

(Translation)

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Securities Code: 6460

June 5, 2006

Hajime Satomi  
Chairman of the Board and Chief Executive Officer  
SEGA SAMMY HOLDINGS INC.  
Shiodome Sumitomo Building,  
1-9-2 Higashi Shimbashi, Minato-ku, Tokyo

Dear Shareholders:

**Notice of the 2nd Ordinary General Meeting of Shareholders  
to be held on June 20, 2006**

You are cordially invited to attend the 2nd Ordinary General Meeting of Shareholders of SEGA SAMMY HOLDINGS INC. to be held at the Tokyo Prince Hotel Park Tower, 8-1, Shibakoen 4-chome, Minato-ku, Tokyo, Japan on Tuesday, June 20, 2006 at 10:00 a.m. for the purposes listed below.

- If you are unable to attend the aforesaid meeting, you are requested to review the reference materials attached hereto, and exercise your voting rights by means of either of the following:
- (A) indicate on the voting exercise form enclosed herewith your “approval” or “disapproval” of the items of business on the agenda and return to the Company the said form after affixing thereto your seal impression. The voting exercise form must be received **prior to 18:00 Japan Standard Time on Monday, June 19, 2006**; or
  - (B) indicate on the website (<http://www.evotep.jp/>) your “approval” or “disapproval” of the items of business on the agenda according to the website instructions. You may exercise your voting right via the Internet **until 24:00 Japan Standard Time on Monday, June 19, 2006**.

### Meeting Details

- 1. Date and time: 10:00 a.m. on Tuesday, June 20, 2006
- 2. Place: [Convention Hall, second basement, Park Tower Tokyo Prince Hotel](#)  
8-1, Shibakoen 4-chome, Minato-ku, Tokyo
- 3. Agenda of the meeting
  - Matters to be reported:
    - 1. Reporting the business report, the consolidated balance sheet, the consolidated statement of income, and the reports of the Accounting Auditor and the Board of Corporate Auditors for the 2nd fiscal year (from April 1, 2005 to March 31, 2006)
    - 2. Reporting the non-consolidated balance sheet, and the non-consolidated statement of income for the 2nd fiscal year (from April 1, 2005 to March 31, 2006)

Matters to be resolved:

- Item1: To approve the proposed appropriation of retained earnings for the 2nd fiscal year
- Item2: To amend certain parts of the Articles of Incorporation
- Item3: To elect seven Directors
- Item4: To elect one Substitute Corporate Auditor
- Item5: To issue stock acquisition rights for the purpose of granting stock options to the Company's Directors
- Item6: To issue stock acquisition rights for the purpose of granting stock options to Directors of the Company's subsidiaries and to executive officers and other employees of the Company and its subsidiaries
- Item7: To revise compensation for Directors

4. How to exercise your voting rights

Please refer to the "Information Relating to the Exercise of Voting Rights" on pages 4 ~ 6.

If you decide to attend the meeting, please submit the enclosed voting right exercise form at the reception desk at the meeting location on the day of the meeting.

## Information Relating to the Exercise of Voting Rights

### 1. Exercise of voting rights by proxy

A shareholder who is unable to attend the meeting in person may vote by proxy. The proxy shall be another shareholder with a voting right in the Company and shall be authorized by a power of attorney.

### 2. Notification in case of any change made to the Reference Materials for the General Meeting of Shareholders or financial statements of the Company

Should any change need to be made to the Reference Materials for the General Meeting of Shareholders, or consolidated or non-consolidated financial statements of the Company, revised information shall be posted on the following websites of the Company:

Flash page (<http://www.segasammy.co.jp/japanese/ir/stockholder/index.html>)

HTML page ([http://www.segasammy.co.jp/japanese/ir\\_txt/stockholder/index.html](http://www.segasammy.co.jp/japanese/ir_txt/stockholder/index.html))

### 3. Handling of the voting right exercised both by mail and via the Internet

When any shareholder exercises the voting right both by mail and via the Internet, only the entries on the Internet shall be valid.

### 4. Handling of the voting right exercised more than once via the Internet

When any shareholder exercises the voting right more than once via the Internet, only the last entries shall be considered valid.

### 5. How to exercise your voting rights via the Internet

If you wish to exercise your voting rights via the Internet, before doing so, please read and accept the following conditions.

#### (1) About the voting website

- (i) Your voting right may be exercised by accessing the voting website designated by the Company (<http://www.evotep.jp/>) from a PC or mobile phone (i-mode, EZweb or Vodafone live!). (“i-mode”, “EZweb” and “Vodafone live!” are trademarks or registered

- trademarks of NTT DoCoMo, KDDI and Vodafone Group Plc, respectively.)
- (ii) You may not be able to use the voting website depending on your particular Internet connection, including the use of Firewall, anti-virus software and a proxy server.
  - (iii) You need to have access to either i-mode, EZ web or Vodafone live! services when exercising your voting right via mobile phone. Even when such service is available, the voting website is only accessible from a mobile handset capable of communicating encrypted data (i.e. SSL) and mobile phone data for security purposes.
  - (iv) You may exercise your voting right via the Internet **until 24:00 Japan Standard Time on Monday, June 19, 2006**. However, we should be grateful if you would exercise your voting right as early as possible. For any inquiries concerning the exercise of the voting right via the Internet, please contact the helpdesk described below.

## (2) Exercising voting rights on the Internet

- (i) On the voting website described above, use the “voting right exercise code” and “tentative password” printed on the enclosed voting right exercise form and follow the on-screen instructions to enter your “approval” or “disapproval”.
- (ii) In order to prevent unauthorized access by persons other than shareholders (“spoofing”) and falsification of entries, you will be kindly requested to follow such procedures as changing the “tentative password” and obtaining an individual electronic certificate (or transmitting your mobile phone information).
- (iii) The “voting right exercise code” is issued separately for each general meeting of shareholders. However, for those shareholders who have agreed to receive the invitation via email, the personal password will remain valid unless it is changed by the shareholder. So please be advised to carefully safeguard the password.

## (3) Cost of accessing the voting website

The cost of accessing the voting website (e.g. dial-up connection fees and telephone charges) shall be paid by the shareholders. Please note that the cost of using the mobile phone including packet charges shall also be paid by the shareholders.

## (4) How to receive the invitation

If you wish, you may receive the invitation to the general meeting of shareholders by e-mail, starting with the following general meeting of shareholders. To apply for this service, please follow the procedure on the voting website. (Please note that the registration cannot be completed from a mobile phone and that mobile phone e-mail addresses are not accepted.)

**For inquiries concerning the online voting system etc.:**

**[Helpdesk]**

**Shareholder register manager: Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation**

**Direct line: 0120-173-027 (Domestic “Japan” call only) (Weekdays 9:00-21:00)**

**\* Please note that the above contact number is not for inquiries concerning shares.**

## Reference Materials for the General Meeting of Shareholders

### Proposals and reference information

**Item1:** To approve the proposed appropriation of retained earnings for the 2nd fiscal year  
Details of the proposed appropriation of retained earnings are set out on page 32 of the attached [Business Report 2006 \(Report and Reference for the 2nd Ordinary General Meeting of Shareholders\)](#). Regarding dividends, we propose to distribute a cash dividend of ¥30 per share in appreciation for the support of our shareholders.

Regarding bonuses for Directors and Corporate Auditors, in order to reward them for their notable work during the 2nd fiscal year, we propose to pay bonuses totaling ¥200,000,000 to the six Directors and four Corporate Auditors in office as of March 31, 2006, of which bonuses to Corporate Auditors be ¥5,000,000, in consideration of such factors as the Company's profit earned in the said term and bonuses paid to Directors by way of such appropriations in the past.

The business report, and the consolidated and non-consolidated balance sheets and statements of income of the 2nd fiscal year are shown on pages 3 ~ 32 of the attached [Business Report 2006 \(Report and Reference for the 2nd Ordinary General Meeting of Shareholders\)](#).

### **Item2:** To amend certain parts of the Articles of Incorporation

#### 1. Reasons for the amendments

The "Corporate Law" came into effect on May 1, 2006. Accordingly, we propose to amend the Articles of Incorporation of the Company as detailed in the table below.

The "Law Concerning the Coordination etc., of Associated Laws in Connection with the Enforcement of the Corporate Law" assumes that a Japanese corporation's articles of incorporation provide for the matters specified in the current Article 8 (Issuance of share

certificates), Article 11 (Shareholder register manager), Article 20 (Board of Directors), Article 35 (Corporate Auditors and Board of Corporate Auditors) and Article 45 (Accounting Auditors) of the Articles of Incorporation of the Company. Therefore, the Board of Directors resolved, at its meeting held on April 24, 2006, that the Articles listed above be amended as they are, on the effective date of the said Law, and the Articles were amended effective from May 1, 2006 accordingly.

- (1) One of the subsidiaries of the Company has modified its business purposes. To make corresponding modifications to the purposes of the Company, as the parent company, we propose to make additions to the purposes specified in Article 2 (Purpose), item (13) of the current Articles of Incorporation of the Company. In order to bring related items closer to each other, it is also proposed to move item (21) to item (14), renumbering subsequent items accordingly.
- (2) To respond to the implementation of the “Corporate Law” on May 1, 2006 in terms of consistency with terminology of the said Law and quoted provisions of relevant laws, we propose to make necessary changes to the following Articles of the current Articles of Incorporation: Article 5 (Total number of shares authorized to be issued), Article 6 (Acquisition of treasury stock), Article 7 (Number of shares per unit), Article 8 (Issuance of share certificates), Article 9 (Certificates pertaining to shares less than one unit of shares), Article 10 (Request for sale of additional fractional unit shares), Article 11 (Shareholder register manager), Article 12 (Share handling policy), Article 13 (Record date), Article 15 (Venue), Article 18 (Method of adopting resolutions), Article 22 (Election), Article 23 (Term of office), Article 32 (Compensation), Article 37 (Election), Article 38 (Term of office), Article 39 (Full-time Corporate Auditors), Article 44 (Compensation), Article 46 (Business year and accounting term) and Article 49 (Statute of limitation for cash dividends).
- (3) To place a reasonable limitation on the rights of shareholders holding fractional unit shares, we propose to create Article 11 (Rights of shareholders holding fractional unit shares) as presented in the proposed amendment below, pursuant to Article 189, paragraph 2 of the Corporate Law.
- (4) Pursuant to the provisions of Article 94 and Article 133, paragraph 3 of the



enforcement regulations of the Corporate Law, and Article 161, paragraph 4 and Article 162, paragraph 4 of the Corporate Accounting Rules, a Japanese corporation is now allowed to disclose and provide information such as reference materials for general meetings of shareholders via the Internet. Accordingly, we propose to create Article 18 (Deemed provision and disclosure via the Internet of reference materials, etc. for general meetings of shareholders) as presented in the proposed amendment below in order to disclose information promptly and to enhance convenience for shareholders.

