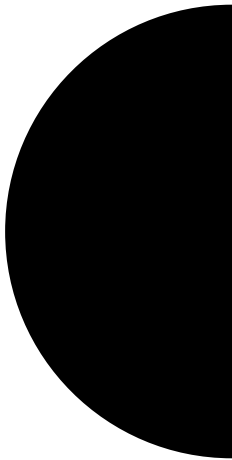


discussion points



Communication Tools

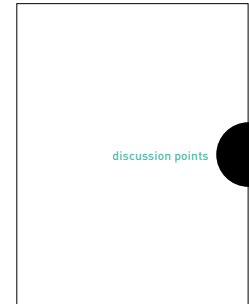
To further understanding of its complex business lines and management strategies, the SEGA SAMMY Group expands and improves its communication tools continuously.

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

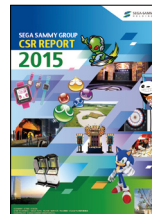


Online annual report

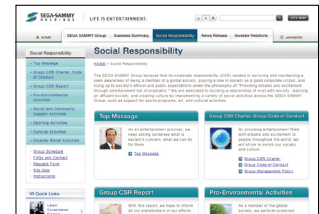
CSR

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.

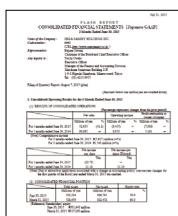


Group CSR reports



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.



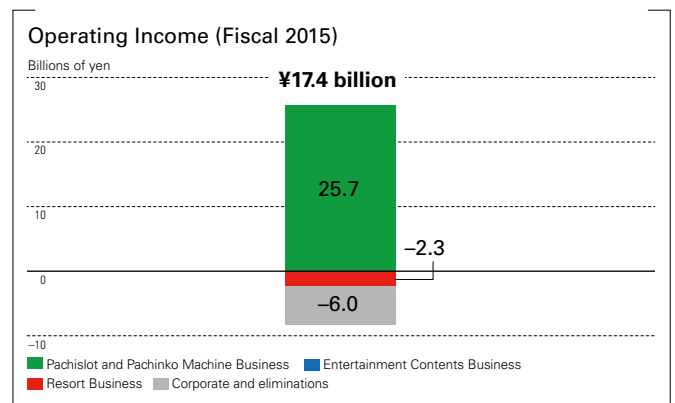
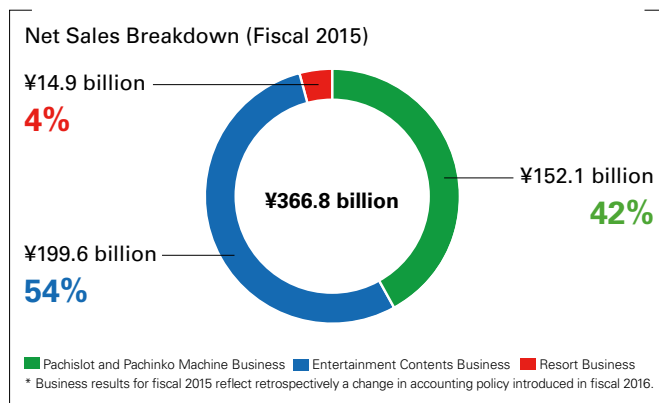
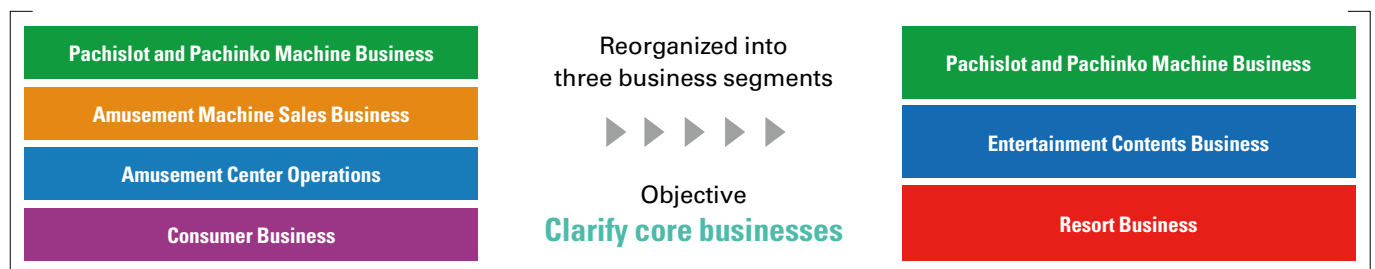
Our mission is *continuing to create moving experiences* for customers worldwide. With this in mind, we will roll out entertainment across a broad spectrum of areas.



