

# FunBiz

Vol. 3

CONSOLIDATED INTERIM REPORT (April 1, 2006 – September 30, 2006)



Special

## At the Forefront

Key Employees Talk about SEGA SAMMY's Future



By providing  
**entertainment** filled with  
**dreams** and **excitement**  
to people throughout the world,  
we will strive to  
enrich our society and culture.

# To Our Shareholders



**Hajime Satomi**  
Chairman and CEO

I am pleased to have this opportunity to report our performance for the interim period of SEGA SAMMY HOLDINGS' third fiscal year.

Since the SEGA SAMMY Group was created through a management integration, we have implemented a range of initiatives targeting the establishment of a system that can respond quickly and flexibly to changes in the operating environment and the formation of a foundation for accelerating growth in the years ahead. While we still face considerable challenges, our efforts are steadily bearing fruit. In the interim period under review, on a consolidated basis, net sales were up 14.1% from the same period of the previous year, to ¥283,551 million, ordinary income rose 33.7%, to ¥66,029 million, and net income increased 52.3%, to ¥37,997 million.

In the Pachislot and Pachinko Machine Business segment, sales of pachinko machines did not reach our expectations, but with support from strong demand for the Sammy brand pachislot machine *Hokuto No Ken SE*, our main title in the period under review, sales of pachislot machines exceeded our target by a substantial margin.

In the Amusement Machine Sales Business segment, results were favorable, with strong sales recorded by high-value-added products that drew on SEGA's advanced development capabilities and by established favorites.

In the Amusement Center Operations segment, revenues at existing centers were in line with the prior year. Unit sales of cards for children's card games, such as *MUSHIKING The King of Beetles* and *LOVE AND BERRY Dress up and Dance!*, declined slightly from the same period of the previous year.

In the Consumer Business segment, we recorded an operating loss, due in part to R&D expenditures required for the development of titles for new platforms. However, we consider these expenditures to be an investment for future growth. In the interim period under review, we strengthened our local development system through the acquisition of development companies with leading titles and advanced development capabilities – Sports Interactive Ltd. and Secret Level, Inc. In this way, we further enhanced our competitiveness in North America and Europe.

Due to such factors as the difficult management environment in pachinko halls and the launch of new platforms in the consumer business, our operating environment is likely to undergo continued dramatic change. With a solid grasp of such changes and a clear understanding of the challenges we face, we will steadily enhance our capabilities while approaching changes in our operating environment as opportunities for growth. The entire Company will strive to ensure continued success in its competitive markets.

I would like to thank you for your support, and to ask for your continued support in the years ahead, as the SEGA SAMMY Group aims for further growth.

December 2006

**Hajime Satomi**  
Chairman and CEO,  
SEGA SAMMY HOLDINGS INC.



## Hiroshi Uemura

Developer of *MUSHIKING The King of Beetles* and *LOVE AND BERRY Dress up and Dance!*

### PROFILE

Hiroshi Uemura  
R&D Creative Officer  
Family Entertainment R&D Department  
Amusement R&D Division  
SEGA Corporation

After joining SEGA in 1989, was assigned to the Future R&D Division. Worked on the development of large attractions for *Tokyo Joypolis* for about 10 years. Subsequently developed new businesses for SEGA, such as children's games utilizing touch-sensitive displays. Currently working on production of children's card games, such as *MUSHIKING The King of Beetles* and *LOVE AND BERRY Dress up and Dance!*, in the Family Entertainment R&D Department.

Special

# At the Fore

## Key Employees Talk

**It has been two years since the management integration. What has changed in the SEGA SAMMY Group, and what is it planning to do next? Employees representing development and marketing discussed those topics.**

**Asano:** Why did *MUSHIKING The King of Beetles* and *LOVE AND BERRY Dress up and Dance!* become such big hits?

**Uemura:** *MUSHIKING The King of Beetles* uses the theme of beetles from the natural world. Fathers remember being interested in beetles when they were young. For example, they can tell their children about how they raised beetles when they were kids\*. In the same way, with *LOVE AND BERRY Dress up and Dance!*, mothers really communicate with their children on the shared interest in fashion. The key point is that families can truly enjoy a common topic.

**Asano:** Adults and children may experience the game in different ways, but they enjoy playing the same game in the same environment, and they can have a great time talking about the game while eating dinner. From the point of view of an entertainment provider, that's the ideal situation.

### TO SUCCEED, YOU HAVE TO BE MARKET-ORIENTED.

**Uemura:** I can say that I really want our card games to continue to be available so that the kids who have bought cards can keep on using them for years. In implementing our character strategy, what's most important is to continue on in a way that earns the trust of the market. This kind

\* Raising beetles as pets is a common Japanese children's hobby.

# front

## about SEGA SAMMY's Future

of market focus is what lies behind the continued popularity of our products.

**Asano:** That's bringing the market into the development process. Sammy has also done a good job of implementing that approach. Based on our development philosophy – *Sammy... the wellspring of new ideas* – we have worked to maintain an accurate grasp of market needs as we continually launch market-leading products. But sometimes, some of the new products that we propose are not accepted by the market. When that happens, we examine what needs to be improved and what elements should be used in the next versions. The approach of using failure as a platform for future success is the source of Sammy's strength.

**Uemura:** Since the management integration, SEGA's development and marketing departments have been taking steps to work together more closely, such as having weekly interdepartmental meetings. As a result, market-oriented thinking is spreading throughout the company. Entertainment helps people to dream and to "recharge their batteries," but, unlike food, clothing, and shelter, we can live without entertainment, so it is absolutely essential for entertainment companies to create products based on inspiration drawn directly from the market. In our business, we can't sell products that aren't inspired by market needs.

### THE MANAGEMENT INTEGRATION HAS OPENED UP BROAD NEW POSSIBILITIES.

**Asano:** Currently, we face a problem in the pachinko and pachislot market, where the number of players is declining. At Sammy, we are asking ourselves how we can bring back those casual players that have left the market, and how we can attract new players. To do that, we are advancing our market-oriented approach beyond the existing markets. Casual players want entertainment value and cutting-edge graphics, and as a result of the management integration we can take advantage of SEGA's strengths, such as technical development capabilities. That's a huge plus for Sammy.



