

# CHANGE

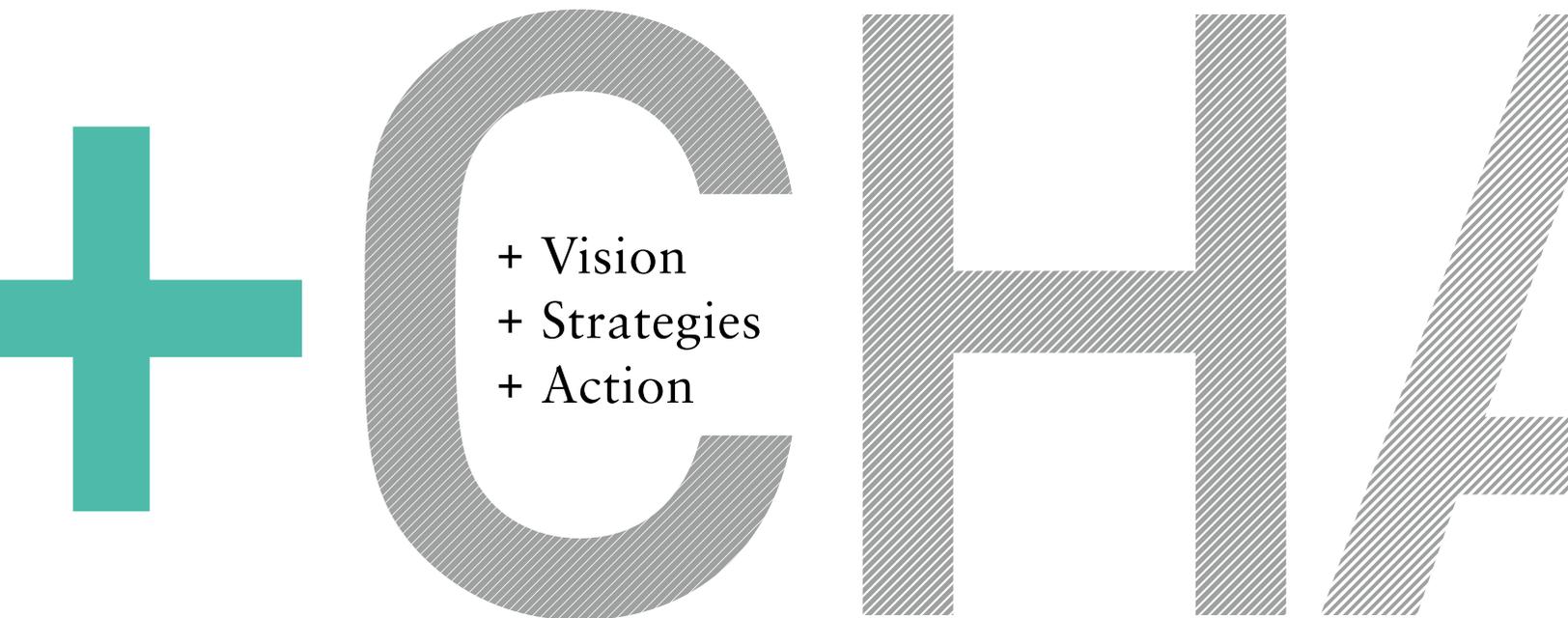
**ANNUAL REPORT 2015**  
SEGA SAMMY HOLDINGS



# ANNUAL REPORT 2015

SEGA SAMMY HOLDINGS

The entertainment industry is currently facing major structural change as the pastimes of the young generation diversify. In response, the SEGA SAMMY Group has restructured decisively to get back on a trajectory of earnings growth and sustained long-term development. Restructuring has clarified core businesses, restructured unprofitable and underperforming businesses drastically, laid foundations for strengthening business portfolio management, and optimized personnel deployment.



# CHANGE

In fiscal 2016, we expect to see some of the benefits of restructuring. However, the SEGA SAMMY Group's reform is still under way. We will set out a clear target profile for the Group, establish strategies to achieve it, and advance measures based on these strategies steadily. For us, *change* is constant.

## the **NUMBERS**

Grasp the main points in business result trends and in fiscal 2015 business results

Business Results Highlights ..... **6**

## the **MANAGEMENT TEAM**

Learn about the management team's approach

Messages from senior executives of SEGA SAMMY HOLDINGS, SEGA Holdings, and Sammy

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### DEFINITION OF TERMS

"Fiscal 2015" refers to the fiscal year ended March 31, 2015, 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.]

## the **GROUP**

### Discussion on the Group's Past and Present

Get to know the Group's past and present

We explain business models and management resources from a Groupwide viewpoint as well as our track record for returns to shareholders.

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### Discussion on the Group's Future

Understand the Group's strategies going forward

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## the **OPERATIONAL SEGMENTS**

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## GOVERNANCE

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### Editorial Policy of Annual Report 2015

Our business management reflects opinions obtained through dialogues with shareholders and investors. We use this valuable feedback when preparing management strategies and making management decisions. To provide a basis for further constructive dialogue, *Annual Report 2015* reflects the following aims.

- Organize information into Group strategies from the viewpoint of the holding company and business strategies from the viewpoint of each business segment
- Tell a growth story linking the past, present, and future
- Analyze long-term trends in management resources essential for strategy implementation: personnel, intellectual properties, and financial capital
- Illustrate industry structures and business models graphically
- Identify financial risk and important society and environmental risk and show connectivity with strategies

*Annual Report 2015* explains the different risks and opportunities stemming from the structural characteristics of each industry and business and shows which types of society and environmental risk are important for each business. For more detailed information on corporate social responsibility (CSR), please see *CSR Report 2015* and the Social Responsibility section of our website.

### discussion points

To provide basic information to those reading our annual report for the first time as well as a convenient tool for institutional investors and analysts, we have prepared *discussion points*, which summarizes the main content of *Annual Report 2015* in a compact format.



### Go Straight to the Information You Need

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# Business Results Highlights

Years ended March 31

## Consolidated Business Highlights

	2006	2007	2008	2009	2010	2011	2012
Net sales	¥553,240	¥528,238	¥458,977	¥429,194	¥384,679	¥396,732	¥395,502
Gross profit	229,011	203,079	120,403	119,092	138,867	166,055	161,663
Selling, general and administrative (SG&A) expenses	109,867	126,548	126,232	110,728	102,154	97,304	103,279
Operating income (loss)	119,144	76,530	(5,829)	8,363	36,712	68,750	58,384
EBITDA* <sup>2</sup>	140,999	104,578	39,782	35,007	53,887	84,699	74,542
Net income (loss)	66,221	43,456	(52,470)	(22,882)	20,269	41,510	21,820
Capital expenditures	37,650	59,271	50,422	26,610	16,164	19,686	36,141
Depreciation and amortization* <sup>3</sup>	21,854	28,048	45,611	26,644	17,175	15,949	16,158
R&D expenses, content production expenses* <sup>3</sup>	36,337	52,106	65,384	59,676	41,502	41,104	53,348
Net cash provided by (used in) operating activities	83,228	60,623	(25,878)	32,199	54,998	87,696	38,023
Net cash provided by (used in) investing activities	(54,706)	(75,395)	(10,399)	936	(7,640)	(29,585)	(59,012)
Net cash provided by (used in) financing activities	(21,152)	(1,712)	(7,579)	(7,653)	(3,401)	(57,168)	914
Free cash flows* <sup>4</sup>	28,522	(14,772)	(36,277)	33,135	47,358	58,111	(20,989)
Total assets	522,914	549,940	469,642	423,938	423,161	458,624	497,451
Total net assets / shareholders' equity* <sup>5</sup>	316,679	358,858	281,627	242,532	256,770	285,461	296,376
Number of shares outstanding (shares)	283,229,476	283,229,476	283,229,476	283,229,476	283,229,476	266,229,476	266,229,476
Number of employees (employees)	6,416	7,734	7,665	6,856	6,236	6,000	6,700
Net sales per employee	86.2	68.3	59.9	62.6	61.7	66.1	59.0
<b>Per Share Data</b>	2006	2007	2008	2009	2010	2011	2012
Net income (loss)	¥ 261.06	¥ 172.47	¥ (208.26)	¥ (90.83)	¥ 80.46	¥ 163.19	¥ 86.73
Diluted net income	260.35	172.35	—	—	—	163.01	86.54
Total net assets / shareholders' equity* <sup>5</sup>	1,254.14	1,341.80	1,030.09	882.47	937.80	1,093.23	1,167.59
Cash dividends	80.00	60.00	45.00	30.00	30.00	40.00	40.00
<b>Key Ratios</b>	2006	2007	2008	2009	2010	2011	2012
Gross profit margin	41.4	38.4	26.2	27.7	36.1	41.9	40.9
SG&A ratio	19.9	24.0	27.5	25.8	26.6	24.5	26.1
Operating margin	21.5	14.5	—	1.9	9.5	17.3	14.8
R&D expenses to net sales	6.6	9.9	14.2	13.9	10.8	10.4	13.5
ROE	23.0	13.3	—	—	8.8	16.2	7.7
ROA* <sup>6</sup>	24.8	15.2	—	1.5	8.5	15.5	12.2
Equity ratio	60.6	61.5	55.3	52.4	55.8	60.0	58.9

\*1 Yen amounts have been translated into U.S. dollars solely for convenience at the rate of ¥119.89 to U.S.\$1, the prevailing exchange rate at March 31, 2015.

\*2 EBITDA = Operating income (loss) + Depreciation and amortization; Since fiscal 2014, calculations have been 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**
2013	2014	2015	2015
¥321,407	¥378,011	¥354,921	\$2,960,389
116,938	147,970	134,876	1,125,004
97,865	109,437	117,267	978,125
19,073	38,533	17,609	146,878
37,254	58,276	39,356	327,999
33,460	30,721	(11,258)	(93,907)
32,871	38,182	28,780	240,060
18,181	16,182	17,615	146,928
45,294	59,219	67,622	564,035
18,603	75,201	37,010	308,703
6,396	(38,547)	(37,734)	(314,741)
(1,116)	(11,512)	(15,058)	(125,599)
24,999	36,654	(724)	(6,038)
528,504	542,936	528,898	4,411,529
320,034	348,270	322,673	2,691,412
266,229,476	266,229,476	266,229,476	

Yen		U.S. dollars**	
2013	2014	2015	2015
¥ 137.14	¥ 126.42	¥ (46.22)	\$(0.38)
136.85	125.39	—	—
1,304.44	1,409.27	1,337.46	11.15
40.00	40.00	40.00	0.33

%		
2013	2014	2015
36.4	39.1	38.0
30.4	29.0	33.0
5.9	10.2	5.0
14.1	15.7	19.1
11.0	9.3	—
4.1	7.6	3.2
59.7	63.2	60.0

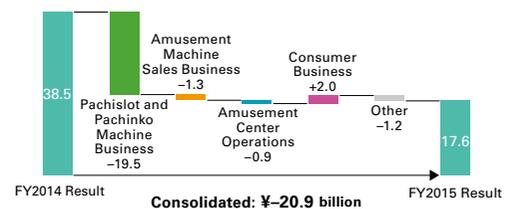
## Operating Income

¥17.6 billion

(down ¥20.9 billion, or 54% year on year)

### Change in Segment Operating Income

Billions of yen



## Main Other Expenses

### Other Expenses

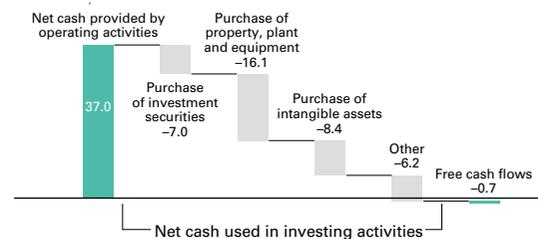
Impairment loss	¥7.8 billion
Provision for dismantling of fixed assets	¥2.7 billion
Loss on the discontinuance of independent film production	¥1.8 billion
Early extra retirement payments	¥1.8 billion

## Free Cash Flows

¥-0.7 billion

### Main Causes of Changes in Free Cash Flows

Billions of yen



## Business Results Highlights

Years ended March 31

## Business Results by Business Segment

Pachislot and Pachinko Machine Business	2006	2007	2008	2009	2010	2011	2012
Net sales	¥265,631	¥211,539	¥145,582	¥161,691	¥160,376	¥212,060	¥212,189
Operating income	99,847	71,102	8,443	14,528	29,502	64,284	71,040
Operating margin (%)	37.6	33.6	5.8	9.0	18.4	30.3	33.5
R&D expenses, content production expenses*2	6,940	9,325	12,632	14,289	13,019	13,485	14,393
Capital expenditures	6,670	8,790	23,829	4,516	3,297	5,725	12,726
Pachislot machine unit sales (units)	607,106	523,422	380,688	123,286	162,932	302,270	300,866
Pachinko machine unit sales (units)	288,895	132,981	108,184	391,831	360,171	343,188	332,288
<b>Amusement Machine Sales Business</b>							
	2006	2007	2008	2009	2010	2011	2012
Net sales	¥71,512	¥75,454	¥71,061	¥61,926	¥45,117	¥47,237	¥49,929
Operating income (loss)	12,176	11,682	7,152	6,890	7,094	7,317	7,415
Operating margin (%)	17.0	15.5	10.1	11.1	15.7	15.5	14.9
R&D expenses, content production expenses*2	10,002	12,527	13,695	11,450	7,841	9,195	9,374
<b>Amusement Center Operations</b>							
	2006	2007	2008	2009	2010	2011	2012
Net sales	¥106,245	¥103,850	¥91,226	¥71,310	¥54,788	¥45,695	¥44,608
Operating income (loss)	9,244	132	(9,807)	(7,520)	(1,338)	342	355
Operating margin (%)	8.7	0.1	—	—	—	0.7	0.8
Capital expenditures	24,577	40,754	15,910	14,893	7,796	7,701	8,328
Depreciation and amortization*2	17,148	18,052	17,161	15,908	8,212	6,126	6,184
Number of domestic amusement centers*3 (centers)	462	449	363	322	260	249	241
Existing domestic amusement center sales*4 year on year (%)	103.3	95.8	89.0	92.4	91.7	99.3	100.5
<b>Consumer Business</b>							
	2006	2007	2008	2009	2010	2011	2012
Net sales	¥90,352	¥119,593	¥141,790	¥131,361	¥121,575	¥88,896	¥85,688
Operating income (loss)	1,977	1,749	(5,989)	(941)	6,332	1,969	(15,182)
Operating margin (%)	2.2	1.5	—	—	5.2	2.2	—
R&D expenses, content production expenses*2	17,823	26,583	37,129	32,875	19,644	18,150	29,316
Home video game software unit sales (thousands)	16,400	21,270	26,990	29,470	26,750	18,710	17,240

\*1 Yen amounts have been translated into U.S. dollars solely for the convenience of readers at the rate of ¥119.89 to U.S.\$1, the prevailing exchange rate at March 31, 2015.

\*2 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&amp;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 abovementioned 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
2013	2014	2015	2015
¥142,281	¥181,834	¥149,160	\$1,244,140
23,534	45,292	25,796	215,169
16.5	24.9	17.3	
18,056	19,510	22,327	186,234
11,914	7,905	6,709	55,965
202,221	301,575	207,828	
216,860	200,225	242,847	

### Pachislot and Pachinko Machine Business: Reasons for business results changes

- In the pachislot machine business, a change in model-testing operation methods lowered the number of new titles that we introduced, causing a 31% year-on-year decrease in unit sales.
- In the pachinko machine business, unit sales rose 21% year on year due to steady sales of *Pachinko CR Hokuto No Ken 6* series, *Pachinko CR Bakemonogatri*, and other products.

Millions of yen, unless stated otherwise			Thousands of U.S. dollars*1
2013	2014	2015	2015
¥39,134	¥38,604	¥39,641	\$330,651
1,902	(1,264)	(2,536)	(21,156)
4.9	—	—	
7,819	8,950	11,253	93,866

### Amusement Machine Sales Business: Reasons for business results changes

- Operating loss increased to ¥2.5 billion due to lackluster sales of new titles and a reduction of the book value of certain inventory assets.
- The Group recognized revenues from revenue-sharing titles.

Millions of yen, unless stated otherwise			Thousands of U.S. dollars*1
2013	2014	2015	2015
¥42,707	¥43,216	¥41,416	\$345,457
1,194	60	(946)	(7,897)
2.8	0.1	—	
7,923	7,729	6,534	54,503
4,671	4,725	5,232	43,643
236	198	198	
93.8	96.1	100.1	

### Amusement Center Operations: Reasons for business results changes

- The sales of existing amusement centers increased year on year for the first time in three years, rising 0.1%.
- Due to the consumption tax rate increase, the segment saw a year-on-year decline in revenues and recorded operating loss of ¥0.9 billion.

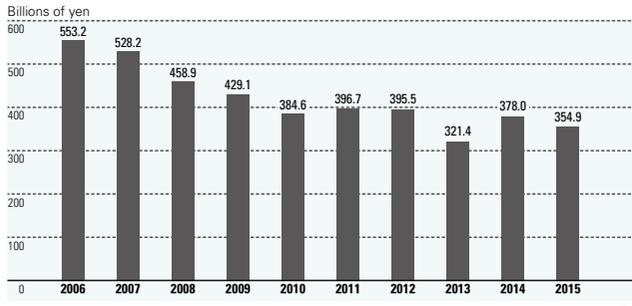
Millions of yen, unless stated otherwise			Thousands of U.S. dollars*1
2013	2014	2015	2015
¥83,874	¥99,841	¥111,025	\$926,058
(732)	2,089	4,033	33,646
—	2.1	3.6	
19,538	30,166	33,467	279,149
10,780	8,730	12,300	

### Consumer Business: Reasons for business results changes

- Revenues rose and operating income grew significantly year on year as the digital game area's solid performance counteracted sluggish sales in the packaged game software and toy sales areas.
- In the digital game area, revenues were up 12% thanks to contributions from existing non-mainstay titles.

Business Trends

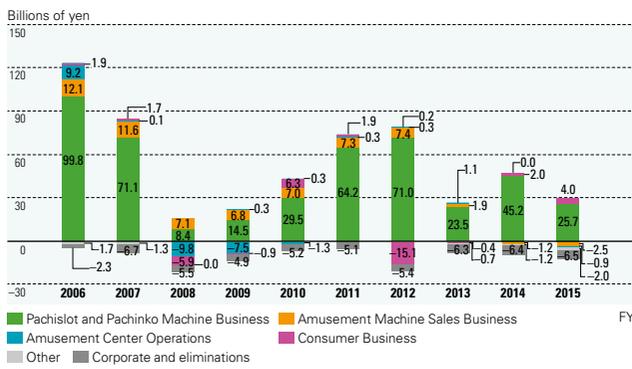
Net Sales



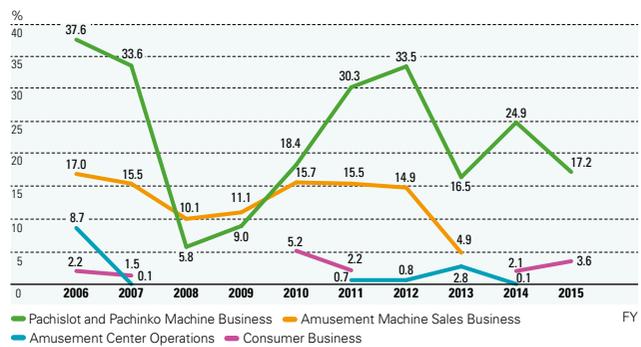
Operating Income (Loss) / Operating Margin



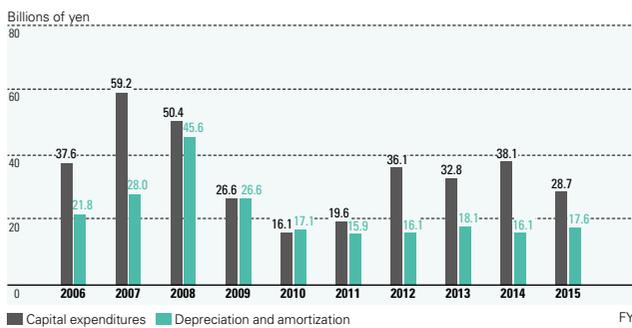
Operating Income (Loss) by Segment



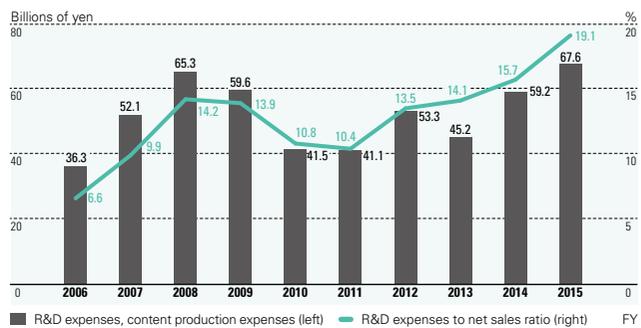
Operating Margin by Segment



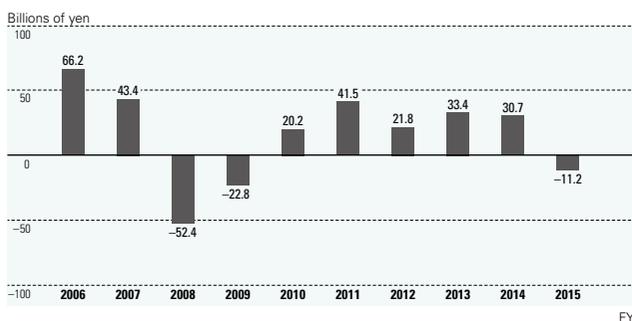
Capital Expenditures / Depreciation and Amortization\*1



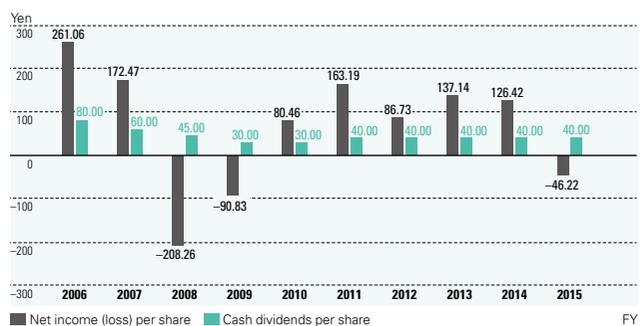
R&D Expenses, Content Production Expenses\*1 / R&D Expenses to Net Sales Ratio



Net Income (Loss)



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

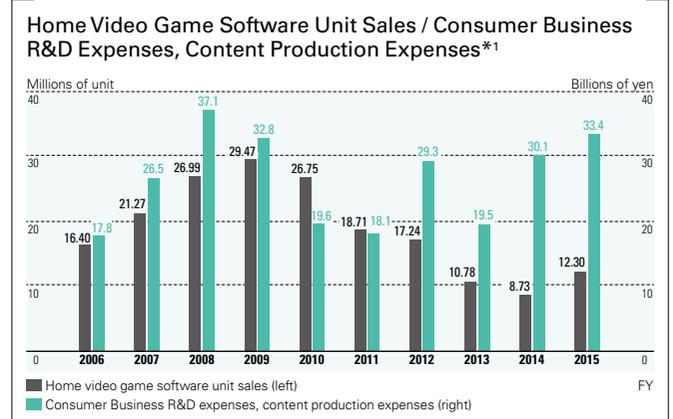
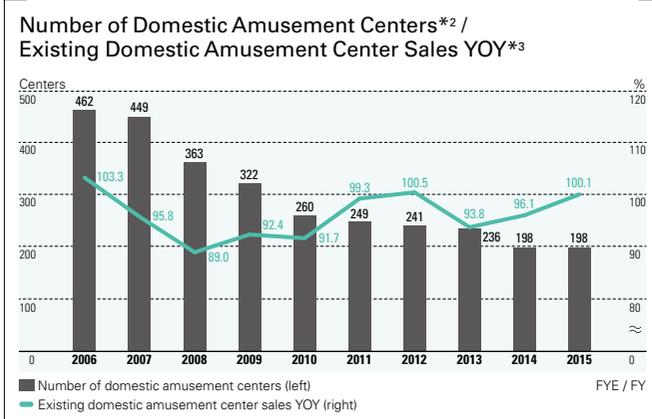
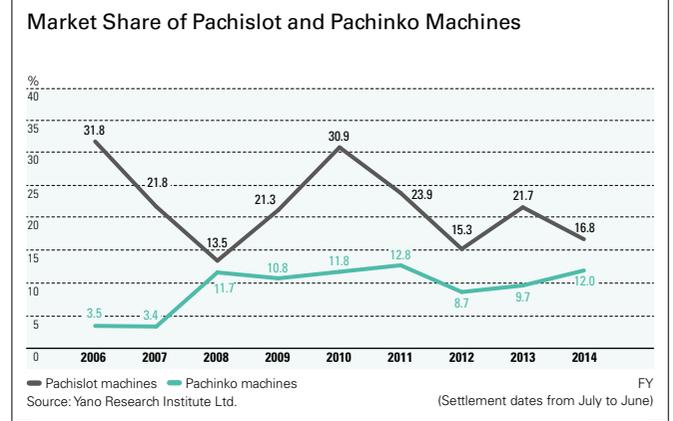
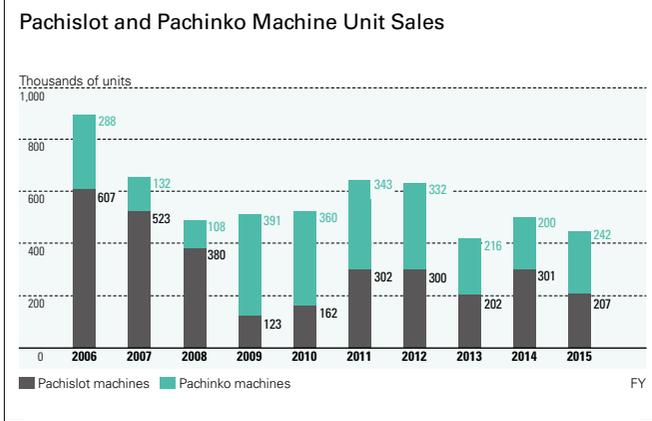
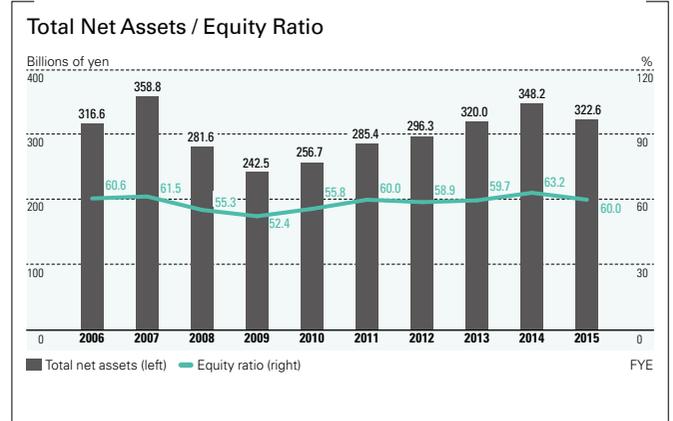
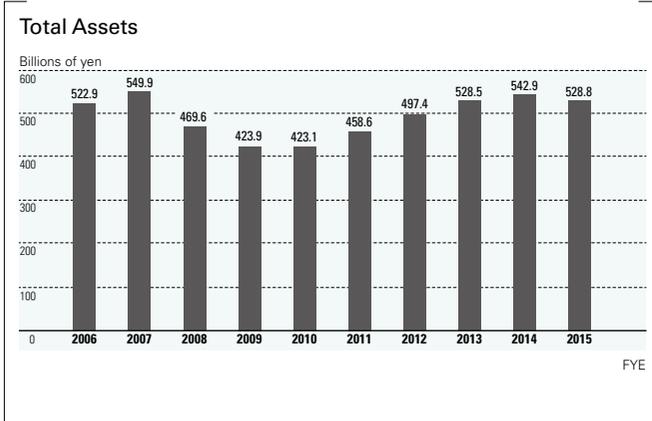
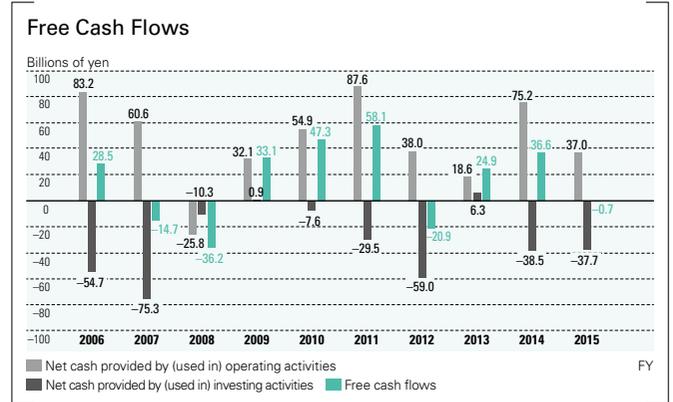
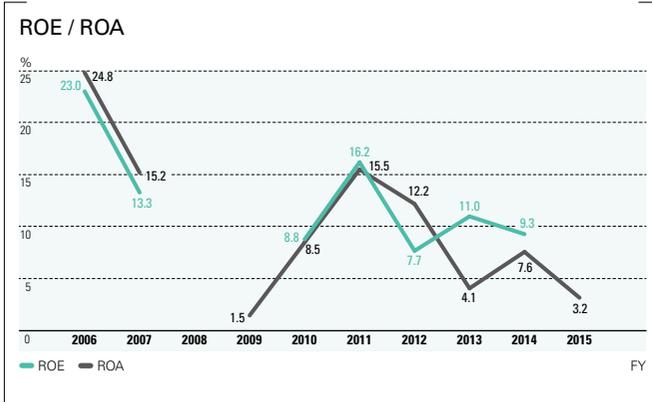


\*1 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles.

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 abovementioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal 2014.



## A Message from the Chairman of the Board and CEO



### **Hajime Satomi**

Chairman of the Board and Chief Executive Officer  
SEGA SAMMY HOLDINGS INC.

# To build the future of the SEGA SAMMY Group, we will restructure with unwavering resolve.

## Fiscal 2015 Business Results

In fiscal 2015, the year ended March 31, 2015, SEGA SAMMY HOLDINGS INC. recorded lower revenues and earnings and moved into the red due to the recognition of one-time expenses arising from restructuring. The Group posted year-on-year declines of 6% in net sales, to ¥354.9 billion, and 54% in operating income, to ¥17.6 billion, and incurred a net loss of ¥11.2 billion, compared with the previous fiscal year's net income of ¥30.7 billion. For the third consecutive year, the Group did not meet initial targets. Also, no business segment reached its initial targets. These are disappointing results, and I would like to apologize sincerely to shareholders and investors. Below I will provide details on restructuring aimed at getting us back on a growth track.

### Net Sales

The main reason for lower net sales was a significant decrease in revenues from the Pachislot and Pachinko Machine Business segment. In this segment, the pachinko machine business grew revenues thanks to the steady performances of multiple mainstay titles. However, the pachislot machine business posted lower revenues because it introduced fewer new titles due to a revision of sales schedules. This revision stemmed from a change in the model-testing operation methods of the Security Communications Association, which tests pachinko and pachislot machine models. As a result, the net sales of the Pachislot and Pachinko Machine Business segment were down 18% year on year. As for the Amusement Machine Sales Business segment, revenues increased 3% year on year. In the Amusement Center Operations segment, solid sales at existing amusement centers were unable to completely offset the effect of a consumption tax rate increase, and revenues decreased 4% year on year. Meanwhile, the Consumer Business segment grew revenues 11% year on year as growth in the digital game area compensated for lackluster revenues from the packaged game software and toy sales areas.

### Operating Income (Loss)

The Pachislot and Pachinko Machine Business segment's operating income was down 43% from the previous fiscal year. The Amusement Machine Sales Business segment recognized operating loss of ¥2.5 billion, reflecting sluggish sales of new titles. Also, the Amusement Center Operations segment recorded operating loss of ¥0.9 billion. Mainly due to higher revenues from digital games, the Consumer Business segment

grew operating income 100% year on year. The operating margin decreased 5.2 percentage points year on year, to 5.0%.

### Net Income (Loss)

The Group incurred extraordinary loss of ¥15.9 billion, which included impairment loss, provision for dismantling of fixed assets, loss on discontinuance of independent film production, and early extra retirement payments. Furthermore, the Group recognized a reversal of a portion of deferred tax assets in income taxes-deferred. This measure was taken after careful consideration of the recoverability of deferred tax assets in light of the effect of tax reform, fiscal 2015 business results, and the business results outlook. As a result, the Group posted a net loss of ¥11.2 billion.

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

R&D expenses and content production expenses rose 14% year on year due to the Pachislot and Pachinko Machine Business segment's strengthening of product appeal and the Consumer Business segment's bolstering of digital game content. Capital expenditures were down 25%, reflecting the absence of the previous fiscal year's acquisition of land in Busan, South Korea. Depreciation and amortization rose 9% year on year due to higher investment in molds, which accompanied the Pachislot and Pachinko Machine Business segment's introduction of dedicated machine cabinets. Advertising expenses were up 19% year on year as a result of the strengthening of digital game content in the Consumer Business segment.

### Cash Flows

The Group recorded negative free cash flows of ¥0.7 billion, as net cash provided by operating activities of ¥37.0 billion did not completely offset net cash used in investing activities of ¥37.7 billion.

### Cash Dividends

For fiscal 2015, the Group 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 paid for the previous fiscal year.

## Background to Restructuring

### Restructuring Based on a Strong Sense of Crisis

Currently, the entertainment industry is on the brink of major structural change. A driver of this change has been the rapid spread of smartphones since around 2008. As the younger generation spends leisure time in increasingly varied ways, competition is transcending industry boundaries.

The pachinko and pachislot market has a serious structural problem because, as the younger generation leaves the market, the player population is declining. The April 2014 consumption tax rate increase has also dealt an additional blow to the conventional amusement center operations market—which has been contracting for eight years—and made further market contraction unavoidable. As a result of amusement center operators' worsening business results, the Amusement Machine Sales Business segment, which once boasted high profitability, has recognized an operating loss for two consecutive years. [▶▶ Chart 01](#)

The Group has to face the fact that its existing businesses can no longer expect the growth and profitability it once enjoyed. While the Pachislot and Pachinko Machine Business segment is still generating a certain amount of cash, if we do not stop the Groupwide decline in profitability by rebuilding existing businesses and accelerating the earnings growth of the digital game area and other growth areas, it could affect investment aimed at sustained growth, such as investment in the integrated resort business. [▶▶ Chart 02](#)

Motivated by a strong sense of crisis, I established the Group Structure Reform Division, in which I serve as chairman, in May 2014. This division prepared measures to put the Group back on a growth trajectory. In October of the same year, we announced concrete strategies, which we implemented until the end of the fiscal year under review.

## Overview of Restructuring

### Clarified Core Businesses and Strengthened Portfolio Management

The following provides details on the restructuring measures the Group had implemented by March 31, 2015.

#### Measure 1. Clarified Core Businesses

The SEGA SAMMY Group comprises approximately 90 Group companies in Japan and overseas. Some operating companies and divisions had overlapping business areas. Others were insufficiently linked despite having related business areas. Therefore, after clarifying the status of the Pachislot and Pachinko Machine Business, the Entertainment Contents Business, and the Resort Business as core businesses that enable the realization of strengths as a comprehensive entertainment corporate group, we reorganized business segments accordingly. The aim of this

reorganization is to heighten the awareness of all officers and employees of the direction in which the Group should advance.

While the Pachislot and Pachinko Machine Business segment is likely to continue facing tough business conditions, its position as the pillar of the Group's earnings will remain unchanged. We gathered into a single segment the businesses, mainly from the former SEGA CORPORATION, that have quality entertainment content at the core of their competitiveness, even though they offer this content through different channels. We want the Entertainment Contents Business segment to contribute to earnings as soon as possible.

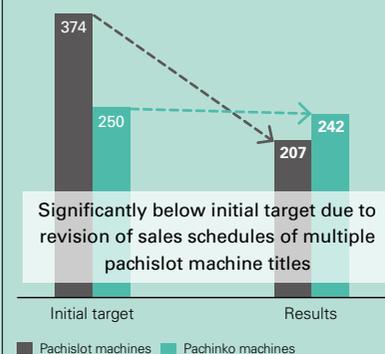
The Resort Business segment brings together the personnel and expertise of the integrated resort business, the closely related entertainment park business area of the former SEGA CORPORATION (TOKYO

### ▶▶ Chart 01 Fiscal 2015 Business Results

Billions of yen	2014	2015	YOY change
<b>Net sales</b>	378.0	<b>354.9</b>	-6%
Pachislot and Pachinko Machine Business	181.8	<b>149.1</b>	-18%
Amusement Machine Sales Business	38.6	<b>39.6</b>	+3%
Amusement Center Operations	43.2	<b>41.4</b>	-4%
Consumer Business	99.8	<b>111.0</b>	+11%
Other	14.5	<b>13.6</b>	-6%
<b>Operating income (loss)</b>	38.5	<b>17.6</b>	-54%
Pachislot and Pachinko Machine Business	45.2	<b>25.7</b>	-43%
Amusement Machine Sales Business	(1.2)	<b>(2.5)</b>	—
Amusement Center Operations	0.0	<b>(0.9)</b>	—
Consumer Business	2.0	<b>4.0</b>	+100%
Other	(1.2)	<b>(2.0)</b>	—
Corporate and eliminations	(6.4)	<b>(6.5)</b>	—
<b>Operating margin</b>	10.2%	<b>5.0%</b>	-5.2pt.
<b>Net income (loss)</b>	30.7	<b>(11.2)</b>	—

### Pachislot and Pachinko Machine Unit Sales (Fiscal 2015)

Thousands of units



JOYPOLIS and Orbi Yokohama), and the resort business centered on Phoenix Resort Co., Ltd. With our sights set on establishing a full-fledged integrated resort business in Japan, we will develop this business segment as a pillar of medium-to-long-term growth. >> Chart 03

### Measure 2. Restructured Unprofitable and Underperforming Businesses Drastically

At the same time as clarifying core businesses, we withdrew from or shrank businesses and services that had little strategic importance, focusing on businesses that had been unprofitable with regularity. One example of this approach was our decision to discontinue an independent movie production project. Also, in the amusement machine sales area we cancelled the development of titles with unfavorable earnings outlooks. Other measures included reducing fixed costs, mainly those related to corporate functions, in the overseas packaged game software area.

On the other hand, we decided to continue several businesses that are currently unprofitable. One such business is the computer graphics (CG) animation production business of MARZA ANIMATION PLANET INC. We made this decision because the company's CG animation technology—among the most advanced technology of its kind in Japan—has significant potential for use in CG animation movies and within the Group.

### Measure 3. Laid Foundations for Strengthening Business Portfolio Management

We laid foundations that will help strengthen management of our business portfolio. As well as optimal and flexible deployment of such management resources as intellectual properties, development personnel, and cash. These foundations will enable further business reorganization.

SEGA SAMMY HOLDINGS INC. has established SEGA Holdings Co., Ltd., as an intermediate holding company that reports directly to it. Under the control of this new company, we placed the amusement center operations area and the digital game area, which had belonged to separate companies. Furthermore, we spun off the former SEGA CORPORATION's mainstay amusement arcade machine and packaged game software

areas and also placed them under the intermediate holding company's control. We also transferred direct control of the animation and toy sales areas from SEGA SAMMY HOLDINGS to SEGA Holdings. >> Chart 03

As a result of this reorganization, SEGA Holdings is responsible for preparing overall strategies and adjusting the distribution of management resources. Meanwhile, its discrete operating companies receive development personnel and other management resources and function as self-contained businesses. The aim of this organizational structure is to delegate significant authority to accelerate decision making and clarify management responsibility. The dramatically improved management efficiency of SEGA Networks, Ltd. (currently SEGA Networks Company of SEGA Games Co., Ltd.), which became a separate company in 2012, and SEGA ENTERTAINMENT CO., LTD., testifies to the benefits this new organizational structure promises.

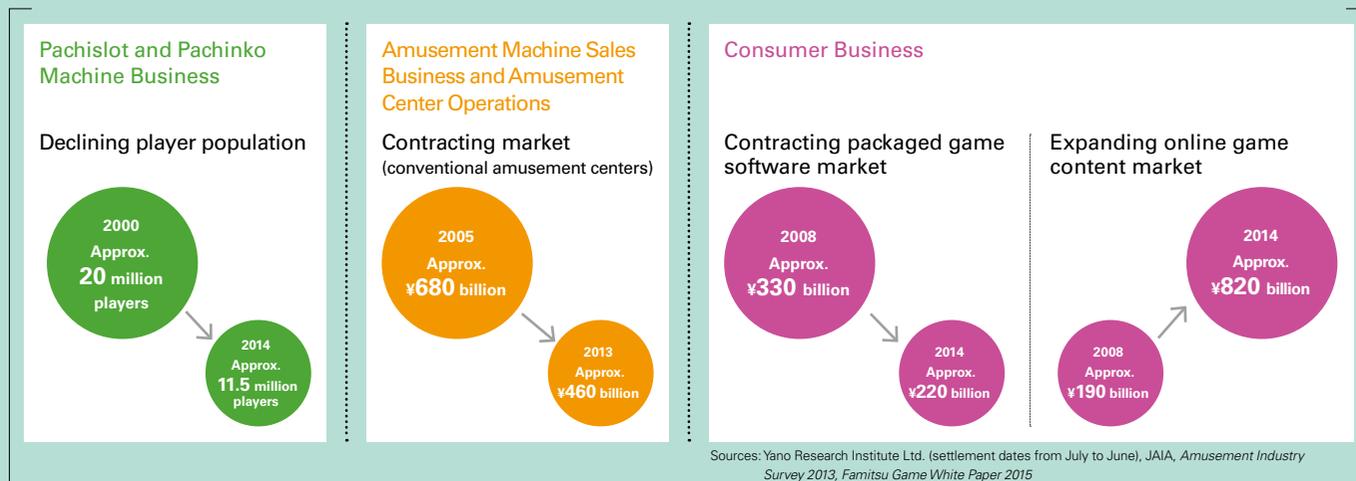
### Measure 4. Optimized Personnel Deployment

In conjunction with establishing a new organizational structure, we optimized personnel deployment.

Going beyond previous initiatives to transfer personnel from the packaged game software area to the digital game area, we are transferring personnel on a larger scale and on a Groupwide basis. For example, we have deployed mechatronics specialists from amusement machine sales to casino machine development. We have also transferred experts in animation technology development to the digital game area. Despite these transfers, we concluded that, relative to market sizes, the amusement machine sales and the toy sales area had surplus personnel. Regrettably, we had to downsize through voluntary early retirement programs and other measures. The reduction in employees for the SEGA SAMMY Group as a whole was approximately 300, including roughly 120 from the former domestic SEGA group.

These initiatives have focused personnel deployment on strategic areas, adjusted personnel numbers to reflect earnings levels, and rejuvenated the workforce's age composition.

>> Chart 02 Major Structural Changes Facing the Group



## Fiscal 2016 Outlook and Restructuring Strategy

### Restructuring Still Under Way

In fiscal 2016, the year ending March 31, 2016, we expect a 15% increase in net sales year on year. Furthermore, we aim to grow operating income 44% year on year given the effect of fiscal 2015's restructuring-related expenses of approximately ¥7 billion and an expected benefit of approximately ¥6 billion from fixed cost reduction in the current fiscal year, mainly in the Entertainment Contents Business segment.

For the Pachislot and Pachinko Machine Business segment, we expect higher revenues but lower earnings. While we anticipate that additional titles will grow pachislot machine unit sales year on year, pachinko machine unit sales are likely to decline due to the absence of mainstay titles such as *Pachinko CR Hokuto No Ken 6* series. We project lower earnings mainly because of higher component procurement costs and the introduction of new devices. We will concentrate efforts on improving costs through reuse. On the other hand, in the Entertainment

Contents Business segment we expect revenues and earnings to grow significantly. The driver of this improvement will be the digital game area as it markets multiple mainstay titles. Further contributions will come from restructuring benefits, and we expect to move all existing businesses into the black. [▶ Chart 05](#)

Although we expect benefits from the restructuring implemented so far, it is only halfway completed. Therefore, rather than disbanding the Group Structure Reform Division, we will continue considering various measures, reaching decisions, and then implementing them. In particular, we have only laid the foundations for strengthening the profitability of the whole business portfolio. A major outstanding task is sustaining earnings growth by replacing businesses and investing in new businesses. To strengthen management of our business portfolio, we intend to clarify criteria for entering and withdrawing from businesses.

Next, I will explain how we intend to grow over the medium-to-long term.

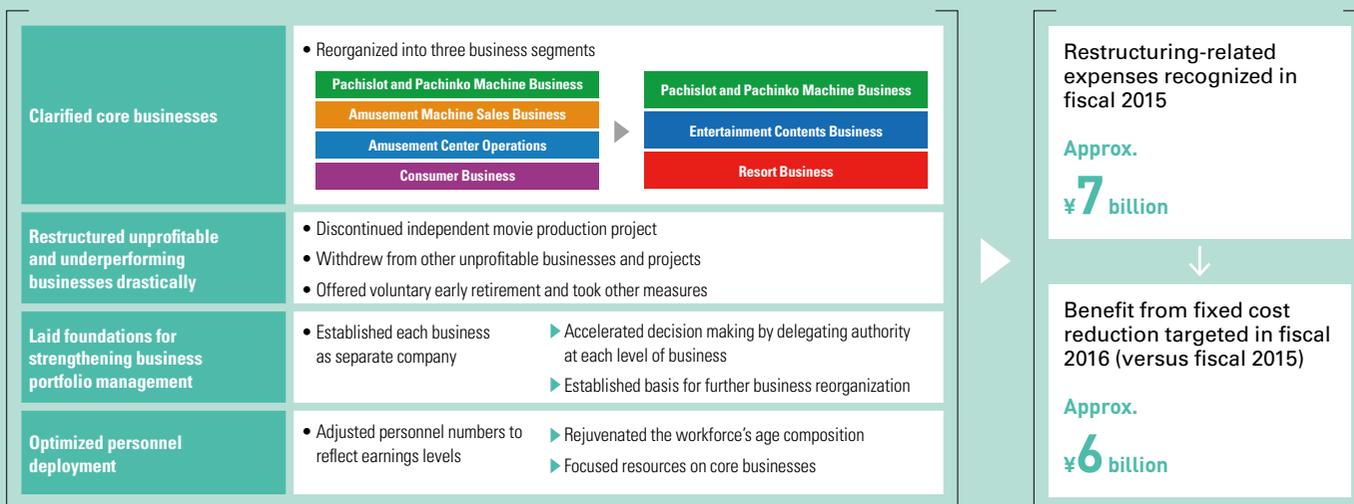
## Medium-to-Long-Term Growth Scenario

### The Future Cannot Be an Extension of the Past

Previously, I have explained our vision for the earnings size of each business based on a medium-term goal of restoring operating income to the ¥100 billion level that it was directly after management integration. However, given changes in market conditions that have exceeded expectations, we need to assume tough conditions will continue, reevaluate the basic profitability of each business, and revise our scenario for earnings growth accordingly.

In the past, we projected medium-term earnings in the region of ¥50 billion for the Pachislot and Pachinko Machine Business segment. Assuming the player population continues to contract, we have to revise this estimate to between ¥25 billion and ¥30 billion. With this as a minimum level of earnings that we must maintain, we will do our utmost to add earnings. We will continue pursuing the strategic goal of simultaneously holding the leading shares of the pachislot machine market and the pachinko machine market. At the same time, we will help invigorate

▶▶ Chart 03 Progress of Restructuring (Fiscal 2015)



the industry by developing and marketing appealing machines that broaden the player base.

With the Pachislot and Pachinko Machine Business segment as an earnings base, we plan to increase the earnings of the digital game area from the current level of around ¥10 billion to between ¥20 billion and ¥30 billion so that, over the medium term, the area reaches a scale comparable with that of the Pachislot and Pachinko Machine Business segment. In the future, digital game content is set to become increasingly high-end as digital device performance advances. We are confident that these conditions will allow SEGA Games Co., Ltd., to take full advantage of its strengths accumulated as a specialized manufacturer. Furthermore, in the digital game area we will step up rollouts in overseas markets from fiscal 2016. Thus, in the digital game area the outlook for the Group is promising.

Through other businesses, excluding the Pachislot and Pachinko Machine Business segment and the digital game area, we aim to generate earnings of about ¥10 billion in the medium term. Using these businesses as underlying supports, we will build a business portfolio that generates consolidated operating income of between ¥50 billion and ¥70 billion stably.

From a longer-term perspective, the goal is to restore operating income to the ¥100 billion level that it was directly after management integration. The key to achieving this goal will be the integrated resort business of the Resort Business segment. [▶▶ Chart 04](#)

Our businesses are based in Japan, where the population is certain to contract. To continue growing as a comprehensive entertainment corporate group, rather than simply developing existing businesses, we must tackle completely new business areas. For this reason, we are determined to participate in the integrated resort business. Anticipating the legalization of integrated resorts in Japan, we are accumulating expertise in relation to integrated resorts mainly through PARADISE SEGASAMMY Co., Ltd., a joint venture established with the Paradise Group of South Korea. PARADISE SEGASAMMY is leading a project to develop South Korea's first full-fledged integrated resort, *PARADISE CITY*, scheduled to open in 2017.

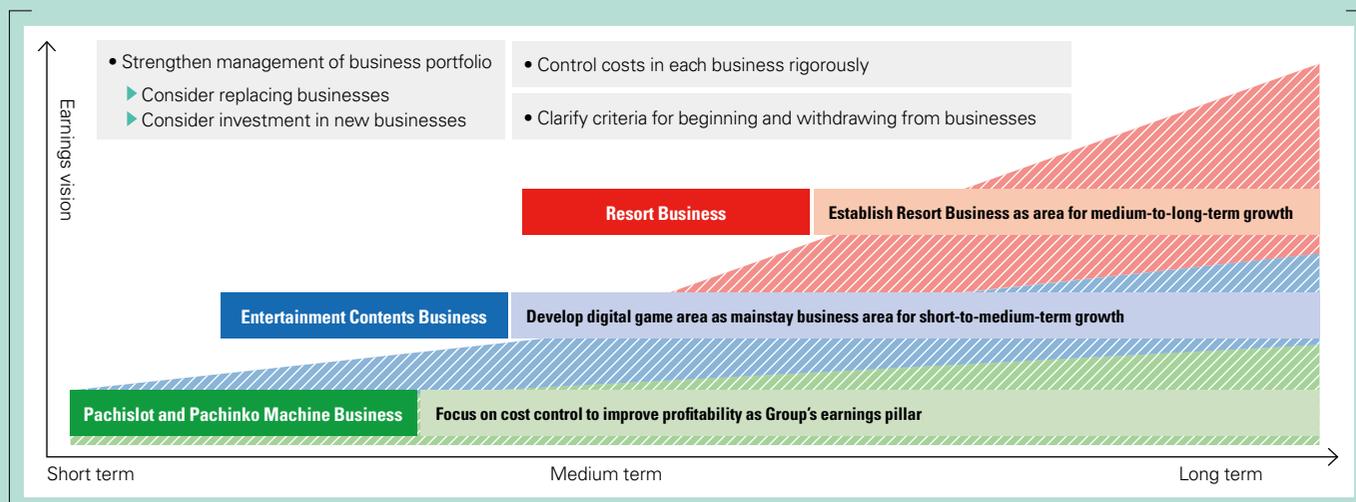
We are advancing initiatives aimed at the eventual establishment of casinos in Japan, even though they have yet to become legalized in the country. However, we have kept risk well within the scope of our resources. Even if we did not realize commercial operations in Japan, we would receive earnings commensurate with our stakes in assets. Although we are investing personnel in preparation for the establishment of integrated resorts, these personnel can be used in many ways, such as in our joint venture in Incheon, South Korea.

(Specific Strategies in the Pachislot and Pachinko Machine Business [▶▶ P.21](#))

(Specific Strategies in the Entertainment Contents Business [▶▶ P.20](#))

(Specific Strategies in the Resort Business [▶▶ P.19](#))

[▶▶ Chart 04](#) **Initiatives Going Forward (From Fiscal 2016)**



## Toward Sustained Shareholder Value Improvement

### Changing the SEGA SAMMY Group without Fail

The Group's basic approach to shareholder value is to enhance corporate value by paying stable cash dividends and by increasing earnings through growth strategies.

