

Summary of 2nd Quarter Results for FY Ending March 2014

January 17, 2014
SEGA SAMMY HOLDINGS INC.

(1) Regarding FY Ending March 2014 Interim Results

■Results Highlights

Year-on-year, sales and profits increased.

However, net sales, operating income, ordinary income and income before income taxes and minority interests underperformed against the initial forecasts mainly due to the impact from revising the sales schedule of mainstay titles in the Pachislot and Pachinko Machines Business.

■Consolidated Income Statements (Summary)

Consolidated net sales for the second quarter of the fiscal year ending March 2014 **increased** by 19% year-on-year to **162.2 billion yen**, operating income **increased** by 58% to **12.3 billion yen** and ordinary income **increased** by 97% to **14.2 billion yen**.

Extraordinary gain of **3.8 billion yen** was posted due to gain on sales of noncurrent assets, while on the other hand extraordinary loss of **600 million yen** was posted due to cost of corrective measures from a title in the digital game.

On the other hand, quarterly net income increased by **197%** year-on-year to **11.3 billion yen** due to tax expenses being lower than the forecast.

■Costs and Expenses

- R&D expense/content production expense

R&D expense and content production expense increased year-on-year centering on the Pachislot and Pachinko Machines Business and Consumer Business.

- Cap-ex

Cap-ex was higher than the forecast due to the land acquisition in Busan, South Korea in the first quarter.

- Depreciation

We have revised our forecast due to an error in the compilation method of depreciation in the Pachislot and Pachinko Machines Business at the time of the initial forecast. The revision will have no impact on other forecasts including the operating income forecast.

- Advertising expense

Advertising expense increased year-on-year centering on the Pachislot and Pachinko Machines Business and Consumer Business, but was lower than the initial forecast due to reduction of operating expense.

■Consolidated Balance Sheet (Summary)

Current assets decreased by **35.1 billion yen** due to the decrease of cash and deposits and accounts receivable, while conversely, securities increased (short-term fund management), and noncurrent assets increased by **36.2 billion yen** due to the land acquisition in Busan, South Korea and increase in investment securities.

As a result, total assets as of the end of September 2013 increased by **1.1 billion yen** from the end of the previous fiscal year, to **529.6 billion yen**.

Net assets increased by **25 billion yen** to **345 billion yen**.

Equity ratio came to **64.3%**, as we continue to maintain a sound level.

■Pachislot and Pachinko Machines

Net sales **increased** by **31%** year-on-year to **71.2 billion yen** and operating income **increased** by **45%** to **15.1 billion yen**.

Pachislot unit sales increased year-on-year due to the sales of a newly released GINZA brand “**Pachislot Kaiji 3**” and the repeat sales of Sammy brand’s mainstay title “**Pachislot Hokuto No Ken Chapter of Resurrection**” launched in the first quarter.

Pachinko unit sales decreased both year-on-year and when compared to the initial forecasts, despite the sales of Sammy brand “**Pachinko CR Rookies**” and TAIYO ELEC brand “**CR Gorenger**,” due to the sales schedule for major titles being changed to the second half of the fiscal year.

■Amusement Machine Sales

Net sales **decreased** by **4%** year-on-year to **18 billion yen** and **recorded losses**, despite the launch of a new title under revenue sharing model “**CODE OF JOKER**,” due to there being no sales of major sell-off titles, but the results are solid compared to the initial forecast.

■Amusement Center Operations

Net sales were nearly the same level year-on-year as a result of same-store sales struggling to increase, but operating income **decreased** by **75%** to **200 million yen**.

There were 202 domestic facilities at the end of the second quarter following **three** openings and **three** closures.

In addition, the number of visitors for Orbi Yokohama surpassed 100,000 in one month since its opening on August 19.

■Consumer Business

Net sales **increased** by **24%** year-on-year to **43.8 billion yen** and returned to an operating profit due to profit expanding in the Digital Games Business and profitability improving in the Packaged Games Business.

In the Packaged Games Business, “**Total War: Rome II**” was launched along with other games as well.

In the Digital Games Business, the results are robust as new title “**CHAIN CHRONICLE**” surpassed 1 million downloads in addition to “**Phantasy Star Online 2**” continuing to be solid.

In the Toy Business, sales of mainstay products such as “**Jewelpod Diamond Premium**” were solid, and in the Animation Business, distribution earnings from the movie “**Detective Conan Private Eye in the Distant Sea**” were robust.

(2) FY Ending March 2014 Full-Year Forecasts

■ Consolidated Income Statements (Summary)

Consolidated net sales is forecasted to **increase** by **51%** year-on-year to **485 billion yen**, operating income is forecasted to **increase** by **284%** to **73 billion yen**, ordinary income is forecasted to **increase** by **244%** to **72 billion yen** and net income is forecasted to **increase** by **41%** to **47 billion yen** for the fiscal year ending March 2014.

Regarding dividends, we are planning to pay an interim dividend of **20 yen** per share, a year-end dividend of **20 yen** per share and a total annual dividend of **40 yen** per share.

