



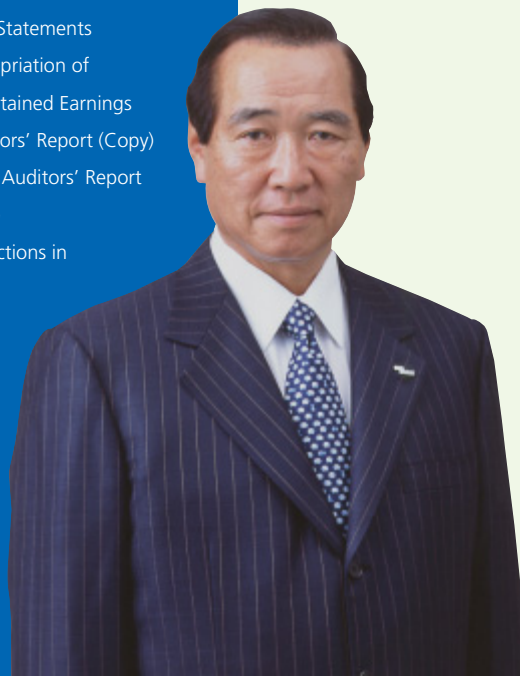
Business Report

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# To Our Shareholders

**In the second fiscal year since it was established through the business combination of SEGA CORPORATION and Sammy Corporation, the SEGA SAMMY Group remained focused on building a strong position in the entertainment industry, where competition now transcends the borders that previously separated traditional industry sectors. To that end, we continued working to enhance our profitability by restructuring and investing aggressively in growth fields, including M&A activities.**



In pachislot machines, we further reinforced our position as the market leader with the introduction of products that are unique and differentiated from the market, such as “Aladdin II Evolution”, the latest model in Sammy’s flagship “Aladdin” series. In pachinko machines, we steadily strengthened our position in the market, as “CR Hokuto No Ken”, which leveraged the appeal of the “Hokuto No Ken” pachislot machine, set a new record for unit sales of Sammy pachinko machines. In amusement machine sales, we effectively utilized SEGA’s advanced development capabilities and recorded substantial growth in unit sales of high-value-added products with the success of products such as “Star Horse Progress 2 New Generation”. We have built a production and distribution system that can respond smoothly to demand and which is focused on major hit titles such as these. In amusement center operations, the “MUSHIKING: the King of Beetles” children’s card game, which has garnered sustained popularity, and “LOVE AND BERRY Dress up and Dance!”, which was launched in the previous fiscal year, registered strong growth in installments card sales. Results at existing centers improved from the previous fiscal year due to the strong usage rates for hit titles and gains in operating efficiency. And in the consumer business, the range of initiatives that we have implemented, such as organizational restructuring in Japan and overseas and enhanced development efficiency, have begun to bear fruit,

and overseas, the development companies that we acquired have begun to contribute to our performance. In addition, we benefited from strong performances from listed subsidiaries SEGA TOYS LTD., Sammy NetWorks Co., Ltd., and TMS ENTERTAINMENT, LTD. As a result, the consumer operations segment became profitable in the fiscal year under review.

As a result, consolidated net sales in the fiscal year under review rose 7.3%, to ¥553,240 million, ordinary income increased 14.4%, to ¥119,500 million, and net income was up 30.9%, to ¥66,221 million compared to the previous fiscal year.

To increase liquidity and expand the range of our investors, on November 18, 2005, we completed a two-for-one stock split. We are planning a year-end regular dividend of ¥30 per share, which represents an increase of ¥10 per share when calculated on a post-split basis.

I would like to ask for your continued support of the SEGA SAMMY Group in the years ahead as we strive to make continued progress as a comprehensive entertainment company.



Hajime Satomi  
Chairman and CEO

# Business Report

From April 1, 2005 to March 31, 2006

## I. Overview of Business

### ① Corporate Group and Operating Results

During the fiscal year ended March 31, 2006, the Japanese economy continued to face concerns over the impact of a series of major natural disasters in and outside Japan, soaring crude oil prices, and other issues. However, the nation's economy continued to improve gradually, with improvement in the household sector following the corporate sector.

In this environment, the pachislot and pachinko industry continued to see increasing moves by machine manufacturers to develop models that conform to new regulations enacted in July 2004, when the law in Japan which regulates gaming machines was revised. The installed base of machines remained flat as the average size of hall grew, but as the total number of halls and the playing population continue to decrease it is imperative for the industry as a whole to attract a wider range of users to reinvigorate the market.

In the amusement machine sales industry, network-enabled game machines have garnered more attention, thanks to advancement in communications infrastructure. In addition, large-scale "satellite-model" videogame machines featuring card systems have steadily established a strong user base through a series of upgrades. These game machines now rank among the top in terms of sales.

In the amusement center operations business, as large-scale, multipurpose amusement centers gain ground, amusement cen-

ters located within shopping malls that attract large numbers of customers have grown to become a community space for families. In particular, children's card game machines helped to drive significant market growth.

In the home videogame software and toy industry, videogames for various new portable game consoles targeting a wider age range and new users proved extremely popular. This was particularly noteworthy amid challenging market conditions marked by industry realignment triggered by the integration and merger of major companies. This has been followed by growing expectations for the early launch of next-generation home videogame consoles with functions that will revolutionize traditional video game consoles. These and other developments have triggered fierce competition to develop new products targeting further growth in the market. In the run-up to the emergence of these next-generation videogame consoles, expectations of higher demand for software sales are growing, but more advanced requirements in hardware specifications are expected to increase R&D-related cost outlays. This is expected to further highlight differences between software developers in terms of product development capabilities and financial resources.

It was in this business environment that we marked the second fiscal year since SEGA and Sammy combined their management to form SEGA SAMMY Group. Building on the results of the prior year, the Group implemented the following reorgani-

zation initiatives and completed certain mergers and acquisitions in order to expand the Group's business.

### **Main Business Reorganization and Expansion Measures in the Fiscal Year Ended March 31, 2006**

- (1) On April 1, 2005, SEGA CORPORATION absorbed certain operations spun off from Sammy Corporation through a corporate separation. This step was taken to allow Sammy to specialize in the pachislot, pachinko, and peripheral equipment businesses. This was accomplished by concentrating the Group's overlapping operations, such as Sammy's amusement machine sales and home videogame software business, at SEGA.
- (2) On April 1, 2005, SEGA CORPORATION, SEGA AMUSEMENT CO., LTD., a subsidiary of SEGA, and Sammy Amusement Service Co., Ltd. merged to integrate the functions of the amusement center operations business, which were previously dispersed throughout the Group, and more closely coordinate the amusement machine sales and amusement center operations business.
- (3) On September 1, 2005, SEGA AMUSEMENTS U.S.A. Inc. (SAU) and Sammy USA Corporation (SUSA) merged to rationalize and raise the efficiency of commercial amusement machine development, manufacturing, and sales in North America.
- (4) On August 2, 2005, Sammy Corporation acquired shares of H-I System Corporation (H-I System), which specializes in hall computer systems and prize POS systems, and made it a consolidated subsidiary. This step was taken to increase earnings by (1) meeting diverse customer needs through providing total hall services and (2) expanding sales opportunities.

- (5) In order to strengthen its imaging business, the Company accumulated shares of TMS ENTERTAINMENT, LTD. (TMS), and on October 7, 2005 TMS was made a consolidated subsidiary. TMS is principally involved in the planning, production and sale of animation, and was previously accounted for as an equity-method affiliate.
- (6) On October 26, 2005, Sammy Corporation acquired shares of GINZA CORPORATION and made it a consolidated subsidiary to reinforce the development of multiple brands in the pachinko and pachislot machines business.

In terms of business results, the SEGA SAMMY Group posted a favorable performance. This was supported by sales of the "Aladdin II Evolution" pachislot machine and "CR Hokuto No Ken" pachinko machine, with both retaining their predecessors' popularity; robust sales of "Star Horse Progress 2 New Generation," a large-scale game machine supplied by the amusement machine sales business; and continued brisk sales in the children's card game business, including "MUSHIKING: The King of Beetles" and "LOVE AND BERRY Dress up and Dance!" in the amusement center operations business. The success of content for children's card games also carried over to the consumer business. In these and other ways, the Group is establishing a solid foundation for new content, while capturing group-wide synergies. This creation and utilization of synergies among businesses is a key strength of the SEGA SAMMY Group.

As a result, consolidated net sales totaled ¥553,240 million and ordinary income was ¥119,500 million. The SEGA SAMMY Group booked impairment losses of ¥7,194 million on certain amusement centers as extraordinary expenses. Consequently, net income was ¥66,221 million.

## Overview of Business

Results by business segment were as follows.

### Pachislot and Pachinko Machines

In the pachislot machine business, the SEGA SAMMY Group retained the top share of the market and introduced numerous models offering various game features and high entertainment value, posting total pachislot machine sales of 607 thousand units. This success was attributable to “Aladdin II Evolution,” which features Aladdin, a character synonymous with Sammy Corporation, as well as “Ore No Sora,” a game released under the RODEO brand and based on the popular comic book by the same title.

In the pachinko machine business, the SEGA SAMMY Group sold 288 thousand units of pachinko machines. Even though the business did not meet the initial target, this figure surpassed sales in the previous fiscal year. In particular, unit sales of “CR Hokuto No Ken,” the successor to the “Hokuto No Ken” series of pachislot machines, reached a record-high at Sammy Corporation.

In the pachinko ball, token dispensing machine, and other peripheral businesses, the SEGA SAMMY Group took steps to strengthen “pachinko parlor total services.” To this end, the Group acquired H-I System Corporation, which conducts businesses related to pachinko parlor computers and POS systems for prize items, and made it a subsidiary.

