IT'S NOT ENOUGH!!

ANNUAL REPORT 2012

SEGA SAMMY HOLDINGS

THE FACTS

For those less familiar with the SEGA SAMMY Group, beginning by reading this section is advisable. It includes basic information on the business lines of the Group and the business conditions it faces.

THE FACTS

Our Communication Tools

To enhance communication with shareholders, investors, and a wide range of stakeholders, the SEGA SAMMY Group continually expands and improves its communication tools.

Investors

The SEGA SAMMY Group's *Annual Report 2012*

In *Annual Report 2012*, as well as reporting on the Group's business results for fiscal 2012, we have sought to further understanding of our growth strategies going forward. To this end, compared with the insights offered through disclosure pursuant to laws and listing regulations, we provide additional information that presents the Group in a different light. Furthermore, to assist the understanding of as many readers as possible, we have prepared "**THE FACTS**," which mainly comprises basic information.

Online *Annual Report 2012*

An HTML version of *Annual Report 2012* is available on the investor relations page of the SEGA SAMMY HOLDINGS web site. ➔ http://www.segasammy.co.jp/english/ir/ar2012/

IR Web Site Page

On the IR page of the SEGA SAMMY HOLDINGS web site, we post comprehensive, reliable information for shareholders and investors promptly. This includes timely disclosures as well as financial settlement figures in Excel format.

IR page of the SEGA SAMMY HOLDINGS web site ➔ http://www.segasammy.co.jp/english/ir/

Individual Investors

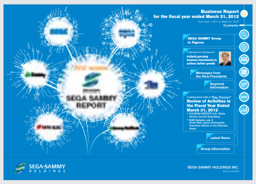
Web Site Page for Individual Investors

A dedicated web site page, "For Individual Investors," and other pages provide an easy-to-follow introduction to the Group's business lines. Meanwhile, *SEGA SAMMY Monthly Report* features the latest information on the Group's products and services.

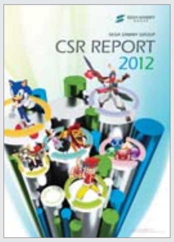
"For Individual Investors" web site page ➔ http://www.segasammy.co.jp/english/ir/individual/

Business Reports

Every six months, *SEGA SAMMY REPORT* updates our shareholders on business results and topics.



General Stakeholders



SEGA SAMMY Group CSR Report 2012

SEGA SAMMY Group CSR Report 2012 details the Group's wide-ranging corporate social responsibility (CSR) activities. *Annual Report 2012* includes an overview of issues from among these activities that could affect the Group's medium-to-long-term strategies or business results. Also, our CSR-related web site page, "Social Responsibility," carries the latest reports on our CSR activities.

"Social Responsibility" web site page ➔ http://www.segasammy.co.jp/english/pr/commu/

History

	SEGA®	Sammy
1950	1951 Founded	
1960	1960 Incorporated (Company name: Nihon Goraku Bussan Co., Ltd.) 1964 Started production of amusement arcade machines. 1965 Started operation of amusement centers. Changed company name to SEGA ENTERPRISES LTD.	
1970		1975 Established Sammy Industry Co., Ltd. 1978 Began game machine development.
1980	1983 Launched SG-1000 8-bit home video game platform. 1985 Launched *Hang On*, the world's first force feedback game. Launched *UFO Catcher*. 1986 Registered stock on over-the-counter (OTC) market. 1988 Listed stock on the second section of Tokyo Stock Exchange. Launched *Mega Drive* 16-bit home video game platform.	1982 Began sales and marketing of pachislot machines. 1989 Began sales of *Aladdin* single-bonus hitter pachislot machine.
1990	1990 Listed stock on the first section of Tokyo Stock Exchange. Launched *R-360*, the world's first amusement arcade machine that could rotate 360 degrees in all directions. 1991 Launched first title in the *Sonic the Hedgehog* series. 1993 Launched *Virtua Fighter*, the world's first amusement arcade 3D computer graphics fighting game. 1994 Launched *SEGA Saturn* 32-bit home video game platform. 1995 Launched *Print Club* with ATLUS Co., Ltd. 1996 Opened *TOKYO JOYPOLIS* rooftop theme park in Tokyo's Odaiba area. 1998 Launched *Dreamcast* home video game platform.	1991 Moved head office to Toshima-ku, Tokyo. 1995 Began sales of pachinko machines. 1997 Changed company name to Sammy Corporation. 1999 Registered stock on OTC market. Launched *GeGeGe No Kitaro*, the first pachislot machine equipped with an LCD.
2000	2000 Changed company name to SEGA CORPORATION. 2003 Launched *The King of Beetles "MUSHIKING,"* kids' card game.	2000 Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary. 2001 Listed stock on the first section of Tokyo Stock Exchange. Completed Kawagoe Factory. 2003 Launched *Hokuto No Ken* pachislot machine, which set a new record for unit sales.

SEGA SAMMY HOLDINGS

2004 Established SEGA SAMMY HOLDINGS INC.
2005 Acquired all outstanding shares of The Creative Assembly Ltd. (SEGA).
2006 Made SPORTS INTERACTIVE Ltd. a wholly owned subsidiary (SEGA).
Entered strategic business alliance with Sanrio Company, Ltd. (SEGA SAMMY HOLDINGS).
2007 Made TAIYO ELEC Co., Ltd., a subsidiary (Sammy).
2008 Reached agreement with Sanrio Company, Ltd., to jointly develop new characters (SEGA SAMMY HOLDINGS).
2009 Made GINZA CORPORATION a subsidiary (Sammy).
Established SEGA SAMMY VISUAL ENTERTAINMENT INC.* (SEGA SAMMY HOLDINGS).
Established Bakugan Limited Liability Partnership (Bakugan LLP) (SEGA SAMMY HOLDINGS and Group companies).

2010

2010 Made Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD., wholly owned subsidiaries (SEGA SAMMY HOLDINGS).
Cancelled 17 million shares of treasury stock (SEGA SAMMY HOLDINGS).
2011 Made TAIYO ELEC Co., Ltd., a wholly owned subsidiary (SEGA SAMMY HOLDINGS).
2012 (As of August)
Made Phoenix Resort Co., Ltd. a wholly owned subsidiary (SEGA SAMMY HOLDINGS).
Concluded agreement on establishment of joint venture with Paradise Group of South Korea (SEGA SAMMY HOLDINGS).
Established SEGA Networks, Ltd., through divestiture from SEGA (SEGA).

UFO Catcher
© SEGA

Aladdin pachislot machine
© Sammy

Sonic the Hedgehog
© SEGA

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

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* Currently MARZA ANIMATION PLANET INC.

Summary of the SEGA SAMMY Group

The SEGA SAMMY Group is a comprehensive entertainment company with business activities spanning a broad array of areas from pachislot and pachinko machines through to amusement arcade machines, amusement center operations, home video game software, digital content for social networking services (SNS) and smartphones, toys, and animation. By creating synergies among Group companies and taking on new challenges that exploit its expertise in entertainment, the Group aims to grow corporate value continually.

SEGA SAMMY HOLDINGS INC.

Date of Establishment
October 1, 2004

Capital
¥29.9 billion

Total Shares Issued and Outstanding
266,229,476 shares

Number of Shareholders
88,239

Number of Employees
6,700 (consolidated)

As of March 31, 2012

SEGA SAMMY HOLDINGS

SEGA SAMMY's dramatic progress worldwide

SEGA SAMMY blue
success and growth

SEGA SAMMY green
stability and
permanence

The Group Logo

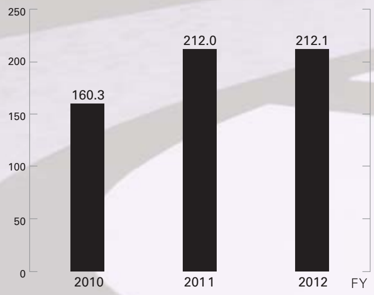
The logo symbolizes the creation of synergies by intertwining two renderings of the initial letter of both company names, the letter S, in the blue and green corporate colors of SEGA and Sammy. The curving lines linking SEGA and Sammy represent the Earth, simultaneously expressing the companies' solidarity and the Group's determination to develop globally.

Pachislot and Pachinko Machine Business

This business segment comprises the pachislot machine business, which has maintained its position as the industry leader, and the pachinko machine business, which has been building its presence each year thanks to strengthened development capabilities. A feature of the business segment is an operational structure that is highly resistant to changes in market conditions, which we built by reforming cost structure and establishing a balanced product portfolio. Going forward, we aim to maintain the No. 1 market share of the pachislot machine business and to acquire a leading market share for the pachinko machine business in the medium term. To this end, we are further bolstering our development system while ramping up manufacturing and supply capabilities.

Net Sales

Billions of yen

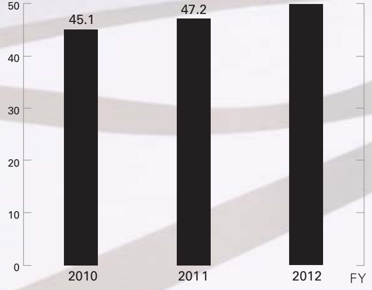


Amusement Machine Sales Business

As SEGA's founding business, this business segment has remained in the vanguard of the very latest market trends by creating numerous world-first and industry-first products. It caters to diverse needs through an extensive product lineup that covers network-compatible games through to products for families. Also, the business segment is promoting the supply of products and services designed to revitalize the market, including products provided through a revenue-sharing business model.

Net Sales

Billions of yen

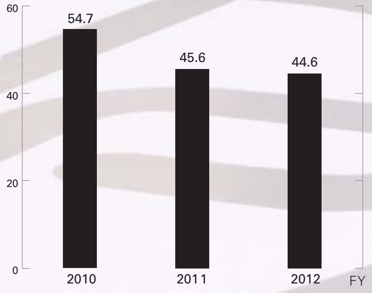


Amusement Center Operations

By collaborating with the Amusement Machine Sales Business segment and deploying diverse amusement center formats, this business segment is developing a network of amusement centers ideally suited to particular locations. While steadily strengthening earning power through unceasing structural reform efforts, the business segment is launching such ventures as new-concept theme park-type amusement centers.

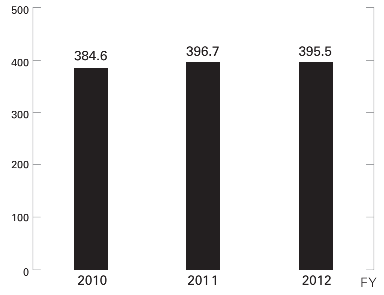
Net Sales

Billions of yen



Net Sales

Billions of yen



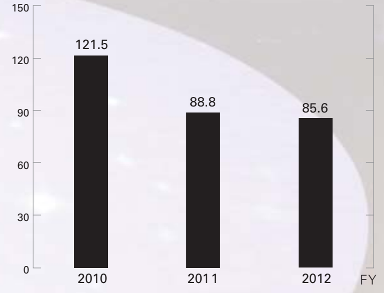
Consumer Business

This business segment comprises the game content business, the toy sales business, and the animation business.

The game content business is restructuring businesses in the packaged game software area while urgently shifting the allocation of management resources toward content for SNS and smartphones. Meanwhile, in the toy sales business, fabless company SEGA TOYS CO., LTD., is building a unique position through the development of edutainment toys and products for adults. In the animation business, TMS ENTERTAINMENT, LTD., is generating steady earnings by taking advantage of rich animation assets, which include *Go! ANPANMAN*, *Detective Conan*, and *Lupin the 3rd*. Furthermore, MARZA ANIMATION PLANET INC. is producing computer-graphics (CG) animation.

Net Sales

Billions of yen



Pachislot Hokuto No Ken
©Buronson & Tetsuo Hara /
NSP1983
© NSP2007,
Approved No.YRI-125
© Sammy

StarHorse3 Season I
A NEW LEGEND BEGINS.
© SEGA

TOKYO JOYPOLIS

Kingdom Conquest
© SEGA

THE FACTS

Pachinko and Pachislot—The Basics

What Are Pachinko and Pachislot?

Pachinko machines trace their origins to bagatelle boards, imported to Japan almost a century ago, in the 1920s. In the 1930s, the first pachinko hall opened for business. The prototype of modern pachinko machines, the “Masamura Gauge” machine, appeared in 1949. Subsequently, pachinko machines evolved to reflect the preferences of Japanese players. Pachinko is a game in which players manipulate a handle in order to mechanically shoot steel pachinko balls with diameters of about 11mm onto a vertically positioned board studded with numerous pins. When the balls fall into certain devices or the jackpot mouth, additional pachinko balls are won. The gameplay is similar to pinball. The main difference is that in a pachinko machine the board is nearly vertical.

Meanwhile, the roots of pachislot are said to be slot machines brought from the United States after the end of the Second World War. The 1960s saw the emergence of modified slot machines requiring a certain level of playing skill because they incorporated buttons that allowed players to stop the reels spinning. Subsequently, these machines were upgraded to the current box-cabinets and spread to pachinko halls throughout Japan. The functions and gameplay of pachinko and pachislot machines have continued to evolve, creating a uniquely Japanese form of entertainment.

Today, machines continue to entertain fans through varied, dynamic staging based on LCDs and a range of other electronic components.

The History of Pachinko and Pachislot

	Pachinko	Pachislot
1920s	Bagatelle boards arrive in Japan from overseas	
1930s	First pachinko hall opens for business in Nagoya	
1940s	Prototype of modern machines, “Masamura Gauge” appears Entertainment Establishments Control Law enforced, pachinko halls begin operating under license	
1950s	Pachinko machine manufacturers’ industry association, Nikkoso, established First pachinko machines with “Yakumono” appear	
1960s	Machines with tulip-shaped devices appear	Large slot machines imported to Japan
1970s	Electric pachinko machines appear	
1980s	Pachinko machines with digital displays, “digipachi,” appear	Pachislot machine manufacturers’ industry association, Nichidenkyo, established Box-cabinets appear and spread rapidly
1990s	1991 Pachinko machines with LCDs appear 1992 “CR machines” compatible with prepaid cards appear First tie-up pachinko machine appears	No. 2 through No. 4 pachislot machines appear
2000s	2004 Revised Entertainment Establishments Control Law enforced New-format machines appear	Games diversify with appearance of modified slot machines, CT machines, multi-line, and large-jackpot machines 2004 Revised Entertainment Establishments Control Law enforced No. 5 pachislot machines appear

Pachinko Machine Boards and Frames

The frame is the cabinet part of a pachinko machine and has attached to it a handle, a glass frame unit, and speakers. Also, the frame physically controls the shooting and paying out of pachinko balls. Meanwhile, the board comprises liquid crystal displays (LCDs), tulip-shaped devices, 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. Also, because the price of a pachinko board is less than that of an entire machine (a frame and a board), this arrangement enables pachinko hall operators to lighten their capital investment burden. For manufacturers, sales of pachinko boards provide higher margins than sales of entire machines and help maintain market share. Therefore, board sales benefit manufacturers and pachinko hall operators.

Frame

Boards

Pachinko SOUTEN-NO-KEN
© Tetsuo Hara & Buronson / NSP2001, Approved No.YDG-102
© Sammy

New pachinko machines can be introduced by simply attaching boards to frames

Dejiten CR Hokuto No Ken Toki
© Buronson & Tetsuo Hara / NSP1983
© NSP2007, Approved No.YKN-101
© Sammy

How to Play Pachinko

Step 1 Rent balls

After deciding which machine to play, the player rents special balls and puts them into the machine's upper tray.

Step 2 Shoot balls

Turning the handle on the bottom right shoots the balls.

For most machines, when a ball enters the start hole underneath the LCD, the machine gives the player a chance to win a jackpot. Therefore, the player uses the handle to adjust the impetus of the balls so that as many as possible enter the start hole.

Step 3 If the player hits the jackpot...

If the LCD screen shows the same three figures (numbers) in a line, the player wins the jackpot. When the player wins the jackpot, the jackpot mouth in the lower part of the machine opens, and the player continues shooting balls. If a large number of balls fill the lower tray, the player can use the ball remover to transfer the balls to a box.

❶ Start hole
❷ Upper tray
❸ Lower tray
❹ Ball remover
❺ LCD
❻ Jackpot mouth
❼ Handle

Pachinko SOUTEN-NO-KEN
© Tetsuo Hara & Buronson / NSP2001,
Approved No.YDG-102
© Sammy

How to Play Pachislot

Step 1 Rent medals

After deciding which machine to play, the player rents special medals.

Step 2 Enter medals, spin the reels

The player puts three or more medals into the machine's medal slot and pushes the lever to spin the reels.

Step 3 Halt the reels

The player halts the reels by using the stop buttons on the front of the machine cabinet.

Step 4 Depending on the figures the halted reels show...

If the reels show the same three figures in a line, depending on the figures, the player can either spin the reels again, receive a small payout of a set number of medals, or begin a jackpot bonus game.

❶ Main reels
❷ Credit display
❸ Bet button
❹ Lever
❺ Stop buttons
❻ Payout display
❼ Medal slot
❽ Panel
❾ Tray for receiving medals
❿ Medal discharge

Pachislot CODE GEASS Lelouch of the Rebellion
© SUNRISE / PROJECT GEASS·MBS
Character Design © 2006 CLAMP
© NAMCO BANDAI Games Inc.
© Sammy

THE FACTS

Size and Competitive Conditions of Pachinko and Pachislot Machine Markets

This section focuses on the structures of the highly distinctive markets for pachinko and pachislot machines—which are unique to Japan—and the regulatory environments of these markets.

Market Scale

As one of Japan's flagship leisure industries, pachinko and pachislot claims a major share of the country's leisure market, and the influence of the industry is extending into various different areas. Comprising the ball and token rental fees that the pachinko halls charge, this market accounts for roughly 28.4% of the leisure market, revenues of ¥19.3 trillion[1], and 16.7 million players[1]. Of the approximately ¥1.2 trillion[2] in revenues generated, the pachinko machine market represents 68.8%, or ¥825.7 billion[2], and the pachislot machine market 31.2%, or ¥375.0 billion[2]. As well as affecting pachinko and pachislot machine manufacturers, trends in the pachinko and pachislot machine markets affect other industries. These include manufacturers of such components as LCDs, light-emitting diodes (LEDs), and sensors, who play a key role in the increasing use of advanced technologies for pachinko and pachislot machines, and manufacturers of peripheral equipment for the machines, who have developed in step with the growing automation of pachinko halls.

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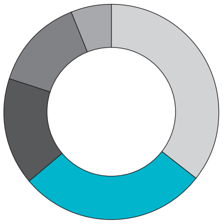
1 2010. Data for 2011 unavailable from research organization as of August 31, 2012.
Source: *White Paper on Leisure Industry 2011*, Japan Productivity Center
2 2011. Source: Yano Research Institute Ltd.

Shares of Pachinko and Pachislot in Japan's Leisure Market



Japan's Leisure Market[3]
¥67.9 trillion

	%	Trillions of yen
■ Games / Publicly operated sports / Eating and drinking	35.5	24.1
■ Pachinko and pachislot[4]	28.4	19.3
■ Hobbies	15.9	10.8
■ Tourism	14.0	9.5
■ Sports	5.9	4.0

Source: *White Paper on Leisure Industry 2011*, Japan Productivity Center
3 2010. Data for 2011 unavailable from research organization as of August 31, 2012.
4 Total amounts of hall ball and token rentals

Competitive Conditions of the Pachinko and Pachislot Machine Markets

The pachinko and pachislot machine markets comprise 34[5] pachinko machine manufacturers and 84[6] pachislot machine manufacturers. Manufacturers' shares of the market fluctuate significantly depending on whether or not they have hit titles. In recent years, orders have concentrated on a particular group of manufacturers, consolidating the standing of the leading manufacturers and making the market increasingly oligopolistic. This reflects the strengthening of a tendency among pachinko hall operators—who face tough market conditions—to choose machines and brands that have proven high utilization rates and are therefore likely to give a reliable return on investment. Consequently, companies with robust development capabilities and abundant funds for investment are advancing their positions further. At the same time, there is a growing trend toward tie-ups and mergers centered on such companies.

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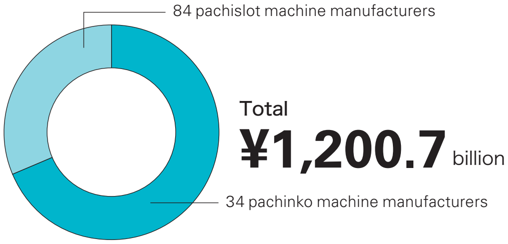
5 As of July 31, 2012. Member companies of Nikkoso, the pachinko machine manufacturers' industry association
6 As of February 28, 2011. Member companies of Pachislot Manufacturing Network

Pachinko and Pachislot Machine Market Scale[7]



	Billions of yen
■ Pachinko machines	825.7
■ Pachislot machines	375.0

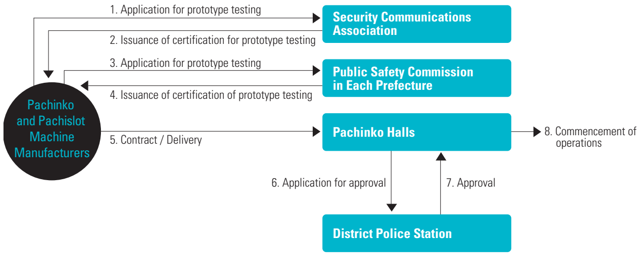
Source: Yano Research Institute Ltd.
7 Fiscal 2011 (settlement dates from July to June)

Overview of the Regulatory Environment and Its Effect

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 like materials, functions, and gameplay are in conformance with the law.

Next, the machines are verified by the Public Safety Commission in each prefecture. Only then can they be supplied to pachinko halls. Before commencing operations, the pachinko hall operators must acquire approval from district police stations.

Approval Process for Pachinko and Pachislot Machines



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. These revisions have driven changes in market conditions. Most recently, in July 2004, regulations pertaining to the Entertainment Establishments Control Law were revised. These revisions initiated major changes that continue to affect the market.

Key Indicators for Analysis of Conditions in the Pachinko and Pachislot Machine Markets

Revision of regulations pertaining to the Entertainment Establishments Control Law affects the development of pachinko and pachislot machines and changes gameplay, which leads to structural change in the market as a whole. The accompanying changes in the business results of pachinko hall operators affect sales of pachinko and pachislot machines. When pachinko hall operators are in a favorable financial position and have extra capital investment capacity, they actively replace existing machines with new ones to attract customers. Annual turnover, which shows how many times pachinko hall operators replace machines during one year, is a reliable indicator of pachinko hall operators' investment appetite and financial position. Furthermore, utilization rates—the utilization time of pachinko and pachislot machines as a percentage of business hours—clearly show the appeal of pachinko and pachislot machines, which has a direct bearing on pachinko hall operators' financial position.

Annual Turnover

Annual pachinko and pachislot machine unit sales ÷ Pachinko and pachislot machine installations

Shows the number of times pachinko hall operators replace machines during one year and their capital investment appetite

Utilization Rate

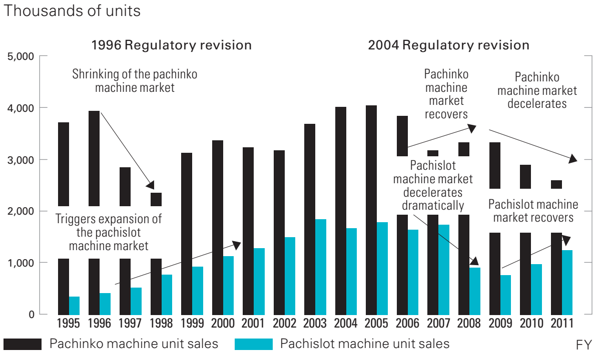
Utilization time of pachinko or pachislot machine ÷ Pachinko hall operators' business hours

An indication of user endorsement of pachinko or pachislot machines

Cyclically Changing Market Conditions

In the pachinko and pachislot machine market, changes in market conditions due to revisions of regulations pertaining to the Entertainment Establishments Control Law and pachinko and pachislot machine manufacturers' innovations in response to these changes have generated cyclical trends. In the 1990s, changes in regulations and internal regulations caused a slump in the pachinko market while triggering rapid expansion of the pachislot market. The July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law revitalized the pachinko machine market from 2008 to approximately 2010 but led to a downturn in the pachislot machine market. Since 2011, this trend has reversed again, with the pachislot machine market picking up as the pachinko machine market softens. For pachinko and pachislot machine manufacturers, the key to securing stable earnings lies in establishing brand appeal and product appeal for pachinko machines and pachislot machines.

Cyclically Changing Market Conditions



Source: Yano Research Institute Ltd.

(Settlement dates from July to June)

THE FACTS

Market Conditions for Respective Businesses

Pachinko and Pachislot Machine Business

Long-Term Trends—From the 1990s to 2005

After peaking in 1995, the number of players began trending downward due to casual players leaving the market because an increasing number of machines featured more complicated gameplay or strong gambling elements. As a result, the pachinko and pachislot market[1] entered a period of long-term decline. Fiercer competition among pachinko hall operators to attract a declining number of players and major operators' rapid advances led to a shakeout of small pachinko hall operators with less financial muscle. Consequently, the number of pachinko halls continued to decrease.

Meanwhile, unit sales of pachinko and pachislot machines remained solid, thanks to heavy demand from pachinko hall operators as they sought to secure players by replacing existing machines with new models. Also, the market generated higher revenue levels as the prices of machines continued to rise due to the incorporation of such features as LCDs. From the mid-1990s onward, however, regulatory reform caused pachinko machine installations to trend downward, while installations of pachislot machines grew because they offered a wider scope of gameplay. These pachislot machines required more playing skill and incorporated such new functions as "assist time."

Following the July 2004 Regulatory Revision

1. Pachislot Machine Sales Slump, Pachinko Machine Sales Rise (from 2006 to mid-2009)

Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. The effect of the revision became clear from fall 2007, after the interim measures period[2] ended. As pachinko hall operators proceeded to replace old-format pachislot machines with those compliant with the new regulations, players' departure from the market accelerated due to the difference in gameplay. In response, pachinko hall operators actively replaced pachislot machines with pachinko machines, which were recording comparatively steady utilization rates[3]. This resulted in an upturn in installations of pachinko machines.

Also, although annual pachinko machine unit sales plateaued as business conditions for pachinko hall operators became tougher, the pachinko machine market continued to expand on a revenue basis. This growth was attributable to a rise in prices for machines, stemming from the increased use of advanced technologies and a hike in copyright fees that reflected fiercer competition over the acquisition of intellectual property. Faced with deteriorating profitability as the investment burden of machine replacement grew while player numbers declined, pachinko hall operators sought reliable returns by introducing machines that promised high utilization rates. This caused the market to polarize further into two groups: leading manufacturers and other manufacturers.

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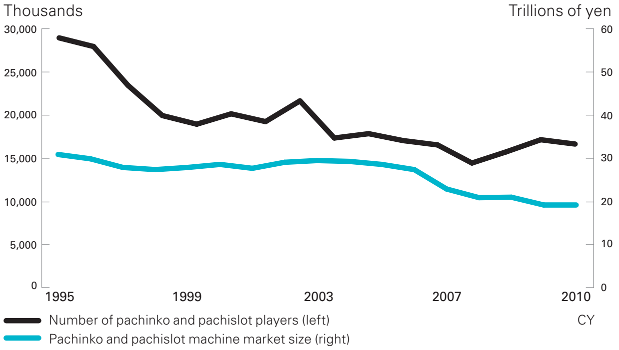
[1] The total of pachinko hall operators' ball rental fees and token rental fees

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

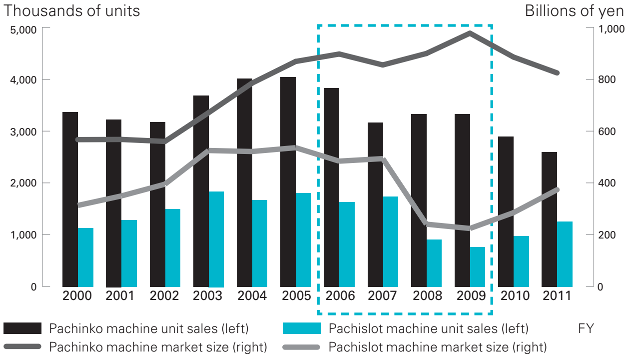
[3] The utilization time of pachinko and pachislot machines as a percentage of business hours

Pachinko and Pachislot—Player Numbers and Market Size



Source: *White Paper on Leisure Industry 2011*, Japan Productivity Center

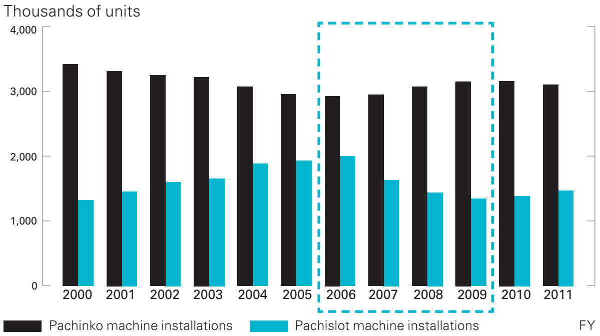
Pachinko and Pachislot Machines—Unit Sales and Market Size



Source: Yano Research Institute Ltd.

(Settlement dates from July to June)

Pachinko and Pachislot Installations



Source: National Police Agency

2. Pachinko Machine Sales Decelerate, Pachislot Machine Sales Recover (since mid-2009)

From 2008, casual players began leaving the pachinko market due to the increasing installation of pachinko machines with a strong gambling element, known as "Max-type" machines, which promised a comparatively early return on investment. In response, pachinko hall operators adopted a strategy of lowering ball rental fees called "one yen pachinko," while manufacturers introduced pachinko machines with a weaker gambling element, called "amadigi" with a view to broadening the base of players.

Although lowering ball rental fees increased utilization rates, in the short-term it led to a decline in sales per machine for hall operations, which worsened their business results. As the sudden drop in annual turnover[4] shows, the softening of replacement demand for new pachinko machines—which had underpinned the market—became more conspicuous from the second half of 2009.

Meanwhile, demand from pachinko hall operators for pachislot machines began to rise thanks to manufacturers' continued development efforts, which created pachislot machines with gameplay that earned player support while remaining within the bounds of regulatory reforms. The recovery of pachislot machines since bottoming in fall 2007 is clear from such indicators as annual turnover, utilization rates, and average gross profit per machine per day[5]. Sluggishness in the pachinko machine market, accompanied by favorable conditions in the pachislot machine market, continues in the current fiscal year.

[4] Annual turnover = Annual unit sales ÷ Machine installations

[5] Average gross profit per machine per day for pachinko hall operators

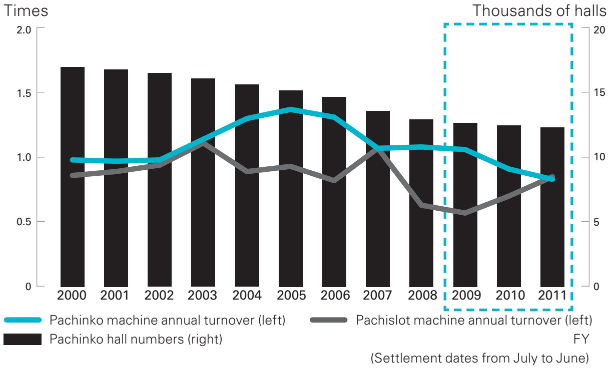
Summary of Market Conditions

- The long-term decline in the number of players has not changed significantly. Pachinko hall operators continue to face challenging business conditions.
- Aiming to enhance capital investment efficiency, pachinko hall operators are increasingly favoring particular manufacturers and machine models with brand appeal likely to realize high utilization rates.
- While demand is growing for pachislot machines, which offer comparatively high utilization rates, demand for pachinko machines is weakening.
- An oligopoly comprising manufacturers with abundant development funds and advanced development capabilities is becoming more entrenched.

Keys to Prevailing in Competition with Other Manufacturers

- Develop machine models with gameplay that helps increase the number of players
- Establish a balanced product portfolio able to use cyclical changes in market conditions as a tailwind
- Acquire market share efficiently by exploiting collaboration among Group companies to realize economies of scale
- Build production and supply capabilities able to cater to short-term intensive demand

Annual Turnover* and Pachinko Hall Numbers

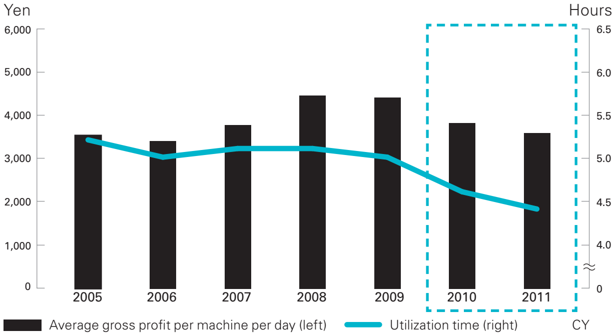


* Annual turnover = Annual unit sales ÷ Machine installations

Sources: 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.

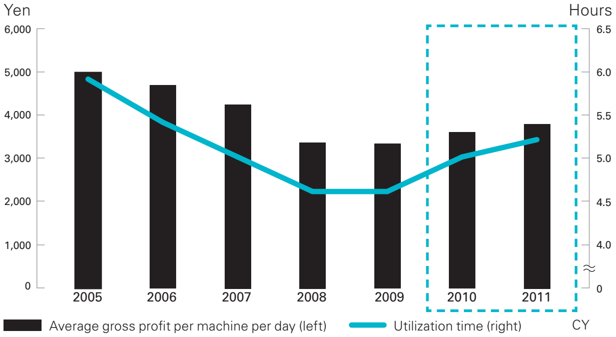
Utilization of Pachinko and Pachislot Machines

Pachinko Machines



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

Pachislot Machines



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

Market Conditions for Respective Businesses

Amusement Market (amusement arcade machines / amusement center operations)

Bottoming Out of the Amusement Center Operations Market Becomes Clearer

The amusement center operations market has been contracting since fiscal 2007. However, the trend is gradually turning around. In recent years, amusement centers operators have responded to the shrinking market by closing unprofitable amusement centers and increasing operational efficiency. As a result, the year-on-year rate of decline in net sales from amusement center operations is slowing: while for fiscal 2009 it was above 10%, it was only 1.7% for fiscal 2010. Although conditions remain tough, there are signs that the market is bottoming out. Year-on-year net sales of existing amusement centers have been declining since fiscal 2004. However, although this figure was down 11.8% for fiscal 2009, it decreased only 2.7% for fiscal 2010, indicating a gradual bottoming out. This was attributable to a 4.5% year-on-year rise in revenues from crane games, which supported the market, and the contribution of new players. Furthermore, amusement center operators gained attention in a new role as facilitators of community-building efforts focused on senior citizens.

The financial position of amusement center operators, which had remained tough, is improving steadily due to the bottoming out of net sales and the revamping of earnings structures. With major amusement center operators taking the lead, capital investment appetite is beginning to return. This is putting a brake on a vicious circle whereby delay in revitalizing amusement centers was driving players out of the market.

Amusement Arcade Machine Sales Up for First Time in Three Years

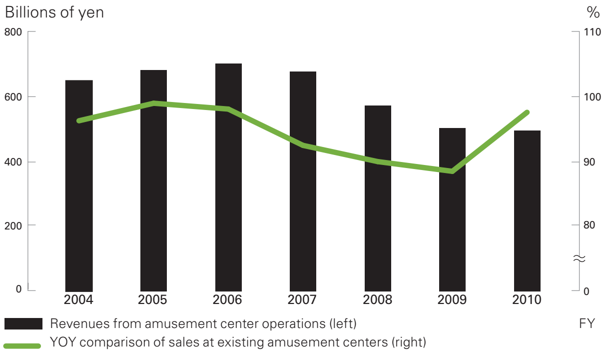
Because the capital investment of amusement center operators affects it directly, the market for amusement arcade machines saw year-on-year declines in sales for three consecutive years from fiscal 2007. However, in fiscal 2010 sales were up 2.1% year on year. Partly due to a rebound from the significant 13.5% year-on-year drop in fiscal 2009, sales of almost all product categories rose from the previous fiscal year. Higher product sales indicate that amusement center operators, centered on major companies, are regaining an appetite for capital investment.

In recent years, amusement arcade machine manufacturers have taken a variety of steps to alleviate amusement center operators' investment burden. Examples of these initiatives include standardizing machine cabinets, adopting systems that enable amusement center operators to upgrade content by simply replacing computer graphics boards or by downloading new content, and introducing multipurpose computer graphics boards that reduce cost. In addition, revenues from revenue-sharing business models, in which manufacturers sell amusement arcade machines at low prices and share revenues from machine utilization with amusement center operators, have grown rapidly—rising 2.3 times compared with fiscal 2007. This business model is likely to become even more popular because, at the same time as mitigating amusement center operators' capital investment burden, it promises to secure long-term earnings for amusement arcade machine manufacturers.

Amusement center operators and amusement arcade machine manufacturers are collaborating to reinvigorate the industry as a whole by establishing new usage fees and rates that diversify earnings sources and by developing products that attract new players.

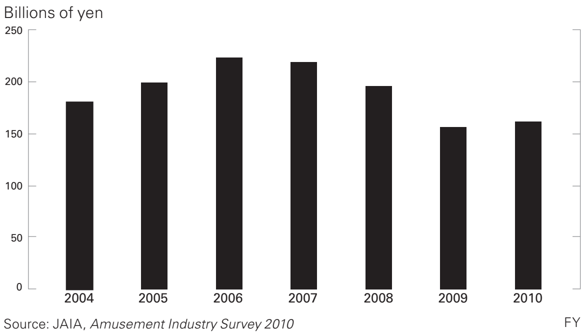
All market data in the text is from JAIA, *Amusement Industry Survey 2010*.

Revenues from Amusement Center Operations / YOY Comparison of Sales at Existing Amusement Centers



Source: JAIA, *Amusement Industry Survey 2010*

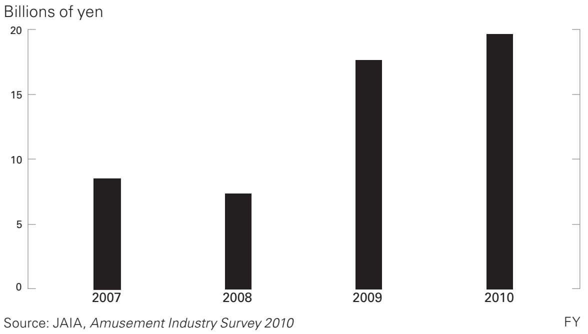
Amusement Arcade Machine Sales*



Source: JAIA, *Amusement Industry Survey 2010*

* Total domestic sales and exports

Revenues from Content Fees / Revenue-Sharing Business Models



Source: JAIA, *Amusement Industry Survey 2010*

Home Video Game Software Market

Game Content for New Platforms Leading the Market

In 2011, the global video game market, including video game software and game consoles, is estimated to have accounted for revenues of ¥3.63 trillion[1], down 8.3% from the previous year. Partly reflecting a transition among home video game consoles and handheld game terminals to a new generation of platforms, the video game software and game console market saw steep year-on-year decreases in all regions: 5.9%[1] in Japan, 8.4%[1] in the United States, and 8.8%[1] in Europe. In the packaged game software market, popularity concentrated on particular titles, further reinforcing the oligopoly among software publishers. Also, video game content for such new platforms as SNS, smartphones, and online games became the new driver of the global game content market, accounting for ¥3 trillion of the ¥5.13 trillion[1] in revenues this market generated.

The Popularity of Smart Devices Spurs Growth of the Social Game Market

Japan's online game content market grew 8.0% year on year, to ¥239.9 billion[2]. In this market, social games are growing at a phenomenal pace. The social game market has been expanding rapidly since 2008 in Japan. This fast growth in a short period is the result of the explosive proliferation of such smart devices as smartphones and tablet PCs combined with the upgrading of telecommunications infrastructure. Domestic shipments of smartphones rose 2.7 times year on year, to 23.4 million units[3]—accounting for the majority of mobile phone shipments for the first time. Numerous companies are competing fiercely in this market because it allows them to supply content worldwide easily through a common operating system, while an open environment for basic development lowers the barrier to market entry.

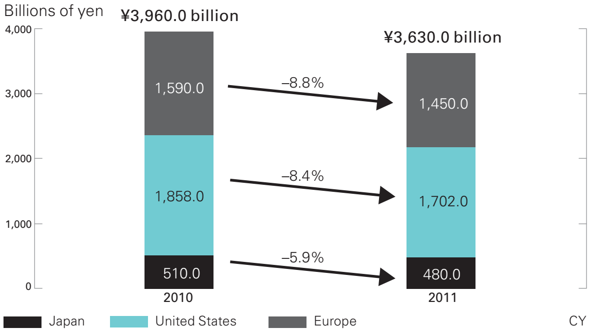
Video Game Industry Hurries to Convert Business Model

Software publishers are very quickly shifting the main focus of their businesses from existing markets, which are contracting, to the content market for new platforms. The structure of this market differs greatly from that of the packaged game software market, where companies' involvement ends after selling products. In the content market for new platforms, however, success depends upon a company's ability to detect changes in the market sensitively after distributing content and to flexibly adjust to it accordingly. Aiming to shorten development lead times and cater to a diverse range of players, software publishers are building business models suited to the new market's structure by establishing subsidiaries or dedicated divisions and pursuing mergers and acquisitions (M&As). Moreover, to replace games with excessive gambling elements, which have become a social issue, companies are searching for content that will drive market growth. In Asia, the online game market promises significant growth. Therefore, companies are advancing measures to open up this market.

---

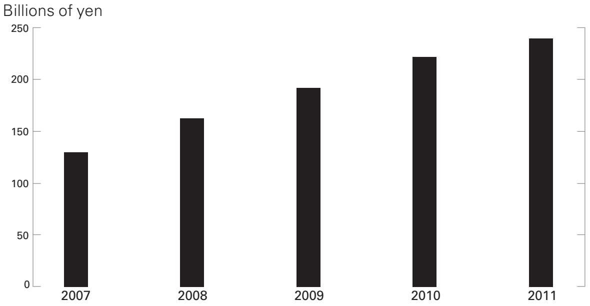
[1] Source: *Famitsu Game White Paper 2012*
[2] Source: *PwC's annual Global Entertainment and Media Outlook: 2012–2016*
[3] Source: MM Research Institute, Ltd.