## Yoshii Asano

The Man behind Sammy's Marketing Strategy

### PROFILE

Yoshii Asano  
Department Manager  
Marketing Planning Department  
Marketing Headquarters  
Sammy Corporation

Since joining Sammy in 1993, has worked in marketing for the company, which, along with development, is known as one of Sammy's strengths. Currently utilizing more than 10 years of marketing experience in the Marketing Planning Department, the pivotal department for Sammy's marketing strategy. In accordance with a market-oriented philosophy, is working on the formulation of marketing plans and the provision of wide-ranging sales promotion support, with the goal of making customers and employees happy.

## Multi-Channel Development at the SEGA SAMMY Group Children's Card Games

Our children's card games – *MUSHIKING The King of Beetles* and *LOVE AND BERRY Dress up and Dance!* – are a new form of entertainment that enables children and their parents to enjoy games together. Based on these games, we are drawing on the Group's comprehensive strengths to develop products for multiple channels, including goods, toys, and TV animation. This is an excellent example of how we can substantially increase content value.

*MUSHIKING The King of Beetles*  
Official Card Holder  
© SEGA



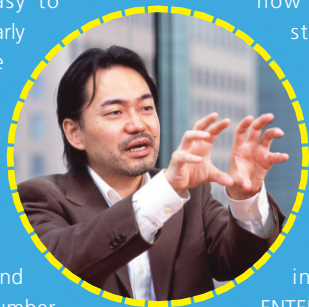
TV animation  
*MUSHIKING The Guardians of the Forest*  
© MUSHIKING Project

*MUSHIKING The King of Beetles*  
Remote Control Battle  
© SEGA

*MUSHIKING The King of Beetles*  
© SEGA

**Uemura:** The management integration has also improved morale at SEGA. Several months prior to the management integration, I had the opportunity to meet with our chairman, Hajime Satomi, and I was deeply impressed with his vision, how it is transparent, fair, and easy to understand. In particular, clearly pointing out the direction the Group needs to take was important. SEGA employees were highly motivated to start the “new SEGA” under the leadership of the chief executive.

**Asano:** It is easy to understand the vision of “becoming number one in the entertainment industry.” Our chairman, Hajime Satomi, has repeatedly said that we should become “a global company in games too.” I have always thought that, to grow further in the entertainment world, we can't limit ourselves to pachislot and pachinko machines. So that approach really made sense to me. In a single step, the



management integration with SEGA made that happen.

**Uemura:** Through the management integration, everyone at SEGA has become strongly aware of the Group as a whole. Throughout SEGA, we are thinking about

how to advance the character strategy. For example, we are thinking about how we extend the strong characters in *MUSHIKING The King of Beetles* and *LOVE AND BERRY Dress up and Dance!* through all of the Group's channels, including SEGA TOYS, TMS ENTERTAINMENT, and Sammy. By

doubling or tripling the value of a single piece of intellectual property, we can substantially boost the Group's sales. As a manufacturer too, this is something that is really worth doing.

**Asano:** Last year, Sammy celebrated its 30th anniversary with the *ALADDIN World Premiere*. The debut of our *ALADDIN II Evolution* pachislot machine is a good

example of our ability to conduct wide-ranging, multifaceted development. Based on the pachislot machine, we extend our development to a pachislot machine for amusement centers, simulation game software, toys, amusement center prizes, and content for mobile platforms. This is one example of how the Group can implement development in multiple channels.

**Uemura:** Live events like the *ALADDIN World Premiere* are enjoyed by a wide range of age groups. And they are an important part of the entertainment provided by the Group.

**Asano:** Since the management integration, we have started to think about what the Group as a whole can do with a single machine. For example, we are supplying pachinko halls with prizes based on *MUSHIKING The King of Beetles* and *LOVE AND BERRY Dress up and Dance!*. Through the provision of those goods, we are working to increase player numbers and, in the end, to provide support for pachinko hall marketing. Our goal is also to support results in total pachinko hall services, a new

## Multi-Channel Development at the SEGA SAMMY Group

### Pachinko and Pachislot Machines

The Group is using its pachinko and pachislot machines to develop products in multiple channels, including simulation game software, goods, pachislot and pachinko machines built for amusement centers, prizes for amusement centers, and content for mobile phones. In this way, we are targeting synergistic growth in all operations.

Sammy celebrated its 30th anniversary and the launch of the latest entry in its flagship *ALADDIN* series with the *ALADDIN World Premiere*. At this event, we showcased the comprehensive strengths that enable us to effectively implement wide-ranging, multi-channel development based on our pachinko and pachislot machines.



*ALADDIN World Premiere*

business. In comparison with the past, our options and ability to influence the market have been greatly expanded.

#### LINKING HOMES AND AMUSEMENT CENTERS, PARENTS AND CHILDREN. THIS IS AN IMPORTANT PART OF THE GROUP'S STRATEGY.

**Uemura:** Creating synergies from the customer's point of view means that, for example, when customers are enjoying a pachislot simulation game, they might decide to visit an actual pachinko hall on the weekend. Or when they are playing with a toy, they might think that it would be fun to go to an amusement center. Motivating customers in that way is a huge synergy. We're looking for more than just the revenue and profit from a single business. Our business can link entertainment in the home with fun outside, such as in amusement centers and pachinko halls. That's a very important part of the Group's strategy.

**Asano:** That's right. There was some concern that if we made pachislot

simulation software that could be enjoyed in the home, customers who enjoyed it would no longer go to pachinko halls. But actually, that hasn't happened. Customers are not satisfied with just the game. By playing the game, they improve their skills, and that makes them want to play in an actual pachinko hall.

**Uemura:** And with market-oriented development, what's important is the change of generations. If you just focus on your current customers, you end up getting stuck in a rut. Until a few years ago, that's where we were in amusement center operations. That's why we were so pleased when *MUSHIKING The King of Beetles* and *LOVE AND BERRY Dress up and Dance!* began to draw fathers and mothers to amusement centers to play with their kids. Children have memories of enjoying these games with their fathers and mothers. And then when they grow up, they'll bring their own kids to amusement



centers. I think we always need to consider the next generation in our business.