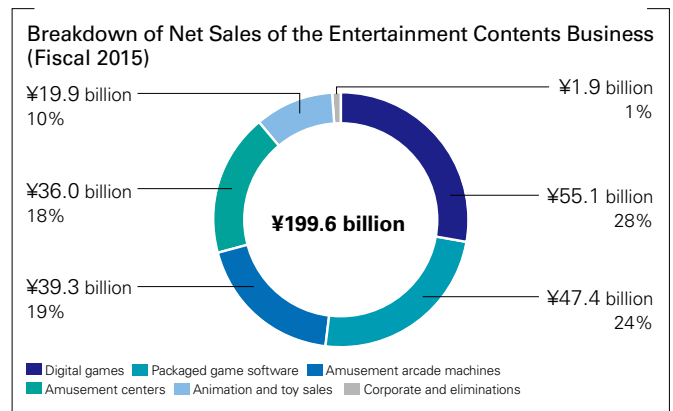
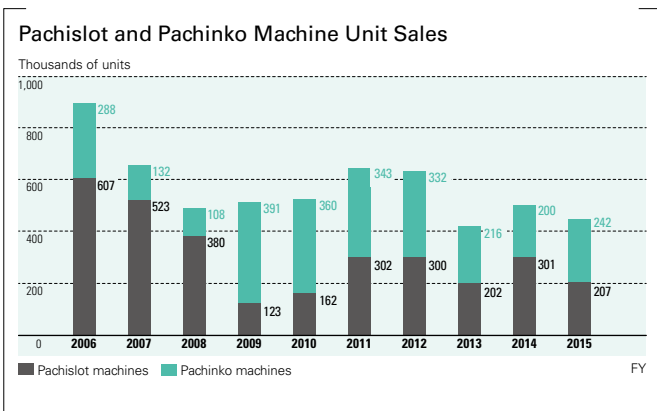
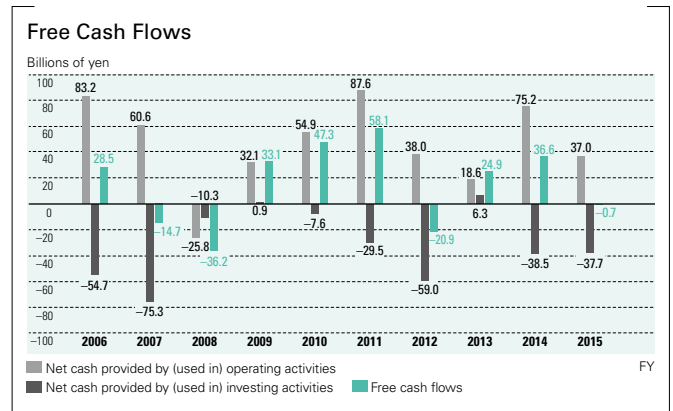
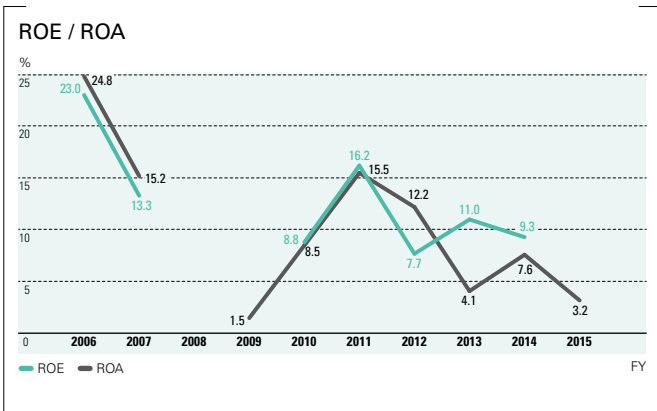
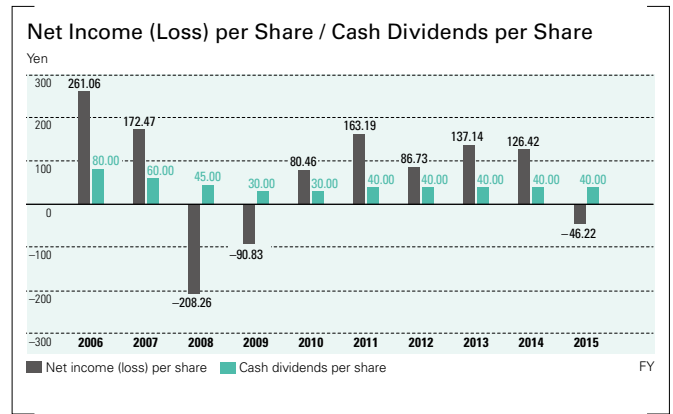
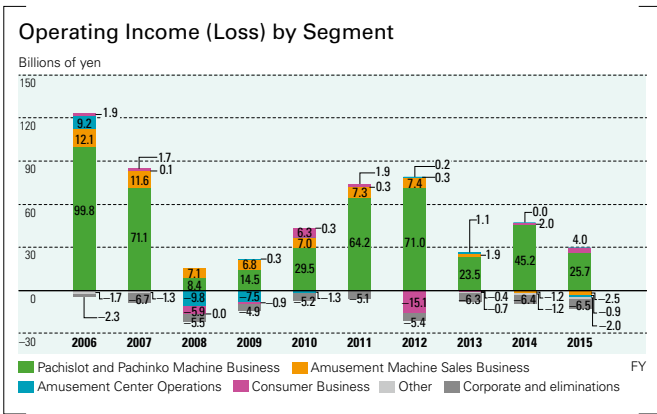
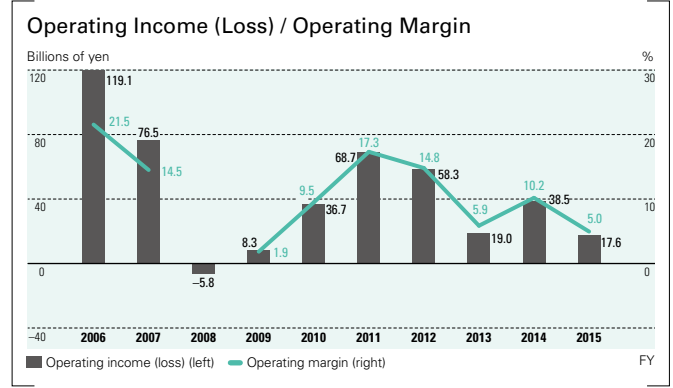
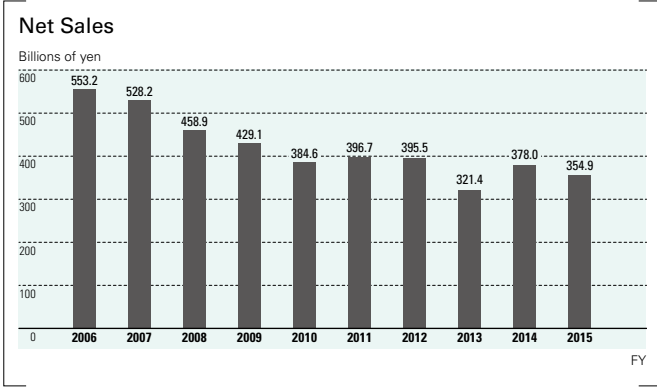
UFO Catcher ©SEGA
Sonic the Hedgehog ©SEGA

