

(Translation)

June 3, 2010

Dear Sirs,

Name of Company: SEGA SAMMY HOLDINGS
INC.
Name of Representative: Hajime Satomi,
Chairman, President and
Representative Director (CEO)
(Code No. 6460, Tokyo Stock Exchange 1st Section)
Further Inquiry: Koichiro Ueda,
General Manager of Group
Communications Office
(TEL: 03-6215-9955)

**Notice of Final Report on Investigation Concerning Inappropriate Transactions
by Former Employee of the Company's Subsidiary (SEGATOYS CO., LTD.)
and Measures to Prevent Recurrence**

As publicized on April 15, 2010 and May 6, 2010, it has been discovered that a former employee of SEGATOYS Co., Ltd., a subsidiary of SEGA SAMMY HOLDINGS INC. (the "Company") had been conducting inappropriate transactions with multiple business partners. SEGATOYS' internal investigations and external investigation committee are continuing. The external investigation committee submitted a final report today, and SEGATOYS has disclosed the release entitled "Notice of Final Report on Investigation Concerning Inappropriate Transactions by Former Employee and Measures to Prevent Recurrence" attached hereto.

SEGATOYS has announced as follows in "4. Impact of the inappropriate transactions on SEGATOYS' settlement of accounts" in its release, and the impact on the Company's consolidated earnings are expected to be similar.

"As a result of the report by the external investigation committee and deliberation with the independent auditor, the Company came to the conclusion that it is unnecessary to revise the financial statements of past fiscal years since the inappropriate transactions are fictitious transactions conducted by the former employee not based on reality. The Company cannot rule out the future possibility of payment obligations in response to demands from civil procedures by parties that claim to have fictitious accounts receivable, but since it is impossible to rationally estimate at this point the amount that the Company should shoulder, the Company disclosed such as an annotation as contingent liability for the previous fiscal year ended March 31, 2010. The Company will adequately disclose any amount the Company will bear that has been determined or that has become possible to rationally estimate in the future."

The entire Group will strive to thoroughly implement compliance and further strengthen

corporate governance in order to prevent recurrence and restore confidence.

<<Attached material: Press release of SEGATOYS CO., LTD.
 “Notice of Final Report on Investigation Concerning Inappropriate
 Transactions by Former Employee and Measures to Prevent
 Recurrence”>>

- END -



(Translation)

June 3, 2010

Dear Sirs,

Name of Company: SEGATOYS CO., LTD.

Name of Representative: Yoshiharu Suzuki,
President and CEO
(JASDAQ, Code No. 7842)

Further Inquiry: Akira Sugano,
Senior Managing Director, Head of
Corporate Department
(TEL: 03-5774-3600)

**Notice of Final Report Concerning Investigation on Inappropriate Transactions
by Former Employee and Measures to Prevent Recurrence**

SEGATOYS CO., LTD. (the “Company”) commenced internal investigation immediately upon learning of the inappropriate transactions by a former employee as stated in the “Notice of Inappropriate Transactions by Former Employee” announced on April 15, 2010 and “Notice of Mid-Term Report Concerning Investigation on Inappropriate Transactions by Former Employee” announced on May 6, 2010. The Company also established an external investigation committee comprised of attorneys and certified public accountants (CPA) with a fair and neutral stance for a full-scale and thorough investigation of the causes, as well as prompt calculation and determination of the impact on the Company’s earnings. The external investigation committee has conducted investigation alongside the internal investigation. Since the external investigation committee has submitted a final report to the Company’s board of directors today, we hereby publicize the report as an attachment (Final Report on Inappropriate Transactions by Former SEGATOYS Employee). We also report the finalized content of measures to prevent recurrence of the inappropriate transactions based on the final report of the external investigation committee.

We express our sincerest apologies to our shareholders and investors, our business partners and market players for the enormous inconvenience and concerns caused by this matter.

1. Overview of the inappropriate transactions by former employee

The Company’s former employee (retired as of March 31, 2010; hereafter, “X”) conducted unauthorized fictitious transactions without going through any of the Company’s accounting procedures and without any transfer of target of transactions in the name of the Company (hereafter, “fictitious transactions”). The fictitious transactions were conducted 100 or more times from around May 2008 through around the time X retired (hereafter, the series of fictitious transactions collectively called the “inappropriate transactions”).

As of April 5, 2010, when the inappropriate transactions were discovered, there were 10 parties that had fictitious accounts receivable with the Company as the seeming debtor (hereafter, “fictitious accounts receivable”) and the total amount of the fictitious accounts receivable held by the 10 concerned parties was around 420 million yen. Due to the

inappropriate transactions, substantial losses have been incurred by 8 out of the 10 parties concerned, and the losses totaled around 160 million yen.

As of today, the Company has reached a settlement with 2 out of the 10 parties stating that the Company has no responsibility for the inappropriate transactions and has no liabilities for payment concerning the inappropriate transactions. Thus, unresolved fictitious accounts receivable total around 380 million yen, and losses by those who incurred substantial losses total around 150 million yen at this point.

Including the above, the Company has made no payment of money based on the inappropriate transactions at this point. Neither the investigation of the Company nor the external investigation committee revealed any facts that confirm that X gained personal benefits from the inappropriate transactions.

2. Cause and reasons it took a long time to discover the inappropriate transactions

Initially X, who was an employee, plotted the inappropriate transactions to prevent the adverse impact on X's sales performance through being unable to collect on accounts receivable for a transaction X was in charge of. After that X repeated fictitious transactions in order to conceal the inappropriate transaction. Thus, the inappropriate transactions occurred due to lack of compliance awareness of X, who tried to prevent deterioration of X's sales performance within the Company even if it was to use illicit means.

The reason why the inappropriate transactions were not discovered within the company for nearly two years was because the attributes of the inappropriate transactions, which was a combination of the following circumstances, made it difficult for the Company to detect them: the fictitious transactions were formulated not to go through any of the Company's accounting procedures; the other parties did not confirm with the Company's employees, etc. other than X possibly because they easily misbelieved that the inappropriate transactions were the Company's transactions; respective fictitious transactions were generally settled by the payment deadline by around late 2009; the Company's supervision of X was not necessarily thoroughgoing to forestall the inappropriate transactions, etc.

