Summary of Full Year Results of FY 2010

May 17, 2010
SEGA SAMMY HOLDINGS INC.

(1)Fiscal Year 2010 Full Year Results

■Highlights

Net sales decreased year-on-year, but profitability increased substantially.

In the Pachislot Pachinko Business, although sales decreased compared with the previous period, operating income rose as a result of an increase in the profit margin due to increased pachislot unit sales, an increased pachinko board sales ratio, and reduced parts procurement costs. Furthermore, in the fourth quarter, we implemented write downs and such for scarcely used liquid crystal components and other parts not readily available.
In addition, Sammy acquired Sammy Rental Services, which is engaged in the Rental business and which we felt had played an definite role in the transition from Type 4 to Type 5 pachislot machines in the market that was required by government regulations.

In the Amusement Machines Business, although sales decreased against the previous period, which saw the release of large-scale titles, operating income rose as a result of an improved profit margin due to a contribution to profits from the utilization of revenue sharing titles as well as the continued strong sales of CVT kits.

In the Amusement Facilities Business, although SEGA domestic same-store sales fell below the previous period's results, we reduced as a result of efforts such as a review of our facility portfolio and a reduction of operating expenses.

In the Consumer Business, overall domestic sales of game software was strong; however, sales decreased as a result of weak sales of new titles overseas due to the severe market environment as well as the postponement of the development of some titles to the next period. As for profits, we aimed to make improvements by limiting the number of domestic titles and streamlining development.

■Consolidated Income Statement

The actual results for the fiscal year ended March 2010 are as follows.

Net Sales : **¥384.6 billion** (**decreased by 10.4%** year-on-year)
Operating Income : **¥36.7 billion** (**increased by 342.2%** year-on-year)
Ordinary Income : **¥35.9 billion** (**increased by 443.9%** year-on-year)

While we posted an extraordinary profit of **3.1 billion yen**, including reversal of recovery costs of amusement arcades, net income came to **20.2 billion yen** against the previous period's net loss of **22.8 billion yen**, as a result of recording an extraordinary loss of **11.9 billion yen**, and the company returned to profitability.

Furthermore, a reduction of **5.7 billion yen** in operating expenses accompanied the change in accounting policy, and profits increased by the same amount for each profit level.
Concerning tax expenses, Sammy's effective tax rate fell as a result of the acquisition in February of this year of the pachinko and pachislot machine rental company Sammy Rental Services, which I previously explained, thereby reducing tax expenses.

Concerning dividends, the year-end dividend is scheduled to be **15 yen** per share and the annual dividend is projected to be **30 yen** per share.

■Costs and Expenses

The amount of R&D costs and content production expenses that was expensed was **41.5 billion yen**, while the amount that was capitalized was **5.7 billion yen**, for a total of **47.2 billion yen**.
R&D costs and content production expenses decreased by **12.4 billion yen**, mainly due to reductions in the Consumer Business and Amusement Machines Business, as well as cost deferrals in the Consumer Business accompanying the postponed launch of some titles.

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

■Consolidated Balance Sheet

While securities increased by **46.6 billion yen** due to such factors as the purchase of negotiable certificates of deposits, fixed assets decreased by **12.7 billion yen** as a result of such factors as the impairment of tangible fixed assets.

As a result, total assets at the end of the period decreased by **700 million yen** compared to the previous consolidated fiscal year to reach **423.1 billion yen**.

Furthermore, in accordance with the change in accounting policy, roughly **about 5.7 billion yen** in content production expenses, primarily in the Amusement Machines Business and Consumer Business, have been recorded as assets.

The equity ratio remains at a healthy level, standing at **55.8%**.

■Consolidated Cash Flows

Cash flow provided by operating activities was **54.9 billion yen**, due to the recording of net income before taxes and other adjustments, a reduction of accounts receivable, and non-financial transactions such as depreciation.

Cash flow used by investment activities was **7.6 billion yen**, due to payments for purchases of tangible fixed assets and securities.

