio makes the Group unique among the companies competing in the online game content market.

## Foundations Enabling Entry into the Integrated Resort Area

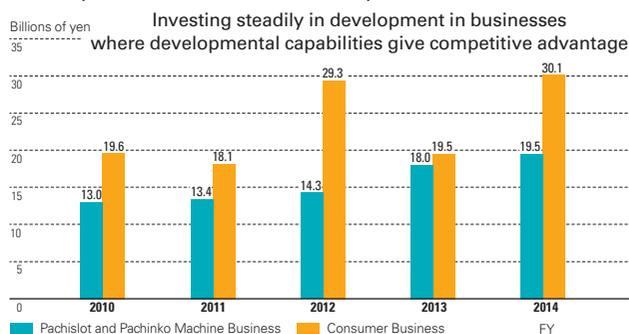
We are preparing to establish an integrated resort business, which we envision as becoming a future earnings mainstay for us. (For details, please see "Casinos and the SEGA SAMMY Group Vol. 2" on page 49.) As well as prior investment to accumulate expertise, entry into this area will require large-scale investment. Financial stability provides foundations that enable the Group to make such forward-looking investments.

## Foundations of hit-product businesses' continuity — Financial stability and cash generation capacity

### Equity Ratio



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



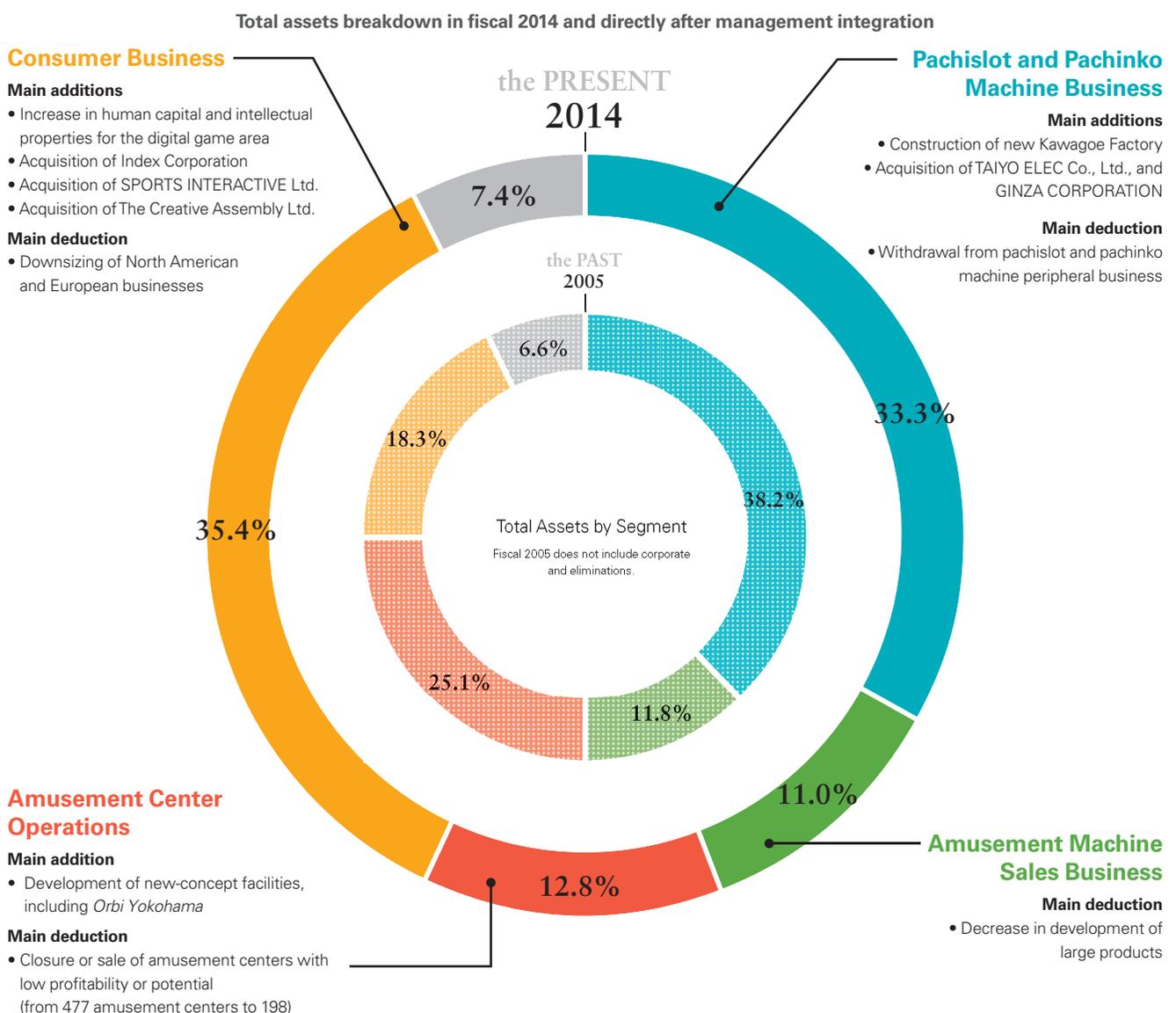
\* The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

Financial capital supporting continuous developmental investment  
Equity ratio at March 31, 2014

63.2%

**Asset Allocation by Segment**

The Consumer Business segment's total assets have increased significantly due to the implementation of strategies aimed at exploiting growth potential by strengthening developmental capabilities through the acquisition of developmental companies and other investment in the digital game area. Meanwhile, the Amusement Center Operations segment's total assets have contracted sharply because the number of amusement centers has decreased.



# Human Capital × Intellectual Properties × Financial Capital = Shareholder Value

We will meet shareholders' expectations by heightening shareholder value through the provision of stable returns to shareholders and the steady implementation of growth strategies.

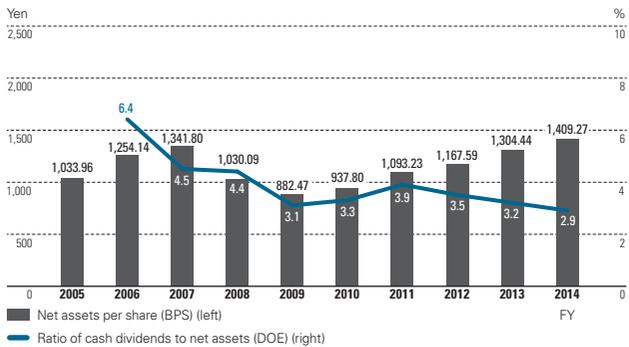
## Returning Profits to Shareholders—Policy, Results, and Outlook

While directly returning profits to shareholders through stable cash dividends, we will retain the option of acquiring treasury stock in response to share price levels. Meanwhile, we will increase shareholder value continuously while taking care to balance strategic investment to win out against competitors in growth areas and internal reserves needed for a future integrated resort business.

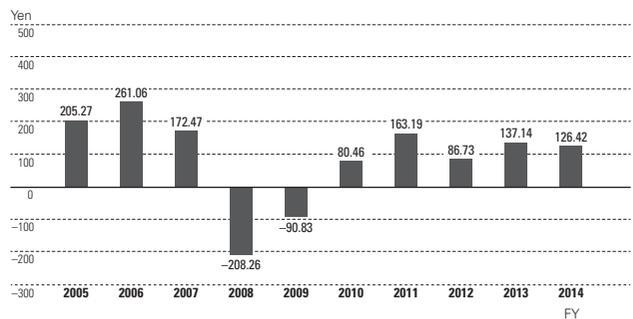
For fiscal 2014, we paid cash dividends of ¥40.00 per share. As a result, the consolidated dividend payout ratio was 31.6%, and the ratio of cash dividends to net assets was 2.9%.

For fiscal 2015, ending March 31, 2015, we plan to pay interim cash dividends of ¥20.00 per share and year-end cash dividends of ¥20.00 per share, giving full-year cash dividends of ¥40.00 per share.

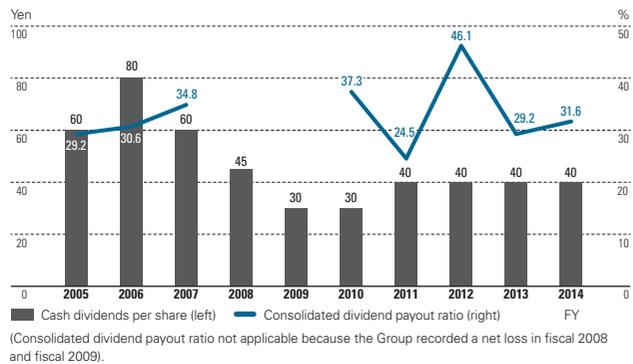
Net Assets per Share (BPS) / Ratio of Cash Dividends to Net Assets (DOE)



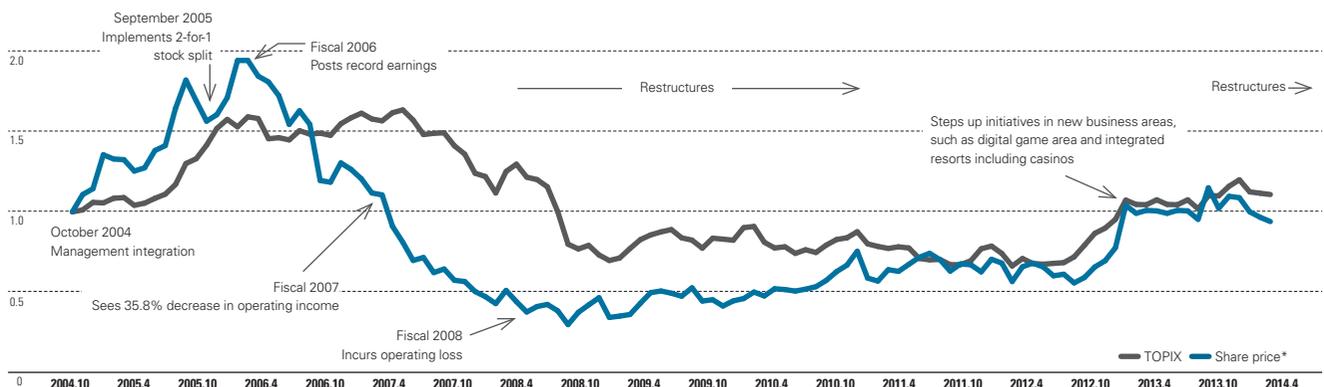
Net Income (Loss) per Share (Basic)



Cash Dividends per Share / Consolidated Dividend Payout Ratio



Comparison of Share Price and Tokyo Stock Price Index (TOPIX) \* Comparison based on monthly closing prices and value of 1 for October 2004 management integration



# the GROUP

from the PRESENT to the FUTURE

## SEGA SAMMY Group Going Forward

SEGA SAMMY Group in the Big Picture .....	40
Opportunities and Risks .....	42
The Group's Short-, Medium-, and Long-Term Strategies .....	44
<b>Special Feature</b> "Growth Drivers" .....	46

# SEGA SAMMY Group in the Big Picture

## Entertainment Universe

### Amusement Machine Sales Business

Market size

**¥179.1 billion**

Source: JAJA, Amusement Industry Survey 2012

Main competitors

- BANDAI NAMCO
- KONAMI
- CAPCOM
- SQUARE ENIX, etc.

### Amusement Center Operations

Market size

**¥470.0 billion**

Source: JAJA, Amusement Industry Survey 2012

Main competitors

- ROUND ONE
- BANDAI NAMCO
- SQUARE ENIX
- ADORES, etc.

### Consumer Business

Domestic game market size

**¥1,144.8 billion**

Domestic home video game market size  
(consoles and software)

**¥409.0 billion**

Source: f-ism

Main competitors

- Nintendo
- BANDAI NAMCO
- CAPCOM
- SQUARE ENIX, etc.

Domestic online game content market size

**¥735.8 billion**

Source: f-ism

Main competitors

- BANDAI NAMCO
- SQUARE ENIX
- CAPCOM
- COLOPL
- GungHo Online Entertainment
- CyberAgent, etc.

### Pachislot and Pachinko Machine Business

Market size

**¥1,083.2 billion**

Source: Yano Research Institute Ltd.

Main competitors

- SANKYO
- FIELDS
- Universal Entertainment
- Heiwa, etc.

## SEGA SAMMY Group's Positions in the Pachinko and Pachislot Machine Market

— Pachislot machine market share\*7 — Pachinko machine market share\*7





# Opportunities and Risks

The SEGA SAMMY Group identifies its problems and competitive advantages as well as emerging, or potential, opportunities and risks arising from changes in the business conditions that each of its businesses faces and establishes strategies accordingly. Furthermore, we reflect valuable feedback from shareholders and other investors in business management decisions.

## Opportunities and Risks Identified by the SEGA SAMMY Group

- **Clearer trend toward survival of the fittest in the pachinko and pachislot machine market**

The trend toward an oligopoly favoring leading companies is becoming more pronounced. Given its large share of the pachislot machine market and financial muscle, the SEGA SAMMY Group views this trend as an opportunity to strengthen its standing even further.

- **Greater scope for market share expansion in the pachinko machine market**

Compared with the pachislot machine market, the pachinko machine market offers the SEGA SAMMY Group greater scope for market share expansion.

- **Expansion and change in demand of online game content market**

As the market for online game content for smartphones and mobile phones grows rapidly, the Group's significant developmental capabilities and financial strength are establishing competitive advantages.

- **Proposal of new products and business models in amusement arcade machine area**

We will acquire stable earnings and invigorate the market by offering amusement arcade machines and business models that reduce the capital investment of amusement center operators and strengthen our relationships with them.

- **Bolstering of amusement centers' management capabilities and development of new business formats**

Strengthening the management capabilities of existing amusement centers and developing new business formats that go beyond the confines of traditional amusement centers will create fresh opportunities to grow earnings.

- **Integrated resort business (the casino business)**

Currently under deliberation in Japan, integrated resorts including casinos could become a long-term growth opportunity for the Group.

### Opportunities

### Risks

- **Earnings structure reliant on the pachislot and pachinko machine business**

The Group's business results are highly dependent on the Pachislot and Pachinko Machine Business segment. If the segment has difficulty securing stable earnings, this dependence could become a significant downside risk for the Group.

- **Further strengthening of market oligopoly as player population declines**

In response to a declining player population, pachinko hall operators' purchasing of new pachinko and pachislot machines is increasingly focused on products with brand power. Therefore, the Group faces the risk of slumping sales if its brand power weakens.

- **Bias of development schedules toward second half of fiscal years and licensing risk**

Due to an entrenched imbalance in development toward the second half of fiscal years, the Group

faces the risk of being unable to launch products before the end of fiscal years, which could affect business results significantly. Furthermore, the actualization of licensing risk associated with new product launches could prevent the Group from launching products on schedule.

- **Changes in market demand**

Manufacturing amusement arcade machines takes a comparatively long time. Consequently, the Group manufactures these machines based on demand estimates. However, changes in player preferences or in business conditions or uncertain growth prospects could affect the Group's business results.

- **Lackluster earnings from existing amusement centers due to decrease in player numbers**

Reflecting stagnant consumer spending and society's aging, declining player numbers could cause a slump in the earnings of amusement center operators and reduce their investment capacity, which would directly affect the earnings of the Amusement Machine Sales Business segment.

- **Contraction and seasonal fluctuation of packaged game software market**

The packaged game software market is shrinking as the online game content market expands. In addition, demand is susceptible to fluctuation due to seasonal factors. Consequently, lost sales opportunities due to the Group's inability to provide an adequate supply of new products could affect business results.

## Number of meetings for investors in Japan and overseas

Fiscal 2014

# 339 times

The fact that the Pachislot and Pachinko Machine Business segment's earnings level is gradually becoming lower than it once was concerns me. In particular, I intend to monitor profit margin deterioration as pachislot and pachinko machines' costs rise. I will also focus on the Group's measures to improve profitability. Furthermore, because the Group postponed pachislot and pachinko machine launches for a second consecutive fiscal year, sales were significantly below the initial target. Therefore, I would like periodic disclosures showing that there is no risk of launch schedule delays. For example, the Group could visualize the progress of development and applications for prototype testing.



Pachislot and Pachinko Machine Business

The continuing sluggishness of the packaged game software area remains a cause for concern. However, the emergence of titles in the digital game area that generate stable earnings is very positive. I will give attention to whether, by deploying resources to the digital game area, the Group is able to create new hit titles. On the other hand, I am concerned that deploying excessive resources to the digital game area could be detrimental to profitability.



Consumer Business

### Views from Analysts

Due to amusement center operators' deteriorating earnings, investment in amusement arcade machines is likely to continue slowing. Given current market conditions, achieving growth in the Amusement Machine Sales Business and Amusement Center Operations segments is expected to be challenging. However, the worsening of the Amusement Machine Sales Business segment's profitability in recent years is not solely attributable to market factors. It stems from a product mix problem that has hindered the introduction of products matching market demand. Going forward, I will pay particular attention to the direction and measures of the Amusement Machine Sales Business and Amusement Center Operations segments.

Amusement Machine Sales Business and Amusement Center Operations



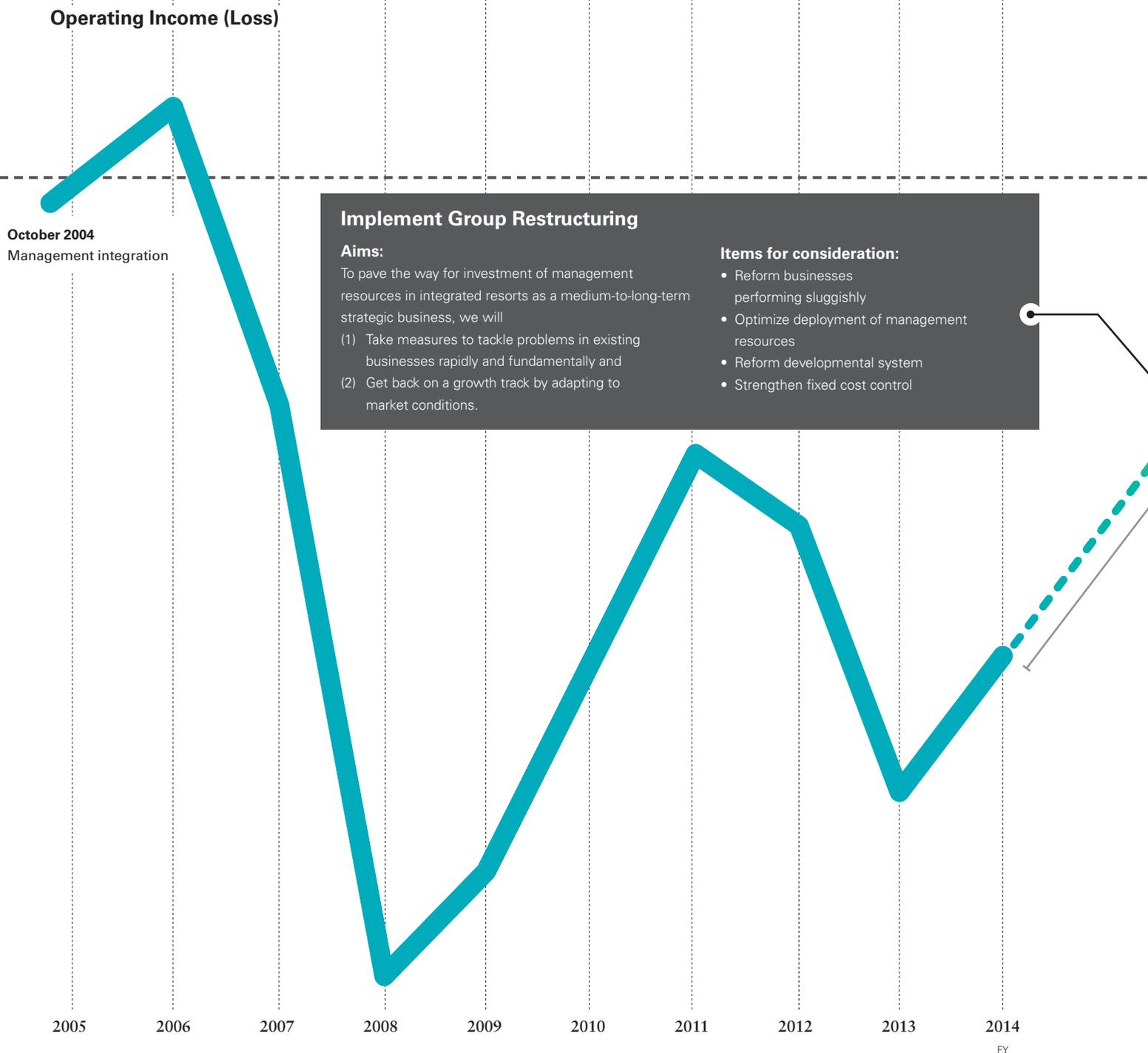
I am extremely interested in progress toward the creation of an integrated resort business. In my view, however, whether or not the SEGA SAMMY Group can really enter the integrated resort business in Japan is key. Accordingly, I would like the Group to clarify its advantages with respect to receiving selection as a casino operator in Japan. As for the Incheon project, I will pay attention to in-depth information about schedules, earnings scale, and customer groups. Regarding the business for the development and sale of casino machines that the Group has established, I will monitor license acquisition progress, sales regions, and business scale.

Integrated Resort Business



# The Group's Short-, Medium-, and Long-Term Strategies

By the end of March 2015, we will have hammered out the details of Group restructuring measures. We will then put them into effect to optimize management resource deployment and achieve other benefits. Through these efforts, we aim to realize operating income of ¥70 billion. Once we have met this target, we plan to restore operating income to the ¥100 billion level that we reached directly after management integration. Also, from a long-term perspective, we will advance strategic preparations aimed at establishing the integrated resort business as a new pillar of our growth.



## Long-Term Upside Potential

### Integrated resort business

Entrench earnings recovery trend and prepare to invest management resources in integrated resort business

### Continue accumulating expertise in integrated resort business

- Manage *Phoenix Seagaia Resort* in Japan
- Develop and manage integrated resort that includes casinos in Incheon, South Korea
- Develop and manage resort complex in Busan, South Korea

➤ See the Special Feature "Casinos and the SEGA SAMMY Group Vol. 2" on page 49.

Operating income directly after management integration

¥100 billion

2nd step

1st step

Long-term Vision

Short-to Medium-term Vision

### Measures to Restore Operating Income to Target Level

#### 1. Stabilize Earnings of Pachislot and Pachinko Machine Business

Aim to maintain leading market share of pachislot machine business, aim to establish leading market share for pachinko machine business over medium term, and generate operating income of at least ¥50 billion in Pachislot and Pachinko Machine Business segment stably.

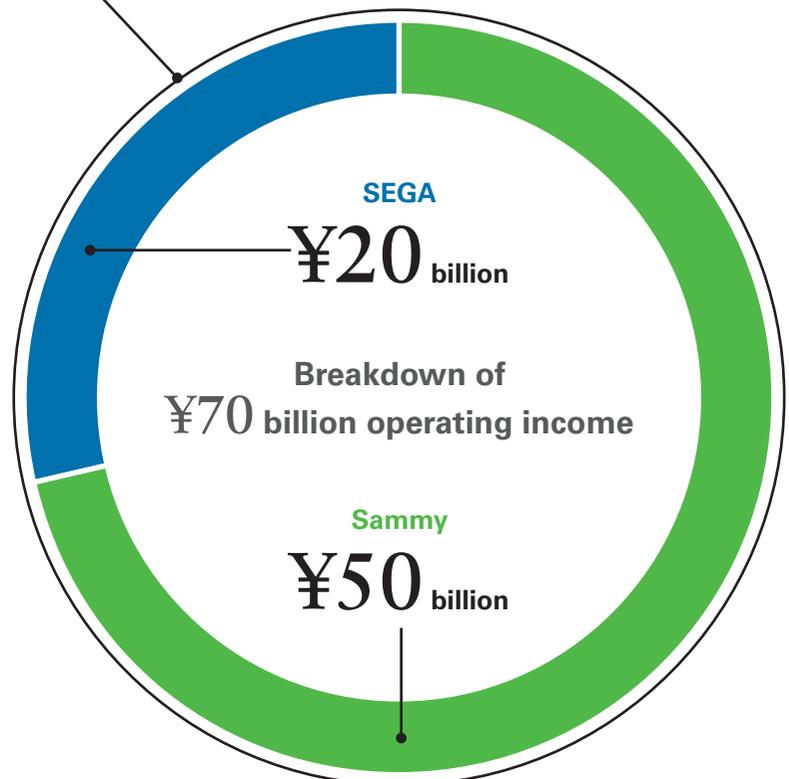
#### 2. Improve SEGA's Profitability

Secure operating income of ¥20 billion by improving earning power of existing businesses and growing earnings in the digital game area.

➤ See "Growth Drivers" on page 46.

Operating Income

¥70 billion



# “Growth Drivers”

## 1. Short-to-Medium Term

DIGITAL GAME AREA

### Leveraging Unique Strengths to Vault Even Higher

#### Joining the Leaders after Only Two Years

In 2013, the online game content market grew 39% year on year, to ¥735.8 billion\*<sup>1</sup>. Driving this growth was the rapid expansion of game apps for smartphones and social networking services (SNS), sales of which jumped 57% from those of the previous fiscal year. Aiming to establish a robust position in this market quickly, we have made deploying management resources to the digital game area a priority. The focus of these efforts is SEGA Networks Co., Ltd., established in July 2012 by spinning off the main capabilities of SEGA's content services for smart devices.

Currently, competition in the market is intensifying as many companies enter. Moreover, an oligopoly is steadily taking shape. It comprises companies able to satisfy the demand for higher-end products, which is resulting from native applications' growing popularity; operate multiple developmental lines; conduct powerful marketing and promotion; and use financial strength to support these capabilities. One of the companies meeting such requirements and is in a leading position is SEGA Networks. It has caught up with the leaders just two years after its establishment by offering a rich title lineup catering to diverse player preferences and being one of the industry's most consistent creators of hit products. Testifying to this consistency, many of the company's titles are at the top of sales rankings. For example, *CHAIN CHRONICLE* surpassed 3 million cumulative downloads in June 2014.

SEGA Networks' strengths enable a quality title lineup with an enviable “batting average.”

\*1 Source: Fism



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## Strength 1 Some of the Industry's Largest Developmental Resources

Our primary strength is being able to mobilize flexibly some of the industry's largest developmental resources without transferring personnel or making organizational changes. SEGA has around 2,000 developmental personnel within the Group. As well as in-house developmental resources, partners such as f4samurai, Inc., and Aiming Inc. are involved in development from an early stage. These combined efforts produce titles, which SEGA Networks manages and markets. Normally, more than 10 studios run around 30 developmental lines simultaneously, allowing us to build a lineup of unmatched diversity. Moreover, the game production expertise SEGA has accumulated and passed down during more than half a century of developing home video game software and amusement arcade machines is becoming an ever more conspicuous differentiating factor as demand for richer content grows.

Thus, our in-depth know-how, born of a long history, supports developmental resources that generate a constant stream of innovative

titles. For example, our home video game software developmental division led the creation of *Puyopuyo!! Quest*, which surpassed 10 million downloads in June 2014. Furthermore, the development of *CHAIN CHRONICLE—Kizuna no Shintairiku* centered on our division engaged in amusement arcade machine development.

## Strength 2 Team Specializing in Building Business Models

Roughly half of SEGA Networks' personnel are engaged in such nondevelopment divisions as operational management divisions, which are responsible for title lineup composition, marketing, public relations, and operational infrastructure. The operational management divisions have wide-ranging control over titles. Its responsibilities include establishing monetization business models best suited to each title, which is critical for earnings maximization. We ensure that each developmental team's workplace environment is conducive to focusing on development. Teams of specialists with expertise in

### Industry-Leading Developmental Resources

**Approx. 2,000 developmental personnel + outside partners**  
**→ More than 10 studios run developmental lines simultaneously**

#### Industry-Leading Developmental Resources

- More than 10 studios, including whole SEGA Group and outside partners
- Able to procure personnel without external hiring
- Able to procure personnel without transferring employees

#### Unsurpassed Developmental Capabilities

- Leading-edge technological capabilities for smartphones
- Numerous producers and directors with wealth of experience in game development
- Able to develop diverse genres by exploiting experience in development of amusement arcade machines and home video game software



WORLD CLUB Champion Football series  
 ©SEGA  
 ©Panini S.p.A. All Rights Reserved  
 The game is made by SEGA in association with Panini.



All business functions, including responsibility for lineup composition and operational management, consolidated in SEGA Networks

**Operational management divisions 55%**

Significantly heightening the hit-product percentage by conducting multifaceted analysis, capitalizing on diverse personnel and expertise fostered outside the Group, and centralizing decision-making authority

#### Functions

Title management, analysis, marketing, system infrastructure, etc.



**Business management division 5%**

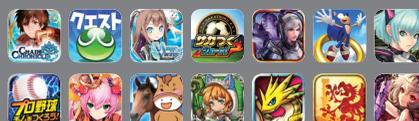
- Business management personnel

**Developmental division 40%**

- Production
- Direction
- Planning

\* As of June 30, 2014

To market



## Special Feature “Growth Drivers”

a variety of industries pool their capabilities to build and operate business models that maximize the value of titles. The company's inclusion of developmental and operational management capabilities is what drives the creation of products that hit the mark with a high degree of consistency.

The operational management divisions perform more than 20 functions. In title management, it coordinates with developmental teams from the early stages of development and provides publishing functions\*1 to companies outside the Group. Also, the divisions conduct multifaceted, high-precision research, including statistical analysis of data from game playing, benchmark analysis\*2, and insight research\*3. As for marketing, as well as being involved in establishing the ambience of titles' worlds, divisions realize highly effective marketing benefits through statistical analysis that is deeply rooted in markets—a function that as a game publisher SEGA Networks is uniquely qualified to provide. In particular, taking advantage of expertise honed in other business segments, the divisions use points of contact with players at events and amusement centers to implement “real” marketing that differentiates our games significantly.

\*1 Functions related to game promotion and sales

\*2 A management method that analyzes the points of departure between other companies' outstanding strategies and in-house strategies and reflects conclusions in these strategies

\*3 Analysis that unearths players' true needs

### Strength 3 New Growth Foundations—The Noah Pass System

By providing the *Noah Pass* system as a marketing support tool, the operational management divisions of SEGA Networks are developing a service that helps a wide range of companies outside the Group to develop business models. The system enables game developers to reduce their marketing costs and concentrate management resources on development. In return for advertising other companies' games within their games for free, participating companies can advertise their games within other companies' games for free. In addition to reducing spending on advertising aimed at acquiring new players, the *Noah Pass* system helps heighten player continuity and billing rates. Another benefit is that the system does not impose any strategic restrictions.

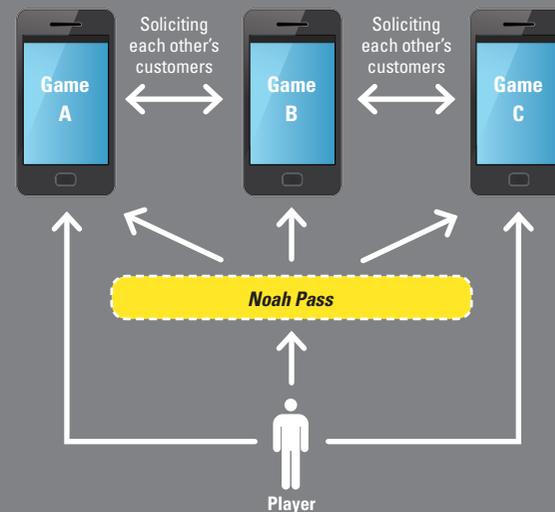
Reflecting many game developers' endorsement of these features, the number of participating companies has risen from 15 just after the service began to 70 as of July 2014. During the same period, participating apps have more than tripled, and total players have grown to 55 million. We will foster this system as a new strength by continuing to evolve it into an even more effective marketing support tool that offers solutions services and other functions.

#### Aiming to Become Top 3 in the Global Market

The SEGA SAMMY Group aims to rank among the top three corporate groups in the global market for digital games, and SEGA Networks will spearhead this drive. In fiscal 2015, the company will intensify its offensive in the market by drawing on its skill in creating hit products with a high degree of success as it launches about 15 titles. Furthermore, we will step up efforts to market such mainstay titles as *CHAIN CHRONICLE* and *Puyopuyo!! Quest*. In July 2014, we began offering

#### Noah Pass System

Reciprocal marketing support tool whereby, in return for advertising other companies' games for free, companies can advertise their games within other companies' games for free



Merits for participating companies

- Reduces marketing costs
- Helps heighten player continuity and billing rates
- Does not have strategic restrictions

*CHAIN CHRONICLE*—*Kizuna no Shintairiku* as the latest title in the *CHAIN CHRONICLE* series, which was launched in July 2013. We will also concentrate on maximizing the value of this intellectual property through a multifaceted rollout including a PlayStation Vita® version, *CHAIN CHRONICLE V*, a manga (comic), and a short animation. In addition, plans call for widening the scope of overseas rollouts. Going beyond Asia-centered rollouts in such countries as South Korea and China—where releases are already meeting solid responses—we will roll out digital titles worldwide through close coordination with gumi Inc., a company with which we have concluded a capital and business tie-up agreement. Other initiatives will include collaborating with local partners to accelerate the marketing of blockbuster titles from Japan, such as *Puyopuyo!! Quest* and *Sakatsuku Shoot!*

At the same time, we will strengthen local developmental systems. By sharing expertise accumulated in Japan, we will develop F2P\*1 content optimized for local markets and localize content appropriately. An example of such initiatives is the locally developed title *Sonic Dash*. Cultivating it as a core title in North America and Europe took *Sonic Dash* beyond 76 million downloads in August 2014. We intend to use this large player pool to grow earnings, including advertising revenues.

While using its unique strengths to produce hit products stably, SEGA Networks will continue providing players with thrilling experiences through networks.

\*1 These are games based on a business model that provides basic play for free but generates continuous earnings by charging fees for additional items within the games.

## 2. Long-Term

INTEGRATED RESORT BUSINESS

# Casinos and the SEGA SAMMY Group Vol. 2



A rendering of the integrated resort that PARADISE SEGASAMMY is developing

### Focusing on Casino Operations' Huge Potential

Deliberations are under way on a bill for the promotion of integrated resorts, provisionally called the casinos bill, with a view to creating integrated resorts, which have become a focus of attention as a potential pillar of Japan's economic growth strategy.

Singapore is a good example of the major economic benefits that integrated resorts bring. Thanks to the opening of two integrated resorts in 2010, between 2009 and 2013 visitors to Singapore from overseas increased 60%, to 15.5 million, and tourism revenues grew more than 80%. As a result, nominal GDP per person sustained annual growth of 9.48%\* to reach 1.4 times that of Japan in 2013. 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. If a series of processes proceeds smoothly, actual casino operations could begin in Japan around 2020. Prior investment is required to acquire a license as a private-sector casino operator, and the SEGA SAMMY Group is one of the corporate groups moving forward with such preparations.

Integrated resorts promise a wide range of business opportunities. Their development will create real estate development opportunities. After they begin operations, opportunities will include casino machine sales, casino operations, and hotel and facility management. Regarding the casino machine business, in June 2013 we established SEGA SAMMY CREATION INC., which is using our leading-edge technology, keen discernment, and abundant experience to develop casino machines. Meanwhile, Japan lacks companies with expertise in casino operations. Therefore, we are putting particular effort into accumulating such expertise, which will not only be an important requirement for acquiring casino licenses but will also lead to significant business opportunities.

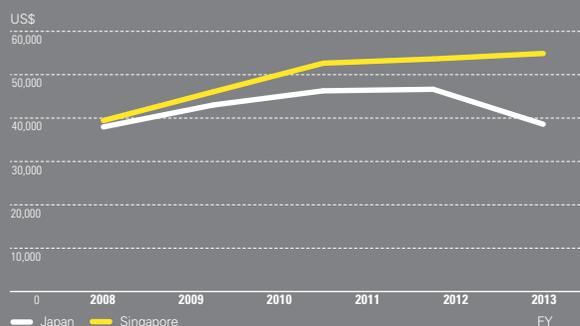
Sources: Singapore's overseas visitor numbers and tourism revenues are from the Singapore Tourism Board. Nominal GDP figures are from *World Economic Outlook*, 2014, International Monetary Fund (IMF).

\* CAGR (Compound Average Growth Rate)

### Economic Benefits of Integrated Resorts in Singapore

- Visitors from overseas ..... Up **60%**
- Tourism revenues ..... Up **80%**
- Direct employment ..... **20,000** people

### Nominal GDP per Person



Source: International Monetary Fund, World Economic Outlook Database, April 2014

Special Feature “Growth Drivers”



Incheon

Deploying Personnel to Casino Operations to Acquire Know-How

We are accumulating know-how in casino operations and management at *Paradise Casino Incheon*, located in the International Business Center area next to Incheon International Airport. In May 2014, we began sending key personnel to PARADISE SEGASAMMY Co., Ltd., a joint venture that we established with the Paradise Group of South Korea and in which we have a 45% stake.

Furthermore, in the International Business Center area PARADISE SEGASAMMY is developing a large-scale integrated resort. Envisioning tourists from Asia centered on China and Japan as our main customer group, we plan to create one of South Korea’s largest casino floors—more than 10,000 square meters—on an approximately 330,000-square meter lot. In addition, the integrated resort will have a hotel with 700 guest rooms, MICE\* facilities, restaurants, and various stores. During the period until we cut the tape on the integrated resort in 2017, we will extend our lead over rivals in terms of accumulated know-how.

\* This is a business tourism format. The acronym stands for Meetings, including training and seminars; Incentives, referring to employee-reward tourism; Conferences or Conventions, such as academic conferences and international meetings; and Exhibitions or Events.

TOWARD REALIZATION OF INTEGRATED RESORTS

(1) Personnel accumulating know-how at *Paradise Casino Incheon*

**“I want to build a facility in Japan unlike any other in the world.”**

**SHIGEKI AOYAMA** Senior Manager, Operation Department, PARADISE SEGASAMMY Co., Ltd.

Since May 2014, I have been working at PARADISE SEGASAMMY in South Korea. My mission is to accumulate and apply know-how in three steps. The first step is to acquire operational and business management know-how at *Paradise Casino Incheon*, where I currently work. The second step will be to learn the professional skills needed to launch operations at the integrated resort we plan to open nearby in 2017. In the third step, I will apply the know-how acquired to plan, develop, and open integrated resorts in Japan.