3. Criminal responsibility of concerned parties

At the very least, the act of X preparing and issuing order forms, etc. in the Company's name without authority is considered to constitute crimes of counterfeiting private documents and uttering counterfeit documents. In addition, some party who allegedly committed the above crime in collaboration with X exists among the external parties involved in the inappropriate transactions. The Company has filed a complaint against X and the alleged collaborator and the complaint was accepted by the Metropolitan Police Department as of May 14, 2010 (acceptance number is Heisei 22 No. 24).

4. Impact of the inappropriate transactions on SEGATOYS' settlement of accounts

As a result of the report by the external investigation committee and deliberation with the independent auditor, the Company came to the conclusion that it is unnecessary to revise the financial statements of past fiscal years since the inappropriate transactions are fictitious transactions conducted by the former employee not based on reality.

The Company cannot rule out the future possibility of payment obligations in response to demands from civil procedures by parties that claim to have fictitious accounts receivable, but since it is impossible to rationally estimate at this point the amount that the Company should shoulder, the Company disclosed such as an annotation as contingent liability for the previous fiscal year ended March 31, 2010.

The Company will adequately disclose any amount the Company will bear that has been determined or that has become possible to rationally estimate in the future.

5. Effectiveness of internal control

As for internal control management, the internal investigation and final report by the external investigation committee pointed out that there is room for improvement in terms of operations of business control and compliance system, given that penetration of compliance awareness was not enough, or mutual surveillance function among employees against illicit acts was not quite formulated in terms of internal check-and-balance functions. The Company is fully aware of these points, and will make utmost efforts to prevent recurrence of same or similar transactions as this incident as indicated in “6. Measures to prevent recurrence.”

On the other hand, the Auditing Office has already investigated that there is no problem in terms of establishment and operation status of company level control concerning financial reporting and establishment and operation status of internal control concerning the Company’s purchasing process, and we determined that the occurrence of the inappropriate transactions does not impact assessment on internal control concerning financial reporting.

6. Measures to prevent recurrence

The investigation report by the “external investigation committee” reports and points out the following in terms of management system based on internal control:

(1) Enhanced efforts to further develop compliance awareness of executives and employees

The lack of compliance awareness of X as an individual can be raised as one of the causes that the inappropriate transactions occurred. This is partly due to the quality of X as an individual, but we believe that enhanced efforts to further develop compliance awareness of the Company’s executives and employees (hereafter, “executives and employees”) are important since this will increase mutual surveillance function among executives and employees against illicit acts and contribute to deterring of occurrence and early detection of illicit acts by some parties.

Therefore, in order to increase compliance awareness among executives and employees, we believe it is necessary to further enhance various measures such as employee education and training, and strengthening of awareness campaigns.

(2) Strengthening of guidance and supervision of employees

As a result of analyzing factors that led to the inappropriate transactions not being discovered for around 2 years, it has been ascertained that as for internal control, there is room for improvement in terms of operation with regards to business control and compliance system. In order to strengthen the operational aspect of the business control system for deterring of occurrence and early detection of illicit acts, we believe it is necessary to enhance managerial staff efforts to grasp each employee’s business content and personnel evaluation, as well as review personnel systems such as institutionalizing job rotations. We also believe it is necessary to consider establishment of the hardware aspects such as monitoring sent and received e-mails.

(3) Strengthening of internal audit

In order to further enhance internal control, we believe it is necessary to further strengthen and enhance internal audits, such as by reviewing implementation items and method, and

implementation frequency.

(4) Measures to prevent counterfeiting documents and uttering counterfeit documents, and establishment of evidence documents

Some of the inappropriate transactions were conducted with other parties that had no legitimate business relations with the Company and the documents forged by X did not have the official Company seal. Thus, measures to prevent counterfeiting documents and uttering counterfeit documents would not necessarily have been effective in relation to the inappropriate transactions. However, for deterring of occurrence of early detection of illicit acts in the future, we believe it is necessary to implement measures to prevent counterfeiting documents, such as stricter safekeeping of the seal, and measures to prevent uttering of counterfeit documents, such as by making the standard format of the Company's documents such as order forms and invoices thoroughly known to business partners.

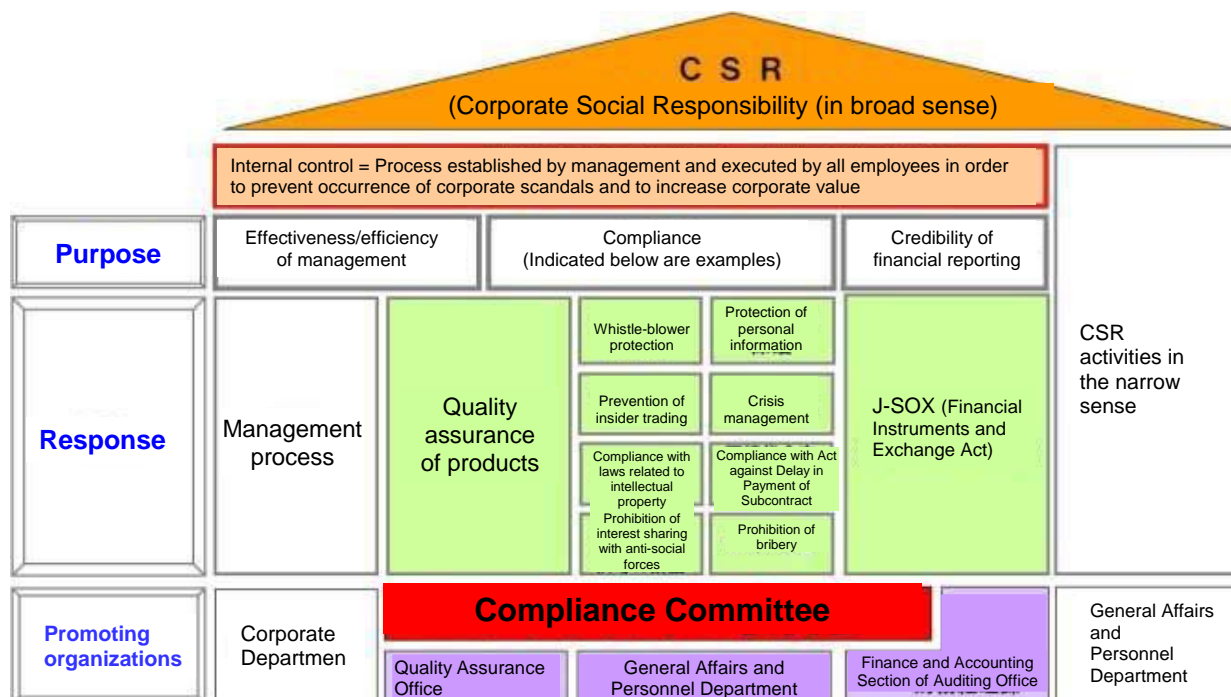
Based on the above pointed out by the "external investigation committee," the Company will review the internal control of the entire company for deterring of occurrence or early detection of illicit transactions and take the following measures in order to strengthen our internal management system and internal check-and-balance functions.