Cash flow used by financing activities was **3.4 billion yen**, due to such factors as payments for redemption of bonds and dividends.

As a result, the balance of cash and cash equivalents at the end of this period increased by **43.7 billion yen** compared to the end of the previous period to reach **167 billion yen**.

In addition, free cash flow resulting from the sum of cash flow provided by operating activities and cash flow used by investment activities increased by **14.2 billion yen** compared to the end of the previous period to reach **47.3 billion yen**.

■Pachislot Pachinko

Net Sales : **¥160.3 billion** (**decreased by 0.8%** year-on-year)
Operating Income : **¥29.5 billion** (**increased by 103.4%** year-on-year)

Net sales in the Pachislot Pachinko Business **decreased by 0.8%** year-on-year to **160.3 billion yen**, while operating income **increased by 103.4%** to **29.5 billion yen**.

The profit margin improved, due to such factors as increased pachislot unit sales, an increased pachinko board sales ratio, reduced parts procurement costs centered on liquid crystal, as well as withdrawal from a peripheral device business and a review of pricing strategy. Furthermore, concerning the reduction of parts procurement costs, including effects from reuse, cost reductions of **approximately 3.3 billion yen** against projections were realized.

Finally, **approximately 2.0 billion yen** in costs for scarce liquid crystal components and other parts not readily available were expensed through write-downs in the fourth quarter.

In pachislot machines, although the launch of some titles was postponed to the following period, pachislot unit sales increased year-on-year by about **39,000 units** to **162,000 units** as a result of strong sales of this period’s mainstay title “**Pachislot Psalms of Planets Eureka SeveN**,” in addition to strong sales of multiple titles, including “**Pachislot TOMORROW'S JOE**” and “**Pachislot Shin Onimusha.**”
In pachinko machines, pachinko unit sales decreased by **about 31,000 units** to **360,000 units,** despite the strong sales of this period’s mainstay title “**Pachinko CR SOUTEN-NO-KEN**” as

well as other titles such as “**Pachinko CR Sengoku Raubu Aokidokugan**.” Furthermore, the board sales ratio increased from the previous period’s **10.5%** to **69.1%**.

■Amusement Machines

Net Sales : **¥45.1 billion** (**decreased by 27.1%** year-on-year)
Operating Income : **¥7.0 billion** (**increased by 2.9%** year-on-year)

Net sales **decreased by 27.1%** to **45.1 billion yen**, and operating income **increased by 2.9%** to **7 billion yen**. Furthermore, the change in accounting policy resulted in a reduction of roughly **1.6 billion yen** in operating expenses, and profits increased by the same amount.

Sales decreased due to no large-scale titles launched in the fiscal period. However, the profit margin improved and profits increased as a result of the contribution to profits from the utilization of revenue sharing titles, which had strong sales, as well as the strong sales of CVT kits for mainstay titles such as “**SEGA Network Mah-jong MJ4 Evolution**.”

Furthermore, in net sales of the domestic Amusement Machines Business, the ratio of distribution earnings due to utilization of revenue sharing model titles was **about 10%**.
In addition, we aimed for cost reductions through such efforts as the introduction of a common reusable chassis and new circuit board and a review of parts procurement costs.

R&D costs and content production expenses totaled **9.4 billion yen**, of which **7.8 billion yen** was expensed and **1.6 billion yen** was capitalized, representing a year-on-year decrease of **2.0 billion yen**.

■Amusement Facilities

Net Sales : **¥54.7 billion** (**decreased by 23.3%** year-on-year)
Operating Loss : **¥1.3 billion** (operating loss of **¥7.5 billion** a year earlier)

Although net sales **decreased by 23.3%** year-on-year to **54.7 billion yen** in accordance with the reduction of the number of facilities, from the aspect of operating profits and losses, an operating loss of **1.3 billion yen** was recorded in contrast to the **7.5 billion yen** operating loss of the previous period, due to such factors as a review of the facility portfolio and a reduction of operating expenses.

SEGA domestic same-store sales were **91.7%**, falling below the level of the previous period.