Global Video Game Market (consoles + software)



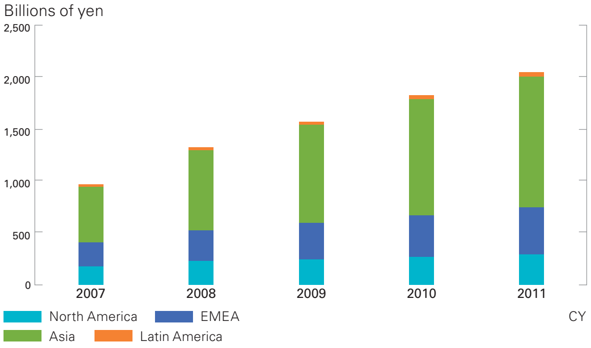
Source: *Famitsu Game Whitepaper 2012*

Online Game Market in Japan



Source: *PwC's annual Global Entertainment and Media Outlook: 2012–2016*

Global Online Game Market



Source: *PwC's annual Global Entertainment and Media Outlook: 2012–2016*

Toy and Animation Markets

Japan's Toy Shipment Market
Challenging Conditions Set to Continue over the Medium-to-Long Term

In fiscal 2010, Japan's toy shipment market, comprising eight main product categories and excluding home video game consoles and software, grew 2.3% year on year, to ¥331.2 billion, thanks to brisk sales of toys for boys. For fiscal 2011, although toys for boys are likely to continue performing solidly, Japan's toy shipment market is expected to edge down 0.5% year on year, to ¥329.6 billion. Due to the Great East Japan Earthquake and an increasing emphasis on saving power, sales of analog games, which had been contracting, have grown dramatically.

Although the industry is pursuing initiatives to develop demand for products targeting adults, the majority of products target children. Therefore, given society's aging over the medium-to-long term, the market is unlikely to expand significantly. In response, the industry is expected to step up rollouts in markets overseas and accelerate efforts toward tie-ups and mergers.

Animation Market
Hit Movies Drive the Market

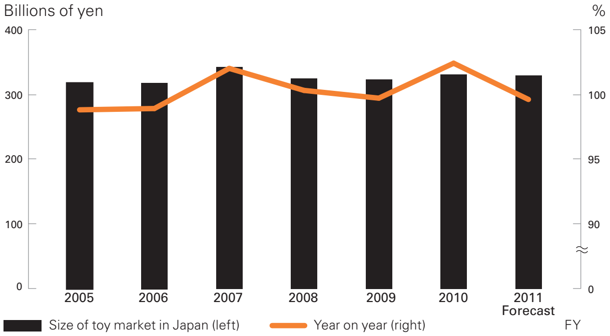
In 2010, the animation market grew 5.8% year on year, to ¥229.0 billion. Animation hits at movie theaters have dominated the market in recent years. This trend continued in 2010, with such hits playing a central role in the animation market. As well as popular Japanese animation, in 2009 and 2010 Western animation hits helped grow the overall animation market by expanding the markets for movie theater and video animation.

As for terrestrial broadcasting, the market is contracting. Since peaking in 2006, the number of animation series broadcast on television has been declining. On the other hand, the pay-TV market is continuing to expand as the animation channels of satellite and cable TV services attract more viewers. In 2011, viewer numbers are expected to increase because a new satellite TV service has begun broadcasting.

In video sales, animation is heightening its presence by growing as the overall video market declines.

While the market for distribution services for PCs is flat, the market for distribution services for mobile terminals is growing. Furthermore, with the rapid spread of smartphones, the viewing of videos through mobile terminals is likely to expand even further.

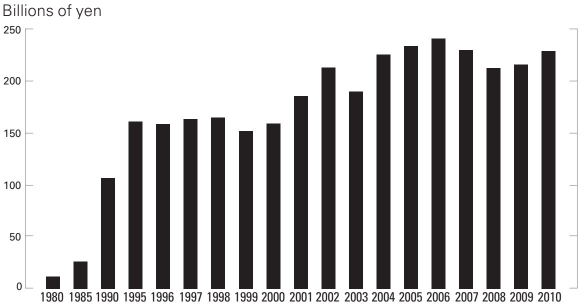
Toy Market in Japan*
(excluding home video game consoles and software)



* Shipment basis

Source: Yano Research Institute Ltd.

Animation Market in Japan
(for movie theaters, television, DVDs, and network distribution)



Source: Media Development Research Institute Inc.

Market Data

Number of Pachinko Halls

Number of halls

CY	2007	2008	2009	2010	2011
Number of pachinko halls with pachinko machines installed	12,039	11,800	11,722	11,576	11,392
Number of pachinko halls with only pachislot machines installed	1,546	1,137	930	903	931
Total	13,585	12,937	12,652	12,479	12,323

Source: National Police Agency. Number of pachinko halls with pachinko machines installed includes halls that combine installations of pachinko machines, pachislot machines, arrange-ball machines, and other machines.

Pachislot Machine and Pachinko Machine Sales, Installed, and Market Scale

CY / FY*		2007	2008	2009	2010	2011
Pachislot machines	Machine sales (units)	1,744,308	913,094	766,094	979,794	1,259,924
	Machines installed (units)	1,635,860	1,448,773	1,347,176	1,390,492	1,474,838
	Market scale (millions of yen)	502,501	247,860	225,869	286,700	375,054
Pachinko machines	Machine sales (units)	3,173,725	3,339,146	3,332,984	2,900,286	2,602,760
	Machines installed (units)	2,954,386	3,076,421	3,158,799	3,163,650	3,107,688
	Market scale (millions of yen)	868,623	921,338	985,227	886,914	825,714

Sources: National Police Agency (machines installed) and Yano Research Institute Ltd. (machine sales and market scale)

* Number of machines installed is on a calendar year basis. Number of machine sales and market scale information is on a fiscal year basis (settlement dates from July to June).

Amusement Machine and Amusement Center Operations Markets

FY	2006	2007	2008	2009	2010
Net sales of amusement machines (millions of yen)	223,357	219,061	196,164	169,632	173,167
Net sales from amusement center operations (millions of yen)	702,857	678,099	573,104	504,271	495,767
Number of amusement centers	23,613	22,723	21,688	19,213	18,638
Year-on-year comparison of sales at existing amusement centers (%)	97.8	92.2	89.7	88.2	97.3

Source: JAIA, *Amusement Industry Survey 2010*

* The number of amusement centers is the total of category 8 centers and non-category 8 centers classified by the Entertainment Control Law.

Global Shipment of Home Game Software

Billions of yen

FY	2007	2008	2009	2010	2011
Software	848.6	1,024.3	758.6	670.5	530.9
Hardware	2,087.7	1,908.3	1,490.8	1,126.9	926.4

Source: *CESA GAME White Paper 2012*

Global Online Game Market

Billions of yen

CY	2007	2008	2009	2010	2011
North America	176.7	228.3	245.8	267.4	293.9
EMEA	233.9	296.5	349.0	402.8	449.2
Asia	533.5	771.4	945.3	1,117.7	1,259.2
Latin America	21.6	28.3	33.2	38.6	44.4
Total	965.7	1,324.5	1,573.3	1,826.5	2,046.7

Source: *PwC's annual Global Entertainment and Media Outlook: 2012–2016*

Calculated using exchange rate of US$1 = ¥80

OUR AMBITIONS

Operating income

2012

¥58.3 billion

2008

¥-5.8 billion

We think it’s not enough.

Our earnings are picking up steadily. However, for fiscal 2005 and fiscal 2006 our operating income surpassed ¥100 billion. We believe we need an even more robust earnings structure to regain this level rapidly and then steepen our growth trajectory sharply.

Our share of the pachinko machine market

2011* * Settlement dates from July to June

12.8%

2007

3.4% → **12.8%**

He thinks we should claim a bigger market share.

We think it’s not enough.

Our market presence is building steadily. However, given our medium-term target is to stake out a leading share of a market that offers us significant opportunity to grow market share, we are not satisfied with the size of our current market share. To increase our presence we will heighten the appeal of our products even further.

November 2010

Service launched

→

Kingdom Conquest

May 2012

3 million downloads

They think we should be able to perform better.

We think it's not enough.

***Kingdom Conquest*, SEGA's free role-playing game (RPG), with individual item fees, for Apple's iOS mobile operating system and Android™, has become a hit worldwide. However, we feel that to achieve further successes in the content markets for social networking services (SNS) and smartphones we need to increase the pace of decision-making and make the most of SEGA's strengths.**

Operating margin

2012

14.8%

2009

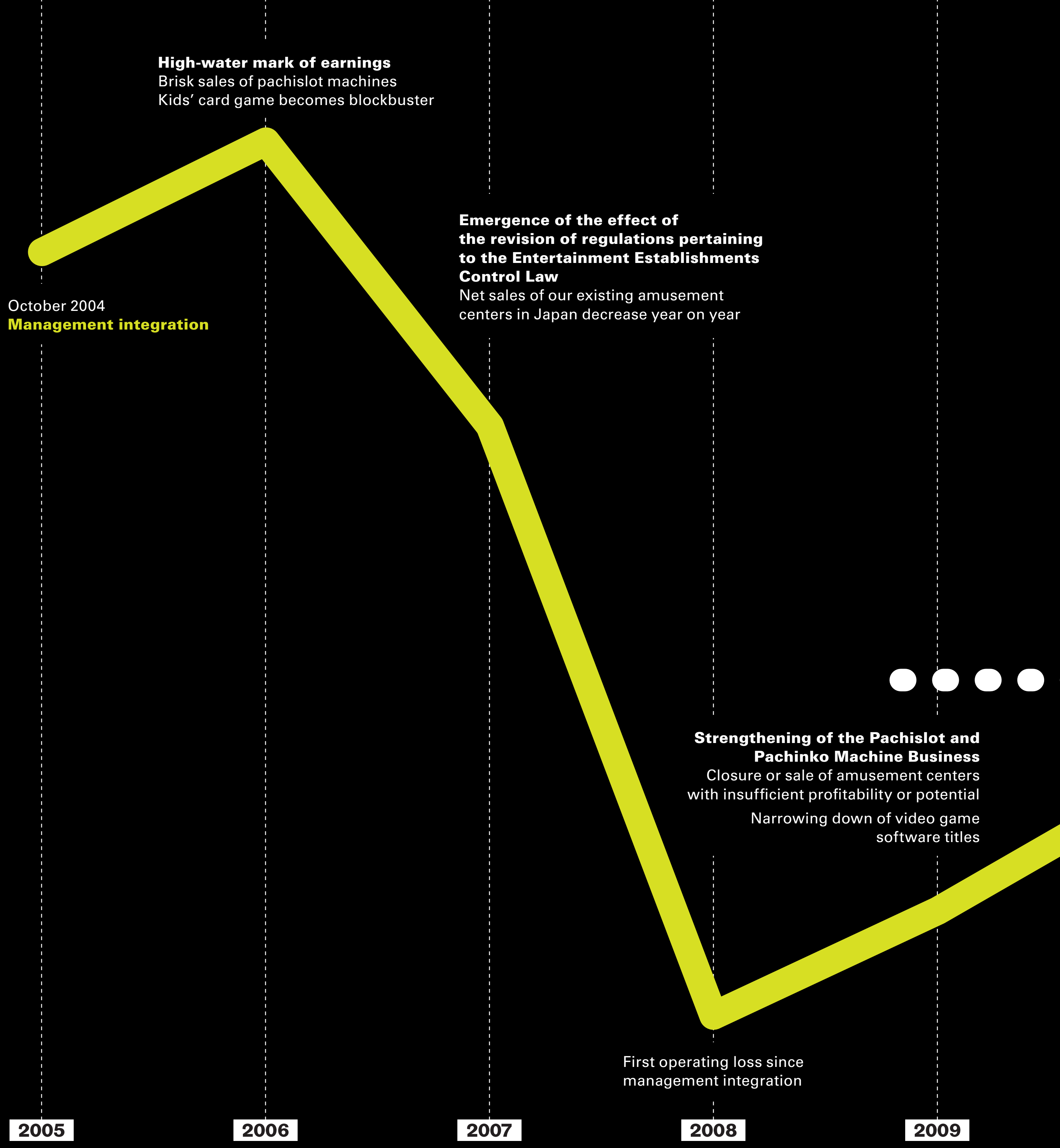
1.9%

They know we can do better.

We think it’s not enough.

Our operating margin has improved significantly. However, it is still a far cry from the 21.5% we achieved for fiscal 2006. We are not satisfied with our current situation. To realize the Group’s potential fully, we intend to reform ceaselessly.

Trend in Operating Income (Loss)



High-water mark of earnings
Brisk sales of pachislot machines
Kids' card game becomes blockbuster

October 2004
Management integration

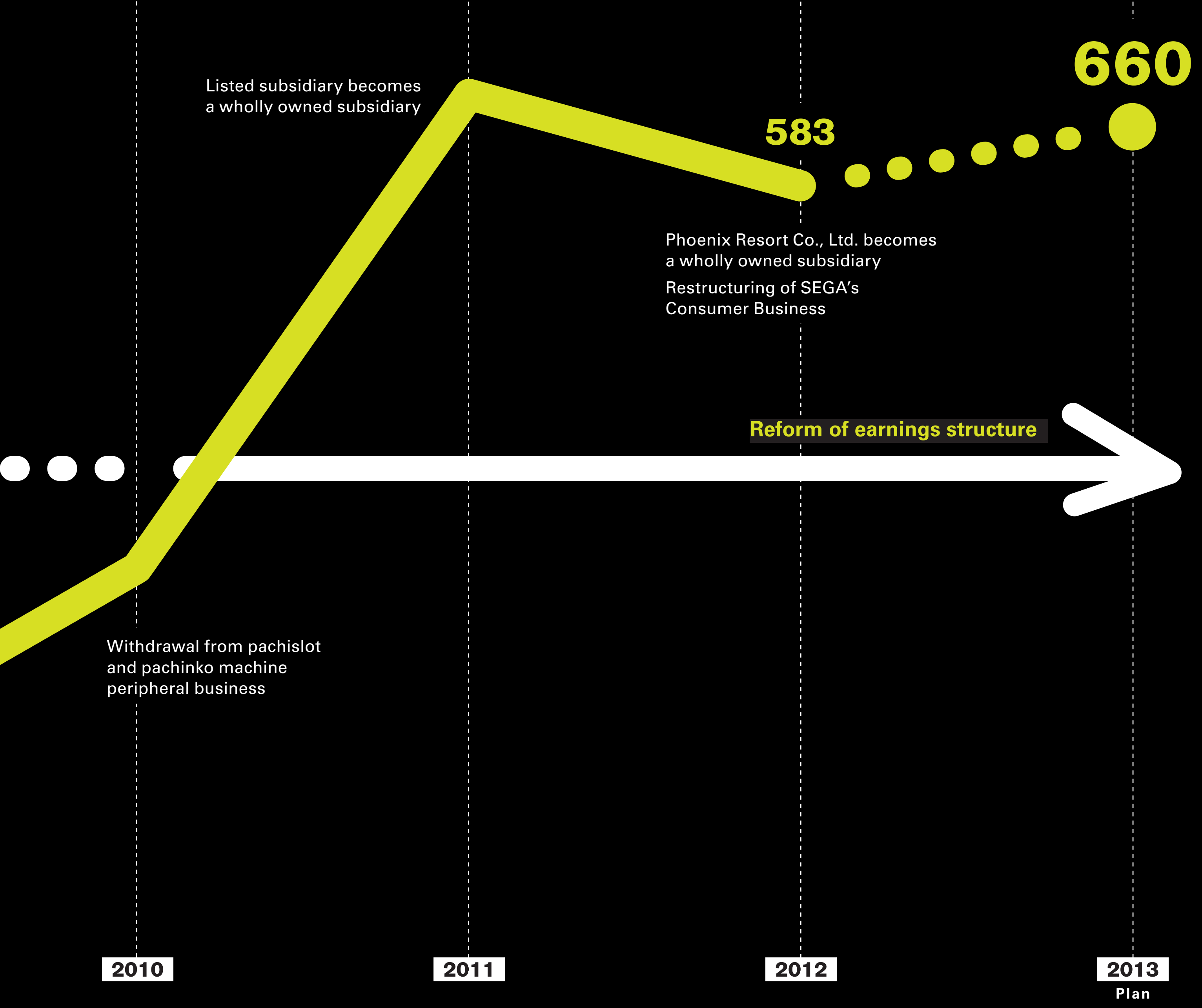
Emergence of the effect of the revision of regulations pertaining to the Entertainment Establishments Control Law
Net sales of our existing amusement centers in Japan decrease year on year

Strengthening of the Pachislot and Pachinko Machine Business
Closure or sale of amusement centers with insufficient profitability or potential

Narrowing down of video game software titles

First operating loss since management integration

STEADY RECOVERY.
BUT WE ARE BY NO MEANS SATISFIED.



We have undertaken various structural reforms to overcome such problems as a decrease in earnings of the Pachislot and Pachinko Machine Business segment, which resulted from a sudden change in conditions in the pachislot and pachinko machine market, and deterioration in the profitability of the Amusement Center Operations segment and the Consumer Business segment. Thanks to these efforts, our earnings are back on a growth track. Nevertheless, not resting on its laurels, the entire Group will mobilize in an effort to reach even more ambitious targets.

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OUTLINE

THE FACTS

THE FACTS

We have prepared "**THE FACTS**," which comprises basic information to further understanding of the Group's business activities among as many stakeholders as possible.

We advise those reading our annual report for the first time to refer to this section.

Main Content of "**THE FACTS**"
- Basic information about the SEGA SAMMY Group
- Basic knowledge about pachinko and pachislot machines
- Pachinko and pachislot machine market size and competitive conditions
- Market conditions facing each business

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IT'S NOT ENOUGH

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Business Results Highlights

Years ended March 31

Consolidated Business Highlights

	2005	2006	2007	2008	2009	2010
Net sales	¥515,668	¥553,241	¥528,238	¥458,977	¥429,195	¥384,679
Gross profit	211,559	229,012	203,079	120,403	119,092	138,867
Selling, general and administrative (SG&A) expenses	106,469	109,868	126,549	126,232	110,728	102,154
Operating income (loss)	105,090	119,144	76,530	(5,829)	8,363	36,712
EBITDA[2]	122,764	140,999	104,578	39,782	35,007	53,887
Net income (loss)	50,574	66,222	43,456	(52,471)	(22,882)	20,269
Capital expenditures	32,468	37,650	59,272	50,422	26,610	16,164
Depreciation and amortization	17,674	21,855	28,048	45,611	26,644	17,175
R&D expenses, content production expenses	41,590	36,338	52,107	65,385	59,676	41,502
Net cash provided by (used in) operating activities	77,762	83,228	60,623	(25,879)	32,199	54,998
Net cash provided by (used in) investing activities	(39,618)	(54,706)	(75,395)	(10,399)	936	(7,640)
Net cash provided by (used in) financing activities	(25,703)	(21,153)	(1,713)	(7,580)	(7,653)	(3,401)
Free cash flows[3]	38,144	28,522	(14,772)	(36,278)	33,135	47,358
Total assets	438,991	522,914	549,940	469,643	423,938	423,161
Total net assets / shareholders' equity[4]	258,954	316,680	358,858	281,628	242,532	256,770
Number of shares outstanding (shares)	140,551,522	283,229,476	283,229,476	283,229,476	283,229,476	283,229,476

Per Share Data	2005	2006	2007	2008	2009	2010
Net income (loss)	¥ 205.27	¥ 261.06	¥ 172.47	¥ (208.26)	¥ (90.83)	¥ 80.46
Diluted net income	200.48	260.35	172.35	—	—	—
Total net assets / shareholders' equity[4]	1,033.96	1,254.14	1,341.80	1,030.09	882.47	937.80
Cash dividends	60.00	80.00	60.00	45.00	30.00	30.00

Key Ratios	2005	2006	2007	2008	2009	2010
Gross profit margin	41.0	41.4	38.4	26.2	27.7	36.1
SG&A ratio	20.6	19.9	24.0	27.5	25.8	26.6
Operating margin	20.4	21.5	14.5	—	1.9	9.5
R&D expenses to net sales	8.1	6.6	9.9	14.2	13.9	10.8
ROE	19.5	23.0	13.3	—	—	8.8
ROA[5]	11.5	13.8	15.2	—	1.5	8.5
Total net assets ratio	59.0	60.6	61.5	55.3	52.4	55.8

[1] Yen amounts have been translated into U.S. dollars solely for convenience at the rate of ¥82.13 to U.S.$1, the prevailing exchange rate at March 31, 2012.

[2] EBITDA = Operating income (loss) + Depreciation and amortization

[3] Free cash flows = Net cash provided by (used in) operating activities + Net cash provided by (used in) investing activities

[4] 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.

[5] ROA = Ordinary income ÷ Total assets

	Millions of yen, unless stated otherwise	Thousands of U.S. dollars[1]
2011	2012	2012
¥396,732	¥395,502	$4,815,571
166,055	161,663	1,968,386
97,304	103,279	1,257,511
68,750	58,384	710,874
84,699	74,542	907,615
41,510	21,820	265,677
19,686	36,141	440,051
15,949	16,158	196,741
41,104	53,348	649,555
87,696	38,023	462,970
(29,585)	(59,012)	(718,529)
(57,168)	914	11,130
58,111	(20,989)	(255,558)
458,624	497,451	6,056,877
285,461	296,376	3,608,621
266,229,476	266,229,476	266,229,476

	Yen	U.S. dollars[1]
2011	2012	2012
¥ 163.19	¥ 86.73	$ 1.05
163.01	86.54	1.05
1,093.23	1,167.59	14.21
40.00	40.00	0.48

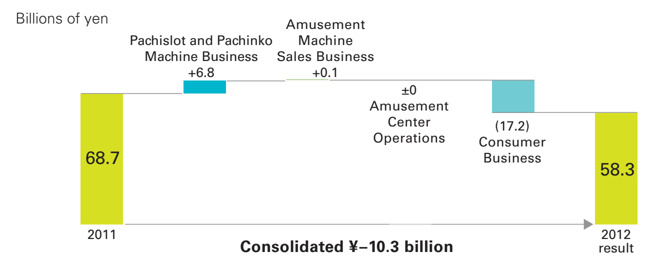
	%
2011	2012
41.9	40.9
24.5	26.1
17.3	14.8
10.4	13.5
16.2	7.7
15.5	12.2
60.0	58.9

Operating Income

¥58.3 billion

(down ¥10.3 billion, or 15.1% year on year)

Change in Segment Operating Income



Main Other Expenses

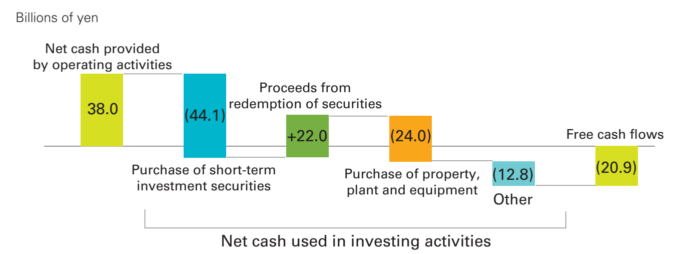
Fiscal 2012 Results

Loss on business reorganization	**¥6.3 billion**
Settlement payment for patent licensing	**¥3.5 billion**
Amortization of goodwill	**¥3.3 billion**
Impairment loss	**¥3.3 billion**

Free Cash Flows

¥–20.9 billion

Main Causes of Changes in Free Cash Flows



NUMBERS

Business Results Highlights

Years ended March 31

Business Results by Business Segment

Pachislot and Pachinko Machine Business	2005	2006	2007	2008	2009	2010
Net sales	¥280,109	¥265,632	¥211,540	¥145,583	¥161,691	¥160,376
Operating income	103,931	99,848	71,102	8,444	14,528	29,502
Operating margin (%)	37.1	37.6	33.6	5.8	9.0	18.4
R&D expenses	6,952	6,940	9,325	12,632	14,289	13,019
Capital expenditures	2,842	6,670	8,790	23,829	4,516	3,297
Pachislot machine unit sales (units)	676,933	607,106	523,422	380,688	123,286	162,932
Pachinko machine unit sales (units)	233,049	288,895	132,981	108,184	391,831	360,171

Amusement Machine Sales Business	2005	2006	2007	2008	2009	2010
Net sales	¥63,305	¥71,513	¥75,455	¥71,062	¥61,926	¥45,117
Operating income	7,424	12,177	11,683	7,152	6,890	7,094
Operating margin (%)	11.7	17.0	15.5	10.1	11.1	15.7
R&D expenses, content production expenses	12,029	10,002	12,527	13,695	11,450	7,841

Amusement Center Operations	2005	2006	2007	2008	2009	2010
Net sales	¥83,194	¥106,246	¥103,850	¥91,227	¥71,310	¥54,788
Operating income (loss)	5,472	9,244	132	(9,807)	(7,520)	(1,338)
Operating margin (%)	6.6	8.7	0.1	—	—	—
Capital expenditures	24,886	24,577	40,754	15,910	14,893	7,796
Depreciation and amortization	11,937	17,148	18,052	17,161	15,908	8,212
Number of domestic amusement centers (centers)	477	462	449	363	322	260
SEGA's existing domestic amusement center sales year on year (%)	98.5	103.3	95.8	89.0	92.4	91.7

Consumer Business	2005	2006	2007	2008	2009	2010
Net sales	¥65,341	¥90,353	¥119,593	¥141,791	¥131,361	¥121,575
Operating income (loss)	(8,810)	1,977	1,749	(5,989)	(941)	6,332
Operating margin (%)	—	2.2	1.5	—	—	5.2
R&D expenses, content production expenses	21,736	17,823	26,583	37,129	32,875	19,644
Home video game software unit sales (thousands)	11,790	16,400	21,270	26,990	29,470	26,750

1 Yen amounts have been translated into U.S. dollars solely for the convenience of readers at the rate of ¥82.13 to U.S.$1, the prevailing exchange rate at March 31, 2012.

	Millions of yen, unless stated otherwise	Thousands of U.S. dollars[1]
2011	2012	2012
¥212,060	¥212,189	$2,583,585
64,284	71,040	864,973
30.3	33.5	
13,485	14,393	175,253
5,725	12,726	154,953
302,270	300,866	
343,188	332,288	

Pachislot and Pachinko Machine Business
—Causes of Business Results Changes

- Brisk sales of *Pachislot Hokuto No Ken* and other mainstay titles
- Success of cost improvement through reuse

	Millions of yen, unless stated otherwise	Thousands of U.S. dollars[1]
2011	2012	2012
¥47,237	¥49,929	$607,928
7,317	7,415	90,284
15.5	14.9	
9,195	9,374	114,146

Amusement Machine Sales Business
—Causes of Business Results Changes

- Solid sales of mainstay titles
- Steady revenues thanks to favorable utilization rates of revenue-sharing titles

	Millions of yen, unless stated otherwise	Thousands of U.S. dollars[1]
2011	2012	2012
¥45,695	¥44,608	$543,143
342	355	4,333
0.7	0.8	
7,701	8,328	101,410
6,126	6,184	75,297
249	241	
99.3	100.5	

Amusement Center Operations
—Cause of Business Results Changes

- Year-on-year rise in net sales of SEGA's existing domestic amusement centers due to strengthening of operational management capabilities

	Millions of yen, unless stated otherwise	Thousands of U.S. dollars[1]
2011	2012	2012
¥88,896	¥ 85,688	$1,043,321
1,969	(15,182)	(184,864)
2.2	—	
18,150	29,316	356,946
18,710	17,240	

Consumer Business
—Causes of Business Results Changes

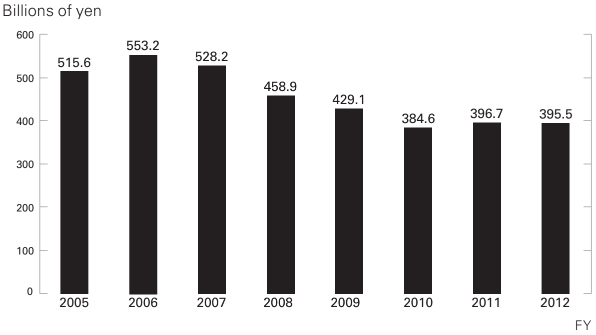
- Lackluster sales of packaged game software in North America and Europe
- Recognition of expenses accompanying restructuring
- Slumping sales of toys

NUMBERS

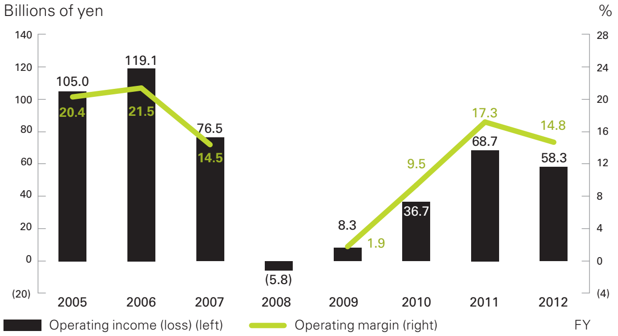
Business Results Highlights

Business Trend

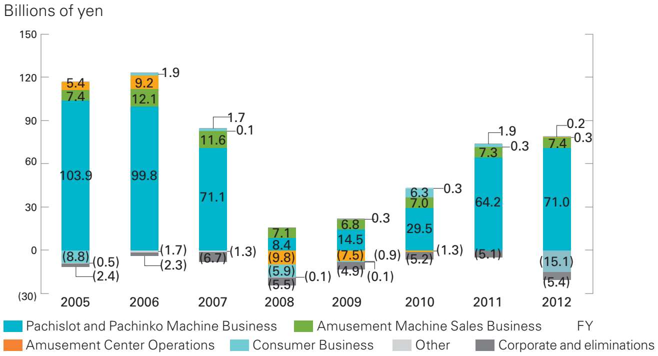
Net Sales



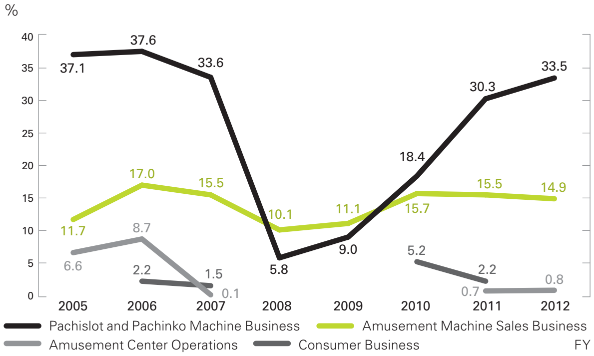
Operating Income (Loss) / Operating Margin



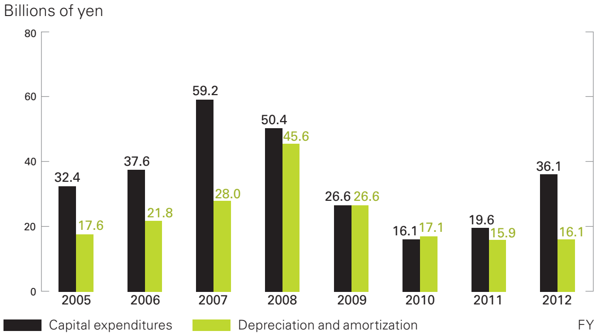
Operating Income (Loss) by Segment



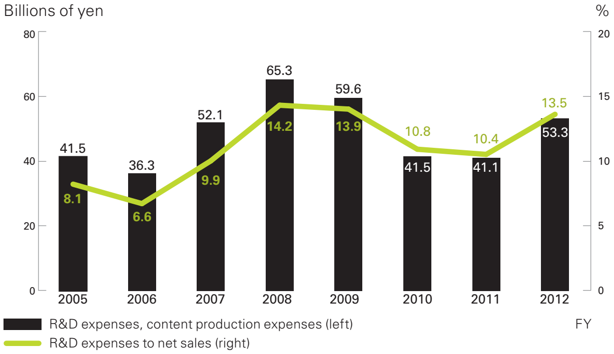
Operating Margin by Segment



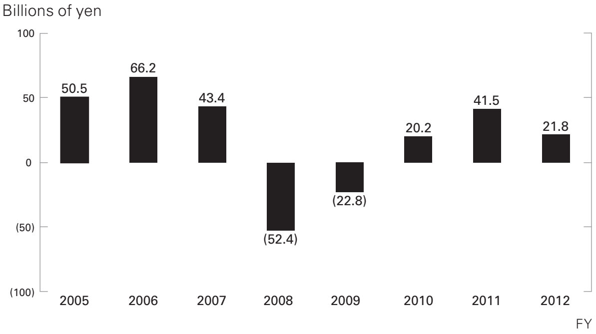
Capital Expenditures / Depreciation and Amortization



R&D Expenses, Content Production Expenses / R&D Expenses to Net Sales

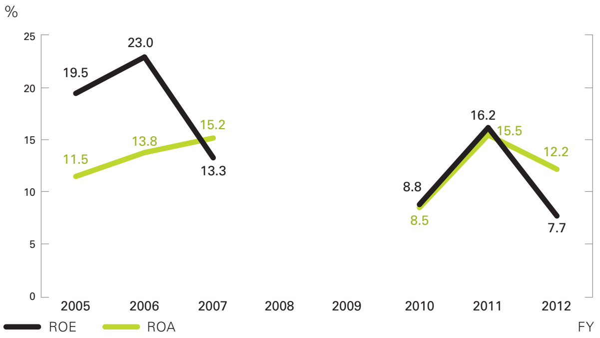


Net Income (Loss)

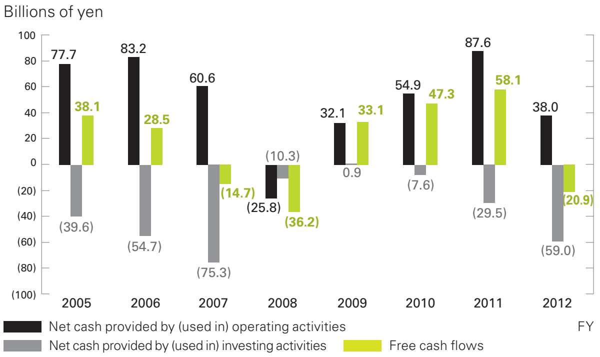


Net Income (Loss) per Share / Cash Dividends per Share

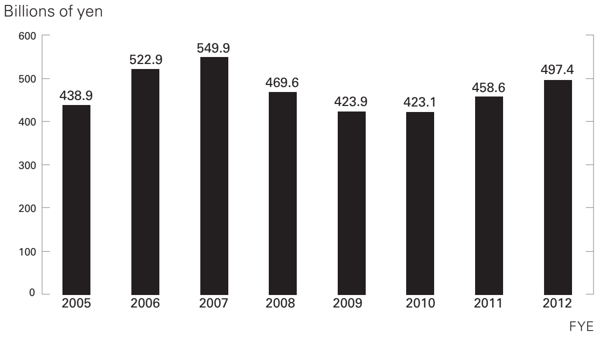
ROE / ROA



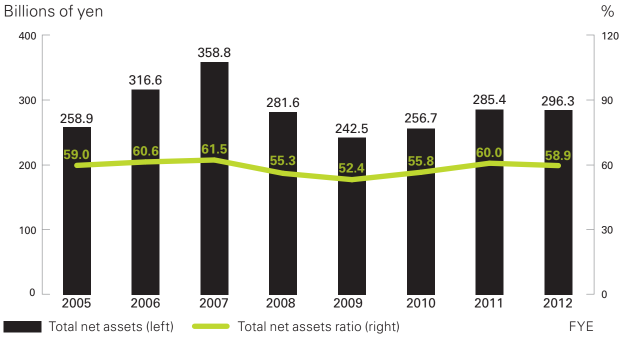
Free Cash Flows



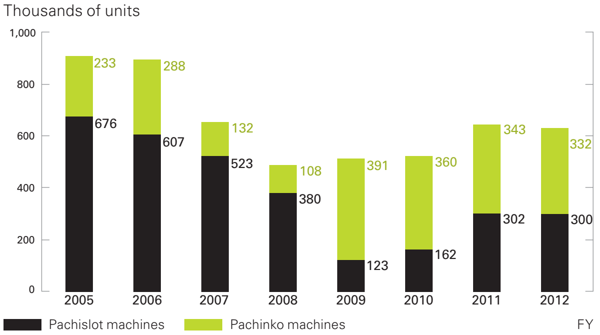
Total Assets



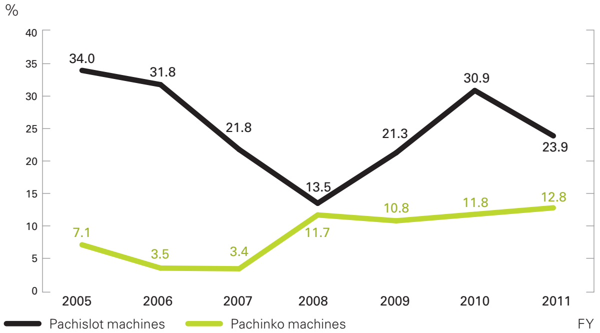
Total Net Assets / Total Net Assets Ratio



Pachislot and Pachinko Machine Unit Sales



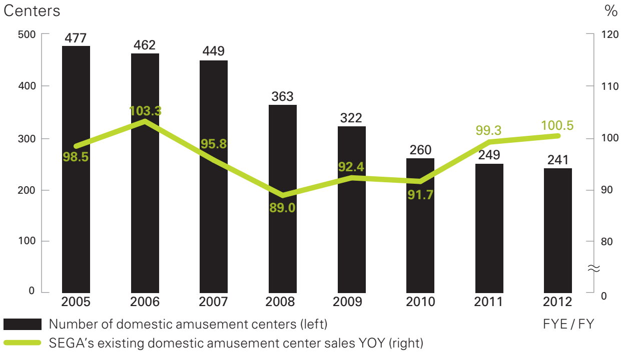
Market Share of Pachislot and Pachinko Machines



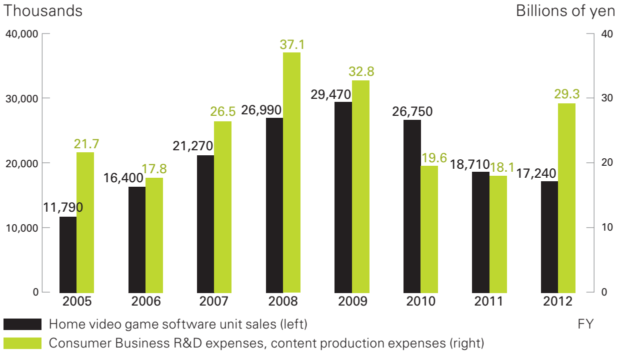
Source: Yano Research Institute Ltd.

Settlement dates from July to June

Number of Domestic Amusement Centers / SEGA's Existing Domestic Amusement Center Sales YOY



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



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

Management Message

Fiscal 2012 Business Results Report

For fiscal 2012, ended March 31, 2012, SEGA SAMMY HOLDINGS' consolidated net sales edged down 0.3% year on year, to ¥395.5 billion, while operating income declined 15.1% year on year, to ¥58.3 billion. The following explains the main factors underlying these results.

Net Sales

The Pachislot and Pachinko Machine Business segment posted net sales comparable with those of the previous fiscal year due to favorable sales of mainstay pachislot machine titles that have significant brand power. Also, the Amusement Machine Sales Business segment posted a 5.7% year-on-year increase in revenues on mainstay title sales and steady revenues from revenue-sharing titles. Meanwhile, the Amusement Center Operations segment recorded a 2.2% decrease in revenues as a consequence of having fewer amusement centers. And, the Consumer Business segment saw revenues decrease 3.6% year on year because of lower unit sales of packaged game software. As a result, the Company's net sales were approximately unchanged year on year.

Operating Income

The Pachislot and Pachinko Machine Business segment improved operating income 10.5% year on year as mainstay titles for high-margin pachislot machines sold well and reusing components reduced cost. In addition, the Amusement Machine Sales Business segment and the Amusement Center Operations segment posted earnings on a par with those of the previous fiscal year. However, the Consumer Business segment recognized an operating loss of ¥15.1 billion, mainly attributable to sluggish sales of new packaged game software and the recognition of valuation losses on work in process for certain titles under development. As a result, operating income decreased 15.1% year on year, to ¥58.3 billion, while the operating margin was down 2.5 percentage points, to 14.8%.

KEISHI NAKAYAMA
Executive Vice President and
Representative Director
SEGA SAMMY HOLDINGS INC.

By constantly setting ourselves ambitious goals, reforming ourselves, and taking on new challenges, we will create a new future for entertainment and for the SEGA SAMMY Group.

Net Income

Net income dropped 47.4% year on year, to ¥21.8 billion, because an extraordinary loss of ¥18.5 billion, which resulted from loss on reorganization of the Consumer Business segment, counteracted an extraordinary gain of ¥3.3 billion associated with gain on negative goodwill accompanying the inclusion of Phoenix Resort Co., Ltd., and TAIYO ELEC Co., Ltd., as subsidiaries.

Cash Dividends

The Company paid an interim dividend of ¥20.00 per share and a year-end dividend of ¥20.00 per share, giving a full-year dividend of ¥40.00 per share. The consolidated dividend payout ratio was 46.1%, compared with 24.5% for the previous fiscal year. Furthermore, the Company acquired 5 million shares of treasury stock at a price of ¥8.2 billion between August 1 and September 5, 2011. In addition, the acquisition of up to 10 million shares of treasury stock at a maximum price of ¥17.0 billion between June 7 and September 28, 2012, has received approval*.

* Because the Company acquired 10 million shares of treasury stock as of August 8, 2012, it has stopped acquiring treasury stock. The acquisition price was ¥16.1 billion.

An Evaluation of Fiscal 2012

Although Operating Income was Down for the First Time in Four Fiscal Years, Many Businesses Demonstrated Resilience to Volatile Conditions.

For fiscal 2012, operating income declined for the first time in four fiscal years. We view this with the utmost gravity. On the other hand, each business segment's business results deserve a separate evaluation. Furthermore, the tasks we need to address urgently have become evident.

In the Pachislot and Pachinko Machine Business segment, unit sales of pachislot and pachinko machines were lower year on year. The decrease in pachislot machine unit sales was due to revising marketing schedules of certain pachislot machines, which resulted from component-purchasing problems following the Great East Japan Earthquake and the flooding in Thailand. As for pachinko machine unit sales, heightening replacement demand for pachislot machines, for which utilization rates are continuing to recover, contributed to a lackluster demand for pachinko machines. Nevertheless, the business segment grew earnings for the fourth consecutive fiscal year, testifying to a lean profit structure. This solid performance mainly stemmed from the buoyant sales of mainstay titles for high-margin pachislot machines and thoroughgoing cost improvements across the whole business segment. Also, the Amusement Machine Sales Business segment received steady revenues from the utilization of revenue-sharing titles. Despite power-saving efforts in response to power supply problems, the Amusement Center Operations segment grew sales at existing amusement centers year on year to secure operating income. Thus, even amid unforeseen circumstances, many of our businesses posted solid earnings. Meanwhile, a task that the Group must tackle in order to realize an even steeper growth trajectory has emerged clearly—it must drastically restructure the Consumer Business segment, which recorded an operating loss.