- (5) With regard to the exercise of voting rights by proxy in a general meeting of shareholders, we propose to amend the current Article 17 (Vote by proxy) to define the method of authorization and the number of proxies pursuant to the provisions of Article 310 of the Corporate Law and Article 63, paragraph 5 of the enforcement regulations of the Corporate Law.
- (6) Article 318, paragraph 1, Article 369, paragraph 3 and Article 393, paragraph 2 of the Corporate Law, and Articles 72, 101 and 109 of the enforcement regulations of the Corporate Law require a Japanese corporation to create minutes of a general meeting of shareholders, Board of Directors meeting and Board of Corporate Auditors meeting in accordance with relevant ordinances of the Ministry of Justice. To meet this requirement as well as to enable recording by electromagnetic methods in addition to recording in writing, we propose to make necessary changes to the current Article 19 (Minutes), Article 29 (Minutes) and Article 42 (Minutes).
- (7) To enable the Board of Directors to adopt, if the need arises, resolutions flexibly either in writing or by electromagnetic methods, we propose to create Article 31 (Omission of resolution of Board of Directors) as presented in the proposed amendment below in accordance with Article 370 of the Corporate Law.
- (8) Article 329, paragraph 2 of the Corporate Law and Article 96 of the enforcement regulations of the Corporate Law allow a Japanese corporation to elect substitute Directors and Corporate Auditors in advance. Accordingly, we propose to make necessary changes to the current Article 36 (Number) and Article 37 (Election).
- (9) To establish the effective period of a resolution for electing a Substitute Corporate Auditor in advance, we propose to make necessary changes to the current Article 37

(Election) and Article 38 (Term of office) and to add paragraphs 3 and 4 to Article 41 (Term of office of Corporate Auditors) as presented in the proposed amendment below, pursuant to Article 336, paragraph 3 of the Corporate Law.

- (10) Pursuant to Article 427, paragraph 1 of the Corporate Law, we propose to create Article 48 (Limited liability contract with outside Corporate Auditors) and Article 53 (Exemption from liability of Accounting Auditors) as presented in the proposed amendment below in order to enable outside Corporate Auditors and Accounting Auditors to fully exercise their abilities and to play their expected roles as they carry out their duties. To ensure consistency with the provisions in CHAPTER IV (DIRECTORS AND THE BOARD OF DIRECTORS, AND EXECUTIVE OFFICERS) and CHAPTER V (CORPORATE AUDITORS AND THE BOARD OF CORPORATE AUDITORS), we also propose to create Article 50 (Election of Accounting Auditors), Article 51 (Term of office of Accounting Auditors) and Article 52 (Compensation etc. for Accounting Auditors) as presented in the proposed amendment below.
- (11) To authorize the Board of Directors to determine matters such as dividends of surplus, and to enable the timely return of profits to shareholders, we propose to create Article 55 (Dividends of surplus etc.) as presented in the proposed amendment below and to make necessary changes to Article 47 (Cash dividends) and Article 48 (Interim dividends) in accordance with Article 459, paragraph 1 and Article 460 of the Corporate Law.
- (12) Along with the above amendments, we will make necessary changes to applicable provisions such as modifying certain wording and renumbering Articles and paragraphs.

## 2. Details of the amendments

The details of the amendments in the Articles of Incorporation are as follows:

(The parts indicated by double underlines in the table below are the amendments that were made effective from May 1, 2006 in accordance with the “Law Concerning the Coordination etc., of Associated Laws in Connection with the Enforcement of the Corporate Law”, and the single-underlined parts are amendments being proposed to this

general meeting of shareholders.)

Note: The underlined parts marked with an asterisk (\*) show where the original Japanese text is amended due to changes in the statutory wording. However, there are no changes to the English wording as the original meaning remains the same.)

Present Articles of Incorporation	Proposed Amendment
CHAPTER I GENERAL PROVISIONS	CHAPTER I GENERAL PROVISIONS
Article 1	Article 1
~ (Omitted)	~ (Not amended)
Article 2 (1) ~ (12)	Article 2 (1) ~ (12)

Present Articles of Incorporation	Proposed Amendment
(13) Operation of amusement centers, game arcades, amusement parks, hotels, Japanese-style inns, catering establishments, golf courses, sports facilities, Karaoke facilities, parking facilities and car washes; and recruitment and support of franchisees, and sale of franchises through a franchise system of those businesses listed above	(13) Operation of amusement centers, game arcades, amusement parks, hotels, Japanese-style inns, catering establishments, golf courses, sports facilities, <u>spa facilities</u> , Karaoke facilities, parking facilities and car washes; and recruitment and support of franchisees, and sale of franchises through a franchise system of those businesses listed above
(14) Information services to collect, analyze, process and provide a variety of information	(14) Planning, management and operation of a variety of events such as theater plays, theatrical entertainment, movies and concerts
(15) Internet connection intermediary business	(15) (Same as the current item (14))
(16) Planning, production, sale, and import and export of video software, and audio and music software	(16) (Same as the current item (15))
(17) Planning, production, sale and distribution of broadcast programs, movies and animation	(17) (Same as the current item (16))
(18) Advertising and publicity businesses	(18) (Same as the current item (17))
(19) System design and planning for cable television	(19) (Same as the current item (18))
(20) Television and other general broadcast businesses under the Broadcast Law	(20) (Same as the current item (19))
(21) Planning, management and operation of a variety of events such as theater plays, theatrical entertainment, movies and concerts	(21) (Same as the current item (20))
(22) ~ (37) (Omitted)	(22) ~ (37) (Not amended)
2. (Omitted)	2. (Not amended)
Article 3	Article 3
~ (Omitted)	~ (Not amended)
Article 4	Article 4

Present Articles of Incorporation	Proposed Amendment
<p style="text-align: center;">CHAPTER II SHARES</p> <p>Article 5 (<u>Total number of shares authorized to be issued</u>)  <u>The total number of shares authorized to be issued by the Company shall be 800,000,000 shares; provided, however, that in the event that shares are cancelled, the number of shares so cancelled shall be subtracted from the total number of shares authorized.</u></p> <p>Article 6 (<u>Acquisition of treasury stock</u>)  The Company may <u>purchase treasury stock</u>, subject to a resolution of the Board of Directors, pursuant to the provisions of <u>Article 211-3, paragraph 1, item 2 of the Commercial Code.</u></p> <p>Article 7 (<u>Number of shares per unit</u>)  <u>The number of shares to constitute a unit of shares of the Company shall be 100 shares.</u></p> <p><u>Article 8 (Issuance of share certificates)</u>  <u>The Company shall issue share certificates pertaining to the shares.</u></p> <p>Article <u>9</u> (<u>Certificates pertaining to shares less than one unit of shares</u>)  The Company shall issue no certificates pertaining to shares constituting less than <u>one unit of shares</u> (hereinafter, "fractional unit shares").</p>	<p style="text-align: center;">CHAPTER II SHARES</p> <p>Article 5 (<u>Total number of shares authorized to be issued*</u>)  <u>The total number of shares authorized to be issued* by the Company shall be 800,000,000 shares.</u></p> <p>Article 6 (<u>Acquisition of own shares</u>)  The Company may <u>acquire its own shares by such means as market transactions</u>, subject to a resolution of the Board of Directors, pursuant to the provisions of <u>Article 165, paragraph 2 of the Corporate Law.</u></p> <p>Article 7 (<u>Number of shares per unit share</u>)  <u>The number of shares to constitute a unit share of the Company shall be 100 shares.</u></p> <p>Article 8 (<u>Issuance of share certificates</u>)  The Company shall issue share certificates <u>for</u> the shares <u>of</u> the Company.</p> <p>Article 9 (<u>Certificates pertaining to shares less than one unit share</u>)  The Company <u>may decide not to issue</u> certificates pertaining to shares constituting less than <u>one unit share</u> (hereinafter, "fractional unit shares").</p>

Present Articles of Incorporation	Proposed Amendment
<p>Article <u>10</u> (Request for sale of additional fractional unit shares)  Shareholders (including beneficial shareholders; the same applies hereinafter) who possess fractional unit shares of the Company may request the Company to sell the number of shares that will, together with such fractional unit shares, constitute <u>a full unit of shares</u> (hereinafter "request for sale of additional shares); <u>provided, however, that this shall not apply in the case that the Company does not have the requested number of treasury stock.</u></p> <p>2. (Omitted)</p> <p>(New)</p>	<p>Article 10 (Request for sale of additional fractional unit shares)  Shareholders (including beneficial shareholders; the same applies hereinafter) who possess fractional unit shares of the Company may request the Company to sell the number of shares that will, together with such fractional unit shares, constitute <u>a full unit share</u> (hereinafter "request for sale of additional shares).</p> <p>2. (Not amended)</p> <p><u>Article 11 (Rights of shareholders holding fractional unit shares)</u>  <u>Shareholders holding fractional unit shares of the Company shall have no rights to exercise other than those stipulated below:</u></p> <p>(1) <u>Rights stipulated in each item of Article 189, paragraph 2 of the Corporate Law.</u>  (2) <u>Right to receive dividends of surplus</u>  (3) <u>Right to request redemption of shares with redemption rights</u>  (4) <u>Right to be allocated publicly offered shares or publicly offered stock acquisition rights</u>  (5) <u>Right to request the sale of additional fractional unit shares defined in the preceding article</u></p>
<p><u>Article 11 (Shareholder register manager)</u>  <u>The Company shall have a shareholder register manager with respect to shares and stock acquisition rights.</u></p> <p>2. The <u>shareholder register manager</u> and its business office shall be determined by a resolution of the Board of Directors.  3. The register of shareholders (including the register</p>	<p>Article <u>12</u> (Shareholder register manager)  <u>The Company shall have a shareholder register manager.</u></p> <p>2. (Not amended)</p> <p>3. (Not amended)</p>