As a result of the above, net sales in this segment totaled ¥265,631 million, down 5.2% year on year, and operating income was ¥99,847 million, dropping 3.9%.



“Aladdin II Evolution” pachislot machine  
© Sammy



“CR Hokuto No Ken” pachinko machine  
© Buronson • Tetsuo Hara/NSP 1983  
© Sammy

## Main Pachislot Machines and Units Sold

Variety	Units sold (thousands)
<i>Aladdin II Evolution</i>	148
<i>Ore No Sora</i>	100
<i>Ultraman Club ST</i>	77
<i>Pachislot Umimonogatari</i>	63
<i>Onimusha 3</i>	51
Others	165
<b>Total</b>	<b>607</b>

## Amusement Machine Sales

In the amusement machine sales business, although sales of existing prize games experienced a cyclical downturn, overall performance was strong, thanks to brisk sales of “satellite-model” products. These included “Sangokushi Taisen,” a network-enabled trading card game launched in the previous fiscal year that remained popular, and “Star Horse Progress 2 New Generation,” the latest in the Star Horse series, featuring significant upgrades to a broad spectrum of game features. In addition, partial sales under original equipment manufacturing (OEM) agreements also made a positive contribution.

As a result, net sales in this segment were ¥71,512 million, up 13.0%, and operating income was ¥12,176 million, an increase of 64.0%.

## Main Pachinko Machines and Units Sold

Variety	Units sold (thousands)
<i>CR-Hokuto No Ken</i>	178
<i>CR-ChoroQ</i>	30
<i>CR-Sakigake Otokojuku</i>	29
<i>CR-ChoroQ Turbo</i>	27
Others	23
<b>Total</b>	<b>288</b>



“Sangokushi Taisen”: Networked card action game



“Star Horse Progress 2 New Generation”  
Large-scale medal game

## Overview of Business

### Amusement Center Operations

In the amusement center operations business, following the enormous popularity of “MUSHIKING: the King of Beetles” mainly among boys in elementary school, “LOVE AND BERRY Dress up and Dance!”, which created a new genre based on the universal theme of interest in fashion among mothers and daughters, enjoyed steady increases in installations and card sales. Building on the business model proven by these two titles, the SEGA SAMMY Group also launched “DINOSAUR KING” in this product category. The success of special card game events held in various regions, mainly during holidays, also drew large crowds of children and their parents, making a significant contribution to results.

During the fiscal year under review, 14 new amusement centers were opened in Japan, including centers operated by TMS ENTERTAINMENT, LTD., the Group’s new consolidated subsidiary, while 52 locations were closed, resulting in a total of 462 locations on March 31, 2006.

As a result, net sales in this segment were ¥106,245 million, up 27.7%, and operating income was ¥9,244 million, an increase of 68.9%.



“MUSHIKING: The King of Beetles”



“LOVE AND BERRY Dress up and Dance!”



## Consumer Business

In the consumer business, videogame software sales during fiscal 2005 totaled 16,400 thousand copies, comprising 4,100 thousand copies in Japan, 6,140 thousand in the U.S., 6,060 thousand in Europe, and 100 thousand in other regions. These sales were underpinned by better-than-forecast sales of “The King of Beetles ‘MUSHIKING’: The Road to Greatest Champion.” Other strong sellers included “Ryu Ga Gotoku,” “Brain Trainer Portable by Professor Ryuta Kawashima, New Industry Creation Hatchery Center, Tohoku University,” as well as “Pro Yakyu Team wo Tsukuro! 3” and “Pro Soccer Club wo Tsukuro! Europe Championship,” the latest additions to the “Tsukuro!” series. Overseas, “Shadow the Hedgehog” and other “Sonic” series titles posted favorable results.

The SEGA SAMMY Group also performed well in content production for toys, mobile phones, and animation videos.

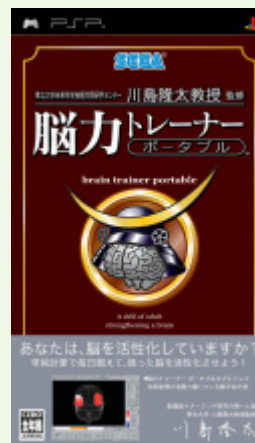
As a result, the consumer business posted net sales of ¥90,352 million, up 38.3%. The segment moved back into the black, posting operating income of ¥1,977 million. (Loss of ¥8,809 million in the prior year)

## Other

This segment covers planning, design, management, construction, KARAOKE business, and other services involving commercial and other facilities. Segment sales totaled ¥19,497 million, down 17.8% and the operating loss was ¥1,712 million. (Loss of ¥541 million in the prior year)



Game software for GBA  
“The King of Beetles ‘MUSHIKING’  
The Road to Greatest Champion”



Game software for PSP  
“Brain Trainer Portable”



“Shadow The Hedgehog”

## Overview of Business

### ② Issues to be Addressed

Looking at the pachislot and pachinko machine business, the SEGA SAMMY Group will take steps to maintain its position as an industry leader boasting the top market share in the pachislot business. The Group will reinforce the development of models that comply with the revised regulations which govern gaming machines in Japan. While strengthening development, the SEGA SAMMY Group has formed a tie-up with GINZA CORPORATION that gives it the ability to develop multiple brands in the pachinko business, as it does in the pachislot business. These and other measures will help the Group to fulfill its medium-term goal of rapidly capturing a top share of the pachinko machine market.

At the same time, the SEGA SAMMY Group will work to provide a “pachinko parlor total service” that users enjoy while also meeting the needs of the pachinko parlor operators. This will be accomplished by drawing on the Group’s collective strengths to offer peripheral equipment, as well as the planning, design and construction of pachinko parlors. Alongside these steps, the Company will also develop content derived from existing pachinko and pachislot machines.

In the amusement machine sales business in Japan, the SEGA SAMMY Group will work to increase installations while enhancing profitability. Specifically, steps will be taken to attract customers in a wider age range by offering a product lineup ranging from network-enabled, high-value-added products to family-oriented machines. For overseas markets, the goal is to improve the ratio of overseas sales to total sales by incorporating customer needs that differ by nation and region into product development.

In the amusement center operations business in Japan, strategic priorities will be given to continue developing the business model for children’s card games through the success of “MUSHIKING: The King of Beetles,” alongside developing new markets, including those overseas. Meanwhile, the SEGA SAMMY Group plans to formulate business strategies to develop large amusement centers that maximize investment returns while minimizing risks.

In the consumer business, the home videogame software market will see the emergence of next-generation game consoles. Against this backdrop, the SEGA SAMMY Group will boost development capabilities and push ahead with strategies based on a business structure focused on profitability.

In overseas markets, local product development will be essential to accurately respond to the specific needs of each market. Viewing this as an opportunity, the SEGA SAMMY Group will implement organizational reforms, including M&As, to reinforce its product lineup and acquire state-of-the-art development technologies. The goal is to sharpen the Group’s competitive edge.

Finally, in the online game market, the SEGA SAMMY Group considers this promising growth field a key pillar of operations over the medium and long terms. Plans call for making upfront investments to develop businesses in these markets, with the initial focus on establishing local operating bases. Efforts will also be made to reinforce content for mobile phones, toys, video, and other businesses, mainly at publicly listed subsidiaries.

## TOKYO JOYPOLIS Accident

Following a fatal accident in which a customer fell from an attraction on April 18, 2005 at the TOKYO JOYPOLIS amusement center, SEGA CORPORATION, a Group company that operates this facility, has investigated the cause through the use of an Accident Prevention Committee and by involving external experts. Meanwhile, the Group has been taking actions to reform the company's internal framework so that it can run amusement centers that customers can enjoy safely with peace of mind. SEGA CORPORATION has implemented a range of detailed safety measures primarily comprised of internal systems, including setting stricter safety standards and in-house rules, as well as educating employees and conducting inspections. Following these steps, TOKYO JOYPOLIS resumed operations on August 10, 2005.

As we welcome visitors once again to TOKYO JOYPOLIS, the Group wishes to use this opportunity to assure you that all SEGA SAMMY employees will make concerted efforts to carry out thorough safety control at its operations to prevent any recurrence. Looking ahead, every effort will be made to create amusement centers that customers can enjoy safely with peace of mind.

## ③ Fund Procurement

Starting in November 2005, the SEGA SAMMY Group implemented a cash management system (CMS) in order for the Company, Sammy Corporation, and SEGA Corporation to centralize the procurement and utilization of Group funds and promote the effective use of Group resources.

In addition, the Company obtained commitment lines totaling ¥50 billion. This step was taken to reinforce the Company's CMS and ensure the liquidity of funds over the medium and

long terms. During the fiscal year under review, the Company signed a new contract with three foreign banks to support the Group's overseas expansion strategy. As a result, the Company has received commitment lines from a total of nine banks.

Finally, SEGA TOYS, LTD. obtained ¥2,276 million (issue price per share ¥2,331.9) of capital from issuance of shares through a public offering and allotment to third parties.

## ④ Capital Expenditures

During the fiscal year under review, the Group's capital expenditures totaled ¥37,650 million, largely comprised of ¥6,670 million for the purchase of land for a new factory in Kawagoe-shi to be operated by Sammy Corporation, and ¥24,576 million in expenditures related to amusement facilities run by SEGA CORPORATION.

