

(Translation)

December 24, 2004

Dear Sirs,

Name of Company: SEGA SAMMY HOLDINGS INC.
Name of Representative: Hajime Satomi,
Chairman, President and
Representative Director
(Code No. 6460, Tokyo Stock Exchange 1st Section)
Further Inquiry: Koichi Fukazawa,
Executive Officer
(TEL: 03-6215-9955)

Notice of Reduction of Capital of Subsidiary (SEGA CORPORATION)

Notice is hereby given that SEGA SAMMY HOLDINGS INC. (the "Company") and SEGA CORPORATION ("Sega"), a subsidiary of the Company, at the meetings of their respective Boards of Directors held on December 24, 2004, resolved that Sega would submit a proposition for the reduction of capital to its extraordinary general meeting of shareholders to be convened on February 8, 2005, as described below:

Description

1. Purpose of the reduction of capital:

To improve the capital composition of Sega by eliminating accumulated deficit through the reduction of capital and secure the sufficient source of funds for dividends in the future.

2. Outline of the reduction of capital:

(1) Amount of capital to be reduced:

The Company and Sega plan to reduce the capital of ¥127,582,672,159 by ¥67,582,672,159 to ¥60,000,000,000, without compensation.

(2) Method of the reduction of capital:

The Company and Sega plan not to reduce the number of shares issued, and to reduce only the amount of capital by ¥67,582,672,159, without compensation.

(3) Amount to be appropriated for the compensation for the capital deficiency:

Of the amount of ¥67,582,672,159, ¥3,810,468,358 will be appropriated for the compensation for the capital deficiency. The remaining amount of ¥63,772,203,801 is planned to be transferred to capital surplus.

3. Schedule of the reduction of capital (expected):

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| (1) Date of resolution of an extraordinary general meeting of shareholders: | February 8, 2005 |
| (2) Date of expiration of the period for receiving objections from creditors: | March 9, 2005 |
| (3) Effective date of reduction of capital: | March 10, 2005 |

4. Future outlook:

The reduction of capital will have no effect on the profits and losses and net assets of the Company and Sega.

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