Summary of FY 2010 Interim Results Briefing

November 4, 2009
SEGA SAMMY HOLDINGS INC.

■Highlights

Consolidated net sales was down 23.0% year-on-year to 154.3 billion yen, and regarding operating income and loss, the Company posted an operating loss of 300 million yen, compared to an operating loss of 7.5 billion yen in the previous fiscal year.

Looking at segments, pachislot and pachinko unit sales each increased year-on-year and sales prices rose, leading to increased sales and a return to profitability.

In the amusement machine segment, sales decreased compared to the previous fiscal year, which had sales of a mainstay title, and the Company posted an operating loss.

In the amusement facilities segment, SEGA domestic same-store sales remained at lower levels year-on-year. However, profitability improved by reducing operating expenses and other factors.

As for the consumer segment, sales decreased and operating loss expanded due to decrease in unit sales from the previous year, which had sales of mainstay titles, as mainstay titles will be introduced mainly in the second half.

■Consolidated Income Statement

FY 2010 Interim results are as follows

Sales : ¥154.3 billion (down 23.0% year-on-year)
Operating Loss : ¥300 million (operating loss of ¥7.5 billion a year earlier)
Ordinary Loss : ¥700 billion (operating loss of ¥8.4 billion a year earlier)
Net Loss: ¥6.3 billion (net loss of ¥9.5 billion a year earlier)

Compared to initial plan, net sales were below the Company's expectation as pachinko had missed the sales forecast. However, profits were above initial plan, due in part to several initiatives in pachinko pachislot business segment, leading to adjustment to the forecast for the first half operating results for this fiscal year.
Actual results through the second quarter exceeded initial forecasts, but the Company is not making adjustments to its full-year operating results forecasts as it is necessary to discern sales activities of mainstay products planned for the third quarter and later.

■Cost and Expenses

Cap-ex and depreciation decreased significantly year-on-year due to a decrease in the number of amusement facilities.

In accordance with the change in accounting policy regarding R&D costs and content production expenses, 22.9 billion yen were posted as expense and 2.0 billion were capitalized. As a result, R&D costs and content production expenses was 24.9 billion yen and decreased year-on-year by 5.5 billion yen, mainly due to reductions in the amusement machine segment and consumer segment, as well as cost deferrals in consumer segment with postponement of introductions of some titles.

Advertising costs decreased year-on-year, mainly due to decrease in consumer business.

■Consolidated Balance Sheet

Notes and accounts receivable decreased 21.2 billion yen.
Notes and accounts payable decreased 12.9 billion yen respectively.
Securities increased 18.0 billion yen. Cash and deposit decreased 9.7 billion yen.

In accordance with the change in accounting policy regarding R&D costs and content production expenses for the amusement machine segment and consumer segment, inventories of roughly 2.0 billion yen have been recorded.

The equity ratio remains at a healthy level, standing at 52.4% at the end of the second quarter.

■Pachislot Pachinko results

Sales : ¥68.3 billion (up 4.8% year-on-year)
Operating Income : ¥10.8 billion (operating loss of ¥1.0 billion a year earlier)

Now, I will explain the actual results in the pachislot and pachinko segment.

Net sales increased by 4.8% year-on-year to 68.3 billion yen, and in terms of operating income and loss, the Company posted operating income of 10.8 billion yen, compared to an operating loss of one billion yen in the previous fiscal year.

The gross margin ratio improved as both pachinko and pachislot unit prices increased and the ratio of pachinko board sales increased.

The gross margin ratio improved significantly compared with the initial forecast as well, as a part of pachinko and pachislot unit prices increased, the ratio of board sales increased, and pachislot unit sales, which has a high gross margin ratio, exceeded initial expectations. Operating expenses decreased, centering on R&D costs and sales commissions.

By title, sales of Sammy's brand "Pachislot Psalms of Planets Eureka Seven," which was this term's mainstay title with innovative game features, performed strongly in the pachislot segment. As a result, first half unit sales was roughly 31,000 units, and aggregated order receipts as of the end of October were roughly 44,000 units. Sales of Sammy's brand "Urusei Yatsura 2" also fared well. As a result, pachislot unit sales units came to 57,000 units, an increase of 2,000 units year-on-year.

In the pachinko segment, as a result of selling Sammy's brand "CR GAMERA THE BATTLE PACHINKO" and "Pachinko CR Kyutei Nyokan Chamgum no Chikai," pachinko unit sales came to 167,000 units, an increase of 12,000 units year-on-year. The ratio of pachinko board sales rose to 65.1% from 10.8% in the same period the previous fiscal year.