## Overview of Business

## ⑤ Consolidated and Non-Consolidated Results of Operations and Financial Position

## (1) Consolidated results of operations and financial position

Item		FY 2004 (From April 1, 2004 to March 31, 2005)	FY 2005 (From April 1, 2005 to March 31, 2006)
Net sales	(¥ million)	515,668	553,240
Ordinary income	(¥ million)	104,432	119,500
Net income	(¥ million)	50,574	66,221
Net income per share	(¥)	410.53	261.06
Total assets	(¥ million)	438,991	522,914
Net assets	(¥ million)	258,954	316,679

- Notes:
- Figures shown in millions of yen have been rounded down to the nearest million.
  - The prior fiscal year for reporting purposes covers the year ended March 31, 2005, whereas the past fiscal period on an operating basis was the six-month period that ended on March 31, 2005.
  - Net income per share is calculated based on the average number of shares outstanding during the period.
  - Pursuant to a resolution passed by the Board of Directors on August 31, 2005, the Company conducted a two-for-one stock split on November 18, 2005. Net income per share for the fiscal year ending March 31, 2006 has been calculated assuming the stock split was conducted at the beginning of the fiscal year.
  - Details for fiscal 2005 are discussed in (1) Corporate Group and Operating Results.

## (2) Non-consolidated results of operations and financial position

Item		FY 2004 (From October 1, 2004 to March 31, 2005)	FY 2005 (From April 1, 2005 to March 31, 2006)
Operating revenue	(¥ million)	2,294	72,251
Ordinary income (loss)	(¥ million)	(178)	66,837
Net income (loss)	(¥ million)	(220)	66,213
Net income (loss) per share	(¥)	(1.64)	249.71
Total assets	(¥ million)	325,981	433,548
Net assets	(¥ million)	319,974	261,345

- Notes:
- Figures shown in millions of yen have been rounded down to the nearest million.
  - The prior first fiscal period for reporting purposes was the six-month period that ended on March 31, 2005.
  - Net income per share is calculated based on the average number of shares outstanding during the period.
  - Pursuant to a resolution passed by the Board of Directors on August 31, 2005, the Company conducted a two-for-one stock split on November 18, 2005. Net income per share for the fiscal year ending March 31, 2006 has been calculated assuming the stock split was conducted at the beginning of the fiscal year.
  - Operating revenue for the fiscal year under review increased due to dividend income. Net assets declined due to the acquisition of treasury stock.

## ⑥ Other Information Concerning the Group

On December 27, 2005, Aruze Corp. filed a lawsuit at the Tokyo District Court for damages of ¥21,000 million against subsidiary Sammy Corporation in relation to the manufacture and sale of pachislot machines “Hokuto no Ken,” claiming infringement of patents owned by Aruze Corp.

Sammy Corporation believes that this case does not constitute an infringement of Aruze’s patent rights and will defend its position in court.

In addition, on October 28, 2005, subsidiary SEGA CORPORATION filed a petition at the Tokyo District Court for a provisional disposition to suspend the production, use, and sale, of “DINOKING BATTLE CARD GAME,” an arcade game machine marketed by Taito Corporation. SEGA CORPORATION believed that this product had infringed its patent rights related to “MUSHIKING: The King of Beetles.” However, during the trial, SEGA CORPORATION reached a settlement with Taito Corporation. Subsequently, on March 7, 2006, SEGA CORPORATION withdrew its petition for provisional disposition.

Going forward, the SEGA SAMMY Group will continue to respond appropriately against patent infringements to protect its intellectual property rights.

## II. Overview of the Company (As of March 31, 2006)

### ① Major Business Segments of the Group

The business segments of the SEGA SAMMY Group are pachislot and pachinko machines, amusement machine sales, amusement center operations, consumer business and other businesses. The primary business activities are as follows.

Segment	Main Business
Pachislot and Pachinko machines	Development / manufacture / sales of Pachinko and Pachislot machines, Development / manufacture / sales / maintenance of Pachinko and Pachislot peripherals, Design for parlors
Amusement machine sales	Development / manufacture / sales of game machines used in amusement arcades
Amusement center operations	Development and operation of amusement centers
Consumer business	Development / sales of home video game software; development / manufacture / sales of toys; planning / production of entertainment content through cellular phones planning / production / sale of animated movies.
Others	Project / design / management / construction of commercial establishments

### ② Major Business Locations of the Group

(1) The company: SEGA SAMMY HOLDINGS INC.

Head Office: Minato-ku, Tokyo

(2) Offices of the main subsidiaries

1. Sammy Corporation

Head Office: Toshima-ku, Tokyo

Kawagoe Factory: Kawagoe, Saitama

Branches and Sales Offices: 7 Branches, 29 Sales Offices

2. SEGA CORPORATION

Head Office: Ohta-ku, Tokyo

Amusement Game operating locations: 423 locations

### ③ Shares Outstanding and Shareholders

(1) Number of shares authorized for issue . . . . . 800,000,000 common shares

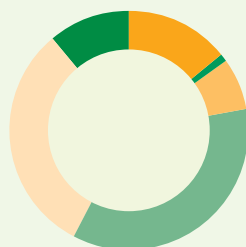
(2) Total shares issued and outstanding . . . . . 283,229,476 common shares

Note: Pursuant to a resolution passed by the Board of Directors on August 31, 2005, the Company conducted a two-for-one stock split on November 18, 2005.

In addition, the Company's Articles of Incorporation were amended to increase the total number of shares authorized for issue by the Company, the amount of which is determined according to the stock split ratio. As a result, the total number of shares issued and outstanding increased by 141,188,929 shares to 283,377,858 shares, while the number of shares authorized for issue increased by 400,000,000 shares to 800,000,000 shares. Finally, there was an increase of 1,489,025 in shares issued and outstanding due to the exercise of stock acquisition rights attached to bonds.

(3) Number of shareholders . . . . . 96,462

## ④ Principal Shareholders (top 10)



Composition of Shareholders (%)

Financial Institutions	14.06
Securities Companies	1.04
Other Companies	7.02
Foreign Institutions and Individuals	35.50
Japanese Individuals and Others	31.34
SEGA SAMMY HOLDINGS INC.	11.04

Name of Shareholder	Investment in SEGA SAMMY HOLDINGS		SEGA SAMMY HOLDINGS Investment in Shareholders	
	Shares held	Voting rights (%)	Shares held	Investment Ratio (%)
Hajime Satomi	43,569,338	17.47	–	–
SEGA SAMMY HOLDINGS INC.	31,254,693	–	–	–
FSC Co., Ltd.	14,172,840	5.68	–	–
The Chase Manhattan Bank, N.A. London	13,311,247	5.34	–	–
State Street Bank and Trust Company	13,215,490	5.30	–	–
Japan Trustee Services Bank, Ltd. (Trustee)	10,317,300	4.13	–	–
The Master Trust Bank of Japan, Ltd. (Trustee)	9,068,100	3.63	–	–
Morgan Stanley and Company Inc.	4,407,622	1.76	–	–
State Street Bank and Trust Company 505103	3,965,682	1.59	–	–
The Chase Manhattan Bank, N.A. London SECS Lending Omnibus Account	3,909,919	1.56	–	–

## ⑤ Acquisition, Disposition and Holding of Treasury Stock

- (1) Shares acquired
- |                         |                   |   |
|-------------------------|-------------------|---|
| Common stock:           | 31,190,837 shares | 3. Acquisition of treasury stock through a stock split pursuant to a resolution passed by the Board of Directors on August 31, 2005 |
| Total acquisition cost: | ¥116,285 million  | Common stock: 11,104,383 shares   |
1. Acquisition of Company shares held by a subsidiary pursuant to a resolution passed by the Board of Directors on June 30, 2005
- |                          |                   |  |
|--------------------------|-------------------|--|
| Assignor:                | Sammy Corporation | Total acquisition price: Delivery without compensation                   |
| Common stock:            | 10,989,658 shares | 4. Acquisition of Company stock in amounts less than whole trading units |
| Total acquisition price: | ¥76,158 million   | Common stock: 63,086 shares  |
|                          |                   | Total acquisition price: ¥378 million                                    |
2. Acquisition of Company shares held by a subsidiary pursuant to a resolution passed by the Board of Directors on February 9, 2006
- |                          |                  |  |
|--------------------------|------------------|--|
| Assignor:                | SEGA CORPORATION | (2) Shares disposed                          |
| Common stock:            | 9,033,710 shares | Common stock: 13,147 shares                  |
| Total acquisition price: | ¥39,748 million  | Total proceeds from disposition: ¥54 million |
- (3) Treasury stock held at fiscal year-end
- |               |                   |
|---------------|-------------------|
| Common stock: | 31,254,693 shares |
|---------------|-------------------|

## Overview of the Company

## ⑥ Stock Acquisition Rights

## (1) Outstanding stock acquisition rights

Yen-denominated guaranteed convertible bonds due 2009 and issued in accordance with a resolution approved by the Board of Directors on October 1, 2004

		As of March 31, 2006
Number of stock acquisition rights		1
Class of shares for stock acquisition rights		Common shares
Issue price of stock acquisition rights	(¥)	1,307,500
Number of shares for stock acquisition rights		548
Payment on exercise of stock acquisition rights	(¥)	2,503
Period for exercise of stock acquisition rights		November 1, 2004 – February 17, 2009
Issue price for shares upon exercise of stock acquisition rights and appropriation to capital		Issue price: 2,503
	(¥)	Appropriated to capital: 1,252
Balance of corporate bonds with stock acquisition rights	(million)	1

## (2) Stock acquisition rights with favorable conditions issued to non-stockholders during fiscal 2005

As stipulated by a resolution passed by the Ordinary General Meeting of Shareholders on June 24, 2005

		As of March 31, 2006
Number of stock acquisition rights		12,434 (one right accorded 200 shares)
Class of shares for stock acquisition rights		Common shares
Issue price of stock acquisition rights	(¥)	Free
Number of shares for stock acquisition rights		2,486,800
Payment on exercise of stock acquisition rights	(¥)	3,470
Period for exercise of stock acquisition rights		July 31, 2007 – July 30, 2009
Issue price for shares upon exercise of stock acquisition rights and appropriation to capital		Issue price: 3,470
	(¥)	Appropriated to capital: 1,735
Balance of stock acquisition rights	(million)	8,629



Terms and conditions for the exercise of stock acquisition rights

The grantee shall remain in office as Director, Statutory Auditor, Executive Officer, Counselor, or employee of the Company, or Director, Statutory Auditor, Executive Officer, Counselor, or employee of its subsidiaries when he or she exercises the rights, unless he or she leaves office (1) as provided for in laws or ordinances; (2) in adherence to the company's regulations, such as expiration of the term of office or mandatory retirement age; (3) due to transfer to a Group company; or (4) due to loss of his or her position at the request of the company.