(i) Vitalization of compliance committee activities

The Company's internal control is currently handled as indicated on the chart on the next page. As for compliance, the "Compliance Committee" comprising members appointed by each department of the Company plays a central role in thoroughly communicating to and instructing, etc. each department (and subsidiary) with regards to compliance based on the Company's "Compliance Regulations." In the future, we will increase awareness of each committee member by enhancing or vitalizing the contents of the committee, centered on the following:

- We will implement special training for appointed compliance committee members conducted by internal and external organizations. As compliance leaders, they will strongly promote awareness campaigns for all executives and employees.
- Each compliance committee member will submit a compliance activity report to the compliance committee every month. Members will provide periodic reports on compliance status of each department, share information regarding status of other departments and further facilitate awareness campaigns.
- The Compliance Committee will constantly grasp and manage and supervise compliance status of each department. If there is question about compliance status of each department, the Compliance Committee will transmit information to the applicable department as well as all employees in three levels depending on the circumstance: "Attention," "Warning" and "Instruction for improvement."
- All executives and employees will participate in compliance seminars inside and outside the Company at least once every 2 years. The Company will implement eLearning concerning compliance once every 6 months every year and focus on re-educating employees that do not satisfy the qualifying standard score.
- In order to further increase compliance awareness in daily education, we will establish a compliance items confirmation column on in-house approval forms, etc. in addition to the abovementioned education and awareness activities, to prevent education and awareness activities from losing substance.

In addition to the above, the Company will strive to thoroughly communicate the whistle-blowing system through the Intranet, periodic information transmission by the Compliance Committee, and periodic interviews by the HR department, etc. in order to create a company-wide mutual surveillance function.



(ii) Reconsideration and partial review of personnel system

We will strive to enhance our personnel system in order to have managerial staff to grasp employees' business affairs even more thoroughly. Specifically, the employee, managerial staff and personnel department will together formulate a growth plan to mold an employee's career. By implementing job rotations based on the growth plans, we will establish a structure in which employees' business affairs are grasped, business content and methods are managed and supervised, and mutual surveillance work. Furthermore, we will strive to establish a system in which managerial staff monitor e-mails, facsimiles, etc. sent and received by employees and tackle measures that lead to deterring illicit acts, etc.

(iii) Strengthening of the auditing department

In order to further enhance internal audit implementation items and methods, and the frequency of implementation, we will increase the number of Auditing Office members from the current one member to two members. We will also strengthen collaboration with parent company SEGA SAMMY HOLDINGS INC.'s Internal Auditing Office, etc. to heighten the level of internal audits.

(iv) Measures to prevent counterfeiting documents and uttering counterfeit documents

We will thoroughly implement within the Company use of the standard format of transaction documents issued by the Company (order forms, invoice, acceptance forms, etc.), as well as implement measures to prevent uttering of counterfeit documents such as by notifying business partners of such official documents. Furthermore, we will implement stricter safekeeping of seal and seal stamping procedures, etc.

(v) Crisis management response

The Company will further strengthen efforts toward crisis management. If an unexpected contingency such as the inappropriate transactions occurs, the Company will immediately establish an emergency task force and gather information for fact finding and analyze factors, publicize facts such as impact on earnings, and consider, determine and implement measures to prevent recurrence in a speedy manner.

7. In-house disciplinary procedures

The Company takes the incident with utmost seriousness, and is considering holding a discipline committee meeting to assess the existence of internal responsibility, such as of X's supervisor, and taking in-house disciplinary procedures for those responsible as part of measures to prevent recurrence.

Lastly, we again express our sincerest apologies to our shareholders and investors, our business partners and market players for the enormous inconvenience and concerns caused by this incident. We ask all concerned parties for their continued encouragement and support in the future as the Company's executives and employees as a whole strive to restore trust.

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Final Report on Inappropriate Transactions by Former SEGATOYS Employee

June 3, 2010

External investigation committee
Chairperson: Hitoshi Kanamori,
Attorney
Member: Ryosuke Ito, Attorney
Member: Masatoshi Ishikawa, CPA

The external investigation committee has conducted investigation on inappropriate transactions by a former SEGATOYS CO., LTD. employee as publicized on April 15, 2010. We submitted the “Mid-Term Report on Inappropriate Transactions by Former SEGATOYS Employee” on May 6 and have since furthered our investigation. We hereby disclose the final report we have compiled as follows.

I. Summary of final report

The details of the final report will be described in “II” and after, but the summary is as follows:

1. Content of the inappropriate transactions

A former employee (retired as of March 31, 2010; hereafter, “X”) of SEGATOYS CO., LTD. (hereafter, “SEGATOYS”) conducted unauthorized fictitious transactions without going through any SEGATOYS accounting procedures and without any transfer of target of transactions in the name of SEGATOYS (hereafter, “fictitious transactions”). The fictitious transactions were conducted 100 or more times from around May 2008 through around the time X retired (hereafter, the series of fictitious transactions collectively called the “inappropriate transactions”). As of April 5, 2010, when the inappropriate transactions were discovered, there were 10 parties that had fictitious accounts receivable of the concerned 10 parties with SEGATOYS as the seeming debtor (hereafter, “fictitious accounts receivable”) and the total amount of the fictitious accounts receivable was around 420 million yen. Because of the inappropriate transactions, substantial losses have been incurred by 8 out of the 10 parties concerned, and the losses totaled around 160 million yen. SEGATOYS has made no payment of money based on the inappropriate transactions at this point. The investigation did not reveal any facts that confirm that X gained personal benefits from the inappropriate transactions.

2. Cause and reasons it took a long time to discover the inappropriate transactions

Initially X, who was an employee, plotted the inappropriate transactions to prevent the adverse impact on X’s sales performance through being unable to collect on SEGATOYS’ accounts receivables for a transaction X was in charge of. After that, X repeated fictitious transactions in order to conceal the inappropriate transaction.