After arriving, the first thing I did was to undergo training about the rules of casino games and dealers’ duties. I worked as a dealer, and, as well as learning how games proceed and how to handle cards and chips, I received training about a variety of operations pursuant to casino management regulations. At present, I am working as a floor person on the casino floor. The wide variety of duties this job entails makes it ideal for learning about casino frontline operations. Also, I feel the Japanese personnel have developed good relationships with local personnel. We often have dinner together, and they refer to us as part of their family. After experiencing frontline operations, each team member will move on to specialist areas, such as sales planning and marketing, accounting, and systems.

Because this business does not exist in Japan, every day brings fresh surprises. Also, using multiple languages is a constant challenge because as well as speaking to local personnel in Korean, we deal with customers not only from China but from English-speaking countries. I want to overcome these challenges as we are likely to face them if the casinos bill is passed in Japan and establishing integrated resorts becomes possible. We are still at the stage of learning the ABCs of casino management. However, in preparation for the day when we are able to create integrated resorts in Japan, I want to acquire knowledge that will help us develop uniquely Japanese integrated resorts.



Shigeki Aoyama (third from the left), who is learning about casino operational management at *Paradise Casino Incheon*

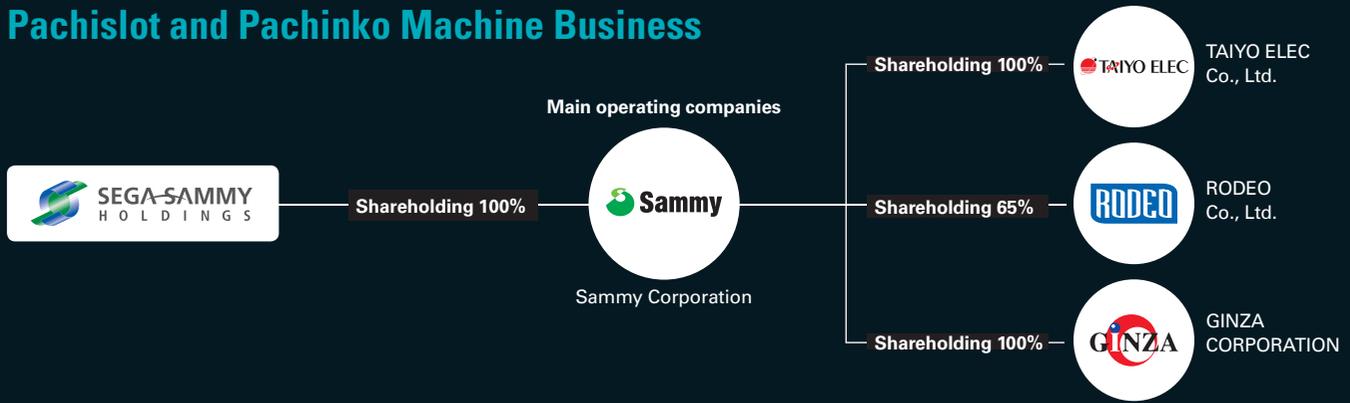
# the OPERATING SEGMENTS

the PAST, PRESENT, and FUTURE

Business Segments Past, Present, and Future

Pachislot and Pachinko Machine Business .....	52
Amusement Machine Sales Business .....	58
Amusement Center Operations.....	62
Consumer Business .....	65

# Pachislot and Pachinko Machine Business



## the PAST

**1975** Established Sammy Industry Co., Ltd.

**1989** Launched *Aladdin* single-bonus hitter pachislot machine

**1998** Launched industry's first pachislot machine including CT (challenge time) function, *Ultraman Club 3*



Pachislot Juoh ©Sammy

**1999** Launched industry's first pachislot machine incorporating an LCD, *GeGeGe No Kitaro*

**2000** Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary



Pachislot Hokuto No Ken ©Buronson & Tetsuo Hara ©Sammy

**2001** Launched pachislot machine including AT (assist time) function, *Pachislot Juoh*

**2003** Launched pachislot machine that set new unit sales record, *Hokuto No Ken*

**2007** Made TAIYO ELEC Co., Ltd., a subsidiary

**2008** Launched *Pachinko CR Hokuto No Ken* pachinko machine



Pachinko CR Hokuto No Ken ©Buronson & Tetsuo Hara / NSP1983, ©NSP2007 Approved No.SAE-307 ©Sammy

**2009** Made GINZA CORPORATION a subsidiary

**2012** Completed construction of new Kawagoe Factory and distribution center



Kawagoe Factory

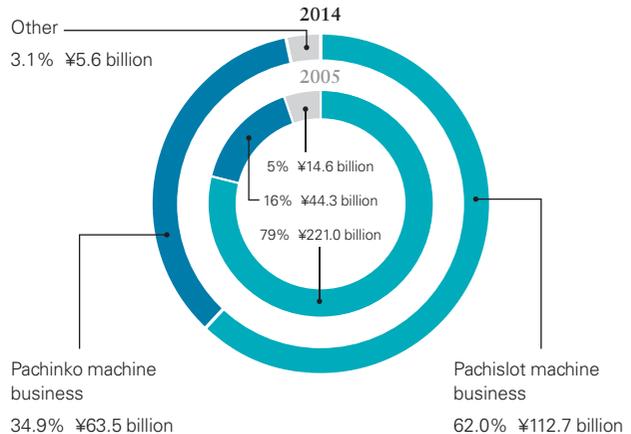
## the PRESENT

### Comparing Fiscal 2014 and Fiscal 2005

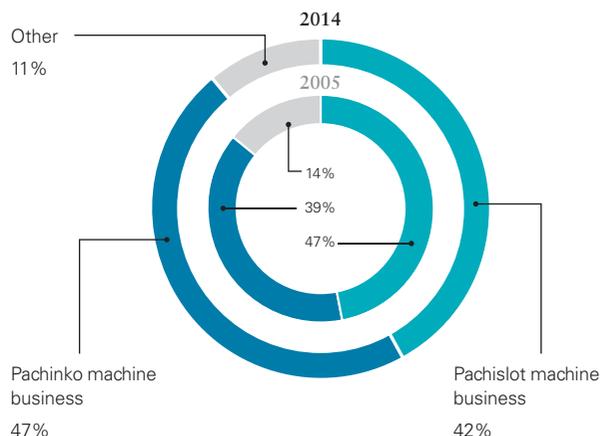
#### Net Sales



#### Net Sales Breakdown



#### Employee Breakdown





Pachislot Lost Island  
©Sammy



Pachislot SOUTEN-NO-KEN 2  
©Tetsuo Hara & Buronson / NSP2001,  
Approved No.YKU-127 ©Sammy

## Fiscal 2014 Overview

### Net Sales

¥181.8 billion | 28% ↑

### Operating Income

¥45.2 billion | 92% ↑

### Pachislot Machine Unit Sales

301,000 units | 49% ↑

### Pachinko Machine Unit Sales

200,000 units | -8% ↓

## Fiscal 2014 Overview

In fiscal 2014, the segment's net sales increased 28% year on year, to ¥181.8 billion.

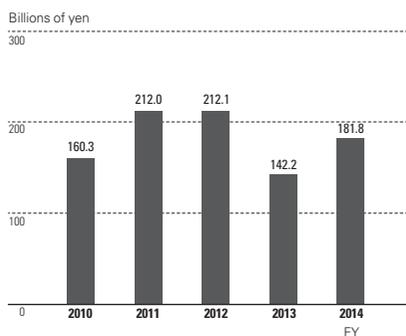
In the pachislot machine business, net sales rose 76% year on year, to ¥112.7 billion, while the pachinko machine business recorded a 12% year-on-year decline in net sales, to ¥63.5 billion. The segment's operating income was up 92% year on year, to ¥45.2 billion. The operating margin rose 8.4 percentage points year on year, to 24.9%, thanks to higher pachislot machine unit sales and cost reductions resulting from component reuse. Furthermore, R&D expenses and content production expenses increased ¥1.5 billion, to ¥19.5 billion.

In the pachislot machine business, we postponed the launch of some titles. However, such titles as *Pachislot Hokuto No Ken Chapter of Resurrection* and *Pachislot Eureka Seven 2*—both under the Sammy brand—posted solid sales. As a result, unit sales rose a significant 99,000 units year on year, to 301,000 units. The business launched nine titles, up one from the previous fiscal year.

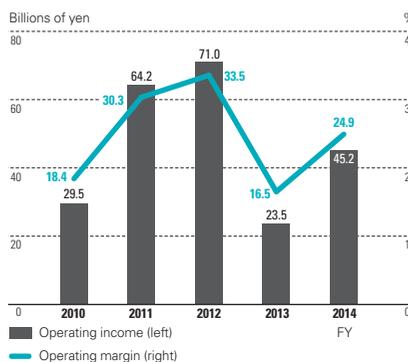
As for the pachinko machine business, although sales of such Sammy brand titles as *Pachinko CR Hokuto No Ken 5 Hyakuretsu* and *Pachinko CR Monster Hunter* were firm, the business launched only 10 titles, four fewer than in the previous fiscal year. Due to slumping market conditions, sales of non-mainstay titles were lackluster. Consequently, unit sales decreased 16,000 units, to 200,000 units, and pachinko board sales as a percentage of net sales rose 21.9 percentage points, to 48.1%.

In 2013, the market share of the pachislot machine business increased 6.4 percentage points, to 21.7%, while the market share of the pachinko machine business was up 1.1 percentage points, to 9.8%.

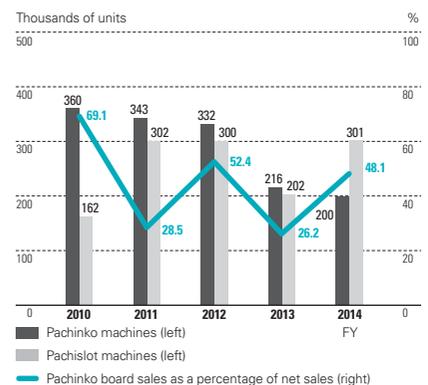
### Net Sales



### Operating Income / Operating Margin



### Pachislot and Pachinko Machine Unit Sales



## Pachislot and Pachinko Machine Business

### Business Model

The Pachislot and Pachinko Machine Business segment plans, develops, and manufactures products in-house, which it sells to pachinko hall operators through a proprietary sales network and through sales agencies across Japan. The lead time for creating a commercial pachislot or pachinko machine is approximately two years. Generally, pachislot and pachinko machine shipments peak in the initial period after launches. In recent years, due to pachinko hall operators' reduced capital investment capacity, the replacement demand for new machines, or annual turnover\*, has decreased to less than once a year. As a result, demand has focused increasingly on titles with proven high utilization rates. Consequently, developmental capabilities and brand power have become more important than ever.

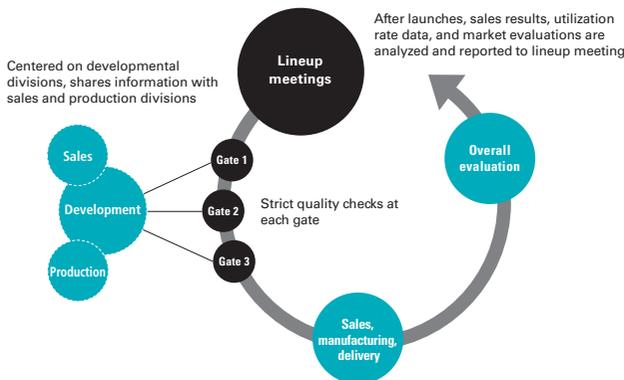
\* Annual turnover For details, please see "Get to Know the Pachinko and Pachislot Machine Market" on page 57.

## the FUTURE

### STRENGTHS

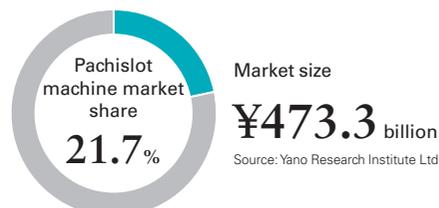
#### • Market-driven development system based on close coordination among three divisions

Using market information that our market research division collects, our development, sales, and production divisions share an integrated series of processes that stretches from preparing launch schedules through to sales, manufacturing, and delivery. Furthermore, we use a "gate management" system that entails strict checks at three stages, or "gates," during the development process. At each of these gates, we also check for any changes in the market environment, which can occur during products' development periods, and flexibly adjust plans if needed. This system is enhancing the product appeal of our pachislot and pachinko machines steadily.



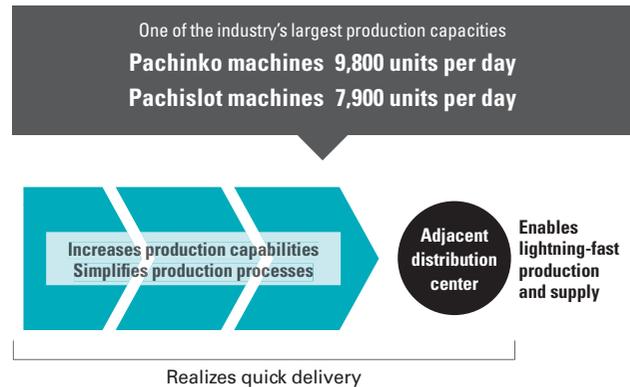
#### • Significant share of the pachislot machine market

Recent years have seen demand tend to concentrate on machines that promise stable utilization rates. We are confident we can maintain a substantial share of the pachislot machine market by continuing to make products that capitalize on our strong brand power and outstanding developmental system.



#### • Lightning-fast production and supply

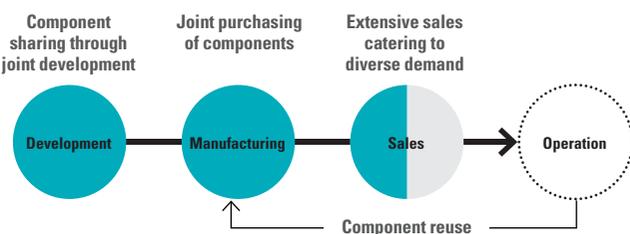
Our lightning-fast production and supply system has a daily production capacity of 7,900 pachislot machines and 9,800 pachinko machines and a distribution system that shortens production lead times significantly. This system minimizes sales opportunity loss by accurately catering to demand for pachislot and pachinko machines, which tends to be most intense in the initial period after launching pachislot and pachinko machines.



#### • Multibrand strategy

Our multibrand strategy based on Sammy Corporation, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION enables us to cater to diverse market demand and increases component reuse benefits and reduces production costs through joint purchasing and component sharing among the companies.

#### Synergies Multibrand Strategy Creates



## Supply Chain of Pachislot and Pachinko Machine Business



## WEAKNESSES

### • Variability of earnings due to regulatory changes

The volatility of earnings in the pachinko and pachislot machine market is due to such external factors as the amendment of various laws and regulations and risks associated with new products' sales licenses.

[in Detail ▶▶ P.57](#)

### • Business development restricted to Japan

The segment only operates in the market that relevant domestic laws stipulate. Consequently, its business development is restricted to Japan.

## OPPORTUNITIES

### • Pachinko machine growth potential

Compared with our pachislot machine market share, our share of the pachinko machine market is small. We view this as representing scope for significant growth of the Pachislot and Pachinko Machine Business segment.



### • Higher-value-added machines

A shakeout of manufacturers is under way as gameplay becomes more sophisticated and such components as LCDs and ROMs become more expensive. Amid these conditions, our advanced developmental capabilities and abundant funds for development could become even stronger competitive advantages.

## THREATS

### • Decline of player population

In the pachinko and pachislot machine market, the player population is gradually decreasing. This is worsening the financial positions of pachinko hall operators, causing them to adopt conservative capital investment stances.

#### Number of Pachinko Halls



#### Player Population



[in Detail ▶▶ P.57](#)

### • Further strengthening of oligopoly in the pachinko machine market

In terms of brand power, the segment 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.

#### Leading Manufacturers' Market Shares



\*1 Source: Yano Research Institute Ltd. (As of July 2014)

\*2 Due to the large number of organizations and companies, the number of pachislot machine manufacturers is the Group's estimate.

## Pachislot and Pachinko Machine Business



Pachinko CR Bakemonogatari  
©Nisioisin / Kodansha, Aniplex Inc., SHAFT INC.  
©Sammy



CR Maoyoken 3  
©2002 RED / TakahashiRumiko ©2002  
KADOKAWA CORPORATION ENTERBRAIN  
©TAIYO ELEC

### Growth Strategies

Our basic strategy calls on the pachislot machine business to maintain a leading market share and calls on the pachinko machine business to claim a leading market share in the medium-to-long term. As demand concentrates on leading manufacturers and machines that promise stable utilization rates, we will further strengthen developmental capabilities by increasing investment in R&D and improving developmental systems. With a particular emphasis on young adults, we will expand our player base by creating fresh machines that break with traditional pachislot and pachinko machine concepts. Furthermore, we will continue efforts to lessen the concentration of new machine launches in the second half of fiscal years.

The Pachislot and Pachinko Machine Business segment is advancing a multibrand strategy based on four Group companies. In fiscal 2014, the strategy moved into its component-sharing phase. We will reduce costs through joint purchasing and component reuse centered on Sammy's plant. In addition, by developing inexpensive machines that curb developmental costs and shorten lead times, we will diversify the product portfolio and reduce costs comprehensively.

### Fiscal 2015 Outlook

In fiscal 2015, against the backdrop of pachinko hall operators' weak investment appetite, the pachislot machine market is expected to perform steadily, but flagging demand in the pachinko machine market and the bias in demand favoring popular titles are likely to continue.

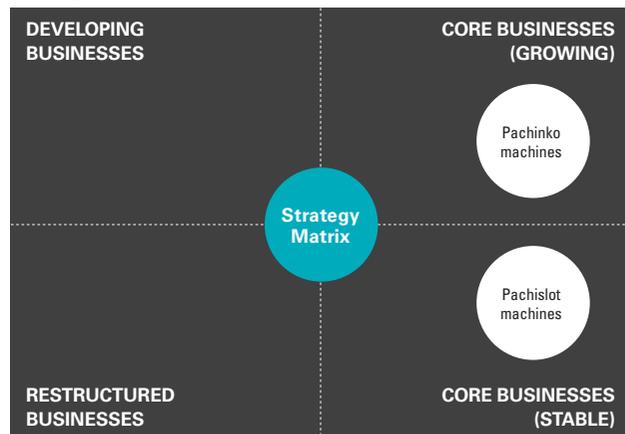
In these conditions, we are targeting a 20% year-on-year rise in revenues, to ¥217.5 billion. To reach this target, we will increase unit sales significantly by bringing mainstay titles to market through the pachislot machine and the pachinko machine businesses.

In the pachislot machine business, during the current fiscal year we will launch 10 titles, including *Pachislot SOUTEN-NO-KEN 2* and several other mainstay titles. As a result, we aim to elevate unit sales 73,000 units year on year, to 374,000 units.

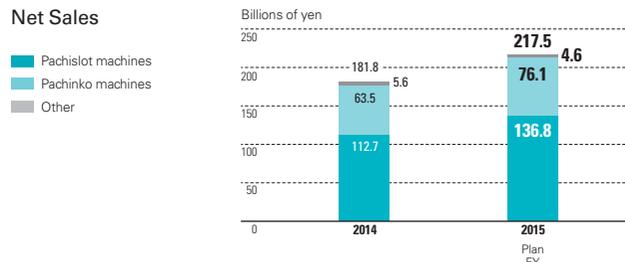
In the pachinko machine business, we plan to boost unit sales 49,000 units year on year, to 250,000 units, by marketing 14 titles during the current fiscal year, including several major titles.

As for earnings, the segment is likely to see its profit margin dip temporarily due to higher costs as the capacities of ROMs for image processing increase and movable gadgets increase. As a result, we project year-on-year decreases of 10% in operating income, to ¥40.5 billion, and 6.3 percentage points in the operating margin, to 18.6%.

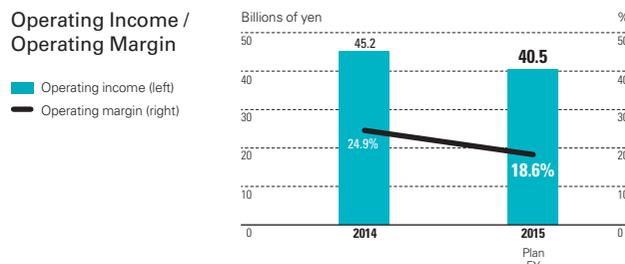
### Strategy Matrix



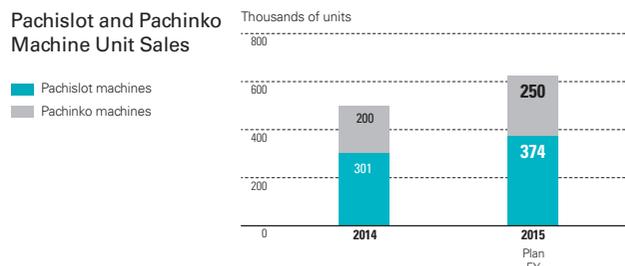
### Net Sales



### Operating Income / Operating Margin



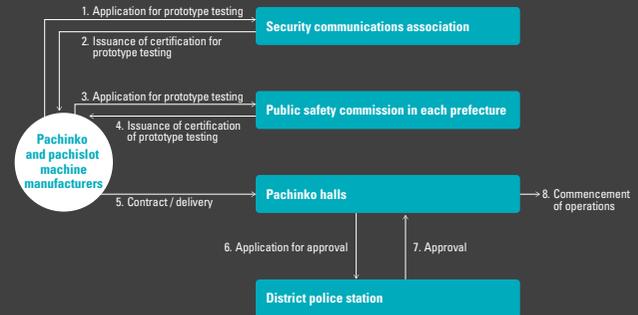
### Pachislot and Pachinko Machine Unit Sales



## Pachinko and Pachislot Machine Market's Regulatory Process

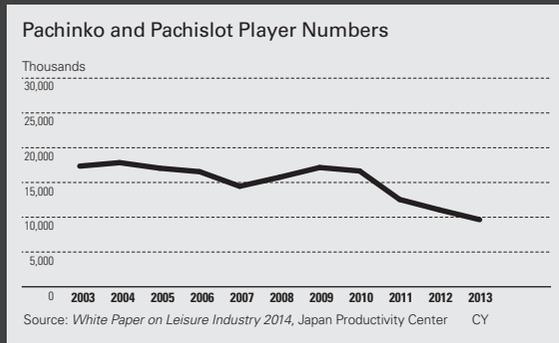
Before launching new products, pachinko and pachislot machine manufacturers have to proceed through various approval processes based on the Entertainment Establishments Control Law. These approval processes inspect products to determine whether their materials, functions, and gameplay conform to the 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

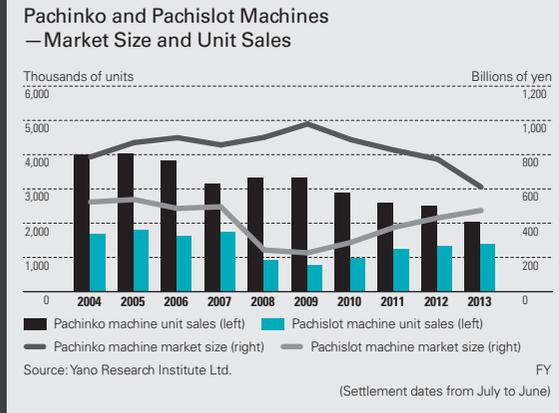
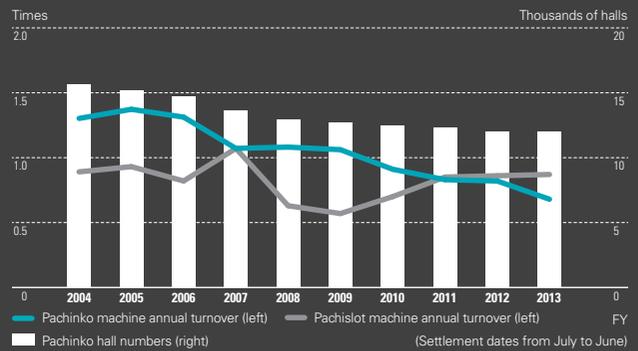


## Current Market Conditions

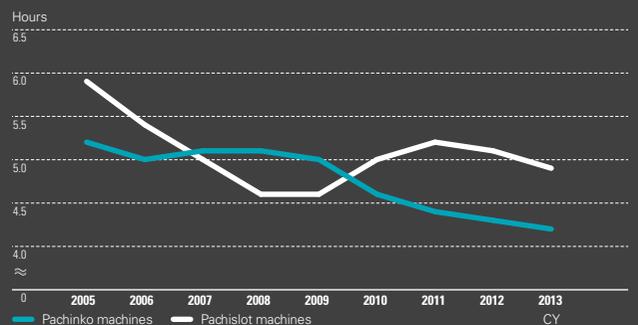
In the pachinko and pachislot machine market, the player population continues to decrease. Focused on controlling excessive gambling elements, the regulatory revision of July 2004 rapidly changed pachislot machines' gameplay and caused players to leave the market. Meanwhile, although sales of pachinko 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.



### Annual Turnover\* and Pachinko Hall Numbers



### Utilization Time\*



# Amusement Machine Sales Business



Shareholding 100%



SEGA CORPORATION

Shareholding 100%



DARTSLIVE Co., Ltd.

## the PAST

- 1960** Developed first domestically produced jukebox, *SEGA 1000*
- 1964** Began manufacturing amusement arcade machines
- 1985** Launched world's first force feedback game, *Hang On*  
Launched *UFO Catcher*
- 1990** Launched world's first amusement arcade machine able to rotate 360 degrees in all directions, *R-360*
- 1993** Launched world's first 3D computer graphics fighting game for amusement arcade machine, *Virtua Fighter*
- 1995** Launched *Print Club* with *ATLUS Co., Ltd.*
- 1999** Launched first title in *DERBY OWNERS CLUB* series of amusement arcade machines
- 2003** Launched world's first kids' card game, *The King of Beetles "MUSHIKING"*
- 2004** Launched SEGA's infrastructure linking amusement centers, *ALL.NET*



SEGA 1000  
©SEGA



UFO Catcher  
©SEGA



Print Club  
©SEGA / ATLUS



The King of Beetles  
"MUSHIKING"  
©SEGA

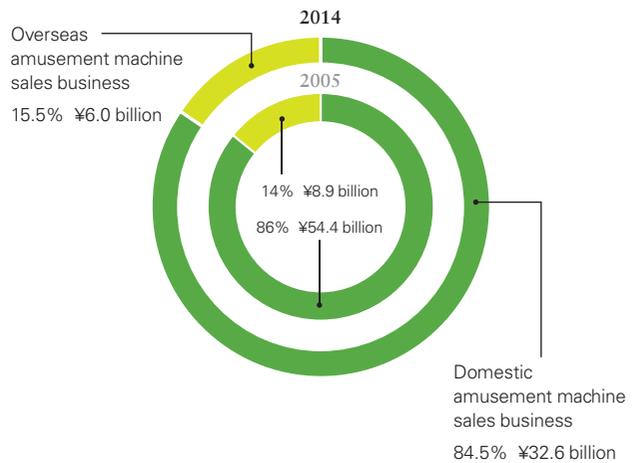
## the PRESENT

### Comparing Fiscal 2014 and Fiscal 2005

#### Net Sales



#### Net Sales Breakdown



#### Employee Numbers





WORLD CLUB Champion Football series  
©SEGA ©Panini S.p.A. All Rights Reserved  
PANINI The game is made by SEGA in association with Panini.



CODE OF JOKER  
©SEGA

### Fiscal 2014 Overview

#### Net Sales

¥38.6 billion | -1% ↓

#### Operating Loss

¥1.2 billion | — ↓

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

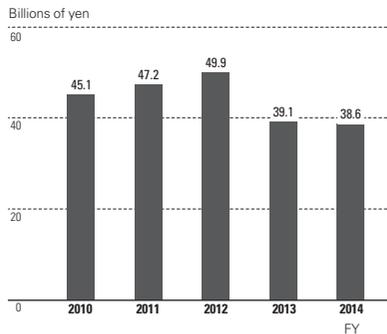
¥8.9 billion | —

### Fiscal 2014 Overview

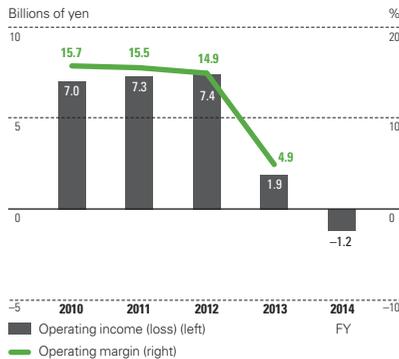
In fiscal 2014, the segment's net sales decreased 1% year on year, to ¥38.6 billion, due to sluggish sales of such new titles as *THE WORLD of THREE KINGDOMS*. Meanwhile, the segment sold CVT kits, cards, and other consumables for *WORLD CLUB Champion Football*. Also, the segment recorded revenues from revenue-sharing titles, including *CODE OF JOKER*. R&D expenses and content production expenses were ¥8.9 billion.

As a result of the above, the segment incurred an operating loss of ¥1.2 billion, compared with the previous fiscal year's operating income of ¥1.9 billion.

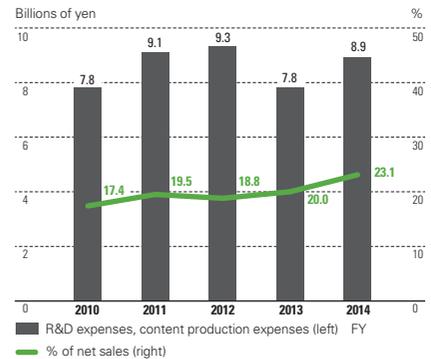
#### Net Sales



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



#### R&D Expenses, Content Production Expenses\* / % of Net Sales



\* The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

## Amusement Machine Sales Business

### Business Model

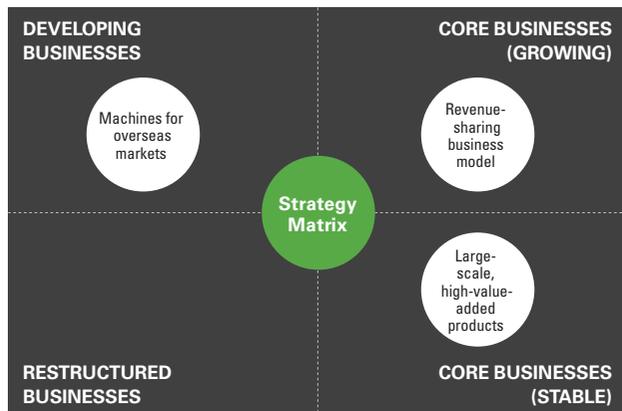
The Amusement Machine Sales Business segment plans and develops products in-house and outsources manufacturing. Developmental lead time varies depending on the amusement arcade machine, while return on investment cycles differ for each business model. In recent years, we have been lessening amusement center operators' investment burden by introducing a revenue-sharing business model—a system that enables content upgrades through board replacement or new content downloads.

## the FUTURE

### Growth Strategies

In this business segment, invigorating the amusement center industry is a priority task because it affects the segment's business results significantly. Accordingly, we are promoting a revenue-sharing business model and CVT kits that lighten amusement center operators' initial investment burden and such business models as free-to-play (F2P), which broaden the player base. Furthermore, we are pursuing other initiatives to extend the player base so that it includes not only core players but also families. At the same time, we are optimizing management resources by allocating them to the digital game area. Regarding development, aiming to supply products that match market demand, we will rethink the segment's development-led, production-oriented approach.

### Strategy Matrix

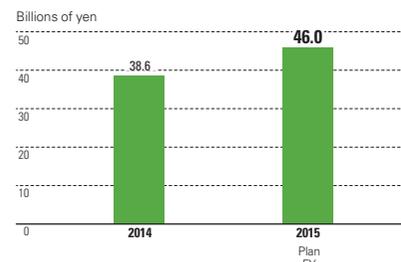


### Fiscal 2015 Outlook

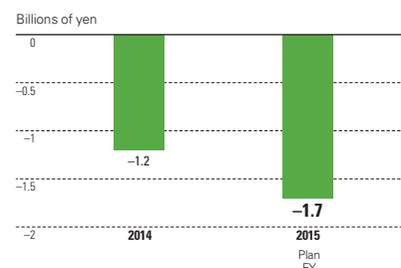
In fiscal 2015, challenging market conditions are likely as an increase in consumption tax curbs amusement center operators' investment. The segment is targeting a 19% year-on-year rise in net sales, to ¥46.0 billion. However, advance investment to build a product lineup that reflects changes in industry conditions is expected to increase operating loss from fiscal 2014's ¥1.2 billion to ¥1.7 billion. Furthermore, R&D expenses and content production expenses are projected to rise 3% year on year, to ¥9.2 billion.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>Very competitive products in high-end market</li> <li>Precise identification of market needs through collaboration with Amusement Center Operations segment</li> <li>Developmental personnel</li> </ul>	<ul style="list-style-type: none"> <li>Low profitability of overseas businesses</li> <li>Development-led, production-oriented approach</li> <li>High-cost structure</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>Growth potential of overseas markets centered on Asia</li> <li>Tie-ins with consumer generated media (CGM)</li> </ul>	<ul style="list-style-type: none"> <li>Amusement center operators' challenging financial position</li> <li>Risk of lower revenues from revenue-sharing business model due to slumping consumer spending</li> </ul>

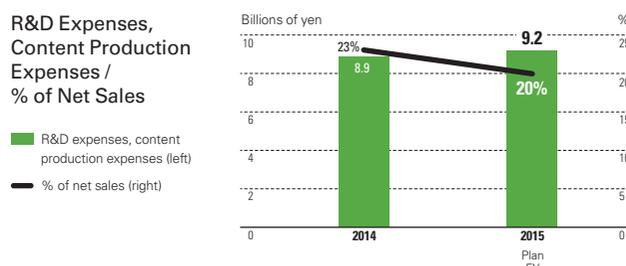
### Net Sales



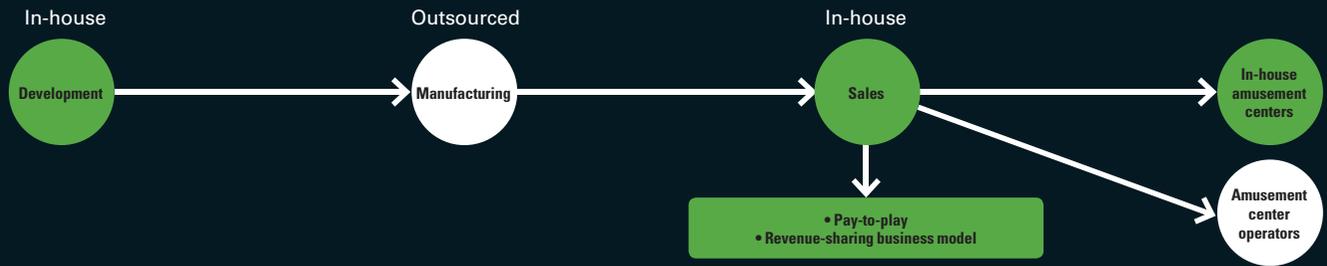
### Operating Loss



### R&D Expenses, Content Production Expenses / % of Net Sales



## Supply Chain of the Amusement Machine Sales Business



## COLUMN Get to Know the Amusement Machine Sales Business

Aiming to invigorate the industry, we are deploying a wide variety of business models.

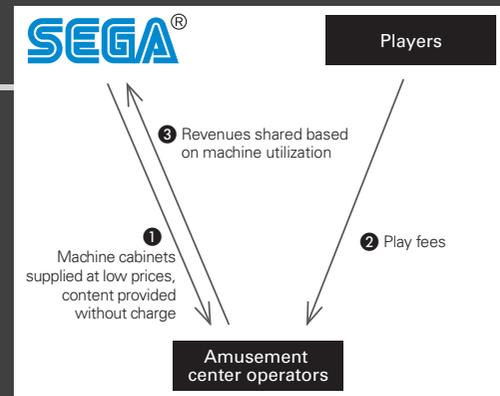
### CVT Kits

CVT kits enable amusement center operators to upgrade games without purchasing new machine cabinets. Operators use the kits to replace the boards, software, and exteriors of their existing machines. In fiscal 2015, plans call for marketing CVT kits for such mainstay titles as *INITIAL D ARCADE STAGE 8 INFINITY* and *StarHorse3 Season III CHASE THE WIND*.



### Revenue-Sharing Business Model

In the revenue-sharing business model, SEGA provides amusement center operators with low-priced machine cabinets and free content. Through the infrastructure of SEGA's *ALL.NET* network service, SEGA and amusement center operators share revenues from the utilization of the amusement arcade machines, in other words play fees from players. Under this model, amusement center operators are able to introduce new products for a small initial investment. Meanwhile, the business model extends SEGA's involvement beyond the sales of amusement arcade machines. It allows us to sustain earnings by upgrading content periodically and thereby maintain the market value of our amusement arcade machines.



### Free-to-Play (F2P)

Under this business model, games can be played for free, but players pay fees to purchase items within the games or to continue stages. In fiscal 2014, we rolled out the amusement arcade machine industry's first title incorporating an F2P business model, *Puyopuyo!! Quest Arcade*. By using broadly popular intellectual property for this new game format, we hope to attract women and families. In the future, we aim to strengthen the linkage between amusement centers and the digital game area further so that they grow each other's customer bases.