Adopting a long-term perspective, we are proceeding with prior investment aimed at achieving sustained development. In particular, if we succeed in participating in the integrated resort business in Japan, we will need to undertake 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 in each fiscal year, targeting a net cash position of ¥150 billion to ¥200 billion.

Regarding returning profits, 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.

(Fiscal 2015 Cash Dividends and Fiscal 2016 Outlook

▶▶ P.36 Shareholder Value)

Enhancement of corporate value through growth strategies will depend upon the accomplishment of the restructuring and initiatives outlined above. Therefore, we intend to move forward with unwavering resolve to meet the expectations of shareholders and other investors. As we do so, we would like to ask for their continued support.

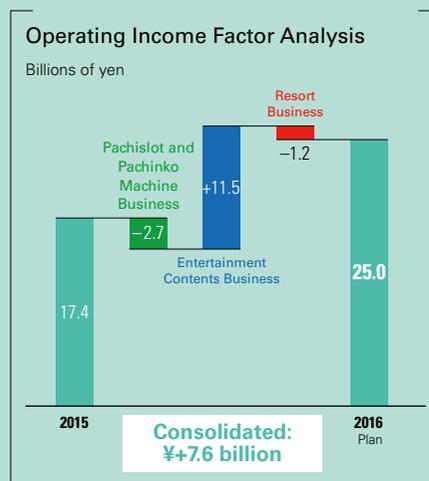
August 2015



Hajime Satomi  
Chairman of the Board and  
Chief Executive Officer  
SEGA SAMMY HOLDINGS INC.

### ▶▶ Chart 05 Fiscal 2016 Plans

Billions of yen	2015	2016 (Plan)	YOY change
Net sales	366.8	420.0	+15%
Pachislot and Pachinko Machine Business	152.1	167.0	+10%
Entertainment Contents Business	199.6	235.0	+18%
Resort Business	14.9	18.0	+21%
Operating income (loss)	17.4	25.0	+44%
Pachislot and Pachinko Machine Business	25.7	23.0	-11%
Entertainment Contents Business	0.0	11.5	—
Resort Business	(2.3)	(3.5)	—
Corporate and eliminations	(6.0)	(6.0)	—
Operating margin	4.7%	6.0%	+1.3pt.
Profit attributable to owners of parent	(11.3)	19.0	—



\* Recognition of net sales has been changed from a net basis to a gross basis and from a shipment basis to a delivery basis from fiscal 2016.

\* Figures for fiscal 2015 reflect the change in accounting policy retrospectively.

# A Message from Senior Managing Director



With a clear vision of the future,  
we will continue taking on challenges.

**Naoya Tsurumi**

Senior Managing Director and Representative Director  
SEGA SAMMY HOLDINGS INC.

## Aggregation of Businesses Related to Integrated Resorts

The Group is highly committed to participating in the integrated resort business in Japan. This commitment motivated us to aggregate the Group's business resources related to the integrated resort business and position it as a medium-to-long-term growth area.

To enable us to take a powerful first step when entering the integrated resort business, we are fully exploiting our resources to accumulate expertise in the development and management of integrated resorts.

For example, a joint venture with the Paradise Group of South Korea, PARADISE SEGASAMMY Co., Ltd., manages and operates *Paradise Casino Incheon*. After establishing this joint venture, we dispatched seven personnel to the company on a long-term basis. These personnel are mastering important duties in such areas as business management, marketing, IT, and accounting, and they are learning about the overall business flow of a casino operator. Moreover, we plan to send additional personnel in fiscal 2016. Also, in the International Business Center area next to Incheon International Airport, PARADISE SEGASAMMY is developing *PARADISE CITY*, which will be South Korea's first full-fledged

integrated resort. Through this project, we intend to acquire expertise in planning, development, and construction.

## No Intention of Using Prior Investment as an Excuse

The Resort Business segment will require prior investment, including expenditures for a range of surveys related to integrated resorts in Japan. However, as the segment begins to play a larger role in the Group, we do not intend to use this prior investment as an excuse for not being profitable. Moving the segment into the black as rapidly as possible is our first priority. With this in mind, we will invest effectively to heighten our customer-attracting ability while addressing the management issues of existing theme parks and resort facilities one at a time. Furthermore, we will pursue new initiatives to heighten our ability to attract customers with the intention of using this ability at integrated resorts in the future.

I will give one example. A spin-off from the former SEGA CORPORATION, SEGA LIVE CREATION Inc. manages the theme park business area, including the indoor theme park *TOKYO JOYPOLIS* and the nature simulation museum *Orbi Yokohama*. The use of the

word "live" in the company's name represents our strategy of creating entirely new forms of entertainment by combining digital content, attractions, and other conventional elements with musical and theatrical performances. If we continue to hone our ability to produce live entertainment, we can apply this ability at domestic integrated resorts in the future.

Furthermore, we will expand our earnings foundations in overseas markets centered on Asia. By focusing on the licensing business for *TOKYO JOYPOLIS* and other facilities, we will develop businesses while curbing risk. We will build win-win relationships in which our operational management know-how helps licensees succeed, while we receive license fees and earn revenues through equipment sales.

Currently, many companies are expressing a desire to enter the integrated resort business in Japan. Accumulated expertise in the development and operational management of integrated resorts is likely to be the decisive factor in operator selection. I am confident that we are ahead of the curve in this respect. To establish an earnings mainstay for the future, we will extend this advantage even further.

## Vision for the Resort Business Segment's Short-, Medium-, and Long-Term Growth



Phoenix Seagaia Resort

**Move into the black by strengthening management capabilities of existing theme parks and resort facilities**



Orbi Yokohama



TOKYO JOYPOLIS



**2017**  
Open *PARADISE CITY* (plan)

**20XX**  
Enter integrated resort business in Japan

# A Message from the President of SEGA Holdings Co., Ltd.



*By continuing to create moving experiences, we will realize corporate growth.*

**Hideki Okamura**

President, Representative Director, and Chief Operating Officer  
SEGA Holdings Co., Ltd.

**Adapting to Change Rapidly**

The SEGA Group’s task is to establish systems that generate profits. In other words, we have to increase the frequency with which we produce hit products—the core of any content business. As part of the recent restructuring effort, we rebuilt and optimized the value chain of each business from the planning and development of contents and services through to marketing and publishing. This has created foundations that expedite management decision making and promote efficient management of organizations. As a result, we are able to produce quality content and services while adapting quickly to rapidly changing conditions.

In addition, reorganization has brought together operating companies that have diverse business models but which have creating outstanding entertainment contents as a common goal. This combination promises to create synergy benefits through increased cooperation between businesses as well as create new businesses.

**Aiming for Corporate Growth**

The SEGA Group is launching initiatives to realize growth.

In contrast to the digital game area’s focus on existing titles in fiscal 2014, we have been rolling out mainstay titles, such as *MONSTER*

*GEAR*, since the beginning of fiscal 2015. Furthermore, we will exploit a powerful marketing support tool, the *Noah Pass* system, to enhance our standing as one the industry’s leading digital game providers.

As for the packaged game software area, we will release new titles centered on mainstay intellectual properties. At the same time, we will improve profitability through reorganization of the North American business, which is a task we need to address.

Regarding the amusement business, although Japan’s amusement center operations market is said to be contracting, it accounted for sales of ¥400 billion in 2013. The market still offers plenty of scope for generating earnings, if we create hit titles consistently. In the amusement machine sales area, as the industry leader we will embark upon a range of initiatives to invigorate the market while offering our richest product lineup of recent years. It will include *Kancolle Arcade* and *The King of Beetles “MUSHIKING”*, the trailblazer of kids’ card games.

The amusement center operations area is securing earnings even in difficult conditions. Net sales of our existing amusement centers improved 0.1% year on year, one of the best performances in the industry. Furthermore, we are taking on formats that incorporate other business categories. One example is the dining

and darts business *Bee*, which we have been operating for some time. Net sales of this business are growing steadily. In April 2015, we opened *KidsBee*, which is themed on “three generations” and includes dining. The new business format has made a promising start. Through such initiatives—by developing and improving formats that incorporate other business categories and rolling them out laterally—we will expand our earnings base.

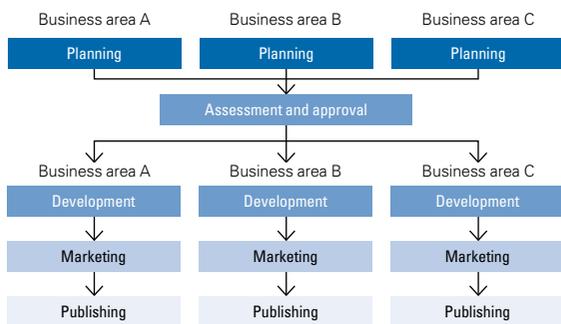
In the toy sales and animation areas, animation production generates steady earnings. Based on these robust foundations, we aim to grow earnings by achieving an appropriate balance between investment in CG animation production and efforts to turn around earnings in the toy sales area.

**Continuing to Create Moving Experiences**

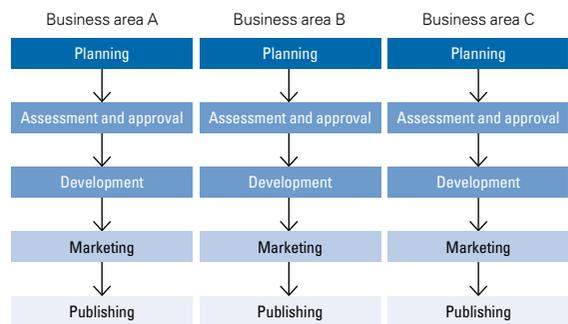
We have set out *continuing to create moving experiences* as the SEGA Group’s mission. All of the group’s personnel are developing businesses with a shared awareness that, rather than simply creating content and services, creating moving experiences for the customers that use them is important. We will continue creating new entertainment and acting as a *Game Changer* in people’s lives.

**Building Optimized Value Chains in Each Business Area and Adapting to Change Rapidly (Conceptual Image)**

**Before**



**After restructuring**



# A Message from the President of Sammy Corporation



## We will remain the pillar of the Group's earnings.

**Shigeru Aoki**

President, Representative Director, and Chief Operating Officer  
Sammy Corporation

### Pachislot and Pachinko Machine Business Not Exempt from Restructuring

The Pachislot and Pachinko Machine Business segment continues to face uncertain conditions. An end to the long-term decline of the player population is still not in sight. Also, the actualization of latent regulatory risk in the fiscal year under review, in this case in relation to pachislot machines, calls for a careful response.

On the other hand, we have had some notable successes. Based on in-house estimates, we claimed the largest share of the pachinko machine market for the period from January through December 2014. I think this is attributable to the fact that strengthening development capabilities by organically linking sales, development, and production finally paid off. Nevertheless, unit sales are by no means satisfactory. Also, one fiscal year's results do not prove competence. We need to repeat our performance.

In the pachinko and pachislot machine market, selling more than 100,000 units of a single title is no longer easy. Meanwhile, upward pressure on the cost of such components as liquid crystal display (LCD) panels and ROMs (read-only memories) is mounting as higher-performance

machines are introduced and the yen depreciates. Moreover, current market conditions make passing on such increases to product prices difficult. Therefore, we see strengthening our profit structure through cost improvement as a pressing task. The most effective way of improving costs is to reuse components. The newly established Reuse Promotion Department will lead the design of product lifecycles—from development through to manufacturing and sales—with reuse as a premise. In this way, we intend to advance reuse in an even more systemic and planned way.

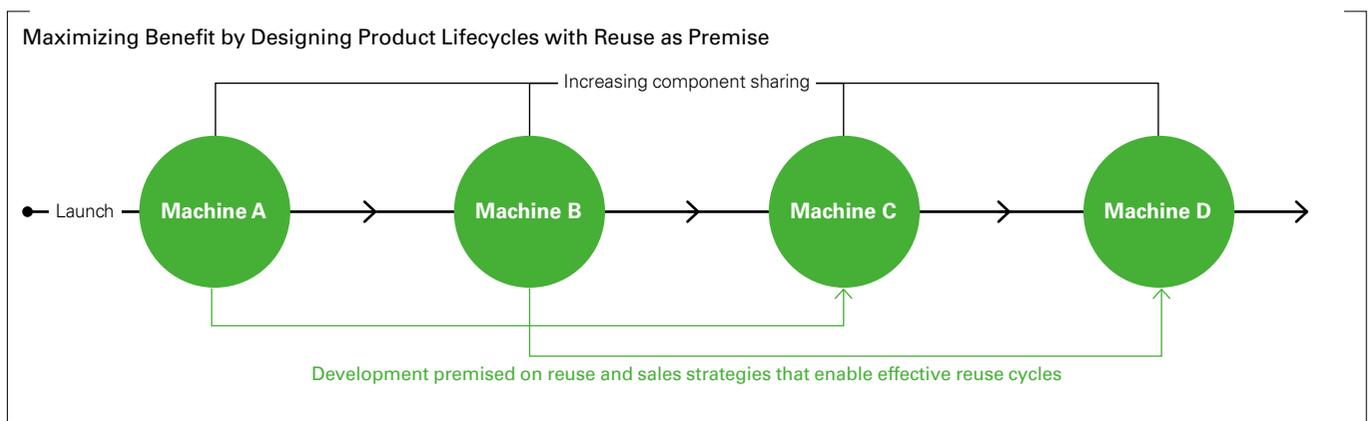
Furthermore, we will reduce total costs by modulating our product portfolio. While differentiating some machines through the incorporation of leading-edge components, we will include machines in the development pipeline that we can develop and manufacture inexpensively for casual players.

The Pachislot and Pachinko Machine Business segment is not exempt from the restructuring that the SEGA SAMMY Group is currently implementing. We are ready to restructure decisively to remain the pillar of the Group's earnings.

### Strengthening Winning Qualities

Halting the decline in the player population calls for long-term, steady efforts not just on the part of the Group but by the industry as a whole. We welcome the self-regulation efforts of industry bodies, and are taking the lead in developing appealing machines that help broaden the player base.

We anticipate fierce competition for survival as the contrast between winners and losers becomes even more pronounced among pachinko and pachislot machine manufacturers. Winners will need powerful intellectual properties and titles as well as expertise in the development of machines that realize high utilization rates—the lifeblood of pachinko and pachislot machines. Furthermore, they will need systems that can manufacture such appealing machines at low cost and excellent sales strategies that maximize unit sales and reuse benefits. We are confident that we meet these requirements. We plan to maximize our advantages to become the No. 1 company in both pachinko and pachislot machines and thereby remain the SEGA SAMMY Group's earnings pillar.



We have

**CHANGED**

**OUR PHILO**

**FOR INNOV**

Discussion  
on the Group's  
**PAST and  
PRESENT**

our business structure continuously but

# PHILOSOPHY REMAINS UNCHANGED

remains unchanged

# | What Makes the SEGA SAMMY Group Tick?

Having launched many industry-first and world-first products, SEGA CORPORATION (currently SEGA Games Co., Ltd.) 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.



Pachislot and pachinko machines

Amusement machines

Amusement centers

Digital games

Theme parks Resorts

Toys Animation

## *Continuing to create moving experiences*

We will market a diverse selection of entertainment products and services that excite customers worldwide.

## 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 capital, human capital, and other management resources are allocated optimally.

### Important Management Resources of the SEGA SAMMY Group

#### Intellectual Capital (Intellectual Properties)

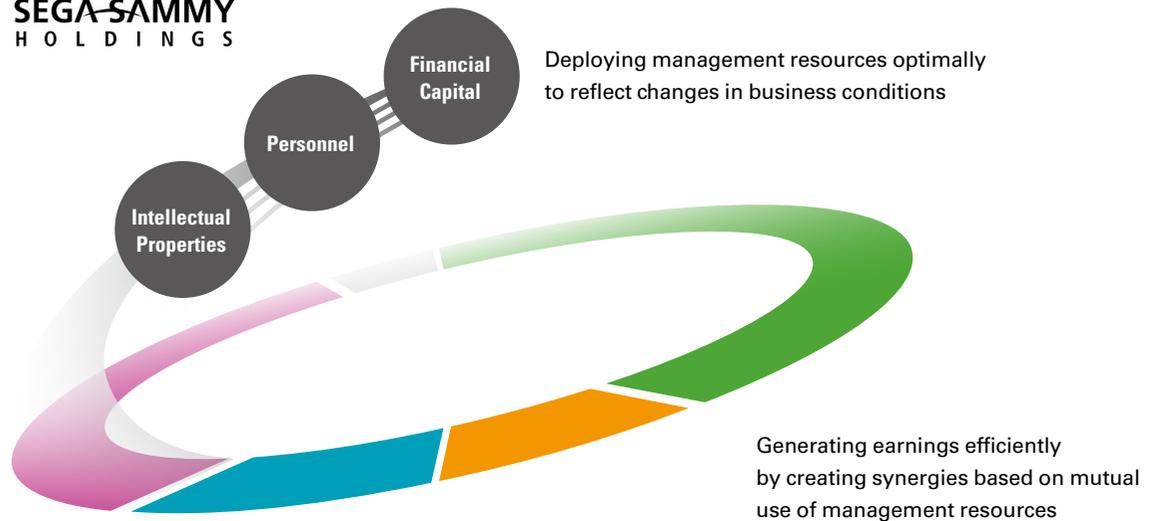
Management resources underpinning sustained growth are intellectual properties that SEGA Holdings Co., Ltd., and Sammy Corporation have accumulated during their long histories, major intellectual properties licensed from third parties, and the expertise to exploit intellectual properties.

#### 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.

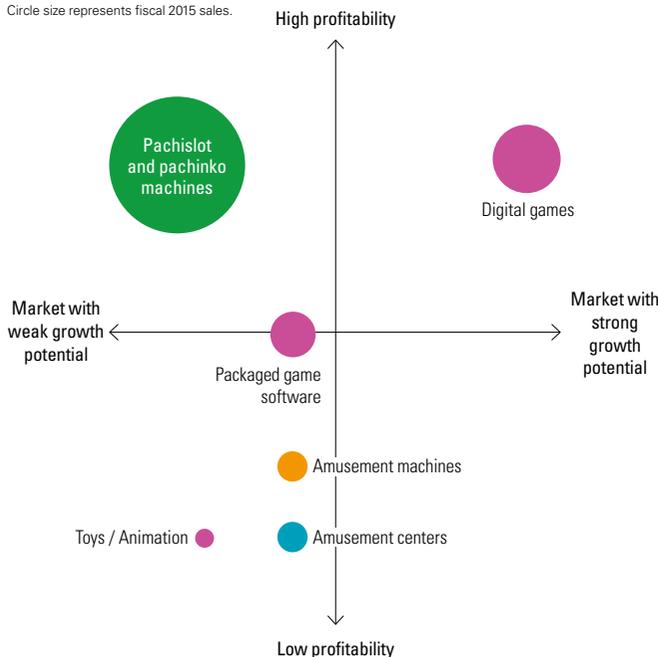
#### Financial Capital

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.

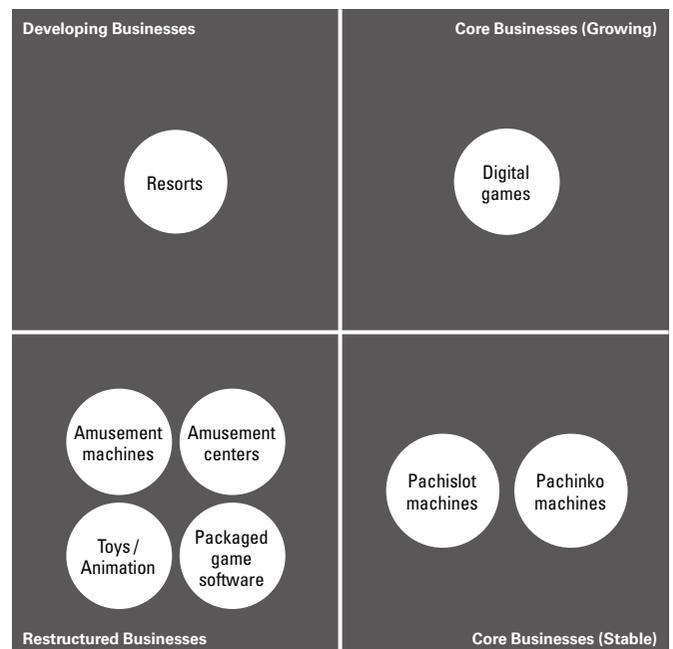


### Portfolio Matrix

Circle size represents fiscal 2015 sales.



### Strategy Matrix



# The SEGA SAMMY Group: The Story So Far

2005

# 477

Number of Amusement  
Centers in Japan

**Amusement Machine  
Sales Business  
Amusement Center Operations**  
Optimizing Amusement  
Center Portfolio (Centers)

2015  
**198**

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.

- Effect of revision of regulations pertaining to Entertainment Establishments Control Law emerges
- Net sales of our existing amusement centers in Japan decrease year on year

2006  
**119.1**

**Operating Income (Loss)**

Billions of yen

- Posts highest-ever earnings
- Brisk sales of pachislot machines
- Kids' card game becomes blockbuster

2005  
**105.0**

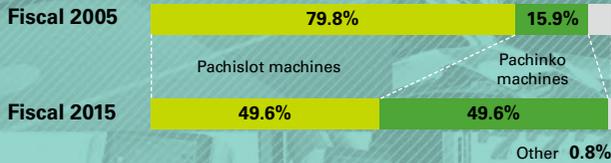
- Management integration

2007  
**76.5**

## Pachislot and Pachinko Machine Business

Shift from Reliance on Pachislot  
Machines to Balanced Portfolio

(Net sales)



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.

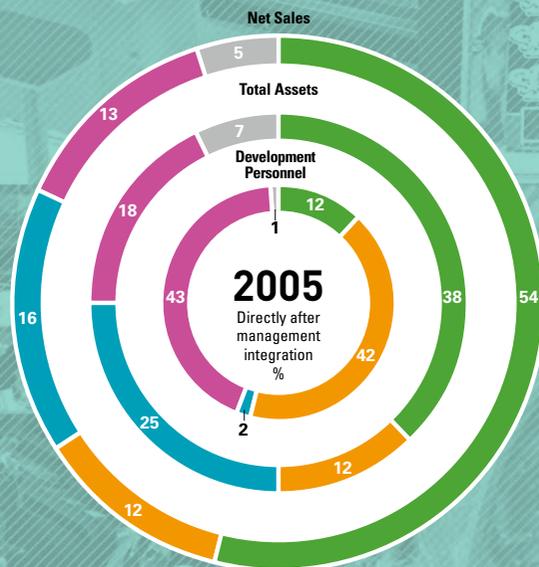
- Pachinko machine unit sales increase

2009  
**8.3**

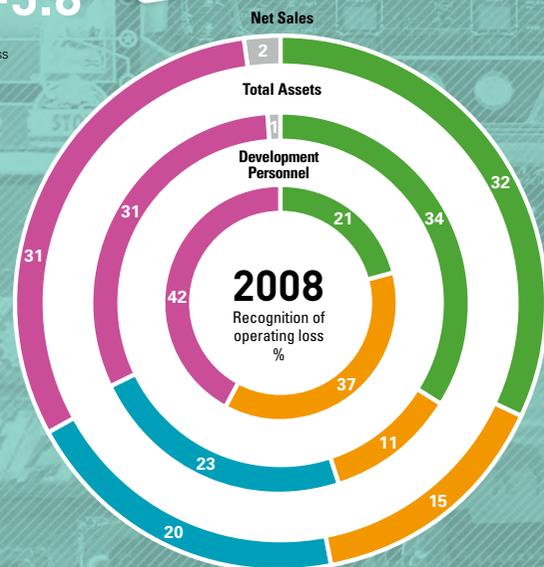
- First operating loss since management integration

## Breakdown of Net Sales, Total Assets, and Development Personnel

2008  
**-5.8**



- Pachislot and Pachinko Machine Business
- Amusement Machine Sales Business
- Amusement Center Operations
- Consumer Business
- Other



## Consumer Business

2005  
**84**

Number of Packaged Game Software Titles (SKU)

2015  
**50**

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.

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

2011 **68.7**      2012 **58.3**

2015  
**44.7**

In the digital game area, we are building our presence steadily thanks to a combination of rich development resources and a team of experts in business model construction.

## Growth of the Digital Game Area (Net sales, Billions of yen)

2014 **38.5**

- Pachislot machine unit sales decrease significantly due to change in model-testing operation methods

2010  
**36.7**

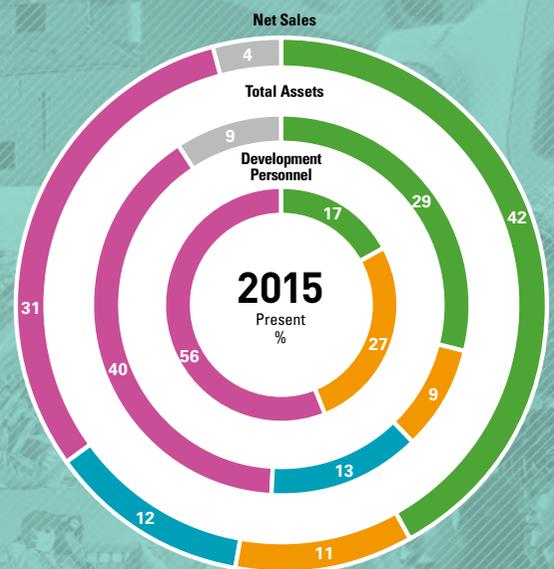
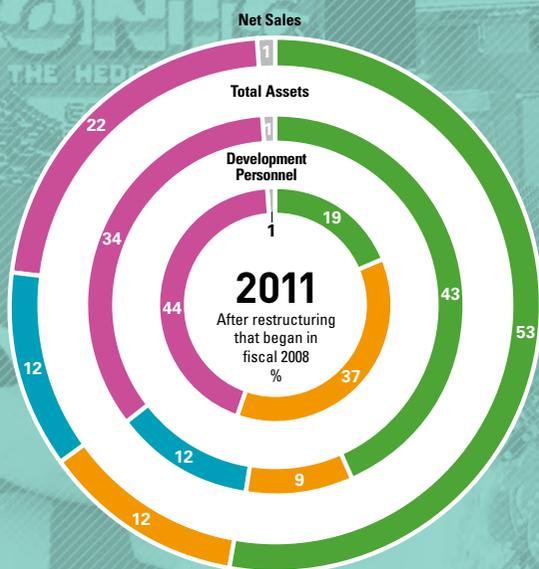
- Operating income trends toward recovery
- Consumer Business segment moves into black

2013  
**29.7**

2013  
**19.0**

- Earnings decrease due to revision of pachislot and pachinko machine sales schedules

2015  
**17.6**

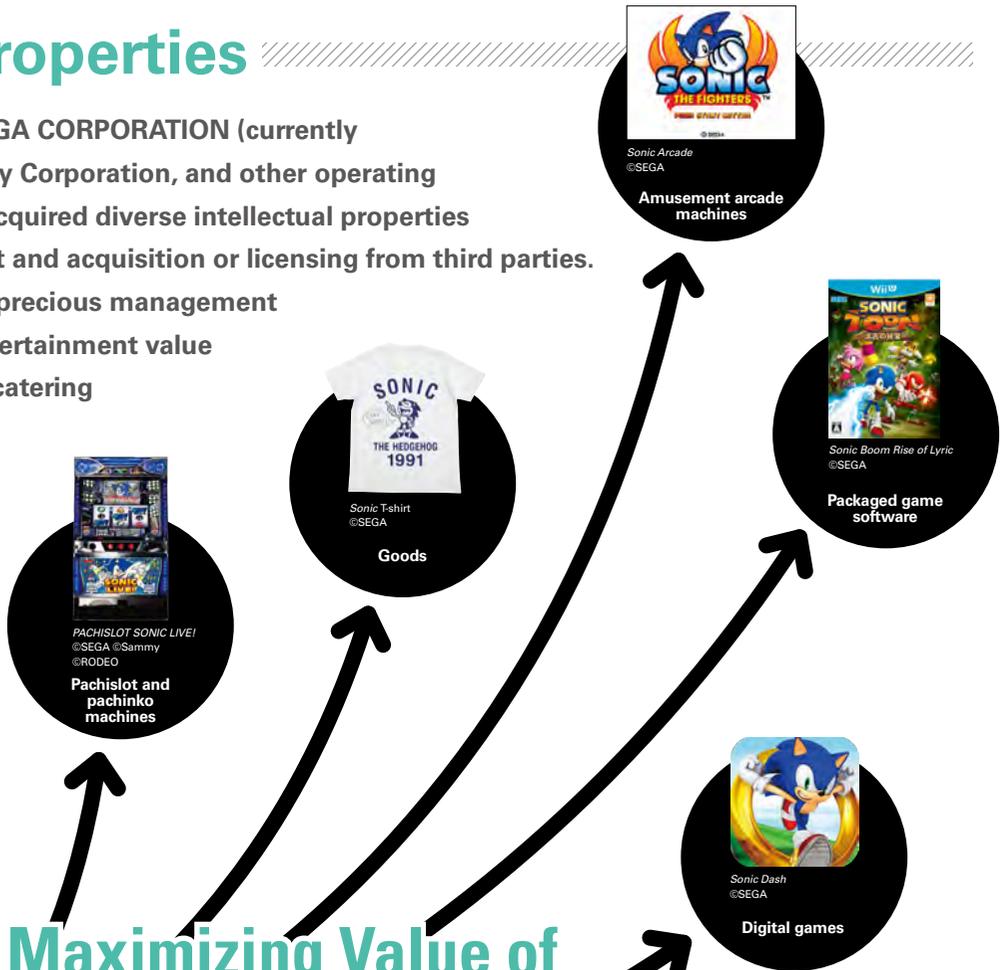


# Management Resources Creating Entertainment Value

## Intellectual Properties

During their long histories, SEGA CORPORATION (currently SEGA Games Co., Ltd.), Sammy Corporation, and other operating companies have created and acquired diverse intellectual properties through in-house development and acquisition or licensing from third parties. The Group ensures that these precious management resources create long-term entertainment value through multifaceted rollouts catering to current needs.

### Sonic the Hedgehog



## Maximizing Value of Intellectual Properties through Multifaceted Rollouts

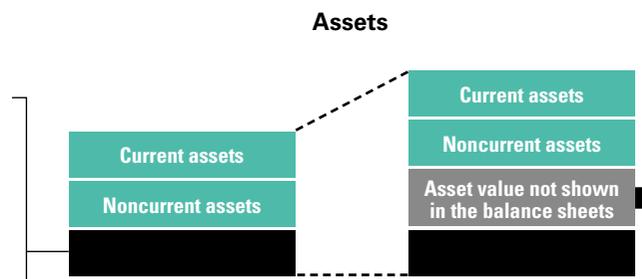
### Sonic the Hedgehog

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.

### Intangible Assets

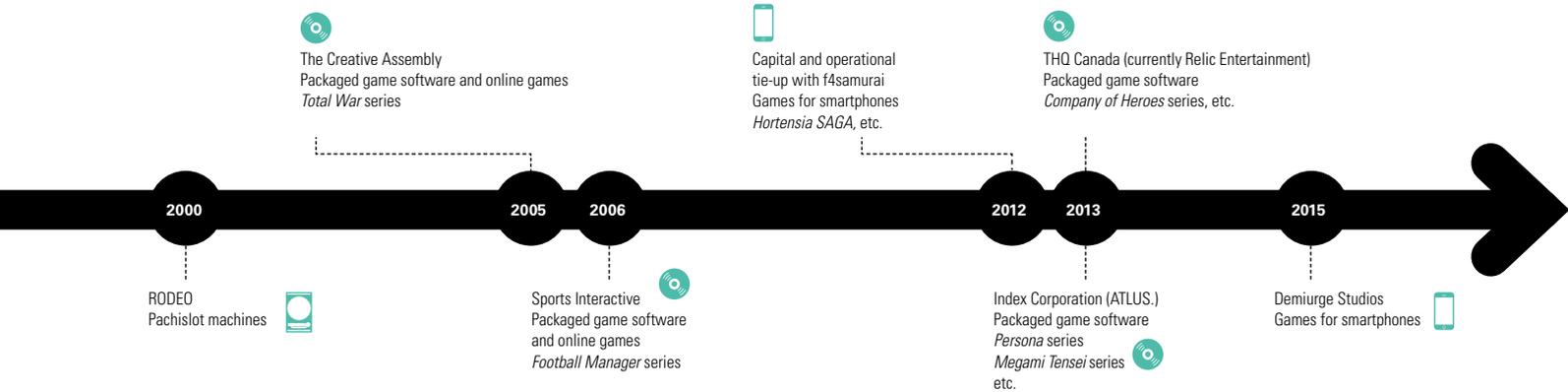
Entertainment companies recognize intellectual properties obtained through the acquisition of companies in investment securities and goodwill. However, they do not recognize intellectual properties they have created in-house or licensed from third parties as assets. This means such intellectual properties are intangible assets that are not recognized in financial statements.

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





### Examples of Intellectual Properties Acquired through M&As



#### Examples of acquired intellectual properties

Intellectual property title	First appearance	Multifaceted rollout				Total editions	Cumulative unit sales / downloads
<i>Megami Tensei</i> series	1987					28	Approx. <b>7.0</b> million units (packaged total)
<i>Persona</i> series	1996					10	Approx. <b>6.2</b> million units (packaged total)
<i>Etrian Odyssey</i> series	2007					5	Approx. <b>1.2</b> million units (packaged total)

#### Examples of intellectual properties developed in-house

Intellectual property title	First appearance	Multifaceted rollout				Total editions	Cumulative unit sales / downloads
<i>Sonic the Hedgehog</i> series	1991						— Approx. <b>335</b> million (units / downloads) (packaged and digital total)
<i>Puyopuyo</i> series	1991*						— Approx. <b>16.0</b> million (units / downloads) (packaged and digital total)
<i>Ryu ga Gotoku</i> series	2005					56	Approx. <b>8.6</b> million (units / downloads) (packaged, digital, and mobile members total)
<i>ALADDIN</i> series	1989					14	Approx. <b>570,000</b> units (pachislot and pachinko machines and amusement arcade machines total)
<i>Juoh</i> series	2001					13	Approx. <b>450,000</b> units (pachislot and pachinko machines and amusement arcade machines total)

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

#### Examples of intellectual properties licensed from third parties

<i>SEGA feat. HATSUNE MIKU Project</i> series	2009						36	Approx. <b>4.5</b> million (units / downloads) (packaged and digital total)
<i>Hokuto No Ken</i> series	2002						27	Approx. <b>2.5</b> million units (pachislot and pachinko machines and amusement arcade machines total)
<i>SOUTEN-NO-KEN</i> series	2009					8	Approx. <b>390,000</b> units (pachislot and pachinko machines and amusement arcade machines total)	

# Human Capital

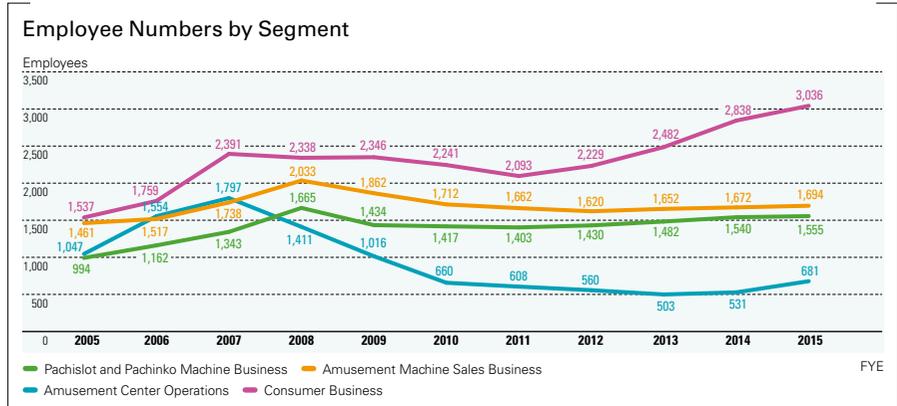
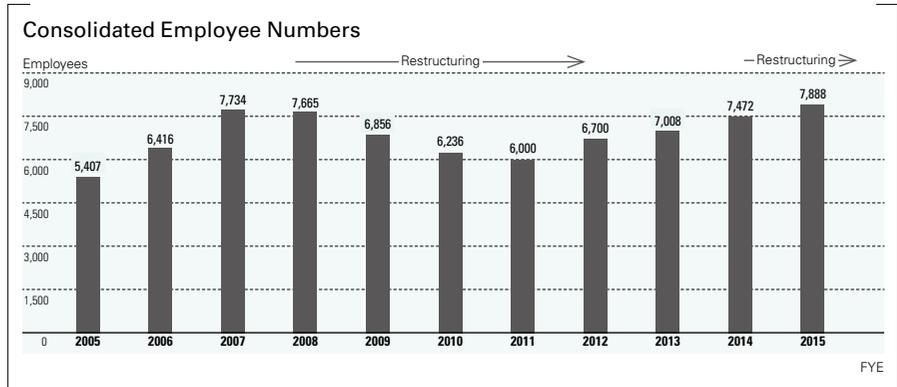
The SEGA SAMMY Group’s personnel are brimming with ideas for tomorrow’s entertainment and have the creativity and drive to make them a reality. We view human capital as our most important management resource for realizing continuous growth. With this in mind, we provide workplaces conducive to heightening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

## Optimization of Personnel Portfolio

Until around fiscal 2007, consolidated employee numbers trended upward as M&As in Japan and overseas added consolidated subsidiaries to the Group. From fiscal 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. Consequently, we have made progress toward rightsizing the Amusement Center Operations segment’s workforce.

From fiscal 2012, however, consolidated employee numbers began trending upward again mainly because the Group included Phoenix Resort Co., Ltd., and THQ Canada Inc. (currently Relic Entertainment Inc.) as subsidiaries, assumed Index Corporation’s businesses, and increased business lines in the digital game area in Japan and overseas. In fiscal 2015, the Group implemented a voluntary retirement program that focused on the Amusement Machine Sales Business segment and the toy sales area. As a result, we have optimized our personnel portfolio and lowered the average age of our personnel.

Due to the Group’s shift toward businesses that promise favorable growth and profitability, development personnel numbers have been declining in the Amusement Machine Sales Business segment while 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 area to the digital game area.



### Toshihiro Nagoshi

CCO (Chief Creative Officer) and Director, consumer—online company  
**SEGA Games Co., Ltd.**

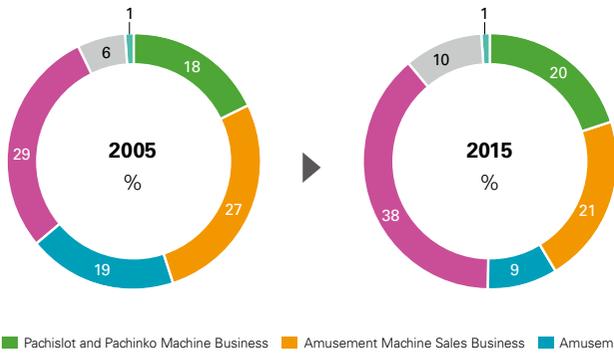
CCO and Director  
**SEGA Interactive Co., Ltd.**

Representative work: *Ryu ga Gotoku* series, *Super Monkey Ball* series, *Daytona USA* series, etc.

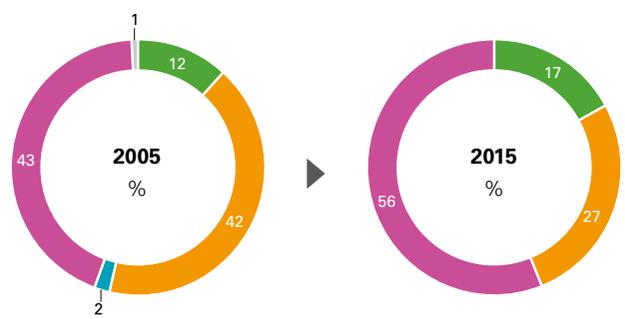


Ryu ga Gotoku 0: Chikai no Basho ©SEGA

### Employee Numbers by Segment



### Development Personnel by Segment



### Employment of Diverse Personnel

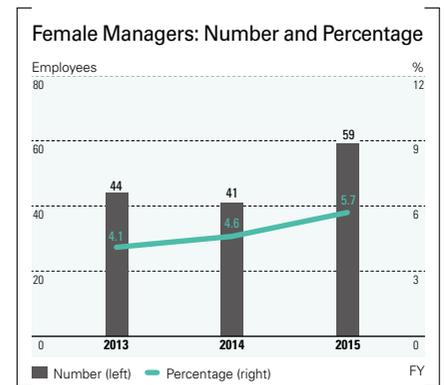
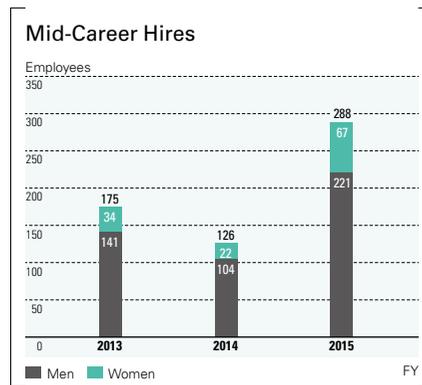
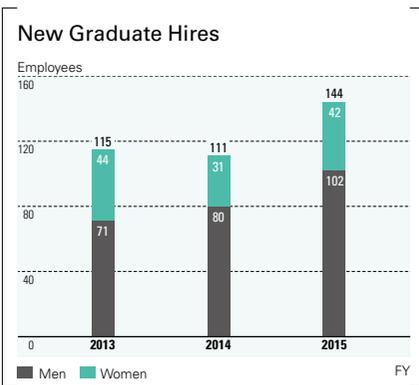
The Group seeks personnel who share its mission and vision and have a strong desire to create new entertainment. Based on the Group's personnel portfolio strategy and in light of their respective employment standards, operating companies employ and assign personnel based on consideration of diversity and appropriately matching the duties of personnel with their abilities and suitability regardless of gender or nationality. In fiscal 2015, the Group as a whole employed 144 new graduates, of whom 42 were women, and 288 mid-career personnel, of whom 67 were women.

### Personnel Development and Utilization

To foster personnel that are able to adapt flexibly and rapidly to volatile business conditions, the SEGA Group develops the abilities and careers of personnel by combining groupwide training with training that reflects the characteristics of specific ranks, positions, and divisions. Through an internal recruiting system and other measures, we enable individual employees to realize their abilities to the fullest and create a corporate culture that promotes independence and encourages personnel to take on challenges.

In adherence with its strategic emphasis on strengthening collaboration among divisions,

Sammy Corporation aims to foster personnel able to conduct duties from a viewpoint of optimizing companywide operations that is based on a grasp of companywide work flows. To this end, the company focuses efforts on job rotation and diverse support for career development. The company provides opportunities for personnel to develop their abilities by offering training programs for each rank of employee. Also, with a view to assignment that encourages the development of specialists, the company has established a self-application system that allows personnel to apply for transfers to different positions.



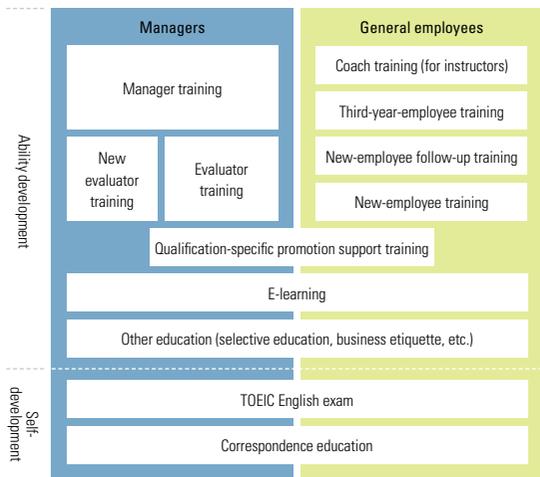
### Satoshi Sakai

Producer  
**SEGA Games Co., Ltd.**

Representative work:  
PHANTASY STAR ONLINE series  
PHANTASY STAR ONLINE 2 series  
Sonic Adventure  
etc.

## Human Capital

### The SEGA Group's Education System



### The Sammy Corporation's Education System

Rank	Target	Training details	Duration
New managers	New managers	New-manager training (management skills, labor management, mental health evaluation)	4 days
Manager candidates	Manager candidates	Training for development of next-generation leaders (enhancing ability to perform duty and solve problems)	2 days
Leaders	Leaders, from their first year	Career training (self-evaluation and reconfirmation of personal strengths)	1 day
		Leadership awareness training (strengthening ability to influence others)	2 days
Mid-level employees	Mid-level employees, from their third year	Career training (self-evaluation and reconfirmation of personal strengths)	1 day
		Logical thinking training (strengthening problem-solving and negotiation skills)	2 days
Mid-level employees	Mid-level employees, in their first year	Training to increase ability to lead junior employees (enhancing listening skills and learning guidance methods)	3 days
New employees	New employees, in their third year	Presentation training (strengthening presentation technique and persuasiveness)	3 days
	New employees, after their first year	New-employee follow-up training	3 days
	New employees, when they join the company	New-employee training and value-chain training	5 months

### Collaboration and Personnel Exchanges among Organizations

Aiming to create Group synergies, the Group is promoting personnel exchanges and transfers that transcend the boundaries of operating companies and organizations. For example, organic collaboration among the digital game, packaged game software, and the amusement machine sales areas of the Entertainment Contents Business segment enables flexible mutual use of development resources without personnel transfers or organizational changes. Furthermore, with *creating entertainment content* as a com-mon theme, this segment is realizing mutual use of content and development resources and creating new businesses through information sharing, personnel exchanges, and other forms of organizational collaboration.

in accordance with the principles related to human rights set out in the United Nations Global Compact, to which the Group became a signatory in 2014. Moreover, we aim to respect human rights not only in relation to employees but in our value chain as a whole.

### Health Management and Occupational Safety

We help employees maintain and improve their health by providing regular health checkups and assisting them to receive complete physicals. In addition, we have established a health management center. We also keep employees informed by posting a range of health and safety information on a website for employees. Furthermore, we have adopted a systemic approach to reducing working hours and encouraging employees to take vacations. Other

initiatives include childcare and family care leave systems as well as information sharing to help employees return to work without difficulty.

SEGA SAMMY HOLDINGS INC., SEGA Holdings Co., Ltd., Sammy Corporation, other main companies, and the entire Group share information about occupational health and safety issues and revise respective systems continuously in light of them.

Furthermore, to ensure employees realize their abilities to the fullest, the Group encourages employees in all Group companies to balance work and family commitments. In the Group's nine main companies, more employees are taking childcare leave, a higher percentage of them are returning to work, and more male employees are taking childcare leave.

### Respect for Human Rights

The SEGA SAMMY Group manages the employment, assignment, and support of personnel

#### Yasuhiro Nishiyama

Creative Officer, Chief of No. 1 Research and Development Division  
SEGA Interactive Co., Ltd.

Representative work:  
Wonderland Wars series  
CHAIN CHRONICLE series  
CODE OF JOKER series  
etc.



SENGOKU-TAISEN ©SEGA



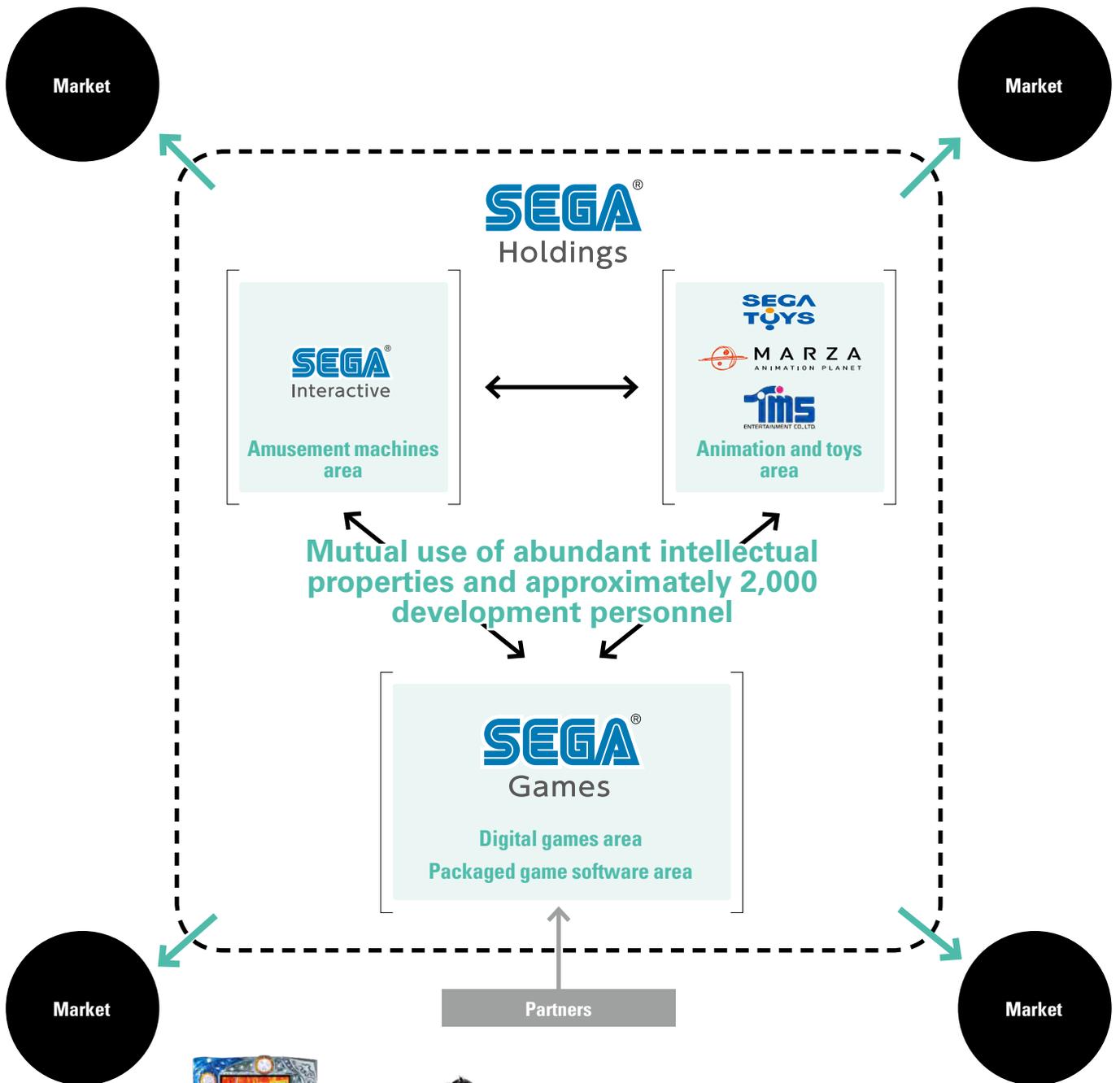
CODE OF JOKER ©SEGA



Puyopuyo!! Quest Arcade ©SEGA

**Collaboration among Organizations of the Entertainment Contents Business Segment**

Our intellectual properties and our approximately 2,000 development personnel are the industry's largest development resource. Our ability to realize mutual use of this resource without organizational changes or personnel transfers is a major strength.



