

# SEGASAMMY REPORT

Summer  
Edition



## Special Topics: Pursuing Group Synergies Strategic Use of Intellectual Property (IP) Project has been Launched

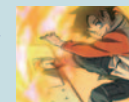
### Management Message

We are steadily promoting initiatives for improved profitability.



**Feature ①** Products that drove our financial results in the fiscal year under review

*Pachislot Psalms of Planets  
Eureka Seven*



**Feature ②** Results of overseas expansion in the fiscal year under review

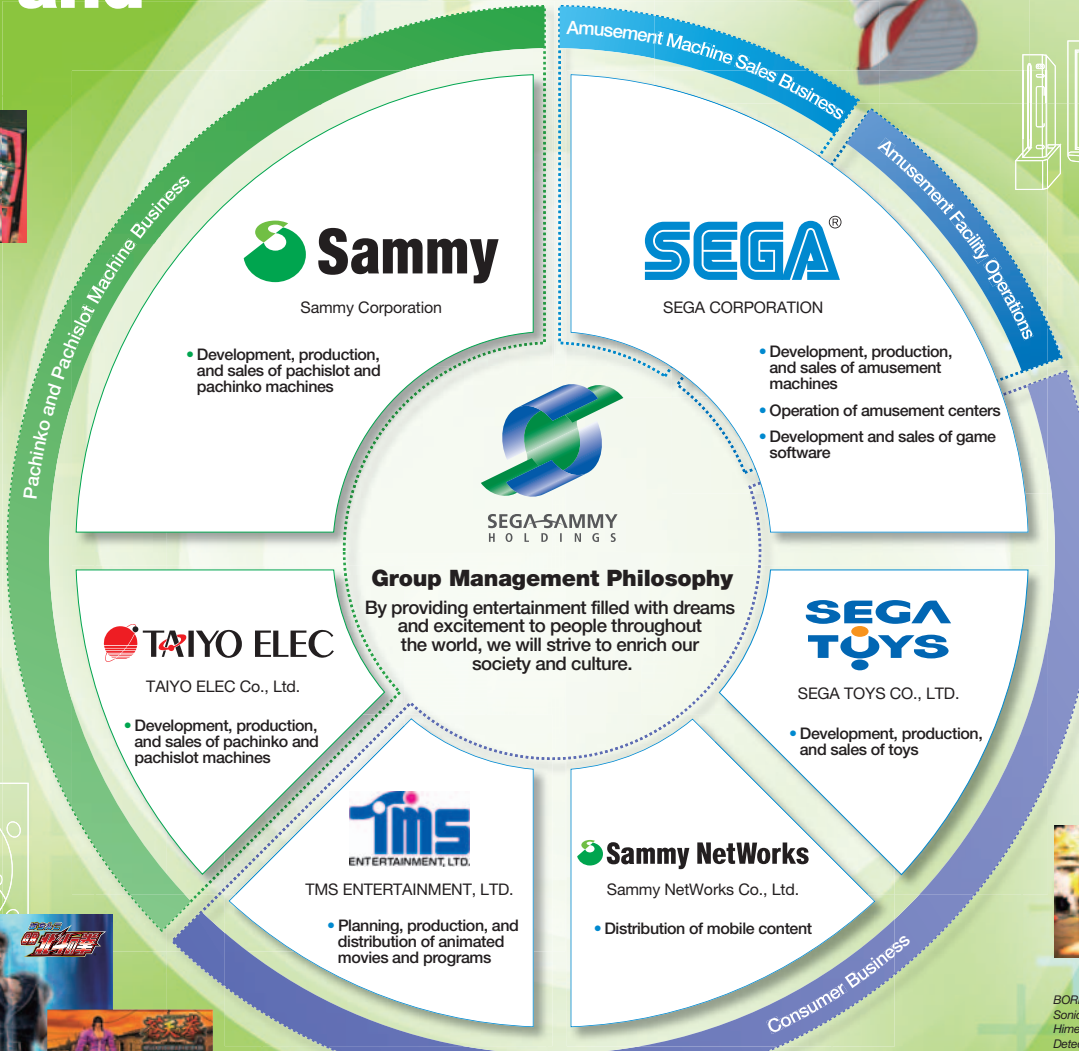
Various products received accolades in North America, Asia and the Middle East.





# The Group's Main Businesses

## Making entertainment more exciting and diverse



BORDER BREAK © SEGA  
 Sonic the Hedgehog © SEGA  
 Hime Chen! Otogi Chikku Idol Lilpri © SSJ / Lilpri-gumi - TV Tokyo 2010  
 Detective Conan 2010 The Lost Ship in The Sky © GOSHO AOYAMA / DETECTIVE CONAN COMMITTEE  
 Ryuga Gokoku 4: Densetsu wo Tsugumano © SEGA  
 Cocoro-bu © Sammy NetWorks © Smelly / SNW © Motonobu Hattori / SNW  
 Let's Chase Anpanman © Takashi Yanase / Irobel-kan - TMS - NTV  
 Pachislot Psalms of Planets Eureka Seven © 2005 BONES / Project EUREKA - MBS © Sammy © 2009 NBGI  
 Pachislot CR Sakura Taisen 2 © SEGA © RED © Sammy  
 Pachislot TOMORROW'S JOE © Asao Takamori-Tetsuya Chiba / Kodansha Ltd. © Sammy  
 Pachinko HOKUTO-NO-KEN © 1983 Buronson & Tetsuo Hara © 2007 NSP, Approved No.SAE-307 © Sammy  
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## We are steadily promoting initiatives for improved profitability

Looking back on the fiscal year ended March 31, 2010

**Q** Could you please give us an overview of the consolidated group earnings in the fiscal year under review?

**By improving profit quality in all business segments, we achieved a large increase in profits**

Taking a look back, in the fiscal year ended March 31, 2008, we recorded an operating loss because of the revision of regulations on pachinko and pachislot machines, the slump in consumer spending, and the abrupt change in the business environment. Thus, in aiming for an early operating profit and sustainable profit growth, we undertook drastic structural reforms including withdrawal from unprofitable businesses, reductions of fixed expenses, and cost reductions. With these efforts proving

successful, we achieved an operating profit in the preceding fiscal year. Furthermore, in the fiscal year under review, we improved income in all business segments, achieved a large profit increase on the basis of operating income (up 339% year on year), and even moved into the black for net income. In particular, in our pachinko and pachislot machine business and amusement machine sales business, we steadily improved profits more than we had projected in our initial plan, and this led us to raise our earnings forecast during the fiscal year.

**Q** What is your evaluation of the Group's earnings during the fiscal year under review?

**Even though we achieved higher profits, we are aware that we still have many challenges ahead of us**

As a result of our structural reforms, I think that a business foundation for generating stable profits is being put in place. Nonetheless, in comparison to the fiscal years ended March 31, 2005 and March 31, 2006, when we recorded operating profits in excess of ¥100.0 billion, the size of our profits and our profitability still are not at satisfactory levels, and we are aware that many business challenges lie ahead as we strive for profit improvement. We will continue to shift resources from unprofitable and poorly-performing businesses to highly profitable and high-growth businesses, thereby aiming for revenue growth and, at the same time, further profit increases and profitability improvements. Without slackening the reins, we will continue to make steady efforts to boost our corporate value.