Present Articles of Incorporation	Proposed Amendment
<p>of beneficial shareholders; the same applies hereinafter), the register of lost share certificates and the register of stock acquisition rights of the Company shall be kept at the business office of the <u>shareholder register manager</u>. Business relating to shares and stock acquisition rights such as registration of a transfer of shares or stock acquisition rights, acceptance of notifications with regard to beneficial shareholders, registration or erasure of a pledge, indication or erasure of trust property, non-possession of share certificates, reports required of shareholders, reissuance of share certificates, registration of lost share certificates, and purchase and sale of fractional unit shares shall be handled by the <u>shareholder register manager</u> and not by the Company.</p> <p>Article <u>12</u> (Share handling policy)  Handling of matters relating to shares and stock acquisition rights such as denominations of share certificates of the Company, registration of a transfer of shares or stock acquisition rights, acceptance of notifications with regard to beneficial shareholders, registration or erasure of a pledge, indication or erasure of trust property, non-possession of share certificates, reports required of shareholders, reissuance of share certificates, registration of lost share certificates, and purchase and sale of fractional unit shares; and handling fees shall be governed by the share handling policy established by the Board of Directors.</p>	<p>Article <u>13</u> (Share handling policy)  Handling of matters relating to shares and stock acquisition rights such as denominations of share certificates of the Company, registration of a transfer of shares or stock acquisition rights, acceptance of notifications with regard to beneficial shareholders, registration or erasure of a pledge, indication or erasure of trust property, non-possession of share certificates, reports required of shareholders, reissuance of share certificates, registration of lost share certificates, and purchase and sale of fractional unit shares; <u>procedures etc. for exercise of shareholders' rights</u>; and handling fees shall be governed by the share handling policy established by the Board of Directors.</p>

Present Articles of Incorporation	Proposed Amendment
<p>Article <u>13</u> (Record date) The Company shall treat the shareholders with voting rights appearing or recorded in the final register of shareholders as of March 31 of each year as the shareholders entitled to exercise their rights at the ordinary general meeting of shareholders for the corresponding <u>accounting term</u>.</p> <p>2. In addition to the case of the preceding paragraph or Article <u>47</u>, the Company may, by giving prior public notice, set a certain date as record date by a resolution of the Board of Directors, if it is necessary in order to define persons entitled to exercise their rights as shareholders or <u>registered pledgees</u>.</p> <p style="text-align: center;">CHAPTER III GENERAL MEETING OF SHAREHOLDERS</p> <p>Article <u>14</u> (Convocation) (Omitted)</p> <p>Article <u>15</u> (Venue) General meetings of shareholders of the Company <u>may</u> be convened in the area of head office or at a neighboring location <u>as well as</u> at a location in a ward of the Metropolis of Tokyo.</p> <p>Article <u>16</u> (Convener and chairperson) (Omitted)</p> <p style="text-align: center;">(New)</p>	<p>Article <u>14</u> (Record date) The Company shall treat the shareholders with voting rights appearing or recorded in the final register of shareholders as of March 31 of each year as the shareholders entitled to exercise their rights at the ordinary general meeting of shareholders for the corresponding <u>fiscal year</u>.</p> <p>2. In addition to the case of the preceding paragraph or Article <u>55</u>, the Company may, by giving prior public notice, set a certain date as record date by a resolution of the Board of Directors, if it is necessary in order to define persons entitled to exercise their rights as shareholders or <u>registered share pledgees</u>.</p> <p style="text-align: center;">CHAPTER III GENERAL MEETING OF SHAREHOLDERS</p> <p>Article <u>15</u> (Convocation) (Not amended)</p> <p>Article <u>16</u> (Venue) General meetings of shareholders of the Company <u>shall</u> be convened in the area of head office, at a neighboring location <u>or</u> at a location in a ward of the Metropolis of Tokyo.</p> <p>Article <u>17</u> (Convener and chairperson) (Not amended)</p> <p>Article <u>18</u> (<u>Deemed provision and disclosure via the Internet of reference materials, etc. for general meetings of shareholders</u>) <u>Regarding convocation of general meetings of shareholders, the Company may be deemed to have provided shareholders with information pertaining to items that the Company is required to describe or</u></p>



Present Articles of Incorporation	Proposed Amendment
<p>Article <u>17</u> (Vote by proxy) A shareholder of the Company may exercise its voting rights by authorizing another shareholder who has a voting right in the Company as its proxy in a general meeting of shareholders.</p> <p>2. (Omitted)</p> <p>Article <u>18</u> (Method of adopting resolutions) (Omitted)</p> <p>2. A resolution to be adopted under <u>Article 343 of the Commercial Code</u> shall be adopted by not less than two thirds of the votes of the shareholders who attend the meeting and represent not less than one third of the aggregate voting rights of <u>all shareholders</u>.</p> <p>Article <u>19</u> (Minutes) Concerning the proceedings of general meetings of shareholders, a summary of the proceedings and the result thereof shall be described in the minutes of the meeting, <u>and the chairperson and the Directors who attended the meeting shall sign or affix their names and seals thereto.</u></p> <p>2. (Omitted)</p> <p>CHAPTER IV DIRECTORS AND THE BOARD OF DIRECTORS, AND EXECUTIVE OFFICERS</p> <p>Article <u>20</u> (Board of Directors)</p>	<p><u>present in reference materials for general meetings of shareholders, business reports, and non-consolidated and consolidated financial statements, if such information is disclosed via the Internet in accordance with relevant ordinances of the Ministry of Justice.</u></p> <p>Article <u>19</u> (Vote by proxy) A shareholder of the Company may exercise its voting rights by authorizing <u>another*</u> shareholder who has a voting right in the Company as its proxy in a general meeting of shareholders.</p> <p>2. (Not amended)</p> <p>Article <u>20</u> (Method of adopting resolutions) (Not amended)</p> <p>2. A resolution to be adopted under <u>Article 309, paragraph 2 of the Corporate Law</u> shall be adopted by not less than two thirds of the votes of the shareholders who attend the meeting and represent not less than one third of the aggregate voting rights of <u>all shareholders entitled to exercise their voting rights.</u></p> <p>Article <u>21</u> (Minutes) Concerning the proceedings of general meetings of shareholders, a summary of the proceedings, the result thereof <u>and other items prescribed by relevant laws and regulations</u> shall be described <u>or recorded</u> in the minutes of the meeting.</p> <p>2. (Not amended)</p> <p>CHAPTER IV DIRECTORS AND THE BOARD OF DIRECTORS, AND EXECUTIVE OFFICERS</p> <p>Article <u>22</u> (Board of Directors)</p>

Present Articles of Incorporation	Proposed Amendment
<p><u>The Company shall have a Board of Directors.</u></p> <p>Article <u>21</u> (Number) (Omitted)</p> <p>Article <u>22</u> (Election) A resolution for election of Directors shall be adopted, in a general meeting of shareholders, by a majority of the votes of the shareholders who attend the meeting and represent not less than one third of the aggregate voting rights of <u>all shareholders</u>.</p> <p>2. (Omitted)</p> <p>Article <u>23</u> (Term of office) The term of office for Directors shall be until the conclusion of the ordinary general meeting of shareholders pertaining to <u>the last accounting term within one year after their assumption of office</u>.</p> <p>2. (Omitted) 3. (Omitted)</p> <p>Article <u>24</u> (Executive Directors) By a resolution of the Board of Directors, one President shall be <u>elected</u>, and a few Chairpersons, Vice Chairpersons, Senior Vice Presidents, Senior Managing Directors and Managing Directors may be <u>elected</u> if necessary.</p> <p>Article <u>25</u> } (Omitted) Article <u>26</u></p>	<p>(Not amended)</p> <p>Article <u>23</u> (Number <u>of Directors</u>) (Not amended)</p> <p>Article <u>24</u> (Election <u>of Directors</u>) A resolution for election of Directors shall be adopted, in a general meeting of shareholders, by a majority of the votes of the shareholders who attend the meeting and represent not less than one third of the aggregate voting rights of <u>all shareholders entitled to exercise their voting rights</u>.</p> <p>2. (Not amended)</p> <p>Article <u>25</u> (Term of office <u>of Directors</u>) The term of office for Directors shall be until the conclusion of the ordinary general meeting of shareholders pertaining to <u>the last fiscal year ending within one year after their election</u>.</p> <p>2. (Not amended) 3. (Not amended)</p> <p>Article <u>26</u> (Executive Directors) By a resolution of the Board of Directors, one President shall be <u>appointed</u>, and a few Chairpersons, Vice Chairpersons, Senior Vice Presidents, Senior Managing Directors and Managing Directors may be <u>appointed</u> if necessary.</p> <p>Article <u>27</u> } (Not amended) Article <u>28</u></p>

Present Articles of Incorporation	Proposed Amendment
<p>Article <u>27</u> (Meeting of Board of Directors) To convene a meeting of the Board of Directors, a notice of convocation shall be dispatched to each Director and each Corporate Auditor no later than three days prior to the date of the meeting; provided that this period may be shortened in case of a compelling emergency.</p> <p>2. (Omitted)</p> <p>Article <u>28</u> (Resolution of Board of Directors) (Omitted)</p> <p>(New)</p> <p>Article <u>29</u> (Minutes) Concerning the proceedings of a meeting of the Board of Directors, a summary of the proceedings and the result thereof shall be described in the minutes of the meeting. The chairperson, and the Directors and Corporate Auditors who attended the meeting shall sign <u>or</u> affix their names and seals thereto.</p> <p>2. (Omitted)</p>	<p>Article <u>29</u> (Meeting of Board of Directors) To convene a meeting of the Board of Directors, a notice of convocation shall be dispatched to each Director and each Corporate Auditor no later than three days prior to the date of the meeting; provided, <u>however</u>, that this period may be shortened in case of a compelling emergency.</p> <p>2. (Not amended)</p> <p>Article <u>30</u> (Resolution of Board of Directors) (Not amended)</p> <p>Article <u>31</u> (Omission of resolution of Board of Directors) <u>If all the Directors agree to a matter to be resolved by the Board of Directors either in writing or with an electromagnetic record, the matter to be resolved shall be deemed to have been passed by resolution of the Board of Directors; provided, however, that this shall not apply in the event that any Corporate Auditor disapproves.</u></p> <p>Article <u>32</u> (Minutes of Board of Directors' meetings) Concerning the proceedings of a meeting of the Board of Directors, a summary of the proceedings, the result thereof <u>and other items prescribed by relevant laws and regulations shall be described or recorded</u> in the minutes of the meeting. The chairperson, and the Directors and Corporate Auditors who attended the meeting shall sign, affix their names and seals <u>to, or place electronic signatures on the minutes.</u></p> <p>2. (Not amended)</p>