The Group's Structure

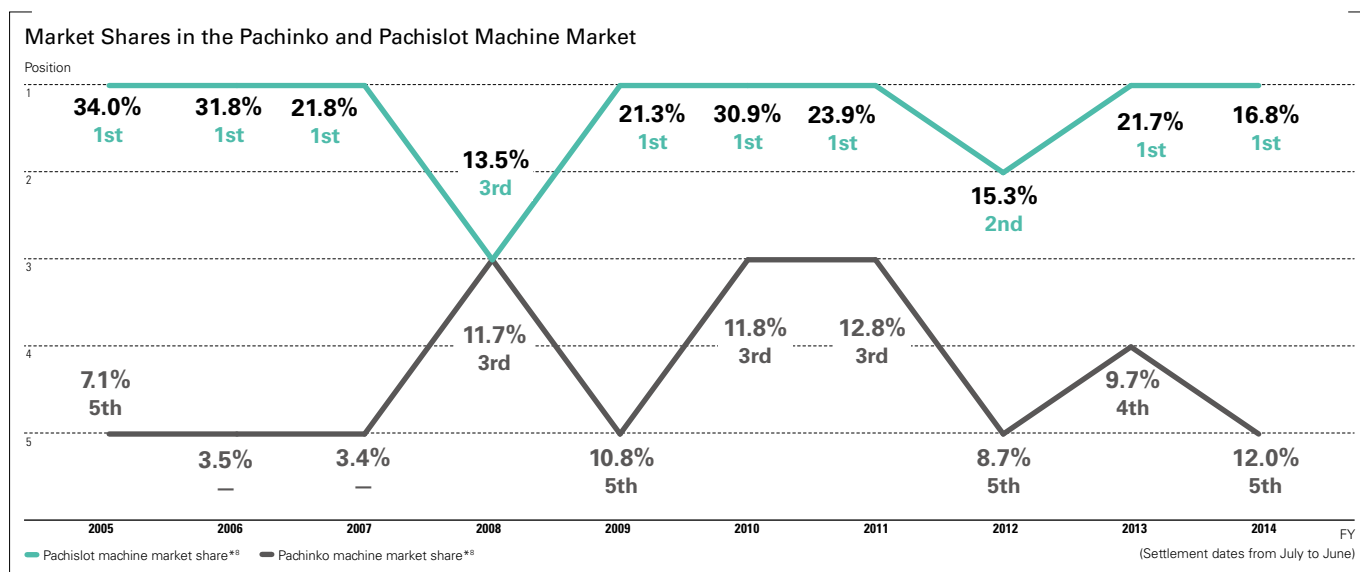
As part of a restructuring effort, we undertook a reorganization that clarified the Group's core businesses and reduced business segments from four to three as of April 1, 2015.