### Hajime Satomi (center)

Chairman, President and Representative Director (CEO), SEGA SAMMY HOLDINGS INC.  
Chairman, Representative Director and Chief Executive Officer, Sammy Corporation  
Chairman, Representative Director and Chief Executive Officer, SEGA CORPORATION

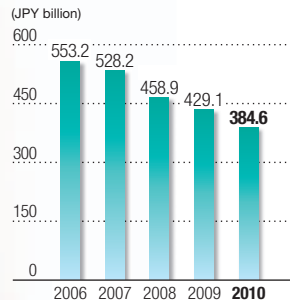
### Keishi Nakayama (right)

Executive Vice President and Representative Director, SEGA SAMMY HOLDINGS INC.  
President, Representative Director and Chief Operating Officer (COO) of Sammy Corporation

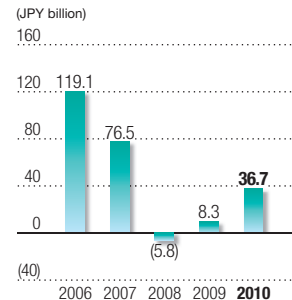
### Okitane Usui (left)

Director  
SEGA SAMMY HOLDINGS INC.  
President, Representative Director and Chief Operating Officer (COO) of SEGA CORPORATION

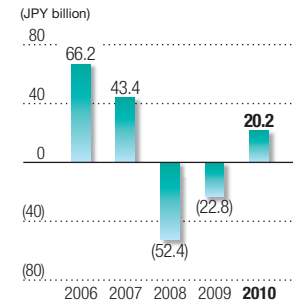
### Net Sales



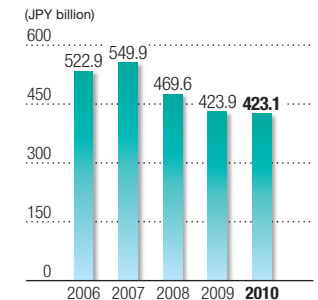
### Operating Income (Loss)



### Net Income (Loss)



### Total Assets



(Fiscal years ended March 31)



## Management Message

### Performance Evaluation of Each Business Segment

**Q What was the factor that led to improvement in your pachinko and pachislot business and that drove the Group's earnings?**

**Our establishment of a development system aimed at stably providing hit models came to fruition in both higher profits and stable profits**

Although net sales in our pachinko and pachislot machine business were roughly equal to those in the preceding fiscal year because we carried over releases of some leading titles to the next accounting period, we achieved a large increase in operating income. The main factor in the improved profitability was our working hard to develop and supply differentiated products on the basis of the new development system that we started in September 2007. We aimed to more stably develop and supply hit models by having the marketing and development divisions collaborate more closely in an early stage and by fusing advanced development techniques and diverse market needs, so in the fiscal year under review, we were able to supply many hit machines in both the pachinko business and the pachislot business. In particular, after the revision of regulations on pachinko and pachislot machines in fiscal 2007, *Pachislot Psalms of Planets Eureka Seven*, designed to revitalize the pachislot machine market, which had remained depressed, met expectations by receiving high marks from both pachinko

halls and pachislot users, and I feel proud that it made a large contribution to reinvigorating the pachislot game market. In addition, by leading to an increase in unit sales of highly profitable pachislot machines and – due to expansion in the Group's share of installed pachinko machines – an increase in the ratio of highly profitable pachinko board sales, this development and supply of hit models has contributed significantly to improved profitability of our entire pachinko and pachislot machine business.

Since the installations of *Pachislot Psalms of Planets Eureka Seven*, the order situation for our leading pachislot titles has been on a recovery trend, and the upswing in the pachislot machine market has become even clearer in the current fiscal year. For the SEGA SAMMY Group, which has an advantage in development of pachislot machines, we think that this trend will provide a boost.

**Q Amid continued challenges in the operating environment, what was the primary factor in the profit improvement in the amusement field?**

**Our success in undertaking drastic structural reforms and establishing a revenue base that can generate profits**

Due to the slump in consumer spending, in the amusement center industry, same-store sales have continued to fall below the preceding year's results. Consequently, the size of the market for amusement machines has been shrinking. Amid such changes in the environment, for our amusement center

operations, we have been closing or selling centers with low profitability and low potential. The scale of the closures and sales in Japan in the previous three years has reached 200 centers. In addition to these closures and sales, we are making efforts to reduce our cost of sales and operating expenses, including personnel expenses, and are striving to build a cost structure compatible with our level of earnings.

Meanwhile, for our amusement machine sales business, as a method to support the prosperous coexistence of amusement center operators and machine manufacturers and to revive the industry, we are working to popularize the "revenue-sharing model." In this business model, we provide the amusement facility operators with the machines at low prices and lend them content free of charge, and those operators and the SEGA SAMMY Group share the revenues in proportion to machine utilization. This helps the center operators increase investment efficiency and enables the Group to ensure stable long-term earnings without limiting revenues to sales of the machines. In the fiscal year under review, utilization of titles introduced in conjunction with this revenue-sharing model remained high and contributed to earnings. In addition to this, given that the market size is shrinking, we are also working to reduce R&D expenditures and content production expenses.

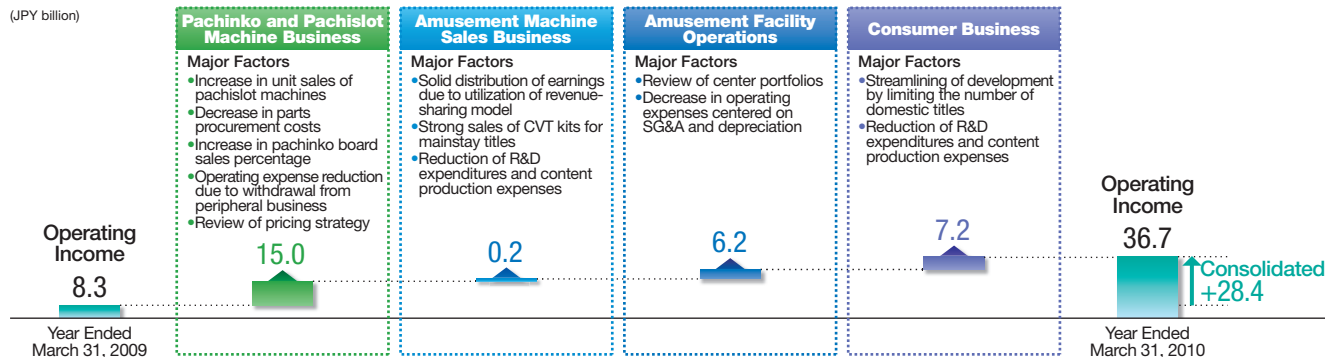
**Q What was the reason why the consumer business returned to profitability despite a year-on-year decline in revenue?**

**Our streamlining of domestic game software titles was successful. We will also respond to the rapidly changing environments in overseas markets**

In order to improve profits in our domestic game software business, which was the main factor in the operating losses in our consumer business in the two preceding fiscal years, in the fiscal year under review, we drastically streamlined the number of domestic game software titles and boosted development efficiency. As a result, although total unit sales of game software declined and net sales fell below the result for the preceding fiscal year, R&D expenditures and content production expenses were reduced, and we ultimately returned to profitability for the entire consumer business.

In contrast, our overseas game software business, which had remained firm until the preceding fiscal year, had a tough time

### Contributing Factors to Operating Income



because of factors including the abrupt downturn in consumer spending. As measures to achieve improved profitability in light of these changes in the environment, we decided to close down Secret Level, Inc., our North American game development studio, and we also implemented organizational restructuring of two of our overseas subsidiaries: Sega of America, Inc., and Sega Europe Ltd. Due to these measures, we project that our cost of sales and operating expenses will be reduced by roughly ¥2.0 billion from the fiscal year ending in March 2011 onward.