If the grantee dies, his or her heir at law shall be entitled to succeed to and exercise only his or her acquisition rights remaining unexercised when death ensues. Acquisition rights cannot be transferred to or repossessed by any person who is not the heir of the grantee.

Other provisions are stipulated in the Stock Acquisition Rights Allocation Agreement, which is agreed to by the Company and the grantee.

Cancellation of stock acquisition rights and conditions

If a resolution is adopted at the Ordinary General Meeting of Shareholders to approve (1) a merger agreement pursuant to which the Company is merged, or (2) a stock swap agreement or stock transfer pursuant to which the Company will become a wholly owned subsidiary, the Company shall be entitled to cancel the stock acquisition rights without compensation. In addition, the Company shall be entitled to immediately cancel all stock acquisition rights granted to any recipient who loses his or her position without any compensation. Finally, the Company may cancel stock acquisition rights issued as stock options at any time without compensation.

Favorable conditions

Stock acquisition rights were provided gratis to the employees of the Company and its subsidiaries.

## ⑦ Employees of the Group

Number of employees (change from end of previous fiscal year)

6,416 (1,009 up)

Note: The number of employees includes full-time staff and staff on loan, but not temporary employees.

## Overview of the Company

## ⑧ Corporate Relationships

## (1) Relationships with important subsidiaries and affiliates

## Important subsidiaries and others

Company	Capital	Voting Rights (%)	Main Business
Sammy Corporation	¥18,221 million	100.0	Development / manufacture / sales of pachinko and pachislot machines
SEGA CORPORATION	¥60,000 million	100.0	Development / manufacture / sales of game machines used in amusement arcades Development / operations of amusement centers Development / sales of home video game software
RODEO Co., Ltd.	¥100 million	65.0 * <sup>1</sup>	Development / manufacture / sales of pachislot machines
Shuko Electronics Co., Ltd.	¥179 million	99.9 * <sup>1</sup>	Development / manufacture / sales of pachinko and pachislot peripherals
Sammy Design Co., Ltd.	¥40 million	100.0 * <sup>1</sup>	Planning / design / construction of pachinko parlors
SI ELECTRONICS LTD.	¥244 million	88.1 * <sup>1</sup>	Development / sales of LCD optical imaging system chips
H-I System Corporation	¥10 million	100.0 * <sup>1</sup>	Development / manufacture / sales of pachinko and pachislot peripherals
GINZA CORPORATION	¥10 million	49.0 * <sup>1</sup>	Development / manufacture / sales of pachinko and pachislot machines
Sega Logistics Service Co., Ltd.	¥200 million	100.0 * <sup>1</sup>	Maintenance service, transportation, and warehouse business
SEGA Amusements U.S.A., Inc.	\$3.9 million	100.0 * <sup>1</sup>	Import / manufacture / sales of amusement equipment
SEGA Amusements Europe Ltd.	£22.132 million	100.0 * <sup>1</sup>	Import / manufacture / sales of amusement equipment
Sammy NetWorks Co., Ltd.	¥2,286 million	56.3	Planning / production of music content for mobile phones, Internet
SEGA TOYS, LTD.	¥1,713 million	52.6	Development / manufacture / sales of toys
TMS ENTERTAINMENT, LTD.	¥8,816 million	53.1 * <sup>1</sup>	Planning / production / sales and other activities involving animated movies
SEGA of America, Inc.	\$41.9 million	100.0 * <sup>1</sup>	Development of home video game software
SEGA Enterprises, Inc. (U.S.A.)	\$110 million	100.0 * <sup>1</sup>	Subsidiary company management Development / management of home video game software
SEGA Europe Ltd.	£320.940 million	100.0 * <sup>1</sup>	Sales of home video game software
NISSHO INTER LIFE CO., LTD.	¥5,018 million	51.4	Planning / design / management / construction of displays and commercial facilities
SEGA SAMMY ASSET MANAGEMENT INC.	¥100 million	100.0	Preliminary investigation and consulting concerning real estate and credit
SEGA MUSIC NETWORKS CO., LTD.	¥400 million	100.0 * <sup>1</sup>	Sales of commercial karaoke machine equipment

Note: 1. Percentage of voting rights held includes rights of indirectly owned shares.

## (2) Corporate Relationships

1. On April 1, 2005, SEGA AMUSEMENT LTD. and Sammy Amusement Service Co., Ltd. merged with SEGA CORPORATION due to a reorganization of the business units of the SEGA SAMMY Group.
2. On August 2, 2005, Sammy Corporation acquired all of the issued shares of H-I System Corporation and made it a consolidated subsidiary to reinforce its peripheral equipment business.
3. On September 1, 2005, SEGA Amusement U.S.A., Inc. and Sammy USA Corporation were merged to boost the efficiency and streamline the operations of commercial amusement machine development, manufacturing, and sales in North America.
4. TMS ENTERTAINMENT LTD., an equity-method affiliate of SEGA SAMMY HOLDINGS INC. specializing in the planning, production, and sales of animated cartoons, became a consolidated subsidiary of the Company through stock acquisition up to October 7, 2005. This move was taken to strengthen the Company's imaging business.
5. On October 26, 2005, Sammy Corporation concluded a business and capital tie-up agreement with GINZA CORPORATION and made it a consolidated subsidiary to reinforce the pachislot and pachinko machines business.

## (3) Results of integration

On a consolidated basis, net sales were ¥553,240 million, up 7.3% year on year, ordinary income was ¥119,500 million, up 14.4% and net income was ¥66,221 million, up 30.9%.

### ⑨ Major Lenders

There are no applicable matters.

## Overview of the Company

### ⑩ Directors and Statutory Auditors

Title	Name	Main Responsibilities
Chairman and CEO	Hajime Satomi	Chairman and CEO, Sammy Corporation; Chairman and CEO, SEGA CORPORATION
Vice Chairman	Hisao Oguchi	President and COO, SEGA CORPORATION
Executive Vice President	Keishi Nakayama	Executive for Secretary Office, President Office, CSR Promotion Department
Director	Toru Katamoto	President and COO, Sammy Corporation
Director	Hideki Okamura	Managing Director, SEGA CORPORATION
Director	Yasuo Tazoe	Director, SEGA CORPORATION
Full-time Statutory Auditor	Kazutada Ieda	
Statutory Auditor	Akio Kioi	Attorney
Statutory Auditor	Ryoichi Arai	Full-time Statutory Auditor, SEGA CORPORATION
Statutory Auditor	Toshio Hirakawa	Full-time Statutory Auditor, Sammy Corporation

- Notes:
1. Akio Kioi and Toshio Hirakawa are outside auditors as stipulated in Paragraph 1, Article 18 of the Law Concerning Special Measures Under the Commercial Code with Respect to Audit of Corporations.
  2. At the Ordinary General Meeting of Shareholders on June 24, 2005, Keiichiro Hashimoto and Toru Katamoto were newly elected as Senior Managing Director and Director, respectively. Both individuals assumed office on the same day.
  3. Managing Director Kiyofumi Sakino resigned on June 24, 2005.
  4. Senior Managing Director Keiichiro Hashimoto resigned on February 19, 2006.
  5. SEGA SAMMY HOLDINGS INC. has adopted an executive officer system to speed up decision-making, strengthen oversight of business execution, and reinforce business execution functions. The Company has five executive officers: Tadashi Ishida, Senior Executive Officer (Secretary of the Administrative Division and the Audit Office of the Company); Akira Sugano, Division Manager of the Administrative Division; Koichi Fukazawa, currently dispatched to SEGA CORPORATION; Masakimi Hotta, General Manager of the President Office, Secretary Office, and CSR Promotion Department; and Tetsushi Ikeda, Vice Division Manager of the Administrative Division and General Manager of the Finance Department.

### ⑪ Remuneration to Independent Auditors

- |   |   |
|---|---|
| <p>(1) Total remuneration that must be paid by SEGA SAMMY HOLDINGS INC. and its subsidiaries . . . . . ¥194 million</p> <p>(2) Total remuneration included in item (1) that was paid for audit certification under Article 2-1 of the Certified Public Accountant Law of Japan . . . . . ¥165 million</p> | <p>(3) Total remuneration included in item (2) paid to the independent auditors by SEGA SAMMY HOLDINGS INC. . . . . ¥40 million</p> |
|---|---|

Note: The contract between SEGA SAMMY HOLDINGS INC. and the independent auditors does not make a distinction between amounts paid for audits as prescribed by the Law for Special Exceptions to the Commercial Code Concerning Audits of Kabushiki Kaisha and audits as prescribed by the Securities and Exchange Law. The amounts indicated in (2) and (3), therefore, include remuneration for audits under the Securities and Exchange Law.

### III. Significant Events Following the End of the Fiscal Year

To reinforce the competitiveness of the Company's consumer business in the North American and European markets, subsidiary SEGA HOLDINGS EUROPE LTD. acquired all issued shares of SPORTS INTERACTIVE Ltd. on April 3, 2006. Likewise, on the same day, SEGA HOLDINGS U.S.A., INC., another member of the SEGA SAMMY Group, acquired all issued shares of SECRET LEVEL, Inc. As a result, both SPORTS INTERACTIVE and SECRET LEVEL became subsidiaries of the Company.