Pachislot Hokuto No Ken tomo  
©Buronson & Tetsuo Hara/NSP1983 ©NSP2007, Approved No.YFC-128 ©Sammy

CR Hokuto No Ken 6 Ken-oh  
©Buronson & Tetsuo Hara/NSP1983 ©NSP2007, Approved No.YDA-108 ©Sammy



**Ayumu Hoshino**

Director, Division Manager,  
Research and Development Division

**Sammy Corporation**

Representative work:  
Hokuto No Ken series  
ALADDIN series  
Juoh series

# Financial Capital

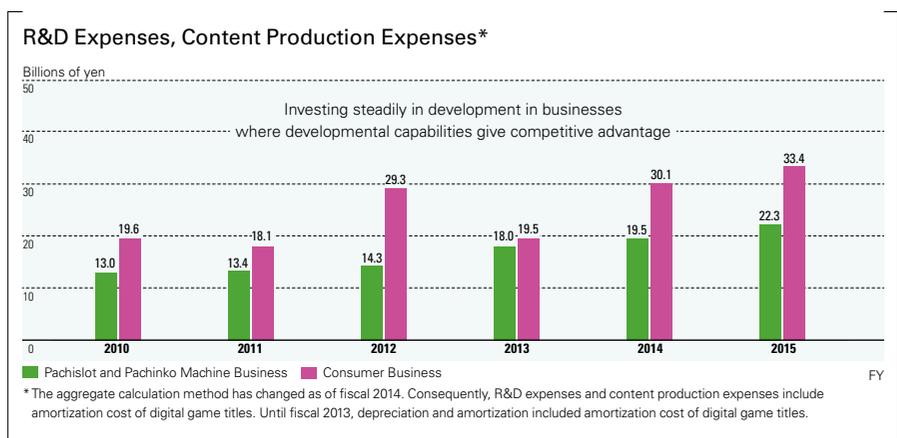
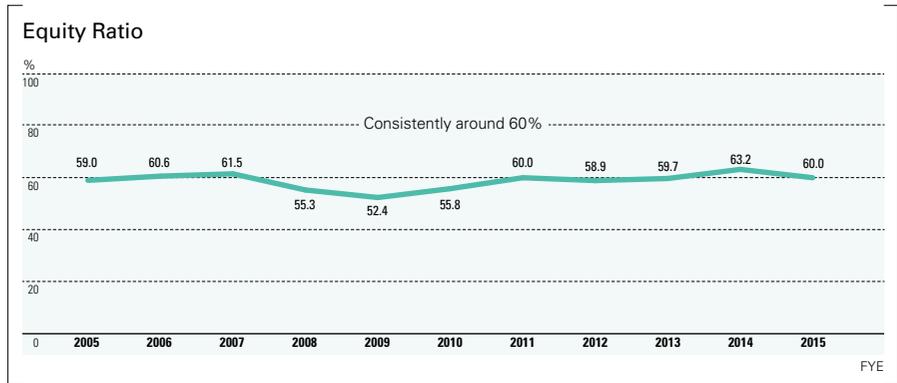
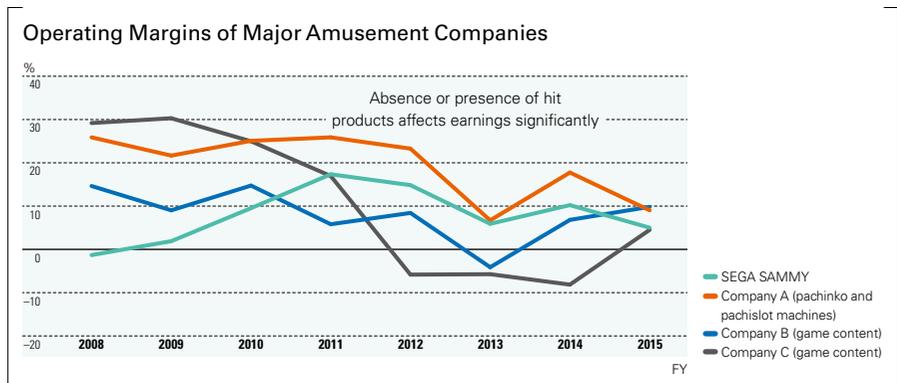
The SEGA SAMMY Group is engaged in hit-product businesses in which hit products, or their absence, affect earnings significantly. The Group is able to prosper in this environment because its financial stability and the Pachislot and Pachinko Machine Business segment’s cash generation capabilities enable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

## Financial Capital Enabling Continuous Investment in Development

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 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. Whether or not manufacturers have the development capabilities to continuously provide machines that incorporate leading-edge components as well as the financial strength to invest in such development is determining winners and losers. Similarly, amid the online game content market’s fierce competition, the winners are those companies with the intellectual properties, development personnel, and funds to release content in a wide range of genres continuously and rapidly. Furthermore, business conditions in the amusement machine sales and amusement center operations areas have entered a phase in which only companies with the strength to market hit products continuously will enjoy the benefit of being industry survivors.

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 remains consistently around 60%, the Group is able to absorb the development risk inherent in being a producer of hit products. Having the highly profitable Pachislot and Pachinko Machine Business segment in its business portfolio makes the Group very unusual in the digital game area, where many competitors operate exclusively in the area.



\* 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.

### Foundations Enabling Entry into the Integrated Resort Business

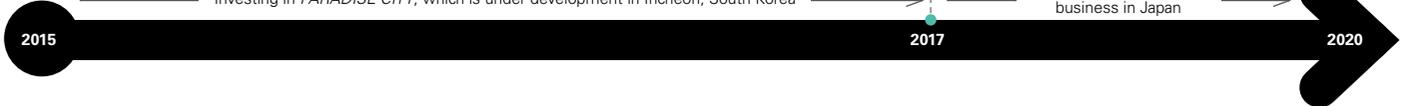
We are preparing to establish an integrated resort business, which we envision as becoming a future earnings mainstay for us. As well as prior investment to accumulate expertise, entry into this area will require large-scale investment. Financial stability provides foundations that enable the Group to make such forward-looking investments.

● Planning to open *PARADISE CITY* in 2017



Investing in *PARADISE CITY*, which is under development in Incheon, South Korea

Invest in integrated resort business in Japan



**Assuming act promoting integrated resorts is enacted**



**Within 2 years**

Passing of integrated resort enforcement act  
Establishing of designated tourism resort areas



● **Selecting of operators**  
Implementing investment

Total Assets Breakdown in Fiscal 2015 and Directly after Management Integration

#### Consumer Business

**Main additions**

- Increase in human capital and intellectual properties for the digital game area
- Acquisition of Index Corporation
- Acquisition of Sports Interactive
- Acquisition of The Creative Assembly

**Main deduction**

- Downsizing of North American and European businesses

#### Amusement Center Operations

**Main addition**

- Development of new-concept facilities, including *Orbi Yokohama*

**Main deduction**

- Closure or sale of amusement centers with low profitability or potential (from 477 amusement centers to 198)

#### Pachislot and Pachinko Machine Business

**Main additions**

- Construction of new Kawagoe Factory
- Acquisition of TAIYO ELEC and GINZA

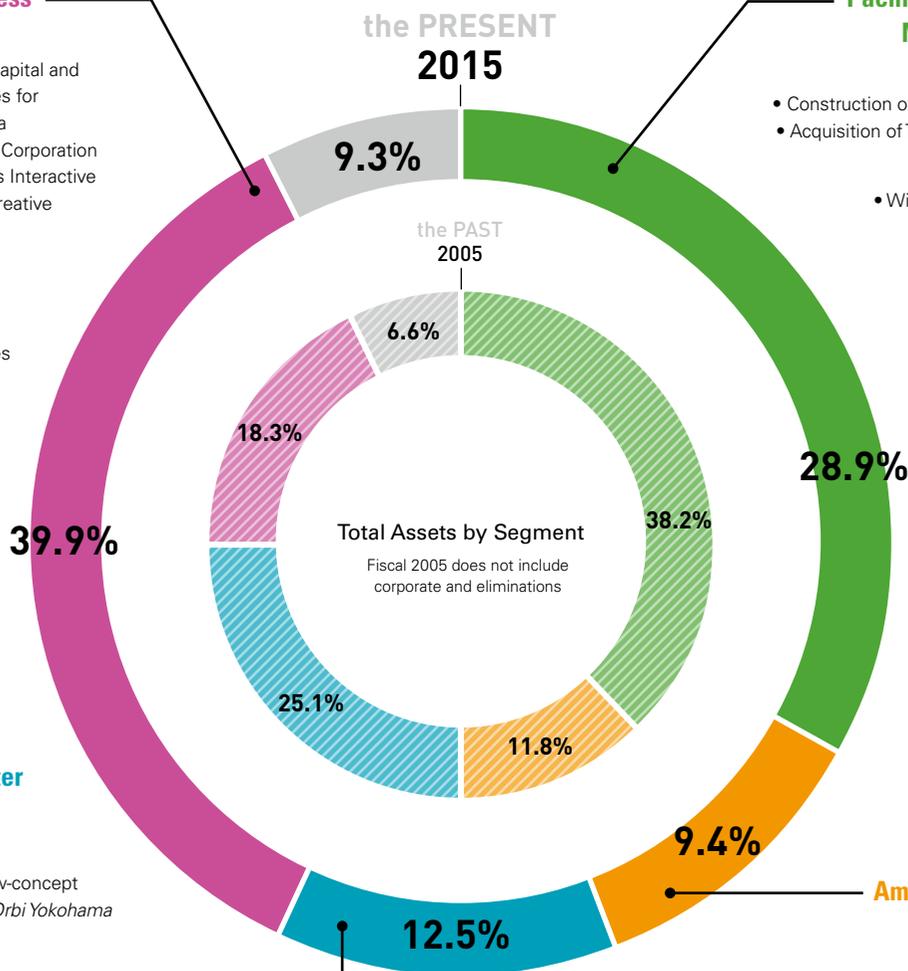
**Main deduction**

- Withdrawal from pachislot and pachinko machine peripheral business

#### Amusement Machine Sales Business

**Main deduction**

- Decrease in development of large products



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

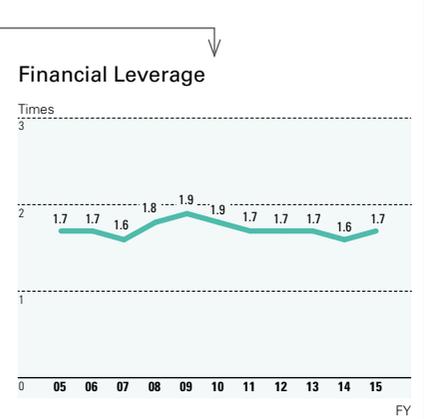
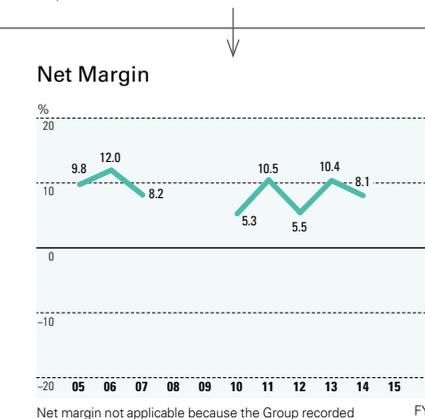
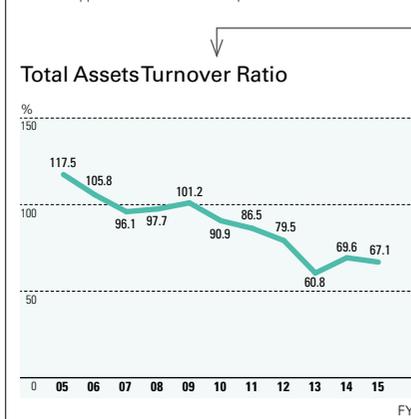
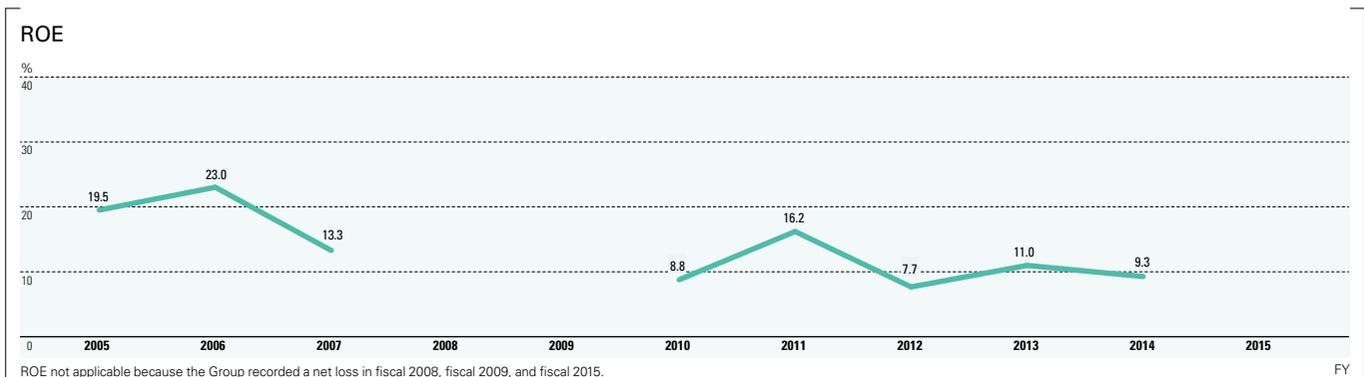
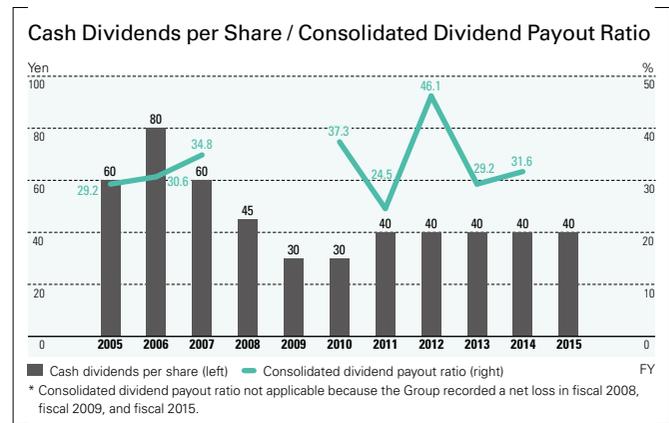
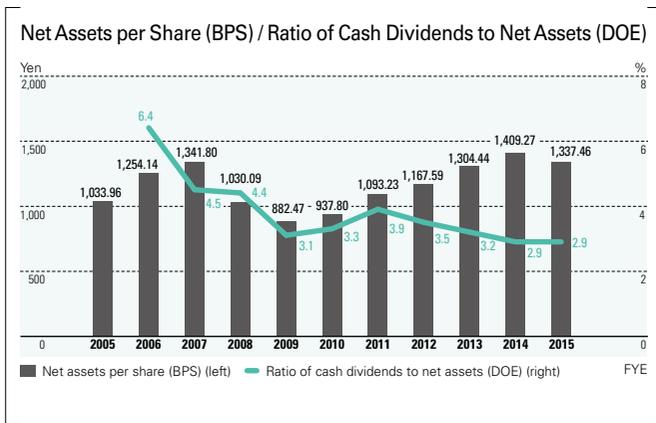
We will meet shareholders' expectations by heightening shareholder value through the provision of stable returns to shareholders and the steady implementation of growth strategies.

## 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.

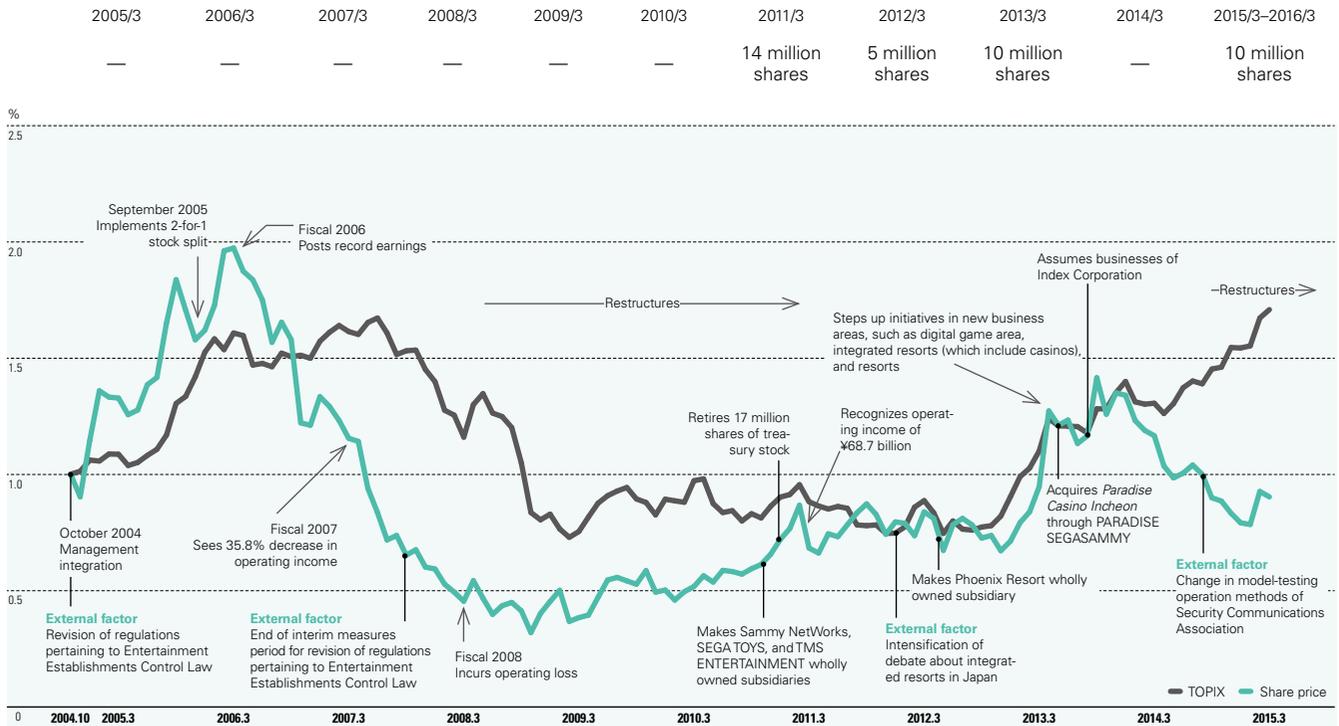
For fiscal 2015, we paid cash dividends of ¥40.00 per share. As a result, the ratio of cash dividends to net assets was 2.9%.

For fiscal 2016, ending March 31, 2016, 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.

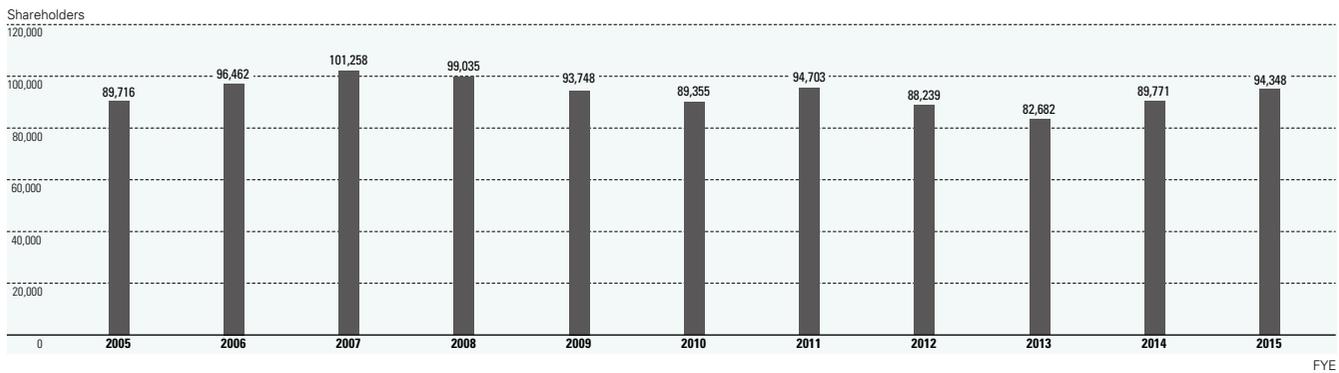


Comparison of Share Price and Tokyo Stock Price Index (TOPIX) (Comparison based on monthly closing prices and value of 1 for October 2004 management integration)

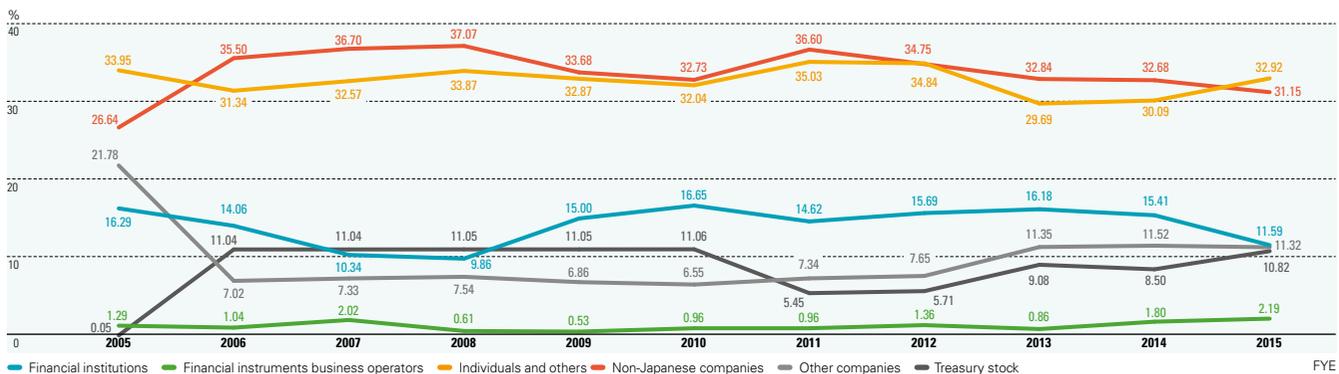
Acquires Shares of Treasury Stock



Number of Shareholders



Breakdown of Shareholders (By Percentage of Shares Held)



We aim to be

a GAME  
C H A

# MANAGER

in conventional markets

Discussion  
on the Group's  
**FUTURE**

# SEGA SAMMY Group in the Big Picture

## Entertainment Universe

Domestic home video game market size

(consoles and software)

¥368.5 billion (2014)

Source: Famitsu Game White Paper 2015

### Main competitors

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

Domestic online game content market size

¥823.9 billion (2014)

Source: Famitsu Game White Paper 2015

### Main competitors

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

## Amusement Center Operations

Market size

¥456.4 billion (2013)

Source: JAJA, Amusement Industry Survey 2013

### Main competitors

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

## Consumer Business

Domestic game market size

¥1,192.4 billion (2014)

## Amusement Machine Sales Business

Market size

¥175.0 billion (2013)

Source: JAJA, Amusement Industry Survey 2013

### Main competitors

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

## Pachislot and Pachinko Machine Business

Market size

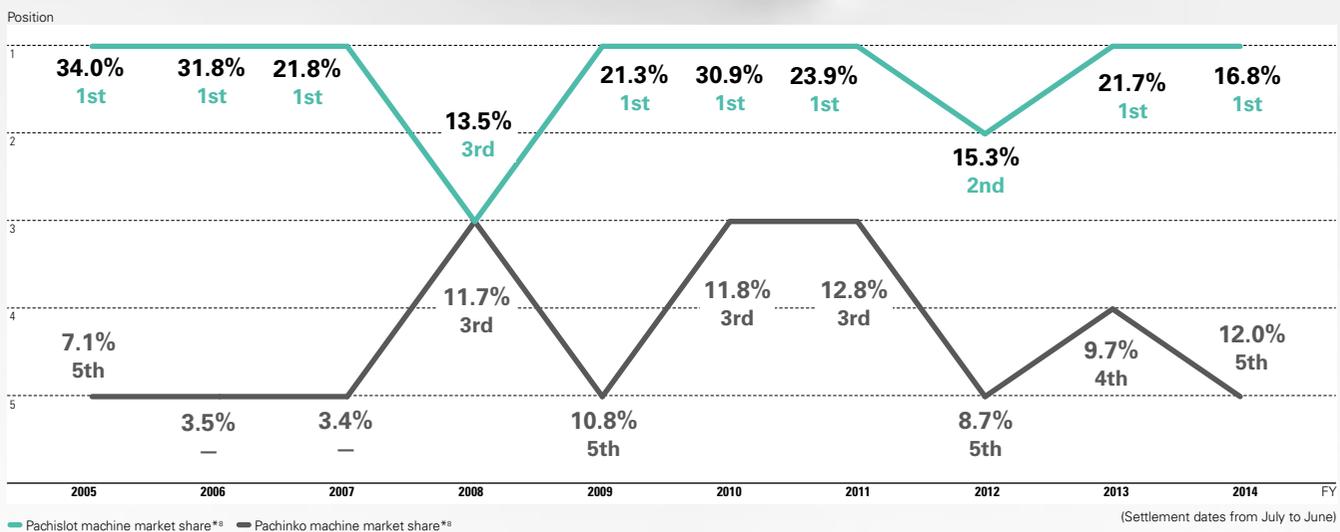
¥1,069.3 billion (2014)

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



## Peer Group Comparison Data

	Billions of yen
<b>Net Sales*<sup>1</sup></b>	
BANDAI NAMCO	565.4
Nintendo	549.7
<b>SEGA SAMMY</b>	<b>354.9</b>
KONAMI	218.1
Heiwa	198.6
SQUARE ENIX	167.8
SANKYO	146.5
CAPCOM	64.2

	%
<b>ROE*<sup>1</sup></b>	
Heiwa	17.2
BANDAI NAMCO	13.2
CAPCOM	9.8
SQUARE ENIX	7.0
KONAMI* <sup>3</sup>	4.1
Nintendo	3.7
SANKYO	2.2
<b>SEGA SAMMY*<sup>4</sup></b>	<b>—</b>

	Billions of yen
<b>Amusement Center Operation Sales*<sup>1</sup></b>	
ROUND ONE	83.9
BANDAI NAMCO	55.5
AEON Fantasy	46.6
<b>SEGA SAMMY</b>	<b>41.4</b>
SQUARE ENIX* <sup>6</sup>	40.7
ADORES* <sup>7</sup>	15.1
CAPCOM	9.2
KOEI TECMO	1.5

	Billions of yen
<b>Operating Income*<sup>1</sup></b>	
BANDAI NAMCO	56.3
Heiwa	42.8
Nintendo	24.7
<b>SEGA SAMMY</b>	<b>17.6</b>
SQUARE ENIX	16.4
KONAMI	14.4
SANKYO	13.2
CAPCOM	10.5

	%
<b>ROA*<sup>1,2</sup></b>	
BANDAI NAMCO	14.0
CAPCOM	11.0
Heiwa	9.5
SQUARE ENIX	7.9
Nintendo	5.3
KONAMI* <sup>3</sup>	4.9
SANKYO	3.4
<b>SEGA SAMMY</b>	<b>3.2</b>

	Millions of units
<b>Unit Sales of Home Video Game Software (Global)*<sup>1</sup></b>	
BANDAI NAMCO	21.68
SQUARE ENIX	17.96
CAPCOM	13.00
<b>SEGA SAMMY</b>	<b>12.30</b>
KOEI TECMO	7.04

	%
<b>Operating Margin*<sup>1</sup></b>	
Heiwa	21.6
CAPCOM	16.5
BANDAI NAMCO	10.0
SQUARE ENIX	9.8
SANKYO	9.0
KONAMI	6.6
<b>SEGA SAMMY</b>	<b>5.0</b>
Nintendo	4.5

	Billions of yen
<b>Market Capitalization*<sup>5</sup></b>	
Nintendo	2,503.9
BANDAI NAMCO	519.0
<b>SEGA SAMMY</b>	<b>466.9</b>
SANKYO	383.0
KONAMI	322.8
SQUARE ENIX	314.4
Heiwa	235.4
CAPCOM	161.7

	Billions of yen
<b>Net Sales of Amusement Machines*<sup>1</sup></b>	
BANDAI NAMCO	72.1
<b>SEGA SAMMY</b>	<b>39.6</b>
CAPCOM	7.5

Note: The above is intended to give an idea of the Group's position in the industry and only covers companies for which information can be obtained from published documents, such as listed companies.

Because there are unlisted companies that do not disclose information, this is not a completely accurate industry ranking.

\*1 Respective companies' most recent settlement data. Source: Respective companies' published documents

\*2 ROA = Ordinary income ÷ Total assets

\*3 U.S. GAAP: ROE = Net income ÷ Total shareholders' equity; ROA = Income before income taxes and equity in net income of affiliated company ÷ Total assets

\*4 ROE has not been included because an ordinary loss was recognized for fiscal 2015.

\*5 Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 31, 2015.

\*6 "Amusement" including amusement centers and amusement arcade machines

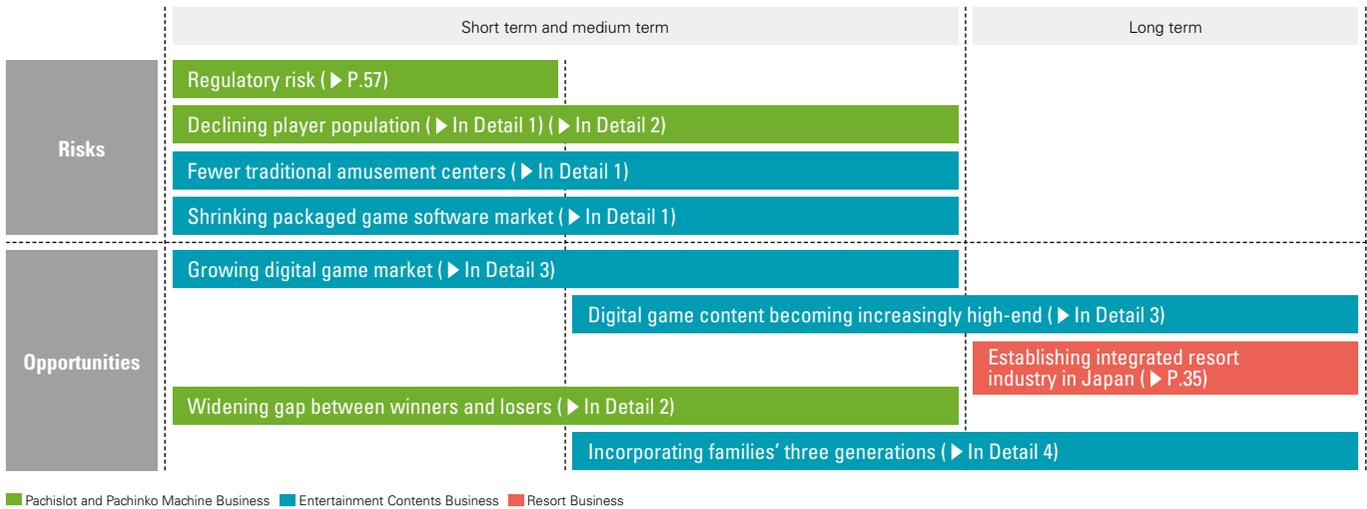
\*7 Amusement Center Operations

\*8 Source: Yano Research Institute Ltd.

# Risks and Opportunities

The SEGA SAMMY Group has businesses across a broad range of entertainment areas. Because the business characteristics, competitive conditions, and related laws and regulations differ, each business area has unique risks and opportunities. This section explains the risks and opportunities that are particularly important for the Group as it implements business restructuring and advances medium-to-long-term strategies.

## Principal Short-, Medium-, and Long-Term Risks and Changes in Conditions that Are Viewed as Opportunities



## Environment, Society, and Governance (ESG) Risks that are Viewed as Priority Issues

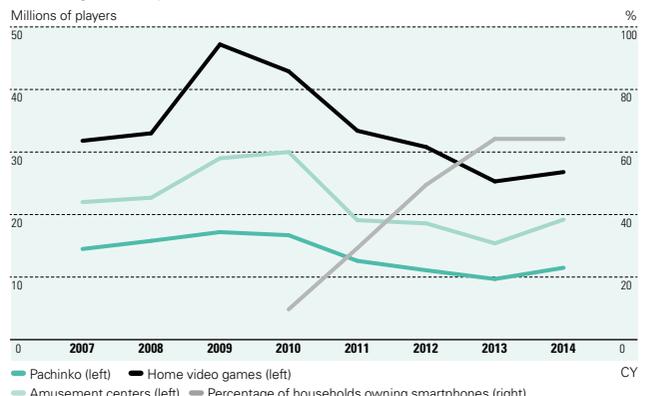
Pachislot and Pachinko Machine Business	Entertainment Contents Business	Resort Business
[Environmental risks] <ul style="list-style-type: none"> <li>Raw material procurement</li> <li>Waste treatment</li> </ul> [Society risks] <ul style="list-style-type: none"> <li>Addiction problem</li> <li>Worsening of image due to corruption</li> </ul> (▶ P.57)	[Environmental risk] <ul style="list-style-type: none"> <li>Chemicals management</li> </ul> [Society risks] <ul style="list-style-type: none"> <li>Formation of healthy market</li> <li>Supply chain measures</li> </ul> (▶ P.64)	[Society risk] <ul style="list-style-type: none"> <li>Facility safety (▶ P.65)</li> </ul>

In Detail  
**1**

### Decreasing Patronage of Existing Entertainment

Having become national pastimes, pachinko, home video games, and amusement centers have seen a downward trend in player numbers since 2010. This decrease reflects the young generation's diversifying ways of spending leisure time as smartphones have become increasingly popular. In the entertainment industry, competition to attract players is transcending industry boundaries.

Player Numbers and Percentage of Households Owning Smartphones



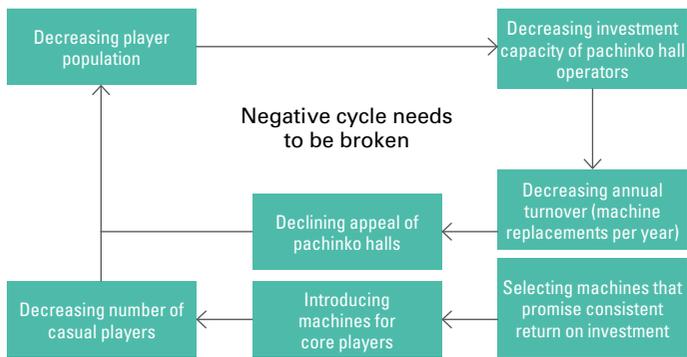
Sources: White Paper on Leisure Industry 2015, Japan Productivity Center, for pachinko, home video games, and amusement centers, and Communications Usage Trend Survey, Ministry of Internal Affairs and Communications, for percentage of households owning smartphones

In Detail

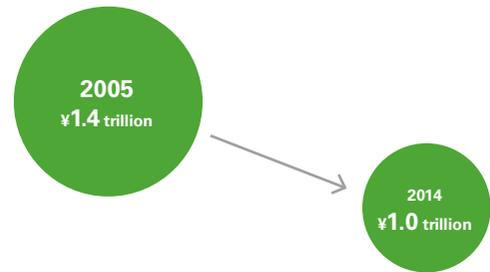
## 2

### Emerging Oligopoly in the Pachinko and Pachislot Machine Market as Player Population Decreases

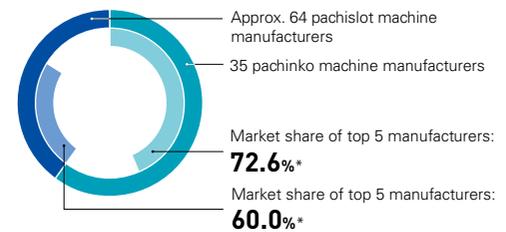
A long-term decline in the pachinko and pachislot player population has reduced pachinko hall operators' investment capacity, encouraging a bias in demand toward pachinko and pachislot machine manufacturers with intellectual properties and machines able to provide reliable returns on investment. Having learned a lesson from the reduction in players that followed the introduction of machines designed to generate rapid return on investment, the industry is focusing on the development of machines offering new gameplay that a wide range of players can enjoy.



#### Shrinking Pachinko and Pachislot Machine Market



#### Emerging Oligopoly of Leading Manufacturers



Source: Yano Research Institute Ltd.  
\* Fiscal 2014 (settlement dates from July to June)

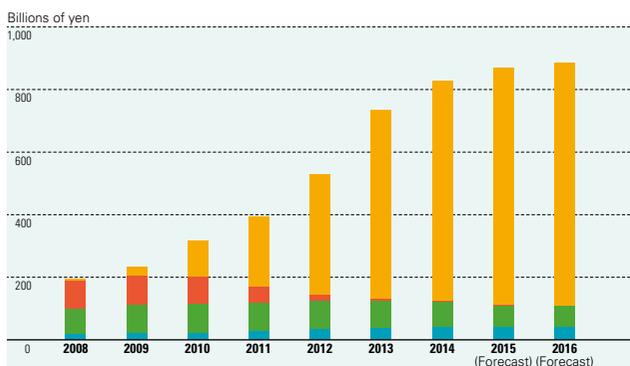
In Detail

## 3

### Growth Softening and Content Becoming Increasingly High-End in Digital Game Area

Smartphone apps have spurred phenomenal growth in online games. In particular, business models based on free-to-play (F2P) games for smartphones have made it easier for players to participate, thereby widening the range of players covered. The growth of digital games is expected to soften steadily. At the same time, the emergence of high-performance smart devices is likely to encourage the development of increasingly high-end game apps. Consequently, the ability to develop absorbing apps with high-quality graphics will be a key factor in winning out against competitors.

#### Japan's Market for Online Game Content



Source: Famitsu Game White Paper 2015

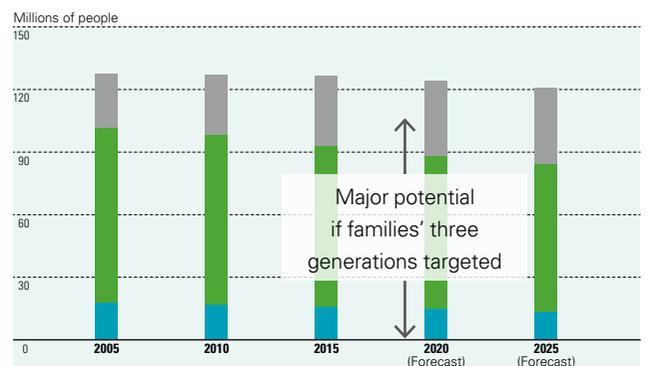
In Detail

## 4

### Families' Three Generations Becoming a Significant Potential Market

The decline in the player populations of the amusement center and amusement machine sales markets continues unabated. Looking beyond traditional markets, however, families and the "three generations" represent large potential markets.

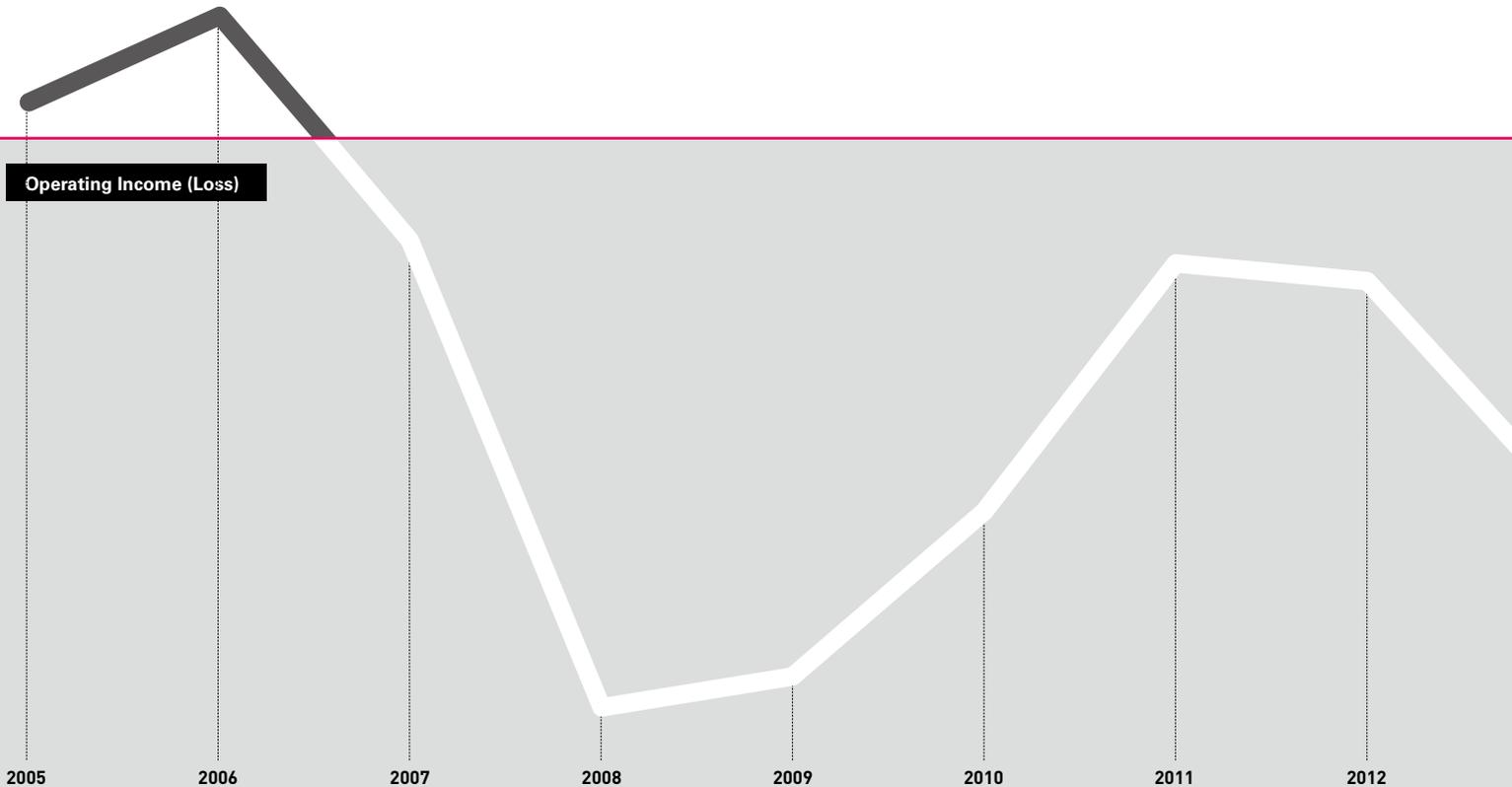
#### Estimated Population



Source: National tax survey and population projection, Ministry of Internal Affairs and Communications

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

Based on the strengthened profit structure established through restructuring of the Group—implemented through the end of fiscal 2015—we will continue restructuring and return to a growth trajectory. Furthermore, we will heighten profitability of our business portfolio by making new investments and replacing businesses with a view to realizing operating income of between ¥50 billion and ¥70 billion in the medium term. Looking beyond the establishment of integrated resorts as a business and a mainstay of long-term growth, we have set our sights on restoring operating income to the ¥100 billion level that was reached directly after management integration.

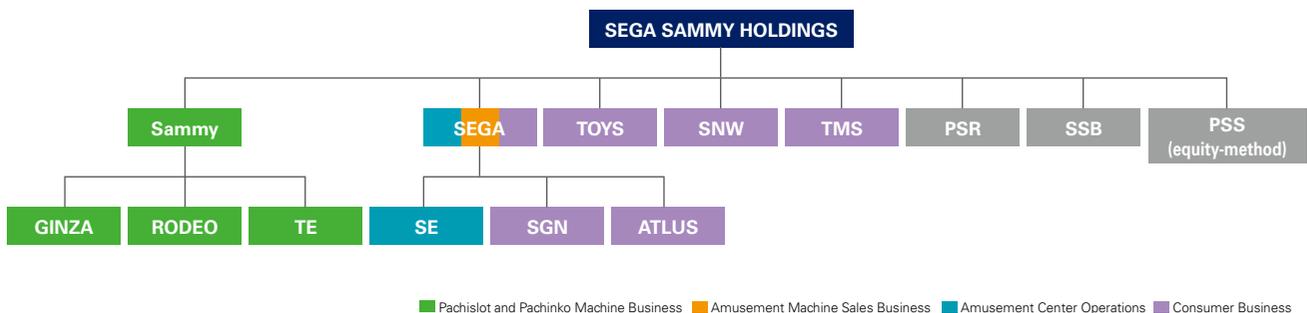


## Group Reorganization

### Changed from Five to Three Business Segments

We have reorganized our businesses into three business segments to establish a system that expedites decision making, increases efficiency where functions overlap, and enables appropriate deployment of management resources. Furthermore, we sought to adapt to changes in business conditions and heighten management efficiency.

Major Group Companies and Business Areas (until March 31, 2015)



Measures Going Forward

**Strengthen management of business portfolio**

- ▶ Consider replacing businesses
- ▶ Consider investment in new businesses

**Control costs in each business rigorously**

**Clarify criteria for beginning and withdrawing from businesses**

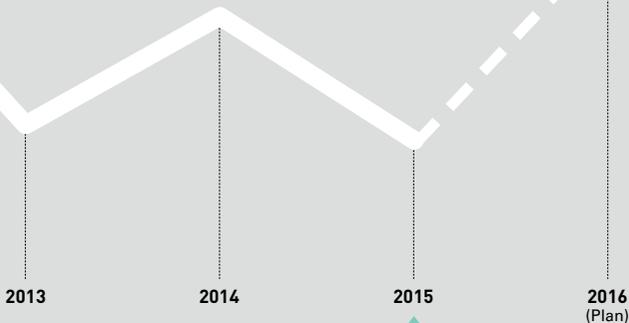
**Operating income level directly after management integration**

**¥100 billion**

**Cost reduction benefits included in fiscal 2016 target**

(Versus fiscal 2015)

**Approx. ¥6 billion**



**Resort Business**  
Establish Resort Business segment **as area for medium-to-long-term growth**

**Entertainment Contents Business**  
Develop digital game area **as a mainstay business area for a short-to-medium-term growth area**

**Pachislot and Pachinko Machine Business**  
Focus on cost control to improve improfitability **as Group's earnings pillar**

Abbreviations of Group company names

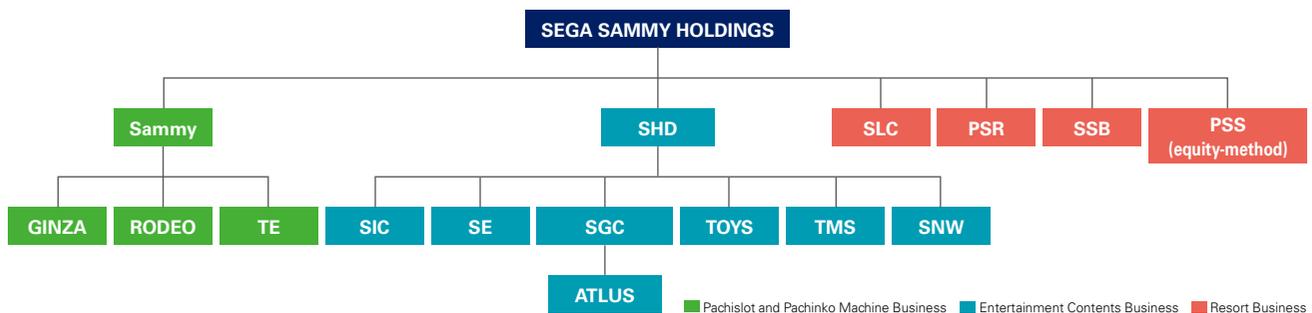
PSR: Phoenix Resort Co., Ltd.  
PSS: PARADISE SEGASAMMY Co., Ltd. (equity-method affiliate)  
SE: SEGA ENTERTAINMENT CO., LTD.

SGN: SEGA Networks, Ltd. (now SEGA Games Co., Ltd.)  
SNW: Sammy NetWorks Co., Ltd.  
SSB: SEGA SAMMY BUSAN INC.  
TE: TAIYO ELEC Co., Ltd.

TMS: TMS ENTERTAINMENT CO., LTD.  
TOYS: SEGA TOYS CO., LTD.  
SLC: SEGA LIVE CREATION Inc. (established April 1)

SIC: SEGA Interactive Co., Ltd. (established April 1)  
SGC: SEGA Games Co., Ltd. (company name changed April 1)  
SHD: SEGA Holdings Co., Ltd. (established April 1)

**Major Group Companies and Business Areas (from April 1, 2015)**



# BE A GAME CHANGER

## The New SEGA Group's Growth Strategy

The new SEGA Group will be a *Game Changer* for the industry and society as it sustains growth by building innovative business models and creating moving experiences.



**Haruki Satomi**

President, Representative Director, and Chief  
Executive Officer of SEGA Games Co., Ltd.

### Mobilization of the New SEGA Group //

#### **Aiming for Sustained, Stable Earnings Growth**

At the core of the digital game area in the Entertainment Contents Business segment is SEGA Games Co., Ltd. SEGA Games has a company system in which the SEGA Networks Company is responsible for games for smart devices, while the Consumer Online Business Company manages PC games and home video games. The aim of this system is to enable economies of scale, for example through efficient asset use, and accelerate decision making by having separate companies each with a chief operating officer.

In the game business, whether or not a company can create hit titles affects its earnings significantly. Such potential fluctuation makes preparing medium-to-long-term strategies and investment plans problematic and could become a cause for concern among shareholders and other investors. As I did in the former SEGA Networks, Ltd., I will establish a business model that accumulates multiple hit titles to realize sustained, stable earnings growth in SEGA Games.

## Realization of Competitive Advantages in the Digital Game Area

### Making the “High-End” Era the SEGA Era

The former SEGA CORPORATION divested the main capabilities of its network businesses to establish SEGA Networks, Ltd. (now the SEGA Networks Company), in July 2012. Since then, the company has been driving growth in the digital game area and become a leading contributor of revenues and earnings in the SEGA Group.

The SEGA Group and its partner companies in Japan and overseas account for more than 10 studios, which are simultaneously advancing development and conducting operational management of titles. Through these studios, we are building one of the industry’s most extensive and diverse product lineups. At the same time, the SEGA Networks Company centrally manages title marketing through a team that specializes in building optimal business models and designing effective marketing strategies. With experience in a range of industries, team members have garnered expertise in title lineup composition, operational management of titles, marketing, public relations, and operational infrastructure. This combination of rich development resources and a team that specializes in building optimal business models enables us to be one of the industry’s most consistent producers of hit products and generate stable earnings.

From a longer-term perspective, we enjoy major advantages. In Japan, although the market growth is gradual, competitive conditions are changing. In its early stages, the digital game market focused on casual games. The resulting low entry barrier led to a market in which large numbers of companies competed fiercely. Since then, as smart devices have evolved with remarkable speed, apps have become increasingly high-end, offering higher-resolution graphics and more complex, multilayered worlds. As only certain companies can meet the development and marketing costs that high-end apps require, an oligopoly of leading companies has become more pronounced in recent years. Testifying to this trend, the growth of companies with the

highest sales is outpacing market growth. In 2015, the monthly sales of the top three titles rose from 2012’s level of between ¥50 million and ¥100 million to more than ¥2 billion. Anticipating this trend, we have focused efforts on the high-end area consistently. We believe that, eventually, the trend will lead to the creation of digital games with the same quality as home video games. Therefore, when the market reaches this stage, digital game development will resemble home video game development—requiring the concentrated efforts of numerous personnel over long periods. We are certain that the expertise in large-scale development that the SEGA Group has accumulated over many years will be a major advantage. Another competitive advantage is our long-standing competence in raising cost-effectiveness. For example, as development costs rise we will shift development offshore to regions with lower personnel expenses or share game engines.

iOS versions: **First-tier group**  
Consistently around 8 titles in top 50

Android™ versions: **Second-tier group**  
Consistently around 6 titles in top 50

One of the industry’s most consistent creators of hit products



Puyopuyo!! Quest  
©SEGA



Sen-no-kaizoku  
©SEGA



CHAIN CHRONICLE –  
Kizuna no Shintaiiku  
©SEGA



Ange Vierge  
©SEGA / Ange Project



Hortensia SAGA  
©SEGA / f4samurai



MONSTER GEAR  
©SEGA

To market

All business functions, including responsibility for lineup composition and title management, consolidated in the SEGA Networks Company

Approx. 400 personnel  
Team specializing in building business models

Marketing, title management, analysis, system infrastructure, etc.

Industry-leading development resources

Approx. 2,000 development personnel

- Digital games
- Amusement arcade machines
- Packaged game software
- Online games

Growth Strategy of SEGA Networks Company

Launching a Full-Fledged Effort to Become One of the World's Top Three Digital Game Companies

SEGA Networks Company's goal is to become one of the world's top three digital game companies. The key to achieving this goal is creating "medium hit" products steadily. Companies cannot create major hit products at will. However, steadily generating "medium hit" products heightens the probability of a hit product. In aiming for a place on the podium in the global market, making headway in overseas markets is extremely important. Accordingly, we intend to grow SEGA Networks Company's overseas sales as a percentage of net sales from fiscal 2015's 10% to 50% as soon as possible.