In our toy business, although overseas sales remained firm, domestic sales saw a decline in net sales because of our efforts to streamline unprofitable businesses and products. Furthermore, domestic sales remained weak on factors including the impact of the slowdown in the domestic market, which resulted from sluggish consumer spending at that time. In reaction to these conditions, in our toy business, we strove to select and concentrate businesses and to reduce SG&A expenses—primarily personnel expenses. Amid a continued downturn in the total number of members in the overall pachinko and pachislot category for mobile phones, our PC and mobile content business recorded strong sales. This was due to our introducing major titles and shifting to a new business model (introduction of a pay as you go system).

In our animation business, despite a decline in the number of images produced for TV programs and feature films, due to increasing box-office revenues from hit feature films and increasing royalties from the hit *Bakugan* television series overseas, sales revenues generally remained strong.

## Future of the SEGA SAMMY Group

### Q What is your outlook on the fiscal year ending March 31, 2011?

**We are forecasting an increase in revenue and in profits. Furthermore, as we aim for growth in the medium and long terms, we are pursuing Group synergies**

Since we continue to expect profit growth from cost reductions in existing businesses and from business enhancements in growing fields, we are forecasting a 4.0% year-on-year

increase in consolidated net sales and a 9.0% increase in operating profits. Moreover, in order to make the growth path over the medium and long terms more certain, we will strengthen intra-Group collaboration more than before and pursue synergy generation. As a concrete action in that process, we have already launched a project to promote maximization of character IP (intellectual property) value. By utilizing the diverse businesses, content, technology, and know-how of the Group, which has a strong competitive edge in the entertainment market, the Group will work together to utilize our existing IP and develop new IP. In this way, I believe we will be able to maximize our corporate value efficiently and effectively.

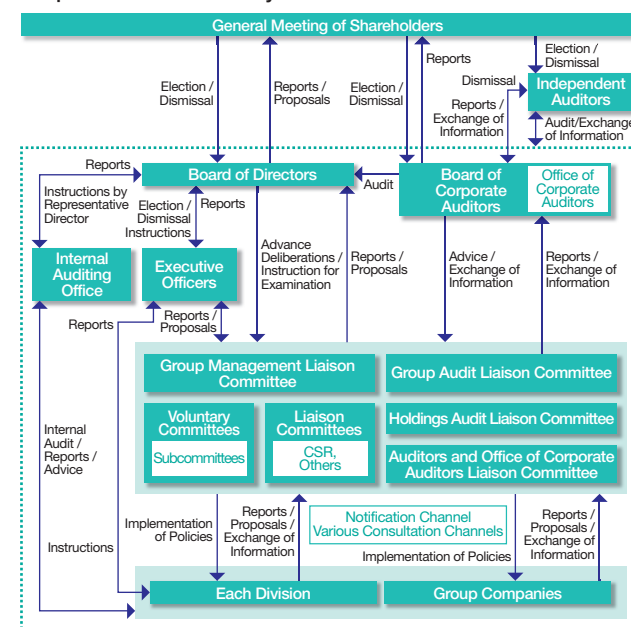
### Earnings Forecast for the Year Ending March 31, 2011 (announced on May 14, 2010) (Unit: JPY billion)

	Year Ended March 31, 2010	Year Ending March 31, 2011
Net Sales	384.6	400.0
Operating Income	36.7	40.0

### Q What is your view on governance of the Group? We will further strengthen governance across the Group

The SEGA SAMMY Group considers corporate governance to be the most important basis for all of its corporate activities. The basic principles of the Group's corporate management are to enhance efficiency, ensure organizational soundness, and enhance transparency, and we make important management decisions with these principles in mind. Furthermore, we enhanced the corporate governance structure by adopting a corporate auditor system while also appointing outside directors, strengthening our executive officer system, and strengthening our internal audit structure. Nonetheless, as noted in recent announcements, inappropriate transactions conducted by a former employee of a Group company were discovered. With regard to this matter, we sincerely apologize to our shareholders for having caused you a great deal of trouble and concern. In the future, in order to prevent a similar event and regain your trust, we will make concerted efforts for thorough compliance across the Group, and we will work to further strengthen corporate governance.

### Corporate Governance System



### Q Finally, please tell us about the corporate dividend. Our basic policy is to pay an appropriate dividend in proportion to earnings

Our basic policy is to pay an appropriate dividend that is commensurate with earnings. In the fiscal year under review, we paid an interim dividend of ¥15 per share and a year-end dividend of ¥15 per share, for a total annual dividend of ¥30 per share. In the fiscal year ending March 31, 2011, since we expect an increase in profits, in comparison to the fiscal year under review, we forecast that both the interim dividend and the year-end dividend will increase by ¥5 to ¥20 per share and that the total annual dividend will be ¥40 per share. Moreover, in order to achieve growth over the medium and long terms, we intend to use our internal reserves to strengthen our financial position, to strengthen our management base, and to make investments in growing fields.

I would like to ask our shareholders to hold high expectations for our future success while providing their continued support to the SEGA SAMMY Group.

# Feature 1

## Products that drove our financial results in the fiscal year under review

# 交響詩篇 イウレカセブン

パチスロ 交響詩篇エウレカセブン

©2005 BONES / Project EUREKA-MBS ©Sammy ©2009 NBGI

### A Popular Robot Animation World Makes a Comeback as a Pachislot with Next-Generation Specifications

Unit sales of *Pachislot Psalms of Planets Eureka Seven* machines in the fiscal year under review

# 56,465 units



Eureka Seven Theater Version Website  
<http://www.eureka-prj.net/>

(Japanese only)

### Sammy creates a new wave in Pachislot!

*Pachislot Psalms of Planets Eureka Seven* is a pachislot machine that Sammy has loaded with innovative functions by concentrating the company's development know-how. NAMCO BANDAI Games developed and supervised the video software. In the new function "Episode BB," scenes based on the original gameplay aspects of pachislot machines are linked with characters and episode plots, thereby producing scenes that link ball releases with waves of excitement. In addition, Sammy is presenting new ways to enjoy pachislot, such as a "third bonus" that even beginners who lack the skill and knowledge of how to play pachislot machines can enjoy them as video images, and "My Slot" functions that allow a player to enjoy a game after making customizations just as the player wishes.

#### Something Anybody Can Enjoy The Third Bonus

The third bonus "C-MODE," which anyone can enjoy, has been widely acclaimed. By using the Oshijun Navi, even those who are unskillful or lack knowledge of how to play pachislot machines can have fun.



#### Connecting Animation and Movies Premium Video

Original premium video of television series epilogues and movie series prologues will be incorporated only into this machine. This is a model that will be widely enjoyed by pachislot fans as well as anime fans.



### Upcoming Recommend

*Pachislot SOUTEN-NO-KEN* which has reproduced game features of the first-generation *Pachislot HOKUTO-NO-KEN*, went on sale in May. In addition, RODEO's *Pachislot Shin Onimusha* went on sale in March. Needless to say, both models are equipped with "My Slot" functions. We will continue to create models that everyone can enjoy, so please keep looking forward to them.



(Left) *Pachislot SOUTEN-NO-KEN*  
© 2001 Buronson & Tetsuo Hara, Approved No.SAH-310 © Sammy

(Right) *Pachislot Shin Onimusha*  
© CAPCOM CO., LTD. ALL RIGHTS RESERVED. © Sammy © RODEO

#### Customizing to One's Own Specifications "My Slot" Functions

These are Sammy's original functions that link pachislot machines with mobile phones. By recording the missions that one has cleared, a pachislot machine can be customized as one likes. It is also possible to download standby displays and voice tones and to record game-play histories and the number of bonuses.

"My Slot" functions are loaded with fun factors that will make players want to press the buttons again and again.