Present Articles of Incorporation	Proposed Amendment
<p>Article <u>30</u>  } ( Omitted )  Article <u>31</u></p> <p>Article <u>32</u> (Compensation)  Compensation <u>and retirement benefits</u> for Directors shall be determined by a resolution of the general meeting of shareholders.</p> <p>Article <u>33</u> (Executive Officer)  The Company may <u>have</u> a few Executive Officers based on a resolution of the Board of Directors.  2. (Omitted)</p> <p>Article <u>34</u> (Regulations of Executive Officers)  (Omitted)</p> <p>CHAPTER V CORPORATE AUDITORS AND THE BOARD OF CORPORATE AUDITORS</p> <p><u>Article 35 (Corporate Auditors and Board of Corporate Auditors)</u>  <u>The Company shall have Corporate Auditors and a Board of Corporate Auditors.</u></p> <p>Article <u>36</u> (Number)  (Omitted)  2. <u>To prepare for the event that the number of Corporate Auditors of the Company falls short of the number stipulated by relevant laws and regulations, Substitute Corporate Auditors may be elected in advance by a resolution of the ordinary general meeting of shareholders.</u></p>	<p>Article <u>33</u>  } ( Not amended )  Article <u>34</u></p> <p>Article <u>35</u> (Compensation <u>etc.</u> for Directors)  Compensation <u>etc.</u> for Directors shall be determined by a resolution of the general meeting of shareholders.</p> <p>Article <u>36</u> (Executive Officer)  The Company may <u>have*</u> a few Executive Officers based on a resolution of the Board of Directors.  2. (Not amended)</p> <p>Article <u>37</u> (Regulations of Executive Officers)  (Not amended)</p> <p>CHAPTER V CORPORATE AUDITORS AND THE BOARD OF CORPORATE AUDITORS</p> <p>Article <u>38</u> (Corporate Auditors and Board of Corporate Auditors)  (Not amended)</p> <p>Article <u>39</u> (Number <u>of Corporate Auditors</u>)  (Not amended)  (Deleted)</p>

Present Articles of Incorporation	Proposed Amendment
<p>Article <u>37</u> (Election)  A resolution for election of Corporate Auditors <u>or Substitute Corporate Auditors</u> shall be adopted, in a general meeting of shareholders, by a majority of the votes of the shareholders who attend the meeting and represent not less than one third of the aggregate voting rights of <u>all shareholders</u>.</p> <p><u>2. The effect of election of Substitute Corporate Auditors appointed in advance shall terminate at the beginning of the first ordinary general meeting of shareholders taking place after their election.</u></p> <p>Article <u>38</u> (Term of office)  The term of office for Corporate Auditors shall be until the conclusion of the ordinary general meeting of shareholders pertaining to <u>the last accounting term within four years after their assumption of office.</u></p> <p>2. In the event that Corporate Auditors are newly elected to fill vacancies, <u>or when Substitute Corporate Auditors assume office as Corporate Auditors,</u> their term of office shall be conterminous with the remaining term of office of the retired Corporate Auditors.</p> <p style="text-align: right;">(New)</p> <p style="text-align: right;">(New)</p>	<p>Article <u>40</u> (Election <u>of Corporate Auditors</u>)  A resolution for election of Corporate Auditors shall be adopted, in a general meeting of shareholders, by a majority of the votes of the shareholders who attend the meeting and represent not less than one third of the aggregate voting rights of <u>all shareholders entitled to exercise their voting rights.</u>  <p style="text-align: center;">(Deleted)</p> <p>Article <u>41</u> (Term of office <u>of Corporate Auditors</u>)  The term of office for Corporate Auditors shall be until the conclusion of the ordinary general meeting of shareholders pertaining to <u>the last fiscal year ending within four years after their election.</u></p> <p>2. In the event that Corporate Auditors are newly elected to fill vacancies, their term of office shall be conterminous with the remaining term of office of the retired Corporate Auditors.</p> <p><u>3. A resolution for election of Substitute Corporate Auditors adopted in accordance with Article 329, paragraph 2 of the Corporate Law shall be effective until the conclusion of the ordinary general meeting of shareholders pertaining to the last fiscal year ending within one year after their election.</u></p> <p><u>4. In the event that Substitute Corporate Auditors specified in the preceding paragraph assume office as Corporate Auditors, their term of office shall be conterminous with the remaining term of office of the retired Corporate Auditors.</u></p> </p>

Present Articles of Incorporation	Proposed Amendment
<p>Article <u>39</u> (Full-time Corporate Auditors)  <u>Corporate Auditors shall elect Full-time Corporate Auditors by mutual vote.</u></p>	<p>Article <u>42</u> (Full-time Corporate Auditors)  <u>The Board of Corporate Auditors shall elect Full-time Corporate Auditors from among the Corporate Auditors.</u></p>
<p>Article <u>40</u>  } (Omitted)  Article <u>41</u></p>	<p>Article <u>43</u>  } (Not amended)  Article <u>44</u></p>
<p>Article <u>42</u> (Minutes)  Concerning the proceedings of a meeting of the Board of Corporate Auditors, a summary of the proceedings and the result thereof shall be described in the minutes of the meeting, and the Corporate Auditors who attended the meeting shall sign <u>or</u> affix their names and seals thereto.</p>	<p>Article <u>45</u> (Minutes <u>of Board of Corporate Auditors' meeting</u>)  Concerning the proceedings of a meeting of the Board of Corporate Auditors, a summary of the proceedings, the result thereof <u>and other items prescribed by relevant laws and regulations</u> shall be described <u>or recorded</u> in the minutes of the meeting, and the Corporate Auditors who attended the meeting shall sign, affix their names and seals <u>to, or place electronic signatures on the minutes.</u></p>
<p>Article <u>43</u> (Regulations of Board of Corporate Auditors)  (Omitted)</p>	<p>Article <u>46</u> (Regulations of Board of Corporate Auditors)  (Not amended)</p>
<p>Article <u>44</u> (Compensation)  Compensation <u>and retirement benefits</u> for Corporate Auditors shall be determined by a resolution of the general meeting of shareholders.</p>	<p>Article <u>47</u> (Compensation <u>etc.</u> for Corporate Auditors)  Compensation <u>etc.</u> for Corporate Auditors shall be determined by a resolution of the general meeting of shareholders.</p>
<p>(New)</p>	<p>Article <u>48</u> (Limited liability contract with outside Corporate Auditors)  <u>The Company may, pursuant to the provision of Article 427, paragraph 1 of the Corporate Law, conclude a contract with outside Corporate Auditors for the purpose of limiting their liability for compensation, in the case that the requirements of</u></p>

Present Articles of Incorporation	Proposed Amendment
	<u>relevant laws and regulations regarding the liability for compensation stipulated in Article 423, paragraph 1 of the said Law</u>
<p style="text-align: center;"><u>CHAPTER VI ACCOUNTING AUDITORS</u></p> <p><u>Article 45 (Accounting Auditors)</u>  <u>The Company shall have Accounting Auditors.</u></p> <p style="text-align: center;">(New)</p> <p style="text-align: center;">(New)</p> <p style="text-align: center;">(New)</p>	<p style="text-align: center;">CHAPTER VI ACCOUNTING AUDITORS</p> <p>Article <u>49</u> (Accounting Auditors)  (Not amended)</p> <p>Article <u>50</u> (Election of Accounting Auditors)  <u>Accounting Auditors shall be elected by a resolution of the general meeting of shareholders.</u></p> <p>Article <u>51</u> (Term of office of Accounting Auditors)  <u>The term of office of Accounting Auditors shall be until the conclusion of the ordinary general meeting of shareholders pertaining to the last fiscal year ending within one year after their election.</u>  <u>2. Unless otherwise resolved at the ordinary general meeting of shareholders in the preceding paragraph, Accounting Auditors shall be deemed to have been reelected at the said ordinary general meeting of shareholders.</u></p> <p>Article <u>52</u> (Compensation etc. for Accounting Auditors)  <u>Compensation etc. for Accounting Auditors shall be determined by the Representative Director of the Company, subject to the consent of the Board of Corporate Auditors.</u></p>

Present Articles of Incorporation	Proposed Amendment
<p style="text-align: center;">(New)</p> <p style="text-align: center;">CHAPTER <u>VII</u> ACCOUNTS</p> <p>Article <u>46</u> (<u>Business year</u> and accounting term) The <u>business year</u> of the Company shall be from April 1 each year through March 31 the following year, and the accounts of the Company shall be closed at the end of each <u>business year</u>.</p> <p>Article <u>47</u> (<u>Cash dividends</u>) <u>Cash dividends shall be paid to the shareholders or registered pledgees registered or recorded in the final register of shareholders of each accounting term.</u></p> <p style="text-align: center;">(New)</p>	<p>Article <u>53</u> (<u>Exemption from liability of Accounting Auditors</u>) <u>The Company may, pursuant to the provision of Article 427, paragraph 1 of the Corporate Law, conclude a contract with Accounting Auditors for the purpose of limiting their liability for compensation, in the case that the requirements of relevant laws and regulations regarding the liability for compensation stipulated in Article 423, paragraph 1 of the said Law are fulfilled; provided, however, that the maximum amount of liability under such contract shall be the minimum liability limit stipulated in relevant laws and regulations.</u></p> <p style="text-align: center;">CHAPTER VII ACCOUNTS</p> <p>Article <u>54</u> (<u>Fiscal year</u> and accounting term) The <u>fiscal year</u> of the Company shall be from April 1 each year through March 31 the following year, and the accounts of the Company shall be closed at the end of each <u>fiscal year</u>.</p> <p>Article <u>55</u> (<u>Dividends of surplus, etc.</u>) <u>The Company may, by a resolution of the Board of Directors, determine the matters provided for in each item of Article 459, paragraph 1 of the Corporate Law.</u> <u>2. Cash dividends of surplus (hereinafter, "cash dividends") shall be paid to the shareholders or registered share pledgees registered or recorded in the final register of shareholders as of March 31 or September 30 of each year.</u></p>



Present Articles of Incorporation	Proposed Amendment
<p><u>Article 48 (Interim dividends)</u>  <u>The Company may, by a resolution of the Board of Directors, make a cash distribution provided for in Article 293-5 of the Commercial Code (hereinafter, “interim dividends”) to the shareholders or registered pledgees registered or recorded in the final register of shareholders as of September 30 of each year.</u></p> <p><u>Article 49 (Statute of limitation for cash dividends)</u>  In the case that <u>cash dividends or interim dividends</u> remain unclaimed after the lapse of three years from the day on which payment thereof was commenced, the Company shall be exempted from the responsibility of payment thereof.  2. <u>Cash dividends or interim dividends</u> shall bear no interest.</p>	<p>(Deleted)</p> <p><u>Article 56 (Statute of limitation for cash dividends)</u>  In the case that <u>cash dividends</u> remain unclaimed after the lapse of three years from the day on which payment thereof was commenced, the Company shall be exempted from the responsibility of payment thereof.  2. <u>Unpaid cash dividends</u> shall bear no interest.</p>

**Item3: To elect seven Directors**

The term of office of all six Directors will expire at the conclusion of this general meeting of shareholders. We are seeking the election of seven Directors.