In fiscal 2016, we expect to boost the SEGA SAMMY Group's sales in the entire digital game area 58% year on year. As well as contributions from numerous existing titles, the marketing of approximately 20 new titles—including mainstay titles that we decided not to release as scheduled in fiscal 2015 and whose quality we have been heightening rigorously—will support this significant growth. We are rolling out a series of highly appealing titles packed with features that we view as critical to success in the current market: multiplayer compatibility, a greater sense of real action enabled by operability and user interface advances, and intellectual properties that create immersive worlds.

Released in April 2015, the orthodox role-playing game (RPG) *Hortensia SAGA* has grown into the largest guild-vs-guild\* title in history, with more than 100,000 players participating in the game daily. Furthermore, despite reaching 2 million downloads less than a month after its May release, newer hunting action RPG *MONSTER GEAR* continues to surpass growth targets significantly. Further, the title portfolio is expanding steadily as the number of mainstay titles increases, with, for example, the ocean adventure battle game *Sen No Kaizoku* released in August making a favorable start.

\* Games in which large numbers of players form groups and compete against each other

Overseas, the United States and Europe market and Asia's rapidly growing market each account for sales of about ¥1 trillion. In particular, we view traditional Chinese character areas such as Taiwan, Hong Kong, and Macau as extremely promising markets, partly because of their strong affinity with Japanese culture.

Our strategies fall under two broad categories: those for the United

States and Europe and those for Asia. In Asia, rolling out domestic titles is comparatively easy because of the region's greater cultural affinity with Japan. However, the United States and Europe call for a different approach that involves adapting titles to suit Western culture. For each region, optimal operational management of titles and business models is different. Therefore, while sharing management resources, independent business management systems in each market will pursue independent strategies. To prepare for implementation of this approach, we made an all-out effort in fiscal 2015.

As part of preparations, we acquired or took stakes in four studios. In the United States, we made Demiurge Studios, Inc., a wholly owned subsidiary. This studio's representative titles include *Marvel Puzzle Quest*, which is a fixture at the upper end of sales rankings. In another U.S. investment, when a group of individuals boasting impressive development track records at major companies and expertise in free-to-play (F2P) business models established Ignited Artists, Inc., we took a stake in it. As for Europe, we invested in Space Ape, Inc., the parent company of Space Ape Games (UK) Ltd.

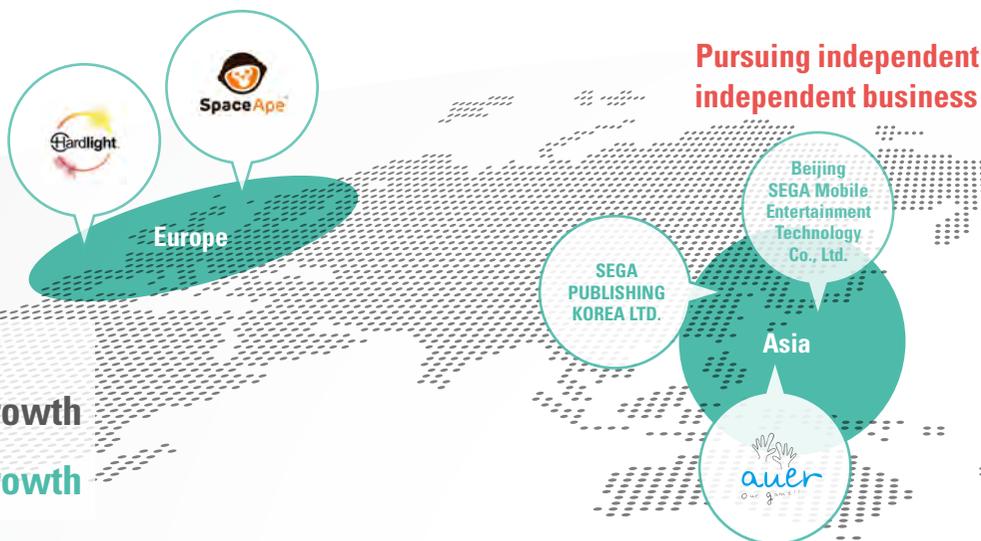
In Asia, we concluded a capital and operational tie-up with Auer Media & Entertainment Corp. of Taiwan. This company increases our options, particularly in areas that use traditional Chinese characters. Specifically, we can undertake conventional licensing out, have Chinese or Korean companies localize titles for areas that use traditional Chinese characters, or distribute titles under our own brands.

Based on local development capabilities that now include four new studios, in fiscal 2016 SEGA Networks Company will triple the size of its development pipeline at a stroke by implementing four main strategies: (1) Have local studios develop, distribute, and conduct management for local markets, (2) Distribute and manage apps from Japan overseas, (3) Have overseas studios localize, distribute, and manage titles produced in Japan, and (4) License out to local partner companies and delegate publishing to them. Through these strategies, we aim to lift sales dramatically, achieving year-on-year increases of 256% in the United States and Europe and 463% in Asia.

SEGA Networks Company's Sales Targets



Overseas Sales Target



Pursuing independent independent business

## Noah Pass Reciprocal-Customer-Sending System for Apps

### Opening Up Limitless Possibilities—A Reciprocal-Customer-Sending System Focused on Games

The *Noah Pass* system enables apps to send customers to each other and thereby increases marketing efficiency and reduces costs. The system is expanding rapidly.

When the service began in August 2013, 15 companies participated. By May 2015, 100 companies were using it. Over roughly the same period, total users have risen from around 20 million to more than 100 million. Thanks to this momentum, the number of titles available through the service is approaching 500. As of May 2015, monthly active users\* had jumped 126% year on year, to 11.19 million. By amplifying hit products extremely effectively, the *Noah Pass* system's features are supporting the rapid expansion of a business area centered on games. These features include (1) free participation, (2) an open environment without strategic restrictions, and (3) the reduced cost of attracting customers and higher charge rates and continuation rates.

The *Noah Pass* system facilitates business-to-business sharing. Industries and companies provide each other with such capabilities as billing services and portal services, which they would not otherwise have. Aiming to evolve business-to-business sharing, we have begun providing a series of high-value-added services beyond reciprocal customer sending among apps. One such service is *Dashboard*.

As the size of the market nears maturity, efficient marketing is becoming difficult. *Dashboard* combines analysis results and unique reports derived from the *Noah Pass* system's huge volume of traffic as well as analysis data from such tie-up partners as Metaps Inc. and Datasection Inc.

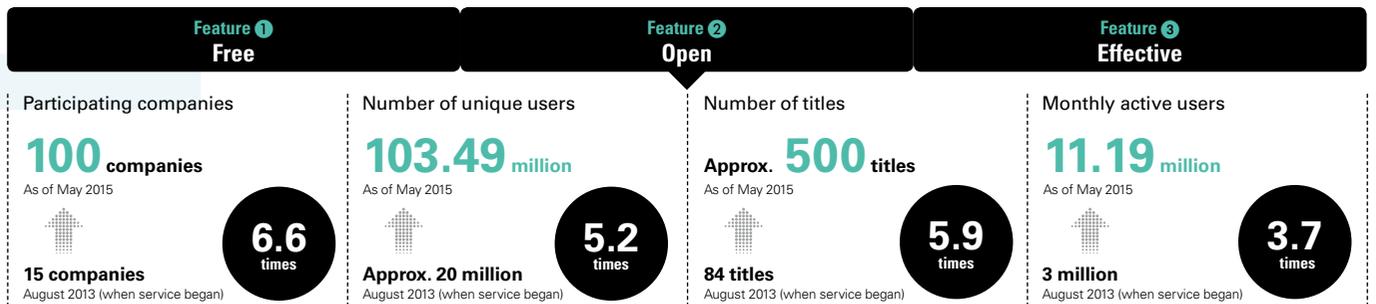
These new capabilities provide powerful marketing support to companies participating in the *Noah Pass* system.

Tie-ups among companies from a range of different industries are accelerating. One example is the reciprocal sending of 200,000 customers between an app and the manga (comic) *Koi to Uso*, included in *MangaBox*, the manga magazine app of DeNA Co., Ltd. This testifies to the effectiveness of tie-ups with digital comics. Also, based on the *Noah Pass* system, we are advancing a tie-up with a free manga app, *Magazinepocket*, which we developed with Kodansha Ltd.

Furthermore, we have begun efforts to generate profits from the *Noah Pass* system itself. We have introduced a business model that realizes earnings through banner advertising from industries outside the game industry and through online-to-offline advertising, which offers store-visit incentives. Online-to-offline advertising, conducted on trial basis, proved to be a major success. For example, advertising through a single title that offered incentives to visit restaurants resulted in the sale of several hundred thousand additional meals. As well as producing results on the "offline side," in other words in bricks-and-mortar stores, a feature of the earnings model is that it shares advertising earnings with the "online side," meaning the companies that develop game apps and participate in the system. We believe that preserving this mutually beneficial relationship will ensure the *Noah Pass* system's continued prosperity.

\*The number of users that use an app at least once a month

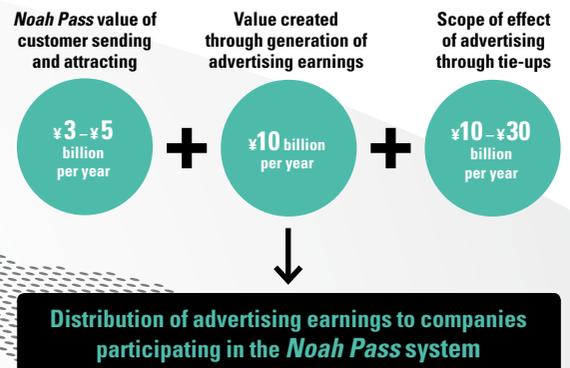
### Marketing Support Tool Based on Reciprocal-Customer-Sending among Apps



### strategies through management systems



### Generating Earnings from the *Noah Pass* System



## Business Strategy of the Consumer Online Business Company

## Increasing Differentiation versus Major Overseas Publishers

As well as its in-house development team, the SEGA Group benefits from the capabilities of its powerful development companies. These include ATLUS. CO., LTD., which develops the *Persona* series in Japan; The Creative Assembly Ltd., which develops *Total War* in the United Kingdom; Sports Interactive Limited, which develops the *Football Manager* series in the United Kingdom; and Relic Entertainment Inc., which develops *Company of Heroes* in Canada. The download-type digital distribution of PC games, such as *Steam*, is steadily growing in size in the United States and Europe. Against this backdrop, our titles are performing well, and we aim to continue growth. In Japan, the online network RPG *PHANTASY STAR ONLINE 2*, marketed three years ago, continues to perform steadily as we advance cross-platform rollouts. In addition to a PC version, a PlayStation® Vita version, and a smartphone version, which account for 3.5 million registered IDs, we recently announced the release of PS4™ version.

We also see opportunities in packaged game software. Although conditions in Japan remain tough, overseas PS4™ has become the fastest-spreading PlayStation® home video game console in history. Even in Japan, sales of the new home video game console promise to grow as the SEGA Group and the other companies add titles to their lineups in earnest. From a global perspective, business opportunities are emerging. In Asia, for example, there is increasing reluctance to purchase copied products in areas that use traditional Chinese characters.

However, we do not intend to try matching major overseas publishers who initially invest tens of billions of yen in a single title. While keeping costs at an appropriate level, we will combine rollouts of packaged game software and digitally distributed or downloaded content to establish a business model that generates earnings reliably. Furthermore, the recently released traditional Chinese character version of *Ryu ga Gotoku 0: Chikai no Basha* is selling well. Adopting this approach for other titles, we will heighten

## Game Changer

## Restoring the SEGA Brand's Luster

The SEGA Group's mindset is changing.

Until the 1990s, by remaining an innovator the former SEGA CORPORATION adhered to its founding principle: "CREATION IS OUR LIFE." However, I feel that during the long slump in the 2000s we perhaps lost some pride in the illustrious history that our predecessors built. When launching the SEGA Group, I urged all employees to rediscover this pride and create the next chapter of the company's history in their generation.

Previously, we had quite a strong tendency to interpret "CREATION IS OUR LIFE" as meaning the creation of new products and services. This might explain why we failed to appeal to the world despite being in the vanguard of the latest developments. We should change our mindset from focusing on creating new products and services to focusing on creating moving experiences for fans. Therefore, with "CREATION IS OUR LIFE" as our most important value, we redefined our role and mission as *continuing to create moving experiences*. At



investment efficiency by planning games not only with Japan in mind but also with a view to their translation into multiple languages and roll out in a wide range of countries.

On the other hand, our focus is not only on games. We will concentrate efforts on fostering games' intellectual properties. To give one example, in North America Cartoon Network began airing the animation series *Sonic Boom* in fall 2014. Based on the very favorable response the series has received, we have begun marketing merchandise with a range of different companies. We want to create further successes outside the game area to broaden the scope of business opportunities.



The *Total War* series, which is seeing increasing conversion to online titles

*Total War Arena*

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the same time, we set out *Game Changer* as a target profile.

To better communicate the new SEGA Group's mission and target profile, we produced a mission video and distributed it widely in-house. As a result, I have a real sense that employees are steadily regaining pride.

Although the SEGA brand that we established around the world has weakened, we still have name recognition. By pursuing quality rigorously and continuing to exceed expectations, I want to regain trust and restore the SEGA brand's luster.

The new SEGA Group's future is promising. We have begun moving forward with our sights set on creating new paradigms for games, industries, and society as a *Game Changer*.



In-house video that we produced to help change our mindset

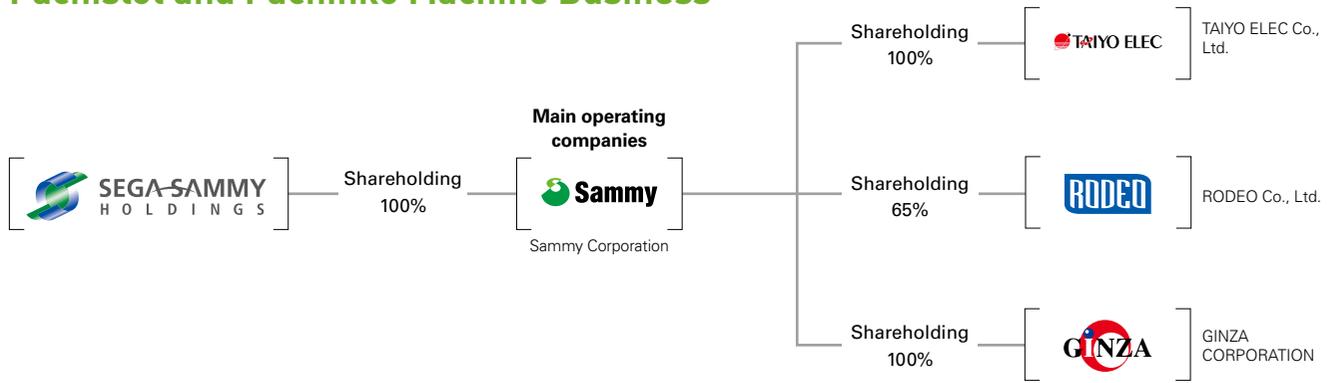
Discussion  
on the Segments'  
**FUTURE**

Structural

# CHANGING

to further strengthen core businesses

## 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*
- 1999** Launched industry's first pachislot machine incorporating an LCD, *GeGeGe No Kitaro*
- 2000** Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary
- 2001** Launched pachislot machine including AT (assist time) function, *Pachislot Juuh*
- 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
- 2009** Made GINZA CORPORATION a subsidiary
- 2012** Completed construction of new Kawagoe Factory and distribution center



Pachislot Juuh ©Sammy



Pachislot Hokuto No Ken ©Buronson & Tetsuo Hara ©Sammy



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



Kawagoe Factory

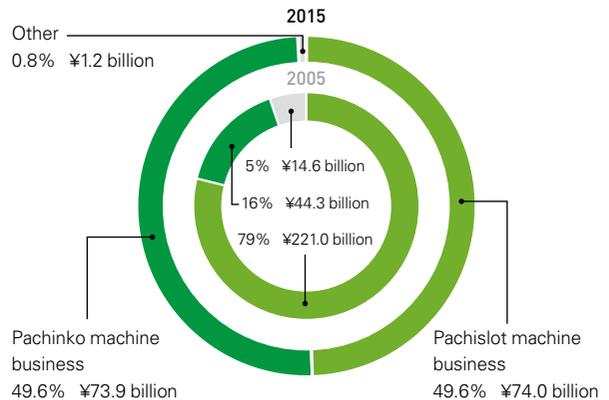
### the PRESENT

#### Comparing Fiscal 2015 and Fiscal 2005

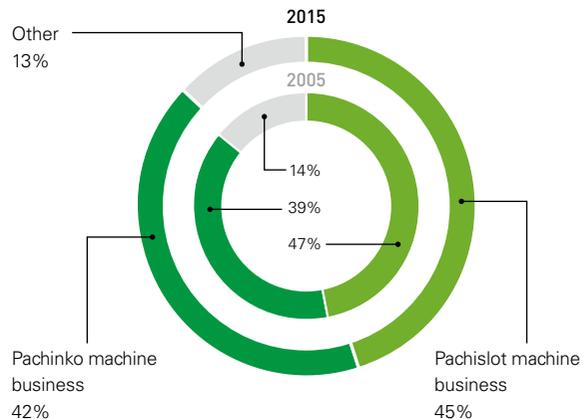
##### Net Sales



##### Net Sales Breakdown



##### Employee Breakdown



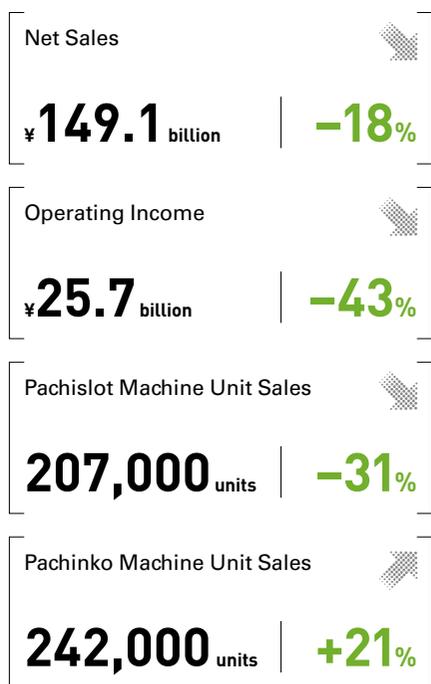


Pachislot SOUTEN-NO-KEN 2  
©Tetsuo Hara & Buronson /  
NSP2001,  
Approved No. YKU-127 ©Sammy



CR Hokuto No Ken 6 Ken-oh  
©Buronson & Tetsuo Hara/NSP1983  
©NSP2007, Approved No. YDA-108  
©Sammy

### Fiscal 2015 Overview



### Fiscal 2015 Overview

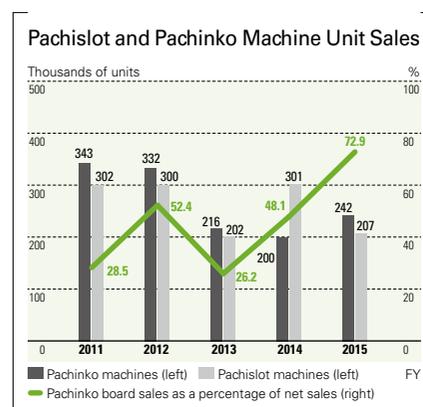
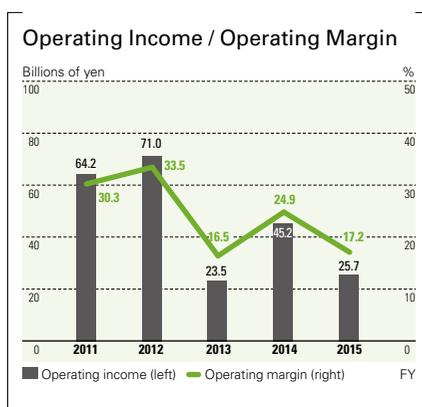
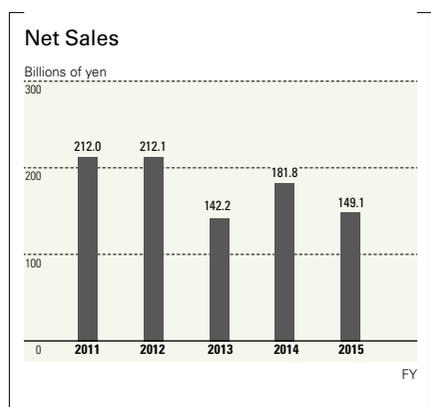
In fiscal 2015, net sales decreased 18% year on year, to ¥149.1 billion. Net sales of pachislot machines were down 34%, to ¥74.0 billion, while net sales of pachinko machines rose 16%, to ¥73.9 billion. Operating income decreased 43% year on year, to ¥25.7 billion. The operating margin declined 7.6 percentage points from the previous fiscal year, to 17.3% because low pachislot machine unit sales counteracted cost reductions through component reuse and an increase in sales of high-margin pachinko boards as a percentage of unit sales. Furthermore, R&D expenses and content production expenses rose 14%, to ¥22.3 billion, and as a percentage of net sales increased from 10.7% to 15.0%.

In relation to pachislot machines, we launched such new titles as *Pachislot SOUTEN-NO-KEN 2* and *Pachislot ALADDIN A II* under the Sammy brand. However, pachislot machine unit sales were down 31% year on year, to 207,000 units.

This decrease was attributable to the marketing of only six new titles, three fewer than in the previous fiscal year, as a result of a change in model-testing operation methods.

As for pachinko machines, we launched 14 new titles, four more than in the previous fiscal year, and sales of the Sammy brand's *Pachinko CR Hokuto No Ken 6* and *Pachinko CR Bakemonogatari* were steady. As a result, pachinko machine unit sales grew 21% year on year, to 242,000 units. Sales of high-margin pachinko boards accounted for 72.9% of pachinko unit sales, up 24.8 percentage points from the previous fiscal year.

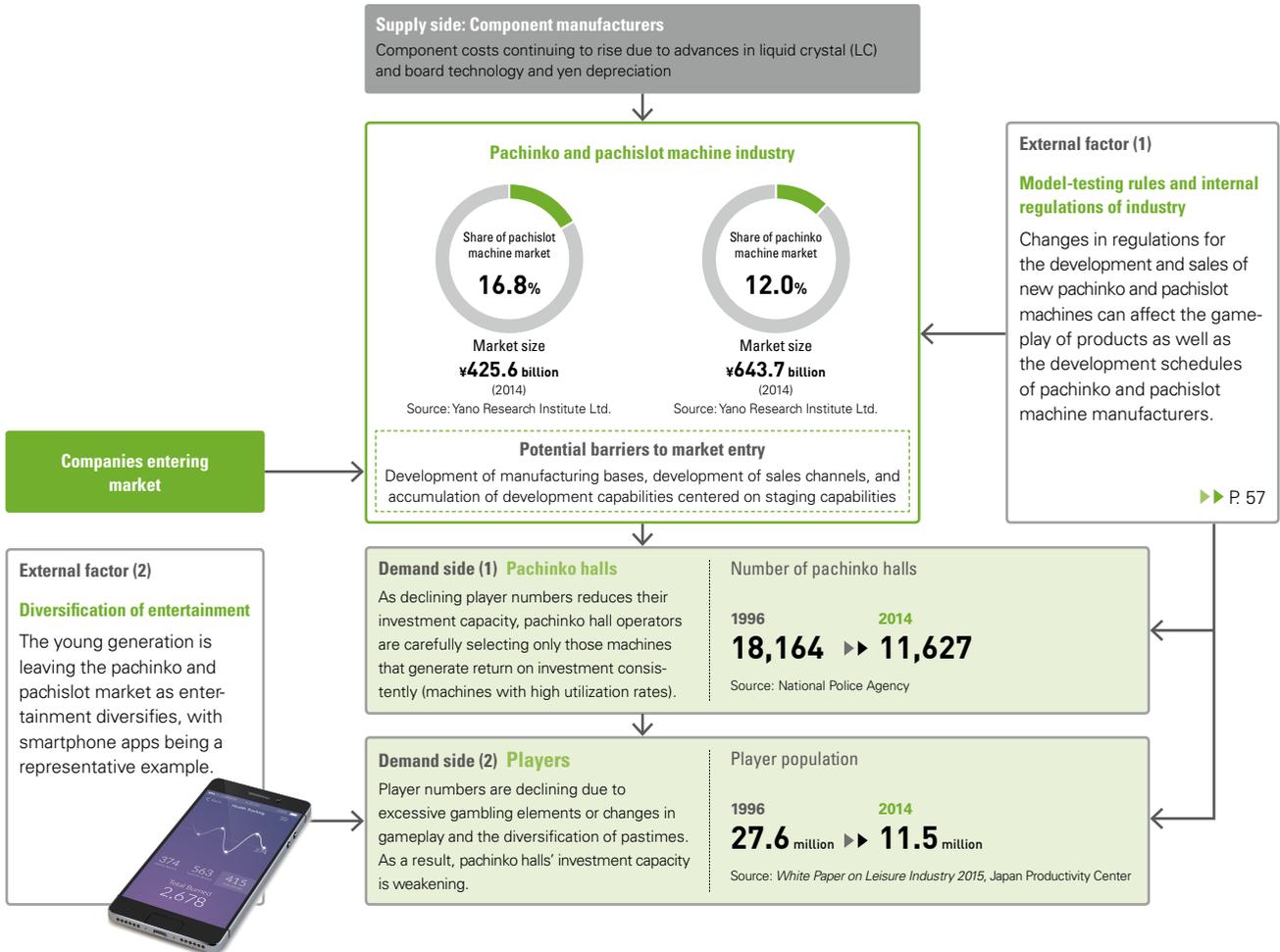
In 2014, our share of the pachislot machine market declined 4.9 percentage points from the previous fiscal year, to 16.8%. On the other hand, our share of the pachinko machine market rose 2.3 percentage points year on year, to 12.0%.



## Pachislot and Pachinko Machine Business

### Snapshot of Industry Trends

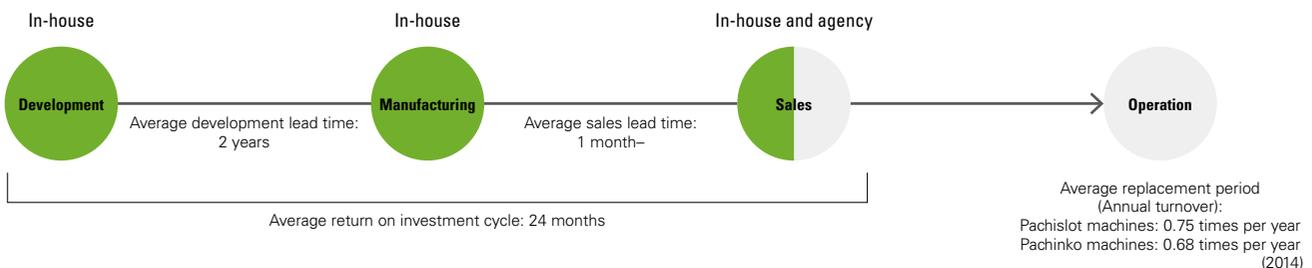
Factors affecting the pachinko and pachislot machine industry include regulatory changes, the financial position of pachinko hall operators, players' preferences, and other entertainment trends.



### Business Cycle of the Pachislot and Pachinko Machine Business

While development takes about two years on average, orders for and shipments of most new machines concentrate on the period directly after their launch. Subsequently, demand diminishes. The key to sales strategies is estimating order volumes based on initial orders and utilization after introduction. Showing how many times pachinko hall operators replace machines during one year, annual turnover has remained at less than once a year due to lower investment capacity.

### Supply Chain of Pachislot and Pachinko Machine Business

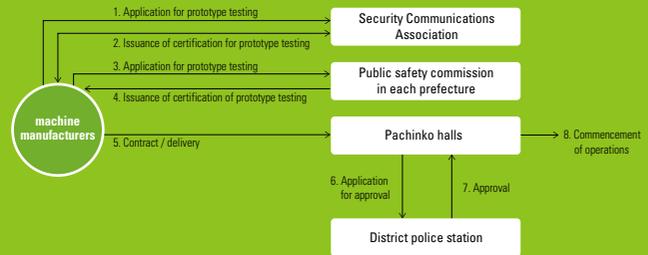


## Conditions in the Pachinko and Pachislot Machine Market

### 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.

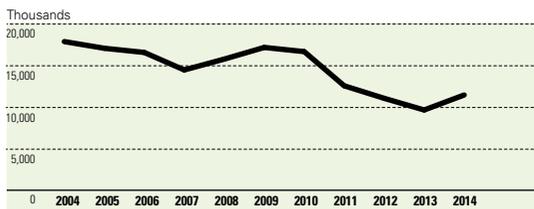
#### Approval Process for Pachinko and Pachislot Machines



### Current Market Conditions

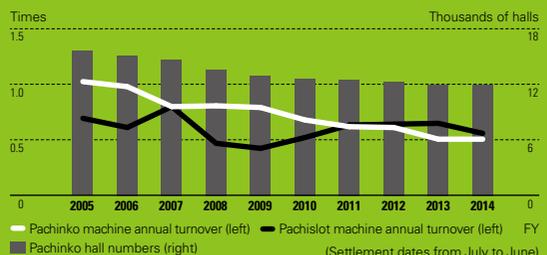
In the pachinko and pachislot machine market, the player population continues to decrease. Focused on controlling excessive gambling elements, the regulatory revision of July 2004 rapidly changed pachislot machines' gameplay and caused players to leave the market. Meanwhile, although sales of pachinko 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 major titles able to provide reliable returns on investment, and a cycle of peaks and troughs in pachinko and pachislot machine sales.

#### Pachinko and Pachislot Player Numbers



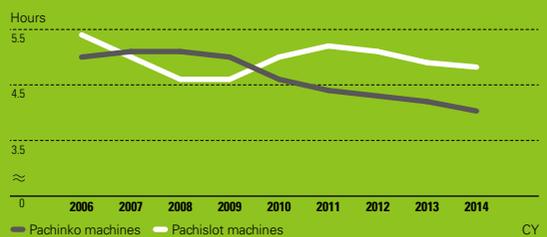
Source: White Paper on Leisure Industry 2015, Japan Productivity Center

#### Annual Turnover\* and Pachinko Hall Numbers



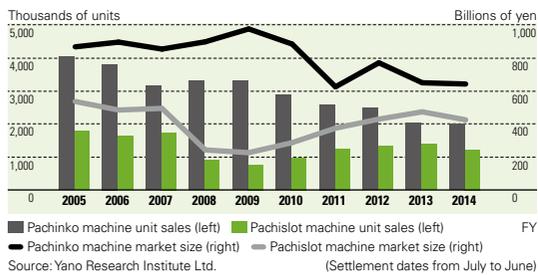
Source: The Company has calculated annual turnover based on data from the National Police Agency and Yano Research Institute Ltd. Pachinko hall numbers are from the National Police Agency.

#### Utilization Time\*



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

#### Pachinko and Pachislot Machines—Market Size and Unit Sales



Source: Yano Research Institute Ltd. (Settlement dates from July to June)

## Pachislot and Pachinko Machine Business



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



CR Aura Battler Dunbine  
©SOTSU-SUNRISE Project by Sammy

## the FUTURE

### Business Strategy

Operating in a market that has the structural problem of a declining player population, the Pachislot and Pachinko Machine Business segment is pursuing a basic strategy of maintaining the leading share of the pachislot machine market while claiming the No. 1 share of the pachinko machine market, which offers significant scope for market share expansion.

By stepping up investment in research and development and strengthening our development system to enhance product appeal, we will prevail in competitive conditions in which the gap between winners and losers is growing as demand focuses on leading manufacturers and machines that promise stable utilization. Furthermore, aiming to attract the young generation, we will create exciting, mold-breaking machines and lead efforts to expand the player base of the industry and invigorate it.

In response to rising component prices, we will reuse components even more systemically than before to heighten cost competitiveness. We aim to maximize cost improvement benefits by building all business processes, from development through to manufacturing and sales, with reuse in mind. In addition, we will concentrate efforts on improving costs by implementing joint purchasing and reuse through collaboration among the Group companies responsible for our multibrand strategy. Sammy's plant will serve as the hub for these efforts. In addition, we will develop inexpensive machines that curb development costs, shorten lead times, and diversify our product portfolio, thereby reducing costs comprehensively.

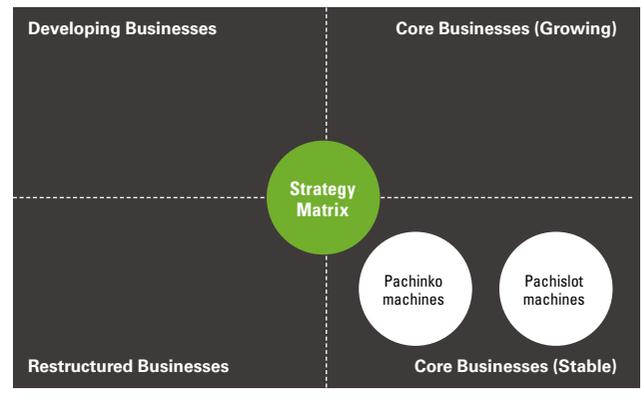
### Fiscal 2016 Outlook

In fiscal 2016, the year ending March 31, 2016, tough market conditions are expected for pachinko and pachislot machine manufacturers due to pachinko hall operators' conservative stance in relation to capital investment and the continuing effect of the change in model-testing operation methods.

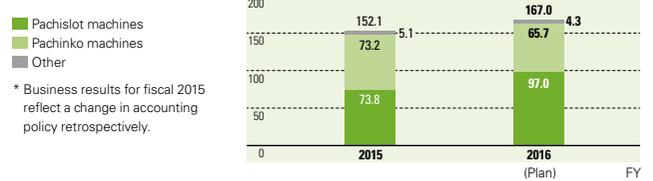
We are targeting a 9% year-on-year growth in net sales, to ¥167.0 billion. We aim to increase pachislot machine unit sales 28% year on year, to 265,000 units, by bringing to market nine new titles during the current fiscal year, including multiple major titles. As for pachinko machines, plans call for the rollout of 11 titles during the fiscal year. However, due to the absence of fiscal 2015's launch of mainstay title *Pachinko CR Hokuto No Ken 6*, unit sales are expected to decline 9% year on year, to 220,000 units.

We anticipate that the introduction of new devices and higher component procurement costs accompanying yen depreciation will produce a temporary dip in the operating margin. Operating income is expected to decline 11% year on year, to ¥23.0 billion, and the operating margin is projected to decrease 3.1 percentage points, to 13.8%.

### Strategy Matrix



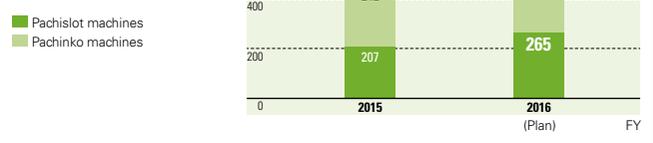
### Net Sales



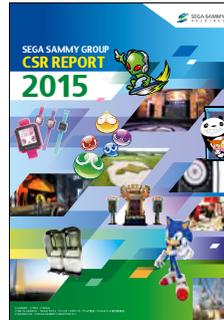
### Operating Income / Operating Margin



### Pachislot and Pachinko Machine Unit Sales



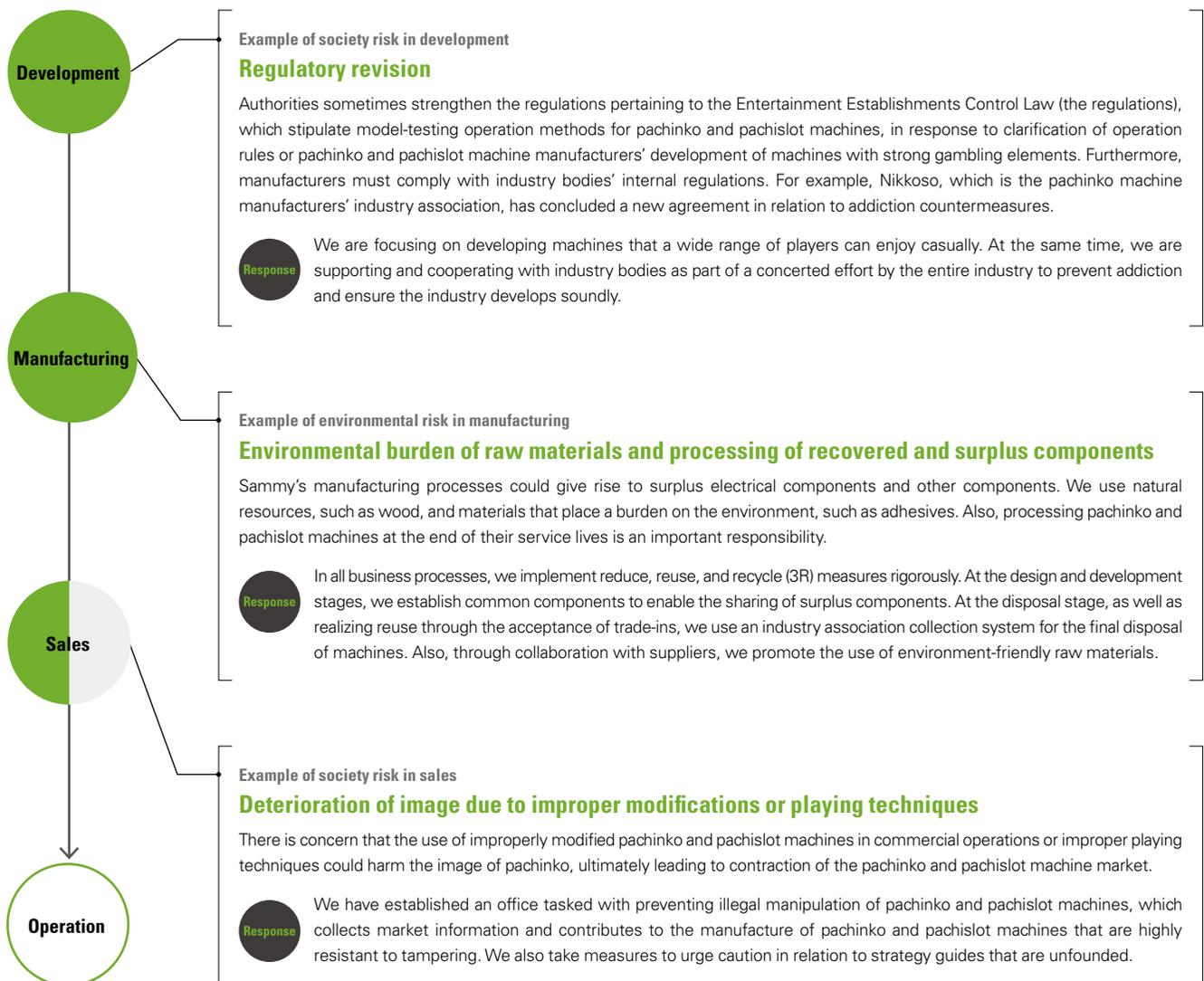
CSR Report 2015



For details,  
please see our  
CSR Report 2015.

### ESG Risks and Responses in the Value Chain

In the Pachislot and Pachinko Machine Business segment, we prevent the impairment of corporate value by carefully analyzing the environment, society, and governance (ESG) risks with the potential to halt respective business processes from development through to sales, incur additional costs, or damage brand value.



# Entertainment Contents Business

## the PAST

	1960	1970	1980	1990	2000	2010-
Digital Games and Packaged Game Software			<ul style="list-style-type: none"> <li><b>1983</b> Launched 8-bit home video game platform, <i>SG-1000</i></li> <li><b>1988</b> Launched 16-bit home video game platform, <i>Mega Drive</i></li> </ul>  <p><i>Mega Drive</i> ©SEGA</p>	<ul style="list-style-type: none"> <li><b>1991</b> Launched first title in the <i>Sonic the Hedgehog</i> series</li> <li><b>1994</b> Launched 32-bit home video game platform, <i>SEGA Saturn</i></li> <li><b>1998</b> Launched home video game platform with Internet connectivity, <i>Dreamcast</i></li> </ul>  <p><i>Sonic the Hedgehog</i> ©SEGA</p>  <p><i>Dreamcast</i> ©SEGA</p>	<ul style="list-style-type: none"> <li><b>2000</b> Launched first networked role-playing game (RPG) for home video game platform, <i>PHANTASY STAR ONLINE</i></li> <li><b>2001</b> Withdrew from home video game platform business</li> <li><b>2005</b> Launched first title in <i>Ryu ga Gotoku</i> home video game series</li> <li><b>2007</b> Launched <i>Mario &amp; Sonic at the Olympic Games™</i> home video game</li> </ul>  <p><i>PHANTASY STAR ONLINE</i> ©SEGA</p>  <p><i>Ryu ga Gotoku</i> ©SEGA</p>	<ul style="list-style-type: none"> <li><b>2012</b> Established SEGA Networks, Ltd. (currently the SEGA Networks Company of SEGA Games Co., Ltd.)</li> </ul>
Amusement Machines	<ul style="list-style-type: none"> <li><b>1960</b> Developed first domestically produced jukebox, <i>SEGA 1000</i></li> <li><b>1964</b> Began manufacturing amusement arcade machines</li> </ul>  <p><i>SEGA 1000</i> ©SEGA</p>		<ul style="list-style-type: none"> <li><b>1985</b> Launched world's first force feedback game, <i>Hang On</i> Launched <i>UFO Catcher</i></li> </ul>  <p><i>UFO Catcher</i> ©SEGA</p>	<ul style="list-style-type: none"> <li><b>1990</b> Launched world's first amusement arcade machine able to rotate 360 degrees in all directions, <i>R-360</i></li> <li><b>1993</b> Launched world's first 3D computer graphics (CG) fighting game for amusement arcade machine, <i>Virtua Fighter</i></li> <li><b>1995</b> Launched <i>Print Club</i> with ATLUS. CO., LTD.</li> <li><b>1999</b> Launched first title in <i>DERBY OWNERS CLUB</i> series of amusement arcade machines</li> </ul>  <p><i>Print Club</i> ©SEGA / ATLUS</p>	<ul style="list-style-type: none"> <li><b>2003</b> Launched world's first kids' card game, <i>The King of Beetles "MUSHIKING"</i></li> <li><b>2004</b> Launched SEGA's infrastructure linking amusement centers, <i>ALL.NET</i></li> </ul>  <p><i>The King of Beetles "MUSHIKING"</i> ©SEGA</p>	
Amusement Center Operations	<ul style="list-style-type: none"> <li><b>1965</b> Started operation of amusement centers</li> </ul>			<ul style="list-style-type: none"> <li><b>1996</b> Opened indoor theme park, <i>TOKYO JOYPOLIS</i></li> </ul>  <p><i>TOKYO JOYPOLIS</i></p>	<ul style="list-style-type: none"> <li><b>2002</b> Opened our first darts bar, <i>Bee SHIBUYA</i></li> <li><b>2009</b> Opened indoor theme park, <i>SEGA REPUBLIC</i>, in the United Arab Emirates based on license agreement</li> </ul>	<ul style="list-style-type: none"> <li><b>2012</b> Consolidated Group companies engaged in amusement center operations to establish SEGA ENTERTAINMENT Co., Ltd.</li> <li><b>2013</b> Opened world's first nature simulation museum, <i>Orbi Yokohama</i></li> </ul>  <p><i>Orbi Yokohama</i></p>

# the PRESENT

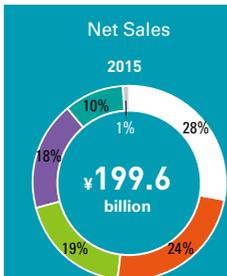
The Entertainment Contents Business segment comprises the digital game area, the packaged game software area, the amusement machine sales area, the amusement center operations area, and the animation and toys sales area. The segment is an aggregation of the businesses of the former SEGA CORPORATION and businesses of SEGA SAMMY HOLDINGS that share “content” as a common theme. Moreover, the segment features a new system of independent companies. This combination of a shared theme and independent companies will enable the segment to create synergies while reacting rapidly to changes in conditions.



SEGA Holdings Co., Ltd.

**Net Sales**

2015



**¥199.6 billion**

- Digital games ¥55.1 billion
- Packaged game software ¥47.4 billion
- Amusement arcade machines ¥39.3 billion
- Amusement center operations ¥36.0 billion
- Animation and toys ¥19.9 billion
- Other and corporate and eliminations ¥1.9 billion

\* Business results for fiscal 2015 reflect a change in accounting policy retrospectively.

**Operating Income (Loss)**

2015



**¥0 billion**

- Digital games 0.9
- Packaged game software -2.7
- Amusement arcade machines -3.9
- Amusement center operations -1.7
- Animation and toys -0.6
- Other and corporate and eliminations -0.6

**Digital game area**

Through a combination of rich development resources and a team of experts in business model construction, the SEGA Group is heightening its presence in the digital game area rapidly. We are also focusing on using the *Noah Pass* system, a marketing support tool, to create new business opportunities.



SEGA Games Co., Ltd.



ATLUS CO., LTD.



Index Corporation



Sammy NetWorks Co., Ltd.

**Amusement machine sales area**

As the former SEGA CORPORATION's founding business, this area has a history stretching back 50 years. During this time, we have created numerous industry-first and world-first products and maintained our leading position in the industry. Since SEGA's foundation, operations in this area have been flawless, a business format whereby manufacturing is contracted to partner companies.



SEGA Interactive Co., Ltd.



DARTSLIVE Co., Ltd.



SEGA LOGISTICS SERVICES CO., LTD.



SEGA-SAMMY CREATION INC.

**Amusement center operations area**

By working in close partnership with the amusement machine sales area, this area offers equipment and facility formats to suit a broad range of customers. In recent years, we have closed unprofitable amusement centers, reflecting a significant shift in strategic focus from size to profitability. At the same time, we have been developing new amusement center formats that three generations—grandparents, parents, and children—can enjoy.



SEGA ENTERTAINMENT CO., LTD.

**Animation and toy sales area**

In the animation area, we take advantage of rich animation assets to develop businesses. As for the toy sales area, we have established a unique position by offering edutainment toys.



SEGA TOYS CO., LTD.



TMS ENTERTAINMENT CO., LTD.

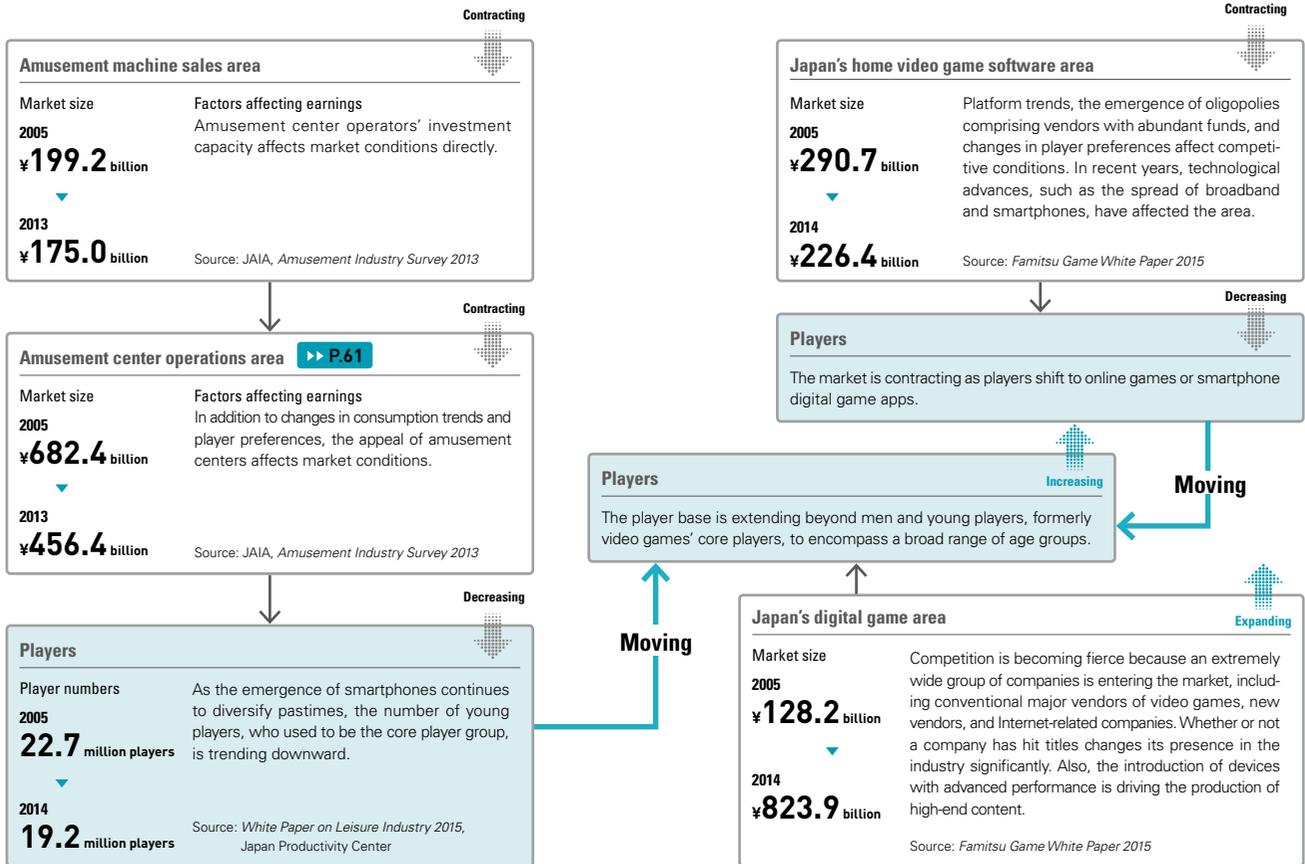


MARZA ANIMATION PLANET INC.

## Entertainment Contents Business

### Snapshot of Industry Trends

The Entertainment Contents Business segment's businesses operate in diverse entertainment areas that have markets with different growth potential and competitive conditions. Furthermore, as well as competition within the entertainment industry, the evolution of digital devices is leading to direct competition between the entertainment industry and other industries as they try to attract players.



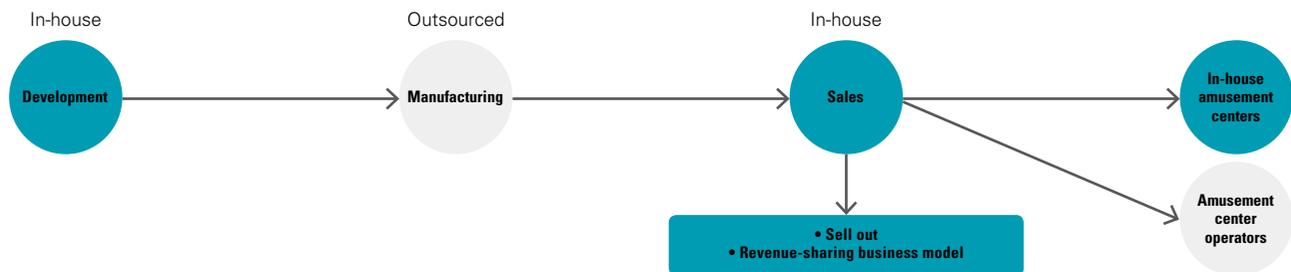
### Business model (1) Amusement machine and amusement center operations areas

In the amusement machine sales area, we plan and develop in-house, but we do not have manufacturing plants. Instead, we outsource manufacturing. In recent years, we have been lessening amusement center operators' investment burden by introducing a revenue-sharing business model—a system in which CVT kits enable content upgrades through board replacement or new content downloads. Compared with the sell out business model, revenue-sharing lengthens return-on-investment periods but stabilizes earnings.



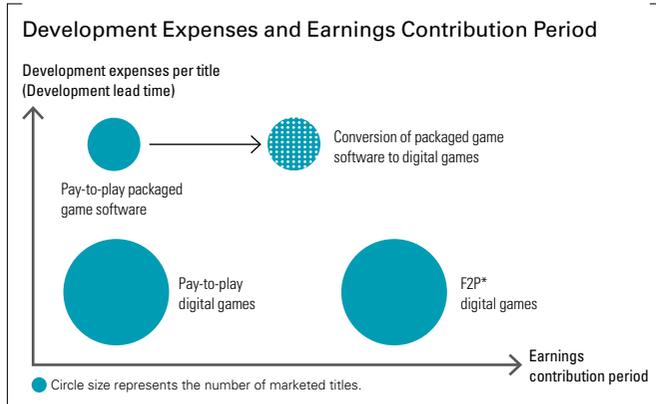
WORLD CLUB Champion Football series  
©SEGA  
©Panini S.p.A. All Rights Reserved  
PANINI The game is made by Sega in association with Panini.