# Amusement Center Operations



## the PAST

**1965** Started operation of amusement centers

**1996** Opened indoor theme park, *TOKYO JOYPOLIS*



TOKYO JOYPOLIS

**2002** Opened our first darts bar, *Bee SHIBUYA*

**2009** Opened indoor theme park, *SEGA REPUBLIC*, in United Arab Emirates based on license agreement

**2012** Consolidated Group companies engaged in amusement center operations to establish SEGA ENTERTAINMENT Co., Ltd.

**2013** Opened world's first nature simulation museum, *Orbi Yokohama*



Orbi Yokohama

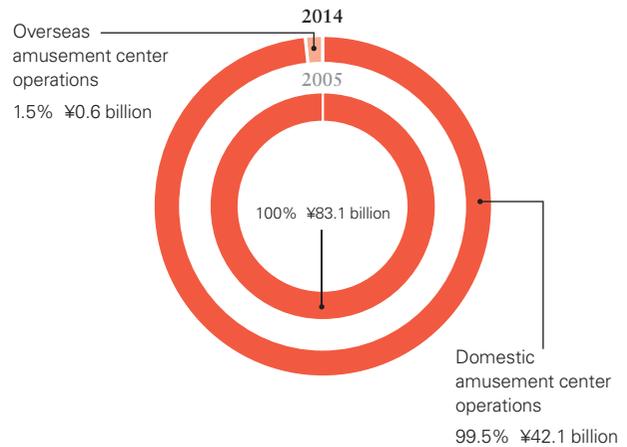
## the PRESENT

### Comparing Fiscal 2014 and Fiscal 2005

#### Net Sales



#### Net Sales Breakdown



#### Number of Domestic Amusement Centers\*<sup>2</sup>



#### Employee Numbers





TOKYO JOYPOLIS



Orbi Yokohama

### Fiscal 2014 Overview

#### Net sales

¥43.2 billion | 1% ↑

#### Operating Income

¥0.0 billion | — ↓

#### Existing Domestic Amusement Center Sales Year on Year

96.1%

### Fiscal 2014 Overview

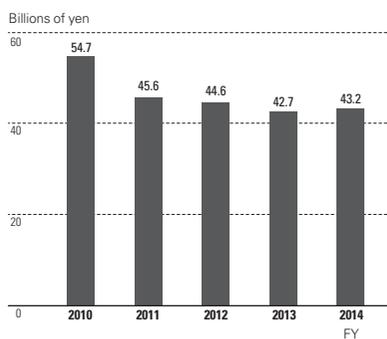
In fiscal 2014, the Amusement Center Operations segment's net sales rose 1% year on year, to ¥43.2 billion. Despite continuing efforts to strengthen the management capabilities of existing amusement centers, the absence of market-driving titles led to a 3.9%\*<sup>1</sup> decrease in the net sales of existing domestic amusement centers. Capital expenditures decreased 3% year on year, to ¥7.7 billion, and depreciation and amortization rose marginally, to ¥4.7 billion.

As of March 31, 2014, the segment had 198 domestic amusement centers. Furthermore, in partnership with BBC Worldwide Limited, SEGA unveiled the world's first nature simulation museum, *Orbi Yokohama*, in August 2013.

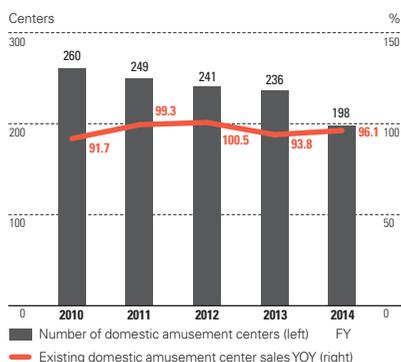
Operating income declined from the previous fiscal year's ¥1.1 billion to ¥60 million.

\*<sup>1</sup> The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the amusement centers classified as existing amusement centers and the aggregate calculation method for the number of amusement centers have changed as of fiscal 2014.

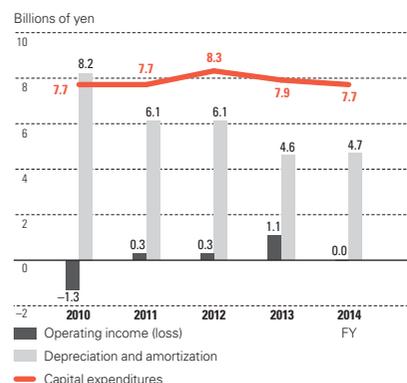
#### Net Sales



#### Number of Domestic Amusement Centers\*<sup>2</sup> / Existing Domestic Amusement Center Sales YOY\*<sup>3</sup>



#### Operating Income (Loss) / Capital Expenditures / Depreciation and Amortization\*<sup>4</sup>



\*<sup>2</sup> The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the aggregate calculation method for the number of amusement centers has changed as of fiscal 2014.

\*<sup>3</sup> As a result of the above-mentioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal 2014.

\*<sup>4</sup> The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

## Amusement Center Operations

### Business Model

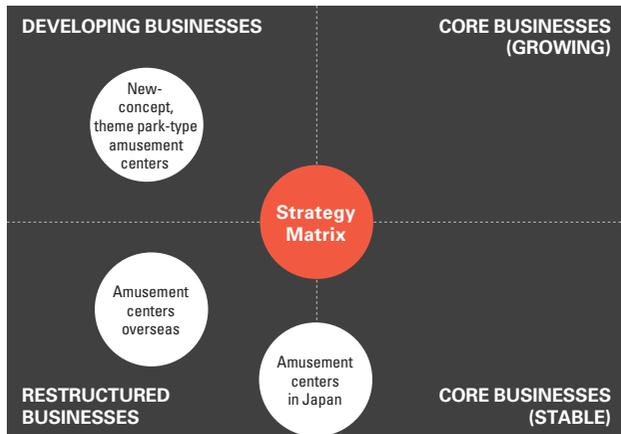
We categorize this segment's operations into conventional amusement centers and theme park-type amusement centers, such as *TOKYO JOYPOLIS* and *Orbi Yokohama*. In addition to the Group's amusement arcade machines, the segment sources amusement arcade machines from a variety of vendors to cater to the needs of a wide range of players.

## the FUTURE

### Growth Strategies

In Japan, we will continue revising our portfolio of conventional amusement centers. Also, we will advance initiatives in new areas by opening more amusement centers for families in shopping centers and opening amusement centers integrated with restaurants and other business formats. Furthermore, we will improve profitability by bolstering amusement centers' operational capabilities and will heighten the earning power of theme park-type amusement centers through development and management while developing them overseas through licensing out.

### Strategy Matrix



### Fiscal 2015 Outlook

In fiscal 2015, existing amusement centers' earnings are likely to deteriorate due to effect of the increase in the consumption tax. As a result, the segment is expected to record year-on-year decreases of 2.5% in existing amusement centers' sales and 3% in net sales, to ¥42.0 billion, and a ¥0.6 billion operating loss. Capital expenditures are projected to decrease 19% year on year, to ¥6.2 billion, while depreciation and amortization is expected to increase 15% year on year, to ¥5.4 billion. In Japan, plans call for opening three amusement centers and closing seven, giving a total of 194 amusement centers at the end of the current fiscal year.

### STRENGTHS

- Rightsized amusement centers portfolio
- Product lineup catering to broad range of player groups

### WEAKNESSES

- Low profit margins and capital turnover ratio

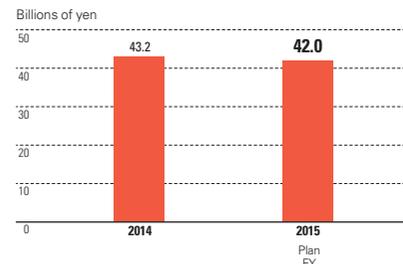
### OPPORTUNITIES

- Growth potential of overseas markets centered on Asia
- Formation of seniors market
- Expansion into new facilities such as restaurants and sports facilities

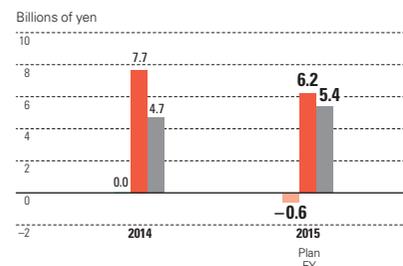
### THREATS

- Market contraction due to slump in consumer spending
- Decline in player numbers due to aging society

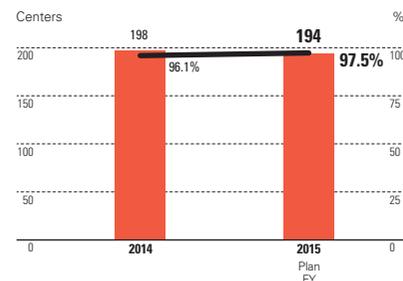
### Net Sales



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



### Number of Domestic Amusement Centers / Existing Domestic Amusement Center Sales YOY



# Consumer Business

Packaged game software and digital games



Animation



Digital animation



Toy sales



Packaged game software



ATLUS. CO., LTD.

Digital games



Sammy NetWorks Co., Ltd.



SEGA Networks, Ltd.

## the PAST

**1983** Launched 8-bit home video game platform, *SG-1000*

**1988** Launched 16-bit home video game platform, *Mega Drive*

**1991** Launched first title in the *Sonic the Hedgehog* series

**1994** Launched 32-bit home video game platform, *SEGA Saturn*

**1998** Launched home video game platform with Internet connectivity, *Dreamcast*

**2000** Launched first networked role-playing game (RPG) for home video game platform, *PHANTASY STAR ONLINE*

**2001** Withdrew from home video game platform business

**2005** Launched first title in *Ryu ga Gotoku* home video game series

**2007** Launched *Mario & Sonic at the Olympic Games™* home video game

**2012** Established SEGA Networks, Ltd.



Mega Drive ©SEGA



Sonic the Hedgehog ©SEGA



Dreamcast ©SEGA



PHANTASY STAR ONLINE ©SEGA



Ryu ga Gotoku ©SEGA

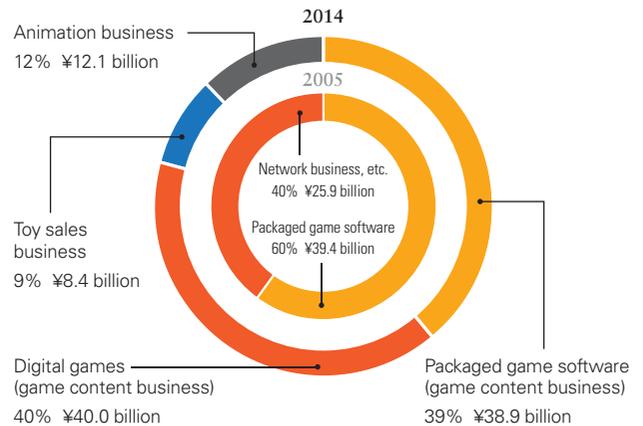
## the PRESENT

### Comparing Fiscal 2014 and Fiscal 2005

Net Sales



Net Sales Breakdown



\* For fiscal 2014, corporate and eliminations of ¥0.4 billion have been excluded.

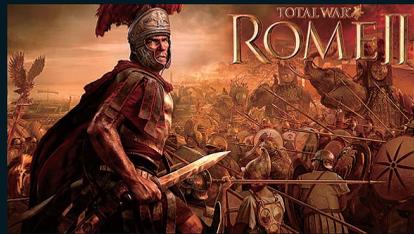
Employee Numbers



## Consumer Business



PHANTASY STAR ONLINE 2  
©SEGA



Total War: ROME II  
©SEGA. The Creative Assembly and the Total War logo are trademarks or registered trademarks of The Creative Assembly Limited. SEGA and the SEGA logo are either registered trademarks or registered trademarks of SEGA Corporation. All Rights Reserved. All other trademarks are the property of their respective owners.

### Fiscal 2014 Overview

#### Net Sales

¥99.8 billion | 19% ↑

#### Operating Income

¥2.0 billion | Moves into black

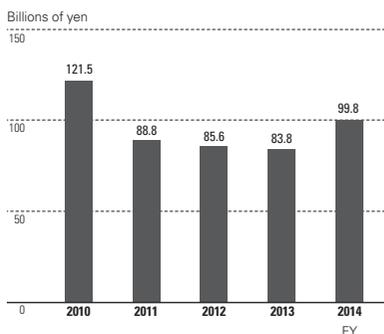
#### Home Video Game Software Unit Sales

8.73 million units | -19% ↓

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

¥30.1 billion | —

#### Net Sales



### Fiscal 2014 Overview

In fiscal 2014, thanks to higher earnings from the digital game area, net sales rose 19% year on year, to ¥99.8 billion. Furthermore, the segment moved into the black, posting operating income of ¥2.0 billion, compared with the previous fiscal year's operating loss of ¥0.7 billion. Also, reflecting efforts to strengthen content in the digital game area, R&D expenses and content production expenses were ¥30.1 billion.

In the packaged game software area, launches of several new titles, including *Total War: ROME II* and *Football Manager 2014* did not completely offset lackluster sales of some titles amid tough market conditions. As a result, sales declined 2.05 million units, to 8.73 million units. Net sales rose 9%, to ¥38.9 billion.

In addition, Index Corporation transferred its businesses to us in November 2013. Furthermore, on April 1, 2014, we executed a company split to establish its home video game software business as ATULUS. CO., LTD., and its contents and solutions business as Index Corporation.

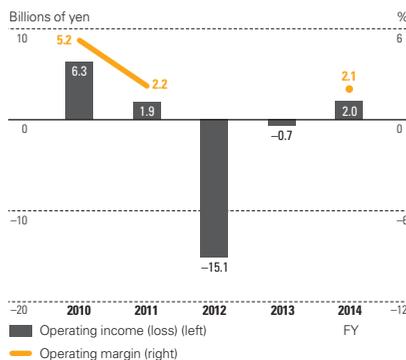
In the digital game area, sales of online RPG *PHANTASY STAR ONLINE 2* and, for smartphones, *Puyopuyo!! Quest* and *CHAIN CHRONICLE* were brisk.

In Japan, as of March 31, 2014, the segment distributed 141 titles, of which 73 were pay-to-play and 68 were free-to-play (F2P).

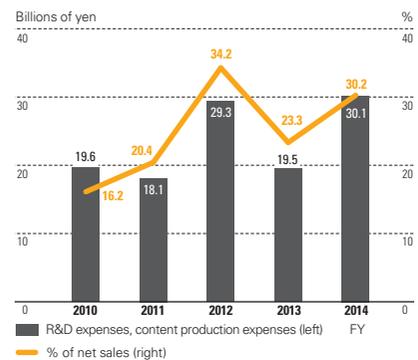
As a result of the above, net sales grew 35% year on year, to ¥40.0 billion.

The toy sales business posted sales of ¥8.4 billion, which was approximately the same level year on year, while the animation business achieved a 15% year-on-year increase in sales, to ¥12.1 billion. The toy sales business marketed mainstay products in such series as *ANPANMAN* and *Jewel Pod*, but its sales remained sluggish overall. Meanwhile, the animation business performed favorably, with the movie-theater version of *LUPIN THE 3rd VS DETECTIVE CONAN THE MOVIE* recording more than 3 million viewers.

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



#### R&D Expenses, Content Production Expenses\* / % of Net Sales



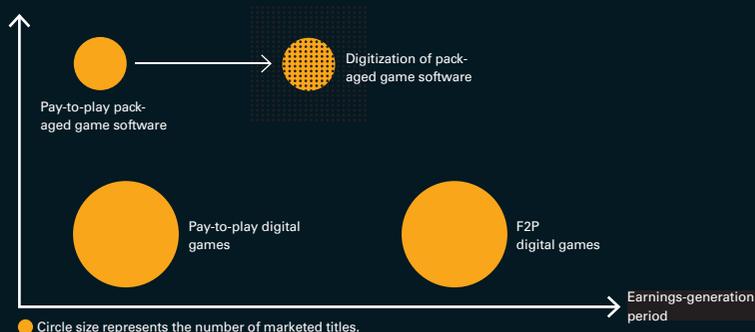
\* The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

### Business Model (Game content)

Developmental lead times for digital games, for which the main business model is F2P\*, are relatively short compared with those for pay-to-play packaged game software. Furthermore, because developing digital games is less costly than developing packaged game software, the digital game market sees numerous title launches. Accordingly, achieving a high percentage of hit products—and thereby heightening market presence—is important.

\* These are games based on a business model that provides basic play for free but generates continuous earnings by charging fees for additional items within the games.

### Development Expenses per Title (Developmental lead time)



## the FUTURE

### STRENGTHS

#### Rich management resources in the digital game area

As well as boasting strong brand-name recognition in markets worldwide, SEGA has abundant intellectual properties and developmental personnel. Particularly in the digital game area, these management resources enable SEGA to create a rich product lineup that spans an extensive array of game genres, differentiates the company, and gives it a significant competitive advantage.

#### Team specializing in building business models

In relation to games for smart devices, we have consolidated such “selling” capabilities as control of title lineup composition, market analysis, marketing, and operational management in SEGA Networks, Ltd. One of this segment’s strengths is a system that efficiently monetizes abundant management resources. [in Detail ▶▶ P.46](#)

#### Some of the best animation assets in Japan



ANPANMAN: Fly! Handkerchief of hope  
©TAKASHI YANASE / froebel-kan-TMS-NTV  
©TAKASHI YANASE / ANPANMAN  
PROJECT2013



LUPIN THE 3rd VS DETECTIVE CONAN THE MOVIE  
©Monkey Punch, Goshō Aoyama / “Lupin the 3rd vs.  
Detective Conan” Film Partners

### WEAKNESSES

#### Decline in sales and profitability of packaged game software

In the packaged game software area, profitability remains low. We are rebuilding the business by focusing more strongly on the development and sale of major intellectual properties.

#### Low profit margin of toy sales business

### OPPORTUNITIES

- Rapid growth of online game content market in Japan
- Possible invigoration of packaged game software market due to release of next-generation home video game consoles
- Expansion of PC online games in Asia market

### THREATS

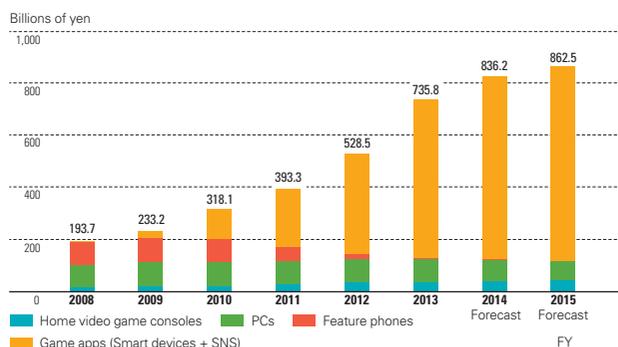
#### Market contraction and continuous high development costs for packaged game software

The packaged game software market remains in a slump, while increasingly advanced hardware is keeping development expenses high. This has led to the further strengthening of an oligopoly comprising titles and companies with significant developmental capacity.

#### Intensification of competition in digital game area

Companies inside and outside the entertainment industry are entering the online game content market as it grows conspicuously. To create hit titles stably, companies have to distribute titles across a wide variety of genres continuously.

#### Japan Market for Online Game Content



## Consumer Business



PHANTASY STAR  
ONLINE 2  
©SEGA



CHAIN CHRONICLE –  
Kizuna no Shintairiku  
©SEGA / ©SEGA Networks



Puyopuyo!! Quest  
©SEGA ©SEGA Networks

### Growth Strategies

In the packaged game software area, we will realize stable earnings generation by continuing to rationalize. In conjunction with these efforts, we will maximize earnings opportunities by pursuing a cross-platform strategy, which enables the sharing of video game data among devices. Moreover, we will promote the digital conversion of existing packaged game software intellectual properties. Also, the segment will use SEGA's management resources to maximize the added value of the intellectual properties of ATLUS. CO., LTD.

In the digital game area, SEGA and SEGA Networks will spearhead efforts to heighten the segment's percentage of hit products and market presence by leveraging highly specialized business divisions and an extensive title lineup based on rich intellectual properties and developmental resources. In addition, focusing on other parts of Asia, we plan active overseas rollouts of titles that have become hits in Japan.

In the toy sales business, while stepping up sales of mainstay products, we will revamp value chains with a view to improving profitability.

As for the animation business, TMS ENTERTAINMENT, LTD., which owns a large portfolio of valuable animation assets, will concentrate on creating new television series and developing related businesses. Furthermore, MARZA ANIMATION PLANET INC. will exploit some of Japan's most advanced animation production technology to develop new initiatives.

### Fiscal 2015 Outlook

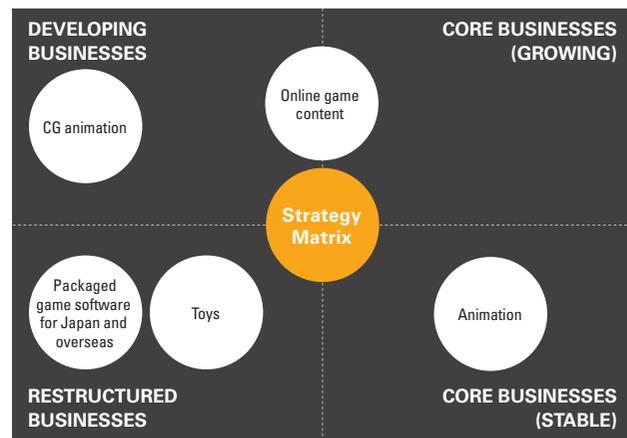
In fiscal 2015, due to higher revenues from the digital game area the Consumer Business is expected to record year-on-year increases of 29% in net sales, to ¥128.5 billion, and 230% in operating income, to ¥6.6 billion. We anticipate that stepped-up development will increase R&D expenses and content production expenses 16% year on year, to ¥34.9 billion.

Looking at sales by business, we project year-on-year increases of 26% in the packaged game software area, 31% in the digital game area, 15% in the toy sales business, and 15% in the animation business.

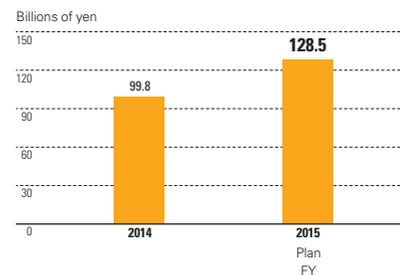
In the packaged game software area, we aim to grow unit sales 4.05 million units, to 12.78 million units, by rolling out titles under the ATLUS. brand in earnest as well as marketing powerful existing intellectual properties.

As for the digital game area, we will bring to market new titles for smart devices under major intellectual properties and embark upon full-fledged rollouts of domestic titles in Asia. Furthermore, in Japan plans call for marketing 43 titles, comprising 13 pay-to-play and 30 F2P.

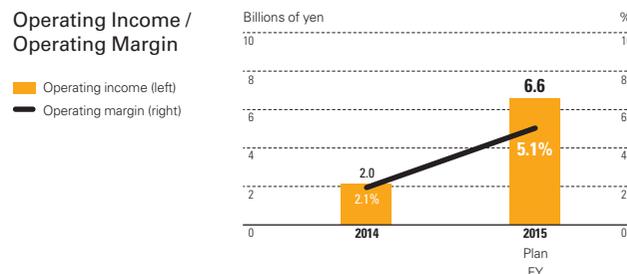
### Strategy Matrix



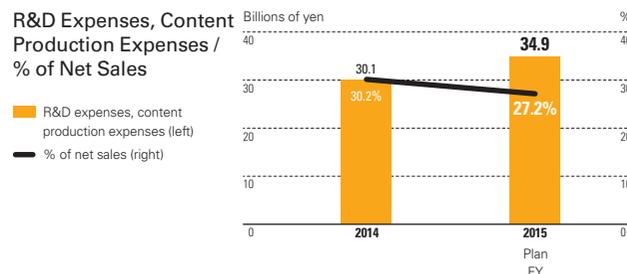
### Net Sales



### Operating Income / Operating Margin



### R&D Expenses, Content Production Expenses / % of Net Sales



# GOVERNANCE

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## Interview with an Outside Director— SEGA SAMMY Group's Corporate Governance

**Outside Executive Vice President Takeshi Natsuno speaks frankly about the SEGA SAMMY Group's corporate governance.**



**Q** How do you see the role of an outside director?

**An outside director should check the consistency between short-term pursuit of profit and long-term vision.**

I believe that outside directors need two perspectives. First, they must provide oversight as a representative of shareholders. Second, they should consider how best to grow the company through management execution. An outside director cannot check if a measure will contribute to corporate value without an understanding of the implementation side. As such, I do not see these two viewpoints as conflicting.

Actual management expends a considerable amount of energy on generating short-term results. To some extent this is unavoidable because management goals are set for each fiscal year. As a going concern, however, a listed company needs a long-term vision of its target corporate profile and role in society. For entertainment companies, bringing as much enjoyment to the world as possible is important. They should not simply pursue profit. Thus, I think an outside director's role is to check the consistency between a company's short-term pursuit of profit and long-term vision and whether decision-making balances short- and long-term considerations.

**Q** What form do you think corporate governance should take?

**The format is irrelevant if a company has a long-term perspective and strong leadership.**

In my view, more of Japan's companies should think about transferring to company-with-committees governance systems. Generally speaking, I think expecting a long-term perspective from a salaried employee who has become president through a seniority system is unrealistic. Inevitably, during their term in office there is a strong tendency to manage based on short-term perspectives. Such companies should transfer to company-with-committees governance systems in which committees have a majority of outside directors who are able to view the companies from objective, comprehensive, and long-term perspectives.

On the other hand, in owner-type corporate groups such as the SEGA SAMMY Group, if the chief executive officer provides strong leadership and a medium-to-long-term outlook, a company-with-committees governance system is not always necessary. Furthermore, if, as in the case of the SEGA SAMMY Group, a corporate group has effective governance, I do not think we need to quibble over the format.

### **TAKESHI NATSUNO**

Outside Executive Vice President  
SEGA SAMMY HOLDINGS INC.

**Q** Would you mind giving an example illustrating the effectiveness of the Group's governance?

**The transparency of figures normally difficult for outsiders to access is very telling.**

The SEGA SAMMY Group's extremely stringent internal control and compliance systems are praiseworthy. In part, they reflect the fact that the Group operates in an industry where impartiality and openness is particularly important. The Basic Policies on Corporate Governance call on the Group to increase transparency, and the transparency of information provided is striking. At meetings of the Board of Directors, outside directors receive comprehensive quantitative information including the various relevant figures needed. Because numbers do not lie, this detailed information enables outside directors to realize in-depth oversight of management execution. Furthermore, if an issue comes to light, we can immediately pinpoint the cause based on the figures before us. Personnel within the Group do not seem to view providing exhaustive information as anything unusual. Based on my view from the outside, however, it testifies to impartiality and openness.

All important resolutions by the boards of directors of the main operating companies are, in principle, reported to and are matters for resolution by the Board of Directors of SEGA SAMMY HOLDINGS INC., which all executives of the main operating companies attend. Thus, the holding company's Board of Directors effectively achieves unified management of all operating companies. The senior management teams of Group companies attend meetings of the Board of Directors, where they have thorough discussions. I do not object to boards of directors functioning as bodies that approve resolutions which executive officers have submitted. However, if there is any doubt about the appropriateness of resolutions, I think boards of directors should discuss matters until they are satisfied.

**Q** How do you approach the Board of Directors?

**The Board of Directors has withdrawn resolutions when I have pointed out that we have not discussed matters sufficiently.**

Because they have discussed matters exhaustively in advance, in reality it is difficult for executive officers to reverse resolutions at meetings of the Board of Directors. Therefore, outside directors are the Board members who state opinions most freely. Outside director Yuji Iwanaga and I state opinions without any inhibitions whatsoever. While I feel bad about causing the secretariat concern, I inform them that I do not wish to receive prior explanations other than for complex agenda items. The reason for this is that when I receive prior explanations and state my opinion, preparations are made in response to the opinion before the Board of Directors convenes. Not receiving prior explanations encourages spontaneous statements

that trigger more fruitful discussions at meetings of the Board of Directors. In some cases, the Board of Directors has withdrawn resolutions when I have pointed out that we have not discussed matters sufficiently. I think this is a fairly rare response among listed companies' boards of directors.

**Q** From the perspective of management execution, how do you view the SEGA SAMMY Group going forward?

**I believe the Group is in an ideal position and should continue mold-breaking initiatives.**

The digital game area is increasing its presence in entertainment worldwide. To continue producing hit products steadily in this area, the Group has to roll out numerous products as well as diversify its title portfolio. However, simultaneously advancing many development pipelines requires a certain amount of organizational strength. The shakeout among young companies specializing in digital games illustrates this. On the other hand, the SEGA SAMMY Group is a sizeable, robust corporate group that is able to create a diverse title portfolio. As a result, its presence in the digital game area has been becoming more distinctive with each passing year. Moreover, the same strengths are evident in the Pachislot and Pachinko Machine Business, Amusement Machine Sales Business, and Amusement Center Operations segments. Consequently, I think the Group is in an ideal position to influence whole industries.

As well as its product portfolio, we can say the same of the Group's overall business portfolio. In the current market, different types of entertainment are competing for users' time. The SEGA SAMMY Group has to consider constantly how to motivate users to spend as much time as possible enjoying its entertainment in their day-to-day lives. The Group is able to captivate users thanks to its diverse business portfolio.

To further exploit this position, continuing to devise mold-breaking initiatives that break with the past is critical. Already, the Group has created such mold-breaking titles as *CHAIN CHRONICLE* in the digital game area. Other initiatives likely to provide good examples of departing from existing business models are efforts to attract senior customers in the Amusement Machine Sales Business and Amusement Center Operations segments and efforts to establish an integrated resort business.

In my experience, new ventures do not succeed unless they are thoroughly discussed at the initial stage. However, SEGA SAMMY HOLDINGS' Board of Directors discusses such new businesses energetically.

# Corporate Governance System

## Corporate Governance System at a Glance

Format	Audit and Supervisory Board system
Reason for adoption of format	Based on the view that this system enables directors to make prompt, optimal management decisions amid volatile business conditions based on their wealth of expertise and experience in relation to the industry, market trends, products, merchandise, and services
Directors	9
Of whom, outside directors	2
Term of directors	1 year
Incentives granted to directors	Introduction of stock option system
Individual disclosure of directors' compensation	Disclosure only for directors with total compensation of ¥100 million or more
Audit and Supervisory Board members	4
Of whom, outside Audit and Supervisory Board members	3
Independent directors	5 (2 outside directors, 3 outside Audit and Supervisory Board members)
Independent auditor	KPMG AZSA LLC
Term of auditing contracts	Renewed annually
Adoption of executive officer system	Yes

## Basic Stance

SEGA SAMMY HOLDINGS and the SEGA SAMMY Group regard corporate governance as the most important foundation of corporate activities. Therefore, we have set forth Basic Policies on Corporate Governance consisting of three major corporate management tenets: enhance efficiency, secure a sound corporate organization, and increase transparency. These policies form the basis for addressing such important management issues as selecting Board candidates, deciding compensation for directors, implementing management oversight, and deciding compensation for Audit and Supervisory Board members.

## Enhancing Efficiency

The Group will maximize corporate value by establishing prompt and appropriate decision-making processes and by raising management efficiency, returning the resulting profit to shareholders and other stakeholders.

## Securing a Sound Corporate Organization

We will maximize corporate value amid volatile business conditions by identifying and managing diverse risks. Also, we will ensure a sound organization by establishing compliance systems that enable us to respond appropriately in light of ethical and social norms, including statutory laws and regulations; their underlying social values; and changes to these values.

## Increasing Transparency

Given the increasing importance of corporate disclosure, we are committed to being accountable to shareholders and other stakeholders. Accordingly, we will heighten the transparency of business management by increasing and improving disclosure through stepped-up investor relations (IR) initiatives.

The Company and the Group regard corporate social responsibility (CSR) activities as enabling the Group's sustained value creation and the ongoing advancement of stakeholders. To respond appropriately as a good corporate citizen to a wide range of social needs and

expectations, the Group has established the Group CSR Coordination Meeting to organize and mobilize its CSR activities as well as the Group CSR Promotion Office, which is dedicated to such activities. Furthermore, we have established the Group Management Philosophy, the Group CSR Charter, the Group Code of Conduct, and the Group Management Policy, which are the foundations for our CSR activities. In addition, we establish or revise various in-house rules and manuals, which directly regulate and guide specific types of operational duties. Based on these structures, the whole Group develops CSR activities voluntarily and actively to build favorable relationships with its stakeholders.

## Operational and Management Structure

The SEGA SAMMY Group has adopted an Audit and Supervisory Board member system to enable directors to make prompt, optimal decisions amid volatile business conditions based on their wealth of expertise and experience in relation to the industry, market trends, products, merchandise, and services. At the same time, we have appointed outside directors and strengthened our executive officer system and internal auditing system, thereby reinforcing corporate governance with respect to operational management and oversight.

## Coordination among Corporate Bodies to Enhance Operational Implementation, Auditing, and Oversight

The Group enhances operational implementation, auditing, and oversight primarily through the following meetings.

### Board of Directors ①

Comprising nine directors, the Board of Directors strives for agile business management. It convenes once a month in principle, holding extraordinary sessions as required. Furthermore, the Board of Directors makes decisions and receives reports on certain significant management matters of Group companies.

### Audit and Supervisory Board ②

Meeting once a month and holding extraordinary sessions as required and comprising four members, the Audit and Supervisory Board thoroughly examines and analyzes specific issues.

### Group Management Liaison Committee ③

Meeting as required, the Group Management Liaison Committee builds consensus in the Group through information sharing and rigorous discussion. The committee comprises the Company's directors, Audit and Supervisory Board members, and executive officers, and the directors of SEGA CORPORATION and Sammy Corporation.

### Voluntary Committees ④

The Board of Directors establishes voluntary committees as required to examine and discuss specific issues related to the Group's business management, the results of which are reported back to the Board of Directors. Moreover, these committees establish subcommittees to examine and discuss more specialized issues.

### Liaison Committees ⑤

Liaison committees are bodies that examine, discuss, and coordinate the Group's corporate governance policies. Currently, there are three committees: the Group Internal Control Liaison Committee, the Group CSR Liaison Committee, and the Group Compliance Liaison Committee. The Group Internal Control Liaison Committee and Group CSR Liaison Committee, which meet quarterly in principle, comprise managers responsible for internal control and CSR at the Company, SEGA, and Sammy. The Group Compliance Liaison Committee, which convenes every six months in principle, comprises the compliance officers of the Company, SEGA, Sammy, TAIYO ELEC Co., Ltd., Sammy NetWorks Co., Ltd., SEGATOYS CO., LTD., TMS ENTERTAINMENT, LTD., Phoenix Resort Co., Ltd., and Japan Multimedia Services Corporation.

### Group Audit Liaison Committee ⑥

The Group Audit Liaison Committee comprises standing Audit and Supervisory Board members from Group companies. They convene as required to share information on timely issues for the Company and the Group, such as revisions in statutory laws and regulations, and to establish close collaboration among the standing Audit and Supervisory Board members of Group companies.

### Holdings Audit Liaison Committee ⑦

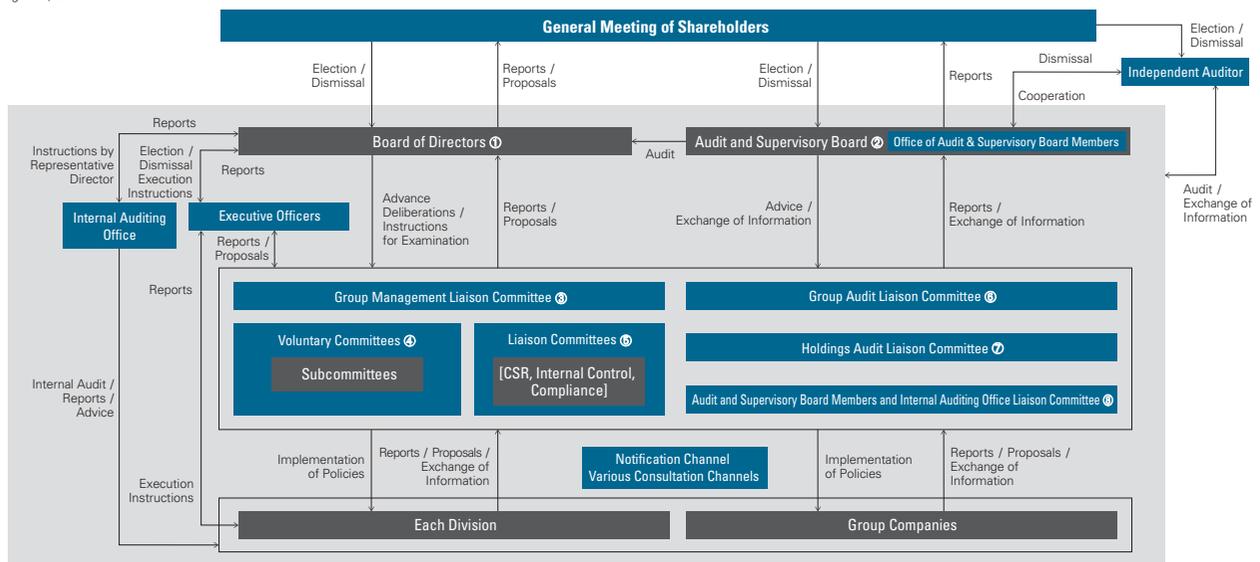
The Holdings Audit Liaison Committee comprises standing Audit and Supervisory Board members from the Company, SEGA, and Sammy; executives responsible for the accounting divisions of the three companies; representatives of internal audit divisions; representatives of internal control divisions; and representatives of the Company's independent auditor, KPMG AZSA LLC. Meeting monthly in principle, committee members exchange opinions from their respective standpoints and enhance accounting compliance.

### Audit and Supervisory Board Members and Internal Auditing Office Liaison Committee ⑧

The Audit and Supervisory Board Members and Internal Auditing Office Liaison Committee comprises standing Audit and Supervisory Board members from the Company, SEGA, and Sammy as well as members of the Company's Internal Auditing Office. The committee meets every month in principle with the purpose of ensuring the soundness of business management by sharing information between the said standing Audit and Supervisory Board members and the Company's Internal Auditing Office.

## Corporate Governance System

As of August 6, 2014



## Corporate Governance System

## Systems for Assuring Objective Business Management

The Company has nine directors, of whom two are outside directors, as well as four Audit and Supervisory Board members, of whom three are outside Audit and Supervisory Board members. The outside directors provide advice on raising the corporate value of the Company and the Group from an external perspective, based on their extensive expertise and experience. Aiming to enable oversight of directors' implementation of operations, we appoint outside directors from among attorneys and business executives.

We appoint outside Audit and Supervisory Board members with extensive expertise and experience in a wide range of areas because we appreciate the important role outside Audit and Supervisory Board members perform in realizing corporate governance by heightening the impartiality and independence of the auditing system. Also, we aim to ensure the soundness of business management through auditing from an objective standpoint.