#### Leading Customers to Pachinko Halls Multi-media Magazine

Sammy has specially launched the multi-media magazine *ray-out*, which first appeared in the world of anime, packed with the latest information on pachislot and anime. It has gained popularity as an information magazine that leads a wide range of customers including pachislot fans and anime fans to pachinko halls.





## Feature 2

### Results of overseas expansion in the fiscal year under review

#### Anime Detective Conan Begins Showing in Theaters Throughout China

The 13th installment of the theater version of the anime series produced by TMS ENTERTAINMENT, Ltd., *Detective Conan: The Raven Chaser*, was released in 47 major cities across China beginning in January 2009. Tickets were completely sold out in some theaters.

© GOSHO AOYAMA / DETECTIVE CONAN COMMITTEE



#### Full-scale Launch of Character Licensing Business in Vietnam

TMS ENTERTAINMENT, Ltd., started broadcasting its *Bakugan Battle Brawlers* and *Detective Conan* on Ho Chi Minh TV in Vietnam in November 2009. At the same time, it also began commercialization of those products.

© Goshō Aoyama / Shogakukan-YTV-TMS 1996



#### Zhu Zhu Pets Wins the 2010 Toy of the Year Award in North America



The hamster toy *Zhu Zhu Pets*, which has given rise to an amazing boom that has seen sales reach 12 million units over the six months since sales began in the United States in the summer of 2009, will finally reach Japan. SEGA TOYS CO., LTD., acquired the sales rights in Japan. *Zhu Zhu Pets* won the Toy of the Year (Grand Prize) in 2010.



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#### Mario & Sonic at the Olympic Winter Games™ Hits 6 Million Units Worldwide!

*Mario & Sonic at the Olympic Winter Games™* (available for the Wii™ system and the Nintendo DS™ handheld system) has sold over 6 million units worldwide since its launch in October 2009. This game is based on the actual events of Vancouver 2010 and became a hit of the year.

\* In Japan, the game was published by Nintendo Co., Ltd.

TM IOC. Copyright © 2009 International Olympic Committee ("IOC"). All rights reserved. SUPER MARIO characters © NINTENDO. SONIC THE HEDGEHOG characters © SEGA.



#### Bakugan Anime Series Booming Around the World

With the broadcasting of TMS ENTERTAINMENT's TV animation series *Bakugan* by the Cartoon Network in North America, *Bakugan* is now broadcast in 110 countries and regions worldwide. Toys and related products have been recording unprecedented sales, and *Bakugan* has won the Boys Toy of the Year award for the second year in a row.

© SEGA TOYS / SPIN MASTER / BAKUGAN 2 PROJECT



# Various products received accolades in North America, Asia and the Middle East

Each company in the SEGA SAMMY Group is actively expanding its product and service businesses in Asia, Europe, and North America. We would like to fill the world with smiles . . . . We will deliver our hope to the world.



#### Grand Opening of SEGA Entertainment Center in Dubai

SEGA REPUBLIC, an indoor theme park licensed by SEGA, opened in December 2009 inside The Dubai Mall, one of the largest shopping centers in the world. The site covering approximately 76,000 square feet is filled to capacity with nine attractions (two of which are making their world premiere) and approximately 160 kinds of amusement machines.

© SEGA



China North America  
UAE Vietnam

## Special Topic: Pursuing Group Synergies

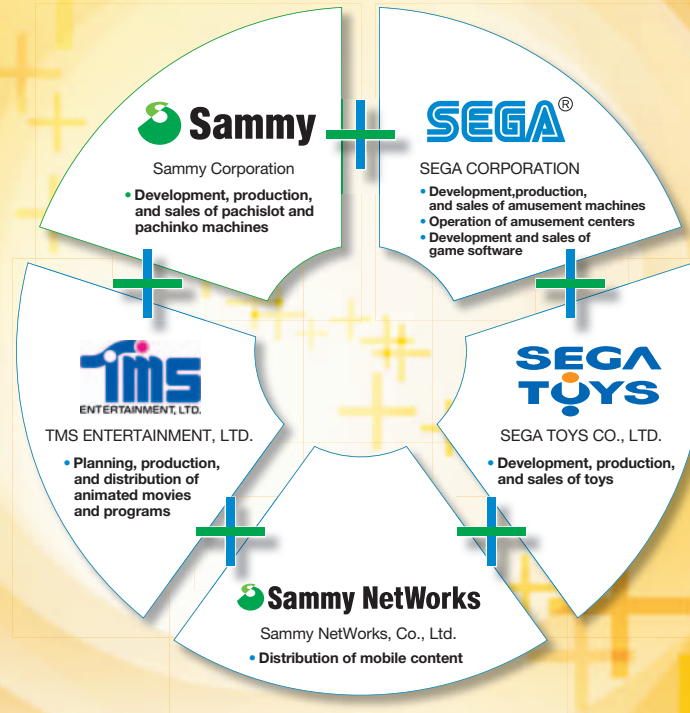
# Strategic Use of Intellectual Property (IP) Project has been Launched

The five main companies in the Group are collaborating to promote expansion of their multi-content business

In the process of expanding our entertainment business, an important differentiating factor is strong use of character IP.

At present, with Group companies collaborating in joint development and mutual exploitation of character IP held in the SEGA SAMMY Group, we are striving to maximize character IP value. In addition, we are simultaneously working to develop and cultivate new character IP.

In particular, the five main companies in the Group have begun joint development of *BAKUGAN*, which is already popular all over the world, and *Lil'Pri*, which was newly developed by means of joint development between SEGA CORPORATION and Shogakukan Inc.



### Content for Boys

## BAKUGAN

*BAKUGAN*, with exploding worldwide popularity, is now rapidly becoming more popular domestically as well

*BAKUGAN* is a toy that was developed jointly by SEGA TOYS CO., LTD., and SPIN MASTER Limited, a major toy maker in Canada. Broadcasts of animated shows and sales of related products have expanded to approximately 120 countries worldwide.

*BAKUGAN* is blockbuster product with a cumulative sales amount, for just the toy, of ¥90.0 billion, and with a cumulative units sold of 200 million.

The SEGA SAMMY Group is making concerted efforts to fully utilize in Japan this content that has overflowing potential.

© SEGA TOYS / SPIN MASTER / BAKUGAN PROJECT - TV Tokyo - dentsu  
© SEGA TOYS / SPIN MASTER / BAKUGAN 2 PROJECT - TV Tokyo

### Content for Girls

## Lil'Pri

A magic girl story packed with things that little girls love

*Lil'Pri* is content for little girls that was developed jointly by SEGA CORPORATION and Shogakukan Inc.

The name *Lil'Pri* comes from "Little Princess." The content is packed with stuff, such as songs, dances, stylishness, magic, and idols, that young girls yearn for.

The SEGA SAMMY Group and the Shogakukan Group are developing *Lil'Pri* in a multifaceted manner including animation, manga serialization, and celebrity tie-ups.

© SEGA - SHOGAKUKAN - JINNAI MAI  
© SSJ / Lil'Pri-Project, TV TOKYO

### SEGA SAMMY Group Character Licensing Subcommittee Established

We are consolidating our character IP and thereby strengthening intra-Group collaboration.

With the goal having the entire Group work together to maximize the value of our character IP and to develop and cultivate new character IP, the SEGA SAMMY Group Character Licensing Subcommittee (hereinafter, the "Subcommittee") was established in April 2008.

As for *BAKUGAN*, with the Subcommittee as the starting point, five companies in the SEGA SAMMY Group established Bakugan Limited Liability Partnership (hereinafter, Bakugan LLP) through a joint capital investment. In conducting total production and merchandising of the domestic *BAKUGAN* business, Bakugan LLP is building strong collaboration among Group companies. In the future, you can expect development of the SEGA SAMMY Group's character IP including *BAKUGAN* and *Lil'Pri*.