#### WHERE IS THE SEGA SAMMY GROUP HEADED?

**Asano:** It has been two years since the management integration of SEGA and Sammy. We are already seeing synergies in a lot of places, but I think there are still a lot of fields where we can cooperate even more.

**Uemura:** That's right. By concentrating the comprehensive strengths of SEGA and Sammy, and providing entertainment that can be enjoyed by everyone, adults and children alike, we will be able to create huge synergies.

**Asano:** I think everyone at the Group wants to extend our operations around the world and make steady progress toward the realization of our vision of becoming the number one entertainment company in the world.



# CSR

## Corporate Social Responsibility

The SEGA SAMMY Group considers the establishment of a better relationship with all of its stakeholders to be its duty as a corporate citizen as well as an important part of raising corporate value. Accordingly, the Group is committed to advancing its CSR activities.

### Enhancing CSR Promotion System as a "Good Corporate Citizen"

In April 2005, the Company formed the CSR Promotion Department, and the CSR Promotion Committee, for which the CSR Promotion Department acts as a secretariat, was established in June 2005. Moreover, the SEGA SAMMY Group CSR Charter provides guiding principles for the Group's business operations, while, under the leadership of senior management, a range of CSR initiatives ensure a strong awareness of CSR throughout the Group.



CSR posters displayed in domestic work sites (left)  
SEGA SAMMY Group CSR Handbook distributed to all employees (right)

### SEGA SAMMY GROUP CSR CHARTER

#### With Customers

We will bear in mind the current needs and interests of our customers in our effort to provide entertainment filled with dreams and excitement.

#### With Partners

We will maintain fair and impartial relationships with our suppliers and work together as partners in providing entertainment filled with dreams and excitement.

#### With Shareholders and Investors

We will view our business with a global perspective in our efforts to ensure sustained growth and to maximize corporate value. Further, we will enhance management transparency and meet the expectations of our shareholders and society through fair and timely disclosure and appropriate returns in profits.

#### With Employees

Our employees bring to us creativity and a spirit of challenge. They are our most cherished assets and the fuel to our growth. We will cultivate a corporate culture that allows them to fully exploit their talents and enables us to grow together with our employees.

#### With Society

As corporate citizens, we will contribute to society not only by prospering in business but also by proactively supporting both the development of cultural activities, including the arts and sport, and the preservation of the global environment.



## Initiatives – Providing Dreams and Excitement through Entertainment

Based on the idea of “providing dreams and excitement through original entertainment,” the SEGA SAMMY Group draws on its unique strengths to implement social contribution activities, such as support for sports and the arts. In this way, we aim to build a relationship of trust with society and to contribute to the “realization of a prosperous society” and to the “creation of culture.”

## Sports



The SEGA SAMMY Cup Golf Tournament

### SPONSORSHIP AND SUPPORT OF SPORTS

The unpredictable outcomes of sporting events give rise to considerable drama, which in turn provides dreams and excitement for spectators and players alike. As an entertainment group, the SEGA SAMMY Group considers sporting events to be an important method of communicating its management philosophy of “providing dreams and excitement to people throughout the world.” We sponsor various sporting activities not only through our business activities but also through the activities of our sports clubs, such as our baseball and track teams.



Boys' baseball course



Company baseball team

## Arts

### SPONSORSHIP AND SUPPORT OF THE ARTS

Art that has been passed down through history, works of art that reflect their periods, and theatrical arts that hold their audiences captive with detailed plots – the arts are truly “entertainment” and indispensable to the “realization of a prosperous society” and the “creation of culture.”



Scissorhands



TOKYO JAZZ 2006  
© TOKYO JAZZ 2006

## Society

### NATURAL DISASTER RELIEF ACTIVITIES

From the perspective of global society, the SEGA SAMMY Group undertakes a variety of relief and support activities not only in Japan but around the world. These activities include support for disabled people and social contribution activities through sporting events and other activities in addition to aid and donations in times of disaster.

# Topics

## SEGA TOYS BEGINS GLOBAL DEVELOPMENT OF NEW CHARACTER – BAKUGAN

One of the key overseas strategies of SEGA TOYS is the use of business alliances in the global development of its entertainment operations. In April 2006, as one facet of this approach, SEGA TOYS formed a joint production alliance with four other companies – Group member TMS ENTERTAINMENT as well as Japan Vistek, Spin Master Limited, and Corus Entertainment Inc. Under this alliance, the companies will jointly develop a new character, *BAKUGAN*, and related TV animation products and develop the business on a worldwide basis. This initiative, which will entail a simultaneous worldwide launch, is the first of its kind in the toy and animation industries.



BAKUGAN  
© SEGATOYS / SPIN MASTER

*BAKUGAN* is an entirely new type of action card game. In addition to cards, players will be able to compete against each other by using marble-like balls that instantly transform into collectible characters. In Japan, toy operations were started in July 2006, and the TV animation broadcasts are scheduled to start in April 2007. In North America, toy operations and TV animation broadcasts are scheduled to start in spring 2007.

## SAMMY LAUNCHES HOKUTO NO KEN SE

The *Hokuto No Ken* Sammy brand pachislot machine, which was launched in November 2003, has recorded outstanding sales of more than 620 thousand units, the highest level in the history of the pachislot machine industry. In July 2006, Sammy began sales of *Hokuto No Ken SE*, which builds on the *Hokuto No Ken* concept and offers enhanced game characteristics.

In the interim period under review, the successor to *Hokuto No Ken* was highly anticipated, and the approaching expiration of the approval for the previous generation of *Hokuto No Ken* machines resulted in replacement demand. As a result, *Hokuto No Ken SE*

recorded sales of about 320 thousand units in the interim period under review. We achieved the full year sales target – 300 thousand units – in just the interim period.

In the future, Sammy will continue working to cultivate a wide range of players by providing appealing pachinko and pachislot machines.



