To the Shareholders

Items Posted on Internet Concerning

Notice of the 7th Ordinary General Meeting of Shareholders

June 1, 2011

SEGA SAMMY HOLDINGS INC.

Contents

Pursuant to the provisions of laws and regulations and the Article 16 of the Articles of Incorporation, the above information shall be deemed to be provided to all shareholders by posting it on the website of the Company: (http://www.segasammy.co.jp/japanese/ir/library/data.html).
Information in English will be posted on our English website (http://www.segasammy.co.jp/english/ir/library/data.html).english/ir/library/data.html).

1. "VI Outline of Resolutions Regarding Preparation of Internal Control System and so forth to Ensure Appropriate Business Execution" from the Business Report

Based on the Company Law, the Company made the following resolutions regarding the "Basic Policy on Preparation of Internal Controls System" and has worked to prepare this system.

(1) System to Ensure the Efficient Implementation of Directors' Duties and Compliance with Laws and the Articles of Incorporation
Establish a Group CSR Charter and Group Code of Conduct, and Representative Directors will repeatedly communicate the spirit of such charter and code to employees in administrative post, in order to thoroughly establish compliance with laws as a condition for all corporate activities. These efforts will reflect the Company's fundamental policy of fulfilling its social responsibility as a member of society and provide a basis for establishing a compliance system that comprises such policy. In addition, in the interest of further strengthening corporate governance, the Board of Directors will make efforts to build an effective internal controls system and to secure a system for compliance with laws and the Articles of Incorporation for the Company as a whole, so that the Company's business execution is appropriate and sound. Also, the Board of Corporate Auditors will audit the effectiveness and functionality of this internal controls system, and make efforts to identify and correct issues early through regular inspection.

(2) System Related to the Retention and Management of Information Related to the Implementation of Directors' Duties
Representative Directors will appoint the Director in charge of the Administrative Division as the person in charge of the entire Company with respect to preservation and management of information related to execution of Directors' duties. Information related to execution of Directors' duties will be recorded in writing or electronic media based on the Company regulations etc., and preserved and managed so that the Directors and Corporate Auditors are able to appropriately and accurately view such information and also so that such information is easy to search.

(3) Regulations and Other Systems Regarding Risk Management for Losses
With respect to risks related to the Company's business, each relevant division and department will analyze and identify anticipated risks and clarify the risk management system. The Internal Audit Department and Internal Control Department will audit each division's and department's risk management and report the results regularly to the management decision-making body and executive and supervisory management organization. In the event of a situation likely to have a severe impact on the Group, crisis management teams of the Company and the Group companies shall cooperate to discuss about countermeasures for prompt and effective actions.

(4) System to Ensure that Directors' Duties are Implemented Efficiently
Adopt a corporate auditor system for efficient implementation of Directors' duties, as well as for Company Directors and Corporate Auditors to be well-informed about the Group's businesses and promptly and appropriately make decisions for the Group. The system should also enable appropriate and efficient implementation of duties under rules related to authorities and decision-making based on the Regulations of the Board of Directors, and so forth.

(5) System to Ensure Appropriate Compliance with Law, and the Articles of Incorporation Concerning the Performance of Employees' Duties
① Grant the Corporate Governance Committee, which governs the Company's and Group's compliance related governing functions. Employees in administrative posts can act in compliance with law, the Articles of Incorporation, Company regulations, and social norms. Make the foregoing known thoroughly inside the Company and promote compliance.
② Establish a "Hot Line" system that enables an employee to report in the interest of public good any violation of law, the Articles of Incorporation, Company regulations, or conduct in violation of social norms. Also establish a system that enables the person in charge promptly to report any material matters to the Board of Directors and Board of Corporate Auditors. Also, protect such an informant, and authorize the Company Compliance Department and so forth, and outside counsel as recipients of an informant's report outside the ordinary reporting line, as part of a system that maintains transparency and accurately addresses relevant issues.

(6) System to Ensure that the Businesses of the Group, Comprised of the Company, its Parent, and its Subsidiaries, are Executed Properly
Hold meetings for the Group's Directors and Group's Corporate Auditors, where various problems in the Group or governance matters with material risks are addressed. The Company's department in charge of internal audit will conduct audits for the benefit of the Group as a whole, and efforts will be made to ensure to the extent possible that information is shared among members of the Group and businesses are properly executed.

(7) Matters Regarding Employees whom Corporate Auditors Request to Assist them in the Performance of their Duties
Establish a Corporate Auditor's Office as an organization that reports directly to the Board of Corporate Auditors and employees in such office will assist the Corporate Auditors' duties under their direction and order.

