Summary of Results through 3Q of FY 2010

February 8, 2010
SEGA SAMMY HOLDINGS INC.

■Highlights

Consolidated net sales was down 7.7% year-on-year to 285.3 billion yen, and regarding operating income and loss, the Company posted an operating income of 28.8 billion yen, compared to an operating loss of 2.7 billion yen over the same period in the previous fiscal year.

Looking at segments, as for the Pachislot Pachinko segment, while pachislot unit sales decreased year-on-year, pachinko unit sales increased and sales and profits both rose due to such factors as review of unit prices of both pachinko and pachislot machines, a rise in the pachinko board sales ratio, and a reduction in parts procurement costs.

In the Amusement Machine segment, sales and profits decreased compared to the previous fiscal year, which had sales of a mainstay title.

In the Amusement Facilities segment, although SEGA domestic same-store sales remained at lower levels year-on-year, initiatives such as a review of the store portfolio and a reduction of operating expenses were conducted in an aim to improve profitability.

As for the Consumer segment, although domestic sales was generally strong, as a result of sluggish overseas sales and the postponement of the launch of a part of title to the next period, both unit sales and revenue from sales decreased year-on-year. Regarding profits, they improved as a result of efforts to streamline development by narrowing down domestic titles.

■Consolidated Income Statement

Results through 3Q of fiscal year 2010 are as follows.

Net Sales : ¥285.3 billion (decreased by 7.7% year-on-year)
Operating Income : ¥28.8 billion yen (operating loss of ¥2.7 billion a year earlier)
Ordinary Income : ¥27.6 billion (ordinary loss of ¥5.0 billion a year earlier)

While we recorded an extraordinary gain of 2.3 billion yen from such events as a reversal of recovery costs of amusement facilities, we recorded extraordinary losses of 7.4 billion yen, including impairment loss associated with Sammy EBISU Plaza and loss on liquidation of subsidiary at Sammy NetWorks and SEGA TOYS. As a result, net income for the quarter came to 16.9 billion yen, compared to a net loss of 10.8 billion yen for the same quarter in the previous year. In a year-on-year comparison, notwithstanding the decrease in sales, operating income, ordinary income and net income all turned into gains.

Furthermore, in accordance with the change in accounting policy, operating expenses decreased by 4.7 billion yen, and income increased by the same amount at each income level.
Actual results through the third quarter were firm, 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 forth quarter and later.

■Costs and Expenses

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

In accordance with the accounting policy change, the total amount of R&D costs and content production expenses was 37.4 billion yen, of which 32.7 billion yen was expensed and 4.7 was capitalized. This represents a year-on-year decrease of 6.0 billion yen, which was primarily the result of reductions in the Amusement Machine segment and Consumer segment, as well as the postponement of launch of a part of title in the Consumer segment and deferred expenses.

In addition, advertising costs decreased year-on-year due to cutbacks, mainly in the Consumer segment.

■Consolidated Balance Sheet

Securities increased by 29.8 billion yen due to such factors as the purchase of negotiable securities of deposit, fixed assets decreased by 7.0 billion yen due to such factors as a decrease in tangible fixed assets as well as a decrease in lease and guarantee deposits.

As a result, total assets at the end of the third quarter consolidated accounting period came to 439.1 billion yen, up 15.1 billion yen from the end of the previous consolidated accounting year.

Furthermore, in accordance with the change in accounting policy, content production expenses of approximately 4.7 billion yen in the Amusement Machine segment and Consumer segment have been recorded as assets.

The equity ratio remained at a healthy level, standing at 52.6%.

Let me begin an explanation of results by segment next.

■Pachislot Pachinko

Net Sales : ¥125.6 billion (increased by 18.3% year-on-year)
Operating Income：¥26.9 billion (increased by 417.3% year-on-year)

Net sales increased by 18.3% year-on-year to 125.6 billion yen, and operating income increased by 417.3% year-on-year to 26.9 billion yen.

Both pachinko and pachislot unit prices were reviewed. In addition, the gross margin ratio improved due to factors such as an increase in the ratio of pachinko board sales and a reduction in parts procurement costs, primarily liquid crystal displays. Furthermore, including effects from reuse, the Company succeeded in reducing costs of approximately 2.4 billion yen by the third quarter compared to initial plan.

In pachislot machines, there was continued strong sales of Sammy's brand "Pachislot Psalms of Planets Eureka SeveN," which was introduced in the second quarter, and aggregate order receipts of the concerned titles as of the end of January were about 55,000 units. Moreover, due to no new launches of mainstay titles in the third quarter, unit sales of pachislot machines decreased year-on-year by about 30,000 units to 79,000 units.