The nominees for Directors are as described below:

Nominee No.	Name (Date of Birth)	Brief Career Profile and Other Corporate Representations	Shareholding in the Company
1	Hajime Satomi (January 16, 1942)	<p>Mar 1980 President and Representative Director of Sammy Industry Co., Ltd. (now Sammy Corporation)</p> <p>Nov 2003 Chairman and Director of Sammy NetWorks Co., Ltd. (current position)</p> <p>Feb 2004 Chairman and Representative Director of SEGA CORPORATION (current position)</p> <p>June 2004 Chairman and Representative Director of Sammy Corporation (current position)</p> <p>Oct 2004 Chairman and Chief Executive Officer of the Company (current position)</p> <p>June 2005 Chairman and Director of SEGA TOYS, LTD. (current position)</p> <p>June 2005 Chairman and Director of TMS ENTERTAINMENT, LTD. (current position)</p>	43,569,338 shares
2	Hisao Oguchi (March 5, 1960)	<p>Apr 1984 Joined SEGA ENTERPRISES INC. (now SEGA CORPORATION)</p> <p>June 2000 Corporate Officer of the above</p> <p>June 2002 Senior Corporate Officer of the above</p> <p>Oct 2003 Chairman of SEGA ENTERPRISES, INC. (U.S.A.) (current position)</p> <p>June 2004 Chairman, CEO and President of SEGA HOLDINGS U.S.A., Inc. (current position)</p> <p>June 2004 President, COO and Representative Director of SEGA CORPORATION (current position)</p> <p>Oct 2004 Vice Chairman and Director of the Company (current position)</p> <p>Jan 2005 Chairman of SEGA OF AMERICA, INC. (current position)</p> <p>Jan 2005 Chairman of SEGA EUROPE LTD. (current position)</p> <p>Aug 2005 CEO of SEGA HOLDINGS EUROPE LTD. (current position)</p>	22,400 shares

Nominee No.	Name (Date of Birth)	Brief Career Profile and Other Corporate Representations	Shareholding in the Company
3	Keishi Nakayama (July 23, 1942)	<p>Sep 1989 Joined Sammy Industry Co., Ltd. (now Sammy Corporation) as Division Manager of the General Affairs Division</p> <p>Apr 1997 Director and General Manager of the President's Office of the above</p> <p>Jan 2000 Managing Director and General Manager of the President's Office of the above</p> <p>Mar 2004 Senior Managing Director in charge of President's Office of Sammy Corporation</p> <p>Oct 2004 Senior Managing Director of the Company</p> <p>Jan 2005 Director of SEGA SAMMY ASSET MANAGEMENT INC. (current position)</p> <p>Apr 2005 Director of Sammy Corporation (current position)</p> <p>Apr 2005 Director of SEGA SAMMY GOLF ENTERTAINMENT INC. (current position)</p> <p>June 2005 Director of Sammy NetWorks Co., Ltd. (current position)</p> <p>June 2005 Director of SEGA TOYS, LTD. (current position)</p> <p>June 2005 Executive Vice President and Director of the Company (current position)</p>	400,100 shares
4	Toru Katamoto (September 10, 1946)	<p>Mar 1978 Joined Sammy Industry Co., Ltd. (now Sammy Corporation)</p> <p>Mar 1989 Director and General Manager, Material Dept of the above</p> <p>Apr 1997 Managing Director and General Manager of SP Sales Div of the above</p> <p>June 1999 Senior Managing Director and General Manager of SP Sales Div of the above</p> <p>June 2004 Vice Chairman and Representative Director of the above</p> <p>Feb 2005 President and Representative Director of the above (current position)</p> <p>Apr 2005 Chairman and Representative Director of Sammy Design Co., Ltd. (current position)</p> <p>May 2005 Director of G &amp; E Corporation (current position)</p> <p>June 2005 Director of the Company (current position)</p> <p>June 2005 Director of NISSHO INTER LIFE CO. LTD. (current position)</p> <p>Aug 2005 Chairman and Director of H - I System Corporation (current position)</p>	200,000 shares

Nominee No.	Name (Date of Birth)	Brief Career Profile and Other Corporate Representations	Shareholding in the company
5	Hideki Okamura (February 1, 1955)	<p>Jan 1987 Joined SEGA ENTERPRISES INC. (now SEGA CORPORATION)</p> <p>June 1997 Director and Deputy Division Manager, Consumer Business and General Manager, Saturn Business of the above</p> <p>June 2000 Director in charge of Dreamcast Business of the above</p> <p>June 2002 Vice President and Representative Director of Digicube</p> <p>July 2003 Senior Corporate Officer and Division Manager, Consumer Business of SEGA CORPORATION</p> <p>Oct 2003 Director of SEGA OF AMERICA, INC. (current position)</p> <p>Oct 2003 Director of SEGA ENTERPRISES, INC. (U.S.A.) (current position)</p> <p>Feb 2004 Director of SEGA EUROPE LTD. (current position)</p> <p>May 2004 Chairman of the Board, SEGA (SHANGHAI) SOFTWARE CO., LTD. (current position)</p> <p>June 2004 Director of SEGA TOYS CO., LTD. (current position)</p> <p>June 2004 Managing Director in charge of Consumer Business of SEGA CORPORATION (current position)</p> <p>June 2004 Director of TMS Entertainment Ltd. (current position)</p> <p>June 2004 Director of SEGA HOLDINGS U.S.A., INC. (current position)</p> <p>Oct 2004 Director of the Company (current position)</p> <p>Aug 2005 Director of SEGA HOLDINGS EUROPE LTD. (current position)</p> <p>Oct 2005 Director of SEGA NETWORKS (CHINA) CO., LTD. (current position)</p>	5,992 shares
6	Yasuo Tazoe (June 22, 1945)	<p>Apr 1968 Joined SEGA ENTERPRISES INC. (now SEGA CORPORATION)</p> <p>June 1991 Director and General Manager, West Japan Sales, AM Facility Business Division and Manager, Kansai Branch of the above</p> <p>June 1997 Managing Director and General Manager, Developer Business of the above</p> <p>Dec 2003 Director of Oasis Park Co., Ltd. (current position)</p> <p>Jan 2004 Chairman of the Board, SEGA AMUSEMENTS TAIWAN LTD. (current position)</p> <p>June 2004 Managing Director in charge of Amusement Facility Business of SEGA CORPORATION (current position)</p> <p>Oct 2004 Director of the Company (current position)</p> <p>Dec 2004 Director of SEGA HOLDINGS, U.S.A, Inc (current position)</p> <p>Jan 2005 CEO of SEGA ENTERTAINMENT U.S.A., INC. (current position)</p> <p>Oct 2005 Vice Chairman of the Board of SHANGHAI NEW WORLD SEGA RECREATION CO., LTD. (current position)</p> <p>Apr 2006 Director/Amusement Business Group Division, SEGA CORPORATION (current position)</p>	24 shares

Nominee No.	Name (Date of Birth)	Brief Career Profile and Other Corporate Representations	Shareholding in the company
7	* Tadashi Ishida (January 17, 1944)	May 2003 Executive Vice President, Representative Director and CFO of McDonald's Japan Apr 2005 Senior Managing Director of Sammy Corporation June 2005 Director of Shuko Electronics Co., Ltd (current position) June 2005 Corporate Auditor of RODEO Co., Ltd (current position) June 2005 Corporate Auditor of SI ELECTRONICS, LTD. (current position) Aug 2005 Corporate Auditor of H - I System Corporation (current position) Aug 2005 Senior Managing Director and General Manager of Corporate Division, Sammy Corporation (current position) Feb 2006 President and Representative Director of SEGA SAMMY INVESTMENT INC. (current position) Feb 2006 President and Representative Director of SEGA SAMMY ASSET MANAGEMENT INC. (current position) Feb 2006 Senior Executive Officer in charge of Administration Division and Audit Office of the Company (current position)	- shares

(\* : new nominees)

- Notes: (1) Director-nominee Hajime Satomi serves as Chairman and Representative Director of SEGA CORPORATION and Sammy Corporation, and as Chairman and Director of Sammy NetWorks Co., Ltd., SEGA TOYS, LTD. and TMS Entertainment Ltd. Those companies are engaged in similar kinds of businesses.
- (2) Director-nominee Hisao Oguchi serves as President, COO and Representative Director of SEGA CORPORATION, as Chairman of SEGA ENTERPRISES, INC. (U.S.A.), SEGA OF AMERICA, INC. and SEGA EUROPE LTD., as Chairman, CEO and President of SEGA HOLDINGS U.S.A., Inc., and as CEO of SEGA HOLDINGS EUROPE LTD. Those companies are engaged in similar kinds of businesses.
- (3) Director-nominee Keishi Nakayama serves as Director of SEGA SAMMY ASSET MANAGEMENT INC., Sammy Corporation, SEGA SAMMY GOLF ENTERTAINMENT INC., Sammy NetWorks Co., Ltd. and SEGA TOYS, LTD. Those companies are engaged in similar kinds of businesses.
- (4) Director-nominee Toru Katamoto serves as President and Representative Director of Sammy Corporation, as Chairman and Representative Director of Sammy Design Co., Ltd., as Chairman and Director of H - I System Corporation, and as Director of G & E Corporation and NISSHO INTER LIFE CO. LTD. Those companies are engaged in similar kinds of businesses.
- (5) Director-nominee Hideki Okamura serves as Managing Director of SEGA CORPORATION, as Director of SEGA OF AMERICA, INC., SEGA ENTERPRISES, INC. (U.S.A.), SEGA EUROPE LTD., SEGA TOYS LTD., TMS Entertainment Ltd., SEGA HOLDINGS U.S.A., INC., and SEGA HOLDINGS EUROPE LTD., as Chairman of SEGA (SHANGHAI) SOFTWARE CO., LTD., and as Director of SEGA NETWORKS (CHINA) CO., LTD. Those companies are engaged in similar kinds of businesses.
- (6) Director-nominee Yasuo Tazoe serves as Director of Oasis Park Co., Ltd., SEGA CORPORATION and SEGA HOLDINGS, U.S.A, Inc, as CEO of SEGA ENTERTAINMENT U.S.A., INC., as Chairman of the Board of SEGA AMUSEMENTS TAIWAN

LTD. and as Vice Chairman of the Board of SHANGHAI NEW WORLD SEGA RECREATION CO., LTD. Those companies are engaged in similar kinds of businesses.