*Hokuto No Ken SE (Kenshiro Version)*  
© Buronson • Tetsuo Hara / NSP 1983  
Copyright license SAB-302, © Sammy

### SEGA ANNOUNCES THE RYU-GA-GOTOKU PROJECT

In August 2006, SEGA held an event to announce the *Ryu-Ga Gotoku* Project. At the event, the latest products in the series, the *Ryu-Ga-Gotoku 2* game software for the PS2 and the *Ryu-Ga-Gotoku* Theatrical Release, were announced.

*Ryu-Ga-Gotoku* (known as *YAKUZA* in Europe and the U.S.), which was announced in December 2005 and has garnered much praise, is set in the fictional Tokyo entertainment district of Kamurocho. It is a human drama that asks, "What does it mean to be a human being?"

Event at which the *Ryu-Ga-Gotoku* Project was announced



The *Ryu-Ga-Gotoku 2* game software is scheduled for launch in December 2006, and the movie, which was produced under the direction of Takashi Miike, is scheduled for a nationwide theatrical release next March.

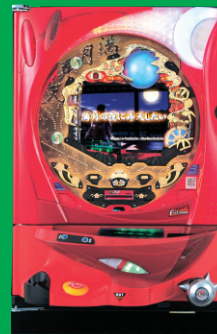
The *Ryu-Ga-Gotoku* Project will provide the best in entertainment for adults from SEGA.

### FULL-SCALE START TO GINZA BRAND THROUGH SAMMY'S CAPITAL AND BUSINESS TIE-UP WITH GINZA CO., LTD.

Sammy has expanded its share of the pachislot machine market and effectively implemented a multi-brand strategy, which covers its own Sammy brand products, RODEO brand products offered by its subsidiary RODEO, and the supply of units to partner companies. In October 2005, we entered a capital and business tie-up with GINZA Co., Ltd., in order to extend our successful multi-brand strategy from pachislot machines to pachinko machines. In June 2006, we released our first GINZA brand machine – *CR Mangetsu No Yoru Ni Shoten Shitai* – and we have aggressively launched

machines with entertainment value that draws on GINZA's strengths. Wielding a product lineup that has been substantially enhanced with the addition of the GINZA brand, Sammy has made great progress toward becoming a top-tier manufacturer in terms of pachinko machine market share.

*CR Mangetsu No Yoru Ni Shoten Shitai*  
© FeiFei e-frontier, inc. / Blue Moon Studio Inc. 2006 / © Sammy



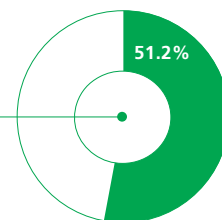
### SEGA BOLSTERS DEVELOPMENT CAPABILITIES IN NORTH AMERICA AND EUROPE THROUGH ACQUISITION OF OVERSEAS DEVELOPMENT STUDIOS

Home game consoles have made rapid inroads in Europe and North America, and these markets have become as important as the domestic market. SEGA considers these markets to be essential for business expansion and is taking steps to bolster its operational development capabilities through mergers and acquisitions. In April 2006, SEGA implemented that approach with the acquisition of two

companies. Sports Interactive Ltd. boasts strong results and established brands, such as the *FOOTBALL MANAGER* series, which is highly popular in Europe. Secret Level, Inc., has demonstrated advanced technical capabilities with its success in North America. As a result of these acquisitions, the SEGA SAMMY Group has expanded its product lineups in the European and North American markets and acquired advanced development technologies, which will help the Group to take advantage of significant growth opportunities in overseas markets.

# Overview of Operations

Contribution to Net Sales



## Pachislot and Pachinko Machine Business



*Hokuto No Ken SE (Shoten Version)*  
© Buronson • Tetsuo Hara / NSP 1983  
Copyright license SAB-302, © Sammy

In July 2004, regulations pertaining to the Entertainment Establishments Control Law were revised. In the pachinko and pachislot machine industry, manufacturers continue to maintain an active pace in the development of new-format machines.

While the total number of pachinko halls in Japan has been declining in recent years, there is a trend toward larger halls, and as a result the number of installed pachinko and pachislot machines has increased slightly. However, the acquisition of a wide range of players has become an important issue for the industry.

In the pachislot machine business, during the interim period the SEGA SAMMY Group introduced a number of models offering a range of game features and high entertainment value. These included *Hokuto No Ken SE*, a pachislot machine with entertainment features that exceed even those of its predecessor, the *Hokuto No Ken* model, which was a hit title two years ago. In this way, the Group reinforced its leading market share, with total pachislot machine sales of 360 thousand units.

In the pachinko machine business, we launched *CR Hokuto No Ken STV*, which enables players to more easily and frequently enjoy winnings, and *CR Freddy vs. Jason*, which is based on a popular horror film. In addition, we launched *CR Mangetsu No Yoru Ni Shoten Shitai*, the first product developed under the GINZA brand following the capital and business alliance between Sammy Corporation and GINZA Co., Ltd. As a result, the SEGA SAMMY Group sold 81 thousand pachinko machines.

Net sales in this segment rose 11.7% from the same period of the previous year, to ¥145,037 million. Operating income increased 37.4%, to ¥63,748 million.

### Unit Sales of Major Pachislot Machines

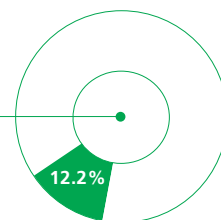
Title	Brand	Unit Sales (Thousands)
<i>Hokuto No Ken SE</i>	Sammy	321
<i>Ore No Sora</i>	RODEO	24
<i>Bomber Man Victory</i>	Sammy	10
Others		5
<b>Total</b>		<b>360</b>

### Unit Sales of Major Pachinko Machines

Title	Brand	Unit Sales (Thousands)
<i>CR Hokuto No Ken STV</i>	Sammy	22
<i>CR Freddy vs. Jason</i>	Sammy	19
<i>CR Mangetsu No Yoru Ni Shoten Shitai</i>	GINZA	12
Others		25
<b>Total</b>		<b>81</b>

# Overview of Operations

Contribution to Net Sales



## Amusement Machine Sales

In the amusement machine industry, sales of amusement machines that are clearly distinct from home game consoles – such as network-enabled game machines and large, so-called satellite game machines that utilize card systems – have grown rapidly. As a result, the market has followed a course of recovery for four consecutive years.