### Supply Chain of the Amusement Machine Sales Business

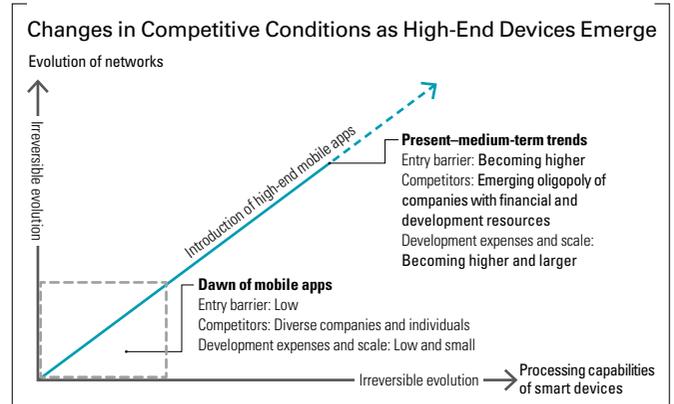


## Business model (2) Digital game and packaged game software areas

Compared with pay-to-play packaged game software, a greater number of digital game titles are released. This is because digital games generally cost less to develop and have shorter lead times. To heighten their presence in these conditions, companies have to bring more titles to market and achieve higher rates of success than their competitors. At present, digital games are expected to become more high-end. As this trend emerges, the SEGA SAMMY Group will have the upper hand because it has the resources to support longer development lead times and their attendant development expenses.



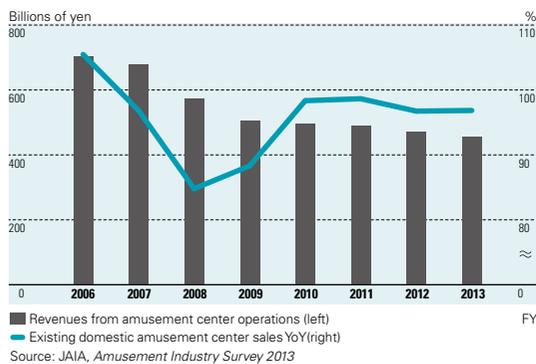
\*These are games based on a business model that provides basic play for free but generates continuous earnings by charging fees for additional items within the games.



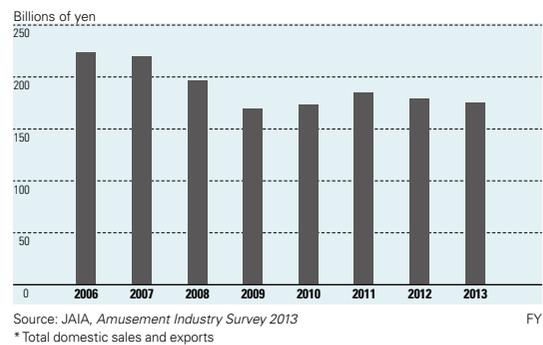
## Players Shift to Online Game Content

From the 1970s to the early 2000s, the amusement center operations market earned the support of the young generation and grew stably. After reaching saturation around 2007 amid stagnant consumer spending, the market entered a phase of long-term contraction. From around 2009, smartphones began spreading rapidly. In response, numerous companies have begun developing apps, giving rise to the game app market. At the same time, the amusement center operations market has been declining gradually. These contrasting trends reflect a shift toward smartphones in the young generation's pastimes.

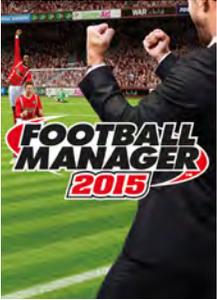
### Revenues from Amusement Center Operations and Existing Domestic Amusement Center Sales YoY



### Amusement Arcade Machines Sales\*



## Entertainment Contents Business



*Football Manager 2015*  
©Sports Interactive Limited 2014. Published by SEGA Publishing Europe Limited. Developed by Sports Interactive Limited. SEGA and SEGA logo are either registered trademarks or trademarks of SEGA Corporation. Football Manager, the Football Manager logo, Sports Interactive and the Sports Interactive logo are either registered trademarks or trademarks of Sports Interactive Limited. All rights reserved. All other company names, brand names and logos are property of their respective owners.



*Wonderlans Wars*  
©SEGA

## the FUTURE

### Business Strategy

We will capitalize on the optimal value chains that the establishment of independent companies has created in each business area to respond quickly to changes in market conditions. In addition, we will generate synergy benefits through the mutual use of intellectual properties.

In the digital game area, we intend to leverage the advantages that rich development resources and a team of experts in business model construction give us to market a product lineup catering to a wide range of player preferences and remain one of the industry's most consistent creators of hit products. Overseas, we will strengthen rollouts with North America, Europe, and Asia as our priority markets. In North America and Europe, our efforts will draw on original sales capabilities that reflect the characteristics of the regions' markets. In Asia, we will develop markets by accurately localizing hit titles from Japan. Other initiatives will focus on using the *Noah Pass* system, a marketing support tool, to develop new business models.

In the packaged game software area, we will rationalize operations, mainly overseas, while accelerating the digital conversion of intellectual properties in Japan and overseas to increase earnings opportunities.

The amusement machine sales area will continue increasing operational efficiency to enhance profitability. In addition, we will extend the market by concentrating on the development of amusement arcade machines that better target families.

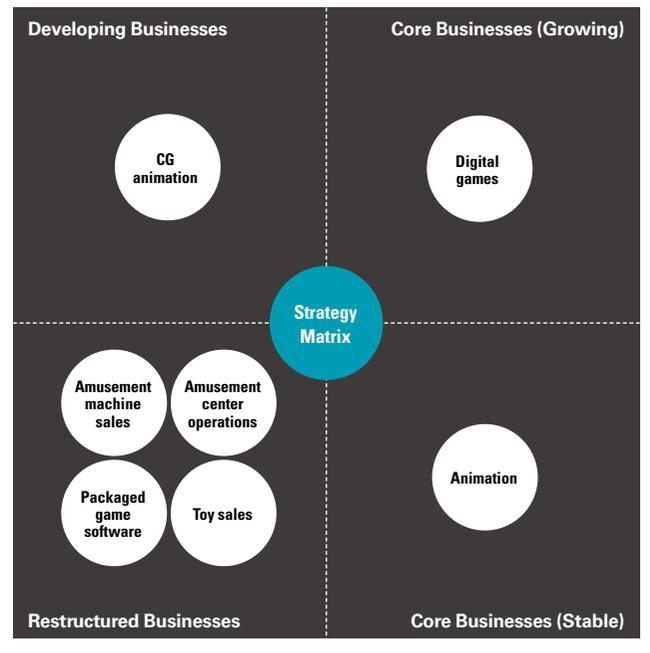
Regarding the amusement center operations area, we will emphasize the enhancement of the profitability of existing amusement centers as we implement a scrap-and-build strategy and strengthen their operational capabilities. Furthermore, we will open up new markets by developing business formats that target families' three generations and business formats that incorporate other industries, such as amusement centers with restaurants.

In the animation and toy sales area, we will improve profitability through rationalization while stepping up rollouts of mainstay products.

### Fiscal 2016 Outlook

Net sales are expected to increase an 18% year on year, to ¥235.0 billion, while operating income is expected to grow from fiscal 2015's ¥0 billion to ¥11.5 billion. We aim to achieve these improvements by increasing earnings in the digital game area and implementing rationalization measures mainly in the amusement machine sales area.

### Strategy Matrix



In the digital game area, we are targeting year-on-year increases of 58% in net sales and 44% in operating income. To this end, in Japan we will secure earnings from existing hit titles, such as *PHANTASY STAR ONLINE 2*, *CHAIN CHRONICLE*, and *Puyopuyo!! Quest*, and market mainstay titles, including *Hortensia SAGA* and *MONSTER GEAR*. Overseas, development bases that we have expanded and improved through acquisitions and tie-ups will lead a full-fledged drive to strengthen rollouts by releasing three times more titles than in the fiscal year under review.

With respect to the packaged game software area, while we expect a 6% year-on-year decrease in net sales, we aim to realize operating income of ¥1.3 billion as the benefits of rationalization move the area into the black.

As for the amusement machine sales area, we are targeting 15% growth in revenues compared to the previous fiscal year through the marketing of multiple products aimed at a wide range of players, including

Kancolle ARCADE and NEW MUSHIKING: The King of Beetles. Furthermore, improved profitability resulting from fiscal 2015's measures to increase efficiency is likely to move the area into the black.

For the amusement center operations area, we have set a 1% year-on-year increase as a net sales target. As a result of investment accompanying stepped-up development of new-format facilities, earnings are projected to decline.

In the animation and toy sales area, net sales are expected to grow 1% year on year, and the area is likely to move into the black as a result of fiscal 2015's rationalization measures.



Hortensia SAGA  
©SEGA / f4samurai



CHAIN CHRONICLE –  
Kizuna no Shintairiku  
©SEGA



MONSTER GEAR  
©SEGA

## Numerical Targets

Billions of yen	2015*	2016 (Plan)	YoY change
<b>Net sales</b>	<b>199.6</b>	<b>235.0</b>	<b>+18%</b>
Digital games	55.1	87.0	+58%
Packaged game software	47.4	44.5	-6%
Amusement Machine Sales	39.3	45.0	+15%
Amusement Center Operations	36.0	36.5	+1%
Toys / Animation	19.9	20.0	+1%
Other / Corporate and eliminations	1.9	2.0	—
<b>Operating income (loss)</b>	<b>0.0</b>	<b>11.5</b>	<b>—</b>
Digital games	8.0	11.5	+44%
Packaged game software	-2.7	1.3	—
Amusement Machine Sales	-3.9	0.0	—
Amusement Center Operations	0.9	0.3	-57%
Toys / Animation	-1.7	0.2	—
Other / Corporate and eliminations	-0.6	-1.8	—
<b>Operating margin</b>	<b>—</b>	<b>4.9%</b>	<b>—</b>

\* Because recognition of net sales has been changed from a net basis to a gross basis and from a shipment basis to a delivery basis from fiscal 2016, figures for fiscal 2015 reflect this change retrospectively.



## Business Model in the Amusement Machine Sales Area

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

### CVT Kits

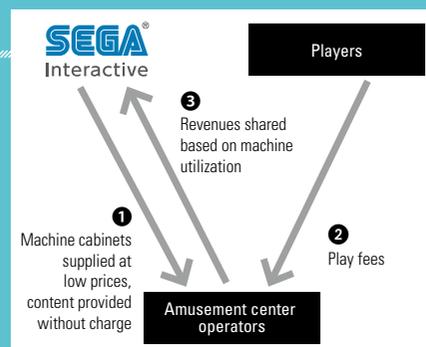
CVT kits enable amusement center operators to upgrade games without purchasing new machine cabinets. Operators use the kits to replace the boards, software, and exteriors of their existing machines. In fiscal 2015, we marketed CVT kits for such mainstay titles as *WORLD CLUB Champion Football* and *StarHorse3 Season III CHASE THE WIND*.



StarHorse3 Season III  
CHASE THE WIND  
© SEGA

### Revenue-Sharing Business Model

In the revenue-sharing business model, SEGA provides amusement center operators with low-priced machine cabinets and free content. Through its *ALL.NET* network service, SEGA Interactive Co., Ltd., 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 Interactive'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.



CODE OF JOKER  
©SEGA

Puyopuyo!! Quest Arcade  
©SEGA

## Entertainment Contents Business

### ESG Risks and Responses in the Value Chain

In the Entertainment Contents Business segment, which has businesses in a wide range of entertainment areas, we identify important ESG risks in light of the distinctive business models, customer groups, industry regulations, or societal expectations in each area and respond to them appropriately.



## Resort Business

### Main Assets of the Resort Business

#### Resort

##### Phoenix Seagaia Resort

Location: Miyazaki Prefecture (Miyazaki)

Operating company: Phoenix Resort Co., Ltd.

Summary: The resort includes accommodation facilities such as *Sheraton Grande Ocean Resort*, a world-class convention center with a maximum capacity of 5,000 people and sports facilities including one of Japan's most renowned golf courses, the *Phoenix Country Club*.



#### Theme parks

##### JOYPOLIS

Locations:

Tokyo (Odaiba), Osaka (Umeda)

Operating company:

SEGA LIVE CREATION Inc.

Summary: We have created two of the largest indoor theme parks in Japan. They offer new, progressive entertainment based on the "DigitaReal" concept of integrating the digital and the real.



##### Orbi Yokohama

Location:

Kanagawa Prefecture (Minato Mirai)

Operating company:

SEGA LIVE CREATION Inc.

Summary: This completely new type of museum recreates scenes from the natural world and gives visitors a visceral sense of the wonder of nature by combining the footage of *BBC EARTH* and SEGAs entertainment technologies.



#### Overseas integrated resorts

##### Paradise Casino Incheon, PARADISE CITY

Location: South Korea (Incheon)

Operating company: PARADISE SEGASAMMY Co., Ltd.

Summary: The company operates *Paradise Casino Incheon*, which became South Korea's first casino exclusively for foreigners when it opened in 1967. We are also developing *PARADISE CITY*, which is scheduled to open in the first half of 2017 as South Korea's first full-fledged integrated resort.



#### Large resort complex overseas

##### Resort name: Undecided

Location: South Korea (Busan)

Managing company: SEGASAMMY BUSAN INC.

Summary: Development and management of large resort complex comprising hotel and entertainment and commercial facilities in Busan, South Korea.

### Numerical Targets

FY		2015	2016 (Plan)	Change
	Net sales (Billions of yen)	14.9	18.0	+21%
	Operating income (loss) (Billions of yen)	(2.3)	(3.5)	—
<i>Phoenix Seagaia Resort</i>	Guests (Thousands of people)	643	580	-10%
	Average spending per customer (Yen)	14,481	16,383	+13%
JOYPOLIS	Guests (Thousands of people)	614	622	+1%
	Average spending per customer (Yen)	3,426	3,413	—
<i>Orbi Yokohama</i>	Guests (Thousands of people)	400	384	-4%
	Average spending per customer (Yen)	2,283	2,236	-2%
<i>Paradise Casino Incheon</i>	Casino net sales (Billions of KRW)	109	—	—
	Guests (Thousands of people)	58	—	—

### ESG Risks and Responses in the Value Chain

#### Scope of business



#### Example of society risk in theme park area

##### ● Safety of facilities

An accident resulting from inadequate safety precautions at facilities that have large attractions on which customers ride could lead to the suspension of operations or brand damage.



We regularly conduct voluntary inspections of the operation and management of all amusement arcade machines, including large attractions, based on a checklist prepared in-house that comprises 100 items.

## ESG Data

FY	2013	2014	2015
<b>Personnel and labor data</b>			
Consolidated employees (People)	7,008	7,472	7,418
Average age (Years)	38.6	38.5	37.4
Average years of service (Years)	7.8	7.9	8.5
Percentage of female managers (%)	4.1	4.6	5.7
New graduate hires (People)	115	111	144
Mid-career hires (People)	175	126	288
Percentage of paid leave taken (%)	44.0	45.3	47.0
Number of industrial accidents (Accidents)	100	108	71
<b>Environmental data</b>			
Total CO <sub>2</sub> emissions (t-CO <sub>2</sub> )	103,766	109,866	123,801
Total energy input (GJ)	2,120,221	2,262,136	2,216,589
Power use (MWh)	182,733	203,358	198,119
Industrial waste emissions (t)	3,234	2,575	2,466
Water use (m <sup>3</sup> )	928,642	1,377,158	1,075,035

Scope

- Fiscal 2013 and 2014: Nine companies (excluding TAIYO ELEC Co., Ltd.), fiscal 2015: 10 companies
- SEGA SAMMY HOLDINGS INC., Sammy Corporation, Sammy NetWorks Co., Ltd., TAIYO ELEC Co., Ltd., SEGA CORPORATION (currently, SEGA Games Co., Ltd.), SEGA ENTERTAINMENT Co., Ltd., SEGA Networks, Ltd., SEGA TOYS CO., LTD., TMS ENTERTAINMENT CO., LTD., and Phoenix Resort Co., Ltd.

\* The data covers approximately 70% of consolidated permanent employees.

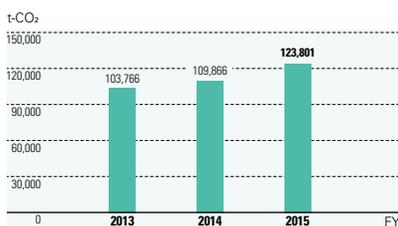
### Environment Friendliness of Sammy's Kawagoe Plant (Pachislot and Pachinko Machine Business Segment)

FY	2013	2014	2015
Pachinko and pachislot machine recycle rate (%)	98.47	96.58	97.24
Wood use (t)	1,778	2,055	1,344
Of which, PEFC-certified wood (t)	468 (26.3%)	134 (6.5%)	66 (4.9%)
Adhesives used (t)	0.36	—	—
Of which, water-based adhesives (t)	0.36 (100%)	—	—

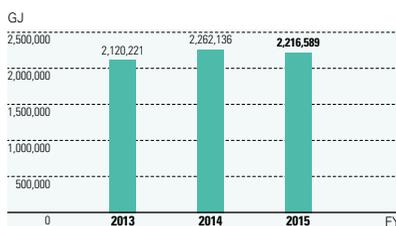
\*1 PEFC certified-wood: This refers to wood certified by the Programme for the Endorsement of Forest Certification. This wood is appropriately procured from forests that have received third-party certification as sustainably managed forests. Our use of PEFC-certified wood has declined due to a decrease in the volume of products that we manufacture for which PEFC-certified wood is usable.

\*2 In fiscal 2013, we changed over to procuring bonded components. All of the components we procure use water-based adhesives, which place less burden on the environment.

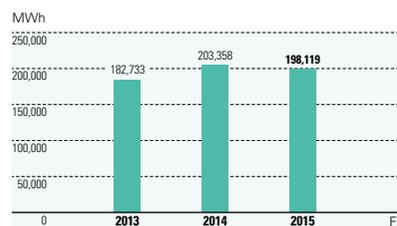
#### Total CO<sub>2</sub> Emissions



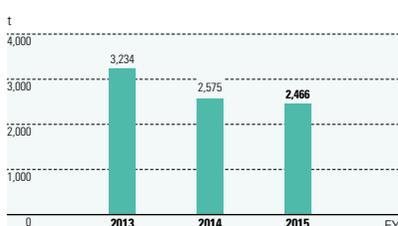
#### Total Energy Input



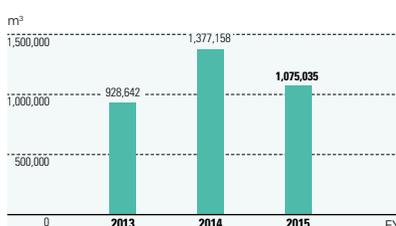
#### Power Use



#### Industrial Waste Emissions



#### Water Use



- Some of the totals data includes figures estimated based on floor areas.
- Power utilities' emission factors have been a significant cause of the increase in total CO<sub>2</sub> emissions.
- Emission factors of power purchased: The (fiscal 2014) emission factors of respective power utilities have been used.

Discussion  
on the Group's  
**GOVERNANCE**

We have a strong will to

# KEEP CHAN- GING

ourselves to raise enterprise value sustainably

# Interview with an Outside Director

**Outside Director**  
Yuji Iwanaga explains his views on corporate governance and his role as an outside director.



**Yuji Iwanaga**  
Outside Director  
SEGA SAMMY HOLDINGS INC.  
Partner of Pilsbury Winthrop Shaw Pittman LLP

**Q1** What is your basic stance toward your duties as an outside director?

**I encourage making decisions in consideration of the interests of all stakeholders.**

I, of course, monitor the systematic elements of decisions made by management to ensure that decision making follows the proper protocols. However, I also believe that it is my duty to check and make sure that decisions are made based on consideration of the interests of shareholders and other stakeholders. I am able to make objective judgements in performing this duty due to my position as an outside director.

The interests of a company can be seen as consisting of the interests of its management, employees, business partners, and customers as well as society and all of its other stakeholders. However, it is unrealistic to expect a company to be able to protect the interests of all stakeholders in an equal manner. For example, it is incredibly common for companies to face situations in which it is difficult to provide responses to the investment needs of both shareholders seeking short-term returns and shareholders investing in pursuit of ongoing, long-term returns. When a proposal is placed before me, I examine it from the perspective of how it can help strike a balance between the various differing interests of stakeholders, rather than how it can satisfy the needs of a specific group. Should I feel that the interests of a certain stakeholder are not being adequately considered, I will point out this fact and encourage further discussion.

**Q2** How are you utilizing your own specialized expertise in your duties?

**I make suggestions based on my insight as an attorney.**

SEGA SAMMY HOLDINGS INC. has appointed two outside directors, Outside Director Takeshi Natsuno and myself. Mr. Natsuno has accumulated an exceptional amount of insight with regard to management strategies and the entertainment industry, enabling him to provide management with expert opinions with these regards. Conversely, as an attorney, I am able to utilize my experience to make suggestions in relation to corporate governance, risk management, compliance, and corporate social responsibility, commonly referred to as CSR. It is not as though this was planned, but I feel that our expertise complements each other, with his specialties lending themselves to aggressive business expansion while mine support conservative foundation building. For this reason, I believe that we both play different roles quite proficiently.

The SEGA SAMMY Group periodically conducts internal audits of the operations of Group companies, which entail detailed checks examining such factors as conformity with relevant laws and regulations as well as social expectations. The SEGA SAMMY Group is a massive conglomerate consisting of more than 100 companies, including 90 subsidiaries and numerous affiliated companies. Some of the smaller Group companies may not be equipped with the dedicated internal control and compliance organizations that one might expect to find in a larger company. However, were an internal control issue to occur, even in relation to a company that only provides a small portion of earnings, it could cause serious damage to the corporate value of the entire Group. To mitigate this risk, the Board of Directors provides appropriate guidance to all Group companies and requests that periodic monitoring reports of improvement activities be made more comprehensive and submitted on an ongoing basis.

### Q3 What are your thoughts with regard to socially and environmentally conscious activities?

#### Entertainment provides an important social value.

It is commonly believed that pursuing ongoing improvements to corporate value requires a company to work to resolve social and environmental issues. I share in this belief. This is because if society refuses to accept a company, it will be unable to continue existing.

All companies impact society and the environment through their business activities, though the degree of these impacts undoubtedly vary. Efforts to reduce these impacts represent the minimal level of required social responsibility. However, as companies are social entities, I believe it is important to go above and beyond this responsibility by conducting philanthropic activities, such as community outreach programs, for example.

It is also possible for companies to provide social value through their business activities. SEGA SAMMY offers entertainment, which is very potent at giving people the strength to face coming days. In today's society, stress levels are particularly high, and I think this has made entertainment even more important to our lives. For this reason, I believe that the SEGA SAMMY Group should feel great pride in its ability to contribute to society through its business.

### Q4 What are your feelings toward "short-termism," an attitude that is practically begging to be changed?

#### A high level of accountability is crucial to gaining support for a long-term vision.

The tendency toward short-termism in corporate management is something that had been viewed as problematic since my days at a U.S. company. At this company, the ability to achieve yearly targets was the only basis for evaluation and those who failed to accomplish this were dismissed. This reality caused a great deal of dissatisfaction as it prevented people from implementing initiatives or conducting investments from a long-term perspective. At the time, the business climate in Japan was accepting toward management based on long-term perspectives. Nonetheless, the problematic nature of this type of short-termism has become a topic of discussion in recent years. I believe that the corporate value of a company is difficult to measure when looking only at single fiscal year. While this may displease shareholders seeking dividends, capital gains, and other short-term benefits, I feel that, considering the time needed for business investments to begin creating results, there are undoubtedly times when a company is hoping for investors to support them over a period of at least 2–3 years. However, this does not mean that

shareholders should stand idly by as a company continues to post losses. Furthermore, companies must realize that a high level of accountability is crucial to gaining shareholder support for a long-term vision.

In terms of long-term strategies, the SEGA SAMMY Group is in the process of pushing forward with efforts to develop an integrated resort business. While the legal frameworks necessary for this business are not yet in place, it will be difficult to get a foothold in this field if the Company waits until these regulations have been established. A company that chooses not to act simply because the future is unclear is walking a path toward elimination. For this reason, I wish to endorse SEGA SAMMY's current stance of aggressively forging a path toward its vision for the future. I would also like to praise the fact that SEGA SAMMY is proceeding carefully while preparing strategic contingency plans to allow for flexible responses to changes in the operating environment, rather than taking major risks that could jeopardize the future of the Company.



# Corporate Governance System

## Corporate Governance System at a Glance

<b>Format</b>	Audit and Supervisory Board member system
<b>Reason for adoption of format</b>	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
<b>Directors</b>	9
<b>Of whom, outside directors</b>	2
<b>Term of directors</b>	1 year
<b>Incentives granted to directors</b>	Introduction of stock option system
<b>Individual disclosure of directors' compensation</b>	Disclosure only for directors with total compensation of ¥100 million or more
<b>Audit and Supervisory Board members</b>	4
<b>Of whom, outside Audit and Supervisory Board members</b>	3
<b>Independent directors</b>	5 (2 outside directors, 3 outside Audit and Supervisory Board members)
<b>Independent auditor</b>	KPMG AZSA LLC
<b>Term of auditing contracts</b>	Renewed annually
<b>Adoption of executive officer system</b>	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.

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.

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.

The SEGA SAMMY Group has established voluntary committees and liaison committees as well as the Group Audit Liaison Committee, Holdings Audit Liaison Committee, and Audit and Supervisory Board Members and Internal Auditing Office Liaison Committee. These committees were established to facilitate intra-Group information sharing, discussion, verification, and coordination, and are also tasked with issuing reports and making proposals to the Board of Directors.

Furthermore, the Company has adopted an executive officer system with the aim of expediting management decision making and enhancing operational implementation and related oversight functions.

## Outside Directors and Audit and Supervisory Board Members

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. 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. The Company has adopted a policy of designating all outside directors and outside Audit and Supervisory Board members that fulfill the independence criteria stipulated by the Tokyo Stock Exchange (TSE) as independent directors and independent auditors, respectively. Accordingly, we have designated all currently serving outside directors and outside Audit and Supervisory Board members as independent directors or independent auditors.

### Selection Procedures

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.

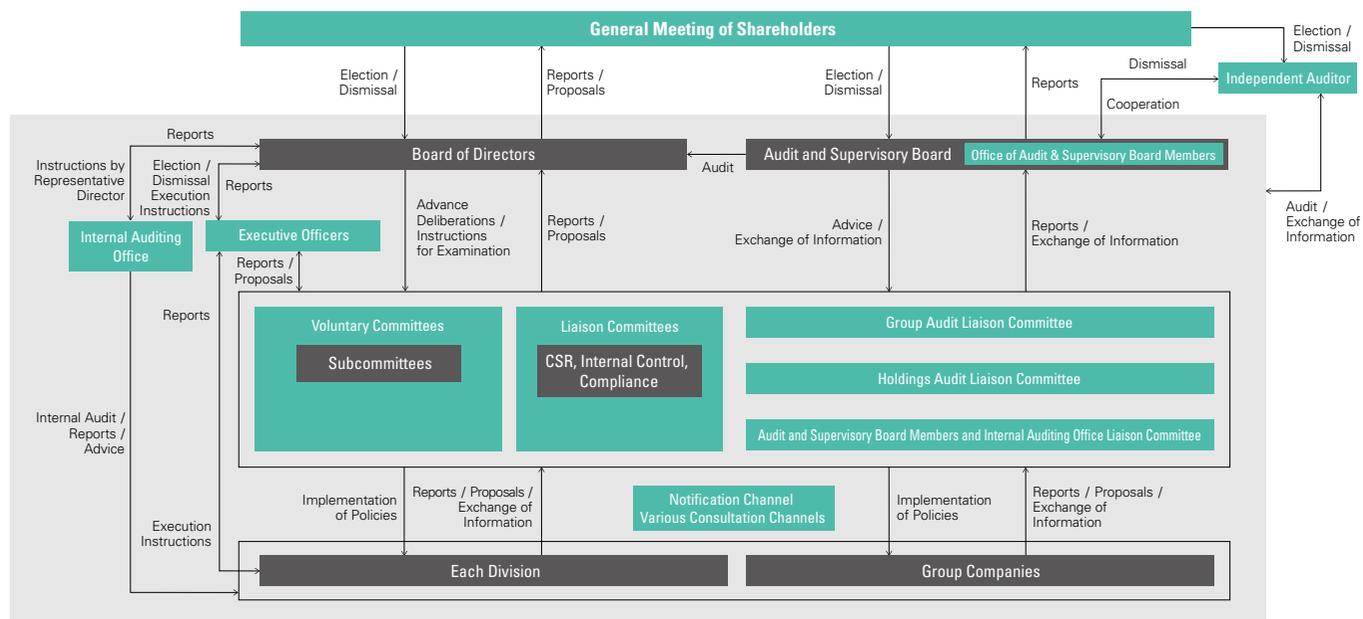
Outside directors	Reason for appointment
Yuji Iwanaga	To reflect Mr. Iwanaga's perspective as an international attorney and extensive expertise in relation to business management of global corporations in the Company's business management
Takeshi Natsuno	To reflect Mr. Natsuno's wealth of experience 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

### Policy Regard Independence

Regarding the independence of outside directors and outside Audit and Supervisory Board members, we determine items that are "significant" or "significant amounts" with reference to the publicly announced standard model for appointing independent directors and based on the independence criteria stipulated by the TSE. The Company has adopted a policy of appointing all outside directors and outside Audit and Supervisory Board members that are not subject to the abovementioned 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.

## Corporate Governance System

As of June 27, 2015



### Support System

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.

### 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 2015. 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

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.

### 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

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.

In addition to establishing an intellectual properties promotion committee in each division, the SEGA Group 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 Corporation 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.

### Communication with Shareholders and Other Investors

The Company has defined its basic stance toward information disclosure described in its IR Policy. Based on this stance, the director in charge of

the Group Executive Office, who is also responsible for information management, guides the Investor Relations Department within the Group Executive Office in conducting information disclosure. The disclosure activities of this specialized organization are advanced in accordance with the Financial Instruments and Exchange Act and other laws and ordinances as well as the Regulations Governing the Timely Disclosure of Corporate Information by Issuer of Listed Securities set forth by the TSE. In addition to information disclosure mandated by laws or the aforementioned timely disclosure regulations, the Company also conducts proactive voluntary disclosure of information with the potential to significantly influence the decisions of investors.

In addition, the Company holds briefings for institutional investors and analysts on full-year and interim financial results and makes the briefing information available on its website. 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.

### Internal Procedures Related to Timely Disclosure



# Main Activities and Compensation in Fiscal 2015

Board of Directors		Meeting attendance
Board of Directors convened		16 times
Outside directors		
Yuji Iwanaga		Attended 15 of 16 meetings (including 11 of 12 ordinary Board of Directors' meetings)
Takeshi Natsuno		Attended 16 of 16 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Outside directors' attendance		96.9%
Outside Audit and Supervisory Board members		
Tomio Kazashi		Attended 16 of 16 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Toshio Hirakawa		Attended 16 of 16 meetings (including 12 of 12 ordinary Board of Directors' meetings)
Mineo Enomoto		Attended 14 of 16 meetings (including 11 of 12 ordinary Board of Directors' meetings)
Outside Audit and Supervisory Board members' attendance		95.8%

Principle decisions	
From May 2014	Formulated plans for and began restructuring the Group
August 2014	Announced medium-term investment plan for Phoenix Resort Co., Ltd.
November 2014	Commenced construction of <i>PARADISE CITY</i>
February 2015	Acquired 10 million shares of treasury stock (with maximum acquisition amount of ¥20.0 billion)

## Compensation of Directors

Compensation of directors and Audit and Supervisory Board members for fiscal 2015 is as follows.

Position	Directors / Audit and Supervisory Board members	Total compensation (millions of yen)	Total compensation by type (millions of yen)			
			Basic compensation	Bonus	Stock options	
Directors	Internal	7	543	413	125	5
	Outside	2	32	32	—	—
Audit and Supervisory Board members	Internal	—	—	—	—	—
	Outside	2	25	25	—	—

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2015 is as follows.

Name	Position	Total consolidated compensation, etc. (millions of yen)	Company	Total consolidated compensation by type (millions of yen)		
				Basic compensation	Bonus	Stock options
Hajime Satomi	Director	477	The Company	276	50	1
			Sammy	—	150	—

## Main IR Activities in Fiscal 2015

Financial results briefings	2 times
Quarterly financial results briefings (telephone conferences)	2 times
Small-scale roundtable meetings	4 times
One-on-one meetings (domestic investors)	187 times
One-on-one meetings (overseas investors)	123 times
Overseas roadshows	5 (North America 1, Asia 2, Europe 2) times
Conferences	6 times
Events for individual investors	1 time

## Corporate Value

	March 31, 2014	March 31, 2015	YoY change
SEGA SAMMY HOLDINGS INC. shares (closing price: Yen)	2,312	1,754	-24.1%
TOPIX (closing price: Points)	1,202.89	1,543.11	+28.3%
Cash dividends paid	¥9,723 million	¥9,690 million	
Consolidated dividend payout ratio	64.1%	130.9%	

## Principal IR Awards Received

### FY 2014 Nikkei Annual Report Award, Excellence Award

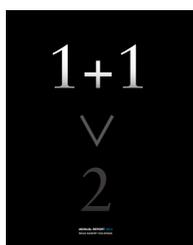
(February 2015)

### Internet IR Excellence Award 2014

Daiwa Investor Relations Co., Ltd.  
(November 20, 2014)

## Other

The Company is included in JPX-Nikkei Index 400.  
(As of August 31, 2015)



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

As of June 17, 2015

## Directors



### HAJIME SATOMI

Chairman of the Board and Chief Executive Officer

- 1980 President and Representative Director of Sammy Industry Co., Ltd. (now Sammy Corporation)
- 2003 Chairman and Director of Sammy NetWorks Co., Ltd.
- 2004 Chairman and Representative Director of SEGA CORPORATION (now SEGA Games Co., Ltd.)  
Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation
- Chairman, Representative Director, and Chief Executive Officer of SEGA CORPORATION
- Chairman of the Board and Chief Executive Officer of the Company (current position)
- 2005 Chairman and Director of SEGA TOYS CO., LTD.  
Chairman and Director of TMS ENTERTAINMENT CO., LTD.
- 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
- 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 Co., Ltd. (now SEGA Games Co., Ltd.)
- 2013 Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation (current position)
- 2015 Chairman, Representative Director, and Chief Executive Officer of SEGA Holdings Co., Ltd. (current position)



### NAOYA TSURUMI

Senior Managing Director and Representative Director

- 1992 Joined Sega Enterprises, Ltd. (now SEGA Games Co., Ltd.)
- 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 (now SEGA Games Co., Ltd.)
- 2009 Managing Director of the above  
Chairman of SEGA 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
- 2013 President and Representative Director of SEGA DREAM CORPORATION (now ATLUS CO., LTD.)
- 2014 Vice Chairman of SEGA CORPORATION  
Senior Managing Director and Representative Director of the Company in charge of New Business Development Department, Strategic Planning Department, and Corporate Business Department (current position)  
Vice Chairman and Director of Phoenix Resort Co., Ltd. (current position)
- 2015 Vice Chairman of the Board of SEGA Holdings Co., Ltd. (current position)  
Chairman, President, and Representative Director of SEGA LIVE CREATION Inc. (current position)



### KOICHI FUKAZAWA

Director

- 2003 Joined Sammy Corporation  
Executive Officer and General Manager of the President's Office of the above
- 2004 Executive Officer and General Manager of the President's Office of the Company  
Executive Officer and General Manager of Chairman and President's Office of SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2005 Director and General Manager of Chairman and President's Office of the above
- 2007 President and Representative Director of SEGA SAMMY ASSET MANAGEMENT INC. (now MARZA ANIMATION PLANET INC.)  
Senior Executive Officer and Representative Director in charge of the Corporate Strategy and External Affairs of the Company
- 2008 Director and Division Manager of New Business Division of SEGA CORPORATION
- 2009 President and Representative Director of SEGA SAMMY VISUAL ENTERTAINMENT INC. (now MARZA ANIMATION PLANET INC.)
- 2012 Director and in charge of the President's Office of Sammy Corporation
- 2014 Senior Managing Director and Representative Director of SEGA TOYS CO., LTD.
- 2015 Director of the above (current position)  
Director of the Company (current position)



### HARUKI SATOMI

Director

- 2004 Joined Sammy Corporation
- 2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.)
- 2009 Vice President of Digital Business of SEGA of America, Inc.
- 2011 Senior Vice President of Digital Business of the above  
Director of Sammy NetWorks Co., Ltd.
- 2012 President, Representative Director, and Chief Executive Officer of the above (current position)  
Director of SEGA CORPORATION  
Director of the Company (current position)
- President, Representative Director, and Chief Executive Officer of SEGA Networks, Ltd. (now SEGA Games Co., Ltd.)
- 2014 Director of Sammy Corporation (current position)  
Executive Vice President and Representative Director of SEGA CORPORATION
- 2015 Executive Vice President and Representative Director of SEGA Holdings Co., Ltd. (current position)  
President, Representative Director, and Chief Executive Officer of SEGA Games Co., Ltd. (current position)  
Chairman of SEGA of America, Inc. (current position)  
Chairman of SEGA Europe Ltd. (current position)



### SHIGERU AOKI

Director

- 2005 Joined SEGA CORPORATION (now SEGA Games Co., Ltd.) as Head Counselor  
Corporate Officer and General Manager of Office of China and Asia Business Management of the above
- 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 Corporate Division 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 Director of the Company (current position)

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

### Directors



**HIDEKI OKAMURA**

Director

1987 Joined Sega Enterprises, Ltd. (now SEGA Games Co., Ltd.)  
 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 (now SEGA Games Co., Ltd.)  
 2004 Director of TMS ENTERTAINMENT CO., LTD. Managing Director, Division Manager of Consumer Business Group Division of SEGA CORPORATION  
 Director 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. President, Representative Director, and COO of SEGA CORPORATION  
 Director of the Company (current position)  
 2015 President, Representative Director and Chief Operating Officer of SEGA Holdings Co., Ltd. (current position)  
 Chairman of the Board of SEGA Games Co., Ltd. (current position)  
 Chairman of the Board of SEGA Interactive Co., Ltd. (current position)  
 Chairman, Representative Director of TMS ENTERTAINMENT CO., LTD. (current position)  
 Chairman, Representative Director of SEGA TOYS CO., LTD. (current position)  
 Chairman, Representative Director of MARZA ANIMATION PLANET INC. (current position)  
 Chairman, Representative Director of Index Corporation (current position)  
 Chairman, Representative Director of DARTSLIVE Co., Ltd. (current position)



**HISAO OGUCHI**

Director, CCO (Chief Creative Officer)

1984 Joined Sega Enterprises, Ltd. (now SEGA Games Co., Ltd.)  
 2003 President and Representative Director of SEGA CORPORATION (now SEGA Games Co., Ltd.)  
 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 Director 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\*1**

Outside Director

1981 Registered with The Japan Federation of Bar Associations  
 1984 Partner of Lillick McHose and Charles Law Office (now 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 Director of the Company (current position)



**TAKESHI NATSUNO\*1**

Outside Director

2005 Executive Officer and Managing Director of Multimedia Services Department of NTT DOCOMO, Inc.  
 2008 Outside Director of the Company (current position)  
 Director of PIA CORPORATION (current position)  
 Outside Director of transcosmos inc. (current position)  
 Director of SBI Holdings, Inc.  
 Director of DWANGO Co., Ltd. (current position)  
 Director of NTT Resonant Inc. (current position)  
 2009 Outside Director of DLE Inc. (current position)  
 Outside Director of GREE, Inc. (current position)  
 2010 Outside Director of bitWallet, Inc. (now Rakuten Edy, Inc.)  
 Outside Director of U-NEXT, Inc. (current position)

2011 Outside Director of CUUSOO SYSTEM CO., LTD.  
 2013 Guest Professor, Faculty of Environment and Information Studies of Keio University  
 Outside Director of TRENTERS, INC.  
 Guest Professor, Graduate School of Media and Governance of Keio University (current position)  
 2014 Director, Member of the Board of KADOKAWA DWANGO CORPORATION (current position)

## Audit and Supervisory Board Members



**TOMIO KAZASHI\***<sup>2</sup>  
Standing Audit & Supervisory Board Member

1990 Director of Cosmo Securities Co., Ltd.  
1996 Managing Director of the above  
1999 Managing Director of Cosmo Investment Management Co., Ltd.  
2005 Standing Audit & Supervisory Board Member of Sammy NetWorks Co., Ltd.  
2008 Substitute Audit & Supervisory Board Member of the Company  
2009 Audit & Supervisory Board Member of Sammy NetWorks Co., Ltd.  
Audit & Supervisory Board Member of SEGA TOYS CO., LTD.  
Standing Audit & Supervisory Board Member of the Company (current position)  
2012 Audit & Supervisory Board Member of SEGA Networks Co., Ltd. (now SEGA Games Co., Ltd.)  
2015 Audit & Supervisory Board Member of SEGA LIVE CREATION Inc. (current position)



**TOSHIO HIRAKAWA\***<sup>2</sup>  
Audit & Supervisory Board Member

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 Audit & Supervisory Board Member of Sammy Corporation (current position)  
Audit & Supervisory Board Member of the Company (current position)  
2005 Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD.  
2015 Audit & Supervisory Board Member of SEGA SAMMY CREATION INC. (current position)



**YUKITO SAKAUE**  
Audit & Supervisory Board Member

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 Audit & Supervisory Board Member of the Company (current position)  
Standing Audit & Supervisory Board Member of SEGA CORPORATION (now SEGA Games Co., Ltd.)  
2015 Standing Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (current position)  
Audit & Supervisory Board Member of SEGA Games Co., Ltd. (current position)  
Audit & Supervisory Board Member of SEGA Interactive Co., Ltd. (current position)  
Audit & Supervisory Board Member of TMS ENTERTAINMENT CO., LTD. (current position)  
Audit & Supervisory Board Member of MARZA ANIMATION PLANET INC. (current position)



**MINEO ENOMOTO\***<sup>2</sup>  
Audit & Supervisory Board Member

1978 Registered with The Japan Federation of Bar Associations  
2000 Established Enomoto Law Office (current position)  
2004 Audit & Supervisory Board Member of Sammy NetWorks Co., Ltd.  
Audit & Supervisory Board Member of SEGA CORPORATION (now SEGA Games Co., Ltd.)  
2005 Substitute Audit & Supervisory Board Member of the Company  
2006 Audit & Supervisory Board Member of Nippon Koei Co., Ltd. (current position)  
2007 Audit & Supervisory Board Member of the Company (current position)  
2014 Audit & Supervisory Board Member of SHIMOJIMA Co., Ltd. (current position)  
2015 Audit & Supervisory Board Member of SEGA Holdings Co., Ltd. (current position)  
Audit & Supervisory Board Member of SEGA Games Co., Ltd.  
Audit & Supervisory Board Member of SEGA Interactive Co., Ltd.

## Executive Officers



**TORU NAKAHARA**  
Senior Executive Officer



**HIROFUMI MATSUNAGA**  
Senior Executive Officer



**KOICHIRO UEDA**  
Executive Officer



**HIROSHI ISHIKURA**  
Executive Officer



**SEICHIRO KIKUCHI**  
Executive Officer



**KOICHI TAKAHASHI**  
Executive Officer



**YOICHI OWAKI**  
Executive Officer



**TAKATOSHI AKIBA**  
Executive Officer

\*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.

# Management's Discussion and Analysis

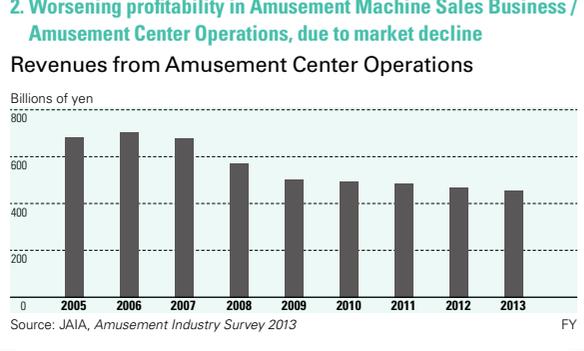
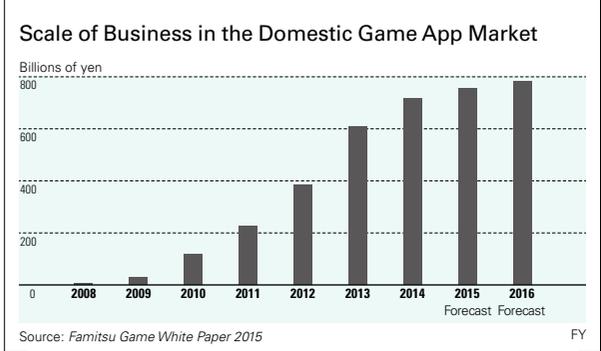
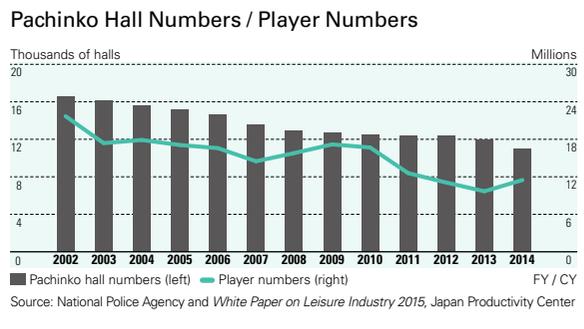
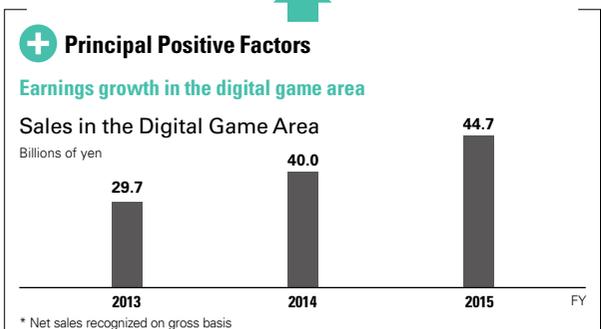
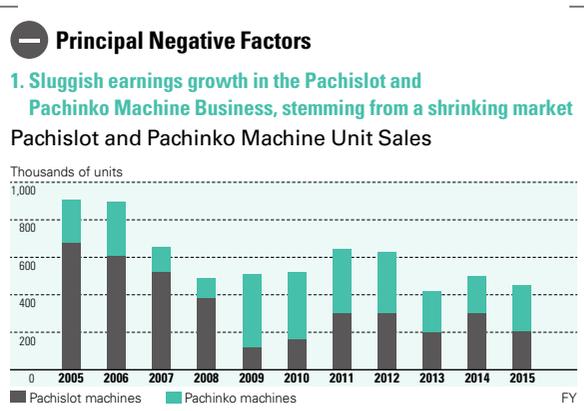
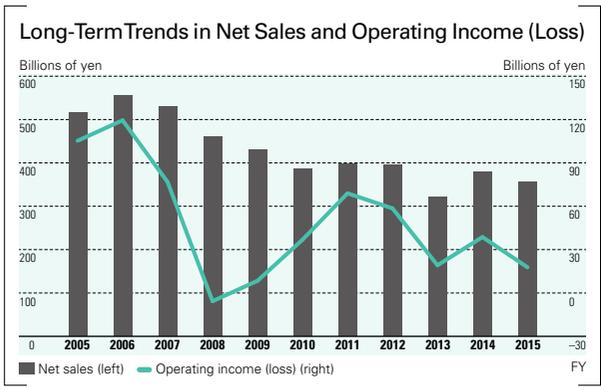
## REVENUE AND EXPENSES ANALYSIS

### 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 (currently SEGA Games Co., Ltd.). (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; lower revenues in the Amusement Center Operations segment; and flagging sales of packaged game software. Due to the impact of restructuring, profits recovered through fiscal 2011. In recent years, we have optimized the scale of operations in the Amusement Center Operations and packaged game software area, and profits in the digital game area have grown. However, the operating environment in the Pachislot and Pachinko Machine Business has worsened, and profitability in the Amusement Machine Sales Business has fallen, drawing down overall profits. Consequently, in fiscal 2015 the Group worked to address the issues faced by each existing business segment and positioned the Pachislot and Pachinko Machine Business, the Entertainment Contents Business—centered on the digital game area—and the Resort Business as core businesses.



### Comparing Fiscal 2015 and Fiscal 2014

In fiscal 2015, ended March 31, 2015, net sales fell ¥23.0 billion, or 6.1%, year on year, to ¥354.9 billion. Buoyed by growth in the digital game area, sales in the Consumer Business expanded 11.2%, but sales were down 18.0% year on year in the Pachislot and Pachinko Machine Business, due to lower unit sales of pachislot machines.

Cost of sales decreased ¥9.9 billion, or 4.3%, to ¥220.0 billion, owing to lower machine unit sales. The cost of sales ratio worsened 1.1 percentage points, to 62.0%, mainly because of higher component costs in the Pachislot and Pachinko Machine Business.

Selling, general and administrative expenses amounted to ¥117.2 billion, up ¥7.8 billion, or 7.2%, year on year. This rise reflected higher advertising and R&D expenses to enhance the digital game content, as well as an increase in R&D expenses to augment the quality of pachislot machines in the Pachislot and Pachinko Machine Business.

As a result of these factors, operating income dropped ¥20.9 billion, or 54.3%, year on year, to ¥17.6 billion. The operating margin declined 5.2 percentage points, to 5.0%.

During the fiscal year, the Company posted an extraordinary loss of ¥15.9 billion, including restructuring-related expenses of ¥7.0 billion, comprising an impairment loss of ¥7.8 billion, a provision for dismantling of fixed assets of ¥2.7 billion, a loss on the discontinuance of independent film production of ¥1.8 billion, and early extra retirement payments of ¥1.8 billion.

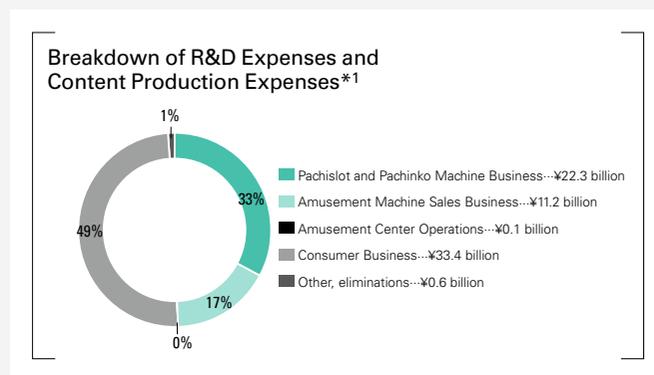
After seriously considering the effect of tax reform, performance during the year, and future earnings forecasts along with the probability of recovering deferred tax assets, the Group opted to realize some of its deferred tax assets and record them in deferred income taxes. Accordingly, the Group posted a net loss of ¥11.2 billion, compared with net income of ¥30.7 billion in the preceding fiscal year.

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

Total capital expenditures decreased ¥9.4 billion, or 24.6%, year on year, to ¥28.7 billion. Principal capital expenditures were ¥6.7 billion in the Pachislot and Pachinko Machine Business, mainly to acquire molds, and ¥6.5 billion on amusement centers operated by SEGA ENTERTAINMENT Co., Ltd. Depreciation and amortization increased ¥1.4 billion, to ¥17.6 billion.