Thus, the inappropriate transactions occurred due to lack of compliance awareness of X, who tried to prevent deterioration of X’s sales performance within the Company even if it was to use illicit means.

The main reason why the inappropriate transactions were not discovered within the company for nearly two years was because the attributes of the inappropriate transactions, which was a combination of the following circumstances, made it difficult for SEGATOYS to

detect them: the fictitious transactions were formulated not to go through any of SEGATOYS' accounting procedures; the other parties did not confirm with SEGATOYS' employees, etc. other than X possibly because they easily misbelieved that the inappropriate transactions were SEGATOYS' transactions; respective fictitious transactions were generally settled by the payment deadline by around late 2009.

3. Criminal responsibility of concerned parties

At the very least, the act of X preparing and issuing order forms, etc. in SEGATOYS' name without authority is considered to constitute crimes of counterfeiting private documents and uttering counterfeit documents. In addition, some party who allegedly committed the above crime in collaboration with X exists among the external parties involved in the inappropriate transactions. SEGATOYS has filed a complaint against X and the alleged collaborator and the complaint was accepted by the Metropolitan Police Department as of May 14, 2014.

4. Impact of the inappropriate transactions on SEGATOYS' settlement of accounts

The inappropriate transactions are fictitious transactions conducted by X as an individual not based on reality and cannot be ascertained as SEGATOYS' transactions, so in terms of SEGATOYS' accounting, there are no transactions that should have been recognized in the past. Therefore, we consider it unnecessary to revise the financial statements of past fiscal years.

There is future possibility that SEGATOYS incurs payment obligations in response to demands from civil procedures by parties that claim to have acquired fictitious accounts receivable, but since it is impossible to rationally estimate at this point the amount that SEGATOYS should shoulder. As for the previous fiscal year ended March 31, 2010, we believe it is adequate for SEGATOYS to provide an annotation as contingent liability.

We also believe it is necessary for SEGATOYS to adequately disclose any amount SEGATOYS will shoulder that has been determined or that has become possible to rationally estimate in the future.

5. Effectiveness of internal control

As for internal control management, there is room for improvement in terms of operations with regards to establishment and operations of business control and compliance system. On the other hand, the Internal Auditing Office has already investigated that there is no problem in terms of establishment and operation status of company level control concerning financial reporting and establishment and operation status of internal control concerning SEGATOYS' purchasing process. As a result of deliberating with the independent auditor as well, we believe that the occurrence of the inappropriate transactions does not impact assessment on internal control concerning financial reporting.

6. Measures to prevent recurrence

The committee has recommended to SEGATOYS to consider and implement the following measures to prevent recurrence: (1) develop compliance awareness of members, (2) strengthen guidance and supervision of employees, (3) strengthen internal audit and (4) measures to prevent counterfeiting of documents and uttering counterfeit documents.

7. Response to claims against SEGATOYS

As of today, SEGATOYS has reported to us that SEGATOYS has reached a settlement with 2 out of the 10 other parties (both of the 2 parties have incurred substantial losses through

the inappropriate transactions) stating that SEGATOYS has no responsibility for the inappropriate transactions and SEGATOYS has no payment obligations concerning the inappropriate transactions. Thus, unresolved fictitious accounts receivable total around 380 million yen, and losses by those who incurred substantial losses total around 150 million yen.

8. In-house disciplinary procedures

SEGATOYS has reported to us that SEGATOYS takes the incident with utmost seriousness, and is considering holding a discipline committee meeting to assess the existence of internal responsibility, such as of X's supervisor, and taking in-house disciplinary procedures for those responsible as part of measures to prevent recurrence.

II. Content of the investigation

The investigation was conducted by collecting information by the following methods and analyzing such.

1. Interviewing X
2. Obtaining materials such as documents, e-mails and electronic files managed and used by X at SEGATOYS and materials X voluntarily submitted
3. Voluntary interview on and collecting materials from parties who were seemingly business partners of SEGATOYS in the fictitious transactions (those in the position of "Company A" in <Chart 1> and <Chart 2> indicated later; hereafter, "Other Party")
4. Voluntary interviews and collecting materials from the party that mediated the delivery and receipt of money in each fictitious transaction (that in the position of "First Party" in <Chart 1> and <Chart 2> indicated later; hereafter, "Collaborator")
5. Interview on results of internal investigation by SEGATOYS' Auditing Office and parent company SEGA SAMMY HOLDINGS INC.(hereafter, "SEGA SAMMY")'s Internal Auditing Office and deliberation with SEGATOYS' independent auditor

III. Content of the inappropriate transactions

The overview of the content of the inappropriate transactions will be explained below. Please refer to the mid-term report as well as it already describes such in detail.

As described hereinafter, SEGATOYS' complaint has been accepted for some of the acts comprising the inappropriate transactions. We expect investigative authorities to clarify the whole picture in the future.