In the Amusement Machine Sales Business segment, the satellite machine *Sangokushi Taisen 2* was popular. Favorable sales were also recorded by *Amigyo*, a new type of medal game that everyone from couples to families can enjoy, and *Virtua Fighter 5*, which is provided under the ALL.Net P-ras business model.

Net sales in this segment were up 12.3%, to ¥34,616 million. Operating income rose 47.6%, to ¥6,658 million.



# Overview of Operations

Contribution to Net Sales

18.9%

## Amusement Center Operations



Tokyo Joypolis

In recent years, the amusement center operations market has seen a trend toward large-scale, multi-purpose amusement centers. On the other hand, amusement centers located within shopping centers that attract large numbers of customers are becoming community spaces for families. In particular, the popularity of children's card games is creating an entirely new market.

In the Amusement Center Operations segment, sales at existing amusement centers were about level with the previous year. Sales of highly profitable cards for children's card games, such as *LOVE AND BERRY Dress up and Dance!* and *MUSHIKING The King of Beetles*, were down slightly from the same period of the previous year.

During the interim period, we opened 10 new amusement centers in Japan and closed 9. As a result, the Group had a total of 463 amusement centers as of September 30, 2006.

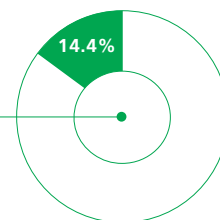
Net sales in this segment were up 10.3% from the same period of the previous fiscal year, to ¥53,571 million. Operating income decreased 31.9%, to ¥2,953 million.



LOVE AND BERRY Dress up and Dance!  
© SEGA

# Overview of Operations

Contribution to Net Sales



## Consumer Business

In the home videogame software and toy industries, large-scale restructuring continues to make progress against a background of changes in the operating environment, such as the trends in Japan toward an aging population and fewer children per family and the emergence of new game consoles. The home videogame software market is expected to expand due to the adoption of portable game machines and the launch of next-generation consoles. On the other hand, the advanced specifications of new game consoles will likely mean that software developers will face increased costs, such as higher R&D expenses. As a result, in the future the differences among software developers in such areas as development capabilities and financial resources will become even more pronounced.

In the domestic home videogame software market, strong sales were recorded by *JISSEN PACHISLOT HISSHOUHOU! Hokuto No Ken SE*, by *Kamaitachi No Yoru x 3 Mikazukijima Jiken No Shinso*, an entry in the *Kamaitachi No Yoru* series, which has reached cumulative sales of 1,700 thousand units, and by *PHANTASY STAR UNIVERSE*. Overseas, products recording favorable sales included *Super Monkey Ball Adventure* and *FOOTBALL MANAGER 2006*. As a result, the Company recorded home videogame software sales of 1,760 thousand units in Japan, 2,360 thousand units in the U.S., 1,590 thousand units in Europe, and 30 thousand units in other regions. Total home videogame software sales were 5,750 thousand units, an increase of 1,270 thousand units from the same period of the previous year. The SEGA SAMMY Group also performed well in toy sales, content production for mobile phones, and animation products.

The Consumer Business segment registered net sales of ¥40,711 million, a 42.4% gain from the same period of the previous year. However, due to R&D expenses incurred in the development of new titles for next-generation game consoles, an operating loss of ¥6,763 million was recorded.

### OTHERS

This segment covers planning, design, management, construction, and other services involving commercial and other facilities and the sales of commercial karaoke systems. Segment sales totaled ¥9,614 million, down 10.4%, and an operating loss of ¥414 million was recorded.



JISSEN PACHISLOT HISSHOUHOU!  
Hokuto No Ken SE series  
(PS2, PSP, Nintendo DS)  
© Buronson • Tetsuo Hara / NSP 1983  
Copyright license PS-606  
© Sammy Published by SEGA



PHANTASY STAR UNIVERSE  
(PS2, Win, Xbox 360)  
© SEGA



FOOTBALL MANAGER 2006  
(Xbox 360, PSP, Win, Mac)  
© Sports Interactive Limited 2005, 2006.

# CONSOLIDATED BALANCE SHEETS

¥ Million

Item	March 31, 2006	September 30, 2006
<b>Assets</b>		
<b>Current assets</b>	<b>331,331</b>	<b>343,146</b>
Cash and deposits	144,521	170,915
Notes and accounts receivable – trade	96,727	88,550
Marketable securities	19,497	9,795
Inventories	32,200	33,052
Others	39,878	41,839
Allowance for doubtful accounts – current	(1,493)	(1,008)
<b>Fixed assets</b>	<b>191,583</b>	<b>221,590</b>
<b>Tangible fixed assets</b>	<b>82,654</b>	<b>92,366</b>
Buildings and structures	31,032	31,537
Others	51,621	60,829
<b>Intangible fixed assets</b>	<b>16,712</b>	<b>25,602</b>
Goodwill	10,195	19,203
Others	6,517	6,398
<b>Investments and other assets</b>	<b>92,216</b>	<b>103,621</b>
Investment securities	59,918	68,622
Others	40,760	43,477
Allowance for doubtful accounts – non-current	(8,462)	(8,478)
<b>1 Total assets</b>	<b>522,914</b>	<b>564,736</b>

## 1 Total assets

At September 30, 2006, total assets were ¥564,736 million, an increase of ¥41,822 million from March 31, 2006. This rise was primarily attributable to increases in cash and deposits and fixed assets, including investment securities, and to the assets of newly consolidated subsidiaries.

The current ratio remained at a high level, 2.2 times at the end of the interim period.

Note: Amounts less than ¥1 million have been rounded down.