Given the tough management environment, since the previous period we have been progressing with the closure or sale of domestic facilities with low potential and profitability. As a result of the closure of **66 facilities** in the period, the number of facilities at the end of the fiscal year came to **260 facilities**. Furthermore, we decided to continue operating some of the facilities that were initially planned to be closed, due to improved economic conditions and other factors.

Additionally, in the overseas business, we decided to close **8 facilities** in North America that exhibited low potential and low profitability.

In the fiscal year under review, sales of **about 1.5 billion yen** from the kids card game business is included in this segment. However, the sales was transferred to the Amusement Machines segment starting from the fiscal year ending March 31, 2011. This is mainly due to a partial reviews of segments in accordance with the application new classifications for internal managerial accounting, as new accounting standards for business segmentation were applied from this fiscal year.

Furthermore, the sales of the kids card game business for the year ending March 31, 2011 are projected to be **about 4.0 billion yen**.

■Consumer Business

Net Sales : **¥121.5 billion** (**decreased by 7.5%** year-on-year)
Operating Income : **¥6.3 billion** (operating loss of **¥900 million** a year earlier)

Net sales **decreased by 7.5%** to **121.5 billion yen** year-on-year, and from the aspect of operating profits and losses, operating income of **6.3 billion yen** was recorded, against the previous period's operating loss of **900 million yen**. Furthermore, the change in accounting policy resulted in a reduction of roughly **3.9 billion yen** in operating expenses, and profits increased by the same amount.

We launched multiple mainstay titles in the Home Game Software Business, including "**Mario & Sonic at the Olympic Winter Games™**" for the overseas market, "**BAYONETTA**" for the global market, and "**Ryu ga Gotoku 4: Densetsu wo Tsugumono**" for the domestic market. Overall domestic sales, for which development has been streamlined by limiting the number of titles, was strong overall; however, game software unit sales decreased year-on-year to **26.75 million units** as a result of weak sales of new titles overseas due to the severe market environment, as well as the postponement of the launch of some titles to the following period.

Furthermore, in the Overseas Business, in light of the changing environment in the game software market, we decided to close the North American development subsidiary **Secret Level, Inc.** as well as reorganize part of the North American and European organizations.
R&D costs and content production expenses in the segment totaled **23.5 billion yen**, of which **19.6 billion yen** was expensed and **3.9 billion yen** was capitalized, representing a year-on-year decrease of **9.3 billion yen**.

(2)Fiscal Year 2011 Full Year Projections

■Consolidated Income Statement

Full year projections for the fiscal year ending March 2011 are as follows.

Net Sales : **¥400.0 billion** (**up 4.0%** year-on-year)
Operating Income : **¥40.0 billion** (**up 9.0%** year-on-year)
Ordinary Income : **¥39.0 billion** (**up 8.6%** year-on-year)
Net Income : **¥22.0 billion** (**up 8.9%** year-on-year)

Concerning dividend forecasts, in light of this period's projected increase in profits, the interim and year-end dividends are projected to increase by **5 yen** to **20 yen** per share, and the annual dividend is projected to be **40 yen** per share.

■Pachislot Pachinko

Net Sales : **¥200.0 billion** (**up 24.8%** year-on-year)
Operating Income : **¥35.0 billion** (**up 18.6%** year-on-year)

Projections for this period in the Pachislot Pachinko Business have net sales **increasing by 24.8%** to **200 billion yen**, and operating income **rising by 18.6%** to **35 billion yen**.

Unit sales of pachislot machines are projected to increase by **about 47,000 units** to **210,000 units**. Regarding the pachislot market, machine types, including "**Pachislot Psalms of Planets Eureka SeveN**" and "**Pachislot Shin Onimusya**" which the company released in the previous period, have finally appeared that are winning praise from the market, even under current regulations, and at our footsteps we are perceiving a recovery trend that includes the status of utilization.

In the first quarter of this period, the already released "**Pachislot SOUTEN-NO-KEN**" has been evaluated very highly. Additionally, we plan to introduce multiple mainstay titles this period and have great confidence that we can achieve our sales projection.