At the various meetings that they attend, outside directors and outside Audit and Supervisory Board members provide guidance and advice based on their abundant experience and highly specialized knowledge. Regarding the independence of outside directors and outside Audit and Supervisory Board members, we deem that persons satisfying the requirements of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange (the "Listing Regulations") do not have conflicts of interest with general shareholders. Therefore, we appoint persons that are not subject to additional disclosure requirements pursuant to rule 211, paragraph 4, item 5, and rule 226, paragraph 4, item 5 of the Listing Regulations. Moreover, we determine items that are "significant" or "significant amounts" with reference to the publicly announced standard model for appointing independent directors. The Company has adopted a policy of appointing all outside directors and outside Audit and Supervisory Board members that are not subject to the above-mentioned additional disclosure requirements as independent directors. Accordingly, we have designated all currently serving outside directors and outside Audit and Supervisory Board members as independent directors.

To support the activities of outside directors, we have established secretariats for executive meetings to facilitate appropriate information distribution and to ensure that outside directors have sufficient time to examine the details of matters for resolution by the Board of Directors. To support the work of outside Audit and Supervisory Board members, we have established the Office of the Audit and Supervisory Board, which is under the direct control of the Audit and Supervisory Board. In accordance with Audit and Supervisory Board members' orders, the office's personnel assist Audit and Supervisory Board members in their duties. Furthermore, to ensure the independence of the office from the Board of Directors, the Audit and Supervisory Board must approve the appointment, transfer, and evaluation of the office's personnel. Furthermore, we have secretariats for executive meetings, the Office of Audit and Supervisory Board Members, the Internal Auditing Office, and the Internal Control Department to facilitate appropriate information distribution and to ensure that outside Audit and Supervisory Board members have sufficient time to examine the details of proposals and other information related to the meetings they attend.

Outside directors	Reason for appointment
Yuji Iwanaga	To reflect Mr. Iwanaga's perspective as an international attorney and extensive expertise in relation to business management of global corporations in the Company's business management
Takeshi Natsuno	To reflect Mr. Natsuno's wealth of experience and extensive expertise as a business executive in the Company's business management
Outside Audit and Supervisory Board members	Reason for appointment
Tomio Kazashi	To reflect Mr. Kazashi's wealth of experience and expertise in business and as an Audit and Supervisory Board member in the Company's auditing
Toshio Hirakawa	To reflect Mr. Hirakawa's wealth of experience and expertise in business and as an Audit and Supervisory Board member in the Company's auditing
Mineo Enomoto	To reflect Mr. Enomoto's expert perspective as an attorney and extensive expertise in relation to business management in the Company's auditing

## Compensation of Directors

Consultations among representative directors whom a resolution of the Board of Directors has commissioned and other directors with responsibility determine the compensation of each director based on consideration of their responsibilities and performance and the limit the Ordinary General Meeting of Shareholders has approved for compensation\*<sup>1</sup>. In addition, aiming to raise morale as well as heighten motivation to increase corporate value further, advance business management in light of an awareness of shareholders and share prices, and improve the Group's business results, the Group grants directors stock options in the form of subscription rights to shares as compensation for the execution of duties.

Consultations among Audit and Supervisory Board members determine the compensation of each Audit and Supervisory Board member based on consideration of their responsibilities and the limit the Ordinary General Meeting of Shareholders has approved for compensation\*<sup>2</sup>.

\*<sup>1</sup> A resolution of the Ordinary General Meeting of Shareholders in June 2012 set the limit for directors' compensation at ¥1 billion.

\*<sup>2</sup> A resolution of the Ordinary General Meeting of Shareholders of Sammy Corporation and a resolution of the Ordinary General Meeting of Shareholders of SEGA CORPORATION in June 2004 set the limit for Audit and Supervisory Board members' compensation at ¥50 million.

## Internal Control

In addition, an internal control project launched in fiscal 2006 established an assessment and reporting framework for internal control in accordance with the stipulations of Japan's Financial Instruments and Exchange Act, which requires "Management Assessment and Audit concerning Internal Control Over Financial Reporting" (J-SOX). Also, the Company has rectified deficiencies that the project identified. As a result, systems to ensure the reliability of financial reports have become firmly established in the Group. We believe that internal controls operated effectively in relation to the financial reports the Group issued for fiscal 2013. As we continue to ensure the reliability of financial reports, we will maintain and build internal control systems to increase efficiency and ensure soundness. Furthermore, based on Japan's Companies Act, SEGA SAMMY HOLDINGS has determined a basic policy on the establishment of internal control systems and is developing systems accordingly.

## Auditing of Accounts

Based on Japan's Companies Act and Financial Instruments and Exchange Act, independent auditor KPMG AZSA LLC audits the accounts of

the Company. There are no special interests between the Company and this independent auditor or personnel of the independent auditor who execute duties. Furthermore, none of the independent auditor's personnel who execute duties have been auditing the Company for more than seven years. In addition, the Company receives advice from the independent auditor on accounting treatment from an accounts auditing perspective not only in relation to audits at fiscal year-ends but also as required during fiscal years.

## Compliance

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Based on the Group Code of Conduct and the Group Management Policy, the SEGA SAMMY Group is undertaking a variety of initiatives to ensure that all employees are aware of compliance and to enable them to act appropriately. Furthermore, having identified loss risks within and outside the scope of its business management and clarified the tasks it should address, the Group implements operations and takes measures to reduce loss, minimize the loss of management resources, and prevent recurrence.

### Compliance Promotion Structure

Established in fiscal 2010 to strengthen initiatives throughout the Group, the Group Compliance Liaison Committee spearheads efforts to build internal structures that enable sound management in accordance with statutory laws and regulations and social norms.

Also, the Company is developing and implementing Groupwide initiatives. These include continuation of Compliance Advancement Initiatives, which it began in fiscal 2010, and informing employees about the whistleblower system to ensure operational duties are performed appropriately.

### Informing Employees about the Group Code of Conduct and Other Commitments

The Group complies rigorously with corporate ethics and statutory laws and regulations by ensuring all employees of the Group understand the Group CSR Charter and by providing guidance on conduct and performance of duties consistent with the spirit of this charter in the Group Code of Conduct and the Group Management Policy.

Because inculcating the Group Code of Conduct among employees is important to our compliance program, we distribute a CSR guidebook to employees that includes the Group Code of Conduct, the Group Management Philosophy, and the Group CSR Charter. Employees can also view these and the Group Management Policy on the Company's intranet.

### Nurturing and Spreading Compliance Awareness

To nurture and spread compliance awareness, the Group holds compliance seminars for Group companies as needed and all employees can view a compliance handbook on the intranet, which provides specific, readily understandable concrete examples of situations employees may encounter in everyday duties. In addition, the Group encourages compliance awareness by including articles incorporating comic strips and other reader-friendly formats. We will share instructive examples from Group companies with other Group companies to generate synergistic benefits and thereby maintain and enhance compliance.

### Strengthening Compliance with Subcontractor Payment Act

The Group is strengthening compliance with the Subcontractor Payment Act by conducting periodic compliance audits. Moreover, legal affairs

divisions educate and provide guidance on subcontractor-related issues to all divisions. Furthermore, to strengthen compliance, internal audit divisions instruct divisions to conduct self-monitoring continuously and share monitoring results with the internal audit, legal affairs, and internal control divisions.

## Whistleblower System

Consistent with the spirit of the Group CSR Charter, the Group has established a whistleblower system to enable self-correction within the Group and the Company and to prevent scandals due to illegal or unfair practices. Each Group company has established a whistleblower system and a contact point at an external law office. The Group investigates reported matters, rectifies them, and takes measures to prevent recurrence. Also, the Group has established a system that protects whistleblowers.

The importance of the whistleblower system as the primary means of discovering compliance violations is increasing. Accordingly, the Group is completely revising this system to enhance its effectiveness, make it easier for employees to use, and ensure its trustworthiness.

## Basic Policy on Intellectual Properties

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Regarding intellectual properties as important for enhancing the Group's competitiveness and a significant resource supporting business management, the Group has set out policies for each Group company.

At SEGA, in addition to establishing an intellectual properties promotion committee in each division, the company conducts wide-ranging initiatives for each project's on-site managers and other managers aimed at heightening awareness of and providing education about intellectual properties. These activities aim to prevent the infringement of third-party intellectual property rights while ensuring appropriate management of the company's intellectual property rights to protect and expand businesses. Furthermore, the SEGA SAMMY Group is implementing anti-counterfeit initiatives to protect and enhance the SEGA brand.

Sammy conducts thorough risk assessments through technological investigations at each stage of R&D. Also, the company raises employee awareness through regular training related to intellectual properties and a dedicated intranet site with a wealth of information about intellectual property.

## IR Activities

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The Company strives to ensure fair and timely disclosures to shareholders and investors. Accordingly, it holds briefings for institutional investors and analysts on full-year and interim financial results and makes the briefing information available on its web site. For overseas investors, we hold roadshows in Asia, Europe, and the United States as required. Furthermore, the Company's representative directors and IR managers participate in conferences that securities companies organize.

In addition, the Company continuously takes measures to further investors' understanding of its business activities. For example, we are increasing and improving the IR-related materials available on our web site. Moreover, our web site has a section for individual investors that includes readily understandable explanations of the Group.

Furthermore, the Company endeavors to heighten the objectivity of its business management by reflecting valuable opinions and requests received from shareholders and investors in its business management.

# Main Activities and Compensation in Fiscal 2014

Board of Directors	Meeting attendance
Board of Directors convened	20 times
Outside directors	
Yuji Iwanaga	Attended 20 of 20 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Takeshi Natsuno	Attended 20 of 20 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Outside directors' attendance	100.0%
Outside Audit and Supervisory Board members	
Tomio Kazashi	Attended 20 of 20 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Toshio Hirakawa	Attended 20 of 20 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Mineo Enomoto	Attended 18 of 20 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Outside Audit and Supervisory Board members' attendance	96.7%
Principle decisions	
Establishment of SEGA SAMMY BUSAN INC.	Established to develop integrated resort in Busan, South Korea
Establishment of SEGA SAMMY CREATION INC.	Established to develop, manufacture, and sell casino machines
Issuance of straight corporate bonds	Total value of bonds: ¥10.0 billion, Maturity: 5 years, Interest rate: 0.519%
Transference of Index Corporation's businesses to the Company	Transferred Index Corporation's packaged game software business and contents and solutions business to the Company to strengthen foundations for growth in the digital game content area
Sale of investment securities	In relation to a sale of shares of common stock implemented by Sanrio Company, Ltd., the Company participated as a selling company and sold some of Sanrio's shares of common stock that it owned (2,870,000 shares, ¥12.5 billion), resulting in a gain on sales of investment securities of ¥10.0 billion.

## Corporate Value

Corporate value	March 31, 2013	March 31, 2014	Change
SEGA SAMMY HOLDINGS INC. shares (closing price: Yen)	¥1,911	¥2,312	↑ 21.0%
TOPIX (closing price: Points)	¥1,034.71	¥1,202.89	↑ 16.3%
Cash dividends paid	¥9,732 million (consolidated dividend payout ratio: 31.6%)		

## Compensation of Directors

Compensation of directors and Audit and Supervisory Board members for fiscal 2014 is as follows.

Position	Directors / Audit and Supervisory Board members	Total compensation (¥ million)	Total compensation by type (¥ million)			
			Basic compensation	Bonus	Stock options	
Directors	Internal	7	633	422	180	31
	Outside	2	31	31	—	—
Audit and Supervisory Board members	Internal	—	—	—	—	—
	Outside	2	25	21	3	—

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2014 is as follows.

Name	Position	Total consolidated compensation, etc. (¥ million)	Company	Total consolidated compensation by type (¥ million)		
				Basic compensation	Bonus	Stock options
Hajime Satomi	Director	635	The Company	276	100	9
			Sammy	—	250	—

## Compensation for Auditing of Accounts and Auditing

In the fiscal year under review, the names of the certified public accountants who executed duties were as follows.

Partners who executed duties

Kiyosyuki Sakurai, Naoya Miyaki, Hiroyuki Nakamura

	Fiscal 2013		Fiscal 2014	
	Compensation for audit and attestation duties	Compensation other than for audit and attestation duties	Compensation for audit and attestation duties	Compensation other than for audit and attestation duties
Millions of yen				
The Company	122	0	129	3
Consolidated subsidiaries	147	14	164	63
Total	269	14	294	67

## Main IR Activities in Fiscal 2014

Financial results briefings	2 times
Quarterly financial results briefings (telephone conferences)	2 times
Small-scale roundtable meetings	1 time
One-on-one meetings (domestic investors)	218 times
One-on-one meetings (overseas investors)	121 times
Overseas roadshows	4 (North America 1, Asia 2, Europe 1) times
Conferences	4 times

# Directors, Audit and Supervisory Board Members, and Executive Officers

As of June 24, 2014

## Directors



**HAJIME SATOMI**  
President and Chief Executive Officer

- 1980 President and Representative Director of Sammy Industry Co., Ltd. (currently Sammy Corporation)
- 2003 Chairman and Director of Sammy Networks Co., Ltd. (current position)
- 2004 Chairman and Representative Director of SEGA CORPORATION  
Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation  
Chairman, Representative Director, and Chief Executive Officer of SEGA CORPORATION  
President and Chief Executive Officer of the Company (current position)
- 2005 Chairman and Director of SEGA TOYS CO., LTD. (current position)  
Chairman and Director of TMS ENTERTAINMENT, LTD. (current position)
- 2007 President, Representative Director, Chief Executive Officer, and Chief Operating Officer of SEGA CORPORATION
- 2008 Chairman, Representative Director, and Chief Executive Officer of the above (current position)
- 2012 Outside Director of Phoenix Resort Co., Ltd.  
Chairman of Sammy Corporation  
Director of Phoenix Resort Co., Ltd.  
Chairman and Director of the above (current position)  
Director of SEGA Networks, Ltd. (current position)
- 2013 Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation (current position)



**NAOYA TSURUMI**  
COO & Senior Executive Vice President

- 1992 Joined SEGA Enterprises, Ltd. (currently SEGA CORPORATION)
- 2005 CEO of SEGA Publishing Europe Ltd.
- 2006 CEO and President of SEGA Holdings U.S.A., Inc.  
Chairman of SEGA of America, Inc.  
Chairman of SEGA Publishing America, Inc.
- 2008 Director of SEGA CORPORATION
- 2009 Managing Director of the above  
Chairman of SEGA Europe Ltd.
- 2010 CEO of SEGA Amusements Europe Ltd.
- 2012 President, Representative Director, and Chief Operating Officer of SEGA CORPORATION  
CEO and President of SEGA Holdings Europe Ltd.  
Director of the Company  
Director of SEGA Networks, Ltd.
- 2013 President and Representative Director of SEGA DREAM CORPORATION (currently ATLUS CO., LTD.)
- 2014 COO & Senior Executive Vice President of the Company (current position)  
Vice Chairman of SEGA CORPORATION (current position)  
Vice Chairman and Director of PHOENIX RESORT Co., LTD (current position)



**AKIRA SUGANO**  
CFO & Executive Vice President

- 1998 Manager of Business Planning Office of SEGA Enterprises, Ltd. (currently SEGA CORPORATION)
- 2004 Executive Officer of the Company
- 2008 Director and General Manager of Corporate Division of SEGA CORPORATION
- 2009 Senior Managing Director, General Manager of Corporate Department of SEGA TOYS CO., LTD.  
Executive Vice President and Director, General Manager of Corporate Department, General Manager of Business Planning Office of SEGA TOYS CO., LTD.
- 2010 Executive Vice President and Representative Director, General Manager of Business Control Department of the above
- 2013 Senior Executive Officer of the Company  
CFO & Executive Vice President of the Company (current position)  
Director of SEGA TOYS CO., LTD. (current position)  
Director of Sammy Corporation (current position)  
Director of SEGA CORPORATION (current position)



**HARUKI SATOMI**  
Executive Vice President

- 2004 Joined Sammy Corporation
- 2005 Joined SEGA CORPORATION
- 2009 Vice President of Digital Business of SEGA of America, Inc.
- 2011 Senior Vice President of Digital Business of SEGA of America, Inc.  
Director of Sammy Networks Co., Ltd.
- 2012 President, Representative Director, and Chief Executive Officer of Sammy Networks Co., Ltd. (current position)  
Director of SEGA of America, Inc. (current position)  
Director of SEGA Europe Ltd. (current position)  
Director of SEGA CORPORATION (current position)  
Executive Vice President of the Company (current position)  
President, Representative Director, and Chief Executive Officer of SEGA Networks, Ltd. (current position)
- 2014 Director of Sammy Corporation (current position)



**SHIGERU AOKI**  
Executive Vice President

- 2005 Joined SEGA CORPORATION as Head Councilor  
Corporate Officer and General Manager of Office of China and Asia Business Management of SEGA CORPORATION
- 2006 President of Sega Networks (China) Co., Ltd.
- 2008 Executive Officer and General Manager of Business Administration Department of Sammy Corporation  
Executive Officer and General Manager of the above
- 2009 Director and General Manager of Corporate Division of the above
- 2011 Managing Director and General Manager of Corporate Division of the above
- 2012 President, Representative Director, and Chief Operating Officer of the above (current position)
- 2013 Executive Vice President of the Company (current position)

## Directors, Audit and Supervisory Board Members, and Executive Officers

## Directors

**HIDEKI OKAMURA**

Executive Vice President

1987 Joined SEGA Enterprises, Ltd. (currently SEGA CORPORATION)  
 1997 Director and Deputy Division Manager of Consumer Business Group Division, General Manager of Saturn Business Division of the above  
 2000 Director in charge of Dreamcast Business Division of the above  
 2002 Vice President and Representative Director of DigiCube Co., Ltd.  
 2003 Senior Executive Officer, Division Manager of Consumer Business Group Division of SEGA CORPORATION  
 2004 Director of TMS ENTERTAINMENT CO., LTD. Managing Director, Division Manager of Consumer Business Group Division of SEGA CORPORATION Executive Vice President of the Company  
 2007 Director of SEGA CORPORATION  
 2008 President and Representative Director of TMS ENTERTAINMENT CO., LTD.  
 2014 Vice Chairman and Director of TMS ENTERTAINMENT CO., LTD. (current position) President, Representative Director, and COO of SEGA CORPORATION (current position) Executive Vice President of the Company (current position)

**HISAO OGUCHI**

Executive Vice President CCO (Chief Creative Officer)

1984 Joined SEGA Enterprises, Ltd. (currently SEGA CORPORATION)  
 2003 President and Representative Director of the above  
 2004 President, Representative Director, and Chief Operating Officer of the above Vice Chairman and Director of the Company  
 2005 Chief Executive Officer of SEGA Holdings Europe Ltd.  
 2006 Chairman of SEGA Holdings U.S.A., Inc.  
 2007 Executive Vice President and Representative Director of SEGA CORPORATION  
 2008 Representative Director of the above Director of the above Director of Sammy Corporation CCO and Director of SEGA CORPORATION CCO and Executive Vice President of the Company (current position) CCO and Director of Sammy Corporation  
 2009 Senior Managing Director of Sammy Corporation  
 2011 Senior Managing Director, Representative Director of the above Director of D×L CREATION Co., Ltd. (current position)  
 2012 Vice President, Representative Director of Sammy Corporation  
 2013 President and Representative Director of SEGA SAMMY CREATION INC. (current position)

## Outside Directors

**YUJI IWANAGA\*<sup>1</sup>**

Outside Executive Vice President

1981 Registered with The Japan Federation of Bar Associations (current position)  
 1984 Partner of Lillick McHose and Charles Law Office (currently Pillsbury Winthrop Shaw Pittman LLP) (current position) Registered with the State Bar of California  
 2003 Outside Director of Manufacturers Bank  
 2005 Outside Director of JMS North America Corporation (current position)  
 2006 Outside Director of TAIYO YUDEN Co., Ltd. (current position)  
 2007 Outside Executive Vice President of the Company (current position)

**TAKESHI NATSUNO\*<sup>1</sup>**

Outside Executive Vice President

2005 Senior Vice President, Managing Director of Multimedia Services Department of NTT DoCoMo, Inc.  
 2008 Guest Professor, Media and Governance of Keio University Outside Executive Vice President of the Company (current position) Director of PIA CORPORATION (current position) Outside Director of transcosmos inc. (current position) Director of NTT Resonant Inc. (current position) Director of SBI Holdings, Inc. Director of DWANGO Co., Ltd. (current position)  
 2009 Outside Director of DLE Inc. (current position) Outside Director of GREE, Inc. (current position)  
 2010 Outside Director of bitWallet, Inc. (currently Rakuten Edy, Inc.) Director of U-NEXT, Inc. (current position)  
 2011 Outside Director of CUUSOO SYSTEM CO., LTD.  
 2012 Outside Director of SEGA Networks, Ltd. (current position)  
 2013 Guest Professor, Faculty of Environment and Information Studies of Keio University Outside Director of TRENDERS, INC. (current position) Guest Professor, Graduate School of Media and Governance of Keio University (current position)

## Audit and Supervisory Board Members



**TOMIO KAZASHI\*2**

Standing Corporate Auditor

1990 Director of Cosmo Securities Co., Ltd.  
 1996 Managing Director of the above  
 1999 Managing Director of Cosmo Investment Management Co., Ltd.  
 2005 Standing Corporate Auditor of Sammy NetWorks Co., Ltd.  
 2008 Substitute Corporate Auditor of the Company  
 2009 Corporate Auditor of Sammy NetWorks Co., Ltd. (current position)  
 Corporate Auditor of SEGATOYS CO., LTD. (current position)  
 Standing Corporate Auditor of the Company (current position)  
 2012 Corporate Auditor of SEGA Networks, Ltd. (current position)



**TOSHIO HIRAKAWA\*2**

Corporate Auditor

1994 Director of Marusan Securities Co., Ltd.  
 1996 Managing Director of the above  
 2001 President and Representative Director of Marusan Finance Co., Ltd.  
 2004 Standing Corporate Auditor of Sammy Corporation (current position)  
 Corporate Auditor of the Company (current position)  
 2005 Corporate Auditor of TMS ENTERTAINMENT, LTD. (current position)



**YUKITO SAKAUE**

Corporate Auditor

2003 Joined Sammy Corporation as General Manager of Audit Office  
 2004 General Manager of Legal Department of Administration Division of the above  
 2006 General Manager of Corporate Auditors' Office of the Company  
 2014 Corporate Auditor of the Company (current position)  
 Standing Corporate Auditor of SEGA CORPORATION (current position)



**MINEO ENOMOTO\*2**

Corporate Auditor

1978 Registered with The Japan Federation of Bar Associations  
 2000 Established Enomoto Law Office (current position)  
 2004 Corporate Auditor of Sammy NetWorks Co., Ltd. Corporate Auditor of SEGA CORPORATION (current position)  
 2005 Substitute Corporate Auditor of the Company  
 2006 Corporate Auditor of Nippon Koei Co., Ltd. (current position)  
 2007 Corporate Auditor of the Company (current position)  
 2014 Corporate Auditor of SHIMQJIMA Co., Ltd. (current position)

## Executive Officers



**KOICHIRO UEDA**  
Senior Vice President



**KOICHI FUKAZAWA**  
Senior Vice President



**HIROSHI ISHIKURA**  
Vice President



**SEIICHIRO KIKUCHI**  
Vice President



**KOICHI TAKAHASHI**  
Vice President



**TAKATOSHI AKIBA**  
Vice President

\*1 Qualified external directors as provided in Paragraph 2, Clause 15 of the Companies Act of Japan.

\*2 Qualified external auditors as provided in Paragraph 2, Clause 16 of the Companies Act of Japan.

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# Management's Discussion and Analysis

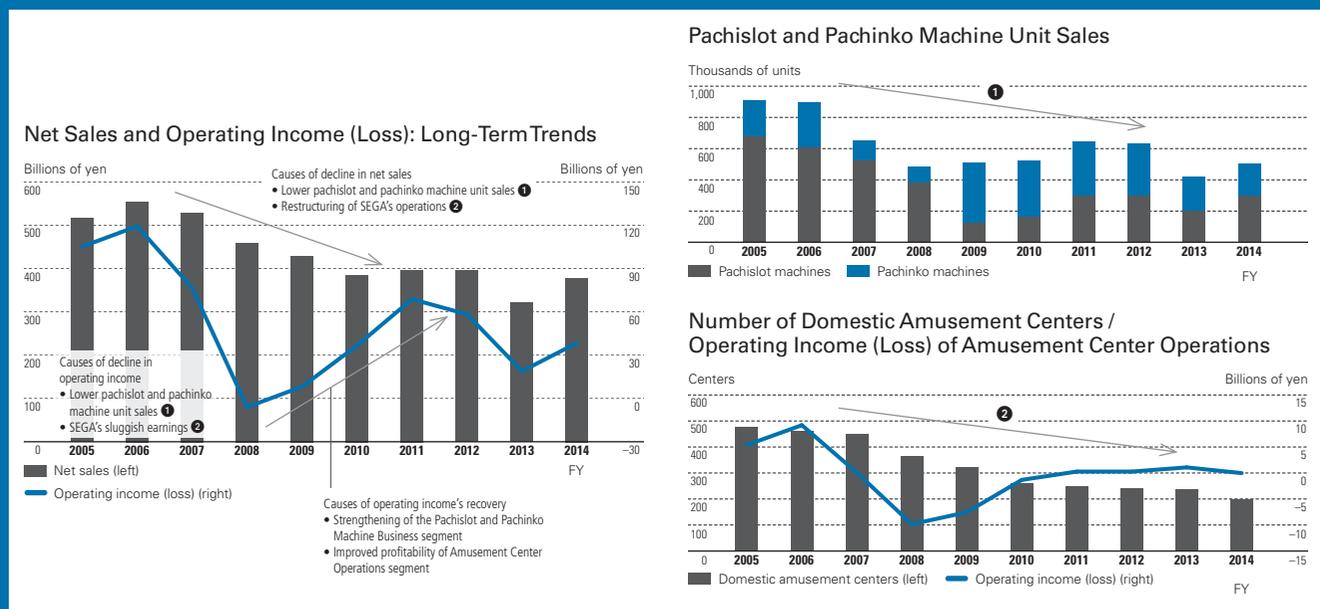
## Revenue and Expenses Analysis

### LONG-TERM TRENDS

Net sales have declined from their level directly after management integration to the level of recent years for two main reasons. (1) Market conditions for the Pachislot and Pachinko Machine Business segment, which accounts for a significant share of net sales, changed dramatically after the ending in fall 2007 of the interim measures period for the revision of regulations pertaining to the Entertainment Establishments Control Law. (2) A decline in net sales resulting from restructuring aimed at strengthening the profitability of SEGA CORPORATION. (Restructuring entailed closing and selling amusement centers with low

profitability or potential in the Amusement Center Operations segment and narrowing down the number of packaged game software titles to be developed.)

Regarding earnings, the Company recorded an operating loss in fiscal 2008, reflecting a decrease in unit sales of pachislot and pachinko machines, which have comparatively high profit margins; lackluster revenues in the Amusement Center Operations segment; and flagging sales of packaged game software. Since then, the Company has been advancing initiatives aimed at putting operating income on a growth track.



### Comparing Fiscal 2014 and Fiscal 2013

In fiscal 2014, ended March 31, 2014, net sales rose 17.6%, or ¥56.6 billion, year on year, to ¥378.0 billion. This increase in revenues reflected contributions from a significant 27.8% year-on-year increase in revenues from the Pachislot and Pachinko Machine Business segment accompanying significant growth in pachislot machine unit sales and higher revenues from the Consumer Business segment, which saw the digital game area expand.

Cost of sales rose 12.5%, or ¥25.5 billion, year on year, to ¥230.0 billion, due to higher pachislot and pachinko machine unit sales. The cost of sales ratio improved 2.7 percentage points, to 60.9%, thanks to the increase in revenues of the Pachislot and Pachinko Machine Business segment, which has a comparatively high profit margin, and cost reduction efforts that included component reuse.

SG&A expenses were up 11.8%, or ¥11.5 billion, year on year, to ¥109.4 billion. This was attributable to a 69.3% year-on-year increase in sales commissions accompanying higher pachislot and pachinko machine unit sales as well as to increases in R&D expenses and advertising expenses in the Pachislot and Pachinko Machine Business and the Consumer Business segments.

As a result of the above, operating income rose 102.0%, or ¥19.4 billion, year on year, to ¥38.5 billion. The operating margin increased 4.3 percentage points year on year, to 10.2%.

Extraordinary income was ¥15.7 billion, which reflected gain on sales of noncurrent assets of ¥3.5 billion and gain on sales of investment securities of ¥11.9 billion, mainly stemming from the sale of 2,870,000 shares of common stock of Sanrio Company, Ltd. Meanwhile, extraordinary loss was ¥8.7 billion, which arose from impairment loss of ¥1.7 billion and loss on liquidation of subsidiaries and affiliates of ¥6.6 billion, which was primarily the result of a reversal of foreign currency translation adjustment due to the liquidation of certain subsidiaries in North America and Europe.

Net income declined 8.2%, or ¥2.7 billion, year on year, to ¥30.7 billion. This decrease mainly reflected the absence of the previous fiscal year's recognition of deferred tax assets for the amount expected to be deductible from future taxable income in relation to a tax loss, incurred due to the completion of liquidation of certain U.S. subsidiaries.

## Management's Discussion and Analysis

## Summary of Consolidated Statements of Income and Comprehensive Income

	2013	2014	YOY change	2015 (Plan)
Net sales	321.4	378.0	+56.6	450.0
Cost of sales	204.4	230.0	+25.5	—
Gross profit	116.9	147.9	+31.0	—
Selling, general and administrative expenses	97.8	109.4	+11.5	—
Operating income	19.0	38.5	+19.4	35.0
Non-operating income	4.5	4.8	+0.3	—
Non-operating expenses	2.6	2.8	+0.2	—
Ordinary income	20.9	40.5	+19.6	35.0
Extraordinary income	10.1	15.7	+5.6	0
Extraordinary loss	5.4	8.7	+3.3	0.5
Income before income taxes and minority interests	25.6	47.5	+21.9	34.5
Total income taxes	-8.1	16.2	+24.3	—
Net income	33.4	30.7	-2.7	21.0

Billions of yen

## Major Expenses

	2013	2014	YOY change	2015 (Plan)
R&D expenses, content production expenses*1	45.2	59.2	—	69.6
Capital expenditures	32.8	38.1	+5.3	33.3
Depreciation and amortization*2	18.1	16.1	—	18.3
Advertising expenses*3	13.1	16.0	—	24.9

Billions of yen

Decreased due to the absence of the previous fiscal year's recognition of deferred tax assets for the amount expected to be deductible from future taxable income in relation to a tax loss, incurred due to the completion of liquidation of certain U.S. subsidiaries

\*1 As of fiscal 2014, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

\*2 As of fiscal 2014, depreciation and amortization does not include amortization cost of digital game titles. As of fiscal 2014, R&D expenses and content production expenses include amortization cost of digital game titles.

\*3 As of fiscal 2014, advertising expenses include advertising expenses recognized in cost of sales. Until fiscal 2013, advertising expenses were only recognized in SG&A expenses.

## Extraordinary Income and Extraordinary Loss

	2013	2014
Extraordinary income		<b>Extraordinary income</b>
Gain on transfer of benefit obligations relating to employees' pension fund	6.3	<b>Gain on sales of investment securities 11.9</b>
Gain on sales of investment securities	1.9	<b>Gain on sales of noncurrent assets 3.5</b>
Other	1.9	<b>Other 0.3</b>
Total	10.1	<b>Total 15.7</b>
Extraordinary loss		<b>Extraordinary loss</b>
Impairment loss	2.9	<b>Loss on liquidation of subsidiaries and affiliates 6.6</b>
Loss on liquidation of subsidiaries and affiliates	1.7	<b>Impairment loss 1.7</b>
Other	0.8	<b>Other 0.4</b>
Total	5.4	<b>Total 8.7</b>

Billions of yen

## (Reference)

## Comprehensive Income

	2013	2014
Net income	33.4	30.7
Minority interests in income	0.3	0.5
Income before minority interests	33.7	31.3
Other comprehensive income		
Valuation difference on available-for-sale securities	8.5	(10.5)
Deferred gains or losses on hedges	—	0
Foreign currency translation adjustment	4.3	10.6
Share of other comprehensive income of associates accounted for using equity method	0.8	1.8
Total other comprehensive income	13.6	1.9
Comprehensive income	47.4	33.3

Billions of yen

## Capital Expenditures and Depreciation and Amortization\*4

Total capital expenditures increased 16.2%, or ¥5.3 billion, year on year, to ¥38.1 billion. This primarily comprised capital expenditures of ¥7.9 billion in the Pachislot and Pachinko Machine Business segment, mainly to acquire molds and construct a new plant; capital expenditures of ¥7.7 billion in amusement centers that SEGA ENTERTAINMENT Co., Ltd., operates; and acquisition of land in *Centum City* in Busan, South Korea, with a view to developing a resort complex. Depreciation and amortization decreased ¥1.9 billion, year on year, to ¥16.1 billion.

## R&amp;D Expenses, Content Production Expenses\*4

R&D expenses and content production expenses, which are included in SG&A expenses and cost of sales, rose ¥13.9 billion year on year, to ¥59.2 billion. This rise largely resulted from investment to strengthen developmental capabilities with a view to growing the Pachislot and Pachinko Machine Business segment's market share and investment aimed at bolstering the Consumer Business segment's digital game area.

## Fiscal 2015 Outlook

In fiscal 2015, ending March 31, 2015, the Company is targeting a 19% year-on-year increase in net sales, to ¥450.0 billion. The Company expects revenues to grow 20% year on year in the Pachislot and Pachinko Machine Business segment, due to higher pachislot and pachinko machine unit sales, and 19% in the Amusement Machine Sales Business segment. Also, we anticipate that increased earnings in the digital game area will grow revenues from the Consumer Business segment 29% year on year. Operating income is expected to decrease 9% year on year, to ¥35.0 billion, as lower earnings from the Pachislot and Pachinko Machine Business segment—due to a temporary deterioration in the profit margin accompanying higher component costs—counteract higher earnings in the Consumer Business segment. As a result, net income is expected to decrease 32% year on year, to ¥21.0 billion.

\*4 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

## Analysis by Business Segment

### LONG-TERM TRENDS

The Pachislot and Pachinko Machine Business segment, which had a product mix overly weighted toward pachislot machines directly after management integration, saw net sales decrease significantly in fiscal 2007 and fiscal 2008 due to a slump in the pachislot machine market originating from regulatory revision in July 2004. In response, the Company strengthened the product appeal of pachinko machines to correct the imbalance between pachislot and pachinko machines in its product portfolio. As a result, the segment's net sales recovered after bottoming out in fiscal 2008. In recent years, however, net sales have tended to flag as growth slows in the pachinko and pachislot machine market. In addition, earnings have become more volatile due to developmental cost hikes and delays in developmental schedules.

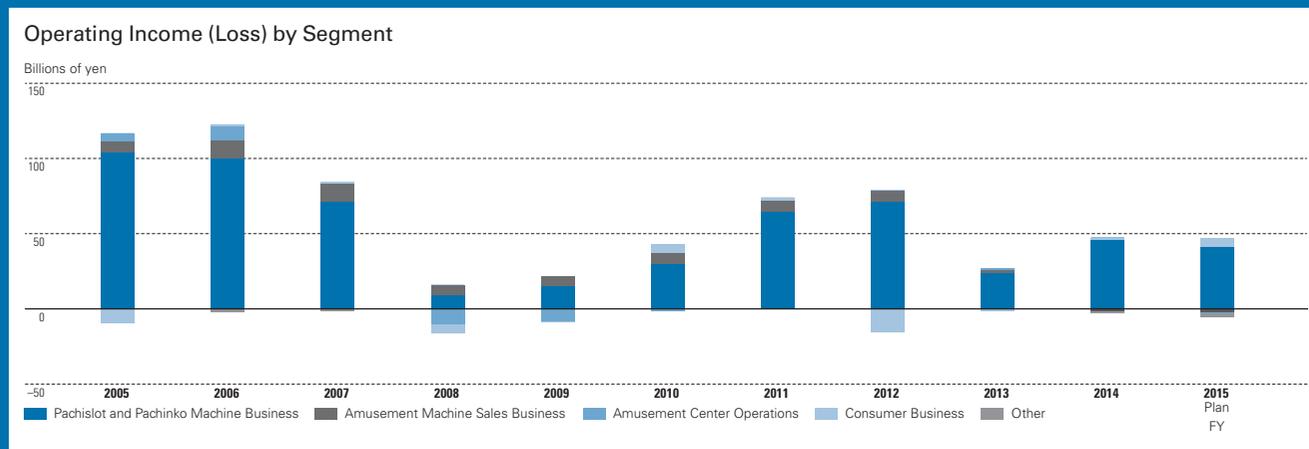
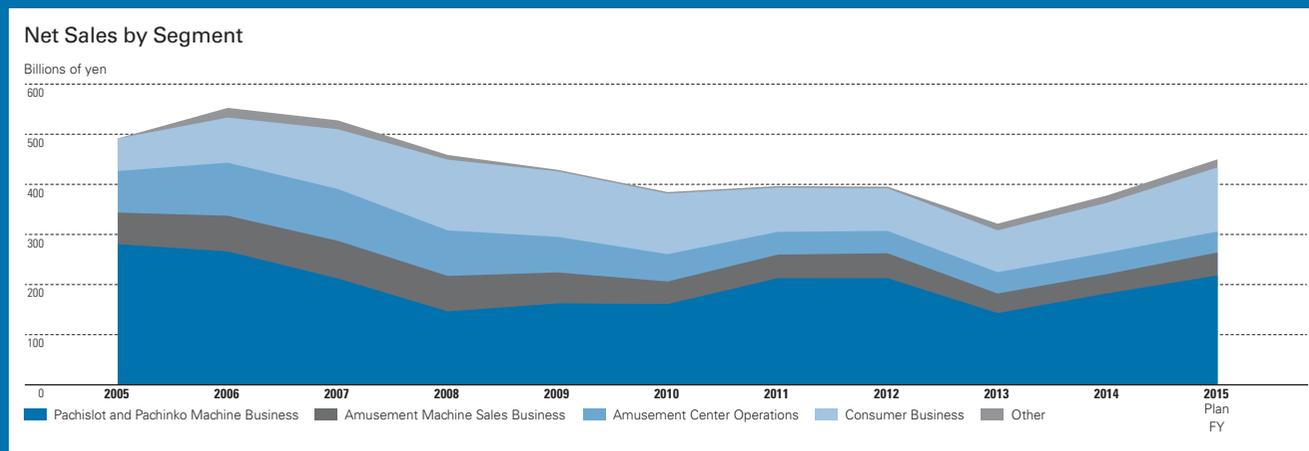
Since fiscal 2010, when a downturn in the amusement center operations market intensified, the Amusement Machine Sales Business segment has adopted a conservative approach to developing and marketing large, high-end machines. In addition, the business segment has introduced a revenue-sharing business model in which amusement center operators and SEGA share revenues based on players' use of

amusement arcade machines. Although net sales have declined as a consequence, increased revenues from the revenue-sharing business model have stabilized earnings.