### R&D Expenses, Content Production Expenses\*1

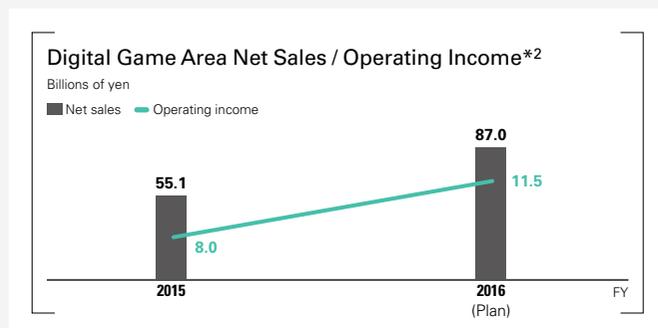
R&D expenses and content production expenses, which are included in cost of sales and general and administrative expenses, rose 14.2% year on year, to ¥67.6 billion. This rise largely resulted from investment to enhance quality with a view to growing the Pachislot and Pachinko Machine Business segment's market share and increased investment to develop the ATLUS brand and strengthen digital content in the Consumer Business.



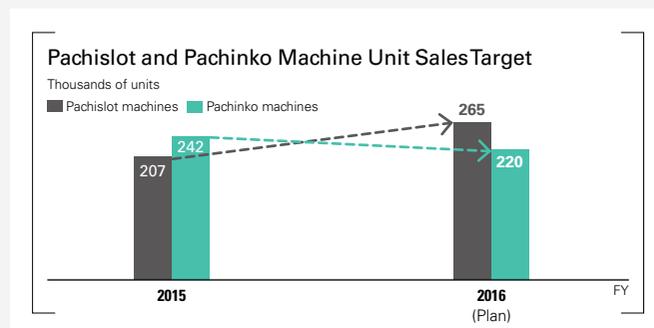
\*1 The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

### Fiscal 2016 Outlook

In fiscal 2016, ending March 31, 2016, the Company is targeting a 15% year-on-year increase in net sales, to ¥420.0 billion. Owing to higher profitability in the aftermath of business restructuring, we expect operating income to grow 44%, to ¥25.0 billion. We anticipate ¥19.0 billion in profit attributable to owners of the parent.



\*2 Because recognition of net sales has been changed from a net basis to a gross basis and from a shipment basis to a delivery basis from fiscal 2016, figures for fiscal 2015 reflect this change retrospectively.



## Summary of Consolidated Statements of Income and Comprehensive Income

	2014	2015	YOY change	Billions of yen 2016 (Plan)
Net sales	378.0	354.9	-23.1	420.0
Cost of sales	230.0	220.0	-10.0	—
Gross profit	147.9	134.8	-13.1	—
Selling, general and administrative expenses	109.4	117.2	7.8	—
Operating income	38.5	17.6	-20.9	25.0
Non-operating income	4.8	2.8	-2.0	—
Non-operating expenses	2.8	3.4	0.6	—
Ordinary income	40.5	16.9	-23.6	25.0
Extraordinary income	15.7	1.0	-14.7	0.0
Extraordinary loss	8.7	15.9	7.2	1.0
Income before income taxes and minority interests	47.5	2.0	-45.5	24.0
Total income taxes	16.2	12.3	-3.9	—
Net income (loss)	30.7	(11.2)	-41.9	19.0

## Major Expenses

	2014	2015	YOY change	Billions of yen 2016 (Plan)
R&D expenses, content production expenses* <sup>1</sup>	59.2	67.6	8.4	69.4
Capital expenditures	38.1	28.7	-9.4	34.4
Depreciation and amortization* <sup>2</sup>	16.1	17.6	1.5	16.8
Advertising expenses* <sup>3</sup>	16.0	19.1	3.1	24.5

## Note

Certain line items that are classified as other income (expenses) in consolidated statements of income and comprehensive income have been presented as extraordinary income or extraordinary loss.

\*1 From 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 From fiscal 2014, depreciation and amortization does not include amortization cost of digital game titles. Until fiscal 2013, R&D expenses and content production expenses include amortization cost of digital game titles.

\*3 From 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

	2014	2015
Extraordinary income		Extraordinary income
Gain on sales of investment securities	11.9	Gain on sales of noncurrent assets
Gain on sales of noncurrent assets	3.5	Gain on sales of shares of subsidiaries and associates
Others	0.3	Gain on sales of investment securities
Total	15.7	Gain on reversal of subscription rights to shares
		Compensation income for expropriation
Extraordinary loss		Others
Loss on liquidation of subsidiaries and affiliates	6.6	Total
Impairment loss	1.7	
Others	0.4	Extraordinary loss
Total	8.7	Loss on sales of noncurrent assets
		Impairment loss
		Loss on valuation of investment securities
		Provision for dismantling of fixed assets
		Loss on the discontinuance of independent film production
		Early extra retirement payments
		Others
		Total

## (Reference)

## Comprehensive Income

	2014	2015
Net income (loss)	30.7	(11.2)
Minority interests in income	0.5	0.9
Income (loss) before minority interests	31.3	(10.3)
Other comprehensive income		
Valuation difference on available-for-sale securities	(10.5)	0.9
Deferred gains or losses on hedges	0.0	0.0
Revaluation reserve for land	—	0.0
Foreign currency translation adjustment	10.6	4.3
Remeasurements of defined benefit plans	—	(0.2)
Share of other comprehensive income of associates accounted for using equity method	1.8	1.2
Total other comprehensive income	1.9	6.3
Comprehensive income	33.3	(3.9)

## 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 the pachinko and pachislot machine market shrinks and development schedules are delayed. In addition, earnings have remained sluggish due to ongoing increases in component procurement costs.

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 the former SEGA share revenues based on players' use of amusement arcade machines. As a result of these factors, sales have been down in this segment, which had been generating a level of

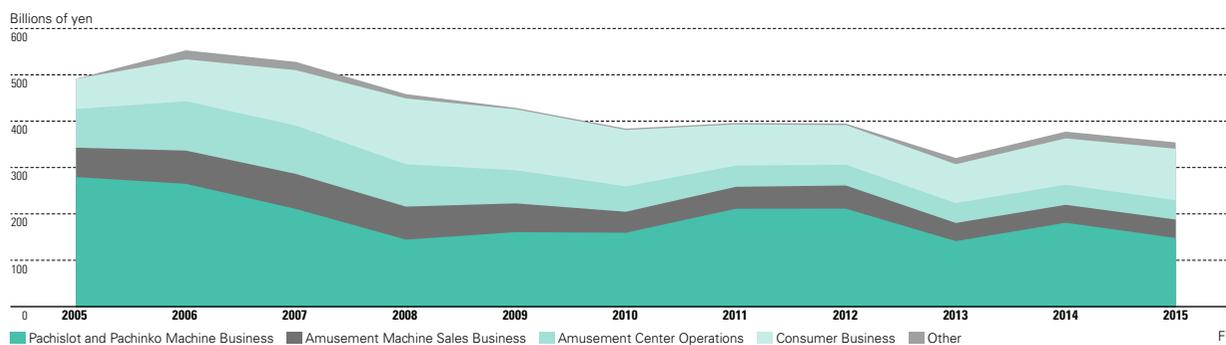
profits second only to the Pachislot and Pachinko Machine Business, and the segment has recorded operating losses in the two years since fiscal 2014, owing to such factors as a dearth of new titles.

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.

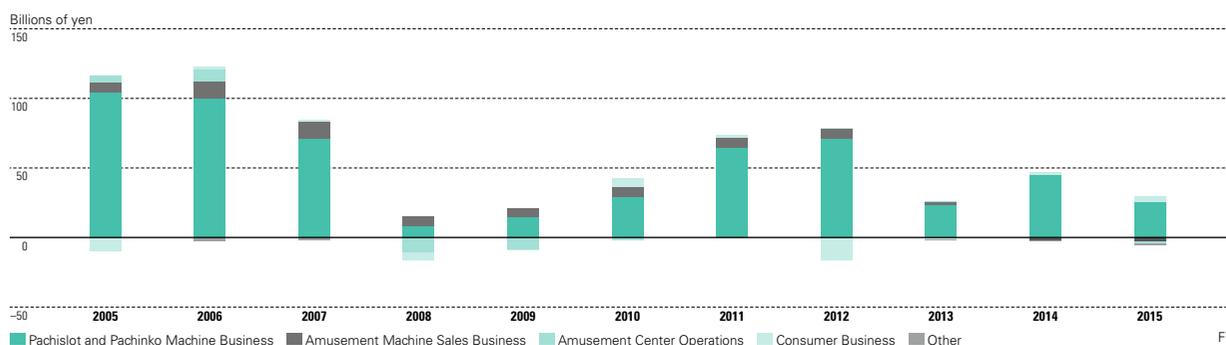
Since the Consumer Business segment recorded an operating loss in fiscal 2008, the packaged game software area has been reforming its profit structure primarily by narrowing down the number of titles it sells and rationalizing its organization. On the other hand, earnings from the digital game area are growing rapidly. In fiscal 2015, 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. Consequently, the Company's earnings tend to be closely tied with fluctuations in pachislot and pachinko machine unit sales.

Net Sales by Segment



Operating Income (Loss) by Segment



## ANALYSIS BY BUSINESS SEGMENT

## Comparing Fiscal 2015 and Fiscal 2014

## Pachislot and Pachinko Machine Business

Sales of pachinko machines were robust, but unit sales of pachislot machines declined substantially, as a revision to model-testing operation methods led to a decrease in the number of launched new titles. As a result, the segment recorded a year-on-year decline in net sales of ¥32.6 billion, or 18.0%, to ¥149.1 billion. Operating income dropped ¥19.4 billion, or 43.0%, to ¥25.7 billion, and the operating margin decreased 7.6 percentage points, to 17.3%.

## Amusement Machine Sales Business

Sales of CVT kits, as well as cards and other consumables and revenues from revenue-sharing titles, led to a ¥1.0 billion, or 2.7%, increase in segment net sales, to ¥39.6 billion. Due to sluggish sales of new titles and a book value devaluation on some inventories, the segment incurred an operating loss of ¥2.5 billion, compared with an operating loss of ¥1.2 billion in the preceding term.

## Amusement Center Operations

Due to efforts to strengthen the management capabilities of existing amusement centers, net sales of existing amusement centers in Japan rose 0.1% from the previous year's level. Affected by the consumption tax hike, however, net sales for the segment decreased ¥1.8 billion, or 4.2% year on year, to ¥41.4 billion, and the segment recorded an operating loss of ¥0.9 billion, compared with operating income of ¥60 million in the previous fiscal year.

## Consumer Business

Sales were down in the packaged game software area and the toy sales business, but sales of existing titles were strong in the digital game area, with the exception of mainstay titles. Accordingly, segment net sales expanded ¥11.1 billion, or 11.2%, year on year, to ¥111.0 billion. Operating income rose from ¥2.0 billion in the previous fiscal year to ¥4.0 billion during the fiscal year under review.

## Fiscal 2016 Outlook

On April 1, 2015, we implemented organizational restructuring within the Group to clarify the business fields for which Group companies are responsible, as well as to continuously review businesses going forward and promote further business reorganization. As a result, from fiscal 2016 the Group's business segmentation for accounting purposes will be revised from the previous four into three: the Pachislot and Pachinko Machine Business, the Entertainment Contents Business, and the Resort Business. Furthermore, due to a change in accounting policy, from fiscal 2016 net sales figures will be presented as gross amounts rather than net amounts.

## Pachislot and Pachinko Machine Business

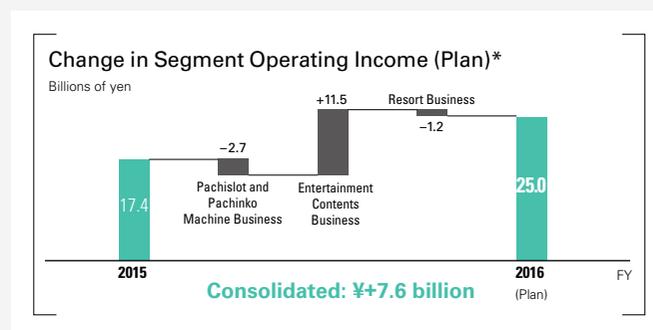
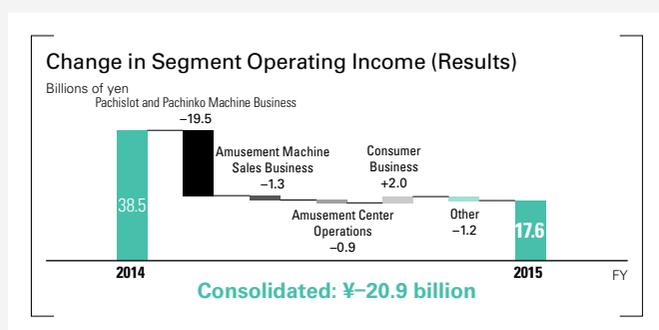
This segment is targeting net sales of ¥167.0 billion and expects operating income to decline 11%, to ¥23.0 billion. In pachislot machines, we expect sales to increase due to the launch of multiple mainstay titles. In pachinko machines, however, despite the introduction of multiple titles the segment expects unit sales to decrease year on year, reflecting a downturn from the previous year's sales of the *Pachinko CR Hokuto No Ken 6* series. Due to a temporary decrease in profitability stemming from the effects of yen depreciation on component procurement costs and the launch of new devices, the Company forecasts an operating margin for this business of 13.8%.

## Entertainment Contents Business

In this segment, we are targeting net sales of ¥235.0 billion, driven by efforts to secure sales of existing titles and launch multiple new titles in the digital game area. In addition to higher profits in the digital game area, we expect profitability to improve thanks to the rationalization of operations in the packaged game software, amusement machine sales, and animation and toys areas. As a result, we expect operating income to surge to ¥11.5 billion.

## Resort Business

Through initiatives to enhance management and the customer-attraction capabilities of existing facilities, this segment is targeting net sales of ¥18.0 billion. Due to investments to improve utilization rates and profitability at existing facilities, as well as upfront investments in integrated resorts, the segment expects an operating loss of ¥3.5 billion, compared with a loss of ¥2.3 billion in fiscal 2015.



\* In accordance with a change in accounting policy from fiscal 2016, figures for fiscal 2015 reflect the change retrospectively.

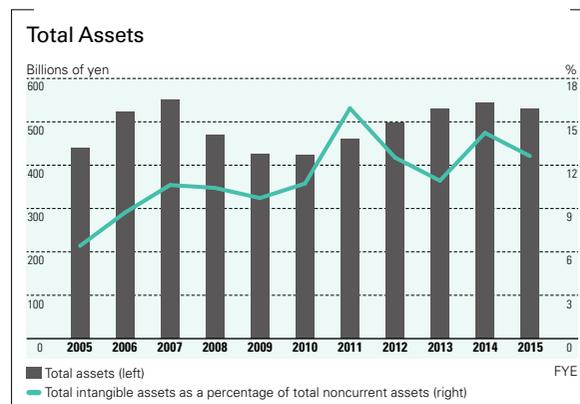
## FINANCIAL POSITION ANALYSIS

### 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 integrated resorts the Company is exercising due diligence to avoid creating a bloated balance sheet.

The equity ratio has remained consistently around 60% due to a policy of securing a certain level of internal reserves that enable investment to develop businesses in growth areas and the payment of stable

cash dividends, even amid the earnings volatility stemming from the consequent presence or absence of hit products, which is the nature of the industry.



### Comparing Fiscal 2015 and Fiscal 2014

#### Assets

Total assets at March 31, 2015, the fiscal year-end, stood at ¥528.8 billion, down ¥14.0 billion from one year earlier.

Total current assets at fiscal year-end amounted to ¥298.2 billion, down ¥20.2 billion. The lower figure is mainly due to decreases in notes and accounts receivable–trade and short-term investment securities.

Total noncurrent assets at the fiscal year-end stood at ¥230.6 billion, up ¥6.1 billion. This primarily reflected a ¥9.2 billion increase in investment securities due to the greater holding of securities in line with a capital and business tie-up agreement.

#### Liabilities

Total current liabilities at the fiscal year-end stood at ¥86.7 billion, down ¥4.3 billion from the previous fiscal year-end. The current ratio came to 343.9%, reflecting the Company's continued high level of liquidity.

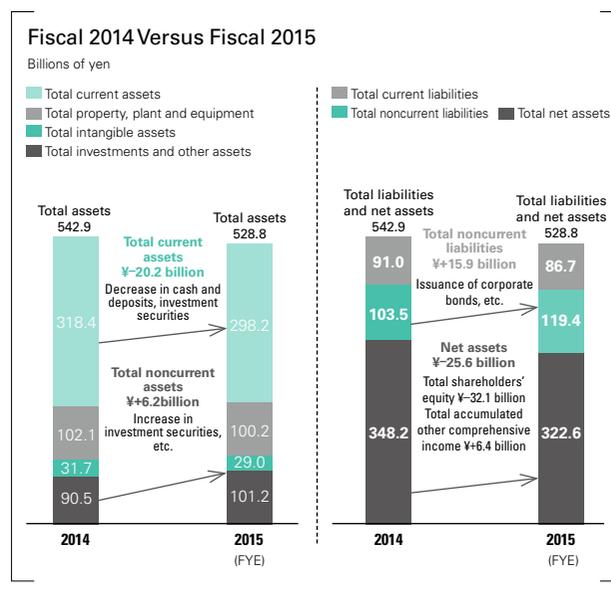
Total noncurrent liabilities at fiscal year-end were ¥119.4 billion, up ¥15.9 billion from one year earlier, due to bond issuance, among other factors.

Interest-bearing debt rose ¥15.7 billion, to ¥111.7 billion, at fiscal year-end. At ¥199.4 billion, liquidity in hand remained higher than interest-bearing debt, testifying to a sound financial position.

#### Net Assets

Total net assets decreased ¥25.5 billion, to ¥322.6 billion, at the fiscal year-end. Total shareholders' equity declined despite increases in foreign currency translation adjustments and the valuation difference on

available-for-sale securities, due to the posting of a net loss, the acquisition of treasury stock, and the payment of cash dividends. As a result, shareholders' equity stood at ¥317.5 billion on March 31, 2015, down ¥25.7 billion from a year earlier, and the equity ratio fell 3.2 percentage points, to 60.0%. The ratio of fixed assets to fixed liabilities (ratio of total noncurrent assets to total noncurrent liabilities) was 52.8%.

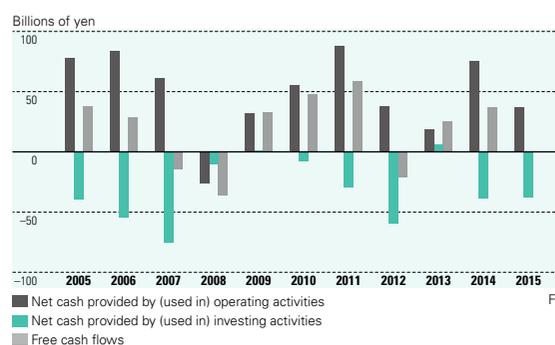


## CASH FLOW ANALYSIS

### Long-Term Trends

With the exception of one period, the Group has continued to record net cash outflows in investing activities due to M&As in growth areas and strategic investments to raise production capacity. 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. Through a cash management system, the Group uses internal capital efficiently. Also, the Group uses a range of methods to support liquidity and meet its investment needs flexibly, including borrowings and bond issuance.

### Cash Flows



### Comparing Fiscal 2015 and Fiscal 2014

#### Net Cash Provided by Operating Activities

Net cash provided by operating activities was ¥37.0 billion, compared with ¥75.2 billion in the previous fiscal year. This was primarily attributable to income before income taxes and minority interests of ¥2.0 billion, depreciation and amortization of ¥21.7 billion, a ¥9.1 billion decrease in notes and accounts receivable-trade, and a ¥6.6 billion decline in inventories.

#### Net Cash Used in Investing Activities / Free Cash Flows

Net cash used in investing activities was ¥37.7 billion, compared with ¥38.5 billion in the previous fiscal year. This was mainly due to expenditures of ¥12.0 billion for the acquisition of short-term investment securities and investment securities, ¥16.1 billion for the purchase of property, plant and equipment, and ¥8.4 billion for the purchase of intangible assets.

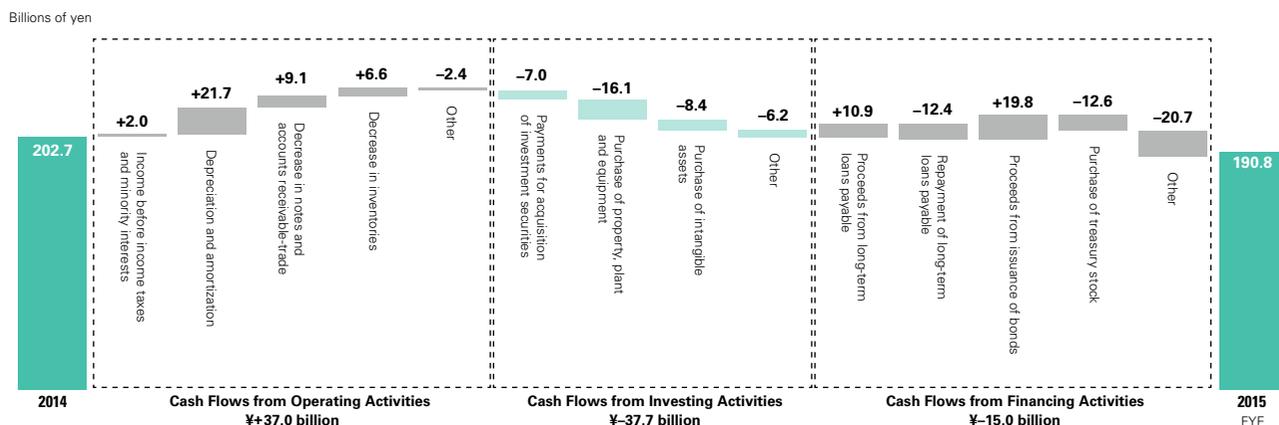
As a result, free cash flows amounted to a negative ¥0.7 billion, compared with a positive ¥36.6 billion in the preceding fiscal year.

#### Net Cash Used in Financing Activities

Net cash used in financing activities was ¥15.0 billion, compared with ¥11.5 billion in the previous fiscal year. This mainly stemmed from financing of ¥19.8 billion through the issuance of bonds payable, expenditures of ¥12.4 billion for repayments of long-term loans payable, ¥9.6 billion for cash dividends paid (including to minority interests), and ¥12.6 billion for the purchase of treasury stock.

As a result of the above, cash and cash equivalents at the end of the period amounted to ¥190.8 billion, down ¥11.9 billion from the previous fiscal year-end.

### Consolidated Cash Flows



### Fiscal 2016 Outlook

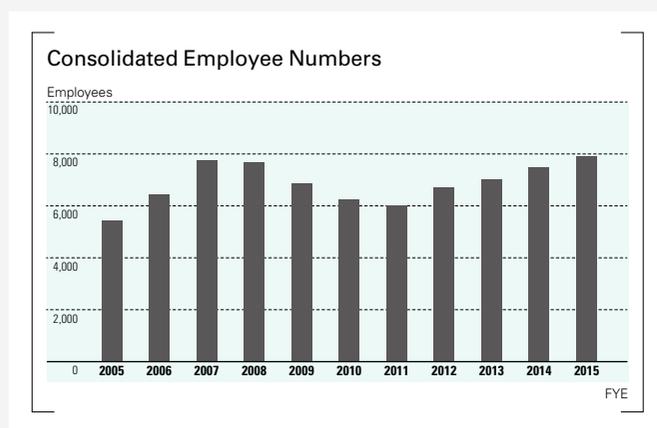
In fiscal 2016, net cash provided by operating activities expected to increase year on year, mainly because of an anticipated increase in unit sales in the Pachislot and Pachinko Machine Business segment. Net cash used in investing activities is projected to rise year on year, due

principally to recurring capital expenditures to acquire molds and other equipment, as well as for capital expenditures in the Resort Business segment. We expect a year-on-year increase in net cash provided by financing activities, due to bond issuance.

## HUMAN AND INTELLECTUAL CAPITAL

### Consolidated Employee Numbers

The consolidated number of employees at the end of fiscal 2015 is as shown below. The number of employees in the Consumer Business increased, due mainly to efforts to reinforce the digital game area. Group restructuring during the period led to the reduction of approximately 300 personnel.



### Employee Numbers by Segment

Segment	2014	2015	YOY change
Pachislot and Pachinko Machine Business	1,540	1,555	+1.0%
Amusement Machine Sales Business	1,672	1,694	+1.3%
Amusement Center Operations	531	681	+28.2%
Consumer Business	2,838	3,036	+7.0%
Other	772	804	+4.1%
Corporate (holding company)	119	118	-0.8%
Total	7,472	7,888	+5.6%

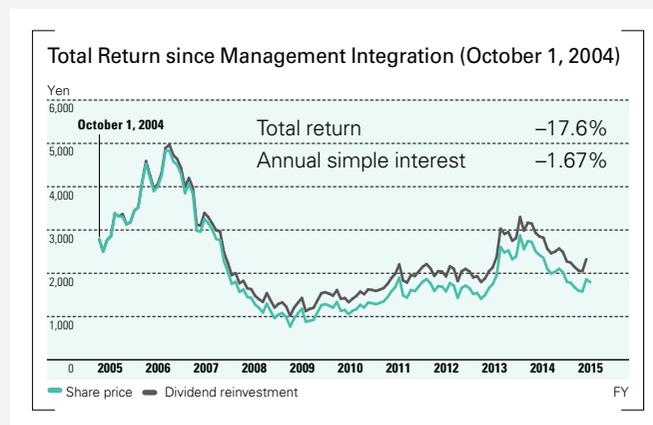
### Intellectual Property

The Company acquired no substantial intellectual property due to M&A activity during the year.

## SHAREHOLDER VALUE

### 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 five fiscal years while purchasing treasury stock flexibly. Between the management integration on October 1, 2004, and March 31, 2015, total return based on aggregated capital gain and cash dividends was minus 17.6%, equivalent to an annual simple interest of minus 1.67%. (During the same period, the total return of TOPIX was 38.1%. As of October 1, 2004, the government bond interest rate was 1.48%.)



### Fiscal 2015 Returns to Shareholders

The net loss per share was ¥46.22, compared with net income per share of ¥126.42 in the previous fiscal year. This result was due to the fact that after seriously considering the effect of tax reform, performance during the year, and future earnings forecasts along with the probability of recovering deferred tax assets, the Group opted to realize some of its deferred tax assets and record them in deferred income taxes. For fiscal 2015, the Company paid cash dividends of ¥40.00 per share, the same as for the previous fiscal year. As a result, the ratio of cash dividends to net assets was 2.9%, as in the preceding term. At a Board of Directors' meeting on February 12, 2015, the Company resolved to acquire treasury stock of up to 10 million shares (an acquisition price of up to ¥20.0 billion). (On April 16, 2015, the Company acquired 10 million shares for approximately ¥18.1 billion.)

# Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
As of March 31, 2015 and 2014

	2015	2014	Thousands of U.S. dollars (Note 1)
		Millions of yen	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and deposits	¥102,260	¥101,220	\$ 852,952
Notes and accounts receivable-trade	39,239	48,108	327,298
Allowance for doubtful accounts	(389)	(323)	(3,252)
Short-term investment securities	97,210	107,713	810,828
Merchandise and finished goods	6,518	6,130	54,371
Work in process	12,277	13,610	102,409
Raw materials and supplies	9,967	16,189	83,136
Income taxes receivable	6,235	1,993	52,009
Deferred tax assets	6,053	12,627	50,490
Other	18,887	11,203	157,539
Total current assets	298,260	318,475	2,487,784
<b>Noncurrent assets</b>			
Property, plant and equipment			
Buildings and structures (Note 5 (1))	104,191	103,561	869,056
Accumulated depreciation	(71,111)	(69,458)	(593,140)
Buildings and structures, net	33,079	34,103	275,916
Machinery, equipment and vehicles	20,229	20,468	168,736
Accumulated depreciation	(13,033)	(11,427)	(108,710)
Machinery, equipment and vehicles, net	7,196	9,041	60,025
Amusement machines and facilities	54,154	52,971	451,701
Accumulated depreciation	(44,287)	(43,534)	(369,404)
Amusement machines and facilities, net	9,866	9,436	82,297
Land (Notes 5 (1) and (3))	39,822	39,029	332,160
Construction in progress	1,782	2,239	14,866
Other	52,624	51,762	438,936
Accumulated depreciation	(44,099)	(43,450)	(367,829)
Other, net	8,525	8,311	71,106
Total property, plant and equipment	100,272	102,162	836,373
Intangible assets			
Goodwill	14,668	18,915	122,349
Other	14,402	12,879	120,132
Total intangible assets	29,071	31,795	242,481
Investments and other assets			
Investment securities (Note 5 (2))	70,051	60,825	584,300
Long-term loans receivable	865	710	7,218
Lease and guarantee deposits	14,081	13,342	117,450
Deferred tax assets	656	875	5,477
Other	16,429	15,554	137,040
Allowance for doubtful accounts	(790)	(805)	(6,597)
Total investments and other assets	101,293	90,503	844,889
Total noncurrent assets	230,637	224,461	1,923,745
<b>Total assets</b>	¥528,898	¥542,936	\$4,411,529

See accompanying notes.

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Notes and accounts payable-trade	¥ 26,964	¥ 37,292	\$ 224,911
Short-term loans payable (Notes 5 (1) and (4))	13,842	12,918	115,459
Current portion of bonds	1,600	1,700	13,345
Income taxes payable	3,240	6,288	27,032
Accrued expenses	13,358	12,255	111,422
Provision for bonuses	4,339	3,868	36,195
Provision for directors' bonuses	488	614	4,076
Provision for business restructuring	217	243	1,816
Provision for point card certificates	36	56	308
Asset retirement obligations	133	325	1,114
Deferred tax liabilities	11	5	94
Other	22,491	15,499	187,602
Total current liabilities	86,726	91,069	723,379
<b>Noncurrent liabilities</b>			
Bonds payable	56,200	37,800	468,763
Long-term loans payable	32,918	35,198	274,572
Net defined benefit liability	3,716	6,053	31,003
Provision for directors' retirement benefits	121	146	1,012
Deferred tax liabilities	4,274	4,294	35,651
Deferred tax liabilities for land revaluation	739	745	6,171
Asset retirement obligations	2,435	2,165	20,315
Provision for dismantling of fixed assets	3,395	—	28,323
Other	15,696	17,192	130,923
Total noncurrent liabilities	119,498	103,596	996,737
<b>Total liabilities</b>	<b>206,224</b>	<b>194,666</b>	<b>1,720,116</b>
<b>NET ASSETS</b>			
<b>Shareholders' equity</b>			
Capital stock	29,953	29,953	249,838
Capital surplus	119,282	119,312	994,933
Retained earnings	198,924	219,684	1,659,229
Treasury stock	(49,335)	(37,971)	(411,508)
Total shareholders' equity	298,824	330,977	2,492,493
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	17,794	16,804	148,424
Deferred gains or losses on hedges	10	0	87
Revaluation reserve for land (Note 5 (3))	(4,699)	(4,705)	(39,199)
Foreign currency translation adjustment	3,414	(2,281)	28,477
Remeasurements of defined benefit plans	2,206	2,504	18,404
Total accumulated other comprehensive income	18,726	12,322	156,194
Subscription rights to shares	832	1,078	6,945
Minority interests	4,289	3,892	35,779
Total net assets	322,673	348,270	2,691,412
<b>Total liabilities and net assets</b>	<b>¥528,898</b>	<b>¥542,936</b>	<b>\$4,411,529</b>

See accompanying notes.

# Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

	2015	2014	Thousands of U.S. dollars (Note 1)
		Millions of yen	
Net sales	¥354,921	¥378,011	\$2,960,389
Cost of sales (Notes 6 (1) and (2))	220,044	230,040	1,835,384
Gross profit	134,876	147,970	1,125,004
Selling, general and administrative expenses (Note 6 (2))	117,267	109,437	978,125
Operating income	17,609	38,533	146,878
Other income (expenses)			
Interest income	307	341	2,566
Dividends income	982	917	8,193
Equity in earnings of affiliates	26	—	221
Gain on investments in partnership	311	1,623	2,599
Foreign exchange gains	—	966	—
Gain on bad debts recovered	300	—	2,502
Interest expenses	(910)	(849)	(7,597)
Equity in losses of affiliates	—	(257)	—
Sales discounts	(58)	(125)	(489)
Commission fee	(159)	(91)	(1,331)
Loss on investments in partnership	(66)	(357)	(551)
Penalty payment for cancellation of game center lease agreement	(2)	(18)	(17)
Bond issuance cost	(155)	(64)	(1,298)
Loss on retirement of noncurrent assets	(585)	(400)	(4,884)
Settlement package	(418)	(2)	(3,487)
Foreign exchange losses	(390)	—	(3,259)
Gain on sales of noncurrent assets (Note 6 (3))	113	3,585	946
Gain on sales of shares of subsidiaries and associates	175	21	1,467
Gain on sales of investment securities	187	11,970	1,563
Gain on reversal of subscription rights to shares	196	0	1,643
Compensation income for expropriation	277	—	2,315
Loss on sales of noncurrent assets (Note 6 (4))	(80)	(9)	(670)
Impairment loss (Note 6 (6))	(7,881)	(1,799)	(65,739)
Loss on valuation of investment securities	(100)	(196)	(841)
Loss on liquidation of subsidiaries and affiliates (Note 6 (5))	—	(6,601)	—
Provision for dismantling of fixed assets	(2,778)	—	(23,175)
Loss on the discontinuance of independent film production	(1,826)	—	(15,231)
Early extra retirement payments	(1,868)	—	(15,584)
Other, net	(1,123)	358	(9,369)
Subtotal	(15,527)	9,012	(129,511)
Income before income taxes and minority interests	2,082	47,545	17,367
Income taxes-current	5,483	8,131	45,739
Income taxes-deferred	6,901	8,098	57,562
Total income taxes	12,384	16,230	103,302
Income (loss) before minority interests	(10,302)	31,315	(85,934)
Minority interests in income	955	593	7,972
Net income (loss)	(11,258)	30,721	(93,907)
Minority interests in income	955	593	7,972
Income (loss) before minority interests	(10,302)	31,315	(85,934)
Other comprehensive income (Note 6 (7))			
Valuation difference on available-for-sale securities	983	(10,580)	8,200
Deferred gains or losses on hedges	9	2	78
Revaluation reserve for land	5	—	48
Foreign currency translation adjustment	4,337	10,692	36,182
Remeasurements of defined benefit plans, net of tax	(238)	—	(1,989)
Share of other comprehensive income of associates accounted for using equity method	1,275	1,878	10,637
Total other comprehensive income	6,373	1,993	53,158
Comprehensive income	(3,929)	33,308	(32,776)
(Breakdown)			
Comprehensive income attributable to owners of the parent	(4,855)	32,460	(40,496)
Comprehensive income attributable to minority interests	¥ 925	¥ 847	\$ 7,720

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
<b>Shareholders' equity</b>			
Capital stock			
Balance at the beginning of the period	¥ 29,953	¥ 29,953	\$ 249,838
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	29,953	29,953	249,838
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of the period	29,953	29,953	249,838
Capital surplus			
Balance at the beginning of the period	119,312	119,335	995,185
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	119,312	119,335	995,185
Changes of items during the period			
Disposal of treasury stock	(30)	(14)	(251)
Change of scope of consolidation	—	(8)	—
Total changes of items during the period	(30)	(23)	(251)
Balance at the end of the period	119,282	119,312	994,933
Retained earnings			
Balance at the beginning of the period	219,684	198,924	1,832,379
Cumulative effects of changes in accounting policies	711	—	5,932
Balance at the beginning of the period which reflects changes in accounting policies	220,395	198,924	1,838,312
Changes of items during the period			
Dividends from surplus	(9,758)	(9,701)	(81,393)
Net income (loss)	(11,258)	30,721	(93,907)
Change of scope of consolidation	(231)	(260)	(1,930)
Change of scope of equity method	(222)	—	(1,851)
Total changes of items during the period	(21,470)	20,759	(179,083)
Balance at the end of the period	198,924	219,684	1,659,229
Treasury stock			
Balance at the beginning of the period	(37,971)	(40,540)	(316,723)
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	(37,971)	(40,540)	(316,723)
Changes of items during the period			
Purchase of treasury stock	(12,601)	(55)	(105,109)
Disposal of treasury stock	1,237	2,623	10,325
Total changes of items during the period	(11,363)	2,568	(94,784)
Balance at the end of the period	(49,335)	(37,971)	(411,508)
Total shareholders' equity			
Balance at the beginning of the period	330,977	307,673	2,760,679
Cumulative effects of changes in accounting policies	711	—	5,932
Balance at the beginning of the period which reflects changes in accounting policies	331,689	307,673	2,766,612
Changes of items during the period			
Dividends from surplus	(9,758)	(9,701)	(81,393)
Net income (loss)	(11,258)	30,721	(93,907)
Purchase of treasury stock	(12,601)	(55)	(105,109)
Disposal of treasury stock	1,207	2,608	10,073
Change of scope of consolidation	(231)	(269)	(1,930)
Change of scope of equity method	(222)	—	(1,851)
Total changes of items during the period	(32,864)	23,304	(274,119)
Balance at the end of the period	¥298,824	¥330,977	\$2,492,493

See accompanying notes.

## Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities			
Balance at the beginning of the period	¥ 16,804	¥ 27,385	\$ 140,166
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	16,804	27,385	140,166
Changes of items during the period			
Net changes of items other than shareholders' equity	990	(10,581)	8,258
Total changes of items during the period	990	(10,581)	8,258
Balance at the end of the period	17,794	16,804	148,424
Deferred gains or losses on hedges			
Balance at the beginning of the period	0	—	7
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	0	—	7
Changes of items during the period			
Net changes of items other than shareholders' equity	9	0	80
Total changes of items during the period	9	0	80
Balance at the end of the period	10	0	87
Revaluation reserve for land			
Balance at the beginning of the period	(4,705)	(4,705)	(39,248)
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	(4,705)	(4,705)	(39,248)
Changes of items during the period			
Net changes of items other than shareholders' equity	5	—	48
Total changes of items during the period	5	—	48
Balance at the end of the period	(4,699)	(4,705)	(39,199)
Foreign currency translation adjustment			
Balance at the beginning of the period	(2,281)	(14,601)	(19,030)
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	(2,281)	(14,601)	(19,030)
Changes of items during the period			
Net changes of items other than shareholders' equity	5,695	12,319	47,507
Total changes of items during the period	5,695	12,319	47,507
Balance at the end of the period	3,414	(2,281)	28,477
Remeasurements of defined benefit plans			
Balance at the beginning of the period	2,504	—	20,889
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	2,504	—	20,889
Changes of items during the period			
Net changes of items other than shareholders' equity	(297)	2,504	(2,484)
Total changes of items during the period	(297)	2,504	(2,484)
Balance at the end of the period	2,206	2,504	18,404
Total accumulated other comprehensive income			
Balance at the beginning of the period	12,322	8,078	102,783
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	12,322	8,078	102,783
Changes of items during the period			
Net changes of items other than shareholders' equity	6,403	4,243	53,410
Total changes of items during the period	6,403	4,243	53,410
Balance at the end of the period	18,726	12,322	156,194
<b>Subscription rights to shares</b>			
Balance at the beginning of the period	1,078	1,146	8,991
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	1,078	1,146	8,991
Changes of items during the period			
Net changes of items other than shareholders' equity	(245)	(68)	(2,046)
Total changes of items during the period	(245)	(68)	(2,046)
Balance at the end of the period	832	1,078	6,945
<b>Minority interests</b>			
Balance at the beginning of the period	3,892	3,136	32,463
Cumulative effects of changes in accounting policies			
Balance at the beginning of the period which reflects changes in accounting policies	3,892	3,136	32,463
Changes of items during the period			
Net changes of items other than shareholders' equity	397	756	3,316
Total changes of items during the period	397	756	3,316
Balance at the end of the period	4,289	3,892	35,779
<b>Total net assets</b>			
Balance at the beginning of the period	348,270	320,034	2,904,918
Cumulative effects of changes in accounting policies	711	—	5,932
Balance at the beginning of the period which reflects changes in accounting policies	348,982	320,034	2,910,851
Changes of items during the period			
Dividends from surplus	(9,758)	(9,701)	(81,393)
Net income (loss)	(11,258)	30,721	(93,907)
Purchase of treasury stock	(12,601)	(55)	(105,109)
Disposal of treasury stock	1,207	2,608	10,073
Change of scope of consolidation	(231)	(269)	(1,930)
Change of scope of equity method	(222)	—	(1,851)
Net changes of items other than shareholders' equity	6,555	4,931	54,680
Total changes of items during the period	26,308	28,235	(219,438)
Balance at the end of the period	¥322,673	¥348,270	\$2,691,412

See accompanying notes.

# Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 2,082	¥ 47,545	\$ 17,367
Depreciation and amortization	21,747	19,743	181,394
Impairment loss	7,881	1,799	65,739
Amount of transfer of equipment by amusement center operations business	(4,270)	(3,287)	(35,618)
Loss (gain) on sales of noncurrent assets	(33)	(3,576)	(275)
Loss on retirement of noncurrent assets	585	400	4,884
Loss (gain) on sales of shares of subsidiaries and associates	79	(21)	661
Loss (gain) on liquidation of subsidiaries and affiliates	—	6,601	—
Loss (gain) on sales of investment securities	(187)	(11,941)	(1,563)
Loss (gain) on valuation of investment securities	100	196	841
Loss (gain) on investments in partnership	(245)	(1,266)	(2,048)
Amortization of goodwill	3,625	2,997	30,236
Increase (decrease) in allowance for doubtful accounts	(24)	(294)	(207)
Increase (decrease) in provision for directors' bonuses	(126)	(48)	(1,053)
Increase (decrease) in net defined benefit liability	(1,179)	(398)	(9,841)
Increase (decrease) in provision for directors' retirement benefits	(25)	8	(210)
Increase (decrease) in provision for bonuses	277	(78)	2,312
Increase (decrease) in provision for dismantling of fixed assets	3,395	—	28,323
Interest and dividends income	(1,289)	(1,258)	(10,759)
Interest expenses	910	849	7,597
Foreign exchange losses (gains)	791	(1,318)	6,599
Equity in (earnings) losses of affiliates	(26)	257	(221)
Decrease (increase) in notes and accounts receivable-trade	9,175	16,517	76,534
Decrease (increase) in inventories	6,679	8,616	55,716
Increase (decrease) in notes and accounts payable-trade	(10,077)	(13,384)	(84,055)
Increase (decrease) in guarantee deposits received	(131)	186	(1,098)
Other, net	8,690	3,260	72,486
Subtotal	48,404	72,104	403,742
Interest and dividends income received	1,343	1,273	11,207
Interest expenses paid	(818)	(835)	(6,828)
Income taxes paid	(13,946)	(5,818)	(116,324)
Income taxes refund	2,026	8,477	16,906
Net cash provided by (used in) operating activities	¥ 37,010	¥ 75,201	\$ 308,703

See accompanying notes.

## Consolidated Statements of Cash Flows

	2015	2014	2015
		Millions of yen	Thousands of U.S. dollars (Note 1)
<b>Cash flows from investing activities:</b>			
Payments into time deposits	¥ (2,704)	¥ (5,860)	\$ (22,555)
Proceeds from withdrawal of time deposits	2,558	1,939	21,343
Purchase of short-term investment securities	(5,000)	—	(41,704)
Purchase of trust beneficiary right	(3,924)	(4,941)	(32,734)
Proceeds from sales of trust beneficiary right	4,888	6,195	40,775
Purchase of property, plant and equipment	(16,115)	(27,123)	(134,416)
Proceeds from sales of property, plant and equipment	489	3,461	4,084
Purchase of intangible assets	(8,494)	(6,870)	(70,854)
Proceeds from sales of intangible assets	—	1,895	—
Purchase of investment securities	(7,068)	(4,768)	(58,955)
Proceeds from sales of investment securities	289	16,199	2,416
Proceeds from redemption of investment securities	400	4,755	3,336
Payments for investment in partnerships	(1,518)	(383)	(12,669)
Proceeds from distribution of investment in partnerships	128	978	1,069
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 8 (2))	(637)	(398)	(5,318)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation (Note 8 (3))	(96)	—	(800)
Purchase of stocks of subsidiaries and affiliates	(1,039)	(7,846)	(8,670)
Payments of loans receivable	(459)	(694)	(3,832)
Collection of loans receivable	284	124	2,374
Payments for lease deposits	(1,245)	(1,421)	(10,386)
Collection of lease deposits	920	674	7,677
Payments for transfer of business (Note 8 (4))	—	(14,359)	—
Other, net	609	(104)	5,080
Net cash provided by (used in) investing activities	(37,734)	(38,547)	(314,741)
<b>Cash flows from financing activities:</b>			
Proceeds from long-term loans payable	10,900	2,488	90,916
Repayments of long-term loans payable	(12,423)	(12,369)	(103,622)
Proceeds from issuance of bonds	19,844	9,935	165,521
Redemption of bonds	(1,700)	(5,843)	(14,179)
Proceeds from exercise of stock options	1,078	2,031	8,995
Cash dividends paid	(9,690)	(9,706)	(80,826)
Cash dividends paid to minority shareholders	—	(17)	—
Purchase of treasury stock	(12,601)	(56)	(105,109)
Other, net (Note 8 (5))	(10,465)	2,024	(87,294)
Net cash provided by (used in) financing activities	(15,058)	(11,512)	(125,599)
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>2,100</b>	<b>3,357</b>	<b>17,518</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(13,681)</b>	<b>28,499</b>	<b>(114,118)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>202,741</b>	<b>174,210</b>	<b>1,691,060</b>
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	<b>1,778</b>	<b>31</b>	<b>14,832</b>
<b>Cash and cash equivalents at end of period (Note 8 (1))</b>	<b>¥190,837</b>	<b>¥202,741</b>	<b>\$1,591,773</b>

See accompanying notes.

# Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2015 and 2014

## 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 2015 and 2014. 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 2014 consolidated financial statements to conform to the classifications used in 2015. 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, 2015, which was ¥119.89 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 78 in 2015.

From the year ended March 31, 2015, the following companies were included in the consolidated subsidiaries of the Company: JMS Communications Co., Ltd. and two other companies, because of the establishment; Demiurge Studios, Inc. and three other companies, because of the Company's acquisition; Index Corporation, because of establishment through an incorporation-type split; and SEGA PUBLISHING KOREA LTD. and five other companies, because of increase of importance.

From the year ended March 31, 2015, the following companies have been excluded from the scope of consolidation: Sammy Design Co, Ltd., sale of the share of stocks; and Sega Australia Pty Ltd. and one other company, because of its liquidation.

The number of non-consolidated subsidiaries is 12 in 2015.  
Major 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 0 in 2015.

From the year ended March 31, 2015, the following company has been excluded from the scope of application of the equity method; SEGA PUBLISHING KOREA LTD., because the company has been included in the scope of consolidation because of increase of importance.

The number of affiliated companies accounted for under the equity method is 11 in 2015.

Major equity-method affiliated companies: INTERLIFE HOLDINGS CO., LTD., PARADISE SEGASAMMY Co., Ltd. and nine companies.

From the year ended March 31, 2015, the following companies have been included in the scope of application of the equity method; GALAXY GRAPHICS Inc., because of the establishment; PLAY HEART, because of acquisition; and Subcul-rise Record and two other companies, because of increase of importance.

CRI Middleware Co., Ltd. has been excluded from the scope of application of equity-method because of sales of parts of its stake.

The number of non-consolidated subsidiaries and affiliated companies which are not accounted for under the equity method is 16 in 2015.

Major non-consolidated subsidiaries and affiliated companies not accounted for under 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.

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 (or at the net realizable value (NRV) calculated by writing down the book value to reflect a decrease in the NRV).

Also, work in process is stated at cost, cost being determined mainly by the specific identification method (or at the NRV calculated by writing down the book value to reflect a decrease in the NRV).

**(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)

Amortization is calculated using the straight-line method. The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (less than 5 years).

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:

Depreciated using the straight-line method over a useful life equal to the lease period with a residual value of zero

**(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 Audit & Supervisory Board Members.

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, 2015 has been recorded.

g. Provision for dismantling of fixed assets

To provide for expenses for dismantling unused aging buildings, estimated future expenses are recorded.

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

a. Attribution method for projected retirement benefits

In calculating retirement benefit obligations, benefit-formula 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, 2015.

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 March 26, 2015; the "Guidance") were adopted from the fiscal year ended March 31, 2015 for provisions set in the main clauses of Paragraph 35 of the Standard and Paragraph 67 of the Guidance. Accordingly, the calculation methods of retirement benefit obligations and service costs were reviewed, the method of attributing expected benefits to periods was changed from the straight-line basis to the benefit-formula basis, and for the method of determining the discount rate, regarding the period of bonds used for the basis of determining the discount rate, it was changed from the method where the number of years approximate the expected average remaining working years of employees, to the method where a single weighted-average discount rate reflecting the estimated period and amount of benefit payment is adopted.

The application of the Standard, etc., follows the transitional rules set in Paragraph 37 of the Standard, and thus the adjustments associated with the change in calculation methods of retirement benefit obligations and service costs are recorded in retained earnings at the beginning of the fiscal year ended March 31, 2015.

As a result, net defined benefit liability and deferred tax assets decreased by ¥812 million (\$6,779 thousand) and ¥101 million (\$5,932 thousand), respectively, and retained earnings increased by ¥711 million (\$846 thousand) at the beginning of the fiscal year ended March 31, 2015, while effects on operating income and income before income

taxes and minority interests for the fiscal year ended March 31, 2015 are insignificant.

Meanwhile, the impact on net assets per share and net loss per share for the year ended March 31, 2015 is insignificant. Although dilutive shares existed, there is no impact on diluted net income per share because the Company recorded net loss per share.

#### **(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, and forward exchange contracts

Hedged item: Interest on loans payable, and 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 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 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 standard

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

“Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ Practical Issues Task Force (PITF) No. 18, issued on March 26, 2015)

##### (1) Summary

This report has clarified: (i) accounting treatment reflecting the change in the accounting standard for goodwill under U.S. GAAP revised in January 2014, (ii) accounting treatment reflecting the revision of “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013) and (iii) amortization of actuarial differences in retirement benefit accounting.

##### (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.

##### (3) Effect of application of the standards

The Company and its 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) "Settlement package" that was included in "Other, net" under "Other expenses" for the previous fiscal year (¥2 million) has increased in importance, and is therefore separately itemized beginning from the fiscal year ended March 31, 2015.

(2) "Gain on reversal of subscription rights to shares" that was included in "Other, net" under "Other income" for the previous fiscal year (¥0 million) has increased in importance, and is therefore separately itemized beginning from the fiscal year ended March 31, 2015.

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

Year ended March 31, 2015

Not applicable

Year ended March 31, 2014

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

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

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Investment securities (shares)	¥17,795	¥17,780	\$148,434
Investment securities (capital contributions)	288	155	2,408

**(3) 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). Accordingly, 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

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

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

The balance of unexecuted loans, etc., based on these agreements as of March 31, 2015 and 2014 are as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Total amount of overdraft limit and commitment line agreements	¥70,925	¥71,425	\$591,583
Balance of executed loans	500	500	4,170
Unexecuted balance	70,425	70,925	587,413

## 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 ¥6,195 million (\$51,680 thousand) and ¥3,885 million for the years ended March 31, 2015 and 2014, respectively.

#### (2) Research and development expenses

Expenses relating to research and development activities have been charged to income as incurred and amounted to ¥44,539 million (\$371,503 thousand) and ¥40,070 million for the years ended March 31, 2015 and 2014, respectively.

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

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Buildings and structures	¥ —	¥ 521	\$ —
Land	109	2,299	915
Other property, plant and equipment	3	12	30
Other intangible assets	—	751	—
Total	113	3,585	946

#### (4) Loss on sales of noncurrent assets

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Buildings and structures	¥ —	¥ 4	\$ —
Land	78	—	654
Other property, plant and equipment	1	4	15
Total	80	9	670

#### (5) Loss on liquidation of subsidiaries and affiliates

Year ended March 31, 2015

Not applicable

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.

**(6) Impairment loss**

Year ended March 31, 2015

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 production facilities of pachislot and pachinko machines are calculated mainly as real estate appraisal amounts, while amusement facilities and assets for business are calculated as memorandum amounts mainly because future cash flows are not expected. Furthermore, recoverable value of goodwill is calculated by its useful value mainly with a discount rate of 17.5%.