Overview of Key Numbers



Peer Group Comparison Data



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

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

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

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

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

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

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

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

	Billions of yen
Net Sales of Amusement Machines*1	
BANDAI NAMCO	72.1
SEGA SAMMY	39.6
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.

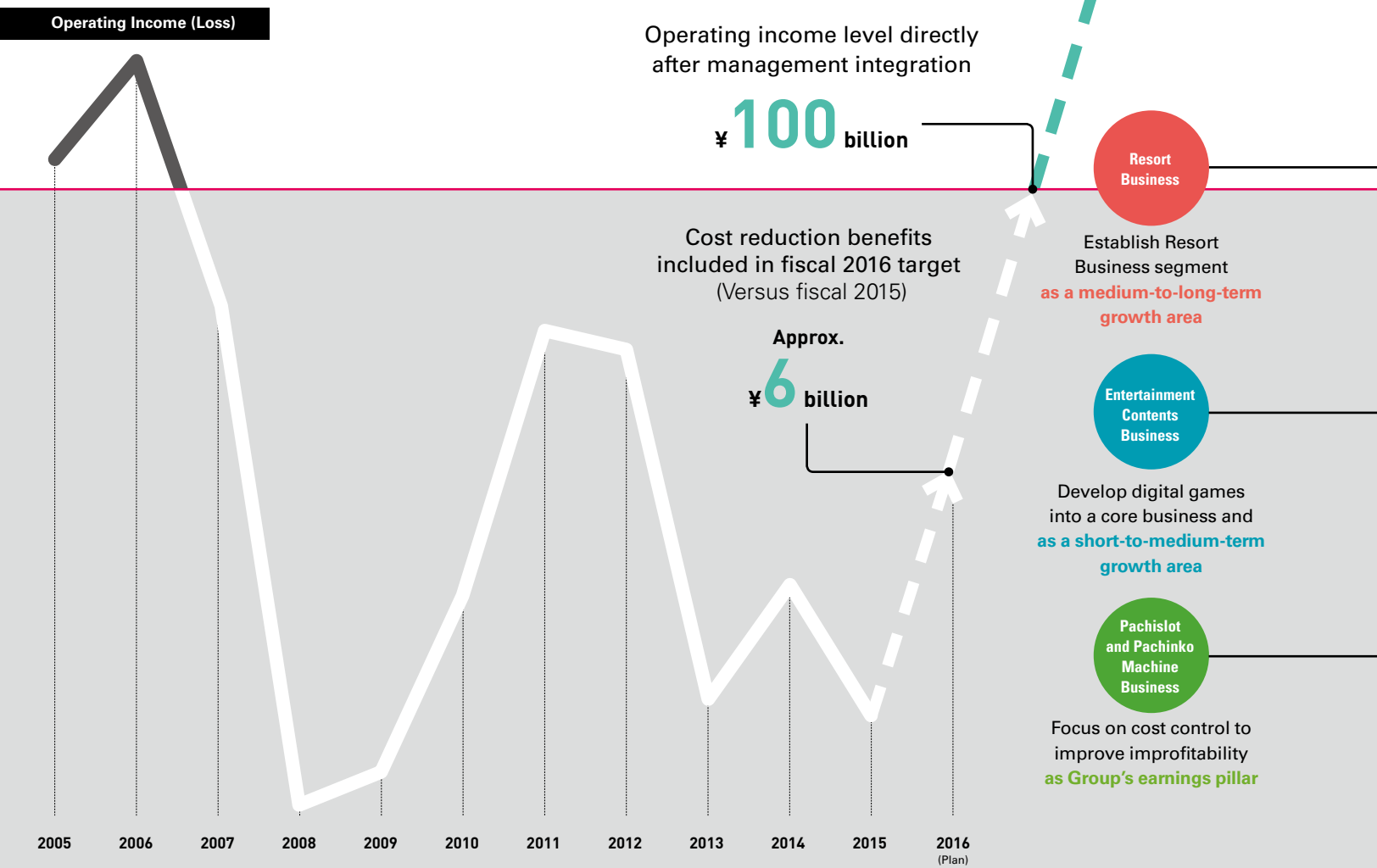
Measures Going Forward

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

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

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.

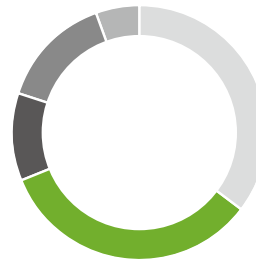


Pachislot Hokuto No Ken Tomo
 ©Buronson & Tetsuo Hara/NSP1983
 ©NSP2007, Approved No.YFC-128
 ©Sammy