(8) Matters Related to the Independence of Corporate Auditors' Staff from Directors Described in the Previous Clause
① An employee who assists a Corporate Auditor's duties is a dedicated employee who is not directed or supervised by Directors.
② Appointment, termination, personnel transfer, evaluation, disciplinary action, revision of wages, and so forth, of or involving employees described in the previous section will require prior agreement of the Board of Corporate Auditors.

(9) System to Enable Directors or Employees to Report to Corporate Auditors, and other Systems Related to Reporting to Corporate Auditors
① Directors and employees promptly must report to the Board of Corporate Auditors material violations of law or the Articles of Incorporation or illegal conduct related to performance of duties or risks of conspicuous harm to the Company that they learn.
② Directors and employees must report promptly to the Board of Corporate Auditors decisions that materially affect the Company's business or organization, results of internal audits, or results of evaluation of the internal control system associated with financial reports.

(10) Systems Established to Ensure the Efficacious Performance of Auditing Responsibilities by Corporate Auditors
① Representative Directors regularly will meet with Corporate Auditors, exchange opinions related to Company management, in addition to business reports, and otherwise communicate effectively with them.
② The Board of Directors will ensure Corporate Auditors' participation in important work-related meetings to ensure that the Company's business is executed properly.
③ The Board of Corporate Auditors will use attorneys, certified public accountants, and other outside advisors, as necessary for itself, and its opportunities to receive advice related to audit work will be guaranteed.

2. Notes to Consolidated Financial Statements

I Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

(1) Scope of Consolidation

Number of consolidated subsidiaries 68

For a complete list of major consolidated subsidiaries, refer to the section "I Group's Current Condition" under "7 Material Parent Company and Subsidiaries" of "(2) Relationships with subsidiaries".

Effective as of the fiscal year under review, the following became the Company's consolidated subsidiaries; TOCSIS Inc. and three other companies, because of the Company's acquisition of the shareholdings; Sammy Partners Co.,Ltd., because of the increase of importance; Breaktime, Inc., and one other company, which were newly established with the Company's investment.

Effective as of the fiscal year under review, the following have been excluded from the scope of consolidation; MARZA ANIMATION PLANET INC., because of its merger with SEGA SAMMY INVESTMENT & PARTNERS INC. (accordingly changing its trade name to MARZA ANIMATION PLANET INC.); GAMEWORKS LAS VEGAS, L.L.C., because of its merger with another consolidated subsidiary; Kenjinton Partners, because of its liquidation; PlatinumGames Inc., because of reduced control thereon.

Number of non-consolidated subsidiaries 13

Main non-consolidated subsidiaries: United Source International Ltd., 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) Application of the Equity Method

Number of equity-method affiliates 9

Main equity-method affiliates: INTERLIFE HOLDINGS CO., LTD., CRI Middleware Co., Ltd., etc.

From the fiscal year under review, Simuline Inc. has been excluded from the scope of the equity method affiliates due to its capital increase.

As a result of the establishment of INTERLIFE HOLDINGS CO., LTD. via share transfer conducted by Nissho Inter Life Co., Ltd., the Company has come to own the shares in INTERLIFE HOLDINGS CO., LTD. in lieu of those in Nissho Inter Life Co., Ltd.

Number of non-consolidated subsidiaries and affiliates not accounted for by the equity method 18

Main non-consolidated subsidiaries and affiliates not accounted for by the equity method:
Liverpool Co., Ltd., etc.

The equity method was not applied to non-consolidated subsidiaries and affiliates because the combined amounts of these companies in net income and retained earnings applicable to the equity interest of the Company are immaterial.

(Changes in significant accounting policies used in preparation of consolidated financial statements)

Effective from the fiscal year under review, the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No.24, March 10, 2008) have been adopted. This change has no impact on the consolidated statement of income.

(3) Fiscal Year for Consolidated Subsidiaries

Consolidated subsidiaries whose fiscal year-ends differ from the consolidated balance sheet date are listed below. Necessary adjustments are made on consolidation for material transactions that occurred between the end of the fiscal years of these subsidiaries and the end of the consolidated balance sheet date.

Consolidated subsidiary	Fiscal year-end
Sega Amusements Taiwan Ltd.	December 31
Shanghai New World Sega Recreation Co., Ltd.	December 31
Sega Beijing Mobile Entertainment Co., Ltd.	December 31
Three investment in partnerships	December 31

Moreover, as for consolidated subsidiaries SEGA TOYS CO., LTD. and two other companies, their fiscal year-ends had been changed to September 30, however, they were changed again to March 31.