## Details of impairment loss

Use	Location	Impairment loss		
		Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Production facilities of pachislot and pachinko machines, etc.	Seto City, Aichi and 4 other locations	Buildings and structures	¥ 228	\$ 1,907
		Other property, plant and equipment	1,328	11,082
		Other intangible assets	32	268
		Land	33	279
Amusement facilities	Yokohama City, Kanagawa and 6 other locations	Buildings and structures	2,859	23,853
		Amusement machines and facilities	691	5,771
		Other property, plant and equipment	92	770
		Other intangible assets	68	570
Assets for business	Shibuya Ward, Tokyo and 10 other locations	Buildings and structures	338	2,822
		Amusement machines and facilities	563	4,703
		Other property, plant and equipment	417	3,478
		Other intangible assets	74	623
Other	Minato Ward, Tokyo	Goodwill	1,151	9,606
		Total	7,881	65,739

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	Impairment loss	
		Type	Millions of yen
Assets for business	Shibuya Ward, Tokyo and 6 other locations	Buildings and structures	¥ 51
		Other property, plant and equipment	91
		Other intangible assets	175
		Land	1
Amusement facilities	Minato Ward, Tokyo and 2 other locations	Buildings and structures	543
		Amusement machines and facilities	799
		Other property, plant and equipment	118
		Other intangible assets	17
Total		1,799	

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

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Valuation difference on available-for-sale securities			
The amount arising during the period	¥ 650	¥ (4,845)	\$ 5,428
Reclassification adjustments	(187)	(11,713)	(1,563)
Before adjustments to tax effects	463	(16,558)	3,865
The amount of tax effects	519	5,978	4,335
Valuation difference on available-for-sale securities	983	(10,580)	8,200
Deferred gains or losses on hedges			
The amount arising during the period	14	3	119
Reclassification adjustments	—	—	—
Before adjustments to tax effects	14	3	119
The amount of tax effects	(5)	(1)	(41)
Deferred gains or losses on hedges	9	2	78
Revaluation reserve for land			
The amount of tax effects	5	—	48
Revaluation reserve for land	5	—	48
Foreign currency translation adjustment			
The amount arising during the period	4,337	4,492	36,182
Reclassification adjustments	—	6,200	—
Before adjustments to tax effects	4,337	10,692	36,182
The amount of tax effects	—	—	—
Foreign currency translation adjustment	4,337	10,692	36,182
Remeasurements of defined benefit plans, net of tax			
The amount arising during the period	507	—	4,235
Reclassification adjustments	(220)	—	(1,839)
Before adjustments to tax effects	287	—	2,396
The amount of tax effects	(525)	—	(4,385)
Remeasurements of defined benefit plans, net of tax	(238)	—	(1,989)
Share of other comprehensive income of associates accounted for using equity method			
The amount arising during the period	1,275	1,878	10,637
Reclassification adjustments	—	—	—
Share of other comprehensive income of associates accounted for using equity method	1,275	1,878	10,637
Total other comprehensive income	6,373	1,993	53,158

**NOTE 7**

**Notes to Consolidated Statements of Changes in Net Assets**

**(1) Number of outstanding common stock**

	2015	Shares 2014
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**

	2015	Shares 2014
Balance at beginning of the year	22,627,725	24,169,675
Increase due to purchase in the market by resolution at the Board of Directors' meeting	6,901,600	—
Increase due to purchase of odd stock	9,905	21,851
Decrease due to exercise of stock options	736,300	1,562,900
Decrease due to sale of odd stock	1,141	901
Balance at end of the year	28,801,789	22,627,725

**(3) Subscription rights to shares**

Year ended March 31, 2015

Company name	Breakdown	Balance at March 31, 2015	
		Millions of yen	Thousands of U.S. dollars (Note 1)
The Company	Subscription rights to shares as stock options	¥832	\$6,945
Total		832	6,945

Year ended March 31, 2014

Company name	Breakdown	Balance at March 31, 2014	
		Millions of yen	
The Company	Subscription rights to shares as stock options	¥1,078	
Total		1,078	

**(4) Dividends**

Year ended March 31, 2015

## 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 9, 2014	Common stock	¥4,872	¥20	March 31, 2014	May 28, 2014
Board of Directors' meeting held on October 31, 2014	Common stock	4,886	20	September 30, 2014	December 1, 2014

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 9, 2014	Common stock	\$40,637	\$0.16	March 31, 2014	May 28, 2014
Board of Directors' meeting held on October 31, 2014	Common stock	40,755	0.16	September 30, 2014	December 1, 2014

2. Of the dividends of which the record date is in the fiscal year ended March 31, 2015, but the effective date is in the following fiscal year 31, 2015

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, 2015	Common stock	Retained earnings	¥4,748	¥20	March 31, 2015	May 27, 2015

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 11, 2015	Common stock	Retained earnings	\$39,607	\$0.16	March 31, 2015	May 27, 2015

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

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	¥4,872	¥20	March 31, 2014	May 28, 2014

## NOTE 8

### Notes to Consolidated Statements of Cash Flows

(1) Cash and cash equivalents at March 31, 2015 and 2014 consisted of the following:

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Cash and deposits	¥102,260	¥101,220	\$ 852,952
Short-term investment securities	97,210	107,713	810,828
Total	199,470	208,934	1,663,780
Time deposits with maturities of more than three months	(3,432)	(5,690)	(28,633)
Short-term investment securities with period from the acquisition date to the redemption date exceeding three months	(5,200)	(502)	(43,373)
Cash and cash equivalents	190,837	202,741	1,591,773

(2) Assets and liabilities of the company which has become a consolidated subsidiary due to acquisition of shares

Year ended March 31, 2015

Demiurge Studios, Inc.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 168	\$ 1,405
Noncurrent assets	70	591
Goodwill	883	7,369
Current liabilities	(30)	(250)
Foreign currency translation adjustment	(2)	(18)
Acquisition cost of shares	1,090	9,097
Cash and cash equivalents	(106)	(892)
Accounts payable—other, etc.	(498)	(4,158)
Payments for acquisition of shares, net	(485)	(4,046)

(3) Assets and liabilities of the company which has been excluded from consolidated subsidiaries due to sales of shares  
Year ended March 31, 2015

Sammy Design Co, Ltd.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 1,892	\$ 15,785
Noncurrent assets	529	4,413
Current liabilities	(1,572)	(13,114)
Noncurrent liabilities	(50)	(417)
Loss on sales of shares, etc.	(319)	(2,663)
Sales price of shares	480	4,003
Cash and cash equivalents	(576)	(4,804)
Payments for sales of shares, net	(96)	(800)

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

Year ended March 31, 2014

Index Corporation

	Millions of yen
Current assets	¥ 2,028
Noncurrent assets	1,783
Goodwill	11,040
Current liabilities	(492)
Payments for transfer of business	14,359

(5) Other

Year ended March 31, 2015

Out of ¥20,000 million (\$166,819 thousand) of contribution for purchase of treasury stock, ¥7,413 million (\$61,838 thousand) of money held in trust as of March 31, 2015 was included in "Other, net."

## NOTE 9

### Information for Certain Leases

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation, accumulated impairment loss and net book value for the years ended March 31, 2015 and 2014, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

Year ended March 31, 2015

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings	¥2,103	¥968	¥1,135	¥—
Total	2,103	968	1,135	—

	Thousands of U.S. dollars (Note 1)			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings	\$17,548	\$8,079	\$9,469	\$—
Total	17,548	8,079	9,469	—

Year ended March 31, 2014

Not applicable

(2) Future lease payments and accumulated impairment loss on leased assets

Future lease payments as of March 31, 2015 and 2014

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within one year	¥ 151	¥—	\$ 1,263
Due after one year	1,224	—	10,209
Total	1,375	—	11,472

Accumulated impairment loss on leased assets as of March 31, 2015 and 2014

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Accumulated impairment loss on leased assets	¥1,084	¥—	\$9,042

(3) A summary of assumed amounts of lease payments, reversal of allowance for impairment loss on leased assets, depreciation, interest expenses and impairment loss for the years ended March 31, 2015 and 2014, 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)
	2015	2014	2015
Lease payments	¥ 151	¥—	\$1,263
Reversal of allowance for impairment loss on leased assets	—	—	—
Depreciation	124	—	1,042
Interest expenses	30	—	255
Impairment loss	1,084	—	9,042

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, 2015 and 2014 are as follows:

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within one year	¥2,422	¥2,297	\$20,208
Due after one year	2,768	3,377	23,094
Total	5,191	5,675	43,303

**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 with financial institutions, such as securing medium- to long-term fund liquidity with the Company as a 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 and currency swap transactions as hedges against currency fluctuation risks on its foreign currency-denominated operating receivables and debt as well as foreign currency-denominated loans payable, and interest rate swap transactions as hedges against interest rate risks on loans payable. 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 and currency swap transactions are used to hedge currency fluctuation risks on foreign currency-denominated loans payables. 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.

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

The consolidated balance sheet amount and fair value of financial instruments as of March 31, 2015 and 2014 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, 2015

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥102,260	¥102,260	¥ —
(2) Notes and accounts receivable—trade	39,239	39,239	(0)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,373	2,376	2
2) Available-for-sale securities (*1)	138,879	138,879	—
3) Equity securities issued by affiliated companies	886	1,016	130
<b>Total assets</b>	<b>283,639</b>	<b>283,772</b>	<b>132</b>
(1) Notes and accounts payable—trade	26,964	26,964	—
(2) Short-term loans payable	13,842	13,842	—
(3) Long-term loans payable	32,918	32,837	81
(4) Current portion of corporate bonds	1,600	1,600	—
(5) Corporate bonds payable	56,200	55,854	345
<b>Total liabilities</b>	<b>131,525</b>	<b>131,098</b>	<b>426</b>
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(1)	(1)	—
2) Derivative transactions to which hedge accounting is applied	17	17	—
<b>Total derivative transactions</b>	<b>16</b>	<b>16</b>	<b>—</b>
	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	\$ 852,952	\$ 852,952	\$ —
(2) Notes and accounts receivable—trade	327,298	327,298	(0)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	19,794	19,818	24
2) Available-for-sale securities (*1)	1,158,390	1,158,390	—
3) Equity securities issued by affiliated companies	7,932	8,477	1,084
<b>Total assets</b>	<b>2,365,828</b>	<b>2,366,936</b>	<b>1,108</b>
(1) Notes and accounts payable—trade	224,911	224,911	—
(2) Short-term loans payable	115,459	115,459	—
(3) Long-term loans payable	274,572	273,893	678
(4) Current portion of corporate bonds	13,345	13,345	—
(5) Corporate bonds payable	468,763	465,883	2,879
<b>Total liabilities</b>	<b>1,097,052</b>	<b>1,093,493</b>	<b>3,558</b>
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(9)	(9)	—
2) Derivative transactions to which hedge accounting is applied	149	149	—
<b>Total derivative transactions</b>	<b>140</b>	<b>140</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, 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)
Total assets	297,043	296,888	(155)
(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)
Total liabilities	124,909	124,950	(40)
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	—
Total derivative transactions	3	3	—

(\*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, 2015 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 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 with special treatment applied and by interest rate and currency swap contracts with combined treatment applied (subject to special treatment and allocation hedge accounting) are calculated by combining them with the relevant interest rate swap or interest rate and currency 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)
	2015	2014	2015	2015
	Consolidated balance sheet amount	Consolidated balance sheet amount	Consolidated balance sheet amount	Consolidated balance sheet amount
Unlisted equity securities, etc.	¥ 3,542	¥ 1,504	\$ 29,546	
Investment in limited liability investment partnerships, etc.	4,382	2,217	36,554	
Equity securities issued by non-consolidated subsidiaries	436	2,265	3,641	
Equity securities issued by affiliated companies	16,472	14,682	137,400	
Investments in capital of affiliated companies	288	155	2,408	

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 extremely difficult to identify fair values.

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

Year ended March 31, 2015

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥102,260	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	39,229	9	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	100	1,500	650	100
Available-for-sale securities with maturities (Negotiable certificates of deposit)	63,600	—	—	—
Available-for-sale securities with maturities (Other)*	20,099	—	200	1,800
<b>Total</b>	<b>225,290</b>	<b>1,509</b>	<b>850</b>	<b>1,900</b>

	Thousands of U.S. dollars (Note 1)			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	\$ 852,952	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	327,215	83	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	834	12,511	5,421	834
Available-for-sale securities with maturities (Negotiable certificates of deposit)	530,486	—	—	—
Available-for-sale securities with maturities (Other)*	167,653	—	1,668	15,013
<b>Total</b>	<b>1,879,141</b>	<b>12,594</b>	<b>7,089</b>	<b>15,847</b>

\* 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, 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
<b>Total</b>	<b>245,417</b>	<b>1,110</b>	<b>950</b>	<b>1,800</b>

\* 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: Redemption schedules of loans payable, corporate bonds payable, lease obligations and other interest-bearing liabilities

Year ended March 31, 2015

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥13,842	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	14,010	6,372	7,515	5,010	9
Corporate bonds	1,600	14,200	19,500	10,000	12,500	—
Lease obligations	536	1,846	230	120	75	183
Other interest-bearing debt						
Accounts payable-facilities	1,318	1,329	1,079	451	—	—

Category	Thousands of U.S. dollars (Note 1)					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	\$115,459	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term loans payable	—	116,858	53,154	62,685	41,795	78
Corporate bonds	13,345	118,441	162,649	83,409	104,262	—
Lease obligations	4,478	15,402	1,922	1,004	627	1,528
Other interest-bearing debt						
Accounts payable-facilities	11,000	11,086	9,005	3,767	—	—

Year ended March 31, 2014

Category	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term loans payable	¥12,918	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	—	13,331	13,999	6,361	1,504	1
Corporate bonds	1,700	1,600	14,200	17,000	5,000	—
Lease obligations	818	390	1,633	39	13	4
Other interest-bearing debt						
Accounts payable-facilities	1,307	1,318	1,329	1,079	451	—

**NOTE 11****Investment Securities****1. Held-to-maturity debt securities**

Year ended March 31, 2015

**(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	1,554	1,566	11
c. Other	—	—	—
Total	1,554	1,566	11

Category	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	\$ —	\$ —	\$ —
b. Corporate bonds	12,968	13,066	97
c. Other	—	—	—
Total	12,968	13,066	97

**(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	818	809	(8)
c. Other	—	—	—
Total	818	809	(8)

Category	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	\$ —	\$ —	\$ —
b. Corporate bonds	6,825	6,751	(73)
c. Other	—	—	—
Total	6,825	6,751	(73)

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

**(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)

## 2. Available-for-sale securities

Year ended March 31, 2015

### (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	¥36,328	¥10,605	¥25,722
b. Bonds	1,417	1,400	17
c. Other	3,417	3,400	17
Total	41,163	15,405	25,758

Category	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	\$303,011	\$88,458	\$214,552
b. Bonds	11,826	11,677	148
c. Other	28,509	28,363	148
Total	343,346	128,498	214,847

### (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	¥ 7	¥ 8	¥(0)
b. Bonds	5,598	5,600	(1)
c. Other	92,110	92,110	—
Total	97,715	97,718	(2)

Category	Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	\$ 61	\$ 67	\$ (5)
b. Bonds	46,693	46,709	(15)
c. Other	768,289	768,289	—
Total	815,044	815,065	(21)

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

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

Category	Thousands of U.S. dollars (Note 1)		
	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)

**3. Available-for-sale securities sold during the fiscal year**

Year ended March 31, 2015

Category	Millions of yen		
	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	¥289	¥187	¥—
b. Bonds	—	—	—
c. Other	—	—	—
Total	289	187	—

Category	Thousands of U.S. dollars (Note 1)		
	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	\$2,416	\$1,563	\$—
b. Bonds	—	—	—
c. Other	—	—	—
Total	2,416	1,563	—

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)

**4. Impairment loss on securities**

Year ended March 31, 2015

During the year ended March 31, 2015, the Group recognized impairment loss on available-for-sale securities in an amount of ¥100 million (\$841 thousand).

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.

**NOTE 12****Derivative Transactions****1. Derivative transactions to which hedge accounting is not applied****(1) Currency-related derivatives**

Year ended March 31, 2015

Category	Contract value	Contract value due after one year	Fair value	Millions of yen
				Unrealized gains (losses)
Transactions other than market transactions				
Forward exchange contracts				
Selling				
U.S. dollar	¥26	¥—	¥(1)	¥(1)
Euro	16	—	0	0
Total	43	—	(1)	(1)

Category	Contract value	Contract value due after one year	Fair value	Thousands of U.S. dollars (Note 1)
				Unrealized gains (losses)
Transactions other than market transactions				
Forward exchange contracts				
Selling				
U.S. dollar	\$224	\$—	\$(16)	\$(16)
Euro	136	—	6	6
Total	361	—	(9)	(9)

(Note) Fair values are calculated using prices quoted by financial institutions.

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)
Total		137	—	(0)	(0)

(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, 2015

			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	¥585	¥—	¥17
Payables translated using forward exchange contract rates	Forward exchange contracts				
	Buying				
	U.S. dollar	Accounts payable–trade	82	—	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	\$4,885	\$—	\$149
Payables translated using forward exchange contract rates	Forward exchange contracts				
	Buying				
	U.S. dollar	Accounts payable–trade	687	—	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, 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

(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.

**(2) Interest rate-related derivatives**

Year ended March 31, 2015

			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	¥2,778	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
<b>Total</b>			<b>11,718</b>	<b>8,766</b>	<b>—</b>

			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	\$47,793	\$23,171	Note
Special treatment for interest rate and currency swaps	Interest rate and currency swaps Floating rate into fixed rate	Long-term loans payable	49,952	49,952	Note
<b>Total</b>			<b>97,746</b>	<b>73,123</b>	<b>—</b>

(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, 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
<b>Total</b>			<b>11,718</b>	<b>9,688</b>	<b>—</b>

(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.

**NOTE 13****Retirement Benefits****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 amounts of projected benefit obligations (excluding pension plan using the simplified method)

	2015	2014	2015
	Millions of yen		Thousands of U.S. dollars (Note 1)
Projected benefit obligations at the beginning of the period	¥19,777	¥18,515	\$164,966
Cumulative effects of changes in accounting policies	(812)	—	(6,779)
Balances of projected benefit obligations at the beginning of the period which reflect changes in accounting policies	18,965	18,515	158,187
Service costs—benefits earned during the year	1,618	1,636	13,503
Interest cost on projected benefit obligations	229	198	1,914
Actuarial differences accrued	(317)	167	(2,650)
Retirement benefit paid	(802)	(606)	(6,692)
Other	30	(133)	257
Projected benefit obligations at the end of the period	19,724	19,777	164,521

(2) Reconciliation of the difference between the amounts of plan assets

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Plan assets at the beginning of the period	¥14,328	¥10,848	\$119,513
Expected return on plan assets	263	196	2,198
Actuarial differences accrued	185	1,549	1,544
Contribution of employer	2,326	2,260	19,404
Retirement benefit paid	(467)	(527)	(3,902)
Plan assets at the end of the period	16,635	14,328	138,758

(3) Reconciliation of the difference between the amounts of net defined benefit liability under pension plan using the simplified method

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net defined benefit liability at the beginning of the period	¥603	¥580	\$5,036
Retirement benefit expenses	123	111	1,033
Retirement benefit paid	(76)	(88)	(641)
Other	(22)	—	(189)
Net defined benefit liability at the end of the period	628	603	5,239

(4) Reconciliation of the difference between the amount of projected benefit obligations and plan assets and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Funded projected benefit obligations	¥ 19,724	¥ 19,777	\$ 164,521
Plan assets	(16,635)	(14,328)	(138,758)
Unfunded projected benefit obligations	3,088	5,449	25,763
Net amount of liabilities and assets recorded in the consolidated balance sheet	3,716	6,053	31,003
Net defined benefit liability	3,716	6,053	31,003
Net amount of liabilities and assets recorded in the consolidated balance sheet	3,716	6,053	31,003

(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)
	2015	2014	2015
Service costs—benefits earned during the year	¥1,618	¥1,636	\$13,497
Interest cost on projected benefit obligations	229	198	1,914
Expected return on plan assets	(263)	(196)	(2,198)
Amortization of actuarial difference	(227)	401	(1,899)
Amortization of prior service cost	45	—	375
Retirement benefit expenses using the simplified method	123	133	1,033
Other	41	0	346
Retirement benefit expenses of defined benefit pension plan	1,567	2,173	13,071

(Note) Other than the retirement benefit expenses stated above, early extra retirement payments of ¥1,868 million (\$15,584 thousand) was recorded under other expenses for the year ended March 31, 2015.

## (6) Remeasurements of defined benefit plans, net of tax

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction)

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Actuarial difference	¥287	¥—	\$2,396
Total	287	—	2,396

## (7) Remeasurements of defined benefit plans

Items included in the remeasurements of defined benefit plans are as follows (before tax effect deduction)

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Unrecognized actuarial differences	¥3,107	¥2,819	\$25,917
Total	3,107	2,819	25,917

## (8) Matters concerning plan assets

## a. Breakdown of plan assets

Ratio of main classes of plan assets

	2015	2014
Debt securities	62%	59%
Share of stock	21	21
Cash and deposits	1	4
General account	15	16
Other	0	0
Total	100	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.

## (9) Matters concerning basis for the actuarial calculation

Basis for the actuarial calculation

	2015	2014
Discount rate	0.7–1.4%	0.5–1.4%
Rate of long-term expected return on plan assets	1.0–2.0%	1.0–2.0%

**Defined contribution pension plans**

The amount to be paid by consolidated subsidiaries to the defined contribution pension plans were ¥300 million (\$2,510 thousand) and ¥247 million for the years ended March 31, 2015 and 2014, respectively.

## NOTE 14

### Stock Option Plan

#### 1. Contents, scale and movement of stock options

Year ended March 31, 2015

(1) The following table summarizes the contents of stock options as of March 31, 2015.

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, 2015.

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, 2014	—	—	—	250,000	3,432,200
Stock options granted	—	—	—	—	—
Forfeitures	—	—	—	—	9,800
Conversion to exercisable stock options	—	—	—	250,000	3,422,400
Stock options outstanding at March 31, 2015	—	—	—	—	—
Exercisable stock options					
Stock options outstanding at April 1, 2014	47,900	979,400	233,900	—	—
Conversion from not exercisable stock options	—	—	—	250,000	3,422,400
Stock options exercised	44,100	649,600	7,500	—	35,100
Forfeitures	3,800	329,800	226,400	—	32,500
Stock options outstanding at March 31, 2015	—	—	—	250,000	3,354,800

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, 2014	—	—
Stock options granted	—	—
Forfeitures	—	—
Conversion to exercisable stock options	—	—
Stock options outstanding at March 31, 2015	—	—
Exercisable stock options		
Stock options outstanding at April 1, 2014	34,100	300
Conversion from not exercisable stock options	—	—
Stock options exercised	—	—
Forfeitures	2,400	100
Stock options outstanding at March 31, 2015	31,700	200

The following table summarizes the price information of stock options as of March 31, 2015.

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	1,978	2,010	2,145	—	1,763
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	\$10.94	\$10.94	\$14.62	\$14.06	\$14.06
Average market price of the stock at the time of exercise	16.49	16.76	17.89	—	14.70
Fair value of the stock option at the date of grant	2.55	2.55	3.21	1.92	1.92

U.S. dollars (Note 1)

Company name	Butterfly Corporation	Butterfly Corporation
Date of the resolution	October 29, 2010	January 19, 2011
Exercise price	\$16.68	\$16.68
Average market price of the stock at the time of exercise	—	—
Fair value of the stock option at the date of grant	—	—

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

(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	—	—

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, 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 table summarizes 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	—	—

## 2. Estimation of fair value of the stock options

Year ended March 31, 2015

Not applicable

Year ended March 31, 2014

Not applicable

## 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**

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Deferred tax assets:			
Allowance for doubtful accounts	¥ 831	¥ 1,516	\$ 6,933
Loss on valuation of inventories	2,294	2,386	19,134
Provision for bonuses	1,586	1,571	13,230
Net defined benefit liability	1,718	2,863	14,333
Depreciation expense	12,300	12,852	102,596
Loss on valuation of investment securities	485	466	4,050
Impairment loss	3,185	2,804	26,569
Other	20,597	22,171	171,805
Tax loss carry forward	74,405	77,838	620,614
Total	118,623	124,471	989,438
Valuation allowance	(106,232)	(105,070)	(886,081)
Offset against deferred tax liabilities	(5,681)	(5,898)	(47,388)
Net deferred tax assets	6,710	13,502	55,968
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(8,860)	(9,387)	(73,907)
Other	(1,846)	(1,556)	(15,399)
Subtotal of deferred tax liabilities	(10,706)	(10,944)	(89,306)
Offset against deferred tax assets	5,681	5,898	47,388
Total	(5,025)	(5,045)	(41,917)
Recorded deferred tax assets	1,684	8,457	14,050

**(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, 2015 and 2014**

	2015	2014
Statutory tax rate	35.6%	38.0%
(Reconciliation)		
Changes in valuation allowance	(217.2)	(8.9)
Permanently non-deductible expenses including entertainment expenses	65.5	2.0
Amortization of goodwill	49.3	2.1
Difference of tax rates for consolidated subsidiaries	(1.8)	(1.3)
Tax credit for experiment and research expenses	(31.1)	—
Tax loss carry forward	528.1	(2.0)
Effect of adjustment for consolidation	135.5	2.6
Adjustments of deferred tax assets for enacted changes in tax laws and rates	31.1	3.1
Other	(0.3)	(1.6)
Effective tax rate for financial statement purposes	594.8	34.1

**(3) Amendments to deferred tax assets and deferred tax liabilities due to changes in income tax rate**

The "Partial Revision on the Income Tax Act" (Act No. 9 of 2015) was officially announced on March 31, 2015, and the corporate tax rate will be decreased from consolidated fiscal years beginning on or after April 1, 2015.

As a result of the changes, net deferred tax assets at the end of the fiscal year ended March 31, 2015, income taxes-deferred, valuation difference on available-for-sale securities, revaluation reserve for land and remeasurements of defined benefit plans have increased by ¥165 million (\$1,377 thousand), ¥648 million (\$5,407 thousand), ¥788 million (\$6,579 thousand), ¥5 million (\$48 thousand) and ¥18 million (\$157 thousand), respectively.

## NOTE 16

### Business Combination

(Acquisition of shares of Demiurge Studios, Inc.)

#### 1. Outline of business combination

(1) Name and business of acquired company

Name	Description of business
Demiurge Studios, Inc.	Planning and development of mobile games, social games and console games

(2) Reason for business combination

In order to strengthen the ability to develop and provide content for the North American and European markets in the Consumer Business Segment, SEGA Networks, Co., Ltd., which is a consolidated subsidiary of the Company, acquired all of the issued and outstanding shares of Demiurge Studios, Inc.

(3) Date of business combination

February 2, 2015

(4) Legal structure

Purchase of shares with cash

(5) Name of company after the combination

Unchanged

(6) Share of voting rights acquired

100%

(7) Main grounds for determining acquiring company

SEGA Networks, Co., Ltd. acquired the shares of Demiurge Studios, Inc. with cash consideration.

#### 2. Period for which the acquired company's financial results are included in the consolidated financial statements

Although the financial closing date of the acquired company is different from the consolidated financial closing date, the difference does not exceed three months and thus, consolidated financial statements are prepared based on the financial statements of the subsidiary in question.

As the acquisition was assumed to have taken place on December 31, 2014, financial results of the acquired company are not included in consolidated financial statements for the fiscal year ended March 31, 2015.

#### 3. Acquisition costs

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration of the acquisition	Cash	¥ 591	\$4,934
	Accounts payable—other, etc.	472	3,944
Direct costs for the acquisitions	Advisory costs, etc.	26	218
Total acquisition costs		1,090	9,097

**4. Goodwill recognized, reason for recognition and amortization method and period**

(1) Goodwill recognized

¥883 million (\$7,369 thousand)

The amount of goodwill is calculated on a tentative basis, because the allocation of acquisition cost has not been completed.

(2) Reason for recognition

As the acquisition cost exceeded the net amount of assets acquired and liabilities assumed, the excess amount was recognized as goodwill.

(3) Amortization method and period

Goodwill will be amortized using the straight-line method over an estimated period in which the investment effects will be revealed. Furthermore, the estimated period is currently under calculation.

**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	¥168	\$1,405
Noncurrent assets	70	591
Total	239	1,997

(2) Amount of liabilities

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥30	\$250
Noncurrent assets	—	—
Total	30	250

**6. Details of contingent consideration of the acquisition stipulated in the business combination contract and accounting treatment for the year ended March 31, 2015 and after.**

Under the contract, part of the outstanding consideration of the acquisition above shall deduct, in case that certain directors and employees retire by February 2, 2016 or February 2, 2017.

In the case where the reduction of consideration is occurred, the amount of the acquisition cost, goodwill and amortization of goodwill shall be amended.

**7. Estimated impact on the consolidated statement of income and comprehensive income for the fiscal year ended March 31, 2015 if the business combination had been completed as of the beginning of the fiscal year ended March 31, 2015 as well as the calculation method of the estimated amount**

This disclosure is omitted due to the immateriality of the effect. Additionally, calculation of the estimated amount is unaudited.

## 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, 2015

	Millions of yen						
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥149,160	¥39,641	¥41,416	¥111,025	¥341,243	¥13,677	¥354,921
Inter-segment sales and transfers	64	5,838	16	732	6,652	770	7,423
Total	149,224	45,480	41,432	111,757	347,896	14,447	362,344
Segment income (loss)	25,796	(2,536)	(946)	4,033	26,347	(2,098)	24,249
Segment assets	89,342	29,156	38,787	123,197	280,483	28,705	309,189
Other items							
Depreciation	6,363	1,953	5,232	7,097	20,646	592	21,239
Increase in property, plant and equipment and intangible assets	6,709	3,528	6,534	10,107	26,879	1,814	28,694

	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	\$1,244,140	\$330,651	\$345,457	\$ 926,058	\$2,846,308	\$114,081	\$2,960,389
Inter-segment sales and transfers	540	48,702	133	6,112	55,489	6,427	61,916
Total	1,244,681	379,354	345,590	932,171	2,901,797	120,508	3,022,306
Segment income (loss)	215,169	(21,156)	(7,897)	33,646	219,762	(17,502)	202,260
Segment assets	745,205	243,190	323,523	1,027,588	2,339,507	239,433	2,578,940
Other items							
Depreciation	53,076	16,293	43,643	59,201	172,213	4,942	177,156
Increase in property, plant and equipment and intangible assets	55,965	29,433	54,503	84,302	224,204	15,132	239,337

(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, 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	

(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)

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Net sales			
Total net sales in the reporting segments	¥347,896	¥369,609	\$2,901,797
Segment net sales in Other	14,447	15,225	120,508
Elimination of inter-segment transactions	(7,423)	(6,823)	(61,916)
Net sales in the consolidated financial statements	354,921	378,011	2,960,389

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Income (loss)			
Total income in the reporting segments	¥26,347	¥46,178	\$219,762
Segment loss in Other	(2,098)	(1,200)	(17,502)
Elimination of inter-segment transactions	5	120	43
General corporate expenses (Note)	(6,644)	(6,565)	(55,425)
Operating income in the consolidated financial statements	17,609	38,533	146,878

(Note) "General corporate expenses" mainly consist of expenses of the Group management incurred by the holding company.

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Assets			
Total assets in the reporting segments	¥280,483	¥291,951	\$2,339,507
Segment assets in Other	28,705	23,417	239,433
General corporate assets (Note)	239,474	246,878	1,997,455
Other adjustments	(19,765)	(19,311)	(164,866)
Total assets in the consolidated financial statements	528,898	542,936	4,411,529

(Note) General corporate assets are mainly assets of the Company.

	Millions of yen			Amount in consolidated financial statements
Other	Subtotal	Other	Adjustment	2015
Depreciation	¥20,646	¥ 592	¥508	¥21,747
Increase in property, plant and equipment and intangible assets	26,879	1,814	86	28,780

	Thousands of U.S. dollars (Note 1)			Amount in consolidated financial statements
Other	Subtotal	Other	Adjustment	2015
Depreciation	\$172,213	\$ 4,942	\$4,237	\$181,394
Increase in property, plant and equipment and intangible assets	224,204	15,132	723	240,060

(Note) "Adjustment" includes corporate and eliminations of inter-segment transactions.

	Millions of yen			Amount in consolidated financial statements
	Subtotal	Other	Adjustment	
Other				2014
Depreciation	¥18,832	¥ 529	¥381	¥19,743
Increase in property, plant and equipment and intangible assets	26,061	12,052	67	38,182

(Note) "Adjustment" includes corporate and eliminations of inter-segment transactions.

[Related information]

Year ended March 31, 2015

### 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
¥315,139	¥18,665	¥13,060	¥8,058	¥354,921

Thousands of U.S. dollars (Note 1)				
Japan	North America	Europe	Other	Total
\$2,628,569	\$155,686	\$108,938	\$67,218	\$2,960,389

(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
¥83,968	¥13,532	¥2,771	¥100,272

Thousands of U.S. dollars (Note 1)			
Japan	Korea	Other	Total
\$700,381	\$112,875	\$23,116	\$836,373

(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, 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

(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

(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.

[Information on the amount of impairment loss on noncurrent assets by each reporting segment]

Year ended March 31, 2015

Millions of yen						
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment loss	¥1,623	¥516	¥3,760	¥1,686	¥294	¥7,881

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment loss	\$13,538	\$4,305	\$31,364	\$14,069	\$2,460	\$65,739

(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, 2014

Millions of yen						
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment loss	¥12	¥1	¥1,478	¥222	¥86	¥1,799

(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, 2015

Millions of yen						
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	¥212	¥46	¥—	¥3,337	¥28	¥3,625
Balance as of March 31, 2015	—	142	—	14,261	264	14,668

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	\$1,771	\$387	\$—	\$27,836	\$241	\$30,236
Balance as of March 31, 2015	—	1,192	—	118,953	2,202	122,349

(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, 2014

Millions of yen						
	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	¥283	¥—	¥—	¥2,688	¥25	¥2,997
Balance as of March 31, 2014	212	178	—	18,431	92	18,915

(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, 2015

Not applicable

Year ended March 31, 2014

Not applicable

## NOTE 18

### Related Party Transactions

Information on related party transactions for the years ended March 31, 2015 and 2014 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, 2015

Name of related individual or company		Position and principal business	Description of the Company's transactions	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	¥2
			Payment of outsourcing fee <sup>(*)2</sup>	9	—	—
			Rental income from real estate and equipment <sup>(*)2</sup>	3	Current liabilities – other	0
						Millions of yen
FSC Co., Ltd. <sup>(*)1</sup>		Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	\$72	Prepaid expenses	\$24
			Payment of outsourcing fee <sup>(*)2</sup>	76	—	—
			Rental income from real estate and equipment <sup>(*)2</sup>	25	Current liabilities – other	4
						Thousands of U.S. dollars (Note 1)

(\*)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, 2014

Name of related individual or company		Position and principal business	Description of the Company's transactions	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	—	—

(\*)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.

#### 2. Material transactions of the Company's consolidated subsidiaries with related individuals or companies

Year ended March 31, 2015

Name of related individual or company		Position and principal business	Description of the Company's transactions	Transactions	Account	End of period account balance
FSC Co., Ltd. <sup>(*)1</sup>		Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	¥42	Prepaid expenses	¥24
					Accrued expenses	0
			Receipt and remittance of insurance	1	—	—
			Payment of welfare expenses <sup>(*)2</sup>	2	—	—
						Millions of yen
FSC Co., Ltd. <sup>(*)1</sup>		Non-life insurance agent	Payment of insurance <sup>(*)2</sup>	\$357	Prepaid expenses	\$200
					Accrued expenses	0
			Receipt and remittance of insurance	12	—	—
			Payment of welfare expenses <sup>(*)2</sup>	17	—	—
						Thousands of U.S. dollars (Note 1)

(\*)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

Year ended March 31, 2014

				Millions of yen	
Name of related individual or company	Position and principal business	Description of the Company's transactions	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
				Accrued expenses	0
		Receipt and remittance of insurance	0	—	—
		Payment of welfare expenses <sup>(*)2</sup>	2	—	—

(\*)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.

**NOTE 19****Per Share Data**

Per share data is as follows:

	2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Net assets per share	¥1,337.46	¥1,409.27	\$11.15
Net income (loss) per share	(46.22)	126.42	(0.38)
Net income per share (diluted)	—	125.39	—

(Notes) 1. Dilutive shares existed but amount for diluted net income per share has been omitted because the Company recorded a net loss per share for the year ended March 31, 2015

2. Net income (loss) per share and Diluted net income per share

Item	2015	2014
Net income (loss) per share		
Net income (loss)	¥11,258 million ((\$93,907) thousand)	¥30,721 million
Amount not attributable to common stockholders	¥— million (\$— thousand)	¥— million
Net income (loss) for common stock	¥11,258 million ((\$93,907) thousand)	¥30,721 million
Average number of common stocks	243,611 thousand shares	243,017 thousand shares
Diluted net income per share		
Net income adjustment	¥— million (\$— thousand)	¥— million
Increase of common stock	— thousand shares	1,990 thousand shares
(Stock options)	— thousand shares	1,990 thousand shares

## NOTE 20

### Significant Subsequent Events

Year ended March 31, 2015

#### 1. Corporate divestiture and merger in consolidated subsidiaries, and the change of trade names of some subsidiaries

The Company established the Group Structure Reform Division, and has held discussions to review the earnings structure of the entire Group from a medium- to long-term perspective, and implemented organizational restructuring within the Group as well as the change of trade names of some subsidiaries on April 1, 2015, based on resolutions of the Board of Directors' meetings held on January 30, 2015 and February 12, 2015.

##### (1) Purpose of the corporate divestiture and merger

As part of the measures for restructuring into three business groups, the Company implemented the organizational restructuring within the Group on April 1, 2015 as a policy to clarify the responsible business field of each Group company and thereby continuously review businesses owned by the Group to promote further business reorganization.

##### (2) Overview of the corporate divestiture

###### a. Legal form of the business combination

An incorporation-type demerger, designating SEGA CORPORATION as a transferor company and establishing new companies (SEGA Holdings Co., Ltd., SEGA Interactive Co., Ltd., and SEGA LIVE CREATION Inc.)

###### b. Overview of newly established companies

Name	SEGA Holdings Co., Ltd.	SEGA Interactive Co., Ltd.	SEGA LIVE CREATION Inc.
Business description	Management of its Group as the holding company of SEGA Group and all businesses appertaining	Development, manufacture and sales of amusement machines	Planning, development and operation of entertainment theme park in Resort Business
Head office	1-39-9, Higashi-Shinagawa, Shinagawa Ward, Tokyo	1-2-12, Haneda, Ota Ward, Tokyo	1-39-9, Higashi-Shinagawa, Shinagawa Ward, Tokyo
Capital stock	¥100 million (\$834 thousand)	¥100 million (\$834 thousand)	¥100 million (\$834 thousand)
Principal shareholder and Shareholding ratios	SEGA SAMMY HOLDINGS INC.: 100%	SEGA Holdings Co., Ltd.: 100%	SEGA SAMMY HOLDINGS INC.: 100%

##### (3) Overview of the merger

###### a. Legal form of the business combination

An absorption-type merger, designating SEGA CORPORATION as the surviving company and dissolving SEGA Networks Co., Ltd. as the absorbed company

###### b. Overview of merging companies (As of March 31, 2015)

Name	SEGA CORPORATION (Surviving Company)	SEGA Networks Co., Ltd. (Absorbed Company)
Business description	Development, production and sales of amusement machines; Development and sales of game software	Business involved in the planning, development, design, sales, delivery and management and operation of products and services that utilize the Internet and other means of communication
Head office	1-2-12, Haneda, Ota Ward, Tokyo	1-6-1, Roppongi, Minato Ward, Tokyo
Capital stock	¥100 million (\$834 thousand)	¥10 million (\$83 thousand)

\* SEGA CORPORATION changed its trade name to SEGA Games Co., Ltd. on April 1, 2015

##### (4) Overview of the accounting procedures applied

Based on the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013), the Company applied an accounting procedure as a transaction under common control.

## 2. Changes in segment classifications

The reporting segments of the Group for the fiscal year ended March 31, 2015 was comprised of “Pachislot and Pachinko Machines Business,” “Amusement Machine Sales Business,” “Amusement Center Operations Business” and “Consumer Business.” However, in connection with the organizational restructuring, the Company changed the classification into “Pachislot and Pachinko Machines Business,” “Entertainment Contents Business” and “Resort Business” from the fiscal year ending March 31, 2016.

Information regarding the amounts of net sales and income (loss) by reporting segment for the year ended March 31, 2015, assuming the segment categories after the changes in segment classifications is as follows.

	Millions of yen					Amount in consolidated financial statements (Note 2)
	Pachislot Pachinko	Entertainment Contents Business	Resort Business	Subtotal	Adjustment (Note 1)	
Net sales						
Sales to third parties	¥152,657	¥187,289	¥14,974	¥354,921	¥ —	¥354,921
Inter-segment sales and transfers	589	1,047	80	1,716	(1,716)	—
Total	153,246	188,337	15,054	356,637	(1,716)	354,921
Segment income (loss)	25,932	25	(2,336)	23,621	(6,012)	17,609

	Thousands of U.S. dollars (Note 1)					Amount in consolidated financial statements (Note 2)
	Pachislot Pachinko	Entertainment Contents Business	Resort Business	Subtotal	Adjustment (Note 1)	
Net sales						
Sales to third parties	\$1,273,310	\$1,562,176	\$124,902	\$2,960,389	\$ —	\$2,960,389
Inter-segment sales and transfers	4,912	8,739	667	14,319	(14,319)	—
Total	1,278,223	1,570,915	125,570	2,974,709	(14,319)	2,960,389
Segment income (loss)	216,304	210	(19,488)	197,026	(50,147)	146,878

(Notes) 1. Elimination of inter-segment transactions of ¥41 million (\$343 thousand) and general corporate expenses of ¥6,053 million (\$50,490 thousand) which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥6,012 million (\$50,147 thousand). General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.  
2. Adjustment has been made to segment income (loss) and operating income in the consolidated financial statements.

## 3. Issuance of unsecured bonds

The Company issued the following straight corporate bonds

Name of bond	SEGA SAMMY HOLDINGS INC. Fourth unsecured straight bonds (with inter-bond pari passu clause)
Issuing amount	¥10,000 million (\$83,409 thousand)
Date of issuance	June 15, 2015
Issue price	¥100 for ¥100 par value of each bond
Interest rate	0.567% per annum
Date of maturity	June 15, 2020
Redemption	Redeemed in full upon maturity
Use of proceeds	Repayment of loans payable

## 4. Pledged shares of subsidiaries and associates

At the Board of Directors' meeting held on May 28, 2015, the Company resolved to approve the loan agreement with a financial instrument by PARADISE SEGASAMMY Co., Ltd., which is an affiliated company accounted for by the equity method.

As of June 15, 2015, in accordance with the resolution, the Company offered all shares of PARADISE SEGASAMMY Co., Ltd. (¥15,234 million (\$127,068 thousand) of shares of subsidiaries and associates on a consolidated basis) as collateral for ¥700,000 million of total loans payable to the financial instrument.

## NOTE 21

### Supplemental Information

#### Supplemental schedule of corporate bonds

Company	Name of bond	Issuance date	Balance as of April 1, 2014 (Millions of yen)	Balance as of March 31, 2015 (Millions of yen)	Balance as of March 31, 2015 (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	\$66,727	0.44	Unsecured	March 29, 2018
	2nd unsecured bonds (Private placement bond)	March 29, 2013	6,400	4,800 (1,600)	40,036 (13,345)	0.42	Unsecured	March 29, 2018
	1st unsecured bonds (Publicly offered bonds)	July 25, 2013	5,000	5,000	41,704	0.73	Unsecured	July 25, 2018
	2nd unsecured bonds (Publicly offered bonds)	July 25, 2013	5,000	5,000	41,704	0.49	Unsecured	July 25, 2016
	3rd unsecured bonds (Publicly offered bonds)	June 17, 2014	—	10,000	83,409	0.52	Unsecured	June 17, 2019
	3rd unsecured bonds (Private offered bonds)	September 26, 2014	—	10,000	83,409	0.44	Unsecured	September 26, 2019
SEGA CORPORATION	13th unsecured bonds	June 30, 2011	5,000	5,000	41,704	0.72	Unsecured	June 30, 2016
	14th unsecured bonds	December 20, 2011	2,600	2,600	21,686	0.66	Unsecured	December 20, 2016
	15th unsecured bonds	June 29, 2012	5,000	5,000	41,704	0.58	Unsecured	June 30, 2017
	16th unsecured bonds	September 28, 2012	2,400	2,400	20,018	0.51	Unsecured	September 29, 2017
SEGA TOYS CO., LTD.	8th unsecured bonds	March 31, 2010	100	—	—	0.74	Unsecured	March 31, 2015
Total	—	—	39,500	57,800 (1,600)	482,108 (13,345)	—	—	—

(Notes) 1. The figures in parentheses of the "Balance as of March 31, 2015" represent the current portion of corporate bonds.

2. Total amount of scheduled redemption for each fiscal year within five years after March 31, 2015 is as follows:

Millions of yen					
Within one year	One to two years	Two to three years	Three to four years	Four to five years	
¥1,600	¥14,200	¥19,500	¥10,000	¥12,500	

Thousands of U.S. dollars (Note 1)					
Within one year	One to two years	Two to three years	Three to four years	Four to five years	
\$13,345	\$118,441	\$162,649	\$83,409	\$104,262	

## Supplemental schedule of borrowings

Category	Balance as of April 1, 2014 (Millions of yen)	Balance as of March 31, 2015 (Millions of yen)	Balance as of March 31, 2015 (Thousands of U.S. dollars (Note 1))	Average interest rate (%)	Repayment terms
Short-term loans payable	¥ 500	¥ 500	\$ 4,170	0.7	—
Current portion of long-term loans payable due within one year	12,418	13,342	111,288	1.0	—
Current portion of lease obligations	818	536	4,478	Note 2	—
Long-term loans payable (Excluding current portion)	35,198	32,918	274,572	0.9	2016~2023
Lease obligations (Excluding current portion)	2,081	2,455	20,485	Note 2	2016~2024
Other interest-bearing debt					
Accounts payable–facilities	1,307	1,318	11,000	—	—
Accounts payable–facilities (Excluding current portion)	4,179	2,860	23,858	—	2016~2018
<b>Total</b>	<b>56,504</b>	<b>53,933</b>	<b>449,855</b>	<b>—</b>	<b>—</b>

(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, 2015 is summarized as follows:

Category	Millions of yen				
	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Long-term loans payable	¥14,010	¥6,372	¥7,515	¥5,010	¥ 9
Lease obligations	1,846	230	120	75	183
Other interest-bearing debt					
Accounts payable–facilities	1,329	1,079	451	—	—

Category	Thousands of U.S. dollars (Note 1)				
	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Long-term loans payable	\$116,858	\$53,154	\$62,685	\$41,795	\$ 78
Lease obligations	15,402	1,922	1,004	627	1,528
Other interest-bearing debt					
Accounts payable–facilities	11,086	9,005	3,767	—	—

# Independent Auditor's Report



## 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, 2015 and 2014, 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 judgment, 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, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

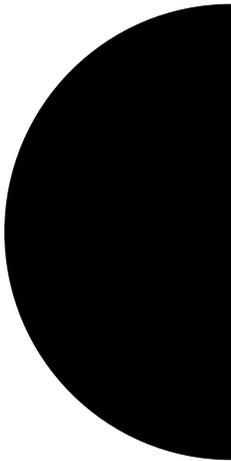
### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 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.

KPMG AZSA LLC

July 30, 2015  
Tokyo, Japan

discussion points



# Communication Tools

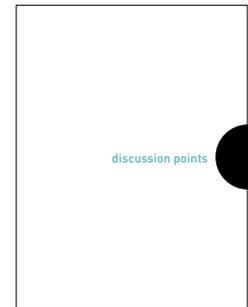
To further understanding of its complex business lines and management strategies, the SEGA SAMMY Group expands and improves its communication tools continuously.

## Dialogues

### The Aim of Discussion Points

The recent establishment of Principles for Responsible Institutional Investors (Japan's Stewardship Code) as well as a Corporate Governance Code in Japan has led to calls for constructive dialogues between companies and their shareholders and investors with a view to increasing corporate value over the medium-to-long term. Concurring with such calls, we disclose highly transparent information to shareholders and investors. Moreover, we will step up efforts to promote dialogues to increase understanding of our management strategies and other aspects of our businesses. Furthermore, we will refer to opinions obtained through such dialogues when enhancing disclosure. We will also provide feedback to the senior management team so that they can reflect points raised during dialogues in management strategies and business activities.

Envisioning this booklet's use during dialogues, we have condensed the contents of *Annual Report 2015* to focus on likely starting points for discussions.



## For Institutional Investors: Medium-to-Long-Term Growth Scenarios

### Annual Report

This is an integrated report that explains the SEGA SAMMY Group's growth scenario from a range of different perspectives. In addition, the report introduces particularly important non-financial information, including information related to corporate social responsibility (CSR), and explains how it relates to business activities.



Annual report



Online annual report

## CSR

### The Group CSR Report and the Social Responsibility (CSR) Section of Our Website

This report and website section provide comprehensive information about the Group's CSR activities. We recommend these tools to those wishing to assess our CSR activities in the light of various guidelines.



Group CSR reports



Social responsibility section of our website

## Timely Information



Latest consolidated financial statements, etc.



Investor relations section of our website

## For Individual Investors



Business reports



For individual investors section of our website

# Overview of the SEGA SAMMY Group

The SEGA SAMMY Group is a comprehensive entertainment corporate group created through the management integration of SEGA CORPORATION (currently SEGA Games Co., Ltd.), which has produced many industry-first and world-first products, and Sammy Corporation.



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.



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



Date of establishment: October 1, 2004  
Capital: ¥29.9 billion  
Total Shares Issued and Outstanding: 266,229,476  
Number of Shareholders: 94,348  
Number of Employees: 7,888 (consolidated)  
(As of March 31, 2015)

**The Group Management Philosophy**

By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture.



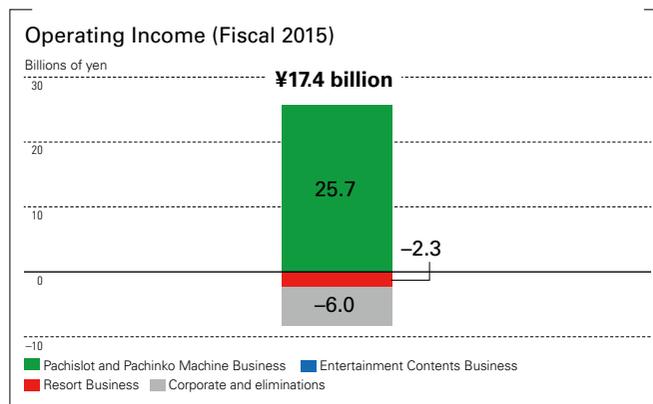
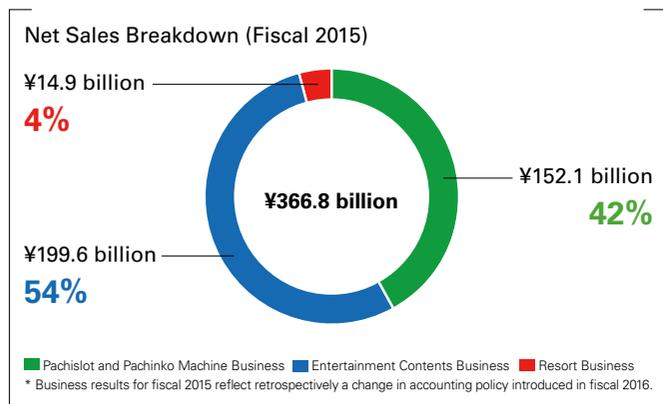
Our mission is *continuing to create moving experiences* for customers worldwide. With this in mind, we will roll out entertainment across a broad spectrum of areas.