Restructuring the Consumer Business Segment

Getting Back on Track for Growth through Decisive Reform

Given the dramatic changes and the challenging earnings conditions in the market for home video game software, we realized that to improve the earnings of the Consumer Business segment and put it back on track for growth rapidly changing over to a system that reflects changes in conditions was essential. Accordingly, in March 2012 we decided to restructure SEGA's Consumer Business segment.

Specifically, we took four steps. First, we streamlined organizations managing packaged game software in North American and European markets. Second, we disposed of inventory by charging it to expenses, including inventory in market circulation. Third, we conducted a rigorous and detailed analysis of the earnings outlooks for packaged game software in North American and European markets. Furthermore, as part of efforts to focus exclusively on major intellectual properties likely to generate earnings, we cancelled certain titles under development. Fourth, we reevaluated the profitability of work in process related to titles scheduled for release from the end of fiscal 2012 through fiscal 2013 and recognized valuation losses on work in process for certain titles.

Fiscal 2012 Business Results

Billions of yen

	2011	2012	YOY change
Net sales	396.7	395.5	–0.3%
Pachislot and Pachinko Machine Business	212.0	212.1	—
Amusement Machine Sales Business	47.2	49.9	+5.7%
Amusement Center Operations	45.6	44.6	–2.2%
Consumer Business	88.8	85.6	–3.6%
Other	2.8	3.0	+7.1%
Operating income (loss)	68.7	58.3	–15.1%
Pachislot and Pachinko Machine Business	64.2	71.0	+10.6%
Amusement Machine Sales Business	7.3	7.4	+1.4%
Amusement Center Operations	0.3	0.3	—
Consumer Business	1.9	(15.1)	—
Other	0	0.2	—
Corporate and eliminations	(5.1)	(5.4)	—
Operating margin	17.3%	14.8%	–2.5pt.
Net income	41.5	21.8	–47.5%

In fiscal 2012, we recognized all of the expenses arising from these restructuring efforts as cost of sales of ¥4.9 billion and extraordinary loss of ¥6.6 billion. As a result of this series of measures, we expect the Consumer Business segment's cost of sales and operating expenses to decrease from the current fiscal year onward.

While streamlining organizations in this way to improve profitability, we took the first step toward returning the Consumer Business segment to a growth track.

Transferring Management Resources to Growth Areas

In the Consumer Business segment, plans call for boldly allocating management resources to such rapidly growing areas as content for SNS and smartphones and PC online games. As the first step in this initiative, SEGA divested the main capabilities of its network business to establish SEGA Networks, Ltd., as a wholly owned subsidiary on July 2, 2012.

The aim of this divestiture is to maximize earnings in the expanding network market by expediting decision-making and by providing services that cater to diversifying customer needs. We have simplified management processes by, in principle, delegating responsibility for decision-making in the digital area to SEGA Networks. At the same time, for content development SEGA and SEGA Networks will collaborate closely to make full use of SEGA's many talented creators as a valuable management resource.

Furthermore, in light of social concerns, we halted all functions associated with the social game *Complete Gacha* by May 31, 2012. The game was one of the services that have driven rapid growth of the market for content for SNS and smartphones in recent years. Ending this game will affect the Group's business results negligibly. Going forward, demand is likely to focus on content quality and games that are truly fun. If market trends return to a focus on quality, this will give SEGA an excellent opportunity to bring to bear its traditional strengths. Eager to seize and benefit from this opportunity, we will exploit our extensive capabilities as a comprehensive entertainment company boasting a wide spectrum of outstanding intellectual properties and advanced development capabilities.

Fiscal 2013 Plans

Reaching Targets without Fail, Aiming to Accumulate Earnings Further

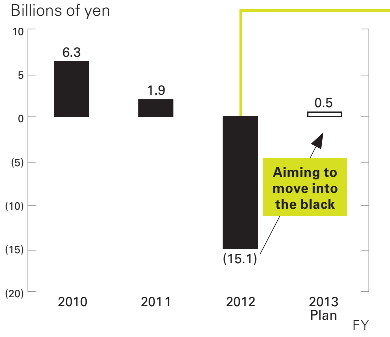
For fiscal 2013, ending March 31, 2013, we will target higher revenues and earnings, aiming to realize year-on-year increases of 18.8% in net sales, to ¥470.0 billion, and 13.0% in operating income, to ¥66.0 billion. (These are the targets we announced on May 11, 2012.)

Expecting the Pachislot and Pachinko Machine Business segment to drive this increase in net sales, we plan to grow the segment's revenues 35.1% year on year. By marketing a series of major titles, we aim to boost pachislot and pachinko machine unit sales significantly.

The higher operating income will primarily stem from the Consumer Business segment realizing a ¥15.6 billion improvement in earnings as a result of lower cost of sales and operating expenses thanks to the restructuring implemented in fiscal 2012.

Even though the Pachislot and Pachinko Machine Business segment will probably grow revenues, we anticipate a decline in the segment's earnings as its profit margins worsen, mainly due to setting profit margins at conservative levels compared with those of fiscal 2012 and a temporary deterioration in the pachinko machine product mix. Furthermore, as we advance initiatives to increase market shares in

Operating Income (Loss) of the Consumer Business Segment



For fiscal 2012, the Company recognized expenses arising from restructuring as cost of sales of ¥4.9 billion and extraordinary loss of ¥6.6 billion. From the current fiscal year onward, cost of sales and operating expenses are likely to decrease.

1 Streamlined Organizations

Streamlined organizations managing the home video game software area in North American and European markets. Closed bases in France, Germany, Spain, Australia, and Benelux countries and used an outside distributor. Reduced personnel at U.S. and European bases from 345, as of March 31, 2012, to 214 as of July 31, 2012.

2 Disposed of Inventory

In accordance with streamlining of organizations, disposed of inventory by charging it to expenses, including home video game software inventory in market circulation.

3 Narrowed Down Titles

Conducted a rigorous and detailed analysis of the earnings outlooks for titles in North American and European markets. Narrowed focus of marketing from current fiscal year onward to concentrate on major intellectual properties highly likely to generate earnings, such as *Sonic the Hedgehog*, *Football Manager*, *Total War*, and *Aliens*. Consequently, cancelled certain titles under development.

Prepared plan to reduce marketed titles from fiscal 2012's 45 titles to 24 for fiscal 2013.

4 Recognized Valuation Losses on Work in Process of Titles under Development

Reevaluated the profitability of work in process of titles for release from the end of fiscal 2012 through fiscal 2013 and recognized valuation losses on work in process for certain titles.

the medium term, cost of sales and operating expenses, such as R&D expenses, are likely to rise.

Also, we project operating income of the Amusement Machine Sales Business segment will decline from fiscal 2012's ¥7.4 billion to ¥1.3 billion. This will primarily reflect the absence of new major titles during fiscal 2013 because, after carefully examining marketability, we have suspended development of certain large-scale machines that were under development and intended for marketing in the current fiscal year.

In addition, we anticipate that higher operating income and the absence of the extraordinary loss incurred in fiscal 2012 when restructuring SEGA will enable an 83.5% year-on-year rise in net income, to ¥40.0 billion.

Committed to reaching these targets, we will accumulate earnings unstintingly.

Aiming to Grow Corporate Value Continuously

Reforming Tirelessly with Our Sights Set on Growing Corporate Value

After peaking in fiscal 2006, which was the fiscal year following the management integration of SEGA and Sammy, the Company's business results trended downward. This was related to two factors. First, the July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law marked the beginning of a steady deterioration in business conditions for our earnings driver, the Pachislot and Pachinko Machine Business segment. Secondly, the profitability of SEGA's Consumer Business segment and the Amusement Center Operations segment emerged as a problem. From fiscal 2008, when the Group incurred an operating loss, the SEGA SAMMY Group restructured all of its businesses decisively.

As the mainstay of the Pachislot and Pachinko Machine Business segment, Sammy set out the management goal of "building a system that can generate stable profits, no matter what the changes in the operating environment" and launched a range of reforms that included changing employees' mindsets. As part of these efforts, Sammy strengthened its development system not only for pachislot machines—which have consistently claimed the No. 1 market share—but also with a view to expanding the market share of pachinko machines. While bolstering competitiveness of products, we strengthened our profitability by rigorously improving cost structure through the reuse of components and withdrawing from the unprofitable pachislot and pachinko machine peripheral business. As a result of these initiatives, the operating margin of the Pachislot and Pachinko Machine Business segment, having fallen to 5.8% for fiscal 2008, rose to 33.5% for fiscal 2012. This dramatic turnaround testifies to our success in building a robust earnings structure able to withstand volatile business conditions. Furthermore, our presence in the pachinko machine market has been growing steadily. Development, production, and sales—working as one toward the common goal of improving earnings—has greatly enhanced our organizational power, and in this respect we are confident that we are unsurpassed among competitors.

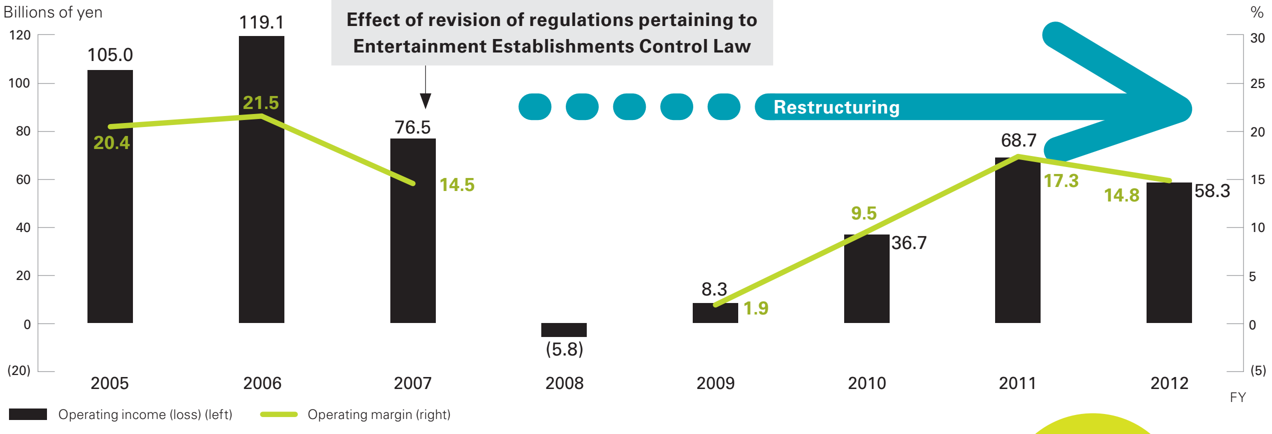
In the Amusement Machine Sales Business segment, the Amusement Center Operations segment, and the Consumer Business segment, we have streamlined cost structures to match the scale of their earnings. These efforts have included continuously closing or selling amusement centers of the Amusement Center Operations segment that did not show sufficient profitability or potential. Consequently, we have reduced our network from 477 amusement centers at the end of fiscal 2005 to 241 at the end of fiscal 2012. At the same time, we have reinforced operations through employee training. This has built an organization that generates earnings even when facing tough

Fiscal 2013 Plans (Figures announced on May 11, 2012)

Billions of yen

	2012 (Results)	2013 (Plan)	YOY change
Net sales	395.5	470.0	+18.8%
Pachislot and Pachinko Machine Business	212.1	286.5	+35.1%
Amusement Machine Sales Business	49.9	40.5	–18.8%
Amusement Center Operations	44.6	44.5	–0.2%
Consumer Business	85.6	85.0	–0.7%
Other	3.0	13.5	+350.0%
Operating income (loss)	58.3	66.0	+13.2%
Pachislot and Pachinko Machine Business	71.0	70.0	–1.4%
Amusement Machine Sales Business	7.4	1.3	–82.4%
Amusement Center Operations	0.3	1.0	+233.3%
Consumer Business	(15.1)	0.5	—
Other	0.2	(0.5)	—
Corporate and eliminations	(5.4)	(6.3)	—
Operating margin	14.8%	14.0%	–0.8pt.
Net income	21.8	40.0	+83.5%

Restructuring History



Major Operational Structure Reforms since Fiscal 2009

Pachislot and Pachinko Machine Business

- Strengthened the Pachinko Machine Business segment (transferred to new development system, increased pachinko board's share of net sales)
- Withdrew from pachislot and pachinko machine peripheral business
- Reduced cost by reusing parts

Amusement Machine Sales Business

- Stopped developing certain large, high-end machines
- Reduced R&D expenses, content production expenses
- Introduced new business model (revenue-sharing business model)

Amusement Center Operations

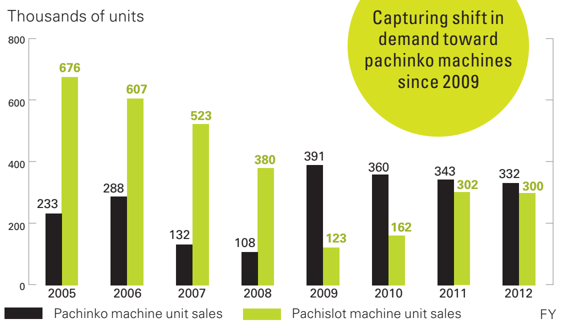
- Closed or sold amusement centers with inadequate profitability or potential
- Strengthened management capabilities of amusement centers

Consumer Business

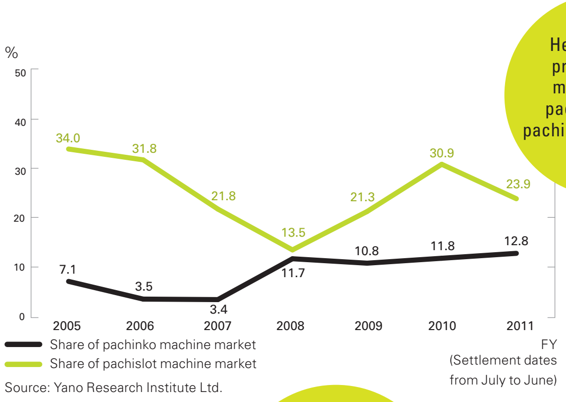
- Streamlined organizations in home video game software area in North America and Europe
- Narrowed down number of titles under development
- Reduced R&D expenses, content production expenses

Other Corporate Actions

- Rightsized workforce by introducing voluntary early retirement plan (SEGA CORPORATION / SEGA TOYS CO., LTD.)
- Implemented measures to create Group synergies (established Bakugan LLP)
- Established subsidiary boasting some of Japan's most advanced animation development technology (MARZA ANIMATION PLANET INC.)
- Made Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD., TMS ENTERTAINMENT, LTD., and TAIYO ELEC Co., Ltd., wholly owned subsidiaries



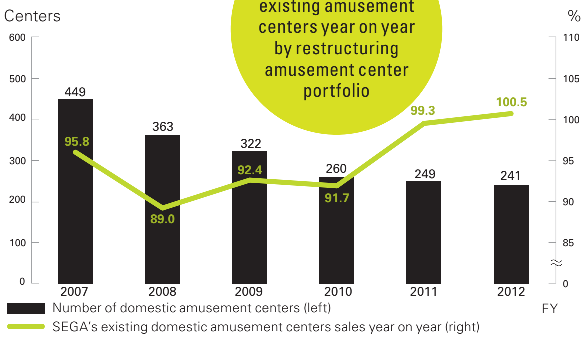
Capturing shift in demand toward pachinko machines since 2009



(Settlement dates from July to June)

Source: Yano Research Institute Ltd.

Heightening presence in markets for pachislot and pachinko machines



Improving net sales of existing amusement centers year on year by restructuring amusement center portfolio market conditions. In other initiatives, the Group made a listed subsidiary a wholly owned subsidiary in order to develop the Group's business management system with a view to creating synergies through intensified collaboration related to intellectual properties and content.

Since fiscal 2008's operating loss, our uncompromising advancement of this series of reforms has steadily improved earnings, enabling operating income to reach its current level of around ¥60 billion. Our business results for fiscal 2012 demonstrate the benefits of these reforms.

That said, we are by no means satisfied with our current earnings level. There is still a considerable gap between our operating income directly after management integration, which was above ¥100 billion, and its current level. Therefore, our first priority is to restore operating income to its former level as soon as possible. To this end, the Group will not let up in reform efforts as it makes a concerted effort to forge ahead.

Overcoming Issues Faster to Realize Dramatic Progress

The Pachislot and Pachinko Machine Business segment has yet to reach the target of capturing a leading share of the pachinko machine market. For the current fiscal year, with our sights set on claiming 20% of the market, we want to realize our unit sales target and join the group of top manufacturers. By redoubling efforts to refine marketing and fortify development capabilities, we will provide the market with pachislot and pachinko machines that win the support of a wide range of age groups.

With the Pachislot and Pachinko Machine Business segment, centered on Sammy, now having built up the strength to reliably generate earnings in the region of ¥70 billion, SEGA is the key to elevating operating income to the ¥100 billion level. In the past, SEGA has posted earnings of more than ¥20 billion. Furthermore, SEGA is able to take advantage of business opportunities around the world, differentiating its business format from Sammy's.

In Japan, the Amusement Machine Sales Business segment will offer products that lead the way in revitalizing Japan's market. Overseas, the segment will deepen collaboration with local partners to speed up the building of operational foundations. Furthermore, in the Amusement Center Operations segment we intend to strengthen earnings power by further improving profitability and by continuing to bolster the operational management capabilities of existing amusement centers while advancing a scrap-and-build strategy. In addition, we will ensure the success of new theme park-type amusement centers in Japan. We also plan to use the operational know-how gained from these efforts to expand our licensing business overseas.

Regarding measures for SEGA's Consumer Business segment—which are our most significant task—as mentioned we intend to streamline packaged game software businesses in North America and Europe while shifting the deployment of management resources towards the digital business. Going forward, we intend to monitor changes in market conditions carefully and strengthen the segment's earnings structure.

Also, in a full-fledged effort to maximize earnings by creating synergies, we will create businesses that make optimal use of powerful intellectual properties within the Group, including a wide range of such Group companies as those that are engaged in the toy business and the animation business.

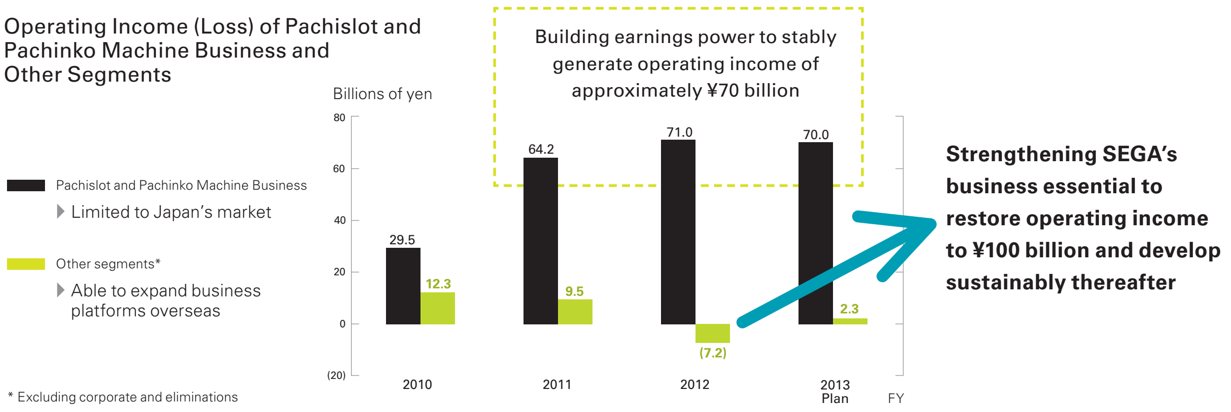
Taking on New Forward-Looking Challenges

Leveraging our expertise in providing people with enjoyment as a comprehensive entertainment company, we will venture into new business areas if they promise to increase earnings through synergy benefits with our existing businesses. For such initiatives, we will decide on initial and additional investments based on careful analysis of returns, keep risk within certain limits, and avoid creating a bloated balance sheet.

A specific example of one such initiative is the resort complex business. From RHJ International S.A., we assumed the shares of Phoenix Resort Co., Ltd., which manages one of Japan's premier resort facilities, *Phoenix Seagaia Resort*, and made it a subsidiary in March 2012. In rebuilding the operations of this new subsidiary, we will focus on enriching the family entertainment that the resort provides. Based on our unique perspective as an entertainment company, we will begin by drawing on our assets and expertise to develop features that promise to attract families. We will decide whether or not to make additional investments based on careful analysis of return on investment.

In the medium term, we will consider using the resort as a base for nurturing and disseminating content. We also want to use this venture to

Operating Income (Loss) of Pachislot and Pachinko Machine Business and Other Segments



* Excluding corporate and eliminations

accumulate know-how for the operational management of large-scale facilities, which we can capitalize on to realize our future goal of developing and managing the operations of resort complexes centered on casinos.

From a medium-to-long-term perspective, we view the casino business as a new opportunity to generate earnings. If Japan enacts laws permitting casinos, and they become recognized as a legitimate business, the economic benefits would be immeasurable. As well as creating employment, it would enhance Japan's competitiveness in the international tourism market. If creating a casino business becomes feasible, we want to exploit our know-how as a comprehensive entertainment company to launch forays into this business area. When entering this area, however, we will explore developing operations through business collaborations with major overseas partners that have strong track records in casino management. This will enable us to curb risk and draw on each other's expertise.

In July 2012, with the Paradise Group we established a joint venture tasked with planning, developing, and operating a resort complex that includes a casino in the Incheon area of South Korea.

With a 45% stake making us the second-largest shareholder in the joint venture, we will participate in management. As well as aiming to secure earnings reliably, we intend to garner know-how and experience in casino management in preparation for future entry into the casino business in Japan.

Implementing a Capital Policy Focused on Heightening Corporate Value

The SEGA SAMMY Group's policy is to heighten corporate value by implementing growth strategies that increase earnings and by directly returning profit to shareholders through stable dividends.

As explained above, the SEGA SAMMY Group will foster businesses in growth areas with a view to continuously enhancing corporate value. Furthermore, if the Group is able to enter the casino business, this is expected to require large-scale investment. To enable bold decisions on investments in promising, carefully selected projects, we plan to build up retained earnings by generating net income each fiscal year, targeting a net cash position of ¥150 billion to ¥200 billion.

Regarding returning profit to shareholders, we aim to pay out approximately 20% to 30% of post-tax income as dividends. Each fiscal year, we determine returns to shareholders flexibly in light of maintaining a balance with investment in growth fields.

In Conclusion

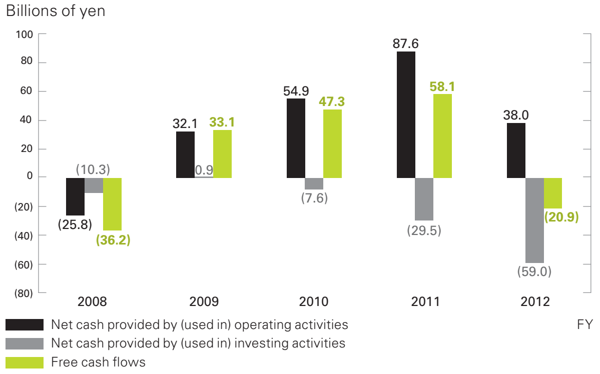
Advancing New Reforms and Ventures Based on a Revamped Management Team

With its sights set not only on Japan but the entire world, the SEGA SAMMY Group is opening up new business areas. Consequently, business management decisions based on an overview of the Group as a whole are needed now more than ever. We also need to accelerate our decision-making even more to respond effectively to the dizzying pace of change in business conditions. With these factors in mind, we reorganized our senior management team from the current fiscal year.

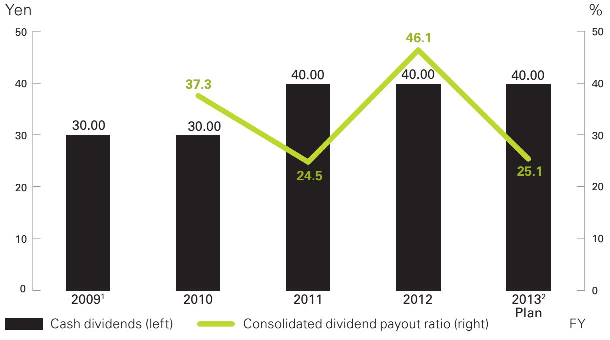
Specifically, Keishi Nakayama assumed the position of Representative Director and CEO of Sammy from Hajime Satomi, who had held it concurrently. Meanwhile, Hajime Satomi will concentrate on advancing business management from a Groupwide perspective as the chairman of the board and chief executive officer of SEGA SAMMY HOLDINGS and the chairman, representative director, and CEO of SEGA. As CEO, Keishi Nakayama will continue to move forward with the reform of Sammy while assisting Hajime Satomi as the executive vice president and representative director of SEGA SAMMY HOLDINGS. Furthermore, Naoya Tsurumi, as the new chief operating officer of SEGA, and Shigeru Aoki, as the new chief operating officer of Sammy, will be responsible for operational implementation.

Based on this new senior management team, we plan to set ourselves consistently ambitious goals. By realizing these goals, we will heighten the corporate value of the SEGA SAMMY Group to meet the expectations of our shareholders, investors, and other stakeholders.

Cash Flows



Cash Dividends and Consolidated Dividend Payout Ratio



1 The consolidated dividend payout ratio for fiscal 2009 is not included because the Company recognized a net loss for fiscal 2009.

2 Figures announced on May 11, 2012

STRATEGY

Interview with the COO

NAOYA TSURUMI

SEGA CORPORATION
President, Representative Director,
and Chief Operating Officer

Mar. 1992	Joined Sega Enterprises, Ltd. (currently SEGA CORPORATION)
Sep. 2005	CEO, Sega Publishing Europe Ltd.
June 2006	President and CEO, Sega Holdings U.S.A., Inc. (incumbent)
Oct. 2006	Chairman, Sega of America, Inc.
Oct. 2006	Chairman, Sega Publishing America, Inc.
May 2008	Director, SEGA CORPORATION
June 2009	Managing Director, SEGA CORPORATION
Sep. 2009	Chairman, Sega Europe Ltd.
Aug. 2010	CEO, Sega Amusements Europe Ltd.
Apr. 2012	President, Representative Director, and Chief Operating Officer, SEGA CORPORATION (incumbent)
June 2012	President and CEO, Sega Holdings Europe Ltd. (incumbent)
June 2012	Director, SEGA SAMMY HOLDINGS INC.

REDISCOVER SEGA's INNOVATION

Q. How do you intend to change SEGA? What type of company do you aim to make it?

A. I want to make SEGA "innovative" again.

The first task is to return the company to profitability in fiscal 2013, ending March 31, 2013, based on the reinforced earnings structure we have created by reforming the Consumer Business segment. Moreover, my mission is to put SEGA back on track for stable growth.

SEGA's founding principle is *CREATION IS OUR LIFE*. SEGA used to be an "innovative" company, consistently providing products ahead of its time. In recent years, however, I sense the company's innovative DNA has weakened. Fear of taking risks leads to missed business opportunities. Therefore, I want to return to our origins and establish a fertile corporate culture that encourages us to take on challenges without fear of failure. This will enable us to once again create the highly original entertainment that is SEGA's hallmark. The need for creativity is not limited to development divisions. Our sales and corporate divisions must draw on their ingenuity to heighten the efficiency of all operations. When communicating to the whole company, I express this as the need for "creative excellence."

Slow decision-making is a major problem for SEGA. With this in mind, we are speeding up decision-making by delegating authority. As part of such efforts, we divested the main capabilities of our network business to establish SEGA Networks, Ltd., in July 2012.

Another important task is strengthening business development in overseas markets. In tackling this task, I am drawing on my overseas experience. I am urging the personnel of each business area to unearth business opportunities by seeing the whole world as a market, rather than only focusing on Japan.

Q. What are your medium-to-long-term strategies for each business?

A. We will set out a profile for our product lineup over the medium term and steadily take measures to realize it.

In the Amusement Machine Sales Business segment, we will generate stable revenues by promoting the revenue-sharing business model in Japan. At the same time, we will take advantage of accumulated expertise and advance collaboration among development and sales divisions to step up the development of businesses overseas. In China's promising market, we will localize development, manufacturing, and sales to realize cost competitiveness in the local market while taking forward-looking strategic measures based on the introduction of such networking technologies as the *ALL.Net* network service.

Having reformed its earnings structure, the Amusement Center Operations segment will continue focusing on the profitability of conventional amusement centers. In conjunction with these efforts, we will develop new-concept theme park-type amusement centers. One such venture is the revamped *TOKYO JOYPOLIS*, unveiled in July 2012 and themed on “integrating the real with the digital.” In another initiative, we are collaborating with BBC Worldwide Limited to open an amusement center under the slogan “integrating nature with technology” in spring 2013. Meanwhile, we are going beyond the “games” category to enable unique experiences and generate new demand in such areas as golf and restaurants. A representative example of the success of these initiatives is *DARTS LIVE*, operated by DARTSLIVE Co., Ltd., in which real stores are integrated through a network.

As for the Consumer Business segment’s packaged game software area, we will adhere steadfastly to a strategy of focusing exclusively on intellectual properties highly likely to produce hit products. For such priority intellectual property, we will maximize earnings by rolling it out laterally for a range of home video game consoles and personal computers (PCs) as well as for handheld game terminals, smartphones, and tablets while generating additional sales from downloadable content. Furthermore, we intend to shift the focus of these operations from the packaged game software area toward the digital game area, which comprises smartphones, PCs, and downloadable content.

In the current fiscal year, identifying and targeting growth areas, we will outline a profile for our lineup of products and services over the coming two to three years and develop operations to realize this profile.

Q. You mentioned the digital game area. What are your strategies for this area going forward?

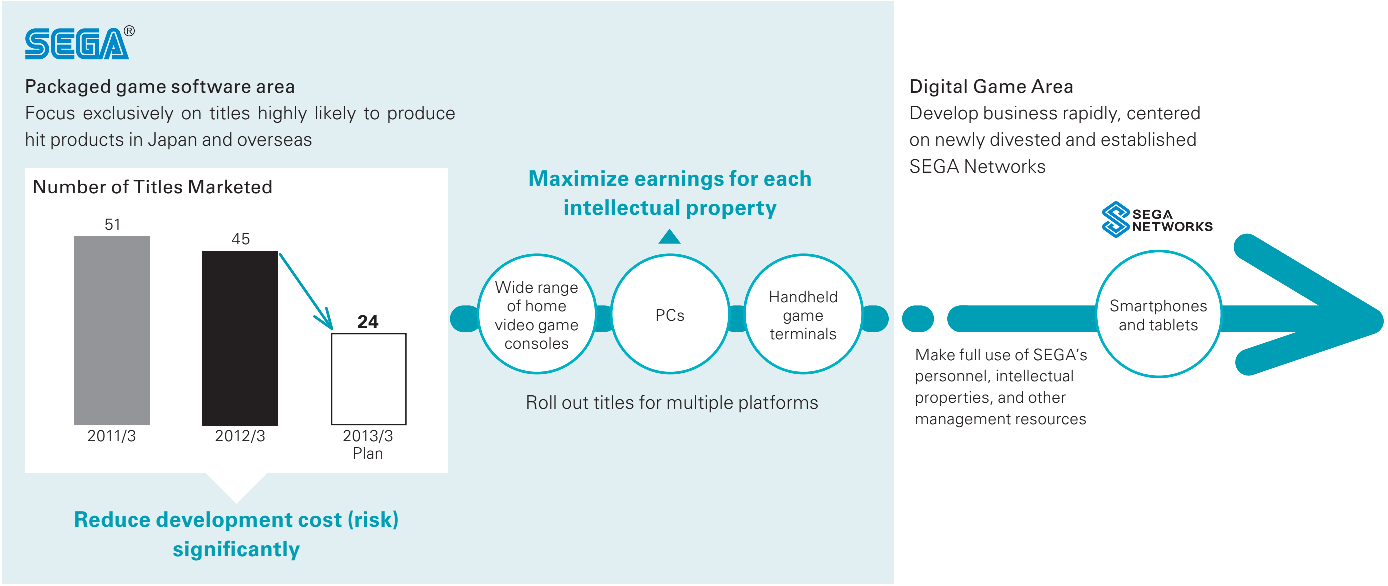
A. We will win out in areas where we can leverage SEGA’s strengths.

Due to the ease of access for players, the markets for smartphones and social games, which are available through social networking services (SNS), account for a diverse mix of players. In these markets, rather than competing in the same arena, SEGA is setting its sights on areas where it can draw on strengths in graphic-rich games with strong narratives. A prominent example of this strategy is *Kingdom Conquest*, which surpassed three million downloads worldwide in May 2012. An arcade game adapted for smartphones, *Kingdom Conquest* is packed with SEGA’s expertise. It was the first time anyone had released such a high-quality free-to-play game, and the game is a great example of customers endorsing SEGA’s “innovation.”

While focused on creating quality games, in addition to frequent players we will also view casual players—who comprise the majority of the market—as a key target. I believe seeking out more interesting games and more beautiful graphics is simply human nature. Additionally, the current trend toward self-regulation for games with a strong gambling element might become a tailwind for SEGA.

I want the development personnel of SEGA Networks, which leads the creation of SEGA’s digital game software, to pursue new challenges ambitiously and in doing so rebuild our corporate culture from scratch.

Management Strategy in the Game Content Business



Interview with the COO

TOUCHING OFF SAMMY'S EXPLOSIVE POTENTIAL

Q. As the new chief operating officer, how will you manage Sammy?

A. I will ensure that the personnel of Sammy work as one to capture and keep leading market shares.

Sammy is the main pillar supporting the SEGA SAMMY Group's growth. As a result, it must remain highly profitable. To fulfill this mission, the company needs to build leading shares in the markets for pachislot and pachinko machines.

The pachislot machine business accounted for 23.9% of the market in 2011 thanks to brisk sales of mainstay titles. Rather than maintaining this level, I want to increase our market share even further. In the pachinko machine business, we aim to capture a larger share of the market, with our sights set on building the leading market share over the medium-to-long term.

Of course, given current competitive conditions, realizing such management goals and then maintaining and enlarging market share is not an easy task. However, aiming to continue the efforts of my predecessor, Keishi Nakayama, who sought to create a company that reliably reaches business targets no matter what the market conditions, I will step up reform of all operational processes. At the same time, I intend to tackle the priority tasks I set out when I became president, and based on "high-quality cooperation" I will strengthen coordination within the company so that all personnel work in unison toward the common goals of capturing the No. 1 market share and growing earnings.

Q. Specifically, what type of priority measures will you implement?

A. Under the slogan "Power Up Sammy," we will tackle three priority measures.

I believe Sammy has considerable scope for further reform. With "Power Up Sammy" as a rallying cry, we have prepared three priority measures.

The first priority measure calls on us to enhance each employee's competence. Since our establishment, we have regarded personnel as our greatest asset. Fostering personnel as a valuable asset remains the key to realizing dramatic progress going forward. Accordingly, we will develop structures that heighten the capabilities of each individual and thereby realize Sammy's strengths to the maximum.

SHIGERU AOKI

Sammy Corporation
President, Representative Director,
and Chief Operating Officer

May 2005	Joined SEGA CORPORATION
June 2005	Manager, China and Asia Business Promotion Section, Executive Officer, SEGA CORPORATION
Aug. 2006	Chairman, SEGA NETWORKS CHINA CO., LTD.
June 2008	Joined Sammy Corporation, Executive Officer, General Manager, Corporate Management Division
Apr. 2009	Director, General Manager, Corporate Division, Sammy Corporation
June 2011	Managing Director, General Manager, Corporate Division, Sammy Corporation
Apr. 2012	President, Representative Director, and Chief Operating Officer, Sammy Corporation

Under the second priority measure, we will provide even better products matching the needs of each age group. To establish and maintain leading market shares, widening our field of vision beyond existing players to encompass new players is essential. To achieve this, we must market even more appealing products suited to the needs of each age group and heighten brand power. I think there is considerable scope to expand markets if we can achieve marketing that is finely tuned to the needs of such groups as, for example, baby boomers with ample time and money or the younger generation, who have a wide range of entertainment options. Based on this view, we have increased spending on research and development for fiscal 2013 and have already begun developing new products.

Our third priority measure aims to use management resources effectively. In September 2012, a new plant and a new distribution center will start up operations in Kawagoe, Saitama Prefecture, Japan. The plant will significantly increase the Group's overall production capacity: from the previous level of 5,400 to 7,900 pachislot machines per day and from the previous level of 4,800 to 9,800 pachinko machines per day. We will make full use of the new plant and the new distribution center to minimize sales opportunity loss and build an efficient production system. For example, this system will enable companies that underpin our multibrand strategy to purchase components jointly or share them and minimize disposal loss.

Q. You are targeting a significant rise in unit sales for fiscal 2013. How will you achieve this?

A. To reach our targets, we will increase both the quality and volume of the titles that we market.

Compared with fiscal 2012, we aim to increase unit sales from approximately 300,000 to 473,000 pachislot machines and from approximately 330,000 to 450,000 pachinko machines in fiscal 2013. Although these are ambitious targets, I believe we should always set targets at levels that will inspire us to take up the challenge.

The Pachislot and Pachinko Machine Business segment has clearly shown its determination to stake out No. 1 market shares for pachislot and pachinko machines by increasing the number of titles it markets each year. Continuing this strategy, plans call for rolling out even more pachislot and pachinko machine titles in fiscal 2013. Of course we do not believe that increasing the number of titles alone will enable us to reach our targets.

The development system to which Sammy transferred in September 2007 has become entrenched and has successfully raised the basic quality level of all products. The benefits of this system are evident from the leading position the pachislot machine business has maintained—claiming 30.9% of the market in 2010 and 23.9% in 2011—and the growing market presence of our pachinko machine business. Capitalizing on this more powerful development system, we will supply numerous appealing machines able to earn market endorsement. In addition, positioning the new Kawagoe Plant as a hub, we will intensify coordination and collaboration among Group companies in the Pachislot and Pachinko Machine Business segment and grow unit sales.

Q. Why are you targeting higher revenues but lower earnings for the Pachislot and Pachinko Machine Business segment in the current fiscal year?

A. These targets reflect forward-looking measures to further heighten competitive strengths going forward.

For the year-on-year forecasts of the Pachislot and Pachinko Machine Business segment in fiscal 2013, despite projecting a 35.1% rise in revenues, we expect earnings to decline 1.4%. The primary reason for this is that we have set conservative profit margins for the pachislot machine business in fiscal 2013 compared with those of fiscal 2012, when high-margin mainstay pachislot machine titles saw unexpectedly strong sales growth.

Moreover, the cost of sales ratio for the pachinko machine business is likely to worsen due to the current fiscal year's model changes for pachinko machine cabinets, which will increase cost while lowering sales of high-margin pachinko boards as a percentage of net sales. Also, a rise in R&D expenses will affect our profit margin. However, these are all strategic measures aimed at further bolstering our competitive strengths from the coming fiscal year onward. We expect that measures in fiscal 2013 will have advanced market penetration of Sammy's pachinko machine cabinets by fiscal 2014, when the resulting increase in pachinko board sales as a percentage of unit sales will improve our profit margin.

Pachislot and Pachinko Machine Unit Sales Targets

	2012		2013 (Plan)		
	Titles	Unit sales	Titles	Unit sales	Change
Pachislot machines	11 titles	300,866 units	13 titles	473,000 units	+ Approx. 172,000 units
Pachinko machines	14 titles	332,288 units	15 titles	450,000 units	+ Approx. 117,000 units
Pachinko board sales as a percentage of unit sales	52.4%		31.2%		

TAKING ON NEW CHALLENGES FOR NEW GROWTH

Targeting further growth, the SEGA SAMMY Group is building up the strength of core businesses while taking on new challenges in areas where it can exploit expertise garnered as an entertainment company.

Sammy's new plant

In Detail ➔ P.30

Phoenix Seagaia Resort

Realizing Lightning-Fast Reactions

Starting Up a New Plant and Distribution Center

Sammy's new plant and distribution center in Kawagoe, Japan, will begin operating in September 2012. Establishing a production and supply system able to "instantly" handle intensive demand concentrated on short periods heralds the beginning of an all-out effort to maintain our leading share of the pachislot machine market while carving out one of the largest shares of the pachinko machine market.

Accumulating Know-How

Making Phoenix Resort Co., Ltd., a Wholly Owned Subsidiary

We have made Phoenix Resort Co., Ltd., which operates one of Japan's largest resort complexes, *Phoenix Seagaia Resort*, a wholly owned subsidiary by acquiring all of its shares. Through this company, we want to acquire operational know-how in relation to managing the operations of large facilities, which we intend to leverage in the development and operation of new resort complexes in the future. We will efficiently enhance our ability to attract customers and generate earnings by investing in light of detailed analysis of return on investment, exploiting our accumulated entertainment expertise, and intensifying collaborations among Group companies.

Launching Forward-Looking Initiatives

Establishing a Joint Venture with the Paradise Group

We have established a joint venture to develop a resort complex that includes a casino in the Incheon area of South Korea. Our partner is the Paradise Group, a tourism services business that operates casinos and manages hotels and spas primarily through Paradise Co., Ltd. At present, we are planning the development and operation of the resort complex and casino, with the Paradise Group having already acquired preferential rights as the project executor. Viewing the operation of resort complexes with casinos as new earnings opportunity, we will participate in the joint venture's management and move forward with plans.

HARUKI SATOMI
President, Representative Director,
and Chief Executive Officer
SEGA Networks, Ltd.

In Detail ➔ P.32

Becoming a Game Changer

Establishing SEGA Networks, Ltd.

In July 2012, SEGA divested the main capabilities of its network business to establish SEGA Networks, Ltd. The aim is to become a game changer for the market by establishing structures that enable rapid decision-making and operational implementation and pursuing organic collaborations within the Group.

SEGA NETWORKS

Building a Manufacturing and Supply System with Lightning-Fast Reactions

Operating our new plant and distribution center as a solid base from which to keep our No. 1 share of the pachislot machine market and gain a high-ranking share of the pachinko machine market

Manufacturing and Supply System with Lightning-Fast Reactions is Key to Claiming Significant Market Shares

September 2012 will see the start-up of operations at Sammy's new plant and distribution center. We have invested roughly ¥13.5 billion* to build a new plant on a lot adjacent to our existing plant in Kawagoe, Saitama Prefecture. The new plant's floor area of approximately 36,000 square meters is about twice that of the existing plant. Furthermore, we have invested ¥2.7 billion* to build a new distribution center on land next to the new plant. The center will begin operating at the same time as the new plant.

