

Major Questions Concerning Actual Results for Year Ended March 2014  
and Forecast for Year Ending March 2015

July 16, 2014

SEGA SAMMY HOLDINGS INC.

**Actual Results for the Year Ended March 2014**

■ **General Matters**

Q: What factors led to the increase in sales and operating income compared to the previous fiscal year (year ended March 2013)?

A: They increased because online RPG “**Phantasy Star Online 2**” and the smartphone applications “**Puyopuyo!! Quest**” and “**CHAIN CHRONICLE**” continued to be robust in the digital games field of the Consumer Business segment; this is in addition to strong sales of mainstay titles such as “**Pachislot Hokuto No Ken Chapter of Resurrection**” and “**Pachinko CR Hokuto No Ken 5 Hyakuretsu**” in the Pachislot and Pachinko Machines Business.

Q: What factors led sales and income to fall below the initial forecast?

A: Both of them fell below the initial forecast mainly due to the strategic postponement of the sales schedule for some pachislot machines to the following fiscal year, and weak performance in the Amusement Machine Sales Business impacted by moves from amusement center operators to curb investment.

Q: What is the loss on liquidation of affiliated company posted in extraordinary loss?

A: It was mainly in line with the realization of foreign currency translation adjustments resulting from the liquidation of subsidiaries in the U.K. and U.S.

Q: What factors led to the posting of extraordinary gain?

A: It was posted due to the sales of investment securities and of fixed assets.

Q: What are the changes that have been made in the aggregation method of major expenses, which are applied from the actual results for the fiscal year ended March 2014?

A: The aggregation method for R&D expense/content production expense, depreciation and advertising expense has been reviewed.

- R&D expense/content production expense: The major change is that now it includes the amortization cost of digital games which had been posted in depreciation.
- Depreciation: The amortization cost of digital games previously posted here has been transferred to R&D expense/content production expense.
- Advertising expense: The major change is that it now includes advertising expenses that were posted in cost of sales in the Amusement Center Operations Business. (Previously only selling, general and administrative (SG&A) expenses were included.)

Q: What factors led to increased R&D expenses compared to the previous fiscal year?

A: R&D expenses increased compared to the previous fiscal year mainly due to the strengthening of development capabilities in an aim to increase market share in the Pachislot and Pachinko Machines Business, and the reinforcement of digital contents in the Consumer Business, etc.

Q: What factors led to the increase in cap-ex compared to the previous fiscal year?

A: Cap-ex increased compared to the previous fiscal year due to the purchase of land for developing a complex facility in Centum City, Busan Metropolitan City, South Korea.

Q: What factors led to the decrease in net income compared to the previous fiscal year?

A: Net income decreased due to the posting of deferred tax assets for the portion anticipated to be deductible from taxable income related to the tax loss that resulted from the completion of liquidation of some subsidiaries in the U.S. during the previous fiscal year.

#### **■ Pachislot and Pachinko Machines Business**

Q: What factors led to the increase in sales and income compared to the previous fiscal year?

A: They increased due to the backlash from the previous fiscal year in which no sales of mainstay pachislot titles were conducted. On the other hand, both sales and operating income fell below the initial forecast due to reconsideration of the sales schedule of some pachislot titles.

#### **■ Amusement Machine Sales Business**

Q: What factors led to the decrease in sales and posting of operating loss compare to the previous fiscal year?

A: Sales decreased and an operating loss was posted compared to the previous fiscal year due to the sluggish performance of new titles impacted by the severe market environment of amusement centers.

#### **■ Amusement Center Operations Business**

Q: What factors led to a decrease in sales and income compared to the previous fiscal year?

A: Income decreased due to domestic same-store sales figures falling below the previous fiscal year's.

#### **■ Consumer Business**

Q: What factors led to the increase in sales and the return to profitability compared to the previous fiscal year?

A: Sales increased and returned to profit compared to the previous fiscal year due to the growth of earnings in the digital games field, although new packaged game titles were sluggish due to the impact of the severe market environment.

Q: What were the major actual results in the digital games field?

A: The digital games field was robust such as “**Phantasy Star Online 2**” surpassed cumulative downloads of 3 million, smartphone application “**Puyopuyo!! Quest**” surpassed 9 million downloads and “**CHAIN CHRONICLE**” surpassed 2.5 million downloads.

#### ■ Other Business

Q: What are the reasons behind expanded loss of the Others segment while sales increased?

A: Loss expanded in the Others segment due to preliminary expenses emerging such as at SEGA SAMMY Creation INC. which develops machines for casinos, despite the increase in sales, mainly at Phoenix Resort Co., Ltd., compared to the previous fiscal year.

### Forecast for the Year Ending March 2015

#### ■ General Matters

Q: What factors led to the forecast of increased sales and a decrease in income compared to the previous fiscal year?