- (7) Director-nominee Tadashi Ishida serves as President and Representative Director of SEGA SAMMY INVESTMENT INC. and SEGA SAMMY ASSET MANAGEMENT INC., as Senior Managing Director and General Manager of Corporate Division, Sammy Corporation, as Director of Shuko Electronics Co., Ltd, and as Corporate Auditor of RODEO Co., Ltd, SI ELECTRONICS, LTD. and H - I System Corporation. Those companies are engaged in similar kinds of businesses.
- (8) There is no special conflict of interest between the above nominees for Director and the Company.

#### **Item4: To elect one Substitute Corporate Auditor**

To provide for a case of vacancy in the Board of Corporate Auditors that results in insufficiency in the number of such auditors as stipulated in relevant laws and regulations, we ask our shareholders to elect one Substitute Corporate Auditor. We have already obtained the approval of the Board of Corporate Auditors with respect to this proposal.

The nominee for the position of Substitute Corporate Auditor is shown below:

Name (Date of birth)	Brief Career Profile and Other Corporate Representations	Shareholding in the company
Mineo Enomoto (December 12, 1950)	Apr 1978 Registered with The Japan Federation of Bar Associations	2,000 shares
	May 2000 Establishment of Mineo Enomoto Law Firm (current position)	
	June 2004 Corporate Auditor of Sammy NetWorks Co., Ltd. (current position)	
	June 2004 Corporate Auditor of SEGA CORPORATION (current position)	

Note: There is no special conflict of interest between the above nominee for Substitute Corporate Auditor and the Company.

**Item5: To issue stock acquisition rights for the purpose of granting stock options to the Company's Directors**

Pursuant to Article 361, paragraph 1, items 1 and 3 of the Corporate Law, we propose that the Company issue stock acquisition rights (the "Rights") to certain Directors of the Company for the purpose of granting stock options as part of their compensation etc. as follows:

1. Grounds for granting the Rights to Directors of the Company as part of their compensation etc.
  - (1) We would like to further enhance our corporate value by promoting business management that is more conscious of our shareholders' interests and stock market trends, and by improving the motivation and morale of Directors with regard to improvement of the Company's performance. To that end, we propose to grant stock acquisition rights as stock options to Directors in compensation for their performance of their duties.
  - (2) The currently implemented Corporate Law deems stock options to be part of corporate directors' compensation etc. that require approval of the general meeting of shareholders. Accordingly, the stock acquisition rights proposed above will be issued as part of Directors' compensation etc. Considering the current economic situation, we would like to request approval for giving Directors stock options which are equivalent in value to a maximum of ¥37,910,000 as part of their annual compensation, separately from the compensation limit set in the general meeting of shareholders held in June 2004 for the purpose of establishing the Company and the limit proposed in the 7th proposal ("To revise compensation for Directors") for this general meeting of shareholders. The Company now has six Directors, but it will have seven Directors subject to the approval of the 3rd proposal.

2. Outline of the issuance of the Rights

- (1) Number of shares to be covered by the Rights

Not exceeding 43,000 shares of common stock of the Company

In the event that the Company splits or consolidates its shares of common stock (“stock split or consolidation”) after the issuance of the Rights, the number of shares to be covered by the Rights shall be adjusted according to the formula described below, with fractions less than one share resulting from the adjustment to be rounded down; provided, however, that such adjustment shall be made on the day following the record date of the stock split or at the time when the stock consolidation comes into effect, on the number of shares to be covered by the Rights remaining unexercised only.

Number of shares after adjustment = Number of shares before adjustment x Ratio of stock split or consolidation

In addition, after the date of issuance of the Rights, in the event that: the Company merges with others as the surviving company; the Company becomes a parent company of others with 100% ownership through a share exchange; the Company succeeds to a part of other companies’ businesses as a result of an absorption-type demerger; or in any other similar event where adjustments of the number of shares to be granted under the Rights are required; the Company may make necessary adjustments.

(2) Aggregate number of the Rights to be issued

Not exceeding 430. (The number of shares to be covered by one Right shall be 100 shares; provided, however, that in the event of an adjustment of the number of shares as described in (1) above, the same adjustment shall be made to the number of shares exchangeable for one Right.)



(3) Amount to be paid to acquire the Rights

The amount to be paid for the Rights shall be the amount which was determined by the Board of Directors' resolution on the issuance of the Rights by using the Black-Sholes method. Payment in cash is not necessary.

(4) Assets contributed upon exercise of the Rights

The value of the assets contributed upon exercise of one Right shall be the amount given by multiplying the price to be paid in per share upon exercise of each of the Rights ("Exercise Price") as determined by the method given below by the number of shares exchangeable for one Right as stipulated in (2) above.

The Exercise Price shall be 1.05 times the average value of the closing stock prices for ordinary transactions of the Company's common stock at the Tokyo Stock Exchange every day (excluding days when there is no trading) during the month that precedes the month in which the Rights were granted, with fractional amounts of less than one yen resulting from the adjustment to be rounded up to one yen; provided, however, that if such calculated price is lower than the closing price on the day before the date of issuance of the Rights (in case such closing price is not available, the closing price on the most recent, preceding day), the price shall be the closing price on the day before the date of issuance of the Rights.

(a) In addition, in the event of a stock split or consolidation after the issuance of the Rights, the Exercise Price shall be adjusted by the formula described below, with fractional amounts of less than one yen resulting from the adjustment to be rounded up to one yen; provided, however, that such adjustment shall be made on the day following the record date of the stock split or at the time when the stock consolidation comes into effect.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times 1}{\text{Ratio of stock split or consolidation}}$$

(b) In the event that the Company issues new shares or transfers treasury shares at less than the market price, including gratis allocation, the Exercise Price shall be adjusted by the formula described below (the “Exercise Price Adjustment Formula”), with fractional amounts of less than one yen resulting from the adjustment to be rounded up to one yen; provided, however, that this shall not apply when the Company issues or transfers its shares in exchange for securities to be acquired by the Company in exchange for its common stock, or securities with redemption rights; upon exercise of stock acquisition rights, including those rights attached to bonds, exchangeable for the Company’s common stock, or preemptive rights granted as stock options under the Commercial Code prior to the implementation of the Law for the Amendment of the Commercial Code (Law No. 128 of 2001); or upon conversion of convertible bonds.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times \left( \frac{\text{Number of shares outstanding} + \frac{\text{Number of New shares to be issued} \times \text{Amount to be paid per share}}{\text{Market price per share before issue of new shares}}}{\text{Number of shares outstanding} + \text{Number of new shares to be issued}} \right)}{1}$$

Regarding the above formula, the “Number of shares outstanding” shall be the aggregate number of shares issued less the aggregate number of treasury shares held by the Company, and in the event that the Company transfers its treasury shares, the "Number of new shares to be issued" shall be replaced by the "Number of treasury shares transferred”.

- (i) When the Company issues or transfers securities convertible into the Company’s common stock at a price lower than the market value, including gratis allocation, or when the Company issues or transfers stock acquisition rights or bonds with stock acquisition rights exchangeable for the Company’s common stock, including gratis allocation, the Exercise Price after adjustment shall be obtained by applying mutatis mutandis the Exercise Price Adjustment Formula, assuming that all of the securities, stock acquisition rights and bonds with stock acquisition rights issued, transferred or allocated are exercised at the respective initial exercise prices thereof. The adjusted Exercise Price shall apply on and after the day following the date of payment. The date of payment shall be, if there is a certain period set for payment, the date on which the payment is made, and in the case of gratis allocation, the effective date thereof. Provided, however, that if there is a certain record date set for the offering of the securities, the adjusted Exercise Price shall apply on and after the day following the record date.
- (ii) When the Company issues callable stock or other securities to be acquired by the Company in exchange for its common stock at a price lower than the market value except the securities falling under (i) above, the Exercise Price after adjustment shall be obtained by applying mutatis mutandis the Exercise

Price Adjustment Formula, assuming that all of the securities issued are exchanged for the Company's common stock on the conditions as of the time when the event causing the buyback occurs. The adjusted Exercise Price shall apply on and after the day of the event causing buyback.

- (c) Regarding transactions specified in (a) and (b), when a certain record date is set for granting applicable rights to common stock holders of the Company, and each transaction takes effect only with approval to be given on or after such record date by the general meeting of shareholders, the Board of Directors or any other bodies of the Company, the Exercise Price after adjustment shall apply from the day following the date of said approval notwithstanding the provisions of (a) and (b). In such cases, persons who request to exercise their Rights during the period between the day after the record date and the day of the said approval shall be delivered additional shares of common stock of the Company on or after the day of the application of the adjusted Exercise Price, in accordance with the following calculation method:

$$\text{Number of shares} = \frac{\left( \begin{array}{c} \text{Exercise Price} \\ \text{before adjustment} \end{array} - \begin{array}{c} \text{Exercise Price} \\ \text{after adjustment} \end{array} \right) \times \text{Number of shares delivered within the period} \\ \text{at the Exercise Price before adjustment}}{\text{Exercise Price after adjustment}}$$

- (d) In the event that: the Company merges with others as the surviving company; the Company becomes a parent company of others with 100% ownership through a share exchange; the Company succeeds to a part of other companies' businesses as a result of an absorption-type demerger; or in any other similar event where adjustments of the Exercise Price are required; the Company may

make necessary adjustments.