#### Overview of the new subsidiaries

(1) SPORTS INTERACTIVE Ltd.

1. Trade name: SPORTS INTERACTIVE Ltd.
2. Main business: Development of consumer games
3. Capital: £859.82
4. Transferors of shares: Oliver Collyer, 37,500 shares; Evertonia Trust, 37,500 shares; and 10,982 shares from 16 other shareholders.
5. Total number of shares acquired (price):  
85,982 shares (£28.5 million)
6. Percentage of equity held after acquisition: 100%

(2) SECRET LEVEL, Inc.

1. Trade name: SECRET LEVEL, Inc.
2. Main business: Development of consumer games and game engines
3. Capital: US\$ 1,470
4. Transferors of shares: Jeremy Gordon, 360,000 shares; Otavio Good, 305,000 shares; and 805,000 shares from 10 other shareholders
5. Total number of shares acquired (price):  
1,470,000 shares (US \$15 million)
6. Percentage of equity held after acquisition: 100%

## Consolidated Balance Sheet (As of March 31, 2006)

(Unit: millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current Assets:</b>	<b>331,331</b>	<b>Current liabilities:</b>	<b>137,353</b>
Cash and deposits	144,521	Notes and accounts payable-trade	62,133
Notes and accounts receivable-trade	96,727	Short-term bank loan and current portion of long-term debt	8,395
Securities	19,497	Redeemable bond within a year	2,000
Inventories	32,200	Income taxes payable	29,221
Income tax refunds receivable	15,655	Accrued employees' bonuses	1,871
Deferred taxes-current	6,277	Others	33,731
Others	17,944		
Allowance for doubtful accounts-current	(1,493)	<b>Non-current liabilities:</b>	<b>49,569</b>
<b>Fixed Assets:</b>	<b>191,583</b>	Bonds payable	23,620
<b>Tangible fixed assets:</b>	<b>82,654</b>	Corporate bond with stock acquisition rights	1
Buildings and structures	31,032	Long-term debt, less current portion	5,596
Rental equipment for amusement arcades	19,567	Accrued retirement benefits for employees	7,490
Land	20,698	Accrued retirement benefits for directors and statutory auditors	1,276
Construction in progress	1,839	Deferred taxes liabilities non-current	4,488
Others	9,515	Others	7,095
		<b>Total liabilities</b>	<b>186,923</b>
<b>Intangible fixed assets:</b>	<b>16,712</b>	<b>Minority interest</b>	<b>19,311</b>
Goodwill	11,266		
Others	5,445	<b>Shareholders' equity</b>	
		Common stock	29,953
<b>Investments and other assets:</b>	<b>92,216</b>	Capital surplus	171,071
Investments securities	59,918	Retained earnings	193,721
Long-term loan receivable	1,915	Adjustment on revaluation of Land	(7,506)
Lease deposits	18,073	Net unrealized holding gains on securities	11,756
Deferred taxes non-current	803	Foreign currency translation adjustments	(8,767)
Others	19,967	Treasury stock	(73,549)
Allowance for doubtful accounts non-current	(8,462)	<b>Total shareholders' equity</b>	<b>316,679</b>
		<b>Total liabilities, minority interests and shareholders' equity</b>	<b>522,914</b>
<b>Total assets</b>	<b>522,914</b>		

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## Consolidated Statement of Income (From April 1, 2005 to March 31, 2006)

(Unit: millions of yen)

Item	Amount	
<b>Ordinary items:</b>		
<b>Operating revenue:</b>		
Net sales		553,240
<b>Operating expenses:</b>		
Cost of sales	324,228	
Selling, general and administrative expenses	109,867	434,096
<b>Operating income</b>		<b>119,144</b>
<b>Non-operating income and expenses:</b>		
<b>Non-operating income:</b>		
Interest income	474	
Dividend income	626	
Gain on investments in partnerships	1,066	
Foreign currency exchange gain	333	
Others	765	3,266
<b>Non-operating expenses:</b>		
Interest expenses	634	
Equity losses from affiliate	229	
Sales discount	954	
Non-operating commission expenses	404	
Others	686	2,909
<b>Ordinary income</b>		<b>119,500</b>
<b>Extraordinary items:</b>		
<b>Extraordinary income:</b>		
Gain on the prior-term adjustment	257	
Reversal of allowance for doubtful receivables	508	
Gain on sale of investment in affiliated companies	360	
Gain on sale of investment in securities	400	
Gain on sale of discontinued operation	26	
Gain on change in equity of a subsidiary	1,065	
Others	748	3,367
<b>Extraordinary expenses:</b>		
Loss from the prior-term adjustments	673	
Loss on disposal of fixed assets	818	
Loss on sale of fixed assets	168	
Impairment losses	7,194	
Loss from revaluation of investment securities	853	
Loss of business reorganization	317	
Others	917	10,944
<b>Income before income taxes</b>		<b>111,923</b>
Income taxes-current	46,796	
Income taxes-deferred	(3,018)	43,778
<b>Minority interests</b>		<b>1,923</b>
<b>Net income</b>		<b>66,221</b>

Note: Figures shown in millions of yen have been rounded down to the nearest million.

# Notes to Consolidated Financial Statements

## ① Significant Accounting Policies Used in Preparation of Consolidated Financial Statements

### (1) Scope of Consolidation

The consolidated financial statements of SEGA SAMMY HOLDINGS INC. (the "Company") include the accounts of seventy two consolidated subsidiaries.

For a complete list of major consolidated subsidiaries, refer to the section "(1) Relationships with important subsidiaries and affiliates" under "8 Corporate Relationships" of "II. Overview of the Company."

During fiscal 2005, the following companies were included in the scope of consolidation as consolidated subsidiaries: Sammy NetWorks Asia Pacific Ltd., TMS ENTERTAINMENT, LTD., GINZA CORPORATION, and ten other companies through the acquisition of shares; DARTSLIVE Co., Ltd. and two other companies, because of the increased importance of their businesses to the Group; and GINZAHANBAI CORPORATION and three other companies that were newly established subsidiaries with investments from the Company.

Meanwhile, the following companies were excluded from the scope of consolidation: SEGA AMUSEMENT LTD., and three other companies by merger with consolidated subsidiaries and other companies; Dimps Corporation, OPES LTD. and two other companies, through sale of shares held by the Company; and RTzen, Inc., due to liquidation.

The Company has ten non-consolidated subsidiaries, including United Source International Ltd., SEGA Software (Shanghai) Co., Ltd., SEGA TOYS PLUS CO., LTD., Remart Co., Ltd., and TMS MUSIC CO., LTD.

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

### (2) Application of the Equity Method

Eight companies were accounted for by the equity method, including CRI Middleware Co., LTD., Simuline Inc., by accepting allocation of new shares to a third party, and GAMEWORKS CINCINNATI L.L.C., by shares acquisition. The last two companies became equity-method affiliates during the year under review. Meanwhile, shares of former consolidated subsidiary IP4 Inc. held by the Company were sold, also making it an equity-method affiliates.

Nineteen non-consolidated subsidiaries and affiliates were not accounted for by the equity method, including Liverpool Co., Ltd. and Micott & Basara Inc.

The equity method was not applied to other non-consolidated subsidiaries and affiliates because the combined amount of these companies in net income (loss) and retained earnings applicable to the equity interest of the Company are immaterial compared to the respective consolidated figures.

### (3) Fiscal Year for Consolidated Subsidiaries

Consolidated subsidiaries whose fiscal year-ends differ from the consolidated balance sheet date are listed below. Necessary adjustments are made on consolidation for material transactions that occurred between the end of the fiscal years of these subsidiaries and the end of the consolidated balance sheet date. The financial accounts of consolidated subsidiaries with asterisks (\*) are calculated on a provisional basis as of the consolidated balance sheet date (March 31).

Consolidated subsidiary	Fiscal year-end
SEGA R&D Holdings Ltd.	June 30 *
OS Capital USA, Inc.	December 31
Nissho Inter Life Co., Ltd.	March 20
Sega Amusements Taiwan Ltd.	December 31
Shanghai New World Sega Recreation Co., Ltd.	December 31
Sammy NetWorks Asia Pacific Ltd.	December 31 *
JVMMS Holdings Ltd.	December 31 *
Guangzhou HuaChuang Information Technology Ltd.	December 31 *
Guangzhou Altra Information Technology Ltd.	December 31 *
Guangzhou HongChuang Information Technology Ltd.	December 31 *
Sem Communications Pte.Ltd.	December 31

The fiscal year-end for GINZA CORPORATION was changed from September 30 to March 31, while that of H-I System Corporation was changed from December 31 to March 31.

### (4) Accounting Standards

1. Valuation standards and accounting treatment for important assets
  - a. Held-to-maturity debt securities are stated at amortized cost (straight-line method).
  - b. Other marketable securities
    - Securities with fair market value are stated at fair market



value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains or losses on securities in shareholders' equity, with cost of sales determined by the moving average method.

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

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

- d. Derivatives

Derivatives are stated at fair market value.

- e. Inventories

Inventories are stated at cost determined mainly by the weighted-average method.

## 2. Method for depreciating and amortizing important assets

### Tangible assets

Depreciation is computed primarily using the declining-balance method.

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

Useful life for primary assets is as follows:

Building/Structure : 2-50 years

Rental equipment for Amusement arcade : 2-5 years

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

### Intangible assets

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

## 3. Accounting for deferred assets

All expenses are expensed when incurred.

## 4. Accounting for allowances

- a. Allowance for doubtful accounts

The reserve for doubtful accounts is provided in amount sufficient

to cover possible losses estimated as a historical write-off ratio of bad debts for general receivables, with the addition of required amounts for doubtful accounts and bankrupt receivables based on a case-by-case assessment of the possibility of collection.