Aiming for even higher earnings from the Pachislot and Pachinko Machine Business segment centered on the Sammy brand, the SEGA SAMMY Group will continue bolstering the pachislot machine business while pursuing the medium-term target of capturing a leading position in the pachinko machine market, where considerable leeway remains for growing market share. Sammy's new plant and distribution center will bring two major strategic benefits. First, it will dramatically steepen the growth trajectory of the pachinko machine business, which has established a stable market share of more than 10% in recent years and is heightening its presence steadily. Second, it will further strengthen the earnings structure of the Pachislot and Pachinko Machine Business segment, which is the Group's earnings driver.

The new plant's production line will enable the manufacture of a range of pachinko machines with diverse specifications and highly appealing staging. Generally, shipments peak in the initial period after launching pachislot and pachinko machines. For example, we receive more than 90% of orders for pachinko machines in our flagship *Pachinko CR Hokuto No Ken* series in the first week after launch. The operations of our new plant will give our manufacturing and supply system lightning-fast reactions, allowing us to cater to such intensive short-term demand and thereby avoid sales opportunity loss.

* Excluding the purchase of lots previously acquired

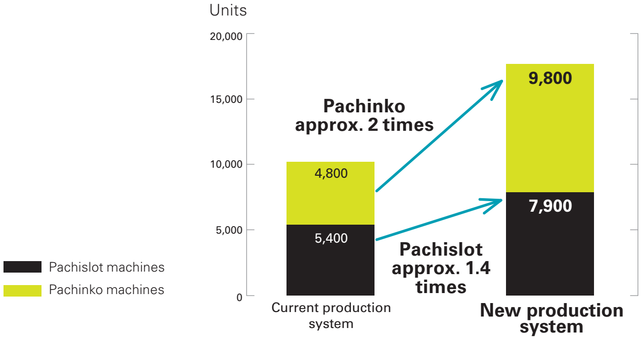
A Key Factor for Realizing Lightning-Fast Reactions ①

Increased Production Capacity

Sammy has been developing its manufacturing system for pachislot and pachinko machines at Kawagoe since its existing plant began operations there in 2001. By ramping up in stages, the plant has reached a total production capacity of 2,400 units per day for pachislot and pachinko machines. Regarding pachinko machines, however, the industry's leading companies have production capacities two or three times larger than Sammy's. Therefore, to erode the leading market shares of such competitors, Sammy needs more production capacity.

With this in mind, the new plant will boast a production capacity of 2,500 pachislot machines and 5,000 pachinko machines per day. This will give us lightning-fast reactions able to reliably meet initial demand for "killer" titles in such series as *CR Hokuto No Ken* and *CR SOUTEN-NO-KEN*. The existing plant's continuing operations, Group companies, and the new plant will be able to manufacture a combined total of 7,900 pachislot machines and 9,800 pachinko machines per day—one of the largest production capacities in the industry.

Group Production Capacity (per day)



A Key Factor for Realizing Lightning-Fast Reactions ②

Simplified Production Process

As well as increasing production capacity, to enable rapid responses to intensive short-term demand, we have introduced a variety of improved production processes to shorten production lead times. These initiatives include shortening in-house assembly times by outsourcing processes for attaching cells to boards and routing processes for putting holes in boards and systemizing process control to reduce man-hours while heightening the precision of processes.

Until now, we have temporarily stored completed products at warehouses after they had gone through a series of production processes that includes board assembly, machining, circuit board assembly, and machine cabinet assembly. At these warehouses we conduct such operations as mounting boards and attaching certification labels to products before shipping them to respective distribution centers. For the new plant, however, we will abolish product storage warehouses and change to a simplified format that integrates operations from receiving orders through to production and shipping. This will shorten our overall production process and increase the percentage of products manufactured and shipped on the same day significantly.

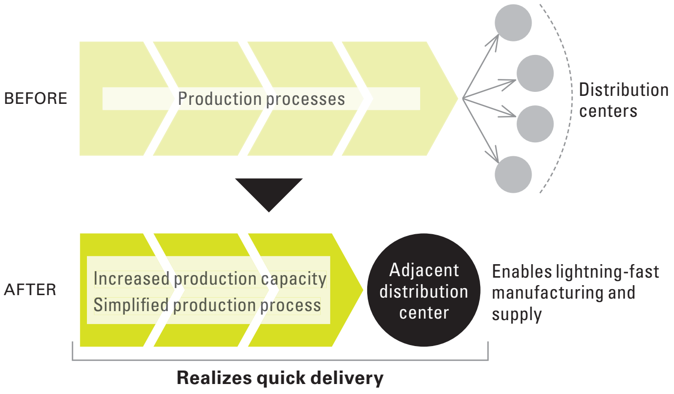
A Key Factor for Realizing Lightning-Fast Reactions ③

Collaboration with the New Distribution Center

Combined with the increased production capacity realized through the new plant, the new distribution center will synergistically enable the lightning-fast reactions of our production and supply.

The new distribution center will bring together at a single location the capabilities of the largest of our four distribution centers in Japan, located in Tsurugashima, Saitama Prefecture, and component warehouses at six different locations. By consolidating product distribution, component storage, and reuse and recycling capabilities next to our production base, we will dramatically shorten lead times from production through to shipping. Moreover, the new distribution center will give us 2.5 times more storage capacity than before, establishing a fully prepared shipping system able to deal with initial surges in orders. Other benefits will include more efficient reuse and recycling and lower transportation expenses to distribution centers.

Also, the new distribution center will incorporate an upgraded system for controlling warehousing, shipping, and delivery operations that improves operations by reducing man-hours and realizing real-time inventory recording.



Heightening Our Presence through the Industry's No. 1 Group Production System

Having almost completed one of the best manufacturing and supply systems for pachislot and pachinko machines in the industry, the SEGA SAMMY Group is poised to launch a full-fledged drive to defend its top share of the pachislot machine market and to seize a much larger share of the pachinko machine market. We are looking forward to realizing significant earnings benefits. For example, increased production capacity, combined with our ability to reflect fluctuations in order trends by changing production plans in real-time, will help reduce component disposal loss. We view the new plant and distribution center as the core strategic base of the Pachislot and Pachinko Machine Business segment. As such, we intend to exploit its capabilities to the utmost.

HARUKI SATOMI
President, Representative Director,
and Chief Executive Officer
SEGA Networks, Ltd.

Stepping Up the Pace of Business Development to Become the Market's Game Changer

The President of SEGA Networks explains the SEGA SAMMY Group's strategies for network game content.

Q. Why did the SEGA SAMMY Group establish SEGA Networks, Ltd.?

We established the company to speed up decision-making and to provide exhilaration and "experience" through services that cater to diversifying customer needs. Also, we wanted to maximize the Group's earnings in the growing market for network game content.

In Japan and overseas, conditions in the home video game software market are changing dramatically. In particular, the game content markets for SNS and smartphones are evolving rapidly from day to day. To benefit from the growth of these markets, we need insight to anticipate changes, quick decision-making, and an ability to take strategic measures rapidly.

We established SEGA Networks through divestiture of the main capabilities of SEGA's network business. The new company has a simplified decision-making process based on delegated authority, giving its business management sufficient speed to compete in these dynamic markets.

I want to fully exploit the brand power SEGA has built up over many years as well as the development capabilities it has honed. I intend to heighten our presence in markets. Moreover, my aim is to help improve SEGA's earnings power and put the company back on a growth track.

Q. What are your basic strategies for tackling these markets?

In the past several years, the network game industry has grown by leaps and bounds. For example, it grew exponentially in fiscal 2012, accounting for sales of about ¥240 billion in Japan and ¥2,050 billion worldwide*. And this market is set to expand further in fiscal 2013. The accelerating growth of this market stems from the large number of companies, players, and other developers participating in the market. This is attributable to open development environments and a low entry barrier. The swiftness with which these companies are carrying out strategies is also accelerating growth.

Focusing first of all on building a standing in its core market in Japan, SEGA Networks will outpace competitors as it rolls out a series of appealing titles and new-genre titles mainly for smartphones, tablets, other smart devices, and PCs. In each of these areas, we aim to establish superior positions.

Also, we want to enhance titles actively by taking full advantage of the complementary strengths that operational tie-ups can bring together. A good example is *The Clan Battle of Fate*, which we created with Pokelabo, Inc., and for which we have begun services. This game has met with very high acclaim from players. Another example is *Sakatsuku S World Stars*, created in collaboration with Cygames, Inc.

As for the global market, I also want to establish a position for SEGA in the network game business rapidly. The Group has an abundance of intellectual property assets and numerous talented development personnel. These include the digital content teams of our overseas subsidiaries Sega of America, Inc., and Sega Europe Ltd.; the U.S. online game developer Three Rings Design, Inc., which SEGA acquired in November 2011; Hardlight Studio, recently established in Europe to develop in-app purchase (IAP) and free-to-play (F2P) software for smart devices; and Sega Studios Australia. I am convinced that exploiting such management resources and creating organic collaborations between Group companies will underpin the creation of new digital businesses.

On the other hand, a negative facet of the rapid market growth since the beginning of this year is that content with strong gambling elements has emerged as a social problem. Focusing excessively on profit-seeking risks betraying the trust of players and, as a result, dampening market growth. Furthermore, it could damage the value of intellectual properties. With this in mind, I want us to contribute to the sustained development of the market based on maintaining a strong awareness of CSR and making sure that we manage businesses soundly.

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* Source: *PwC's annual Global Entertainment and Media Outlook: 2012–2016*
(based on exchange rate of US$1=¥80)

Q. What type of structures will you use to accelerate business advancement and further development?

We are increasing the pace of business development through the construction of original systems and processes that enable rapid and precise decision-making by small numbers of personnel. This involves consolidating capabilities for development, operations, and business management. Furthermore, with a view to removing overlaps and waste, we have rebuilt project management processes and revised rules on authority drastically. Also, we intend to focus efforts on strengthening development systems in a variety of ways so that we can flexibly adapt to customer needs that are changing daily and hourly.

In this new organization, we will cultivate lively debate focused on hammering out even better content. These discussions will bring together different viewpoints. They will include development division personnel, who pursue elements that make games truly engrossing, and operational producers, who seek added value that will give players lasting enjoyment. I am confident that through the full use of such systems we will be able to provide players with truly exciting entertainment.

Q. Can you summarize your earnings targets and medium-term vision?

In Japan, we aim become one of the top three network game publishers. For the entire digital business area, we are targeting operating income of ¥10 billion in two years' time. This area includes Sammy NetWorks Co., Ltd., for which I concurrently serve as President, Representative Director, and Chief Executive Officer, and SEGA's overseas subsidiaries. In the global market, we also want to rank among the leading three network game publishers. Two years is a very short period. However, if we do not expand operations with a sense of urgency we will not be able to win out in such a volatile market.

My vision is for each of the employees of SEGA Networks to heighten their sensitivity to emerging trends and take on challenges boldly to make the company a game changer. I want us to be a company that, through games, transforms the nature of games, the industry, and even society. In this way, I intend to strengthen the network business, centered on SEGA Networks, so that it rapidly becomes an earnings mainstay of the SEGA SAMMY Group.

OPERATIONS

POSITION

Bird’s Eye View ➔ P.36

ENVIRONMENT

Market Conditions ➔ P.38

SWOT ANALYSIS

Analysis of the Group and Its Strategies ➔ P.40

REVIEW AND STRATEGY

Operational Review ➔ P.42

Bird's Eye View

SEGA SAMMY Group in the Entertainment Industry

Net Sales[1]	Billions of yen
Nintendo[3]	647.6
NAMCO BANDAI	454.2
SEGA SAMMY	395.5
KONAMI[4]	265.7
SANKYO	173.6
SQUARE ENIX	127.8
Heiwa	95.1
CAPCOM	82.0

Operating Income (Loss)[1]	Billions of yen
SEGA SAMMY	58.3
SANKYO	40.3
KONAMI[4]	40.9
NAMCO BANDAI	34.6
Heiwa	20.7
CAPCOM	12.3
SQUARE ENIX	10.7
Nintendo[3]	(37.3)

Operating Margin[1]	%
SANKYO	23.2
Heiwa	21.8
KONAMI[4]	15.4
CAPCOM	15.0
SEGA SAMMY	14.8
SQUARE ENIX	8.4
NAMCO BANDAI	7.6

ROE[1]	%
Heiwa	19.6
CAPCOM	11.5
KONAMI[4]	11.2
NAMCO BANDAI	9.1
SEGA SAMMY	7.7
SANKYO	4.8
SQUARE ENIX	4.5

ROA[1, 2]	%
CAPCOM	12.5
KONAMI[4]	12.5
SEGA SAMMY	12.2
NAMCO BANDAI	10.7
Heiwa	10.2
SANKYO	9.0
SQUARE ENIX	4.9

Market Capitalization[5]	Billions of yen
Nintendo	1,763.7
SEGA SAMMY	461.6
SANKYO	396.2
KONAMI[4]	336.6
NAMCO BANDAI	265.0
SQUARE ENIX	200.5
Heiwa	165.8
CAPCOM	128.0

Share of Annual Pachislot Machine Sales[6]

FY	2007		2008		2009		2010		2011	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Sammy	21.8%	Company Y	18.8%	Sammy	21.3%	Sammy	30.9%	Sammy	23.9%
2	Company U	11.0%	Company S	14.6%	Company S	13.6%	Company D	11.9%	Company D	15.9%
3	Company S	9.7%	Sammy	13.5%	Company U	13.1%	Company S	11.9%	Company Y	15.6%
4	Company D	8.7%	Company H	7.4%	Company Y	9.5%	Company H	11.3%	Company U	13.7%
5	Company Y	8.7%	Company K	6.5%	Company K	7.8%	Company U	10.5%	Company S	7.6%
Market Scale (Millions of yen)		502,501		247,800		225,860		286,700		375,054

Share of Annual Pachinko Machine Sales[6]

FY	2007		2008		2009		2010		2011	
Rank	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share	Manufacturer	Share
1	Company S	25.8%	Company S	24.3%	Company S	18.0%	Company S	22.5%	Company K	18.6%
2	Company S	22.9%	Company S	13.5%	Company S	17.2%	Company S	14.6%	Company S	13.9%
3	Company K	16.1%	Sammy	11.7%	Company K	12.8%	Sammy	11.8%	Sammy	12.8%
4	Company N	6.4%	Company N	10.5%	Company N	11.9%	Company K	11.1%	Company S	12.8%
5	Company D	5.3%	Company K	10.2%	Sammy	10.8%	Company N	10.2%	Company N	9.8%
	Sammy	3.4%								
Market Scale (Millions of yen)		868,623		921,338		985,227		886,914		825,714

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] Operating margin, ROE, and ROA have not been included because an operating loss was recognized for fiscal 2012.

[4] U.S. GAAP

[5] Source: Calculated by the Company based on the closing prices at respective stock exchanges on March 30, 2012

[6] Source: Yano Research Institute Ltd. (settlement dates from July to June)
In accordance with a request from the research organization, company names other than those of Group companies have been indicated using initials.

[7] "Amusement" including amusement centers and amusement arcade machines

[8] Amusement Center Operations

[9] "e-Amusement" in Digital Entertainment segment

Billions of yen

Amusement Center Operation Sales[1]	
ROUND ONE	89.5
NAMCO BANDAI	61.0
SEGA SAMMY	44.6
AEON Fantasy	42.4
SQUARE ENIX[7]	41.9
ADORES[8]	18.0
CAPCOM	11.7
TECMO KOEI	1.8

Millions of units

Unit Sales of Home Video Game Software (Global)[1]	
NAMCO BANDAI	23.33
KONAMI	18.30
SQUARE ENIX	17.66
SEGA SAMMY	17.24
CAPCOM	15.70
TECMO KOEI	6.13

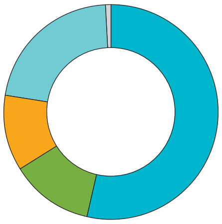
Billions of yen

Net Sales of Amusement Machines[1]	
NAMCO BANDAI	73.4
SEGA SAMMY	49.9
KONAMI[9]	25.5
CAPCOM	7.6

SEGA SAMMY Group Snapshot

Net Sales*

	%	Millions of yen
🟦 Pachislot and Pachinko Machine Business	53.7	212,189
🟩 Amusement Machine Sales Business	12.6	49,929
🟧 Amusement Center Operations	11.3	44,608
🟦 Consumer Business	21.7	85,688
⬜ Other	0.8	3,087



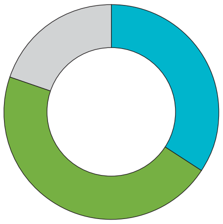
Total

¥395.5 billion

* Excludes inter-segment transactions

Overseas Net Sales

	%	Millions of yen
🟦 North America	34.4	13,802
🟩 Europe	45.9	18,392
⬜ Other	19.7	7,892

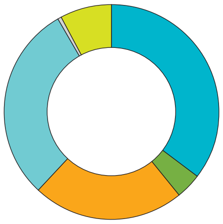


Total

¥40.0 billion

Capital Expenditures

	%	Millions of yen
🟦 Pachislot and Pachinko Machine Business	35.2	12,726
🟩 Amusement Machine Sales Business	3.8	1,388
🟧 Amusement Center Operations	23.0	8,328
🟦 Consumer Business	29.7	10,763
⬜ Other	0.5	181
🟨 Corporate and eliminations	7.6	2,752

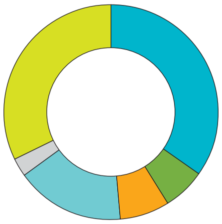


Total

¥36.1 billion

Total Assets

	%	Millions of yen
🟦 Pachislot and Pachinko Machine Business	34.6	172,244
🟩 Amusement Machine Sales Business	6.4	31,902
🟧 Amusement Center Operations	7.4	37,256
🟦 Consumer Business	16.4	81,689
⬜ Other	2.7	13,878
🟨 Corporate and eliminations	32.2	160,479

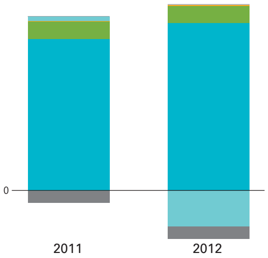


Total

¥497.4 billion

Operating Income (Loss)

	Millions of yen
🟦 Pachislot and Pachinko Machine Business	71,040
🟩 Amusement Machine Sales Business	7,415
🟧 Amusement Center Operations	355
🟦 Consumer Business	(15,182)
⬜ Other	234
⬛ Corporate and eliminations	(5,478)

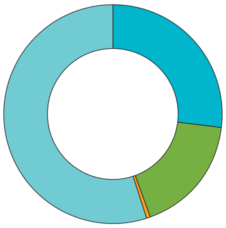


Total

¥58.3 billion

R&D Expenses, Content Production Expenses

	%	Millions of yen
🟦 Pachislot and Pachinko Machine Business	27.0	14,393
🟩 Amusement Machine Sales Business	17.6	9,374
🟧 Amusement Center Operations	0.5	295
🟦 Consumer Business	55.0	29,316



Total

¥53.3 billion

Market Conditions

Pachislot and Pachinko Machine Business

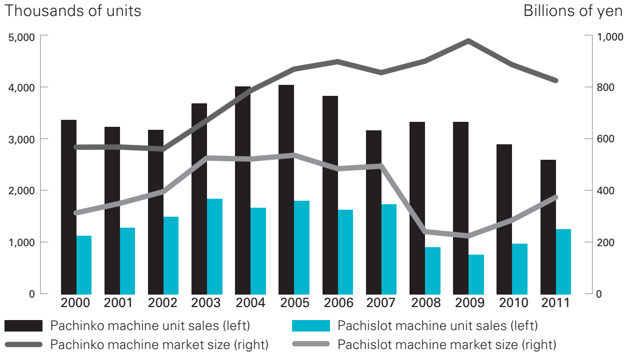
KEY POINTS

Pachislot Machine Market Trending toward Recovery

Pachinko machine sales were buoyant from July 2004, when the regulations pertaining to the Entertainment Establishments Control Law were revised, through to the first half of 2009. From around the second half of 2009, however, demand for pachislot machines began picking up, while pachinko machine demand began to soften. This trend reflected a shift in the focus of pachinko hall operators' capital investment from pachinko machines to pachislot machines, which have comparatively high utilization rates.

The pachinko and pachislot machine market is seeing the gradual emergence of an oligopoly, comprising manufacturers able to generate stable earnings even amid volatile market conditions. Such manufacturers have strong financial positions and powerful development capabilities, enabling them to develop competitive machines continuously.

Pachinko and Pachislot Machine Unit Sales and Market Size



Source: Yano Research Institute Ltd.

(Settlement dates from July to June)

For details, see "THE FACTS" on P.08.

Amusement Machine Sales Business

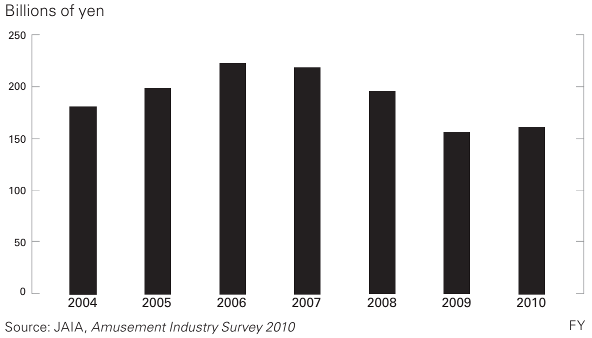
KEY POINTS

Growth for the First Time in Three Years

In the fiscal year ended March 2011*, the amusement arcade machine market grew for the first time in three years thanks to a recovery in business conditions for amusement center operators, which affect the market significantly. To lessen amusement center operators' capital investment burden, amusement arcade machine manufacturers are taking a variety of steps. As well as introducing standardized machine cabinets that lower the cost of upgrading content, manufacturers are promoting the spread of revenue-sharing business models in which they sell machines at modest prices and receive a share of revenues. Furthermore, to appeal to a broader spectrum of players, manufacturers are developing machines targeting casual players and advancing other initiatives that are introducing new types of gameplay.

* JAIA, *Amusement Industry Survey 2010*
Figures for the fiscal year ended March 31, 2012 are not available.

Amusement Arcade Machine Sales*



Source: JAIA, *Amusement Industry Survey 2010*
* Total domestic sales and exports

For details, see "THE FACTS" on P.10.

Amusement Center Operations

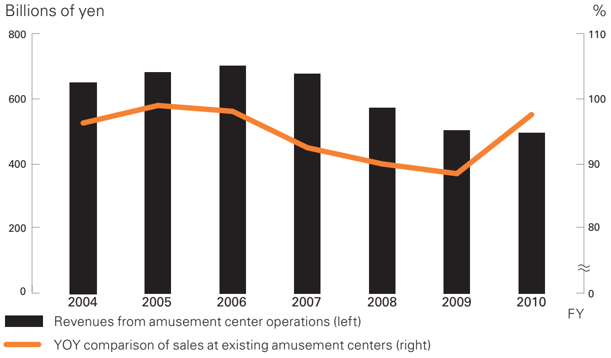
KEY POINTS

Strong Signs of Bottoming Out

For the fiscal year ended March 31, 2011*, the decline in sales from amusement center operations—resulting from amusement center operators' closure of unprofitable amusement centers in response to market contraction and efforts to increase operational efficiency—showed signs of bottoming out, with year-on-year decreases of only 1.7% in net sales and 2.7% in the net sales of existing amusement centers. As their financial positions recover, amusement center operators are developing a stronger appetite for capital investment, which promises to revitalize the market. Furthermore, amusement center operators are adopting operations aimed at capturing new groups of players, such as senior players, and introducing new types of fee charging methods based on tie-ups with manufacturers of amusement arcade machines.

* JAIA, *Amusement Industry Survey 2010*
Figures for the fiscal year ended March 31, 2012 are not available.

Revenues from Amusement Center Operations / YOY Comparison of Sales at Existing Amusement Centers



Source: JAIA, *Amusement Industry Survey 2010*

For details, see "THE FACTS" on P.10.

Consumer Business (Game Content Business)

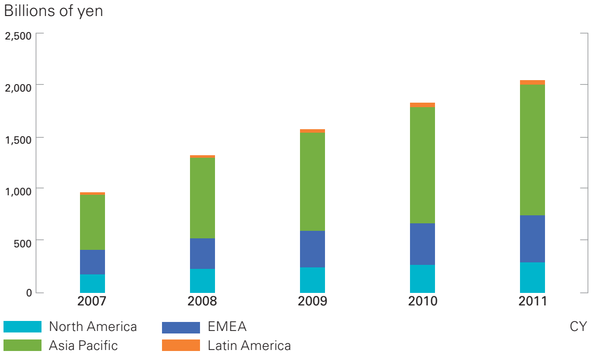
KEY POINTS

Social Games Becoming the Market Driver

Worldwide, the packaged game software area is shrinking as a result of the transition to a new generation of platforms and dramatic expansion of the game content market for social networking services (SNS) and smartphones. Furthermore, the advances of certain titles and publishers are making the market increasingly oligopolistic. In Japan, social games are driving rapid growth of the online game market, which doubled* in size year on year in 2011. Major publishers are capitalizing on their accumulated intellectual property assets and graphics technologies to roll out content in markets for new platforms extremely rapidly. In the casual game area, where a low entry barrier ensures competition remains fierce, manufacturers are revising games with excessively strong gambling elements.

* *Famitsu Game Whitepaper 2012*

Global Online Game Market



Source: *PwC's annual Global Entertainment and Media Outlook: 2012–2016*

For details, see "THE FACTS" on P.11.

Analysis of the Group and Its Strategies

Pachislot and Pachinko Machine Business

KEY POINTS

By continuing to strengthen our development system, we aim to maintain and grow the leading market share of the pachislot machine business while acquiring a leading market share for our pachinko machine business in the medium-to-long term, which still has considerable scope for expanding its market share. To broaden our player base, we intend to develop machines that cater to a wide range of age groups and thereby revitalize the market as a whole.

➜ For details, see **P.42.**

STRENGTHS

- Robust development system underpins product appeal
- Large share of the pachislot machine market
- Multibrand strategy based on four Group companies
- High production capacity realized through operation of new plant

WEAKNESSES

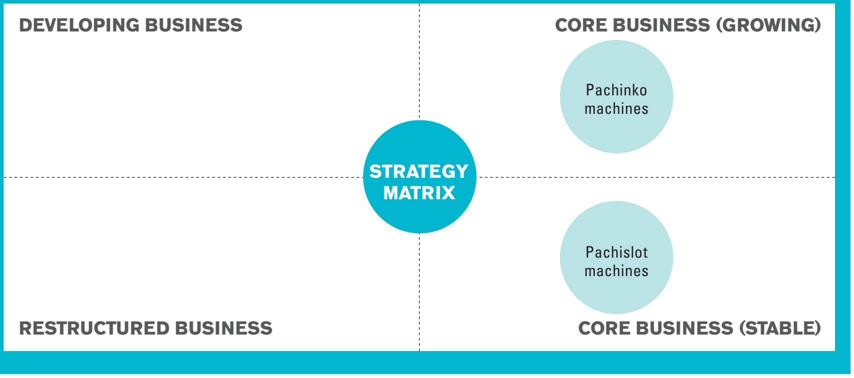
- Variability of earnings due to regulatory changes
- Business development restricted to Japan

OPPORTUNITIES

- Scope for growth in pachinko machine market
- Scope for expanding player base by diversifying gameplay

THREATS

- Decline in player numbers
- Challenging financial positions of pachinko hall operators



Amusement Machine Sales Business

KEY POINTS

Regarding revitalization of the amusement center industry as a priority strategy, we are popularizing a revenue-sharing business model that helps reduce amusement center operators' capital investment burden while stabilizing our earnings. Also, focusing on Asia, we will take strategic preparatory measures in overseas markets with burgeoning growth potential.

➜ For details, see **P.46.**

STRENGTHS

- Very competitive products in the high-end market
- Precise identification of market needs through collaboration with Amusement Center Operations

WEAKNESS

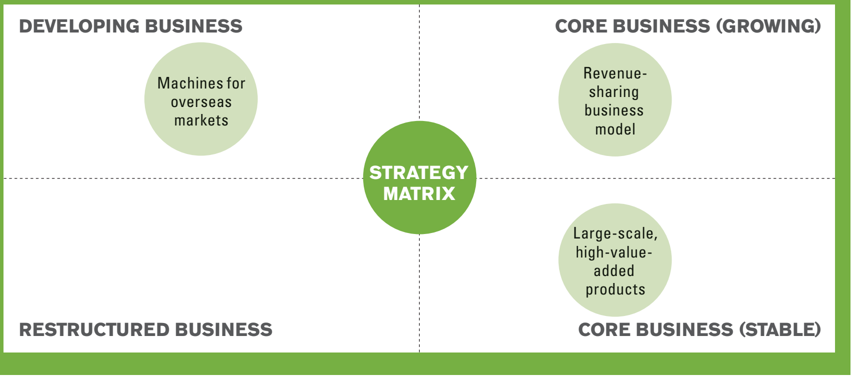
- Low profitability of overseas businesses

OPPORTUNITIES

- Growth potential of overseas markets, centered on Asia
- Tie-ins with consumer generated media (CGM)

THREATS

- Financial positions of amusement center operators
- Reduction in revenues from the revenue-sharing business model due to a slump in consumer spending



Amusement Center Operations

KEY POINTS

For traditional amusement centers in Japan, we will continue strengthening our earnings structure by reforming our portfolio of amusement centers and bolstering management capabilities. Also, we intend to pioneer new markets through the development of theme park-type amusement centers based on new concepts and the creation of entertainment spaces that transcend the games category.

➔ For details, see **P.48.**

STRENGTHS

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

WEAKNESS

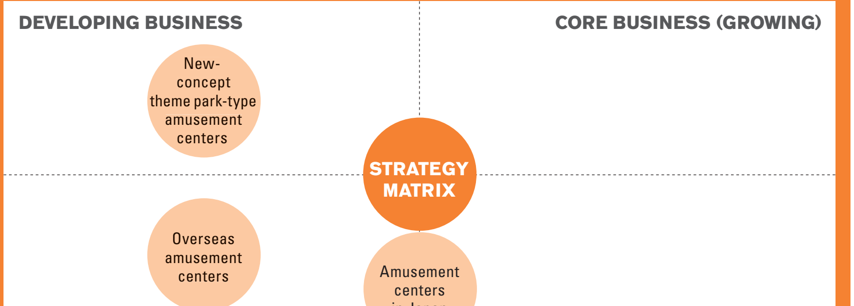
- Low profit margins and capital turnover ratio

OPPORTUNITIES

- Product lineup catering to a broad range of player groups
- Formation of seniors market
- Expansion into new facilities such as restaurants and sports facilities

THREATS

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



Consumer Business

KEY POINTS

In the packaged game software business, with an emphasis on profitability, we will narrow down the number of titles. Meanwhile, plans call for concentrating management resources on content businesses targeting SNS and smartphones, which we have positioned as a growth area. In the toy sales business and the animation business, we intend to stabilize earnings based on mainstay products and titles.

➔ For details, see **P.50.**

STRENGTHS

- Brand power in the game content business, accumulation of a powerful range of intellectual properties
- An animation business with some of the best animation assets in Japan

WEAKNESSES

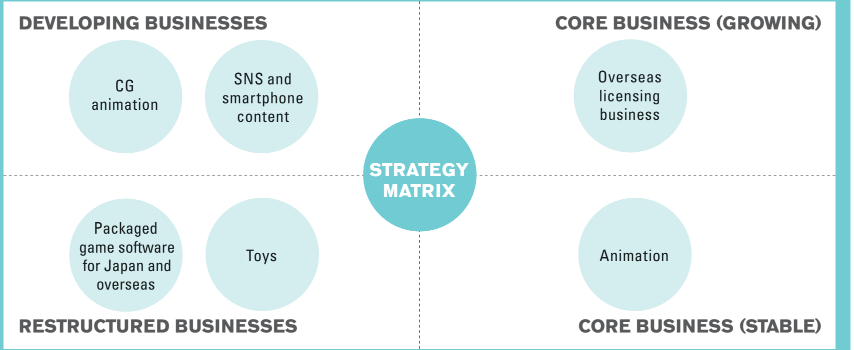
- Lackluster packaged game software sales and decline in earning power
- Lateness in building operational foundations for SNS and smartphone game markets
- Low profit margin of the toy sales business

OPPORTUNITIES

- Rapid growth of content market for SNS and smartphones
- Expansion of the PC network market in Japan and Asia

THREATS

- Contraction of packaged game software market
- Continuous high development costs for packaged game software
- Intensification of competition in the SNS and smartphone content market



Operational Review

Pachislot and Pachinko Machine Business

Basic Information

The Pachislot and Pachinko Machine Business segment is the Group's growth driver. It accounts for approximately 54% of net sales and realizes a high operating margin of 33.5%, which testifies to impressive profitability. As the business segment's core operating company, Sammy Corporation has more often than not held the largest share of the pachislot machine market. Moreover, each year it is building its presence in the pachinko machine market based on enhanced product appeal. The segment is expanding its business by advancing a multibrand strategy founded on Sammy, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION.

Main Operating Companies

Sammy Corporation

TAIYO ELEC Co., Ltd.

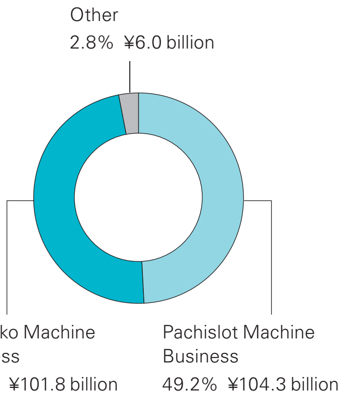
RODEO Co., Ltd.

GINZA CORPORATION

Net Sales Breakdown

¥212.1 billion

53.7%



Fiscal 2012 Business Results Summary

Net sales

¥212.1 billion | **0.05%** ↑

Operating income

¥71.0 billion | **10.5%** ↑

Pachislot machine unit sales

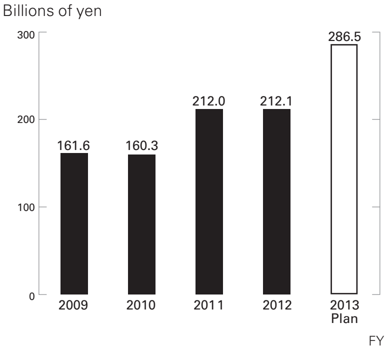
300 thousand units | **0.5%** ↓

Pachinko machine unit sales

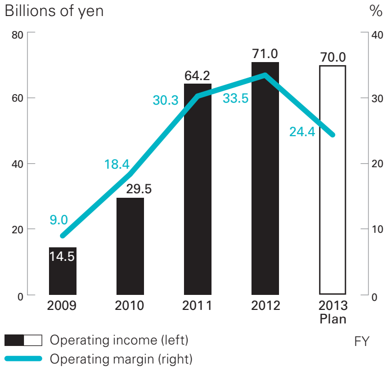
332 thousand units | **3.2%** ↓

Business Results Trends

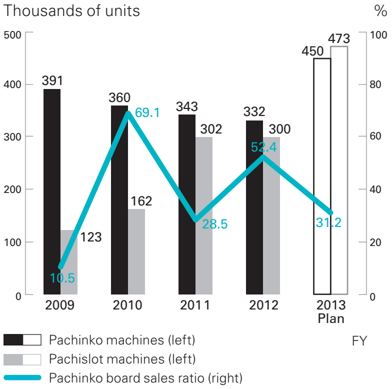
Net Sales



Operating Income / Operating Margin



Pachislot and Pachinko Machine Unit Sales



Executive Summary

- Mainstay title *Pachislot Hokuto No Ken* shipped 177,000 units.
- Operating income rose 10.5% on brisk sales of mainstay titles, higher pachinko board sales as a percentage of net sales, and cost improvements.
- The segment began building a new plant and distribution center in Kawagoe, Saitama Prefecture.
- For fiscal 2013, we are targeting unit sales increases of 57.2% for pachislot machines and 35.4% for pachinko machines.

➔ For information on trends in related markets, please see "Market Conditions for Respective Businesses" in the supplementary "**THE FACTS**" document.

Fiscal 2012 Overview

In fiscal 2012, ended March 31, 2012, the marketing of mainstay titles concentrated on the second half of the year in accordance with sales plans, which anticipated unstable supplies of certain core components due to the Great East Japan Earthquake.

Unit sales of the pachislot machine business remain at the same level as that of the previous fiscal year—approximately 300,000 units—because we postponed launching certain titles until the current fiscal year as a result of the flooding in Thailand. Net sales were up 9.9% year on year, to ¥104.3 billion, reflecting favorable sales of mainstay titles with compelling brand power, such as *Pachislot Hokuto No Ken* and, under the RODEO brand, and *Pachislot Monster Hunter*. In December 2012, we launched *Pachislot Hokuto No Ken*, which shipped an impressive 177,000 units in only four months to become a hit product and lead the pachislot machine market's recovery.

Meanwhile, the pachinko machine business posted solid sales of *Pachinko SOUTEN-NO-KEN* and *Pachinko CR ALADDIN NEO*. However, as demand shifted further toward pachislot machines—a trend evident from the increased impetus of recovery in sales of these machines—overall pachinko machine unit sales declined 3.2% year on year, to roughly 330,000 units.

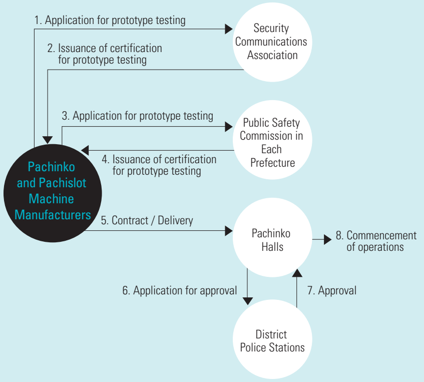
In 2011, although our share of the pachislot machine market decreased from the previous fiscal year's 30.9% to 23.9%, we maintained the largest share of the pachislot machine market. As for pachinko machines, despite a lackluster market we are steadily building our presence, growing market share from the previous fiscal year's 11.8% to 12.8%.

CHECK IT OUT! **The Regulatory Environment and the Pachislot and Pachinko Machine Markets**

The Entertainment Establishments Control Law affects the pachislot and pachinko machine markets. As new machines have to go through multiple approval processes pursuant to these regulations before companies can launch them, revisions to the regulations changes the gameplay of pachislot and pachinko machines and triggers dramatic changes in the pachislot and pachinko machine markets. Recently, revision of regulations pertaining to the Entertainment Establishments Control Law, in July 2004, led to a variety of structural changes in the markets.

(For details, please see the supplementary "**THE FACTS**" document.)

Approval Process for Pachinko and Pachislot Machines



Pachislot Hokuto No Ken
© Buronson & Tetsuo Hara / NSP1983
© NSP2007, Approved No.YRI-125
© Sammy

Pachislot Monster Hunter
© CAPCOM CO., LTD. ALL RIGHTS RESERVED.
© Sammy © RODEO

As a result, for fiscal 2012 the business segment's net sales were approximately unchanged year on year, at ¥212.1 billion.

Operating income rose 10.5% year on year, to ¥71.0 billion. The operating margin was up 3.2 percentage points from the previous fiscal year, to 33.5%. Pachinko board sales as a percentage of net sales, which we are trying to increase in order to lessen pachinko hall operators' capital investment burden and enhance the profit margin of the Pachislot and Pachinko Machine Business segment, jumped from the previous fiscal year's 28.5% to 52.4%. In addition, adopting a flexible pricing strategy for the mainstay titles of the pachislot machine business and improving cost by reusing components, mainly LCD panels, enabled us to grow earnings and improve the profit margin.

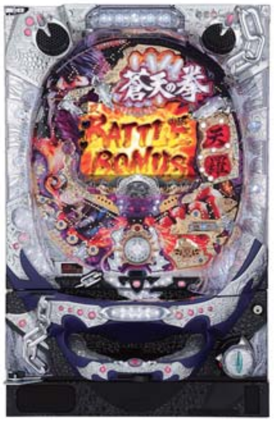
Sammy further cemented the foundations upon which to further its multibrand strategy by making TAIYO ELEC a wholly owned subsidiary in August 2011. In October of the same year, Sammy began building a new plant and distribution center in Kawagoe, Saitama Prefecture, with operations slated to start up in September 2012.

Growth Strategies

The basics strategies of the Pachislot and Pachinko Machine Business segment are to maintain and expand its leading share of the pachislot machine market while increasing unit sales with a view to securing a leading share of the pachinko machine market in the medium-to-long term. Going forward, the segment will concentrate efforts on fostering new player groups by strengthening development of a product lineup that caters to the preferences of a wide range of age groups.

To cater to diverse market needs, the business segment pursues a multibrand strategy. We will strengthen the brand appeal of all subsidiaries' offerings by encouraging exchanges among developers and bolstering development capabilities through exploitation of the SEGA SAMMY Group's powerful intellectual properties and the combination of technologies. At the same time, we will enhance the cost competitiveness of the Group as a whole by deepening collaborations for component sharing, joint purchasing, and the reuse of core components.

The September 2012 start-up of operations at the new plant and distribution center will ramp up Sammy's production capacity significantly. By establishing a supply system able to cope when demand becomes intense for short periods, we aim to reach unit sales targets for fiscal 2013 while enlarging our share of sales even further over the medium-to-long term.



Pachinko SOUTEN-NO-KEN
© Tetsuo Hara & Buronson / NSP 2001, Approved No.YDG-102
© Sammy

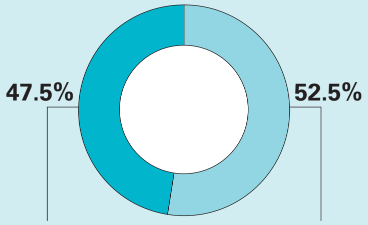
Pachinko CR ALADDIN NEO
© Sammy

CHECK IT OUT!

A Balanced Product Portfolio

Since Sammy transferred to a new development system in fiscal 2009, its development, production, and sales divisions have collaborated to heighten the rigor of quality control and develop products that better reflect market needs. These efforts have succeeded in greatly enhancing the product appeal and brand power of our pachislot and pachinko machines. Amid markets in which changes in regulations or player needs drive a cycle of booms and slumps in pachislot and pachinko machine sales, the balanced product portfolio of the Pachislot and Pachinko Machine Business segment is a major asset.