■ Pachislot and Pachinko Machines

Net sales are forecasted to be **270 billion yen** and operating income is forecasted to be **74 billion yen** for the fiscal year ending March 2014.

Pachislot unit sales are forecasted to **increase** by **approximately 275,000 units** compared to the previous fiscal year by introducing several mainstay titles.

- Mainstay titles to be launched in the second half of the fiscal year (Pachislot)
 - ⇒ Sammy “**Pachislot Bakemonogatari**,” “**Pachislot Eureka Seven 2**” and “**Pachislot Juoh**” among others
 - ⇒ GINZA “**Pachislot Urusei Yatsura 3**” among others
 - ⇒ TAIYO ELEC “**Pachislot Kamen Rider Unlimited**” among others

Pachinko unit sales are forecasted to **increase** by **approximately 110,000 units** compared to the previous fiscal year by introducing several mainstay titles.

- Mainstay titles to be launched in the second half of the fiscal year (Pachinko)
 - ⇒ Sammy “**Pachinko CR SOUTEN-NO-KEN**,” “**Pachinko CR Aladdin TURBO**” and “**Pachinko CR Hokuto No Ken 5 Hyakuretsu**” among others
 - ⇒ TAIYO ELEC “**CR SAMURAI CHAMPLOO 3**” among others

■ Amusement Machine Sales

Sales and profits are forecasted to increase with net sales of **45.5 billion yen** and operating income of **2.7 billion yen** for the fiscal year ending March 2014.

We will launch several mainstay titles such as “**Hokuto no Ken BATTLE MEDAL**” and “**The World of Three Kingdoms**” among others, and promote sales of CVT kits for mainstay titles such as “**WORLD CLUB Champion Football**” and “**SENGOKU TAISEN.**” In addition, we expect to see continued distribution of earnings from the revenue sharing model, and moreover, we will introduce free-to-play “**Puyopuyo!! Quest Arcade**” as a new business model.

■Amusement Center Operations

Net sales are forecasted to **increase** by **7%** compared to the previous fiscal year to **45.5 billion yen** and operating income is forecasted to **decrease** by **82%** to **200 million yen** for the fiscal year ending March 2014. Domestic same-store sales are forecast to exceed the results of the previous fiscal year at **101.8%** by strengthening management capabilities and opening facilities in shopping centers. In addition, the number of domestic facilities is forecasted to be **197 facilities** at the end of the fiscal year ending March 2014.

■Consumer Business

Net sales are forecasted to **increase** by **31%** compared to the previous fiscal year to **109.5 billion yen** and operating income and loss are forecasted to **return to an operating profit** of **3.9 billion yen** for the fiscal year ending March 2014.

In the Packaged Games Business, we will launch titles such as “**Sonic Lost World**” and “**Football Manager 2014**” for overseas and “**RYU GA GOTOKU ISHIN!**” for Japan, and we plan to sell **11.66 million** units.

In the Digital Games Business, we plan to launch service of “**Phantasy Star Online 2**” for smartphones and expand earnings from titles for smart devices.

In addition, in the Toy Business, we will strengthen activities of mainstay products such as “**Anpanman Series**” and “**Jewelpod Series,**” and in the Animation Business, we will develop “**LUPIN THE 3rd VS DETECTIVE CONAN THE MOVIE**” for movies and “**YOWAMUSHI PEDARU**” for television.

(3) Future Activities

■Medium- to Long-Term Vision of the Entire SEGA SAMMY Group

SEGA SAMMY Group is aiming for recovery to an operating income of 100 billion yen over the medium-term.

Broken down, we estimate an operating income of 70 billion yen from Pachislot and Pachinko Machines Business from Sammy, 20 billion yen from SEGA and a total of 10 billion yen from other group companies.

Although it will be further down the line, we can expect further rise in profit if a casino bill is passed in Japan and the Company is able to enter the domestic casino business. The casino facilities in Japan are said to follow the likes of resort complex style casinos in

Singapore, taking the direction of not just being a casino facility, but a casino facility that is incorporated into a portion of a large-scale facility.

A large amount of investment is required to develop a large-scale resort complex facility. Naturally, the Company will not bear all costs but instead will search for a partner. However, we think that it is necessary to firmly realize profit growth through existing businesses and prepare for investment in a casino, which is a big opportunity for growth.

■ Casino Related Business

Regarding the developments related to resort complex facilities, the Company is progressing activities such as Phoenix Resort in Miyazaki Prefecture, a casino facility in Incheon, South Korea and complex facility development in Busan, South Korea.

In Incheon, in particular, the Company's local joint venture acquired an existing casino facility on July 1, 2013, and the Company is able to directly accumulate the operating know-how. In addition, we are progressing development of a new large resort complex facility in the Incheon area with planned opening in 2017. The facility is set to include casinos, hotels, shopping malls, convention centers and offices, and will be the largest in scale in South Korea with the hotel comprised of approximately 700 guest rooms and the casino floor area planned at approximately 11,000m². For reference, the aforementioned existing casino facility's floor area is approximately 1,300m², meaning that the new casino facility will be approximately 9 times the scale.