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

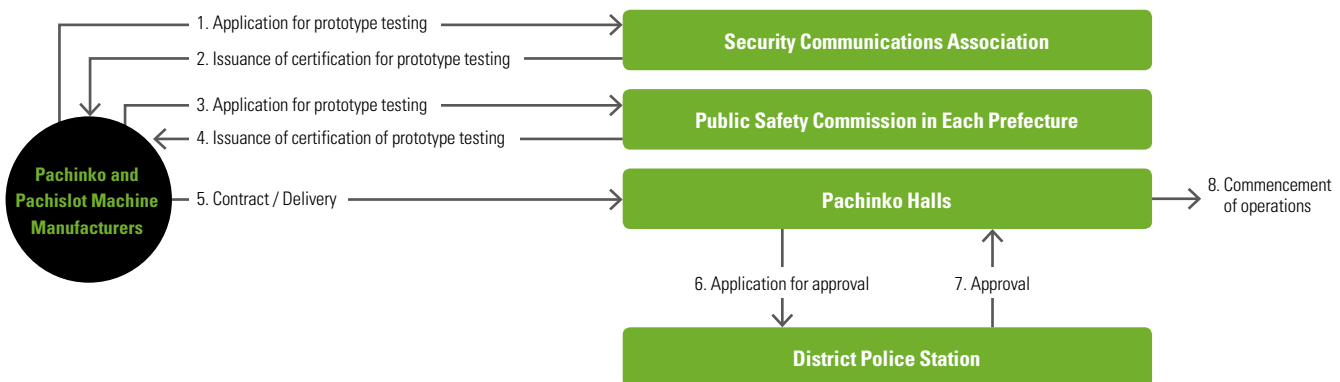


Japan's Leisure Market
 ¥ **72.9** trillion (2014)

	%	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



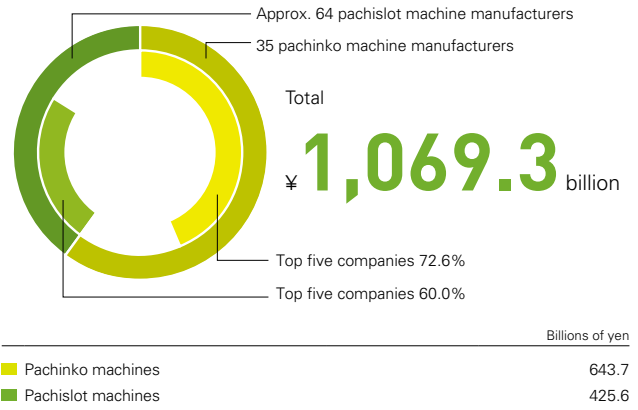
Strengthening Oligopoly among Leading Titles and Companies

In the pachinko machine market, pachinko machines are sold by 35*⁵ pachinko machine manufacturers. In the pachislot machine market, pachislot machines are sold by approximately 64*⁶ 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*⁷



Source: Yano Research Institute Ltd.

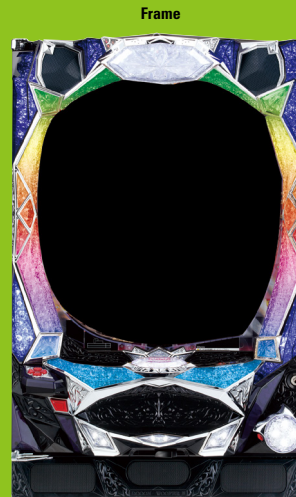
*7 Fiscal 2014 (settlement dates from July to June)

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

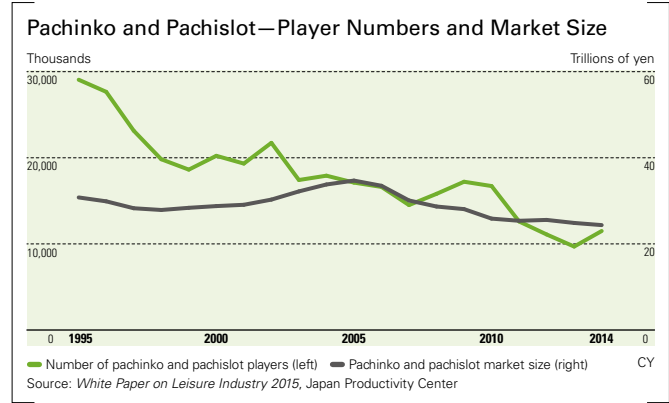
Pachinko and Pachislot Machine Market

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.