1. Structure of the inappropriate transactions

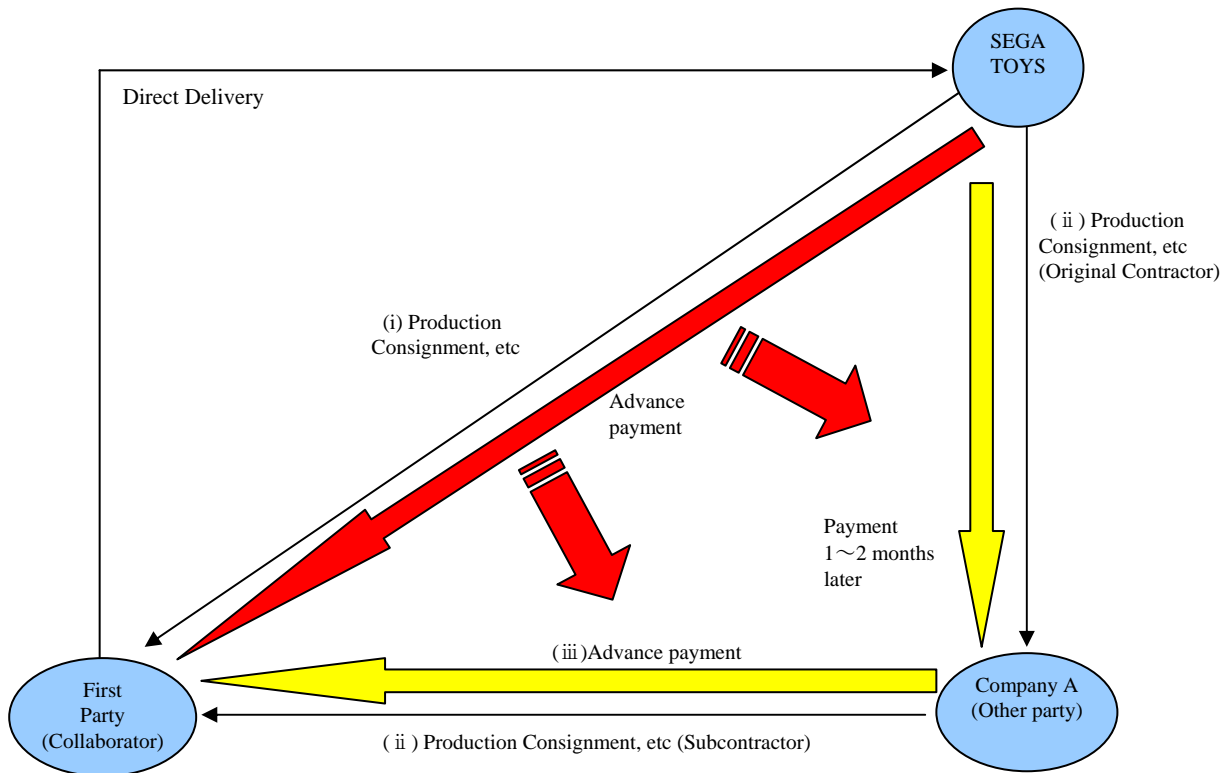
The inappropriate transactions consist of creating new fictitious accounts receivable and at the same time repaying fictitious accounts receivable (virtually loaning money) through generally repeating the "(1) Fictitious transactions" indicated below.

(1) Fictitious transaction

<a.> Outer appearance of fictitious transactions

X, who conducted the inappropriate transactions, generally created the outer appearance that transactions as indicated in <Chart 1> are being conducted.

<Chart 1>

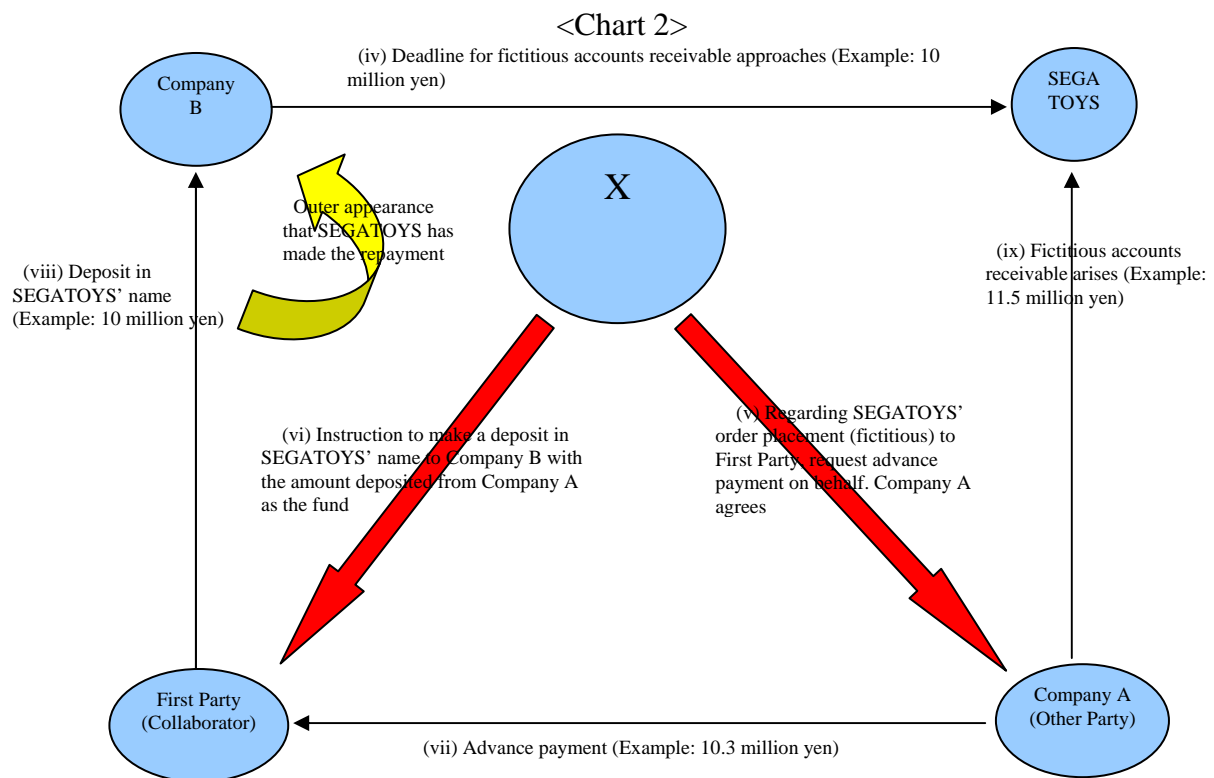


In other words, when SEGATOYS attempts production consignment or trade with the First Party (Collaborator) (SEGATOYS consigns production to collaborator, or purchases product from collaborator), SEGATOYS needs to make an advance payment to the Collaborator ((i)). However, since SEGATOYS cannot make the advance payment, it cannot directly consign production. For that reason, Company A (Other Party) mediates in the transaction as original contractor, etc. in formality ((ii)), and temporarily makes the advance payment to the Collaborator on behalf of SEGATOYS ((iii)).

X had no authority to conduct the transactions above and thus, to create the outer appearance above, X prepared and issued documents such as order forms and acceptance forms in SEGATOYS' name to the Other Party despite lacking the authority to prepare such documents.

<b.> Actual condition of the fictitious transactions

However, as indicated in <Chart 2>, the actual transactions above are fictitious with no involvement of SEGATOYS and no delivery of target of transactions.