(4) Accounting Standards

① Valuation standards 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 Investment 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).

② Method for depreciating and amortizing 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.

Useful life for primary assets is as follows:

Building/Structure : 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 next fiscal year.

b. Intangible assets (excluding lease assets):

Amortization 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 under which the ownership of the lease assets is transferred to lessees:

The method to calculate depreciation expenses for such assets is the same as that 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:

The method to calculate depreciation for such assets is the straight line method with their residual values being zero over their leased periods used as the number of years for useful life.

③ Accounting for deferred assets

Founding expense : All expenses are expensed when incurred.
Stock issue expense : All expenses are expensed when incurred.
Bond issue expense : All expenses are expensed when incurred.

④ Accounting for allowances and provisions

a. Allowance for doubtful accounts

The reserve for doubtful accounts is provided in amount sufficient to cover possible losses estimated as a historical write-off ratio of bad debts for general receivables, with the addition of required amounts for doubtful accounts and bankrupt receivables based on a case-by-case 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 for the fiscal year under review was recorded to meet the bonus payments to Directors and Corporate Auditors.

d. Provision for point card certificates

In order to prepare for expenses associated with the redemption of points earned by customers, an estimated amount related to future redemption has been posted in the fiscal year under review.

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 ten 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 ten 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.

⑤ 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 foreign exchange forward contracts.

b. Hedging instruments and hedged items

Hedging instrument: Interest rate swaps, foreign currency forward contracts
Hedged item: Interest on debts, receivables and payables denominated in foreign currencies

c. Hedge policy

Derivative instruments are used to mitigate risks associated with foreign currency exchange

and interest rate fluctuations.
As a rule, hedging is only used for items for 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 for the hedged item relative to that for the hedging instrument. For interest rate swaps with special treatment, hedge effectiveness is not evaluated.

⑥ Amortization method and period of goodwill and negative goodwill
If the duration of the effect of goodwill can be rationally estimated, amortization has been based on the estimated number of years of duration, in other cases, amortization has been based on the five-year-period straight line method.

⑦ Accounting method for consumption taxes
Consumption taxes and local consumption taxes are accounted using the net-of-tax method.

(5) Changes in Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

① Adoption of accounting standard for asset retirement obligations
Effective from the fiscal year under review, the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) have been adopted.
Accordingly, operating income and ordinary income for the fiscal year under review decreased by ¥96 million, while income before income taxes and minority interests decreased by ¥1,302 million.
In addition, the amount of asset retirement obligation change is ¥2,146 million following the adoption of the subject accounting standard and guidance.

② Adoption of accounting standard for business combinations
Effective from the fiscal year under review, the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, December 26, 2008), “Partial amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No.23, December 26, 2008), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, December 26, 2008), “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, December 26, 2008), and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008) have been adopted.

(6) Changes in Presentation
(Consolidated Statement of Income)

① From the fiscal year under review, the “Ordinance of the Ministry of Justice which partially revises Ordinance for Enforcement of the Companies Act and Ordinance on Accounting of Companies, etc.” (Ordinance of the Ministry of Justice No. 7, March 27, 2009) based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008) has been adopted. As a result, an item of “income before minority interests” is included in the consolidated statement of income.

② “Gain on reversal of subscription rights to shares” that was included in “other” under extraordinary income in the previous fiscal year has now exceeded 10% of the amount of total extraordinary income, and it is therefore separately itemized from the fiscal year under review. The value of gain on reversal of subscription rights to shares included in “other” for the previous fiscal year was ¥63 million.

(7) Additional information

① Effective from the fiscal year under review, the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, June 30, 2010) has been adopted. “Accumulated other comprehensive income” and “total accumulated other comprehensive income” for the previous fiscal year have been substituted by “valuation and translation adjustments” and “total valuation and translation adjustments”, respectively.

② From the next fiscal year, the Company and some of its consolidated subsidiaries are scheduled to adopt consolidated tax return system in which the Company is a consolidated parent corporation, following the successful application for such adoption in the fiscal year under review. From the fiscal year under review, the Company has been adopting accounting treatments as prerequisite to the adoption of consolidated tax return system in accordance with “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (ASBJ PITF (Practical Issues Task Force) No.5 initially issued on October 9, 2002 and lastly revised on March 18, 2011) and “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (ASBJ PITF No.7 initially issued on February 6, 2003 and revised on June 30, 2010).