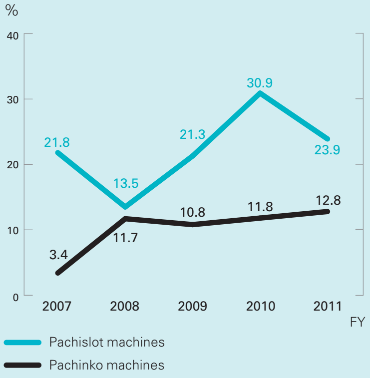
Breakdown of Unit Sales by Pachislot and Pachinko Machines



Pachislot machine unit sales	Pachinko machine unit sales
300,000	**332,000**

(Fiscal 2012 results)

Pachislot and Pachinko Machine Market Shares



Fiscal 2013 Outlook

In fiscal 2013, ending March 31, 2013, the sluggishness of the pachinko machine market and the growth of demand for pachislot machines are likely the continue.

Amid such conditions, the Pachislot and Pachinko Machine Business segment aims to increase net sales 35.1% year on year, to ¥286.5 billion. For pachislot and pachinko machines, we plan to grow unit sales significantly by increasing product variations and strengthening product lineups.

In the pachislot machine business, plans call for elevating unit sales 57.2% year on year, to 473,000 units. Assuming unit sales in the market as a whole remain stable year on year at 1.25 million units, this will give the business a 37.8% share of the market. During the current fiscal year, we intend to market a total of 13 titles, including some mainstay titles, to ensure we capture growing demand.

Although facing very tough market conditions, the pachinko machine business will bring to market a total of 15 titles during the current fiscal year, including major titles, and set its sights on growing unit sales 35.4% year on year, to 450,000 units, and to claim a 20% share of the market.

As for earnings, we expect the business segment's operating income to decline 1.4% year on year, to ¥70.0 billion, and the operating margin to decrease 9.1 percentage points, to 24.4%. This lower profit margin is likely to stem from higher R&D expenses, associated with initiatives focused on the current fiscal year and beyond; the absence of the benefits realized in fiscal 2012 through the reuse of components; and a decrease in pachinko board sales as a percentage of net sales from fiscal 2012's 52.4% to 31.2% in the pachinko machine business due to plans to roll out new-model pachinko frames. (For details, please see the "Management Message" on page 20.)

Dejiten CR Hokuto No Ken Toki
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© NSP2007, Approved No.YKN-101
© Sammy

CHECK IT OUT!

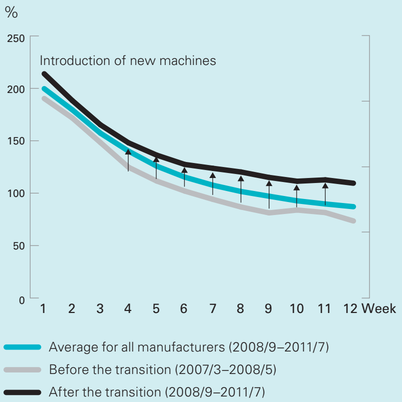
Utilization Rates—A Key Indicator of Endorsement and Brand Appeal

After the installation of a new machine at a pachinko hall, utilization rates show the degree to which players use it during business hours. Normally, utilization rates decline gradually. The more gradual the decline, the more the machine is earning long-term player endorsement. This makes utilization rates an extremely valuable benchmark for analyzing pachislot and pachinko machines' brand appeal in the market as well as market trends. For example, the two graphs below (Pachinko Machine Utilization Rates and Pachislot Machine Utilization Rates) show that the utilization rates of Sammy's products have risen markedly. This reflects the considerable enhancement of Sammy's product appeal, realized through the new development system we transferred to in fiscal 2009.

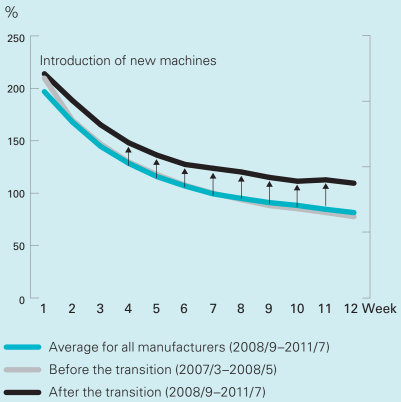
As well as utilization rates, the SEGA SAMMY Group draws on a variety of other data to analyze market trends precisely and develop products that match market needs perfectly.

* Utilization rate = Utilization of the Group's pachislot and pachinko machines ÷ Average utilization of all manufacturers

Pachinko Machine Utilization Rates



Pachislot Machine Utilization Rates



Amusement Machine Sales Business

StarHorse3 Season I A NEW LEGEND BEGINS.
© SEGA

Basic Information

The Amusement Machine Sales Business segment is SEGA's founding business. As an unflagging pioneer, this business segment has led the development of the industry by marketing a wide range of innovative world-first and industry-first products. The corporate culture that develops such products by combining advanced technology and creativity remains vibrant to this day. With large-scale, high-value-added products as its forte, this business segment is ushering in a new era in the industry. Through a product lineup catering to a broad range of players and a revenue-sharing business model, we are concentrating efforts on reinvigorating the amusement center industry.

Main Operating Companies

SEGA	SEGA CORPORATION
DARTSLIVE	DARTSLIVE Co., Ltd.

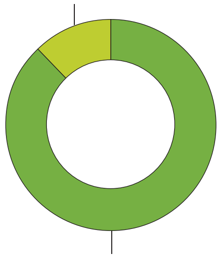
Net Sales Breakdown

¥49.9 billion

12.6%

Overseas Amusement Machine Sales Business

12.0% ¥6.0 billion



Domestic Amusement Machine Sales Business

88.0% ¥43.9 billion

Fiscal 2012 Business Results Summary

Net sales

¥49.9 billion | 5.7% ↑

Operating income

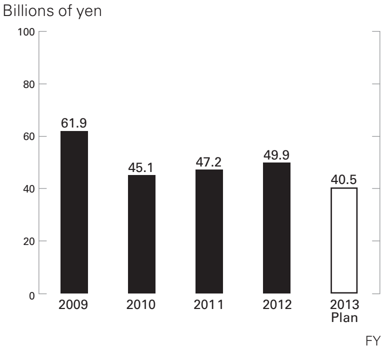
¥7.4 billion | 1.3% ↑

R&D expenses, content production expenses

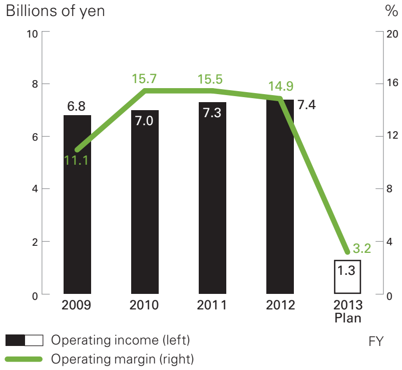
¥9.3 billion | 1.9% ↑

Business Results Trends

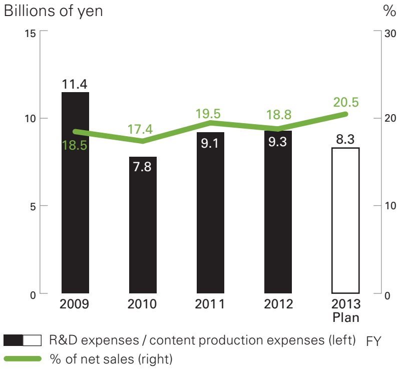
Net Sales



Operating Income / Operating Margin



R&D Expenses, Content Production Expenses



Executive Summary

- Mainstay title *StarHorse3 Season I A NEW LEGEND BEGINS*. posted steady sales.
- The segment saw solid revenues from revenue-sharing titles thanks to favorable utilization rates.
- The segment is likely to record lower sales and earnings for fiscal 2013 because it will not release any new major titles.

➔ For information on trends in related markets, please see "Market Conditions for Respective Businesses" in the supplementary "**THE FACTS**" document.

Fiscal 2012 Overview

For fiscal 2012, net sales were up 5.7% year on year, to ¥49.9 billion. In fiscal 2012, for *Star Horse*, a horse racing medal game that boasts strong brand appeal at amusement centers, the business segment released the latest installment in the series, *StarHorse3 Season I A NEW LEGEND BEGINS.*, which sold steadily. CVT* kits for such titles as *SEGA NETWORK MAHJONG MJ5* and *WORLD CLUB Champion Football* as well as cards and other consumables related to these titles also saw solid sales. Furthermore, titles introduced through the revenue-sharing business model enjoyed high utilization rates and generated stable revenues.

As a result, the business segment's operating income rose 1.3% year on year, to ¥7.4 billion, with the operating margin remaining approximately unchanged at 14.9%. Also, in fiscal 2012 R&D expenses and content production expenses were up 1.9% year on year, to ¥9.3 billion.

Growth Strategies

Strategically, our first priority is to revitalize the amusement center industry, which affects this business segment's earnings environment directly. With this in mind, the business segment is advancing measures focused on mitigating amusement center operators' capital investment burden and stabilizing the Company's revenues.

Overseas, we are taking forward-looking measures, mainly targeting Asia's considerable growth potential. Our aim is to increase localization through operational tie-ups with local partners that enable us to provide competitively priced products matching the preferences of players in each region.

Fiscal 2013 Outlook

Given the phase of the product development cycle we are currently in, we do not plan to launch any new major titles in fiscal 2013. Consequently, the business segment is likely the see year-on-year decreases of 18.9% in net sales, to ¥40.5 billion, and 82.5% in operating income, to ¥1.3 billion. We will focus efforts on growing sales of *StarHorse3 Season I A NEW LEGEND BEGINS*. and selling small and medium-scale amusement arcade machines and mainstay titles. We expect to reduce R&D expenses and content production expenses 11.5% year on year, to ¥8.3 billion.

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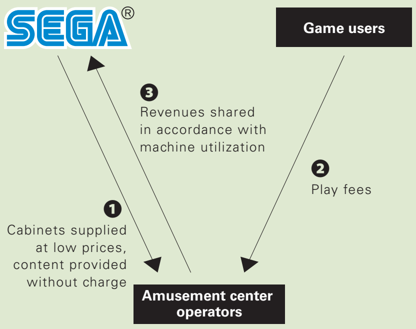
* Kits for upgrading boards, software, and exteriors

CHECK IT OUT!

A Revenue-Sharing Business Model Aimed at Energizing the Industry

In the revenue-sharing business model that SEGA is promoting, SEGA provides low-priced machine cabinets and free content, and the company and amusement center operators share revenues from the operation of the machines, in other words the play fees from players. We are rolling out this business model through the infrastructure of SEGA's *ALL.Net* network service. Under this model, amusement center operators are able to curb their capital investment while introducing new products that help revitalize their amusement centers. Meanwhile, the model extends SEGA's involvement beyond the sale of amusement arcade machines. It allows the company to sustain earnings by upgrading content periodically and thereby maintain the market value of its amusement arcade machines.

Revenue-Sharing Business Model



Marketed under a revenue-sharing business model, *BORDER BREAK* has become an enduring favorite among players.
© SEGA

Amusement Center Operations

Basic Information

As this business segment's core operating company, SEGA operates diverse amusement center formats, such as *JOYPOLIS*, *SEGA WORLD*, and *CLUB SEGA*, to suit different locations. Through close collaboration with the Amusement Machine Sales Business segment, this business segment is catering to customers in a wide range of age groups. While improving the business segment's earnings structure by reforming our amusement center portfolio and strengthening the management capabilities of amusement centers, we are taking on the challenge of developing new-concept theme park-type amusement centers and creating entertainment spaces that break the mold of traditional amusement centers.

TOKYO JOYPOLIS

Main Operating Companies

SEGA CORPORATION

SEGA Bee LINK Co., LTD.

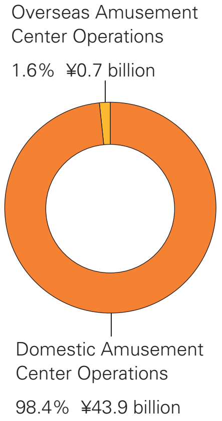
AG SQUARE, LTD.

OASIS PARK Co., Ltd.

Net Sales Breakdown

¥44.6 billion

11.3%



Fiscal 2012 Business Results Summary

Net sales

¥44.6 billion | **2.4%** ↓

Operating income

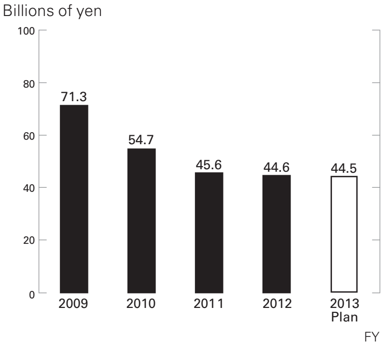
¥0.3 billion | **0.0%**

SEGA's existing domestic amusement center sales year on year

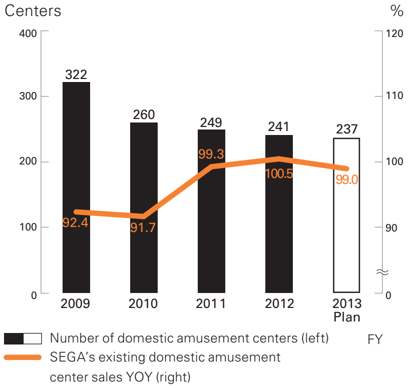
100.5% | —

Business Results Trends

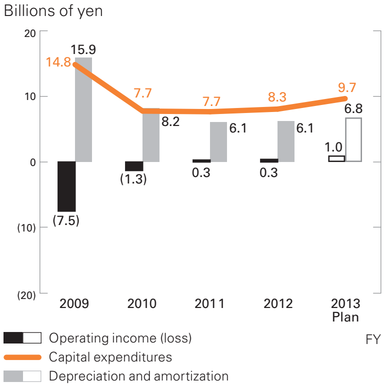
Net Sales



Number of Domestic Amusement Centers / SEGA's Existing Domestic Amusement Center Sales YOY



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



Executive Summary

- In Japan, SEGA's existing amusement centers posted a year-on-year increase in sales.
- The business segment made substantial progress in rationalizing overseas amusement centers by selling seven amusement centers in North America.
- SEGA began developing new-concept business formats with the renewal of *TOKYO JOYPOLIS*.

➔ For information on trends in related markets, please see "Market Conditions for Respective Businesses" in the supplementary "**THE FACTS**" document.

Fiscal 2012 Overview

For fiscal 2012, the Amusement Center Operations segment recorded a 2.4% decline in net sales year on year, to ¥44.6 billion. In the first half of the year, despite the suspension of operations at certain amusement centers and the shortening of business hours due to planned power outages—mainly in the Tohoku region—after the Great East Japan Earthquake, amusement centers performed solidly as consumers increasingly favored accessible entertainment. Furthermore, the success of initiatives to reform our amusement center portfolio and bolster the management capabilities of existing amusement centers grew the sales of SEGA's existing domestic amusement centers 0.5% year on year. Also, for the second consecutive fiscal year the business segment secured profits, posting operating income of ¥0.3 billion. Capital expenditures rose 8.1% year on year, to ¥8.3 billion, while depreciation of ¥6.1 billion was comparable to that of the previous fiscal year.

As of the end of fiscal 2012, the business segment has 241 amusement centers in Japan. Overseas, the May 2011 sale of seven amusement centers in North America has left the business segment with only three overseas amusement centers in Taiwan.

Growth Strategies

As society ages, amusement centers in Japan are likely to continue facing challenging business conditions. In response, we intend to keep building an amusement center portfolio that is able to generate stable earnings. In conjunction with these efforts, we will move forward with the development of new business formats, setting our sights on opening up new customer groups and rolling out these new-format facilities in the global market. As part of such initiatives, we revamped *TOKYO JOYPOLIS* based on a new concept and unveiled the facility in July 2012. Furthermore, we will redouble efforts to expand and improve services with a view to developing senior customers as a new market.

Fiscal 2013 Outlook

For fiscal 2013, we expect net sales to edge down 0.2% year on year, to ¥44.5 billion. At SEGA's existing domestic amusement centers in Japan, we anticipate a 1.0% decline in sales. Meanwhile, operating income is projected to rise ¥0.7 billion year on year, to ¥1.0 billion, due to lower depreciation accompanying changes in accounting policy for the years of service life of fixed assets and the depreciation method. In Japan, we plan to open seven amusement centers and close 11, giving us at total of 237 amusement centers at the end of the current fiscal year, down four from the previous fiscal year-end. In addition, aiming to boost sales, we will remodel 26 of SEGA's amusement centers in Japan.

CHECK IT OUT!

Beyond Games

Having undergone its largest renewal since its establishment, *TOKYO JOYPOLIS*, Japan's largest indoor theme park, reopened in July 2012. The revamped facility is based on a "DigitaReal" concept, which as the name suggests means integrating the digital and the real. It offers five major "DigitaReal" experiences, including attractions and dining areas that incorporate numerous digital elements. In another initiative, we plan to open a new-format amusement center that is themed on nature and features videos from the British Broadcasting Corporation (BBC) in Yokohama in 2013. Through such initiatives, we want to explore the development of businesses in entertainment areas that transcend the boundaries of games. Another flagship of such efforts is *DARTS LIVE*, which Group company DARTSLIVE Co., Ltd., operates.

TOKYO JOYPOLIS

© SEGA

Consumer Business

Basic Information

In the game content business, which accounts for roughly 78% of this segment's net sales, SEGA pursues a multiplatform strategy of providing game software for a wide variety of platforms. In the packaged game software area, the business segment is rigorously narrowing down the number of titles under development. On the other hand, it is channeling management resources toward the fast-growing digital content area. By stepping up collaborations across the whole Group, including the toy sales business and the animation business, we aim to leverage our extensive capabilities.

Main Operating Companies

SEGA CORPORATION

TMS ENTERTAINMENT, LTD.

Sammy NetWorks Co., Ltd.

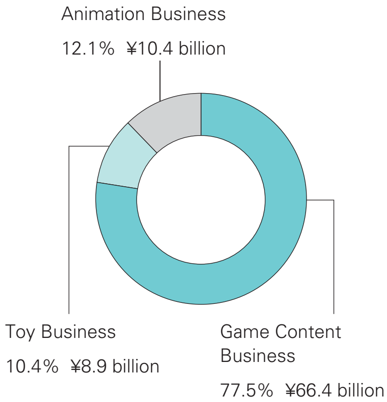
SEGA TOYS CO., LTD.

MARZA ANIMATION PLANET INC.

Net Sales Breakdown*

¥85.6 billion

21.7%



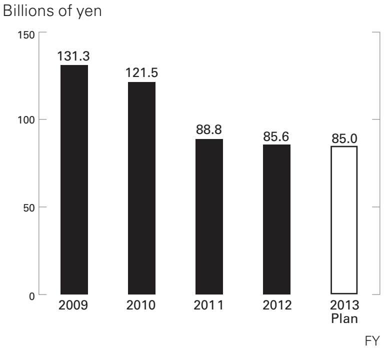
* Excluding ¥0.1 billion of corporate and eliminations

Fiscal 2012 Business Results Summary

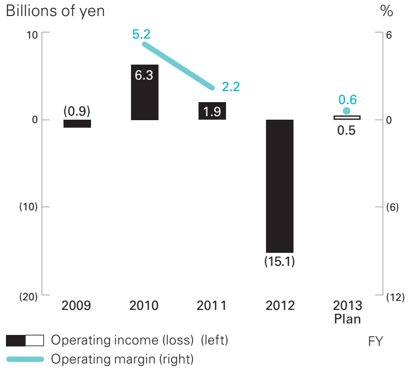
Net sales	**¥85.6** billion	3.6% ↓
Operating loss	**¥15.1** billion	—
Home video game software unit sales	**17.24** million units	7.9% ↓
R&D expenses, content production expenses	**¥29.3** billion	61.5% ↑

Fiscal 2012 Business Results Summary

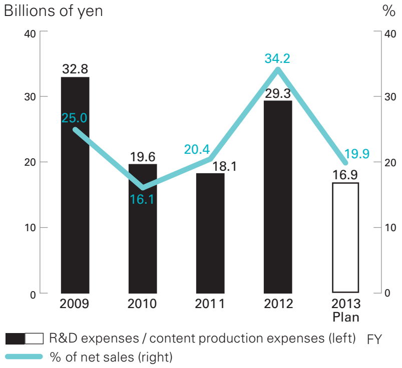
Net Sales



Operating Income (Loss) / Operating Margin



R&D Expenses, Content Production Expenses



Executive Summary

- Due to lackluster sales of packaged game software in North America and Europe, the business segment recorded lower revenues and an operating loss.
- The business segment restructured the Consumer Business segment in North America and Europe.
- By restructuring to reduce cost of sales and operating expenses, the business segment aims to move into the black in fiscal 2013.
- Added impetus to the development of businesses in the digital content area by establishing SEGA Networks, Ltd., in July 2012.

➔ For information on trends in related markets, please see "Market Conditions for Respective Businesses" in the supplementary "**THE FACTS**" document.

Fiscal 2012 Overview

For fiscal 2012, the Consumer Business segment recorded a 3.6% year-on-year decrease in net sales, to ¥85.6 billion, which reflected a downturn in packaged game software sales in North America and Europe and lower revenues from the toy business.

As for earnings, lower packaged game software sales and valuation losses on work in process accompanying restructuring in North America and Europe led to an operating loss of ¥15.1 billion for fiscal 2012, compared with the previous fiscal year's operating income of ¥1.9 billion. R&D expenses and content production expenses were up 61.5% year on year, to ¥29.3 billion, due to valuation losses on work in process accompanying restructuring.

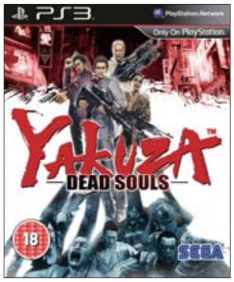
Although the game content business marketed such new titles as *Mario & Sonic at the London 2012 Olympic Games™* and the latest installment in the *Sonic* series, overall sales were down 7.9% year on year, to 17.24 million units. In Japan, the business segment shipped 2.72 million units, compared with an initial target of 3.36 million units. Particularly in North America and Europe, the business segment saw sales slump amid tough market conditions, recording sales of 14.43 million units versus an initial target of 19.92 million units. As a result, the Consumer Business segment posted an operating loss. In response, we restructured operations, focusing on rationalizing organizations in the home video game software area of the North American and European markets to improve earnings from fiscal 2013 onward and put the business segment back on track for growth. (For details of restructuring, please see page 18.) As a consequence of these efforts, we are projecting lower cost of sales and operating expenses in the Consumer Business segment for fiscal 2013.

In the digital content area (content for mobile phones and smartphones, online games for PCs, etc.), *Kingdom Conquest*, a free online role-playing game (RPG) that we have provided since 2010 for Apple's iOS mobile operating system and Android™, was ranked the No. 1 game in App Store Japan Rewind 2011.

Furthermore, we stepped up initiatives overseas. In Korea, we concluded a five-year licensing agreement with Korea's largest game publisher, NCsoft Corporation, for the provision of services for *Professional Baseball Manager*, an online game for PCs that simulates managing a baseball team. Also, we acquired a U.S. online game developer, Three Rings Design, Inc.

Regarding the toy business, while mainstay offerings such as the *ANPANMAN* series and *Jewelpod* sold well, sales of other toys were sluggish overall.

In addition, the animation business received solid license revenues from *ANPANMAN*, *Detective Conan*, and the television series *CARDFIGHT!! VANGUARD*.



Yakuza: Dead Souls
© SEGA

Sonic Generations
© SEGA

Jewelpod Diamond
©'08, '12 SANRIO / SEGA TOYS
S · S / W · TX · JLPC

Growth Strategies

For the packaged game software area of the game content business, we will build a structure that generates stable earnings. In the North American and European markets, we will scrutinize earnings outlooks and focus exclusively on major intellectual properties likely to realize unit sales commensurate with development investment. In the digital content area, aiming to expedite management decision-making, SEGA divested the main capabilities of its network business to establish SEGA Networks, Ltd., in July 2012. The new company will exploit the outstanding assets and development capabilities that SEGA has accumulated to create products featuring gameplay, imaginary worlds, and graphics that clearly differentiate them from casual games.

Also, the toy business will strengthen initiatives for mainstay products while reforming its value chain to improve profitability. In the animation business, TMS ENTERTAINMENT, LTD., which owns an extensive array of valuable animation assets, including *Detective Conan*, *Go! ANPANMAN*, and *Lupin the 3rd*, will concentrate on creating new movies and television series. Moreover, this business will create synergies by creating animation for pachislot and pachinko machines.

Fiscal 2013 Outlook

For fiscal 2013, we forecast the Consumer Business segment's net sales to decline 0.8% year on year, to ¥85.0 billion. Meanwhile, we expect lower cost of sales and operating expenses resulting from restructuring will enable the business segment to achieve operating income of ¥0.5 billion. By business, the game content business is likely to see a 3.0% year-on-year decline in net sales, to ¥64.4 billion. However, the toy business is aiming to grow net sales 5.6% year on year, to ¥9.4 billion, while the animation business is targeting a 3.8% rise in net sales, to ¥10.8 billion.

In the packaged game software area of the game content business, the business segment will streamline its portfolio of titles from fiscal 2012's 45 titles to 24 titles, centered on major intellectual properties such as *Sonic the Hedgehog*, *Football Manager*, *Total War*, and *Aliens*. We expect this to result in a 48.1% year-on-year drop in sales, to 8.94 million units. As for the digital content area, we aim to introduce the mainstay title *Phantasy Star Online 2* and maximize network revenues. At the same time, we plan to release 20 new titles as content for SNS and smartphones.

Thanks to the narrowing down of titles under development, we expect R&D expenses and content production expenses to fall 42.4% year on year, to ¥16.9 billion.

ANPANMAN: Revive Banana Island!
© Takashi Yanase / ANPANMAN PROJECT 2012

Phantasy Star Online 2
© SEGA

CHECK IT OUT! **Accelerating Initiatives for Online Games in Asia**

SEGA is actively entering Asia's online games market by working with partner companies to build development and operational systems that leverage SEGA's content. In Korea, Ntreev Soft has been operating *Professional Baseball Manager* since 2010. An online game for PCs that simulates managing a baseball team, *Professional Baseball Manager* was developed based on SEGA's *Let's make a professional baseball player*. By the end of 2011 *Professional Baseball Manager* accounted for more than one million players and had established sports simulation games as a new genre in Korea. In February 2012, we concluded a five-year licensing agreement for the game with NCsoft Corporation, Ntreev Soft's parent company and the largest game software publisher in Korea. Through this agreement with NCsoft, which has practical experience in operating online games in Asia, we hope to expand the game's player base even further.

Professional Baseball Manager, developed based on *Let's make a professional baseball player* after acquiring a license from Korea's professional baseball association

SUSTAINABILITY

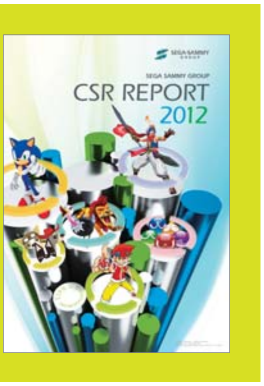
SUSTAINABILITY

The SEGA SAMMY Group's CSR Initiatives

Annual Report 2012 reports on the Group's basic policies and the progress of initiatives for society, the environment, governance, and other non-financial areas. In relation to these areas, the report highlights risks and opportunities that could have a particularly significant effect on the Group's growth and sustainability. At the same time, it focuses on core operating companies: SEGA CORPORATION and Sammy Corporation. For a comprehensive report on the Group's initiatives based on the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines 2006 and the ISO 26000's Guidance on Social Responsibility, please see *SEGA SAMMY Group CSR Report 2012*.

SEGA SAMMY Group CSR Report 2012

➜ http://www.segasammy.co.jp/english/pr/commu/csr_report.html

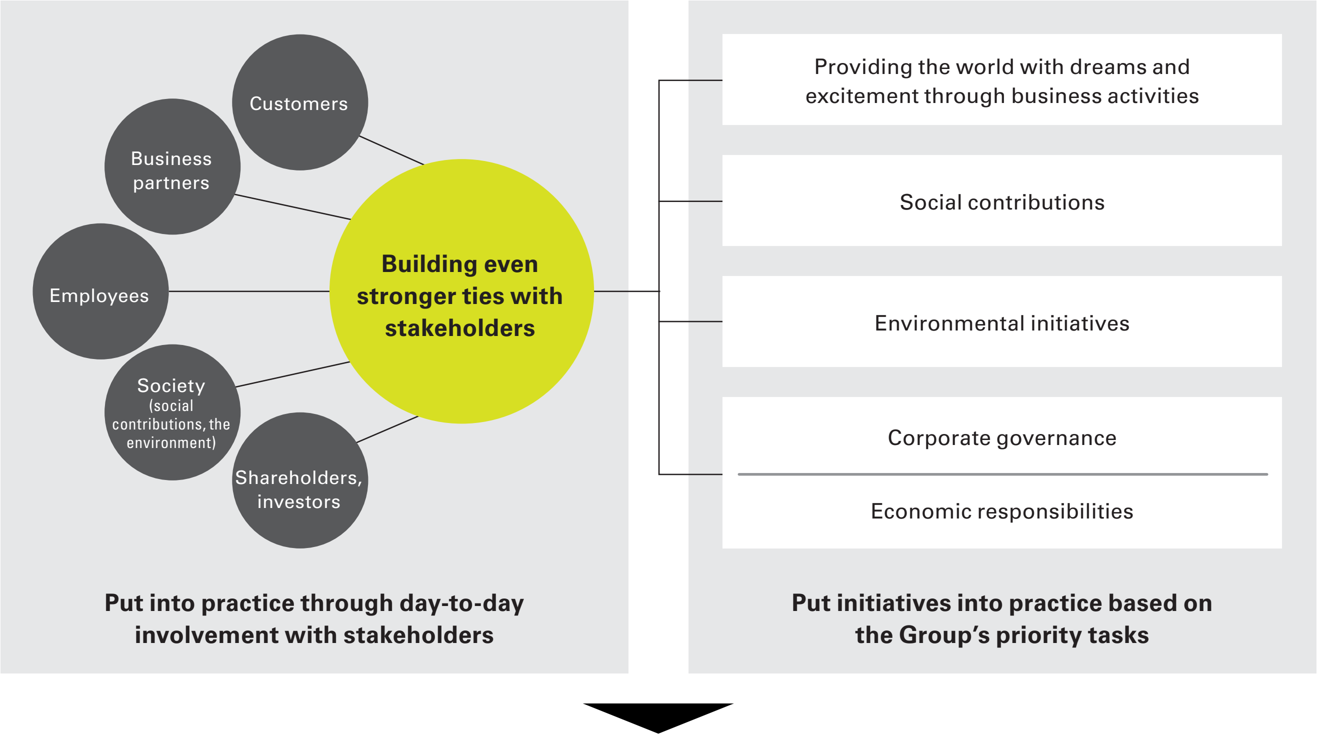


The SEGA SAMMY Group's Basic Approach to CSR

"By providing entertainment filled with dreams and excitement to people throughout the world, we will strive to enrich our society and culture." Adhering to this Group Management Philosophy, the SEGA SAMMY Group pursues corporate social responsibility (CSR) initiatives that it is uniquely qualified to realize. These initiatives meet our responsibilities, thereby responding sincerely to society's various requirements and expectations and building even stronger ties with stakeholders. We categorize initiatives under four priority tasks: providing the world with dreams and excitement through business activities, social contributions, environmental initiatives, and corporate governance and economic responsibilities.

We will advance businesses activities with the aim of remaining a company society views as trustworthy and promising growth.

The SEGA SAMMY Group's CSR Initiatives and Stakeholder Engagement



Realize mutual sustainability between the Group and society

Group CSR Charter: As a responsible corporate citizen, we will comply with all relevant laws, regulations, and social norms and further deepen the relationship with our stakeholders. Through these efforts, we believe we can provide sound management of our Group and fulfill our responsibilities to society.

CSR Promotion System

The foundation for promoting CSR activities is sound management. Therefore, the Company sought to enhance corporate governance, compliance, and risk management by establishing the Group CSR Liaison Committee in-house. This committee coordinates the Group's CSR activities.

Moreover, to facilitate CSR activities, the Company established the CSR Promotion Office, which has overall responsibility for CSR activities. This office holds meetings of Group CSR Executive Offices Council, which members of the CSR Executive Offices of Group companies attend, and follows a plan–do–check–act (PDCA) cycle for initiatives related to specific CSR activities.

Initiatives for Priority Tasks

Society has numerous types of stakeholders, and it demands and expects many things from companies. While they are all important, meeting every expectation uniformly is not possible. With this in mind, in fiscal 2010 the SEGA SAMMY Group identified and categorized the tasks it should tackle. Based on this, we have been setting out targets and managing the progress of initiatives to address priority tasks since fiscal 2011.

Furthermore, in fiscal 2012 we reviewed the "materiality," or relevance, of our initiatives and decided on four common priority tasks that the entire Group can tackle (please see the opposite page). Based on these priority tasks, each operating company will set out targets and take steps to realize them, while SEGA SAMMY HOLDINGS manages their progress.

The SEGA SAMMY Group's CSR Promotion System

SUSTAINABILITY

Social

Employees

The Group recognizes that employees and their creativity and ambition are its most important management resource and the foundation of sustained growth. Accordingly, the Group rigorously ensures respect for human rights, establishes comfortable and safe workplaces, provides opportunities for employees to develop their capabilities, and promotes diversity.

SEGA—Hiring and Workforce

		2010	2011	2012
New graduate hires	Male (Female)	49 (12)	14 (4)	17 (5)
	Total	61	18	22
Mid-career hires	Male (Female)	23 (6)	18 (6)	71 (2)
	Total	29	24	73
Total number of employees (excluding seconded employees)	Male (Female)	2,320 (341)	2,135 (288)	2,130 (280)
	Total	2,661	2,423	2,410
Average years of service		9 years 8 months	10 years 7 months	11 years 4 months

Sammy—Hiring and Workforce

		2010	2011	2012
New graduate hires	Male (Female)	9 (4)	6 (0)	14 (2)
	Total	13	6	16
Mid-career hires	Male (Female)	9 (0)	15 (1)	26 (3)
	Total	9	16	29
Total number of employees (excluding seconded employees)	Male (Female)	959 (110)	943 (105)	959 (105)
	Total	1,069	1,048	1,064
Average years of service		7 years 7 months	8 years 1 month	8 years 9 months

Personnel System

SEGA evaluates its employees based on qualifications, roles, and results to heighten motivation and to enable them to realize their potential. To ensure fair evaluations, all managers receive evaluator training. Furthermore, aiming to support the career development of employees and heighten professional pride, we have introduced a dual-track career system that enables employees to choose either a management track or a professional track, which focuses on specialized skills. In addition, we have introduced an internal recruiting system to cultivate a corporate culture that supports ambitious employees.

Similarly, Sammy encourages employees to develop their professionalism and remain ambitious through a system that also enables employees to choose either a management track or a professional track. Furthermore, this system fosters expertise and clarifies roles. Also, from the current fiscal year we revised our personnel system to enable and encourage each employee to perform to the best of their abilities by clarifying the role of each individual and providing compensation befitting their results and contributions. Another initiative is our self-declaring system, through which employees provide feedback on their levels of motivation and satisfaction with regard to their current positions and the positions to which they aspire.

Education and Training System

Adhering to a basic policy of conducting personnel training in a manner that respects employees' independence, SEGA fosters personnel that are not overly dependent on the company. Furthermore, the company supports managers' efforts to deepen self-understanding and take the initiative in developing their abilities. And through tie-ups with outside education providers, we have established a system that subsidizes the independent efforts of employees to enhance their abilities.

Based on its personnel management policy, Sammy provides training programs for each employee rank, from new employees upwards, and offers employees opportunities to develop their skills. In fiscal 2011, we revised and enhanced the curriculum by breaking down rank-specific training into finer gradations.

Sammy's Rank-Specific Training System

Managers		
Principles of management	Managers	3 days
Fundamentals of work management and mental health	New managers	5 days
Leaders		
Management and business sense	Leaders	2 days
Mindset development for next-generation leaders		
Mid-career employees		
Business execution skills for working with other companies	Mid-career, third year	2 days
Raising awareness as a professional	Mid-career, first year	3 days
New employees		
Self-analysis and reflecting on basic attitude and business skills	New employees, third year	3 days
Understanding expected role and acquiring fundamental skills as a member of society		
New employee follow-up training	New employees, follow-up	3 days
New employee training	New employees	1 month

Customers

Promptly and flexibly meeting the current needs of customers and continually providing safe and high-quality products and services that meet their expectations is vital to the Group's sustainable growth. Accordingly, the Group has established a product safety and quality assurance system and aims to heighten customer satisfaction through its manufacturing.

Safety and Quality Assurance System

SEGA is strengthening its quality management system. In this system, the Quality Assurance Department comprehensively manages rigorous pursuit of quality assurance based on related rules. Regarding product safety, SEGA realizes rigorous safety management by manufacturing products in compliance with its voluntary standards as well as the industry's manufacturing guidelines, which the Japan Amusement Machine and Marketing Association, Inc. (JAMMA), determines. After receiving initial approval from senior management, every type of project examines, verifies, and manages the quality of products at appropriate stages, including at design reviews and shipment decision meetings. Furthermore, we are developing systems that enable the timely supply of products by optimizing and sharing information to systemize process control for quality and delivery times from development through to manufacturing and sales.

Meanwhile, Sammy rigorously ensures the provision of safe, quality products through quality assurance initiatives that improve and innovate processes effectively. Since fiscal 2010, Sammy has been reducing the defective product rate by conducting evaluation tests at the development stage and mass production stage and providing feedback on the test results to development divisions rapidly. This system comprises original tests for products, which Sammy established based on Japanese Industrial Standards (JIS). As part of initiatives to eliminate nonconforming products, Sammy also monitors the defective rates of its suppliers on a weekly, semiannual, and annual basis. For suppliers with particularly low scores, Sammy provides guidance on improving performance and meeting quality standards.

Customer Support System

Aiming to heighten the quality of its products and services even further, SEGA comprehensively responds to feedback from customers through its Customer Support Desk. Moreover, the company has established a department, Voice of Customer, dedicated to communicating customer feedback to other departments in the company. In other efforts to improve quality, Sega Logistics Service Co., Ltd.—responsible for maintenance, repair, component procurement, and other aspects of after-sales service—and related in-house divisions periodically analyze trends in quality problems and provide feedback to development, manufacturing, and sales divisions so that they can take measures to address them.

At Sammy, a customer service center, in collaboration with Group company Japan Multimedia Services Corporation, comprehensively responds to customer feedback and enhances after-sales service. Furthermore, ahead of competitors, Sammy established a customer support system for pachinko hall operators, which has been providing customer services on weekends, during holidays, and late in the evening on weekdays since December 2005.

"Premium Member" Web Site for Pachinko Hall Operators

To provide pachinko hall operators with useful information in a timely manner, we operate a dedicated members' web site for pachinko hall operators. In fiscal 2012, we increased convenience for members by including pachislot and pachinko machine service manuals on the web site.

Business Partners

The SEGA SAMMY Group views suppliers as partners whom it works with to achieve the shared goal of providing entertainment filled with dreams and excitement.

Throughout the Group, we will establish multifaceted standards and systems for selecting suppliers and other business partners while building fair, equitable, and positive relationships with them based on mutual trust.

Rigorous Adherence to Fair Trade

SEGA provides business partners with a document stating its policy of maintaining integrity in business dealings, which is based on the Group Code of Conduct. In addition, the company conducts a variety of seminars for managers and general employees to raise awareness of the importance of maintaining fair and equitable relationships and ensuring integrity in dealings with business partners.

When evaluating and selecting business partners, multiple departments take part in the process to reach a fair decision. Based on the Group Code of Conduct, in fiscal 2012 the Amusement Machine Sales Business segment established a procurement policy, which calls for business transactions to reflect consideration of compliance, quality, safety, reliability, environmental preservation, information security, and occupational health and safety. Also, to ensure stable quality SEGA conducts annual audits of the plants of new and existing business partners.

Sammy has established a procurement policy that emphasizes maintaining fairness and equity and establishing relationships of mutual cooperation and trust with business partners. In adherence with certain purchasing rules, the company evaluates and selects business partners and implements business transactions. In addition, Sammy makes appropriate decisions on the selection of business partners in light of evaluations involving multiple departments and information from the candidate and external research organizations. In adherence with the Group CSR Charter and the Group Code of Conduct, Sammy purchases based on consideration of integrity, economy, safety, quality, maintenance, technology, and the environment. Moreover, the company is extending this approach to its entire supply chain.

A supplier meeting

Strengthening Partnerships with Business Associates

Because SEGA uses a fabless manufacturing model, coordination with manufacturing partners is particularly important. Therefore, the company continually strengthens collaboration with these partners to enhance product safety and quality and raise production efficiency. Specifically, SEGA employees periodically visit manufacturing partners' plants to check quality control systems and provide guidance on raising production efficiency. Furthermore, with a view to entrenching manufacturing partners' voluntary quality control systems, we develop and accredit inspectors. Other examples of efforts to strengthen partnerships include the holding of regular meetings with suppliers and the introduction of a "BATON" communication system, which facilitates information sharing and rapid communication.

As for Sammy, it deepens mutual trust by providing numerous opportunities to exchange information and opinions with business partners in the course of day-to-day business transactions. Fiscal 2012 saw Sammy redouble the rigor of its quality control by thoroughly investigating the quality control of its suppliers and secondary suppliers.

Inspector Accreditation System

We have established an accreditation system for inspectors to consolidate systems that enable manufacturing partners to conduct quality control independently. Based on the Textbook for SEGA Amusement Product Inspectors, which SEGA's production division publishes, trainees acquire knowledge and learn the specific inspection techniques that inspectors need. Only those passing the exam are permitted to conduct independent audits.

Furthermore, given that SEGA has had certain products manufactured in China in recent years, the company has published a Chinese version of the textbook.

Environment

The Group's Overall Environmental Preservation Initiatives

Environmental Burden and Impact

The Group collects and analyzes basic environmental data from its main operating bases and facilities to evaluate the overall environmental burden of its business activities.

One of the major environmental burdens is the electricity consumption of operating bases and facilities. With this in mind, the Group uses lighting and air conditioning efficiently and is changing over to more energy-efficient equipment. Also, we are reducing the amount of paper our offices use and promoting green purchasing.