Item	March 31, 2006	September 30, 2006
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>137,353</b>	<b>155,932</b>
Notes and accounts payable – trade	62,133	65,907
Short-term bank loans and current portion of long-term debt	8,395	7,277
Income taxes payable	29,221	29,988
Accrued employees' bonuses	1,871	2,173
Accrued directors' and corporate auditors' bonuses	—	405
Others	35,731	50,179
<b>Non-current liabilities</b>	<b>49,569</b>	<b>45,566</b>
Bonds payable	23,620	22,620
Corporate bond with stock acquisition rights	1	—
Long-term debt, less current portion	5,596	2,934
Severance and retirement allowance	7,490	8,036
Retirement benefits for directors and corporate auditors	1,276	1,203
Others	11,584	10,771
<b>Total liabilities</b>	<b>186,923</b>	<b>201,498</b>
<b>Net assets</b>		
Common stock	29,953	29,953
Capital surplus	171,071	171,094
Retained earnings	193,721	223,272
Treasury stock	(73,549)	(73,619)
<b>Total shareholders' equity</b>	<b>321,196</b>	<b>350,700</b>
Unrealized gains on available-for-sale securities, net of taxes	11,756	8,493
Unrealized losses on hedging derivatives, net of taxes	—	(36)
Land revaluation difference, net of taxes	(7,506)	(7,505)
Foreign currency translation adjustments	(8,767)	(8,306)
<b>Total accumulated losses from revaluation and translation</b>	<b>(4,516)</b>	<b>(7,354)</b>
Stock purchase rights	—	93
Minority interests	19,311	19,798
<b>2 Total net assets</b>	<b>335,991</b>	<b>363,238</b>
<b>Total liabilities and net assets</b>	<b>522,914</b>	<b>564,736</b>

## 2 Net assets

Net assets were ¥363,238 million, ¥27,246 million higher than at the previous fiscal year-end (after conversion of the shareholders' equity section of the March 31, 2006 balance into the net asset format for comparison purposes). This increase reflected net income of ¥37,997 million (minus ¥7,559 million in dividend payments).

As a result, the equity capital ratio to total assets was 60.8% at September 30, 2006, an increase of 0.2 points from March 31, 2006.



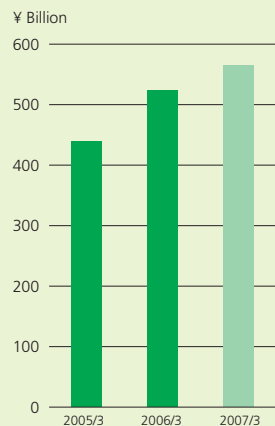
# CONSOLIDATED STATEMENTS OF INCOME

¥ Million

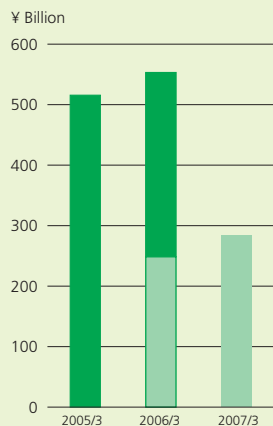
Item	April 1, 2005–September 30, 2005	April 1, 2006–September 30, 2006
Net sales	248,563	283,551
Cost of sales	149,848	158,922
Gross profit	98,714	124,628
Selling, general and administrative expenses	48,820	61,696
Operating income	49,894	62,931
Non-operating income	1,313	4,364
Non-operating expenses	1,803	1,266
Ordinary income	49,404	66,029
Extraordinary income	1,679	760
Extraordinary expenses	1,436	1,177
Income before income taxes and minority interests	49,647	65,612
Income taxes – current	27,115	28,746
Income taxes – deferred	(3,019)	(1,906)
Minority interests	595	774
Net income	24,954	37,997

Note: Amounts less than ¥1 million have been rounded down.

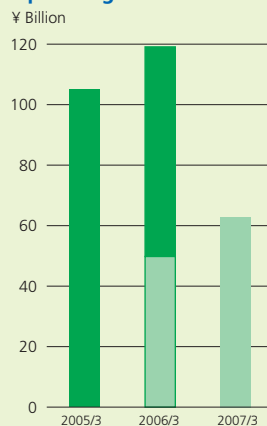
## Total Assets



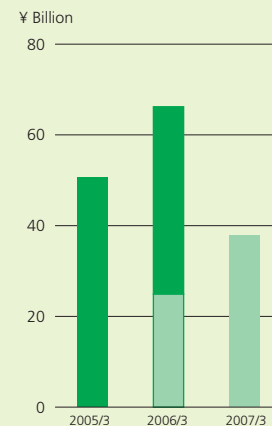
## Net Sales



## Operating Income



## Net Income



■ Full year ■ Interim period

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND NET ASSETS

¥ Million

April 1, 2006–September 30, 2006

	Shareholders' equity					Accumulated gains (losses) from valuation and translation adjustments	
	Common Stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes
Balances as of March 31, 2006	29,953	171,071	193,721	(73,549)	321,196	11,756	—
Changes in the term							
Dividends paid			(7,559)		(7,559)		
Bonuses to directors and corporate auditors			(645)		(645)		
Net income			37,997		37,997		
Purchase of treasury stock				(61)	(61)		
Sale of treasury stock		22		(8)	14		
Consolidation scope change			(241)		(241)		
Changes in items except shareholders' equity (net amount)						(3,263)	(36)
Total changes in the term	—	22	29,551	(70)	29,503	(3,263)	(36)
Balances as of September 30, 2006	29,953	171,094	223,272	(73,619)	350,700	8,493	(36)

	Accumulated gains (losses) from valuation and translation adjustments			Stock purchase rights	Minority interests	Total net assets
	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Total accumulated losses from revaluation and translation			
Balances as of March 31, 2006	(7,506)	(8,767)	(4,516)	—	19,311	335,991
Changes in the term						
Dividends paid						(7,559)
Bonuses to directors and corporate auditors						(645)
Net income						37,997
Purchase of treasury stock						(61)
Sale of treasury stock						14
Consolidation scope change						(241)
Changes in items except shareholders' equity (net amount)	0	461	(2,837)	93	486	(2,257)
Total changes in the term	0	461	(2,837)	93	486	27,246
Balances as of September 30, 2006	(7,505)	(8,306)	(7,354)	93	19,798	363,238