Therefore, when the payment deadline for B's fictitious accounts receivable from SEGATOYS approaches ((ix)). The transaction that initially created the fictitious accounts receivable at the onset of the inappropriate transactions will be described in (2)), X needed to repay this. Therefore, as described in <a.>, X asks the Other Party to make an advance payment to the Collaborator as the original contractor. Once Other Party agrees, X instructs Collaborator to make a deposit to Company B in the name of SEGATOYS with the deposit from Other Party as the funds ((vi)). As a result, Other Party deposited money to Collaborator ((vii)), and Collaborator deposited money to Company B ((viii)). Since Collaborator's deposit to Company B ((viii)) is in SEGATOYS' name, the fictitious accounts receivable of (iv) will have been repaid. Accordingly, the fictitious accounts receivable of (iv) dissolves, but Other Party's fictitious accounts receivable from SEGATOYS newly arises ((ix)).

In the preceding fictitious transaction, Company B was in the position of Company A (Other Party) in <Chart 2>, and Company A is to be in the position of Company B (owner of fictitious accounts receivable with payment deadline approaching) in <Chart 2> in the fictitious transaction thereafter.

Thereafter, in order to repay the fictitious accounts receivable that newly arose, X repeatedly formulated fictitious transactions using the same method replacing Other Party. But as described later, the amount of fictitious accounts receivable snowballed with each transaction since the Other Party gained a profit margin and the Collaborator gained a commission. In addition, X formulated two or more fictitious transactions to repay one fictitious account receivable at times.

(2) Transaction that initially created the fictitious accounts receivable at the onset of the inappropriate transactions

Initially, the risk of insolvency arose for SEGATOYS' accounts receivable from a business partner that X was in charge. In order to prevent this, X formulated a fictitious transaction similar to that of (1) above (hereafter, "originating fictitious transaction") and recovered the accounts receivable. However, as a result, fictitious accounts receivable from SEGATOYS arose. Thereafter, X repeated the fictitious transactions described in (1) in order to prevent the fictitious accounts receivable from defaulting and his inappropriate transactions being discovered. We have already confirmed the fact that there was one originating fictitious transaction in the inappropriate transactions, but was not able to confirm whether other such transaction exists.

2. Participators in the inappropriate transactions

(1) Other Party

The Other Party of the inappropriate transactions served the role of intermediating the fictitious transactions formulated by X and paying fictitious expense to the Collaborator's bank account. The Other Party participates in the fictitious transactions in the position of original contractor in form, but was not at all involved in selection nor guidance and supervision, etc. of the subcontractor. Also, the target of the fictitious transactions was to be delivered directly to SEGATOYS from the Collaborator, who is said to be the subcontractor. When considering the mode of involvement of the Other Party, the main motivation for the Other Party to intermediate the fictitious transactions can be thought to be to gain as profit margin the difference between the payment amount to the Collaborator and fictitious accounts receivable from SEGATOYS. Therefore, the actual condition of the fictitious transactions is that the Other Party was gaining a certain percentage of profit margin as a reward for serving a financial function of shouldering the expense of the fictitious transactions for a period of within 1 or 2 months in each fictitious transaction.

Whether the Other Party was aware that the transaction was a fictitious transaction shall be determined individually. However, we were not able to fully clarify the individual situations regarding this point through the investigation.

(2) Collaborator

In each fictitious transaction, the Collaborator of the inappropriate transaction served the role of receiving payment of money from the Other Party in the bank account that it manages and depositing it into the bank account of the creditor of the fictitious accounts receivable (B in <Chart 2>). In other words a separate Other Party) in SEGATOYS' name.

According to confession by X, the Collaborator apparently gained benefits in the name of commission around 3% by depositing to the party instructed by X in SEGATOYS' name the money deposited to the Collaborator's account by the Other Party.

The investigation has not fully clarified what type of awareness the Collaborator had in the involvement in the inappropriate transactions. But it is a fact that the Collaborator played an essential role in the inappropriate transactions for the purpose of gaining commission.

(3) SEGATOYS

In the inappropriate transactions, SEGATOYS in form, was the party that placed orders to other parties for production consignment, etc. However, X did not have the authority to place orders for production consignment, etc., and for those transactions, X never went through SEGATOYS' internal approval procedures. Also, the fact that SEGATOYS received products that are targets of the contracts (such as the deliverables of production consignment) cannot be ascertained.

With the facts above as the premise, SEGATOYS virtually had no involvement in the inappropriate transactions.

(4) Other

The investigation found no evidence that executives or employees, etc. of SEGATOYS other than X were involved in the inappropriate transactions. There is thought to be no involved party within SEGATOYS other than X.

3. Scale of the inappropriate transactions

(1) Number of other parties

With regard to the inappropriate transactions, there were 10 parties that were the Other Party that had fictitious accounts receivable from SEGATOYS as of April 5, 2010, when the incident was discovered (hereafter, “10 Parties”). The existence of the 10 Parties became apparent when the parties demanded payment from SEGATOYS for the fictitious accounts receivable, or X confessed to SEGATOYS to having conducted fictitious transactions with the parties. The committee also confirmed facts that the 10 Parties were involved in the inappropriate transactions through independently conducting detailed checking of related materials and other measures.

We cannot rule out the possibility that there are parties other than the 10 Parties that served as the Other Party, but due to the following reasons, we believe, at the very least, that the possibility of someone other than the 10 Parties currently having fictitious accounts receivable and making demands to SEGATOYS is extremely low.

First of all, SEGATOYS publicized the inappropriate transactions on April 15, 2010. Nobody other than the 10 Parties has demanded payment from SEGATOYS for accounts receivable concerning the inappropriate transactions since then until now. Also, with regard to the inappropriate transactions that the 10 Parties were involved in, the payment deadline for fictitious accounts receivable were normally within 1~2 months, and within 3 months at the longest. With regard to the fictitious transactions that the 10 Parties were involved in, there is only one party that was in the position of collaborator since the beginning of 2010. There was no trace on the deposit and withdrawal records of the bank account that the Collaborator seemingly used for the inappropriate transactions that there was transfer of money that could possibly create fictitious accounts receivable of 2 million yen or more since the beginning of 2010 with regard to a party other than the 10 Parties. X also confessed that there is no one other than the 10 Parties that currently have fictitious accounts receivable from SEGATOYS of 2 million yen or more.

(2) Number of fictitious transactions, amount of fictitious accounts receivable

In the period of less than two years, from around May 2008 when the inappropriate transactions started through April 5, 2010, when the inappropriate transactions were discovered, 100 or more fictitious transactions were formulated. At the time the inappropriate transactions were discovered, the total amount of the fictitious accounts receivable that were unpaid for the 10 Parties was around 420 million yen. The transaction amount and the rate of profit margin established for each fictitious transaction comprising the inappropriate transactions vary. Transaction amounts ranging from about a few million yen to dozens of millions of yen, and rates of profit margin ranging from around 5% to around 45% have been confirmed.