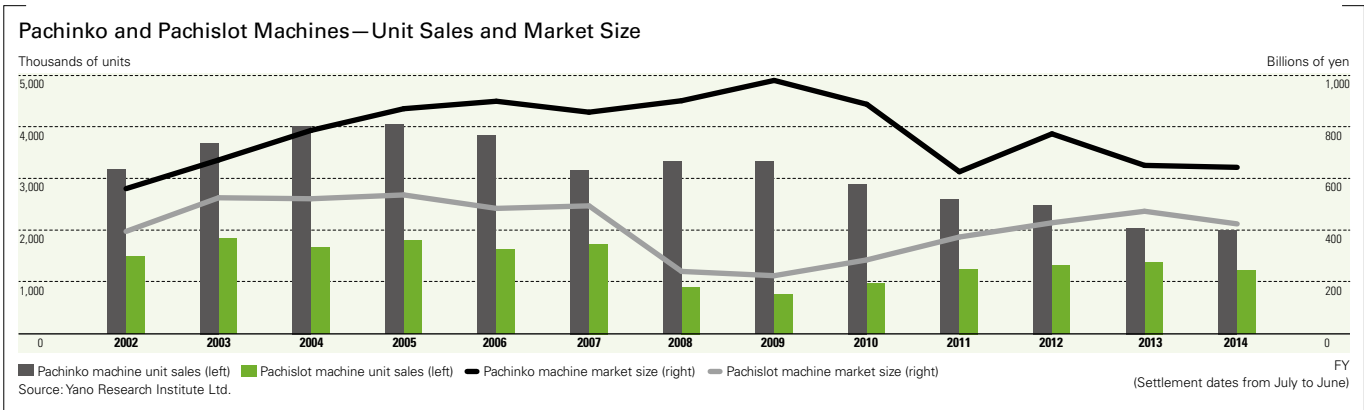
After the interim measures period*2 of a revision of regulations pertaining to the Entertainment Establishments Control Law (the regulatory revision) ended in fall 2007, the decline in player numbers and the deterioration in pachinko hall operators' financial positions become more serious, affecting



the pachinko and pachislot machine market significantly.

*1 The total of pachinko hall operators' ball rental fees and token rental fees

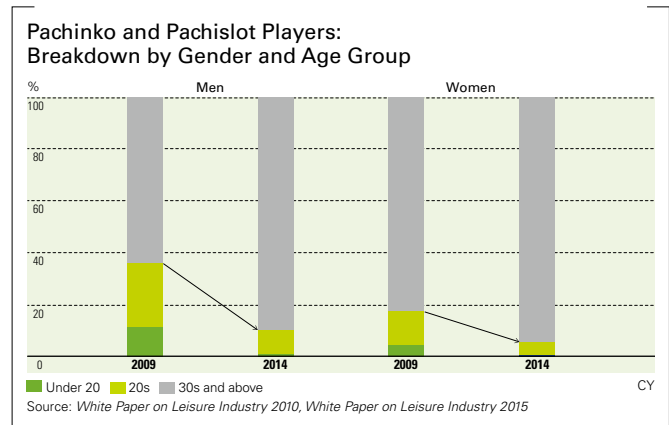
*2 Aiming to mitigate a sudden change of conditions and investment burden of pachinko hall operators, the regulatory revision of July 2004 included a three-year interim measures period for replacing old machines with new-format machines.



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*³ 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*⁴. This has polarized the market further into two groups: leading manufacturers and other manufacturers (Please see page 7).

*³ Annual turnover = Annual pachinko and pachislot machine unit sales ÷ Pachinko and pachislot machine installations
 *⁴ The number of hours per business day that pachinko or pachislot machines are utilized

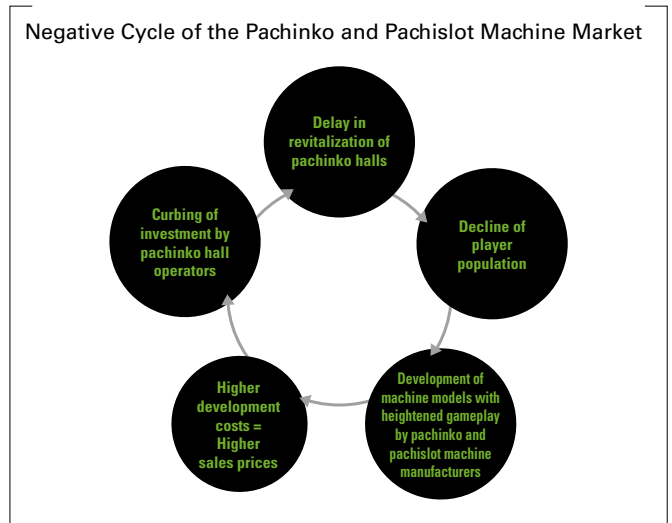
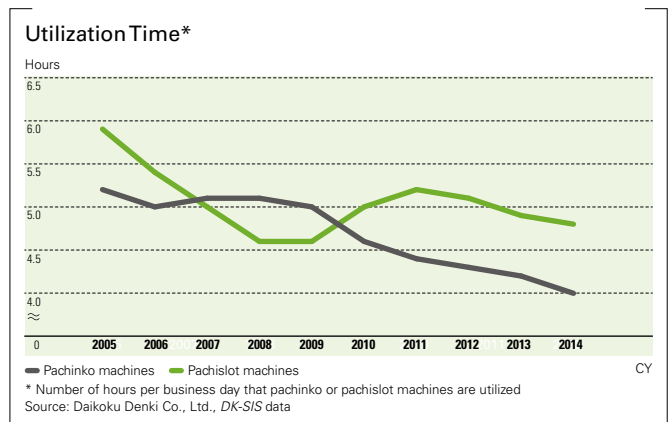
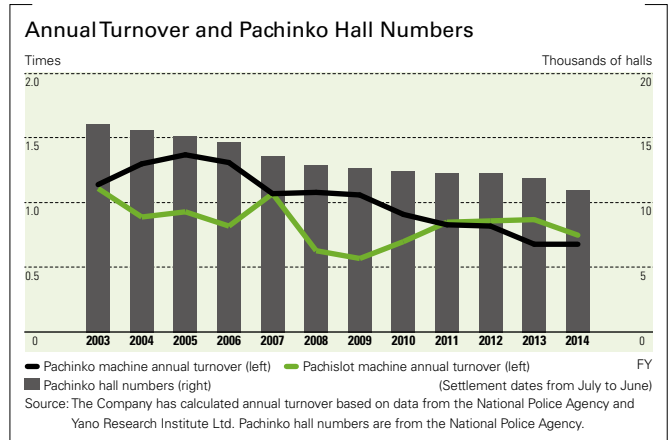
Task: Break the Negative Cycle as Much as Possible