- b. Accrued employees' bonuses

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

- c. Accrued retirement benefits for employees

The Company and its consolidated subsidiaries provided allowance for employees' retirement benefits at the balance sheet date based on the estimated amounts of projected benefit obligations and the fair value of the plan assets at that date. Actuarial differences are treated as a lump-sum expense in the following fiscal year. except, SEGA CORPORATION and 3 other subsidiaries that amortize actuarial differences using the straight-line method over a fixed number of years (10 years), but no more than the average remaining service period for employees in service.

- d. Accrued retirement benefits for directors and statutory auditors

The Company and certain domestic consolidated subsidiaries provide an allowance for directors' and statutory auditors' retirement bonuses to adequately cover payment of such bonuses at the end of the applicable period in accordance with internal regulations. This allowance is stipulated under Article 43 of the Regulation for the Commercial Code.

## 5. Accounting for lease transactions

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

## 6. Accounting for significant hedge

- a. Hedge accounting

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

- b. Hedging instruments and hedged items

Hedging instrument: Interest rate swaps, foreign currency forward contracts

## Notes to Consolidated Financial Statements

Hedged item: Interest on debts, receivables and payables denominated in foreign currencies, investment securities.

### c. Hedge policy

Derivative instruments are used to mitigate risks associated with foreign currency exchange and interest rate fluctuations. As a rule, hedging is only used for items for which actual demand exists, and not for speculative purposes.

### d. Evaluation of hedge effectiveness

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

### 7. Accounting method of consumption taxes

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

### (5) Valuation of consolidated subsidiaries' assets and liabilities

The assets and liabilities of consolidated subsidiaries are evaluated using the fair value including the portion attributable to minority shareholders.

### (6) Amortization of Consolidated Goodwill

Consolidated goodwill is amortized over the estimated number of years it takes to realize the benefits of goodwill as long as the reasonable estimation of this period is possible. In all other cases, goodwill is amortized equally over a period of 5 years.

### (7) Appropriation of earnings

The consolidated statement of retained earnings is prepared based on retained earnings appropriations at the companies determined during the fiscal year.

## ② Changes to Accounting Policies

### Accounting Standards for Impairment of Fixed Assets

Effective from the fiscal year ended March 31, 2006, the Company and its subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). As a result of this change, income before income taxes decreased by ¥7,194 million compared with what would have been recorded under the previous accounting policy.

## ③ Notes to Consolidated Balance Sheet

- (1) Accumulated depreciation of tangible fixed assets ¥ 82,670 million
- (2) Assets pledged

	Assets pledged		Covered for liabilities	
Time deposits	¥	25 million	Accounts payable - trade	¥ 0 million
Note receivable	¥	468 million	Accounts payable - other	¥ 0 million
Buildings/Structure	¥	349 million	Accrued liabilities	¥ 0 million
Land	¥	535 million	Short-term debt	¥337 million
			Long-term debt	¥ 4 million

- (3) Debt guarantees ¥ 497 million
- (4) Security loaned  
Security loaned with ¥ 1,397 million is included in Investment securities

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

#### Revaluation method

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

Date of the revaluation March 31, 2002

The amount by which the book value of land at the consolidated fiscal year end exceeds the market value: ¥381 million

- (6) Outstanding balance of overdraft account: ¥33,181 million  
Outstanding balance of commitment line contract: ¥53,242 million  
The amount of ¥30,000 million in the overdraft account is limited to the outstanding balance of the commitment line. Pursuant to the commitment line contract, any amount exceeding the limit shall be repaid by the following business day.
- (7) Total number and type of shares issued and outstanding at the fiscal year-end, and total number and type of treasury stock held at the fiscal year-end  
Shares issued and outstanding 283,229,476 common shares  
Treasury stock 31,254,693 common shares

#### ④ Notes to Consolidated Statement of Income

- (1) Net income per share ¥261.06
- (2) Breakdown of major extraordinary items
1. Breakdown of gain on prior-term adjustment of ¥257 million:
    - Revision to royalties received in previous fiscal years:
      - ¥257 million
  2. Breakdown of loss from prior-term adjustment of ¥673 million:
    - Revision to personnel expenses in previous fiscal years:
      - ¥673 million
  3. Breakdown of ¥7,194 million in asset impairment losses are as follows:

Use	Type	Location	Impairment Loss	
Amusement facilities	Land, buildings and structures; other tangible fixed assets; other intangible fixed assets	Chuo-ku, Osaka	Buildings and structures	¥ 1,879 million
			Land	¥ 4,575 million
		Tokushima-shi, Tokushima	Other tangible fixed assets	¥ 208 million
			Other intangible fixed assets	¥ 42 million
Assets for lease	Land, buildings and structures	Tokushima-shi, Tokushima	Buildings and structures	¥ 99 million
		Takatsuki-shi, Osaka	Buildings and structures	¥ 1 million
Idle assets	Land, other tangible fixed assets	Sakainato-shi, Tottori; Bunkyo-ku, Tokyo; and three other locations	Buildings and structures	¥ 37 million
			Land	¥ 118 million
Total		Kawagoe-shi, Saitama Karuzawa-cho, Nagano; and five other locations	Other tangible fixed assets	¥ 187 million
			Land	¥ 42 million
				¥ 7,194 million

For each business segment, the SEGA SAMMY Group classifies assets or asset groups based on whether their cash flows can be estimated independently. The book values of assets or asset groups whose market values have declined significantly or that are projected to consistently generate negative cash flows are reduced to their recoverable value. The amount of this reduction is deemed an impairment loss and is recorded under extraordinary expenses in the financial statements. The recoverable value of amusement facilities (Tokushima-shi, Tokushima and Takatsuki-shi, Osaka) and assets for lease are assessed using their value in use, which are the present value of projected cash flows generated by these assets using the discount rate between 2.2% and 6.0%. The recoverable value of amusement facilities (Chuo-ku, Osaka) and idle assets are calculated using the fair value less cost to sell based on the real estate appraisal value or the assessed value of fixed assets for property tax purpose.

4. Loss of business reorganization amounting to ¥ 317 million is broken down as follows:

Loss on sale of investment in affiliated companies	¥ 142 million
Others	¥ 175 million
<b>Total</b>	<b>¥ 317 million</b>

The above figures represent losses from business restructuring following the business integration of consolidated subsidiaries SEGA CORPORATION and Sammy Corporation.

## Independent Auditors' Report (Copy)

### Independent Auditors' Report

May 16, 2006

The Board of Directors  
SEGA SAMMY HOLDINGS, INC.

KPMG AZSA & Co.  
Yuichi Yamada (Seal)  
Designated and Engagement Partner  
Certified Public Accountant  
Eiji Mizutani (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the consolidated statutory report, that is the consolidated balance sheet and the consolidated statement of income, of SEGA SAMMY HOLDINGS INC. for the 2nd business year from April 1, 2005 to March 31, 2006 in accordance with Article 19-2(3) of the "Law for Special Exceptions to the Commercial Code Concerning Audit of Kabushiki Kaisha". The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion. Our audit procedures also include those considered necessary for the Company's majority-owned subsidiaries and non-majority owned consolidated subsidiaries.

As a result of the audit, in our opinion, the consolidated statutory report referred to above presents fairly the consolidated financial position of SEGA SAMMY HOLDINGS INC. and consolidated subsidiaries, and the consolidated results of their operations in conformity with related laws and regulations and the Articles of Incorporation of the Company.

As discussed in Note 2, effective from the business year ended March 31, 2006, the Company adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets", issued by the Business Accounting Deliberation Council on August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As discussed in III Significant Events Following the End of the Fiscal Year of Business report, the Company acquired all issued shares of new subsidiaries.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

## Board of Statutory Auditors' Report (Copy)

### Audit Report on Consolidated Financial Statements

This Board of Statutory Auditors, having received the consolidated financial statements (Consolidated Balance Sheet and Consolidated Statement of Income) for the Second business year, from April 1, 2005 through March 31, 2006, and consulted with each of the Statutory Auditors on the methods and results of their audits, have prepared this audit report and hereby report as follows:

1. Method of Audit by Statutory Auditors in Outline:

In accordance with the auditing policies and apportionment of work specified by the Board of Statutory Auditors, each Statutory Auditor, has received the consolidated financial statements from the Directors and others, has examined documents and explanations from the independent auditors and has examined the accounting documents and detailed statements auxiliary thereto.

2. Results of Audit:

The auditing methods and results of the independent auditors, KMPG AZSA & Co., are recognized as being proper.

May 18, 2006

Board of Statutory Auditors, SEGA SAMMY HOLDINGS INC.

Kazutada Ieda, (Full-time) Statutory Auditor

Akio Kioi, Statutory Auditor

Ryoichi Arai, Statutory Auditor

Toshio Hirakawa, Statutory Auditor

Note: Statutory Auditors Akio Kioi and Toshio Hirakawa are outside statutory auditors that fulfill the qualification requirement as provided in Article 18, Paragraph 1, of the Law for Special Exceptions to the Commercial Code Concerning Audits of Kabushiki Kaisha.