The Group's Basic Environmental Data

		2010	2011	2012
Energy consumption (GJ) (electricity, city gas, LPG, kerosene)[1]	Offices	199,682	186,196	143,078
	Amusement centers	1,651,490	1,428,231	1,180,178
	Manufacturing bases	27,800	27,188	26,134
CO_2 emissions from energy use (t-CO_2)[2]	Offices	8,421	7,214	5,536
	Amusement centers	70,967	60,107	47,322
	Manufacturing bases	1,191	1,224	997
Industrial waste discharge (t)[3]	Offices, sales bases, distribution centers (SEGA) / amusement centers, manufacturing bases, distribution centers	483	472	2,230
	Manufacturing bases, distribution centers	1,368	1,385	3,405

1 Offices and amusement centers (excluding spa facilities): Total electricity used
Spa facilities: Total electricity, city gas used
Manufacturing bases: Total electricity, city gas, LPG, kerosene used
For some facilities, estimates were made based on energy usage charges and facility floor area.
To convert electricity to heat, we used a primary conversion (9.97MJ/kWh).

2 The CO_2 conversion coefficients used are from "List of Calculation Methods and Emissions Coefficients for the Conversion, Reporting and Public Announcement System," announced by Japan's Ministry of the Environment in March 2010, and "Concerning Public Announcement of Electricity Business-Specific Actual Emissions Coefficients, Post-Adjustment Emissions Coefficients, etc., Fiscal 2010 (Notice)," announced by the Ministry of the Environment in July 2012.
Reference URLs: http://ghg-santeikohyo.env.go.jp/files/calc/itiran.pdf
http://ghg-santeikohyo.env.go.jp/files/calc/list_ef_eps.pdf

3 (1) Increased year on year because, for the calculation, industrial waste from SEGA's distribution centers was added to industrial waste from offices.
(2) The industrial waste from amusement centers is a combined total, because many amusement centers discharge waste in conjunction with offices (sales bases in each region).
(3) The industrial waste volume of manufacturing bases rose year on year because the number of pachislot and pachinko machines disposed of increased.
(4) Increased year on year because, for the calculation, industrial waste from Sammy's distribution centers was added to industrial waste from manufacturing bases.

Examples of Environmental Preservation through Business Activities

SEGA Adopting Energy-Saving Products

We are developing and marketing energy-efficient amusement arcade machines by incorporating components that use less power.

Specifically, we are switching from cathode-ray tube (CRT) displays to energy-saving liquid crystal displays (LCDs), while for fluorescent lighting and lamps we are changing over to light-emitting diodes (LEDs) and adopting inverter technology. Furthermore, to lower environmental burden we are designing amusement arcade machines that realize energy-saving operation after purchase. For example, we have included separate switches for main power sources and lighting power sources. Thanks to such initiatives, an increasing number of our products enable significant energy savings compared with traditional products.

We intend to continue efforts to curb the amount of power that products consume when in use.

SEGA Recycling Amusement Arcade Machines

Dismantling an amusement arcade machine by hand

In the Amusement Center Operations segment, SEGA LOGISTICS SERVICE CO., LTD., which is responsible for the SEGA Group's logistics, recycles materials and components. The company invites intermediate industrial waste processors to distribution centers to disassemble collected end-of-life amusement arcade machines by hand and recycle all of the materials. We operate this recycling system of having waste processors come to our bases nationwide. As well as reducing the cost and fuel consumption arising from transporting end-of-life machines and preventing illegal disposal, this system enables us to eliminate landfill waste and incineration waste completely.

SAMMY Advancing 3R Initiatives

A reused 15-inch LCD monitor

Having established its own recycling system covering products before, during, and after their service lives, Sammy is advancing 3R (reduce, reuse, and recycle) initiatives. For fiscal 2012, the company achieved a 97.76% recycle rate (excluding thermal recycling).

Design and Development Stage

We use resources effectively by limiting board types, enabling us to use the same boards for various products. Consequently, if a surplus of boards arises, we can use them for other products.

Manufacturing Stage

To curb waste, we ask component suppliers to reduce packaging. Also, we recycle waste from production processes or dispose of it appropriately.

Disposal Stage

As well as accepting trade-ins of our pachislot and pachinko machines at the end of their service lives, we use an industry association collection system to recycle machines appropriately.

Reusing Resources with the Group

We are saving resources within the Group. For example, through an arrangement between SEGA's and Sammy's procurement departments, we reuse some 15-inch LCD monitors from Sammy's pachinko machines in SEGA's amusement arcade machines. Going forward, we intend to increase such reuse within the Group by establishing common components, such as LEDs, that will enable joint purchasing.

Corporate Governance

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 corporate auditors.

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.

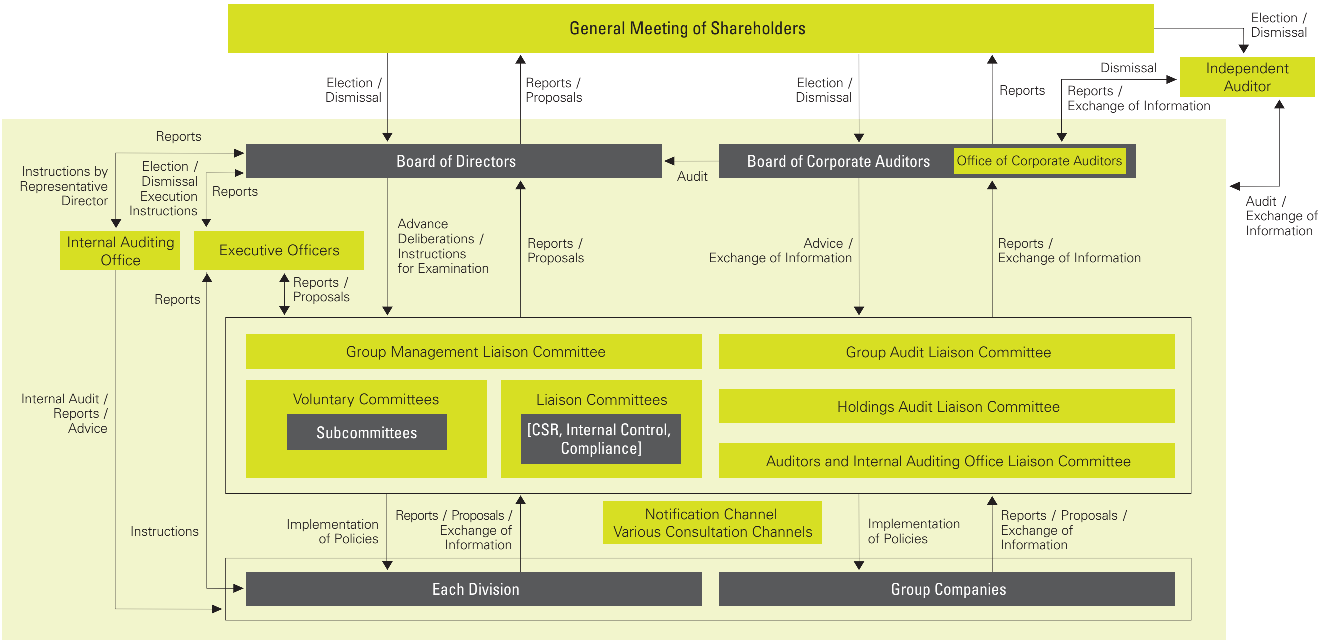
Increasing Transparency

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 development 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, and the Group Code of Conduct, which are the foundation for our CSR activities. In addition, we also 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.

Corporate Governance System

As of June 30, 2012



Operational and Management Structure

The SEGA SAMMY Group has adopted a corporate auditor system to enable directors to make prompt, optimal decisions amid volatile business conditions based on their wealth of expertise and experience in relation to 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.

Corporate Governance System at a Glance	
Format	Corporate auditor system
Adoption of executive officer system	Yes
Directors	7
Of whom outside directors	2
Term of directors	1 year
Corporate auditors	4
Of whom outside corporate auditors	3
Board of Directors convened	16 times
Outside directors' attendance	100%
Outside corporate auditors' attendance	98%
Independent auditor	KPMG AZSA LLC
Term of auditing contracts	Renewed annually

Main Decisions in Fiscal 2012

- Made TAIYO ELEC Co., Ltd., a wholly owned subsidiary of Sammy Corporation
- Acquired treasury stock (5 million shares, ¥8.3 billion)
- Made Phoenix Resort Co., Ltd., a wholly owned subsidiary
- Restructured SEGA's Consumer Business

Systems for Assuring Objective Business Management

The Company has seven directors, of whom two are outside directors, as well as four corporate auditors, of whom three are outside corporate auditors. 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 corporate auditors with extensive expertise and experience in a wide range of areas because we appreciate the important role outside corporate auditors perform in realizing corporate governance by heightening the impartiality and independence of the auditing system. Also, we aim to ensure the soundness of business management through auditing from an objective standpoint. At the various meetings that they attend, outside directors and outside corporate auditors provide guidance and advice based on their abundant experience and highly specialized knowledge.

Regarding the independence of outside directors and outside corporate auditors, we deem that persons satisfying the requirements of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange (the "Listing Regulations") do not have conflicts of interest with general shareholders. Therefore, we appoint persons that are not subject to additional disclosure requirements pursuant to rule 211, paragraph 4, item 5 and rule 226, paragraph 4, item 5 of the Listing Regulations. Moreover, we determine items that are "significant" or "significant amounts" with reference to the publicly announced standard model for appointing independent directors. The Company has adopted a policy of appointing all outside directors and outside corporate auditors that are not subject to the above-mentioned additional disclosure requirements as independent directors. Accordingly, we have designated all currently serving outside directors and outside corporate auditors as independent directors.

To support the activities of outside directors, we have established secretariats for executive meetings to facilitate appropriate information distribution and ensure that outside directors have sufficient time to examine the details of proposals and other information related to the meetings they attend.

To support the work of outside corporate auditors, we have established the Office of Corporate Auditors, which is under the direct control of the Board of Corporate Auditors. In accordance with corporate auditors' orders, the office's personnel assist corporate auditors in their duties. Furthermore, to ensure the independence of the office from the Board of Directors, the Board of Corporate Auditors must approve the appointment, transfer, and evaluation of the office's personnel. Furthermore, we have secretariats for executive meetings, the Office of Corporate Auditors, the Internal Auditing Office, and the

Outside directors	Reason for appointment	Fiscal 2012 Board of Directors' meetings attendance
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.	Attended 16 of 16 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Takeshi Natsuno	To reflect Mr. Natsuno's wealth of experience and extensive expertise as a business executive in the Company's business management.	Attended 16 of 16 meetings (including 11 of 11 ordinary Board of Directors' meetings)

Outside corporate auditors	Reason for appointment	Fiscal 2012 Board of Directors' meetings attendance
Tomio Kazashi	To reflect Mr. Kazashi's wealth of experience and expertise in business and as a corporate auditor in the Company's auditing.	Attended 16 of 16 meetings (including 11 of 11 ordinary Board of Directors' meetings)
Toshio Hirakawa	To reflect Mr. Hirakawa's wealth of experience and expertise in business and as a corporate auditor in the Company's auditing.	Attended 16 of 16 meetings (including 11 of 11 ordinary Board of Directors' meetings)
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.	Attended 15 of 16 meetings (including 10 of 11 ordinary Board of Directors' meetings)

Internal Control Department to facilitate appropriate information distribution and to ensure that outside corporate auditors have sufficient time to examine the details of proposals and other information related to the meetings they attend.

Compensation of the Independent Auditor

The independent auditor KPMG AZSA LLC audits the accounts of the Company. The designated limited liability partners of KPMG AZSA are the certified public accountants Satoshi Nakaizumi, Michitaka Shishido, and Hiroyuki Nakamura. Furthermore, the Company has not concluded any contracts with this independent auditor for the performance of non-auditing services. Compensation of the independent auditor for fiscal 2012 is as shown on the right.

	Compensation for audit and attestation	Compensation other than for audit and attestation
Company	¥109 million	¥0 million
Consolidated subsidiaries	¥182 million	¥8 million

Compensation of Directors

Consultations among the representative directors 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. Furthermore, consultations among corporate auditors determine the compensation of each corporate auditor based on consideration of their responsibilities and the limit the Ordinary General Meeting of Shareholders has approved for compensation.

Compensation of directors and corporate auditors for fiscal 2012 is as follows.

Position		Directors / corporate auditors	Total compensation (¥ million)	Total compensation by type (¥ million)		
				Basic compensation	Bonus	Stock options
Directors	Internal	4	547	371	150	25
	Outside	2	31	31	—	—
Corporate auditors	Internal	—	—	—	—	—
	Outside	2	24	21	3	—

Notes:
1 The Ordinary General Meeting of Shareholders convened in June 2006 approved a compensation limit of ¥600 million for directors. Furthermore, the Ordinary General Meeting of Shareholders convened in June 2012 approved a compensation limit of ¥1,000 million for directors.
2 The Ordinary General Meetings of Shareholders of SEGA CORPORATION and Sammy Corporation convened in June 2004 approved a compensation limit of ¥50 million for corporate auditors.

The compensation paid to directors who received ¥100 million or more in consolidated compensation for fiscal 2012 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	617	The Company	240	120	7
			Sammy	—	250	—
Keishi Nakayama	Director	201	The Company	78	30	3
			Sammy	—	90	—
Hisao Oguchi	Director	127	The Company	53	—	3
			Sammy	—	70	—

Enhancing Operational Implementation, Auditing, and Oversight through Collaboration among Boards and Committees

In addition to the Board of Directors and the Board of Corporate Auditors, the Company has established the following committees to coordinate efforts on a Groupwide basis and enable the enhancement of operational implementation, auditing, and oversight.

Board of Directors

Comprising seven 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.

Board of Corporate Auditors

Meeting once a month and holding extraordinary sessions as required and comprising four corporate auditors, the Board of Corporate Auditors thoroughly examines and analyzes specific issues.

Group Management Liaison Committee

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

Holdings Audit Liaison Committee

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

Group Audit Liaison Committee

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

Auditors and Internal Auditing Office Liaison Committee

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

Voluntary Committees

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

Liaison Committees

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

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 2012. 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 the Company Act, SEGA SAMMY HOLDINGS has determined a basic policy on the establishment of internal control systems and is developing systems accordingly.

IR Activities

The Company strives to ensure fair and timely disclosures to shareholders and investors. Accordingly, it holds briefings for institutional investors and analysts on full-year and interim financial results and makes the briefing information available on the Internet. To provide briefings on first-quarter and third-quarter financial results, the Company holds telephone conferences. In fiscal 2012, for overseas investors we held roadshows in Asia in July 2011 and in Europe in November 2011. Furthermore, the Company's representative directors and IR managers participated in conferences that securities companies organize.

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

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

Main IR Activities in Fiscal 2012

Financial results briefings	2
Quarterly financial results briefings (telephone conferences)	2
Small-scale meetings	1
One-on-one meetings (domestic investors)	327
One-on-one meetings (overseas investors)	110
Overseas roadshows	2 (Asia 1, Europe 1)
Conferences	4

Risks Related to Growth Strategies and Countermeasures

Below are the significant risks that we have identified as concomitant to our growth strategies for each business segment and business area. Mindful of these risks, we incorporate countermeasures into our growth strategies. The following only includes risks that are closely related to our business management strategies. For other business risks that could affect the Group's business results, please see page 76 in the "Operational Risks" section of our annual securities report.

Groupwide

Dependence on the Pachislot and Pachinko Machine Business

The Group depends on the Pachislot and Pachinko Machine Business segment for more than 70% of its operating income. This segment's market is effectively limited to Japan. Also, changes in the regulatory environment could significantly affect the segment's earnings.

Strategic Countermeasures

To acquire stable leading shares of the pachislot and pachinko machine market, we have set out providing even better products suited to each age group as a priority strategy. Also, from a medium-term viewpoint, we are converting our earnings structure by strengthening operations outside the Pachislot and Pachinko Machine Business segment centered on SEGA, which is not limited to the Japan market and targets players in a wide range of age groups.

Business Expansion through M&As

To strengthen existing businesses and enter new business areas efficiently, the Group explores mergers and acquisitions (M&As) in Japan and overseas. However, statutory laws and regulations beyond the Group's control, changes in the conditions the Group faces, or an inability to generate synergies initially anticipated could affect the Group's earnings.

The Group has entered the resort complex business by acquiring the shares of Phoenix Resort Co., Ltd. Depending on the progress of this business, it may require additional investment. Also, the Group's operational management competence could affect earnings.

Strategic Countermeasures

The Group only decides to invest in projects in new areas when it can exploit expertise and assets accumulated in the entertainment business to create synergies with its existing businesses and thereby heighten its corporate value while curbing investment. When considering additional investment, we will assess return on investment carefully and continue to avoid creating a bloated balance sheet.

Pachislot and Pachinko Machine Business

Changes in Market Conditions Due to Changes and Laws and Regulations

Revisions to statutory laws and regulations can significantly affect the pachislot and pachinko machine markets. Most recently, the July 2004 revision of regulations pertaining to the Entertainment Establishments Control Law resulted in 1. departure from the market of less frequent players; 2. deterioration of the financial positions of pachinko halls; 3. cyclical upturns and downturns in sales of pachislot and pachinko machines; and 4. emergence of an oligopoly comprising certain major brands and manufacturers.

Strategic Countermeasures

Based on a medium-to-long-term viewpoint, to address 1. and 2. the Group is expanding its base of players by developing products that offer innovative gameplay that appeals to diverse players and stepping up sales of pachinko boards, which mitigate the investment burden of pachinko halls. Meanwhile, in response to 3. and 4. we are building a product portfolio that boasts powerful pachislot and pachinko machine brands by bolstering product appeal in the pachinko machine business, which still has comparatively large scope for growing its market share.

Amusement Machine Sales Business

Deterioration of the Financial Positions of Amusement Center Operators

The financial positions of amusement center operators affects this business significantly. Recent years have seen a growing need for measures that help improve investment efficiency for amusement centers operators—who are facing challenging conditions due to slumping consumer spending—and thereby revitalize the market.

Strategic Countermeasures

We are endeavoring to revitalize the market by introducing a revenue-sharing business model that increases investment efficiency for amusement center operators while securing long-term stable earnings for the Group; expanding sales of CVT kits, which help curb investment for amusement center operators; and introducing new types of games. Furthermore, we are entering overseas markets that offer growth potential.

Amusement Center Operations

Market Contraction Due to Slumping Consumer Spending

This business is susceptible to consumer spending trends, and its ability to introduce amusement arcade machines that appeal to diverse players could affect the Group's business results. Furthermore, the Amusement Center Operations segment is subject to regulation based on the Entertainment Establishments Control Law and other related statutory laws and regulations, including cabinet orders and ministerial ordinances. The Group complies with this law and related statutory laws and regulations. However, the enactment of new laws or revisions to this law and related statutory laws and regulations could affect the Group's business results.

Strategic Countermeasures

In Japan, we have been closing or selling amusement centers with inadequate potential or profitability and have completed the establishment of business lines and an earnings structure befitting market scale. Overseas, we have also finished selling amusement centers with inadequate profitability. At the same time, we are opening up fresh markets by developing new-concept amusement centers. Overseas, we are capitalizing on our expertise to develop the licensing business, which does not involve owning and operating amusement centers.

Consumer Business

Contraction of the Packaged Game Software Market on a Global Scale and a Rapid Shift toward SNS and Smartphone Platforms

In Japan and overseas, the traditional packaged game software market is shrinking due to the rapid expansion of the content market for SNS and smartphones centered on casual games. Because the competitive conditions and structure of the new markets for such platforms differs significantly from those of the packaged game software market, we need to ensure that our development expenses, development speed, and marketing strategies reflect changes in conditions.

Strategic Countermeasures

We are aiming to prepare and implement strategies rapidly, centered on SEGA Networks, Ltd., which we established by divesting the main capabilities of SEGA's network business. Furthermore, rather than the casual game market, which due to a low entry barrier entails competition with countless companies worldwide, we are developing this business with a focus on relatively high-end content differentiated by SEGA's signature graphics and imaginary worlds. Moreover, we are mitigating risk by controlling development expenses based on careful analysis to ensure the returns justify investment.

Compliance

Based on the Group Code of Conduct, 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.

In fiscal 2012, we began Compliance Advancement Initiatives to prepare and implement initiatives on a Groupwide basis. These initiatives seek to inform employees about the whistleblower system to ensure operational duties are performed appropriately and to strengthen the compliance system for individual statutory laws and regulations.

Furthermore, with a view to assisting the effective advancement of compliance, SEGA conducted a compliance awareness survey targeting directors and other employees in relation to compliance awareness, operational problems, and workplace environments. Based on analysis of the results of this survey, we will further bolster compliance systems and conduct continuous monitoring.

Rigorously Informing Employees about the Group Code of Conduct

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 consistent with the spirit of this charter in the Group Code of Conduct.

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 on the Company’s intranet.

Nurturing and Spreading Compliance Awareness

To nurture and spread compliance awareness, the Group holds compliance seminars for Group companies as needed and all employees can view a compliance handbook on the intranet, which provides specific, readily understandable concrete examples of situations employees may encounter in everyday duties. In particular, we are strengthening compliance with the Act Against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (Subcontractor Payment Act) by conducting periodic compliance audits. Moreover, legal affairs divisions educate and provide guidance on subcontractor-related issues to all divisions.

We will share instructive examples from Group companies with other Group companies to generate synergistic benefits and thereby maintain and enhance compliance.

Strengthening Compliance with Subcontractor Payment Act

The Group is strengthening compliance with the Subcontractor Payment Act by conducting periodic compliance audits. Moreover, legal affairs divisions educate and provide guidance on subcontractor-related issues to all divisions. Furthermore, to strengthen compliance, internal audit divisions instruct divisions to conduct self-monitoring continuously and share monitoring results with the internal audit, legal affairs, and internal control divisions.

Whistleblower System

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

With five years having passed since the establishment of this system, we continue to remind employees about it through the Company’s intranet, while also continuing to make revisions to it in order to make it even easier for employees to use.

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 polices for each Group company. At SEGA, the intellectual properties promotion committee comprises members from each division, who are tasked with educating and spreading awareness about intellectual properties. These activities aim to prevent the infringement of third-party intellectual property rights while ensuring appropriate management of the company’s intellectual property rights to protect and expand businesses. Furthermore, the SEGA SAMMY Group is implementing anti-counterfeit initiatives to protect and enhance the SEGA brand.

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

Directors, Corporate Auditors, and Executive Officers

As of June 20, 2012

Directors

Hajime Satomi

Chairman of the Board and Chief Executive Officer

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

Keishi Nakayama

Executive Vice President and Representative Director

1989	Entered into Sammy Industry Co., Ltd. (currently Sammy Corporation), as General Manager of the General Affairs Division
2004	Senior Managing Director of the Company
2005	Director of Sammy Corporation Director of Sammy NetWorks Co., Ltd. Director of SEGA TOYS CO., LTD. Executive Vice President and Director of the Company
2007	Executive Vice President and Representative Director of the Company (current position)
2008	President, Representative Director, and Chief Operating Officer of Sammy Corporation
2011	Director of Sammy NetWorks Co., Ltd. (current position)
2012	Vice Chairman, Representative Director, and Chief Executive Officer of Sammy Corporation (current position) Director of Phoenix Resort Co., Ltd. (current position)

Naoya Tsurumi

Director

1992	Joined Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2005	CEO of Sega Publishing Europe Ltd.
2006	CEO and President of Sega Holdings U.S.A., Inc. (current position) Chairman of Sega of America, Inc. Chairman of Sega Publishing America, Inc.
2008	Director of SEGA CORPORATION
2009	Managing Director of SEGA CORPORATION Chairman of Sega Europe Ltd.
2010	CEO of Sega Amusements Europe Ltd.
2012	President, Representative Director, and Chief Operating Officer of SEGA CORPORATION (current position) CEO and President of Sega Holdings Europe Ltd. (current position) Director of the Company (current position)

Hisao Oguchi

Director and Chief Creative Officer (CCO)

1984	Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2003	President and Representative Director of SEGA CORPORATION
2004	President, Representative Director, and Chief Operating Officer of SEGA CORPORATION 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 SEGA CORPORATION Director of SEGA CORPORATION, Director of Sammy Corporation, Director and Chief Creative Officer of SEGA CORPORATION Director and Chief Creative Officer of the Company (current position) Director and Chief Creative Officer of Sammy Corporation
2009	Senior Managing Director of Sammy Corporation
2011	Representative Director and Senior Managing Director of Sammy Corporation
2012	Executive Vice President and Representative Director of Sammy Corporation (current position)

Haruki Satomi

Director

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

* As of July 2, 2012

Messages from Outside Directors

Yuji Iwanaga[1]
Outside Director

1981 Registered with The Japan Federation of Bar Associations (current position)
1984 Partner of Lillick McHose and Charles Law Office (currently Pilsbury Winthrop Shaw Pittman LLP)
Registered with the State Bar of California (current position)
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)

Due in part to numerous scandals involving major corporations, recent years have seen a marked increase in society's concern about the effectiveness of corporate governance, in other words concern about whether companies have established and operate appropriate governance systems.

Comprising directors that the general meeting of shareholders has appointed, the board of directors is responsible for the business management of a company. Given that they are unable to become directly involved in the business management of companies, shareholders naturally appreciate the need for appropriate corporate governance and systems that instill confidence. Looking ahead, I believe corporate governance is set to become even more important. However, I do not think that there is a single definitive answer to the question of which type of corporate governance is best. This is because operational structures, management strategies, and business conditions differ depending on the company or the industry.

At meetings of SEGA SAMMY HOLDINGS' Board of Directors, exchanges of opinion are lively, and business management decisions reflect the expertise of outside directors and outside corporate auditors. While there is no doubt that the importance of corporate governance will increase, I believe that careful discussion focused on further strengthening the systems that enable corporate governance is necessary.

I think the role expected of me as an outside director is to state frank opinions at meetings of the Board of Directors from a viewpoint different from that of other directors. Mindful of this, I will do my utmost to contribute to the Company's corporate value based on experience garnered as an international attorney and through involvement with business management in the food industry and the electronics industry.

Takeshi Natsuno[1]
Outside Director

2005 Senior Vice President , Managing Director, Multimedia Services Department of NTT DoCoMo, Inc.
2008 Guest Professor, Media and Governance of Keio University (current position)
Outside Director of the Company (current position)
Director of PIA CORPORATION (current position)
Outside Director of transcosmos inc. (current position)
Director of Livewire Inc. (current position)
Director of NTT Resonant Inc. (current position)
Director of SBI Holdings, Inc. (current position)
Director of DWANGO Co., Ltd. (current position)
2009 Outside Director of DLE Inc. (current position)
Outside Director of GREE, Inc. (current position)
2010 Outside Director of bitWallet, Inc. (current position)
Director of U-NEXT, Inc. (current position)
2011 Outside Director of CUUSOO SYSTEM CO., LTD. (current position)
Director of Ecohai Co., Ltd. (current position)
2012 Director of SEGA Networks, Ltd. (current position)*

* As of July 2, 2012

Faced with growing uncertainty due to climate change, natural disasters, and unpredictable economic phenomena, society is looking to listed companies to play an increasingly significant role. As well as contributions through economic activities, society expects companies, as members of society, to implement activities that set a good example. In other words, the key requirements are that companies continue to enhance corporate value by continuing to generate earnings through economic activities and that these economic activities are appropriate for the company as a good corporate citizen and a member of society. In this sense, not only developing their businesses but also building and operating appropriate corporate governance systems is vital for companies.

Particularly high expectations are being focused on the entertainment industry, in which the Group operates, as a sector that can help drive the Japanese economy out of stagnation. As one of the corporate groups shouldering this weighty responsibility, the Group should be proud but must also redouble efforts to enhance corporate value and corporate ethics.

As an outside director, I am committed to benefiting the Group as well as distributing information outside the Group with a view to heightening the SEGA SAMMY Group's standing in society even further.

Auditors

Tomio Kazashi[2]

Standing Corporate Auditor

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

Toshio Hirakawa[2]

Corporate Auditor

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

Hisashi Miyazaki

Corporate Auditor

1984	Entered into Sega Enterprises, Ltd. (currently SEGA CORPORATION)
2001	General Manager of Accounting Dept. of SEGA CORPORATION
2006	General Manager of Finance Dept. of SEGA CORPORATION
2007	Standing Corporate Auditor of SEGA CORPORATION (current position) Corporate Auditor of the Company (current position)

Mineo Enomoto[2]

Corporate Auditor

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

[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.

Executive Officers

Hideo Yoshizawa
Senior Executive Officer

Koichi Fukazawa
Senior Executive Officer

Tetsushi Ikeda
Executive Officer

Seiji Shintani
Executive Officer

Koichiro Ueda
Executive Officer

Takatoshi Akiba
Executive Officer

Kenichiro Hori
Executive Officer

FINANCIALS

Management's Discussion and Analysis

Summary of Fiscal 2012 (from April 1, 2011, to March 31, 2012)

- Net sales down 0.3% year on year, to ¥395.5 billion
- Operating income down 15.1% year on year, to ¥58.3 billion
- Net income down 47.4% year on year, to ¥21.8 billion
- Recognized loss accompanying restructuring of the Consumer Business

Fiscal 2012 Business Results Analysis

Statement of Operations Analysis

Net Sales

Net sales for fiscal 2012, ended March 31, 2012, edged down 0.3%, or ¥1.2 billion, year on year, to ¥395.5 billion. For net sales by business segment, the Company recorded year-on-year increases of 0.1%, or ¥0.1 billion, in the Pachislot and Pachinko Machine Business segment and 5.7%, or ¥2.6 billion, in the Amusement Machine Sales Business segment as well as year-on-year decreases of 2.4%, or ¥1.0 billion, in the Amusement Center Operations segment and 3.6%, or ¥3.2 billion, in the Consumer Business segment. Overseas sales were down 9.7%, or ¥4.2 billion, year on year, to ¥40.0 billion, due to a decrease in sales of packaged game software overseas and the sale of seven amusement centers in North America. Overseas sales accounted for 10.1% of net sales.

Cost of Sales

Cost of sales rose 1.4%, or ¥3.1 billion, year on year, to ¥233.8 billion, because the charging to cost of valuation losses on work in process for certain titles in the Consumer Business segment counteracted a reduction of component procurement cost and cost reduction measures through the reuse of components in the Pachislot and Pachinko Machine Business segment.

The cost of sales ratio deteriorated 1.0 percentage point year on year, to 59.1%. Gross profit declined 2.6%, or ¥4.3 billion, year on year, to ¥161.6 billion.

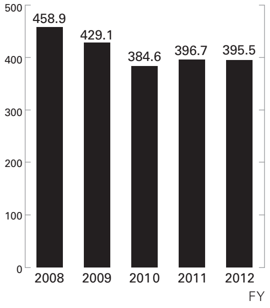
SG&A Expenses

SG&A expenses were up 6.1%, or ¥5.9 billion, year on year, to ¥103.2 billion, reflecting higher advertising expenses in the Consumer Business segment accompanying the sale of mainstay titles and higher R&D expenses in the Pachislot and Pachinko Machine Business segment as a result of efforts to strengthen development capabilities. SG&A expenses as a percentage of net sales increased 1.6 percentage points year on year, to 26.1%.

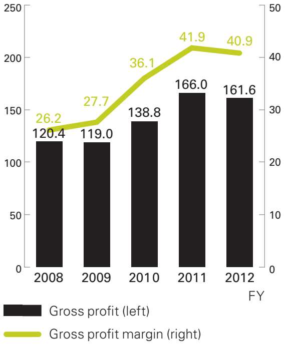
Operating Income

Operating income was down 15.1%, or ¥10.3 billion, to ¥58.3 billion, because favorable sales of high-margin mainstay pachislot machine titles in the Pachislot and Pachinko Machine Business segment were unable to compensate for lackluster packaged game software sales and valuation losses on work in process for certain titles, accompanying the restructuring of businesses in North America and Europe in the Consumer Business segment, and an increase in amortization of goodwill as a result of making a listed subsidiary

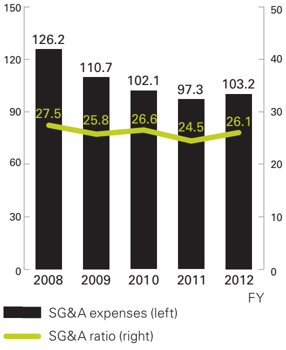
Net Sales



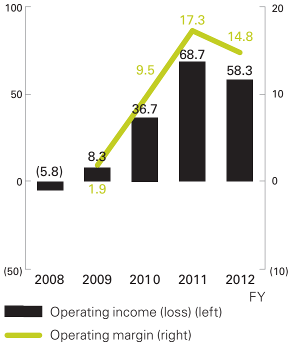
Gross Profit /
Gross Profit Margin



SG&A Expenses /
SG&A Ratio



Operating Income (Loss) /
Operating Margin



a wholly owned subsidiary. The operating margin decreased from the previous fiscal year's 17.3% to 14.8%.

Non-Operating Income (Expenses), Ordinary Income

Non-operating income rose 13.6%, or ¥0.2 billion, year on year, to ¥2.0 billion, due to an increase in dividends income. Non-operating expenses were down 6.6%, or ¥0.1 billion, year on year, to ¥2.2 billion, because the absence of the previous fiscal year's loss on valuation of derivatives more than offset higher commission fees.

As a result, ordinary income decreased 14.6%, or ¥9.9 billion, year on year, to ¥58.1 billion.

Extraordinary Gain and Extraordinary Loss

Extraordinary gain was ¥2.1 billion, reflecting gain on negative goodwill accompanying the inclusion of Phoenix Resort Co., Ltd. and TAIYO ELEC Co., Ltd., as subsidiaries. Meanwhile, extraordinary loss was ¥18.5 billion, which comprised restructuring loss of ¥6.3 billion, incurred as a result of the disposal of inventory and personnel reductions accompanying restructuring of the Consumer Business segment; settlement payment for patent licensing of ¥3.5 billion; amortization of goodwill of ¥3.3 billion; and impairment loss on assets for business use and assets for leasing of ¥3.3 billion.

Extraordinary Loss

Major losses / expenses	Millions of yen
Restructuring loss	6,308
Settlement payment for patent licensing	3,500
Amortization of goodwill	3,363
Impairment loss	3,341
Others	2,065
Total	18,577

Income Taxes and Net Income

Income taxes rose 54.1%, or ¥7.2 billion, year on year, to ¥20.5 billion, reflecting the previous fiscal year's temporary decrease in tax expenses as a result of receiving approval to adopt a consolidated tax return system. Net income after minority interests decreased 47.4%, or ¥19.6 billion, year on year, to ¥21.8 billion.

Net income per share of common stock was ¥86.73, compared with ¥163.19 for the previous fiscal year. Full-year cash dividends per share were ¥40.00, unchanged from those of the previous fiscal year. The consolidated dividend payout ratio was 46.1%, compared with 24.5% for the previous fiscal year.

Capital Expenditures and Depreciation and Amortization

Capital expenditures were up 83.6%, or ¥16.4 billion, from the previous fiscal year's ¥19.6 billion, to ¥36.1 billion, due to the Pachislot and Pachinko Machine Business segment's commencement of construction of a new plant and distribution center and the Consumer Business segment's higher investment in software assets.

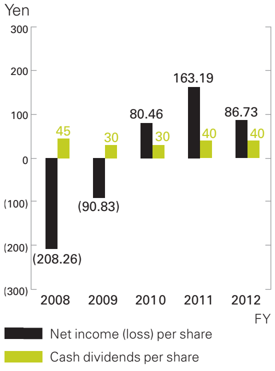
Depreciation and amortization rose 1.3%, or ¥0.2 billion, from the previous fiscal year's ¥15.9 billion, to ¥16.1 billion, due to a rise in the depreciation of software assets in the Consumer Business segment.

R&D Expenses, Content Production Expenses

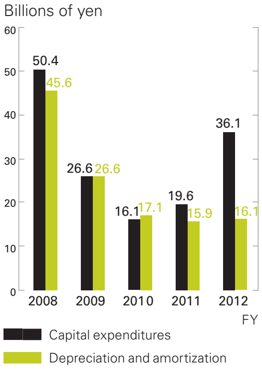
R&D expenses and content production expenses, which are included in SG&A expenses and cost of sales, increased 29.8%, or ¥12.2 billion, year on year, to ¥53.3 billion, which was primarily attributable to valuation losses on work in process for certein titles under development in the Consumer Business segment.

R&D expenses as a percentage of net sales was 13.5%, compared with 10.4% for the previous fiscal year.

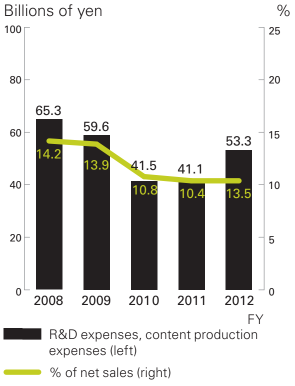
Net Income (Loss) per Share / Cash Dividends per Share



Capital Expenditures / Depreciation and Amortization



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



Major Expenses

Billions of yen

	2011	2012	% Change
R&D expenses, content production expenses	41.1	53.3	+29.8%
Capital expenditures	19.6	36.1	+83.6%
Depreciation and amortization	15.9	16.1	+1.3%
Advertising expenses	15.1	17.2	+14.0%

(Reference) Effect of Comprehensive Income

Comprehensive Income

Billions of yen

	2012	
Net income	21.8	
Minority interests in income	0.6	
Income before minority interests	22.4	A
Other comprehensive income		
Valuation difference on available-for-sale securities	7.5	
Deferred gains or losses on hedges	0	
Revaluation reserve for land	0.1	
Foreign currency translation adjustment	(0.4)	
Share of other comprehensive income of associates accounted for using equity method	0.005	
Total other comprehensive income	7.2	B
Comprehensive income	29.6	A + B Comprehensive income ¥7.8 billion more than net income

Business Segment Analysis

Pachislot and Pachinko Machine Business

The Pachislot and Pachinko Machine Business segment posted net sales of ¥212.1 billion, approximately unchanged year on year.

In the pachislot machine business, although unit sales edged down because it postponed the marketing of certain titles until the current fiscal year, sales of mainstay titles underpinned a 9.9% increase in net sales. Amid market sluggishness due to a shift in demand toward pachislot machines, the pachinko machine business saw unit sales decline year on year, leading to a 10.6% decrease in net sales.

However, operating income was up 10.5%, or ¥6.7 billion, year on year, to ¥71.0 billion, thanks to cost reduction measures through the reuse of components and favorable sales of high-margin mainstay pachislot machine titles. The operating margin increased from the previous fiscal year's 30.3% to 33.5%.

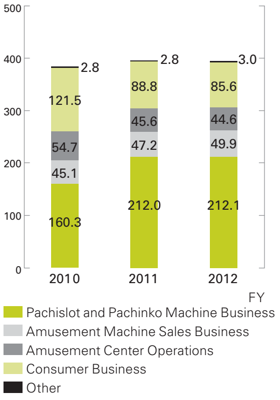
Amusement Machine Sales Business

The Amusement Machine Sales Business segment posted year-on-year increases of 5.7%, or ¥2.6 billion, in net sales, to ¥49.9 billion, and 1.3%, or ¥98 million, in operating income, to ¥7.4 billion. This was attributable to solid sales of mainstay titles, sales of cards and other consumables and favorable utilization rates of revenue-sharing titles, which led to steady revenues. The operating margin was 14.9%, compared with 15.5% for the previous fiscal year.

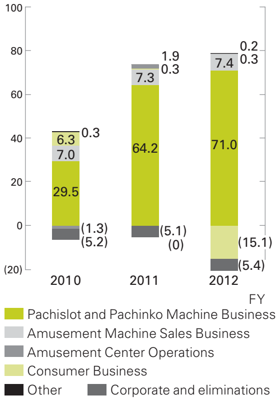
Amusement Center Operations

Despite a 2.4%, or ¥1.0 billion, year-on-year decrease in net sales, to ¥44.6 billion, the Amusement Center Operations segment grew operating income 3.8%, or ¥13 million, year on year, to ¥0.3 billion. Through measures to date aimed at rightsizing the number of amusement centers and strengthening the operational management capabilities of existing amusement centers, SEGA's existing domestic amusement centers achieved a 0.5% rise in net sales.

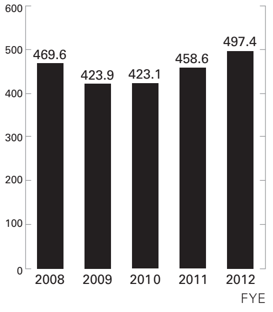
Net Sales by Segment



Operating Income (Loss) by Segment



Total Assets



Consumer Business

The Consumer Business segment recorded a decline in net sales of 3.6%, or ¥3.2 billion, year on year, to ¥85.6 billion. Mainly due to lackluster packaged game software sales overseas and expenses accompanying restructuring, this business segment recognized an operating loss of ¥15.1 billion, compared with the previous fiscal year's operating income of ¥1.9 billion.

Overall, the performance of the toy business was weak, while the animation business generated steady license revenues mainly from mainstay titles.

Balance Sheet Analysis

Assets

Total assets at March 31, 2012, the fiscal year-end, stood at ¥497.4 billion, up ¥38.8 billion from the previous fiscal year-end.

Total current assets at fiscal year-end amounted to ¥327.6 billion, up ¥12.0 billion from the previous fiscal year-end. This mainly resulted from increases in notes and accounts receivable–trade and negotiable certificates of deposit, which counteracted a decrease in cash and deposits due to income taxes paid.

Total noncurrent assets at fiscal year-end stood at ¥169.8 billion, up ¥26.7 billion from the previous fiscal year-end. This stemmed from a ¥21.0 billion rise in property, plant and equipment—which resulted from beginning construction of a new plant, scheduled for completion during the current fiscal year, and making Phoenix Resort Co., Ltd. a wholly owned subsidiary—and an ¥8.5 billion increase in investment securities, reflecting a rise in the market value of securities.

Liabilities

Total current liabilities at fiscal year-end stood at ¥132.3 billion, up ¥23.3 billion from the previous fiscal year-end. This was principally related to higher notes and accounts payable–trade and the transfer of bonds payable from noncurrent liabilities to the current portion of bonds. A current ratio of 247.5% reflected the Company's continued high level of liquidity.

Total noncurrent liabilities at fiscal year-end totaled ¥68.6 billion, a rise of ¥4.5 billion from the previous fiscal year-end.