The Amusement Center Operations segment has been accelerating the closure and sale of amusement centers with low profitability or potential since recognizing an operating loss in fiscal 2008. As a result, the segment's net sales have decreased to less than half of their peak level, and earnings have been low.

Since the packaged game software business recorded an operating loss in fiscal 2008, the Consumer Business segment has been reforming its profit structure primarily by narrowing down the number of titles it sells and rationalizing its organization. On the other hand, earnings from the digital game area are growing rapidly. In fiscal 2014, sales in the digital game area accounted for approximately 50% of game content sales.

The Company is highly reliant on the Pachislot and Pachinko Machine Business segment's revenues, which represent between 30% and 50% of net sales. Similarly, the business segment's earnings consistently account for the majority of the Company's operating income.



## Management's Discussion and Analysis

## Analysis by Business Segment

## Comparing Fiscal 2014 and Fiscal 2013

**Pachislot and Pachinko Machine Business:** The pachislot machine business posted a significant year-on-year rise in unit sales because generally solid sales of titles launched compensated for revising some titles' launch schedules. Meanwhile, the pachinko machine business saw unit sales decline from the previous fiscal year's level as non-mainstay titles struggled in tough market conditions. As a result, the segment recorded year-on-year increases of 278%, or ¥39.5 billion, in net sales, to ¥181.8 billion; 92.5%, or ¥21.7 billion, in operating income, to ¥45.2 billion; and 8.4 percentage points in the operating margin, to 24.9%.

**Amusement Machine Sales Business:** Sales of CVT kits as well as cards and other consumables and revenues from revenue-sharing titles did not completely offset struggling sales of new titles amid sluggish market conditions. As a result, the segment's net sales declined 1.4%, or ¥0.5 billion, year on year, to ¥38.6 billion. The segment incurred an operating loss of ¥1.2 billion, compared with the previous fiscal year's operating income of ¥1.9 billion.

**Amusement Center Operations:** Despite continuing efforts to strengthen the management capabilities of existing amusement centers, the absence of market-driving titles led to a 3.9% decrease in the net sales of existing amusement centers in Japan. As a result, the segment's net sales rose 1.2%, or ¥0.5 billion, year on year, to ¥43.2 billion, while operating income decreased 95.0%, or ¥1.1 billion, year on year, to ¥0.06 billion.

**Consumer Business:** In the packaged game software area, sales of new titles were lackluster overseas, and unit sales declined year on year. Meanwhile, the digital game area, including games for mobile phones, smartphones, and PC downloads, performed well. In Japan, the segment distributed 141 titles, of which 73 were pay-to-play and 68 were free-to-play (F2P). The performance of the toy business was lackluster, but the animation business performed solidly. As a result, the segment's net sales increased 19.0%, or ¥15.9 billion, year on year, to ¥99.8 billion. The segment posted operating income of ¥2.0 billion, compared to the previous fiscal year's operating loss of ¥0.7 billion.

## Fiscal 2015 Outlook

In fiscal 2015, although the Company is targeting higher revenues from all segments except the Amusement Center Operations segment, all segments except the Consumer Business segment are expected to record lower earnings or operating losses.

**Pachislot and Pachinko Machine Business:** The segment is targeting a 20% year-on-year increase in net sales, to ¥217.5 billion, and a 10% year-on-year decrease in operating income, to ¥40.5 billion. The launch of multiple mainstay titles by the pachislot and pachinko machine businesses is likely to grow unit sales. However, a temporary decline in the segment's profit margin—due to higher costs as the ROM capacities of LCD panels increase and movable gadgets increase—is expected to lower the operating margin 6.3 percentage points, to 18.6%.

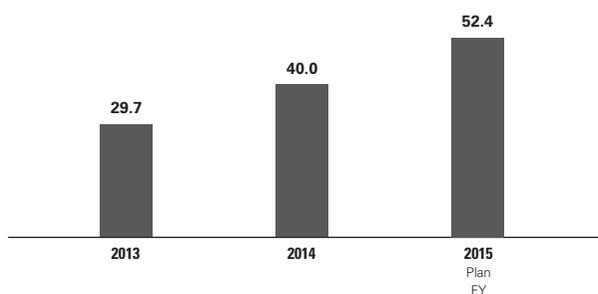
**Amusement Machine Sales Business:** Market conditions are likely to remain challenging due to amusement center operators' restrained investment. The segment's net sales are expected to rise 19% year on year, to ¥46.0 billion, while operating loss is projected to increase from the previous fiscal year's ¥1.2 billion to ¥1.7 billion.

**Amusement Center Operations:** Given the likely effect of a further increase in consumption tax, the segment is expected to record a 3% decrease in net sales, to ¥42.0 billion, and an operating loss of ¥0.6 billion. Existing amusement centers in Japan are expected to see sales decline 2.5%.

**Consumer Business:** Due to higher earnings from the digital game area, the segment is targeting year-on-year increases of 29% in net sales, to ¥128.5 billion, and 230% in operating income, to ¥6.6 billion. In the packaged game software area, we expect existing mainstay titles and titles under the ATLUS. brand to grow unit sales. As for the digital game area, we aim to increase revenues more than 30% by continuing to step up efforts for PC online games, smartphones, and tablets.

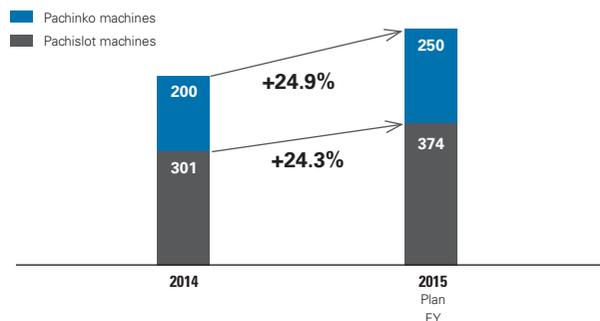
Digital Game Area Net Sales

Billions of yen



Pachislot and Pachinko Machine Unit Sales Target

Thousands of units

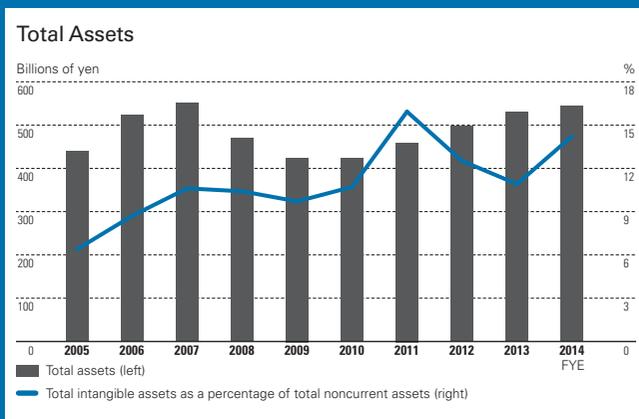


# Financial Position Analysis

## LONG-TERM TRENDS

Total assets rose in fiscal 2006 and fiscal 2007 due to an increase in property, plant and equipment and increases in respective assets that resulted from the new inclusion of companies in consolidation. However, from fiscal 2008 total assets declined as a consequence of valuation loss on securities and sales of securities accompanying restructuring. In recent years, although it has been selling amusement centers, the Company has seen total assets trend upward. This is attributable to the Pachislot and Pachinko Machine Business segment's construction of a new plant, the Company's development of resort complexes and integrated resorts, an increase in goodwill accompanying acquisitions in the digital game area, and an increase in investment securities as the market value of shares held has gone up. Although total assets are trending upward, for initiatives to develop resort complexes and integrated resorts the Company is exercising due diligence to avoid creating a bloated balance sheet.

The equity ratio has remained around 60% due to a policy of securing a certain level of internal reserves that enable investment to devel-



op businesses in growth areas and the payment of stable cash dividends, even amid the earnings volatility that stems from the nature of the industry and the consequent presence or absence of hit products.

## Comparing Fiscal 2014 and Fiscal 2013

### Assets

Total assets at March 31, 2014, the fiscal year-end, stood at ¥542.9 billion, up ¥14.4 billion from the previous fiscal year-end.

Total current assets at the fiscal year-end amounted to ¥318.4 billion, edging down ¥0.1 billion from the previous fiscal year-end. This mainly resulted from a year-on-year decrease in cash and deposits, which offset a ¥103.4 billion rise in investment securities accompanying short-term fund management.

Total noncurrent assets at the fiscal year-end stood at ¥224.4 billion, up ¥14.5 billion from the previous fiscal year-end. This mainly stemmed from an increase in property, plant and equipment accompanying the acquisition of land in Busan, South Korea, and a rise in total intangible assets due to goodwill recognized as a result of the transfer of Index Corporation's businesses to the Company.

### Liabilities

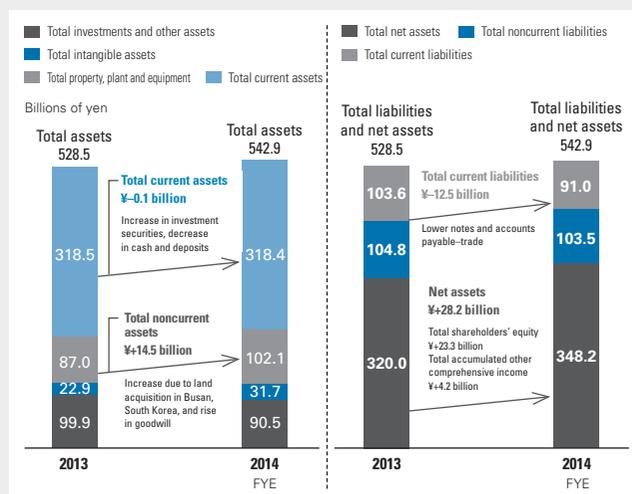
Total current liabilities at the fiscal year-end stood at ¥91.0 billion, down ¥12.5 billion from the previous fiscal year-end. This was principally related to lower notes and accounts payable—trade and the redemption of the current portion of bonds. The current ratio increased 42.3 percentage points, to 349.7%, reflecting the Company's continued high level of liquidity.

Total noncurrent liabilities at the fiscal year-end amounted to ¥103.5 billion, a decrease of ¥1.2 billion from the previous fiscal year-end. This primarily reflected lower long-term loans payable, which more than compensated for bond issuance. As a result, the ratio of fixed assets to shareholders' equity (ratio of total noncurrent assets to total shareholders' equity) was 65.4%, and the ratio of fixed assets to fixed liabilities (ratio of total noncurrent assets to total noncurrent liabilities) was 50.2%.

Interest-bearing debt at the fiscal year-end amounted to ¥96.0 billion, down ¥1.6 billion from the previous fiscal year-end. At ¥208.9 billion, liquidity in hand remained higher than interest-bearing debt, testifying to a sound financial position.

### Net assets

Total net assets stood at ¥348.2 billion at the fiscal year-end, up ¥28.2 billion from the previous fiscal year-end. Total shareholders' equity increased because the recognition of net income and a decrease in treasury stock counteracted payments of cash dividends. Furthermore, although sales of investment securities led to a decrease in valuation difference on available-for-sale securities, foreign currency translation adjustment and remeasurements of defined benefit plans increased. The equity ratio rose 3.5 percentage points from the previous fiscal year-end, to 63.2%.

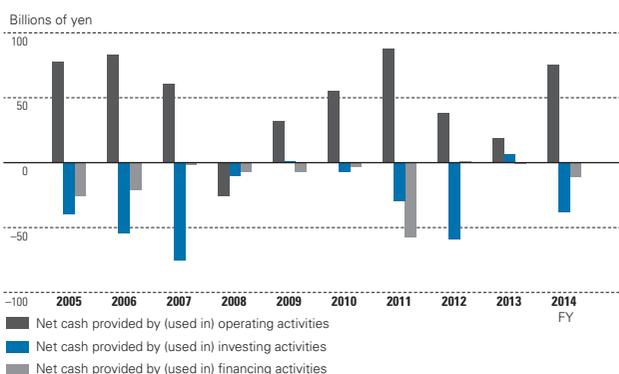


## Cash Flows Analysis

### LONG-TERM TRENDS

Since fiscal 2011, the Company has been investing in organizational restructuring. These efforts included investments to make three listed subsidiaries into wholly owned subsidiaries. In conjunction with these efforts, the Company has been investing actively in such growth areas as the integrated resort business and the digital game area.

### Cash Flows



### Comparing Fiscal 2014 and Fiscal 2013

#### Net cash provided by operating activities

Net cash provided by operating activities was ¥75.2 billion, compared with ¥18.6 billion in the previous fiscal year. This was mainly attributable to income before income taxes and minority interests of ¥47.5 billion, depreciation and amortization of ¥19.7 billion, and a ¥16.5 billion decrease in notes and accounts receivable-trade.

#### Net cash provided by (used in) investing activities

Net cash used in investing activities was ¥38.5 billion, compared with net cash provided by investing activities of ¥6.3 billion in the previous fiscal year. This primarily reflected, purchase of property, plant and equipment of ¥27.1 billion; payments for transfer of business of ¥14.3 billion; purchase of stocks of subsidiaries and affiliates of ¥7.8 billion; and purchase of intangible assets of ¥6.8 billion;

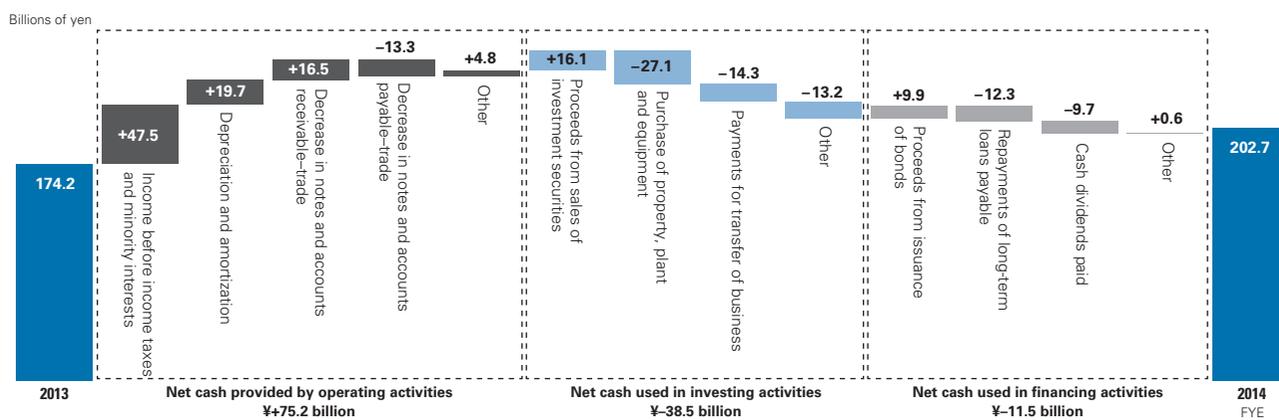
which counteracted proceeds from sales of investment securities of ¥16.1 billion.

#### Net cash used in financing activities

Net cash used in financing activities was ¥11.5 billion, compared with ¥1.1 billion in the previous fiscal year. This mainly stemmed from cash dividends paid, including cash dividends paid to minority shareholders of ¥9.7 billion, and repayments of long-term loans payable of ¥12.3 billion, which counteracted proceeds from issuance of bonds of ¥9.9 billion.

As a result of the above, cash and cash equivalents at end of period amounted to ¥202.7 billion, up ¥28.5 billion from the previous fiscal year-end.

### Main Cause of Changes in Cash and Cash Equivalents



## Fiscal 2015 Outlook

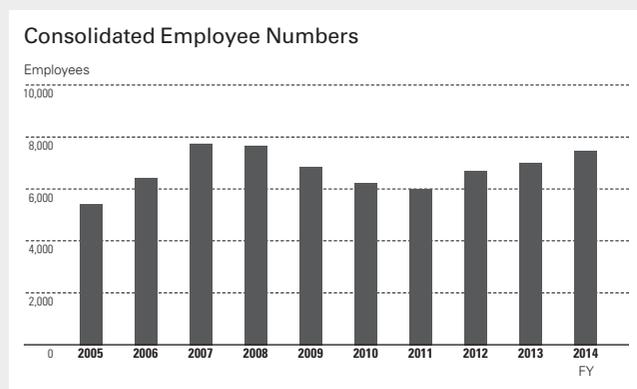
In fiscal 2015, net cash provided by operating activities is expected to decrease year on year because higher unit sales in the Pachislot and Pachinko Machine Business segment are unlikely to compensate completely for an increase in income taxes paid. Furthermore, net cash

used in investing activities is projected to decline year on year given that recurring capital expenditures to acquire molds and other equipment are likely to account for the majority of investment. Net cash provided by financing activities is expected to increase year on year due to bond issuance.

## Human Capital and Intellectual Properties

### Consolidated Employee Numbers

The consolidated number of employees in fiscal 2014 is as shown below. The number of employees in the Consumer Business segment increased significantly due to Index Corporation's transfer of its businesses to the Company in November 2013.



### Employee Numbers by Segment

Segment	Employees		YOY change
	2013	2014	
Pachislot and Pachinko Machine Business	1,482	1,540	+3.9%
Amusement Machine Sales Business	1,652	1,672	+1.2%
Amusement Center Operations	503	531	+5.6%
Consumer Business	2,482	2,838	+14.3%
Other	786	772	-1.8%
Corporate (holding company)	103	119	+15.5%
<b>Total</b>	<b>7,008</b>	<b>7,472</b>	<b>+6.6%</b>

### Intellectual Properties Acquired in Fiscal 2014

#### Transfer of Index Corporation's businesses

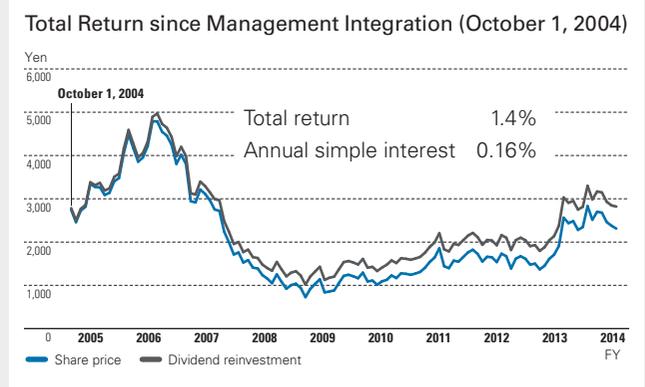
Through the transfer of Index Corporation's businesses to it, the Company sought to increase corporate value by creating synergies with its existing businesses based on the leveraging of Index's extensive track record in the planning and development of content for mobile phones and high-quality intellectual properties and strong developmental capabilities in the home video game software area.

Date of business combination	November 1, 2013
Acquisition price	¥14,100 million
Acquisition expenses (advisory expenses)	¥259 million
Goodwill recognized	¥11,040 million

## Outcome

### Long-Term Trends

The basic policy of the Company is to heighten shareholder value through growth strategies that generate higher earnings and thereby increase market capitalization and through the realization of stable dividends consistent with the aim of paying out approximately 20% to 30% of post-tax income as dividends. Furthermore, the Company will retain the option of acquiring treasury stock in response to share price levels. In light of this basic policy, the Company has stably paid cash dividends of ¥40.00 per share for the past four fiscal years while purchasing treasury stock flexibly. Between the management integration on October 1, 2004, and March 31, 2014, total return based on aggregated capital gain and cash dividends was 1.4%, equivalent to an annual simple interest of 0.16%. (During the same period, the total return of TOPIX was 8.8%. As of October 1, 2004, the government bond interest rate was 1.48%.)



### Fiscal 2014 Returns to Shareholders

Net income per share was ¥126.42, a decrease compared with the previous fiscal year's ¥137.14. This was mainly attributable to lower net income resulting from the incurring of extraordinary loss—which primarily reflected loss on liquidation of subsidiaries and affiliates accompanying a reversal of foreign currency translation adjustment due to the liquidation of certain subsidiaries in North America and Europe—and the absence of the previous fiscal year's recognition of deferred tax assets for the amount expected to be deductible from future taxable income in relation to a tax loss, incurred due to the completion of liquidation of certain U.S. subsidiaries. For fiscal 2014, the Company paid cash dividends of ¥40.00 per share, the same as for the previous fiscal year. As a result, the consolidated dividend payout ratio rose from the previous fiscal year's 29.2% to 31.6%, and the ratio of cash dividends to net assets declined from the previous fiscal year's 3.2% to 2.9%.

## Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and deposits	¥101,220	¥176,540	\$ 983,868
Notes and accounts receivable-trade	48,108	63,886	467,622
Allowance for doubtful accounts	(323)	(386)	(3,140)
Short-term investment securities	107,713	4,260	1,046,985
Merchandise and finished goods	6,130	5,931	59,589
Work in process	13,610	12,773	132,299
Raw materials and supplies	16,189	23,850	157,363
Income taxes receivable	1,993	8,428	19,376
Deferred tax assets	12,627	10,965	122,736
Other	11,203	12,319	108,902
Total current assets	318,475	318,570	3,095,602
<b>Noncurrent assets</b>			
Property, plant and equipment			
Buildings and structures (Note 5 (1))	103,561	102,332	1,006,626
Accumulated depreciation	(69,458)	(70,270)	(675,139)
Buildings and structures, net	34,103	32,062	331,486
Machinery, equipment and vehicles	20,468	20,326	198,959
Accumulated depreciation	(11,427)	(10,944)	(111,075)
Machinery, equipment and vehicles, net	9,041	9,381	87,883
Amusement machines and facilities	52,971	50,282	514,882
Accumulated depreciation	(43,534)	(41,939)	(423,155)
Amusement machines and facilities, net	9,436	8,343	91,726
Land (Notes 5 (1) and (4))	39,029	27,229	379,369
Construction in progress	2,239	2,555	21,772
Other	51,762	48,273	503,131
Accumulated depreciation	(43,450)	(40,786)	(422,343)
Other, net	8,311	7,487	80,788
Total property, plant and equipment	102,162	87,060	993,026
Intangible assets			
Goodwill	18,915	10,206	183,858
Other	12,879	12,706	125,193
Total intangible assets	31,795	22,913	309,051
Investments and other assets			
Investment securities (Notes 5 (2) and (3))	60,825	72,797	591,228
Long-term loans receivable	710	663	6,910
Lease and guarantee deposits	13,342	12,492	129,686
Deferred tax assets	875	5,172	8,509
Other	15,554	9,831	151,191
Allowance for doubtful accounts	(805)	(997)	(7,826)
Total investments and other assets	90,503	99,960	879,699
Total noncurrent assets	224,461	209,933	2,181,777
<b>Total assets</b>	¥542,936	¥528,504	\$5,277,379

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Notes and accounts payable-trade	¥ 37,292	¥ 50,142	\$ 362,488
Short-term loans payable (Notes 5 (1) and (5))	12,918	12,867	125,571
Current portion of bonds	1,700	5,843	16,524
Income taxes payable	6,288	1,494	61,121
Accrued expenses	12,255	10,825	119,127
Provision for bonuses	3,868	3,893	37,600
Provision for directors' bonuses	614	654	5,968
Provision for business restructuring	243	907	2,371
Provision for point card certificates	56	—	549
Asset retirement obligations	325	229	3,165
Deferred tax liabilities	5	0	54
Other	15,499	16,778	150,660
Total current liabilities	91,069	103,637	885,204
<b>Noncurrent liabilities</b>			
Bonds payable	37,800	29,500	367,418
Long-term loans payable	35,198	44,926	342,129
Provision for retirement benefits	—	9,277	—
Net defined benefit liability	6,053	—	58,837
Provision for directors' retirement benefits	146	138	1,425
Deferred tax liabilities	4,294	5,124	41,738
Deferred tax liabilities for land revaluation	745	745	7,248
Asset retirement obligations	2,165	2,165	21,047
Other	17,192	12,953	167,116
Total noncurrent liabilities	103,596	104,831	1,006,962
<b>Total liabilities</b>	<b>194,666</b>	<b>208,469</b>	<b>1,892,166</b>
<b>NET ASSETS</b>			
Shareholders' equity			
Capital stock	29,953	29,953	291,146
Capital surplus	119,312	119,335	1,159,727
Retained earnings	219,684	198,924	2,135,342
Treasury stock	(37,971)	(40,540)	(369,090)
Total shareholders' equity	330,977	307,673	3,217,125
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	16,804	27,385	163,341
Deferred gains or losses on hedges	0	—	8
Revaluation reserve for land (Note 5 (4))	(4,705)	(4,705)	(45,737)
Foreign currency translation adjustment	(2,281)	(14,601)	(22,177)
Remeasurements of defined benefit plans	2,504	—	24,342
Total accumulated other comprehensive income	12,322	8,078	119,777
Subscription rights to shares	1,078	1,146	10,478
Minority interests	3,892	3,136	37,831
Total net assets	348,270	320,034	3,385,213
<b>Total liabilities and net assets</b>	<b>¥542,936</b>	<b>¥528,504</b>	<b>\$5,277,379</b>

See accompanying notes.

# Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	<b>¥378,011</b>	¥321,407	<b>\$3,674,294</b>
Cost of sales (Notes 6 (1) and (2))	<b>230,040</b>	204,468	<b>2,236,011</b>
Gross profit	<b>147,970</b>	116,938	<b>1,438,283</b>
Selling, general and administrative expenses (Note 6 (2))	<b>109,437</b>	97,865	<b>1,063,740</b>
Operating income	<b>38,533</b>	19,073	<b>374,543</b>
Other income (expenses)			
Interest income	<b>341</b>	507	<b>3,317</b>
Dividends income	<b>917</b>	752	<b>8,919</b>
Equity in earnings of affiliates	<b>—</b>	15	<b>—</b>
Gain on investments in partnership	<b>1,623</b>	193	<b>15,783</b>
Income from operation of lease assets	<b>—</b>	67	<b>—</b>
Gain on valuation of derivatives	<b>—</b>	318	<b>—</b>
Foreign exchange gains	<b>966</b>	1,925	<b>9,394</b>
Interest expenses	<b>(849)</b>	(836)	<b>(8,254)</b>
Equity in losses of affiliates	<b>(257)</b>	—	<b>(2,502)</b>
Sales discounts	<b>(125)</b>	(139)	<b>(1,215)</b>
Commission fee	<b>(91)</b>	(204)	<b>(891)</b>
Loss on investments in partnership	<b>(357)</b>	(229)	<b>(3,475)</b>
Penalty payment for cancellation of game center lease agreement	<b>(18)</b>	(45)	<b>(184)</b>
Bond issuance cost	<b>(64)</b>	(373)	<b>(627)</b>
Loss on retirement of noncurrent assets	<b>(400)</b>	(232)	<b>(3,891)</b>
Gain on sales of noncurrent assets (Note 6 (3))	<b>3,585</b>	667	<b>34,850</b>
Gain on sales of shares of subsidiaries and associates	<b>21</b>	—	<b>209</b>
Gain on sales of investment securities	<b>11,970</b>	1,917	<b>116,358</b>
Gain on liquidation of subsidiaries and affiliates	<b>—</b>	20	<b>—</b>
Gain on transfer of benefit obligations relating to employees' pension fund	<b>—</b>	6,345	<b>—</b>
Loss on sales of noncurrent assets	<b>(9)</b>	(11)	<b>(89)</b>
Impairment loss (Note 6 (5))	<b>(1,799)</b>	(2,986)	<b>(17,494)</b>
Loss on valuation of investment securities	<b>(196)</b>	(6)	<b>(1,905)</b>
Restructuring loss	<b>—</b>	(489)	<b>—</b>
Loss on liquidation of subsidiaries and affiliates (Note 6 (4))	<b>(6,601)</b>	(1,795)	<b>(64,163)</b>
Other, net	<b>356</b>	1,179	<b>3,460</b>
Subtotal	<b>9,012</b>	6,558	<b>87,600</b>
Income before income taxes and minority interests	<b>47,545</b>	25,631	<b>462,143</b>
Income taxes-current	<b>8,131</b>	4,038	<b>79,040</b>
Income taxes-deferred	<b>8,098</b>	(12,201)	<b>78,717</b>
Total income taxes	<b>16,230</b>	(8,163)	<b>157,757</b>
Income before minority interests	<b>31,315</b>	33,795	<b>304,385</b>
Minority interests in income	<b>593</b>	334	<b>5,772</b>
Net income	<b>30,721</b>	33,460	<b>298,612</b>
Minority interests in income	<b>593</b>	334	<b>5,772</b>
Income before minority interests	<b>31,315</b>	33,795	<b>304,385</b>
Other comprehensive income (Note 6 (6))			
Valuation difference on available-for-sale securities	<b>(10,580)</b>	8,512	<b>(102,840)</b>
Deferred gains or losses on hedges	<b>2</b>	—	<b>21</b>
Foreign currency translation adjustment	<b>10,692</b>	4,325	<b>103,930</b>
Share of other comprehensive income of associates accounted for using equity method	<b>1,878</b>	847	<b>18,261</b>
Total other comprehensive income	<b>1,993</b>	13,686	<b>19,373</b>
Comprehensive income	<b>33,308</b>	47,481	<b>323,758</b>
(Breakdown)			
Comprehensive income attributable to owners of the parent	<b>32,460</b>	47,053	<b>315,519</b>
Comprehensive income attributable to minority interests	<b>¥ 847</b>	¥ 427	<b>\$ 8,239</b>

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Shareholders' equity</b>			
Capital stock			
Balance at the beginning of the period	¥ 29,953	¥ 29,953	\$ 291,146
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of the period	29,953	29,953	291,146
Capital surplus			
Balance at the beginning of the period	119,335	119,397	1,159,952
Changes of items during the period			
Disposal of treasury stock	(14)	(61)	(141)
Change of scope of consolidation	(8)	—	(82)
Total changes of items during the period	(23)	(61)	(224)
Balance at the end of the period	119,312	119,335	1,159,727
Retained earnings			
Balance at the beginning of the period	198,924	175,173	1,933,561
Changes of items during the period			
Dividends from surplus	(9,701)	(9,851)	(94,298)
Net income	30,721	33,460	298,612
Change of scope of consolidation	(260)	(21)	(2,532)
Reversal of revaluation reserve for land	—	163	—
Total changes of items during the period	20,759	23,751	201,781
Balance at the end of the period	219,684	198,924	2,135,342
Treasury stock			
Balance at the beginning of the period	(40,540)	(26,067)	(394,053)
Changes of items during the period			
Purchase of treasury stock	(55)	(16,220)	(537)
Disposal of treasury stock	2,623	1,747	25,500
Total changes of items during the period	2,568	(14,472)	24,962
Balance at the end of the period	(37,971)	(40,540)	(369,090)
Total shareholders' equity			
Balance at the beginning of the period	307,673	298,456	2,990,606
Changes of items during the period			
Dividends from surplus	(9,701)	(9,851)	(94,298)
Net income	30,721	33,460	298,612
Purchase of treasury stock	(55)	(16,220)	(537)
Disposal of treasury stock	2,608	1,686	25,358
Change of scope of consolidation	(269)	(21)	(2,615)
Reversal of revaluation reserve for land	—	163	—
Total changes of items during the period	23,304	9,217	226,519
Balance at the end of the period	¥330,977	¥307,673	\$3,217,125

See accompanying notes.

## Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities			
Balance at the beginning of the period	<b>¥27,385</b>	¥18,872	<b>\$266,190</b>
Changes of items during the period			
Net changes of items other than shareholders' equity	<b>(10,581)</b>	8,513	<b>(102,848)</b>
Total changes of items during the period	<b>(10,581)</b>	8,513	<b>(102,848)</b>
Balance at the end of the period	<b>16,804</b>	27,385	<b>163,341</b>
Deferred gains or losses on hedges			
Balance at the beginning of the period	—	—	—
Changes of items during the period			
Net changes of items other than shareholders' equity	<b>0</b>	—	<b>8</b>
Total changes of items during the period	<b>0</b>	—	<b>8</b>
Balance at the end of the period	<b>0</b>	—	<b>8</b>
Revaluation reserve for land			
Balance at the beginning of the period	<b>(4,705)</b>	(4,541)	<b>(45,737)</b>
Changes of items during the period			
Reversal of revaluation reserve for land	—	(163)	—
Net changes of items other than shareholders' equity	—	—	—
Total changes of items during the period	—	(163)	—
Balance at the end of the period	<b>(4,705)</b>	(4,705)	<b>(45,737)</b>
Foreign currency translation adjustment			
Balance at the beginning of the period	<b>(14,601)</b>	(19,681)	<b>(141,924)</b>
Changes of items during the period			
Net changes of items other than shareholders' equity	<b>12,319</b>	5,079	<b>119,747</b>
Total changes of items during the period	<b>12,319</b>	5,079	<b>119,747</b>
Balance at the end of the period	<b>(2,281)</b>	(14,601)	<b>(22,177)</b>
Remeasurements of defined benefit plans			
Balance at the beginning of the period	—	—	—
Changes of items during the period			
Net changes of items other than shareholders' equity	<b>2,504</b>	—	<b>24,342</b>
Total changes of items during the period	<b>2,504</b>	—	<b>24,342</b>
Balance at the end of the period	<b>2,504</b>	—	<b>24,342</b>
Total accumulated other comprehensive income			
Balance at the beginning of the period	<b>8,078</b>	(5,350)	<b>78,527</b>
Changes of items during the period			
Reversal of revaluation reserve for land	—	(163)	—
Net changes of items other than shareholders' equity	<b>4,243</b>	13,593	<b>41,249</b>
Total changes of items during the period	<b>4,243</b>	13,429	<b>41,249</b>
Balance at the end of the period	<b>12,322</b>	8,078	<b>119,777</b>
<b>Subscription rights to shares</b>			
Balance at the beginning of the period	<b>1,146</b>	991	<b>11,141</b>
Changes of items during the period			
Net changes of items other than shareholders' equity	<b>(68)</b>	155	<b>(663)</b>
Total changes of items during the period	<b>(68)</b>	155	<b>(663)</b>
Balance at the end of the period	<b>1,078</b>	1,146	<b>10,478</b>
<b>Minority interests</b>			
Balance at the beginning of the period	<b>3,136</b>	2,279	<b>30,482</b>
Changes of items during the period			
Net changes of items other than shareholders' equity	<b>756</b>	856	<b>7,348</b>
Total changes of items during the period	<b>756</b>	856	<b>7,348</b>
Balance at the end of the period	<b>3,892</b>	3,136	<b>37,831</b>
<b>Total net assets</b>			
Balance at the beginning of the period	<b>320,034</b>	296,376	<b>3,110,758</b>
Changes of items during the period			
Dividends from surplus	<b>(9,701)</b>	(9,851)	<b>(94,298)</b>
Net income	<b>30,721</b>	33,460	<b>298,612</b>
Purchase of treasury stock	<b>(55)</b>	(16,220)	<b>(537)</b>
Disposal of treasury stock	<b>2,608</b>	1,686	<b>25,358</b>
Change of scope of consolidation	<b>(269)</b>	(21)	<b>(2,615)</b>
Reversal of revaluation reserve for land	—	—	—
Net changes of items other than shareholders' equity	<b>4,931</b>	14,604	<b>47,935</b>
Total changes of items during the period	<b>28,235</b>	23,658	<b>274,455</b>
Balance at the end of the period	<b>¥348,270</b>	¥320,034	<b>\$3,385,213</b>

See accompanying notes.

# Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 47,545	¥ 25,631	\$ 462,143
Depreciation and amortization	19,743	18,181	191,905
Impairment loss	1,799	2,986	17,494
Amount of transfer of equipment by amusement center operations business	(3,287)	(3,054)	(31,955)
Loss (gain) on sales of noncurrent assets	(3,576)	(655)	(34,760)
Loss on retirement of noncurrent assets	400	232	3,891
Loss (gain) on sales of shares of subsidiaries and associates	(21)	2	(209)
Loss (gain) on liquidation of subsidiaries and affiliates	6,601	1,774	64,163
Loss (gain) on sales of investment securities	(11,941)	(1,917)	(116,073)
Loss (gain) on valuation of investment securities	196	6	1,905
Loss (gain) on investments in partnership	(1,266)	36	(12,308)
Amortization of goodwill	2,997	2,225	29,132
Increase (decrease) in allowance for doubtful accounts	(294)	(420)	(2,858)
Increase (decrease) in provision for directors' bonuses	(48)	(267)	(468)
Increase (decrease) in provision for retirement benefits	—	(5,263)	—
Increase (decrease) in net defined benefit liability	(398)	—	(3,869)
Increase (decrease) in provision for directors' retirement benefits	8	(169)	81
Increase (decrease) in provision for bonuses	(78)	(540)	(760)
Interest and dividends income	(1,258)	(1,259)	(12,237)
Interest expenses	849	836	8,254
Foreign exchange losses (gains)	(1,318)	(2,230)	(12,816)
Equity in (earnings) losses of affiliates	257	(15)	2,502
Decrease (increase) in notes and accounts receivable-trade	16,517	10,819	160,546
Decrease (increase) in inventories	8,616	(7,590)	83,754
Increase (decrease) in notes and accounts payable-trade	(13,384)	(10,197)	(130,099)
Increase (decrease) in guarantee deposits received	186	86	1,810
Other, net	3,260	(1,513)	31,691
Subtotal	72,104	27,723	700,859
Interest and dividends income received	1,273	1,274	12,375
Interest expenses paid	(835)	(813)	(8,122)
Income taxes paid	(5,818)	(16,336)	(56,552)
Income taxes refund	8,477	6,754	82,399
Net cash provided by operating activities	¥ 75,201	¥ 18,603	\$ 730,960

See accompanying notes.

## Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Cash flows from investing activities:</b>			
Payments into time deposits	¥ (5,860)	¥ (1,127)	\$ (56,959)
Proceeds from withdrawal of time deposits	1,939	2,058	18,856
Purchase of short-term investment securities	—	(100)	—
Proceeds from redemption of securities	—	42,650	—
Purchase of trust beneficiary right	(4,941)	(5,494)	(48,029)
Proceeds from sales of trust beneficiary right	6,195	5,879	60,218
Purchase of property, plant and equipment	(27,123)	(21,896)	(263,639)
Proceeds from sales of property, plant and equipment	3,461	3,830	33,646
Purchase of intangible assets	(6,870)	(8,068)	(66,785)
Proceeds from sales of intangible assets	1,895	—	18,424
Purchase of investment securities	(4,768)	(5,025)	(46,348)
Proceeds from sales of investment securities	16,199	7,274	157,457
Proceeds from redemption of investment securities	4,755	150	46,218
Payments for investment in partnerships	(383)	(162)	(3,730)
Proceeds from distribution of investment in partnerships	978	264	9,514
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(398)	(3,226)	(3,877)
Proceeds from liquidation of subsidiaries	—	16	—
Purchase of stocks of subsidiaries and affiliates	(7,846)	(5,139)	(76,265)
Payments of loans receivable	(694)	(510)	(6,750)
Collection of loans receivable	124	164	1,213
Purchase of money held in trust	—	(5,800)	—
Payments for lease deposits	(1,421)	(377)	(13,816)
Collection of lease deposits	674	1,034	6,559
Payments for transfer of business (Note 8 (2))	(14,359)	—	(139,574)
Proceeds from transfer of business	—	184	—
Other, net	(104)	(180)	(1,013)
Net cash provided by (used in) investing activities	(38,547)	6,396	(374,681)
<b>Cash flows from financing activities:</b>			
Proceeds from long-term loans payable	2,488	33,000	24,191
Repayments of long-term loans payable	(12,369)	(10,472)	(120,233)
Proceeds from issuance of bonds	9,935	23,026	96,573
Redemption of bonds	(5,843)	(23,515)	(56,801)
Proceeds from exercise of stock options	2,031	1,365	19,749
Proceeds from stock issuance to minority shareholders	—	299	—
Cash dividends paid	(9,706)	(9,839)	(94,343)
Cash dividends paid to minority shareholders	(17)	(19)	(170)
Purchase of treasury stock	(56)	(16,220)	(545)
Other, net	2,024	1,257	19,680
Net cash provided by (used in) financing activities	(11,512)	(1,116)	(111,900)
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>3,357</b>	<b>3,599</b>	<b>32,637</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>28,499</b>	<b>27,482</b>	<b>277,016</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>174,210</b>	<b>146,599</b>	<b>1,693,338</b>
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	<b>31</b>	<b>128</b>	<b>302</b>
<b>Cash and cash equivalents at end of period (Note 8 (1))</b>	<b>¥202,741</b>	<b>¥174,210</b>	<b>\$1,970,657</b>

See accompanying notes.

# Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES  
Years Ended March 31, 2014 and 2013

## NOTE 1

### Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. However, necessary adjustments are made upon consolidation for 2014 and 2013. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese-language consolidated financial statements is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the classifications used in 2014. These changes had no impact on previously reported results of operations or shareholders' equity.

The translation of the Japanese yen amounts into U.S. dollars is rounded down to the nearest unit amount, and is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.88 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## NOTE 2

### Summary of Significant Accounting Policies

#### (1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant inter-company balances, transactions and unrealized profits have been eliminated. The number of consolidated subsidiaries is 67 in 2014.

From the year ended March 31, 2014, the following companies became the consolidated subsidiaries of the Company: SEGASAMMY BUSAN INC. and two other companies, because of the newly

establishment; Liverpool Co., Ltd. and one other company, because of the Company's acquisition of shareholdings; SEGA SAMMY CREATION INC., because of establishment through an incorporation-type split; DARTSLIVE EUROPE Ltd., because of increase of importance.

From the year ended March 31, 2014, the following companies have been excluded from the scope of consolidation: Sega Publishing America, Inc. and eight other companies, because of its liquidation.

The number of non-consolidated subsidiaries is 15 in 2014.

Main non-consolidated subsidiaries: Sega (Shanghai) Software Co., Ltd., etc.

All non-consolidated subsidiaries are excluded from the scope of consolidation because the combined amounts in assets, net sales, net income and retained earnings applicable to the equity interest of the Company are immaterial.

#### (2) Equity method

Investments in affiliated companies over which the Company has the ability to exercise significant influence over their operation and financial policies are accounted for by the equity method.

The number of non-consolidated subsidiaries accounted for under the equity method is 1 in 2014.

From the year ended March 31, 2014, the following company has been included in the scope of application of the equity method; SEGA PUBLISHING KOREA LTD., because of increase of importance.

The number of affiliated companies accounted for under the equity method is 7 in 2014.

Main equity-method affiliated companies: PARADISE SEGASAMMY Co., Ltd., CRI Middleware Co., Ltd., INTERLIFE HOLDINGS CO., LTD. and four other companies.

From the year ended March 31, 2014, IP4. INC. and one other company have been excluded from the scope of application of the equity method because of sales of shareholdings.

The number of non-consolidated subsidiaries and affiliated companies which are not accounted for by the equity method is 20 in 2014.

Main non-consolidated subsidiaries and affiliated companies not accounted for by the equity method:

Chara-Web Co., Ltd., etc.

The equity method was not applied to non-consolidated subsidiaries and affiliated companies because the combined amounts of these companies in net income and retained earnings applicable to the equity interest of the Company are immaterial.

#### (3) Valuation and accounting treatment for important assets

a. Held-to-maturity debt securities are stated at amortized cost (the straight-line method).

b. Available-for-sale securities

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in net assets, with cost of sales determined by the moving-average method.

## Notes to Consolidated Financial Statements

c. Available-for-sale securities without quoted market prices are carried at cost, which is determined by the moving-average method.

The net amount of equity included in the Company's financial statements from limited liability investment partnerships and similar investments, regarded as marketable securities under Article 2-2 of the Financial Instruments and Exchange Law of Japan, is calculated based on the relevant financial statements for the partnership available as of the reporting date stipulated in the partnership agreement.

d. Derivatives

Derivatives are stated at fair market value.

e. Inventories

Inventories are stated at cost, cost being determined mainly by the gross-average method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

Also, work in process is stated at cost, cost being determined mainly by the specific identification method (with regard to the amounts stated in the balance sheet, the method of book value devaluation based on decline in profitability is used).

#### (4) Depreciation and amortization for important assets

a. Property, plant and equipment (excluding lease assets)

Depreciation is calculated primarily using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and structures:	2–50 years
Machinery, equipment and vehicles:	2–16 years
Amusement game machines:	2–5 years

b. Intangible assets (excluding lease assets)

Depreciation is calculated using the straight-line method. The straight-line method is adopted over the useful life of within five years for software for internal use.

c. Lease assets

Lease assets involving finance lease transactions of which the ownership is transferred to lessees:

Depreciation method for such assets is the same as that which applies to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions of which the ownership is not transferred to lessees:

Depreciation method is the straight-line method with their residual values being zero over their leased periods used as the number of years for useful life.

#### (5) Allowances and provisions

a. Allowance for doubtful accounts

Allowance for doubtful accounts is provided in the amount sufficient to cover possible losses based on a historical write-off of general receivables. Receivables with default possibility and bankrupt receivables are calculated based on an individual assessment of the possibility of collection.

b. Provision for bonuses

Accrued employees' bonuses are provided based on the estimated amount to be paid.

c. Provision for directors' bonuses

The estimated amount of bonuses was recorded to meet the bonus payments to directors and corporate auditors.

d. Provision for business restructuring

Of the expenses expected to incur in connection with business restructuring, those recognized to have incurred in the fiscal year are recorded.

e. Provision for directors' retirement benefits

Certain domestic consolidated subsidiaries provide provision for directors' retirement benefits to adequately cover payment of such benefits at the end of the applicable period in accordance with internal regulations.

f. Provision for point card certificates

In order to provide for the usage of points granted to customers under the point system, the estimated future usage amount for the end of the fiscal year ended March 31, 2014 has been recorded.

#### (6) Accounting method for retirement benefits

a. Attribution method for projected retirement benefits

In calculating retirement benefits obligations, straight-line attribution is adopted for the purpose of attributing projected retirement benefits to the period up to the end of the fiscal year ended March 31, 2014.

b. Treatment of actuarial gains and losses and prior service costs

Prior service costs are amortized equally over a certain number of years (10 years in principle) within the average remaining years of service for the employees at the time of accrual, or are charged to income collectively at the time of accrual. Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 years in principle) within average remaining years of service for the employees at the time of accrual in each fiscal year, commencing from the following fiscal year after the accrual for each employee, or are charged to income collectively in the following fiscal year after the accrual.

(Changes in accounting policies)

The "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued on May 17, 2012; the "Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012; the "Guidance") were adopted from the end of the fiscal year ended March 31, 2014 (except for provisions set in the main clause of Paragraph 35 of the Standard and Paragraph 67 of the Guidance) to change the method to the new one by which retirement benefit obligations less pension assets are recognized as net defined benefit liability, and unrecognized actuarial differences and prior service costs were recognized as net defined benefit liability.

The application of the Standard, etc. follows the transitional rules set in Paragraph 37 of the Standard, and adjustments associated with this change are recorded in accumulated other comprehensive income as of the end of the fiscal year ended March 31, 2014.

As a result, ¥6,053 million (\$58,837 thousand) has been recorded in net defined benefit liability at the end of the fiscal year ended March 31, 2014. In addition, deferred tax assets have decreased ¥322 million (\$3,130 thousand), and accumulated other comprehensive income has increased ¥2,504 million (\$24,342 thousand).

Meanwhile, the impact on per share information is stipulated in the relevant section.

#### **(7) Accounting for significant hedge**

##### **a. Hedge accounting**

The Company adopts deferred hedge accounting. However, special treatment is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying currency swap transactions and forward exchange contracts.

##### **b. Hedging instruments and hedged items**

Hedging instrument: Currency swaps, interest rate swaps, forward exchange contracts

Hedged item: Interest on loans payable, receivables and payables denominated in foreign currencies

##### **c. Hedge policy**

Derivative instruments are used to mitigate risks associated with foreign exchange and interest rate fluctuations.

As a rule, hedging is only used for items in which actual demand exists, and not for speculative purposes.

##### **d. Evaluation of hedge effectiveness**

Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market between the hedged item and the hedging instrument. Evaluation of hedge effectiveness at fiscal year-end is omitted for currency swap transactions, as material conditions for the notional principal of hedging instruments and those for hedged items are the same and these transactions are deemed to offset the market fluctuations. Evaluation of hedge effectiveness at fiscal year-end is omitted also for interest rate swap transactions applied to special treatment.

#### **(8) Amortization method and period of goodwill**

If the duration of the effect of goodwill can be rationally estimated, amortization is made over the estimated number of years by the straight-line method. In other cases, amortization is made over a five-year period by the straight-line method.

#### **(9) Cash and cash equivalents in the consolidated statements of cash flows**

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

#### **(10) Consumption taxes**

Consumption taxes and local consumption taxes are accounted using the net-of-tax method, and non-deductible consumption taxes and local consumption taxes on assets are posted mainly as expenses when incurred.

#### **(11) Application of the Consolidated Taxation System**

The Company applied the Consolidated Taxation System.

## **NOTE 3**

### **Unapplied New Accounting Standards**

“Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, issued on May 17, 2012)

“Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued on May 17, 2012)

#### **(1) Summary**

Accounting standard for retirement benefits has been revised from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how unrecognized actuarial differences and unrecognized prior service costs should be accounted for, (b) how retirement benefit obligations and service costs should be determined and (c) enhancement of disclosures.

#### **(2) Effective dates**

The Company will adopt the amendments to the method for calculating retirement benefit obligations and service costs from the beginning of the fiscal year ending March 31, 2015.

#### **(3) Effect of application of the standard**

As a result of application of the accounting standard, net defined benefit liability for the fiscal year ending March 31, 2015 will be decreased by ¥800 million (\$7,783 thousand).

Effects to operating income and income before income taxes and minority interests are minor.

“Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on September 13, 2013)

“Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013)

“Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued on September 13, 2013)

“Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, issued on September 13, 2013)

“Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued on September 13, 2013)

“Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, issued on September 13, 2013)

#### **(1) Summary**

These accounting standards have been mainly revised: (i) accounting treatment for changes in the parent’s ownership interests in a subsidiary when the parent continues to retain control of that subsidiary after the additional acquisition of the parent’s ownership interest in that subsidiary, (ii) accounting treatment for

## Notes to Consolidated Financial Statements

acquisition-related costs, (iii) presentation of net income as well as the change of minority interests to non-controlling interests and (iv) provisional accounting treatment.

## (2) Effective dates

The Company and its consolidated subsidiaries will adopt the revised accounting standards effective from the beginning of the year ending March 31, 2016. In addition, the Company and its

consolidated subsidiaries will adopt the provisional accounting for those business combinations initiated after the beginning of the year ending March 31, 2016.

## (3) Effect of application of the standards

The Company and its domestic consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

**NOTE 4****Changes in Presentation**

(Consolidated Statements of Income and Comprehensive Income)

(1) "Loss on retirement of noncurrent assets" that was included in "Other, net" under "Other expenses" for the previous fiscal year (¥232 million) has increased in importance, and is therefore separately itemized beginning from the fiscal year ended March 31, 2014.

**NOTE 5****Notes to Consolidated Balance Sheets****(1) Assets pledged**

		Millions of yen	
Assets pledged	<b>2014</b>	Liabilities to be covered	<b>2014</b>
Buildings and structures	¥212	Short-term loans payable	¥350
Land	210		
Total	423	Total	350

		Thousands of U.S. dollars (Note 1)	
Assets pledged	<b>2014</b>	Liabilities to be covered	<b>2014</b>
Buildings and structures	\$2,067	Short-term loans payable	\$3,402
Land	2,049		
Total	4,117	Total	3,402

		Millions of yen	
Assets pledged	2013	Liabilities to be covered	2013
Buildings and structures	¥179	Short-term loans payable	¥350
Land	210		
Total	390	Total	350

**(2) Investment securities to non-consolidated subsidiaries and affiliated companies**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<b>2014</b>	2013	<b>2014</b>
Investment securities (shares)	¥17,780	¥7,451	\$172,831
Investment securities (capital contributions)	155	137	1,511

**(3) Loan securities**

Loan securities of ¥358 million are included in investment securities as of March 31, 2013.

#### (4) Revaluation reserve for land

Consolidated subsidiary SEGA CORPORATION has revalued land for commercial use, pursuant to Japan's Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and Amendments to the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001). SEGA CORPORATION has recorded an item for the revaluation reserve for land under net assets.

SEGA CORPORATION computed the value of land based on the methodology regarding rational adjustments to valuation of fixed assets stipulated in Article 2-3, and appraisals by licensed real estate appraisers prescribed in Article 2-5 of the Enforcement Ordinance No. 119 (March 31, 1998) pertaining to the Law Concerning Revaluation of Land.

Date of revaluation: March 31, 2002

#### (5) Overdraft agreements and commitment line agreements

The Company and its consolidated subsidiaries have overdraft agreements and commitment line agreements with 13 banks for effective procurement of working capital.

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Total amount of overdraft limit and commitment line agreements	<b>¥71,425</b>	¥61,425	<b>\$694,255</b>
Balance of executed loans	<b>500</b>	500	<b>4,860</b>
Unexecuted balance	<b>70,925</b>	60,925	<b>689,395</b>

## NOTE 6

### Notes to Consolidated Statements of Income and Comprehensive Income

#### (1) Devaluation of inventories

The book value devaluation of inventories held for normal sales purpose based on decline in profitability included in cost of sales amounted to ¥3,885 million (\$37,763 thousand) and ¥3,320 million for the years ended March 31, 2014 and 2013, respectively.

#### (2) Research and development expenses

Expenses relating to research and development activities have been charged to income as incurred and amounted to ¥40,070 million (\$389,488 thousand) and ¥37,046 million for the years ended March 31, 2014 and 2013, respectively.

#### (3) Gain on sales of noncurrent assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Buildings and structures	<b>¥ 521</b>	¥289	<b>\$ 5,068</b>
Land	<b>2,299</b>	373	<b>22,353</b>
Other property, plant and equipment	<b>12</b>	4	<b>121</b>
Other intangible assets	<b>751</b>	—	<b>7,306</b>
Total	<b>3,585</b>	667	<b>34,850</b>

## Notes to Consolidated Financial Statements

**(4) Loss on liquidation of subsidiaries and affiliates**

Year ended March 31, 2014

Loss on liquidation of subsidiaries and affiliates was recognized mainly by realization of foreign currency translation adjustment resulted from the completion of the liquidation of some of the subsidiaries in the United Kingdom and the United States.

Year ended March 31, 2013

Loss on liquidation of subsidiaries and affiliates was recognized by realization of foreign currency translation adjustment resulted from the completion of the liquidation of certain subsidiaries in the United States.

**(5) Impairment loss**

Year ended March 31, 2014

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values for assets for business are calculated as memorandum amounts as they are mainly due to be disposed, while recoverable values for amusement facilities are calculated by their useful value mainly with a discount rate of 1.4%.

## Details of impairment loss

Use	Location	Type	Millions of yen	Impairment loss
				Thousands of U.S. dollars (Note 1)
Assets for business	Shibuya -ward, Tokyo and 6 other locations	Buildings and structures	¥ 51	\$ 502
		Other property, plant and equipment	91	892
		Other intangible assets	175	1,710
		Land	1	17
Amusement facilities	Minato -ward, Tokyo and 2 other locations	Buildings and structures	543	5,286
		Amusement machines and facilities	799	7,766
		Other property, plant and equipment	118	1,148
		Other intangible assets	17	169
		Total	1,799	17,494

Year ended March 31, 2013

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under "Other expenses" in the consolidated financial statements.

Recoverable values for assets for business and amusement facilities are calculated as memorandum amounts as they are mainly due to be disposed, while recoverable values for unutilized assets are calculated by real estate appraisal amounts.

Further, for goodwill, the book value of goodwill owned by a consolidated subsidiary in the United States is written down to a recoverable amount based on the evaluation of a third party.

Recoverable amount is measured by its useful value with a discount rate of 16.0%.

Details of impairment loss

Use	Location	Type	Impairment loss
			Millions of yen
Assets for business	Nakano-ward, Tokyo and 6 other locations	Buildings and structures	¥ 22
		Amusement machines and facilities	0
		Other property, plant and equipment	5
		Other intangible assets	145
		Land	174
Amusement facilities	Chuo-ward, Chiba-city, Chiba and 16 other locations	Buildings and structures	225
		Amusement machines and facilities	413
		Other property, plant and equipment	4
		Other intangible assets	4
Unutilized assets	Kitahiroshima-city, Hokkaido and 2 other locations	Buildings and structures	5
		Land	281
Other	The United States	Goodwill	1,480
		Other intangible assets	222
		Total	2,986

(6) Reclassification adjustments and the related tax effects concerning other comprehensive income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Valuation difference on available-for-sale securities			
The amount arising during the period	¥ (4,845)	¥14,830	\$ (47,098)
Reclassification adjustments	(11,713)	(1,912)	(113,851)
Before adjustments to tax effects	(16,558)	12,917	(160,950)
The amount of tax effects	5,978	(4,404)	58,109
Valuation difference on available-for-sale securities	(10,580)	8,512	(102,840)
Deferred gains or losses on hedges			
The amount arising during the period	3	—	34
Reclassification adjustments	—	—	—
Before adjustments to tax effects	3	—	34
The amount of tax effects	(1)	—	(12)
Deferred gains or losses on hedges	2	—	21
Foreign currency translation adjustment			
The amount arising during the period	4,492	2,597	43,665
Reclassification adjustments	6,200	1,728	60,265
Before adjustments to tax effects	10,692	4,325	103,930
The amount of tax effects	—	—	—
Foreign currency translation adjustment	10,692	4,325	103,930
Share of other comprehensive income of associates accounted for using equity method			
The amount arising during the period	1,878	847	18,261
Reclassification adjustments	—	—	—
Share of other comprehensive income of associates accounted for using equity method	1,878	847	18,261
Total other comprehensive income	1,993	13,686	19,373

## Notes to Consolidated Financial Statements

**NOTE 7****Notes to Consolidated Statements of Changes in Net Assets****(1) Number of outstanding common stock**

	2014	Shares 2013
Balance at beginning of the year	266,229,476	266,229,476
Increase	—	—
Decrease	—	—
Balance at end of the year	266,229,476	266,229,476

**(2) Number of outstanding treasury stock**

	2014	Shares 2013
Balance at beginning of the year	24,169,675	15,194,836
Increase due to purchase in the market by the resolution at the Board of Directors' meeting	—	10,000,000
Increase due to purchase of odd stock	21,851	16,931
Decrease due to exercise of stock options	1,562,900	1,040,700
Decrease due to sale of odd stock	901	1,392
Balance at end of the year	22,627,725	24,169,675

**(3) Subscription rights to shares**

Year ended March 31, 2014

Company name	Breakdown	Balance at March 31, 2014	
		Millions of yen	Thousands of U.S. dollars (Note 1)
The Company	Subscription rights to shares as stock options	¥1,078	\$10,478
Total		1,078	10,478

Year ended March 31, 2013

Company name	Breakdown	Balance at March 31, 2013
		Millions of yen
The Company	Subscription rights to shares as stock options	¥1,146
Total		1,146

**(4) Dividends**

Year ended March 31, 2014

1 Dividend

Resolution	Type of stock	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 10, 2013	Common stock	¥4,841	¥20	March 31, 2013	May 28, 2013
Board of Directors' meeting held on November 1, 2013	Common stock	4,860	20	September 30, 2013	December 2, 2013

Resolution	Type of stock	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' meeting held on May 10, 2013	Common stock	\$47,056	\$0.19	March 31, 2013	May 28, 2013
Board of Directors' meeting held on November 1, 2013	Common stock	47,241	0.19	September 30, 2013	December 2, 2013

2 Of the dividends of which the record date is in the fiscal year ended March 31, 2014, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 9, 2014	Common stock	Retained earnings	<b>¥4,872</b>	<b>¥20</b>	March 31, 2014	May 28, 2014

Resolution	Type of stock	Resource of dividend	Total dividend (Thousands of U.S. dollars (Note 1))	Dividend per share (U.S. dollars (Note 1))	Record date	Effective date
Board of Directors' meeting held on May 9, 2014	Common stock	Retained earnings	<b>\$47,356</b>	<b>\$0.19</b>	March 31, 2014	May 28, 2014

Year ended March 31, 2013

1 Dividend

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 11, 2012	Common stock		¥5,020	¥20	March 31, 2012	May 29, 2012
Board of Directors' meeting held on November 2, 2012	Common stock		4,831	20	September 30, 2012	December 3, 2012

2 Of the dividends of which the record date is in the fiscal year ended March 31, 2013, but the effective date is in the following fiscal year

Resolution	Type of stock	Resource of dividend	Total dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors' meeting held on May 10, 2013	Common stock	Retained earnings	¥4,841	¥20	March 31, 2013	May 28, 2013

## NOTE 8

### Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash and deposits	<b>¥101,220</b>	¥176,540	<b>\$ 983,868</b>
Short-term investment securities	<b>107,713</b>	4,260	<b>1,046,985</b>
Total	<b>208,934</b>	180,800	<b>2,030,853</b>
Time deposits with maturities of more than three months	<b>(5,690)</b>	(5,834)	<b>(55,313)</b>
Short-term investment securities with period from the acquisition date to the redemption date exceeding three months	<b>(502)</b>	(755)	<b>(4,882)</b>
Cash and cash equivalents	<b>202,741</b>	174,210	<b>1,970,657</b>

(2) Increase of assets and liabilities resulted from business transfer

Year ended March 31, 2014

Index Corporation

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 2,028	\$ 19,716
Noncurrent assets	1,783	17,333
Goodwill	11,040	107,310
Current liabilities	(492)	(4,785)
Payments for transfer of business	14,359	139,574

## Notes to Consolidated Financial Statements

**NOTE 9****Information for Certain Leases**

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value for the years ended March 31, 2014 and 2013, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Year ended March 31, 2014

Not applicable

Year ended March 31, 2013

Not applicable

A summary of assumed amounts of lease payments, reversal of liability of impairment loss for lease assets, assumed depreciation and interest expenses for the years ended March 31, 2014 and 2013, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Lease payments	¥—	¥ 0	\$—
Reversal of liability of impairment loss for lease assets	—	—	—
Depreciation	—	0	—
Interest expenses	—	0	—

Finance lease transactions:

Lease assets mainly consist of the following: Buildings and structures, land for office-related facilities and facilities for amusement center operations, such as buildings and structures, and amusement game machines.

The methods of depreciation for lease assets are as follows: Lease assets involving finance lease transactions under which the

ownership of the lease assets is transferred to lessees are the same methods that are applied to property, plant and equipment owned by the Company.

Lease assets involving finance lease transactions under which the ownership of the lease assets is not transferred to lessees are the straight-line method, with their residual values being zero over their leased periods used as the number of years for useful life.

Operating lease transactions:

Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within one year	¥2,297	¥ 760	\$22,335
Due after one year	3,377	2,227	32,827
Total	5,675	2,987	55,163

## NOTE 10

### Financial Instruments

#### 1. Outline of financial instruments

##### (1) Policy for financial instruments

SEGA SAMMY Group (the "Group") signed an agreement concerning commitment lines by the syndicated method, such as securing medium- to long-term fund liquidity with the Company as the holding company, as a safety net for the entire Group. In addition, capital for each business is financed based on the financial plan as needed, through bank borrowing or bond issue applying the Cash Management System for purpose of the efficient utilization of the Group's funds. Funds are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

##### (2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable-trade are exposed to customer credit risks. In addition, foreign currency-denominated trade receivables are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Short-term investment securities and investment securities are mainly held-to-maturity debt securities and the stocks acquired for business collaborations with business partners, and are exposed to the risk of market price fluctuations.

Of the payables such as notes and accounts payable-trade, trade payables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risks. However, certain parts of the risks are hedged by forward exchange contracts. Loans and bonds payable are for the purpose of procurement of funds necessary for operating funds and capital investment, and parts of them have floating interest rates. For this reason, they are exposed to interest rate fluctuation risks.

Derivative transactions consist of forward exchange contracts intended to hedge foreign currency exchange fluctuation risks for trade receivables and payables denominated in foreign currencies, as well as loan receivables denominated in foreign currencies, interest swap transactions intended to hedge fluctuation risks of interests on loans, and currency swap transactions intended to hedge interest rate fluctuation risks for loans. For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to "(7) Accounting for significant hedge" in "Note 2 – Summary of Significant Accounting Policies."

##### (3) Risk management for financial instruments

###### 1) Credit risk management (customers' default risk)

With respect to trade receivables, departments in charge regularly monitor the situations of major customers in compliance with each company's management regulations for receivables, to control payment terms and balances of customers, in order to detect collection concerns such as worsening of financial conditions early and to lessen the possibilities for collection problems.

The credit risk for held-to-maturity debt securities is minimal because the investments of these financial assets are limited to high credit rating issuers in accordance with the fund operation management rules.

Customers of derivative transactions are in principle limited to correspondent financial institutions.

The amount of maximum risk as of the consolidated settlement date is expressed by the amounts of financial assets exposed to credit risks in the balance sheet.

###### 2) Market risk management (foreign currency exchange and interest rate fluctuation risks)

Certain consolidated subsidiaries use forward exchange contracts to hedge foreign currency exchange fluctuation risks identified by currency and by month, in parts of trade receivables and payables and loan receivables denominated in foreign currencies, and trade receivables and payables which are expected to certainly occur due to exports and imports (forecasted transactions). In addition, interest rate swap transactions are used to hedge fluctuation risks of interests on variable interest loans. With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. In addition, holding of short-term investment securities and investment securities other than held-to-maturity debt securities are continuously reviewed in consideration of relationships with the counterparties.

With regards to derivative transactions, the financial department or the accounting department executes and manages transactions upon obtaining internal approvals in compliance with the derivative transactions management rules of each Group company. In addition, reports on the situations of derivative transactions are made to each company's Board of Directors' meeting when and where appropriate.

###### 3) Liquidity risk management on fund raising (risk for delinquency)

Trade payables and loans are exposed to liquidity risk. In the Group, liquidity risk is managed by setting an appropriate fund balance for each company, and by each company updating fund plans monthly to maintain the balance that exceeds the set fund balance, and by the Company confirming each company's cash position.

##### (4) Supplementary explanations concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 12 – Derivative Transactions" do not indicate the amounts of market risk exposed to derivative transactions.

## Notes to Consolidated Financial Statements

**2. Matters concerning the fair value of financial instruments**

The consolidated balance sheet amount and fair value of financial instruments as of March 31, 2014 and 2013 as well as the differences between these values are described below. Financial instruments whose fair values are not readily determinable are not included in the table. (See Note 2 below.)

Year ended March 31, 2014

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥101,220	¥101,220	¥ —
(2) Notes and accounts receivable—trade	48,108	48,092	(16)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,061	2,048	(13)
2) Available-for-sale securities (*1)	144,820	144,820	—
3) Equity securities issued by affiliated companies	832	707	(125)
<b>Total assets</b>	<b>297,043</b>	<b>296,888</b>	<b>(155)</b>
(1) Notes and accounts payable—trade	37,292	37,292	—
(2) Short-term loans payable	12,918	12,918	—
(3) Long-term loans payable	35,198	35,115	82
(4) Current portion of corporate bonds	1,700	1,700	—
(5) Corporate bonds payable	37,800	37,922	(122)
<b>Total liabilities</b>	<b>124,909</b>	<b>124,950</b>	<b>(40)</b>
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(0)	(0)	—
2) Derivative transactions to which hedge accounting is applied	3	3	—
<b>Total derivative transactions</b>	<b>3</b>	<b>3</b>	<b>—</b>

	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	\$ 983,868	\$ 983,868	\$ —
(2) Notes and accounts receivable—trade	467,622	467,459	(162)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	20,034	19,906	(127)
2) Available-for-sale securities (*1)	1,407,662	1,407,662	—
3) Equity securities issued by affiliated companies	8,089	6,872	(1,217)
<b>Total assets</b>	<b>2,887,277</b>	<b>2,885,769</b>	<b>(1,507)</b>
(1) Notes and accounts payable—trade	362,488	362,488	—
(2) Short-term loans payable	125,571	125,571	—
(3) Long-term loans payable	342,129	341,328	800
(4) Current portion of corporate bonds	16,524	16,524	—
(5) Corporate bonds payable	367,418	368,610	(1,191)
<b>Total liabilities</b>	<b>1,214,131</b>	<b>1,214,523</b>	<b>(391)</b>
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(2)	(2)	—
2) Derivative transactions to which hedge accounting is applied	34	34	—
<b>Total derivative transactions</b>	<b>(32)</b>	<b>(32)</b>	<b>—</b>

(\*1) Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.

(\*2) Receivables and payables incurred by derivative transactions are presented in net amount.

Year ended March 31, 2013

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥176,540	¥176,540	¥ —
(2) Notes and accounts receivable—trade	63,886	63,868	(18)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,326	2,321	(5)
2) Available-for-sale securities (*1)	64,352	64,352	—
3) Equity securities issued by affiliated companies	612	765	153
Total assets	307,718	307,847	129
(1) Notes and accounts payable—trade	50,142	50,142	—
(2) Short-term loans payable	12,867	12,867	—
(3) Long-term loans payable	44,926	44,819	107
(4) Current portion of corporate bonds	5,843	5,843	—
(5) Corporate bonds payable	29,500	29,655	(155)
Total liabilities	143,280	143,328	(48)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(19)	(19)	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	(19)	(19)	—

(\*1) Since the fair values of embedded derivatives cannot be reasonably categorized and measured, those of the entire composite financial instruments are evaluated, and included in investment securities.

(\*2) Receivables and payables incurred by derivative transactions are presented in net amount.

Note 1: Calculation method of fair values of financial instruments and securities and derivative transactions  
Assets

(1) Cash and deposits and (2) Notes and accounts receivable—trade

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. In addition, of notes and accounts receivable—trade, those which have more than a year to the payment date from March 31, 2014 are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.

(3) Short-term investment securities and investment securities

The fair values of stocks are determined using the quoted price on the stock exchange, and those of bonds are determined using the quoted price on the exchange or the quoted price obtained from the financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 11—Investment Securities."

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable and (4) Current portion of corporate bonds  
Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

(3) Long-term loans payable and (5) Corporate bonds payable

These are stated with the present values calculated by discounting the aggregated values of the principal and interest using an assumed interest rate if loans are newly made. Of the long-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

Derivative transactions

For notes concerning derivatives, please see "Note 12 – Derivative Transactions."

Note 2: Financial instruments whose fair values are not readily determinable

Item	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
	Consolidated balance sheet amount		
Unlisted equity securities, etc.	¥ 1,504	¥1,535	\$ 14,620
Investment in limited liability investment partnerships, etc.	2,217	1,255	21,552
Equity securities issued by non-consolidated subsidiaries	2,265	318	22,023
Equity securities issued by affiliated companies	14,682	6,520	142,718
Investments in capital of affiliated companies	155	137	1,511

These items are not included in "(3) Short-term investment securities and investment securities," because there is no market price, future cash flows cannot be estimated and it is very difficult to identify fair values.

## Notes to Consolidated Financial Statements

Note 3: Redemption schedule of monetary assets and securities with contractual maturities

Year ended March 31, 2014

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥101,220	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	47,898	210	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	400	900	750	—
Available-for-sale securities with maturities(Negotiable certificates of deposit)	88,900	—	—	—
Available-for-sale securities with maturities (Other)*	6,999	—	200	1,800
Total	245,417	1,110	950	1,800

	Thousands of U.S. dollars (Note 1)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	\$ 983,868	\$ —	\$ —	\$ —
Notes and accounts receivable—trade	465,572	2,049	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	3,888	8,748	7,290	—
Available-for-sale securities with maturities(Negotiable certificates of deposit)	864,113	—	—	—
Available-for-sale securities with maturities (Other)*	68,035	—	1,944	17,496
Total	2,385,477	10,797	9,234	17,496

\* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Year ended March 31, 2013

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥176,540	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	63,639	247	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	655	900	750	—
Available-for-sale securities with maturities(Corporate bonds)*	—	3,000	—	1,000
Available-for-sale securities with maturities(Negotiable certificates of deposit)	100	—	—	—
Available-for-sale securities with maturities (Other)*	3,505	—	200	1,800
Total	244,439	4,147	950	2,800

\* With respect to bonds with an early redemption clause, their expected redemption amounts at maturity without applying the early redemption clause are listed.

Note 4: For redemption supplemental schedules of corporate bonds payable, long-term loans payable, lease obligations and other interest-bearing liabilities, please refer to "Supplemental schedule of corporate bonds" and "Supplemental schedule of borrowings" in "Note 21 – Supplemental Information."

## NOTE 11

### Investment Securities

#### 1. Held-to-maturity debt securities

Year ended March 31, 2014

##### (1) Securities whose market value exceeds the consolidated balance sheet amount

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	803	807	4
c. Other	—	—	—
Total	803	807	4

Category	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	\$ —	\$ —	\$ —
b. Corporate bonds	7,810	7,851	41
c. Other	—	—	—
Total	7,810	7,851	41

##### (2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,257	1,240	(17)
c. Other	—	—	—
Total	1,257	1,240	(17)

Category	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	\$ —	\$ —	\$ —
b. Corporate bonds	12,224	12,055	(168)
c. Other	—	—	—
Total	12,224	12,055	(168)

Year ended March 31, 2013

##### (1) Securities whose market value exceeds the consolidated balance sheet amount

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,010	1,012	2
c. Other	—	—	—
Total	1,010	1,012	2

##### (2) Securities whose market value is equal to or lower than the consolidated balance sheet amount

Category	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,316	1,308	(7)
c. Other	—	—	—
Total	1,316	1,308	(7)

## Notes to Consolidated Financial Statements

**2. Available-for-sale securities**

Year ended March 31, 2014

**(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost**

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥35,311	¥9,305	¥26,006
b. Bonds	—	—	—
c. Other	300	300	0
Total	35,612	9,605	26,006

Category	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	\$343,226	\$90,446	\$252,780
b. Bonds	—	—	—
c. Other	2,925	2,916	9
Total	346,151	93,362	252,789

**(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost**

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥ 85	¥ 100	¥ (15)
b. Bonds	1,811	2,000	(188)
c. Other	107,311	107,311	—
Total	109,208	109,412	(204)

Category	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	\$ 828	\$ 981	\$ (153)
b. Bonds	17,607	19,440	(1,832)
c. Other	1,043,075	1,043,075	—
Total	1,061,511	1,063,497	(1,986)

Year ended March 31, 2013

**(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost**

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥55,779	¥13,142	¥42,637
b. Bonds	—	—	—
c. Other	—	—	—
Total	55,779	13,142	42,637

**(2) Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost**

Category	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥ 291	¥ 367	¥ (76)
b. Bonds	4,676	5,000	(323)
c. Other	3,605	3,605	—
Total	8,572	8,972	(400)

### 3. Available-for-sale securities sold during the fiscal year

Year ended March 31, 2014

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	¥16,227	¥11,970	¥(29)
b. Bonds	—	—	—
c. Other	—	—	—
Total	16,227	11,970	(29)

Category	Thousands of U.S. dollars (Note 1)		
	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	\$157,728	\$116,358	\$(284)
b. Bonds	—	—	—
c. Other	—	—	—
Total	157,728	116,358	(284)

Year ended March 31, 2013

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	¥3,708	¥1,917	¥(0)
b. Bonds	4,000	—	—
c. Other	—	—	—
Total	7,708	1,917	(0)

### 4. Impairment loss on securities

Year ended March 31, 2014

During the year ended March 31, 2014, the Group recognized impairment loss on available-for-sale securities in an amount of ¥196 million (\$1,905 thousand).

Year ended March 31, 2013

During the year ended March 31, 2013, the Group recognized impairment loss on available-for-sale securities in an amount of ¥6 million.