Note: Amounts less than ¥1 million have been rounded down.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

¥ Million

Item	April 1, 2005–September 30, 2005	April 1, 2006–September 30, 2006
③ Net cash provided by operating activities	22,117	57,691
④ Net cash used in investing activities	(26,780)	(27,793)
⑤ Net cash used in financing activities	(9,778)	(12,757)
Effect of exchange rate changes on cash and cash equivalents	273	201
Net increase (decrease) in cash and cash equivalents	(14,167)	17,341
Cash and cash equivalents at beginning of period	151,253	160,094
Net increase in cash and cash equivalents due to consolidation scope change	462	504
Net increase in cash and cash equivalents due to merger	323	—
Cash and cash equivalents at end of the period	137,871	177,940

## ③ Cash flows from operating activities

During the interim period, net cash provided by operating activities was ¥57,691 million, an increase of ¥35,573 million from the same period of the previous fiscal year. The main reasons for this increase were a rise in income before income taxes and minority interests of ¥15,965 million and an income tax refund of ¥15,671 million.

## ④ Cash flows from investing activities

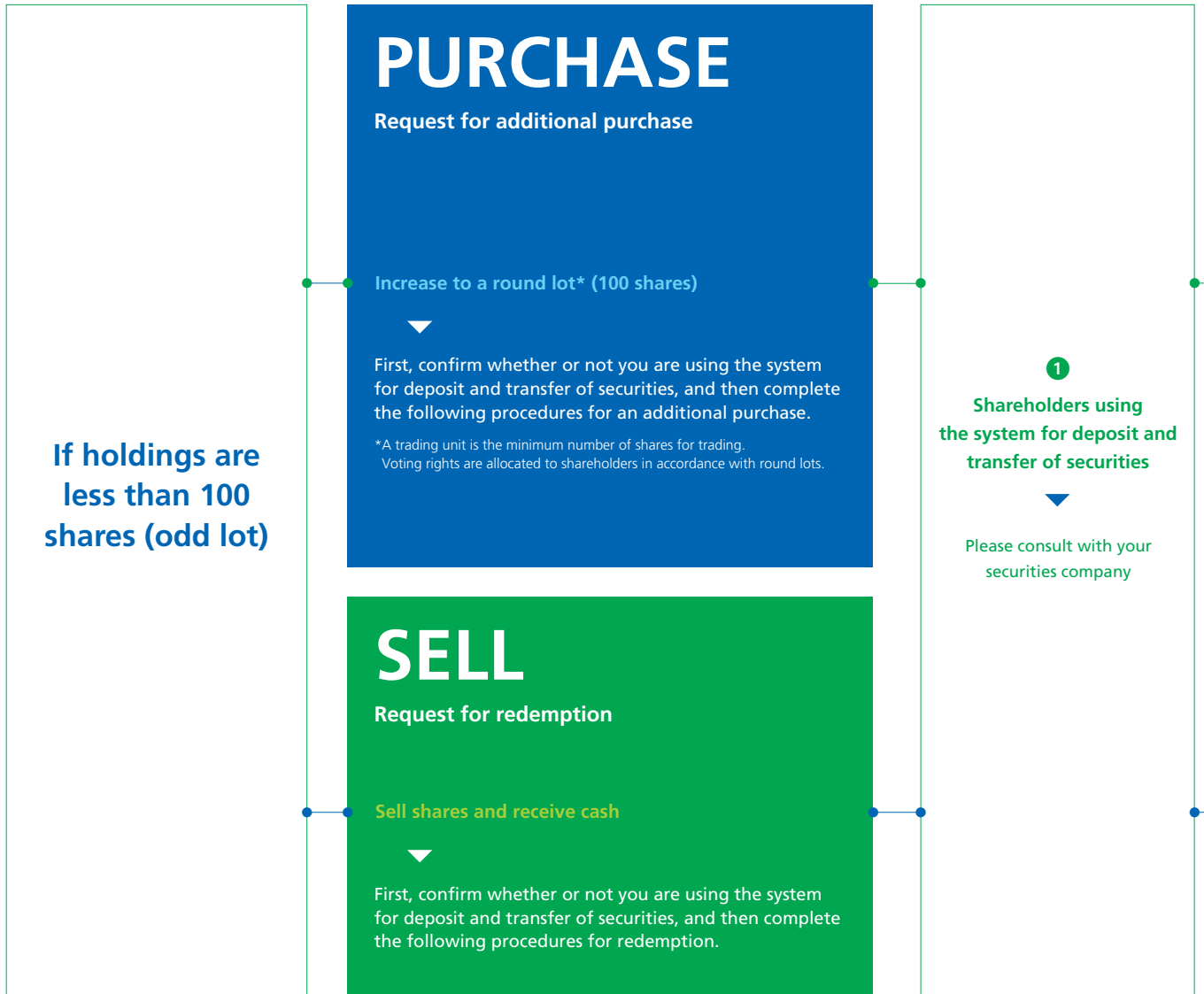
Net cash used in investing activities was ¥27,793 million, an increase of ¥1,012 million from the same period of the previous fiscal year. The major factors were an increase of ¥7,746 million in payment for purchase of investment securities and ¥6,029 million in payment for acquisition of shares of newly consolidated subsidiaries, which were partially offset by an increase of ¥15,087 million in proceeds from distribution of investment in partnerships.

## ⑤ Cash flows from financing activities

Net cash used in financing activities was ¥12,757 million. Dividend payments were ¥7,538 million and the repayment of long-term borrowings totaled ¥2,741 million.

Note: Amounts less than ¥1 million have been rounded down.

# PROCEDURES FOR TRANSACTIONS IN ODD LOTS OF STOCK



## 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 odd-lot stock."

Procedures to be completed at a counter or by mail

After filling in the required information on the "request for additional purchase of odd-lot stock," present the form at the counter or by mail and pay the "estimated amount."