■Amusement Machine results

Sales : ¥17.9 billion (down 48.0% year-on-year)

Operating Loss : ¥700 million (operating loss of ¥4.6 billion a year earlier)

Net sales decreased by 48.0% year-on-year to 17.9 billion yen, and in terms of operating income and loss, the Company posted an operating loss of 700 million yen, compared to operating income of 4.6 billion yen in the previous fiscal year. In accordance with the change in accounting policy regarding R&D costs and content production expenses, operating expense decreased 500 million yen. Segment operating income increased by the amount exactly.

Although sales decreased compared with the previous fiscal year, which had mainstay titles, and an operating loss was recorded, sales increased and the operating loss contracted compared with the initial forecasts, thanks to strong sales and utilization of titles with high profitability, including "BORDER BREAK," which is this fiscal year's mainstay title.

"BORDER BREAK" is being sold under the revenue sharing model, which is designed to improve the investment efficiency of amusement facility operators and to secure stable long-term revenue for the Company. We also realized cost reduction by introducing a common reusable chassis and a new circuit board.

With regard to R&D costs and content production expenses, 4.3 billion yen were posted as expense and 500 million yen were capitalized. As a result, segment R&D costs and content production expenses was 4.8 billion yen, a decrease of 900 million yen year-on-year.

■Amusement Facilities results

Sales : ¥28.9 billion (down 22.1% year-on-year)

Operating Income : ¥200 million (operating loss of ¥2.8 billion a year earlier)

Net sales decreased by 22.1% year-on-year to 28.9 billion yen due to a decrease in amusement facilities, but profitability improved, partly due to a decrease in cap-ex and depreciation and the impact of a reduction in selling, general and administrative expenses. The Company posted operating income of 200 million yen, compared with an operating loss of 2.8 billion yen in the previous fiscal year.

As for year-on-year comparisons of SEGA same-store sales, the actual figure at the end of the second quarter was 92.3%, which is still lower than the actual results of the previous fiscal year.

Given the tough management environment, we have been proceeding since the previous fiscal year to close or sell domestic facilities with low profitability and future potential. The number of facilities closed in the fiscal first half through the second quarter is 46, and the number of facilities as of the end of the second quarter is 277.

There have been changes in the closure schedule and continuation of operations at some facilities that we had decided to close or sell in the previous fiscal year due to improvements in economic conditions such as rent.
Also, in accordance with the changes in number of facilities closed, the Company posted an extraordinary gain of 590 million yen for the six-month period through the second quarter, including a reversal of recovery costs.

■Consumer Business results

Sales : ¥37.6 billion (down 39.3% year-on-year)

Operating Loss : ¥8.1 billion (operating loss of ¥5.9 billion a year earlier)

Net sales decreased by 39.3% year-on-year to 37.6 billion yen, and as for operating income and loss, the Company posted an operating loss of 8.1 billion yen compared to operating loss of 5.9 billion yen in the previous fiscal year, which had sales of mainstay titles. In accordance with the change in accounting policy regarding R&D costs and content production expenses, operating expense decreased 1.5 billion yen. Segment operating income increased by

the amount exactly.
Compared with initial forecasts, net sales was lower but operating loss contracted. This is partly due to the impact of content production expenses, which were expected to be deferred to the second half and later in accordance with postponement of introduction of some titles.

In the home video game software business, new title sales were generally strong, including “Virtua Tennis 2009” for the overseas market and “Puyo Puyo 7” and “HATSUNE MIKU -Project DIVA-” for the domestic market, but catalogue title sales were weak in the overseas market. As a result, game software unit sales came to 5.4 million units.
With regard to R&D costs and content production expenses, 11.2 billion yen was posted as expense and 1.5 billion yen was capitalized. As a result, segment R&D costs and content production expenses was 12.7 billion yen, a decrease of 4.0 billion yen year-on-year.

■Consolidated Income Statement (Plan)

The forecast for the year ending March 2010 remains the same as the initial forecast, with net sales projected at ¥420.0 billion, operating income at ¥27.0 billion, ordinary income at ¥26.0 billion, and net income at ¥15.0 billion.

■Cost and Expenses plan

The various costs and expenses are forecast as shown. There are no changes from the initial forecasts.

R&D expense / Content Production expense	¥51.2 billion
Cap-ex	¥16.9 billion
Depreciation	¥18.2 billion
Advertising	¥22.5 billion

As for cap-ex and depreciation, we expect them to decrease significantly year-on-year in the second half as well, due to a decrease in the number of amusement facilities.

R&D costs and content production expenses are expected to decrease year-on-year, even when comparing figures including capitalized amounts, mainly due to reductions in the amusement machine segment and consumer segment.

■Pachislot Pachinko plan

In the pachislot business, we plan to introduce multiple mainstay titles with innovative game features, such as "Pachislot Psalms of Planets Eureka Seven" introduced in the second quarter.