(5) Exercise period of the Rights

The Rights may be exercised in the period between July 31, 2008 and July 30, 2010; provided, however, that in case the Company does not operate on the final day of such period, the exercise period shall be until the last business day during the period.

(6) Conditions for the exercise of the Rights

(i) Persons who are allocated the Rights (“Right Holders”) may exercise their Rights even if they lose their position on the Company’s Board of Directors, in accordance with the provisions of the agreement defined in (iv) of this paragraph.

(ii) In the case that the Rights are transferred by inheritance, matters such as the conditions regarding the inheritors and their exercise of the Rights shall be in accordance with the provisions of the agreement defined in (iv) of this paragraph.

(iii) It is not permitted to put the Rights in any pledge or to dispose of them in any manner.

(iv) Other conditions on the exercise of the Rights shall be determined at the Board of Directors’ meeting to be held after this general meeting of shareholders, and shall be stipulated in the agreement to be made between the Right Holder and the Company.

(7) Matters relating to increase in capital and capital reserve

(i) The increase in capital due to issuance of shares upon the exercise of the Rights shall be the amount given by multiplying the limit of capital increase, calculated in accordance with Article 40, paragraph 1 of the Corporate Accounting Rules, by 0.5, with all figures less than one yen rounded up to one yen.

(ii) The increase in capital reserve due to issuance of shares upon the exercise of

the Rights shall be the limit of capital increase mentioned in (i) of this paragraph less the amount of increase in capital defined in (i) of this paragraph.

(8) Fractional number of shares resulting from exercise of the Rights

Any fractional number of shares less than one share shall be rounded down when issued to the Right Holders.

(9) Restriction on acquisition of the Rights by transfer

When any of the Rights is acquired by transfer, approval of the Company's Board of Directors shall be required.

(10) Causes for acquisition of the Rights

When a general meeting of shareholders approves a proposal for an agreement of merger or consolidation under which the Company ceases to exist, or a proposal for authorization of a share exchange agreement or a share transfer plan under which the Company becomes another company's wholly-owned subsidiary, the Company may, with a resolution of the Board of Directors approving the acquisition of the Rights as necessary, acquire the Rights without any consideration on a certain date set by the Board of Directors.

(11) Handling of the Rights in case of reorganization

When the Company merges or consolidates with others and ceases to exist by so doing, or when the Company carries out an absorption-type demerger, spin-off, share exchange or share transfer ("reorganization actions"), the Right Holders who hold unexercised Rights of the Company as of the time when such reorganization actions take effect shall be given stock acquisition rights of the applicable joint-stock corporations listed in Article 236, paragraph 1, item 8, (a) through (e) of the Corporate Law ("successor corporations"), on the terms stated below. In such cases, the Rights of the Company shall be terminated. Provided,

however, that the above shall apply only when the agreements on merger, consolidation, absorption-type demerger or share exchange, or the plans for spin-off or share transfer prescribe the granting of stock acquisition rights of successor corporations on the terms stated below.

- (a) Number of stock acquisition rights of the successor corporations to be issued  
The same number as the number of the Rights owned by the Right Holders with unexercised Rights as of the time when the reorganization actions take effect
- (b) Classes of the successor corporations' shares covered by the stock acquisition rights  
Common stock of the successor corporations
- (c) Number of the successor corporations' shares covered by the stock acquisition rights  
The number of shares shall be determined by applying mutatis mutandis the method defined in (1), considering the terms etc. of the reorganization actions.
- (d) Assets contributed upon exercise of the stock acquisition rights  
The value of the assets contributed upon exercise of one stock acquisition right shall be the amount given by multiplying the post-reorganization price paid in per share, which is adjusted in consideration of the terms etc. of the reorganization actions, by the number of shares exchangeable for one stock acquisition right.
- (e) Exercise period of the stock acquisition rights  
The stock acquisition rights may be exercised during the period between the first day of the exercise period of the Rights specified in (5) or the effective date of reorganization actions, whichever comes later, and the last day of the

- exercise period of the Rights specified in (5).
- (f) Conditions for the exercise of the stock acquisition rights  
The conditions shall be determined by applying mutatis mutandis the provisions of (6).
- (g) Restriction on acquisition of the stock acquisition rights by transfer  
When any of the stock acquisition rights are acquired by transfer, approval of the successor corporation shall be required.
- (h) Causes for acquisition of the stock acquisition rights by the successor corporations  
The causes applicable shall be determined by applying mutatis mutandis the provisions of (10).
- (12) Certificates of the Rights  
The Company shall not issue any certificates of the Rights.
- (13) Other details regarding the Rights  
Other details regarding issuance of the Rights shall be determined at a Board of Directors meeting to be held later regarding the issuance of publicly offered stock acquisition rights.

**Item6:** To issue stock acquisition rights for the purpose of granting stock options to Directors of the Company's subsidiaries and to executive officers and other employees of the Company and its subsidiaries

Pursuant to the provisions of Articles 236, 238 and 239 of the Corporate Law, we propose that the Company issue stock acquisition rights (the "Rights") to certain Directors of the Company's subsidiaries and to certain executive officers and other employees of the Company and its subsidiaries for the purpose of granting stock options as follows:



## 1. Grounds for issuance of the Rights with specially favorable conditions

We would like to further enhance the corporate value of the entire Group by improving motivation and morale within the Company and its subsidiaries for further improvement of performance. To that end, we propose to allocate stock acquisition rights as stock options to certain Directors of the Company's subsidiaries and to certain executive officers and other employees of the Company and its subsidiaries. No cash payment shall be required for the Rights.

## 2. Outline of the issuance of the Rights

### (1) Number of shares to be covered by the Rights

The aggregate number of shares to be acquired by exercising the Rights that are issued within one year after this general meeting of shareholders shall not exceed 2,770,000 shares of common stock of the Company.

In the event that the Company splits or consolidates its shares of common stock ("stock split or consolidation") after the issuance of the Rights, the number of shares to be covered by the Rights shall be adjusted according to the formula described below, with a fraction less than one share resulting from the adjustment to be rounded down; provided, however, that such adjustment shall be made on the day following the record date of the stock split or at the time when the stock consolidation comes into effect, on the number of shares to be covered by the Rights remaining unexercised only.

Number of shares after adjustment = Number of shares before adjustment x Ratio of stock split or consolidation

In addition, after the date of issuance of the Rights, in the event that: the Company merges with others as the surviving company; the Company becomes a parent company of others with 100% ownership through a share exchange; the Company succeeds to a part of other companies' businesses as a result of an absorption-type demerger; or in any other similar event where adjustments of the number of shares under the Rights are required; the Company may make necessary adjustments.

(2) Aggregate number of the Rights to be issued

The aggregate number of the Rights to be issued within one year after this general meeting of shareholders shall not exceed 27,700. (The number of shares to be covered by one Right shall be 100 shares; provided, however, that in the event of an adjustment of the number of shares as described in (1) above, the same adjustment shall be made to the number of shares exchangeable for one Right.)

(3) Assets contributed upon exercise of the Rights

The value of the assets contributed upon exercise of one Right shall be the amount given by multiplying the price to be paid in per share upon exercise of each of the Rights ("Exercise Price") as determined by the method given below by the number of shares exchangeable for one Right as stipulated in (2) above.

The Exercise Price shall be 1.05 of the average value of the closing stock prices for ordinary transactions of the Company's common stock at the Tokyo Stock Exchange every day (excluding days when there is no trading) during the month that precedes the month in which the Rights were granted, with fractional amounts of less than one yen resulting from the adjustment to be rounded up to one yen; provided, however, that if such calculated price is lower than the closing price on the day before the date of issuance of the Rights (in case such closing price is not available, the closing price on the most recent, preceding day), the price shall be

the closing price on the day before the date of issuance of the Rights.

(a) In addition, in the event of a stock split or consolidation after the issuance of the Rights, the Exercise Price shall be adjusted by the formula described below, with fractional amounts of less than one yen resulting from the adjustment to be rounded up to one yen; provided, however, that such adjustment shall be made on the day following the record date of the stock split or at the time when the stock consolidation comes into effect.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times 1}{\text{Ratio of stock split or consolidation}}$$

(b) In the event that the Company issues new shares or transfers treasury shares at less than the market price, including gratis allocation, the Exercise Price shall be adjusted by the formula described below (the “Exercise Price Adjustment Formula”), with fractional amounts of less than one yen resulting from the adjustment to be rounded up to one yen; provided, however, that this shall not apply when the Company issues or transfers its shares in exchange for securities to be acquired by the Company in exchange for its common stock, or securities with redemption rights; upon exercise of stock acquisition rights, including those rights attached to bonds, exchangeable for the Company’s common stock, or preemptive rights granted as stock options under the Commercial Code prior to the implementation of the Law for the Amendment of the Commercial Code (Law No. 128 of 2001); or upon conversion of convertible bonds.

$$\begin{array}{r}
 \text{Exercise Price} \\
 \text{after adjustment}
 \end{array}
 =
 \begin{array}{r}
 \text{Exercise Price} \\
 \text{before adjustment}
 \end{array}
 \times
 \frac{
 \begin{array}{r}
 \text{Number of shares} \\
 \text{outstanding}
 \end{array}
 +
 \frac{
 \begin{array}{r}
 \text{Number of} \\
 \text{New shares} \\
 \text{to be issued}
 \end{array}
 \times
 \begin{array}{r}
 \text{Amount to be} \\
 \text{paid per share}
 \end{array}
 }{
 \begin{array}{r}
 \text{Market price per share before} \\
 \text{issue of new shares}
 \end{array}
 }{
 \begin{array}{r}
 \text{Number of shares} \\
 \text{outstanding}
 \end{array}
 +
 \begin{array}{r}
 \text{Number of new shares} \\
 \text{to be issued}
 \end{array}
 }$$

Regarding the above formula, the “Number of shares outstanding” shall be the aggregate number of shares issued less the aggregate number of treasury shares held by the Company, and in the event that the Company transfers its treasury shares, the "Number of new shares to be issued" shall be replaced by the "Number of treasury shares transferred”.