In addition, the Company established SEGA SAMMY CREATION INC. in June this year as a new venture. SEGA SAMMY CREATION engages in the development of completely new casino equipment utilizing the know-how of SEGA and Sammy. As a plan, we estimate that it will be able to announce the first title in May 2014.

■ Pachislot and Pachinko Machines

Regarding the pachislot and pachinko machines market, hall operations are struggling due to the drop in player numbers and the impact of reduced ball rental fees that resulted from such drop. On the other hand, regarding the pachislot and pachinko machines sales market, the pachislot market has continued to be solid since 2009 compensating for the slowdown in the pachinko market.

Concerning the Company, our pachislot machines boast an overwhelmingly high utilization rate centering on the Sammy brand, such as "**Pachislot Hokuto No Ken Chapter of Resurrection**" of which installation began in the first quarter and "**Pachislot Bakemonogatari**" of which installation started in October, and we believe that our machines are highly evaluated by the halls and users alike. For reference, "**Pachislot Bakemonogatari**" continues to have a high utilization rate as of today, one month since its introduction, despite it being a new IP.

There are about five months left until the end of this fiscal year, but we are strongly confident in regaining top share for this fiscal period. We will continue to make efforts to supply innovative products that will contribute to stimulating the market as the leading company in pachislot.

Moreover, we think that the pachinko market, in which we are positioned at 5th in share, is a market with significant room for expanding profit, and we positioned the market as our Group's growth area and set a goal to gain the top share over the medium-term. The market environment is not one where titles other than mainstay titles such as "**Hokuto No Ken**" can easily and steadily increase its unit sales.

Amidst such conditions, we will take action toward a greater market share by strengthening TAIYO ELEC, where resources including development teams are being sent from Sammy, and by actively and effectively utilizing management resources of the entire SEGA SAMMY Group.

So far in this fiscal year, there have been none of the delays in approvals for pachislot machines as had occurred in the previous fiscal period, and we have steadily acquired approvals. The titles shown are only a portion of the lineups for the second half of the fiscal year, and we will also supply several other mainstay titles.

In addition, we think that we are steadily implementing the business plan considering that we are conducting a flexible price strategy against the backdrop of high brand power, and also considering that the profitability of individual titles has improved compared with the initial forecasts due to promoting cost improvement measures such as reuse of parts among other measures.

We will enter the "winner's circle" in both the pachislot and pachinko market by maintaining high brand power in pachislot and improving our presence in pachinko over the medium-term, and will stably create a profit with scale of 70 billion yen. The growth of the entire SEGA SAMMY Group is spurred by the Pachislot and Pachinko Machines Business as the Group's pillar of profitability.

■ Consumer Business

Regarding the Consumer Business, we are narrowing down developments and sales to strong IPs in the Packaged Games Business and are shifting management resources to the Digital Games Business. We think that the results of such efforts are shown in the second quarter. In addition, concerning IPs, we acquired a North American development company, Relic Entertainment, in March 2013 and transferred business from Index in November. We will aim to expand profits by utilizing SEGA's development resources used in existing IPs for these newly acquired IPs as well, and introduce them to the digital games field in a focused manner.

As for the current condition of Digital Games Business, online game "**Phantasy Star Online 2**" and titles for smart devices "**Puyopuyo!! Quest**" and "**CHAIN CHRONICLE**" are consistently robust. The net sales of Digital Games Business are showing a trend to surpass the net sales of Packaged Games Business entering this fiscal period. SEGA Networks, established in 2012, is steadily increasing its sales every quarter. Although prior investments continued since establishment, it has turned to profit for a single month in August of this year. It expects to further increase sales this third quarter as well through contributions from existing titles and new titles. In addition, it will actively

promote mainstay titles. In the domestic market, 12 titles for iOS and 6 titles for Android ranked in the Top 50 by sales in the September 2013 results. These results are top in the industry, and our strength is to construct stable portfolio.

In addition, we aim to expand the user base of smartphone applications through Noah Pass, a marketing support system independently developed by SEGA. Noah Pass is provided free of charge, and has no restrictions regarding its services when used by other companies.

Participating companies can reduce promotion costs through Noah Pass and can strengthen the contents by investing the reduced amount into development costs. Currently, it has grown to a point where 43 companies participate and 28 million users utilize the service, and we think that it has proven useful in expanding the user base. For now, we are providing the service free of charge, but we will aim for a provision of a service with added value.

Furthermore, we are also aiming to cooperate with services from different industries such as smartphone gaming community applications Lobi, Nico Nico Douga, and “Game Gift,” which is provided under business cooperation with KDDI, with the goal of further expanding the market.

-END

*The contents of this material and comments made during the questions and answers etc. of this briefing session are the judgment and projections of the Company’s management based on currently available information. The contents involve risk and uncertainty and the actual results may differ materially from these contents / comments.