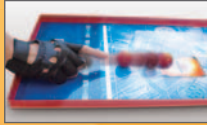




### ● Toys

#### Have fun in a battle

Shoot the *Bakugan* toy by using your fingers, transform instantaneously on a card, and then fight for the cards—that's a *Bakugan* battle. By freely using cards that bring out special effects, a player can gain an advantage in a battle, and the key to victory lies in the player's shooting technique and card strategy. By creating their own fighting methods and special techniques from among 120 kinds of *Bakugan* and 200 kinds of cards, players can enjoy an endless number of battles.



### ● PC and Mobile Phones

#### Collect information

Information on *Bakugan*, including how to play, explanations of terminology, Moetaro Honoo's blog, event information, and new product information, is updated and distributed daily. The website is packed with all information on *Bakugan*.

[bakugan.jp](http://bakugan.jp)  
(for both PCs and mobile phones)

### ● Toys

#### Have fun taking on the roles of the characters

The products developed by SEGA TOYS CO., LTD., are toys for having fun in dress-up games and role-playing games using fashion items worn by the main characters appearing in animation. Since the products come with original cards, girls can enjoy the arcade game machine even more.



### ● PC and Mobile Content

#### Get the latest information

We have opened an official website for easily checking the latest *Lil'Pri* information—including that for games, manga, and products—from mobile phones. We offer extensive content linked to the very successful kids' card game machine, ringtones, and wallpaper.



### ● Anime

#### Have fun with stories

*Bakugan Battle Brawlers: New Vestroia* is now being broadcast by 25 stations including TV Tokyo affiliates. A big reason why children are captivated is that new characters that are developed across media and appear in animation are put on sale as toys in the same month.



### ● Related Goods

#### Collect your favorites

Various licensed products that live up *Bakugan* are widely available from the SEGA SAMMY Group and other companies as well. The various goods come with cards that can be used in the kids' card game (arcade game machine) and with toys, so this is a linked project. We will expand the product lineup in the future.



### ● Games

#### Use cards for multiple purposes

The *Bakugan* kids' card game is scheduled to launch in July. Purchased cards can be used for not only this game but also *Bakugan* toy battles. By linking the games and toys, the ways to have fun will increase more than ever.



### ● Anime

#### Enjoy a dream world

In April 2010, broadcasts of the new TV animation *Hime Chen! Otogi Chikku Idol Lil'Pri* started on stations including six affiliates of TV Tokyo. Three elementary school students become idols after changing into adults and then have many adventures. This is a story of how the three grow mature through various experiences.



### ● Games

#### Have fun at shops

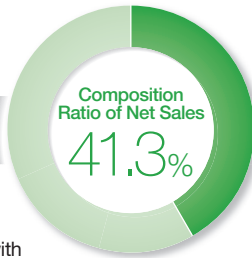
With the very popular kids' card game machine *Lil'Pri—Yubi Puru Hime Chen!*, kids can have fun playing the dress-up game and the rhythm game. They can enjoy collecting three types of cards: Fashion, Fairy, and Special. A player arranges the clothes and accessories on a card, draws a magic circle, and changes into an adult. By rhythmically touching the screen in time with the song and the dance, the player aims for a high point score. Kids can enjoy a game with a vibrating touch panel that shakes when a player touches the top-and-bottom dual screen monitor. In August, we are also planning to start selling a Nintendo DS game with which the players can enjoy an original story.





# Segment Information

## Pachinko and Pachislot Machine Business



### Market Environment

- Replacement of pachinko machines with diverse game elements remains strong.
- Provision of pachislot machines equipped with innovative game elements has begun, with rising expectations for a market recovery.
- The market for low-cost ball rental games, such as ¥1 pachinko and ¥5 pachislot, is expanding.

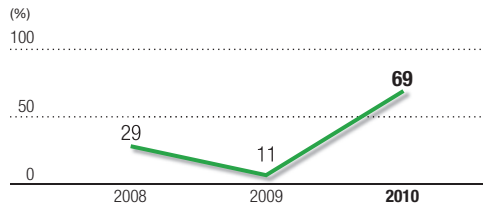
### Overview of the Fiscal Year Under Review

#### Pachinko

**Large improvement in profitability even though unit sales dropped below the result for the preceding fiscal year**

Even though unit sales for major titles such as *Pachinko CR SOUTEN-NO-KEN* remained strong, total unit sales dropped to the 360,000 range, below the result recorded for the preceding fiscal year. Nonetheless, in line with the Group's increasing share of installed pachinko machines, our sales percentage of highly profitable replacement boards increased from 11% in the preceding fiscal year to 69% in the fiscal year under review.

#### Trend in Pachinko Machine Board Sales Percentage



review. At the same time, profitability improved considerably on factors such as a decrease in parts procurement costs and a review of our pricing strategy.

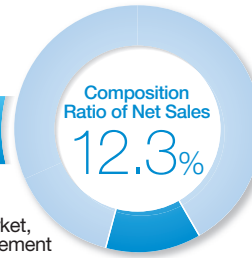
#### Pachislot

**Steady introduction of hit models leads to a recovery trend in our market share**

With the motif of popular anime games, *Pachislot Psalms of Planets Eureka Seven* and *Pachislot Shin Onimusya*, which are equipped with innovative game elements, were highly regarded by the market. Although we delayed sales of some major titles until the next fiscal year, we sold a total of more than 160,000 units, a sales volume exceeding that in the preceding fiscal year.

Furthermore, we turned GINZA Corporation into a wholly owned subsidiary. In addition to striving for business enhancements of the Sammy brand, we promoted multi-brand development through collaboration with TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA Corporation, and we expanded our product lineup.

## Amusement Machine Sales Business



### Market Environment

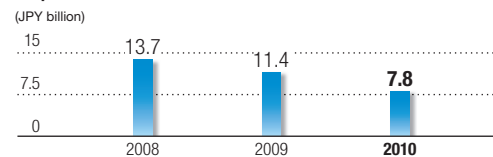
- In conjunction with the continued contraction of the amusement center operations market, which has occurred because of the prolonged slump in consumer spending, the amusement machine market has also contracted.
- Development, provision, etc., of innovative games that meet the diversifying needs of customers including casual users are expected.

### Overview of the Fiscal Year Under Review

**Introduction of a new business model producing stable, long-term earnings**

Utilization of BORDER BREAK, which was sold via the revenue-sharing model (ALL.Net P-ras), whose objective is to increase the investment efficiency of amusement center operators and to ensure stable, long-term earnings for the SEGA SAMMY Group, remained strong. The revenue-sharing model is an earnings model whereby we sell the general-purpose parts such as cabinets, lend the graphics boards and complete sets of software free of charge, and then charge a content usage fee in proportion to the utilization of content at the

#### Trend in R&D Expenditures and Content Production Expenses

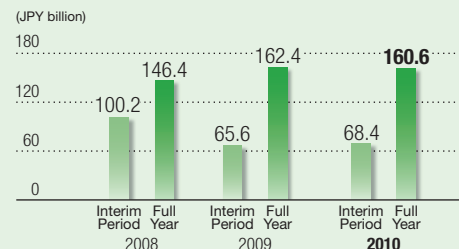


centers, which is monitored over a computer network. While amusement center operators can hold down their initial investments, the Group can expect to generate continued stable earnings in a manner unlike past sales of machines on a change-of-ownership basis.