In pachinko machines, as a result of strong sales of this period's mainstay titles for Sammy's brand, including "Pachiko CR Soten no Ken" and "Pachinko CR Sengoku Ranbu Aoki Dokugan," pachinko unit sales totaled about 329,000 units, a year-on-year increase of roughly 92,000 units.
Furthermore, the board sales ratio rose year-on-year, from 11.5% to 69.0%.

In pachislot machines in the fourth quarter, the Company will launch Sammy's brand "Pachislot TOMORROW's Joe," developed through the collaboration with KYORAKU Industrial Co., Ltd. , and aggregate order receipts as of the end of January were about 37,000 units. In addition, the Company plans to launch multiple titles, including RODEO's brand "Shin Onimusya."
In pachinko machines, the Company plans to launch such titles as Sammy's brand "Pachinko CR Sakura Taisen2" and TAIYO ELEC's brand "CR Hikaru Genji."

■Amusement Machines

Net Sales : ¥33.1 billion (decreased by 33.7% year-on-year)
Operating Income：¥4.7 billion (decreased by 24.2% year-on-year)

As a result of no new launches of major titles planned in this fiscal year, net sales decreased by 33.7% year-on-year to 33.1 billion yen, and operating income decreased by 24.2% year-on-year to 4.7 billion yen. Furthermore, in accordance with the change in accounting policy, operating expenses decreased by 900 million yen and income increased by the same amount.

In the third quarter, while the Company launched “Shining Force CROSS” through the revenue sharing model and utilization of “BORDER BREAK,” which was launched in the second quarter, continued to strengthen, sales of CVT kits for “StarHorse2 FIFTH EXPANSION” and “WORLD CLUB Champion Football Intercontinental Clubs 2008-2009” were strong.

In addition, the Company aimed to reduce costs through such factors as introducing a common reusable chassis and a new circuit board.

In the same segment, R&D costs and content production expenses decreased year-on-year by 1.4 billion yen to a total of 6.9 billion yen, of which 6.0 billion yen was expensed and 900 million yen was capitalized.

In the fourth quarter, in addition to a plan to launch CVT kit sales for “SEGA Network Mar-jang MJ4,” the Company expects a continued contribution to profits from titles launched through the revenue sharing model.

■Amusement Facilities

Net Sales : ¥41.4 billion (decreased by 23.9% year-on-year)
Operating Loss : ¥600.0 million (operating loss of ¥4.9 billion a year earlier)

In accordance with the decrease in the number of amusement facilities, net sales decreased by 23.9% year-on-year to 41.4 billion yen, and in terms of operating income and loss, the segment posted an operating loss of 600 million yen compared to an operating loss of 4.9 billion yen over the same period the previous fiscal year, due to such factors as a decrease in cap-ex and depreciation expenses and the impact of a reduction in selling, general and administrative expenses.

SEGA domestic same-store profit through the third quarter was 91.3% of that of the same period the previous fiscal year, still showing a downward trend in performance year-on-year.

Given the tough management environment, since the previous fiscal year we have been proceeding with closures or sales of domestic facilities with low profitability and low future potential. The number of facilities closed through the third quarter of this fiscal year is 51, and the number of facilities as of the end of the third quarter is 274.

In the fourth quarter, we will continuously aim to improve the profitability of stores through expanded diffusion of mainstay titles and measures to strengthen management capacity by product category, such as medal games and prize games.
In addition, we will continue with planned closures or sales of facilities that have low profitability and low future potential.

■Consumer Business

Net Sales : ¥82.9 billion (decreased by 13.6% year-on-year)
Operating Income : ¥1.4 billion (operating loss of ¥5.6 billion)

Net sales decreased by 13.6% year-on-year to 82.9 billion yen, and in terms of operating income and loss, an operating income of 1.4 billion yen was recorded, compared to an operating loss of 5.6 billion yen in the same period the previous fiscal year. Furthermore, in accordance with the change in accounting policy, operating expenses decreased by 3.7 billion yen and income increased by the same amount.

In the home video game software business, we launched multiple mainstay titles, including "Mario & Sonic at the Olympic Winter Games™" for the overseas market and "Phantasy Star Portable 2" for the domestic market.
While domestic sales, which was limited to the launch of several titles, was generally strong and overseas sales was weakening under the sever market condition, the launch of a part of title has been postponed to the next period. As a result, game software unit sales decreased year-on-year, reaching 16.73 million units.

In the same segment, R&D costs and content production expenses decreased year-on-year by 3.7 billion yen to a total of 19.7 billion yen, of which 16.0 billion yen was expensed and 3.7 billion yen was capitalized.

In the fourth quarter, the launch of multiple mainstay titles is planned, and "BAYONETTA," which has already been launched in Japan, was also launched in overseas markets. In addition, the launch of "Aliens vs. Predator" for overseas markets and the launch of the latest title in the popular series "Ryuga Gotoku 4 Densetsu wo Tsugumono" for the domestic market in March are planned.

This is summary of results through 3Q of fiscal year 2010.