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*¹, comprising packaged game software and online game content, rose 6.1% year on year, to approximately ¥6.7 trillion*². 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.

*¹ Total for mobile game apps, PC online games, and home video game software downloads

*² Source: Famitsu Game White Paper 2015

Online Game Market

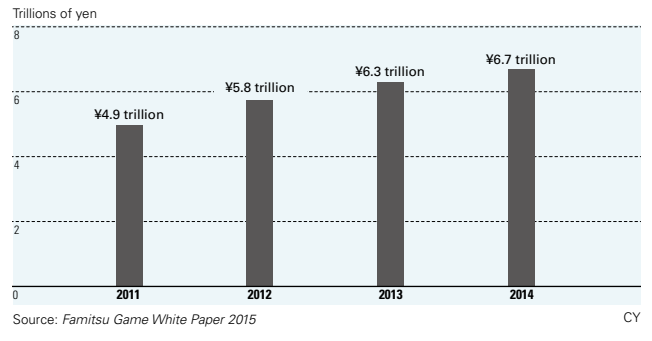
While packaged game software continues on a downward trend, online game content has expanded to account for sales of ¥5.1 trillion, or approximately 77% of the game content market. Reflecting the spread of such digital devices as smartphones and tablets, the distribution of game software is shifting 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*³. In this market, sales of digital game content for smart devices and SNS rose 179%, to ¥715.4 billion*³, 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.

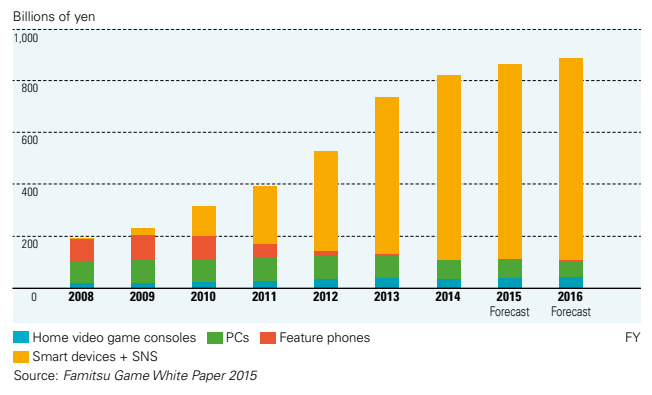
As smart devices have evolved with remarkable speed, game apps have become increasingly high-end, offering higher-resolution graphics and more complex, multilayered worlds. The development and marketing costs that high-end game apps require has resulted in an increasingly pronounced oligopoly of leading 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.

*³ Source: Famitsu Game White Paper 2015

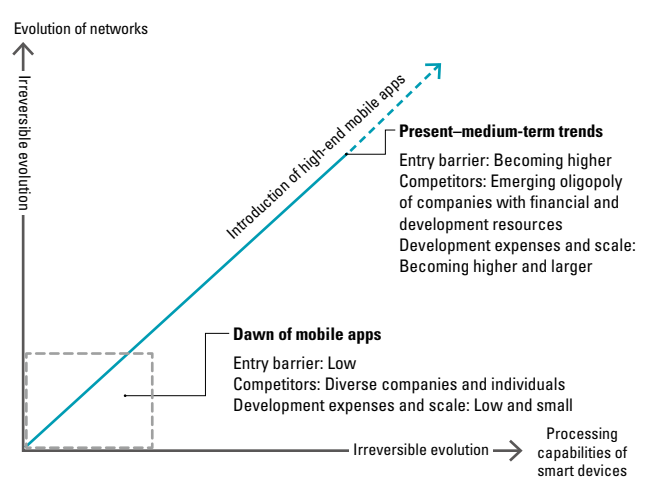
Estimated Value of Global Game Content Market



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.