II Notes to Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ¥108,688 million

(2) Assets pledged

Assets pledged		Covered for liabilities	
Time deposits	¥5 million	Accounts payable − trade	¥2 million
Buildings / Structures	¥1,202 million	Accrued expenses	¥0 million
Land	¥2,433 million	Short − term loans payable	¥900 million
		Long − term loans payable	¥2,100 million

(3) Guarantee of Obligations

Guaranteed Party	Details	Amount
Orix Premium Ltd.	Lease liabilities guarantee	¥11 million

(4) Security loaned
Investment securities include ¥282 million in securities loaned.

(5) Revaluation of 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.

Revaluation method
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 the revaluation March 31, 2002

(6) Outstanding balance of overdraft account: ¥10,125 million
Outstanding balance of commitment line: ¥42,000 million

III Notes to Consolidated Statement of Income

(1) The book value devaluation of inventories held for normal sales purpose based on decline in profitability.
Cost of sales ¥6,547 million

(2) R&D expenses included in general and administrative expenses and this fiscal year’s production expenses ¥29,613 million

(3) Breakdown of major extraordinary items

① Breakdown of Gain on sales of noncurrent assets

Buildings and structures	¥1 million
Tools, furniture and fixtures	¥1 million
Amusement machines and facilities	¥8 million
Other property, plant and equipment	¥22 million
Other intangible assets	¥1 million
Total	¥34 million

② Gain on outlawed debt

Gain on outlawed debt was recognized by being released from the debt booked as accrued expenses, due to being outlawed.

③ Breakdown of loss on retirement of noncurrent assets

Buildings and structures	¥133 million
Tools, furniture and fixtures	¥91 million
Amusement machines and facilities	¥1 million
Other property, plant and equipment	¥42 million
Other intangible assets	¥27 million
Total	¥296 million

④ Breakdown of loss on sales of noncurrent assets

Buildings and structures	¥6 million
Tools, furniture and fixtures	¥4 million
Amusement machines and facilities	¥0 million
Land	¥29 million
Other property, plant and equipment	¥0 million
Other intangible assets	¥0 million
Total	¥40 million

⑤ Cost of product compensation related includes the provision of substitute machines that is free of charge as temporary product compensation in the pachislot and pachinko machines business and compensation of business.

⑥ Loss on disaster is the Great East Japan Earthquake related expenses including valuation loss on assets, estimated restoration expenses of amusement centers and offices, and fixed expenses during the suspended operation period.

⑦ Breakdown of impairment loss.

(Unit: millions of yen)

Use	Location	Type	Impairment loss
Amusement facilities	Chiba-shi, Chiba and 16 other locations	Buildings and structures	201
		Amusement machines and facilities	2
		Other property, plant and equipment	16
		Other intangible assets	9
Kids Card related	Inba-gun, Chiba	Amusement machines and facilities	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

For each business segment, the Company classifies assets or asset groups based on whether their cash flows can be estimated independently. If the market value of any asset or asset group has decreased conspicuously or it is expected to continuously generate negative cash flow from operations, its book value is reduced to its recoverable value, and such reduction is recorded as an impairment loss under extraordinary loss. Recoverable value is calculated using the fair value less cost to sell based on the current market price.

IV Notes to Consolidated Statement of changes in Net Assets

(1) Issued Stock

(Unit: shares)

Type of stock	End of previous fiscal year	Increase	Decrease	End of fiscal year under review
Common stock	283,229,476	−	17,000,000	266,229,476

(Outline of Causes of Change)
The causes of the decrease are as follows:
Decrease due to retirement of treasury stock 17,000,000 shares

(2) Treasury Stock

(Unit: shares)

Type of stock	End of previous fiscal year	Increase	Decrease	End of fiscal year under review
Common stock	31,315,801	14,168,589	30,979,728	14,504,662

(Outline of Causes of Change)
The causes of the increase are as follows:

Increase due to purchase in the market by the resolution at the Board of Directors meeting	14,000,000 shares
Increase due to purchase demand pursuant to Article 797, Paragraph 1 of the Companies Act	150,144 shares
Increase due to repurchase of fractional shares	18,445 shares

The causes of the decrease are as follows:

Decrease due to retirement of treasury stock	17,000,000 shares
Decrease due to share exchange	13,977,737 shares
Decrease due to request to purchase fractional shares	1,991 shares

(3) Dividends

① Dividend Amount

Resolution	Type of Stock	Total dividend (¥ million)	Dividend per share (¥)	Record date	Effective date
Board of Directors Meeting on May 14, 2010	Common stock	3,778	15	March 31, 2010	June 1, 2010
Board of Directors Meeting on October 29, 2010	Common stock	5,038	20	September 30, 2010	December 2, 2010

② Of the dividends for which the record date is in the fiscal year under review, but for which the effective date will be in the following fiscal year.