## Non-Consolidated Balance Sheet (As of March 31, 2006)

(Unit: millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current Assets:</b>	<b>121,150</b>	<b>Current liabilities:</b>	<b>171,812</b>
Cash and deposits	82,890	Accounts payable-other	2,453
Accounts receivable-trade of affiliates	419	Accrued liabilities	338
Securities	18,498	Advance received	0
Prepaid expenses	217	Deposits received of affiliates	168,835
Short-term loan receivable of affiliates	5,242	Deposits received	12
Consumption tax refunds receivable	43	Accrued employees' bonuses	117
Income tax refunds receivable	13,604	Other	53
Deferred taxes-current	214		
Other	20	<b>Non-current liabilities:</b>	<b>391</b>
		Bonds payable with stock acquisition rights	1
<b>Fixed Assets:</b>	<b>312,398</b>	Deferred tax liabilities non-current	320
<b>Tangible fixed assets:</b>	<b>1,029</b>	Accrued retirement benefits for employees	3
Buildings	355	Accrued retirement benefits for directors and statutory auditors	66
Structures	5		
Vehicles	32	<b>Total liabilities</b>	<b>172,203</b>
Tools, furniture and fixtures	351		
Land	272	<b>Shareholders' equity</b>	
Construction in progress	11	<b>Common stock</b>	<b>29,953</b>
<b>Intangible fixed assets:</b>	<b>120</b>		
Trade mark rights	17	<b>Capital surplus:</b>	<b>287,189</b>
Software	52	Additional paid-in capital	29,945
Software in progress	48	Capital surplus-others:	257,244
Other	3	Surplus from capital reduction	257,234
<b>Investments and other assets:</b>	<b>311,247</b>	Surplus from sale of treasury stock	10
Investments in affiliates	287,983		
Investment securities	22,804	<b>Retained earnings:</b>	<b>60,359</b>
Lease deposits	224	Unappropriated retained earnings	60,359
Long term prepaid expense	9		
Other	225	<b>Net unrealized holding gains on securities</b>	<b>521</b>
		<b>Treasury Stock</b>	<b>(116,678)</b>
<b>Total assets</b>	<b>433,548</b>	<b>Total shareholders' equity</b>	<b>261,345</b>
		<b>Total liabilities and shareholders' equity</b>	<b>433,548</b>

Note: Figures shown in millions of yen have been rounded down to the nearest million.

## Non-Consolidated Statement of Income (From April 1, 2005 to March 31, 2006)

(Unit: millions of yen)

Item	Amount	
<b>Ordinary items:</b>		
<b>Operating revenue:</b>		
Management fees	4,717	
Dividends income	67,534	72,251
<b>Operating expenses:</b>		
Selling, general and administrative expenses	5,098	5,098
<b>Operating income</b>		<b>67,153</b>
<b>Non-operating income and expenses:</b>		
<b>Non-operating income:</b>		
Interest and dividends income	69	
Gain on investments in partnerships	119	
Other	4	193
<b>Non-operating expenses:</b>		
Interest expenses	44	
Non-operating commission expenses	364	
Loss on investments in partnerships	78	
Other	20	509
<b>Ordinary income</b>		<b>66,837</b>
<b>Extraordinary items:</b>		
<b>Extraordinary expenses:</b>		
Loss on disposal of fixed assets	0	
Loss from revaluation of investment securities	590	590
<b>Income before income taxes</b>		<b>66,246</b>
Income taxes-current	4	
Income taxes-deferred	29	33
<b>Net income</b>		<b>66,213</b>
Interim dividend	6,504	
Unappropriated retained earnings arising from corporate spinoff	12,857	
Cancellation of stocks of subsidiaries	12,207	5,853
<b>Unappropriated retained earnings</b>		<b>60,359</b>

Note: Figures shown in millions of yen have been rounded down to the nearest million.

# Notes to Non-Consolidated Financial Statements

## ① Significant Accounting Policies

- (1) Valuation of securities
  - a. Held-to-maturity debt securities are stated at amortized cost (straight-line-method).
  - b. Investments in subsidiaries and affiliates are stated at moving-average cost.
  - c. Other securities
 

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

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

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

Depreciation is computed by the declining-balance method.

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

Useful life for primary assets is as follows:

Building:	8 - 50 years
Tools/Furniture:	3 - 20 years
  - b. Intangible fixed assets
 

Depreciation is computed using the straight-line method.

We adopt the straight-line method over the useful life of 5 years for Software for internal use.
- (3) Accounting for deferred assets
 

All expenses are expensed when incurred.
- (4) Accounting for allowances
  - a. Accrued employees' bonuses

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

- b. Accrued retirement benefits for employees
 

The liability for retirement benefits is based on the estimated amount of benefit obligations at the end of the fiscal year.
- c. Accrued retirement benefits for directors and statutory auditors
 

The amount of the reserve required at the end of the fiscal year for directors and statutory auditors' retirement benefits is based on company regulations. This allowance is stipulated under Article 43 of the Regulation for the Commercial Code.
- (5) Accounting for lease transactions
 

Finance leases that do not transfer ownership to lessees are accounted for in the same manner as operating leases.
- (6) Accounting method for consumption taxes
 

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

## ② Changes to Accounting Policies

Accounting Standards for Impairment of Fixed Assets  
 Effective from the year ended March 31, 2006, the Company and its subsidiaries adopted the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The adoption of this new accounting standard had no effect on the financial statements.

## ③ Notes to Non-Consolidated Balance Sheet

- (1) Accumulated depreciation of tangible fixed assets      ¥ 77 million
- (2) In addition to fixed assets listed on the balance sheet, significant fixed assets used on lease contracts included vehicles for sales.
- (3) Receivables from and payables to affiliates
 

Short-term receivables from affiliates	¥ 5,670 million
Short-term payables to affiliates	¥ 168,897 million



(4) Net assets on the balance sheet that increased due to mark-to-market valuations defined by Article 124, No. 3 of the Regulation for the Commercial Code: ¥ 521 million

(5) Outstanding balance of overdraft account: ¥ 30,000 million  
Outstanding balance of commitment line contract: ¥ 50,000 million

The amount of the overdraft account is limited to the outstanding balance of the commitment line. Pursuant to the commitment line contract, any amount exceeding the limit shall be repaid by the following business day.

(6) Total number and type of shares issued and outstanding at the fiscal year-end, and total number and type of treasury stock held at the fiscal year-end

Shares issued and outstanding	283,229,476 common shares
Treasury stock	31,254,693 common shares

#### ④ Notes to Statement of Income

(1) Transactions with Affiliates	
Management fees	¥ 4,717 million
Dividends income	¥ 67,534 million
SG&A expenses	¥ 193 million
Non-operating transactions	¥ 107 million
(2) Net income per share	¥ 249.71

## Proposal for Appropriation of Unappropriated Retained Earnings

(From April 1, 2005 to March 31, 2006)

(Unit: yen)

Item	Amount
(Appropriation of retained earnings)	
Unappropriated retained earnings	60,359,155,344
Appropriation:	
Dividends (Ordinary dividend of ¥30 per share)	7,559,243,490
Bonuses to directors and statutory auditors (Amount paid to statutory auditors)	200,000,000 (5,000,000)
Other reserve	30,000,000,000
Retained earnings carried forward	22,599,911,854

Note: Dividends from earnings do not include payments for 31,254,693 shares of treasury stock.

# Independent Auditors' Report (Copy)

## Independent Auditors' Report

May 16, 2006

The Board of Directors  
SEGA SAMMY HOLDINGS INC.

KPMG AZSA & Co.  
Yuichi Yamada (Seal)  
Designated and Engagement Partner  
Certified Public Accountant  
Eiji Mizutani (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the statutory report, that is the balance sheet, the statement of income, the business report (limited to accounting matters) and the proposal for appropriation of unappropriated retained earnings, and its supporting schedules (limited to accounting matters) of SEGA SAMMY HOLDINGS INC. for the 2nd business year from April 1, 2005 to March 31, 2006 in accordance with Article 2(1) of the "Law for Special Exceptions to the Commercial Code Concerning Audit of Kabushiki Kaisha". With respect to the aforementioned business report and supporting schedules, our audit was limited to those matters derived from the accounting books and records. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the statutory report and supporting schedules are free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the statutory report and supporting schedules. We believe that our audit provides a reasonable basis for our opinion. Our audit procedures also include those considered necessary for the Company's subsidiaries.

As a result of the audit, our opinion is as follows:

- (1) The balance sheet and the statement of income present fairly the financial position and the results of operations of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (2) As discussed in Note 2, effective from the business year ended March 31, 2006, the Company adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets", issued by the Business Accounting Deliberation Council on August 9, 2002) and "implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).
- (3) The business report (limited to accounting matters) presents fairly the status of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (4) The proposal for appropriation of unappropriated retained earnings has been prepared in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (5) With respect to the supporting schedules (limited to accounting matters) there are no items to be noted that are not in conformity with the provisions of the Commercial Code.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

## Board of Statutory Auditors' Report (Copy)

### Audit Report

This Board of Statutory Auditors, having received reports from and consulted with each of the Statutory Auditors on the methods and results of their audits concerning the performance by the Directors of their duties during the Second business year, from April 1, 2005 through March 31, 2006, have prepared this audit report and hereby report as follows:

#### 1. Method of Audit by Statutory Auditors in Outline:

In accordance with the auditing policies and apportionment of work specified by the Board of Statutory Auditors, each Statutory Auditor, in addition to attending meetings of the Board of Directors and other important meetings, has received reports on business from the Directors and others, has examined documents and so on containing important decisions, has investigated the conditions of business and assets at the Company and other important places of business, has requested the Company's subsidiaries to report on their operations, has visited significant subsidiaries where necessary and has investigated their conditions of business and assets. In addition, the Statutory Auditors have received reports and explanations from the independent auditors and have examined the accounting documents and detailed statements auxiliary thereto. In addition to the above methods, where necessary the Statutory Auditors have obtained reports from the Directors and others and have examined in detail the circumstances in connection with competitive dealings by Directors, dealings involving conflicting interests between Directors and the Company, the furnishing of benefits or profits by the Company gratuitously, out-of-the-ordinary dealings between the Company and subsidiaries or stockholders and the acquisition and disposition by the Company of its own shares.