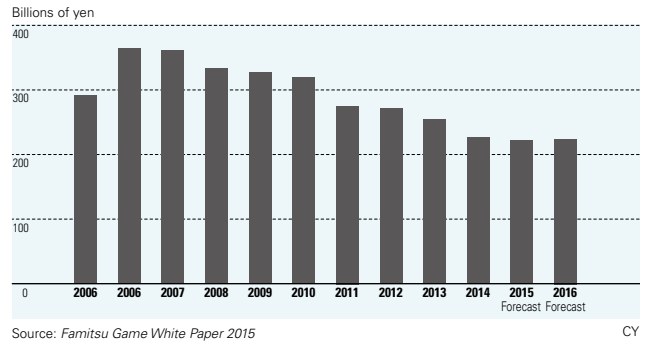
Amusement Market (Amusement Arcade Machines / Amusement Center Operations) Challenging Conditions Continue Due to Diversification of Leisure Activities

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.

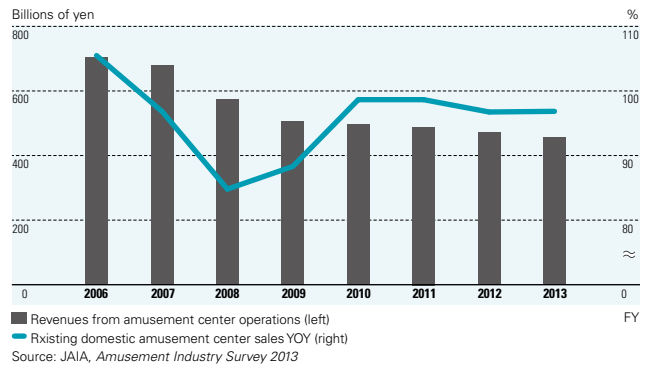
As a result of this contraction of the amusement center operations market, the amusement arcade machine market has continued to shrink. In recent years, amusement arcade machine manufacturers have been marketing products and promoting business models, such as the revenue-sharing business model, that 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 JAIA, *Amusement Industry Survey 2013*.

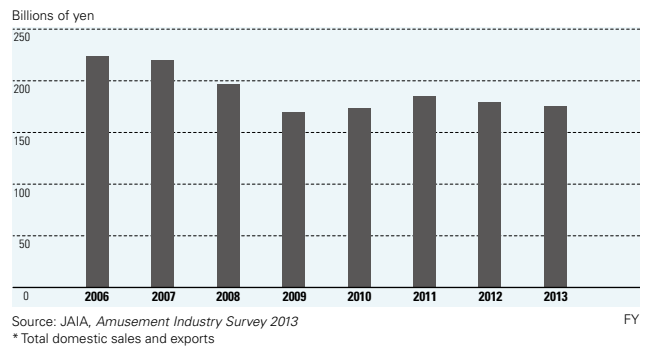
Size of Japan's Packaged Game Software Market



Revenues from Amusement Center Operations / Existing Domestic Amusement Center Sales YOY



Amusement Arcade Machine Sales*



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)

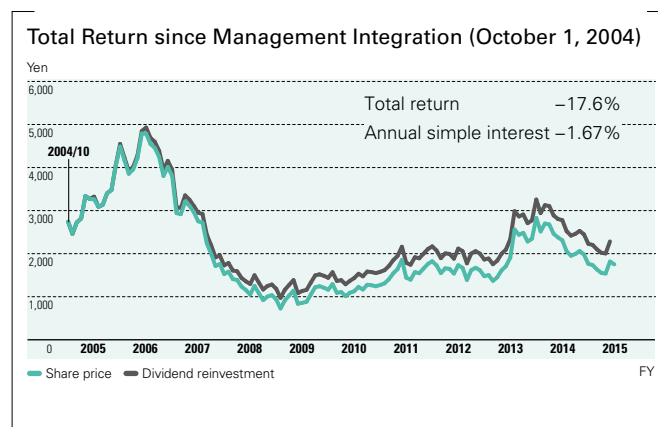
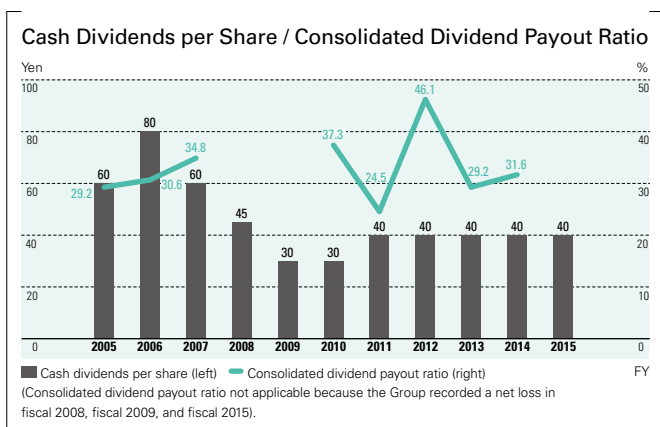


TAKESHI NATSUNO

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	2015 (Forecast)
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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