Resolution	Type of Stock	Resource of dividend	Total dividend (¥ million)	Dividend per share (¥)	Record date	Effective date
Board of Directors Meeting on May 16, 2011	Common Stock	Retained Earnings	5,034	20	March 31, 2011	June 2, 2011

(4) Number and type of shares to be issued upon exercise of subscription rights to shares (except for the ones before the first day of the exercisable period) as of the end of the fiscal year under review.

There is no pertinent matter.

V Notes on the Financial Instruments

(1) Matters regarding the current status of financial instruments

Under the Group's financial strategies, the Company as a holding company is arranging the syndicated commitment line to provide for the Group-wide safety net under which medium term liquidity is sustained. Capital for each business is financed based on the financial plan as needed, through bank borrowing or bond issue applying Cash Management System for the purpose of the efficient utilization of the Group funds. Funds are invested in financial assets with higher degree of safety. Under its policy, financial derivatives are used only for the purpose of avoiding risks as described below, and no speculative transactions are allowed.

Credit risks of the clients in terms of notes and accounts receivable - trade are mitigated under the credit management rules, etc. at each Group company.

The Group's credit risk exposure in held-to-maturity debt securities is minimal, as its investment in this area is restricted to highly rated debt securities only according to the capital management rules, etc. at each Group company.

Available-for-sale securities are mainly stocks and the relevant information such as market prices of those stocks and financial conditions of the issuing companies (business partners) is reviewed and reported to the board of directors of each Group company, etc. on a regular basis. For other securities than held-to-maturity debt securities, holding status is continually reviewed in consideration of the relationship with business partners that issue those stocks.

Borrowings as well as bonds issue is intended to raise funds necessary for the purpose of working capital and capital investment. Each Group company reviews its own actual and projected cash position on a monthly basis, which is eventually verified collectively by the Company as part of the Group's liquidity risk management.

The Group's derivative transactions are restricted to forward exchange contracts as hedge against currency fluctuation risks on its foreign currency-denominated operating receivables and debt and foreign currency-denominated loans receivable, and interest rate swap agreements to mitigate interest rate risks on part of the Group's variable interest rate loans payable. These transactions are managed properly under the derivative transactions management rules, etc. of each Group company which specifically require enforcement of "Guidelines for Foreign Exchange Transactions" to be subject to prior approval of the board of directors, while setting out limits on the authority and amount regarding transactions.

(2) Matters regarding the market value etc. of financial instruments

Consolidated balance sheet amounts and market values of the Group's financial instruments and the difference between the two as of the end of the fiscal year under review (March 31, 2011) are as follows. Market values of financial instruments named in Note 2 below are extremely difficult to grasp, thus are not included in the following list.

(Unit: millions of yen)

	Consolidated balance sheet amount	Market value	Difference
(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) Stocks of affiliates	493	280	(213)
(4) Notes and accounts payable - trade	37,513	37,513	—
(5) Short-term loans payable	2,857	2,857	—
(6) Long-term loans payable	5,316	5,333	(17)
(7) Current portion of bonds	11,892	11,892	—
(8) Bonds payable	29,608	29,356	252
(9) Derivative transactions (*2)			
1) Transactions outside the scope of hedge accounting	3	3	—
2) Transactions subject to hedge accounting	(0)	(0)	—

(*1) Embedded derivatives are included in investment securities with measuring the compound financial instruments as a whole at fair value, since it is impossible to measure it separately its fair value reasonably.

(*2) Net credits and debts generated from derivative transactions are indicated in net amounts.

Notes: 1 Matters regarding the methods to calculate the market values of financial instruments, and regarding short-term investment securities and derivative transactions

(1) Cash and deposits; and (2) Notes and accounts receivable - trade

Of these, those that are settled in a short period of time (within one year) are recorded in book values as their market values are proximate to their book values. Of the notes and accounts receivable - trade, those with settlement dates arriving after more than one year from the end of the fiscal year under review are subject to present value evaluation in which amounts of receivables are discounted by the interest rates for the periods up to their settlement dates weighted by credit risks involved on case by case basis.