One of the mainstay titles to be launched in the second half is Sammy's brand "Pachislot Ashita no Joe." As for this title, we will collaborate with KYORAKU Industrial Co., Ltd. on a project designed to revitalize the industry, such as by jointly implementing effective promotions.

In the pachinko business, sales of Sammy's brand "Pachinko CR Sengoku Ranbu Aoki Dokugan," which started shipping in mid-October, is faring well, with aggregate order receipt units totaling about 53,000 units as of the end of October. In addition, in December we plan to start shipping Sammy's brand "Pachinko CR Soten no Ken," this fiscal year's mainstay title.

Since Sammy sold a series total of roughly 260,000 units of "Pachinko CR Hokuto no Ken," which is the first title under the new development structure, market penetration of the Company's pachinko body frame, which is subject to board swaps, has progressed. Following this, the Company has been succeeding in supplying hit titles on a consistent basis under this structure. Therefore, we expect continued increases in the ratio of pachinko board sales, which has a high gross margin ratio, in the second half as well, and we will continue to review our pricing strategy.

We will also strive to reduce parts procurement costs centered on liquid crystal display in the second half and later.

■Amusement Machine plan

In the third quarter, we plan to ship "Shining Force CROSS" under the revenue sharing model, one of the mainstay titles of this fiscal year, as well as "BORDER BREAK" in continuation from the first half and expect revenue from these operations.

We also plan to sell CVT kits for mainstay titles such as "WORLD Club Champion Football Intercontinental Clubs 2006-2007" and "Star Horse2."

In this segment, we plan to continue reducing R&D costs and content production expenses in the second half. Even when comparing figures including capitalized amount, we expect a decrease of 2.0 billion yen year-on-year.

■Amusement Facilities plan

SEGA same-store sales are estimated at 93.6% compared with the previous fiscal year.

For the second half, we expect improved sales at facilities in line with the penetration and expansion of mainstay titles such as “BORDER BREAK”, which has high utilization, as well as implementation of measures for improvement in operation in terms of medal game, prize game and other products.

The Company will continue to facilitate closure or sales of facilities with low profitability and future potential as planned.

In a move to revitalize the kids’ market cultivated through “The King of Beetles "MUSHIKING" and “LOVE AND BERRY Dress Up and Dance!,” we will introduce a total of nine titles of kids’ games within this fiscal year, including the titles introduced in the first half, as we collaborate with other industries. However, since these are rental-type businesses, they are expected to contribute to profit in the next fiscal year and later.

■Consumer Business plan

For the second half, we plan to launch multiple mainstay titles. In the third quarter, we launched “Mario and Sonic at the Olympic Winter Games ™” as a title for the overseas market, and “BAYONETTA” as a global title for Japanese market first.

In addition, we are scheduled to launch “Phantasy Star Portable 2” in the domestic market on December 3.

In this segment, we plan to continue reducing R&D costs and content production expenses in the second half. Even when comparing figures including capitalized amount, we expect a decrease of 3.6 billion yen from the previous term.

■New Endeavors of the Sega Sammy Group

Lastly, I will explain the Group’s new endeavors.

I will begin with the development of the CG animation business. On June 1, 2009, the Company established “SEGASAMMY VISUAL ENTERTAINMENT INC.” The Company, which boasts a large number of exceptional CG engineers with sophisticated technologies and a wealth of experience including engineer who had plenty of experiences and achievements in Hollywood, has already established the highest level of production function capability available in Japan. Furthermore, the Company has developed its own asset management tools and information sharing tools, which are designed to first clarify video quality and costs for a production and then to implement production on schedule. Thus, the Company's strengths lie not only in its quality techniques, but also in how it combines these techniques with development management technology. "SEGASAMMY VISUAL ENTERTAINMENT INC." is only a company in Japan which established complete division of labor in production system, which is essential for large scale CG animation development and generally accepted in Hollywood production studios. Its management strategy is to engage in video development commissioned by Group companies as well as external companies in order to accumulate experience to eventually produce feature-length CG films. In the future, the Company envisages the production of original CG animation films for the global market. The Group aims to ultimately develop a globally competent character business through the creation of group synergies, the effective utilization of powerful IP and the technological prowess cultivated through existing businesses, as well as by applying the IP newly cultivated through CG animation to existing businesses.

Next, regarding the establishment of Bakugan LLP.

SEGATOYS, TMS ENTERTAINMENT, SEGA, SAMMY and Sammy NetWorks of the Sega Sammy Group established, through joint investment, Bakugan LLP, which will serve as the domestic operating body for "BAKUGAN." "BAKUGAN" has been marketed in roughly 80 countries around the world to date, including Asia, North America, Europe and the Middle East, and won the "2009 Toy of the Year" award in the American toy industry in February 2009.

Bakugan LLP will comprehensively produce the domestic BAKUGAN business and will strive to maximize the IP value of "BAKUGAN".