## Notes to Consolidated Financial Statements

**NOTE 12****Derivative Transactions****1. Derivative transactions to which hedge accounting is not applied****(1) Currency-related derivatives**

Year ended March 31, 2014

		Millions of yen			
	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	¥105	¥—	¥(0)	¥(0)
	Euro	31	—	(0)	(0)
<b>Total</b>		<b>137</b>	<b>—</b>	<b>(0)</b>	<b>(0)</b>

		Thousands of U.S. dollars (Note 1)			
	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	\$1,023	\$—	\$(1)	\$(1)
	Euro	310	—	(1)	(1)
<b>Total</b>		<b>1,333</b>	<b>—</b>	<b>(2)</b>	<b>(2)</b>

Note: Fair values are calculated using prices quoted by financial institutions.

Year ended March 31, 2013

		Millions of yen			
	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	U.S. dollar	¥106	¥—	¥(10)	¥(10)
	Euro	59	—	(2)	(2)
	Korean won	328	—	(7)	(7)
<b>Total</b>		<b>494</b>	<b>—</b>	<b>(19)</b>	<b>(19)</b>

Note: Fair values are calculated using prices quoted by financial institutions.

**(2) Composite financial instruments**

With respect to composite financial instruments whose fair values cannot be categorized and measured for each embedded derivative, the entire composite financial instruments are appraised by fair value, and are included in "2. Available-for-sale securities" in "Note 11 – Investment Securities."

## 2. Derivative transactions to which hedge accounting is applied

### (1) Currency-related derivatives

Year ended March 31, 2014

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts				
	Buying				
	U.S. dollar	Accounts payable–trade	¥438	¥—	¥3
Payables translated using forward exchange contract rates	Forward exchange contracts				
	Buying				
	U.S. dollar	Accounts payable–trade	162	—	Note 2

Thousands of U.S. dollars (Note 1)

			Thousands of U.S. dollars (Note 1)		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Primary method	Forward exchange contracts				
	Buying				
	U.S. dollar	Accounts payable–trade	\$4,260	\$—	\$34
Payables translated using forward exchange contract rates	Forward exchange contracts				
	Buying				
	U.S. dollar	Accounts payable–trade	1,581	—	Note 2

Notes: 1. Fair values are calculated using prices quoted by financial institutions.

2. With respect to forward exchange contracts whose exchange rates are used for translating foreign currency-denominated accounts payable–trade, fair values of forward exchange contracts are included in the fair values of the relevant accounts payable–trade, since they are used for recording accounts payable–trade as hedged items.

Year ended March 31, 2013

Not applicable

### (2) Interest rate-related derivatives

Year ended March 31, 2014

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps				
	Floating rate into fixed rate	Long-term loans payable	¥ 5,730	¥3,700	Note
Special treatment for interest rate and currency swaps	Interest rate and currency swaps				
	Floating rate into fixed rate	Long-term loans payable	5,988	5,988	Note
Total			11,718	9,688	—

Thousands of U.S. dollars (Note 1)

			Thousands of U.S. dollars (Note 1)		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps				
	Floating rate into fixed rate	Long-term loans payable	\$ 55,695	\$35,964	Note
Special treatment for interest rate and currency swaps	Interest rate and currency swaps				
	Floating rate into fixed rate	Long-term loans payable	58,211	58,211	Note
Total			113,907	94,175	—

Note: With respect to "interest rate swaps" and "interest rate and currency swaps" which meet certain conditions, fair values of the interest rate swaps and currency swaps are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

Year ended March 31, 2013

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Special treatment for interest rate swaps	Interest rate swaps				
	Floating rate into fixed rate	Long-term loans payable	¥ 9,730	¥ 7,707	Note
Special treatment for interest rate and currency swaps	Interest rate and currency swaps				
	Floating rate into fixed rate	Long-term loans payable	5,000	5,000	Note
Total			14,730	12,707	—

Note: With respect to "interest rate swaps" and "interest rate and currency swaps" which meet certain conditions, fair values of the interest rate swaps and currency swaps are included in the fair values of the relevant long-term loans payable, since they are used for recording long-term loans payable as hedged items.

## Notes to Consolidated Financial Statements

**NOTE 13****Retirement Benefits**

Year ended March 31, 2014

**Overview of retirement benefits plans**

Domestic consolidated subsidiaries offer, based on retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer defined contribution pension plans.

Under the lump-sum retirement benefit plans that the Company and certain domestic consolidated subsidiaries have, net defined benefit liability and severance and retirement benefit expenses are calculated by the simplified method.

**Defined benefit pension plan**

(1) Reconciliation of the difference between the amount of projected benefit obligations as of April 1, 2013 and March 31, 2014 (excluding pension plan using the simplified method)

	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligations as of April 1, 2013	¥18,515	\$179,972
Service costs – benefits earned during the year	1,636	15,910
Interest cost on projected benefit obligations	198	1,924
Actuarial differences accrued	167	1,627
Retirement benefit paid	(606)	(5,899)
Other	(133)	(1,293)
Projected benefit obligations as of March 31, 2014	19,777	192,242

(2) Reconciliation of the difference between the amount of plan assets as of April 1, 2013 and March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
Plan assets as of April 1, 2013	¥10,848	\$105,449
Expected return on plan assets	196	1,905
Actuarial differences accrued	1,549	15,064
Contribution of employer	2,260	21,976
Retirement benefit paid	(527)	(5,122)
Plan assets as of March 31, 2014	14,328	139,273

(3) Reconciliation of the difference between the amount of net defined benefit liability under pension plan using the simplified method as of April 1, 2013 and March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net defined benefit liability of April 1, 2013	¥580	\$5,645
Retirement benefit expenses	111	1,080
Retirement benefit paid	(88)	(856)
Net defined benefit liability of March 31, 2014	603	5,869

(4) Reconciliation of the difference between the amount of projected benefit obligations and plan assets as of March 31, 2014 and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet as of March 31, 2014

	Millions of yen	Thousands of U.S. dollars (Note 1)
Funded projected benefit obligations	¥ 19,777	\$ 192,242
Plan assets	(14,328)	(139,273)
	5,449	52,968
Unfunded projected benefit obligations	603	5,869
Net amount of liabilities and assets recorded in the consolidated balance sheet as of March 31, 2014	6,053	58,837
Net defined benefit liability	6,053	58,837
Net amount of liabilities and assets recorded in the consolidated balance sheet as of March 31, 2014	6,053	58,837

(Note) Retirement benefit scheme applying the simplified method is included

(5) Breakdown of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs – benefits earned during the year	¥1,636	\$15,910
Interest cost on projected benefit obligations	198	1,924
Expected return on plan assets	(196)	(1,905)
Amortization of actuarial difference	401	3,900
Retirement benefit expenses using the simplified method	133	1,294
Other	0	4
Retirement benefit expenses of defined benefit pension plan	2,173	21,128

(6) Remeasurements of defined benefit plans

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction)

	Millions of yen	Thousands of U.S. dollars (Note 1)
Unrecognized actuarial differences	¥2,819	\$27,409
Total	2,819	27,409

(7) Matters concerning plan assets

a Breakdown of plan assets

Ratio of main classes of plan assets

Debt securities	59%
Share of stock	21
Cash and deposits	4
General account	16
Other	0
Total	100

b Rate of long-term expected return on plan assets

In determining long-term expected rate of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, as well as current and future long-term rate of returns for the various assets which makes up the plan assets.

(8) Matters concerning basis for the actuarial calculation

Basis for the actuarial calculation as of March 31, 2014

Discount rate	0.5~1.4%
Rate of long-term expected return on plan assets	1.0~2.0%

**Defined contribution pension plans**

The amount to be paid by consolidated subsidiaries to the defined contribution pension plans was ¥247 million (\$2,409 thousand) for the year ended March 31, 2014.

## Notes to Consolidated Financial Statements

Year ended March 31, 2013

**Overview of retirement benefits plans**

The Company and domestic consolidated subsidiaries offer, based on retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer defined contribution pension plans.

Pursuant to the Defined-Benefit Corporate Pension Act, some of the subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the benefit obligation related to future employee services under the substitutional portion of the pension fund on May 1, 2013 and the portion related to prior services on March 1, 2013.

Additionally, some of the domestic consolidated subsidiaries withdrew from the employees' pension fund on February 27, 2013.

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2013 consists of the following:

	Millions of yen
	2013
1) Projected benefit obligations	¥(19,096)
2) Pension assets	10,848
3) Unrecognized projected benefit obligations	(8,247)
4) Unrecognized actuarial differences	(1,086)
5) Unrecognized prior service cost	135
6) Prepaid pension cost	78
7) Provision for retirement benefits	(9,277)

Note: Some consolidated subsidiaries use the simplified method for calculating projected benefit obligations.

Included in the consolidated statements of income and comprehensive income for the year ended March 31, 2013, severance and retirement benefit expenses comprise the following:

	Millions of yen
	2013
Service costs—benefits earned during the year	¥ 1,810
Interest cost on projected benefit obligations	506
Expected return on plan assets	(351)
Amortization of actuarial difference	565
Non-recurring additional retirement allowance paid, etc.	0
Other	414
Severance and retirement benefit expenses	2,945
Gain or loss related to exemption from the substitutional portion of the pension fund	(6,345)
Total	(3,399)

Notes: 1. Retirement benefit expenses of consolidated subsidiaries using the simplified method are added up in "Service costs."

2. "Other" includes premium paid to the defined contribution pension plan as well as contribution for withdrawal from the employees' pension fund which is recorded under "Other expense."

Discount rate	0.5~2.0%
Rate of expected return on plan assets	1.0~2.5%

## NOTE 14

### Stock Option Plan

#### 1. Contents, scale and movement of stock options

Year ended March 31, 2014

(1) The following table summarizes the contents of stock options as of March 31, 2014.

Company name	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010
Position and number of grantees	The Company's directors: 4	The Company's executive officers: 3 The Company's employees: 11 The Company's subsidiaries' directors: 8 The Company's subsidiaries' executive officers: 22 The Company's subsidiaries' employees: 1,831	The Company's subsidiaries' directors: 12 The Company's subsidiaries' executive officers: 6 The Company's subsidiaries' employees: 151
Class and number of stock	Common stock 172,000	Common stock 3,417,800	Common stock 464,000
Date of issue	July 31, 2010	July 31, 2010	February 1, 2011
Condition of settlement of rights	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from February 1, 2011 to February 1, 2013
Period grantees provide service in return for stock options	July 31, 2010 to July 31, 2012	July 31, 2010 to July 31, 2012	February 1, 2011 to February 1, 2013
Period subscription rights are to be exercised	August 1, 2012 to July 31, 2014	August 1, 2012 to July 31, 2014	February 2, 2013 to February 1, 2015

Company name	The Company	The Company	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	October 29, 2010
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 6 The Company's employees: 11 The Company's subsidiaries' directors: 27 The Company's subsidiaries' executive officers: 17 The Company's subsidiaries' employees: 1,206	Butterfly Corporation's directors: 3 Butterfly Corporation's corporate auditors: 1 Butterfly Corporation's employees: 56
Class and number of stock	Common stock 250,000	Common stock 3,483,000	Common stock 49,000
Date of issue	September 1, 2012	September 1, 2012	November 1, 2010
Condition of settlement of rights	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from November 1, 2010 to October 29, 2012
Period grantees provide service in return for stock options	September 1, 2012 to September 1, 2014	September 1, 2012 to September 1, 2014	November 1, 2010 to October 29, 2012
Period subscription rights are to be exercised	September 2, 2014 to September 1, 2016	September 2, 2014 to September 1, 2016	October 30, 2012 to October 28, 2020

Company name	Butterfly Corporation
Date of the resolution	January 19, 2011
Position and number of grantees	Butterfly Corporation's employees: 10
Class and number of stock	Common stock 1,000
Date of issue	February 1, 2011
Condition of settlement of rights	Continue to work from February 1, 2011 to October 29, 2012
Period grantees provide service in return for stock options	February 1, 2011 to October 29, 2012
Period subscription rights are to be exercised	October 30, 2012 to October 28, 2020

## Notes to Consolidated Financial Statements

(2) The following table summarizes the scale and movement of stock as of March 31, 2014.

Company name	Shares				
	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Not exercisable stock options					
Stock options outstanding at April 1, 2013	—	—	—	250,000	3,475,800
Stock options granted	—	—	—	—	—
Forfeitures	—	—	—	—	43,600
Conversion to exercisable stock options	—	—	—	—	—
Stock options outstanding at March 31, 2014	—	—	—	250,000	3,432,200
Exercisable stock options					
Stock options outstanding at April 1, 2013	132,900	2,308,800	383,600	—	—
Conversion from not exercisable stock options	—	—	—	—	—
Stock options exercised	85,000	1,328,400	149,500	—	—
Forfeitures	—	1,000	200	—	—
Stock options outstanding at March 31, 2014	47,900	979,400	233,900	—	—

Company name	Shares	
	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Not exercisable stock options		
Stock options outstanding at April 1, 2013	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2014	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2013	39,800	800
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	5,700	500
Stock options outstanding at March 31, 2014	34,100	300

The following tables summarize the price information of stock options as of March 31, 2014.

Yen

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	¥1,312	¥1,312	¥1,753	¥1,686	¥1,686
Average market price of the stock at the time of exercise	2,749	2,483	2,546	—	—
Fair value of the stock option at the date of grant	306	306	386	231	231

Yen

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	¥2,000	¥2,000
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

U.S. dollars (Note 1)

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	\$12	\$12	\$17	\$16	\$16
Average market price of the stock at the time of exercise	26	24	24	—	—
Fair value of the stock option at the date of grant	2	2	3	2	2

U.S. dollars (Note 1)

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	\$19	\$19
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

## Notes to Consolidated Financial Statements

Year ended March 31, 2013

## (1) The following table summarizes the contents of stock options as of March 31, 2013.

Company name	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010
Position and number of grantees	The Company's directors: 4	The Company's executive officers: 3 The Company's employees: 11 The Company's subsidiaries' directors: 8 The Company's subsidiaries' executive officers: 22 The Company's subsidiaries' employees: 1,831	The Company's subsidiaries' directors: 12 The Company's subsidiaries' executive officers: 6 The Company's subsidiaries' employees: 151
Class and number of stock	Common stock 172,000	Common stock 3,417,800	Common stock 464,000
Date of issue	July 31, 2010	July 31, 2010	February 1, 2011
Condition of settlement of rights	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from July 31, 2010 to July 31, 2012	Continue to work from February 1, 2011 to February 1, 2013
Period grantees provide service in return for stock options	July 31, 2010 to July 31, 2012	July 31, 2010 to July 31, 2012	February 1, 2011 to February 1, 2013
Period subscription rights are to be exercised	August 1, 2012 to July 31, 2014	August 1, 2012 to July 31, 2014	February 2, 2013 to February 1, 2015

Company name	The Company	The Company	Butterfly Corporation
Date of the resolution	July 31, 2012	July 31, 2012	October 29, 2010
Position and number of grantees	The Company's directors: 5	The Company's executive officers: 6 The Company's employees: 11 The Company's subsidiaries' directors: 27 The Company's subsidiaries' executive officers: 17 The Company's subsidiaries' employees: 1,206	Butterfly Corporation's directors: 3 Butterfly Corporation's corporate auditors: 1 Butterfly Corporation's employees: 56
Class and number of stock	Common stock 250,000	Common stock 3,483,000	Common stock 49,000
Date of issue	September 1, 2012	September 1, 2012	November 1, 2010
Condition of settlement of rights	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from September 1, 2012 to September 1, 2014	Continue to work from November 1, 2010 to October 29, 2012
Period grantees provide service in return for stock options	September 1, 2012 to September 1, 2014	September 1, 2012 to September 1, 2014	November 1, 2010 to October 29, 2012
Period subscription rights are to be exercised	September 2, 2014 to September 1, 2016	September 2, 2014 to September 1, 2016	October 30, 2012 to October 28, 2020

Company name	Butterfly Corporation
Date of the resolution	January 19, 2011
Position and number of grantees	Butterfly Corporation's employees: 10
Class and number of stock	Common stock 1,000
Date of issue	February 1, 2011
Condition of settlement of rights	Continue to work from February 1, 2011 to October 29, 2012
Period grantees provide service in return for stock options	February 1, 2011 to October 29, 2012
Period subscription rights are to be exercised	October 30, 2012 to October 28, 2020

(2) The following table summarizes the scale and movement of stock as of March 31, 2013.

Shares					
Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Not exercisable stock options					
Stock options outstanding at April 1, 2012	172,000	3,339,900	393,100	—	—
Stock options granted	—	—	—	250,000	3,483,000
Forfeitures	—	24,100	6,700	—	7,200
Conversion to exercisable stock options	172,000	3,315,800	386,400	—	—
Stock options outstanding at March 31, 2013	—	—	—	250,000	3,475,800
Exercisable stock options					
Stock options outstanding at April 1, 2012	—	—	—	—	—
Conversion from not exercisable stock options	172,000	3,315,800	386,400	—	—
Stock options exercised	39,100	1,000,600	1,000	—	—
Forfeitures	—	6,400	1,800	—	—
Stock options outstanding at March 31, 2013	132,900	2,308,800	383,600	—	—

Shares		
Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Not exercisable stock options		
Stock options outstanding at April 1, 2012	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2013	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2012	40,100	1,000
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	300	200
Stock options outstanding at March 31, 2013	39,800	800

Note: Amounts in "Stock options outstanding at April 1, 2012" of Butterfly Corporation are due to the consolidation of Butterfly Corporation by the Company during fiscal year ended March 31, 2013.

## Notes to Consolidated Financial Statements

The following tables summarize the price information of stock options as of March 31, 2013

Company name	The Company	The Company	The Company	The Company	The Company
Date of the resolution	June 30, 2010	June 30, 2010	December 24, 2010	July 31, 2012	July 31, 2012
Exercise price	¥1,312	¥1,312	¥1,753	¥1,686	¥1,686
Average market price of the stock at the time of exercise	1,526	1,660	1,794	—	—
Fair value of the stock option at the date of grant	306	306	386	231	231

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	¥2,000	¥2,000
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

## 2. Estimation of fair value of the stock options

Year ended March 31, 2014

Not applicable

Year ended March 31, 2013

Estimation of fair value of the stock options granted by the Company

### (1) Estimation method

Black-Scholes option-pricing model

### (2) Assumptions used and estimation method

(i) Volatility of stock price	Granted on September 1, 2012 (For directors of the Company)	28.765%
	Granted on September 1, 2012 (For other than directors of the Company)	28.765%
(ii) Estimated remaining outstanding period	3 years The estimated remaining outstanding period is based on the assumption that subscription rights to shares are exercised in the middle of their exercisable periods because it cannot be reasonably estimated due to insufficient accumulated data.	
(iii) Estimated dividend yield	Granted on September 1, 2012 (For directors of the Company)	¥40 / share (\$0.38 / share)
	Granted on September 1, 2012 (For other than directors of the Company)	¥40 / share (\$0.38 / share)
(iv) Risk-free interest rate	Granted on September 1, 2012 (For directors of the Company)	0.100%
	Granted on September 1, 2012 (For other than directors of the Company)	0.100%
	Risk-free interest rate is based on government bond yield for a term consistent with the estimated remaining outstanding period.	

## 3. Estimation of number of exercisable stock options

Only the actual forfeitures are reflected because it is difficult to estimate future forfeitures reasonably.

## NOTE 15

### Income Taxes

#### (1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Deferred tax assets:			
Allowance for doubtful accounts	¥ 1,516	¥ 1,544	\$ 14,736
Loss on valuation of inventories	2,386	2,615	23,195
Provision for bonuses	1,571	1,613	15,275
Provision for retirement benefits	—	3,320	—
Net defined benefit liability	2,863	—	27,831
Depreciation expense	12,852	13,197	124,927
Loss on valuation of investment securities	466	675	4,532
Impairment loss	2,804	3,155	27,262
Other	22,171	19,399	215,512
Tax loss carry forward	77,838	61,095	756,599
Total	124,471	106,616	1,209,873
Valuation allowance	(105,070)	(79,155)	(1,021,292)
Offset against deferred tax liabilities	(5,898)	(11,321)	(57,334)
Net deferred tax assets	13,502	16,138	131,245
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(9,387)	(15,373)	(91,245)
Other	(1,556)	(1,819)	(15,131)
Subtotal of deferred tax liabilities	(10,944)	(17,192)	(106,376)
Offset against deferred tax assets	5,898	11,321	57,334
Total	(5,045)	(5,870)	(49,041)
Recorded deferred tax assets	8,457	10,267	82,203

#### (2) Breakdown of major causes of the significant difference between the statutory tax rate and the effective tax rate for financial statement purposes, if any, by item, for the years ended March 31, 2014 and 2013

	2014	2013
Statutory tax rate	38.0%	38.0%
(Adjustment)		
Changes in valuation allowance	(8.9)	(65.1)
Permanently non-deductible expenses including entertainment expenses	2.0	3.4
Amortization of goodwill	2.1	2.5
Difference of tax rates for consolidated subsidiaries	(1.3)	(3.9)
Tax loss carry forward	(2.0)	(1.1)
Effect of adjustment for consolidation	2.6	(3.2)
Adjustments of deferred tax assets for enacted changes in tax laws and rates	3.1	—
Other	(1.6)	(2.5)
Effective tax rate for financial statement purposes	34.1	(31.9)

#### (3) Amendments to deferred tax assets and deferred tax liabilities due to changes in income tax rate

The “Partial Amendment of the Income Tax Act” (Act No. 10 of 2014) was officially announced on March 31, 2014, and the special corporate tax for reconstruction will no longer be imposed on consolidated fiscal years beginning on or after April 1, 2014.

As a result, net deferred tax assets by the end of the fiscal year ended March 31, 2014 have decreased by ¥1,429 million (\$13,895 thousand), income taxes—deferred have increased by ¥1,459 million (\$14,189 thousand).

## Notes to Consolidated Financial Statements

**NOTE 16****Business Combination**

(Business transfer from Index Corporation)

**1. Outline of business combination**

(1) Name and business of counterparty

Name	Description of business
Index Corporation	Digital game business (design and development of console games and social games); Contents and solutions business (delivery of contents, development of systems, consigned development related to amusement machines, internet advertising, etc.); Amusement business (development and sales of commercial amusement machines) and related businesses

(2) Reason for business combination

SEGA DREAM CORPORATION, which is a new wholly owned company established by SEGA CORPORATION, the Company's consolidated subsidiary, has acquired businesses from Index Corporation to increase enterprise value of the Group through creation of synergies between the existing businesses of the Group, which utilizes excellent IP in developing home video game software, and the extensive experience of Index Corporation in planning and development of content for mobile phones. (SEGA DREAM CORPORATION changed its name to Index Corporation on November 1, 2013 and changed it to ATLUS CO., LTD. on April 1, 2014.)

(3) Date of business combination

November 1, 2013

(4) Legal structure

Business transfer

(5) Name of company after the combination

Index Corporation (changed its trade name to ATLUS CO., LTD. on April 1, 2014)

**2. Period for which the acquired company's financial results are included in the consolidated financial statements**

From November 1, 2013 to March 31, 2014

**3. Acquisition costs**

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration of the acquisition	Cash	¥14,100	\$137,052
Direct costs for the acquisitions	Advisory costs, etc.	259	2,521
Total acquisition costs		14,359	139,574

#### 4. Goodwill recognized, reason for recognition and amortization method and period

(1) Goodwill recognized

¥11,040 million (\$107,310 thousand)

(2) Reason for recognition

Acquisition cost exceeded net asset value at the business combination date.

(3) Amortization method and period

10 years using the straight-line method

#### 5. Summary of assets and liabilities assumed at date of business combination

(1) Amount of assets

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥2,028	\$19,716
Noncurrent assets	1,783	17,333
Total	3,811	37,049

(2) Amount of liabilities

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥492	\$4,785
Noncurrent assets	—	—
Total	492	4,785

#### 6. Estimated impact on the consolidated statement of income and comprehensive income for the fiscal year ended March 31, 2014 if the business combination had been completed as of the beginning of the fiscal year ended March 31, 2014

This disclosure is omitted due to the immateriality of the effect.

## Notes to Consolidated Financial Statements

**NOTE 17****Segment Information****1. Outline of reporting segments**

Reporting segments of the Company are the organizational units for which separated financial information is available, and on the basis of which the Board of Directors makes decisions on the allocation of management resources and examines financial performance on a regular basis.

Planning of business development and strategies as well as execution of business activities in respect of each product and service are carried out by each Group company that provides such product and service.

As such, the Group is comprised of segments classified by product and service provided through the business run by each company, in which "Pachislot and Pachinko Machines," "Amusement Machine Sales," "Amusement Center Operations" and "Consumer Business" are the reporting segments.

Line of business at each reporting segment is as follows:

Segment	Business
(1) Pachislot and Pachinko Machines	Development, manufacture and sales of pachislot and pachinko machines and design for parlors
(2) Amusement Machine Sales	Development, manufacture and sales of game machines used in amusement arcades
(3) Amusement Center Operations	Development, operation, rent and maintenance of amusement centers
(4) Consumer Business	Development and sales of home video game software; development, manufacture and sales of toys; planning and production of entertainment contents for mobile phones, etc.; planning, production and sales of animated movies

**2. Basis of measurement for net sales, income (loss), assets and other items by each reporting segment**

The accounting treatment for the Group's reporting segments is generally the same as described in "Note 2 – Summary of Significant Accounting Policies."

**3. Information on the amounts of net sales, income (loss), assets and other items by each reporting segment**

Year ended March 31, 2014

	Millions of yen						
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥181,834	¥38,604	¥43,216	¥99,841	¥363,498	¥14,513	¥378,011
Inter-segment sales and transfers	149	5,251	10	699	6,110	712	6,823
Total	181,984	43,855	43,227	100,541	369,609	15,225	384,835
Segment income (loss)	45,292	(1,264)	60	2,089	46,178	(1,200)	44,978
Segment assets	105,018	34,814	40,483	111,634	291,951	23,417	315,369
Other items							
Depreciation	5,887	1,970	4,725	6,248	18,832	529	19,362
Increase in property, plant and equipment and intangible assets	7,905	2,037	7,729	8,389	26,061	12,052	38,114

	Thousands of U.S. dollars (Note 1)						
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	\$1,767,445	\$375,238	\$420,070	\$970,470	\$3,533,224	\$141,069	\$3,674,294
Inter-segment sales and transfers	1,452	51,044	105	6,795	59,398	6,927	66,325
Total	1,768,898	426,282	420,176	977,265	3,592,622	147,997	3,740,620
Segment income (loss)	440,247	(12,288)	586	20,306	448,853	(11,664)	437,189
Segment assets	1,020,786	338,401	393,504	1,085,096	2,837,788	227,623	3,065,411
Other items							
Depreciation	57,231	19,157	45,934	60,732	183,055	5,145	188,200
Increase in property, plant and equipment and intangible assets	76,841	19,802	75,128	81,550	253,322	117,154	370,477

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2013

	Millions of yen						
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥142,281	¥39,134	¥42,707	¥83,874	¥307,997	¥13,409	¥321,407
Inter-segment sales and transfers	515	3,485	20	865	4,887	879	5,766
Total	142,796	42,620	42,728	84,740	312,885	14,288	327,173
Segment income (loss)	23,534	1,902	1,194	(732)	25,899	(484)	25,415
Segment assets	138,014	31,843	41,915	103,703	315,476	14,338	329,814
Other items							
Depreciation	5,416	1,570	4,671	6,040	17,699	478	18,177
Increase in property, plant and equipment and intangible assets	11,914	2,308	7,923	8,393	30,539	1,559	32,098

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

#### 4. Major differences between the total amount of all reporting segments and the amounts on the consolidated financial statements (reconciliation of the difference)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales			
Total net sales in the reporting segments	¥369,609	¥312,885	\$3,592,622
Segment net sales in Other	15,225	14,288	147,997
Elimination of inter-segment transactions	(6,823)	(5,766)	(66,325)
Net sales in the consolidated financial statements	378,011	321,407	3,674,294

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income (loss)			
Total income in the reporting segments	¥46,178	¥25,899	\$448,853
Segment income (loss) in Other	(1,200)	(484)	(11,664)
Elimination of inter-segment transactions	120	(61)	1,167
General corporate expenses (Note)	(6,565)	(6,280)	(63,813)
Operating income in the consolidated financial statements	38,533	19,073	374,543

(Note) "General corporate expenses" mainly consist of expenses of the Group management incurred by the holding company.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Assets			
Total assets in the reporting segments	¥291,951	¥315,476	\$2,837,788
Segment assets in Other	23,417	14,338	227,623
General corporate assets (Note)	246,878	201,720	2,399,672
Other adjustments	(19,311)	(3,031)	(187,704)
Total assets in the consolidated financial statements	542,936	528,504	5,277,379

(Note) "General corporate assets" mainly consist of excess funds in the Company, etc. and other assets, etc. of the Company.

	Millions of yen			Amount in consolidated financial statements
	Subtotal	Other	Adjustment	2014
Other				
Depreciation	¥18,832	¥ 529	¥381	¥19,743
Increase in property, plant and equipment and intangible assets	26,061	12,052	67	38,182

	Thousands of U.S. dollars (Note 1)			Amount in consolidated financial statements
	Subtotal	Other	Adjustment	2014
Other				
Depreciation	\$183,055	\$ 5,145	\$3,704	\$191,905
Increase in property, plant and equipment and intangible assets	253,322	117,154	654	371,131

(Note) "Adjustment" includes corporate and elimination of inter-segment transactions.

## Notes to Consolidated Financial Statements

Other	Millions of yen			Amount in consolidated financial statements
	Subtotal	Other	Adjustment	
				2013
Depreciation	¥17,699	¥ 478	¥ 3	¥18,181
Increase in property, plant and equipment and intangible assets	30,539	1,559	772	32,871

(Note) "Adjustment" includes corporate and elimination of inter-segment transactions.

[Related information]

Year ended March 31, 2014

### 1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

### 2. Geographical segment information

#### (1) Net sales

Millions of yen				
Japan	North America	Europe	Other	Total
¥351,290	¥10,951	¥10,305	¥5,464	¥378,011

Thousands of U.S. dollars (Note 1)				
Japan	North America	Europe	Other	Total
\$3,414,561	\$106,446	\$100,174	\$53,112	\$3,674,294

(Note) Net sales are geographically classified by country or region in which customers are located.

#### (2) Property, plant and equipment

Millions of yen			
Japan	Korea	Other	Total
¥88,061	¥11,710	¥2,391	¥102,162

Thousands of U.S. dollars (Note 1)			
Japan	Korea	Other	Total
\$855,959	\$113,824	\$23,242	\$993,026

(Note) Property, plant and equipment are geographically classified by country or region in which customers are located.

### 3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

Year ended March 31, 2013

### 1. Information by each product and service

Nothing is stated herein as similar information is disclosed in Segment Information.

### 2. Geographical segment information

#### (1) Net sales

Millions of yen				
Japan	North America	Europe	Other	Total
¥293,047	¥11,954	¥10,570	¥5,834	¥321,407

## (2) Property, plant and equipment

Nothing is stated herein as the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheets.

## 3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

[Information on the amount of impairment loss on noncurrent assets by each reporting segment]

Year ended March 31, 2014

	Millions of yen					
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	<b>¥12</b>	<b>¥1</b>	<b>¥1,478</b>	<b>¥222</b>	<b>¥86</b>	<b>¥1,799</b>

	Thousands of U.S. dollars (Note 1)					
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	<b>\$117</b>	<b>\$9</b>	<b>\$14,370</b>	<b>\$2,158</b>	<b>\$837</b>	<b>\$17,494</b>

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2013

	Millions of yen					
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	¥18	¥3	¥651	¥2,312	¥—	¥2,986

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

[Information on amortization of goodwill and unamortized balance by each reporting segment]

Year ended March 31, 2014

	Millions of yen					
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	<b>¥283</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 2,688</b>	<b>¥25</b>	<b>¥ 2,997</b>
Balance as of March 31, 2014	<b>212</b>	<b>178</b>	<b>—</b>	<b>18,431</b>	<b>92</b>	<b>18,915</b>

	Thousands of U.S. dollars (Note 1)					
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	<b>\$2,753</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$26,129</b>	<b>\$250</b>	<b>\$ 29,132</b>
Balance as of March 31, 2014	<b>2,064</b>	<b>1,737</b>	<b>—</b>	<b>179,158</b>	<b>897</b>	<b>183,858</b>

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

Year ended March 31, 2013

	Millions of yen					
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	¥283	¥—	¥—	¥1,935	¥7	¥2,225
Balance as of March 31, 2013	495	—	—	9,591	119	10,206

(Note) "Other" is the business segment not included in the reporting segments, but includes the resort complex business and information provider services, etc.

[Information on gain on negative goodwill by each reporting segment]

Year ended March 31, 2014

Not applicable

Year ended March 31, 2013

Not applicable

## Notes to Consolidated Financial Statements

**NOTE 18****Related Party Transactions**

Information on related party transactions for the years ended March 31, 2014 and 2013 and the related amounts as of those dates is summarized as follows.

**1. Material transactions of the Company with related individuals or companies**

Year ended March 31, 2014

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. <sup>(*)1</sup>	Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	¥ 8	Prepaid expenses	¥ 4
		Payment of outsourcing fee <sup>(*)2</sup>	10	—	—
				Thousands of U.S. dollars (Note 1)	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. <sup>(*)1</sup>	Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	\$ 79	Prepaid expenses	\$40
		Payment of outsourcing fee <sup>(*)2</sup>	102	—	—

(\*)1: Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.

2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

3. Consumption taxes are not included in transaction amounts.

Year ended March 31, 2013

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. <sup>(*)1</sup>	Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	¥ 6	Prepaid expenses	¥ 3
		Payment of outsourcing fee <sup>(*)2</sup>	10	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet <sup>(*)3</sup>	140	—	—

(\*)1: Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.

2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

3. The Company has the payment of usage fee of a business jet to Hajime Satomi, Chairman of the Board and Chief Executive Officer and the owner of the business jet. Transaction prices are based on current market price.

4. Consumption taxes are not included in transaction amounts.

## 2. Material transactions of the Company's consolidated subsidiaries with related individuals or companies

Year ended March 31, 2014

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. <sup>(*)1</sup>	Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	¥41	Prepaid expenses	¥28
		Receipt and remittance of insurance	0	Accrued expenses	0
		Payment of welfare expenses <sup>(*)2</sup>	2	—	—
				Thousands of U.S. dollars (Note 1)	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. <sup>(*)1</sup>	Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	\$402	Prepaid expenses	\$275
		Receipt and remittance of insurance	0	Accrued expenses	0
		Payment of welfare expenses <sup>(*)2</sup>	19	—	—

(\*)1: Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.

2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

3. Consumption taxes are not included in transaction amounts.

Year ended March 31, 2013

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. <sup>(*)1</sup>	Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	¥55	Prepaid expenses	¥19
		Receipt and remittance of insurance	1	—	—
		Payment of welfare expenses <sup>(*)2</sup>	2	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Contract for reconstruction of residence etc. <sup>(*)2</sup>	55	—	—

(\*)1: Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.

2. Transaction prices are determined in the same way as for general transactions and with reference to market prices.

3. Consumption taxes are not included in transaction amounts.

## Notes to Consolidated Financial Statements

**NOTE 19****Per Share Data**

Per share data is as follows

	Millions of yen		U.S. dollars (Note 1)
	2014	2013	2014
Per share data			
Net assets per share	<b>¥1,409.27</b>	¥1,304.44	<b>\$13.69</b>
Net income per share	<b>126.42</b>	137.14	<b>1.22</b>
Net income per share (diluted)	<b>125.39</b>	136.85	<b>1.21</b>

(Note) Net income per share and Diluted net income per share

Item	2014	2013
Net income per share		
Net income	¥30,721 million (\$298,612 thousand)	¥33,460 million
Amount not attributable to common stockholders	¥— million (\$— thousand)	¥— million
Net income for common stock	¥30,721 million (\$298,612 thousand)	¥33,460 million
Average number of common stocks	243,017 thousand shares	243,981 thousand shares
Diluted net income per share		
Net income adjustment	¥— million (\$— thousand)	¥— million
Increase of common stock	1,990 thousand shares	522 thousand shares
(stock options)	1,990 thousand shares	522 thousand shares

**NOTE 20****Significant Subsequent Events**

Year ended March 31, 2014

**The Company issued the following straight corporate bonds**

Name of bond	SEGA SAMMY HOLDINGS INC. Third unsecured straight bonds (with inter-bond pari passu clause)
Issuing amount	¥10,000 million (\$97,200 thousand)
Date of issuance	June 17, 2014
Issue price	¥100 for ¥100 par value of each bond
Interest rate	0.519% per annum
Date of maturity	June 17, 2019
Use of proceeds	Repayment of loans payable

## NOTE 21

### Supplemental Information

#### Supplemental schedule of corporate bonds

Company	Name of bond	Issuance date	Balance as of April 1, 2013 (Millions of yen)	Balance as of March 31, 2014 (Millions of yen)	Balance as of March 31, 2014 Thousands of U.S. dollars (Note 1)	Interest rate (%)	Type	Date of maturity
The Company	1st unsecured bonds (Private placement bond)	March 29, 2013	¥8,000	¥8,000	\$77,760	0.44	Unsecured	March 29, 2018
	2nd unsecured bonds (Private placement bond)	March 29, 2013	8,000	6,400 (1,600)	62,208 (15,552)	0.42	Unsecured	March 29, 2018
	1st unsecured bonds (Publicly offered bonds)	July 25, 2013	—	5,000	48,600	0.73	Unsecured	July 25, 2018
	2nd unsecured bonds (Publicly offered bonds)	July 25, 2013	—	5,000	48,600	0.49	Unsecured	July 25, 2016
Sammy Corporation	3rd unsecured bonds	August 27, 2008	1,875	—	—	Note 2	Unsecured	August 27, 2013
	4th unsecured bonds	September 25, 2008	1,650	—	—	Note 3	Unsecured	September 25, 2013
SEGA CORPORATION	11th unsecured bonds	September 30, 2008	500	—	—	1.21	Unsecured	September 30, 2013
	13th unsecured bonds	June 30, 2011	5,000	5,000	48,600	0.72	Unsecured	June 30, 2016
	14th unsecured bonds	December 20, 2011	2,600	2,600	25,272	0.66	Unsecured	December 20, 2016
	15th unsecured bonds	June 29, 2012	5,000	5,000	48,600	0.58	Unsecured	June 30, 2017
	16th unsecured bonds	September 28, 2012	2,400	2,400	23,328	0.51	Unsecured	September 29, 2017
SEGA TOYS CO., LTD.	5th unsecured bonds	September 25, 2008	62	—	—	0.48 Note 4	Unsecured	September 25, 2013
	6th unsecured bonds	September 30, 2008	56	—	—	1.36	Unsecured	September 30, 2013
	8th unsecured bonds	March 31, 2010	200	100 (100)	972 (972)	0.74	Unsecured	March 31, 2015
Total	—	—	35,343	39,500 (1,700)	383,942 (16,524)	—	—	—

Notes: 1. The figures in parentheses of the "Balance as of March 31, 2014" represent the current portion of corporate bonds.