#### 2. Results of Audit:

- (1) The auditing methods and results of the independent auditors, KMPG AZSA & Co., are recognized as being proper.
- (2) The business report is recognized as being in accordance with laws and regulations and the Articles of Incorporation and as properly indicating the conditions of the Company.
- (3) Reviewing the item on the agenda concerning the appropriation of retained earnings in light of the conditions of the Company's assets and other circumstances, there are no matters that ought to be pointed out.
- (4) As the auxiliary detailed statements correctly indicate the matters that should be recorded therein, there are no matters that ought to be pointed out.
- (5) With respect to the performance of their duties by the Directors, no improper acts or material facts that violated laws and regulations or the Articles of Incorporation are recognized. Further, no breach of his duty by a Director was recognized in connection with competitive dealings by Directors, dealings between Directors and the Company, the furnishing of benefits or profits by the Company gratuitously, out-of-the-ordinary dealings between the Company and subsidiaries or shareholders, acquisition and disposition by the Company of its own shares and so on.

May 18, 2006

Board of Statutory Auditors, SEGA SAMMY HOLDINGS INC.

Kazutada Ieda, (Full-time) Statutory Auditor

Akio Kioi, Statutory Auditor

Ryoichi Arai, Statutory Auditor

Toshio Hirakawa, Statutory Auditor

Note: Statutory Auditors Akio Kioi and Toshio Hirakawa are outside statutory auditors that fulfill the qualification requirement as provided in Article 18, Paragraph 1, of the Law for Special Exceptions to the Commercial Code Concerning Audits, of Kabushiki Kaisha.

# Procedures for Transactions in Fractional Unit Shares

Request for additional purchase

If holdings are less than 100

## Increase to a whole trading unit\* (100 shares)

First, confirm whether or not you are using the system for deposit and transfer of securities, and then complete the following procedures for an additional purchase.



\* A trading unit is the minimum number of shares for trading.  
Voting rights are allocated to shareholders in accordance with whole trading units.



1

Shareholders using the system for deposit and transfer of securities



Please consult with your securities company

2

Shareholders not using the system for deposit and transfer of securities



Obtain a request for additional purchase

Ask Mitsubishi UFJ Trust and Banking Corporation for a "request for additional purchase of fractional unit shares."



Procedures to be completed at a office or by mail

After filling in the required information on the "request for additional purchase of fractional unit shares," present the form at the office or by mail and pay the "estimated amount."

What is the "estimated amount"?

Estimated amount =

(the number of additional shares you want to purchase) x  
(the previous day's closing price on the Tokyo Stock Exchange) x 1.3

Note: Amounts less than ¥1,000 are rounded up.

In anticipation of price fluctuations, a higher amount is required to be paid. The difference between the estimated amount and the actual cost of the additional purchase will be settled later.



Payment settlement and share transfer

After confirmation of the price and the cost of the additional purchase, the difference between the estimated amount and the actual cost of the additional purchase will be settled. Subsequently, the shares will be sent by delivery-certified mail.

# shares (fractional unit shares)

Request for redemption

## Sell shares and receive cash

First, confirm whether or not you are using the system for deposit and transfer of securities, and then complete the following procedures for redemption.

1

Shareholders using the system for deposit and transfer of securities

Please consult with your securities company

2

Shareholders not using the system for deposit and transfer of securities

Obtain a request for redemption

Ask Mitsubishi UFJ Trust and Banking Corporation for a "request for redemption of fractional unit shares."

Procedures to be completed at a office or by mail

After filling in the required information on the "request for redemption of fractional unit shares," present the form at the office or by mail.

Receipt of payment for redemption

After confirmation of the price and the payment for redemption, payment will be made in accordance with the method specified in the "request for redemption of fractional unit shares."

## Requests for forms

Requests for stock-related forms (change of address, seal, name; instructions for payment of dividends; request for additional purchase and redemption of fractional unit shares; transfer) are accepted 24 hours a day over the telephone or the Internet.

Toll-free: 0120-244-479 (Transfer Agency Department, Head Office, Mitsubishi UFJ Trust and Banking Corporation)

Toll-free: 0120-684-479 (Transfer Agency Department, Osaka Office, Mitsubishi UFJ Trust and Banking Corporation)

Internet: <http://www.tr.mufg.jp/daikou/>

Shareholders using the system for deposit and transfer of securities should consult with their securities company.

# SEGA SAMMY Topics

## SEGA Rolls out LOVE AND BERRY Dress up and Dance! Official Shops Nationwide



LB Style Square official stores for  
"LOVE AND BERRY Dress up and Dance!"

SEGA has begun to roll out LB Style Square official stores for "LOVE AND BERRY Dress up and Dance!", a children's card game that has built tremendous popularity among young girls.

With a selection of original items designed to reproduce the game's world setting, these stores will offer spaces where girls can enjoy fashionable items while communicating with their mothers, just as they can while enjoying the game itself. In the future, we will open shops in department stores and shopping centers nationwide and will consider the concurrent development of multiple brand shops.

## Sammy Bolsters Pachislot and Pachinko Machines Business through Tie-Up with GINZA CORPORATION

In October 2005, Sammy announced a business and capital tie-up with GINZA CORPORATION which is active in the development, production, and sales of pachislot and pachinko machines.

In pachislot machines, Sammy has maintained the top share of the market through a multiple brand strategy incorporating its original Sammy brand, the RODEO brand of subsidiary RODEO Corporation, and units supplied to partner companies.

In pachinko machines, however, Sammy has offered only the Sammy brand. To achieve growth over the medium to long

term, the Company decided to implement a multiple brand strategy in pachinko machines as well.

We are confident that the business and capital tie-up with GINZA CORPORATION will further strengthen our pachislot operations, facilitate our implementation of a multiple brand strategy for pachinko machines, and make a substantial contribution to increasing our share in the pachinko market.

## SEGA Booth Draws Crowds at AOU 2006 Amusement Expo



AOU 2006 Amusement Expo

In February 2006, the AOU Amusement Expo, an amusement machine exposition sponsored by the All Nippon Amusement Machine Operators' Union (AOU), was held at Makuhari Messe near Tokyo. This year's expo, the 25th, was a major success, with more than 30,000 attendees over two days, including both fans and industry insiders. SEGA's booth was the largest in the exposition hall and the center of attention, as large numbers of attendees lined up for a chance to see SEGA's exciting offerings, such as "Virtua Fighter 5", the latest version of the fighting game, and new versions of trading card games.

SEGA communicated a message that was clear and well received.

# IR Information

## Internet Streaming Webcast of the General Meeting of Shareholders

SEGA SAMMY HOLDINGS extends an invitation to view an Internet streaming webcast of its General Meeting of Shareholders. The streaming webcast can be accessed on Tuesday, June 20, 2006, at the Company's web site.

URL: <http://www.segasammy.co.jp/live.html>

### Access ID

A shareholders' access ID and a password are required to view the Internet webcast. Your access ID is your shareholders' number, which can be found on the bottom right of the exercise of voting rights form mailed to you. Your password is your seven-digit postal code.

If you have changed your address since April 1, 2006, please note that the postal code used on your exercise of voting rights form has been registered as your password. Therefore, please use that postal code to view the webcast.

## IR Information Center

Working to build trust through two-way communication with its shareholders and other investors, SEGA SAMMY HOLDINGS has established an IR information center. If you have any inquiries regarding share, corporate, or other information, please do not hesitate to contact us at:

Tel: +81-3-6215-9954 9:00-18:00

(except weekends, national holidays, and company holidays)

E-mail: [ir@mail.segasammy.co.jp](mailto:ir@mail.segasammy.co.jp)

## New Web Site Launched

On April 1, 2006, SEGA SAMMY HOLDINGS launched a completely revised web site. The revision, which was designed to facilitate a deeper understanding of the operational activities of the entire Group, includes an easy-to-understand design and enhanced search capabilities. Particular attention was paid to the needs of shareholders and investors, and accordingly information and capabilities of interest to shareholders and potential investors were substantially expanded, including the addition of a stock price simulation tool. We will continue to incorporate feedback from web site visitors into future revisions.



## Share Information

### Stock Code

6460

### Unit of Trading

100 shares

### Fiscal Year-End

March 31

### Ordinary General Meeting of Shareholders

June

### Date of Record

March 31

(September 30 for interim dividends, if paid)

Advance, public notification is given when required for other dividend payments.

### Method of Announcements

Internet

([www.segasammy.co.jp/english/index.html](http://www.segasammy.co.jp/english/index.html))

In the event that announcements cannot be provided through the Internet, they will be listed in the *Nihon Keizai Shimbun*.

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### Shareholder Register Manager

Mitsubishi UFJ Trust and Banking Corporation

1-4-5, Marunouchi, Chiyoda-ku,

Tokyo 100-8212, Japan

### Administrative Office of Shareholder Register Manager

Securities Agent Department,

Mitsubishi UFJ Trust and Banking Corporation

7-10-11, Higashisuna, Koto-ku,

Tokyo 137-8081, Japan

### Agency

Mitsubishi UFJ Trust and Banking Corporation branches in Japan

### American Depositary Receipts

Mitsubishi UFJ Trust and Banking Corporation branches in Japan

Depository bank:

The Bank of New York

101 Barclay Street,

New York, NY 10286, U.S.A.

Telephone: (212) 815-2042

U.S. Toll Free: 888-269-2377

(888-BNY-ADRS)

Symbol: SGAMY

CUSIP: 815794102

Exchange: OTC

Ratio: 4:1



## SEGA SAMMY HOLDINGS INC.

Shiodome Sumitomo Building,

1-9-2 Higashi Shimbashi, Minato-ku,

Tokyo 105-0021, Japan