(i) When the Company issues or transfers securities convertible into the Company’s common stock at a price lower than the market value, including gratis allocation, or when the Company issues or transfers stock acquisition rights or bonds with stock acquisition rights exchangeable for the Company’s common stock, including gratis allocation, the Exercise Price after adjustment shall be obtained by applying mutatis mutandis the Exercise Price Adjustment Formula, assuming that all of the securities, stock acquisition rights and bonds with stock acquisition rights issued, transferred or allocated are exercised at the respective initial exercise prices thereof. The adjusted Exercise Price shall apply on and after the day following the date of payment. The date of payment shall be, if there is a certain period set for payment, the date on which the payment is made, and in the case of gratis allocation, the effective date

thereof. Provided, however, that if there is a certain record date set for the offering of the securities, the adjusted Exercise Price shall apply on and after the day following the record date.

(ii) When the Company issues callable stock or other securities to be acquired by the Company in exchange for its common stock at a price lower than the market value except the securities falling under (i) above, the Exercise Price after adjustment shall be obtained by applying mutatis mutandis the Exercise Price Adjustment Formula, assuming that all of the securities issued are exchanged for the Company's common stock on the conditions as of the time when the event causing the buyback occurs. The adjusted Exercise Price shall apply on and after the day of the event causing buyback.

(c) Regarding transactions specified in (a) and (b), when a certain record date is set for granting applicable rights to common stock holders of the Company, and each transaction takes effect only with approval to be given on or after such record date by the general meeting of shareholders, the Board of Directors or any other bodies of the Company, the Exercise Price after adjustment shall apply from the day following the date of said approval notwithstanding the provisions of (a) and (b). In such cases, persons who request to exercise their Rights during the period between the day after the record date and the day of the said approval shall be delivered additional shares of common stock of the Company on or after the day of the application of the adjusted Exercise Price, in accordance with the following calculation method:

$$\text{Number of shares} = \frac{\left( \begin{array}{c} \text{Exercise Price} \\ \text{before adjustment} \end{array} - \begin{array}{c} \text{Exercise Price} \\ \text{after adjustment} \end{array} \right) \times \text{Number of shares delivered within the period} \\ \text{at the Exercise Price before adjustment}}{\text{Exercise Price after adjustment}}$$

(d) In the event that: the Company merges with others as the surviving company; the Company becomes a parent company of others with 100% ownership through a share exchange; the Company succeeds to a part of other companies' businesses as a result of an absorption-type demerger; or in any other similar event where adjustments of the Exercise Price are required; the Company may make necessary adjustments.

(4) Exercise period of the Rights

The Rights may be exercised within the two years from the day on which two years have passed since the day following the allocation date of the Rights; provided, however, that in case the Company does not operate on the final day of such period, the exercise period shall be until the last business day during the period.

(5) Conditions for the exercise of the Rights

(i) Persons who are allocated the Rights ("Right Holders") may exercise their Rights as long as they are Directors, Corporate Auditors, executive officers, corporate counselors, corporate advisors or employees of the Company or its subsidiaries at the time of exercise of the Rights, except for cases in which the position was lost as provided for by relevant laws and regulations, the Articles of Incorporation or the rules of the Company or its subsidiary, or as provided in (ii), (iii) or (iv) of this paragraph.

(ii) Even if Executive Officers or other employees of the Company who are Right Holders lose their positions, those Right Holders may, if either of the following

conditions, (a), (b) or (c), applies, exercise their Rights up to the portion unexercised at the time of the loss of the position, notwithstanding the provision of (i) of this paragraph.

- (a) In the case that the Right Holders lose their positions because they resign due to expiration of their term of office or changes in relevant laws and regulations;
  - (b) In the case that their positions were lost based on the provisions of the Company rules, including retirement due to the attainment of retirement age and discharge for such reasons as scale down of business operations, or the Right Holders were transferred to subsidiaries by the Company's decision; or
  - (c) In the case that the Right Holders acquire the position of Director, Corporate Auditor, Executive Officer, Corporate Counselor or Corporate Advisor of the Company, or the position of Director, Corporate Auditor, executive officer, corporate counselor, corporate advisor or employee of its subsidiary immediately after the loss of the original position
- (iii) Even if Directors, executive officers or other employees of the Company's subsidiaries who are Right Holders lose their positions, those Right Holders may, if either of the following conditions, (a), (b) or (c), applies, exercise their Rights up to the portion unexercised at the time of the loss of the position, notwithstanding the provision of (i) of this paragraph.
- (a) In the case that the Right Holders lose their positions because they resign due to expiration of their term of office or changes in relevant laws and regulations;
  - (b) In the case that their positions were lost based on the provisions of the

- Company rules, including retirement due to the attainment of retirement age and discharge for such reasons as scale down of business operations, or the Right Holders were transferred to the Company or its subsidiaries by the subsidiary's decision; or
- (c) In the case that the Right Holders acquire the position of Director, Corporate Auditor, executive officer, corporate counselor, corporate advisor or employee of the Company or its subsidiary immediately after the loss of the original position
  - (iv) In the case that the Rights are transferred by inheritance, matters such as the conditions regarding the inheritors and their exercise of the Rights shall be in accordance with the provisions of the agreement defined in (vi) of this paragraph.
  - (v) It is not permitted to put the Rights in any pledge or to dispose of them in any manner.
  - (vi) Other conditions on the exercise of the Rights shall be determined at the Board of Directors' meeting to be held after this general meeting of shareholders, and shall be stipulated in the agreement to be made between the Right Holder and the Company.
- (6) Matters relating to increase in capital and capital reserve
- (i) The increase in capital due to issuance of shares upon the exercise of the Rights shall be the amount given by multiplying the limit of capital increase, calculated in accordance with Article 40, paragraph 1 of the Corporate Accounting Rules, by 0.5, with all figures less than one yen rounded up to one yen.
  - (ii) The increase in capital reserve due to issuance of shares upon the exercise of the Rights shall be the limit of capital increase mentioned in (i) of this paragraph



less the amount of increase in capital defined in (i) of this paragraph.

(7) Fractional number of shares resulting from exercise of the Rights

Any fractional number of shares less than one share shall be rounded down when issued to the Right Holders.

(8) Restriction on acquisition of the Rights by transfer

When any of the Rights are acquired by transfer, approval of the Company's Board of Directors shall be required.

(9) Causes for acquisition of the Rights

When a general meeting of shareholders approves a proposal for an agreement of merger or consolidation under which the Company ceases to exist, or a proposal for authorization of a share exchange agreement or a share transfer plan under which the Company becomes another company's wholly-owned subsidiary, the Company may, with a resolution of the Board of Directors approving the acquisition of the Rights as necessary, acquire the Rights without any consideration on a certain date set by the Board of Directors.

(10) Handling of the Rights in case of reorganization

When the Company merges or consolidates with others and ceases to exist by so doing, or when the Company carries out an absorption-type demerger, spin-off, share exchange or share transfer ("reorganization actions"), the Right Holders who hold unexercised Rights of the Company as of the time when such reorganization actions take effect shall be given stock acquisition rights of the applicable joint-stock corporations listed in Article 236, paragraph 1, item 8, (a) though (e) of the Corporate Law ("successor corporations"), on the terms stated below. In such cases, the Rights of the Company shall be terminated. Provided, however, that the above shall apply only when the agreements on merger,

consolidation, absorption-type demerger or share exchange, or the plans for spin-off or share transfer prescribe the granting of stock acquisition rights of successor corporations on the terms stated below.

- (a) Number of stock acquisition rights of the successor corporations to be issued  
The same number as the number of the Rights owned by the Right Holders with unexercised Rights as of the time when the reorganization actions take effect
- (b) Classes of the successor corporations' shares covered by the stock acquisition rights  
Common stock of the successor corporations
- (c) Number of the successor corporations' shares covered by the stock acquisition rights  
The number of shares shall be determined by applying mutatis mutandis the method defined in (1), considering the terms etc. of the reorganization actions.
- (d) Assets contributed upon exercise of the stock acquisition rights  
The value of the assets contributed upon exercise of one stock acquisition right shall be the amount given by multiplying the post-reorganization price paid in per share, which is adjusted in consideration of the terms etc. of the reorganization actions, by the number of shares exchangeable for one stock acquisition right.
- (e) Exercise period of the stock acquisition rights  
The stock acquisition rights may be exercised during the period between the first day of the exercise period of the Rights specified in (4) or the effective date of reorganization actions, whichever comes later, and the last day of the exercise period of the Rights specified in (4).

(f) Conditions for the exercise of the stock acquisition rights

The conditions shall be determined by applying mutatis mutandis the provisions of (5).

(g) Restriction on acquisition of the stock acquisition rights by transfer

When any of the stock acquisition rights is acquired by transfer, approval of the successor corporation shall be required.

(h) Causes for acquisition of the stock acquisition rights by the successor corporations

The causes applicable shall be determined by applying mutatis mutandis the provisions of (9).

(11) Certificates of the Rights

The Company shall not issue any certificates of the Rights.

(12) Other details regarding the Rights

Other details regarding issuance of the Rights shall be determined at a Board of Directors meeting to be held later regarding the issuance of publicly offered stock acquisition rights.

**Item7: To revise compensation for Directors**

The current compensation limit for the Company's Directors, which is ¥400,000,000 per year, was approved in the general meeting of shareholders held in June 2004 for the purpose of establishing the Company. We propose to revise this limit to ¥600,000,000 per year, as we increased the number of Executive Directors and will increase the number of Directors once the 3rd proposal is approved in this general meeting of shareholders, as well as considering the current changes to the economic situation.

The amount of the compensation limit has not and shall not include employee salaries paid

to Directors who are employed by the Company.

The Company now has six Directors, but it will have seven Directors subject to the approval of the 3rd proposal.

## Access to the Meeting Site

Convention Hall, second basement, Park Tower  
Tokyo Prince Hotel  
8-1, Shibakoen 4-chome, Minato-ku, Tokyo  
Telephone +81-3-5400-1111  
<http://www.princehotels.co.jp/parktower>

2 minutes walk from Akabanebashi Exit, Akabanebashi Station (Oedo Line)

3 minutes walk from A4 Exit, Shibakoen Station (Mita Line)