(3) Short-term investment securities and investment securities

Market values of stocks are based on their prices quoted on the concerned stock exchange, while those of debt securities are based on their prices quoted either on the concerned exchange, or by the underwriting financial institutions. Negotiable certificates of deposit included in available-for-sale securities are recorded in book values as they are settled in a short period (within one year) where their book values are proximate to their market values.

(4) Notes and accounts payable – trade; (5) Short-term loans payable; and (7) Current portion of bonds

Of these, those that are settled in a short period of time (within one year) are recorded in book values as their market values are proximate to their book values. In addition, there are some cases that fair value of the short-term loans payable, that the special treatment is applied, is calculated together with the interest-rate swap.

(6) Long-term loans payable; and (8) Bonds payable
Market values of these are calculated by the present value based on the sum of principal and interest as discounted by the interest rates presumed in the case of new borrowings. In addition, there are some cases that fair value of the long-term loans payable, that the special treatment is applied, is calculated together with the interest-rate swap.

(9) Derivative transactions
Market values of these are the prices quoted by the counterparty financial institutions.

2 Financial instruments whose market values are found to be extremely difficult to grasp

Category	Consolidated balance sheet amount (Millions of yen)
Investment in unlisted stocks	2,036
Investment in limited partnership	1,352
Stocks of non-consolidated subsidiaries	2,189
Stocks of affiliates	765
Investment in affiliates	224

Items above are not included in “(3) Short-term investment securities and investment securities” as their market values are believed to be extremely difficult to grasp, due to the absence of market prices and unavailability of estimated future cash flow.

VI Note Regarding Investment and Rental Property

Status and market value of investment and rental property
This disclosure is omitted due to the immateriality of the total amount of the investment and rental property.

VII Note Regarding Per Share Information

Net assets per share ¥1,093.23
Net income per share ¥163.19

VIII Note Regarding Material Subsequent Events

A resolution has been reached at each of the board meetings of the Company, Sammy Corporation, a wholly owned subsidiary of the Company (“SAMMY”), and TAIYO ELEC Co., Ltd., a subsidiary of SAMMY (“TAIYO ELEC”), held on May 13, 2011 to conduct an exchange of shares involving common stock of the Company as consideration (the “Share Exchange”) in order to convert TAIYO ELEC into a wholly owned subsidiary of SAMMY, which will become the wholly owning parent of TAIYO ELEC. The Share Exchange will be conducted pursuant to an agreement to exchange shares that has been executed between SAMMY and TAIYO ELEC (the “Share Exchange Agreement”).
The Share Exchange is to be conducted after TAIYO ELEC obtains approval for the Share Exchange Agreement from its shareholders at an ordinary general meeting scheduled to be held on June 21, 2011. SAMMY has on May 13, 2011 obtained the approval for the Share Exchange Agreement from its shareholder at an extraordinary general meeting by means of a written resolution pursuant to Article 319(1) of the Companies Act of Japan.

Overview of the Share Exchange is as follows.

(1) Purposes of the Share Exchange
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, the sole listed subsidiary in the SEGA SAMMY group, into a wholly owned subsidiary.
We believe that, for TAIYO ELEC to continue to expand its business through the development

of more efficient and inventive pachinko and pachislot machines, the company needs to deepen its connections with SAMMY 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 pachinko and pachislot machines market by improving TAIYO ELEC's pachinko and pachislot machine development capability through measures such as personnel exchanges involving highly skilled pachinko and pachislot 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 fall further as a result of sharing of components, joint purchasing and other measures.

(2) Effective date of the Share Exchange

August 1, 2011 (tentative)

(3) Method of the Share Exchange

It has been determined that common stocks of the Company will be the consideration in the Share Exchange, given that, among other things, the minority shareholders of TAIYO ELEC will continue to be offered liquidity with respect to their shares, there will be a shared opportunity to benefit from synergies resulting from the Share Exchange and pursuant to the group strategy, it is necessary to maintain a wholly owned parent/subsidiary relationship between SAMMY and the Company. Common stocks in an amount necessary for such purpose will be allotted to SAMMY through the Company's disposal of its treasury stock.

(4) Share exchange ratio

SAMMY will furnish 0.40 shares of common stock of the Company per share of common stock of TAIYO ELEC, provided that SAMMY will not allot shares in the Share Exchange in connection with shares that SAMMY holds, consisting of 11,623,100 shares of common stock of TAIYO ELEC.

SAMMY plans to acquire common stocks of the Company by subscribing to treasury stock disposed of by the Company.