4. Flow of money in the inappropriate transactions

It has been confirmed that with regards to the 10 Parties, the total amount of money transferred in relation to the inappropriate transactions from May 2008, when the inappropriate transactions started, through April 2010 is around 1.6 billion yen.

When comparing the respective total amounts of the money paid to the Collaborator (hereafter “amount of money paid”) and the amount deposited in SEGATOYS’ name (hereafter,

“amount of money received”) in relation to the inappropriate transactions with regards to the 10 Parties, for 2 parties, the amount of money received exceeds the amount of money paid. Therefore, it can be ascertained that benefits virtually arose for the 2 parties. But for the remaining 8 parties, the amount of money paid exceeds the amount of money received. Therefore, it can be ascertained that losses virtually arose. The total of such excess for the 8 parties is around 160 million yen.

When subtracting the total amount received from the total amount paid with regard to the inappropriate transactions involving the 10 Parties, it comes to around 94 million yen. As for the whereabouts of the money, there is possibility that the Collaborator gained the money as commission and that the Other Party other than the 10 Parties gained the money as profit margins, etc. but this has yet to be clarified. The investigation did not reveal any facts that confirm X gained personal benefits from the inappropriate transactions.

IV. Criminal responsibility of concerned parties

At the very least, it has become clear that X prepared and issued order forms and other documents in SEGATOYS’ name without authority, and such acts are considered to constitute crimes of counterfeiting private documents and uttering counterfeit documents under the Penal Code. In addition, parties who allegedly took part in the inappropriate transactions in conspiracy with X exist (parties outside SEGATOYS). These parties may constitute accomplices in the above-mentioned criminal act of X.

SEGATOYS has already filed a criminal complaint against X and alleged accomplice to the Metropolitan Police Department and the letter of complaint was accepted on May 14, 2010 (acceptance number is Heisei 22 No. 24). The committee anticipates that the facts will be clarified as investigative authorities further investigate the matter in the future.

V. Cause and reasons it took a long time to discover the inappropriate transactions

The inappropriate transactions were not discovered despite the fact that the number of fictitious transactions reached 100 times from around May 2008, when the transactions started, through April 5, 2010, when X made the confession. The following facts can be ascertained as the cause of the inappropriate transactions and reason why they were not discovered:

1. Cause of the inappropriate transactions

(1) Lack of compliance awareness of X as an individual

As mentioned above, the investigation did not reveal any facts that confirm X, who executed the inappropriate transactions, gained personal benefits. According to confession by X, X started the inappropriate transactions in order to avoid a situation where he is not able to reach his sales target through being unable to collect on SEGATOYS’ accounts receivables for a transaction he was in charge of, and having to explain to his boss the reason for not reaching the sales target as well as future prospects, etc. It is clear that X as an individual lacked compliance awareness as employee.

(2) Attributes making it difficult for SEGATOYS to acknowledge

As we will mention in 2., the inappropriate transactions by X had attributes that made it difficult for SEGATOYS to acknowledge them. There is possibility that not enough checks-and-balances functioned with regards to X, lacking in compliance awareness, conducting the inappropriate transactions.

2. Reasons why it required a long period of time to be discovered

(1) Did not go through any SEGATOYS’ accounting procedures

X conducted the inappropriate transactions simply to extract money from the Other Party

using public trust in SEGATOYS. There was no purpose of padding SEGATOYS' sales or purpose of withdrawing money from SEGATOYS. Thus, the inappropriate transactions did not go through any SEGATOYS' accounting procedures (the first fictitious transaction conducted by X was to collect on SEGATOYS' accounts receivables, but the transaction that caused the accounts receivables was a normal transaction that went through SEGATOYS' accounting procedures and with transfer of target of transaction).

Due to such circumstance, there was no opportunity for SEGATOYS to directly acknowledge the existence of inappropriate transactions in terms of accounting.

(2) Other party did not confirm, etc. with employees, etc. of SEGATOYS other than X

The content of the inappropriate transactions were extremely unnatural and irrational, where the Other Party can obtain high profit margin ranging from around 5% to 45% just by accommodating funds for 1 to 2 months, and the accommodated amount reaching dozens of millions of yen per time in some cases. An abnormal situation was occurring, where despite this, possibly because many of the other parties easily misbelieved that the inappropriate transactions were SEGATOYS' normal transactions (as mentioned above, the investigation did not reveal whether the Other Party was aware that the inappropriate transactions were fictitious), they repeated the same transaction without adequate confirmation with SEGATOYS employees other than X or with SEGATOYS' accounting department, etc.

The following can be raised as factors that led to the abnormal situation: Payment of the fictitious accounts receivable was not delayed for a long term through the beginning of 2010, since X tactfully repeated formulation of fictitious transactions (yet, it has been confirmed that there was a significant number of delays of several days); Other Party did not acknowledge the risk that the fictitious accounts receivable may become irrecoverable; Several companies among the other parties originally had legitimate transactions with SEGATOYS through X, so there are situations where they may have wanted to respond to X's request. However, even when considering these factors, the fact that the content of the transactions are unnatural and irrational cannot be dispelled. Suspicion remains as to whether the other parties performed duty of care that is normally required in business transactions.

Whatever the case, there was no opportunity for SEGATOYS to acknowledge the inappropriate transactions through other parties' words and actions since the other parties did not adequately confirm with SEGATOYS employee other than X or SEGATOYS' accounting department, etc. with regards to the fictitious transactions.

(3) SEGATOYS' supervision of X was not necessarily thoroughgoing

If the other parties were not aware that the inappropriate transactions were fictitious transactions, this means that X used his position as a SEGATOYS employee to gain trust from the other parties. The communication between X and Other Party and Collaborator have not necessarily become clear through the investigation, but it has become clear that X used SEGATOYS' facilities, etc. when conducting the inappropriate transactions and has engaged in administrative work concerning the inappropriate transactions during work hours.