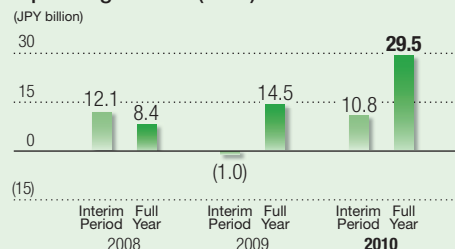
**Improving profitability by means of cost reductions and rationalization of R&D and production**

In the fiscal year under review, sales of upgrade kits for major titles such as *SEGA Network Mar-jong MJ4 Evolution* also increased. Furthermore, due to measures including introduction of a common reusable chassis, introduction of new independently developed graphics boards, and revisions of parts procurement costs, we reduced our costs, and R&D expenditures as well as content production expenses also declined. As a consequence, since there were no releases of major titles, net sales in the fiscal year under review dropped below the figure recorded for preceding fiscal year, but profitability improved.

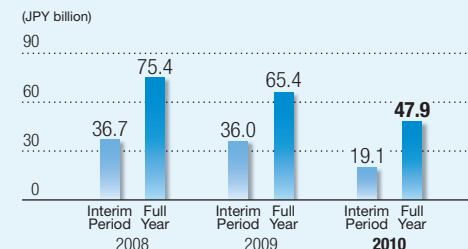
#### Net Sales



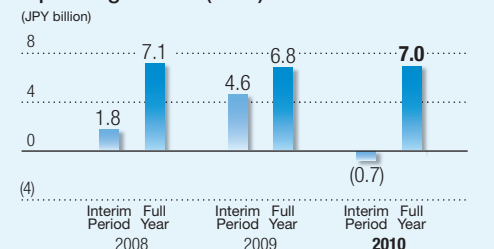
#### Operating Income (Loss)



#### Net Sales



#### Operating Income (Loss)

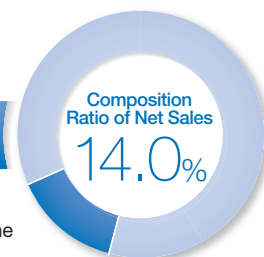


(Fiscal years ended March 31)

(Fiscal years ended March 31)



## Amusement Facility Operations



### Market Environment

- Across the board in the entire market, same-store sales have continued to fall below the preceding year's results.
- The market has shrunk because of steady closures of unprofitable centers.
- Due to financial market deterioration, operators continue to encounter fund-raising difficulties.

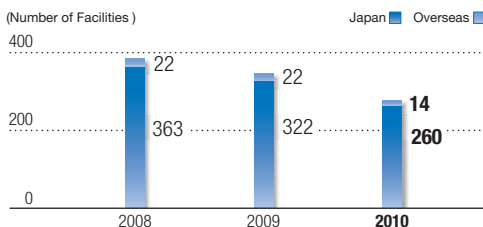
### Overview of the Fiscal Year Under Review

#### Reviewing amusement facilities in Japan and overseas to achieve improved profitability

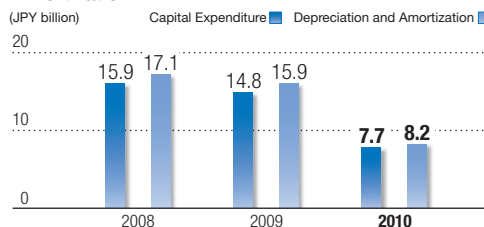
Both domestically and overseas, we made concerted efforts to increase the competitiveness of our amusement facilities by strengthening operations by holding various events, but due to the prolonged slump in consumer spending, net sales remained weak, falling below the results recorded for the preceding fiscal year. However, due to our closures or

sales of facilities with low potential and low profitability, which we have been undertaking since the end of the preceding fiscal year, profitability has improved. In the domestic market in the fiscal year under review, we closed or sold 66 facilities and opened 4 new ones, bringing the total number of facilities to 260 as of the end of the fiscal year. With a view to improving future profitability overseas in a manner similar to what we have done for our domestic facilities, we closed 8 facilities in North America.

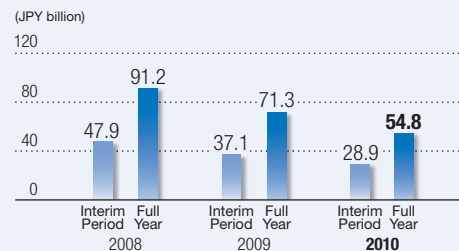
#### Trend in Amusement Facilities in Japan and Overseas



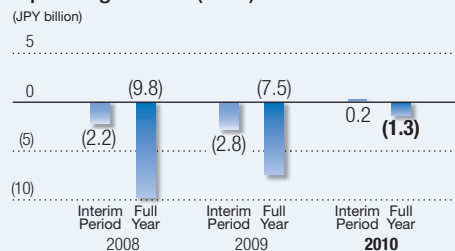
#### Trend in Capital Expenditure / Depreciation and Amortization



#### Net Sales

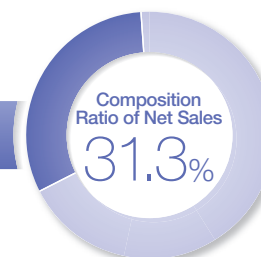


#### Operating Income (Loss)



(Fiscal years ended March 31)

## Consumer Business



### Market Environment

- Slowing demand mainly in the European and American markets due to a slump in consumer spending.
- Expansion of new content market aimed at SNS and smart phones.

### Overview of the Fiscal Year Under Review

#### Home Video Game Software Improved profitability achieved through streamlining of the number of titles released

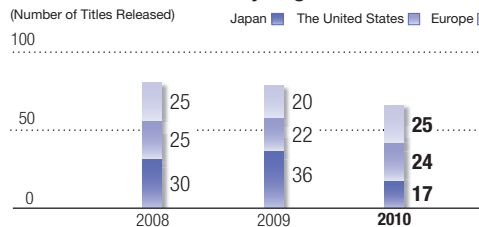
We released titles including *Mario & Sonic at the Olympic Winter Games™*, *BAYONETTA*, and *Fyu ga Gotoku 4: Densetsu wo Tsugumono*. In Japan, by streamlining our titles, we boosted development efficiency and thereby achieved improved profitability. In contrast, overseas, sales of new releases remained weak as a result of the challenging market environment

arising from factors including the downturn in consumer spending. Unit sales of game software fell below the figure recorded for the previous fiscal year, dropping to 26,750,000 units. Moreover, as a result of the change in the market environment overseas, we decided to close down our North American development subsidiary. We will continue streamlining the number of our overseas titles in order to improve profitability.

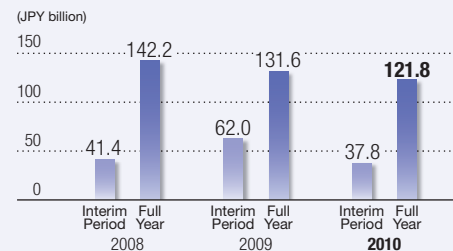
#### Others Contribution to earnings via full-scale sales of leading content

In our toy business, while overseas sales remained strong, domestic sales remained weak. In our PC and mobile content business, due to our introducing major titles and a pay as you go system, sales remained firm. Furthermore, in our animation business, due to increasing box-office revenues from feature films and increasing royalties from the hit *Bakugan* television series overseas, sales generally remained strong.