Payment settlement and share transfer

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 should be paid. The difference between the estimated amount and the actual cost of the additional purchase will be settled later.

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.

## 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 odd-lot stock."

Procedures to be completed at a counter or by mail

After filling in the required information on the "request for redemption of odd-lot stock," present the form at the counter 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 odd-lot stock."

### Requests for forms

Requests for stock-related forms (change of address, seal, name, etc.; instructions for payment of dividends; request for additional purchase and redemption of odd-lot stock; transfer, etc.) 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.

# CORPORATE DATA

As of September 30, 2006

## Company Name

SEGA SAMMY HOLDINGS INC.

## Head Office

Shiodome Sumitomo Building,  
1-9-2 Higashi Shimbashi, Minato-ku,  
Tokyo 105-0021, Japan

## URL

<http://www.segasammy.com>

## Date of Establishment

October 1, 2004

## Capital

¥29,953 million

## Common Stock

Authorized: 800,000,000 shares  
Issued: 283,229,476 shares

## Number of Employees

117

## Business Activities

Performs group management  
and related activities as the  
holding company for companies  
forming a comprehensive  
entertainment group.

## Directors and Corporate Auditors

### Chairman and CEO

Hajime Satomi

*Chairman and CEO, SEGA Corporation,  
and Chairman and CEO, Sammy Corporation*

### Vice Chairman and Director

Hisao Oguchi

*President and COO, SEGA Corporation*

### Executive Vice President and Director

Keishi Nakayama

*Director, Sammy Corporation*

### Senior Managing Director

Tadashi Ishida

*Director, Sammy Corporation*

### Directors

Toru Katamoto

*President and COO, Sammy Corporation*

Hideki Okamura

*Managing Director, SEGA Corporation*

Yasuo Tazoe

*Director, SEGA Corporation*

### Standing Corporate Auditor

Kazutada Ieda

### Corporate Auditors

Akio Kioi

*Corporate Auditor, Sammy Corporation*

Ryoichi Arai

*Standing Corporate Auditor,  
SEGA Corporation*

Toshio Hirakawa

*Standing Corporate Auditor,  
Sammy Corporation*

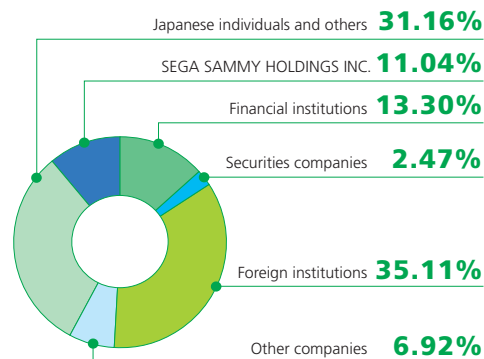
# SHAREHOLDER INFORMATION

As of September 30, 2006

## Number of Shareholders

96,650

## Composition of Shareholders



## Principal Shareholders

Name	Number of Shares Held	(%)
Hajime Satomi	43,569,338	15.38%
SEGA SAMMY HOLDINGS INC.	31,265,871	11.04%
The Chase Manhattan Bank, N.A. London	20,548,836	7.26%
FSC Co., Ltd.	14,172,840	5.00%
State Street Bank and Trust Company	11,041,165	3.90%
Japan Trustee Services Bank, Ltd. (Trustee)	9,526,900	3.36%
The Master Trust Bank of Japan, Ltd. (Trustee)	8,665,200	3.06%
State Street Bank and Trust Company 505103	5,803,812	2.05%
The Chase Manhattan N.A. London S.L. Omnibus Account	3,802,247	1.34%
Mellon Bank N.A., as Agent for Its Client Mellon Omnibus U.S. Pension	3,205,298	1.13%

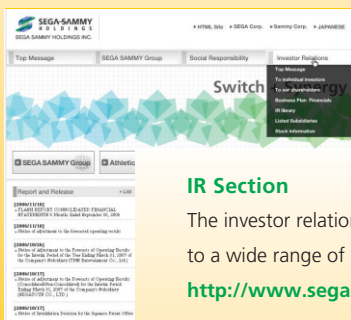
## Group Web Site

The SEGA SAMMY HOLDINGS Group web site includes the latest information about the Group. The IR section of the site provides information that will help shareholders and investors to better understand the Group, such as SEGA SAMMY at a Glance, which provides a brief introduction to the Group, and the VIRTUAL Factory Tour, which is a guide to the Kawagoe Factory, Sammy's largest production site. In the future, we will continue to incorporate feedback and further enhance the web site.

### Corporate Section

This section contains corporate information for SEGA SAMMY HOLDINGS. It has links to the web sites of Group companies, making it simple to peruse a variety of information related to Group companies.

<http://www.segasammy.co.jp/english>



### IR Section

The investor relations link on the Group web site leads to a wide range of IR-related information.

<http://www.segasammy.co.jp/english/ir>



### IR Information Center

We have established an IR information center to ensure that we can reflect the opinions of shareholders in our management and marketing policies. 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)

# FunBiz

## SHARE INFORMATION

### Stock Code

6460

### Round Lot

100 shares

### Fiscal Year-End

March 31

### Ordinary General Meeting of Shareholders

June

### Dates of Record

Year-end dividends: March 31

Interim dividends: September 30

### 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*.

### Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation  
1-4-5, Marunouchi, Chiyoda-ku,  
Tokyo 100-8212, Japan

### Administrative Office of Transfer Agent

Securities Agent Department,  
Mitsubishi UFJ Trust and Banking Corporation  
7-10-11, Higashisuna, Koto-ku,  
Tokyo 137-8081, Japan  
Telephone: +81-3-5683-5111

### Agency

Mitsubishi UFJ Trust and Banking Corporation  
branches in Japan

### American Depositary Receipts

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

Keep an eye on the  
three characters on the cover  
and on Sammy



© Sammy



**SEGA-SAMMY**  
H O L D I N G S

## SEGA SAMMY HOLDINGS INC.

Shiodome Sumitomo Building,  
1-9-2 Higashi Shimbashi, Minato-ku,  
Tokyo 105-0021, Japan