A: An increase in sales is projected mainly due to an increase in pachislot and pachinko unit sales in the Pachislot and Pachinko Machines Business segment. Increased sales are also projected centering on the Consumer Business segment in which sales of mainstay titles are planned in the packaged games field, and expansion of the digital games field is also expected to continue. On the other hand, a decrease in income is projected due to increased costs from advancing the functionality of products such as increasing the volume capacity of LCD ROM and the increase of movable gadgets in the Pachislot and Pachinko Machines Business, as well as the increase in operating expenses in the Amusement Machine Sales Business.

Q: What factors led to the forecast of an increase in R&D expenses compared to the previous fiscal year?

A: It is projected compared to the previous fiscal year mainly due to planned sales of major titles in Consumer Business, in addition to the continued strengthening of development capabilities in an aim to improve market share in the Pachislot and Pachinko Machines Business.

Q: What factors led to the forecast of increased advertising expenses compared to the previous fiscal year?

A: It is projected compared to the previous fiscal year mainly in the Pachislot and Pachinko Machines Business as sales of several mainstay titles are planned, and in the Consumer Business digital games field in which continuous growth is planned.

### ■ Pachislot and Pachinko Machines Business

Q: What is the background to the forecast of an increase in sales and decrease in income compared to the previous fiscal year?

A: An increase in sales is projected due to an increase in unit sales compared to the previous fiscal year with releases of mainstay titles for pachislot and pachinko machines. On the other hand, a decrease in income is projected due to a temporary decrease in profit margins resulting from the further sophistication of products such as increasing the volume capacity of LCD ROM and increasing movable gadgets.

### ■ Amusement Machine Sales Business

Q: What factors led to the forecast of expanded losses while sales are forecast to significantly increase compared to the previous fiscal year?

A: An increase in sales is projected due to a promotion of sales of CVT kits for several titles, the release of various products for a broad range of users, and furthermore, the release of new titles for revenue sharing models, etc. On the other hand, loss is projected to expand due to increased operating expenses and such.

### ■ Amusement Center Operations Business

Q: What factors led to the forecast of a decrease in sales and posting of loss compared to the previous fiscal year?

A: Decreased sales and posting of loss are projected due to the impact from the consumption tax hike, although efforts will be made to reinforce same-stores operations.

Q: What is the impact of the increase in consumption tax to 8% from April 2014, and what measures have been taken in relation to it?

A: The impact of the increase in consumption tax is limited at the moment. We will work to strengthen sales capabilities as well as seek to provide newly added value by developing multi-business formats that do not depend on coin-operated game machines, etc. , and will make efforts to reduce the impact of consumption tax hike, etc.

### ■ Consumer Business

Q: What factors led to the forecast of increased sales and income compared to the previous fiscal year?

A: An increase in sales and income is projected due to expanded earnings through the digital conversion of existing package IPs, and expanded earnings in the digital games field with representative titles such as “**Phantasy Star Online 2**”, “**Puyopuyo!! Quest**” and “**CHAIN CHRONICLE**.”

Q: What factors led to the significant increase in the unit sales of game software in the forecast for the fiscal year ending March 2015 compared to the previous fiscal year?

A: A significant increase in the unit sales of game software is projected since the ATLUS brand titles are included in the unit sales from the current fiscal year after acquisition, in addition to the expected launch of mainstay title "ALIEN ISOLATION" in the U.S. and Europe.

Q: What is the projected number of unit sales in the digital games field in the forecast for the fiscal year ending March 2015?

A: While we will continue aiming for the expansion of earnings in existing titles, altogether 43 titles are planned to be newly released in Japan.

### ■ Other Business

Q: What is Group Structure Reform Division established on May 9, 2014?

A: The division was set up within SEGA SAMMY HOLDINGS INC. with Hajime Satomi, Chairman of the Board and Chief Executive Officer, as General Manager and Akira Sugano, Director, as Deputy General Manager, to prepare to inject management resources into IR (Integrated Resorts) business which stands as a strategic business for the mid- to long-term.

Q: What does the Group Structure Reform Division aim for?

A: In order to prepare to inject management resources into IR (Integrated Resorts) business which will be a strategic business for the mid- to long-term, the division will implement swift and fundamental measures to improve profits against issues in existing businesses and make efforts to return to a profitability growth trend by adapting to the market environment.

Q: What will be discussed at the Group Structure Reform Division?

A: For all existing businesses, the following will be conducted and any specific measures decided will be announced at an appropriate time.

- (1) Reviewing poorly performing businesses
- (2) Optimizing allocation of management resources
- (3) Reviewing development structure
- (4) Strengthening management of fixed expenses

Q: Although a decline in earning capacity is apparent from the forecast of an increase in sales and a decrease in income for the fiscal year ending March 2015, what are your thoughts on the outlook of results over the medium-term?

A: A decline in earning capacity is projected for the fiscal year ending March 2015 due to a temporary increase in costs in the Pachislot and Pachinko Machines Business, the sluggish market for the Amusement Businesses and stagnation in the packaged games field in the Consumer Business. Going forward, we will strive to improve earning capacity by conducting drastic reforms of existing businesses with the Group Structure Reform Division as a leading body.

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