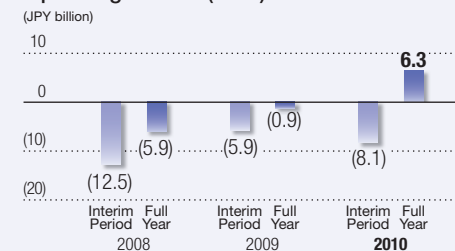
#### Trend in Titles Released by Region



#### Net Sales



#### Operating Income (Loss)



(Fiscal years ended March 31)

# Overview of Consolidated Financial Statements

## Consolidated Balance Sheets (Summary)

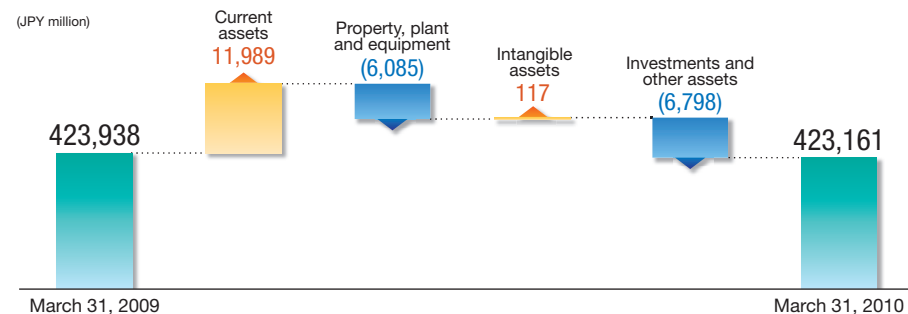
(JPY million)

Assets	As of March 31, 2010	As of March 31, 2009
<b>Current assets</b>	298,730	286,740
<b>Noncurrent assets</b>	124,431	137,197
Total property, plant and equipment	59,030	65,116
Total intangible assets	13,360	13,242
Total investments and other assets	52,040	58,838
<b>Total assets</b>	<b>423,161</b>	<b>423,938</b>

Liabilities / Net Assets	As of March 31, 2010	As of March 31, 2009
<b>Current liabilities</b>	92,817	97,194
<b>Non-current liabilities</b>	73,573	84,211
<b>Net assets</b>	256,770	242,532
Total shareholders' equity	259,468	246,767
Total valuation and translation adjustments	(23,222)	(24,451)
Subscription rights to shares	1,188	1,222
Minority interests	19,335	18,994
<b>Total liabilities and net assets</b>	<b>423,161</b>	<b>423,938</b>

### Factors Affecting Assets

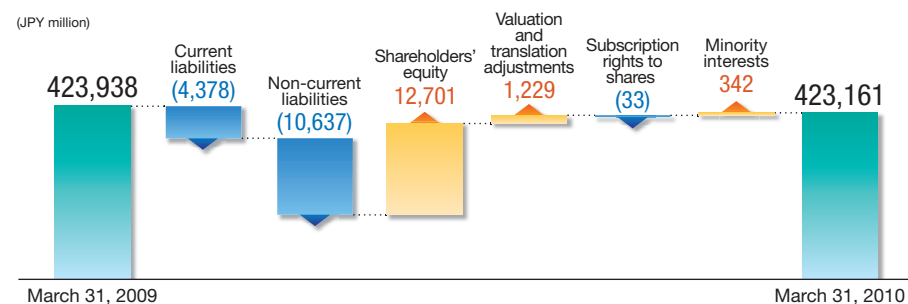
Total assets decreased by ¥0.7 billion compared to the end of the preceding fiscal year. Of these, current assets increased by ¥11.9 billion. This was because, while notes and accounts receivable-trade decreased by ¥13.4 billion, short-term investment securities increased by ¥46.6 billion yen on factors including purchases of negotiable certificates of deposit. Noncurrent assets decreased by ¥12.7 billion as a result of impairment of property, plant and equipment and a decrease in lease and guarantee deposits. As of the end of the fiscal year under review, the current ratio reached 321.8%, an improvement of 26.8 percentage points from the end of the preceding year. The current ratio thus continues to maintain a high level.



### Factors Affecting Liabilities and Net Assets

Total liabilities decreased by ¥15.0 billion compared to the end of the preceding fiscal year. Of these, total current liabilities decreased by ¥4.3 billion. This is because current portion of bonds increased by ¥17.3 billion while notes and accounts payable-trade declined by ¥13.9 billion. Noncurrent liabilities decreased by ¥10.6 billion yen, mainly because bonds decreased by ¥11.3 billion.

Total net assets increased by ¥14.2 billion compared to the end of the preceding fiscal year. This is mainly because retained earnings increased by ¥12.7 billion. The total net assets ratio at the end of the fiscal year under review increased by 3.4 percentage points compared with the end of the preceding year, reaching 55.8%.





## Consolidated Statements of Operations (Summary)

(JPY million)

	From April 1, 2009 To March 31, 2010	From April 1, 2008 To March 31, 2009
Net sales	384,679	429,194
Cost of sales	245,811	310,101
Gross profit	138,867	119,092
Selling, general and administrative expenses	102,154	110,728
Operating income	36,712	8,363
Non-operating income	1,958	3,286
Non-operating expenses	2,745	5,013
Ordinary income	35,925	6,636
Extraordinary gain	3,125	3,595
Extraordinary loss	11,953	30,209
Income (loss) before income taxes and minority interests	27,097	(19,976)
Income taxes-current	3,067	2,904
Income taxes-deferred	2,559	(186)
Refund of income taxes	—	(867)
Minority interests in income	1,200	1,055
Net income (loss)	20,269	(22,882)

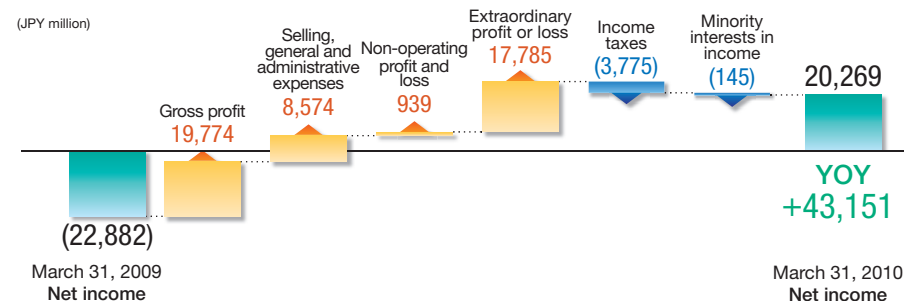
## Consolidated Statements of Cash Flows (Summary)

(JPY million)

	From April 1, 2009 To March 31, 2010	From April 1, 2008 To March 31, 2009
Cash flows from operating activities	54,998	32,199
Cash flows from investing activities	(7,640)	936
Cash flows from financing activities	(3,401)	(7,653)
Effect of exchange rate change on cash and cash equivalents	(342)	(2,081)
Net increase in cash and cash equivalents	43,614	23,401
Cash and cash equivalents at beginning of period	123,385	99,975
Increase in cash and cash equivalents from newly consolidated subsidiary	—	9
Cash and cash equivalents at end of period	167,000	123,385

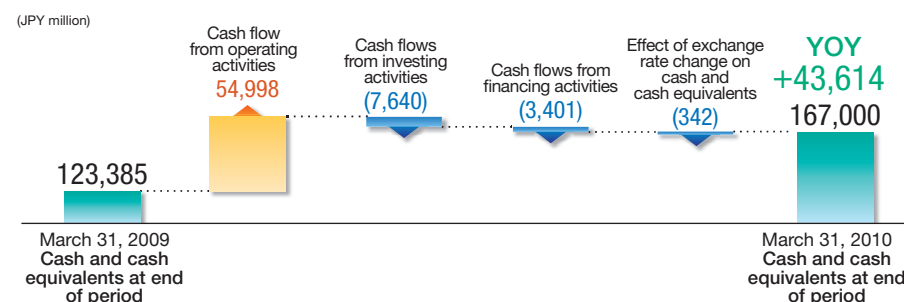
### Factors Affecting Net Income

Cost reductions and other measures were successful in each business section despite a ¥44.5 billion fall in net sales versus the previous fiscal year. As a result, profitability improved considerably, and gross profit thus increased by ¥19.7 billion. In addition, both selling, general and administrative expenses and extraordinary profit or loss improved, with the former decreasing by ¥8.5 billion and the latter by ¥17.7 billion. Although non-operating profit and loss increased by ¥0.9 billion and payment of income taxes rose by ¥3.7 billion, net income in the fiscal year under review increased ¥43.1 billion compared to the previous year.