Due to the expansion of the the low priced ball exchange market such as 1 yen pachinko and other factors, the overall market for new pachinko unit sales seems to be decelerating to a certain extent. Going forward, we recognize the need to respond to these markets and to move forward with efforts. The company's unit sales for this period are projected to increase year-on-year by **about 50,000 units** to **410,000 units** through the launch of large-scale titles.

Furthermore, full year board ratio is projected to be **30.4%** as we plan to launch new frame in this fiscal year. We will also continue to strive for reduction of parts procurement costs and parts reuse in both pachislot and pachinko business.

■Amusement Machines

Net Sales : **¥53.0 billion** (**up 17.5%** year-on-year)
Operating Income : **¥5.5 billion** (**down 21.4%** year-on-year)

Net sales are projected to increase year-on-year by **17.5%** to **53.0 billion yen**, and operating income is projected to decrease by **21.4%** to **5.5 billion yen**.

While this is a projection for decreased profits, the decrease is mainly due to contraction of the profit margin resulting from increased expenses in R&D costs compared to the previous fiscal year when R&D costs and content production expenses were largely reduced according to the change in accounting policy, in addition to an increase in allocated expenses for back-office divisions.

For this period, we project continued contributions to profit from revenue sharing, and also plan to introduce "**Hatsune Miku Project DIVA Arcade**" as a new mainstay title.
In net sales of the domestic Amusement Machines Business, the ratio of distribution earnings due to utilization of revenue sharing model titles is projected to be **about 13%**.

In addition, we plan to launch "**SENGOKU TAISEN**" as another mainstay title.
Furthermore, we will also continue in our efforts to reduce costs through the introduction of a common reusable chassis and new circuit board.

■Amusement Facilities

Net Sales : **¥44 billion** (**down 19.6%** year-on-year)
Operating Loss : **¥1.5 billion** (operating loss of **¥1.3 billion** a year earlier)

Due to the reduced number of facilities, net sales is projected to **decrease by 19.6%** year-on-year to **44 billion yen**, and in terms of operating profits and losses, an operating loss of **1.5 billion yen** is projected against the previous period's operating loss of **1.3 billion yen**.

In light of the severe management environment, SEGA domestic same-store sales are projected to fall below the previous period's performance at **95.8%** year-on-year. We will aim to improve profitability through such efforts as working to strengthen the operating capabilities and regional competitiveness of each facility in both domestic and overseas market.

■Consumer Business

Net Sales : **¥100.0 billion** (**down 17.7%** year-on-year)
Operating Income : **¥7.0 billion** (**up 11.1%** year-on-year)

Net sales are projected to **decrease by 17.7%** year-on-year to **100 billion yen**, and operating income is projected to **increase by 11.1%** to **7 billion yen**.

In the Home Game Software Business, projected full-period unit sales are **16.96 million units**, and in addition to "**IRON MAN 2**," which we have already released, we plan to release multiple mainstay titles, including "**VANQUISH**" and "**HATSUNE MIKU -Project DIVA- 2nd**," both overseas and domestically.

Despite a projection for significantly decreased sales this period, we project reduced operating expenses, a major cause for the projected increase in profits.

R&D costs and content production expenses are projected to decrease by **1.5 billion yen** year-on-year to **18.1 billion yen**, due to such factors as the streamlining of development by limiting the number of overseas titles from **49 titles** in the previous period to **38 titles** this period.

We project a decrease of **roughly 2.0 billion yen** in operating expenses, due to such factors as a reduction in headcount by a total of **148 people** accompanying the closure of the North American development subsidiary **Secret Level, Inc.** as well as the reorganization of the North American and European organizations. In addition, a reduction of **approximately 300 million yen** in personnel expenses is projected, due to the voluntary retirement of about **39 people** at SEGATOYS in the previous period.

Targeting toys, content for mobile phones and PCs, and animation, we project improved profits centered on listed subsidiaries.