Net Assets

Total net assets stood at ¥296.3 billion at fiscal year-end, up ¥10.9 billion from the previous fiscal year-end. This was primarily due to contributions to total shareholders' equity resulting from net income of ¥21.8 billion and a rise in valuation difference on available-for-sale securities, which more than offset the negative effect on total shareholders' equity of cash dividends paid and decrease in minority interests, accompanying the inclusion of TAIYO ELEC Co., Ltd., as a wholly owned subsidiary.

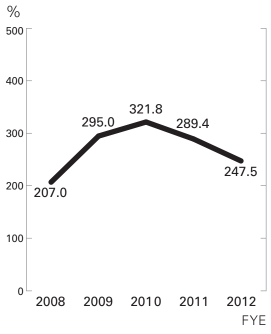
Furthermore, the equity ratio at fiscal year-end was 58.9%, compared with 60.0% at the previous fiscal year-end.

Cash Flows Analysis

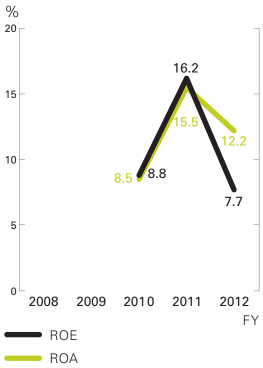
Net Cash Provided by Operating Activities

Net cash provided by operating activities decreased ¥49.6 billion year on year, to ¥38.0 billion. This was mainly attributable to a ¥16.6 billion increase in notes and accounts receivable-trade and income taxes paid of ¥40.3 billion, counteracting income before income taxes and minority interests of ¥42.9 billion, depreciation and amortization of ¥16.1 billion, and a ¥22.5 billion increase in notes and accounts payable-trade.

Current Ratio

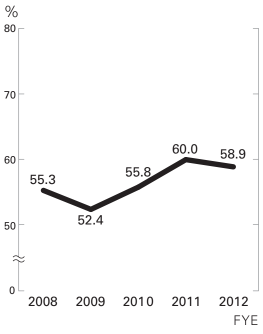


ROE / ROA*



*ROA = Ordinary income ÷ Total assets

Equity Ratio



Net Cash Used in Investing Activities

Net cash used in investing activities increased from the previous fiscal year's ¥29.5 billion to ¥59.0 billion. This mainly stemmed from purchase of short-term investment securities of ¥44.1 billion and purchase of property, plant and equipment of ¥24.0 billion.

Net Cash Provided by Financing Activities

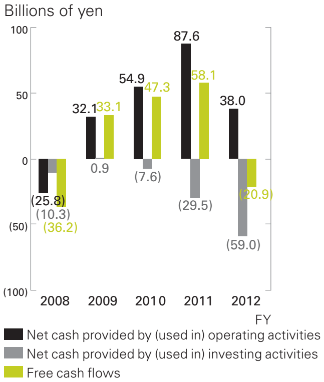
Net cash provided by financing activities was ¥0.9 billion, compared with the previous fiscal year's net cash used in financing activities of ¥57.1 billion. This was primarily the result of proceeds from long-term loans payable of ¥34.4 billion, which offset cash dividends paid, including cash dividends paid to minority shareholders, of ¥10.2 billion; purchase of treasury stock of ¥8.4 billion; and redemption of bonds of ¥13.6 billion.

As a result of the above, cash and cash equivalents at end of year amounted to ¥146.5 billion, down ¥19.3 billion from the previous fiscal year-end.

Fiscal 2013 Forecast (announced on May 11, 2012)

For fiscal 2013, ending March 31, 2013, we expect an 18.8% year-on-year rise in net sales, to ¥470 billion, as a result of higher unit sales in the Pachislot and Pachinko Machine Business segment. Also, we anticipate year-on-year increases of 13.0% in operating income, to ¥66 billion, mainly due to restructuring of the Consumer Business segment in fiscal 2012 and lower cost of sales and operating expenses resulting from rationalization of this business segment's organization, and 83.3% in net income, to ¥40 billion, reflecting the absence of the extraordinary loss recognized for fiscal 2012.

Cash Flows



Operational Risks

The SEGA SAMMY Group identifies significant risks within and outside its business management and reflects them in its implementation of operations and takes measures to reduce losses of management resources and prevent recurrence. Risks that could affect the performance or operations of the Group are shown below. Furthermore, the actualization of risks to an extent beyond that envisioned by the Group, including the actualization of risks other than those shown below, could affect the Group's business results significantly. In addition, forward-looking statements in the following text are the judgments of the Group as of the date of filing its annual securities report.

(1) Statutory Regulations and Reliance on the Pachislot and Pachinko Machine Business

Among mainstay businesses, the Pachislot and Pachinko Machine Business segment accounts for the majority of the Group's net sales and operating income. Securing stable earnings from this segment is an important management task going forward. The products the Group sells must conform to technical specifications pursuant to the Public Safety Commission's "regulations for the verification of licenses, formats, and other aspects of pachislot and pachinko machines," which are based on the Entertainment Establishments Control Law of Japan and related laws and statutory regulations. Also, in July 2004, revisions were enacted to regulations pertaining to the Entertainment Establishments Control Law that mainly curbed gambling elements and sought to prevent the improper modification of pachislot and pachinko machines. In the Group, the Ethics Committee regulates expressions that could encourage excessive gambling or invite misunderstanding. In addition, the Group has established an office tasked with preventing improper manipulation of machines for profit, which continually collects market information with a view to building machines that are resistant to improper manipulation. However, major changes in statutory regulations could significantly affect the Group's business results.

(2) Changes in Market Conditions

Due to sluggish consumer spending, the Pachislot and Pachinko Machine Business segment is likely to continue facing challenging business conditions. Furthermore, amid intensifying competition among pachinko halls to attract customers, pachinko hall operators' purchasing of new-model machines is increasingly focusing on pachislot and pachinko machines with high popularity or appealing gameplay that is likely to attract customers. In response to this change in market conditions, the Group is concentrating efforts on developing a product lineup that features new types of gameplay and meets the needs of a wide range of players. Also, aiming for further unit sales growth over the medium-to-long term, the Group has begun building a new plant and distribution center to enable it to provide timely supplies in response to an expected rise in orders.

However, progress in the development of new-model machines, the outcomes of format examinations, the Group's ability to acquire official licenses, product malfunctions, and changes in user preferences could significantly affect the Group's business results.

The Amusement Machine Sales Business segment's market in Japan is stable. However, changes in consumer spending trends, market trends, or player needs could lead amusement center operators to curb capital investment, which could affect the Group's business results.

Mindful of the need to cater to such market changes through development that reflects player needs, in recent years the Group has been concentrating on the development of products that exploit networks to offer new types of gameplay. In addition, the Group intends to focus efforts on revitalizing the overall amusement center industry by continuing to offer a revenue-sharing business model that enhances investment efficiency for amusement center operators while providing the Group with long-term, stable revenues.

The Amusement Center Operations segment will continue strengthening the operational management capabilities of its amusement centers to improve earnings further. However, because this business segment is susceptible to consumer spending trends, its ability to introduce amusement arcade machines that meet diverse player needs could affect the Group's business results.

Furthermore, the Amusement Center Operations segment is subject to regulation based on the Entertainment Establishments Control Law and other related statutory laws and regulations, including cabinet orders and ministerial ordinances. The Group complies with this law and related statutory laws and regulations. However, the enactment of new laws or revisions to this law and related statutory laws and regulations could affect the Group's business results.

Although the Consumer Business segment's home video game software market is contracting, the Group is building systems that enable it to generate stable earnings even in these conditions. However, in such overseas markets as North America, Europe, and Asia, exchange rate fluctuations could affect the Group's business results. Moreover, the Group faces the risk of being affected by deterioration in overseas markets due to war, conflict, or terrorism.

Also, as new video game platforms emerge, the video game industry is undergoing a tectonic shift worldwide. These platforms include smartphones, which are attracting casual players and new players mainly to video game content that they can play casually, and social networking services (SNS), which offer social games that are seeing growing numbers of players. The Group will maximize earnings by concentrating the allocation of management resources on content businesses for these fast-growing SNS and smartphone platforms. At the same time, it will build appropriate operational structures that reflect changing conditions, accelerate business management decision-making, and cater to diverse customer needs.

However, statutory laws and regulations beyond the Group's control or changes in the conditions the Consumer Business segment faces could affect the Group's business results.

(3) Sales Opportunity Loss

Because the manufacturing of pachislot and pachinko machines takes a short time, the Group manufactures machines in response to order trends. However, generally short marketing periods result in product shipments concentrating on the initial period after product launches. Therefore, as a countermeasure, the Group is introducing common components, shortening component procurement lead times, and strengthening inventory control. However, the Group may not be able to procure sufficient raw materials for manufacturing in response to large order volumes in the initial period after product launches. Furthermore, the overlapping of the timing of the Group's product launches and competitors' launches of popular products could result in orders being below target, giving rise to surplus components. If it is unable to make effective use of these surplus components, the Group could incur losses on disposal of components.

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

Home video game software is susceptible to changes in seasonal demand, which focuses on such periods as the year-end shopping season. If the Group is unable to supply new products during such selling periods, surplus inventory could arise, and the Group could incur losses on disposal of inventory.

(4) Business Expansion through M&A

To strengthen existing businesses and enter new business areas efficiently, the Group explores mergers and acquisitions (M&As) in Japan and overseas. However, statutory laws and regulations beyond the Group's control, changes in the conditions the Group faces, or an inability to generate synergies initially anticipated could affect the Group's earnings.

(5) Adoption of Asset-Impairment Accounting

In fiscal 2006, the Company adopted asset-impairment accounting. Losses arising as a result of the adoption of asset-impairment accounting and an inability to realize adequate return on investment, due to the business results of respective businesses and future cash flows, could affect the Group's business results.

(6) Investment Securities

The Group holds investment securities to build business relationships and earn investment returns. The valuation of investment securities reflects stock market trends and the financial positions and business results of issuers. Therefore, the recognition of impairment due to falls in market prices or declines in effective prices could result in the recognition of a loss on valuation of investment securities, which could affect the Group's business results.

(7) Management of Personal Information

The Group holds personal information relating to the customers of its products and services through the operation of membership-based web sites. In light of the enactment of the Act on the Protection of Personal Information, the Group is strengthening the rigor of its personal information management. However, in the unlikely event of a leakage of personal information or its improper use, the resulting loss of trust or lawsuits filed against the Group could affect the Group's business results.

(8) Lawsuits

The Group implements measures to minimize the risk of claims for damages and other lawsuits being filed against the Group by strengthening its compliance systems and by exercising due diligence to avoid the infringement of the intellectual property of third parties. However, lawsuits could be filed against the Group claiming products the Group manufactures and sells infringe upon certain rights.

(9) Effect of Disasters

The Group includes crisis management rules in its company regulations, identifies its business activities' inherent risks, and takes measures to mitigate risks and prevent crises as a matter of normal practice. In addition, the Group has established and maintains systems to respond immediately to major crises. However, the interruption of manufacturing activities or sales activities as a result of greater-than-anticipated physical damage or casualties among personnel at the headquarters, operating bases, or manufacturing bases of Group companies or those of the Group's business partners due to large-scale natural disasters—such as earthquakes, fires, or floods—or terrorist attacks or changes in political conditions could affect the business results of the Group.

Consolidated Balance Sheets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2012	2011	2012
ASSETS			
Current assets			
Cash and deposits (Note 4(1))	¥127,721	¥149,006	$1,555,115
Notes and accounts receivable-trade	73,554	56,468	895,584
Allowance for doubtful accounts	(593)	(472)	(7,222)
Short-term investment securities	66,509	42,412	809,806
Merchandise and finished goods	6,677	5,889	81,300
Work in process	6,992	14,916	85,139
Raw materials and supplies	20,890	15,567	254,362
Income taxes receivable	6,740	5,861	82,071
Deferred tax assets	6,347	13,795	77,281
Other	12,805	12,136	155,911
Total current assets	327,645	315,580	3,989,350
Noncurrent assets			
Property, plant and equipment			
Buildings and structures (Note 4(1))	91,568	48,271	1,114,916
Accumulated depreciation	(69,197)	(28,150)	(842,532)
Buildings and structures, net	22,370	20,120	272,383
Amusement machines and facilities	49,024	49,869	596,914
Accumulated depreciation	(43,322)	(45,318)	(527,491)
Amusement machines and facilities,net	5,701	4,550	69,422
Land (Note 4(1))	29,457	24,643	358,664
Construction in progress	12,608	1,155	153,516
Other	55,935	41,889	681,056
Accumulated depreciation	(47,899)	(35,218)	(583,220)
Other, net	8,035	6,670	97,835
Total property, plant and equipment	78,173	57,140	951,823
Intangible assets			
Goodwill	10,790	15,559	131,386
Other	10,517	7,195	128,063
Total intangible assets	21,308	22,754	259,450
Investments and other assets			
Investment securities (Note 4(2))	52,725	44,193	641,974
Long-term loans receivable	291	306	3,551
Lease and guarantee deposits	13,057	12,396	158,982
Deferred tax assets	357	1,988	4,351
Other	5,131	5,646	62,485
Allowance for doubtful accounts	(1,239)	(1,382)	(15,091)
Total investments and other assets	70,324	63,149	856,253
Total noncurrent assets	169,805	143,044	2,067,526
Total assets	¥497,451	¥458,624	$6,056,877

See accompanying notes.

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2012	2011	**2012**
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade (Note 4(1))	¥ 59,917	¥ 37,513	$ 729,539
Short-term loans payable (Note 4(1) and (5))	10,194	2,857	124,120
Current portion of bonds	23,515	11,892	286,314
Income taxes payable	5,550	26,310	67,582
Accrued expenses (Note 4(1))	12,573	17,546	153,095
Provision for bonuses	2,745	2,373	33,431
Provision for directors' bonuses	917	956	11,172
Provision for point card certificates	—	143	—
Provision for business restructuring	4,737	—	57,687
Asset retirement obligations	199	185	2,426
Deferred tax liabilities	0	0	5
Other	12,046	9,247	146,679
Total current liabilities	132,398	109,028	1,612,057
Noncurrent liabilities			
Bonds payable	11,943	29,608	145,424
Long-term loans payable (Note 4(1) and (5))	25,052	5,316	305,030
Provision for retirement benefits	14,527	12,656	176,886
Provision for directors' retirement benefits	293	1,203	3,572
Deferred tax liabilities	3,498	2,782	42,591
Deferred tax liabilities for land revaluation	846	958	10,301
Asset retirement obligations	1,943	1,848	23,661
Other	10,572	9,760	128,729
Total noncurrent liabilities	68,676	64,135	836,197
Total liabilities	201,075	173,163	2,448,255
NET ASSETS			
Shareholders' equity			
Capital stock	29,953	29,953	364,703
Capital surplus	119,397	119,784	1,453,759
Retained earnings	175,173	164,669	2,132,880
Treasury stock	(26,067)	(25,329)	(317,396)
Total shareholders' equity	298,456	289,077	3,633,946
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	18,872	11,350	229,788
Deferred gains or losses on hedges	—	(0)	—
Revaluation reserve for land (Note 4(4))	(4,541)	(5,969)	(55,302)
Foreign currency translation adjustment	(19,681)	(19,264)	(239,633)
Total accumulated other comprehensive income	(5,350)	(13,883)	(65,147)
Subscription rights to shares	991	406	12,068
Minority interests	2,279	9,861	27,753
Total net assets	296,376	285,461	3,608,621
Total liabilities and net assets	¥497,451	¥458,624	$6,056,877

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2012	2011	2012
Net sales	¥395,502	¥396,732	$4,815,571
Cost of sales (Note 5(1)and(2))	233,839	230,677	2,847,185
Gross profit	161,663	166,055	1,968,386
Selling, general and administrative expenses (Note 5(2))	103,279	97,304	1,257,511
Operating income	58,384	68,750	710,874
Other income (expenses)			
Interest income	386	463	4,706
Dividends income	495	311	6,038
Equity in earnings of affiliates	—	35	—
Gain on investments in partnership	507	391	6,176
Income from operation of lease asset	88	92	1,074
Gain on valuation of derivatives	18	—	226
Interest expenses	(676)	(637)	(8,241)
Equity in losses of affiliates	(8)	—	(107)
Sales discounts	(33)	(198)	(403)
Commission fee	(481)	(399)	(5,867)
Provision of allowance for doubtful accounts	(2)	(32)	(30)
Loss on investments in partnership	(140)	(97)	(1,712)
Foreign exchange losses	(210)	(206)	(2,564)
Penalty payment for cancellation of game center lease agreement	(2)	(18)	(31)
Loss on valuation of derivatives	—	(263)	—
Gain on sales of noncurrent assets	163	34	1,996
Reversal of allowance for doubtful accounts	—	315	—
Gain on sales of subsidiaries and affiliates' stocks	173	—	2,106
Gain on sales of investment securities	56	52	683
Gain on change in equity	—	125	—
Reversal of recovery costs of video game arcades	1	544	18
Gain on outlawed debt	—	167	—
Gain on reversal of subscription rights to shares	—	1,174	—
Distribution of patent royalty income for prior periods	—	1,139	—
Gain on negative goodwill	2,152	—	26,207
Gain on liquidation of subsidiaries and affiliates	489	—	5,959
Loss on retirement of noncurrent assets	—	(296)	—
Loss on sales of noncurrent assets	(2)	(40)	(31)
Impairment loss (Note 5(4))	(3,341)	(1,502)	(40,682)
Loss on valuation of investment securities	(189)	(1,308)	(2,307)
Loss on liquidation of subsidiaries	(5)	(1,468)	(65)
Amortization of goodwill	(3,363)	(204)	(40,958)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(1,177)	—
Cost of product compensation related	—	(5,225)	—
Loss on disaster	—	(1,254)	—
The settlement payment for patent licensing	(3,500)	—	(42,615)
Restructuring loss(Note 5(3))	(6,308)	—	(76,806)
Other,net	(1,679)	(1,800)	(20,455)
Subtotal	(15,414)	(11,283)	(187,687)
Income before income taxes and minority interests	42,969	57,467	523,187
Income taxes-current	13,056	27,460	158,979
Income taxes-deferred	7,465	(14,140)	90,902
Total income taxes (Note 14(2))	20,522	13,320	249,881
Income before minority interests	22,446	44,147	273,305
Minority interests in income	626	2,636	7,627
Net income	21,820	41,510	265,677
Minority interests in income	626	2,636	7,627
Income before minority interests	22,446	44,147	273,305
Other comprehensive income (Note 5(5))			
Valuation difference on available-for-sale securities	7,526	10,986	91,640
Deferred gains or losses on hedges	0	(24)	0
Revaluation reserve for land	112	—	1,372
Foreign currency translation adjustment	(434)	(1,684)	(5,288)
Share of other comprehensive income of associates accounted for using equity method	5	10	68
Total other comprehensive income	7,210	9,288	87,792
Comprehensive income	29,656	53,435	361,098
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	29,038	50,852	353,564
Comprehensive income attributable to minority interests	¥ 618	¥ 2,582	$ 7,533

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2012	2011	**2012**
Shareholders' equity			
Capital stock			
Balance at the beginning of the period	**¥ 29,953**	¥ 29,953	**$ 364,703**
Changes of items during the period			
Total changes of items during the period	**—**	—	**—**
Balance at the end of the period	**29,953**	29,953	**364,703**
Capital surplus			
Balance at the beginning of the period	**119,784**	171,080	**1,458,468**
Changes of items during the period			
Increase by share exchanges	**(394)**	(11,294)	**(4,807)**
Retirement of treasury stock	**—**	(40,000)	**—**
Disposal of treasury stock	**(0)**	(1)	**(5)**
Change of scope of consolidation	**8**	—	**103**
Total changes of items during the period	**(386)**	(51,296)	**(4,709)**
Balance at the end of the period	**119,397**	119,784	**1,453,759**
Retained earnings			
Balance at the beginning of the period	**164,669**	132,128	**2,004,989**
Changes of items during the period			
Dividends from surplus	**(10,057)**	(8,816)	**(122,456)**
Net income	**21,820**	41,510	**265,677**
Change of scope of consolidation	**55**	(155)	**674**
Reversal of revaluation reserve for land	**(1,314)**	2	**(16,004)**
Total changes of items during the period	**10,503**	32,541	**127,891**
Balance at the end of the period	**175,173**	164,669	**2,132,880**
Treasury stock			
Balance at the beginning of the period	**(25,329)**	(73,694)	**(308,411)**
Changes of items during the period			
Increase by share exchanges	**7,724**	32,890	**94,054**
Retirement of treasury stock	**—**	40,000	**—**
Purchase of treasury stock	**(8,469)**	(24,530)	**(103,120)**
Disposal of treasury stock	**6**	3	**80**
Total changes of items during the period	**(737)**	48,364	**(8,985)**
Balance at the end of the period	**(26,067)**	(25,329)	**(317,396)**
Total shareholders' equity			
Balance at the beginning of the period	**289,077**	259,468	**3,519,750**
Changes of items during the period			
Dividends from surplus	**(10,057)**	(8,816)	**(122,456)**
Net income	**21,820**	41,510	**265,677**
Increase by share exchanges	**7,329**	21,595	**89,246**
Retirement of treasury stock	**—**	—	**—**
Purchase of treasury stock	**(8,469)**	(24,530)	**(103,120)**
Disposal of treasury stock	**6**	2	**75**
Change of scope of consolidation	**63**	(155)	**777**
Reversal of revaluation reserve for land	**(1,314)**	2	**(16,004)**
Total changes of items during the period	**9,378**	29,609	**114,196**
Balance at the end of the period	**¥298,456**	¥289,077	**$3,633,946**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2012	2011	2012
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of the period	¥ 11,350	¥ 346	$ 138,197
Changes of items during the period			
Net changes of items other than shareholders' equity	7,522	11,003	91,590
Total changes of items during the period	7,522	11,003	91,590
Balance at the end of the period	18,872	11,350	229,788
Deferred gains or losses on hedges			
Balance at the beginning of the period	(0)	24	(0)
Changes of items during the period			
Net changes of items other than shareholders' equity	0	(24)	0
Total changes of items during the period	0	(24)	0
Balance at the end of the period	—	(0)	—
Revaluation reserve for land			
Balance at the beginning of the period	(5,969)	(5,966)	(72,678)
Changes of items during the period			
Reversal of revaluation reserve for land	1,314	(2)	16,004
Net changes of items other than shareholders' equity	112	—	1,372
Total changes of items during the period	1,427	(2)	17,376
Balance at the end of the period	(4,541)	(5,969)	(55,302)
Foreign currency translation adjustment			
Balance at the beginning of the period	(19,264)	(17,626)	(234,557)
Changes of items during the period			
Net changes of items other than shareholders' equity	(416)	(1,637)	(5,076)
Total changes of items during the period	(416)	(1,637)	(5,076)
Balance at the end of the period	(19,681)	(19,264)	(239,633)
Total accumulated other comprehensive income			
Balance at the beginning of the period	(13,883)	(23,222)	(169,039)
Changes of items during the period			
Reversal of revaluation reserve for land	1,314	(2)	16,004
Net changes of items other than shareholders' equity	7,218	9,341	87,886
Total changes of items during the period	8,532	9,338	103,891
Balance at the end of the period	(5,350)	(13,883)	(65,147)
Subscription rights to shares			
Balance at the beginning of the period	406	1,188	4,943
Changes of items during the period			
Net changes of items other than shareholders' equity	585	(782)	7,125
Total changes of items during the period	585	(782)	7,125
Balance at the end of the period	991	406	12,068
Minority interests			
Balance at the beginning of the period	9,861	19,335	120,068
Changes of items during the period			
Net changes of items other than shareholders' equity	(7,581)	(9,474)	(92,314)
Total changes of items during the period	(7,581)	(9,474)	(92,314)
Balance at the end of the period	2,279	9,861	27,753
Total net assets			
Balance at the beginning of the period	285,461	256,770	3,475,723
Changes of items during the period			
Dividends from surplus	(10,057)	(8,816)	(122,456)
Net income	21,820	41,510	265,677
Increase by share exchanges	7,329	21,595	89,246
Retirement of treasury stock	—	—	—
Purchase of treasury stock	(8,469)	(24,530)	(103,120)
Disposal of treasury stock	6	2	75
Change of scope of consolidation	63	(155)	777
Reversal of revaluation reserve for land	—	—	—
Net changes of items other than shareholders' equity	221	(915)	2,697
Total changes of items during the period	10,914	28,690	132,897
Balance at the end of the period	¥296,376	¥285,461	$3,608,621

See accompanying notes.

Consolidated Statements of Cash Flows

SEGA SAMMY HOLDINGS INC. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2012	2011	**2012**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 42,969	¥57,467	$ 523,187
Depreciation and amortization	16,158	15,949	196,741
Impairment loss	3,341	1,502	40,682
Amount of transfer of equipment by amusement center operation business	(3,796)	(3,074)	(46,221)
Loss (gain) on sales of noncurrent assets	(161)	5	(1,967)
Loss on retirement of noncurrent assets	217	296	2,648
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,177	—
Loss (gain) on sales of stocks of subsidiaries and affiliates	(173)	—	(2,106)
Loss on liquidation of subsidiaries	5	1,468	65
Loss (gain) on sales of investment securities	(49)	113	(607)
Loss (gain) on valuation of investment securities	189	1,308	2,307
Loss (gain) on investments in partnership	(366)	(294)	(4,463)
Amortization of goodwill	6,363	1,875	77,478
Gain on negative goodwill	(2,152)	—	(26,207)
Increase (decrease) in allowance for doubtful accounts	(57)	(719)	(699)
Increase (decrease) in provision for directors’ bonuses	(39)	302	(475)
Increase (decrease) in provision for point card certificates	(5)	(17)	(66)
Increase (decrease) in provision for retirement benefits	877	438	10,683
Increase (decrease) in provision for directors’ retirement benefits	(910)	107	(11,086)
Increase (decrease) in provision for bonuses	375	(136)	4,571
Interest and dividends income	(882)	(775)	(10,745)
Interest expenses	676	637	8,241
Foreign exchange losses (gains)	(126)	171	(1,544)
Equity in (earnings) losses of affiliates	8	(35)	107
Loss (gain) on change in equity	—	(81)	—
Decrease (increase) in notes and accounts receivable-trade	(16,632)	10,033	(202,508)
Decrease (increase) in inventories	2,186	(737)	26,628
Increase (decrease) in notes and accounts payable-trade	22,519	222	274,198
Increase (decrease) in guarantee deposits received	176	35	2,152
Other, net	1,709	7,268	20,816
Subtotal	72,423	94,507	881,809
Interest and dividends income received	855	653	10,413
Interest expenses paid	(654)	(653)	(7,969)
Income taxes paid	(40,396)	(9,565)	(491,856)
Income taxes refund	5,796	2,755	70,572
Net cash provided by operating activities	¥ 38,023	¥87,696	$ 462,970

See accompanying notes.

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2012	2011	2012
Cash flows from investing activities:			
Payments into time deposits	¥ (380)	¥ (1,185)	$ (4,637)
Proceeds from withdrawal of time deposits	1,097	1,288	13,368
Purchase of short-term investment securities	(44,102)	(24,300)	(536,978)
Proceeds from redemption of securities	22,066	8,195	268,681
Purchase of trust beneficiary right	(6,097)	(7,293)	(74,245)
Proceeds from sales of trust beneficiary right	5,114	7,511	62,274
Purchase of property, plant and equipment	(24,005)	(10,901)	(292,282)
Proceeds from sales of property, plant and equipment	988	197	12,039
Purchase of intangible assets	(6,469)	(3,571)	(78,776)
Proceeds from sales of intangible assets	—	1	—
Purchase of investment securities	(1,961)	(5,413)	(23,878)
Proceeds from sales of investment securities	105	1,239	1,281
Proceeds from redemption of investment securities	1,000	3,800	12,175
Payments for investment in partnerships	(176)	(190)	(2,149)
Proceeds from distribution of investment in partnerships	631	1,062	7,692
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(7,551)	(120)	(91,943)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	30	—
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(165)	—	(2,017)
Proceeds from liquidation of subsidiaries	2,100	—	25,575
Purchase of stocks of subsidiaries and affiliates	(306)	(1,030)	(3,730)
Payments of loans receivable	(118)	(66)	(1,444)
Collection of loans receivable	135	46	1,653
Payments for lease deposits	(1,022)	(563)	(12,449)
Collection of lease deposits	680	1,674	8,283
Proceeds from transfer of business	0	23	10
Other, net	(577)	(20)	(7,032)
Net cash used in investing activities	(59,012)	(29,585)	(718,529)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(1,500)	55	(18,263)
Proceeds from long-term loans payable	34,430	—	419,213
Repayment of long-term loans payable	(6,157)	(1,512)	(74,970)
Proceeds from issuance of bonds	7,474	—	91,010
Redemption of bonds	(13,642)	(20,600)	(166,108)
Proceeds from stock issuance to minority shareholders	—	103	—
Cash dividends paid	(10,043)	(8,810)	(122,283)
Cash dividends paid to minority shareholders	(199)	(399)	(2,430)
Purchase of treasury stock	(8,430)	(24,530)	(102,650)
Other, net	(1,017)	(1,473)	(12,386)
Net cash provided by (used in) financing activities	914	(57,168)	11,130
Effect of exchange rate change on cash and cash equivalents	22	(1,191)	277
Net increase (decrease) in cash and cash equivalents	(20,052)	(248)	(244,151)
Cash and cash equivalents at beginning of period	165,983	167,000	2,020,989
Increase in cash and cash equivalents from newly consolidated subsidiary	667	35	8,127
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(803)	—
Cash and cash equivalents at end of period (Note 7)	¥146,599	¥165,983	$1,784,965

See accompanying notes.

Notes to Consolidated Financial Statements

SEGA SAMMY HOLDINGS INC. AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2012 and 2011

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 Japanese Financial Instruments and Exchange Law 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 2012 and 2011. 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 2011 consolidated financial statements to conform to the classifications used in 2012. 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, 2012, which was ¥82.13 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 63 in 2012.

From the year ended March 31, 2012, the following companies became the Company's consolidated subsidiaries: Phoenix Resort Co., Ltd. and one other company, because of the Company's acquisition of the shareholdings; Sega Jinwin (Shanghai) Amusements Co., Ltd. and one other company, because of the increase of importance; D×L CREATION Co., Ltd. and one other company, which were newly established with the Company's investment.

From the year ended March 31, 2012, the following companies have been excluded from the scope of consolidation: REALUS INC. and four other companies, because of sale of the group companies' shareholdings; Sega Amusements U.S.A., Inc. and four other companies, because of its liquidation; patina Co., Ltd., because of its merger with SAKO Co., Ltd. (accordingly changing its trade name to patina Co., Ltd.).

The number of non-consolidated subsidiaries is 12 in 2012.
Main non-consolidated subsidiaries: SEGA (Shanghai) Software Co., Ltd., etc.

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

(2) Equity method

Investments in affiliated companies over which the Company has the ability to exercise significant influence over their operation and financial policies are accounted for by the equity method.
The number of non-consolidated subsidiaries accounted for under the equity method is 3 in 2012.

Main equity-method non-consolidated subsidiaries: DARTSLIVE INTERNATIONAL Ltd. and two other companies.

From the year ended March 31, 2012, the following were included in the scope of application of the equity-method; DARTSLIVE INTERNATIONAL Ltd., which was newly established with the Group's investment; DARTSLIVE ASIA Ltd. and one other company, because of the increase of importance.

The number of affiliated companies accounted for under the equity method is 9 in 2012.
Main equity-method affiliated companies: INTERLIFE HOLDINGS CO., LTD., CRI Middleware Co., Ltd., and seven other companies.

The number of non-consolidated subsidiaries and affiliated companies which are not accounted for by the equity method is 16 in 2012.

Main non-consolidated subsidiaries and affiliated companies not accounted for by the equity method:
Liverpool 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. Other marketable 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 asset, with cost of sales determined by the moving-average method.

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

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

d. Derivatives

Derivatives are stated at fair market value.

e. Inventories

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

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

(4) Depreciation and amortization for important assets

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

Depreciation is computed primarily using the declining-balance method.

However, buildings (excluding attached equipment) acquired after April 1, 1998 are depreciated using the straight-line method.

Range of useful life for the assets is as follows:

Buildings and structures : 2–50 years
Amusement game machines : 2–5 years

Regarding buildings and structures built on land leased under term leasehold contracts, the straight-line method is used with the remaining lease period as the useful life and the residual value as zero.

Regarding property, plant and equipment acquired on or before March 31, 2007, the residual values are depreciated in accordance with the revised Corporation Tax Law. When the depreciated value of a property, plant and equipment reaches residual values in a certain fiscal year, the residual values of the asset is depreciated in an equal amount over five years from the following fiscal year.

b. Intangible assets (excluding lease assets):

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

c. Lease assets

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

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

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

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

(5) Allowances and provisions

a. Allowance for doubtful accounts

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

b. Provision for bonuses

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

c. Provision for directors' bonuses

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

d. Provision for business restructuring

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

e. Provision for retirement benefits

The Company and its consolidated subsidiaries provide provision for retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service cost is charged to income when incurred except for SEGA CORPORATION and three other subsidiaries that recognize prior service cost as expenses using the straight-line method over 10 years. Actuarial gains and losses are charged to income in the succeeding period except for SEGA CORPORATION and three other subsidiaries that recognize actuarial gains and losses as expenses using the straight-line method over 10 years commencing from the succeeding period.

f. Provision for directors' retirement benefits

The Company and 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.

(6) Accounting for significant hedge

a. Hedge accounting

The Company adopts deferred hedge accounting. However, special treatment (under special treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed) is used for qualifying interest rate swap transactions. Moreover, allocation hedge accounting is applied to qualifying forward exchange contracts.

b. Hedging instruments and hedged items

Hedging instrument: Interest rate swaps, forward exchange contracts

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

c. Hedge policy

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

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

d. Evaluation of hedge effectiveness

Hedge effectiveness is evaluated through comparative analysis of the cumulative fluctuations in the market between the hedged item and the hedging instrument. For interest rate swaps applied to special treatment, hedge effectiveness is not evaluated.

(7) 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. In other cases, amortization is made over a five-year period by the straight-line method.

(8) Cash and cash equivalents in the consolidated statements of cash flows

In preparing the consolidated statement 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.

(9) Consumption taxes

Consumption taxes and local consumption taxes are accounted using the net-of-tax method.

(10) Application of the Consolidated Taxation System

The Company applied the Consolidated Taxation System from the year ended March 31, 2012.

NOTE 3

Additional Information

For accounting changes and corrections of prior period errors which are made after the beginning of the year ended March 31, 2012, "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (ASBJ) Statement No.24, issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections"(ASBJ Guidance No. 24, issued on December 4, 2009) have been applied.

NOTE 4

Notes to Consolidated Balance Sheets

(1) Assets pledged

Millions of yen

Assets pledged	2012	Liabilities to be covered	2012
Buildings and structures	¥243	Short-term loans payable	¥300
Land	210	—	—
Total	453	Total	300

Thousands of U.S. dollars (Note 1)

Assets pledged	2012	Liabilities to be covered	2012
Buildings and structures	$2,959	Short-term loans payable	$3,652
Land	2,566	—	—
Total	5,526	Total	3,652

Millions of yen

Assets pledged	2011	Liabilities to be covered	2011
Time deposits	¥ 5	Accounts payable–trade	¥ 2
Buildings and structures	1,202	Accrued expenses	0
Land	2,433	Short-term loans payable	900
—	—	Long-term loans payable	2,100
Total	3,641	Total	3,003

(2) Loan securities

Loan securities of ¥295 million ($3,597 thousand) and ¥282 million are included in investment securities as of March 31, 2012 and 2011, respectively.

(3) Guarantee

Guarantee to companies as of March 31, 2012 and 2011 are as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
Guarantee	Description	2012	2011	2012
Orix Premium Ltd.	Lease obligation	¥1	¥11	$15

(4) Revaluation reserve for land

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

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

Date of revaluation: March 31, 2002

(5) Overdraft agreement and commitment line agreement

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

Balance of unexecuted loans, etc. based on these agreements as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Total amount of overdraft limit and commitment line agreement	¥62,825	¥54,125	$764,945
Balance of executed loans	500	2,000	6,087
Unexecuted balance	62,325	52,125	758,857

NOTE 5

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 ¥14,893 million ($181,336 thousand) and ¥6,547 million for the years ended March 31, 2012 and 2011, respectively.

(2) Research and development expenses

Expenses relating to research and development activities have been charged to income as incurred, and amounted to ¥32,118 million ($391,068 thousand) and ¥29,613 million for the years ended March 31, 2012 and 2011, respectively.

(3) Restructuring loss

Restructuring loss is an estimated amount of expenses primarily recorded in association with inventory disposal and personnel reductions in response to the restructuring of the consumer business in the United States and Europe.

(4) Impairment loss

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.

The recoverable value is calculated using the fair value less cost to sell based on the current market price.

Impairment loss for the year ended March 31, 2012 consists of the following:

			Impairment loss	
Use	Location	Type	Millions of yen	Thousands of U.S. dollars (Note 1)
Assets for business, etc.	Ota-ku, Tokyo and 17 other locations	Buildings and structures	¥1,814	$22,088
		Other property, plant and equipment	176	2,150
		Other intangible assets	422	5,146
		Land	125	1,523
Assets for rent	Chuo-ku, Osaka-shi, Osaka	Land	760	9,253
Amusement facilities	Chuo-ku, Osaka-shi, Osaka and 7 other locations	Buildings and structures	33	403
		Amusement game machines	0	1
		Other intangible assets	9	113
		Total	3,341	40,682

Impairment loss for the year ended March 31, 2011 consisted of the following:

			Impairment loss
Use	Location	Type	Millions of yen
Amusement facilities	Chiba-shi, Chiba and 16 other locations	Buildings and structures	¥ 201
		Amusement game machines	2
		Other property, plant and equipment	16
		Other intangible assets	9
Kids Card related	Inba-gun, Chiba	Amusement game machines	776
Assets for business, etc.	Shibuya-ku, Tokyo and 8 other locations	Buildings and structures	58
		Other property, plant and equipment	40
		Other intangible assets	396
		Total	1,502

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2012	2012
Valuation difference on available-for-sale securities		
The amount arising during the period	¥10,058	$122,472
Reclassification adjustments	11	143
Before adjustments to tax effects	10,070	122,615
The amount of tax effects	(2,544)	(30,975)
Valuation difference on available-for-sale securities	7,526	91,640
Deferred gains or losses on hedges		
The amount arising during the period	—	—
Reclassification adjustments	0	0
Before adjustments to tax effects	0	0
The amount of tax effects	—	—
Deferred gains or losses on hedges	0	0
Revaluation reserve for land		
The amount of tax effects	112	1,372
Revaluation reserve for land	112	1,372
Foreign currency translation adjustment		
The amount arising during the period	(430)	(5,236)
Reclassification adjustments	(4)	(52)
Before adjustments to tax effects	(434)	(5,288)
The amount of tax effects	—	—
Foreign currency translation adjustment	(434)	(5,288)
Share of other comprehensive income of associates accounted for using equity method		
The amount arising during the period	5	68
Reclassification adjustments	—	—
Share of other comprehensive income of associates accounted for using equity method	5	68
Total other comprehensive income	7,210	87,792

NOTE6

Notes to Consolidated Statements of Changes in Net Assets

(1) Number of outstanding common stock:

Shares

	2012	2011
Balance at beginning of the year	266,229,476	283,229,476
Decrease due to retirement of treasury stock	—	17,000,000
Balance at end of the year	266,229,476	266,229,476

(2) Number of outstanding treasury stock:

Shares

	2012	2011
Balance at beginning of the year	14,504,662	31,315,801
Increase due to purchase in the market by the resolution at the Board of Directors' meeting	5,000,000	14,000,000
Increase due to purchase demand pursuant to Article 797, Paragraph 1 of the Companies Act	—	150,144
Increase due to purchase demand pursuant to Article 197, Paragraph 3 and Paragraph 4 of the Companies Act	24,435	—
Increase due to purchase of odd stock	93,147	18,445
Decrease due to retirement of treasury stock	—	17,000,000
Decrease due to share exchange	4,423,546	13,977,737
Decrease due to sale of odd stock	3,862	1,991
Balance at end of the year	15,194,836	14,504,662

(3) Dividends

Year ended March 31, 2012

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 16, 2011	Common stock	¥5,034	¥20	March 31, 2011	June 2, 2011
Board of Directors' meeting held on October 31, 2011	Common stock	5,022	20	September 30, 2011	December 2, 2011

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 16, 2011	Common stock	$61,299	$0.24	March 31, 2011	June 2, 2011
Board of Directors' meeting held on October 31, 2011	Common stock	61,157	0.24	September 30, 2011	December 2, 2011

2. Of the dividends of which the record date is in the year ended March 31, 2012, 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 11, 2012	Common stock	Retained earnings	¥5,020	¥20	March 31, 2012	May 29, 2012

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, 2012	Common stock	Retained earnings	$61,131	$0.24	March 31, 2012	May 29, 2012

Year ended March 31, 2011

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 14, 2010	Common stock	¥3,778	¥15	March 31, 2010	June 1, 2010
Board of Directors' meeting held on October 29, 2010	Common stock	5,038	20	September 30, 2010	December 2, 2010

2. Of the dividends of which the record date is in the year ended March 31, 2011, 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 16, 2011	Common stock	Retained earnings	¥5,034	¥20	March 31, 2011	June 2, 2011

NOTE 7

Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash and deposits	¥127,721	¥149,006	$1,555,115
Short-term investment securities	66,509	42,412	809,806
Total	194,231	191,418	2,364,922
Time deposits with maturities of more than three months	(5,229)	(5,534)	(63,671)
Short-term investment securities excluding commercial papers maturing within three months from the acquisition date	(42,402)	(19,899)	(516,284)
Cash and cash equivalents	146,599	165,983	1,784,965

NOTE 8

Information for Certain Leases

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value for the years ended March 31, 2012 and 2011, with respect to the finance leases accounted for in the same manner as operating leases, is as follows:

			Millions of yen
March 31, 2012	Acquisition cost	Accumulated depreciation	Net book value
Structures	¥255	¥255	¥ 0
Tools, furniture and fixtures	8	8	0
Machinery and equipment	155	155	—
Total	419	418	0

			Thousands of U.S. dollars (Note 1)
March 31, 2012	Acquisition cost	Accumulated depreciation	Net book value
Structures	$3,109	$3,106	$ 2
Tools, furniture and fixtures	109	102	6
Machinery and equipment	1,892	1,892	—
Total	5,111	5,101	9

	Millions of yen		
March 31, 2011	Acquisition cost	Accumulated depreciation	Net book value
Structures	¥255	¥218	¥36
Tools, furniture and fixtures	145	132	12
Machinery and equipment	155	133	22
Amusement machines	14	11	2
Total	570	496	74

Future lease payments under the finance leases that are accounted for in the same manner as operating leases as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Due within one year	¥ 0	¥76	$10
Due after one year	—	0	—
Total	0	77	10

A summary of assumed amounts of lease payments, reversal of liability of impairment loss for lease assets, assumed depreciation and interest expenses for the years ended March 31, 2012 and 2011, with respect to the finance leases accounted for in the same manner as operating leases, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Lease payments	¥77	¥231	$942
Reversal of liability of impairment loss for lease assets	—	0	—
Depreciation	73	220	892
Interest expenses	0	3	8

Finance lease transaction:
Lease assets mainly consist of the following: Property, plant and equipment that are mainly facilities for amusement center operations, such as buildings and structures, 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 transaction:
Future lease payments for operating lease transactions which cannot be canceled as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Due within one year	¥1,922	¥2,721	$23,411
Due after one year	2,173	5,145	26,459
Total	4,095	7,867	49,870

NOTE 9

Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

Derivative transactions consist of forward exchange contracts intended to hedge foreign currency exchange fluctuation risks for trade receivables and payables denominated in foreign currencies, as well as loan receivables denominated in foreign currencies, and interest swap transactions intended to hedge fluctuation risks of interests on loans. For details on hedging instruments, hedged items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned "(6) 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, certain consolidated subsidiaries use interest rate swap transactions intended to hedge fluctuation risks of interests on variable interest-loans. With respect to short-term investment securities and investment securities, their fair values and financial positions of the related issuers (the counterparties) are regularly checked for reports at each company's Board of Directors' meeting, etc. In addition, holding of short-term investment securities and investment securities other than held-to-maturity debt securities are continuously reviewed in consideration of relationships with the counterparties.