### Factors Affecting Cash Flows

Cash flows from operating activities were ¥54.9 billion. This was because the Company recorded ¥27.0 billion in income before income taxes and minority interests, notes and accounts receivable decreased by ¥11.4 billion, and notes and accounts payable-trade declined by ¥13.0 billion. Cash flows from investing activities recorded a net cash outflow of ¥7.6 billion because of factors including payment of ¥8.6 billion for purchase of property, plant and equipment. Cash flows from financing activities recorded a net cash outflow of ¥3.4 billion mainly because of a ¥7.8 billion expenditure for cash payment for dividends, a ¥5.0 billion expenditure for redemption of bonds, and the raising of ¥10.7 billion from issuance of bonds. As a result of the factors noted above, the balance of cash and cash equivalents at the end of the fiscal year under review increased by ¥43.6 billion compared to the end of the preceding year, rising to ¥167.0 billion.



# Overview of Consolidated Financial Statements

## Consolidated Statements of Changes in Net Assets

(JPY million)

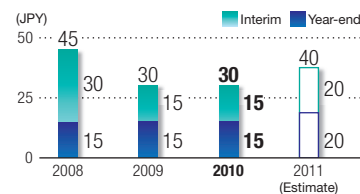
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Translation adjustments	Total valuation and translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Balance as of March 31, 2009	29,953	171,082	119,417	(73,685)	246,767	(1,619)	—	(5,966)	(16,865)	(24,451)	1,222	18,994	242,532
Net income			20,269										20,269
Dividends from retained earnings			(7,557)										(7,557)
Purchase of treasury stock				(12)									(12)
Disposal of treasury stock		(2)		3									1
Unrealized losses on hedging derivatives, net of taxes							24						24
Net changes of items other than shareholders' equity						1,966							1,966
Changes in translation adjustments									(760)				(760)
Changes in share subscription rights											(33)		(33)
Changes in minority interests												341	341
Balance as of March 31, 2010	29,953	171,080	132,128	(73,694)	259,468	346	24	(5,966)	(17,626)	(23,222)	1,188	19,335	256,770

### Notice of Dividend

Regarding the year-end dividend for the 6th term, the following details were decided by resolution at a meeting of the Board of Directors held on May 14, 2010.

Dividend ..... ¥15 per share

Effective date (payment start date) ..... June 1, 2010



(Fiscal years to March 31)

For detailed financial information, please see the investor information section of the Company's website.



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

### IR Information Center

Please inquire to the following inquiry desk regarding any questions you may have in relation to stock information, Group information, or other such matters.

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

Please be aware that the IR Information Center is closed on Saturday, Sundays, national holidays, and company holidays.



# IR Information

## Company Profile

As of March 31, 2010

**Company Name**  
SEGA SAMMY HOLDINGS INC.

**Address**  
Shiodome Sumitomo Building 21F, 1-9-2 Higashi Shimbashi,  
Minato-ku, Tokyo

**URL** <http://www.segasammy.co.jp>

**Principal Business**  
Management of SEGA SAMMY Group as the holding company

**Established**  
October 1, 2004

**Capital**  
¥29.9 billion (As of March 31, 2010)

**Number of Employees**  
(consolidated) 6,236

### Directors and Auditors

**Hajime Satomi**  
Chairman, President and Representative Director (CEO)

**Keishi Nakayama**  
Executive Vice President and Representative Director

**Okitane Usui**  
Director

**Hisao Oguchi**  
Director and CCO (Chief Creative Officer)

**Yuji Iwanaga**  
Director

**Takeshi Natsuno**  
Director

**Tomio Kazashi**  
Standing Corporate Auditor

**Toshio Hirakawa**  
Corporate Auditor

**Hisashi Miyazaki**  
Corporate Auditor

**Mineo Enomoto**  
Corporate Auditor

## Information on Outstanding Shares

As of March 31, 2010

**Number of Shares Authorized for Issue**  
800,000,000

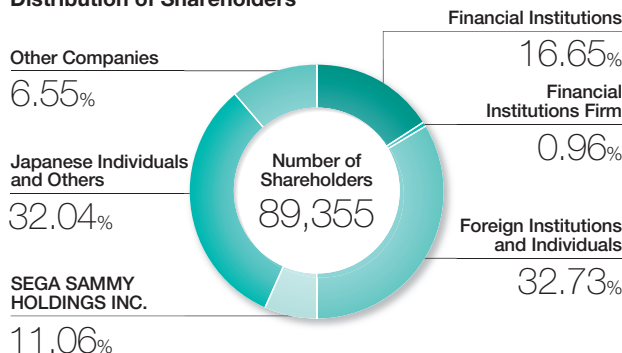
**Total Shares Issued and Outstanding**  
283,229,476

### Principal Shareholders

Name of Shareholder	Shares	Shareholding Ratio (%)
Hajime Satomi	43,569,338	17.29
Mellon Bank, NA Treaty Clients Omnibus	18,280,322	7.25
FSC Co., Ltd.	14,172,840	5.62
The Bank of New York Mellon as Depository Bank for depository receipt holders	12,465,860	4.94
The Master Trust Bank of Japan, Ltd. (Trustee)	12,251,700	4.86
Japan Trustee Services Bank, Ltd. (Trustee)	10,002,900	3.97
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,174,100	1.65
State Street Bank and Trust Company	3,055,936	1.21
State Street Bank and Trust Company505225	2,850,921	1.13
Hideo Ando	2,694,500	1.06

Note: Shareholder ratio excludes 31,315,801 treasury shares

### Distribution of Shareholders



## Shareholder Memo

**Stock Code**  
6460

**Round Lot**  
100 shares

**Fiscal Year-End**  
March 31

**Ordinary General Meeting of Shareholders**  
June

### Date of Record for Dividends

March 31

(September 30 for interim dividends, if paid)

Advance public notice is given when required for other dividend payments.

### Method of Public Notice

Electronic public notices

**Notification URL** <http://www.segasammy.co.jp>

If, due to unavoidable circumstances, electronic notification is not possible, the Company shall post the notice in The Nihon Keizai Shimbun.

### Administrative Office of Transfer Agent

Securities Agent Department, Mitsubishi UFJ Trust and Banking Corporation

7-10-11, Higashisuna, Koto-ku, Toyko 137-8081, Japan  
Phone: +81-3-5683-5111

### Agency

Mitsubishi UFJ Trust and Banking Corporation branches in Japan



## SEGA SAMMY HOLDINGS INC.

Shiodome Sumitomo Building 21F, 1-9-2 Higashi Shimbashi, Minato-ku, Tokyo

### CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Statements in this document regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and its SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management.

The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation.

Actual results may vary significantly from the Company's forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate fluctuations, changes in laws and government systems, pressure from competitors' pricing and product strategies, declines in the marketability of the Group's existing and new products, disruptions to production, violations of the Group's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation.

[This business report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]

Cover Image

*Zhu Zhu Pets* © 2010 Cepia LLC.

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