2. The interest on Sammy Corporation's third debenture is a variable rate that uses six-month Japanese yen TIBOR.

3. The interest on Sammy Corporation's fourth debenture is a variable rate six-month Japanese yen TIBOR added 0.10%.

4. The interest on SEGA TOYS CO., LTD.'s fifth debenture is a variable rate that is 0.95% less than the standard interest set for each interest-bearing period. The interest rate listed above is the rate as of March 31, 2014.

5. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2014 is as follows:

Millions of yen				
Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
¥1,700	¥1,600	¥14,200	¥17,000	¥5,000

Thousands of U.S. dollars (Note 1)				
Due within 1 year	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
\$16,524	\$15,552	\$138,024	\$165,241	\$48,600

## Notes to Consolidated Financial Statements

## Supplemental schedule of borrowings

Category	Balance as of April 1, 2013 (Millions of yen)	Balance as of March 31, 2014 (Millions of yen)	Balance as of March 31, 2014 (Thousands of U.S. dollars (Note 1))	Average interest rate (%)	Repayment terms
Short-term loans payable	¥ 500	¥ 500	\$ 4,860	0.7	—
Current portion of long-term loans payable due within one year	12,367	12,418	120,711	0.9	—
Current portion of lease obligations	925	818	7,956	Note 2	—
Long-term loans payable (Excluding current portion)	44,926	35,198	342,129	1.0	2015–2019
Lease obligations (Excluding current portion)	989	2,081	20,232	Note 2	2015–2020
Other interest-bearing debt					
Accounts payable–facilities	590	1,307	12,711	—	—
Accounts payable–facilities (Excluding current portion)	—	4,179	40,623	—	2015–2018
Total	60,300	56,504	549,224	—	—

Notes: 1. The "Average interest rate" represents weighted-average interest rate over the year-end balance of loans.

2. The average interest rate on lease obligations is not listed because lease obligations is posted in the consolidated balance sheets mainly as the amount before deduction of the amount of interest included in the total lease amount.

3. The redemption schedule of long-term loans payable, lease obligations and interest-bearing debt (excluding current portion) after March 31, 2014 is summarized as follows:

Category	Millions of yen				
	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term loans payable	¥13,331	¥13,999	¥6,361	¥1,504	¥ 1
Lease obligations	390	1,633	39	13	4
Other interest-bearing debt					
Accounts payable–facilities	1,318	1,329	1,079	451	—

Category	Thousands of U.S. dollars (Note 1)				
	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term loans payable	\$129,584	\$136,072	\$61,835	\$14,621	\$15
Lease obligations	3,792	15,880	386	129	43
Other interest-bearing debt					
Accounts payable–facilities	12,819	12,919	10,493	4,390	—

# Independent Auditor's Report

To the Board of Directors of SEGA SAMMY HOLDINGS INC.:

We have audited the accompanying consolidated financial statements of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

July 25, 2014  
Tokyo, Japan

KPMG AZSA LLC

# the FACTS

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.

## DEFINITION OF TERMS

"Fiscal 2014" refers to the fiscal year ended March 31, 2014, 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.]

# 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 2014

Annual Report 2014 enables 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 past, present, and future timeframes. Furthermore, while explaining the Group's growth scenarios, the report clarifies the interconnectedness of information. Also, we use the unique freedom of voluntary disclosures to provide more information on such areas as intangible assets.



### Online Annual Report 2014

An HTML version of Annual Report 2014 is available on the investor relations (IR) page of the SEGA SAMMY HOLDINGS web site.

Online Annual Report 2014 → <http://www.segasammy.co.jp/english/ir/ar2014/>



### Web Site IR 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 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 2014

SEGA SAMMY Group CSR Report 2014 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.
	1998	Launched <i>Dreamcast</i> home video game platform.
	2000	Changed company name to SEGA CORPORATION.
2000	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	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	2010	Made Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD., wholly owned subsidiaries (SEGA SAMMY HOLDINGS). Retired 17 million shares of treasury stock (SEGA SAMMY HOLDINGS).
		2011	Made TAIYO ELEC Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS).
2012		Made Phoenix Resort Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS). Established joint venture PARADISE SEGASAMMY Co., Ltd., with the Paradise Group of South Korea (SEGA SAMMY HOLDINGS). Established SEGA Networks, Ltd., through divestiture from SEGA (SEGA).	
2013		Participated in 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). Acquired casino facility, <i>Paradise Casino Incheon</i> , through PARADISE SEGA SAMMY (SEGA SAMMY HOLDINGS). Assumed Index Corporation's game business and contents and solutions business (SEGA). Established SEGA SAMMY CREATION INC., which develops, manufactures, and sells casino machines (SEGA SAMMY HOLDINGS).	
2014		Executed company split to establish Index Corporation's game business as ATLUS CO., LTD. (SEGA).	



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	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



A rendering of the Incheon project

\* Currently MARZA ANIMATION PLANET INC.

# 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 to 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	89,771
Number of Employees	7,472 (consolidated)
	As of March 31, 2014



SEGA SAMMY's dramatic progress worldwide



SEGA SAMMY blue success and growth



SEGA SAMMY green stability and permanence

### 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.

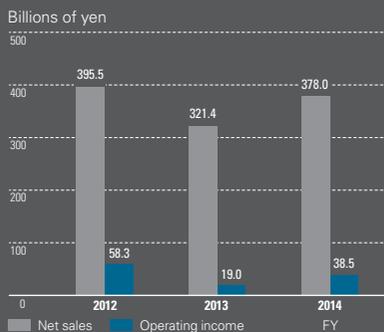


Pachislot SOUTEN-NO-KEN 2  
©Tetsuo Hara & Buronson / NSP2001,  
Approved No. YKU-127  
©Sammy

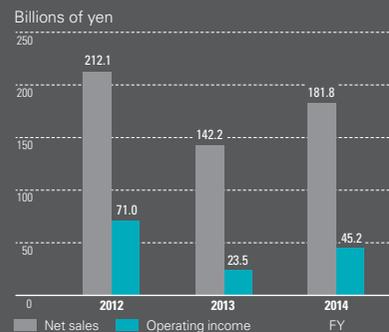
## Pachislot and Pachinko Machine Business

This business segment comprises the pachislot machine business, which boasts outstanding brand power, and the pachinko machine business, which is building brand power by strengthening developmental capabilities. The business segment pursues a multibrand strategy based on Sammy Corporation, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION. The pachislot machine business aims to maintain its leading market share, while the pachinko machine business aims to claim a leading market share in the medium term. To these ends, the business segment will hone the competitiveness of the products that its market-driven developmental system creates and hone its product supply system for capturing sales opportunities reliably and its balanced product portfolio.

### Net Sales / Operating Income



### Net Sales / Operating Income





Orbi Yokohama  
©SEGA



CHAIN CHRONICLE—Kizuna no Shintairiku  
©SEGA / ©SEGA Networks



PHANTASY STAR ONLINE 2  
©SEGA

WORLD CLUB Champion Football series  
©SEGA  
©Panini S.p.A. All Rights Reserved  
The game is made by SEGA in association with Panini.

## 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 a joint venture with the Paradise Group.

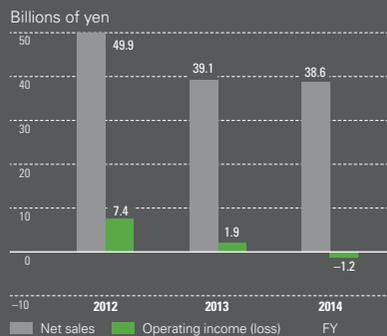


A rendering of the Incheon project

## 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 investment burden or expand the player base to include such groups as families and thereby help stabilize the Group's earnings. Also, the business segment is optimizing management resources by allocating them to the digital game area.

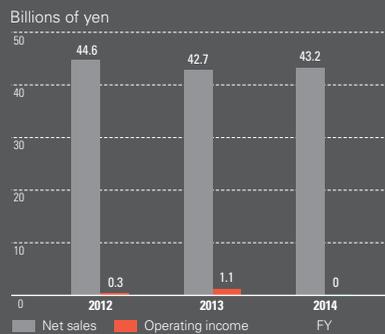
### Net Sales / Operating Income (Loss)



## 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, we are developing new amusement facilities that go beyond the boundaries of traditional amusement centers by opening more amusement centers for families in shopping centers and by opening amusement centers integrated with restaurants and other business formats. Also, we plan to develop theme park-type amusement centers, such as *Orbi Yokohama*, overseas through licensing out.

### Net Sales / Operating Income

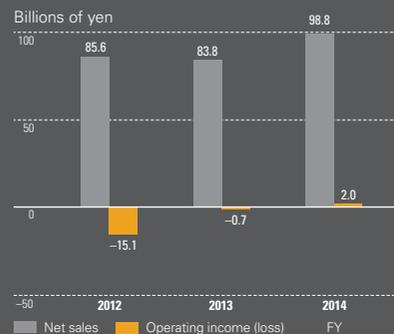


## Consumer Business

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

The game content business is focusing management resource deployment to rapidly strengthen the digital game area, which centers on SEGA Networks, Ltd. 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 11mm 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
<b>1920s</b> “Bagatelle boards” arrive in Japan from overseas.	
<b>1930s</b> First pachinko hall opens for business in Nagoya.	
<b>1940s</b> Prototype of modern machines, “Masamura Gauge” appears. Entertainment Establishments Control Law enforced, pachinko halls begin operating under license.	
<b>1950s</b> Pachinko machine manufacturers’ industry association, Nikkoso, established. First pachinko machines with “Yakumono” appear.	
<b>1960s</b> Machines with tulip-shaped devices appear.	Large slot machines imported to Japan.
<b>1970s</b> Electric pachinko machines appear.	
<b>1980s</b> Pachinko machines with digital displays, “digipachi,” appear.	Pachislot machine manufacturers’ industry association, Nichidenkyo, established. Box-cabinets appear and spread rapidly.
<b>1990s</b> 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.
<b>2000s</b> 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. The price of a pachinko board is less than that of an entire machine (a frame and a 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 and help maintain market share. Therefore, board sales benefit manufacturers as well as pachinko hall operators.

**Frame**



**Boards**



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

*Pachinko CR  
Bakemonogatari  
©Nisioisin / Kodansha,  
Aniplex Inc., SHAFT INC.  
©Sammy*

*Pachinko CR  
Hokuto No Ken 5  
Hyakuretsu  
©Buronson & Tetsuo Hara /  
NSP1983, Approved  
No. YHB-107  
©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 Bakemonogatari  
©Nisioisin / Kodansha, Aniplex Inc., SHAFT INC.  
©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 SOUTEN-NO-KEN 2  
©Tetsuo Hara & Buronson / NSP2001,  
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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 28.9% of the leisure market, revenues of ¥18.8 trillion\*1, and 9.7 million players\*1. In the pachinko and pachislot machine manufacturing industry, machine sales are worth approximately ¥1.0 trillion\*2. Of this amount, the pachinko machine market represents 56.3%, or ¥609.9 billion\*2, and the pachislot machine market 43.7%, or ¥473.3 billion\*2. 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 2013

Source: *White Paper on Leisure Industry 2014*, Japan Productivity Center

\*2 Fiscal 2013. Source: Yano Research Institute Ltd.

## Shares of Pachinko and Pachislot in Japan's Leisure Market



Japan's Leisure Market\*3  
¥65.2 trillion

	%	Trillions of yen
Games / Publicly operated sports / Eating and drinking	37.2	24.2
Pachinko and pachislot *4	28.9	18.8
Hobbies	12.5	8.1
Tourism	15.4	10.0
Sports	6.0	3.9

Source: *White Paper on Leisure Industry 2014*, Japan Productivity Center

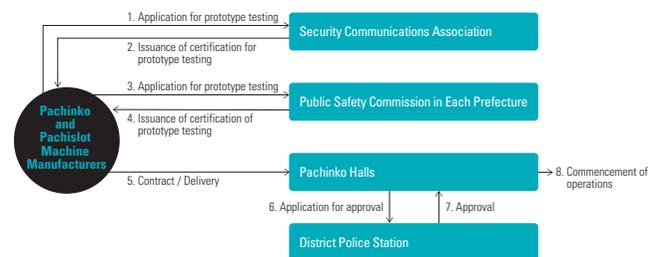
\*3 2013

\*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 such as 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

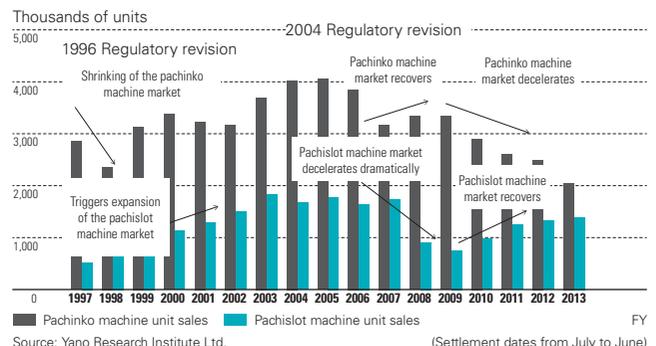


## Changes in Market Conditions Due to Regulatory Reform

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



Source: Yano Research Institute Ltd.

(Settlement dates from July to June)

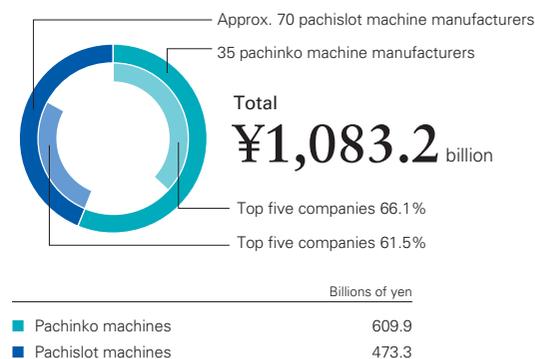
## Strengthening Oligopoly among Leading Titles and Companies

In the pachinko machine market, pachinko machines are sold by 35\*<sup>5</sup> pachinko machine manufacturers affiliated with Nikkoso, which is the pachinko machine manufacturers' industry association. In the pachislot machine market, pachislot machines are sold by approximately 70 companies, comprising 26\*<sup>6</sup> pachislot machine manufacturers affiliated with Nichidenkyo, which is the pachislot machine manufacturers' industry association; Nikkoso-affiliated manufacturers that handle pachislot machines; and non-affiliated 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 challenging business conditions. 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 time track records and companies with robust development capabilities and abundant funds for investment.

\*<sup>5</sup> Source: Yano Research Institute Ltd.

\*<sup>6</sup> Due to the large number of organizations and companies, the number of pachislot machine manufacturers is the Group's estimate.

## Pachinko and Pachislot Machine Market Scale\*<sup>7</sup>



Source: Yano Research Institute Ltd.

\*<sup>7</sup> Fiscal 2013 (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 Time

Utilization time is the number of hours per business day that pachinko or pachislot machines are utilized. Normally, it declines gradually after a machine is installed. A slower-than-average decline shows the degree to which a machine has earned players' long-term support. Because the utilization time has a direct bearing on pachinko hall operators' sales, the extent to which pachinko and pachislot machine manufacturers have titles with favorable utilization times 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



$$\text{Utilization rate} = \frac{\text{The number of hours per business day that pachinko or pachislot machines are utilized}}{\text{Pachinko and pachislot machine installations}}$$

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 market\*<sup>1</sup> 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.

### Following the July 2004 Regulatory Revision

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

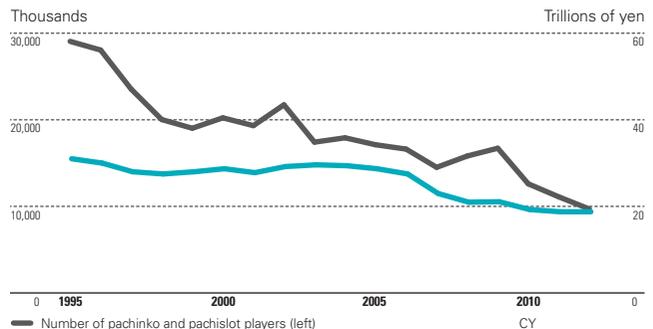
Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. After the interim measures period\*<sup>2</sup> ended in fall 2007, pachinko hall operators proceeded to replace pachislot machines with those compliant with the 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 times\*<sup>3</sup>. 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 favorable utilization times. 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 a 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.

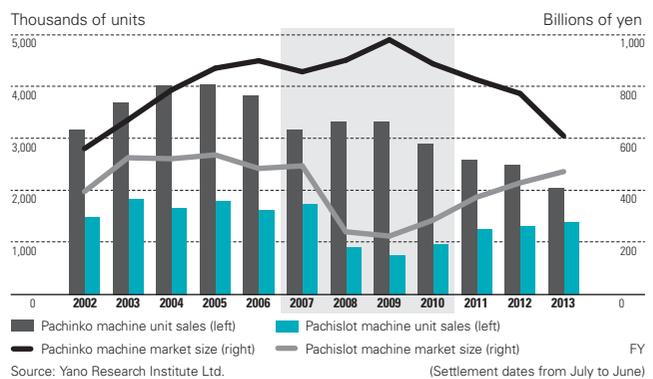
\*3 The number of hours per business day that pachinko or pachislot machines are utilized

Pachinko and Pachislot—Player Numbers and Market Size



Source: White Paper on Leisure Industry 2014, Japan Productivity Center

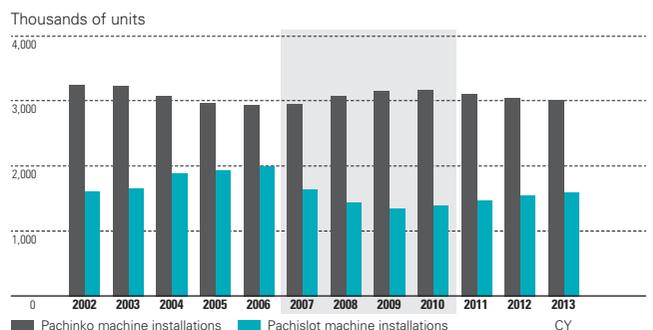
Pachinko and Pachislot Machines—Unit Sales and Market Size



Source: Yano Research Institute Ltd.

(Settlement dates from July to June)

Pachinko and Pachislot Installations



Source: National Police Agency

## 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. 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 times, it led to a decline in sales per machine for pachinko hall operators. As a result, the business results of pachinko hall operators worsened, further reducing their investment appetite. Consequently, the shift in demand toward pachislot machines promising comparatively high utilization, the bias in demand toward brand-name titles highly likely to provide reliable returns on investments, and the decrease in the number of times pachinko hall operators replace machines during one year (annual turnover\*4) became more pronounced. These trends have continued.

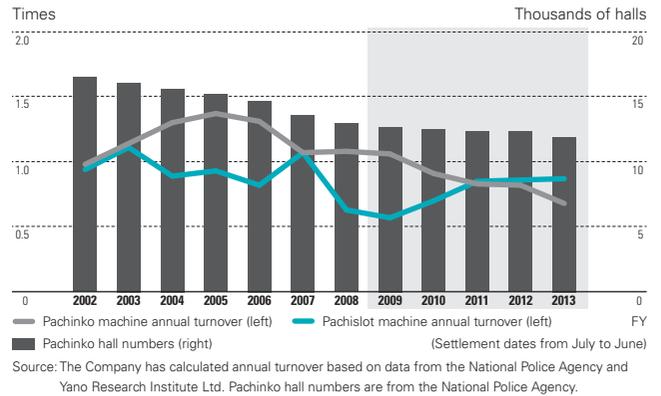
A market is forming in which only several leading companies will be able to survive and reap the benefits. These companies will survive because they have the developmental capabilities and financial foundations to continuously provide titles promising high utilization and cost-competitive, profitable organizations.

\*4 Annual turnover = Annual pachinko and pachislot machine unit sales ÷ Pachinko and pachislot machine installations

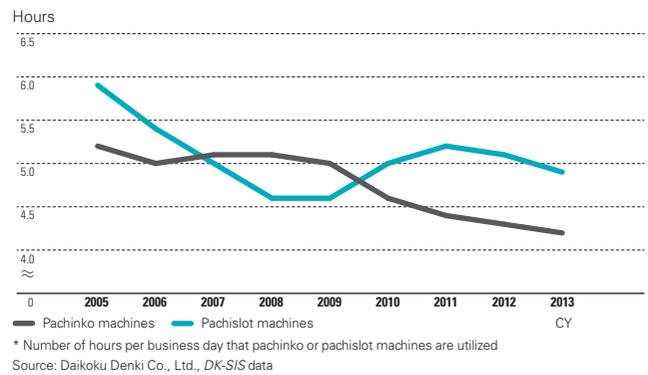
### Young Adults’ Interest in Pachinko and Pachislot Declining as Entertainment Options Diversify

Since 2009, the decrease in the pachinko and pachislot player population has been accelerating. In particular, the decline in interest in pachinko and pachislot among young adults has been marked. In the period from 2009 to 2013, this group shrank significantly, with the percentage of men under 20 playing pachinko and pachislot falling from 11.4% to 0.3% and the percentage of men in their twenties playing pachinko and pachislot falling from 24.5% to 9.0%. The main cause of this trend was the rapid popularization of smart devices and the expansion of the game app market, which coincided with this period. The pachinko and pachislot machine industry is competing for players with many different types of entertainment. Therefore, initiatives are required to develop a wide range of player groups including young adults. Pachinko and pachislot machine manufacturers’ common task is to invigorate the market by developing and rolling out machines that are as innovative as possible.

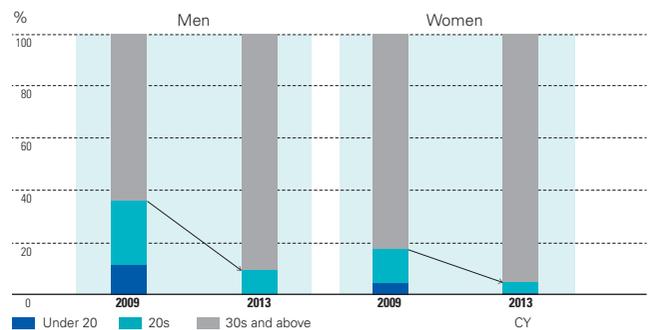
## Annual Turnover and Pachinko Hall Numbers



## Utilization Time



## Pachinko and Pachislot Players: Breakdown by Gender and Age Group



# Amusement Market (Amusement arcade machines / Amusement center operations)

## Challenging Conditions Continue in the Amusement Center Operations Market Due to Change in Leisure Activities

The amusement center operations market has been contracting since fiscal 2007. During the six years between fiscal 2007 and fiscal 2012, it shrank approximately 30%. Since fiscal 2007, existing amusement centers' sales have been declining year on year. Furthermore, there are almost 30% fewer amusement centers than there were in fiscal 2007. On the other hand, the market is approaching an optimal size. As a result of amusement center operators closing unprofitable amusement centers and increasing operational efficiency, sales per amusement center and sales per machine have risen slightly. Breaking down performance, while the sales of amusement centers in shopping centers and bowling alleys are steady, traditional amusement centers' sales are decreasing significantly.

Challenging conditions are likely to continue in the amusement center operations market as the popularization of smartphones and other factors change leisure activities. The industry faces the common task of introducing new products efficiently to invigorate amusement centers and extend the player base to include families and other player groups. Another important task is responding to the increase in consumption tax.

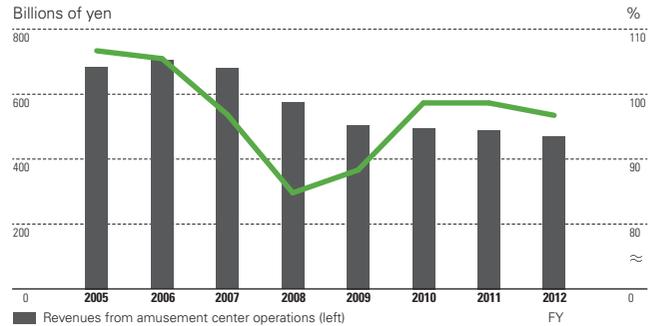
## Invigorating Amusement Center Operations Market is a Task for Amusement Arcade Machine Sales Market

From fiscal 2007, the amusement arcade machine sales market began trending downward in step with the contraction of the amusement center operations market, which affects it directly. Amusement center operators' capital investment bottomed out in fiscal 2009. In fiscal 2012, however, it decreased 3.1% year on year.

In recent years, amusement arcade machine manufacturers have been 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. Revenue-sharing business models are one such initiative. Under these models, manufacturers sell amusement arcade machines at low prices and share revenues from machine utilization with amusement center operators. The spread of revenue-sharing business models in fiscal 2012 contributed to contraction of the amusement arcade machine sales market. Furthermore, the sale of CVT kits that enable amusement center operators to upgrade content by simply replacing boards or downloading new content has become widespread. In addition, a trend is emerging toward business models based on free-to-play (F2P) games. 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.

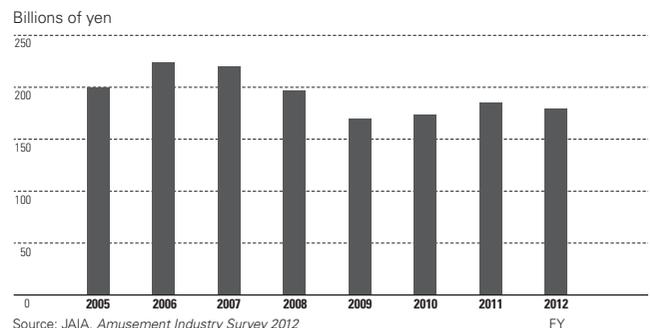
All market data in the text is from JAIA, Amusement Industry Survey 2012.

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



Source: JAIA, Amusement Industry Survey 2012

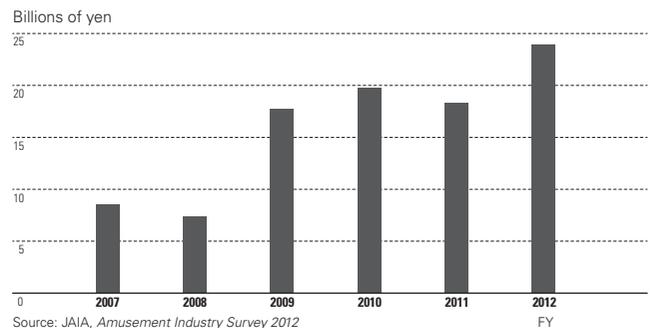
Amusement Arcade Machine Sales\*



Source: JAIA, Amusement Industry Survey 2012

\* Total domestic sales and exports

Revenues from Content Fees / Revenue-Sharing Business Models



Source: JAIA, Amusement Industry Survey 2012

# Game Content Market

## Shift to Digital Downloads Accelerates Worldwide

In 2013, sales in the global game content market\*<sup>1</sup>, comprising packaged game software and online game content rose 9.1% year on year, to approximately ¥6.3 trillion\*<sup>2</sup>. By region, the market recorded growth of 4.0% in Asia (Japan, China, and South Korea) and decreases of 0.4% in the United States and 13.0% in Europe year on year. In China, PC online games spurred growth, while in Japan and South Korea mobile game apps were growth drivers. Consequently, Asia is developing into the world's largest market. Packaged game software continued on a downward trend. Meanwhile, online game content expanded to ¥4.6 trillion, accounting for approximately 70% of the game content market. Due to the spread of such digital devices as smartphones and tablets, game software's shift towards digital downloads is becoming a worldwide trend.

As for packaged game software, with popularity concentrating on certain well-known titles, major publishers' oligopoly continued to strengthen. However, the market for packaged game software for home video game consoles is showing signs of recovery. These include favorable sales in Europe and North America of new-generation home video game consoles equipped with capabilities for digital downloads, content micropayments, social game features such as live video of gameplay action, and cloud gaming services.

\*<sup>1</sup> Total for mobile game apps, PC online games, and home video game software downloads.

\*<sup>2</sup> Source: Famitsu Game White Paper 2014

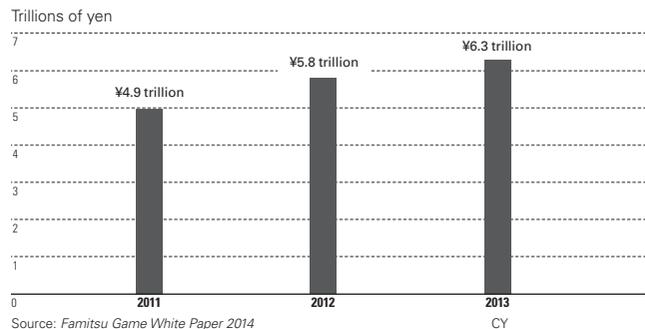
## Major Hit Titles Drive Rapid Expansion of Online Game Content Market in Japan

In 2013, Japan's market for online game content with network connectivity, which includes content for home video game consoles, handheld game terminals, and PCs and game apps for smart devices, grew rapidly, increasing 39.2% year on year, to ¥735.8 billion\*<sup>3</sup>. In this market, major hit titles drove sales of digital game content for smart devices and SNS, which rose 57.4%, to ¥606.9 billion\*<sup>3</sup>, and claimed 80% of the market. For home video game consoles in 2013, although packaged game software continued to shrink, digital downloads were up 9.6%\*<sup>3</sup> year on year.

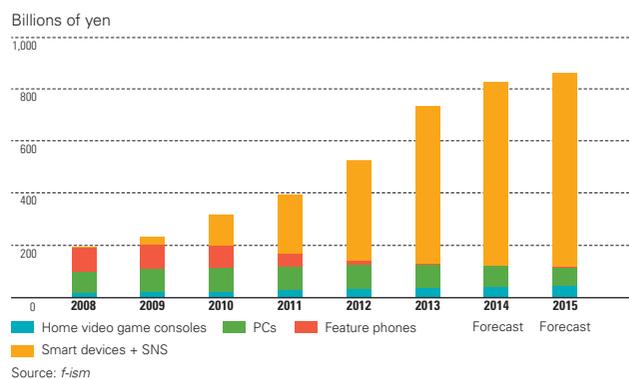
In 2013, the transfer of packaged game software intellectual properties to online game content gained momentum. Other trends included the offering of new play styles by linking such PCs, handheld game terminals, and other devices and the full-fledged entry into Japan's market of major hit game apps from overseas. In 2014, the online game content market is expected to expand and surpass ¥800 billion as the player base widens with the continuing spread of smart devices, the penetration of F2P business models that provide basic play for free and generate return on investment through charges for additional items within games, and an increase in digital downloads for home video game consoles.

\*<sup>3</sup> Source: f-ism

## Estimated Value of Global Game Content Market



## Japan's Market for Game Content with Network Connectivity



## Market Conditions for Each Business

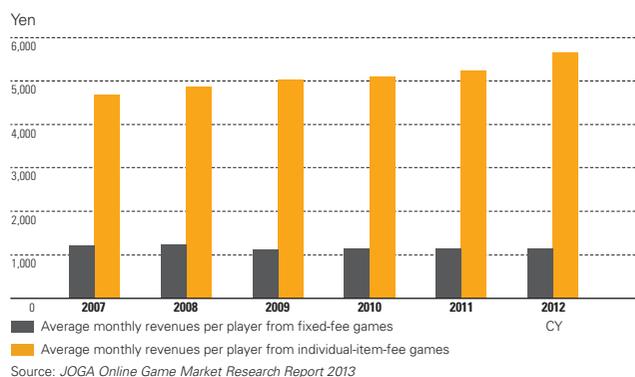
### Requirements for Winning amid Fiercer Competition

Digital game content for smart devices and SNS has grown dramatically. Currently, competition in this area is moving into a new phase. In recent years, the increase in companies in the area has created a market with a large amount of homogeneous content. As a result, player demand is shifting toward absorbing, graphic-rich video games that exploit the processing capabilities of smartphones and high-speed mobile broadband. Against this backdrop, native apps have replaced browser apps as the market's mainstay category. The main type of app until recently, browser apps are operated through browsers and processed by external servers, while native apps are processed by terminals after installation and are suited to rich content.

In the native app area, several companies that entered the area early have established advantageous positions. However, competition is intensifying due to the large number of companies in the market, such as companies with strong track records in browser apps and major game publishers. The number of apps is rising significantly, and apps are becoming increasingly high-end. At the same time, a shortage of developmental personnel and burgeoning development expenses have become a problem for the entire industry. Consequently, competitive conditions in the digital game content market

are gradually beginning to favor companies with accumulated developmental assets, such as intellectual properties and developmental personnel; robust financial foundations able to absorb developmental risk; and systems and fee-charging know-how that attract players to newly developed titles reliably.

### Average Monthly Revenues per Player



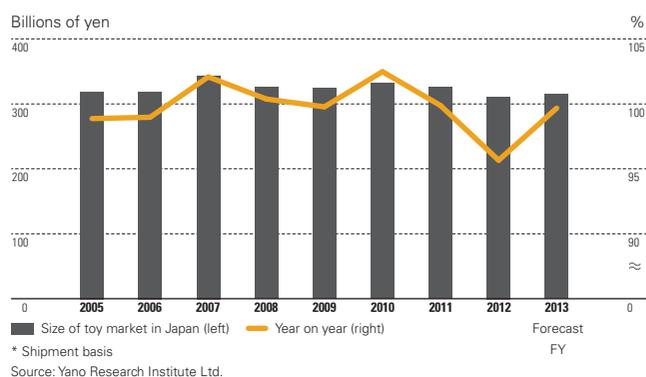
## Toy and Animation Markets

### Download Services Expand in Animation Market

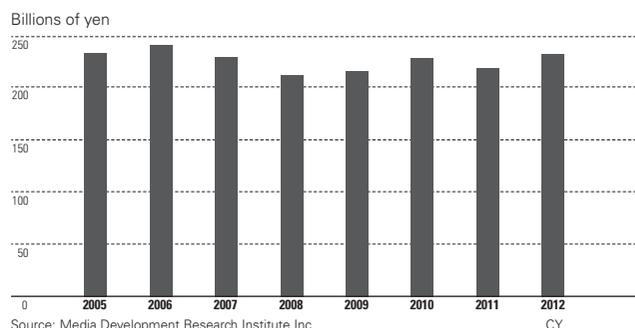
In fiscal 2012, Japan's toy market (excluding home video game consoles and software), decreased 2.8% year on year, to ¥316.1 billion, due to the weakening momentum of toys for boys and trading card games, which are market drivers, and lackluster performances in other product categories overall. In fiscal 2013, the toy market is projected to remain approximately unchanged year on year and reach ¥314.5 billion on a manufacturers' shipment basis.

In 2012, the animation market recorded stable box-office revenues from mainstay animation series. In addition, several Japanese animation titles drove the market by posting box-office revenues above the ¥4 billion barrier. As a result, the market grew 4.2% compared with the previous fiscal year, to ¥233.0 billion. Television animation revenues edged up, while video animation revenues declined. Meanwhile, the animation download market for homes and smart devices is expanding significantly. This market is expected to grow further as communication environments advance and flat rate services enabling sharing between multiple devices spread.

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



### Animation Market in Japan



# Market Data

## Number of Pachinko Halls

	Number of halls					
CY	2008	2009	2010	2011	2012	2013
Number of pachinko halls with pachinko machines installed	11,800	11,722	11,576	11,392	11,178	10,873
Number of pachinko halls with only pachislot machines installed	1,137	930	903	931	971	1,020
Total	12,937	12,652	12,479	12,323	12,149	11,893

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	2013
<b>Pachislot machines</b>						
Machine sales (units)	913,094	766,094	979,794	1,259,924	1,326,029	1,390,566
Machines installed (units)	1,448,773	1,347,176	1,390,492	1,474,838	1,549,319	1,602,148
Market scale (millions of yen)	247,860	225,869	286,700	375,054	429,974	473,342
<b>Pachinko machines</b>						
Machine sales (units)	3,339,146	3,332,984	2,900,286	2,603,760	2,494,695	2,048,702
Machines installed (units)	3,076,421	3,158,799	3,163,650	3,107,688	3,042,476	3,009,314
Market scale (millions of yen)	921,338	985,227	886,914	825,714	772,951	609,950

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	2012
Net sales of amusement machines (millions of yen)	219,061	196,164	169,632	173,167	184,781	179,147
Revenues from amusement center operations (millions of yen)	678,099	573,104	504,271	495,767	487,500	469,950
Number of amusement centers*	22,723	21,688	19,213	18,638	18,114	16,991
Year-on-year comparison of sales at existing amusement centers (%)	92.2	89.7	88.2	97.3	96.8	95.3

Source: JAIA, Amusement Industry Survey 2012

\* 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							
CY	2008	2009	2010	2011	2012	2013	2014 (Forecast)	2015 (Forecast)
Hardware	250.54	216.49	175.59	179.74	177.98	155.31	182.88	184.27
Software	332.43	326.41	318.17	274.64	271.21	253.66	254.67	255.19
Total	582.97	542.90	493.76	454.38	449.19	408.97	437.55	439.46

Source: FISM

## Japan's Market for Game Content with Network Connectivity

	Billions of yen						
CY	2008	2009	2010	2011	2012	2013	2014
Home video game consoles	17.2	20.2	21.8	28.5	34.2	37.5	
PCs	82.0	92.0	92.2	88.7	89.5	86.1	
Feature phones	89.0	92.0	85.4	51.2	19.2	5.3	
Smart devices + SNS	5.5	29.0	118.7	224.9	385.6	606.9	
Total	193.7	233.2	318.1	393.3	528.5	735.8	

Source: FISM



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