With regards to derivative transactions, the financial department or the accounting department executes and manages transactions upon obtaining internal approvals in compliance with the regulations approved by each company's Board of Directors' meetings. 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 computing the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in "Note 11 – 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, 2012 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, 2012

			Millions of yen
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥127,721	¥127,721	¥ —
(2) Notes and accounts receivable–trade	73,554	73,531	(22)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	1,620	1,615	(4)
2) Available-for-sale securities (*1)	112,619	112,619	—
3) Equity securities issued by affiliated companies	516	385	(130)
Total assets	316,032	315,873	(158)
(1) Notes and accounts payable–trade	59,917	59,917	—
(2) Short-term loans payable	10,194	10,194	—
(3) Long-term loans payable	25,052	25,093	(41)
(4) Current portion of corporate bonds	23,515	23,515	—
(5) Corporate bonds payable	11,943	12,085	(141)
Total liabilities	130,622	130,805	(183)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(1)	(1)	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	(1)	(1)	—

			Thousands of U.S. dollars (Note 1)
	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	$1,555,115	$1,555,115	$ —
(2) Notes and accounts receivable–trade	895,584	895,306	(277)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	19,726	19,669	(57)
2) Available-for-sale securities (*1)	1,371,232	1,371,232	—
3) Equity securities issued by affiliated companies	6,289	4,697	(1,591)
Total assets	3,847,949	3,846,022	(1,926)
(1) Notes and accounts payable–trade	729,539	729,539	—
(2) Short-term loans payable	124,120	124,120	—
(3) Long-term loans payable	305,030	305,532	(502)
(4) Current portion of corporate bonds	286,314	286,314	—
(5) Corporate bonds payable	145,424	147,151	(1,726)
Total liabilities	1,590,430	1,592,659	(2,228)
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	(17)	(17)	—
2) Derivative transactions to which hedge accounting is applied	—	—	—
Total derivative transactions	(17)	(17)	—

(*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, 2011

Millions of yen

	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
(1) Cash and deposits	¥149,006	¥149,006	¥ —
(2) Notes and accounts receivable–trade	56,468	56,416	(51)
(3) Short-term investment securities and investment securities			
1) Held-to-maturity debt securities	2,018	2,021	2
2) Available-for-sale securities (*1)	77,523	77,523	—
3) Equity securities issued by affiliated companies	493	280	(213)
Total assets	285,511	285,248	(262)
(1) Notes and accounts payable–trade	37,513	37,513	—
(2) Short-term loans payable	2,857	2,857	—
(3) Long-term loans payable	5,316	5,333	(17)
(4) Current portion of corporate bonds	11,892	11,892	—
(5) Corporate bonds payable	29,608	29,356	252
Total liabilities	87,188	86,953	234
Derivative transactions (*2)			
1) Derivative transactions to which hedge accounting is not applied	3	3	—
2) Derivative transactions to which hedge accounting is applied	(0)	(0)	—
Total derivative transactions	2	2	—

(*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, 2012 are stated at the present values by discounting the amount of claim for each receivable with the interest rate calculated by the payment period and credit risk.

(3) Short-term investment securities and investment securities

The fair values of stocks are determined using the quoted price on the stock exchange, and those of bonds are determined using the quoted price on the exchange or the quoted price obtained from the financial institutions. In addition, negotiable certificates of deposit included in available-for-sale securities are recorded using book values, as they are settled in the short term (within a year) and their fair values approximate book values. For notes concerning securities by holding purpose, please see "Note 10—Investment Securities."

Liabilities

(1) Notes and accounts payable–trade (2) Short-term loans payable and (4) Current portion of corporate bonds

Of these, items that are settled in the short term (within a year) are recorded using book values, as their fair values approximate book values. Of the short-term loans payable, fair values of the loans hedged by interest rate swap contracts meeting certain conditions are calculated by combining them with the relevant interest rate swap.

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

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

Derivative transactions

For notes concerning derivatives, please see "Note 11 – Derivative Transactions."

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Item	Consolidated balance sheet amount		
Unlisted equity securities, etc.	¥2,007	¥2,036	$24,444
Investment in investment limited partnerships, etc.	1,208	1,352	14,708
Equity securities issued by non-consolidated subsidiaries	299	2,189	3,650
Equity securities issued by affiliated companies	842	765	10,258
Investments in capital of affiliated companies	120	224	1,469

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

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

Year ended March 31, 2012

				Millions of yen
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥127,721	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	73,064	487	1	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	400	705	500	—
Available-for-sale securities with maturities(Corporate bonds)*	—	2,000	—	1,000
Available-for-sale securities with maturities(Negotiable certificates of deposit)	50,800	—	—	—
Available-for-sale securities with maturities (Other)*	15,306	—	200	1,800
Total	267,293	3,192	701	2,800

				Thousands of U.S. dollars (Note 1)
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$1,555,115	$ —	$ —	$ —
Notes and accounts receivable–trade	889,624	5,939	20	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	4,870	8,583	6,087	—
Available-for-sale securities with maturities(Corporate bonds)*	—	24,351	—	12,175
Available-for-sale securities with maturities(Negotiable certificates of deposit)	618,531	—	—	—
Available-for-sale securities with maturities (Other)*	186,374	—	2,435	21,916
Total	3,254,516	38,875	8,543	34,092

* 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, 2011

				Millions of yen
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥149,006	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	55,775	693	—	—
Short-term investment securities and investment securities				
Held-to-maturity debt securities (Corporate bonds)	600	805	500	100
Available-for-sale securities with maturities(Corporate bonds)*	—	2,000	—	1,000
Available-for-sale securities with maturities(Negotiable certificates of deposit)	41,800	—	—	—
Available-for-sale securities with maturities (Other)*	12	—	200	1,800
Total	247,193	3,498	700	2,900

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

Note 4: For redemption supplemental schedule of corporate bonds payable, long-term loans payable, lease obligations and other interest-bearing liabilities after March 31, 2012, refer to "Supplemental schedule of corporate bonds" and "Supplemental schedule of borrowings" in "Note 22 – Supplemental Information."

NOTE 10

Investment Securities

1. Held-to-maturity debt securities

Year ended March 31, 2012

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	607	611	4
c. Other	—	—	—
Total	607	611	4

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	$ —	$ —	$ —
b. Corporate bonds	7,392	7,450	58
c. Other	—	—	—
Total	7,392	7,450	58

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,013	1,003	(9)
c. Other	—	—	—
Total	1,013	1,003	(9)

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	$ —	$ —	$ —
b. Corporate bonds	12,334	12,218	(116)
c. Other	—	—	—
Total	12,334	12,218	(116)

Year ended March 31, 2011

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	606	616	10
c. Other	—	—	—
Total	606	616	10

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

Millions of yen

Category	Consolidated balance sheet amount	Fair value	Valuation gains (losses)
a. Government / municipal bonds	¥ —	¥ —	¥ —
b. Corporate bonds	1,412	1,404	(7)
c. Other	—	—	—
Total	1,412	1,404	(7)

2. Available-for-sale securities

Year ended March 31, 2012

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥41,985	¥11,581	¥30,403
b. Bonds	—	—	—
c. Other	—	—	—
Total	41,985	11,581	30,403

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	$511,207	$141,019	$370,187
b. Bonds	—	—	—
c. Other	—	—	—
Total	511,207	141,019	370,187

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

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥ 1,267	¥ 1,628	¥(361)
b. Bonds	5,259	5,773	(514)
c. Other	64,106	64,106	—
Total	70,633	71,509	(875)

Thousands of U.S. dollars (Note 1)

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	$ 15,435	$ 19,832	$ (4,397)
b. Bonds	64,035	70,295	(6,259)
c. Other	780,554	780,554	—
Total	860,025	870,682	(10,656)

Note: "Bonds" in "Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost" include composite financial instruments, and the valuation losses of ¥122 million ($1,490 thousand) are posted in "Other income."

Year ended March 31, 2011

(1) Securities whose consolidated balance sheet amount exceeds the acquisition cost

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥31,299	¥10,965	¥20,334
b. Bonds	—	—	—
c. Other	—	—	—
Total	31,299	10,965	20,334

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

Millions of yen

Category	Consolidated balance sheet amount	Acquisition cost	Valuation gains (losses)
a. Shares	¥ 1,226	¥ 1,689	¥(462)
b. Bonds	3,185	3,653	(467)
c. Other	41,812	41,812	—
Total	46,224	47,155	(930)

Note: "Bonds" in "Securities whose consolidated balance sheet amount is equal to or lower than the acquisition cost" include composite financial instruments, and the valuation losses of ¥346 million are posted in "Other expenses."

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

Year ended March 31, 2012

Millions of yen

Category	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	¥105	¥56	¥(2)
b. Bonds	0	—	(3)
c. Other	—	—	—
Total	105	56	(6)

Thousands of U.S. dollars (Note 1)

Category	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	$1,281	$683	$(27)
b. Bonds	0	—	(48)
c. Other	—	—	—
Total	1,281	683	(76)

Year ended March 31, 2011

Millions of yen

Category	Amount of proceeds	Total gains on sales	Total losses on sales
a. Shares	¥1,239	¥52	¥(165)
b. Bonds	—	—	—
c. Other	—	—	—
Total	1,239	52	(165)

4. Impairment loss on securities

Year ended March 31, 2012

During the year ended March 31, 2012, the Company recognized impairment loss on available-for-sale-securities in an amount of ¥189 million ($2,307 thousand).

Year ended March 31, 2011

During the year ended March 31, 2011, the Company recognized impairment loss on available-for-sale-securities in an amount of ¥1,308 million.

NOTE 11

Derivative Transactions

1. Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

Year ended March 31, 2012

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				
	UK pound	¥ 320	¥—	¥(5)	¥(5)
	U.S. dollar	117	—	(6)	(6)
	Euro	953	—	6	6
	Buying				
	U.S. dollar	40	—	2	2
Total		1,431	—	(1)	(1)

Thousands of U.S. dollars (Note 1)

	Category	Contract value	Contract value due after one year	Fair value	Unrealized gains (losses)
Transactions other than market transactions	Forward exchange contracts				
	Selling				
	UK pound	$ 3,901	$—	$(63)	$(63)
	U.S. dollar	1,428	—	(73)	(73)
	Euro	11,608	—	84	84
	Buying				
	U.S. dollar	487	—	35	35
Total		17,424	—	(17)	(17)

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

Year ended March 31, 2011

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				
	UK pound	¥ 455	¥—	¥ (7)	¥ (7)
	U.S. dollar	354	—	23	23
	Euro	682	—	(8)	(8)
	Buying				
	U.S. dollar	501	—	(3)	(3)
Total		1,994	—	3	3

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 10 – Investment Securities."

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

Year ended March 31, 2012

Not applicable

Year ended March 31, 2011

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				
	Selling				
	Euro	Accounts receivable–trade	¥ 36	¥—	¥(0)
Receivables or payables are translated using forward exchange contract rates	Forward exchange contracts				
	Buying				
	U.S. dollar	Accounts payable–trade	131	—	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 rates

Year ended March 31, 2012

Millions of yen

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Interest rate swaps meeting certain conditions	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	¥5,900	¥2,619	Note
Total			5,900	2,619	—

Thousands of U.S. dollars(Note 1)

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Interest rate swaps meeting certain conditions	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	$71,837	$31,888	Note
Total			71,837	31,888	—

Note: With respect to interest rate swap contracts which meet certain conditions, fair values of the interest rate swap contracts 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, 2011

Millions of yen

Hedge accounting method	Classification	Major hedged items	Contract value	Contract value due after one year	Fair value
Interest rate swaps meeting certain conditions	Interest rate swaps:				
	Floating rate into fixed rate	Long-term loans payable	¥3,834	¥3,170	Note
Total			3,834	3,170	—

Note: With respect to interest rate swap contracts which meet certain conditions, fair values of the interest rate swap contracts 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 12

Retirement Benefits

Overview of retirement benefits plans

The Company and domestic consolidated subsidiaries offer, based on the retirement benefit regulations, employees' pension plans and lump-sum retirement benefit plans. Certain domestic consolidated subsidiaries and overseas consolidated subsidiaries offer the defined contribution pension plans.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2012 and 2011 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
1) Projected benefit obligation	¥(33,448)	¥(26,927)	$(407,257)
2) Pension assets	15,237	13,337	185,531
3) Unrecognized projected benefit obligation	(18,210)	(13,590)	(221,726)
4) Unrecognized actuarial differences	3,778	1,009	46,007
5) Prepaid pension cost	95	75	1,166
6) Provision for retirement benefits	(14,527)	(12,656)	(176,886)

Note: Some consolidated subsidiaries use the simplified method for calculating projected benefit obligations.

Included in the consolidated statements of income and comprehensive income for the years ended March 31, 2012 and 2011, severance and retirement benefit expenses comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Service costs – benefits earned during the year	¥2,205	¥2,131	$26,848
Interest cost on projected benefit obligation	524	494	6,386
Expected return on plan assets	(307)	(275)	(3,747)
Amortization of actuarial difference	284	569	3,460
Amortization of prior service cost	—	(175)	—
Other	257	208	3,135
Severance and retirement benefit expenses	2,963	2,954	36,083

Notes: 1. Retirement benefit expenses of consolidated subsidiaries using the simplified method are added up in "Service costs."
2. "Other" is a premium paid to the defined contribution pension plan.
3. Sammy Corporation decided to revise its retirement benefit plan effective April 1, 2011, from the tax - qualified plan to a contract-type corporate pension plan (defined benefits plan type). Following this changeover, the balance of prior service cost (reduction in liabilities) of ¥ (111) million has been amortized at once and included in "Amortization of prior service cost."

	2012	2011
Discount rate	1.5–2.0%	1.5–2.0%
Rate of expected return on plan assets	1.0–2.5%	1.0–2.5%

NOTE 13

Stock Option Plan

The following table summarizes the contents of stock options as of March 31, 2012.

Company name	The Company	The Company	The Company
Date of the annual shareholders' meeting	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

The following table summarizes the scale and movement of stock as of March 31, 2012

Shares

Company name	The Company	The Company	The Company
Date of the annual shareholders' meeting	June 30, 2010	June 30, 2010	December 24, 2010
Not exercisable stock options			
Stock options outstanding at April 1, 2011	172,000	3,379,000	460,800
Stock options granted	—	—	—
Forfeitures	—	39,100	67,700
Conversion to exercisable stock options	—	—	—
Stock options outstanding at March 31, 2012	172,000	3,339,900	393,100
Exercisable stock options			
Stock options outstanding at April 1, 2011	—	—	—
Conversion from not exercisable stock options	—	—	—
Stock options exercised	—	—	—
Forfeitures	—	—	—
Stock options outstanding at March 31, 2012	—	—	—

The following tables summarize the price information of stock options as of March 31, 2012

Yen

Company name	The Company	The Company	The Company
Date of the annual shareholders' meeting	June 30, 2010	June 30, 2010	December 24, 2010
Exercise price	¥1,312	¥1,312	¥1,753
Average market price of the stock at the time of exercise	—	—	—
Fair value of the stock option at the date of grant	306	306	386

U.S. dollars (Note 1)

Company name	The Company	The Company	The Company
Date of the annual shareholders' meeting	June 30, 2010	June 30, 2010	December 24, 2010
Exercise price	$15	$15	$21
Average market price of the stock at the time of exercise	—	—	—
Fair value of the stock option at the date of grant	3	3	4

NOTE 14

Income Taxes

(1) Significant components of deferred tax assets and liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Deferred tax assets:			
Allowance for doubtful accounts	¥ 879	¥ 1,243	$ 10,708
Loss on valuation of inventories	2,475	2,783	30,144
Provision for bonuses	1,833	1,669	22,328
Provision for retirement benefits	5,165	5,148	62,892
Depreciation expense	14,343	14,443	174,641
Loss on valuation of investment securities	951	3,518	11,588
Impairment loss	3,039	2,604	37,009
Others	12,010	12,679	146,233
Tax loss carry forward	46,781	54,924	569,600
Total	87,480	99,014	1,065,147
Valuation allowance	(72,428)	(76,839)	(881,873)
Offset against deferred tax liabilities	(8,347)	(6,392)	(101,640)
Net deferred tax assets	6,704	15,783	81,632
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(10,966)	(8,412)	(133,530)
Others	(1,725)	(1,721)	(21,009)
Subtotal of deferred tax liabilities	(12,692)	(10,134)	(154,539)
Offset against deferred tax assets	8,347	6,392	101,640
Total	(4,344)	(3,742)	(52,898)
Recorded deferred tax assets	2,359	12,041	28,734

(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, 2012 and 2011.

	2012	2011
Statutory tax rate	40.7%	40.7%
(Adjustment)		
Effect from the adoption of Consolidated Taxation System	—	(21.1)
Tax deduction for experiment and research expenses	(3.2)	(2.0)
Changes in valuation allowance	1.0	7.0
Permanently non-deductible expenses including entertainment expenses	2.4	2.1
Amortization of goodwill	3.5	0.6
Adjustments of deferred tax assets for enacted changes in tax laws and rates	2.0	—
Other	1.3	(4.1)
Effective tax rate for financial statement purposes	47.8	23.2

(3) Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates

Due to the promulgation on December 2, 2011, of The Law to Revise the Income Tax, etc., in Order to Construct a Tax System Addressing Changes in the Socio-Economic Structure (Law No. 114 of 2011), and The Act on Special Measures for Securing the Financial Resources to Implement the Restoration from the Tohoku Earthquake (Law No.117 of 2011), for fiscal years beginning on or after April 1, 2012, the corporation tax rate has been reduced and a special reconstruction corporation tax has been instituted.

As a result of this tax rate change, the amount of deferred tax assets (net of the amount of deferred tax liabilities) increased by ¥795 million($9,684 thousand), income taxes-deferred increased by ¥869 million($10,585 thousand), valuation difference on available-for-sale securities increased by ¥1,552 million($18,898 thousand) and revaluation reserve for land increased by ¥112 million($1,372 thousand).

NOTE 15

Asset Retirement Obligation

This disclosure is omitted due to the immateriality of the total amount of the asset retirement obligation for the year ended March 31, 2012 and 2011.

NOTE 16

Investment and Rental Property

This disclosure is omitted due to the immateriality of the total amount of the investment and rental property for the year ended March 31, 2012 and 2011.

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, 2012

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥212,189	¥49,929	¥44,608	¥ 85,688	¥392,415	¥3,087	¥395,502
Inter-segment sales and transfers	144	3,071	0	745	3,960	918	4,879
Total	212,334	53,000	44,608	86,433	396,376	4,006	400,382
Segment income (loss)	71,040	7,415	355	(15,182)	63,628	234	63,862
Segment assets	172,244	31,902	37,256	81,689	323,093	13,878	336,972
Other items							
Depreciation	4,249	1,620	6,184	4,079	16,134	115	16,250
Increase in property, plant and equipment and intangible assets	12,726	1,388	8,328	10,763	33,207	181	33,389

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	$2,583,585	$607,928	$543,143	$1,043,321	$4,777,978	$ 37,592	$4,815,571
Inter-segment sales and transfers	1,762	37,392	1	9,071	48,227	11,183	59,411
Total	2,585,347	645,320	543,145	1,052,392	4,826,206	48,776	4,874,983
Segment income (loss)	864,973	90,284	4,333	(184,864)	774,727	2,851	777,579
Segment assets	2,097,219	388,438	453,629	994,640	3,933,927	168,986	4,102,914
Other items							
Depreciation	51,744	19,736	75,297	49,669	196,448	1,411	197,859
Increase in property, plant and equipment and intangible assets	154,953	16,908	101,410	131,057	404,330	2,209	406,539

(Note) "Other" is the business segment not included in the reporting segments, but includes information provider services, etc. Additionally, "Other" in the segment assets includes the assets of the Resort business.

Year ended March 31, 2011

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Subtotal	Other (Note)	Total
Net sales							
Sales to third parties	¥212,060	¥47,237	¥45,695	¥88,896	¥393,889	¥2,843	¥396,732
Inter-segment sales and transfers	233	3,082	25	654	3,995	979	4,975
Total	212,293	50,319	45,721	89,550	397,885	3,822	401,708
Segment income (loss)	64,284	7,317	342	1,969	73,914	(10)	73,903
Segment assets	125,565	27,374	36,019	98,535	287,495	2,252	289,748
Other items							
Depreciation	3,943	2,194	6,126	3,566	15,832	135	15,967
Increase in property, plant and equipment and intangible assets	5,725	1,538	7,701	4,848	19,813	92	19,905

(Note) "Other" is the business segment not included in the reporting segments, but includes information provider services, etc.

4. Major differences between the total amount of all reporting segments and the amounts on the consolidated financial statements (reconciliation of the difference)

	Millions of yen		Thousands of U.S. dollars (Note 1)
Net sales	2012	2011	2012
Total net sales in the reporting segments	¥396,376	¥397,885	$4,826,206
Segment net sales in Other	4,006	3,822	48,776
Elimination of inter-segment transactions	(4,879)	(4,975)	(59,411)
Net sales in the consolidated financial statements	395,502	396,732	4,815,571

	Millions of yen		Thousands of U.S. dollars (Note 1)
Income (loss)	2012	2011	2012
Total income in the reporting segments	¥63,628	¥73,914	$774,727
Segment income (loss) in Other	234	(10)	2,851
Elimination of inter-segment transactions	(215)	(126)	(2,617)
General corporate expenses (Note)	(5,263)	(5,026)	(64,086)
Operating income in the consolidated financial statements	58,384	68,750	710,874

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2012	2011	2012
Total assets in the reporting segments	¥323,093	¥287,495	$3,933,927
Segment assets in Other	13,878	2,252	168,986
General corporate assets (Note)	166,372	169,159	2,025,715
Other adjustments	(5,893)	(282)	(71,753)
Total assets in the consolidated financial statements	497,451	458,624	6,056,877

(Note) General corporate assets mainly consist of excess funds in the Company, etc. and other assets, etc. of the Company.

				Millions of yen
	Subtotal	Other	Adjustment	Amount in consolidated financial statements
Other				2012
Depreciation	¥16,134	¥115	¥ (91)	¥16,158
Increase in property, plant and equipment and intangible assets	33,207	181	2,752	36,141

				Thousands of U.S. dollars (Note 1)
	Subtotal	Other	Adjustment	Amount in consolidated financial statements
Other				2012
Depreciation	$196,448	$1,411	$(1,117)	$196,741
Increase in property, plant and equipment and intangible assets	404,330	2,209	33,512	440,051

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

				Millions of yen
	Subtotal	Other	Adjustment	Amount in consolidated financial statements
Other				2011
Depreciation	¥15,832	¥135	¥ (18)	¥15,949
Increase in property, plant and equipment and intangible assets	19,813	92	(219)	19,686

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

[Related information]

Year ended March 31, 2012

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
¥355,414	¥13,802	¥18,392	¥7,892	¥395,502

Thousands of U.S. dollars (Note 1)

Japan	North America	Europe	Other	Total
$4,327,466	$168,058	$223,944	$96,102	$4,815,571

(Note) Net sales are geographically classified by country or region in which customers are located.

(2) Property, plant and equipment

Nothing is stated herein as the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheets.

3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

Year ended March 31, 2011

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
¥352,444	¥20,805	¥17,190	¥6,292	¥396,732

(2) Property, plant and equipment

Nothing is stated herein as the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheets.

3. Information by each major customer

Nothing is stated herein as there is no outside customer representing 10% or more of the net sales in the consolidated statement of income and comprehensive income.

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

Year ended March 31, 2012

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	¥919	¥319	¥496	¥1,605	¥—	¥3,341

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	$11,196	$3,892	$6,048	$19,545	$—	$40,682

(Note) "Other" is the business segment not included in the reporting segments, but includes Information provider services, etc.

Year ended March 31, 2011

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Impairment losses	¥13	¥787	¥246	¥381	¥73	¥1,502

(Note) "Other" is the business segment not included in the reporting segments, but includes Information provider services, etc.

[Information on amortization of goodwill and unamortized balance by each reporting segment]

Year ended March 31, 2012

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	¥283	¥31	¥—	¥ 6,038	¥ 9	¥ 6,363
Balance as of March 31, 2012	778	—	—	10,011	—	10,790

Thousands of U.S. dollars (Note 1)

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	$3,449	$387	$—	$ 73,526	$115	$ 77,478
Balance as of March 31, 2012	9,484	—	—	121,902	—	131,386

1. "Other" is the business segment not included in the reporting segments, but includes information provider services, etc.
2. Amortization in the fiscal year ended March 31, 2012 includes amortization of goodwill in "Other expenses".

Year ended March 31, 2011

Millions of yen

	Pachislot Pachinko	Amusement Machine Sales	Amusement Center Operations	Consumer Business	Other (Note)	Total
Amortization	¥ 288	¥—	¥—	¥ 1,466	¥120	¥ 1,875
Balance as of March 31, 2011	1,062	—	—	14,497	—	15,559

1. "Other" is the business segment not included in the reporting segments, but includes information provider services, etc.
2. Amortization in the fiscal year ended March 31, 2011 includes amortization of goodwill in "Other expenses".

[Information on gain on negative goodwill by each reporting segment]

Year ended March 31, 2012

In the Pachislot and Pachinko Machines business, TAIYO ELEC Co., Ltd. became wholly owned subsidiary through share exchange on August 1, 2011. Due to the transaction, the Company posted ¥836 million ($10,180 thousand) for gain on negative goodwill for the year ended March 31, 2012.

In the business other than four business segments stated in this section, the Company acquired all the shares of Phoenix Resort Co., Ltd. from RHJ International S.A. on March 26, 2012, and Phoenix Resort Co., Ltd. has become a wholly owned subsidiary of the Company. Due to the transaction, the Company posted ¥1,316 million ($16,027 thousand) for gain on negative goodwill for the year ended March 31, 2012.

Year ended March 31, 2011

Not applicable

NOTE 18

Related Party Transactions

Information on related party transactions for the years ended March 31, 2012 and 2011 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, 2012

					Millions of yen
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥ 6	Prepaid expense	¥ 3
		Receipt and remittance of insurance	0	—	—
		Payment of outsourcing fee (*2)	10	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet (*3)	170	—	—

					Thousands of U.S. dollars (Note 1)
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	$78	Prepaid expense	$40
		Receipt and remittance of insurance	3	—	—
		Payment of outsourcing fee (*2)	128	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet (*3)	2,081	—	—

(*):1 Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2 Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3 The Company has the payment of usage fee of a business jet to Hajime Satomi, Chairman of the Board and Chief Executive Officer and the owner of the business jet. Transaction prices are based on current market price.
4 Consumption taxes are not included in transaction amounts.

Year ended March 31, 2011

					Millions of yen
Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥ 6	Prepaid expense	¥ 3
		Receipt and remittance of insurance	2	—	—
		Payment of outsourcing fee (*2)	11	—	—
Hajime Satomi	Chairman of the Board and Chief Executive Officer	Lease of business jet (*3)	240	—	—

(*):1 Hajime Satomi, Chairman of the Board and Chief Executive Officer, directly holds 53% of the shares in FSC Co., Ltd.
2 Transaction prices are determined in the same way as for general transactions and with reference to market prices.
3 The Company has the payment of usage fee of a business jet to Hajime Satomi, Chairman of the Board and Chief Executive Officer and the owner of the business jet. Transaction prices are based on current market price.
4 Consumption taxes are not included in transaction amounts.

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

Year ended March 31, 2012

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥41	Prepaid expense Accrued expenses	¥17 0
		Settle up insurance (*2)	6	—	—
		Payment of welfare expenses (*2)	2	—	—

Thousands of U.S. dollars (Note 1)

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	$508	Prepaid expense Accrued expenses	$211 2
		Settle up insurance (*2)	78	—	—
		Payment of welfare expenses (*2)	24	—	—

(*):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, 2011

Millions of yen

Name of related individual or company	Position and principal business	Description of the Company's transaction	Transactions	Account	End of period account balance
FSC Co., Ltd. (*1)	Non-life insurance agent	Payment of insurance (*2)	¥50	Prepaid expense	¥20
		Settle up insurance (*2)	2	—	—
		Payment of welfare expenses (*2)	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

Business Combination

Share exchange to convert consolidated subsidiaries into wholly owned subsidiaries

1. Outline of business combination

(1) Names and business of combined companies

	Name	Description of business
Acquiring company	Sammy Corporation	Manufacture and sales of pachinko machines, pachislot machines, ball arranging machines, mahjong ball machines and related equipment
Acquired company	TAIYO ELEC Co., Ltd.	Development, manufacture and sales of pachinko machines, pachislot machines and ball arranging machines

(2) Date of business combination

August 1, 2011

(3) Legal structure

Share exchange in which Sammy Corporation, a wholly owned subsidiary of the Company, converted into a wholly owning parent of TAIYO ELEC Co., Ltd. while TAIYO ELEC Co., Ltd. converted into a wholly owned subsidiary of Sammy Corporation, in consideration for the Company's common stock.

(4) Name of companies after the conversion

Unchanged

(5) Outline of the transactions including the purpose

On December 1, 2010, the Company converted Sammy NetWorks Co., Ltd., SEGA TOYS CO., LTD. and TMS ENTERTAINMENT, LTD., which were listed subsidiaries, into wholly owned subsidiaries and consolidated the Group structure achieving an effective synergy of our management resources within the Group. The Share Exchange will further reinforce the management structure of the Group and promote the maximization of Group earning power by converting TAIYO ELEC Co., Ltd., the sole listed subsidiary in the SEGA SAMMY Group, into a wholly owned subsidiary.

We believe that, for TAIYO ELEC Co., Ltd. to continue to expand its business through the development of more efficient and inventive pachislot and pachinko machines, the company needs to deepen its connections with Sammy Corporation and take full advantage of business operations that are integrated with the SEGA SAMMY Group by implementing the share exchange.

Specifically, we think that a robust TAIYO ELEC brand can be established in the pachislot and pachinko machines market by improving TAIYO ELEC's pachislot and pachinko machine development capability through measures such as personnel exchanges involving highly skilled pachislot and pachinko developers, leveraging the substantial intellectual property of the SEGA SAMMY Group and joint development involving integrated technologies, in addition to the exchange of personnel from management and sales departments that have been conducted thus far. Also, from a production perspective, manufacturing costs are expected to be reduced further as a result of sharing of components, joint purchasing and other measures.

2. Summary of accounting treatment

The share exchange transactions were treated as transactions under common control provided in "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008).

3. Matters related to the additional acquisition of shares in subsidiaries

(1) Acquisition costs

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration of the acquisition	The Company's common stock	¥7,329	$89,246
Direct costs for the acquisitions	Advisory costs, etc.	26	318
Total acquisition costs		7,355	89,564

(2) Type of stock and share exchange ratio, calculation of the share exchange ratio and number of shares delivered

1) Type of stock and share exchange ratio

Type of stock	SEGA SAMMY HOLDINGS INC. (Common stock)	TAIYO ELEC Co., Ltd. (Common stock)
Share exchange ratio	1	0.4

2) Calculation of the share exchange ratio

To establish the share exchange ratios, Sammy Corporation and TAIYO ELEC Co., Ltd. have deliberated in good faith concerning the results of the share exchange ratio analyses submitted by the independent institutions.

3) Number of shares delivered

4,423,546 shares

(3) Amount and source of gain on negative goodwill

1) Amount of gain on negative goodwill

¥836 million ($10,180 thousand)

2) The source of gain on negative goodwill

Gain on negative goodwill incurred because an acquisition cost of the common stock of TAIYO ELEC Co., Ltd. was less than the amount of minority interests decreased in the share exchange.

Consolidation of subsidiary through acquisition of shares

1. Outline of business combination

(1) Name and business of acquired company

Name	Description of business
Phoenix Resort Co., Ltd.	Operation of resort facilities, including hotels, spas, golf courses, restaurants and international conference halls

(2) Reason for business combination

By adding Phoenix Resort Co., Ltd., the operator of the renowned resort facilities “Phoenix Seagaia Resort” which is comprised of hotels, spas, golf courses, restaurants, and international conference halls, to one of its Group companies, the Company obtains know-how for operating large-scale facilities and will utilize this knowledge in order to further the Group’s aim to develop and operate resort complexes in the future.

(3) Date of business combination

March 26, 2012

(4) Legal structure

Purchase of shares with cash

(5) Name of companies after the conversion

Unchanged

(6) Share of voting rights acquired

100%

(7) Main reason for deciding acquiring company

The Company acquiring all the shares of Phoenix Resort Co., Ltd. for consideration.

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

Not applicable because the deemed acquisition date is March 31, 2012.

3. Acquisition costs

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration of the acquisition	Cash	¥400	$4,870
Direct costs for the acquisitions	Advisory costs, etc.	127	1,546
Total acquisition costs		527	6,417

4. Amount and source of gain on negative goodwill

(1) Amount of gain on negative goodwill

¥1,316 million ($16,027 thousand)

(2) The source of gain on negative goodwill

Gain on negative goodwill incurred because net asset value at the business combination date exceeded an acquisition cost.

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	¥ 1,489	$ 18,129
Noncurrent assets	9,562	116,428
Total	11,051	134,558

(2) Amount of liabilities

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current liabilities	¥7,833	$ 95,375
Noncurrent liabilities	1,373	16,728
Total	9,207	112,103

6. Estimated impact on the consolidated statements of income and comprehensive income for the year ended March 31, 2012 if the business combination had been completed as of the beginning of the year ended March 31, 2012

This disclosure is omitted due to the immateriality of the effect.

NOTE 20

Per Share Data

Per share data is as follows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Per share data			
Net assets per share	**¥1,167.59**	¥1,093.23	**$14.21**
Net income per share	**86.73**	163.19	**1.05**
Net income per share (diluted)	**86.54**	163.18	**1.05**

Changes in accounting policies

Effective from the first quarter of the year ending March 31, 2012, the "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, revised on June 30, 2010) and "Guidance on Accounting Standard for Earnings Per Share"(ASBJ Guidance No. 4, revised on June 30, 2010) have been applied.

In calculation of the amount of diluted net income per share, the method of calculating rights of stock options that are to be confirmed after a certain period of time of employment has been changed; of the fair value of stock options, the amount related to future services to be provided to the Company is included in the amount that is assumed to be received by the Company through exercise of rights.

In case that these revisions are not applied, diluted net income per share for the fiscal year ended March 31, 2011 is ¥163.01.

NOTE 21

Significant Subsequent Events

Year ended March 31, 2012

Acquisition of treasury stock

Concerning acquisition of treasury stock, the Company, at a Board of Directors' meeting held on May 31, 2012, resolved the acquisition method of treasury stock in accordance with the provision of Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to Article 165, Paragraph 3 of the Companies Act.

1. Reason for acquisition

Reason for acquisition of treasury stock is to enhance capital efficiency and prepare for strategic policies through acquisition of treasury stock.

2. Summary of acquisition

Type of stock to be acquired	Common stock
Total number of stocks to be acquired	10,000,000 shares (upper limit) Ratio for the outstanding stock excluding treasury stock: 3.98%
Total acquisition cost	¥17,000 million ($206,988 thousand) (upper limit)
Acquisition period	From June 7, 2012 through September 28, 2012
Method of acquisition	Purchase in the market through entrustment

NOTE 22

Supplemental Information

Supplemental schedule of corporate bonds

Company	Name of bond	Issuance date	Balance as of April 1, 2011 (Millions of yen)	Balance as of March 31, 2012 (Millions of yen)	Balance as of March 31, 2012 (Thousands of U.S. dollars (Note 1))	Interest rate(%)	Type	Date of maturity
Sammy Corporation	3rd unsecured bonds	August 27, 2008	¥9,375	¥5,625 (3,750)	$68,488 (45,659)	Note2	Unsecured	August 27, 2013
	4th unsecured bonds	September 25, 2008	8,330	4,990 (3,340)	60,757 (40,667)	Note3	Unsecured	September 25, 2013
SEGA CORPORATION	8th unsecured bonds	December 28, 2007	10,000	10,000 (10,000)	121,758 (121,758)	1.22	Unsecured	December 28, 2012
	9th unsecured bonds	December 28, 2007	2,000	2,000 (2,000)	24,351 (24,351)	1.34	Unsecured	December 28, 2012
	10th unsecured bonds	March 25, 2008	3,000	3,000 (3,000)	36,527 (36,527)	1.30	Unsecured	March 25, 2013
	11th unsecured bonds	September 30, 2008	2,500	1,500 (1,000)	18,263 (12,175)	1.21	Unsecured	September 30, 2013
	12th unsecured bonds Note 4	June 30, 2009	5,050	—	—	Note5	Unsecured	June 30, 2012
	13th unsecured bonds	June 30, 2011	—	5,000	60,879	0.72	Unsecured	June 30, 2016
	14th unsecured bonds	December 20, 2011	—	2,600	31,657	0.66	Unsecured	December 20, 2016
SEGA TOYS, CO., LTD.	5th unsecured bonds	September 25, 2008	312	187 (125)	2,282 (1,521)	0.99 Note 6	Unsecured	September 25, 2013
	6th unsecured bonds	September 30, 2008	281	168 (112)	2,054 (1,369)	1.36	Unsecured	September 30, 2013
	7th unsecured bonds	June 30, 2009	252	87 (87)	1,065 (1,065)	0.83	Unsecured	June 29, 2012
	8th unsecured bonds	March 31, 2010	400	300 (100)	3,652 (1,217)	0.47	Unsecured	March 31, 2015
Total	—	—	41,501	35,458 (23,515)	431,739 (286,314)	—	—	—

Notes: 1 The figures in parentheses of the “Balance as of March 31, 2012” represent the current portion of corporate bonds.
2 The interest on Sammy Corporation’s third debenture is a variable rate that uses six-month Japanese yen TIBOR.
3 The interest on Sammy Corporation’s fourth debenture is a variable rate six-month Japanese yen TIBOR added 0.10%.
4 SEGA CORPORATION’s twelfth debenture has redeemed before maturity.
5 The interest on SEGA CORPORATION’s twelfth debenture is a variable rate that uses six-month Japanese yen TIBOR.
6 The interest on SEGA TOYS CO., LTD.’s fifth debenture is a variable rate that is 0.95% less than the standard interest set for each interest-bearing period. The interest rate listed above is the rate as of March 31, 2012.
7 Total amount of scheduled redemption for each fiscal year within five years after March 31, 2012 is as follows:

Millions of yen

Due within 1 year	Due after 1 year but within 2 years	Due after 2 year but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
¥23,515	¥4,243	¥100	¥—	¥7,600

Thousands of U.S. dollars (Note 1)

Due within 1 year	Due after 1 year but within 2 years	Due after 2 year but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
$286,314	$51,671	$1,217	$—	$92,536

Supplemental schedule of borrowings

Category	Balance as of April 1, 2011 (Millions of yen)	Balance as of March 31, 2012 (Millions of yen)	Balance as of March 31, 2012 (Thousands of U.S. dollars (Note 1))	Average interest rate (%)	Repayment terms
Short-term borrowings	¥ 2,000	¥ 500	$ 6,087	0.8	—
Current portion of long-term borrowings due within one year	857	9,694	118,033	1.3	—
Current portion of lease obligations	321	770	9,382	Note2	—
Long-term borrowings (Excluding current portion)	5,316	25,052	305,030	1.0	2013-2016
Lease obligations (Excluding current portion)	421	1,090	13,275	Note2	2013-2018
Other interest-bearing debt					
Accounts payable-facilities	670	592	7,210	—	—
Accounts payable-facilities (Excluding current portion)	592	—	—	—	—
Total	10,179	37,699	459,019	—	—

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 obligation is not listed because lease obligation 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 obligation and interest-bearing debt (excluding current portion) after March 31, 2012 is summarized as follows:

Millions of yen

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term borrowings	¥7,035	¥7,035	¥7,028	¥3,953	¥—
Lease obligations	612	370	89	16	1

Thousands of U.S. dollars (Note 1)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years	Due after 5 years
Long-term borrowings	$85,660	$85,664	$85,574	$48,131	$—
Lease obligations	7,463	4,514	1,083	196	16

Supplemental schedule of asset retirement obligations

Supplemental schedule of asset retirement obligations is omitted from this document because the amount of the asset retirement obligations as of April 1, 2011 and March 31, 2012 were less than 1% of total liabilities and net assets as of April 1, 2011 and March 31, 2012.

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, 2012 and 2011, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SEGA SAMMY HOLDINGS INC. and its consolidated subsidiaries as at March 31, 2012 and 2011, 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, 2012 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 Note1 to the consolidated financial statements.

July 27, 2012
Tokyo, Japan

KPMG AZSA LLC

DEFINITION OF TERMS

"Fiscal 2012" refers to the fiscal year ended March 31, 2012, 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.]

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