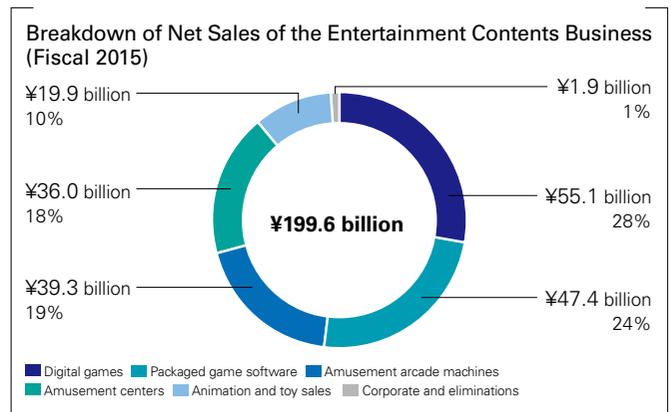
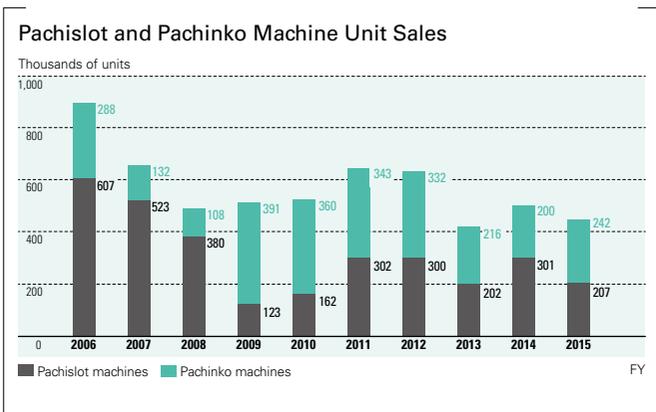
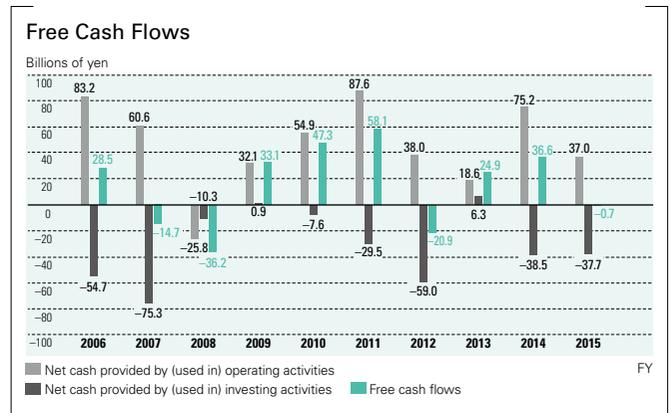
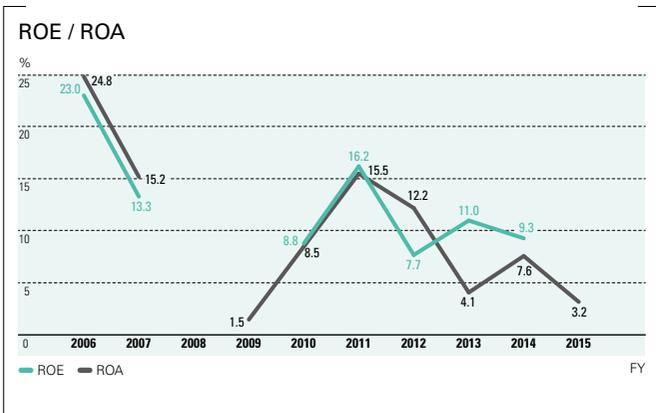
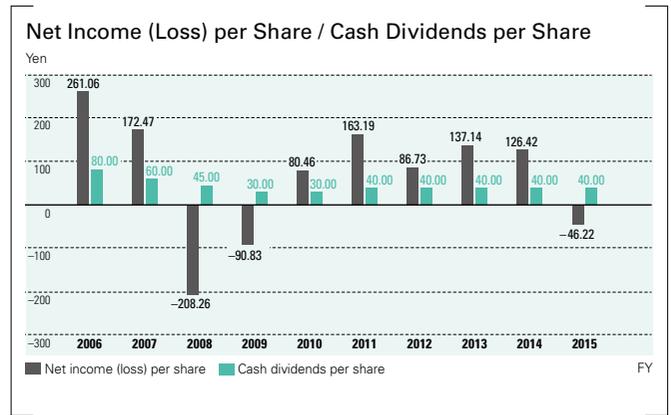
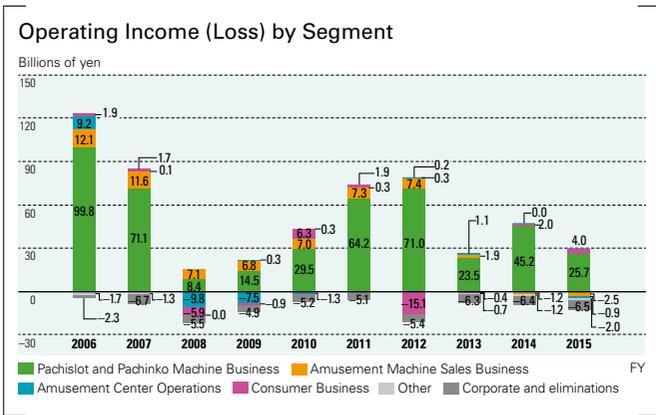
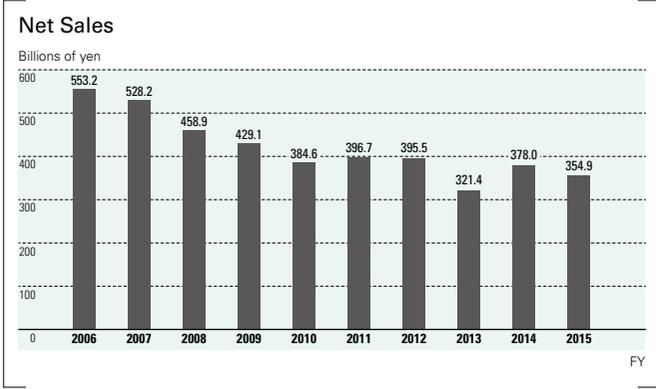
UFO Catcher ©SEGA  
Sonic the Hedgehog ©SEGA

## The Group's Structure

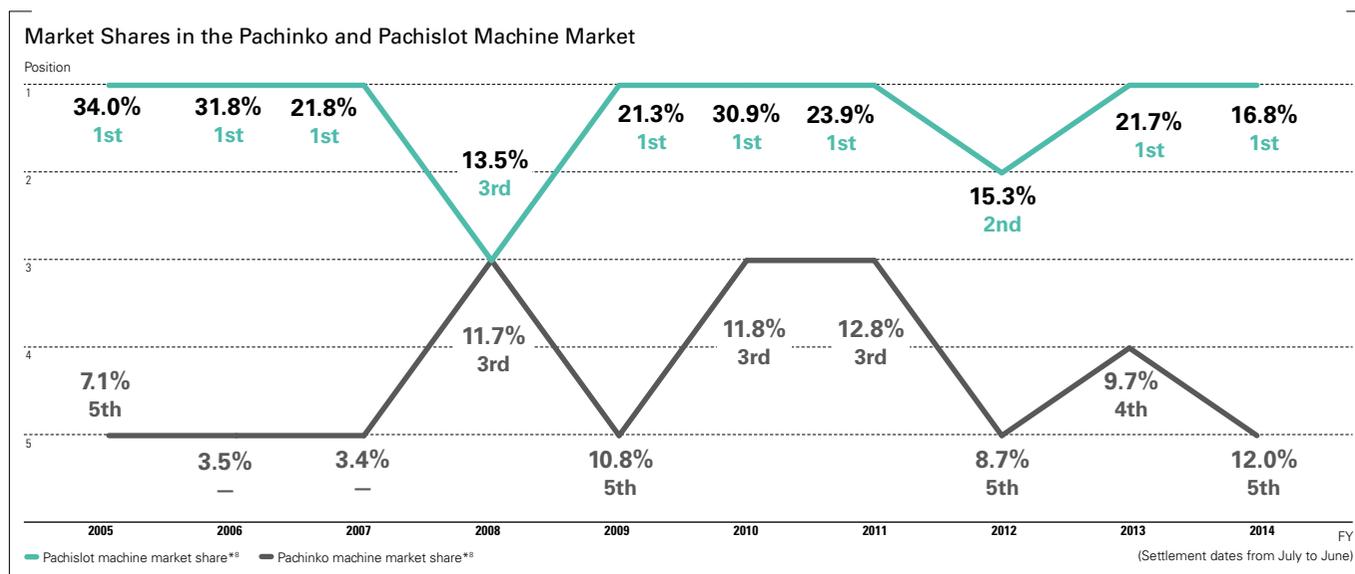
As part of a restructuring effort, we undertook a reorganization that clarified the Group's core businesses and reduced business segments from four to three as of April 1, 2015.



# Overview of Key Numbers



# Peer Group Comparison Data



	Billions of yen
<b>Net Sales*1</b>	
BANDAI NAMCO	565.4
Nintendo	549.7
<b>SEGA SAMMY</b>	<b>354.9</b>
KONAMI	218.1
Heiwa	198.6
SQUARE ENIX	167.8
SANKYO	146.5
CAPCOM	64.2

	%
<b>ROE*1</b>	
Heiwa	17.2
BANDAI NAMCO	13.2
CAPCOM	9.8
SQUARE ENIX	7.0
KONAMI*3	4.1
Nintendo	3.7
SANKYO	2.2
<b>SEGA SAMMY*4</b>	<b>—</b>

	Billions of yen
<b>Amusement Center Operation Sales*1</b>	
ROUND ONE	83.9
BANDAI NAMCO	55.5
AEON Fantasy	46.6
<b>SEGA SAMMY</b>	<b>41.4</b>
SQUARE ENIX*6	40.7
ADORES*7	15.1
CAPCOM	9.2
KOEI TECMO	1.5

	Billions of yen
<b>Operating Income*1</b>	
BANDAI NAMCO	56.3
Heiwa	42.8
Nintendo	24.7
<b>SEGA SAMMY</b>	<b>17.6</b>
SQUARE ENIX	16.4
KONAMI	14.4
SANKYO	13.2
CAPCOM	10.5

	%
<b>ROA*1,2</b>	
BANDAI NAMCO	14.0
CAPCOM	11.0
Heiwa	9.5
SQUARE ENIX	7.9
Nintendo	5.3
KONAMI*3	4.9
SANKYO	3.4
<b>SEGA SAMMY</b>	<b>3.2</b>

	Millions of units
<b>Unit Sales of Home Video Game Software (Global)*1</b>	
BANDAI NAMCO	21.68
SQUARE ENIX	17.96
CAPCOM	13.00
<b>SEGA SAMMY</b>	<b>12.30</b>
KOEI TECMO	7.04

	%
<b>Operating Margin*1</b>	
Heiwa	21.6
CAPCOM	16.5
BANDAI NAMCO	10.0
SQUARE ENIX	9.8
SANKYO	9.0
KONAMI	6.6
<b>SEGA SAMMY</b>	<b>5.0</b>
Nintendo	4.5

	Billions of yen
<b>Market Capitalization*5</b>	
Nintendo	2,503.9
BANDAI NAMCO	519.0
<b>SEGA SAMMY</b>	<b>466.9</b>
SANKYO	383.0
KONAMI	322.8
SQUARE ENIX	314.4
Heiwa	235.4
CAPCOM	161.7

	Billions of yen
<b>Net Sales of Amusement Machines*1</b>	
BANDAI NAMCO	72.1
<b>SEGA SAMMY</b>	<b>39.6</b>
CAPCOM	7.5

Note: The above is intended to give an idea of the Group's position in the industry and only covers companies for which information can be obtained from published documents, such as listed companies.

Because there are unlisted companies that do not disclose information, this is not a completely accurate industry ranking.

\*1 Respective companies' most recent settlement data. Source: Respective companies' published documents

\*2 ROA = Ordinary income ÷ Total assets

\*3 U.S. GAAP. ROE = Net income ÷ Total shareholders' equity; ROA = Income before income taxes and equity in net income of affiliated company ÷ Total assets

\*4 ROE has not been included because an ordinary loss was recognized for fiscal 2015.

\*5 Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 31, 2015.

\*6 "Amusement" including amusement centers and amusement arcade machines

\*7 Amusement Center Operations

\*8 Source: Yano Research Institute Ltd.

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

Based on the strengthened profit structure established through restructuring of the Group—implemented through the end of fiscal 2015—we will continue restructuring and return to a growth trajectory. Furthermore, we will heighten profitability of our business portfolio by making new investments and replacing businesses with a view to realizing operating income of between ¥50 billion and ¥70 billion in the medium term. Looking beyond the establishment of integrated resorts as a business and a mainstay of long-term growth, we have set our sights on restoring operating income to the ¥100 billion level that was reached directly after management integration.

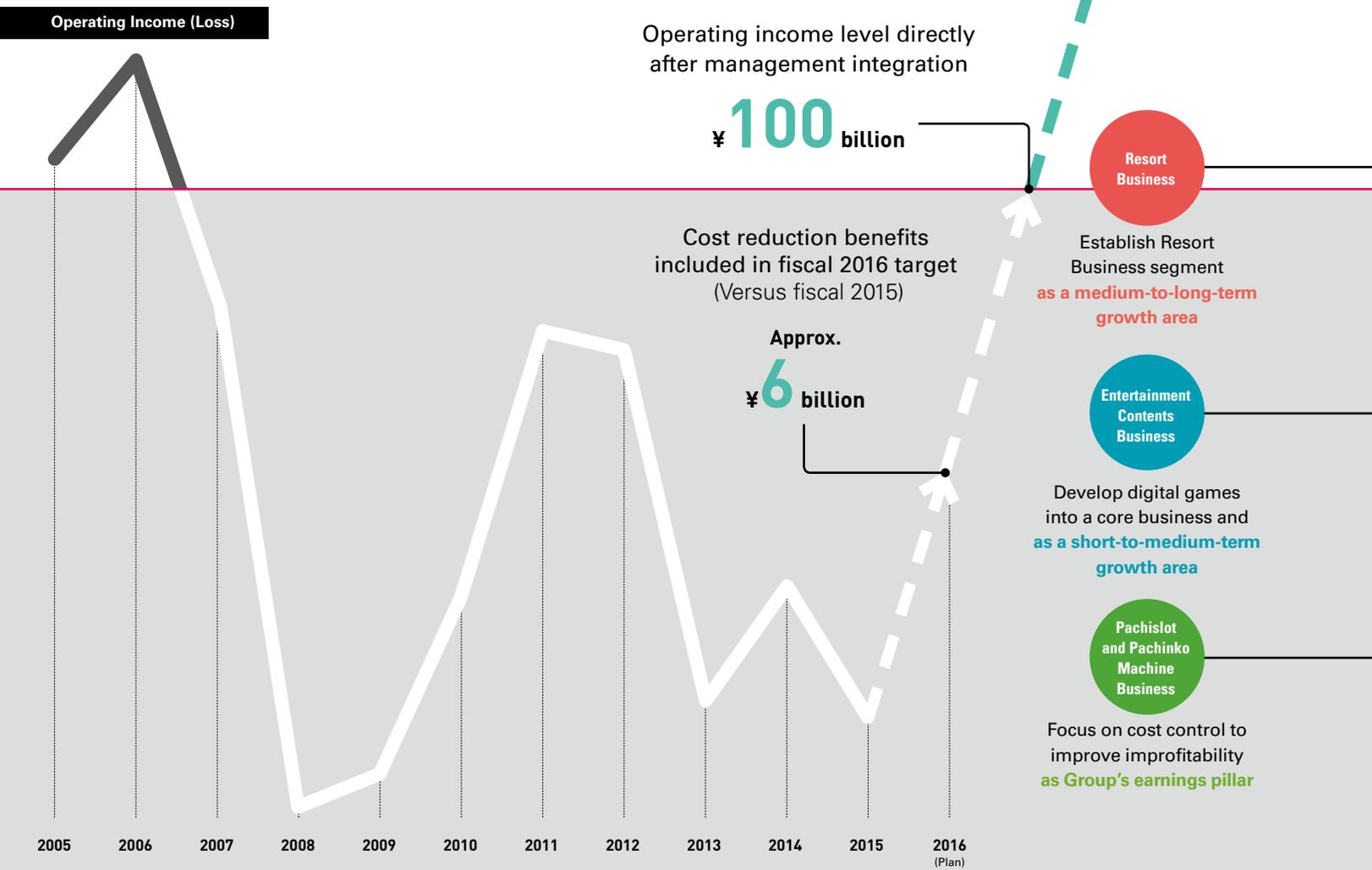
## Measures Going Forward

### Strengthen management of business portfolio

- ▶ Consider replacing businesses
- ▶ Consider investment in new businesses

### Control costs in each business rigorously

### Clarify criteria for beginning and withdrawing from businesses



# SWOT Analysis and Growth Strategies

## Business strategies of the Resort Business

- Undertake prior investment for participation in integrated resort business in Japan
- Develop and operate integrated resorts overseas
- Strengthen operational capabilities in relation to theme parks and resorts

### STRENGTHS

- One of the industry's largest development teams, comprising approximately 2,000 personnel (the SEGA Group)
- One of the industry's most consistent creators of hit products (digital games)
- Marketing support tool *Noah Pass* (digital games)
- Accumulation of numerous major intellectual properties (packaged game software and digital games)
- Product lineup catering to a broad range of player groups (amusement arcade machines)
- Among industry's highest levels of operational efficiency (amusement centers)

### WEAKNESSES

- Lackluster sales and declining earning power (packaged game software)
- Absence of major hit titles (amusement arcade machines)
- Low profit margins and capital turnover ratio (amusement centers)
- Low profit margins in toy sales area

### OPPORTUNITIES

- Growth of content for smart devices (digital games)
- Trend toward high-end game apps as smartphones become more advanced (digital games)
- Broadening market for families' three generations and new facilities including restaurants (amusement arcade machines and amusement centers)

### THREATS

- Challenging financial positions of amusement center operators (amusement arcade machines)
- Diversification of entertainment (packaged game software, amusement arcade machines, and amusement centers)
- Decline in player numbers due to lower birthrate (packaged game software, amusement arcade machines, and amusement centers)
- Intensification of competition in digital game market

## Business strategies

	Sales growth	Cost efficiency improvement
Digital games	<ul style="list-style-type: none"> <li>• Remain one of the industry's most consistent creators of hit products</li> <li>• Grow sales in U.S. and European market and Asian market</li> <li>• Expand and improve services of <i>Noah Pass</i> system, including tie-ups with companies in other industries</li> </ul>	<ul style="list-style-type: none"> <li>• Realize cost competitiveness by sharing resources and developing products overseas</li> </ul>
Packaged game software	<ul style="list-style-type: none"> <li>• Convert into digital games</li> </ul>	<ul style="list-style-type: none"> <li>• Maximize investment efficiency (curb development and marketing costs and roll out in other regions through localization)</li> </ul>
Amusement arcade machines	<ul style="list-style-type: none"> <li>• Enhance product appeal to capture wide player base</li> </ul>	<ul style="list-style-type: none"> <li>• Rationalize development system</li> </ul>
Amusement centers	<ul style="list-style-type: none"> <li>• Develop business formats targeting families' three generations and business formats that incorporate other industries, such as amusement centers integrated with restaurants</li> </ul>	<ul style="list-style-type: none"> <li>• Pursue scrap and build strategy and strengthen amusement centers' operational capabilities</li> </ul>
Animation and toy sales	<ul style="list-style-type: none"> <li>• Step up rollouts of mainstay products</li> </ul>	<ul style="list-style-type: none"> <li>• Improve earning power through rationalization</li> </ul>

### STRENGTHS

- Product appeal underpinned by strong development capabilities
- Large share in the pachislot machine market
- Significant production capacity

### WEAKNESSES

- Volatility of earnings due to regulatory changes
- Business development limited to Japan

### OPPORTUNITY

- Scope for growth in pachinko machine market

### THREATS

- Declining player numbers
- Financial position of pachinko hall operators

## Business strategies

Sales growth	Cost efficiency improvement
<ul style="list-style-type: none"> <li>• Maintain leading share of pachislot machine market</li> <li>• Claim leading share of pachinko machine market, which has scope for share expansion</li> <li>• Attract new players through development of mold-breaking pachislot and pachinko machines</li> </ul>	<ul style="list-style-type: none"> <li>• Improve company costs by advancing reuse systemically</li> <li>• Increase component sharing among Group companies</li> <li>• Diversify product portfolio through development of inexpensive machines</li> <li>• Step up sales of pachinko boards</li> </ul>

# Basic Information about the Pachinko and Pachislot Machine Market

## Size of Markets Related to Pachinko and Pachislot

Pachinko machines trace their origins to bagatelle boards, imported to Japan almost a century ago, in the 1920s. 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 main difference between pinball and pachinko 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. These machines spread to pachinko halls throughout Japan.

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 33.6% of the leisure market, revenues of ¥24.5 trillion\*1, and 11.5 million players\*1. In the pachinko and pachislot machine manufacturing industry, machine sales are worth approximately ¥1.0 trillion\*2.

\*1 2014. Source: *White Paper on Leisure Industry 2015*, Japan Productivity Center  
 \*2 Fiscal 2014 (settlement dates from July to June). Source: Yano Research Institute Ltd.

## 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.

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.



Pachislot Hokuto No Ken Tomo  
 ©Buronson & Tetsuo Hara/NSP1983  
 ©NSP2007, Approved No.YFC-128  
 ©Sammy



CR Hokuto No Ken 6 Ken-oh  
 ©Buronson & Tetsuo Hara/NSP1983  
 ©NSP2007, Approved No.YDA-108  
 ©Sammy

## Shares of Pachinko and Pachislot in Japan's Leisure Market

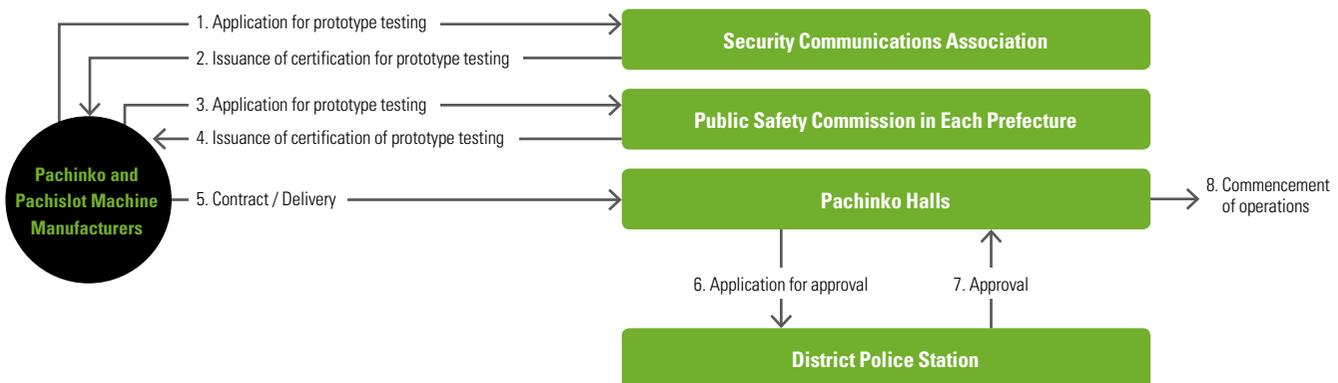


Japan's Leisure Market  
 ¥ **72.9** trillion (2014)

	%	Trillions of yen
Games / Publicly operated sports / Eating and drinking	35.3	25.7
Pachinko and pachislot*3	33.6	24.5
Hobbies	11.3	8.2
Tourism	14.4	10.5
Sports	5.4	3.9

Source: *White Paper on Leisure Industry 2015*, Japan Productivity Center  
 \*3 Total amounts of hall ball and token rentals

## Approval Process for Pachinko and Pachislot Machines



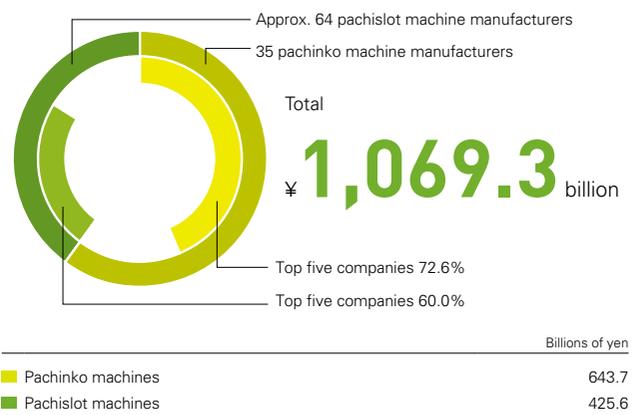
### Strengthening Oligopoly among Leading Titles and Companies

In the pachinko machine market, pachinko machines are sold by 35\*<sup>5</sup> pachinko machine manufacturers. In the pachislot machine market, pachislot machines are sold by approximately 64\*<sup>6</sup> companies. 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.

\*5 Source: Yano Research Institute Ltd.

\*6 Due to the large number of organizations and companies, the current number of pachislot machine manufacturers is the Group's estimate.

### Pachinko and Pachislot Machine Market Scale\*<sup>7</sup>



Source: Yano Research Institute Ltd.

\*7 Fiscal 2014 (settlement dates from July to June)

## Guide

# Keywords in the Pachinko and Pachislot Machine Market

### Pachinko Machine Boards and Frames

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



Frame



Boards

CR Hokuto No Ken 6 Ken-oh  
©Buronson & Tetsuo Hara/  
NSP1983 ©NSP2007,  
Approved No. YDA-108  
©Sammy

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



CR Aura Battler Dunbine  
©SOTSU-SUNRISE Project  
by Sammy

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

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

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

Extra capital investment capacity Increasing

Annual turnover

Extra capital investment capacity Decreasing

Up



Down

$$\text{Utilization rate} = \frac{\text{The number of hours per business day that pachinko or pachislot machines are utilized}}{\text{Total available hours per business day}}$$

Shows players' support of pachinko and pachislot machines.

# Market Conditions for Each Business

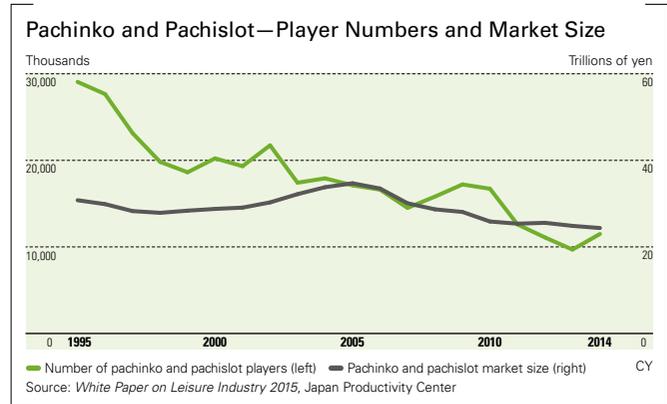
## Pachinko and Pachislot Machine Market

### Long-Term Trends

The number of players peaked in 1995 and 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\*1 entered a period of long-term decline.

Unit sales of pachinko and pachislot machines remained solid until around 2005, thanks to heavy demand from pachinko hall operators as they sought to secure players by replacing existing machines with new models. Subsequently, although unit sales of pachinko and pachislot machines began trending downward, the market continued to expand. This was attributable to a rise in the prices for machines stemming from the increased use of advanced technologies and higher copyright fees for major intellectual properties.

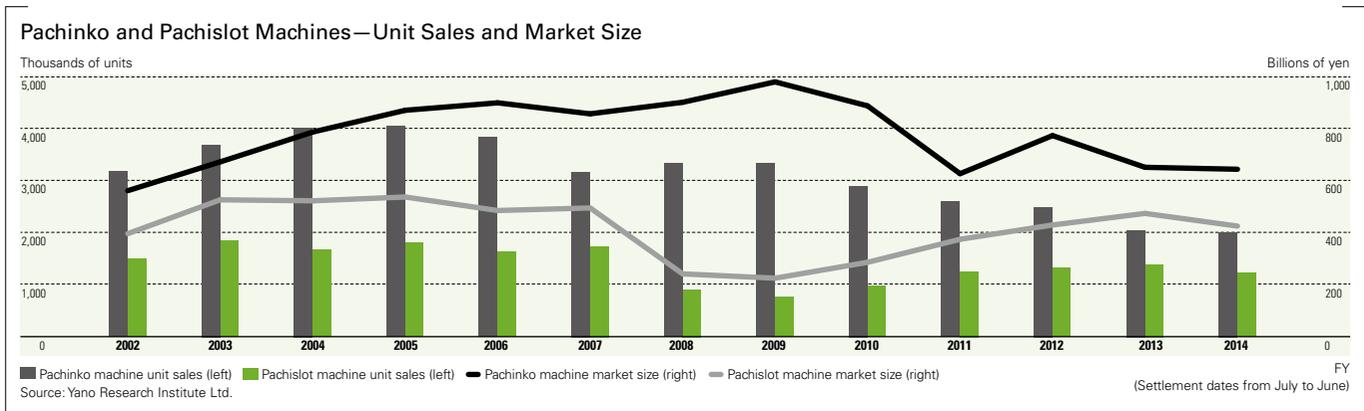
After the interim measures period\*2 of a revision of regulations pertaining to the Entertainment Establishments Control Law (the regulatory revision) ended in fall 2007, the decline in player numbers and the deterioration in pachinko hall operators' financial positions become more serious, affecting



the pachinko and pachislot machine market significantly.

\*1 The total of pachinko hall operators' ball rental fees and token rental fees

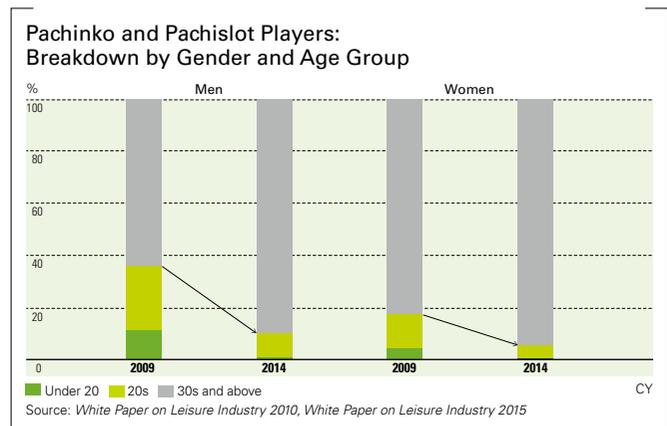
\*2 Aiming to mitigate a sudden change of conditions and investment burden of pachinko hall operators, the regulatory revision of July 2004 included a three-year interim measures period for replacing old machines with new-format machines.



### Young Adults' Interest in Pachinko and Pachislot Declining as Entertainment Options Diversify

Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. After the interim measures period ended in fall 2007, pachinko hall operators proceeded to replace pachislot machines with those compliant with the new regulations. As a result, the departure from the market of players, particularly pachislot core players, accelerated due to the major change in gameplay.

From 2009, the decrease in the pachinko and pachislot player population accelerated even further. In particular, the decline in interest in pachinko and pachislot among young adults has been marked. In the period from 2009 to 2014, this group shrank significantly, with the percentage of men under 20 playing pachinko and pachislot falling from 11.4% to 1.1% and the percentage of men in their 20s playing pachinko and pachislot falling from 24.5% to 9.2%. A likely cause of this trend was a diversification of pastimes that coincided with this period. This diversification resulted from the rapid popularization of smart devices and the expansion of the game app market. A further cause of the trend was the departure of casual players



from the pachinko market due to the increasing installation of pachinko machines with a strong gambling element. Such machines were known as "Max-type" and promised an early return on investment.

### Shakeout of Pachinko Hall Operators and a Decrease in Their Investment Capacity

The number of pachinko halls is on a long-term downward trend. Since fall 2007, however, the causes of this trend have been changing. Previously, a shakeout of small pachinko hall operators with less financial strength and the development of larger pachinko halls were the main drivers. Recently, however, pachinko hall operators' deteriorating financial positions have become the primary factor.

From the perspective of pachinko hall operators, while the continuing decline in the player population is undermining their capacity to invest, prices for machines are rising. Consequently, as the declining annual turnover\*<sup>3</sup> in the graph on the right shows, pachinko hall operators are replacing machines less often. This is directly linked to the contraction of the pachinko and pachislot machine market. Seeking reliable returns on the limited investments they can make, pachinko hall operators have been introducing machines that promise favorable utilization times\*<sup>4</sup>. This has polarized the market further into two groups: leading manufacturers and other manufacturers (Please see page 7).

\*<sup>3</sup> Annual turnover = Annual pachinko and pachislot machine unit sales ÷ Pachinko and pachislot machine installations  
 \*<sup>4</sup> The number of hours per business day that pachinko or pachislot machines are utilized

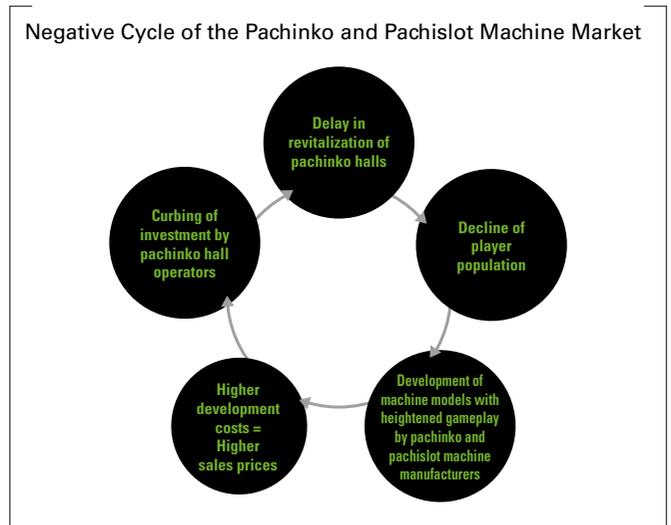
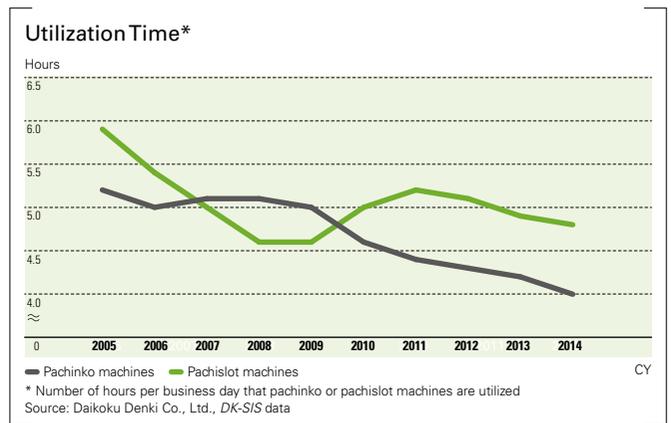
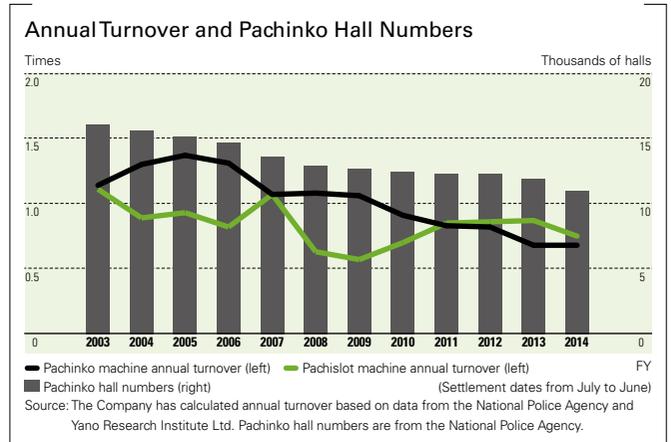
### Task: Break the Negative Cycle as Much as Possible

In an effort to broaden the player base, pachinko hall operators adopted a strategy of lowering ball rental fees significantly, while manufacturers introduced pachinko machines with weaker gambling elements. 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 capital investment appetite and thereby delaying the revitalization of pachinko halls. Furthermore, poor business results encouraged pachinko hall operators to seek rapid returns on investments by introducing machine models with stronger gambling elements. However, this led to even more players leaving the market. Thus, the industry's task is to break this negative cycle as much as possible.

### Current Conditions—New Regulatory Reform

Responsible for testing pachinko and pachislot machine models, the Security Communications Association changed its model-testing operation methods for pachislot machines for applications filed on or after September 16, 2014. This has triggered a new change in market conditions, with the sudden decrease in machines receiving certification temporarily causing a large drop in the number of new titles on the market.

Facing competition with other types of entertainment to attract customers and changes in business conditions due to the revision of regulations and industry bodies' internal regulations, the pachinko and pachislot machine industry needs more than ever to develop new customer groups by creating innovative gameplay that goes beyond the bounds of traditional pachinko and pachislot machines.



## Entertainment Contents Market

### Game Content Market

In 2014, sales in the global game content market\*<sup>1</sup>, comprising packaged game software and online game content, rose 6.1% year on year, to approximately ¥6.7 trillion\*<sup>2</sup>. By region, the market recorded year-on-year growth of 3.0% in Asia (Japan, China, and South Korea), 9.6% in the United States, and 5.5% in Europe. 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.

\*<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 2015

### Online Game Market

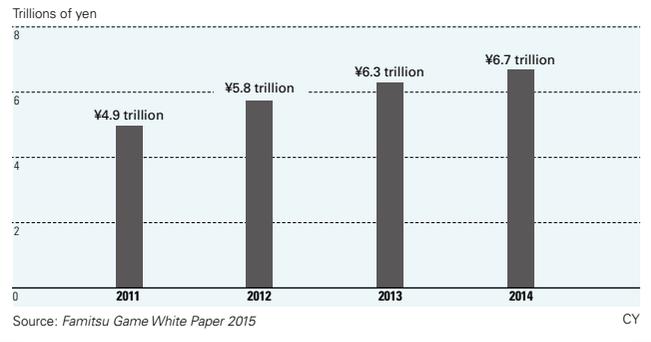
While packaged game software continues on a downward trend, online game content has expanded to account for sales of ¥5.1 trillion, or approximately 77% of the game content market. Reflecting the spread of such digital devices as smartphones and tablets, the distribution of game software is shifting toward digital distribution worldwide. Major markets have formed in the United States and Europe, Japan, and Asia. In Asia, areas that use traditional Chinese characters are growing with particular speed.

In 2014, Japan's market for game content with network connectivity, including content for home video game consoles, handheld game terminals, and PCs and game apps for smart devices, grew rapidly, increasing 12.0% year on year, to ¥823.9 billion\*<sup>3</sup>. In this market, sales of digital game content for smart devices and SNS rose 179%, to ¥715.4 billion\*<sup>3</sup>, and claimed 87% of the market. At present, three short-term trends are evident in the market: increasing multiplayer compatibility, a greater sense of real action enabled by operability and user interface advances, and the popularity of intellectual properties that create immersive worlds.

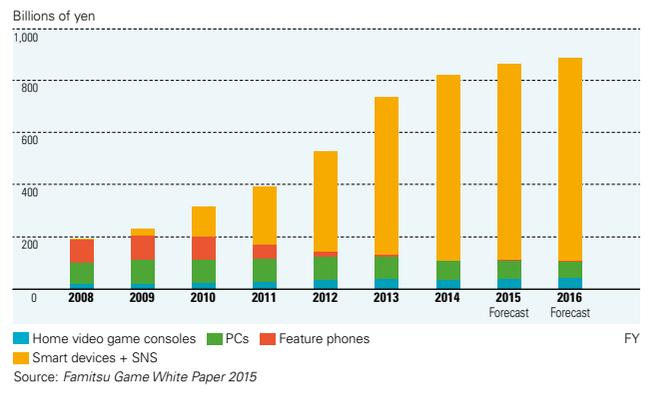
As smart devices have evolved with remarkable speed, game apps have become increasingly high-end, offering higher-resolution graphics and more complex, multilayered worlds. The development and marketing costs that high-end game apps require has resulted in an increasingly pronounced oligopoly of leading companies in recent years. Although growth is softening in the market as a whole, the growth of the leading companies is outpacing market growth. Eventually, the trend toward increasingly high-end game apps is expected to require the creation of digital games with the same level of quality as home video games. Therefore, we anticipate that whether or not companies have competence in large-scale development will be the decisive factor determining their competitiveness.

\*<sup>3</sup> Source: Famitsu Game White Paper 2015

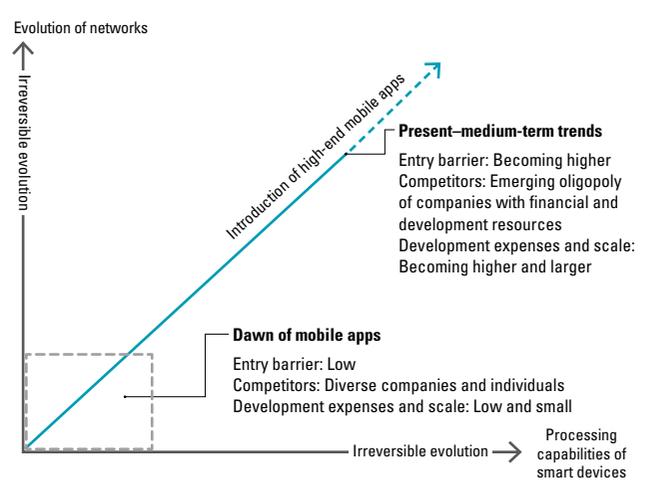
Estimated Value of Global Game Content Market



Japan's Market for Game Content with Network Connectivity



Changes in Competitive Conditions as High-End Devices Emerge



### Packaged Game Software Market

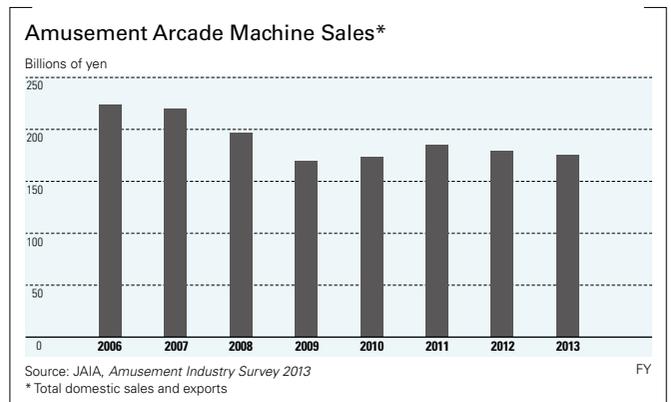
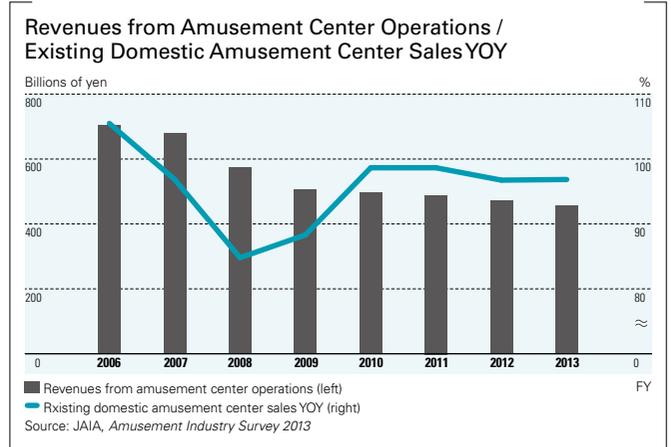
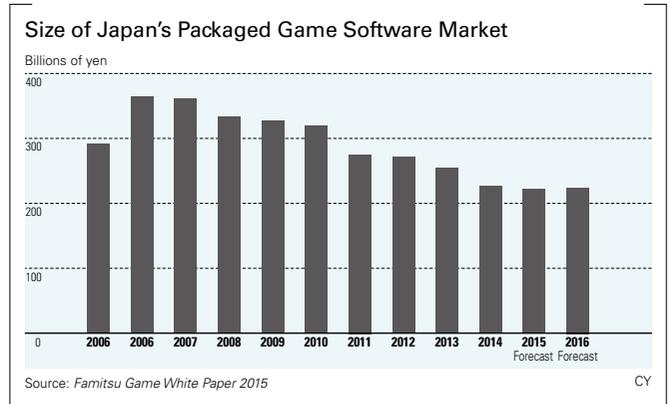
With popularity concentrating on certain well-known packaged game software titles, major publishers' oligopoly has continued to strengthen. However, the market is showing signs of recovery centered on favorable sales in overseas markets of new-generation home video game consoles equipped with capabilities for digital downloads, content micropayments, social game features such as live video of gameplay action, and cloud gaming services. Furthermore, given an increasing reluctance to purchase copied products in areas that use traditional Chinese characters (Taiwan, Hong Kong, and Macau), the market has significant potential.

### Amusement Market (Amusement Arcade Machines / Amusement Center Operations) Challenging Conditions Continue Due to Diversification of Leisure Activities

The amusement center operations market has been contracting since fiscal 2007. During the seven years between fiscal 2007 and fiscal 2013, it shrank approximately 33%. Since fiscal 2007, existing amusement centers' sales have been declining year on year. 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, and the market is approaching an optimal size. However, while the sales of amusement centers in shopping centers and bowling alleys are steady, traditional amusement centers' sales have been decreasing significantly. This trend is attributable to the diversification of leisure activities that is accompanying the spread of smartphones and other factors. In addition, since 2014 a consumption tax rate increase has been weighing on the profitability of amusement center operators.

As a result of this contraction of the amusement center operations market, the amusement arcade machine market has continued to shrink. In recent years, amusement arcade machine manufacturers have been marketing products and promoting business models, such as the revenue-sharing business model, that reduce the initial investment burden for amusement center operators that have limited cash flows, encourage the introduction of new products, and invigorate amusement centers. 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 JAJA, *Amusement Industry Survey 2013*.



# Compensation of Directors / Outside Directors / Shareholder Value

## Compensation of Directors

Compensation of directors and Audit and Supervisory Board members for fiscal 2015 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	543	413	125	5
	Outside	2	32	32	—	—
Audit and Supervisory Board members	Internal	—	—	—	—	—
	Outside	2	25	25	—	—

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2015 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	477	The Company	276	50	1
			Sammy	—	150	—

## Outside Directors



**YUJI IWANAGA**

Outside Director

- 1981 Registered with The Japan Federation of Bar Associations
- 1984 Partner of Lillick McHose and Charles Law Office (now 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 Director of the Company (current position)

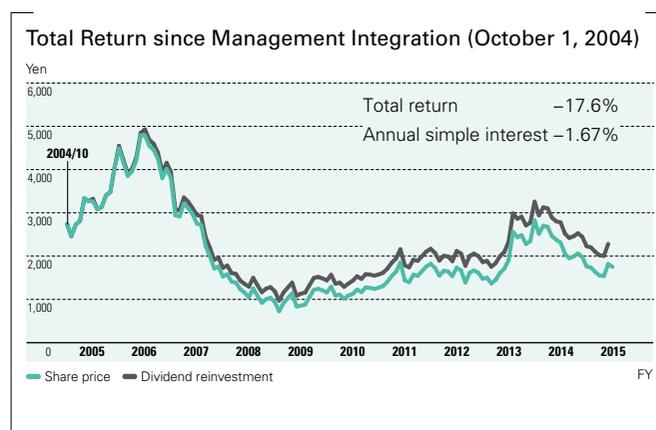
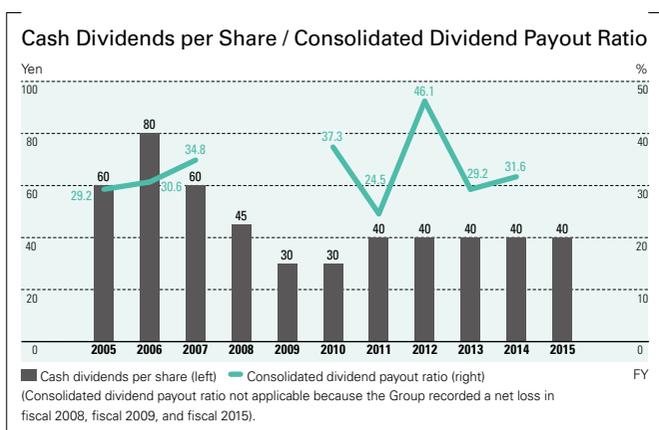


**TAKESHI NATSUNO**

Outside Director

- 2005 Executive Officer and Managing Director of Multimedia Services Department of NTT DoCoMo, Inc.
- 2008 Outside Director of the Company (current position)  
Director of PIA CORPORATION (current position)  
Outside Director of transcosmos inc. (current position)  
Outside Director of SBI Holdings, Inc.  
Director of DWANGO Co., Ltd. (current position)  
Director of NTT Resonant Inc. (current position)
- 2009 Outside Director of DLE Inc. (current position)  
Outside Director of GREE, Inc. (current position)
- 2010 Outside Director of bitWallet, Inc. (now Rakuten Edy, Inc.)  
Outside Director of U-NEXT, Inc. (current position)
- 2011 Outside Director of CUUSOO SYSTEM CO., LTD.
- 2013 Guest Professor, Faculty of Environment and Information Studies of Keio University  
Outside Director of TRENDERS, INC.  
Guest Professor, Graduate School of Media and Governance of Keio University (current position)
- 2014 Director, Member of the Board of KADOKAWA DWANGO CORPORATION (current position)

# Shareholder Value



# Market Data

## Number of Pachinko Halls

CY	Number of halls						
	2008	2009	2010	2011	2012	2013	2014
Number of pachinko halls with pachinko machines installed*	11,800	11,722	11,576	11,392	11,178	10,873	10,605
Number of pachinko halls with only pachislot machines installed	1,137	930	903	931	971	1,020	1,022
Total	12,937	12,652	12,479	12,323	12,149	11,893	11,627

Source: National Police Agency

\* The 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	2014
Pachislot machines							
Machine sales (units)	913,094	766,094	979,794	1,259,924	1,326,029	1,390,566	1,235,628
Machines installed (units)	1,448,773	1,347,176	1,390,492	1,474,838	1,549,319	1,602,148	1,643,290
Market scale (millions of yen)	247,860	225,869	286,700	375,054	429,974	474,342	425,625
Pachinko machines							
Machine sales (units)	3,339,146	3,332,984	2,900,286	2,603,760	2,494,695	2,065,202	2,016,078
Machines installed (units)	3,076,421	3,158,799	3,163,650	3,107,688	3,042,476	3,009,314	2,954,285
Market scale (millions of yen)	921,338	985,227	886,914	825,714	772,951	651,241	643,768

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

\* The 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	2008	2009	2010	2011	2012	2013
Net sales of amusement machines (millions of yen)	196,164	169,632	173,167	184,781	179,147	175,048
Revenues from amusement center operations (millions of yen)	573,104	504,271	495,767	487,500	469,950	456,354
Number of amusement centers*	21,688	19,213	18,638	18,114	16,991	16,069
Year-on-year comparison of sales at existing amusement centers (%)	89.7	88.2	97.3	96.8	95.3	96.5

Source: JAIA, *Amusement Industry Survey 2013*

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

## Domestic Home Video Game Software

CY	Billions of yen								
	2008	2009	2010	2011	2012	2013	2014	2015 (Forecast)	2016 (Forecast)
Hardware	250.54	216.49	175.59	179.74	177.98	155.31	142.15	125.24	140.95
Software	332.43	326.41	318.17	274.64	271.21	253.66	226.40	221.87	223.91
Total	582.97	542.90	493.76	454.38	449.19	408.97	368.55	347.11	364.86

Source: *Famitsu Game White Paper 2015*

## Japan's Market for Game Content with Network Connectivity

CY	Billions of yen							
	2008	2009	2010	2011	2012	2013	2014	
Home video game consoles	17.2	20.2	21.8	28.5	34.2	37.5	35.3	
PCs	82.0	92.0	92.2	88.7	89.5	86.1	71.3	
Feature phones	89.0	92.0	85.4	51.2	19.2	5.3	1.9	
Smart devices + SNS	5.5	29.0	118.7	224.9	385.6	606.9	715.4	
Total	193.7	233.2	318.1	393.3	528.5	735.8	823.9	

Source: *Famitsu Game White Paper 2015*



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