However, the factors mentioned in (1) and (2) above are considered to have largely contributed to the occurrence of the inappropriate transactions and length of time required for discovery. Therefore, the fact that the inappropriate transactions occurred and that it took time for them to be discovered does not immediately link to the existence of institutional flaws in SEGATOYS' management control and compliance system. However, had SEGATOYS further enhanced its management control and compliance system in terms of operations, it may have been possible to prevent the occurrence of the inappropriate transactions or detect them early. In that sense, there is room for improvement in terms of operations of SEGATOYS' management control and compliance system.

VI. Impact of the inappropriate transactions on SEGA TOYS' settlement of accounts

This point has been reported in the mid-term report. There have been no events since the mid-term report that necessitate the committee to change its view. We will only indicate briefly what was described in the mid-term report.

1. Impact on financial statements of past fiscal years

The inappropriate transactions were conducted without any relation to SEGATOYS' order placement system and accounting procedures, and did not pass through any of the necessary internal approval procedures. And although SEGATOYS in form is the party placing orders to other parties for production consignment, etc., even the fact that SEGATOYS received products that are targets of the contracts cannot be ascertained.

Therefore, SEGATOYS virtually had no involvement in the inappropriate transactions, and the transactions are considered to be the criminal act of the individual X (and other outside parties concerned). The inappropriate transactions cannot be ascertained as SEGATOYS' transactions, so we believe there are no transactions that SEGATOYS should have recognized in the past in terms of accounting. Therefore, we believe there are no accounts payable, etc. that SEGATOYS should record, and revision of financial statements of past fiscal years is unnecessary.

2. Impact on financial statements of the previous fiscal year ended March 31, 2010

There is the possibility that SEGATOYS will have payment obligations in response to demands from civil procedures by parties that claim to have acquired fictitious accounts receivable. However, we believe it is appropriate to disclose it as an annotation as contingent liability for the previous fiscal year ended March 31, 2010 since it is impossible to rationally estimate at this point the amount that SEGATOYS may shoulder.

In the future, when the amount that SEGATOYS will shoulder is determined, or when it can be rationally estimated, these should be disclosed adequately.

VII. Effectiveness of internal control

1. Internal control other than that associated with financial reporting

As mentioned in V. 2. (3), as a result of analyzing factors that led to the inappropriate transactions not being discovered for two years, it can be ascertained that there is room for improvement in terms of operation of SEGATOYS' management control and compliance system among internal control management in terms of establishment and operation.

2. Internal control concerning financial reporting

On the other hand, as for internal control concerning financial reporting, the inappropriate transactions are criminal acts that X conducted individually outside internal controls without going through any SEGATOYS accounting procedures, as already mentioned, and acts that were not scheduled to be discovered through internal control concerning financial reporting. Also, SEGATOYS' Auditing Office and SEGA SAMMY's Internal Auditing Office have already investigated that there is no problem in terms of establishment and operation status of company level control concerning financial reporting and establishment and operation status of internal control concerning the Company's purchasing process.

Therefore, as a result of deliberating with SEGATOYS' independent auditor as well, we consider that the occurrence of the inappropriate transactions does not impact assessment on internal control concerning financial reporting.

VIII. Measures to prevent recurrence

The committee has summarized and proposed the consideration and implementation of the following measures to prevent recurrence for prevention of recurrence or early detection of illicit acts such as the inappropriate transactions, based on the analysis in “V. Cause and reasons it took a long time to discover the inappropriate transactions.”

1. Enhanced efforts to further develop compliance awareness of executives and employees

As mentioned in V. 1 (1), the lack of compliance of X as an individual can be raised as one of the causes that the inappropriate transactions occurred. This is partly due to the quality of X as an individual, but we believe that enhanced efforts to further develop compliance awareness of SEGATOYS’ executives and employees (hereafter, “members”) are important since they will increase mutual surveillance function among members against illicit acts and contribute to deterring of occurrence or early detection of illicit acts by some parties.

In order to increase compliance awareness among members, we believe it is necessary to further enhance various measures such as employee education and training, and strengthening of awareness campaigns.

2. Strengthening of supervision and oversight of employees

As a result of analyzing factors that led to the inappropriate transactions not being discovered for around 2 years, it has been ascertained that as for internal control, there is room for improvement in terms of operation with regards to business control and compliance system. In order to strengthen the operational aspect of the business control system for deterring of occurrence and early detection of illicit acts, we believe it is necessary to enhance managerial staff efforts to grasp each employee’s business content and personnel evaluation, as well as review personnel system such as institutionalize job rotations. We also believe it is necessary to consider establishment of the hardware aspects such as monitoring sent and received e-mails.

3. Strengthening of internal audit

In order to further enhance internal control, we believe it is necessary to further strengthen and enhance internal audits, such as by reviewing implementation items and method, and implementation frequency.

4. Measures to prevent counterfeiting documents and uttering counterfeit documents

Some of the inappropriate transactions were conducted with other parties that had no legitimate business relations with SEGATOYS and the documents forged by X did not have the official SEGATOYS seal. Thus, measures to prevent counterfeiting documents and uttering counterfeit documents would not necessarily have been effective in relation to the inappropriate transactions. However, for deterring of occurrence or early detection of illicit acts in the future, we believe it is necessary to implement measures to prevent counterfeiting documents, such as stricter safekeeping of the seal, and measures to prevent uttering of counterfeit documents, such as by making the standard format of SEGATOYS documents such as order forms and invoice thoroughly known to business partners.

IX. Response to claims against SEGATOYS

SEGATOYS has reported to us that the company is implementing the best response under the fair and equitable principles to stakeholders surrounding the company. For instance,

SEGATOYS is proceeding with discussions toward resolution by civil procedures with regards to demands for payment from other parties, etc.

SEGATOYS has also reported to us that SEGATOYS has reached a settlement with 2 out of the 10 Parties stating that SEGATOYS has no responsibilities and no payment obligations concerning the inappropriate transactions.

According to investigation by the committee, the fictitious accounts receivable for which these 2 parties were demanding payment totaled around 37 million yen, and substantial losses incurred by the 2 parties total around 8 million yen.

Thus, unresolved fictitious accounts receivable total around 380 million yen, and losses by those who incurred substantial losses total around 150 million yen at this point.

IX. In-house disciplinary procedures

SEGATOYS has reported to us that SEGATOYS takes the incident with utmost seriousness, and is considering holding a discipline committee meeting to assess the existence of internal responsibility, such as of X's supervisor, and taking in-house disciplinary procedures for those responsible as part of measures to prevent recurrence.

(END)