(5) Basis for calculation of share exchange ratio

In order to achieve fairness and appropriateness in the share exchange ratios used for the Share Exchange, it was decided that SAMMY and TAIYO ELEC would each invite an independent institution to perform the calculations. SAMMY selected Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and TAIYO ELEC selected SMBC Nikko Securities Inc. to perform such calculations.

After earnest discussions and negotiations in reference to the results of analysis of the share exchange ratio submitted by the third-party valuation companies described above, SAMMY and TAIYO ELEC reached the adopting of a resolution by the board of directors of each company setting a share exchange ratio for the Share Exchange.

(6) Outline of the company to be the wholly owning parent

Trading name	:	Sammy Corporation
Capitalization	:	¥18,221 million
Description of Business	:	Manufacture and sales of pachinko machines, pachislot machines, ball arranging machines, mahjong ball machines and related equipment

(7) Summary of Accounting

The Share Exchange constitutes, out of transactions, etc., under common control, an additional acquisition of shares of a subsidiary by SAMMY from minority shareholders of TAIYO ELEC. It is expected that goodwill (or negative goodwill) will appear in the consolidated financial statements of SEGA SAMMY in association with the Share Exchange, but at present, no determination has been made as to the amount of goodwill (or negative goodwill) that will be generated.

3. Individual Notes

I Notes Regarding Material Matters Related to Accounting Policies

1. Valuation standards and accounting treatment for assets

(1) Valuation standards and methods for securities

① Stocks of subsidiaries and affiliates are stated at moving-average cost.

② Other securities

Securities with fair market value are stated at fair market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in net assets, with cost of sales determined by the moving average method.

Other securities without fair market value are stated at moving-average cost.

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 Investment 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.

2. Depreciation and amortization of noncurrent assets

(1) Property, plant and equipment

Depreciation is computed by the declining-balance method.

However, buildings (excluding attached equipment) are depreciated using the straight-line method.

Useful life for primary assets is as follows:

Building	: 2 - 50 years
Structure	: 2 - 50 years
Tools/Furniture	: 2 - 20 years

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 next fiscal year.

(2) Intangible assets

Amortization is computed using the straight-line method. We adopt the straight-line method over the useful life of 5 years for Software for internal use.

3. Accounting for provisions

(1) Provision for bonuses

Provisions for bonuses are provided based on the estimated amount to be paid.

(2) Provision for directors' bonuses

Provisions for directors' bonuses are provided based on the estimated amount to be paid.

(3) Provision for retirement benefits

The liability for retirement benefits is based on the estimated amount of benefit obligations at the end of the fiscal year.

4. Other material matters that form the basis of accounting documents

(1) Accounting method for consumption taxes

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

5. Changes in Presentation

(1) Non-Consolidated Balance Sheet

"Income taxes receivable" that was included in "other" under current assets in the previous fiscal year has now exceeded 1% of the amount of total assets, and it is therefore separately itemized from the fiscal year under review. The value of "income taxes receivable" included in "other" for the previous fiscal year was ¥1,579 million.

(2) Non-Consolidated Statement of Income
"Expenses from operation of lease asset" that was separately itemized for the previous fiscal year, has been included in "other" under non-operating expenses for the fiscal year under review, due to its reduced significance (¥56 million for the fiscal year under review).

6. Additional Information

From the next fiscal year, the Company is scheduled to adopt consolidated tax return system in which the Company is a consolidated parent corporation, following the successful application for such adoption in the fiscal year under review. From the fiscal year under review, the Company has been adopting accounting treatments as prerequisite to the adoption of consolidated tax return system in accordance with "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (ASBJ PITF No.5 initially issued on October 9, 2002 and lastly revised on March 18, 2011) and "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (ASBJ PITF No.7 initially issued on February 6, 2003 and revised on June 30, 2010).

II Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ¥644 million

(2) Receivables from and payables to affiliates

Short-term receivables from affiliates	¥1,708 million
Short-term payables to affiliates	¥8,349 million
Long-term receivables from affiliates	¥1,393 million

III Notes to Statement of Income

Transactions with affiliates

Consulting fee income	¥4,512 million
Dividends income (Operating revenue)	¥27,900 million
SG&A expenses	¥35 million
Non-operating transactions	¥851 million

IV Notes to Statement of Changes in Net Assets

Number and type of Treasury stock as of the end of the fiscal year under review

Common stock	14,504,662 shares

V Notes Regarding Tax Effect Accounting

(1) Main reasons for recording deferred tax assets and deferred tax liabilities

(Unit: millions of yen)

Deferred tax assets	
Loss carried forward	8,161
Exclusion from the deductible expenses of provision for bonuses	40
Exclusion from the deductible expenses of loss on valuation of investment securities	3,960
Disallowed portion of loss on investments in partnership	1,562
Valuation difference on available-for-sale securities	335
Other	161
Subtotal deferred tax assets	14,222
Valuation allowance	(8,215)
Total deferred tax assets	6,006
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(8,045)
Total deferred tax liabilities	(8,045)
Deferred tax liabilities, net	(2,039)

Note: As the Company is scheduled to adopt consolidated tax return system from the next fiscal year, realizability of deferred tax assets in the fiscal year under review has been evaluated in accordance with "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (ASBJ PITF No.5 initially issued on October 9, 2002 and lastly revised on March 18, 2011) and "Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (ASBJ PITF No.7 initially issued on February 6, 2003 and lastly revised on June 30, 2010).

(2) Breakdown by main item that caused significant difference between normal effective statutory tax rate and the actual rate of corporate tax burden after tax effect accounting, if there is any such difference.

Normal effective statutory tax rate	40.7%
(Adjusted)	
Permanently non-deductible expenses including entertainment expenses	1.1%
Changes in valuation allowance	3.1%
Amount excluded from gross revenue such as dividend income	(44.3%)
Effect from the adoption of consolidated taxation system	(22.0%)
Other	(0.6%)
Actual rate of corporate tax after tax effect accounting	(22.0%)

VI Notes Regarding Transactions with Related Parties

(1) Subsidiaries and Affiliates

(Unit: millions of yen)

Type	Name	Voting rights (%)	Relationship	Name of transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year
Subsidiary	Sammy Corporation	100.0	Management guidance to the company, interlocking directorate	Consulting fee income (Note 2)	2,932	Accounts receivable-trade	256
				Borrowing of funds	9,000	Short-term loans payable	8,300
				Repayment of loans	700	–	–
				Interest on loans (Note 3)	40	–	–
Subsidiary	SEGA CORPORATION	100.0	Management guidance to the company, interlocking directorate	Consulting fee income (Note 2)	1,579	Accounts receivable-trade	138

Notes: 1. Consumption taxes are not included in transaction amounts.
2. The amount of the Consulting fee income is decided based on the Company's necessary expenses.
3. Interest is determined with consideration to market interest rates.

(2) Directors, Key Individual Shareholders, etc.

(Unit: millions of yen)

Type	Name	Voting rights (%)	Relationship	Name of transactions	Transaction amount (Note 1)	Accounts	Balance at end of fiscal year
Company in which Directors or their relatives own majority voting rights	FSC Co., Ltd (Note 2)	5.68	Insurance representative	Payment of insurance premium (Note 3)	6	Prepaid expenses	3
				Receipt and remittance of insurance monies	2	–	–
			Subcontractor	Payment of subcontracting fees (Note 3)	11	–	–
Directors and their relatives	Hajime Satomi	17.48	Chairman of the Board and Chief Executive Officer of the Company	Payment of used of a business jet (Note 4)	240	–	–

Notes: 1. Consumption taxes are not included in transaction amounts.
2. Hajime Satomi, Chairman of the Board and Chief Executive Officer, holds 53% of the voting rights of FSC Co., Ltd.
3. Transaction prices are determined in the same way as for general transactions and with reference to market prices.
4. Transaction prices are based on actual current prices.

VII Note Regarding Per Share Information

Net assets per share ¥1,358.82
Net income per share ¥131.02

VIII Notes Regarding Material Subsequent Events

A resolution has been reached at the board meeting of the Company held on May 13, 2011 to conduct a disposal of treasury stock by third-party allotment to a subsidiary.

1. Reason for disposal of treasury stock
   The common stocks of the Company will be allotted to Sammy Corporation in the Share Exchange where the common stocks of the Company will be the consideration, and Sammy Corporation, a wholly owned subsidiary of the Company, will become the wholly owning parent while TAIYO ELEC Co., Ltd., a subsidiary of Sammy Corporation, will become the wholly owned subsidiary. For details thereof, please refer to “Note Regarding Material Subsequent Events” in the consolidated financial statements.

2. Class and number of shares to be disposed: Common stock 4,423,660 share

3. Amount of disposal: ¥1,583 per share (total: ¥7,002 million)

4. Method of disposal: Allotment to Sammy Corporation (with payment)

5. Due date of payment: May 30, 2011 (tentative)